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Jordan: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 9, 2015

The following item is a Letter of Intent of the government of Jordan, which describes the policies that Jordan intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Jordan, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Appendix I. Letter of Intent

Ms. Christine Lagarde Amman, April 9, 2015

Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Ms. Lagarde:

Pressures on Jordan from an adverse regional environment continue, especially those due to the conflicts in Syria and Iraq. Transit routes are being disrupted, costs of hosting refugees have been high and security spending is increasing. At the same time, uncertainty on the near term outlook is weighing on economic activity.

Despite these pressures, we continue to successfully navigate the Jordanian economy. Growth has been gradually picking up, inflation has declined further, and our external position has been improving. Looking forward, we expect the lower oil prices to provide an important respite to the economy, which will support our program of macroeconomic and structural reforms.

Our fiscal consolidation efforts under this program are well underway, including through the parliament's recent adoption of a new income tax law and a prudent 2015 budget. However, because revenue grew less than we had expected in 2014—as nominal GDP was lower than expected and growth mostly driven by sectors that are tax exempt or pay preferential tax rates—our headline fiscal deficit in 2015 will be somewhat higher than we had expected, provided that donors can provide increased grants so that we can implement our planned capital spending. Most importantly, we will shortly issue Vision 2025, our blueprint for structural reforms aimed at boosting growth and jobs, the implementation of which will be monitored by the prime minister's office.

Performance under the program remains strong. We expect to meet all quantitative performance criteria and indicative targets for end-March. Structural performance is broadly on track, as we have met all structural benchmarks to date but for the one on the implementation of the tariff increase as outlined in the medium-term strategy (we repealed half of the increase after strong opposition).

In view of our continued strong performance as well as the policy measures for the remainder of the program, we request: waivers of applicability of the end-March performance criteria on the primary fiscal deficit of the central government and on the combined public sector, for which actual data will not become available until six weeks after end-March; completion of the sixth review under the Stand-By Arrangement and approval of the related purchase of SDR 142.083 million; and a re-phasing of the undrawn Fund purchases under the Stand-By Arrangement in one disbursement and establishment of performance criteria for end-April 2015, as described in the Memorandum of Economic and Financial Policies (MEFP) (Table 1) and the technical memorandum of understanding attached to this letter.

The attached MEFP describes the economic policies that we intend to implement to achieve the objectives of our economic program of maintaining macroeconomic stability and fostering inclusive growth. We believe that these policies are adequate to meet the program's goals, but we stand ready to take further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will also provide the Fund with the data and information necessary to monitor performance under the program.

We authorize the Fund to publish this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely,

/s/ /s/

Umayya Toukan	Ziad Fariz
Minister of Finance	Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

Sound macroeconomic policies have strengthened Jordan's resilience by gradually reducing fiscal and external imbalances. This has enabled the economy to withstand a difficult regional environment. Owing to continued fiscal consolidation and declining oil prices, inflation is low, the current account is narrowing, and international reserves have been rebuilt to comfortable levels. Reflecting extensive consultations with stakeholders, Vision 2025, which we will issue soon, outlines our national strategy to boost growth and create jobs for a better future of our citizens.

BACKGROUND

1. This Memorandum of Economic and Financial Policies (MEFP) supplements and updates earlier MEFPs under the Stand-By Arrangement.[1] It reviews recent economic developments and progress with the government's macroeconomic and structural program; and details policies for 2015 and beyond consistent with our objectives of:

- Safeguarding macroeconomic stability to preserve confidence and strengthen the economy's resilience to shocks.
- Fostering growth and creating jobs, in particular for the young and females, to improve our citizens' wellbeing.

RECENT MACROECONOMIC DEVELOPMENTS AND OUTLOOK

2. **The economy is withstanding an unfavorable regional environment.** Though not yet broad-based, growth has gradually improved—to an estimated 3.1 percent in 2014. Unemployment has declined to 11.9 percent. Helped by lower global commodity prices, inflation dropped to 0.2 percent year-on-year in January; and, relative to GDP, the current account deficit (excluding grants) narrowed by an estimated 5 percentage points in 2014 to 12 percent, despite lower gas from Egypt and disruptions to Iraq exports. Possibly mirroring regional uncertainty, private sector credit increased by only 4.2 percent in January 2015. At the same time, the reserve position remains comfortable, dollarization continues to fall, and the banking sector is robust.

3. **Lower oil prices are expected to benefit the economy in 2015.** Because energy imports are now foreseen to be much lower than originally anticipated, NEPCO's losses and the current account deficit (excluding grants) are projected to be lower than originally programmed, at 2.1 percent of GDP and 10.6 percent of GDP, respectively. We expect savings on oil consumption to stimulate domestic demand, thereby contributing to a further pickup in growth this year to almost 4 percent. We also foresee inflation to remain contained, and private sector credit to start recovering, partly due to our policy of reducing borrowing costs.

[1] See http://www.imf.org/external/country/JOR/index.htm.

4. **Also, the longer-term outlook is favorable.** The boost from lower oil prices will gradually wane because NEPCO is planning to use mostly gas (program projections had already gas price assumptions in line with our negotiated 5-year contract and medium-term projections). Also, income and capital inflows from the Gulf Cooperation Council (GCC), which is Jordan's main economic partner, could slow down. Nevertheless, we expect growth to pick up to 4.5 percent in the medium term, reflecting the potential for more space for private sector development brought about by continued fiscal adjustment, and higher public investment coupled with structural reforms. At the same time, we expect external pressures to abate and the current account deficit (excluding grants) to further decline to below 9 percent of GDP, while inflation would stay at low levels.

PROGRAM PERFORMANCE

5. **We achieved strong outcomes in 2014.**

- We met the end-December performance criterion (PC) on net international reserves (NIR) by a wide margin.

- We missed by a small margin the end-December PC on the primary deficit of the central government but we met the indicative target on its accounts payable. Revenue was in line with the program, but this reflected one-off revenue[2] offsetting a shortfall in underlying revenue mostly because nominal GDP growth was lower than expected. There were also overruns in some spending categories (goods and services and other transfers), which did not allow us to increase the transfers to the health funds as much as planned.[3] As a result, arrears of the funds did not decline as we had envisaged. Capital spending also fell short of our target, mostly because of a delay in signing grant agreements.

- Because of shortages in Egypt gas, the PC on the combined public deficit was not met by a small margin. Also the indicative target on NEPCO arrears was not met, but corrective action is taken (see paragraph 15).

6. **We are advancing with structural reforms.** We: (1) completed draft amendments to the Central Bank of Jordan (CBJ) law, to foster transparency; (2) established a supervisory college for Arab Bank in March 2015 to strengthen cross-border supervision; and (3) approved a public investment framework with assistance from the World Bank to enhance the efficiency of capital spending. We pre-approved a credit bureau to enhance access to credit and expect a final license to be issued by September 2015, after which the bureau is expected to start operations.

[2] This is off-budget oil excises, which were earmarked to finance energy-related projects. These projects are now financed by grants and the excise has been brought on the budget starting in 2015.

[3] The transfers to the health funds exceeded the budget allocation by JD55 million.

POLICIES TOWARD STRENGTHENING THE ECONOMY'S RESILIENCE

A. Public Finances

7. **We remain committed to following through on public sector reforms.** We will save windfalls from lower oil prices to the extent possible, particularly because these windfalls are not expected to permanently reduce NEPCO's losses and because public debt is high—a burden on all Jordanians. Also, we believe that it is best to undertake reforms in "good times" when the impact of reforms will be cushioned by the positive effect of lower oil prices on the economy. Thus, we will steadfastly implement our public sector adjustment as planned, both on the fiscal and energy fronts. At the same time, we ask donors to assist our country through continued grants, including by helping to cover the cost of hosting the Syrian refugees, and to increase the capital spending needed for building the basis for stronger growth.

8. **We have identified external financing of $3.4 billion through the next twelve months.** For the period between April 2015 and March 2016, we have confirmed financing with our development partners comprising total grants of $0.8 billion, including from the GCC ($0.5 billion), and the US ($0.3 billion); loans of $0.6 billion, including from the World Bank ($0.24 billion) and the EU ($0.1 billion); as well as a U.S.-guarantee for a Eurobond issue of $1.5 billion and a non-guaranteed Eurobond of $0.5 billion. Separately, we are working on issuing Sukuk domestically in late 2015.

Central Government

9. **The 2015 budget, combined with additional revenue measures, is delivering the planned structural consolidation.** Parliament approved the budget in March, which together with revenue and expenditure measures outlined below will result in a central government primary deficit (excluding grants and transfers to NEPCO and WAJ (Water Authority of Jordan)) of 1.9 percent of GDP. This is lower than programmed because we have not yet received grant-financing assurances for all planned capital spending. We are working with donors and hope to receive additional grants so that we can scale up capital spending, which we regard as critical for growth. In this case, the primary deficit could increase up to the programmed level of 2.9 percent of GDP. The impact of lower oil prices on the central government budget (excluding transfers to NEPCO and WAJ) is slightly positive with revenue shortfalls from the sales tax on petroleum products more than offset by lower spending; in particular, cash transfers that were introduced to mitigate the liberalization of fuel prices are discontinued when oil prices are below $100 per barrel. We expect to have met the end-March PC on the primary fiscal deficit of the central government.

10. **Revenue measures deliver an adjustment of about one percent of GDP.**

- The **new income tax law** passed by parliament raises revenue by 0.25 percent of GDP in 2015 (and double that amount from 2016 onward) mostly by raising tax rates for banks (from 30 percent to 35 percent); electricity generation and distribution, and mining (from 14 percent to 24 percent); and for legal entities (from 14 percent to 20 percent). The law also introduces a higher personal income tax (PIT) rate (20 percent on net incomes higher than JD 20,000 compared to 14 percent previously), increases the withholding rate on income earned by non-residents from 7 percent to 10 percent, and re-establishes a presumptive tax for small individual taxpayers and businesses with income less than JD 100,000 at a rate to be determined by the tax administration. For the medium term, we will seek to amend the law by lowering the threshold for the PIT exemption, which would increase the number of taxpayers and enhance fairness, and by introducing a minimum corporate tax, which would help fight tax evasion.

- **Other measures** include: (1) bringing fully the petroleum excise on budget (0.7 percent of GDP); (2) an increase in nontax revenue by returning to cost recovery take off and landing fees for flight schools and storage fees (including for silos and refrigeration) (0.05 percent of GDP); and (3) an increase in the excise on jet fuel for private air traffic (0.05 percent of GDP). We have now also instructed independent institutions to monthly transfer their profits to the treasury.

11. **We have also taken measures to offset spending pressures.**

- **Royal Jordanian (RJ).** Work is in progress on formulating a restructuring plan for RJ to bring the company on a sound financial basis in light of its losses of lucrative regional routes (such as to Iraq, Libya, and Syria). If the main other shareholders (the Mikati Group and the Social Security Investment Fund) agree with the plan, the government might have to pay its share in recapitalizing the company; our participation will not exceed the government's share in the company's capital or 0.2 percent of GDP. We will finance this recapitalization by using the JD 26 million allocated for this purpose in the 2013 budget—which has already been an expenditure in the 2013 budget and transferred into a trust account—as well as the JD 24 million already included in the 2015 budget.

- **Health funds.** We will ensure that the 2015 allocation to the health funds is sufficient to not only prevent a recurrence of arrears but also to repay some of the existing stock. To this end, a committee (consisting of the ministry of finance, the ministry of health, the prime ministry, and the Royal court) has reviewed the eligibility criteria and the coverage of medical treatments to ensure that all those in need of free medical treatment will receive it.

Utilities

12. **We are committed to implementing NEPCO's medium-term strategy.** NEPCO's savings from the lower oil bill will fade over the medium term, in particular since we now expect gas from

Egypt to stay well below programmed levels at 10 million cubic feet. Thus, we intend to implement the announced tariff increases of 15 percent in early 2016 and 2017, which are needed for NEPCO to reach cost recovery in the medium term. We have already increased electricity tariffs in early January (benchmark), but decided to reduce the increase by half to support economic growth, which has so far not been broad based. That said, should (Brent) oil prices recover to over $70 a barrel for two months, we will re-instate the full electricity tariff increase of 15 percent. Based on current oil price forecasts and gas from Egypt staying at around 10 million cubic feet per day, NEPCO's losses are projected at 2.1 percent of GDP in 2015 and 1.5 percent of GDP in 2016 with the company reaching cost recovery in 2018.

13. **New energy sources are becoming operational, as planned.** The LNG terminal will start operations by mid-2015 (providing about 20 percent of Jordan's consumption) and a number of renewable energy plants will come on-line between 2015 and 2016 (about 10 percent of consumption).

14. **We are making good progress in implementing the water strategy.** Tariff increases are being implemented as planned and protect most households. Financing for investments to upgrade the water supply network and improve service is on track. Our plan to diversify Jordan's water resources is progressing, but it is based on major investments. We are also cracking down on illegal connections, which deprive the community of its scarce water resource and increase our losses.

15. **A plan is in place to clear arrears in the energy and water sectors.** To improve coordination, the ministry of finance has agreed with banks that they will directly finance NEPCO and WAJ. Therefore, rather than the ministry of finance issuing government securities and transferring the proceeds to the utilities, the utilities will borrow from banks under government guarantees. This will help the utilities to better manage their cashflow and also access financing from Islamic banks. We expect NEPCO to have cleared its arrears in March 2015. By May, the ministry of finance jointly with NEPCO and the refinery will conduct a full inventory of all outstanding arrears and accounts payable between them; and prepare a time-bound plan for arrears clearance (including claims set-offs, where appropriate) and a reduction in accounts payable (new benchmark).

Structural Fiscal Reforms

16. **Better public financial management (PFM) is improving budget preparation and increasing transparency**. We have improved expenditure controls by introducing quarterly limits for current expenditure and are working to extend this to capital expenditure. We are steadfastly implementing an executive plan aimed at preventing the accumulation of arrears by establishing more rigorous controls for line ministries. With Fund assistance, we will introduce and have cabinet approval, by May 2015, of preliminary budget ceilings for the preparation of general budget institutions' (GBIs) base budget requests (new benchmark). We have completed the roll-out of the Government Financial Management Information System (GFMIS) to all 53 GBIs. The latter are now making payments through the system, though only 75 percent of them are using all the functionalities of the system. Going forward, we will reconfigure, by end-2015, the budget

preparation module of the GFMIS to prevent GBIs' base budget requests from exceeding the pre-approved ceilings. Also, the legislative council will, by May 2015, prepare a draft law to ensure that revenue from all agencies will go through the treasury single account with a view of consolidating sources of revenue in time for implementation with the 2016 budget (new benchmark). With the macro unit now fully-staffed and functional, work is ongoing on consolidating the central government main financial indicators with those of public utilities, so as to enhance transparency and allow for a better assessment of the government financial position.

17. **We continue to strengthen and modernize tax administration.** We have made good progress in establishing a proper taxpayer database. In particular, we are now bringing into the tax network taxpayers who have not registered with the Income and Sales Tax Department (ISTD) and are monitoring more closely announcements of new businesses. So as not to weaken tax compliance, the recent granting of tax amnesties will not be repeated. We are also stepping up the cooperation between the ISTD and the Customs Department, with a view to combating export-based general sales tax fraud, and more broadly strengthening sales tax compliance management. This cooperation is expected to be extended to other departments, such as the Commercial Register of the Ministry of Industry and Trade, the Secretariat of Amman, municipalities, the Electricity Company, and professional unions (physicians, lawyers, and other unions). Moreover, the ministry of finance has issued by-laws, which allow us to seize assets of taxpayers who are in arrears. Finally, we will update by end-June our 2013 study on the review on costing of tax incentives.

B. Monetary Policy

18. **The CBJ has enhanced its operational framework for monetary policy.** It introduced in February a benchmark interest rate—labeled the CBJ main rate—intended to give a clear signal of where the CBJ would like the interbank market to be. The CBJ will continue to use the one-week repo operations as a tool to bring the interbank rate toward the target. At the same time, the CBJ has reintroduced certificates of deposits (with maturities of one to two weeks) to manage more effectively excess liquidity in the banking system.

19. **The attractiveness of the dinar, price stability, and the output gap will continue to be the main considerations for monetary policy.** The CBJ cut interest rates in February 2015, by 25 basis points. The reduction—a continuation of a recent trend—was motivated by a comfortable level of international reserves, robust confidence in the dinar, and expectations of a narrowing current account deficit and low inflation. It aimed at fostering investment and further expanding real output, which has remained below potential with credit to corporates continuing to stagnate. The CBJ will continue to closely monitor developments, especially U.S. monetary policy normalization, and stands ready to act proactively, using all available tools, to safeguard macroeconomic stability and ensure high reserve buffers.

C. Financial Sector

20. **We are making our financial system further resilient to shocks.** Based on end-2014 financial soundness indicators, banks continue to enjoy healthy profitability, comfortable liquidity,

and strong capital buffers. And the sector's exposure to regional tensions remains limited because of adequate provisioning.

- **Banks.** We finalized the design features of a statistical-based early warning model, thereby strengthening our capacity to identify emerging risks and facilitating early intervention if necessary. We have been working with two banks to improve their capital adequacy ratios (CARs) that are just above the regularity minimum of 12 percent; through asset sales and capital injections, they have now raised their CARs. At the same time, we are amending the banking law to strengthen corporate governance, dealing with weak banks, compliance, and accountability of banks' senior management and boards. We plan to submit the final amended version to the cabinet by mid-year.

- **Non-bank financial sector** (insurance companies, microfinance institutions (MFIs), leasing companies, and money exchangers; equivalent to 6 percent of the financial sector assets). Developing this sector would not only contribute to financial deepening, thereby benefitting growth, but would also foster financial inclusion—microfinance, for example, ensures that all segments of society have access to credit. At the same time, however, shocks emanating in the non-bank financial sector can propagate and have a material impact on the rest of the economy. Against this background, cabinet has approved on December 14, 2014 the microfinance companies' by-law, and we will start supervising MFIs in June 2015 in line with best international practice with technical assistance from the Gesellschaft für Internationale Zusammenarbeit (GIZ) and financial assistance from the World Bank. In addition we have submitted to the cabinet a new money changers law to bolster our supervision of the sector in line with international best practice.

21. **We continue to take steps to bring the legal framework in line with the 2012 Financial Action Task Force (FATF) standard and enhance the effectiveness of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime.** In this respect:

- By end-2015 we will prepare, with IMF assistance, amendments to the AML/CFT law to align it with the new FATF standard. Terrorist financing was introduced and criminalized already in the AML/CFT amendments of 2010, which are currently discussed by parliament. Also, some amendments have already been addressed through instructions and regulations such as on politically exposed persons.

- In the context of strengthening our CFT regime, we are committed by September 2015 that the Technical Committee in charge of implementing the relevant UNSCRs produces an activity report on the implementation of UNSCR 1267 and its successor resolutions and UNSCR 1373 to identify potential shortcomings and develop a strategy to address them.

- We will develop a risk-based approach to AML/CFT supervision for the CBJ. In this context, we will conclude the identification of ML/TF risks by end-September.

POLICIES TO PROMOTE GROWTH AND JOBS

22. **Vision 2025 will move forward the structural agenda for job-creating growth.** The regional conflict and uncertainty are depressing growth and weighing on our living standards. Against this background, Vision 2025 brought together all Jordanian stakeholders so as to help tailor international best practice to Jordanian needs. Vision 2025 is expected to specify measurable milestones with clear implementation timelines, focused on critical sectors. A newly-created unit at the prime minister's office will oversee progress with the strategy.

A. Business Environment

23. **We are intensifying our efforts to make Jordan a hub for investors:**

- **Investment climate**. We, with the help of USAID, are drafting the by-laws for the investment law, two of which we expect to issue in April, and the remaining ones before the end of 2015. At that time, we also expect to have set up a one-stop shop for investors. We are working with the World Bank and the OECD in the context of a transition fund project to strengthen the institutions responsible for investment policy (including by improving investment rules and regulations including for FDI and enhancing investor protection and services).

- **Public Investment Management.** The new investment framework strengthens our public investment/PPP decision process and therefore provides the basis and conditions for us to advance only those initiatives that are demonstrably the most economically attractive for society.

- **Anti-corruption and auditing.** The World Bank is currently assisting the Anti-Corruption Commission (ACC) in building its capacity. Efforts are focusing on designing and implementing an automated complaints handling and case management system so that, by end-2015, the ACC can investigate corruption cases in a timely and efficient manner. This is important for building public confidence in the integrity of the justice system and the seriousness of government in fighting corruption.

B. Employment

24. **We are reviewing our National Employment Strategy** with the help of USAID. We are undertaking an evaluation of projects under the strategy, including on whether they have delivered the desired outcomes, and whether they need adjustment. In particular, we will update the strategy taking into account the new pressures from Syrian refugees on the job market. We plan on scaling up and replicating projects that have shown success to make a dent in unemployment at the aggregate level. In particular, we will move forward on policies aimed at reducing skill mismatches; changing public sector hiring and compensation policies; and unlocking the constraints to female labor market participation.

C. Access to Finance

25. **Better access to finance is a cornerstone for higher growth.** The secured lending law has been fast-tracked in parliament and is expected to be enacted by June. We will also submit to parliament by June draft insolvency and bankruptcy laws. External financing for small and medium size enterprises (SMEs) of some $420 million will be available this year, of which $95 million have already been disbursed. Also, about JD105 million (out of JD950 million) of a financing facility at the CBJ have now gone to industry, tourism, renewable energy, and agriculture including to SMEs operating there. The CBJ is working on strengthening the infrastructure for enhancing access to finance and financial inclusion in general through licensing the credit bureau, developing payments systems, enhancing consumer protection, and improving financial literacy.

PROGRAM MONITORING

26. **We continue implementing the recommendations of the CBJ safeguards assessment concluded in January 2013.** We have finalized draft amendments of the CBJ law, which we will shortly send to cabinet. A plan to remove audit qualifications in the CBJ financial statements— to ensure fair and transparent presentation of assets in its balance sheets— is under discussion with the external auditor and we expect to approve the plan by September 2015 (the qualification related to the settlement of one of the major bilateral accounts might take longer since it includes commitment of a non-Jordanian party). Work is also progressing to complete by end-May a quality assessment review of the internal audit function of the CBJ in accordance with international standards. In addition, the CBJ will conduct a public tender in the second half of 2015, for the selection of new external auditors in accordance with the CBJ's audit selection and rotation policy to ensure adequate audit quality and independence.

27. Progress in the implementation of our policies will continue to be monitored through the seventh and final review tentatively scheduled for July 15, 2015 and quantitative PCs, indicative targets, and benchmarks. These are detailed in Tables 1–2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1. Jordan: Quantitative Performance Criteria and Indicative Targets, September 2014–September 2015

	Sep-14			Dec-14			Mar-15 1/			Apr-15	Jun-15	Sep-15
	Target	Projected Adjusted Target	Estimate	Target	Projected Adjusted Target	Estimate	Target	Projected Adjusted Target	Projection	Proposed Target	Projection	Projection
Performance Criteria												
Primary fiscal deficit of the central governement, excluding grants and transfers to NEPCO and water companies, in JD million (flow, cumulative ceiling)	882	822	716	1,165	1,085	1,157	250	250	247	169	276	449
Combined public deficit in JD million (flow, cumulative ceiling)	1,615	1,555	1,656	2,324	2,244	2,337	482	482	376	...	558	873
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	11,804	11,850	13,865	11,699	11,758	13,583	12,304	12,450	13,834	13,302	15,057	14,710
Ceiling on accumulation of external payment arrears 2/	0	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets												
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-2,863	-2,895	-3,021	-2,870	-2,912	-3,089	-2,966	-3,070	-3,007	-2,757	-3,808	-3,631
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	553	682	682	359	682	682	359	682	359	359
Stock of arrears of NEPCO in million JD 3/	0	0	172	0	0	333	0	0	0	0	0	0
Memo items for adjusters												
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	1,997	...	1,645	2,600	...	2,255	171	...	253	253	1,581	1,839
Foreign budgetary grants and privatization receipts received by the government (JD millions, flow, cumulative)	...	...	...	...	...	...	...	...	117	117	126	158
Foreign budgetary grants and loans received by the CBJ (USD millions, flow, cumulative)	2,291	...	2,337	2,906	...	2,965	105	...	251	189	2,115	2,172
Cap for the downward adjustor on the NIR (USD millions)	900	...	900	900	...	900	900	...	900	900	900	900
Cap for the downward fiscal adjustor (JD millions)	60	...	60	80	...	80	20	...	20	30	40	60
Cap for the upward fiscal adjustor (JD millions)	...	...	...	...	...	...	...	...	...	51	138	252

1/ For March 2015, the NIR data, the adjusted target for NIR, and the foreign budgetary grants and loans received by the CBJ are actuals.

2/ Continuous.

3/ Arrears owed by NEPCO only, to all entities. Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

Table 2. Structural Benchmarks		
Structural Benchmarks	**Test Date**	**Status**
Raising Revenue		
Review and costing of tax incentives.	By end-October 2013	**Met** with assistance from USAID, which will provide TA to make this a regular exercise.
Implement an income tax law yielding additional revenue of about one percent of GDP.	By end-September 2013	**Not met**. Replaced by a new benchmark to implement measures of one percent of GDP by December 15, 2013.
Lift filing compliance to 100 percent in the large taxpayer office (LTO) and 90 percent in the medium taxpayer offices (MTO).	May 2013	**Not met,** but filing compliance has substantially improved (to 91 and 82 percent, respectively).
Submit a 2014 budget to parliament in line with program understandings.	December 15, 2013	**Met.**
Implement permanent measures of one percent of GDP to bring the budget in line with program understandings.	December 15, 2013	**Met with delay.**
Approval of fiscal measures to cover the program adjustment in the central government primary deficit in 2015 as stated in paragraph 9 of the MEFP of April 8, 2014	End-September 2014	**Met with delay.**
Submission to parliament of a 2015 budget in line with the program.	December 15, 2014	**Met.**
Enhancing Transparency		
Introduce a commitment control system through the Government Financial Management Information System (GFMIS) to register, report, and account for expenditure commitments against cash allocations issued by the ministry of finance.	January 2013	**Not met,** and the target was re-set for December 2013.
Establish a reporting system to report stocks of arrears quarterly, which include all types of pending invoices and claims for current and capital expenditure; report the end-2012 stock of arrears.	End-June 2013	**Met with delay.** With the assistance of Fund TA, the benchmark was met in September 2013, but reporting is not regular.

Table 2. Structural Benchmarks (continued)		
Structural Benchmarks	**Test Date**	**Status**
Amend the commitment control module in GFMIS.	By December 2013	**Met with delay.** Implemented in February 2014.
Complete an automated system for the collection and analysis of FSIs that will allow regular analysis on a quarterly basis with data submitted by banks no more than eight weeks after the end of quarter.	End-June 2014	**Met with delay.** Implemented in September 2014.
Prepare draft amendments to the CBJ law to strengthen autonomy and oversight, in line with Fund advice.	By December 2014	**Met with delay.**
Establish a supervisory college for Arab bank	March 2015	**Met.**
NEW: Introduce preliminary budget ceilings consistent with the medium-term fiscal consolidation path and approved by cabinet for the preparation of GBIs' base budget requests.	May 2015	
NEW: The legislative council to prepare a draft law to ensure that revenue from all agencies will go through the treasury single account with a review of consolidating sources of revenue in time for implementation with the 2016 budget.	May 2015	
NEW For the ministry of finance to jointly with NEPCO and the refinery to conduct a full inventory of all outstanding arrears and accounts payable between them; and prepare a time-bound plan for arrears clearance (including claims set-offs, where appropriate) and a reduction in accounts payable..	May 2015	
Energy and Water Sector Reform		
Announce a medium-term electricity/energy strategy incorporating the inputs provided by the World Bank, including a time table and measures for bringing NEPCO back to cost recovery.	By end-September 2012	**Met with delay.** The strategy was announced on October 23, 2013.
Signing of a floating storage and re-gasification unit leasing agreement.	June 2013	**Met with delay.** The agreement was signed on July 31.
Signing of the LNG supply contract.	April 2014	**Met.**
Announce to the public an action plan on how to reduce the water company's losses over the medium term.	By end-October 2013	**Met.**
Implement already announced tariff increases as outlined in the medium term energy strategy	January 2014	**Met.**
Implement already announced annual tariff increases as outlined in the medium term energy strategy.	January 2015	**Not met.** Half of the increase was reversed in late January.

Table 2. Structural Benchmarks (concluded)

Structural Benchmarks	Test Date	Status
Inclusive Growth		
Licensing of a credit bureau.	End-June 2013	**Met with delay.** It took the private company longer than expected to submit the request for a license. The credit bureau was pre-approved in December 2014.
Implement a national unified registry for targeting of subsidies.	October 2013	**Met.**
Establish a public investment decisions process to cover the prioritization (based on benefit-costs analyses), financing modalities (e.g., on-budget or through PPPs), and continuous monitoring of fiscal affordability of all projects.	December 2014	**Met with delay.**

Attachment II. Technical Memorandum of Understanding (TMU)

1. This memorandum sets out understandings between the Jordanian authorities and IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the Stand-By Arrangement.

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Letter of Intent dated April 9, 2015. For the purposes of the program, the exchange rate of the Jordanian dinar to the U.S. dollar is set at JD 0.709 = $1 and the gold price is set at JD 1,117.025 per fine troy ounce for the measurement of the program performance criteria on net international reserves. The corresponding cross exchange rates are provided in the table below.

Program Exchange Rates	
Currency	**One Jordanian Dinar Per Unit of Foreign Currency**
British Pound	1.105
Japanese Yen	0.009
Euro	0.887
Canadian dollar	0.692
SDR	1.073

3. Any developments that could lead to a significant deviation from quantitative program targets will prompt discussions between the authorities and staff on an appropriate policy response.

QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND CONTINUOUS PERFORMANCE CRITERIA: DEFINITIONS

A. Quantitative Performance Criteria and Indicative Targets

4. The quantitative performance criteria and indicative targets specified in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) are:

- a performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfer to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ);

- a performance criterion (ceiling) on the combined primary deficit of the central government (as defined above) and the net loss of NEPCO (“combined public deficit”);
- a performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);
- a continuous performance criterion (zero ceiling) on the accumulation of external arrears;
- an indicative target (ceiling) on accounts payable of the central government;
- an indicative target on the accumulation of domestic payment arrears of NEPCO;
- an indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

5. The performance criteria on the central government’s primary fiscal deficit and the combined public deficit, as well as the indicative targets on the accounts payable of the central government and the accumulation of domestic payment arrears of NEPCO, are monitored quarterly on a cumulative basis from the beginning of the calendar year. The performance criterion on the NIR and the indicative target on NDA of the CBJ are monitored quarterly in terms of stock levels. The performance criterion on the accumulation of external arrears is monitored on a continuous basis.

B. Ceiling on the Primary Deficit of the Central Government Excluding Grants and Net Transfers to NEPCO and WAJ

6. The **central government** is defined as the budgetary central government that is covered by the annual General Budgetary Law (GBL). It excludes the budgets of the 27 autonomous agencies but includes all ministries and government departments that operate in the context of the central authority system of the state. The operations of the central government will be measured on a cash basis.

7. For program monitoring purposes, **the primary deficit excluding grants and net transfers to NEPCO and WAJ of the central government** is defined as the sum of: (i) net external financing of the central government; (ii) privatization receipts received during the relevant period; (iii) net domestic bank financing of the central government; (iv) net domestic nonbank financing of the central government; (v) grants received from abroad by the central government, including grants from the Gulf Cooperation Council; *less* (vi) domestic and foreign interest payments by the central government; and (vii) net transfers from the central government to NEPCO and WAJ.

8. **Net external financing of the central government** is defined as cash external debt disbursements received by the central government, *less* external debt repayments paid by the central government. The debts covered are debts of the central government (excluding off-

budget military debts) and any foreign debts that are channeled through the central government to finance operations of the rest of the public sector.

9. **Privatization receipts** consist of all transfers of monies received by the central government in connection with the sale of government assets. This includes receipts from the sale of shares, the sale of non-financial assets as well as leases and the sale of licenses or exploration rights with duration of 10 years and longer.

10. **Net domestic bank financing of the central government** is defined as the change in the banking system's claims in Jordanian dinars and in foreign currency on the central government, net of the balances on government accounts with the CBJ and commercial banks.

11. **Net domestic nonbank financing of the central government** is defined as central government borrowing from, less repayments to, the non-bank sector (including the nonfinancial public sector not covered by the central government budget, and, specifically, the Social Security Investment Fund), and the cumulative change from the level existing on December 31 of the previous year in the stocks of government securities held by nonbanks and in the float.

12. **Net transfers from the central government to NEPCO and WAJ** are calculated as (i) direct transfers from the central government to NEPCO and WAJ (or NEPCO and WAJ's creditors) on behalf of NEPCO and WAJ (including subsidies, cash advances, and payment of debt or government guarantees if called), minus (ii) any transfers of cash from NEPCO and WAJ to the central government (including repayments of debt, arrears or cash advances).

13. **Adjustors:** The ceiling on the primary deficit of the central government excluding grants will be adjusted:

- Downward by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—including the Eurobond but excluding non-resident purchases of domestically-issued government bonds—received by the central government (as specified in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

- Upward by: the extent to which the sum of foreign budgetary grants and privatization receipts received by the central government during the relevant period exceeds the level specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

C. Ceiling on the Combined Public Deficit

14. For program monitoring purposes, **the combined public deficit** is defined as the sum of: (i) the primary deficit excluding grants and net transfers to NEPCO and WAJ of the central government as defined in Section B; and (ii) the net loss of NEPCO.

15. The **net loss of NEPCO** is defined as the difference between total operating revenues and total costs as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of operating power; and (ii) all other revenue, excluding proceeds from central government transfers or payments of NEPCO's obligation on NEPCO's behalf. Total costs are defined as the sum of: (i) purchase of electric power, including fuel costs, capacity and energy charges, and all costs related to electricity generation to be borne by NEPCO; (ii) any fuel transportation costs; (iii) depreciation costs; (iv) all other maintenance and operating expenses, including on wages and remuneration of the board of directors, and provisions; and (v) interest expense and any other financial costs.

16. **Adjustors:** The ceiling on the primary deficit of the central government excluding grants will be adjusted:

- Downward by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—including the Eurobond but excluding non-resident purchases of domestically-issued government bonds—received by the central government (as specified in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

- Upward by the extent to which the sum of foreign budgetary grants and privatization receipts received by the central government during the relevant period exceeds the level specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

D. Floor on the Net International Reserves of the CBJ

17. For program monitoring purposes, **the NIR of the CBJ** in U.S. dollars are defined as foreign assets of the CBJ minus its foreign liabilities.

18. **Foreign assets of the CBJ** are readily available claims on nonresidents denominated in foreign convertible currencies. They include foreign exchange (foreign currency cash, deposits with foreign correspondents, and holding of foreign securities), monetary gold, IMF reserve position, and SDR holdings. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contract), CBJ's claims on resident banks and nonbanks, as well as on subsidiaries or branches of Jordanian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forward, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid swaps. Excluded from foreign assets is the outstanding balance of bilateral accounts with the Central Bank of Iraq of U.S. dollar 1,081 million.

19. **Foreign liabilities of the CBJ** are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forward, swaps and options, including any portion of the CBJ monetary gold that is collateralized), and Jordan's outstanding liabilities to the IMF. Excluded from reserve liabilities are

government foreign exchange deposits with the CBJ, deposits from public institutions and government departments with independent budgets, commercial companies with state participation, deposits from donors (including grants received from the GCC), the two technical swaps with Citibank Jordan for U.S. dollar 80 million, and amounts received under any SDR allocations received after June 30, 2012.

20. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates. As of June 28, 2012 (end-June), the stock of NIR amounted to U.S. dollar 8,556.4 million, with foreign assets of the CBJ at U.S. dollar 9,707.7 million and foreign liabilities of the CBJ at U.S. dollar 1,151.3 million (at the program exchange rates).

- **Adjustors:** The floors on the NIR of the CBJ will be adjusted upward (downward) by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—including the Eurobond but excluding non-resident purchases of domestically-issued government bonds—received by the CBJ (as specified in Table 1) during the relevant period exceeds (falls short of) the levels specified in Table 1 of the MEFP. The downward adjustment will be capped at the maximum level specified in Table 1 of the MEFP. The floors will also be adjusted upward by the amount that the outstanding balance of bilateral accounts with the Central Bank of Iraq is repaid, including both principal and interest payments.

E. Ceiling on the Accumulation of External Debt Service Arrears

21. External debt service arrears are defined as overdue debt service arising in respect of obligations incurred directly or guaranteed by the central government or the CBJ to official and private creditors beyond 30 days after the due date.

F. Ceiling on the Accounts Payable of the Central Government

22. **Accounts payable of the central government are defined** as the total stock of checks issued by the central government but not yet cashed by the beneficiary and the liability of the central government's trust accounts less deposits in the trust accounts.

G. Ceiling on the Accumulation of Domestic Payment Arrears by NEPCO

23. **Domestic payment arrears by NEPCO** are defined as the belated settlement of a debtor's liabilities which are due under obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; tax payments, and obligations to banks and other private companies and suppliers. Arrears exclude obligations to the central government arising from net transfers as specified in paragraph 15.

H. Ceiling on the Net Domestic Assets of the CBJ

24. **Reserve money of the CBJ** is defined as the sum of: (i) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (ii) non-remunerated deposits of licensed banks with the CBJ in Jordanian dinars.

25. For program monitoring purposes, **the net domestic assets of the CBJ** are defined as reserve money *less* the sum of net international reserves as defined above *plus* Jordan's outstanding liabilities to the IMF. Therefore, the ceiling on NDA is calculated as projected reserve money minus the target NIR.

26. **Adjustors:** The ceilings on the NDA of the CBJ will be adjusted:

- Upward (downward) by the extent to which the floors on the net international reserves of the CBJ are adjusted downward (upward)
- Downward (upward) by the extent to which the CBJ decreases (increases) reserve requirements on Jordanian dinar deposits of the banking system. The adjustment will equal the change in the required reserve ratio multiplied by the stock of deposits with licensed banks at the start of the first month when the new reserve requirement ratio applies that are: (i) denominated in Jordanian dinars and; (ii) subject to reserve requirements.

DATA PROVISION

27. To permit the monitoring of developments under the program, the government will provide to the IMF (Division B of the Middle East and Central Asia Department) the information specified below.

28. Related to the ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and WAJ: The nine standard fiscal data tables in the attached list as prepared by the ministry of finance cover detailed information on revenue, expenditure, balances of government accounts with the banking system, foreign grants, amortization and interest, net lending, privatization proceeds, debt swaps with official creditors, and monthly change in the stocks of uncashed checks and funds owed to donor trust accounts; The government financing information from the Treasury account, as agreed by both the Ministry of Finance and the Central Bank of Jordan, and any potential discrepancy between the government financial data and the monetary survey data (all monthly); gross transfers to and from NEPCO and WAJ detailing the amounts paid or received in connection with debt transactions, transfers to cover losses, and any amount directed to repay any outstanding arrears of NEPCO or WAJ.

29. Related to the ceiling on the accounts payable of the central government: the stocks of checks issued by the central government but not yet cashed by the beneficiary; the stocks of the liabilities of the central government in the trust accounts and the deposits in the trust accounts (all monthly).

30. Related to central government arrears: the stock of all pending bills of the central government that have not been paid for more than 60 days at the end of each quarter (quarterly), including those of the health insurance fund.

31. Related to the combined public sector deficit: all the information specified in paragraph. 28; in addition, the following data on NEPCO's net loss:

- Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly) in order to compute the PC on NEPCO net loss, prepared by NEPCO's accounting department on a quarterly basis.
- Latest audited income statement signed by the auditor (usually available twice yearly with a six-month delay) with full explanation of any changes made to the unaudited version transmitted to the IMF, as soon as it becomes available to NEPCO's management.
- Breakdown of overdue payments by major creditor, and all overdue payments vis-à-vis the central government.
- Monthly gas flows from Egypt in million cubic meters (quarterly).

32. Related to the floor on NIR of the CBJ and NDA

- CBJ's foreign exchange reserves and preliminary data on dollarization (weekly).
- Data on CD auctions (following each auction).
- Monetary statistics as per the attached reporting tables.

33. Related to the continuous performance criteria:

- Details of official arrears accumulated on interest and principal payments (both external and domestic) to creditors. External arrears data will be provided using actual exchange rates.

34. Other economic data

- Interest rates and consumer prices; and exports and imports (monthly).
- Balance of payments (current and capital accounts) and external debt developments (quarterly).
- List of short-, medium- and long-term public or publicly-guaranteed external loans contracted during each quarter, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, and interest rate arrangements (quarterly).

- National accounts statistics (quarterly).

35. Weekly data and data on CD auctions should be sent to the Fund with a lag of no more than one week. Monthly and quarterly data should be sent within a period of no more than six weeks (for the monetary and fiscal variables), and within a period of no more than eight weeks for other data (three months for national accounts statistics and balance of payments and external debt statistics). Data related to the continuous criterion should be sent within one week after the date when the arrear was incurred. Any revisions to previously reported data should be communicated to the staff in the context of the regular updates.

DEFINITIONS OF THE PRINCIPAL CONCEPTS AND VARIABLES

36. Any variable that is mentioned herein for the purpose of monitoring a performance criterion, and that is not explicitly defined, shall be defined in accordance with the Fund's standard statistical methodology, such as the Government Financial Statistics. For variables that are omitted from the TMU but that are relevant for program targets, the authorities of Jordan shall consult with the staff on the appropriate treatment based on the Fund's standard statistical methodology and program purposes.