IMF Country Report No. 15/225

JORDAN

August 2015

SEVENTH AND FINAL REVIEW UNDER THE STAND-BY ARRANGEMENT AND PROPOSAL FOR POST-PROGRAM MONITORING—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of the seventh and final review under the Stand-By Arrangement and proposal for Post-Program Monitoring, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 31, 2015, following discussions that ended on July 9, 2015, with the officials of Jordan on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on July 16, 2015.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Jordan.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Jordan*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 15/366
FOR IMMEDIATE RELEASE
July 31, 2015

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700 19th Street, NW
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IMF Executive Board Completes Seventh and Final Review Under the SBA for Jordan and Approves US$396.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and final review of Jordan's economic program supported by a Stand-By Arrangement (SBA). The completion of the final review enables the disbursement of SDR 284.1 million (about US$396.3 million). The three-year SBA in the amount of SDR 1.364 billion (about US$2 billion) was approved by the Executive Board on August 3, 2012 (See Press Release No. 12/288).

Following the Executive Board's decision, Mr, Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"Jordan's Fund-supported program has helped the country to successfully weather severe external shocks, including the conflicts in Syria and Iraq. Gradual fiscal consolidation, aided by lower oil prices, ensured that public debt is expected to start stabilizing this year and, together with a prudent monetary policy, has preserved macroeconomic stability and supported confidence.

"Although growth has slowed down in the first quarter of this year, the current account deficit is narrowing, foreign reserves remain at an adequate level, and inflation is low. Policies are on track to meet their 2015 targets. Fiscal structural reform is moving forward, financial policies are appropriately focused on further enhancing the resilience of the sector, and progress is also being made toward fostering private sector development.

"Significant challenges remain. Though major efforts have already been made, continued public sector adjustment is needed to put the high public debt firmly on a downward path, including through steadfast implementation of the energy strategy. With the 2015 budget well on track, the focus should be on identifying early the measures that will underlie the necessary 2016 budget adjustment.

“There is also a need to move on structural reforms geared to job creation, and focused on labor market reform as well as improvements in the business climate and the quality of public institutions. Vision 2025—a 10-year framework for economic and social policies—is an opportunity to address these challenges, and an important step will be to anchor it in a medium-term macro-fiscal framework.

“Close Fund engagement with Jordan will continue, including through Post-Program Monitoring.”

INTERNATIONAL MONETARY FUND

JORDAN

July 16, 2015

SEVENTH AND FINAL REVIEW UNDER THE STAND-BY ARRANGEMENT, AND PROPOSAL FOR POST-PROGRAM MONITORING

EXECUTIVE SUMMARY

Jordan's Fund-supported program has helped the country to navigate successfully a treacherous regional environment. The conflicts in Syria and Iraq have led to a massive influx of refugees, putting enormous pressure on Jordan's limited resources, and to disruptions in trade routes, less tourism, and a hesitant investment sentiment. At the same time, the near complete halt of gas flows from Egypt required imports of expensive fuel for electricity generation, contributing to large losses at the national electricity company and adding to the already high public debt. Jordan's program has helped the economy weather these shocks. Gradual consolidation by the central government and public utilities, aided by lower oil prices, ensured that public debt is broadly stabilizing this year and, together with a prudent monetary policy, has preserved macroeconomic stability and supported confidence.

Performance has been good in the run-up to the final review. Although growth has been affected by regional tensions, the current account deficit is narrowing, foreign reserves remain at an adequate level, and inflation is low. All end-April performance criteria were met with comfortable margins, and policies are on track to meet their 2015 targets while fiscal structural reform is moving forward.

Significant challenges remain. Public debt is high, and low employment is a chronic problem. Though the bulk is done, continued public sector adjustment is needed to put debt firmly on a downward trend, including through steadfast implementation of the energy strategy. There is also a need to move aggressively on structural reforms geared to job creation, and focused on labor market reform as well as improvements in the business climate and the quality of public institutions. Vision 2025—a 10-year framework for economic and social policies—is an opportunity to address these challenges, and an important step will be to anchor it in a medium-term macro-fiscal framework.

Fund engagement with Jordan will continue, including through Post-Program Monitoring. The latter would cease if a new arrangement, in which the authorities have expressed interest, is put in place.

The completion of the seventh review makes available SDR 284.167 million (about $400 million).

Approved By
Adnan Mazarei and Mark Flanagan

The mission team consisted of Kristina Kostial (head), Edouard Martin (head of the advance team), Yasser Abdih, and Apostolos Apostolou (all MCD); René Tapsoba (FAD); and Nelson Sobrinho (SPR). It was assisted by Ramsey Andrawis, Vanessa J. Panaligan, and Cecilia Pineda. The mission was joined by Sami Geadah, Alternate Executive Director, and Léa Hakim from the World Bank. From June 9–24, staff met with Minister of Finance Umayya Toukan, Minister of Energy and Mineral Resources Ibrahim Saif, Minister of Planning and International Cooperation Emad Fakhoury, Minister of Water and Irrigation Hazim El-Naser, Minister of Trade and Industry Maha Ali, Minister of Labor Nidal Katamin, Governor of the Central Bank of Jordan Ziad Fariz, other senior officials in these institutions, the electricity company (NEPCO), representatives of parliament, civil society groups, the private sector, and development partners.

CONTENTS

BOXES

TABLES

ANNEX

APPENDIX

BACKGROUND

1. **Jordan has been hit by a series of severe shocks over the past few years.** Conflicts in neighboring Syria and Iraq have created considerable economic and social pressures; the authorities estimate that Jordan is hosting 1.4 million Syrians (over one fifth of Jordan's non-refugee population), the majority of which are refugees.[1] At the same time, low-cost gas imports from Egypt have gradually come to a near complete halt, requiring more expensive fuel imports, which led to large losses by the electricity company NEPCO. Responding to increasingly vocal calls for change, there were also constitutional and political reforms.

2. **Policies supported by the Stand-By Arrangement (SBA) have reduced vulnerabilities (Box 1).** A gradual and strong public sector adjustment, aided by lower oil prices, has ensured that public debt is broadly stabilizing this year. This included budgetary measures—most notably, bold fuel subsidy reform—as well as starting energy and water sector reforms to return the utilities to operational cost recovery in the medium term. Monetary policy complemented these efforts, helping to rebuild international reserves to an adequate level.

3. **With the program coming to an end, significant challenges remain.** Further public sector consolidation, including by completing utility reforms, is needed to put the high public debt firmly on a downward path. Employment is low, reflecting chronically high unemployment—especially for the youth—as well as depressed labor force participation rates (the one for women is among the lowest worldwide).

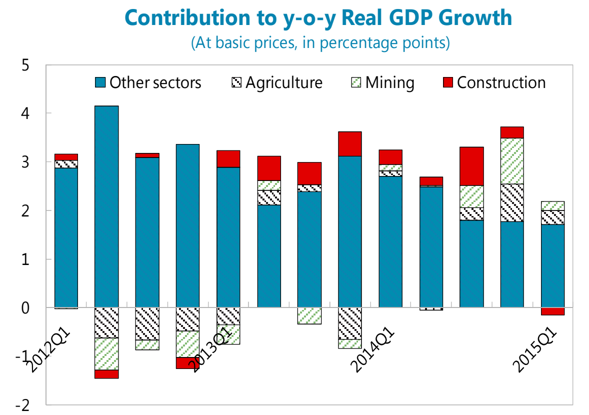
4. **This final review focused on sustaining program achievements.** Jordan's economy has continued to show resilience and program performance so far in 2015 has been strong. At the forefront of discussions were fiscal and energy policies for this year and next, as well as structural reforms to spur growth and create jobs.

RECENT ECONOMIC AND PROGRAM PERFORMANCE

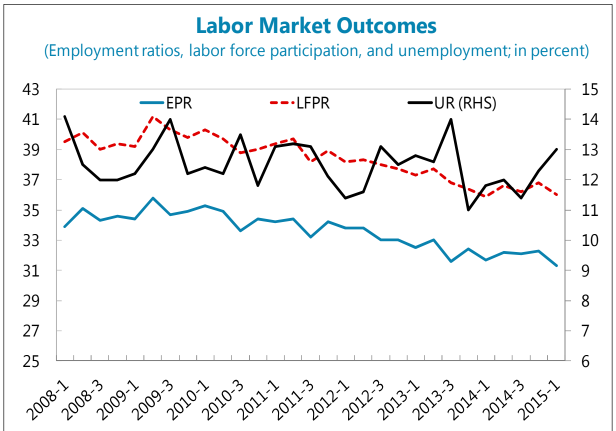
A. Economy—Suffering from Regional Conflicts But Holding Up

5. **A worsened regional environment and uncertainty are hurting output and jobs.** Growth dropped to 2 percent y-o-y in 2015Q1, reflecting largely the flared up regional tensions linked to ISIS early this year taking a toll on exports and tourism (see below). It was also affected by a weather-related contraction in construction, delays in government spending, and a slowdown in mining (after a rebound in 2014). Despite a drop in labor force participation, unemployment increased, pointing to a decline in employment in the first quarter.

[1] For details on the impact of the conflicts, see "The Syria Crisis as Felt in Jordan," IMF Country Report No. 14/153; June 2014; and "Spillovers to Jordan from the Crisis in Iraq," IMF Country Report No. 14/324; December 2014.



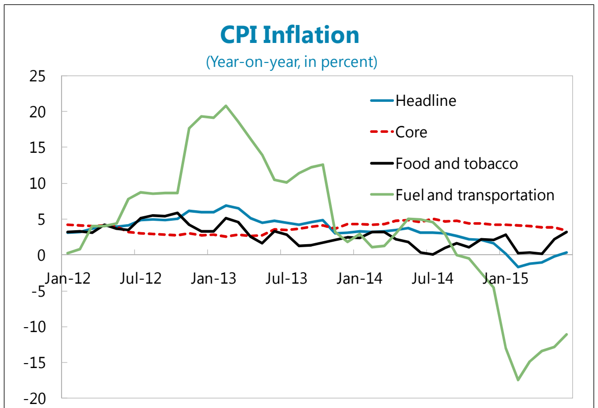
Sources: Department of Statistics; and IMF staff estimates.



Sources: Jordanian authorities; and IMF staff estimates.

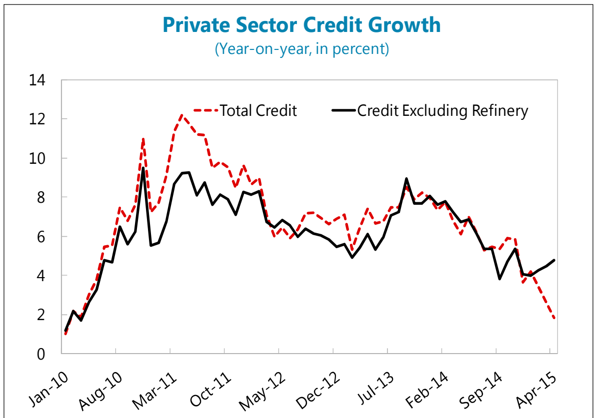
6. **Other macroeconomic developments have been broadly positive.**

- **Inflation remains low.** Headline CPI inflation rebounded to 0.3 percent y-o-y in June, from -1.7 percent in February, reflecting primarily a partial recovery in transportation costs from higher oil prices and an acceleration in food prices. Core inflation continued its gradual descent, to 3.4 percent y-o-y.



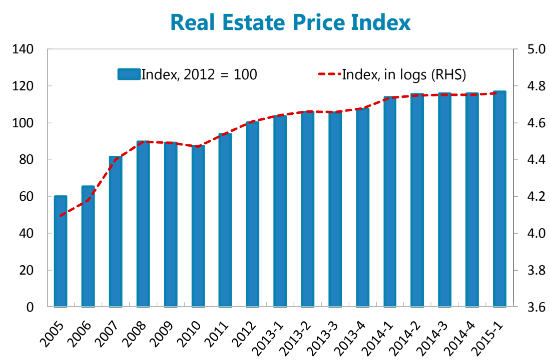
Sources: Department of Statistics; and IMF staff estimates.

- **There is a slight uptick in private sector credit growth.** Excluding the refinery—which repaid loans after NEPCO cleared its arrears—credit growth has been gradually increasing since early this year, reaching 4.8 percent y-o-y in April. Corporate credit growth picked up in the first quarter and some firms are said to have sought credit from abroad to benefit from low interest rates. Mortgages slowed down in tandem with real estate prices; exposure of banks to real estate credit risk has remained limited.

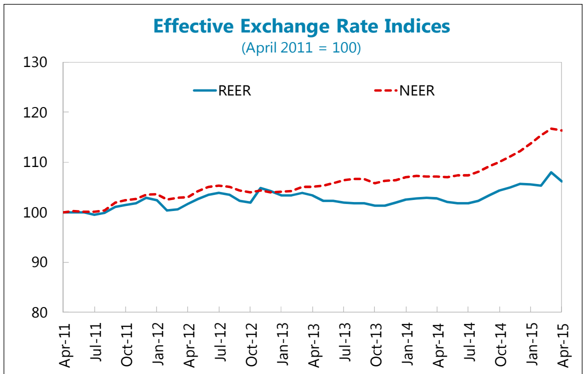


Sources: Jordanian authorities; and IMF staff estimates.

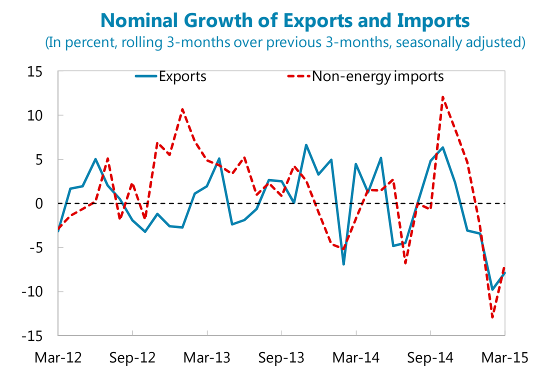
- **Aided by lower oil prices, the current account deficit continues to narrow**. Energy imports fell by one third y-o-y in 2015-Q1 and remittance inflows increased. This more than offset a decline in merchandise exports and tourism receipts, likely reflecting a stronger-than-expected impact of the Iraq crisis (which started to have a more pronounced impact on Jordan in the second half of last year). Largely mirroring a stronger U.S. dollar, the (CPI-based) real effective exchange rate has been on an appreciation trend since mid-2014.



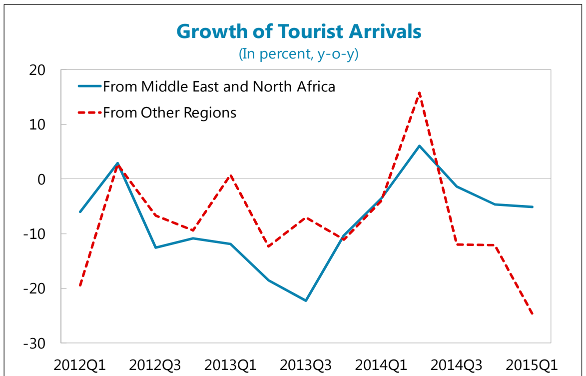
Sources: Jordanian authorities; and IMF staff estimates.



Sources: INS; and Fund staff calculations based on preliminary trade weights for 2011-13.

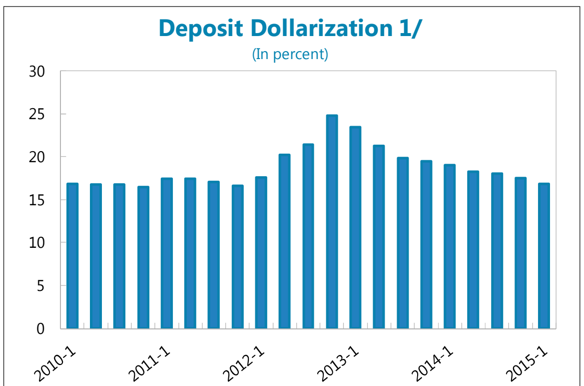


Sources: Jordanian authorities and Fund staff estimates.

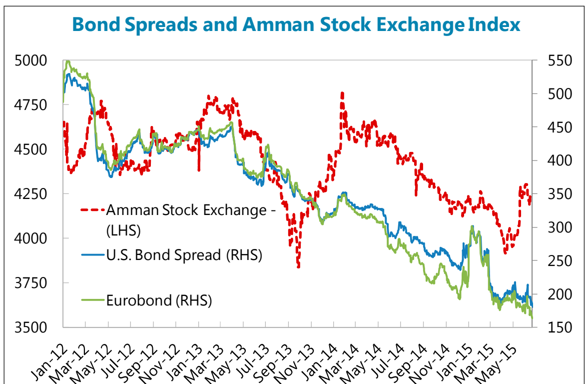


Sources: Jordanian authorities and Fund staff estimates.

- **Financial markets are robust.** Banks remain profitable, while enjoying strong liquidity and capital buffers. The decline in nonperforming loans (NPLs) accelerated in 2014, reflecting debt write-offs, foreclosures, and, to a lesser extent, debt rescheduling. With continued growth in dinar deposits and constant dollar deposits, deposit dollarization sustained its decline. The stock market has regained the ground lost early in the year and appears to have been little affected by developments in Greece.



Sources: Jordanian authorities; and IMF staff estimates.
1/ Data for 2015-1 refers to April 2015.



Source: Bloomberg.

B. Policy Implementation—On Track

7. **The budget over-performed so far this year, reflecting mostly temporary factors.** Revenue during January-April exceeded projections by 0.3 percent of GDP, because of arrears clearance following a tax amnesty. Both current and capital outlays were lower than expected (together by 0.9 percent of GDP) because of the late adoption of the 2015 budget. As a result, the performance criterion (PC) on the primary fiscal deficit was met comfortably.

8. **NEPCO's losses were in line with expectations** and the PC on the combined public deficit was met. While the end-March indicative target on clearing NEPCO's arrears was missed, all arrears were cleared in early April. The liquefied natural gas (LNG) terminal started operations in early July. The authorities renegotiated their contract with Shell for LNG delivery, which will substantially reduce NEPCO's losses starting this year.[2]

9. **Monetary policy was loosened further.** The Central Bank of Jordan (CBJ) lowered interest rates by 25 basis points (bps) in early July (the second cut this year after a 25-bps reduction in February). Against the backdrop of over-performing reserves,[3] a narrowing of the risk premium (which had temporarily shot up early this year), and low inflation, this move aimed at further reviving economic activity in light of the weak outcome in the first quarter, and at closing the negative output gap (estimated at 2¼ percent in 2015).

10. **Fiscal structural reforms have been moving forward.** The three end-May benchmarks were met: a draft law that will ensure that all government agency revenue goes through the treasury single account (TSA) was adopted and is expected to be sent to parliament in the fall; the ministry of finance sent cabinet-approved preliminary budget ceilings—consistent with the medium-term fiscal consolidation path—to general budget institutions for the preparation of their 2016 base budget requests; and the authorities prepared an action plan for the resolution of arrears between agencies involved in the energy sector.[4]

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[2] The contract volume increased to 250 million cubic feet per day (from 150 million cubic feet) and also the average price was lowered.

[3] Net international reserves increased to $13.8 billion at end-April, well above the PC and equivalent to usable reserves of 130 percent of the Fund's reserve adequacy metric.

[4] Since NEPCO is now current on its payments, the only outstanding arrears are between the refinery and the government. The main issue relates to some government agencies not having fully paid their fuel bill over the last few years (with arrears projected at about 1.5 percent of GDP by end-2015). The ministry of finance has notified these agencies that, starting in 2016, it will directly pay the refinery on their behalf (and from their budget allocations) and will clear the existing arrears by end-2018. There are also "accounting arrears" of the refinery on value-added tax payments, the bulk of which is expected to be written off because of double-counting as the distribution companies had paid most of these taxes (settlement of invoices is ongoing).

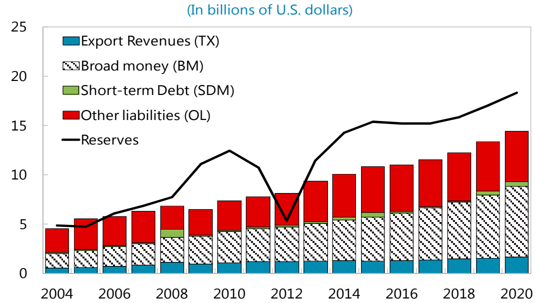
OUTLOOK AND RISKS

11. **The macroeconomic framework now projects a more gradual recovery in growth.** Growth for 2015 was revised down from 3.8 percent to about 3 percent to account for the drop in the first quarter. Risks are to the downside as this projection assumes that investor sentiment and tourism will recover quickly, while low oil prices will continue to support private consumption. The framework assumes a gradual easing of the Syria and Iraq conflicts starting in 2017, one year later than had been hitherto assumed. As a result, growth, supported by public and private investment and a rebound in exports and tourism (also triggered by an acceleration in structural reforms), is expected to reach its potential only in 2017. At the same time, imports and consumption would slow down as refugees start returning and related economic pressures ease. Prospects for other key economic indicators are as follows:

- **CPI inflation** would move into positive territory by end-year, and would peak at 2½ percent y-o-y in 2016. Thereafter, it would gradually decelerate to 2 percent y-o-y as consumption slows down.

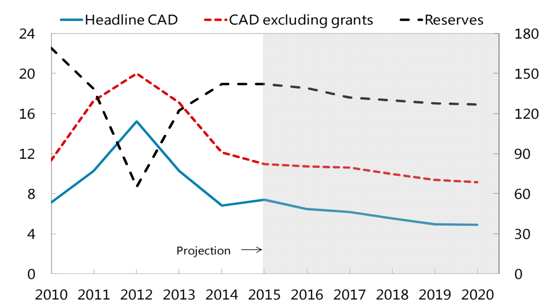
- The decline in the **current account deficit** (excluding grants) to about 11 percent of GDP in 2015 would be smaller than previously envisaged as lower imports would only partially offset a drop in travel receipts and exports throughout the year. The deficit is expected to steadily decline to about 9 percent of GDP by 2020 because of continued public sector consolidation, further savings from the energy import bill, and a pickup in tourism and exports. **Reserves** would remain at adequate levels over the medium term (over 125 percent of the reserve metric).

Reserve Metric Decomposition 1/
(In billions of U.S. dollars)



Sources: Jordanian authorities; and IMF staff estimates.
1/ For more information on the IMF's Reserve Adequacy Metric, see Assessing Reserve Adequacy-Further Considerations.

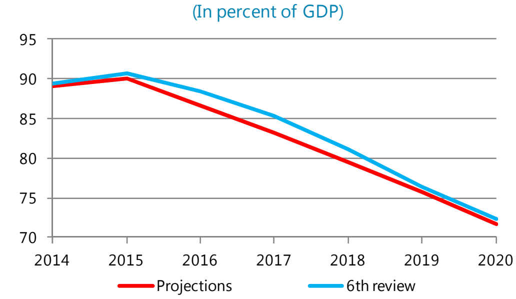
Current Account Deficit (CAD) and Reserves
(CAD in percent of GDP - LHS, reserves in % of RAM - RHS)



Sources: Jordanian authorities; and IMF staff calculations and estimates.

- On the back of continued adjustment by the central government and NEPCO, **public debt** would start declining in 2016. This is in line with program projections, which locked in fiscal windfalls from the lower oil price mostly on account of smaller NEPCO losses (savings on the central government budget are expected to be minor).

Public Debt Targets, 2014–20
(In percent of GDP)



Source: IMF staff projections.

12. **Risks remain high.** The most prominent relate to an escalation and/or lengthening of the conflicts in Syria and Iraq beyond 2016, which would further weigh on exports, tourism, investor confidence, and FDI (Box 2). Growth would take a further hit; and if additional refugees were to come in, there would be more pressure on the fiscal accounts, infrastructure, and the quality of government services. Possible donor fatigue could jeopardize humanitarian assistance, adversely affecting the fiscal and external accounts. Also, a loss of competitiveness in case of a further U.S. dollar appreciation could depress exports of goods and services, thereby hurting growth, with potential negative spillovers to the financial sector (through an increase in NPLs). Other risks include a sharp rebound in oil prices, and a prolonged slowdown in key emerging market economies. Finally, a domestic risk is a loss of momentum in reforms.

POLICY DISCUSSIONS

13. **Discussions focused on sustaining the program's achievements.** Building on the sizeable fiscal adjustment already accomplished and adhering to the planned adjustment path will not only anchor economic policies at a time of uncertainty, but also reduce the country's still large financing needs, including from donors, over the longer term. Also, any fiscal savings should, to the extent possible, go toward further reducing debt, thereby increasing the economy's buffers. With protracted regional conflicts depressing exports and investor sentiment, structural reforms are all the more critical to enhance Jordan's competitiveness, shore up growth, and create more jobs. The authorities felt that Vision 2025—the government's 10-year framework for economic and social policies—provides a framework to do so.

Jordan: Central Government, NEPCO, and Consolidated Deficits, 2011–20

(In percent of GDP)

	2011 Act.	2012 Act.	2013 Act.	2014 Act.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Program (Sixth Review)										
Central government primary deficit 1/	9.6	7.4	4.7	4.6	1.9	1.4	1.0	0.5	0.5	0.5
Central government fiscal measures	…	…	…	0.0	0.0	1.1	0.5	0.5	0.0	0.0
NEPCO operating losses	4.9	5.2	4.6	4.7	2.1	1.5	0.8	0.0	0.0	0.0
Reduction in losses	…	-0.3	0.7	0.0	2.5	0.6	0.7	0.8	0.0	0.0
Of which: from tariff increase	…	0.5	0.2	0.5	0.3	0.6	0.6	0.0	0.0	0.0
Energy arrears clearance	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Combined public deficit 2/	14.5	12.6	9.4	9.2	4.0	2.9	1.8	0.5	0.5	0.5
Revised projections										
Central government primary deficit 1/	9.6	7.4	4.7	4.5	2.1	2.2	1.5	1.0	0.5	0.5
Central government fiscal measures	…	…	…	0.0	0.0	0.8	0.8	0.5	0.0	0.0
NEPCO operating losses	4.9	5.3	4.6	4.6	1.4	0.8	0.0	0.0	0.0	0.0
Reduction in losses	…	-0.4	0.7	0.0	3.2	0.6	0.8	0.0	0.0	0.0
Of which: from tariff increase	…	0.5	0.2	0.5	0.3	0.6	0.6	0.0	0.0	0.0
Energy arrears clearance	…	…	…	…	0.0	0.5	0.5	0.5	0.0	0.0
Combined public deficit 2/	14.5	12.7	9.4	9.2	3.5	3.0	1.5	1.0	0.5	0.5

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Excludes grant and transfers to NEPCO and WAJ.
2/ Excludes arrears repayment by NEPCO.

A. Public Sector Policies—Keeping the Momentum

14. **Public sector consolidation needs to stay the course.** The authorities reiterated their commitment to reduce public debt to about 70 percent of GDP by 2020. This could be achieved via a gradual reduction of the combined public deficit, from 3.5 percent of GDP in 2015 to 0.5 percent of GDP in 2019. To reach this target while allowing for an increase in capital spending to 5 percent of GDP, the authorities will need to complete the energy reforms and adopt central government measures of about 2 percent of GDP. Savings from the renegotiated LNG contract will mostly go into repaying arrears to the refinery—a signal that the government intends to stay current in its payments, which would also allow the refinery to implement a needed modernization—and into slightly slowing down the pace of fiscal consolidation in 2016 and 2017 so as to help the economic recovery.

15. **A medium-term framework would help anchor fiscal policies.** Such a framework could outline how the deficit reduction can be achieved, allowing early discussions on potential measures and their impact on the economy. It could also provide context on how ongoing initiatives fit into the consolidation path. This applies in particular to the broadening of incentives under the new investment law—whose fiscal impact, along with those of other tax expenditures, should be annexed to the budget as well as any other incentives under discussion to stimulate the economy— and to the decentralization bill currently at parliament. The latter could have important fiscal implications, which should be assessed with technical assistance (TA) before taking a decision.

Central Government

16. **The 2015 fiscal target is within reach (LOI¶5–6).**[5] The revenue over-performance provides a cushion for this year (though it will not translate into significant additional revenue in subsequent years). The authorities said that they are managing spending tightly through rigorous control of line ministries, ensuring that there will be no new arrears. Also, they expect to shortly adopt measures to reduce health funds outlays, focused on streamlining the eligibility criteria for medical treatment, and to use any budget over-performance to accelerate health arrears repayment.[6] Higher grants and privatization receipts will allow for some increase in capital spending.

17. **Work has started on the 2016 budget (LOI¶7)**, with a view to make room for higher public investment. Cabinet-approved preliminary ceilings for budget institutions will ensure that non-priority spending will remain in line with projections. Staff encouraged the authorities to soon identify needed measures of 0.8 percent of GDP to provide sufficient time for discussion and adoption. It highlighted the advantages of further tax reform, specifically reducing tax incentives to simplify tax administration and strengthen compliance; lowering the exceptionally high personal income tax threshold, as only 3 percent of the population pays personal income tax; and introducing

[5] Paragraph numbers refer to the paragraphs in the attached Letter of Intent (LOI).

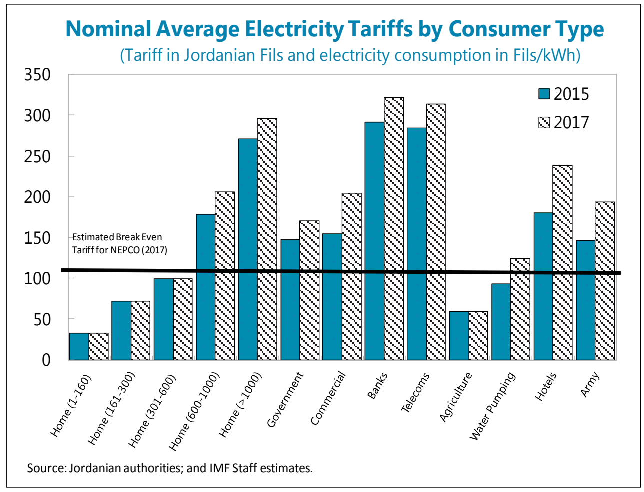
[6] Health arrears increased slightly during January–April because of delays in implementing the budget. The annual allocation is sufficient to start gradually clearing the arrears as planned.

a minimum corporate tax to reduce tax evasion. On the spending side, it is important: to engage Royal Jordanian shareholders, and possibly seek new shareholders, to prevent any further government capital injection;[7] and to follow through on the restructuring of the airline.

Public Utilities

18. **Strategies to return utilities to cost recovery are now at the half-way mark (LOI¶7).**

- **Energy strategy.** The authorities re-affirmed their commitment to the energy strategy, including to future tariff increases, and stand ready to re-instate the full 2015 tariff increase should oil prices rebound. With donor assistance, they will revisit by year-end the considerable electricity tariff cross-subsidization, which benefits mostly households,[8] while ensuring that vulnerable households remain protected. Staff welcomed this review in light of recent tariff reductions (the reversal of half of the tariff increase implemented earlier this year and a reduction in May of hotel tariffs), which—even if the associated revenue losses are small—could undermine the credibility of the strategy.



- **Water.** This year's increases of 10–25 percent for water fees are scheduled for implementation in August. Provided that planned investments to upgrade the water supply network and improve service are undertaken, the water sector is on course to reach operational cost recovery in 2016.

Structural Fiscal

19. **There is an unfinished fiscal structural reform agenda, for which the Fund stands ready to provide TA (LOI¶7):**

- **Public Financial Management.** Budget execution is expected to be strengthened by a reconfigured module of the Government Financial Management Information System that prevents budget institutions from exceeding their pre-approved expenditure ceilings (to be implemented with the 2016 budget). Pending reforms relate to: making the long-pending macro-fiscal unit in the ministry of finance operational; proceeding with the consolidation of the

[7] The government will inject (an already budgeted) 0.2 percent of GDP in Royal Jordanian's capital in 2015 and is willing to consider injecting an additional 0.2 percent of GDP if other shareholders do not participate.

[8] For details on reducing household subsidization while protecting the poor, see "Electricity Tariff Increases—Impact on Competitiveness and Options for Reform," IMF Country Report No. 14/153.

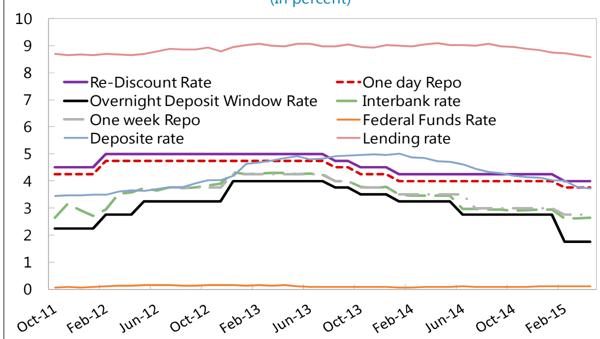
central government's financial statements with those of extra-budgetary agencies and public utilities; and working toward gradually integrating trust accounts into the TSA.

- **Tax administration.** Work is ongoing to improve the risk-based assessment of sales tax compliance and to clean up the taxpayer database. Staff encouraged the authorities to bring professional service providers into the tax net and to consider a tax administration assessment tool study to map out possible TA.

B. Monetary and Financial Sector Policies—Safeguarding Stability

20. **The current monetary stance is appropriate (LOI¶8).** The CBJ reaffirmed that it stands ready to take action to maintain the attractiveness of the dinar and keep reserves at an adequate level. In view of heightened risks, it will continue to monitor closely the risk premium, dollarization, core inflation, and the effectiveness of the monetary transmission mechanism. On the latter, the CBJ acknowledged that regional uncertainty appears to have weakened the credit channel since 2012 (text panel), but noted that data this year point to some normalization, with credit growth slowly picking up. Staff felt that, while future monetary policy decisions should remain dependent on economic developments, the loosening cycle may need to come to an end. There was an agreement that these decisions should take into consideration the expected timing and magnitude of a U.S. monetary policy normalization, thereby avoiding interest rate volatility. A tighter monetary stance could help strengthen external price competitiveness and back-loaded fiscal policies might further stimulate activity in the remainder of the year, thus contributing to closing the output gap.

Jordanian Interest Rates and Federal Funds Rate
(In percent)

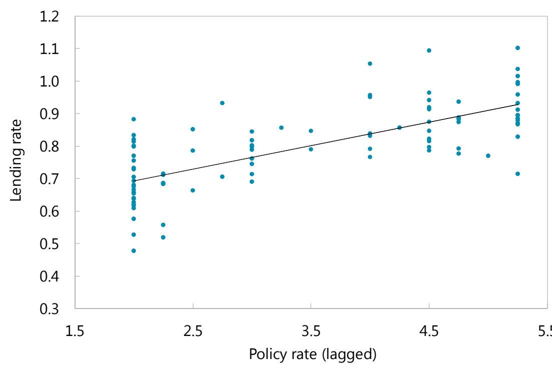


Sources: Central Bank of Jordan; and IMF staff estimates.

Jordan: Monetary Transmission

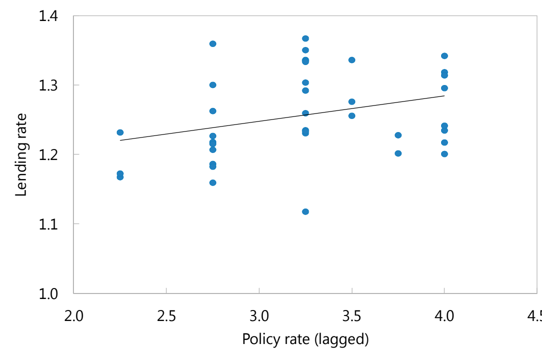
Historically, there has been a pass-through from policy rates to lending rates....

Lending and Policy Rates: Jan 2004–Dec 2011



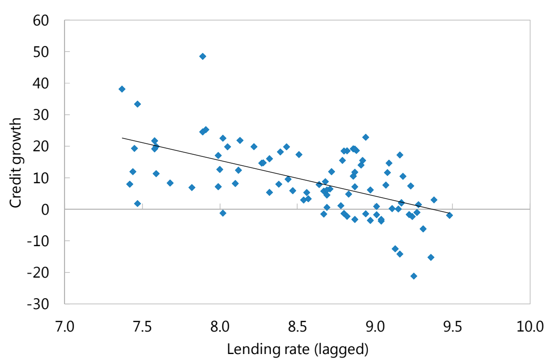
... and this has survived the regional turmoil, although it has somewhat weakened.

Lending and Policy Rates: Jan 2012–April 2015



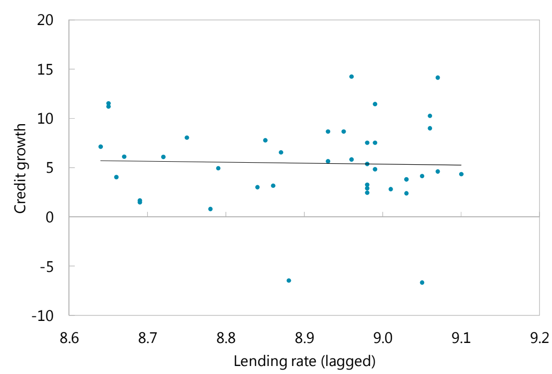
While, historically, credit growth increased (decreased) when lending rates fell (rose)...

Lending Rates and Credit Growth: Jan 2004–Dec 2011



...the relationship has been weakened in the recent past by a "wait and see" attitude regarding investment decisions brought about by regional uncertainty.

Lending Rates and Credit Growth: Jan 2012–April 2015



Source: IMF staff estimates.

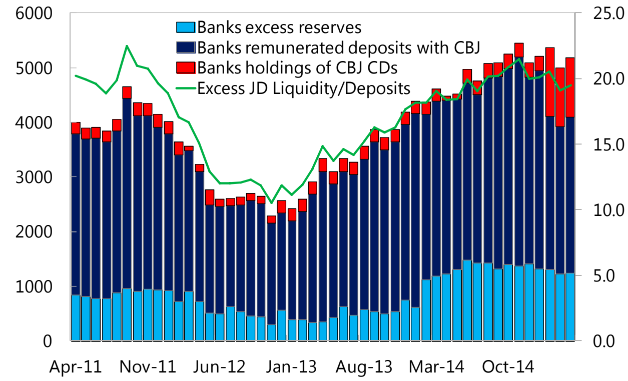
Notes: The lending rate in the top panel is measured after controlling for its own dynamics and outliers, as a residual from an estimated autoregressive distributed lag model that includes dummy variables for data points where the residual exceeds three standard deviations. The policy rate is lagged two periods.
Following the same methodology, credit growth is measured as the annualized log difference of private sector credit (excluding the refinery) after controlling for its own dynamics, seasonality, and outliers. The lending rate is lagged one period.

21. **The authorities continue their efforts to bolster financial sector resilience (LOI¶8).**

- **Legal framework.** The amendments to the CBJ and commercial banking laws were approved by cabinet and could be sent to parliament as early as September. A passage of the CBJ law amendments would foster transparency and align CBJ's autonomy and oversight with best practice. The banking law amendments would strengthen the regulatory framework for corporate governance, but further changes are recommended, including on cross-border cooperation, prudential requirements, and resolution. Parliament is discussing a money exchanger law, which would strengthen the regulatory framework for the sector.

- **Banks.** NPLs are expected to decline further. This is because of write-offs of existing NPLs—mostly a legacy from the global financial crisis—and banks having tightened their lending standards. Banks have also increased their provisioning for NPLs. With government borrowing needs expected to decline in the coming years, the key challenge facing banks is how to channel excess liquidity into private sector credit expansion without compromising lending standards. In this regard, banks highlighted the need for institutional, judicial, and foreclosure reform to unlock credit supply. They also hoped that some stabilization in the regional conflicts would help stimulate credit demand.

Banks JD Excess Liquidity
(In millions of Jordanian dinars)



Sources: Jordanian authorities; and IMF staff estimates.

- **Nonbank financial sector.** With Fund TA, the authorities plan to undertake an assessment of the loss-making insurance sector with a view to strengthen supervision and monitoring, which have weakened in recent years after the independent insurance commission was subordinated to a ministry. The actuarial evaluation of the Social Security Corporation, conducted in collaboration with the International Labor Organization (ILO), is expected to be finalized by end-year; follow-up policy action might be needed.

- **Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).** Staff welcomed ongoing work supported by Fund TA to strengthen the AML/CFT law in line with the new FATF standard; develop a strategy to address potential shortcomings in the CFT regime; and start designing a risk-based approach to AML/CFT supervision.[9]

C. Structural Reforms—Redoubling Efforts

22. **Progress is being made toward fostering private sector development.**

- ***Business environment.*** Staff welcomed the authorities' new roadmap to enhance the investment climate (jointly developed with the World Bank). It noted the need to effectively see the plan through, with the most pressing reforms related to starting a business, registering property, dealing with construction permits, paying taxes, and inspection reform. The launch of the investment window/one-stop-shop in April is encouraging, and as a next step the other by-laws for the investment law should be expedited, particularly the one that deals with FDI

[9] There is a lawsuit against Arab Bank filed at a New York federal district court in 2004 for having provided financial services to Hamas. The damage trial will take place in August. This lawsuit is expected to be appealed.

restrictions. A World Bank-OECD transition fund project could improve investor protection and investment regulations. In this regard, it would be important to enhance data exchange across government entities, and introduce automation in investment-related procedures (for example, making online applications and e-signatures feasible).

- ***Access to credit***. Facilities for small- and medium-sized enterprises have been scaled up with further support from donors. Improving banks' ability to monitor and assess borrowers' creditworthiness through the credit bureau—expected to start operations by year-end—could further help easing financing constraints. Staff urged the authorities to expedite parliament adoption of the secured lending law and to revisit the bankruptcy/insolvency draft law to align it with best practice.

23. **Vision 2025 outlines the forward-looking agenda (LOI¶9).** It appropriately identifies long-standing impediments to growth and higher employment. However, an overarching and broad-based approach to tackling labor market issues still needs to be fully developed (Box 3). In this context, staff welcomed the ongoing review of the national employment strategy with assistance of the ILO, which will take into account Syrian refugees joining the labor markets. Work is ongoing to translate the Vision into a medium-term macroeconomic and fiscal framework, which should be in time for the 2016 budget. Successful implementation will hinge on setting clear deliverables and timelines for execution, including transparent costing and an accountability framework as well as effective communication and inclusion of all stakeholders.

24. **The authorities plan to focus on public-private partnership (PPP) projects.** Developing a strategic partnership with the private sector is essential and should go beyond PPPs to move forward together on the structural agenda. Potential projects announced at the recent World Economic Forum (for instance in ICT and renewable energy) could be growth-enhancing. They could bring in private sector expertise in efficient service delivery and reduce the initial cost for the public sector, but related risks, including contingent liabilities, need to be taken into account. With continued TA from the World Bank, the recently adopted public investment decisions process, which follows best practice, should be made fully operational. This will provide a framework for the new PPP unit to, in collaboration with the contracting ministries, appropriately design, assess, prioritize, and implement projects.

PROGRAM ISSUES

25. **Jordan continues to meet all exceptional access criteria.** While expected to abate in the medium term, current account pressures and external financing needs are still high and could intensify with regional conflicts (criterion 1). The authorities reiterated their commitment to further fiscal consolidation, including through continued energy reforms, to reduce public debt to about 70 percent of GDP by 2020, close to the high risk benchmark under the Fund's DSA for market-access countries. To this end, the 2015 budget is being tightly managed and the preparation of the 2016 budget has been anchored in credible expenditure ceilings. The debt service burden is expected to remain manageable and the debt trajectory resilient to severe stress tests (criterion 2). Market access is expected to strengthen with the issuance of a non-guaranteed Eurobond later this

year, in addition to continued non-resident participation in the domestic debt market (criterion 3). The above measures, together with authorities' demonstrated implementation capacity and commitment to making further progress on structural reforms contribute to reasonably strong prospects for sustained program success (criterion 4).

26. **Jordan's capacity to repay the Fund remains good.** Fund credit outstanding is expected to peak at 5.3 percent of GDP in 2015 (Table 7). Risks to the Fund are mitigated by: (i) a comfortable near-term financing outlook with external loans and grants for July 2015 through June 2016 of about $1.5 billion, in addition to a $0.5 billion non-guaranteed Eurobond, and a U.S.-guaranteed Eurobond of US$1.5 billion that was issued last month (text table); (ii) an adequate level of reserves; (iii) Jordan being well along the adjustment path; and (iv) a decline in financing requirements when large amortizations are due to the Fund.

27. **Work is ongoing to address the 2013 safeguards assessment recommendations, albeit with some delays.** Staff welcomed that: (i) the proposed amendments to the CBJ law envisage establishing a Board committee to oversee audit and financial reporting mechanisms; and (ii) the CBJ requested the ministry of finance to launch the selection process for appointing a new external auditor. It urged the authorities to complete by October the quality assessment review of the CBJ's internal audit function in accordance with international standards and move forcefully on removing audit qualifications in the CBJ financial statements.

28. **After the expiration of the Stand-By Arrangement on August 2, 2015, Fund engagement will continue including through Post-Program Monitoring (PPM).** Given that Jordan's outstanding credit to the Fund exceeds 200 percent of quota, staff recommends that Jordan be brought back to the standard 12-month consultation cycle for Article IV consultations and that PPM be initiated upon expiration of the Stand-By Arrangement. The authorities have expressed interest in, but have not yet requested, a successor arrangement. The PPM would cease if a new arrangement is put in place. To maintain a track record through 2015 that can be monitored, the authorities have established quarterly projections.

Jordan: External Financing, 2015–16

(In millions of U.S. dollars, unless otherwise specified)

	2015 Q1	2015 Apr	2015 Q2	2015 Q3	2015 Q4	2015 Total	2015 Total	2016 Q1	2016 Q2	2016 Total
	Act.	Act.	Proj.	Proj.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.
Budget grants	**124**	**24**	**48**	**89**	**289**	**344**	**551**	**36**	**0**	**736**
EU	7	0	0	32	11	66	51	36	0	92
Saudi Arabia (budget support)	0	0	0	0	0	0	0	0	0	0
Saudi Arabia and Kuwait (development budget support)	54	24	48	57	63	0	222	0	0	0
US	57	0	0	0	215	272	272	0	0	406
Other/Unidentified	5	0	0	0	0	6	5	0	0	238
GCC capital grants										
GCC grants received by CBJ	0	75	75	175	250	500	500	0	93	619
GCC grants received by MOF	165	35	111	121	131	683	528	0	47	707
Loans	**113**	**0**	**1,600**	**250**	**273**	**2,117**	**2,237**	**0**	**0**	**467**
France	0	0	0	0	83	68	83	0	0	69
Japan	0	0	100	0	100	100	200	0	0	0
WB	0	0	0	250	0	245	250	0	0	0
Other (Eurobond etc)	0	0	1,500	0	0	1,500	1,500	0	0	0
EU	113	0	0	0	90	204	204	0	0	0
Unidentified	0	0	0	0	0	0	0	0	0	398
Memorandum :										
Annual cumulative total (MOF) 1/	402	462	2,161	2,621	3,315	3,644	3,315	36	84	1,909
in millions of JD	285	327	1,532	1,859	2,350	2,584	2,350	26	59	1,354
in percent of annual GDP	1.1	1.2	5.7	6.9	8.7	9.6	8.7	0.1	0.2	5.0
Annual cumulative total (CBJ) 2/	237	337	1,960	2,475	3,287	3,461	3,287	36	129	1,822
Non-guaranteed Eurobond	0	0	0	0	500	500	500	0	0	0

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Includes budget grants, GCC capital grants received by MOF, and loans.

2/ Includes budget grants, GCC capital grants received by CBJ, and loans.

STAFF APPRAISAL

29. **Jordan's Fund-supported program has paid off.** Good policy implementation has enabled the economy to endure the impact of severe external shocks resulting from regional conflicts. The recovery, though slow, is now underway, with macroeconomic stability preserved, and the external and fiscal positions strengthened.

30. **The economy is not out of the woods yet.** Risks and uncertainty persist, largely from the turmoil in neighboring countries, which is affecting growth and weighing on Jordan's limited resources, infrastructure, trade, tourism, fiscal accounts, and social fabric. At the same time, the country is saddled with high public debt and has been suffering from chronically low employment.

31. **The road to recovery requires bold policy action.** Continued strong support by the international community is critical to help Jordan shoulder the burden of regional conflicts. But the authorities will need to do their part through further fiscal adjustment and decisive structural reforms, which will eventually reduce the need for donor support.

32. **Sticking with public sector adjustment will firmly put debt on a downward path.** The new LNG contract is welcome as it provides room to finance the clearance of energy-related government arrears. The adoption of cabinet-approved ceilings for the 2016 budget is a good step, but measures to bring about the necessary budget adjustment in 2016 should be soon identified. To

this end, further equity-enhancing tax reform should be considered, in particular on the income tax, while tax incentives should be curbed. These efforts should be complemented by tax administration improvements and public financial management reforms to enhance transparency. The continued commitment to the energy strategy is encouraging, but the recent tariff reductions are regrettable, and point to the need to review the high cross-subsidization of tariffs.

33. **Financial policies are appropriately focused on enhancing the resilience of the sector.** Maintaining adequate reserve buffers is paramount in light of elevated risks. Any change in the monetary policy stance will need to take into account risks, the need to strengthen external competitiveness, and the normalization of U.S. monetary policy. Efforts to bolster the supervision of the insurance sector are welcome. And so is progress in modernizing the legal framework of the financial sector, albeit further changes are needed to bring the banking law amendments in line with best practice before submission to parliament. Key legislation aimed at enhancing private sector credit should be fast-tracked.

34. **An acceleration in structural reforms is needed to enhance job opportunities.** Impediments to high growth, good-quality jobs, a favorable business environment, and strong public institutions have been long-standing. Vision 2025 correctly recognizes them, but now needs to be translated into an ambitious implementation plan, anchored in a medium-term macroeconomic and fiscal framework. Most urgent are broad-based labor market reforms, improvements to legislation governing lending, and following through on the roadmap to improve the investment climate. While PPPs could help in accelerating growth, due diligence in line with best practice is critical.

35. **Staff supports the completion of the seventh review and the related purchase.** PPM is recommended, given that outstanding Fund credit to Jordan remains above 200 percent of quota, and the authorities expressed interest in the immediate PPM initiation.

Box 1. Stand-By Arrangement Objectives and Achievements

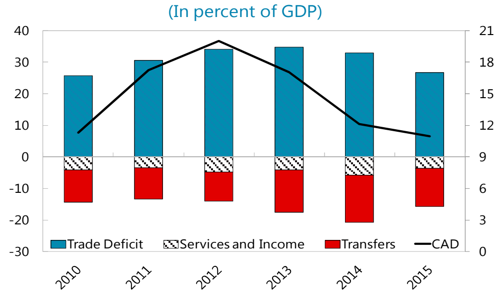
The Stand-By Arrangement objectives were to:

- **Maintain macroeconomic stability and improve the external position,** with a focus on fiscal adjustment to reduce the pace of public debt accumulation. Adjustment was to come from a gradual reduction of the deficits of the central government and NEPCO (as well as the water companies).
- **Make policies more equitable.** Fiscal reforms were to be anchored in protecting the vulnerable parts of the population while eliminating subsidies and tax breaks for those with a higher ability to pay. At the same time, medium-term energy reform aimed at reducing the high vulnerability to oil prices by diversifying energy sources and making electricity production more efficient.
- **Strengthen growth.** This was to come through reforming the business environment and labor markets.

Sustained policies have stabilized the economy:

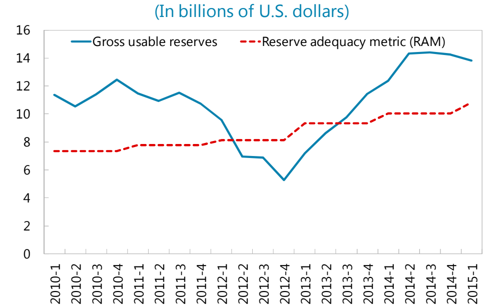
- **The macroeconomic situation has improved.** Though growth has been affected by regional conflicts, it is holding up. Inflation has declined, the external current account deficit narrowed, the financial sector resilience strengthened, and reserves have been rebuilt to an adequate level.

Jordan: CAD (excluding grants) and Components
(In percent of GDP)



Sources: Jordanian authorities; and IMF staff calculations and estimations.

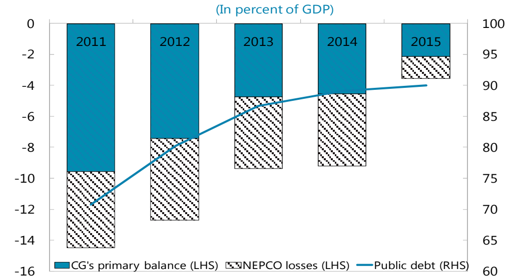
Gross Usable Reserves and Reserve Adequacy Metric
(In billions of U.S. dollars)



Sources: Jordanian authorities; and IMF staff estimates.

- **Significant fiscal adjustment has proceeded broadly as planned,** for the central government, NEPCO, and the water companies. Reforms in the utilities were based in medium-term strategies (both benchmarks under the program). Grants helped cushion major external shocks by allowing flexibility in the deficit targets, in particular to finance part of the costs related to hosting Syrian refugees and shortfalls in gas from Egypt.
- **Subsidy reform is advancing.** A landmark achievement was the elimination of fuel pump subsidies, and the re-establishment of an automatic pricing mechanism, in late 2012, which was accompanied by introducing cash transfers to about 70 percent of the population. General electricity and water subsidies are being gradually eliminated while the bread subsidy remains in place.

Fiscal Consolidation
(In percent of GDP)



Sources: Jordanian Authorities; and IMF staff estimates

Progress with structural reforms was mixed.

- **Tax reforms could have been more ambitious.** Reforms on making the tax system more equitable fell short; in particular, reducing the personal income tax minimum threshold would have increased the number of taxpayers. Also, tax incentives could have been reduced.
- **There were improvements in public institutions.** The new public investment framework and the establishment of a public-private partnership unit in the ministry of finance could help prioritize and better monitor investment. Reforms in public financial management and tax administration could have been broader and more accelerated.
- **Some aspects of the business environment have improved.** This relates in particular to parliamentary approval of investment and public-private partnership laws, enhanced transparency in the legal process, the one-stop shop for investors, and access to credit.
- **Labor market reforms have been lagging**. The authorities have focused on active labor market policies, but while helpful these are not likely to be sufficient to trigger a meaningful change in unemployment at the aggregate level.

Box 2. Jordan: Risk Assessment Matrix

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
Short-Term Risks			
Spillovers from an escalation of the civil war and the humanitarian crisis in Syria and from a deeper and broader crisis in Iraq	***High*** The border with Syria has been closed since April, hindering trade with Syria and transit trade. Although the influx of refugees has stopped, there are already over 600 thousand registered refugees in Jordan; the authorities estimate that the total number is substantially higher. Jordan's role in the coalition against ISIS is increasing security spending.	***High*** Refugees in Jordan are putting pressure on fiscal accounts, infrastructure, and the social fabric. Any further escalation of the conflicts could result in further disruptions in external inflows (tourism, and FDI), capital outflows, a prolonged interruption in intraregional trade, and possibly lower growth. There could also be a further influx of refugees, possibly implying a further increase in fiscal costs.	(1) Seeking grants from donors to ensure that the refugees are appropriately cared for, including through complementary central government assistance; (2) Continuing to implement a strong medium-term program to instill confidence and ease fiscal pressures; and (3) Maintaining high reserve buffers.
A sharp rise in oil prices	**Medium** Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa, leading to a sharp rise in oil prices, with negative global spillovers.	***Medium-High*** Jordan remains highly dependent on energy imports but is diversifying its sources. It would be strongly affected by higher oil prices, but this dependence is reduced over the medium term.	(1) Diversifying energy import sources; (2) Implementing fully the announced increases in electricity tariffs to reduce the subsidy; and (3) Seeking additional grants from international partners.
Persistent dollar strength	***High*** Persistent dollar strength	***Low-Medium*** Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge putting pressure on Jordan's competitiveness.	(1) Maintaining appropriate monetary policy to ensure an adequate level of reserves; and (2) Implementing structural reforms to improve competitiveness.
Sharp asset price adjustment and decompression of credit spreads	**High** Investors reassess underlying risk	**Medium** Increases in U.S. term premia put upward pressure on Jordan's borrowing costs and could amplify volatility.	(1) Maintaining appropriate monetary policy to ensure an adequate spread over U.S. government debt; and (2) Issuing Eurobonds, covered by donor guarantees.

Box 2. Jordan: Risk Assessment Matrix (continued)

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
Delays in program implementation	***Medium*** This relates to utility reform and the central government.	***Medium*** Any delay in consolidation would increase already high financing needs and public debt, and could undermine confidence.	(1) Staying with program commitments; and (2) Diversifying energy sources in the long term.
Donor fatigue	***Low-Medium*** This relates to a shortage of grants to address the humanitarian crisis and to finance public investment.	***High*** Lower grants would force Jordan to borrow, adding to the already high public debt and result in fewer infrastructure projects, thus hurting growth.	(1) Continuing to implement public sector consolidation; (2) Accelerating structural reforms; and (3) Engaging donors with a view to eventually reduce donor support.
		Medium-Term Risks	
Pressure on foreign exchange reserves	***Medium*** The reserve level could drop in case of a weakening of confidence and deposit dollarization.	***Medium-High*** While banks' net open positions are reportedly small, and lending in foreign exchange to un-hedged borrowers is prohibited, uncertainty could result in large capital outflows.	(1) Maintaining appropriate monetary policy in the near term to preserve reserves; and (2) Implementing a strong medium-term program with broad national buy-in to instill confidence.
Structurally weak growth in key advanced and emerging economies (the "new mediocre")	***Medium-High*** A significant medium-term growth slowdown in EM. Weak demand in the Euro area and Japan, and persistently low inflation, leading to "new mediocre" rate of growth.	***Low*** Limited exposure to other EMs, the Euro area and Japan would mitigate any adverse impact on the current account, but second-round effects from a decline in exports, and tourism from the GCC and Europe could add to current account pressures.	(1) Accelerating structural reforms to improve competitiveness; and (2) Lengthening the maturity profile of debt.

Box 3. Fostering Labor Market Inclusion

Stylized Facts

- **Unemployment** is structurally high, particularly among the youth and educated, at about 31 percent and 17 percent, respectively. **Labor force participation** is low, especially among females—which, at 13 percent, is lower than the MENA average of 22 percent. As a result, only 32 percent of working-age people are employed, a rate that is lower than the MENA average of 44 percent and way short of the world average of about 60 percent.
- **To absorb the new Jordanian entrants to the labor force**, Jordan will need to increase employment by an estimated 400 thousand positions by 2020. At current policies, staff estimates that this requires an average annual growth of 6 percent. Current growth forecasts would only generate 275 thousand jobs.

Why is employment so low?

- **Skill mismatches.** Entrepreneurs regularly cite the lack of suitable skills among job applicants as an important constraint to hiring, suggesting that the education system is failing to produce graduates with marketable job skills.
- **Large public sector.** The public sector has been an extraordinarily important source of employment—over the past fifteen years, public sector employment shares have ranged from 35 percent to almost 40 percent. This has distorted labor market incentives and diverted resources away from a potentially more dynamic private sector. Government hiring has typically placed a premium on diplomas over actual skills, influencing educational outcomes and contributing to skill mismatches.
- **High reservation wages.** The public sector offers comparatively greater job security, higher average wages (the average public sector wage is 122 percent of the one in the private sector), and more generous benefits. This has inflated wage expectations among new entrants. New entrants' capacity to withstand long periods of unemployment—in anticipation of securing more lucrative opportunities in the public sector—is buoyed by familial support and remittances from abroad. There are currently more than 200 thousand people waitlisted to become public sector employees.
- **Untapped talent.** The World Economic Forum's 2014–15 Global Competitiveness Report finds that Jordan ranks relatively low in labor market efficiency—94th out of 144 countries. This is largely driven by a very low ratio of females to males in the formal labor force, with Jordan at rank 142.

In addition to improving the business climate, Jordan needs to:

- **Address skills mismatches through educational reform and training.** The education system will need to focus more on quality, realigning curriculums with private-sector needs. Also, promising training programs could be scaled up (such as Jordan's Job Compact and those run by Injaz in partnership with the private sector).
- **Reform public sector hiring practices and compensation.** Public sector hiring will need to place greater emphasis on skills and competition and less on paper qualifications. Adjustments in government pay scales would strengthen the link between compensation and productivity.
- **Unlock the potential of women in the labor market.** This could be done by addressing employers' perceptions; the limited access to information on job opportunities; the lack of targeted active labor market policies for females; the lack of maternity benefits in the private sector; and the absence of affordable and dependable childcare.
- **Move workers out of the informal sector.** Improving the quality of formal institutions and reducing the cost of doing business will give incentives for informal firms and workers to formalize.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2013–20

			Prog.	Projections					
	2013	2014	2015	2015	2016	2017	2018	2019	2020
Output and prices	(Percentage change, unless otherwise indicated)								
Real GDP at market prices	2.8	3.1	3.8	2.9	3.7	4.5	4.5	4.5	4.5
GDP deflator at market prices	5.6	3.4	2.8	3.5	3.1	2.6	2.5	2.5	2.5
Nominal GDP at market prices	8.6	6.6	6.7	6.5	7.0	7.2	7.1	7.1	7.1
Nominal GDP at market prices (JD millions)	23,852	25,437	27,045	27,091	28,992	31,069	33,278	35,645	38,181
Nominal GDP at market prices ($ millions)	33,641	35,878	38,145	38,210	40,891	43,821	46,937	50,276	53,852
Consumer price index (annual average)	4.8	2.9	1.2	0.2	3.1	2.4	2.1	2.0	2.0
Consumer price index (end of period)	3.1	1.7	2.3	1.9	2.5	2.3	2.0	2.0	2.0
Unemployment rate (period average, percent)	12.6	11.9	...	...	...	...	...	...	...
National accounts 1/	(In percent of GDP, unless otherwise indicated)								
Consumption	110.5	106.5	102.9	103.3	100.0	97.8	96.2	94.8	93.6
Government	15.4	16.0	15.2	15.2	14.2	13.1	12.6	12.6	12.7
Other 2/	95.1	90.5	87.7	88.1	85.8	84.6	83.7	82.2	80.9
Gross domestic investment	20.7	21.3	20.1	20.3	21.6	22.2	22.5	22.8	23.1
Government	4.3	4.5	3.6	4.0	4.7	5.0	5.0	5.0	5.0
Other	16.5	16.8	16.5	16.3	16.9	17.2	17.5	17.8	18.1
Gross national savings	10.5	14.4	12.5	12.9	15.1	16.0	16.9	17.8	18.2
Government	-5.5	-3.5	-1.4	-0.4	1.4	3.2	3.7	4.1	3.8
Other	16.0	17.9	13.9	13.4	13.7	12.8	13.2	13.8	14.4
Savings-investment balance	-10.3	-6.8	-7.6	-7.4	-6.5	-6.2	-5.6	-5.0	-4.9
Government	-9.8	-8.0	-5.0	-4.4	-3.3	-1.8	-1.3	-0.9	-1.2
Other	-0.5	1.1	-2.6	-3.0	-3.2	-4.4	-4.3	-4.0	-3.7
Fiscal operations									
Revenue and grants	24.1	27.9	25.8	26.1	27.0	27.0	26.8	26.6	26.4
Of which: grants	2.7	4.9	2.7	2.8	3.5	3.5	3.3	3.1	2.8
Expenditure 3/	35.3	38.0	28.7	29.1	30.2	30.3	30.1	29.6	29.6
Fiscal gap	...	0.0	0.0	0.0	0.8	1.6	2.1	2.1	2.1
Overall fiscal balance	-11.1	-10.3	-2.9	-3.0	-2.4	-1.8	-1.3	-0.9	-1.2
Primary government balance, excl. grants, NEPCO, and WAJ	-4.7	-4.5	-1.9	-2.1	-2.2	-1.5	-1.0	-0.5	-0.5
NEPCO operating balance	-4.6	-4.6	-2.1	-1.4	-0.8	0.0	0.0	0.0	0.0
Combined public sector deficit 4/	-9.4	-9.2	-4.0	-3.5	-3.0	-1.5	-1.0	-0.5	-0.5
Government and government-guaranteed gross debt 5/	86.7	89.0	90.7	90.0	86.6	83.2	79.5	75.7	71.7
Of which: external debt	30.0	31.9	34.0	34.5	33.3	31.9	30.8	30.1	29.5
External sector									
Current account balance (including grants), of which:	-10.3	-6.8	-7.6	-7.4	-6.5	-6.2	-5.6	-5.0	-4.9
Exports of goods, f.o.b. ($ billions)	7.9	8.4	8.7	8.1	8.5	9.0	9.5	10.1	10.8
Imports of goods, f.o.b. ($ billions)	19.6	20.2	19.1	18.2	18.7	19.2	19.9	20.7	21.8
Oil and oil products ($ billions)	5.2	5.5	4.1	3.6	3.8	3.9	4.0	4.1	4.1
Current account balance (excluding grants)	-17.1	-12.1	-10.6	-10.9	-10.7	-10.6	-10.0	-9.4	-9.1
Private capital inflows (net)	5.6	4.6	4.9	4.3	4.7	5.2	5.7	6.2	6.3
Monetary sector	(Percentage change)								
Broad money	9.7	6.9	8.9	8.2	8.8	...	...	...	...
Net foreign assets	5.7	15.3	8.7	7.4	6.2	...	...	...	...
Net domestic assets	11.2	4.0	8.9	8.5	9.8	...	...	...	...
Credit to private sector	8.0	3.7	7.7	6.0	10.2	...	...	...	...
Credit to central government	15.4	2.9	-1.4	-1.6	2.2	...	...	...	...
Memorandum items:									
Gross usable international reserves ($ millions)	11,449	14,263	15,196	15,367	15,217	15,212	15,840	17,018	18,298
In months of prospective imports	4.9	6.7	6.6	7.0	6.7	6.4	6.4	6.6	6.7
In percent of reserve adequacy metric	122.6	142.2	139.8	142.3	138.8	132.0	129.9	127.5	127.0
Net international reserves ($ millions)	10,968	13,583	13,920	14,091	14,231	14,758	15,912	17,542	19,037
Population (millions)	6.53	6.68	6.82	6.82	6.98	7.13	7.29	7.45	7.62
Nominal per capita GDP ($)	5,152	5,375	5,590	5,600	5,862	6,145	6,439	6,747	7,070
Real effective exchange rate (end of period, 2010=100)	107.0	114.1	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	1.6	6.6	...	...	...	...	...	...	...

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Government includes the central government and operating losses of NEPCO and WAJ.

2/ More than half of the reduction in medium-term private consumption reflects the return of the Syrian refugees.

3/ Includes net lending, transfers to WAJ, and other use of cash.

4/ Defined as the sum of the primary central government deficit (excl. grants and transfers to NEPCO and WAJ) and NEPCO loss.

5/ Includes NEPCO debt.

Table 2a. Jordan: Central Government: Summary of Fiscal Operations, 2014–20
(In millions of Jordanian dinars)

	Act.	Prog.	Projections					
	2014	2015	2015	2016	2017	2018	2019	2020
Total revenue and grants	7,091	6,976	7,059	7,826	8,378	8,907	9,469	10,078
Domestic revenue	5,854	6,247	6,294	6,803	7,290	7,809	8,364	9,009
Tax revenue, *of which* :	4,192	4,454	4,527	4,912	5,264	5,638	6,039	6,469
Taxes on income and profits	766	881	899	1,014	1,086	1,163	1,246	1,335
General sales tax	2,811	2,902	2,948	3,180	3,408	3,650	3,910	4,188
Taxes on foreign trade	327	349	358	373	400	428	459	491
Other taxes	287	323	323	345	370	396	425	455
Nontax revenue	1,662	1,793	1,767	1,891	2,027	2,171	2,325	2,540
Grants	1,237	728	765	1,023	1,087	1,098	1,105	1,069
Total expenditures, net lending, other use of cash	9,658	7,763	7,874	8,758	9,413	10,021	10,543	11,318
Current expenditure	6,717	6,785	6,785	7,395	7,860	8,357	8,761	9,409
Wages and salaries	1,320	1,393	1,393	1,438	1,474	1,579	1,691	1,811
Interest payments	926	1,003	1,003	1,088	1,167	1,189	1,261	1,345
Domestic	750	795	795	860	912	900	940	946
External	176	208	208	227	255	289	321	399
Military expenditure	1,918	1,988	1,988	2,145	2,299	2,462	2,637	2,825
Fuel subsidies	0	0	0	0	0	0	0	0
Food subsidy	225	202	202	202	216	232	248	266
Transfers, *of which* :	1,899	1,877	1,877	2,158	2,312	2,477	2,475	2,651
Pensions	1,116	1,165	1,165	1,238	1,327	1,421	1,522	1,630
Targeted payments for energy	177	0	0	0	0	0	0	0
Transfer to health fund	201	252	252	283	303	325	348	373
Energy arrears clearance	0	0	0	145	155	166	0	0
Other transfers	405	460	460	492	527	564	604	647
Purchases of goods & services	428	322	322	365	391	419	449	511
Capital expenditure	1,134	979	1,086	1,363	1,553	1,664	1,782	1,909
Net lending	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,572	0	0	0	0	0	0	0
Transfer to WAJ 1/	206	0	3	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	29	0	0	0	0	0	0	0
Total balance from above the line	-2,567	-788	-815	-932	-1,036	-1,114	-1,074	-1,240
Statistical discrepancy, net	-57	0	0	0	0	0	0	0
Overall balance at current policies	-2,624	-788	-815	-932	-1,036	-1,114	-1,074	-1,240
Fiscal gap	0	0	0	230	490	691	740	789
Overall balance	-2,624	-788	-815	-703	-546	-423	-334	-452
Financing	2,624	788	815	703	546	423	334	452
Foreign financing (net)	1,471	720	822	399	487	599	644	539
Domestic financing (net)	976	67	-149	304	59	-176	-310	-87
CBJ on-lending of net IMF financing	274	423	423	-206	-377	-374	-320	-152
Other domestic bank financing	-13	-556	-572	410	281	-35	-239	-201
Domestic nonbank financing	892	200	0	100	155	233	250	267
Privatization proceeds	177	71	142	0	0	0	0	0
Memorandum items:								
NEPCO operating balance	-1,179	-570	-385	-246	-2	0	0	0
Primary government deficit excluding grants	-2,935	-513	-577	-638	-466	-333	-178	-176
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-1,157	-513	-573	-638	-466	-333	-178	-176
Combined public deficit (PC)	-2,336	-1,083	-959	-884	-468	-333	-178	-176
Government and guaranteed gross debt	22,652	24,525	24,377	25,095	25,840	26,454	26,983	27,364
Of which: External	8,106	9,198	9,355	9,667	9,903	10,264	10,733	11,275
Government and guaranteed net debt	20,556	22,429	22,142	23,295	24,040	24,654	25,183	25,850
GDP at market prices	25,437	27,045	27,091	28,992	31,069	33,278	35,645	38,181

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ For 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2014–20

(In percent of GDP)

	Act.	Prog.	Projections					
	2014	2015	2015	2016	2017	2018	2019	2020
Total revenue and grants	27.9	25.8	26.1	27.0	27.0	26.8	26.6	26.4
Domestic revenue	23.0	23.1	23.2	23.5	23.5	23.5	23.5	23.6
Tax revenue, *of which* :	16.5	16.5	16.7	16.9	16.9	16.9	16.9	16.9
Taxes on income and profits	3.0	3.3	3.3	3.5	3.5	3.5	3.5	3.5
General sales tax	11.1	10.7	10.9	11.0	11.0	11.0	11.0	11.0
Taxes on foreign trade	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other taxes	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Nontax revenue	6.5	6.6	6.5	6.5	6.5	6.5	6.5	6.7
Grants	4.9	2.7	2.8	3.5	3.5	3.3	3.1	2.8
Total expenditures, net lending, other use of cash	38.0	28.7	29.1	30.2	30.3	30.1	29.6	29.6
Current expenditure	26.4	25.1	25.0	25.5	25.3	25.1	24.6	24.6
Wages and salaries	5.2	5.1	5.1	5.0	4.7	4.7	4.7	4.7
Interest payments	3.6	3.7	3.7	3.8	3.8	3.6	3.5	3.5
Domestic	2.9	2.9	2.9	3.0	2.9	2.7	2.6	2.5
External	0.7	0.8	0.8	0.8	0.8	0.9	0.9	1.0
Military expenditure	7.5	7.4	7.3	7.4	7.4	7.4	7.4	7.4
Fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Transfers, *of which* :	7.5	6.9	6.9	7.4	7.4	7.4	6.9	6.9
Pensions	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Targeted payments for energy	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to health fund	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Energy arrears clearance	0.0	0.0	0.0	0.5	0.5	0.5	0.0	0.0
Other transfers	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Purchases of goods & services	1.7	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Capital expenditure	4.5	3.6	4.0	4.7	5.0	5.0	5.0	5.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to NEPCO 1/	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to WAJ 1/	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment on other receivables and payables (use of cash)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-10.1	-2.9	-3.0	-3.2	-3.3	-3.3	-3.0	-3.2
Statistical discrepancy, net	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance at current policies	-10.3	-2.9	-3.0	-3.2	-3.3	-3.3	-3.0	-3.2
Fiscal gap	0.0	0.0	0.0	0.8	1.6	2.1	2.1	2.1
Overall balance	-10.3	-2.9	-3.0	-2.4	-1.8	-1.3	-0.9	-1.2
Financing	10.3	2.9	3.0	2.4	1.8	1.3	0.9	1.2
Foreign financing (net)	5.8	2.7	3.0	1.4	1.6	1.8	1.8	1.4
Domestic financing (net)	3.8	0.2	-0.5	1.0	0.2	-0.5	-0.9	-0.2
CBJ on-lending of net IMF financing	1.1	1.6	1.6	-0.7	-1.2	-1.1	-0.9	-0.4
Other domestic bank financing	-0.1	-2.1	-2.1	1.4	0.9	-0.1	-0.7	-0.5
Domestic nonbank financing	3.5	0.7	0.0	0.3	0.5	0.7	0.7	0.7
Privatization proceeds	0.7	0.3	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
NEPCO operating balance	-4.6	-2.1	-1.4	-0.8	0.0	0.0	0.0	0.0
Primary government deficit excluding grants	-11.5	-1.9	-2.1	-2.2	-1.5	-1.0	-0.5	-0.5
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-4.5	-1.9	-2.1	-2.2	-1.5	-1.0	-0.5	-0.5
Combined public deficit (PC)	-9.2	-4.0	-3.5	-3.0	-1.5	-1.0	-0.5	-0.5
Government and guaranteed gross debt	89.0	90.7	90.0	86.6	83.2	79.5	75.7	71.7
Of which: External	31.9	34.0	34.5	33.3	31.9	30.8	30.1	29.5
Government and guaranteed net debt	80.8	82.9	81.7	80.3	77.4	74.1	70.6	67.7

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ For 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

Table 2c. Jordan: Central Government: Summary of Quarterly Fiscal Operations, 2014–15

(In millions of Jordanian dinars)

	2014	2015								
	Annual Act.	Q1 Prog.	Q1 Act.	April Prog.	April Act.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Prog.	Annual Proj.
Total revenue and grants	7,091	1,452	1,598	734	730	1,895	1,625	1,941	6,976	7,059
Domestic revenue	5,854	1,288	1,393	734	709	1,782	1,476	1,643	6,247	6,294
Tax revenue, *of which* :	4,192	949	1,046	573	528	1,239	1,111	1,132	4,454	4,527
Taxes on income and profits	766	193	230	300	288	350	199	120	881	899
General sales tax	2,811	601	670	220	207	711	732	835	2,902	2,948
Taxes on foreign trade	327	81	87	27	23	90	93	89	349	358
Other taxes	287	74	60	27	10	88	87	88	323	323
Nontax revenue	1,662	338	347	160	181	543	365	511	1,793	1,767
Grants	1,237	165	205	0	21	113	149	298	728	765
Total expenditures, net lending, other use of cash	9,658	1,767	1,627	754	751	2,100	2,020	2,127	7,763	7,874
Current expenditure	6,717	1,616	1,507	651	575	1,731	1,742	1,805	6,785	6,785
Wages and salaries	1,320	330	327	128	112	355	350	361	1,393	1,393
Interest payments	926	232	221	99	83	251	236	294	1,003	1,003
Domestic	750	188	185	85	65	189	200	222	795	795
External	176	44	36	15	18	62	37	73	208	208
Military expenditure	1,918	505	472	187	179	501	501	513	1,988	1,988
Fuel subsidies	0	0	0	0	0	0	0	0	0	0
Food subsidy	225	49	34	33	20	72	42	53	202	202
Transfers, *of which* :	1,899	432	400	161	158	468	533	476	1,877	1,877
Pensions	1,116	285	285	96	96	285	288	307	1,165	1,165
Targeted payments for energy	177	0	0	0	0	0	0	0	0	0
Transfer to health fund	201	32	29	17	27	71	50	101	252	252
Energy arrears clearance	0	0	0	0	0	0	0	0	0	0
Other transfers	405	115	85	48	35	112	194	68	460	460
Purchases of goods & services	428	67	53	42	24	83	79	108	322	322
Repayment of arrears and additional allocation to health fund	0	0	0	0	0	0	0	0	0	0
Capital expenditure	1,134	151	83	104	91	380	290	333	979	1,086
Net lending	0	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,572	0	0	0	0	0	0	0	0	0
Transfer to WAJ 1/	206	0	3	0	0	0	0	0	0	3
Adjustment on other receivables and payables (use of cash)	29	0	34	0	86	-11	-11	-11	0	0
Total balance from above the line	-2,567	-315	-29	-21	-21	-205	-395	-186	-788	-815
Statistical discrepancy, net	-57	0	-4	0	0	0	0	4	0	0
Overall balance at current policies	-2,624	-315	-33	-21	-21	-205	-395	-182	-788	-815
Fiscal gap	0	0	0	0	0	0	0	0	0	0
Overall balance	-2,624	-315	-33	-21	-21	-205	-395	-182	-788	-815
Financing	2,624	315	33	21	34	205	395	182	788	815
Foreign financing (net)	1,471	44	125	353	-65	1,018	118	-440	720	822
Domestic financing (net)	976	270	-163	-333	99	-883	277	622	67	-149
CBJ on-lending of net IMF financing	274	0	0	0	153	152	305	-34	423	423
Other domestic bank financing	-13	220	-103	-349	135	-1,056	-49	636	-556	-572
Domestic nonbank financing	892	50	-61	17	-36	20	20	20	200	0
Privatization proceeds	177	71	71	0	0	71	0	0	71	142
Memorandum items:										
Accounts payable (IT)	359	359	185	359	271	243	301	359	359	359
NEPCO operating balance	1,179	129	113	...	...	119	75	78	570	385
Primary government deficit excluding grants	2,935	247	16	-79	-28	67	308	186	513	577
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	1,157	247	13	-79	-28	67	308	186	513	573
Combined public deficit (PC)	2,336	376	126	...	...	186	383	263	1,083	959

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ In 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt.

Table 2d. NEPCO Operating Balance and Financing, 2014–17
(In millions of Jordanian dinars)

	2014 Act.	2015 Q1 Act.	2015 Apr. Proj.	2015 Q2 Proj.	2015 Q3 Proj.	2015 Prog.	2015 Proj.	2016 Proj.	2017 Proj.
Electricity sales	1,391	377	126	373	416	1,568	1,549	1,855	2,148
Expenses	2,571	490	154	492	491	2,138	1,934	2,101	2,150
Purchase of electricity	2,425	451	150	439	438	1,981	1,736	1,876	1,974
Depreciation	31	7	2	13	13	31	47	57	34
Interest payments 1/	104	25	8	35	35	104	129	130	105
Other expenses	11	6	2	5	5	23	22	38	37
Operating balance (QPC)	-1,179	-113	-29	-119	-75	-570	-385	-246	-2
Total net domestic financing	1,179	113	29	119	75	570	385	246	2
Banks	-211	355	118	215	89	903	718	246	2
Loans and bonds	-186	402	73	163	75	903	718	246	2
Overdrafts	-25	-47	45	52	14	0	0	0	0
IsDB loan	142	0	0	0	0	0	0	0	0
Other items 2/	-343	2	-140	-52	-14	0	0	0	0
Increase in payables 3/	1,426	-244	51	-44	0	-333	0	0	0
Direct transfer from central government	1,572	0	0	0	0	0	0	0	0
To cover losses and repay arrears	1,397	0	0	0	0	0	0	0	0
To repay loans	176	0	0	0	0	0	0	0	0
Payables to the private sector	-147	-244	51	-44	0	-333	-333	0	0
Of which: Increase in arrears	-17	-289	-44	-44	0	-333	-333	0	0
Memorandum items (stocks, end-of-period):									
Outstanding loans and bonds	1,711	2,113	2,186	2,276	2,352	2,614	2,430	2,676	2,678
Overdrafts	27	-20	25	32	46	27	26	26	26
Total payables	3,406	3,162	3,213	3,118	3,118	3,121	3,406	3,406	3,406
to government 3/	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860
to private sector	546	302	353	258	258	261	546	546	546
Of which: arrears (IT)	333	44	0	0	0	0	0	0	0

Sources: NEPCO; Jordanian authorities; and IMF staff estimates.
1/ Interest payments exclude interest on payables to the government.
2/ Includes changes in accounts receivable, depreciation, project expenditures, and other minor items.
3/ Payables to government include transfers from the government to NEPCO, whose status has not been agreed yet; they are excluded from the computation of the stock of arrears.

Table 3. Jordan: Summary of Balance of Payments, 2014–20

(In millions of U.S. dollars, unless otherwise noted)

	2014	2015		2016	2017	2018	2019	2020
	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2,450	-2,907	-2,820	-2,649	-2,706	-2,608	-2,498	-2,639
Trade balance	-11,814	-10,476	-10,185	-10,241	-10,247	-10,363	-10,604	-10,973
Exports f.o.b.	8,397	8,652	8,061	8,461	8,952	9,506	10,124	10,782
Imports f.o.b.	20,211	19,128	18,247	18,702	19,199	19,869	20,728	21,755
Energy	5,524	4,075	3,632	3,759	3,904	3,991	4,072	4,132
Non-energy	14,688	15,053	14,615	14,943	15,295	15,878	16,655	17,623
Services and income, of which	2,086	1,820	1,388	1,721	1,777	2,052	2,240	2,364
Travel	4,382	4,512	4,002	4,275	4,553	4,835	5,125	5,433
Current transfers, of which	7,278	5,750	5,978	5,871	5,764	5,703	5,866	5,969
Public	1,892	1,128	1,359	1,725	1,933	2,075	2,224	2,272
Remittances	3,368	3,424	3,464	3,582	3,729	3,896	4,083	4,279
Capital and financial account	2,858	3,722	2,971	3,330	3,841	4,465	5,073	5,242
Public sector	1,372	1,214	1,315	729	865	1,037	1,113	979
Direct foreign investment	1,680	1,817	1,581	1,850	2,143	2,501	2,928	3,136
Portfolio flows	-31	38	76	81	115	158	209	244
Other capital flows	-163	653	0	670	718	769	823	882
Errors and omissions	898	0	670	0	0	0	0	0
Overall balance	1,306	816	822	681	1,135	1,856	2,575	2,602
Financing	-1,306	-816	-822	-681	-1,135	-1,856	-2,575	-2,602
Reserves	-2,318	-1,006	-1,143	41	-117	-769	-1,369	-1,503
Commercial banks' NFA	625	-407	-275	-432	-485	-560	-755	-884
IMF (net)	387	597	597	-290	-532	-527	-452	-215
Gross reserves	16,314	17,320	17,458	17,417	17,534	18,304	19,672	21,175
Gross usable reserves 1/	14,263	15,196	15,367	15,217	15,212	15,840	17,018	18,298
In percent of Reserve Adequacy Metric	142.2	139.8	142.3	138.8	132.0	129.9	127.5	127.0
Memorandum items:								
Current account (percent of GDP)	-6.8	-7.6	-7.4	-6.5	-6.2	-5.6	-5.0	-4.9
Current account excl. grants (percent of GDP)	-12.1	-10.6	-10.9	-10.7	-10.6	-10.0	-9.4	-9.1
Energy imports	15.4	10.7	9.5	9.2	8.9	8.5	8.1	7.7
Public transfers	5.3	3.0	3.6	4.2	4.4	4.4	4.4	4.2
Export growth (percent)	6.0	3.0	-4.0	5.0	5.8	6.2	6.5	6.5
Import growth (percent)	3.2	-5.4	-9.7	2.5	2.7	3.5	4.3	5.0
Energy (percent)	6.4	-26.2	-34.3	3.5	3.9	2.2	2.0	1.5
Non-energy (percent)	2.0	2.5	-0.5	2.2	2.4	3.8	4.9	5.8
Travel growth (percent)	6.3	3.0	-8.7	6.8	6.5	6.2	6.0	6.0
Remittances growth (percent)	2.6	1.7	2.8	3.4	4.1	4.5	4.8	4.8
WEO Oil price ($ per barrel)	96.2	58.1	58.9	64.2	67.1	69.9	71.0	71.5
Nominal GDP	35,878	38,145	38,210	40,891	43,821	46,937	50,276	53,852

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Excluding gold, commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 4a. Jordan: Monetary Survey, 2014–16

	2014	2015						2016
	Act.	6th Rev.	Proj.	Act.	Act.	Proj.	Proj.	Proj.
	Annual	Annual	Annual	Q1	April	Q2	Q3	
	(Stocks, in millions of Jordanian dinars)							
Net foreign assets	8,124	8,832	8,726	8,477	8,006	9,474	9,444	9,271
Central bank	10,131	10,551	10,538	10,396	10,036	11,357	11,292	10,777
Commercial banks	-2,007	-1,719	-1,812	-1,919	-2,029	-1,884	-1,848	-1,506
Net domestic assets	21,109	22,989	22,904	21,472	22,045	21,365	22,160	25,139
Net claims on general government	10,852	11,722	11,624	11,281	11,633	10,490	10,887	12,159
Net claims on central budgetary government 1/	9,266	9,133	9,117	9,163	9,298	8,259	8,516	9,321
Net claims on NEPCO	1,232	2,135	1,950	1,588	1,815	1,803	1,892	2,196
Net claims on other own budget agencies 2/	-24	76	179	150	116	48	99	264
Claims on other public entities	379	379	379	380	404	380	380	379
Claims on financial institutions	162	162	162	170	181	170	170	162
Claims on the private sector	17,853	19,227	18,922	17,794	17,744	18,255	18,799	20,856
Other items (net)	-7,758	-8,122	-7,804	-7,773	-7,513	-7,550	-7,695	-8,039
Broad money	29,233	31,821	31,630	29,949	30,382	30,839	31,604	34,409
Currency in circulation	3,804	4,141	3,982	3,771	3,837	3,883	3,979	4,332
Jordanian dinar deposits	20,970	22,883	22,967	21,689	22,070	22,401	22,957	25,015
Foreign currency deposits	4,458	4,797	4,681	4,489	4,475	4,556	4,669	5,062
	(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)							
Net foreign assets	1,078	708	602	353	...	997	-30	545
Net domestic assets	812	1,880	1,795	363	...	-107	795	2,234
Net claims on general government	-93	870	772	428	...	-790	396	535
Net claims on Central Budgetary Government	261	-133	-149	-103	...	-904	256	204
Net claims on NEPCO	-211	903	718	355	...	215	89	246
Net claims on other own budget agencies	-71			174	...	-102	51	85
Claims on financial institutions	3	0	0	1	...	0	0	0
Claims on the private sector	630	1,375	1,070	8	...	461	544	1,934
Other items (net)	272	-364	-46	-59	...	223	-145	-234
Broad money	1,890	2,589	2,397	716	...	890	765	2,779
Currency in circulation	198	337	178	-34	...	112	96	350
Jordanian dinar deposits	1,851	1,912	1,996	718	...	712	556	2,048
Foreign currency deposits	-159	339	223	31	...	66	113	381
Memorandum items:								
Year-on-year broad money growth (percent)	6.9	8.9	8.2	7.2	5.6	7.2	8.4	8.8
Year-on-year private sector credit growth (percent)	3.7	7.7	6.0	2.6	1.9	3.3	4.2	10.2
Foreign currency/total deposits (percent)	17.5	17.3	16.9	17.1	16.9	16.9	16.9	16.8
Private sector credit/total deposits (percent)	70.2	69.5	68.4	68.0	66.8	67.7	68.0	69.3
Currency in circulation/JD deposits (percent)	18.1	18.1	17.3	17.4	17.4	17.3	17.3	17.3

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Includes Fund support onlent to the government by the CBJ.

2/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2014–16

	2014	2015						2016
	Act.	6th Rev.	Proj.	Act.	Act.	Proj.	Proj.	Proj.
	Annual	Annual	Annual	Q1	April	Q2	Q3	
	(Stocks, in millions of Jordanian dinars)							
Net foreign assets	10,131	10,551	10,538	10,396	10,366	11,357	11,292	10,777
Foreign assets	12,334	13,047	13,144	12,482	12,633	13,570	13,848	13,115
Of which: Bilateral accounts	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	82	61	61	68	68	61	61	61
Foreign liabilities	2,203	2,496	2,606	2,086	2,267	2,213	2,556	2,339
Of which: Net Fund Position	1,006	1,429	1,429	1,006	1,159	1,159	1,464	1,224
Of which: GCC grants-related	1,088	958	1,069	972	1,000	946	984	1,007
Net domestic assets	-3,089	-2,870	-3,279	-3,538	-3,071	-4,277	-4,036	-2,872
Net claims on central budgetary government 1/	1,296	1,697	1,681	1,170	1,478	1,347	1,612	1,476
Of which: outright purchases of gov. securities	82	60	44	59	44	44	44	44
Net claims on own budget agencies	-77	-77	-77	-77	-75	-77	-77	-77
Net claims on other public entities	-2	-2	-2	-1	-1	-1	-1	-2
Net claims on financial institutions	71	71	71	64	69	64	64	71
Net claims on private sector	22	22	22	23	23	23	23	22
Net claims on commercial banks	-3,646	-3,828	-4,075	-3,073	-3,265	-3,990	-4,013	-3,462
Of which: FX deposits of commercial banks	740	813	789	725	750	789	789	866
CDs	-259	-259	-259	-1,085	-1,085	-1,085	-1,085	-259
Other items, net (asset: +)	-495	-495	-640	-559	-546	-559	-559	-640
Of which: repos	63	63	63	75	107	75	75	63
Jordanian dinar reserve money	7,042	7,681	7,259	6,858	6,964	7,080	7,256	7,905
Currency	4,178	4,515	4,356	4,138	4,204	4,250	4,347	4,706
Commercial bank reserves	2,864	3,166	2,903	2,720	2,761	2,830	2,909	3,199
Of which: required reserves	1,457	1,590	1,596	1,500	1,525	1,549	1,587	1,738
	(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)							
Net foreign assets	1,521	552	650	265	…	961	-66	239
Foreign assets	1,644	713	811	149	…	1,088	278	-29
Foreign liabilities	122	293	403	-116	…	127	343	-268
Net domestic assets	-432	-28	-133	-449	…	-739	241	407
Net claims on central budgetary government	-17	90	19	-126	…	178	265	-206
Net claims on commercial banks	-175	589	589	573	…	-917	-24	613
Other items, net (asset: +)	-218	0	0	-64	…	0	0	0
Jordanian dinar reserve money	1,089	639	218	-184	…	222	176	646
Currency	240	337	178	-40	…	112	96	350
Commercial banks' reserves	850	302	40	-144	…	110	79	296
Memorandum items:								
Gross international reserves (GIR)	16,314	17,320	17,458	16,524	16,736	18,059	18,451	17,417
Gross usable international reserves ($ millions)	14,263	15,196	15,367	13,801	13,849	15,255	15,647	15,217
As a ratio to JD broad money (in percent)	40.8	39.9	40.4	38.4	37.9	41.2	41.2	36.8
As a ratio of JD reserve money (in percent)	143.6	197.8	211.7	142.7	141.0	152.8	152.9	192.5
Net international reserves (millions of JD)	9,631	9,869	9,990	9,808	9,772	10,687	10,660	10,089
Net international reserves (millions of U.S. dollars)	13,583	13,920	14,091	13,834	13,783	15,073	15,035	14,231
Money multiplier (for JD liquidity)	3.5	3.5	3.7	3.7	3.7	3.7	3.7	3.7

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Includes Fund support onlent to the government by the CBJ.

Table 5. Jordan: Indicators of Bank Soundness, 2005–15

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015-Q1 1/
	(In percent, unless otherwise indicated)										
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	19.3	19.0	18.4	18.4	18.8
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1,159	1,315	1,336	1,285	1,064	1,047
NPLs (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5	7.7	7.0	5.6	5.5
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3	69.4	77.0	77.6	78.8
NPLs net of provisions (in percent of equity)	5.1	2.8	4.3	5.7	10.6	12.6	13.4	8.3	5.6	4.3	4.0
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	143.5	149.1	152.2	153.3
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1	1.1	1.2	1.4	1.4
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3	8.6	9.9	11.0	11.0
FX-denominated loans to total loans ratio	11.1	10.2	9.7	12.8	11.6	11.8	11.4	12.9	14.1	13.3	13.5
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	29.1	23.9	20.6	20.3
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	71.4	68.6	63.7	63.5
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	14.7	14.8	15.0	14.4
Margin trading and financial services (share in total loans)	5.1	6.2	7.2	7.1	6.9	5.8	5.3	4.5	4.1	3.9	3.7
Loans to GDP ratio (in percent of GDP)	86.8	91.4	93.1	83.7	78.7	77.0	77.4	81.2	79.4	75.8	73.1

Source: Central Bank of Jordan.
1/ Preliminary

Table 6. Jordan: Access and Phasing Under the Stand-By Arrangement 1/

			Purchase	
Review	Availability Date	Action	Million SDR	Percent of Quota
	August 3, 2012	Board approval of SBA	255.750	150.0
First Review	December 3, 2012	Observance of end-September performance criteria, completion of first review	255.750	150.0
Second Review	September 3, 2013	Observance of end-June performance criteria, completion of second review	170.500	100.0
Third Review	December 3, 2013	Observance of end-September performance criteria, completion of third review	85.250	50.0
Fourth Review	March 3, 2014	Observance of end-December performance criteria, completion of fourth review	85.250	50.0
Fifth Review	November 10, 2014	Observance of end-September performance criteria, completion of fifth review	85.250	50.0
Sixth Review	March 3, 2015	Observance of end-March performance criteria, completion of sixth review	142.083	83.3
Seventh Review	July 15, 2015	Observance of end-April performance criteria, completion of seventh review	284.167	166.7
Total			**1364.0**	**800.0**

Source: IMF staff estimates.
1/ Jordan's quota is SDR 170.5 million.

Table 7. Jordan: Indicators of Fund Credit, 2014–20

(In millions of SDR)

	2014	2015	2016	2017	2018	2019	2020
Current Stand-By Arrangement							
Disbursements	255.8	426.3	0.0	0.0	0.0	0.0	0.0
Stock 1/	937.8	1,332.0	1,140.5	788.9	440.8	142.4	0.3
Obligations 2/	13.4	56.1	220.2	376.7	359.6	301.7	142.8
Principal (repayments/repurchases)	0.0	32.0	191.5	351.7	348.1	298.4	142.1
Charges and interest	13.4	24.2	28.7	25.1	11.5	3.4	0.7
Stock of existing and prospective Fund credit 1/	937.8	1,332.0	1,140.5	788.9	440.8	142.4	0.3
In percent of quota	550.0	781.3	668.9	462.7	258.5	83.5	0.2
In percent of GDP	4.0	5.3	4.2	2.7	1.4	0.4	0.0
In percent of exports of goods and services	11.1	16.7	13.6	8.8	4.7	1.4	0.0
In percent of gross reserves	10.0	13.1	11.3	7.8	4.2	1.3	0.0
Obligations to the Fund from existing and prospective Fund arrangements	13.4	56.1	220.2	376.7	359.6	301.7	142.8
In percent of quota	7.9	32.9	129.1	221.0	210.9	177.0	83.8
In percent of GDP	0.1	0.2	0.8	1.3	1.2	0.9	0.4
In percent of exports of goods and services	0.2	0.7	2.6	4.2	3.8	3.0	1.3
In percent of gross reserves	0.1	0.6	2.2	3.7	3.4	2.7	1.2

Sources: IMF Finance Department; and IMF staff estimates and projections.

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

Table 8. Jordan: Capacity to Repay Indicators, 2014–20

	2014	2015	2016	2017	2018	2019	2020
Exposure and Repayments (In millions of SDR)							
GRA credit to Jordan	937.8	1,332.0	1,140.5	788.9	440.8	142.4	0.3
(In percent of quota)	550.0	781.3	668.9	462.7	258.5	83.5	0.2
Debt service on GRA credit	13.4	56.1	220.2	376.7	359.6	301.7	142.8
Principal (repayments/repurchases)	0.0	32.0	191.5	351.7	348.1	298.4	142.1
Charges and interest	13.4	24.2	28.7	25.1	11.5	3.4	0.7
Debt and debt service ratios							
(In percent of GDP)							
Total external government and government-guaranteed debt	31.9	34.5	33.3	31.9	30.8	30.1	29.5
Excluding proposed IMF	27.9	29.3	29.1	29.1	29.4	29.7	29.5
GRA credit to Jordan	4.0	5.3	4.2	2.7	1.4	0.4	0.0
Total external government and government-guaranteed debt service	3.5	5.5	2.7	3.3	3.2	4.9	4.8
Excluding proposed IMF	3.4	5.2	1.9	2.0	2.0	4.0	4.4
GRA debt service	0.1	0.2	0.8	1.3	1.2	0.9	0.4
(In percent of exports of goods and services)							
Total external government and government-guaranteed debt	89.5	109.4	107.1	103.4	100.9	99.3	98.1
Excluding proposed IMF	78.4	92.7	93.5	94.6	96.3	97.9	98.1
GRA credit to Jordan	11.1	16.7	13.6	8.8	4.7	1.4	0.0
Total external government and government-guaranteed debt service	9.8	17.3	8.7	10.8	10.4	16.1	15.8
Excluding proposed IMF	9.6	16.6	6.1	6.6	6.6	13.1	14.5
GRA debt service	0.2	0.7	2.6	4.2	3.8	3.0	1.3

Sources: IMF Finance Department; and IMF staff estimates and projections.

Annex I. Debt Sustainability Analyses

Jordan's public debt is assessed as sustainable with high probability provided the authorities deliver on further medium-term fiscal adjustment. *Public debt is expected to stabilize at about 90 percent of GDP in 2015 and the authorities intend to reduce it gradually to about 70 percent of GDP—the high-risk benchmark used in the MAC-DSA[1]—by 2020. Gross financing needs will remain relatively large, averaging around 19 percent of GDP in 2015–16, reflecting the short maturity of domestic debt (less than two years on average). Jordan's heat map risk assessment and stress test scenarios point to substantial vulnerabilities. On the upside, most debt profile indicators are below upper early warning benchmarks and debt is projected to decline in the medium term even under the most severe stress test.*

Jordan's public external debt is moderate and gradually declining over the medium term. *The external DSA does not point to any solvency concerns and external financing requirements are projected to peak in 2015 (repayment of Eurobonds) and remain moderate over the medium term. Public external debt, however, remains vulnerable to unfavorable developments in the current account and to other shocks.*

Jordan's private external debt—estimated at just over 30 percent of GDP—is moderate and expected to remain broadly constant over the medium term.

1. **This appendix presents analyses of sustainability of Jordan's public and external debt**. Section A provides an overview of the assumptions underpinning the macro framework. Section B discusses the realism of the macro assumptions. Section C considers public debt sustainability, examining the debt trajectory under the program baseline, and shock scenarios. Section D considers external debt sustainability. The analysis shows that continued fiscal consolidation and structural reforms will help place Jordan's public debt on a sustainable trajectory with high probability.

A. Assumptions

2. **Macroeconomic.** Real GDP growth in 2015 has been revised down to close to 3 percent because regional developments are adversely affecting export and tourism receipts. Growth is expected to increase to 3.7 percent in 2016 and to 4½ percent from 2017 onward. Inflation (measured by the GDP deflator) is projected to increase to 3.5 percent in 2015 before gradually declining to 2.5 percent over the medium term. The current account deficit (including grants) is expected to gradually decline from 7.4 percent of GDP in 2015 to about 5 percent of GDP over the medium term. A recovery in FDI inflows and a gradual resumption of market access starting later this year will help finance this deficit and maintain international reserves at an adequate level.

[1] The new DSA framework is described in (http://www.imf.org/external/np/pp/eng/2013/050913.pdf).

3. **Fiscal**. To reach the authorities' target of reducing debt to about 70 percent of GDP, the combined public deficit is projected to decline from 3.5 percent of GDP in 2015 to 0.5 percent in the medium term, reflecting continued fiscal consolidation at the central government level and the expectation that the electricity company NEPCO will reach operational cost recovery by 2018.

4. **Sovereign yields**. Although both external and domestic bond yields have steadily declined over the last 3 years, Jordan's effective interest rate is projected to increase over the medium term reflecting the expected increase in global interest rates.[2]

5. **Maturity, rollover, and market access**. Jordan's domestic debt has relatively short maturities, with an average of less than two years. The medium-term projections assume a gradual lengthening of maturities as market access conditions improve. Jordan's external public debt profile is on the longer end, with maturity at issuance typically more than 5 years, which is assumed to continue in the medium term. The macroeconomic framework incorporates the recently issued $1.5 billion international bond with a U.S. guarantee and assumes that a non-guaranteed bond of $0.5 billion is issued in the last quarter of 2015. Some of the bonds' proceeds will be used to retire a $0.75 billion bond coming due at the end of the year. The macro-framework also assumes continued participation of non-residents in the local debt markets and increasing international market access in the coming years. Guaranteed bonds maturing in the outer years are assumed to be rolled over on market terms expected to be prevailing at that time.

B. Realism of Projections

6. **Growth and inflation**. Past projections of growth show medium-size forecast errors, with a slight tilt toward the pessimistic side, with the exception of the last few years, when growth has been slightly over-projected. The track record of the inflation forecast is also slightly better than the average of other countries, with actual inflation being 2.2 percentage points higher than the forecast on average.

7. **Fiscal adjustment.** Although Jordan's 3-year average level of the cyclically-adjusted central government primary balance (CAPB) is generally in line with other countries, the maximum 3-year adjustment is in the top quartile of the distribution for program countries. Rather than signaling over-optimistic projections, this large adjustment reflects actual consolidation since the beginning of the program.

[2] The projection does not include interest payments for (1) pre-2013 debt issued to finance NEPCO and WAJ losses; and (2) debt to finance WAJ's losses in the medium term; these are paid directly by the utilities. These two factors underestimate the total interest bill.

C. Public Sector DSA

8. **The coverage of public debt in this DSA includes**: (i) central government direct debt; (ii) direct and government-guaranteed debt of public agencies (NEPCO, WAJ, and other public entities); (iii) off-budget project loans; and (iv) liabilities to the IMF.

9. **Baseline projections indicate that, with further fiscal consolidation, the debt ratio would fall to about 70 percent of GDP by 2020 in line with the authorities' target**. Despite the substantial past and projected fiscal adjustment, the debt-to-GDP ratio will peak at 90 percent of GDP in 2015. However, it would decline to around 70 percent of GDP by 2020, close to the MAC-DSA high-risk benchmark, if the authorities continue with fiscal consolidation.

10. **The heat map and fan charts indicate that Jordan's public debt is subject to significant vulnerabilities**. Although debt profile indicators point to moderate risks overall, the heat map shows that the debt level and gross financing needs breach the high-risk DSA benchmarks in both the baseline and shock scenarios. Risks are particularly acute in the near term, given the still elevated debt level and high gross financing needs that reflect the short maturities of Jordan's domestic debt. In fact, the large rollover requirements and still sizeable public deficit drive gross financing needs to about 22 percent of GDP in 2015, well above the MAC-DSA benchmark. However, gross financing needs are expected to decline in the medium term under the assumption that market access conditions improve and the average maturity of newly issued domestic debt is lengthened to over 3 years. Holdings of liquid assets (cash deposits) also help mitigate rollover risks. The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an asymmetric distribution of risks. In the former, upside and downside risks to the main macro variables are treated as equally likely, while in the latter some shocks are restricted to be negative to reflect downside risks to the debt trajectory. In the asymmetric fan chart the debt outlook is skewed upward if these shocks materialize.

11. **Stress tests also point to a number of vulnerabilities, with the balance of risk mostly tilted to the downside.** The projected decline in public debt remains particularly vulnerable to lower growth and higher oil prices (by $20/barrel compared to the baseline). Under a growth shock, entailing a cumulative growth decline of over 5 percentage points in 2016–17, public debt would near 100 percent in 2017. The other two scenarios also envisage public debt well above the baseline projections. All shock scenarios point to risks stemming from high debt relative to the relatively low revenue base. Altogether, the stress test scenarios highlight the importance of structural reforms to boost growth, progress in the implementation of the medium-term energy strategy, as well as measures to strengthen revenue collection.

D. External Sector DSA

12. **The coverage of external debt in this DSA includes**: (i) public and publicly guaranteed external debt; and (ii) external liabilities of the banking sector and private corporations. Due to data

limitations, the coverage of private external debt (especially the non-banking sector) is probably underestimated. The external debt is defined according to the residency criterion.

13. **Jordan's public external debt is moderate and projected to gradually decline over the medium term, while external financing needs are contained.** Public external debt is expected to peak at most 35 percent of GDP in 2015 and then gradually converge to below 30 percent of GDP in the medium term. External financing requirements would peak in 2015 reflecting the amortization of an international bond coming due by year-end. After declining in the coming years, financing requirements are expected to increase to about 10 percent of GDP in the two last projection years, when additional bonds come due and are assumed to be rolled over on market terms prevailing at that time.

14. **Private external debt is expected to remain moderate and roughly constant at just over 30 percent of GDP.** As of end-2014, over three quarters of private external debt was held by banks with the remainder by non-bank private corporations. The projections are predicated on banks maintaining their exposure to non-residents and on the non-bank corporate sector meeting part of its financing needs with debt-creating flows. Over the medium term, the share of corporates' external debt would gradually increase to almost 50 percent of the total private external debt, following the trend observed in the past years. Given the currently available information on the private external debt—particularly its moderate size and the healthy balance sheets of local banks—contingent liability risks to the public sector are expected to be contained.[3]

15. **External debt remains vulnerable to shocks**. Standard current account and other shocks would bring external debt well above baseline projections, but still around manageable levels. These moderate risks to external debt sustainability are predicated on the assumption that FDI inflows will remain healthy in the coming years, that international market access is maintained, and that external buffers will help to cushion external shocks and anchor private sector expectations. This highlights the importance of implementing structural reforms to further strengthen FDI as well as prudent policies to preserve external stability.

[3] Risks stemming from the non-banking sector may be also understated due to limited coverage.

Public Debt Sustainability Analysis

Jordan: Public DSA—Risk Assessment

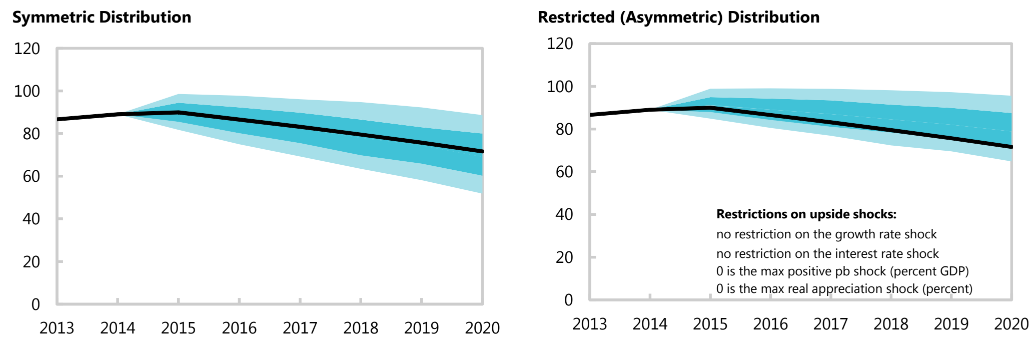
Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

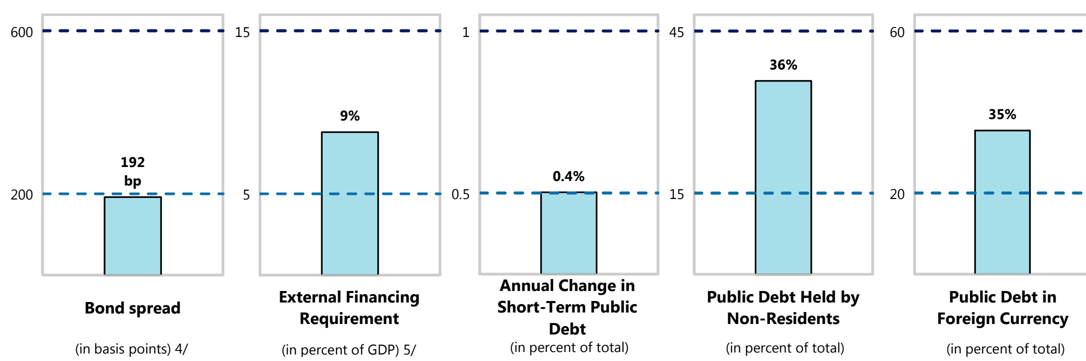
Baseline Percentiles: 10th-25th 25th-75th 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)

Jordan Lower early warning Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

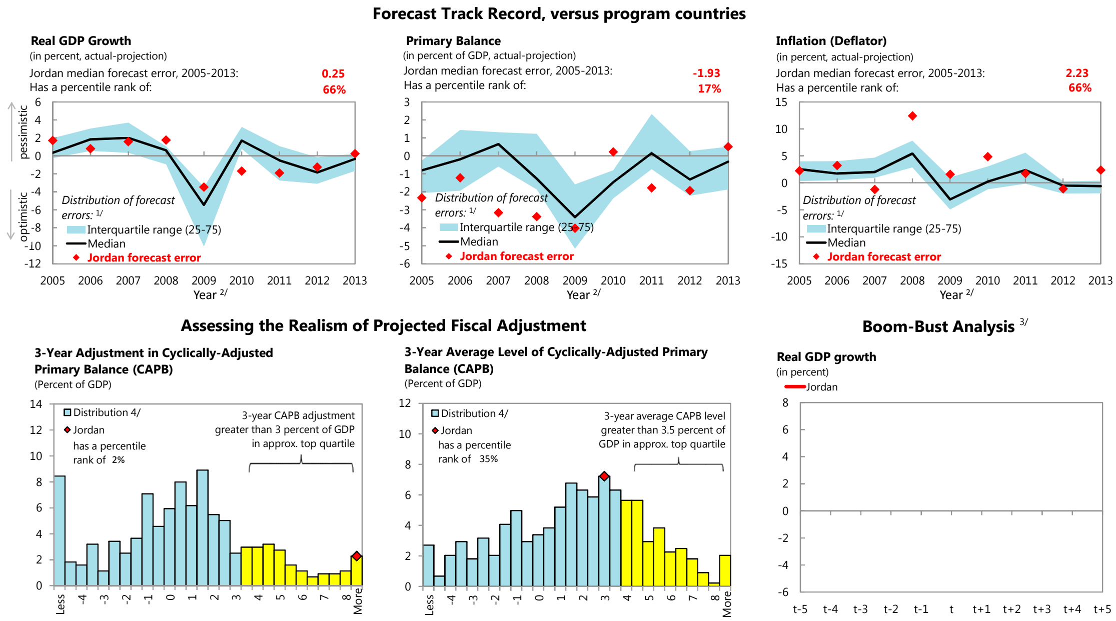
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 16-Apr-15 through 15-Jul-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Jordan: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Jordan, because there is no sign that the country may be in a boom.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Jordan: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

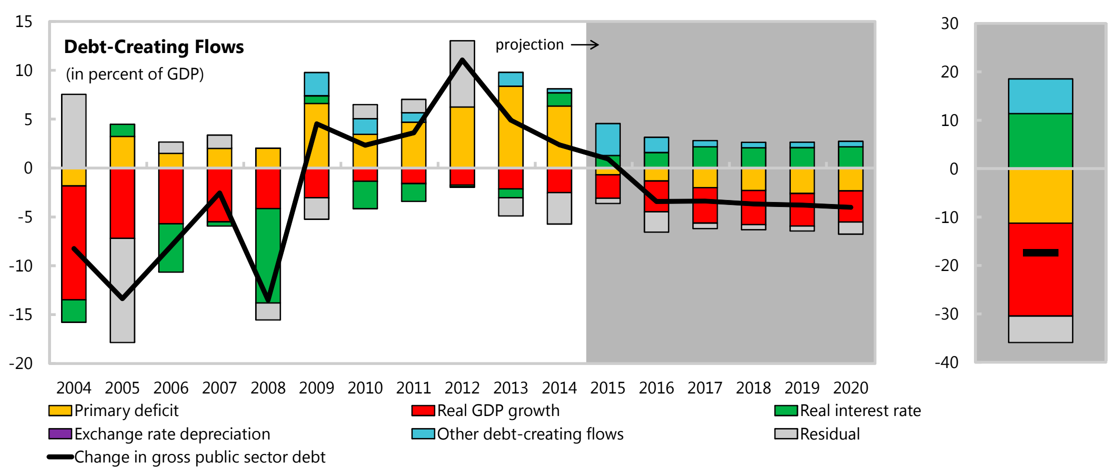
	Actual		Projections					
	2004–2013 [2/]	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	76.3	89.0	90.0	86.6	83.2	79.5	75.7	71.7
Of which: guarantees	5.6	12.9	12.1	11.3	10.6	9.9	9.2	8.6
Public gross financing needs	15.9	25.8	21.6	18.2	10.9	12.3	12.1	14.0
Net public debt	70.0	80.8	81.7	80.3	77.4	74.1	70.6	67.7
Real GDP growth (in percent)	6.1	3.1	2.9	3.7	4.5	4.5	4.5	4.5
Inflation (GDP deflator, in percent)	7.1	3.4	3.5	3.1	2.6	2.5	2.5	2.5
Nominal GDP growth (in percent)	13.6	6.6	6.5	7.0	7.2	7.1	7.1	7.1
Effective interest rate (in percent) [4/]	4.2	5.2	5.2	5.2	5.4	5.3	5.4	5.7

As of July 15, 2015

Sovereign Spreads		
EMBIG (bp) 3/		159
5Y CDS (bp)		362
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	BB-	BB-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual		Projections							
	2004–2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.9	2.4	0.9	-3.4	-3.4	-3.7	-3.8	-4.0	-17.4	
Identified debt-creating flows	-2.2	5.6	1.5	-1.3	-2.8	-3.2	-3.3	-2.8	-11.9	
Primary deficit	3.6	6.3	-0.7	-1.3	-2.0	-2.3	-2.6	-2.3	-11.3	-0.4
Primary (noninterest) revenue and grants	29.0	27.9	26.1	27.8	28.5	28.8	28.6	28.5	168.3	
Primary (noninterest) expenditure	32.6	34.2	25.4	26.5	26.5	26.5	26.0	26.1	157.1	
Automatic debt dynamics [5/]	-6.5	-1.2	-1.1	-1.6	-1.5	-1.4	-1.2	-1.0	-7.8	
Interest rate/growth differential [6/]	-6.5	-1.2	-1.1	-1.6	-1.5	-1.4	-1.2	-1.0	-7.8	
Of which: real interest rate	-2.1	1.4	1.3	1.6	2.2	2.1	2.1	2.2	11.4	
Of which: real GDP growth	-4.4	-2.5	-2.4	-3.2	-3.6	-3.5	-3.3	-3.2	-19.2	
Exchange rate depreciation [7/]	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.6	0.4	3.3	1.6	0.6	0.6	0.5	0.6	7.2	
Privatization Receipts (negative)	0.5	-0.7	-0.5	0.0	0.0	0.0	0.0	0.0	-0.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other flows (NEPCO, WAJ, project loans)	0.1	1.1	3.8	1.6	0.6	0.6	0.5	0.6	7.7	
Residual, including asset changes [8/]	0.3	-3.2	-0.5	-2.1	-0.6	-0.5	-0.5	-1.2	-5.5	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as guaranteed debt for NEPCO, WAJ, and other public entities..

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

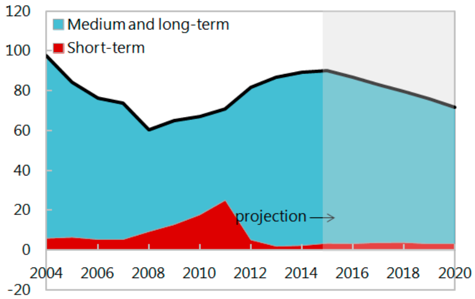
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

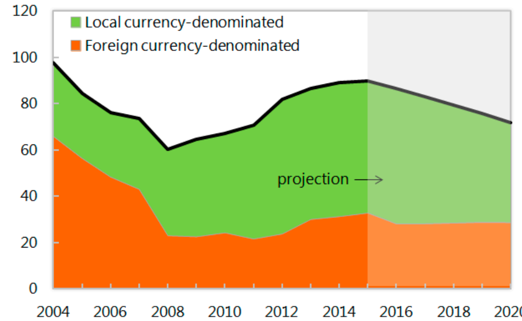
Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



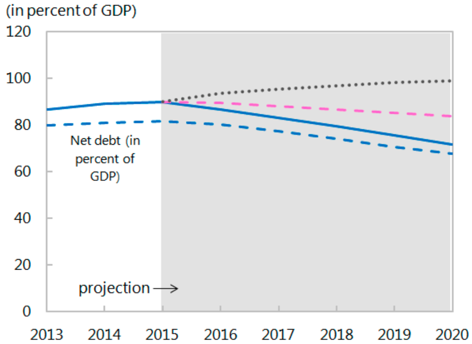
By Currency
(in percent of GDP)



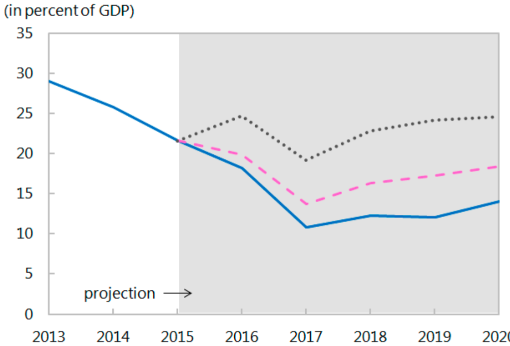
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

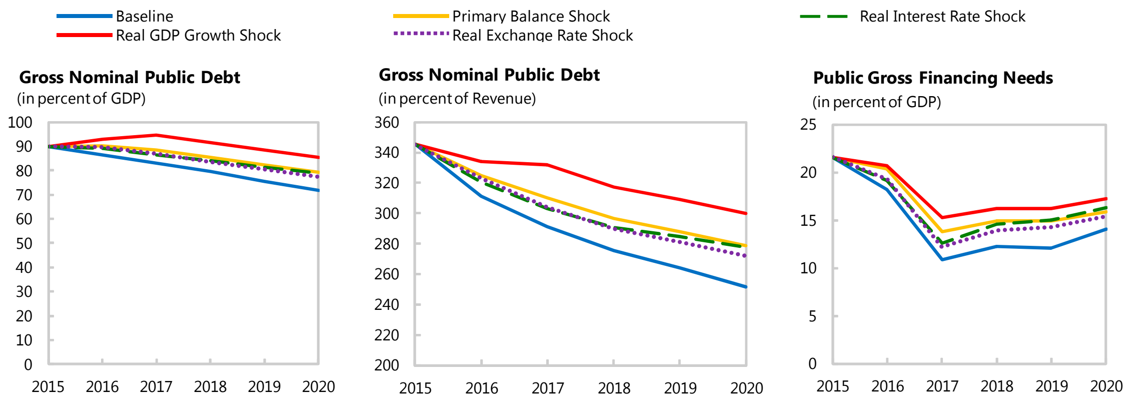
Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.9	3.7	4.5	4.5	4.5	4.5
Inflation	3.5	3.1	2.6	2.5	2.5	2.5
Primary Balance	0.7	1.3	2.0	2.3	2.6	2.3
Effective interest rate	5.2	5.2	5.4	5.3	5.4	5.7
Constant Primary Balance Scenario						
Real GDP growth	2.9	3.7	4.5	4.5	4.5	4.5
Inflation	3.5	3.1	2.6	2.5	2.5	2.5
Primary Balance	0.7	0.7	0.7	0.7	0.7	0.7
Effective interest rate	5.2	6.5	6.1	6.1	6.7	6.0

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.9	5.1	5.1	5.1	5.1	5.1
Inflation	3.5	3.1	2.6	2.5	2.5	2.5
Primary Balance	0.7	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	5.2	6.5	4.7	4.1	4.2	3.3

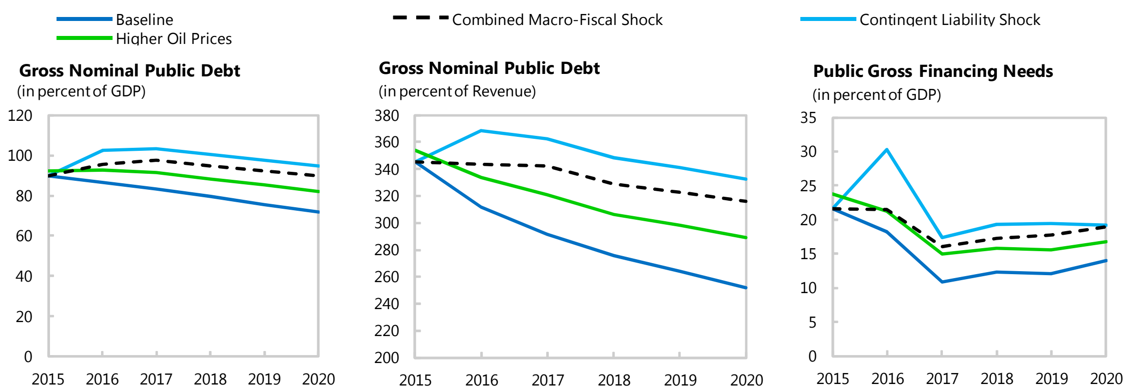
Source: IMF staff.

Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2015	2016	2017	2018	2019	2020
Primary Balance Shock						
Real GDP growth	2.9	3.7	4.5	4.5	4.5	4.5
Inflation	3.5	3.1	2.6	2.5	2.5	2.5
Primary balance	0.7	0.2	0.8	2.3	2.6	2.3
Effective interest rate	5.2	6.5	6.2	6.2	6.7	6.0
Real Interest Rate Shock						
Real GDP growth	2.9	3.7	4.5	4.5	4.5	4.5
Inflation	3.5	3.1	2.6	2.5	2.5	2.5
Primary balance	0.7	1.3	2.0	2.3	2.6	2.3
Effective interest rate	5.2	6.5	6.6	6.8	7.5	7.0
Combined Shock						
Real GDP growth	2.9	1.1	1.9	4.5	4.5	4.5
Inflation	3.5	2.5	1.9	2.5	2.5	2.5
Primary balance	0.7	0.2	0.3	2.3	2.6	2.3
Effective interest rate	5.2	6.6	6.6	6.8	7.5	7.0

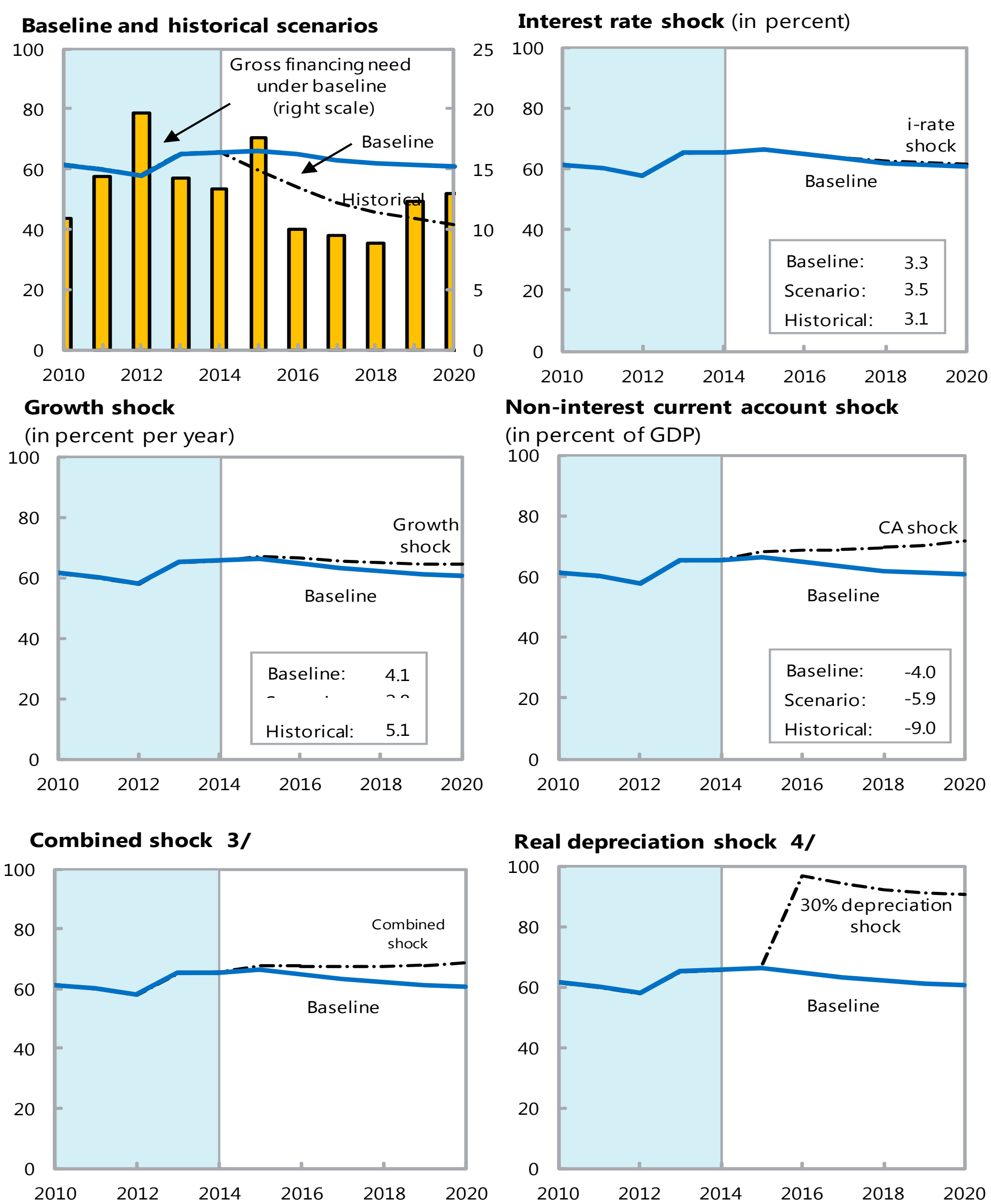
	2015	2016	2017	2018	2019	2020
Real GDP Growth Shock						
Real GDP growth	2.9	1.1	1.9	4.5	4.5	4.5
Inflation	3.5	2.5	1.9	2.5	2.5	2.5
Primary balance	0.7	0.5	0.3	2.3	2.6	2.3
Effective interest rate	5.2	6.5	6.2	6.2	6.7	6.1
Real Exchange Rate Shock						
Real GDP growth	2.9	3.7	4.5	4.5	4.5	4.5
Inflation	3.5	4.8	2.6	2.5	2.5	2.5
Primary balance	0.7	1.3	2.0	2.3	2.6	2.3
Effective interest rate	5.2	6.6	6.1	6.1	6.6	6.0
Contingent Liability Shock						
Real GDP growth	2.9	1.1	1.9	4.5	4.5	4.5
Inflation	3.5	2.5	1.9	2.5	2.5	2.5
Primary balance	0.7	-8.9	2.0	2.3	2.6	2.3
Effective interest rate	5.2	6.9	6.9	6.6	7.0	6.3

Source: IMF staff.

External Debt Sustainability Analysis

Figure 1. Jordan: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Table 1. Jordan: External Debt Sustainability Framework, 2010-2020

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	61.4	60.0	57.8	65.1	65.5			**66.2**	**64.7**	**63.1**	**61.9**	**61.2**	**60.6**	**-8.0**
Of which: Public and Publicly Guaranteed External Debt	24.6	23.6	24.1	30.0	31.9			34.5	33.3	31.9	30.8	30.1	29.5	
Change in external debt	2.1	-1.4	-2.2	7.2	0.4			0.7	-1.4	-1.7	-1.1	-0.7	-0.6	
Identified external debt-creating flows (4+8+9)	-4.8	-0.3	6.2	0.1	-1.8			1.3	-0.6	-1.7	-2.8	-3.9	-3.9	
Current account deficit, excluding interest payments	5.1	8.5	13.5	8.5	4.9			5.6	5.0	4.2	3.6	2.9	2.6	
Deficit in balance of goods and services	-117.3	-121.5	-120.5	-114.4	-112.5			-97.0	-94.4	-91.7	-89.5	-88.2	-87.2	
Exports	48.3	47.7	46.3	42.5	43.3			37.5	37.2	36.6	36.2	36.1	36.0	
Imports	-69.0	-73.9	-74.3	-71.9	-69.2			-59.5	-57.2	-55.0	-53.4	-52.1	-51.2	
Net non-debt creating capital inflows (negative)	-6.1	-5.4	-5.0	-5.6	-4.6			-4.3	-4.7	-5.2	-5.7	-6.2	-6.3	
Automatic debt dynamics 2/	-3.9	-3.4	-2.3	-2.8	-2.1			0.1	-0.8	-0.8	-0.7	-0.5	-0.3	
Contribution from nominal interest rate	2.0	1.7	1.7	1.7	2.0			1.8	1.5	1.9	2.0	2.1	2.3	
Contribution from real GDP growth	-1.2	-1.5	-1.5	-1.5	-1.9			-1.8	-2.3	-2.7	-2.6	-2.6	-2.6	
Contribution from price and exchange rate changes 3/	-4.6	-3.7	-2.6	-3.1	-2.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	6.9	-1.1	-8.3	7.2	2.2			-0.6	-0.9	0.0	1.6	3.1	3.4	
External debt-to-exports ratio (in percent)	127.2	125.9	125.1	153.2	151.3			176.3	174.2	172.2	171.2	169.7	168.4	
Gross external financing need (in billions of US dollars) 5/	2.9	4.1	6.1	4.8	4.8			6.7	4.1	4.2	4.1	6.2	7.0	
in percent of GDP	10.9	14.4	19.6	14.2	13.4	10-Year	10-Year	17.6	10.0	9.5	8.8	12.3	12.9	
Scenario with key variables at their historical averages 6/								**59.7**	**53.8**	**48.8**	**45.4**	**43.4**	**41.5**	**-14.3**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.3	2.6	2.7	2.8	3.1	5.1	2.6	2.9	3.7	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	8.4	6.4	4.5	5.6	3.4	6.9	5.3	3.5	3.1	2.6	2.5	2.5	2.5	
Nominal external interest rate (in percent)	3.7	3.1	3.1	3.3	3.2	3.1	0.5	3.0	2.4	3.2	3.4	3.6	4.0	
Growth of exports (US dollar terms, in percent)	15.3	7.8	4.1	-0.3	8.7	10.7	13.0	-7.6	5.9	5.7	5.8	6.8	6.9	
Growth of imports (US dollar terms, in percent)	10.8	16.8	7.9	5.2	2.6	10.8	11.6	-8.4	2.9	3.1	3.8	4.6	5.2	
Current account balance, excluding interest payments	-5.1	-8.5	-13.5	-8.5	-4.9	-9.0	3.9	-5.6	-5.0	-4.2	-3.6	-2.9	-2.6	
Net non-debt creating capital inflows	6.1	5.4	5.0	5.6	4.6	11.0	7.1	4.3	4.7	5.2	5.7	6.2	6.3	

1/ Private and public and publicly guaranteed external debt on residency basis.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

4/ For projection, line includes the impact of price and exchange rate changes. After 2013 also includes purchases of domestic tbills and bonds by non-residents.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 2. Jordan: External Sustainability Framework--Gross External Financing Need, 2010-2020

	Actual					Projections					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
I. Baseline Projections											
Gross external financing need in billions of U.S. dollars 1/	2.9	4.1	6.1	4.8	4.8	6.7	4.1	4.2	4.1	6.2	7.0
in percent of GDP	10.9	14.4	19.6	14.2	13.4	17.6	10.0	9.5	8.8	12.3	12.9
II. Stress Tests											
Gross external financing need in billions of U.S. dollars 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in -2019 3/						8.2	6.1	6.6	7.3	9.9	11.2
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						6.8	4.1	4.2	4.2	6.3	7.1
B2. Real GDP growth is at baseline minus one-half standard deviations						6.7	4.0	4.1	4.0	6.1	6.8
B3. Non-interest current account is at baseline minus one-half standard deviations						7.5	5.0	5.2	5.3	7.8	8.9
B4. Combination of B1-B3 using 1/4 standard deviation shocks						7.2	4.5	4.7	4.7	7.0	7.9
B5. One time 30 percent real depreciation in 2015						6.7	4.1	4.1	4.1	6.1	6.9
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in -2019 3/						20.3	13.6	13.1	12.7	15.4	15.6
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						17.8	10.1	9.7	9.0	12.5	13.2
B2. Real GDP growth is at baseline minus one-half standard deviations						17.8	10.1	9.7	9.1	12.8	13.6
B3. Non-interest current account is at baseline minus one-half standard deviations						19.7	12.1	11.8	11.3	15.5	16.6
B4. Combination of B1-B4 using 1/4 standard deviation shocks						18.8	11.2	10.8	10.3	14.3	15.2
B5. One time 30 percent real depreciation in 2015						17.6	15.0	14.2	13.2	18.4	19.3

1/ Defined as non-interest current account deficit, plus interest and amortization on medium- and long-term debt, plus short-term debt at end of previous period.
2/ Gross external financing under the stress-test scenarios is derived by assuming the same ratio of short-term to total debt as in the baseline scenario and the same average maturity on medium- and long term debt. Interest expenditures are derived by applying the respective interest rate to the previous period debt stock under each alternative scenario.
3/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
4/ The implied change in other key variables under this scenario is discussed in the text.

Appendix I. Letter of Intent

Amman, July 16, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Ms. Lagarde:

1. Our economic program has allowed Jordan to address the challenges created by external shocks. During the past years, our country was hit by a series of severe shocks, including the conflicts in Syria and Iraq and the gas imports from Egypt coming to an almost complete halt. Nonetheless, sound economic policies and ambitious reforms, along with support from donors, allowed us to make sustained progress toward our program objectives of:

- *Maintaining macroeconomic stability*. We have been addressing fiscal and external imbalances, with public debt expected to level off this year and international reserves at an adequate level.
- *Making policies more equitable*. We eliminated costly and regressive fuel subsidies—the first country in the region to have done so. We have also started implementing ambitious energy and water sector reforms, which will bring public utilities to cost recovery in the medium term.
- *Strengthening growth*. Growth is gradually recovering despite the difficult regional environment. Most importantly, we have worked on moving Jordan on a faster growth trajectory by: (i) improving the business environment, including through the adoption of investment and public-private partnership laws, enhanced transparency in the legal process, and easier access to credit; and (ii) strengthening the public investment framework, which will contribute to a more productive and growth-enhancing public investment.

2. Although the Stand-By Arrangement is coming to an end, we will continue our close dialogue with the Fund. We met all end-April performance criteria by wide margins (Table 1). To sustain our strong track record, we have set quantitative targets through 2015 (Table 1 and Annex). Looking forward, we will maintain the close dialogue with the Fund in the context of the Post-Program Monitoring and also consider engaging in a successor arrangement anchored by the reforms outlined below.

3. We will continue to implement an ambitious reform agenda. Further progress is needed to tackle Jordan's economic challenges, including considerable public debt, chronically high unemployment and low labor force participation, and elevated poverty. Vision 2025—our 10-year framework for economic and social policies—aims at strengthening the nation's finances, creating jobs for Jordanians and improving the standard of living and wellbeing for Jordanians. While donor support will be crucial in the next years to help us cope with the humanitarian consequences of the regional conflicts and kick start the implementation of Vision 2025, we are confident that our strategy, embedded in continued sound macroeconomic policies, will help address Jordan's economic challenges, and also help reduce our external financial assistance needs over the medium term.[1]

A. Macroeconomic Outlook

4. Macroeconomic performance is expected to remain strong. Economic growth has slowed down in the first quarter of this year because of an intensification of regional conflicts, but we expect a gradual return of confidence later this year resulting in growth of close to 3 percent in 2015. Reflecting the partial recovery in international oil prices, inflation will return to positive territory but will remain in check at about 2 percent y-o-y. Over the medium term, we expect in our baseline framework that growth will converge toward its potential of 4-4½ percent, inflation will remain contained at around 2 percent, and the current account (excluding grants) will narrow further from about 11 percent of GDP in 2015 to about 9 percent of GDP in 2020. International reserves would remain at adequate levels, continuously exceeding 125 percent of the reserve adequacy metric.

B. Fiscal Policy

5. We have substantially lowered fiscal imbalances. We reduced the combined public sector deficit (of the central government and the electricity company NEPCO) from 14½ percent of GDP in 2011 to 9¼ percent of GDP in 2014. The combined deficit is projected to further decline to less than 3½ percent of GDP this year. We plan to save any over-performance, but stand ready to implement measures, should any new fiscal gap emerge. We have also implemented the three end-May structural benchmarks (Table 2), which will help improve the preparation and consolidation of fiscal accounts.

6. This strong performance, along with our prudent debt management strategy, will allow us to diversify Jordan's market access. In the coming months, we will issue a $500 million non-guaranteed Eurobond, taking advantage of the low interest rate environment, and, for the first time, a domestic Sukuk. We also expect continued non-resident participation in the domestic debt market.

7. Looking ahead, we will continue to strengthen our fiscal policies to reduce public debt to about 70 percent of GDP by 2020. To achieve this goal, we will continue our fiscal consolidation efforts, both at the central government and energy sector levels, with a view to gradually reducing the combined public sector deficit to no more than 3 percent of GDP (including clearing arrears of 0.5 percent of GDP to the refinery) in 2016, and to levels in 2017 and 2018 necessary to secure our debt target for 2020. More specifically, we will:

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[1] This letter of intent supplements and updates earlier Memoranda of Economic and Financial Policies under the Stand-By Arrangement (see http://www.imf.org/external/country/JOR/).

- Gradually reduce the central government primary deficit, while providing for a gradual increase in public investment to 5 percent of GDP. For 2016, we will streamline non-priority current spending through containing the wage bill and better administration of the general food subsidy, and continue our efforts to raise revenue. These efforts will be supported by reforms in public financial management (to better control and manage cash flow, prevent arrears, and consolidate accounts) and in tax administration (to clean up the taxpayers' database and strengthen general sales tax compliance).

- Lower NEPCO losses to about 1 percent of GDP in 2016 and reach cost recovery at the latest by 2018. Important elements of this strategy are the recent start of operations of the liquefied natural gas (LNG) terminal and a new agreement increasing LNG imports to 250 MMBTU/day, as well as tariff increases scheduled for early 2016 and 2017. In the future there might be scope for revisiting the substantial cross-subsidization of the planned tariff structure, which benefits mostly households, in order to encourage conservation, efficiency and increase equity. We also stand ready to re-instate the full tariff increase of early 2015 should the oil price go above $70 dollars per barrel for a period longer than two months.

In parallel, we are working toward our objective of bringing the Water Authority of Jordan to operational cost recovery over the medium term through cost savings from better energy efficiency and lower system losses and higher revenue through improved collection and tariff increases that protect vulnerable households.

C. Monetary Policy

8. **Anchored by the peg to the U.S. dollar, monetary policy will continue to focus on maintaining adequate reserve buffers, while reducing the output gap.** The effective management of monetary policy, along with our fiscal consolidation efforts, has been instrumental in underpinning macroeconomic stability against the backdrop of persistent shocks. Our monetary policy will continue to carefully balance the need to stimulate economic activity, with that of safeguarding reserve targets in light of elevated regional risks and the possible increase in U.S. interest rates. At the same time, we continue to strengthen our regulatory framework, including: modernizing the financial system infrastructure; developing a risk-based approach to AML/CFT supervision; and implementing the recommendations of the CBJ safeguards assessment.

D. Structural Reforms

9. **With macroeconomic stabilization well underway, we intend to redouble our structural reform efforts, guided by Vision 2025.** We will translate by end-August this framework into an operational 3-year implementation plan, with clear deliverables and deadlines embedded in a medium-term budget framework consistent with the targets stated above. The involvement of all stakeholders in the implementation of the framework will be critical to its success. In particular, we will aim at developing a strategic partnership with the private sector, including through the recently established Competitiveness Council and public-private partnerships that encourage long-term commitment, high standards of delivery, and an appropriate risk sharing between the government and investors, while being mindful of contingent liabilities, which would be incorporated in our debt sustainability analysis.

- We will broaden **labor market reforms**. Based on a review of our National Employment Strategy, we will scale up and replicate the projects that have been most successful in addressing unemployment particularly for the young and women. We will also move forward on policies aimed at reducing skill mismatches; placing greater emphasis on skills and competition when hiring in the public sector; and unlocking the constraints to female labor force participation. Our initiatives include: modernizing schools and vocational training curricula; strengthening the involvement of local business communities in school life; introducing more flexible work arrangements; strengthening the enforcement of maternity benefits; and rightsizing the public service and restructuring its organization.

- We are further enhancing the **financial sector's** resilience to shocks. Banks are sound overall, with comfortable capital and liquidity buffers, and declining nonperforming loans. Building on our past efforts, we are modernizing the sector's regulatory framework, including through: amendments to laws for the Central Bank of Jordan, commercial banking, and money changer; stronger supervision of the microfinance and insurance sectors; and an actuarial evaluation of the Social Security Investment Fund.

- We will further facilitate **access to credit**. The credit bureau is expected to start operations in the fourth quarter. We are also working with parliament to revamp the financial sector legal framework. The new secured lending law would allow banks to better monitor and assess borrowers' creditworthiness, while the new bankruptcy and insolvency laws will grant financial institutions priority rights to recoup funds in the case of bankruptcy. Other initiatives aim at increasing small- and medium-sized enterprises' access to finance and strengthening the microfinance industry.

- We will make further progress in improving the **business climate**. The one-stop shop for investors to facilitate the administrative process was established in April 2015. Our initiatives will focus on reducing the costs of starting a business through simplifying and improving corporate governance (including through a broad implementation of international standards for financial stakeholder rights, board accountability, auditing, and transparency).

10. In light of our continued strong performance and the policies outlined in this letter, we request completion of the seventh and last review under the Stand-By Arrangement, and approval of the related purchase of SDR 284.167 million.

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

Sincerely,

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

Table 1. Jordan: Quantitative Performance Criteria and Indicative Targets, March–December 2015 1/

	Mar-15			Apr-15			Jun-15		Sep-15		Dec-15
	Target	Adjusted Target	Actual	Target	Adjusted Target	Actual	6th Rev. projections	Authorities' Projection	6th Rev. projections	Authorities' Projection	Authorities' 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)	250	250	13	169	220	-15	276	80	449	388	573
Combined public deficit in JD million (flow, cumulative ceiling)	482	482	126	…	…	…	558	312	873	695	959
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,304	12,437	13,834	13,302	13,450	13,783	15,057	15,073	14,710	15,035	14,091
Ceiling on accumulation of external payment arrears 2/	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)	-2,966	-3,060	-3,538	-2,757	-2,862	-3,071	-3,808	-4,277	-3,631	-4,036	-3,279
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	185	682	682	271	359	243	359	301	359
Stock of arrears of NEPCO in million JD 3/	0	0	44	0	0	0	0	0	0	0	0
Memo items for adjusters											
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	171	…	285	253	…	327	1,581	1,532	1,839	1,859	2,350
Foreign budgetary grants and privatization receipts received by the government (JD millions, flow, cumulative)	…	…	…	117	…	318	…	459	…	609	907
Foreign budgetary grants and loans received by the CBJ (USD millions, flow, cumulative)	105	…	237	189	…	337	2,115	1,960	2,172	2,475	3,287
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)	20	…	20	30	…	30	40	40	60	60	80
Cap for the upward fiscal adjustor (JD millions)	…	…	…	51	…	51	138	103	252	168	301

1/ The quantitative performance criteria and indicative targets are defined in the Technical Memorandum of Understanding attached to the Letter of intent for the 6th review under the SBA (EBS/15/115).

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.**
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	**Met.**
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	**Met.**
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	**Met with a delay.** The inventory and plan were finalized in June.
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.**

Statement by Hazem Beblawi, Executive Director for Jordan and Sami Geadah, Alternate Executive Director
July 31, 2015

Jordan's performance under the program has been an unequivocal success. Macroeconomic stability has been preserved with the reductions in fiscal and external deficits, while significant structural reforms have been taken under challenging circumstances. Performance has been particularly strong ahead of the final review. All the performance criteria for end-April were met with comfortable margins, the end-May structural benchmarks were met, and policies are on track to meet the 2015 targets.

As background, a Fund-supported program became necessary as a result of the steep increase in the cost of energy imports following the disruption of low cost gas supplies used for electricity generation. The public electricity company—NEPCO—suddenly became loss-making, with operational losses amounting to about 5 percent of GDP in 2011. The fiscal stance also came under pressure in response to regional unrest that year. Adding to these shocks was the global economic slowdown. Growth dropped sharply to 2½ percent in 2011, from an average of 6½ percent during 2000–09. Prior to 2011, Jordan's macroeconomic fundamentals and policies were considered to be sufficiently robust for the staff to suggest that the authorities consider an arrangement under the PLL.

Jordan was hit by several other shocks after the start of the program, each of which had significant economic implications. Low cost gas supplies were virtually cut off, further exacerbating NEPCO's losses and adding to the fuel import bill; the Syrian crisis led to a massive influx of refugees which also had significant social and humanitarian implications; other parts of the region went through a period of significant political turmoil; and more recently, the war with ISIS led to the closure of an important export route, depressed investor sentiment and increased security costs. Jordan became the host of about 1½ million Syrian refugees—over one fifth of its population—within a period of a few years. The government has incurred significant direct and indirect costs in support of refugees, host communities have been stressed, the labor market has been strained, and infrastructure has been overburdened.

Despite these challenges, Jordan has come a long way since the beginning of the program. The consolidated fiscal deficit is projected to decline from 3.5 percent of GDP in 2010 to 0.7 percent of GDP in 2015. Without grants—which increased by 0.7 percentage point to 2.8 percent of GDP over this period—the deficit is projected at 3.5 percent of GDP in 2015, which is 2.1 percentage points lower than before the crisis in 2010. While this reduction was helped by the fall in oil prices, it is primarily the result of strong consolidation efforts. Besides the reduction in deficit, the fiscal position is now also on a more solid basis. Fuel subsidies were completely eliminated early in the program (beyond what had been envisaged under the program); electricity tariffs have been increased, with cost recovery now expected earlier than had been projected during the last review as a result of arrangements for higher and cheaper LNG imports; sustainable revenue measures have been taken; and significant reforms to budget preparation practices have been implemented.

Monetary policy has been very skillful in balancing stability and growth objectives. The reductions in the Central Bank of Jordan policy rate proved to be timely and judicious. These cuts were motivated by the need to support credit growth—which is starting to recover—in the context of strong reserve buffers, a low risk premium, continued de-dollarization, and low inflation. Financial markets remain robust, with banks reporting strong capital and liquidity buffers, and lower NPL ratios. The authorities are continuing with efforts to modernize the regulatory framework and improve access to credit.

Broad program ownership has been essential in underpinning its successful implementation. The authorities have taken politically difficult decisions, balancing political and social considerations with a view to maintaining the momentum of the economic transformation. The program was implemented at a time of political and constitutional reforms with parliament having a stronger voice in economic issues.

Looking ahead, macroeconomic performance is projected to remain strong. Growth is projected at about 3 percent in 2015, increasing to 4½ percent by 2017, inflation is low, while the fiscal and external positions are expected to further strengthen. The authorities have expressed an interest in a successor Fund-supported program. Its main objectives would be to consolidate the gains that were made under the current program, especially with regard to public debt sustainability, while undergoing the structural reforms that underpin higher, sustained, and inclusive growth. There is a need—which is well-recognized in *Vision 2025*—to raise labor participation and reduce unemployment through regulatory reforms to the business environment and through improvements in the skills and job-readiness of university and vocational training center graduates. As *Vision 2025* will be implemented through three year executive plans starting with 2016-18, a successor arrangement with the Fund could commence at the beginning of 2016.

There will also be a need for sustained donor assistance for Syrian refugees. Jordan has proved to be a good global citizen despite the paucity of its resources throughout several difficult years. The authorities are appreciative to donors for the generous support, including direct support to the budget which helped program flexibility in dealing with the additional shocks. However, there are signs of donor fatigue while the impact of the regional crises on Jordan is not abating. Sustainable assistance is needed given the significant costs, including those related to security, health, education, and subsidies.

The authorities consent to the publication of the report.