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Jordan and the IMF

Press Release:
IMF Executive Board Completes Second Review under the Stand-By Arrangement with Jordan
November 8, 2013

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

October 29, 2013

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

Letter of Intent

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

Amman, October 29, 2013

Dear Ms. Lagarde:

Our economy continues to be hit hard by exogenous shocks and the external environment has been worse than we expected when the first review of our IMF-supported program was completed in April 2013. The Syrian crisis is ever more encroaching on our economy and we expect that spillovers could become more pronounced should the conflict escalate further. Moreover, gas flows came to a halt in early July after the pipeline was sabotaged and uncertainties remain high. While donors have provided additional assistance, further external grants will likely be needed to help mitigate new pressures on the fiscal accounts and public debt.

Despite the challenging external environment, our performance under the program has been strong:

- *Quantitative performance criteria and indicative targets.* We met the end-June 2013 quantitative performance criteria on net international reserves (by a wide margin) and the electricity company (NEPCO) losses as well as the indicative targets on the net domestic assets of the Central Bank of Jordan and the stock of accounts payable of the central government. The indicative target on NEPCO's stock of arrears was missed, but, nonetheless, NEPCO's underlying performance was in line with projections. We also missed the end-June 2013 performance criterion on the primary central government fiscal balance because the central government had to unexpectedly take over the debt payments for public utilities; without these payments, we would have met the performance criterion. We met the end-September 2013 performance criterion on net international reserves, but we estimate that two end-September performance criteria have not been met—on the central government primary fiscal deficit (because of debt payments on behalf of the utilities) and on NEPCO's operating losses (because of the disruption in Egypt gas flows). We met the continuous performance criterion on non-accumulation of external arrears. We are taking corrective action by implementing strategies which will reduce the losses of the utilities over the medium term.

- *Structural benchmarks.* We met important structural benchmarks, although with a delay: we have announced a medium-term energy strategy and also signed a floating storage and re-gasification unit leasing agreement. While we have made substantial progress in tax administration, our targets on improving taxpayer filing compliance fell short of the agreed targets. With the help of IMF technical assistance, we established the stock of central government arrears as of end-2012 and put in place a quarterly reporting system. The licensing of the first credit bureau, though, has been delayed to end-2013 because the private firm intending to establish the bureau unexpectedly postponed the request for the license. Also, the implementation of an income tax law yielding revenue of one percent of GDP has been delayed, but we intend to fast-track the law through parliament.

In view of our strong performance so far in 2013 as well as further strong policy measures for 2014, we request waivers of non-observance of the missed September performance criteria on the central government primary fiscal deficit and on NEPCO's net losses and completion of the second review under the Stand-By Arrangement and approval of the related purchase. We also request a modification of December 2013 performance criteria; and propose setting performance criteria for end-March 2014, as described in the MEFP (Table 1b) and the TMU attached to this letter.

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

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

Sincerely,

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

Attachment I. Memorandum of Economic and Financial Policies

Jordan has been facing pressures from a difficult external environment, which have strained our fiscal and external balances. These pressures have intensified recently as a result of developments in Egypt and Syria. To face these pressures and to keep the fiscal and external balances on a sustainable path, we have implemented significant measures, which reduced the fiscal deficit and boosted international reserves, providing an important buffer for our economy. Notable among these measures is the bold and carefully-designed energy strategy, including the electricity tariff increases which started in mid-August. This strategy will reduce the deficit of our national electricity company, NEPCO, while protecting the poor. We remain committed to implementing socially acceptable measures to achieve our program objectives, in particular boosting growth and lowering unemployment. We describe below macroeconomic developments and our policy response this year as well as our program for 2014.

BACKGROUND

1. The external environment continues to pose significant challenges. The first half of 2013 was favorable as it saw a drop in international fuel prices and slightly higher-than-expected gas flows from Egypt. This, along with the impact of 2012 energy measures on consumption, helped reduce energy imports, and with it, NEPCO's mid-year deficit. However, international fuel prices have spiked in response to escalating tensions in the region and gas flows came to a halt during July–September after a sabotage of the pipeline. If sustained, these developments could result in pressures on the balance of payments and the fiscal position. At the same time, the conflict in Syria continues to weigh on Jordan, which is currently hosting 600 thousand registered refugees. We believe that the number of unregistered refugees is substantially higher. Such a humanitarian crisis is putting increasing pressure on the central government budget in the form of increased spending on health, education, and security. On the positive side, our bilateral partners, including the GCC, continued to support Jordan with an additional $600 million in grants received in the second quarter of 2013, following a disbursement of $1.2 billion earlier in the year. We also twice this year successfully issued domestic dollar-denominated bonds, amounting to $1.15 billion. In addition, we issued in October a Eurobond of $1.25 billion guaranteed by the U.S. government, which will help us cover, at favorable terms, part of our fiscal and external financing needs.

2. Economic performance has improved. Largely driven by services and construction, GDP growth picked up to 2.8 percent in the first half of 2013. At the same time, private sector credit growth has been gradually recovering, registering 7.6 percent year-on-year in August, up from its nadir in February of 5.3 percent. Financial markets have been calm, with the stock market remaining stable, and spreads further narrowing following the formation of the new Jordanian government. Significant increases in food and rental prices in the first half of the year were likely driven by increased demand from the Syrian refugees. Headline CPI inflation decelerated to 5.0 percent year-on-year in August from 6.5 percent in December 2012, reflecting lower international oil prices. In addition, lower energy imports helped narrow the current account deficit in the first half of 2013 to 3.7 percent of GDP compared to 11.8 percent of GDP in the first half of 2012.

3. We continued to implement sound policies that are underpinning Jordan's economic recovery:

- **Fiscal policy.** Largely reflecting tax arrears incurred by the refinery, domestic revenue came in lower than our target for the first half of the year by 0.6 percent of GDP. At the same time, the government kept overall expenditure tight, thanks mostly to selective cuts in non-priority domestically-financed capital projects. Given the inability of NEPCO and the water company to raise financing on their own, we had to take over their debt repayments in the amount of 0.5 percent of GDP. This prevented us from meeting the end-June performance criterion (PC) on the central government's primary fiscal deficit, but we met the indicative target on its accounts payable. Excluding the debt takeover for the utilities, we would have met the PC.

- **Structural fiscal measures.** We have made noticeable progress in this area. With the help of Fund technical assistance (TA), we quantified the end-2012 stock of arrears of line ministries and established a quarterly reporting system to deter their recurrence (June 2013 benchmark). Regarding tax administration, filing compliance has improved significantly, although both the Large and the Medium Taxpayer Offices came somewhat short of their targets for May (June 2013 benchmark), but we are continuing our efforts in this area. We have missed the benchmark on the implementation of an income tax law yielding one percent of GDP in revenue, but will fast-track the law through parliament (see paragraph 17).

- **Energy policy.** Thanks to the increased gas inflows from Egypt and lower international fuel prices during the first half of the year, NEPCO was able to meet the end-June PC on its operating losses. However, reflecting difficulties in raising domestic bank financing, the company did repay less arrears to suppliers than had been planned, breaching its indicative target by 0.5 percent of GDP. Amidst a difficult domestic and regional environment, we have recently taken the bold action of increasing electricity tariffs in selected sectors, while protecting households, the critical agricultural sector and small and medium-size enterprises. After extensive consultations with parliament, we also announced a medium-term energy strategy (September 2012 benchmark), which will return NEPCO to cost recovery by 2017. As outlined in our MEFP of April 2013, the strategy incorporates a path of equitable tariff increases in the coming years and relies on bringing on stream alternative energy sources. In regard to the latter, we have recently signed the lease agreement for the floating storage and re-gasification unit of the forthcoming LNG terminal in Aqaba (benchmark for June 2013).

- **Monetary policy.** A prudent monetary policy, continued de-dollarization, the issuance of government dollar-denominated bonds twice this year, as well as higher-than-expected foreign financing and an improvement in the current account helped the Central Bank of Jordan (CBJ) to build up reserves. As a result, we met the end-June PC on net international reserves (NIR) by a large margin, as well as the indicative target on net domestic assets of the CBJ. Since June, reservebuildup has continued and NIR reached US$ 9,729.7 million as of October 21. To support access to credit, we are helping a private firm to complete the final technical steps for the licensing of the first credit bureau (end-June benchmark) and expect it to be licensed by end-2013.

PROGRAM OBJECTIVES AND ECONOMIC OUTLOOK

4. We expect the macroeconomic outlook to evolve as follows:

- **Growth.** We forecast GDP growth at about 3.3 percent in 2013 and 3.5 percent in 2014, supported by higher public and private sector capital spending, improvements in the construction sector, higher consumption—also induced by the Syrian refugees— and solid tourism seasons. Growth would gradually increase over the medium term, converging to 4½ percent by 2016, thanks to: (1) continued infrastructure investments; (2) increased investor confidence brought about by our commitment to keeping our national economic program on track; (3) implementation of growth-enhancing structural reforms, including those aimed at improving transparency and governance; and (4) the expectation of reduced regional uncertainties.

- **Inflation.** Inflationary pressures following the fuel price increases of November last year have now abated. We also expect only very limited pressures on prices from the selected electricity tariff increases implemented in August, and those that are planned for next year. As a result, we forecast end-of-period consumer price inflation to decelerate from 6.5 percent in December last year to about 3 percent by end-2013 and 2.4 percent by end-2014. Over the medium term, we expect inflation to converge to about 2 percent, aided by a moderation in food and fuel prices.

- **Current account.** We expect the external current account deficit (including grants) to improve substantially to 11–12 percent of GDP in 2013 and 2014 from 16.8 percent in 2012, in part helped by lower energy imports. Our continued prudent macroeconomic policies and the diversification of energy sources, starting in mid-2015 with the LNG terminal becoming operative would gradually bring the current account deficit to about 7 percent of GDP over the medium term.

ECONOMIC POLICIES

5. The objectives of our program remain threefold:

- **Maintaining macroeconomic stability**. Economic prosperity and improved standards of living cannot be sustained without economic stability. To that end, we will continue to undertake reforms and appropriate macroeconomic policies to reduce fiscal and external vulnerabilities. As part of this effort, we remain committed to implementing a medium-term energy strategy to bring NEPCO and other utilities back to cost recovery. We are also preparing contingency plans should adverse external shocks materialize.

- **Fostering equity and inclusion.** This includes better targeted subsidies for the vulnerable parts of the population while eliminating subsidies for those with a higher ability to pay. In this regard, we have already substituted generalized fuel subsidies with targeted cash transfers. We are now tackling electricity and food subsidies—gradually eliminating them for those who are well-off, while safeguarding the poorer segments of the population.

- **Removing structural constraints on growth.** This involves improving the investment climate, including by removing impediments to access to finance for viable businesses, and making sure that investors are protected, contracts are honored, and regulations are transparent. It also involves equipping our youth with the skills needed to find good jobs and giving businesses incentives to hire them. We will also continue to support small and medium-size enterprises (SMEs)—key vehicles for growth and employment creation.

A. Public Finances

6. **Against the backdrop of a difficult external environment, we are committed to keeping our public finances on a sustainable path**. This year has been challenging with spillovers from the ongoing Syrian crisis and the temporary suspension of gas supplies from Egypt. These shocks, which are outside of our control, have put pressure on the finances of both the central government and our national electricity company, NEPCO. Nevertheless, we are adhering to our agreed general (i.e., central government and NEPCO) government target in 2013 with the exception of temporary slippages in 2013 due to lower gas supplies from Egypt. For 2014, we will steadfastly continue our consolidation path, though at a somewhat slower pace to accommodate the impact of higher oil prices on NEPCO losses and to allow for higher spending on medical funds, which have incurred additional costs mostly reflecting the Syria crisis. As a result, we target a combined consolidated target—central government primary balance (excluding transfers to utilities) plus NEPCO operating losses—of 8.3 percent of GDP in 2014 (from 9.8 percent of GDP in 2013 excluding the recent gas shock (see next paragraph). This continued consolidation is necessary because otherwise public debt will keep rising, which ultimately current and future generations of Jordanians will have to pay for.

7. **Recent developments in Egypt have complicated our situation.** The suspension of gas supplies from Egypt during July–September could increase NEPCO's operating losses by up to 1.3 percent of GDP this year, and, if gas will be suspended again in 2014, has the potential to increase losses in 2014 by as much as two percent of GDP. The Egyptian authorities have provided us with assurances that they will do their utmost to provide gas inflows as agreed. To help ensure our debt remains on a firmly downward path, we will seek donor support to help finance these and any other unexpected exogenous shocks to our program.

8. **The Syria crisis is putting pressures on the fiscal accounts.** We estimate the fiscal costs of assistance to Syrian refugees to be well above one percent of GDP in 2013 and 1.4 percent of GDP 2014, which are covered by the central government, medical funds, as well as NEPCO and the water companies. We, however, believe that this number substantially underestimates the true costs, as much of these are indirect, e.g. through crowding out Jordanians from public services such as health and education and increasing private sector prices for these services. We are continuing to work with donors to generate estimates of such indirect costs.

9. We are taking steps to manage the central government and the utilities on a more consolidated basis. The central government this year had to take on not only the financing of NEPCO's losses, but also debt payments of NEPCO and the water companies. This reflects the utility companies' increasing difficulties in accessing new financing and rolling over existing debt because banks have a preference in dealing directly with the central government. This has made it difficult to manage the central government within program ceilings; and although this has no direct impact on our macroeconomic framework, it will affect our performance against the technical PC on the central government primary deficit**.** As discussed above, the end-June PC was missed (see ¶3 above) and we estimate to also miss the end-September PC, because of unexpected transfers to NEPCO and the Water Authority of Jordan (WAJ) to repay their maturing debt, and also part of WAJ operating losses. Excluding these transfers, we would have met both end-June and end-September PCs. We are requesting waivers for these PCs because we are taking corrective measures to address the utilities' losses. The end-December 2013 PCs will now need to be adjusted and redesigned to reflect these developments (see next paragraph). To improve coordination between the ministry of finance and NEPCO, we will empower the ministry of finance by setting up quarterly reporting system for NEPCO's losses and scheduled debt repayments. Based on these reports, the ministry will make monthly transfers to NEPCO. To facilitate arrears repayments and prevent future accumulation, transfers from the ministry to NEPCO will meet in full NEPCO's reported net loss and debt repayments falling due, including both amortization of principal and interest. We will also establish a macro-economic unit in the ministry by March 2014, which will enable us to improve the monitoring of our overall fiscal program.

10. To better measure consolidated performance, we are changing the design of the fiscal program. We propose to change the two fiscal PCs from December 2013 onward. The first PC measures the consolidated central government primary deficit and NEPCO losses (i.e., excludes any cross-government transfers) to better capture the macroeconomic impact of the general government. The second PC measures the central government only and excludes transfers to NEPCO and WAJ.

Central government

11. There have been no slippages in the central government's implementation of the budget. The central government has steadfastly adhered to all of its commitments. In fact, at every instance we have gone beyond what was agreed in the program to offset higher-than-programmed NEPCO losses. Underpinning these efforts in the remainder of 2013 and 2014 is the implementation of the income tax law and the reform of our subsidy programs. These efforts, together with policies to bring NEPCO to cost recovery, will put our public debt squarely on a downward path.

2013

12. Central government finances are expected to stay in line with expectations. The primary balance—excluding transfers to utility companies for losses and debt service—will be at 5.4 percent of GDP in line with the program. Revenue is projected to pick up in the second half of the year, reflecting the payment of tax arrears by the refinery and the implementation of a mobile phone tax in early July (with a full year revenue impact of 0.4 percent of GDP). Cuts will be done in low-priority domestically-financed capital spending to help compensate for the slightly lower-than-expected revenue, NEPCO's higher operating losses from lower-than-expected tariff increases, and a higher food subsidy. This was done only as a last resort, as there was little time left in the year to implement meaningful expenditure reform. We will strive in the future to refrain from such cuts. Economic activity will be safeguarded as we continue to implement a wide range of growth-enhancing capital projects financed by GCC grants.

13. We are working to make our widely-successful cash transfer program more targeted. To ensure that only those who need support get it, we are working to modify the application criteria to include other welfare variables in addition to income, such as ownership of land, buildings, cars, and some other identifiable assets. We have already established a database in the Income and Sales Tax Department (ISTD), which we are regularly updating. Based on the database, a national unified registry for better targeting of subsidies is expected to be operational in a new "program unit" in the ISTD by late October (an October 2013 structural benchmark).

14. We have reviewed with the major ministries whether there has been any accumulation of arrears and will continue to follow up with them on a quarterly basis (end-June benchmark). The stock of arrears of line ministries is estimated at JD 320 million at end-2012 and JD 370 million at end-June 2013, reflecting mostly arrears related to the medical insurance funds—which have been accumulated over the last several years—and to land acquisition for a large railway project. Regarding the insurance funds, we have agreed with the medical funds on a repayment schedule over the next five years which is included in the health ministry allocations under the program. Regarding land acquisition, we have stopped payments until a feasibility study for the railway project has been designed with assistance from the World Bank.

2014

15. The 2014 budget aims for more equity and a more efficient use of public funds. We envisage increasing capital spending and providing an additional allocation to the medical funds of 0.7 percent of GDP, of which 0.3 percent of GDP will be used for clearing arrears. At the same time, we will reduce the central government's deficit by one percent of GDP to make room for more private sector credit, with positive implications for investment and growth. This adjustment will bring the central government primary balance—excluding transfers to utility companies for losses and debt service—to the programmed level of 4.5 percent of GDP. To this end, we need 1.8 percent of GDP in measures. We have already approved a package of measures yielding 0.8 percent of GDP with the remaining measures of one percent of GDP to be approved by December 15 (new benchmark). We will submit the 2014 draft budget in line with program understandings to parliament by December 15, 2013 (new benchmark).

16. The cabinet has approved measures of 0.8 percent of GDP, focused on those with the ability to pay. These measures will be implemented as part of the 2014 budget.

- Following the successful fuel subsidy reform, we plan to reform the general food subsidy on wheat flour; a reform that was not originally included in the program. A blanket food subsidy is currently paid for wheat flour, which has led to much abuse, including smuggling of wheat across the borders and feeding flour to cattle. With the 2014 budget, we will replace the general subsidy with cash transfers of about JD 20 per person each year for all Jordanians who will apply for the program. We will use the same mechanism as the one we are using for the fuel cash transfer, for which eligible Jordanian will have to apply. This step is expected to yield savings of about JD 75 million (0.3 percent of GDP). We intend to further improve the targeting of this subsidy when the unified registry of targeting of subsidies is in place. We are also exploring with banks the possibility of distributing the subsidy through cash bank cards. However, this reform could take us longer than planned. If we cannot implement it with the 2014 budget, we will raise on January 1 fees for foreigner's residence and work permits, diplomatic services, and visas, which we expect to raise the same amount.

- Based on our work on a unified registry for targeting subsidies (see paragraph 13), we will provide the fuel subsidy in 2014 not only based on income but also other wealth indicators, so that it goes to those who truly need (savings of 0.2 percent of GDP).

- There will be savings of 0.1 percent of GDP by not including in the 2014 budget any payments related to land acquisition (see paragraph 14).

- The 2014 budget will reduce by 15 percent transfers to the 61 independent agencies (savings of 0.2 percent of GDP); these agencies will not be able to spend beyond their allocations because we are strengthening public financial management.

- We are expecting savings in pensions because fewer people will be eligible in 2014, following lump-sum payments in 2013 (0.1 percent of GDP).

17. We will submit to parliament the new income tax law in early November, which we intend to fast track. The law will make the tax burden more equitable. It is expected to yield one percent of GDP in new revenue, while focusing on efficiency, and simplicity of taxation. It will also ensure that those who are relatively well off pay their fair share, while those with modest incomes remain protected. Specifically, the law envisages, among other things, a reduction in personal income tax thresholds and an increase in the top personal and corporate tax rates to 25 percent and 35 percent, respectively. We will do our best to ensure that the law is approved by parliament and will become effective for 2014. If parliament has not approved the law by mid-December or the final law does not yield the revenue we expected, we will adopt additional measures so as to meet the deficit target.

Fiscal structural measures

18. A better conduct of structural fiscal policy is conducive to fostering equity, a key objection of our program. Equity entails a level playing field for businesses and citizens, one aspect of which manifests itself in more transparency in formulating regulations and disseminating information. At the same time, better administration of fiscal revenue could generate savings which, in turn, can be put to productive use benefiting all of the Jordanian population.

19. In this regard, we will continue with PFM reforms to help improve the management of our budget. Specifically**,**

- We have established a task force for monitoring and reporting arrears provided by the ministries. This task force will by end-November (i) review and audit the arrears data accumulated until end-September 2013 (by quarter) and produce a consolidated arrears report quarterly from details reported from GFMIS and the financial position statements; (ii) review and quantify all cancelled invoices as of end-2012 due to lack of cash financing at the year-end; (iii) amend GFMIS so that a compulsory drop-down text field is added to the cancelled invoice screen in order to identify unfinanced cancellations; and (iv) create a new GFMIS report to show all those canceled invoices.

- We will continue to improve our commitment control system. We need to ensure that when ministries and other budget institutions enter into contracts or other commitments, sufficient unencumbered cash balances are available, or likely to be available, at the time of their payments. To this end, we will authorize the ministry of finance to issue general and special orders below the approved budget (and consequently to allow the budget units to only commit against those general and special orders and not against the annual budget appropriation) in the 2014 budget law submitted to the parliament.

20. Better revenue administration is a critical complement to our tax policy changes. We are further improving revenue administration based on recent IMF TA recommendations. Mostly because the taxpayer coverage was not clearly distributed between the large taxpayer office (LTO), medium taxpayer offices (MTO) and small taxpayer offices (STO), we missed the end-May structural benchmark on filing compliance. We are thus in the process of re-stratifying taxpayers into the LTO, MTOs, and

STOs based on turnovers, total income, and legal status; and aim to complete this process by end-2013. We expect that this will enable us to lift the re-stratified LTO and MTO filing compliance to 100 percent and 80 percent, respectively, by the end of the next filing season (May 2014). To get a better estimate of tax arrears, we have conducted a survey for cases over JD 500,000 and classified them by collectability and already established a new court collection unit in the ISTD, which will follow up on these. We have also started to implement an improved audit strategy with a focus on smaller but more intense coverage. Therefore, we will audit in depth the top 3 percent high-risk taxpayers based on the 2012 tax filing by April 2014. Finally, we will develop a compliance improvement program for the medical sector by the LTO by June 2014, because this is a major sector with low compliance on tax.

Energy policy

21. Because of the temporary disruption in Egyptian gas supplies, we expect NEPCO to exceed the targets on its operational losses for the remainder of 2013. The gas shortfalls have forced us to buy mostly expensive diesel at a time when the oil price had substantially increased. As a result, we expect additional losses for NEPCO of up to 1.3 percent of GDP, resulting in overall losses of 5.7 percent of GDP in 2013. We also estimate that we will not meet the end-September 2013 target. We are requesting a waiver for the nonobservance of the end-September PC, given that we are implementing an energy strategy to return NEPCO to cost recovery over the medium term.

22. We are proactively addressing the risks from fuel supply fluctuations. If gas flows stay below the programmed level by end-2013, we will impose a temporary tariff surcharge in early January 2014 (at the time when other tariff increases are planned) and/or compensatory fiscal measures provided by the central government to cover at least some of the additional costs for NEPCO.

23. We will also address NEPCO's arrears. To this end, we have concluded an agreement with the Islamic Development Bank (IsDB) to provide financing of $328 million in 2013. The government will contract the debt, but the proceeds will be disbursed in-kind to directly to the refinery.[1] In exchange, the refinery will reduce NEPCO's obligations (giving priority to clearing arrears) by a corresponding amount.

24. We are forcefully implementing our recently announced energy strategy. As described in our MEFP of April 2013, the strategy will return NEPCO to cost recovery by 2017, reduce Jordan energy dependency, and diversify energy source to better hedge against external risks.[2] This will be achieved with bold and socially-acceptable measures, in particular:

- Gradual increases in electricity tariffs scheduled over the next years. The poor will be protected from any increase and the rich will pay the full cost of their consumption above 600 KW;

[1] The oil delivered to the refinery will be evaluated at prevailing international prices.

[2] We describe this strategy in more detail on the website of the Ministry of Energy and Mineral Resources (www.memr.gov.jo).

- The construction of an LNG terminal in Aqaba, new conventional power plants as well as renewable energy power plants. The infrastructure work and awarding of energy supply contracts will be conducted according to the highest international procurement standards, to ensure maximum transparency and cost-effectiveness, and minimize execution time; and
- A new legal framework to enhance energy efficiency; this is largely in place thanks to the Energy Efficiency bylaw implemented in November 2012.

25. We are making electricity tariffs more progressive. In a major achievement, we have designed and announced tariff schedules for the next five years that will both protect poor households and bring NEPCO to breakeven by 2017. This bold step comes at a time of a difficult external environment and increased social pressures. The first increases in end-users tariff took effect on August 15 for most non-household sectors. Similar increases will be applied to all non-household sectors on January 1 of each year throughout 2018 (the increase on January 1, 2014 as per our announcement is a new benchmark). Starting in January 2014, tariffs will increase also for richer households, but poorer households will not see any tariff increase in the foreseeable future. We will increase in tandem NEPCO's wholesale tariffs.

26. The construction of the LNG terminal in Aqaba is on track to start operations by end-2014. With the contract for the floating storage and re-gasification unit (FSRU) in place, we are now working on selecting the winning company for the construction of a jetty and the related inland infrastructure to transfer gas from the FSRU to the ordinary gas pipeline. We plan to sign the contract for such construction by November 2013. We will focus next on securing LNG supply, and plan to sign the supply contract by April 2014 (new benchmark). The contract will provide up to four fifths of Jordan fuel for electricity generation, with cost savings estimated at about 20 percent compared to other fossil fuels.

27. We continue to fast-track investments in renewable energies. We have established a legal framework to allow investors to identify and develop grid-connected electricity production projects through unsolicited or direct proposal submissions. We have also created a one-stop shop at the ministry of energy and natural resources to assist companies in preparing their proposal and cut red tape associated with permits and certification requirements. We have already identified 30 qualified proposals for a total generation capacity of about 860 Mega Watt (MW). We now expect 100 MW to be installed by end-2014 and 525 MW (over 10 percent of energy generation) by end-2015. These proposals will be closely coordinated with the newly established PPP unit at the Ministry of Finance, in order to ensure, among others, that fiscal risks are appropriately taken into consideration.

28. We are also strengthening our conventional generation capacity. Construction of two new dual-fuel power plants (IPP3 and IPP4) is well under way and broadly on track. Completion of work is expected around mid-2014, with the first engines entering into operation by February 2014. Upon program completion, the new power plants will add a combined total of 810 MW (increasing current generation capacity by 20 percent).

29. We are working on using energy more efficiently. To encourage the utilization of energy efficient devices and equipments, a bylaw for the exemption of the sales tax and custom duties on these has been issued recently. Because of recently introduced regulations, new buildings and redevelopments now have to meet rigorous energy efficiency standards to obtain a construction permit.

30. We will tackle distribution losses to minimize end-user tariff adjustments. We have commissioned a study on the efficiency of distribution companies. The study will be completed by end-December. It will deliver a roadmap to reduce technical losses. Based on its findings, the ERC will work with all stakeholders to design a pricing mechanism that would incentivize distribution companies to undertake investment to modernize the distribution network.

Water companies

31. Without action, we estimate that the water companies' losses will increase. Jordan has the fourth-lowest per-capita water availability in the world, and yet the rich pays for water as much as the poor. Annual losses in the past years were at about one percent of GDP, reflecting a large proportion of nonrevenue water (almost half of the water pumped is not paid for). Of the nonrevenue water, half comes from systems losses, and the other half from problems with revenue collection where people use water but do not pay for it. In the coming years, we expect the costs of water pumping to increase substantially, because of the increase in electricity tariffs (electricity accounts for about 60 percent of our operation and maintenance costs).

32. We are well advanced with our strategy to address the losses of the water company. As planned, we will announce to the public by October 2013 a medium-term action plan on the way forward (benchmark). The medium-term strategy aims to keep water supply in Jordan financially viable without harming the poor. Our objective is to allow the water sector to raise enough revenue to keep paying for its operating and maintenance cost. To raise revenue, we will implement gradual increases in connection and waste water fees and, at a later stage, water tariffs. To improve fairness, we will also contract third party collectors to curb abuses and unpaid consumption. Our strategy will be complemented by an ambitious investment plan to reduce system leakages, which will be included in the central government's capital spending envelope.

B. Monetary and Exchange Rate Policy

33. The CBJ has managed well last year's temporary pressures on reserves. Partly reflecting intensified regional uncertainties, as well as those associated with the removal of general fuel subsidies, deposit dollarization increased in November of last year and dinar liquidity decreased noticeably, putting pressure on international reserves. The CBJ responded swiftly by injecting needed dinar liquidity utilizing its updated liquidity management toolkit, which included forward foreign exchange operations with banks. At the same time, the CBJ raised its key policy rate in early December by 75 basis points to enhance the attractiveness of the Jordanian dinar. Such interventions helped calm markets, and contributed to a sustained reversal in deposit dollarization, restoration of confidence in the dinar, and a recovery in reserves. With dinar liquidity normalizing in 2013, the CBJ unwound some of those injections.

34. The CBJ cut interest rates by 25 basis points in August and by another 25 basis points in October. The reduction was prompted by the continued positive momentum in the economy, including sustained de-dollarization, increased appetite for JD-denominated assets, and contained inflationary pressures. It aimed at further promoting the expansion of private credit and investment. Looking forward, the CBJ will continue to monitor domestic and regional economic and political developments, and will stand ready to act proactively to safeguard macroeconomic stability.

35. The CBJ has steadily built up reserves and will continue to do so. Our tight monetary policy, together with the successful issuance of dollar-denominated domestic bonds twice this year, and the mobilization of donor grants helped raise NIR. We issued a Eurobond in October of $1.25 billion guaranteed by the U.S. government which helps to further increase reserves. We also fully expect the programmed external financing in 2014 to be received in line with discussions with our development partners, who have provided us with financing assurances. Such financing includes total grants of $861 million—including from the GCC ($600 million), the U.S. ($184 million), and the EU ($66 million)—and total loans of $1,526 million, including from France ($66 million), Japan ($129 million), the World Bank ($295 million), the EU ($236 million), and another Eurobond issuance ($800 million). Given the uncertainties surrounding the resumption of gas inflows from Egypt, and additional pressures on our economy from the Syrian crisis we will seek even further grants in 2014, as well as another U.S. guarantee for the Eurobond. In light of generous grants in 2013 and previous year, we hope for a continued positive response from donors.

36. The exchange rate peg will remain the anchor for our monetary policy. It has served us well over the past two decades, and will continue to underpin stability in our increasingly open economy. Our monetary policy will remain focused on containing inflationary pressures and maintaining the attractiveness of the Jordanian dinar.

C. Financial Sector Policies

37. Jordan's banking system indicators have improved. Asset quality continued to get better, with nonperforming loans (NPLs) registering 7.3 percent of total loans at June 2013, down from 8.5 percent at end-2011. Most notably, NPLs have started to decline in nominal terms. Banks also increased provisioning, which amounted to 75 percent of classified loans at June 2013—a 23 percentage point improvement over 2011. At the same time, capital adequacy and liquidity ratios remain solid, and banks' returns on assets and equity continue to be strong, at 1.1 percent and 8.6 percent, respectively.

38. The CBJ continues to strengthen the supervisory framework. A banking system that manages risks prudently, operates within a regulatory framework that fosters good governance, mobilizes savings efficiently, and allocates funds to investment projects with the highest return, is conducive to growth.

- The recently-established Financial Stability Department—whose mandate is to strengthen CBJ's capacity to assess and manage systemic risks—is undertaking risk analysis and stress testing of the financial system. It plans to produce and publish a Financial Stability Report by during November 2013.

- The CBJ recently completed supervisory reviews of the Internal Capital Adequacy Assessment Process (ICAAP) of banks. Banks are now expected to revise the ICAAP in line with the review recommendations and, from now on, the ICAAP will be subject to periodic reviews in the context of on-site inspections. Also, the aggregate automated bank data collection system for supervisors is expected to be completed by year-end. In addition, the CBJ has prepared a draft of fit and proper regulations for bank board and management and is finalizing an update to the governance code for banks. The drafts are expected to be finalized by year-end, and then sent to banks for comments.

- The CBJ continues to work on a number of other supervisory initiatives, including: (1) analyzing banks' submissions for the quantitative impact study of the implementation of Basel III (to be completed by end-2013); (2) developing an early warning statistical model (by end-2014); and (3) increasing the frequency and timeliness of the publication of banks' financial soundness indicators once the automated bank data collection system is operational (by mid-2014). We are also finalizing the necessary by-laws and regulations that would allow government and private sector companies to issue sukuks.

- To further enhance Jordan's anti-money laundering and countering financing of terrorism regime, we have reviewed the pertinent legislation to ensure compliance with the revised recommendations of the Financial Action Task force (FATF), and will amend the current regulations accordingly.

D. Growth Enhancing Policies

39. To boost growth, we maintain a strong focus on improving access to finance, particularly for Micro and Small and Medium Enterprises (MSMEs).

- Our efforts in seeking international support to secure resources for MSMEs have been successful. In March, we signed a $70 million loan agreement with the World Bank for MSMEs, and to date, $50 million have already been disbursed through banks, with many clients being the MSMEs owned by women and youth, and located in underserved areas. Furthermore, we are finalizing an agreement with the EBRD on $100 million loan for MSMEs with a loan guarantee and TA components. At the same time, however, the 75 percent guarantee for SME loans provided by the OPEC fund did not generate sufficient interest from the clients and has been discontinued.

- Equally important, we are pursuing improvements in the financial sector infrastructure and the legal framework in favor of SME financing. The registry of collateral assets will be fully functioning, once the legislation on secured lending (currently pending with cabinet) is adopted by parliament. We are revising the new insolvency law in line with recommendations from the IFC and USAID, and will submit it to parliament by end-March 2014. The licensing of the first credit bureau (structural benchmark for end-June) has been delayed due to the private firm taking more time than expected to apply for the license, but we expect the bureau to become operative on schedule, by the beginning of 2014. The microfinance by-law is work in progress and is expected to be submitted to the cabinet at the beginning of 2014.

40. We are taking steps to further improve market infrastructure and the business environment. Jordan's business environment is overall favorable in the region. Nevertheless, we are pursuing further improvements. The CBJ is implementing a recently announced strategy to develop the payment and settlement system, by identifying existing gaps and deficiencies and bringing it in line with the CPSS-IOSCO Principles for Financial Markets Infrastructure by end-2014. Moreover, we are pursuing reforms to improve investor protection and contract enforcement, as well as those aimed at reducing the cost of registering property, starting a business, and obtaining construction permits—all of which are areas of the World Bank's Doing Business where Jordan is not faring very strongly.

41. Jordanians' trust in state institutions is the cornerstone for the success of reform efforts. Jordan ranks higher than most regional peers in the World Bank's worldwide governance indicators. Nevertheless, we are determined to further improve our system of governance, based on the principles of justice, equality, rule of law, transparency, and accountability. The Royal committee to reinforce integrity, headed by the prime minister, is reviewing the current laws and performance of anti-corruption and public monitoring agencies, and is preparing amendments to the anti-corruption legislation to (1) strengthen the administration of public money and state resources; (2) promote accountability and transparency in the public sector, in particular with respect to budgets, tenders and governmental supplies; (3) set criteria for appointments in senior positions, standards for offered services, and mechanisms of processing complaints; and (4) empower monitoring bodies to deter and fight corruption. This work is being done in ongoing consultations with stakeholders (through town hall meetings and public presentations) and is benefitting from cooperation with the USAID and the EU.

42. Our employment policy is outlined in the National Employment Strategy (NES). The NES goes hand-in-hand with our strategy to increase access to finance. It aims to gradually replace foreign labor with national labor, support workers' rights, and encourage a tripartite dialogue. It also addresses labor market segmentation along two dimensions. The first is gender based because female participation is the lowest in the region. The second exists between public sector and private sector employment. Distorting incentives, such as job security, benefits, and working conditions, act as biases for the public sector. Youth employment is specifically targeted through the Jordan Job Compact (JJC) initiative. This initiative aims to assist unskilled, semi-skilled, and skilled youths to find jobs through a combination of training, stimulus packages to employers, and small and medium enterprise finance. In 2013, the government began the implementation of the JJC in partnership with private sector, NGOs, and government agencies. Specifically,

- For 2014, we will focus on absorbing the unemployed by (i) formulating a foreign labor policy and management; (ii) evaluating and then scaling up labor market programs with a proven record; and (iii) curtailing public sector employment and aligning wage structures.

- Over the medium term, we will focus on better skill matching, including scaling up school-to-work transition programs, reforming the employment, technical and vocational training sector, and introducing health insurance benefits and expanding social security coverage to SMEs.

- Over the long term, we will focus on increasing productivity, including through human capital investment in early childhood education.

43. We are also improving the investment climate. To this end, we are working with support from the World Bank on a new investment law and a law on PPPs to bring them in line with best international practice. We are also preparing amendments to the secured lending law in line with international practices with help from the IFC. These laws could help make Jordan more attractive to foreign investors, including by enhancing the transparency of the rules governing investments and creating a more level playing field. Moreover, we will shortly issue a decree to establish a one-stop shop to license economic activates at the Jordan Investment Authority.

PROGRAM MONITORING

44. We are implementing the recommendations of the CBJ safeguards assessment concluded in January 2013 in the context of Jordan's Stand-By Arrangement approved on August 3, 2012. We have taken concrete steps to address past recommendations (see April 2013 MEFP) and will now prepare to introduce a new CBJ law. In particular:

- Since the April 2013 MEFP, we are working seriously to remove audit qualifications as to ensure fair and transparent presentation of assets on CBJ's balance sheet. Work is ongoing on reviewing the procedures and controls over the program monetary data compilation process, including reconciliation with the accounting records within six weeks after each test date. Moreover, we have improved the disclosures in the Financial Statements for the year 2012 with regards to the financial position with the IMF to ensure transparency and compliance with the IFRS. Further improvements will be introduced in FY 2013 and will include derivative contracts, equity reserves, and significant investments in associates.

- Going forward, and with assistance from the IMF, the CBJ will undertake a full review of its legal framework to strengthen oversight arrangements and legal underpinnings of its autonomy. The CBJ will prepare draft amendments of its law by December 2014 (a new structural benchmark) in line with our intentions stated in the Letter of Intent of March 27, 2013.

45. Progress in the implementation of our policies will continue to be monitored through quarterly reviews, quantitative PCs, indicative targets, and structural benchmarks. These are detailed in Tables 1–3, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Jordan: Quantitative Performance Criteria and Indicative Targets, 2013

	Jun-13 Target	Jun-13 Adj. Target	Jun-13 Actual	Sep-13 Target	Sep-13 Adj. Target	Sep-13 Proj. /3
Performance Criteria						
Primary fiscal deficit of the central governement, excluding grants in JD million (flow, cumulative ceilir	1,041	1,001	1,114	1,766	1,706	2,184
NEPCO net loss in JD millions (flow, cumulative ceiling)	508	508	474	779	779	933
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	5,581	5,925	8,351	7,324	6,424	9,505
Ceiling on accumulation of external payment arrears 1/	0	0	0	0	0	0
Indicative Targets						
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-236	-480	-1,467	-851	-213	-963
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	512	682	682	682
Stock of arrears of NEPCO 2/	295	295	386	220	220	328
Memo items for adjusters						
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	539	...	433	1,595	...	607
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	1,413	...	1,757	2,863	...	1,852
Transfers from the central government to NEPCO (flow, cumulative, JD millions)	508	...	596	779	...	1,242
Cap for the downward adjustor on the NIR	900	...	900	900	...	900
Cap for the fiscal adjustor (JD millions)	40	...	40	60	...	60

1/ Continuous.
2/ Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.
3/ The NIR figure is actual.

Table 1b. Jordan: Quantitative Performance Criteria and Indicative Targets, 2013–14

	Dec-13 Revised	Mar-14	Jun-14	Sep-14
Performance Criteria 1/				
Primary fiscal deficit of the central governement, excluding grants and excluding net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	1,292	467	586	905
Combined public deficit in JD million (flow, cumulative ceiling) 2/	2,667	700	992	1,643
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	9,341	9,918	9,462	8,728
Ceiling on accumulation of external payment arrears 3/	0	0	0	0
Indicative Targets				
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-1,481	-1,440	-1,023	-625
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	682	682
Stock of arrears of NEPCO 4/	270	150	0	0
Memo items for adjusters				
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	1,820	682	923	1,239
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	3,773	771	921	1,176
Cap for the downward adjustor on the NIR	900	900	900	900
Cap for the fiscal adjustor (JD millions)	80	20	40	60

1/ The numbers for June and September 2014 are indicative targets.
2/ Defined as the sum of primary fiscal deficit of the central government excluding grants and net transfers to NEPCO and WAJ, and NEPCO's net losses.
3/ Continuous.
4/ 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**
New: Submit a 2014 budget to parliament in line with program understandings.	December 15, 2013	
New: Implement measures of one percent of GDP to bring the budget in line with program understandings.	December 15, 2013	
Raising revenue		
Review and costing of tax incentives.	By end-October 2013	**On track.**
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.
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).
Enhancing transparency		
Introduce a commitment control system through the GFMIS to register, report, and account for expenditure commitments against cash allocations issued by the Ministry of Finance.	January 2013	**Not met,** but progress is being made and the target has been 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.
Amend the commitment control module in GFMIS.	By December 2013	**On track.**
NEW: Prepare draft amendments to the CBJ law to strengthen autonomy and oversight, in line with Fund advice.	By December 2014	

Table 2. Structural Benchmarks (concluded)		
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.
NEW: Signing of the LNG supply contract.	April 2014	
Announce to the public an action plan on how to reduce the water company's losses over the medium term.	By end-October 2013	**On track.**
New: Implement already announced tariff increases as outlined in the medium term energy strategy	January 2014	
Inclusive Growth		
Licensing of a credit bureau.	End-June 2013	**Not met,** but is expected to be implemented by November 2013.
Implement a national unified registry for targeting of subsidies.	October 2013	**On track.**

Attachment II. Technical Memorandum of Understanding (TMU)

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

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Letter of Intent dated October 29, 2013. For the purposes of the program, the exchange rate of the Jordanian dinar to the U.S. dollar is set at JD 0.709 = $1 and the gold price is set at JD 1,117.025 per fine troy ounce for the measurement of the program performance criteria on net international reserves. The corresponding cross exchange rates are provided in the table below.

Program Exchange Rates	
Currency	**One Jordanian dinar per unit of foreign currency**
British Pound	1.105
Japanese Yen	0.009
Euro	0.887
Canadian dollar	0.692
SDR	1.073

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

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

A. Quantitative Performance Criteria and Indicative Targets

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

- a performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfer to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ);
- a performance criterion (ceiling) on the combined primary deficit of the central government (as defined above) and the net loss of NEPCO ("combined public deficit");
- a performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);
- a continuous performance criterion (zero ceiling) on the accumulation of external arrears;
- an indicative target (ceiling) on accounts payable of the central government;

- an indicative target on the accumulation of domestic payment arrears of NEPCO;
- an indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

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

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

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

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

8. **Net external financing of the central government** is defined as cash external debt disbursements received by the central government, *less* external debt repayments paid by the central government. The debts covered are debts of the central government (excluding off-budget military debts) and any foreign debts that are channeled through the central government to finance operations of the rest of the public sector.

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

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

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

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

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

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

C. Ceiling on the Combined Public Deficit

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

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

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

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

D. Floor on the Net International Reserves of the CBJ

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

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

19. **Foreign liabilities of the CBJ** are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forward, swaps and options, including any portion of the CBJ monetary gold that is collateralized), and Jordan's outstanding liabilities to the IMF. Excluded from reserve liabilities are government foreign exchange deposits with the CBJ, deposits from public institutions and government departments with independent budgets, commercial companies with state participation, deposits from donors (including grants received from the GCC), the two technical swaps with Citibank Jordan for U.S. dollar 80 million, and amounts received under any SDR allocations received after June 30, 2012.

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

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

E. Ceiling on the Accumulation of External Debt Service Arrears

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

F. Ceiling on the Accounts Payable of the Central Government

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

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

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

H. Ceiling on the Net Domestic Assets of the CBJ

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

25. For program monitoring purposes, **the net domestic assets of the CBJ** are defined as reserve money *less* the sum of net international reserves as defined above *plus* Jordan's outstanding liabilities to the IMF. Therefore, the ceiling on NDA is calculated as projected reserve money (as defined in Table 1) minus the target NIR.

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

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

DATA PROVISION

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

28. Related to the ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and WAJ: The nine standard fiscal data tables in the attached list as prepared by the

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

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

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

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

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

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

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

33. Related to the continuous performance criteria:

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

34. Other economic data

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

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

DEFINITIONS OF THE PRINCIPAL CONCEPTS AND VARIABLES

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