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FIFTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERION AND APPLICABILITY OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of fifth review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 10, 2014, following discussions that ended on October 11, 2014, with the officials of Jordan on economic developments and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on October 24, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Jordan.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Jordan*
Memorandum of Economic and Financial Policies by the authorities of Jordan*
Technical Memorandum of Understanding*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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October 24, 2014

FIFTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERION AND APPLICABILITY OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Jordan's economy has been resilient in an increasingly difficult regional environment. Previously highlighted risks have materialized, most notably major disruptions of gas flows from Egypt, and new ones have emerged, particularly from the conflict in Iraq. The macroeconomic situation, however, has remained largely stable, with a narrowing current account and international reserves remaining at a comfortable level.

Program performance in 2014 is broadly on track. The end-September performance criterion (PC) on the central government primary deficit is estimated to have been met, but the PC on the combined public sector deficit is likely to have been missed owing to a shortfall in gas flows from Egypt. International reserves continued to over-perform through September. All PCs for the remainder of the year are expected to be met with the exception of a higher combined deficit from the gas shortfalls (0.7 percent of GDP compared with the program), which is financed by grants.

Further fiscal consolidation will take place in 2015, but stronger tax reform is called for. Continued adjustment will move debt onto the programmed downward trend, while new grants will cover higher electricity company NEPCO losses owing to lower Egyptian gas supply (1.4 percent of GDP higher compared with the program). Most of the central government adjustment is on the expenditure side. Parliament approval of an income tax law is expected by year-end, but further tax reform is paramount. Losses of NEPCO will start declining in 2015, reflecting a tariff increase planned for January and the liquefied natural gas terminal becoming operational in mid-year.

Despite some positive steps in structural reforms, more is needed to generate jobs. Progress has been made in facilitating investment, broadening access to finance, and improving transparency. But labor market reform warrants more attention in order to address structurally high unemployment. There is also scope to upgrade public financial management and modernize the tax administration. Vision 2025—a government strategy document under discussion—is an opportunity to focus more on these issues.

Mounting risks underscore that continued grants are vital for the coming years. Grants are already helping, but continued support is needed, including for hosting the Syrian refugees.

The completion of the fifth review makes available SDR 82.25 million (about $129 million).

Approved By

Adnan Mazarei and Mark Flanagan

The mission team consisted of Kristina Kostial (head), Yasser Abdih, Andrea Gamba, Edouard Martin (all MCD); Ricardo Fenochietto and René Tapsoba (both FAD); and Chad Steinberg (SPR). It was assisted by Apostolos Apostolou, Vanessa J. Panaligan, Cecilia Pineda, and Ramsey Andrawis. The mission was joined by Sami Geadah, Alternate Executive Director and overlapped with several World Bank missions. During September 9–22, staff met with Prime Minister Abdullah Ensour, Minister of Finance Umayya Toukan, Minister of Energy and Mineral Resources Mohammad Hamed, Minister of Planning and International Cooperation Ibrahim Saif, Minister of Water and Irrigation Hazim El-Naser, Governor of the Central Bank of Jordan Ziad Fariz, senior officials in these institutions, the electricity company (NEPCO), representatives of parliament, civil society groups and the private sector as well as with development partners.

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CONTEXT

1. Jordan's economy is coping well with an increasingly difficult external environment. Risks relating to major disruptions in gas flows from Egypt have materialized; and new ones have surfaced from the conflicts in Iraq (Box 1) and Gaza. Nonetheless, the program has stayed broadly on track. International reserves have remained at a comfortable level; growth is stable; headline inflationary pressures are contained; and the current account deficit is narrowing.

2. There is progress toward the program's fiscal objectives. The adjustment path remains broadly unchanged to bring the high and still rising public debt on a downward trend and to support confidence in a highly volatile regional environment. Recently adopted fiscal measures close most of the fiscal gap for 2015, with parliament approval of the income tax (expected by year-end) to cover the remainder. At the same time, new grants provide room to accommodate the costs from lower gas flows for this year and the next. Against the background of structurally high unemployment, future reviews will aim at making progress with reforms toward boosting growth and creating jobs.

ECONOMIC AND PROGRAM PERFORMANCE

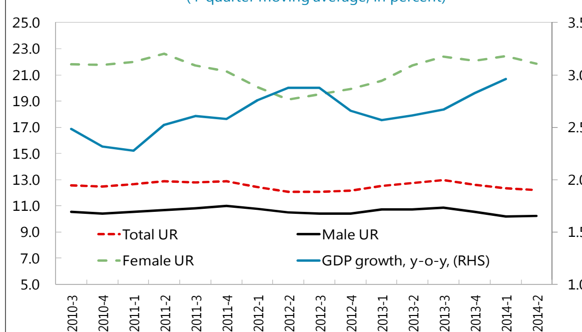
A. Ongoing Stabilization Largely in Line with Expectations

3. Economic activity is slowly improving. Helped by a recovery in mining and strong tourism and utilities sectors, growth stood at 3 percent y-o-y in the first half of 2014. Unemployment has, however, remained stubbornly high, at 12 percent in 2014-Q2—with the rate for females continuing to be double that of males. Labor force participation remained very low, at 36.6 percent (and 12.7 percent among females).

4. Headline inflation is low, but core inflation remains elevated. With a further slowdown in food prices, headline inflation has continued to decline, to 2.7 percent y-o-y in September. Core inflation, however, has been exceeding 5 percent during the summer. This partly reflects increased demand by the Syrian refugees (Box 2).

Real Output Growth and Unemployment Rates

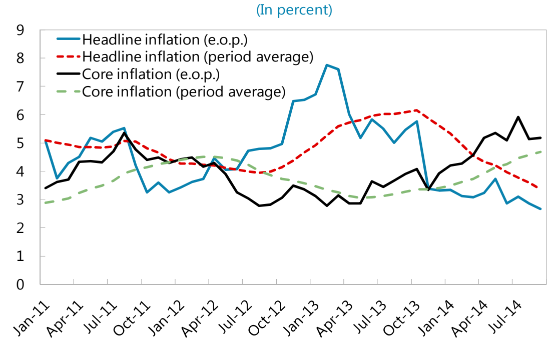
(4-quarter moving average, in percent)



Sources: National authorities and IMF staff estimates.

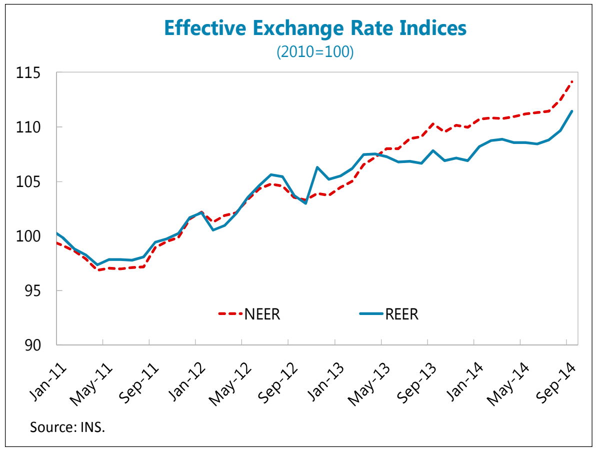
CPI Inflation

(In percent)

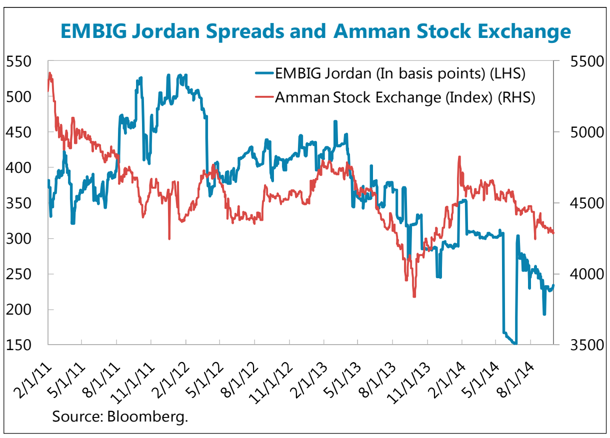


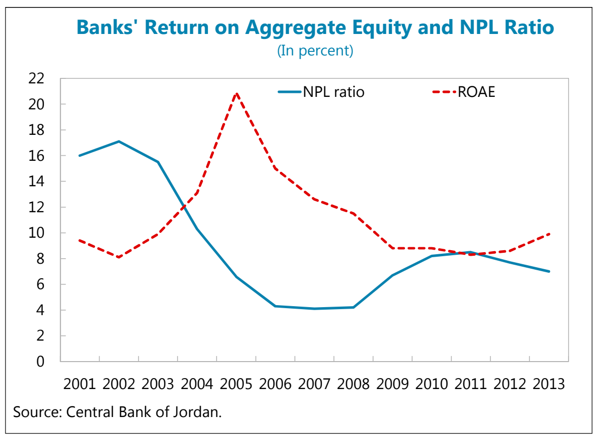
Sources: Jordanian authorities; and IMF staff estimates.

5. Despite a further real appreciation of the exchange rate, the current account continues to narrow. Energy imports have remained high as supply disruptions of Egyptian gas have continued to affect the mix of energy imports toward more expensive sources. At the same time, potash and fertilizer exports rebounded in the first half of 2014, bringing overall export growth to 8½ percent y-o-y (before the impact of developments in Iraq on exports could be registered). Regional uncertainty, however, has held back direct foreign investment and portfolio flows.



6. Financial markets are stable. Banking sector data for June 2014 put capital adequacy well above the regulatory minimum. The prevailing loan-to-deposit ratio provides capacity for banks to increase lending without relying on external funding; banks therefore have strong liquidity buffers. Banks also continue to enjoy healthy profitability, and their provisioning ratios have steadily increased (notably, banks' entire investments in conflict countries, including in Syria, Gaza, and Iraq, have been fully provisioned). Nonperforming loans (NPLs) have declined since 2011. Since peaking in early 2014, the stock market lost more than 10 percent, reflecting regional tensions, the disappointing performance of some larger companies, and expectations of lower after-tax profits.





B. Policy Implementation Broadly on Track Through September

7. Central government fiscal targets are expected to be met. Revenue has been lower than expected through June mostly reflecting delays in collecting the financial surpluses of public entities. Nonetheless, the end-June PC on the primary fiscal deficit was met because of delays in capital spending. Since then, a large part of the revenue shortfall has been made up through an acceleration of the collection of financial surpluses and the repayment of 2013 arrears of the refinery. As a result, the end-September PC is expected to have been met.[1]

8. Owing to lower gas inflows, the losses of the electricity company, NEPCO, are higher than expected. Gas imports from Egypt have been repeatedly and severely disrupted and had to be replaced by much more expensive imports of diesel and heavy fuel oils. As a result, the end-September PC on the combined public sector deficit is likely to have been missed (it would have been met by a comfortable margin if gas had come in as programmed).[2]

9. Net international reserves (NIR) have over-performed. Against the backdrop of declining headline inflation, modest credit growth, and a comfortable reserve position, the Central Bank of Jordan (CBJ) reduced its overnight deposit and repurchase rates by 50 basis points (bps) in June, to 2.75 percent and 3 percent, respectively. Nonetheless, gross usable reserves continued to over-perform, reaching $14.4 billion at end-September (142 percent of the Fund's reserve adequacy metrics).[3] And so did NIR, likely reflecting better-than-expected external inflows in the balance of payments and lower-than-projected net foreign assets accumulation by banks. Private sector credit has remained slow, growing by 5.5 percent y-o-y through August.

10. Some structural reforms are moving forward. Parliament adopted the Public-Private Partnership (PPP) and investment laws, which had long been pending. Also, the recently granted first microfinance license could open up access to finance to a broad range of small business and households; making public new legislative initiatives will enhance transparency; and the Audit Bureau is being brought in line with best international practice. However, there has been a delay in establishing an automated system for Financial Soundness Indicators (FSIs) (June 2014 benchmark, met in September) and the licensing of a credit bureau (June 2013 benchmark) is now expected by end-year. Also, not all of the measures needed to bring about the fiscal adjustment for 2015 (September benchmark) have been implemented.

[1] The controlling PCs for the fifth review are those set for end-September 2014. The authorities are requesting a waiver of applicability for the PC on the central government since (i) the final data to assess performance for end-September are not available at the time of the fifth review; and (ii) there is no clear evidence suggesting that the PC might not be observed.

[2] The end-March PC, for which the Board granted a waiver of nonobservance in April, was met. This reflected unexpected central government capital spending delays and lower-than-expected fuels costs for NEPCO.

[3] As planned, a five-year U.S.-guaranteed Eurobond of $1 billion was issued in June (with a spread of 25 bps over the U.S. rate).

OUTLOOK AND RISKS

11. There are some changes to the macroeconomic framework. The main change lies in the assumption that gas flows from Egypt will not fully recover, amounting to about half of what was previously programmed with the higher NEPCO losses financed by grants. The revised framework also assumes that: spillovers from Iraq will remain manageable, and the Syria crisis will start tapering off in 2016, with refugees gradually returning and trade links normalizing slowly.

- **Growth** projections for 2014 have been revised down, from 3½ to 3¼ percent, on account of lower investment and net exports. Growth is projected to increase gradually to 4½ percent over the medium term, supported by public infrastructure investments.

- **Inflation** projections for this year and next have been revised slightly upward on account of higher-than-expected core inflation in the first half of the year. Headline inflation is expected to decline to about 2 percent over the medium term, aided by an expected moderation in international food and fuel prices, and a decline in core inflation as refugees gradually return to Syria.

- The **current account deficit** (including grants) would continue to narrow over the medium term—to about 2½ percent of GDP—helping keep reserve buffers at adequate levels (at least 130 percent of the reserve metric). This largely reflects a reduction in the energy import bill brought about by the coming on stream of the Liquefied Natural Gas (LNG) terminal in mid-2015 and gas from the Mediterranean starting in 2018. The 2014 current account deficit is now projected at 7.3 percent of GDP or 3 percentage points lower than previously envisioned, as higher-than-programmed grants more than offset higher energy import costs.[4]

- Due to shortfalls in gas from Egypt, **NEPCO losses** during 2014–17 will be higher than envisaged, but will be gradually eliminated over the medium term, as programmed; the **central government adjustment path** remains unchanged. The combined deficits of the central government and NEPCO during 2014–17 are therefore higher than previously envisaged but are still projected to fall to ½ percent of GDP by 2018. As the higher deficits are expected to be covered mostly by grants, the debt dynamics are broadly unchanged, with debt peaking in 2015 at 90 percent of GDP and falling to 77 percent of GDP over the medium term (see attached Debt Sustainability Analyses (DSAs)).

[4] The current account excluding grants will decline from a projected 13.6 percent of GDP in 2014 to 6.6 percent of GDP in 2019.

Jordan: Central Government, NEPCO, and Consolidated Deficits, 2013–19
(In percent of GDP)

	2013 Est.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Program (Third and Fourth Review)							
Central government primary deficit 1/	4.7	4.5	2.9	1.4	1.0	0.5	0.5
Central government fiscal measures	...	1.8	1.5	1.6	0.4	0.5	0.0
NEPCO operating losses	4.6	3.8	2.2	0.9	0.0	0.0	0.0
Reduction in losses	0.7	0.7	1.6	1.3	0.9	0.0	0.0
Of which: from tariff increase	0.2	0.5	0.5	0.7	0.6	0.0	0.0
Combined public deficit 2/	9.3	8.3	5.1	2.3	1.0	0.5	0.5
Underlying consolidated balance 3/	8.0	8.0	5.1	2.3	1.0	0.5	0.5
Revised projections							
Central government primary deficit 1/	4.7	4.5	2.9	1.4	1.0	0.5	0.5
Central government fiscal measures	...	0.0	0.0	1.0	0.2	0.5	0.0
NEPCO operating losses	4.6	4.5	3.5	1.9	1.1	0.0	0.0
Reduction in losses	0.7	0.1	1.0	1.6	0.9	1.1	0.0
Of which: from tariff increase	0.2	0.5	0.5	0.6	0.6	0.0	0.0
Combined public deficit 2/	9.4	9.0	6.5	3.3	2.1	0.5	0.5
Underlying consolidated balance 3/	8.1	8.2	5.2	2.3	1.7	...	...

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

1/ Excludes grant and transfers to NEPCO and WAJ.

2/ Excludes arrears repayment by NEPCO.

3/ Assuming constant inflows of Egypt gas at 100 million cubic feet per day and excluding arrears clearance in 2014–19.

12. Downside risks have increased (Box 3):

- **Regional risks** are the most prominent. The *Syria conflict* continues and an escalation would weigh on Jordan's already-strained resources (see Jordan: Selected Issues, IMF Country Report No. 14/153). Measurable spillovers from the *conflict in Iraq* have been limited so far. Nonetheless, an escalation could further affect exports, transit trade, energy imports, and investor confidence; an influx of refugees is also possible. The *Gaza* conflict could reignite, possibly stressing investor confidence. There is also continued uncertainty surrounding gas flows from *Egypt*; a complete stop would give rise to additional fiscal gaps of about one percent of GDP.

- **Other risks** include a loss of drive for reform. There is also the susceptibility to global financial market volatility, which could result in capital outflows, while a slowdown in emerging markets could further reduce the prices of phosphate and fertilizers, and adversely affect the current account.

POLICY DISCUSSIONS

13. Discussions focused on maintaining a tight policy stance to support confidence. The realization of risks could weaken confidence and reverse de-dollarization. Even if not realized, perceived risks could increase the financing costs of the already high and increasing public debt. The authorities are therefore implementing measures to adhere to the planned fiscal consolidation to put debt firmly on downward path over the medium term. They also stand ready to act on monetary policy should pressures on reserves emerge. Building on the positive momentum in some structural areas, there was a discussion of how to broaden this.

14. Mounting external pressures underscore that continued support through grants is critical (MEFP¶7).[5] In response to regional tensions and the Syrian refugee problem, donors have scaled up grants. These have been financing a more gradual adjustment, including in 2014 and 2015. Sustained support is needed through the coming years to give the authorities time to complete their adjustment without adversely affecting growth and the vulnerable parts of the population.

A. Public Sector Consolidation—Staying the Course

15. Budget execution is broadly on track but pressures from health spending have re-emerged (MEFP¶10). Shortfalls in revenue in 2014 are projected to be offset by lower cash transfers.[6] The authorities have established a committee to verify an increase in arrears of the health funds (by 0.1 percent of GDP in the first half of the year) and better target benefits; in the meantime, any savings on current spending would be used to clear arrears. Staff encouraged the authorities to fully implement planned capital spending given its large fiscal multiplier.

16. Most measures to anchor the 2015 fiscal adjustment are in place (MEFPs¶11 and 12). The adjustment is mainly on the expenditure side because the authorities felt that revenue measures beyond the income tax law were not politically feasible and would undermine the chances of parliament approval of that law.

Jordan: Central Government Impact of Fiscal Package, 2015
(In percent of GDP)

	2015
Fiscal package	**1.5**
Spending	1.2
Off-budget spending (bringing oil excise on budget)	0.7
Wage bill	0.3
Food subsidy by using forward contracts	0.2
Revenue	0.3
Income tax	0.3

Sources: Jordanian authorities; and Fund staff estimates.

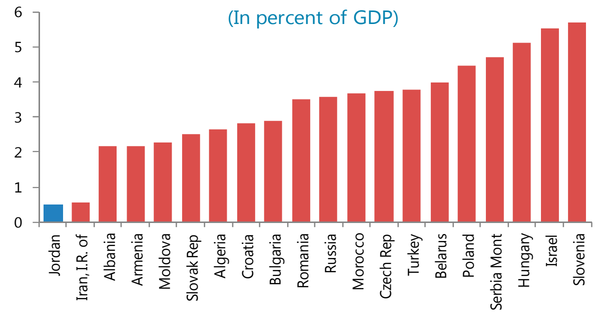
[5] Paragraph numbers refer to the paragraphs in the attached memorandum of economic and financial policies (MEFP).

[6] There will be two (rather than three) installments in 2014 because the transfer is supposed to be paid out only when oil price is above $100 per barrel. The oil price is projected to stay below $100 in 2015, but the authorities have budgeted two installments as additional social support.

- Cabinet has approved a package of **expenditure measures** yielding over one percent of GDP. This decision is binding for the 2015 budget because parliament can only propose cuts (and not increases) in spending. More than half of the savings come from transferring to the budget off-budget oil excises (matched by the end of the one-off spending it financed); this will also improve transparency. The remaining savings will come from a cap on the wage bill (by limiting salary increases and freezing new hiring with the exception of health and education) and forward contracts to lock in currently low international wheat prices, which will reduce the costs of the food subsidy.

- Passage of the **new income tax law** is pending. Parliament did not finish deliberations in its extraordinary session in the summer, but is expected to do so by year-end. The current version of the law would generate revenue largely from an increase in tax rates, bringing Jordan in line with countries in the region (Box 4). The full-year revenue gain is estimated at 0.6 percent of GDP, but only 0.3 percent of GDP would come in 2015 because the tax payment schedule is back-loaded. While the law meets immediate fiscal adjustment needs, staff felt strongly that the law is a missed opportunity and will likely need to be revisited in the future. It is the only option, in addition to reducing tax incentives, to provide substantial revenue while making the tax system fairer. Most importantly, lowering the (exceptionally high) personal income tax threshold would bring Jordan in line with peers, expand the base, and introduce more progressivity (only 3 percent of the population pays the income tax); indeed, Jordan has one of the lowest levels of revenue from this tax. There also would be scope to introduce a minimum tax based on sales as a tool to address tax evasion (estimated at over 3 percent of GDP of the sales tax).

Personal Income Tax Revenue
(In percent of GDP)



Sources: National authorities; and IMF staff estimates.

- If any of the planned measures deliver less than expected, the authorities have identified **contingency revenue measures** of about 0.5 percent of GDP. There is also a potential upside from the collection of tax arrears and efforts to reduce abuse of the food subsidy (fraud is estimated to be high).

17. Utilities will reach cost recovery over the next five years:

- **NEPCO's medium-term outlook is clouded by shortfalls in gas from Egypt (MEFP¶13).** Despite high-level commitments to reinstate gas supplies, renewed sabotage is likely. Thus, gas from Egypt is now projected at 30 million cubic feet per day in 2014 and 50 million cubic feet per day from 2015 onward (one third and one half of the programmed levels, respectively). This will increase NEPCO's losses by 0.7 percent of GDP in 2014 (the increase is limited by offsetting factors such as efficiency gains and moderate weather) and 1.3 percent of GDP in 2015. Higher grants together with proceeds from the sale of a telecommunication license (all already received in 2014) can cover the additional losses for this and the next year. Staff noted that, if there are further gas shortfalls, there might be a need for temporary electricity tariff or VAT surcharges.

- **But NEPCO's longer-term prospects are expected to improve (MEFP¶14).** As planned, relief will come first from the Aqaba LNG terminal starting operations in mid-2015 and renewable energies coming on stream starting at end-2015. The authorities are also negotiating a doubling of LNG supplies (to 300 million cubic feet per day). For the longer term, Jordan is in advanced negotiations to import gas from Israel starting in 2018; the price is expected to be higher than that for gas from Egypt but significantly lower than the one for LNG. While the shortfall in gas from Egypt is expected to delay cost recovery by one year, the new contracts would not only cover increasing demand for electricity but, should all of them materialize, reduce the necessity for tariff increases beyond 2017.

NEPCO Losses Under Different Assumptions on Tariff Increases, 2014–17

(In percent of GDP (unless otherwise specified))

	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Program				
Gas supplies from Egypt (in millions of cubic feet per day)	100	100	100	100
NEPCO losses	3.8	2.2	0.9	0.0
Reduction in losses due to fuel supply improvements		1.1	0.6	0.3
Reduction in losses due to tariff increases		0.5	0.7	0.6
Revised Projection				
Gas supplies from Egypt (in millions of cubic feet per day)	30	50	50	50
NEPCO losses	4.5	3.5	1.9	1.1
Reduction in losses due to fuel supply improvements		0.5	1.0	0.2
Reduction in losses due to tariff increases		0.5	0.6	0.6

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

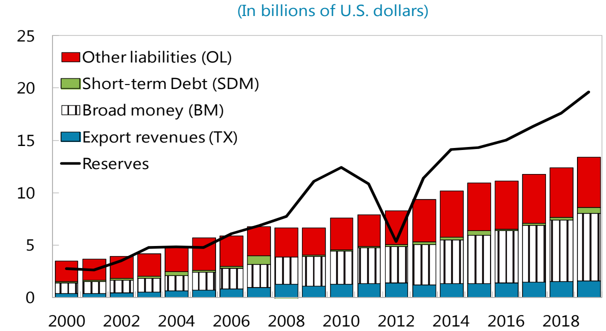
- **The water strategy is on track toward eliminating operational losses by 2020 (MEFP¶15).** Implemented and planned increases in tariffs are protecting most households. The clampdown on illegal connection and the prioritization of investments are welcome.

B. Monetary Policy—Managing Risks

18. High reserves will help the CBJ navigate a difficult environment (MEFP¶19). The authorities reiterated that they will continue to monitor domestic and regional developments closely and stand ready to take action, if needed, to maintain comfortable reserve buffers. Staff did not see a need to hike policy rates at the moment because reserve buffers are high, the current dinar-dollar interest rate differential is sufficient to safeguard the attractiveness of the dinar, and core inflationary pressures are expected to subside.

Reserve Metric Decomposition 1/

(In billions of U.S. dollars)

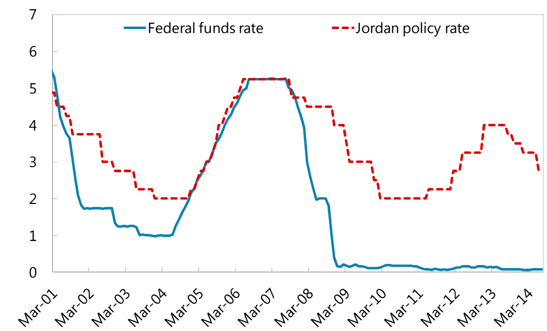


Sources: Jordanian authorities; and IMF staff estimates.

1/ For more information on the IMF's Reserve Adequacy Metric, see Assessing Reserve Adequacy-Further Considerations.

Staff also did not see scope to lower rates (there is room in the short term for a monetary policy weighing the need to safeguard price stability with that of stimulating economic activity). The recent reduction in policy rates has not yet been passed through to lending rates and regional uncertainty may dampen any impact on credit. Staff therefore thought that time should be given to the latest policy rate reduction to play out so as to determine whether it has contributed to higher private sector credit growth.

Jordan's Policy Rate and the U.S. Federal Funds Rate
(In percent)



Sources: Federal Reserve; and National authorities.

C. Financial Sector Policy—Boosting Resilience

19. The CBJ is monitoring and containing macro-financial risks (MEFP¶s21 and 22). Staff welcomed that the CBJ is expanding its mandate to include safeguarding financial stability and is starting to regulate previously unregulated microfinance (a sector with assets of 0.6 percent of GDP serving over a million people). It is important to swiftly establish in-house expertise, likely requiring technical assistance (TA). The CBJ has already been strengthening its macro-prudential framework and continues to enforce tight regulations to ensure that banks' intermediation of foreign exchange flows does not result in balance sheet mismatches.

20. Supervisory initiatives are bolstering banks' resilience (MEFP¶s20, 22, and 23). The automated system for the collection of FSIs will allow more timely and frequent monitoring and analysis, and facilitate the completion of an early warning system that aims at monitoring systemic risks; this will, in turn, enhance the supervisory review process (as per Pillar 2 of Basel II) and refine the CAMELS rating system based on the expected performance of the banks. Because banks have large cross-border exposures (more than 40 percent of their assets are held offshore), the CBJ is expanding the supervision of their overseas subsidiaries. This includes hosting, with the help of Fund TA, a supervisory college for the Arab Bank Group in 2015, which is the largest bank in Jordan and accounts for about two thirds of banks' cross-border exposures (new benchmark). However, there is scope for accelerating CBJ's plan to include in the normal supervisory cycle onsite reviews of other significant offshore operations. Staff welcomed measures to enhance the AML/CFT regime, including by stronger monitoring of charity registry databases and tracking funds potentially designated for U.N. Sanctioned Syrian rebel factions channeled through the Jordanian financial sector.

D. Structural Policies—Fostering Growth and Improving Transparency

21. Structural reforms need to address more forcefully Jordan's daunting employment challenge (MEFP¶24–28). Given the large unemployment problem, the regional uncertainties, and limitations on the amount of foreign assistance, it is important that Jordan quickly move forward with structural reforms. Encouraging progress has recently been made in improving the business climate, access to credit, transparency and auditing. But more is needed, in particular completing initiatives to improve the business climate and a stronger momentum in developing labor markets and institutions. Staff hopes that Vision 2025—a government strategy document currently under discussion—will become a game changer. Key to its success is a focus on priorities and follow-through on implementation.[7]

22. The next steps for improving the business climate are about implementation (MEFP¶s25 and 28).

- Delays in the licensing of a credit bureau are regrettable. An operational bureau together with new insolvency and secured lending laws will improve banks' monitoring of debtors and thus **enhance access to credit**.

- A new **investment framework** (December benchmark) will clarify decision gateways of each project and prioritize investments. This will generate savings for the budget and catalyze donors' support.

- Because the implementation of the **PPP** law could foster private sector investment, it is important to move swiftly on the relevant by-laws.

- In implementing the **investment law**, staff underscored the need to control a proliferation of tax exemptions; incorporating tax expenditure in the 2016 budget will help in this regard. Also, the proposed one-stop shop for investors should be given delegated powers to act on behalf of all relevant ministries and offices.

23. Labor market reforms need to move to the forefront (MEFP¶27). The National Employment Strategy (NES) is appropriately designed to provide employment opportunities for the unemployed and new labor market entrants. It focuses on reducing skills mismatches, changing public sector hiring and compensation policies, and harnessing the employment potential of women. Several initiatives are underway, including upgrading vocational training programs and establishing affordable day care. It is not yet clear, however, if these initiatives will be sufficient to make a noticeable difference. Staff therefore urged the authorities to engage international organizations on conducting an evaluation of the NES. This will also help adjusting the strategy to new challenges, such as from refugees joining the labor market.

24. A continued focus is needed on fiscal institutions (MEFP¶s9, 16, and 17):

- **Tax administration reforms could move faster.** While there are important improvements, a comprehensive compliance management framework is not yet there. Staff encouraged the authorities to bring the audit programs in line with international standards (including by providing access to bank information for specific cases), to step up cooperation with the independent Anti-Money Laundering unit, and to collect tax arrears (about 1.2 percent of GDP).

[7] Vision 2025, coordinated by the ministry of planning and international cooperation, is a 10-year economic roadmap aimed at boosting growth.

- **Public financial management (PFM) reforms need to be more ambitious.** Consolidating the central government main financial indicators with those of public utilities would enhance transparency and improve program implementation. The macroeconomic unit could play an important role here. Staff reiterated the urgency to bring large trust accounts[8] into the treasury single account to allow for a better assessment of the size of government transactions and its underlying fiscal position. A forthcoming TA mission could provide an opportunity to make progress in these areas.

- **Public debt management is being upgraded.** Staff welcomed the first issuance of sukuk in 2015 as a tool to broaden the investor base. A partial guarantee by the World Bank under discussion would do so as well in addition to preparing Jordan for international market access in the long run. Staff also encouraged the authorities to lengthen the maturity of debt to reduce vulnerabilities. In light of amendments to the pension law passed earlier this year and potential contingent liabilities for the government, it is important that the Social Security Corporation is updating its actuarial projections as planned by end-year.

PROGRAM MODALITIES

25. The authorities are requesting a re-phasing of the reviews. The fifth review took into account that the authorities implemented most measures to bring about the adjustment in 2015 (implementing all measures was a September benchmark) and also have identified contingency measures in case the income tax law does not become effective in 2015. However, the sixth review was not completed because the delay in the passage of the income tax law implies that not all measures are in place for the 2015 adjustment. To reschedule the undrawn disbursement, the authorities have asked to drop two reviews and re-phase the undrawn Fund purchases in three installments spread over the remaining program period. This re-phasing will result in a program that is better aligned with the pace of reforms, considering delays in implementation. Implementing the income tax law or equivalent revenue measures will be a key consideration for staff to assess that the program remains on track at the time of the next review.

26. Adjustments in conditionality support the program's objectives.

- The end-December PC (ceiling) on the combined public deficit is proposed to be revised upward by the amount of the projected additional NEPCO losses from the shortfalls in gas from Egypt (this is financed by grants).

- PCs for end-March 2015 and end-May 2015 are proposed to be set as per the MEFP Table 1b (an end-May target for the combined public deficit is not proposed because NEPCO maintains

[8] Trust accounts are used for various on-budget and off-budget purposes, including donor-financed projects and extra-budgetary revenue and expenses of ministries.

audited accounts only on a quarterly basis and end-June data will not be available before the program expires).

- A new benchmark in the area of banking supervision is macro-critical as it will reduce external vulnerabilities.

27. Program modalities remain broadly unchanged from the last review.

- **The program is fully financed with a large increase in grant financing (MEFP¶8 and text table).** Loans during the last quarter of this year through 2015 amount to $2.0 billion—which includes guaranteed Eurobonds of $1.75 billion (partly to help refinance a maturing Eurobond of $0.75 billion). Grants are projected to increase to $1.9 billion during the same period.

Jordan: External Financing in 2013–15

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

	2013 Total	2014 Q1 Act	2014 Q2	2014 Q3	2014 Q4	2014 Total	2015 Q1	2015 Apr.-May	2015 Q2	2015 Q3	2015 Q4	2015 Total
Budget grants	**716**	**220**	**11**	**421**	**709**	**1,361**	**0**	**0**	**0**	**0**	**263**	**263**
EU	78	0	0	0	67	67	0	0	0	0	79	79
Saudi Arabia (budget support)	300	0	0	0	0	0	0	0	0	0	0	0
Saudi Arabia and Kuwait (development budget support)	113	43	3	66	63	175	0	0	0	0	0	0
US	213	177	8	3	438	626	0	0	0	0	184	184
Other	13	0	0	352	141	493	0	0	0	0	0	0
GCC capital grants												
GCC grants received by CBJ	1,250	0	145	155	300	600	0	0	325	0	325	650
GCC grants received by MOF	187	66	114	77	930	1,187	136	0	272	409	545	1,362
Loans	**1,577**	**30**	**1,420**	**15**	**132**	**1,597**	**105**	**105**	**1,000**	**0**	**750**	**1,855**
France	69	0	0	0	0	0	0	0	0	0	0	0
Japan	0	0	117	0	1	118	0	0	0	0	0	0
WB	81	30	303	15	0	348	0	0	0	0	0	0
Other (Eurobond etc)	1,250	0	1,000	0	0	1,000	0	0	1,000	0	750	1,750
EU	0	0	0	0	131	131	105	0	0	0	0	105
Memorandum :												
Annual cumulative total (MOF) 1/	2,479	316	1,861	2,374	4,145	4,145	241	346	1,513	1,922	3,480	3,480
Annual cumulative total (MOF) in JD	1,758	224	1,319	1,683	2,939	2,939	171	245	1,073	1,363	2,467	2,467
Annual cumulative total (MOF) in percent of annual GDP	7.4	0.9	5.1	6.5	11.4	11.4	0.6	0.9	3.9	4.9	8.9	8.9
Annual cumulative total (CBJ) 2/	3,543	250	1,826	2,417	3,558	3,558	105	210	1,430	1,430	2,768	2,768

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

Note: An Islamic Development Bank loan (US$ 358 million in Q4 2013) is not included in this table.

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

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

- **Jordan has the capacity to repay the Fund.** While its capacity has been strengthened by a higher-than-programmed level of reserves, risks have increased, requiring steadfast adherence to the planned adjustment.[9] Fund credit outstanding would reach a maximum of 4.8 percent of GDP in 2015 (see Table 8).

- **Jordan continues to meet the exceptional access criteria.** Staff assesses Jordan's debt to be sustainable with high probability (criterion 2). The implementation of the authorities' national program will bring debt onto a downward path to 77 percent of GDP by 2019, with a debt service burden that would remain manageable. Jordan's debt is resilient to shocks with most

[9] The DSA suggests that public debt would continue to rise under a constant primary balance scenario.

debt profile indicators below upper early benchmarks and debt projected to decline in the medium term even under the most severe stress test. The assumptions and analysis underlying this assessment are broadly unchanged from the last review but with the authorities further along in their implementation plan. Other exceptional access criteria also continue to be met: current account pressure remains high (criterion 1); and prospects for sustained market access remain good with some non-resident participation in domestic debt markets, and Eurobond issuances are envisaged in the future without third-party guarantees (the partial World Bank guarantee will constitute a first step in that direction) (criterion 3). Finally, the authorities have continued to demonstrate their ability to implement difficult reforms (as demonstrated by cabinet's recent approval of fiscal measures for 2015), and moreover the program has been recalibrated to make it less susceptible to energy import shocks, thus ensuring that the program has a strong prospect of success (criterion 4).

28. Work is ongoing to address the recommendations of the safeguards assessment concluded in January 2013. Staff welcomed progress made on the internal audit review of program data, and on the draft amendment of the CBJ law—which, as planned, is expected to be finalized by year-end (benchmark). It underscored the need to accelerate the removal of audit qualifications in the CBJ financial statements, which have been delayed; this will ensure a fair and transparent presentation of assets in the CBJ's balance sheet.

STAFF APPRAISAL

29. Jordan is demonstrating resilience in an increasingly challenging setting. Previously highlighted risks have materialized and new ones have emerged, including the disruptions of gas flows from Egypt and the conflict in Iraq. The authorities' implementation of the program is now bearing fruit with comfortable reserve buffers and rebuilt confidence helping to reduce pressures on the economy.

30. Grants are needed to help navigate a difficult environment. Grants have so far helped cushion the country from external shocks (such as hosting refugees and a higher energy import bill). This support needs to continue to allow the authorities to gradually implement their adjustment without an adverse impact on growth.

31. Keeping policies on course will fortify the country's resilience. The authorities have again shown that they are committed to the program by implementing difficult fiscal measures for 2015. This, combined with an appropriate monetary policy, is contributing to strengthen confidence. It also provides assurances that adjustment is on track to return high and increasing debt onto a downward path starting in 2016.

32. An opportunity was missed to anchor adjustment in deep tax reform. Staff would have liked less focus on the expenditure side and more on fair burden sharing. This is because expenditure cuts could have a more adverse impact on the economy but also because of the need to address the proliferation of tax exemptions, which are weakening the tax base and undermining tax administration. Moreover, while the income tax law currently considered by parliament is a step in the right direction, it is not sufficiently ambitious and progressive. Further reform of the tax together with a reduction in tax incentives will likely need to be considered in the coming years.

33. NEPCO's better long-term prospects are reassuring. The authorities' proactive approach to addressing future energy needs is welcome. While grants cover higher losses in 2014 and 2015 from lower gas supplies, further shortfalls in gas from Egypt might require additional measures.

34. High risks call for maintaining comfortable external buffers and strengthening banking supervision. The CBJ is committed to taking action as needed. It is also appropriately gearing up supervision, including by expanding its mandate to financial stability. The improved FSI data and an early warning system represent important improvements in CBJ's monitoring toolkit, as is the planned supervisory college for Arab Bank.

35. Progress in structural reforms should be broadened and accelerated. Vision 2025 is an opportunity to embed sectoral reforms in an overarching framework with an emphasis on labor market reforms and further improvements in the business climate. A stronger momentum is also needed in improving tax administration and public financial management.

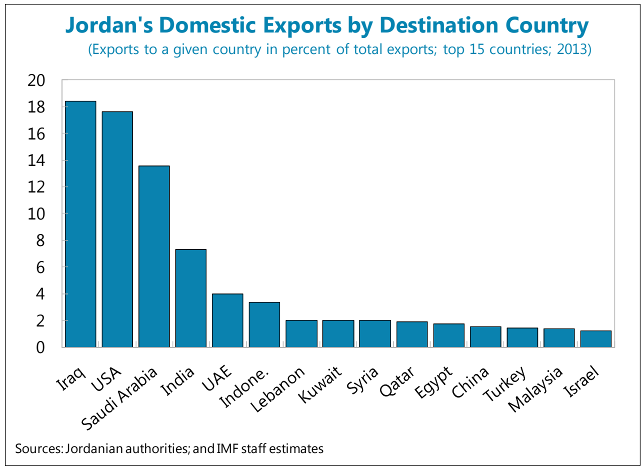
36. Risks are exceptionally high. By far the largest downside risks come from regional developments. Given the debt dynamics, little room is left for further slowing the adjustment path unless there are more grants. Donors at the same time will continue to ask the authorities to do their part by continuing adjustment and reform efforts.

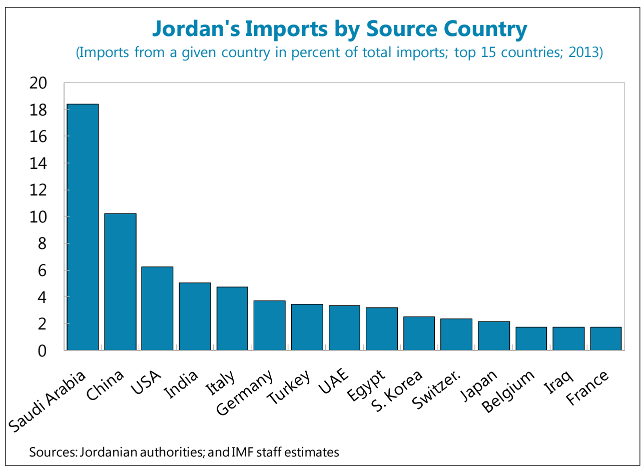
37. Staff supports the completion of the fifth review and the related purchase. It supports: (1) the waiver of nonobservance for the end-September 2014 PC on the combined public deficit as the authorities are taking corrective action by improving the long-term prospects of NEPCO while higher grants help accommodate temporary shortfalls and keep the program on track to meet fiscal objectives; (2) the waiver of applicability for the end-September 2014 PC on the primary fiscal deficit; (3) modifying the end-December PC on the combined public deficit; (4) setting PCs for end-March and end-May 2015; and (5) the re-phasing of access.

Box 1. Spillovers to Jordan from the Crisis in Iraq

The crisis in Iraq has so far had a limited measurable macroeconomic impact on Jordan. An escalation could have adverse implications for Jordan's economy through the following transmission channels:

Disruptions in trade. Iraq—Jordan's main export market—accounts for 18.4 percent of total Jordanian domestic exports (mainly food, chemicals, and machinery parts), equivalent to $1.2 billion, or 3.7 percent of GDP. Such direct exports, and transit exports through Iraq to Turkey (which are about $100 million or 0.3 percent of GDP), are most likely to be hurt (until now, exporters have been able to find alternative routes). Jordan's imports of cheap crude oil from Iraq—around 10,000 barrels per day, and worth $300 million a year—already stopped at earlier stages of the conflict, but that has had a limited negative cost impact on Jordan's energy imports.





Higher oil prices. Disruptions to oil production in Iraq could lead to higher international oil prices, with adverse implications for Jordan. This risk has declined recently with global efforts to contain the Islamic State and is mitigated by the ability of Saudi Arabia and other OPEC producers to compensate for the loss in Iraqi oil supply.

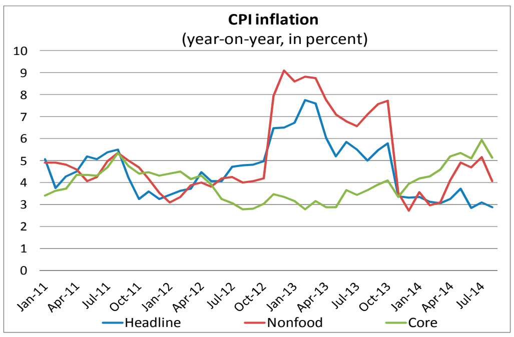
Weakening of confidence. A deeper and broader crisis in Iraq could undermine confidence, reverse de-dollarization, lead to capital outflows, and take a toll on international reserves. However, there are no signs of such effects at this point.

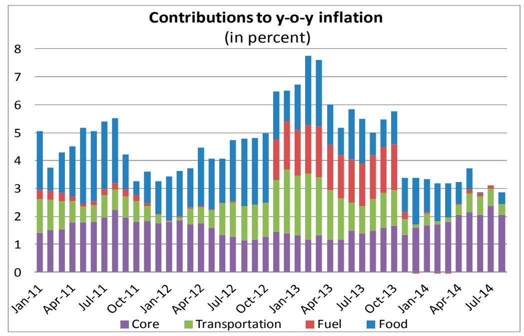
Influx of refugees. So far, there has been no significant influx of Iraqi refugees. Given that Jordan already hosts more than 600,000 registered Syrian refugees, a sizable influx of Iraqi refugees could weigh heavily on already-strained resources (see Jordan: Selected Issues, IMF Country Report No. 14/153). In 2003, the inflow of Iraqi refugees had an overall positive impact on the economy as they were financially better off than the Syrian refugees and contributed to increased demand and investment.

Box 2. Determinants of Core Inflation

Headline inflation has declined sharply over the last twelve months, while core inflation continued to increase. This box discusses the reasons behind these trends.

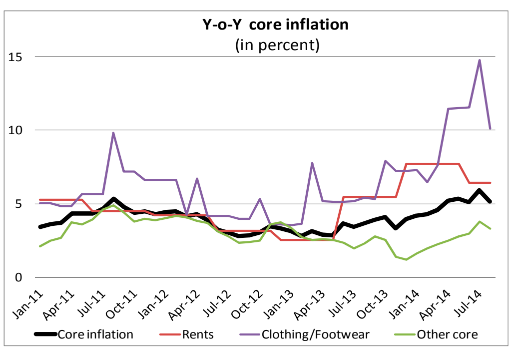
Why did headline inflation decline? The decline was due to a sharp slowdown in food, fuel, and transportation prices, reflecting international trends and a base effect (the elimination of fuel subsidies in 2012 had triggered a one-off upward adjustment in fuel prices). As a result, the contribution of these categories to inflation declined from more than 5 percentage points in December 2012 to 0.8 percent in August 2014.

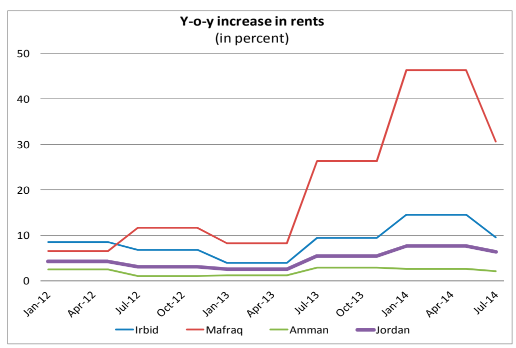




Sources: Jordanian authorities; and IMF staff calculations.

What has happened to core inflation? The increase in core inflation has accelerated in recent months and is broad-based.[1] In annualized, seasonally-adjusted terms, core inflation amounted to 5.5 percent during March to August. While rents were initially the main driver, more recently there was a sharp increase in clothing/footwear prices and, to a lesser degree, a rebound in the prices of other core products and services.





Sources: Jordanian authorities; and IMF staff calculations.

What could have caused the increase in core inflation?

Excluding rents and clothing/footwear, core inflation stood at 3.3 percent y-o-y in August 2014.

- The increase partly reflects additional demand from Syrian refugees. Rents, in particular, increased sharply in the Northern governorates. For instance, rents in the Mafraq governorate (which borders Syria and hosts about one quarter of the Syrian refugees in Jordan) have increased by 77 percent from early 2012 to July 2014, compared to 6 percent in Amman. Demand by Syrian refugees also appears to explain the higher increase in clothing/footwear prices in Mafraq compared to other governorates.
- The increase in clothing/footware prices reflects the gradual pass-through to consumers of an increase in taxes implemented in the summer of 2013.

[1] Core inflation estimates are limited to exclusion-based measures (e.g., inflation excluding food, fuel, and transportation prices) because of data limitations.

Box 3. Jordan: Risk Assessment Matrix[1]

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	
Spillover from prolonged civil war and the humanitarian crisis in Syria.	***High*** Although the influx of registered Syrian refugees has decelerated, there are already over 600 thousand registered refugees in Jordan. The authorities estimate that the total number is substantially higher.	***Medium*** Further escalation of the Syrian conflict could result in lower growth. Also, a greater number of refugees could put further pressure on the fiscal and external accounts, labor markets, as well as on the quality of public services.	(1) Seeking grants from donors to ensure that the refugees are appropriately cared for, including through complementary central government assistance; and (2) Implementing a strong medium-term program to instill confidence and ease fiscal pressures.
Less natural gas from Egypt	***High*** Gas inflows stay suspended.	***Medium*** Although the program assumptions on gas flows have been reduced, a complete disruption would result in fiscal and external gaps of about one percent of GDP from 2016 onward.	(1) Implementing announced increases in electricity tariffs; (2) making operational an LNG terminal in Aqaba and pursuing gas contracts from other countries; and (3) higher grants from partners.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Box 3. 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
Spillover from an intensified crisis in Iraq	***Medium*** Tensions in Iraq could escalate, spilling over into Jordan.	***Medium to High*** The baseline scenario already incorporates some impact, which so far is mitigated by exporters seeking alternative destinations. Intensification could undermine investor confidence and result in a sharp increase in oil prices, putting further pressure on the balance of payments. If the crisis leads to an influx of Iraqi refugees, this might imply additional fiscal costs.	(1) Maintaining high reserves; (2) instilling confidence, including through sustaining implementation of a strong medium-term program; and (3) seeking grants from donors to help cover any additional fiscal impact.
Delays in program implementation	***Medium*** This relates to utility-sector reform and the central government.	***Medium to High*** Any delay in consolidation would increase already high financing needs and public debt, and could undermine confidence.	(1) Gradually implementing measures with interim milestones; (2) longer-term energy diversification strategy; and (3) continued outreach to build ownership.
		Medium-Term Risks	
An abrupt surge in global financial market volatility	***High*** Prices of risky assets drop abruptly as a trigger prompts investors to reassess underlying risk. The triggers could be many (e.g., market displacement from asynchronous global policy normalization, or geopolitical tensions) and the associated volatility surge prompts globally-active institutions to reduce leverage, maturity transformation, and holdings of risky assets, thus tightening global financial conditions.	***Low to Medium*** An upward pressure on domestic interest rates.	(1) Issuing Eurobonds, covered by donor guarantees; (2) further strengthening the banking supervisory framework to monitor banks' exposures to main risks and further strengthening the macroprudential framework; and (3) developing an early warning framework with TA from the Fund.

Box 3. Jordan: Risk Assessment Matrix (concluded)

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
Protracted period of slower growth in emerging economies	***High*** Trend growth in EMs is generally lower, which could affect growth in particularly in commodity producers and export-intensive advanced economies.	***Low*** Limited exposure to other EMs would mitigate any adverse impact on the current account; second-round effects from a decline in exports, and tourism from the GCC could add to current account pressures, while a lower oil price would reduce the import bill.	(1) Accelerating structural reforms to improve competitiveness; and (2) lengthening maturity profile of debt.
Sustained decline in energy prices	***Medium*** A deceleration of global demand and coming-on-stream of excess capacity in the medium-term could trigger a protracted period of low energy prices.	***Low*** Jordan remains highly dependent on energy imports and might benefit from lower oil prices. But there may be a slowdown in tourism and grants from the GCC. Traditional exports could suffer if the decline in oil prices is accompanied by a decline in commodity prices.	(1) Diversifying the export base away from traditional exports; and (2) further expanding exports markets beyond the GCC.
Renewed pressure on foreign exchange reserves	***Medium*** The reserve level could drop in case of a weakening of confidence and deposit dollarization.	***Low to Medium*** While banks' net open positions are small, and lending in foreign exchange to unhedged borrowers is prohibited, uncertainty could result in capital outflows.	(1) Appropriate monetary policy in the near term to maintain reserves; and (2) a strong medium-term program with broad national buy-in to instill confidence.

Box 4. Amendments to the Income Tax Law

This box describes the main features of the income tax law currently discussed at parliament.

Corporate Income Tax (CIT)—Revenue effect of 0.4 percent of GDP

- *Tax rates*. Most of the revenue gain comes from an increase in rates. Four rates will apply to different sectors and companies. The highest rate at 35 percent is for banks; and 24 percent for telecommunication, electricity generation and distribution, mining, and insurance companies. All other activities would be taxed at 14 percent on the first JD100,000 of income and 20 percent for any income beyond this threshold. These changes would bring the CIT rates closer to those of the regional peers.
- *Global income*. The law establishes a 10-percent final tax on the net income generated by branches of Jordanian companies abroad.

Personal Income Tax (PIT)—Revenue effect of 0.15 percent of GDP.

- *Allowance*. The basic allowance is reduced from JD 12,000 for individuals and JD 24,000 for families to JD 10,000 and 20,000, respectively. At the same time, the tax allows new deductions of up to JD4,000 for expenses on education and health.
- *Tax rates*. Rates are increasing with a top rate of 20 percent, bringing them closer to those of regional peers.
- *Presumptive tax*. The law re-establishes a presumptive tax for small individual taxpayers businesses with income less than JD 100,000 at a rate of 1–2 percent on sales (the rate is determined by the tax administration).

CIT Rates in Selected Middle East and North Africa Countries (In percent)

Country	Standard	Others
Afghanistan, I.R. of	20	
Algeria	19	25
Egypt	25	40
Iran, I.R. of	25	23
Iraq	15	
Israel	25	
Jordan	14	24; 30
Jordan New Law	14; 20	24; 35
Kuwait	15	
Lebanon	15	
Morocco	30	37; 10
Oman	12	
Pakistan	35	
Qatar	10	
Saudi Arabia	20	
Syrian Arab Republic	28	25
Tunisia	25	35
United Arab Emirates	20	
Yemen, Republic of	20	50
Average withouth Jordan	21.1	

Jordan-PIT Nominal Rates

Current Law		New law	
Percent	Bracket in JD	Percent	Bracket in JD
7	0 -12,000	7	0 -10,000
14	more than 12,000	15	10,000.1 to 20,000
		20	more than 20,000

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2012–19

			Prog.	Projections					
	2012	2013	2014	2014	2015	2016	2017	2018	2019
Output and prices			(Percentage change, unless otherwise indicated)						
Real GDP at market prices	2.7	2.8	3.5	3.3	4.0	4.5	4.5	4.5	4.5
GDP deflator at market prices	4.5	5.6	4.3	4.5	3.6	3.2	2.9	2.6	2.5
Nominal GDP at market prices	7.3	8.6	8.0	7.9	7.7	7.8	7.5	7.2	7.1
Nominal GDP at market prices (JD millions)	21,965	23,852	25,914	25,747	27,741	29,917	32,155	34,475	36,927
Nominal GDP at market prices ($ millions)	30,981	33,641	36,550	36,315	39,128	42,197	45,352	48,625	52,084
Consumer price index (annual average)	4.6	5.6	3.0	3.0	2.4	2.4	2.2	2.1	2.0
Consumer price index (end of period)	6.5	3.3	2.5	2.9	2.5	2.3	2.1	2.0	2.0
Unemployment rate (period average, percent)	12.2	12.6	...	...	...	...	...	...	...
National accounts 1/			(In percent of GDP, unless otherwise indicated)						
Consumption 2/	107.6	109.4	88.3	105.7	101.5	97.4	95.8	93.5	91.7
Government	16.3	15.4	16.5	15.6	15.1	14.8	14.5	14.5	14.5
Other	91.3	94.0	71.8	90.2	86.5	82.6	81.2	79.0	77.2
Gross domestic investment	21.7	20.8	21.7	22.1	21.7	21.7	21.6	21.7	21.7
Government	3.1	4.3	5.0	5.1	5.0	5.0	5.0	5.0	5.0
Other	18.7	16.6	16.6	17.1	16.7	16.7	16.6	16.7	16.7
Gross national savings	6.5	10.6	11.7	14.9	13.6	17.6	17.9	17.9	19.3
Government	-5.8	-6.9	-5.3	-4.0	-1.8	1.8	3.3	4.0	3.8
Other	12.3	17.4	16.9	18.9	15.4	15.7	14.6	13.9	15.4
Savings-investment balance	-15.2	-10.3	-10.0	-7.3	-8.1	-4.1	-3.8	-3.8	-2.5
Government	-8.9	-11.1	-10.3	-9.1	-6.8	-3.2	-1.7	-1.0	-1.2
Other	-6.3	0.9	0.3	1.8	-1.3	-0.9	-2.0	-2.8	-1.3
Fiscal operations									
Revenue and grants	23.0	24.1	28.3	29.9	27.9	28.0	28.1	27.1	27.0
Of which: grants	1.5	2.7	5.3	7.0	4.2	4.0	4.1	3.0	2.9
Expenditure 3/	31.9	35.3	38.6	39.0	34.7	32.2	31.0	29.8	29.8
Additional measures needed	...	...	0.0	0.0	0.0	1.0	1.1	1.6	1.6
Overall fiscal balance after measures	-8.9	-11.1	-10.3	-9.1	-6.8	-3.2	-1.7	-1.0	-1.2
Primary government balance, excl. grants, NEPCO, and WAJ	-7.4	-4.7	-4.5	-4.5	-2.9	-1.4	-1.0	-0.5	-0.5
NEPCO loss	-5.3	-4.6	-3.8	-4.5	-3.5	-1.9	-1.1	0.0	0.0
Combined public sector deficit 4/	-12.7	-9.4	-8.3	-9.0	-6.5	-3.3	-2.1	-0.5	-0.5
Government and government-guaranteed gross debt 5/	80.2	86.4	90.0	89.3	90.4	88.1	84.5	80.6	77.2
Of which: external debt	22.5	26.6	30.0	30.6	31.3	29.8	28.5	27.3	26.3
External sector									
Current account balance (including grants), of which:	-15.2	-10.3	-10.0	-7.3	-8.1	-4.1	-3.8	-3.8	-2.5
Exports of goods, f.o.b. ($ billions)	7.9	7.9	8.5	8.5	8.8	9.1	9.5	9.9	10.3
Imports of goods, f.o.b. ($ billions)	18.5	19.6	19.7	20.3	20.0	19.7	20.2	20.5	21.0
Oil and oil products ($ billions)	5.9	5.2	5.3	5.7	5.2	4.5	4.6	4.4	4.1
Current account balance (excluding grants)	-20.0	-17.1	-14.2	-13.6	-11.4	-8.9	-8.8	-8.0	-6.6
Private capital inflows (net)	5.0	5.8	5.9	4.8	4.8	5.3	5.3	5.3	5.3
Monetary sector				(Percentage change)					
Broad money	3.4	9.7	11.1	8.0	9.2	...	...	...	...
Net foreign assets	-28.9	5.7	15.1	24.2	5.3	...	...	...	...
Net domestic assets	24.0	11.2	9.6	2.4	10.9	...	...	...	...
Credit to private sector	6.9	8.0	8.6	7.2	8.7	...	...	...	...
Credit to central government	22.6	15.4	19.7	7.7	11.3	...	...	...	...
Memorandum items:									
Gross usable international reserves ($ millions)	5,299	11,449	12,695	14,028	14,081	15,086	16,320	17,605	19,532
In months of prospective imports	2.4	5.0	5.8	6.2	6.4	6.6	7.1	7.5	8.1
In percent of reserve adequacy metric	63.9	122.2	136.5	138.7	129.5	136.1	139.2	141.7	144.5
Net international reserves ($ millions)	5,381	10,968	11,699	13,160	12,617	13,911	15,678	17,490	19,869
Population (in millions)	6.40	6.54	6.69	6.69	6.85	7.01	7.17	7.33	7.50
Nominal per capita GDP ($)	4,843	5,141	5,460	5,425	5,714	6,024	6,329	6,633	6,946
Real effective exchange rate (end of period, 2005=100)	108.7	111.4	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	1.6	2.5	...	...	...	...	...	...	...

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

1/ Government does not include NEPCO and WAJ but includes transfers to NEPCO and WAJ, until they are discontinued in 2015 and 2018, respectively.

2/ The corrected consumption estimates reflect actual Department of Statistics data for 2006-11.

3/ Includes net lending, transfers to NEPCO and 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, 2013–19
(In millions of Jordanian dinars)

	Act.	Prog.	Projections					
	2013	2014	2014	2015	2016	2017	2018	2019
Total revenue and grants	5,758	7,332	7,708	7,745	8,389	9,048	9,345	9,956
Domestic revenue	5,118	5,946	5,901	6,593	7,207	7,746	8,305	8,896
Tax revenue, *of which* :	3,653	4,132	4,194	4,705	5,171	5,558	5,959	6,383
Taxes on income and profits	682	739	740	880	1,046	1,124	1,205	1,291
General sales tax	2,533	2,867	2,929	3,090	3,332	3,581	3,840	4,113
Taxes on foreign trade	325	352	352	380	409	440	472	505
Other taxes	113	173	173	356	384	413	442	474
Nontax revenue	1,465	1,814	1,707	1,888	2,036	2,188	2,346	2,513
Grants	640	1,385	1,807	1,152	1,182	1,302	1,040	1,060
of which: unidentified	...	...	0	0	291	343	0	0
Total expenditures, net lending, other use of cash	8,429	9,998	10,031	9,619	9,630	9,978	10,265	10,994
Current expenditure	6,050	6,830	6,723	7,046	7,559	8,028	8,541	9,148
Wages and salaries	1,267	1,370	1,370	1,404	1,439	1,475	1,582	1,694
Interest payments	737	1,023	970	1,023	1,139	1,198	1,219	1,305
Domestic	635	861	804	814	922	961	942	972
External	102	162	166	208	217	238	278	333
Military expenditure	1,779	1,909	1,909	2,004	2,162	2,323	2,491	2,668
Fuel subsidies	0	0	0	0	0	0	0	0
Food subsidy	255	273	273	232	250	268	288	308
Transfers, *of which* :	1,743	1,922	1,869	2,025	2,184	2,347	2,516	2,695
Pensions	1,047	1,115	1,115	1,201	1,296	1,392	1,493	1,599
Targeted payments for energy	193	210	154	180	194	209	224	240
Transfer to health fund	118	281	284	306	330	354	380	407
Other transfers	385	316	316	337	364	391	419	449
Purchases of goods & services	270	332	332	358	386	415	445	477
Capital expenditure	1,015	1,305	1,305	1,387	1,496	1,608	1,724	1,846
Net lending	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,221	1,864	1,963	1,187	575	343	0	0
Transfer to WAJ 1/	203	0	40	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	-61	0	0	0	0	0	0	0
Total balance from above the line	-2,671	-2,667	-2,323	-1,874	-1,240	-930	-920	-1,038
Statistical discrepancy, net	18	0	-9	0	0	0	0	0
Overall balance without additional measures	-2,653	-2,667	-2,332	-1,874	-1,240	-930	-920	-1,038
Additional measures needed	0	0	0	0	296	369	568	609
Overall balance after all measures	-2,653	-2,667	-2,332	-1,874	-944	-560	-352	-429
Financing	2,653	2,667	2,332	1,874	944	560	352	429
Foreign financing (net)	749	572	866	221	270	447	448	400
Domestic financing (net)	1,905	2,095	1,289	1,654	673	114	-96	29
CBJ on-lending of net IMF financing	457	366	274	423	-206	-377	-374	-320
Other domestic bank financing	742	1,407	414	676	430	169	105	165
Domestic nonbank financing	648	322	600	555	449	322	172	185
Privatization proceeds	0	0	177	0	0	0	0	0
Memorandum items:								
NEPCO loss	-1,100	-995	-1,159	-980	-575	-343	0	0
Primary government deficit excluding grants	-2,556	-3,029	-3,168	-2,004	-987	-664	-172	-185
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-1,132	-1,165	-1,165	-817	-413	-322	-172	-185
Combined public deficit (PC)	-2,232	-2,160	-2,324	-1,797	-987	-664	-172	-185
Government and guaranteed gross debt	20,603	23,329	22,985	25,069	26,345	27,155	27,775	28,491
Of which: External	6,348	7,686	7,888	8,685	8,914	9,161	9,425	9,708
Government and guaranteed net debt	18,916	22,299	21,955	24,039	25,315	26,125	26,745	27,461
GDP at market prices	23,852	25,914	25,747	27,741	29,917	32,155	34,475	36,927

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

1/ For 2013–14, transfers to NEPCO and WAJ include government repayment of guaranteed debt. In 2015, only transfers to NEPCO include government repayment of guaranteed debt. From 2016 onwards, the program assumes the utilities will repay their own debt.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2013–19

(In percent of GDP)

	Act.	Prog.	Projections					
	2013	2014	2014	2015	2016	2017	2018	2019
Total revenue and grants	24.1	28.3	29.9	27.9	28.0	28.1	27.1	27.0
Domestic revenue	21.5	22.9	22.9	23.8	24.1	24.1	24.1	24.1
Tax revenue, *of which* :	15.3	15.9	16.3	17.0	17.3	17.3	17.3	17.3
Taxes on income and profits	2.9	2.9	2.9	3.2	3.5	3.5	3.5	3.5
General sales tax	10.6	11.1	11.4	11.1	11.1	11.1	11.1	11.1
Taxes on foreign trade	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other taxes	0.5	0.7	0.7	1.3	1.3	1.3	1.3	1.3
Nontax revenue	6.1	7.0	6.6	6.8	6.8	6.8	6.8	6.8
Grants	2.7	5.3	7.0	4.2	4.0	4.1	3.0	2.9
of which: unidentified	...	...	0.0	0.0	1.0	1.1	0.0	0.0
Total expenditures, net lending, other use of cash	35.3	38.6	39.0	34.7	32.2	31.0	29.8	29.8
Current expenditure	25.4	26.4	26.1	25.4	25.3	25.0	24.8	24.8
Wages and salaries	5.3	5.3	5.3	5.1	4.8	4.6	4.6	4.6
Interest payments	3.1	3.9	3.8	3.7	3.8	3.7	3.5	3.5
Domestic	2.7	3.3	3.1	2.9	3.1	3.0	2.7	2.6
External	0.4	0.6	0.6	0.8	0.7	0.7	0.8	0.9
Military expenditure	7.5	7.4	7.4	7.2	7.2	7.2	7.2	7.2
Fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	1.1	1.1	1.1	0.8	0.8	0.8	0.8	0.8
Transfers, *of which* :	7.3	7.4	7.3	7.3	7.3	7.3	7.3	7.3
Pensions	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Targeted payments for energy	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Transfer to health fund	0.5	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other transfers	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Purchases of goods & services	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Capital expenditure	4.3	5.0	5.1	5.0	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/	5.1	7.2	7.6	4.3	1.9	1.1	0.0	0.0
Transfer to WAJ 1/	0.9	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Adjustment on other receivables and payables (use of cash)	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-11.2	-10.3	-9.0	-6.8	-4.1	-2.9	-2.7	-2.8
Statistical discrepancy, net	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without additional measures	-11.1	-10.3	-9.1	-6.8	-4.1	-2.9	-2.7	-2.8
Additional measures needed	0.0	0.0	0.0	0.0	1.0	1.1	1.6	1.6
Overall balance after all measures	-11.1	-10.3	-9.1	-6.8	-3.2	-1.7	-1.0	-1.2
Financing	11.1	10.3	9.1	6.8	3.2	1.7	1.0	1.2
Foreign financing (net)	3.1	2.2	3.4	0.8	0.9	1.4	1.3	1.1
Domestic financing (net)	8.0	8.1	5.0	6.0	2.3	0.4	-0.3	0.1
CBJ on-lending of net IMF financing	1.9	1.4	1.1	1.5	-0.7	-1.2	-1.1	-0.9
Other domestic bank financing	3.1	5.4	1.6	2.4	1.4	0.5	0.3	0.4
Domestic nonbank financing	2.7	1.2	2.3	2.0	1.5	1.0	0.5	0.5
Privatization proceeds	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
NEPCO loss	-4.6	-3.8	-4.5	-3.5	-1.9	-1.1	0.0	0.0
Primary government deficit excluding grants	-10.7	-11.7	-12.3	-7.2	-3.3	-2.1	-0.5	-0.5
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-4.7	-4.5	-4.5	-2.9	-1.4	-1.0	-0.5	-0.5
Combined public deficit (PC)	-9.4	-8.3	-9.0	-6.5	-3.3	-2.1	-0.5	-0.5
Government and guaranteed gross debt	86.4	90.0	89.3	90.4	88.1	84.5	80.6	77.2
Of which: External	26.6	29.7	30.6	31.3	29.8	28.5	27.3	26.3
Government and guaranteed net debt	79.3	86.1	85.3	86.7	84.6	81.2	77.6	74.4
GDP at market prices (JD millions)	23,852	25,914	25,747	27,741	29,917	32,155	34,475	36,927

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

1/ For 2013–14, transfers to NEPCO and WAJ include government repayment of guaranteed debt. In 2015, only transfers to NEPCO include government repayment of guaranteed debt. From 2016 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					
	Q1 Prog.	Q1 Act.	Q2 Prog.	Q2 Act.	Q3 Proj.	Q4 Proj.	Annual Proj.	Q1 Proj.	May Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	1,585	1,453	1,980	1,664	1,766	2,825	7,708	1,489	1,341	2,029	1,850	2,377	7,745
Domestic revenue	1,313	1,250	1,752	1,575	1,413	1,663	5,901	1,393	1,341	1,836	1,560	1,804	6,593
Tax revenue, *of which* :	888	937	1,208	1,111	1,015	1,130	4,194	964	936	1,267	1,181	1,294	4,705
Taxes on income and profits	175	185	336	328	152	74	740	189	333	362	206	124	880
General sales tax	598	637	737	670	714	908	2,929	647	482	760	743	939	3,090
Taxes on foreign trade	82	84	90	80	95	93	352	88	61	97	98	97	380
Other taxes	34	32	46	34	53	54	173	41	60	48	133	134	356
Nontax revenue	425	313	544	464	398	533	1,707	429	405	569	380	510	1,888
Grants	271	203	228	89	353	1,162	1,807	96	0	193	290	573	1,152
of which: unidentified	...	...	...	...	0	0	0	0	0	0	0	0	0
Total expenditures, net lending, other use of cash	2,424	2,296	2,424	2,336	2,525	2,874	10,031	2,069	1,799	2,551	2,305	2,694	9,619
Current expenditure	1,667	1,576	1,728	1,685	1,680	1,782	6,723	1,679	1,303	1,840	1,699	1,827	7,046
Wages and salaries	343	325	343	332	357	357	1,370	333	258	357	352	362	1,404
Interest payments	205	211	260	242	231	286	970	195	184	261	251	316	1,023
Domestic	177	176	202	198	198	231	804	168	133	191	210	246	814
External	27	35	58	44	32	55	166	27	51	70	41	70	208
Military expenditure	477	472	477	487	460	491	1,909	508	376	524	469	503	2,004
Fuel subsidies	0	0	0	0	0	0	0	0	0	0	0	0	0
Food subsidy	68	52	68	77	72	72	273	64	66	80	42	46	232
Transfers, *of which* :	491	451	497	459	479	479	1,869	518	345	518	495	495	2,025
Pensions	272	273	278	278	278	286	1,115	293	199	299	301	309	1,201
Targeted payments for energy	70	54	70	23	0	77	154	57	56	57	33	33	180
Transfer to health fund	70	40	70	62	77	104	284	76	51	76	76	76	306
Other transfers	79	83	79	97	124	12	316	92	39	85	84	76	337
Purchases of goods & services	83	66	83	87	82	96	332	61	73	101	90	105	358
Capital expenditure	280	169	320	219	278	639	1,305	159	294	407	355	466	1,387
Net lending	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	477	490	376	440	574	460	1,963	231	203	304	251	400	1,187
Transfer to WAJ 1/	0	8	0	32	0	0	40	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	0	53	0	-40	-7	-7	0	0	0	0	0	0	0
Total balance from above the line	-839	-843	-444	-672	-760	-48	-2,323	-580	-459	-522	-454	-317	-1,874
Statistical discrepancy, net	0	-8	0	-1	0	0	-9	0	0	0	0	0	0
Overall balance without additional measures	-839	-851	-444	-673	-760	-48	-2,332	-580	-459	-522	-454	-317	-1,874
Additional measures needed	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance after all measures	-839	-851	-444	-673	-760	-48	-2,332	-580	-459	-522	-454	-317	-1,874
Financing	839	851	444	673	760	48	2,332	580	459	522	454	317	1,874
Foreign financing (net)	13	187	185	994	-205	-110	866	-91	294	441	268	-397	221
Domestic financing (net)	826	664	260	-499	965	158	1,289	671	165	82	186	714	1,654
CBJ on-lending of net IMF financing	0	0	183	183	0	91	274	0	0	152	305	-34	423
Other domestic bank financing	746	370	-4	-950	946	48	414	533	73	-209	-257	610	676
Domestic nonbank financing	80	295	80	268	19	19	600	139	92	139	139	139	555
Privatization proceeds	0	0	0	177	0	0	177	0	0	0	0	0	0
Memorandum items:													
Accounts payable (IT)	534	519	534	573	547	521	521	521	521	521	521	521	521
NEPCO loss	365	315	236	279	316	249	1,159	231	...	254	251	244	980
Primary government deficit excluding grants	906	843	412	519	882	924	3,168	482	275	455	493	574	2,004
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	429	345	36	47	308	465	1,165	250	73	151	242	174	817
Combined public deficit (PC)	794	659	272	327	624	714	2,324	482	...	405	493	418	1,797

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

1/ In 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt. In 2015, only transfers to NEPCO include government repayment of guaranteed debt.

Table 2d. Jordan: NEPCO Operating Balance and Financing, 2012–17

	2012 Jan-Dec Act.	2013 Jan-Dec Est.	2014 Q1 Act.	2014 Q2 Act.	2014 Q3 Proj.	2014 Q4 Proj.	2014 Jan-Dec Prog.	2014 Jan-Dec Proj.	2015 Q1 Proj.	2015 Q2 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
	(In millions of Jordanian dinars)												
Electricity sales	1,042	1,167	342	333	409	360	1,443	1,443	401	403	1,659	1,911	2,206
Expenses	2,201	2,267	656	612	724	609	2,438	2,602	632	657	2,640	2,485	2,549
Purchase of electricity	2,063	2,099	619	574	686	571	2,265	2,451	603	606	2,497	2,326	2,427
Depreciation	29	29	7	7	7	7	35	26	7	7	31	42	44
Interest payments 1/	75	109	27	27	27	27	107	108	16	38	89	81	39
Other expenses	34	30	3	4	4	4	31	16	6	6	23	36	39
Operating balance (QPC)	(1,159)	(1,100)	(315)	(279)	(316)	(249)	(995)	(1,159)	(231)	(254)	(980)	(575)	(343)
Total net domestic financing	1,159	1,100	315	279	316	249	995	1,159	231	254	980	575	343
Banks	1,143	(148)	(104)	(152)	(258)	(565)	(873)	(1,079)	0	0	0	0	0
Loans and bonds	1,175	(151)	(85)	(106)	(258)	(565)	(873)	(1,014)	0	0	0	0	0
Overdrafts	(31)	3	(19)	(46)	0	0	0	(65)	0	0	0	0	0
IsDB loan	0	228	0	0	0	354	354	354	0	0	0	0	0
Other items 2/	(61)	(249)	(71)	(9)	0	0	(0)	(80)	0	(50)	0	0	0
Increase in payables 3/	77	1,269	373	496	349	460	1,514	1,677	231	304	980	575	343
Direct transfer from central government	67	1,221	490	440	574	460	1,864	1,963	231	304	1,187	575	343
To cover losses and repay arrears	0	950	440	390	316	249	995	1,395	231	254	980	575	343
To repay loans 4/	67	271	50	50	258	211	869	569	0	50	207	0	0
Payables to the private sector	…	48	(117)	56	(225)	0	(350)	(286)	0	0	0	0	0
Of which: Increase in arrears	46	(95)	(181)	56	(225)	0	(350)	(350)	0	0	0	0	0
Memorandum items (stocks, end-of-period):													
Outstanding loans and bonds	1,934	1,897	1,812	1,717	1,459	894	1,024	894	894	894	894	894	894
Overdrafts	49	52	33	(14)	(14)	(14)	52	(14)	(14)	(14)	(14)	(14)	(14)
Total payables	765	2,033	2,406	2,902	3,251	3,710	3,547	3,710	3,941	4,245	4,690	5,265	5,608
to government 3/	67	1,288	1,778	2,218	2,792	3,251	3,152	3,251	3,482	3,786	4,231	4,806	5,149
to private sector	698	745	628	684	459	459	395	459	459	459	459	459	459
of which: arrears (IT)	445	350	169	225	0	0	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 the government to NEPCO, whose status has not been agreed yet; they are excluded from the computation of the stock of arrears.

4/ The significant downward revision compared to the program reflects the latest agreements between the central government and NEPCO on the loan repayment schedule.

Table 3. Jordan: Summary Balance of Payments, 2012–19
(In millions of U.S. dollars, unless otherwise noted)

	2012	2013	2014		2015	2016	2017	2018	2019
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	(4,718)	(3,452)	(3,650)	(2,643)	(3,168)	(1,730)	(1,716)	(1,867)	(1,296)
Trade balance	(10,559)	(11,664)	(11,222)	(11,864)	(11,224)	(10,598)	(10,772)	(10,620)	(10,627)
Exports f.o.b.	7,898	7,924	8,516	8,478	8,798	9,091	9,462	9,884	10,325
Imports f.o.b.	18,457	19,588	19,738	20,342	20,022	19,689	20,233	20,504	20,952
Energy	5,891	5,192	5,255	5,672	5,241	4,519	4,608	4,377	4,108
Non-energy	12,566	14,396	14,484	14,670	14,781	15,170	15,625	16,127	16,844
Services and income	1,490	1,424	1,590	2,007	2,066	2,484	2,768	3,084	3,373
Of which : travel	4,067	4,123	4,328	4,473	4,820	5,198	5,586	5,990	6,416
Current transfers	4,351	6,789	5,981	7,214	5,991	6,384	6,288	5,669	5,957
Of which : public	1,478	2,285	1,537	2,306	1,284	2,044	2,296	2,011	2,130
Of which : remittances	3,145	3,283	3,417	3,420	3,596	3,760	3,944	4,143	4,345
Capital account	2,098	4,312	4,296	4,186	3,113	3,612	4,118	4,371	4,569
Public sector	159	1,715	1,507	1,785	527	614	880	900	851
Direct foreign investment	1,494	1,785	1,941	1,700	1,832	2,173	2,335	2,504	2,682
Portfolio flows	53	159	198	50	54	70	90	96	103
Other capital flows	392	653	650	651	701	756	813	871	933
Errors and omissions	(554)	778	150	279	0	0	0	0	0
Overall balance	(3,174)	1,638	796	1,822	(55)	1,882	2,402	2,504	3,273
Financing	3,174	(1,638)	(796)	(1,822)	55	(1,882)	(2,402)	(2,504)	(3,273)
Reserves	3,359	(5,231)	(968)	(2,008)	(33)	(1,116)	(1,356)	(1,417)	(2,098)
Commercial banks' NFA	(564)	2,948	(344)	(202)	(509)	(476)	(514)	(561)	(724)
IMF (net)	379	645	516	387	597	(290)	(532)	(527)	(452)
Gross reserves	8,765	13,996	14,964	16,004	16,037	17,153	18,508	19,925	22,023
Gross usable reserves 1/	5,299	11,449	12,695	14,028	14,081	15,086	16,320	17,605	19,532
In percent of RAM	63.9	122.2	136.5	138.7	129.5	136.1	139.2	141.7	144.5
Memorandum items:									
Current account (% of GDP)	(15.2)	(10.3)	(10.0)	(7.3)	(8.1)	(4.1)	(3.8)	(3.8)	(2.5)
Energy imports	19.0	15.4	14.4	15.6	13.4	10.7	10.2	9.0	7.9
Public transfers	4.8	6.8	4.2	6.4	3.3	4.8	5.1	4.1	4.1
Export growth (percent)	(1.5)	0.3	7.5	7.0	3.8	3.3	4.1	4.5	4.5
Import growth (percent)	9.5	6.1	1.7	3.8	(1.6)	(1.7)	2.8	1.3	2.2
Energy (percent)	19.7	(11.9)	1.2	9.3	(7.6)	(13.8)	2.0	(5.0)	(6.2)
Non-energy (percent)	5.4	14.6	1.9	1.9	0.8	2.6	3.0	3.2	4.4
Remittances growth (percent)	3.6	4.4	4.1	4.2	5.2	4.6	4.9	5.0	4.9
Oil price ($ per barrel)	105.0	104.1	103.8	102.8	99.4	97.3	95.4	94.2	93.2
GDP	30,981	33,641	36,550	36,315	39,128	42,197	45,352	48,625	52,084

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, 2012–15

	2012	2013	2014						2015			
	Act.	Act.	3rd/4th Rev.	Projections					Projections			
			Annual	Annual	Q1 (Act.)	Q2 (Act.)	Q3	Q4	Annual	Q1	May	Q2
	(Stocks, in millions of Jordanian dinars)											
Net foreign assets	6,620	7,046	8,109	8,753	7,343	8,329	7,955	8,753	9,219	8,398	8,736	8,904
Central Bank	6,094	8,610	9,430	10,174	9,107	10,105	9,553	10,174	10,279	9,729	10,006	10,145
Commercial Banks	526	-1,564	-1,320	-1,421	-1,764	-1,776	-1,599	-1,421	-1,060	-1,331	-1,271	-1,240
Net domestic assets	18,306	20,297	22,255	20,790	20,591	20,439	21,496	20,790	23,055	21,800	22,167	22,351
Net claims on general government	9,930	10,946	12,190	10,866	11,190	10,359	11,176	10,866	12,165	11,434	11,641	11,432
Net claims on central budgetary government 1/	7,805	9,005	10,778	9,693	9,374	8,608	9,554	9,693	10,792	10,211	10,385	10,159
Net claims on NEPCO	1,478	1,443	570	375	1,339	1,198	940	375	375	375	375	375
Net claims on other own budget agencies 2/	179	47	391	347	23	81	210	347	547	397	430	447
Claims on other public entities	468	451	451	451	454	472	472	451	451	451	451	451
Claims on financial institutions	200	159	159	159	154	158	158	159	159	159	159	159
Claims on the private sector	15,954	17,223	18,707	18,466	17,341	17,680	18,219	18,466	20,072	18,706	18,742	19,072
Other items (net)	-7,778	-8,030	-8,801	-8,702	-8,094	-7,758	-8,057	-8,702	-9,341	-8,499	-8,375	-8,313
Broad money	24,926	27,343	30,364	29,543	27,934	28,768	29,450	29,543	32,274	30,199	30,903	31,255
Currency in circulation	3,215	3,607	4,005	3,897	3,683	3,777	3,867	3,897	4,257	3,983	4,076	4,123
Jordanian dinar deposits	16,332	19,119	21,694	21,287	19,648	20,422	21,009	21,287	23,310	21,837	22,347	22,601
Foreign currency deposits	5,379	4,617	4,666	4,360	4,603	4,569	4,575	4,360	4,707	4,378	4,480	4,531
	(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)											
Net foreign assets	-2,750	425	1,064	1,708	297	986	-374	799	466	-355	...	506
Net domestic assets	3,577	1,991	1,958	493	294	-152	1,057	-706	2,265	1,010	...	550
Net claims on general government	2,760	1,016	1,244	-80	244	-831	817	-310	1,299	567	...	-2
Net claims on Central Budgetary Government	1,439	1,199	1,773	689	370	-767	946	139	1,099	517	...	-52
Net claims on NEPCO	1,143	-34	-873	-1,068	-104	-141	-258	-565	0	0	...	0
Net claims on other own budget agencies	178	-132	344	300	-24	58	129	137		50	...	50
Claims on financial institutions	2	-41	0	0	-6	4	0	2	0	0	...	0
Claims on the private sector	1,029	1,269	1,484	1,244	119	339	539	248	1,605	0	...	366
Other items (net)	-182	-253	-771	-671	-64	337	-299	-645	-639	240	...	186
Broad money	828	2,417	3,022	2,201	591	834	683	93	2,731	655	...	1,056
Currency in circulation	196	392	399	290	76	94	90	30	360	86	...	139
Jordanian dinar deposits	-1,240	2,788	2,574	2,167	528	774	587	278	2,024	551	...	764
Foreign currency deposits	1,872	-763	49	-257	-14	-35	6	-215	347	18	...	153
Memorandum items:												
Annual broad money growth (percent)	3.4	9.7	11.1	8.0	9.7	9.7	7.5	8.0	9.2	8.1	8.5	8.6
Annual private sector credit growth (percent)	6.9	8.0	8.6	7.2	6.8	6.2	6.4	7.2	8.7	7.9	7.9	7.9
Foreign currency/total deposits (percent)	24.8	19.5	17.7	17.0	19.0	18.3	17.9	17.0	16.8	16.7	16.7	16.7
Currency/JD deposits (percent)	19.7	18.9	18.5	18.3	18.7	18.5	18.4	18.3	18.3	18.2	18.2	18.2

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, 2012–15

	2012	2013	2014						2015			
	Act.	Act.	3rd/4th Rev.	Projections					Projections			
			Annual	Annual	Q1 (Act.)	Q2 (Act.)	Q3	Q4	Annual	Q1	May	Q2
	(Stocks, in millions of Jordanian dinars)											
Net foreign assets	6,094	8,610	9,430	10,174	9,107	10,105	9,553	10,174	10,279	9,729	10,006	10,145
Foreign assets	6,981	10,690	11,376	12,114	11,141	12,344	11,848	12,114	12,137	11,572	11,976	12,178
of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767
of which: encumbered due to forwards or swaps	1,089	598	343	160	375	217	161	160	60	140	113	100
Foreign liabilities	887	2,080	1,947	1,939	2,034	2,239	2,294	1,939	1,858	1,843	1,970	2,033
of which : Net Fund Position	274	732	1,098	1,006	732	915	915	1,006	1,429	1,006	1,108	1,159
of which: GCC grants-related	505	1,241	741	825	1,194	1,216	1,272	825	320	728	754	766
Net domestic assets	-865	-2,657	-2,870	-3,578	-2,574	-3,093	-2,499	-3,578	-3,059	-2,966	-3,086	-3,145
Net claims on central budgetary government 1/	1,594	1,313	1,472	1,301	1,563	1,112	1,134	1,301	1,704	1,281	1,382	1,433
of which: outright purchases of gov. securities		406	200	120	267	141	130	120	100	100	100	100
Net claims on own budget agencies	-27	-69	-69	-69	-70	-51	-51	-69	-69	-69	-69	-69
Net claims on other public entities	-15	-13	-13	-13	-4	-7	-7	-13	-13	-13	-13	-13
Net claims on financial institutions	78	69	69	69	67	68	68	69	69	69	69	69
Net claims on private sector	20	21	21	21	21	22	22	21	21	21	21	21
Net claims on commercial banks	-1,343	-3,471	-3,843	-4,093	-3,434	-3,417	-2,838	-4,093	-3,976	-3,461	-3,681	-3,792
of which: FX deposits of commercial banks	871	708	766	742	692	675	675	742	827	827	827	827
CDs	-231	-231	-231	-231	-231	-259	-259	-231	-231	-231	-231	-231
Other items, net (asset: +)	-942	-276	-276	-563	-487	-561	-568	-563	-563	-563	-563	-563
of which: repos		400	400	100	200	100	100	100	100	100	100	100
Jordanian dinar reserve money	5,229	5,952	6,559	6,596	6,533	7,012	7,055	6,596	7,220	6,763	6,921	6,999
Currency	3,558	3,938	4,337	4,228	4,019	4,153	4,243	4,228	4,589	4,315	4,408	4,454
Commercial bank reserves	1,671	2,014	2,223	2,368	2,514	2,859	2,812	2,368	2,632	2,448	2,513	2,545
Of which : required reserves	1,106	1,271	1,443	1,416	1,330	1,379	1,419	1,416	1,550	1,452	1,486	1,503
	(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)											
Net foreign assets	-3,154	2,515	820	1,565	497	998	-552	621	-138	-445	...	416
Foreign assets	-2,382	3,709	686	1,424	450	1,204	-497	266	23	-542	...	606
Foreign liabilities	772	1,193	-134	-141	-47	205	55	-355	-82	-96	...	190
Net domestic assets	2,898	-1,792	-213	-921	83	-519	594	-1,080	741	612	...	-179
Net claims on central budgetary government	1,144	-282	159	-12	250	-451	22	167	161	-20	...	152
Net claims on commercial banks	1,205	-2,128	-373	-622	37	17	579	-1,254	589	632	...	-331
Other items, net (asset: +)	568	666	0	-287	-211	-75	-7	5	0	0	...	0
Jordanian dinar reserve money	-256	723	607	644	580	479	43	-459	624	167	...	237
Currency	191	380	399	290	81	134	90	-14	360	86	...	139
Commercial banks' reserves	-447	343	208	353	500	345	-47	-444	264	80	...	97
Memorandum items:												
Gross international reserves (GIR)	8,765	13,996	14,964	16,004	14,631	16,329	15,629	16,004	16,037	15,240	15,809	16,094
Gross usable international reserves ($ millions)	5,299	11,449	12,695	14,028	12,390	14,322	13,700	14,028	14,081	13,172	13,779	14,083
As a ratio to JD broad money (in percent)	19.2	35.7	35.0	39.5	37.7	42.0	39.0	39.5	36.2	36.2	37	37.4
As a ratio of JD reserve money (in percent)	71.8	136.4	137.2	150.8	134.5	144.8	137.7	150.8	195.0	138.1	141	142.6
Net international reserves (millions of JD)	3,815	7,776	8,294	9,331	8,466	9,663	9,222	9,331	8,946	8,724	9,053	9,217
Net international reserves (millions of U.S. dollars)	5,381	10,968	11,699	13,160	11,941	13,629	13,008	13,160	12,617	12,304	12,768	13,000
Money multiplier (for JD liquidity)	3.7	3.8	3.9	3.8	3.6	3.5	3.5	3.8	3.8	3.8	3.8	3.8

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, 2005–14

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 June 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	17.5
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1,159	1,315	1,336	1,285	1,282
NPLs (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5	7.7	7.0	6.9
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3	69.4	77.0	76.6
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	5.7
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	143.5	149.1	150.2
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1	1.1	1.2	0.7
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3	8.6	9.9	5.5
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	13.9
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	21.6
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	71.4	68.6	64.8
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	14.7	14.8	14.3
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	3.8
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	74.0

Source: Central Bank of Jordan.
1/ For June 2014, returns on assets and equity are not annualized.

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-December performance criteria, completion of sixth review	142.083	83.3
Seventh Review	May 15, 2015	Observance of end-March performance criteria, completion of seventh review	142.083	83.3
Eighth Review	July 15, 2015	Observance of end-May performance criteria, excluding the one on the combined public deficit, completion of eigth review	142.084	83.3
Total			**1,364.0**	**800.0**

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

Table 7. Jordan: Indicators of Fund Credit, 2013–20

(In millions of SDR)

	2013	2014	2015	2016	2017	2018	2019	2020
Current SBA								
Disbursements	426.3	255.8	426.3	0.0	0.0	0.0	0.0	0.0
Stock 1/	682.0	937.8	1,332.0	1,140.2	788.6	440.5	142.1	0.0
Obligations 2/	4.3	4.4	57.6	220.3	376.6	359.4	301.6	142.7
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	351.7	348.1	298.4	142.1
Charges and interest	4.3	4.4	25.6	28.5	25.0	11.3	3.2	0.6
Stock of existing and prospective Fund credit 1/	682.0	937.8	1,332.0	1,140.2	788.6	440.5	142.1	0.0
In percent of quota	400.0	550.0	781.2	668.8	462.5	258.3	83.3	0.0
In percent of GDP	2.9	3.6	4.8	3.8	2.5	1.3	0.4	0.0
In percent of exports of goods and services	8.6	11.0	15.1	12.5	8.3	4.4	1.4	0.0
In percent of gross reserves	9.0	10.1	14.3	11.4	7.3	3.8	1.2	0.0
Obligations to the Fund from existing and prospective Fund arrangements	4.3	4.4	57.6	220.3	376.6	359.4	301.6	142.7
In percent of quota	2.5	2.6	33.8	129.2	220.9	210.8	176.9	83.7
In percent of GDP	0.0	0.0	0.2	0.7	1.2	1.0	0.8	0.4
In percent of exports of goods and services	0.1	0.1	0.7	2.4	4.0	3.6	2.9	1.3
In percent of gross reserves	0.1	0.0	0.6	2.2	3.5	3.1	2.6	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, 2013–19

	2013	2014	2015	2016	2017	2018	2019
Exposure and Repayments (In millions of SDR)							
GRA credit to Jordan	682.0	937.8	1,332.0	1,140.2	788.6	440.5	142.1
(In percent of quota)	400.0	550.0	781.2	668.8	462.5	258.3	83.3
Debt service on GRA credit	4.3	4.4	57.6	220.3	376.6	359.4	301.6
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	351.7	348.1	298.4
Charges and interest	4.3	4.4	25.6	28.5	25.0	11.3	3.2
Debt and debt service ratios							
(In percent of GDP)							
Total external government and government-guaranteed debt	26.6	30.6	31.3	29.8	28.5	27.3	26.3
Excluding proposed IMF	23.8	27.0	26.5	26.0	26.0	26.1	25.9
GRA credit to Jordan	2.9	3.6	4.8	3.8	2.5	1.3	0.4
Total external government and government-guaranteed debt service	2.1	3.2	4.4	1.6	2.1	2.6	4.7
Excluding proposed IMF	2.1	3.2	4.2	0.9	0.9	1.5	3.9
GRA debt service	0.0	0.0	0.2	0.7	1.2	1.0	0.8
(In percent of exports of goods and services)							
Total external government and government-guaranteed debt	74.3	86.3	91.6	91.0	89.8	88.5	87.2
Excluding proposed IMF	65.8	75.3	76.5	78.5	81.5	84.0	85.9
GRA credit to Jordan	8.6	11.0	15.1	12.5	8.3	4.4	1.4
Total external government and government-guaranteed debt service	5.8	9.1	12.9	5.0	6.6	8.3	15.7
Excluding proposed IMF	5.8	9.1	12.3	2.6	2.7	4.7	12.8
GRA debt service	0.1	0.1	0.7	2.4	4.0	3.6	2.9

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

Annex I. Public Debt Sustainability Analysis

Jordan's public debt remains sustainable. With the fiscal adjustment envisaged under the program ("baseline"), Jordan's public debt is projected to peak at 90 percent of GDP in 2015 and then gradually decline. Gross financing needs are relatively large at around 17 percent of GDP on average in the medium term, reflecting short maturities of domestic debt (less than two years). Moreover, Jordan is expected to continue to rely on sizeable grants over the medium term, but will eventually have to wean itself off foreign aid. Jordan's heat map risk assessment points to substantial vulnerabilities as do the shock scenarios. On the upside, most debt profile indicators are below upper early benchmarks and debt is projected to decline in the medium term even under the most severe stress test.

Baseline and Realism of Projections[1]

- ***Growth and prices.*** Past projections of growth show relatively small 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 growth forecast for 2014 has been revised slightly downward to account for the impact of regional developments. 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. The inflation forecast has been revised up slightly, to reflect higher-than-expected core inflation in the first half of 2014.

- ***Debt level and fiscal adjustment***. Reflecting the substantial past and projected fiscal adjustment, the debt-to-GDP ratio will peak at 90 percent in 2015 and then gradually decline only to 77 percent in 2019. 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 an outlier in the second percentile.

- ***Sovereign yields***. Jordan's effective interest rate is forecast to stabilize around 5¼ percent.[2]

- ***Maturity and rollover***. Public debt has relatively short maturities, with an average below two years. Combined with the large general government deficit, this drives gross financing needs to 27 percent of GDP in 2014. Maturities for domestic debt are assumed to be lengthened in the medium term with new issuance in 2018 having an average maturity of over three years. Jordan's external public debt profile is on the longer end, with maturity-at-issuance typically more than five years and low rollover needs in the near to medium term.

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

[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. This results in an underestimate of the total interest bill.

Stress Tests and Heat Map

Stress tests show that Jordan is most vulnerable to shocks to growth and contingent liabilities from the financial sector. This highlights the importance of structural reforms to promote growth and to fortify financial stability.

Jordan's debt level and gross financing needs are at high levels compared to other countries (see heat map on the last page). On the upside, the risk from the debt profile is modest, and the share of short-term debt is expected to continue to decline. High external financing requirements are mainly driven by a large current account deficit rather than external debt amortization. Overall, these indicators highlight the importance of fiscal adjustment and a need to lengthen the domestic debt maturity profile.

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

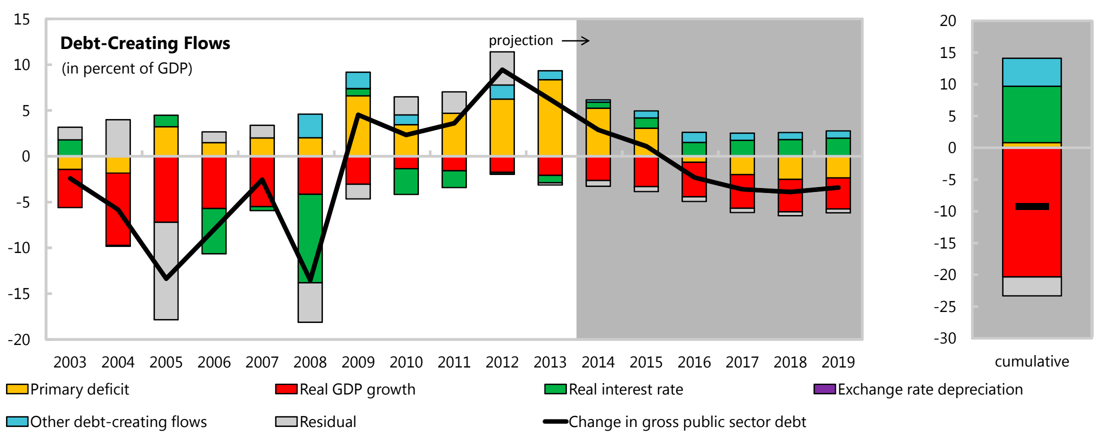
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of October 21, 2014		
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019			
Nominal gross public debt	77.6	80.2	86.4	89.3	90.4	88.1	84.5	80.6	77.2	Sovereign Spreads		
Of which: guarantees	4.7	8.3	12.3	11.4	10.6	9.8	9.1	8.5	7.9	EMBIG (bp) 3/		235
Public gross financing needs	13.0	21.6	28.9	26.8	21.8	20.5	15.7	11.5	15.3	5Y CDS (bp)		390
Net public debt	70.5	75.3	82.1	85.3	86.7	84.6	81.2	77.6	74.4			
Real GDP growth (in percent)	6.1	2.7	2.8	3.3	4.0	4.5	4.5	4.5	4.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	6.7	4.5	5.6	4.5	3.6	3.2	2.8	2.6	2.5	Moody's	B1	B1
Nominal GDP growth (in percent)	13.2	7.3	8.6	7.9	7.7	7.8	7.5	7.2	7.1	S&Ps	BB-	BB-
Effective interest rate (in percent) [4/]	4.1	4.3	4.7	5.5	5.1	5.1	5.1	5.0	5.3	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-3.9	9.4	6.2	2.9	1.1	-2.3	-3.6	-3.9	-3.4	-9.2	
Identified debt-creating flows	-3.4	5.8	6.4	3.5	1.6	-1.8	-3.1	-3.5	-3.0	-6.2	
Primary deficit	2.2	6.2	8.4	5.3	3.1	-0.7	-2.0	-2.5	-2.4	0.8	-0.6
Primary (noninterest) revenue and grants	30.8	23.0	24.1	29.9	27.9	29.0	29.3	28.8	28.6	173.5	
Primary (noninterest) expenditure	33.0	29.3	32.5	35.2	31.0	28.4	27.3	26.2	26.2	174.3	
Automatic debt dynamics [5/]	-6.3	-2.0	-2.9	-2.0	-2.2	-2.3	-1.9	-1.7	-1.4	-11.5	
Interest rate/growth differential [6/]	-6.3	-1.9	-2.9	-2.0	-2.2	-2.3	-1.9	-1.7	-1.4	-11.5	
Of which: real interest rate	-1.8	-0.2	-0.8	0.7	1.1	1.5	1.8	1.8	2.0	8.9	
Of which: real GDP growth	-4.5	-1.7	-2.1	-2.6	-3.3	-3.8	-3.7	-3.5	-3.4	-20.3	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	1.5	1.0	0.2	0.8	1.1	0.8	0.8	0.8	4.4	
Privatization Receipts (negative)	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other flows (NEPCO, WAJ, project loans)	0.0	1.5	1.0	0.2	0.8	1.1	0.8	0.8	0.8	4.4	
Residual, including asset changes [8/]	-0.5	3.6	-0.2	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-3.0	



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 - π (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.

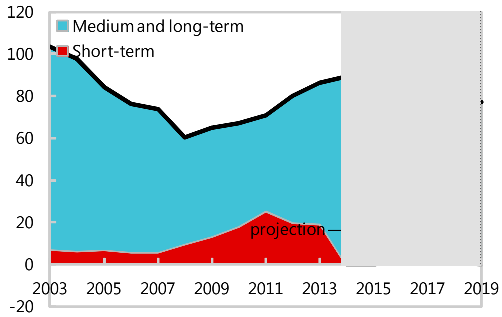
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Jordan Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

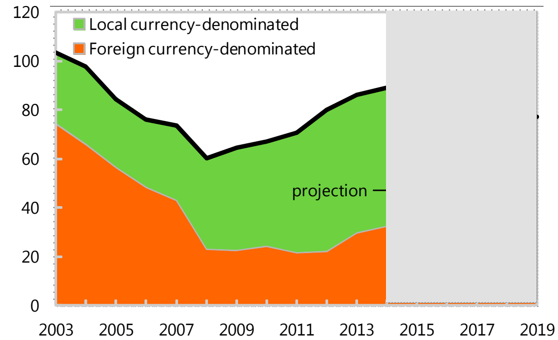
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

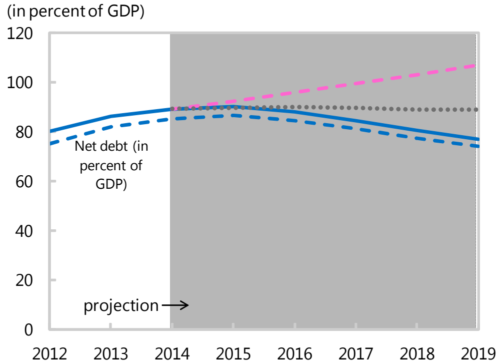


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

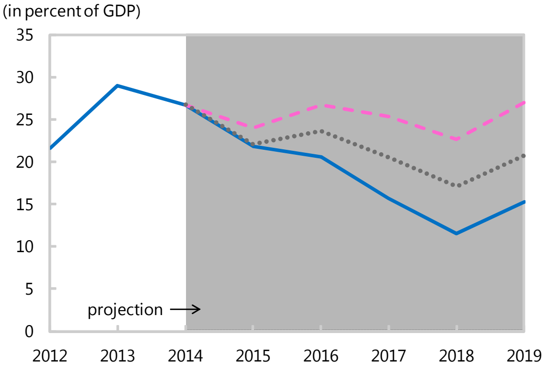
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.3	4.0	4.5	4.5	4.5	4.5
Inflation	4.5	3.6	3.2	2.8	2.6	2.5
Primary Balance	-5.3	-3.1	0.7	2.0	2.5	2.4
Effective interest rate	5.5	5.1	5.1	5.1	5.0	5.3
Constant Primary Balance Scenario						
Real GDP growth	3.3	4.0	4.5	4.5	4.5	4.5
Inflation	4.5	3.6	3.2	2.8	2.6	2.5
Primary Balance	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3
Effective interest rate	5.5	5.1	5.1	5.1	5.1	5.4

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.3	5.6	5.6	5.6	5.6	5.6
Inflation	4.5	3.6	3.2	2.8	2.6	2.5
Primary Balance	-5.3	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	5.5	5.1	4.2	3.2	2.8	2.9

Source: IMF staff.

Jordan Public DSA—Realism of Baseline Assumptions

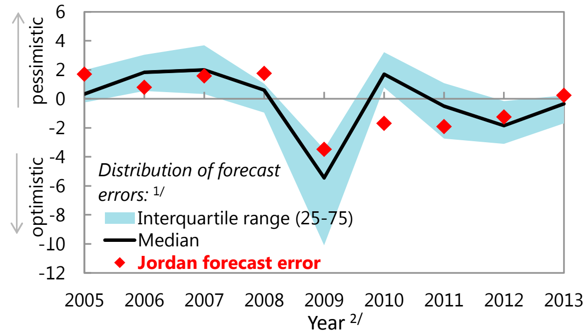
Forecast Track Record, versus program countries

Real GDP Growth

(in percent, actual-projection)

Jordan median forecast error, 2005-2013: **0.25**

Has a percentile rank of: **66%**

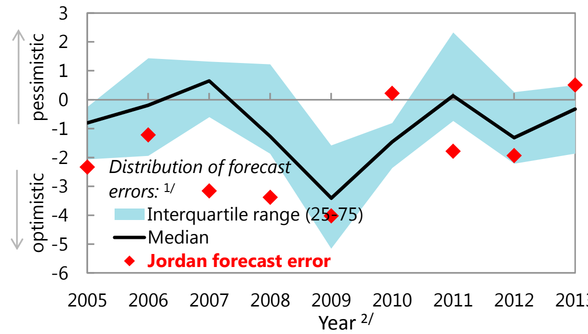


Primary Balance

(in percent of GDP, actual-projection)

Jordan median forecast error, 2005-2013: **-1.93**

Has a percentile rank of: **17%**

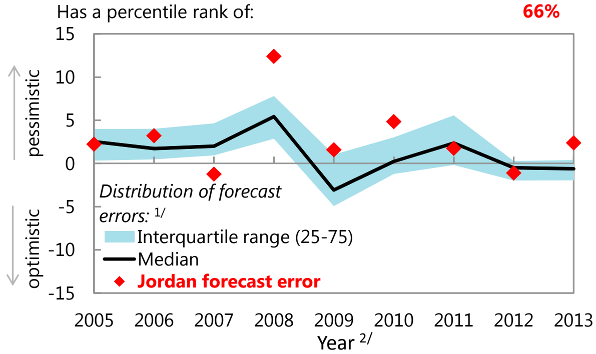


Inflation (Deflator)

(in percent, actual-projection)

Jordan median forecast error, 2005-2013: **2.23**

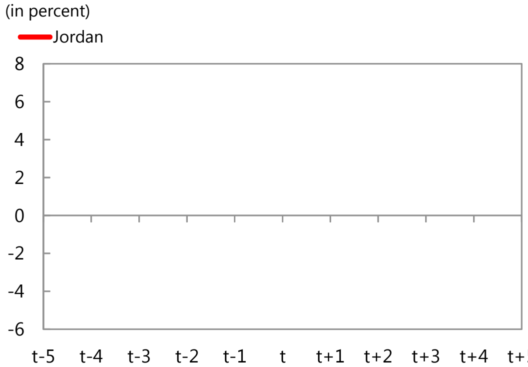
Has a percentile rank of: **66%**



Boom-Bust Analysis 3/

Real GDP growth

(in percent)



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

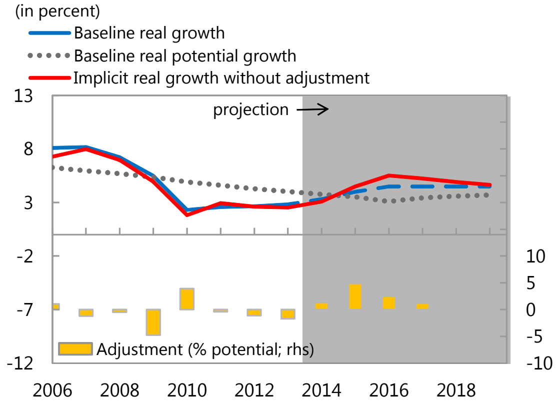
3/ Not applicable for Jordan, because there is no sign that the country may be in a boom

Jordan Public DSA—Realism of Baseline Assumptions (continued)

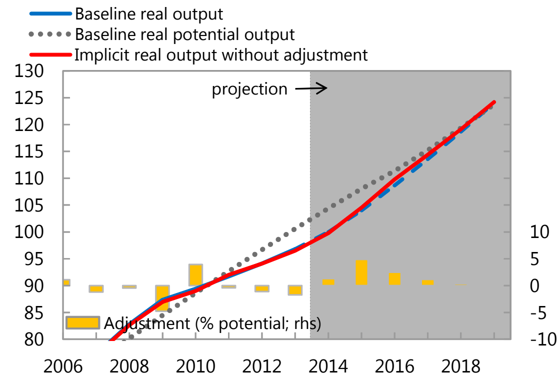
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.16, persistence of 0.3

Real GDP Growth
(in percent)

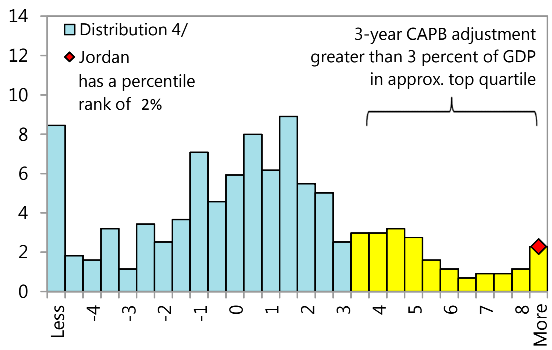


Real Output Level
(Baseline real output in 2014=100)

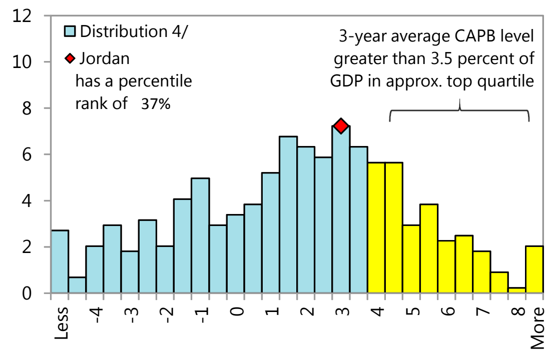


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

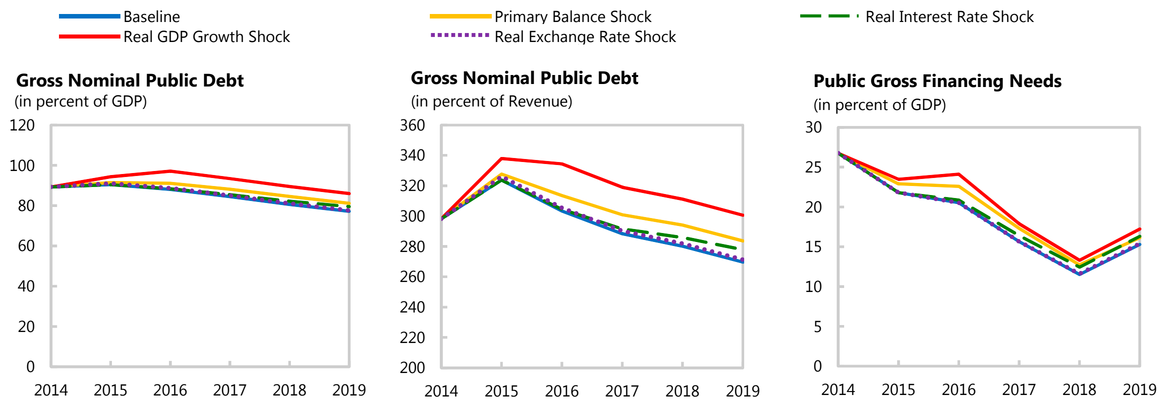


Source : IMF staff.

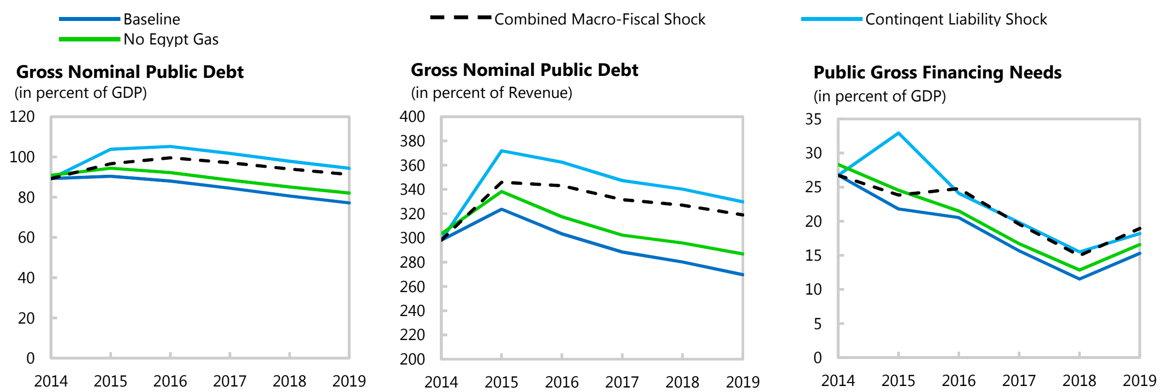
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Jordan Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	3.3	4.0	4.5	4.5	4.5	4.5
Inflation	4.5	3.6	3.2	2.8	2.6	2.5
Primary balance	-5.3	-4.2	-1.2	1.3	2.3	2.4
Effective interest rate	5.5	5.1	5.2	5.3	5.2	5.4
Real Interest Rate Shock						
Real GDP growth	3.3	4.0	4.5	4.5	4.5	4.5
Inflation	4.5	3.6	3.2	2.8	2.6	2.5
Primary balance	-5.3	-3.1	0.7	2.0	2.5	2.4
Effective interest rate	5.5	5.1	5.6	6.0	6.0	6.3
Combined Shock						
Real GDP growth	3.3	1.3	1.8	4.5	4.5	4.5
Inflation	4.5	2.9	2.5	2.8	2.6	2.5
Primary balance	-5.3	-4.2	-1.3	1.3	2.3	2.4
Effective interest rate	5.5	5.2	5.5	5.9	6.0	6.3
No Egypt Gas						
Real GDP growth	3.3	4.0	4.5	4.5	4.5	4.5
Inflation	4.5	3.6	3.2	2.8	2.6	2.5
Primary balance	-6.8	-5.6	0.5	2.0	2.1	2.0
Effective interest rate	5.5	5.1	5.2	5.2	5.1	5.4

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	3.3	1.3	1.8	4.5	4.5	4.5
Inflation	4.5	2.9	2.5	2.8	2.6	2.5
Primary balance	-5.3	-4.1	-1.3	2.0	2.5	2.4
Effective interest rate	5.5	5.1	5.2	5.3	5.1	5.3
Real Exchange Rate Shock						
Real GDP growth	3.3	4.0	4.5	4.5	4.5	4.5
Inflation	4.5	5.3	3.2	2.8	2.6	2.5
Primary balance	-5.3	-3.1	0.7	2.0	2.5	2.4
Effective interest rate	5.5	5.2	5.1	5.1	5.0	5.2
Contingent Liability Shock						
Real GDP growth	3.3	1.3	1.8	4.5	4.5	4.5
Inflation	4.5	2.9	2.5	2.8	2.6	2.5
Primary balance	-5.3	-13.3	0.7	2.0	2.5	2.4
Effective interest rate	5.5	5.4	5.8	5.6	5.4	5.5

Source: IMF staff.

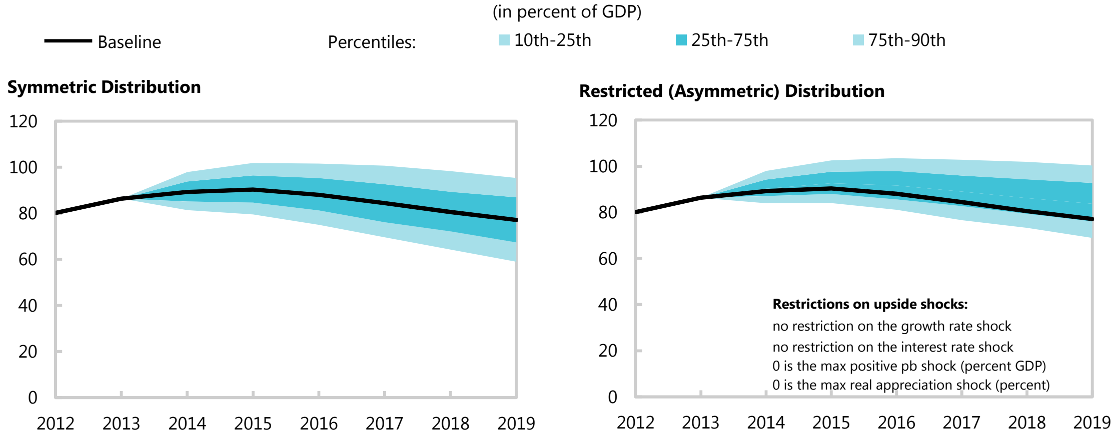
Jordan Public DSA Risk Assessment

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

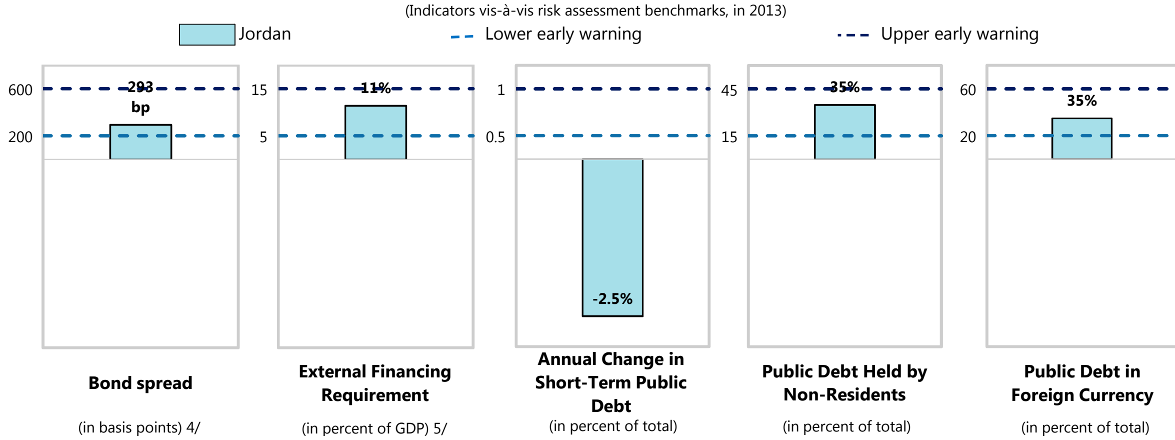
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



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:

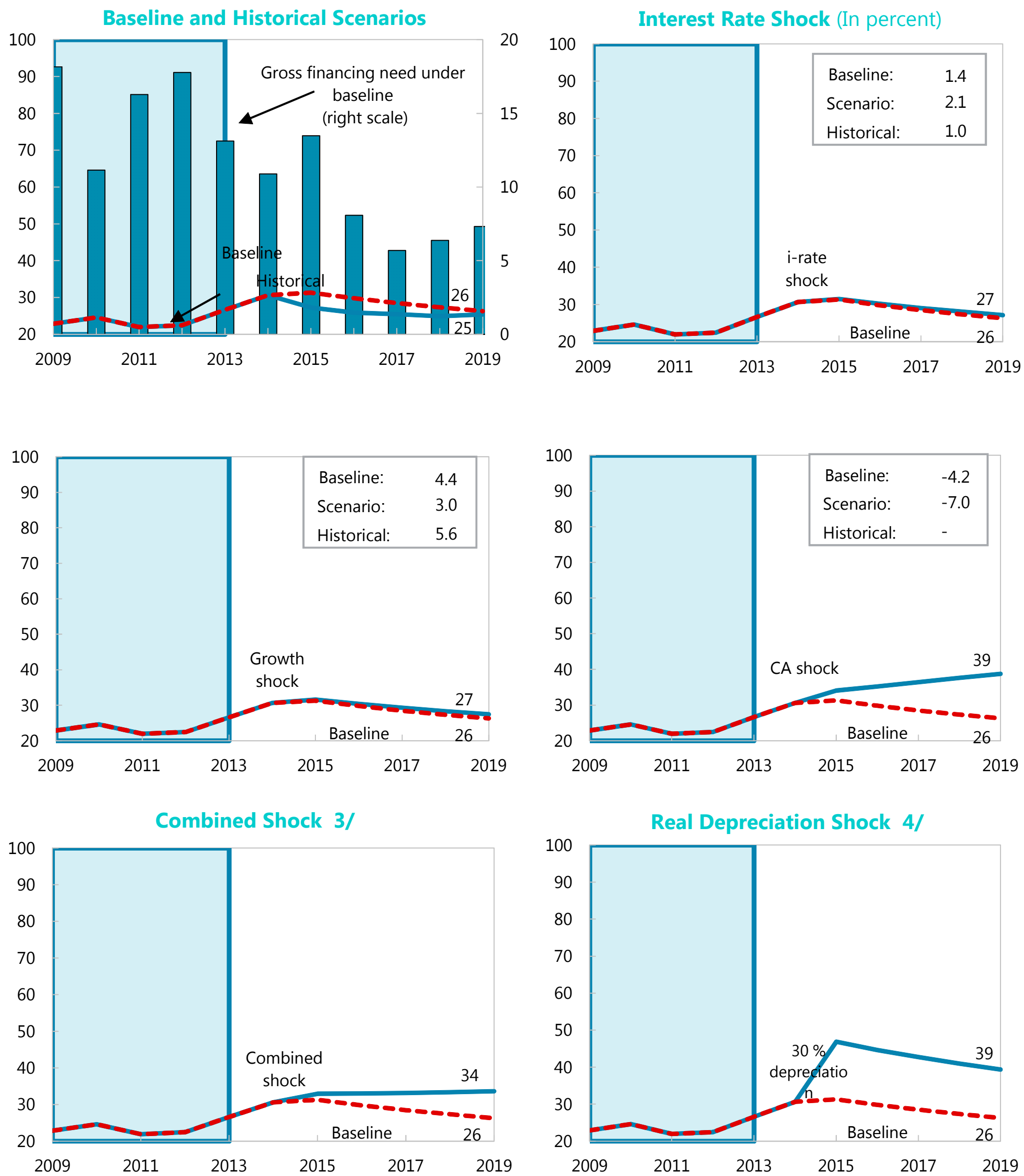
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 05-Nov-13 through 03-Feb-14.

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.

Annex II. 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 IMF 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, 2009–19
(In percent of GDP, unless otherwise indicated)

	Actual 2009	2010	2011	2012	2013	10-Year Historical Average	10-Year Standard Deviation	Projections 2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	22.9	24.6	21.9	22.5	26.6			**30.6**	**31.3**	**29.8**	**28.5**	**27.3**	**26.3**	**-6.9**
2 Change in external debt	-0.5	1.7	-2.7	0.5	4.2			4.0	0.7	-1.5	-1.3	-1.2	-1.0	
3 Identified external debt-creating flows (4+8+9)	-4.1	-1.2	4.6	8.7	2.7			1.6	2.1	-1.9	-2.8	-2.7	-4.0	
4 Current account deficit, excluding interest payments	4.9	6.6	11.5	14.7	9.7			6.6	7.5	4.3	3.4	3.5	2.2	
5 Deficit in balance of goods and services	23.2	21.3	28.3	29.4	30.3			27.9	23.3	19.1	17.4	15.2	13.5	
6 Exports	45.9	47.9	45.6	38.6	35.8			35.7	34.8	33.9	33.2	32.6	32.1	
7 Imports	69.2	69.1	74.0	68.0	66.1			63.6	58.1	53.0	50.6	47.9	45.7	
8 Net non-debt creating capital inflows (negative)	-7.3	-6.1	-5.4	-5.0	-5.8			-4.8	-4.8	-5.3	-5.3	-5.3	-5.3	
9 Automatic debt dynamics 1/	-1.8	-1.7	-1.5	-1.0	-1.3			-0.2	-0.6	-0.9	-0.9	-0.9	-0.9	
10 Contribution from nominal interest rate	0.0	0.6	0.6	0.5	0.5			0.6	0.6	0.4	0.4	0.3	0.2	
11 Contribution from real GDP growth	-1.2	-0.5	-0.6	-0.5	-0.6			-0.8	-1.1	-1.3	-1.2	-1.2	-1.1	
12 Contribution from price and exchange rate changes 2/	-0.6	-1.8	-1.5	-1.0	-1.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	3.6	2.9	-7.3	-8.2	1.5			2.4	-1.5	0.4	1.5	1.6	3.0	
External debt-to-exports ratio (in percent)	49.9	51.4	48.1	58.1	74.3			85.9	90.0	88.0	85.9	83.7	81.8	
Gross external financing need (in billions of US dollars) 4/	4.3	2.9	4.7	5.5	4.4			4.0	5.3	3.4	2.6	3.1	3.8	
In percent of GDP	18.2	11.1	16.3	17.8	13.1			10.9	13.5	8.1	5.7	6.4	7.3	
Scenario with key variables at their historical averages 5/								**30.6**	**27.3**	**25.9**	**25.5**	**24.9**	**25.4**	**-12.7**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	5.5	2.3	2.6	2.7	2.8	5.6	2.7	3.3	4.0	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	2.8	8.4	6.4	4.6	5.6	6.8	5.2	4.5	3.6	3.2	2.8	2.6	2.5	
Nominal external interest rate (in percent)	0.0	2.7	2.6	2.7	2.5	1.0	1.4	2.6	2.0	1.5	1.3	1.2	0.9	
Growth of exports (US dollar terms, in percent)	-11.9	15.6	4.1	-9.1	0.7	10.5	14.6	7.5	5.1	4.9	5.3	5.5	5.5	
Growth of imports (US dollar terms, in percent)	-14.4	10.9	16.8	-1.3	5.6	13.1	14.2	3.8	-1.6	-1.7	2.8	1.3	2.2	
Current account balance, excluding interest payments	-4.9	-6.6	-11.5	-14.7	-9.7	-10.3	5.6	-6.6	-7.5	-4.3	-3.4	-3.5	-2.2	
Net non-debt creating capital inflows	7.3	6.1	5.4	5.0	5.8	10.1	6.6	4.8	4.8	5.3	5.3	5.3	5.3	

1/ 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.

2/ 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).

3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ 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.

6/ 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, 2009–18

	Actual					Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
I. Baseline Projections											
Gross external financing need in billions of U.S. dollars 1/	4.3	2.9	4.7	5.5	4.4	4.0	5.3	3.4	2.6	3.1	3.8
In percent of GDP	18.2	11.1	16.3	17.8	13.1	10.9	13.5	8.1	5.7	6.4	7.3
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 2014-2019 3/						4.0	6.3	6.2	6.4	7.6	10.0
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						4.0	5.4	3.5	2.7	3.2	4.0
B2. Real GDP growth is at baseline minus one-half standard deviations						4.0	5.2	3.4	2.5	3.0	3.7
B3. Non-interest current account is at baseline minus one-half standard deviations						4.0	6.5	4.8	4.1	4.9	6.4
B4. Combination of B1-B3 using 1/4 standard deviation shocks						4.0	5.9	4.1	3.3	4.0	5.1
B5. One time 30 percent real depreciation in 2015						4.0	5.3	3.4	2.6	3.1	3.8
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2014-2019 3/						10.9	15.5	13.4	12.2	12.8	15.1
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						10.9	13.7	8.3	5.9	6.6	7.6
B2. Real GDP growth is at baseline minus one-half standard deviations						10.9	13.5	8.2	5.8	6.5	7.5
B3. Non-interest current account is at baseline minus one-half standard deviations						10.9	16.6	11.3	9.0	10.1	12.4
B4. Combination of B1-B4 using 1/4 standard deviation shocks						10.9	15.2	9.8	7.5	8.5	10.2
B5. One time 30 percent real depreciation in 2015						10.9	20.3	12.1	8.6	9.6	11.0

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
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

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

Amman, October 24, 2014

Dear Ms. Lagarde:

Jordan is facing an increasingly difficult external environment. The Syria conflict and the disruptions to gas supplies from Egypt have worsened since the last reviews, putting more pressure on our fiscal and external accounts. Adding to these tensions, the recent developments in Iraq have impacted trade flows and increased security costs. While donors have provided additional assistance, further external grants are needed to help mitigate these pressures and avert an increase in public debt.

Despite this challenging environment, Jordan's economy has shown resilience, as evidenced by the positive momentum in growth and strong external position. This is a tribute to the continued commitment to our program of macroeconomic and structural reforms. Our fiscal consolidation efforts are well underway, both at the central government and public utilities levels. The recent adoption of a package of fiscal measures, will, along with the income tax law, ensure that these efforts continue at a brisk pace in 2015. Additional grants and measures will help deal with substantially lower-than-programmed gas supplies without further increasing public debt. Building on the recent adoption of the public-private-partnerships and investment laws, we are moving forward with our structural reform agenda, aimed at boosting growth and jobs.

Performance under the program remains strong. We expect to meet all quantitative performance criteria and indicative targets for end-September with the exception of the one on the combined public deficit because of shortfalls in gas supplies from Egypt, which are outside our control. Structural performance is broadly on track, as we have met all structural benchmarks to date but for the one on the licensing of a credit bureau, which we now expect to implement by year-end.

In view of our continued strong performance as well as the policy measures for the remainder of the program, we request a waiver of non-observance of the missed end-September performance criterion on the combined public sector deficit and a waiver for applicability of the end-September performance criterion on the primary fiscal deficit of the central government, for which actual data will not become available until six weeks after end-September (i.e., mid-November); a modification of the end-December performance criterion on the combined public sector deficit reflecting the substantial gas shortfalls; establishment of performance criteria for end-March 2015 and end-May 2015, as described in the MEFP (Table 1b) and the TMU attached to this letter; completion of the fifth review under the Stand-By Arrangement and approval of the related purchase of SDS85.25 million and a re-phasing of the undrawn Fund purchases under the Stand-By Arrangement in three disbursements spread over the remaining program period.

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

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

Sincerely,

/s/

Umayya Toukan
Minister of Finance

/s/

Ziad Fariz
Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

Jordan continues to face macroeconomic pressures from disruptions in gas flows from Egypt and from hosting a large refugee population, while the complex situation in Iraq and the conflict in Gaza pose new concerns. Despite this adverse environment, our policies have maintained macroeconomic stability, while enhancing buffers and gradually reducing fiscal and external imbalances. At the same time, the implementation of our electricity and water strategies is progressing toward cost recovery in the medium term. We are now focusing on structural reforms to spur growth and create jobs, in the context of our forthcoming Vision 2025 strategy.

BACKGROUND

1. This Memorandum of Economic and Financial Policies (MEFP) supplements and updates earlier MEFPs under the Stand-By Arrangement.[1] It reviews recent economic developments and progress with the government's macroeconomic and structural program; and details policies for the remainder of 2014 and 2015 consistent with our objectives of:

- Maintaining macroeconomic stability while reducing the vulnerability of our economy to exogenous shocks;
- Promoting equity and inclusion for our citizens to improve their well being;
- Fostering growth and jobs, in particular for the young.

RECENT MACROECONOMIC DEVELOPMENTS AND OUTLOOK

2. The situation in Iraq adds to an already-difficult environment. Gas flows from Egypt have been significantly disrupted and are now projected to be about one third of what we expected for this year. Our country continues to host over 600,000 registered Syrian refugees (including unregistered refugees, the number is substantially higher), straining social services and the budget. In addition, the situation in Iraq has disrupted trade flows (Iraq accounted for about one fifth of our exports) and increased security costs.

3. The economic recovery is continuing despite these tensions. Following a good trade and tourism season and a recovery in potash and phosphate production, growth has picked up to 3.0 percent y-o-y in 2014H1, while inflation continued to decline, to 2.7 percent y-o-y in September. The current account deficit (excluding grants) declined to about 13.4 percent of GDP in the first half of the year with a higher energy import bill offset by higher revenue from services (including tourism receipts) compared to 17.0 percent of GDP during the same period in 2013. Following the successful

[1] See http://www.imf.org/external/pubs/ft/scr/2012/cr12343.pdf.

issuance of a U.S.-guaranteed Eurobond in June, spreads have been low and market confidence is high. Credit growth though has been slow as uncertainty continues to hold back new investments.

4. **The economic outlook is set to improve further in the medium term.** We expect economic activity to hold up with growth close to 3.5 percent in 2014; despite the conflict in Iraq weighting on our trade balance, the current account deficit is now projected at 7.2 percent of GDP by end-year, thanks to additional grants and service receipts. Growth would pick up to 4 percent in 2015 and increase to 4.5 percent in the medium term. At the same time, external pressures, including from cheaper fuel sources becoming operational, would gradually abate with the current account improving to 2.5 percent of GDP by 2019. We expect inflation to remain under 3 percent y-o-y at end-2014, before declining to 2½ percent in 2015 and to 2 percent in the medium term.

PROGRAM PERFORMANCE

5. **We have achieved considerable results so far in 2014.** Net international reserves stood at $13.9 billion at end-September, well above the program target. The end-September performance criterion (PC) on the central government primary deficit is expected to have been met, as expenditure restraint offset some revenue shortfalls. Because of gas disruptions, however, the electricity company NEPCO's costs are higher than expected and, as a result, we expect to have missed the end-September PC on the combined public deficit PC (there is a chance though that the target was met because of lower-than-expected central government capital spending). We expect both end-September indicative targets on central government payables and on NEPCO arrears to have been met.

6. **We have accelerated structural reforms.** Parliament approved new investment and a Public Private Partnership (PPP) laws. We signed the main agreement for the supply of Liquefied Natural Gas (LNG) (April benchmark), which will result in substantial energy savings in the long term. We have established an automated system for Financial Soundness Indicators (June 2014 benchmark) and hope to license by end-year a credit bureau (June 2013 benchmark).

POLICIES TOWARD MACROECONOMIC STABILITY AND EQUITY

A. Public Finances

7. **Grants from donors remain critical.** We appreciate that higher-than-programmed grants, together with the receipts from a telecommunication license sale, can cover the fiscal gap from the unexpected shortfalls in gas in 2014. Looking ahead, we remain committed to bringing debt on a downward path starting in 2016 and will thus steadfastly implement our adjustment as planned. However, we call on donors for continued grants not only to help cover further expected shortfalls in gas from Egypt, but also mitigate the impact of external shocks on our citizens, who have been suffering from a substantial deterioration in public services since the onset of the Syria crisis.

Because the refugee crisis is becoming protracted, we are working with donors toward moving away from short-term assistance toward a sustainable assistance framework.

8. **Identified financing amounts to $4 billion from the last quarter of 2014 through end-2015.** Our development partners have provided financing assurances for the next twelve months. Financing comprises total grants of $2.1 billion—including from the GCC ($1 billion), the U.S. ($622 million), and the EU ($67 million)—and additional grants from our international partners to cope with the regional instability. We also expect to receive total loans of $1.9 billion**,** including from the EU ($105 million), as well as Eurobond issuances of at least $1.75 billion for which we are seeking donor guarantees, including from the U.S. We are also working on a domestic Sukuk issuance.

9. **We are staffing a macroeconomic unit to coordinate program implementation.** The unit is expected to be fully staffed by end-year. Its priority will be to improve coordination between the central government and utilities and produce consolidated general government accounts. This will increase transparency, ensure that remaining arrears by NEPCO can be cleared as programmed, and prevent any new arrears of the utilities.

Central Government

10. **We expect to meet our central government deficit target at end-2014.** Revenue is projected to fall slightly short of the target, despite one-off repayments of 2013 tax arrears (0.3 percent of GDP). This would be mostly offset by savings from lower cash transfers (the transfer is paid out only when oil prices are above $100 per barrel). For the second half of the year, we are accelerating grant-financed capital spending, which we regard as critical to support growth. If our current and capital spending remains below the budget allocations, we will respectively accelerate the clearance of health fund arrears beyond the programmed 0.3 percent of GDP and clear some of the arrears related to the acquisition of land for a railway project.

11. **We expect that a new income tax law will come into effect in 2015**. It will boost revenue by 0.3 percent of GDP in 2015 and by 0.6 percent of GDP from 2016 onward. In particular, the law is bringing the corporate income tax (CIT) and personal income tax rates closer to that of our regional peers; broadening the CIT base by taxing at 10 percent of the net income generated by branches of Jordanian companies working outside the country; and introducing stronger penalties to improve tax enforcement.

12. **The 2015 budget law will reflect further consolidation efforts.** Our target is to reduce the primary central government deficit to 2.9 percent of GDP. To this end, we are sending out circulars, which will limit the spending in the 2015 budget. Specifically, current spending (excluding the interest bill and transfers to NEPCO and WAJ) will not exceed JD 6.023 billion and capital spending to JD 1.387 billion. Specifically, we have approved the following:

- Petroleum excise revenue previously earmarked for extra-budgetary trust accounts will be transferred to the budget starting in January 2015 (JD 190 million or a revenue gain of

0.7 percent of GDP). The extra-budgetary trust accounts financed one-off capital spending, which is now coming to an end (the remaining funds in the trust accounts will finance the conclusion of the project).

- The wage bill will be capped at JD 1.4 billion (savings of JD 71 million or 0.3 percent of GDP). We have also limited the wage bill increase to 2.5 percent for 2016 and 2017.

- The cash transfer will be capped at JD 180 million (savings of JD 46 million or 0.2 percent of GDP). We had originally planned to discontinue the transfers if the oil price is below $100 per barrel (which we project for 2015), but have decided to allocate two installments of the cash transfer in 2015 because of its importance for the poor. We are continuing to further improve the targeting of the transfers, with assistance from the World Bank (see paragraph 18).

- The food subsidy will be reduced by signing forward contracts for buying wheat, locking in the currently low prices (both measures yielding savings of JD 62 million or 0.2 percent of GDP). We are also streamlining the administration of the food subsidy, which will reduce waste and abuse.

In addition, we have agreed with all public entities on a clear timeline on when they transfer these surpluses. We regard this as critical for maintaining budget transparency as any spending by these entities financed from their surpluses has been off-budget.

We stand ready to implement contingency measures in the case any of the measures outlined above will not deliver the expected savings.

Utilities

13. Disruptions in gas flows from Egypt will increase NEPCO's losses. We expect gas disruptions to continue. Imports are now projected to average 30 million cubic feet per day (about one third of the program level) this year and 50 million cubic feet per day from 2015 onward.

- **For 2014, NEPCO losses are projected at 4.5 percent of GDP (0.7 percent of GDP higher than planned),** as the higher import costs due to gas shortfalls will be only partly offset by savings from the coming-on-stream of two energy-efficient power plants. We therefore request to modify the end-December performance criterion on the combined public sector deficit. The higher losses will be financed by new grants and the sale of the telecom license and thus will not impact public debt.

- **To cover the additional losses from 2015 onward**, we will continue to seek additional grants. If there are any further shortfalls in gas, we stand ready to implement contingency measures, which could include a fuel surcharge (to remain in place as long as gas disruption continues).

14. NEPCO is expected to return to cost recovery in the medium term. The new LNG terminal will become operational by June 2015, as planned (providing about 20 percent of Jordan's consumption) and a number of renewable energy plants will start operations between 2015 and 2016 (about 10 percent of consumption). Gas supply from the Mediterranean could start as early as

2018 (which would be about 30 percent cheaper than LNG and could cover up to 30 percent of consumption). These new energy sources together with an oil shale plant starting operations in 2018 should bring NEPCO to break even by 2018.

15. Implementation of our water strategy is on track. To help achieve our medium-term target of operational cost recovery, we have raised waste water tariffs by 15 percent in July and increased water tariffs for production wells to prevent overutilization. We have imposed tougher sanctions on illegal water connections, which deprive the community of its scarce water resources and magnify our losses. We have also prioritized investments, specifically in energy efficiency, reutilization of service water, and renewable energy to power pumping stations, for which we will continue to count on donor support. We will post an update on the implementation of the water strategy on our website by end-2014.

Structural Fiscal Reforms

16. The public financial and management (PFM) agenda is progressing. The stock of health fund arrears has slightly increased to JD 291 million at end-June from JD263 million at end-2013; we have set up a committee to investigate this increase and better target the coverage of medical treatment. We are planning to roll out the Government Financial Management Information System (GFMIS) to all government units and regional centers. With IMF technical assistance (scheduled for early December), we are planning to extend the quarterly issuance of financial orders to capital expenditure, consolidate the trust accounts into the treasury single account, and strengthen the legal framework, calendar and procedures for budget preparation.

17. We are strengthening and further modernizing tax administration. We gave more authority to the central refund unit to coordinate the audits of refund claims, and we are working toward establishing a proper taxpayer database. All General Sales Tax refund claimants are now submitting electronically to the Income and Sales Tax Department the list of their transactions from the previous year, in line with international best practice. We have classified the stock of tax arrears between collectable and non-collectable, with the former estimated at about JD 300 million and to be collected within five years.

18. Our national targeting scheme will improve our policies' focus on the poor. The Income and Sales Tax Department has completed an extensive database with information on households' income, expenditure, and wealth, which will help assess who are the truly needy. This is a milestone toward improving the targeting of our social assistance, including for cash transfers and possibly the food subsidy.

B. Monetary Policy

19. Monetary policy will continue to carefully weigh the need to safeguard price stability and the attractiveness of the dinar with that of stimulating economic activity. The CBJ cut interest rates twice during 2014, by a cumulative 75 basis points. The reductions were prompted by continued positive momentum in the economy including a strong external position, robust confidence in the dinar, continued de-dollarization, and an acceptable level of expected inflation. They aimed at fostering investment and further expanding real output, which has remained below potential. Looking forward, the CBJ will continue to closely monitor domestic, regional, and global economic and political developments, and stands ready to act proactively, using all available tools, to safeguard macroeconomic stability and ensure high reserve buffers.

C. Financial Sector

20. The financial system remains sound and robust to shocks. Banks continue to display high aggregate capitalization, healthy profitability, increasing provisioning, and declining non-performing loans (NPLs). One of the three banks that have capital adequacy ratios just above the regularity minimum of 12 percent sold a branch overseas and used the proceeds to increase its capital, which is now at an adequate level; the other two submitted plans to bolster their capital buffers by end-year, which the CBJ is currently reviewing. At the same time, the sector's exposure to regional tensions remains limited because Jordanian banks operating in Gaza, Iraq and Syria have fully provisioned for their entire investments/equity, over and above their provisioning for NPLs. Also, the Jordanian banks in Palestine are mostly in West Bank and have not suffered by the conflict in Gaza.

21. Safeguarding financial stability is one of our top priorities. In addition to maintaining monetary stability, this will now become an integral part of the CBJ mandate and will be reflected in the draft amendments to the CBJ law (see paragraph 28). In this regard, the CBJ will expand its supervision and monitoring to all non-regulated non-bank financial institutions. This will reduce the risk of regulatory arbitrage, facilitate early risk detection and improve assessments of spillovers from the non-bank financial sector to the economy.

22. Efforts to improve the resilience of the financial sector are ongoing.

- The CBJ has been strengthening its **macro-prudential framework** to address potential systemic risks. It issued new regulation that limits maturity mismatches and puts a ceiling on debt-to-income ratios for retail customers. The CBJ is also ensuring that existing regulations that limit exposure to direct and indirect foreign currency risk are strictly enforced—namely, the requirement that banks maintain appropriate net open positions in foreign currency and the prohibition of lending in foreign currency to un-hedged borrowers. Based on the analysis of a new real estate price index, the second Financial Stability Report notes very limited exposure of banks to credit risk in the real estate market. The report's top-down stress testing also suggests a broad resilience of the sector to various negative shocks, including to NPLs, interest rates, and the exchange rate.

- An automated system for the collection and analysis of **financial soundness indicators** is now in place. It will allow regular analysis on a quarterly basis of data submitted by banks no more than eight weeks after the end of each quarter.

- We are enhancing the **supervision of banks' cross-border operations.** The CBJ now includes as part of the normal supervisory cycle onsite reviews to significant offshore operations. It is also seeking a more active level of cross-border supervision of the largest Jordanian bank, the Arab Bank. Specifically, with IMF technical assistance, it is working on establishing a supervisory college for this bank by March 2015 (new benchmark), which will help enhance the coordination with host authorities where this bank has an active and significant presence.

23. We are further enhancing **the anti-money laundering and combating the financing of terrorism (AML/CFT) regime**. We adopted a National Plan that reviews and develops legislations in accordance with the Financial Action Task Force's (FATF) new standards. Our AML/CFT unit has taken several measures to implement this plan. These include:

- Signing memoranda of understanding with several international counterpart units and national entities to enhance the exchange of information on AML/CFT issues.

- Issuing instructions pertaining to mobile payment services, goldsmithery, and the sale of jewelry and precious metals in line with FATF international standards;

- Developing the institutional capacity of the relevant national agencies and entities in the field of AML/CTF by conducting training courses and workshops;

- Enhancing access of charity registry databases to monitor potential abuse.

- Devising a system that immediately track funds potentially designated for U.N. Sanctioned Syrian rebel factions channeled through the Jordanian financial sector.

POLICIES TO PROMOTE GROWTH AND JOBS

24. **We are working on a comprehensive strategy to bolster growth, employment, and equity.** We regard this strategy, named Vision 2025, as a unique opportunity to consolidate proposed policies and best practice within an overarching macroeconomic framework. Vision 2025, to be completed by year-end, aims at building synergies between line ministries, donors, and civil society. To avoid duplication, it is built on recent sectoral studies (including in energy and water) and coordinated with World Bank ongoing work on "Systematic Country Diagnostics" to identify constraints to inclusive growth and poverty reduction. As implementation is key, there will be semi-annual updates on interim milestones in priority reforms.

A. Business Environment

25. Parliament has approved new business legislation, which is being implemented:

- **The investment law** lays the basis for a business-friendly framework. It envisages a one-stop shop for investors, with increased delegated powers to act as the sole and impartial reference point for all administrative procedures related to foreign and domestic investment, streamlining procedures and reducing lags for getting permits and licenses. The law also allows cabinet to grant exemptions from a variety of taxes and fees; we will use this option only after a cost/benefit analysis of each proposed exemption and in conjunction with compensating measures. Starting with the 2016 budget, we will publish a list of tax expenditure to enhance transparency.

- **The PPP law** provides for a dedicated unit to analyze each proposed PPP project to ensure that it is affordable and provides value for money. We are now working on the by-laws to make the unit fully operational, which we expect cabinet to approve by end-December. The PPP unit will also be in charge of designing a framework for public investment planning (PIP, December benchmark). Within this framework, the costs and benefits associated with carrying out the project as PPP versus traditional public investment procurement will be evaluated at an early stage; projects will be prioritized, and decision will be streamlined, providing “gateways” for reviewing costs and re-assessing implementation.

26. We are increasing transparency and accountability to create a more level-playing field for businesses. We are amending the law regulating the Anti-Corruption Commission to make it more effective and we are modernizing its corruption case management with improved IT. At the Audit Bureau, we are shifting from ex-ante to ex-post auditing, aligning the role of the external auditor with international best practice. We are also working with parliament on amendments of the audit bureau law to strengthen its financial independence. Finally, to allow our people and businesses to actively participate in reforms, we are publishing on the website of the Legislative and Opinions Bureau (www.lob.gov.jo) all draft laws and by-laws for a minimum of 10 days for comments before cabinet approval.

B. Employment

27. Work is ongoing to address chronically high unemployment. We are implementing several initiatives to put the unemployed into jobs. These include upgrading vocational training programs to more closely match private sector needs; carrying out several job matching campaigns; giving financial incentives to export-oriented firms in the qualified industrial zones to build factories in villages and rural areas and hire from the large pool of unemployed females there; and establishing affordable and reliable daycare to boost female labor market participation in the private sector. All of these initiatives come under a broader National Employment Strategy (NES), which we devised a few years back and plan to revise in light of new challenges, particularly the Syrian refugee crisis. We have already updated the data underlying the NES report and are currently analyzing them; at the same time, we are engaging the ILO, USAID, the World Bank and local experts to undertake an evaluation of projects under the NES, including on whether they have delivered the desired outcomes, and whether they need adjustment.

C. Access to Finance

28. Banks' improved ability to monitor and assess their borrowers' credit worthiness will ease financing constraints. Establishing a credit bureau has taken more time because we had to look for a new private partner. But we expect a license to be issued by end-2014. We will also make all efforts to ensure that the secured lending law is discussed in the next parliamentary session with a view to have it approved by end-2015. At the same time, work is ongoing on the insolvency law, with assistance from the IFC. We also continue to pursue further external financing for SMEs—we signed an agreement with the Arab Fund for Economic and Social Development for a $50 million loan, and the European Bank for Reconstruction and Development has recently approved a $150 million loan to the SME sector. Moreover, we are conducting a survey of loan applications and banks' credit standards that aims to identify the key constraints to SME finance. Finally, we established a regulatory framework for microfinance, which is currently under review by cabinet; over the medium term, we estimate that some additional 10 percent of the population could get access to finance through microfinance.

PROGRAM MONITORING

29. We continue implementing the recommendations of the CBJ safeguards assessment concluded in January 2013. We are developing a plan to remove audit qualifications in the CBJ financial statements, to ensure fair and transparent presentation of assets in its balance sheets. An internal committee in the CBJ was formed earlier this year to address this issue; the committee submitted a draft report conveying its recommendations to the CBJ management at end-September. Moreover, we have recently submitted a draft amendment of the CBJ law to the CBJ board—which is now under discussion—and plan to finalize it by year-end (benchmark), after which we will send it to cabinet and parliament for their approval. At the same time, we have reviewed procedures and controls over the program monetary data compilation process while ensuring reconciliation with the accounting records within six weeks after each test date. Work is also progressing to conduct a quality assessment review of the internal audit function of the CBJ in accordance with international standards.

30. Progress in the implementation of our policies will continue to be monitored through three remaining reviews tentatively scheduled for March 3, 2015, May 15, 2015, and July 15, 2015, quantitative PCs, indicative targets, and benchmarks. These are detailed in Tables 1–2, with definitions provided in the attached Technical Memorandum of Understanding.

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

	Mar-14				Jun-14			Sep-14 1/		
	Target	Adjusted Target	3rd/4th Rev. Estimate	Actual	Target	Adjusted Target	Actual	Target	Projected Adjusted Target	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)	467	447	429	345	465	465	392	882	822	700
Combined public deficit in JD million (flow, cumulative ceiling)	700	680	794	659	1,065	1,065	986	1,615	1,555	1,610
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	9,918	9,397	11,216	11,941	11,052	11,725	13,629	11,804	11,930	13,865
Ceiling on accumulation of external payment arrears 2/	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)	-1,440	-1,070	-2,606	-2,574	-2,259	-2,736	-3,093	-2,863	-2,952	-2,499
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	534	519	682	682	573	682	682	547
Stock of arrears of NEPCO 3/	150	150	150	169	0	0	225	0	0	0
Memo items for adjusters										
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	682	...	347	224	871	...	1,319	1,997	...	1,683
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	771	...	370	250	1,153	...	1,826	2,291	...	2,417
Cap for the downward adjustor on the NIR	900	...	900	900	900	...	900	900	...	900
Cap for the fiscal adjustor (JD millions)	20	...	20	20	40	...	40	60	...	60

1/ For September 2014, data and adjusted target for NIR are actuals.

2/ Continuous.

3/ Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

Table 1b. Jordan: Quantitative Performance Criteria and Indicative Targets, December 2014–June 2015

	Dec-14			Mar-15		May-15	Jun-15
	Target	Proposed Revised Target	Projection	3rd/4th Rev. Ind. Target	Proposed Target	Proposed Target	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)	1,165	1,165	1,165	214	250	323	401
Combined public deficit in JD million (flow, cumulative ceiling)	2,160	2,324	2,324	362	482	…	886
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	11,699	11,699	13,160	11,191	12,304	12,768	13,000
Ceiling on accumulation of external payment arrears 1/	0	0	0	0	0	0	0
Indicative Targets							
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-2,870	-2,870	-3,578	-2,318	-2,966	-3,086	-3,145
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	521	682	682	682	521
Stock of arrears of NEPCO 2/	0	0	0	0	0	0	0
Memo items for adjusters							
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	2,600	…	2,939	45	171	245	1,073
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	2,906	…	3,558	0	105	210	1,430
Cap for the downward adjustor on the NIR	900	…	900	900	900	900	900
Cap for the fiscal adjustor (JD millions)	80	…	80	20	20	35	40

1/ Continuous.

2/ 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.
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.	End-September 2014	**Partially met; more than one percent of GDP of the required 1.5 percent of GDP have been implemented.**
Submission to parliament of a 2015 budget in line with the program.	December 15, 2014	**On track.**
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,** 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.

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	**On track.**
NEW: Establish a supervisory college for Arab bank	March 2015	
Energy and Water Sector Reform		
Announce a medium-term electricity/energy strategy incorporating the inputs provided by the World Bank, including a time table and measures for bringing NEPCO back to cost recovery.	By end-September 2012	**Met with delay.** The strategy was announced on October 23, 2013.
Signing of a floating storage and re-gasification unit leasing agreement.	June 2013	**Met with delay.** The agreement was signed on July 31.
Signing of the LNG supply contract.	April 2014	**Met.**
Announce to the public an action plan on how to reduce the water company's losses over the medium term.	By end-October 2013	**Met.**
Implement already announced tariff increases as outlined in the medium term energy strategy	January 2014	**Met.**
Implement already announced annual tariff increases as outlined in the medium term energy strategy.	January 2015	

Table 2. Structural Benchmarks (concluded)		
Structural Benchmarks	**Test Date**	**Status**
Inclusive Growth		
Licensing of a credit bureau.	End-June 2013	**Not met.** The strategic partner withdrew its licensing application; the license with a new strategic partner is expected to be done by year-end.
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	

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 1b attached to the Letter of Intent dated October 24, 2014. 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 1b 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 borne by NEPCO; (ii) any fuel transportation costs; (iii) depreciation costs; (iv) all other maintenance and operating expenses, including on wages and remuneration of the board of directors, and provisions; and (v) interest expense and any other financial costs.

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

- Downward by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—including the Eurobond but excluding non-resident purchases of domestically-issued government bonds—received by the central government (as specified in Table 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 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 minus the target NIR.

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

- Upward (downward) by the extent to which the floors on the net international reserves of the CBJ are adjusted downward (upward)

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

DATA PROVISION

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

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

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

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

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

- Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly) in order to compute the PC on NEPCO net loss, prepared by NEPCO's accounting department on a quarterly basis.

- Latest audited income statement signed by the auditor (usually available twice yearly with a six-month delay) with full explanation of any changes made to the unaudited version transmitted to the IMF, as soon as it becomes available to NEPCO's management.

- Breakdown of overdue payments by major creditor, and all overdue payments vis-à-vis the central government.

- Monthly gas flows from Egypt in million cubic meters (quarterly).

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

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

33. Related to the continuous performance criteria:

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

34. Other economic data

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

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

DEFINITIONS OF THE PRINCIPAL CONCEPTS AND VARIABLES

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

Press Release No.14/506
FOR IMMEDIATE RELEASE
November 11, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fifth Review Under the Stand-By Arrangement for Jordan

On November 10, 2014, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Jordan's performance under the authorities' three-year economic program supported by a Stand-By Arrangement (SBA). The 36-month SBA in the amount of SDR 1.364 billion (about US$2 billion, or 800 percent of Jordan's quota at the IMF) was approved by the Executive Board on August 3, 2012 (see Press Release No. 12/288). The completion of the fifth review enables the immediate release of SDR 85.25 million (about US$125.4 million), bringing total disbursements under the program to SDR937.75 million (about US$1.38 billion)

In completing the fifth review, the Executive Board approved the authorities' requests to re-phase the undrawn Fund purchases in three disbursements over the remaining program period; for a waiver of nonobservance for the end-September 2014 performance criterion on the combined public deficit; for a waiver of applicability for the end-September 2014 performance criterion on the primary fiscal deficit; and for the modification of the end-December 2014 performance criterion on the combined public deficit.

Following the Executive Board's discussion on Jordan, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"Jordan faces an increasingly difficult regional environment. The conflicts in Syria and Iraq, as well as the disruptions in gas supply from Egypt, are putting pressure on the economy, in particular on the fiscal and external accounts. Nonetheless, the macroeconomic situation has remained largely stable, with growth gradually recovering, inflation contained, the current account deficit narrowing, and international reserves at a comfortable level. Performance under the Fund-supported program continues to be broadly on track.

“The authorities remain committed to fiscal consolidation. Fiscal measures for 2015, including contingencies, provide assurances that public debt will move onto a downward path, starting in 2016. The income tax law currently under discussion in parliament is a welcome step. Nevertheless, further tax reforms are paramount and should focus on making the tax system more progressive and on removing tax exemptions.

“The losses of the electricity company have been higher than expected due to shortfalls in gas supply, with the additional costs being financed by grants. Steadfast implementation of the energy strategy will be important to ensure cost recovery of the company in the medium term. While longer-term prospects are now better because of the possibility of gas imports from the Mediterranean, additional measures may be needed should gas supply fall short of the expectation.

“The central bank is appropriately focused on maintaining comfortable international reserves buffers. Efforts will also continue to further strengthen banking supervision and contain macro-financial risks.

“Progress has been made in implementing structural reforms. However, stronger and deeper reforms are needed to address the structurally-high unemployment and boost growth. Priority should be given to labor market reform, further improving the business climate, and upgrading public financial management and tax administration.”

Statement by Mr. Beblawi on Jordan
Executive Board Meeting
November 10, 2014

Jordan's economy continued to perform relatively well and the program remains on track despite a difficult external environment. This performance reflects the economy's enhanced resilience to external shocks following the authorities' strong adherence to their commitments under the program. Over the medium term, the economy is set to reap the benefits of the ongoing adjustment effort, including structural reforms implemented over the last few years. The authorities' "Vision 2025", which is expected to be completed by year-end, includes reforms and policies aimed at boosting growth, employment, and equity.

Recent developments and outlook

The economic recovery is proceeding at a gradual pace supported by the tourism and mining sectors. Inflation declined sharply, the current account deficit narrowed, and external buffers increased significantly. Fiscal imbalances have also declined despite spending pressures arising mainly from Syrian refugees. The high confidence in the economy's prospects has been manifested in the low sovereign spreads.

Macroeconomic performance is projected to improve further in 2015. Growth will pick up to four percent, while the recently adopted fiscal measures are projected to reduce the general government deficit and put public finances on a more sustainable path. These efforts will benefit from the recent sharp decline in oil prices, which took place after the preparation of the staff report. Official reserves, which remain comfortable, are projected to improve slightly despite the anticipated decline in foreign aid, supported by continued de-dollarization.

While the outlook remains favorable, the difficult external environment continues to impose a high toll on the economy and on the country's infrastructure. The number of Syrian refugees has continued to rise, currently exceeding 600 thousand registered refugees in addition to a comparable number of unregistered refugees, putting pressure on public spending and social services. The volume of gas from Egypt, which is used for electricity generation, has been less than one third of the program's projection in 2014, resulting in higher National Electric Power Company (NEPCO) operating losses and higher public debt. The security situation in Iraq, Jordan's main export market, has also disrupted trade flows and increased security costs. The authorities are appreciative to donors for the generous support which helped cover the fiscal gap resulting from these shocks. However, a sustainable assistance framework is needed as the refugee crisis is becoming protracted, and the indirect costs related to Syrian refugees, including those related to security, health, education, and subsidies continue to rise.

Fiscal policy

Notwithstanding the spending pressures arising from the large inflow of refugees, the authorities have taken significant measures to reduce the fiscal deficit. In 2014, actions were taken to streamline current spending and accelerate the implementation of grant-financed projects to boost growth.

The central government fiscal targets for end-September are expected to be met. However, the combined public sector deficit (including NEPCO) is likely to be missed as shortfalls in gas from Egypt led to higher NEPCO losses. In light of the corrective measures taken, the authorities are requesting a waiver for nonobservance of this performance criterion.

The 2015 budget reflects a more ambitious fiscal consolidation, targeting a 2.5 percent of GDP reduction in the overall public deficit. Most of the measures to achieve this target have already been adopted. On the spending side, these include imposing a cap on the wage bill and reducing food subsidies. The new income tax law, which was submitted to parliament, is expected to raise tax rates, reduce the basic exemption allowance, and introduce a tax on the foreign branches of Jordanian companies. Contingency revenue measures have been identified, which will be implemented in the event that there are shortfalls in yield from the planned measures.

Structural fiscal reforms are also advancing, with a focus on improving tax administration, social assistance, and public financial management. A committee has been established to address the health fund arrears and better target the coverage of medical treatment. In this connection, the authorities plan to use savings in current spending to expedite the clearance of arrears.

The energy strategy

The strategy to diversify the energy mix is proceeding as planned. The liquefied natural gas (LNG) terminal is expected to become operational by mid-2015, and LNG supply is expected to double within the next three years. Renewable energy plants are also expected to start operations next year to ease energy supply constraints. Together with the planned tariffs increases, these efforts will help NEPCO achieve cost recovery by 2018 and possibly earlier in the event that oil prices do not increase significantly.

Monetary and financial sector policies

Monetary policy continues to balance price and growth objectives. In order to maintain the growth momentum, the central bank reduced its key policy rates by a cumulative 75 basis points in 2014. This cut was also motivated by low inflation, strong reserve buffers, and continued de-dollarization.

The banking sector remains sound, highly capitalized, and profitable. Non-performing loans continued their declining trend, while provisioning remained at a comfortable level. Exposure of Jordanian banks operating in Gaza, Iraq, and Syria remains limited, and bank exposure to these countries is fully provisioned. An automated system for collecting financial soundness indicators was newly introduced which will facilitate the monitoring systemic risks. The central bank's second Financial Stability Report confirms banks' high resilience to various shocks. The draft amendments to the central bank law recognize safeguarding financial stability as an integral part of the central bank mandate.

Efforts to further enhance bank soundness and resilience have been intensified. The central bank is expanding its supervision of banks' overseas subsidiaries. The licensing of the credit bureau is expected to take place by the end of this year.

Structural reforms

Structural reforms have been accelerated and broadened to boost growth and job creation. Two major laws that improve the business environment were recently passed by Parliament. The new investment law provides for streamlined procedures and creates a one-stop shop for investors. The public-private partnership law will encourage private sector investment in public sector infrastructure projects and strengthen public investment planning and implementation. Several initiatives are also being undertaken to lower unemployment, with a focus on reducing skills mismatch and modifying public sector hiring policies.