

## Letter of Intent

Amman, Jordan  
May 13, 2020

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Georgieva:

1. Jordan is confronted with an unprecedented economic crisis from the COVID-19 outbreak and the measures required to contain it. We have acted decisively to save lives and preserve public health, and, as a result, to this date, the number of coronavirus cases in Jordan is relatively small. As of May 12, there were 576 confirmed cases and 9 deaths. However, the impact of the outbreak on our economy is already severe. The pandemic has interrupted economic activity, disrupted global and regional supply chains, reduced travel and remittances, and decreased demand for exports. The budget has come under pressure due to revenue loss and the need to mobilize additional public resources for health and social protection.

2. The near-term macroeconomic outlook has drastically deteriorated. Output is projected to contract by a minimum 3.4 percent in 2020—down from a pre-pandemic projection of 2.1 percent growth—due to a dramatic decline in tourism-related sectors, and severe disruptions to the rest of the economy. Public finances are expected to come under significant pressure, as tax revenues decline due to economic contraction and additional outlays are needed to strengthen the public health system and to minimize the economic fallout on the most vulnerable. Similarly, the balance of payments (BoP) will be additionally strained by the expected reduction in tourism receipts, exports, and weakening in remittances, despite the relief on the import bill from lower oil prices. With rising global risk aversion, our ability to access international markets at rates that are compatible with preserving debt sustainability has been significantly impaired.

3. To face the immediate budgetary and external financing gaps, we request emergency financing from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR 291.55 million, equivalent to 85 percent of quota. While the EFF contains an adjuster for spending related to detection, treatment, and containment of COVID-19, on which we provide monthly reporting to staff, the disbursement under the RFI would provide additional fiscal space to effectively respond to the economic fallout of the unfolding crisis. In the spirit of good governance and transparency, we will: (i) create specific budget lines to facilitate tracking and reporting the released funds and the incurred expenditures; (ii) link the fund to the TSA; (iii) publish on the government website procurement plans,

notices and awarded contracts, including beneficial ownership of awarded entities, for the emergency responses; and (iv) undertake ex-post audits of all crisis-mitigating inflows and spending by Jordan's Audit Bureau, and publish the results within 6 months from the end of the fiscal year. We are confident that IMF's emergency financing to Jordan will play a catalytic role in securing additional budget support from our development partners. We remain actively engaged with them to raise the necessary financing to close the BoP gap and avoid excessive drawdown of international reserves.

4. We have taken a number of emergency actions to contain the severe health risks and economic fallout of the pandemic. To mitigate the spread of the virus, we stopped air passenger traffic and closed our land borders, suspended movement across governorates, imposed mandatory quarantines, put a curfew in place, suspended public and private sector operations, except for critical sectors, and conducted an extensive public awareness campaign. In addition to the strong containment measures, we established a fund to cover emergency medical outlays, exempted medical supplies from sales tax, and provided temporary cash-flow relief to companies and households. We are taking measures to offset some of the fiscal costs, including by: (i) temporarily decreasing the salaries of cabinet members and senior officials and delaying wage increases of government employees, teachers, and military; (ii) suspending overtime bonuses and allowances for higher paid employees; (iii) suspending monthly fuel allowances, travel bonuses, and monthly transportation allowances; and (iv) instituting a hiring freeze for new positions in all government entities and state-owned enterprises. The Central Bank of Jordan (CBJ) reduced policy rates by 150 basis points, injected liquidity into the system (1.8 percent of GDP), allowed rescheduling of loans, and enhanced its refinancing program and created a new program targeted to small businesses.

5. Once the effects of the COVID-19 crisis abate, we plan to resume fiscal consolidation and accelerate structural reforms to rebuild buffers and support growth. We remain committed to the reforms included in the recently approved Extended Fund Facility (EFF) with an understanding that the program targets and policies will need to be reviewed and reassessed at the time of the first review. We view these reforms as crucial to boosting Jordan's growth potential, creating jobs, and strengthening external and fiscal sustainability. Given limited fiscal space and the temporary nature of the shock, we stand ready to roll back temporary economic support measures and restart fiscal consolidation as soon as the immediate pressures of the crisis abate. While great uncertainty remains with respect to the duration and severity of the crisis, we view the fiscal consolidation as critical to placing debt on a downward path, mitigating rising risks to debt sustainability, and creating fiscal space for much needed investment in human and physical capital. We will need to reprioritize expenditure towards the demands created by COVID-19, with special focus on social safety nets. In this regard, we will proceed with efforts to contain the growth of the wage bill, streamline other current spending, postpone non-priority investment, and broaden the tax base, through curtailing tax exemptions, reducing tax evasion, and addressing tax administration weaknesses.

6. The CBJ's monetary policy will continue to balance adequate liquidity provision to banks with limiting the pressure on its international reserves. The CBJ directed banks to postpone the distribution of 2020 profits, which will create additional buffer to allow them to absorb possible credit impairment. CBJ did not relax prudential regulations and accounting standards and intends to keep our regulatory framework aligned with international standards.

7. We intend to continue the close dialogue with the IMF and, in line with existing policy, we will not introduce restrictions on making payments and transfers for international transactions, trade restrictions for BoP purposes, multiple currency practices, or enter into bilateral payment agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

8. In line with IMF safeguards policy and in the context of the recently approved EFF, we submitted the Central Bank to a safeguards assessment. We will also provide IMF staff with the Central Bank's most recently completed external audit reports and authorize our external auditors to hold discussions with relevant IMF staff. Since the funds obtained under the requested financing arrangement will be used for budget support, we will update the existing memorandum of understanding between the Ministry of Finance and the Central Bank of Jordan on their respective responsibilities for servicing the related financial obligations to the IMF.

9. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI.

Sincerely yours,

/s/

Mohamad Al-Ississ  
Minister of Finance

/s/

Ziad Fariz  
Governor of the Central Bank