JORDAN—PROGRAM NOTE

Current IMF-Supported Program: A 36-month Stand-By Arrangement (SBA) in the amount of SDR 1.364 billion (about $2.1 billion, 800 percent of quota), approved by the Executive Board of the IMF on August 3, 2012. The Board approved the fifth review under the SBA on November 10, 2014, bringing total disbursements to SDR 937.75 million (about $1.38 billion). A staff-level agreement on the sixth review was reached on March 18, 2015; the Executive Board meeting could take place by end-April. Board approval would make available to Jordan SDR142.083 million ($196 million).

Background

Jordan's economy has been hit hard by exogenous shocks, starting in 2011. Repeated and extensive disruptions to the flow of natural gas from Egypt due to the damage of the Sinai Peninsula pipeline, together with high oil prices, have required imports of expensive fuel products for electricity generation. At the same time, regional tensions, especially in Syria, and the global economic downturn have adversely affected tourism, worker remittances, and foreign direct investment. As a result, the current account deficit widened significantly in 2011 to 12 percent of GDP from 7 percent in 2010, and growth slowed to 2.6 percent after registering an average of 6.1 percent over the last decade.

Aided by high external grants, fiscal and energy policies in 2011 mitigated the social impact of these shocks by protecting consumers from the increase in energy prices, through measures that include higher subsidies, social spending, and targeted wage increases. These steps, though, have contributed to higher central government deficits and rising operating losses of the electricity company NEPCO, which subsidized electricity tariffs.

Macroeconomic challenges intensified in the first half of 2012. The fiscal accounts came under further pressure, largely as a result of higher oil prices, lower-than-expected grants, and rising outlays for hosting Syrian refugees. At the same time, balance of payment pressures increased—new sabotage of the gas pipeline in February and April reduced gas inflows even more compared with 2011, further increasing imports of expensive fuel for electricity generation and, with it, NEPCO's losses. Such pressures resulted in a decline in the central bank's reserves, which was exacerbated in May by an increase in deposit dollarization, reflecting depositor nervousness. The large public financing needs—including for NEPCO—further pushed up public debt and also crowded out the private sector.

Role of the IMF

In response to the negative external shocks, the Jordanian government adopted a national reform program in May 2012. In this context, it took significant measures to return fiscal and energy policies to a sustainable path while providing targeted support to the vulnerable parts of the population. To avoid sharp adjustments that could hurt growth and the vulnerable parts of the population, and to guard against additional shocks, the government asked for financial assistance from the IMF under a 36-month SBA. The SBA is supporting Jordan's agenda for a socially acceptable fiscal consolidation. The IMF is providing liquidity over the period 2012–15 to allow the authorities to gradually implement their program. The key objectives of the authorities' program are to correct fiscal and external imbalances while strengthening growth prospects.

Progress to Date

Jordan is demonstrating resilience in a difficult region, particularly the conflicts in Syria and Iraq. With fiscal and energy sector positions gradually strengthening, international reserves have been rebuilt to a comfortable level, inflation has declined, and growth is gradually picking up.

The IMF-supported program has stayed broadly on track:

- The central government budget has been tightly managed. On the expenditure side, the most notable policy actions have been the bold removal of the general fuel subsidy—while providing cash transfers to compensate low- and middle-income Jordanians—and the containment of the public sector wage bill. On the revenue side, the authorities have increased various fees and taxes, including through amendments to the income tax law.

- The losses of the electricity company NEPCO have been falling following increases in electricity tariffs for most sectors and rich households—those with a lower ability to pay have been shielded. Lower oil prices are also helping. A medium-term energy strategy to return NEPCO to cost recovery is being implemented. In addition to electricity tariff reform, the strategy involves the diversification of Jordan's energy sources and enhancing energy efficiency.

- External financing and prudent monetary policy have allowed the Central Bank of Jordan to maintain comfortable reserve buffers. With contained inflation and a narrowing current account deficit, its focus has shifted to stimulating credit growth and economic activity, including through reductions in interest rates.

The Challenges Ahead

The key challenges facing the authorities are to:

- Reduce high and still rising public debt by adhering to the planned public sector adjustment. The recent decline in oil prices is giving a welcome boost to Jordan's economy, but windfalls might be temporary and should be saved. Adjustment needs to return debt on a decisive downward path both through central government reforms (deep tax reform) and continued implementation of the medium term energy strategy (including tariff increases).

- Design and implement broad-based policies in the labor market to reform public sector compensation and hiring practices and increase female labor participation.
- Strengthen the business climate by making operational the recently approved investment and public-private partnership laws, improving public investment management, and broadening access to finance.
- Improve public financial management for better budget preparation and increased transparency, and strengthen and modernize tax administration.