INTERNATIONAL MONETARY FUND

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JORDAN

May 2019

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AN EXTENSION OF THE ARRANGEMENT, AND REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of the Second Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for a Waiver of Nonobservance of Performance Criterion, an Extension of the Arrangement, and Rephasing of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 6, 2019, following discussions that ended on February 7, 2019, with the officials of Jordan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on April 23, 2019.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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FOR IMMEDIATE RELEASE
May 6, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes Second Review Under the Extended Fund Facility for Jordan

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Jordan's economic performance under the Extended Arrangement under the Extended Fund Facility (EFF). The completion of the second review enables the disbursement of SDR 120.085 million (about US$166.4 million), bringing total disbursements under the program to SDR 223.015 million (about US$309. million).

The Executive Board also approved the authorities' request for waiver of non-observance of performance criterion on the Net International Reserves of the Central Bank of Jordan (CBJ), an extension of the arrangement to March 2020, and the rephasing of access.

On August 24, 2016, the Executive Board approved a three-year extended arrangement under the EFF for Jordan for an amount equivalent to SDR 514.65 million (about US$723 million at the time of approval of the arrangement, or 150 percent of Jordan's quota) (see Press Release No. 16/381 to support the country's economic financial reform program. This program aims at advancing fiscal consolidation to gradually lower public debt and broad structural reforms to enhance the conditions for more social-friendly inclusive growth.

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

Executive Board Assessment[1]

The authorities are to be commended for preserving macroeconomic stability, maintaining a prudent monetary policy, and ensuring a sound financial system. Jordan faces a challenging environment—including low economic growth, high unemployment, and elevated public debt—underscoring the importance of swiftly implementing policies and reforms to bring public debt on a downward path, boost investment and productivity, and enhance inclusive growth.

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

In this regard the recent London Initiative has been most timely, and has demonstrated the international community's ongoing determination to support Jordan. Continued donor assistance is key to help Jordan cope with the refugee crisis and support the authorities' policy and reform efforts.

The authorities should continue on a path of gradual and steady fiscal consolidation, with due regard to social protection needs. Although a number of key fiscal reforms have been delayed, recent amendments to the income-tax law are encouraging and will be key in helping Jordan secure a fairer and more sustainable fiscal framework. Resolute implementation of the new law is needed, as well as ongoing measures to enhance tax administration and reduce tax evasion. These reforms are crucial to preserve macroeconomic and external stability, place public finances on a sounder foundation, and lessen risks to debt sustainability.

Jordan's monetary policy stance is appropriate, and the authorities should remain ready to adjust interest rates as needed to continue to maintain an adequate reserve buffer. Banks remain sound and well-capitalized, and steps taken to improve financial sector oversight and supervision are welcome.

The enactment of long needed growth-enhancing reforms is encouraging, including the secured-transactions law, the bankruptcy law, and the business-inspections law. Together with reforms to promote labor-market flexibility, particularly for the youth and women, and publication of a financial-inclusion action plan along with measures to support credit to SMEs, much has been done to set the stage for high-quality, inclusive growth. These efforts should continue, including measures to improve labor market conditions and strengthen the social safety net. Steadfast implementation of these reforms will be vital.

Finally, priority should be given to measures to reduce business costs and boost employment. The authorities' roadmap to restructure the energy company to reduce high electricity costs for businesses is welcome. Measures under the plan—including elimination of large cross subsidies and implementation of the new tariff-adjustment mechanism—should be implemented as swiftly as possible, and complemented by a well-targeted social protection scheme to safeguard low-income and vulnerable households.

INTERNATIONAL MONETARY FUND

JORDAN

April 23, 2019

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AN EXTENSION OF THE ARRANGEMENT, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Since completion of the first review, Jordan has preserved macroeconomic stability in a most difficult environment. It has weathered a series of severe and highly persistent shocks, including regional conflicts, domestic uncertainty, the hosting of Syrian refugees, the disruption of critical export markets, and rising borrowing costs.

2018 proved particularly challenging, but also saw important progress on key fiscal and structural reforms. While some slippages and delays, including a persistent shortfall in revenue collection, were a setback in the authorities' fiscal consolidation efforts, most benchmarks from the first review have now been met (with the remainder expected to be met in the next few months). The authorities have passed a critical income-tax reform, which if implemented effectively, will result in a more balanced tax system, reducing exemptions, and supporting efforts against tax evasion. More importantly, they have formulated a comprehensive medium-term reform program to create the conditions for higher and more inclusive growth. Decisive implementation is now key to sustainably improve economic prospects.

The international community has strongly supported the new government's commitment to maintain the reform momentum, strengthen growth, and reduce public debt. The London Initiative in February 2019 has helped unlock essential budget grants and concessional financing to support the authorities' reform program.

Completion of the second review makes available SDR 120.085 million (around $167 million).

Approved By

Thanos Arvanitis and Vitaly Kramarenko

The mission team consisted of Martin Cerisola (head), Andrew Tiffin (head of the advance team), Cesar Serra, Maximiliano Appendino, (all MCD); Pablo Morra and Plamen Iossifov (SPR); and Saji Thomas (FAD). It was assisted by Kyle Axberg, Jawed Sakhi, Cecilia Pineda, and Laila Azoor. The missions were joined by Sami Geadah, Alternate Executive Director. Discussions were held in Amman during May 20-31, 2018, and January 27–February 7, 2019. Staff met with Prime Minister Razzaz, Ministers of Finance Malhas and Kanakrieh, Central Bank Governor Fariz, Ministers of Planning and International Cooperation Fakhoury and Kawar, other senior government officials, the electricity company (NEPCO), the Water Authority of Jordan (WAJ), private sector representatives, local ambassadors and other members of the donor community, and representatives of civil society groups.

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CONTEXT

1. Jordan has continued to maintain macroeconomic stability against a difficult economic environment and complex socio-political challenges. It has faced a series of shocks, including the disruption of critical export routes and markets from protracted regional conflicts, the hosting of 1.3 million Syrian refugees, and rising oil prices and borrowing costs. Low growth, and high unemployment and poverty, as well as concerns about insufficient efforts to tackle corruption, are adding to public discontent, and eroding support for politically-difficult reform efforts.

2. Slippages in the implementation of critical reforms and in program targets in 2018 delayed the completion of the review. Notwithstanding some progress in 2017, including in meeting fiscal targets, a number of key fiscal and growth-enhancing reforms were delayed. Foremost among these were amendments to the income-tax law (a missed structural benchmark, originally plan for end-2016 and reset to end-2017 in the first review), which was a critical piece of the authorities' plan to secure a fairer and more sustainable fiscal framework. Fiscal slippages, along with a weak external environment, resulted in shortfalls in international reserves targets.

3. A new government was formed in June 2018, rekindling reform efforts and giving a new impetus to the program. In May 2018 widespread protests over rising fuel and electricity prices and the submission to parliament of the delayed income-tax law, resulted in the resignation of Prime Minister al-Mulki. The new government of Prime Minister Omar al-Razzaz opened a broad national dialogue on Jordan's economic and social challenges, including tax reform. After widespread consultation, the government successfully passed the income-tax law in December 2018, and in collaboration with international donors has formulated a comprehensive and concrete five-year reform plan.

4. These efforts have received renewed support from the international community. The "London Initiative" conference on February 28, 2019 provided the new government with a valuable opportunity to demonstrate to both development partners and investors its commitment to accelerated economic reforms, and to a more outward-oriented economy. Following on from that conference, the authorities have received additional financing commitments of about $5 billion; which are critical in both supporting reform efforts and in adequately funding the program.

RECENT DEVELOPMENTS

5. The economy has remained broadly stable, but low growth and insufficient job creation remain critical challenges (Figure 1).

- ***Weak growth*** (Table 1). Nominal growth has been softer than expected at the time of the first review, with both lower real growth and a lower deflator.[1] Over the past year growth has been supported by higher exports to Iraq, following the reopening of the border in August 2017, but exports to other key partners (such as GCC countries) are down.

- ***High unemployment*** reached 18.0 percent in the final quarter 2018.[2] Unemployment remains particularly high for youth (42.3 percent) and women (23.3 percent).

- ***Subdued inflation.*** The removal of GST exemptions and higher excises on cigarettes and fuels supported under the program in early 2018, along with the authorities' decision to remove bread subsidies and higher global food and oil prices, pushed inflation to a peak of 5.7 percent in July 2018. As the impact of these shocks faded, inflation returned to trend in the latter part of the year. Most recently in 2019, headline inflation eased further, due to positive food and electricity price shocks—bringing core inflation to 1.1 percent.

6. Fiscal performance has fallen short of expectations, with important adjustment in 2017 followed by slippages on structural and fiscal reforms in 2018 (Figure 2).

- ***Fiscal consolidation moved as programmed in 2017.*** Despite a significant revenue shortfall (about 1½ percent of GDP relative to projections in the first review), the authorities met the fiscal targets, helped primarily by current expenditure compression. The central government primary deficit (excluding grants and one-off payments of arrears) declined from 2.9 percent of GDP in 2016 to 1.1 percent of GDP in 2017.

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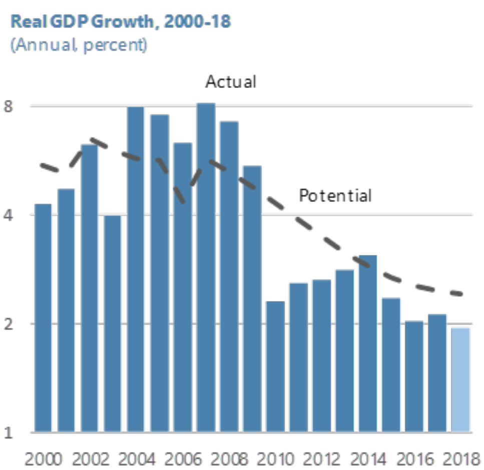
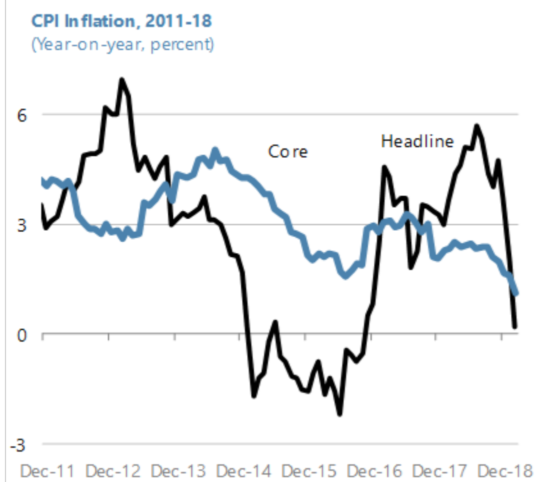
[1] Historical GDP data for 2016–18 have been revised to be compatible with SNA 2008, resulting in a higher nominal GDP.

[2] The Department of Statistics changed the methodology of the Survey of Employment and Unemployment in 2017 following ILO recommendations. The main changes narrow the definition of employed persons and enlarge the sample of the survey based on the new framework of the 2015 Population Census.

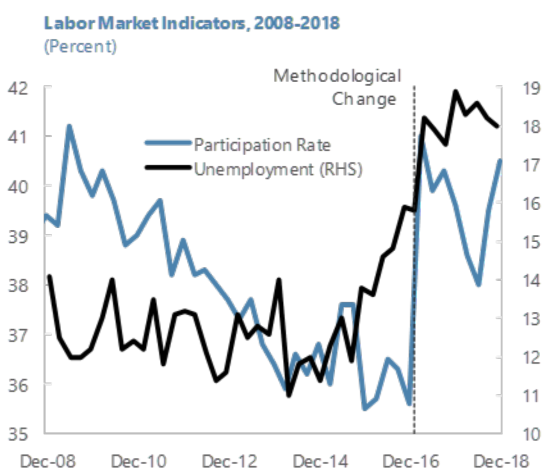
Figure 1. Jordan: Selected Economic Indicators

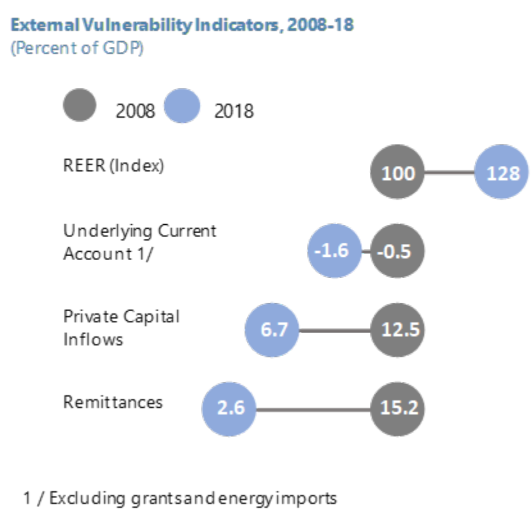
In an environment of subdued activity… …core inflation has remained muted, despite higher taxes and energy prices





Growth is insufficient to reduce unemployment… …and external imbalances remain high.





Sources: National authorities; IMF staff calculations

- ***But progress was not sustained in 2018.*** The fiscal program aimed at reducing the central government primary deficit (excluding grants and one-off payments of arrears) to 0.6 percent of GDP by rationalizing sales tax exemptions (a benchmark under the program) and increasing excises on selected products (a combined revenue yield of 1½ of GDP). In the end, revenue performance stalled, particularly in the second half of the year—reflecting lower collections of sales taxes (following the reversal of some tax increases legislated earlier in 2018, and the softening of non-energy imports); tax administration deficiencies; and weaker tax compliance in light of an anticipated tax amnesty (implemented November 2018–April 2019; for an overall yield of 0.3 percent of GDP). To contain the revenue shortfall, the authorities reduced budgeted expenditures by 1½ percent of GDP, but these were in turn offset by a surge in off-budget expenditures (about 1 percent of GDP).[3] By end-2018, the central government primary deficit (excluding grants and one-off payments of arrears) reached 2.4 percent of GDP, partly reversing the consolidation gains from earlier in the program.

- ***Measures to reduce the accumulation of health arrears have started to yield results.*** While further medical claims led to the accumulation of new arrears for about 1 percent of GDP in 2017, new arrears in 2018 were limited to 0.2 percent. This reflects strict adherence to new regulations implemented in early 2018, whereby medical exemptions could only be granted by the Royal Court, on a time-bound basis, following strict eligibility criteria and predetermined prices.

- ***However, the electricity company (NEPCO) registered operating losses during 2017–18.*** NEPCO's operating loss amounted to 0.3 percent of GDP in 2018, reflecting an uneven implementation of the automatic tariff adjustment mechanism. From December 2017 to September 2018 the authorities implemented regular tariff increases (totaling 24 fils per kWh, equivalent to a 30 percent increase of wholesale tariffs).[4] However, notwithstanding NEPCO's continued operating losses, tariffs were lowered by 2 percent in October, and remained unchanged in November—despite rising oil prices. A further reduction was implemented in December (5 percent) and during the first two months of 2019 (10 percent), following the sharp drop in Brent prices and in anticipation of cheaper natural gas flows from Egypt.

- ***The water authority's (WAJ) financial position was in line with projections, but higher electricity tariffs have placed added pressure on water distribution companies.*** WAJ's overall deficit was 0.2 percentage points of GDP below projections for 2018 during the first review, owing mainly to a combination of lower current and capital expenditures, and some

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[3] Such a surge reflected pressures (partly one-off) in local governments, universities, and other public agencies, covered by unbudgeted central government transfers. To avoid its recurrence, the 2019 budget has expanded these entities' allocations, with commensurate savings in other transfers.

[4] The regulatory commission exempted from the tariff adjustment household consumption below 300 kWh per month (about 70 percent of household consumption and 25 percent of the overall electricity consumption) and, since June 2018, established a ceiling to the adjustment for SMEs.

(continued)

additional revenues from access to renewable energy. However, delayed transfers from the Ministry of Finance caused WAJ to temporarily accumulate arrears of 0.1 percent of GDP—which were cleared in February 2019. For the distribution companies, however, increased electricity costs resulted in the accumulation of arrears for 0.5 percent of GDP as of end-2018, which were cleared in April 2019.[5]

- ***Overall, the combined public-sector deficit (defined under the program as the central government primary deficit plus NEPCO operational and WAJ overall deficits) worsened to 4.3 percent of GDP in 2018, compared to a program target of 1.8 percent at the time of the first review***. Despite this deviation, public debt remained broadly stable in 2018 at 94.4 percent of GDP, owing mostly to a drawdown of treasury deposits (about 1¼ percent of GDP) and a rebasing of GDP.[6] [7]

7. The external position weakened in 2018 putting pressure on international reserves, which nonetheless remain adequate (Table 3a). The current account deficit (excluding grants) fell to 10¼ percent of GDP in 2018; reflecting buoyant tourism, increased exports to Iraq and the United States, and significant compression of non-energy imports (partly reflecting one-off capital-goods imports in 2017). However, the financial account was not sufficiently strong to cover the still-large current account deficit, reflecting a considerable decline in foreign direct investment and sizable private-sector outflows following the uncertain political and economic environment in the aftermath of the widespread protests in mid-2018.

- ***International reserves fell slightly short of target in 2017***. Net international reserves (NIR) were about $448 million below the December performance criterion, with gross usable reserves at $14.3 billion at end-2017 (114 percent of the Fund's Reserve Adequacy Metric (RAM)). The shortfall reflected several one-off factors, including an exceptional spike in capital-goods imports, and an end-year surge in automobile imports, owing to an anticipated increase in taxes on hybrid vehicles.

- ***Reserve losses picked up significantly in mid-2018, but have since stabilized***. Outflows accelerated to around $900 million in June (compared to $300 million in May) with gross usable reserves dropping to less than 100 percent of RAM. However, a $500 million loan from the World Bank disbursed during July–August, the announcement of a $2.5 billion aid package from Saudi Arabia, Kuwait and UAE, and an additional $0.5 billion from Qatar, and the CBJ's continued

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[5] Aqaba and Miyahuna Water Companies started accumulating arrears in 2018 due to the increase in electricity tariffs, while Yarmouk Water Company has been accumulating arrears for several years as it serves the northern provinces that have been most affected by the Syrian Refugee Crisis.

[6] Due to GDP rebasing, the 2017 debt-to-GDP ratio had decreased from 95.9 to 94.3 percent.

[7] Public debt, as defined by the authorities and in the program, includes government securities held by the Social Security Corporation. Excluding these cross-holdings between government agencies, public debt is somewhat smaller at around 78 percent of GDP.

(continued)

rate hikes since June 2018, helped calm local sentiment, with depositor confidence remaining steady and deposit dollarization stabilizing at 21 percent. In August, the CBJ buoyed gross reserves through a $800 million FX swap with domestic banks, which has been supplemented by the first elements of the aid package—a $500 million term deposit from Kuwait, two $333 million deposits from both Saudi Arabia and UAE, and combined budget grants for $100 million.[8] Gross usable reserves ended 2018 at $12.5 billion (97 percent of RAM), and have broadly remained at that level over the past few months.

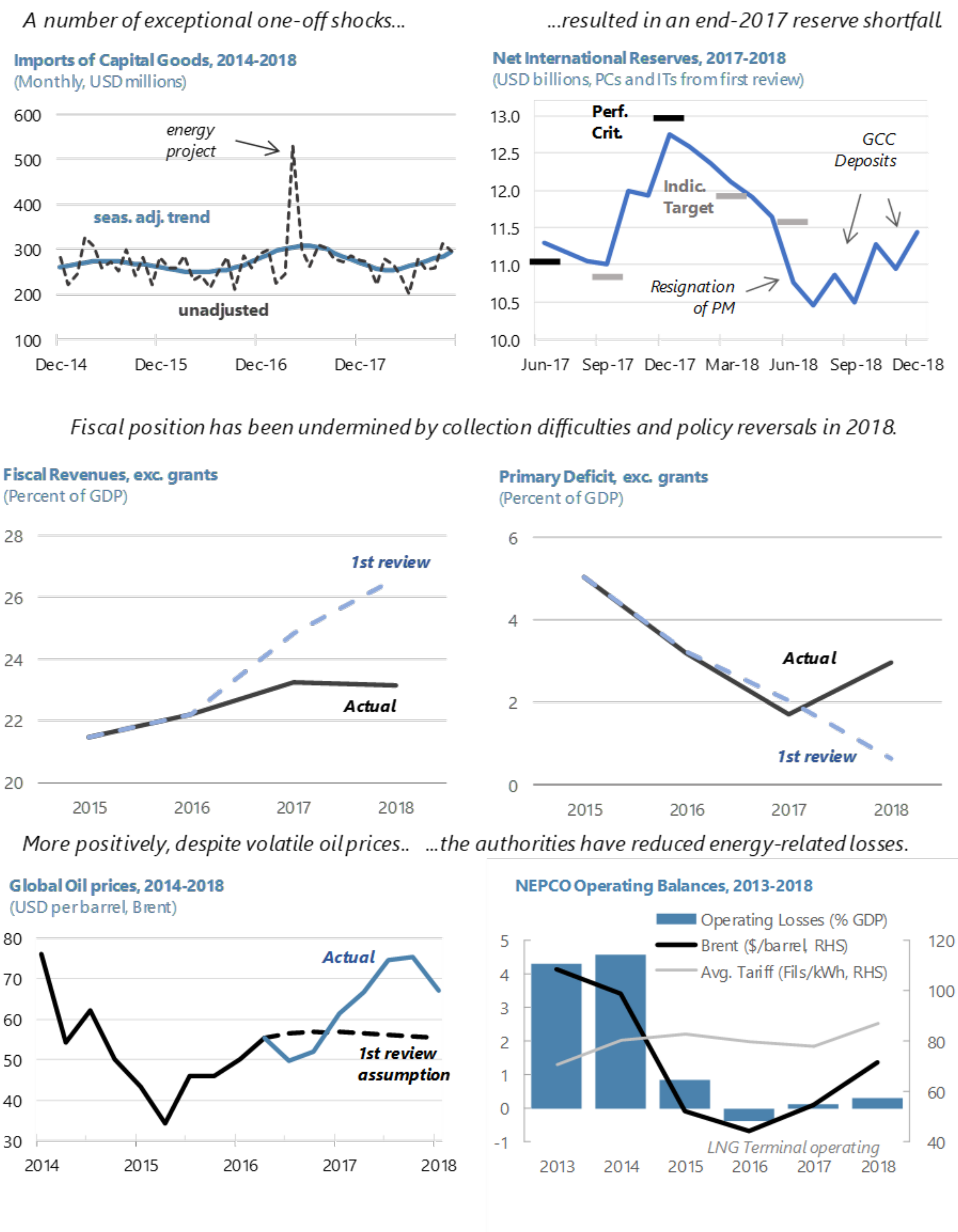
- ***The real effective exchange rate appreciated somewhat in 2018,*** effectively unwinding the 4 percent depreciation of 2017, and remains moderately overvalued (see 2017 Article IV report).

8. There has been encouraging progress in advancing structural reforms, albeit with delays. In line with the program timetable, the authorities have: submitted a new organic budget law to parliament; published an updated debt management strategy; finalized the reorganization of the debt management directorate; and addressed shortcomings in Jordan's investment regulations and requirements. The authorities have also completed several benchmarks that had been pending at the time of the first review: they submitted to parliament a draft inspections law; and completed the consolidation of trust accounts within the fiscal recording framework in September 2017. A study on financial inclusion was completed in October 2017 and the Financial Inclusion Strategy 2018–20 was launched in December. Amendments to the deposit insurance law were submitted to parliament in April 2018. And similarly, in April 2018 the authorities enacted the long-delayed amendments to the secured-lending law. Finally, amendments to the insolvency law were approved by parliament in May 2018.

9. In view of this mixed performance, external confidence has weakened. Citing Jordan's debt dynamics, higher external financing needs, and the slow implementation of fiscal reforms, S&P downgraded Jordan in October 2017 from BB- to B+, a rating re-affirmed in the March 2018 and March 2019 reviews; while again noting risks related to Jordan's elevated debt level, fiscal vulnerabilities, and reliance on continued donor financing.

[8] The "Mecca" agreement with the GCC entails $1.2 billion of up-front term deposits at the CBJ, $0.5 billion of budget grants, $0.2 billion of loan guarantees to the World Bank, and $0.6 billion of loans over a 5-year period. Qatar's committed support involves $0.5 billion loans for energy and water projects and 10,000 jobs for Jordanians.

Figure 2. Jordan: Program Performance



Sources: Haver, Bloomberg, national authorities, and IMF staff calculations.

OUTLOOK AND RISKS

10. Compared to the first review, the medium-term outlook has become more challenging:

- ***Growth***. Given the revised reform agenda, staff projects that growth will increase to 3 percent more gradually than in the first review, supported by: the re-opening of the border with Iraq and recently-signed trade and investment agreements; the extension and broadening of the trade agreement with the European Union; pledged investments in the context of the London Initiative; continued robust tourism inflows; and the envisaged reforms to reduce the cost of doing business, particularly to lower electricity costs. At this stage, the baseline assumes no significant spillovers from an improvement in Syria's security situation.

- **Policies.** The fiscal consolidation is expected to resume in 2019, lowering the combined public deficit to 2.6 percent of GDP. Thereafter, a steady fiscal adjustment is aiming to reduce public debt to about 84 percent of GDP by 2024. Budget grants will continue to be important, but as donor's preferences have shifted towards providing concessional lending, committed budget grants over the 2019–23 period would amount to $4 billion, about 1 percent of GDP per year lower than anticipated in the first review.

- **External sector**. On the back of fiscal adjustment and pro-growth reforms, the current account deficit is projected to gradually narrow to around 6 percent of GDP. External financing needs are projected to be covered by increased official support (following new commitments pledged at the London Initiative), and a slightly less ambitious (but still adequate) reserve accumulation (with gross usable reserves projected to reach about 110 percent of RAM in the medium-term, compared to 125 percent in the first review).

11. The outlook remains subject to considerable risks.

- On the external side, while the situation in Syria appears to have stabilized, the outlook remains fluid and unexpected developments could have implications for Jordan's refugee presence and fiscal position. Moreover, given sizable near-term FX rollover needs (see updated DSA in Annex I), and limits to further grant and concessional financing, Jordan will remain highly vulnerable to global market volatility. Higher oil prices would also affect the current account and potentially place pressure on reserves, inflation, and public finances. On the upside, an improved outlook in the GCC would help support exports and remittances. Down the road, an oil pipeline from southern Iraq to Aqaba would enhance export services and broaden access to cheap energy. In addition, in the event of reconstruction in Syria and Iraq, positive spillovers for Jordan could be sizable.

- On the domestic side, despite the authorities' increased efforts at public outreach, sustaining the required pace of fiscal consolidation could be a challenge, as will be advancing much needed reforms to promote jobs and further reduce business costs. Weak reform implementation could undermine donor and investor confidence, external financing, and unwind progress in maintaining stability. Strong implementation of the new income tax law and unwavering efforts to tackle persistent challenges in collecting revenues and to refrain from further tax policy concessions are a critical part of any strategy to strengthen Jordan's public finances, ensure debt sustainability, and secure macroeconomic stability.

PROGRAM DISCUSSIONS

12. The authorities have reiterated their commitment to policies and macro-critical reforms needed to preserve stability, reduce public indebtedness, and enhance inclusive growth. In particular, they have implemented measures to ensure that the combined public deficit returns to a downward path, have started implementing a comprehensive energy-reform plan that prevents further NEPCO losses and phases out growth-unfriendly cross-subsidies, and have reaffirmed that they stand ready to tighten monetary conditions if needed.

A. Fiscal Policy

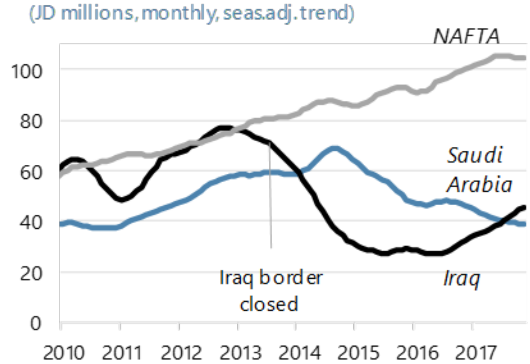
13. The new income tax law approved in December 2018 was a step in the right direction (MEFP ¶9–11). However, changes during parliamentary discussions removed some provisions, and while some compensating measures were introduced, staff estimates that the overall yield will reach 0.8 percent of GDP over the medium term (½ percent of GDP in 2019) against a program target of 1 percent of GDP. Nevertheless, the income tax reform has improved the previous system—it expands the tax base in an equitable manner, by protecting low income and most vulnerable households; closes some distortions and loopholes (most notably in industrial and development free zones); and helps protect specific sectors severely affected by regional conditions and by the removal of export subsidies non-compliant with the World Trade Organization. The new law also critically sets the stage for a greater and much-needed focus on reducing tax evasion in the years ahead. Together with strong efforts to tackle tax-administration weaknesses, the new income tax law will help rebalance the burden of adjustment away from consumption (which tends to hurt the poor and middle class) and towards those with greater capacity to pay (Box 1).

14. To resume an annual adjustment of 1½ percent of GDP, as agreed under the program, the authorities have adopted additional fiscal measures (MEFP ¶7–10). Fiscal consolidation under the 2019 budget will be underpinned by the implementation of the new income tax law (a revenue yield of ½ percent of GDP) as well as additional measures with a combined yield of 1 percent of GDP. This would reduce the primary deficit (excluding grants and one-off payments of arrears) to 0.8 percent of GDP, with public debt projected to broadly stabilize at 94.6 percent of GDP in 2019.

Figure 3. Jordan: Outlook and Risks

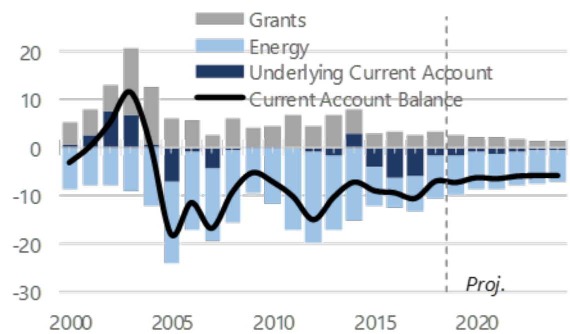
Improving exports...

Exports: Select Destinations 2010-18
(JD millions, monthly, seas.adj. trend)



...should help narrow the current account deficit.

Underlying Current Account, 2000-24
(Percent of GDP)

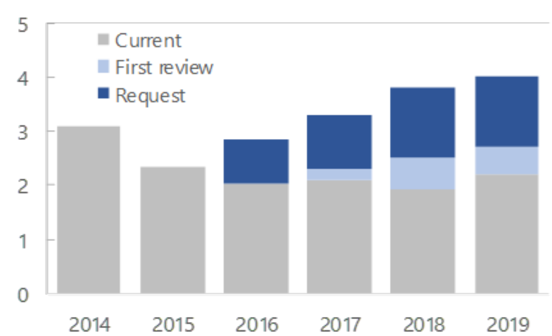


But a less benign external environment..

Global Interest Rates, 2013-19
(5-year UST, eop)

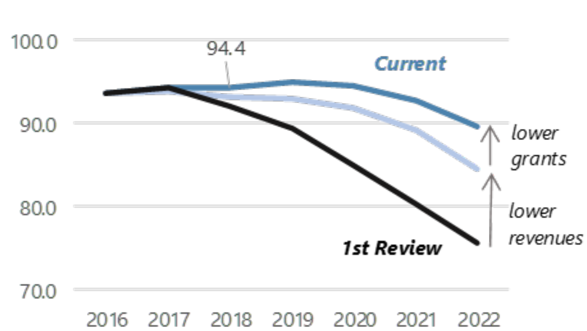
...and a subdued growth outlook...

Real GDP Growth Projections, 2014-19
(annual, percent)



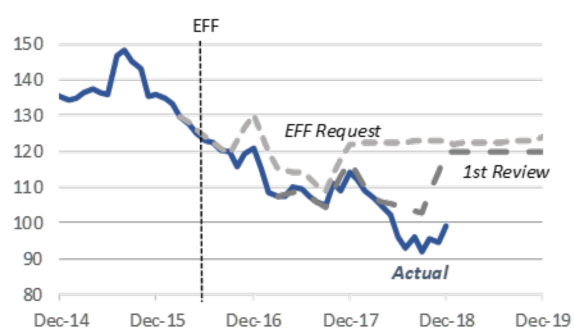
...may weigh on investor confidence...

Public Debt Dynamics, 2016-22
(Percent of GDP)



...underscoring the critical need for adequate buffers.

Gross Usable Reserves, 2014-19
(Percent of ARA Metric)



Sources: Haver, Bloomberg, national authorities, and IMF staff calculations.

Central Government Fiscal Consolidation during 2018-19
(in percent of GDP)

	2016	2017	2018	2019 1/	2018 vs 2017	2019 vs 2018
Domestic revenues	**22.2**	**23.2**	**23.2**	**24.5**	**-0.1**	**1.4**
Primary expenditures, of which:	**25.4**	**24.9**	**26.1**	**25.9**	**1.2**	**-0.2**
Payments of arrears (one-off)	0.3	0.6	0.6	0.6	0.0	0.0
Primary balance (exc. grants)	**-3.2**	**-1.7**	**-3.0**	**-1.4**	**-1.3**	**1.6**
Primary balance (exc. grants and one-off payments of arrears)	**-2.9**	**-1.1**	**-2.4**	**-0.8**	**-1.3**	**1.6**

Sources: Ministry of Finance, and IMF staff estimates.
1/ The authorities transferred 29 government units into the general budget in 2019 with neutral impact on the overall balance. This is reflected as an increase in non-tax revenues by 0.4 percent of GDP, and a commensurate increase in total expenditures: wage bill (0.4 percent of GDP), purchases of goods and services (0.1 percent), and capital expenditures (0.3 percent of GDP), offset by lower transfers (-0.4 percent).

15. **Ongoing efforts to strengthen tax administration and reduce tax evasion are critical to achieve the fiscal targets** (MEFP ¶11, 17). Recent setbacks in revenue mobilization call for renewed efforts to strengthen the tax administration's powers, tools and systems. In this regard, the authorities are implementing several initiatives, including: (i) enhancing the Pay As You Earn (PAYE) system for large taxpayers; (ii) increasing compliance among self-employed persons; (iii) introducing transfer pricing regulations; and (iv) enhancing the access to third party information. To support these initiatives, the new income tax law has stiffened significantly penalties for delays in compliance and tax evasion.

2019 Fiscal Measures
(In percent of GDP)

Total expected yield	**1.5**
New income tax law, of which:	0.5
Changes to the personal income tax framework	0.1
Changes to the corporate income tax framework	0.3
Tax compliance measures	0.1
Acceleration of GST payments from bi-monthly to monthly basis	0.1
Expiration of the tax exemption on electric vehicles	0.1
Conversion of GST to SST on mobile phones	0.1
Enhanced customs duties (cancellation of FTA with Turkey)	0.1
Consolidation of taxes and fees on oil derivatives	0.3
Reduced budget allocation for defense	0.3
Memo item:	
Expected yield from below-the-line measures:	
Sale of licenses to mobile operators (one-off)	0.3

Sources: Ministry of Finance, and IMF staff estimates.

16. **The authorities are committed to strictly managing expenditure outlays within budgeted allocations to arrest the rise of off-budget pressures observed in 2018** (MEFP ¶12). They remain committed to a prudent expenditure policy that continues streamlining non-priority spending and reducing domestic arrears. At the same time, the program has accommodated additional space for social and capital spending. This includes a floor on social spending by the central government that incorporates the expansion of the National Aid Fund's cash transfer program and the civil health insurance coverage[9], more resources for health and education spending, and better targeting spending at vulnerable groups.

[9] While social spending (as defined under the program) fell slightly below its indicative target during 2017–18, its coverage does not fully include spending on education and health, where the authorities have concentrated their efforts over the past years. Staff plans to revisit the definition of social spending in the following review.

17. With public debt still very high, continued and gradual fiscal consolidation and growth-enhancing reforms are critical to ensure that debt is placed on a steady downward path. Achieving a primary surplus target (excluding grants) of about 2 percent of GDP by 2022 would require sustained focus on removing tax exemptions on income and consumption, along with strong efforts to rationalize current expenditures.[10] At the same time, concrete progress on growth-enhancing reforms will be fundamental to minimize downside risks from the envisaged fiscal consolidation. Under prospective financing and committed policies, Jordan's public debt is projected to fall to about 84 percent of GDP by 2024, and is assessed as sustainable. While risks remain high—particularly from potential further fiscal slippages—operational pressures in the energy and water sectors, and sizable rollover needs, continued financing from the Social Security Corporation in the years ahead and the shift in the composition of debt towards concessional debt help mitigate refinancing risks (see updated DSA in Annex I).

18. The authorities recognized the need to strengthen the public-private partnership (PPP) framework and the monitoring of fiscal risks (MEFP ¶16). Staff noted that the current exemption of the water and energy sectors from the PPP law hinders sound project selection and appropriate risk analysis. The authorities committed not to renew such an exemption after its expiration in end-June 2019 (a new benchmark) and, with support from the World Bank, they expect to submit to parliament amendments to the PPP law by end-December 2019 to strengthen the identification, approval, implementation, and evaluation process of PPPs. They also agreed to recruit a top tier international accounting firm by end-June 2019 (new benchmark) to complete a detail study to identify and quantify major direct and contingent liabilities stemming from PPPs by end-December 2019 (new benchmark).

B. Electricity and Water Sector Policies

19. The implementation of a comprehensive reform of the electricity sector is critical not only to ensure NEPCO's financial sustainability, but also to lower public debt, enhance private sector competitiveness, foster investment, and boost prospects for growth (MEFP ¶13). High legacy debt, expensive long-term power purchase agreements, and asymmetric tariff adjustments (tariff cuts when international oil prices decline but limited or no adjustment when they increase) have undermined NEPCO's capacity to cover its operational costs. To address these challenges, with the support from the World Bank and the international community, the authorities have started implementing a multi-pronged plan to place NEPCO's operations on a strong sustainable footing, including through the rationalization of the cross-subsidized tariff structure, upfront revenue and cost-savings measures, and the reprofiling of NEPCO's debt (Box 2). In addition, efforts are ongoing to put in place a more targeted, means-tested, social protection scheme to protect the low-income and vulnerable households from the impact of tariff increases.

[10] Tax expenditures are still sizable, estimated at about 8 percent of GDP as of end-2018. FAD's recent Public Expenditure Review identified reform options that could yield savings of about 1 percent of GDP over the medium-term.

20. The centralization of WAJ debt management is underway, and the authorities committed to an action plan to reduce water-sector losses (MEFP ¶13).

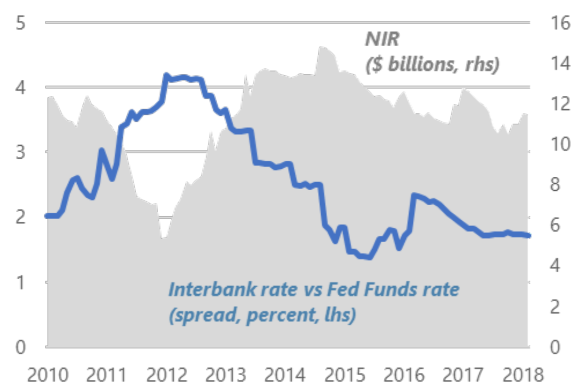
- To strengthen the financial position of the water sector, the authorities have implemented a revamped strategy that, from 2018 onward, centralizes WAJ's debt-management and investment funding within the Ministry of Finance, while covering WAJ's gross financing needs through budget transfers.[11]

- The authorities finalized the third biannual report on implementation progress of the "Action Plan to Reduce Water Sector Losses." While WAJ and the three distribution companies reached their target of 89-percent operational cost recovery in 2017, high electricity tariffs in 2018 worsened the distribution companies' performance, leading to arrears. In this context, the authorities have committed to start implementing a plan on non-tariff revenue actions (such as expanded access to renewable energy, among others) to reduce water-sector losses by end-June 2019 (a new benchmark).

C. Monetary and Financial Policy

21. The authorities remain fully committed to maintaining the exchange-rate peg. In this regard, monetary policy continues to balance the need for an adequate level of reserves to support the dinar, while also keeping a close eye on domestic economic conditions. The tightening of the policy rate in late 2016–early 2017 was key in stabilizing deposit dollarization and stemming pressure on reserves (Figure 4). Since then, the CBJ has mirrored movements in the U.S. policy rate. Staff felt that a tighter monetary policy was warranted in 2018 in light of fiscal slippages to mitigate outflows.

Spreads vs. International Reserves



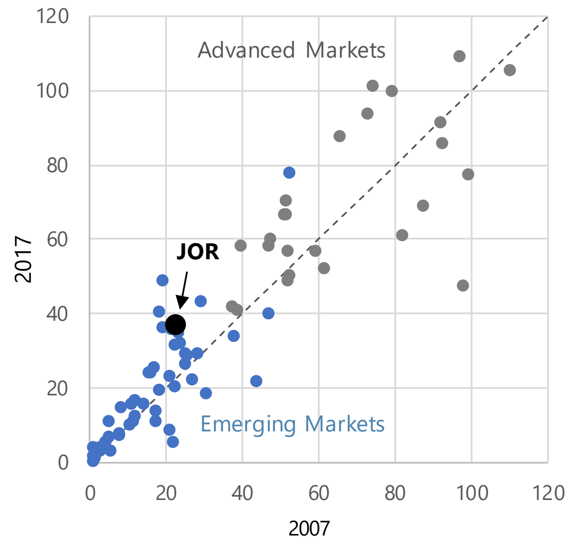
22. The authorities reaffirmed their commitment to act swiftly and aggressively if needed to protect reserves (MEFP ¶19). So far this year, improved balance of payment conditions have eased pressures and allowed the CBJ to build up reserves. In this context, the authorities noted that there was no immediate need for a preemptive rate increase, but that they stood ready to tighten monetary policy as needed to ensure reserve targets are met. They viewed monetary and fiscal policy tightly linked, and therefore meeting fiscal targets in 2019 is critical; not only for placing Jordan's public finances on a more sustainable and equitable footing, but also in reducing the current account deficit and so easing the existing burden on monetary policy. They stressed that the current monetary policy profile was well understood by markets, and that any change in the policy

[11] This strategy has been supported by a joint Development Policy Loan from AFD and KfW.

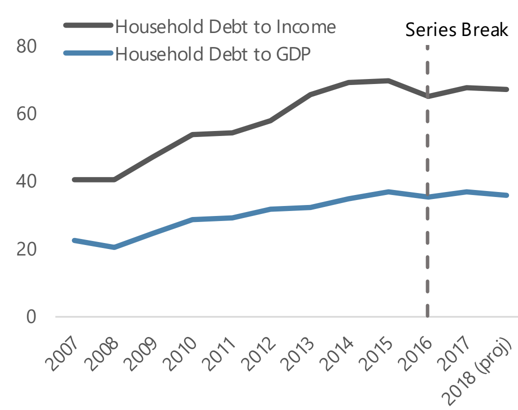
stance (relative to U.S. monetary policy) would need to be carefully and clearly communicated to the market.

23. The banking system is well capitalized, liquid, and profitable, but faces an increasingly challenging operational environment. Despite a prolonged economic slowdown, capital adequacy at 17.2 percent is well above the regulatory minimum, and non-performing loans have declined. Private-sector credit picked up sharply over 2016–17, but credit growth steadied over 2018, and has since slowed to around 5 percent per year. On credit risk, the authorities noted that the recent easing of household lending reflects, in part, an ongoing dialogue with banks on trends and potential risks, and they stressed that key prudential ratios are manageable. In the event of rising credit risk, the CBJ has a broad range of potential tools at its disposal; including risk-weight requirements, and concrete limits on loan-to-value and debt-to-income ratios. The authorities have issued Basel III regulations on capital adequacy, including for domestically systemically important banks (DSIB), and on liquidity requirements. They have also been working proactively with banks to ensure a smooth transition to IFRS9 accounting standards.[12] In line with IMF TA recommendations, the authorities are putting in place a risk-based framework for offsite and onsite supervision of banks and money-exchange firms and for other financial and nonfinancial institutions, including non-profit organizations. Reflecting the need for additional IMF TA to support the plan to move the supervision of the insurance sector to the CBJ, the associated benchmarks have been reset to end-September 2019.

Household Debt-to-GDP Ratio. 2007-17
(percent)



Jordan: Household Debt Ratios, 2007-17



Sources: IMF Global Database, Central Bank of Jordan, and IMF staff calculations.

[12] Early studies suggest that the new IFRS9 provisioning requirements have only a modest impact on capital ratios. However, under CBJ provisioning guidelines, banks are required to compare the old requirements with those under the new IFRS9 standard, and to apply the more stringent of the two—the change to the new standard, therefore, has resulted in a one-off boost to NPL ratios.

24. With the assistance of the Fund, the authorities are improving the AML/CFT framework. A mutual evaluation of Jordan by MENAFATF will be completed in the first half of 2019. The authorities are encouraged to fully implement the recommendations of the evaluation report.

D. Structural Reforms to Enhance Inclusive Growth

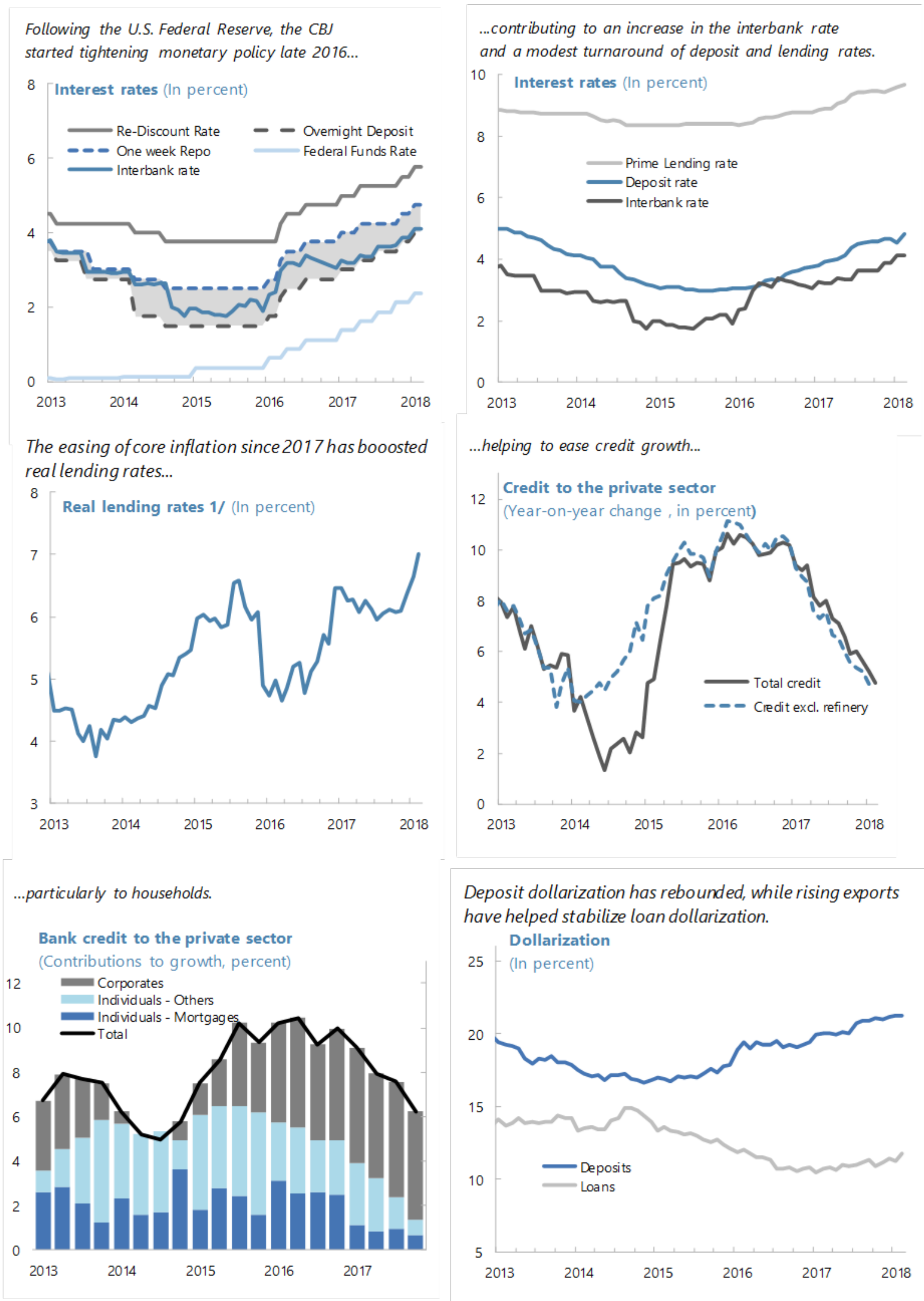
25. The implementation of pro-employment reforms is key (MEFP ¶27). The authorities have stated repeatedly that tackling high unemployment is a critical priority. In this regard, they have taken a range of steps to improve education and vocational training, address skills mismatches, reform public-sector hiring practices, provide for more flexible work practices, promote gender equality, and enhance access to childcare. They are also taking important steps to provide greater livelihood opportunities for Syrian refugees; expanding refugee work permits beyond the agricultural sector and special manufacturing zones to also include employment in the construction and services sectors.

- ***A temporary reduction in payroll taxes***. The level of social security contributions (currently 21.75 percent) is widely regarded as a key impediment to formal employment, particularly for low-skilled job seekers, youth and women, and for the formalization of Syrian refugees and migrant workers. Given that the social security system is currently running an annual overall surplus (of about 3½ percent of GDP), there may be scope to lower this labor-tax wedge for 3–5 years to encourage employment, or to consider more flexible contribution arrangements.[13] In the context of their broader efforts to promote employment, and in consultation with the World Bank, the authorities will continue to explore ways to reduce the cost of formalization. A study on options for lowering social security contributions, which would also identify parametric reforms for the SSC to ensure longer-term actuarial neutrality (end-March 2018 benchmark), has been delayed. But this measure has been integrated into the 5-year reform matrix that the authorities are developing in collaboration with the World Bank.

- ***Strengthen the social safety net and improve gender equality***. The authorities are implementing a three-year program to almost double the coverage of the National Aid Fund's (NAF) cash transfer program (MEFP ¶12). They have also amended key by laws that previously restricted working hours for females; have submitted to parliament amendments to the labor law that allow for more flexible work arrangements and remove any potential discrimination between mothers and fathers regarding daycare requirements, while also establishing paternity leave (MEFP ¶27).

[13] The example of Colombia is illustrative in this regard, as the 2012 tax reform to reduce non-wage costs significantly boosted employment in the formal sector (IMF Country Report 14/141). See also a more general discussion of labor-tax policy and employment in the *Spring 2016 WEO* Chapter "Time for a Supply-Side Boost."

Figure 4. Jordan: Monetary Developments, 2013–19



1/ Adjusted for core inflation.

Sources: Jordanian authorities; and IMF staff estimates.

26. Measures to support financial sector development and the business environment will also be vital in supporting inclusive growth (MEFP ¶26). Financial inclusion indicators suggest a sizable payoff from reforms that facilitate access to finance, promote innovation, and enhance financial literacy, particularly for SMEs. In this regard, the authorities have published a financial-inclusion strategy (benchmark) to enhance the quality, access, and use of financial services in Jordan; including by improving SMEs' access to finance, further developing key infrastructure (credit bureau and payment system), enhancing digital financial services, improving access to Microfinance, promoting financial literacy, strengthening consumer protection, and building a comprehensive monitoring framework. Following on from the strategy, the authorities published a concrete action plan in mid-2018 and are now developing a monitoring and evaluation framework. In addition, the passage of the insolvency law (structural benchmark) has brought Jordan's bankruptcy framework in line with international best practice; and the passage of the secured lending law (structural benchmark) now allows SMEs to use moveable assets as collateral.

PROGRAM MODALITIES AND FINANCING

27. To support the implementation of the agreed policies throughout 2019, the authorities have requested an extension of the arrangement to March 23, 2020 and a re-phasing of remaining access under the program.

- The attached Letter of Intent and MEFP describe the authorities' progress in implementing their economic program and set out their commitments. The authorities request a re-phasing of pending structural benchmarks, taking into account the need to complete technical assistance for a successful roll-out, and propose new structural benchmarks (Table 8).

- Staff proposes performance criteria for end-June and end-December 2019 as well as a new indicative target for end-September 2019 (Table 1b of the MEFP). The authorities request to modify the performance criterion for the combined public deficit to expand the program monitoring to the water distribution companies in light of their deteriorated performance, and to add an indicative target on those companies' domestic arrears. To strengthen the fiscal performance, the authorities recognize the need for a downward adjustor on the two fiscal performance criteria to offset deviations from the programmed clearance of domestic arrears as well as the accumulation of any arrears in the energy and health sectors (TMU ¶14 and 17).

- Access has been rephased accordingly. The program will have four reviews, with access under the second and third reviews remaining at 35 percent of quota each. Access under the fourth review will be set at 50 percent (Table 5).

28. To demonstrate their commitment to the program targets, the authorities have implemented all the *five prior actions*:

- Approval by parliament of the amendments to the income tax law;
- Submission to parliament of a budget law for 2019 broadly consistent with program commitments;
- The issuance of supporting regulations to accelerate GST payments from a bi-monthly to a monthly basis for large taxpayers;
- Approval by cabinet of the consolidation of taxes and fees on oil-derivatives into a specific excise tax framework; and
- Approval by cabinet of a comprehensive energy-reform plan that ensures NEPCO's medium-term sustainability and gradually phases out cross-subsidies; with initial implementation to include upfront revenue and cost-savings measures that prevent further losses in 2019.

29. Firm financing assurances are in place for 2019–20, with good prospects afterwards. The London Initiative held in late February played a critical role in securing additional financing, with new commitments over 2019–23 of $5.1 billion, including $3.5 billion from official bilateral donors (Canada, EU, France, Germany, GCC members, Italy, Japan, the Netherlands, the United Kingdom, and the United States) and $1.6 billion from multilateral organizations (Arab Monetary Fund, EBRD, EIB, and the World Bank). Donors pledged to continue supporting Jordan in the years ahead, as Jordan would need sustained concessional financing and budget grants to preserve external sustainability beyond the program period. Taking into account existing and new commitments, external financing needs estimated at $10.2 billion for 2019–20 are expected to be covered (including through Eurobond issuance of $2.25 billion).

External Financing

(In millions of U.S. dollars)

	2019	2020	Total
Financing gap	**5,828**	**4,388**	**10,216**
Reserve accumulation	1,863	1,046	2,909
Underlying BOP gap (net)	3,965	3,342	7,307
Identified public external financing	**5,828**	**4,388**	**10,216**
Public sector grants	1,265	1,135	2,399
Budget	903	792	1,695
Off-budget	362	342	705
Public sector borrowing	4,377	3,225	7,601
Budget	3,478	2,504	5,983
Off-budget 1/	898	720	1,619
Jordan Compact off-budget grants	186	29	215
Memorandum Items:			
Multilateral, *of which:*	2,316	1,157	3,473
IMF	336	241	577
Bilateral	2,512	1,981	4,493
Eurobond issuance (unguaranteed)	1,000	1,250	2,250
GCC grants transferred from CBJ to MOF 2/	159	162	322
Support for Syrian refugees 3/	37	95	131

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes prospective IMF purchases.
2/ Grants deposited at the CBJ in previous years—as part of GCC pledges made in the beginning of the SBA in 2012 (contribute to budget financing, but not to external financing).
3/ Post-London Initiative increase in direct support to refugees (all private inflows are reflected in the underlying BOP gap).

30. Reserve targets have been adjusted to reflect Jordan's revised outlook. The authorities have agreed to recalibrate the NIR targets to bring reserve coverage back to an adequate level by end-2019 (103 percent of the RAM). Moreover, in addition to strong policies, and in light of the importance of maintaining an adequate reserve buffer, the authorities agreed to restrict the cap on the NIR adjustor, which has been reset to half the level set during the first review.

31. Under the program scenario, Jordan's capacity to repay the Fund remains adequate, albeit subject to risks. Jordan has continued to meet its repayment obligations to the Fund. Risks, however, remain sizable due to its high debt level and gross financing needs above the high-risk benchmarks in the MAC DSA (see Annex I). Both Fund credit outstanding and repayments to the Fund are still expected to decline over the program period. Fund credit is projected to peak in 2019 at 4.9 percent of exports of goods and non-factor services (GNFS). Repayments will fall to 2.7 percent of exports of GNFS in 2019 (Table 6).

32. External arrears. Jordan has outstanding arrears to an official bilateral creditor, which continue to be deemed away under the Fund's policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative, and the authorities continue making best efforts to resolve the arrears. Staff will continue to encourage the authorities to seek a Paris Club-comparable treatment from the creditor.

33. Safeguards. The last safeguards assessment of the CBJ, completed in 2016, found that the central bank continued to strengthen its safeguards framework, including through legal amendments and improvements to its governance and external audit arrangements. The assessment made a number of recommendations to further strengthen accountability and transparency mechanisms, which the authorities have implemented, except one currently in progress.

STAFF APPRAISAL

34. Jordan has continued to preserve macroeconomic stability in a difficult environment. It has weathered a series of severe and highly persistent shocks for several years now, including protracted regional conflicts, the hosting of Syrian refugees, the disruption of critical export markets and transportation routes, and rising borrowing costs. Fiscal consolidation helped lower the combined public-sector deficit in 2016–17, and monetary policy has maintained financial stability in the face of significant uncertainty, while also keeping credit flowing to the private sector. All these measures helped maintain steady economic growth at around 2 percent, which however, is insufficient to reduce high unemployment.

35. Last year proved particularly challenging as the authorities confronted a complex range of difficult socio-economic issues. While some important reforms were implemented, fiscal slippages and delays in advancing several structural reforms undermined the authorities' overall effort to accelerate the improvement of economic conditions. While the challenges facing Jordan remain important and pressing, the new government has tried to revive the momentum for reform, and there have been some important signs of an upturn in tourism and exports—the latter facilitated by the re-opening of the Iraq border.

36. The authorities' program is rightly focused on addressing lingering issues, and the steadfast implementation of policies and reforms is critical for stability and growth. Policies should remain focused on a gradual and steady fiscal consolidation to put Jordan's high level of public debt on a steady downward path, as well as on comprehensive reforms to enhance business conditions and employment prospects. At the same time, higher emphasis is placed on improving social protection, with the expansion of spending on health and education, and better targeting spending at vulnerable groups. Unwavering implementation is key to avoid further potential fiscal slippages, operational pressures in NEPCO, unfavorable refinancing conditions, and possible delays in donor financing, all of which would adversely impact debt sustainability.

37. Jordan will still need substantial donor involvement. Conditions—global, regional, and domestic—are expected to remain difficult. And Jordan will continue to face the burden of hosting Syrian refugees; at a time of low growth, high unemployment, and sizable financial needs. The recent London Initiative demonstrated that the international community is determined to continue to support Jordan in its efforts to tackle rigidities, reform the economy, and reduce its indebtedness. Implementation will be key to preserve stability and enhance growth and employment; adjustment and reform on the part of the authorities, and the fulfillment of pledges on the part of the donor community.

38. A key priority for 2019 is the resolute implementation of Jordan's new income tax law, together with a significant strengthening of tax administration. Although less ambitious than envisaged, the new law will nonetheless help shift the balance of fiscal adjustment away from taxing consumption (which tends to hurt the most vulnerable) toward taxing income, especially from those with greater capacity to pay. The reform also removes many distortions and loopholes and broadens the tax base for corporations. But the law's success will require strict implementation of measures to enhance tax administration, as well as measures to lessen incentives and increase penalties for tax evasion. Steadfast implementation should also reassure private investors and the international community that, despite its elevated public debt level and difficult environment, Jordan has the resolve and capacity to preserve its macroeconomic stability and creditworthiness in the years ahead.

39. The authorities should also take decisive action to reduce business costs and boost employment. In particular, there is an urgent need for upfront macro-critical reforms to reduce the cost of formal jobs and to lower energy costs. In this regard, the roadmap for restructuring NEPCO is important and needs to be implemented as swiftly as possible. To ensure a lasting improvement in NEPCO's operational balance, efforts to eliminate large cross subsidies need to be front loaded and supported by a consistent implementation of the tariff adjustment mechanism. In addition, donor support is needed to lessen the impact from the company's legacy debt. Addressing high electricity costs for businesses is critical to bolster investment and promote jobs.

40. These priority reforms will build on the authorities' recent progress in improving the business environment, setting the stage for a stronger and more inclusive recovery. Staff is encouraged that, despite delays, important reforms such as the secured-transactions law, the bankruptcy law, and the business-inspections law, have all been enacted recently. Also important are labor-market reforms that have: extended refugee work permits to important sectors of the economy; promoted a more flexible approach to part-time employment; and enhanced access to child care. In addition, the publication of a financial-inclusion action plan, along with the initiatives to support credit to SMEs, will help broaden financial access, especially for women, the poor, and

SMEs—increasing the synergies between financial deepening and economic development, and lower borrowing costs in the years ahead.

41. Monetary policy has been appropriately focused on maintaining price and financial stability, and a comfortable reserves level. In light of Jordan's balance-of-payments requirements and the need to maintain an adequate reserve buffer, the authorities must stand ready to further increase the interest differential with the United States if needed. The recent Fed decision for 2019 is helpful, but it is important to ensure that reserve losses do not continue, and that buffers are maintained in line with program targets. Internally, the banking system's high levels of capitalization and profitability provide an important cushion to deal with a broad range of potential shocks. The move to Basel III and the introduction of IFRS9 provisioning standards will help further bolster the sector's resilience. Additionally, improved supervision of insurance companies and microfinance institutions will also help strengthen their finances; contributing to the development of the non-bank financial sector and its ability to support a broad-based recovery.

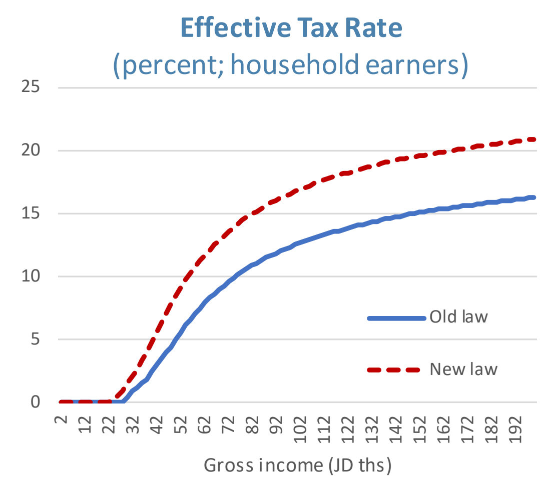
42. Staff supports the completion of the second review, the seven-month extension of the arrangement, the modification of the performance criterion for the combined public deficit, and the proposed re-phasing of access. It also supports the waiver of nonobservance of end-December 2017 performance criterion on the NIR of the CBJ—in view of the corrective action taken by the authorities, including increases in CBJ's policy rate, the CBJ's commitment to tighten further its monetary stance if pressures on reserves persist, and the envisaged fiscal consolidation in 2019, as well as the new donor commitments.

Box 1. Income Tax Reform

The new income tax law improves the previous system. The reform entails a weaker-than-envisaged personal income tax framework, but compensates with new tax initiatives on corporates, albeit potentially subject to high tax administration costs and tax planning. The reform: (i) broadens the personal (PIT) and corporate (CIT) income tax bases; (ii) reduces arbitrage opportunities between PIT and CIT; and (iii) sets the stage for a greater and much-needed focus on reducing tax evasion in the years ahead. Staff estimates a yield of 0.8 percent of GDP over the medium term.

The PIT reform somewhat broadens the tax base in an equity-enhancing manner (overall yield of 0.2 percent of GDP). In particular, the reform:

- **Reduces the *effective* exemption thresholds** from JD 14,000 and 28,000 for individuals and households (including the itemized deduction allowance of JD 2,000 and 4,000, respectively) to JD 10,000 and 23,000 (inclusive of an itemized deduction allowance of up to JD 3,000 for children—a maximum of JD 1,000 each, and starting in 2020 an additional JD 1,000 for the taxpayer and JD 1,000 for the spouse). In addition, Parliament included a new income exemption of JD2,000 for each person with permanent disability.



- **Makes the PIT system more progressive,** increasing the marginal tax rates on higher-income brackets and reducing the rate for the lowest-income earners. The reform has also introduced a flat 30 percent tax rate for income above JD 1 million. However, it has effectively removed the 1 percent solidarity tax originally envisaged, by applying it only on income exceeding JD 200,000.
- **Expands the tax base,** by introducing a securities transaction tax (a 0.08 percent of the value of traded shares both from sellers and buyers to facilitate procedures for collecting income tax on stock trading profits) and introducing a presumptive income tax regime on professionals (at a 1 percent tax rate on revenues below a threshold of JD 150,000).

Personal Income Tax

Current law			Amended law			
Tax rate (%)	Income brackets	Exemption thresholds (JD)	Tax rate (%)	Income brackets	Exemption thresholds (JD) 1/ 2019	2020-onwards
7	0-10,000	Individuals: 12,000	5	0-5,000	Individuals: 10,000	9,000
		Households: 24,000	10	5,001-10,000	Households: 20,000	18,000
14	10,001-20,000	Itemized allowance: 4,00	15	10,001-15,000	Itemized allowance 2/: 3,00	5,000
20	above 20,000		20	15,001-20,000		
			25 3/	20,001-1,000,000		
			30 (flat) 3/	above 1,000,000		

1/ In addition, JD2,000 for each person with "continuous and permanent disability" shall be tax-exempt.

2/ For 2019, up to JD3,000 for expenses (JD1,000 for each children). For 2020 and onwards, up to JD5,000 for expenses (JD1,000 for taxpayer, JD1,000 for spouse, and JD1,000 for each children up to JD3,000). Itemized items include expenses on health, education, rental, mortgage interest and Murabaha.

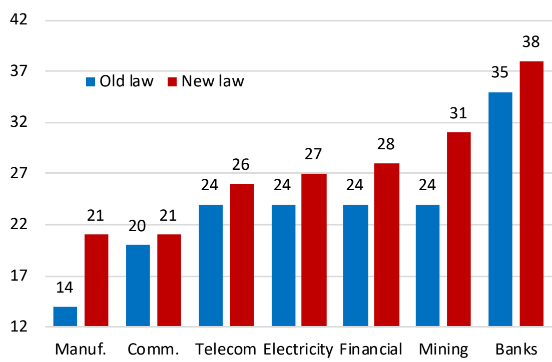
3/ In addition, impose a 1 percent social solidarity tax on taxable income exceeding JD200,000.

Box 1. Income Tax Reform (continued)

The CIT reform decreases economic distortions while broadening the tax base (overall yield of 0.5 percent of GDP). The reform:

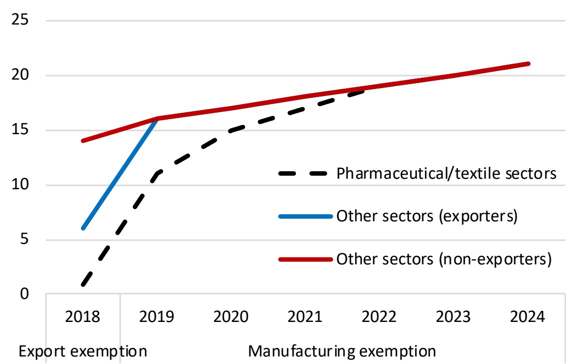
- **Unifies the standard statutory CIT rate** for the manufacturing and commercial sectors to a level (20 percent) that, together with the increase in the top marginal PIT rate, would prevent arbitrage opportunities between the PIT and CIT and incentivize formalization.
- **Introduces a time-bound surtax on non-manufacturing corporate profits.** The reform calls for establishing a "National Contribution Account" (NCA) at the Ministry of Finance on the basis of the following additional surtax on corporate profits: 3 percent (banks and electricity distribution and generation companies); 7 percent (mining companies); 4 percent (financial intermediary companies, financial companies, and legal persons practicing financial leasing); 2 percent (telecommunications companies, and insurance and re-insurance companies); 1 percent (all other legal persons); and also includes the 1 percent on individuals with income exceeding JD 200,000 (the aforementioned personal solidarity tax). The new income tax law specifies that the withholding of such contributions shall stop once the public debt reaches the acceptable ratio under the effective Public Debt Management Law; which is currently set at 80 percent of GDP.
- **Replaces the non-WTO compliant export income deduction with a *temporary* manufacturing deduction.** Since 1995, Jordan has exempted export profits from CIT. After receiving several WTO waivers, it committed to replace the current subsidy with a WTO-compliant scheme by end-2018. In this context, the new law replaced the export income subsidy with an income deduction of 50 and 25 percent applicable to the pharmaceutical and textile sectors and to other manufacturing sectors, respectively.[1] The new law also specifies that these exemptions will phase out over 2019-2024, with all industrial companies facing an effective CIT rate of 20 percent starting in 2024 (plus the additional 1 percent NCA contribution if applicable).

Corporate Income Tax Rates 1/
(percent)



1/ Statutory CIT rate plus NCA contributions.

Effective Corporate Income Tax Rate 1/
(percent; manufacturing)



1/ Effective CIT rate plus a 1 percent NCA contribution.

1/ Such a temporary differentiation across manufacturing sectors allows for a gradual convergence to the 20-percent statutory rate for export-intensive sectors. This provision is WTO-compliant, as it is applicable to the entire manufacturing sector and not only to exporters. The share of export income in total income for the pharmaceutical/textile and other manufacturing sectors is 90 and 25 percent, respectively.

Box 1. Income Tax Reform (concluded)

- **Expands the tax base,** by:

  i) Adding into the tax web currently-exempted large agricultural companies (with an income exemption of JD 50,000);

  ii) Removing tax concessions for investment in special and development zones on non-manufacturing services (with CIT rates increased from 5 to 10 percent, while preserving the existing 5 percent on manufacturing activities);

  iii) Taxing corporate income generated on all activities (excluding transit) within free zones at the regular CIT statutory rates;

  iv) Introducing an annual minimum corporate tax of JD 500 for registered partnerships and limited partnerships; and

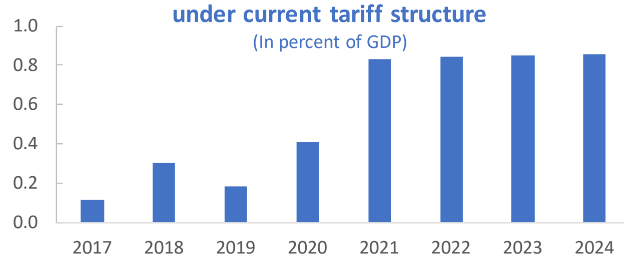
  v) Other measures, including: taxation on dividends received by banks, telecom companies, and financial companies; an increase in the withholding corporate tax rate on interest income from 5 to 7 percent; and taxation on e-commerce at regular rates.

Finally, the reform includes a range of measures to enhance the tax administration's powers, tools, and systems to effectively and efficiently increase collections (overall yield of 0.1 percent of GDP). These include implementing the PAYE withholding regime for large taxpayers, improving compliance of self-employed and professionals (registration, payment and filling), introducing a modern transfer pricing rule, enhancing the access to third-party information, and strengthening penalties to combat tax evasion.

Box 2. Energy Sector Reform

Context. Continued tariff cuts since the last quarter of 2018 have undermined NEPCO's capacity to cover its operational costs. The positive impact of cheaper gas sources from Egypt since the last quarter of 2018 and the Mediterranean starting in 2020 are not expected to be enough to offset expensive long-term power purchase agreements, particularly from the coming into stream of the shale oil project in 2020–21. Based on unchanged policies and the tariff structure prevailing as of March 2019, NEPCO's losses are projected to increase from 0.2 percent of GDP in 2019 to 0.9 percent during 2021–24. Together with a sizable legacy debt burden (17 percent of GDP or 18 percent of total public debt as of end-2018), NEPCO's financial position needs prompt corrective action.

NEPCO operational losses under current tariff structure
(In percent of GDP)



Source: National Electric Power Company; IMF staff estimates.

Reform. To address these challenges, with the support from the World Bank and the international community, the authorities have prepared a multi-pronged plan aimed to place NEPCO's operations on a strong sustainable footing, with upfront action to ensure that NEPCO's slide into operational losses is not repeated, including:

- ***An initial correction, cost-savings and revenue measures and regular tariff adjustment.*** To prevent losses in 2019, the authorities have implemented an array of cost-savings and revenue measures.[1] In addition, they have committed, since July 1, 2019, to roll out a strengthened quarterly automatic tariff adjustment mechanism linked to NEPCO's overall cost structure to secure its annual breakeven.
- ***The rationalization of the cross-subsidized tariff structure.*** With high electricity costs being a binding impediment to growth and impacting private sector competitiveness, the authorities have committed to progressively rationalize tariffs for productive sectors on a revenue-neutral basis. As a first step, they plan to reduce the cross-subsidy burden on productive sectors (large industries, ports, and commercial sector) during the fourth quarter of 2019, at an overall cost of 0.1 percent of GDP (offset by the aforementioned cost-savings and revenue measures).
- ***The adoption of cost-reflective open access charges,*** by implementing a fixed charge to those users with self-generation capacity to more accurately reflect the costs of continued access to the electric grid (e.g. capacity, storage, and maintenance) and further reduce cross-subsidies.
- ***Arresting the accumulation of NEPCO's receivables.*** The authorities cleared the stock of NEPCO's receivables in April, through a one-time-settlement of intra-governmental liabilities involving electricity distribution companies, NEPCO and the Ministry of Finance. Going forward, to ensure no further accumulation of arrears, the authorities aim to implement—by the third quarter of 2019—a new mechanism that enables NEPCO to collect electricity payments from public agencies directly from the Ministry of Finance.
- ***Reprofiling of NEPCO's debt.*** Conditional on implementation goals, donors have provided early indications of potential financial support in the years ahead to reprofile NEPCO's debt—to smooth out its debt service profile and reduce its interest burden.[2]

1/ Cost-savings measures include additional cheaper gas from Egypt and other savings from the lower use of liquified natural gas. Revenue measures include the increase of bulk tariffs charged by NEPCO to electricity distribution companies, the elimination of cross-subsidies to households with three-phase connections and with more than one meter, and charges to self-generation consumers.

2/ As committed financing is yet to be firmed up, NEPCO's envisaged debt reprofiling is not yet reflected in the debt sustainability analysis and financing tables.

Box 2. Energy Sector Reform (concluded)

- ***While mitigating the impact on vulnerable households.*** Donor commitments would also help financing compensatory measures to mitigate the impact of higher tariffs on the most vulnerable, including the implementation of targeted cash transfers and the use of renewable energy.
- ***And providing incentives for efficient electricity consumption.*** The authorities plan to implement energy saving certificates to prize efficient electricity consumption with lower tariffs financed with savings from other programs.

The full implementation of NEPCO's restructuring, together with transparent and strengthened regulatory practices, will place NEPCO's financial position on a sustainable path, while enhancing growth and investment prospects through the gradual removal of cross-subsidies.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2017–24

	Act.	1st Rev.	Act.	Proj.					
	2017	2018	2018	2019	2020	2021	2022	2023	2024
Output and prices	(Percentage change, unless otherwise indicated)								
Real GDP at market prices	2.1	2.5	1.9	2.2	2.4	2.6	2.8	3.0	3.0
GDP deflator at market prices	1.7	2.5	1.8	2.2	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices	3.9	5.1	3.7	4.4	5.0	5.2	5.4	5.6	5.6
Nominal GDP at market prices (JD millions)	28,903	30,170	29,984	31,318	32,871	34,569	36,426	38,456	40,600
Nominal GDP at market prices ($ millions)	40,766	42,553	42,291	44,172	46,363	48,758	51,376	54,240	57,264
Consumer price inflation (annual average)	3.3	1.5	4.5	2.0	2.5	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	3.2	2.5	3.6	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent) 1/	18.1	…	18.3	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)								
Fiscal operations									
Revenue and grants	25.7	28.8	26.1	26.9	26.7	26.1	25.7	25.1	24.9
Of which: grants	2.4	3.8	3.0	2.4	2.1	1.6	1.3	1.0	0.8
Expenditure 2/	28.3	30.7	29.7	29.2	29.6	29.8	29.2	29.2	29.1
Fiscal gap 3/	0.0	1.5	0.0	0.0	0.7	1.7	2.9	2.9	2.9
Overall fiscal balance 4/	-2.2	-0.4	-3.3	-2.3	-2.3	-1.9	-0.7	-1.1	-1.3
Primary government balance (excluding grants)	-1.7	-0.6	-3.0	-1.4	-0.7	0.4	2.1	2.1	2.1
NEPCO operating balance	-0.1	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance	-1.1	-1.2	-1.0	-1.1	-0.9	-0.8	-0.8	-0.7	-0.7
Water Distribution Companies overall balance	0.0	…	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Combined public sector balance 5/	-2.9	-1.8	-4.3	-2.6	-1.7	-0.6	1.2	1.2	1.2
Government and government-guaranteed gross debt 6/	94.3	93.5	94.4	94.6	94.1	92.4	89.2	86.4	83.7
Of which: external debt	39.9	43.0	37.4	41.3	42.3	44.4	44.1	45.6	42.1
External sector									
Current account balance (including grants), *of which:*	-10.6	-8.3	-7.0	-7.0	-6.2	-6.6	-6.1	-6.1	-6.0
Exports of goods, f.o.b. ($ billions)	7.5	8.2	7.8	8.1	8.7	9.2	9.8	10.5	11.0
Imports of goods, f.o.b. ($ billions)	18.2	17.9	18.0	18.6	19.2	19.9	20.6	21.3	22.1
Oil and oil products ($ billions)	3.0	3.2	3.8	3.5	3.5	3.6	3.6	3.7	3.7
Current account balance (excluding grants)	-13.3	-11.3	-10.3	-9.9	-8.7	-8.7	-8.0	-7.6	-7.3
Private capital inflows (net)	3.8	4.7	2.4	4.0	4.7	4.8	4.8	5.0	5.1
Monetary sector	(Percentage change)								
Broad money	0.2	5.1	1.3	4.9	…	…	…	…	…
Net foreign assets	1.1	11.2	-19.3	16.5	…	…	…	…	…
Net domestic assets	-0.1	2.8	9.1	1.7	…	…	…	…	…
Credit to private sector	9.4	7.8	5.2	4.6	…	…	…	…	…
Credit to central government	-10.2	-15.4	10.3	-7.8	…	…	…	…	…
Memorandum items:									
Gross usable international reserves ($ millions)	14,256	16,003	12,513	14,381	15,756	17,468	18,212	19,011	18,345
In months of prospective imports	7.5	8.1	6.4	7.0	7.4	7.9	8.0	8.0	7.5
In percent of reserve adequacy metric	114	120	97	103	108	113	113	112	105
Net international reserves ($ millions)	12,643	14,499	11,430	13,380	14,714	16,444	17,212	18,051	17,488
Population (millions) 7/	9.7	8.0	9.7	10.1	10.2	10.3	10.4	10.5	10.5
Nominal per capita GDP ($)	4,202	5,329	4,359	4,387	4,542	4,724	4,937	5,179	5,434
Real effective exchange rate (end of period, 2010=100) 8/	118.4	…	123.1	…	…	…	…	…	…
Percent change (+=appreciation; end of period)	-3.8	…	4.0	…	…	…	…	…	…

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

1/ The Department of Statistics changed the methodology of the Survey of Employment and Unemployment in 2017 following ILO recommendations.

2/ Includes other use of cash.

3/ Estimated amount of fiscal measures that will need to be implemented to meet the programmed fiscal adjustment.

4/ Includes statistical discrepancy.

5/ Defined as the sum of the primary central government balance (excl. grants and transfers to NEPCO and WAJ), NEPCO operating balance, WAJ overall balance, and, starting in 2019, Aqaba, Miyahuna, and Yarmouk Water Distribution Companies overall balance.

6/ Includes government-guaranteed debt of NEPCO, WAJ, and other public entities.

7/ Data from the 2017 Revision of World Population Prospects of the UN population division.

8/ INS data. CBJ staff's estimates, based on updated trade weights, shows a more moderate pace of real appreciation over the past few years.

Table 2a. Jordan: Central Government: Summary of Fiscal Operations, 2017–24 1/
(In millions of Jordanian dinars)

	Act.	1st Rev.	Act.	Budget	Proj.					
	2017	2018	2018	2019	2019	2020	2021	2022	2023	2024
Total revenue and grants	7,424	8,685	7,840	8,610	8,436	8,764	9,035	9,349	9,659	10,100
Domestic revenue	6,716	7,534	6,945	8,010	7,683	8,087	8,469	8,862	9,293	9,763
Tax revenue, *of which:*	4,583	5,663	4,724	5,273	5,262	5,563	5,827	6,093	6,383	6,704
Taxes on income and profits	938	1,018	965	1,188	1,141	1,292	1,357	1,428	1,505	1,589
Sales taxes	2,993	3,368	3,185	3,610	3,514	3,654	3,840	4,020	4,216	4,432
Taxes on foreign trade	304	452	293	365	320	324	327	332	338	346
Other taxes	348	825	281	110	286	293	303	313	325	338
Nontax revenue	2,133	1,871	2,221	2,737	2,422	2,525	2,642	2,770	2,910	3,059
Grants	708	1,151	895	600	753	677	567	487	366	337
Total expenditures, inc. other use of cash	8,169	9,248	8,912	9,255	9,160	9,738	10,308	10,643	11,222	11,832
Current expenditure	7,113	7,890	7,620	8,013	7,918	8,423	8,925	9,186	9,684	10,208
Wages and salaries	1,387	1,430	1,419	1,602	1,602	1,666	1,733	1,802	1,874	1,949
Interest payments	856	1,076	1,004	1,030	1,035	1,202	1,371	1,490	1,596	1,707
Domestic	587	790	648	665	620	687	783	868	908	946
External	269	286	357	365	415	516	588	622	688	761
Military and public security expenditure, *of which:*	2,325	2,445	2,482	2,645	2,545	2,671	2,809	2,960	3,125	3,299
Military expenditure	1,293	1,590	1,377	1,458	1,358	1,425	1,499	1,579	1,668	1,760
Food subsidy	111	194	56	20	20	21	22	23	25	26
Transfers, *of which*:	2,055	2,366	2,363	2,343	2,343	2,471	2,579	2,477	2,606	2,743
Pensions	1,280	1,333	1,332	1,370	1,370	1,438	1,512	1,593	1,682	1,776
Cash transfers	0	0	161	155	155	155	155	155	155	155
Transfers to health fund, *of which:*	278	373	216	240	240	232	239	145	153	162
Health arrears clearance	187	260	130	115	115	101	101	0	0	0
Energy arrears clearance	0	100	54	85	85	120	120	0	0	0
Transfers to public sector institutions	286	255	293	222	222	233	246	259	273	288
Other transfers	211	305	308	271	271	292	308	324	342	361
Purchases of goods & services	380	379	296	373	373	392	412	434	458	484
Capital expenditure	1,060	1,358	948	1,243	1,243	1,315	1,383	1,457	1,538	1,624
Adjustment on receivables and payables (use of cash)	-4	0	344	0	0	0	0	0	0	0
Total balance from above the line	-745	-563	-1,072	-645	-724	-974	-1,273	-1,294	-1,563	-1,732
Statistical discrepancy, net	104	0	69	0	0	0	0	0	0	0
Overall balance at current policies	-641	-563	-1,003	-645	-724	-974	-1,273	-1,294	-1,563	-1,732
Fiscal gap 2/	0	450	0	0	0	233	604	1,051	1,121	1,193
Overall balance after fiscal measures	-641	-113	-1,003	-645	-724	-741	-669	-242	-442	-538
Advances to water sector, *of which:*	88	0	419	526	613	466	371	354	226	299
Distribution companies					46	46	46	46	46	46
Financing	729	113	1,423	1,171	1,338	1,208	1,040	597	668	837
Foreign financing (net) 3/	1,624	998	589	-212	1,400	635	1,207	581	1,390	-331
Domestic financing (net)	-895	-885	834	1,384	-62	572	-167	15	-723	1,169
CBJ on-lending of net IMF financing	-345	-331	-349		-296	-142	0	0	0	0
Other domestic bank financing	-1,375	-856	303		-336	386	-513	-349	-1,107	763
Domestic nonbank financing	746	302	503		470	329	346	364	385	406
Use of deposits	79	0	377		0	0	0	0	0	0
Privatization proceeds	0	0	0		100	0	0	0	0	0
Memorandum items:										
NEPCO operating balance	-33	1	-90		0	2	7	5	3	0
WAJ overall balance, excluding project grants	-311	-361	-293		-341	-302	-289	-283	-278	-281
Water distribution companies overall balance	13	…	-3	….	-46	-46	-46	-46	-46	-46
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-493	-188	-894	-215	-442	-215	135	761	788	832
Combined public balance (PC) 4/	-837	-548	-1,277		-829	-562	-194	437	467	505
Overall public balance, including grants	-956	-430	-1,363		-1,018	-991	-902	-471	-666	-766
Government and guaranteed gross debt	27,269	28,201	28,308	29,744	29,625	30,928	31,950	32,499	33,233	33,971
Of which: External	11,524	12,981	11,226		12,938	13,920	15,362	16,065	17,538	17,103
Stock of health arrears	442	123	317		202	101	0	0	0	0
Stock of energy arrears (fuel and electricity)	399	107	325		240	120	0	0	0	0
GDP at market prices	28,903	30,170	29,984		31,318	32,871	34,569	36,426	38,456	40,600

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

1/ Starting 2019, the fiscal accounts consolidate the operations of 29 government units, with a neutral impact on the overall balance.

2/ Unidentified fiscal measures that will need to be implemented to meet program targets.

3/ Includes net issuance of domestic FX bonds.

4/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and starting in 2019, water distribution companies overall balance.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2017–24 1/
(In percent of GDP)

	Act.	1st Rev.	Act.	Budget	Proj.					
	2017	2018	2018	2019	2019	2020	2021	2022	2023	2024
Total revenue and grants	25.7	28.8	26.1	27.5	26.9	26.7	26.1	25.7	25.1	24.9
Domestic revenue	23.2	25.0	23.2	25.6	24.5	24.6	24.5	24.3	24.2	24.0
Tax revenue, *of which*:	15.9	18.8	15.8	16.8	16.8	16.9	16.9	16.7	16.6	16.5
Taxes on income and profits	3.2	3.4	3.2	3.8	3.6	3.9	3.9	3.9	3.9	3.9
Sales taxes	10.4	11.2	10.6	11.5	11.2	11.1	11.1	11.0	11.0	10.9
Taxes on foreign trade	1.1	1.5	1.0	1.2	1.0	1.0	0.9	0.9	0.9	0.9
Other taxes	1.2	2.7	0.9	0.4	0.9	0.9	0.9	0.9	0.8	0.8
Nontax revenue	7.4	6.2	7.4	8.7	7.7	7.7	7.6	7.6	7.6	7.5
Grants	2.4	3.8	3.0	1.9	2.4	2.1	1.6	1.3	1.0	0.8
Total expenditures, inc. other use of cash	28.3	30.7	29.7	29.6	29.2	29.6	29.8	29.2	29.2	29.1
Current expenditure	24.6	26.2	25.4	25.6	25.3	25.6	25.8	25.2	25.2	25.1
Wages and salaries	4.8	4.7	4.7	5.1	5.1	5.1	5.0	4.9	4.9	4.8
Interest payments	3.0	3.6	3.3	3.3	3.3	3.7	4.0	4.1	4.2	4.2
Domestic	2.0	2.6	2.2	2.1	2.0	2.1	2.3	2.4	2.4	2.3
External	0.9	0.9	1.2	1.2	1.3	1.6	1.7	1.7	1.8	1.9
Military and public security expenditure, *of which:*	8.0	8.1	8.3	8.4	8.1	8.1	8.1	8.1	8.1	8.1
Military expenditure	4.5	5.3	4.6	4.6	4.3	4.3	4.3	4.3	4.3	4.3
Food subsidy	0.4	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers, *of which*:	7.1	7.8	7.9	7.5	7.5	7.5	7.5	6.8	6.8	6.8
Pensions	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Cash transfers	0.0	0.0	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Transfers to health fund, *of which:*	1.0	1.2	0.7	0.8	0.8	0.7	0.7	0.4	0.4	0.4
Health arrears clearance	0.6	0.8	0.4	0.4	0.4	0.3	0.3	0.0	0.0	0.0
Energy arrears clearance	0.0	0.3	0.2	0.3	0.3	0.4	0.3	0.0	0.0	0.0
Transfers to public sector institutions	1.0	0.8	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other transfers	0.7	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Purchases of goods & services	1.3	1.3	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Capital expenditure	3.7	4.5	3.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Adjustment on receivables and payables (use of cash)	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-2.6	-1.9	-3.6	-2.1	-2.3	-3.0	-3.7	-3.6	-4.1	-4.3
Statistical discrepancy, net	0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance at current policies	-2.2	-1.9	-3.3	-2.1	-2.3	-3.0	-3.7	-3.6	-4.1	-4.3
Fiscal gap 2/	0.0	1.5	0.0	0.0	0.0	0.7	1.7	2.9	2.9	2.9
Overall balance after fiscal measures	-2.2	-0.4	-3.3	-2.1	-2.3	-2.3	-1.9	-0.7	-1.1	-1.3
Advances to water sector, *of which:*	0.3	0.0	1.4	1.7	2.0	1.4	1.1	1.0	0.6	0.7
Distribution companies					0.1	0.1	0.1	0.1	0.1	0.1
Financing	2.5	0.4	4.7	3.7	4.3	3.7	3.0	1.6	1.7	2.1
Foreign financing (net) 3/	5.6	3.3	2.0	-0.7	4.5	1.9	3.5	1.6	3.6	-0.8
Domestic financing (net)	-3.1	-2.9	2.8	4.4	-0.2	1.7	-0.5	0.0	-1.9	2.9
CBJ on-lending of net IMF financing	-1.2	-1.1	-1.2		-0.9	-0.4	0.0	0.0	0.0	0.0
Other domestic bank financing	-4.8	-2.8	1.0		-1.1	1.2	-1.5	-1.0	-2.9	1.9
Domestic nonbank financing	2.6	1.0	1.7		1.5	1.0	1.0	1.0	1.0	1.0
Use of deposits	0.3	0.0	1.3		0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0		0.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
NEPCO operating balance	-0.1	0.0	-0.3	...	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance, excluding project grants	-1.1	-1.2	-1.0	...	-1.1	-0.9	-0.8	-0.8	-0.7	-0.7
Water distribution companies overall balance	0.0	...	0.0	...	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-1.7	-0.6	-3.0	-0.7	-1.4	-0.7	0.4	2.1	2.1	2.1
Combined public balance (PC) 4/	-2.9	-1.8	-4.3		-2.6	-1.7	-0.6	1.2	1.2	1.2
Overall public balance, including grants	-3.3	-1.4	-4.5		-3.2	-3.0	-2.6	-1.3	-1.7	-1.9
Government and guaranteed gross debt	94.3	93.5	94.4	95.0	94.6	94.1	92.4	89.2	86.4	83.7
Of which: External	39.9	43.0	37.4		41.3	42.3	44.4	44.1	45.6	42.1
Stock of health arrears	1.5	0.4	1.1		0.6	0.3	0.0	0.0	0.0	0.0
Stock of energy arrears (fuel and electricity)	1.4	0.4	1.1		0.8	0.4	0.0	0.0	0.0	0.0
GDP at market prices (JD millions)	28,903	30,170	29,984		31,318	32,871	34,569	36,426	38,456	40,600

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

1/ Starting 2019, the fiscal accounts consolidate the operations of 29 government units, with a neutral impact on the overall balan

2/ Unidentified fiscal measures that will need to be implemented to meet program targets.

3/ Includes net issuance of domestic FX bonds.

4/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and starting in 2019, water distribution companies overall balance.

Table 2c. Jordan: Central Government: Summary of Quarterly Fiscal Operations, 2018–20
(In millions of Jordanian dinars)

	2018					2019					2020				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
			Act.					Proj.					Proj.		
Total revenue and grants	1,609	1,828	1,886	2,516	7,840	1,746	2,090	2,056	2,544	8,436	1,864	2,259	2,094	2,548	8,764
Domestic revenue	1,537	1,822	1,765	1,821	6,945	1,686	2,085	1,954	1,959	7,683	1,809	2,254	2,002	2,022	8,087
Tax revenue, *of which*:	1,063	1,291	1,198	1,171	4,724	1,174	1,493	1,318	1,276	5,262	1,282	1,606	1,375	1,300	5,563
Taxes on income and profits	201	415	194	155	965	246	495	230	170	1,141	314	565	260	153	1,292
General sales tax	713	734	859	879	3,185	775	847	934	957	3,514	812	888	958	996	3,654
Taxes on foreign trade	72	73	75	74	293	82	80	80	79	320	82	80	81	80	324
Other taxes	78	69	71	63	281	72	72	74	69	286	73	73	76	71	293
Nontax revenue	474	531	567	649	2,221	511	592	635	683	2,422	527	648	627	722	2,525
Grants	72	6	121	695	895	61	5	102	585	753	55	5	92	526	677
Total expenditures, inc. other use of cash	2,322	2,013	2,162	2,415	8,912	2,103	2,396	2,313	2,349	9,160	2,216	2,624	2,405	2,493	9,738
Current expenditure	1,951	1,795	1,812	2,061	7,620	1,838	2,017	2,005	2,058	7,918	1,942	2,191	2,109	2,180	8,423
Wages and salaries	349	357	345	368	1,419	390	406	400	406	1,602	406	422	416	422	1,666
Interest payments	248	227	270	259	1,004	247	226	276	286	1,035	280	290	308	324	1,202
Domestic	169	132	192	155	648	161	121	174	164	620	178	166	175	168	687
External	79	95	79	104	357	87	105	102	122	415	102	124	133	156	516
Military and public security expenditure	599	625	631	627	2,482	618	628	657	642	2,545	628	679	686	677	2,671
Food subsidy	0	0	11	45	56	0	4	5	11	20	0	4	5	12	21
Transfers, *of which*:	687	520	486	670	2,363	508	667	594	574	2,343	549	697	617	608	2,471
Pensions	328	333	331	340	1,332	336	340	341	353	1,370	352	357	358	371	1,438
Cash transfers	155	0	0	6	161	0	105	50	0	155	0	105	50	0	155
Transfer to health fund	65	54	21	77	216	50	66	22	102	240	26	36	8	162	232
Energy arrears clearance	0	0	1	53	54	0	0	28	57	85	30	30	30	30	120
Transfers to public sector institutions	73	78	67	74	293	49	61	59	53	222	48	58	62	65	233
Other transfers	66	56	67	119	308	72	96	93	9	271	93	111	108	-20	292
Purchases of goods & services	68	66	69	93	296	75	86	73	139	373	79	99	77	137	392
Capital expenditure	129	224	196	399	948	135	329	308	470	1,243	143	383	296	492	1,315
Adjustment on receivables and payables (use of cash)	243	-7	154	-45	344	130	50	0	-180	0	130	50	0	-180	0
Overall balance from above the line	-713	-184	-276	101	-1,072	-357	-306	-257	195	-724	-352	-365	-312	55	-974
Statistical discrepancy, net	34	-55	10	81	69	0	0	0	0	0	0	0	0	0	0
Overall balance at current policies	-680	-239	-266	182	-1,003	-357	-306	-257	195	-724	-352	-365	-312	55	-974
Fiscal gap 1/	0	0	0	0	0	0	0	0	0	0	42	64	64	64	233
Overall balance after fiscal measures	-680	-239	-266	182	-1,003	-357	-306	-257	195	-724	-310	-302	-248	119	-741
Advances to water sector	99	93	117	110	419	162	131	179	140	613	137	118	107	104	466
Financing	778	332	384	-72	1,423	519	437	437	-55	1,338	447	420	355	-15	1,208
Foreign financing (net) 2/	-28	-110	199	528	589	30	55	685	630	1,400	-67	14	-84	772	635
Domestic financing (net)	806	442	185	-599	834	489	382	-248	-684	-62	513	407	439	-787	572
CBJ on-lending of net IMF financing	-87	-87	-71	-104	-349	-84	-84	-63	-64	-296	-53	-53	-35	0	-142
Other domestic bank financing	245	253	256	-452	303	278	286	-267	-633	-336	396	334	417	-761	386
Domestic nonbank financing	260	193	88	-38	503	243	180	82	-36	470	170	126	58	-25	329
Use of deposits	388	83	-89	-5	377	0	0	0	0	0	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	52	0	0	48	100	0	0	0	0	0
Memorandum items:															
Accounts payable (IT)	158	126	158	316	316	158	126	158	316	316	158	126	158	316	316
Social assistance spending (IT)	522	375	384	394	1,675	400	509	413	433	1,755	420	535	433	455	1,842
NEPCO operating balance	-27	-20	-24	-19	-90	19	-28	-24	32	0	0	0	0	0	2
WAJ overall balance, excluding project grants	-68	-80	-74	-72	-293	-92	-86	-89	-74	-341	-81	-76	-79	-65	-302
Water distribution companies overall balance	7	-10	-5	4	-3	-5	-17	-19	-5	-46	-12	-12	-12	-12	-46
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-503	-19	-117	-254	-894	-170	-85	-83	-104	-442	-84	-17	-31	-83	-215
Combined public balance (PC) 3/	-598	-119	-215	-345	-1,277	-247	-216	-215	-151	-829	-176	-104	-122	-160	-562
Government and guaranteed gross debt (IT)	27,720	27,931	28,416	28,308	28,308	28,682	29,223	29,719	29,625	29,625	30,189	30,563	30,889	30,928	30,928

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

1/ Unidentified fiscal measures that will need to be implemented to meet program targets.

2/ Includes net issuance of domestic FX bonds.

3/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and, starting in 2019, water distribution companies overall balance.

Table 2d. Jordan: NEPCO Operating Balance and Financing, 2017–24
(In millions of Jordanian dinars)

	2017	2018	2018	2018	2018	2018	2018	2019	2019	2019	2019	2019	2020	2021	2022	2023	2024
		Q1	Q2	Q3	Q4			Q1	Q2	Q3	Q4						
	Act.	Prel.	Prel.	Prel.	Prel.	1st. Rev.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Electricity sales	1,476	387	386	462	384	1,615	1,619	391	379	456	386	1,612	1,644	1,685	1,701	1,729	1,767
Expenses	1,509	414	406	486	403	1,615	1,710	372	406	479	354	1,612	1,642	1,678	1,696	1,727	1,765
Purchase of electricity	1,309	360	352	419	345	1,392	1,476	328	362	436	313	1,439	1,464	1,495	1,508	1,532	1,564
Depreciation	35	9	9	7	5	37	29	9	9	7	5	29	31	33	35	38	40
Interest payments 1/	98	27	30	32	32	99	120	29	29	29	29	115	117	120	122	124	127
Tax on LNG	71	19	21	25	14	72	78	0	0	0	0	0	0	0	0	0	0
Other expenses	-4	0	-5	4	7	15	6.2	7	7	7	7	29	30	31	32	33	34
Operating balance (QPC)	-33	-27	-20	-24	-19	1	-90	19	-28	-24	32	0	2	7	5	3	2
Total net domestic financing	33	27	20	24	19	-1	90	-19	28	24	-32	0	-2	-7	-5	-3	-2
Banks	102	27	49	24	19	70	119	71	-43	24	-32	19	14	8	11	-3	-2
Loans and bonds	-77	27	15	24	19	70	85	71	28	-12	-68	19	14	8	11	-3	-2
Overdrafts	179	0	34	0	0	0	34	0	-71	36	36	0	0	0	0	0	0
ITFC loan	0	0	0	0	-71	-71	-71	0	0	0	0	0	0	0	0	0	0
Other items 2/	-130	0	-150	0	71	0	42	0	471	0	0	471	15	15	15	0	0
Increase in payables	61	0	121	0	0	0	0	-90	-400	0	0	-490	0	0	0	0	0
Direct transfer from central government	0	0	0	0	0	0	0	0	-400	0	0	-400	0	0	0	0	0
To cover losses and repay arrears	0	0	0	0	0	0	0	0	-400	0	0	-400	0	0	0	0	0
To repay loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Payables to the private sector	67	0	119	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which: Increase in arrears	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:																	
Cumulative automatic distribution tariff adjustment (percentage above 2016Q4 average tariff) 3/	5	18	21	30	23	7	23	…	…	…	…	…	…	…	…	…	…
Brent oil prices (USD per barrel)	55	67	75	76	68	56	72	65	65	65	65	65	65	64	64	63	63
Outstanding loans and bonds (stocks, end-of-period)	2,120	2,147	2,162	2,186	2,205	2,195	2,205	2,276	2,233	2,257	2,224	2,224	2,222	2,215	2,211	2,208	2,207
Overdrafts	224	224	258	258	258	46	258	258	187	223	258	258	258	258	258	258	258
Total payables	3,210	3,210	3,332	3,332	3,332	3,149	3,332	3,242	2,842	2,842	2,842	2,442	2,442	2,442	2,442	2,442	2,442
to government 4/	2,738	2,738	2,740	2,740	2,740	2,744	2,740	2,650	2,250	2,250	2,250	1,850	1,850	1,850	1,850	1,850	1,850
to private sector	472	472	591	591	591	405	591	591	591	591	591	591	591	591	591	591	591
Of which: arrears (IT)	0	0	0	0	0	0	0	0	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 items. In 2018Q4 and 2019Q2, it includes disbursements of the EBRD loan.

3/ The Ministry of Energy and Mineral Resources plan to revise the electricity tariff structure in June 2019.

4/ Payables to the government include transfers from the government to NEPCO; they are excluded from the computation of the stock of arrears.

Table 2e. Jordan: WAJ and Distribution Companies Balance and Financing, 2017–24
(In millions of Jordanian dinars)

	2017	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020	2021	2022	2023	2024
	Act.	Act.	Prel.	Prel.	Prel.	1st. Rev.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
WAJ Balance:																	
Total Revenues, *of which:*	46	12	12	11	17	47	52	9	11	15	20	55	55	56	57	58	59
Sales of goods and services	45	12	12	11	17	47	52	9	11	15	20	54	55	56	57	58	58
Current Expenditure 1/	158	45	39	37	59	198	181	69	37	37	58	200	168	161	160	159	165
Salaries, wages and allowances 1/	23	6	6	6	5	26	22	6	6	6	6	23	23	24	25	26	28
Social Security contributions	2	1	1	1	1	3	2	1	1	1	1	3	3	3	4	5	7
Use of goods and services	23	8	6	5	7	28	26	7	7	7	7	27	31	32	33	34	35
Disi Project operational charge	39	10	6	7	27	53	49	10	6	7	28	50	51	52	53	54	55
Samra operational charge	15	3	3	3	3	13	13	3	3	3	3	13	13	14	14	14	14
Arrears clearance	…	…	…	…	…	…	…	27	…	…	…	27	…	…	…	…	…
Interest payments, *of which:*	56	18	18	17	16	76	68	15	15	13	14	57	46	37	31	25	26
Interest payments on domestic loans	50	17	15	16	13	69	61	15	12	13	11	50	37	27	20	13	13
Interest payments on foreign loans	6	0	3	0	3	7	7	1	3	1	3	7	9	10	11	12	13
Primary balance 2/	-56	-15	-9	-10	-26	-76	-60	-44	-12	-8	-24	-88	-66	-68	-72	-76	-81
Capital Expenditure	199	35	53	48	30	210	165	32	59	68	36	196	189	184	180	177	174
WAJ Overall balance	-311	-68	-80	-74	-72	-361	-293	-92	-86	-89	-74	-341	-302	-289	-283	-278	-281
Overall balance of Distribution Companies 3/	13	7	-10	-5	4	…	-3	-5	-17	-19	-5	-46	-46	-46	-46	-46	-46
Overall balance Consolidated Water Sector 4/	-299	-60	-90	-79	-67	…	-297	-96	-104	-108	-79	-387	-348	-336	-329	-324	-327
Total net financing	299	60	90	79	67	361	297	96	104	108	79	387	348	336	329	324	327
Grants	30	4	7	6	6	44	24	6	12	17	15	48	50	50	50	52	53
Transfers from Central Government 5/	88	91	2	22	94	0	209	86	80	77	48	291	248	236	229	223	224
Loans (net borrowing)	202	-46	-64	-33	-26	318	-169	-78	-45	-81	-71	-274	-168	-85	-75	47	-25
of which:																	
Domestic loans	138	-46	-66	-54	-37	278	-203	-82	-57	-96	-87	-322	-218	-135	-125	-3	-75
Foreign loans	65	0	2	21	11	40	34	5	12	15	17	48	50	50	50	50	50
Others 6/	-21	11	145	83	-8	0	232	82	57	96	87	322	218	135	125	3	75
Memorandum items (stocks, end-of-period):																	
Domestic payment arrears of WAJ in JD million 7/	0	0	0	0	27	0	27	0	0	0	0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million 8/	…	…	…	…	…	…	170	170	0	0	0	0	0	0	0	0	0
Outstanding loans, *of which:*	2,022	2,067	2,005	1,994	2,062	2,333	2,062	2,071	2,106	2,102	2,079	2,079	2,160	2,311	2,465	2,735	2,934
Domestic loans and bonds	1155	1109	1043	989	952	1542	952	870	813	717	630	630	412	277	152	149	74
Foreign loans	398	398	400	422	432	409	432	437	449	464	480	480	530	580	630	680	730
Advances from Central Government	469	560	562	584	678	382	678	764	845	921	969	969	1218	1454	1683	1906	2130
Grants and foreign loans to capital expenditure ratio (in percent)	47	24	34	44	67	40	41	59	42	44	77	52	53	54	56	58	59
Grants to capital expenditure ratio (in percent)	15	12	14	13	22	21	14	17	19	24	40	25	26	27	28	29	30
Effective interest rate (in percent), *of which:*	3.22	3.49	3.45	3.33	3.19	3.78	3.37	2.99	2.88	2.54	2.62	2.79	2.23	1.71	1.33	1.00	0.94
Domestic loans (in percent)	4.90	5.95	5.30	6.23	5.09	5.47	5.25	6.24	5.41	6.31	5.90	5.25	5.88	6.56	7.23	8.57	8.74
Foreign loans (in percent)	1.76	0.46	3.14	0.45	3.17	1.88	1.85	0.51	2.90	0.49	2.73	1.72	1.96	1.87	1.87	1.87	1.87

Sources: Jordanian authorities; and IMF staff estimates. Projections for 2019 onwards reflect latest numbers in the 2019 draft Budget Law.

1/ Including other expenses such as pensions.

2/ Excluding interest payments and grants.

3/ The summation of the overall balances of Aqaba, Miyahuna and Yarmouk Water Companies.

4/ The summation of the overall balances of the distribution companies and WAJ.

5/ Information from the Ministry of Finance.

6/ Including settlement of liabilities, capital and other government support, installments of centralized debt. In 2018, it includes accumulation of arrears for WAJ. Before 2019, it includes accumulation of arrears of distribution companies.

7/ Arrears owed by WAJ only, to all entities. Excludes advances from Central Government for which WAJ does not pay interest and that do not have established maturity.

8/ Arrears owed by Aqaba, Miyahuna and Yarmouk Distribution Companies. Excludes advances from Central Government for which Aqaba, Miyahuna and Yarmouk Distribution Companies do not pay interest. These arrears were cleared in April 2019 through a one-off settlement of intra-governmental liabilities among the water distribution companies, NEPCO, and the ministry of finance.

Table 3a. Jordan: Summary Balance of Payments, 2017–24
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018		2019	2020	2021	2022	2023	2024
	Act.	1st. Rev.	Act.	Proj.					
Current account (CA)	-4,307	-3,518	-2,973	-3,104	-2,876	-3,211	-3,129	-3,284	-3,445
Trade balance	-10,710	-9,732	-10,211	-10,433	-10,522	-10,622	-10,772	-10,863	-11,002
Exports f.o.b.	7,522	8,214	7,784	8,131	8,673	9,236	9,837	10,454	11,050
Imports f.o.b.	18,232	17,947	17,994	18,564	19,194	19,858	20,609	21,317	22,052
Energy	3,029	3,183	3,754	3,527	3,538	3,576	3,644	3,693	3,744
Non-energy	15,202	14,763	14,240	15,036	15,656	16,282	16,966	17,624	18,308
Services and income (net), *of which:*	1,847	1,383	2,292	2,573	2,887	2,750	3,011	3,148	3,323
Travel	4,645	4,484	5,256	5,757	6,277	6,683	7,083	7,504	7,956
Current transfers (net), *of which:*	4,556	4,832	4,946	4,756	4,758	4,661	4,632	4,431	4,233
Public grants	1,097	1,308	1,404	1,265	1,135	1,024	998	859	717
Remittances	3,345	3,595	3,308	3,375	3,478	3,574	3,673	3,776	3,883
Capital and financial account 1/	2,647	2,011	2,087	2,078	3,944	4,795	3,896	4,187	2,964
Public sector, *of which:* 2/	1,036	-89	460	118	1,344	2,053	1,016	950	-511
Unidentified prospective financing 3/	0	0	0	0	0	1,429	837	2,214	0
Foreign direct investment	2,026	1,720	959	1,600	2,034	2,139	2,254	2,450	2,687
Portfolio flows (private)	-477	300	41	145	141	193	194	243	244
Other capital flows	62	80	627	215	425	410	432	543	544
Errors and omissions 4/	626	0	-1,283	0	0	0	0	0	0
Overall balance	-1,034	-1,507	-2,169	-1,026	1,068	1,584	767	903	-481
Financing	1,034	1,507	2,169	1,026	-1,068	-1,584	-767	-903	481
Reserves (+ = decrease)	130	-1,242	954	-1,863	-1,046	-1,398	-702	-832	632
Commercial banks' NFA (+ = decrease)	255	-74	905	405	-92	-194	-67	-32	-48
Program financing (+ = increase)	649	2,823	311	2,484	70	8	2	-39	-103
Official budget support	664	2,779	568	2,378	0	0	0	0	0
Jordan Compact off-budget grants	399	235	236	186	29	26	26	0	0
IMF (net)	-415	-191	-493	-81	41	-18	-24	-39	-103
Of which: prospective Fund purchases	0	276	0	336	241	0	0	0	0
Memorandum items:									
Gross reserves	15,582	16,995	14,577	16,439	17,486	18,883	19,585	20,417	19,785
Gross usable reserves 5/	14,256	16,003	12,513	14,381	15,756	17,468	18,212	19,011	18,345
In percent of the IMF Reserve Adequacy Metric	114	120	97	103	108	113	113	112	105
In months of next year's imports of GNFS	7.5	8.1	6.4	7.0	7.4	7.9	8.0	8.0	7.5
BOP official financing under the EFF	1,047	3,014	804	2,565	29	26	26	0	0
World Bank	116	364	473	1,531	0	0	0	0	0
Bilateral loans	532	557	95	848	0	0	0	0	0
Jordan Compact off-budget grants	399	235	236	186	29	26	26	0	0
CA (percent of GDP)	-10.6	-8.3	-7.0	-7.0	-6.2	-6.6	-6.1	-6.1	-6.0
CA ex-grants (percent of GDP)	-13.3	-11.3	-10.3	-9.9	-8.7	-8.7	-8.0	-7.6	-7.3
CA ex-grants and energy imports (percent of GDP)	-5.8	-3.9	-1.5	-1.9	-1.0	-1.3	-0.9	-0.8	-0.7
Energy imports	7.4	7.5	8.9	8.0	7.6	7.3	7.1	6.8	6.5
Public grants	2.7	3.1	3.3	2.9	2.4	2.1	1.9	1.6	1.3
Export growth (percent)	-0.5	5.5	3.5	4.5	6.7	6.5	6.5	6.3	5.7
Import growth (percent)	6.2	2.6	-1.3	3.2	3.4	3.5	3.8	3.4	3.4
Travel growth (percent)	14.7	3.5	13.2	9.5	9.0	6.5	6.0	5.9	6.0
Remittances growth (percent)	0.3	3.9	-1.1	2.0	3.0	2.8	2.8	2.8	2.8
Total external debt (percent of GDP)	69.6	70.3	69.1	72.3	73.0	74.8	74.0	75.3	71.6
Of which: Public external debt (percent of GDP)	39.9	43.0	37.4	41.3	42.3	44.4	44.1	45.6	42.1
Nominal GDP	40,766	42,553	42,291	44,172	46,363	48,758	51,376	54,240	57,264

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Central bank reserve accummulation, commercial banks' NFAs, and program financing are shown below-the-line.
2/ Includes GCC deposits at the CBJ for $1.2 billion in 2018, with repayment in 2023.
3/ Expected to be met with market borrowing and continued external donor support, as per commitments made at the London Initiative.
4/ Off-budget grants are shown as below-the-line financing item. In historical data, they are not removed from the income account, so as not to affect its size. Offsetting items are entered in errors and omissions for historical data to preserve accounting identities.
5/ Including gold and excluding commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 3b. Jordan: External Financing Requirements and Sources, 2017–24
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020	2021	2022	2023	2024
							Proj.					
Gross Financing Requirements	**6,382**	**5,390**	**1,437**	**2,684**	**976**	**1,234**	**6,331**	**5,850**	**4,605**	**5,526**	**5,845**	**4,778**
Current account deficit (excl. grants)	5,404	4,377	1,204	1,371	841	953	4,369	4,011	4,234	4,127	4,142	4,162
of which: Energy imports	3,029	3,754	816	864	924	924	3,527	3,538	3,576	3,644	3,693	3,744
Amortization of public sector loans 1/	492	520	114	194	45	192	545	389	352	374	497	512
Amortization of sovereign bonds 2/	0	0	0	1,000	0	0	1,000	1,250	0	1,000	0	0
GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0	1,166	0
IMF repurchases	486	493	119	119	89	90	417	200	18	24	39	103
Gross Financing Sources	**4,491**	**4,916**	**616**	**562**	**1,587**	**2,529**	**5,293**	**6,626**	**5,976**	**6,201**	**6,677**	**4,145**
FDI, net	2,026	959	422	446	388	344	1,600	2,034	2,139	2,254	2,450	2,687
Public grants	1,097	1,404	0	0	0	1,265	1,265	1,135	1,024	998	859	717
Public sector borrowing	211	105	0	0	0	663	663	1,733	2,405	1,390	2,614	1
of which: Unidentified prospective financing 2/	0	-101	0	0	0	0	0	0	1,429	837	2,214	0
Issuance of sovereign bonds 3/	1,500	0	0	0	1,000	0	1,000	1,250	0	1,000	0	0
GCC deposits at the CBJ	0	1,166	0	0	0	0	0	0	0	0	0	0
Non-resident purchases of local debt	-55	-116	0	0	0	0	0	0	0	0	0	0
CBJ other financing (net) 4/	-127	-175	0	0	0	0	0	0	0	0	0	0
Private capital flows, net 5/	-160	1,573	194	117	198	257	766	474	408	558	754	740
Errors and omissions 6/	626	-1,283	0	0	0	0	0	0	0	0	0	0
Change in reserves (+ = increase)	-130	-954	-679	-607	779	2,369	1,863	1,046	1,398	702	832	-632
Total Financing Needs	**1,135**	**804**	**142**	**1,515**	**168**	**1,075**	**2,900**	**270**	**26**	**26**	**0**	**0**
Official Financing	**1,135**	**804**	**142**	**1,515**	**168**	**1,075**	**2,900**	**270**	**26**	**26**	**0**	**0**
Identified official budget support	664	568	142	1,264	0	972	2,378	0	0	0	0	0
Jordan Compact off-budget grants	399	236	0	84	0	103	186	29	26	26	0	0
IMF purchases	72	0	0	168	168	0	336	241	0	0	0	0
Memorandum Items:												
Gross Usable Reserves	14,256	12,513	11,835	11,229	12,010	14,381	14,381	15,756	17,468	18,212	19,011	18,345
In percent of the IMF Reserve Adequacy Metric 7/	114	97	91	85	89	103	103	108	113	113	112	105
In months of next year's imports of GNFS	7.5	6.4	6.0	5.6	6.0	7.0	7.0	7.4	7.9	8.0	8.0	7.5

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

1/ Includes project loans and Arab Monetary Fund, and excludes IMF repurchases.

2/ Expected to be met with market borrowing and continued external donor support, as per commitments made at the London Initiative.

3/ Includes guaranteed and non-guaranteed bonds.

4/ Includes CBJ other accounts receivable/payable (net) minus deposit flows (net), excluding GCC deposits.

5/ Includes changes in commercial banks' NFA.

6/ Off-budget grants are shown as financing source. In historical data, they are not removed from the income account, so as not to affect its size. Offsetting items are entered in errors and omissions for historical data to preserve accounting identities.

7/ The IMF reserve metric is calculated as a weighted sum of exports, broad money, short-term debt, and other portfolio liabilities.

Table 3c. Jordan: Foreign Exchange Needs and Sources, 2017–24
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.			
General Government Gross Needs	**2,452**	**2,662**	**3,222**	**3,070**	**2,774**	**3,231**	**2,667**	**2,148**
NEPCO energy imports	1,224	1,351	933	823	830	841	830	819
Net interest payments	250	298	328	408	424	491	601	714
Amortization of external debt	978	1,013	1,962	1,839	370	1,399	536	615
Amortization of domestic debt in FX	0	0	0	0	1,150	500	700	0
General Government Sources	**2,877**	**1,611**	**2,927**	**4,118**	**2,000**	**2,552**	**1,259**	**718**
Public grants	1,097	1,404	1,265	1,135	1,024	998	859	717
Public sector borrowing 1/	280	206	663	1,733	976	554	400	1
Sovereign bonds 2/	1,500	0	1,000	1,250	0	1,000	0	0
Local bonds in FX	0	0	0	0	0	0	0	0
General Government Balance	**426**	**-1,051**	**-295**	**1,048**	**-774**	**-679**	**-1,408**	**-1,430**
Official financing under the EFF	664	568	2,378	0	0	0	0	0
Unidentified prospective budget grants under the EFF	0	0	0	0	0	0	0	0
Unidentified prospective budget loans under the EFF	0	0	0	0	0	0	0	0
General Government Balance under the EFF	**1,090**	**-483**	**2,083**	**1,048**	**-774**	**-679**	**-1,408**	**-1,430**
Jordan Compact off-budget grants	399	236	186	29	26	26	0	0
Non-resident purchases of local bonds	-55	-116	0	0	0	0	0	0
Increase in gross reserves	-130	-954	1,863	1,046	1,398	702	832	-632
IMF prospective purchases	0	0	336	241	0	0	0	0
Public Sector Net Balance	**1,564**	**591**	**743**	**272**	**-2,146**	**-1,354**	**-2,240**	**-798**

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes project loans, Arab Monetary Fund, and disbursed IMF purchases.
2/ Includes guaranteed and non-guaranteed bonds.

Table 3d. Jordan: Identified Sources of Public External Financing, 2017–24
(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020	2021	2022	2023	2024
							Proj.					
Budget grants	**854**	**1,039**	**0**	**0**	**0**	**903**	**903**	**792**	**684**	**658**	**516**	**475**
EU	94	51	0	0	0	94	94	31	22	15	7	0
GCC	214	100	0	0	0	100	100	100	100	100	0	0
United States	490	755	0	0	0	475	475	475	475	475	0	0
Other 1/	55	133	0	0	0	234	234	186	86	68	509	475
GCC capital grants												
GCC grants received by CBJ	197	0	0	0	0	0	0	0	0	0	0	0
GCC grants transferred from CBJ to MOF	145	224	0	0	0	159	159	162	116	28	0	0
Loans	**837**	**722**	**142**	**1,264**	**0**	**1,022**	**2,478**	**1,254**	**594**	**319**	**200**	**0**
Multilateral	**264**	**654**	**0**	**950**	**0**	**707**	**1,657**	**657**	**100**	**0**	**0**	**0**
Arab Monetary Fund	172	154	0	0	0	100	100	100	100	0	0	0
Islamic Development Bank	0	26	0	0	0	26	26	27	0	0	0	0
World Bank	92	473	0	950	0	581	1,531	531	0	0	0	0
Bilateral	**572**	**69**	**142**	**314**	**0**	**315**	**822**	**597**	**494**	**319**	**200**	**0**
EU	118	0	0	114	0	0	114	116	117	0	0	0
France	148	69	57	0	0	61	118	119	119	119	0	0
Germany	89	0	85	100	0	0	185	58	58	0	0	0
Italy	40	0	0	0	0	54	54	54	0	0	0	0
Japan	178	0	0	100	0	100	200	100	100	100	100	0
Kuwait	0	0	0	0	0	100	100	100	100	100	100	0
Saudi Arabia	0	0	0	0	0	0	25	25	0	0	0	0
UAE	0	0	0	0	0	0	25	25	0	0	0	0
Eurobond issuance	**1,500**	**0**	**0**	**0**	**1,000**	**0**	**1,000**	**1,250**	**0**	**1,000**	**0**	**0**
Memorandum items:												
Annual cumulative total (MOF) 2/	1,835	1,985	142	1,407	1,407	3,490	3,540	3,459	1,393	2,006	716	475
in millions of JDs	1,301	1,407	101	997	997	2,475	2,510	2,452	988	1,422	508	337
in percent of annual GDP	4.5	4.7	0.3	3.2	3.2	7.9	8.0	7.5	2.9	3.9	1.3	0.8
Annual cumulative total (CBJ) 3/	1,887	1,761	142	1,407	1,407	3,331	3,381	2,046	1,278	978	716	475

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

1/ Includes the grant component from the Concessional Financing Facility and in 2023-4 expected disbursements under new MOUs.

2/ Budget grants, GCC capital grants received by MOF, and budget loans.

3/ Budget grants, GCC capital grants received by CBJ, and budget loans.

Table 4a. Jordan: Monetary Survey, 2017–20

	2017 1/	2018 1/					2019 1/					2020 1/				
	Act.	Proj.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
(Stocks, in millions of Jordanian dinars)																
Net foreign assets	9,032	7,288	8,422	7,582	7,371	7,288	8,492	6,817	6,275	6,695	8,492	9,385	7,825	7,425	7,759	9,385
Central bank	10,169	9,097	9,762	9,397	8,847	9,097	10,588	8,700	8,235	8,732	10,588	11,416	9,968	9,372	9,742	11,416
Commercial banks	-1,137	-1,809	-1,340	-1,814	-1,476	-1,809	-2,096	-1,882	-1,960	-2,037	-2,096	-2,031	-2,143	-1,947	-1,983	-2,031
Net domestic assets	23,901	26,067	24,928	25,981	26,012	26,067	26,514	26,511	27,543	27,057	26,514	27,358	27,191	27,914	28,332	27,358
Net claims on general government	10,002	10,904	10,558	10,814	11,047	10,904	10,291	11,079	11,308	11,001	10,291	10,533	10,634	10,914	11,295	10,533
Net claims on central budgetary government 2/	7,355	8,113	7,869	8,029	8,166	8,113	7,481	8,307	8,509	8,178	7,481	7,725	7,825	8,105	8,487	7,725
Net claims on NEPCO	1,839	1,958	1,866	1,915	1,939	1,958	1,977	1,939	1,967	1,990	1,977	1,975	1,977	1,976	1,976	1,975
Net claims on other own budget agencies 3/	169	36	149	194	169	36	36	36	36	36	36	36	36	36	36	36
Claims on other public entities	640	797	673	676	773	797	797	797	797	797	797	797	797	797	797	797
Claims on financial institutions	473	623	502	575	597	623	623	623	623	623	623	623	623	623	623	623
Claims on the private sector	22,526	23,697	22,939	23,323	23,517	23,697	24,785	24,015	24,468	24,738	24,785	25,636	25,043	25,462	25,749	25,636
Other items (net)	-9,099	-9,156	-9,071	-8,731	-9,149	-9,156	-9,184	-9,206	-8,856	-9,306	-9,184	-9,434	-9,109	-9,084	-9,334	-9,434
Broad money	32,933	33,356	33,350	33,563	33,383	33,356	35,006	33,328	33,818	33,751	35,006	36,742	35,016	35,339	36,091	36,742
Currency in circulation	4,327	4,296	4,443	4,610	4,384	4,296	4,439	4,276	4,322	4,297	4,439	4,586	4,423	4,446	4,522	4,586
Jordanian dinar deposits	22,910	22,892	23,136	22,946	22,881	22,892	24,454	22,951	23,302	23,416	24,454	26,047	24,475	24,776	25,413	26,047
Foreign currency deposits	5,696	6,168	5,771	6,007	6,119	6,168	6,113	6,101	6,194	6,038	6,113	6,110	6,119	6,117	6,156	6,110
(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)																
Net foreign assets	96	-1,744	-610	-840	-211	-83	1,204	-471	-543	420	1,797	893	-667	-400	334	1,626
Net domestic assets	-24	2,167	1,027	1,053	31	56	447	443	1,032	-486	-542	843	676	723	418	-975
Net claims on general government	-945	902	556	256	233	-143	-613	175	229	-307	-710	242	343	280	381	-762
Net claims on Central Budgetary Government	-839	759	515	159	137	-52	-632	194	202	-331	-697	244	343	281	381	-762
Net claims on NEPCO	102	119	27	49	24	19	19	-19	28	24	-13	-2	0	0	0	0
Net claims on other own budget agencies	-303	-133	-20	45	-25	-133	0	0	0	0	0	0	0	0	0	0
Claims on financial institutions	96	157	34	3	97	24	0	0	0	0	0	0	0	0	0	0
Claims on the private sector	1,935	1,171	413	384	194	180	1,088	318	453	271	46	851	259	418	287	-113
Other items (net)	-1,222	-56	29	340	-418	-6	-29	-50	350	-450	121	-250	75	25	-250	-100
Broad money	73	423	418	213	-180	-28	1,651	-27	490	-66	1,255	1,736	10	323	752	651
Currency in circulation	145	-30	117	167	-226	-88	143	-20	46	-25	142	147	-16	23	77	63
Jordanian dinar deposits	-352	-18	226	-190	-66	11	1,562	59	351	115	1,037	1,593	21	302	637	634
Foreign currency deposits	279	471	75	236	111	49	-54	-67	93	-156	75	-4	5	-2	39	-46
Memorandum items:																
Year-on-year broad money growth (percent)	0.2	1.3	4.4	2.1	2.4	1.3	4.9	-0.1	0.8	1.1	4.9	5.0	5.1	4.5	6.9	5.0
Year-on-year private sector credit growth (percent)	9.4	5.2	8.1	7.3	5.9	5.2	4.6	4.7	4.9	5.2	4.6	3.4	4.3	4.1	4.1	3.4
Foreign currency/total deposits (percent)	19.9	21.2	20.0	21.0	21.0	21.2	20.0	21.0	21.0	20.5	20.0	19.0	20.0	19.8	19.5	19.0
Private sector credit/total deposits (percent)	78.7	81.5	79.4	80.6	81.1	81.5	81.1	82.7	83.0	84.0	81.1	79.7	81.9	82.4	81.6	79.7
Currency in circulation/JD deposits (percent)	18.9	18.8	19.2	20.1	19.2	18.8	18.2	18.6	18.5	18.3	18.2	17.6	18.1	17.9	17.8	17.6
Money multiplier (for JD liquidity)	3.5	3.7	3.6	3.5	3.8	3.7	3.6	3.7	3.5	3.8	3.6	3.7	3.6	3.7	3.9	3.7

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

1/ 2016 estimates and 2017 projections are based on program (i.e. end-March 2016) exchange rates.

2/ Includes SBA support onlent to the government by the CBJ.

3/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2017–20

	2017 1/	2018 1/					2019 1/					2020 1/				
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
	(Stocks, in millions of Jordanian dinars)															
Net foreign assets	10,169	9,097	9,762	9,397	8,847	9,097	10,588	8,700	8,235	8,732	10,588	11,416	9,968	9,372	9,742	11,416
Foreign assets	11,722	11,052	11,191	10,740	10,454	11,052	12,372	10,570	10,140	10,692	12,372	13,114	11,869	11,221	11,555	13,114
Of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	159	686	177	672	678	686	686	686	686	686	686	453	686	453	453	453
Foreign liabilities	1,553	1,954	1,428	1,344	1,607	1,954	1,784	1,870	1,905	1,960	1,784	1,698	1,902	1,848	1,813	1,698
Of which: Net Fund Position	889	542	804	719	648	542	484	458	492	548	484	514	602	549	513	514
Of which: GCC grants-related	557	1,300	517	513	846	1,300	1,187	1,300	1,300	1,300	1,187	1,072	1,187	1,187	1,187	1,072
Net domestic assets	-2,471	-1,825	-2,117	-1,574	-1,627	-1,825	-2,585	-1,418	-416	-1,489	-2,585	-3,023	-1,963	-1,564	-2,117	-3,023
Net claims on central budgetary government 2/	861	786	1,144	1,149	913	786	490	701	617	554	490	348	437	384	348	348
Net claims on own budget agencies and other public entities	-196	-116	-144	-111	-107	-116	-116	-116	-116	-116	-116	-116	-116	-116	-116	-116
Net claims on financial institutions	170	251	195	250	247	251	251	251	251	251	251	251	251	251	251	251
Net claims on private sector	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23
Net claims on commercial banks	-2,405	-2,009	-2,448	-2,132	-1,829	-2,009	-2,472	-1,517	-1,530	-1,940	-2,472	-2,769	-1,923	-1,746	-2,063	-2,769
Of which: FX deposits of commercial banks	837	840	813	836	800	840	836	839	838	837	836	836	836	836	836	836
CDs	-600	-600	-600	-600	-600	-600	-600	-600	-100	-300	-600	-600	-600	-600	-600	-600
Other items, net (asset: +)	-324	-160	-287	-153	-273	-160	-160	-160	440	40	-160	-160	-35	240	40	-160
Jordanian dinar reserve money	7,699	7,272	7,646	7,823	7,220	7,272	8,004	7,282	7,820	7,243	8,004	8,392	8,005	7,808	7,625	8,392
Currency	4,837	4,802	4,897	5,100	4,891	4,802	4,945	4,782	4,828	4,803	4,945	5,092	4,929	4,952	5,028	5,092
Commercial bank reserves	2,862	2,469	2,749	2,723	2,330	2,469	3,059	2,500	2,992	2,440	3,059	3,301	3,076	2,856	2,596	3,301
Of which: required reserves	1,604	1,580	1,610	1,635	1,596	1,580	1,688	1,584	1,609	1,617	1,688	1,798	1,690	1,710	1,754	1,798
	(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)															
Net foreign assets	248	-1,072	-407	-366	-549	250	1,491	-397	-465	497	1,856	827	-620	-596	370	1,674
Foreign assets	-154	-671	-532	-450	-286	598	1,321	-481	-430	552	1,680	742	-503	-649	334	1,559
Foreign liabilities	-401	401	-125	-85	263	348	-171	-84	34	56	-177	-86	118	-53	-35	-115
Net domestic assets	-281	645	354	542	-53	-198	-759	408	1,002	-1,073	-1,096	-438	622	399	-553	-906
Net claims on central budgetary government	-171	-75	283	6	-236	-127	-296	-84	-84	-63	-64	-142	-53	-53	-35	0
Net claims on commercial banks	-479	396	-43	316	303	-179	-464	492	-14	-410	-532	-297	550	177	-317	-706
Other items, net (asset: +)	5	164	37	133	-120	113	0	0	600	-400	-200	0	125	275	-200	-200
Jordanian dinar reserve money	-33	-427	-53	177	-602	51	732	10	537	-576	760	389	1	-197	-183	768
Currency	216	-34	60	203	-209	-88	143	-20	46	-25	142	147	-16	23	77	63
Commercial banks' reserves	-249	-393	-113	-26	-393	140	589	31	492	-551	618	242	18	-220	-260	705
Memorandum items:																
Gross international reserves	15,452	14,506	14,702	14,067	13,663	14,506	16,368	13,827	13,220	13,999	16,368	17,415	15,660	14,745	15,216	17,415
Gross usable international reserves ($ millions)	14,135	12,441	13,392	12,028	11,667	12,441	14,310	11,764	11,159	11,939	14,310	15,685	13,601	13,015	13,486	15,685
As a ratio to JD broad money (in percent)	36.8	32.4	34.4	30.9	30.3	32.4	35.1	30.6	28.6	30.5	35.1	36.3	33.4	31.6	31.9	36.3
As a ratio of JD reserve money (in percent)	130.2	121.3	124.2	109.0	114.6	121.3	126.8	114.5	101.2	116.9	126.8	132.5	120.5	118.2	125.4	132.5
Net international reserves (millions of JD)	8,964	8,104	8,522	7,635	7,450	8,104	9,486	7,708	7,244	7,742	9,486	10,432	8,866	8,504	8,873	10,432
Net international reserves (millions of U.S. dollars)	12,643	11,430	12,020	10,769	10,507	11,430	13,380	10,872	10,218	10,920	13,380	14,714	12,505	11,994	12,515	14,714
Money multiplier (for JD liquidity)	3.5	3.7	3.6	3.5	3.8	3.7	3.6	3.7	3.5	3.8	3.6	3.7	3.6	3.7	3.9	3.7

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

1/ 2016 estimates and 2017 projections are based on program (i.e. end-March 2016) exchange rates.

2/ Includes SBA support onlent to the government by the CBJ.

Table 5. Jordan: Access and Phasing Under the Extended Fund Facility (EFF) 1/

I. Current Phasing (approved by the Board on June 21, 2017)

Review	Availability Date	Action	Purchase SDR Million	Purchase Percent of Quota
	August 24, 2016	Board approval of EFF	51.465	15.00
First Review	November 30, 2016	Observance of end-December 2016 performance criteria, completion of first review	51.465	15.00
Second Review	September 29, 2017	Observance of end-June 2017 performance criteria, completion of second review	120.085	35.00
Third Review	March 30, 2018	Observance of end-December 2017 performance criteria, completion of third review	120.085	35.00
Fourth Review	September 28, 2018	Observance of end-June 2018 performance criteria, completion of fourth review	85.775	25.00
Fifth Review	March 29, 2019	Observance of end-December 2018 performance criteria, completion of fifth review	85.775	25.00
Total			**514.650**	**150.00**

II. Proposal

Review	Availability Date	Action	Purchase SDR Million	Purchase Percent of Quota
	August 24, 2016	Board approval of EFF	51.465	15.0
First Review	November 30, 2016	Observance of end-December 2016 performance criteria, completion of first review	51.465	15.0
Second Review	September 29, 2017	Observance of end-December 2017 performance criteria, completion of second review	120.085	35.0
Third Review	September 15, 2019	Observance of end-June 2019 performance criteria, completion of third review	120.085	35.0
Fourth Review	March 15, 2020	Observance of end-December 2019 performance criteria, completion of fourth review	171.550	50.0
Total			**514.650**	**150.0**

Source: IMF staff estimates.
1/ Jordan's quota is SDR 343.1 million.

Table 6. Jordan: Indicators of Fund Credit, 2017–24
(In millions of SDR unless stated otherwise)

	2017	2018	2019	2020	2021	2022	2023	2024
			Proj.					
Existing and prospective Fund arrangements								
Disbursements	51.5	0.0	240.2	171.6	0.0	0.0	0.0	0.0
Stock 1/	891.5	543.4	485.2	514.7	501.8	484.6	457.5	386.0
Obligations 2/	380.1	367.1	311.7	155.6	25.4	29.4	39.0	82.4
Principal (repayments/repurchases)	351.7	348.1	298.4	142.1	12.9	17.2	27.2	71.5
Charges and interest	28.5	19.0	13.4	13.5	12.5	12.2	11.8	10.9
Stock of existing and prospective Fund credit 1/	891.5	543.4	485.2	514.7	501.8	484.6	457.5	386.0
In percent of quota	259.8	158.4	141.4	150.0	146.3	141.3	133.3	112.5
In percent of GDP	3.1	1.8	1.5	1.6	1.4	1.3	1.2	0.9
In percent of exports of goods and services	10.3	5.9	4.9	4.9	4.4	4.0	3.6	2.9
In percent of gross usable reserves	8.8	6.1	4.8	4.6	4.0	3.7	3.4	3.0
Obligations to the Fund from existing and prospective Fund arrangements	380.1	367.1	311.7	155.6	25.4	29.4	39.0	82.4
In percent of quota	110.8	107.0	90.9	45.3	7.4	8.6	11.4	24.0
In percent of GDP	1.3	1.2	1.0	0.5	0.1	0.1	0.1	0.2
In percent of exports of goods and services	3.7	3.4	2.7	1.3	0.2	0.2	0.3	0.5
In percent of gross usabel reserves	3.8	4.1	3.1	1.4	0.2	0.2	0.3	0.6

Sources: IMF Finance Department; and IMF staff estimates and projections.
1/ End of period.
2/ Repayment schedule based on scheduled debt service obligations.

Table 7. Jordan: Capacity to Repay Indicators, 2017–24

	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.			
Exposure and Repayments from Existing and Prospective Fund Arrangements								
GRA credit to Jordan	891.5	543.4	485.2	514.7	501.8	484.6	457.5	386.0
In percent of quota 1/	259.8	158.4	141.4	150.0	146.3	141.3	133.3	112.5
Debt service on GRA credit	380.1	367.1	311.7	155.6	25.4	29.4	39.0	82.4
Principal (repayments/repurchases)	351.7	348.1	298.4	142.1	12.9	17.2	27.2	71.5
Charges and interest	28.5	19.0	13.4	13.5	12.5	12.2	11.8	10.9
Debt and debt service ratios (In percent of GDP)								
Public and publicly-guaranteed debt	39.9	37.4	41.3	42.3	44.4	44.1	45.6	42.1
Excluding proposed IMF	36.8	35.6	39.8	40.8	43.0	42.8	44.4	41.2
GRA credit to Jordan	3.0	1.8	1.5	1.6	1.5	1.3	1.2	1.0
Public and publicly-guaranteed debt service	3.3	3.6	5.7	5.4	2.5	4.5	2.8	3.0
Excluding proposed IMF	2.1	2.4	4.7	4.9	2.4	4.4	2.7	2.8
GRA debt service	1.3	1.2	1.0	0.5	0.1	0.1	0.1	0.2
Debt and debt service ratios (In percent of exports of goods and services)								
Public and publicly-guaranteed debt	113.5	105.0	113.3	113.4	117.5	115.5	118.8	109.3
Excluding proposed IMF	104.9	99.9	109.1	109.3	113.7	112.0	115.6	106.8
GRA credit to Jordan	8.6	5.1	4.2	4.2	3.9	3.5	3.1	2.5
Public and publicly-guaranteed debt service	9.5	10.1	15.5	14.4	6.7	11.7	7.4	7.9
Excluding proposed IMF	5.9	6.7	12.8	13.1	6.5	11.5	7.1	7.3
GRA debt service	3.7	3.4	2.7	1.3	0.2	0.2	0.3	0.5

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

1/ The decline in the stock of Fund credit relative to quota in 2016 is due to the quota increase from SDR170.5 million to SDR343.1 million.

Table 8. Jordan: Structural Benchmarks, 2017–19

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
		I. Prior Actions		
1	Approval by parliament of the amendments to the income tax law		Fiscal consolidation	
2	Submission to parliament of a budget law for 2019 broadly consistent with program commitments		Fiscal consolidation	
3	The issuance of supporting regulations to accelerate GST payments from a bi-monthly to a monthly basis for large taxpayers		Fiscal consolidation	
4	Approval by cabinet of the consolidation of oil-derivatives taxes and fees into a specific excise tax framework		Fiscal consolidation and transparency	
5	Approval by cabinet of a comprehensive energy-reform plan that ensures NEPCO's medium-term sustainability and gradually phases out cross-subsidies; with initial implementation to include upfront revenue and cost-savings measures that prevent further losses in 2019		Fiscal consolidation, sustainability of sector, improved energy conservation, better level-playing field for non-households while protecting the most vulnerable	
		II. Structural Benchmarks		
1	Record the trust accounts entries as revenue and expenditure and classify them by purpose and use and consolidate them into fiscal tables and publish in the government finance bulletin	Initially end-February 2017, reset for mid-June 2017	Improved transparency	Implemented with delay.
2	Submit to Parliament a new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing)	Initially end-December 2016, reset for end-September 2017	Fiscal consolidation and Equity	Implemented with delay.
3	Submit to Parliament an Organic Budget Law	end-June 2017	Improved PFM and transparency	Implemented with delay.
4	Cabinet approval of the removal of GST exemptions in 2018	end-November 2017	Fiscal consolidation	Implemented with delay.
5	Submit to Parliament the 2018 draft budget law in line with program understandings and projections for 2018-19, including the estimates of tax expenditures	mid-November 2017	Fiscal consolidation	Implemented with delay.
6	Implement new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing)	Initially end-March 2017, reset for end-November 2017	Fiscal consolidation and Equity	Implemented with delay.
7	Establish the reporting requirements, processes, and access to social-security to ensure that ISTD can more adequately control and confirm PAYE compliance for large taxpayers	end-March 2018	Reduce tax evasion	Delayed, in process of implementation as part of the roll-out of the new income tax law.
8	Recruit a top tier international accounting firm for a detail study of PPPs and PPAs	end-June 2019	Improved PFM and transparency	New benchmark.
9	Cabinet approves and starts implementing a plan on non-tariff revenue actions to reduce significantly the losses in WAJ and the Water Distribution Companies	end-June 2019	Improved PFM and transparency	New benchmark.
10	Cabinet does not extend the exemption for the energy and water sectors from the PPP law after its expiration on end-June 2019	end-June 2019	Improved PFM and transparency	New benchmark.

Table 8. Jordan: Structural Benchmarks, 2017–19 (continued)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
11	Issue of supporting regulations to implement the new tax initiatives under the new income tax law: presumptive tax regime, minimum corporate tax, tax changes to development and free zones, and tax on dividends.	end-June 2019	Fiscal consolidation and transparency	New benchmark.
12	Transfer the Water Authority of Jordan to the 2020 general budget law	mid-November 2019	Improved PFM and transparency	New benchmark.
13	Submit to Parliament the 2020 draft budget law in line with program understandings and projections for 2020, including the estimates of tax expenditures	mid-November 2019	Fiscal consolidation	New benchmark.
14	Complete a detail study identifying and quantifying major contingent liabilities and any payable amounts by the public sector related to PPPs and PPAs contracts	end-December 2019	Improved PFM and transparency	New benchmark.
15	Integration of the Civil Health Insurance Fund (CHIF) into the GFMIS system	end-December 2019	Improved PFM and transparency	New benchmark.
Debt Management				
16	Publish updated public debt management strategy	end-June 2017	Enhance transparency, communication, and predictability	Met.
17	Finalize the reorganization of the Public Debt Directorate	end-June 2017	Strengthen the organizational framework for effective public debt management	Met.

Table 8. Jordan: Structural Benchmarks, 2017–19 (concluded)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
Financial Sector and Access to Finance				
18	Amend and enact the Insolvency Law	Initially end-March 2017, reset for end-June 2017	Removal of obstacles to increase access to finance	Implemented with delay.
19	Amend and enact the Secured Lending Law	Initially end-March 2017, reset for end-June 2017	Removal of obstacles to increase access to finance	Implemented with delay.
20	Submit to Parliament amendments to Deposit Insurance Corporation Law to align the provisions regarding the early intervention and bank resolution framework with the new commercial banking law	Initially end-March 2017, reset for end-June 2017	Improving the resilience of the banking sector	Not met. Amendments have been submitted to Parliament with delay on April 2018 and staff is assessing them on the substance.
21	Publish a study assessing the key issues and challenges to promote financial inclusion	Initially end-March 2017, reset for end-September 2017	Financial Inclusion, growth and equity	Implemented with delay.
22	Finalize and publish the Financial Inclusion Strategy	end-December 2017	Financial Inclusion, growth and equity	Met.
23	Amend the Insurance law to allow for the transfer the supervision of the insurance sector to the CBJ	Initially end-March 2017, reset for end-March 2018, proposed to be reset for end-September 2019	Better supervision of the insurance sector	Delayed.
24	Transfer the supervision of the insurance sector to CBJ	Initially end-September 2017, reset for end-March 2018, proposed to be reset for end-September 2019	Stronger supervision to minimize spill-overs of the loss-making insurance sector to banks (there are significant cross-holding and governance risks), enhance financial deepening	Delayed.
Business Environment				
25	Submit to Parliament a draft Inspection Law streamlining inspection mandates and processes	Initially end-October 2016, reset for end-June 2017	Improve business environment	Met.
Labor Market				
26	Conduct a study on options for temporarily lowering payroll taxes for women and the youth and identifying offsetting parametric changes in the pension system	end-March 2018, proposed to be reset for end-June 2019	Promote formal employment and stimulate aggregate demand while protecting the social security actuarial position	Delayed. The World Bank has postponed the study and is currently planning to conduct it in 2019.

Annex I. Debt Sustainability Analysis

Jordan's public debt is assessed as sustainable, but risks are substantial. This assessment rests on the fiscal adjustment and growth-enhancing reforms committed by the authorities, as well as on the related ability to mobilize significant donor and market financing. The size and pace of the fiscal adjustment creates greater than usual uncertainties on growth outlook. Public debt is now projected in the baseline to peak at 94.6 percent of GDP in 2019 (two years later than anticipated at the time of the first review), and to decline to about 84 percent of GDP by 2024 (still well above the 70 percent high-risk MAC DSA benchmark).[1] Adverse shocks to the recovery and/or financing conditions, policy slippages, or contingent liabilities could test this baseline trajectory. While significant Eurobond rollovers will need to be undertaken in 2019–22, the concessional financing committed under the Jordan Compact and recently in the London Initiative help mitigate financing needs. The foregoing underscores the importance of steadfast implementation of program commitments and timely disbursements of external financing in order to ensure debt sustainability. The external DSA points to moderate but increasing external indebtedness (external debt is projected to reach 75 percent of GDP by 2021), mainly reflecting continued market access and concessional borrowing under the Jordan Compact and recent commitments under the London Initiative. External debt remains vulnerable to current account and real exchange rate shocks.

1. This annex analyzes the sustainability of Jordan's public and external debt. Section A provides a summary of the revisions to the macroeconomic framework with respect to the first review. Section B discusses the realism of the macro assumptions. Section C considers public debt sustainability, examining the debt trajectory under the baseline and under a variety of stress scenarios. Section D considers external debt sustainability. The analysis shows that the EFF-supported program would help place Jordan's debt on a sustainable trajectory, but there are considerable risks that its downward path may be interrupted by shocks.

A. Assumptions

2. Macro. GDP growth is projected at 2.2 percent in 2019, ½ percentage point less than in the first review. Over the medium term, staff now projects that growth will increase more gradually to 3 percent. Inflation (measured by the GDP deflator) is expected at 2.5 percent over the medium term, as previously projected. The current account deficit (including grants) for the medium term remains broadly unchanged at about 6 percent of GDP. FDI inflows, continued market access, and concessional financing under the Jordan Compact and recently committed in the London Initiative would help finance the current account deficit and maintain international reserves at an adequate level.

[1] Public debt includes government securities held by the Social Security Corporation. Excluding these cross-holdings between government agencies, public debt was around 78 percent of GDP at end-2018.

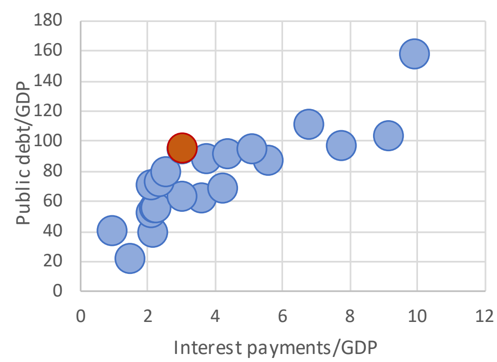
(continued)

3. Fiscal. Sustained but gradual fiscal consolidation is expected to turn the combined public balance[2] from a deficit of 4.3 percent of GDP in 2018 to a surplus of 1.2 percent over the medium term, underpinned by the implementation of structural fiscal reforms (a cumulative fiscal effort of 3 percent of GDP during 2020–22 would be needed). Fiscal consolidation would also be supported by the implementation of a comprehensive energy reform to ensure NEPCO's financial sustainability.

4. Budget grants. Grant inflows over the past five years reached $6.5 billion, partly buoyed by an agreement with select GCC members for $3.75 billion in budget grants. As donor's preferences have shifted from providing budget grants to concessional lending, committed budget grants over the 2019–23 period amount to $4 billion, about 1 percent of GDP per year lower than anticipated in the first review.

5. Sovereign yields. Jordan's EMBIG spread had exhibited minor fluctuations around an average of about 400 basis points since end-2015 (with a standard deviation of 35 basis points). Jordan's overall interest burden (about 3 percent of GDP) remains low and is the lowest among countries rated B+ or below with similar debt-to-GDP ratios. However, both external and domestic bond yields are projected to gradually increase over time, in line with the expected gradual tightening of global liquidity conditions. This is reflected in the effective interest rate projected to increase by 150 basis points over the medium term.

Debt and interest burden
(percent of GDP)



1/ Countries rated B+ or below.

6. Maturity, rollover risk, and market access. Jordan has notably lengthened its domestic debt maturity profile in recent years, mainly by redirecting issuances to the Social Security Investment Fund. Excluding treasury bills, the average maturity has increased from about three years in 2014 to six years in 2018, reducing rollover needs over the medium term. Jordan's external public debt profile is on the longer end, with maturity at issuance typically more than five years. This is assumed to continue over the projection period, through sustained market access and concessional financing from the World Bank, other multilaterals, and official bilateral creditors. U.S. guaranteed Eurobonds maturing over 2019–22 are assumed to be rolled over on market terms prevailing at the respective due dates. Jordanian banks' favorable profitability, liquidity and provisioning indicators, together with the Social Security Corporation's net income position projected at no less than 2½ percent of GDP per year over the next 10 years, help mitigate the risks associated to the elevated gross financing needs in the near term.

[2] As defined in the Technical Memorandum of Understanding, the combined public deficit is the sum of (i) the primary deficit of the central government, excluding grants; (ii) the net loss of NEPCO; and (iii) the overall deficit of WAJ and the water distribution companies. The latter two components (plus off-budget project loans and net IMF disbursements) are reflected in the public DSA table "Contribution to Changes in Public Debt" as "Off-budget liabilities."

Jordan: Gross Financing Needs and Sources, 2019-20	2019		2020	
	US$ Million	Percent of GDP	US$ Million	Percent of GDP
Gross Financing Needs (A1+A2)	**8,877**	**20.1**	**7,941**	**17.1**
A1. Overall deficit (after grants)	**1,500**	**3.4**	**1,464**	**3.2**
Central government	1,021	2.3	1,045	2.3
NEPCO	0	0.0	-3	0.0
WAJ and distribution companies	479	1.1	421	0.9
A2. Debt amortization	**7,377**	**16.7**	**6,478**	**14.0**
Central government	6,320	14.3	5,646	12.2
Local-currency debt	4,358	9.9	3,807	8.2
Foreign-currency debt	1,962	4.4	1,839	4.0
Guaranteed debt (inc. NEPCO and WAJ)	1,057	2.4	831	1.8
Local-currency debt	1,000	2.3	788	1.7
Foreign-currency debt	58	0.1	43	0.1
Gross Financing Sources (B1+B2+B3)	**8,877**	**20.1**	**7,941**	**17.1**
B1. Issuance of domestic debt	**4,998**	**11.3**	**5,091**	**11.0**
Central government	4,395	9.9	4,570	9.9
Guaranteed debt	603	1.4	521	1.1
B2. Identified external financing	**2,879**	**8.8**	**1,600**	**6.1**
Bilateral	1,019	2.3	739	1.6
Multilateral	1,860	4.2	862	1.9
Eurobond issuance	1,000	2.3	1,250	2.7

Sources: Jordanian authorities and IMF staff estimates.

B. Realism of Projections

7. Growth and inflation. Growth forecast errors over the recent past were heavily affected by the spillovers from the deterioration in regional conditions, particularly with the closure of the Iraq border in 2015 and the sharp slowdown in economic activity in the GCC. Growth projections have been revised markedly since then, with medium-term growth now projected to gradually converge to 3 percent by 2023 (compared to 4 percent by 2019 at the time of the EFF request). The track record of inflation projections does not show any systematic bias and has been broadly in line with the median forecast error across comparator countries over the recent past.

8. Fiscal adjustment. Although Jordan's three-year average level of the cyclically-adjusted primary balance (CAPB) is generally in line with the median of other comparator countries, the maximum three-year adjustment lies on the top quartile of the distribution of past fiscal adjustment in high-indebted countries. The latter reflects the need to resume a gradual but steady path of fiscal consolidation of about 1 percent of GDP per year over 2020–22, below the 1½ percent structural adjustment per year achieved during 2016–17.

C. Public Sector DSA

9. The coverage of public debt in this DSA includes: (i) central government direct debt; (ii) government-guaranteed debt of public entities (NEPCO, WAJ, and other public entities); and (iii) CBJ's liabilities to the IMF.

Jordan: Public and Publicly Guaranteed Debt

	2018			
	JD (Billion)	**USD (Billion)**	**Percent of GDP**	**Percent of total**
Public and publicly guaranteed debt	**28.3**	**39.9**	**94.4**	**100.0**
Domestic debt	**17.9**	**25.2**	**59.7**	**63.2**
Direct debt	15.0	21.2	50.1	53.1
Guaranteed debt	2.9	4.0	9.6	10.1
Held by commercial banks	11.2	15.8	37.4	39.6
Held by CBJ	0.3	0.4	0.9	1.0
Held by non-banks	6.4	9.0	21.3	22.6
Local currency	16.2	22.9	54.1	57.3
Foreign currency	1.7	2.4	5.6	5.9
External debt	**10.4**	**14.7**	**34.8**	**36.8**
External direct debt	**9.9**	**14.0**	**33.2**	**35.1**
Multilateral	2.9	4.0	9.5	10.1
of which: IMF	0.5	0.8	1.8	1.9
of which: World Bank	1.6	2.2	5.3	5.6
Bilateral	2.3	3.2	7.7	8.1
Guaranteed Eurobonds	2.7	3.8	8.9	9.4
Non-guaranteed Eurobonds	2.1	3.0	7.1	7.5
External guaranteed debt	**0.5**	**0.7**	**1.6**	**1.7**
Multilateral	0.4	0.6	1.4	1.4
Bilateral	0.1	0.1	0.2	0.2
Commercial	0.0	0.0	0.0	0.0

Source: Ministry of Finance.

10. **Baseline projections indicate that the debt ratio would fall to about 84 percent of GDP by 2024**. Public debt was stable in 2018 at 94.4 percent of GDP, despite sizable fiscal deviations from program projections, but contained through a drawdown of treasury deposits. Public debt is projected to broadly stabilize at 94.6 percent of GDP in 2019. Thereafter, sustained fiscal effort (assumed at a cumulative 3 percent of GDP during 2020–22) and growth recovery would gradually reduce public debt to about 84 percent of GDP by 2024.

11. **The heat map and fan charts indicate that Jordan faces significant risks to debt sustainability**. Although debt profile indicators point to moderate risks overall, the heat map shows that the debt level and gross financing needs breach the high-risk benchmarks under the baseline. Risks are particularly acute in the near term, given the still elevated debt level and high GFNs. However, GFNs are projected to decline in the post-program period, in line with the continued shift to longer-term domestic issuance and official financing. The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and asymmetric distribution of risks. In the former, upside and downside risks to the main macro variables are treated as equally likely, while in the latter shocks to the primary balance are restricted to the negative side to reflect the limits of fiscal effort over what is assumed under the baseline. The asymmetric fan chart therefore shows that heightened risks to debt sustainability if the envisaged continued and gradual fiscal consolidation falls short of expectations.

12. Stress tests also point to a number of considerable risks to the debt outlook, with the balance of risk tilted to the downside. The projected decline in public debt remains fragile, vulnerable to lower growth, real exchange rate depreciation, and higher borrowing costs. Under a growth shock, entailing a cumulative growth decline of 2.1 percentage points in 2020–21, which in turn leads to a cumulative primary balance deterioration of 1 percent of GDP, the debt-to-GDP ratio reaches 96 percent in 2021. A real exchange rate shock calibrated to close the estimated 20 percent overvaluation would also push the debt ratio to about 99 percent of GDP by 2020. Higher borrowing costs, equivalent to those observed during 2012 (an increase of 350 basis points), would leave the debt-to-GDP ratio about 5 percentage points higher than under the baseline by 2024. The combined macro-fiscal shock, an aggregation of the shocks to real growth, interest rates, primary balance and exchange rate, would send public debt to an unsustainable path above 110 percent of GDP.

D. External Sector DSA

13. The coverage of external debt in this DSA includes: (i) public and publicly guaranteed external debt; and (ii) external liabilities of the banking sector and private corporations. Due to data limitations, the coverage of private external debt (especially the non-banking sector) is probably underestimated. The external debt is defined according to the residency criterion.

14. Jordan's public external debt remains moderate but is projected to grow slightly over the medium term. Public external debt is expected to rise from 37.4 percent of GDP in 2018 to about 46 percent of GDP over the program period. The composition of public external debt would remain favorable, including because of concessional borrowing under the Jordan Compact and the recent commitments pledged in the London Initiative.

15. In turn, private external debt is expected to remain moderate at about 30 percent of GDP. As of end-2018, four-fifths of the total private external debt are projected to be owed by banks (mostly non-resident deposits), with the remainder by non-bank private corporations. In broad terms, the projections are predicated on banks maintaining their exposure to non-residents and on the non-bank corporate sector meeting part of its financing needs with debt-creating flows. Over the medium term, the share of corporates' external debt would gradually increase to about a quarter of the total private external debt, following the trend observed in the past years. Given the currently available information on the private external debt—particularly its moderate size and the healthy balance sheets of local banks—contingent liability risks to the public sector are expected to be contained.[3]

16. External financing requirements would remain sizable over the program period and gradually decline thereafter. The still elevated financing requirements reflect large current account deficits in the near term, and amortizations of U.S. guaranteed Eurobonds coming due during 2019–22, which are assumed to be rolled over on market terms prevailing at that time.

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

17. External debt remains vulnerable to shocks. Standardized current account and other shocks would bring external debt well above baseline projections, but still around manageable levels in the case of slower growth and external income flows. The moderate risks to external debt sustainability are predicated on the assumption that FDI inflows will pick up in the outer years on the back of structural adjustment; that international market access is gradually strengthened; and that the accumulation of additional external buffers under the EFF will help to cushion against external shocks and anchor private sector expectations.

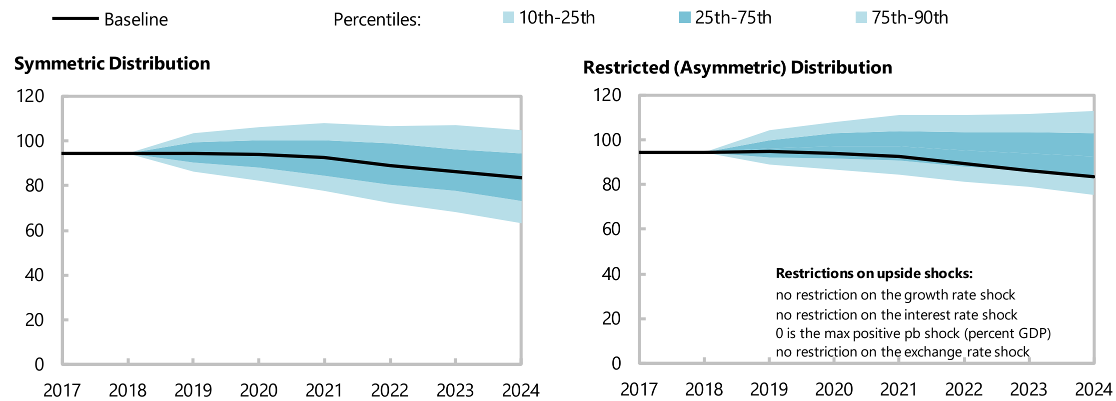
Figure 1. Jordan: Public DSA Risk Assessment

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

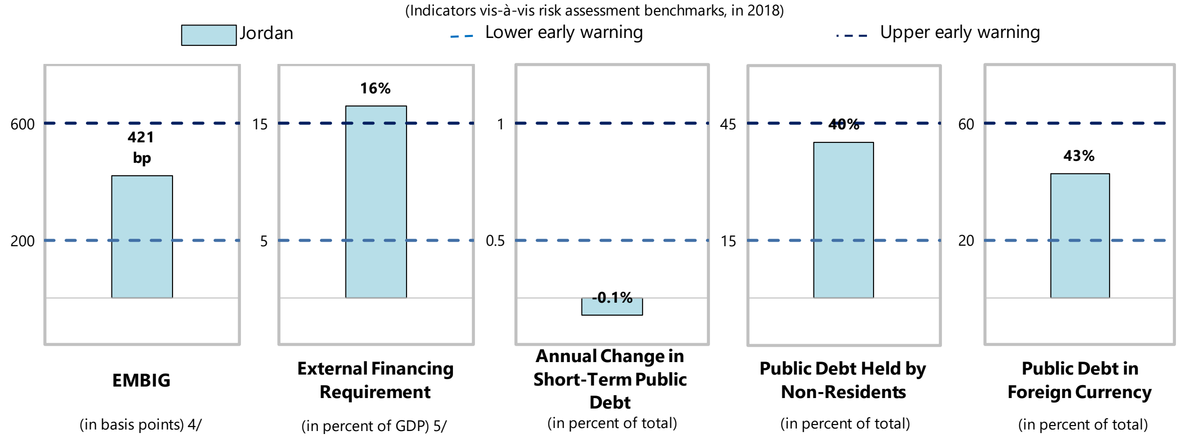
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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.

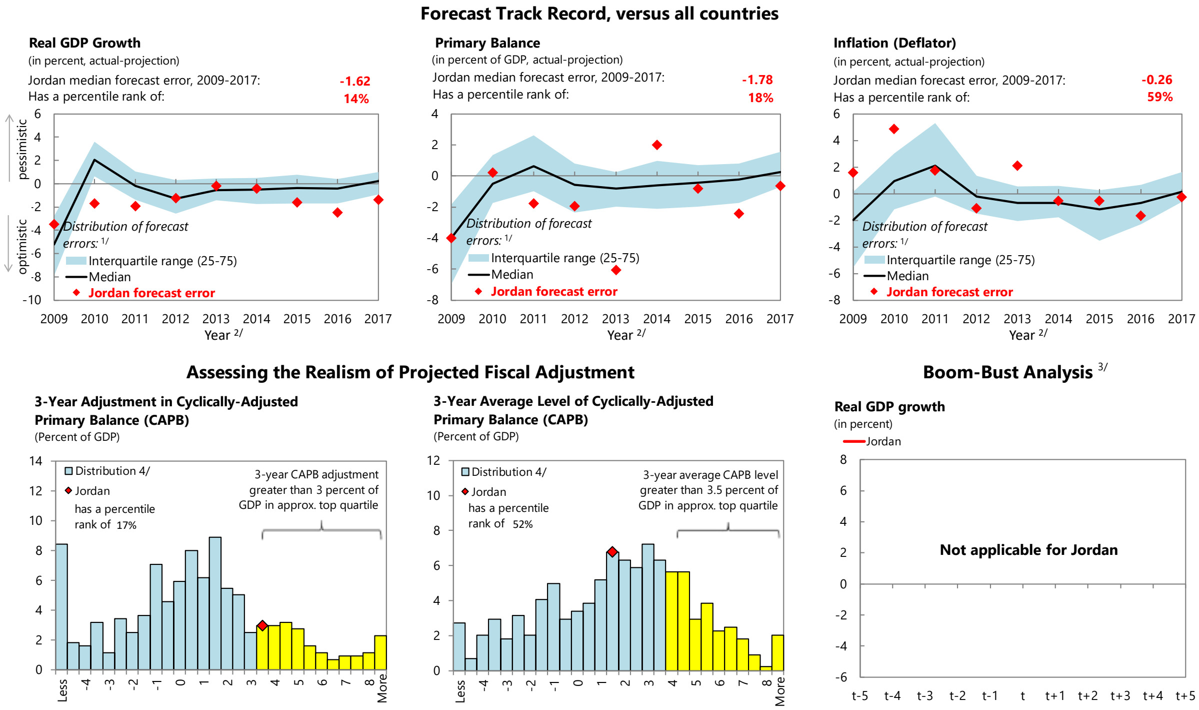
Lower and upper risk-assessment benchmarks are:

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/ EMBIG, an average over the last 3 months, 03-Jan-19 through 03-Apr-19.

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

Figure 2. Jordan: Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

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

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

3/ Not applicable for Jordan, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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.

Figure 3. Jordan: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

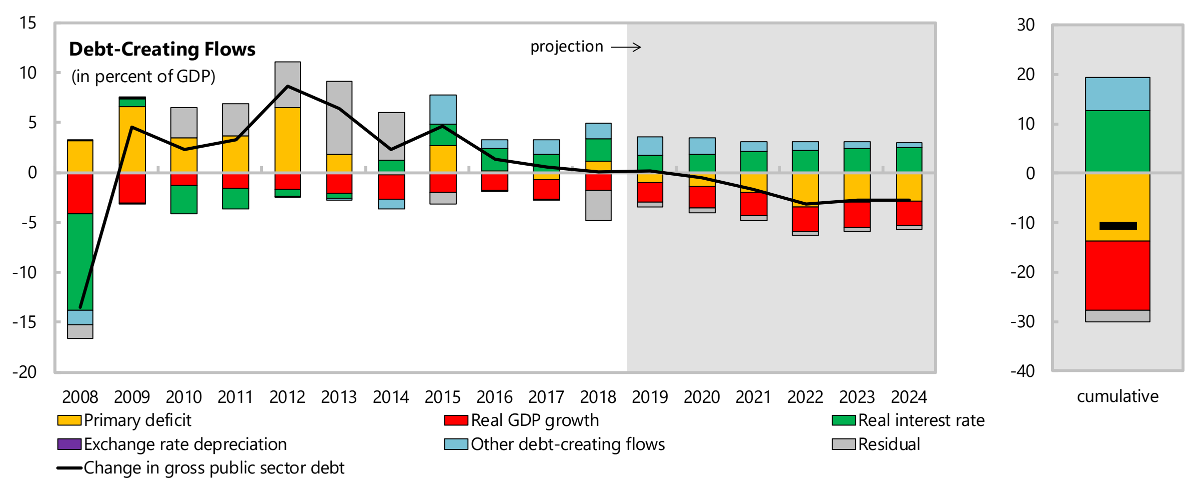
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	77.9	94.3	94.4	94.6	94.1	92.4	89.2	86.4	83.7
Of which: guarantees	8.8	12.1	11.2	10.0	9.1	8.3	7.5	6.8	6.2
Public gross financing needs	26.9	21.6	21.5	20.1	17.1	14.8	15.4	12.7	10.3
Real GDP growth (in percent)	3.4	2.1	1.9	2.2	2.4	2.6	2.8	3.0	3.0
Inflation (GDP deflator, in percent)	6.2	1.7	1.8	2.2	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	9.9	3.9	3.7	4.4	5.0	5.2	5.4	5.6	5.6
Effective interest rate (in percent) [4/]	4.4	3.8	4.2	4.1	4.5	4.9	5.1	5.4	5.6

As of April 03, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		412
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B+	B+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.2	0.6	0.1	0.2	-0.5	-1.7	-3.2	-2.8	-2.7	-10.7	
Identified debt-creating flows	-0.1	0.6	3.2	0.6	-0.1	-1.2	-2.8	-2.4	-2.4	-8.3	
Primary deficit	3.1	-0.8	1.1	-1.0	-1.4	-2.0	-3.4	-3.0	-2.9	-13.7	0.5
Revenues and grants	25.7	25.7	26.1	26.9	27.0	27.0	27.1	26.6	26.3	161.0	
Primary expenditures	28.8	24.9	27.3	25.9	25.6	25.0	23.7	23.6	23.5	147.3	
Automatic debt dynamics [5/]	-3.3	-0.1	0.4	-0.3	-0.4	-0.2	-0.2	-0.2	0.0	-1.3	
Interest rate/growth differential [6/]	-3.3	-0.1	0.4	-0.3	-0.4	-0.2	-0.2	-0.2	0.0	-1.3	
Of which: real interest rate	-1.0	1.8	2.2	1.7	1.8	2.1	2.2	2.4	2.5	12.6	
Of which: real GDP growth	-2.2	-1.9	-1.8	-2.0	-2.2	-2.3	-2.5	-2.5	-2.5	-13.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	1.5	1.6	1.9	1.7	1.0	0.8	0.8	0.5	6.7	
Privatization Receipts (negative)	-0.3	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Off-budget liabilities [8/]	0.4	1.5	1.6	2.2	1.7	1.0	0.8	0.8	0.5	7.0	
Residual, including asset changes [9/]	2.3	0.0	-3.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-2.4	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 NEPCO and WAJ deficits, off-budget project loans, and net IMF disbursements under the EFF.

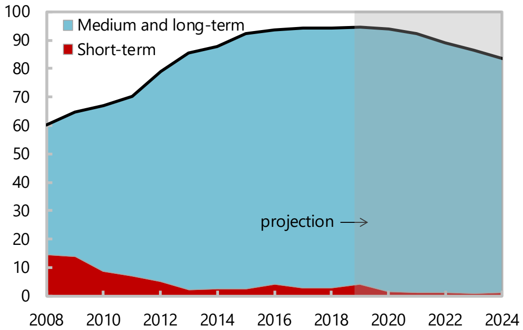
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ 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.

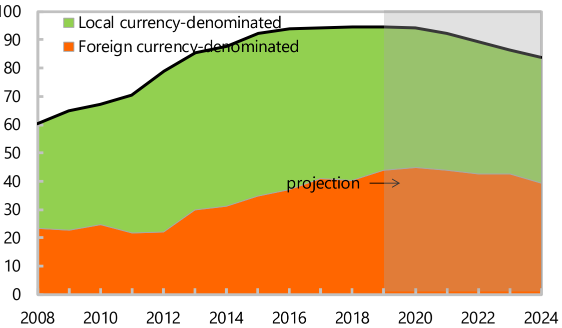
Figure 4. Jordan: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



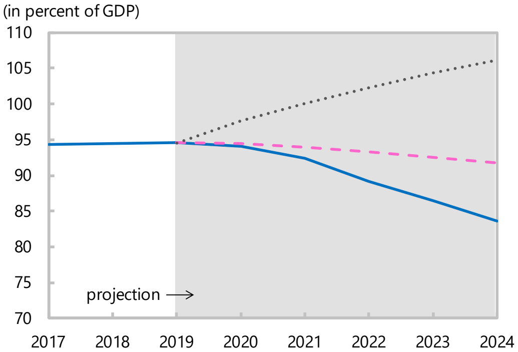
By Currency
(in percent of GDP)



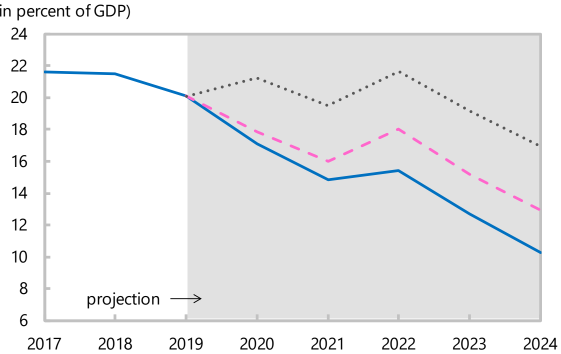
Alternative Scenarios

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)

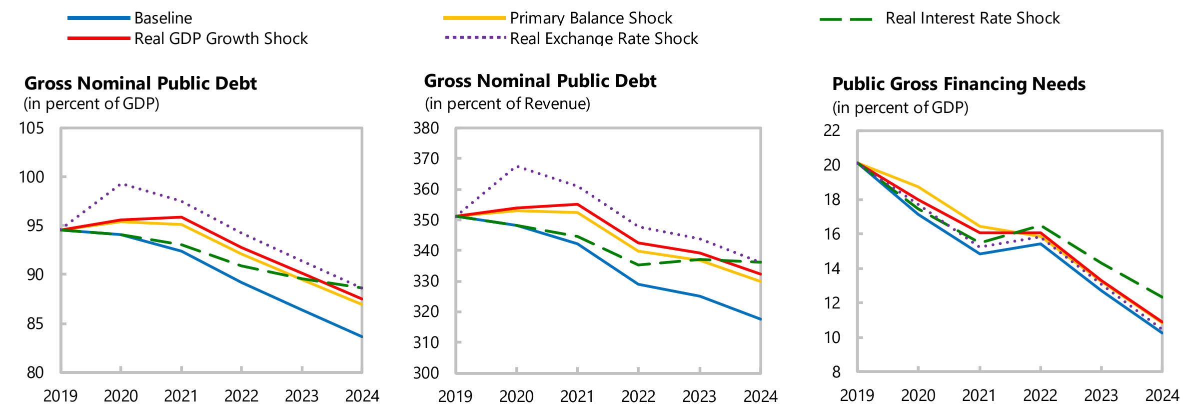
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	2.2	2.4	2.6	2.8	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary Balance	1.0	1.4	2.0	3.4	3.0	2.9
Effective interest rate	4.1	4.5	4.9	5.1	5.4	5.6
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.4	2.6	2.8	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary Balance	1.0	1.0	1.0	1.0	1.0	1.0
Effective interest rate	4.1	4.6	5.0	5.2	5.5	5.7

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	2.2	2.7	2.7	2.7	2.7	2.7
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary Balance	1.0	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	4.1	4.6	4.6	4.5	4.4	4.3

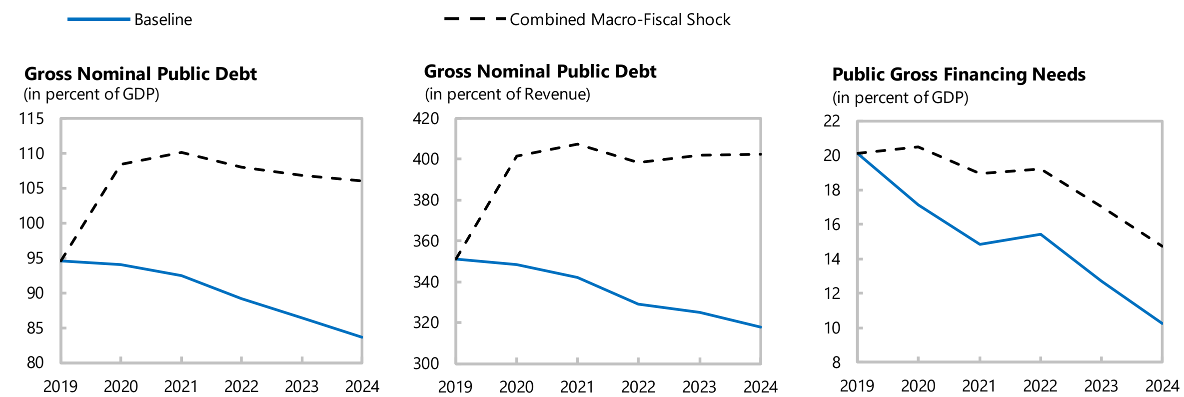
Source: IMF staff.

Figure 5. Jordan: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



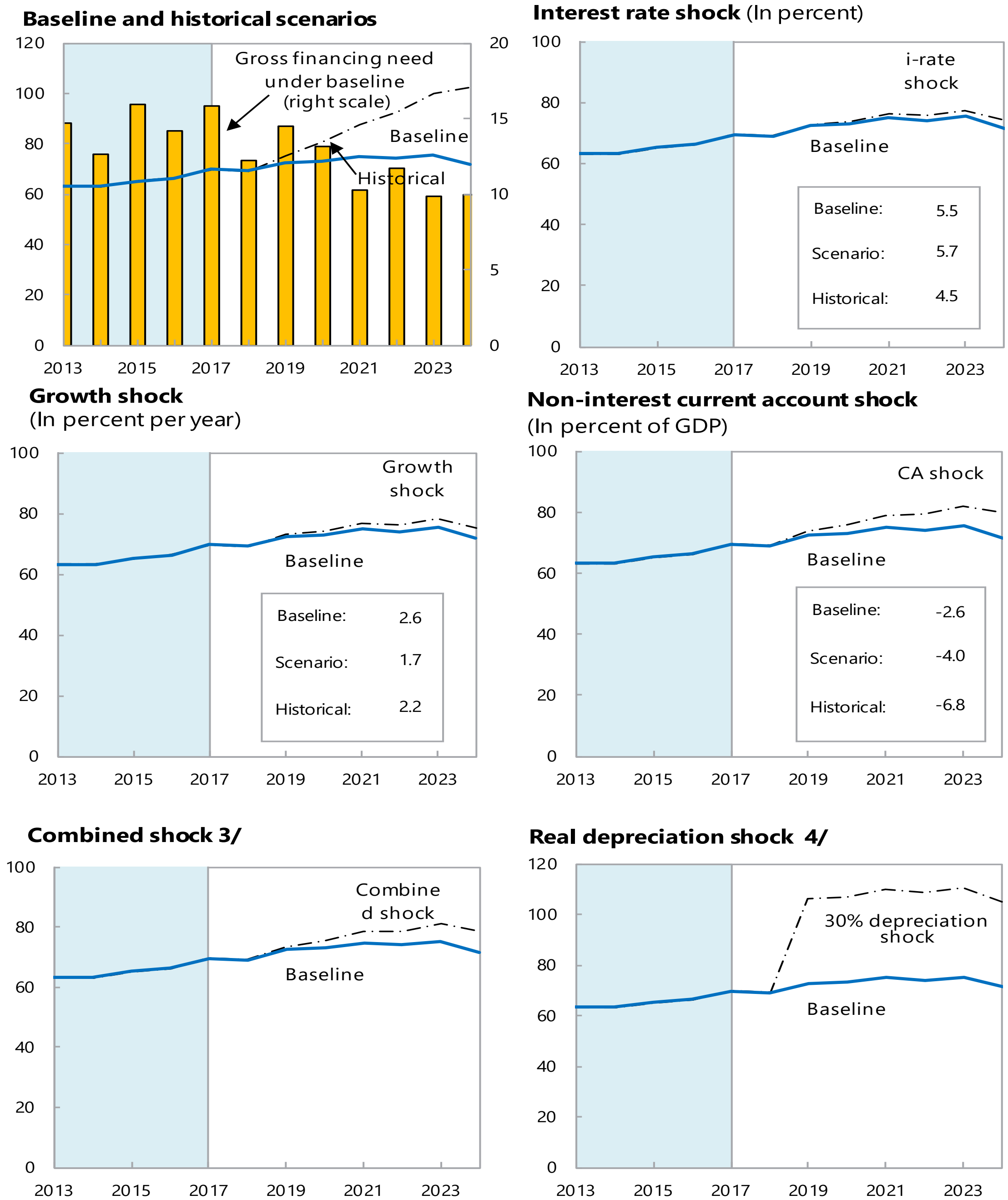
Underlying Assumptions
(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	2.2	2.4	2.6	2.8	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary balance	1.0	0.1	0.7	3.4	3.0	2.9
Effective interest rate	4.1	4.6	5.1	5.3	5.6	5.8
Real Interest Rate Shock						
Real GDP growth	2.2	2.4	2.6	2.8	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary balance	1.0	1.4	2.0	3.4	3.0	2.9
Effective interest rate	4.1	4.6	5.7	6.4	7.3	7.8
Combined Shock						
Real GDP growth	2.2	1.4	1.6	2.8	3.0	3.0
Inflation	2.2	2.2	2.2	2.5	2.5	2.5
Primary balance	1.0	0.1	0.7	3.4	3.0	2.9
Effective interest rate	4.1	5.1	5.6	6.3	7.2	7.7

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	2.2	1.4	1.6	2.8	3.0	3.0
Inflation	2.2	2.2	2.2	2.5	2.5	2.5
Primary balance	1.0	1.1	1.4	3.4	3.0	2.9
Effective interest rate	4.1	4.6	5.0	5.3	5.5	5.7
Real Exchange Rate Shock						
Real GDP growth	2.2	2.4	2.6	2.8	3.0	3.0
Inflation	2.2	9.2	2.5	2.5	2.5	2.5
Primary balance	1.0	1.4	2.0	3.4	3.0	2.9
Effective interest rate	4.1	5.0	4.7	4.9	5.1	5.3

Source: IMF staff.

Figure 6. Jordan: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund; country desk data; and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over a three-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.
4/ One-time real depreciation of 30 percent occurs in 2019.

Jordan: External Debt Sustainability Framework, 2013–2024

	Actual							Projections							
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 7/
1 **Baseline: External debt 1/**	63.2	63.1	65.1	66.3	69.6			**69.1**	**72.3**	**73.0**	**74.8**	**74.0**	**75.3**	**71.6**	**-1.7**
Of which: Public and Publicly Guaranteed External Debt	28.5	30.8	34.8	37.0	39.9			37.4	41.3	42.3	44.4	44.1	45.6	42.1	
2 Change in external debt	3.7	-0.1	2.0	1.2	3.3			-0.5	3.2	0.7	1.7	-0.7	1.3	-3.7	
3 Identified external debt-creating flows (4+8+9)	-0.3	-2.4	2.1	2.5	4.3			3.4	1.6	-0.1	0.0	-0.7	-1.0	-1.2	
4 Current account deficit, excluding interest payments	7.0	3.6	5.9	6.7	7.9			4.1	3.8	2.8	2.2	1.9	1.7	1.6	
5 Deficit in balance of goods and services	29.2	26.0	22.7	20.7	21.2			18.3	17.1	15.5	14.3	13.2	12.1	11.1	
6 Exports	41.8	42.7	37.2	34.7	35.1			35.6	36.5	37.3	37.8	38.2	38.4	38.5	
7 Imports	71.0	68.8	59.9	55.4	56.4			53.9	53.5	52.8	52.1	51.4	50.5	49.7	
8 Net non-debt creating capital inflows (negative)	-6.1	-5.7	-4.3	-4.8	-3.8			-2.4	-4.0	-4.7	-4.8	-4.8	-5.0	-5.1	
9 Automatic debt dynamics 2/	-1.2	-0.4	0.4	0.6	0.2			1.6	1.7	1.7	2.6	2.2	2.2	2.3	
10 Contribution from nominal interest rate	3.5	3.6	3.1	2.7	2.6			2.9	3.2	3.4	4.4	4.2	4.3	4.4	
11 Contribution from real GDP growth	-1.6	-1.8	-1.4	-1.3	-1.4			-1.3	-1.5	-1.7	-1.8	-2.0	-2.1	-2.1	
12 Contribution from price and exchange rate changes 3/	-3.2	-2.1	-1.2	-0.8	-1.1			...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	4.0	2.4	-0.1	-1.2	-1.0			-3.9	1.6	0.8	1.7	-0.1	2.3	-2.5	
External debt-to-exports ratio (in percent)	151.2	147.6	175.0	191.3	198.1			193.8	198.4	195.7	197.8	194.0	196.2	185.8	
Gross external financing need (in billions of US dollars) 5/	5.0	4.6	6.0	5.6	6.5			5.2	6.4	6.1	5.0	6.0	5.4	5.7	
in percent of GDP	14.7	12.6	15.9	14.2	15.8			12.2	14.5	13.1	10.3	11.7	9.9	9.9	
Scenario with key variables at their historical averages 6/								**69.1**	**75.2**	**80.9**	**87.6**	**92.5**	**100.0**	**102.5**	**-3.6**
Key Macroeconomic Assumptions Underlying Baseline						3-Year Historical Average 8/	10-Year Standard Deviation								
Real GDP growth (in percent)	2.8	3.1	2.4	2.0	2.1	2.2	1.7	1.9	2.2	2.4	2.6	2.8	3.0	3.0	
GDP deflator in US dollars (change in percent)	5.6	3.4	2.0	1.3	1.7	1.7	5.5	1.8	2.2	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	6.4	6.0	5.1	4.3	4.1	4.5	1.2	4.4	4.8	4.9	6.3	5.9	6.2	6.2	
Growth of exports (US dollar terms, in percent)	-0.6	9.1	-9.2	-3.7	5.3	-2.5	13.7	5.3	6.8	7.5	6.5	6.4	6.2	5.9	
Growth of imports (US dollar terms, in percent)	5.2	3.4	-9.2	-4.3	5.7	-2.6	11.3	-0.8	3.7	3.6	3.7	4.0	3.8	3.8	
Current account balance, excluding interest payments	-7.0	-3.6	-5.9	-6.7	-7.9	-6.8	2.6	-4.1	-3.8	-2.8	-2.2	-1.9	-1.7	-1.6	
Net non-debt creating capital inflows	6.1	5.7	4.3	4.8	3.8	4.3	3.4	2.4	4.0	4.7	4.8	4.8	5.0	5.1	

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

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

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

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

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

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

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

8/ Historical averages are calculated over a three-year horizon due to a structural break in the performance of the economy.

Appendix I. Letter of Intent

Amman, April 18, 2019

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Ms. Lagarde:

Despite a challenging external environment with protracted negative spillovers for our economy, we have made significant progress in implementing our economic program, with a solid fiscal outturn in 2017 and strong efforts to offset unanticipated revenue slippages in 2018. We have also made progress in implementing structural measures, most notably the passage of a new income-tax legislation that lays a strong foundation for a more effective and equitable tax system. In addition, we have enacted a broad range of laws to improve the business environment and enhance inclusive growth. We met all end-December 2017 performance criteria, with the exception of a $448 million (0.2 months of 2018 imports) shortfall in the net international reserves at end-2017. While further effort is needed in some key areas, we are committed to the actions described in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP).

Economic and social conditions remain challenging. Prolonged regional conflicts, the burden of hosting Syrian refugees, and volatile oil prices continue to adversely affect trade, investor sentiment, the labor market, and to strain our limited resources. As a result, growth has remained subdued, and unemployment and public debt have increased. To face these challenges, we have recalibrated our policies under the program to preserve macroeconomic stability and enhance the conditions for higher and more inclusive growth. We are confident that, as program implementation and structural reforms take hold, vulnerabilities will recede, bottlenecks will ease, and productivity and growth will accelerate. We are committed to resolute policy implementation and to preserve fiscal, monetary, and financial-sector buffers to safeguard against risks.

In this context, however, we firmly believe in the need for the commitments made previously by the international community under the Jordan Compact and more recently, in the London Initiative conference in February 2019, to deliver greater financial support to Jordan. This additional support from the donor community, particularly through budget grants, will be key to assisting Jordan to shoulder the burden of hosting Syrian refugees and to supporting our reforms, and thus helps us in achieving our program's goals.

The implementation of our program will continue to be monitored through semi-annual quantitative performance criteria, structural benchmarks, and quarterly indicative targets as described in the MEFP and in the attached Technical Memorandum of Understanding (TMU). The Government and the Central Bank of Jordan (CBJ) will continue to provide the Fund with the data and information necessary to monitor performance under the program, including those specified in the TMU.

In view of our performance under the program supported by the IMF, we request the completion of the second review under the extended arrangement, approval of the related purchase, the modification of the performance criterion for the combined public deficit, and a waiver of nonobservance of performance criterion. To support our policy and reform efforts, we also request a short-term extension of the extended arrangement under the Extended Fund Facility to March 23, 2020 and the re-phasing of the remaining access under the program, aiming to initiate discussions as soon as possible that would lead to a new Fund-supported program.

We believe that the policies set forth in the attached memorandum and in the letters of July 26, 2016 and June 2, 2017, are adequate to achieve the objectives of our economic program, but we stand ready to take any 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 revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

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

Sincerely,

/s/	/s/
Ezzedine Kanakrieh Minister of Finance	Ziad Fariz Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

BACKGROUND

1. **Economic conditions remain challenging.** Regional conditions continue to weigh on investor sentiment and growth. Growth in 2018 was subdued at 1.9 percent, broadly the same as in 2017, and unemployment remains high, reaching 18 percent in the fourth quarter of 2018. Headline inflation has eased from its July peak of 5.7 percent (y/y) to 3.7 percent in December. Core inflation has been relatively stable and ended the year at 1.7 percent (y/y). Exports to Iraq grew strongly (27 percent y/y), but those to key Gulf markets have softened. On current trends, we expect that growth will improve modestly to 2.2 percent in 2019, and with limited impact from fiscal measures during 2019, headline inflation is expected to return to trend (2½ percent y/y by end-2019).

2. **The external current account deficit has narrowed significantly to 7 percent of GDP in 2018.** The current account deficit (including grants) rose to 10.6 percent of GDP in 2017—owing to weaker-than-expected exports (particularly re-exports), soft remittances, and high one-off non-energy imports (related to imports of capital goods for renewable energy projects and large imports of hybrid vehicles, the latter in anticipation of tax changes in early 2018). In 2018, however, the deficit declined to 7 percent of GDP, despite a 1½ percent increase in the energy-import bill. The decline reflected the rebound of exports to Iraq, continued strong garment exports to the United States, a marked rise in tourism, and a decline in non-energy imports (partly reflecting the one-offs from 2017 as noted above, and some postponement of wheat imports late in 2018). Exports to the GCC and workers' remittances, however, remain soft, and inward foreign direct investment declined considerably in 2018. We expect that strong growth in tourism income and a recovery in remittances—as observed during the first quarter of 2019—would help to stabilize the current account deficit in 2019, despite the resumption in FDI and associated capital imports.

3. **The higher current account deficit in 2017 complicated meeting the end-December 2017 NIR target, and reserve losses in the second half of 2018 were larger than anticipated.** The CBJ's *net* international reserve (NIR) position was $448 million below the end-December 2017 adjusted performance criterion, but about $57 million above the indicative target for March 2018 set during the first review. The latter overperformance was assisted in part by steady tightening of monetary policy—in line with rising U.S. interest rates, the CBJ has increased its policy rate by 250 basis points since December 2016. Nonetheless, domestic political events in June 2018 accelerated reserve outflows, reducing NIR to $828 million below the June indicative target set during the first review. In this regard, deposit dollarization increased in mid-2018, but has since remained stable, at around 21 percent. Credit to the private sector (excluding the refinery) remained strong at end-2017, but has eased in 2018, with growth at around 5 percent as of end-2018.

4. **Following progress in 2017, fiscal performance deteriorated in 2018 reflecting challenging socio-economic conditions**.

- *Despite some revenue shortfalls, fiscal targets were met in 2017.* Revenue measures yielded about 1 percent of GDP, and the central government primary deficit (excluding grants and clearance of arrears) declined from 2.9 percent of GDP in 2016 to 1.1 percent in 2017.

- *Although strong efforts were directed to contain deviations from program commitments, fiscal consolidation could not be sustained in 2018.* Our fiscal program targeted an annual adjustment of 1½ percent of GDP. To this end, the 2018 budget incorporated revenue measures aimed at continuing rationalizing tax exemptions in our GST framework, and enhancing revenue mobilization through increased excises on selected commodities. In addition, to put an end to waste, we decided to shift subsidies in support of commodities towards strengthening our social safety net by institutionalizing a cash transfer program, with additional net fiscal costs supported by some expenditure rationalization. However, by the end of the first half of 2018, revenue performance weakened markedly resulting in a shortfall of about 1 percent of GDP. This reflected: (i) a sizable contraction in non-energy imports (-9 percent y/y), particularly of hybrid vehicles and gold products in response to the increase in their sales taxes in early 2018, and (ii) significant challenges in collecting excises on cigarettes, stemming from increased smuggling after the increase in the special sales tax. Likewise, subdued growth continued eroding revenue collections from customs duties, and corporate income and real estate taxes. To contain the emerging revenue gap, we legislated expenditure cuts for ½ percent of GDP in June, and further compressed capital expenditures by another ½ percent of GDP during the rest of 2018. In the end, revenues were broadly unchanged compared to 2017 and, together with unbudgeted expenditure pressures of 1 percent of GDP, led to the deterioration of the primary deficit (excluding grants and clearance of arrears) by about 1¼ percent of GDP. Nevertheless, we were able to stabilize public debt at 94.4 percent of GDP, as we took the decision to contain expenditures and use the available treasury deposits to reduce the programmed issuance of treasury bonds late in 2018.

- *Measures to reduce the accumulation of new health arrears have started to yield results.* Since early 2018, medical cost exemptions can only be granted by the Royal Court, and are provided on a time-bound basis, following strict eligibility criteria and predetermined prices. Such exemptions were broadly extended within its 2018 budget allocation.

5. Following a sustained rise in oil-prices, the automatic tariff adjustment mechanism facilitated a significant increase in electricity tariffs but not enough to ensure cost recovery for NEPCO. Tariff increases—amounting to a cumulative 30 percent of NEPCO's average bulk tariff— could not prevent NEPCO's operational losses of 0.2 percent of GDP during the first three quarters of 2018, partly reflecting the decision to put on hold the tariff increase in June in reaction to the widespread protests against the government's economic policies. Thereafter, due to lower oil prices and cheaper gas from Egypt, we decreased electricity tariffs by 7 percent in the last quarter of 2018—which generated additional losses of 0.1 percent of GDP—and by an additional 10 percent in the first two months of 2019. To mitigate the impact of the tariff hikes on the most vulnerable segments of Jordan's population during the first three quarters of 2018, we continued to exclude households with consumption of less than 300 kWh per month. For WAJ, the overall deficit for 2017 was 0.2 percent of GDP lower than anticipated, owing to lower current expenditures, and 0.2 percent of GDP below projections for 2018, owing mainly to a combination of lower current and capital expenditure and some additional revenues from access to renewable energy. However, WAJ debt centralization proved to be challenging and WAJ accumulated arrears of 0.1 percent of GDP in 2018 that were cleared in February 2019. Higher electricity costs accelerated the accumulation of arrears at the water distribution companies, reaching an accumulated stock of 0.5 percent of GDP, which was also cleared in April 2019.

6. Against this backdrop, continued donor support—including under the Jordan Compact—remains instrumental in helping Jordan face the refugee crisis and its associated fiscal and social costs. We estimate that there is an annual $1 billion shortfall in donor financing to fully address refugee-related pressures, which has added to Jordan's debt burden. In 2017, Jordan received $1.7 billion in support under the Jordan Response Program, relative to a funding requirement of $2.7 billion, bringing the total assistance to 65 percent of commitments. In 2018, only $1.5 billion was disbursed, out of estimated needs for $2.5 billion. These shortfalls continue to hamper our economic program implementation under the Jordan Compact, which is crucial to ensuring that Jordan can sustainably cope with the refugee crisis and to reduce macroeconomic vulnerabilities.

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY

Our fiscal and monetary policies will continue to aim at safeguarding macroeconomic stability by reducing fiscal and external vulnerabilities in an equitable, growth-friendly and inclusive way. A gradual and steady fiscal consolidation, and policies to restore NEPCO's operational balance and stabilize the Water Authority of Jordan's (WAJ) overall deficit would help to put debt on a downward path (toward 84 percent of GDP by 2024) while preserving space for social spending. Monetary policy will continue to be anchored by the exchange rate peg, and the need to preserve an adequate buffer of foreign-exchange reserves.

A. Fiscal Policy

Central Government

7. The fiscal program for 2019 reflects our commitment to firmly return the primary deficit to a downward path toward stabilizing Jordan's public debt, and then placing it on a sustainable path. We remain committed to the annual fiscal adjustment envisaged under the program of 1½ percent of GDP for 2019. Critical to this goal is the implementation of the new income tax law, combined with a significant strengthening of tax administration to overcome the challenges we faced in 2018. The approved 2019 budget law is also supported: i) on the revenue side, by measures implemented in the second half of 2018 to strengthen the collection of excises on cigarettes (through amendments to the customs law to tighten financial penalties and imprisonment time, as well as to limit imports of cigarette-production machinery to established and license factories), the expiration of the tax exemption on electric cars, customs duties from the recent cancellation of the FTA with Turkey, efficiency gains from the consolidation of the different taxes and fees on oil-derivatives; the acceleration of GST payments from bi-monthly to a monthly basis; and the carry-over of oil fees implemented in the second quarter of 2018; and ii) on the expenditure side, by discontinuing the emergency allocation (JD 100 million) to the ministry of defense. The combined expected yield from these measures amounts to 1 percent of GDP. In addition, our fiscal program will be supported by 0.3 percent of GDP in below-the-line proceeds from the sale of licenses to mobile operators. To better inform budget decisions and enhance transparency, the budget law have continued including detailed estimates of tax expenditures. In addition, to strengthen the role of governorates in improving public services, and following our commitment to fiscal decentralization, the budget continues to include specific capital expenditure allocations for governorates, as well as a transfer to fund the work of the governorate councils. Overall, we envisage an improvement of the central government's primary deficit (excluding grants and clearance of arrears) from 2.1 percent of GDP in 2018 to 0.8 percent in 2019. This reduction, along with concrete actions to ensure NEPCO's financial sustainability and the stabilization of the state-owned water sector companies' overall deficit, will bring the headline combined public sector deficit to 2.6 percent of GDP and help stabilize public debt at 94.6 percent of GDP in 2019.

8. In response to heightened socio-economic pressures, the government launched a national dialogue on income tax reform that ultimately led to Parliament's passage of a sound reform that will support public finances in the years ahead. The reform, approved in December 2018, i) broadens the personal (PIT) and corporate (CIT) income tax bases; ii) reduces arbitrage opportunities between PIT and CIT; and iii) sets the stage for a greater and much-needed focus on reducing tax evasion. Revenue estimates suggest that it would yield ½ percent of GDP in 2019 and 0.8 percent over the medium term.

9. The PIT reform broadens the tax base in an equity-enhancing manner, with a permanent yield of 0.2 percent of GDP. In particular, the reform:

- *Reduces the effective exemption thresholds* from JD 14,000 and 28,000 for individuals and households (including the itemized deduction allowance of JD 2,000 and 4,000, respectively) to JD 10,000 and 23,000 (inclusive of an itemized deduction allowance of up to JD 3,000 for children—maximum of JD 1,000 per children and starting in 2020 an additional JD 1,000 for the taxpayer and JD 1,000 for the spouse). In addition, the reform includes a new income exemption of JD 2,000 for each person with permanent disability.

- *Makes the PIT system more progressive*, by increasing the marginal tax rates on higher-income brackets and reducing the rate for the lowest-income earners. The reform has also introduced a flat 30 percent tax rate for income above JD 1 million and a 1 percent solidarity surtax for income exceeding JD 200,000.

- *Expands the tax base*, by taxing trading in public shares and introducing a presumptive income tax regime on professionals (at a 1 percent tax rate on revenues below a threshold of JD 150,000).

10. The CIT reform decreases economic distortions and closes some loopholes, while broadening the tax base, with a permanent yield of 0.5 percent of GDP. Specifically, the reform:

- *Unifies the standard statutory CIT rate* for the manufacturing and commercial sectors to a level (20 percent) to prevent arbitrage opportunities.

- *Introduces a surtax on corporate profits for the non-manufacturing sector*: 3 percent (banks and electricity distribution and generation companies); 7 percent (mining companies); 4 percent (financial intermediary companies, financial companies, and legal persons practicing financial leasing); 2 percent (telecommunications companies, and insurance and re-insurance companies); and 1 percent (all other legal persons).

- *Replaces the non-WTO compliant export income deduction with a temporary manufacturing deduction* to help protect some specific sectors severely affected by adverse regional conditions.

The new law incorporates a manufacturing income deduction of 50 and 25 percent applicable to the pharmaceutical and textile sectors and to other manufacturing sectors, respectively. The new law also specifies that such an exemption will phase out by 2024.

- *Expands the tax base*, by: i) adding into the tax web large agricultural companies (with an income exemption of JD 50,000); ii) removing tax concessions for investment in special and development zones on non-manufacturing services (with CIT rates increasing from 5 to 10 percent, while preserving the existing 5 percent on manufacturing activities); iii) taxing corporate income generated on all activities (except transit) within free zones at the regular CIT statutory rates; iv) introducing an annual minimum corporate tax of JD 500 for registered partnerships and limited partnerships; and v) including additional revenue initiatives: taxation on dividends received by banks, telecom companies, and financial companies; an increase in the withholding corporate tax rate on interest income from 5 to 7 percent; and taxation of e-commerce at regular rates.

11. To support tax collection and combat tax evasion, we are in the process of implementing critical ongoing compliance improvement projects and other revenue initiatives, supported by stronger penalties under the new income tax law. These tax compliance measures entail: i) enhancing the Pay As You Earn (PAYE) system for large taxpayers, which will establish the reporting requirements, processes, and access to third party information to ensure that ISTD can more adequately control and confirm PAYE compliance; ii) improving taxpayer registration, ensuring that the issuance of a business license is linked with the issue of a Taxpayer Identification Number (TIN); and iii) increasing compliance among self-employed persons, ensuring that the government records of licensed professionals and businesses can be matched against the ISTD registrations via an online system. Supporting these initiatives, the new income tax law stiffens significantly penalties for delays in compliance and tax evasion through: i) fines equivalent to 5 percent of the tax due in case of delays in filing (for each month of delay after the end of the fourth month following the tax period, up to a maximum of 25 percent); ii) a compensatory penalty equal to the tax difference imposed on any person who commits, attempts, assists, or provokes others to commit tax fraud; iii) joint liability of directors if a legal person fails to remit the tax due; and iv) imprisonment penalties of at least four months and up to three years. We expect these reforms to contribute in broadening the tax base and enhancing the equity of the tax system.

12. Going forward, we remain committed to continue with gradual and steady fiscal consolidation underpinned by an annual adjustment effort of 0.7 percent of GDP (about JD 230 million) in 2020 and about 1 percent of GDP each year during 2021–22. Such a fiscal effort would aim at better balancing the revenues collected between indirect and direct taxation, while also firmly tackling tax evasion, strengthening tax administration, and rationalizing expenditures.

On the revenue side, we will continue efforts to better rebalancing the taxation framework, by ensuring that tax exemptions are targeted more closely to the most vulnerable segments of Jordan's population; adjusting specific excises as needed; and rolling out a stronger framework to tackle tax evasion, including through a strengthened control of domestic transfer pricing, to minimize tax planning and profit shifting in development and free economic zones.

On the expenditure side, we recognize the critical need for stronger efforts in the years ahead. With increasing prospects for improved regional and domestic security conditions, we will seek to rationalize public spending and enhance the targeting of our social safety net, to help partly accommodate other social needs, such as in health and education. We remain committed to a prudent expenditure policy through: i) continued streamlining non-priority current spending; ii) prioritizing social and capital spending; iii) arresting the accumulation of fuel, health, and water-sector arrears; and iv) continuing the support for Syrian refugees.

- We will continue to keep the nominal growth of the public-sector wage bill close to 1½ percent on an annual basis during the medium-term, supported by our policy of containing the size of the public sector.

- In collaboration with the World Bank, we are implementing a three-year program to strengthen the social safety net in Jordan by almost doubling the coverage of the National Aid Fund (NAF)'s cash transfer program (from the existing 100,000 beneficiary households to 185,000 by 2021). In this regard, the 2019 budget has allocated additional resources to start expanding coverage to 25,000 new vulnerable households. The selection process will be supported by a new targeting methodology, that would involve limited human intervention, the submission of household information through an electronic portal, and the cross-checking of information with a comprehensive household-level database to determine eligibility. We will continue working closely with donors to further enhance NAF's resource envelope and targeted framework—underpinned by the revamped National Unified Registry (NUR) expected to be operational by end-2019. We recognize the need to enhancing the effectiveness of all available social safety net funds. In this context, we have strengthened the eligibility requirements to better targeting the resources under the cash transfer program that replaced the bread subsidy, to help ensure that this support goes to the vulnerable segments of the population most affected by its removal.

- To preserve the quality of health-care services and the sustainability of providing them free to the most vulnerable, we took measures by end-2017 to expand the civil health insurance coverage to citizens who are 60 years or older (compared to previous coverage of 70 years or older), aimed at reducing the demand for medical exemptions. In addition, we have implemented measures to arrest the accumulation of new arrears. Since 2018, the Royal Court is the only institution authorized to provide medical exemptions within a budgeted allocation and a clear set of rules and regulations. A special unit at the Royal Court has been established in charge of the control and audit of medical exemptions. We remain committed to clear the legacy stock of health arrears by end-2021. In this context, we identified that part of these arrears (JD 118 million) were claims from the Civil Health Insurance Fund, resulting from the treatment of uninsured Jordanians in the Ministry of Health (MOH)'s facilities, to fund bonuses for MOH's staff. We have terminated this practice and written-off the outstanding claim.

- We also remain committed to clearing the legacy stock of energy arrears by end-2021. While we put in place measures to prevent the accumulation of energy arrears, including through the allocation of emergency funds to the Jordanian Armed Forces and security agencies under the 2018 budget, these efforts were not enough as a result of the unexpected higher international oil prices. New arrears amounting to 0.7 percent of GDP accumulated by end-2018, but we took measures to cancel half of them through the write-off of outstanding intra-claims of the involved institutions (the Jordanian Armed Forces, electricity distribution companies, NEPCO, and the Ministry of Finance). We will monitor these claims monthly, which are expected to remain within budgeted allocations because of lower international oil prices. Nevertheless, we are committed to prevent further accumulation of arrears by strictly enforcing the budget law entitling us to deduct any sums owed by government units from their budgets to pay for their arrears.

- Consistent with our commitment to prioritize social expenditure, our program will continue to protect the most vulnerable through targeted spending aimed at illness and disability, old age, family and children, housing, and research and development in the field of social protection.

- With the support of technical assistance from the IMF Fiscal Affairs Department, we have published a public expenditure report in June 2018 (end-June 2018 benchmark) that identifies further potential expenditure rationalization measures, as well as reforms to enhance transparency and address public concern about spending inefficiencies. To support our fiscal agenda in the years ahead, we will work together with our partners to: i) tackle shortcomings in policy and public financial management of the civil health insurance system, starting with the integration of the Civil Health Insurance Fund into the Government Financial Management Information System (GFMIS) system to better control and audit health claims (end-December 2019, new benchmark); ii) re-orienting resources from the cash transfer program replacing bread subsidies to fund the envisaged expansion of NAF resources during 2020–21 to strengthen the social safety net and support the most vulnerable segments of the population; and iii) strengthen the financial reporting and oversight of government units, while preparing a restructuring plan to address duplicative/overlapping functions. In this context, we have transferred 29 government units to the 2019 general budget law, which will increase their financial control and planning, and would yield efficiency gains over the medium-term.

Public Utilities—Energy and Water

13. We have made progress toward returning utilities to cost recovery.

- **Electricity**. NEPCO's finances strengthened considerably thanks to lower oil prices and to switching the company's primary source of energy from fuel to LNG, with the company recording an operational profit in 2016 and small losses in 2017. Following increasing oil prices, we continued implementing the automatic electricity tariff adjustment mechanism, though it fell short of what was needed to prevent operational losses of 0.3 percent of GDP in 2018. We recognize that without action, NEPCO would slip once again into difficulties, with sizable losses projected under unchanged policies and the prevailing tariff structure. Our objective is to ensure that NEPCO's financial sustainability is ensured, starting with concrete actions to prevent further losses in 2019. In this context, the cabinet has approved a comprehensive road map to NEPCO's financial sustainability, comprised the following measures:

  - *Earnings and sales*. To prevent losses in 2019, we have implemented upfront cost-savings and revenues measures, including savings from cheaper gas from Egypt and the lower use of liquified natural gas, and higher revenues from the increase of bulk tariffs charged by NEPCO to electricity distribution companies, the elimination of cross-subsidies to households with three-phase connections and with more than one meter, and charges to self-generation consumers. These measures will close the expected gap in 2019, prevent any losses in 2019, and even allow for the adoption of a multi-year cross-subsidy reduction, which we expect to start implementing in the fourth quarter of 2019. In addition, we are seeking to optimize future commitments. To address overcapacity of power generation in our electrical system, we have imposed a moratorium on the signing of new generation contracts, we are in the process of hiring financial and legal advisors to study options to reduce costs under our PPA portfolio, and we are exploring options to export electricity to neighboring countries. We are committed to ensure that no further losses accrued in the energy sector, including through a quarterly automatic tariff adjustment mechanism if needed, to ensure zero losses by end of year for NEPCO, with this mechanism beginning to be implemented as of July 1, 2019. At the same time, we will adopt a multi-year strategy for a targeted subsidy to insulate vulnerable households from tariffs increases. We will further adopt fair economic chargers to users of the grid with self-generation capacity to reflect costs of capacity support, network support, network losses, and electricity banking, among others. Finally, we will continue to diversify our energy mix toward cheaper and less volatile sources, such as renewables and natural gas from the Mediterranean (expected by 2020).

- *Working capital.* With more than 60 percent of NEPCO's receivables (about 2 percent of GDP) owed by public sector entities and on an upward trend, there is a critical need of a mechanism that ensures timely revenue collections. To address existing arrears, we have implemented a one-time-settlement of intra-governmental liabilities across the involved entities (electricity distribution companies, NEPCO and the Ministry of Finance). Going forward, we will develop a mechanism aimed at enabling NEPCO to recover regular electricity payments from public agencies through the Ministry of Finance in a time-bound manner, which is expected to be implemented in the third quarter of 2019.

- *Debt optimization.* With the support of donors, we will start implementing a comprehensive debt management plan for NEPCO, linked to key deliverables under our reform plan. We will seek to replace expensive commercial debt with long-term blended finance to ensure a smooth debt service profile and reduce the interest burden.

- *Regulatory governance and processes.* We will strengthen the regulatory set-up according to global best practices, to transparently implement the envisaged multi-year tariff reform strategy. We will also develop a roadmap for unbundling NEPCO into strategic business units to strengthen utility accountability.

- **Water.** To better recognize the sector's structural challenges associated with refugees, water security, and financing needs, and their impact on public debt, WAJ's gross financing needs have been financed through advances from the central government starting in 2018. Some delays in transfers due to cash management problems caused WAJ to accumulate 0.1 percent of GDP in arrears that have been cleared in February 2019. We will continue implementing the updated "Action Plan to Reduce Water Sector Losses" to seek: i) cost savings from better energy efficiency and lower system losses; and ii) higher revenues. To monitor the implementation of the strategy, we have issued three biannual reports highlighting the quantitative impact of the diverse measures taken and the status of the diverse projects involved. However, electricity costs above the plan expectations have caused the acceleration in the accumulation of arrears of the distribution companies (reaching 0.5 percent of GDP as of end-2018; which have been cleared per the aforementioned one-time-settlement of NEPCO's public-sector related receivables), adding to the long-standing difficulties of the water companies. We plan to incorporate these three companies into our financial program to monitor that they do not accumulate new arrears, and transfer WAJ into the 2020 general budget law (new benchmark, mid-November 2019). To mitigate the impact of higher electricity and fuel costs, we will start implementing a plan on non-tariff revenue actions to reduce water-sector losses by end-June 2019 (new benchmark). We have also made progress with the "Water Sector Capital Investment Program 2016–2025" to improve the access to and quality of water and wastewater services while safeguarding water security. We will contribute to the central planning and oversight of public investment.

Public Sector

14. **We will also limit the potential fiscal costs related to Royal Jordanian.** We have continued implementing Royal Jordanian's medium-term restructuring plan, with visible results in terms of profitability during the 2017–18. We will continue to seek private sector interest in the recapitalization of Royal Jordanian, both from existing shareholders and from potential new investors.

Structural Fiscal Reforms

15. **Measures to strengthen public financial management will improve the management of fiscal risks and the monitoring of the government's underlying fiscal position.** We adopted in June 2016 a decree establishing a central Public Investment Management (PIM) unit at the Ministry of Planning and International Cooperation along with an action plan. In close cooperation with the World Bank, the IMF, and USAID, we are making progress implementing this plan to make the PIM operational by end-December 2019 through the recruitment of key staff, including personnel from other ministries, and have begun managing all investments according to standards set by the new PIM framework.

16. **Reforms will also aim at strengthening the public financial management framework and fiscal transparency, including the managing of fiscal risks stemming from public-private partnerships (PPPs), power purchase agreements (PPAs) and state-owned enterprises (SOEs).**

- With assistance from the IMF, we have made significant progress in recording the trust accounts' entries appropriately as revenue and expenditure. We are now able to classify the accounts by purpose and use and have consolidated them into the fiscal tables published in the government finance bulletin starting in June 2017. Based on the trust accounts classification and further IMF TA, we will then gradually integrate into the treasury single account those whose existence is not justified.

- Given Jordan's limited fiscal space, we are committed to ensuring that our public investment spending is well assessed and efficient to promote growth, while minimizing future risks to the budget. With further assistance from the IMF Fiscal Affairs Department, we conducted in May 2017 and February 2018 a Public Investment Management Assessment (PIMA), which provides a comprehensive evaluation of Jordan's public investment management systems. Based on the findings of these reports, we see the need to: i) improve strategic planning and coordination; ii) strengthen oversight and disclosure of our PPP and PPA contracts and projects; iii) strengthen the oversight of the investment activities of SOEs; and (iv) improve the framework for project implementation, oversight, and appraisal. To support these objectives, we are committed to strengthen the oversight and evaluation role of the PPP unit. In this context, we expect to implement amendments to the PPP law by end-December 2019, that would move the location of the PPP unit to the Prime Minister office, ensure no further exemptions to the PPP law granted to the water and energy sectors, and establish an intra-governmental committee responsible for the assessment of contingent liabilities. To take stock of underlying fiscal risks, we will undertake a comprehensive review of PPPs and PPAs. With the support of USAID, we will recruit a top tier international accounting firm by end-June 2019 (new benchmark) to complete a detail study of PPPs and PPAs by end-December 2019 (new benchmark). The study will identify and quantify major contingent liabilities and any amounts that may be payable by the government. All PPP and PPA contracts will be made available for this study.

- To support the PIM framework and its action plan, we have submitted to parliament a draft Organic Budget Law (OBL). The OBL will include provisions for: i) macro-fiscal policy, fiscal rules, top-down budgeting, and approval of the fiscal strategy aspects of the budget preparation; ii) treasury control, cash management tasks and details on reporting for general government or public sector aspects of budget execution; and iii) audit provisions covering the obligation to follow-up on audit queries and the requirement for public entities to establish internal audit functions.

17. Tax administration reforms will continue to help strengthening compliance and focus at identifying and monitoring key risks in revenue management. Following our action plan in September 2016 to start tackling tax administration weaknesses identified in the IMF's Tax Administration Diagnosis and Assessment Tool (TADAT) evaluation, ISTD has strengthened its organizational structure and operational requirements for an effective compliance risk management. These have included the establishment of a Senior Risk Committee and the preparation of a Compliance Risk Register. In addition, considering the recommendations of a recent technical assistance from METAC, we are in the process of establishing a dedicated Risk Management Unit to identify risks to revenue and manage them effectively.

18. We have enhanced the quality, planning, and effectiveness of debt management of the central government and its agencies, including NEPCO and WAJ. We have continued to publish each month the central government's domestic borrowing plan and auction calendars. We have also continued, together with NEPCO and WAJ, preparing a quarterly financing plan for the following 12 months, taking into account the total combined financing needs of the central government and these agencies, and will now also include Aqaba, Miyahuna, and Yarmouk Water Companies. We will continue to update the financing plan every quarter for the subsequent four quarters. This plan will be anchored by our debt management strategy, including by ensuring that the issuance schedules of the central government and public agencies are coordinated in a way that improves overall borrowing terms. By implementing this coherent borrowing plan, we have lengthened the average maturity of debt (excluding treasury bills, the average maturity reached six years in 2018), improved the debt profile of the central government and its agencies, and reduced total public debt and rollover risks over the medium-term. With the assistance of a U.S. Treasury TA mission, we have prepared and published our updated debt management strategy for 2017–21 covering the central government and its agencies.

B. Monetary and Financial Policies

19. Monetary policy will continue to be underpinned by the exchange rate peg. Although we have closely matched movements in U.S. interest rates, events in 2018 resulted in an increase in deposit dollarization and a decline in Jordan's reserves. However, deposit dollarization has stabilized at about 21 percent at end-2018 and we have recently started to see a small decline in dollarization. Looking forward, the CBJ will continue to monitor closely domestic and external economic developments, and whenever necessary, will intervene adequately and effectively (including through interest rates) to maintain monetary stability, and reserve targets in 2019.

20. We have continued to enhance the prudential and supervisory framework. Aggregate capitalization of 17.2 percent at end-June 2018 is well above the regulatory minimum of 12 percent (among the highest in the region), liquidity buffers remain comfortable, non-performing loans (NPLs) are modest, and profitability is strong. Stress tests and sensitivity analysis published in the most recent Financial Stability Report (2017) underscore the sector's broad ability to withstand severe negative shocks to NPLs, equity prices, interest rates, and the exchange rate.

21. Bank supervision aims at maintaining the system's financial soundness and resilience. The CBJ will continue to monitor the banking sector closely, including for possible signs of deterioration in asset quality, including due to weak economic activity—which could lead to an uptick in credit risk from corporates and households. In the context of slowing credit growth, the central bank will also continue to monitor credit to households, with particular attention to the type and quality of lending. In addition, the CBJ will keep track of corporate exposure to the real-estate sector. Should credit risks increase excessively from a financial stability perspective, the CBJ has a broad range of macroprudential tools at its disposal and will design an appropriate policy response.

22. The legislative and regulatory framework for banks will be strengthened further. We have passed legislative amendments to the Deposit Insurance Corporation law, which were submitted to parliament in April 2018 (end-June 2017 benchmark). The broad goal is to help ensure the establishment of a robust bank resolution framework in line with the FSB Key Attributes. The amendments incorporate: (i) institutional arrangements with a clear division of labor and interagency coordination; (ii) recovery and resolution planning requirements: (iii) clear triggers for entry into resolution; (iv) comprehensive and effective resolution of powers; (v) creditor and shareholder safeguards; (vi) a least-cost test to fund resolution with a systemic exception; and (vii) a robust deposit insurance framework. They will support the provisions related to bank resolution framework incorporated into the amended commercial banking law. In 2017, we issued new Basel III regulations on capital adequacy requirements, including new regulations on domestic systemically important banks, and on liquidity requirements. The gradual implementation of these regulations will help better tailor liquidity and capital requirements to the needs of individual banks. We have also worked proactively with banks to ensure the smooth transition to IFRS9 accounting standards in 2018—preliminary results suggest that the new provisioning requirements will only have a modest impact on capital ratios, and that overall bank capitalization will remain comfortable.

23. We will continue enhancing the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. With the assistance of the Fund, we have completed a National Risk Assessment, which will be approved early in 2019. This will contribute to our current review of the AML/CFT law and drafted amendments; ensuring that it is fully in line with the 2012 Financial Action Task Force (FATF) standards and that it addresses all the practical issues faced by the AML/CFT Unit and other competent authorities in the course of implementing the AML/CFT law. Drawing on this assessment, we expect that amendments to the current AML/CFT law will be finalized and passed early in 2020. All regulatory agencies, including the CBJ, have amended their regulations to ensure their conformity with FATF standards. The CBJ regulations in particular have benefitted from Fund technical assistance. Also, in line with IMF TA recommendations, we have put in place a risk-based framework for offsite and onsite supervision of banks and money-exchange firms and for other financial and nonfinancial institutions, as well as Non-Profit Organizations. A second-round mutual evaluation by MENAFATF has proceeded over the course of 2018, and a plenary discussion of the evaluation is scheduled for April 2019.

24. Initiatives to develop the nonbank financial sector will contribute to financial deepening. In particular:

- Amendments to the Insurance Law to allow for the transfer of the supervision of the insurance sector to the CBJ were expected to be ready for Parliamentary approval by end-March 2018 (benchmark), but have been delayed. The transfer was then to be completed by end-March 2018 (benchmark), allowing the implementation of reforms to the sector's regulatory framework in line with recent IMF TA. Submission to parliament and the completion of the transfer of supervision to the CBJ are now expected by end-September 2019 (reset benchmark). This will help foster stronger supervision, minimize spillovers from the insurance sector to banks, as well as enhance financial development and inclusion.
- We will continue developing and implementing regulations for the supervision of microfinance institutions. Under the new licensing framework, nine institutions have been granted licenses.

STRUCTURAL POLICIES TO PROMOTE JOBS AND GROWTH

We will continue to tackle long-standing impediments to growth in the areas of business environment (including access to finance) and competitiveness, labor market, and governance; building on the effective implementation of the Jordan Economic Growth Plan. This will help in making growth strong, sustained, and job-creating while supporting debt sustainability. These reforms will promote physical and human capital accumulation and total factor productivity.

25. Strengthening the business environment will help foster investment and enhance competitiveness. Our efforts in this area focus on reducing the cost of starting and operating businesses including through simplifying procedures, eliminating red tape, and further strengthening investor protection:

- To ensure that it becomes the preferred entry point for new investors (most of which currently go through various ministries), we have launched the new "one procedure one form" registration process and have standardized business classifications, making the investment window of the Jordan Investment Commission (JIC) fully operational (end-June 2017 benchmark).

- Submission to parliament of the draft inspection law (end-June 2017 benchmark) has been completed, and the law was approved in August 2017. The law streamlines the inspection mandates and processes of a number of inspectorates in Jordan, and will improve the business environment by reducing the burden on the private sector resulting from overlapping inspection mandates and unplanned inspection visits, and by reducing uncertainty by introducing risk-based targeting while raising business awareness on compliance requirements. The law emphasizes the role of the Higher Committee for Inspection Reform as the national umbrella for business inspections. The bylaws for this legislation were enacted October 2018.

26. Reforms to facilitate access to finance will help broaden the reach and usage of financial services.

- The credit bureau started operating in January 2016 and commenced its inquiry services on October 2, 2016. It is compiling credit reports to assess borrower creditworthiness and expediting credit risk assessment decisions for borrowers, including Small and Medium-Size Enterprises (SMEs). The bureau's information collection now covers all banks and is being progressively extended to cover insurance and leasing companies, microfinance institutions, public utilities, and telecommunication companies. Having compiled three years of historical data, the bureau will shortly be in a position to assign credit scores to borrowers in early 2019, maximizing the value of information contained within the credit bureau by utilizing the predictive nature of a diverse set of variables.

- To improve access to finance, including for SMEs; (i) in 2016 we increased Jordan Loan Guarantee Corporation's (JLGC) capital from JD 10 million to JD 29 million; (ii) the CBJ and the commercial banks have co-financed a $50 million fund, managed by the JLGC, to provide loan guarantees to SMEs start-ups with high coverage (85 percent) and reasonable cost ; (iii) with the financial assistance from the World Bank, we set up in December 2017, a $100 million equity fund, the "Innovative Startups and SMEs Fund" (ISSF),that will be managed by JLGC to provide capital to start-ups and (iv) we have created an export guarantee fund (managed by JLGC) and provided capital in the form of a JD 100 million loan from the CBJ to help support exporters. On the latter initiative, we have adopted a strategic plan that will allow JLGC to increase its underwriting capacity on foreign buyers. To reflect the expansion of this activity, JLGC has changed the composition of its Board to include independent directors.

- Also on SMEs, we passed in May 2018 a secured transactions law (end-June 2017 benchmark), which will allow SMEs to use moveable assets as collateral. The associated bylaws were enacted October 2018, and we will launch a Collateral Registry for movable assets early in 2019. Additionally, in recent years we have contracted two loans from the Arab Fund for Economic and Social Development and one from the World Bank, for a total of $300 million, to provide low-cost and long maturity guaranteed funding for SMEs through the banking system. We expect to continue disbursing these loans in 2019, but are committed not to contract any new loans to ensure the overall consistency of the program with public debt targets, in consultation with the IMF.

- We have prepared a draft insolvency law (end-March 2017 benchmark), that brings the law in line with best practice by providing adequate protection of creditors rights, unhindered access to an insolvency system, expedited liquidation of unviable companies, and a range of mechanisms for restructuring/rescuing of viable businesses. This law was approved in May 2018 (end-June 2017 benchmark), and the associated bylaws were enacted January 2019.

- The CBJ has established a new division in the payments department in charge of promoting financial inclusion and payment options in Jordan. With the help of GIZ, the CBJ has conducted a comprehensive supply and demand side study assessing the detailed level of financial inclusion in Jordan and identifying key issues and challenges. Initially intended for end-March 2017 (benchmark), this study was published in October 2017 (end-September benchmark). Based on its findings, in cooperation with relevant stakeholders and development partners, we have published a Financial Inclusion Strategy (end-December 2017 benchmark). This strategy aims at enhancing access and use and quality of financial services, including improving SMEs' access to finance, further developing necessary infrastructure (credit bureau and payment system), enhancing digital financial services, improving access to Microfinance, promoting financial literacy, strengthening financial consumer protection, and building a comprehensive data base at CBJ to monitor and measure development in financial inclusion. We finalized and published an action plan for the strategy in June 2018, and are in the process of developing a framework for monitoring, evaluation, and data collection.

27. We will promote job creation through broad-based labor market reforms, with a focus on measures to support youth and female employment.

- In September 2016, the National Committee for Human Resources Development (NCHRD) published the National Strategy for Human Resources Development (NSHRD) outlining a 10-year plan to improve elementary education, higher education, technical education and vocational training. The Ministry of Labor has completed the revisions to the 2011 National Employment Strategy (NES) based on the recommendations of the recent review conducted with the International Labor Organization (ILO) and aligned with the NSHRD. The ILO recommendations include: (i) addressing skills mismatches, including through strengthening the involvement of local business communities in school life; (ii) unlocking the potential of women in the labor market including through introducing more flexible work arrangements and strengthening the enforcement of maternity benefits; and (iii) as noted in Vision 2025, reforming public sector hiring practices and compensation by, over time, rightsizing the public service and restructuring its organization.

- To promote labor market flexibility and so expand employment opportunities for new labor-market entrants (including youth and women), the Bylaw on Flexible Work has been approved by the Council of Ministers, redefining the minimum wage on an hourly basis rather than a monthly basis. Also, looking forward, we will continue to revamp the part-time employment framework to reduce costs to licensing and facilitate the registration of home-based employment activities.

- Similarly, we are working with the World Bank to reduce labor market segmentation, and have completed a review of the legal framework to identify causes of segmentation.

- To facilitate access of Syrian refugees to formal employment, more work permits have been issued to Syrian refugees in Jordan, mostly in the sectors of agriculture, construction and manufacturing, which are open to non-Jordanian workers. Moreover, in 2016 Jordan introduced flexible work permits for Syrian refugees working in agriculture (under the umbrella of the agricultural cooperatives), and extended these permits in 2017 to refugees working in the construction sector (under the umbrella of the Jordanian General Federation of Trade Unions). These permits allow workers to move from one employer to another, and to perform tasks as self-employed individuals. In addition, in November 2018, the Ministry of Labor issued a decree allowing Syrians to operate home-based businesses in the following sectors: food processing, handicrafts and tailoring, based on the licensing regulations of home-based businesses professions within Greater Amman Municipality and the Ministry of Municipal Affairs.

- More broadly, a key aim of our policy is to promote the formalization of Jordan's workforce, reducing the segmentation between the formal and informal sectors, and so adding to efficiency, inclusiveness, and growth. To this end, we will be reviewing identification and registration requirements for both Jordanians and non-Jordanians to better ensure that all workers within Jordan are placed on an equal footing.

- In this regard, to ease tensions in the labor market, we have also acted to rationalize the flow of new guest workers. We have, since June 2016, largely halted the addition of new guest workers, while adopting a flexible approach to encourage the renewal of work permits for guest workers already in Jordan; easing the ability of guest workers to move between sectors, and providing steep discounts or waivers for permit fees.

- To improve gender equality, we have removed all references to gender in Ministry of Labor instructions that can be used to discriminate against women, and have amended key by laws that had previously restricted working hours for females. We have also submitted to parliament amendments to the labor law that allow for more flexible work arrangements, establish part-time work as a legitimate method of employment, remove any potential discrimination between mothers and fathers regarding daycare requirements, and establish paternity leave. On daycare centers, the labor law already mandates that firms with more than 20 female employees provide daycare for children under five, but we will alter the code to apply to both parents. Beyond this, however, we are working closely with stakeholders to ensure that, for smaller firms, effective daycare options are provided within the local community. Quality daycare is recognized within the current NSHRD as critical component of early development and education, contributing not only to female participation and inclusion in the workforce over the short run, but also helping ensure that Jordan's economy has a workforce with the skills, qualifications, and capabilities needed to secure its prosperity over the long run.

- Finally, to help reduce youth unemployment we are streamlining and enhancing our technical and vocational education and training (TVET) efforts, and are working on legislation that will bring our existing initiatives under a single umbrella. We will also step up enforcement of existing certification regulations, to raise the profile and demand for formal technical training and certification. In addition, we launched in 2019 a new "National Service" program, which is a three-month non-mandatory course that will offer youth key skills and career opportunities in targeted sectors. We aim to train 20,000 participants through this program over a two-year cycle.

Also, through the National Empowerment and Employment Program (NEEP), launched in March 2019, we are promoting on-the-job training, offsetting the upfront cost of training a new hire (for six months) on the condition that the employee be retained for three years. This program has been working well and will be expanded over the next 2–3 years, potentially reaching over 30,000 job seekers. Combined, the TVET, National Service and NEEP efforts are expected to boost job creation significantly.

28. Measures to improve competitiveness will help bolster diversification and export growth. The relaxation of rules of origin for exports to the EU in July 2016 provides a significant opportunity to diversify our markets and broaden our product mix. We have taken a number of active steps accelerate the potential benefits of this opening, and agreed in December 2018 to loosen the requirements for employers under this framework. The arrangement has been extended to 2030, is no longer restricted to prespecified industrial and development zones, and the minimum proportion of Syrian workers involved in production will now remain flat at 15 percent—in the event that the amount of active work permits issued to Syrian refugees in Jordan reaches sixty thousand, the latter minimum employment requirement will be lifted entirely. Domestically, we have conducted several workshops to raise awareness among Jordanian firms of the benefits and requirements of the initiative, while also simplifying application procedures, waiving fees associated with work-permit applications, and supporting Jordanian firms on marketing and certification for entry into the EU market. We have also conducted trade missions to (and began free trade negotiations with) fast-growing East African countries, and to the U.S. (with which Jordan has a free trade agreement) to diversify the mix of products sold to that market (currently dominated by garment). More broadly, for Jordan to expand its footprint in global markets, it must have the capacity to meet the standards that those markets require, which will in turn require an appropriate "National Quality Infrastructure" (NQI). In this regard, we will adopt a National Quality Policy and associated action plan in 2019 to eliminate internal conflicts of interest, increase the transparency and predictability of the process for adopting mandatory requirements, and provide a full range of NQI services to Jordanian customers—including conformity assessment, metrology, and surveillance. In addition, Jordan's transport and logistic sector is an important driver of competitiveness, growth, and job creation. The 2015 Long-Term National Transport Strategy and Action Plan highlighted a number of concerns in the trucking industry, which is both highly fragmented and subject to access restrictions at Aqaba port. In consultation with the World Bank, we intend to implement measures that will reduce market distortion, while defining an incentive mechanism to reduce, renew or consolidate the truck fleet to enhance the efficiency of cargo transport for containers for the Aqaba-Amman corridor.

PROGRAM MONITORING

29. Progress in the implementation of our policies, which are supported by the IMF, will be monitored through semi-annual reviews, quantitative performance criteria (PCs), continuous performance criteria, indicative targets, and structural benchmarks. These are detailed in Tables 1a, 1b, and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding. In this regard we will request an extension of the current EFF arrangement to March 23, 2020. Quantitative targets for June 2019 and December 2019 are PCs. We intend to keep IMF disbursements with the CBJ and these will not be on-lent to the government.

Table 1a. Jordan: Quantitative Performance Criteria and Indicative Targets, March 2017–June 2018 1/

	Mar-17			Jun-17			Sep-17			Dec-17			Mar-18			Jun-18		
	EFF Indicative target	Adjusted Indicative target	Act.	EFF PC	Adjusted PC	Act.	EFF Indicative target	Adjusted Indicative target	Act.	EFF PC	Adjusted PC	Act.	EFF Indicative target	Adjusted Indicative target	Act.	EFF Indicative target	Adjusted Indicative target	Act.
Performance Criteria																		
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	168	148	74	201	161	111	368	308	345	587	507	493	76	76	503	-23	-63	522
Combined public deficit in JD million (flow, cumulative ceiling)	265	245	147	371	331	262	618	558	868	922	842	837	176	176	598	174	134	717
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,820	12,577	11,436	11,194	11,041	11,231	10,940	10,831	10,931	13,084	13,091	12,643	11,928	11,963	12,020	11,566	11,596	10,769
Ceiling on accumulation of external debt service arrears 2/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets																		
Social spending by the central government in JD million (flow, cumulative floor)	460	460	394	870	870	897	1,345	1,345	1,304	1,820	1,820	1,731	476	476	522	952	952	897
Public debt in JD million (stock, ceiling) 3/	26,733	26,580	26,452	26,836	26,836	26,472	27,238	27,238	26,893	27,429	27,317	27,269	27,821	27,709	27,720	27,999	27,772	27,931
Short-term public debt in JD million (stock, ceiling) 4/	1,500	1,500	900	1,500	1,500	900	1,500	1,500	879	1,500	1,500	820	1,500	1,500	910	1,500	1,500	925
Accounts payable of the central government in JD million (stock, ceiling)	517	517	179	350	350	101	350	350	158	350	350	158	350	350	158	350	350	126
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 5/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 6/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-1,058	-886	-831	-568	-460	-69	-243	-166	-161	-1,415	-1,420	-1,266	-587	-612	-876	-326	-347	-876
Memo items for adjustors																		
Foreign budgetary grants and loans received by the central government (JD millions, flow, cumulative)	145	...	79	255	...	187	442	...	330	1,488	...	1,301	89	...	130	267	...	170
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2015)	2,961	...	2,718	2,940	...	2,788	3,099	...	2,990	4,549	...	4,557	4,618	...	4,654	4,768	...	4,799
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2015)	204	...	51	100	...	102	100	...	102	214	...	102	214	...	102	329	...	102
Cap for the downward adjustor on the NIR (USD millions)	1,200	...	1,200	600	...	600	600	...	600	600	...	600	600	...	600	600	...	600
Cap for the downward fiscal adjustor (JD millions)	20	...	20	40	...	40	60	...	60	80	...	80	20	...	20	40	...	40

1/ The quantitative performance criteria and indicative targets are defined in the Technical Memorandum of Understanding attached to the Letter of intent.

2/ Continuous.

3/ Public debt includes central government debt (including off-budget project loans) and public guarantees to NEPCO, WAJ, and other public entities.

4/ Public debt with with original maturity of up to, and including, one year.

5/ Arrears owed by NEPCO only, to all entities. Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

6/ Arrears owed by WAJ only, to all entities. Excludes advances from Central Government for which WAJ does not pay interest and that do not have established maturity.

Table 1b. Jordan: Proposed Quantitative Performance Criteria and Indicative Targets, June 2019–December 2019 1/

	Jun-19	Sep-19	Dec-19
	PC	Indicative Target	PC
Performance Criteria			
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	255	338	442
Combined public deficit in JD million (flow, cumulative ceiling)	464	679	829
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	10,218	10,920	13,380
Ceiling on accumulation of external debt service arrears 2/	0	0	0
Indicative Targets			
Social spending by the central government in JD million (flow, cumulative floor)	909	1,322	1,755
Public debt in JD million (stock, ceiling) 3/	29,223	29,719	29,625
Short-term public debt in JD million (stock, ceiling) 4/	1,000	1,000	1,000
Accounts payable of the central government in JD million (stock, ceiling)	350	350	350
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 5/	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 6/	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million (stock, ceiling) 7/	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	575	-499	-1,483
Memo items for adjustors			
Foreign budgetary grants and loans received by the central government (JD millions, flow)	997	997	2,475
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2018)	1,407	1,407	3,331
Programmed stock of the combined health and energy arrears (JD millions)	625	535	442
Stock of checks issued by the central government but not yet cashed by the beneficiary (JD millions)	…	…	200
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2018)	119	238	238
Cap for the downward adjustor on the NIR (USD millions)	300	300	300

1/ The quantitative performance criteria and indicative targets are defined in the Technical Memorandum of Understanding attached to the Letter of intent.

2/ Continuous.

3/ Public debt includes central government debt (including off-budget project loans) and government-guarantees to NEPCO, WAJ, and other public entities.

4/ Public debt with with original maturity of up to, and including, one year.

5/ Arrears owed by NEPCO only, to all entities. Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

6/ Arrears owed by WAJ only, to all entities. Excludes advances from Central Government for which WAJ does not pay interest and that do not have established maturity.

7/ Arrears owed by Aqaba, Miyahuna and Yarmouk Distribution Companies only, to all entities. Excludes advances from Central Government for which Aqaba, Miyahuna and Yarmouk Distribution Companies do not pay interest and that do not have established maturity.

Table 2. Jordan: Structural Benchmarks, 2017–19

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
		I. Prior Actions		
1	Approval by parliament of the amendments to the income tax law		Fiscal consolidation	
2	Submission to parliament of a budget law for 2019 broadly consistent with program commitments		Fiscal consolidation	
3	The issuance of supporting regulations to accelerate GST payments from a bi-monthly to a monthly basis for large taxpayers		Fiscal consolidation	
4	Approval by cabinet of the consolidation of oil-derivatives taxes and fees into a specific excise tax framework		Fiscal consolidation and transparency	
5	Approval by cabinet of a comprehensive energy-reform plan that ensures NEPCO's medium-term sustainability and gradually phases out cross-subsidies; with initial implementation to include upfront revenue and cost-savings measures that prevent further losses in 2019		Fiscal consolidation, sustainability of sector, improved energy conservation, better level-playing field for non-households while protecting the most vulnerable	
		II. Structural Benchmarks		
1	Record the trust accounts entries as revenue and expenditure and classify them by purpose and use and consolidate them into fiscal tables and publish in the government finance bulletin	Initially end-February 2017, reset for mid-June 2017	Improved transparency	Implemented with delay.
2	Submit to Parliament a new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing)	Initially end-December 2016, reset for end-September 2017	Fiscal consolidation and Equity	Implemented with delay.
3	Submit to Parliament an Organic Budget Law	end-June 2017	Improved PFM and transparency	Implemented with delay.
4	Cabinet approval of the removal of GST exemptions in 2018	end-November 2017	Fiscal consolidation	Implemented with delay.
5	Submit to Parliament the 2018 draft budget law in line with program understandings and projections for 2018-19, including the estimates of tax expenditures	mid-November 2017	Fiscal consolidation	Implemented with delay.
6	Implement new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing)	Initially end-March 2017, reset for end-November 2017	Fiscal consolidation and Equity	Implemented with delay.
7	Establish the reporting requirements, processes, and access to social-security to ensure that ISTD can more adequately control and confirm PAYE compliance for large taxpayers	end-March 2018	Reduce tax evasion	Delayed, in process of implementation as part of the roll-out of the new income tax law.
8	Recruit a top tier international accounting firm for a detail study of PPPs and PPAs	end-June 2019	Improved PFM and transparency	New benchmark.
9	Cabinet approves and starts implementing a plan on non-tariff revenue actions to reduce significantly the losses in WAJ and the Water Distribution Companies	end-June 2019	Improved PFM and transparency	New benchmark.
10	Cabinet does not extend the exemption for the energy and water sectors from the PPP law after its expiration on end-June 2019	end-June 2019	Improved PFM and transparency	New benchmark.

Table 2. Jordan: Structural Benchmarks, 2017–19 (continued)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
11	Issue of supporting regulations to implement the new tax initiatives under the new income tax law: presumptive tax regime, minimum corporate tax, tax changes to development and free zones, and tax on dividends.	end-June 2019	Fiscal consolidation and transparency	New benchmark.
12	Transfer the Water Authority of Jordan to the 2020 general budget law	mid-November 2019	Improved PFM and transparency	New benchmark.
13	Submit to Parliament the 2020 draft budget law in line with program understandings and projections for 2020, including the estimates of tax expenditures	mid-November 2019	Fiscal consolidation	New benchmark.
14	Complete a detail study identifying and quantifying major contingent liabilities and any payable amounts by the public sector related to PPPs and PPAs contracts	end-December 2019	Improved PFM and transparency	New benchmark.
15	Integration of the Civil Health Insurance Fund (CHIF) into the GFMIS system	end-December 2019	Improved PFM and transparency	New benchmark.
Debt Management				
16	Publish updated public debt management strategy	end-June 2017	Enhance transparency, communication, and predictability	Met.
17	Finalize the reorganization of the Public Debt Directorate	end-June 2017	Strengthen the organizational framework for effective public debt management	Met.

Table 2. Jordan: Structural Benchmarks, 2017–19 (concluded)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
Financial Sector and Access to Finance				
18	Amend and enact the Insolvency Law	Initially end-March 2017, reset for end-June 2017	Removal of obstacles to increase access to finance	Implemented with delay.
19	Amend and enact the Secured Lending Law	Initially end-March 2017, reset for end-June 2017	Removal of obstacles to increase access to finance	Implemented with delay.
20	Submit to Parliament amendments to Deposit Insurance Corporation Law to align the provisions regarding the early intervention and bank resolution framework with the new commercial banking law	Initially end-March 2017, reset for end-June 2017	Improving the resilience of the banking sector	Not met. Amendments have been submitted to Parliament with delay on April 2018 and staff is assessing them on the substance.
21	Publish a study assessing the key issues and challenges to promote financial inclusion	Initially end-March 2017, reset for end-September 2017	Financial Inclusion, growth and equity	Implemented with delay.
22	Finalize and publish the Financial Inclusion Strategy	end-December 2017	Financial Inclusion, growth and equity	Met.
23	Amend the Insurance law to allow for the transfer the supervision of the insurance sector to the CBJ	Initially end-March 2017, reset for end-March 2018, proposed to be reset for end-September 2019	Better supervision of the insurance sector	Delayed.
24	Transfer the supervision of the insurance sector to CBJ	Initially end-September 2017, reset for end-March 2018, proposed to be reset for end-September 2019	Stronger supervision to minimize spill-overs of the loss-making insurance sector to banks (there are significant cross-holding and governance risks), enhance financial deepening	Delayed.
Business Environment				
25	Submit to Parliament a draft Inspection Law streamlining inspection mandates and processes	Initially end-October 2016, reset for end-June 2017	Improve business environment	Met.
Labor Market				
26	Conduct a study on options for temporarily lowering payroll taxes for women and the youth and identifying offsetting parametric changes in the pension system	end-March 2018, proposed to be reset for end-June 2019	Promote formal employment and stimulate aggregate demand while protecting the social security actuarial position	Delayed. The World Bank has postponed the study and is currently planning to conduct it in 2019.

Attachment II. Technical Memorandum of Understanding (TMU)

1. This memorandum sets our 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 arrangement under the Extended Fund Facility.

2. The program performance criteria and indicative targets are reported in Table 1b attached to the Memorandum of Economic and Financial Policies (MEFP) dated April 18, 2019. The exchange rates and gold price for the purposes of the program are those that prevailed on March 31, 2016. In particular, 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 870.865 per fine troy ounce for the measurement of the program performance criterion on net international reserves. The corresponding cross exchange rates are provided in the table below.

Program Exchange Rates	
Currency	**Jordanian Dinar Per Unit of Foreign Currency**
British Pound	1.016955
Japanese Yen	0.006316
Euro	0.8028
Canadian dollar	0.545675
SDR	0.99728

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

4. For program monitoring purposes, debt is defined as set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.[1,2]

[1]SM/14/304, Supplement 1.

[2] (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or

(continued)

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

A. Quantitative Performance Criteria and Indicative Targets

5. The quantitative performance criteria and indicative targets specified in Table 1b attached to the MEFP are:

- A performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfers to the National Electric Power Company (NEPCO), the Water Authority of Jordan (WAJ), and Aqaba, Miyahuna, and Yarmouk water companies ("state-owned water sector");
- A performance criterion (ceiling) on the combined primary deficit of the central government (as defined above), the net loss of NEPCO, the overall deficit of WAJ, and the overall deficit of Aqaba, Miyahuna, and Yarmouk water companies ("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 debt service arrears;
- An indicative target (floor) on social spending by the central government;
- An indicative target (ceiling) on public debt;
- An indicative target (ceiling) on short-term public debt;
- An indicative target (ceiling) on the accounts payable of the central government;
- An indicative target (ceiling) on the domestic payment arrears of NEPCO;
- An indicative target (ceiling) on the domestic payment arrears of WAJ;
- An indicative target (ceiling) on the domestic payment arrears of Aqaba, Miyahuna, and Yarmouk Water Companies;
- An indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

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more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

6. The performance criteria on the central government's primary fiscal deficit and the combined public deficit, as well as the indicative targets on social spending by the central government are monitored semi-annually (with indicative targets for the other quarters) on a cumulative basis from the beginning of the calendar year. The performance criterion on the NIR and the indicative targets on public debt, short-term public debt, accounts payable of the central government, domestic payment arrears of NEPCO, WAJ, and Aqaba, Miyahuna, and Yarmouk Water Companies, and NDA of the CBJ are monitored semi-annually (with indicative targets for the other quarters) in terms of stock levels. The performance criterion on the accumulation of external debt service 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

7. 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 28 government units, but includes all ministries and government departments that 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.

8. For program monitoring purposes, **the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector** 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 the stated-owned water sector.

9. **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.

10. **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.

11. **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.

12. **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

Investment Fund), 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.

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

14. Adjustors: The ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector will be adjusted:

- Downward by the extent to which foreign budgetary grants 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 of 75 percent of the shortfall.

- Downward by the extent to which the combined stock of health and energy arrears by the central government falls above of the projected combined stock of health and energy arrears specified in Table 1b of the MEFP, excluding any one-off settlement operation (such as the write-off of intra-governmental claims).

- Downward by the extent to which the stock of checks issued by the central government but not yet cashed by the beneficiary exceeds JD 200 million (the programmed stock as specified in Table 1b of the MEFP) in case of the end-year indicative target or performance criterion.

C. Ceiling on the Combined Public Deficit

15. For program monitoring purposes, **the combined public deficit** is defined as the sum of: (i) the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector of the central government as defined in Section B; (ii) the net loss of NEPCO; and (iii) the overall deficit of the state-owned water sector.

The **net loss of NEPCO** is defined as the difference between total operating revenues and total costs for normal operations conducted within the year 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 obligations 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. The **overall balance of the state-owned water sector** is defined as the difference between total revenues and current and capital expenditures. Total revenues are defined as the sum of: (i) sales of goods and services; (ii) property income; and (iii) all other revenue, excluding grants and proceeds from central government transfers or payments of WAJ, Aqaba, Miyahuna or Yarmouk water companies' obligations on WAJ, Aqaba, Miyahuna or Yarmouk water companies' behalf. Current and capital expenditures are defined as the sum of: (i) salaries, wages and allowances; (ii) social security contributions; (iii) use of goods and services, including energy costs; (iv) interest payments on domestic and foreign loans; (v) any other expenses, including pensions; and (v) capital expenditures.

17. Adjustors: The ceiling on the combined public deficit will be adjusted:

- Downward by the extent to which foreign budgetary grants 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 of 75 percent of the shortfall.

- Downward by the extent to which the combined stock of health and energy arrears by the central government falls above of the projected combined stock of health and energy arrears specified in Table 1b of the MEFP, excluding any one-off settlement operation (such as the write-off of intra-governmental claims).

- Downward by the extent to which the stock of checks issued by the central government but not yet cashed by the beneficiary exceeds JD 200 million (the programmed stock as specified in Table 1b of the MEFP) in case of the end-year indicative target or performance criterion.

D. Floor on the Net International Reserves of the CBJ

18. 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.

19. 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 USD 1,081.67 million.

20. 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 and donor term deposits with the CBJ with remaining maturity not less than 360 days), the two technical swaps with

Citibank Jordan for USD 88.5 million, and amounts received under any SDR allocations received after March 31, 2016.

21. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates. As of March 31, 2016, the stock of NIR amounted to USD 13,048.2 million (at 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—excluding programmed guaranteed and non-guaranteed Eurobonds and 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. Given the uncertainty on the timing of the Eurobond issuance (assumed under the program in the third quarter of 2019 for $1 billion), the floor of the NIR for end-September 2018 will be adjusted downward by the programmed amount if delayed to the fourth quarter of 2019. 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

22. **External debt service arrears** are defined as debt service payments (principal and interest) arising in respect of obligations to non-residents incurred directly or guaranteed by the central government or the CBJ, that have not been made at the time due, taking into account any contractual grace periods.

F. Floor on Social Spending by the Central Government

23. **Social spending** is defined as central government spending on social protection programs as articulated in the central government budget (code 710). These programs are funded by the government of Jordan resources only and comprise transfers for: illness and disability; old age; family and child; housing; research and development in the field of social protection; and unclassified social protection.

G. Ceiling on Public Debt

24. **Public debt** is defined as the sum of: (i) central government debt (including off-budget project loans); (ii) government guarantees extended to NEPCO, WAJ and other public entities; and (iii) the stock of the CBJ's liabilities to the IMF not lent on to the central government. For purpose of the program, the guarantee of a debt arises from any explicit legal obligation of the central government, or of any other agency acting on its behalf, to service such a debt in the event of nonpayment by the recipient (involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor.

25. Adjustors: The ceiling on public debt will be adjusted:

- Downward by the extent to which the cumulative disbursements under the EFF during the relevant period falls short of the levels specified in Table 1b.
- Downward by the cumulative amount of privatization proceeds, net of associated costs.

H. Ceiling on Short-Term Public Debt

26. Short-term public debt is defined as public debt, as defined in Section G, with original maturities of up to, and including, one year.

I. Ceiling on the Accounts Payable of the Central Government

27. 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.

J. Ceiling on the Domestic Payment Arrears of NEPCO

28. Domestic payment arrears by NEPCO are defined as the belated settlement of a debtor's liabilities that 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 12.

K. Ceiling on the Domestic Payment Arrears of WAJ, and Aqaba, Miyahuna, and Yarmouk Distribution Companies

29. Domestic payment arrears by WAJ, and Aqaba, Miyahuna, and Yarmouk Distribution Companies are defined as the belated settlement of a debtor's liabilities that 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 12.

L. Ceiling on the Net Domestic Assets of the CBJ

30. 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.

31. For program monitoring purposes, **the net domestic assets of the CBJ** are defined as the difference between the reserve money of the CBJ and its NIR as defined in Section D.

32. **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

33. 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.

34. 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 as prepared by the ministry of finance covering 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 (monthly).

- 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 (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 (monthly).

35. Related to the ceiling on the accounts payable of the central government:

- The stock of checks issued by the central government but not yet cashed by the beneficiary (monthly).

- The stock of the liabilities of the central government in the trust accounts and the deposits in the trust accounts (monthly).

36. 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.

37. Related to the combined public sector deficit:

- All the information specified in paragraph 28.

- 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.

- Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly), prepared by WAJ's Directorate of Finance and Accounting on a quarterly basis.

- Full unaudited income statements and the stocks of accounts payable and payments overdue less and more than 60 days (quarterly), prepared by each of the water distribution companies (Aqaba, Miyahuna, and Yarmouk) and WAJ's Directorates of Finance on a quarterly basis.

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

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

- Monthly Liquefied Natural Gas (LNG) flows in the LNG terminal in Aqaba in million British Thermal Units and their average price, and breakdown of these flows between local use and re-exports to Egypt (quarterly).

38. Related to the floor on NIR of the CBJ and ceiling on its NDA**:**

- CBJ's foreign exchange reserves and preliminary data on dollarization (weekly).

- Data on CD auctions (following each auction).

- Monetary statistics (monthly).

- The outstanding balance of bilateral accounts with the Central Bank of Iraq (monthly).

39. 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.

40. Related to the floors on public debt and short-term public debt:

- The fiscal tables on the central government's domestic and external debt (monthly).

- Tables on the stock of debt guarantees extended to NEPCO, WAJ, and other public entities (monthly).
- Data on short-term public debt (monthly).

41. Related to the floor on social spending by the central government:

- A table on the amount of central government spending on each of its social protection programs (monthly).

42. Other economic data:

- Interest rates and consumer prices; and exports and imports; travel receipts and tourist arrivals; remittances; outstanding balance of non-resident purchases of domestic treasury bills and bonds; and GCC grants received by the CBJ and grants transferred by the CBJ to the Ministry of Finance (monthly).
- The IPP formula tables on white products (gasoline, diesel, kerosene, and jet fuel), and for LPG, fuel oil, and asphalt (monthly).
- Balance of payments (current and capital accounts) and external debt developments (quarterly).
- List of short-, medium- and long-term public and 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, interest rate arrangements, and the amortization profile (quarterly).
- National accounts statistics (quarterly).

43. 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 performance 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

44. 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.

Statement by Sami Geadah, Alternate Executive Director for Jordan
May 1, 2019

Economic and social conditions remain challenging, in large part because of regional conflicts and developments, which adversely affect the fiscal situation, investment, and growth. Jordan continues to host over 1¼ million Syrian refugees, about one-fifth of Jordanians. Despite the winding down of the civil war in Syria, the return of refugees awaits an improvement in living conditions in Syria, including the rehabilitation of education and medical facilities, for which there has been little international support. Uncertainties regarding prospects for the occupied Palestinian territories also do not contribute to an improvement in sentiment. Moreover, economic conditions for expatriate workers in oil exporting Gulf countries remain relatively subdued, affecting remittances, which is a major source of foreign exchange and family support in Jordan.

While overall conditions remain difficult, there has been some improvement in 2019. There has been a strong rebound in tourism, an important source of foreign exchange and employment. The situation in Iraq has also improved, and the opening of borders is starting to benefit exports even though the closure of the border for several years will make it hard for Jordan to regain the market share that it had lost to Iran and Turkey.

Against this background, the authorities have persisted with their economic reform program aimed at strengthening the macroeconomic and structural foundations for sustainable and inclusive growth. The program will further reduce the fiscal deficit and help to secure public debt sustainability. It also includes a wide range of structural reforms to promote growth, employment, and inclusiveness, especially in view of persistently high unemployment.

Fiscal policy

Measures have been taken to reduce the combined public sector balance from 4.3 percent of GDP in 2018 to 2.6 percent of GDP in 2019, which are described in the staff report. The most significant of these measures is the revision of the income tax law, supported by efforts to strengthen tax administration. Expenditures were also compressed, and steps were taken to ensure that the electricity company NEPCO does not incur operating losses. Continued fiscal consolidation in subsequent years is expected to put public debt on a firm downward trajectory.

It was not easy to amend the income law, and the authorities should be commended for their perseverance. Revisions to the law were approved by the cabinet in May 2018, on the basis of which a staff level agreement was reached on the completion of the review. However, demonstrations against the draft income tax law and against electricity and fuel price increases broke out soon thereafter, which led to the resignation of the government. The new government, headed by Prime Minister Razzaz, launched a comprehensive national dialogue on the income tax reform that finally led to its approval by Parliament following some contentious debates. The revised income tax law will support public finances for the foreseeable future. It is expected to yield 0.8 percent of GDP over the medium term, and it broadens the personal and corporate income tax bases, reduces arbitrage opportunities, and helps to reduce tax evasion.

Energy sector reforms

An important part of the fiscal adjustment is energy sector reform, which will also improve competitiveness. Jordan approached the Fund in 2012 as a result of a steep rise in the cost of imported energy. The cost for generating electricity rose sharply as gas supplies from Egypt were suspended after the gas pipeline through the Sinai was sabotaged. This was followed by a steep rise in the price of oil, which resulted in NEPCO incurring large deficits. Prior to these events, the fiscal accounts were close to balance, NEPCO operated profitably, public debt was moderate, and Fund staff suggested that Jordan consider the possibility of using a Fund precautionary facility.

The strategy for the energy sector will ensure that NEPCO does not incur operating losses as of this year. The company had an operational profit in 2016, incurred a small operational loss in 2017, and a larger loss (0.3 percent of GDP) in 2018 as tariff adjustments were put on hold following the demonstrations in June 2018. To prevent future losses, NEPCO implemented cost-savings and revenue measures, including additional use of gas from Egypt, increased tariffs on electricity distribution companies, eliminated subsidies to high-use households, and increased charges on self-generation consumers. Tariffs will also be adjusted as needed. These measures will facilitate the reduction of cross-subsidies, which is expected to start in late 2019. Higher tariffs on commercial and industrial users have induced these companies to generate their own electricity, most through solar power. Jordan has a very low cost for generating solar power, at US 2.4 cents per kwh. This comparative advantage provides an export opportunity once transmission arrangements can be agreed with neighboring countries.

Monetary policy

The Central Bank of Jordan (CBJ) continues its strong track record of skillful management of monetary policy, which has been anchored by the peg to the US dollar. Within the constraints of the peg, the CBJ has balanced stability and growth objectives, keeping interest rates as low as possible to support credit growth, subject to maintaining a comfortable level of foreign reserves. Although the CBJ has closely matched movements in US interest rates, domestic political events in June 2018 led to an increase in deposit dollarization and a decline in foreign exchange reserves to below the program target for end-2018. These trends were reversed in 2019. The CBJ has been a net buyer of foreign exchange since the beginning of this year and deposit dollarization has started to fall. The CBJ will continue to monitor domestic and external economic developments closely, and will intervene, adequately and effectively, whenever necessary to maintain monetary stability and reserve targets.

Structural reforms

The government has accelerated the implementation of structural reforms, which is a priority given anemic growth rates in recent years and persistently high unemployment, especially for the youth. The reforms tackled the business environment and competitiveness, the labor market, and governance. Procedures to start and operate a business were simplified and investor protection was strengthened. Specifically, business registration procedures were eased, and inspection procedures and mandates were simplified with the implementation of a new inspection law. Measures to improve competitiveness will benefit from the loosening of requirements related to the rules of origin for exports to the EU. This arrangement has been extended to 2030, and it is no longer restricted to prespecified industrial and development zones.

Several initiatives were taken to increase access to finance, especially for SMEs. The resources available for lending to SMEs were significantly increased, and a new secured transactions law is allowing SMEs to use movable assets as collateral. The new insolvency law—which was enacted in January 2019—protects creditor rights in line with best international practice and provides unhindered access to an insolvency system, expedited liquidation of unviable companies, and a range of mechanisms to restructure viable businesses. Financial inclusion will also benefit from the expansion of the coverage of the credit bureau to insurance and leasing companies, microfinance institutions, public utilities, and telecommunication companies.

Broad based labor market reforms will have a focus on youth and female employment. The Ministry of Labor has been working with the ILO to improve education, address skills mismatches, and reform public sector hiring practices and compensation. Impediments to female employment were eased through the removal of restrictions on working hours, introduction of flexible working arrangements, establishing part time as legitimate employment, removing any potential discrimination between mothers and fathers with regard to access to daycare, and allowing for paternity leave. To help address youth unemployment, technical and vocational training is being streamlined and enhanced through various initiatives. Measures are also being taken to promote the formalization of Jordan's workforce, including for Syrian refugees and guest workers.

Foreign assistance and refugees

The London Initiative in February 2019 has helped Jordan access budget grants and concessional financing. Nevertheless, Jordan still needs help given the cost of hosting refugees. Despite generous support, there has been an annual US$1 billion shortfall in donor financing to fully address refugee-related pressures, which added to Jordan's debt burden. In 2017 and 2018, Jordan received US$1 billion less in support under the Jordan Response Program each year relative to annual funding requirement of about US$2.5-2.7 billion. With public debt at about 95 percent of GDP, it is difficult for Jordan to borrow in order to host refugees, especially that it is providing an international public good by having opened its borders. These funding shortfalls continue to hamper economic program implementation under the Jordan Compact, which is crucial to ensuring that Jordan can sustainably cope with the refugee crisis and reduce macroeconomic vulnerabilities.