JORDAN: REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/295

JORDAN

September 2016

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of the Request for an Extended Arrangement Under the Extended Fund Facility, 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 August 24, 2016, following discussions that ended on May 31, 2016, 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 August 3, 2016.
- 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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International Monetary Fund
Washington, D.C.

Press Release No. 16/381
FOR IMMEDIATE RELEASE
August 25, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$723 million Extended Arrangement Under the Extended Fund Facility for Jordan

On August 24, 2016 the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Jordan for an amount equivalent to SDR 514.65 million (about US$723 million, or 150 percent of Jordan's quota) to support the country's economic and financial reform program. This program aims at advancing fiscal consolidation to lower public debt and broad structural reforms to enhance the conditions for more inclusive growth.

Following the Board's decision, an amount equivalent to SDR 51.465 million (about US$72.3 million) is made available for immediate disbursement, the remaining amount will be phased in over the duration of the program, subject to six reviews.

Following the Executive Board discussion on Jordan, Mr. David Lipton, First Deputy Managing Director, and Acting Chair, said:

"The Jordanian economy has performed favorably under a difficult external environment, including the hosting of a large number of Syrian refugees. Macroeconomic stability has been maintained thanks to significant policy adjustment and reforms. However, economic performance remains below potential and the hosting of Syrian refugees weighs on the economy and public finances.

"The authorities have developed a comprehensive economic reform program to enhance the conditions for more inclusive growth and preserve macroeconomic stability. Early and decisive actions are expected to provide new economic opportunities, job creation, and bolster confidence under a difficult environment. While the domestic and regional conditions are challenging, the authorities' strong commitment and their ownership of the program is welcomed. Continued donor support through sufficient grants and concessional financing as stated in the Jordan Compact, will also be important to support program goals.

"Public debt needs to be put on a downward path through gradual fiscal consolidation over the medium term while preserving essential social spending. To this end, it is critical to reduce the general sales tax and customs duty exemptions and to amend the income tax law. The electricity company NEPCO needs to reach operational cost recovery and Water

Authority of Jordan's finances should be consolidated. Public financial management should be strengthened to enhance fiscal transparency and reduce fiscal risks.

"Monetary policy has been skillfully managed, and will continue to be anchored by the exchange rate peg and focus primarily on preserving an adequate level of reserves. To further strengthen the regulatory framework, adoption of the amendments to the central bank law is a step in the right direction, and those for commercial banking law and of the secured lending and insolvency laws should be expedited.

"A swift implementation of the structural reform agenda would enhance the resilience and depth of the financial sector, the business environment, and help tackle challenges facing SMEs in terms of access to finance. Labor market reforms are needed to boost youth and female employment and lessen informality."

ANNEX

Recent Economic Developments

With the implementation of program supported by Stand-By Arrangement (SBA) that expired in August 2015, Jordan has managed to maintain macroeconomic stability and undertook significant policy reforms amidst a difficult external environment, high vulnerabilities, and the hosting of a large number of Syrian refugees. However, important challenges remain: economic growth remains below potential; unemployment remains high especially among the young and women; gross public debt has risen to 93 percent of GDP; the refugee crisis is weighing on the economy and public finances; and the current account deficit is high.

To tackle these challenges, the authorities have formulated an economic and financial reform program that is underpinned by Jordan's ten-year framework for economic and social policies (Vision 2025). This program aims at advancing fiscal consolidation and broad structural reforms to enhance the conditions for more inclusive growth.

Program Summary

The new program is designed in a flexible manner by pursuing gradual and steady fiscal consolidation to bring the debt down to safer levels while protecting the poor; and by advancing comprehensive reforms to enhance the conditions for more inclusive growth, particularly in light of the challenges posed by the regional conflicts on exports, investment, and the labor market.

Gradual and steady fiscal consolidation. The authorities' program aims at gradual fiscal consolidation to lower public debt to about 77 percent of GDP by 2021, while providing room for capital spending and preserving social spending. Key measures include revenue-enhancing reforms to the tax system, such as reforming the tax exemptions framework and broadening the tax base;

Structural policies to promote growth and jobs. Structural reforms will be implemented in several areas to enhance competitiveness, job prospects, and foster equity, fairness, and good governance. Such measures will aim at increasing labor force participation, particularly for women and youth; reducing informality; enhancing the business environment; ensuring sustainability in the energy and water sectors; preserving social spending, and improving public accountability and good governance.

Monetary and financial policies will remain focused on maintaining adequate reserves to anchor the exchange rate. Furthermore, the authorities plan to advance several reforms to enhance the resilience and depth of the financial system, including to strengthen the regulatory framework; to enhance the Anti-Money laundering/Combating the Financing of Terrorism (AML/CFT) regime; to promote better supervision of the insurance and microfinance sectors.

Additional Background

Jordan, which became a member of the IMF on August 29, 1952, has an IMF quota of SDR 343.10 million.
For further information regarding Jordan’s relations with the IMF, please see the link: http://www.imf.org/external/country/JOR/index.htm

Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2014–21

		SBA		Projections					
	2014	2015	2015	2016	2017	2018	2019	2020	2021
Output and prices	(Percentage change, unless otherwise indicated)								
Real GDP at market prices	3.1	2.9	2.4	2.8	3.3	3.8	4.0	4.0	4.0
GDP deflator at market prices	3.4	3.5	2.3	2.2	2.3	2.5	2.5	2.5	2.5
Nominal GDP at market prices	6.6	6.5	4.7	5.0	5.7	6.3	6.6	6.6	6.6
Nominal GDP at market prices (JD millions)	25,437	27,091	26,637	27,972	29,560	31,435	33,510	35,721	38,079
Nominal GDP at market prices ($ millions)	35,878	38,210	37,570	39,453	41,692	44,337	47,263	50,383	53,708
Consumer price inflation (annual average)	2.9	0.2	-0.9	-0.5	2.3	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	1.7	1.9	-1.6	1.2	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent)	11.9	...	13.1	...	...	...	...	...	...
National accounts 1/	(In percent of GDP, unless otherwise indicated)								
Consumption	106.5	103.3	104.9	103.0	101.1	98.7	96.3	95.2	94.6
Government	16.0	15.2	15.5	15.8	14.2	12.3	10.7	10.7	10.7
Other	90.6	88.1	89.3	87.2	87.0	86.4	85.6	84.5	83.8
Gross domestic investment	21.2	20.3	19.2	19.5	20.1	20.8	21.7	21.8	21.8
Government	4.5	4.0	4.2	4.3	4.5	4.8	5.0	5.0	5.0
Other	16.8	16.3	15.1	15.2	15.6	16.1	16.7	16.8	16.8
Gross national savings	14.4	12.9	10.2	10.4	11.2	13.4	15.5	15.6	15.6
Government	-3.5	-0.4	-2.0	0.5	1.9	3.7	5.5	5.5	5.5
Other	17.9	13.4	12.3	10.0	9.2	9.6	10.0	10.2	10.1
Savings-investment balance	-6.8	-7.4	-9.0	-9.0	-8.9	-7.5	-6.2	-6.2	-6.2
Government	-8.0	-4.4	-6.2	-3.8	-2.6	-1.0	0.5	0.5	0.5
Other	1.2	-3.0	-2.8	-5.3	-6.4	-6.4	-6.7	-6.6	-6.7
Fiscal operations									
Revenue and grants	27.9	26.1	25.0	25.8	26.3	26.2	25.9	25.6	25.7
Of which: grants	4.9	2.8	3.3	3.2	3.2	3.1	2.8	2.5	2.5
Expenditure 2/	38.0	29.1	30.1	29.6	30.3	30.4	29.9	29.7	29.8
Fiscal gap	0.0	0.0	0.0	0.0	1.5	3.2	4.6	4.6	4.6
Overall fiscal balance	-10.3	-3.0	-5.4	-3.8	-2.6	-1.0	0.5	0.5	0.4
Primary government balance, excl. grants, NEPCO, and WAJ	-4.5	-2.1	-5.2	-3.7	-2.5	-0.9	0.9	1.1	1.2
NEPCO operating balance	-4.6	-1.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance	-1.0	...	-1.1	-1.3	-1.3	-1.2	-1.2	-1.1	-1.1
Combined public sector balance 3/	-10.2	...	-7.2	-5.0	-3.8	-2.0	-0.3	0.0	0.1
Government and government-guaranteed gross debt 4/	89.0	90.0	93.4	94.4	94.0	91.0	86.3	81.7	77.3
Of which: external debt	31.2	34.5	35.2	36.9	36.9	37.5	37.6	37.3	37.0
External sector									
Current account balance (including grants), of which:	-6.8	-7.4	-9.0	-9.0	-8.9	-7.5	-6.2	-6.2	-6.2

Exports of goods, f.o.b. ($ billions)	8.4	8.1	7.8	7.5	7.9	8.5	9.1	9.7	10.3
Imports of goods, f.o.b. ($ billions)	20.2	18.2	18.1	17.7	18.2	18.7	19.4	20.2	21.3
Oil and oil products ($ billions)	5.5	3.6	3.3	2.7	2.9	3.0	3.2	3.3	3.6
Current account balance (excluding grants)	-12.1	-10.9	-12.0	-12.5	-11.8	-10.2	-9.0	-8.8	-8.8
Private capital inflows (net)	5.3	4.3	3.7	4.2	4.3	4.9	5.5	5.7	5.6
Monetary sector				(Percentage change)					
Broad money	6.9	8.2	8.1	7.6	6.9	...	...	...	...
Net foreign assets	15.4	7.4	3.5	5.5	4.3	...	...	...	...
Net domestic assets	4.0	8.5	9.8	8.3	7.8	...	...	...	...
Credit to private sector	3.7	6.0	4.8	10.2	8.5	...	...	...	...
Credit to central government	2.3	-1.6	-1.8	1.7	1.5	...	...	...	...
Memorandum items:									
Gross usable international reserves ($ millions)	14,973	15,367	15,678	15,888	15,829	16,854	18,038	19,160	20,202
In months of prospective imports	8.0	7.9	8.5	8.4	8.1	8.3	8.5	8.6	8.6
In percent of reserve adequacy metric	135.3	142.3	135.8	130.0	122.4	123.0	123.6	124.8	126.2
Net international reserves ($ millions)	13,374	14,091	13,589	13,894	14,040	15,360	16,867	18,188	19,303
Population (millions) 5/	7.42	...	7.59	7.75	7.88	7.99	8.08	8.17	8.25
Nominal per capita GDP ($)	4,838	...	4,947	5,092	5,293	5,553	5,849	6,169	6,513
Real effective exchange rate (end of period, 2010=100) 6/	112.8	...	118.1	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	6.9	...	4.7	...	...	...	...	...	...

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

1/ Government includes the central government and operating losses of NEPCO and WAJ.

2/ Includes net lending, transfers to NEPCO and WAJ, and other use of cash.

3/ Defined as the sum of the primary central government balance (excl. grants and transfers to NEPCO and WAJ), NEPCO operating balance, and WAJ overall balance.

4/ Includes NEPCO and WAJ debt.

5/ Data from UN population division.

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

JORDAN

August 3, 2016

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context. Jordan has maintained macroeconomic stability and undertook significant policy adjustment against a difficult external environment, rising socio-economic tensions, high vulnerabilities, and the hosting of a large number of Syrian refugees. The economy still faces considerable challenges. Economic growth remains below potential, unemployment is high, particularly for youth and women, the refugee crisis is weighing on the economy and public finances, gross public debt has risen to about 93 percent of GDP, the current account deficit is high, and the regional outlook remains challenging.

The program. It is underpinned by Jordan's ten-year framework for economic and social policies (Vision 2025). It aims at advancing fiscal consolidation and broad structural reforms to enhance the conditions for more inclusive growth. These goals would be achieved by preserving macroeconomic stability, through gradual and steady fiscal consolidation to lower public debt, and through structural reforms in several areas, to enhance competitiveness and job prospects, while continuing to protect the most vulnerable. Continued support from donors will be critical to program success and help Jordan cope with the humanitarian needs arising from regional conflicts and the Syrian refugee crisis.

EFF Request. The Jordanian authorities have requested a three-year Extended Fund Facility (EFF), with access of 150 percent of quota (SDR 514.65 million, about US$0.7 billion), with 15 percent of quota available upon Board approval. The size and timing of disbursements should reduce balance of payments vulnerabilities, strengthen reserve buffers, and support the implementation of the authorities' structural reform agenda.

Risks. The conflicts in Syria and Iraq could continue to constrain the economic outlook and trigger new refugee inflows. The outlook in Gulf Cooperation Council (GCC) countries could constrain exports, grants and remittances beyond 2016. Shortfalls in donor funding, along with potential delays in proceeding with fiscal consolidation and structural reforms, would leave the economy highly exposed to adverse shocks and unfavorable debt dynamics. On the upside, a potential re-opening of the Iraqi border and new investment under the Jordan Compact could boost growth and facilitate program implementation. Also, a recent agreement with Saudi Arabia on large investment projects is an upside risk to the outlook. Peace and reconstruction in Syria would boost economic activity down the road. The need for comprehensive structural reforms, fiscal consolidation, and macroeconomic policies to preserve stability requires strong program implementation.

Approved By
Adnan Mazarei (MCD) and Vitaliy Kramarenko (SPR)

The mission team consisted of Martin Cerisola (head), Ferhan Salman (head of the advance team), Edouard Martin, and Maximiliano Appendino (all MCD); René Tapsoba (FAD); Nelson Sobrinho (SPR); and Wafa Amr (COM). It was assisted by Ramsey Andrawis, Vanessa J. Panaligan, and Cecilia Pineda. The mission was joined by Sami Geadah, Alternate Executive Director, and Léa Hakim from the World Bank. During May 17–31, staff met with Minister of Finance Omar Malhas, Minister of Planning and International Cooperation Imad Fakhoury, Governor of the Central Bank of Jordan Ziad Fariz, other key ministers, senior government officials, and representatives of the private sector, the donor community, and local media.

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APPENDIX

BACKGROUND

1. **Jordan has made substantial progress in strengthening its fiscal and external positions despite a very difficult regional environment.** The conflicts in Iraq and Syria, the large inflow of refugees, along with large shortfalls in the supply of gas from Egypt at below-market-prices, constituted major shocks to the economy. The economic policies supported by the three-year Stand-By Arrangement (SBA) completed in August 2015 helped reduce vulnerabilities and maintain macroeconomic stability. The economy continued to grow, supported by a decline in oil prices and an accommodative monetary policy. A large fiscal adjustment was achieved, including through the implementation of ambitious fuel subsidy and electricity sector reforms.

2. **Notwithstanding this progress, significant challenges remain.** With regional conflicts constraining investor sentiment, tourism, and exports, real GDP growth averaged 2¾ percent per year in 2011–15, below the 2002–10 annual average of 6½ percent and what is required to meet job creation needs. While lower oil prices have provided relief since late 2014, the external current account deficit remains high owing to declines in remittances, exports, and tourism. Facing new external shocks, such as the closure of the Iraq trade route in July 2015, the 2015 fiscal adjustment was smaller than planned, delaying the stabilization of public debt. The hosting of Syrian refugees continues to represent a substantial strain on public finances.

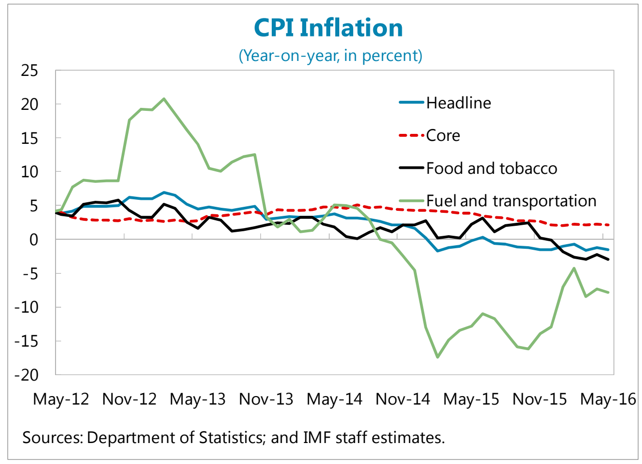
3. **The challenges posed by regional conflicts are also being supported under the Jordan Compact.**[1] The Compact geared towards promoting economic integration and development, while helping Jordan absorb the costs associated with the large influx of refugees. These goals will be supported by opening up the EU market with simplified rules of origin to help create jobs for Jordanians and Syrian refugees and in mobilizing grants and concessional financing to support the macroeconomic framework and external balance. The World Bank's Concessional Financing Facility—combining resources from the World Bank and grants from official donors—will help the World Bank to finance projects, thereby reducing capital expenditure pressures on the central government budget stemming from hosting refugees, and improving the profile of public debt through longer maturity and lower borrowing costs (Box 1).

4. **A caretaker government took office on June 1st and parliamentary elections are scheduled for September 20th.** Prime Minister Al-Mulki's government is committed to implementing policies and reforms underpinned by Vision 2025. This plan focuses on: i) sustaining macroeconomic stability through reducing fiscal needs and increasing reserves; and ii) enhancing the conditions for more inclusive growth through a better business environment, better public financial management and governance, improving labor force participation and competitiveness, to address in particular the challenges posed by the regional conflicts on exports, investment, and the labor market.

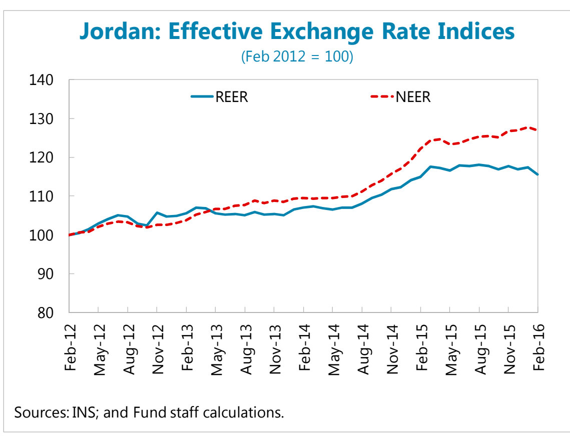
[1] The Jordan Compact is a framework to jointly address with the international community the Syrian refugee problem. It is covering 2016–18 and aims at mitigating the impact of the Syrian refugee crisis on Jordan. According to the authorities, it would cost US$8 billion (about 20 percent of 2016 GDP), of which US$3.2 billion is needed for budget support; US$2.8 billion is needed for education, health, water and sanitation, and municipal services; and the remaining US$2 billion is needed for refugees (cash transfers and credit support to Small and Medium Size Enterprises (SMEs) that employ refugees.

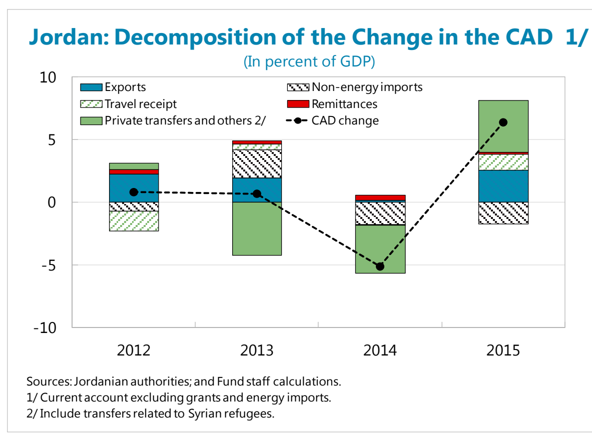
RECENT ECONOMIC PERFORMANCE

5. **The economy performed favorably in 2015 under persistently difficult conditions.** While the closing of Jordan's borders with Syria (from mid-2013 to April 2015) and Iraq (in July 2015) continued to impinge on exports, tourism, and overall confidence, real GDP grew by 2.4 percent in 2015. Year-on-year inflation has hovered at about -1½ percent in recent months, reflecting the sharp decline in food and transportation prices, core inflation has stabilized at about 2.2 percent year-on-year since end-2015. Unemployment rose to 14.6 percent in the first quarter of 2016, its highest level in at least ten years.



6. **The external current account deficit remained high in 2015.** Excluding grants, it amounted to 11.7 percent of GDP, roughly the same level as in 2014, as the impact of lower oil prices was offset by lower exports of goods and tourism and a slowdown in remittances. The influx of refugees has stabilized, while private transfers and international humanitarian aid declined by almost 1 percent of GDP in 2015, relative to 2014.[2] Despite the decline in private capital inflows, gross usable reserves increased to US$15.7 billion at end-2015 (136 percent of the Fund's reserve adequacy metric, RAM),[3] supported by the issuance of Eurobonds and Fund resources under the SBA. During the first quarter of 2016, developments in GCC countries appear to have contributed to some further deterioration in Jordan's external position, with exports declining by 11.2 percent, tourist arrivals by almost 7 percent (including 18.4 percent from GCC countries), and remittances by about 7 percent (all y-o-y). These





[2] About 640,000 registered refugees according to UNHCR (8 percent of the population), and about 1.3 million of total refugees (17 percent of the population) according to the authorities.

[3] The Fund's reserve adequacy metric estimates the adequate level of precautionary reserves, based on country-specific circumstances and policy regimes. The metric is calculated as the weighted sum of the exports of goods and services, broad money, short-term debt, and other liabilities.

(continued)

unfavorable developments contributed to a decline in gross usable reserves to US$15.1 billion (130 percent of the RAM) by March 2016. The exchange rate has continued to appreciate in nominal effective terms, given the peg to the U.S. dollar, but this has leveled off since mid-2015 on a real effective basis.[4]

7. **Fiscal consolidation was sustained in 2015, but at a slower pace than envisaged.** The combined public sector deficit (i.e., the sum of the primary budget deficit and the operational balance of the state-owned electricity company (NEPCO)) declined from 9.2 percent of GDP in 2014 to 6.1 percent of GDP in 2015, well above the 3.5 percent of GDP deficit projected under the SBA (text table). As a result, gross public debt reached 93.4 percent of GDP at end-2015, substantially exceeding the authorities' target of 90 percent of GDP. Several factors were at play:

- ***Revenue shortfalls and some expenditure overruns.*** A higher primary budget deficit reflected revenue shortfalls (lower oil-related general sales tax owing to lower oil prices, tax-free LNG purchases by NEPCO, lower public enterprises' financial surpluses, new tax exemptions, and various fees), as well as spending overruns, and one-off payments of arrears on land acquisition and other payables.[5]

- ***Higher-than-expected losses of the Water Authority of Jordan (WAJ).*** WAJ's performance has been severely affected over the last few years by the additional demand from Syrian refugees and increased electricity tariffs. WAJ's losses were 1.1 percent of GDP in 2015, partly reflecting higher-than-expected capital expenditures and borrowing costs.

- On the positive side, ***NEPCO's operational losses were about ½ percentage point of GDP lower than projected under the SBA due to lower oil prices and improvements in efficiency***.[6]

[4] The real effective exchange rate index estimated by CBJ staff using recent trade weights shows a more moderate pace of real appreciation in the past few years and has also leveled off since mid-2015.

[5] The acquisition of land is related to a railway project under the recently enacted Investment Fund law as part of the Cooperation agreement with Saudi Arabia.

[6] NEPCO charges a transit fee for pumping LNG to Egypt and did not pay taxes on LNG in 2015. The one-off payment of arrears was due to land acquisitions for the railway project. The authorities reported that they had cleared all of the arrears. NEPCO shifted most its generation from fuel oil and diesel to LNG in mid-2015, which helped in reducing costs.

Key Drivers of Fiscal Deviations, 2014–15
(In percent of GDP)

	2014	2015	
	Act.	SBA	Act.
Tax revenue	16.5	16.7	15.9
Non-tax revenue	6.5	6.5	5.7
Spending			
Purchase of Goods and services	1.7	1.2	1.5
Transfers to health funds	0.8	0.9	0.6
Capital spending	4.5	4.0	4.2
NEPCO losses	4.6	1.4	0.9
Payment for land acquisition	0.0	…	1.1
Primary Central Government deficit (excl. grants and transfers to NEPCO and WAJ)	4.5	2.1	5.2
Combined deficit (incl. NEPCO, excl. WAJ) 1/	9.2	3.5	6.1
WAJ losses	-1.0	…	-1.1
Government and guaranteed gross debt	89.0	90.0	93.4

1/ SBA definition.

8. **Financial conditions have remained supportive.** Lower policy rates, along with a shift of government borrowing away from banks toward the social security investment fund, led to a marked decline in interbank and lending rates and higher credit growth. Credit, excluding the refinery, increased by 9 percent y-o-y in March (Figure 1).[7] Credit to households has been particularly strong, increasing by 13.8 percent y-o-y and contributing to a further increase in household debt, while credit to the corporate sector increased by 4.0 percent y-o-y. Banks have remained profitable and highly liquid with increasing capital adequacy and declining non-performing loans (Figure 2). Deposit dollarization has stabilized at about 17 percent, in line with its pre-2012 level, while loan dollarization has declined over the last few months, to about 13 percent, as the refinery repaid some of its foreign currency loans.

OUTLOOK AND RISKS

9. **The macroeconomic outlook assumes no major changes in the regional environment over the projection period.**

- ***Real GDP growth*** is projected to increase to 2.8 percent in 2016, supported by lower oil prices relative to their 2014 peak, an accommodative monetary stance, and some recovery in private investment. Growth is expected to accelerate gradually over the medium term toward 4 percent, reflecting the impact from the relaxation of EU rules of origin on exports, additional private and

[7] The social security investment fund is in its asset accumulation phase.

(continued)

public investment associated with the Jordan Compact, and some efficiency gains stemming from structural reforms.[8]

- ***Inflation*** would recover to about 1¼ percent y-o-y at end-2016. As the impact of the fall in oil prices subsides and the economy accelerates, inflation would gradually increase to 2½ percent by 2018 and stabilize thereafter.

- ***The current account deficit*** (excluding grants) is projected to remain high in 2016–17 owing to subdued exports, tourism and remittance inflows, as well as declining private transfers to the refugees. Continued improvements in the fiscal position, a pickup in exports, and a gradual recovery in tourism and remittances would help bring the deficit down to 8½ percent of GDP over the medium term.

- ***The capital account*** would improve with structural reforms restoring confidence and foreign direct investment, while also facilitating access to international capital markets. Staff projections assume a gradual rise in borrowing costs in line with expected developments in the U.S. monetary policy, but no change in Jordan's credit ratings. Staff's baseline scenario incorporates about US$3 billion (of which US$1 billion in off-budget grants from bilateral donors, US$1 billion in budget loans from bilateral donors, and US$1 billion in budget loans on concessional terms) of financial support under the Jordan Compact. Gross usable reserves would stabilize at about 125 percent of the RAM by the end of the program, a level deemed appropriate given Jordan's exchange rate regime and extent of exposure to external shocks.

10. **The outlook remains uncertain and subject to considerable risks.** There are several downside risks. The continuation of the regional conflicts or a worsening of the GCC economic outlook is expected to exacerbate the already high pressures on the economy. Jordan's prudent macroeconomic policies have been critical to preserve favorable overall conditions; however, an idiosyncratic shock that raises Jordan's risk premium could raise domestic borrowing costs and further complicate debt dynamics.[9] Delays in fiscal consolidation and structural reforms would also leave the economy highly exposed to adverse shocks. The impact of Brexit on the economy is uncertain at this juncture, with downside risks related to a higher risk premium and weaker growth outlook in Europe tempered by declining oil prices. Continued donor support and investment under the Jordan Compact would be essential to lessen these pressures and downside risks, and to support fiscal adjustment in order to preserve debt sustainability. A recent agreement with Saudi Arabia on large investment projects is an upside risk to the outlook. Progress toward normalizing regional conflicts would improve Jordan's growth and external position through several channels, including a revival of tourism, a re-opening of trade routes, and the involvement of Jordanian businesses in reconstruction of Syria and Iraq (Box 3).

[8] Parliament recently passed legislation to facilitate direct investments from the GCC in major infrastructure projects in the energy, transportation and tourism sectors. Initiation of some of these projects represents an upside for growth in 2017.

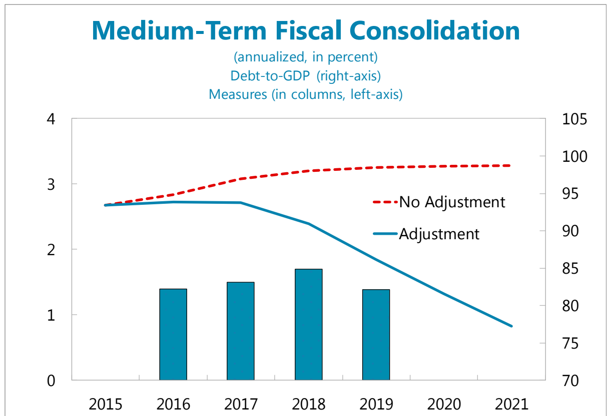
[9] Standard & Poor's recently downgraded Jordan's sovereign credit rating outlook to negative.

THE PROGRAM

The authorities' program is underpinned by Vision 2025. It is designed in a flexible manner by pursuing gradual and steady fiscal consolidation to bring public debt toward safer levels while protecting the most vulnerable, and by advancing comprehensive reforms to enhance the conditions for more inclusive growth, particularly in light of the challenges posed by the regional conflicts on exports, investment, and the labor market. Gradual and steady fiscal consolidation will be underpinned by revenue-enhancing reforms to the tax system. Structural reforms will be implemented in several areas to enhance competitiveness, job prospects, and foster equity, fairness, and good governance. These reforms will promote jobs, and help achieve higher and sustained growth.

A. Fiscal Policy

11. **Fiscal policy will balance the need to reduce public debt with inclusive growth considerations.** The authorities' program aims at gradual fiscal consolidation. Facing continued pressures on the economy, the authorities have proceeded with fiscal adjustment to limit as much as possible the increase in public debt in 2016 and stabilize it at about 94 percent of GDP. They intend to lower it gradually to about 77 percent of GDP by 2021, as targeting faster consolidation would risk growth and social cohesion.[10] The authorities and staff agreed that reaching this target while providing room for capital expenditures and preserving social spending would require fiscal measures of about 4½ percent of GDP over 2017–19 at the central government level—focused on addressing long-standing structural weaknesses on the revenue side—while maintaining operational balance at NEPCO.



Source: IMF staff calculations.

12. **The authorities adopted 0.8 percent of GDP of new fiscal measures in 2016 to contain the combined public deficit and allocate an additional 0.4 percent of GDP from government deposits and other assets to limit the increase in public debt (prior action, table below, Memorandum of Economic and Financial Policies (MEFP) ¶6)).** While the authorities noted that adopting new fiscal measures was difficult in the current environment, they felt it was important to signal their commitment to sustaining fiscal consolidation and to putting public debt on a downward path. They have decided to include WAJ, as with NEPCO, into the program combined public deficit target, noting that this was important in light of the capital expenditure needs of the water sector and sustained pressures on the electricity sector. Tax measures on cigarettes, alcohol, and oil are expected to deliver 0.3 percent of GDP, along with the removal of some tax exemptions that were introduced in

[10] The MAC-DSA high-risk benchmark applies to all advanced economies and most emerging markets. It is based on historical experience and empirical analysis, and is estimated for emerging economies at 70 percent for the gross debt-to-GDP ratio and 15 percent for gross financing needs-to-GDP ratio.

(continued)

late 2015.[11] Non-tax revenue measures and a 10-percent reduction in current expenditures relative to the budget would yield 0.4 percent of GDP. The authorities also saw scope for adopting some one-off non-tax revenues measures yielding 0.4 percent of GDP, which they saw as critical to limit the increase in public debt in 2016. The authorities also reversed a recent decision to reduce fees and taxes for 180 days on land purchases from 9 percent to 4.5 percent. The consolidation in 2016 would allow for preserving social spending, for increasing capital spending, including on the water sector, and for gradual clearance of energy arrears.[12] As a result, the combined public sector deficit (including NEPCO and WAJ) would decline from 7.2 percent in 2015 to 5 percent of GDP in 2016 while public debt would stabilize at about 94 percent of GDP at end-2016.

Authorities' Measures

	2016 Impact	
	JD million	% of GDP
Measures to close the 2016 fiscal gap		
Tax revenue (permanent)	**103.9**	**0.4**
Increase cigarettes price by JD 0.05/packet	15.8	0.1
Increase cigarettes price by JD 0.10/packet in Aqaba zone	3.8	0.0
Increase diesel, kerosene and gasoline prices by JD 0.025/liter	52.8	0.2
Increase special sales tax on wines and spirits	3.6	0.0
Removal of 2015 GST exemptions (clothes, shoes, watches, jewelry, etc.)	28.0	0.1
Non tax revenue (permanent)	**50.3**	**0.2**
Extra fee for "transfer of titles" on used vehicles	35.7	0.1
Reduce depreciation allowance on used imported cars	14.7	0.1
Savings on Current Spending (one-off)	**69.0**	**0.2**
TOTAL	**223.2**	**0.8**
Use of government deposits and other assets to retire public debt in 2016		
Sale of seized assets	25.0	0.1
Recovery of phosphate royalty arrears	7.0	0.0
Ministry of Energy's financial surplus	40.0	0.1
Surplus from Telecommunication Commission's funds	25.0	0.1
Surplus from Employment and Vocational Training fund	15.0	0.1
TOTAL	**112.0**	**0.4**

13. **Medium-term fiscal consolidation will focus on revenue- and equity-enhancing tax reform, on prudent management of current expenditures, and on ensuring an effective social-safety net (MEFP ¶8).** To underpin their fiscal consolidation efforts under the program, the authorities intend to rely primarily on simplifying and streamlining tax exemptions and broadening

[11] Staff has taken a more conservative assumption regarding the yield of the removal of exemptions; therefore, staff's macroeconomic framework has not incorporated any impact from this measure.

[12] The stock of energy and health arrears reached JD 450 and 270 million, respectively, in 2016. The clearance of health arrears is postponed to 2017 to provide sufficient time for their audit and for the adoption of reforms to avoid their recurrence.

(continued)

the income tax base.[13] The authorities preferred to implement reforms to the tax exemptions framework before the income tax, as the new income tax law had been implemented only recently. They will also continue to maintain a prudent expenditure policy, streamlining non-priority current spending while gradually clearing arrears, prioritizing social and capital spending, and accommodating the continued pressures from Syrian refugees. More specifically, the authorities will:

- ***Reform the tax exemptions framework, starting from 2017.*** The authorities will conduct a comprehensive review of the tax and customs duty exemptions (with the help of IMF technical assistance (TA)) with a view to establishing a more streamlined, efficient, and transparent regime under the authority of the Minister of Finance. Based on the recommendations of this review, the authorities will submit to parliament by mid-November 2016 a new tax exemptions framework for the general sales tax (GST) and custom duties (structural benchmark (SB)), with implementation expected to begin by end-March 2017 (SB).

- ***Begin reducing tax exemptions with the 2017 budget.*** The authorities will submit to parliament by mid-November 2016 a draft budget law for 2017 that will include: i) 1½ percent of GDP in fiscal measures (including a significant reduction in exemptions) (SB) to reduce the primary budget deficit to about 2½ percent of GDP; and ii) detailed estimates of tax expenditures to better inform budget decisions and enhance transparency.

- ***Begin preparatory work to amend the income tax law.*** The authorities intend to submit to parliament by end-December 2016 amendments to the income tax law (SB) to: i) reduce the exceptionally high personal income tax (PIT) exemption threshold, in line with international standards[14]; ii) raise the general corporate income tax rates and align it with the top PIT rate; iii) strengthen the framework for transfer pricing; and iv) establish a minimum corporate income tax to fight tax evasion. The implementation of the amended law is expected to begin before end-March 2017 (SB) and to become effective in 2018.

- ***Contain current spending while enhancing social safety nets.*** They intend to keep the nominal growth of the public sector wage bill at about 1½ percent a year from 2017–19 and also take steps to better target transfers, including through establishing, with the support of the World Bank, an automated data exchange between the National Aid Fund (NAF) and public agencies in order to eventually put in place a National Unified Registry that would enhance information-sharing, eligibility, and enrollment in programs (MEFP ¶8). The authorities also noted that these efforts will help complement other mechanisms in place to protect low-income groups, such as those related to life-line tariffs on energy and water consumption. Staff agreed with the authorities that efforts to enhance the social safety net are a high priority and the program includes an indicative floor on social spending to shield low-income groups from the effects of fiscal adjustment. This spending primarily targets illness and disability, old age, family and children, housing, and research and development in the field of social protection.

[13] A 2013 USAID study estimated total tax expenditures at about 5–7 percent of GDP, based on 2010 data. An IMF technical assistance mission is expected to assess the current state of tax expenditures and options for reform in late July 2016.

[14] The senate recommended reducing the PIT threshold when approving the new income tax law in early 2015.

- ***Reduce stock of arrears gradually.*** The authorities are committed to clear the stock of energy arrears (about 1.6 percent of GDP) over three years, starting with 0.4 percent of GDP in 2016. They also intend to audit the stock of health arrears (about 1.1 percent of GDP as of end-March 2016) by end-December 2016, and begin clearing them in 2017, along with the adoption of measures aimed at preventing further incurrence of health arrears (MEFP ¶6 & 8).

14. **The authorities and staff agreed that proceeding with reforms to electricity and water sectors was crucial to ensure sustainability of those sectors and support fiscal consolidation (MEFP ¶9)**. They intended to:

- ***Preserve NEPCO's operational balance.*** With fluctuations in oil prices not immediately passed through to electricity consumers, NEPCO's goal of maintaining operational balance remains at risk, particularly if oil prices remain above its cost recovery threshold of about US$43–47 per barrel. Staff noted the need for electricity tariffs to be increased if NEPCO was projected to make losses in 2016. At the same time, and owing to the sizeable cross-subsidization of small consumers, large corporations face high tariffs, and some have begun to find it cheaper to leave the grid. To address these issues, the authorities will:

    - ***Reduce cross-subsidization.*** The authorities will conduct and publish by end-September 2016 studies identifying options for reducing cross-subsidization across different electricity consumers (while maintaining revenue and protecting poor households).

    - ***Announce (prior action) the adoption by mid-December 2016, and implementation on January 1, 2017 of an automatic tariff adjustment mechanism (SB)*** to shelter NEPCO finances from changes in oil prices. The authorities intend to use any profits accrued by NEPCO to reduce public debt. The authorities were confident that NEPCO would achieve operational balance during 2016 due to the profits made in the first four months of the year, despite oil prices being somewhat higher in recent months and above the cost recovery threshold.

- ***Recalibrate WAJ's strategy in light of new risks.*** The increase in oil and electricity prices, the additional demand from Syrian refugees, and the potential impact for the sector's electricity costs of the adoption of the automatic electricity tariff adjustment mechanism have pressed the water sector financial resources. To tackle these problems, the government will begin allocating budgetary resources to help finance WAJ's capital expenditures (about 1 percent of GDP per year) and will adopt and publish an updated "Action Plan to Reduce Water Sector Losses" (end-December 2016 (SB)) (Box 2).

15. **The authorities intend to enhance fiscal planning and transparency, and pursue a more efficient selection, implementation, monitoring, and evaluation of investment projects (MEFP ¶11–12).** They will establish a public investment management unit and adopt its action plan (prior action). They will also reorganize the macro-fiscal unit at the Ministry of Finance and improve fiscal transparency, and take steps to better manage fiscal risks (prior action). The authorities also intend to closely monitor public companies and decentralized units (MEFP ¶10). They remain committed to closely monitor Royal Jordanian's restructuring efforts and to seek potential interest from private

investors and existing shareholders in buying the airline by 2018. The authorities will also ensure that, once adopted, the decentralization law does not result in additional fiscal costs.

16. **Revenue-enhancing efforts will continue to be supported by tax administration reforms (MEFP ¶13).** These reforms will focus on strengthening the GST compliance management framework by streamlining the legislative requirements, establishing low-cost mechanisms to voluntarily deregister companies, and setting up standards on the role of liquidators and the use of information technology. These will help strengthen compliance, streamline procedures, and enhance fairness. In addition, the authorities will prepare by end-September 2016 an action plan to start tackling the other tax administration weaknesses identified in the IMF's recent Tax Administration Diagnosis and Assessment Tool evaluation, including the lack of strategic approach to compliance risk management, the high rate of tax arrears, low rate of use of e-services, inefficiency of the GST refund payment system, and the lack of a formalized tax ruling system.

17. **The authorities will enhance debt management capacity, improve public debt profile, and reduce rollover risks (MEFP ¶14).** The authorities will finalize a medium-term debt management strategy (MTDS) analysis, and based on its findings, prepare and publish by end-September 2016 a debt management strategy for 2016–21 covering the central government and its agencies (SB).[15] They will also adopt by end-December 2016 an action plan to build capacity in the middle and front offices of the Public Debt Directorate (PDD) and to review its structure and responsibilities in support of market development (SB). The plan will also clarify the roles and responsibilities of the PDD consistent with the provisions of relevant legislation. This action plan will be implemented by end-June 2017 (SB).

B. Monetary and Financial Policies

18. **Monetary policy will remain focused on maintaining adequate reserves to anchor the exchange rate.** The current policy stance is accommodative and policy interest rate appears appropriate in view of the decline in core inflation, the increasing output gap and unemployment, and the adequate level of reserves. CBJ officials argued that the deviation of the interbank rate from the policy interest rate reflected high excess liquidity in the system and helped, in the short run, with stimulating credit and growth. While agreeing with staff that this gap should not be sustained for long, in the short run they did not want: i) a reduction of the policy rate to be interpreted as signaling a permanent loosening of the monetary stance; or (ii) CBJ's intervention (through increased repo operations or CD issuance) to jeopardize the credit recovery. They reiterated their commitment, however, to adjust monetary policy as needed given the uncertain balance of payments outlook and expected increase in U.S. interest rates. The CBJ and staff agreed that the fixed exchange rate regime served Jordan well, and the CBJ will continue to maintain adequate foreign exchange reserves to anchor the exchange rate (¶6). The CBJ also agreed on the need to monitor closely credit to households.

19. **The authorities intend to advance several reforms to enhance the resilience and depth of the financial system.** In particular:

[15] Agencies include NEPCO and WAJ.

- ***Strengthen the regulatory framework (MEFP ¶17).*** The recent adoption of the CBJ law will help to foster transparency and align CBJ's autonomy and oversight with best practices. Amendments to the Deposit Insurance Corporation law, together with the provisions in the new commercial banking law, will help ensure the establishment of a robust bank resolution framework (SB). The adoption and gradual implementation of Basel III regulations will help better tailor liquidity and capital requirements to the needs of the individual banks. Staff stressed that cross-border supervision should continue not only through onsite reviews but also through regular meetings of the Supervisory College of Arab Bank.

- ***Enhance the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime (MEFP ¶18).*** The CBJ will finalize the draft amendments to the AML/CFT law by end-2016 and harmonize the legislative and regulatory framework with the 2012 Financial Action Task Force standards by end-2017. In line with IMF TA recommendations, a risk-based framework for offsite supervision for banks and money exchange firms will also be implemented by end-October 2016 (SB). The authorities agreed that the focus should then shift to ensuring implementation of the AML/CFT framework, and they will start working on a National Risk Assessment in anticipation of the mutual evaluation under the FATF scheduled for 2018.

- ***Promote better supervision of the insurance and microfinance sectors (MEFP ¶19).*** The authorities will submit to parliament by end-March 2017 amendments to the Insurance Law to allow for the transfer of the supervision of the insurance sector to the CBJ (SB) and implement this transfer by end-September 2017 (SB). This will help foster stronger supervision, minimize spillovers of the sector to banks, and enhance financial development and transparency. The CBJ will also issue regulations for the supervision of microfinance institutions by end-July 2016, which will be implemented during 2016–17.

C. Structural Policies to Promote Jobs and Growth

20. **The authorities seek to advance a broad agenda of structural reforms to promote higher, sustained, and job-creating growth.** Reforms will aim at increasing labor force participation, particularly for women and youth, reducing informality, enhancing the business environment, ensuring sustainability in the energy and water sectors, preserving social spending, and enhancing governance.

21. **Strengthening the business environment will help foster investment and enhance competitiveness (MEFP ¶20).** The authorities are focusing on reducing the cost of starting and operating businesses, including through simplifying procedures and further strengthening investor protection. Specifically:

- ***The Jordan Investment Commission's investment window will be operational by end-June 2017 (SB)***.[16] This will be done by eliminating all duplicative procedures and introducing a fast

[16] Investment window is a one-stop-shop aimed at serving investors as the preferred entry point to register businesses through consolidating approval processes currently required through various ministries.

track approval mechanism through automation, introduction of time limits, and clearly defining agency accountabilities and responsibilities.

- ***Administrative inspections of businesses will be streamlined.*** The authorities intend to submit a draft inspection law to parliament by end-October 2016 (SB). The law will reduce overlapping and unplanned business inspections, introduce risk-based targeting and help raise business awareness on compliance requirements.

- ***The competition framework will be revamped*** to ensure independence of relevant agencies to monitor and enforce good market conduct. This will help create a level playing field and facilitate new investment.

22. **Reforms to facilitate access to finance will help broaden the reach of financial services (MEFP ¶21).** The authorities' efforts for institutional reform will be critical to improve small and medium-size enterprises' (SMEs) access to finance and help stimulate broad-based growth. In particular:

- ***The credit bureau is expected to start compiling credit reports*** by end-2016 and will help assess borrowers' creditworthiness and expedite credit risk assessment decisions for SMEs.

- ***Collateral requirements for companies will be broadened while business exits will be facilitated.*** The implementation of the secured transactions law by end-March 2017 (SB) will allow SMEs to use moveable assets as eligible collateral. The amendments to insolvency law will bring it in line with best practice (end-March 2017 SB) and subsequent implementation will contribute to improving credit discipline and facilitate the liquidation of unviable firms, while providing rescue mechanisms for financially viable companies.

- ***Financial inclusion strategy will be developed.*** The CBJ will publish a financial inclusion study by end-March 2017 (SB) and will then prepare a strategy aimed at promoting financial literacy, further developing payment systems, and strengthening consumer protection.

23. **Measures to improve competitiveness will help bolster export growth (MEFP ¶24).** Staff welcomed the proposed relaxation of rules of origin for exports to the EU, which will provide a significant opportunity to diversify Jordan's markets and broaden Jordan's product mix. The authorities agreed to develop and publish by end-June 2017, an export diversification strategy in advanced economies to help increase the market share of Jordanian products in these countries.

24. **The authorities recognized the importance of advancing reforms to promote greater participation and formality in the labor market (MEFP ¶22)**. Specifically, the Ministry of Labor (MoL) is working on an action plan to:

- ***Revamp the part-time employment framework*** to reduce costs to licensing and regulating home-based employment activities and allow flexible working hours.

- ***Facilitate access to child-care.*** The MoL will amend the labor law to: i) allow large corporations to subsidize employees for child care, as an alternative to establishing nurseries; ii) establish and help promote public-funded nurseries for low-income employees working in SMEs; and iii) embark on a public awareness campaign along with establishing nurseries in all public sector institutions by end-2017.

- ***Explore options for reducing wage costs for formal jobs, especially for youth and women***. A cut in payroll taxes and the revamped business inspection law could address informality in the labor market, help small businesses, and help lower the burden on the employees due to proposed income tax reforms.

- ***Build a low-cost and efficient public transportation system.*** Low-cost public transportation systems are designed to help low-income earners to join the labor market. The Greater Amman Municipality will issue a public tender by end-December 2016 for the private sector to set up bus transportation systems within Amman and surrounding cities with a view towards making operational the bus network by end-2017.

- ***Evaluate a reduction in payroll taxes.*** To further stimulate job creation primarily among youth and women, the authorities will evaluate, in coordination with the Social Security Corporation (SSC), the impact of potential changes to payroll taxes and identify offsetting parametric reforms to maintain SSC's actuarial position by end-September 2016.

25. **The authorities give high priority to continuing to protect the most vulnerable (MEFP ¶8).** Successful implementation of the program will require cushioning the potential impact of fiscal consolidation and structural reform on the vulnerable segments of the population. The authorities intend to establish a floor on social spending, primarily targeted at illness and disability, old age, family and children, housing, and research and development in the field of social protection.

26. **The authorities recognized that it was important to improve public accountability and good governance (MEFP ¶23).** The creation of a new Anti-Corruption Commission by end-August 2016 by the merger of the Ombudsman Bureau and the Commission will help better monitor progress with complaint and grievance resolution and improve the integrity of the public service, service delivery, good governance and anti-corruption. The authorities acknowledged that the unified legal framework for public procurement should be ratified and that a regulatory and policy committee/unit should be established by end-August 2016. They emphasized that this committee/unit will be tasked with developing procurement policy and oversight functions, handling the performance management system, developing the complaint mechanism, establishing a single e-portal, and managing capacity development.

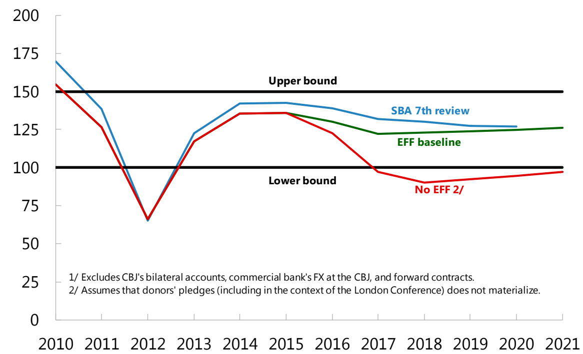
PROGRAM MODALITIES

27. **Access and phasing.** At 150 percent of quota (SDR514.65 million or US$713.8 million—valued at USD/SDR exchange rate on July 26, 2016) will keep Jordan within normal access limits. Staff noted that, should program risks materialize, more adjustment would be needed to preserve reserves. Disbursements are slightly concentrated in 2017 to ensure sufficient reserve coverage (Table 6). The first disbursement would be at the time of program approval, and the remaining purchases would be contingent on completing semi-annual reviews.

28. **Duration.** A 36-month extended arrangement under the EFF would be appropriate to meet Jordan's medium-term financing needs, maintain reserve buffers at about 125 percent of the IMF's RAM, reduce gross public debt to about 77 percent of GDP by the end of the program, and support the implementation of structural reforms over the medium term to put the economy on a sustainable, higher-growth path.

29. **Financing.** Jordan will continue to critically depend on additional grant and loan financing. Without additional financing, foreign reserves could gradually fall below 100 percent of the Fund's RAM in the medium term. This level would be too low given elevated risks from regional conflicts, the exchange rate peg, and limited options for hedges, and exposure to oil price shocks.[17] The total balance of payments financing gap to maintain reserves at about 125 percent of the RAM is estimated at US$5.1 billion over the program period. It would be covered by about US$0.7 billion from the IMF and the remainder from multilateral and official bilateral sources (¶28, text table, Box 3).

Jordan: Reserve Adequacy
(Gross usable reserves in percent of metric 1/)



Sources: Jordanian authorities; and IMF staff estimates.

30. **Support from other donors.** Staff has worked in close coordination with the World Bank, the International Finance Corporation, the European Bank of Reconstruction and Development, as well as key bilateral donors in developing policy recommendations (particularly for structural reforms) to help meet the authorities' reform and financing needs. These parties are committed to fully fill the remaining external financing gap estimated for the first 12 months of the program (US$1.4 billion), of which about US$0.4 billion would be financing from the World Bank (US$120 million on concessional terms), about US$0.6 billion in loans from official bilateral creditors, US$0.25 billion from commitments under the Jordan Compact through off-budget grants (see table below).[18] There are good prospects that there will be adequate multilateral and bilateral financing for the remainder of the program, mostly in the form of additional loans (part of which on concessional terms) and grants (including off-budget), partly from pledges made at the London conference in early 2016.[19] International market access will continue with issuance of non-guaranteed Eurobonds in 2016 and 2018–20, including for repaying outstanding Eurobonds coming due in 2019–20.

31. **Use of Fund resources.** Disbursements will remain with the CBJ and not be on-lent to the government because the envisaged financing under the EFF (excluding purchases from the Fund)

[17] These risks, in particular the dependence on energy imports, suggest that Jordan should hold reserves well above 100 percent of the RAM.

[18] The U.S. and the EU are providing US$0.55 billion in budget grants for 2016. These contributions have already been accounted for since the last review of SBA and are recorded above the line in the balance of payments.

[19] Staff estimates additional budgetary grant needs of about US$700 million during 2017–18. During the February 4, 2016 London donor conference on "Supporting Syria and the Region", donors stated, under the Jordan Compact, the need for "mobilizing sufficient grants and concessionary financing to support the macroeconomic framework and address Jordan's financing needs over the next three years, as part of Jordan entering into a new Extended Fund Facility program with the IMF".

would suffice to cover the government's external financing needs (Table 3c). If needed, residual financing needs could be covered by borrowing from domestic banks. These have enough liquidity to absorb moderate amounts of new borrowing by the government.

Jordan: External Financing Gap, 2016–19

(In US$ million)

	Next 12 months	2016	2017	2018	2019	2016-18	2016-19
Financing gap	**1,464**	**1,169**	**2,361**	**1,490**	**96**	**5,020**	**5,116**
IMF	288	144	288	192	96	624	720
Identified financing	**1,176**	**1,026**	**1,052**	**937**	**0**	**3,014**	**3,014**
World Bank	370	370	140	447	0	957	957
EU and bilateral loans	556	406	435	171	0	1,012	1,012
Jordan Compact off-budget grants	250	250	477	319	0	1,046	1,046
Unidentified multilateral and bilateral financing	**0**	**0**	**1,021**	**361**	**0**	**1,382**	**1,382**
Of which: expected as budget grants	0	0	323	361	0	684	684
Of which: expected as budget loans	0	0	698	0	0	698	698

Source: Fund staff projections.

32. **Program monitoring and modalities.** The program will be monitored through semi-annual reviews, based on: i) quantitative performance criteria covering key fiscal and external objectives (primary and combined primary deficit, net international reserves (NIR), external arrears) (TMU ¶4); ii) indicative targets on social spending, public debt, accounts payable of the central government, domestic arrears of NEPCO and WAJ and net domestic assets of the CBJ (TMU ¶4); and iii) structural benchmarks in the fiscal framework, the water and energy sectors, and debt management (to secure the fiscal consolidation and distribute the burden to wider groups of tax payers), the financial sector and access to finance (focusing on establishing necessary institutions and to protect medium-term financial stability), and the business environment (to address critical constraints on doing business and growth) (Table 10).

33. **Prior actions.** The following actions were undertaken by the authorities to kick-start reforms and signal commitment to the necessary adjustment policies:

- Implementation of fiscal measures to stabilize the public-debt-to-GDP ratio in 2016 at about the ratio of 2015 (MEFP¶6).
- Establishment of the Public Investment Management unit and adoption of its action plan (MEFP¶11).
- Publication of Consolidated Fiscal Accounts for 2015 (MEFP¶11).
- Reorganization of the Macro-Fiscal Unit of the Ministry of Finance (MEFP¶11).
- Preparation of a detailed quarterly financing plan for next 12 months in coordination with NEPCO and WAJ (MEFP¶14).
- Announcement of the government's commitment to maintain NEPCO at operational balance during the program period and over the medium term and adoption by mid-December 2016, and

start implementation on January 1, 2017 of an automatic electricity tariff adjustment mechanism (MEFP¶9).

34. **Capacity to repay the Fund.** This remains adequate. Fund credit outstanding is peaking in 2016 at 4.4 percent of GDP, 15.3 percent of exports of goods and non-factor services (GNFS), and 11 percent of gross usable reserves. It is expected to gradually decline in the coming years, reflecting repayments of existing obligations from the SBA. Repayments to the Fund are projected to peak in 2017 at 3.7 percent of exports of GNFS and decline to about 1 percent by 2020 when public debt service peaks due to maturing Eurobonds (Tables 7 and 8). Repayments of obligations from the EFF mostly come due in the post-projection years. While two other Eurobonds mature in 2022 and 2025, EFF repayments will remain low, not exceeding 0.6 percent of exports of GNFS in 2022–25. Fund credit outstanding will be around 1 percent of exports of GNFS (0.4 percent of GDP) by 2025.

35. **Program risks.** The program faces significant risks, including from difficult socio-economic conditions that may undermine the government's ability to press ahead with the implementation of fiscal structural reforms; technical capacity limits to implement reforms across a wide range of areas; shortfalls in financing from public and private sources; and unfavorable external developments (e.g., sharp increase in oil prices, worsening of the refugee crisis, delays in concluding and implementing the agreement on the EU rules of origin). The authorities reassured staff that the policies and reforms under the EFF would be duly implemented by the next government, as the preparations of Vision 2025 entailed extensive consultations with stakeholders, and the current government has been instructed at the highest political level to implement structural reforms. Technical assistance support from the international community should also help ease risks stemming from implementation capacity. Commitments from the World Bank, the EU, and key bilateral partners will help lessen pressures from refugee crisis and mitigate risks to program financing; and commitment to maintain reserves at adequate levels should help withstand external shocks and preserve the peg.

36. **Safeguards.** An updated safeguards assessment of the CBJ should be completed by no later than the first review under the EFF, and recommendations of the 2013 assessment concerning audits and oversight will be implemented during the program (MEFP ¶26).

STAFF APPRAISAL

37. **After several years of adverse shocks and policy adjustment, Jordan continues to face significant economic challenges.** Thanks to the authorities' monetary and fiscal policies, the economy has continued to grow, albeit at a slower pace than required to absorb the growing population to the labor force. And despite lower oil prices, the external current account deficit remains high. Fiscal consolidation was smaller than planned in 2015, partly reflecting pressing shocks and problems in parts of the economy, including from the large number of Syrian refugees. As a result, public debt increased to high levels.

38. **The balance of risks is to the downside as the regional environment will remain uncertain.** The regional conflicts, the hosting of refugees and the expected changes in the outlook in the GCC economies will pose challenges to public finances, the external balance, investment, and the

labor market. Shortfalls in donor funding, along with potential implementation setbacks, could also undermine the expected gains from fiscal consolidation and structural reforms on public debt and vulnerabilities, and leave the economy highly exposed to adverse shocks. On the upside, a potential re-opening of the Iraq border and new investment under the Jordan Compact could have a substantial positive impact on growth and facilitate program implementation. The recent signing of the Cooperation Agreement with Saudi Arabia could also have a positive impact on Jordan's medium-term growth prospects. Staff welcomes the authorities' commitment to the program, which would help mitigate risks.

39. **The authorities are committed to advancing policies and reforms to address critical constraints on growth, preserve confidence, and reduce vulnerabilities.** The Fund-supported program—anchored by the exchange rate peg and the authorities' Vision 2025—is appropriately focused on maintaining macroeconomic stability through a gradual and equity-enhancing fiscal adjustment to lower public debt, while preserving space for social spending and promoting a more inclusive growth. Early and decisive action is needed on key structural reforms to underpin these goals. It would be important that the political transition does not undermine the reform momentum as reforms are expected to yield large gains in terms of economic opportunities, job creation, and in bolstering confidence under a difficult environment. Continued donor support, through sufficient grants and concessional financing, as stated in the Jordan Compact, will also be important to support the program goals. Slow progress or delays in implementing the program would leave the economy exposed to new shocks and downside risks undermining the hard-won macroeconomic stability and undermine employment and growth.

40. **The authorities' focus on addressing key structural fiscal weaknesses under the program is welcome.** The authorities' commitment to streamline GST and customs duty exemptions, and to broaden the income tax base through amendment to the income tax law is essential to recoup a substantial part of revenue losses experienced since 2009. These are long-standing structural challenges that have to be addressed to help bring debt toward more sustainable levels in a more equitable manner, which will also be critical for catalyzing greater grant and concessional financial support. A strong follow-through on the established timeline for clearing energy and health arrears, along with credible measures aimed at ensuring proper budgeting for, and targeting of, social transfers would help reduce the stock of arrears and prevent their resurgence. As part of this strategy, social spending needs to be preserved to mitigate the impact of fiscal consolidation on the most vulnerable.

41. **Fiscal consolidation needs to be supported by additional efforts to move NEPCO to operational cost recovery and to consolidate WAJ's finances.** Staff welcomes the authorities' efforts to diversify the energy mix further toward cheaper sources, explore options for reducing cross-subsidization (while maintaining revenue and protecting poor households), and move towards an adoption of an automatic tariff adjustment mechanism. Reducing water sector losses and moving forward with consolidating WAJ finances are essential for water and fiscal sustainability.

42. **At the same time, public financial management reforms are critical to enhance fiscal transparency and reduce fiscal risks.** The adoption of the new revenue law requiring budget institutions to transfer all funds collected to the treasury single account is a step in the right direction. This needs to be sustained, including by consolidating trust accounts into the treasury single account and producing consolidated public sector accounts. Steadfast implementation of public debt management reforms is crucial to enhance debt management capacity, improve public debt profile, and reduce rollover risks.

43. **Monetary and financial policies need to continue balancing support to the economy and maintaining adequate buffers.** External developments, including the expected increase in U.S. interest rates, may require some future tightening of the monetary policy stance to maintain adequate reserves. To more clearly communicate its monetary policy stance and increase the effectiveness of the monetary policy transmission mechanism, the CBJ should gradually align over time the interbank interest rate with the policy interest rate. Close monitoring of credit to households is also important. The adoption of the amendments to the central bank law is welcome, while those for the commercial banking law and of the secured lending and insolvency laws should be expedited.

44. **The authorities' structural reform agenda is well focused on enhancing prospects for higher and more inclusive growth**. Staff is encouraged by the authorities' efforts to enhance the resilience and depth of the financial sector, the business environment, and to tackle some of the challenges facing SMEs in terms of access to finance. Reforms to facilitate access to finance should be geared towards reducing the cost of starting and operating businesses, further strengthening investor protection, and reducing penalties for business exit. Building a financial inclusion strategy will be an important step to enhance SMEs' access to finance, promote financial literacy, further develop payment systems, and strengthen consumer protection. These reforms would also help strengthen the opportunities from the proposed relaxation of rules of origin to the EU for Jordan's level and composition of exports.

45. **It will be critical that plans to enhance the labor market lead to concrete measures to boost youth and female employment and lessen informality.** The plans to revamp the part-time employment framework and to better regulate home-based employment activities, should be complemented by allowing large corporations to subsidize employees for child care costs. It would be important to prepare reforms to promote publicly-subsidized nurseries for low-income employees working in SMEs and consider whether lowering payroll taxes could enhance employment opportunities in the formal economy.

46. **In view of Jordan's balance of payment needs, the policy actions already taken, and the comprehensive package of adjustment measures proposed by the authorities, staff supports the authorities' request for an extended arrangement under the EFF in the amount equivalent to SDR 514.65 million (150 percent of quota).**

Box 1. The Syrian Refugee Crisis and the Jordan Compact

The impact of the Syrian refugee crisis (SRC) on the Jordanian economy has been significant. Jordan is hosting 1.3 million refugees, of whom only 8 percent are reportedly in refugee camps. The SRC has affected several sectors of the economy, particularly public finances, investment needs, the energy, health, and water sectors, as well as the labor market and social protection. As part of Vision 2025, the government has developed a resilience-based response to address needs and challenges of refugees and host communities. The 2016–18 Executive Development Program (EDP), the first 3-year implementation program of Vision 2025 focuses mainly on the economic challenges that Jordan faces and presents a comprehensive development strategy, aimed at sustainable and inclusive growth.

The international community has stepped up its efforts to support the Jordanian economy under the Jordan Compact (JC). The JC aims at promoting economic development and opportunities for Jordanians and Syrian refugees. The JC approach is anchored in three interlinked pillars: i) turning the SRC into a development opportunity by promoting investment and opening up the EU market with simplified rules of origin to promote exports and jobs; ii) rebuilding host communities and their resilience by financing through grants the Jordan Response Plan; and iii) mobilizing grants and concessional financing to support the macroeconomic framework over the next three years.

Against this backdrop, the EFF will provide an important framework for supporting new financing identified for 2016–18 in initiatives. Most of the assistance consists of loans from: i) the World Bank (about US$1 billion over 2016–18), including a Program for Results operation on concessional terms—which primarily targets creating economic opportunities for both Jordanians and Syrian refugees, including through reform of the labor market to grant access to Syrian workers and support the development of manufacturing in 5 to 10 Special Economic Zones (SEZs) close to refugees camps—a development policy loan (DPL) to support *inter alia* reform of electricity and water sectors, energy diversification and reduction of electricity and water losses, as well as projects in the education and access to finance sectors; ii) budget loans from the EU and official bilateral donors (about US$1 billion), including to support the water and energy sectors, municipal services and capacity building (e.g., in the areas of debt and public financial management; and iii) off-budget project grants from several donors (about US$1 billion), which will be allocated for humanitarian assistance, resilience support (in sectors such as access to formal education, health, waste and water management in municipalities), as well as creation of job opportunities for both Jordanians and Syrian refugees. The U.S. would also be providing sizeable support in the form of budget grants (US$1.2 billion) focusing on several areas (e.g., job creation, business environment, public governance) and off-budget project grants (US$0.8 billion), including to support large development projects such as the Red-Dead. Several other donors are also providing project loans, including supporting the water and energy sectors (e.g., wastewater treatment plants, renewables) as well as SMEs. While the identified contributions and commitments of contributions are critical for supporting the EDP and finance balance of payments needs, they fall short of the total financing needs estimated by authorities under the Jordan Response Plan for 2016–18. Hence, additional donor support would need to be mobilized in the coming years, preferably in the form of budget grants, so as to avoid further debt accumulation.

Official Financing Under the Jordan Compact, 2016–18

(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018	Total
A. Budget loans	**776**	**575**	**617**	**1,968**
Of Which: World Bank (CFF and DPLs)	370	140	447	957
B. Off-budget grants	**250**	**477**	**319**	**1,046**
A+B. Total	**1,026**	**1,052**	**937**	**3,014**
Memo items 1/:				
Budget grants	**642**	**474**	**436**	**1,552**
Of which: USA	450	350	350	1,150
Of which: EU	97	88	46	231
Off-budget grants	**417**	**283**	**301**	**1,001**
Of which: USA	337	250	250	837
Project loans	**227**	**207**	**141**	**575**

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

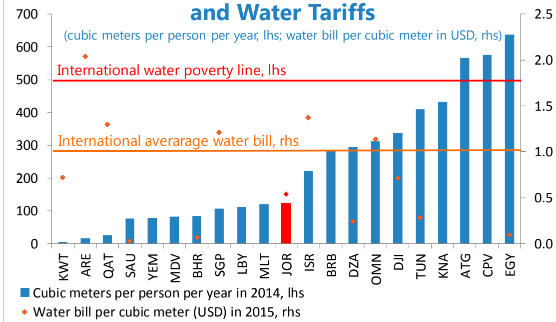
1/ Accounted for 'above the line' in the balance of payments.

Box 2. Water Authority of Jordan's (WAJ) Finances

Jordan is one of the most water scarce countries in the world and the inflow of refugees is further reducing water availability. The country's renewable freshwater resources are well below the international water poverty line of 500 cubic meters per person per year declining from 134 cubic meters per year in 2009 to 123 cubic meters per year in 2014. Moreover, hosting 1.3 million Syrian refugees imposes a heavy burden, reducing the annual renewable freshwater resources available per capita to 105.4 cubic meters. High demand for water imposes increasing pressures on operating costs, and will require an increase in water supplies that are likely to result in the need for new capital investments.

Annual Renewable Freshwater Resources and Water Tariffs

(cubic meters per person per year, lhs; water bill per cubic meter in USD, rhs)



Sources: Food and Agriculture Organization of the United Nations; Global Water Intelligence; and staff calculations from official data.

A medium-term action plan has been implemented since 2013. With the support of the international community, the "Action Plan to Reduce Water Sector Losses" included revenue enhancing and cost reduction measures. On the revenue side, it aimed for increasing collection efficiency through performance-based contracting, the reduction of accounts receivable and arrears, and specific tariff adjustments to distribute burden among the water users in a socially acceptable way, such as industrial ground water charges in 2013 and 2016, wastewater tariff in Amman (25 percent) and other governorates (15 percent) in 2014, water and wastewater connection fees in 2015, the municipal water tariff in 2015, and the implementation of ground water irrigation tariff in highland in 2017. On the cost side, the plan targets energy efficiency in pumping operations, the improvement of water supply systems to reduce physical losses and energy input, including the use of renewable energy, and system automation to optimize operation and personnel input. Despite higher demand for water and higher-than-expected energy costs, the operational and maintenance (O&M) balance for the combined water sector[1] was -0.3 percent of GDP in 2015 and is expected to improve to -0.1 percent of GDP by 2021.

Rising capital investment needs and the increasing stock of debt threatens WAJ's financial condition. Despite a small operational and maintenance balance, WAJ's financing needs are the largest in the water sector (footnote 23) since it is in charge of the sector's capital investment and held 5.3 percent of GDP debt by end-2015. WAJ's capital investment is expected to be 1 percent of GDP in 2016, approximately twice the 2013 amount because of the payments due to the Disi Water Conveyance Project of about JD 100 million a year and increasing capital investments. These investments will provide new water sources from the augmentation of existing ones, and the development of new sources, including the Red Sea-Dead Sea Water Conveyance Project, will help to deal with the increase in the costs of extracting water from existing ones. The introduction of renewable energies and the implementation of energy efficiency programs will reduce WAJ's energy costs and help shelter its finances from oil price fluctuations. WAJ's debt stock grew by 1.4 percent of GDP in 2015 due to rising capital investments to stave off pressures from refugees and water scarcity, and a sharp reduction of transfers it received from the government (from 0.8 percent of GDP in 2014 to less than 0.1 percent of GDP in 2015). This additional debt imposed a burden of 0.2 percent of GDP in interest payments. As a result, WAJ is expected to run a negative overall balance (before grants and transfers) of 1.3 percent of GDP in 2016 and 2017 that declines towards 1.1 percent of GDP in 2021.

[1] It includes the WAJ and three distribution companies, Al Yarmuk, Miyahuna, and Aqaba.

Box 3. Jordan: Risk Assessment Matrix[1]

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
Short-Term Risks			
Spillovers from an escalation of the civil war and the humanitarian crisis in Syria and from a deeper and broader crisis in Iraq	***High*** Trade with both countries has been affected strongly. Although the influx of refugees has mostly stopped, there are already over 600 thousand registered refugees in Jordan; the authorities estimate that the total number is substantially higher. Jordan's role in the coalition against ISIS is increasing security spending.	***High*** Refugees in Jordan are putting pressure on fiscal accounts, infrastructure, and the social fabric. An escalation of the conflicts could result in further disruptions in external inflows (tourism and FDI), capital outflows, a prolonged interruption in regional trade, and possibly lower growth. There could also be a renewed influx of refugees, implying further pressures.	(1) Seeking grants from donors to ensure that the refugees are appropriately cared for, including through complementary central government assistance; (2) Continuing to implement a strong medium-term program to instill confidence and ease fiscal pressures; and (3) Maintaining adequate reserve buffers.
A sharp rise in oil prices	**Medium** Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa, leading to a sharp rise in oil prices, with negative global spillovers.	***Medium-High*** Jordan remains highly dependent on energy imports. It would be strongly affected by higher oil prices, but this dependence could be reduced over the medium term by receiving gas from the Mediterranean.	(1) Diversifying energy import mix and developing new energy sources with lower generation costs; (2) Implementing an automatic electricity tariff adjustment mechanism linked to international energy prices that protects vulnerable households and also reduces considerable cross-subsidization; and (3) Seeking additional grants from donors.
Surge in the U.S. dollar	***High*** Surge in the U.S. dollar	***Medium-High*** Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge, boosting non-U.S. trade but putting pressure on Jordan's competitiveness.	(1) Maintaining appropriate monetary policy to ensure an adequate level of reserves; and (2) Implementing structural reforms to improve competitiveness.

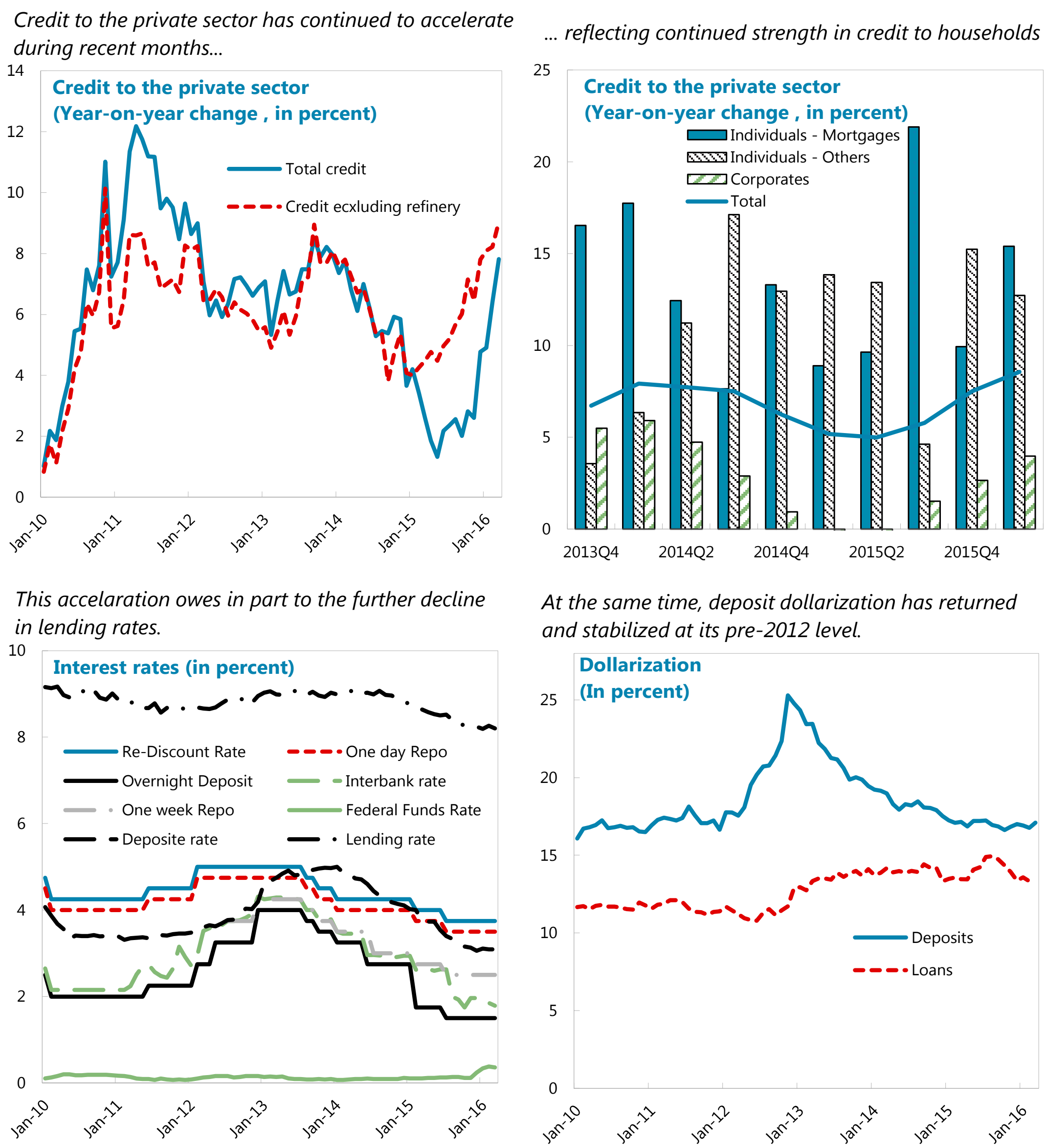
[1] "The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively."

Box 3. Jordan: Risk Assessment Matrix (concluded)

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
Delays in reform implementation	***High***[2] This relates to utility reform and the central government as well as structural reforms.	***High*** Any delay in consolidation would increase already high financing needs and public debt, and could undermine confidence. Delays in structural reforms could hurt growth and jobs.	(1) Staying with reform commitments; and (2) Accelerating structural reforms.
Donor fatigue	***Medium*** This relates to a shortage of grants to address the humanitarian crisis and to finance public investment. While the London conference has galvanized donors, continued support is critical.	***High*** Lower grants would force Jordan to borrow, adding to the high public debt and crowd out capital projects, thus hurting growth. It could also add to social pressures.	(1) Continuing to implement public sector consolidation; (2) Accelerating structural reforms; and (3) Engaging donors with a view to eventually reduce donor support.
		Medium-Term Risks	
Pressure on foreign exchange reserves	***Medium*** The reserve level could drop in case of a weakening of confidence and deposit dollarization.	***Medium-High*** While banks' net open positions are reportedly small, and lending in foreign exchange to un-hedged borrowers is prohibited, uncertainty could result in large capital outflows.	(1) Maintaining appropriate monetary policy in the near term to preserve reserves; and (2) Implementing a strong medium-term program with broad national buy-in to instill confidence.
Structurally weak growth in key advanced and emerging economies	***Medium-High*** A medium-term growth slowdown in EMs. Weak demand in the Euro area and Japan, and persistently low inflation, leading to low medium-term growth.	***Low*** Limited exposure to other EMs, the Euro area and Japan would mitigate any adverse impact on the current account, but second-round effects from a decline in exports, and tourism from the GCC and Europe could add to current account pressures.	(1) Accelerating structural reforms to improve competitiveness; and (2) Lengthening the maturity profile of debt.

[2] While the authorities are committed to reforms (para. 39), the rating reflects factors outside their control, such as difficult socio-economic conditions, capacity limits, and the political transition (para. 35 and 39; Box 1).

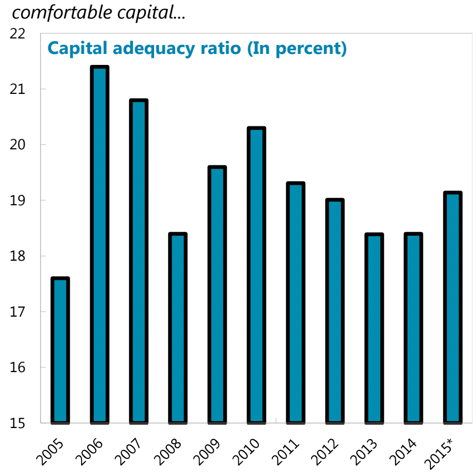
Figure 1. Jordan: Monetary Developments, 2010–16



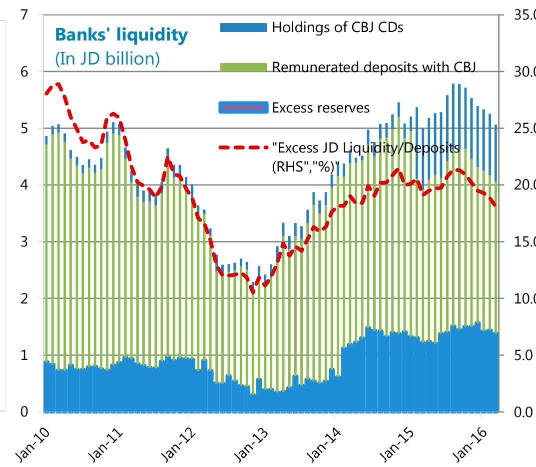
Sources: Jordanian authorities; and IMF staff estimates.

Figure 2. Jordan: Banking and Financial Developments, 2005–16

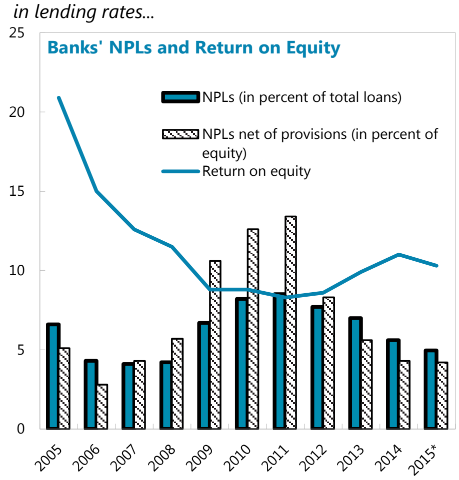
The banking sector continues to have comfortable capital...



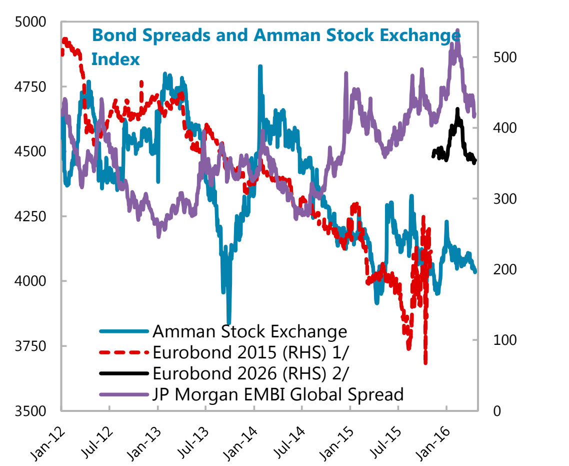
... and liquidity levels, ...



This accelaration owes in part to the further decline in lending rates...



... Partly supported by declining risk premia.



1/ 5-year $750-million Eurobond issued on November 8, 2010 with a 3.875% coupon. This bond was repaid on November 3, 2015.
2/ 10-year $500-million Eurobond issued on November 3, 2015 with a 6.125% coupon and maturing on January, 29, 2026.

* Preliminary.
Sources: Jordanian authorities and Bloomberg; and IMF staff estimates.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2014–21

		SBA		Projections					
	2014	2015	2015	2016	2017	2018	2019	2020	2021
Output and prices	(Percentage change, unless otherwise indicated)								
Real GDP at market prices	3.1	2.9	2.4	2.8	3.3	3.8	4.0	4.0	4.0
GDP deflator at market prices	3.4	3.5	2.3	2.2	2.3	2.5	2.5	2.5	2.5
Nominal GDP at market prices	6.6	6.5	4.7	5.0	5.7	6.3	6.6	6.6	6.6
Nominal GDP at market prices (JD millions)	25,437	27,091	26,637	27,972	29,560	31,435	33,510	35,721	38,079
Nominal GDP at market prices ($ millions)	35,878	38,210	37,570	39,453	41,692	44,337	47,263	50,383	53,708
Consumer price inflation (annual average)	2.9	0.2	-0.9	-0.5	2.3	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	1.7	1.9	-1.6	1.2	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent)	11.9	...	13.1	...	...	...	...	...	...
National accounts 1/	(In percent of GDP, unless otherwise indicated)								
Consumption	106.5	103.3	104.9	103.0	101.1	98.7	96.3	95.2	94.6
Government	16.0	15.2	15.5	15.8	14.2	12.3	10.7	10.7	10.7
Other	90.6	88.1	89.3	87.2	87.0	86.4	85.6	84.5	83.8
Gross domestic investment	21.2	20.3	19.2	19.5	20.1	20.8	21.7	21.8	21.8
Government	4.5	4.0	4.2	4.3	4.5	4.8	5.0	5.0	5.0
Other	16.8	16.3	15.1	15.2	15.6	16.1	16.7	16.8	16.8
Gross national savings	14.4	12.9	10.2	10.4	11.2	13.4	15.5	15.6	15.6
Government	-3.5	-0.4	-2.0	0.5	1.9	3.7	5.5	5.5	5.5
Other	17.9	13.4	12.3	10.0	9.2	9.6	10.0	10.2	10.1
Savings-investment balance	-6.8	-7.4	-9.0	-9.0	-8.9	-7.5	-6.2	-6.2	-6.2
Government	-8.0	-4.4	-6.2	-3.8	-2.6	-1.0	0.5	0.5	0.5
Other	1.2	-3.0	-2.8	-5.3	-6.4	-6.4	-6.7	-6.6	-6.7
Fiscal operations									
Revenue and grants	27.9	26.1	25.0	25.8	26.3	26.2	25.9	25.6	25.7
Of which: grants	4.9	2.8	3.3	3.2	3.2	3.1	2.8	2.5	2.5
Expenditure 2/	38.0	29.1	30.1	29.6	30.3	30.4	29.9	29.7	29.8
Fiscal gap	0.0	0.0	0.0	0.0	1.5	3.2	4.6	4.6	4.6
Overall fiscal balance	-10.3	-3.0	-5.4	-3.8	-2.6	-1.0	0.5	0.5	0.4
Primary government balance, excl. grants, NEPCO, and WAJ	-4.5	-2.1	-5.2	-3.7	-2.5	-0.9	0.9	1.1	1.2
NEPCO operating balance	-4.6	-1.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance	-1.0	...	-1.1	-1.3	-1.3	-1.2	-1.2	-1.1	-1.1
Combined public sector balance 3/	-10.2	...	-7.2	-5.0	-3.8	-2.0	-0.3	0.0	0.1
Government and government-guaranteed gross debt 4/	89.0	90.0	93.4	94.4	94.0	91.0	86.3	81.7	77.3
Of which: external debt	31.2	34.5	35.2	36.9	36.9	37.5	37.6	37.3	37.0
External sector									
Current account balance (including grants), of which:	-6.8	-7.4	-9.0	-9.0	-8.9	-7.5	-6.2	-6.2	-6.2
Exports of goods, f.o.b. ($ billions)	8.4	8.1	7.8	7.5	7.9	8.5	9.1	9.7	10.3
Imports of goods, f.o.b. ($ billions)	20.2	18.2	18.1	17.7	18.2	18.7	19.4	20.2	21.3
Oil and oil products ($ billions)	5.5	3.6	3.3	2.7	2.9	3.0	3.2	3.3	3.6
Current account balance (excluding grants)	-12.1	-10.9	-12.0	-12.5	-11.8	-10.2	-9.0	-8.8	-8.8
Private capital inflows (net)	5.3	4.3	3.7	4.2	4.3	4.9	5.5	5.7	5.6
Monetary sector	(Percentage change)								
Broad money	6.9	8.2	8.1	7.6	6.9	...	...	...	...
Net foreign assets	15.4	7.4	3.5	5.5	4.3	...	...	...	...
Net domestic assets	4.0	8.5	9.8	8.3	7.8	...	...	...	...
Credit to private sector	3.7	6.0	4.8	10.2	8.5	...	...	...	...
Credit to central government	2.3	-1.6	-1.8	1.7	1.5	...	...	...	...
Memorandum items:									
Gross usable international reserves ($ millions)	14,973	15,367	15,678	15,888	15,829	16,854	18,038	19,160	20,202
In months of prospective imports	8.0	7.9	8.5	8.4	8.1	8.3	8.5	8.6	8.6
In percent of reserve adequacy metric	135.3	142.3	135.8	130.0	122.4	123.0	123.6	124.8	126.2
Net international reserves ($ millions)	13,374	14,091	13,589	13,894	14,040	15,360	16,867	18,188	19,303
Population (millions) 5/	7.42	...	7.59	7.75	7.88	7.99	8.08	8.17	8.25
Nominal per capita GDP ($)	4,838	...	4,947	5,092	5,293	5,553	5,849	6,169	6,513
Real effective exchange rate (end of period, 2010=100) 6/	112.8	...	118.1	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	6.9	...	4.7	...	...	...	...	...	...

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

1/ Government includes the central government and operating losses of NEPCO and WAJ.

2/ Includes net lending, transfers to NEPCO and WAJ, and other use of cash.

3/ Defined as the sum of the primary central government balance (excl. grants and transfers to NEPCO and WAJ), NEPCO operating balance, and WAJ overall balance.

4/ Includes NEPCO and WAJ debt.

5/ Data from UN population division.

6/ 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, 2014–21
(In millions of Jordanian dinars)

	Act. 2014	SBA 2015	Act. 2015	Proj. 2016	2017	2018	2019	2020	2021
Total revenue and grants	7,091	7,059	6,658	7,228	7,770	8,222	8,667	9,159	9,777
Domestic revenue	5,854	6,294	5,772	6,331	6,818	7,255	7,745	8,266	8,825
Tax revenue, *of which* :	4,192	4,527	4,242	4,573	4,912	5,229	5,585	5,963	6,371
Taxes on income and profits	766	899	858	952	1,006	1,070	1,141	1,216	1,296
General sales tax	2,811	2,948	2,763	2,923	3,169	3,376	3,610	3,857	4,126
Taxes on foreign trade	327	358	333	340	359	382	407	434	463
Other taxes	287	323	288	357	377	401	428	456	486
Nontax revenue	1,662	1,767	1,529	1,758	1,905	2,026	2,160	2,302	2,454
Grants	1,237	765	886	897	952	967	922	893	952
Total expenditures, net lending, other use of cash	9,658	7,874	8,005	8,291	8,961	9,545	10,029	10,620	11,341
Current expenditure	6,717	6,785	6,616	7,102	7,631	8,052	8,353	8,833	9,437
Wages and salaries	1,320	1,393	1,345	1,372	1,406	1,495	1,594	1,699	1,811
Interest payments	926	1,003	914	920	975	1,026	1,055	1,137	1,233
Domestic	750	795	710	704	740	754	737	732	772
External	176	208	204	216	234	273	319	405	461
Military expenditure	1,918	1,988	1,986	2,140	2,261	2,405	2,564	2,733	2,913
Fuel subsidies	0	0	0	0	0	0	0	0	0
Food subsidy	225	202	199	215	227	242	258	275	293
Transfers, *of which* :	1,899	1,877	1,770	2,067	2,351	2,448	2,418	2,494	2,659
Pensions	1,116	1,165	1,163	1,225	1,295	1,377	1,468	1,564	1,668
Targeted payments for energy	177	0	0	0	0	0	0	0	0
Transfer to health fund	201	252	155	205	299	313	329	267	285
Energy arrears clearance	0	0	0	100	175	175	0	0	0
Other transfers	405	460	452	537	583	583	622	663	706
Purchases of goods & services	428	322	403	389	411	437	465	496	529
Capital expenditure	1,134	1,086	1,109	1,189	1,330	1,493	1,675	1,786	1,904
Net lending	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,572	0	0	0	0	0	0	0	0
Transfer to WAJ 1/	206	3	20	0	0	0	0	0	0
Adjustment on receivables and payables (use of cash)	29	0	259	0	0	0	0	0	0
Total balance from above the line	-2,567	-815	-1,347	-1,063	-1,192	-1,323	-1,362	-1,461	-1,564
Statistical discrepancy, net	-57	0	-92	0	0	0	0	0	0
Overall balance at current policies	-2,624	-815	-1,439	-1,063	-1,192	-1,323	-1,362	-1,461	-1,564
Fiscal gap	0	0	0	0	433	995	1,526	1,627	1,734
Overall balance	-2,624	-815	-1,439	-1,063	-759	-328	164	166	170
Financing	2,624	815	1,439	1,063	759	328	-164	-166	-170
Foreign financing (net)	1,471	822	1,030	517	474	835	868	539	577
Domestic financing (net)	976	-149	271	434	285	-507	-1,032	-705	-747
CBJ on-lending of net IMF financing	274	423	426	-190	-349	-346	-297	-142	-26
Other domestic bank financing	-13	-572	-633	324	486	-382	-970	-814	-988
Domestic nonbank financing	892	0	478	300	148	220	235	250	267
Privatization proceeds	177	142	138	0	0	0	0	0	0
Use of trust account surpluses	0	0	0	112	0	0	0	0	0
Memorandum items:									
NEPCO operating balance	-1,179	-385	-233	5	2	4	3	0	7
WAJ overall balance, excluding project grants	-247	…	-305	-351	-376	-373	-389	-404	-420
Primary government balance excluding grants	-2,935	-577	-1,411	-1,040	-736	-269	298	410	451
Primary government balance excluding grants and transfers to NEPCO and WAJ (PC)	-1,157	-573	-1,390	-1,040	-736	-269	298	410	451
Combined public deficit (PC) 2/	-2,583	…	-1,928	-1,386	-1,110	-638	-88	7	38
Government and guaranteed gross debt	22,652	24,377	24,877	26,398	27,777	28,619	28,925	29,181	29,425
Of which: External	7,935	9,355	9,378	10,333	10,909	11,773	12,593	13,341	14,074
Government and guaranteed net debt	20,556	22,142	22,848	24,369	25,748	26,591	26,896	27,153	27,396
GDP at market prices	25,437	27,091	26,637	27,972	29,560	31,435	33,510	35,721	38,079

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

1/ For 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

2/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance plus WAJ overall balance.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2014–21
(In percent of GDP)

	Act.	SBA	Act.			Proj.			
	2014	2015	2015	2016	2017	2018	2019	2020	2021
Total revenue and grants	27.9	26.1	25.0	25.8	26.3	26.2	25.9	25.6	25.7
Domestic revenue	23.0	23.2	21.7	22.6	23.1	23.1	23.1	23.1	23.2
Tax revenue, *of which* :	16.5	16.7	15.9	16.3	16.6	16.6	16.7	16.7	16.7
Taxes on income and profits	3.0	3.3	3.2	3.4	3.4	3.4	3.4	3.4	3.4
General sales tax	11.1	10.9	10.4	10.5	10.7	10.7	10.8	10.8	10.8
Taxes on foreign trade	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other taxes	1.1	1.2	1.1	1.3	1.3	1.3	1.3	1.3	1.3
Nontax revenue	6.5	6.5	5.7	6.3	6.4	6.4	6.4	6.4	6.4
Grants	4.9	2.8	3.3	3.2	3.2	3.1	2.8	2.5	2.5
Total expenditures, net lending, other use of cash	38.0	29.1	30.1	29.6	30.3	30.4	29.9	29.7	29.8
Current expenditure	26.4	25.0	24.8	25.4	25.8	25.6	24.9	24.7	24.8
Wages and salaries	5.2	5.1	5.0	4.9	4.8	4.8	4.8	4.8	4.8
Interest payments	3.6	3.7	3.4	3.3	3.3	3.3	3.1	3.2	3.2
Domestic	2.9	2.9	2.7	2.5	2.5	2.4	2.2	2.1	2.0
External	0.7	0.8	0.8	0.8	0.8	0.9	1.0	1.1	1.2
Military expenditure	7.5	7.3	7.5	7.7	7.7	7.7	7.7	7.7	7.7
Fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	0.9	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Transfers, *of which* :	7.5	6.9	6.6	7.4	8.0	7.8	7.2	7.0	7.0
Pensions	4.4	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Targeted payments for energy	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to health fund	0.8	0.9	0.6	0.7	1.0	1.0	1.0	0.7	0.7
Energy arrears clearance	0.0	0.0	0.0	0.4	0.6	0.6	0.0	0.0	0.0
Other transfers	1.6	1.7	1.7	1.9	2.0	1.9	1.9	1.9	1.9
Purchases of goods & services	1.7	1.2	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Capital expenditure	4.5	4.0	4.2	4.3	4.5	4.8	5.0	5.0	5.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to NEPCO 1/	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to WAJ 1/	0.8	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment on receivables and payables (use of cash)	0.1	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-10.1	-3.0	-5.1	-3.8	-4.0	-4.2	-4.1	-4.1	-4.1
Statistical discrepancy, net	-0.2	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance at current policies	-10.3	-3.0	-5.4	-3.8	-4.0	-4.2	-4.1	-4.1	-4.1
Fiscal gap	0.0	0.0	0.0	0.0	1.5	3.2	4.6	4.6	4.6
Overall balance	-10.3	-3.0	-5.4	-3.8	-2.6	-1.0	0.5	0.5	0.4
Financing	10.3	3.0	5.4	3.8	2.6	1.0	-0.5	-0.5	-0.4
Foreign financing (net)	5.8	3.0	3.9	1.8	1.6	2.7	2.6	1.5	1.5
Domestic financing (net)	3.8	-0.5	1.0	1.6	1.0	-1.6	-3.1	-2.0	-2.0
CBJ on-lending of net IMF financing	1.1	1.6	1.6	-0.7	-1.2	-1.1	-0.9	-0.4	-0.1
Other domestic bank financing	-0.1	-2.1	-2.4	1.2	1.6	-1.2	-2.9	-2.3	-2.6
Domestic nonbank financing	3.5	0.0	1.8	1.1	0.5	0.7	0.7	0.7	0.7
Privatization proceeds	0.7	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Use of trust account surpluses	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
NEPCO operating balance	-4.6	-1.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance, excluding project grants	-1.0	...	-1.1	-1.3	-1.3	-1.2	-1.2	-1.1	-1.1
Primary government balance excluding grants	-11.5	-2.1	-5.3	-3.7	-2.5	-0.9	0.9	1.1	1.2
Primary government balance excluding grants and transfers to NEPCO and WAJ (PC)	-4.5	-2.1	-5.2	-3.7	-2.5	-0.9	0.9	1.1	1.2
Combined public deficit (PC) 2/	-10.2	...	-7.2	-5.0	-3.8	-2.0	-0.3	0.0	0.1
Government and guaranteed gross debt	89.0	90.0	93.4	94.4	94.0	91.0	86.3	81.7	77.3
Of which: External	31.2	34.5	35.2	36.9	36.9	37.5	37.6	37.3	37.0
Government and guaranteed net debt	80.8	81.7	85.8	87.1	87.1	84.6	80.3	76.0	71.9
GDP at market prices (JD millions)	25,437	27,045	26,637	27,972	29,560	31,435	33,510	35,721	38,079

Sources: Jordanian authorities; and Fund staff estimates and

1/ For 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

2/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance plus WAJ overall balance.

Table 2c. Jordan: Central Government: Summary of Quarterly Fiscal Operations, 2016–17
(In millions of Jordanian dinars)

	2016						2017				
	Q1 Act.	Q2 Proj.	Jul-Aug. Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	1,595	1,912	1,031	1,632	2,089	7,228	1,617	2,050	1,687	2,416	7,770
Domestic revenue	1,462	1,774	946	1,505	1,590	6,331	1,505	1,950	1,558	1,805	6,818
Tax revenue, *of which* :	1,043	1,292	709	1,123	1,115	4,573	1,072	1,417	1,161	1,262	4,912
Taxes on income and profits	247	408	153	195	102	952	238	453	209	106	1,006
General sales tax	631	707	442	748	837	2,923	662	777	763	967	3,169
Taxes on foreign trade	79	86	56	89	85	340	83	91	93	91	359
Other taxes	85	91	58	90	91	357	88	96	96	97	377
Nontax revenue	419	482	237	383	475	1,758	433	532	397	543	1,905
Grants	133	138	85	127	499	897	112	100	129	611	952
Total expenditures, net lending, other use of cash	1,819	2,127	1,383	2,036	2,309	8,291	1,964	2,314	2,196	2,487	8,961
Current expenditure	1,650	1,812	1,178	1,742	1,898	7,102	1,743	1,946	1,878	2,063	7,631
Wages and salaries	334	345	230	338	356	1,372	333	358	353	363	1,406
Interest payments	211	229	132	213	268	920	183	252	237	302	975
Domestic	168	166	99	176	195	704	153	173	191	223	740
External	43	63	33	37	73	216	31	79	46	79	234
Military expenditure	512	539	361	539	551	2,140	522	570	565	604	2,261
Fuel subsidies	0	0	0	0	0	0	0	0	0	0	0
Food subsidy	41	66	25	39	69	215	50	62	32	84	227
Transfers, *of which* :	464	563	350	510	530	2,067	588	588	588	588	2,351
Pensions	298	300	201	303	323	1,225	250	342	325	378	1,295
Targeted payments for energy	0	0	0	0	0	0	0	0	0	0	0
Transfer to health fund	35	62	31	43	66	205	75	75	75	75	299
Energy arrears clearance	25	25	17	25	25	100	44	44	44	44	175
Other transfers	106	176	101	140	116	537	220	127	144	92	583
Purchases of goods & services	89	72	80	104	124	389	67	117	103	123	411
Capital expenditure	117	314	205	294	463	1,189	221	368	317	424	1,330
Net lending	0	0	0	0	0	0	0	0	0	0	0
Transfer to NEPCO	0	0	0	0	0	0	0	0	0	0	0
Transfer to WAJ	45	0	0	0	-45	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	7	0	0	0	-7	0	0	0	0	0	0
Total balance from above the line	-224	-215	-352	-404	-220	-1,063	-348	-264	-509	-71	-1,192
Statistical discrepancy, net	187	0	0	0	-187	0	0	0	0	0	0
Overall balance at current policies	-411	-215	-352	-404	-34	-1,063	-348	-264	-509	-71	-1,192
Fiscal gap	0	0	0	0	0	0	108	108	108	108	433
Overall balance	-411	-215	-352	-404	-34	-1,063	-239	-156	-400	37	-759
Financing	411	215	352	404	34	1,063	239	156	400	-37	759
Foreign financing (net)	-123	-89	-10	-16	744	517	-38	-105	-46	662	474
Domestic financing (net)	534	304	251	307	-711	434	277	261	446	-699	285
CBJ on-lending of net IMF financing	-31	-32	0	-63	-63	-190	-85	-85	-106	-74	-349
Other domestic bank financing	495	260	201	295	-727	324	325	309	515	-662	486
Domestic nonbank financing	71	75	50	75	79	300	37	37	37	37	148
Privatization proceeds	0	0	0	0	0	0	0	0	0	0	0
Use of trust account surpluses	0	0	112	112	0	112	0	0	0	0	0
Memorandum items:											
Accounts payable (IT)	517	517	517	517	517	517	517	517	517	517	517
Social assistance spending	435	435	290	435	435	1,740	460	460	460	460	1,839
NEPCO operating balance	-58	-1	5	24	29	-5	0	0	0	0	-2
WAJ overall balance, excluding project grants	-91	-98	-66	-99	-63	-351	-97	-103	-88	-88	-376
Primary government deficit excluding grants	334	124	305	318	265	1,040	168	4	292	272	736
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	288	124	305	318	310	1,040	168	4	292	272	736
Combined public deficit (PC) 1/	321	221	376	441	402	1,386	265	107	379	359	1,110
Government and guaranteed gross debt	25,094	25,413	25,709	25,856	26,398	26,398	26,733	26,973	27,446	29,425	29,425

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance minus WAJ overall balance.

Table 2d. Jordan: NEPCO Operating Balance and Financing, 2014–21

(In millions of Jordanian dinars)

	2014 Act.	2015 SBA	2015 Act.	2016 Q1 Act.	2016 Q2 Proj.	2016 Jul-Aug Proj.	2016 Q3 Proj.	2016 Q4 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Electricity sales	1,391	1,549	1,507	365	326	299	448	397	1,537	1,682	1,760	1,892	1,976	2,063
Expenses	2,571	1,934	1,739	307	326	315	473	427	1,532	1,680	1,756	1,890	1,975	2,056
Purchase of electricity	2,425	1,736	1,567	255	272	274	411	368	1,306	1,439	1,537	1,661	1,734	1,802
Depreciation	31	47	34	6	7	4	7	37	57	35	40	46	52	60
Interest payments 1/	104	129	113	27	27	18	27	49	130	105	79	79	79	79
Tax on LNG				13	16	16	24	18	70	77	77	77	79	81
Operating balance (QPC)	-1,179	-385	-233	58	1	-16	-24	-29	5	2	4	3	0	7
Total net domestic financing	1,179	385	233	-58	-1	16	24	29	-5	-2	-4	-3	0	-7
Banks	-211	718	651	-100	18	31	44	-39	-76	-2	67	-3	0	-7
Loans and bonds	-186	718	631	-50	-1	16	24	-50	-76	-2	67	-3	0	-7
Overdrafts	-25	0	19	-50	19	15	20	11	0	0	0	0	0	0
ITFC loan	142	0	0	0	0	0	0	71	71	0	-71	0	0	0
Other items 2/	-177	0	-134	133	-19	-15	-20	-94	0	0	0	0	0	0
Increase in payables 3/	1,426	-333	-284	-92	0	0	0	92	0	0	0	0	0	0
Direct transfer from central government	1,572	0	0	0	0	0	0	0	0	0	0	0	0	0
To cover losses and repay arrears	1,397	0	0	0	0	0	0	0	0	0	0	0	0	0
To repay loans	176	0	0	0	0	0	0	0	0	0	0	0	0	0
Payables to the private sector	-147	-333	-284	-92	0	0	0	92	0	0	0	0	0	0
Of which: Increase in arrears	-17	-333	-333	0	0	0	0	0	0	0	0	0	0	0
Memorandum items (stocks, end-of-period):														
Outstanding loans and bonds	1,711	2,430	2,342	2,292	2,292	2,309	2,316	2,337	2,337	2,336	2,332	2,329	2,329	2,322
Overdrafts	27	26	46	-4	15	30	35	46	46	46	46	46	46	46
Total payables	3,406	3,406	3,122	3,030	3,030	3,030	3,030	3,122	3,122	3,122	3,122	3,122	3,122	3,122
to government 3/	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860	2,860
to private sector	546	546	262	170	170	170	170	262	262	262	262	262	262	262
Of which: arrears (IT)	333	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 minor items.

3/ Payables to government include transfers from the government to NEPCO, whose status has not been agreed yet; they are excluded from the computation of the stock of arrears.

Table 2e. Jordan: WAJ Balance and Financing, 2013–21
(In millions of Jordanian dinars)

	2013 Act.	2014 Act.	2015 Act.	2016 Q1 Act.	2016 Q2 Proj.	2016 Jul-Aug Proj.	2016 Q3 Proj.	2016 Q4 Proj.	2016 Proj.	2017 Q1 Proj.	2017 Q2 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Total Revenues	54	57	58	11	10	8	12	11	44	12	11	48	52	56	60	65
of which :																
Sales of goods and services	54	57	58	11	10	8	12	11	44	12	11	48	51	56	60	65
Property income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Current Expenditure	86	84	79	24	26	16	25	36	110	29	31	134	135	155	174	195
Salaries, wages and allowances	22	25	22	6	6	4	6	6	24	6	6	25	25	26	27	27
Social Security contributions	2	2	2	1	1	0	1	1	2	1	1	3	3	3	3	3
Use of goods and services	27	29	24	5	7	4	7	7	26	6	8	31	32	32	33	33
Interest payments	35	27	30	12	12	7	11	22	58	16	16	75	75	93	112	131
of which :																
Interest payments on domestic loans	31	23	25	12	9	7	11	19	51	16	12	66	66	83	100	118
Interest payments on foreign loans	4	4	5	0	3	0	0	3	7	0	4	8	8	10	12	13
Other expenses 1/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating and maintainance balance 2/	3	1	9	0	-3	-1	-2	-4	-8	0	-4	-11	-9	-6	-2	1
Operating balance excluding grants (QPC)	-32	-27	-21	-12	-15	-9	-13	-25	-66	-17	-19	-86	-83	-99	-114	-130
Capital Expenditure	141	221	284	79	83	57	86	38	285	80	84	290	290	290	290	290
Overall balance	-174	-247	-305	-91	-98	-66	-99	-63	-351	-97	-103	-376	-373	-389	-404	-420
Total net financing	174	247	305	91	98	66	99	63	351	97	103	376	373	389	404	420
Grants	44	55	75	11	19	17	25	4	59	11	19	59	59	59	59	59
Transfers from Central Government 3/	203	206	20	45	0	0	0	-45	0	0	0	0	0	0	0	0
Loans (net borrowing)	-146	-346	373	36	79	49	74	104	292	86	84	317	314	330	345	361
of which :																
Domestic loans	-155	-349	381	27	61	38	57	88	233	77	67	257	254	270	285	301
Foreign loans	9	3	-8	9	18	11	17	16	60	9	18	60	60	60	60	60
Others 4/	73	332	-164	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items (stocks, end-of-period):																
Outstanding loans	1,334	1,170	1,409	1,445	1,523	1,573	1,597	1,701	1,701	1,787	1,872	2,018	2,333	2,663	3,008	3,369
Domestic loans and bonds	733	385	766	793	854	892	911	999	999	1,076	1,142	1256	1510	1780	2066	2367
Foreign loans	267	270	262	271	288	299	305	321	321	330	348	381	441	501	561	621
Advances from Central Government	332	516	381	381	381	381	381	381	381	381	381	381	381	381	381	381
Grants and foreign loans to capital expenditure ratio (in percent)	38	26	24	25	44	49	49	53	41	25	44	41	41	41	41	41
Grants to capital expenditure ratio (in percent)	31	25	26	13	23	29	29	11	21	13	23	20	20	20	20	20
Effective interest rate (in percent)	…	2.06	2.58	3.52	3.38	2.94	2.94	5.47	4.09	3.79	3.50	4.38	3.70	4.00	4.19	4.36
Domestic loans (in percent)	…	3.13	6.55	6.37	4.54	5.13	5.13	8.16	6.62	6.37	4.36	6.62	5.27	5.51	5.62	5.71
Foreign loans (in percent)	…	1.68	1.86	0.28	4.73	0.34	0.34	4.27	2.63	0.28	4.75	2.63	2.22	2.27	2.32	2.35

Sources: Jordanian authorities; and IMF staff estimates.
1/ Including pensions.
2/ Excluding interest payments and grants
3/ Information from 2013 to 2015 was provided by the Ministry of Finance.
4/ Including settlement of liabilities.

Table 3a. Jordan: Summary Balance of Payments, 2014–21
(In millions of U.S. dollars, unless otherwise indicated)

	2014	2015		2016	2017	2018	2019	2020	2021
	Act.	SBA	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (CA)	-2,443	-2,820	-3,392	-3,566	-3,723	-3,312	-2,933	-3,106	-3,352
Trade balance	-11,814	-10,185	-10,225	-10,226	-10,285	-10,212	-10,266	-10,555	-11,002
Exports f.o.b.	8,397	8,061	7,840	7,467	7,949	8,507	9,094	9,675	10,279
Imports f.o.b.	20,211	18,247	18,064	17,692	18,235	18,719	19,360	20,230	21,281
Energy	5,483	3,632	3,299	2,650	2,882	2,989	3,157	3,336	3,589
Non-energy	14,728	14,615	14,766	15,042	15,353	15,730	16,203	16,894	17,692
Services and income, of which	2,092	1,388	1,269	1,527	1,567	1,878	2,166	2,255	2,393
Travel	4,382	4,002	4,071	3,973	4,105	4,269	4,461	4,682	4,916
Current transfers, of which	7,279	5,978	5,564	5,132	4,995	5,021	5,167	5,194	5,256
Public	1,893	1,359	1,133	1,381	1,217	1,205	1,328	1,330	1,359
Remittances	3,368	3,464	3,418	3,264	3,421	3,595	3,758	3,927	4,105
Capital and financial account	3,516	2,971	2,721	2,387	1,941	3,483	4,469	4,517	4,529
Public sector	1,354	1,315	1,604	546	-226	936	1,479	1,256	1,106
Foreign direct investment	1,929	1,581	1,383	1,471	1,760	2,136	2,555	2,800	2,943
Portfolio flows	-31	76	15	174	28	32	40	47	55
Other capital flows 1/	265	0	-281	196	379	379	396	414	425
Errors and omissions	282	670	871	492	0	0	0	0	0
Overall balance	1,355	822	200	-688	-1,782	171	1,536	1,411	1,176
Financing	-1,355	-822	-200	688	1,782	-171	-1,536	-1,411	-1,176
Reserves (+ = decrease)	-2,367	-1,143	-772	-131	53	-1,043	-1,213	-1,154	-1,078
Commercial banks' NFA	625	-275	-29	-83	-139	-131	-1	-57	-26
Program financing	387	597	601	902	1,868	1,003	-323	-200	-72
Official budget support	0	0	0	776	1,595	978	0	0	0
Jordan Compact off-budget grants	0	0	0	250	477	319	0	0	0
IMF (net)	387	597	601	-124	-204	-295	-323	-200	-72
Of which: prospective Fund purchases	0	0	0	144	288	192	96	0	0
Gross reserves	16,044	17,458	16,570	16,701	16,648	17,691	18,904	20,058	21,136
Gross usable reserves 2/	14,973	15,367	15,678	15,888	15,829	16,854	18,038	19,160	20,202
In percent of the IMF Reserve Adequacy Metric	135	142	136	130	122	123	124	125	126
In months of next year's imports of GNFS	8.0	7.9	8.5	8.4	8.1	8.3	8.5	8.6	8.6
Memorandum items:									
BOP official financing under the EFF	0	0	0	1,026	2,072	1,298	0	0	0
World Bank	0	0	0	370	140	447	0	0	0
EU and bilateral loans	0	0	0	406	435	171	0	0	0
Jordan Compact off-budget grants	0	0	0	250	477	319	0	0	0
Unidentified budget support	0	0	0	0	1,021	361	0	0	0
Grants	0	0	0	0	323	361	0	0	0
Loans	0	0	0	0	698	0	0	0	0
CA (percent of GDP)	-6.8	-7.4	-9.0	-9.0	-8.9	-7.5	-6.2	-6.2	-6.2
CA ex-grants (percent of GDP)	-12.1	-10.9	-12.0	-12.5	-11.8	-10.2	-9.0	-8.8	-8.8
CA ex-grants and energy imports (percent of GDP)	3.2	-1.4	-3.3	-5.8	-4.9	-3.4	-2.3	-2.2	-2.1
Energy imports	15.3	9.5	8.8	6.7	6.9	6.7	6.7	6.6	6.7
Public transfers	5.3	3.6	3.0	3.5	2.9	2.7	2.8	2.6	2.5
Export growth (percent)	6.0	-4.0	-6.6	-4.8	6.5	7.0	6.9	6.4	6.2
Import growth (percent)	3.2	-9.7	-10.6	-2.1	3.1	2.7	3.4	4.5	5.2
Energy (percent)	6.1	-34.3	-39.8	-19.7	8.7	3.7	5.6	5.7	7.6
Non-energy (percent)	2.1	-0.5	0.3	1.9	2.1	2.5	3.0	4.3	4.7
Travel growth (percent)	6.3	-8.7	-7.1	-2.4	3.3	4.0	4.5	5.0	5.0
Remittances growth (percent)	2.6	2.8	1.5	-4.5	4.8	5.1	4.5	4.5	4.5
Total external debt (percent of GDP)	64.0	66.2	65.8	67.4	66.7	66.4	65.6	64.6	63.4
Of which: Public external debt (percent of GDP)	31.2	34.5	35.2	36.9	36.9	37.5	37.6	37.3	37.0
Nominal GDP	35,878	38,210	37,570	39,453	41,692	44,337	47,263	50,383	53,708

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Assumes that a relevant part of the projected private capital inflows can be traced back to historically large erros and omissions.
2/ Including gold and excluding commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 3b. Jordan: External Financing Requirements and Sources, 2015–21
(In millions of U.S. dollars, unless otherwise indicated)

	2015 Act.	2016Q1 Act.	2016Q2 Proj.	2016Q3 Proj.	2016Q4 Proj.	2016 Proj.	2017Q1 Proj.	2017Q2 Proj.	2017Q3 Proj.	2017Q4 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Gross Financing Requirements	**5,934**	**1,803**	**1,163**	**1,208**	**1,639**	**5,813**	**1,891**	**1,197**	**1,261**	**1,616**	**5,965**	**5,409**	**6,103**	**6,046**	**5,116**
Current account deficit (excl. grants)	4,525	1,698	899	1,020	1,330	4,947	1,688	900	1,018	1,335	4,940	4,517	4,261	4,436	4,712
Of which: Energy imports	3,299	644	593	706	707	2,650	738	634	755	755	2,882	2,989	3,157	3,336	3,589
Amortization of public debt 1/	791	60	219	99	219	597	84	178	94	177	533	404	423	160	332
Amortization of sovereign bonds 2/	574	0	0	0	0	0	0	0	0	0	0	0	1,000	1,250	0
IMF repurchases (existing SBA)	44	44	45	89	89	268	119	119	149	104	492	487	419	200	72
Gross Financing Sources	**5,834**	**758**	**653**	**584**	**2,336**	**4,331**	**548**	**605**	**538**	**1,862**	**3,552**	**4,962**	**7,219**	**7,200**	**6,194**
FDI, net	1,383	501	377	323	269	1,471	433	505	442	380	1,760	2,136	2,555	2,800	2,943
Public grants	1,133	141	155	56	1,029	1,381	0	0	0	1,217	1,217	1,205	1,328	1,330	1,359
Public sector borrowing 3/	1,687	150	106	89	246	591	19	5	5	178	207	141	1,102	1,116	1,138
Issuance of sovereign bonds 2/	2,002	0	0	0	704	704	0	0	0	0	0	1,000	1,500	1,250	0
Non-resident purchases of local debt	-75	-152	0	0	0	-152	25	25	25	25	100	200	300	300	300
Private capital flows, net 4/	-296	117	15	115	88	335	71	69	65	62	268	280	435	404	454
Errors and omissions	871	492	0	0	0	492	0	0	0	0	0	0	0	0	0
Change in reserves (+ = increase)	772	-602	-509	-403	1,645	131	-1,049	-593	-466	2,054	-53	1,043	1,213	1,154	1,078
Total Financing Needs	**1**	**-48**	**0**	**222**	**948**	**1,121**	**294**	**0**	**258**	**1,809**	**2,361**	**1,490**	**96**	**0**	**0**
Official Financing	**0**	**0**	**0**	**222**	**948**	**1,169**	**294**	**0**	**258**	**1,809**	**2,361**	**1,490**	**96**	**0**	**0**
Identified official budget support	0	0	0	150	626	776	150	0	114	311	575	617	0	0	0
Unidentified official budget support	0	0	0	0	0	0	0	0	0	1,021	1,021	361	0	0	0
Jordan Compact off-budget grants	0	0	0	0	250	250	0	0	0	477	477	319	0	0	0
IMF prospective purchases	0	0	0	72	72	144	144	0	144	0	288	192	96	0	0
Memorandum Items:															
Gross Usable Reserves	15,678	15,115	14,636	14,236	15,888	15,888	14,838	14,243	13,777	15,829	15,829	16,854	18,038	19,160	20,202
In percent of the IMF Reserve Adequacy Metric 5/	136	130	124	119	130	130	115	114	109	122	122	123	124	125	126
In months of next year's imports of GNFS	8.5	8.2	7.8	7.6	8.4	8.4	7.8	7.4	7.1	8.1	8.1	8.3	8.5	8.6	8.6

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes project loans and Arab Monetary Fund, and excludes IMF repurchases under the SBA.
2/ Includes guaranteed and non-guaranteed bonds.
3/ Includes project loans, Arab Monetary Fund, and IMF purchases under SBA.
4/ Includes changes in commercial banks' NFA.
5/ The IMF reserve metric is calculated as a weighted sum of exports, broad money, short-term debt, and other portfolio liabilities.

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Table 3c. Jordan: Foreign Exchange Needs and Sources, 2015–21
(In millions of U.S. dollars, unless otherwise indicated)

	2015 Act.	2016Q1 Act.	2016Q2 Proj.	2016Q3 Proj.	2016Q4 Proj.	2016 Proj.	2017Q1 Proj.	2017Q2 Proj.	2017Q3 Proj.	2017Q4 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
G vernment Gross Needs	**3,358**	**990**	**600**	**1,233**	**706**	**3,529**	**557**	**638**	**607**	**664**	**2,466**	**2,195**	**3,055**	**2,939**	**2,302**
nergy imports	1,658	340	292	347	347	1,326	336	289	344	344	1,312	1,307	1,316	1,351	1,371
est payments	290	46	45	48	50	188	18	52	20	39	129	-5	-102	-21	27
tions of external debt	1,409	105	263	188	309	865	203	297	244	282	1,025	892	1,841	1,610	404
tions of local debt in FX	0	500	0	650	0	1,150	0	0	0	0	0	0	0	0	500
G vernment Sources	**4,822**	**791**	**262**	**795**	**1,979**	**3,827**	**19**	**5**	**5**	**1,395**	**1,424**	**2,346**	**3,930**	**3,696**	**2,997**
ants	1,133	141	155	56	1,029	1,381	0	0	0	1,217	1,217	1,205	1,328	1,330	1,359
ctor borrowing 1/	1,687	150	106	89	246	591	19	5	5	178	207	141	1,102	1,116	1,138
bonds 2/	2,002	0	0	0	704	704	0	0	0	0	0	1,000	1,500	1,250	0
ds in FX	0	500	0	650	0	1,150	0	0	0	0	0	0	0	0	500
G vernment Balance	**1,465**	**-199**	**-338**	**-437**	**1,273**	**298**	**-538**	**-633**	**-602**	**730**	**-1,042**	**152**	**875**	**756**	**695**
nancing	0	0	0	150	626	776	150	0	114	311	575	617	0	0	0
ied budget grants under the EFF	0	0	0	0	0	0	0	0	0	323	323	361	0	0	0
ied budget loans under the EFF	0	0	0	0	0	0	0	0	0	698	698	0	0	0	0
G vernment Balance under the EFF	**1,465**	**-199**	**-338**	**-287**	**1,899**	**1,074**	**-388**	**-633**	**-488**	**2,062**	**553**	**1,130**	**875**	**756**	**695**
ompact off-budget grants	0	0	0	0	250	250	0	0	0	477	477	319	0	0	0
dent purchases of local bonds	-75	-152	0	0	0	-152	25	25	25	25	100	200	300	300	300
n gross reserves	772	-602	-509	-403	1,645	131	-1,049	-593	-466	2,054	-53	1,043	1,213	1,154	1,078
ective purchases	0	0	0	72	72	144	144	0	144	0	288	192	96	0	0
P r Net Balance	**617**	**251**	**171**	**187**	**575**	**1,184**	**830**	**-15**	**147**	**510**	**1,471**	**798**	**58**	**-97**	**-83**

Sc nian authorities; and Fund staff estimates and projections.
1/ oject loans, Arab Monetary Fund, and IMF purchases under the SBA.
2/ aranteed and non-guaranteed bonds.

Table 3d. Jordan: External Budget Financing, 2015–17
(In millions of U.S. dollars, unless otherwise indicated)

	2015 Total SBA	2015 Total Act.	2016 Q1 Act.	2016 Q2 Proj.	2016 Q3 Proj.	2016 Q4 Proj.	2016 Total Proj.	2017 Q1 Proj.	2017 Q2 Proj.
Budget grants	**551**	**781**	**51**	**72**	**22**	**492**	**638**	**0**	**0**
EU	51	53	0	46	22	28	97	0	0
Saudi Arabia (budget support)	0	0	0	0	0	0	0	0	0
Saudi Arabia and Kuwait (development budget support)	222	168	47	0	0	0	47	0	0
US	272	289	0	26	0	424	450	0	0
Other	5	272	4	0	0	40	44	0	0
GCC capital grants									
GCC grants received by CBJ	500	150	0	0	0	349	349	0	0
GCC grants received by MOF	528	469	137	122	157	212	628	55	109
Loans	**2,237**	**2,912**	**33**	**71**	**204**	**1,516**	**1,824**	**150**	**0**
France	83	84	0	0	0	142	142	0	0
WB	250	250	0	0	0	350	350	0	0
Eurobond 1/	2,000	2,000	0	0	0	704	704	0	0
EU	204	204	0	0	0	114	114	0	0
Other	…	374	33	71	204	206	514	150	0
Memorandum :									
Annual cumulative total (MOF) 2/	3,315	4,006	221	486	869	3,090	3,090	205	314
in millions of JD	2,350	2,840	157	345	616	2,191	2,191	145	223
in percent of annual GDP	8.7	10.7	0.6	1.2	2.2	7.8	8.2	1	1
Annual cumulative total (CBJ) 3/	3,287	3,687	84	227	454	2,811	2,811	150	150

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

1/ For 2015, the Eurobond receipts includes guaranteed Eurobond of US$1.5 million

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

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

Table 4a. Jordan: Monetary Survey, 2015–17

	2015			2016 1/						2017 1/				
	Prog. SBA exch. rate	Act. SBA exch. rate	Act. Market rate	Proj. Annual	Act. Q1	Proj. Q2	Proj. Aug.	Proj. Q3	Proj. Q4	Proj. Annual	Proj. Q1	Proj. Q2	Proj. Q3	Proj. Q4
				(Stocks, in millions of Jordanian dinars)										
Net foreign assets	8,726	8,449	8,256	8,710	7,941	7,694	7,428	7,563	8,710	9,083	8,086	7,875	7,702	9,083
Central bank	10,538	10,436	10,243	10,638	9,962	9,684	9,387	9,522	10,638	10,912	9,989	9,754	9,556	10,912
Commercial banks	-1,812	-1,987	-1,987	-1,928	-2,021	-1,990	-1,959	-1,959	-1,928	-1,829	-1,903	-1,879	-1,854	-1,829
Net domestic assets	22,904	23,151	23,344	25,281	24,037	25,186	25,798	25,838	25,281	27,263	26,220	27,368	28,084	27,263
Net claims on general government	11,624	11,620	11,620	12,012	12,026	12,346	12,632	12,696	12,012	12,465	12,331	12,634	13,122	12,465
Net claims on central budgetary government 2/	9,117	9,055	9,055	9,210	9,539	9,768	9,975	10,000	9,210	9,347	9,450	9,674	10,084	9,347
Net claims on NEPCO	1,950	1,883	1,883	1,878	1,783	1,801	1,831	1,846	1,878	1,876	1,877	1,877	1,877	1,876
Net claims on other own budget agencies 3/	179	330	330	544	325	398	446	471	544	861	623	702	782	861
Claims on other public entities	379	352	352	380	379	379	380	380	380	380	380	380	380	380
Claims on financial institutions	162	161	161	175	131	145	155	160	175	175	175	175	175	175
Claims on the private sector	18,922	18,705	18,705	20,603	19,185	19,699	20,150	20,186	20,603	22,357	21,073	21,619	22,046	22,357
Other items (net)	-7,804	-7,335	-7,142	-7,509	-7,305	-7,005	-7,138	-7,205	-7,509	-7,734	-7,359	-7,059	-7,259	-7,734
Broad money	31,630	31,600	31,600	33,991	31,978	32,879	33,227	33,401	33,991	36,346	34,306	35,243	35,785	36,346
Currency in circulation	3,982	3,933	3,933	4,129	3,974	4,143	4,276	4,342	4,129	4,324	4,146	4,237	4,291	4,324
Jordanian dinar deposits	22,967	22,960	22,960	24,782	23,218	23,832	24,015	24,107	24,782	26,574	25,030	25,732	26,137	26,574
Foreign currency deposits	4,681	4,707	4,707	5,080	4,787	4,904	4,936	4,951	5,080	5,447	5,131	5,275	5,358	5,447
				(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)										
Net foreign assets	602	475	...	454	-315	-247	...	-131	1,148	373	-624	-211	-173	1,381
Net domestic assets	1,795	1,892	...	1,937	693	1,148	...	652	-557	1,982	939	1,148	715	-821
Net claims on general government	772	809	...	392	406	320	...	350	-684	453	319	303	488	-657
Net claims on Central Budgetary Government	-149	-169	...	155	484	229	...	232	-790	137	240	224	409	-736
Net claims on NEPCO	718	651	...	-5	-100	18	...	44	32	-2	0	0	0	0
Net claims on other own budget agencies		354	...	214	-5	73	...	73	73	317	79	79	79	79
Claims on financial institutions	0	-26	...	28	26	1	...	1	1	0	0	0	0	0
Claims on the private sector	1,070	852	...	1,899	481	513	...	487	417	1,754	470	545	427	311
Other items (net)	-46	232	...	-367	-163	300	...	-200	-304	-225	150	300	-200	-475
Broad money	2,397	2,367	...	2,391	378	901	...	521	591	2,354	315	937	542	560
Currency in circulation	178	129	...	196	40	169	...	199	-213	195	17	91	54	33
Jordanian dinar deposits	1,996	1,990	...	1,822	257	615	...	275	675	1,792	248	702	405	437
Foreign currency deposits	223	249	...	373	81	117	...	47	129	367	51	144	83	90
Memorandum items:														
Year-on-year broad money growth (percent)	8.2	8.1	8.1	7.6	6.8	7.1	6.6	7.2	7.6	6.9	7.3	7.2	7.1	6.9
Year-on-year private sector credit growth (percent)	6.0	4.8	4.8	10.2	7.8	9.0	10.3	9.7	10.2	8.5	9.8	9.7	9.2	8.5
Foreign currency/total deposits (percent)	16.9	17.0	17.0	17.0	17.1	17.1	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Private sector credit/total deposits (percent)	68.4	67.6	67.6	69.0	68.5	68.6	69.6	69.5	69.0	69.8	69.9	69.7	70.0	69.8
Currency in circulation/JD deposits (percent)	17.3	17.1	17.1	16.7	17.1	17.4	17.8	18.0	16.7	16.3	16.6	16.5	16.4	16.3

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

1/ 2016-17 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, 2015–17

	2015			2016 1/						2017 1/				
	Prog.	Act.	Act.	Proj.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	SBA exch. rate	SBA exch. rate	Market rate	Annual	Q1	Q2	Aug.	Q3	Q4	Annual	Q1	Q2	Q3	Q4
				(Stocks, in millions of Jordanian dinars)										
Net foreign assets	10,538	10,436	10,243	10,638	9,962	9,684	9,387	9,522	10,638	10,912	9,989	9,754	9,556	10,912
Foreign assets	13,144	12,826	12,515	12,645	12,126	11,765	11,431	11,479	12,645	12,608	11,902	11,482	11,152	12,608
Of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	61	75	75	61	78	61	61	61	61	61	61	61	61	61
Foreign liabilities	2,606	2,391	2,272	2,007	2,164	2,081	2,044	1,957	2,007	1,696	1,912	1,728	1,596	1,696
Of which: Net Fund Position	1,429	1,429	1,311	1,244	1,300	1,269	1,269	1,256	1,244	1,099	1,262	1,177	1,173	1,099
Of which: GCC grants-related	1,069	852	852	654	755	704	704	592	654	488	542	442	314	488
Net domestic assets	-3,279	-2,930	-2,737	-2,680	-2,584	-1,983	-1,508	-1,553	-2,680	-2,523	-1,959	-1,505	-1,181	-2,523
Net claims on central budgetary government 2/	1,681	1,464	1,464	1,279	1,762	1,622	1,508	1,450	1,279	930	1,194	1,110	1,004	930
Net claims on own budget agencies and other public entities	-78	-65	-65	-66	-68	-68	-67	-67	-66	-66	-66	-66	-66	-66
Net claims on financial institutions	71	72	72	72	28	42	52	57	72	72	72	72	72	72
Net claims on private sector	22	23	23	23	23	23	23	23	23	23	23	23	23	23
Net claims on commercial banks	-4,075	-3,014	-3,014	-2,856	-2,996	-2,320	-1,790	-1,783	-2,856	-2,674	-2,050	-1,511	-1,081	-2,674
Of which: FX deposits of commercial banks	789	618	618	614	624	621	620	619	614	619	615	616	617	619
CDs	-259	-1,077	-1,077	-850	-1,000	-950	-900	-900	-850	-525	-850	-850	-850	-525
Other items, net (asset: +)	-640	-334	-141	-282	-333	-333	-333	-333	-282	-282	-282	-282	-282	-282
Jordanian dinar reserve money	7,259	7,506	7,506	7,958	7,378	7,700	7,879	7,969	7,958	8,389	8,031	8,249	8,375	8,389
Currency	4,356	4,337	4,337	4,527	4,371	4,540	4,673	4,740	4,527	4,722	4,543	4,635	4,689	4,722
Commercial bank reserves	2,903	3,169	3,169	3,431	3,006	3,160	3,206	3,229	3,431	3,668	3,487	3,614	3,687	3,668
Of which: required reserves	1,596	1,605	1,605	1,733	1,625	1,668	1,681	1,687	1,733	1,858	1,750	1,799	1,828	1,858
				(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)										
Net foreign assets	650	455	...	395	-281	-278	...	-162	1,117	274	-649	-236	-198	1,356
Foreign assets	811	684	...	131	-389	-361	...	-286	1,166	-37	-743	-420	-330	1,456
Foreign liabilities	403	229	...	-265	-108	-83	...	-124	50	-311	-95	-185	-132	100
Net domestic assets	-133	9	...	57	153	601	...	431	-1,128	157	722	454	324	-1,342
Net claims on central budgetary government	19	210	...	-185	298	-140	...	-172	-172	-349	-85	-85	-106	-74
Net claims on commercial banks	589	632	...	158	18	676	...	537	-1,073	181	806	539	430	-1,593
Other items, net (asset: +)	0	-31	...	-141	-192	0	...	0	51	0	0	0	0	0
Jordanian dinar reserve money	218	464	...	452	-128	323	...	269	-11	431	73	218	126	14
Currency	178	159	...	190	34	169	...	199	-213	195	17	91	54	33
Commercial banks' reserves	40	305	...	262	-163	153	...	70	202	236	56	127	72	-19
Memorandum items:														
Gross international reserves (GIR)	17,458	17,009	16,570	16,754	16,021	15,512	15,042	15,109	16,754	16,701	15,705	15,113	14,647	16,701
Gross usable international reserves ($ millions) 3/	15,367	14,020	15,678	15,888	15,115	14,636	14,166	14,236	15,888	15,829	14,838	14,243	13,777	15,829
As a ratio to JD broad money (in percent)	40.4	37.0	41.3	39.0	39.4	37.1	35.5	35.5	39.0	36.3	36.1	33.7	32.1	36.3
As a ratio of JD reserve money (in percent)	150.1	132.4	148.1	141.6	145.3	134.8	127.5	126.7	141.6	133.8	131.0	122.4	116.6	133.8
Net international reserves (millions of JD)	9,990	9,821	9,635	9,851	9,247	8,939	8,643	8,667	9,851	9,954	9,089	8,752	8,425	9,954
Net international reserves (millions of U.S. dollars)	14,091	13,852	13,589	13,894	13,043	12,608	12,190	12,225	13,894	14,040	12,820	12,345	11,883	14,039
Money multiplier (for JD liquidity)	3.7	3.6	3.6	3.6	3.7	3.6	3.6	3.6	3.6	3.7	3.6	3.6	3.6	3.7

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

1/ 2016-17 projections are based on program (i.e. end-March 2016) exchange rates.

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

3/ Excludes gold holdings in 2015 data at SBA exchange rates. Includes them in 2015 data at market rates and from 2016 onward.

Table 5. Jordan: Indicators of Bank Soundness, 2005–16

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 Q1 1/
	(In percent, unless otherwise indicated)											
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	19.3	19.0	18.4	18.4	19.1	18.4
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1,159	1,315	1,336	1,285	1,064	1,012	973
NPLs (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5	7.7	7.0	5.6	5.0	4.7
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3	69.4	77.0	77.6	75.7	80.2
NPLs net of provisions (in percent of equity)	5.1	2.8	4.3	5.7	10.6	12.6	13.4	8.3	5.6	4.3	4.2	3.3
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	143.5	149.1	152.2	162.2	147.5
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1	1.1	1.2	1.4	1.3	1.4
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3	8.6	9.9	11.0	10.3	11.0
FX-denominated loans to total loans ratio	11.1	10.2	9.7	12.8	11.6	11.8	11.4	12.9	14.1	13.3	13.4	13.3
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	29.1	23.9	20.6	20.2	20.3
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	71.4	68.6	63.7	64.7	65.1
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	14.7	14.8	15.0	15.0	16.1
Margin trading and financial services (share in total loans)	5.1	6.2	7.2	7.1	6.9	5.8	5.3	4.5	4.1	3.9	3.3	3.1
Loans to GDP ratio (in percent of GDP)	86.8	91.4	93.1	83.7	78.7	77.0	77.4	81.2	79.4	75.8	79.2	76.8

Source: Central Bank of Jordan.

1/ Preliminary

Table 6. Jordan: Proposed Access and Phasing Under the Extended Fund Facility (EFF) 1/

Review	Availability Date	Action	Purchase	
			SDR Million	Percent of Quota
	August 24, 2016	Board approval of EFF	51.465	15.00
First Review	November 30, 2016	Observance of end-August 2016 performance criteria, completion of first review	51.465	15.00
Second Review	March 31, 2017	Observance of end-December 2016 performance criteria, completion of second review	102.930	30.00
Third Review	September 29, 2017	Observance of end-June 2017 performance criteria, completion of third review	102.930	30.00
Fourth Review	March 30, 2018	Observance of end-December 2017 performance criteria, completion of fourth review	68.620	20.00
Fifth Review	September 28, 2018	Observance of end-June 2018 performance criteria, completion of fifth review	68.620	20.00
Sixth Review	March 29, 2019	Observance of end-December 2018 performance criteria, completion of sixth review	68.620	20.00
Total			**514.650**	**150**

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

Table 7. Jordan: Indicators of Fund Credit, 2014–21

(In millions of SDR, unless indicated otherwise)

	2014 Act.	2015 Act.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Existing and prospective Fund arrangements								
Disbursements	255.8	426.3	102.9	205.9	137.2	68.6	0.0	0.0
Stock 1/	937.8	1,332.0	1,243.2	1,097.4	886.5	656.7	514.7	488.9
Obligations 2/	13.4	54.6	216.6	380.0	370.4	312.1	148.4	31.1
Principal (repayments/repurchases)	0.0	32.0	191.8	351.7	348.1	298.4	142.1	25.7
Charges and interest	13.4	22.7	24.8	28.3	22.3	13.7	6.3	5.4
Stock of existing and prospective Fund credit 1/	937.8	1,332.0	1,243.2	1,097.4	886.5	656.7	514.7	488.9
In percent of quota 3/	550.0	781.2	362.3	319.8	258.4	191.4	150.0	142.5
In percent of GDP	3.7	5.0	4.4	3.7	2.8	2.0	1.4	1.3
In percent of exports of goods and services	10.3	15.8	15.3	12.8	9.8	6.8	5.1	4.5
In percent of gross usable reserves	8.8	12.0	11.0	9.8	7.4	5.1	3.8	3.4
Obligations to the Fund from existing and prospective Fund arrangements	13.4	54.6	216.6	380.0	370.4	312.1	148.4	31.1
In percent of quota	7.8	32.0	63.1	110.7	108.0	91.0	43.2	9.1
In percent of GDP	0.1	0.2	0.8	1.3	1.2	0.9	0.4	0.1
In percent of exports of goods and services	0.1	0.5	2.2	3.7	3.4	2.7	1.2	0.2
In percent of gross usabel reserves	0.1	0.5	1.9	3.4	3.1	2.4	1.1	0.2

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

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

3/ 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: Capacity to Repay Indicators, 2014–21

	2015 Act.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Exposure and Repayments from Existing and Prospective Fund Arrangements							
GRA credit to Jordan	1,332.0	1,243.2	1,097.4	886.5	656.7	514.7	488.9
In percent of quota 1/	781.2	362.3	319.8	258.4	191.4	150.0	142.5
Debt service on GRA credit	54.6	216.6	380.0	370.4	312.1	148.4	31.1
Principal (repayments/repurchases)	32.0	191.8	351.7	348.1	298.4	142.1	25.7
Charges and interest	22.7	24.8	28.3	22.3	13.7	6.3	5.4
Debt and debt service ratios (In percent of GDP)							
Public and publicly-guaranteed debt	35.2	36.9	36.9	37.5	37.6	37.3	37.0
Excluding proposed IMF	30.2	32.5	33.2	34.7	35.6	35.9	35.7
GRA credit to Jordan	5.0	4.4	3.7	2.8	2.0	1.4	1.3
Public and publicly-guaranteed debt service	4.7	2.9	3.3	2.9	4.9	4.4	2.1
Excluding proposed IMF	4.5	2.2	2.0	1.7	4.0	4.0	2.0
GRA debt service	0.2	0.8	1.3	1.2	0.9	0.4	0.1
Debt and debt service ratios (In percent of exports of goods and services)							
Public and publicly-guaranteed debt	93.7	106.0	106.2	108.1	108.1	107.2	106.1
Excluding proposed IMF	80.5	93.4	95.6	100.0	102.5	103.1	102.4
GRA credit to Jordan	13.2	12.6	10.6	8.1	5.6	4.1	3.7
Public and publicly-guaranteed debt service	12.4	8.4	9.5	8.4	14.1	12.6	5.9
Excluding proposed IMF	11.9	6.2	5.8	5.0	11.5	11.4	5.7
GRA debt service	0.5	2.2	3.7	3.4	2.7	1.2	0.2

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 9. Jordan: Proposed Quantitative Performance Criteria and Indicative Targets, 2016–17 1/

	Jun-16	Aug-16	Sep-16	Dec-16	Mar-17	Jun-17
	Proj.	PC	Indicative target	PC	Indicative target	Indicative target
Performance Criteria						
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	412	721	730	1,040	168	172
Combined public deficit in JD million (flow, cumulative ceiling)	542	918	984	1,386	265	372
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,608	12,190	12,225	13,894	12,820	12,345
Ceiling on accumulation of external debt service arrears 2/	0	0	0	0	0	0
Indicative Targets						
Social spending by the central government in JD million (flow, cumulative floor)	870	1,160	1,305	1,740	460	920
Public debt in JD million (stock, ceiling) 3/	25,413	25,709	25,856	26,398	26,733	26,973
Short-term public debt in JD million (stock, ceiling) 4/	1,500	1,500	1,500	1,500	1,500	1,500
Accounts payable of the central government in JD million (stock, ceiling)	517	517	517	517	517	517
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 5/	0	0	0	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 6/	0	6	6	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-1,239	-763	-698	-1,893	-1,058	-503
Memo items for adjustors						
Foreign budgetary grants and loans received by the central government (JD millions, flow, cumulative)	345	526	616	2,191	145	223
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2015)	227	378	454	2,811	2,961	2,961
Disbursements under the EFF (JD millions, flow, cumulative from end-December 2015)	0	51	51	102	204	204
Cap for the downward adjustor on the NIR (USD millions)	600	600	600	900	1,200	1,200
Cap for the downward fiscal adjustor (JD millions)	40	60	60	80	20	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 10. Jordan: Program Modalities and Structural Benchmarks, 2016–17

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale
	I. Prior Actions		
1	Implement fiscal measures to stabilize public debt to GDP ratio in 2016 at about the ratio of 2015 (MEFP ¶6).		Help with fiscal consolidation and to stabilize public debt
2	Establish the Public Investment Management unit and adopt its action plan (MEFP ¶11).		Better management of public investment
3	Publish Consolidated Fiscal Accounts for 2015 (MEFP ¶11).		Improved transparency
4	Reorganize the Macro-Fiscal Unit of the Ministry of Finance (MEFP ¶11).		Improve Public Financial Management (PFM)
5	Prepare detailed quarterly financing plan for next 12 months in coordination with NEPCO and WAJ (MEFP ¶14).		Increase the average maturity of public debt and help ensure that future program targets on debt are met
6	Announce the government's commitment to maintain NEPCO at operational balance during the program period and over the medium term and to adopt by mid-December 2016, and start implementing on January 1, 2017, an automatic electricity tariff adjustment mechanism (MEFP ¶9).		Fiscal consolidation and sustainability of sector
	II. Structural Benchmarks		
Fiscal Framework and Management			
1	Comply with all requirements of Phase II of the Road Map for International Public Sector Accounting Standards (IPSAS) implementation for the 2015 financial statements (MEFP ¶12).	mid-November 2016	Improved PFM and transparency
2	Submit to Parliament a draft budget law for 2017 in line with program understandings and projections for 2017-19, including the estimates of tax expenditures (MEFP ¶7).	mid-November 2016	Fiscal consolidation and Improved transparency
3	Submit to Parliament a new tax exemptions framework to reduce general sales tax (GST) exemptions on domestic and imported goods and services, and exemptions on customs duties (MEFP ¶8).	mid-November 2016	Fiscal consolidation
4	Submit to Parliament a new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing) (MEFP ¶8).	end-December 2016	Fiscal consolidation and Equity
5	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 (MEFP ¶12).	end-February 2017	Improved transparency
6	Rationalize the general sales tax and customs duty systems, based on IMF technical assistance recommendations (MEFP ¶8).	end-March 2017	Improve revenue collection by streamlining exemptions while preserving competitiveness
7	Implement new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing) (MEFP ¶8).	end-March 2017	Fiscal consolidation and Equity
8	Submit to Parliament an Organic Budget Law (MEFP ¶12).	end-June 2017	Improved PFM and transparency

Table 10. Jordan: Program Modalities and Structural Benchmarks, 2016–17 (concluded)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale
Debt Management			
9	Publish public debt management strategy (MEFP ¶14).	end-September 2016	Enhance transparency, communication, and predictability
10	Approve an action plan to reorganize the Public Debt Directorate (MEFP ¶14).	end-December 2016	Strengthen the organizational framework for effective public debt management
11	Publish updated public debt management strategy (MEFP ¶14).	end-June 2017	Enhance transparency, communication, and predictability
12	Finalize the reorganization of the Public Debt Directorate (MEFP ¶14).	end-June 2017	Strengthen the organizational framework for effective public debt management
Water and Energy Sector			
13	Publish studies on cross-subsidization and options for price adjustments in response to oil price changes (MEFP ¶9).	end-September 2016	Improved energy conservation, better level-playing field for non-households while protecting the most vulnerable
14	Adopt an automatic electricity tariff adjustment mechanism, with effective implementation on January 1, 2017 (MEFP ¶9).	mid-December 2016	Fiscal consolidation and sustainability of sector
15	Submission to Cabinet and publication of an updated action plan on how to reduce the water sector's losses over the medium term (MEFP ¶9).	end-December 2016	Fiscal consolidation and sustainability of sector
Financial Sector and Access to Finance			
16	Implement a risk-based framework for offsite AML/CFT supervision for banks and money exchange firms in line with IMF TA recommendations (MEFP ¶18).	end-October 2016	Stronger supervision to improve the resilience of the financial sector
17	Submit to Parliament amendments to Deposit Insurance Corporate Law to ensure the establishment of a robust bank resolution framework (MEFP ¶17).	end-March 2017	Improving the resilience of the banking sector
18	Amend and enact the Insolvency Law (MEFP ¶21).	end-March 2017	Removal of obstacles to increase access to finance
19	Enact the Secured Lending Law (MEFP ¶21).	end-March 2017	Removal of obstacles to increase access to finance
20	Publish a study assessing the key issues and challenges to promote financial inclusion (MEFP ¶21).	end-March 2017	Financial Inclusion, growth and equity
21	Amend the Insurance law to allow for the transfer the supervision of the insurance sector to the CBJ (MEFP ¶19).	end-March 2017	Better supervision of the insurance sector
22	Transfer the supervision of the insurance sector to CBJ (MEFP ¶19).	end-September 2017	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
Business Environment			
23	Submit to Parliament a draft Inspection Law streamlining inspection mandates and processes (MEFP ¶20).	end-October 2016	Improve business environment
24	Address shortcomings in the Investment-Window procedures by automating and integrating the services provided by Jordan Investment Commission (MEFP ¶20).	end-June 2017	Improve business environment

Annex. Debt Sustainability Analyses

***Jordan's public debt is assessed as sustainable**, provided the authorities implement the key fiscal and structural reforms envisaged under the program, i.e., broadening the income tax base through an income tax law that reduces the exceptionally high personal income tax exemption threshold, and streamlining the general sales tax and customs duty exemptions. Total gross public debt has deteriorated owing to revenue slippages, spending overruns, and larger-than-expected repayment of arrears in 2015, as well as significantly larger-than-expected deficit of the Water Authority of Jordan (WAJ). As a result, and despite compensatory measures in 2016, public debt would peak at about 94 percent of GDP in 2016 and would start declining only in 2017. Under the program scenario, public debt projected for the medium term is about 77 percent of GDP. Gross financing needs (GFN) will also remain relatively large, peaking at about 27 percent of GDP in 2016 (reflecting the short maturity of domestic debt). In addition, Jordan's heat map and stress test scenarios continue to point to substantial vulnerabilities.*

***Jordan's public external debt is moderate and it expected to remain stable over the medium term, despite the new concessional loans under the Jordan Compact.** The external DSA does not point to any solvency concerns and external financing requirements are still elevated but gradually declining over the medium term. Public external debt, however, remains vulnerable to unfavorable current account and real exchange rate shocks.*

Jordan's private external debt—estimated at just about 30 percent of GDP—is moderate and slightly declining over the medium term.

1. **This appendix analyzes the sustainability of Jordan's public and external debt**. Section A provides an overview of the assumptions underpinning the macro framework. Section B discusses the realism of the macro assumptions. Section C considers public debt sustainability, examining the debt trajectory under the program baseline, and shock scenarios. Section D considers external debt sustainability. The analysis shows that continued fiscal consolidation and structural reforms will help reduce Jordan's public debt over the medium term and ensure that it is sustainable.

A. Assumptions

2. **Macroeconomic. Compared with the SBA** real GDP growth in 2016 has been revised down to about 2.8 percent because regional developments are adversely affecting export, tourism receipts, and investment. Growth is expected to increase to 3.3 percent in 2017 and converge to 4 percent over the medium term, from 4.5 percent in the last review of the SBA. This revision is based on a "frozen conflict" scenario, which assumes no significant improvement (or deterioration) in Syria and Iraq. The relaxation of the EU rules of origins for Jordanian product would provide some support to the growth recovery over the program period. Inflation (measured by the GDP deflator) is projected to decelerate to 2.2 percent in 2016, owing to lower oil and commodity prices, and to 2.5 percent over the medium term. The current account deficit (including grants) is expected to gradually decline from 9 percent of GDP in 2016 to just over 6 percent of GDP over the medium term. A gradual recovery in FDI inflows, the resumption of international market access by 2018, and the concessional financing envisaged under the Jordan Compact would help finance the current account deficit and maintain international reserves at an adequate level.

3. **Fiscal**. To reach the projected debt of about 77.3 percent of GDP over the medium-term, the combined public deficit is projected to decline from 5 percent of GDP in 2016 to about 0 in the medium term, reflecting the implementation of the income tax and tax exemptions reforms and the expectation that the electricity company NEPCO will reach operational cost recovery starting in 2016 while the water company WAJ will stabilize its primary deficit. To better help monitor the performance of WAJ, the *combined deficit* performance criteria has been adjusted to include WAJ's overall balance.

4. **Sovereign yields**. Despite some volatility in recent months, both external and domestic bond yields are expected to remain relatively low in 2016 and gradually increase thereafter reflecting the expected increase in global interest rates.[1]

5. **Maturity, rollover, and market access**. Jordan's domestic debt has relatively short maturities, with an average of less than two years. The medium-term projections assume a gradual lengthening of maturities as market access conditions improve. Jordan's external public debt profile is on the longer end, with maturity at issuance typically more than 5 years, which is assumed to continue in the medium term. The macroeconomic framework incorporates about US$2.0 billion in official bilateral loans including on concessional terms, and about US$1 billion in off budget grants under the Jordan Compact over the program period. The macro-framework also assumes gradual recovery in the participation of non-residents in the local debt markets and continuation of international market access, including an issuance of $0.7 billion international Eurobond in 2016. A dollar-denominated domestic Eurobond (US$650 million) maturing in August 2016 and guaranteed international Eurobonds maturing in the outer years are assumed to be rolled over on market terms expected to be prevailing at the respective due dates (the text table below shows the 2016 borrowing plan).[2]

[1] The projection does not include interest payments for pre-2013 debt issued to finance NEPCO and WAJ losses and debt to finance WAJ's losses in the medium term; these are paid directly by the utilities. These two factors underestimate the total interest bill.

[2] A US$500 million dollar-denominated domestic Eurobond that came due early this year was rolled over at favorable terms (5-year maturity and 3.2 percent coupon rate).

Jordan: 2016 Budget Needs and Borrowing Plan

Description	USD million	% of GDP
Borrowing needs (A1+A2)	**11,185**	**28.4**
A1. Overall deficit	**1,987**	**5.0**
CG overall deficit after grants	1,499	3.8
NEPCO deficit	-7	0.0
WAJ deficit	495	1.3
A2. Debt amortization	**9,198**	**23.3**
Central government	8,509	21.6
NEPCO	365	0.9
WAJ	324	0.8
Borrowing sources (B1+B2)	**11,185**	**28.4**
B1. Rollover in the domestic market	**8,333**	**21.1**
Domestic Treasury bills and bonds	6,494	16.5
Local bonds in USD	1,150	2.9
NEPCO debt	365	0.9
WAJ debt	324	0.8
B2. New issuance of domestic debt	**942**	**2.4**
B3. External budget support 1/	**1,909**	**4.8**
Multilateral loans	728	1.8
Bilateral loans	406	1.0
Non-guaranteed Eurobond	704	1.8
Project loans 2/	71	0.2

Sources: Jordanian authorities; and Fund staff calculations and estimates.
1/ Includes sources of financing accounted for above and below the line.
2/ Estimated external project loans to finance WAJ deficit.

B. Realism of Projections

6. **Growth and inflation**. Past projections of growth show relatively small forecast errors. The track record of the inflation projection shows positive forecast errors, with actual inflation being 2.2 percentage points higher than the forecast on average. The inflation forecast errors are expected to be small in the near future, given the downward revision of inflation projections for 2016 and the low likelihood of positive inflation surprises.

7. **Fiscal adjustment**. Although Jordan's 3-year average level of the cyclically-adjusted central government primary balance (CAPB) is generally in line with other countries, the maximum 3-year adjustment is in the top quartile of the distribution for program countries. Rather than signaling over-optimistic projections, this large adjustment reflects actual consolidation under the Stand-By Arrangement and, more recently, savings from lower oil prices.

C. Public Sector DSA

8. **The coverage of public debt in this DSA includes**: (i) central government direct debt; (ii) direct and government-guaranteed debt of public agencies (NEPCO, WAJ, and other public entities); (iii) off-budget project loans; and (iv) liabilities to the IMF.

9. **Baseline projections indicate that, with further fiscal consolidation, the debt ratio would fall to about 77 percent of GDP by 2021, above the SBA's target of about 70 percent of GDP**. Despite the substantial past and projected fiscal adjustment, the debt-to-GDP ratio will stabilize at about 94 percent of GDP only in 2017, reflecting the carry-over of the 2015 higher-than-expected debt, owing to revenue slippages, spending overruns, and one-off payments of arrears on land acquisition and other payables, as well as a deficit of WAJ that was larger-than-expected by 1 percentage point of GDP.

10. **The heat map and fan charts indicate that Jordan's public debt is subject to significant vulnerabilities**. 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 DSA benchmarks in both the baseline and shock scenarios. Risks are particularly acute in the near term, given the still elevated debt level and high gross financing needs that reflect the short maturities of Jordan's domestic debt. In fact, large rollover requirements drive gross financing needs to about 27 percent of GDP in 2016. However, gross financing needs are expected to decline in the medium term under the assumption that debt management and market access conditions improve, increasing the average maturity of newly issued domestic debt to over 3 years. Yet, gross financing needs are projected to remain above the high-risk benchmark of the MAC DSA, despite the fact that part of the Jordan Compact is funded by external loans on concessional terms.[3] The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an 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 some shocks are restricted to be negative to reflect downside risks to the

[3] The broad terms of these loans are close to IDA-only terms.

debt trajectory. In the asymmetric fan chart the debt outlook is skewed upward if these shocks materialize.

11. **Stress tests also point to a number of vulnerabilities, with the balance of risk heavily tilted to the downside.** The projected decline in public debt could be slower than projected if the GDP deflator (and hence nominal GDP growth) falls short of current forecasts. The debt dynamics is also vulnerable to lower growth and higher oil prices (40 percent higher compared to the baseline). Under a growth shock, entailing a cumulative growth decline of over 5 percentage points in 2017–18, public debt would near 100 percent in 2018. Debt and GFN trajectories are also very sensitive to the materialization of contingent liabilities, stemming for instance from a banking crisis. In the standardized contingent liability (CL) shock scenario (that assumes materialization of CL from banks equivalent to 10 percent of GDP in 2017) debt would increase to above 100 percent of GDP for several years. This impact could be mitigated by the fact that Jordan's banks are currently liquid and well capitalized. All shock scenarios point to risks stemming from high debt relative to the relatively low revenue base. Altogether, the stress test scenarios highlight the importance of structural reforms to boost growth, progress in the implementation of the medium-term energy strategy, as well as measures to strengthen revenue collection.

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 is moderate and projected to remain broadly stable, while external financing needs are still elevated but gradually decline over the medium term.** Public external debt is expected to remain in the range of 37–38 percent of GDP in the medium term and external financing requirements would peak in 2017 at about 14 percent of GDP, and then gradually decline thereafter. The elevated financing requirements in 2019–20 reflect amortizations of guaranteed Eurobonds coming due which are assumed to be rolled over on market terms prevailing at that time. Although the composition of public external debt remains favorable in the near term, including because of concessional bonds and loans under the Jordan Compact, it would gradually shift towards market financing over the medium term.

15. **Private external debt is expected to remain moderate at about 25–30 percent of GDP.** As of end-2015, over four fifths of private external debt was owed by banks 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 one third 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.[4]

16. **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.

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

Public Debt Sustainability Analysis

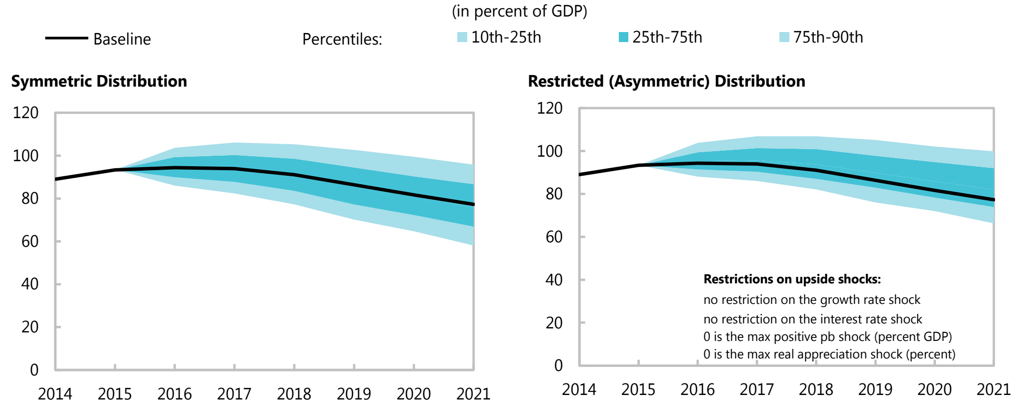
Jordan: Public DSA—Risk Assessment

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

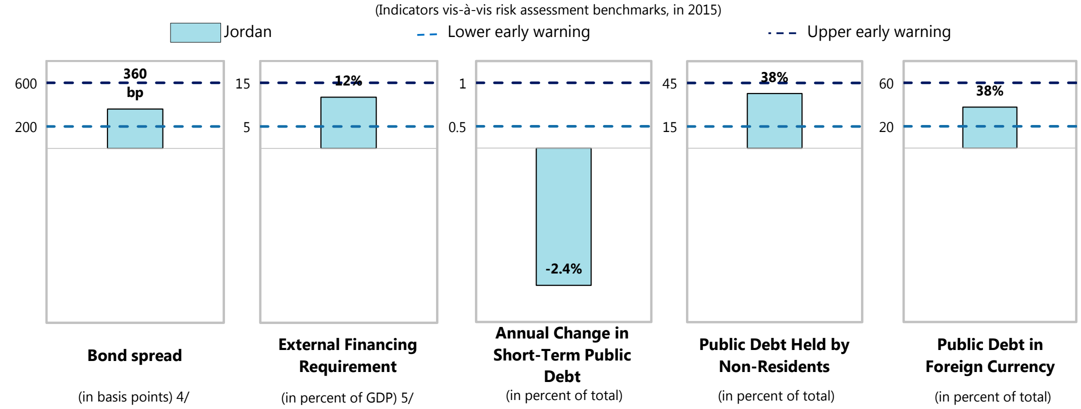
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

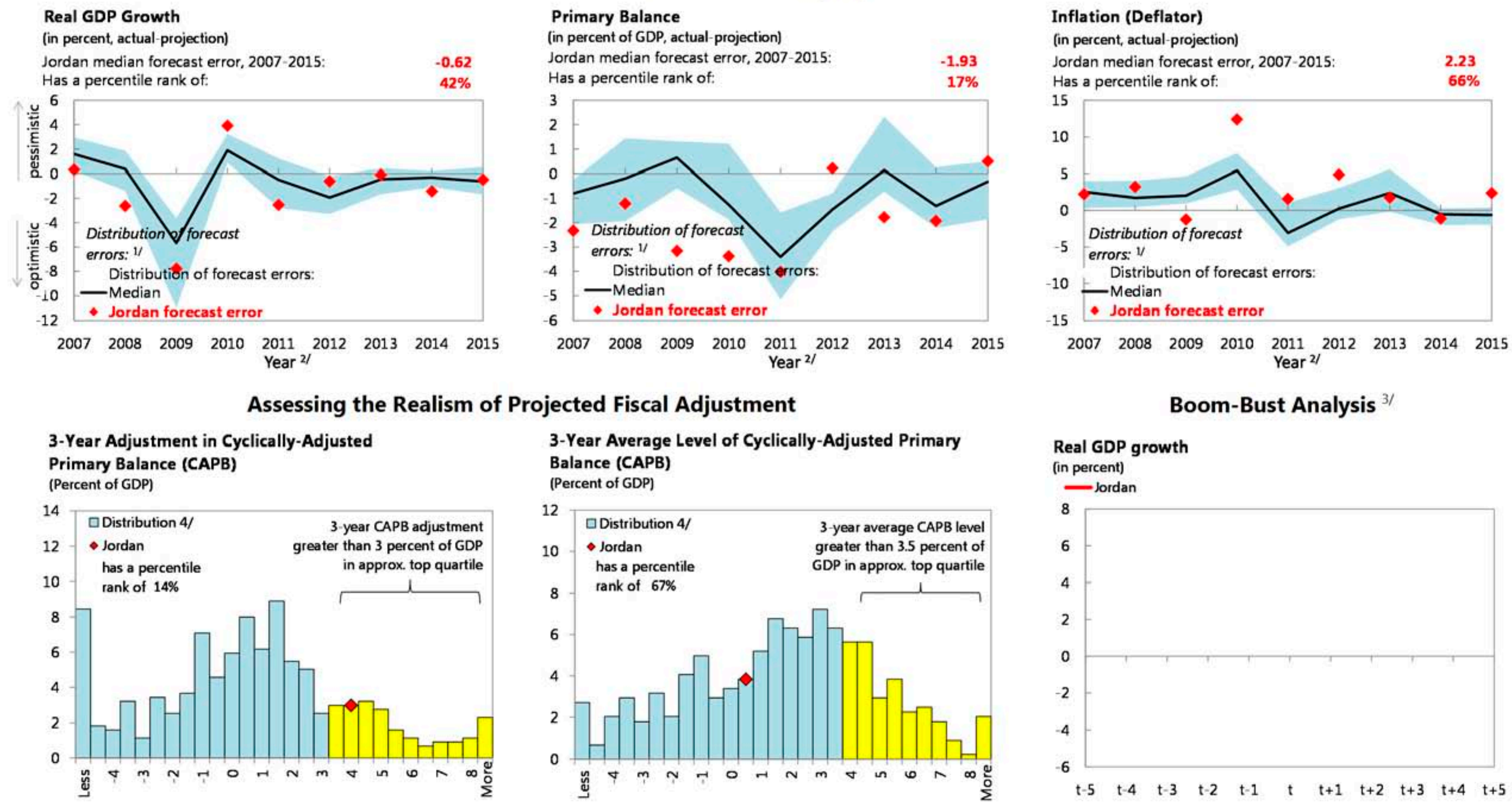
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 22-Mar-16 through 20-Jun-16.

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

Jordan: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus program countries



Source : IMF Staff.

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

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

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

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

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

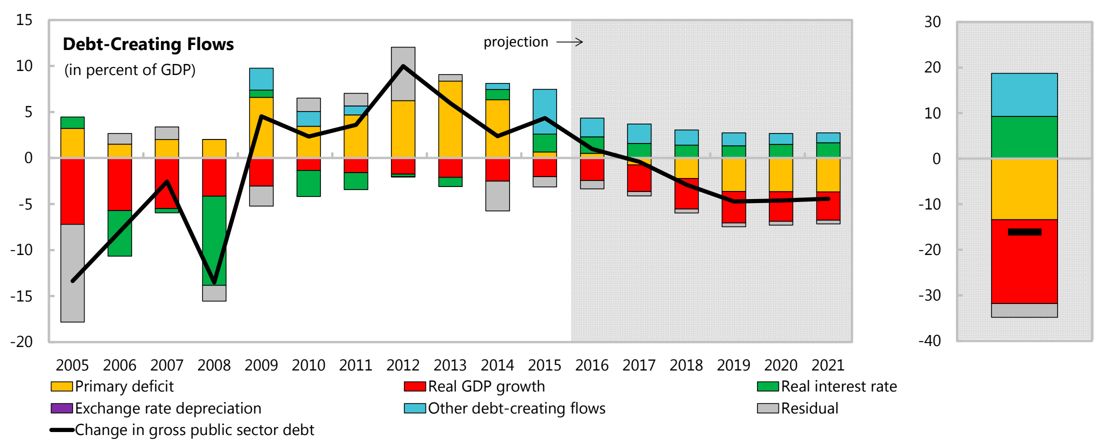
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual		Projections						As of June 20, 2016		
	2005–2014 [2/]	2015	2016	2017	2018	2019	2020	2021			
Nominal gross public debt	75.4	93.4	94.4	94.0	91.0	86.3	81.7	77.3	Sovereign Spreads		
Of which: guarantees	4.9	12.4	11.8	11.1	10.5	9.8	9.2	8.6	EMBIG (bp) 3/		384
Public gross financing needs	17.8	19.2	25.4	21.5	18.8	21.8	17.5	14.2	5Y CDS (bp)		360
Net public debt	69.1	85.8	87.1	87.1	84.6	80.3	76.0	71.9			
Real GDP growth (in percent)	5.1	2.4	2.8	3.3	3.7	4.0	4.0	4.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	6.9	2.3	2.2	2.3	2.5	2.5	2.5	2.5	Moody's	B1	B1
Nominal GDP growth (in percent)	12.3	4.7	5.0	5.7	6.3	6.6	6.6	6.6	S&Ps	BB-	BB-
Effective interest rate (in percent) [4/]	4.3	4.6	4.3	4.2	4.2	4.2	4.4	4.8	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual		Projections							
	2005–2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	-0.9	4.3	1.0	-0.4	-2.9	-4.7	-4.6	-4.4	-16.1	
Identified debt-creating flows	-0.3	5.5	1.9	0.1	-2.5	-4.3	-4.2	-4.0	-13.1	
Central government primary deficit [5/]	4.4	0.7	0.5	-0.7	-2.2	-3.6	-3.6	-3.7	-13.4	-0.3
Primary (noninterest) revenue and grants	28.1	25.0	25.8	27.7	29.3	30.4	30.2	30.2	173.8	
Primary (noninterest) expenditure	32.5	25.6	26.4	27.0	27.1	26.8	26.5	26.5	160.3	
Automatic debt dynamics [6/]	-5.3	-0.1	-0.7	-1.3	-1.9	-2.1	-1.8	-1.4	-9.1	
Interest rate/growth differential [7/]	-5.3	-0.1	-0.7	-1.3	-1.9	-2.1	-1.8	-1.4	-9.1	
Of which: real interest rate	-1.8	2.0	1.8	1.6	1.4	1.3	1.5	1.7	9.3	
Of which: real GDP growth	-3.5	-2.0	-2.4	-2.9	-3.3	-3.4	-3.2	-3.1	-18.4	
Exchange rate depreciation [8/]	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	4.9	2.0	2.1	1.6	1.4	1.2	1.1	9.4	
Privatization Receipts (negative)	0.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Use of Trust account surpluses to retire debt	0.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other flows (NEPCO, WAJ, project loans)	0.1	5.4	2.0	2.1	1.6	1.4	1.2	1.1	9.4	
Residual, including asset changes [9/]	-0.6	-1.1	-0.9	-0.5	-0.4	-0.4	-0.4	-0.4	-3.0	



Source: IMF staff.

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

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

5/ Includes grants, and until 2014 transfers to NEPCO and WAJ. NEPCO and WAJ losses and off-budget project loans are recorded below under "Other flows".

6/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

7/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

8/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

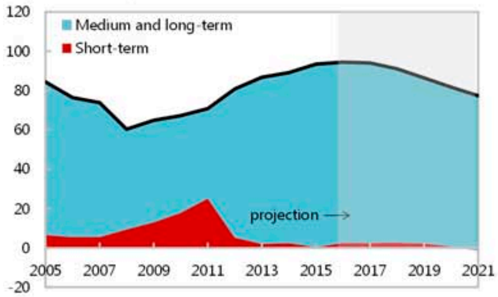
9/ Includes changes in the stock of guarantees, asset changes (including drawdowns of government deposits in 2016 and 2020), and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

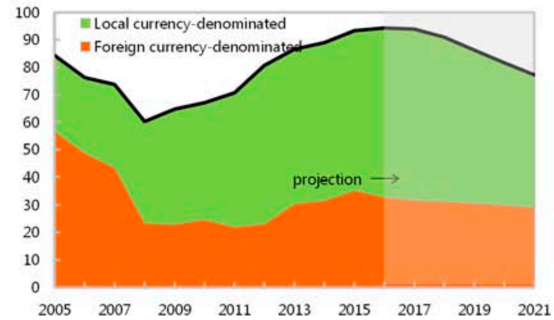
Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



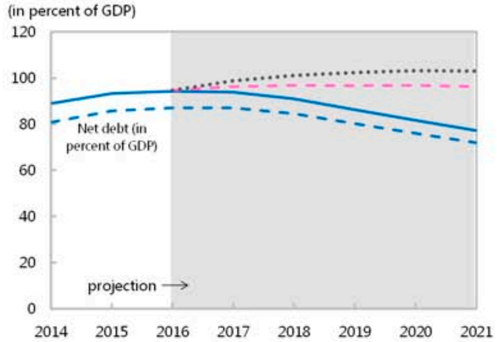
By Currency
(in percent of GDP)



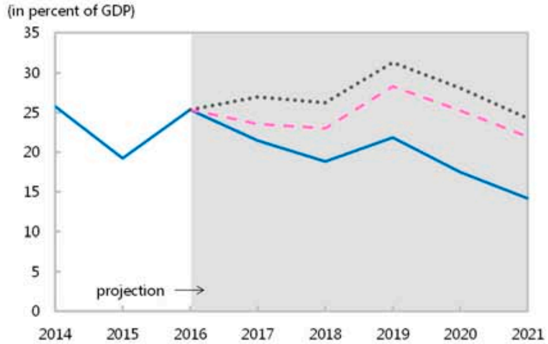
Alternative Scenarios

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)

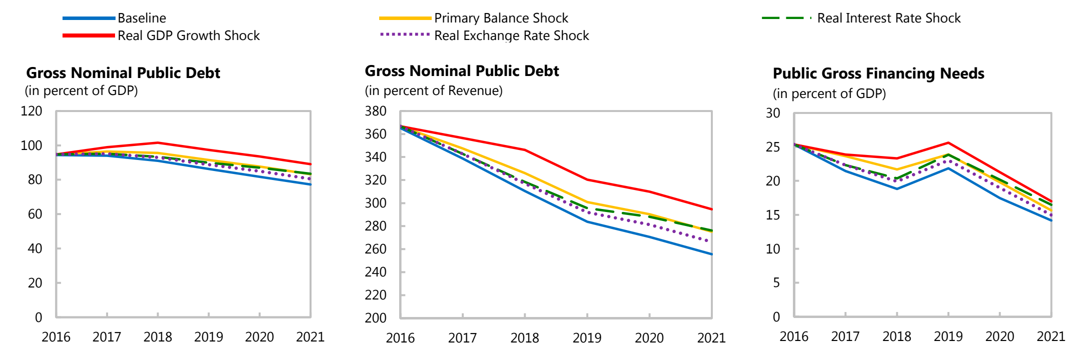
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.8	3.3	3.7	4.0	4.0	4.0
Inflation	2.2	2.3	2.5	2.5	2.5	2.5
Primary Balance	-0.5	0.7	2.2	3.6	3.6	3.7
Effective interest rate	4.3	4.2	4.2	4.2	4.4	4.8
Constant Primary Balance Scenario						
Real GDP growth	2.8	3.3	3.7	4.0	4.0	4.0
Inflation	2.2	2.3	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	4.3	5.2	5.1	4.9	5.4	4.7

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.8	4.5	4.5	4.5	4.5	4.5
Inflation	2.2	2.3	2.5	2.5	2.5	2.5
Primary Balance	-0.5	-4.2	-4.2	-4.2	-4.2	-4.2
Effective interest rate	4.3	5.2	3.8	2.8	2.6	1.6

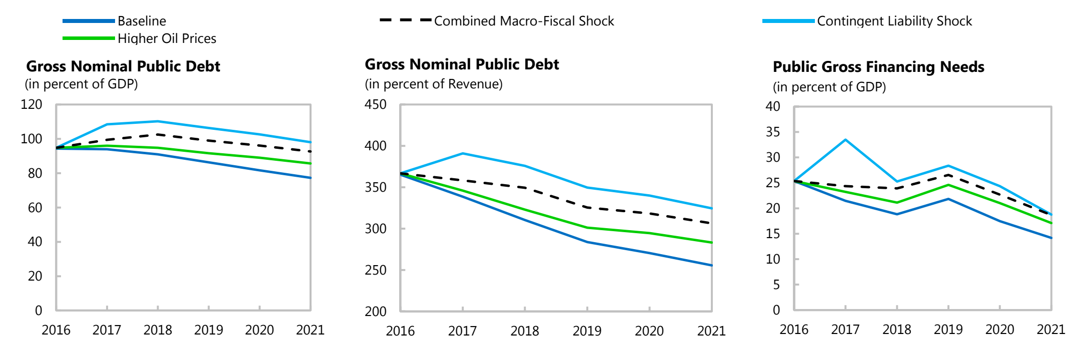
Source: IMF staff.

Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

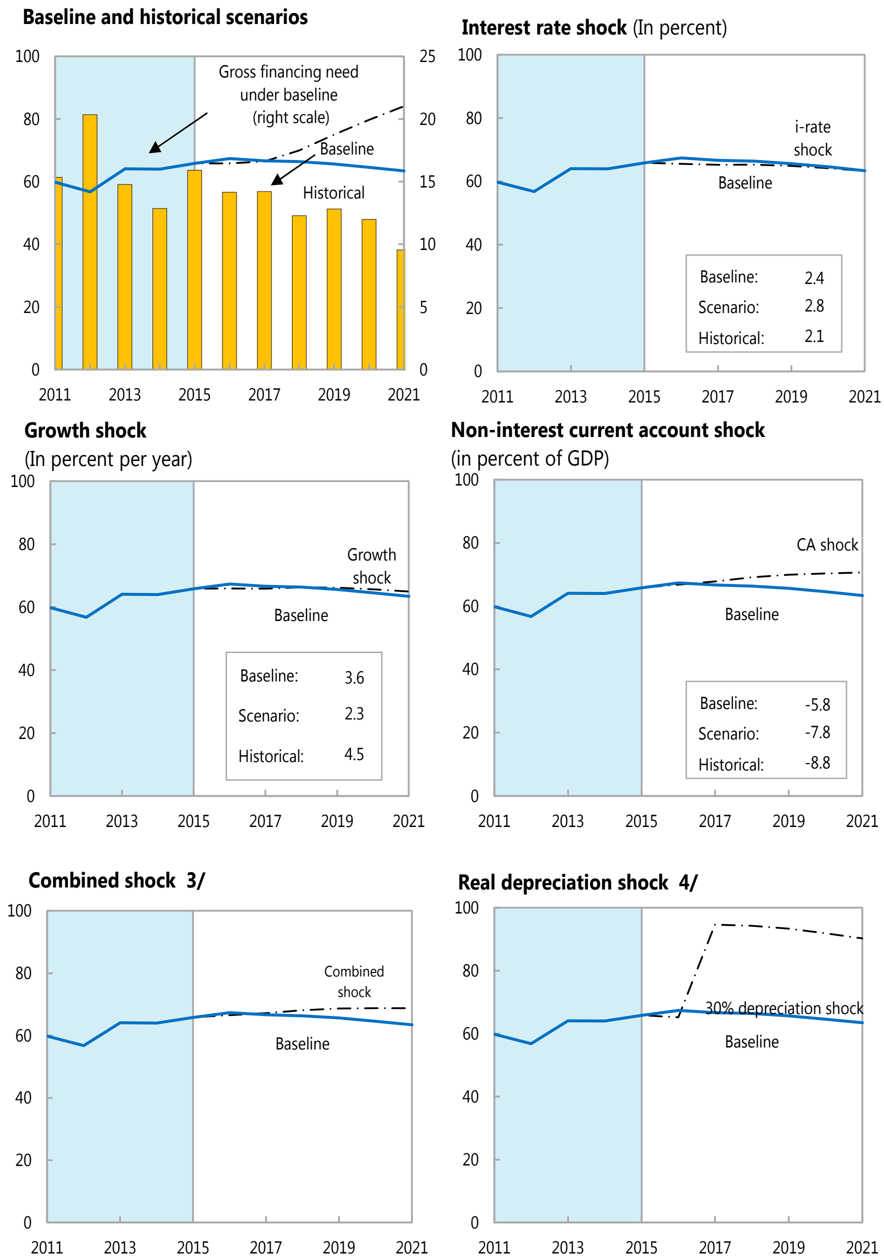
Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	2.8	3.3	3.7	4.0	4.0	4.0
Inflation	2.2	2.3	2.5	2.5	2.5	2.5
Primary balance	-0.5	-0.6	0.9	3.6	3.6	3.7
Effective interest rate	4.3	5.2	5.2	5.1	5.6	4.8
Real Interest Rate Shock						
Real GDP growth	2.8	3.3	3.7	4.0	4.0	4.0
Inflation	2.2	2.3	2.5	2.5	2.5	2.5
Primary balance	-0.5	0.7	2.2	3.6	3.6	3.7
Effective interest rate	4.3	5.2	5.7	5.9	6.8	6.2
Combined Shock						
Real GDP growth	2.8	0.8	1.3	4.0	4.0	4.0
Inflation	2.2	1.7	1.9	2.5	2.5	2.5
Primary balance	-0.5	-0.6	0.5	3.6	3.6	3.7
Effective interest rate	4.3	5.2	5.7	5.9	6.7	6.2

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	2.8	0.8	1.3	4.0	4.0	4.0
Inflation	2.2	1.7	1.9	2.5	2.5	2.5
Primary balance	-0.5	-0.1	0.5	3.6	3.6	3.7
Effective interest rate	4.3	5.2	5.2	5.1	5.6	4.8
Real Exchange Rate Shock						
Real GDP growth	2.8	3.3	3.7	4.0	4.0	4.0
Inflation	2.2	2.4	2.5	2.5	2.5	2.5
Primary balance	-0.5	0.7	2.2	3.6	3.6	3.7
Effective interest rate	4.3	5.2	5.2	5.0	5.5	4.8
Contingent Liability Shock						
Real GDP growth	2.8	0.8	1.3	4.0	4.0	4.0
Inflation	2.2	1.7	1.9	2.5	2.5	2.5
Primary balance	-0.5	-9.5	2.2	3.6	3.6	3.7
Effective interest rate	4.3	5.4	5.9	5.5	5.8	5.0

Source: IMF staff.

External Debt Sustainability Analysis

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



Sources: International Monetary Fund; country desk data; and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 1. Jordan: External Debt Sustainability Framework, 2011–21

(In percent of GDP, unless otherwise indicated)

	Actual 2011	2012	2013	2014	2015	10-Year Historical Average	10-Year Standard Deviation	Projections 2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 7/
1 **Baseline: External debt 1/**	59.8	56.8	64.0	64.0	65.8			**67.4**	**66.7**	**66.4**	**65.6**	**64.6**	**63.4**	**-7.7**
Of which: Public and Publicly Guaranteed External Debt	23.4	23.0	28.9	31.2	35.2			36.9	36.9	37.5	37.6	37.3	37.0	
2 Change in external debt	0.5	-3.0	7.3	-0.1	1.9			67.4	-0.7	-0.3	-0.7	-1.1	-1.2	
3 Identified external debt-creating flows (4+8+9)	-0.2	6.1	0.0	-2.5	2.4			3.9	2.6	0.2	-1.8	-1.9	-1.8	
4 Current account deficit, excluding interest payments	9.4	14.6	9.6	5.9	8.0			8.1	7.7	6.1	4.5	4.3	4.3	
5 Deficit in balance of goods and services	-121.5	-120.5	-114.5	-112.6	-97.7			-90.7	-89.2	-87.4	-86.0	-85.2	-84.6	
6 Exports	47.7	46.2	42.5	43.3	37.6			34.9	34.7	34.7	34.8	34.8	34.8	
7 Imports	-73.9	-74.3	-72.0	-69.3	-60.1			-55.8	-54.5	-52.7	-51.3	-50.4	-49.7	
8 Net non-debt creating capital inflows (negative)	-5.4	-5.0	-5.8	-5.3	-3.7			-4.2	-4.3	-4.9	-5.5	-5.7	-5.6	
9 Automatic debt dynamics 2/	-4.1	-3.4	-3.8	-3.0	-1.8			0.0	-0.8	-1.0	-0.8	-0.6	-0.5	
10 Contribution from nominal interest rate	0.8	0.7	0.7	0.9	1.1			0.0	1.3	1.4	1.7	1.8	1.9	
11 Contribution from real GDP growth	-1.4	-1.5	-1.5	-1.9	-1.5			0.0	-2.1	-2.4	-2.5	-2.5	-2.4	
12 Contribution from price and exchange rate changes 3/	-3.6	-2.6	-3.0	-2.1	-1.4			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	0.7	-9.2	7.3	2.4	-0.6			-2.4	-3.3	-0.5	1.0	0.9	0.6	
External debt-to-exports ratio (in percent)	125.5	122.8	150.7	147.6	175.2			193.3	191.9	191.5	188.8	185.4	182.0	
Gross external financing need (in billions of US dollars) 5/	4.4	6.3	5.0	4.6	6.0			5.6	5.9	5.4	6.1	6.0	5.1	
in percent of GDP	15.3	20.3	14.8	12.9	15.9			14.1	14.2	12.3	12.8	12.0	9.5	
Scenario with key variables at their historical averages 6/								**65.8**	**66.5**	**69.9**	**75.0**	**79.7**	**84.1**	**-6.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.6	2.7	2.8	3.1	2.4	4.5	2.5	2.8	3.3	3.7	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	6.4	4.5	5.6	3.4	2.3	6.9	5.2	2.2	2.3	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	1.5	1.2	1.3	1.6	1.7	2.1	1.0	1.6	2.0	2.2	2.7	3.0	3.2	
Growth of exports (US dollar terms, in percent)	7.8	4.1	-0.2	8.7	-9.2	8.6	14.4	-2.6	5.3	6.1	6.9	6.8	6.6	
Growth of imports (US dollar terms, in percent)	16.8	7.9	5.2	2.7	-9.1	7.3	11.8	-2.4	3.0	3.0	3.7	4.7	5.3	
Current account balance, excluding interest payments	-9.4	-14.6	-9.6	-5.9	-8.0	-8.8	3.3	-8.1	-7.7	-6.1	-4.5	-4.3	-4.3	
Net non-debt creating capital inflows	5.4	5.0	5.8	5.3	3.7	9.9	7.1	4.2	4.3	4.9	5.5	5.7	5.6	

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.

Table 2. Jordan: External Sustainability Framework—Gross External Financing Need, 2011–21

	Actual					Projections					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
I. Baseline Projections											
Gross external financing need in billions of U.S. dollars 1/	4.4	6.3	5.0	4.6	6.0	5.6	5.9	5.4	6.1	6.0	5.1
in percent of GDP	15.3	20.3	14.8	12.9	15.9	14.1	14.2	12.3	12.8	12.0	9.5
II. Stress Tests											
Gross external financing need in billions of U.S. dollars 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in -2019 3/						8.3	8.1	8.2	10.7	11.0	8.8
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						8.4	8.1	7.6	9.2	9.1	7.0
B2. Real GDP growth is at baseline minus one-half standard deviations						8.3	7.9	7.3	8.8	8.6	6.5
B3. Non-interest current account is at baseline minus one-half standard deviations						9.0	8.8	8.4	10.3	10.3	8.2
B4. Combination of B1-B3 using 1/4 standard deviation shocks						8.7	8.4	8.0	9.7	9.6	7.5
B5. One time 30 percent real depreciation in 0						8.3	8.0	7.4	8.9	8.7	6.7
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in -2019 3/						21.1	19.6	19.0	23.8	23.2	17.8
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						21.4	19.5	17.2	19.5	18.0	13.1
B2. Real GDP growth is at baseline minus one-half standard deviations						21.2	19.4	17.1	19.6	18.1	13.1
B3. Non-interest current account is at baseline minus one-half standard deviations						22.9	21.2	19.0	21.8	20.5	15.3
B4. Combination of B1-B4 using 1/4 standard deviation shocks						22.2	20.5	18.3	21.0	19.6	14.5
B5. One time 30 percent real depreciation in 0						21.0	28.2	24.6	27.8	25.6	18.5

1/ Defined as non-interest current account deficit, plus interest and amortization on medium- and long-term debt, plus short-term debt at end of previous period.
2/ Gross external financing under the stress-test scenarios is derived by assuming the same ratio of short-term to total debt as in the baseline scenario and the same average maturity on medium- and long term debt. Interest expenditures are derived by applying the respective interest rate to the previous period debt stock under each alternative scenario.
3/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
4/ The implied change in other key variables under this scenario is discussed in the text.

Appendix. Letter of Intent

Amman, July 26, 2016

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

Dear Ms. Lagarde:

Over the past few years, our economic program, supported by the IMF's Stand-By Arrangement (SBA), has allowed Jordan to significantly strengthen its fiscal and external positions in a very difficult regional environment. Our economy was hit by a series of external shocks, including the conflicts in Syria and Iraq and the resulting large inflow of refugees and the almost complete halt of gas supply from Egypt. Nonetheless, sound macroeconomic policies and bold public sector reforms—including abolishing the costly and inefficient general fuel subsidies—along with support from donors, enabled us to significantly reduce fiscal and external imbalances.

Although the SBA-supported program has come to an end, our reform agenda is not yet over. Further progress is needed to tackle Jordan's remaining challenges, notably those associated with the regional conflicts and the hosting of Syrian refugees, which have adversely affected exports, tourism, investment, the labor market, and strained further our limited resources. As a result, our economy has faced lower growth and employment, as well as higher public debt and the current account deficit. To address these challenges, the Government and the Central Bank of Jordan (CBJ) have developed a comprehensive medium-term economic program, underpinned by Jordan 2025, our ten-year framework for economic and social policies. Our program aims at preserving macroeconomic stability, strengthening our resilience and enhancing the conditions for more inclusive economic growth though sustained fiscal adjustment to reduce debt to safer levels, and structural reforms to boost jobs and growth, enhance competitiveness, and foster equity, fairness, and good governance. These reforms will also focus on protecting the most vulnerable segments of the population and in supporting Jordan's efforts in hosting the Syrian refugees, a global public good that Jordan is carrying out on behalf of the international community.

The full implementation of commitments made by the international community in Jordan Compact as part of outcomes of the London Conference in February this year and continued support from the donor community, particularly through grants and specifically additional budget support grants, will be key to assisting Jordan to shoulder the burden of hosting Syrian refugees and to our program's success. We request that the Fund provide such support through an arrangement under the Extended Fund Facility (EFF) for a period of 36 months in the amount of SDR 514.65 million (150 percent of quota). This arrangement, in conjunction with other official financing, will signal that

Jordan will continue to implement sound economic policies and overcome the challenges it now faces. We expect the arrangement to strengthen investor confidence, enhance the economy's resilience to shocks, and support growth and job creation.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the economic policies that the Government and the CBJ intend to implement under the EFF. As we did under the SBA, we plan to implement our program firmly, notwithstanding a difficult regional environment.

The implementation of our program will be monitored through semi-annual quantitative performance criteria and structural benchmarks and quarterly indicative targets, as described in the MEFP and in the attached Technical Memorandum of Understanding (TMU). There will be six semi-annual reviews by the Fund of the arrangement to assess progress in implementing the program and reach understandings on any additional measures that may be needed to achieve its objectives. The Government and the CBJ will provide the Fund with the data and information necessary to monitor performance under the program, including those specified in the TMU.

We believe that the policies set forth in the attached memorandum 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 recognize the importance of completing a safeguards assessment by the first review of the EFF. In this regard, we have provided the necessary documentation and will receive a safeguards mission from the IMF as necessary.

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

Sincerely,

/s/	/s/
Omar Malhas	Ziad Fariz
Minister of Finance	Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

Jordan made considerable progress over the past few years in strengthening its fiscal and external positions, despite a very difficult regional environment. At the same time, and owing in a large part to this very adverse environment, significant challenges remain, including low growth and employment, high public debt and fiscal deficit, and a large current account deficit. Our economic program for the next three years, as described in this memorandum, underpinned by our ten-year framework for economic and social policies (Vision 2025), aims at tackling these challenges by preserving macroeconomic stability through structural reforms to boost jobs and growth, enhance competitiveness, and foster equity, fairness, and good governance and through gradual and steady fiscal consolidation to bring public debt to lower levels. With the implementation of the Jordan Compact, continued support from donors, particularly through grants, will be critical to the success of our program and to help us cope with the humanitarian needs emanating from the regional conflicts and the Syrian refugee crisis.

BACKGROUND

1. **Under our program of economic policies supported by the three-year Stand-By Arrangement (SBA) completed in August 2015, Jordan made substantial progress in strengthening its fiscal and external positions despite a very difficult regional environment.** The conflicts in Iraq and Syria, along with large shortfalls in the supply of below-market-priced gas from Egypt, were major shocks to the economy. Nevertheless, the economy continued to grow, thanks partly to a supportive monetary policy and the decline in oil prices. We also achieved a large fiscal adjustment, including through the implementation of ambitious fuel subsidy and electricity sector reforms that preserved macroeconomic stability and overall confidence. One result of these efforts was the pickup in gross international reserves to over 8½ months of imports as of end-2015 (from only 3 months at end-2012).

Notwithstanding these efforts and this progress, significant challenges remain:

- **As a result of repeated external shocks, growth has been underperforming in recent years, contributing to an increase in unemployment.** With regional conflicts undermining investor sentiment, tourism, and trade flows, growth averaged only 2¾ percent per year from 2011–15, less than half of the average of the decade leading to the global financial crisis and well below what is required to meet job creation needs. Unemployment increased to 14.6 percent in the first quarter of this year, its highest level in at least 10 years, with female unemployment reaching 23.7 percent and youth unemployment 35.3 percent.

- **While lower oil prices have provided temporary relief since late 2014, the external current account deficit remains high.** This also reflects to a large extent the impact of regional conflicts, including on exports (which were hurt by the closure of the borders with Syria and Iraq) and on travel and transportation receipts. While the decline in oil prices has resulted in a significant decline in the value of energy imports, it has also contributed to a decline in inflows from the GCC countries, including in remittances, exports, and tourism receipts.

- **Hampered by external shocks, the 2015 fiscal adjustment was smaller than planned, delaying the stabilization of public debt.** Excluding one-off factors (payments of arrears on land acquisition and other payables), the combined public deficit declined from 9.2 percent of GDP in 2014 to 5.0 percent of GDP in 2015, compared with an SBA projection of 3.5 percent of GDP. The 2015 primary budget deficit exceeded SBA projections by about 2 percent of GDP (excluding one-offs). This reflected primarily revenue shortfalls, stemming mainly from lower nominal growth and by the decline in GST revenues due to lower oil prices. On the upside, the electricity company NEPCO's operational losses were limited to 0.9 percent of GDP, about 0.6 percent of GDP less than projected under the SBA, owing mainly to lower oil prices and to a new transit fee charged by NEPCO on its re-exports of liquefied natural gas (LNG) to Egypt. Public debt increased to 93.4 percent of GDP at end-2015 (from 89 percent of GDP at end-2014).

- **We expect the regional environment to continue to weigh on the economy over the medium term.** The hosting of Syrian refugees continues to be a substantial burden for our public finances. The Syrian and Iraq conflicts have yet to show significant signs of abating and are expected to continue affecting Jordan's external position and public finances, as well as private investment prospects. While the expected reopening of the trade route with Iraq and the recent signing of the Cooperation Agreement with Saudi Arabia bode well for the outlook, the regional situation, along with the deterioration in the GCC economic outlook, continue to present significant challenges to the attainment of our program's objectives.

PROGRAM OBJECTIVES AND OUTLOOK

2. **Our economic program seeks to preserve macroeconomic stability and advance reforms to enhance the prospects for higher and more inclusive growth.** Anchored by the first three-year implementation plan for Vision 2025, the program aims to address Jordan's main economic challenges of high public debt and fiscal deficit, while simultaneously advancing reforms that stimulate growth and employment. It will notably rely on:

- An ambitious structural reform agenda focused on enhancing the business environment, competitiveness, and the depth and resilience of the financial sector, promoting greater labor force participation and employment, particularly for the young and women, preserving adequate social spending, and promoting good governance.

- Fiscal and monetary policies geared toward reducing fiscal and external vulnerabilities, while supporting conditions for continued growth and employment.

3. **We are confident that our policies and reforms will be conducive to improving the outlook over the medium term despite the very difficult regional context:**

- With the expectation that the regional context will remain broadly unchanged, real GDP growth is projected to reach 2.8 percent in 2016 and gradually increase toward 4 percent over the medium term. The sharp decline in oil prices since 2014, along with an accommodative monetary policy, which has facilitated a rebound in credit to the economy, have supported growth over the past year. In addition, the implementation of investment projects under the Jordan Response Plan (JRP), the expected relaxation of the EU rules of origin for Jordanian exports (including for manufactured products), and greater foreign direct investment (including on renewable energy and water), along with reforms to simplify the business environment and to enhance access to finance, should provide considerable stimulus to the economy over the years ahead. Our expectations regarding growth are conservative in light of the regional context and we see a strong upside to confidence and growth were such conflicts to abate.

- We envisage that inflation will remain subdued. With gradual acceleration in growth and subsiding impact of the fall in oil prices, inflation would gradually increase, to about 1¼ percent y-o-y in 2016 and to 2½ percent over the medium term.

- Reflecting in part the large needs of the refugee population, the current account deficit (excluding grants) is projected to remain large. We expect that it will narrow gradually to under 9 percent of GDP over the medium term, mostly on account of continued fiscal consolidation and a gradual pickup in exports, tourism receipts, and remittances, as exports benefit from the relaxation of the EU rules of origin and demand from GCC countries recovers along with oil prices. The capital account would improve in the outer years, with structural reforms boosting confidence and direct investment. Reserves would stabilize at about 125 percent of the IMF's reserve adequacy metric.

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY

Our fiscal and monetary policies will aim at safeguarding macroeconomic stability through reducing fiscal and external vulnerabilities in an equitable and inclusive way. A gradual, equity-enhancing budget adjustment and measures to maintain NEPCO's operational balance and reduce the Water Authority of Jordan's (WAJ) overall deficit will help to put debt on a downward path while preserving space for social spending. Anchored by the exchange rate peg, monetary policy will continue to focus on preserving adequate reserves.

A. Fiscal Policy

4. **Fiscal policy will balance the need to reduce public debt with inclusive growth considerations.** Our fiscal consolidation strategy will be implemented gradually, with the aim of limiting the increase in public debt to about half a percentage point of GDP in 2016, before adopting additional measures of 4½ percent of GDP through 2019 to steadily bring public debt down to 77 percent of GDP over the medium term. To do so, we intend to improve fiscal management and address long-standing challenges regarding tax policy and administration to increase revenues while also leveling the playing field for investment and enhancing fairness and transparency. Specifically, a new framework will be implemented to streamline the general sales tax (GST) and custom duties exemptions, while amendments to the income tax law will be sought to broaden the tax base, including by lowering the personal income tax threshold and introducing a minimum income tax, and enhance its progressivity by changing its rates and taxing fully capital gains. Public financial management reforms will enhance fiscal transparency and contribute to a

more efficient selection, monitoring, and implementation of investment projects. Several reforms will aim at strengthening our debt management capacity, improving our public debt profile, and reducing rollover risks within a medium-term strategy.

5. **With the implementation of the Jordan Compact, continued support from donors, in particular through grants, will be key to the success of our program.** The Compact, which was adopted at the London Conference in February 2016, comprises three main components: (i) grants to finance the projects identified in the JRP, both to cover the humanitarian needs of the Syrian refugees and strengthen the resilience of the hosting communities by re-establishing the quality of public services; (ii) the promotion of job creation for Jordanians and Syrians in Special Economic Zones, including through the relaxation of the European Union (EU) rules of origin for Jordanian exports; and (iii) grants and concessional financing to support the macroeconomic framework and address Jordan's financing needs. The disbursement of the financial support pledged at the conference, in particular in the form of budgetary grants, will therefore be critical to help us cope with the humanitarian needs emanating from the regional conflicts but also to help us meet our fiscal consolidation and public debt reduction objectives under the program.

Central Government

6. **We will adopt fiscal measures to help ensure that public debt does not exceed 94 percent of GDP at end-2016 (prior action).** These measures (see table) will help reduce the central government primary deficit (excluding grants and transfers to NEPCO and WAJ) to 3.7 percent of GDP in 2016, while providing for an increase in capital spending and for a gradual clearance of energy arrears. To provide sufficient time for an audit of existing health arrears and for the adoption of reforms to avoid their recurrence, we have postponed starting reimbursements to 2017. The reduction of the budget deficit, along with NEPCO's return to operational cost recovery and the stabilization of WAJ's primary balance, will help ensure that public debt increases only slightly in 2016, to 94 percent of GDP, from 93.4 percent at end-2015. In addition, we have also decided to reverse the reduction in fees and taxes on land purchases that was made in June 2016. We expect this temporary reduction to have had no significant impact on our targeted revenues and deficit.

Fiscal Measures, 2016				
	2016 impact		Annual impact	
	JD	% of GDP	JD	% of GDP
Measures to close the 2016 fiscal gap				
Tax revenue (permanent)	**103.9**	**0.4**	**207.8**	**0.7**
Increase cigarettes price by JD 0.05/packet	15.8	0.1	31.5	0.1
Increase cigarettes price by JD 0.1/packet in Aqaba zone	3.8	0.0	7.5	0.0
Increase diesel, kerosene and gasoline prices by JD 0.025/liter	52.8	0.2	105.6	0.4
Increase general sales tax on wine and spirit	3.6	0.0	7.2	0.0
Removal of 2015 GST exemptions (clothes, shoes, watches, jewelery, etc.)	28.0	0.1	56.0	0.2
Non tax revenue (permanent)	**50.3**	**0.2**	**100.6**	**0.4**
Extra fee for "transfer of titles" on used vehicles	35.7	0.1	71.3	0.3
Reduce depreciation allowance on used imported cars	14.7	0.1	29.3	0.1
Savings on Current Spending (one-off)	**69.0**	**0.2**	**69.0**	**0.2**
TOTAL	**223.2**	**0.8**	**377.4**	**1.3**
One-off revenue used to retire public debt in 2016				
Sale of seized assets	25.0	0.1		
Phosphate royalty arrears	7.0	0.0		
Minsitry of energy's financial surplus	40.0	0.1		
Telecommunication commission	25.0	0.1		
Emplyment and vocational training	15.0	0.1		
TOTAL	**112.0**	**0.4**		

7. **The 2017 budget will aim at putting public debt firmly on a downward path, especially through the implementation of a new regime for tax expenditures/exemptions**. We intend to reduce the central government's primary deficit from 3¾ percent of GDP in 2016 to about 2½ percent of GDP, while allowing for a further increase in capital spending and increasing budget appropriations to reduce fuel and health arrears. To that end, we will submit to parliament by mid-November (benchmark) a draft budget law for 2017, which will include about 1½ percent of GDP in fiscal measures, including significantly through a reduction of GST and custom duties exemptions. To better inform budget decisions and enhance transparency, this draft budget law will include detailed estimates of tax expenditures.

8. **Over the medium term, fiscal consolidation will focus on equity-enhancing tax reform and streamlining current expenditure:**

- On the revenue side, we will further streamline tax exemptions and broaden the income tax base, which will both contribute to a more progressive tax system. We expect these two reforms to help close most of the fiscal gap under the program.
    - We will undertake an exhaustive review of the tax and customs duty exemptions system, with a view to establishing a more streamlined, efficient, and transparent regime under the authority of the Minister of Finance. We will consider keeping only those incentives that can contribute in a cost-effective and efficient manner to the promotion of investment. As a first step, and based on IMF technical assistance (TA) recommendations, we will submit to

parliament by mid-November a new exemptions framework for the GST and custom duties (benchmark), which will start being implemented by end-March 2017 (benchmark).

  - We will submit to parliament by end-December 2016 amendments to the income tax law (benchmark), which will: i) reduce significantly the personal income tax minimum threshold, in line with international standards; ii) broaden the tax base; iii) harmonize rates; iv) strengthen the framework for transfer pricing; and v) establish a minimum corporate tax to fight tax evasion. We expect this law to be implemented in the first quarter of 2017 (benchmark) and to become effective in 2018.

- We will continue to maintain a prudent expenditure policy, streamlining non-priority current spending while prioritizing social and capital spending and the clearance of fuel and heath arrears and accommodating the continued pressures from Syrian refugees. We will continue to keep the growth of the public sector wage bill close to the rate of inflation and to better target transfers. Specifically, we will keep the nominal growth of the wage bill at no more than 1½ percent a year from 2017–19. To preserve the quality of health care services and the sustainability of providing them free to the most vulnerable, we will reduce the stock of health arrears, allocate appropriate budget to the health funds and undertake reforms aiming at fighting abuse through better oversight, auditing, and targeting. To improve the targeting of safety net programs, we will, with the support of the World Bank, establish an automated data exchange between the National Aid Fund (NAF) and a selected number of public agencies as data provider. This would facilitate data sharing for the eligibility verification and enrollment processes of NAF. Later on, once the demonstration with NAF is successful, other agencies could be connected to the same system both as data providers and as beneficiaries. Consistent with our commitment to give it high priority, our program will include a floor on social spending, primarily targeted at illness and disability, old age, family and children, housing, and research and development in the field of social protection.

- **Would additional financing become available under the Jordan Compact, we will consult with the Fund on how to accommodate it under the program.** If grants and/or concessional financing in excess of what is currently projected become available, we will assess projects under the new public investment framework, including through a cost-benefit analysis and assessment of potential contingent liabilities with a view to implementing only those carrying a high social rate of return. We will also consider the implications on debt sustainability, based on the terms of the financing.

Public Utilities—Energy and Water

9. **We have made great strides toward returning utilities to cost recovery under difficult conditions.**

- **Electricity**. NEPCO's operating balance has improved from a deficit of 4.6 percent of GDP in 2014 to 0.9 percent of GDP in 2015, with balance projected for 2016. Much of this progress owes to the implementation of our medium-term strategy, relying on the reduction of costs—

including through switching the primary source of energy from fuel to LNG and to renewables, other efficiency improvements, an average tariff increase of 3.2 percent, while exempting the most vulnerable households. This strategy, along with the decline in oil prices and the introduction of fee revenues charged for re-exporting LNG from the Aqaba terminal to Egypt, has allowed NEPCO to reach operational cost recovery since the second half of 2015 and to maintain it in early 2016 despite the introduction of the new tax on NEPCO's consumption of LNG. Looking ahead, our objective is to ensure that NEPCO maintains operational cost recovery. To do so, we will:

- Continue to implement our strategy, with a particular focus on diversifying our energy mix further toward cheaper sources, including by a higher reliance on renewables, and possibly on gas imported from the Mediterranean;

- Conduct studies on the electricity tariff structure. These studies would help identify options for reducing cross-subsidization (while maintaining revenue) and for implementing an automatic tariff adjustment mechanism that shelters NEPCO's finances from changes in oil prices, while continuing to protect the most vulnerable. We intend to publish these studies by end-September 2016 (benchmark) and, based on their findings, to adopt by mid-December 2016 a new automatic tariff adjustment mechanism (benchmark). We will start implementing this new mechanism on January 1, 2017, and begin to adjust tariffs by the amount necessary to preserve NEPCO's operational balance in 2017. We will announce by end-June 2016 (prior action) our commitment to ensure NEPCO's operational balance during the program period (2016-19) and over the medium term as well as our commitment to adopt an automatic tariff adjustment mechanism by mid-December 2016 and implement it starting January 1, 2017.

- Prepare, with TA from the World Bank, a financial plan to reduce NEPCO's debt and assess its overall financial standing, consistent with our new public debt management strategy (see ¶14).

- **Water.** Our medium-term strategy will focus on bringing WAJ to operational balance by 2020 and on increasing the share of foreign grants and concessional loans in the financing of its capital expenditures. So as to better recognize and more transparently reflect the sector's structural financing needs and their impact on public debt, from 2017 onward WAJ's capital expenditures will be financed by the central government. In light of the recent increase in oil prices, the additional demand from Syrian refugees, and NEPCO's commitment to maintain operational cost recovery through its pricing mechanism, the Ministry of Water will update its medium-term action plan ("Action Plan to Reduce Water losses") and align it with these objectives. This strategy, which we will submit to Cabinet and publish by end-December (benchmark), will continue to rely on: i) cost savings from better energy efficiency and lower system losses; ii) higher revenues through improved collection, and some fee and tariff increases while continuing to protect vulnerable households.[1] We will also sustain efforts to diversify Jordan's water resources and to introduce renewable energy into the sector. New water sources from the augmentation of existing aquifers, dams, and desalinization plants, and the development of new ones, including the Red Sea Dead Sea Water Conveyance Project, will help to deal with the increase in the costs of extracting water from existing sources, which has been aggravated by the additional demand from Syrian refugees. The introduction of renewable energies will reduce WAJ's energy costs and help to shelter its finances from oil price fluctuations. We will develop by end-September a debt strategy and a borrowing plan to help the WAJ manage its debt (of 5.3 percent of GDP at end-2015), along with an investment plan to improve the access to and quality of water services while safeguarding water security.

Public Sector

10. **We will also limit the potential fiscal costs related to Royal Jordanian and the new decentralization law:**

- As the majority shareholder of Royal Jordanian, we will monitor closely the implementation of its medium-term restructuring plan. So as to give the company sufficient time to show potential investors that the operational part of the restructuring is on track, the second phase of the recapitalization will take place in 2018 at the earliest. In the meantime, and with a view to reducing our participation to a minority stake, we will continue to seek private sector interest in the recapitalization of Royal Jordanian, both from existing shareholders and from potential new investors.

- We will ensure, that, once adopted, the decentralization law does not result in additional fiscal costs, and that: (i) responsibilities are clearly assigned, to avoid duplication or lack of accountability as well as possible excessive expectations and spending pressures; (ii) transfers of responsibilities go hand-in-hand with financing in the form of central government transfers or ideally own revenue (without further complicating the tax system); (iii) excessive borrowing by governorates is avoided; and (iv) any fiscal costs stemming from the creation of new committees will be offset by cost savings.

Structural Fiscal Reforms

11. **Measures to strengthen public financial management will improve the managing of fiscal risks and the monitoring of the government's underlying fiscal position**. In this regard, the recent reconfiguration of the Government Financial Management Information System will help monitor arrears, including in the health sector. We will adopt by end-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 for making it gradually operational through the recruitment of key staff, including personnel from other ministries (prior action). We will then start, in close cooperation with the World Bank and USAID, implementing this plan and building capacity

[1] Water tariffs for house connections were increased in January 2016 (with revenue of about 0.1 percent of GDP).

for managing all investments according to standards set by the new PIM framework. By end-June, we will also take steps to reorganize the macro-fiscal unit, starting with the nomination of a new director (prior action), and publish the consolidated fiscal accounts (covering the central government, independent own budget institutions, and NEPCO and WAJ) for 2015 (prior action).

12. **Reforms will also aim at strengthening the public financial management framework and fiscal transparency.**

- To support the PIM framework and its action plan, we will prepare in close consultation with the IMF and the World Bank a draft Organic Budget Law (OBL) that we will submit to parliament by end-June 2017 (benchmark). 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 the 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.

- To enhance fiscal transparency, we will comply by mid-November 2016 with all the requirements of the second phase of the International Public Sector Accounting Standards (IPSAS) implementation roadmap (adopted in 2014) for the 2015 government financial statements (benchmark). To this end, we will (i) prepare a cash flow statement for the year 2015, consistent with the prototype 2014 cash flow statement presented in Annex I of the January 2015 TA report; and (ii) conduct a review (by the audit bureau) of the compliance of the cash flow statement with the cash-based IPSAS requirements.

- We will also record by end-February 2017, the trust accounts' entries as revenue and expenditure, classify the accounts by purpose and use, and consolidate them into the fiscal tables published in the government finance bulletin, starting in February 2017 (benchmark). More specifically, we will (i) create a separate organizational unit for fiscal reporting; (ii) transform available accounting data for all budget accounts and trust accounts of general government units into government finance statistics categories; and (iii) aggregate and consolidate the budget accounts with the corresponding trust accounts. 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.

- Working with the IMF Fiscal Affairs Department, we will conduct an assessment of tax expenditures, which will build on the findings of the 2013 USAID report while reflecting the latest data and recent additional tax expenditures, including those resulting from the broadening of tax incentives under the new investment law and from the recently approved tax incentives. We will attach the results to the 2017 draft budget law that we will submit to parliament by mid-November 2016 (¶8).

13. **Tax administration reforms will help to strengthen compliance, streamline procedures, and enhance fairness.**

- To strengthen the GST compliance management framework, the income and sales tax department (ISTD) will seek to address issues related to the taxpayer registry, including by establishing a collaborative stakeholders' working group to design the legislative change necessary to streamline procedures for winding up inactive entities in the taxpayer registry. The presence of a large numbers of inactive companies in the register reflects weaknesses in the current legal and regulatory framework, including long lead times for deregistration (24 months in many cases) and requirements for obtaining court orders for formal liquidation processes.

- We will also prepare by end-September 2016, an action plan to start tackling the other tax administration weaknesses identified in the IMF's recent Tax Administration Diagnosis and Assessment Tool (TADAT) evaluation. We will notably address the lack of strategic approach to compliance risk management, the high rate of tax arrears, low rate of use of e-services, inefficiency of the GST refund payment system, and the lack of a formalized tax ruling system.

14. **We will enhance the quality, planning, and effectiveness of debt management of the central government and its agencies, including NEPCO and WAJ.** We have already published the central government indicative bond issuance plan for 2016. To further enhance transparency, communication, and predictability, we started in January 2016 to publish regularly auction calendars, and together with NEPCO and WAJ, will prepare a quarterly financing plan for the following 12 months from end-June 2016 (prior action), taking into account the total financing needs of the central government and these agencies. This plan will be anchored by our debt management strategy, including by ensuring that the issuance schedules of the central government and of the public agencies are coordinated in a way that improves borrowing terms overall. By implementing this coherent borrowing plan, we aim at lengthening the domestic debt average maturity, improving the debt profile of the central government and its agencies, and reducing total public debt over the medium term. We will also, in coordination with the IMF and the World Bank and with the assistance of a U.S. Treasury TA mission, conduct a medium-term debt management strategy (MTDS) analysis and, based on its findings, prepare and publish our debt management strategy for 2016–21 and covering the central government and its agencies by end-September (benchmark). We will update this strategy and publish it by end-June 2017 (benchmark). We will also adopt by end-December 2016 an action plan to build capacity in the middle and front offices of the Public Debt Directorate (PDD) and review its structure and responsibilities in support of market development (benchmark). The plan will provide a clear definition of the roles and responsibilities of the PDD in debt management, including to continue leading the preparation of the debt management strategy. We will finalize the implementation of this action plan by end-June 2017 (benchmark).

B. Monetary and Financial Policies

15. **Monetary policy will continue to be anchored by the exchange rate peg and focus primarily on preserving an adequate level of reserves.** In view of low economic and credit growth, subdued inflation, adequate reserves, and lower deposit dollarization, we see the current

policy rate as appropriate at this stage. The Central Bank of Jordan (CBJ) will, however, continue to monitor closely domestic and external economic developments—including the pace of the U.S. monetary policy normalization—and their impact on capital flows and deposit dollarization. The CBJ stands ready to use its policy instruments, if necessary, to maintain reserves at an adequate level.

16. **Bank supervision will aim at maintaining the system's financial soundness and resilience.** Banks' capital adequacy ratios are among the highest in the region, liquidity positions are comfortable, and profitability is strong. Stress tests and sensitivity analysis in the fourth annual Financial Stability Report suggest the sector's broad ability to withstand various negative shocks to non-performing loans (NPLs), equity prices, interest rates, and the exchange rate. The CBJ will continue to monitor the sector closely, including for possible signs that asset quality is affected by weaker economic activity—which could lead to an uptick in credit risk from corporates and/or households—or/and structural excess liquidity when public debt starts unwinding. It will also continue to monitor credit to households with particular attention to: (i) the type and quality of lending (owner occupied mortgage loans versus buy to let; serviceability ratios; Loan-to-Value (LTV) ratios); and (ii) whether the increase reflects a change in demand and/or supply of credit. Should this credit continue to increase at a fast pace, the CBJ will design an appropriate response. Cross-border supervision will continue through onsite reviews, and regular meetings of the Supervisory College of Arab Bank.

17. **The legislative and regulatory framework for banks will be strengthened further.** We will submit to parliament by end-March 2017 amendments to the Deposit Insurance Corporation law that will help ensure the establishment of a robust bank resolution framework (benchmark) in line with the FSB Key Attributes, which 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 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. These amendments will support the provisions related to bank resolution incorporated in the new commercial banking law. The parliamentary approval of amendments to the CBJ law would help foster transparency and align the CBJ's autonomy and oversight with best practice. The adoption and gradual implementation of Basel III regulations will help better tailor liquidity and capital requirements to the needs of the individual banks.

18. **We will enhance the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime.** Following the ratification by parliament of the AML/CFT law, the AML/CFT unit will finalize by end- 2016 draft amendments to this law, if necessary, and make by end-2017 the necessary changes to related instructions, bringing thereby our legislative and regulatory framework fully in line with the 2012 Financial Action Task Force (FATF) standards. In line with IMF TA recommendations, we will implement by end-October a risk-based framework for offsite supervision for banks and money exchange firms (benchmark). As Jordan will be subject to a mutual evaluation under the FATF in 2018, we will also start working on a National Risk Assessment.

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

- By end-March 2017, we will amend the Insurance Law to allow for the transfer the supervision of the insurance sector to the CBJ (benchmark). We will then implement the transfer to the CBJ by end-September 2017 (benchmark) while adopting reforms to the sector's regulatory framework in line with recent IMF technical assistance. This will help foster stronger supervision, minimize spillovers of the sector to banks, as well as enhance financial development and transparency.

- We will continue adopting, and gradually implementing, regulations for the supervision of microfinance institutions during 2016–17.

STRUCTURAL POLICIES TO PROMOTE JOBS AND GROWTH

We will tackle long-standing impediments to growth in the areas of business environment (including access to finance) and competitiveness, labor market, and governance. This will help in making growth high, sustained, and job-creating while supporting debt sustainability. These reforms will promote physical and human capital accumulation and total factor productivity.

20. **Strengthening the business environment will help foster investment and enhance competitiveness.** Our efforts in this area will 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 still go through the various involved ministries), we will make the investment window of the Jordan Investment Commission (JIC) fully operational by end-June 2017 (benchmark) through: (i) eliminating all duplicative procedures and requirements needed for investment projects from all relevant entities; and (ii) introducing a fast track approval mechanism through defining clear responsibilities for involved agencies, establishing time limit standards, automating relevant entry processes, and agreeing on accountabilities. We also intend to explore the hiring of an international private consulting firm to help us device a strategy to overhaul the business environment, with a view to placing Jordan among the top 50 ranked countries in the Doing Business Survey.

- We will submit to parliament by end-October 2016 a draft inspection law that streamlines the inspection mandates and processes of a number of inspectorates in Jordan (benchmark). The law will improve the business environment by reducing the burden on the private sector resulting from overlapping inspection mandates and unplanned inspection visits, and reducing uncertainty and risk to businesses by introducing risk-based targeting and raising business awareness on compliance requirements. The law will specify the inspection scope of inspectorates, so as to minimize overlap or duplication, and emphasize the role of the Higher Committee for Inspection Reform as the national umbrella for business inspections. The law will also establish the rights and responsibilities of both the inspectorates and the private sector, and establish tools, practices, and measures to ensure the effectiveness, fairness, transparency, and accountability of business inspections, based on best practice.

- We will start identifying key areas priorities for legal and institutional reforms to help the business climate, including by establishing an accountability framework for reform implementation. In this context, we will review by end-December 2016 the competition framework to ensure independence of relevant agencies to monitor and enforce good market conduct. This will help creating a level playing field and facilitate new investment.

- We will amend by end-December 2017 the Real Estate Ownership Law so as to improve transparency on land-ownership and ease foreign ownership of property.

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

- The credit bureau has started operating in January 2016 and is expected to start compiling credit reports by end-2016. When fully operational, it will help assess borrowers' creditworthiness, and expedite credit risk assessment decisions for Small and Medium-Size Enterprises (SMEs).

- The implementation by end-March 2017 of the secured transactions law (benchmark) will also improve access to finance, including for SMEs, by making moveable assets eligible as collateral.

- By end-March 2017, we also expect the insolvency draft law to be adopted (benchmark). The amendments should bring the law in line with best practices by providing for an adequate protection of creditors rights, unhindered access to insolvency system, expedient liquidation of unviable companies and a range of mechanisms for restructuring/rescue of viable businesses.

- Also, the CBJ will publish by end-March 2017 a comprehensive study assessing the detailed level of financial inclusion in Jordan and key issues and challenges to promote financial inclusion in Jordan (benchmark). Based on the findings on this study, we will then develop by end-2017, in cooperation with relevant stakeholders and development partners, a financial inclusion strategy. This strategy will notably aim at enhancing access and usage of financial services including SMEs' access to finance, promoting financial literacy, further developing payment systems, and strengthening financial consumer protection.

22. **We will promote job creation through broad-based labor market reforms and targeted measures to support youth and female employment.**

- We will finalize the revisions to the 2011 National Employment Strategy (NES) by end-September 2016, based on the recommendations of the recent review conducted with the International Labor Organization (ILO). Revisions include recommendations on: (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.

- We will develop an action plan by end-September 2016, based on the results of surveys conducted by National Center for Human Resource Development and Higher Council of Human Resource Development. The plan will include revamping part time employment framework to reduce costs to licensing and regulating home-based employment activities, amending the labor law to allow large corporations to subsidize employees for child care as an alternative to establishing nurseries, establishing/helping promote public-funded nurseries for low-income employees working in SMEs, and allowing flexible working hours. We will also work towards a public awareness campaign and establish nurseries in all public sector institutions for by end-2017.

- Access to low cost and safe public transportation is among the biggest impediment to access to jobs. We will issue a public tender by end-December 2016 for private sector to set up bus transportation systems within Amman and surrounding cities. We plan to operationalize the bus network by end-2017.

- To stimulate job creation primarily among youth and women, we will evaluate, in coordination with the Social Security Corporation (SSC), the impact of potential changes to payroll taxes and identify offsetting parametric reforms to maintain SSC actuarial position by end-September 2016.

23. **We will strengthen public oversight to improve public accountability and good governance.** By end-August 2016, we will merge the Ombudsman Bureau and the Anti-Corruption Commission into a National Commission for Integrity and Anti-Corruption. The new institution will be invested with the powers to: enforce the implementation of its recommendations; and monitor progress with complaint and grievance resolution, including through the development of a centralized grievance redress mechanism that could play a key role in improving the integrity of the public service, service delivery, good governance and anti-corruption. We will also strengthen public procurement through the ratification of the unified legal framework and establishment of regulatory and policy committee/unit by end-August 2016. This committee/unit will be tasked with developing procurement policy and oversight functions, overseeing the performance management system, developing the complaint mechanism, establishing a single e-portal, and managing capacity development.

24. **Measures to improve competitiveness will help bolster export growth.** The proposed relaxation of rules of origin for exports to the EU provides a significant opportunity to diversify our markets and broaden our product mix. We will develop, and publish by end-June 2017, an export diversification strategy in advanced economies, to help address the decline in exports as a share of GDP to 21 percent in 2015 from 36 percent in 2008. This strategy will notably explore the potential for diversifying the mix of products and increase presence in advanced economies. We will also intensify our efforts geared at reducing the cost of doing business and creating a level playing field in order to help Jordanian entrepreneurs to compete in international markets.

PROGRAM MONITORING

25. Progress in the implementation of our policies, which are supported by the IMF, will be monitored through semi-annual reviews, quantitative performance criteria (PCs), indicative targets, and structural benchmarks. These are detailed in Tables 1 and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding. Quantitative targets for August and December 2016 are PCs. IMF disbursements will stay with the CBJ (i.e., not be on-lent to the government).

26. We recognize the importance of completing a safeguards assessment by the first review of the EFF. In this regard, we have provided the necessary documentation and will receive a safeguards mission from the IMF as necessary. We will also implement the outstanding recommendations of the 2013 assessment. In addition to the recent selection of a new external auditor, we will: conduct by September 2017 an external quality assessment review of the CBJ's internal audit function in accordance with international standards; continue making progress toward addressing the qualifications in the CBJ financial statements to ensure fair and transparent presentation of domestic assets in its balance sheets; and establish a Board committee comprising non-executive Board members to oversee the audit of the annual financial statements.

Table 1. Jordan: Proposed Quantitative Performance Criteria and Indicative Targets, 2016–17 1/

	Jun-16	Aug-16	Sep-16	Dec-16	Mar-17	Jun-17
	Proj.	PC	Indicative target	PC	Indicative target	Indicative target
Performance Criteria						
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	412	721	730	1,040	168	172
Combined public deficit in JD million (flow, cumulative ceiling)	542	918	984	1,386	265	372
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,608	12,190	12,225	13,894	12,820	12,345
Ceiling on accumulation of external debt service arrears 2/	0	0	0	0	0	0
Indicative Targets						
Social spending by the central government in JD million (flow, cumulative floor)	870	1,160	1,305	1,740	460	920
Public debt in JD million (stock, ceiling) 3/	25,413	25,709	25,856	26,398	26,733	26,973
Short-term public debt in JD million (stock, ceiling) 4/	1,500	1,500	1,500	1,500	1,500	1,500
Accounts payable of the central government in JD million (stock, ceiling)	517	517	517	517	517	517
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 5/	0	0	0	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 6/	0	6	6	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-1,239	-763	-698	-1,893	-1,058	-503
Memo items for adjustors						
Foreign budgetary grants and loans received by the central government (JD millions, flow, cumulative)	345	526	616	2,191	145	223
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2015)	227	378	454	2,811	2,961	2,961
Disbursements under the EFF (JD millions, flow, cumulative from end-December 2015)	0	51	51	102	204	204
Cap for the downward adjustor on the NIR (USD millions)	600	600	600	900	1,200	1,200
Cap for the downward fiscal adjustor (JD millions)	40	60	60	80	20	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 2. Jordan: Program Modalities and Structural Benchmarks, 2016–17

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale
	I. Prior Actions		
1	Implement fiscal measures to stabilize public debt to GDP ratio in 2016 at about the ratio of 2015 (MEFP ¶6).		Help with fiscal consolidation and to stabilize public debt
2	Establish the Public Investment Management unit and adopt its action plan (MEFP ¶11).		Better management of public investment
3	Publish Consolidated Fiscal Accounts for 2015 (MEFP ¶11).		Improved transparency
4	Reorganize the Macro-Fiscal Unit of the Ministry of Finance (MEFP ¶11).		Improve Public Financial Management (PFM)
5	Prepare detailed quarterly financing plan for next 12 months in coordination with NEPCO and WAJ (MEFP ¶14).		Increase the average maturity of public debt and help ensure that future program targets on debt are met
6	Announce the government's commitment to maintain NEPCO at operational balance during the program period and over the medium term and to adopt by mid-December 2016, and start implementing on January 1, 2017, an automatic electricity tariff adjustment mechanism (MEFP ¶9).		Fiscal consolidation and sustainability of sector
	II. Structural Benchmarks		
Fiscal Framework and Management			
1	Comply with all requirements of Phase II of the Road Map for International Public Sector Accounting Standards (IPSAS) implementation for the 2015 financial statements (MEFP ¶12).	mid-November 2016	Improved PFM and transparency
2	Submit to Parliament a draft budget law for 2017 in line with program understandings and projections for 2017-19, including the estimates of tax expenditures (MEFP ¶7).	mid-November 2016	Fiscal consolidation and Improved transparency
3	Submit to Parliament a new tax exemptions framework to reduce general sales tax (GST) exemptions on domestic and imported goods and services, and exemptions on customs duties (MEFP ¶8).	mid-November 2016	Fiscal consolidation
4	Submit to Parliament a new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing) (MEFP ¶8).	end-December 2016	Fiscal consolidation and Equity
5	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 (MEFP ¶12).	end-February 2017	Improved transparency
6	Rationalize the general sales tax and customs duty systems, based on IMF technical assistance recommendations (MEFP ¶8).	end-March 2017	Improve revenue collection by streamlining exemptions while preserving competitiveness
7	Implement new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing) (MEFP ¶8).	end-March 2017	Fiscal consolidation and Equity
8	Submit to Parliament an Organic Budget Law (MEFP ¶12).	end-June 2017	Improved PFM and transparency

Table 2. Jordan: Program Modalities and Structural Benchmarks, 2016–17 (concluded)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale
Debt Management			
9	Publish public debt management strategy (MEFP ¶14).	end-September 2016	Enhance transparency, communication, and predictability
10	Approve an action plan to reorganize the Public Debt Directorate (MEFP ¶14).	end-December 2016	Strengthen the organizational framework for effective public debt management
11	Publish updated public debt management strategy (MEFP ¶14).	end-June 2017	Enhance transparency, communication, and predictability
12	Finalize the reorganization of the Public Debt Directorate (MEFP ¶14).	end-June 2017	Strengthen the organizational framework for effective public debt management
Water and Energy Sector			
13	Publish studies on cross-subsidization and options for price adjustments in response to oil price changes (MEFP ¶9).	end-September 2016	Improved energy conservation, better level-playing field for non-households while protecting the most vulnerable
14	Adopt an automatic electricity tariff adjustment mechanism, with effective implementation on January 1, 2017 (MEFP ¶9).	mid-December 2016	Fiscal consolidation and sustainability of sector
15	Submission to Cabinet and publication of an updated action plan on how to reduce the water sector's losses over the medium term (MEFP ¶9).	end-December 2016	Fiscal consolidation and sustainability of sector
Financial Sector and Access to Finance			
16	Implement a risk-based framework for offsite AML/CFT supervision for banks and money exchange firms in line with IMF TA recommendations (MEFP ¶18).	end-October 2016	Stronger supervision to improve the resilience of the financial sector
17	Submit to Parliament amendments to Deposit Insurance Corporate Law to ensure the establishment of a robust bank resolution framework (MEFP ¶17).	end-March 2017	Improving the resilience of the banking sector
18	Amend and enact the Insolvency Law (MEFP ¶21).	end-March 2017	Removal of obstacles to increase access to finance
19	Enact the Secured Lending Law (MEFP ¶21).	end-March 2017	Removal of obstacles to increase access to finance
20	Publish a study assessing the key issues and challenges to promote financial inclusion (MEFP ¶21).	end-March 2017	Financial Inclusion, growth and equity
21	Amend the Insurance law to allow for the transfer the supervision of the insurance sector to the CBJ (MEFP ¶19).	end-March 2017	Better supervision of the insurance sector
22	Transfer the supervision of the insurance sector to CBJ (MEFP ¶19).	end-September 2017	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
Business Environment			
23	Submit to Parliament a draft Inspection Law streamlining inspection mandates and processes (MEFP ¶20).	end-October 2016	Improve business environment
24	Address shortcomings in the Investment-Window procedures by automating and integrating the services provided by Jordan Investment Commission (MEFP ¶20).	end-June 2017	Improve business environment

Attachment II. Technical Memorandum of Understanding (TMU)

1. This memorandum sets out understandings between the Jordanian authorities and IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the arrangement under the Extended Fund Facility.

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) dated July 26, 2016. 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 criteria 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.

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

A. Quantitative Performance Criteria and Indicative Targets

4. The quantitative performance criteria and indicative targets specified in Table 1 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) and the Water Authority of Jordan (WAJ);

- a performance criterion (ceiling) on the combined primary deficit of the central government (as defined above), the net loss of NEPCO, and the overall deficit of WAJ ("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 net domestic assets (NDA) of the CBJ.

5. The performance criteria on the central government's primary fiscal deficit and the combined public deficit, as well as the indicative targets on 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, domestic payment arrears of NEPCO, 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

6. The **central government** is defined as the budgetary central government that is covered by the annual General Budgetary Law (GBL). It excludes the budgets of the 27 autonomous agencies but includes all ministries and government departments 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.

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

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

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

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

11. **Net domestic nonbank financing of the central government** is defined as central government borrowing from, less repayments to, the non-bank sector (including the nonfinancial public sector not covered by the central government budget, and, specifically, the Social Security 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.

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

13. **Adjustors:** The ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and WAJ will be adjusted:

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

C. Ceiling on the Combined Public Deficit

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

15. The **net loss of NEPCO** is defined as the difference between total operating revenues and total costs as reported in the unaudited income statement. Total operating revenues are defined as

the sum of: (i) sales of operating power; and (ii) all other revenue, excluding proceeds from central government transfers or payments of NEPCO's 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 WAJ** 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's obligations on WAJ's 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 the sum of foreign budgetary grants and foreign budgetary loans—including U.S.-guaranteed Eurobonds but excluding non-resident purchases of domestically-issued government bonds—received by the central government (as specified in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

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 U.S. dollar 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), the two technical swaps with Citibank Jordan for U.S. dollar 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 U.S. dollar 13,042.5 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—including U.S.-guaranteed Eurobonds but excluding non-resident purchases of domestically-issued government bonds—received by the CBJ (as specified in Table 1) during the relevant period exceeds (falls short of) the levels specified in Table 1 of the MEFP. The downward adjustment will be capped at the maximum level specified in Table 1 of the MEFP. The floors will also be adjusted upward by the amount that the outstanding balance of bilateral accounts with the Central Bank of Iraq is repaid, including both principal and interest payments.

E. Ceiling on the Accumulation of External Debt Service Arrears

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

F. 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. For program monitoring purposes, debt 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]

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[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

(continued)

25. **Public debt** is defined as the sum of: (i) debt contracted by the central government (including off-budget project loans); (ii) of the 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.

26. **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 1.

- Downward by the cumulative amount of privatization proceeds, net of associated costs.

H. Ceiling on Short-Term Public Debt

27. **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

28. **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.

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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 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.

J. Ceiling on the Domestic Payment Arrears of NEPCO

29. **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

30. **Domestic payment arrears by WAJ** 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

31. **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.

32. 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.

33. **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

34. 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.

35. 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 cover detailed information on: revenue; expenditure; balances of government accounts with the banking system; foreign grants; amortization and interest; net lending; privatization proceeds; debt swaps with official creditors; and monthly change in the stocks of uncashed checks and funds owed to donor trust accounts (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).

36. 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).

37. 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.

38. 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 (Al Yarmuk, Miyahuna, and Aqaba)'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).

39. 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).

40. 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.

41. 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).

42. 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).

43. 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).

- 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).

44. 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

45. 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 Hazem Beblawi, Executive Director for Jordan and Sami Geadah, Alternate Executive Director
August 24, 2016

The Jordanian economy is facing sluggish growth and high unemployment, with policy options constrained by external and fiscal deficits and the need to reduce public debt. The economy has been facing a very difficult regional environment with adverse effects on trade, tourism, and investment, in addition to hosting a massive number of Syrian refugees. Notwithstanding these challenges, Jordan has maintained macroeconomic stability and has undertaken significant policy adjustment.

Jordan had significant achievements under the Stand-By Arrangement (SBA) which expired in late 2015, including a reduction in the fiscal deficit which was among the largest in recent Fund-supported programs, despite a very challenging external and domestic environment. The proposed program, which is to be supported by an arrangement under the Extended Fund Facility (EFF), aims to increase sustainable and inclusive growth. Despite the successful implementation of the SBA, growth declined, unemployment rates rose, and the external current account deficit and public debt remained high. These outcomes were to a large extent the result of an unforeseen deterioration in the regional environment. The difficult external environment will continue to weigh on the economy as the conflicts in Syria and Iraq do not show signs of abating, and the GCC economic outlook has deteriorated with the decline in oil prices.

Fiscal policies

Fiscal consolidation will continue to balance a reduction in public debt with the need not to unduly undermine growth while maintaining a sufficient social safety net. A faster fiscal consolidation than currently envisaged for 2016 was not possible given the need to strengthen prospects for inclusive growth. The fiscal deficit will be further reduced in 2017 and in subsequent years so as to eliminate the overall fiscal deficit by 2020. Public debt is to be reduced from 94 percent of GDP in 2016 to 77 percent of GDP in 2021.

In formulating their fiscal plans, the authorities have opted for measures that are sustainable and that make the fiscal system more equitable and efficient. Revenues will be strengthened through measures that broaden the tax base. The general sales tax and customs duty exemptions will be minimized, fees increased, the income tax threshold lowered, and a minimum income tax introduced. Efforts are also being made to strengthen tax administration and compliance, and increase transparency. Reductions in spending will focus on cuts in non-priority current expenditures and improvements in the targeting of transfers, which will begin with collecting data for eligibility verification and enrollment. The public sector wage bill will not be increased in real terms. These measures will provide the space for social and capital spending, as well as for the clearance of arrears. Social protection spending remains important to shield low income groups from the effects of adjustment.

An important component of the authorities' plans is the rationalization of electricity and water tariffs. As Directors will recall, the sharp increase in the cost of fuel imports associated with the disruption of gas supplies from Egypt for electricity generation in 2011 led to the sharp increase in fiscal and external current account deficits. The electricity company is now breaking even, thanks to tariff increases, efficiency improvements, a move to less costly sources of energy (including renewables, LPG, and shale oil), and a decline in oil prices. The next step is to introduce an automatic tariff adjustment mechanism so as to de-politicize tariff adjustment decisions, similar to the approach that was used to liberalize gasoline prices under the SBA. This work will be followed by a strategy to bring the water company into financial balance. The water company's financial deficit has largely been the result of capital spending, which is needed given the scarcity of water resources in Jordan and the increase in demand related to Syrian refugees.

Monetary policy

As noted in many staff reports, the Central Bank of Jordan (CBJ) has skillfully implemented monetary policy, establishing a very strong track record in this regard. The CBJ was very effective in addressing the loss of confidence in the early months of the SBA program. As the situation stabilized, policy interest rates were reduced to support credit growth given strong reserve buffers, low risk premia, de-dollarization, and low inflation. These rate reductions proved to be timely and judicious.

Monetary policy will continue to be 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. The CBJ has been, and will continue to be, vigilant in meeting these objectives.

Financial sector

The CBJ has also been a very effective regulator and supervisor of the financial system. It monitors banks closely to ensure that the banking sector remains sound. Banks are highly capitalized, liquid, and profitable, with low non-performing loans that are well-provisioned. Exposure of Jordanian banks to conflict countries remains limited, and bank exposure to these countries is fully provisioned. Regular stress tests conducted by the CBJ confirm the system's ability to absorb a wide range of severe shocks. Nevertheless, several initiatives are underway to further strengthen financial sector supervision and regulation. The amendments to the Deposit Insurance Corporation law will facilitate the establishment of a robust bank resolution framework in line with international best practice. The CBJ will be taking over responsibility for the supervision of the insurance sector from the Ministry of Economy and Trade. This move will greatly enhance the supervision of the sector given the CBJ's capacities and in view of the interconnection between insurance companies and banks.

Structural reforms

The authorities are fully cognizant of the need for structural reforms to strengthen the prospects for inclusive growth. This recognition is reflected in the focus of *Vision 2025*, the country's framework for social and economic policies, on structural reforms to boost growth, employment, and equity. The reform agenda is wide-ranging, covering the business environment, the labor market, and public finances.

Vision 2025 will be implemented through three year executive plans starting with 2016-18. Efforts to strengthen the business environment will focus on facilitating business dealings with the government, including simplifying procedures for starting and operating a business (through a one stop shop for investors), eliminating red tape and unnecessary regulations, and further strengthening investor protection. Several measures are also underway to facilitate access to finance, including the implementation of a secured transactions law and an insolvency law in line with best international practice.

With regards to the labor market, the National Employment Strategy is being revised so as to help bring about a better functioning and competitive labor markets, and to help youth find and secure meaningful work and steady employment in the private sector. Policies will aim at reducing skills mismatches, introducing more flexible work arrangements, and reforming public sector hiring practices. *Vision 2025* recognizes the necessity of the education system to support the private sector by improving the skills and job-readiness of university and vocational training center graduates. This, together with the outsourcing of non-core public sector activities, will be important to shift employment from the public to the private sector.

Structural fiscal reforms aim at improving the quality of public services, partly though greater accountability and transparency. Tax administration measures will be focused on improving compliance, facilitating procedures, and promoting fairness. Public financial management will be strengthened, especially the selection and management of investment projects. In support of this framework, an organic budget law will be introduced to strengthen macro-fiscal policy, budget preparation, fiscal strategy, treasury control, and audit functions. Reforms will also aim at strengthening the debt management framework. These initiatives will benefit from technical assistance from the Fund and other providers.

Foreign assistance and refugees

Jordan needs help with managing the cost of hosting refugees. There are an estimated 1¼ million Syrian refugees, compared with a population of about 6 million Jordanians. The government has incurred significant direct and indirect costs in support of refugees, host communities have been stressed, and infrastructure has been overburdened. The United Nations estimated the cost of hosting Syrian refugees at US$2.9 billion in 2015, for which limited budgetary support was received. While the authorities are appreciative to donors for their support, a sustainable assistance framework is needed given the significant indirect costs related to the protracted Syrian refugee crisis, including those related to security, health, education, and subsidies. The Deauville Partnership has not produced any tangible support or resulted in a framework that can provide assistance. It is hoped that the London Conference—which was held in February 2016—will lead to better outcomes. It is therefore extremely important to honor the commitments that were made in the Conference related to the Jordan Compact. As part of the Compact, Jordan plans to create up to 200,000 jobs for Syrian refugees, contingent on international support. This is necessary for Jordan to continue to be able to host refugees in a stable and equitable environment. The authorities are hoping for international support in attracting new investment and in providing incentives to development zones that employ Syrian refugees. It would be important for international assistance to be in the form of grants especially as Jordan is shouldering the burden of refugees on behalf of the international community and given the need to reduce Jordan's debt burden.