IMF Country Reports 17/231

Jordan: 2017 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Jordan

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 17/231

JORDAN

July 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Jordan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 21, 2017 consideration of the staff report that concluded the Article IV consultation with Jordan.
- 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 June 21, 2017, following discussions that ended on May 11, 2017, with the officials of Jordan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 6, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Jordan.

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

Selected Issues

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. 17/291
FOR IMMEDIATE RELEASE
July 21, 2017

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

IMF Executive Board Concludes 2017 Article IV Consultation with Jordan

On June 21, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Jordan.

Jordan has made significant progress since the 2014 Article IV Consultation but pressing challenges remain. The gradual pick-up in growth from 2010 to 2014 ended in 2015, with real GDP growth decelerating from 2.4 percent in 2015 to 2 percent in 2016. The slowdown in 2016 was broad-based, with activity slowing in agriculture, construction, and mining. Inflation accelerated since mid-2016 to reach 4.6 percent (year-on-year) in February 2017, due to the recovery in global oil and food prices, as well increased fuel excises and the removal of general sales tax exemptions. Inflation has since eased, to 3.7 percent (year-on-year) in May. Labor market conditions have remained challenging, particularly for youth and women, with the unemployment rate increasing to 15.8 percent in the second half of 2016 and to 18.2 percent in the first quarter of 2017, reflecting some methodological changes. The current account deficit (excluding grants) was 12.6 percent of GDP in 2016, slightly higher than in 2015, reflecting the challenging regional conditions, the Syrian refugee crisis, and the slowdown in the Gulf Cooperation Council (GCC), which have affected exports, remittances, and other flows. The Central Bank of Jordan (CBJ) has gradually increased its policy rates since late 2016 amid increasing dollarization, which has stabilized more recently, and higher U.S. policy rates, helping to maintain reserves at close to eight months of imports.

Despite considerable progress and recent improvements, the outlook remains challenging. Indicators for the first few months of 2017 show an important recovery in exports, tourism receipts, and remittances relative to 2016. Real GDP growth is projected to reach 2.3 percent in 2017, while inflation is expected to stabilize at around 2.5 percent by year-end. The current account deficit is expected to decline gradually, supported by structural reforms and fiscal consolidation.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for preserving macroeconomic stability and external viability, reducing the fiscal deficit, maintaining prudent monetary policy, and ensuring a sound financial system. Directors acknowledged the challenging environment facing the Jordanian economy, including below-potential economic growth, high unemployment, and difficult social conditions. They stressed the importance of implementing policies and reforms to bring public debt toward more sustainable levels, boost investment and productivity, and enhance inclusive growth.

Directors supported the continued gradual and steady fiscal consolidation. They were encouraged by the authorities' commitment to continue to remove exemptions on the general sales tax and customs duties. They underscored the need to support these efforts with reforms to tackle tax evasion and increase compliance, rationalize expenditures while strengthening social safety nets, contain contingent liabilities and enhance oversight of PPPs, sustain reforms in the energy and water sectors, and improve debt management. They stressed that these reforms are crucial to preserve macroeconomic and external stability, place public finances on a sounder foundation, and lessen risks to debt sustainability.

Directors generally considered the monetary policy stance to be appropriate and that the exchange rate peg continues to be an important anchor for the economy, and urged the authorities to stand ready to increase interest rates in the event of persistent pressures on international reserves. A number of Directors considered that there might be a need to consider recalibrating policies to facilitate the external adjustment over the medium term, if the challenging external environment persists.

Directors welcomed ongoing reforms to preserve the financial sector's resilience, notably the gradual adoption of Basel III and the decision to complement it with an additional capital buffer. These steps, along with the high levels of capitalization of banks, will provide buffers to deal with a broad range of shocks. Directors emphasized the need to continue to monitor interest rate risk and the rapid increase in household credit, and took positive note of ongoing plans to strengthen the supervision of insurance companies and microfinance institutions. Directors also encouraged the authorities to continue to strengthen implementation of the AML/CFT framework.

Directors stressed the need for reforms to enhance competitiveness and inclusive growth. The development of a financial inclusion strategy, along with greater facilities to support credit and

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

enactment of the secured transactions law, would help enhance access to finance and support investment. Simplifying regulatory processes and enacting the inspection law would also improve the business environment. Directors called for advancing reforms to lower the formal cost of labor to promote greater employment opportunities, particularly for young people and women.

Directors called for greater donor assistance to help Jordan cope with the refugee crisis and support the program's debt reduction and inclusive growth objectives.

Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2014–22

			EFF	Prel.	Projections					
	2014	2015	2016	2016	2017	2018	2019	2020	2021	2022
Output and prices			(Percentage change, unless otherwise indicated)							
Real GDP at market prices	3.1	2.4	2.8	2.0	2.3	2.5	2.7	2.9	3.0	3.0
GDP deflator at market prices	3.4	2.3	2.2	1.0	2.2	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices	6.6	4.7	5.0	3.0	4.6	5.1	5.3	5.5	5.6	5.6
Nominal GDP at market prices (JD millions)	25,437	26,637	27,972	27,445	28,705	30,170	31,759	33,497	35,365	37,336
Nominal GDP at market prices ($ millions)	35,878	37,570	39,453	38,709	40,487	42,553	44,794	47,246	49,880	52,660
Consumer price inflation (annual average)	2.9	-0.9	-0.5	-0.8	3.3	1.5	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	1.7	-1.6	1.2	0.8	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent)	11.9	13.1	...	15.3	...	...	...	...	...	...
			(In percent of GDP, unless otherwise indicated)							
Fiscal operations										
Revenue and grants	27.9	25.0	25.8	25.6	27.9	28.8	27.7	27.7	27.8	27.8
Of which: grants	4.9	3.3	3.2	3.1	2.9	3.8	2.7	2.7	2.7	2.7
Expenditure 1/	38.0	30.1	29.6	28.9	30.4	30.7	30.9	30.4	30.3	30.1
Fiscal gap 2/	0.0	0.0	0.0	0.0	0.0	1.5	3.0	3.9	3.9	3.9
Overall fiscal balance	-10.3	-5.3	-3.8	-3.2	-2.5	-0.4	-0.2	1.3	1.4	1.6
Primary government balance, excl. grants, NEPCO, and WAJ	-4.6	-5.1	-3.7	-3.2	-2.0	-0.6	0.7	2.4	2.4	2.4
NEPCO operating balance	-4.6	-0.9	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance	-1.0	-1.1	-1.3	-1.0	-1.2	-1.2	-1.1	-1.2	-1.2	-1.2
Combined public sector balance 3/	-10.2	-7.1	-5.0	-3.8	-3.2	-1.8	-0.5	1.2	1.3	1.3
Government and government-guaranteed gross debt 4/	89.0	93.4	94.4	95.1	95.6	93.5	90.8	86.2	81.6	77.0
Of which: external debt	31.2	35.2	36.9	37.5	40.7	43.0	45.3	45.7	45.9	45.4
External sector										
Current account balance (including grants), of which:	-7.3	-9.1	-9.0	-9.3	-8.4	-8.3	-7.6	-7.0	-6.4	-6.2
Exports of goods, f.o.b. ($ billions)	8.4	7.8	7.5	7.5	7.8	8.2	8.7	9.3	9.8	10.5
Imports of goods, f.o.b. ($ billions)	20.4	18.2	17.7	17.1	17.5	17.9	18.6	19.5	20.3	21.1
Oil and oil products ($ billions)	5.5	3.1	2.7	2.4	3.1	3.2	3.3	3.4	3.6	3.6
Current account balance (excluding grants)	-12.6	-12.3	-12.5	-12.6	-11.7	-11.3	-10.4	-10.1	-9.7	-9.5
Private capital inflows (net)	5.8	4.3	4.2	4.8	3.4	4.7	5.3	5.5	5.3	5.2
Monetary sector					(Percentage change)					
Broad money	6.9	8.1	7.6	4.0	4.4	5.1	...	...	...	...
Net foreign assets	15.4	3.5	5.5	8.2	6.6	11.2	...	...	...	...
Net domestic assets	4.0	9.8	8.3	2.5	3.6	2.8	...	...	...	...
Credit to private sector	3.7	4.8	10.2	10.1	9.1	7.8	...	...	...	...
Credit to central government	2.3	-1.8	1.7	-9.5	-5.7	-15.4	...	...	...	...

Memorandum items:										
Gross usable international reserves ($ millions)	14,973	15,678	15,888	14,454	14,778	16,003	17,268	18,330	19,501	20,499
In months of prospective imports	7.9	8.7	8.4	7.8	7.7	8.1	8.4	8.6	8.8	8.9
In percent of reserve adequacy metric	136	136	130	122	117	120	120	122	125	125
Net international reserves ($ millions)	13,374	13,589	13,894	12,654	13,084	14,499	16,050	17,304	18,510	19,637
Population (millions) 5/	7.4	7.6	7.7	7.7	7.9	8.0	8.1	8.2	8.2	8.3
Nominal per capita GDP ($)	4,838	4,947	5,092	4,996	5,140	5,329	5,544	5,785	6,049	6,331
Real effective exchange rate (end of period, 2010=100) 6/	113.0	117.5	...	121.2	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	6.9	4.0	...	3.1	...	...	...	...	...	...

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

1/ Includes net lending, transfers to NEPCO and WAJ, and other use of cash.
2/ Estimated amount of fiscal measures that will need to be taken by a given date to meet the program public debt reduction objectives.
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.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/237
FOR IMMEDIATE RELEASE

International Monetary Fund
Washington, D.C. 20431 USA

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

- IMF encouraged by Jordan's commitment to continue removing exemptions on the general sales, income tax, and custom duties.
- IMF Directors saw the critical need to advance reforms to lower the formal cost of labor to promote greater employment opportunities, especially for the youth and women.
- IMF calls for greater donor support through budget grants to help Jordan cope with the Syrian refugee crisis.

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Jordan's economic performance under the Extended Arrangement under the Extended Fund Facility (EFF). The completion of the first review enables the disbursement of SDR 51.465 million (about US$71 million), bringing total disbursements under the program to SDR 102.93 million (about US$141.9 million).

The Executive Board also approved the authorities' requests for waiver of non-observance of performance criterion on the NIR of the Central Bank of Jordan (CBJ) and the rephrasing of access.

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

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

"The Jordanian economy has performed favorably under a difficult external environment. Macroeconomic stability and external viability have been maintained thanks to a prudent monetary policy and progress in reducing the fiscal deficit. However, with below-potential economic growth, high unemployment, and difficult social conditions, steadfast implementation of reforms is critical to preserve these achievements and enhance inclusive growth.

"The authorities are committed to continue with a gradual and steady fiscal consolidation to bring public debt toward more sustainable levels. To help public finances rest on a sounder foundation, the removal of exemptions on the general sales tax and custom duties will continue over the program period. These reforms are being complemented by others to tackle tax evasion, rationalize expenditures, contain contingent liabilities, and improve the financial condition of the energy and water sectors.

"The Central Bank of Jordan has tightened its monetary policy stance since November 2016 and stands ready to increase the policy interest rates further to support the peg. The banking system is well capitalized and profitable. The gradual adoption of Basel III, and the authorities' decision to complement it with an additional capital buffer, provide important resilience to shocks and will help preserve financial stability.

"Efforts to promote financial inclusion and facilitate access to credit and improve the business environment should help support investment and productivity, and enhance inclusive growth. Further reforms to reduce the cost of formal jobs are critical to address high unemployment, particularly for young people and women.

"Continued donor support through sufficient budget grants and concessional financing will be important to help Jordan cope with the refugee crisis and support the authorities' program goals."

JORDAN

June 6, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, FIRST REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Jordan has made significant progress since the 2014 Article IV consultation, but challenges are still pressing. The economy has proven resilient in the face of severe external shocks. The exchange rate peg remains an important anchor, reserves are comfortable, and the financial system is sound. The fiscal deficit has narrowed, while monetary policy has supported growth. However, Jordan's performance has lagged other emerging markets, with growth below potential, high unemployment, and elevated public debt—and with regional conflicts and Syrian refugees continuing to weigh on social conditions, public finances, investment, and the current account.

The authorities' program rightly focuses on tackling these challenges. Fiscal consolidation and reforms are critical to place public finances on a sounder foundation and reduce public debt. This, along with prudent monetary policy, is essential to preserve macroeconomic stability, bolster investor confidence, strengthen the external position. With recognition of the social implications from the economic slowdown and higher unemployment, the authorities expect these policies to provide a solid foundation for structural reforms to enhance inclusive and higher growth.

Program implementation has advanced, with a reassuring fiscal outturn in 2016 and some progress in implementing structural measures, but with lower international reserves. The end-December performance criteria were met, except for the floor on net international reserves, owing mainly to a rebound in deposit dollarization. Many of the structural benchmarks were met, while others are expected in the coming months. The removal of general sales tax and customs duties exemptions was less ambitious than initially envisaged. The new automatic tariff adjustment mechanism will shelter the electricity company from oil price fluctuations. And ongoing reforms will help preserve financial stability, ease access to finance, and improve the business environment, but need to be complemented by labor market reforms.

Continued donor support remains critical to program success. Regional conflicts and the hosting of Syrian refugees are taking a toll on growth, the balance of payments, and public finances. Additional budgetary grants are needed to alleviate these pressures and to meet the program's debt reduction and inclusive growth objectives.

The completion of the first review makes available SDR 51.465 million (about $71 million).

Approved By	
Adnan Mazarei (MCD) and Vitaliy Kramarenko (SPR)	The mission teams consisted of Martin Cerisola (head), Edouard Martin (head of the advance team), Andrew Tiffin, Maximiliano Appendino, Marco Rossi, and Ferhan Salman (all MCD); Nelson Sobrinho and Pablo Morra (SPR); Helen Wagner (MCM); and Saji Thomas (FAD). It was assisted by Ramsey Andrawis and Cecilia Pineda. The missions were joined by Sami Geadah, Alternate Executive Director, and Léa Hakim from the World Bank. Wafa Amr and Angham Al Shami (COM) also joined the October mission to assist on outreach. From October 25–November 8, 2016 and May 2–11, 2017, staff met with Prime Minister Hani Al-Mulki, Minister of Finance Omar Malhas, Governor of the Central Bank of Jordan Ziad Fariz, Minister of Planning and International Cooperation Emad Fakhoury, Minister of Energy and Mineral Resources Ibrahim Saif, Ministry of State for Economic Affairs Yusuf Mansur, Minister of Industry, Trade, and Supply Yarub Qudah, Minister of Tourism Lina Mazhar Annab, Ministry of Labor Ali Al-Ghezawi, Minister of Water and Irrigation Hazim Al-Naser, Mayor of Amman Akel Biltaji, other senior officials in these institutions, the electricity company (NEPCO), the Water Authority of Jordan (WAJ), representatives of civil society groups, trade unions, academia, local media, the private sector, and development partners.

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BACKGROUND—PERSISTENT HEADWINDS AND ECONOMIC CHALLENGES

A. An Economic Performance Affected by Sequential External Shocks

1. Jordan has continued to experience difficult economic conditions since the 2014 Article IV consultation (Figure 1)**.**

- **The gradual pick-up in growth from 2010 to 2014 came to an end in 2015**. Real GDP growth declined from 3.1 percent in 2014 to 2.4 percent in 2015 and 2.0 percent in 2016. This decline was broad based, with activity slowing in agriculture, construction, mining (whose production contracted by 12 percent in 2016 owing to temporary shutdowns in production), and most other sectors, except for transportation and financial services. But during the final quarter of 2016, nonprimary growth increased to 2.2 percent y-o-y, from 1.9 percent in the third quarter. Data for the first few months of 2017 are also encouraging, showing a recovery in exports, tourism receipts, and remittances relative to 2016 (Figure 2).

Jordan: Real GDP Growth, 2015–16

(In Percent)

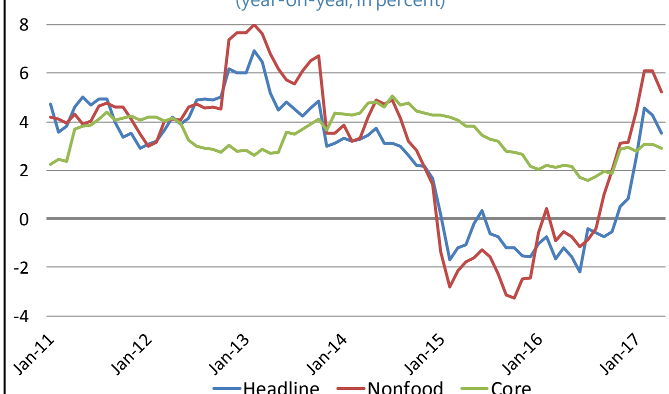
	Quarter-on-Quarter SA Annualized Growth Rate				Year-on-Year Growth Rate			
	Total	Nonprimary	Agriculture	Mining	Total	Nonprimary	Agriculture	Mining
2015Q1	0.8	1.6	9.7	-38.9	2.0	1.6	7.7	10.1
2015Q2	3.6	3.7	-37.3	67.7	2.4	2.4	-9.7	23.0
2015Q3	3.4	2.3	80.8	6.6	2.6	2.4	3.7	17.5
2015Q4	2.1	1.1	35.1	-21.0	2.6	2.2	14.1	-1.4
2016Q1	0.6	2.8	-17.2	-46.8	2.3	2.4	6.4	-8.4
2016Q2	1.8	2.9	-34.3	-29.2	1.9	2.3	6.9	-26.7
2016Q3	2.6	0.9	52.3	122.4	1.8	1.9	2.9	-7.8
2016Q4	2.9	2.4	25.4	-6.7	2.0	2.2	1.0	-5.4

Sources: Department of Statistics; and IMF staff estimates.

- **Global shocks and recent tax measures have contributed to substantial fluctuations in inflation.** Inflation fell from 3.1 percent y-o-y at end-2013 to -2.2 percent y-o-y in June 2016, reflecting both a global decline in food and oil prices and a decline in core inflation (from 4.3 to 1.7 percent), which stemmed primarily from a slowdown in rents, as demand from Syrian refugees receded. Inflation rebounded sharply to 4.6 percent in February 2017, owing

Jordan: CPI inflation, 2011-17

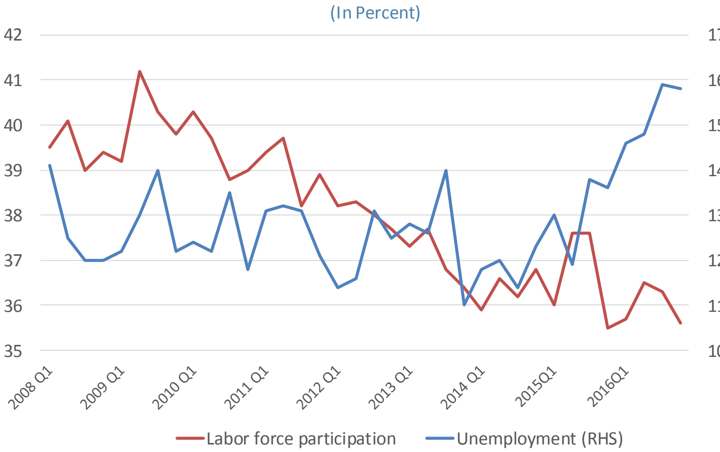
(year-on-year, in percent)



Sources: Department of Statistics; and IMF staff estimates.

to the recovery of global oil and food prices as well as the pass through of increased fuel excises and the removal of general sales tax (GST) exemptions. Inflation has since eased to 3.5 percent in April, with the stabilization of global oil and food prices.

- **Labor market conditions have deteriorated further.** The unemployment rate, which has traditionally been broadly stable around 12–13 percent, rose sharply in 2015–16, to close to 16 percent—its highest level in at least 10 years, on the back of adverse external shocks and slower growth. It was particularly high for women and youth, at 24.8 percent and 36.1 percent, respectively. Reflecting the weakness in the economy, the labor force participation continued its gradual decline, amounting to 35.6 percent in the fourth quarter, while the employment rate declined further, to an extremely low 30 percent.



Source: Department of Statistics.

- **The current account deficit remains high, despite lower oil prices.** A decline in energy imports from 2014 to 2016 (from lower oil prices and NEPCO's shift to LNG as its main primary energy source) was broadly offset by lower exports, tourism receipts, private grants and remittances and higher transportation costs. As a result, the current account deficit (excluding grants) was 12.6 percent of GDP in 2016—similar to 2014 and slightly higher than in 2015. Owing to the strength of the U.S. dollar, the real effective exchange rate appreciated by 16 percent from end-2013 to end-April 2017, reaching its highest level in more than ten years.

- **The pace of fiscal consolidation was strong, but slower than envisaged.** The combined deficit of the central government and the National Electric Power Company (NEPCO) declined from 9.2 percent of GDP in 2014 to 3 percent of GDP in 2016, reflecting a sharp improvement in NEPCO's operating balance and, to a lesser extent, a lower central-government primary deficit. The decline in the central government primary deficit, from 4.6 to 3.4 percent of GDP, was lower than envisaged at the time of the 2014 Article IV, owing in part to weaker nominal GDP growth, continued refugee-related spending pressures, and limited success in raising tax revenues. The implementation of the electricity-sector strategy, along with the sharp fall in generation costs, contributed to bringing NEPCO back to cost recovery by late 2015—well in advance of the expected date of 2017—and to operating surplus in 2016. Nonetheless, with a higher-than-envisaged combined deficit, lower nominal growth, and continued Water Authority of Jordan (WAJ) losses, public debt reached 95.1 percent of GDP at end-2016.

- **Monetary policy has balanced the need for comfortable reserves and growth-supportive conditions.** From the time of the last Article IV to early 2016, the Central Bank of Jordan (CBJ) continued to gradually reduce its policy rate, from 3.5 percent to 2.5 percent. It also increased the gap between the policy and deposit window rates (from 25 to 100 bps), in an effort to stimulate large banks to on-lend their excess liquidity to less liquid ones and to stimulate credit. These decisions, together with targeted initiatives to promote lending to small- and medium-sized enterprises (SMEs), helped revive credit to the private sector, in particular to corporates. Together with falling oil prices, this lending has helped sustain private consumption and investment in the face of severe external shocks.

- **With an upturn in deposit dollarization and rising U.S. policy rates, the CBJ has tightened its monetary stance since November 2016.** The CBJ gradually returned its policy rate to 3.5 percent and has stabilized deposit dollarization at around 19.5 percent (up from 17 percent at end-June 2016). To help preserve supportive domestic liquidity conditions and contribute to shore up reserves further, the government issued $500 million in U.S. dollar-denominated domestic bonds on March 8 and re-opened its 2015 Eurobond issuance for an additional $500 million on April 24.

2. Jordan's challenging environment and performance largely reflect the impact of severe and repeated external shocks, including:

- **Protracted conflicts in Syria and Iraq, which are Jordan's main export markets.** The Syrian conflict continues to weigh on investor sentiment, tourism, transportation costs, and exports. The hosting of 1.3 million Syrians (about half of whom are registered refugees) has also stretched Jordan's limited resources, with substantial costs to the budget.[1] The extension of the conflict to Iraq was a further blow to investor confidence in the region and the closure of the border in 2015 has deprived Jordan of its main export route and market.[2] More recently, the December 2016 terrorist attack in Karak and heightened ISIS-related security tensions at the border have prompted a tightening of Jordan's security, socio-economic and political environment, which has become less conducive to major economic reforms.

- **The slowdown in the Gulf Cooperation Council (GCC).** While lower oil prices initially helped improve Jordan's current account and domestic demand, their longer-term impact has been to reduce exports, tourism, and remittances from GCC countries. Tighter liquidity in the GCC may also have spilled over into the Jordanian economy, through reduced capital inflows and slowing non-resident deposits.

[1] As of early 2017, about 46 thousand work permits have been issued for Syrian refugees, representing about 13 percent of all migrant workers with a permit.

[2] See Selected Issues paper on the macroeconomic impact of the Syrian refugee crisis on Jordan. Staff estimates the impact of the regional crisis on Jordan's annual growth rate at about 1 percent, with the direct and indirect (depreciation of public infrastructure) impact of the refugees on public expenditures estimated to have averaged 2 percent of GDP per year from 2013–15. Staff also estimates that the hosting of refugees and the closing of land routes and border crossings have contributed to increase the non-oil current account deficit by about 9 percentage points of GDP in the past two years.

3. Jordan's economic performance—in terms of productivity and per capita output growth—has also lagged other emerging markets, following the aftermath of the global financial crisis. Jordan's per capita income has remained relatively stable since the crisis in 2008, owing to weak investment and productivity growth (Figure 3). This performance reflects structural challenges in the economy, including widespread tax incentives that have proved ineffective and increasingly costly. These now need to be reconsidered not only to boost investment and productivity, but also to put public debt on a safer downward path, while enhancing fairness and broader socio-economic welfare. The authorities, who have largely followed the recommendations of the 2014 Article IV consultation (Box 1), are well aware of these challenges. Their economic reform program, which is supported by the EFF, builds on the need for policies and reforms to: enhance the conditions for higher and more inclusive growth; preserve macroeconomic stability; and advance gradual fiscal consolidation to reduce public debt, while mitigating the impact on the poor.

4. The 2017 Article IV consultation and First Review under the EFF provided a timely opportunity to discuss the policies that:

- Sustain macroeconomic and financial stability, through fiscal consolidation and public-utility reforms, along with prudent monetary and financial policies.
- Enhance the conditions for inclusive growth through reforms to enhance competitiveness, employment (especially for women and young people), access to finance, and to foster equity, fairness, and good governance.

B. The Fund-Supported Program—Broadly on Track

5. Program implementation has progressed, with a reassuring fiscal outturn in 2016 and some progress in implementing structural measures, but with lower-than-targeted international reserves (MEFP, tables 1a and 2)**:**

- ***Broadly in-line budget implementation***. Despite a shortfall in nontax revenue (mainly from surpluses from some regulatory bodies and other public entities), the end-December performance criterion on the central government primary deficit was met, with the primary balance (excluding grants) coming in at ½ percentage point of GDP better than programmed. This better performance reflects the implementation of low-quality measures, such as cuts in capital expenditures and lower repayments of health and fuel arrears to compensate for the revenue shortfall, and also for higher-than-projected military spending. There was also a shortfall in social spending relative to the indicative target.
- ***Overperforming energy and water utilities (Table 2d and 2e).*** NEPCO's operating balance and WAJ's overall balance were better than projected in 2016. Reflecting higher efficiency gains, NEPCO's operating profits were JD 107 million (0.4 percent of GDP) above program projections, pointing to a breakeven oil price of \$51 to \$53 per barrel. WAJ's overall deficit was smaller by JD 75 million (0.3 percent of GDP), owing mainly to lower capital expenditures.

- ***CBJ's net international reserves (NIR) have been below target***. They amounted to $12.7 billion (at program exchange rates) at end-2016, about 1.1 billion lower than the adjusted performance criterion. This underperformance mainly reflected an accumulation of net foreign assets (NFA) by the commercial banks in response to higher deposit dollarization, and a further decline in loan dollarization, along with a drop in non-resident deposits.[3] Despite a stabilization of deposit dollarization, the NIR underperformance increased slightly in the first quarter, to $1.2 billion—as higher imports and the one-off purchase by Jordanian investors of foreign participations in Arab Bank and Dubai Islamic Bank more than offset a drop in commercial banks' NFA that resulted from the authorities' issue of domestic U.S. dollar-denominated bonds.

Jordan: NIR Projections, 2016–17
(In millions of U.S. dollars)

	EFF Proj. 1/	Actual	Difference
September 2016	12,208	12,031	-178
December 2016	13,780	12,654	-1,126
March 2017	12,640	11,436	-1,204

Sources: Central Bank of Jordan; and Fund staff estimates.
1/ Adjusted target.

- ***Solid progress in advancing structural reforms, except for tax exemptions and inclusive-growth measures.*** The authorities adopted an automatic electricity tariff adjustment mechanism in October, and published in December a study on cross-subsidization and options for electricity tariff reform. They met the end-December structural benchmarks on the action plan to reorganize the public debt directorate, as well as the end-October benchmark on the implementation of a risk-based framework for offsite AML/CFT supervision. Also, the updated action plan for the water sector (end-December 2016 benchmark) was adopted by Cabinet and published. However, there have been delays in submitting to parliament the draft inspection law (end-October benchmark); amendments to the income tax law (end-December 2016 benchmark); and amendments to the deposit insurance law (end-March 2017 benchmark). There have also been delays in enacting the secured lending and insolvency laws, and amendments to the insurance law (all three March 2017 benchmarks). The insolvency and secured lending laws are now expected to be discussed by parliament in the coming months, while the amendments to the insurance law should be submitted to parliament in time for the Fall ordinary session. In addition, the consolidation of trust accounts (end-February benchmark) is now expected to be met by mid-June, while the publication of a study assessing the key issues and challenges to promote financial inclusion (end-March benchmark) is now expected by end-September 2017.

[3] The increase in deposit dollarization reflected several factors, most notably related to changes in the exchange rate policy in some countries in the region, the relatively low policy rate differential with the United States, and some temporary uncertainty related to domestic policies in the context of the 2017 budget discussions.

MACROECONOMIC OUTLOOK AND RISKS

A. Context

6. Notwithstanding past progress, Jordan continues to face high vulnerabilities and challenges. Higher growth is needed to boost job creation—especially for women and youth—and to meet the needs of a quickly growing working-age population. Jordan's external and fiscal positions need to be strengthened to increase the economy's capacity to withstand shocks. Public debt is high and needs to be placed firmly on a downward path to lower vulnerabilities and bolster confidence.

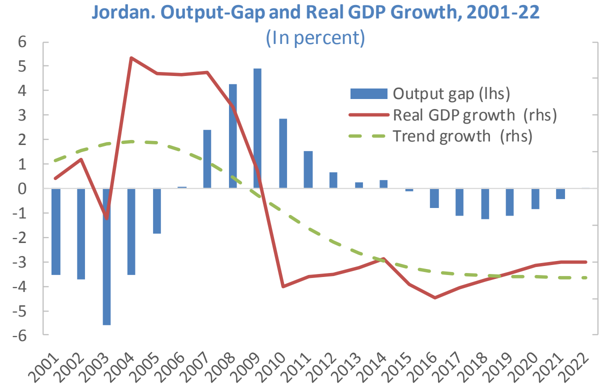
7. The authorities' economic program—underpinned by their Vision 2025 and supported by the Fund, other multilateral agencies, and the donor community—is rightly focused on tackling these challenges. The program's main objective is to enhance inclusive growth by sustaining macroeconomic stability through gradual fiscal consolidation, while advancing structural reforms to strengthen growth, competitiveness, and job prospects, while fostering equity, fairness, and good governance.

B. Outlook

8. With persistent headwinds, the macroeconomic framework is more conservative relative to the EFF request. This revision is warranted by the lower-than-expected 2016 growth outturn, the reduced level of reserves, and relatively dim prospects for a material improvement of Jordan's regional environment, as well as the impact of continued tense security conditions on tourism and investment. The difficult regional context will also continue to mute most of the potential benefits from reforms on growth, as no significant change in the external outlook is assumed, including from the resolution of the conflicts in Iraq and Syria. Specifically:

- ***Real GDP growth has been revised down to 2.3 percent in 2017***, about 1 percentage point lower than anticipated at the onset of the program. Over the medium term, growth is expected to increase gradually to 3 percent (1 percentage point less than initially envisaged) supported by the implementation of structural reforms and greater certainty and confidence stemming from fiscal consolidation.

Jordan. Output-Gap and Real GDP Growth, 2001-22
(In percent)

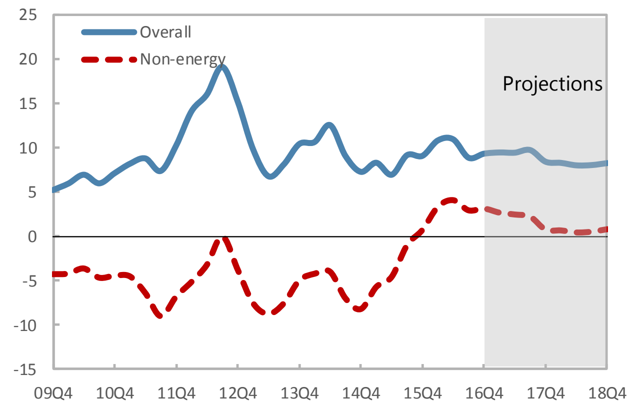


Sources: Department of Statistics; and IMF staff estimates.

- ***Headline and core inflation will stabilize at a moderate level,*** as the impact of the removal of tax exemptions and other price shocks fades over time, and as global food inflation eases over the medium term.

- ***The current account deficit will decline gradually.*** In 2017, a gradual recovery of exports, travel receipts, and remittances, and a further decline in non-energy imports (reflecting in part higher customs duties) will be partly offset by an expected rebound in energy imports. Over the medium term, stronger exports (stemming in part from the agreement with the European union), and some import compression and substitution linked to fiscal consolidation and structural reforms will be the main driver of a further reduction of the current account deficit, to about 6 percent of GDP.

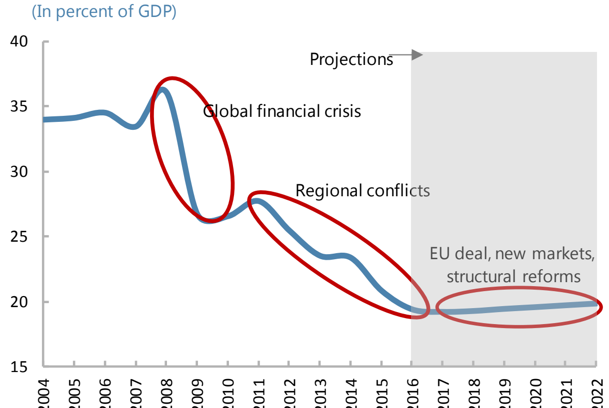
Jordan: Current Account Deficit
(In percent of GDP, 4-quarter moving average)



Sources: Central Bank of Jordan; and IMF staff calculations.

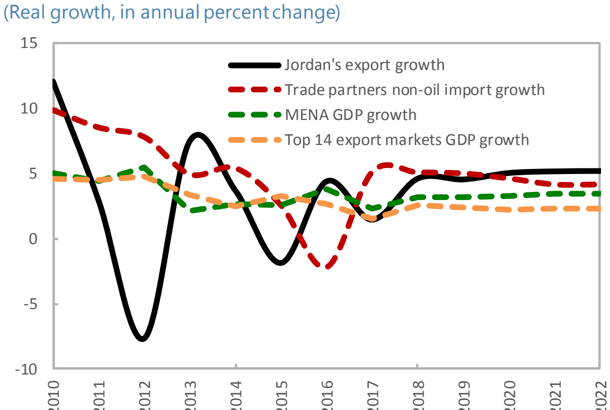
9. **The outlook remains subject to considerable risks.** An escalation of regional conflict would further weigh on exports, tourism, investor confidence, and FDI. Additional refugee inflows could increase pressure on Jordan's fiscal accounts, infrastructure, and the quality of government services. And although the GCC seems to have absorbed most of the recent decline in oil prices, the impact on its corporate and financial sectors has perhaps not been played out in full, with potential additional spillovers to Jordan. A surge in the U.S. dollar could undermine Jordan's competitiveness and growth prospects and lead to a greater overvaluation of the real exchange rate (Box 2 and Annex II). Program implementation risks remain a concern given the country's difficult regional, security, and socio-political environment. Continued progress in implementing macro-critical fiscal and structural reforms is key to Jordan's outlook, and slippages here might undermine prospects for a strong rebound in competitiveness and economic performance in the event of an improved

Jordan: Merchandise Exports
(In percent of GDP)



Sources: Jordanian authorities and Fund staff calculations.

Jordan: Exports and Trade Partners' Growth
(Real growth, in annual percent change)

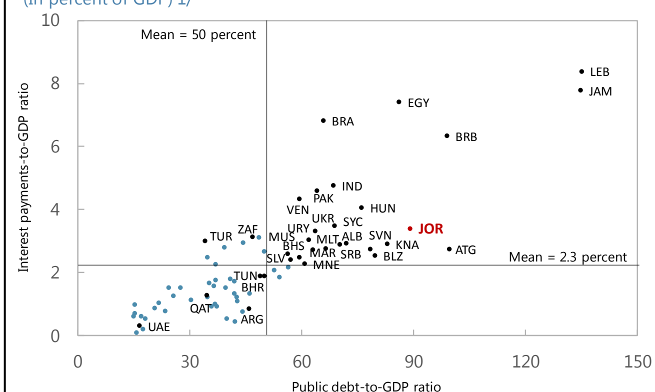


Sources: WEO; and IMF staff calculations.

regional environment. On the upside, recent indicators suggest that some of the unfavorable shocks of 2015–16 may start to turn around gradually in 2017, particularly regarding tourism and remittances. In addition, Jordan's growth and external position could be positively affected through several channels, including greater investment in nonrenewable energy (including to tap its large shale oil reserves), and the importation of cheaper natural gas from Mediterranean sources from 2019 on. Other key factors could include: the involvement of Jordanian businesses in the reconstruction of Syria and Iraq; faster-than-expected engagement by domestic companies in the EU agreement, and implementation of the agreement with Saudi Arabia on large investment projects. While underscoring the challenging regional, economic, and social conditions and their implications for the outlook, the authorities were hopeful that the recent improvements in exports, tourism, and remittances could bring a better outlook for 2017 and beyond.

10. With tight limits on what the authorities can realistically achieve in terms of adjustment and reform, particularly in the face of protracted regional conflicts, continued donor support is critical for the success of the authorities' program. Were the outlook to deteriorate further, the economy could be exposed to unfavorable debt dynamics—including from idiosyncratic shocks to risk premia and domestic borrowing costs, with adverse consequences for stability and growth. In such an environment, a combination of an extended adjustment horizon and increased concessional financing would be required, including beyond the program period. While the financial support from donors under the Jordan Compact has increased in terms of concessional financing and off-budget grants, further budgetary grant support of at least $600 million is needed in the second half of 2018 to alleviate spending pressures and provide financing assurances.[4] Without such support, the prospects for a 2018 turnaround in the public debt-to-GDP ratio remain at risk.

Public Debt and Interest Payments in Jordan and EMs
(In percent of GDP) 1/



Sources: WEO and Fund staff calculations. 1/ Averages over 2013-15, sample of 72 EMs.

MACRO-FINANCIAL POLICIES TO PRESERVE STABILITY AND GROWTH

11. The authorities emphasized the need for continued macro-critical reforms to support fiscal consolidation and lessen vulnerabilities, while ensuring that these remain conducive to improved growth prospects. It was agreed that this will require a difficult balancing act between

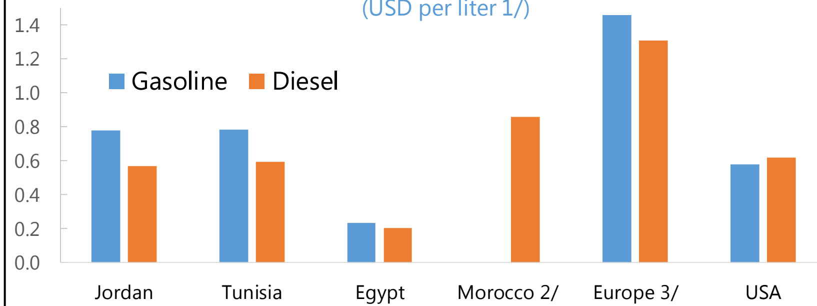
[4] According to the Ministry of Planning and International Cooperation (MOPIC), Jordan has secured 60 per cent of the funding required under the 2016 Jordan Response Plan (JRP) to the Syrian crisis, double what was obtained in each of the previous three years.

advancing fiscal consolidation and implementing structural reforms in a way that preserves and stimulates growth. Sustained fiscal consolidation will reduce debt sustainability risks, bolster domestic sentiment, and stimulate investment, while providing greater scope for monetary policy to support domestic conditions, minimizing any potential negative impact on domestic demand and reserves. The authorities also noted that the risks in such strategy made the implementation of structural reforms all the more important to preserve favorable conditions. They have recently announced the Jordan Economic Growth Plan 2018–22, which includes a sizable set of measures, with emphasis on investment and increased private-sector involvement (Box 3).

A. Proceeding with a Credible and Lasting Fiscal Consolidation

12. The authorities were satisfied with the 2016 fiscal outcome and stressed the importance of staying on course during 2017. They emphasized that, despite lower-than-expected nominal growth, the two end-December 2016 fiscal performance criteria had been met—the criterion on the combined public deficit had been met by a significant margin (0.9 percent of GDP). While noting the difficulties faced in implementing fiscal adjustment in recent years, they reaffirmed their commitment to a strong program of consolidation, emphasizing that the 2017 budget law was even more ambitious in terms of adjustment than the program targets. They also underscored that the adoption of the electricity-tariff adjustment mechanism, and the adoption by Cabinet of an updated action plan for the water sector, would better underpin the impressive turnaround in NEPCO's financial position and strengthen WAJ's financial performance. The authorities recognized that the composition of the 2017 adjustment was not fully in line with what had been envisaged under the EFF, with a reduced reliance on high-quality measures such as the removal of GST and customs-duties exemptions. The authorities noted the social difficulties that resulted from the economic slowdown and rising unemployment. They stressed that the difficult post-Karak security and socio-economic environment demanded a more gradual approach on removing exemptions, as well as stepped up social protection, which they intended to implement in 2018–19. It was agreed that this strategy would help keep the program underpinned by high quality measures. They also noted that some of the alternative measures implemented, such as the increase in fuel excises and the rationalization of non-priority current spending, were of good quality.

Fuel Prices in 2016
(USD per liter 1/)



Sources: International Energy Agency, Jordan Petroleum Co., IMF, and IMF staff estimates.
Notes: 1/ Average of monthly prices from March to December 2016; 2/ Gasoline prices were not available; 3/ Average of data from France, Germany, Italy, Spain and UK.

Jordan: Fiscal Reform Measures and Yields, 2017 (In millions of Jordanian dinars)		
Measures	**EFF**	**Approved Budget**
Goods and services tax	309	102
Customs duties exemptions	0	100
Fuel Excise	120	187
Others 1/	21	242
Total	**450**	**631**
Total in percent of GDP	**1.5**	**2.2**

1/ Others include other taxes, fees, licenses, permits and savings from capital spending.

13. Looking ahead, a gradual pace of fiscal consolidation will continue and will aim at putting public debt firmly on a downward path. Staff emphasized that, despite the difficult economic environment, the pace of adjustment over the program period should remain in line with the path envisaged at the time of the EFF request (at about 1.5 percent of GDP a year), with no scope at this juncture for back-loading or easing the adjustment profile.[5] However, it was agreed that, in view of the more conservative growth assumptions, the program would aim at bringing public debt down to 77 percent of GDP by 2022 (one year later than initially envisaged), which would require additional measures beyond the program period, of about 1 percent of GDP in 2020. The authorities remained committed to continued fiscal consolidation beyond the program period. Staff also noted that, were growth to exceed projections, consideration would need to be given to saving part of the resulting fiscal over-performance to retire debt. The authorities agreed, while also noting that the path for consolidation may need to be revisited in 2018-19 should changing macroeconomic conditions warrant a shift in emphasis to support growth.

14. Fiscal consolidation will continue to be underpinned by revenue- and equity-enhancing tax reforms (MEFP, ¶7)**.** The main focus will remain on broadening the tax base (through amending the income tax law in 2017 and removing additional GST and customs duties exemptions in 2018-19). The authorities stressed the importance of supporting this strategy with specific measures to firmly tackle tax evasion, which would help muster greater support for other tax reforms, while also containing non-priority current expenditures and preserving social and capital expenditures. These measures will aim to balance efficiency and distributional objectives (Box 4), through:

- ***A gradual removal of tax exemptions.*** Following the removal of several GST exemptions, the authorities reiterated their commitment to the continued removal of GST and customs duties

[5] This assessment is in line with the findings of the 2015 Crisis Program Review, as a more ambitious adjustment might hinder growth further and prove counterproductive in reducing public debt. See: https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr15563

exemptions in 2018–19.[6] To alleviate the impact of this reform on the most vulnerable, basic food products and medicine will remain exempt while the authorities will establish, with the assistance of the Fund/World Bank, a targeted compensation measure and strengthened social safety net.

- ***Amending the income tax law to broaden the tax base and make the system more progressive*** (MEFP, ¶7)**.** With about 95 percent of the population not paying income taxes, the draft amendments will primarily seek to: (i) reduce the income tax thresholds for individuals and families toward international standards, and (ii) increase the taxation of other sources of income. The reform will also make the personal income tax rate schedule more progressive, aim at unifying the corporate income tax rates for nonbank corporations, and align this unified rate with the maximum personal income tax rate. The reform is expected to be submitted to parliament by end-September 2017 (structural benchmark, reset from end-2016), be enacted by end-November (structural benchmark, re-set from end-March 2017), and to come into effect in 2018, as envisaged under the EFF request.

- ***Step up tax compliance*** (MEFP, ¶12)**.** Building on the recent progress in strengthening the GST compliance management framework, the authorities have prepared an action plan to tackle the tax-administration weaknesses identified by the joint IMF-USAID Tax Administration Diagnostic Assessment Tool evaluation. To improve the fairness of the tax system, the authorities will aim at expanding the number of Jordanians subject to tax, notably by: accelerating improvements to the Pay As You Earn (PAYE) system for large taxpayers to ensure better compliance (end-March 2018 benchmark); improving taxpayer registration; stiffening penalties for tax evasion; and increasing compliance among self-employed persons.[7] The authorities are working on the creation of a Financial Crime Investigation Unit that would help support these efforts.

- ***Containing wage bill growth, better targeting transfers, and strengthening the social safety nets.*** The authorities will continue to prudently manage the nominal growth of the public wage bill, in line with inflation and consistent with program commitments. They will also continue implementing their plan to clear the government's energy and health arrears by 2019.[8] For energy arrears, the 2017 budget allocation for arrears clearance was increased significantly. For health arrears, the authorities also increased the budget allocation while adopting measures—including a more systematic verification of applicants' income and insurance, and increased use of public hospitals—to ensure that free health services are only provided to the low-income uninsured. The authorities and staff agreed on the need to improve the targeting of social safety net programs, to mitigate the impact of adjustment on the poor and most vulnerable.

[6] As part of the 2017 revenue package, the authorities removed exemptions on a large number of items that were exempted or subject to the 0-, 4-, and 8-percent rates. In particular, the GST rates on some non-basic food items, fertilizers, and construction materials (reinforcement bars) were increased to the standard 16 percent.

[7] According to USAID, only 7 percent of wage earners filed a tax return in 2015.

[8] As of end-2016, the combined stock of health and fuel arrears amounted to 2.4 percent of GDP.

15. The authorities continued to implement other structural fiscal reforms to reduce public debt and strengthen the fiscal policy framework. Specifically, they have:

- published their medium-term **public debt management** strategy (MTDS, end-September structural benchmark) and prepared ahead of schedule an action plan to restructure the Public Debt Directorate (PDD, end-December benchmark). The MTDS will help better balance Jordan's debt profile and financing mix, while raising the average maturity of domestic debt, and enhancing market access (MEFP, ¶13). The reorganization plan aims, among other goals, at building capacity in the middle and front offices of PDD.

- strengthened **public financial management** (MEFP, ¶10), including through implementing phase II of the roadmap for IPSAS implementation (mid-November 2016 structural benchmark) and preparing cash flow statements on a cash basis. They will now focus on phases III-VI of the plan, which concern accounting and reporting of all assets and liabilities (Phase III central government, Phase IV state-owned enterprises, Phase V general government and Phase VI consolidation of general government and state-owned enterprises). The next step is to prepare the cash flow statements on an accrual basis. To improve transparency, the authorities included in the 2017 draft budget law detailed estimates of tax expenditures. The authorities have also made significant progress in recording the trust accounts' entries appropriately as revenue and expenditure. They classified the accounts by purpose and use, and will consolidate them into the fiscal tables published in the government finance bulletin (end-February benchmark) starting in June 2017 (reset to mid-June benchmark).

16. The authorities considered additional reforms that would strengthen the fiscal policy framework. The Minister of Finance saw considerable merits in adopting some type of fiscal rule in the coming years that could enhance predictability and provide a better anchor for fiscal policy to deal with shocks, the business cycle, and the need to reduce public debt over the medium term. He also saw benefits from a public expenditure review to identify potential areas for expenditure rationalization, which could support consolidation and potentially lessen the need for revenue measures. Such a review could also enhance medium-term expenditure planning, raise public awareness on public sector efficiency, and set the stage for a discussion on the design of a fiscal rule.

17. The authorities emphasized the need to accelerate public investment but recognized the need to improve efficiency and the assessment of fiscal risks (MEFP, ¶11). With limited fiscal space and a declining share of capital expenditure, the authorities noted that Jordan has increased its reliance on Public Private Partnerships (PPPs) over the past several years. A recent IMF technical assistance mission assessed the current framework supporting public investment, noting that a large efficiency gap had emerged relative to other emerging markets, particularly in infrastructure, with public investment being highly procyclical and volatile. With one of the largest stocks of PPPs among emerging markets, staff emphasized the needs to strengthen the planning, allocation, and implementation of public investment, with emphasis on strengthening the quality of strategic planning, the oversight and disclosure practices in PPPs, and public sector companies' governance, with a view to containing and minimizing fiscal risks. Discussions with authorities and senior officials from several ministries revealed the need to promote investments in critical areas in the years ahead, most notably in water, electricity, and other key sectors, such as health and education. Staff agreed that relying on PPPs would help shift some capital expenditure away from the budget and accelerate projects by engaging the private sector. However, staff expressed concerns about temporarily exempting critical sectors from the PPP law (as is the case for water and electricity) and urged the authorities to better assess contingent liabilities for all projects and sectors with a consolidated view to minimize risks to public finances and debt.

The Sustainability of the Electricity and Water Sectors

18. The authorities see the new automatic electricity tariff adjustment mechanism as an important step to help preserve NEPCO's operational cost recovery and reduce its vulnerability to exogenous shocks (Box 5 and MEFP, ¶8). In particular:

- ***The shift to LNG had a higher-than-expected positive impact on NEPCO's operational breakeven Brent oil price—which staff estimates at $51–53 per barrel—while also lowering its sensitivity to oil price fluctuations.*** Based on the findings of the study on cross-subsidization and options for tariff adjustments in response to oil price changes (end-September structural benchmark), the authorities: (i) adopted a new automatic tariff adjustment mechanism (mid-December structural benchmark), which considers the system's (power plants, NEPCO and distributors) overall costs (not just the breakeven oil price) and provides for monthly adjustments in tariffs (based on the information on costs over the previous three-month period) to ensure NEPCO's operational balance over the calendar year; and (ii) reduced cross-subsidies by lowering tariffs on high-end consumers.[9]

- ***The Energy and Minerals Regulatory Commission (EMRC) has started implementing the tariff adjustment mechanism***. Based on NEPCO's financial results and Brent oil prices over the first few months of the year, it decided to keep the electricity tariffs unchanged in April as well as in May. Looking ahead, decisions on the distribution of tariff adjustments among consumer categories are expected to be guided by some of the scenarios in the cross-subsidization study. The implementation of the mechanism will be monitored by the World Bank and Japan's International Cooperation Agency for at least two years. To improve the sector's overall tariff structure, EMRC is preparing, with the help of a specialized consulting firm, a comprehensive study, which is expected to be finalized by end of 2017.

[9] See Selected Issues Paper on energy and water sectors reforms.

Average Share of Total Expenditure on Electricity and Water Across the Income Distribution

Income Quintile	Electricity Share	Water Share 1/	Difference to the Poorest Quintile for Electricity	Difference to the Poorest Quintile for Water
1 (poorest)	1.7	1.4	0	0
2	1.5	1.2	-0.2	-0.2
3	1.5	1.0	-0.2	-0.4
4	1.3	0.9	-0.4	-0.5
5 (richest)	1.3	0.8	-0.4	-0.6

Source: World Bank calculations based on the Household Income and Expenditure Surveys of 2010 from the Department of Statistics of Jordan.
1/ It only includes water and wastewater services provided by WAJ and its distribution companies.

19. The updated action plan to reduce the water sector's losses was adopted by Cabinet and published (MEFP, ¶8)**.** This updated plan takes into account the additional demand from Syrian refugees, as well as past and possible future electricity-tariff increases, and the sector's substantial capital expenditure requirements. It aims at bringing WAJ and distribution companies to operational and maintenance cost recovery by 2020, including through enhanced revenue collection, energy efficiency, and greater use of renewables. The authorities also made further progress in implementing the cost-reducing and revenue-enhancing measures envisaged under the initial and updated plans, and they expected WAJ and distribution companies to reach close to 90 percent of operational cost recovery by end-2017. With risks of higher generation costs and tariffs in the electricity sector over the medium term, staff noted the importance of assessing upside risks to water tariffs in order to continue protecting WAJ's finances. The Ministry of Finance and WAJ are discussing a first draft of WAJ's debt management strategy, with support from external donors, aimed at centralizing WAJ's debt management and capital investment financing while covering WAJ's operational and maintenance deficit through budget transfers from 2018 onward.

B. Preserving Monetary and Financial Stability

20. The authorities remain fully committed to keeping the exchange rate peg, supported by adequate reserves, as the anchor for monetary and macroeconomic stability (MEFP, ¶14)**.**

- ***Preserving the peg***. With agreement that the exchange rate peg has been an important anchor for the economy, and that Jordan's reserve buffer remains comfortable, staff emphasized the critical need for fiscal adjustment—along with continued donor grants and concessional financing—facilitate the external adjustment. Under the current external environment, the authorities noted that, while it was challenging for the economy to absorb large, adverse, and sequential external shocks, the peg still provided a critical anchor. Nonetheless, it was agreed that greater exchange rate flexibility would not be conducive to a socio-politically viable external adjustment, as such a shift would: (i) have a limited impact on exports, as access to key trading partners is constrained by conflict; and (ii) leave the brunt of the adjustment on imports, which, along with heightened uncertainty (as the peg is abandoned), would have adverse consequences for growth and internal stability under an already very difficult regional and external environment. Still, staff noted that over the medium term, if Jordan's extraordinarily challenging external environment persisted, the authorities might need to consider recalibrating policies to facilitate the external adjustment.

- ***External position assessment.*** While recognizing the methodological difficulties and uncertainties in estimating the impact and persistence of regional conflicts, staff noted that Jordan's external position is assessed to be weaker than warranted by fundamentals and desirable policy settings. This assessment indicates an overvaluation of the real exchange rate of 2-22 percent—depending on the methodology used (Annex II). The authorities viewed the overvaluation on the lower side of the estimated range. It was agreed that the implementation of appropriate policies, particularly continued fiscal consolidation, and competitiveness-enhancing structural reforms should help reduce external imbalances over the medium term, and support the peg.

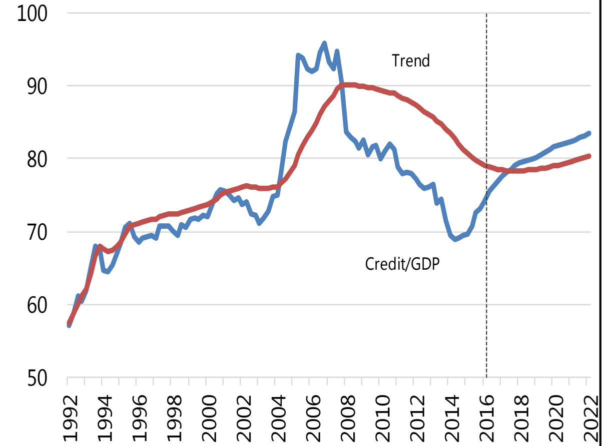
21. The authorities stressed that monetary policy was instrumental in helping revive credit growth in 2015–16. There was agreement that the CBJ's gradual reduction in policy rates over that period, and the increased gap between the policy and deposit window rates, had helped redirect excess liquidity toward added lending, while lowering deposit and lending rates (Figure 4). This has been supported by the CBJ's scaling up of its credit facilities to small-and medium-size enterprises (SMEs)—with further support from donors—combined with an opening to Islamic banks of its program of subsidized medium-term funding to priority sectors. Since mid-2015, the CBJ has also allowed the interbank rate to hover below the policy rate (with the rate differential being gradually reduced from 75 bps in May 2016 to 30 basis points in May 2017). While recognizing that these measures have helped stimulate credit to the economy, staff emphasized that a persistent gap between the policy and interbank rates could bring some uncertainty regarding the future stance of monetary policy and could eventually undermine the signaling role of the CBJ's key policy tools.

22. In view of recent pressures on reserves and the gradual increase in U.S. interest rates, the CBJ has appropriately started to tighten its monetary stance. In staff's view, this tightening is consistent with the CBJ's primary objective of supporting the peg through the maintenance of adequate reserves. While reserves and dollarization have stabilized recently, a rebound in deposit dollarization and further declines in nonresident deposits cannot be ruled out. In this context, staff was reassured by the authorities stated readiness to increase policy rates if needed. This firm stance, along with the decline in the current account deficit and greater reliance by the government on foreign currency borrowing than envisaged at the time of the EFF request, will help support domestic liquidity conditions and contribute to a gradual build-up of reserves toward 125 percent of the reserve adequacy metric over the medium term.

23. The banking system remains well capitalized, profitable, and robust to shocks.

- ***The capital adequacy ratio, at 19 percent, is well above the regulatory minimum of 12 percent*** (MEFP, ¶15-16). Liquidity buffers also remain comfortable (Figure 5). Banks enjoy healthy profitability and have built up provisions while non-performing loans have been gradually declining, partly reflecting write-offs and restructuring. Despite a pick-up in credit to the private sector over the last two years, the credit gap remains significant (at about -5 percent at end-2016). At the same time, the financing provided by the banking sector to the government, which declined from 40.7 percent of GDP at end-2015 to 37.6 percent of GDP at end-2016, is expected to fall further with fiscal consolidation and a shift to external borrowing over the medium term. Therefore, these factors will leave room for a further expansion of credit over the medium term without triggering a need for increased capital requirements.[10] While credit to households (mortgages and retail) has risen rapidly in recent years, the average loan-to-value (LTV) ratio on mortgages declined to 66 percent in 2015. In the absence of undue increases in housing prices or in NPLs, no immediate action appears required at this stage, but the CBJ should remain vigilant and continue to monitor conditions closely.

Jordan: Credit-to-GDP Ratio, 1992–2022
(In percent)



Sources: Central Bank of Jordan, and IMF staff estimates.

- ***Stress tests conducted by the CBJ—including sensitivity analyses and macroeconomic scenarios—confirm the banking sector's resilience to shocks***. Specifically, the system can tolerate sizeable shocks such as a significant drop of GDP growth, increased NPLs, fall of stock prices, depreciation of the dinar, and withdrawal of deposits (Box 6). Stress tests also underline the need to maintain close attention to credit-concentration and interest-rate risks. In the instance of severe and protracted new shocks, such as persistently low growth and significantly higher interest rates, the banking system's asset quality and capitalization would be markedly affected. Nonetheless, the system's currently high levels of capitalization and profitability would continue to provide an important buffer.

- ***Further progress is being made to strengthen the financial sector supervisory framework*** (MEFP, ¶17)**.** The CBJ issued in November Basel III regulations on capital requirements. It is now

[10] The credit gap is defined as the difference between the credit-to-GDP ratio and its long-term trend, where this trend is calculated using the methodology outlined by the Basel Committee on Banking Supervision (BCBS), (see BCBS, 2010. *Guidance for National Authorities Operating the Countercyclical Capital Buffer*). Under Basel III, the credit gap is used as a reference point for assessing the need for a countercyclical capital buffer. It is suggested that a capital buffer be considered when the credit gap exceeds 2 percent, with the buffer gradually increasing from 0 percent (for a gap of 2 percent) to 2.5 percent (for a gap of 10 percent or more).

finalizing the regulations on domestic systemically important banks and, as a first step toward issuing the regulations on liquidity, has conducted a quantitative impact study of liquidity coverage ratios. The CBJ is confident that the banks' capital and liquidity buffers will allow them to smoothly meet the new requirements. As part of the new supervision framework for microfinance institutions, the CBJ has also continued working with these institutions to help them meet the new framework's licensing requirements. The transfer to the CBJ of the supervision of the insurance sector is now expected to be finalized in early 2018. A first attempt at a balance sheet analysis of the Jordanian economy also points to several issues that the authorities will have to address to reduce potential vulnerabilities over the medium term, including: the increasing reliance of the government on financing from the Social Security Investment Fund (SSIF); the limited size of the nonbank financial sector (excluding the SSIF); and the need to improve sectoral balance sheet data.[11]

- ***Efforts to strengthen the AML/CFT framework are gradually shifting from improved regulations to more effective implementation*** (MEFP, ¶18). The CBJ has started implementing the risk-based framework for offsite supervision for banks and money exchange firms and has started establishing such a framework for onsite supervision. The AML/CFT unit has reviewed the AML/CFT law and has drafted amendments to align it with Financial Action Task Force (FATF) standards. The unit has also initiated, with Fund technical assistance, a National Risk Assessment, which should be finalized by end-year.

ENHANCING THE CONDITIONS FOR INCLUSIVE GROWTH

24. Low growth and high unemployment is an important challenge. Over the past several years, labor force participation has declined, unemployment has increased, informality has risen (on the back of the large influx of Syrian refugees), with youth and female employment rates close to 10-year lows (Figure 6). Jordan faces one of the lowest participation rates for women (13.1 percent in 2016) among emerging markets and economies in the Middle East. Poverty has likely not abated since 2010—the latest year for which data are available—when an estimated 14.4 percent of the Jordanian population was below the poverty line and about 33 percent of households experienced "transient" poverty.[12] The Gini coefficient of 33.7 (as of 2010) placed Jordan at an intermediate level among a large group of countries (Figure 3).

25. A three-pronged strategy is in place to strengthen inclusive growth. This strategy is underpinned by measures aimed at strengthening private sector firm-level productivity, which are

[11] See Selected Issues paper on balance sheet analysis of the Jordanian economy.

[12] Jordan has not released poverty estimates since 2010, owing to data quality issues with the 2013/14 Household Expenditure and Income Survey (HEIS). The World Bank is working in close collaboration with the authorities to revamp the HEIS, with the next HEIS expected to start in July.

highly complementary for boosting growth, employment, and enhancing social outcomes.[13] These measures consist of: (i) facilitating access to finance; (ii) active labor market policies and reforms; and (iii) improving the business environment and governance. The strategy aims at better integrating firms into the economy, by strengthening their access to credit—particularly for SMEs, which comprise about 95 percent of the corporate sector—facilitating the resolution of insolvencies and of collateral requirements, and promoting financial literacy; enhancing the conditions for part-time employment, reducing the cost of labor and the gender gap; and simplifying customs and trade regulations.[14] Many of these reforms would also enhance the conditions for innovation, as Jordan lags several other economies, including in the region (Figure 7). Gradually reducing the gender gap could also significantly increase growth over the medium term. These reforms should also be complemented by the implementation of the Jordan Compact initiative aimed at promoting job creation for Jordanians and Syrian refugees in Special Economic Zones.

A. Facilitating Access to Finance and Promoting Financial Inclusion

26. The authorities remain actively focused on facilitating access to finance (MEFP, ¶21)**.** Financial inclusion indicators suggest a large potential for Jordan's economy to benefit from reforms that facilitate access, promote innovation, and enhance financial literacy (Figure 8).[15] The authorities have established a credit bureau, which will help expedite credit decisions for SMEs. The bureau is now receiving data from all banks and from some other financial institutions and has started compiling credit reports. It will expand its data collection to other nonbank financial institutions and to public utilities in the coming months, and is aiming at starting issuing scores in late 2017/early 2018. Access to finance by SMEs will also be greatly enhanced by the enactment of the secured transactions law (end-March 2017 structural benchmark, now likely by end-August 2017), which will allow the use of moveable assets as collateral. The recent allocation of additional resources (by the CBJ and commercial banks) to finance the operations of the Jordan Loan Guarantee Corporation (JLGC, which provides collateral to SMEs against a fee) and forthcoming creation of a $100-million fund (jointly financed by the CBJ and the World Bank and managed by the JLGC) to provide equity financing to SMEs and start-ups will also help in that regard.

B. Promoting Employment Through Labor Market Reforms

27. The authorities recognize the risks from high unemployment and see labor market reforms as a high priority. Accordingly, they:

- ***adopted a National Strategy for Human Resources Development***, which outlines a 10-year plan to improve elementary education, higher education, technical education, and vocational training. Consistent with this strategy, the Minister of Labor has updated the recommendations

[13] See "What's Holding Back the Private Sector in MENA? Lessons from the Enterprise Survey," 2016, by the EBRD, EIB, and World Bank.

[14] See Selected Issues paper on the reasons for low female labor force participation (FLFP) in Jordan, its macroeconomic impact, and the policies that can help increase FLFP to improve potential growth.

[15] See Selected Issues paper on the status of financial inclusion development.

of the 2011 National Employment Strategy, with a view to addressing skills mismatches, promoting gender equality, and reforming public sector hiring practices.

- ***will promote and facilitate employment.*** A decree providing for more flexible working hours was issued in March. To promote female employment, the authorities require large companies to provide childcare facilities within their premises. Most recently, they have submitted to parliament amendments to the labor law to allow companies to pool their resources and set up joint nurseries while increasing penalties for companies not complying with the law; and have started establishing new nurseries in the special economic zones. Staff suggested that the amendments should also include providing firms the option to subsidize childcare if there are impediments to setting up onsite or joint nurseries. This policy would promote employment in private nurseries and provide families and companies with increased flexibility. Staff also recommended the establishment and promotion of publicly funded nurseries for low-income employees working in SMEs. The authorities are also following up on the Prime Minister's 2014 directive for establishing nurseries in all public sector institutions. These policies should help lower childcare costs and make paid employment more attractive.

28. Staff stressed the critical importance of promptly exploring options and advancing reforms to reducing costs for formal job, especially for the youth and women, and promote job creation (MEFP, ¶22)**.** Following the experiences in other economies with similar challenges, a cut in social security contributions rates, and a revamped business-inspection law could help address informality in the labor market—reducing small businesses' costs, and lowering the burden on employees stemming from the authorities' tax reforms.[16] It could also help stimulate job creation, primarily among youth and women. Discussions focused on the possibility of a temporary reduction in social security contributions, which could be combined with parametric reforms to strengthen the Social Security Corporation's (SSC) ability to meet its future obligations. The authorities agreed that such a reform could help promote employment and tackle informality. However, they remained concerned about implementation risks, particularly in light of their recent efforts to strengthen the SSC's financial position following legislative amendments in 2014. Nevertheless, to better assess the potential costs and benefits of a new initiative in this area, the authorities agreed to support a study (to be led by an independent party) by end-March 2018 (structural benchmark) on options for temporarily lowering social security contributions, and for possible offsetting parametric reforms to maintain or even strengthen the Social Security Corporation's (SSC) actuarial position.[17] The authorities will also consider, as an alternative, adopting an income tax credit targeted at promoting formal jobs. The authorities have also taken steps to rationalize the inflow of new (non-refugee)

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[16] See Selected Issues Paper on some international experience with payroll tax cuts and their potential benefits for Jordan's labor market.

[17] An actuarial review of the SCC conducted in 2015 by the ILO recommended such parametric changes, including: a lengthening of the reference period for assessing average earnings; a lowering of pensions accrual rates; making early retirement pensions less generous; and gradually increasing the normal retirement age.

foreign workers and have promoted vocational training, which should help reduce skill mismatches, increase youth employment, and expand livelihood opportunities for Syrian refugees.

C. Improving the Business Climate and Governance

29. Reforms to strengthen the business environment focus on reducing the cost of starting and operating a business (MEFP, ¶20)**.** With a view to make the investment window of the Jordan Investment Commission fully operational by end-June 2017 (benchmark), the authorities launched the new "one-procedure one-form" registration process and standardized business classifications. Following extensive consultations with the private sector, the draft inspection law will likely be submitted to parliament before end-August 2017 (end-October 2016 benchmark). To help create a level playing field and facilitate new investment, the authorities are reviewing the competition framework to ensure independence of relevant agencies to monitor and enforce good market conduct.

30. The relaxation of rules of origin for exports to the EU in July 2016 provides an important opportunity to diversify markets and broaden the product mix (MEFP, ¶24)**.** The authorities have conducted 25 workshops on the agreement to raise local awareness of the EU initiative, explaining potential benefits and encouraging companies to take advantage of potential opportunities (including through assistance on marketing, technical requirements, and high shipping costs). They are also working towards setting an export house to assist exporters to the EU, to be followed by an export diversification strategy in advanced economies, to help address the decline in the exports-to-GDP ratio from 36 percent in 2008 to 20 percent in 2015. The study, expected to be published by end-June 2017, will include measures to improve competitiveness and bolster export growth.

PROGRAM RISKS AND MODALITIES

31. Performance criteria for end-June and end-December 2017, as well as indicative targets for end-September 2017, end-March 2018, and end-June 2018 are proposed to be set as per Table 1b of the MEFP. The definition and number of targets were kept unchanged. Some delayed structural benchmarks were re-set, while new ones were set though mid-2018 (Table 2 of the MEFP).

32. Financing. The financing gap estimated for 2017 and the first half of 2018 is about $1.7 billion, of which $0.4 billion would be covered by the Fund, $0.9 billion would be financed by loans from the World Bank and official bilateral donors, and $0.4 billion by off-budget grants under the Jordan Compact (for resilience and programmatic support). Financing assurances for 2017 and the first half of 2018 have been obtained from these donors. There are good prospects that there will be adequate multilateral and bilateral financing for the remainder of the program. The remaining unidentified budget grant financing needed for the second half of 2018 is critical to support the authorities' policy efforts and program goals, and is expected to be mobilized as part of donors' commitments made at the London Conference in early 2016 and reiterated at the Brussels

Conference in 2017. Given the worse current account deficit in 2016 and higher accumulation of net foreign assets by the commercial banks, the authorities did not meet the end-December 2016 performance criterion on the CBJ's NIR and are not expected to be able to fully compensate this NIR shortfall through 2017.[18] While the authorities have taken corrective action, most notably by increasing their policy rates, the accumulation of NIR has been re-calibrated to follow a more gradual pace over the program period, taking into account that part of donor financing (including to cover unidentified budget grants) will materialize later than initially expected. On the other hand, the initial path envisaged for gross usable reserves remain attainable under the baseline, which would approach 125 percent of the RAM towards the end of the program, as projected in the program request.

Jordan: External Financing Gap, 2017–19

(In US$ million)

	2017		2018		2019		2017–19	
	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
Financing gap	**2,361**	**1,453**	**1,490**	**3,210**	**96**	**274**	**3,947**	**4,858**
IMF	**288**	**230**	**192**	**276**	**96**	**115**	**576**	**622**
Identified financing	**1,052**	**1,222**	**937**	**1,076**	**0**	**159**	**1,989**	**2,378**
World Bank 1/	140	304	447	364	0	0	587	668
EU and bilateral loans	435	520	171	477	0	80	606	1,076
Eurobond		0		0		0	0	0
Jordan Compact off-budget grants	477	399	319	235	0	0	796	634
Unidentified multilateral and bilateral financing	**1,021**	**0**	**361**	**1,858**	**0**	**0**	**1,382**	**1,858**
Of which: expected as budget grant financing	323	0	361	608	0	0	684	608
Of which: expected as debt financing 2/	698	0	0	1,250	0	0	698	1,250

Source: Fund staff projections.

1/ Including the grant component under the Concessional Financing Facility.

2/ Including through issuance of Eurobonds.

33. In view of delays in concluding the first review, the authorities requested a re-phasing of the remaining access. The program would now have five instead of six reviews, with the access envisaged under the sixth review (of 20 percent of quota) reallocated to the four remaining reviews (Tables 6, 7, and 8).

34. Jordan's capacity to repay the Fund remains adequate. Jordan has continued to meet its repayments' obligations to the Fund. Both Fund credit outstanding and repayments to the Fund are still expected to decline over the program period. Fund credit is projected in 2017 at 11.8 percent of exports of goods and non-factor services (GNFS) and declining to below 7 percent of the exports of GNFS in 2019, whereas repayments will peak at 3.8 percent of exports of GNFS in 2017.

35. External arrears. Jordan has outstanding arrears to an official bilateral creditor, which continue to be deemed away under the Fund's policy on arrears to official bilateral creditors, as the

[18] At the EFF request, the issuance of non-guaranteed Eurobonds was considered in the calculation of the NIR adjustor for end-December 2016. Staff is now proposing to exclude these non-guaranteed bonds from the calculation of the adjustor starting in 2017 (see TMU, paragraphs 13, 17, and 21).

underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears. Staff will continue to encourage the authorities to seek a Paris Club-comparable treatment from the creditor.

36. Safeguards. An update safeguards assessment of the CBJ was completed in November 2016 (MEFP, ¶26). The assessment found that the CBJ continues to strengthen its safeguards framework, including through recent amendments in the central bank Law that reinforced governance arrangements and established independent oversight of the bank's audit mechanisms and internal controls. Financial reporting practices have a narrow deviation from the International Financial Reporting Standards with respect to the revaluation differences. Staff recommended explicit disclosure of the deviation in the financial statements, including the impact on the financial position. The CBJ is making good progress with implementation of the recommendations.

STAFF APPRAISAL

37. Significant progress has been made in preserving macroeconomic stability and external viability in recent years. The economy has remained resilient, the exchange rate peg has been an important anchor to the economy, reserves are at comfortable levels, and the financial system is sound and well capitalized. Significant progress has been made in reducing the fiscal deficit, and monetary policy has helped revive credit and support growth. These conditions owe much to the authorities' sustained policy and reform efforts.

38. Nevertheless, the economy continues to face difficult challenges. Real GDP growth is below potential, unemployment is high and rising, particularly for youth and women, public debt is elevated, and social conditions have become more difficult. Regional conditions, including protracted conflicts and the refugee crisis from Syria, continue to take a toll on sentiment, public finances, investment, and the external current account deficit, which remains sizable. Aside from these adverse conditions, there is evidence that Jordan's economic performance in terms of productivity and per capita income growth have lagged other emerging markets, even prior to those adverse shocks—indeed, ever since the aftermath of the global financial crisis. This requires a rethink of policies and the implementation of reforms to boost investment and productivity, put public debt decisively on a path toward more sustainable levels, and enhance fairness and socio-economic conditions.

39. The authorities' program is rightly focused on tackling those challenges. A gradual and steady fiscal consolidation, led by reforms to the tax-exemptions framework and income tax, is critical to preserve macroeconomic stability, stabilize and reduce public debt, help public finances rest on a structurally sounder foundation, and lessen risks to debt sustainability. Along with prudent monetary policy, staff also view the fiscal strategy and associated adjustment as critical to address the overvaluation of Jordan's exchange rate and preserve its external sustainability over the medium term. With the external position assessed to be weaker than fundamentals and desirable policy settings, these policies would also help strengthen the external position, bolster investor confidence, and lessen vulnerabilities. They will also provide a solid foundation for other structural reforms that would preserve and enhance conditions for more inclusive and higher growth.

40. Significant progress is being made toward putting public debt on a downward path. While Jordan's difficult security and socio-political environment has resulted in a delay in the full implementation of some macro-critical fiscal reforms, staff is encouraged by the authorities' reiterated commitment to see these reforms through over the program period. The further removal of GST and customs duties exemptions and the amendments of the income tax law will help close a significant part of the fiscal gap for 2018-19. Other reforms, to tackle tax evasion, to limit non-priority current expenditures, and the greater reliance on Public Private Partnerships, could help close the remaining fiscal gap through 2019. Staff is encouraged by the measures taken to better target the procurement of free health services, which need to be implemented promptly and decisively to avoid their recurrence, and promote the reduction, of arrears. The adoption of the new automatic electricity tariff adjustment mechanism is also a key step toward sheltering NEPCO's operational balance from oil price fluctuations. The EMRC needs to implement promptly the mechanism as envisaged and further explore options to optimize cross-subsidization, including through the replacement of price subsidies for low consumers by mean-tested credits for the poor. The updated action plan on how to reduce the water sector's losses should also be implemented promptly, along with an assessment of risks from higher electricity costs to the level of water tariffs, to contain the financial drain of the sector on the public finances.

41. Monetary policy has been appropriately focused on supporting the peg, while staff is encouraged by the ongoing reforms to preserve the financial sector's resilience. With a tight balance of payments and prospects for further increases in U.S. interest rates, the authorities must stand ready to further increase the interest differential with the United States in the event of pressure on reserves. The banking system's high levels of capitalization and profitability provide important buffers to deal with a broad range of sizable and protracted shocks. However, the CBJ needs to continue monitoring closely the potential impact of higher interest rates and the rapid increase in household credit. The gradual move to Basel III, along with the authorities' decision to complement it with a 1.5-percent capital buffer, will help bolster further the sector's resilience. The ongoing strengthening of the supervision of insurance companies and microfinance institutions will help strengthen their finances and contribute to their development. Staff encourages the authorities to consider an update to the 2008 Financial Sector Assessment Program within the next two years.

42. Reforms to facilitate access to finance and improve the business environment should be complemented by decisive action to promote better conditions in the labor market. The development of a financial inclusion strategy, along with the initiatives to support credit to SMEs and the much-needed enactment of the secured transactions law, will help broaden financial access, especially for women, the poor, and SMEs, increase the synergies between financial deepening and economic development, and lower borrowing costs in the years ahead. The government should expedite the reforms to improve the business environment, including measures to simplify regulatory process, improve legal stability, predictability, and the rule of law, and enact the inspection law. Ambitious reforms are also necessary to lower the formal cost of labor, especially as the large number of refugees in the labor market have increased the relative cost of formal employment. A fiscally neutral reduction in social security contributions and/or an employment tax credit could help buffer such impact, and help promote greater formalization of jobs, particularly for youth and women.

43. Continued donor support through budget grants remains critical to program success. The hosting of Syrian refugees continues to weigh heavily on growth, the balance of payments, and public finances. Under the Jordan Compact, additional budgetary grants are needed to alleviate these pressures and help the authorities meet their program's debt reduction and inclusive growth objectives.

44. Risks remain sizeable and skewed to the downside. Most prominent are the external risks, including those stemming from the persistence or intensification of the conflicts in Syria and Iraq and from the impact on Jordan of the adjustment efforts in GCC countries. A rebound in the oil price or a sharp appreciation of the U.S. dollar would also put additional pressure on Jordan's external accounts. The recent agreement with the EU is an important step toward increasing exports, which should help in the transition until regional conflicts abate and provide Jordan an opportunity to boost growth and employment more decisively. The authorities' commitment to preserving sound policies and comfortable reserves are important to lessen risks from a sharp rise in risk premia and financial market volatility.

45. Staff supports the completion of the first review and the proposed re-phasing of access. It also supports the waiver of nonobservance of end-December 2016 performance criterion on the NIR of the CBJ—in view of the corrective action taken by the authorities, including further tightening of the fiscal stance in 2017 and increases in CBJ's policy rate, and CBJ's commitment to tighten further its monetary stance if pressures on reserves persist.

46. It is proposed that the next Article IV consultation with Jordan take place on a 24-month cycle in accordance with Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96), as amended).

Box 1. Past Fund Staff Advice and Implementation

Macroeconomic policies have been broadly consistent with staff advice. In particular:

- ***Maintaining the momentum on fiscal and public utility reforms to reduce the still rising debt, while making policies more equitable and growth-friendly.*** The authorities reduced the combined public deficit of the central government and of NEPCO from 9.4 percent of GDP in 2013 to 2.8 percent of GDP in 2016 (and a projected 2 percent of GDP in 2017). At the central government levels, they took measures to increase revenue—including increases in excises and fees, the new income tax law, and the removal of some GST and customs duties exemptions —and to contain spending. Progress in reducing the primary budget deficit was, however, slower than expected, owing to the need to accommodate the fiscal costs of refugees, external shocks, and some fiscal slippages in 2015. The implementation of the electricity sector medium-term strategy, including a tariff increase in January 2015 and the shift to liquefied natural gas as the main primary energy source in mid-2015, along with the drop in oil/LNG prices, allowed NEPCO to reach operational cost recovery ahead of schedule. Progress in making policies more equitable and growth-friendly was more limited, reflecting in part difficulties in passing tax revenue measures. Households were, however, exempted from electricity tariff increases while the CBJ has taken measures to broaden access to finance, including through the licensing of a credit bureau, and the development of financial education and of mobile banking.

- ***Preserving reserve buffers at a time of high uncertainties while further enhancing the resilience of the financial sector.*** Notwithstanding severe external shocks, the CBJ maintained an adequate level of reserves, while the banking sector remains sound overall. The CBJ has started publishing quarterly financial soundness indicators and issuing Basel III regulations, and has strengthened it stress-testing a macro-modeling capacity.

Progress on the structural front was more mixed.

- ***Fostering inclusive growth and job creation by generating a business environment more conducive to investment.*** The business environment was strengthened through the new investment law and the launch of a one-stop shop for investors. Once fully operational, the credit bureau will help facilitate credit risk assessment and access to finance for SMEs.

- ***Revisiting public sector hiring and compensation while equipping new entrants with private sector skills and addressing the constraints to female labor market participation.*** Labor market reforms were limited, owing in part to the difficult social and economic environment. The central government wage bill was, however, reduced from 5.3 to 5.0 percent of GDP from 2013 to 2016 through freezes in hiring outside of the education and health ministries and caps on wage increases.

- ***Enhancing the quality of institutions.*** A new public investment management framework was adopted in 2015 and should contribute to strengthening the design, assessment, prioritization and implementation of public investment and PPP projects. While budget preparation and execution was strengthened, including through the deployment of GFMIS, progress in consolidating trust accounts and addressing health arrears has lagged. Amendments to the CBJ law were adopted in 2016, which should help to foster transparency and align CBJ's autonomy and oversight with best practices.

Box 2. 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-to-Medium Term Risks			
Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe	***High*** Trade with Iraq and Syria has been affected strongly. Although the influx of refugees has mostly stopped, there are over 600 thousand registered refugees in Jordan; and the authorities estimate that the total number is substantially higher (1.3 million). Jordan's role in the coalition against ISIS is increasing security spending. Escalation of the regional conflicts could also lead to a sharp rise in oil prices, with negative regional and global spillovers.	***Medium-High*** Refugees continue to weigh on Jordan's fiscal accounts, infrastructure, and social fabric. The persistence of regional conflict could result in further disruptions in external inflows (tourism and FDI), capital outflows, a prolonged interruption in regional trade, and lower growth. Limited progress integrating refuges into the economy, or renewed refugee inflows, would exacerbate pressures. As Jordan remains highly dependent on energy imports, substantially higher oil prices would further increase the trade deficit, undermine reserve accumulation, and potentially weaken the finances of key public utilities	(1) Higher grants from donors are needed 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 ease fiscal pressures and instill confidence in the economy; (3) Maintaining adequate reserve buffers; (4) Searching for alternative trade routes and markets for Jordanian products; and (5) Continued diversification of Jordan's energy mix and maintaining adequate reserves to buffer the impact of higher oil prices.
Short-Term Risks			
Significant further strengthening of the US dollar and/or higher rates	***High*** A decompression of term premia, or a more rapid Fed normalization could amplify financial market volatility and lead to further strengthening of the dollar.	***Medium-High*** A dollar surge would put pressure on Jordan's competitiveness. Heightened volatility in global financial markets could negatively impact Jordan's market access, given still sizeable external financing requirements in 2017 and a negative credit outlook for some of Jordan's credit ratings.	(1) Maintaining appropriate monetary policy to preserve an adequate level of reserves; (2) Implementing structural reforms to improve competitiveness; and (3) Implementing the envisaged fiscal consolidation to reduce borrowing needs, and lower public debt, and preserve creditworthiness.

[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 2. 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 potential difficulties in implementing revenue reforms by the central government as well as structural reforms in key sectors.	***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) Ensuring strong outreach to relevant (domestic and external) stakeholders. (3) Develop target compensation mechanisms for vulnerable population segments
Donor fatigue	***Medium-High*** 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 crowding out capital projects and 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 the event 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, undermining confidence in the peg	(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 lower 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

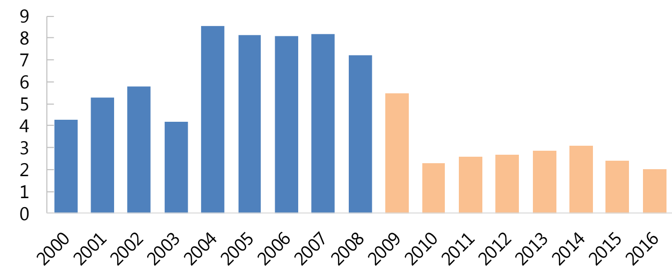
[2] While the authorities are committed to reforms, the rating reflects factors outside their control, such as difficult socio-economic conditions, including from Syrian refugees and capacity limits.

Box 3. Jordan Economic Growth Plan 2018–22

The Jordan Economic Growth Plan 2018–22 (JEPG) is a comprehensive strategy to reignite economic growth in Jordan in the coming five years. It includes a comprehensive set of reforms and investment projects aimed at accelerating the pace of growth of the Jordanian economy.

The JEPC includes a detailed set of interrelated policy actions and public and private investment projects. The first pillar of JEPC is to preserve macroeconomic stability by addressing the high level of debt through a combination of fiscal consolidation and growth. Specific policy actions would foster the ease of doing business by reducing unnecessary red tape, facilitating the access to credit, reforming economic legislation, and streamlining Jordan's economic judicial procedures. Publicly and privately funded new infrastructure will enlarge the productivity gains due to these policy reforms. JEPC lists a set of projects to digitalize the Jordanian economy and upgrade its transportation, tourism, energy and water facilities.

Real GDP Growth, 2000–16
(In percent)



Sources: Department of Statistics; and IMF staff estimates.

This plan shares many targets with those under the EFF program. The JEPC notes the importance of a successful implementation of the Fund-supported program to preserve macroeconomic stability and enhance inclusive growth. Several structural reforms and sectoral targets in the JEPC are part of the authorities' program: (i) the increase in efficiency of tax collection as well as the rationalization of unwarranted tax exemptions; (ii) the maintenance of NEPCO's operational balance; (iii) the ease of access to credit through proper monetary policy and needed legislative reforms, such as the Insolvency and the Secured Lending laws; (iv) enhance the ease of doing business and investing with new legislation and streamlining procedures, as in the program's benchmarks on the Inspection law and the Investment-window at the Jordan Investment Commission.

Box 4. Tax Reforms

A removal of General Sales Tax (GST) exemptions is expected to contribute significantly to the adjustment in 2017–19 and bring the fiscal position to a more structurally sound basis:

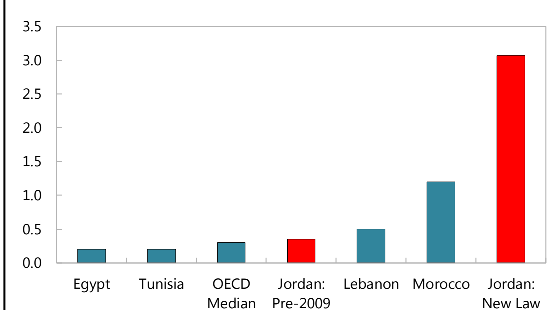
- **GST exemptions have contributed to lower GST efficiency and revenue with limited offsetting benefits**. Removing these exemptions and unifying GST rates at 16 percent would help increase tax revenue, be neutral to investment and production decisions, and facilitate tax administration, thereby contributing to reducing avoidance and evasion. The negative impact of these reforms on the poor is expected to be limited, as they are most likely under the GST threshold and tend to rely more on informal markets for their purchases. Under the original program commitment, the expected yield from GST in 2017 was about 1.1 percent of GDP, but the latest GST yield estimate is only 0.4 percent of GDP, as many non-basic goods and services continue to remain exempted.

- **Streamlining customs duties has the potential of attracting investment in a more effective and efficient manner**, through a simpler, fairer and more stable tax system, and can generate additional revenue. While the weighted average tariff rate is around 10 percent, the effective rate is only 3 percent, due to tax erosion from the large number of exemptions and preferential concessions. A first best option is to simplify the tariff structure, by reducing the number of rates and its dispersion, and by phasing out exemptions, except those on basic goods.

Jordan: GST Tax Expenditures and Reform Yield
(In percent of GDP)

Total tax expenditures (USAID, 2016)	**4.4**
GST Domestic	3.3
GST Imports	1.1
Minus:	
Fuel tax exemptions	1.5
Food and essential goods	0.6
Electricity	0.4
Other	0.2
Implementation lags and elasticity of demand	0.3-0.6
Original Expected yield in 2017	**1.1**
Loss from exemptions not removed	**0.7**
(On chemicals, iron products, luxury goods, non-basic foods items, industrial, construction and agricultural inputs, and many services).	
Revised yield estimates in 2017	**0.4**

Income Exempt from Personal Income Tax in MENA Countries
(In multiples of GDP per capita)



Source: IMF staff.

Personal income tax (PIT) revenues have been weak, reflecting a very narrow tax base. Currently, about 95 percent of the population is not subject to income tax, because of the high-income tax thresholds (above 3 times the per capita income, chart) and allowances. Tax revenue collections from individuals were only 0.4 percent of GDP in 2016, one of the lowest in the region. The possible way forward on PIT reforms are:

- **A substantial reduction in the PIT threshold and unification of nonbank corporate tax rates.** This could contribute to substantially raise revenue in an equity-enhancing way.
- **Make the personal income taxation more progressive**. The tax structure should be designed in such a way to increase the marginal tax rates on the upper income deciles by equity considerations into account, while also reducing the rate for the lower income deciles.
- **Expanding the tax base** to include investment income (dividends), accelerate PAYE system, minimum corporate income tax; increase tax rates for specific sectors, currently taxed at lower rates.
- **Address forcefully tax evasion**. Increased sanctions and penalties for tax evaders, by removing the bank secrecy laws, conducting risk based audits by sectors, cross-checking land registration and bank holding information of tax payers.

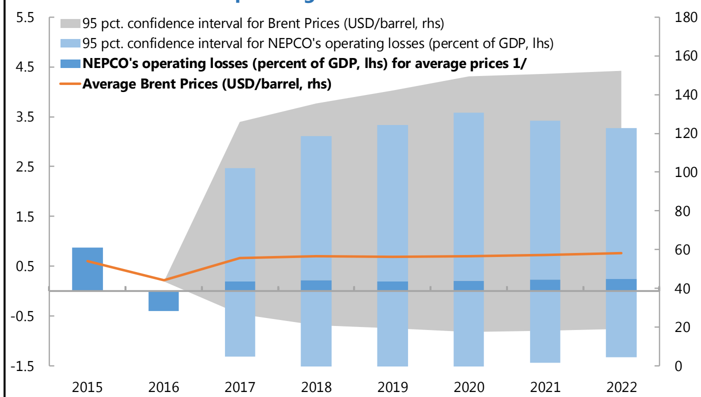
Box 5. Securing NEPCO Cost Recovery with an Automatic Tariff Adjustment Mechanism

New reforms aim at reducing NEPCO's vulnerability to shocks:

- ***Operational balance***. The medium-term strategy for the electricity sector combined tariff increases and a shift of most of generation from fuel oil and diesel toward mainly liquefied natural gas (LNG) and renewables, and was helped by the drop in oil/LNG prices. NECPO returned to operational balance in the second half of 2015 and maintained it over 2016, which suggests a cost recovery threshold for Brent oil estimated at about USD 51–53 per barrel.[1]

- ***Risks***. Future oil prices could exceed the cost recovery threshold in the following years. Thus, under the current tariff and cost structure, staff estimates that NEPCO's operating losses over the next five years could be about 1.3 percent of GDP. There are also substantial upward risks given the well-known volatility of oil prices and the fact that LNG prices are closely linked to Brent oil prices. New reforms are therefore necessary to reduce NEPCO's financial vulnerability to oil prices and lock in the gains made over the last few years.

NEPCO's Operating Losses and Brent Oil Prices



Source: Staff calculations from official data, IMF Primary Commodity Prices. 1/ Projections of NEPCO's operating balances from 2017 onwards assume the current tariff and cost structures according to which NEPCO's operanting balance deriorates by JD 15 million for every dollar increase in Brent oil prices.

- ***Objectives and Policies.*** The authorities have committed to maintaining NEPCO at operational balance during the program period and over the medium term and have adopted, and started implementing on January 1, 2017, an automatic electricity tariff adjustment mechanism. This mechanism will ensure the automatic pass through of the system's (power plants, NEPCO and distributors) overall costs (not just the breakeven oil price) to tariffs on a monthly basis to secure NEPCO's cost recovery over each calendar year. Further measures on the cost side include an increased reliance on renewables and alternative less-expensive sources of gas for electricity generation, including from the Mediterranean and Egypt.

- ***Design and best practice.*** The adjustment mechanism is being implemented by the Energy and Minerals Regulatory Commission (EMRC), and maps fuel costs and other electricity sector costs to the electricity tariffs paid by different categories of consumers on a monthly basis.[2] Performance indicators establish efficiency benchmarks for the generators, so as to provide incentives for a proper management of thermal plants, and to distribution companies. NEPCO is overseen by EMRC since 2015. The structure of the tariff adjustment will take into consideration its efficiency and social impact, building on the study on cross-subsidization and options for electricity tariff adjustments published on December 2016 and on the analysis of the tariff structure that EMRC is conducting with the help of a specialized consulting firm, which is expected to be finalized by the end of 2017. Reducing cross-subsidies is needed to avoid large consumers from reducing reliance on the grid and risk depriving the electric system of one of its main sources of revenue. The authorities started addressing this problem by reducing electricity tariffs of large consumers by about 8 percent on average in November 2016. The impact on the poorest segments of the population could be mitigated by targeting effectively the existing lifeline tariffs or by linking assistance to vulnerable groups to periods of high fuel prices, as the government did after the removal of general fuel subsidies in 2012. A three-month moving average update of the sector's costs will reduce the impact of highly volatile oil prices on end-consumers' welfare.

[1] Brent oil prices averaged US$44.05 per barrel in 2016, while NEPCO's operating profits amounted to 0.4 percent of GDP.

[2] After reviewing NEPCO's financial information for January and February 2017 and the evolution of Brent oil prices, EMRC decided to keep the electricity tariffs unchanged in April.

Box 6. Banking Sector Stress Tests

The CBJ regularly conducts stress tests (STs) to measure risks to the banking sector. A recent STs exercise by the CBJ, based on assumptions and scenarios that assume continued and more difficult macroeconomic conditions and shocks than usually assumed by the CBJ, allowed for an assessment of credit, market, and liquidity risks based on end-2015 bank-by-bank data. In general, the results continue to confirm a strong banking system.

On credit risk, the impact of a deterioration in loan quality on the total capital adequacy ratio (CAR) is assessed by applying:

- Up to 100 percent increase of NPL ratio to all banks;
- Default of largest three or six borrowers for each individual bank (concentration risk).

Results suggest that doubling the NPL ratio of the banking system would render a total of six small banks falling below 12 percent of CBJ threshold, and three of them, representing 4.2 percent of the banking system assets, below Basel minimum of 8 percent. The system's CAR would fall from 19.1 percent to 13.6 percent. Default of the largest six borrowers for each individual bank would also push six small banks below 12 percent, with one of them below Basel minimum ratio, and the system's capital will fall to 15.6 percent. In both cases, the CAR of the system would remain above the CBJ threshold.

On market risks, the impact on the total CAR from interest rate shock, foreign exchange rate shock, and stock price shock is assessed by applying:

- A 200 basis points of increase in interest rate;
- A depreciation of dinar against foreign currencies by up to 50 percent;
- A maximum of 50 percent decrease in stock prices.

Results show that an increase of interest rate by 200 basis points will bring six banks, representing 11.8 percent of the banking system assets, undercapitalized, and the system CAR would drop from 19.1 percent to 13.2 percent. With a 50 percent depreciation of the dinar, eight banks will fall below 12 percent but still above the Basel minimum ratio, and the system's capital would fall to 15.0 percent. Meanwhile, stock price risk is very small owing to very limited trading books: a 50 percent decrease of stock price will bring the system CAR from 19.1 percent to 18.1 percent, with no banks falling below the threshold.

On liquidity risk, a five-day and a 30-day test were conducted to assess the ability of banks to withstand one week or one month of persistent withdrawals. The simulations include a bank run with daily deposit withdrawals for liquidity outflows and different haircuts on interbank assets, equities, and government bonds for liquidity inflows.

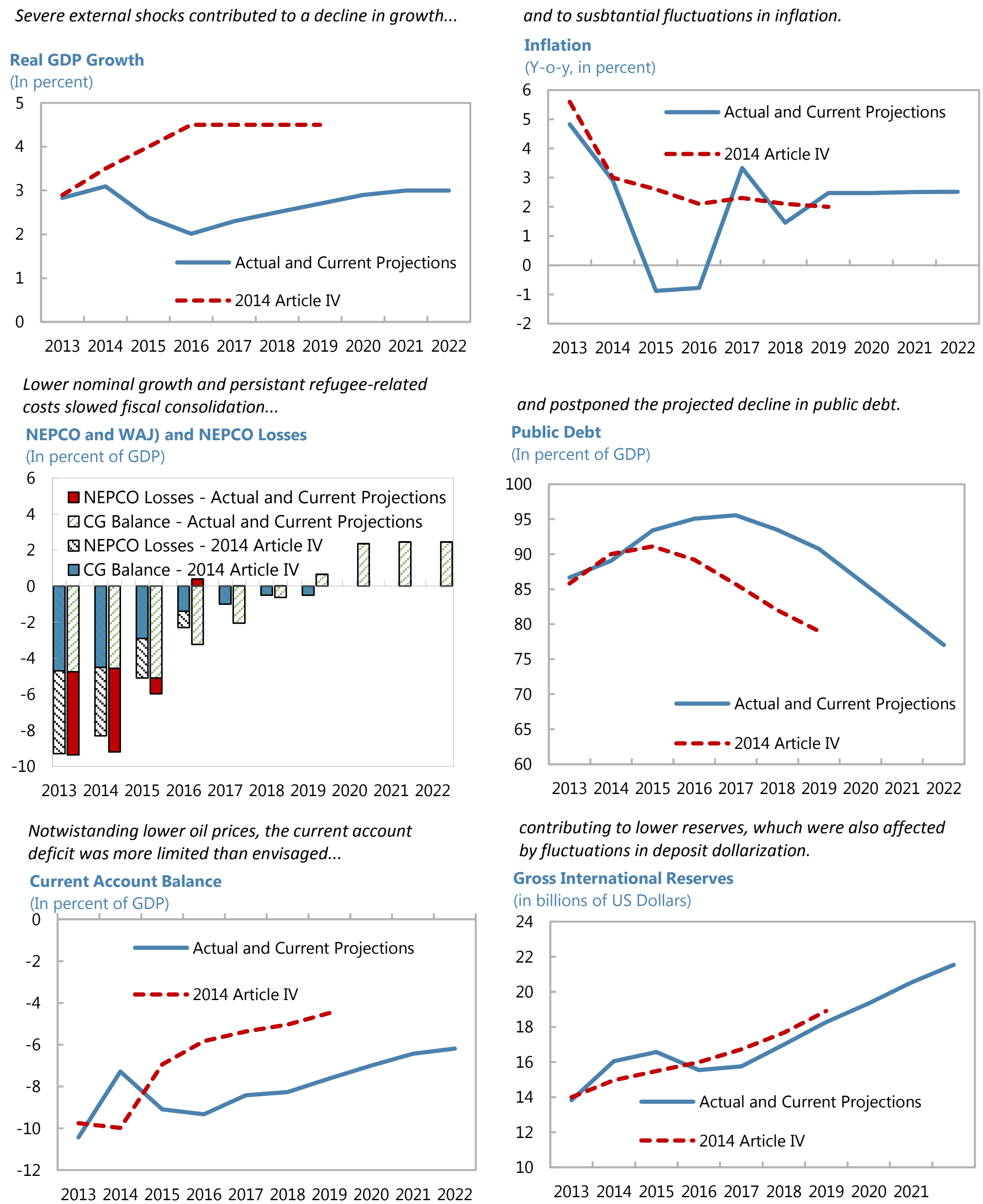
Five-day test results show that four small banks will become illiquid after five days of cumulative withdrawal of deposits, while 21 banks remain liquid. Under 30-day test, all banks would survive the cumulative withdrawal of deposits and loss of wholesale funding and remain liquid owing to sufficient liquidity inflows from the sale of securities.

On macroeconomic scenario stress tests, a baseline scenario and two adverse scenarios (mild and severe) were calibrated based on historic data and IMF staff's judgement. The scenarios were translated into shocks to GDP growth, NPLs, interest rates, and equity prices, over a three-year horizon.

The baseline scenario is based on IMF's World Economic Outlook (WEO) April 2016 projections, and the mild and severe adverse scenarios assume a shock equivalent to one and two standard deviations of real GDP growth from the baseline, respectively, with a (linear) positive adjustment to baseline in the third year after the shock.

Results show that under the severe adverse scenario, the system's capital would fall to 13.2 percent in in the second year, with four banks (representing 27.6 percent of the banking system's assets) falling below the Basel minimum ratio, and presenting a capital shortfall equivalent to 0.9 percent of GDP. The overall CAR remains above the CBJ threshold.

Figure 1. Jordan: Economic Developments Since 2014 Article IV, 2013–22

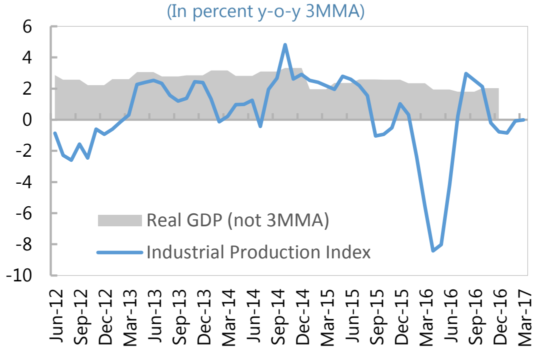


Sources: National Authorities and IMF Staff Calculations.

Figure 2. Jordan: High Frequency Economic Performance Indicators 1/

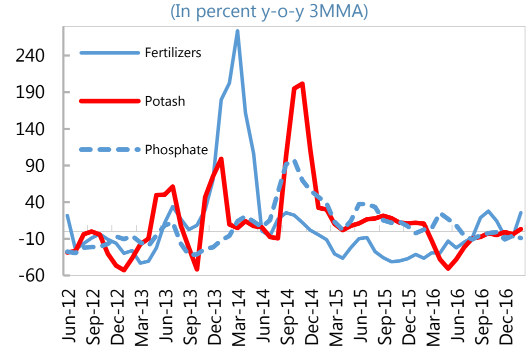
Industrial production decreased during the first half of 2016 and recovered afterwards…

Industrial Production Index
(In percent y-o-y 3MMA)



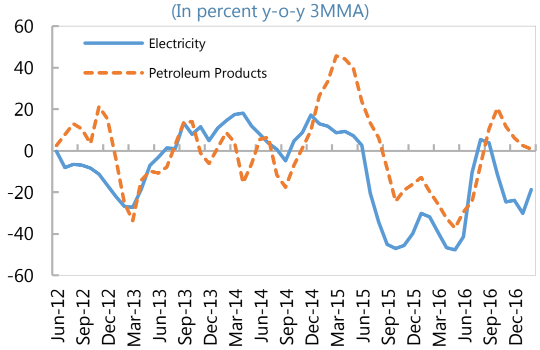
… mainly owing to fluctuations in potash production…

Fertilizers, potash and phosphate production
(In percent y-o-y 3MMA)



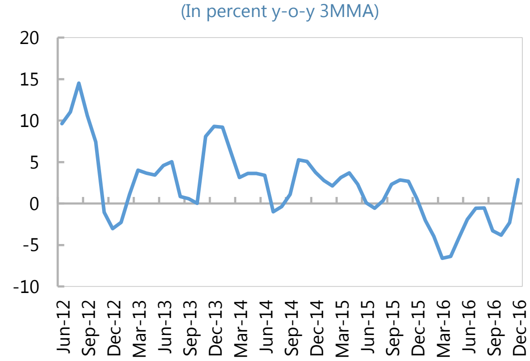
Electricity and petroleum products sales decreased due to the LNG terminal at Aqaba and a mild winter.

Electricity and petroleum products sold
(In percent y-o-y 3MMA)



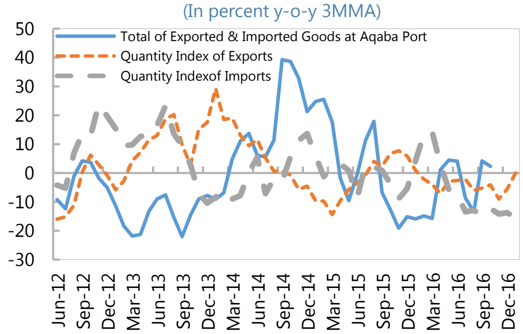
Remittances from GCC decreased, reflecting the slowdown in GCC countries, but are recovering.

Remittances
(In percent y-o-y 3MMA)



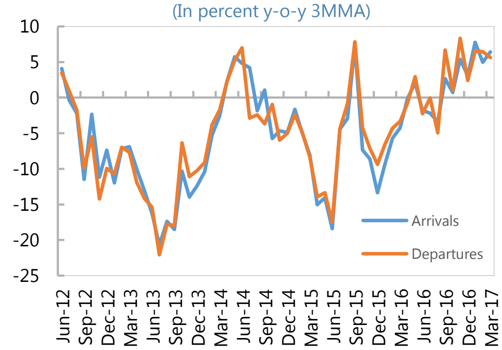
Imports and exports decreased, though exports have been strengthening since late 2016…

Exports and Imports
(In percent y-o-y 3MMA)



… and tourism is recovering.

Tourism
(In percent y-o-y 3MMA)



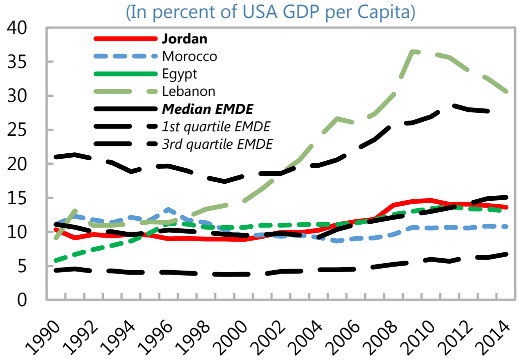
1/ Original monthly time series are: top-right chart, Industrial Production Index base 1999 up to December 2015 merged with the same time series base 2010, both from CBJ, and real quarterly GDP from the authorities; top-left chart, total tons of production for each series from CBJ; middle-left chart, total Kwh sold for electricity, and tons for petroleum products from CBJ; middle-right chart, total remittances in USD from CBJ; bottom-left chart, total tons traded at Aqaba port and index numbers from CBJ; bottom-right chart, total number of people from CBJ.

Figure 3. Jordan: A Look at Longer-Term Economic Performance

Convergence decelerated since the Global Financial Crisis…

GDP per Capita

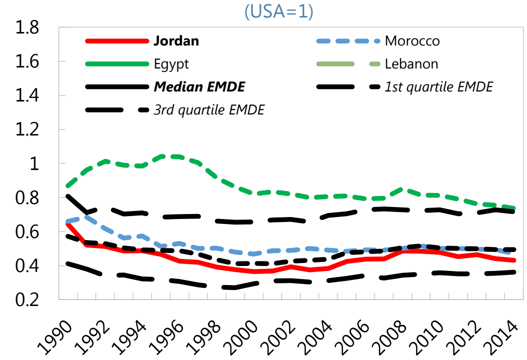
(In percent of USA GDP per Capita)



… due to sluggish TFP growth…

Total Factor Productivity

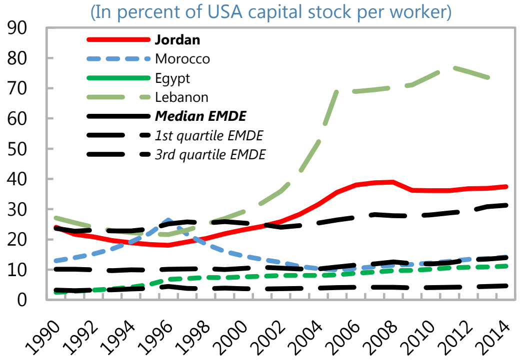
(USA=1)



… stable capital stock per worker…

Capital Stock per Worker

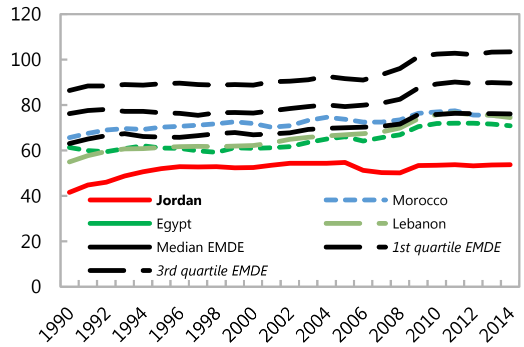
(In percent of USA capital stock per worker)



… and unchanged employment.

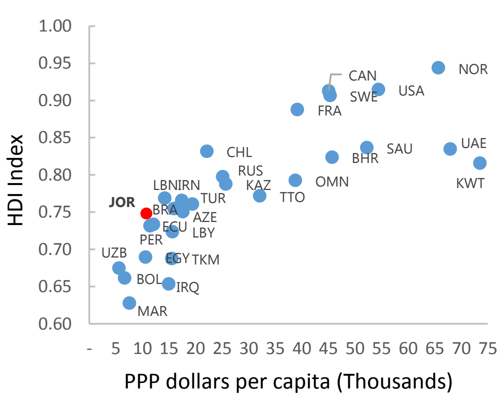
Employment to Population Ratio

(In percent of USA employment-population ratio)



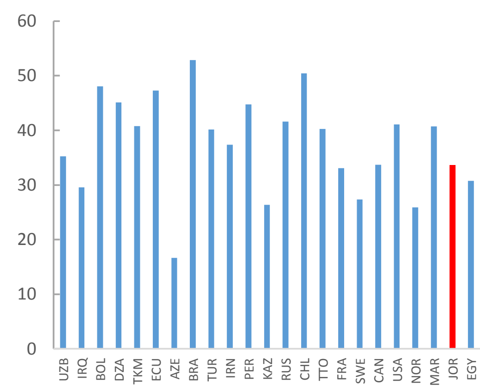
Jordan's human development compares relatively well for similar income levels.

Human Development Index and Per Capita PPP GDP



And its degree of inequality is intermediate.

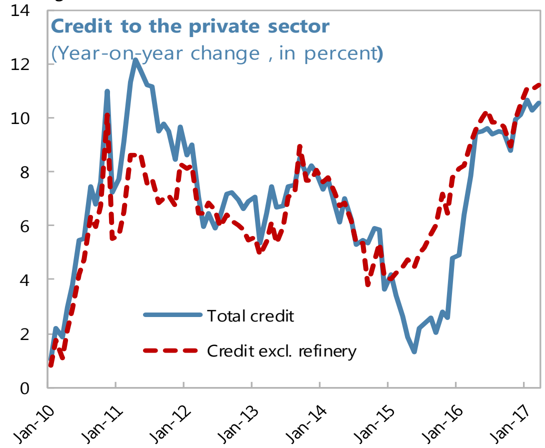
Gini Coefficient



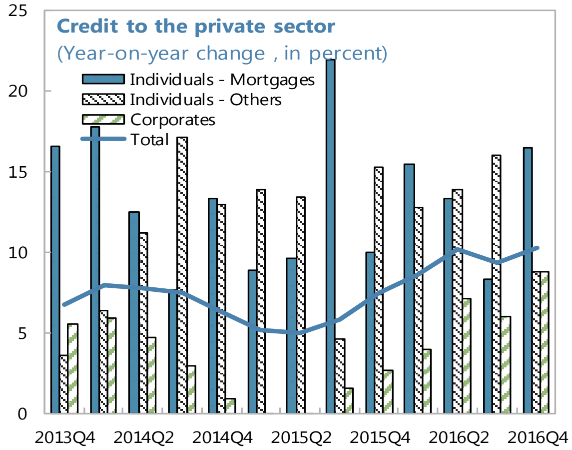
Sources: Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2013), "The Next Generation of the Penn World Table" available for download at www.ggdc.net/pwt; UNDP Human Development Report; World Development Indicators; and IMF WEO.

Figure 4. Jordan: Monetary Developments, 2010–17

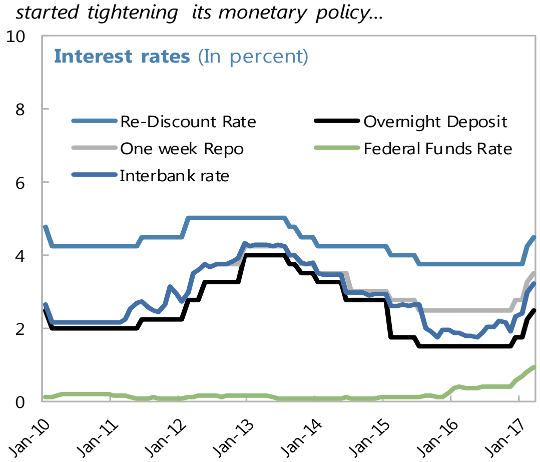
Credit to the private sector picked up during the second half of 2016…



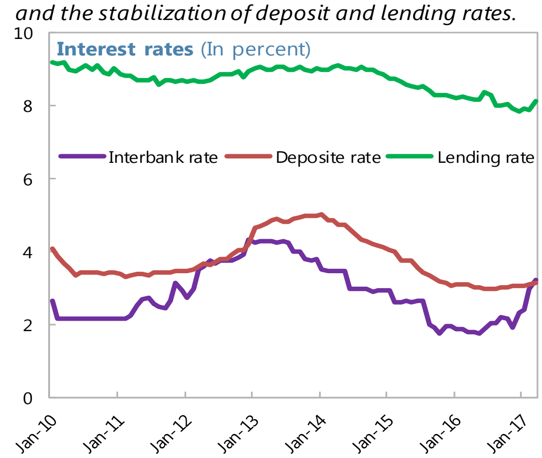
…reflecting a further acceration of credit to corporates and the continued dynamism of credit to households.



Following the U.S. Federal Reserve Bank, the CBJ has started tightening its monetary policy…

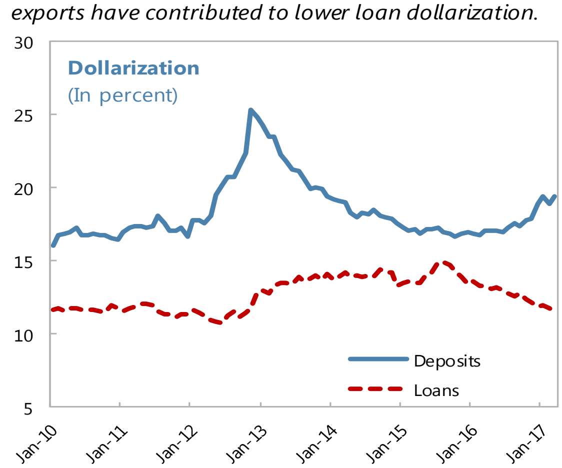


…contributing to an increase in the interbank rate and the stabilization of deposit and lending rates.



The increase in core inflation has contributed to a decline in real lending rates.

Deposit dollarization has rebounded, but declining exports have contributed to lower loan dollarization.

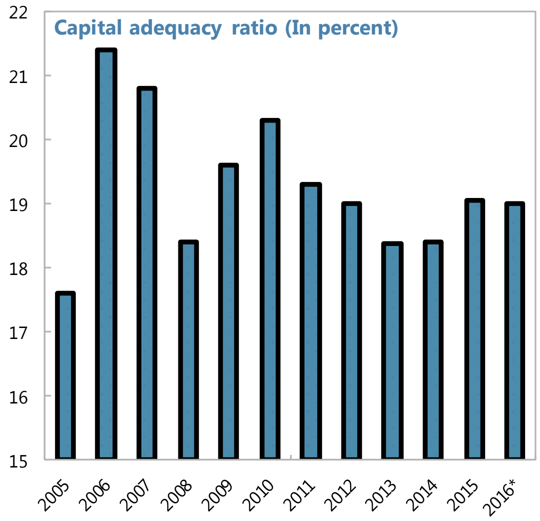


1/ Adjusted for core inflation.

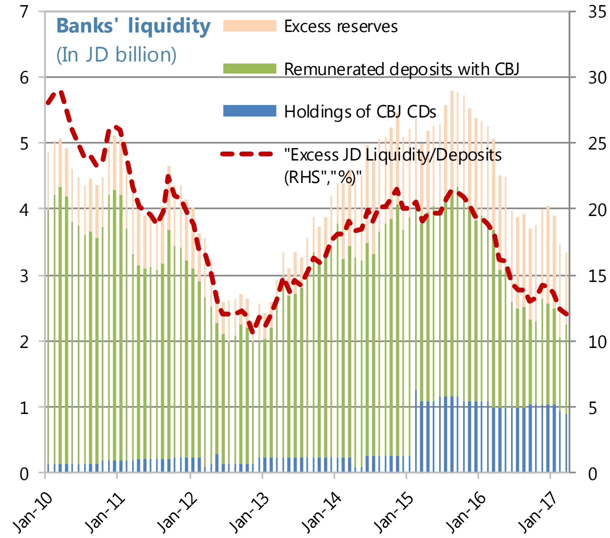
Sources: Jordanian authorities; and IMF staff estimates.

Figure 5. Jordan: Banking and Financial Developments, 2005–17

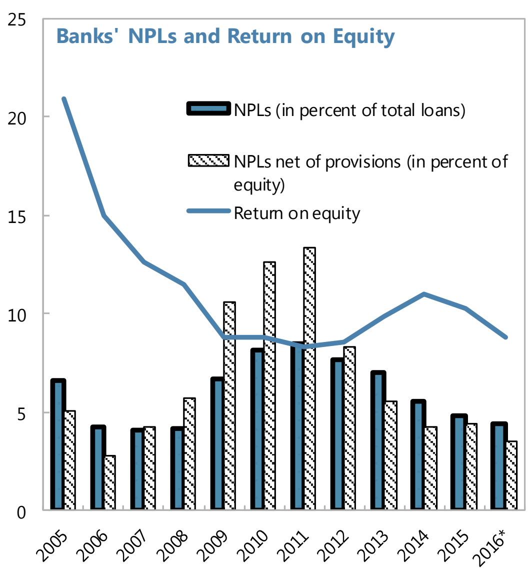
The banking sector continues to be well capitalized.



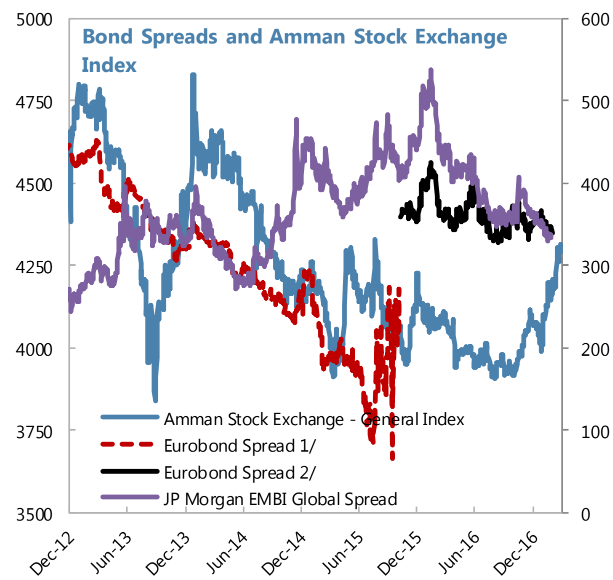
Liquidity has tightened over the last few months but remains comfortable.



While NPLs have continued to decline, profitability has receded.



Stock prices have rebounded recently.



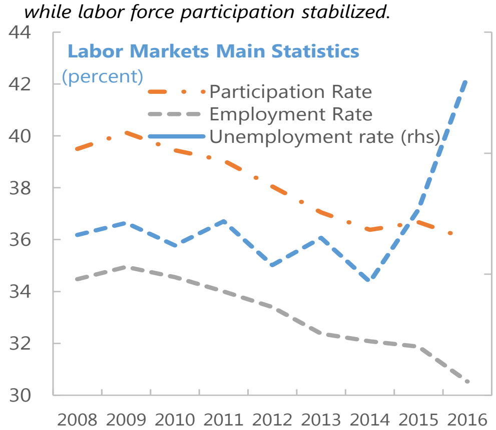
* Preliminary.

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

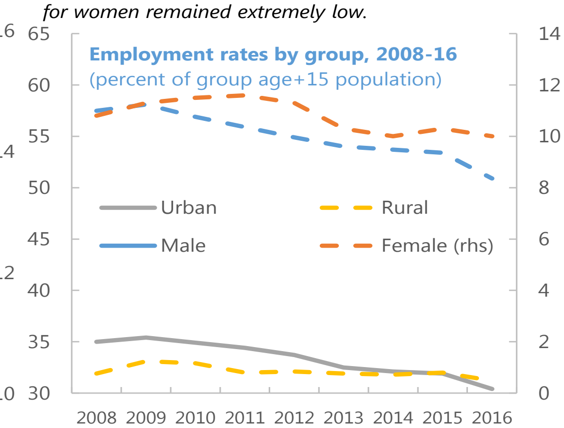
Sources: Jordanian authorities; Bloomberg; and IMF staff estimates.

Figure 6. Jordan: Labor Market Developments, 2008–16

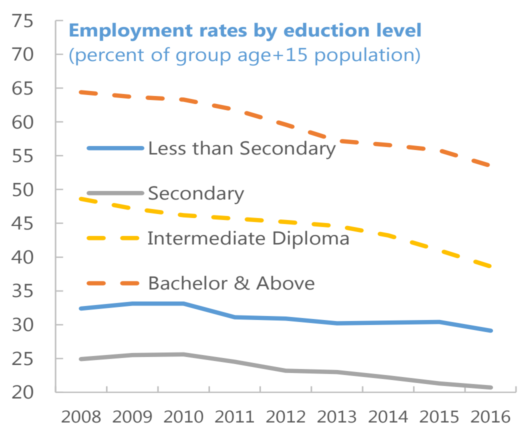
Unemployment has increased markedly since 2014, as the employment rate has continued to decline, while labor force participation stabilized.



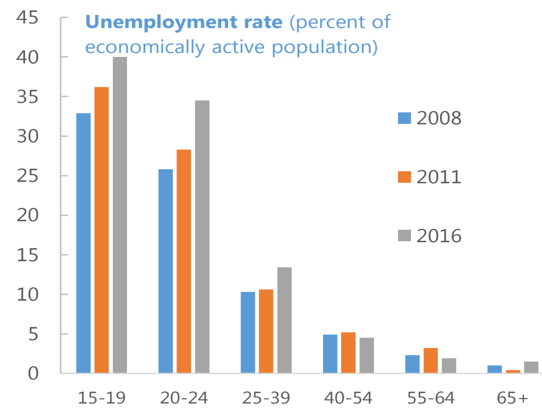
The decline in the employment rate was particularly marked for the urban and male groups, while the rate for women remained extremely low.



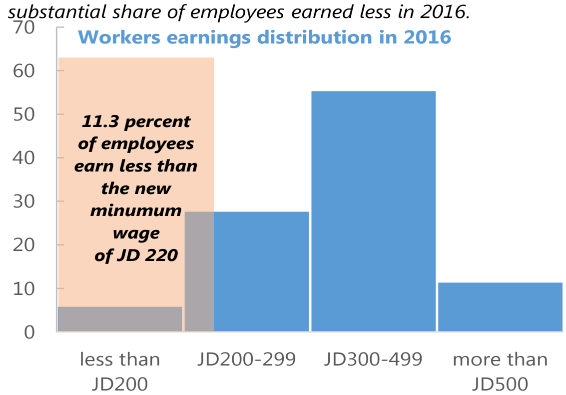
This decline and was particularly steep among the most educated groups.



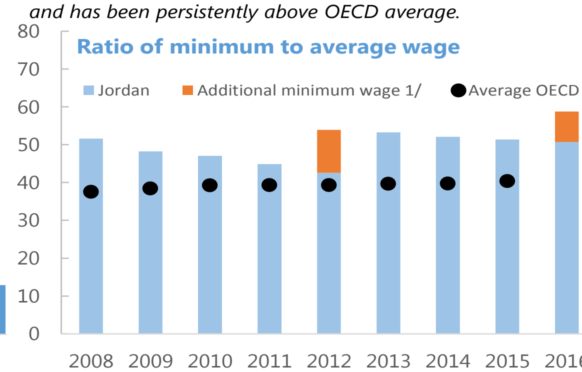
Unemployment grew the most among the youngest segments of the population, which already experienced the highest unemployment rates.



Agaist this background, Jordan increased the minimum wage by 15 percent to JD220 per month, while a substantial share of employees earned less in 2016.



Jordanian minimum wage grew more rapidly than the average wage the last two times it was increased and has been persistently above OECD average.

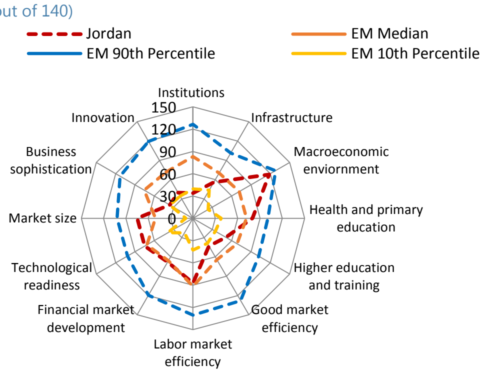


Sources: Survey of Employment and Unemployment of the Department of Statistics of Jordan; OECD.Stat.
1/ The Tripartite Committee for Labor Affairs increased the minimum wage for Jordanian workers from 150 JD per month to 190 JD per month in February 2012 and, again, to 220 JD per month in February 2017.

Figure 7. Jordan: Structural Impediments to Growth, 2016–17

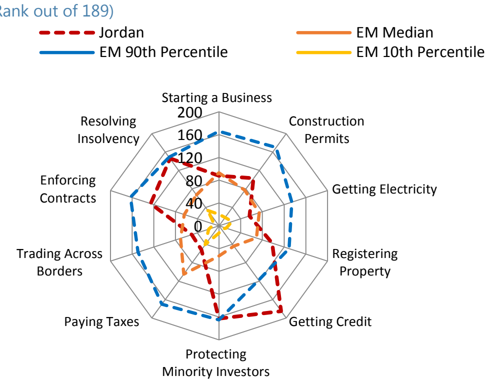
The regional security conditions are a key impediment to competitiveness…

Jordan Global Competitiveness Rank
(Rank out of 140)



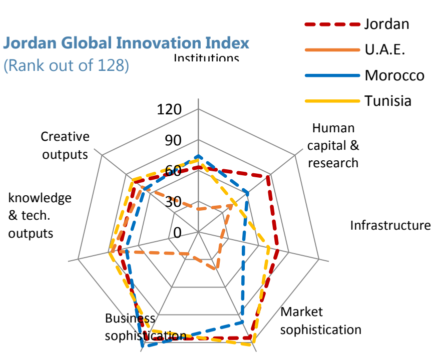
… and conditions for innovation lag others in the region…

Jordan Doing Business Rank
(Rank out of 189)



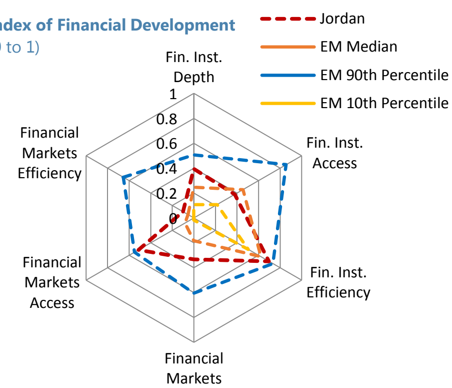
Restrictions on insolvency, collateral requirements, and access to finance are important impediments…

Jordan Global Innovation Index
(Rank out of 128)



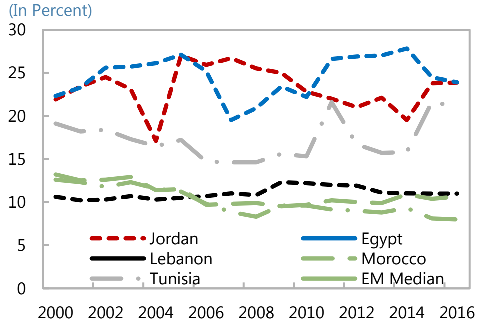
… which limit the contribution from financial sector to growth.

Index of Financial Development
(0 to 1)



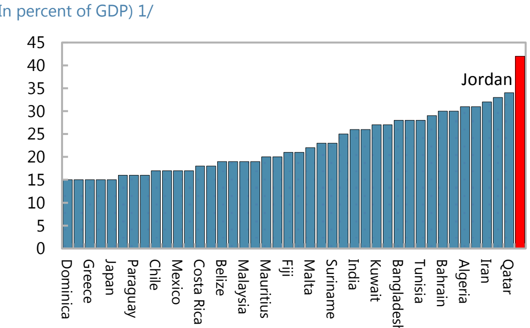
Female unemployment is high for regional standards…

Female Unemployment Rate
(In Percent)



… bringing the potential for large gains from promoting female employment.

GDP Losses due to Economic Gender Gaps in Selected Countries
(In percent of GDP) 1/



1/ Losses are estimated for a particular year for each country and can thus l
one-off increase in GDP if gender gaps were to be removed.

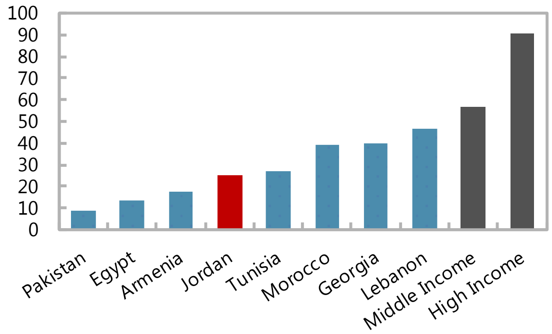
Sources: World Economic Forum, Global Competitiveness Index 2017. World Bank Group, Doing Business 2017. The Global Innovation Index, 2016. IMF, "Rethinking Financial Deepening: Stability and Growth in Emerging Markets", 2015. World Bank, International Labour Organization. Estimates by Cuberes and Teignier (2014).

Figure 8. Jordan: Financial Inclusion Indicators

Only about 25 percent of the population has access to an account in a formal financial institution

Account at a Financial Institution (2014)

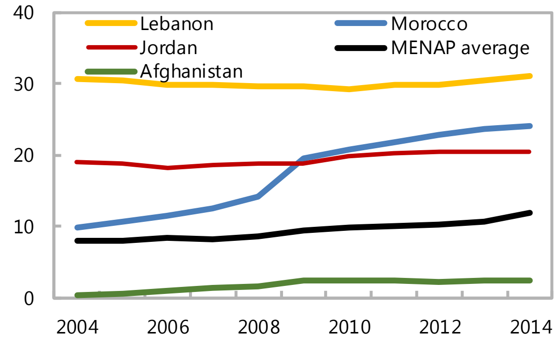
(In percent, age 15+)



Physical access points to the banking system have barely increased over the past decade

Branches of Commercial Banks

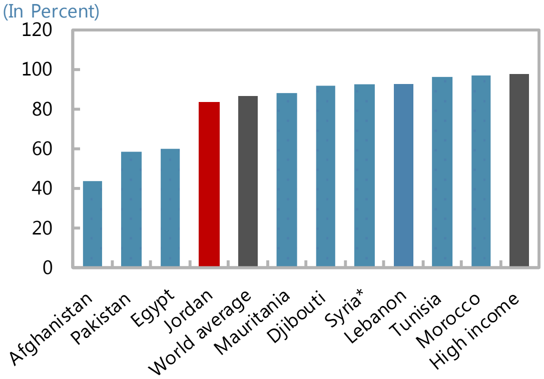
(Per 100,000 adults)



While the majority of the firms holds a checking or saving's account at a financial institution…

Percent of Firms with a Checking or Savings Account (2013)

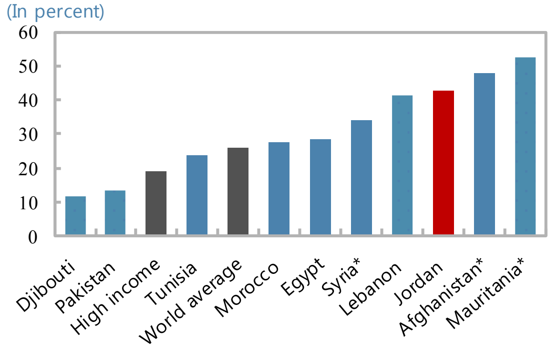
(In Percent)



many firms identified access to finance as a major constraint in doing business

Percent of Firms Identifying Access to Finance as a Major Constraint (2013)

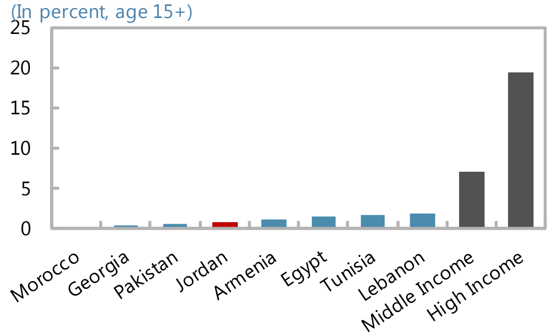
(In percent)



Financial innovation, including mobile banking, needs to be encouraged,

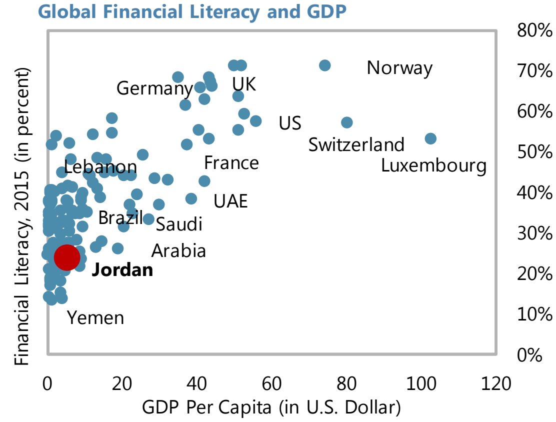
Used an Account to Make a Transaction Through a Mobile Phone (2014)

(In percent, age 15+)



and financial literacy needs to be enhanced.

Global Financial Literacy and GDP



Sources: World Bank Global Findex; World Bank Enterprise Survey; IMF Financial Access Survey; IMF World Economic Outlook; Standards and Poor's; and IMF staff estimates.

* Syria in 2009, Afghanistan and Mauritania in 2014. MENAP average is the mean of all MENAP oil importers excluding Jordan.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2014–22

			EFF	Prel.	Projections					
	2014	2015	2016	2016	2017	2018	2019	2020	2021	2022
Output and prices	(Percentage change, unless otherwise indicated)									
Real GDP at market prices	3.1	2.4	2.8	2.0	2.3	2.5	2.7	2.9	3.0	3.0
GDP deflator at market prices	3.4	2.3	2.2	1.0	2.2	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices	6.6	4.7	5.0	3.0	4.6	5.1	5.3	5.5	5.6	5.6
Nominal GDP at market prices (JD millions)	25,437	26,637	27,972	27,445	28,705	30,170	31,759	33,497	35,365	37,336
Nominal GDP at market prices ($ millions)	35,878	37,570	39,453	38,709	40,487	42,553	44,794	47,246	49,880	52,660
Consumer price inflation (annual average)	2.9	-0.9	-0.5	-0.8	3.3	1.5	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	1.7	-1.6	1.2	0.8	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent)	11.9	13.1	...	15.3	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
Fiscal operations										
Revenue and grants	27.9	25.0	25.8	25.6	27.9	28.8	27.7	27.7	27.8	27.8
Of which: grants	4.9	3.3	3.2	3.1	2.9	3.8	2.7	2.7	2.7	2.7
Expenditure 1/	38.0	30.1	29.6	28.9	30.4	30.7	30.9	30.4	30.3	30.1
Fiscal gap 2/	0.0	0.0	0.0	0.0	0.0	1.5	3.0	3.9	3.9	3.9
Overall fiscal balance	-10.3	-5.3	-3.8	-3.2	-2.5	-0.4	-0.2	1.3	1.4	1.6
Primary government balance, excl. grants, NEPCO, and WAJ	-4.6	-5.1	-3.7	-3.2	-2.0	-0.6	0.7	2.4	2.4	2.4
NEPCO operating balance	-4.6	-0.9	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance	-1.0	-1.1	-1.3	-1.0	-1.2	-1.2	-1.1	-1.2	-1.2	-1.2
Combined public sector balance 3/	-10.2	-7.1	-5.0	-3.8	-3.2	-1.8	-0.5	1.2	1.3	1.3
Government and government-guaranteed gross debt 4/	89.0	93.4	94.4	95.1	95.6	93.5	90.8	86.2	81.6	77.0
Of which: external debt	31.2	35.2	36.9	37.5	40.7	43.0	45.3	45.7	45.9	45.4
External sector										
Current account balance (including grants), of which:	-7.3	-9.1	-9.0	-9.3	-8.4	-8.3	-7.6	-7.0	-6.4	-6.2
Exports of goods, f.o.b. ($ billions)	8.4	7.8	7.5	7.5	7.8	8.2	8.7	9.3	9.8	10.5
Imports of goods, f.o.b. ($ billions)	20.4	18.2	17.7	17.1	17.5	17.9	18.6	19.5	20.3	21.1
Oil and oil products ($ billions)	5.5	3.1	2.7	2.4	3.1	3.2	3.3	3.4	3.6	3.6
Current account balance (excluding grants)	-12.6	-12.3	-12.5	-12.6	-11.7	-11.3	-10.4	-10.1	-9.7	-9.5
Private capital inflows (net)	5.8	4.3	4.2	4.8	3.4	4.7	5.3	5.5	5.3	5.2
Monetary sector	(Percentage change)									
Broad money	6.9	8.1	7.6	4.0	4.4	5.1	...	...	...	...
Net foreign assets	15.4	3.5	5.5	8.2	6.6	11.2	...	...	...	...
Net domestic assets	4.0	9.8	8.3	2.5	3.6	2.8	...	...	...	...
Credit to private sector	3.7	4.8	10.2	10.1	9.1	7.8	...	...	...	...
Credit to central government	2.3	-1.8	1.7	-9.5	-5.7	-15.4	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	14,973	15,678	15,888	14,454	14,778	16,003	17,268	18,330	19,501	20,499
In months of prospective imports	7.9	8.7	8.4	7.8	7.7	8.1	8.4	8.6	8.8	8.9
In percent of reserve adequacy metric	136	136	130	122	117	120	120	122	125	125
Net international reserves ($ millions)	13,374	13,589	13,894	12,654	13,084	14,499	16,050	17,304	18,510	19,637
Population (millions) 5/	7.4	7.6	7.7	7.7	7.9	8.0	8.1	8.2	8.2	8.3
Nominal per capita GDP ($)	4,838	4,947	5,092	4,996	5,140	5,329	5,544	5,785	6,049	6,331
Real effective exchange rate (end of period, 2010=100) 6/	113.0	117.5	...	121.2	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	6.9	4.0	...	3.1	...	...	...	...	...	...

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes net lending, transfers to NEPCO and WAJ, and other use of cash.
2/ Estimated amount of fiscal measures that will need to be taken by a given date to meet the program public debt reduction objectives.
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. Jordanian Central Government: Summary of Fiscal Operations, 2014–22
(In millions of Jordanian dinars)

	Act.	Act.	EFF	Proj.						
	2014	2015	2016	2016	2017	2018	2019	2020	2021	2022
Total revenue and grants	7,091	6,658	7,228	7,013	8,003	8,685	8,789	9,285	9,834	10,389
Domestic revenue	5,854	5,772	6,331	6,176	7,169	7,534	7,931	8,381	8,879	9,381
Tax revenue, *of which* :	4,192	4,242	4,573	4,567	5,388	5,663	5,961	6,303	6,686	7,065
Taxes on income and profits	766	858	952	945	988	1,018	1,072	1,131	1,194	1,260
General sales tax	2,811	2,763	2,923	2,884	3,186	3,368	3,546	3,755	3,995	4,225
Taxes on foreign trade	327	333	340	311	430	452	476	502	530	559
Other taxes	287	288	357	427	785	825	868	916	967	1,021
Nontax revenue	1,662	1,529	1,758	1,609	1,780	1,871	1,970	2,077	2,193	2,315
Grants	1,237	886	897	837	835	1,151	857	904	955	1,008
Total expenditures, net lending, other use of cash	9,658	8,005	8,291	7,937	8,718	9,248	9,808	10,179	10,731	11,240
Current expenditure	6,717	6,616	7,102	6,923	7,557	7,890	8,220	8,505	8,963	9,373
Wages and salaries	1,320	1,345	1,372	1,368	1,395	1,430	1,473	1,532	1,605	1,694
Interest payments	926	914	920	835	963	1,076	1,134	1,263	1,330	1,315
Domestic	750	710	704	622	759	790	779	889	973	1,050
External	176	204	216	213	203	286	355	374	357	265
Military expenditure	1,918	1,986	2,140	2,215	2,326	2,445	2,573	2,714	2,865	3,025
Fuel subsidies	0	0	0	0	0	0	0	0	0	0
Food subsidy	225	199	215	138	180	194	204	216	228	240
Transfers, *of which* :	1,899	1,770	2,067	1,925	2,295	2,366	2,475	2,400	2,533	2,675
Pensions	1,116	1,163	1,225	1,213	1,268	1,333	1,403	1,480	1,563	1,650
Targeted payments for energy	177	0	0	0	0	0	0	0	0	0
Transfer to health fund	201	155	205	145	360	373	383	298	315	332
Energy arrears clearance	0	0	100	0	100	100	100	0	0	0
Other transfers	405	452	537	567	567	560	589	621	656	693
Purchases of goods & services	428	403	389	442	398	379	361	380	402	424
Capital expenditure	1,134	1,109	1,189	1,025	1,161	1,358	1,588	1,675	1,768	1,867
Net lending	0	0	0	0	0	0	0	0	0	0
Transfer to NEPCO	1,572	0	0	0	0	0	0	0	0	0
Transfer to WAJ	206	20	0	0	0	0	0	0	0	0
Adjustment on receivables and payables (use of cash)	29	259	0	-11	0	0	0	0	0	0
Total balance from above the line	-2,567	-1,347	-1,063	-924	-715	-563	-1,020	-894	-897	-851
Statistical discrepancy, net	-59	-59	0	40	0	0	0	0	0	0
Overall balance at current policies	-2,626	-1,407	-1,063	-884	-715	-563	-1,020	-894	-897	-851
Fiscal gap 1/	0	0	0	0	0	450	950	1,323	1,388	1,458
Overall balance	-2,626	-1,407	-1,063	-884	-715	-113	-70	429	490	607
Financing	2,626	1,407	1,063	884	715	113	70	-429	-490	-607
Foreign financing (net)	1,471	1,030	517	571	1,131	998	1,203	725	425	466
Domestic financing (net)	978	239	434	226	-415	-885	-1,133	-1,153	-915	-1,073
CBJ on-lending of net IMF financing	277	394	-190	-190	-335	-331	-284	-135	-12	-44
Other domestic bank financing	-13	-633	324	-458	-553	-856	-1,008	-1,186	-1,080	-1,216
Domestic nonbank financing	892	478	300	874	473	302	159	167	177	187
Privatization proceeds	177	138	0	0	0	0	0	0	0	0
Use of trust account surpluses	0	0	112	87	0	0	0	0	0	0
Memorandum items:										
NEPCO operating balance	-1,179	-233	5	112	1	1	1	1	0	0
WAJ overall balance, excluding project grants	-247	-305	-351	-276	-335	-361	-363	-386	-410	-434
Primary government balance excluding grants	-2,937	-1,378	-1,040	-886	-587	-188	207	787	866	914
Primary government balance excluding grants and transfers to NEPCO and WAJ (PC)	-1,159	-1,358	-1,040	-886	-587	-188	207	787	866	914
Combined public deficit (PC) 2/	-2,585	-1,895	-1,386	-1,051	-922	-548	-155	402	456	481
Government and guaranteed gross debt	22,652	24,877	26,398	26,093	27,429	28,201	28,827	28,870	28,873	28,758
Of which: External	7,935	9,378	10,333	10,302	11,669	12,981	14,371	15,307	16,245	16,966
Stock of health arrears	...	328	...	343	233	123	0	0	0	0
Stock of energy arrears (fuel and electricity)	...	345	...	307	207	107	0	0	0	0
GDP at market prices	25,437	26,637	27,972	27,445	28,705	30,170	31,759	33,497	35,365	37,336

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

1/ Estimated amount of fiscal measures that will need to be taken by a given date to meet the program public debt reduction objectives.

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

Table 2b. Jordanian Central Government: Summary of Fiscal Operations, 2014–22

(In percent of GDP)

	Act.	Act.	EFF			Proj.				
	2014	2015	2016	2016	2017	2018	2019	2020	2021	2022
Total revenue and grants	27.9	25.0	25.8	25.6	27.9	28.8	27.7	27.7	27.8	27.8
Domestic revenue	23.0	21.7	22.6	22.5	25.0	25.0	25.0	25.0	25.1	25.1
Tax revenue, *of which* :	16.5	15.9	16.3	16.6	18.8	18.8	18.8	18.8	18.9	18.9
Taxes on income and profits	3.0	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
General sales tax	11.1	10.4	10.5	10.5	11.1	11.2	11.2	11.2	11.3	11.3
Taxes on foreign trade	1.3	1.2	1.2	1.1	1.5	1.5	1.5	1.5	1.5	1.5
Other taxes	1.1	1.1	1.3	1.6	2.7	2.7	2.7	2.7	2.7	2.7
Nontax revenue	6.5	5.7	6.3	5.9	6.2	6.2	6.2	6.2	6.2	6.2
Grants	4.9	3.3	3.2	3.1	2.9	3.8	2.7	2.7	2.7	2.7
Total expenditures, net lending, other use of cash	38.0	30.1	29.6	28.9	30.4	30.7	30.9	30.4	30.3	30.1
Current expenditure	26.4	24.8	25.4	25.2	26.3	26.2	25.9	25.4	25.3	25.1
Wages and salaries	5.2	5.0	4.9	5.0	4.9	4.7	4.6	4.6	4.5	4.5
Interest payments	3.6	3.4	3.3	3.0	3.4	3.6	3.6	3.8	3.8	3.5
Domestic	2.9	2.7	2.5	2.3	2.6	2.6	2.5	2.7	2.8	2.8
External	0.7	0.8	0.8	0.8	0.7	0.9	1.1	1.1	1.0	0.7
Military expenditure	7.5	7.5	7.7	8.1	8.1	8.1	8.1	8.1	8.1	8.1
Fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	0.9	0.7	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Transfers, *of which* :	7.5	6.6	7.4	7.0	8.0	7.8	7.8	7.2	7.2	7.2
Pensions	4.4	4.4	4.4	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	0.0
Transfer to health fund	0.8	0.6	0.7	0.5	1.3	1.2	1.2	0.9	0.9	0.9
Energy arrears clearance	0.0	0.0	0.4	0.0	0.3	0.3	0.3	0.0	0.0	0.0
Other transfers	1.6	1.7	1.9	2.1	2.0	1.9	1.9	1.9	1.9	1.9
Purchases of goods & services	1.7	1.5	1.4	1.6	1.4	1.3	1.1	1.1	1.1	1.1
Capital expenditure	4.5	4.2	4.3	3.7	4.0	4.5	5.0	5.0	5.0	5.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to NEPCO	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to WAJ	0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment on receivables and payables (use of cash)	0.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-10.1	-5.1	-3.8	-3.4	-2.5	-1.9	-3.2	-2.7	-2.5	-2.3
Statistical discrepancy, net	-0.2	-0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance at current policies	-10.3	-5.3	-3.8	-3.2	-2.5	-1.9	-3.2	-2.7	-2.5	-2.3
Fiscal gap 1/	0.0	0.0	0.0	0.0	0.0	1.5	3.0	3.9	3.9	3.9
Overall balance	-10.3	-5.3	-3.8	-3.2	-2.5	-0.4	-0.2	1.3	1.4	1.6
Financing	10.3	5.3	3.8	3.2	2.5	0.4	0.2	-1.3	-1.4	-1.6
Foreign financing (net)	5.8	3.9	1.8	2.1	3.9	3.3	3.8	2.2	1.2	1.2
Domestic financing (net)	3.8	0.9	1.6	0.8	-1.4	-2.9	-3.6	-3.4	-2.6	-2.9
CBJ on-lending of net IMF financing	1.1	1.5	-0.7	-0.7	-1.2	-1.1	-0.9	-0.4	0.0	-0.1
Other domestic bank financing	-0.1	-2.4	1.2	-1.7	-1.9	-2.8	-3.2	-3.5	-3.1	-3.3
Domestic nonbank financing	3.5	1.8	1.1	3.2	1.6	1.0	0.5	0.5	0.5	0.5
Privatization proceeds	0.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of trust account surpluses	0.0	0.0	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
NEPCO operating balance	-4.6	-0.9	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
WAJ overall balance, excluding project grants	-1.0	-1.1	-1.3	-1.0	-1.2	-1.2	-1.1	-1.2	-1.2	-1.2
Primary government balance excluding grants	-11.5	-5.2	-3.7	-3.2	-2.0	-0.6	0.7	2.4	2.4	2.4
Primary government balance excluding grants and transfers to NEPCO and WAJ (PC)	-4.6	-5.1	-3.7	-3.2	-2.0	-0.6	0.7	2.4	2.4	2.4
Combined public deficit (PC) 2/	-10.2	-7.1	-5.0	-3.8	-3.2	-1.8	-0.5	1.2	1.3	1.3
Government and guaranteed gross debt	89.0	93.4	94.4	95.1	95.6	93.5	90.8	86.2	81.6	77.0
Of which: External	31.2	35.2	36.9	37.5	40.7	43.0	45.3	45.7	45.9	45.4
Stock of health arrears	…	1.2	…	1.2	0.8	0.4	0.0	0.0	0.0	0.0
Stock of energy arrears (fuel and electricity)	…	1.3	…	1.1	0.7	0.4	0.0	0.0	0.0	0.0
GDP at market prices (JD millions)	25,437	26,637	27,972	27,445	28,705	30,170	31,759	33,497	35,365	37,336

Sources: Jordanian authorities; and Fund staff estimates and

1/ Estimated amount of fiscal measures that will need to be taken by a given date to meet the program public debt reduction objectives.

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

Table 2c. Jordanian Central Government: Summary of Quarterly Fiscal Operations, 2016–18
(In millions of Jordanian dinars)

	2016			2017						2018				
	Jan-Aug	Jan-Sept	Annual Proj.	Q1 EFF	Q1 Act.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	4,460	5,068	7,013	1,617	1,560	1,965	1,884	2,595	8,003	1,725	2,223	1,846	2,891	8,685
Domestic revenue	4,179	4,764	6,176	1,505	1,510	1,875	1,747	2,037	7,169	1,663	2,133	1,709	2,029	7,534
Tax revenue, *of which*:	3,245	3,551	4,567	1,072	1,070	1,411	1,403	1,503	5,388	1,231	1,606	1,348	1,478	5,663
Taxes on income and profits	830	854	945	238	209	445	204	130	988	242	458	211	108	1,018
General sales tax	1,896	2,136	2,884	662	706	659	890	931	3,186	685	825	812	1,046	3,368
Taxes on foreign trade	210	232	311	83	78	109	111	132	430	105	115	117	115	452
Other taxes	309	328	427	88	78	198	198	311	785	200	208	208	209	825
Nontax revenue	934	1,213	1,609	433	439	464	344	533	1,780	432	528	361	550	1,871
Grants	281	304	837	112	50	90	137	558	835	62	90	137	862	1,151
Total expenditures, net lending, other use of cash	5,311	5,809	7,937	1,964	1,841	2,209	2,150	2,519	8,718	2,052	2,428	2,311	2,457	9,248
Current expenditure	4,495	5,037	6,923	1,743	1,645	1,925	1,872	2,115	7,557	1,826	2,053	1,986	2,024	7,890
Wages and salaries	891	1,017	1,368	333	337	355	350	353	1,395	339	364	359	369	1,430
Interest payments	553	615	835	183	199	246	236	282	963	200	281	260	335	1,076
Domestic	409	466	622	153	146	178	196	240	759	163	185	204	238	790
External	144	148	213	31	53	68	40	43	203	37	96	56	97	286
Military expenditure	1,412	1,581	2,215	522	554	586	587	599	2,326	564	616	617	648	2,445
Fuel subsidies	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Food subsidy	78	87	138	50	18	49	26	87	180	43	53	28	71	194
Transfers, *of which*:	1,301	1,450	1,925	588	461	574	574	687	2,295	592	592	592	592	2,366
Pensions	802	902	1,213	250	313	335	319	302	1,268	257	352	335	389	1,333
Targeted payments for energy	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer to health fund	88	100	145	75	31	90	90	149	360	93	93	93	93	373
Energy arrears clearance	50	50	0	44	56	14	10	20	100	25	25	25	25	100
Other transfers	361	397	567	220	61	135	155	216	567	216	121	138	84	560
Purchases of goods & services	260	288	442	67	76	116	100	106	398	90	148	132	10	379
Capital expenditure	553	603	1,025	221	110	321	277	453	1,161	225	375	324	433	1,358
Net lending	0	0	0	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	0	0	0
Transfer to WAJ	31	21	0	0	38	-38	0	0	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	232	148	-11	0	48	0	0	-48	0	0	0	0	0	0
Total balance from above the line	-851	-741	-924	-348	-281	-243	-266	75	-715	-327	-205	-465	434	-563
Statistical discrepancy, net	-34	-318	40	0	19	0	0	-19	0	0	0	0	0	0
Overall balance at current policies	-885	-1,059	-884	-348	-262	-243	-266	57	-715	-327	-205	-465	434	-563
Fiscal gap 1/	0	0	0	108	0	0	0	0	0	113	113	113	113	450
Overall balance	-885	-1,059	-884	-239	-262	-244	-266	56	-715	-215	-92	-352	546	-113
Financing	885	1,059	884	239	262	244	266	-56	715	215	92	352	-546	113
Foreign financing (net)	-111	-141	571	-38	329	280	-16	538	1,131	-93	-92	-92	1,275	998
Domestic financing (net)	909	1,113	226	277	-66	-36	282	-594	-415	308	185	444	-1,821	-885
CBJ on-lending of net IMF financing	-127	-127	-190	-85	-81	-81	-101	-71	-335	-81	-81	-68	-101	-331
Other domestic bank financing	411	593	-458	325	-213	-37	302	-605	-553	313	190	436	-1,795	-856
Domestic nonbank financing	625	647	874	37	228	82	82	82	473	75	75	75	75	302
Privatization proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Use of trust account surpluses	87	87	87	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:														
Accounts payable (IT)	192	194	316	517	179	126	158	316	316	158	126	158	316	316
Social assistance spending (IT)	1,041	1,095	1,575	460	395	475	475	475	1,820	476	476	476	476	1,904
NEPCO operating balance	95	105	112	0	-8	-7	9	6	1	0	0	0	0	1
WAJ overall balance, excluding project grants	-195	-216	-276	-97	-63	-92	-90	-90	-335	-99	-97	-82	-82	-361
Primary government balance excluding grants	-613	-748	-886	-168	-114	-87	-167	-219	-587	-76	99	-229	19	-188
Primary government balance excluding grants and transfers to NEPCO and WAJ (PC)	-582	-726	-886	-168	-76	-125	-167	-219	-587	-76	99	-229	19	-188
Combined public deficit (PC) 2/	-682	-838	-1,051	-265	-148	-224	-247	-303	-922	-176	2	-311	-63	-548
Government and guaranteed gross debt (IT)	25,625	26,046	26,093	26,733	26,452	26,836	27,238	27,429	27,429	27,821	27,999	28,550	28,233	28,201

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

1/ Estimated amount of fiscal measures that will need to be taken by a given date to meet the program public debt reduction objectives.

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

Table 2d. NEPCO Operating Balance and Financing, 2014–22

(In millions of Jordanian dinars)

	2014 Act.	2015 Act.	2016 Q1 Act.	2016 Q2 Act.	2016 Jul-Aug Act.	2016 Q3 Act.	2016 Q4 Act.	2016 EFF	2016 Act.	2017 Q1 Prel.	2017 Q2 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Electricity sales	1,391	1,507	365	353	268	385	364	1,537	1,468	371	362	1,543	1,615	1,669	1,748	1,804	1,864
Expenses	2,571	1,739	307	348	237	344	357	1,532	1,356	380	368	1,543	1,615	1,668	1,747	1,804	1,863
Purchase of electricity	2,425	1,567	255	290	208	303	299	1,306	1,147	331	315	1,330	1,392	1,444	1,523	1,577	1,633
Depreciation	31	34	6	17	4	6	15	57	45	7	10	37	37	37	37	37	37
Interest payments 1/	104	113	27	24	16	23	23	130	96	22	22	90	99	101	103	105	107
Tax on LNG			13	14	12	17	17	70	60	17	18	73	72	72	69	70	70
Other expenses	11	25	6	2	-3	-5	4	-31	7	3	3	14	15	15	15	16	16
Operating balance (QPC)	-1,179	-233	58	5	31	41	7	5	112	-8	-7	1	1	1	1	0	0
Total net domestic financing	1,179	233	-58	-5	-31	-41	-7	-5	-112	8	7	-1	-1	-1	-1	0	0
Banks	-211	651	-100	19	-45	-27	-109	-76	-217	8	7	-1	70	-1	-1	0	0
Loans and bonds	-186	631	-50	-27	-58	-69	-71	-76	-217	8	7	-1	70	-1	-1	0	0
Overdrafts	-25	19	-50	46	14	41	-38	0	-1	0	1	0	0	0	0	0	0
ITFC loan	142	0	0	0	0	0	71	71	71	0	0	0	-71	0	0	0	0
Other items 2/	-177	-134	133	-227	-190	-30	132	0	7	0	0	0	0	0	0	0	0
Increase in payables 3/	1,426	-284	-92	204	204	17	-101	0	27	0	0	0	0	0	0	0	0
Direct transfer from central government	1,572	0	0	0	0	0	-116	0	-116	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	0	0	0
To repay loans	176	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Payables to the private sector	-147	-284	-92	204	204	17	15	0	144	0	0	0	0	0	0	0	0
Of which: Increase in arrears	-17	-333	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:																	
Cumulative automatic distribution tariff adjustment (percentage avove 2016Q4 average tariff)	...	...	...	...	...	...	...	...	...	...	5	5	7	7	9	9	10
Outstanding loans and bonds (stocks, end-of-period)	1,711	2,342	2,292	2,265	2,234	2,197	2,197	2,337	2,197	2,205	2,212	2,196	2,195	2,195	2,194	2,194	2,193
Overdrafts	27	46	-4	42	56	84	46	46	46	46	46	46	46	46	46	46	46
Total payables	3,406	3,122	3,030	3,234	3,234	3,250	3,149	3,122	3,149	3,149	3,149	3,149	3,149	3,149	3,149	3,149	3,149
to government 3/	2,860	2,860	2,860	2,860	2,860	2,860	2,744	2,860	2,744	2,744	2,744	2,744	2,744	2,744	2,744	2,744	2,744
to private sector	546	262	170	374	374	390	405	262	405	405	405	405	405	405	405	405	405
Of which: arrears (IT)	333	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

1/ Interest payments exclude interest on payables to the government.

2/ Includes changes in accounts receivable, depreciation, project expenditures, and other 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. WAJ Balance and Financing, 2014–22
(In millions of Jordanian dinars)

	2014 Act.	2015 Act.	2016 Q1 Act.	2016 Q2 Act.	2016 Jul-Aug Act.	2016 Q3 Act.	2016 Q4 Prel.	2016 EFF	2016 Act.	2017 Q1 Prel.	2017 Q2 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Total Revenues	57	58	11	10	6	9	15	44	45	9	11	43	47	50	54	59	63
of which :																	
Sales of goods and services	57	58	11	10	6	9	15	44	45	9	11	43	47	50	54	59	63
Current Expenditure 1/	92	130	38	39	21	36	41	166	154	43	45	181	198	220	243	267	292
Salaries, wages and allowances 1/	25	23	6	6	4	6	6	24	23	6	6	25	26	27	29	30	32
Social Security contributions	2	2	1	1	0	1	1	2	2	1	1	3	3	3	3	3	3
Use of goods and services	29	24	5	7	4	4	7	26	24	7	8	25	28	30	31	32	34
Disi Project operational charge	...	42	10	10	7	10	10	42	42	13	13	53	53	53	53	53	53
Samra operational charge	9	9	3	3	2	3	3	14	14	4	4	15	13	14	14	15	15
Interest payments	27	30	12	12	4	12	13	58	50	13	14	61	76	94	113	134	156
of which :																	
Interest payments on domestic loans	23	25	12	10	4	12	11	51	45	13	11	55	69	86	105	125	146
Interest payments on foreign loans	4	5	0	2	0	0	2	7	5	0	3	6	7	8	9	9	10
Operating and maintainance balance 2/	-8	-42	-14	-17	-11	-15	-13	-8	-59	-21	-21	-77	-76	-76	-75	-74	-73
Operating balance excluding grants (QPC)	-35	-72	-26	-29	-15	-27	-26	-66	-109	-34	-35	-137	-152	-170	-189	-208	-229
Operating balance (QPC)	20	3	-16	-19	-13	-23	2	-7	-56	-28	-19	-86	-108	-137	-152	-170	-189
Capital Expenditure	211	232	65	38	21	30	34	229	167	29	57	198	210	193	197	202	205
Overall balance	-247	-305	-91	-68	-36	-57	-60	-351	-276	-63	-92	-335	-361	-363	-386	-410	-434
Total net financing	247	305	91	68	36	57	60	351	276	63	92	335	361	363	386	410	434
Grants	55	75	11	10	2	4	28	59	53	6	16	52	44	33	37	38	39
Transfers from Central Government 3/	206	20	45	2	-15	-25	-21	0	0	38	-38	0	0	0	0	0	0
Loans (net borrowing)	-346	373	33	60	49	84	145	292	323	19	114	283	318	330	349	372	394
of which :																	
Domestic loans	-349	381	-4	55	44	80	120	233	251	11	109	247	278	290	307	330	351
Foreign loans	3	-8	37	5	5	4	25	60	71	8	5	36	40	41	41	42	43
Others 4/	331	-164	3	-5	0	-5	-92	0	-100	0	0	0	0	0	0	0	0
Memorandum items (stocks, end-of-period):																	
Outstanding loans	1,170	1,409	1,487	1,549	1,598	1,607	1,732	1,701	1,732	1,751	1,865	2,015	2,333	2,663	3,012	3,384	3,778
of which :																	
Domestic loans and bonds	385	766	762	817	861	897	1,017	999	1017	1,029	1,137	1264	1542	1832	2139	2469	2820
Foreign loans	270	262	298	304	308	308	333	321	333	341	346	369	409	450	491	533	576
Advances from Central Government	516	381	427	428	413	403	382	381	382	419	382	382	382	382	382	382	382
Grants and foreign loans to capital expenditure ratio (in percent)	27	29	73	41	34	28	157	41	75	48	36	45	40	38	40	40	40
Grants to capital expenditure ratio (in percent)	26	32	16	27	12	14	84	21	32	21	28	26	21	17	19	19	19
Effective interest rate (in percent)	2.06	2.58	3.52	3.24	1.47	3.02	3.34	4.09	3.52	3.07	3.19	3.52	3.78	4.02	4.26	4.45	4.60
of which :																	
Domestic loans (in percent)	3.13	6.55	6.37	5.13	2.66	5.64	4.97	6.62	5.83	5.17	4.35	5.39	5.47	5.58	5.73	5.82	5.89
Foreign loans (in percent)	1.68	1.86	0.28	3.07	0.32	0.23	2.97	2.63	1.89	0.16	3.24	1.82	1.88	1.88	1.90	1.91	1.92

Sources: Jordanian authorities; and IMF staff estimates.

1/ Including other expenses such as pensions.

2/ Excluding interest payments and grants

3/ Information from 2014 to 2016 was provided by the Ministry of Finance.

4/ Including settlement of liabilities.

Table 3a. Summary Balance of Payments, 2014–22
(In millions of U.S. dollars, unless otherwise indicated)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
			EFF	Act.	EFF	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (CA)	-2,612	-3,415	-3,566	-3,613	-3,723	-3,411	-3,515	-3,411	-3,311	-3,211	-3,257
Trade balance	-11,983	-10,352	-10,226	-9,536	-10,285	-9,703	-9,732	-9,899	-10,195	-10,457	-10,629
Exports f.o.b.	8,397	7,840	7,467	7,520	7,949	7,788	8,214	8,720	9,260	9,847	10,467
Imports f.o.b.	20,380	18,191	17,692	17,056	18,235	17,491	17,947	18,619	19,455	20,305	21,096
Energy	5,541	3,148	2,650	2,413	2,882	3,112	3,183	3,277	3,396	3,563	3,649
Non-energy	14,838	15,043	15,042	14,643	15,353	14,379	14,763	15,343	16,059	16,742	17,448
Services and income, of which	2,092	1,310	1,527	1,171	1,567	1,430	1,385	1,616	1,678	1,807	1,812
Travel	4,382	4,071	3,973	4,047	4,105	4,331	4,484	4,663	4,871	5,099	5,337
Current transfers, of which	7,279	5,627	5,132	4,753	4,995	4,861	4,832	4,872	5,206	5,439	5,560
Public	1,893	1,193	1,381	1,257	1,217	1,344	1,308	1,245	1,484	1,613	1,731
Remittances	3,368	3,418	3,264	3,337	3,421	3,458	3,595	3,740	3,896	4,060	4,232
Capital and financial account	3,786	3,038	2,387	3,403	1,941	2,704	2,011	4,781	4,321	4,188	4,086
Public sector	1,435	1,664	546	1,530	-226	1,295	-89	2,246	1,512	1,358	1,145
Foreign direct investment	2,098	1,602	1,471	1,538	1,760	1,536	1,720	1,909	2,175	2,209	2,332
Portfolio flows 1/	-31	15	174	334	28	-175	300	463	425	439	400
Other capital flows	284	-242	196	1	379	49	80	164	209	182	209
Errors and omissions	1,083	671	492	-428	0	0	0	0	0	0	0
Overall balance	2,257	294	-688	-639	-1,782	-707	-1,505	1,370	1,010	977	830
Financing	-2,257	-294	688	639	1,782	707	1,505	-1,370	-1,010	-977	-830
Reserves (+ = decrease)	-2,367	-772	-131	1,105	53	-214	-1,244	-1,278	-1,073	-1,181	-1,007
Commercial banks' NFA	-280	-77	-83	-1,157	-139	-139	-74	181	254	240	306
Program financing	390	555	902	691	1,868	1,060	2,823	-273	-191	-35	-129
Official budget support	0	0	776	615	1,595	903	2,779	0	0	0	0
Jordan Compact off-budget grants	0	0	250	272	477	399	235	13	0	0	0
IMF (net)	390	555	-124	-196	-204	-242	-191	-286	-191	-35	-129
Of which: prospective Fund purchases	0	0	144	72	288	230	276	115	0	0	0
Gross reserves	16,044	16,570	16,701	15,540	16,648	15,754	16,998	18,276	19,349	20,530	21,537
Gross usable reserves 2/	14,973	15,678	15,888	14,454	15,829	14,778	16,003	17,268	18,330	19,501	20,499
In percent of the IMF Reserve Adequacy Metric	136	136	130	122	122	117	120	120	122	125	125
In months of next year's imports of GNFS	7.9	8.7	8.4	7.8	8.1	7.7	8.1	8.4	8.6	8.8	8.9
Memorandum items:											
BOP official financing under the EFF	0	0	1,026	887	2,072	1,302	3,014	92	0	0	0
World Bank	0	0	370	395	140	304	364	0	0	0	0
EU and bilateral loans	0	0	406	221	435	599	557	80	0	0	0
Jordan Compact off-budget grants	0	0	250	272	477	399	235	13	0	0	0
Unidentified budget support	0	0	0	0	1,021	0	1,858	0	0	0	0
Grants	0	0	0	0	323	0	608	0	0	0	0
Loans	0	0	0	0	698	0	1,250	0	0	0	0
CA (percent of GDP) 3/	-7.3	-9.1	-9.0	-9.3	-8.9	-8.4	-8.3	-7.6	-7.0	-6.4	-6.2
CA ex-grants (percent of GDP)	-12.6	-12.3	-12.5	-12.6	-11.8	-11.7	-11.3	-10.4	-10.1	-9.7	-9.5
CA ex-grants and energy imports (percent of GDP)	2.9	-3.9	-5.8	-6.3	-4.9	-4.1	-3.9	-3.1	-3.0	-2.5	-2.5
Energy imports	15.4	8.4	6.7	6.2	6.9	7.7	7.5	7.3	7.2	7.1	6.9
Public transfers	5.3	3.2	3.5	3.2	2.9	3.3	3.1	2.8	3.1	3.2	3.3
Export growth (percent)	6.0	-6.6	-4.8	-4.1	6.5	3.6	5.5	6.2	6.2	6.3	6.3
Import growth (percent)	4.0	-10.7	-2.1	-6.2	3.1	2.5	2.6	3.7	4.5	4.4	3.9
Energy (percent)	7.0	-43.2	-19.7	-23.4	8.7	29.0	2.3	2.9	3.6	4.9	2.4
Non-energy (percent)	3.0	1.4	1.9	-2.7	2.1	-1.8	2.7	3.9	4.7	4.3	4.2
Travel growth (percent)	6.3	-7.1	-2.4	-0.6	3.3	7.0	3.5	4.0	4.5	4.7	4.7
Remittances growth (percent)	2.6	1.5	-4.5	-2.4	4.8	3.6	3.9	4.1	4.1	4.2	4.2
Total external debt (percent of GDP)	64.0	65.8	67.4	66.9	66.7	68.4	70.3	72.5	72.9	73.0	72.2
Of which: Public external debt (percent of GDP)	31.2	35.2	36.9	37.5	36.9	40.7	43.0	45.3	45.7	45.9	45.4
WEO Oil price ($ per barrel)	96.2	50.8	34.8	42.8	41.0	54.9	55.7	55.7	55.9	56.3	56.9
Nominal GDP	35,878	37,570	39,453	38,709	41,692	40,487	42,553	44,794	47,246	49,880	52,660

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ The projected 2017 figure reflects the net effect of the Arab Bank and Dubai Islamic Bank transactions.
2/ Including gold and excluding commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.
3/ Not including prospective grants under the program from below the line.

Table 3b. External Financing Requirements and Sources, 2015–22

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

	2015 Act.	2016 Est.	2017Q1 Proj.	2017Q2 Proj.	2017Q3 Proj.	2017Q4 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Gross Financing Requirements	**6,133**	**5,613**	**1,966**	**1,323**	**952**	**1,720**	**5,961**	**5,874**	**6,456**	**6,602**	**4,940**	**6,499**
Current account deficit (excl. grants)	4,608	4,870	1,603	1,020	689	1,442	4,755	4,823	4,656	4,794	4,824	4,987
Of which: Energy imports	3,148	2,413	797	684	815	815	3,112	3,183	3,277	3,396	3,563	3,649
Amortization of public debt 1/	731	474	248	188	120	178	734	583	399	367	81	382
Amortization of sovereign bonds 2/	750	0	0	0	0	0	0	0	1,000	1,250	0	1,000
IMF repurchases (existing SBA)	45	268	115	115	143	100	473	467	401	191	35	130
Gross Financing Sources	**6,569**	**4,330**	**629**	**805**	**518**	**2,691**	**4,643**	**3,828**	**7,606**	**7,676**	**6,122**	**7,506**
FDI, net	1,602	1,538	368	438	386	344	1,536	1,720	1,909	2,175	2,209	2,332
Public grants	1,193	1,257	69	43	130	1,101	1,344	1,308	1,245	1,484	1,613	1,731
Public sector borrowing 3/	1,642	1,111	91	53	43	268	454	284	1,345	1,079	1,139	1,203
Issuance of sovereign bonds 2/	2,002	1,000	0	500	0	1,000	1,500	10	2,000	1,750	0	1,000
Non-resident purchases of local debt	103	-30	-50	25	50	50	75	200	300	300	300	325
Private capital flows, net 4/	27	-546	151	-254	-90	-72	-266	307	807	888	860	915
Errors and omissions	671	-428	0	0	0	0	0	0	0	0	0	0
Change in reserves (+ = increase)	772	-1,105	-1,285	-295	-400	2,194	214	1,244	1,278	1,073	1,181	1,007
Total Financing Needs	**-334**	**607**	**53**	**224**	**34**	**1,223**	**1,532**	**3,290**	**128**	**0**	**0**	**0**
Official Financing	**0**	**959**	**53**	**224**	**34**	**1,223**	**1,532**	**3,290**	**128**	**0**	**0**	**0**
Identified official budget support	0	615	0	106	0	797	903	920	0	0	0	0
Unidentified official budget support	0	0	0	0	0	0	0	1,858	0	0	0	0
Jordan Compact off-budget grants	0	272	53	48	34	264	399	235	13	0	0	0
IMF prospective purchases	0	72	0	69	0	161	230	276	115	0	0	0
Memorandum Items:												
Gross Usable Reserves	15,678	14,454	13,258	12,970	12,573	14,778	14,778	16,003	17,268	18,330	19,501	20,499
In percent of the IMF Reserve Adequacy Metric 5/	136	122	108	109	105	117	117	120	120	122	125	125
In months of next year's imports of GNFS	8.7	7.8	7.1	6.9	6.7	7.7	7.7	8.1	8.4	8.6	8.8	8.9

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.

Table 3c. Foreign Exchange Needs and Sources, 2015–22

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

	2015 Act.	2016 Est.	2017Q1 Proj.	2017Q2 Proj.	2017Q3 Proj.	2017Q4 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
General Government Gross Needs	**3,417**	**3,165**	**740**	**624**	**651**	**638**	**2,653**	**2,484**	**3,090**	**3,148**	**2,679**	**4,086**
NEPCO energy imports	1,658	1,071	322	277	329	329	1,257	1,254	1,207	1,162	1,174	1,185
Net interest payments	233	202	55	45	58	31	189	180	83	178	238	238
Amortizations of external debt	1,525	742	363	303	263	278	1,206	1,050	1,800	1,808	117	1,512
Amortizations of local debt in FX	0	1,150	0	0	0	0	0	0	0	0	1,152	1,152
General Government Sources	**4,837**	**4,518**	**160**	**596**	**172**	**2,370**	**3,298**	**1,602**	**4,590**	**4,312**	**3,252**	**4,534**
Public grants	1,193	1,257	69	43	130	1,101	1,344	1,308	1,245	1,484	1,613	1,731
Public sector borrowing 1/	1,642	1,111	91	53	43	268	454	284	1,345	1,079	1,139	1,203
Sovereign bonds 2/	2,002	1,000	0	500	0	1,000	1,500	10	2,000	1,750	0	1,000
Local bonds in FX	0	1,150	0	0	0	0	0	0	0	0	500	600
General Government Balance	**1,420**	**1,353**	**-580**	**-29**	**-479**	**1,732**	**645**	**-882**	**1,500**	**1,164**	**572**	**447**
Official financing	0	615	0	106	0	797	903	920	0	0	0	0
Unidentified budget grants under the EFF	0	0	0	0	0	0	0	608	0	0	0	0
Unidentified budget loans under the EFF	0	0	0	0	0	0	0	1,250	0	0	0	0
General Government Balance under the EFF	**1,420**	**1,968**	**-580**	**77**	**-479**	**2,529**	**1,548**	**1,897**	**1,500**	**1,164**	**572**	**447**
Jordan Compact off-budget grants	0	272	53	48	34	264	399	235	13	0	0	0
Non-resident purchases of local bonds	103	-30	-50	25	50	50	75	200	300	300	300	325
Increase in gross reserves	772	-1,105	-1,285	-295	-400	2,194	214	1,244	1,278	1,073	1,181	1,007
IMF prospective purchases	0	72	0	69	0	161	230	276	115	0	0	0
Public Sector Net Balance	**751**	**3,386**	**707**	**515**	**5**	**811**	**2,038**	**1,364**	**650**	**391**	**-309**	**-235**

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

1/ Includes project loans, Arab Monetary Fund, and IMF purchases under the SBA.

2/ Includes guaranteed and non-guaranteed bonds.

Table 3d. External Budget Financing, 2016–18
(In millions of U.S. dollars, unless otherwise indicated)

	2016 Q1 Act.	2016 Q2 Act.	2016 Q3 Act.	2016 Q4 Act.	2016 Total EFF	2016 Total Act.	2017 Q1 Proj.	2017 Q2 Proj.	2017 Q3 Proj.	2017 Q4 Proj.	2017 Total Proj.	2018 Q1 Proj.	2018 Q2 Proj.	2018 Q3 Proj.	2018 Q4 Proj.	2018 Total Proj.
Budget grants	**47**	**54**	**33**	**626**	**638**	**761**	**69**	**43**	**130**	**605**	**848**	**69**	**44**	**85**	**1,147**	**1,345**
EU	0	0	14	75	97	89	0	13	72	0	85	0	19	27	0	46
Saudi Arabia (budget support)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Saudi Arabia and Kuwait (development budget support) 1/	47	18	10	19	47	94	69	25	58	72	224	69	25	58	72	224
US	0	0	0	470	450	470	0	0	0	475	475	0	0	0	398	398
Other 2/	0	36	10	62	44	108	0	5	0	59	64	0	0	0	69	69
Unidentified	0	0	0	0	...	0	0	0	0	0	0	0	0	0	608	608
GCC capital grants																
GCC grants received by CBJ	0	50	95	0	349	145	0	0	0	110	110	0	0	0	280	280
GCC grants received by MOF	137	101	56	127	628	420	4	84	106	135	329	56	101	67	54	278
Loans	**39**	**29**	**88**	**1,634**	**1,824**	**1,791**	**15**	**144**	**28**	**735**	**922**	**0**	**106**	**106**	**1,840**	**2,052**
France	0	0	0	136	142	136	0	0	0	133	133	0	0	0	159	159
WB	0	0	0	345	350	345	0	0	0	275	275	0	0	0	325	325
EU	0	0	0	0	114	0	0	106	0	106	212	0	106	106	106	318
Arab Monetary Fund	33	19	85	60	...	198	15	38	28	46	127	0	0	0	0	0
Other 3/	6	10	3	1,093	514	1,112	0	0	0	175	175	0	0	0	0	0
Unidentified	0	0	0	0	...	0	0	0	0	0	0	0	0	0	1,250	1,250
Memorandum items:																
Annual cumulative total (MOF) 4/	223	408	585	2,972	3,090	2,972	88	360	623	2,099	2,099	125	376	634	3,675	3,675
in millions of JDs	158	289	415	2,107	2,191	2,107	62	255	442	1,488	1,488	89	267	450	2,606	2,606
in percent of annual GDP	0.6	1.1	1.5	7.7	8.2	7.7	0.2	0.9	1.5	5.2	5.2	0.3	0.9	1.5	8.6	8.6
Annual cumulative total (CBJ) 5/	86	220	437	2,697	2,811	2,697	84	271	429	1,880	1,880	69	219	410	3,677	3,677
Total unidentified grants and loans	0	0	0	0	...	0	0	0	0	0	0	0	0	0	1,858	1,858
Stock of GCC grants at the CBJ	775	724	764	637	...	637	633	549	443	418	418	361	261	193	419	419

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Disbursements expected for 2017 are part of the remaining GCC pledges made in the beginning of the SBA in 2012.
2/ Includes the grant component from the Concessional Financing Facility. In 2016 it also includes $26 million transfer from CBJ to MOF related to USAID program and about $28 million from monetization of wheat grant from US (no BOP impact).
3/ In 2016, includes non-guaranteed Eurobond.
4/ Budget grants, GCC capital grants received by MOF, and budget loans.
5/ Budget grants, GCC capital grants received by CBJ and budget loans.

Table 4a. Jordan: Summary Monetary Survey, 2015–18

	2015	2016 1/		2017 1/					2018 1/				
	Act.	EFF req.	Act.	Proj.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual	Annual	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
				(Stocks, in millions of Jordanian dinars)									
Net foreign assets	8,256	8,710	8,935	9,521	7,779	7,880	7,882	9,521	10,590	8,758	8,589	8,557	10,589
Central bank	10,243	10,638	9,922	10,408	9,102	8,985	8,878	10,408	11,425	9,632	9,450	9,405	11,424
Commercial banks	-1,987	-1,928	-986	-887	-1,323	-1,105	-996	-887	-835	-874	-861	-848	-835
Net domestic assets	23,344	25,281	23,924	24,782	24,180	24,780	25,345	24,782	25,464	25,585	26,351	27,037	25,464
Net claims on general government	11,620	12,012	10,947	10,768	11,143	11,092	11,354	10,768	9,899	11,080	11,269	11,716	9,899
Net claims on central budgetary government 2/	9,055	9,210	8,194	7,727	8,331	8,203	8,403	7,727	6,540	7,959	8,069	8,437	6,540
Net claims on NEPCO	1,883	1,878	1,737	1,736	1,745	1,752	1,742	1,736	1,736	1,736	1,736	1,736	1,736
Net claims on other own budget agencies 3/	330	544	472	761	539	609	680	761	1,079	841	920	1,000	1,079
Claims on other public entities	352	380	544	544	528	528	528	544	544	544	544	544	544
Claims on financial institutions	161	175	265	265	373	373	373	265	265	265	265	265	265
Claims on the private sector	18,705	20,603	20,590	22,473	21,212	21,763	22,217	22,473	24,215	22,914	23,441	23,830	24,215
Other items (net)	-7,142	-7,509	-7,877	-8,724	-8,549	-8,449	-8,599	-8,724	-8,914	-8,674	-8,624	-8,774	-8,914
Broad money	31,600	33,991	32,860	34,303	31,959	32,660	33,227	34,303	36,053	34,342	34,940	35,593	36,053
Currency in circulation	3,933	4,129	4,181	4,296	4,163	4,200	4,217	4,296	4,444	4,284	4,341	4,405	4,444
Jordanian dinar deposits	22,960	24,782	23,262	24,005	22,390	22,768	23,208	24,005	25,288	24,046	24,479	24,951	25,288
Foreign currency deposits	4,707	5,080	5,417	6,001	5,406	5,692	5,802	6,001	6,322	6,012	6,120	6,238	6,322
				(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)									
Net foreign assets	…	1,148	1,399	585	-1,156	101	2	1,639	1,069	-763	-169	-32	2,032
Net domestic assets	…	-557	-1,247	858	255	600	565	-563	682	802	766	686	-1,572
Net claims on general government	…	-684	-1,226	-178	196	-50	262	-585	-870	312	189	448	-1,818
Net claims on Central Budgetary Government	…	-790	-1,335	-467	137	-128	200	-676	-1,187	232	109	368	-1,897
Net claims on NEPCO	…	32	-38	-1	8	7	-9	-6	-1	0	0	0	0
Net claims on other own budget agencies	…	73	39	289	67	71	71	81	318	79	79	79	79
Claims on financial institutions	…	1	109	0	-16	0	0	16	0	0	0	0	0
Claims on the private sector	…	417	441	1,882	622	551	454	256	1,742	441	527	388	385
Other items (net)	…	-304	-533	-846	-671	100	-150	-125	-190	50	50	-150	-140
Broad money	…	591	152	1,443	-901	701	567	1,076	1,751	39	597	654	460
Currency in circulation	…	-213	-134	115	-18	37	17	79	147	-12	57	63	39
Jordanian dinar deposits	…	675	-201	743	-872	379	440	797	1,283	41	432	472	337
Foreign currency deposits	…	129	487	585	-11	286	110	199	321	10	108	118	84
Memorandum items:													
Year-on-year broad money growth (percent)	8.1	7.6	4.0	4.4	-0.1	1.8	1.6	4.4	5.1	7.5	7.0	7.1	5.1
Year-on-year private sector credit growth (percent)	4.8	10.2	10.1	9.1	10.6	9.9	10.3	9.1	7.8	8.0	7.7	7.3	7.8
Foreign currency/total deposits (percent)	17.0	17.0	18.9	20.0	19.4	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Private sector credit/total deposits (percent)	67.6	69.0	71.8	74.9	76.3	76.5	76.6	74.9	76.6	76.2	76.6	76.4	76.6
Currency in circulation/JD deposits (percent)	17.1	16.7	18.0	17.9	18.6	18.4	18.2	17.9	17.6	17.8	17.7	17.7	17.6
Money multiplier (for JD liquidity)	3.6	3.6	3.5	3.6	3.6	3.7	3.7	3.6	3.7	3.6	3.7	3.8	3.7

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

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

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

3/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2015–18

	2015	2016 1/		2017 1/					2018 1/				
	Act.	EFF req.	Act.	Proj.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual	Annual	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
(Stocks, in millions of Jordanian dinars)													
Net foreign assets	10,243	10,638	9,922	10,408	9,102	8,985	8,878	10,408	11,425	9,632	9,450	9,405	11,424
Foreign assets	12,515	12,645	11,876	12,029	10,966	10,757	10,473	12,028	12,911	11,131	10,911	10,751	12,911
Of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	75	61	94	93	93	93	93	93	93	93	93	93	93
Foreign liabilities	2,272	2,007	1,954	1,620	1,864	1,772	1,595	1,620	1,486	1,500	1,461	1,346	1,486
Of which: Net Fund Position	1,311	1,244	1,188	1,013	1,103	1,071	970	1,013	878	932	965	897	878
Of which: GCC grants-related	852	654	657	498	651	592	516	498	500	459	387	339	500
Net domestic assets	-2,737	-2,680	-2,190	-2,547	-1,825	-1,617	-1,364	-2,546	-3,279	-1,762	-1,576	-1,577	-3,279
Net claims on central budgetary government 2/	1,464	1,279	1,031	792	1,055	964	823	792	381	711	590	522	381
Net claims on own budget agencies and other public entities	-65	-66	-41	-41	-11	-11	-11	-41	-41	-41	-41	-41	-41
Net claims on financial institutions	72	72	82	82	170	170	170	82	82	82	82	82	82
Net claims on private sector	23	23	23	23	23	23	23	23	23	23	23	23	23
Net claims on commercial banks	-3,014	-2,856	-1,926	-2,428	-1,801	-1,502	-1,308	-2,428	-2,549	-1,763	-1,555	-1,488	-2,549
Of which: FX deposits of commercial banks	618	614	746	770	785	780	778	770	784	774	777	781	784
CDs	-1,077	-850	-1,031	-700	-900	-900	-700	-700	-900	-500	-400	-400	-900
Other items, net (asset: +)	-141	-282	-328	-275	-361	-361	-361	-275	-275	-275	-275	-275	-275
Jordanian dinar reserve money	7,506	7,958	7,732	7,862	7,277	7,368	7,514	7,862	8,146	7,870	7,874	7,828	8,146
Currency	4,337	4,527	4,621	4,732	4,598	4,635	4,652	4,732	4,879	4,719	4,776	4,840	4,879
Commercial bank reserves	3,169	3,431	3,111	3,130	2,679	2,733	2,861	3,130	3,267	3,150	3,098	2,988	3,267
Of which: required reserves	1,605	1,733	1,628	1,680	1,581	1,608	1,639	1,680	1,770	1,683	1,713	1,747	1,770
(Flows, in millions of Jordanian dinars; annual for yearly columns and quarterly otherwise)													
Net foreign assets	...	1,117	594	487	-819	-117	-107	1,530	1,016	-776	-182	-45	2,019
Foreign assets	...	1,166	439	153	-910	-209	-284	1,555	882	-897	-220	-161	2,160
Foreign liabilities	...	50	-154	-334	-91	-92	-177	25	-134	-121	-38	-115	140
Net domestic assets	...	-1,128	-663	-357	365	208	253	-1,182	-732	784	186	-1	-1,702
Net claims on central budgetary government	...	-172	-375	-239	24	-91	-141	-31	-411	-81	-121	-68	-141
Net claims on commercial banks	...	-1,073	-296	-502	125	299	194	-1,120	-121	665	208	67	-1,060
Other items, net (asset: +)	...	51	5	54	-32	0	0	86	0	0	0	0	0
Jordanian dinar reserve money	...	-11	-69	130	-454	91	145	348	284	8	5	-46	317
Currency	...	-213	-147	111	-23	37	17	79	147	-12	57	63	39
Commercial banks' reserves	...	202	78	19	-432	54	128	269	137	20	-52	-110	279
Memorandum items:													
Gross international reserves	16,570	16,754	15,669	15,884	14,385	14,090	13,690	15,884	17,128	14,619	14,308	14,082	17,128
Gross usable international reserves ($ millions)	15,678	15,888	14,571	14,753	13,233	12,945	12,548	14,752	15,977	13,482	13,167	12,936	15,977
As a ratio to JD broad money (in percent)	41.3	39.0	37.6	37.0	35.3	34.0	32.4	37.0	38.1	33.7	32.4	31.2	38.1
As a ratio of JD reserve money (in percent)	148.1	141.6	133.6	133.0	128.9	124.6	118.4	133.0	139.1	121.5	118.6	117.2	139.1
Net international reserves (millions of JD)	9,635	9,851	8,972	9,277	8,108	7,937	7,757	9,276	10,280	8,457	8,200	8,104	10,280
Net international reserves (millions of U.S. dollars)	13,589	13,894	12,654	13,084	11,436	11,194	10,940	13,084	14,499	11,928	11,566	11,430	14,499
Money multiplier (for JD liquidity)	3.6	3.6	3.5	3.6	3.6	3.7	3.7	3.6	3.7	3.6	3.7	3.8	3.7

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

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

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

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016			
												Q1	Q2	Q3 1/	Q4 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	18.4	18.2	19.0
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1,159	1,315	1,336	1,285	1,064	1,010	973	1,032	1,011	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	4.9	4.7	4.8	4.6	4.4
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	74.7	80.2	76.5	77.7	78.2
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	4.5	3.3	4.2	3.8	3.5
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	143.5	149.1	152.2	149.0	147.5	140.7	141.7	138.1
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	1.5	1.2	1.1
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	11.5	9.4	8.8
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	13.0	12.7	11.9
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	29.1	23.9	20.6	20.2	20.3	20.6	20.6	21.1
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	67.2	67.4	69.6
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	15.8	15.7	17.7
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	3.2	3.2	3.5
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	78.3	80.8	81.8	83.5

Source: Central Bank of Jordan.

1/ Preliminary

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

I. EFF Request

Review	Availability Date	Action	Purchase: SDR Million	Purchase: Percent of Quota
	August 24, 2016	Board approval of EFF	51.465	15.00
First Review	November 30, 2016	Observance of end-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**	**150.00**

II. New Proposal

Review	Availability Date	Action	Purchase: SDR Million	Purchase: Percent of Quota
	August 24, 2016	Board approval of EFF	51.465	15.00
First Review	May 31, 2017	Observance of end-December 2016 performance criteria, completion of first review	51.465	15.00
Second Review	September 29, 2017	Observance of end-June 2017 performance criteria, completion of second review	120.085	35.00
Third Review	March 30, 2018	Observance of end-December 2017 performance criteria, completion of third review	120.085	35.00
Fourth Review	September 28, 2018	Observance of end-June 2018 performance criteria, completion of fourth review	85.775	25.00
Fifth Review	March 29, 2019	Observance of end-December 2018 performance criteria, completion of fifth review	85.775	25.00
Total			**514.650**	**150.00**

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

Table 7. Jordan: Indicators of Fund Credit, 2015–22

(In millions of SDR, unless otherwise indicated)

	2015 Act.	2016 Act.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Existing and prospective Fund arrangements								
Disbursements	426.3	51.5	171.6	205.9	85.8	0.0	0.0	0.0
Stock 1/	1,332.0	1,191.7	1,011.6	869.3	656.7	514.7	501.8	454.6
Obligations 2/	54.6	219.1	380.9	373.9	316.2	151.7	21.2	55.2
Principal (repayments/repurchases)	32.0	191.8	351.7	348.1	298.4	142.1	12.9	47.2
Charges and interest	22.7	27.3	29.2	25.8	17.8	9.6	8.4	8.0
Stock of existing and prospective Fund credit 1/	1,332.0	1,191.7	1,011.6	869.3	656.7	514.7	501.8	454.6
In percent of quota 3/	781.2	347.3	294.8	253.4	191.4	150.0	146.3	132.5
In percent of GDP	5.0	4.3	3.5	2.9	2.1	1.5	1.4	1.2
In percent of exports of goods and services	15.8	14.5	11.8	9.6	6.9	5.1	4.7	4.1
In percent of gross usable reserves	12.0	11.6	9.6	7.7	5.4	4.0	3.6	3.1
Obligations to the Fund from existing and prospective Fund arrangements	54.6	219.1	380.9	373.9	316.2	151.7	21.2	55.2
In percent of quota	32.0	63.9	111.0	109.0	92.2	44.2	6.2	16.1
In percent of GDP	0.2	0.8	1.3	1.2	1.0	0.5	0.1	0.1
In percent of exports of goods and services	0.5	2.3	3.8	3.5	2.8	1.3	0.2	0.4
In percent of gross usabel reserves	0.5	2.1	3.6	3.3	2.6	1.2	0.2	0.4

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, 2015–22

	2015 Act.	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Exposure and Repayments from Existing and Prospective Fund Arrangements								
GRA credit to Jordan	1,332.0	1,191.7	1,011.6	869.3	656.7	514.7	501.8	454.6
In percent of quota 1/	781.2	347.3	294.8	253.4	191.4	150.0	146.3	132.5
Debt service on GRA credit	54.6	219.1	380.1	372.1	314.8	150.5	20.2	54.3
Principal (repayments/repurchases)	32.0	191.8	351.7	348.1	298.4	142.1	12.9	47.2
Charges and interest	22.7	27.3	28.4	24.0	16.4	8.5	7.4	7.1
Debt and debt service ratios (In percent of GDP)								
Public and publicly-guaranteed debt	35.2	37.5	40.7	43.0	45.3	45.7	45.9	45.4
Excluding proposed IMF	30.2	33.3	37.3	40.3	43.3	44.2	44.6	44.3
GRA credit to Jordan	5.0	4.3	3.4	2.7	2.0	1.5	1.4	1.2
Public and publicly-guaranteed debt service	4.8	2.7	3.9	3.7	5.4	5.5	2.0	4.6
Excluding proposed IMF	4.6	1.9	2.7	2.5	4.5	5.0	1.9	4.5
GRA debt service	0.2	0.8	1.3	1.2	0.9	0.4	0.1	0.1
Debt and debt service ratios (In percent of exports of goods and services)								
Public and publicly-guaranteed debt	93.7	106.9	115.8	123.1	129.2	130.3	130.8	129.5
Excluding proposed IMF	80.5	94.7	106.3	115.2	123.6	126.1	126.9	126.2
GRA credit to Jordan	13.2	12.2	9.6	7.8	5.6	4.2	3.8	3.3
Public and publicly-guaranteed debt service	12.8	7.7	11.2	10.5	15.4	15.5	5.6	13.1
Excluding proposed IMF	12.3	5.4	7.6	7.1	12.7	14.3	5.5	12.7
GRA debt service	0.5	2.2	3.6	3.4	2.7	1.2	0.2	0.4

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.

Annex I. Debt Sustainability Analyses

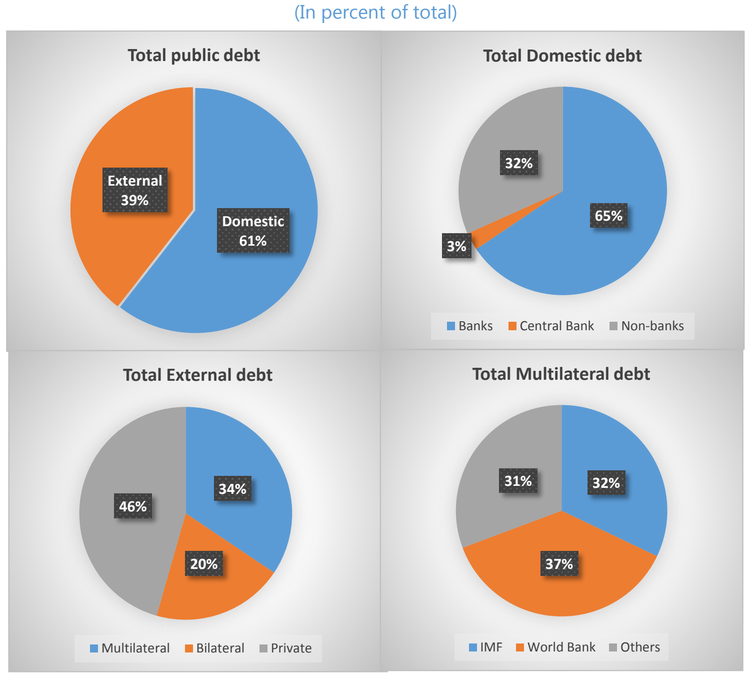
***Jordan's total public debt is assessed as sustainable**, provided the authorities implement the key fiscal structural reforms envisaged under the program, i.e., streamlining the general sales tax and customs duty exemptions and broadening the income tax base through an income tax law that reduces the exceptionally high personal income tax exemption thresholds. With these reforms, the medium-term debt target (77 percent of GDP) is still attainable but the near-term debt trajectory has deteriorated since the EFF request. Reflecting lower nominal GDP growth and lower-than-projected budget grants, public debt will remain elevated in 2017 (at about 96 percent of GDP) and will start declining only in 2018, a year later than expected at program request. Gross financing needs (GFN) will also remain large over the program period (around 14 percent of GDP on average), and are expected to remain below the high-risk benchmark for emerging economies (15 percent of GDP) over the medium term, as the average maturity of public domestic debt continues to lengthen and fiscal consolidation takes hold. Jordan's heat map and stress test scenarios continue to point to substantial vulnerabilities.*

***Jordan's public external debt remains moderate but is expected to show an increase over the medium term.** Public external debt is expected to show an increase, from 37.5 percent of GDP in 2016 to about 46 percent of GDP in 2021, reflecting continued placements of international bonds and concessional borrowing under the Jordan Compact. Despite the improvement in the profile of public external debt towards more concessional loans, it remains vulnerable to unfavorable current account and real exchange rate shocks.*

***Jordan's private external debt—estimated at 29 percent of GDP—is moderate and projected to decline slightly over the medium term.** Private external debt is expected to gradually decline to below 27 percent of GDP by 2022, which would help keep Jordan's total external debt at 72 percent of GDP. Total external financing requirements are still elevated but are expected to gradually decline over the medium term with the implementation of the fiscal reforms, moderation of the current account deficit, and acceleration of FDI inflows.*

Figure 1. Jordan's Public Debt, 2016

(In percent of total)



Sources: Authorities and IMF Staff.

1. **This section 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 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. **Macro.** Compared with the staff report for the EFF request, real GDP growth in 2016 has been revised down to 2.0 percent because the regional developments continue to hurt economic activity. Growth is expected to increase to 2.3 percent in 2017 and converge to 3 percent over the medium term. GDP deflator inflation is projected to decelerate to 1 percent in 2016, owing to lower rents and lower oil and commodity prices, and recover to 2.5 percent over the medium term. The current account deficit including grants was revised up to 9.4 percent of GDP in 2016, reflecting lower private and public transfers and weaker services receipts. The current account deficit for the medium term remains roughly the same, at about 7 percent of GDP. A gradual recovery in FDI inflows, continuation of international market access, and concessional financing under the Jordan Compact would help finance the current account deficit and maintain international reserves at an adequate level, i.e., at around 120 percent of the Fund's reserve adequacy metric.

3. **Fiscal**. The medium-term debt target is consistent with a combined public deficit[1] that starts at 3.8 percent of GDP in 2016 and gradually turns into a small surplus by the end of the program, reflecting the implementation of the tax exemptions and income tax reforms and the expectation that the electricity company NEPCO will maintain operational cost recovery while the water company WAJ will stabilize its 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 gradual increase in global interest rates.[2]

5. **Maturity, rollover, and market access**. Jordan's domestic debt still has short maturity but it is expected to gradually increase over the medium term as debt management and market access conditions improve. With U.S. Treasury technical assistance, it was possible to increase the average maturity from 1.5 years in 2015 to 2.5 years in 2016, and the expectation is to reach 3 years in 2017. Jordan's external public debt profile is on the longer end, with maturity at issuance typically more than 5 years. This is assumed to continue during the program period, given the issuance of long-term international bonds and long-term concessional loans from the World Bank and other multilaterals, as well as from official bilateral creditors. The macroeconomic framework incorporates almost $2.2 billion in official loans on concessional terms, and about $0.8 billion in off budget grants under the Jordan Compact over the program period; continuation of international market access; and gradual recovery in the participation of non-residents in the local debt markets. U.S. 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. Jordanian banks' profitability, liquidity and provisioning indicators remain favorable, thus not posing significant risks to the ability of the government to continue rolling over its domestic debt in the near term.

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

[2] 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.

Jordan: 2017–18 Borrowing Plan

Description	2017		2018	
	US$ Million	Percent of GDP	US$ Million	Percent of GDP
Borrowing needs (A1+A2)	**8,956**	**22.1**	**6,907**	**16.2**
A1. Overall deficit	**1,480**	**3.7**	**668**	**1.6**
CG overall deficit after grants	1,009	2.5	159	0.4
NEPCO deficit	-1	0.0	-1	0.0
WAJ deficit	473	1.2	510	1.2
A2. Debt amortization	**7,476**	**18.5**	**6,239**	**14.7**
Central government	6,376	15.7	5,148	12.1
Domestic treasury bills and bonds	5,169	12.8	4,097	9.6
Local bonds in USD	0	0.0	0	0.0
External debt	1,206	3.0	1,050	2.5
NEPCO	895	2.2	675	1.6
WAJ	205	0.5	417	1.0
Borrowing sources (B1+B2+B3+B4)	**8,956**	**22.1**	**6,907**	**16.2**
B1. Rollover of domestic debt	**6,769**	**16.7**	**5,189**	**12.2**
Domestic Treasury bills and bonds	5,169	12.8	4,097	9.6
Local bonds in USD	500	1.2	0	0.0
NEPCO debt	895	2.2	675	1.6
WAJ debt	205	0.5	417	1.0
B2. New issuance of domestic debt (CG+NEPCO+WAJ)	**-642**	**-1.6**	**-697**	**-1.6**
B3. Identified external financing	**2,828**	**7.0**	**1,165**	**2.7**
Budget loans	1,001	2.5	882	2.1
Non-guaranteed Eurobond	1,500	3.7	0	0.0
Guaranteed loans	61	0.2	0	0.0
Project loans	266	0.7	284	0.7
B4. Unidentified external financing 1/	**0**	**0.0**	**1,250**	**2.9**

Sources: Jordanian authorities and Fund staff calculations and estimates.
1/ Issuance of a non-guaranteed Eurbond could be an option to cover this financing gap.

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 2022. The baseline assumes that the impact on debt from lower nominal growth in 2016 would be offset by further measures over the program period. Despite the substantial past and projected fiscal adjustment, the debt-to-GDP ratio would still be near 96 percent of GDP in 2017, reflecting the downward revision in nominal growth and 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.

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 brought gross financing needs to about 22 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, beginning in 2017. The gross financing needs are projected to remain below the high-risk benchmark of the MAC DSA until 2020, as a large part of the Jordan Compact is funded by external loans on concessional terms.[4] 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 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 to a 40-percent increase in oil prices compared to the baseline. Under a growth shock, entailing a cumulative growth decline of over 5 percentage points in 2017–18, public debt would peak at over 110 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 also increase to above 100 percent of GDP for several years. This impact could be mitigated by the fact that

[4] Under the Concessional Financing Facility (CFF), multilaterals like the World Bank blend their loans at their lending terms with grants from bilateral donors. Grants are disbursed on a pro-rate basis according to the disbursement schedule. The blending of loans and grants bring the financing terms close to IDA terms.

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.

D. External Sector DSA

12. 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.

13. Jordan's public external debt remains moderate but is projected to grow slightly over the medium term, while public external debt service would remain relatively low. Public external debt is expected to rise from 37.5 percent of GDP in 2016 to about 45 percent of GDP over the program period, while debt service would peak in 2019-20 at about 6.5 percent of GDP as U.S. guaranteed Eurobonds come due. The composition of public external debt would remain favorable, including because of concessional borrowing under the Jordan Compact.

14. In turn, private external debt is expected to remain moderate at about 26–29 percent of GDP. As of end-2016, four fifths of the total private external debt are projected to be owed by banks (mostly currency and non-resident deposits), with the remainder by non-bank private corporations. In broad terms, the projections are predicated on banks maintaining their exposure to non-residents and on the non-bank corporate sector meeting part of its financing needs with debt-creating flows. Over the medium term, the share of corporates' external debt would gradually increase to about a quarter of the total private external debt, following the trend observed in the past years. Given the currently available information on the private external debt—particularly its moderate size and the healthy balance sheets of local banks—contingent liability risks to the public sector are expected to be contained.[5]

15. External financing requirements would peak in 2016 at about 14 percent of GDP, and then gradually decline thereafter. The still elevated financing requirements reflect large current account deficits in the near term, and amortizations of U.S. guaranteed Eurobonds coming due in 2019–20, which are assumed to be rolled over on market terms prevailing at that time. Despite the higher current account deficit projected for 2016–17 relative to the program request, a more gradual normalization of global interest rates (based on the latest WEO assumptions) is moderating the pace of interest and income payments related to FDI liabilities and hence containing the non-interest current account deficit and external financing requirements over the medium term.

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.

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

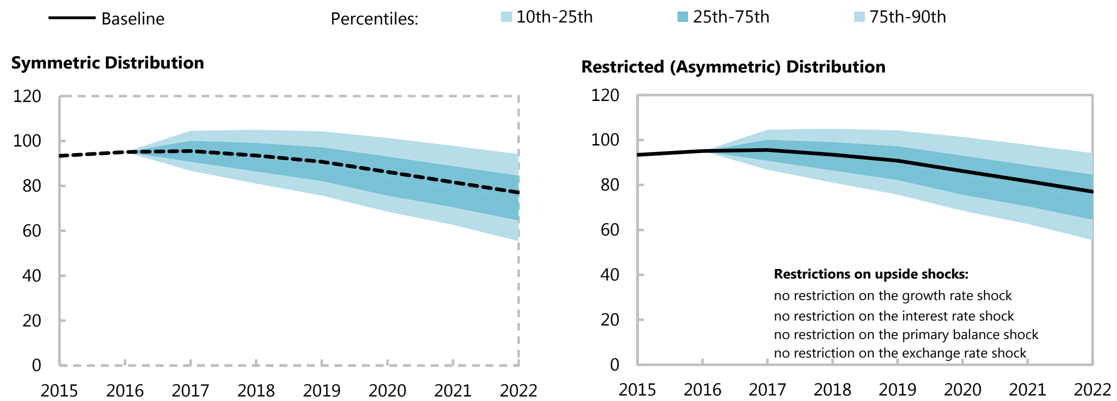
Jordan: Public DSA—Risk Assessment

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

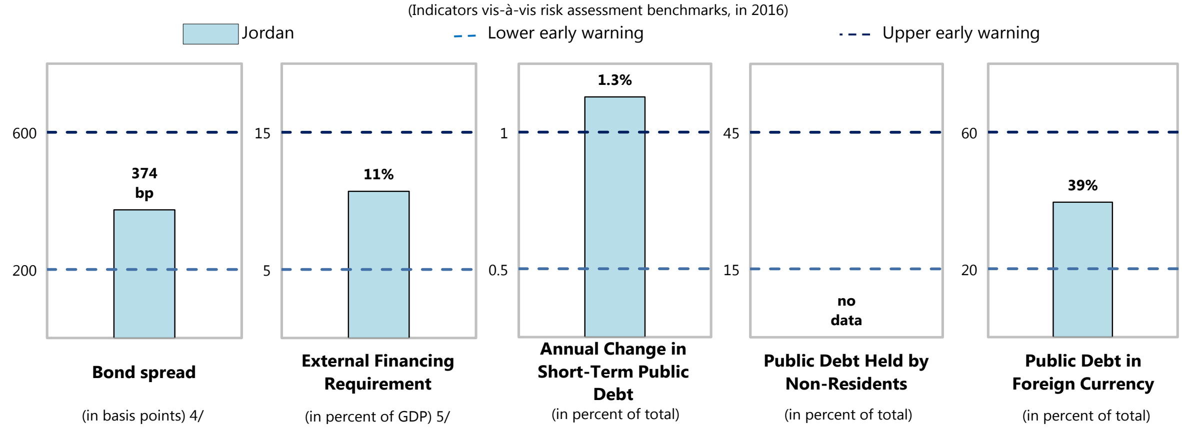
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



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.

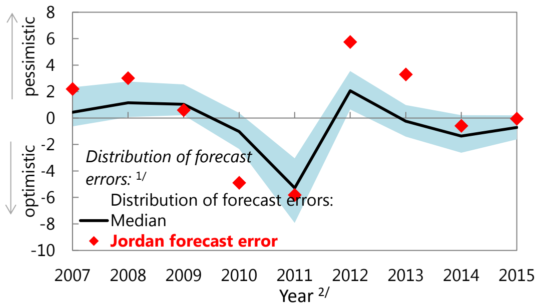
4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 25-Nov-16 through 23-Feb-17.

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.

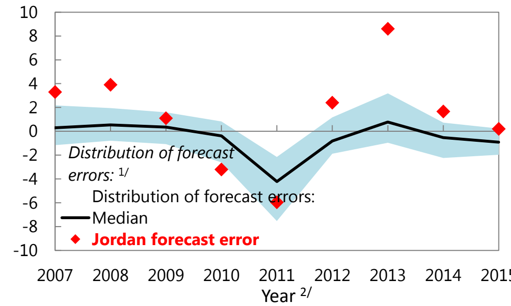
Jordan: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries

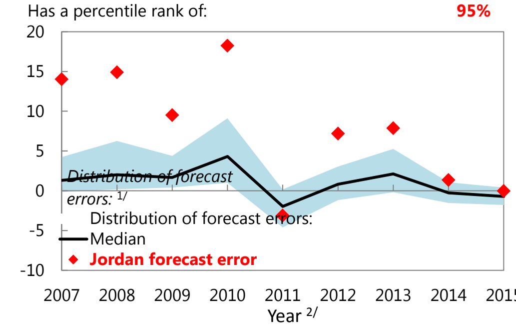
Real GDP Growth
(in percent, actual-projection)
Jordan median forecast error, 2007-2015: **0.60**
Has a percentile rank of: **75%**



Primary Balance
(in percent of GDP, actual-projection)
Jordan median forecast error, 2007-2015: **1.67**
Has a percentile rank of: **93%**

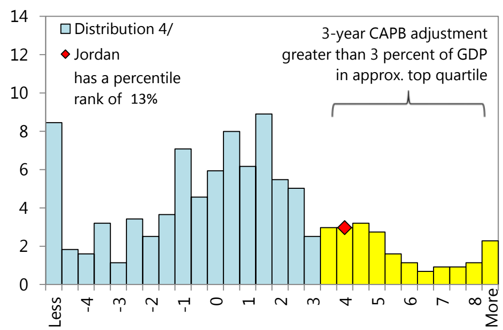


Inflation (Deflator)
(in percent, actual-projection)
Jordan median forecast error, 2007-2015: **7.87**
Has a percentile rank of: **95%**

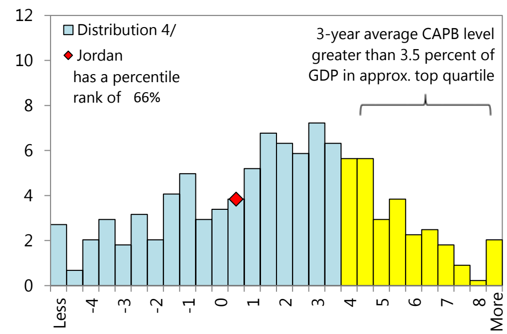


Assessing the Realism of Projected Fiscal Adjustment

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

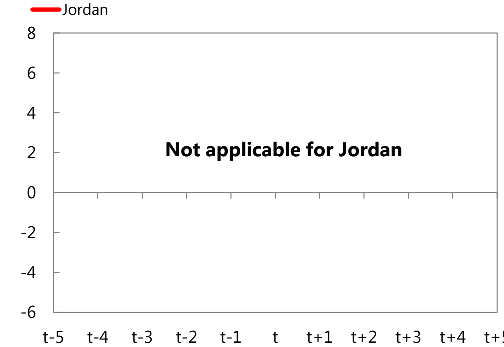


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Jordan, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

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

(In percent of GDP, unless otherwise indicated)

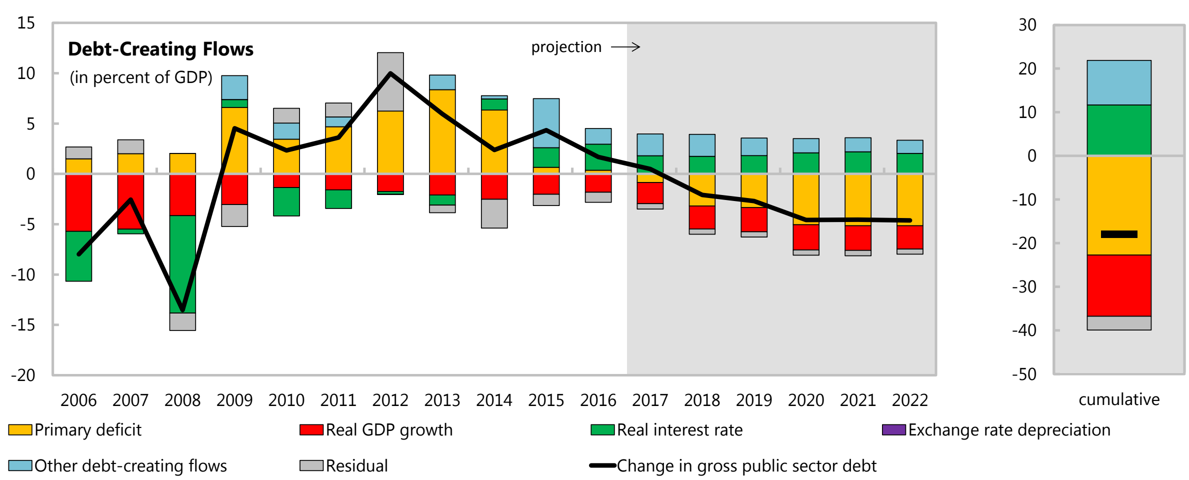
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	74.4	93.4	95.1	95.6	93.5	90.8	86.2	81.6	77.0
Of which: guarantees	4.8	12.4	13.1	12.5	11.9	11.3	10.7	10.2	9.6
Public gross financing needs	18.6	19.2	22.0	15.9	7.1	13.4	17.5	9.2	15.4
Net public debt	68.3	85.8	87.7	88.5	86.7	84.4	80.1	75.9	71.6
Real GDP growth (in percent)	4.7	2.4	2.0	2.3	2.5	2.7	2.9	3.0	3.0
Inflation (GDP deflator, in percent)	7.4	2.3	1.0	2.2	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	12.5	4.7	3.0	4.6	5.1	5.3	5.5	5.6	5.6
Effective interest rate (in percent) [4/]	4.3	4.6	3.9	4.3	4.5	4.6	5.0	5.3	5.2

As of February 23, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		366
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	BB-	BB-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.5	4.3	1.7	0.5	-2.1	-2.7	-4.6	-4.5	-4.6	-18.0	
Identified debt-creating flows	0.1	5.5	2.7	1.0	-1.5	-2.2	-4.0	-4.0	-4.1	-14.9	
Primary deficit	4.6	0.7	0.4	-0.9	-3.2	-3.4	-5.0	-5.1	-5.1	-22.8	1.0
Primary (noninterest) revenue and grants	27.5	25.0	25.6	27.9	30.3	30.7	31.7	31.7	31.7	184.0	
Primary (noninterest) expenditure	32.1	25.6	25.9	27.0	27.1	27.3	26.6	26.6	26.6	161.2	
Automatic debt dynamics [5/]	-5.2	-0.1	0.8	-0.3	-0.5	-0.6	-0.4	-0.3	-0.3	-2.4	
Interest rate/growth differential [6/]	-5.2	-0.1	0.8	-0.3	-0.5	-0.6	-0.4	-0.3	-0.3	-2.4	
Of which: real interest rate	-2.1	2.0	2.6	1.8	1.7	1.8	2.1	2.2	2.0	11.7	
Of which: real GDP growth	-3.1	-2.0	-1.8	-2.1	-2.3	-2.4	-2.5	-2.4	-2.3	-14.0	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.7	4.9	1.6	2.2	2.2	1.8	1.4	1.4	1.3	10.2	
Privatization Receipts (negative)	0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
One-offs (including transfers from trust	0.3	5.4	1.6	2.2	2.2	1.8	1.4	1.4	1.3	10.2	
Residual, including asset changes [8/]	0.4	-1.1	-1.0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-3.2	



Source: IMF staff.

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

2/ Based on available data.

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

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

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

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

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

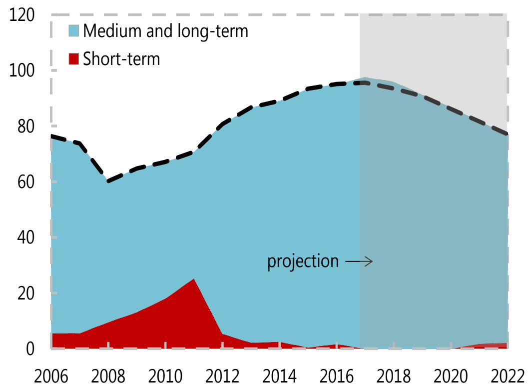
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

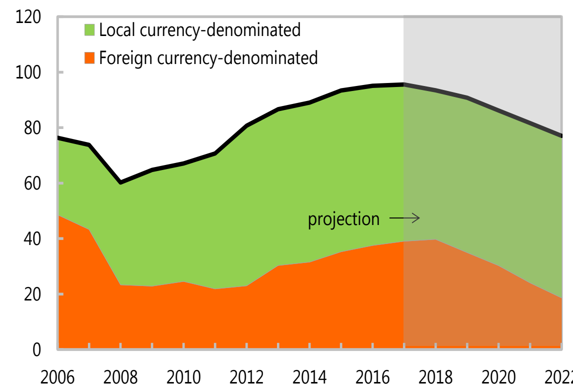
Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



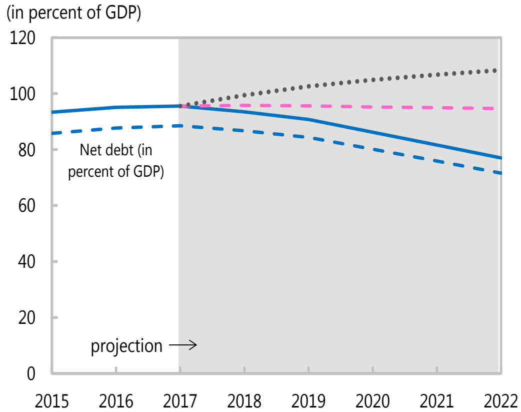
By Currency
(in percent of GDP)



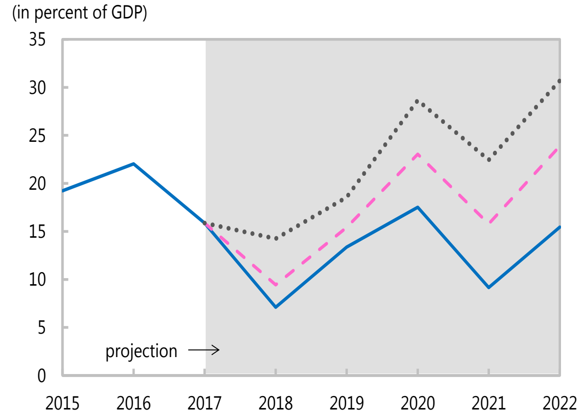
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

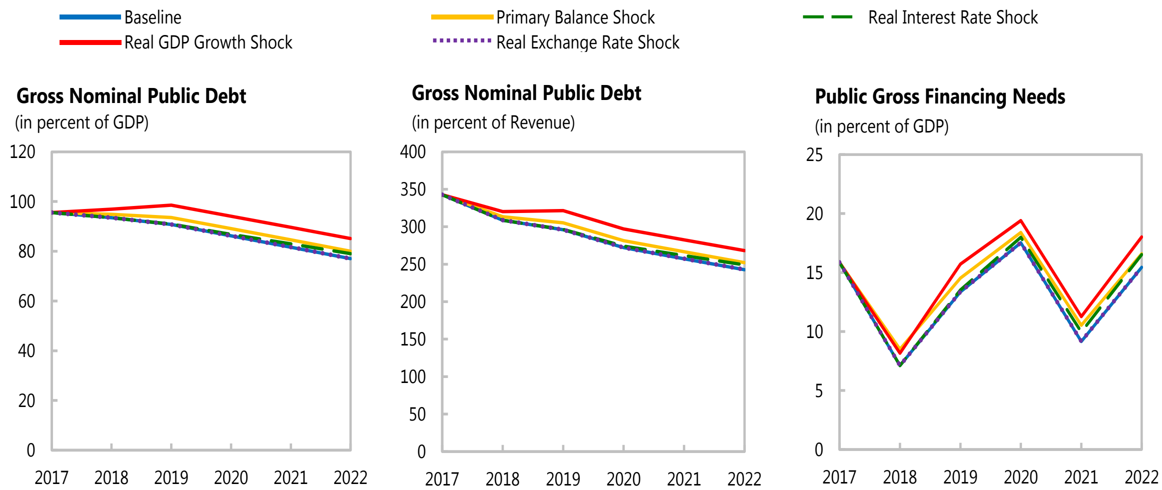
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.3	2.5	2.7	2.9	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary Balance	0.9	3.2	3.4	5.0	5.1	5.1
Effective interest rate	4.3	4.5	4.6	5.0	5.3	5.2
Constant Primary Balance Scenario						
Real GDP growth	2.3	2.5	2.7	2.9	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary Balance	0.9	0.9	0.9	0.9	0.9	0.9
Effective interest rate	4.3	4.5	4.7	5.0	5.3	5.3

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.3	3.9	3.9	3.9	3.9	3.9
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary Balance	0.9	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	4.3	4.5	4.1	3.6	3.2	3.1

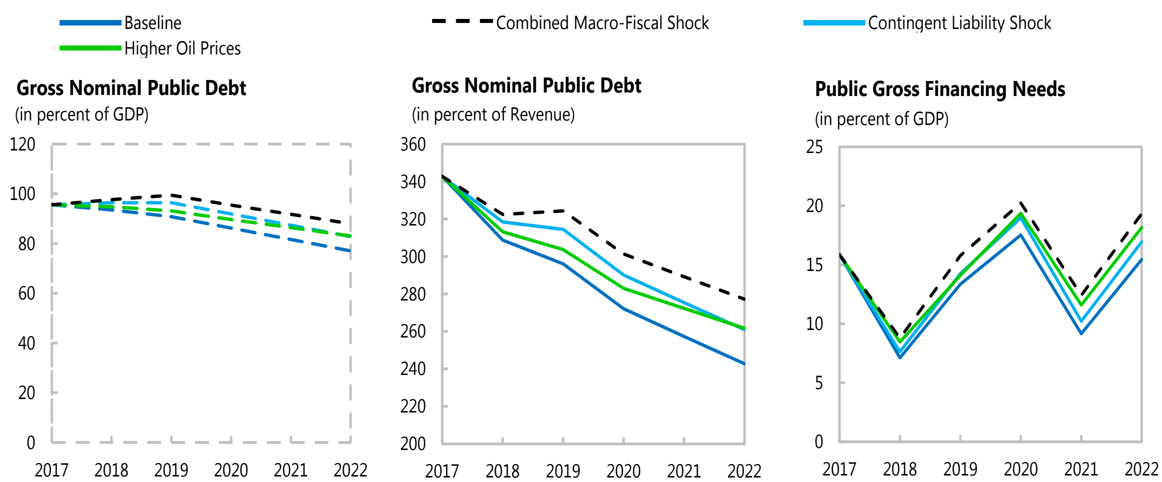
Source: IMF staff.

Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

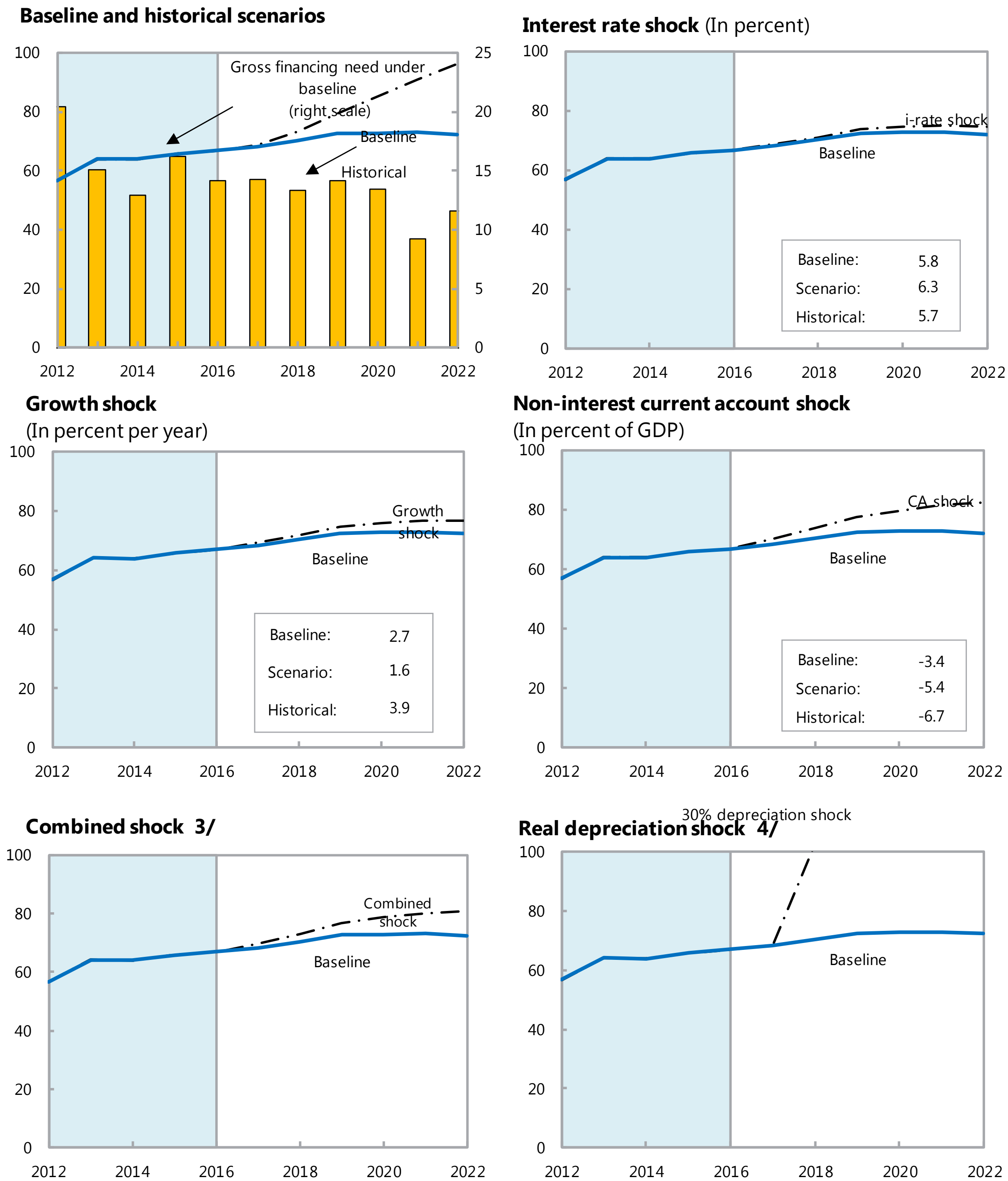
Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	2.3	2.5	2.7	2.9	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary balance	0.9	1.8	2.0	5.0	5.1	5.1
Effective interest rate	4.3	4.5	4.7	5.1	5.4	5.2
Real Interest Rate Shock						
Real GDP growth	2.3	2.5	2.7	2.9	3.0	3.0
Inflation	2.2	2.5	2.5	2.5	2.5	2.5
Primary balance	0.9	3.2	3.4	5.0	5.1	5.1
Effective interest rate	4.3	4.5	4.8	5.6	6.3	6.2
Combined Shock						
Real GDP growth	2.3	0.3	0.5	2.9	3.0	3.0
Inflation	2.2	2.0	1.9	2.5	2.5	2.5
Primary balance	0.9	1.8	1.8	5.0	5.1	5.1
Effective interest rate	4.3	4.5	4.9	5.7	6.3	6.2

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	2.3	0.3	0.5	2.9	3.0	3.0
Inflation	2.2	2.0	1.9	2.5	2.5	2.5
Primary balance	0.9	2.4	1.8	5.0	5.1	5.1
Effective interest rate	4.3	4.5	4.6	5.1	5.4	5.3
Real Exchange Rate Shock						
Real GDP growth	2.3	2.5	2.7	2.9	3.0	3.0
Inflation	2.2	2.6	2.5	2.5	2.5	2.5
Primary balance	0.9	3.2	3.4	5.0	5.1	5.1
Effective interest rate	4.3	4.5	4.6	5.0	5.3	5.2
Contingent Liability Shock						
Real GDP growth	2.3	0.3	0.5	2.9	3.0	3.0
Inflation	2.2	2.0	1.9	2.5	2.5	2.5
Primary balance	0.9	3.2	3.4	5.0	5.1	5.1
Effective interest rate	4.3	4.8	4.6	5.0	5.3	5.2

Source: IMF staff.

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, 2012–22

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 7/
Baseline: External debt 1/	56.8	64.0	64.0	65.8	66.9			**68.4**	**70.3**	**72.5**	**72.9**	**73.0**	**72.2**	**-1.9**
Of which: Public and Publicly Guaranteed External Debt	23.0	28.9	31.2	35.2	37.5			40.7	43.0	45.3	45.7	45.9	45.4	
Change in external debt	-4.6	7.3	-0.1	1.8	1.1			68.4	1.9	2.3	0.4	0.0	-0.8	
Identified external debt-creating flows (4+8+9)	6.0	-0.3	-2.5	1.9	2.6			2.0	1.9	0.5	-0.5	-0.9	-1.1	
Current account deficit, excluding interest payments	11.7	7.1	3.7	6.0	6.6			5.4	4.6	3.7	2.7	2.1	1.9	
Deficit in balance of goods and services	-120.5	-114.3	-113.1	-98.1	-91.1			-89.9	-88.8	-87.9	-87.2	-86.4	-85.7	
Exports	46.2	42.4	43.3	37.6	35.1			35.1	35.0	35.0	35.1	35.1	35.1	
Imports	-74.3	-72.0	-69.7	-60.5	-55.9			-54.9	-53.8	-52.9	-52.1	-51.3	-50.6	
Net non-debt creating capital inflows (negative)	-5.2	-6.2	-5.8	-4.3	-4.8			-3.4	-4.7	-5.3	-5.5	-5.3	-5.2	
Automatic debt dynamics 2/	-0.6	-1.1	-0.4	0.2	0.8			0.0	2.0	2.1	2.3	2.3	2.3	
Contribution from nominal interest rate	3.6	3.4	3.6	3.1	2.8			0.0	3.6	3.9	4.3	4.4	4.3	
Contribution from real GDP growth	-1.5	-1.5	-1.9	-1.5	-1.3			0.0	-1.6	-1.8	-2.0	-2.1	-2.1	
Contribution from price and exchange rate changes 3/	-2.6	-3.0	-2.1	-1.4	-0.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	-10.6	7.6	2.4	-0.1	-1.5			-0.5	0.0	1.7	0.9	1.0	0.3	
External debt-to-exports ratio (in percent)	122.8	151.2	147.6	175.0	190.4			194.8	201.0	207.1	207.9	207.7	205.8	
Gross external financing need (in billions of US dollars) 5/	6.4	5.1	4.6	6.1	5.5			5.8	5.7	6.4	6.3	4.6	6.1	
in percent of GDP	20.5	15.1	12.9	16.3	14.2	10-Year	10-Year	14.3	13.4	14.2	13.4	9.2	11.6	
Scenario with key variables at their historical averages 6/								**68.9**	**73.3**	**79.6**	**85.2**	**91.1**	**96.3**	**-3.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.7	2.8	3.1	2.4	2.0	3.9	2.2	2.3	2.5	2.7	2.9	3.0	3.0	
GDP deflator in US dollars (change in percent)	4.5	5.6	3.4	2.3	1.0	5.9	5.3	2.2	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	6.3	6.4	6.0	5.1	4.3	5.7	1.1	4.7	5.6	5.9	6.2	6.3	6.3	
Growth of exports (US dollar terms, in percent)	4.1	-0.6	9.1	-9.2	-3.7	6.0	14.0	4.5	4.7	5.5	5.6	5.7	5.4	
Growth of imports (US dollar terms, in percent)	7.9	5.2	3.4	-9.2	-4.7	5.7	12.2	2.6	3.2	3.4	3.9	3.9	4.2	
Current account balance, excluding interest payments	-11.7	-7.1	-3.7	-6.0	-6.6	-6.7	3.3	-5.4	-4.6	-3.7	-2.7	-2.1	-1.9	
Net non-debt creating capital inflows	5.2	6.2	5.8	4.3	4.8	8.0	4.6	3.4	4.7	5.3	5.5	5.3	5.2	

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, 2012–22

	Actual					Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
I. Baseline Projections											
Gross external financing need in billions of U.S. dollars 1/	6.4	5.1	4.6	6.1	5.5	5.8	5.7	6.4	6.3	4.6	6.1
in percent of GDP	20.5	15.1	12.9	16.3	14.2	14.3	13.4	14.2	13.4	9.2	11.6
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 -2020 3/						8.9	8.4	9.3	10.7	9.4	9.7
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						8.8	8.3	8.8	9.6	8.0	7.9
B2. Real GDP growth is at baseline minus one-half standard deviations						8.6	8.0	8.5	9.2	7.6	7.4
B3. Non-interest current account is at baseline minus one-half standard deviations						9.5	9.2	9.9	11.0	9.3	9.5
B4. Combination of B1-B3 using 1/4 standard deviation shocks						9.0	8.6	9.2	10.1	8.5	8.5
B5. One time 30 percent real depreciation in 0						8.6	8.0	8.5	9.2	7.6	7.5
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in -2020 3/						22.4	20.5	22.1	24.4	20.9	21.0
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						21.7	19.4	19.7	20.4	16.0	15.1
B2. Real GDP growth is at baseline minus one-half standard deviations						21.5	19.3	19.5	20.4	16.0	15.0
B3. Non-interest current account is at baseline minus one-half standard deviations						22.9	21.1	21.6	22.7	18.3	17.5
B4. Combination of B1-B4 using 1/4 standard deviation shocks						22.5	20.4	20.9	21.9	17.5	16.7
B5. One time 30 percent real depreciation in 0						21.3	27.9	27.9	28.8	22.4	20.9

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.

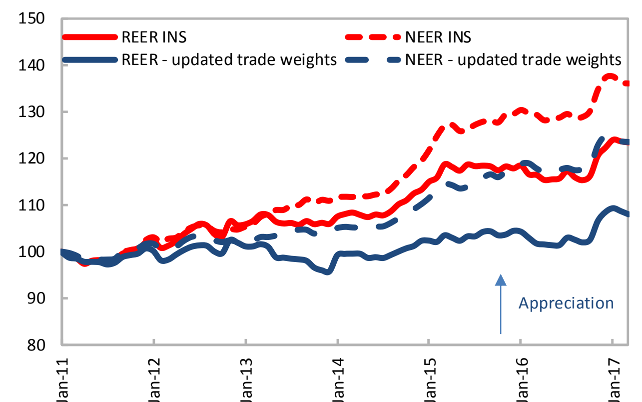
Annex II. External Sector Assessment

This Annex provides an assessment of Jordan's external position, external competitiveness, and reserve adequacy. Based on the Fund's external balance assessment framework, Jordan's external sector position is assessed to be weaker than warranted by medium term fundamentals and desirable policy settings.[1] The assessment is affected by the regional conflicts and the closure of Jordan's main export markets, which have led to wider current account deficits in recent years. The analysis suggests that: (i) while subject to significant uncertainty, the real effective exchange rate is overvalued by about 2 to 22 percent; (ii) Jordan's competitiveness remains weak relative to peers, but is expected to improve over the program period; and (iii) international reserves remain at comfortable levels (within the range of the Fund's reserve adequacy metric and slightly below 8 months of imports). Given the peg—which has provided a valuable anchor for the economy— the planned fiscal consolidation and structural reforms are critical to reduce imbalances, address the overvaluation, and improve competitiveness.

Exchange rate, current account, and net international investment position

1. Jordan's real effective exchange rate (REER) has appreciated since late 2016. Reflecting the strength of the U.S. dollar, the nominal and real effective exchange rates (NEER and REER) appreciated by 4 and 6 percent, respectively, since October 2016. As of April 2017, the REER stood 10 percent above its average of the past five years. It is important to note, however, that the REER measured by the Fund's Information Notice System (INS) is based on trade weights that do not reflect the changes in trade patterns of the recent years. Using more updated trade weights, the REER shows a somewhat smaller appreciation, of 5 percent since October 2016, and of 6 percent above its five-year average as of April 2017.

Jordan: Effective Exchange Rate Indices
(Index Jan 2011 = 100)



Sources: INS; and Fund staff calculations.

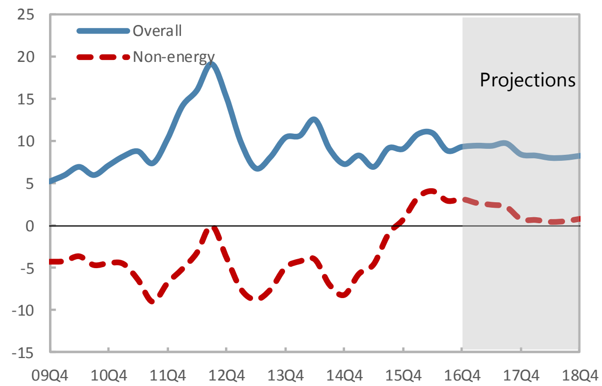
2. The non-oil current account deficit has widened recently. The closing of Jordan's borders with Syria and Iraq have led to sharp export losses. In particular, Jordanian exports to Iraq—once Jordan's major export destination, accounting for almost a fifth of total domestic exports (or $1.2 billion a year)—have declined by more than 50 percent since the border between the two countries was closed. Commodities such as food, chemicals and manufactured goods have been hit hard by the loss of the Iraqi market. The conflicts have also negatively affected exports to other important markets—such as Lebanon, Europe, Turkey, and Central Asia—which were transiting through Syria. The loss of export revenue, together with the increase in non-oil imports (particularly

[1] The IMF's external balance assessment framework relies on a current account regression model, a real effective exchange rate regression model, and an external sustainability approach.

food) brought about by the influx of Syrian refugees, as well as the recent slowdown of private transfers related to refugees, have led to a sharp deterioration of the non-oil current account balance since 2015. The average annual non-oil current account surplus of about 6 percent of GDP between the beginning of the Syrian crisis and early 2015 has turned into a deficit of about 3 percent of GPD since early 2016.

3. **However, the non-oil current account deficit is expected to narrow over the medium term and turn into a modest surplus**. The projections assume no further escalation of the regional conflicts, a gradual pickup in exports reflecting the relaxation of the EU rules of origin, a gradual recovery of tourism and remittances, and a successful fiscal consolidation under the EFF. The non-oil current account surplus projected for the medium term (at about 1 percent of GDP) is lower than that projected by staff in the 2014 Article IV Consultation (over 4 percent of GDP) before the closing of the borders. The projected improvement in the non-oil current account balance would help reduce the headline current account deficit to about 6 percent of GDP over the medium term. This level would be at the high side of the current account norms estimated by staff.

Jordan: Current Account Deficit
(In percent of GDP, 4-quarter moving average)



Sources: Central Bank of Jordan; and IMF staff calculations.

4. **The Fund's analysis suggests that Jordan's external sector position is weaker than fundamentals and desirable policy settings**. The current account regression model suggests that Jordan's current account balance is 4½ percentage points of GDP weaker than the estimated norm (-5 percent of GDP), implying an overvaluation of the real effective exchange rate in the order of 22 percent. However, the real effective exchange rate regression model and the external sustainability approach point to smaller imbalances, in the order of ½ to 3½ percentage points of GDP for the current account, implying an overvaluation of the real effective exchange rate in the range of 2 to 17½ percent. As these methodologies do not fully capture the impact from regional conflicts on trade and the current account balance, these estimates should be interpreted with caution, particularly in consideration that the regional conflicts led to the closure of Jordan's main export markets, to higher

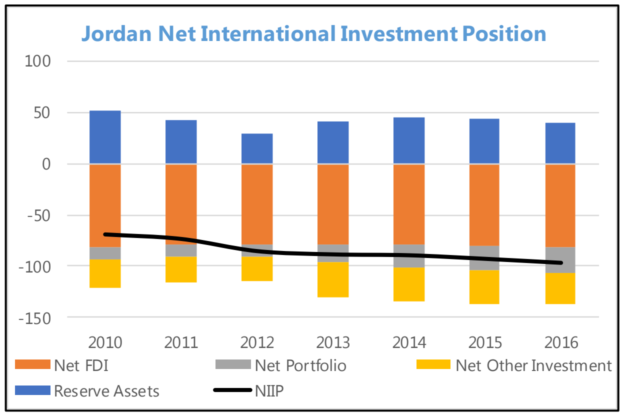
Jordan: EBA-Lite Assessment
(in percent of GDP unless state otherwise)

Current account (CA) model	
CA norm	-5.0
CA gap	-4.4
Of which: policy gaps	1.4
Of which: residual	-5.8
REER gap (in percent)	21.9
External sustainability (ES) model	
CA norm I: stabilizes NFA at 2015 level	-5.9
CA norm II: stabilizes NFA at 5-year average in 2022	-5.0
CA gap I	-0.4
CA gap II	-1.3
REER gap I (in percent)	1.8
REER gap II (in percent)	5.9
REER index approach	
REER gap (in percent)	17.4
Of which: policy gaps	-0.2
Of which: residual	17.6
CA gap 1/	-3.5

1/ Implied CA gap assuming same relation and elasticity used in the CA model.

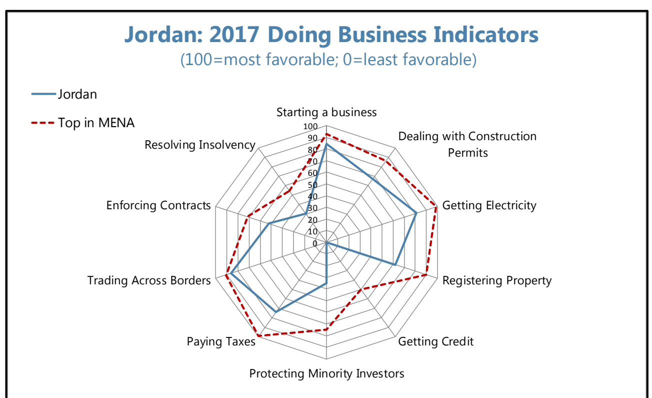
transportation costs, and to the widening of the current account deficit. These factors, which could be temporary but highly persistent, and their impact on the underlying current account and the current account gap in the CA model, are difficult to estimate. On balance, the external position is assessed as weaker than warranted by fundamentals and desirable policy settings. Fiscal consolidation and implementation of structural reforms that enhance competitiveness should be conducive to reducing the current account gap. Taking into account the recent changes in trade patterns, the authorities see a modest overvaluation of the real effective exchange rate and expect it to approach equilibrium in the near term, given the projected improvement in macroeconomic fundamentals under the EFF.

5. **Jordan has a large net external debtor position**. Jordan's net international investment position (NIIP) stood at -97 percent of GDP at end-2016. External assets totaled 68 percent of GDP, comprising mainly reserve assets (40 percent of GDP) and currency and deposits held abroad (24 percent of GDP). External liabilities amounted to 165 percent of GDP, including foreign direct investment (83 percent of GDP), other investment liabilities (54 percent of GDP) –mainly external loans and nonresident currency and deposits, and portfolio liabilities (27 percent of GDP). The NIIP deteriorated from -70 percent of GDP at end-2010 driven by a rise in net portfolio debt and a decline in the share of reserves assets to GDP. While Jordan's negative NIIP is large, vulnerabilities are mitigated by an adequate reserve buffer (see assessment of reserve adequacy). The external sustainability approach indicates that Jordan should reduce its current account deficit by ½ to 1½ percentage points of GDP to stabilize the NIIP position, though further adjustment would be desirable to return to 2010 NIIP level.



External competitiveness

6. **Survey-based measures also suggest that Jordan's competitiveness remains weak in several areas**. Jordan's non-price measures of competitiveness such as the Doing Business Indicators are weaker than in Jordan's peers, especially in the following areas: getting credit; protecting minority investors; resolving insolvency; and enforcing contracts. Jordan ranks well in only two indicators (starting a business; and trading across borders) compared to the top performer in the MENA region. The structural



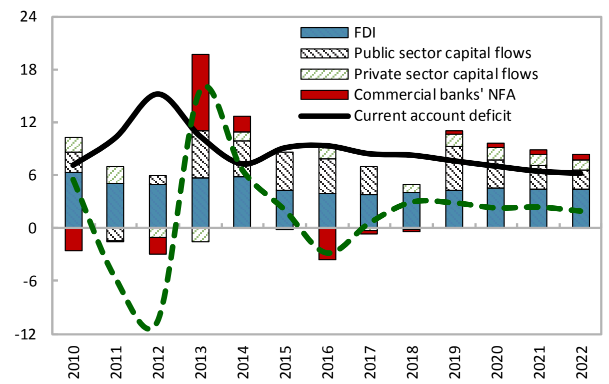
Source: World Bank Group.
These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

benchmarks under the EFF covering the financial sector, access to finance, and the business environment are examples of structural reforms that could help improve Jordan's competitiveness over the medium and long term.

Assessment of reserve adequacy

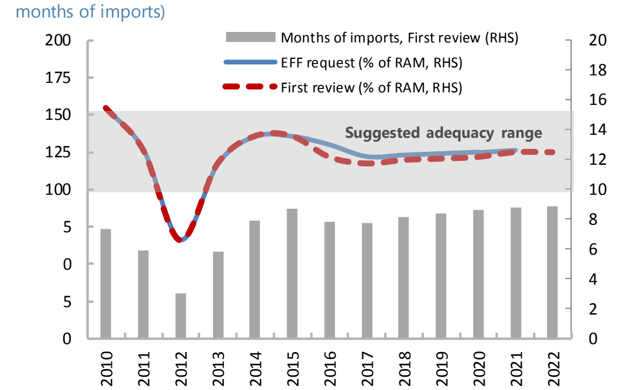
7. Jordan's international reserves are projected to remain adequate over the medium term. After improving significantly in 2013–15, international reserves declined in 2016 as commercial banks increased their net foreign assets in response to an increase in deposit dollarization and a further decline in loan dollarization. This notwithstanding, reserves remain within the adequacy range of the Fund's reserve adequacy metric. The projected narrowing of the current account deficit over the medium term, combined with continued bilateral support under the EFF and some recovery

Jordan: Current Account, Capital Flows and Reserves
(In percent of GDP)



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

Jordan: Reserve Adequacy
(Gross usable reserves in percent of the Fund's reserve adequacy metric and in months of imports)



Sources: Jordanian authorities; and IMF staff estimates.

in FDI and other capital inflows, are expected to keep international reserves at levels deemed adequate to withstand a range of external shocks. International reserves are also projected to remain comfortable compared to imports needs, at over 8 months of total imports of goods and services, providing an important buffer against shortages of import financing or adverse shocks in the terms of trade.

Appendix I. Letter of Intent

Amman, June 2, 2017

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

Dear Ms. Lagarde:

Despite a very challenging external environment with negative spillovers on our economy, we have made good progress in implementing our economic program, with a positive fiscal outturn in 2016 and some progress in implementing structural measures, particularly with regard to the energy and water sectors and public financial and debt management. We have met all end-December 2016 performance criteria, except for that on the Central Bank of Jordan's (CBJ) net international reserves, owing mainly to a rebound in deposit dollarization. While further effort is needed in some key areas, we are committed to the actions described in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP).

Economic and social conditions remain challenging. The prolonged regional conflicts and the hosting of Syrian refugees, as well as oil-price volatility, which has affected the outlook in the GCC, continue to adversely affect growth, exports, investment sentiment, the labor market, and to further strain our limited resources. As a result, growth has continued to be below our expectations, and unemployment and public debt have increased further. To face these challenges, we have recalibrated our policies under the program and some of the structural reforms—particularly those aimed at establishing a more effective and equitable tax system—to preserve macroeconomic stability and enhance the conditions for higher and more inclusive growth. We believe that, as program implementation and structural reforms take hold, bottlenecks will ease, productivity and growth will accelerate, and vulnerabilities will recede. We are committed to firm policy implementation and to preserving fiscal, monetary, and financial sector buffers to safeguard against risks.

We firmly believe on the need for the full implementation of commitments made by the international community under the Jordan Compact, as reiterated during the Brussels Conference in April. Additional support from the donor community, particularly through budget grants, will be key to assisting Jordan to shoulder the burden of hosting Syrian refugees and to our program's goals and success.

The implementation of our program will continue to be monitored through semi-annual quantitative performance criteria, structural benchmarks, and quarterly indicative targets as described in the MEFP and in the attached Technical Memorandum of Understanding (TMU). The

Government and the CBJ will continue to provide the Fund with the data and information necessary to monitor performance under the program, including those specified in the TMU.

In view of our performance under the program supported by the IMF, we request a waiver of nonobservance of the end-December performance criterion on the CBJ's net international reserves, the completion of the first review under the Extended Fund Facility, approval of the related purchase, and the re-phasing of the remaining access under the program.

We believe that the policies set forth in the attached memorandum and in the letter of July 26, 2016, are adequate to achieve the objectives of our economic program, but we stand ready to take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

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

Sincerely,

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

Attachment I. Memorandum of Economic and Financial Policies

BACKGROUND

1. **Economic conditions remain challenging despite some recent improvements.** The prolonged conflicts in Syria and Iraq and oil-price volatility, which has affected the outlook in the GCC, continued to weigh on investor sentiment and growth. Growth in 2016 slowed to 2.0 percent, from 2.4 percent in 2015, owing to a contraction in mining and a slowdown in agriculture. Unemployment increased further in the second half of 2016, averaging 15.8 percent—its highest level in more than a decade. Headline inflation increased markedly in late 2016-early 2017, to 4.3 percent y-o-y in March 2017 driven mainly by higher global food and oil prices, the pass through from increased fuel excises, and the removal of GST exemptions. However, recent indicators point to strong growth in remittances, tourism, and exports. Assuming regional conditions remain broadly unchanged, growth would reach 2.3 percent in 2017, and the effect of recent inflationary shocks would fade, bringing headline inflation down to 2.5 percent y-o-y by end-2017.

2. **The external current account deficit remains at about 9 percent of GDP.** The current account deficit (including grants) worsened slightly last year, rising from 9.1 percent in 2015 to 9.3 percent in 2016—owing to declining tourism receipts and lower (net) current transfers, which outweighed an improvement in the trade balance—but is projected to decline to about 8.4 percent of GDP in 2017. Although the decline in oil prices has reduced the value of energy imports, it has also contributed to a decline in inflows from the GCC countries, including in remittances, exports, private and official transfers, and tourism receipts in 2016. The higher current account deficit, along with capital outflows, led to lower reserves by end-2016. As a result, gross usable reserves stood at $13.3 billion as of end-March 2017 billion (108 percent of the Fund's Reserve Adequacy metric (RAM)). The government issued $500 million in U.S. dollar-denominated domestic bonds on March 8, 2017 and reopened the 2026 Eurobond, first issued in 2015, for an additional $500 million on April 24, 2017, which has helped replenish reserves.

3. **The lower reserve accumulation by the Central Bank of Jordan (CBJ) in 2016 owed primarily to a sudden rebound in deposit dollarization, partly induced by several one-off factors.** The CBJ's net international reserves were about $1.2 billion short of the end-December adjusted performance criterion. This was mainly due to a larger-than-expected accumulation of net foreign assets by commercial banks in response to an increase in deposit dollarization from 17.4 percent at end-June 2016 to 18.9 percent at end-2016 (following the terrorist attack in Karak and concerns about macroeconomic conditions fueled by the difficult budget discussions and regional developments); and, to a lesser extent, to a further decline in loan dollarization (from 13 to 11.9 percent), as well as to a drop in non-resident deposits. As pressure on reserves persisted in early 2017, including due to the sale of a large foreign stake in Arab Bank, the CBJ increased its policy rates by a cumulative 75 basis points in early 2017, which has contributed to stabilizing deposit dollarization at 19.4 percent at end-March. Credit to the private sector (excluding the refinery) remained strong at end-2016 and early in 2017, growing by around 10–11 percent (y-o-y).

4. **Fiscal adjustment has proceeded, supported by the public-sector companies.** The combined budget deficit in 2016 was lower than the program target. Despite a shortfall in non-tax revenue (from regulatory-bodies and public enterprises), tax revenues performed better than

expected, reflecting in part the higher-than-expected impact of the corporate income tax law of 2014 (which was fully implemented in 2016) and profits for the National Electricity Power Company (NEPCO), as the company's efficiency gains from the shift to LNG have strengthened its operating balance. The Water Authority of Jordan (WAJ) also had lower overall losses in 2016. However, with nominal GDP below projections, the public debt-to-GDP ratio was 95.1 percent of GDP at end-2016 (0.8 percent higher than envisaged at the beginning of the program).

5. Against this backdrop, continued donor support—including under the Jordan Compact—remains instrumental in helping Jordan face the refugee crisis and its associated fiscal and social costs. We estimate that there is an annual $1-2 billion shortfall in donor financing to fully address refugee-related pressures. In 2016, donors stepped up their disbursements considerably, with Jordan receiving $1.6 billion in support under the Jordan Response Program, relative to a funding requirement of $2.7 billion, bringing the disbursements to 60 percent of commitments. So far in 2017, only $134 million have been received (as of end-February), out of a 2017 requirement of $2.7 billion. These shortfalls continue to hamper the implementation of the Jordan Compact—adopted in February 2016 and reaffirmed in April 2017—which is crucial to ensuring that Jordan can sustainably cope with the refugee crisis and to reduce macroeconomic vulnerabilities.

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY

Our fiscal and monetary policies will continue to aim at safeguarding macroeconomic stability by reducing fiscal and external vulnerabilities in an equitable and inclusive way. A gradual, equity-enhancing budget adjustment and measures/reforms to maintain NEPCO's operational balance and stabilize the Water Authority of Jordan's (WAJ) overall deficit are helping to stabilize and put debt on a downward path (toward 77 percent of GDP over the medium term) while preserving space for social spending. Monetary policy will continue to be anchored by the exchange rate peg, and the need to preserve an adequate buffer of foreign-exchange reserves.

A. Fiscal Policy

Central Government

6. The 2017 budget is an important step toward stabilizing Jordan's public debt, and then placing it firmly on a downward path. The approved budget law for 2017 incorporates 2.2 percent of GDP in fiscal measures, including a reduction of some General Sales Tax (GST) and customs-duty exemptions, increased fuel excises and fees, as well as an approved additional cut in capital expenditure of JD 100 million. To better inform budget decisions and enhance transparency, the budget law also included, for the first time, detailed estimates of tax expenditures. Thus, we envisage under the EFF commitments a reduction in the central government's primary deficit (excluding grants and transfers to NEPCO and WAJ) from 3.2 percent of GDP in 2016 to 2.1 percent of GDP in 2017. This reduction, along with the commitment to maintain NEPCO operating balance and the stabilization of WAJ's overall balance, will help contain public debt at 95.7 percent of GDP in 2017, despite lower-than-projected official grants for budget support.

Jordan: Fiscal Reform Measures and Yields						
Measures	Original Program Commitments			Authorities' Proposals (May 9, 2017)		
	2017	2018	2019	2017	2018	2019
	(In JD millions)					
Goods and services tax	309	135	0	102	60	25
Customs duties exemptions	0	210	0	100	72	0
Income tax reform	0	50	80	0	50	80
Fuel Excise	120	120	120	187	120	120
Others 1/	21	0	371	242	181	265
Total	**450**	**515**	**571**	**631**	**483**	**490**

1/ Others include other taxes, fees, licenses, permits and savings from capital spending.

7. Going forward, our fiscal consolidation efforts will continue to focus on equity-enhancing tax reform, mainly through the gradual removal of tax exemptions and the broadening of the income tax base, while also firmly tackling tax evasion, and streamlining of expenditures over the medium term:

On the revenue side, we have removed exemptions on the general sales tax and custom duties in 2017, amounting to 0.4 percent of GDP, and will continue to scale them back to ensure that these are targeted more closely to the most vulnerable segments of Jordan's population. In addition, we will broaden the income tax base, which will also contribute to a more progressive and equitable tax system. We expect that these two reforms will help close a significant part of the fiscal gap under the program. To that end, we will submit to parliament by mid-November (new benchmark) a draft budget law that includes estimates of tax expenditures.

- We have undertaken an exhaustive review of the GST 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. The review identified measures that have the potential to generate more than 2 percent of GDP in revenues while leaving the tax rates (below 16 percent) unchanged for basic food products and health. We made some progress along these lines in the 2017 budget by removing exemptions on categories that were exempted and subject to the 0, 4, and 8 percent GST rates. We will continue to scale back some of these exemptions and identify additional measures in the 2018 budget to raise a further ¾ percent of GDP in revenues in 2018. Potential areas to consider include: chemicals, electricity and water, industrial and agricultural inputs, construction, non-basic food items, transportation, real estate activities, and financial services.

- In this context, it will be important to put in place a parallel framework of targeted transfers (or equivalent compensation), aimed at ensuring that vulnerable segments of the population are not faced with an undue increase in their tax burden. In collaboration with the World Bank, we are taking steps to expand and modernize the Social Safety Net (SSN) in Jordan, and could potentially use some of the savings from the removal of exemptions to support this effort within the fiscal targets under the program. We will work closely with donors to develop a targeted transfer framework—drawing, in particular, on World Bank support in setting up a National Unified Registry (NUR)—and aim to have an initial scheme operational by January 1, 2018.

- In consultation with USAID, we are assessing options to broaden the income tax base and strengthen tax compliance, with a view to amending the income tax law by end-November, 2017. We expect the reform to yield a permanent revenue increase of 1 percent of GDP once fully implemented in 2018-19. The options for the personal income tax (PIT) include: (i) to reduce significantly the personal income tax minimum threshold to JD 6000 for individuals and JD 12000 for families, to bring them more in line with international standards; (ii) modify the current tax rate schedule and raise the top rate in order to make it more progressive, while taking into account equity considerations; (iii) broaden the tax base by taxing the global income of Jordanians and the profits of Jordanian companies operating outside Jordan; (iv) increase the taxation of interest income; (v) introduce a 10% tax on dividends; (vi) introduce a withholding tax of 10% tax on rental income. With regards to the corporate income tax (CIT), we expect to have a dual rate: i) one unified rate, which would be aligned with the maximum PIT rate at 24 percent; and (ii) a top rate, which would be maintained at 35 percent. This should eliminate the arbitrage between the PIT and CIT given the large number of self-employed and small and medium enterprises. We will submit these amendments to Parliament by end-September 2017 (benchmark, reset from end-December, 2016), with its adoption expected by end-November 2017 (benchmark, reset from end-March, 2017).

- To improve tax collection and combat tax evasion, we intend to: (i) accelerate improvements to the Pay As You Earn (PAYE) system for large taxpayers, which will establish the reporting requirements, processes, and access to third party information to ensure that ISTD can more adequately control and confirm PAYE compliance (end-March 2018 new benchmark); (ii) take steps to improve taxpayer registration, ensuring that by end-November 2017 the issuance of a business license is linked with the issue of a Taxpayer identification Number (TIN) ; (iii) stiffen penalties to combat tax evasion; and (iv) take steps to increase compliance among self-employed persons, ensuring that by end-November 2017, the government records of licensed professionals and businesses can be matched against the ISTD registrations via an online system. We expect these reforms to contribute significantly to the permanent yield from broadening the tax base of income and to the equity of the tax system.

On the expenditure side, we will continue to maintain a prudent expenditure policy through; (i) streamlining non-priority current spending; (ii) prioritizing social and capital spending; (iii) clearing fuel and health arrears; and (iv) accommodating continued pressures from Syrian refugees.

- We will continue to keep the nominal growth of the public sector wage bill close to 1½ percent on an annual basis from 2017 to 2019 and to better target transfers.

- To preserve the quality of health care services and the sustainability of providing them free to the most vulnerable, we have taken measures in early 2017 directing eligible applicants to seek medical services at public hospitals, which should help reduce servicing costs. We expect this measure to help better target applicants and control health care costs and the buildup of arrears in the course of 2017. We will also continue to reduce the stock of health arrears, allocate appropriate budget to the health funds, and undertake reforms aiming at fighting abuse, including a more systematic verification of applicants' income and insurance coverage.

- To improve the targeting of safety net programs, we have been working with the support of the World Bank, to establish an automated data exchange between the National Aid Fund (NAF) and a select number of public agencies as data provider. This reform, once completed, would facilitate data sharing for the eligibility-verification and enrollment processes of NAF. Looking forward, once the demonstration with NAF is successful, other agencies could be connected to the same system as data providers and beneficiaries.

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

- To identify further potential streamlining opportunities, enhance transparency, and address public concern about spending inefficiencies, we will conduct a comprehensive review of public expenditures, with the aim of having a published report by end-June 2018 (new benchmark) that could then inform the draft 2019 budget.

Public Utilities—Energy and Water

8. We have made significant progress toward returning utilities to cost recovery.

- **Electricity**. NEPCO's finances have strengthened considerably, with the company recording an operational profit in 2016. This improvement is mainly the result of switching the company's primary source of energy from fuel to LNG. Our objective is to ensure that NEPCO now maintains operational cost recovery. In this regard:

  - We conducted a study on cross-subsidization and options for tariff adjustments in response to oil price changes, and published it in December 2016 (end-September 2016 benchmark). Based on its findings, we have started the process of reducing cross-subsidies; beginning November 1 2016, we lowered tariffs for some large consumers by about 8 percent (on average).

  - We also adopted a new automatic tariff adjustment mechanism in October 2016 (end-December 2016 benchmark), which covers NEPCO's and distributors' overall costs, while continuing to protect the most vulnerable and taking into consideration the risks coming from cross-subsidization. Starting on April 1, 2017, the Energy and Minerals Regulatory Commission (EMRC) has begun to assess the need to adjust tariffs automatically on a monthly basis (based on the past information on a three-month moving average cost) in order to guarantee the profitability and financial soundness of the electricity system over each calendar year.

  - We will continue to diversify our energy mix toward cheaper sources, including by increased reliance on renewables, gas imported from the Mediterranean in the coming years, and the development of shale oil resources in the country.

  - We will also continue implementing the Debt Management Plan for NEPCO with the support of the World Bank, which is consistent with our new public debt management strategy, aiming at increasing the average maturity of debt and the diversification of instruments - as it had in May 2016, NEPCO issued JD 75 million Sukuks in March 2017.

- **Water.** We continue to focus on implementing our medium-term strategy to: i) bring WAJ and distribution companies to operational and maintenance balance; and ii) increase the share of foreign grants and concessional loans to finance WAJ's capital expenditures. To better recognize the sector's structural challenges associated with refugees, water security, and financing needs, and their impact on public debt, WAJ's capital expenditures will be financed by the central government as of 2018. In light of higher expected 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 and Irrigation has updated its medium-term action plan ("Action Plan to Reduce Water losses") to accommodate these potential pressures. We submitted this strategy to Cabinet and published it in April 2017 (end- December benchmark). The strategy centers on efforts to boost efficiency and reduce costs. As such, we will continue to seek (i) cost savings from better energy efficiency and lower system losses; and (ii) higher revenues through improved collection and some limited fee and tariff increases, while continuing to protect vulnerable households.[1] To monitor the implementation of the strategy, we will issue biannual reports highlighting the quantitative impact of the diverse measures taken and the status of the diverse projects involved. We will also sustain efforts to diversify Jordan's water resources and increase the use of renewable energy in the sector. The introduction of renewable energies will reduce WAJ's energy costs and help to shelter its finances from oil price fluctuations. 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 address the increase in costs of extracting water from existing sources, which has been aggravated by the additional demand from Syrian refugees. We finalized, in November 2016, a first draft of a debt strategy and a borrowing plan to help WAJ manage its debt (6 percent of GDP at end-December 2016). This strategy has been shared with the Ministry of Finance, and we are in the process of defining next steps, including the centralization of WAJ's debt management. Last year, we have published the "Water Sector Capital Investment Program 2016-2025" to improve the access to and quality of water and wastewater services while safeguarding water security.

Public Sector

9. We will also limit the potential fiscal costs related to Royal Jordanian. We have continued to implement Royal Jordanian's medium-term restructuring plan and we expect the company to return to profitability in 2017. We will continue to seek private sector interest in the recapitalization of Royal Jordanian, both from existing shareholders and from potential new investors. The second phase of the recapitalization will take place by end-2017 at the earliest.

[1] Water tariffs for house connections were increased in October 2015 (with additional revenue of about 0.1 percent of GDP).

Structural Fiscal Reforms

10. Measures to strengthen public financial management will improve the management of fiscal risks and the monitoring of 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 adopted in June 2016 a decree establishing a central Public Investment Management (PIM) unit at the Ministry of Planning and International Cooperation along with an action plan. In close cooperation with the World Bank, the IMF, and USAID, we are moving forward with this plan to make the PIM gradually operational through the recruitment of key staff, including personnel from other ministries, and have begun managing all investments according to standards set by the new PIM framework.

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

- To enhance fiscal transparency, we complied in November 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 (mid-November 2016 benchmark). To this end, we (i) in October, prepared 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), which is being audited; and (ii) in November, conducted a review (by the audit bureau) of the compliance of the cash flow statement with the cash-based IPSAS requirements.

- With assistance from the IMF, we have made significant progress in recording the trust accounts' entries appropriately as revenue and expenditure. We are now able to classify the accounts by purpose and use, and will consolidate them into the fiscal tables published in the government finance bulletin starting in June 2017 (benchmark). In this context, 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 conducted an assessment of tax expenditures, which built on the findings of the 2013 USAID report and attached the results to the 2017 draft budget law submitted to parliament (¶6).

- Given Jordan's limited fiscal space, we are committed to ensuring that our public investment spending is well assessed and efficient to promote growth while minimizing future risks to the budget. With the further assistance of the IMF Fiscal Affairs Department, we conducted in May 2017 a Public Investment Management Assessment (PIMA), which provides a comprehensive evaluation of Jordan's public investment management systems. We will draw on the findings of this report to form an action plan that strengthens our public investment program; focusing on: (i) improved strategic planning and coordination; (ii) strengthened oversight and disclosure of our Public-Private Partnership (PPP) contracts and projects; (iii) strengthened oversight of the investment activities of State-Owned Enterprises (SOE); and (iv) an improved framework for project implementation, oversight, and appraisal.

- To support the PIM framework and its action plan, we have prepared a draft Organic Budget Law (OBL) in close consultation with the IMF and the World Bank 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 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.

12. 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), with technical assistance from METAC, is addressing 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 requirement of obtaining court orders for formal liquidation processes.

- We prepared an action plan in September 2016 to start tackling the other tax administration weaknesses identified in the IMF's recent Tax Administration Diagnosis and Assessment Tool (TADAT) evaluation. With the help of METAC TA over a two-year period beginning in December 2016, we will (i) initially focus on risk management to identify risks to revenue and manage them effectively; and (ii) move forward with addressing 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.

13. We will enhance the quality, planning, and effectiveness of debt management of the central government and its agencies, including NEPCO and WAJ. We have published the central government indicative bond issuance plan for 2017. To enhance transparency, communication, and predictability, we started in January 2017 publishing regular auction calendars. In June 2016, together with NEPCO and WAJ, we also prepared a quarterly financing plan for the following 12 months, taking into account the total combined financing needs of the central government and these agencies. We will continue to update the financing plan every quarter for the subsequent 4 quarters. This plan will be anchored by our debt management strategy, including by ensuring that the issuance schedules of the central government and public agencies are coordinated in a way that improves overall borrowing terms. By implementing this coherent borrowing plan, we aim to lengthen the average maturity of debt, improve the debt profile of the central government and its agencies, and reduce total public debt over the medium term. With the assistance of a U.S. Treasury TA mission, we conducted a medium-term debt management strategy (MTDS) analysis. The main findings are that: (i) the maturity of public debt needs to be extended; (ii) borrowing from private external sources should continue (given that the domestic market is not large enough to absorb additional debt); and (iii) the yield curve should be established through issuing benchmark bonds on varying maturities. Based on these findings, we prepared and published our debt management strategy for 2016–20 covering the central government and its agencies (end-September 2016 benchmark). We will update this strategy for the period 2017–2021 and publish it by end-June 2017 (benchmark). We have also prepared ahead of schedule an action plan to build capacity in the middle and front offices of the Public Debt Directorate (PDD) and reviewed its structure and responsibilities in support of market development (end-December 2016 benchmark). The plan provides 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

14. Monetary policy will continue to be underpinned by the exchange rate peg. Following the two recent increases in the policy rates (by a cumulative 75 bps), which contributed to a stabilization of deposit dollarization, we see the current policy stance as appropriate at this stage. The balance of payments outlook for 2017 shows some improvement and the CBJ stands ready to further use its policy instruments as appropriate to ensure that reserves are maintained at an adequate level. The CBJ will also 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, international reserves and deposit dollarization.

15. We have continued to enhance the prudential and supervisory framework. Aggregate capitalization of 19 percent at end-December 2016 is well above the regulatory minimum of 12 percent (among the highest in the region), liquidity buffers remain comfortable, non-performing loans (NPLs) are low and falling, and profitability is strong. Stress tests and sensitivity analysis published in the most recent Financial Stability Report (2015) suggest the sector's broad ability to withstand severe negative shocks to NPLs, equity prices, interest rates, and the exchange rate.

16. Bank supervision aims at maintaining the system's financial soundness and resilience. The CBJ will continue to monitor the sector closely, including for possible signs of deterioration in asset quality, including due to weak economic activity—which could lead to an uptick in credit risk from corporates and households—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 lending growth reflects changes in the demand and supply of credit. Should credit growth increase excessively from a financial stability perspective, the CBJ will design an appropriate policy response. Cross-border supervision will continue to be conducted through onsite reviews, and regular meetings of the Supervisory College of Arab Bank, with the next meeting tentatively scheduled for mid-2017.

17. The legislative and regulatory framework for banks will be strengthened further. We have prepared amendments to the Deposit Insurance Corporation law. Submission to parliament has been delayed (end-March benchmark), but these amendments will be discussed by parliamentary committees over the coming months and should be ready for approval by end June, 2017 (reset benchmark). The broad goal is to help ensure the establishment of a robust bank resolution framework in line with the FSB Key Attributes. The amendments incorporate: (i) institutional arrangements with a clear division of labor and interagency coordination;

(ii) recovery and resolution planning requirements: (iii) clear triggers for entry into resolution; (iv) comprehensive and effective resolution of powers; (v) creditor and shareholder safeguards; (vi) a least-cost test to fund resolution with a systemic exception; and (vii) a robust deposit insurance framework. They will support the provisions related to bank resolution framework incorporated into the amended commercial banking law. Parliamentary approval of amendments to the CBJ law, done in October 2016, fosters transparency and aligns the CBJ's autonomy and oversight with best practices. We have issued the Basel III regulations on capital adequacy requirements. We expect to issue the regulations on domestic systemically important banks by end-June 2017, and have made substantial progress formulating new regulations on liquidity, which should be issued by end-2017. The gradual implementation of these regulations will help better tailor liquidity and capital requirements to the needs of individual banks.

18. We will continue enhancing the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. We have reviewed the AML/CFT law and drafted amendments to ensure it is fully in line with the 2012 Financial Action Task Force (FATF) standards and that it addresses all the practical issues faced by the AML/CFT Unit and other competent authorities in the course of implementing the AML/CFT law. We will submit these amendments to the AML/CFT National Committee and to the council of ministers by the end of the year (P.S the AML/CFT law still needs to be reviewed by the IMF under the MENA CFT Program). Regulatory agencies, including the CBJ, have also started amending their regulations, to ensure their conformity with the FATF the standards. In line with IMF TA recommendations, we are in the process of implementing a risk-based framework for offsite and onsite supervision of banks and money exchange firms and for other financial and nonfinancial institutions, as well as NPOs. Ahead of mutual evaluation by MENAFATF, scheduled the second half of 2018, we have also, with the assistance of the Fund, started working on a National Risk Assessment. We expect this assessment to be completed in late 2017/early 2018.

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

- We have already begun the process of hiring people with insurance supervision skills. We will also hire a consulting firm to assess the financial statements and positions of insurance firms. Amendments to the Insurance Law to allow for the transfer of the supervision of the insurance sector to the CBJ have been delayed (end-March 2017 benchmark). We expect these to be discussed by parliamentary committees in the next few months, and should be ready for approval by end-March 2018 (reset benchmark). The transfer will then be completed by end-March 2018 (reset benchmark), while implementing reforms to the sector's regulatory framework in line with recent IMF TA. This will help foster stronger supervision, minimize spillovers from the insurance sector to banks, as well as enhance financial development and inclusion.

- We will continue adopting, and gradually implementing, regulations for the supervision of microfinance institutions. Under the new licensing framework, four existing institutions have applied for licenses and the CBJ has started reviewing their applications.

STRUCTURAL POLICIES TO PROMOTE JOBS AND GROWTH

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

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

- To ensure that it becomes the preferred entry point for new investors (most of which currently go through various ministries), we are almost ready to launch the new "one procedure one form" registration process and have standardized business classifications. We are therefore on track to make the investment window of the Jordan Investment Commission (JIC) fully operational by end-June 2017 (benchmark).

- Submission to parliament of the draft inspection law (end-October 2016 benchmark) has faced longer-than-expected consultations with the private sector. The law streamlines the inspection mandates and processes of a number of inspectorates in Jordan, and will improve the business environment by reducing the burden on the private sector resulting from overlapping inspection mandates and unplanned inspection visits, and by reducing uncertainty by introducing risk-based targeting while raising business awareness on compliance requirements. The law 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. The draft law will be discussed by parliamentary committees in the next few months, and we expect it to be approved by late summer (end-June 2017 reset benchmark).

- We will also identify key priorities for legal and institutional reforms to help the business climate, including by establishing an accountability framework for reform implementation. In this context, we are reviewing the competition framework 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.

- We expect that the Real Estate Ownership law, currently with parliament, will be adopted by end-December 2017, which will help 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 started operating in January 2016 and commenced its inquiry services on October 2, 2016. It is compiling credit reports to assess borrower creditworthiness and expediting credit risk assessment decisions for borrowers, including Small and Medium-Size Enterprises (SMEs). The bureau's information collection now covers all banks and is being progressively extended to cover insurance and leasing companies, microfinance institutions, public utilities, and telecommunication companies. Looking forward, after compiling 3 years of historical data, the bureau should be able to assign credit scores to borrowers by early-2018.

- To improve access to finance, including for SMEs; (i) we have increased Jordan Loan Guarantee Corporation's (JLGC) capital from JD10 million to JD29 million; (ii) the CBJ and the commercial banks have co-financed a $50-million fund, managed by the JLGC, to provide loan guarantees to SMEs start-ups with high coverage (85 percent) and reasonable cost ; (iii) with the financial assistance from the WB, we will set up, by end-December 2017, a $100-million equity fund that will be managed by JLGC to provide capital to start-ups and (iv) we have created an export guarantee fund (managed by JLGC) and capitalized it by JD 100 million loan from the CBJ to help support exporters. We are also working on a secured transactions law, which will allow SMEs to use moveable assets as collateral. In this context we have issued regulations to the 2012 secured-transactions law to expedite the implementation of a registry; and have made progress towards the implementation of the 2014 best practice secured transactions law. The law will be discussed by parliamentary committees in the next few months, and may be approved by late summer (end-June 2017 reset benchmark). In recent years, we have also contracted two loans from the Arab Fund for Economic and Social Development and one from the World Bank, for a total of $300 million, to provide low-cost and long maturity guaranteed funding for SMEs through the banking system. We expect to continue disbursing these loans in 2017–18 and are committed not to contract any new loans to ensure the overall consistency of the program with public debt targets, in consultation with the IMF.

- The draft insolvency law (end-March 2017 benchmark), which will bring the law in line with best practice by providing adequate protection of creditors rights, unhindered access to an insolvency system, expedited liquidation of unviable companies, and a range of mechanisms for restructuring/rescuing of viable businesses. This law also will be discussed by parliamentary committees in the next few months, and may be approved by late summer (end-June 2017 reset benchmark).

- The CBJ is conducting in collaboration with the Microfund for Women a pilot project on the use of e-wallet for payments. Once completed, this project, which allocates to the Fund a share of the service fees collected on payments, could be generalized to other microcredit institutions. The CBJ has also established a new division in the payments department in charge of promoting financial inclusion and payment options in Jordan. With the help of GIZ, the CBJ started to conduct a comprehensive supply and demand side study assessing the detailed level of financial inclusion in Jordan and identifying key issues and challenges. Initially intended for end-March 2017 (benchmark), we will publish this study by end-September 2017 (reset benchmark). Based on its findings, in cooperation with relevant stakeholders and development partners, the CBJ will develop a financial inclusion strategy by end-2017. This strategy will notably aim at enhancing access and use and quality of financial services, including improving SMEs' access to finance, further developing necessary infrastructure (credit bureau and payment system), enhancing digital financial services, improving access to Microfinance, promoting financial literacy, strengthening financial consumer protection, and building a comprehensive data base at CBJ to monitor and measure development in financial inclusion.

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

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

- The bylaw on flexible working hours was issued by Royal Decree in March, and implementation guidelines are currently being prepared by the Ministry of Labor in consultation with other stakeholders. We will continue to revamp the part-time employment framework to reduce costs to licensing and regulating home-based employment activities.

- More broadly, a key aim of our policy is to shift the role of the government in the labor market: from a source of *employment* to a source of *empowerment*. We are streamlining and enhancing our vocational training (VT) efforts, and are currently working on legislation that will bring our existing initiatives (covered by 7 different laws and 3 by-laws) under a single umbrella. We will also step up enforcement of existing certification regulations, to raise the profile and demand for formal technical training and certification.

- We are also working to accelerate investment and activity in the special economic zones, while maximizing the potential benefits for local communities and job seekers. In this regard, we have supported the establishment of 16 satellite factories linked to enterprises within the zones. These satellite facilities offer a flexible and conducive working environment for Jordanian job seekers; helping enterprises meet their goals for local employment, while also facilitating employment for youth, women, and residents of remote areas.

- To improve gender equality, we sent to parliament at end-2015 amendments to the labor law to allow the setting up joint nurseries by companies and to increase penalties for those that do not comply with the law. Under current law, large corporations are required to provide in-house child care. But further amendments to the law are needed to allow large corporations to subsidize the cost of child care as an alternative to establishing nurseries. We have approved the establishment of 6 nurseries in special economic zones and will continue to work towards further increasing this number. In addition, we have allowed some companies in industrial zones (Sahab and Adubail) to establish joint nursery houses, and we have allowed large employers who do not currently have the ability to provide care within their own premises to establish joint nurseries within a safe facility as a temporary measure. For smaller firms, work will continue to establishing and promoting public-private nurseries for low-income employees working in SMEs. Finally, we will work towards a public awareness campaign and follow up on the Prime Minister's 2014 directive on establishing nurseries in all public sector institutions.

- In cooperation with the World Bank, we have implemented a number of pilot projects to explore the potential benefits of active labor-market measures, within the Building Active Labor Market Program (BLMP). One pilot, the School-to-Work Program, sought to provide school-to-work transition support for youth aged 19 to 25. A second pilot, the Labor Market Information and Job Search Program, aimed to facilitate job matching through improving information available to both employers and prospective job seekers, thus reducing the transaction costs of a job search. A third pilot, the Job Readiness and Placement Program, supports graduates between the ages of 19 and 25 from universities and community colleges in three selected governorates (Irbid, Ma'an, Zarqaa'), providing a package of up to 75 hours of employability training and partial reimbursement of salaries/social security contributions combined with a firm-based on-the-job training (OJT) for up to nine months. The first two pilots have been successfully implemented and closed. The third pilot has made good progress training potential beneficiaries and placing them in OJT. In order to accelerate the take-up rate of beneficiaries, five additional intermediation services/placement firms have been hired and have started working on a bonus scheme (up to 140 JD per placed beneficiary). In addition, based on positive feedback on the employability skills training, MOPIC, the E-TVET Fund, and the World Bank have agreed (in December 2016) to train an additional 2,000 beneficiaries. The next round of employability skills training started in mid-March 2017.

- The most recent actuarial study of the Social Security Corporation that was conducted in cooperation with the ILO suggested that, in light of generous retirement benefits, further reforms (parametric adjustments or increased contribution rates) were needed to ensure long-term solvency. However, the level of social security contributions (currently 21.75 percent) is widely regarded as a key impediment to formal employment, particularly for low-skilled job seekers, youth and women, and for the formalization of Syrian refugees. Given that the social security system is currently running an annual primary surplus (of about 1.5-2 percent of GDP), there may be scope to lower this labor-tax wedge temporarily to encourage employment. In consultation with the Fund, we will seek an independent party to conduct a study of the impact of lower payroll taxes on employment, as well as the longer-term actuarial needs of the Social Security Fund. On the basis of this analysis, we will prepare a report (end-March 2018 new benchmark) examining different options for lowering contribution rates, and identifying offsetting parametric changes in the pension system to ensure actuarial neutrality for social security finances. Given the intrinsic difficulty of this reform, we are also considering, in parallel, the adoption of an employment tax credit for employers. Under this proposal, businesses would have an upfront credit against social security contributions and would also be able to deduct a certain percentage of their incremental social-security contributions as they increase the demand for formal jobs.

- In addition, in light of recent adjustments in the minimum wage, which have been well in excess of average wage growth in the economy, we recognize the need to explore better means to anchor future increases in the minimum wage. We are assessing the potential for an adjustment formula is needed to better guide decisions by the Tripartite Commission and to prevent future increases from undermining formal jobs and competitiveness. We will consider options for an automatic formula that better aligns changes in the minimum wage to inflation and to average wage growth in the economy, and will discuss with the IMF in coming months how to proceed with specific reforms under the program.

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

23. We will strengthen public oversight to improve public accountability and good governance. We merged the Ombudsman Bureau and the Anti-Corruption Commission into a National Commission for Integrity and Anti-Corruption in June 2016. The new institution is 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-September 2017. 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 relaxation of rules of origin for exports to the EU in July 2016 provides a significant opportunity to diversify our markets and broaden our product mix. We have taken a number of active steps accelerate the potential benefits of this opening. Domestically, we have conducted several workshops to raise awareness among Jordanian firms of the benefits and requirements of the initiative, while also simplifying application procedures, waiving fees associated with work-permit applications, and supporting Jordanian firms on marketing and certification for entry into the EU market. Our efforts have begun to pay off, as one company has been granted the right to export, while seven have already applied for qualification. Internationally, we are targeting key European business fora and trade fairs to help connect Jordanian firms with potential buyers. We will develop and publish, by end-June 2017, an export diversification strategy, and we are stepping up our efforts to tap non-traditional markets. Discussions on a free-trade agreement with Kenya started in April, 2017. We will also intensify efforts geared at reducing the cost of doing business and creating a level playing field 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), continuous performance criteria, indicative targets, and structural benchmarks. These are detailed in Tables 1a, 1b, and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding. Quantitative targets for June 2017 and -December 2017 are PCs. We intend to keep IMF disbursements with the CBJ and will not be on-lent to the government.

26. We continue with implementation of the 2016 safeguards assessment. As recommended, the audit committee has started operating and is holding quarterly meetings. Starting with the FY2016 audit, (i) the CBJ's financial statements will include disclosures on departures from IFRS on the treatment of unrealized revaluation differences. In addition, ii) we have conducted an external quality assessment review of the CBJ's internal audit function in accordance with international standards; and iii) we revised the internal audit charter, which was approved by the audit committee/ Board on March 26, 2017, to establish a functional reporting line to the audit committee.

Table 1a. Jordan: Quantitative Performance Criteria and Indicative Targets, August 2016–March 2017 1/

	Aug-16			Sep-16			Dec-16			Mar-17		
	EFF PC	Adjusted PC	Act.	EFF Indicative target	Adjusted Indicative target	Act.	EFF PC	Adjusted PC	Act.	EFF Indicative target	Adjusted Indicative target	Prel.
Performance Criteria												
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	721	661	582	730	670	726	1,040	960	886	168	148	76
Combined public deficit in JD million (flow, cumulative ceiling)	918	858	682	984	924	838	1,386	1,306	1,051	265	245	148
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,190	12,169	12,064	12,225	12,208	12,031	13,894	13,780	12,654	12,820	12,640	11,436
Ceiling on accumulation of external debt service arrears 2/	0	0	0	0	0	0	0	0	0	0	0	0
Indicative Targets												
Social spending by the central government in JD million (flow, cumulative floor)	1,160	1,160	1,041	1,305	1,305	1,095	1,740	1,740	1,575	460	460	395
Public debt in JD million (stock, ceiling) 3/	25,709	25,709	25,625	25,856	25,856	26,046	26,398	26,347	26,093	26,733	26,580	26,452
Short-term public debt in JD million (stock, ceiling) 4/	1,500	1,500	468	1,500	1,500	676	1,500	1,500	475	1,500	1,500	325
Accounts payable of the central government in JD million (stock, ceiling)	517	517	192	517	517	194	517	517	316	517	517	179
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 5/	0	0	0	0	0	0	0	0	0	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 6/	6	6	6	6	6	6	0	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-763	-749	-735	-698	-687	-729	-1,893	-1,812	-1,240	-1,058	-930	-831
Memo items for adjustors												
Foreign budgetary grants and loans received by the central government (JD millions, flow, cumulative)	526	...	358	616	...	415	2,191	...	2,107	145	...	62
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2015)	378	...	358	454	...	437	2,811	...	2,697	2,961	...	2,781
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2015)	51	...	51	51	...	51	102	...	51	204	...	51
Cap for the downward adjustor on the NIR (USD millions)	600	...	...	600	...	600	900	...	900	1,200	...	1,200
Cap for the downward fiscal adjustor (JD millions)	60	...	...	60	...	60	80	...	80	20	...	20

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

2/ Continuous.

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

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

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

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

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

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
	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)	201	368	587	76	-23
Combined public deficit in JD million (flow, cumulative ceiling)	371	618	922	176	174
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	11,194	10,940	13,084	11,928	11,566
Ceiling on accumulation of external debt service arrears 2/	0	0	0	0	0
Indicative Targets					
Social spending by the central government in JD million (flow, cumulative floor)	870	1,345	1,820	476	952
Public debt in JD million (stock, ceiling) 3/	26,836	27,238	27,429	27,821	27,999
Short-term public debt in JD million (stock, ceiling) 4/	1,500	1,500	1,500	1,500	1,500
Accounts payable of the central government in JD million (stock, ceiling)	350	350	350	350	350
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 5/	0	0	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 6/	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-568	-243	-1,415	-587	-326
Memo items for adjustors					
Foreign budgetary grants and loans received by the central government (JD millions, flow, cumulative)	255	442	1,488	89	267
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2016)	271	429	1,880	1,949	2,099
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2016)	49	49	163	163	278
Cap for the downward adjustor on the NIR (USD millions)	600	600	600	600	600
Cap for the downward fiscal adjustor (JD millions)	40	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: Structural Benchmarks, 2016–18

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
Fiscal Framework and Management				
1	Record the trust accounts entries as revenue and expenditure and classify them by purpose and use and consolidate them into fiscal tables and publish in the government finance bulletin	Initially end-February 2017, proposed to be reset for mid-June 2017	Improved transparency	Delayed. A March METAC mission provided TA to help the authorities meet the SB by June.
2	Comply with all requirements of Phase II of the Road Map for International Public Sector Accounting+B51 Standards (IPSAS) implementation for the 2015 financial statements	mid-November 2016	Improved PFM and transparency	Met. Further reforms are expected for 2018.
3	Submit to Parliament a new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing)	Initially end-December 2016, proposed to be reset for end-September 2017	Fiscal consolidation and Equity	Delayed. Ministry of Finance has started exploring options in consultation with Fund staff and USAID.
4	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	mid-November 2016	Fiscal consolidation and Improved transparency	Met.
5	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	mid-November 2016	Fiscal consolidation and Equity	Not met. The authorities removed fewer exemptions than expected and will continue the removal in 2018-19.
6	Rationalize the general sales tax and customs duty systems, based on IMF technical assistance recommendations	end-March 2017	Improve revenue collection by streamlining exemptions while preserving competitiveness	Partially met. The authorities removed only some exemptions and will continue the removal in 2018-19.
7	Implement new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing)	Initially end-March 2017, proposed to be reset for end-November 2017	Fiscal consolidation and Equity	Delayed.
8	Submit to Parliament an Organic Budget Law	end-June 2017	Improved PFM and transparency	On track.
9	Submit to Parliament the 2018 draft budget law in line with program understandings and projections for 2018-19, including the estimates of tax expenditures	mid-November 2017	Fiscal consolidation	New benchmark.
10	Cabinet approval of the removal of GST exemptions in 2018	end-November 2017	Fiscal consolidation	New benchmark.
11	Establish the reporting requirements, processes, and access to social-security to ensure that ISTD can more adequately control and confirm PAYE compliance for large payers	end-March 2018	Reduce tax evasion	New benchmark.
12	Publish public expenditure review	end-June 2018	Fiscal consolidation	New benchmark.

Table 2. Jordan: Structural Benchmarks, 2016–18 (continued)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
Debt Management				
13	Publish public debt management strategy	end-September 2016	Enhance transparency, communication, and predictability	Met.
14	Approve an action plan to reorganize the Public Debt Directorate	end-December 2016	Strengthen the organizational framework for effective public debt management	Met.
15	Publish updated public debt management strategy	end-June 2017	Enhance transparency, communication, and predictability	On track.
16	Finalize the reorganization of the Public Debt Directorate	end-June 2017	Strengthen the organizational framework for effective public debt management	On track.
Water and Energy Sector				
17	Publish studies on cross-subsidization and options for price adjustments in response to oil price changes	end-September 2016	Improved energy conservation, better level-playing field for non-households while protecting the most vulnerable	Met. The studies were published in mid-December 2016.
18	Adopt an automatic electricity tariff adjustment mechanism, with effective implementation on January 1, 2017	mid-December 2016	Fiscal consolidation and sustainability of sector	Met. The mechanism was adopted in October 2016.
19	Submission to Cabinet and publication of an updated action plan on how to reduce the water sector's losses over the medium term	end-December 2016	Fiscal consolidation and sustainability of sector	Met. The action plan was published in April 2017.

Table 2. Jordan: Structural Benchmarks, 2016–18 (concluded)

Item	Measure	Time Frame (by end of Period)	Macroeconomic rationale	Status
Financial Sector and Access to Finance				
20	Implement a risk-based framework for offsite AML/CFT supervision for banks and money exchange firms in line with IMF TA recommendations.	end-October 2016	Stronger supervision to improve the resilience of the financial sector	Met.
21	Submit to Parliament amendments to Deposit Insurance Corporation Law to align the provisions regarding the early intervention and bank resolution framework with the new commercial banking law.	Initially end-March 2017, proposed to be reset for end-June 2017	Improving the resilience of the banking sector	Delayed. Expected to be discussed by parliamentary committees in the coming months, and approved in early 2018.
22	Amend and enact the Insolvency Law	Initially end-March 2017, proposed to be reset for end-June 2017	Removal of obstacles to increase access to finance	Delayed. It was withdrawn from Parliament to be revised and resent, and is expected to be amended by end-August 2017.
23	Amend and enact the Secured Lending Law	Initially end-March 2017, proposed to be reset for end-June 2017	Removal of obstacles to increase access to finance	Delayed. Expected to be discussed by parliamentary committees in the coming months, and approved by end-August 2017.
24	Publish a study assessing the key issues and challenges to promote financial inclusion	Initially end-March 2017, proposed to be reset for end-September 2017	Financial Inclusion, growth and equity	Delayed. Publication is expected in September.
25	Amend the Insurance law to allow for the transfer the supervision of the insurance sector to the CBJ	Initially end-March 2017, proposed to be reset for end-March 2018	Better supervision of the insurance sector	Delayed. Expected to be discussed by parliamentary committees in the next ordinary session.
26	Transfer the supervision of the insurance sector to CBJ	Initially end-September 2017, proposed to be reset for end-March 2018	Stronger supervision to minimize spill-overs of the loss-making insurance sector to banks (there are significant cross-holding and governance risks), enhance financial deepening	Delayed. Due to delays in the amendment of the Insurance law.
27	Finalize and publish the Financial Inclusion Strategy	end-December 2017	Financial Inclusion, growth and equity	New benchmark.
Business Environment				
28	Submit to Parliament a draft Inspection Law streamlining inspection mandates and processes	Initially end-October 2016, proposed to be reset for end-June 2017	Improve business environment	Delayed. It is expected to be discussed by parliamentary committees in the coming weeks, and approved by end-August 2017.
29	Address shortcomings in the Investment-Window procedures by automating and integrating the services provided by Jordan Investment Commission	end-June 2017	Improve business environment	Met.
Labor Market				
30	Conduct a study on options for a temporarily lowering payroll taxes for women and the youth and identifying offsetting parametric changes in the pension system	end-March 2018	Promote formal employment and stimulate aggregate demand while protecting the social security actuarial position	New benchmark.

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 1b attached to the Memorandum of Economic and Financial Policies (MEFP) dated [June xx], 2017. 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.

4. 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]

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

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

(continued)

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

A. Quantitative Performance Criteria and Indicative Targets

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

- a performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfers to the National Electric Power Company (NEPCO) 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.

6. The performance criteria on the central government's primary fiscal deficit and the combined public deficit, as well as the indicative targets on social spending by the central government are monitored semi-annually (with indicative targets for the other quarters) on a cumulative basis from the beginning of the calendar year. The performance criterion on the NIR and the indicative targets

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.

on public debt, short-term public debt, accounts payable of the central government, 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

7. The **central government** is defined as the budgetary central government that is covered by the annual General Budgetary Law (GBL). It excludes the budgets of the 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.

8. 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.

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

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

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

12. **Net domestic nonbank financing of the central government** is defined as central government borrowing from, less repayments to, the non-bank sector (including the nonfinancial public sector not covered by the central government budget, and, specifically, the Social Security Investment Fund), and the cumulative change from the level existing on December 31 of the previous year in the stocks of government securities held by nonbanks and in the float.

13. **Net transfers from the central government to NEPCO and 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).

14. **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—excluding non-resident purchases of domestically-issued government bonds and guaranteed and non-guaranteed Eurobonds—received by the central government (as specified in Table 1b) during the relevant period falls short of the levels specified in Table 1b of the MEFP up to a maximum as specified in Table 1b.

C. Ceiling on the Combined Public Deficit

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

16. 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.

17. 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.

18. **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— excluding non-resident purchases of domestically-issued government bonds and guaranteed and non-guaranteed Eurobonds —received by the central government (as specified in Table 1b) during the relevant period falls short of the levels specified in Table 1b of the MEFP up to a maximum as specified in Table 1b.

D. Floor on the Net International Reserves of the CBJ

19. 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.

20. **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.

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 13,048.2 million (at program exchange rates).

- **Adjustors:** The floors on the NIR of the CBJ will be adjusted upward (downward) by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—excluding guaranteed and non-guaranteed Eurobonds and non-resident purchases of domestically-issued government bonds—received by the CBJ (as specified in Table 1b) during the relevant period exceeds (falls short of) the levels specified in Table 1b of the MEFP. The downward adjustment will be capped at the maximum level specified in Table 1b of the MEFP. The floors will also be adjusted upward by the amount that the outstanding balance of bilateral accounts with the Central Bank of Iraq is repaid, including both principal and interest payments.

E. Ceiling on the Accumulation of External Debt Service Arrears

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

F. Floor on Social Spending by the Central Government

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

G. Ceiling on Public Debt

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

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

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

H. Ceiling on Short-Term Public Debt

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

I. Ceiling on the Accounts Payable of the Central Government

27. Accounts payable of the central government are defined as the total stock of checks issued by the central government but not yet cashed by the beneficiary and the liability of the central government's trust accounts less deposits in the trust accounts.

J. Ceiling on the Domestic Payment Arrears of NEPCO

28. Domestic payment arrears by NEPCO are defined as the belated settlement of a debtor's liabilities that are due under obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; tax payments, and obligations to banks and other private companies and suppliers. Arrears exclude obligations to the central government arising from net transfers as specified in paragraph 12.

K. Ceiling on the Domestic Payment Arrears of WAJ

29. 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

30. Reserve money of the CBJ is defined as the sum of: (i) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (ii) non-remunerated deposits of licensed banks with the CBJ in Jordanian dinars.

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

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

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

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

DATA PROVISION

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

34. Related to the ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and WAJ:

- The nine standard fiscal data tables as prepared by the ministry of finance 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).

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

- the stock of checks issued by the central government but not yet cashed by the beneficiary (monthly).
- the stock of the liabilities of the central government in the trust accounts and the deposits in the trust accounts (monthly).

36. Related to central government arrears:

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

37. Related to the combined public sector deficit:

- All the information specified in paragraph. 28.
- Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly) in order to compute the PC on NEPCO net loss, prepared by NEPCO's accounting department on a quarterly basis.
- Latest audited income statement signed by the auditor (usually available twice yearly with a six-month delay) with full explanation of any changes made to the unaudited version transmitted to the IMF, as soon as it becomes available to NEPCO's management.
- Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly), prepared by WAJ's Directorate of Finance and Accounting on a quarterly basis.
- Full unaudited income statements and the stocks of accounts payable and payments overdue less and more than 60 days (quarterly), prepared by each of the water distribution companies (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).

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

- CBJ's foreign exchange reserves and preliminary data on dollarization (weekly).
- Data on CD auctions (following each auction).
- Monetary statistics (monthly).
- The outstanding balance of bilateral accounts with the Central Bank of Iraq (monthly).

39. Related to the continuous performance criteria:

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

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

- The fiscal tables on the central government's domestic and external debt (monthly).
- Tables on the stock of debt guarantees extended to NEPCO, WAJ, and other public entities (monthly).
- Data on short-term public debt (monthly).

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

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

42. Other economic data

- Interest rates and consumer prices; and exports and imports; travel receipts and tourist arrivals; remittances; outstanding balance of non-resident purchases of domestic treasury bills and bonds; and GCC grants received by the CBJ and grants transferred by the CBJ to the Ministry of Finance (monthly).
- Balance of payments (current and capital accounts) and external debt developments (quarterly).
- List of short-, medium- and long-term public and publicly-guaranteed external loans contracted during each quarter, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements, and the amortization profile (quarterly).
- National accounts statistics (quarterly).

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

DEFINITIONS OF THE PRINCIPAL CONCEPTS AND VARIABLES

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

INTERNATIONAL MONETARY FUND

JORDAN

June 6, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, FIRST REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REPHASING OF ACCESS—INFORMATIONAL ANNEX

Prepared By	The Middle East and Central Asia Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2017)

Membership Status: Joined August 29, 1952; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	343.10	100.00
Fund holdings	1417.21	413.06
Reserve position in Fund	0.38	0.11

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	162.07	100.00
Holdings	63.44	39.14

Outstanding Purchases:

	SDR Million	Percent Quota
Extended Fund Facility	51.47	15.00
Stand-By Arrangements	1023.00	298.16

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	8/24/16	8/23/19	514.65	51.47
SBA	8/03/12	8/04/15	1,364.00	1,364.00
SBA	7/03/02	7/02/04	85.28	10.66
EFF	4/15/99	5/31/02	127.88	127.88

Projected Obligations to Fund[1]
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2017	2018	2019	2020	2021
Principal	234.44	348.10	298.38	142.08	8.58
Charges/interest	19.27	13.38	5.90	2.22	1.17
Total	**253.71**	**361.48**	**304.28**	**144.30**	**9.75**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessment: Under the Fund's safeguards assessment policy, the CBJ was subject to an assessment with respect to the Extended Arrangement under Extended Fund Facility (EFF), which was approved on August 24, 2016. The assessment, completed in November 2016, found that the central bank continues to strengthen its safeguards framework. The assessment made a number of recommendations, which the authorities are implementing.

Exchange System: The Jordanian dinar is fully convertible and is officially pegged to the SDR. In practice, the dinar has been pegged to the U.S. dollar since October 1995 at JD 1 = $1.41044. Jordan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1995 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

Last Article IV Consultation: The 2014 Article IV consultation was concluded by the Executive Board on April 28, 2014. The Staff Report and Executive Board Assessment can be found in IMF Country Report 14/152 at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=41615.0

Financial Sector Assessment Program: Jordan participated in a Financial System Stability Assessment in 2003, and the related report was presented to the Executive Board at the time of the 2003 Article IV consultation (SM/04/1). A Financial System Stability Assessment Update was conducted in 2008, and the report presented to the Executive Board at the time of the 2008 Article IV consultation (SM/09/104).

Technical Assistance (TA): Extensive technical assistance has been provided to Jordan over recent years (see attached table).

Documents:

Standards or Codes Assessed	**Date of Issuance**
Data module	10/8/2002
Update to data module	1/30/2004
Fiscal transparency module	1/9/2006
FSSA	1/7/2004

Jordan: Technical Assistance, 2011–17

Date	Purpose
Fiscal	
January 2011	Public financial management (including World Bank & METAC) expert is joining, WB, and MCD)
March 2011	Public-Private Partnership
April 2011	PPPs and fiscal risks
May 2011	Follow-up on capital expenditures
June 2011	Review, strengthen structural arrangements of HQ functions
October 2011	Assessment visit
October 2011	Strengthen compliance management of financial sector
October 2011	Subsidy reform
January 2012	Regional workshop on compliance management
February 2012	Public financial management
August 2012	Tax administration
January 2013	Public financial management
April 2013	Strengthen risk-based audit
May 2013	Tax administration reform agenda
May 2013	Public financial management
July 2013	A review of the new income tax and other issues in revenue
August 2013	Advancing the tax administration reform agenda
September 2013	Commitment control system
November 2013	Follow-up on arrears
February 2014	VAT compliance and refund management
December 2014	Budget Preparation and Execution
December 2015	Tax Administration Diagnostic Assessment Tool
Jan./February 2016	Public financial management: Trust Accounts
August 2016	Broaden indirect tax base and simplify customs tariff
December 2016	Public financial management: Trust Accounts
March 2017	Public financial management: Trust Accounts Follow-Up Visit
April/May 2017	Public financial management: Public Investment Management
Monetary and Financial	
January 2011	Risk management
January 2011	Regulation and supervision
January 2011	Markets instruments and infrastructure
January 2011	Setting up a risk management unit within the Central Bank

Date	Purpose
January 2011	Islamic banking: develop guidelines, assessments, tools
June 2011	Regional Workshop on debt strategy
June 2011	Developing debt management strategies
July 2011	Debt management capacity building
July 2011	Building, analyzing and evaluating debt strategies/debt management
July 2011	Assessment mission
December 2011	Early warning systems
December 2011	Licensing credit bureaus
Jan. & Apr. 2012	Manual for licensing credit bureaus
February 2012	Development of Money and Capital Markets
September 2012	Risk analysis
October 2012	Guidelines for establishing credit bureaus
January 2013	Implementation of Basel III and enhancing supervisory practices
June 2014	Risk Management
August 2014	Developing and Implementing Early Warning System for the Banking
April 2015	Basel III Liquidity
October 2015	Insurance Supervision
March 2016	Stress Testing
May 2016	Insurance Regulation and Supervision
August 2016	Stress Testing
Statistical	
January 2011	Improving BOP and IIP compilation practices
February 2011	Improving BOP and IIP compilation practices
Sept./October 2011	STE preparation of input/output tables
May 2012	National accounts
September 2012	External debt and balance of payments statistics
January 2013	Price statistics
May 2013	National accounts
November 2013	National accounts
April 2014	External Debt Statistics
December 2014	National Accounts
April 2015	Balance of Payments Statistics
January 2016	National Accounts
July 2016	National Accounts Statistics
Oct./November 2016	National Accounts Statistics

Date	Purpose
Legal	
February 2015	AML/CFT Scoping Mission
February 2015–July 2017	Legislation, AML/CFT Supervision, and FIU
Other	
December 2011	LTE training on the external debt statistics
February 2012	Central Bank of Jordan–IMF research workshop (MCD)

WORLD BANK GROUP STRATEGY AND OPERATIONS

1. On July 14, 2016, the World Bank Board of Directors approved a new WBG Country Partnership Framework (CPF) for Jordan for FY2017–22 [link]. The new CPF builds on the Systematic Country Diagnostic which was circulated to the Board in February 2016.

2. The overarching objective of the CPF is to help Jordan renew its social contract and promote economic and social inclusion. The CPF promotes an ambitious agenda for growth, jobs and inclusion while helping Jordan to address the impact of the Syrian crisis, including through innovative financing tools. The WBG is deploying concessional resources to support Jordan's Syrian crisis response through an exceptional $100million International Development Association (IDA) allocation and the recent establishment of the Concessional Financing Facility.

3. As of April 2017, the World Bank's active portfolio in Jordan included 11 projects valued at US$759 million in loans and grants. These projects cover a number of key sectors, including municipal services, education, energy, water, environment, public sector governance, public administration, social protection and labor, access to finance, and the business environment.

4. Over the past few years, the World Bank has supported Jordan's capacity and performance in governance, fiscal management, public sector efficiency and private sector-led growth, through two reform driven, budget supporting "Development Policy Loans" (US$250 million each). The Bank has also recently supported the fiscal sustainability and efficiency of the energy and water sectors through a new multi-year "Programmatic Development Policy Loan" (first $250 million operation presented to the Board in July 2015; follow on operation to be presented to the Board in December 2016).

5. The Bank has also provided support to bolster Jordan's resilience to the Syrian crisis. The large influx of refugees from Syria has strained the government's capacity to deliver basic services and led to an increase in social tension, as well as in competition for jobs. An emergency loan of US$150 million, approved in July 2013, helped affected households maintain access to healthcare services and basic household goods. A complementary Emergency Services and Social Resilience Grant of US$65.9 million, approved in October 2013, leveraged grants from the United Kingdom, Canada, Denmark, Sweden and Switzerland. This project is helping municipalities strengthen their service delivery capacity, supporting local economic development, and fostering social cohesion in host communities. In September 2016, a $300 million Program-for-Results project was approved to promote Economic Opportunities for Jordanians and Syrian Refugees. The project is financed by IBRD (US$149 million), IDA (US$100 million) and a contribution from the Concessional Financing Facility (CFF) (US$51 million). The CFF also contributed to the Second Programmatic Energy and Water Development Policy Loan, approved by the Bank's Board of Directors in December 2016, combining IBRD financing (US$225 million) and support from the Concessional Financing Facility (US$25 million). A concessional Emergency Health project is currently under preparation.

6. The International Finance Corporation (IFC) has maintained a strong program in Jordan with long-term finance investments totaling at around US$1.804 billion dollars, from 2011 to date. Landmark investments in the renewable energy sector include: (i) Tafila Wind - US$221 million debt package to finance the country's first privately owned renewable energy facility; (ii) "Seven Solar Sister" - US$208 million financing package to support the largest private sector-led solar PV initiative in the MENA region. Other recent investments include a repeat investment of around US$94 million in Queen Alia Airport, US$11 million in Luminus, the leading private vocational and technical training provider in the country, and US$2 million to FINCA Jordan, a leading microfinance organization. IFC investments are largely concentrated in the transport, chemicals, and renewable power sectors. IFC has also provided strong advisory support focusing in the areas of corporate governance, regulatory simplification, energy efficiency, access to finance (credit Bureau & secured lending), Public Private Partnership, and skills development to match the needs of the private sector.

7. The Multilateral Investment Guarantee Agency's (MIGA) outstanding gross exposure from investments into Jordan stood at US$440 million as of April 2017. MIGA supports: a U.S. investor for the expansion of the AS Samra Wastewater Treatment Plant; the expansion and operation of an existing bromine and bromine derivatives manufacturing plant; and two solar power plants through guarantees for Adenium Solar. MIGA's support to foreign private investors sends a strong signal that Jordan remains a viable investment destination.

STATISTICAL ISSUES

(As of May 15, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for program monitoring.
National Accounts: While progress has been made over the last few years in improving quarterly estimates of the national accounts from the production approach, Jordan has still to develop quarterly national accounts from the expenditure approach. Also, further efforts are needed to ensure that the compilation of the national accounts is compliant with the System of National Accounts 2008 (2008 SNA). The base year for calculating the GDP at constant prices should be updated (from the current 1994 to 2010).
Price statistics. An urban-only CPI, based on 12 geographic areas covering all Jordan, is compiled and released every month. The weights should be updated more frequently than the current five-year period, using expenditure data from the bi-annual household budget surveys.
Government finance. The authorities have initiated work to develop a financial balance sheet in accordance with the classification and sectorization systems recommended by the *GFSM 2001*. While the transactions above-the-line are largely aligned with GFSM 2001 recommendations, the consolidated general government data disseminated do not follow the integrated presentation of stocks and flows as mandated under the 2010 Executive Board decision.
Monetary statistics: Timeliness of reporting monetary data for publication in *International Financial Statistics* is satisfactory. However, the authorities have not yet migrated to the Standardized Report Forms, which were developed based on the IMF's *Monetary and Financial Statistics Manual*. **Financial sector surveillance:** The authorities do not report financial soundness indicators (FSIs) for dissemination by the IMF's Statistics Department on the *FSI* website.
Balance of payments: Starting from 2010 data, the CBJ has broadly adopted the methodology of the sixth edition of the *Balance of Payments Manual (BPM6)* for the compilation of the BOP statistics and the international investment position (IIP), and has disseminated quarterly BOP and IIP data in the *BPM6* format. The implementation of surveys in the area of services and foreign direct investments is important for further improving the quality of the BOP statistics. The technical assistance is focusing on improvements in external debt statistics and fostering consistency between macroeconomic datasets.

II. Data Standards and Quality	
Jordan subscribes to the Fund's Special Data Dissemination Standard (SDDS) since January 2010. The country uses an SDDS flexibility option on the periodicity and timeliness of the labor market wages/earnings data.	Data ROSC update was published in February 2004.

Jordan: Common Indicators Required For Surveillance

(As of May 15, 2017)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Timeliness of Reporting 7/	Memo Items: Data quality—methodological soundness 8/	Memo Items: Data quality—accuracy and reliability 9/
Exchange rates	Apr. 2017	May 2017	D	D	1D		
International reserve assets and reserve liabilities of the monetary authorities 1/	Apr. 2017	May 2017	M	M	1W		
Reserve/base money	Mar. 2017	May 2017	M	M	1M	O, O, LO, LO	O, LO, O, O, LO
Broad money	Mar. 2017	May 2017	M	M	1M		
Central bank balance sheet	Mar. 2017	May 2017	M	M	1M		
Consolidated balance sheet of the banking system	Mar. 2017	May 2017	M	M	1M		
Interest rates 2/	Mar. 2017	May 2017	W	M	1W		
Consumer price index	Apr. 2017	May 2017	M	M	1M	O, LO, O, O	O, LO, O, O, O
Revenue, expenditure, balance and composition of financing 3/—general government 4/	2016	May 2017	A	A	7M	O, LO, LNO, O	O, O, O, O, NA
Revenue, expenditure, balance and composition of financing 3/—central government	Mar. 2017	May 2017	M	M	1M		
Stocks of central government and central government-guaranteed debt 5/	Mar. 2017	May 2017	M	M	1M		
External current account balance	Q4 2016	Apr. 2017	Q	Q	1Q	LNO, LNO, LNO, LO	LNO, LO, LO, LO, LO
Exports and imports of goods and services	Jan. 2017	Apr. 2017	M	M	1M		
GDP/GNP	Q4 2016	Mar. 2017	Q	Q	1Q	O, LO, O, O	O, LO, O, LO, LO
Gross external debt	Q4 2016	Apr. 2017	M	M	1M		
International Investment Position 6/	Q4 2016	Mar. 2017	Q	Q	6M		

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).
8/ Reflects the assessment provided in the substantive update of the data ROSC published in February 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
9/ Same as footnote 8, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the Staff Representative on Jordan
June 16, 2017

The information below has become available following the issuance of the staff report. The thrust of the staff appraisal remains unchanged.

1. Reserves and dollarization have been stable since end-March. Gross official reserves were about $11.6 billion in early June, broadly in line with the end-March level. Deposit dollarization stood at 19.4 percent and was also stable. The Central Bank of Jordan raised interest rates on all monetary policy instruments by 25 basis points, effective June 18.

2. Inflation continued to ease in May. Headline monthly inflation was close to zero percent in May 2017, bringing 12-month inflation down to 3.7 percent in May. Core inflation has remained stable at about 3 percent y-o-y.

3. Reflecting methodological changes, the unemployment rate stood at 18.2 percent in the first quarter of 2017. Following recommendations from the ILO, **t**he Department of Statistics (DOS) has modified the methodology underpinning the Survey of Employment and Unemployment. The main changes relate to the exclusion of unpaid workers (such as unpaid trainees and volunteers) from the "employed persons" category, which were included until 2016, as well as an increase of the survey's sample size, including to cover migrant workers and refugees. This new methodology, which was not applied to previous data, brought the unemployment rate to 18.2 percent in the first quarter of 2017, its highest level in at least 25 years. The unemployment rate for females was at 33 percent, above the 24.8 percent in the previous quarter. While these changes make historical comparisons more difficult, the DOS noted that they now yield more precise estimates of the unemployment rate.

4. NEPCO continued to have operational losses in April, and electricity tariffs have remained unchanged. Preliminary financial data from NEPCO indicate that operational losses in April were about JD 10 million due mainly to some technical issues and low demand, bringing cumulative losses to about JD 18 million (about 0.1 percent of annual GDP) over the first four months of 2017. The Energy and Minerals Regulatory Commission decided in June not to adjust electricity tariffs. A Cabinet reshuffle on June 14 resulted in the resignation of three Ministers, one of which was the Minister of Energy and Mineral Resources.

Statement by Hazem Beblawi, Executive Director for Jordan and Sami Geadah, Alternate Executive Director
June 21, 2017

Jordan continues to face a very difficult regional environment. The conflicts in Syria and Iraq—which led to a massive influx of refugees—have resulted in the closure of Jordan's main land trade route, and have had an adverse effect on socioeconomic stability. Moreover, the fiscal retrenchment and tighter liquidity in neighboring oil exporting countries have weighed on remittances and capital inflows. These developments have depressed investment sentiment, undermined growth, and led to a further increase in unemployment.

Despite these unprecedented challenges, the Jordanian economy has remained resilient. The authorities' reform agenda—which is supported by the EFF—rightly aims at maintaining macroeconomic and financial stability, and at reviving growth and employment. The need to undertake a significant fiscal adjustment and structural reforms during a period of heightened demands associated with developments in the region has added to these challenges. The difficult internal and external environments are likely to persist as the conflicts in Syria and Iraq do not show signs of abating nor has the GCC economic outlook improved.

Fiscal policies

An important aspect of the authorities' macroeconomic policies has been the ongoing fiscal adjustment. Fiscal consolidation has aimed at balancing the need to reduce public debt without unduly undermining growth, while maintaining a sufficient social safety net as part of efforts to preserve social cohesion. Despite these considerations, the overall fiscal deficit has significantly fallen, from 10.3 percent of GDP in 2014 to 3.2 percent of GDP in 2016, and is projected to fall to 2.5 percent of GDP in 2017. The fiscal position will continue to be strengthened with the aim of having an overall surplus in 2020.

The authorities have used the 2017 budget to make the fiscal system more equitable and efficient. Revenues are being strengthened through measures that broaden the tax base. General sales tax and customs duty exemptions were eliminated on a large number of products, providing 0.4 percent of GDP in 2017. Most of the remaining exemptions were difficult to remove because of their importance for low income households. Nevertheless, further removal of exemptions is planned for 2018, together with better targeting of support to the most vulnerable. The shortfall in projected revenues for 2017 relative to program targets was addressed by increases in fees and excises, most notably on fuel products. Expenditure policy continues to aim at streamlining non-priority current spending, prioritizing capital and social spending, clearing arrears, and accommodating pressures from Syrian refugees. The fiscal deficit for 2017 is projected to be substantially lower than had been targeted under the program.

The authorities adopted an automatic tariff adjustment mechanism to ensure that electricity costs are fully covered in 2017, similar to the approach that was used to liberalize gasoline prices under the SBA. This will be followed by the implementation of a strategy to bring the water company into financial balance. The water company's financial deficit has been largely due to capital spending, which is needed given the scarcity of water resources in Jordan and the increase in demand related to Syrian refugees.

Measures are being taken to strengthen the fiscal policy framework. Tax administration measures have focused on improving compliance, facilitating procedures, and promoting fairness. Public financial management is being strengthened, including the selection and management of investment projects. In support of this framework, an organic budget law is under preparation which will strengthen macro-fiscal policy, budget preparation, fiscal strategy, treasury control, and audit functions. Reforms also aim at strengthening the debt management framework. These initiatives benefit from technical assistance from the Fund and other providers.

Monetary policy

The Central Bank of Jordan (CBJ) continues its strong track record of skillful monetary policy, which has been anchored by the peg to the US dollar. The exchange rate peg has served the economy well, and has been very important for monetary and macroeconomic stability. The authorities remain fully committed to the peg, including through undertaking the necessary fiscal adjustment, adjusting interest rates as necessary, and implementing structural reforms. Within the constraints of the peg, the CBJ has balanced monetary and financial stability with growth objectives, keeping interest rates as low as possible to support credit growth, subject to maintaining a comfortable level of foreign reserves. While international reserves were lower than program targets at end-2016, they remained at a comfortable level. The CBJ increased its policy rate by a cumulative 125 bps since December 2016, including a 25 bps increase effective June 18, 2017, and is prepared to use its monetary policy instruments as appropriate to ensure that reserves remain at an adequate level. The term of the CBJ's management team was renewed for a second five-year period in early 2017.

Financial sector

The CBJ has been a very effective regulator and supervisor of the financial system. It monitors banks closely to ensure that the sector remains sound. Banks are highly capitalized, liquid, profitable, and resilient to possible shocks. Non-performing loans are low and well-provisioned, with limited Jordanian bank exposure to conflict countries. The CBJ stress tests the banking system regularly. The results confirm the system's ability to absorb a wide range of severe shocks. Nevertheless, several initiatives are underway to further strengthen the financial supervisory framework. The CBJ issued regulations on domestic systemically important banks in mid-June and is working toward issuing regulations on Basel III liquidity ratios. The CBJ is in the process of taking over responsibility for the supervision of the insurance sector from the Ministry of Industry 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. The CBJ is also working closely with microfinance institutions to help them meet the new licensing requirements under the new supervision framework.

Structural reforms for growth and employment

Structural reforms are focused on strengthening inclusive growth. This 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.

Efforts to strengthen the business environment aim to facilitate access to finance and to reduce the cost of dealing with the government. The establishment of a credit bureau will help to expedite credit decisions for SMEs. 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 international best practice. The reforms to strengthen the business environment aim to reduce the cost of starting and operating a business, including through simplifying procedures and eliminating unnecessary regulations.

With regards to the labor market, the National Employment Strategy has been updated to help bring about better functioning and competitive markets, and to help youth find and secure meaningful work and steady employment in the private sector. Policies aim at reducing skills mismatches, introducing more flexible work arrangements, and reforming public sector hiring practices. The authorities recognize 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. The National Strategy for Human Resources Development aims to improve education at all levels, including vocational training.

Foreign assistance and refugees

Jordan needs help with managing the cost of hosting refugees. The national development gains achieved over the previous decades are threatened unless international support is received in a timely manner. 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. For 2016, Jordan received about 60 percent of the funding required under the Jordan Response Plan to the Syrian crisis. As part of the Compact, Jordan plans to create up to 200,000 jobs for Syrian refugees, contingent on international support, under which 46,000 work permits have already been issued. While the authorities are appreciative to donors for their increased support, a sustainable assistance framework is needed given the significant indirect costs related to the Syrian refugee crisis, including those related to security, health, education, and subsidies, as the crisis shows no sign of abating in the foreseeable future; 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.