IMF Country Reports 22/221

Jordan: 2022 Article IV Consultation and Fourth Review Under the Extended Arrangement Under the Extended Fund Facility, Request for Augmentation and Rephasing of Access, and Modification of Performance Criteria-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Jordan

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 22/221

JORDAN

July 2022

2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AUGMENTATION AND REPHASING OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of the 2022 Article IV Consultation and Fourth Review Under the Extended Arrangement Under the Extended Fund Facility, Request for Augmentation and Rephasing of Access, and Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 29, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2022, following discussions that ended on May 23, 2022, 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 14, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director, Alternate Executive Director, and Senior Advisor** for Jordan.

The document 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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PRESS RELEASE

PR22/245

IMF Executive Board Concludes 2022 Article IV Consultation and Fourth Review Under the Extended Fund Facility for Jordan

FOR IMMEDIATE RELEASE

- Jordan's EFF program remains firmly on track. The authorities have maintained macroeconomic stability and market access, while protecting the most vulnerable, and implementing key structural reforms, especially in the area of public finances.
- Enhancing long-term inclusive growth requires accelerating reforms, including to boost productivity, support female and youth employment, strengthen competition among businesses, and address Jordan's climate adaptation needs.
- The IMF remains committed to supporting Jordan, including by augmenting access under the EFF to help address higher financing needs from higher international commodity prices and tightened global financial conditions. Donor support is critical to enable Jordan to cope with these global economic headwinds, while hosting 1.3 million Syrian refugees.

Washington, DC – **June 30, 2022:** The Executive Board of the International Monetary Fund (IMF) today completed the 2022 Article IV Consultation[1] for Jordan and the Fourth Review Under the Extended Fund Facility (EFF). The completion of the review will make SDR 137.24 million (about US$183 million) immediately available. This brings total IMF disbursements to Jordan since the start of 2020 to SDR 1,018.922 million (about US$1.356 billion) including a purchase of SDR 291.55 million (about US$407 million) in May 2020 under the Rapid Financing Instrument.

Jordan's four-year extended arrangement amounting to SDR 926.37 million (about US$1.293 billion, equivalent to 270 percent of Jordan's quota in the IMF), was approved by the IMF's Board on March 25, 2020, and was augmented on June 30, 2021 to SDR 1070.47 million (about $1.425 billion, equivalent to 312 percent of Jordan's quota in the IMF) (see Press Release No. 21/203). The conclusion of the fourth review will augment Jordan's access under the EFF to SDR 1,145.954 million (about US$1.526 billion, equivalent to 334 percent of Jordan's quota in the IMF).

Helped by the economic reopening, a recovery is underway supported by targeted fiscal and monetary measures. Government revenues have overperformed, reflecting concerted efforts to reduce tax evasion and close tax loopholes. However, unemployment persists at very high levels, particularly among the youth. Inflation—which has been contained in 2021—has risen slightly this year, reaching 3.6 percent at end-April. The current account deficit will narrow from 8.8 percent of GDP in 2021 to around 6.7 percent of GDP in 2022, a somewhat higher level than previously expected, primarily reflecting more elevated fuel import prices. This together with tightened global financial conditions have increased Jordan's external financing needs. The Fund is helping Jordan

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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.

meet these needs by increasing planned disbursements in 2022 by SDR 120.085 million including through augmenting access under the EFF by SDR 75.482 million. Stepped-up donor support remains critical, including to aid Jordan in hosting 1.3 million Syrian refugees.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Chair stated:

"Jordan's economic recovery has continued amid an uncertain external environment. The authorities' effective policy response to the pandemic, including early expansion of healthcare capacity, has enabled a timely and full reopening of the economy, and a nascent recovery is in train. However, high commodity prices and tighter global financial conditions represent significant headwinds going forward. Near-term policy should focus on maintaining macro-fiscal stability, while protecting the most vulnerable, and advancing reforms to boost growth and jobs.

"Key fiscal targets were met, and there is good progress on reforms to broaden the tax base and close tax loopholes. These efforts have already started to bear fruit, as reflected in the sizable revenue overperformance; and it would be important to implement the remaining legislative and administrative reforms in this area to maintain the revenue mobilization momentum. Given limited fiscal space, blanket fuel subsidies should be phased out in favor of targeted support for the vulnerable. In light of global headwinds and the monetary tightening, a more gradual medium-term path of fiscal consolidation, underpinned by high-quality measures bringing debt under 80 percent of GDP by 2027, is appropriate to support the recovery and protect the vulnerable, while preserving debt sustainability.

"Monetary policy should remain focused on supporting the peg in an increasingly volatile external environment. The authorities should remain alert to emerging balance of payments pressures and ensure that reserve adequacy continued to be preserved. The financial sector remains sound. However, banks' asset quality should be closely monitored until the impact of the pandemic and the on-going headwinds have been fully absorbed. Subsidized lending schemes should become more targeted and gradually be phased out as the recovery gains momentum. To further enhance the AML/CFT regime, the authorities are committed to an action plan for resolving the remaining strategic deficiencies identified by the FATF.

"Strong and inclusive growth rests on steady progress on structural reforms to support female labor force participation, enhance youth employment and labor market flexibility, promote competition, reduce the costs of doing business, and strengthen governance and transparency. In this regard, advancing legislation to support female labor force participation and improve the competition regulatory framework will be critical. The successful rollout of the new electricity tariffs, which will reduce costs for businesses, is welcome. Continued efforts are also needed to address water scarcity and improve the financial sustainability of both the water and electricity sectors. In this regard, it is important to adopt financial sustainability roadmaps for the water and electricity sectors and ensure due financial diligence and transparency of the procurement process of megaprojects to address water scarcity.

"Stepped up and timely donor support will be critical to help support the authorities' reform agenda and meet Jordan's higher external financing needs. It will also help ease the burden of hosting 1.3 million Syrian refugees.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their swift and decisive policy actions and strong ownership and commitment to the IMF-supported program that have mitigated the effects of the pandemic and supported the recovery. However, high unemployment and continued headwinds from high commodity prices and rising global interest rates highlight the importance of persevering with strong policies and structural reforms.

Directors agreed that more gradual fiscal consolidation is appropriate to support the recovery and protect the vulnerable while safeguarding debt sustainability. They emphasized the importance of continued advances in the authorities' commendable revenue mobilization strategy, including key legislative reforms to further broaden the tax base and close tax loopholes. Directors stressed the need to replace costly fuel subsidies with targeted support to protect vulnerable households within the approved 2022 budget envelope. They welcomed ongoing efforts to increase transparency and efficiency in public spending and SOEs, which would help accommodate priority social and capital spending. Continued donor assistance will also be critical, including to support the large number of refugees.

Directors emphasized the importance of improving the financial viability of the electricity and water sectors, including by curtailing the accumulation of arrears and closely monitoring contingent liabilities. They commended the electricity tariff reform, including the mechanism to protect vulnerable households. Given large investments in climate adaptation required to mitigate water scarcity, Directors urged timely completion of the Financial Sustainability Roadmap and due financial diligence and transparent procurement policies of megaprojects in the water sector.

Directors agreed that monetary policy should remain data driven, with a focus on supporting the peg and financial stability. Continued interest rate adjustments in response to Fed actions and adequate reserve buffers will be key. While the banking system is overall sound, Directors stressed the need to monitor bank asset quality and welcomed in this regard the ongoing FSAP update. They called for gradual unwinding of subsidized lending schemes as the recovery becomes entrenched. Directors also commended the authorities' commitment to improving the AML/CFT framework.

Directors emphasized that unlocking Jordan's growth potential requires accelerating structural reforms to remove obstacles to job creation, labor participation, and investment. In that context, they urged the authorities to further strengthen the competition framework, enhance

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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.

gender equality in the workplace and reduce youth unemployment. Strengthening fiscal governance and transparency remains important.

It is expected that the next Article IV consultation with Jordan will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2020–27

	Act. 2020	3rd Rev 2021	Est. 2021	3rd Rev 2022	Proj. 2022	3rd Rev 2023	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027
	(Annual percent change, unless otherwise noted)										
Output and prices											
Real GDP at market prices	-1.6	2.0	2.2	2.7	2.4	3.1	2.7	3.0	3.3	3.3	3.3
GDP deflator at market prices	-0.3	1.6	1.3	2.5	3.6	2.5	3.0	2.5	2.5	2.5	2.5
Nominal GDP at market prices	-1.8	3.6	3.5	5.3	6.1	5.7	5.8	5.6	5.9	5.9	5.9
Nominal GDP at market prices (JD millions)	31,025	32,157	32,123	33,851	34,077	35,772	36,042	38,048	40,283	42,650	45,156
Nominal GDP at market prices ($ millions)	43,759	45,355	45,307	47,744	48,064	50,455	50,835	53,664	56,817	60,155	63,690
Consumer price inflation (annual average)	0.4	1.3	1.3	2.5	3.8	2.5	3.0	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	-0.3	2.3	2.3	2.5	4.4	2.5	3.0	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent) 1/	22.7	...	...	...	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise noted)										
Fiscal operations											
Revenue and grants	22.7	24.7	25.3	25.9	26.1	24.9	25.4	25.0	24.6	24.4	24.2
Of which: grants	2.5	2.4	2.5	2.7	2.6	1.6	2.0	1.6	1.3	1.2	1.1
Expenditure 2/	30.0	31.3	31.7	30.2	30.8	29.7	30.4	29.9	29.8	29.5	29.0
Unallocated discretionary fiscal measures 3/	0.0	0.0	0.0	0.0	0.0	1.3	0.2	0.6	1.1	1.5	1.7
Overall central government balance 4/	-7.3	-6.6	-6.4	-4.4	-4.7	-3.4	-4.8	-4.4	-4.1	-3.6	-3.1
Overall central government balance excluding grants	-9.9	-9.0	-8.9	-7.1	-7.3	-5.1	-6.9	-6.0	-5.4	-4.8	-4.2
Primary government balance (excluding grants)	-5.7	-4.7	-4.5	-3.1	-3.4	-1.1	-2.7	-1.6	-0.9	-0.3	0.0
NEPCO operating balance	-0.3	-0.5	-0.6	-1.0	-0.3	-0.9	-0.7	-0.6	-0.5	-0.4	-0.4
WAJ overall balance	-0.8	-0.9	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7
Water distribution companies overall balance	-0.3	-0.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Combined public sector balance 5/	-7.0	-6.4	-6.2	-5.1	-4.7	-2.9	-4.5	-3.3	-2.3	-1.6	-1.2
Consolidated general government overall balance, excl. grants	-8.2	-7.7	-7.1	-6.2	-5.2	-4.6	-5.3	-4.3	-3.4	-2.7	-2.0
Consolidated general government primary balance, excl. grants	-3.6	-3.0	-2.3	-1.6	-0.7	0.0	-0.5	0.7	1.6	2.3	2.7
Government and guaranteed gross debt 6/	109.0	113.9	113.7	114.7	113.9	113.6	113.8	113.0	111.7	109.8	107.5
Government and guaranteed gross debt, net of SSC's holdings 6/	88.0	91.7	91.9	90.9	91.0	88.6	89.8	87.4	84.8	82.5	79.8
Of which: external debt	40.9	43.3	40.6	45.7	42.3	45.4	43.3	42.2	40.2	35.8	33.7
External sector											
Current account balance (including grants), *of which:*	-5.7	-9.7	-8.8	-4.7	-6.7	-3.3	-4.8	-4.0	-3.6	-3.0	-4.0
Exports of goods, f.o.b. ($ billions)	8.0	8.9	9.4	9.4	11.3	10.1	11.6	11.7	12.0	12.3	12.3
Imports of goods, f.o.b. ($ billions)	15.4	17.8	19.3	18.3	22.1	18.5	22.0	22.3	22.8	23.3	24.2
Oil and oil products ($ billions)	2.1	2.9	3.0	2.9	4.6	2.9	4.2	4.0	3.9	3.7	3.8
Current account balance (excluding grants)	-9.1	-12.8	-12.1	-8.0	-9.9	-6.0	-7.9	-6.6	-5.8	-5.1	-5.4
Private capital inflows (net)	1.5	2.5	1.1	2.3	1.8	2.8	2.5	3.1	3.2	3.5	3.5
Public grants and identified budget loans (excl. IMF)	5.9	6.4	6.2	5.8	6.1	4.5	5.5	4.1	3.0	2.5	1.6
	(Annual percent change)										
Monetary sector											
Broad money	5.8	3.6	6.7	4.4	6.1	5.7	5.8	5.6	5.9	5.9	5.9
Net foreign assets	0.2	-12.2	-0.8	9.7	-0.2	13.4	14.6	6.8	5.4	-2.1	3.2
Net domestic assets	7.4	7.7	8.7	3.2	7.6	4.0	3.9	5.3	6.0	7.8	6.5
Credit to private sector	6.3	3.9	4.9	4.5	4.1	4.8	4.3	5.5	6.0	6.5	6.9
Credit to central government	11.4	8.0	13.8	-0.5	0.3	1.4	1.5	4.8	6.9	14.3	7.0
Memorandum items:											
Gross usable international reserves ($ millions)	15,127	15,269	17,272	15,954	16,916	15,863	16,894	17,270	17,735	17,238	17,407
In months of prospective imports	7.8	7.9	7.6	8.1	7.4	7.8	7.3	7.2	7.3	6.8	6.6
In percent of reserve adequacy metric	110	104	115	102	105	97	98	96	95	91	90
Net international reserves ($ millions)	13,844	13,448	15,646	13,762	14,764	13,617	14,782	15,304	15,993	15,707	16,127
Population (millions) 7/	10.2	10.3	10.3	10.4	10.3	10.5	10.3	10.3	10.3	10.4	10.4
Nominal per capita GDP ($)	4,289	4,395	4,412	4,588	4,666	4,817	4,930	5,200	5,495	5,798	6,109
U.S. dollar per Jordanian dinar (period average)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Nominal exchange rate (peg to the US dollar)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Real effective exchange rate (end of period, 2010=100) 8/	105.4	...	...	...	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	-9.5	...	...	...	...	...	...	...	...	...	...

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

1/ The Department of Statistics changed the methodology of the Survey of Employment and Unemployment in 2017 following ILO recommendations. The variable now reports unemployment rates for Jordanians only (excluding foreigners).

2/ Includes other use of cash (i.e. off-budget expenditures).

3/ Estimated amount of fiscal measures that are needed to meet the programmed fiscal adjustment over 2022-25.

4/ Includes statistical discrepancy.

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

6/ Government's direct and guaranteed debt (including NEPCO and WAJ debt). SSC stands for Social Security Corporation. The authorities securitized domestic arrears amounting to 2.3 and 0.3 percent of GDP in 2019 and early 2020, respectively, part of which was previously assumed to be repaid over a three-year period.

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

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

INTERNATIONAL MONETARY FUND

JORDAN

June 14, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AUGMENTATION AND REPHASING OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context and outlook. The economy started to recover in 2021—with growth, fiscal performance, and the current account outperforming program expectations. Inflation remained subdued in 2021, but has picked up in recent months. Growth is expected to strengthen to 2.4 percent in 2022, but is being marked down by 0.3 ppts. from the third review, reflecting global economic headwinds, including tighter financial conditions and spillovers from the war in Ukraine. Although Jordan's wheat reserves provide assurance on near-term food security, persistently high food and fuel prices pose a major near-term policy challenge, especially given high unemployment (23 percent) and limited fiscal space. The current account deficit is projected to widen to 6.7 percent of GDP in 2022, as a larger fuel import bill dominates strong tourism receipts and robust exports.

Program implementation: The program is firmly on track. All December 2021 quantitative performance criteria (QPCs), as well as many of the end-March 2022 indicative targets (IT), were met. The authorities have implemented key structural benchmarks (SBs)—notably the roll-out of new electricity tariffs; and legislation bringing the Aqaba Special Economic Zone (ASEZA)'s tax and customs functions within national systems (with delay). The blanket fuel subsidies introduced in February have been fiscal costly, but these are being phased out in favor of more targeted support for the vulnerable. With revenues overperforming and some nonpriority spending amenable to deferral, the 2022 primary deficit target of 3.4 percent of GDP remains within reach. Given high unemployment, and the expected monetary tightening, the program has been recalibrated to allow for a more gradual pace of medium-term fiscal consolidation, while safeguarding debt sustainability. To enhance policy and program credibility, the authorities have committed to and specified additional measures to close the fiscal gap in the medium term. In the context of higher financing needs due to the elevated commodity prices and the more gradual medium-term fiscal consolidation, the authorities have requested an augmentation of access by SDR 75.482 million, accompanied by some rephasing, which will increase 2022 disbursements by SDR 120.085 million relative to the third review.

Article IV discussions: Discussions focused on policy challenges and needed reforms to enhance inclusive growth (through boosting labor productivity, female and youth employment, and business competitiveness), high-quality revenue and expenditure reforms to underpin the medium-term fiscal consolidation, and climate adaptation needs related to water scarcity and attendant fiscal implications.

Approved By
Thanos Arvanitis (MCD) and Delia Velculescu (SPR)

The team consisted of S. A. Abbas (head), S. Bouza, K. Ismail (Resident Representative), M. Petrescu, Y. Yang, R. Al-Farah, J. Saalfield (all MCD), and C. Redl (SPR). Discussions were held in Amman during May 8–23, 2022. Cecilia Pineda provided document management, and Sana Almunizel provided logistics support. Staff met with Prime Minister Bisher Al-Khasawneh, Minister of Finance Mohamad Al-Ississ, Governor of the Central Bank of Jordan Adel Al-Sharkas, Minister of Planning and International Cooperation Nasser Shraideh and other senior officials, as well as thinktanks, private sector representatives, and representatives of civil society. Maya Choueiri (OED) participated in the discussions.

CONTENTS

ANNEXES

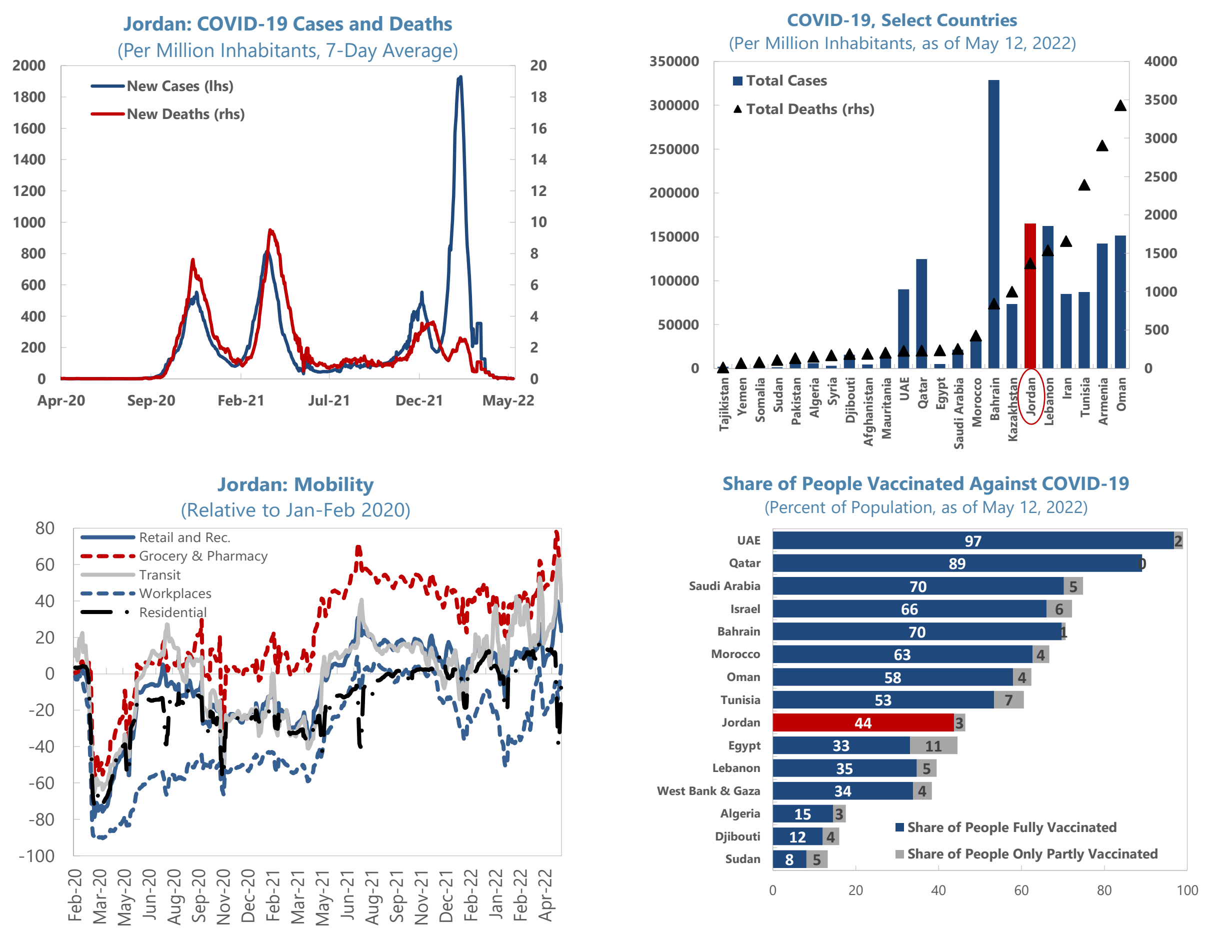
APPENDICES

CONTEXT

Recent Developments

1. **The pandemic is subsiding, after an Omicron surge in early 2022.** Jordan has been hit hard by the pandemic, and has experienced the sixth highest death rate among MCD countries to date. However, as of May 12, daily new COVID cases had fallen to less than 100 from a peak of 20,000 in February. While some restrictions, including school closures, were re-introduced at the start of the year, nearly all COVID-related restrictions were lifted by the start of Q2. The vaccination rate has plateaued around 47 percent, and remains below the regional average, given vaccine hesitancy, a young population, and limited use of vaccine mandates.

COVID-19 Outbreak, Containment, Response, and Mobility



Sources: Our World in Data; Google COVID-19 Community Mobility Reports; and IMF staff calculations

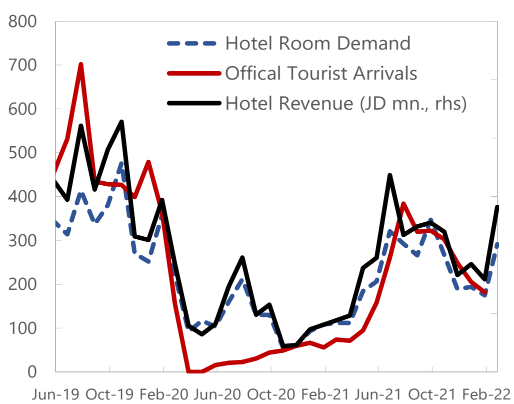
2. **A post-pandemic recovery is in train, but unemployment remains very high implying a challenging socio-economic backdrop.** 2021 growth was 2.2 percent, 0.2 ppt. above third review projections, owing to a stronger rebound in manufacturing and mining. The output gap is estimated

at -2.5 percent in 2021, to be closed gradually by 2026. Unemployment remained stubbornly elevated at 23.3 percent (compared to 19 percent in 2019), with youth unemployment still over 50 percent.

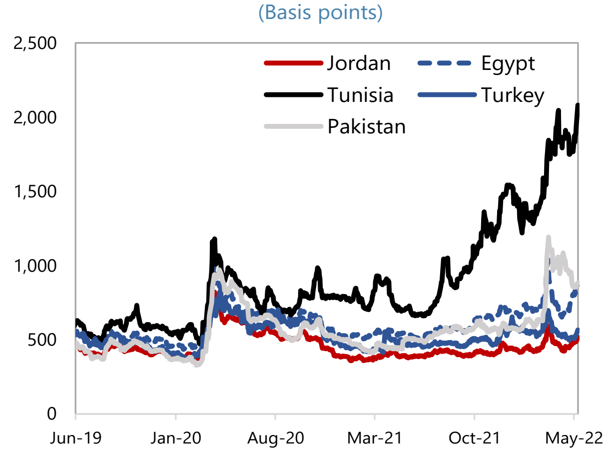
3. **The authorities have limited the pass-through of rising fuel and food prices.** Inflation in 2022Q1 was low at 2.3 percent, reflecting weak domestic demand as well as limited passthrough of rising global commodity prices thus far, but has picked up to 3.6 percent y-o-y in April. Jordan's strategic wheat reserves, at 12 months, have shielded the authorities from having to import wheat at elevated prices after Russia's invasion of Ukraine. Moreover, Jordan's long-term stable-price import contracts for gas used in electricity generation have also mitigating passthrough. Jordan is, however, an oil importer, and oil derivatives prices have surged 30 percent since the start of the war in Ukraine. In response, the authorities decided to re-introduce blanket fuel subsidies in February (reversing a decade-old reform), to mitigate passthrough to households.

4. **The 2021 current account deficit (CAD) came in at 8.8 percent of GDP, 1 ppt. tighter than envisaged in the third review.** Although intermediate, capital goods, and energy-related imports exceeded third review expectations, this was dominated in 2021 by the overperformance in private transfers, tourism receipts (still less than half of pre-COVID levels), and fertilizer-related commodity exports buoyed by global prices. Consistent with the lower CAD, but also due to retrenchment of commercial banks' net foreign assets (NFA) and large positive errors and omissions (potentially related to under-reported remittances), reserves reached 115 percent of the reserve adequacy metric (ARA) at end-2021. Staff's external balance assessment suggests that Jordan's external sector position is broadly in-line with the level implied by fundamentals and desirable policies (Annex II).

Tourist Arrivals and Hotel Demand
(Thousands)

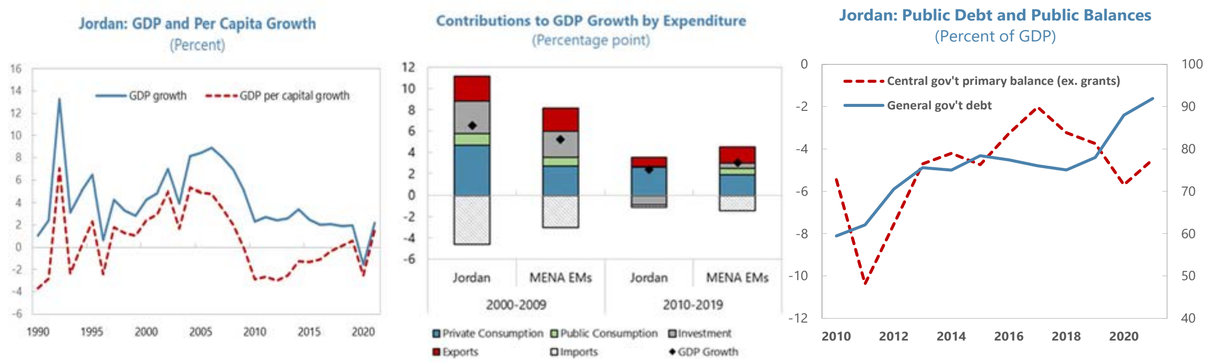


EMBIG Spread, Selected MENA Countries
(Basis points)



Sources: National authorities; Bloomberg; Our World in Data; and IMF staff calculations.

Growth, Fiscal and External Balances in a Decade of Regional Instability



Sources: National authorities and IMF staff calculations.

Program Performance

5. Considerable progress has been made since the March 2020 AIV/EFF approval, notwithstanding multiple challenges.

- Jordan entered the pandemic period having already faced multiple adverse external shocks over the previous decade, notably, the GFC, the disruption of Egyptian gas supplies in 2011, the closure of borders with Iraq and Syria, and the accompanying refugee crisis. Accordingly, FDI, exports, and growth had taken a major hit over 2011-19, and unemployment and public debt had increased significantly (to 19 percent, and 78 percent of GDP, respectively) by 2019. Education, health, water and infrastructure in general were under pressure due to the influx of Syrian refugees, who added about 15 percent to Jordan's population.

- The COVID-19 pandemic added significant headwinds to these pre-existing challenges. The program was recalibrated to provide space for critical spending to protect lives and livelihoods, and structural conditionality was rephased. This enabled the authorities to provide targeted economic support while maintaining overall fiscal and financial discipline. Importantly, they carried out important reforms, including delivering the long overdue adjustments in electricity tariffs to reduce cross-subsidization by businesses (delayed from the 2016 SBA); and legislative and administrative measures to broaden the tax base by closing loopholes and reducing evasion. This successful implementation appears to have reflected (i) the authorities' very strong program ownership and drive (reforms included in the program have been aligned closely with the authorities' own priorities, notably in the area of public finances); (ii) the careful design and sequencing of conditionality, including flexibility to reset conditions when capacity was affected by the spread of COVID-19; and (iii) the provision of adequate TA and ground support (Annex IV).

7. Key quantitative targets for this review have been met (MEFP Table 1). The primary deficit and combined public deficit QPCs, adjusted for unbudgeted COVID spending (0.5 percent of GDP) and grants overperformance (0.1 percent of GDP), were each met by a margin of ½ percent of GDP.

December 2021 QPCs on non-accumulation of external arrears and on NIR, as well as the ITs on SSC net financing, on public debt stock, and on NDA, were all met, and the floor on social spending was surpassed by 0.3 percent of GDP (IT). However, NEPCO, WAJ, and water distribution companies continued to accumulate arrears, and consequently related ITs were not met in December 2021 or in March 2022; all other March ITs were met.

8. **Strong progress on structural conditionality has continued under this review** (MEFP Table 2). The authorities have implemented two important reforms: rollout of new electricity tariffs for businesses and households (March 2022 SB met); and parliamentary approval of legislation to bring ASEZA's tax and customs functions within national systems (March 2022 SB implemented with delay). Earlier, the cabinet approved the amended Procurement Bylaw (December 2021 SB met). The draft law on Regulating the Investment Environment and Doing Business, which includes a chapter on investment that sets out a new regime on the governance of incentives, has not yet been submitted to parliament (May 2022 SB not met), but the process is under way and the law is expected to be tabled for discussion in the 2022 summer extraordinary session (***SB reformulated and reset to August 2022***). Recruitment for the new macro-fiscal unit (MFU) at MOF is almost complete, with two division heads and four staff hired; two remaining hires are expected over the summer (SB due Jan 2022, not met). The MFU has produced and shared with staff its first report on the macro-fiscal outlook and risks ahead of schedule (June 2022 SB met). In addition, the FCCL unit has gathered key financial and non-financial information on three major PPPs, and all new PPPs, and is expected to publish explicit fiscal costs and fiscal risks (as feasible under confidentiality limitations) on schedule (June 2022 SB).

Outlook and Risks

9. **Growth in 2022–24 is expected to be slower than envisioned at the third review.** GDP growth in 2022 is projected at 2.4 percent (down from 2.7 percent in the third review), reflecting Omicron-related restrictions in Q1, tighter monetary conditions and higher commodity prices, mitigated by offsetting effects of higher oil prices on remittances and tourism from GCC countries. Growth for 2023 and 2024 has been marked down to 2.7 percent and 3.0 percent, respectively (from 3.1 percent and 3.3 percent in the third review), as a challenging external environment is expected to weigh on the recovery beyond 2022. Medium-term growth is projected to remain unchanged at 3.3 percent, as the negative output gap closes, and structural reforms boost potential growth (see SIP). Higher commodity import prices will raise 2022 and 2023 inflation from 2.5 percent to 3.8 percent and 3.0 percent, respectively, before settling back at 2.5 percent in 2024. The CAD is expected to reach 6.7 percent of GDP in 2022, two percentage points higher than expected at the time of the third review, on account of the higher commodity prices, and despite the expected recovery in tourism and remittances. Given the sustained nature of the terms of trade shock, the CAD is now projected to settle at around 3½ percent of GDP in the medium-term, one percentage point higher level than in the third review. Public debt-to-GDP is projected to fall from 91.9 percent in 2021 to 91 percent in 2022, and then to 80 percent by 2027 (as discussed later a more gradual decline than in the third review, where the 80 percent target was projected to be reached in 2025).

10. Risks to the outlook stem from increased economic scarring from the pandemic and a more challenging external environment (Annex III, Risk Assessment Matrix). The impact of the pandemic on growth and unemployment—in the context of global economic headwinds,—and limited policy space—could be deeper and more lasting than expected, with attendant implications for socio-economic stability and reform momentum. Faster/larger-than-expected Fed interest rate hikes could weaken global growth and tighten global financial conditions, with knock-on effects on Jordan's risk premia and capital inflows. If the surge in commodity prices is larger/more permanent, including due to a prolonged war in Ukraine, it will add to external and fiscal pressures. Inflationary pressures from passthrough of higher commodity prices could produce a popular backlash, especially if the vulnerable are not adequately protected through targeted support. Climate change could exacerbate already-dire water scarcity, necessitating fiscal outlays exceeding the amounts envisaged in the baseline. Global and regional geopolitical tensions could undermine stability and vital economic ties. Upside risks include potentially higher grants from the U.S., additional remittances and support from oil-rich GCC countries, and a major pick-up in exports, notably electricity.

POLICY DICUSSIONS

Discussions focused on near-term policies under the program, and—in the context of the Article IV Consultation—on medium-term challenges and policy options. Given a still-fragile recovery and high unemployment, as well as the more difficult global landscape, the key questions centered around: (I) implications of the emerging conjuncture for the 2022 fiscal targets, and the medium-term fiscal strategy, including the case for a more phased consolidation path; (ii) the appropriate monetary policy response to Fed tightening, and measures needed to preserve financial stability; (iii) reforms in the electricity and water sectors, including to address water scarcity, Jordan's key climate adaptation challenge; (iv) structural reforms to boost potential growth, competitiveness, governance, and employment (especially via higher female labor participation) over the medium-term; and (v) the financing strategy—including a Fund augmentation/rephasing, alongside stepped-up donor support—to close the 2022–23 funding gap.

A. Fiscal Strategy: Entrenching the Recovery, Protecting the Vulnerable, While Safeguarding Debt Sustainability

11. The authorities' fiscal strategy, anchored by efforts to close tax loopholes and combat tax evasion, is bearing fruit. On the back of recently implemented legislative reforms aimed at broadening the tax base, as well as administrative efforts (notably ISTD's compliance campaign), domestic revenues overperformed 2021 projections by 0.5 percent of GDP, with tax revenues up 13 percent y-o-y. These efforts, together with contained non-priority current spending, created space for increased social spending (up by 0.6 percent of GDP relative to 2020) and a strong rebound in capital spending, both essential to supporting an inclusive recovery. The revenue momentum helped deliver a significant consolidation in the central government primary deficit (excluding grants) of 1.2 percent of GDP relative to 2020; public debt, nonetheless, continued to increase, reaching 91.9 percent of GDP at end-2021, underscoring the need for a gradual fiscal consolidation. Revenue momentum has continued into 2022Q1.

Near Term

12. **Measures to mitigate the impact of high commodity prices on households have created significant fiscal costs.** The temporary re-introduction of untargeted fuel subsidies through freezing prices at the pump for all oil derivatives from February to end-April has cost [0.5] percent of GDP. To protect public finances, the authorities have begun to phase out the subsidies starting in May; announcing as a ***Prior Action*** (i) a 6 piastre increase in the price of 95 octane gasoline for the month of June, and the full removal of the subsidy by end-August 2022; (ii) their commitment to remove fuel subsidies on all other oil derivatives by end-2022, while protecting the most vulnerable through targeted support. Moreover, a cabinet decision will be issued to contain (i) the 2022 fuel subsidy cost to JD 350 million, and (ii) the 2022 primary deficit (excluding grants) to 3.4 percent of GDP (***new proposed August 2022 SB***). In addition, while Jordan has relied on its large strategic wheat reserve to shield itself from the surge in global food prices, the wheat subsidy is expected to increase by 0.1 percent of GDP as these stocks are replenished later in the year. Lastly, social spending is expected to be JD 30 million (0.1 percent of GDP) higher than third review projections, given the elevated demand for NAF's programs.[1]

13. **The 3.4 percent of GDP primary deficit (excluding grants) target for 2022 set at the third review is still within reach.**[2] The target implies a notable (1.1 ppt.) y-o-y improvement in the primary balance (excluding grants). Higher spending on subsidies and social protection (by 1.2 percent of GDP compared to the third review) is expected to be offset by (i) stronger revenue performance by 0.25 percent of GDP; (ii) adjustment in the real estate registration tax, which will generate an additional 0.15 percent of GDP; (iii) a 0.2 percent of GDP claw back of overpaid transportation costs from oil marketing companies; and (iv) an expected deferral of 0.6 percent of GDP in non-priority spending, while still keeping capex at its 2021 percent of GDP level.

14. **The authorities are making progress toward critical fiscal structural reforms, despite some delays.** In January 2022, the Cabinet approved a major customs reform which simplifies and unifies the tariff system by reducing the number of tariff brackets from 16 MFN rates and 31 bound rates to just four (three after 2028); the reform is expected to reduce tax evasion and corruption, but also to lower customs revenue (by 0.3 percent of GDP) in the near-term due to a lower average tariff. Efforts to integrate digital and administrative systems to facilitate bringing ASEZA under the single tax and customs administrations are under way. Draft amendments to adopt GST

[1] Applications for the new NAF Unified Cash Transfer program exceeded 400,000 households, though eligibility was limited to 120,000.

[2] The 3.4 percent of GDP primary deficit (excluding grants) corresponds to the target set at the third review, after factoring in the (0.3 percent of GDP) COVID adjuster. Given the large Omicron wave, the COVID adjustor has been triggered, resulting in 0.15 percent of GDP space for additional health spending for the first half of the year. The adjustor is likely to be triggered in the second half of the year as well, given the current rate of vaccination, releasing another 0.15 percent of GDP space for health spending, and bringing the end-year primary deficit target (excluding grants) to 3.4 percent of GDP.

place-of-taxation rules are expected to be tabled for discussion in the 2022 extraordinary session (***new July 2022 SB***).

15. Fiscal risks bear close monitoring.

- The new MFU is assisting MOF in monitoring public balance sheet risks. The unit will prepare and publish a Fiscal Risk Statement with the 2023 budget, including a fiscal risk analysis of four major SOEs (see MEFP para 11).

- To further limit the incurrence of fiscal risks related to PPPs, the authorities are (i) continuing a campaign to adequately staff the Fiscal Commitments and Contingent Liabilities Unit (FCCL) at MOF; (ii) working toward launching the electronic version of the National Registry of Investment Projects (NRIP) by end-2022 in order to ensure proper selection and management of projects; and (iii) coordinating work between the Project Management Unit (PMU) at MOPIC and the PPP unit at MOF to gather information on all major planned PPP projects to incorporate in the NRIP. The authorities will include all new PIPs from the 2023 General Budget in NRIP. Continued coordination and information sharing between the FCCL, the PMU, and the PPP unit, is essential for fiscal risk management.

- Monitoring the financial performance of large public corporations and subnational governments is critical to containing risks. During the pandemic, contingent liabilities related to Royal Jordanian (RJ) airlines materialized (via the use of 'comfort letters'). While the return of tourism is expected to improve RJ's revenues, surging commodity prices may delay the return to a financial surplus and the government is considering a further capital injection of JD 70 million in 2022. GAM is also expected to continue running deficits, and the next phase of the rapid bus transit project will involve significant costs. Provision of government support to public enterprises or local governments should be measured and conditional on credible plans to increase operational efficiency.

Medium Term

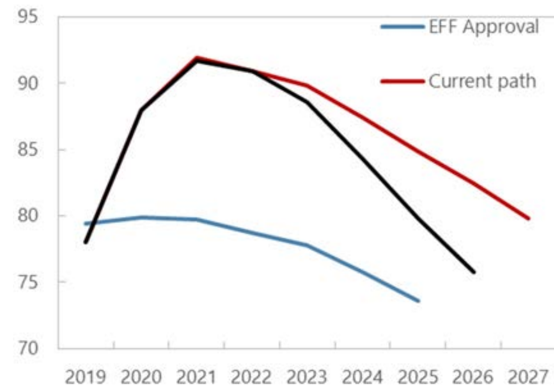
16. Given the challenging outlook, a more gradual medium-term fiscal consolidation path can help entrench the recovery. In light of the global economic headwinds, monetary tightening, residual economic slack (which, together with the peg, implies a high fiscal multiplier), and high unemployment, the rapid reduction of the central government primary balance (excl. grants) envisioned at the third review could impart a significant drag on growth. Accordingly, a revised pace of consolidation averaging 0.8 percent of GDP per year over the medium-term is proposed; this pace would imply reaching a zero primary balance by 2027. The revised targets will allow the authorities to better support the recovery, continue to strengthen social protection schemes, and advance growth-enhancing capital spending.

Central Government Primary Balance
(In percent of GDP, excl. grants)

	2021	2022	2023	2024	2025	2026	2027
Revised path	-4.5	-3.4	-2.7	-1.7	-0.9	-0.3	0.0
Third review	-4.7	-3.1	-1.1	0.4	1.1	1.1	---

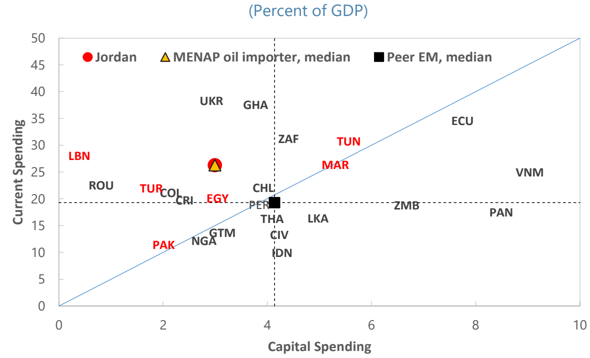
17. The proposed fiscal consolidation path safeguards debt sustainability. The new path of fiscal adjustment maintains debt on a firmly downward trajectory, with risks to debt sustainability remaining elevated but manageable given available buffers. Under the new path, general government debt would fall to below 80 percent of GDP by end-2027 and below 85 percent of GDP by end 2025. Risks are further mitigated by (i) overperformance of the Social Security Investment Fund (SSIF), which has ample balance sheet-space to take on more government debt over the medium term (see Annex I); (ii) the increased horizon for surpluses by the Social Security Corporation (see Annex I) and (ii) expectations of continued robust donor financing at favorable terms.

Public Debt
(Percent of GDP)



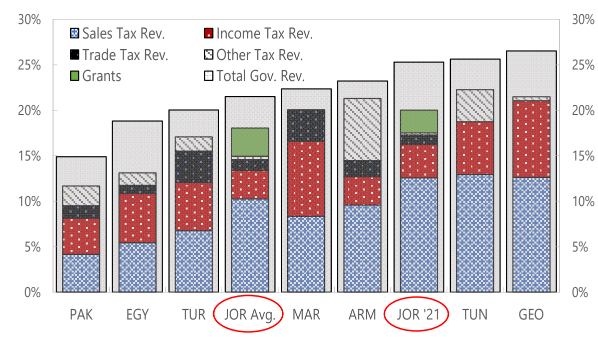
Source: National authorities and IMF staff calculations

Jordan and Peer Emerging Economies, 2019
(Percent of GDP)



Notes: MENAP Oil Importers include Egypt, Lebanon, Morocco, Pakistan, Tunisia, and Turkey.
Sources: Institute of International Finance; Haver Analytics; and IMF staff calculations.

Composition of Government Revenue
(Percent of GDP, 2010–19 Average)



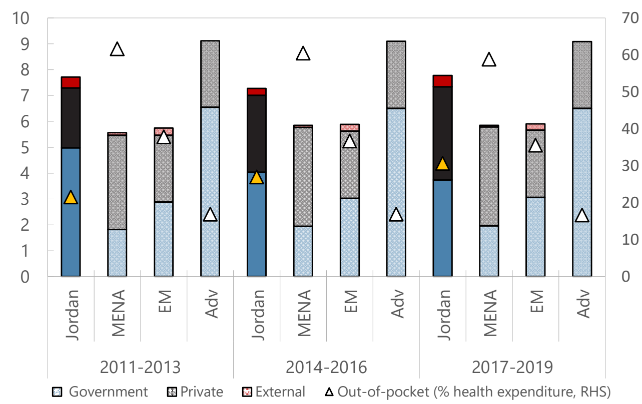
Notes: In Jordan, non-tax revenues on oil derivatives were reclassified as sales taxes in 2019.
Source: IMF World Revenue Longtitudinal Data (WoRLD).

18. To support the credibility of their fiscal program, the authorities have identified and committed to additional high-quality revenue and expenditure reforms to close the medium term fiscal gap. Reforms already implemented during the program period will support continued revenue momentum and, together with the unwind of COVID-related spending, will underpin a significant decline in deficits over the medium-term. Nonetheless, additional discretionary measures of 1.7 percent of GDP will be needed to meet the envisaged targets (see MEFP para. 11, and Annex V). In this regard, the authorities have identified a number of revenue and spending measures to be implemented in the context of the program:

- Given Jordan lagged several peers in tax revenue collection prior to the start of the program, revenue measures will continue to center around tax base broadening, including efforts to (i) broaden the income tax base by rationalizing tax incentives and improving tax compliance by the 'professionals and self-employed' sector; (ii) broaden the GST base via introducing place of taxation rules, rationalizing new GST incentives, and reduced smuggling following the recent customs reform; (iii) close key tax loopholes by implementing legislation bringing ASEZA within the national tax and customs systems. These reforms, to be implemented by leveraging the authorities' FAD-supported revenue mobilization plan, are expected to produce an additional 0.4 (1.2) percent of GDP in revenues by 2024 (2027). Introducing a digital track-and-trace system for alcohol companies (***new proposed June 2023 SB***), in addition to all cigarette companies, is expected to generate a further 0.1 percent of GDP in revenues by 2024.

- Expenditure measures will include efforts to (i) roll out e-procurement (JONEPS) to the Education and Health Ministries (December 2022 SB), and to the broader public sector, (ii) contain the growth of the public wage bill while enhancing public sector; and (iii) improve the efficiency of health care spending. Jordan has higher spending on health than MENA and EM peers, and lower out of pocket costs, which, in a context of relatively low insurance coverage, reflects the high (and poorly targeted) use of exemptions for the uninsured (see Annex V). The reduction in current spending resulting from these reforms could also help Jordan recalibrate its expenditure composition toward growth-enhancing investment, in line with fast-growing EMs.

Composition of Health Spending
(Percent of GDP)



Source: World Bank HealthStats and IMF staff calculations

If these reforms prove to be insufficient to deliver the envisioned path of consolidation, the authorities are committed to implementing additional reforms as needed. In this context, the authorities will seek FAD support to explore the potential for enhancing the framework for capital

Expected Sources of Medium-Term Fiscal Consolidation
(Estimated yield, in percent of GDP)

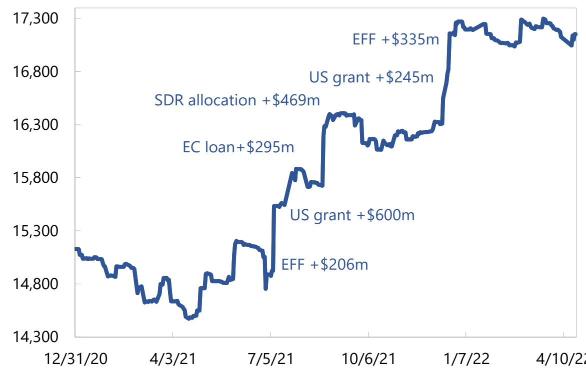
	Cumulative Yield		
	2023	2024	2027
Required discretionary effort to close the fiscal gap (cumulative)	**0.2**	**0.6**	**1.7**
Total expected yield from envisioned reforms (cumulative)	**0.2**	**0.6**	**1.7**
Revenue reforms	**0.2**	**0.4**	**1.2**
Broaden income tax base by rationalizing new CIT incentives (new investment law expected to be passed by August 2022); and improving compliance for large tax payers and free professionals (starting 2023)	0.1	0.1	0.4
Broaden GST base by introducing place of taxation rules (expected to be passed by August 2022); rationalizing new GST incentives (new investment law, see above); and recent customs reform to reduce avenues/incentives for smuggling	0.1	0.1	0.4
Close tax loopholes by bringing ASEZA tax and customs functions within national systems (law passed May 2022)	0.0	0.1	0.3
Introduce digital track-and-trace system (for all cigarette companies by end-2022; and for alcohol by end-2023)	0.0	0.1	0.1
Expenditure reforms	**0.0**	**0.2**	**0.5**
Further contain public wage bill growth to below nominal GDP growth from 2023	0.0	0.1	0.2
Roll out JONEPS (e-procurement) in health and education ministries (starting 2023); to broader central and general government entities (starting 2024)	0.0	0.1	0.2
Improved efficiencies/reduced exemptions in the provision of health insurance	0.0	0.0	0.1
Potential additional reforms (cumulative, subject to FAD technical assistance)			0.5

income taxation, improving property tax assessment and collection practices, and optimizing tax incentives based on the results of the upcoming tax expenditure analysis.

B. Ensuring Monetary Stability and Financial Sector Resilience

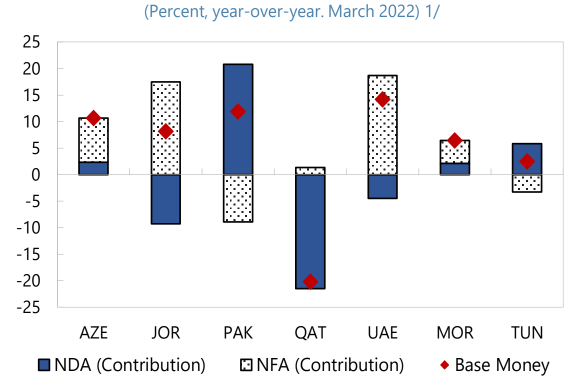
19. The CBJ has successfully preserved financial stability through the pandemic, including by maintaining robust international reserve buffers. Confidence in the financial system remains strong: deposit dollarization reached its lowest level of 19 percent in recent years as of 2021,[3] reflecting robust JD deposit growth and official inflows (including the $469 million SDR allocation), and a significant retrenchment of banks' net foreign assets (NFA) driven by a rise in non-resident deposits. Accordingly, this allowed the CBJ to be a net foreign exchange (FX) buyer in 2021.[4] Consistent with these developments, the December 2021 and March 2022 QPCs on NIR were met by comfortable margins. The revised NIR path for 2022–23 reflects both the higher-than-expected stock of NIR to date, but also larger current account deficits, while continuing to ensure reserves above 100 percent of the Fund's Assessment of Reserve Adequacy (ARA) metric (the authorities' operational benchmark for reserve adequacy). The ITs on net domestic assets (NDA) of the CBJ for December 2021 and March 2022 were also comfortably met, reflecting the gradual unwinding in 2021 by CBJ of its elevated reverse repo position built up in 2020 at the height of the pandemic. Meanwhile, private sector credit growth slowed, but to a still-healthy level of around 5 percent y-o-y in 2021 and 5.7 percent y-o-y in March 2022.

FX Reserves
(USD millions)



Sources: National authorities and IMF staff calculations.

Base Money Growth & Contributions from NFA and NDA
(Percent, year-over-year. March 2022) 1/



Sources: IMF Integrated Monetary Database and IMF staff calculations.
1/Jordan and UAE data are for Feb 2022.

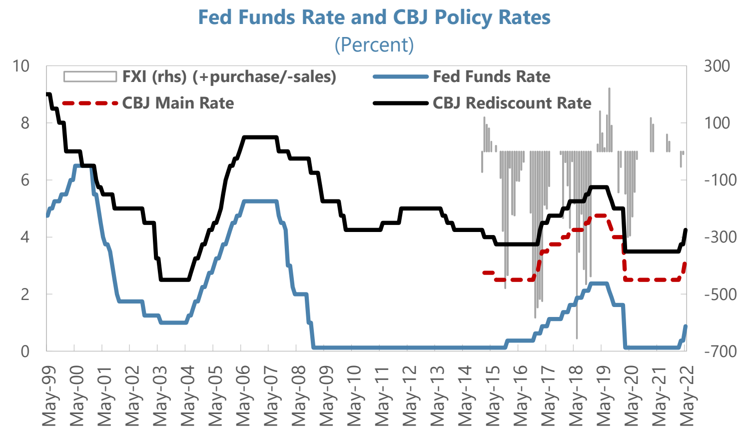
Near Term

20. Monetary policy will be focused on protecting the hard peg to the U.S. dollar.

- Jordan's peg to the U.S. dollar, backed by adequate international reserves, has served as an effective anchor for macroeconomic stability through a series of adverse exogenous shocks. The CBJ generally responded 1-to-1 to Fed rate hikes during 2004–06 and 2015–19, with only small

[3] A slight uptick to 19.4 percent has been observed as of Q1 2022.

[4] However, demand for FX has risen in the context of the war in Ukraine and start of Fed tightening, and the CBJ sold USD$262 million in the FX market in March–May 2022.



and temporary deviations along the path. Consistent with that, the CBJ matched the 25 and 50 bps increases in Fed interest rates in March and May 2022, respectively; interest rates on all CBJ monetary policy instruments were raised, except the two subsidized lending schemes (see below). To credibly protect the peg, it would be important that the CBJ continues to undertake the necessary monetary policy adjustments in response to Fed actions. Operationally, this will imply continuously maintaining adequate reserve buffers—defined by the CBJ as above 100 percent of the Fund's ARA metric.

- CBJ's responses should remain data-driven at all times. In particular, the CBJ will need to remain alert to sudden BoP pressures, e.g., in the event of a sharper/faster-than-expected U.S. monetary tightening, and be ready to adjust policy rates (or other tools) sufficiently to maintain confidence in the peg.

21. The CBJ's subsidized lending schemes have provided helpful support to businesses thus far, but should be unwound as the recovery gets entrenched. In March 2022, to mitigate the impact of Ukraine war on commodity imports, the CBJ lifted the borrowing limits under the JD 700 million SME scheme for firms who import basic commodities (e.g., wheat, sugar, oil) (MEFP¶17). In addition, in light of the still-nascent recovery, high unemployment, and the central role SMEs play in job creation, the CBJ has extended the scheme from June to September 2022.[5] However, demand for this scheme started to decrease in 2021Q2, and has continued to fall with the full reopening of all economic sectors this year. The duration of the other subsidized lending scheme of JD 1.3 billion, introduced in 2012 to support vital economic sectors, has also been extended by a year to March 2023. Going forward, these schemes should become more targeted and be phased out as the recovery gains momentum. To this end, the authorities have indicated their intention to unwind the SME scheme as the recovery consolidates, and no later than 2023, and to review the interest rate on the JD 1.3 billion scheme over the medium-term in light of CBJ's monetary policy stance and evolving economic conditions.

22. The banking system has remained healthy, but asset quality bears close monitoring. The banking system's capital adequacy ratio remained strong at 18 percent in 2021, well above the regulatory minimum of 12 percent. The CBJ has also maintained stringent provisioning standards, in line with the IFRS9's forward-looking expected loss approach. Bank profits have recovered back to their pre-pandemic level, as most of the provisioning had already taken place in 2020. NPLs have

[5] This SME scheme has been accessed by 5,914 companies by April 2022.

slightly decreased to 5 percent given write-offs concentrated in some banks. However, given the debt deferment period for affected borrowers expired in 2021, it will likely take time for the asset quality effects of the pandemic to fully manifest. Accordingly, there is a need for continued close monitoring of banks' asset quality, and sustained application of prudent accounting, reporting, and provisioning standards. Should downside risks materialize, the CBJ should ensure that banks swiftly resolve NPLs, while requiring weaker banks to prepare timely and feasible capital restoration plans.

Bank Soundness Indicators

	2019	2020	2021
Risk-weighted capital adequacy ratio	18.3	18.3	18.0
NPLs (In percent of total loans)	5.0	5.5	5.0
Provisions (In percent of classified loans)	69.5	71.5	79.9
Liquidity ratio	134.1	136.5	141.5
Return on assets	1.2	0.6	1.0
Loans to deposits ratio	81.6	84.5	85.4

Source: Central Bank of Jordan.

23. The CBJ has continued to work on strengthening its prudential supervision of the financial sector (MEFP¶20-¶21). In June 2021, the supervisory responsibilities in respect of the insurance sector were transferred to the CBJ. In this context, the CBJ will develop of a risk-based solvency regime to ensure the safety and soundness of the insurance sector in line with international best practices **(*new SB for June 2023*).**[6] The authorities also plan to improve effectiveness and efficiency of onsite inspection operations and procedures through implementing an Inspection Management System (IMS).[7]

Medium Term

24. The monetary transmission mechanism can be further strengthened. Since 2000, the CBJ successfully kept the interbank rate within the interest rate corridor (IRC), i.e., between the overnight deposit window rate (floor) and the overnight repo rate (ceiling).[8] In the presence of large excess reserves, the effective policy rate (the one driving short-term market rates) has become the deposit facility rate. Staff recommends offering 7-day absorption instruments at the policy rate with full allotment. This would ensure the absorption of all excess reserves that banks do not wish to keep for precautionary reasons, and strengthen the role of the policy rate, with attendant benefits for monetary transmission.

25. Enhancing the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) is a priority (MEFP¶22). Notwithstanding the enactment of a new AML/CFT law in September 2021, Jordan was placed on the Financial Action Task Force (FATF)'s watch list in October 2021 (consistent with the results of the 2019 mutual evaluation). Since then, the authorities

[6] While the insurance sector remains small (their assets are 3.3 percent of GDP as of 2020), they can assist in deepening domestic capital markets.

[7] The IMS will cover four sectors: (i) banking supervision; (ii) financial consumer protection; (iii) payments systems; and (iv) money exchange.

[8] The IRC has been in place since 2000 but in May 2007, the CBJ replaced the seven-day repo facility with an overnight facility as the ceiling to ensure symmetry with the overnight deposit window.

have made good progress and have completed the assessment to identify non-profit organizations that are vulnerable to terrorist financing abuse; and have also addressed AML/CFT deficiencies such that Jordan would no longer qualify for referral to the FATF's ICRG process on the basis of its technical compliance ratings (SB for June 2022). Furthermore, the authorities have committed to an action plan for resolving the identified strategic deficiencies to facilitate exit the watch list by October 2023 (SB for October 2023).

26. The ongoing joint IMF/WB FSAP will help identify financial sector vulnerabilities and measures to address them. It will take stock of progress made on the 2008 FSAP recommendations, and assess: key vulnerabilities and risks to the financial system as the economy recovers from the pandemic; resilience of the banking system to shocks; and how best the financial sector can align with the priorities of the real economy. Separately, the authorities are leveraging Fund TA in policy modeling, central bank digital currency, risk-based banking supervision, and requested TA on forecasting excess reserves and strengthening monetary and BoP statistics (MEFP ¶25–26. In this context, the CBJ will implement an FDI survey to improve the BoP statistics ***(new SB for October 2022)*** which will help to better understand the composition of capital flows and reduce errors and omissions.

C. Reforming the Electricity and Water Sectors

Electricity Sector Reforms

27. A new electricity tariff system has been implemented reducing cross subsidization. The reform, designed to be revenue-neutral for NEPCO, reduces electricity tariffs for key business sectors and reforms the household tariff system in a progressive manner. Around 1.1 million households (or 90 percent of total eligible households) have applied for subsidies through the online platform launched this January. Transitional subsidies for six months will be provided to the 32,000 most vulnerable Syrian refugee households identified by the UNHCR; donor assistance will be needed beyond this period to continue electricity subsidies for refugees.[9]

28. NEPCO's financial position remains difficult despite a markdown in the loss expected for 2022. NEPCO's losses were contained at around ½ percent of GDP in 2021, including due to robust electricity consumption. Projected consumption for 2022 is being marked-up by 2.7 percent relative to the third review, aided also by the new lower electricity tariffs for businesses. Moreover, NEPCO's long-term supply contracts for natural gas and relatively high renewable power capacity are expected to largely shield it from the surge in global fuel prices in the near-term. Accordingly, NEPCO's deficit is projected to decline to 0.3 percent of GDP in 2022, due to stronger electricity consumption, and unanticipated delays in the Attarat oil shale project. However, NEPCO's stock of arrears stood at JD 100 million by end-March 2022 (December and March ITs not met), and looking

[9] Staff estimates it will cost JD 5.8 million per year to subsidize the 32,000 most vulnerable refugee households identified by the UNHCR, and it will cost between 17 to 19 million JD per year to subsidize all refugee households outside of camps that are classified as vulnerable or highly vulnerable.

ahead, NEPCO's financial losses are expected to increase to 0.7 percent of GDP in 2023, before falling to 0.4 percent over the medium term.

29. **Restoring NEPCO's financial viability requires continued reforms.** The Financial Sustainability Roadmap for the electricity sector, being developed in consultation with international partners, will lay out measures to improve NEPCO's operating balance. Revenue-enhancing measures include introducing Time of Use tariffs, installing meters for all houses connected to the grid, and increasing exports to neighboring countries. If global energy prices and the cost of electricity generation rise materially above staff's baseline, consideration would also need to be given to adjusting electricity tariffs toward cost recovery levels to protect NEPCO finances. Cost-reducing measures include reducing the costs of LNG storage and regasification, improving electricity storage, and optimizing costs related to PPA commitments. Governance reforms, supported by EBRD, to strengthen accountability will also help to improve NEPCO's operational efficiency.

Water Sector Reforms

30. **The financial position of WAJ and water distribution companies remains challenging.** Jordan is one of the most water scarce countries in the world, and making water available and affordable gives rise to combined losses of 1.2 percent of GDP in the water sector, in line with program expectations. Despite regular transfers from MOF, WAJ and distribution companies have continued to incur arrears in 2021—the total stock of arrears of WAJ and the water sector were JD 90 million and JD 152 million at March 2022 (December and March ITs not met). The water sector's deficit is expected to decline slightly to 1 percent of GDP in 2022 as bill collections improve.

31. **The authorities are taking measures to address water scarcity and improve the financial sustainability of the water sector.** Available water is projected not to suffice to cover Jordan's future needs. In view of this, a Financial Sustainability Roadmap for the water sector—prepared with international partner assistance – is expected to be adopted by August 2022, and will encompass:

- **Aqaba-Amman Conveyance (AAC) project.** This will be one of the largest public projects in Jordan, aiming to desalinize and transport water from the port of Aqaba to Aman's main metropolitan area. As agreed in the third review, the authorities are de facto subjecting the ~US$2.5 billion PPP project to the requirements of the new PPP law, notably, a robust FCCL analysis, transparent RFP process, and open bidding. RFPs were issued to five pre-qualified consortiums in February 2022, and a donor conference in March yielded pledges of US$1.8 billion for the project. Fiscal costs during the build stage are assumed to be US$70 million annually over 2023-2027 in staff's baseline, but long-term fiscal risks are sizable, as the government is guaranteeing service payments of at least 1 percent of GDP annually for 21 years from 2028, the year the project is expected to come online (see Appendix VI for projections of AAC's long-term fiscal implications).

- **Non-revenue water (NRW) reduction.** A National NRW Strategy will be adopted by September 2022 to reduce non-revenue water from the current level of 50 percent of total water supplied to 40 percent and 25 percent by 2030 and 2040, respectively. An investment plan of

US$1.8 billion under a PPP structure, supported by donor grants and concessional loans, will be implemented over 2023–40 to achieve this target. The direct costs incurred by WAJ, estimated at US$70 million annually over this period, are now included in staff's baseline.

- **Other measures.** The authorities are also exploring other reform areas to conserve water and reduce the sector's deficits, including agricultural water allocation and licensing, electricity use efficiency, wastewater treatment and reuse options, the tariff structure, and debt optimization.

D. Structural Reforms to Strengthen Employment, Investment, and Governance

32. Addressing impediments to female participation and youth employment and reducing labor market segmentation are critical for enhancing inclusive growth. Despite closing gender gaps in health and education, Jordan has one of the lowest female labor force participation rates in the world (see chart below, and Annex IV). To support female labor force participation, the government has issued revised instructions to businesses on childcare provision for female employees and completed the Amman BRT project to provide safe and affordable transport to women (MEFP ¶12). The government has launched a National Employment Program to support 60,000 new private sector jobs for the youth. The streamlining of work permits for Syrian refugees—allowing them to work across sectors open to non-Jordanians without being tied to a specific employer—is supporting formality and productivity. But further action is needed in these areas:

(i) Increasing female labor force participation and enhancing gender equality:

- **Supporting a safe workplace environment.** Enacting the necessary amendments to the Labor law would enhance protection for women in relation to harassment and violence in the workplace. The proposed amended law also removes restrictions on female employment in certain professions and industries. The authorities will table these amendments for discussion in parliament (***new proposed SB for November 2022***).

- **Supporting financial incentives for women to work in the formal sector including equal pay and social security benefits.** Women on average receive 17 percent less wages than men for the same work, suggesting the need for better enforcement of anti-discrimination laws on pay. Survivor benefits differ between female and male-led households, with husbands ineligible for benefits unless they have disabilities. The Social Security Corporation (SSC) is considering options to close this gap.

- **Supporting women in leadership roles.** While women make up an equal share of the public sector workforce, they are notably under-represented in decision and policy making roles. The government is working to improve the representation of women on the boards of SOEs.

(ii) Addressing labor market segmentation:

- **Ensuring that policies are in line with an efficient and competitive labor market**. The government is conducting a comprehensive review of labor legislation and will expand the work to include an assessment of policies affecting labor-market costs and segmentation (including benchmarking to peers). The review will be shared with Fund staff by end-November 2022 and provide the basis for policy recommendations on how to tackle segmentation, enhance firms' capacity to hire the most productive workers, and reduce the cost to employers of job creation.

- **Supporting productivity and efficiency of the civil service** requires (i) leveraging the Public Sector Modernization plan (which will tie remuneration more closely to performance); and (ii) addressing the findings of the Government-commissioned public wage bill study in 2021 by aligning remuneration with that of market comparators to address the wage premium for new low-skilled entrants, while providing incentives to attract and retain talent, including at more senior levels.

- **Phasing out exceptional measures in the labor market in response to COVID-19.** The government has reintroduced some flexibility in the labor market by issuing circular 56, which narrowed employees protected by Defense Order 6 (which prohibited employers from terminating the contracts of workers) to only those hired before the Order went into effect in 2020. With the economy fully reopened, the authorities should aim to phase out these Defense Orders and related measures that disadvantage new entrants vis-à-vis established workers, inhibiting labor market dynamism.

(iii) Reducing youth unemployment:

- **Streamlining and enhancing technical and vocational education and training (TVET)** can help address skill mismatches in the job market and support higher preparedness for new entrants. The government is working on legislation that will bring existing initiatives under a single umbrella, as well as on a strategy to transition the beneficiaries of the program into the labor market.

- **Reducing the cost of hiring youth.** The authorities see scope to reduce the social security contributions rate (21.25 percent) for workers under the age of 30 for a specified number of years in exchange for lower retirement benefits (so will not adversely affect the financial sustainability of the SSC. Moreover, the aforementioned comprehensive review of labor market legislations will assess options to reduce the cost of hiring youth, leveraging international experience.

33. The authorities are also undertaking reforms to enable the private sector to enhance its contribution to the economy. Recent reforms to customs and electricity tariffs will meaningfully reduce costs for businesses. The streamlining of licenses is ongoing with some progress in the tourism sector, but much remains to be done to make starting a business less onerous. (MEFP ¶34). The authorities are also submitting a new omnibus law for *Regulating the Business Environment*, which aims to modernize and streamline the regulatory framework. As part of that, they are submitting legislation to strengthen the competition framework (June 2022 SB proposed to be rescheduled for August 2022) and are conducting market analysis to identify sectors that demonstrate signs of unfair practices. They are also working to further improve insolvency legislation to facilitate the implementation of the 2019 insolvency law.

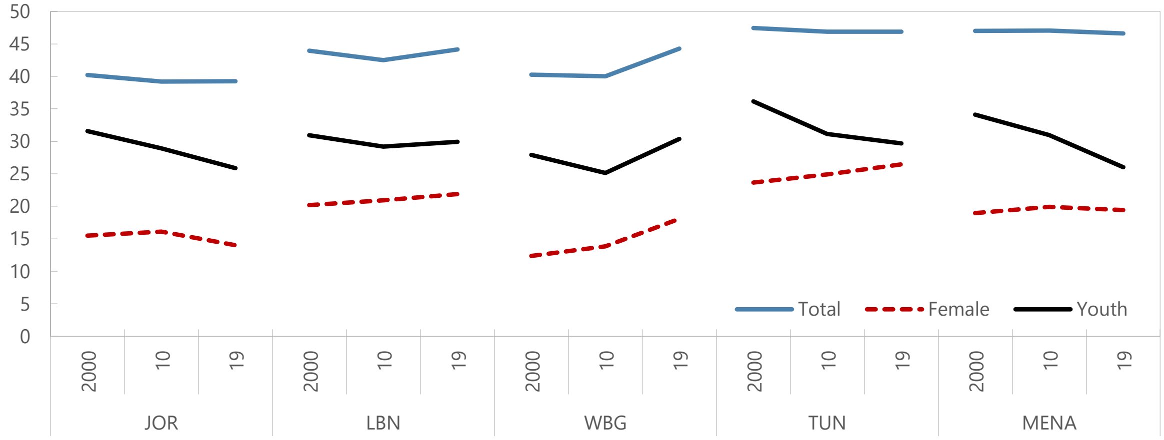
34. Recent progress on governance reforms should be entrenched. The authorities have been transparent in reporting COVID-related spending, by (i) continuously publishing details of contracts and beneficial ownership of entities on the MOF website; and (ii) undertaking and publishing ex-post audits of all COVID-related spending. Additionally, the government is working on strengthening the capacity of the Integrity and Anti-Corruption Commission (JIACC), including on implementing the amended the Illicit Gains Law and the 2022 amendments to the JIACC law. The authorities are working to extend the responsibilities of JIACC through new legislations that would allow it to also cover illicit gains through public procurement. Consideration could be given in this regard to extending beneficial ownership reporting requirements to all public procurements, leveraging the experience with COVID spending. It is important that JIACC be adequately resourced, and have flexibility to hire staff with needed competencies, to be able to fulfil its expanded mandate.

35. Unlocking Jordan's growth potential will require promoting high-return investments, strengthening export competitiveness, and enhancing productivity.[10] Staff's analysis of the drivers of economic growth in Jordan revealed that, as capital accumulation, exports, and imports declined sharply after the GFC, in the context of elevated regional instability, the complexity of the Jordanian economy also declined, TFP growth dropped drastically, and labor productivity stagnated (see SIP). In light of these results, staff discussed the scope to attract financing for digital infrastructure and climate adaptation; further reducing electricity costs and tax administration burdens for businesses; and improving firm dynamism and innovation. Tourism remains a key service export with significant complementarities and growth enhancing spillovers to other sectors (SIP). Promotion of new areas such faith-based and wellness tourism as well as medical tourism is welcome, but more can be done to expand access to new source markets (such as Asia and Sub-Saharan Africa) and prolonging duration of stay.

[10] In early June 2022, the government announced Jordan's Economic Modernization Vision, which aims to materially enhance—over a 10-year period—growth and quality of life by creating one million new jobs; improving Jordan's ranking on global competitiveness, environment, prosperity and sustainability indices; and expanding into high value-added service and industrial sectors. The authorities estimate the investment needed to realize the Vision at JD40 billion, 70 percent of which is expected to come from the private sector, and the rest from the public sector, with donor support. See more details in Selected Issues Paper on economic growth.

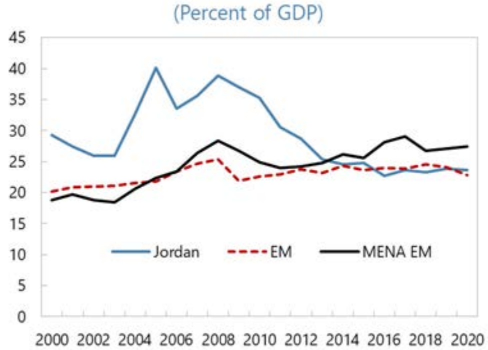
Labor Participation Rates, Investment Trends, and Growth Impact of Tourism

Labor Force Participation Rates by Country
(Percent of total population)

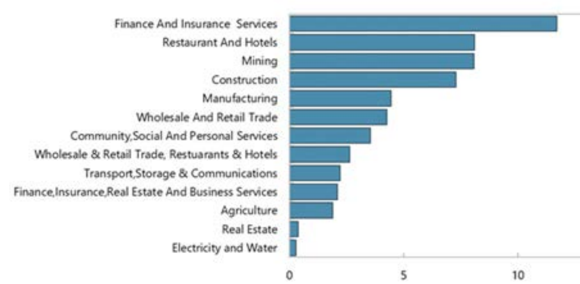


Source: International Labour Organization, and IMF staff calculations.

Investment
(Percent of GDP)



Tourism Sectoral Linkages
(3-year cumulative decline in ouput following a negative 1 percent tourism-to GDP shock)



Sources: Redl, Xin and Bi, International Labor Organization, and IMF staff calculations.

PROGRAM FINANCING AND SAFEGUARDS

36. The oil price surge, together with slower fiscal consolidation in 2023, has driven a US$2 billion widening in the CAD (excluding grants) for 2022-23 (combined) relative to the third review, warranting a recalibration of the financing strategy. The authorities have drawn the SDR allocation, and are using it for budget financing in lieu of higher domestic debt issuance (thus also boosting reserves). The additional CAD is roughly evenly split between 2022 and 2023, and is met from different sources (text table).[11] Overall, financing assurances are in place for the 12 months ahead, with good prospects thereafter:

[11] In light of recent data, staff has revised its projection of private capital inflows and non-resident bank deposits up by about US$400 million over 2022-23 relative to the third review, which leaves a US$1.6 billion CAD to be filled from other sources.

- **Development partner support.** Public grants will be about US$1.5 billion (about US$180 million higher in 2022–23 than in the third review, mainly to account for the somewhat larger package under the new U.S. Memorandum of Understanding (MOU) (from 2023). Similarly, public sector loans and program financing are together about US$300 million higher than in the third review, capturing new expected disbursements from the World Bank. At the same time, the authorities [have] approached GCC creditors to convert their deposits at the CBJ (in the amount of US$1,166 million) into long-term loans (which would reduce 2023 deposit amortizations by the amount converted).

- **Eurobonds.** In light of the sharp rise in sovereign yields since February 2022, the authorities are now considering issuing US$1 billion (rather than US$1.5 billion) in Eurobonds in 2022; with the residual issuance in 2023[12].

- **FX reserves.** Jordan's higher than expected reserve position at the end of 2021 enables the use of reserve buffers to the tune of about US$1 billion, mostly in 2022, while still maintaining reserve levels around 100 percent of the ARA metric over 2022-23. Given higher financing needs and tighter global conditions, reserve levels fall to around 90 percent of the ARA metric in the outer years of the projection period, which still equates to about seven months of imports Staff's baseline does not include U.S. Congress top-ups to the MOU (these have averaged US$300 million in recent years); the potential conversion of US1,166 million GCC deposits at the CBJ into concessional loans (discussions on which are underway); and potentially higher WB disbursements (to the tune of US$600 million in 2023–24, under discussion). Materialization of these additional sources should support reserve levels over the medium term.

Current Account Deficit and Sources of Financing, 2022-23

(In millions of USD)

	2022			2023			2022-23		
	3rd Rev	Proj.	Change	3rd Rev	Proj.	Change	3rd Rev	Proj.	Change
Current account deficit (excl. grants)	3,816	4,778	962	3,010	3,992	982	6,826	8,770	1,944
Sources financing the CA deficit	3,816	4,778	962	3,010	3,992	982	6,826	8,770	1,944
Private sector inflows (net)	1,286	1,261	-25	1,946	2,176	230	3,232	3,437	205
Banks' non-resident deposits (net)	-500	-300	200	-300	-300	0	-800	-600	200
Use of reserves	-685	356	1,041	91	22	-69	-594	378	972
Public grants	1,593	1,546	-47	1,350	1,576	226	2,943	3,122	179
Public sector financing (net)	561	26	-535	-1,064	-681	383	-503	-655	-152
Eurobond (net)	500	0	-500	0	500	500	500	500	0
Amortization	-1,000	-1,000	0	0	0	0	-1,000	-1,000	0
Issuance	1,500	1,000	-500	0	500	500	1,500	1,500	0
Public sector loans	111	66	-45	103	-25	-128	214	41	-173
GCC deposits	0	0	0	-1,167	-1,167	0	-1,167	-1,167	0
Other (residual)	-50	-40	10	0	11	11	-50	-29	21
Program financing (excluding IMF)	1,190	1,364	174	933	1,239	306	2,123	2,603	480
IMF financing (net)	371	525	154	54	-40	-94	425	485	60

Source: IMF staff calculations.

[12] To this end, on June 8, the authorities issued a 5½ year Eurobond of US$650 million at a fixed coupon rate of 7.75 percent.

- **Augmentation under the EFF.** Staff proposes an augmentation of access by SDR 75.482 million (about US$105 million or 22 percent of quota), and rephasing of a share of the disbursements scheduled for 2023 into 2022 (Table 5) to be made available at the time of the fifth review., as well as rephasing of a share of the disbursements scheduled for 2023 into 2024 to be made available at the time of the eighth and last review. The augmentation will bring access under the EFF to SDR 1,145.954 million or 334 percent of quota. Cumulative access will peak just below 435 percent of quota in 2023Q3, and annual access will peak at 115 percent of quota in 2022Q4. Purchases in 2022-23 will be on-lent to the government and used for budget support, as part of the Balance of Payments needs that arise for external debt service payments.

37. Capacity to repay the Fund remains adequate. Despite the COVID-19-induced deterioration in indicators of Fund credit, they remain below the peak values under past Fund supported programs (see Table 6). While debt sustainability risks remain, development partners' ongoing commitment to Jordan and continued market access constitute important safeguards.

38. Safeguards assessment. The CBJ has implemented all the 2020 safeguards recommendations, except the one related to enhancement of financial statements disclosures that is expected to be addressed as part of FY2022 audit.

39. Risks to the program. As noted earlier, further increases in commodity prices and interest rates (beyond what is envisaged in staff's baseline) could suppress growth, raise inflation, and put pressure on fiscal and external deficits. Staff's analysis of potential downside scenarios suggests that the implications for the program would be manageable, given mitigating factors. The pass-through of higher energy prices to the current account is mitigated somewhat by the share of natural gas imports in the energy mix (17 percent), which are under longer-term price contracts. Higher international food prices would affect domestic prices with a lag, and their impact on external and fiscal accounts is expected to be relatively limited in the near-term, due to: (a) the current large wheat reserve which gives the authorities the ability to delay/optimize purchases; (b) the relatively low level of *net* food imports (2 percent of GDP) ; and (c) Jordan's potash and fertilizer exports, which generally co-move with food prices, and would rise in such a scenario. A more rapid pace of interest rate increases could weaken private capital flows somewhat, but inflows from the region could mitigate this; the implications for debt sustainability should also be manageable, given already conservative assumptions regarding the level and trajectory of borrowing costs in staff's baseline, and Jordan's high reliance on grants and concessional financing. Still, if the global headwinds turn out to be much stronger than staff's baseline, the authorities will need to consider additional measures, both to support reserves, and protect public finances. Implementation risks remain mitigated by the authorities' continued program ownership.

STAFF APPRAISAL

40. A recovery is underway, thanks to post-pandemic reopening and to the authorities' timely and proportionate policy responses. The authorities' swift and decisive policy actions mitigated the effects of the pandemic on the economy and supported the ongoing recovery, which, in the context of a full reopening, is expected to bring GDP growth to around 2.4 percent in 2022. The rebound in tourism and robust exports will also help narrow the current account deficit, albeit at a slower pace, due to the commodity price surge. However, unemployment persists at very high levels, particularly among the youth.

41. Program performance has been strong, with all key quantitative targets met and firm implementation of structural reforms. All QPCs and most ITs have been met, and implementation of structural reforms remains strong, as the authorities continue to demonstrate ownership of the program. Domestic revenue collection has been robust, exceeding 2021 targets by 0.5 percent of GDP, anchored in an institutional effort to tackle tax evasion and improve tax compliance. The recent passage of legislation unifying the tax and customs administrations in ASEZA under the national systems has delivered an important longstanding reform. New electricity tariffs were rolled out in early-April, which will boost Jordan's competitiveness by lowering costs for businesses.

42. However, Jordan's economy faces headwinds from high fuel and food prices due to the war in Ukraine, and from ongoing tightening of global financial conditions. Jordan's long-term stable-price gas import contracts for electricity generation and adequate wheat reserves provide important near-term buffers. However, as an oil and food importer, Jordan is expected to eventually experience the cost-push inflationary shock. Further, Fed interest rate hikes will weigh on demand, both via the CBJ's response to defend the peg, and the knock-on effects of tighter global financial conditions on EM risk premia and capital flows.

43. Given limited fiscal space, blanket fuel subsidies should be phased out in favor of targeted support for the vulnerable, and efforts should continue on maintaining the revenue mobilization momentum. Fuel subsidies are fiscally costly and highly regressive and should be phased out and replaced with well-targeted transfers, leveraging Jordan's well-established and quite efficient social safety net. Capping fuel subsidies at JD 350 million in 2022, coupled with continued strong revenue collection and some reprioritization of spending, will be essential to delivering the 3.4 percent of GDP primary deficit target, and reduce debt from high levels. Going forward, returning durably and fully to the market-based pricing formula for fuel derivatives, while protecting the vulnerable through targeted support, will be essential to preserving the credibility of the program's fiscal strategy.

44. Given the challenging circumstances, a more gradual medium-term path of fiscal consolidation is appropriate to support the recovery and protect the vulnerable. In light of global headwinds, the tightening in monetary policy, and the very high unemployment, a slower fiscal consolidation is necessary to entrench the recovery and avoid scarring and social unrest. With continued robust donor support, the new path of fiscal adjustment would still bring debt below 80 percent of GDP by 2027 (only two years later than expected at the third review), anchoring debt sustainability. The authorities have identified and are firmly committed to adopt and implement new revenue and expenditure measures required to deliver this fiscal consolidation path.

45. Monetary policy should remain data-driven, while safeguarding the peg and financial stability. To ensure the peg is credible, the CBJ must continuously maintain adequate reserve buffers, and be seen as committed to preempt any major BoP outflows. In addition, there is a need for continued close monitoring of banks' asset quality, and sustained application of prudent accounting, reporting, and provisioning standards.

46. Reforms in the water and electricity sectors are critical for tackling the economy's structural issues and preserving the financial sustainability of the public sector. The financial position of water and electricity sectors remains challenging, and reforms are needed to durably reduce deficits and arrears. In this context, the long-awaited completion of the financial sustainability roadmaps in both sectors is crucial. Financial reforms will also create room for new projects to address Jordan's structural water shortage and for a further lowering of electricity tariffs for businesses to boost competitiveness.

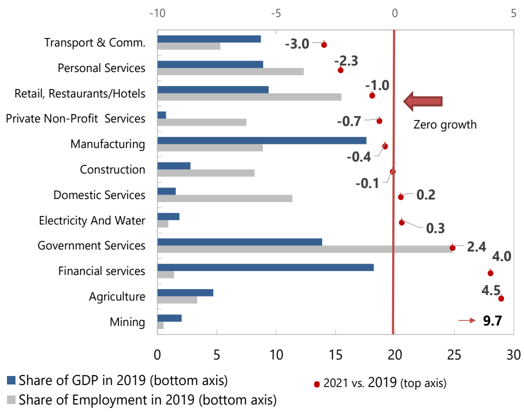
47. Realizing Jordan's growth potential requires more forceful actions to enhance employment, investment, and governance. Recent measures in these areas, including to reduce electricity costs for businesses and support the employment of youth and women, are welcome. But eliminating gender-biased legislations and ensuring a safe workplace environment for women; reducing labor market segmentation; and lowering the cost of hiring youth are also critical. At the same time, more efforts are needed to reduce red tape, and strengthen competition regulations. Recent progress on governance reforms needs to be consolidated with adequate resourcing of JIACC, timely rollout of e-procurement, and continued strengthening of the AML/CFT framework consistent with the requirements to exit the FATF watch list by next year.

48. Staff supports the authorities' request for the completion of the Fourth Review under the extended arrangement and modification of targets and augmentation. Given the additional financing needs in 2022, staff supports the request for augmentation. In light of the global economic headwinds, staff also supports the authorities' request for modification of the end-June and end-December QPCs to allow adequate phasing of support to protect the recovery. Stepped-up and timely development partner support is needed to help Jordan cope with these headwinds, maintain reform momentum, address water scarcity, and shoulder the burden of hosting 1.3 million Syrian refugees. It is expected that the next Article IV Consultation will be held on the 24-month cycle, in accordance with Decision No. 14747-(10/96).

Figure 1. Jordan: Real Sector Developments

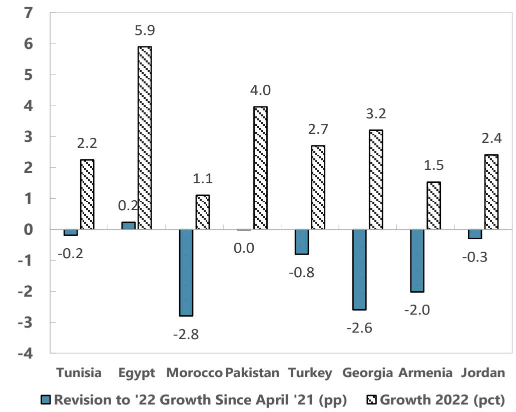
Mining, agriculture, and finance have rebounded.

Sectoral GDP Relative to Pre-Pandemic
(Percent, 2021 vs 2019)



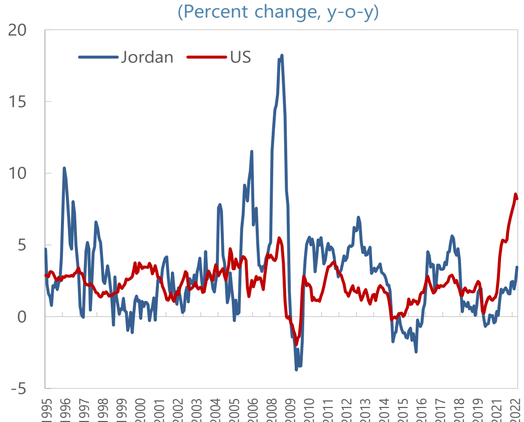
GDP growth has been revised down.

Revisions to Growth in Peer Countries



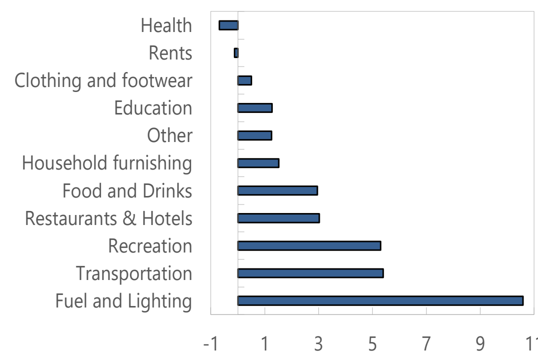
Inflation has been stable since the GFC.

CPI Inflation
(Percent change, y-o-y)



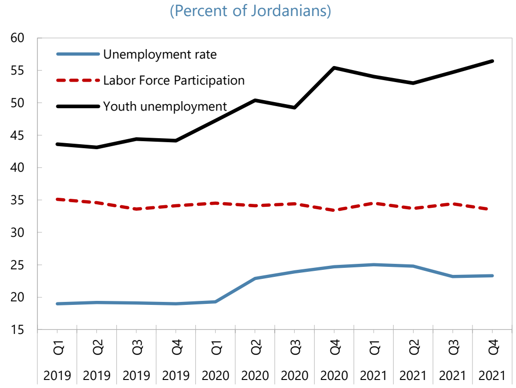
Inflation has picked up in most sectors.

Inflation By Sector
(y-o-y, January to April 2022 Average)



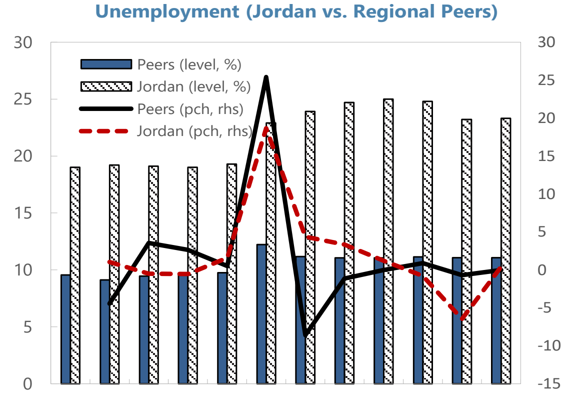
Youth unemployment is still trending up.

Jordan: Labor Market Outcome
(Percent of Jordanians)



Unemployment rate in Jordan remains elevated.

Unemployment (Jordan vs. Regional Peers)

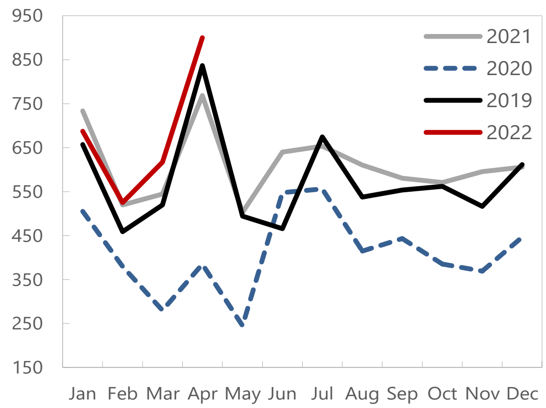


Sources: National authorities; Haver Analytics; and IMF staff calculations.

Figure 2. Jordan: Fiscal Developments

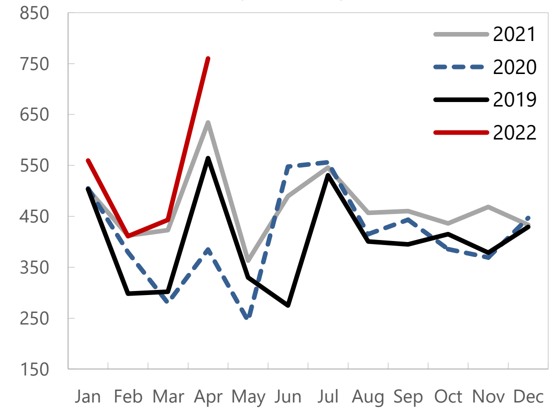
Domestic revenues rebounded strongly in 2021, surpassing 2019 levels…

Domestic Revenues
(JD millions)



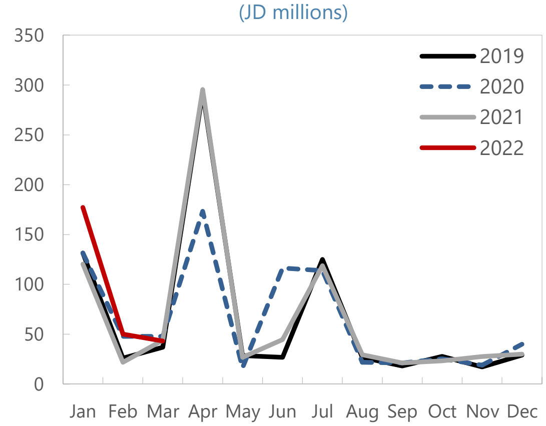
…with revenue collection efforts pushing tax revenues consistently above pre-pandemic levels.

Tax Revenues
(JD millions)



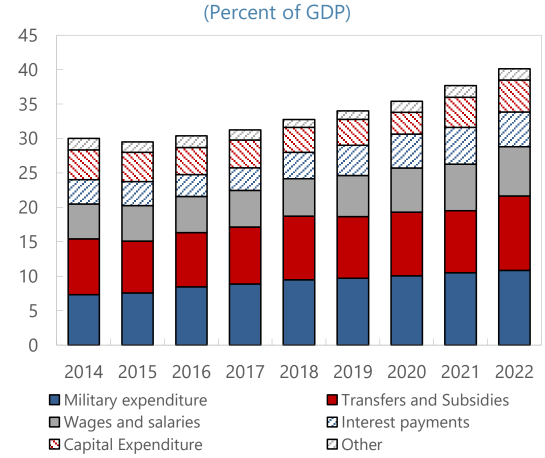
Corporate income tax collections increased, in line with rebounding profitability.

Corporate Income Tax
(JD millions)



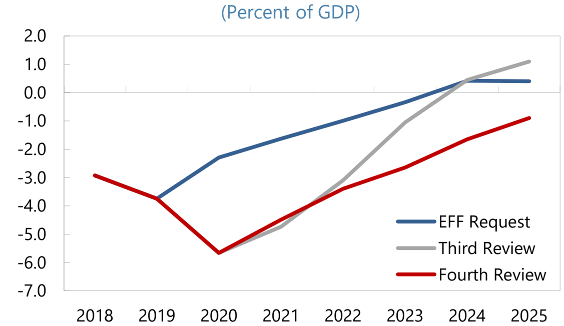
Higher revenues facilitated a rebound in capital spending, while growth in other expenditure areas was contained.

Government Expenditure
(Percent of GDP)



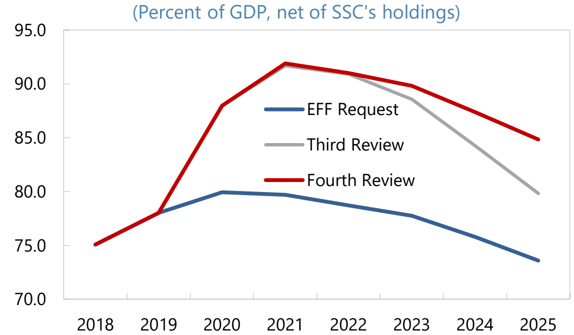
A more gradual pace of fiscal consolidation in line with the EFF request can help protect growth…

Primary Central Government Balance
(Percent of GDP)



… while keeping debt firmly on a downward trajectory.

General Government Debt
(Percent of GDP, net of SSC's holdings)

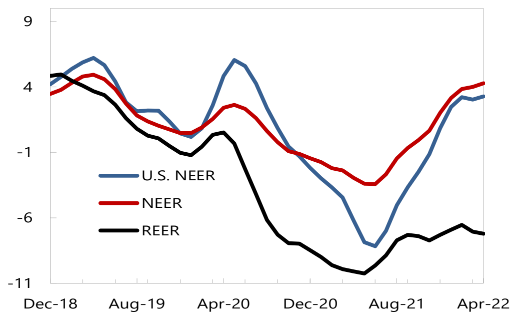


Sources: National authorities and IMF staff calculations.

Figure 3. Jordan: External Sector Developments

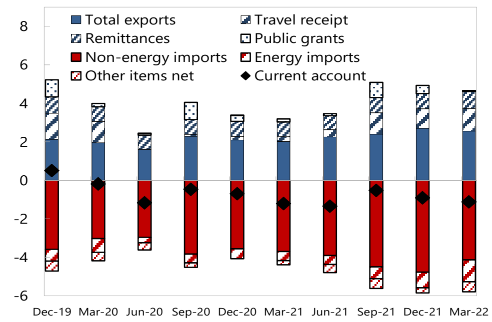
The JD REER has depreciated significantly since the beginning of the pandemic in-line on weak inflation relative to peers and dollar weakness.

Effective Exchange Rate Indices
(3-month moving average, y-o-y growth, percent)



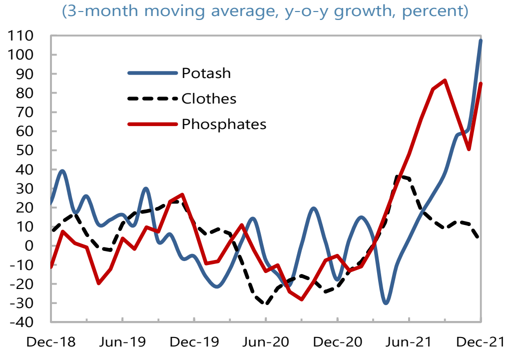
Tourism receipts began to recover in 2021H2 but remain below pre-pandemic levels. Energy imports rose sharply on higher oil prices at the end of 2021.

Jordan: Current Account, 2019-22
(USD Billions)



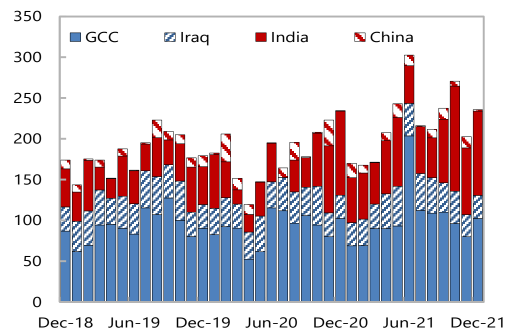
However, Jordan has benefited from exceptionally strong prices for its fertilizer related commodity exports, likely to continue as supplies from Russia and Ukraine are cut

Key Merchandize Exports
(3-month moving average, y-o-y growth, percent)



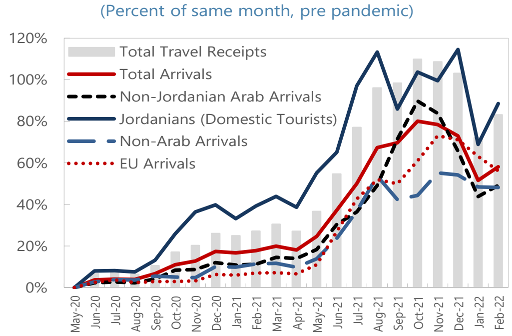
Exports have continued to recover from the weaker outturns in end 2020, especially to the GCC (specifically Saudi Arabia) and India (Fertilizers).

Exports to Select Markets
(Nominal Millions LCU)



The recovery in tourist arrivals began in earnest in 2021H2 with an increase in Arab and domestic tourism, while the return of EU tourism lagged.

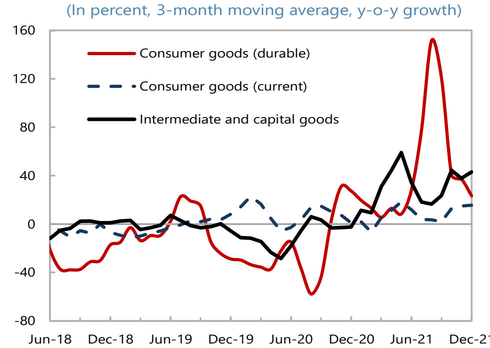
Tourist Arrivals and Receipts
(Percent of same month, pre pandemic)



Note: Same month pre-pandemic is calculated as an average value, 2010-2019

Consumer durable imports have grown strong, from pandemic lows in 2020, however the rise in intermediate and capital goods has a larger impact on the Current Account as they are around 50% larger in levels.

Merchandize Imports
(In percent, 3-month moving average, y-o-y growth)

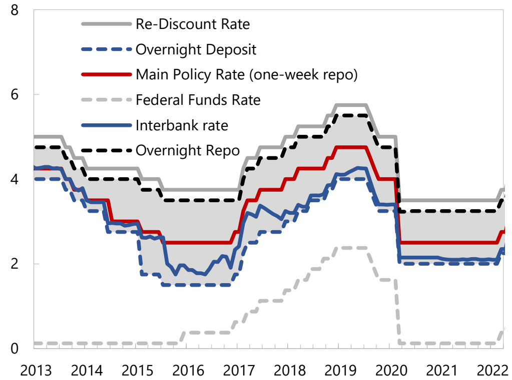


Sources: National authorities and IMF staff calculations.

Figure 4. Jordan: Monetary and Financial Indicators

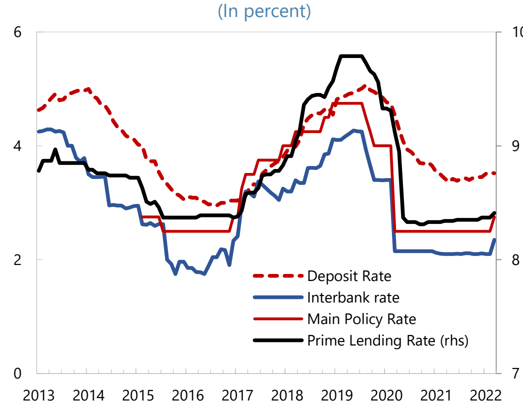
CBJ hiked policy rates in March and May in line with Fed.

Interest Rates
(In percent)



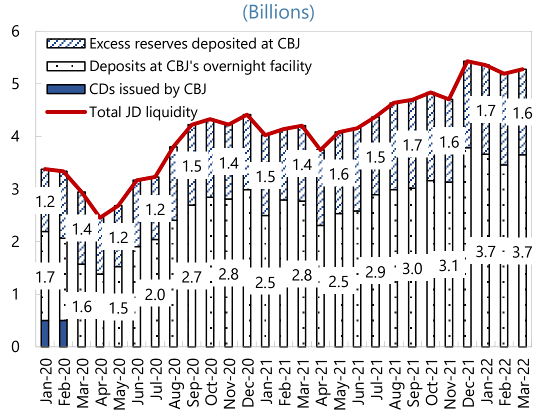
A slight uptick in deposit/lending rates will follow with lag.

Interest Rates
(In percent)



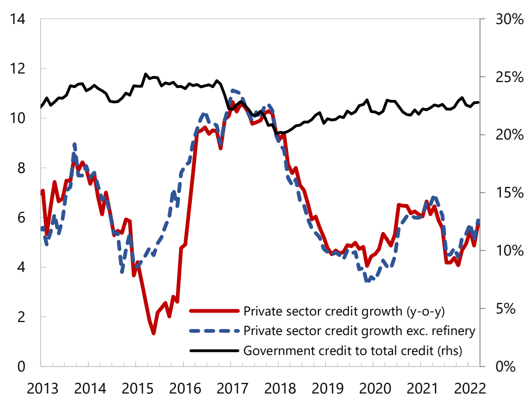
Banks' liquidity conditions are comfortable.

Banks' JD Liquidity
(Billions)



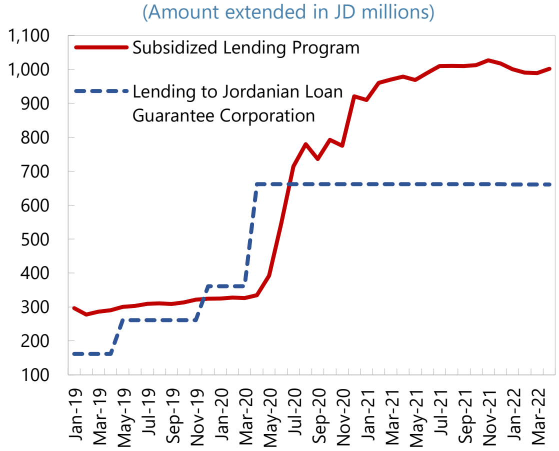
Private sector credit growth has held up well.

Domestic Credit of the Banking System



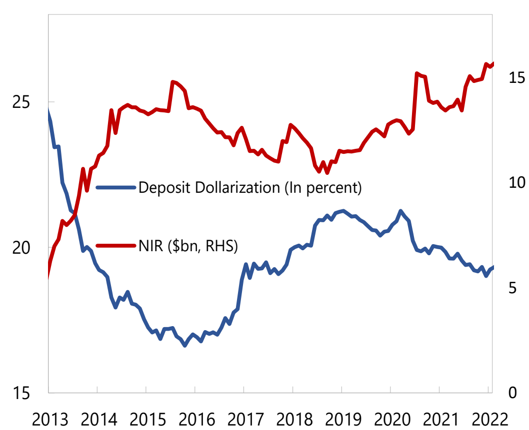
Demand for CBJ's subsidized SME lending scheme has slowed as the economy fully reopened.

CBJ Subsidized Lending Schemes
(Amount extended in JD millions)



Ample reserves have brought dollarization down to its lowest level in recent years.

Reserves and Dollarization



Sources: Central Bank of Jordan; Jordan Department of Statistics; and IMF staff estimates.

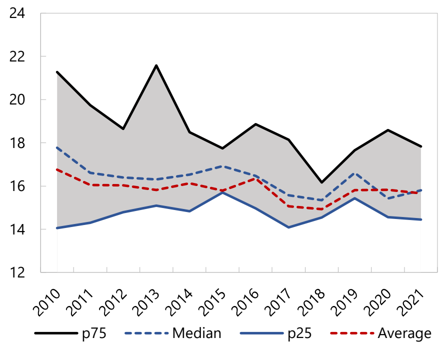
Figure 5. Selected Indicators for Jordanian Banks

(As of December 2021)

Banks continue to remain well-capitalized….

Tier 1 Capital to Risk Weighted Assets

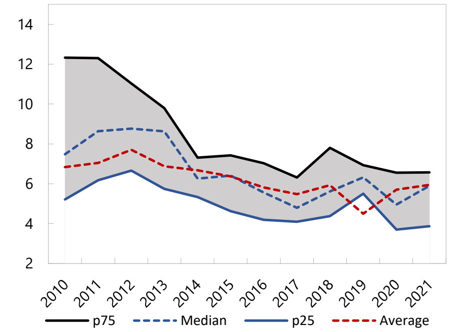
(Percent)



And NPLs remain stable.

Non-Performing Loans less Provisions 1/

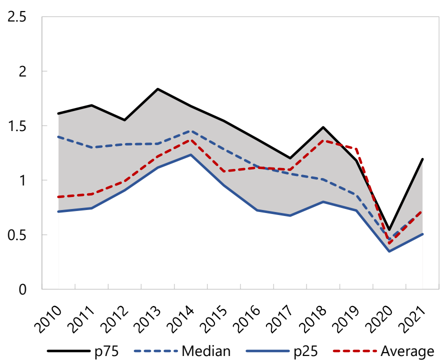
(Percent)



Profitability recovered as most provisioning took place in 2020.

Return on Total Assets

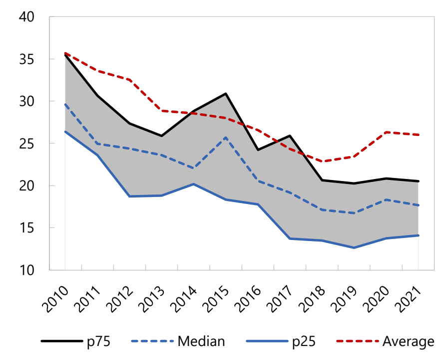
(Percent)



Liquidity has been stable in recent years.

Liquidity 2/

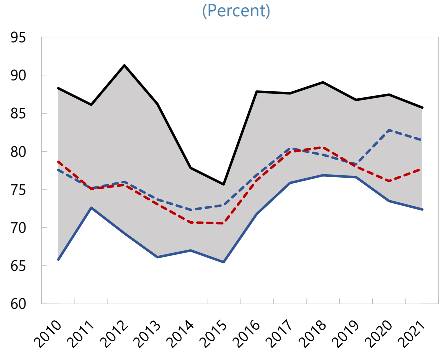
(Percent)



Loans have continued to be stably funded by deposits…

Total Loans to Total Deposits

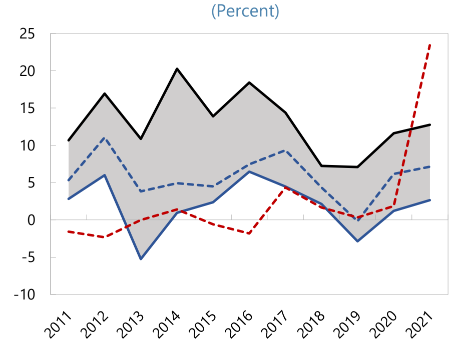
(Percent)



And loan growth has held up well despite the pandemic.

Annualized Loan Growth

(Percent)



Sources: Bloomberg; Fitch; IMF staff calculations. The sample includes 14 banks: Arab Bank PLC, Housing Bank for Trade and Finance, Bank of Jordan, Bank Al Etihad, Jordan Kuwait Bank, Cairo Amman Bank, Capital Bank of Jordan, Arab Jordan Investment Bank, Societe Generale de Banque – Jordanie, Jordan Ahli Bank, Safwa Islamic Bank, Invest Bank, Jordan Commercial Bank, Arab Banking Corp. The average is a weighted average by total assets of the above banking sample.

1/ Non-performing loans to gross loans, less ratio of provisions to gross loans.

2/Liquid assets to deposits and money market funding. Latest available quarterly data for 2021 from Fitch database is used.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2020–27

	Act. 2020	3rd Rev 2021	Est. 2021	3rd Rev 2022	Proj. 2022	3rd Rev 2023	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027
	(Annual percent change, unless otherwise noted)										
Output and prices											
Real GDP at market prices	-1.6	2.0	2.2	2.7	2.4	3.1	2.7	3.0	3.3	3.3	3.3
GDP deflator at market prices	-0.3	1.6	1.3	2.5	3.6	2.5	3.0	2.5	2.5	2.5	2.5
Nominal GDP at market prices	-1.8	3.6	3.5	5.3	6.1	5.7	5.8	5.6	5.9	5.9	5.9
Nominal GDP at market prices (JD millions)	31,025	32,157	32,123	33,851	34,077	35,772	36,042	38,048	40,283	42,650	45,156
Nominal GDP at market prices ($ millions)	43,759	45,355	45,307	47,744	48,064	50,455	50,835	53,664	56,817	60,155	63,690
Consumer price inflation (annual average)	0.4	1.3	1.3	2.5	3.8	2.5	3.0	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	-0.3	2.3	2.3	2.5	4.4	2.5	3.0	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent) 1/	22.7	...	...	...	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise noted)										
Fiscal operations											
Revenue and grants	22.7	24.7	25.3	25.9	26.1	24.9	25.4	25.0	24.6	24.4	24.2
Of which: grants	2.5	2.4	2.5	2.7	2.6	1.6	2.0	1.6	1.3	1.2	1.1
Expenditure 2/	30.0	31.3	31.7	30.2	30.8	29.7	30.4	29.9	29.8	29.5	29.0
Unallocated discretionary fiscal measures 3/	0.0	0.0	0.0	0.0	0.0	1.3	0.2	0.6	1.1	1.5	1.7
Overall central government balance 4/	-7.3	-6.6	-6.4	-4.4	-4.7	-3.4	-4.8	-4.4	-4.1	-3.6	-3.1
Overall central government balance excluding grants	-9.9	-9.0	-8.9	-7.1	-7.3	-5.1	-6.9	-6.0	-5.4	-4.8	-4.2
Primary government balance (excluding grants)	-5.7	-4.7	-4.5	-3.1	-3.4	-1.1	-2.7	-1.6	-0.9	-0.3	0.0
NEPCO operating balance	-0.3	-0.5	-0.6	-1.0	-0.3	-0.9	-0.7	-0.6	-0.5	-0.4	-0.4
WAJ overall balance	-0.8	-0.9	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7
Water distribution companies overall balance	-0.3	-0.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Combined public sector balance 5/	-7.0	-6.4	-6.2	-5.1	-4.7	-2.9	-4.5	-3.3	-2.3	-1.6	-1.2
Consolidated general government overall balance, excl. grants	-8.2	-7.7	-7.1	-6.2	-5.2	-4.6	-5.3	-4.3	-3.4	-2.7	-2.0
Consolidated general government primary balance, excl. grants	-3.6	-3.0	-2.3	-1.6	-0.7	0.0	-0.5	0.7	1.6	2.3	2.7
Government and guaranteed gross debt 6/	109.0	113.9	113.7	114.7	113.9	113.6	113.8	113.0	111.7	109.8	107.5
Government and guaranteed gross debt, net of SSC's holdings 6/	88.0	91.7	91.9	90.9	91.0	88.6	89.8	87.4	84.8	82.5	79.8
Of which: external debt	40.9	43.3	40.6	45.7	42.3	45.4	43.3	42.2	40.2	35.8	33.7
External sector											
Current account balance (including grants), *of which:*	-5.7	-9.7	-8.8	-4.7	-6.7	-3.3	-4.8	-4.0	-3.6	-3.0	-4.0
Exports of goods, f.o.b. ($ billions)	8.0	8.9	9.4	9.4	11.3	10.1	11.6	11.7	12.0	12.3	12.3
Imports of goods, f.o.b. ($ billions)	15.4	17.8	19.3	18.3	22.1	18.5	22.0	22.3	22.8	23.3	24.2
Oil and oil products ($ billions)	2.1	2.9	3.0	2.9	4.6	2.9	4.2	4.0	3.9	3.7	3.8
Current account balance (excluding grants)	-9.1	-12.8	-12.1	-8.0	-9.9	-6.0	-7.9	-6.6	-5.8	-5.1	-5.4
Private capital inflows (net)	1.5	2.5	1.1	2.3	1.8	2.8	2.5	3.1	3.2	3.5	3.5
Public grants and identified budget loans (excl. IMF)	5.9	6.4	6.2	5.8	6.1	4.5	5.5	4.1	3.0	2.5	1.6
	(Annual percent change)										
Monetary sector											
Broad money	5.8	3.6	6.7	4.4	6.1	5.7	5.8	5.6	5.9	5.9	5.9
Net foreign assets	0.2	-12.2	-0.8	9.7	-0.2	13.4	14.6	6.8	5.4	-2.1	3.2
Net domestic assets	7.4	7.7	8.7	3.2	7.6	4.0	3.9	5.3	6.0	7.8	6.5
Credit to private sector	6.3	3.9	4.9	4.5	4.1	4.8	4.3	5.5	6.0	6.5	6.9
Credit to central government	11.4	8.0	13.8	-0.5	0.3	1.4	1.5	4.8	6.9	14.3	7.0
Memorandum items:											
Gross usable international reserves ($ millions)	15,127	15,269	17,272	15,954	16,916	15,863	16,894	17,270	17,735	17,238	17,407
In months of prospective imports	7.8	7.9	7.6	8.1	7.4	7.8	7.3	7.2	7.3	6.8	6.6
In percent of reserve adequacy metric	110	104	115	102	105	97	98	96	95	91	90
Net international reserves ($ millions)	13,844	13,448	15,646	13,762	14,764	13,617	14,782	15,304	15,993	15,707	16,127
Population (millions) 7/	10.2	10.3	10.3	10.4	10.3	10.5	10.3	10.3	10.3	10.4	10.4
Nominal per capita GDP ($)	4,289	4,395	4,412	4,588	4,666	4,817	4,930	5,200	5,495	5,798	6,109
U.S. dollar per Jordanian dinar (period average)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Nominal exchange rate (peg to the US dollar)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Real effective exchange rate (end of period, 2010=100) 8/	105.4	...	...	...	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	-9.5	...	...	...	...	...	...	...	...	...	...

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ The Department of Statistics changed the methodology of the Survey of Employment and Unemployment in 2017 following ILO recommendations.
The variable now reports unemployment rates for Jordanians only (excluding foreigners).
2/ Includes other use of cash (i.e. off-budget expenditures).
3/ Estimated amount of fiscal measures that are needed to meet the programmed fiscal adjustment over 2022-25.
4/ Includes statistical discrepancy.
5/ Defined as the sum of the primary central government balance (excl. grants and transfers to NEPCO and WAJ), NEPCO operating balance, WAJ overall balance, and, starting in 2019,
Aqaba, Miyahuna, and Yarmouk Water Distribution Companies overall balance.
6/ Government's direct and guaranteed debt (including NEPCO and WAJ debt). SSC stands for Social Security Corporation. The authorities securitized domestic arrears amounting to 2.3 and 0.3
percent of GDP in 2019 and early 2020, respectively, part of which was previously assumed to be repaid over a three-year period.
7/ Data from the 2017 Revision of World Population Prospects of the UN population division.
8/ INS data. CBJ staff's estimates, based on updated trade weights, shows a more moderate pace of real appreciation over the past few years.

Table 2a. Jordan: Central Government: Summary of Fiscal Operations, 2020–27 1/

(In millions of Jordanian dinars)

	2020	3rd Rev 2021	Prel. 2021	3rd Rev 2022	Proj. 2022	3rd Rev 2023	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027
Total revenue and grants	7,029	7,946	8,128	8,752	8,907	8,923	9,152	9,511	9,921	10,415	10,932
Domestic revenue	6,238	7,183	7,325	7,849	8,034	8,348	8,414	8,886	9,403	9,913	10,453
Tax revenue, *of which:*	4,958	5,550	5,627	5,943	6,128	6,344	6,413	6,756	7,154	7,532	7,932
Taxes on income and profits	1,103	1,178	1,180	1,269	1,433	1,368	1,505	1,590	1,712	1,815	1,924
Sales taxes	3,534	3,993	4,039	4,252	4,294	4,509	4,496	4,733	4,980	5,242	5,518
Taxes on foreign trade	274	311	338	339	266	364	271	284	303	308	313
Other taxes	47	68	71	83	134	103	142	149	158	168	177
Nontax revenue	1,279	1,633	1,698	1,906	1,906	2,004	2,001	2,130	2,249	2,381	2,521
Grants	791	763	803	902	873	375	738	625	518	502	479
Total expenditures, inc. other use of cash	9,294	10,067	10,172	10,237	10,506	10,605	10,947	11,391	12,001	12,578	13,081
Current expenditure	8,434	9,025	8,869	8,837	9,298	9,371	9,567	10,010	10,531	11,000	11,410
Wages and salaries	1,677	1,779	1,771	1,873	1,873	1,929	1,957	2,036	2,127	2,223	2,334
Interest payments	1,289	1,360	1,403	1,339	1,314	1,433	1,519	1,661	1,798	1,898	1,876
Domestic	893	912	977	933	860	970	990	1,111	1,221	1,308	1,395
External	396	448	426	406	453	463	529	550	576	590	481
Military and public security expenditure, *of which:*	2,636	2,747	2,750	2,836	2,836	2,997	3,000	3,167	3,327	3,452	3,587
Military expenditure	1,390	1,441	1,430	1,481	1,481	1,565	1,567	1,654	1,740	1,798	1,859
Subsidies	19	23	55	20	350	20	30	20	20	20	20
Wheat subsidies	19	23	55	20	55	20	30	20	20	20	20
Fuel subsidies	0	0	0	0	295	0	0	0	0	0	0
Transfers, *of which*:	2,399	2,599	2,300	2,421	2,503	2,623	2,686	2,751	2,861	2,985	3,147
Pensions	1,570	1,613	1,605	1,655	1,655	1,749	1,751	1,848	1,957	2,072	2,194
Cash transfers, NAF social assistance	240	251	184	241	271	221	261	251	262	269	276
Transfers to health fund, *of which:*	238	172	159	175	227	159	170	130	90	90	90
Health arrears clearance	136	102	91	105	99	69	80	40	0	0	0
Energy arrears clearance	6	0	73	45	10	0	0	0	0	0	0
Transfers to public sector institutions	212	207	201	212	212	213	213	214	227	240	255
Other transfers	132	356	78	93	128	281	292	307	325	314	333
Purchases of goods & services	415	517	590	349	422	369	375	376	398	421	446
Capital expenditure	823	927	1,154	1,400	1,208	1,234	1,380	1,381	1,470	1,578	1,671
Adjustment on receivables and payables (use of cash)	28	104	149	0	0	0	0	0	0	0	0
Overall central government balance at current policies	-2,266	-2,121	-2,044	-1,493	-1,599	-1,691	-1,795	-1,881	-2,080	-2,163	-2,150
New fiscal measures (cumulative) 2/	0	-4	0	7	0	457	59	216	437	639	752
Overall central government balance after fiscal measures	-2,266	-2,125	-2,044	-1,486	-1,599	-1,234	-1,735	-1,664	-1,642	-1,524	-1,398
Advances to water sector, *of which:*	368	349	357	410	391	287	324	383	369	374	371
Distribution companies	80	66	113	51	51	48	48	45	41	42	44
Financing	2,634	2,482	2,400	1,895	1,990	1,521	2,059	2,048	2,011	1,898	1,768
Foreign financing (net) 3/	1,156	1,099	1,298	1,033	801	476	1,031	361	94	-898	-3
Domestic financing (net)	1,478	1,383	1,102	862	1,189	1,045	1,028	1,687	1,917	2,796	1,771
CBJ on-lending of net IMF financing	343	146	382	283	405	68	2	-62	-121	-112	-154
Other domestic bank financing	401	475	259	-328	-338	93	186	659	998	2,068	1,085
Domestic nonbank financing	743	608	569	917	800	894	850	1,100	1,050	850	850
Use of deposits 4/	-10	154	-108	-10	323	-10	-10	-10	-10	-10	-10
Sale of non-financial assets	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Domestic revenue, including new fiscal measures	6,238	7,179	7,325	7,854	8,034	8,691	8,473	9,026	9,720	10,381	10,987
Total expenditures, including new fiscal measures	9,294	10,067	10,172	10,235	10,506	10,491	10,947	11,315	11,880	12,407	12,864
NEPCO operating balance	-89	-157	-178	-325	-92	-313	-265	-233	-217	-190	-161
WAJ overall balance, excluding project grants	-257	-304	-260	-304	-290	-306	-342	-333	-323	-326	-320
Water distribution companies overall balance	-80	-66	-113	-51	-51	-48	-48	-45	-41	-42	-44
Primary government balance, excluding grants	-1,767	-1,528	-1,444	-1,049	-1,159	-376	-955	-628	-363	-128	0
Primary government balance, excluding grants and transfers to NEPCO and WAJ	-1,758	-1,517	-1,444	-1,049	-1,159	-376	-955	-628	-363	-128	0
Combined public balance 5/	-2,184	-2,044	-1,996	-1,729	-1,592	-1,042	-1,610	-1,239	-943	-687	-525
Overall public balance, including grants	-2,674	-2,635	-2,585	-2,135	-1,997	-1,871	-2,361	-2,246	-2,193	-2,053	-1,892
Consolidated general government overall balance, excl. grants	-2,559	-2,393	-2,287	-2,068	-1,769	-1,414	-1,908	-1,624	-1,379	-1,153	-883
Consolidated general government primary balance, excl. grants	-1,111	-854	-738	-525	-251	226	-193	248	638	976	1,234
Social Security Corporation balance	923	1,018	1,112	1,000	1,136	1,061	1,221	1,276	1,362	1,432	1,518
Government and guaranteed gross debt	33,828	36,627	36,524	38,837	38,811	40,633	41,023	42,997	44,981	46,825	48,540
Government and guaranteed gross debt, net of SSC's holdings	27,295	29,486	29,521	30,779	31,008	31,681	32,369	33,243	34,178	35,172	36,037
Of which: External	12,676	13,929	13,032	15,469	14,418	16,242	15,604	16,070	16,192	15,277	15,238
Programmed stock of health and energy arrears	420	218	224	68	116	0	0	0	0	0	0
Stock of health arrears	275	173	214	68	116	0	0	0	0	0	0
Stock of energy arrears (fuel and electricity) 6/	145	45	10	0	0	0	0	0	0	0	0
GDP at market prices	31,025	32,157	32,123	33,851	34,077	35,772	36,042	38,048	40,283	42,650	45,156

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

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

2/ For 2023-25, these are unidentified cumulative fiscal discretionary measures needed to reach program deficit targets.

3/ Includes net issuance of domestic FX bonds.

4/ In 2021, includes drawdown of SDR allocation amount from the government's account at CBJ.

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

6/ In 2021, JD105 million in arrears were resolved through securitization.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2020–27 1/

(In percent of GDP)

	2020	3rd Rev 2021	Prel. 2021	3rd Rev 2022	Proj. 2022	3rd Rev 2023	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027
Total revenue and grants	22.7	24.7	25.3	25.9	26.1	24.9	25.4	25.0	24.6	24.4	24.2
Domestic revenue	20.1	22.3	22.8	23.2	23.6	23.3	23.3	23.4	23.3	23.2	23.1
Tax revenue, *of which*:	16.0	17.3	17.5	17.6	18.0	17.7	17.8	17.8	17.8	17.7	17.6
Taxes on income and profits	3.6	3.7	3.7	3.7	4.2	3.8	4.2	4.2	4.3	4.3	4.3
Sales taxes	11.4	12.2	12.6	12.6	12.6	12.6	12.5	12.4	12.4	12.3	12.2
Taxes on foreign trade	0.9	1.0	1.1	1.0	0.8	1.0	0.8	0.7	0.8	0.7	0.7
Other taxes	0.2	0.2	0.2	0.2	0.4	1.0	0.4	0.4	0.4	0.4	0.4
Nontax revenue	4.1	5.1	5.3	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Grants	2.5	2.4	2.5	2.7	2.6	1.6	2.0	1.6	1.3	1.2	1.1
Total expenditures, inc. other use of cash	30.0	31.3	31.7	30.2	30.8	29.7	30.4	29.9	29.8	29.5	29.0
Current expenditure	27.2	28.1	27.6	26.1	27.3	26.2	26.5	26.3	26.1	25.8	25.3
Wages and salaries	5.4	5.5	5.5	5.5	5.5	5.3	5.4	5.4	5.3	5.2	5.2
Interest payments	4.2	4.2	4.4	4.0	3.9	4.0	4.2	4.4	4.5	4.5	4.2
Domestic	2.9	2.8	3.0	2.8	2.5	2.7	2.7	2.9	3.0	3.1	3.1
External	1.3	1.4	1.3	1.2	1.3	1.3	1.5	1.4	1.4	1.4	1.1
Military and public security expenditure, *of which:*	8.5	8.5	8.6	8.4	8.3	8.4	8.3	8.3	8.3	8.1	7.9
Military expenditure	4.5	4.5	4.5	4.4	4.3	4.4	4.3	4.3	4.3	4.2	4.1
Subsidies, *of which*	0.1	0.1	0.2	0.1	1.0	0.1	0.1	0.1	0.0	0.0	0.0
Fuel subsidies	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Transfers, *of which*:	7.7	8.1	7.2	7.2	7.3	7.4	7.5	7.2	7.1	7.0	7.0
Pensions	5.1	5.0	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Cash transfers, NAF social assistance	0.8	0.8	0.6	0.7	0.8	0.6	0.7	0.7	0.7	0.6	0.6
Transfers to health fund, *of which:*	0.8	0.5	0.5	0.5	0.7	0.4	0.5	0.3	0.2	0.2	0.2
Health arrears clearance	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.0	0.0	0.0
Energy arrears clearance	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to public sector institutions	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Purchases of goods & services	1.3	1.7	1.8	1.1	1.2	1.1	1.0	1.0	1.0	1.0	1.0
Capital expenditure	2.7	2.9	3.6	4.1	3.5	3.5	3.8	3.6	3.7	3.7	3.7
Adjustment on receivables and payables (use of cash)	0.1	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-7.3	-6.6	-6.4	-4.4	-4.7	-4.7	-5.0	-4.9	-5.2	-5.1	-4.8
Overall central government balance at current policies	-7.3	-6.6	-6.4	-4.4	-4.7	-4.7	-5.0	-4.9	-5.2	-5.1	-4.8
New fiscal measures (cumulative) 2/	0.0	0.0	0.0	0.0	0.0	1.3	0.2	0.6	1.1	1.5	1.7
Overall central government balance after fiscal measures	-7.3	-6.6	-6.4	-4.4	-4.7	-3.4	-4.8	-4.4	-4.1	-3.6	-3.1
Advances to water sector, *of which:*	1.2	1.1	1.1	1.2	1.1	0.8	0.9	1.0	0.9	0.9	0.8
Distribution companies	0.3	0.2	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Financing	8.5	7.7	7.5	5.6	5.8	4.3	5.7	5.4	5.0	4.5	3.9
Foreign financing (net) 3/	3.7	3.4	4.0	3.1	2.4	1.3	2.9	0.9	0.2	-2.1	0.0
Domestic financing (net)	4.8	4.3	3.4	2.5	3.5	2.9	2.9	4.4	4.8	6.6	3.9
CBJ on-lending of net IMF financing	1.1	0.5	1.2	0.8	1.2	0.2	0.0	-0.2	-0.3	-0.3	-0.3
Other domestic bank financing	1.3	1.5	0.8	-1.0	-1.0	0.3	0.5	1.7	2.5	4.8	2.4
Domestic nonbank financing	2.4	1.9	1.8	2.7	2.3	2.5	2.4	2.9	2.6	2.0	1.9
Use of deposits	0.0	0.5	-0.3	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Sale of non-financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Domestic revenue, including new fiscal measures	20.1	22.3	22.8	23.2	23.6	24.3	23.5	23.7	24.1	24.3	24.3
Total expenditures, including new fiscal measures	30.0	31.3	31.7	30.2	30.8	29.3	30.4	29.7	29.5	29.1	28.5
NEPCO operating balance	-0.3	-0.5	-0.6	-1.0	-0.3	-0.9	-0.7	-0.6	-0.5	-0.4	-0.4
WAJ overall balance, excluding project grants	-0.8	-0.9	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7
Water distribution companies overall balance	-0.3	-0.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-5.7	-4.7	-4.5	-3.1	-3.4	-1.1	-2.7	-1.7	-0.9	-0.3	0.0
Combined public balance (PC) 4/	-7.0	-6.4	-6.2	-5.1	-4.7	-2.9	-4.5	-3.3	-2.3	-1.6	-1.2
Overall public balance, including grants	-8.6	-8.2	-8.0	-6.3	-5.9	-5.2	-6.6	-5.9	-5.4	-4.8	-4.2
Consolidated general government overall balance, excl. grants	-8.2	-7.4	-7.1	-6.1	-5.2	-4.0	-5.3	-4.3	-3.4	-2.7	-2.0
Consolidated general government primary balance, excl. grants	-3.6	-2.7	-2.3	-1.5	-0.7	0.6	-0.5	0.7	1.6	2.3	2.7
Social Security Corporation balance	3.0	3.2	3.5	3.0	3.3	3.0	3.4	3.4	3.4	3.4	3.4
Government and guaranteed gross debt	109.0	113.9	113.7	114.7	113.9	113.6	113.8	113.0	111.7	109.8	107.5
Government and guaranteed gross debt, net of SSC's holdings	88.0	91.7	91.9	90.9	91.0	88.6	89.8	87.4	84.8	82.5	79.8
Of which: External	40.9	43.3	40.6	45.7	42.3	45.4	43.3	42.2	40.2	35.8	33.7
Programmed stock of health and energy arrears	1.4	0.8	0.7	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Stock of health arrears	0.9	0.6	0.7	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Stock of energy arrears (fuel and electricity) 5/	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP at market prices (JD millions)	31,025	32,157	32,123	33,851	34,077	35,772	36,042	38,048	40,283	42,650	45,156

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

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

2/ For 2023-25, these are unidentified cumulative fiscal discretionary measures needed to reach program deficit targets.

3/ Includes net issuance of domestic FX bonds.

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

5/ In 2021, JD100 million in arrears will be resolved through securitization.

Table 2c. Jordan: General Government: Summary of Fiscal Operations, 2020–27 1/

(In millions of Jordanian dinars, unless otherwise indicated)

	2020	2021 Prel.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
A. Total general government revenues:	10,664	11,998	13,237	13,760	14,453	15,255	16,133	17,022
(in percent of GDP)	*34.4*	*37.3*	*38.8*	*38.2*	*38.0*	*37.9*	*37.8*	*37.7*
Central government revenues, excl. grants 2/	6,238	7,325	8,034	8,443	8,994	9,622	10,232	10,829
A*. Central government grants	791	803	873	738	625	518	502	479
NEPCO	1,326	1,286	1,479	1,519	1,579	1,621	1,665	1,710
WAJ	62	42	69	65	66	67	68	69
WAJ Revenues - excluding grants (million JD)	45	31	34	35	36	37	38	39
WAJ grants A**	17	11	35	30	30	30	30	30
Water distribution companies	234	234	256	269	283	297	302	307
SSC 3/	2,013	2,308	2,524	2,725	2,907	3,130	3,364	3,628
B. Total general government expenditure, inc. use of cash:	12,415	13,471	14,097	14,900	15,422	16,086	16,754	17,397
(in percent of GDP)	*40.0*	*41.9*	*41.4*	*41.3*	*40.5*	*39.9*	*39.3*	*38.5*
Central government 2/	9,294	10,172	10,506	10,917	11,283	11,782	12,258	12,705
NEPCO	1,415	1,464	1,571	1,784	1,812	1,838	1,855	1,871
WAJ	302	291	325	377	370	360	364	358
Water distribution companies	314	348	307	317	327	338	344	351
SSC	1,090	1,196	1,388	1,504	1,631	1,768	1,933	2,111
Wages and salaries	17	18	19	21	22	23	24	26
Social security payments	1,358	1,528	1,681	1,849	2,034	2,227	2,445	2,665
Goods and services	24	28	38	40	42	44	47	50
(A-B). General government balance incl. unidentified measures	-1,751	-1,473	-861	-1,140	-969	-831	-621	-375
(in percent of GDP)	*-5.6*	*-4.6*	*-2.5*	*-3.2*	*-2.5*	*-2.1*	*-1.5*	*-0.8*
C. General government overall balance, excluding grants (A-B-A*-A**)	-2,559	-2,287	-1,769	-1,908	-1,624	-1,379	-1,153	-883
(in percent of GDP)	*-8.2*	*-7.1*	*-5.2*	*-5.3*	*-4.3*	*-3.4*	*-2.7*	*-2.0*
D. General government primary balance, excluding grants (C+E)	-1,111	-738	-251	-193	248	638	976	1,234
(in percent of GDP)	*-3.6*	*-2.3*	*-0.7*	*-0.5*	*0.7*	*1.6*	*2.3*	*2.7*
General government primary balance, including grants (D+A*)	*-320*	*65*	*622*	*545*	*872*	*1,156*	*1,478*	*1,713*
(in percent of GDP)	*-1.0*	*0.2*	*1.8*	*1.5*	*2.3*	*2.9*	*3.5*	*3.8*
Central government primary balance excluding grants	*-1,767*	*-1,444*	*-1,159*	*-955*	*-628*	*-363*	*-128*	*0*
(in percent of GDP)	*-5.7*	*-4.5*	*-3.4*	*-2.7*	*-1.7*	*-0.9*	*-0.3*	*0.0*
Balance of utilities (NEPCO, WAJ, water distribution companies)	*-426*	*-552*	*-433*	*-655*	*-611*	*-581*	*-559*	*-525*
Combined public sector primary balance (2)	*-2,193*	*-1,850*	*-1,387*	*-1,414*	*-1,029*	*-723*	*-455*	*-284*
(in percent of GDP)	*-7.1*	*-5.8*	*-4.1*	*-3.9*	*-2.7*	*-1.8*	*-1.1*	*-0.6*
General gov. overall balance excluding grants (1+2-3 = A-B-A*-A**)	-2,559	-2,141	-1,564	-1,712	-1,414	-1,159	-922	-642
E. Interest expenditure:	1,448	1,549	1,518	1,715	1,871	2,018	2,129	2,117
Central government (3)	1,289	1,403	1,314	1,519	1,661	1,798	1,898	1,876
NEPCO	114	110	164	159	172	184	195	204
WAJ Interest Payments	45	36	41	37	38	36	37	37
Consolidated debt of general government = $Debt_{t-1}$ + Net borrowing need	27,295	29,521	31,007	32,370	33,244	34,178	35,172	36,036
(in percent of GDP)	*88.0*	*91.9*	*91.0*	*89.8*	*87.4*	*84.8*	*82.5*	*79.8*
Net borrowing need:								
General government overall deficit incl. discretionary measures	*1,751*	*1,473*	861	1,140	969	831	621	375
Prefunding of amortizing debt and use/buildup of deposits			241	16	11	11	12	-74
SSIF investment outside GG	*212*	*543*	336	371	176	312	582	668
Guaranteed off-budget project loans	*4*	*19*	67	12	73	66	47	50
CBJ repurchases in respect of 2012 EFF	*117*	*4*	-18	-177	-355	-285	-268	-154
Recapitalization and guarantee of Royal Jordanian	*33*	*35*	0	0	0	0	0	0
Securitization of domestic arrears	*105*	*105*						
Unconsolidated debt of general government	30,768	36,524	38,811	41,023	42,997	44,981	46,825	48,540
	99.2	*113.7*	*113.9*	*113.8*	*113.0*	*111.7*	*109.8*	*107.5*
Memorandum items:								
SSC balance, inc. interest revenue on government bonds (1)	923	1,112	1,136	1,221	1,276	1,362	1,432	1,518
Nominal GDP at market prices	31,025	32,123	34,077	36,042	38,048	40,283	42,650	45,156

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

1/Pending a formal switch to General Government reporting by the authorities, this table reports fiscal flows and debt stocks (direct and guaranteed) of the central government, NEPCO, WAJ, water distribution companies, and the SSC.

2/Includes unidentified fiscal measures to be implemented in order to eliminate central government primary deficits by the end of the program.

3/Excludes SSC's interest earned on government bond holdings.

Table 2d. Jordan: Central Government: Summary of Quarterly Fiscal Operations, 2022–23
(In millions of Jordanian dinars)

	2022					2023				
	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	1,859	2,270	2,491	2,287	8,907	1,676	2,407	2,533	2,536	9,152
Domestic revenue	1,829	2,246	1,954	2,005	8,034	1,651	2,386	2,079	2,297	8,414
Tax revenue, *of which* :	1,413	1,715	1,457	1,542	6,128	1,213	1,828	1,557	1,814	6,413
Taxes on income and profits	347	552	271	263	1,433	395	614	316	180	1,505
Sales taxes	991	1,062	1,089	1,153	4,294	714	1,111	1,141	1,530	4,496
Taxes on foreign trade	56	67	64	80	266	69	68	65	69	271
Other taxes	20	34	34	47	134	35	36	36	35	142
Nontax revenue	416	531	497	462	1,906	438	558	522	483	2,001
Grants	29	24	537	283	873	25	21	454	239	738
Total expenditures, inc. other use of cash	2,204	2,944	2,447	2,911	10,506	2,493	2,941	2,578	2,935	10,947
Current expenditure	2,124	2,560	2,159	2,455	9,298	2,205	2,510	2,206	2,646	9,567
Wages and salaries	431	450	448	545	1,873	476	497	495	489	1,957
Interest payments	364	337	300	312	1,314	373	390	347	409	1,519
Domestic	253	211	203	194	860	267	242	233	248	990
External	111	126	98	118	453	106	148	114	161	529
Military and public security expenditure	659	695	681	801	2,836	697	736	720	847	3,000
Subsidies	0	255	120	-25	350	10	10	0	10	30
Transfers, *of which* :	532	715	527	728	2,503	574	783	570	760	2,686
Pensions	407	413	412	424	1,655	431	436	436	448	1,751
Cash transfers, NAF social assistance	0	110	0	161	271	0	100	0	161	261
Medical treatments, clearance of health and energy arrears	55	64	37	70	227	41	48	28	53	170
Transfers to public sector institutions	42	66	52	51	212	43	67	53	51	213
Other transfers	28	62	25	22	138	59	131	54	47	292
Purchases of goods & services	85	107	83	147	422	75	95	74	131	375
Capital expenditure	80	334	238	556	1,208	158	381	272	569	1,380
Net lending	0	0	0	0	0	0	0	0	0	0
Adjustment on receivables and payables (use of cash)	0	50	50	-100	0	130	50	100	-280	0
Overall balance of the central government from above the line	-346	-673	44	-624	-1,599	-817	-534	-45	-399	-1,795
Statistical discrepancy, net	149	0	0	-149	0	0	0	0	0	0
Overall balance of the central government at current policies	-495	-673	44	-474	-1,599	-817	-534	-45	-399	-1,795
Unalocated discretionary fiscal measures 1/	0	0	0	0	0	15	15	15	15	59
Overall balance after fiscal measures	-495	-673	44	-474	-1,599	-802	-519	-30	-384	-1,735
Advances to water sector	20	27	102	243	391	65	35	123	101	324
Financing	515	700	58	717	1,990	866	555	153	485	2,059
Foreign financing (net) 2/	0	-411	107	1,105	801	40	394	200	397	1,031
Domestic financing (net)	514	1,111	-48	-388	1,189	827	161	-47	88	1,028
CBJ on-lending of net IMF financing	-4	-140	-264	814	405	-25	0	-50	77	2
Other domestic bank financing	134	363	336	-1,172	-338	636	-431	131	-150	186
Domestic nonbank financing	203	556	-121	162	800	215	591	-128	172	850
Use of deposits	182	333	0	-192	323	0	0	0	-10	-10
Sale of non-financial assets	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
NEPCO operating balance	-27	-62	14	-16	-92	-60	-105	-34	-66	-265
WAJ overall balance, excluding project grants	-78	-71	-71	-71	-290	-92	-84	-83	-83	-342
Water distribution companies overall balance	-9	3	-23	-23	-51	-8	3	-22	-22	-48
Primary government balance excluding grants	-160	-361	-193	-445	-1,159	-454	-150	-137	-214	-955
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-160	-361	-193	-445	-1,159	-454	-150	-137	-214	-955
Combined public balance (PC) 3/	-274	-491	-273	-555	-1,592	-615	-336	-275	-385	-1,610
Government and guaranteed gross debt 4/	36,236	37,168	37,441	38,811	38,811	39,790	40,490	40,655	41,023	41,023
Government and guaranteed gross debt, net of SSC's holdings (IT) 4/	29,030	30,165	30,437	31,807	31,808	32,787	33,487	33,651	34,019	34,019

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Unidentified fiscal measures that will need to be implemented to meet program targets.
2/ Includes net issuance of domestic FX bonds.
3/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and, starting in 2019, water distribution companies overall balance.
4/ Includes securitization of arrears to municipalities and other entities undertaken and guarantees given to Royal Jordanian.

Table 2e. Jordan: NEPCO Operating Balance and Financing, 2020–27 1/
(In millions of Jordanian dinars, unless otherwise indicated)

	2020 Act.	2021 3rd Rev	2021 Act.	2022 3rd Rev	2022 Proj.	2023 3rd Rev	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
NEPCO Balance											
Revenues *of which*	1,326	1334	1,286	1443	1,479	1482	1,519	1,579	1,621	1,665	1,710
Electricity sales	1,293	1334	1,286	1443	1,479	1482	1,519	1,579	1,621	1,665	1,710
Fuel clause	33	0	0	0	0	0	0	0	0	0	0
Expenses	1,415	1491	1,464	1768	1,571	1795	1,784	1,812	1,838	1,855	1,871
Purchase of electricity	1,254	1302	1,303	1544	1,347	1566	1,566	1,580	1,594	1,601	1,607
Depreciation	30	30	31	31	31	31	31	31	31	31	31
Interest payments 2/	114	134	110	164	164	170	159	172	184	195	204
Other expenses	16	25	20	29	29	29	29	29	29	29	29
Operating balance (QPC)	-89	-157	-178	-325	-92	-313	-265	-233	-217	-190	-161
Total net domestic financing	89	157	178	325	92	313	265	233	217	190	161
Banks	97	243	264	340	207	313	265	233	217	190	161
Loans and bonds	96	472	233	340	207	313	265	233	217	190	161
Overdrafts	1	-159	31	0	0	0	0	0	0	0	0
Other items 3/	-164	-15	-36	-15	-15	0	0	0	0	0	0
Increase in payables	155	-140	-50	0	-100	0	0	0	0	0	0
Direct transfer from central government	-215	0	-3	0	0	0	0	0	0	0	0
To cover losses and repay arrears	-215	0	-3	0	0	0	0	0	0	0	0
To repay loans	0	0	0	0	0	0	0	0	0	0	0
Payables to the private sector	370	-140	-47	0	-100	0	0	0	0	0	0
Of which: Increase in arrears	70	-70	30	0	-100	0	0	0	0	0	0
Memorandum items:											
Operating balance (percent of GDP)	-0.3	-0.5	-0.6	-1.0	-0.3	-0.9	-0.7	-0.6	-0.5	-0.4	-0.4
Brent oil prices (USD per barrel)	41	66	69	76	107	70	93	84	79	75	72
Outstanding loans and bonds (stocks, end-of-period)	2,495	2967	2,728	3307	3,035	3621	3,300	3,533	3,750	3,940	4,102
Overdrafts	227	68	259	68	259	68	259	259	259	259	259
Total payables	3,225	2870	3,175	2870	3,075	2870	3,075	3,075	3,075	3,075	3,075
to government 4/	2,262	2262	2,259	2262	2,259	2262	2,259	2,259	2,259	2,259	2,259
to private sector	963	608	916	608	816	608	816	816	816	816	816
Of which: arrears (IT)	70	0	100	0	0	0	0	0	0	0	0

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

1/ Staff's projections assume a return in the average bulk tariff to pre-COVID level as consumption shifts back from households to firms; revenues from regional electricity exports of JD 25 million per year in 2022-23 (rising to JD 40 million thereafter); the oil shale project coming online in the second half of 2022; and cost-reduction measures to reduce operating expenses by 2 percent by 2024 (if these cost-saving measures do not deliver the requisite savings, the authorities will need to consider additional measures to

2/ Interest payments exclude interest on account payables to the government.

3/ Includes changes in accounts receivable, depreciation, project expenditures, and other items.

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

Table 2f. Jordan: WAJ and Distribution Companies Balance and Financing, 2020–27
(In millions of Jordanian dinars)

	2020 Act.	2021 3rd Rev	2021 Est.	2022 3rd Rev	2022 Proj.	2023 3rd Rev	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
WAJ Balance:											
Total Revenues	45	34	31	38	34	39	35	36	37	38	39
of which :											
Sales of goods and services	45	34	31	38	34	38	35	36	37	38	39
Current Expenditure 1/	143	156	130	159	142	159	142	144	145	148	151
Salaries, wages and allowances 1/	20	20	18	21	19	22	20	20	21	21	22
Social Security contributions	3	3	2	3	2	3	2	3	3	3	3
Use of goods and services	25	27	27	33	33	34	34	35	35	36	37
Disi Project operational charge	39	45	39	46	40	47	41	42	42	43	44
Samra operational charge	7	14	7	15	7	15	7	7	7	7	8
Interest payments, *of which:*	45	45	36	41	41	37	37	38	36	37	37
Interest payments on domestic loans	35	33	27	28	28	24	24	24	21	21	22
Interest payments on foreign loans	9	12	9	13	13	13	13	14	15	15	15
Primary balance 2/	-53	-76	-62	-81	-68	-83	-69	-70	-72	-73	-75
Capital Expenditure	159	183	162	182	182	186	236	225	215	216	208
WAJ Overall balance	-257	-304	-260	-304	-290	-306	-342	-333	-323	-326	-320
Overall balance of Distribution Companies 3/	-80	-66	-113	-51	-51	-48	-48	-45	-41	-42	-44
Overall balance Consolidated Water Sector 4/	-337	-370	-373	-355	-341	-354	-390	-378	-364	-368	-364
Total net financing	337	370	373	355	341	354	390	378	364	368	364
Grants	17	17	11	30	35	30	30	30	30	30	30
Transfers from Central Government 5/	171	238	221	285	266	284	320	308	294	298	294
Loans (net borrowing)	19	40	29	40	40	40	40	40	40	40	40
of which :											
Domestic loans	0	0	0	0	0	0	0	0	0	0	0
Foreign loans	19	40	29	40	40	40	40	40	40	40	40
Others 6/	130	75	113	0	0	0	0	0	0	0	0
Memorandum items:											
WAJ overall balance (percent of GDP)	-0.8	-0.9	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7
Overall balance of Distribution Companies (percent of GDP)	-0.3	-0.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance Consolidated Water Sector (percent of GDP) 4/	-1.1	-1.2	-1.2	-1.0	-1.0	-1.0	-1.1	-1.0	-0.9	-0.9	-0.8
Domestic payment arrears of WAJ in JD million 7/	37	0	90	0	0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million 8/	92	167	152	167	152	167	152	152	152	152	152
Outstanding loans, *of which:*	2,315	2,593	2,565	2,917	2,871	3,241	3,231	3,580	3,914	4,252	4,586
Domestic loans and bonds	655	655	655	655	655	655	655	655	655	655	655
Foreign loans	500	540	528	580	568	620	608	648	688	728	768
Advances from Central Government	1160	1398	1382	1683	1648	1967	1968	2276	2571	2869	3163
Grants and foreign loans to capital expenditure ratio (in percent)	23	31	24	38	41	38	30	31	33	32	34
Grants to capital expenditure ratio (in percent)	11	9	7	16	19	16	13	13	14	14	14
Effective interest rate (in percent), *of which:*	2.1	2.0	1.6	1.6	1.6	1.3	1.3	1.2	1.0	0.9	0.9
Domestic loans (in percent)	5.4	5.0	4.1	4.3	4.3	3.7	3.7	3.6	3.2	3.3	3.3
Foreign loans (in percent)	1.9	2.5	1.9	2.3	2.4	2.3	2.4	2.3	2.3	2.2	2.1

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

1/ Including other expenses such as pensions.

2/ Excluding interest payments and grants.

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

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

5/ Information from the Ministry of Finance.

6/ Including settlement of liabilities, capital and other government support, installments of centralized debt. In 2020, it includes accumulation of arrears for WAJ and distribution companies.

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

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

Table 3a. Jordan: Summary Balance of Payments, 2020–27
(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021		2022		2023		2024		2025		2026	2027
		3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.
Current account (CA)	-2,509	-4,399	-3,981	-2,222	-3,232	-1,660	-2,416	-1,463	-2,138	-1,542	-2,071	-1,826	-2,528
Trade balance	-7,396	-8,882	-9,888	-8,857	-10,748	-8,428	-10,403	-8,418	-10,538	-8,557	-10,723	-10,988	-11,894
Exports f.o.b.	7,954	8,895	9,371	9,408	11,319	10,102	11,586	10,583	11,723	11,215	12,028	12,273	12,261
Imports f.o.b.	15,351	17,777	19,259	18,266	22,067	18,530	21,989	19,002	22,261	19,772	22,751	23,261	24,155
Energy	2,095	2,852	3,017	2,930	4,615	2,902	4,226	2,885	4,007	2,891	3,880	3,748	3,821
Non-energy	13,255	14,925	16,241	15,335	17,452	15,628	17,763	16,117	18,254	16,880	18,870	19,513	20,334
Services and income (net), *of which:*	-719	-177	156	1,738	1,462	2,079	1,707	2,394	2,093	2,554	2,410	2,826	3,228
Travel receipts	1,411	2,562	2,762	5,475	5,431	6,225	6,236	6,790	6,749	7,209	7,161	7,568	8,017
Current transfers (net), *of which:*	5,606	4,659	5,751	4,898	6,054	4,688	6,280	4,562	6,306	4,461	6,241	6,336	6,138
Public grants	1,465	1,411	1,484	1,593	1,546	1,350	1,576	1,192	1,403	1,058	1,253	1,231	915
Remittances	3,033	3,093	3,062	3,175	3,159	3,273	3,326	3,374	3,515	3,479	3,595	3,681	3,771
Capital and financial account 1/	1,070	2,013	927	1,847	1,287	882	1,495	3,087	2,177	2,697	2,290	1,258	2,832
Public sector, *of which:* 2/	319	314	-377	561	26	-1,064	-681	838	30	364	-62	-1,362	79
Public commerical external borrowing	500	0	6	500	0	0	500	0	0	0	0	0	0
Issuance	1,750	0	0	1,500	1,000	0	500	0	0	1,000	1,000	1,000	1,000
Ammortization	-1,250	0	6	-1,000	-1,000	0	0	0	0	-1,000	-1,000	-1,000	-1,000
Public sector loans	-104	-55	-43	111	66	103	-25	838	19	364	-72	-1,362	79
Disbursement (xcl. program financing)	387	470	511	555	511	576	470	1,244	505	1,025	476	399	412
Ammortization	-492	-525	-554	-444	-445	-474	-495	-405	-486	-661	-548	-1,761	-332
GCC deposits at CBJ	0	0	0	0	0	-1,167	-1,167	0	0	0	0	0	0
SDR allocation	0	469	472	0	0	0	0	0	0	0	0	0	0
Foreign direct investment	735	1,013	607	1,070	798	1,383	1,223	1,718	1,644	1,796	1,769	2,055	2,177
Portfolio flows (private)	-95	104	-86	53	72	54	70	53	65	53	65	64	72
Other capital flows	111	582	783	163	391	509	883	478	437	485	518	501	505
Errors and omissions	-171	0	2,106	0	0	0	0	0	0	0	0	0	0
Overall balance	-1,610	-2,386	-949	-375	-1,945	-778	-921	1,624	39	1,155	219	-568	305
Financing	1,610	2,386	949	375	1,945	778	921	-1,624	-39	-1,155	-219	568	-305
Reserves (+ = decrease)	-1,110	-141	-2,387	-685	356	91	22	-1,143	-376	-924	-465	497	-169
Commercial banks' NFA (+ = decrease)	1,111	500	1,467	-500	-300	-300	-300	-300	-300	0	0	0	0
Program financing (+ = increase)	1,609	2,028	1,868	1,561	1,889	987	1,199	-181	637	-232	245	72	-135
Official budget support	1,115	1,490	1,325	1,190	1,364	934	1,238	0	783	0	469	283	117
World Bank	403	475	469	263	563	312	582	0	356	0	95	37	0
Emergency pandemic support	27	210	210	125	0	0	0	0	0	0	0	0	0
Bilateral and other multilateral loans	713	1,015	856	927	800	622	656	0	427	0	375	246	117
EU emergency pandemic support	116	116	116	0	0	0	0	0	0	0	0	0	0
IMF (net), *of which:*	493	538	542	371	525	54	-40	-181	-146	-232	-224	-212	-252
Fund purchases, *of which:*	690	550	542	396	549	200	102	101	127	0	0	0	0
EFF augmentation/rephasing at 4th review	…		0	0	166	0	-92	0	29	0	0	0	0
Memorandum items:													
Gross reserves	16,960	17,102	19,045	17,787	18,689	17,696	18,667	18,839	19,043	19,763	19,508	19,011	19,180
Gross usable reserves 3/	15,127	15,269	17,272	15,954	16,916	15,863	16,894	17,007	17,270	17,930	17,735	17,238	17,407
In percent of the IMF Reserve Adequacy Metric	110	104	115	102	105	97	98	99	96	101	95	91	90
In months of next year's imports of GNFS	7.8	7.9	7.6	8.1	7.4	7.8	7.3	8.1	7.2	8.2	7.3	6.8	6.9
Current account (percent of GDP)	-5.7	-9.7	-8.8	-4.7	-6.7	-3.3	-4.8	-2.7	-4.0	-2.7	-3.6	-3.0	-4.0
Current account ex-grants (percent of GDP)	-9.1	-12.8	-12.1	-8.0	-9.9	-6.0	-7.9	-5.0	-6.6	-4.6	-5.8	-5.1	-5.4
CA ex-grants and energy imports (percent of GDP)	-4.3	-6.5	-5.4	-1.9	-0.3	-0.2	0.5	0.4	0.9	0.5	1.0	1.1	0.6
Energy imports	4.8	6.3	6.7	6.1	9.6	5.8	8.3	5.4	7.5	5.1	6.8	6.2	6.0
Public grants	3.3	3.1	3.3	3.3	3.2	2.7	3.1	2.2	2.6	1.9	2.2	2.0	1.4
Merchandize export growth (percent)	-4.5	11.8	17.8	5.8	20.8	7.4	2.4	4.8	1.2	6.0	2.6	2.0	-0.1
Re-exports	-34.5	-2.1	1.5	5.0	2.1	6.5	6.4	5.6	4.8	4.8	4.4	4.2	4.2
Domestic exports	1.0	13.5	19.7	5.8	22.7	7.5	2.0	4.7	0.9	6.1	2.4	1.8	-0.5
Merchandize import growth (percent)	-10.1	15.8	25.5	2.7	14.6	1.4	-0.4	2.5	1.2	4.1	2.2	2.2	3.8
Energy (percent)	-34.6	44.2	44.0	2.7	52.9	-1.0	-8.4	-0.6	-5.2	0.2	-3.2	-3.4	1.9
Non-energy (percent)	-4.4	11.6	22.5	2.8	7.5	1.9	1.8	3.1	2.8	4.7	3.4	3.4	4.2
Travel growth (percent)	-75.7	81.6	95.8	113.7	96.6	13.7	14.8	9.1	8.2	6.2	6.1	5.7	5.9
Remittances growth (percent)	-9.1	2.0	1.0	2.6	3.2	3.1	5.3	3.1	5.7	3.1	2.3	2.4	2.4
Total external debt (percent of GDP)	79.3	81.7	80.6	82.4	80.8	80.9	81.2	78.3	78.8	74.9	75.5	69.9	66.6
Of which , Public external debt (Percent of GDP) 4/	40.9	43.8	40.6	46.1	42.3	45.8	43.3	44.5	42.2	42.3	40.2	35.8	33.7
Nominal GDP	43,759	45,355	45,307	47,744	48,064	50,455	50,835	53,423	53,664	56,565	56,817	60,155	63,690

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

1/ Central bank reserve accummulation, commercial banks' NFAs, and program financing are shown below-the-line.

2/ Includes changes in CBJ liabilities, including GCC deposits of $1.2 billion made in 2018 and maturing in 2023.

3/ Including gold and excluding commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 3b. Jordan: External Financing Requirements and Sources, 2020–27
(In millions of U.S. dollars, unless otherwise indicated)

		2020	2021		2022		2023		2024	2025	2026	2027
			3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
(1)	**Gross financing requirements**	**5,912**	**6,348**	**6,013**	**5,283**	**6,247**	**4,797**	**5,796**	**4,299**	**5,096**	**6,030**	**5,027**
	Current account deficit (excl. grants)	3,974	5,811	5,465	3,815	4,778	3,011	3,992	3,541	3,324	3,057	3,443
	of which: Energy imports	2,095	2,852	3,017	2,930	4,615	2,902	4,226	4,007	3,880	3,748	3,821
	Amortization of public sector loans 1/	492	525	554	444	445	474	495	486	548	1,761	332
	Amortization of sovereign bonds 2/	1,250	0	-6	1,000	1,000	0	0	0	1,000	1,000	1,000
	GCC deposits at the CBJ	0	0	0	0	0	1,167	1,167	0	0	0	0
	IMF repurchases	196	12	0	25	24	146	141	272	224	212	252
(2)	**Change in reserves (+ = increase)**	**1,110**	**141**	**2,387**	**685**	**-356**	**-91**	**-22**	**376**	**465**	**-497**	**169**
(3)	**Gross financing sources**	**5,387**	**4,450**	**4,426**	**4,383**	**3,978**	**3,573**	**4,433**	**3,766**	**5,091**	**5,250**	**5,081**
	FDI, net	735	1,013	607	1,070	798	1,383	1,223	1,644	1,769	2,055	2,177
	Public grants	1,465	1,411	1,484	1,593	1,546	1,350	1,576	1,403	1,253	1,231	915
	Public sector borrowing (xcl. official budget support) 2/	387	470	607	555	511	576	470	505	476	399	412
	of which: Unidentified prospective financing 2/	1	0	96	0	0	0	0	0	0	0	0
	Issuance of sovereign bonds 3/	1,750	0	0	1,500	1,000	0	500	0	1,000	1,000	1,000
	GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0	0
	Non-resident purchases of local debt	-8	0	-198	0	0	0	0	0	0	0	0
	CBJ other financing (net) 4/	-69	-100	-237	-50	-39	0	11	11	11	0	0
	SDR allocation held at CBJ	0	469	472	0	0	0	0	0	0	0	1
	Private capital flows, net 5/	1,128	1,186	2,164	-284	163	263	653	203	583	565	576
(4)	**Errors and omissions**	-171	0	2,106	0	0	0	0	0	0	0	0
(1)+(2)-(3)-(4)	**Total financing needs**	**1,806**	**2,040**	**1,868**	**1,585**	**1,913**	**1,134**	**1,340**	**910**	**469**	**283**	**116**
	Official public external financing	**1,805**	**2,040**	**1,868**	**1,585**	**1,913**	**1,134**	**1,340**	**910**	**469**	**283**	**117**
	Identified official budget support	1,115	1,490	1,325	1,190	1,364	934	1,238	783	469	283	117
	EU and WB emergency pandemic support	149	32	32	125	0	0	0	0	0	0	1
	IMF purchases, *of which*	690	550	542	396	549	200	102	127	0	0	0
	RFI	401	0	0	0	0	0	0	0	0	0	0
	EFF augmentation at 4th review	0	0	0	0	166	0	-92	29	0	0	0
	Unidentified external financing	0	0	0	0	0	0	0	0	0	0	0
	Memorandum Items:											
	Gross financing requirements (in percent of GDP)	26.9	27.8	26.4	22.0	25.9	18.9	22.7	15.9	17.8	19.9	15.7
	Gross Usable Reserves	15,127	15,269	17,272	15,954	16,916	15,863	16,894	17,270	17,735	17,238	17,407
	In percent of the IMF Reserve Adequacy Metric 6/	110	104	115	102	105	97	98	96	95	91	90
	In months of next year's imports of GNFS	7.8	7.9	7.6	8.1	7.4	8	7.3	7.2	7.3	6.8	6.9

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

1/ Includes project loans and Arab Monetary Fund and loans on the books of CBJ, and excludes IMF repurchases.

2/ Includes loans on CBJ books.

3/ Includes guaranteed and non-guaranteed bonds.

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

5/ Includes changes in commercial banks' NFA.

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

Table 3c. Jordan: Foreign Exchange Needs and Sources, 2020–27
(In millions of U.S. dollars, unless otherwise indicated)

		2020	2021		2022		2023		2024	2025	2026	2027
		Proj.	3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
(1)	**General Government Gross Needs**	**3,534**	**3,252**	**3,266**	**3,517**	**3,349**	**3,682**	**3,599**	**1,890**	**2,969**	**5,337**	**2,816**
	NEPCO energy imports	777	924	854	757	757	759	759	761	763	765	0
	Net interest payments	419	440	514	391	223	437	337	371	434	449	332
	Amortization of external debt 1/	1,938	538	548	1,469	1,469	1,786	1,803	758	1,772	2,973	1,584
	Amortization of domestic debt in FX	400	1,350	1,350	900	900	700	700	0	0	1,150	900
(2)	**General Government Sources**	**4,893**	**3,582**	**3,783**	**4,943**	**4,506**	**2,827**	**3,348**	**2,034**	**2,728**	**3,780**	**2,327**
	Public grants	1,465	1,411	1,484	1,593	1,546	1,350	1,576	1,403	1,253	1,231	915
	Public sector borrowing 2/	1,078	1,020	1,149	951	1,060	776	572	631	476	399	412
	Sovereign bonds 3/	1,750	0	0	1,500	1,000	0	500	0	1,000	1,000	1,000
	Local bonds in FX	600	1,150	1,150	900	900	700	700	0	0	1,150	0
	GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0	0
(3)=(2)-(1)	**General Government Balance**	**1,359**	**330**	**517**	**1,427**	**1,158**	**-855**	**-251**	**144**	**-240**	**-1,557**	**-489**
(4)	**Financing under the EFF**	**1,115**	**1,490**	**1,325**	**1,190**	**1,364**	**934**	**1,238**	**783**	**469**	**283**	**117**
	Identified official budget support	1,115	1,490	1,325	1,190	1,364	934	1,238	783	469	283	117
(5)=(3)+(4)	**General Government Balance under the EFF**	**2,475**	**1,820**	**1,843**	**2,616**	**2,521**	**78**	**987**	**928**	**229**	**-1,274**	**-373**
(6)	**CBJ Balance under the EFF**, of which	**-1,119**	**-141**	**-2,585**	**-685**	**356**	**91**	**22**	**-376**	**-465**	**658**	**-1**
	Increase in gross reserves	1,110	141	2,387	685	-356	-91	-22	376	465	-658	1
(7)=(5)+(6)	**Public Sector Net Balance**	**1,356**	**1,679**	**-742**	**1,931**	**2,877**	**169**	**1,009**	**551**	**-236**	**-616**	**-374**

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

1/ Includes general government and CBJ (incl. IMF repurchases and repayment of GCC deposits).

2/ Includes project loans, Arab Monetary Fund, IMF purchases, and unidentified financing.

3/ Includes guaranteed and non-guaranteed bonds.

Table 3d. Jordan: External Budget Financing, 2020–27
(In millions of U.S. dollars unless otherwise indicated)

	2020	2021		2022		2023		2024	2025	2026	2027
		3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
Budget grants	**1,047**	**1,006**	**1,058**	**1,185**	**1,145**	**764**	**995**	**881**	**731**	**708**	**675**
EU	70	25	84	150	111	91	91	91	41	41	0
GCC 1/	73	99	99	150	105	161	164	74	0	0	0
United States	845	845	845	845	845	0	0	0	0	0	0
Other 2/	58	37	30	40	83	512	740	716	690	667	675
GCC grants transferred from CBJ to MOF	**68**	**70**	**75**	**87**	**87**	**47**	**47**	**0**	**0**	0	0
Loans	**1,438**	**1,706**	**1,513**	**1,366**	**1,540**	**1,145**	**1,450**	**995**	**681**	**495**	**328**
Multilateral	**665**	**748**	**743**	**487**	**840**	**587**	**859**	**605**	**324**	**262**	**212**
Arab Monetary Fund	249	212	212	212	212	212	212	212	212	212	212
Asian Infrastructure Investment Bank	0	62	63	12	65	64	65	38	18	13	0
EBRD	0	0	0	0	0	0	0	0	0	0	0
Islamic Development Bank	13	0	0	0	0	0	0	0	0	0	0
World Bank	403	475	469	263	563	312	582	356	95	37	0
Bilateral	**773**	**958**	**770**	**880**	**700**	**558**	**591**	**390**	**357**	**233**	**117**
Canada	0	15	0	30	15	45	45	0	0	0	0
EU	298	295	295	238	226	0	0	0	0	0	0
France	113	184	59	115	92	92	85	115	116	117	58
Germany	88	177	173	182	84	92	85	115	116	117	58
Italy	0	37	35	66	22	49	84	35	0	0	0
Japan	200	100	100	100	100	100	100	0	0	0	0
Kuwait	0	51	10	113	125	113	125	125	125	0	0
Saudi Arabia	0	50	50	35	35	66	66	0	0	0	-1
UAE	73	49	49	0	0	0	0	0	0	0	1
IMF purchases	**690**	**555**	**560**	**400**	**571**	**202**	**106**	**132**	**0**	**0**	**0**
Sovereign issuance	**1,750**	**0**	**0**	**1,500**	**1,000**	**0**	**500**	**0**	**1,000**	**1,000**	**1,000**
Guaranted	0	0	0	0	0	0	0	0	0	0	0
Non-guaranteed	1,750	0	0	1,500	1,000	0	500	0	1,000	1,000	1,000

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Grants pledged at the 2018 Mecca Summit and USD 300 million grant from UAE to be disbursed in 2020:Q2 through 2021:Q1.
2/ Includes the grant component from the Concessional Financing Facility and in 2023-25 expected disbursements under new MOUs.

Table 4a. Jordan: Monetary Survey, 2020–27

	2020	2021		2022		2023		2024	2025	2026	2027
		3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
	(Stocks, in millions of Jordanian dinars)										
Net foreign assets	7,528	6,610	7,467	7,249	7,449	8,219	8,534	9,117	9,605	9,403	9,701
Central bank	10,765	10,201	11,736	10,485	11,505	11,243	12,378	12,748	13,236	13,034	13,332
Commercial banks	-3,237	-3,591	-4,269	-3,237	-4,056	-3,024	-3,844	-3,631	-3,631	-3,631	-3,631
Net domestic assets	29,479	31,747	32,029	32,778	34,450	34,080	35,780	37,663	39,923	43,036	45,819
Net claims on general government	12,990	14,132	14,534	14,216	14,481	14,479	14,716	15,324	16,201	17,904	19,019
Net claims on central budgetary government 1/	10,277	11,096	11,700	11,040	11,740	11,190	11,911	12,486	13,346	15,249	16,324
Net claims on NEPCO	2,217	2,441	2,481	2,582	2,388	2,695	2,454	2,487	2,503	2,303	2,343
Net claims on other own budget agencies 2/	-370	-271	-706	-271	-706	-271	-706	-706	-706	-706	-706
Claims on other public entities	866	866	1,058	866	1,058	866	1,058	1,058	1,058	1,058	1,058
Claims on financial institutions	1,359	1,359	1,328	1,359	1,328	1,359	1,328	1,328	1,328	1,328	1,328
Claims on the private sector	26,262	27,318	27,544	28,540	28,683	29,904	29,928	31,578	33,461	35,621	38,065
Other items (net)	-11,132	-11,062	-11,378	-11,337	-10,043	-11,662	-10,193	-10,568	-11,068	-11,818	-12,593
Broad money	37,007	38,357	39,495	40,027	41,898	42,299	44,314	46,781	49,529	52,439	55,520
Currency in circulation	5,939	6,118	6,225	6,324	6,620	6,620	6,935	7,251	7,603	7,971	8,356
Jordanian dinar deposits	24,848	25,952	26,944	27,029	28,293	28,900	30,277	32,217	34,170	36,241	37,967
Foreign currency deposits	6,219	6,287	6,326	6,673	6,985	6,779	7,102	7,313	7,756	8,227	9,197
	(Flows, in millions of Jordanian dinars)										
Net foreign assets	16	-918	-62	639	-18	971	1,086	583	488	-203	298
Net domestic assets	2,024	2,268	2,550	1,031	2,421	1,302	1,330	1,884	2,260	3,113	2,783
Net claims on general government	1,091	1,142	1,543	84	-53	263	236	608	877	1,703	1,115
Net claims on central budgetary government	1,053	819	1,423	-56	40	150	171	575	860	1,903	1,075
Net claims on NEPCO	97	224	264	140	-93	113	65	33	17	-200	40
Net claims on other own budget agencies	-124	99	-336	0	0	0	0	0	0	0	0
Claims on financial institutions	507	0	-31	0	0	0	0	0	0	0	0
Claims on the private sector	1,562	1,056	1,283	1,222	1,139	1,364	1,244	1,651	1,883	2,160	2,444
Other items (net)	-1,135	70	-245	-275	1,335	-325	-150	-375	-500	-750	-775
Broad money	2,039	1,350	2,488	1,670	2,403	2,273	2,416	2,467	2,748	2,910	3,081
Currency in circulation	1,308	178	286	207	395	296	315	316	352	368	385
Jordanian dinar deposits	748	1,104	2,096	1,077	1,349	1,871	1,984	1,940	1,953	2,072	1,726
Foreign currency deposits	-17	67	107	386	659	106	117	211	443	470	970
Memorandum items:											
Year-on-year broad money growth (percent)	5.8	3.6	6.7	4.4	6.1	5.7	5.8	5.6	5.9	5.9	5.9
Year-on-year private sector credit growth (percent)	6.3	4.0	4.9	4.5	4.1	4.8	4.3	5.5	6.0	6.5	6.9
Foreign currency/total deposits (percent)	20.0	19.5	19.0	19.8	19.8	19.0	19.0	18.5	18.5	18.5	19.5
Private sector credit/total deposits (percent)	84.5	84.7	82.8	84.7	81.3	83.8	80.1	79.9	79.8	80.1	80.7
Currency in circulation/JD deposits (percent)	23.9	23.6	23.1	23.4	23.4	22.9	22.9	22.5	22.2	22.0	22.0
Money multiplier (for JD liquidity)	3.4	3.4	3.4	3.5	3.5	3.7	3.7	3.7	3.7	3.7	3.7
Velocity (GDP/M)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8

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

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

2/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2020–27

	2020	2021		2022		2023		2024	2025	2026	2027
		3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.	Proj.	Proj.
	(Stocks, in millions of Jordanian dinars)										
Net foreign assets 1/	10,765	10,201	11,736	10,485	11,505	11,243	12,378	12,748	13,236	13,034	13,332
Foreign assets	12,791	12,892	14,269	13,377	14,017	13,313	14,001	14,268	14,597	14,244	14,364
Of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	627	627	613	627	613	627	613	613	613	613	613
Foreign liabilities	2,026	2,691	2,534	2,892	2,512	2,070	1,623	1,520	1,361	1,211	1,032
Of which: Net Fund Position	737	1,118	1,085	1,381	1,457	1,419	1,429	1,326	1,167	1,017	838
Of which: GCC grants-related	1,181	1,132	1,114	1,070	1,053	210	192	192	192	192	192
Net domestic assets	-1,617	-685	-1,920	-1,010	-1,385	-1,565	-2,321	-2,081	-2,007	-1,212	-946
Net claims on central budgetary government 2/	1,163	1,507	1,353	1,777	1,731	1,832	1,716	1,632	1,494	1,329	1,319
Net claims on own budget agencies and other public entities	-103	-103	-150	-103	-150	-103	-150	-150	-150	-150	-150
Net claims on financial institutions	766	766	760	766	760	766	760	760	760	760	760
Net claims on private sector	23	23	23	23	23	23	23	23	23	23	23
Net claims on commercial banks	-2,786	-2,168	-3,462	-2,138	-2,516	-2,747	-3,436	-3,213	-3,201	-2,240	-1,964
Of which: FX deposits of commercial banks	737	737	710	737	710	737	710	710	710	710	710
CDs	0	0	0	-500	-500	-500	-500	-400	-200	-200	-200
Other items, net (asset: +)	-681	-711	-442	-836	-732	-836	-732	-732	-732	-732	-732
Jordanian dinar reserve money	9,148	9,516	9,816	9,475	10,120	9,679	10,057	10,667	11,229	11,821	12,386
Currency	6,497	6,675	6,835	6,881	7,229	7,177	7,545	7,860	8,212	8,580	8,965
Commercial bank reserves	2,652	2,842	2,981	2,594	2,890	2,502	2,513	2,806	3,017	3,241	3,421
Of which: required reserves	1,222	1,276	1,336	1,329	1,402	1,421	1,501	1,597	1,694	1,796	1,882
	(Flows, in millions of Jordanian dinars)										
Net foreign assets	784	-254	971	284	-231	758	873	370	488	-203	298
Foreign assets	1,105	94	1,478	486	-253	-64	-16	267	329	-353	119
Foreign liabilities	320	347	507	201	-22	-822	-889	-103	-159	-150	-179
Net domestic assets	280	333	-303	-325	534	-555	-935	239	74	795	266
Net claims on central budgetary government	475	0	189	270	378	55	-15	-84	-138	-165	-10
Net claims on commercial banks	-655	8	-676	30	946	-609	-920	223	12	960	276
Other items, net (asset: +)	-422	125	238	-125	-290	0	0	0	0	0	0
Jordanian dinar reserve money	1,065	79	668	-41	304	203	-63	610	562	592	564
Currency	1,335	2	338	207	395	296	315	316	352	368	385
Commercial banks' reserves	-270	78	330	-247	-91	-93	-378	294	211	224	179
Memorandum items:											
Gross international reserves ($ millions)	16,960	17,101	19,045	17,786	18,688	17,695	18,666	19,042	19,507	19,009	19,177
Gross usable international reserves ($ millions)	15,127	15,269	17,272	15,954	16,916	15,863	16,893	17,270	17,734	17,236	17,405
As a ratio to JD broad money (in percent)	35	34	37	34	34	32	32	31	30	28	27
As a ratio of JD reserve money (in percent)	117	114	125	119	119	116	119	115	112	103	100
Net international reserves (millions of JD)	9,815	9,534	11,093	9,757	10,468	9,655	10,480	10,851	11,339	11,136	11,434
Net international reserves (millions of U.S. dollars)	13,844	13,448	15,646	13,762	14,764	13,617	14,782	15,304	15,993	15,707	16,127
Money multiplier (for JD liquidity)	3.4	3.4	3.4	3.5	3.5	3.7	3.7	3.7	3.7	3.7	3.7

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

1/ The SDR allocation has been transferred to central government in April 2022. It is reflected in CBJ's foreign assets, but is no longer a foreign liability of the CBJ but that of central government.

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

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

Review	Availability Date	Action	Purchase	
			SDR Million	Percent of Quota 1/
	March 25, 2020	Board approval of EFF	102.930	30.0
First Review	September 30, 2020	Observance of end-June 2020 performance criteria, completion of first review	102.930	30.0
Second Review	March 30, 2021	Observance of end-December 2020 performance criteria, completion of second review	144.102	42.0
Third Review	September 30, 2021	Observance of end-June 2021 performance criteria, completion of third review	240.170	70.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of fourth review	137.240	40.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	137.240	40.0
Sixth Review	March 30, 2023	Observance of end-December 2022 performance criteria, completion of sixth review	68.620	20.0
Seventh Review	September 30, 2023	Observance of end-June 2023 performance criteria, completion of seventh review	68.620	20.0
Eighth Review	March 15, 2024	Observance of end-December 2023 performance criteria, completion of eighth review	68.620	20.0
Total			**1070.472**	**312.0**

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

Proposal

Review	Availability Date	Action	Purchase	
			SDR Million	Percent of Quota 1/
	March 25, 2020	Board approval of EFF	102.930	30.0
First Review	September 30, 2020	Observance of end-June 2020 performance criteria, completion of first review	102.930	30.0
Second Review	March 30, 2021	Observance of end-December 2020 performance criteria, completion of second review	144.102	42.0
Third Review	September 30, 2021	Observance of end-June 2021 performance criteria, completion of third review	240.170	70.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of fourth review	137.240	40.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	257.325	75.0
Sixth Review	March 30, 2023	Observance of end-December 2022 performance criteria, completion of sixth review	24.017	7.0
Seventh Review	September 30, 2023	Observance of end-June 2023 performance criteria, completion of seventh review	48.034	14.0
Eighth Review	March 15, 2024	Observance of end-December 2023 performance criteria, completion of eighth review	89.206	26.0
Total			**1145.954**	**334.0**

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

Table 6. Jordan: Indicators of Fund Credit, 2019–34
(In millions of SDR unless stated otherwise)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
		Prel	Projections													
Existing and prospective Fund arrangements																
								(SDR million)								
Disbursements	120.1	497.4	384.3	394.6	72.1	89.2	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit 1/	365.1	720.4	1,091.8	1,469.3	1,441.3	1,338.9	1,182.6	1,035.6	861.5	668.7	480.3	310.5	178.4	109.8	81.2	75.4
Obligations to the Fund 2/	310.3	151.0	25.2	40.9	130.3	222.0	184.0	171.6	192.5	203.8	194.4	173.9	134.5	69.7	29.1	6.0
Principal (repayments/repurchases)	298.4	142.1	12.9	17.2	100.1	191.5	156.4	147.0	174.1	192.7	188.4	169.8	132.1	68.6	28.6	5.7
Charges and interest 3/	11.9	9.0	12.3	23.8	30.3	30.5	27.7	24.7	18.4	11.0	6.0	4.1	2.4	1.1	0.5	0.3
								(Percent)								
Stock of existing and prospective Fund credit 1/ 4/																
In percent of quota	106.4	210.0	318.2	393.2	404.1	368.2	322.7	279.8	229.1	172.9	118.0	68.5	30.0	10.0	1.7	0.0
In percent of GDP	1.1	2.4	3.3	4.2	3.9	3.4	2.9	2.4	1.9	1.4	0.9	0.6	0.3	0.2	0.1	0.1
In percent of exports of goods and services	3.1	9.9	10.8	10.7	9.9	8.8	7.5	6.3	5.1	3.8	2.6	1.6	0.9	0.5	0.4	0.3
In percent of gross usable reserves	3.7	6.8	8.7	11.9	11.7	10.6	9.2	8.3	6.9	4.1	2.8	1.7	0.9	0.5	0.4	0.3
In percent of government revenue	4.7	10.5	13.1	16.1	15.3	13.5	11.4	9.4	7.4	5.4	3.7	2.3	1.2	0.7	0.5	0.4
In percent of total external debt	1.7	3.0	4.2	4.9	4.8	4.3	3.7	3.3	2.7	2.1	1.4	0.8	0.4	0.1	0.0	0.0
Obligations to the Fund (repurchases and charges) 4/																
In percent of quota	90.4	44.0	7.3	11.9	38.0	64.7	53.6	50.0	56.1	59.4	56.7	50.7	39.2	20.3	8.5	1.7
In percent of GDP	1.0	0.5	0.1	0.1	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.3	0.2	0.1	0.0	0.0
In percent of exports of goods and services	2.6	2.0	0.2	0.3	0.9	1.5	1.2	1.0	1.1	1.2	1.1	0.9	0.7	0.3	0.1	0.0
In percent of gross usable reserves	3.2	1.4	0.2	0.3	1.1	1.8	1.4	1.4	1.5	1.2	1.1	0.9	0.7	0.3	0.1	0.0
In percent of government revenue	4.0	2.1	0.3	0.4	1.4	2.2	1.8	1.6	1.7	1.6	1.5	1.3	0.9	0.5	0.2	0.0
In percent of total external debt service	10.2	4.8	0.6	1.3	4.7	7.3	4.9	3.8	5.4	7.9	6.5	4.5	4.3	1.8	0.8	0.2
Memorandum items																
Quota (SDR million)	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1
Gross domestic product, baseline (USD million)	44,566	43,759	45,307	48,064	50,835	53,664	56,817	60,155	63,690	67,146	71,095	75,278	79,706	84,394	89,359	94,616
Exports of goods and services (USD million)	16,193	10,459	13,873	18,834	20,067	20,873	21,732	22,528	23,121	24,155	25,249	26,433	27,872	29,407	31,047	32,800
Gross usable reserves (USD million)	13,512	15,127	17,272	16,916	16,893	17,270	17,734	17,076	17,078	22,482	23,886	25,378	26,963	28,646	30,436	32,336
Government revenue (USD million)	10,828	9,914	11,464	12,550	12,948	13,564	14,299	15,137	15,946	17,025	17,947	18,919	19,944	21,025	22,163	23,364
External debt service (USD million)	4,221	4,318	2,963	4,432	3,953	4,299	5,372	6,547	5,117	3,746	4,306	5,558	4,523	5,591	5,103	4,631
Total external debt (USD million)	30,306	34,695	36,496	38,839	41,291	42,307	42,918	42,048	42,425	41,201	41,275	40,153	40,123	39,049	38,470	38,406

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

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

3/ Using GRA rate of charge of 1.05 (as of November 25, 2021).

4/ Using the end-2020:Q1 forecast of the SDR/USD rate in 2022-2034 forecasts.

Annex I. Public and External Debt Sustainability Analysis[1]

Jordan's public debt is assessed as sustainable, and is expected to remain on a firm downward path under the revised medium-term fiscal consolidation path, despite the slightly weaker outlook. Public debt peaked at 91.9 percent of GDP in 2021, but is expected to decline below 85 percent of GDP by 2025, and below 80 percent of GDP by 2027. The potential for further global and regional geopolitical instability, higher-than-expected climate change adaptation costs, and the materialization of contingent liabilities from the broader public sector, all pose risks to sustainability. These risks are mitigated by a favorable debt structure, with long maturities and substantial current, committed, and prospective grants and concessional financing. External debt is sustainable as long as the peg stands.

A. Public Sector DSA

1. **Public debt increased slightly in 2021 but is expected to be on a downward trajectory going forward**. Public debt, defined in this DSA as the consolidated gross direct and guaranteed debt of the central government, NEPCO, WAJ, water distribution companies, and the state-owned Social Security Corporation (SSC), reached 91.9 percent of GDP at end-2021. Significant central government fiscal consolidation efforts over the medium-term, and implementation of structural reforms aimed to bolster growth, are expected to put debt to GDP on a firmly downward trajectory going forward. Importantly, the SSC's investment portfolio now includes 16.6 percent of GDP in assets outside the general government sector, implying a *net* debt position of 75.3 percent of GDP.

2. **Pressures outside the central government sector are balanced.** The SSIF's net assets grew by 11 percentage points relative to 2020, on the back of an increase in interest income (by 13 percent relative to 2020), the rebound in social security contributions, and an increase in asset values. Continued investments by the SSIF in government debt will contribute to keeping debt on a downward trajectory; an increase in formalization of employment has also helped extend the horizon over which social security contributions will exceed outlays by five years (to 2038) relative to previous reviews, which will allow for a longer horizon of SSIF purchases of government debt. However, losses of water and energy utility companies remain elevated, and the coming online of a large oil-shale PPA later this year is expected to significantly increase NEPCO's losses in 2023. Projections over the medium term include JD100 million additional annual investments needed in the water sector for climate change adaptation.

3. **The structure of public debt remains favorable.** While foreign-currency denominated debt constitutes half of total public debt, a large share is held by multilateral and official bilateral creditors; this pattern is expected to continue, given official sector pledges made as part of the Jordan Compact and the 2019 London Initiative. On the domestic side, Jordan has lengthened maturities in recent years: excluding treasury bills, the average maturity has almost doubled to since 2018. While domestic borrowing costs have increased in the first half of the year, in line with

[1] The DSA is based on the assumption that NEPCO will fully honor its contractual obligations with respect to the most significant oil shale PPA, which start in 2022. Potential resolution of the oil shale PPA, thus, presents an upside for debt sustainability.

increases in policy rates, the use of the SDR allocation is helping to scale back issuance of more expensive domestic bonds starting in April.

4. The medium-term fiscal consolidation path has been revised in light of the more challenging outlook and anticipated monetary tightening; the new path envisages 4.5 percent of GDP improvement in the central government primary deficit (excluding grants) over 2022–27. The consolidation is expected to be frontloaded, with a cumulative effort of 3.6 percent of GDP achieved by end-2025. Under the baseline, the debt/GDP ratio would fall below 85 (80) percent of GDP by 2025 (2027). The proposed path would also result in a general government primary balance of 3.8 percent by end-2027, well above the debt-stabilizing level, ensuring debt would continue its downward trajectory after 2027.[2] Higher grants relative to the third review (given the MOU with the US) also help offset some of the impact of slower consolidation on debt dynamics (see Figure AI.3).

5. Public gross financing needs (GFNs) are somewhat elevated. GFNs peak at 18.8 percent in 2022 before declining to 15-18 percent over the medium term. The stress tests show that GFNs are robust to shocks. This reflects significant projected concessional financing; limited private external debt maturing after 2022; and the pre-COVID domestic debt maturity extension. Moreover, Jordanian banks are adequately capitalized, and can thus absorb higher government domestic debt issuance. As noted earlier, the SSIF's net income position is also strong: government bonds at the end of 2021 accounted for about 56 percent of its investment portfolio, which implies that the SSIF can scale up purchases of government bonds before the exposure cap (60 percent, up to 65 percent in extraordinary circumstances) becomes binding. Taken together, these suggest manageable risks to GFN financeability.

6. Nevertheless, risks to debt sustainability remain. Although Jordan's debt and GFN profiles indicate moderate risks overall, several factors could pressure debt sustainability, including further global and regional geopolitical instability slowing down the recovery; higher risk premia and further tightening of global liquidity conditions; persistently elevated commodity prices necessitating further support to vulnerable households; and losses from SOEs and PPPs exceeding those already captured in baseline projections. Investments needed in the water sector for climate change adaptation beyond 2027 are sizeable, which will likely slow down (but not reverse) the pace of decline in public debt (see Annex V). Moreover, the Aqaba Amman Conveyor also increases contingent liabilities, via government guarantees on private financing (0.9 percent of GDP) and the contract termination guarantee (up to 3.6 percent of GDP for termination due to political force majeure). These risks highlight the need to accelerate structural reforms to boost growth and to develop a concise policy agenda to mitigate losses from the broader public sector.

[2] The general government primary balance also consolidates NEPCO, water sector entities, and the SSC primary balances; see Table 2c. The debt-stabilizing primary balance is computed based on real growth of 3.3 percent, real interest rates of 1.7 percent, and a debt level of 80 percent of GDP.

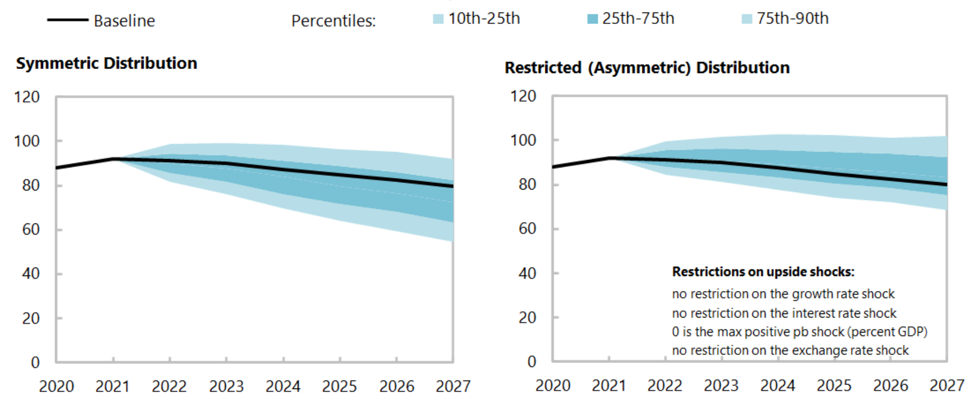
Figure AI.1. Jordan: Public DSA—Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

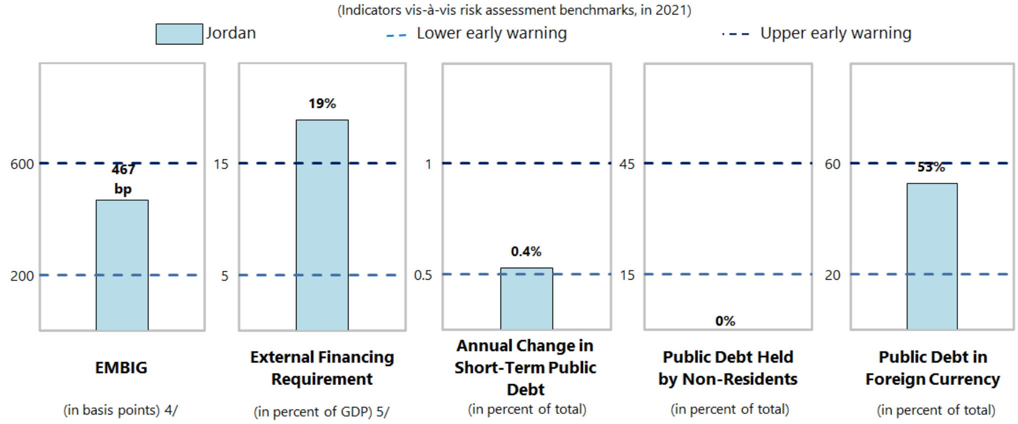
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

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

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

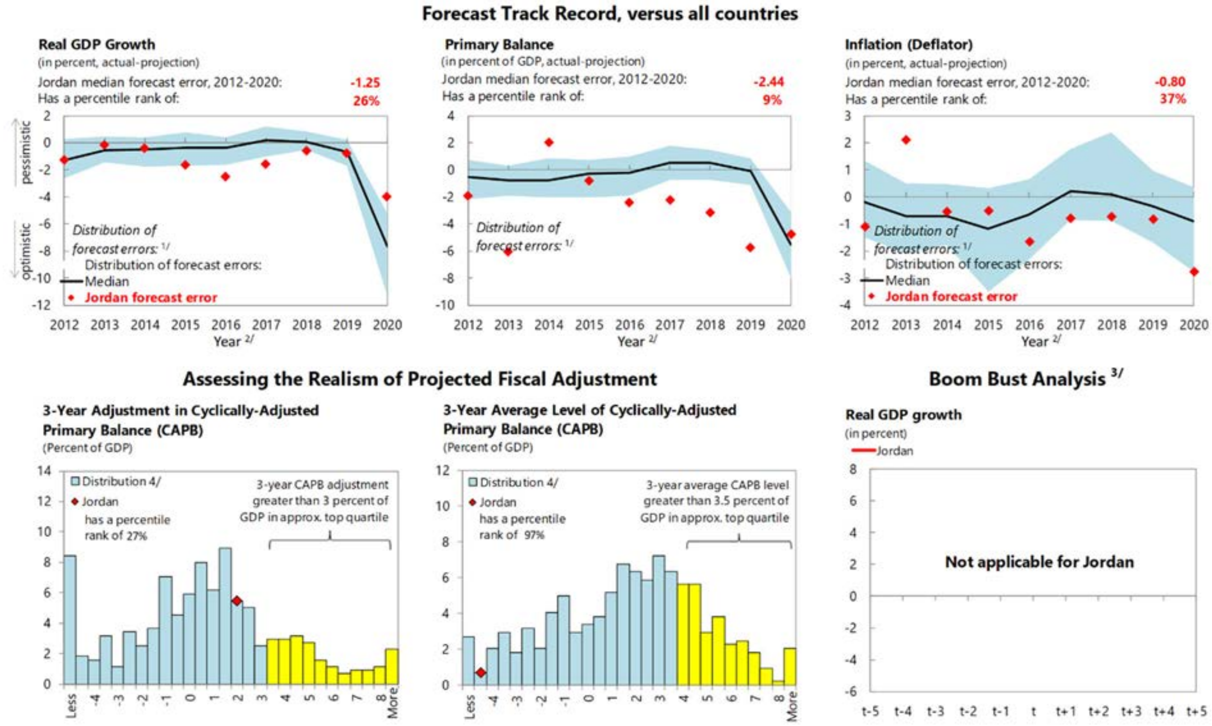
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 20-Jan-22 through 20-Apr-22.

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

Figure AI.2. Jordan: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

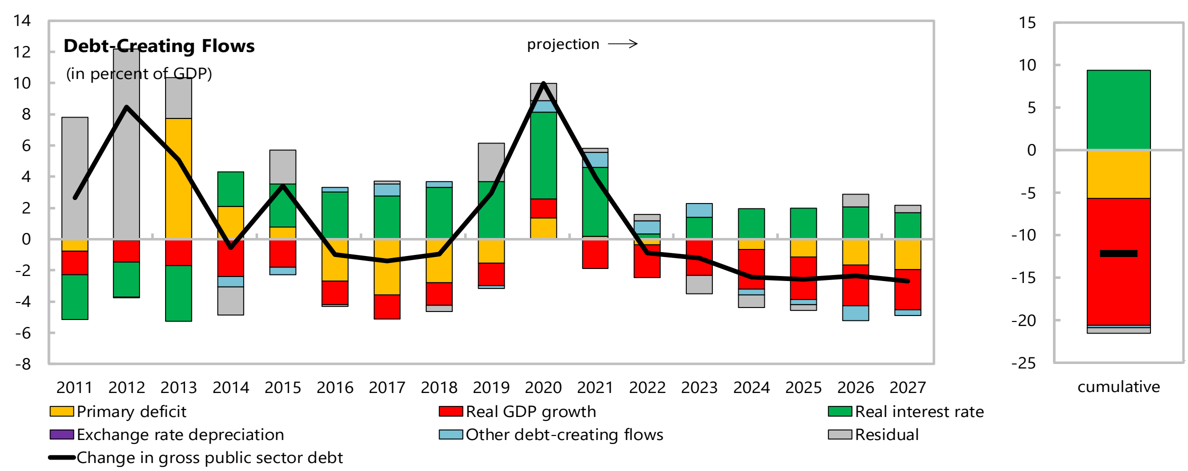
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	74.2	88.0	91.9	91.0	89.8	87.4	84.8	82.4	79.7
Of which: guarantees	10.9	9.8	10.0	9.3	9.7	9.6	9.5	8.9	8.1
Public gross financing needs	21.6	20.6	11.0	18.8	16.2	14.3	17.3	19.7	14.5
Real GDP growth (in percent)	2.4	-1.6	2.2	2.4	2.7	3.0	3.3	3.3	3.3
Inflation (GDP deflator, in percent)	3.2	-0.3	1.3	3.6	3.0	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	5.7	-1.8	3.5	6.1	5.8	5.6	5.9	5.9	5.9
Effective interest rate (in percent) [4/]	4.1	4.6	4.4	4.0	4.2	4.3	4.4	4.6	4.2

As of April 20, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		454
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B+	B+
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.1	10.0	3.9	-0.9	-1.2	-2.4	-2.6	-2.3	-2.7	-12.2	
Identified debt-creating flows	-0.7	8.9	3.7	-1.3	0.0	-1.6	-2.2	-3.1	-3.2	-11.5	
Primary deficit	-0.1	1.4	0.2	-0.4	0.0	-0.7	-1.1	-1.6	-1.9	-5.7	-1.2
Revenues and grants	28.5	34.0	38.0	38.3	37.6	37.5	37.3	37.3	37.1	225.1	
Primary expenditures	28.4	35.3	38.2	37.9	37.7	36.8	36.2	35.6	35.2	219.4	
Automatic debt dynamics [5/]	-0.6	6.8	2.5	-1.7	-1.0	-0.6	-0.7	-0.6	-0.9	-5.5	
Interest rate/growth differential [6/]	-0.6	6.8	2.5	-1.7	-1.0	-0.6	-0.7	-0.6	-0.9	-5.5	
Of which: real interest rate	1.0	5.6	4.4	0.3	1.3	2.0	2.0	2.1	1.7	9.4	
Of which: real GDP growth	-1.6	1.2	-1.9	-2.1	-2.3	-2.6	-2.7	-2.6	-2.6	-14.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.7	1.0	0.8	0.9	-0.4	-0.3	-0.9	-0.4	-0.3	
Privatization Receipts (negative)	-0.2	0.0	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	
Other flows [8/]	0.2	0.7	1.0	0.8	0.9	-0.4	-0.3	-0.9	-0.4	-0.3	
Residual, including asset changes [9/]	2.8	1.1	0.2	0.4	-1.2	-0.8	-0.4	0.8	0.5	-0.7	



Source: IMF staff.

1/ Public sector is defined as the consolidated central government, NEPCO, WAJ, water distribution companies, and Social Security Corporation and includes public guarantees, defined as guaranteed debt of NEPCO, WAJ, and other public entities.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock 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 off-budget project loans, repurchases under the 2016 EFF, and SSC's investments in non-government debt and equity.

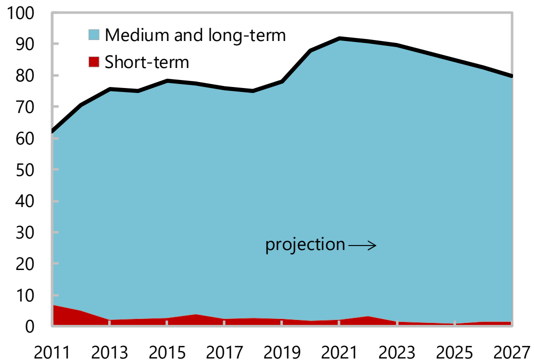
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

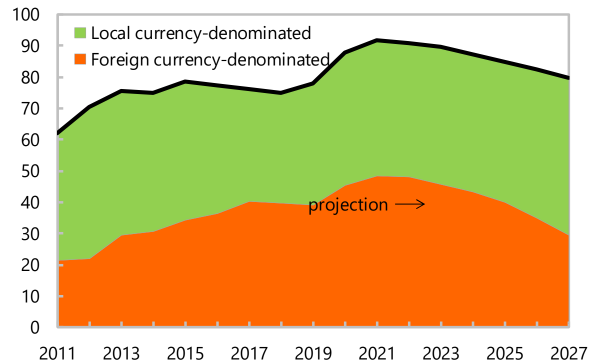
Figure AI.4. Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



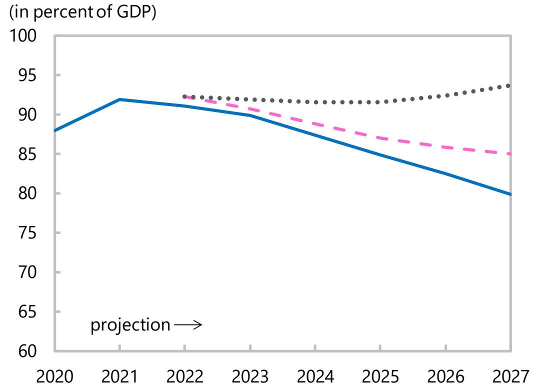
By Currency
(in percent of GDP)



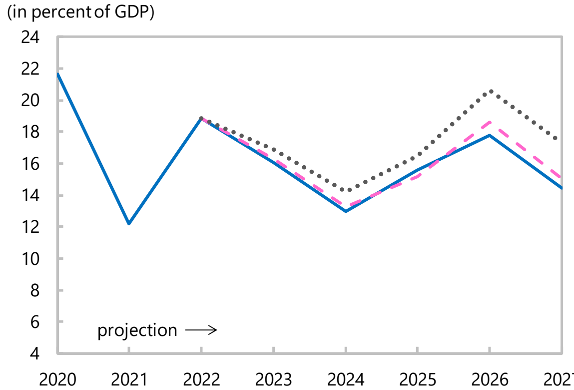
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

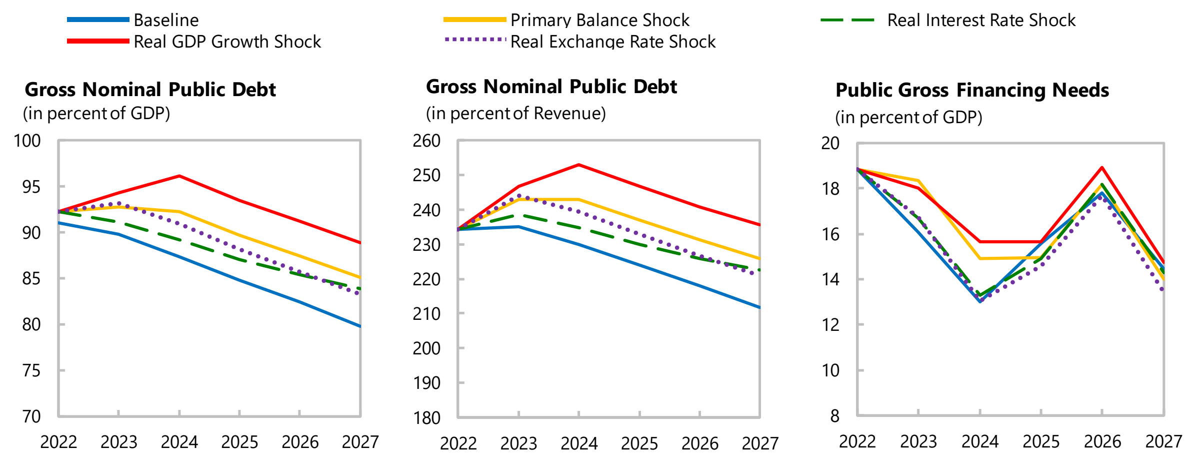
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.4	2.7	3.0	3.3	3.3	3.3
Inflation	3.6	3.0	2.5	2.5	2.5	2.5
Primary Balance	0.4	-0.1	0.7	1.1	1.6	1.9
Effective interest rate	4.0	4.2	4.3	4.4	4.6	4.2
Constant Primary Balance Scenario						
Real GDP growth	2.4	2.7	3.0	3.3	3.3	3.3
Inflation	3.6	3.0	2.5	2.5	2.5	2.5
Primary Balance	0.4	0.4	0.4	0.4	0.4	0.4
Effective interest rate	4.0	4.6	4.9	5.0	5.2	5.0

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.4	2.0	2.0	2.0	2.0	2.0
Inflation	3.6	3.0	2.5	2.5	2.5	2.5
Primary Balance	0.4	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	4.0	4.6	5.0	5.2	5.6	5.6

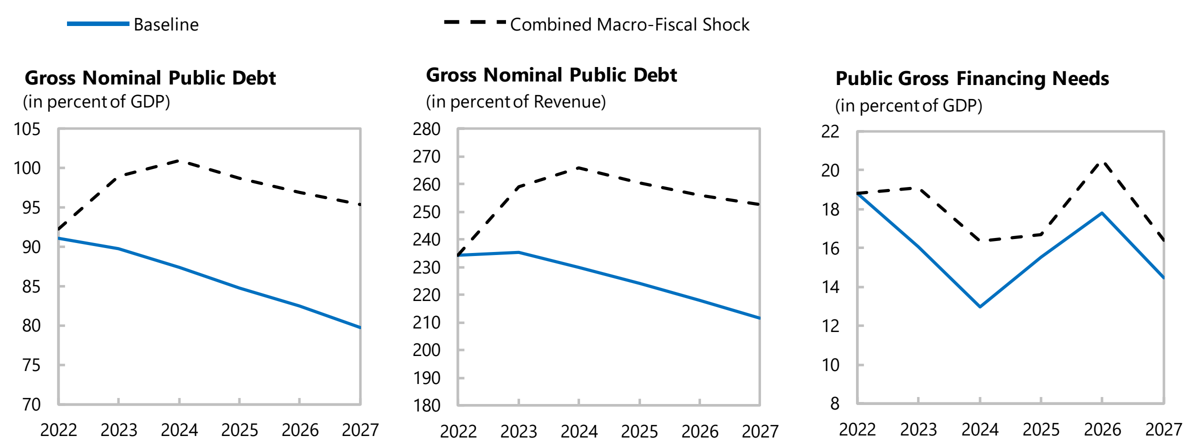
Source: IMF staff.

Figure AI.5. Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	2.4	2.7	3.0	3.3	3.3	3.3
Inflation	3.6	3.0	2.5	2.5	2.5	2.5
Primary balance	0.4	-1.7	-1.0	1.1	1.6	1.9
Effective interest rate	4.0	4.6	4.9	5.1	5.3	5.2
Real Interest Rate Shock						
Real GDP growth	2.4	2.7	3.0	3.3	3.3	3.3
Inflation	3.6	3.0	2.5	2.5	2.5	2.5
Primary balance	0.4	-0.1	0.7	1.1	1.6	1.9
Effective interest rate	4.0	4.6	5.2	5.6	6.1	6.2
Combined Shock						
Real GDP growth	2.4	0.7	1.0	3.3	3.3	3.3
Inflation	3.6	2.5	2.0	2.5	2.5	2.5
Primary balance	0.4	-1.7	-1.2	1.1	1.6	1.9
Effective interest rate	4.0	4.7	5.1	5.5	6.0	6.1

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	2.4	0.7	1.0	3.3	3.3	3.3
Inflation	3.6	2.5	2.0	2.5	2.5	2.5
Primary balance	0.4	-1.0	-1.2	1.1	1.6	1.9
Effective interest rate	4.0	4.6	4.9	5.0	5.2	5.1
Real Exchange Rate Shock						
Real GDP growth	2.4	2.7	3.0	3.3	3.3	3.3
Inflation	3.6	5.0	2.5	2.5	2.5	2.5
Primary balance	0.4	-0.1	0.7	1.1	1.6	1.9
Effective interest rate	4.0	4.6	4.6	4.6	4.7	4.5

Source: IMF staff.

B. External Sector DSA

7. 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 likely underestimated. External debt is defined according to the residency criterion.

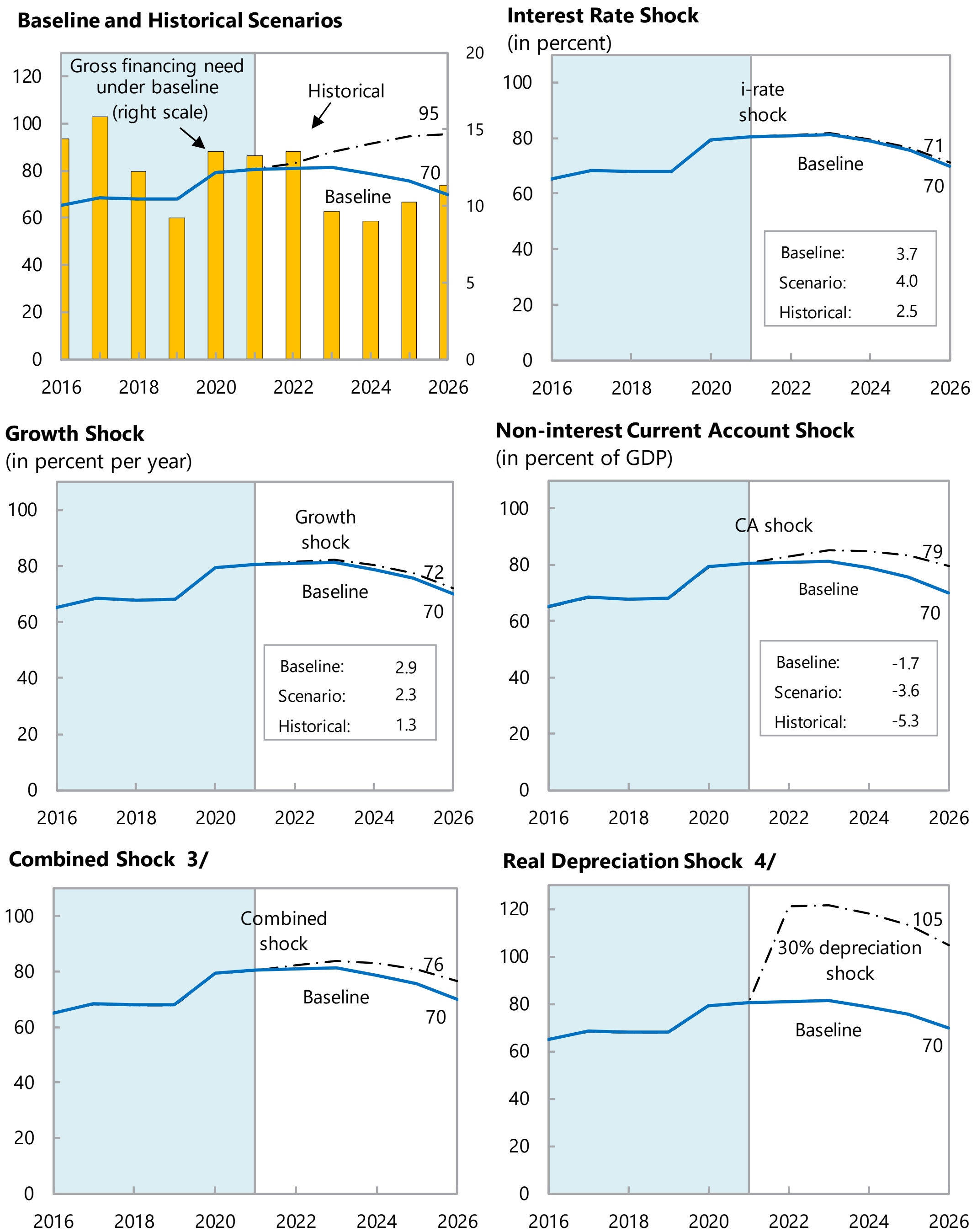
8. Jordan's public external debt remains moderate but is projected to grow slightly over the medium term. Public external debt is expected to rise from 40.6 percent of GDP in 2021 to 42.3 percent in 2022, reflecting higher external financing support in the wake of the COVID-19 pandemic and rising energy costs following the Russia-Ukraine war, before falling back below 39 percent by 2026. The composition of public external debt would remain favorable, due to the sizable share of concessional borrowing, including pledges made as part of the Jordan Compact and the 2019 London Initiative.

9. Private external debt is expected to remain moderate in the 34–40 percent of GDP range. As of end-2021, 78 percent of total private external debt was owed by banks (mostly in the form of non-resident deposits), with the remainder owed by non-financial 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 firms' external debt is expected to gradually increase from roughly a quarter to one third of total private external debt. Given the currently available information on 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.

10. External financing requirements would remain sizable through mid-program and gradually decline thereafter. The still elevated financing requirements reflect the post-COVID-19 widening of the current account deficit and its gradual correction, the exceptional rise in energy costs driving up imports, as well as amortization of US$1 billion Eurobonds in 2022, which is assumed to be rolled-over on market terms prevailing at that time.

11. The external debt trajectory is relatively robust to shocks. Standardized stress-test scenarios suggest that the sensitivity of external debt to current account and combined shocks is relatively low and interest rate and real growth shocks would only have a marginal impact on the external debt burden. The moderate risks to external debt sustainability are predicated on the assumption that FDI inflows will gradually pick up on the back of structural adjustment, that international market access will continue to be sustained, and that the accumulation of additional external buffers under the program will help cushion against external shocks and anchor private expectations. A large and permanent real depreciation shock would bring the ratio of external debt to GDP well above the baseline projections. This underscores the importance of safeguarding the peg through prudent policies.

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Five-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the five-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 2020.

Table AI.1. Jordan: External Debt Sustainability Framework, 2016–26
(In percent of GDP, unless otherwise indicated

	Actual								Projections					
	2016	2017	2018	2019	2020	2021	5-Year Historical Average	10-Year Standard Deviation	2022	2023	2024	2025	2026	**Debt-stabilizing non-interest current account 7/**
	28.8	29.2	31.3	33.0	38.4	40.0			38.5	37.9	36.6	35.3	34.1	
1 **Baseline: External debt 1/**	65.1	68.4	67.9	68.0	79.3	80.6			**80.8**	**81.2**	**78.8**	**75.5**	**69.9**	**-4.6**
Of which : Public and Publicly Guaranteed External Debt	36.3	39.2	36.6	35.0	40.9	40.6			42.3	43.3	42.2	40.2	35.8	
2 Change in external debt	1.2	3.3	-0.5	0.1	11.3	1.3			0.3	0.4	-2.4	-3.3	-5.6	
3 Identified external debt-creating flows (4+8+9)	3.7	3.3	2.2	-2.2	5.3	5.8			3.2	0.3	-1.4	-1.9	-2.5	
4 Current account deficit, excluding interest payments	8.6	9.3	5.0	-0.3	3.7	6.7			4.3	1.9	1.0	0.8	0.4	
5 Deficit in balance of goods and services	20.8	21.1	18.2	13.0	18.3	21.0			17.8	14.5	13.1	12.1	11.3	
6 Exports	34.1	34.5	35.2	36.3	23.9	30.6			39.2	39.5	38.9	38.2	37.4	
7 Imports	54.8	55.6	53.4	49.4	42.2	51.6			57.0	54.0	52.0	50.3	48.8	
8 Net non-debt creating capital inflows (negative)	-3.9	-4.9	-2.2	-1.5	-1.7	-1.3			-1.7	-2.4	-3.1	-3.1	-3.1	
9 Automatic debt dynamics 2/	-1.1	-1.1	-0.5	-0.4	3.3	0.4			0.6	0.8	0.7	0.4	0.2	
10 Contribution from nominal interest rate	1.0	1.3	1.9	2.0	2.1	2.1			2.4	2.9	3.0	2.9	2.6	
11 Contribution from real GDP growth	-1.2	-1.3	-1.3	-1.3	1.1	-1.7			-1.8	-2.1	-2.3	-2.5	-2.4	
12 Contribution from price and exchange rate changes 3/	-0.9	-1.1	-1.2	-1.1	0.2	-1.0			...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	-2.5	-0.1	-2.7	2.3	6.0	-4.5			-3.0	0.1	-1.0	-1.4	-3.2	
External debt-to-exports ratio (in percent)	191.3	198.1	193.2	187.2	331.7	331.7			206.2	205.8	202.7	197.5	186.7	
Gross external financing need (in billions of U.S. dollars) 5/	5.7	6.6	5.3	4.1	5.9	6.0			6.5	4.9	4.8	5.8	6.8	
in percent of GDP	14.4	15.8	12.2	9.2	13.5	13.2			13.5	9.6	9.0	10.2	11.3	
Scenario with key variables at their historical averages 6/									**82.8**	**87.8**	**91.3**	**94.4**	**95.2**	**-2.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.0	2.1	1.9	2.0	-1.6	2.2	1.3	1.3	2.4	2.7	3.0	3.3	3.3	
GDP deflator in U.S. dollars (change in percent)	1.4	1.7	1.7	1.7	-0.3	1.3	1.2	2.1	3.6	3.0	2.5	2.5	2.5	
Nominal external interest rate (in percent)	1.7	2.1	2.8	3.1	3.0	2.7	2.5	0.7	3.2	3.8	3.9	3.9	3.6	
Growth of exports (U.S. dollar terms, in percent)	-3.8	5.3	5.5	7.1	-35.4	32.6	-4.3	13.4	35.8	6.5	4.0	4.1	3.7	
Growth of imports (U.S. dollar terms, in percent)	-4.0	5.3	-0.5	-4.2	-16.1	26.7	-3.9	9.3	17.3	0.2	1.6	2.5	2.6	
Current account balance, excluding interest payments	-8.6	-9.3	-5.0	0.3	-3.7	-6.7	-5.3	3.9	-4.3	-1.9	-1.0	-0.8	-0.4	
Net non-debt creating capital inflows	3.9	4.9	2.2	1.5	1.7	1.3	2.8	1.6	1.7	2.4	3.1	3.1	3.1	

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

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

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

4/ For projection, line includes the impact of price and exchange rate changes.

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.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Jordan in 2021 was broadly in line with the level implied by fundamentals and desirable policies.* In 2021, Jordan's CA deficit of 8.8 percent of GDP was primarily driven by the combination of still-weak tourism receipts (owing to the pandemic) and a high oil import bill, reflecting elevated global oil prices. Thus, a large portion of the CA deficit is assessed as temporary. Financing remains adequate, as evidenced by the improvement in gross reserves in 2021, by 5 percentage points, to 115 percent of the IMF reserves adequacy (ARA) metric.

Potential Policy Responses: Jordan has pursed sound macroeconomic policies and preserved momentum in structural reforms despite the challenges posed by the pandemic. Continued vaccination roll out will support the nascent recovery in tourism and policies to maintain macroeconomic stability, strengthen debt sustainability and improve the business climate, will be important to maintain Jordan's attractiveness for foreign investment. Reserve accumulation during 2021 provides an important buffer for shocks and supports the exchange rate peg. Maintaining gross useable reserves at or above 100 percent of the IMF ARA is recommended.

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP has deteriorated in the last decade due to the sequence of external shocks that have resulted in CA deficits (see section below). The NIIP, at -109 percent of GDP in 2021, has deteriorated by 41 percent of GDP since 2010, however around half of that deterioration took place between 2010 and 2013 when regional shocks (disruption of gas supply from Egypt, ISIS attacks in Iraq and Syria) drove a large deterioration in the current account. The decline in NIIP has been financed by inward FDI, accounting for a 60 percent share of flows, followed by portfolio investment (29 percent share of flows). The NIIP is projected to stabilize in 2022 and improve to -104 percent of GDP by 2025 as the recovery in exports (especially tourism) catches up with the rise in the import bill.

Assessment. Risks from large gross external liabilities are mitigated by the latter's composition, with an 82 percent share of FDI which is less volatile than other funding sources. Nonetheless, the NIIP is projected to stabilize due to the recovery in the CA balance, valuation effects pose minimal risk given the exchange rate peg. While Jordan's negative NIIP is large, vulnerabilities are mitigated by healthy reserve buffers, exceeding the Fund's adequacy metric by 15 percent in 2021, and sound economic policies and solid reform progress under EFF arrangement (see assessment of reserve adequacy below).

2021 (% GDP)	NIIP: -109	Gross Assets: 68	Debt Assets: 11	Gross Liab.: 177	Debt Liab.: 81

Current Account

Background. Jordan's CA averaged -8.4 percent of GDP 2009-2019, which reflects geopolitical tensions in the first half of the decade and recently the covid-19 driven decline in tourism.

Despite these challenges, Jordan saw impressive development of its tourism sector in the three years prior to the pandemic and benefited from exceptionally strong price growth for its fertilizer related commodity exports. The COVID-19 shock lead to a sharp deterioration in tourism and remittances receipts resulting in a 2020 deficit of –5.7 percent.[1] The CA deficit for 2021 was 8.8 percent. This is driven by a recovery in import volumes (both energy and non-energy), along with elevated energy prices, that has more than compensated for a nascent recovery in tourism receipts (which remain around 50 percent of their 2019 level); and strong revenues from fertilizer commodity exports as well as stronger than expected transfers.

Jordan: Model Estimates for 2021

(Percent of GDP)

	CA model	REER model	ES model
CA-Actual	**-8.8**		
Cyclical contributions (from model) (-)	-0.8		
COVID-19 adjustor (+) 1/	3.2		
Additional temporary/statistical factors (+)	1.2		
Natural disasters and conflicts (-)	0.7		
Adjusted CA	**-4.3**		
CA Norm (from model) 2/	**-3.9**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-3.9**		
CA Gap	**-0.4**	**8.2**	**N/A**
o/w Relative policy gap	4.7		
Elasticity	-0.30		
REER Gap (in percent)	**1.5**	**-27.5**	**0.0**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism

2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The 2021 adjusted CA in 2021 is -4.3 percent of GDP while the CA norm is -3.9 percent of GDP, resulting in a CA gap of -0.4 percent of GDP. The non-cyclical adjustments to the CA are sizable (5.1 percent of GDP), owing to: (i) COVID-19 (3.2 percent of GDP) given gaps between current and pre-covid projections for tourism and remittances; (ii) conflict in the region (0.7 percent of GDP); and (iii) statistical issues (1.2 percent of GDP). The latter relates to the large errors and omissions in the balance of payments for 2021 (3.6 percent), which staff assessment suggests represents around 1.2 percent of GDP in uncounted remittances and secondary income flows.[2] The CA gap reflects a relative policy gap of 4.7 percent due to fiscal policy being tighter than staff's judgement of equilibrium reflecting debt sustainability goals of the program, health spending lower than equilibrium given some covid related upgrades are expected to be made permanent, and credit growth being lower than the longer-term forecasts. The fact that the policy gap positive suggests that policy adjustments are unlikely to eliminate the CA gap, instead, structural reforms to enhance competitiveness and productivity are key given the peg prevents the exchange rate aiding in this adjustment.

Real Exchange Rate
Background. The REER appreciated 15 percent from 2012–19 in line with the global strength of the dollar (to which it is pegged). However, the 2020–21 period saw sharp divergence between the NEER and REER: whereas the NEER for both Jordan and the U.S. remained close, the REER depreciated significantly, undoing all the appreciation since 2012, due to lower inflation in Jordan relative to trading partners. The year average REER was 102 for 2021, an 8.5 percent depreciation relative to 2020. **Assessment.** The EBA-lite CA model indicates that the REER is approximately fairly valued (1.5 percent overvaluation) based on the CA gap of -0.4 and a REER elasticity of 0.3. This CA estimate is considered indicative since it is optimized for a wide range of countries, does not fully incorporate the impact on the current account of the influx of refugees and associated aid flows. In contrast, the REER model indicates a 27 percent undervaluation primarily due to Jordan's low dependency ratio. We discount this model as the dependency ratio enters the regression specification with a sign opposite to theoretical priors.[3] Staff estimate for the CA gap of -0.5percent and a REER at fair value, a judgement in line with the preferred CA EBA-lite model. The External Sustainability (ES) model is based on the adjustment to the CA required to stabilize the NIIP at its current level. However, the current path for the CA implies that the NIIP will stabilize meaning this model projects no gap in the REER.
Capital and Financial Accounts: Flows and Policy Measures
Background. Net FDI flows in 2021 were 17 percent weaker than in 2020 but and significantly below the levels seen in the five years prior to the pandemic. Official budget support from donors were lower by 8 percent in 2021 relative to 2020 primarily due to delays in disbursements relating to water sector improvements. Large errors and omission on the balance of payments amounting to 4.6 percent of GDP make it difficult to evaluate the capital and financial account. Once these errors and omissions are accounted for gross useable reserves have risen by 14 percent in 2021 (around $2.1 billion). **Assessment.** Financing vulnerabilities include a weaker outlook for FDI and any decline in engagement from donors. However, donor engagement has remained robust since the signing of the London Initiative in 2019, with planned funding on track to meet those commitments.

FX Intervention and Reserves Level

Background. Jordan maintains a fixed currency with respect to the U.S. dollar, thus FX intervention is implemented to maintain that peg. Gross useable reserves were 38 percent of GDP in 2021 or 115 percent of the IMF's reserve adequacy metric, an improvement of 5 percentage points from 2020. Reserves were supported by significant positive errors and omissions in the BOP.

Assessment. Reserve accumulation has exceeding program targets and acts as an important support for the exchange rate peg. Gross useable reserves at or above the 100 percent of the IMF reserve adequacy metric should be maintained. Staff project reserves to decline as a percent of the IMF reserve adequacy, falling below 100 percent in 2024 primarily due to the large and persistent oil price shock in 2022.

[1] In line with efforts to improve data management and capacity at the CBJ, the current account deficit was revised to reflect improvements in errors and omissions. In light of these changes, the current account deficit for 2020 improved from 8.1 percent of GDP in the Third Review to 5.7 percent on account of an increase in current transfers by US$1.1 billion and a markdown in errors and omissions by US$1.2 billion.

[2] 2019 IMF STA TA on the Balance of Payments suggests that the major areas where omissions are likely to originate are remittances and secondary income. The 1.2 percent of GDP is consistent with a return of remittances in 2021 to the levels seen in the 5-year pre-covid average. This is also consistent with the evidence in Kpodar and others (2021) where Jordan's remittances levels performance in 2020 alone is 20 percent below the median for 54 countries in their sample due to no recovery after the decline in 2020H1 seen by many countries.

[3] Jordan's old-age dependency (OAD) ratio is lower than in trading partners, which would tend to support a more depreciated exchange rate, as *"higher OAD ratios have been found to raise the demand for non-tradable old-age related services relative to tradable commodities, increasing the relative price of non-traded goods and thus leading to real exchange rate appreciation"* (IMF Working Paper 19/65 "The External Balance Assessment Methodology: 2018 Update", p. 21).

Annex III. Risk Assessment Matrix[1]

Nature / Source of the Threat	Likelihood (high, medium, or low)	Expected Impact on Economy (high, medium, or low)	Policy Responses
Global Risks			
1. Outbreaks of lethal and highly contagious COVID-19 variants lead to subpar/volatile growth, with increased divergence across countries	**High** Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic. Policies to cushion the economic impact are prematurely withdrawn or for many EMDEs, constrained by lack of space. In addition to declines in external demand, a reassessment of growth prospects triggers capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs, with spillovers to AEs, leading to growing divergence of economic recovery paths.	**High** • Slower growth and government revenues and increase the fiscal deficit and public debt due to policy response. • Rising corporate and household vulnerabilities and indebtedness; spillovers to bank balance sheets • An increase in global risk premia; accelerated capital outflows, could result in a negative feedback loop between sovereign and banks and further worsening bank balance sheets.	• Increase fiscal spending to protect income losses of firms and households • Speed up vaccination • Provide targeted support to vulnerable groups • Depending on inflation dynamics, global financial markets and Fed rate path, consider monetary and credit policy support.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline.

2. De-anchoring of inflation expectations in the U.S. and/or advanced European economies.	**Medium** A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten policies abruptly. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects (e.g., lower commodity prices and possible contagion across EMDEs).	**Medium** • Domestic policy response would damage nascent recovery; increase household and corporate vulnerabilities with adverse effects on bank asset quality. • The wider risk premia would result in higher funding costs for corporates and the sovereign. Asset quality deterioration for banks. • Risk of negative feedback loop emerging between the sovereign and banks would increase.	• CBJ to follow Fed and raise policy rates conditional on domestic conditions and capital flow responses to any change in spread over federal funds rate. • Provide targeted support to vulnerable groups • Monitor banks' buffers to withstand shocks, introduce measures recommended by the FSAP as appropriate.
3. Rising and volatile food and energy prices.	**High** Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.	**High** • An increase in fuel prices would significantly increase fuel import bill; current account deficit and external financing needs.	• Targeted fiscal measures to support vulnerable households, including refugees. • Strengthen social safety nets
4. Widespread domestic social discontent and political instability.	**High** Social tensions erupt as the imposition of vaccine mandates and mobility restrictions and/or a withdrawal of pandemic-related policy support—amid increasing prices of essentials, slower growth, and rising inequality—result in higher unemployment and heavier household debt burdens. Political instability triggers capital outflows.	**High** • Flaring of social and political instability would raise risk premia and borrowing costs, and worsen corporate vulnerabilities, translating into a deterioration in bank asset quality. • Capital outflows could materialize.	• Targeted fiscal measures to support vulnerable households, including refugees • Accelerate structural measures that allow the private sector to invest and create jobs and promote inclusive growth.

5. Geopolitical tensions and de-globalization.	**High** Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures.	**Medium** • The rise in risk premia, borrowing cost and corporate vulnerabilities would result into a deterioration in bank asset quality. • Capital outflows could materialize. • Higher fuel prices would significantly increase external financing needs.	• If market conditions become disorderly, consider measures to stew capital flow reversals. • Maintain prudent macroeconomic policies including structural reforms • Promote inclusive growth and strengthen social safety nets.
Domestic Risks			
6. Protracted weakness in tourism and remittances	**Medium** Remittances continue to remain weak after falling during the first half of 2020 while structural change following COVID-19 leads to fewer international tourist and a weaker trajectory for tourism receipts	**High** The Lower remittance and tourism inflows impact economic activity and dampen the growth outlook, and weakens external balance	• Provide targeted and time limited support to sustainable, job-promoting tourism operations and regions.
7. Increase in water scarcity due to climate change	**Medium** Accelerated climate change leads to further reductions in water availability in Jordan, one of the most water scare countries on earth.	**High** Water shortages, social unrest, and dissatisfaction with the government, disrupting economic activity as per global risk 4 above.	• Prioritize securing sustainable water supplies Targeted fiscal measures to support vulnerable households
8. Regional destabilization undoes recent border openings and export agreements	**Medium** Regional destabilization, including potential conflict, that draws Jordan in, undoing recent gains from the border opening with Iraq and potential electricity exports to Lebanon and Syria.	**Medium** Weaker regional tourism inflows, draining Jordanian banks of their dollar funding, and putting a squeeze on credit, with adverse economic consequences and spillbacks to banking system health.	• Targeted fiscal measures to support vulnerable households, including refugees • Maintain prudent macroeconomic policies including structural reforms

9. Persistently high unemployment amplifies poverty and inequality	**Medium** Persistently high unemployment, especially among youth, and rising poverty and inequality, coupled with a growing dissatisfaction with the government, leads to widespread protests and violence	**High** • Weaken recent reform momentum • Damage investor perceptions of business environment • slow growth, calling debt sustainability into question	• Accelerate structural measures that allow the private sector to invest and create

Annex IV. Status of the 2020 Article IV Main Recommendations

The Jordanian authorities have made good progress on the implementation of recommendations from the previous Article IV, as evidenced by the strong performance under the overlapping EFF-supported reform program. This includes most notably reforms to broaden the tax base, reduce cross-subsidization in the electricity sector, and strengthen governance and transparency.

Strengthening Public Finances

1. **The 2020 Article IV Consultation recommended fiscal consolidation aimed at reducing public debt to safe levels while protecting growth.** Specifically, the authorities agreed that targeting a primary surplus excluding grants of around ½ percent of GDP over the medium term would be key to bringing debt down from 79 percent of GDP to 75 percent of GDP by end-2025. To achieve this objective, the 2020 Article IV recommended structural fiscal reforms to broaden the tax base and increase the efficiency of public spending.

2. **The authorities necessarily recalibrated fiscal targets in response to the COVID-19 shock.** The impact of the shock on the fiscal position has been significant both due to the loss of revenue and significant spending pressures to strengthen the healthcare system and support social protection. This increased debt in 2020 alone by nearly 10 percent of GDP relative to what was expected in the 2020 Article IV.

3. **Nevertheless, the authorities made strong progress on implementing structural recommendations with fiscal consolidation resuming in 2021.** The authorities implemented several tax broadening measures including introducing transfer pricing regulations and reducing leakages through economic zones by enacting economic substance regulations, and unifying the tax and customs administration throughout Jordan. Moreover, they have submitted key legislations introducing place-of-taxation rules into the GST law and they are working to strengthen the governance of fiscal incentives for investment. Finally, they have strengthened tax administration including by strengthening recruitment and training of tax officials, and their ongoing work to enhance tax inspections and make them more risk based, and improve their IT infrastructure and data gathering.

Improving the Sustainability of the Electricity and Water Sectors

4. **On the electricity sector, past recommendations focused on two areas:** i) reducing electricity tariffs for businesses by tackling cross-subsidization; and ii) strengthening NEPCO's financial sustainability.

5. **The authorities have made significant progress on bringing down electricity tariffs for businesses.** They have successfully rolled out a tariff reform in April, which reduces tariffs for productive business sectors while reducing household subsidies. The reform streamlines the tariff structure for households and reduces subsidies in a progressive manner while protecting the most vulnerable Jordanian households.

6. Progress on strengthening NEPCO's financial sustainability is ongoing. Cost-saving measures have helped contain NEPCO's deficit in 2020-21. The streamlining of tariffs will reduce pricing distortions that limited demand from the grid. Moreover, progress has been made towards exporting excess generation capacity. However, eliminating the fuel clause in 2020 together with higher oil prices have worsened NEPCO's financial outlook over the medium term relative to the 2020 Article IV. The authorities are addressing this through additional revenue-enhancing and cost-saving measures including introducing Time of Use tariffs, reducing the costs of LNG storage, and improving electricity storage.

7. Recommendations in the water sector centered on reforms to strengthen its finances. COVID-19 and climate change have aggravated pressures on the sector with water supplies diminishing, demand increasing, and bill collection faltering. The authorities are preparing a roadmap for the financial sustainability of the sector identifying policies and projects addressing water scarcity. They have also lowered electricity tariffs for the water sector by 10 fils per kWh to help reduce costs. The authorities are engaged with donors to finance projects that would secure sustainable and sufficient water supplies and reduce non-revenue water. Water sector arrears to PPP projects and to electricity distribution companies continue to be a recurring issue, which needs to be addressed by improving its cash management and budgeting.

Preserving Monetary and Financial Stability

8. The CBJ's policies have been in line with past recommendations with financial reforms advancing. The CBJ has appropriately eased policies at the onset of the COVID-19 shock, making use of policy space made available by Fed loosening. At the same time, international reserves remained robust throughout at around or above 100 percent of the ARA metric and dollarization has declined. More recently to support the peg, the CBJ has appropriately tightened monetary policies in response to Fed tightening. A new AML/CFT law in line with staff's recommendation was approved in 2021. The CBJ is advancing in implementing the action plan agreed with FATF with the aim to exit the *list of jurisdictions under increased monitoring* in 2023.

Structural Reforms

9. Measures to tackle impediments in the labor markets and encourage formalization have progressed. The authorities lowered social security contributions during COVID to protect jobs and are working to amend the Social Security Law to reduce social contributions for workers under 30. They have also introduced instructions for childcare provision by employers and are rolling out the Bus Rapid Transit project to help make transport safer and more affordable. Moreover, they submitted Labor law amendments tackling gender biased articles and harassment in the workplace, but these have been stalled in parliament since 2020.

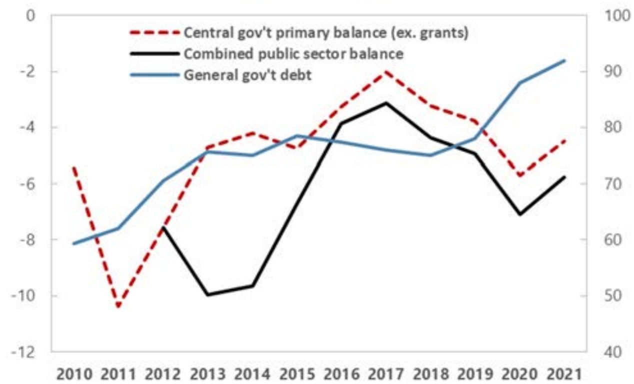
10. Reforms tackling the high cost of doing business have been advancing, but more is needed. The streamlining of licenses is ongoing with some progress in the tourism sector, but much remains to be done to make starting a business less onerous. The authorities have made significant progress on piloting PPPs under the new PPP law. The insolvency law is now enacted, with the courts o accepting insolvency filings for the first time in 2021.

11. Significant governance and transparency reforms have advanced. The Illicit gains law amendments were passed to increase transparency over the financial disclosures by public officials. Transparency over public spending has increased with the publication and audit of reports on COVID-19 spending in 2020 and 2021 including beneficial ownership information on entities awarded contracts. The rollout of the e-procurement system has been delayed due to COVID-19, but significant progress has been made on enacting relevant Bylaws, with the authorities aiming to rollout the system to the two largest ministries (health and education) by end-2022.

Annex V. Gearing Public Finances for Sustainable and Inclusive Growth

1. Jordan entered the pandemic with elevated public debt, accumulated in the context of a decade of external shocks which led to low growth and large public sector deficits. Public debt increased from 59 percent of GDP in 2010 to 78 percent of GDP by 2019, on the back of weak growth—which averaged only 2.4 percent of GDP over 2010–19 as regional instability caused a decline in trade and investment (see SIP)—and elevated public sector deficits: the combined public sector deficit surpassed 14 percent of GDP in 2011 in part due to significant increases in energy production costs for NEPCO after the loss of Egyptian gas imports during the Arab Spring, and eventually declined to an average of 5.4 percent of GDP over 2014–19 following a significant consolidation effort. Nonetheless, consolidation efforts fell short of expectations under successive Fund programs, including due to weak growth, as well as extensive tax exemptions which constrained revenue growth below expenditure pressures.

Public Debt and Public Balances
(Percent of GDP)



2. Against this backdrop, and in line with the authorities' strong preference, the fiscal strategy under the April 2020 EFF program focused mainly on tax base broadening. Notwithstanding the fiscal consolidation efforts post-2011, debt and deficits at end-2019 were still high, implying that significant medium-term fiscal consolidation was still needed to strengthen debt sustainability and create fiscal space. The new program also paid special attention to inclusive growth considerations and the need to broaden the narrow tax base. Accordingly, the program's fiscal strategy rested on a series of reforms to broaden the tax base by fighting tax evasion, closing tax loopholes, and tightening tax exemptions, while avoiding marginal tax rate increases and capital expenditure cuts that could depress growth.

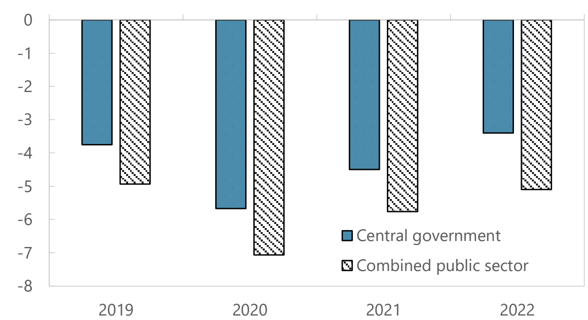
3. The COVID-19 pandemic constituted a major shock—lowering revenues and necessitating critical health and social spending—but the authorities' prudent response contained the deterioration in public finances. The authorities moved quickly to increase targeted spending to protect lives and livelihoods, while doubling down on legislative and administrative tax reforms to mobilize revenues in an equitable manner; this approach helped contain the increase in the primary deficit (excluding grants) to 2 ppts of GDP in 2020, and supported its subsequent reduction by 1.2 ppts of GDP in 2021 (see Box 1). Moreover, the authorities' set a medium-term debt target of 80 percent of GDP to provide an anchor for their fiscal consolidation efforts.

Box AV.1. Revenue and Expenditure Measures During COVID-19

Expenditure measures: In addition to investing in increased hospital capacity and hiring of 3000 new medical staff to address the health impact of the pandemic, the authorities also increased critical social spending to support the most vulnerable, and launched job support schemes to protect livelihoods. The largest job protection scheme, the Istidamah program, launched in December 2020, provided salary contributions support 130,000 workers in affected sectors; smaller job-support programs also targeted youth, start-ups, and the ICT sector (see Jordan Second Review Staff Report Annex III for more details). Spending on targeted cash transfers also increased by 0.3 percent of GDP. Nevertheless, total expenditures in 2020 remained broadly flat, as increased spending on health and social protection were offset by lower capital spending as well as delayed salary increases and hiring freezes in the rest of the public sector, and a delay in non-priority spending.

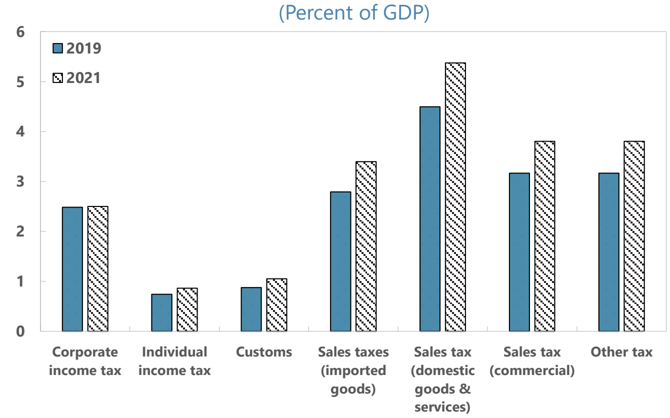
Revenue measures. Domestic revenues declined by 9.4 percent in 2020 due to the COVID-related decline in economic activity, as well as temporary fiscal measures which deferred tax payments, reduced social security contributions, and lowered the GST rate for the tourism sector. At the same time, the authorities continued legislative efforts toward broadening the tax base, and accelerated efforts to strengthen tax administration capacity and improve compliance, including digitalization of tax services; setting up a dispute resolution procedure for outstanding income and sales taxes; adopting risk-based approaches to audits; boosting anti-smuggling measures for tobacco products; and continuing an anti-tax evasion campaign. These efforts helped offset the losses in tax revenues to 2 percent of GDP.

Primary Balance
(Excluding grants, in percent GDP)



4. The authorities' fiscal strategy is bearing fruit, despite the challenging economic context. Despite the pandemic, the authorities implemented their tax policy legislative agenda in the first two years of the program, including by enacting legislations to strengthen transfer pricing rules in line with international standards and to introduce economic substance regulations for all special economic zones. As the economic effects of the pandemic began to wane in the second half of 2021, these legislative reforms, in conjunction with significant tax and customs administrative efforts supported by sustained FAD TA, helped increase tax revenues by 13 percent y-o-y (well above nominal growth of 3.5 percent).

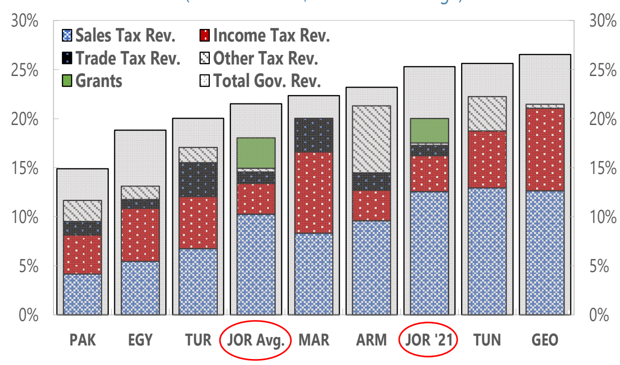
Tax Revenues by Category, 2019 and 2021
(Percent of GDP)



The most significant increase from pre-pandemic levels were observed in sales tax revenue, which increased by 2 percent of GDP between 2019 and 2021, across imported goods, domestic goods, services, and commercial categories. Prior to the start of the program, Jordan lagged peers in terms of reliance on tax revenues, primarily due to the erosion of the tax base through exemptions. While some of the gap has been made up, notably through higher sales taxes, significant scope to improve tax revenues in line with Morocco, Tunisia, Georgia, and Armenia, remains.

5. Jordan has done well to preserve debt sustainability and market access during the pandemic, but given higher public debt and financing needs, further medium-term fiscal consolidation will be needed to meet debt targets. The COVID shock has pushed up Jordan's public debt ratio to 92 percent of GDP at end-2021, a 13 ppts. jump over end-2019 levels. At the same time, the SSIF's investments have borne high returns, and its portfolio now includes 16.6 percent of GDP in assets outside the general government sector, implying a *net* debt position of 75.3 percent of GDP. While Jordan has preserved its debt sustainability prospects—and even strengthened its sovereign ratings—since the start of the pandemic, the authorities will need to undertake significant further deficit reduction to meet their medium-term debt target of 80 percent of GDP. A total reduction in the primary balance (excluding grants) of 4.5 percent of GDP between end-2021 and end-2027 would be required to meet this target. Reforms implemented in the last two years will support continued revenue momentum and, together with the unwind of COVID-related spending, will underpin a significant decline (blue bars, chart below) in deficits over the medium-term. Nonetheless, additional discretionary measures of 1.7 percent of GDP will be needed (gray bars) to meet the envisaged targets.

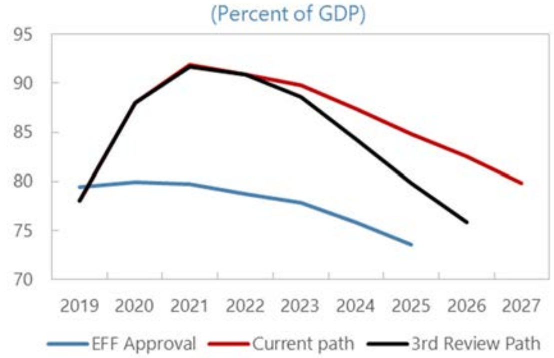
Composition of Government Revenue
(Percent of GDP, 2010-2019 Average)



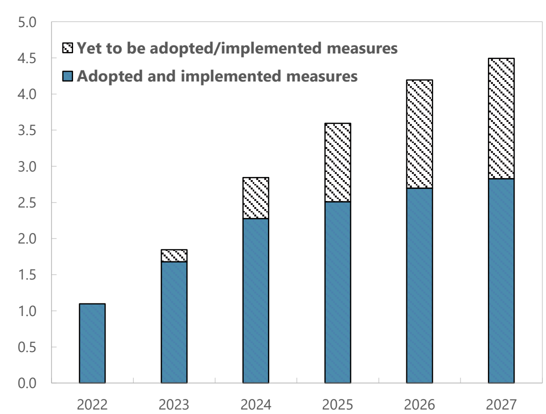
Source: IMF World Revenue Longtitudinal Data (WoRLD)
Note: In Jordan, non-tax revenues on oil derivatives were reclassified as sales taxes in 2019

Medium-Term Fiscal Path and Debt

Public Debt
(Percent of GDP)



Primary Balance Improvement Relative to 2021
(Excluding grants, in percent GDP)



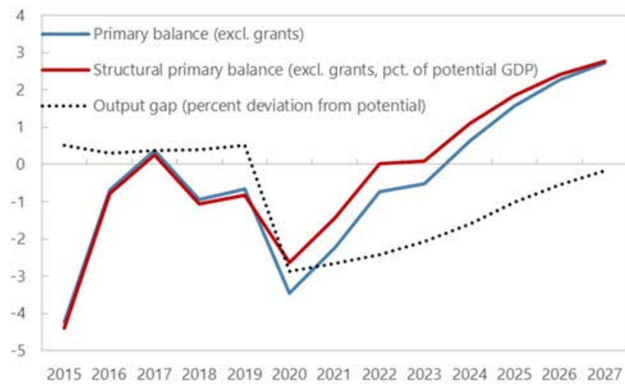
Sources: National authorities and IMF staff calculations.

Box AV.2. Computing a General Government Structural Primary Balance for Jordan

Given cyclical events have significant impacts on both revenues and expenditures—especially with Jordan's history of exogenous economic shocks—, separating structural and cyclical components of the fiscal balance can help provide a more picture of the underlying soundness and sustainability of fiscal policy. While changes in cyclical components reflect the impact of automatic stabilizers and other responses to transitory economic conditions, changes in the structural balance reflects discretionary changes in fiscal policy. Moreover, comparing the structural balance to the debt-stabilizing fiscal balance can indicate to what extent the current and planned policies can deliver sustainability in the long-run, or to what extent further adjustment is needed.

The general government structural primary balance (GGSBP) for Jordan is computed by subtracting the impact of cyclical effects in the economy, as well as one-off events, from both government expenditures and revenues. After removing large, non-recurrent fiscal operations, the impact of the business cycle on the fiscal balance is assessed via the aggregated method (elasticities are used to measure the sensitivity of total revenue and spending to the output gap).[1]

General Govenrment Structural Primary Balance
(Percent of GDP)

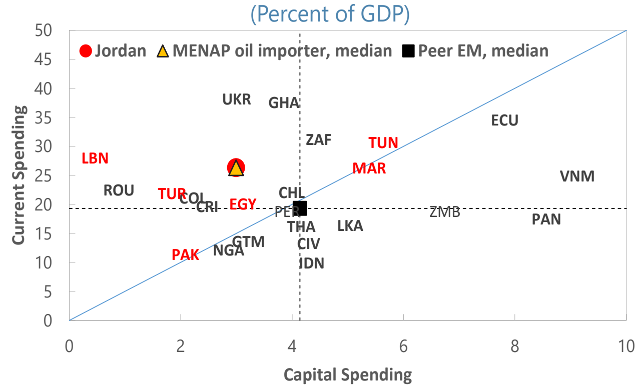


Unsurprisingly, since the start of the pandemic, Jordan's GGSBP has been higher than the general government primary balance, reflecting the role played by automatic stabilizers. The projected evolution of the GGSB confirms that the envisaged path of medium-term consolidation implies a substantial but manageable discretionary effort (3.2 percent of potential GDP from end-2021 to end-2027). The landing zone of the GGSBP is the same as that of the general government primary balance given the output gap is projected to be eliminated over the medium term; both are well above the debt-stabilizing level.

[1] The aggregated method is used due to data limitations precluding the use of the disaggregated approach. Standard elasticities are used for the revenue and expenditure of the central government and the SSC. The balances of utility companies (NEPCO, WAJ, and water distribution companies) are not corrected for cyclical components, given the absence of automatic stabilizers.

6. **Given that growth is still fragile, and unemployment very high, the consolidation needs to be designed to have the least possible impact on demand.** In other words, the focus must remain on tax base broadening, rather than raising marginal tax rates, and on finding efficiencies in public spending that provide space for social and capital spending (where Jordan lags peers). The share of capital expenditure in total spending in Jordan is similar to the MENAP average for oil

Jordan and Peer Emerging Economies, 2019
(Percent of GDP)



Notes: MENAP Oil Importers include Egypt, Lebanon, Morocco, Pakistan, Tunisia, and Turkey.
Source: Institute of International Finance, Haver Analytics, and IMF staff calculations.

importers, but lower than the median for other peer EMs, as non-priority capital projects are frequently delayed in order to make space for priority current spending. Moreover, despite having one of the most efficient targeting systems for social spending among EMs, Jordan lags behind in the total level of transfers to protect the vulnerable.

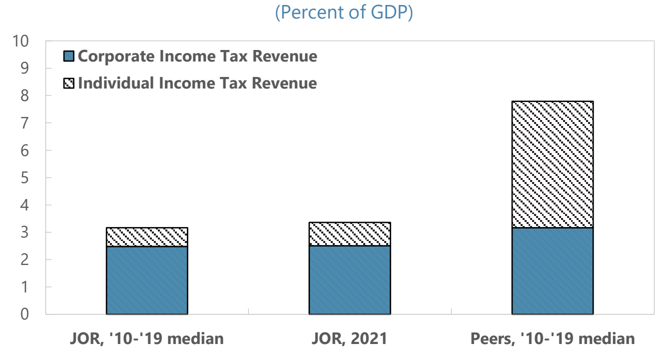
A. Expanding Revenue Mobilization Efforts

7. Recent legislative and administrative reforms in the area of taxation will continue to boost revenues in the future, but the authorities need to capitalize on this momentum. Swift passage of reforms introducing into the GST Law "place-of-taxation rules and reforming the governance of investment incentives will be essential to secure continued strong revenue performance.[1] These legislative reforms, and the recently adopted legislative reform incorporating ASEZA into the single tax and customs systems, will need to be followed up with firm implementation. Specifically, tax administration efforts will be essential to delivering the anticipated improvements in revenues associated with key legislative reforms committed under the IMF program. Technical recommendations from FAD's November 2021 CD on legislative reform implementation cover steps necessary for successful implementation of each of the key legislative reforms, including around designing registration and filing requirements, raising taxpayer awareness, and developing monitoring tools and risk assessment processes. Moreover, efforts to improve the capacity of ISTD, including by upgrading IT infrastructure, strengthening its audit function, and enhancing staff training, will also be crucial to support successful implementation of legislative reforms.

8. Additional/complimentary reform areas could continue to focus on progressively shoring up tax revenues.

- **Improving compliance for large taxpayers and free professionals**. Despite the 2019 income tax reform, Jordan's individual income tax revenues are below 1 percent of GDP, substantially lower than for peers, where these revenues constitute 4.6 percent of GDP. Recent efforts in this area include a campaign to improve compliance for medical professionals, which implemented mandatory invoicing and collection of key data by ISTD from hospitals and

Income Tax Revenue
(Percent of GDP)



Source: IMF World Revenue Longtitudinal Data (WoRLD).
Note: Peer group includes Egypt, Tunisia, Morocco, Turkey, Pakistan, Armenia, and Georgia.

[1] The establishment of a fiscal incentives ministerial committee including MOF (MEFP ¶10(i)) is an important step forward towards addressing the long-standing challenge of incentives eroding the tax base; nonetheless, further potential for reform remains, as typically the area of tax incentives is the sole prerogative of the Ministry of Finance and incentives are governed through tax code.

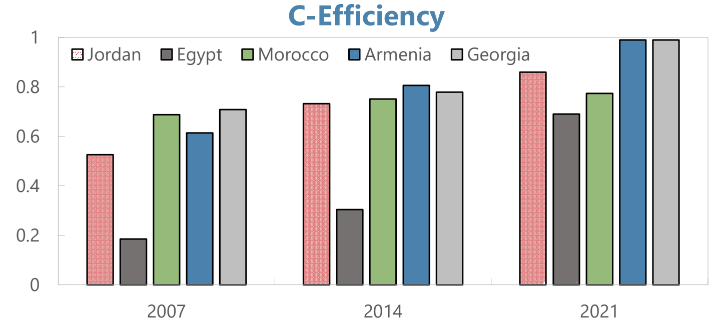
insurance companies. With support of FAD exports, work has also started in the Large Taxpayer Directorate on establishment of specialized audit teams for high-risk sectors and the adoption of risk-based audit approaches. There is also scope for improving risk analyses; ensuring audit number and type is proportional to the risk category; and developing risk mitigation strategies in high-risk sectors.

- **Revisiting the system of taxation on capital.** Jordan currently relies heavily on indirect taxation and income taxation, and does not tax capital gains (with some exceptions). Revising the framework for such taxes could support raising revenues in a progressive manner. Capital gains are taxed in most MENAP emerging economies, including Egypt, Morocco, Lebanon, Pakistan, and Tunisia, as well as in most EMs in other world regions. ISTD is planning to assess the potential implications of introducing a wealth tax; while such taxes are relatively uncommon in EMs, they could help complement efforts to target weak compliance for large taxpayers.

- **Reducing revenue leakage and improving compliance in development zones and free zones,** through: basing verification activities on risk analyses; ensuring coordination between Customs and ISTD in planning spot checks and audits; shifting tax compliance improvement strategies from exclusive focus on audits and inspections to a mix of a number of sample audits, communication of compliance issues through industry body and tax practitioners, and follow-up audits and court prosecution programs for serious non-compliance; seeking to reduce costly abuse of 'end-use' exemptions, including by further analysis to inform targeted verification visits to industrial projects in development and free zones. In the context of special zones, it would also be useful to re-evaluate if FAD's tax expenditure analysis (TEA) could be conducted in the coming year (this was not earlier possible due to lack of data).

- **Simplifying and unifying sales taxes,** without increasing regressivity. Even though taxes on good and services comprise a larger share of total tax revenues in Jordan than in peer EMs, the tax base remains narrow due to extensive use of exemptions and reduced rates for various product and service categories. The c-efficiency score, which indicates sales tax revenues as a proportion of potential revenues, has been increasing in recent years thanks to the authorities' efforts to close loopholes, but there remains scope for improvement. While unifying rates could improve efficiency, the authorities are unlikely to implement any simplification that would increase average rates given the regressive nature of sales taxes.

C-Efficiency

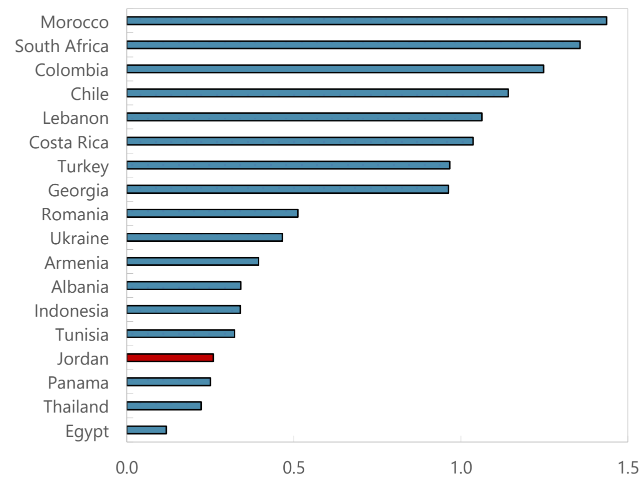


Note: C-efficiency is a coefficient expressing actual sales tax revenue as a proportion of potential sales tax revenue, based on the indirect tax rate and total final consumption.
Sources: World Longitudinal Revenue Data (WoRLD) and IMF staff calculations.

9. Improving municipalities' own-source revenues by updating property valuations and improving compliance could strengthen broader public sector finances. While the tax rate is nationally determined (at 15 percent), Jordan's 100 municipalities and the Greater Amman Municipality are responsible for registering property purchases, assessing property values, and collecting property taxes. However, due to low compliance and weak enforcement, property tax revenue in Jordan is lower than in most peer EMs; as a result, municipalities rely on central government transfers and debt issuance to supplement their budgets, the former worsening central government deficits and the latter elevating fiscal risks. There is significant scope for reform in this area, notably:

- **Improving the valuation system.** Currently, the method of computing the tax base (valuation) differs by tenure: for owner-inhabited housing, valuations are computed every five years on a reconstruction-based approach, with coefficients per square meter varying by municipal category, zoning type, and building and construction type; for rental units it is based on the rental value specified in the rental contract. As a result of this complex system and of infrequent valuations, undervaluation diminishes the tax base; for example, property tax collected on owner-occupied units is usually much lower than on rental units with the same market value. The implementation of the 2019 Property Values Estimation Bylaw will generate pre-estimated values for land in Jordan, an important step towards reducing the time required for property valuation. Going forward, linking property valuation directly to market value, and unifying the property valuation for owner-occupied and rental units, could help further shore up revenues.

Property Tax Revenue, 2019
(Percent of GDP)



Source: IMF World Revenue Longitudinal Database (WoRLD).

- **Improving compliance.** Expanding a street naming and building numbering initiative currently be implemented in nine municipalities with the support of USAID to the rest of the country could facilitate tax improved collection; the initiative aims to deliver a comprehensive and accurate database of properties in each jurisdiction as well as clear physical signage.

B. Improving the Efficiency of Public Expenditure

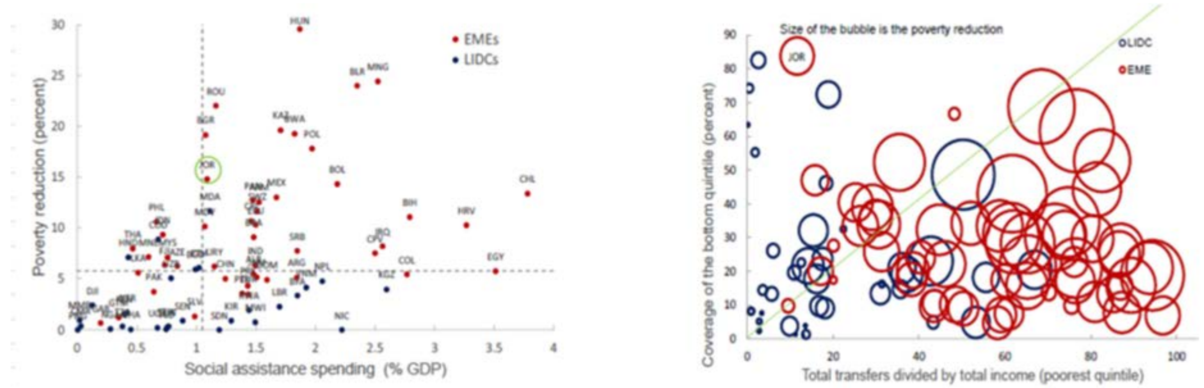
10. Continuing to protect the vulnerable and provide quality public services will require improvements in public sector efficiency. The death of 10 COVID patients due to an oxygen shortage in a state hospital in al-Salt in March 2021, and the large-scale power outage in May 2021, are anecdotal illustrations of a greater lack of efficiency in the provision of public sector services in Jordan. While some services, such as education (see box AVIII.3) and social spending, are being delivered more efficiently than in peers, others, such as healthcare, lag behind. In this context, the public sector reform expected to be launched in May 2022 is a welcome development. The reform program will establish near-, medium- and long-term goals in three key areas: (i) strengthening the separation between regulatory bodies and operators, with a view to increase accountability, independence, and transparency; (ii) revising civil service staffing practices including by developing a system of merit-based hiring and promotions; and (iii) increasing digitalization of government services, with the aim of reaching full digitalization after four years.

11. There is significant scope for improving efficiencies and reducing costs in the health sector. Jordan's health outcomes have been broadly comparable to peer EMs, even as public health expenditures are higher—suggesting inefficiencies in the delivery of services. The COVID pandemic provided an opportunity to fill an existing gap in quality and availability of medical services by hiring new staff and improving hospital capacity, which is likely to improve service provision going forward, but also to increase costs. At the same time, significant inefficiencies around the health insurance system, most notably around the high level of subsidies and high use of exemptions continue to cause fiscal outlays. Moreover, together with inefficiencies around the administration of public healthcare facilities, these have led to the accumulation of significant arrears. Follow-up technical assistance from FAD on expenditure policy centered on the health sector could help the authorities tackle some of these inefficiencies (see Box AVIII.4).

12. There is significant scope for improving efficiencies and reducing costs related to the public sector wage bill. The 2021 study on the civil service wage bill found that the public-private wage premium in Jordan was not outsized relative to peers on average, but was especially large for entry-level and unskilled workers, while declining with skill and experience. Consequently, there is scope to align with market comparators the compensation packages (including allowances) of public sector employees, both in order to ensure the attractiveness of the civil service for experienced and high-skilled professionals, and to contain costs. Plans to merge various public agencies and strengthen budgetary oversight and human resource planning under the public sector reform are a welcome step towards improving the efficiency in this sector.

13. Jordan's social safety net is very efficient in reaching the most vulnerable citizens, but the level of spending on social protection lags global peers. NAF's extensive work (with support from the World Bank) on designing and refining a well-calibrated means-testing methodology using a large range of indicators on household welfare has helped ensure the bottom quintile of citizens is relatively well captured in the social safety net; this has made Jordan one of the most efficient emerging markets in targeting its social protection spending. In addition, the policy shift towards an increased reliance on cash transfer programs (in lieu of other subsidies) has also helped target spending. However, the budget allocation for social assistance has been historically low compared to regional and global peers, raising the question of adequacy of the social safety net. While post-COVID, budgeted social spending is above previous levels, and spending in categories monitored under the EFF program floor on social spending has been increasing, there is scope for further improvement. As a first step, given the persistently high unemployment, and high demand (with over 400,000 households applying in the past six months), the newly launched unified cash transfer program could be expanded well above the current size of 120,000 families.

Social Spending



Source: IMF Fiscal Monitor, Chapter "A Fair Shot," and IMF staff calculations.

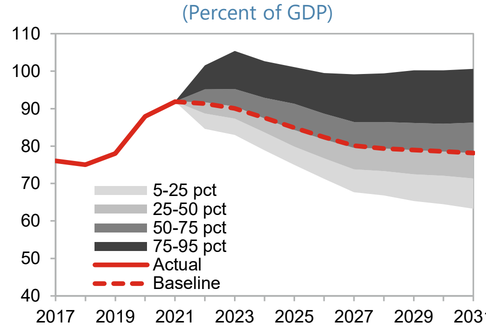
14. Implementation of best practices in procurement and continued monitoring of SOEs is essential to protecting debt sustainability and preventing accumulation of fiscal risks. Commitments regarding the production of a fiscal risk analysis of four major SOEs by the Macro-Fiscal Unit at MOF, and the publication of both explicit fiscal costs and fiscal risks associated with three major PPPs by the FFCL, are essential first steps to increasing transparency around existing fiscal risks. Going forward, efforts essential to limiting the accumulation of fiscal risks will include: (i) the application of the new PPP law to *all* new projects (particularly in light of significant adaptation investments needed in the medium term); (ii) the development of medium-term financial plans for large SOEs (supported by indicators drawn from the SOE health check tool, for example; (iii) training of staff at the FCCL unit and continued exchange of information between the FCCL, PPP, and PIM Units in order to facilitate the former to perform its mandate as envisaged in the PPP law.

C. Long-Term Risks and Implication for Jordan's Debt Path

15. Jordan's public debt is projected to continue on a downward trajectory over the next decade. However, the pace of decline will decelerate after 2027, as several costly climate change adaptation projects in the water sector are brought online; debt is expected to reach 78.6 percent of GDP by 2030, 75.7 by 2035, and 71.8 by 2040. Nevertheless, there are notable risks to the debt path in the medium to long run, including (i) risks to the path of growth, stemming from geopolitical shocks or delayed structural reform implementation; and (ii) risks to fiscal balances from higher-than-expected costs related to large PPPs and climate change adaptation projects. When considering the probabilistic distribution of debt outcomes based on the IMF's new Sovereign Risk and Debt Sustainability Framework debt fan-chart toolkit, it is apparent that while debt is likely to stabilize in the medium-long run, a wide band of possibilities remains.

Debt Fanchart

(Percent of GDP)



Box AV.3. Education Spending and Outcomes

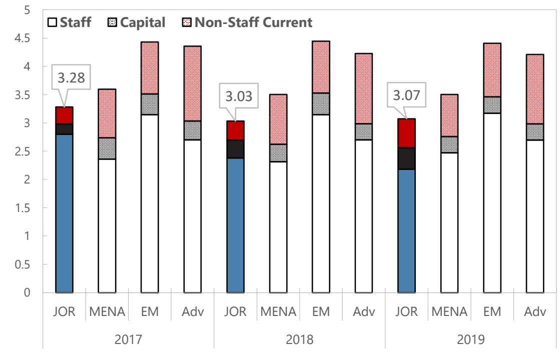
Jordan's education spending has historically been lower than in other MENA and EM peers. Spending fell further during the years preceding the COVID-19 pandemic, as reductions in staff compensation costs overwhelmed slight increases in capital and non-staff current expenditure. Despite this gap, historically spending on staff in Jordan has been higher than in the rest of MENA, crowing out spending on other current expenditure items and on capital (including building maintenance).

However, educational outcomes have remained favorable. In 2015, Jordan was only slightly below the efficiency frontier. The recent consolidation coincided with an increase in average PISA scores, resulting in a substantial improvement in education spending efficiency during the period. As such, Jordan found itself on the efficiency frontier

Containing spending on wages in the sector can unlock fiscal space for other education priorities. Spending has increased again since 2019, as 3000 new teachers were hired in 2020 and the teachers' union negotiated salary increases based on service time. The 2022 PISA cycle will reveal whether Jordan has moved rightward along the observed efficiency frontier or retreated toward 2015 levels. Regardless, by maintaining or restoring pre-pandemic spending efficiency—perhaps by linking future salary increases to performance rather than seniority—authorities can create space for current and capital spending in the sector.

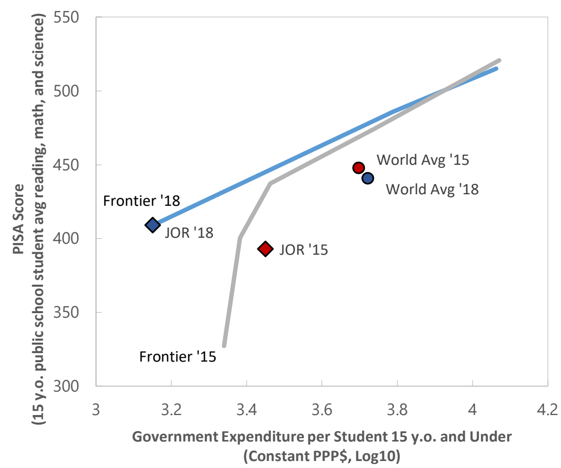
A key such area of spending is pre-primary education, where Jordan lags both advanced economies and EM comparators. In 2017, Jordan spent under 0.01 percent of GDP on pre-primary education and saw gross enrollment in the corresponding age group under 26 percent, compared to 0.46 percent and 79 percent respectively in a sample of emerging markets. With the help of a UNICEF-funded program initiated that same year, gross enrollment increased to 32 percent by 2020—still well below the EM average—while public spending as a percent of GDP remained unchanged. Pre-primary education should thus be considered an area of opportunity for the authorities, where even a modest increase in spending to bring Jordan in line with peers could pay long-term dividends in the form of human capital development.

Composition of Education Spending
(Percent of GDP, 2017-19 or most recent 3-year period)



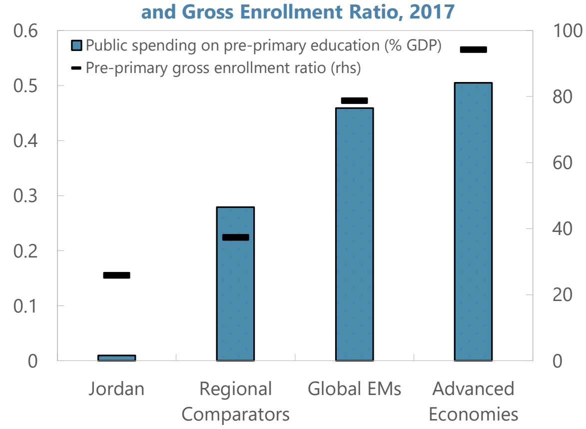
Source: World Bank EdStats and IMF staff calculations.

Education Spending Efficiency, 2018



Sources: OECD PISA database, World Bank EdStats, and IMF staff calculations.

Pre-Primary Public Spending and Gross Enrollment Ratio, 2017



Source: World Bank EdStats and IMF staff calculations.

Box AV.4. Health Spending and Outcomes

Jordan's health outcomes have been broadly comparable to peer EMs, which, in light of higher-than-average public health expenditures, suggests inefficiencies. For the past decade, Jordan's expenditure on health have been higher than average in both MENA and in other EMs. This difference is driven primarily by a higher level of public spending on health, while out-of-pocket costs in MENA are lower. These trends, however, are in part indicative of inefficiencies in the system, most notably around the high level of subsidies and high use of exemptions. When considering a variety of measures of health outcomes (maternal and infant mortality rates, and life expectancy), Jordan falls well below the efficiency frontier; Jordan lags peers on life expectancy, and performs close to the average on maternal mortality,

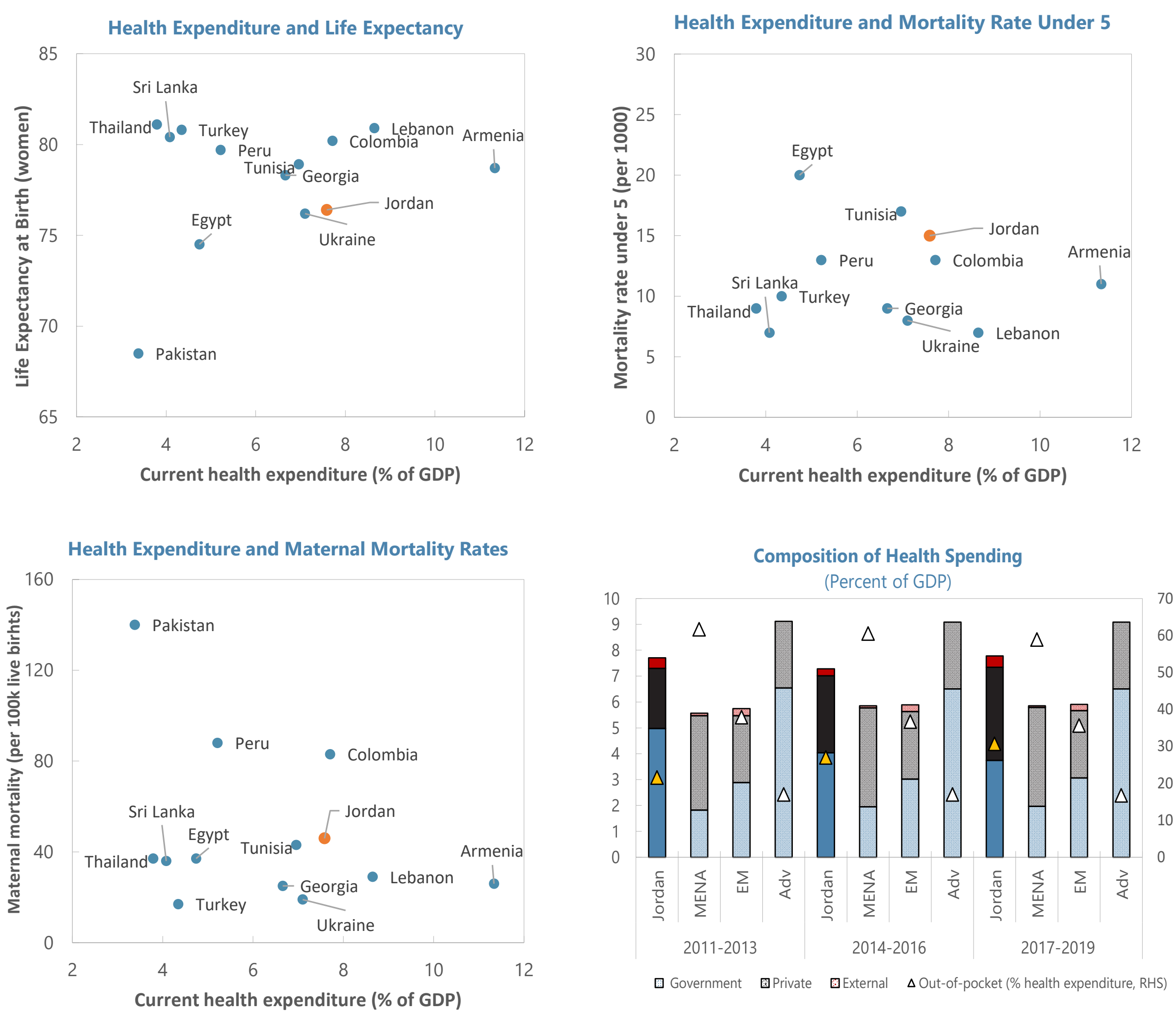
Going forward, several key sources of inefficiencies could be tackled, with support from FAD experts, including:

- *Abuse of exemptions for uninsured patients.* The largest source of inefficiencies are the untargeted 'affordable care' exemptions for uninsured patients; these exemptions give uninsured patients access to medical treatment and pharmaceuticals with only a token copayment, with the rest of the cost shouldered by the government. While the exemptions are intended for vulnerable households, their poor regulation has seen broad-based use and even created incentives against enrollment in private insurance programs. Restricting access to these exemptions only to the most vulnerable would be critical for containing health sector costs.
- *Low out of pocket costs for the insured*. Very low copayments under the public sector insurance scheme—which covers civil servants and their dependents, as well as citizens over 60 or under 6 years old— encourage excessive use and waste of medical resources which increase overall health sector costs.[1] Moreover, subsidies are poorly targeted, given caps on premiums paid by civil servants (who pay 3 percent of their salary or 30 JD, whichever is lower), and zero-premiums for any citizen over 60, regardless of other sources of income.
- *Improving incentives for public healthcare facilities.* Some of the efficiency challenges in the system arise from the limited incentives to contain costs or improve services for public health facilities. Weak financial management in the health sector has also led to the continued incurrence of arrears.

The authorities are also considering the possibility of introducing a broader public insurance scheme for all Jordanians. This could reduce pressure on the demand for exemptions and ensure more equitable access to health services. Such a scheme, however, would need to be carefully designed to (i) avoid adverse selection (e.g., by mandating insurance coverage for all households, rather than allowing for selective opt-in); (ii) be adequately financed from progressive contributions (e.g., premiums linked to salary, as in the current public sector health insurance scheme, but without a cap); (iii) balance equitable access to essential services with minimizing waste through carefully calibrated copays. To the extent such a scheme was subsidized by the government, it would imply additional direct fiscal costs; however, some of these would be offset by substantially lower use of exemptions and a shift from emergency towards preventive care.

[1] For example, copayment is zero for medicines below JD 10 and 10 percent for those above, and copayment for treatment in public facilities is less than JD 3 on average.

Figure AV.1. Jordan: Health Outcomes and Spending vs. Peers



Sources: World Health Organization; World Bank HealthStats; and IMF staff calculations.

Annex VI. Climate Change Adaptation: Addressing Water Scarcity

Rising temperatures and declining precipitation, coupled with rapid population growth (including due to the influx of refugees), have severely aggravated Jordan's water deficit over the past few decades. The socio-economic impact of worsening water scarcity has been significant, and will mount over the medium-to-long-term if the problem is not addressed. The authorities pursuing a number of major adaptation initiatives, including mega projects to increase water supply (e.g., by desalinating Red Sea water and transporting it up country) and investments to enhance the efficiency of use of available water resources (e.g., by reducing non-revenue water). The fiscal costs of the new initiatives, coupled with the legacy deficits in the sector, carry significant debt sustainability implications, which – to remain manageable – will require careful planning and robust donor support.

1. Climate change is one of the greatest challenges faced by many emerging and developing countries today including Jordan. Responding to climate change involves a two-pronged approach: 1) reducing emissions of greenhouse gas (GHG) to slow the rise of temperature ("mitigation"); 2) adapting to current and expected future climate by enhancing resilience ("adaptation"). While Jordan is very small GHG emitter globally, it has made significant progress in mitigation (Box 1). On the other hand, Jordan is a victim of global warming and substantial adaptation efforts will be required to tackle its climate challenge.

2. Climate change has had a profound adverse effect on Jordan's water sufficiency. Jordan is one of the world's most water-scarce country, with climate change significantly reducing its water supply in recent years. Since the 1980s, annual temperatures increased by 1.4ºC and annual precipitation declined about 13 percent (Figure AXI.1). The level of per capita renewable water resources in Jordan is currently at 96 cubic meters per year, well below the internationally recognized water scarcity level (of 500 cubic meters per capita per year). Household demand has increased as a result of urbanization and rapid population growth (exacerbated by the influx of refugees) leading to an unprecedented rate of depletion of freshwater resources.[1] At the same time, climate change is pressuring supply, with scarcer precipitation limiting the replenishment of aquifers, and demand, with rising temperatures accelerating evaporation and increasing water needs in agriculture. Water deficit has been increasing in recent years and is expected to persist in the long run even with the current adaptation efforts (Figure AXI.1).

3. Aggravating water scarcity has already caused considerable economic and social damage. In Jordan, water scarcity imposes serious limits on agricultural use. At the same time, water delivery is infrequent in most areas and households need to purchase water privately (both for storage tanks as well as bottled water) to buffer supply, implying heightened regressivity and reduced worker productivity. Vulnerable groups are mostly affected by water shortages, raising concerns on the inclusion of growth and social cohesion. Without decisive adaptation efforts,

[1] Jordan currently retrieves 96 percent of its renewable water sources, one of the highest rates in the world. In addition, around 15 percent of water needs are met by unsustainable over-abstraction of ground water.

continued global warming is expected to have even more significant social and economic implications over the long run.

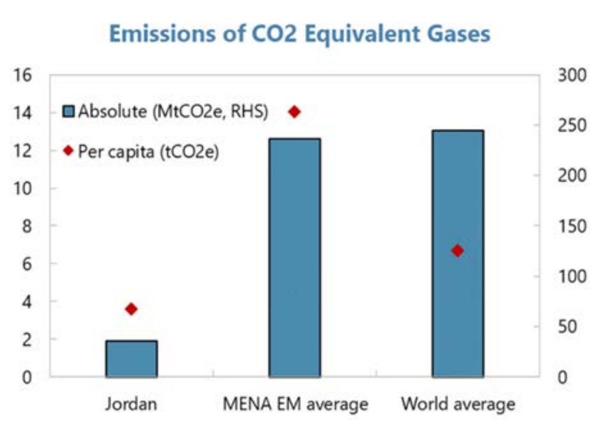
Box AVI.1. Greenhouse Gas Emissions, Mitigation and Renewables in Jordan

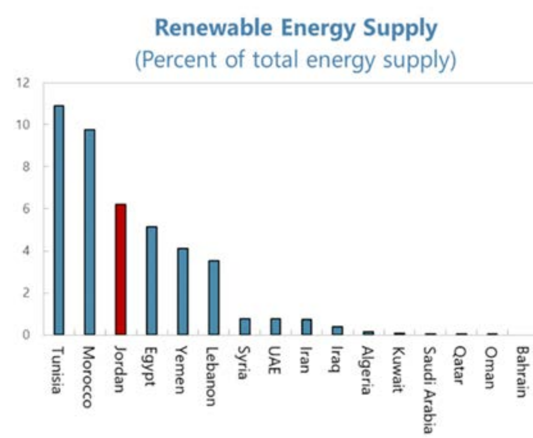
Jordan is a small contributor to global GHG emission, but it has made significant progress in mitigation early on despite its relatively low emission. Jordan contributed around 25.5 million tonnes of CO2 from the burning of fossil fuels in 2020. This is equivalent to approximately 0.07 percent of global shares and is lower compared to regional peers. The energy sector (electricity and heating) in Jordan is the major emitter with around 38 percent of total national emissions in 2018, followed by the transport sector (35 percent), and then industrial and waste sectors (22 percent each).

The government has set ambitious Nationally Determined Contribution (NDCs) targets. This includes efforts to reduce its total greenhouse gas emissions by 31 percent by 2030 contingent on the availability of funding and implementation support, generating 35 percent of its energy from renewables by 2030, and replanting 25 percent of barren forest areas by 2025.

The government enacted the Climate Change Bylaw in 2019 to provide a regulatory framework for climate-related actions. The ByLaw established the National Climate Change Committee and outlined the role of different line ministries in the context of the national climate change agenda. The government is also working to developed instructions and bylaws to enable the Ministry of Environment to supervise the climate change actions at sectoral levels.

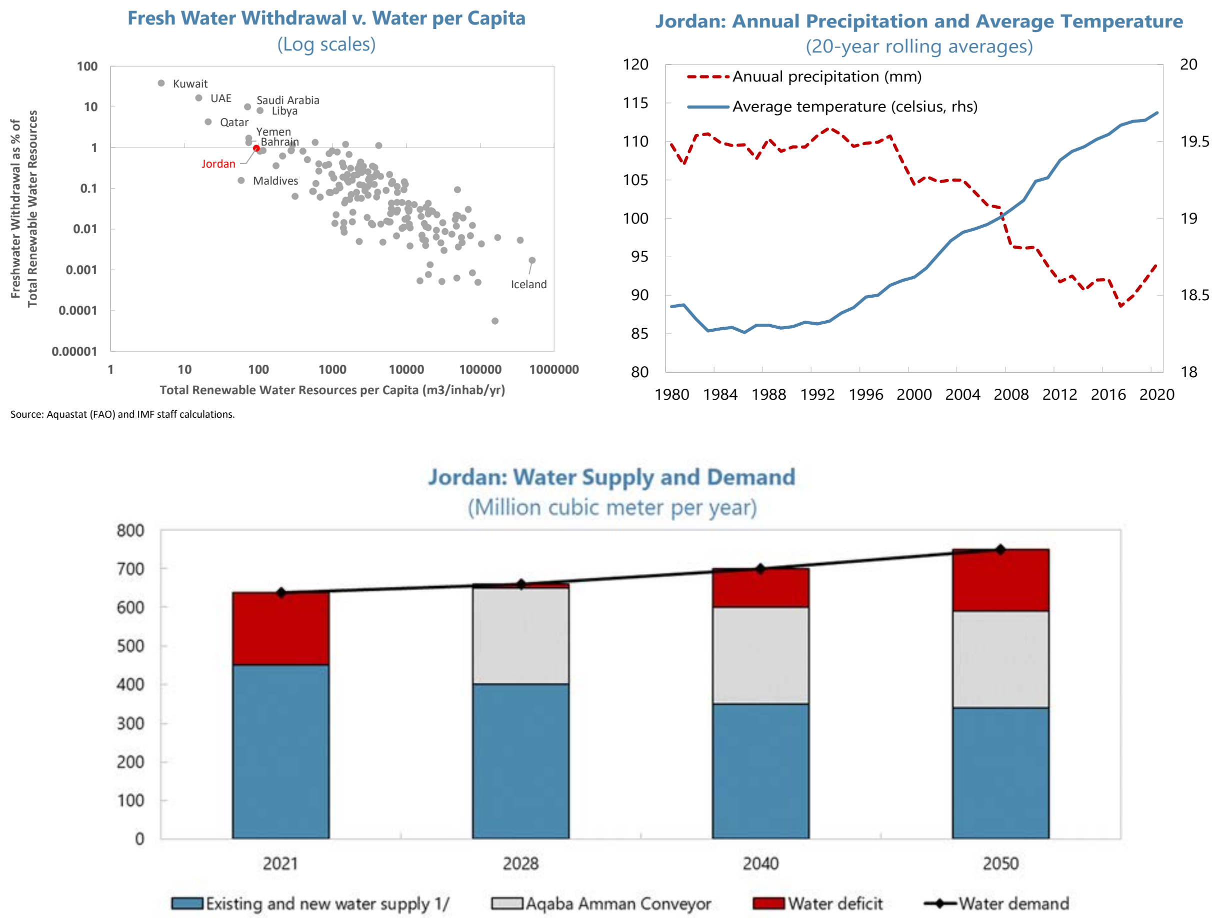
The development of renewable power in Jordan has been increasing. The weight of solar and wind power in energy generation is high and has been increasing rapidly thanks to government and donor support. The share of electricity production from solar increased from 2.3 percent in 2015 to 11.3 percent in 2020, and the share of electricity from wind rose from less than one percent to 4.5 percent during the same period. In its latest strategy, the Ministry of Energy and Mineral Resources (MEMR) targets a 31 percent share of renewables in total power generation capacity and a 14 percent share in total energy mix by 2030.





Sources: Our World in Data, IEA; and IMF staff calculations.

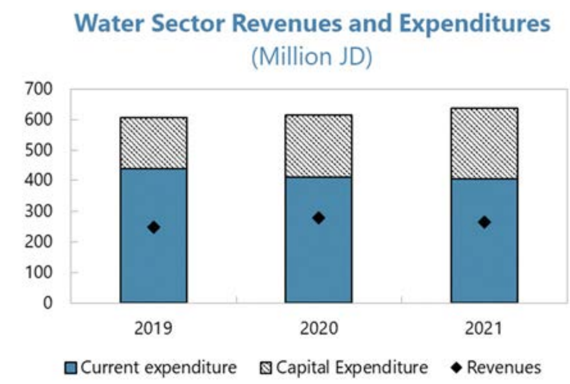
Figure AVI.1. Jordan's Water Shortage

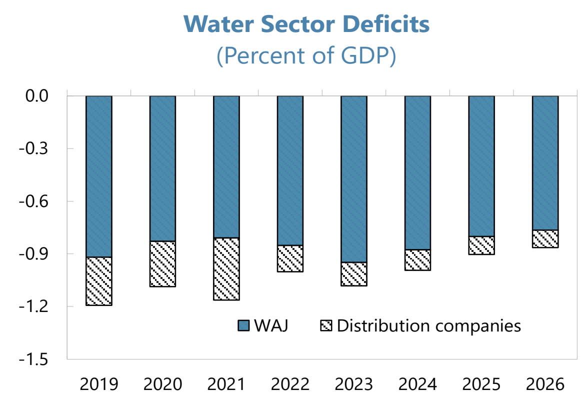


Sources: FAO, World Bank Climate Change Knowledge Portal; USAID.

4. Empirical evidence suggests economic damage from climate change will grow substantially in the long run. The literature has generally found that the impact of climate change is negative high-temperature countries (usually emerging and developing markets) but not significant in low-temperature countries (usually AEs) (Burke and others, 2015; Dell and others, 2012). The literature has argued that climate change may affect labor supply, capital depreciation and productivity (Fankhauser and Tol, 2005). The October 2020 WEO finds that for a typical EM with an annual average temperature of 22°C, 1°C increase lowers per capita GDP growth by about 1 percentage point annually over a 7-year period. Kahn and others (2021) find that an increase in temperature of 0.01°C above its historical norm reduced GDP growth by 0.015 percentage points per year for Jordan over the period 1960–2014.

5. Persistent financial losses in the water sector impose a sustainability challenge for the public sector, and constrain the fiscal space for future adaptation projects. Total sales revenues for WAJ and water distribution companies and grants only account for around 50 percent of capital and current expenditure. The remainder is financed by government subsidies, roughly half of which cover production inefficiencies and water losses, with the rest funding tariffs below cost recovery. The water sector deficit has been about 1 percent of GDP in recent years, and substantial arrears to PPPs and NEPCO were accumulated 2021 (up to 0.8 percent of GDP). These persistent losses pose risks to the financial sustainability of the public sector and limit space for future adaption projects.





Source: National authorities, and IMF staff estimates.

6. **The authorities are alert to the water scarcity challenge and are taking a number of measures, with donor collaboration, to address it.** The National Water Strategy (2016–25) published in 2015 set an ambitious agenda for solving Jordan's water shortage. Despite initial ambitions, some of the adaptation projects were incomplete.[2] The authorities are currently focused on the following projects that will see a significant increase in water supply and an improvement in the water sector's financial balance if implemented:

- **Amman-Aqaba Conveyor**, which would desalinate Red Sea water and transport up to 300 million cubic meters of water per year (around 10 percent of total water consumption) to Amman. The estimated capital expenditure stands at $2.5 billion. The authorities have issued the request for proposals (RFPs) for the AAC to five pre-qualified consortiums. Donors have pledged $1.8 billion of grants and concessional loans for the project. The government plans to budget $70 million per year for 5 years for the construction and donor-supported concessional financing of $446 million for the builder. Construction is currently expected to kick off in 2023 and finish at end-2027 or early 2028. Other initiatives to increase water supply, including regional cooperation, are also been discussed.[3]

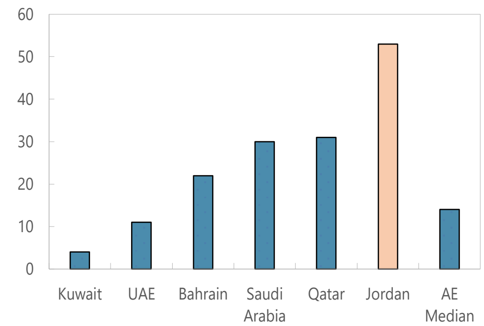
- ***Non-revenue water (NRW) reduction***. Inadequate water infrastructure maintenance and poor quality of metering impede revenue collection. NRW– which, at over 50 percent of water

[2] The authorities' past efforts include the Red Sea–Dead Sea Conveyance which would provide potable water to Jordan, Israel and the Palestinian territories and the "Action Plan to Reduce Water Sector Losses," developed in 2013 and revised in 2016 and 2019 that envisaged revenue-enhancing measures and cost-saving measures (including investments in energy-generating capacity and energy efficiency to reduce electricity costs).

[3] For example, a declaration of intent has been signed between Jordan, Israel, and the UAE that will see Jordan import water from Israel in exchange for electricity.

supplied, is well above the level in comparator countries – could substantially raise revenues and reduce deficits. The government, in close collaboration with international partners, is exploring potential options to reduce NRW including the use of performance-based contracts to operate the water distribution networks to reduce physical losses, the use of smart meters to reduce thefts, and increased efforts to identify and fine water theft. An improvement in bill collection rates would help maximize benefits from reducing NRW.

Non-Revenue Water
(Percent of water supplied)



- ***Improving energy efficiency***. Electricity costs make up half of operational costs for the water sector. The existing plan to improve energy efficiency and increase the use of renewable energy in the water sector includes i) implementation of energy management systems, ii) installation of small-scale solar energy projects in water facilities where space is available, iii) energy audits to assess where energy efficiency investments are most suitable. Private sector participation is envisaged via BOT style PPPs. The energy-water nexus must remain an essential consideration for these investments, particularly given NEPCO's excess capacity for electricity production.

- ***Improving efficiency in use of water***. The agricultural sector is a significant user of water in Jordan. Increasing the use of treated wastewater in the sector in lieu of freshwater (including after bringing online the Aqaba Amman Conveyor) could free up significant water resources and while also supporting the agricultural sector: the World Bank estimates that there is potential to increase treated wastewater use from 31 MCM per year currently to 184 MCM per year. In addition, efforts to limit unauthorized abstractions through enforcing legal limits could further improve efficiency in the use of water in agriculture.

7. **While these adaptation efforts are crucial, they imply large fiscal costs and financing needs.** The large deficits in the water sector will come under further pressure with the coming online of new PPPs, water losses, and inadequate investment in the maintenance of existing infrastructure.[4] The AAC is a mega project that requires substantial investments of about $2.4 billion of capex. Once operational in 2028, the project will bring extra costs—an estimated 1 percent of GDP Build-Operate-Transfer (BOT) payments annually for capital expenditures and operational expenditures. Reducing NRW from 50 percent to 25 percent by 2040 will require a CAPEX of about $1.8 billion. In addition to these two large projects, improving energy efficiency expanding treated

[4] Sector budget deficits of 1–1.5 percent of GDP are projected to persist in the coming years and are already factored into the baseline of the IMF's public debt sustainability analysis (DSA). What is not factored into the DSA yet are new projects aimed at boosting water supply (e.g., the AAC); or addressing rising operational costs in the context of increasing water scarcity.

wastewater capacity and other adaptation projects listed in Jordan's NDCs could add an additional $600 million of CAPEX.

8. These crucial adaptation efforts will have significant implications on deficits and debt in the long term. To assess the impact of adaptation on Jordan's sustainability over the long term (up to 2040), we consider: i) a baseline scenario, which incorporates the costs mentioned above, and ii) an aggressive adaptation scenario, where investments to tackle adaptation challenges are frontloaded (via additional expenditures of $600 million per year on adaptation efforts relative to the baseline starting in 2029). The two approaches imply different trajectories for key macroeconomic variables:

- *Growth* is assumed to stabilize at 3 percent in the baseline scenario; consistent with the benefits of adaptation on productivity and labor supply documented in the literature, growth is assumed to be higher in the long term in the scenario with more aggressive adaptation, increasing gradually from 3 percent in 2028 to 4 percent by 2040.

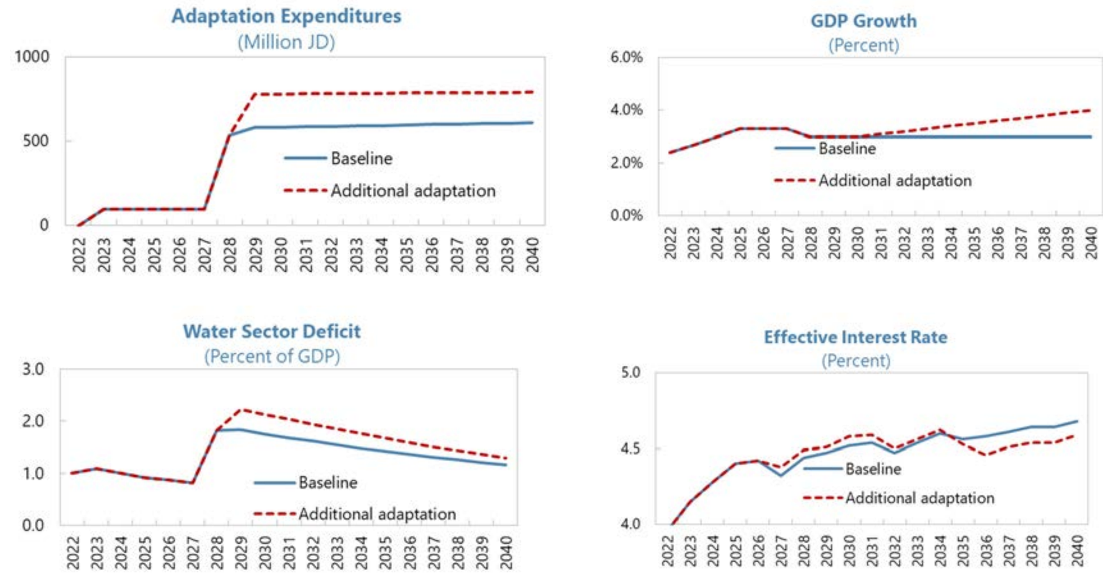
- *Water sector deficits* are expected to be wider in the medium term in the scenario with more aggressive adaptation, on the back of an additional investment of JD 200 million per year; however, as the benefits of adaptation on growth begin to accumulate, the gap between deficits as a percent of GDP in the two scenarios is expected to narrow.

- *Borrowing costs* are projected to be initially higher in the scenario with more aggressive adaptation efforts, as more elevated financing needs and debt levels are assumed to increase private borrowing costs. However, the gap is contained, as part of the higher adaptation costs in this scenario are assumed to be offset by higher official financing (at favorable rates). As growth accelerates in the aggressive adaptation scenario, private borrowing costs decline and the gap in borrowing costs narrows and eventually reverses.

- *General government primary deficits* in the two scenarios mirror the trend in water sector deficits, as central government primary deficits are assumed to persist at 2027 levels.

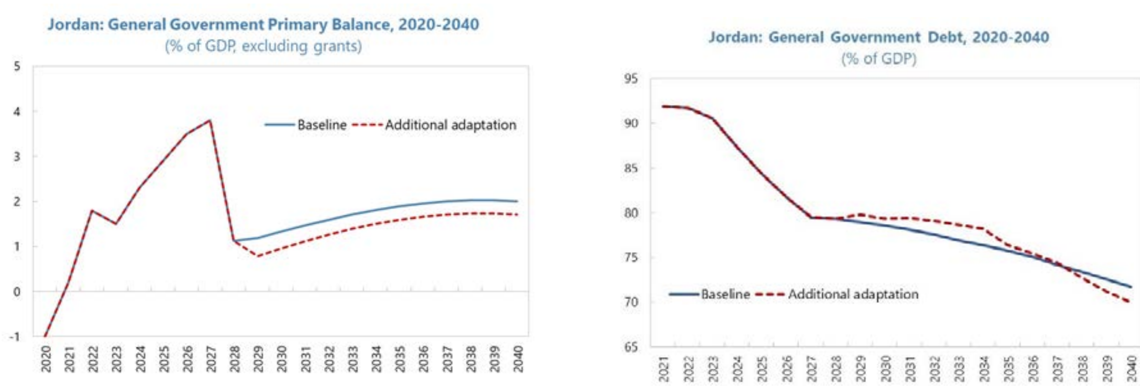
- *Debt* remains on a downward path throughout the next two decades in the baseline scenario. Debt falls below 80 percent of GDP by 2027, but the decline in debt decelerates significantly thereafter, as the AAC project comes online in 2028 and worsens water sector balances in both scenarios. Debt in the accelerated adaptation scenario stagnates around 79 percent of GDP between 2028 and 2033, on the back of costly adaptation efforts, and is almost 2 percent of GDP higher than in the baseline scenario by 2034. However, as growth accelerates above the baseline levels, debt in the accelerated adaptation scenario starts to decline more rapidly than in the baseline, and is projected to be 1.3 percent of GDP lower by 2040.

Figure AVI.2. Assumptions for Long-Term Scenarios



Sources: IMF staff calculations.

Figure AVI.3. The Impact of Adaptation on Public Finance



Sources: World Bank Climate Change Knowledge Portal; USAID and IMF staff estimates.

9. **Accordingly, Jordan will need to ensure best value for money, and avoid large risk build-up on the government balance sheet from guarantees.** Even with an ambitious reform program to reduce inefficiencies and water losses, the water sector is likely to remain in fiscal deficit. Consequently, any reform program should be guided by a decision on whether such deficit would be optimally financed by consumers (whether households, or agricultural/business users) or taxpayers. These actions will ensure stakeholder confidence and help secure maximum grants and concessional financing. Key steps in this regard include:

- *Adopting and implementing a Financial Sustainability Roadmap.* The roadmap currently being prepared by the Jordanian authorities in collaboration with the World Bank has been delayed in light of reprioritization during the pandemic, but remains a crucial step expected to support the authorities in developing and taking ownership of a concrete reform plan.

- *Ensure transparency and due processes*. Jordan's climate adaptation efforts will require private sector participation and donor financing, given limited fiscal space. Ensuring financial due diligence and transparent and competitive tendering processes is crucial for containing fiscal risks and attracting funding from the private sector and donors. In this context, applying the new PPP law to all future PPP projects in this sector, as well continuing to strengthen the FCCL unit, and operationalizing the National Registry of Investment Projects, are critical.

- *Arresting the incurrence of arrears* can help improve the profile of the sector. Arrears to PPPs risk derailing critical water supply projects, and have the potential of harming the reputation of Jordan with foreign investors. This underscores the importance of timely fiscal transfers and the use of buffer accounts to prevent the accumulation of new arrears.

10. Meeting the substantial financing needs require innovative financing instruments. The IMF is considering channeling financing to countries vulnerable to climate change through a Resilience and Sustainability Trust (RST). If eligible, Jordan's share of the RST could be equivalent to around US$700 million, which can provide affordable long-term financing to support its efforts in tackling climate-related challenges. Green bonds, which are earmarked for climate and environmental projects, could also be a potential financing instrument for Jordan.

11. Overall, Jordan has been a responsible player in tackling climate change, but considerable adaptation needs lie ahead. It has made admirable progress in climate change mitigation despite being a relatively small, and is moving decisively to mitigate the water scarcity adaptation challenge, which has also been aggravated by rapid population growth (partly as a result of the influx of Syrian refugees). Successfully reducing water scarcity will involve large and costly investments in the next 10–20 years, with significant debt sustainability implications, warranting careful procurement processes, and robust donor support.

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Appendix I. Letter of Intent

Amman, Jordan
June 14, 2022

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

Dear Ms. Georgieva:

The COVID-19 pandemic, with its long tail, has left a heavy toll on Jordan. As the economy continues its gradual recovery, we now face substantial global economic headwinds including sharply elevated international food and fuel prices, tightening global financial conditions, lingering risks from COVID-19, and risks from global economic fragmentation. At the same time, Jordan's tepid jobs recovery is a source of concern, though unemployment receded slightly from its peak of 25 percent in Q1 2021. Despite these challenges, we expect the recovery to gain momentum, as job-rich contact-intensive sectors normalize and tourism continues its strong rebound. Our strategic grain reserves, long-term natural gas import contracts, and robust foreign exchange reserves have helped us contain inflationary pressures, preserve market access, and maintain confidence in our economy. But the conjuncture will still present significant challenges for the economy.

We remain fully committed to the objectives of our EFF-supported reform program, as we cross its halfway point: preserving debt sustainability and external buffers, maintaining monetary and financial sector stability, and advancing structural reforms to achieve higher and more inclusive growth. We are strengthening social safety nets, and working to reduce unemployment, promoting labor force participation, particularly for youth and women, boosting competition through regulatory reforms, and improving governance and transparency. We are making good progress on our Government Priorities Plan 2021–23, which guides our policy efforts to improve the business climate and enhance competitiveness. We require a more reliable stream of financing, in line with the support pledged by the international community under the Jordan Compact and the 2019 London Initiative to enable us to continue shouldering the global public good burden of hosting 1.3 million Syrian refugees.

Despite the pandemic-induced challenges and global economic headwinds, we were able to meet all end-December 2021 quantitative performance criteria (QPC) and key indicative targets (IT); as well as most indicative targets for end-March 2022. Revenue has continued to overperform as of April 2022, helped by a robust legally- and institutionally-backed effort to fight tax evasion, close tax loopholes, and strengthen tax administration. However, the impact on our fiscal balances in 2022 is being challenged by the exogenous shock of rising global energy prices, whereby the government has intervened to slow-down the population's (including refugees) exposure to the shock. In this context, we are requesting a modification of the end-June 2022 QPCs on the central government primary deficit (excluding grants) and the combined public sector deficit. We remain on track to meet the end-December 2022 targets for these variables established under the third review. This is a testament to our commitment to the program and to prudent fiscal policy management. We are committed to reducing public debt to 80 percent of GDP over the medium term (MEFP ¶14–15).

We have also delivered on critically important structural benchmarks (SBs) notwithstanding the challenging economic circumstances. We have reformed electricity tariffs in April 2022 which will lower tariffs for key business sectors while making household subsidies more targeted. We have also passed legislation to unify the tax and customs administration in the Aqaba Special Economic Zone (ASEZ) with the national tax and customs authorities to address smuggling and tax evasion. Moreover, we have enacted a procurement bylaw to strengthen the transparency and efficiency of public spending and facilitate the rollout of e-procurement. Demonstrating our commitment to good governance and transparency, we have completed and published ex-post audits of all COVID-related spending for the second consecutive year, including beneficial ownership information. The authorities have made substantial progress in strengthening the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). It is against the backdrop of this record of strong program performance that we set out our commitments on actions and further reforms in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP).

Moving forward, the elevated economic uncertainty and significant slack in the economy call for further recalibration of policies to mitigate scarring and preserve macroeconomic stability. The CBJ has continued its strong track record of prudent management of monetary policy, which has been anchored by the peg to the U.S. dollar, while supporting the in-train economic recovery. The peg has served our economy well, helped to preserve market confidence, and balancing monetary and financial stability and growth objectives. As the U.S. Federal Reserve tightens policies, the CBJ has acted firmly and swiftly to maintain monetary stability, with two rate hikes since March of a cumulative 75 basis point. Moreover, the CBJ will remain alert to changes in domestic, regional, and global financial conditions, and stands ready to undertake the policy adjustments necessary to credibly protect monetary stability. Our key operational target will continue to be to maintain international reserves above 100 percent of the Fund's Reserve Adequacy Metric. In light of recent BOP developments, we are requesting modification of the end-June 2022 QPC on net international reserves.

At the same time, the CBJ—with the support of the government—has continued to help SMEs and productive sectors via subsidized lending schemes. These schemes have been seen as crucial for Jordanian businesses to weather the economic impact of the pandemic, and to protect private sector jobs. The CBJ has a strong and effective prudential and supervisory framework, which has helped to maintain the soundness and resilience of the financial system.

On the fiscal side, we are committed to adhering to our 2022 budgetary targets, notwithstanding the challenges created by temporary subsidies to smooth the passthrough of global commodity prices. Over the medium term, our debt sustainability goal remains the reduction of our public debt to below 80 percent of GDP. This said, the combination of headwinds from Fed tightening and higher food and fuel prices, and high unemployment at home, warrant a more gradual path to achieving this medium-term fiscal goal. The revised path will help us entrench the nascent recovery, and position us better to support the vulnerable, co-fund job creation programs in the private sector, and undertake critical human and physical capital investments.

In view of the aforementioned strong program performance, we request the completion of the fourth review under the extended arrangement and approval of the related purchase, reset of the completion dates of delayed structural conditionality and modification of performance criteria. The unfolding global economic shocks have raised our balance of payments financing needs by around US$1.3 billion over 2022–23. In this context, we request a rephasing of a share of the disbursements scheduled for 2023 into 2022 to be made available at the time of the fifth review. We also request an augmentation of access under the EFF by SDR 75.482 million (about US$105 million or 22 percent of quota). This will also help us catalyze market and donor financing. We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our program. We stand ready to take 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. 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 provide the Fund with the data and information necessary to monitor performance under the program as specified in the TMU. We expect the fifth review to be completed on or after September 30, 2022, and the sixth review on or after March 30, 2023.

The Fund has been a reliable partner in policy advice and financial support for Jordan through a very difficult period. We are grateful for the significant financial support that the Fund has provided as part of its quick response to the global shocks that have adversely impacted Jordan's economy (including through the RFI, the EFF rephasing/augmentation and the SDR allocation); the successive recalibrations to the EFF program that have enabled us meet vital health, social protection and job support needs, while maintaining macroeconomic stability and market access; and extensive technical assistance to facilitate the implementation of critical structural reforms. We hope that this partnership between Jordan and the IMF will only grow stronger going forward as we navigate the complex policy challenges generated by the global economic headwinds.

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

Sincerely,

/s/

Mohamad Al-Ississ
Minister of Finance

/s/

Adel Al-Sharkas
Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

BACKGROUND

1. **The COVID-19 pandemic has taken a heavy toll on the economy with its lengthened tail, delaying the recovery.** In 2020 and early 2021, the pandemic and related containment measures led to significant declines in output, particularly in contact and travel-intensive sectors, such as non-financial services and tourism. Low levels of infection and hospitalization during the summer months of 2021 allowed for the complete reopening of the economy by September of that year. By winter 2022, the Omicron variant had driven daily case numbers to more than double their previous highs, but in light of the low attendant rates of hospitalization and death, we did not need to re-introduce the most stringent restrictions on movement and business activity. As of May 2022, daily new case numbers per million have fallen to single digits and local mobility indices are on the upswing, but output in more heavily affected sectors continues to lag behind pre-pandemic levels.

2. **Our response to the pandemic has been timely and commensurate**. In addition to virus containment measures, to minimize the economic fallout of the crisis and shield the vulnerable, we increased social protection spending, deferred tax, customs and key utility payments, and temporarily reduced consumption tax rates on tourism. We have availed ourselves of the welcome flexibility provided by the program adjustors to expand the capacity of the healthcare system, which allowed us to keep some parts of the economy open during two significant waves and reopen the economy fully in the summer of 2021. On the monetary side, the CBJ has continued robust and timely monetary and credit policy support, while maintaining monetary and financial stability. The CBJ introduced a subsidized lending scheme for SMEs in 2020 (with the government bearing the interest cost on loans used to meet payroll); and expanded its size in March 2021. The deferment on debt repayments by affected borrowers to banks allowed by CBJ has expired in December 2021.

3. **A recovery is underway, but social conditions have begun to reflect the longer run economic ramifications of the pandemic.** GDP grew by 2.2 percent in 2021 after contracting 1.6 percent in 2020. The Jordanian unemployment rate declined slightly to 23 percent in 2021Q4 from its peak of 25 percent in 2021Q1. The pandemic hit vulnerable groups particularly hard, with youth unemployment over 50 percent, women unemployment over 65 percent, and poverty rate rising to 25 percent from 15.7 percent in 2019. As emergency measures to protect jobs are lifted, employment may come under further pressure.

4. **The 2021 current account deficit was narrower-than-expected at 8.8 percent of GDP and is expected to narrow to 6.6 percent of GDP in 2022.** The pickup in imports with higher economic activity, together with higher energy and food prices were more than offset by stronger-than-expected private transfers, exports, remittances and tourism receipts—accordingly, the 2021 current account deficit came in at 8.8 percent of GDP, 1.1 percent of GDP below Third Review expectations. Consistent with that, our international reserves have remained adequate to support the peg at over 100 percent of the ARA metric, thanks to prudent monetary policies and resilient donor support. However, looking ahead to 2022, the current account deficit is expected to narrow further to 6.6 percent of, reflecting primarily the impact of higher exports and accelerated recovery in tourism and remittances. We also have a US$1 billion Eurobond maturing in June 2022, which we intend to roll over via a Eurobond issuance of at least this amount in 2022.

5. Despite the ongoing economic challenges posed by the pandemic, we have continued implementing our fiscal structural agenda, and have seen our domestic revenue collection improve significantly. Our legislative and administrative efforts to curb tax evasion and strengthen tax administration are paying off, with tax revenues up 13 percent year-on-year in 2021. We are continuing our efforts in this area and have passed legislation to impose a single tax and single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control (March 2022 SB), which will help us further combat tax evasion. We are also advancing for parliamentary discussion key legislations introducing place-of-taxation rules into the GST law and strengthening the governance of fiscal incentives for investment. Moreover, demonstrating our commitment to good governance and transparency, we completed and published ex-post audits of 2021 COVID-related spending (end-June 2022 SB). Moreover, we have produced, ahead of schedule, (i) the first report on the macro-fiscal outlook and risks by the newly established Macro-Fiscal Unit (end-June SB); and (ii) an assessment of explicit fiscal costs and fiscal risks related to the three largest PPPs (June 2022 SB).

6. The economic recovery is expected to continue in 2022, and growth to rise gradually to above 3 percent over the medium term. We expect the economic recovery to continue with the normalization of contact-intensive sectors and an accelerated recovery in tourism. Foreseeing a possible supply crunch on food staples, Jordan built its grain reserves to 15 months in 2021 at favorable prices. Thus, its existing robust grain reserves have helped cushion the impact of higher international food prices, while long-term gas import contracts have mitigated the impact of high fuel prices on the cost of electricity generation for NEPCO. That said, the outlook is weighed down by persistent high commodity imports prices, and the tightening of monetary policies required to maintain monetary stability. Thus, we expect growth to reach 2.4 percent in 2022 (a slight markdown from the Third Review level of 2.7 percent) and then to rise gradually to above 3 percent over the medium term. Persistently high unemployment and weak labor force participation raises the risk of additional economic scarring. Increased geopolitical tensions could also weigh down further on demand and exports. On the upside, higher oil prices could support increased remittances, tourism, and investments from GCC countries.

7. In these challenging times, declining donor support for Syrian refugees is ever more concerning as Jordan copes with the associated fiscal and social costs. As of 2021, the shortfall between planned and received donor financing to address the needs of refugees was approximately US$0.5 billion, compounding on large shortfalls in 2019 and 2020, while funding for the Jordan Response Plan stood at 31 percent of 2021 needs. These shortfalls hamper Jordan's ability to continue providing refugees with essential services while reducing macroeconomic vulnerabilities. Notwithstanding this, Jordan has temporarily retained electricity subsidies for the most vulnerable 25 percent of Syrian refugee households for 6 months to soften the impact of the electricity subsidy reform on this vulnerable group pending a more durable response funded by donors.

8. Our commitment to the EFF program remains strong. Since the approval of the EFF in March 2020, we have maintained continuous engagement with the Fund on developments on the ground and on policy issues. Our careful implementation of stimulus measures, and efforts to arrest tax evasion, which we have pushed through despite the ongoing crisis, indicates our strong commitment to the program's macroeconomic stability and debt sustainability objectives. Despite COVID-related pressures on the budget exerted by the need to protect lives and livelihoods, we were able to meet the end-December 2021 quantitative performance criteria (QPCs) and end-March 2022 indicative targets (ITs) for the primary fiscal deficit of the central government, the combined public deficit, net international reserves (NIR) and non-incurrence of external debt service arrears. Similarly, most other indicative targets for end-December 2021 and end-March 2022 have also been observed (MEFP Table 1). We have also successfully implemented six of the twelve structural benchmarks that fell due on December 30, 2021, or later (MEFP Table 2).

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY AND BOOSTING GROWTH

Fiscal Policy and Structural Fiscal Reforms

9. End-December 2021 QPCs and end-March 2022 ITs for the central government primary deficit and the combined public sector deficit were met, and the fiscal program remains firmly on track. Legislative reforms on transfer pricing and on economic substance requirements for special economic zones, together with tax administration reforms, began to bear fruit in 2021: tax revenues were up by 13 percent y-o-y well above the nominal GDP growth rate of 3.5 percent. With overall domestic revenues also surpassing the IMF's targets by 0.5 percent of GDP, and spending in line with the programmed level, the 2021 central government primary deficit (excluding grants) narrowed to 4.5 percent of GDP. After incorporating the relevant adjustor for COVID spending of 0.5 percent of GDP, the end-December 2021 QPCs for the central government and the combined public deficit were met. Moreover, strong tax revenues performance continued in Q1 2022, allowing the end-March 2022 ITs on the central government primary and combined public balances to also be met, despite lower-than-expected external budget support. General government debt increased to 91.9 percent of GDP at end-2021, and is expected to decline to 91 percent of GDP by the end of this year.

Near-term fiscal strategy

10. We remain committed to delivering the 2022 primary deficit target of 3.4 percent of GDP (including the 0.3 percent of GDP covid adjustor)[1] that underpins the 2022 Budget passed by parliament in February. Momentum in tax revenue collection has been strong thus far this year; accordingly, and notwithstanding the losses from the recent customs reform, 2022 domestic revenues are projected to be higher than IMF staff projections at the Third Review. However, additional spending to mitigate the impact of high fuel and food commodity prices on households has necessitated a reduction in non-priority spending to meet the 2022 primary deficit target.

- **Domestic revenues:** The customs reform approved by Cabinet in January (¶10)—which lowers the number of customs duty slabs, but also the effective customs duty rate—is expected to reduce customs revenues somewhat in 2021 (the first year of implementation). However, we see

[1] Given the large Omicron wave, the COVID adjustor has been triggered, resulting in 0.15 percent of GDP space for additional health spending for the first half of the year. The adjustor is likely to be triggered in the second half of the year as well, given the current rate of vaccination, releasing another 0.15 percent of GDP space for health spending and bringing the end-year primary deficit target (excluding grants) to 3.4 percent of GDP.

some off-setting effects through the reduction in smuggling and evasion. This, together with the adjustment to the real estate registration tax and fees, the higher revenue base from 2021, and strong Q1 performance, imply that domestic revenues in 2022 will be 0.4 percent of GDP higher than projected in the Third Review.

- **Fuel subsidies.** We froze prices at the pump for oil derivatives from February until end-April 2022, in order to protect households from the global oil price surge. While such subsidies are generally regressive, they were deemed helpful in smoothing out the immediate exogenous shock on households, especially for lower- and middle- income households, given the weakness of the public transport infrastructure and high reliance on personal vehicles. In May, we began a gradual return toward our market-based pricing mechanism across all fuel types, in order to safeguard public finances while cushioning the immediate blow on households. Specifically:

    - We have announced (i) a 60 fils increase in the price of octane 95 gasoline for the month of June; and the full removal, by end-August 2022, of the subsidy on octane 95 gasoline; and (ii) our commitment to remove fuel subsidies on all other oil derivatives by end-2022, while protecting the most vulnerable through targeted support (***Prior Action***)**.**

    - To protect public finances, we will issue a cabinet decision to contain (i) the 2022 fuel subsidy cost to JD350 million; and (ii) the 2022 primary deficit (excluding grants) to 3.4 percent of GDP (***new proposed SB for August 2022*****).**[2]

- **Food subsidies.** While we have been relying on our strategic wheat reserves to mitigate the impact of the global wheat price shock; given continued geopolitical uncertainty, food subsidies may be higher than projected at the Third Review (by 0.1 percent of GDP). We will continue to monitor our strategic wheat reserves in order to ensure food security for Jordanians.

- **Target protection of the vulnerable.** To protect the most vulnerable Jordanians from the pass-through of higher global commodity prices, we will increase the spending envelope for social protection programs, including through NAF, by JD 30 million above the amount allocated in the budget.

- **Non-priority spending.** In light of the above, we are reducing non-priority spending in order to deliver the 3.4 percent of GDP primary central government deficit target for 2021. As part of these efforts, we will postpone non-priority capital spending by an expected 0.6 percent of GDP for 2022 relative to the Third Review projection of 4.1 percent of GDP.

Structural fiscal reforms

11. To durably improve the efficiency of public finances, we are aggressively pursuing structural fiscal reforms in key areas:

(i) **Tax policy and revenue administration.**

[2] The JD 350 million corresponds to the cost of the fuel subsidy prior to netting out balances due by fuel distributors to the government related to transport costs. The latter are estimated at JD 55 million (0.2 percent of GDP).

- We will introduce a **new regime for incentivizing investment** that will give MOF a central role in the granting and management of all fiscal incentives for investment in Jordan. To this end, we will table for discussion in the 2022 summer extraordinary session of Parliament a new draft law titled "Regulating the Investment Environment and Doing Business Law", which will include a chapter on investment that (i) sets out the incentives framework—for the granting of all fiscal incentives to investors—including clear principles to be administered by a fiscal incentives ministerial committee including MOF that takes full account of the benefits and costs, especially foregone government revenues, associated with the incentives; (ii) consolidates the governance of new (and rollover of existing) fiscal incentives under MOF apparatus; and (iii) stipulates that all new fiscal incentives will be granted by the fiscal incentives ministerial committee (*SB proposed to be reformulated and reset for August 2022)*.

- We adopted a **customs tariff reform** in line with IMF TA recommendation and previous commitments to simplify and unify the tariff rate system; the reform reduces the number of tariff brackets from 16 Most Favored Nation rates and 31 bound rates to just four (three after 2028), while continuing to protect select sectors key for growth and employment. This results in: (i) no change for goods currently subject to a zero-percent tariff;[3] (ii) high rates (15–25 percent, to unify at 15 percent by 2028) for three industrial sectors identified as key for growth and employment;[4] and (iii) a unified rate of 5 percent for all other goods. The reform will reduce incentives for smuggling, and will reduce administrative costs, with benefits gradually materializing via increased revenues.

- The draft amendments to adopt **GST place-of-taxation rules** have cleared the relevant parliamentary sub-committee. We will table these amendments for discussion in the upcoming 2022 extraordinary session of Parliament (***new proposed SB for July 2022***).

- We will proceed with swift implementation of the recently adopted **ASEZA law** which imposes a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control (*March 2022 SB implemented with delay*). This important reform will also allow us to complete, with IMF support, a more thorough analysis of tax expenditures.

- We have started implementing the **revenue mobilization plan** developed with the support of the IMF's Fiscal Affairs Department (FAD); the plan encompasses both tax policy and administration, including a focus on implementing recent and ongoing legislative reforms. To support smooth implementation of the recent transfer pricing and economic substance reforms, ISTD has conducted extensive awareness campaigns for taxpayers, including conducting trainings and posting online guidelines.

- We will enhance **ISTD capacity** by upgrading its IT infrastructure including a new Integrated Tax Administration System (ITAS). At the same time, we are improving tax compliance by continuing to strengthen ISTD's audit function through incorporating risk-based practices; building the capacity of specialized audit teams for high-risk sectors in the large taxpayer directorate (LTD);

[3] Including goods under WTO/Free Trade Agreements.

[4] These sectors are processed food products, furniture, and engineering and construction materials.

and improving HR practices and incentives. As part of the latter, ISTD has introduced a new leadership program whereby staff can anonymously submit ideas for improving revenue mobilization efforts, with the best proposals rewarded with promotions or prizes.

- In other **tax administration reforms**, we have fully automated the income and sales tax registration process for new companies, including the granting of tax identification numbers and VAT certificates; moreover, we have significantly expanded digitization during the pandemic, with all tax returns now submitted online. We expect this will allow us to re-target staff resources towards improving the efficiency of auditing. We have also finalized implementation of a digital track-and-trace system for the six largest cigarette companies, and expect to complete implementation for the entire sector by Q3 2022, to address revenue leakages from tobacco smuggling. We expect to start implementation of a digital track-and-trace system for alcohol companies next year (***new SB for June 2023***).

- We are continuing efforts towards launching an **e-invoicing system**. This will strengthen the monitoring of economic activities, disincentivize under-invoicing through a random enforcement mechanism, and strengthen the audit function of the sales-tax framework. We are currently in the processing of selecting a company that will implement the new e-invoicing system with the aim to rollout the system by end-2023. In preparation, we are also introducing incentives to expand the use of invoicing including through a lottery scheme rewarding customers with ISTD-recognized invoices.

(ii) **Social safety net.** To ensure the adequacy and efficiency of the social safety net, we continue to review our social spending envelope, in order to enhance the effectiveness and efficiency of our programs. Our program already includes a floor on social spending (IT), consisting of: (i) non-wage components of the education and health sectors' current expenditure envelope; (ii) NAF's and other entities' social protection programs; and (iii) the school feeding program. While most temporary COVID-related social support programs have expired, we have continued our efforts to ensure that the vulnerable are adequately and efficiently protected; however, the challenging economic circumstances have increased the need for social support:

- We increased the number of families covered through cash assistance by 15,000, with the new unified cash assistance program covering 120,000 families in 2022. However, we received more than 400,000 applications for this program since the end of 2021, suggesting a significant need for social protection, consistent with the elevated rates of poverty and unemployment. Moreover, cash assistance (at JD 50–100 per household) is unlikely to be sufficient to fully cover the gap for families looking to meet basic consumption needs, especially in light of the rising food and oil prices. Consequently, we will continue increasing the NAF budget allocation in the coming years in order to continue to broaden the coverage and increase the amounts for cash transfer programs.

- We continued efforts to make improvements to our targeting methodology used to determine eligibility for cash assistance (with World Bank technical support); recent improvements include adjusting weights to reflect dependent adult children, and ensuring adequate weights for female-headed households. We have also shifted to making all cash transfer payments virtually (through e-wallets, bank transfers, or mobile payments).

- To further improve efficiency in social protection programs, we are working on integrating all existing NAF programs for Jordanians into one single program (by end-2024). We are also considering institutionalizing the provision of food assistance (currently provided by a broad range of agencies) into a single unified platform.

(iii) **Public sector wage bill and efficiency.** The Public Sector Modernization Reform (to be launched later this summer) will establish an action plan to improve the efficiency of the public sector, including by strengthening the separation between regulatory bodies and operators, with a view to increase accountability, independence, and transparency; revising civil service staffing practices including by developing a system of merit-based hiring and promotions; and increasing digitalization of government services. We are committed to additional efforts to ensure the attractiveness of the civil service for experienced and high-skilled professionals, and to enhance efficiency, e.g., by merging various public agencies and enhancing the institutional roles within the Government of Jordan to strengthen budgetary oversight and human resource planning.

(iv) **Public financial management (PFM).** To inject liquidity into the market while maintaining sound fiscal policy, we have reduced the stock of central government arrears due to the health sector by JD 196 million between end-December 2020 and end-December 2021. However, the incurrence of both health and energy arrears as continued, with an additional JD 36 million in claims identified during Q1 2022. The recent IMF TA on cash management has identified areas of reform in cash forecasting and cash and debt management integration, which could help better manage cash flow volatility, reduce the incurrence of arrears, and improve the prospects for obtaining domestic market financing at competitive rates. To eliminate off-budget expenditures, we are strengthening top-down budgeting, and improving the quality of fiscal projections.

(v) **Public procurement.** Cabinet has approved the amended Unified Public Procurement Bylaw based on one year of implementation to clarify conditions for allowing direct purchasing (such as COVID-related emergency spending) and the membership, structure, and remuneration of committees (end-December 2021 SB). We have been working to ensure adequate staffing of the relevant committees and units directing and implementing the rollout of the eGovernment Procurement system, JONEPS, and to expand the JONEPS coverage to include the Education and Health Ministries (*SB for December 2022*). During 2022, we will also start the process to implement the JONEPS procurement system for municipalities, starting with GAM, with full coverage of GAM expected by June 2023.

(vi) **Fiscal transparency and fiscal risks management.** Consistent with the 2021 FTE's findings and recommendations, (a) the new macro-fiscal unit at MOF will prepare and publish a Fiscal Risk Statement with the 2023 budget, including a fiscal risk analysis of four major SOEs, namely Royal Jordanian, the Post Office, Al Mutakamela Public Transport, and NEPCO, (leveraging FAD's SOE Health Check Tool); (b) the Fiscal Commitments and Contingent Liabilities Unit (FCCL) has gathered key financial and non-financial information on three major PPPs—namely, powerplants IPP3 and IPP4, and AIG (in addition to all new PPPs); it is completing an assessment of both explicit fiscal costs and fiscal risks (including those related to early contract termination) to be published on the MOF website subject to confidentiality limitations (*SB for June 2022*). We will expand coverage of existing PPPs to an additional 3 of the largest PPPs by end-December 2022. Separately, we will continue publishing information on COVID related spending, including beneficial ownership of entities awarded contracts, on the MOF website; we have published the results of an ex-post audit of COVID-related spending for 2021 in April 2022 (*SB for June 2022 met*).

(vii) **Investment quality and predictability.** In line with a new Cabinet decision, we are subjecting the National Conveyor PPP project to the requirements of the new PPP law, notably, a robust FCCL analysis, and transparent bidding. The FCCL analysis for the National Conveyor Project was completed in April 2022. We are continuing efforts to improve the capacity of the FCCL unit, including through a hiring campaign (to conclude by August 2022). We have prepared the legislative basis for the National Registry of Investment Projects (NRIP), comprising of the Public Investment Project (PIP) Databank and the Public-Private Partnership (PPP) Project Databank; we have been collecting the necessary information on approved PPPs, and expect to migrate this to the electronic version of the platform once launched (by the Q3 2022). We will also include in the NRIP all PIPs in the 2023 General Budget greater than JD 1 million.

(viii) **Fiscal policy and debt management capacity.** Building on the success of the Project Management Unit (PMU) in MOF in driving the ambitious structural fiscal reform agenda, we are strengthening MOF's capacity to generate its own medium-term forecasts (including off and on budget grants and loans), assess and elucidate the dynamic and distributional impacts of alternative revenue and expenditure measures, monitor public balance sheet risks, and carry out debt management and debt sustainability analyses. To this end, we have recruited two division heads and four staff for a new macro-fiscal unit at MOF, with 2 pending senior hires (*January 2022 SB*). This unit has produced its first report on macro-fiscal outlook and risks (*June 2022 SB met*).

12. We will continue monitoring the balance sheets of some public enterprises and local government units with a view to addressing emerging vulnerabilities:

- **Royal Jordanian (RJ).** The five-month suspension of all incoming and outgoing commercial passenger flights in 2020 and the slow pace of subsequent re-opening of the airport have pressured RJ's finances. While RJ resumed operations and started new routes to Europe, it continued to make losses in 2021, albeit less than half the level of 2020. In 2022, passenger numbers have increased significantly, but higher operational costs due to oil prices are not being fully passed on to ticket prices, and will put some pressure on RJ's bottom line. Overall, while we expect RJ to return to profitability soon, we envisage a need for a further capital injection of JD 70 million in 2022.

- **Greater Amman Municipality (GAM).** To address deficits, GAM is taking measures to strengthen revenues, decrease operating costs (including by reducing its wage bill), incentivize the payment of bills (including through discounts for early payment), and improve service delivery; it expects to eliminate deficits gradually over the medium term. GAM has also launched the pilot of the first phase of the Bus Rapid Transportation (BRT) project, which will provide reliable, affordable, and safe transportation to residents of Amman, especially women. After the first eight months, the ridership on the BRT exceeds targets and around 90 percent of costs are covered through ticket prices. The remaining routes in the first phase will be rolled out gradually through 2023. GAM expects to launch a tender for a second phase of the BRT (an additional 40 km of routes) in the coming months.

Medium-term fiscal path

13. In light of the difficult global economic conjuncture and elevated poverty and unemployment, fiscal consolidation over the medium term must carefully balance the need to protect the vulnerable, support inclusive growth, and strengthen debt sustainability. Given the monetary tightening expected through 2023, and the global headwinds from higher fuel and food prices, we welcome the more moderate pace of medium-term fiscal consolidation agreed with IMF staff. This revised fiscal path will enable the government to protect growth and priority spending on human capital and public infrastructure investments, and social welfare. Importantly, the revised path will deliver, by end-2027, both our medium-term debt target of 80 percent of GDP and a zero primary balance position (excluding grants). Much of this primary balance improvement will come from measures already taken on the tax and spending side, which are part of staff's baseline. These include the unwind of the remaining COVID-related measures, the ramp-up of savings from transfer pricing and economic substance reforms introduced in 2020–21, and the containment of wage bill growth below nominal GDP growth. Still, to achieve our medium-term debt and fiscal targets, we will need additional discretionary measures of 1.7 percent of GDP over 2023–27, which could be feasibly realized from the sources noted below.

Expected Sources of Medium-Term Fiscal Consolidation
(Estimated yield, in percent of GDP)

	Cumulative Yield		
	2023	2024	2027
Required discretionary effort to close the fiscal gap (cumulative)	**0.2**	**0.6**	**1.7**
Total expected yield from envisioned reforms (cumulative)	**0.2**	**0.6**	**1.7**
Revenue reforms	**0.2**	**0.4**	**1.2**
Broaden income tax base by rationalizing new CIT incentives (new investment law expected to be passed by August 2022); and improving compliance for large tax payers and free professionals (starting 2023)	0.1	0.1	0.4
Broaden GST base by introducing place of taxation rules (expected to be passed by August 2022); rationalizing new GST incentives (new investment law, see above); and recent customs reform to reduce avenues/incentives for smuggling	0.1	0.1	0.4
Close tax loopholes by bringing ASEZA tax and customs functions within national systems (law passed May 2022)	0.0	0.1	0.3
Introduce digital track-and-trace system (for all cigarette companies by end-2022; and for alcohol by end-2023)	0.0	0.1	0.1
Expenditure reforms	**0.0**	**0.2**	**0.5**
Further contain public wage bill growth to below nominal GDP growth from 2023	0.0	0.1	0.2
Roll out JONEPS (e-procurement) in health and education ministries (starting 2023); to broader central and general government entities (starting 2024)	0.0	0.1	0.2
Improved efficiencies/reduced exemptions in the provision of health insurance	0.0	0.0	0.1
Potential additional reforms (cumulative, subject to FAD technical assistance)			0.5

14. We are committed to closing the fiscal gap during 2023–27 by continuing our fiscal strategy focused on revenue base broadening and have identified additional measures yielding a cumulative 0.4 percent by 2024, and 1.2 percent by 2027 in this area. In the First EFF Review staff report (published January 2021), tax loopholes and exemptions were estimated to be costing Jordan around 10 percent of GDP in foregone revenues. With the support of FAD TA, we have made significant progress toward closing these loopholes, while the ISTD has made substantial inroads into improving compliance. Going forward, the implementation of new legislative and administrative reforms is expected to generate, cumulatively, an additional 0.4 percent of GDP in revenues by the end of the program (2024), and 1.2 percent of GDP by the end of staff's projection horizon (2027). This is expected to comprise (i) measures to broaden the income tax base by rationalizing new incentives (via the new investment law) and from the implementation of compliance improvement plans in the Large Taxpayer and Free Professionals Directorates; (ii) efforts to broaden the GST base by introducing place of taxation rules and rationalize new GST incentives via the new investment law, as well as from a reduction in smuggling following the recent customs reform; (iii) closure of key tax loopholes by bringing ASEZA within the national tax and customs systems; and (iv) fully implementing the track-and-trace system for alcohol companies and remaining cigarette companies. Moreover, we will explore the potential for additional reforms to counter unforeseen drops in revenue collection, and will seek further IMF TA in this regard.

15. We are also committed to and have identified measures to improve expenditure efficiency to deliver, cumulatively, 0.2 percent of GDP in savings by the end of the program (2024), and 0.5 percent of GDP by the end of staff's projection horizon (2027). These measures include: (i) containment of the growth of the public wage bill below nominal GDP growth and implementation of public sector efficiency reforms inspired by the recent public sector recent modernization plan; (ii) roll out of e-procurement to both the health and education ministries, followed by the broader public sector; and (iii) efficiencies in the health care sector, including via reduction of abuse/misuse of exemptions and incentivizing more efficient use of resources in public hospitals.

Monetary and Financial Policies and Enhancing Access to Finance

16. Monetary policy will continue to be underpinned by our firm commitment to the exchange rate peg to the US dollar. The peg has served our economy well by providing a credible nominal anchor of monetary and financial stability. At the onset of the COVID-19 pandemic, the CBJ implemented a sizable package of measures, totaling about 8 percent of GDP, to support economic activity. As a result, growth of claims to the private sector (y-o-y) held up well—at about 5 percent for 2021, and 5.5 percent as of March 2022—allowing firms, including SMEs, to remain in business and keep employees on the payroll. To mitigate the impact of the pandemic on retail and corporate borrowers, the CBJ had also introduced a debt deferment scheme, which permitted banks to postpone the installments of affected customers without any commission or penalty interest (with the recovery in train, the scheme was allowed to expire at end-2021). By closely monitoring and responding to the state of the economy, pro-actively managing banking system liquidity, and remaining vigilant to external sector developments, the CBJ has successfully preserved monetary and financial stability through a challenging period, while delivering meaningful support to the economy.

17. The CBJ will remain alert to domestic, regional, and global financial conditions and will carefully monitor other central banks' actions. In light of the ongoing U.S. Fed-induced tightening of global financial conditions, and consistent with the response of regional peers, the CBJ has acted firmly with successive policy rate hikes, cumulatively amounting to 75 basis points, since March 2022. Looking ahead, the CBJ will remain alert to changes in global financial conditions, and any attendant shocks and stands ready to undertake the policy adjustments necessary to credibly protect monetary stability. Our key operational target will continue to be to maintain international reserves above 100 percent of the Fund's Reserve Adequacy Metric.

18. The CBJ has provided support to businesses, with a focus on SMEs, through subsidized lending schemes to protect employment. The CBJ created a JD 500 million SME lending scheme (85 percent of which is guaranteed by the Jordan Loan Guarantee Corporation and partly supported by the Government of Jordan) at the onset of the crisis in 2020; and adjusted the terms of an existing one (which was launched in 2012) to make available up to JD 1.3 billion at low interest rates to support ten productive sectors. These two lending schemes have been seen as crucial for Jordanian businesses to weather the economic impact of the pandemic, and to protect private sector jobs. In March 2021, the CBJ increased the envelope of the JD 500 million SME scheme to JD 700 million, raised the borrowing limits under this scheme for especially hard-hit sectors by the pandemic (i.e., tourism and trade), and extended the scheme until June 2022. In March this year, we also raised borrowing limits for firms that import basic commodities such as wheat, sugar, and oil, whose prices have increased sharply due to the war in Ukraine. Looking ahead, as the recovery firms up through 2023, and demand for the SME scheme dwindles, the CBJ will unwind the scheme. With regard to the JD 1.3 billion scheme, it continues to be helpful in capitalizing on the growth momentum, by supporting productive economic sectors. The CBJ is considering reviewing the interest rate of this scheme over the medium term in light of CBJ's monetary policy stance and evolving economic conditions.

19. **Our banking system has remained liquid and well-capitalized.** The system-wide capital adequacy ratio was 18 percent at end-2021, similar level as in 2019 and 2020, and well above the CBJ regulatory minimum of 12 percent. The CBJ's decision not to allow distribution of banks' 2019 profits and to put a 12 percent cap on the distribution of 2020 profits as a share of banks' paid-in capital has provided additional cushion. Non-performing loans remained low at 5 percent as of end-2021, though they could still rise slightly as the full impact of the COVID-19 pandemic unfolds and banks reassess their portfolios in light thereof. Meanwhile, the provisions-to-NPLs coverage ratio increased healthily from 71.5 percent at end-2020 to about 80 percent at end-2021.

20. **We will continue to closely monitor and address risks in the banking system, leveraging our strong prudential and supervisory framework.** The CBJ's accounting, reporting, and provisioning practices are designed to ensure an adequate and timely monitoring of risks. The CBJ continuously conducts stress tests to ensure that all banks have sufficient buffers in case of a significant rise in NPLs and hit to profits. To ensure that asset quality problems are recognized and addressed early, we have continued to require banks to follow strict provisioning standards, in line with IFRS9's forward-looking expected loss approach. With most of the provisioning already taking place in 2020, banks' profits in 2021 have rebounded sharply. Should capital adequacy fall below the 12 percent CBJ threshold for any bank, the CBJ will require the bank to submit a credible capital restoration plan to rebuild capital.

21. **We are committed to developing a risk-based capital and solvency regime for the insurance sector bringing it in line with international best practices** (*June 2023 SB*). Our objective is to devise a risk-based solvency regime that will (i) provide incentives for insurance companies to better manage risks; and (ii) help the CBJ get a better perspective of the risk profiles of individual insurers as well as the market as a whole. The new framework needs to be forward-looking and encourage insurance market development, and be in line with international trends and best practices while recognizing and reflecting the realities of Jordanian market conditions.

22. **We are continuously working on improving our regulatory supervision and enhancing our monitoring toolkit for the financial system.** We have launched an inspection management

system (IMS) that will improve effectiveness and efficiency of onsite inspection operations and procedures for financial sectors that are under the CBJ's supervision. IMS covers the entire inspection process starting from planning for the visit and ending with sending the inspection report to the entity and follow up. We intend to complete phase one of this project by March 2023, covering the following four sectors: (i) banking supervision; (ii) consumer protection; (iii) payment systems; and (iv) currency exchange. The inclusion of insurance and microfinance sectors will be completed in phase two.

23. We are further strengthening the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). Jordan continues to work actively to ensure effective implementation of the items in Jordan's FATF action plan by end-October 2023. Jordan submitted its first progress report to the FATF ICRG Joint group to be discussed during the June FATF Plenary which indicated completion of the following before the due dates in the FATF action plan:

- Completing an assessment to identify non-profit organizations (NPOs) that are vulnerable to terrorist financing abuse (first part of the end-June 2022 SB completed); The risk assessment of NPOs was completed in March 2022. Jordan is considering publishing the report or the executive summary.

- Addressing AML/CFT deficiencies such that Jordan would no longer qualify for referral to the FATF's ICRG process on the basis of its technical compliance ratings (second part of the end-June 2022 SB completed): With the enactment of the AML/CFT law, which became effective on September 2021, Jordan addressed many of its legal framework technical compliance deficiencies. The Middle East and North Africa Financial Action Task Force plenary meeting on May 25, 2022 granted Jordan rating upgrades on 14 recommendations such that Jordan is now rated non- or partially compliant on only 8 recommendations, well below the threshold of 20 or more for referral to ICRG.

Jordan will continue to implement the other remaining items in the FATF action plan on the designated timeframe.

24. Reforms to facilitate access to finance have been progressing well. In this respect:

- The National Financial Inclusion Strategy (2018–20) has achieved tremendous success in enhancing financial inclusion in Jordan. Building on this achievement, the CBJ is now developing a new National Financial Inclusion Strategy (2023–25), which is expected to be launched at the end of 2022. This new strategy will act as a roadmap for enhancing financial inclusion in Jordan, notably the low-income population, women, youth, refugees, and micro, small and medium-sized enterprises. It will be developed based on evidence and in a targeted and prudent manner to produce responsible, sustainable, and inclusive usage of the financial services, as well as economic and social development outcomes in line with the UN SDGs. The Strategy will focus on the financial services (Credit, Payment, Saving, and Insurance) as main pillars, and a group of cross-cutting enablers that are interconnected and support each pillar in enhancing financial inclusion.

- To support micro and small enterprises and self-employed individuals, the CBJ launched in Q4 2021 a new financing program through allocating USD 30 million from the new Arab Fund for

Economic and Social Development loan to be lent directly to microfinance institutions at zero interest rate, the cost of which will partly be subsidized by the government.

25. The joint IMF-World Bank Financial Sector Assessment Program (FSAP) has commenced in early-2022. The ongoing FSAP will provide an important opportunity for assessing the resilience of the financial sector at a challenging time for the global economy. The IMF-focused workstream will cover the following key pillars: (i) risk assessment framework; (ii) financial stability oversight frameworks; and (iii) crisis management framework.

26. We continue to benefit from IMF TA to update our monetary policy, payment systems and banking supervision frameworks. We are receiving IMF TA on setting up a comprehensive and state-of-the-art monetary and economic policy modeling framework, which will help us ground our policy decision-making in model-based quantitative analysis. We are also receiving TA on the conceptual framework and operational issues around central bank digital currency (CBDC), where we are still considering wholesale vs. retail options. As a follow-on to the TA on liquidity forecasting, we have requested TA on analyzing the different components of excess liquidity in banks (such as holdings for precautionary reasons) with a view to further improving monetary transmission. In addition, as part of our effort to continuously keep abreast of international best practices, we have requested TA (including training workshops) on risk-based banking supervision.

27. We are also continuously working to strengthen our economic statistics. With some nonbank financial corporations coming under the supervisory umbrella of CBJ in mid-2021, we have requested TA to update our monetary statistics to encompass this expanded coverage. In addition, we will implement an FDI survey to improve our balance of payment statistics (new SB for end-Oct 2022); this will help us better understand of the composition of capital flows, and attendant risks; and reduce errors and omissions in the balance of payments (as seen in 2021).

Electricity and Water Sector Reforms

28. The Ministry of Energy and Mineral Resources (MEMR) are continuing our efforts to reduce NEPCO's losses and restore its financial sustainability. Long-term natural gas contracts have helped shield NEPCO from the significant increase in oil and gas prices in international markets so far. Going forward, high energy prices, slow growth in electricity demand and the coming on-stream of the oil shale project will likely put further pressure on NEPCO's financial balance. In this context, we are pursuing a comprehensive strategy to restore NEPCO to financial viability over the medium term, which will encompass:

- *Revenue-enhancing measures*. Given available generation capacity, our priority remains securing higher domestic and regional demand so that the average cost of electricity supply decreases. We plan to increase domestic revenues through incentivizing distribution companies, to introduce Time of Use tariffs, and to install electricity meters for every house connected to the grid. Moreover, revenues from electricity exports to the West Bank are expected to reach around JD 25 million in 2022, and electricity exports to Iraq, expected to start in 2024, will generate another JD 20 million in annual revenues. We have also completed upgrading and connecting the necessary infrastructure to start electricity exports to Lebanon.

- *Cost-reducing measures*. We will continue efforts to reduce administrative and technical losses, lower the costs of LNG storage and regasification, improve electricity storage via hydropower and battery storage, and establish a specialized company for purchasing natural gas and operating gas pipelines. We will also strengthen electricity grid interconnections with neighboring countries, including Egypt, Syria, Iraq and Saudi Arabia. Over the medium term, we will explore options to optimize costs related to PPA commitments and to ensure a more equitable distribution of risks therein.

- *Governance measures*. We are unbundling NEPCO accounts into separate Strategic Business Units (SBUs) to strengthen accountability as part of the Corporate Governance Action Plan supported by EBRD. We will provide details of the proposed enhanced KPIs of distribution companies and empower the EMRC to review their requested financial plans by end-September 2022.

29. The above measures are laid out in our Financial Sustainability Roadmap for the electricity sector (to be approved by end-September 2022), and have been developed in consultation with international partners.

30. We are committed to arresting NEPCO's arrears to the power plants and governmental entities' electricity arrears. NEPCO had incurred an additional JD 100 million in arrears with SAMRA as of end-March 2022. We have reached an agreement with SAMRA regarding a repayment schedule for these arrears. A cabinet decision has been taken in January 2022 to replace the current meters for all governmental entities with prepaid ones to prevent accumulating electricity arrears.

31. We successfully rolled out the new electricity tariffs on April 1st (*March 2022 SB*). The reform, which is revenue neutral for NEPCO, (a) reduces electricity tariffs for key business sectors; and (b) reforms the household tariff system to reduce distortions and generate savings in a progressive manner. The reform is expected to enhance private sector competitiveness and support job creation. We have made refinements to the targeting of household subsidies to more efficiently protect the vulnerable, by: (i) granting access to subsides for multiple meters to households where a member works in a different governorate from the primary residence, or lives away while attending university; and (ii) allowing access to subsidized rates for households with solar generation capacity under 3.6 KW (while still charging them connection fees). The platform for households to register for subsidies came online in January and around 1.1 million households have applied through it thus far. We have strengthened inter-ministerial coordination to facilitate eligibility-checking and an appeals mechanism is in place to ensure that households are not disqualified unfairly. We will put in place a dispute mechanism to give eligible households who missed registering their meters the option until the end of May to request the electricity distribution company to reissue their electricity bills at subsidized rates after registering their meters. We are providing transitional subsidies for six months to the 32,000 most vulnerable Syrian refugee households identified by the UNHCR. We will continue to seek donor assistance to support vulnerable groups potentially affected by the reform including refugee households.

32. We are committed to scale up reforms in the water sector in order to contain rising losses and to ensure a sustainable path for the supply of water, critical for both growth and macroeconomic stability. Jordan is one of the most water scarce countries in the world; Jordan's low water resources are depleting at a fast pace, leading to rising pumping and treatment costs, and increasing risks of water shortage. Developing additional infrastructure to boost water supply has become urgent and will require significant capex and opex, making reforms in the sector even more critical. In this context, we are committed to:

- *Due process for projects to address water scarcity, including the Aqaba-Amman National Conveyor Project (AANCP).* We will ensure that all new PPPs adhere to best practices consistent with the new PPP law in procurement decisions and granting of government guarantees. With regard to AANCP, the tendering process which started before the new PPP law came into effect, we will ensure that due process required by the PPP law will take place throughout the remainder of the tendering process, including by: (a) using a robust FCCL framework to analyze fiscal commitments and contingent liabilities arising from the project prior to finalizing the contract; (b) involving PPP Unit staff in both the Technical and Special Tendering committees for the entire tendering process; and (c) preparing tender documents and draft contracts in coordination with the PPP unit. We will complete a competitive tender process in a manner that is consistent with international best practices. In this regard, request for proposals (RFPs) were issued to five pre-qualified consortiums in February 2022.

- *Reducing non-revenue water (NRW).* We will introduce a National Non-Revenue Water Strategy by September 2022 to reduce non-revenue water (which involves both physical leaks of water from damages pipes and pilferage) from the current level of 50 percent of total water supplied to 40 percent and 25 percent by 2030 and 2040, respectively. An investment plan of US$1.8 billion under a PPP structure, supported by donor grants and concessional loans, will be implemented over 2023–40 to achieve this target.

- *Arresting the accumulation of arrears.* We remain committed to arrest the accumulation of arrears towards water sector PPPs and electricity distribution companies, including through timely cash transfers from MOF to WAJ. Toward this goal, MOF established a new mechanism for automatic monthly transfers of JD 7 million to WAJ, with the possibility of an additional JD 5–7 million if needed. However, these efforts have not been sufficient to arrest the accumulation of arrears: in 2021, WAJ accumulated JD 24 million in arrears on electricity payments, and JD 29 million in arrears for other charges.

- *Addressing the water-electricity nexus.* We will design a joint electricity-water multi-year strategy to arrest the accumulation of arrears by the water sector to electricity distribution companies and enable the efficient purchase of electricity by the water sector. We will continue to engage MEMR in discussions on efficient energy use and implications on energy sector balance sheets when designing new infrastructure projects in the sector.

Adopting a Financial Sustainability Roadmap for the water sector will provide an overarching strategy for achieving the above mentioned reforms. Leveraging on the "Action Plan to Reduce Water Sector Losses", which has guided our recent reform efforts, we are conducting a comprehensive analysis of the sector's challenges and are preparing a Financial Sustainability Roadmap, in consultation with key stakeholders and with the support of our development partners, which is now expected to be completed by June 2022. The roadmap will provide a comprehensive analysis of the challenges that the sector faces in the aftermath of the pandemic, and will outline a concrete set of actions needed to durably increase revenues and contain costs.

Structural Policies to Promote Jobs and Growth

33. We are committed to implementing broad-based labor market reforms, with a focus on measures to increase labor force participation and generate jobs. While the unemployment rate for Jordanians has witnessed a moderate recovery in comparison to its peak (25 percent in 2021Q1) during the pandemic, it remained elevated at 23.3 percent by end-2021. Unemployment levels for youth (total) and young females increased to 56.4 and 67 percent respectively by 2021Q4, as compared to 53 and 64 percent in 2021Q2, as the jobs recovery has not kept up with demographic pressures. The labor force participation rate has remained stuck at around one-third, with female labor force participation (13.6 percent) still one of the lowest in the world. In this context, we are working to:

(i) Increase female labor force participation and enhance gender equality:

- The Ministry of Social Development is conducting a comprehensive legal and institutional review of the nursery licensing process and designing a revised regulatory and institutional model based on the findings of the review. We are also working to set targets under all wage-support public programs offered to the private sector, to include floors on financial support for childcare services.

- We are advancing amendments to the Labor law that enhances protections for women in relation to harassment and violence in the workplace. The amended law also removes restrictions on female employment in certain professions and industries. We will table these amendments for discussion in Parliament (***new proposed SB for November 2022***).

- The government will revise the social security survivor benefits legislation to ensure that there is no gender discrimination with respect to survivor benefits, which could act as an impediment for female participation in the social security system.

- We are considering options to strengthen female representation on the boards of public corporations.

(ii) Address labor market segmentation:

- We are conducting a comprehensive review of labor legislation and will expand the work to include an assessment of policies affecting labor-market costs and segmentation (including benchmarking to peers). The review will be shared with Fund staff by end-November 2022 and provide the basis for policy recommendations on how to tackle labor market segmentation, enhance the capacity of employers to tap into the most productive workers, and reduce the cost of job creation to employers.

- We will formulate an action plan with the Civil Service Bureau to enhance civil service efficiency and productivity by (i) leveraging the Public Sector Modernization plan (which will tie remuneration more closely to performance); and (ii) addressing the findings of the government-commissioned public wage bill study in 2021 by aligning remuneration with that of market comparators to address the wage premium for new low-skilled entrants while providing incentives for skilled and experienced staff to attract and retain talent.

- We have reintroduced some flexibility in the labor market by issuing circular 56, which narrowed those affected by Defense Order 6—which prohibits employers from terminating the contracts of workers—to only those hired before the Order went into effect in 2020. With the economy fully reopened, we are phasing out this Defense Order, together with the Istidama program, to reduce the segmentation in the labor market between new entrants (youth) and established workers; and support a more dynamic labor market.

(iii) Reduce youth unemployment:

- We are streamlining and enhancing our technical and vocational education and training (TVET) efforts and are working on legislation that will bring existing initiatives under a single umbrella, as well as on a strategy to transition the beneficiaries of the program into the labor market.

- In line with our commitments under Pillar II (Enhancing Competition and Increasing Employment) of the Government Economic Priorities Plan for 2021–23, we are examining options to incentivize the hiring of workers under the age of 30 by reducing the applicable social security contribution rate in a manner that does not adversely affect the financial sustainability of the Social Security Corporation (SSC).

- We have launched the National Employment Scheme in 2022Q1, providing support for private sector employment and training of new hires, potentially creating 60 thousand new job opportunities. We have already received around 10,000 applicants in the first month of the scheme.

- The aforementioned comprehensive review of labor legislations will assess options to reduce the costs of hiring youth, leveraging international experience.

Encourage formality:

- The Ministry of Labor has issued approximately 36,723 flexible working permits for Syrian refugees in 2021, allowing them to work in all sectors open to non-Jordanians without being tied to a specific employer and with freedom to move between employers and geographical areas. A total of 42,421 work permits were issued between January 1, 2021, and March 31, 2022.

34. Improving the business environment is a key element of our growth strategy, and we have been working towards fostering investment, enhancing competition, and boosting export competitiveness:

- Given the limited fiscal space, public investment policies will focus on **better alignment of new investment projects with the Government Economic Priorities Plan for 2021–23**, as well as mobilizing private sector know-how and financing through PPPs (see related discussion in the fiscal section). In the first quarter of 2022, we issued tenders to bring to market important projects from the PPP pipeline, including the King Hussein Bridge Land Border Crossing Terminal, and the construction of 15 new public schools across Jordan.

- **Streamlining transactions**. We are implementing the new **Property Values** Estimation Bylaw (No. 4 of 2019), establishing pre-estimated values for land in Jordan to enhance transparency and good governance, as well as reduce the time required for property valuation. Property value estimations have been completed for the Amman Directorates at end-2021.

- We have operationalized the new **insolvency framework,** licensed 13 insolvency practitioners, and are continuing to train judges in best practices. Additionally, we are focused on building the capacity of all relevant stakeholders, establishing the Insolvency Committee, and launching an electronic insolvency registry by end of 2022.

- In line with Pillars I and II in our Economic Priorities Plan, we are working to strengthen our **competition regulatory and legal framework** and build the capacity of the Competition Directorate at the Ministry of Industry and Trade. To this end, we will submit to Parliament draft legislation to strengthen the competition framework, including empowering the relevant regulatory body and strengthening antitrust legislation, in line with the UNCTAD Model Law on Competition (*SB for end-June 2022 proposed to be rescheduled for end-August 2022*). In addition, we are conducting a market analysis and are identifying the sectors and sub-sectors demonstrating signs of unfair practices, as well as assessing government policies that may inadvertently hinder competition in certain sectors or present a barrier to entry for SMEs. These analyses will be completed by end-2022, and shared with Fund staff.

- **Trade and transport facilitation.** We have launched a new electronic portal for a testing phase at the end of 2021, which allows importers to apply and get approval for Advanced Ruling status for their goods. Jordan Customs will also continue to upgrade the infrastructure needed to fully leverage the National Single Window (including for all points of boarder entry) and launching a trade related permit issuance system at Jordan Customs connected to the four licensing GoJ agencies.

35. Strengthening governance and increasing transparency is critical for growth. In line with our RFI commitments, we will continue to update the COVID-related procurements government website, including information on beneficial ownership of entities that have been awarded contracts. We have also published an ex-post audit (end-June 2022 SB) of all COVID-related spending in 2021, which included an assessment of the transparency of the procurement process as well as beneficial ownership information provided by firms. Moreover, we are ensuring that the Integrity and Anti-Corruption Commission (IACC) is adequately resourced, including to implement the amendments to the Illicit Gains Law passed in August 2021, and the IACC law enacted in 2022. We are exploring further legislative changes with regards to criminalizing illicit gains from public procurement.

36. Timely and accurate economic data has become increasingly critical in calibrating policy responses as Jordan navigates high global economic uncertainty. In this regard, we are continuing our efforts to increase the quality of primary statistics derived from annual industry surveys and ensure their consistency with the data compiled from quarterly surveys. The Department of Statistics (DOS), with technical support from METAC, has continued efforts to compile annual GDP estimates using primary annual statistics. DOS finalized the development of an annual compilation system based on a supply-use framework at end-August and expects to publish 2017–18 annual GDP and revised quarterly GDP estimates by end-July 2022, and the 2019 figures by end-2022. Going forward, DOS will adhere to a regular publication and revision schedule that includes revisions to quarterly GDP based on annual GDP estimates.

PROGRAM MONITORING

37. Progress in the implementation of our policies, which are supported by the IMF, will be monitored through semi-annual reviews, quantitative performance criteria (PCs), indicative targets, and structural benchmarks. These are detailed in Tables 1 and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding. Quantitative targets for June 2022 and December 2023 are PCs. IMF disbursements will be on-lent to the government during the program period. We signed the Memorandum of Understanding between the CBJ and the Ministry of Finance on responsibilities for servicing financial obligations to the IMF.

Table 1. Jordan: Proposed Quantitative Performance Criteria and Indicative Targes, December 2021–June 2023 1/

	Dec-21				Mar-22				Jun-22		Sep-22		Dec-22		Mar-23	Jun-23
	PC	Adjusted	Actual		IT	Adjusted	Actual		PC	Proposed Revised PC	IT	Proposed revised IT	PC	Proposed Revised PC	IT	PC
							(in JD millions, unless specified otherwise)									
Performance Criteria																
Primary fiscal deficit of central government, excluding grants and net transfers to NEPCO and WAJ	1,400	1,605	1,444	Met	182	170	160	Met	425	551	572	773	1,066	1,159	469	634
Combined public deficit (flow, cumulative ceiling)	2132	2,337	1996	Met	347	335	274	Met	764	814	1,079	1,117	1,745	1,628	630	995
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,938	12,853	14,999	Met	12,100	12,198	14,687	Met	11,678	12,847	11,294	12,290	13,252	13,376	13,071	13,243
Ceiling on accumulation of external debt service arrears 2/	0		0	Met	0		0	Met	0	0	0	0	0	0	0	0
Indicative Targets																
Social spending by the central government (flow, cumulative floor)	943	943	1,028	Met	121		142	Met	361	393	584	628	793	890	150	266
Public debt (stock, ceiling) 3/	29,631	29,631	29,521	Met	30,383	30,383	29,100	Met	31,082	30,235	31,223	31,523	31,844	31,877	31,808	32,787
Domestic payment arrears of NEPCO (stock, ceiling) 4/	0	0	100	Not Met	0	0	100	Not Met	0	0	0	0	0	0	0	0
Domestic payment arrears of WAJ (stock, ceiling) 5/	0	0	90	Not Met	0	0	90	Not Met	0	0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies (stock, ceiling) 6/	0	0	152	Not Met	0	0	152	Not Met	0	0	0	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan (stock, ceiling)	343	428	-818	Met	600	502	-494	Met	670	505	1,011	905	80	636	668	344
SSC net financing to the central government (flow, ceiling)	772	772	569	Met	337	337	203	Met	879	759	821	638	917	800	215	806
Memorandum items for adjustors																
Foreign budgetary grants received by the central government (flow)	763		803		53		29		125	65	240	141	1,027	873	8	25
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from beginning of year)	2,708		2,595		109		207		322	355	427	629	2,587	2,720	50	111
Programmed stock of the combined health and energy arrears	326		224		218		217		206	217	176	190	68	140	110	80
Unbudgeted COVID-related spending (flow)			165													
Stock of checks issued by the central government but not yet cashed by the beneficiary	…		171						…							

1/ Proposed quantitative performance criteria and indicative targets under the new program.
2/ Continuous.
3/ Public debt includes central government debt (including off-budget project loans) and government-guarantees to NEPCO, WAJ, and other public entities, net of SSC's holdings of government de
4/ 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.
5/ 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.
6/ Arrears owed by Aqaba, Miyahuna and Yarmouk distribution companies only to all entities. Excludes advances from central government for which Aqaba, Miyahuna and Yarmouk distribution companies do not pay interest and that do not have established maturity.

Table 2. Jordan: Status of Existing and Proposed New Structural Conditionality					
No.	**Measure**	**Time Frame (by end-period)**	**Status**	**Macroeconomic Rationale**	**Proposed Action**
I. Proposed Prior Action					
1	Announce (i) a 60 fils increase in the price of octane 95 gasoline for the month of June; and the full removal, by end-August 2022, of the subsidy on octane 95 gasoline; and (ii) the commitment to remove fuel subsidies on all other oil derivatives by end-2022, while protecting the most vulnerable through targeted support.		Met	Protecting public finances	*The announcement should be made by end-May 2022, because the 60 fils increase applies to the month of June.*
II. Proposed New and Reset/Reformulated Structural Benchmarks					
1	Table the amendments introducing "place-of-taxation" rules into the GST law for discussion in the upcoming extraordinary session in parliament	July 2022		Increasing efficiency of GST and improve tax compliance	
2	Table for discussion in the upcoming extraordinary session of parliament a new draft law titled "Regulating the Investment Environment and Doing Business Law", which will include a chapter on investment that (i) sets out the incentives framework—for the granting of all fiscal incentives to investors—including clear principles to be administered by a fiscal incentives ministerial committee including MOF that takes full account of the benefits and costs, especially foregone government revenues, associated with the incentives; (ii) consolidates the governance of new, and rollover of existing, fiscal incentives under MOF apparatus; and (iii) stipulates that all new fiscal incentives will be granted by the fiscal incentives ministerial committee	August 2022 (reset/reformulated from May 2022)		Protect against tax base erosion	

Table 2. Jordan: Status of Existing and Proposed New Structural Conditionality (continued)					
No.	**Measure**	**Time Frame (by end-period)**	**Status**	**Macroeconomic Rationale**	**Proposed Action**
3	Table for parliamentary discussion the amendments to the Labor law removing gender-biased articles and increasing protection of women workers from harassment.	Nov 2022		Promoting women labor force participation	
4	Develop a risk-based capital and solvency regime for the insurance sector bringing it in line with international best practices	Jun 2023		Enhancing CBJ's supervision	
5	Implementation of a foreign investment survey based on the Balance of Payments and International Investment Position Manual, sixth edition (BPM6)	Oct 2022		Supporting Surveillance	
6	Start implementation of a digital track-and-trace system for alcohol companies	Jun 2023		Revenue mobilization	
7	Issue a cabinet decision to contain (i) the 2022 fuel subsidy cost to JD350m; and (ii) the 2022 primary deficit (excluding grants) to 3.4 percent of GDP.	Aug 2022			
III. Existing Structural Benchmarks (with due dates after third review)					
1	Cabinet approval of the amended Procurement Bylaw and related Instructions based on one year of implementation.	Dec 2021	Met	Transparency	
2	Recruitment of four new division heads and four staff for new macro-fiscal unit at MOF.	Jan 2022	Not met	Strengthen fiscal policy analysis capacity	
3	Roll out of new electricity tariffs for subsidized and unsubsidized households and for business sectors.	Mar 2022	Met	NEPCO's financial viability and cost of doing business	
4	Pass legislation to impose a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control.	Mar 2022	Not met. Implemented with delay	Strengthen tax compliance management	

Table 2. Jordan: Status of Existing and Proposed New Structural Conditionality (continued)					
No.	**Measure**	**Time Frame (by end-period)**	**Status**	**Macroeconomic Rationale**	**Proposed Action**
5	Submit to parliament a new draft law titled "Regulating the Investment Environment and Doing Business Law", which will include a chapter on investment that (i) sets out the incentives framework—for the granting of all fiscal incentives to investors—including clear principles to be administered by a fiscal incentives ministerial committee including MOF that takes full account of the benefits and costs, especially foregone government revenues, associated with the incentives; (ii) consolidates the governance of new and existing fiscal incentives under MOF apparatus; and (iii) stipulates that all new fiscal incentives will be granted by the fiscal incentives ministerial committee.	May 2022	Not met	Protect against tax base erosion	Reformulated and reset for August-22
6	Submit to parliament draft legislation to strengthen the competition framework, including empowering the relevant regulatory body and strengthening antitrust legislation, in line with the UNCTAD Model Law of Competition.	Jun 2022		Strengthening competition	Proposed to be rescheduled to Aug 22
7	The FCCL Unit to collect key financial and non-financial information on three major existing PPPs (IPP3 and IPP4 power plants and AIG), and all new PPPs, and subject to confidentiality limitations publish both explicit fiscal costs and fiscal risks (including those related to early contract termination) on MOF website	Jun 2022		Managing fiscal risks and fiscal transparency	
8	Undertake ex-post audits of all COVID-related spending in 2021, and publish the results.	Jun 2022	Met[1]	Governance and fiscal transparency	

Table 2. Jordan: Status of Existing and Proposed New Structural Conditionality (concluded)

No.	Measure	Time Frame (by end-period)	Status	Macroeconomic Rationale	Proposed Action
9	The new macro-fiscal unit in MOF to produce, and share with Fund staff, its first report on the macro-fiscal outlook and risks	Jun 2022	Met	Strengthen fiscal policy analysis capacity	
10	Complete an assessment to identify non-profit organizations that are vulnerable to terrorist financing abuse; and address AML/CFT deficiencies such that Jordan would no longer qualify for referral to the FATF's ICRG process on the basis of its technical compliance ratings.	Jun 2022	Met	Strengthening the effectiveness of AML/CFT	
11	Expand coverage of the e-Government Procurement system (JONEPS) to Education and Health Ministries.	Dec 2022		Governance and fiscal transparency	
12	Implementation of the items in Jordan's FATF action plan by end-October 2023 (to be assessed by IMF staff) to strengthen the effectiveness of the AML/CFT system, to support the country's efforts to exit the FATF's list of jurisdictions with strategic deficiencies.	Oct 2023		Strengthening the effectiveness of AML/CFT	

[1] https://www.mof.gov.jo/EBV4.0/Root_Storage/EN/CORONA/Corona_Fund_2021.pdf

Attachment II. Technical Memorandum of Understanding (TMU)

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

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) dated June 13, 2022. The exchange rates and gold price for the purposes of the program are shown in the table below. 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 1046.52 per fine troy ounce for the measurement of the program performance criterion on net international reserves.

Program Exchange Rates	
Currency	**Jordanian Dinar Per Unit of Foreign Currency**
British Pound	0.911106
Japanese Yen	0.006505
Euro	0.786889
Canadian dollar	0.538721
SDR	0.975744

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

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

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

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

(continued)

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

A. Quantitative Performance Criteria and Indicative Targets

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

2. 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) and Aqaba, Miyahuna, and Yarmouk water companies ("state-owned water sector");

3. A performance criterion (ceiling) on the combined primary deficit of the central government (as defined above), the operational loss of NEPCO, the overall deficit of WAJ, and the overall deficit of Aqaba, Miyahuna, and Yarmouk water companies ("combined public deficit");

4. A performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);

5. A continuous performance criterion (zero ceiling) on the accumulation of external debt service arrears;

6. An indicative target (floor) on social spending by the central government;

7. An indicative target (ceiling) on public debt, net of SSC's holdings of government debt;

8. An indicative target (ceiling) on the domestic payment arrears of NEPCO;

9. An indicative target (ceiling) on the domestic payment arrears of WAJ;

10. An indicative target (ceiling) on the domestic payment arrears of Aqaba, Miyahuna, and Yarmouk Water Companies;

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

11. An indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

12. An indicative target (ceiling) on the Social Security Investment Fund's net financing to the central government.

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

B. Ceiling on the Primary Deficit of the Central Government Excluding Grants and Net Transfers to NEPCO and State-Owned Water Sector

14. The **central government** is defined as the budgetary central government that is covered by the annual General Budget Law (GBL). It 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.

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

16. **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 debts outside the general budget) and any foreign debts that are channeled through the central government to finance operations of the rest of the public sector.

17. **Receipts from the sale of government assets** consist of all transfers of monies received by the central government in connection with such operations. 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.

18. 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 balance of the General Treasury Account with the CBJ.

19. 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 general budget, and, specifically, the Social Security Investment Fund). It is equivalent to the cumulative change from the level existing on December 31 of the previous year in the stocks of government debt held by nonbanks and in the float.

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

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

22. Downward by the extent to which foreign budgetary grants received by the central government (as **specified** in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum of 50 percent of the shortfall.

23. Upward by the extent to which foreign budgetary grants received by the central government (as **specified** in Table 1 of the MEFP) during the relevant period exceed the levels specified in Table 1 of the MEFP, up to a maximum of 50 percent of the overperformance. For the end-December 2021 QPC, the 50 percent limit specified above will not apply to the first US$200 million in overperformance in grants (the applicable limit for which will be 100 percent) deployed for protecting the livelihoods of workers severely affected by the pandemic (which is spending not covered under paragraph 26 of the TMU).

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

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

26. For 2020 and 2021, upward by the equivalent amount of unbudgeted spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19, covering emergency outlays and medical supplies and equipment. These exceptional unbudgeted expenditures will be authorized by cabinet resolution and funded through exceptional treasury advances, with amounts and the nature of expenses reported to staff monthly. For 2021, if treasury advances for these purposes exceed ½ percent of GDP, the authorities will consult Fund staff in how the program could be adapted to ensure its objectives remain achievable while ensuring there is needed COVID-19-related spending. For 2022, upward by up to JD 110 (0.3 percent of GDP) should weekly cases, hospitalizations or the share on non-fully-vaccinated population exceed levels agreed in the Cabinet.

C. Ceiling on the Combined Public Deficit

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

28. The **operational loss of NEPCO** is defined as the difference between total operating revenues and total costs for normal operations conducted within the year as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of operating power; and (ii) all other revenue, excluding proceeds from central government transfers or payments of NEPCO's obligations on NEPCO's behalf. Total costs are defined as the sum of: (i) purchase of electric power, including fuel costs, capacity and energy charges, and all costs related to electricity generation to be borne by NEPCO; (ii) any fuel transportation costs; (iii) depreciation costs; (iv) all other maintenance and operating expenses, including on wages and remuneration of the board of directors, and provisions; and (v) interest expense and any other financial costs.

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

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

31. Downward by the extent to which foreign budgetary grants received by the central government (as specified in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum of 50 percent of the shortfall.

32. Upward by the extent to which foreign budgetary grants received by the central government (as **specified** in Table 1 of the MEFP) during the relevant period exceed the levels specified in Table 1 of the MEFP, up to a maximum of 50 percent of the overperformance. For the end-December 2021 QPC, the 50 percent limit specified above will not apply to the first US$200 million in overperformance in grants (the applicable limit for which will be 100 percent) deployed for protecting the livelihoods of workers severely affected by the containment measures (which is spending not covered under paragraph 35 of the TMU).

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

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

35. For 2020 and 2021, upward by the equivalent amount of unbudgeted spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19, covering emergency outlays and medical supplies and equipment. These exceptional unbudgeted expenditures will be authorized by cabinet resolution and funded through exceptional treasury advances, with amounts and the nature of expenses reported to staff monthly. For 2021, if treasury advances for these purposes exceed ½ percent of GDP, the authorities will consult Fund staff in how the program could be adapted to ensure its objectives remain achievable while ensuring there is needed COVID-19-related spending. For 2022, upward by up to JD 110 (0.3 percent of GDP) should weekly cases, hospitalizations or the share on non-fully-vaccinated population exceed levels agreed in the Cabinet.

D. Floor on the Net International Reserves of the CBJ

36. 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.

37. **Foreign assets of the CBJ** are readily available claims on nonresidents denominated in foreign convertible currencies. They include foreign exchange (foreign currency cash, deposits with foreign correspondents, and holding of foreign securities), monetary gold, IMF reserve position, and SDR holdings. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contract), CBJ's claims on resident banks and nonbanks, as well as on subsidiaries or branches of Jordanian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forward, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid swaps. Excluded from foreign assets is the outstanding balance of bilateral accounts with the Central Bank of Iraq of USD 1,081.67 million.

38. **Foreign liabilities of the CBJ** are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forward, swaps and options, including any portion of the CBJ monetary gold that is collateralized), and Jordan's outstanding liabilities to the IMF. Excluded from reserve liabilities are government foreign exchange deposits with the CBJ, deposits from public institutions and government departments with independent budgets, commercial companies with state participation, deposits from donors (including grants received from the GCC and donor term deposits with the CBJ with remaining maturity not less than 360 days), the two technical swaps with Citibank Jordan for USD 88.5 million, and amounts received under any SDR allocations received after March 31, 2016.

39. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates. As of March 30, 2022, the stock of NIR amounted to USD 14,687 million (at program exchange rates).

40. **Adjustors:** The floors on the NIR of the CBJ will be adjusted upward (downward) by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—excluding programmed guaranteed and non-guaranteed Eurobonds—received by the CBJ (as specified in Table 1) during the relevant period exceeds (falls short of) the levels specified in Table 1 of the MEFP within any calendar year. For the end-year floor on the NIR of the CBJ, the downward adjustment will be capped at 75 percent of the aforementioned shortfall. Given the uncertainty on the timing of the Eurobond issuance, assumed under the program in the second quarter of 2022 for a minimum of US$1 billion, the floor of the NIR for end-June 2022 will be adjusted downward by the shortfall relative to the programmed amount (which is $1billion), if the issuance is delayed to the third quarter of 2022. Similarly, the floor of the NIR for end-June 2023 will be adjusted downward by the programmed amount of the Eurobond issuance (which is $500 million). 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

41. **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

42. **Social spending** is defined as central government spending on: (i) non-wage components of the education and health sectors' current expenditure envelope, including all spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19 spending; (ii) NAF's and other entities' social protection programs; and (iii) the school feeding program.

G. Ceiling on Public Debt

43. **Public debt** is defined as the sum of: (i) central government direct debt (including off budget project loans); (ii) central government guarantees extended to NEPCO, WAJ and other public entities; and (iii) the stock of the CBJ's liabilities to the IMF (excluding SDR allocations) not lent on to the central government; minus the Social Security Corporation (SSC) holdings of government debt. 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.

44. **Adjustors:** The ceiling on public debt will be adjusted:

45. Downward by the extent to which the cumulative disbursements under the EFF during the relevant period falls short of the levels specified in Table 1.

H. Ceiling on the Domestic Payment Arrears of NEPCO

46. **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.

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

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

J. Ceiling on the Net Domestic Assets of the CBJ

48. **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.

49. 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.

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

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

52. 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

53. 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.

54. Related to the ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector:

55. The standard fiscal data tables as prepared by the ministry of finance covering detailed information on: revenue, including expanded information on revenues from oil derivatives, vehicles, and cigarettes, as agreed with IMF staff; expenditure; balances of government accounts with the banking system; foreign grants; domestic and external amortization and interest; net lending; debt swaps with official creditors; and monthly change in the stocks and the monthly value of stocks of uncashed checks and trust accounts.

56. 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).

57. 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).

58. Related to central government arrears:

59. 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, to distribution electricity companies, and to the Jordan Petroleum Refinery Company.

60. The value and quantity of fuel products consumed by public sector entities from the Jordan Petroleum Refinery Company (monthly).

61. Related to the combined public sector deficit:

62. All the information specified in paragraph 28.

63. 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.

64. 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.

65. 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.

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

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

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

69. 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).

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

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

72. CBJ's monthly FX interventions in the interbank market

73. Data on CD auctions (following each auction).

74. Monetary statistics (monthly).

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

76. Banking FSI (quarterly; starting 2021 Q1)

77. Related to the continuous performance criteria:

78. Details of official arrears accumulated on interest and principal payments to non-resident creditors. External arrears data will be provided using actual exchange rates and on a daily basis.

79. Related to the floors on public debt:

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

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

82. Data on short-term public debt (monthly).

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

84. A table on the amount of central government spending on each of the components of the social spending definition under the program (monthly).

85. Other economic data

86. 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).

87. Balance of payments (current and capital accounts) and external debt developments (quarterly).

88. 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).

89. National accounts statistics (quarterly).

90. 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

91. 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 14, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AUGMENTATION AND REPHASING OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of May 31, 2022)

Membership Status: Joined August 29, 1952; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	343.10	100.00
IMF's Holdings of Currency (Holdings Rate)	1429.93	416.77
Reserve Tranche Position	0.83	0.24

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	490.92	100.00
Holdings	10.30	2.10

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
Stand-By Arrangements	291.55	84.98
Extended Fund Facility	795.99	232.00

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	3/25/20	3/24/24	1070.47	590.13
EFF	8/24/16	3/23/20	514.65	223.02
SBA	8/03/12	8/02/15	1364.00	1364.00

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

	Forthcoming				
	2022	**2023**	**2024**	**2025**	**2026**
Principal	12.87	100.05	191.52	156.38	135.52
Charges/interest	14.74	28.73	23.99	16.88	12.83
Total	**27.61**	**128.78**	**215.52**	**173.25**	**148.35**

[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 by the Executive Board on March 25, 2020. The assessment, completed in July 2020, found that the central bank continues to strengthen its safeguards framework. The assessment made a number of recommendations, which have been mostly implemented.

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 2020 Article IV consultation was concluded by the Executive Board on April 10, 2020. The Staff Report and Executive Board Assessment can be found in IMF Country Report 20/146 at: https://www.imf.org/en/Publications/CR/Issues/2020/04/10/Jordan-2020-Article-IV-Consultation-and-Request-for-an-Extended-Arrangement-under-the-49324

Financial Sector Assessment Program (FSAP): An FSAP assessment is currently underway for Jordan and the corresponding report is tentatively scheduled to be presented to the Executive Board in February 2023. The previous FSAP assessment 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, 2013–22	
Date	**Purpose**
Fiscal	
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 Mobilization
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 Structure
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
March 2018	Expenditure Review and Rationalization
April 2018	Strengthening Central Oversight for SOEs and PPPs
April 2018	Compliance Risk Management
May 2019	Strengthening Tax Administration Performance
September 2019	Developing the Tax Audit Process
September 2019	Developing an Independent and Effective Tax Dispute Resolution Process
January 2020	Tax and Customs Administration Diagnostic
January 2020	Revenue Administration Gap Analysis
February 2020	Electricity and Water Subsidies
September 2020	Tax Dispute Resolution Process
October 2020	Preferential Tax Regimes
December 2020	Compliance Improvement Plans

Date	Purpose
March 2021	Compliance Improvement Plans
April 2021	Debt Portfolio Cost and Risk Management
June 2021	Tax Dispute Resolution Process
September 2021	Tax Expenditure Analysis
October 2021	Legislative Reform Implementation in Tax Administration
December 2021	Improving Cash Management
February 2022	Compliance Improvement Plan Implementation
February 2022	IT Modernization
Monetary and Financial	
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
March 2021	Forecasting Framework for Currency in Circulation
June 2021	Developing a Forecasting and Policy Analysis System
September 2021	Developing a Forecasting and Policy Analysis System
November 2021	Central Bank Digital Currency Seminar
February 2022	Developing a Forecasting and Policy Analysis System
March 2022	Central Bank Digital Currency Exploration
Statistical	
January 2013	Price Statistics
May 2013	National Accounts
November 2013	National Accounts

Date	Purpose
April 2014	External Debt Statistics
December 2014	National Accounts
April 2015	Balance of Payments Statistics
January 2016	National Accounts
July 2016	National Accounts Statistics
October/November 2016	National Accounts Statistics
July 2017	National Accounts Statistics
November 2017	National Accounts Statistics
June 2018	Monetary and Financial Statistics
February 2019	High-Frequency Indicators
February 2019	National Accounts Statistics
April 2019	Financial Soundness Indicators
July 2019	Compilation of the 2016 Supply and Use Tables
August 2019	Consumer Price Index
September 2019	External Sector Statistics
October 2019	Supply and Use Tables
August 2020	Macroeconomic and Financial Statistics
January 2021	Macroeconomic and Financial Statistics
May 2021	Compilation Methods for Annual National Accounts
October 2021	Annual National Accounts Statistics
November 2021	Annual National Accounts Statistics
February 2022	Producer Price Index
March 2022	National Accounts Statistics
Legal	
February 2015	AML/CFT Scoping Mission
February 2015–July 2017	Legislation, AML/CFT Supervision, and FIU
September 2020	AML/CFT
June 2021	AML/CFT TTF III ICRG issues
September 2021	AML/CFT TTF III ICRG issues

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

- World Bank: https://www.worldbank.org/en/country/jordan
- European Bank for Reconstruction and Development: https://www.ebrd.com/jordan.html

STATISTICAL ISSUES

(As of June 7, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance.
National Accounts: Annual GDP estimates have not been compiled since 2016 as a result of poor-quality annual source data surveys. The Department of Statistics (DOS) is working to improve the source data and develop annual GDP estimates with the support of METAC and The Economic and Social Commission for Western Asia (UNESCWA). While DOS produces quarterly estimates of GDP by production, the reliability of these estimates is hindered by the lack of comprehensive annual benchmarks.
Price statistics: An urban-only CPI, based on 12 geographic areas covering all Jordan, is compiled and released every month. Compilation is not aligned with the COICOP classification. The weight reference period is 2018, based on the results of the Household Income and Expenditure Survey. A monthly producer price index (PPI) is disseminated on a timely basis. The 2010 weight reference period for the PPI is outdated, and work is underway to update it to 2020.
Government finance: The authorities have initiated work to present consolidated general government data, including a financial balance sheet in accordance with the classification and sectorization systems recommended by the *GFSM 2014*.
Monetary and financial statistics: Jordan reports the monetary and financial statistics of the central bank and other deposit takers based on the standardized report forms, conforming with the IMF's methodology, and published in the International Financial Statistics. Given the importance of the other financial sector in the financial system, the next step will be to expand the coverage of MFS data. The CBJ reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). **Financial sector surveillance:** Following a 2019 technical assistance mission on financial soundness indicators (FSIs), the CBJ initiated the compilation of FSIs, but timeliness of data needs further improvement.
External sector statistics: The CBJ disseminates quarterly balance of payments and International Investment Position statistics in line with *BPM6*. With remittances being an important source of foreign exchange inflows and outflows in the balance of payments, the CBJ is working on designing a revamped method to collect personal transfers series, including data collected by money transfers operators and the International Transactions Reporting System. It is expected that capturing better remittances inflows and outflows will contribute to reducing the high level of errors and omission. The implementation of a survey on foreign direct investments and related financial transactions and stock positions will further improve the quality of the balance of payments statistics. On the latter, the CBJ plans to implement a Foreign Investment Survey in 2022.

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: Table of Common Indicators Required for Surveillance

(As of June 7, 2022)

	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			D	D	1D		
International reserve assets and reserve liabilities of the monetary authorities 1/	April 2022	May 2022	M	M	1W		
Reserve/base money	April 2022	May 2022	M	M	1M		
Broad money	April 2022	May 2022	M	M	1M		
Central bank balance sheet	April 2022	May 2022	M	M	2W		
Consolidated balance sheet of the banking system	April 2022	May 2022	M	M	1M	O, O, LO, LO	O, LO, O, O, LO
Interest rates 2/			D	D	1D		
Consumer price index	April 2022	May 2022	M	M	1M	O, LO, O, O	O, LO, O, O, O
Revenue, expenditure, balance and composition of financing 3/—general government 4/	2020	June 2021	A	A	6M	O, LO, LNO, O	O, O, O, O, NA
Revenue, expenditure, balance and composition of financing 3/—central government	April 2022	May 2022	M	M	1M		
Stocks of central government and central government-guaranteed debt 5/	April 2022	May 2022	M	M	1M		
External current account balance	Q4/2021	March 2022	Q	Q	1Q		
Exports and imports of goods and services	March 2022	May 2022	M	M	8W	LNO, LNO, LNO, LO	LNO, LO, LO, LO, LO
GDP/GNP	Q4/2021	March 2022	Q	Q	1Q	O, LO, O, O	O, LO, O, LO, LO
Gross external debt	Q4/2021	March 2022	M	M	1M		
International Investment Position 6/	Q4/2021	March 2022	Q	Q	Q		

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.

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Statement by the Staff Representative on Jordan
June 29, 2022

This statement is to update the Executive Board on some recent developments following the issuance of the Staff Report for the 2022 Article IV Consultation and Fourth Review Under the Extended Fund Facility. These developments do not alter the thrust of the staff report or staff appraisal.

1. Recent data releases. The new Q1 2022 unemployment data indicate a fall in unemployment to 22.8 percent for Jordanians, down from 23.3 percent in Q4 2021, and a peak of 24.8 percent in Q2 2021. Labor participation rates have also increased, albeit slightly, from 33.4 percent in Q4 2021 to 33.5 percent in Q1 2022, but this masks a decline in the female labor participation rate from 13.7 to 13.6 percent. Separately, headline inflation increased to 4.4 percent y-o-y in May from 3.6 percent in April, while core inflation rose to 2.3 percent (from 1.8 percent).

2. CBJ actions. On the heels of the 75 bps increase in the Fed policy rate on June 18, and 50–75 bps increases by GCC peers, the CBJ raised its over-night deposit window facility rate by 75 bps, and all other monetary policy rates by 50 bps. The asymmetric increases seek to balance the imperative of maintaining the attractiveness of JD deposits, with the need to smooth the increase in lending rates, given the still weak domestic economy. Meanwhile, on June 16, the CBJ extended the JD 700 million SME scheme by three months till end-September 2022.

3. Social spending. On June 15, the authorities announced JD 30 million in additional social spending (10 percent increase on the budgeted amount) to protect the vulnerable against higher commodity prices, consistent with the envisaged increase in social spending referenced in the staff report. The additional allocation will be used for increased monthly cash assistance over July-December to the 220,000 households already identified through NAF’s targeting mechanism; enhanced financial aid for 74,000 students from vulnerable backgrounds; and higher financial assistance for public transportation.

4. UAE deposit. On June 15, the UAE agreed to convert a US$333 million deposit held at the CBJ (with maturity in 2023) into a long-term loan to the government. The conversion provides financing to help with public debt redemptions due later this year, and reduces the 2023 external financing need. The conversion is not expected to materially affect the fiscal or NIR targets.

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Statement by Mahmoud Mohieldin, Executive Director Jordan, Ali Alhosani, Alternate Executive Director for Jordan, and Maya Choueiri, Senior Advisor for Jordan
June 29, 2022

1. On behalf of the Jordanian authorities, we thank the Fund's Executive Board, management, and staff for the continued support to Jordan's policy and reform agenda. Successive exogenous shocks over the past two years have required appropriate and timely policy measures by the Government of Jordan and Central Bank of Jordan (CBJ), and the staff's engagement and advice in this regard were greatly valued. We also thank staff for acknowledging the authorities' strong ownership of their reform program and resolute commitment to its implementation.

Recent Developments

2. **As a small, open economy, Jordan is facing unprecedented social and economic challenges due to successive crises in the past two years—notably the pandemic, tighter financial conditions, and spillovers from the conflict in Ukraine—that compound a decade of exogenous shocks.** Despite these challenges, the economy started to recover in 2021, supported by timely and adequate fiscal and monetary measures, although unemployment remained stubbornly high, particularly among the youth. Government revenues have overperformed, reflecting determined efforts to reduce tax evasion and close tax loopholes. Inflation was contained in 2021 owing to Jordan's strategic twelve months' wheat reserves and the country's long-term stable-price import contracts for gas used in electricity generation. Soaring fuel prices since the onset of the conflict in Ukraine, however, necessitated temporary and targeted introduction of fuel subsidies to mitigate passthrough to households. International reserves remained comfortable above 100 percent of the ARA metric. The financial sector remained resilient, well-capitalized, profitable, and liquid, and the EMBIG spread remained among the lowest in the region. Earlier in June, Jordan was able to access turbulent international markets by issuing U.S.$650 million of Eurobonds that were oversubscribed by more than three times, reflecting investor confidence in the country's fiscal and monetary stability.

3. **The Government of Jordan and the CBJ welcomed the focus of the Article IV consultation; they continue to fully own their EFF-supported reform program and remain committed to its objectives**. The Article IV consultation and program discussions appropriately focused on reforms to preserve fiscal sustainability, enhance inclusive growth—through boosting labor productivity, female and youth employment, and business competitiveness—to achieve fiscal consolidation, and to address climate adaptation needs.

Performance under the EFF

4. **Notwithstanding a continuously challenging external environment, Jordan's performance under the Extended Fund Facility-supported program remains remarkably**

strong. All December 2021 quantitative performance criteria (QPCs), as well as key end-March 2022 indicative targets (IT), were met. The authorities have also implemented an ambitious structural reforms program including two critically important structural benchmarks (SBs): (i) the roll-out of new electricity tariffs, which will lower tariffs for key business sectors while making household subsidies more targeted, and (ii) legislation unifying the tax and customs administration in the Aqaba Special Economic Zone (ASEZA) with the national tax and customs authorities to address smuggling and tax evasion. In light of the more challenging outlook and the expected monetary tightening, the program has been recalibrated to allow for a more gradual pace of medium-term fiscal consolidation, while safeguarding debt sustainability. The authorities have also committed to and specified additional measures to close the fiscal gap in the medium term.

5. Given the higher financing needs resulting from the external shocks, the authorities have requested an augmentation of access by SDR 75.482 million, accompanied by some rephasing, which will increase 2022 disbursements by SDR 120.085 million relative to the third review. Stepped-up and timely support by the international community is critical for Jordan to continue to face the challenging environment, maintain reform momentum, and address climate adaptation challenges. Jordan also requires a more reliable stream of financing, in line with the support pledged by the international community under the Jordan Compact and the 2019 London Initiative, to enable the country to continue shouldering the global public good burden of hosting 1.3 million Syrian refugees, which constitute a very large share of the population.

Fiscal Policy and Reforms

6. **Notwithstanding the difficult environment, the MOF's fiscal strategy, anchored in equitable tax reforms by closing tax loopholes and combating tax evasion, continues to be successful, allowing an overperformance of the 2021 domestic revenues relative to the budget projections and exceeding pre-pandemic levels**. Measures to broaden the tax base and the MOF's Income and Sales Tax Department's compliance campaign resulted in an overperformance of the 2021 domestic revenues projections by 0.5 percent of GDP. Together with contained non-priority current spending, this contributed to creating space for increased social spending and capital spending, both essential to supporting an inclusive recover. The authorities are committed to adhering to their 2022 deficit target of 3.4 percent of GDP, notwithstanding the challenges created by temporary subsidies to smooth the passthrough of global commodity prices—which would be offset by a reduction in non-priority spending.

7. **The government is advancing key fiscal structural reforms, as detailed in the Memorandum of Economic and Financial Policies (MEFP)**. Building on recent efforts to curb tax evasion and strengthen tax administration, the authorities have passed legislation to impose a single tax and single customs system for Jordan, bringing ASEZA participants under ISTD and Customs national control, which will help further combat tax evasion. They are also advancing

for parliamentary discussion key legislations introducing place-of-taxation rules into the GST law and
strengthening the governance of fiscal incentives for investment. In January 2022, the Cabinet approved a major customs reform which simplifies and unifies the tariff system and is expected to reduce tax evasion and corruption. Moreover, the MOF has produced, ahead of schedule, (i) the first report on the macro-fiscal outlook and risks by the newly established Macro-Fiscal Unit; and (ii) an assessment of explicit fiscal costs and fiscal risks related to the three largest PPPs. Moreover, the authorities have enacted a procurement bylaw to strengthen the transparency and efficiency of public spending and facilitate the rollout of e-procurement. In addition, demonstrating their continued commitment to good governance and transparency, the authorities have completed and published ex-post audits of all COVID-related spending for the second consecutive year, including beneficial ownership information.

8. **Over the medium term, the authorities' debt sustainability goal remains the reduction of public debt to below 80 percent of GDP**. Nonetheless, the combination of headwinds from the U.S. Federal Reserve tightening and higher food and fuel prices, as well as high unemployment in Jordan, warrant a more gradual path to achieving this medium-term fiscal goal. The revised path will help Jordan entrench the nascent recovery, and position the authorities better to support the vulnerable, support job creation programs in the private sector, and undertake critical human and physical capital investments.

Monetary and Exchange Rate Policies and Reforms

9. **The CBJ continued its strong track record of prudent management of monetary policy in 2021, anchored by the peg to the U.S. dollar**. As a result of the CBJ's policies, confidence in the financial system remained strong, as reflected in the lowest deposit dollarization level (at 19 percent) in recent years. Moreover, robust international reserve buffers were maintained and the QPCs on net international reserves as well as the ITs on net domestic assets were met with comfortable margins. The peg, backed by comfortable reserves, has served the Jordanian economy well and helped to maintain market confidence despite successive exogenous shocks. As the U.S. Federal Reserve tightened policies, the CBJ acted firmly and swiftly to maintain monetary stability, with two rate hikes since March of a cumulative 75 basis point. The CBJ will remain alert to changes in domestic, regional, and global financial conditions, and stands ready to undertake the policy adjustments necessary to credibly protect monetary stability.

10. **Balancing monetary and financial stability and growth objectives, the CBJ, with the support of the government, provided essential support for Jordanian businesses, including SMEs, in protecting employment and production operations through two subsidized lending programs.** The two lending schemes have been seen as crucial for Jordanian businesses in weathering the economic impact of the pandemic and in protecting private sector jobs. In March 2021, the CBJ increased the envelope of the JD 500 million SME scheme to

JD 700 million, raised the borrowing limits for sectors hard-hit by the pandemic, including tourism and trade, and extended the scheme until June 2022. In March 2022, the CBJ also raised borrowing limits for firms that import basic commodities such as wheat, sugar, and oil, whose prices have increased sharply due to the Ukraine conflict. Looking ahead, as the recovery firms up through 2023, and demand for the SME scheme declines, the CBJ will unwind the scheme. The CBJ considers that the JD 1.3 billion scheme remains helpful in capitalizing on the growth momentum, by supporting productive economic sectors.

11. **The CBJ has a strong and effective prudential and supervisory framework, which has helped to maintain the soundness and resilience of the financial system**. Jordan's banking system remained resilient, well-capitalized, profitable, and liquid in 2021. The system-wide capital adequacy ratio remained at 18 percent at end-2021 for the third consecutive year, well above the CBJ regulatory minimum of 12 percent, supported by the CBJ's decision not to allow the distribution of banks' 2019 profits and to cap the distribution of 2020 profits as a share of banks' paid-in capital at 12 percent. Although non-performing loans remained low at 5 percent as of end-2021 and the provisions-to-NPLs coverage ratio increased to about 80 percent at end-2021, the CBJ will continue to closely monitor and address risks in the banking system, leveraging its strong prudential and supervisory framework. In this connection, it continuously conducts stress tests to ensure that all banks have sufficient buffers in the case of a significant rise in NPLs. Moreover, to ensure that asset quality problems are recognized and addressed in a timely manner, the CBJ has continued to require banks to follow strict provisioning requirements, in line with IFRS9's forward-looking expected loss approach. Should capital adequacy fall below the 12 percent CBJ threshold for any bank, the CBJ will require the bank to submit a credible capital restoration plan to rebuild capital. Reforms to facilitate access to finance have been progressing well, and the CBJ is committed to developing a risk-based capital and solvency regime for the insurance sector, bringing it in line with international best practices. The authorities look forward to the conclusion of the joint IMF/World Bank FSAP that they requested.

12. **Strengthening the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) is a priority for Jordan**. The CBJ continued to make progress in strengthening the AML/CFT regime. The authorities have completed the assessment to identify non-profit organizations that are vulnerable to terrorist financing abuse. They have also addressed AML/CFT deficiencies such that Jordan would no longer qualify for referral to the FATF's ICRG process on the basis of its technical compliance ratings. Furthermore, the authorities have committed to an action plan for resolving the identified strategic deficiencies to facilitate exit from the watch list by October 2023.

Other Structural Reforms

13. **In the electricity sector, the authorities are continuing their efforts to reduce NEPCO's losses and restore its financial sustainability**. The authorities successfully rolled out

the new electricity tariffs on April 1 a reform which is expected to enhance private sector competitiveness and support job creation. Long-term natural gas contracts have so far helped to shield NEPCO from the significant increase in oil and gas prices in international markets. However, going forward, the authorities are pursuing a comprehensive strategy to restore NEPCO to financial viability over the medium term, which will include revenue-enhancing, cost-reducing, and governance measures.

14. **In the water sector, the authorities are committed to scaling up reforms to contain rising losses and to ensure a sustainable path for the supply of water, critical for both growth and macroeconomic stability**. The authorities are aware that developing additional infrastructure to boost water supply has become more urgent as Jordan's low water resources are depleting at a fast pace. In this connection, they plan to adopt a Financial Sustainability Roadmap for the water sector in which they are committed to due process for projects to address water scarcity, including the Aqaba-Amman National Conveyor Project, as well as to reducing non-revenue water, stopping the accumulation of arrears, and addressing the water-electricity nexus.

15. **With regards to promoting jobs and growth, the authorities are focused on measures to increase labor force participation and encourage formal, female, and youth employment.** The government is working on addressing obstacles to female employment and has issued revised instructions to businesses on childcare provision for female employees and completed the Amman BRT project to provide safe and affordable transport to women. The government also continues to give special attention to promoting youth employment and has launched a National Employment Program to support 60,000 new private sector jobs for the youth.

16. **Important progress is also made on the Government Priorities Plan 2021–23, which guides policy efforts to improve the business climate and enhance competitiveness**. In this connection, recent reforms to customs and electricity tariffs are expected to significantly reduce costs for businesses. The authorities are also submitting a new omnibus law for *Regulating the Business Environment*, which aims to modernize and streamline the regulatory framework. This includes legislation to strengthen the competition framework and market analysis to identify sectors that demonstrate signs of unfair practices. The authorities are also working to further improve insolvency legislation.

Conclusion

17. The Jordanian authorities value the strong partnership with the Fund. They found the Article IV consultation discussions fruitful and engaging. They continue to fully own their EFF-economic supported program, as reflected in continuously strong program implementation notwithstanding challenging circumstances.