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FIRST REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND REQUEST FOR A WAIVER OF NONOBSERVANCE AND MODIFICATIONS OF PERFORMANCE CRITERIA, AND REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of the First Review Under the Extended Fund Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 14, 2020, following discussions that ended on October 26, 2020, with the officials of Jordan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 30, 2020.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director, Alternate Executive Director, and Advisor** for Jordan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes First Review Under Jordan's Extended Fund Facility Arrangement and Rephases Access to Address the Impact of COVID-19

FOR IMMEDIATE RELEASE

- The IMF Executive Board supports Jordan's efforts to save lives and livelihoods in the wake of the COVID-19 shock, and has enhanced the IMF-supported program's flexibility to accommodate COVID-related and social protection spending.
- The authorities remain committed to the medium-term objectives of their economic program: preserving macroeconomic stability, creating job-rich and inclusive growth, and rebuilding policy buffers, including through gradual and growth-friendly fiscal consolidation.
- The IMF encourages donors to step up their support, preferably in the form of grants, to help Jordan cope with the impact of the pandemic on the Jordanian people and some 1.3 million Syrian refugees.

Washington, DC – December 14, 2020: The Executive Board of the International Monetary Fund (IMF) today completed the first review of Jordan's performance under the program supported by the Extended Fund Facility (EFF). Jordan's four-year EFF of SDR 926.37 million (about US$1.3 billion, equivalent to 270 percent of Jordan's quota in the IMF), was approved by the IMF's Board on March 25, 2020 (see Press Release No. 20/107).

The IMF has enhanced the built-in flexibility in the program to accommodate spending needed to prevent, detect, control, treat, and contain the spread of COVID-19 pandemic, as well as additional social protection spending. In competing the review, the IMF Executive Board approved the waivers of non-observance on the performance criteria on the central government primary deficit and the combined public deficit (both excluding grants). The Board also approved the modification of targets going forward, and rephasing of structural conditionality, as well as the authorities' request to rephase access under Jordan's EFF arrangement by bringing forward about US$150 million in Fund disbursements into 2021–22 to support near-term financing needs emerging in the aftermath of COVID-19. The completion of the review will make SDR 102.93 million (about US$148 million) immediately available. This brings total IMF disbursements to Jordan in 2020 to SDR 497.41 million (around US$689 million) including an SDR 291.55 million (about US$401 million) purchase in May under the Rapid Financing Instrument.

COVID-19 has taken a toll on the economy with unemployment rising to record high and fiscal and external deficits widening. The Fund's financial support will help Jordan meet these challenges and catalyze support from other development partners.

Following the Executive Board discussion of Jordan's economic program, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"The impact of COVID-19 on the Jordanian economy has been sizable, but the authorities have responded with timely and targeted measures to protect lives and livelihoods, while also preserving debt sustainability and market access. Despite sizeable challenges, the authorities remain committed to gradually rebuilding policy buffers and arresting the rise in public debt; preserving the credibility of the peg; accelerating electricity sector reforms; and enhancing labor market, business climate, and governance reforms to promote higher and more inclusive growth.

"In the near term, fiscal policy continues to focus on supporting the economy, with enhanced flexibility in the program to accommodate unanticipated spending related to the pandemic, as well as additional social protection spending. High quality fiscal measures should underpin a gradual fiscal consolidation as the recovery takes hold. In this regard, the authorities' strategy should focus on broadening the tax base through both tax policy and tax administration reforms; eliminating pressures from public utilities and public-private partnerships; and improving the fairness, efficiency, and transparency of public finances.

"Monetary policy should remain supportive given the still-fragile economy, while safeguarding the peg. The financial system is sound, but continued efforts will be needed to preserve its stability and promote financial inclusion. The Financial Sector Assessment Program update in 2022 will provide a timely and comprehensive diagnostic and help lay out a roadmap for medium-term financial sector reforms.

"Sustained efforts are needed to achieve durable, inclusive, and jobs-rich growth. Reforms should focus on improving the business climate, reduce unemployment, particularly among women and youth, enhancing competitiveness, and strengthening governance. On the latter, the in-train amendments to the illicit gains law, publication of details of COVID-related spending, and initiation of a review of the most significant power purchase agreement, are welcome steps.

"While the COVID-19 outbreak continues to pose significant risks to program implementation, these are mitigated by the authorities' strong commitment to the program. This, together with stepped up financial support from development partners, especially in the form of grants, will help Jordan achieve program objectives, build a stronger economy, and support refugees."

INTERNATIONAL MONETARY FUND

JORDAN

November 30, 2020

FIRST REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND REQUEST FOR A WAIVER OF NONOBSERVANCE AND MODIFICATIONS OF PERFORMANCE CRITERIA, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Context: Timely containment, a large monetary stimulus, and targeted fiscal measures helped save lives and livelihoods during the first COVID-19 wave, but a significant second wave is still unfolding. The economic and human impact has been sizeable: real GDP is expected to decline by 3 percent in 2020; unemployment has surged to record levels; tourism and remittances have declined; and revenues of the central government and of other public sector entities have dropped, raising public debt to 90 percent of GDP. A new government and parliament have been ushered in, with welcome continuity in reform commitment.

Program recalibration and policies: The severity of the crisis has rendered some of the 2020 EFF quantitative targets agreed before the crisis untenable, warranting a significant recalibration. In this regard, staff supports the authorities' request for waivers of nonobservance of primary and combined fiscal balance targets. The crisis has also stretched the authorities' capacity to implement structural conditionality, and the latter is now proposed to be rephased. However, the authorities remain committed to (i) resume a gradual, growth-friendly and equitable fiscal consolidation—anchored in tax reforms that seek to close loopholes and enhance compliance—as the recovery takes hold, (ii) ensure monetary and financial stability to underpin the peg; (iii) accelerate reforms in the electricity and water sectors, while protecting the most vulnerable; and (iv) enhance labor market, business climate, and governance reforms to entrench jobs-rich, inclusive and durable growth. To signal their strong commitment to the program, the authorities have submitted to parliament a 2021 budget consistent with the fiscal program, and have hired a firm to undertake a review of the most significant power purchase agreement (prior actions).

Financing: The pandemic has significantly increased Jordan's funding needs, underscoring the criticality of continued multilateral and bilateral financing, including to support Syrian refugees. In the event of a more protracted recovery, donor support may need to be stepped up to protect debt sustainability. Staff is proposing to bring forward some Fund disbursements into 2021–22. Completion of this review will make available SDR 102.93 million (about USD 0.2 billion) in Fund financing, bringing total Fund disbursements in 2020 to SDR 497.41 million (USD 0.7 billion); this includes a SDR 291.55 million (about USD 0.4 billion) RFI purchase in May.

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

Discussions with the authorities were held remotely during September 23–October 26, 2020. The staff team comprised S. Ali Abbas (Head), Nikoloz Gigineishvili, Anastacia Guscina, Kareem Ismail (Resident Representative), Serpil Bouza, Mehdi Benatiya Andaloussi (all MCD), Plamen Iossifov (SPR), and Narine Nersesyan (FAD). Jawed Sakhi provided research assistance and Cecilia Pineda and Laila Azoor provided document management and logistics support. The mission met with Deputy Prime Minister Umayya Toukan, Minister of Finance Mohamad Al-Ississ, Governor of the Central Bank of Jordan Ziad Fariz and other senior officials, representatives of civil society and women leaders. Sami Geadah and Mira Merhi (both OED) participated in the discussions.

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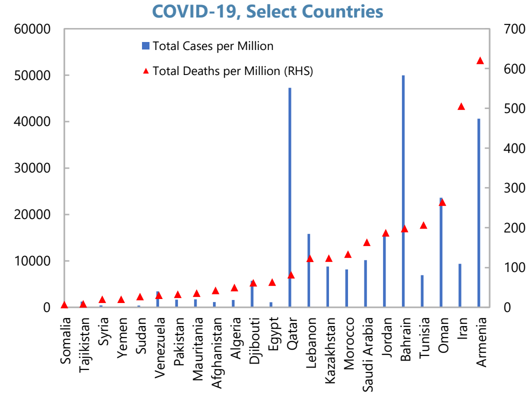
RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **Early success in containing the COVID-19 pandemic is now being challenged by a significant second wave.** Timely and decisive containment measures during the first wave of COVID-19 helped preserve public health, allowing Jordan to reopen its economy earlier than peers. Up until September, Jordan's infection and mortality rates were among the lowest in the world and domestic activity was gradually returning to pre-crisis levels. However, since then, the number of infections has started to surge. Despite best efforts to contain the spread, by end-November, cumulative infections and deaths had reached 19,000 and 232 per million, respectively. To balance the health and economic imperatives in the context of the second wave, the authorities have opted for targeted containment measures thus far.

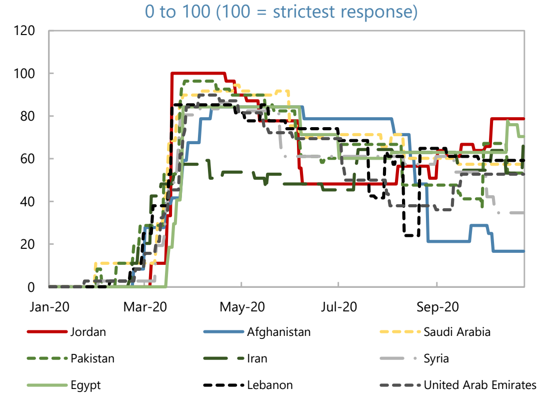
COVID-19 Outbreak, Containment Response, and Mobility

COVID-19, Select Countries



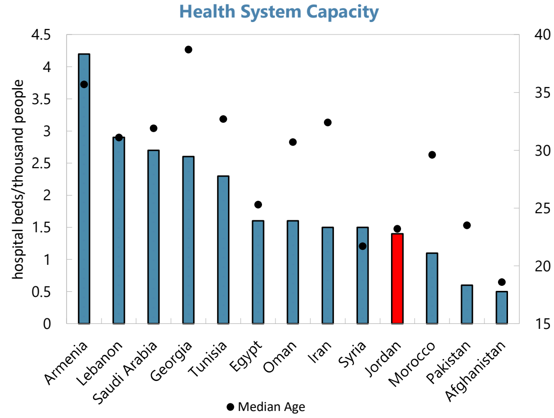
Source: Max Roser, Hannah Ritchie, Esteban Ortiz-Ospina and Joe Hasell (2020) - "Coronavirus Pandemic (COVID-19)". *Published online at OurWorldInData.org.* Retrieved from: 'https://ourworldindata.org/coronavirus'.
Note: latest observation is November 18, 2020.

COVID-19: Government Response Stringency Index
0 to 100 (100 = strictest response)



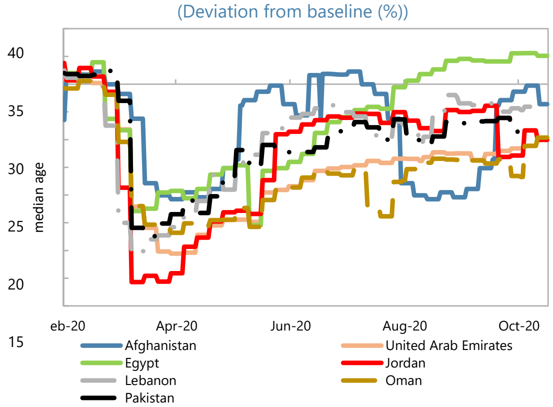
Source: Thomas Hale, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Health System Capacity



Source: Johns Hopkins University.

Overall Mobility
(Deviation from baseline (%))



Source: Google LLC "Google COVID-19 Community Mobility Reports". https://www.google.com/covid19/mobility/ Accessed: 11/03/2020.

COVID-19 Fiscal Package

(In percent of GDP)

Health equipment and supplies	0.10
Rental of hotels for quarantine	0.02
COVID-related security costs	0.05
Cash transfer to the unemployed	0.27
Cuts in tourism-related taxes	0.10
Tax deferrals	0.01
Total	**0.55**

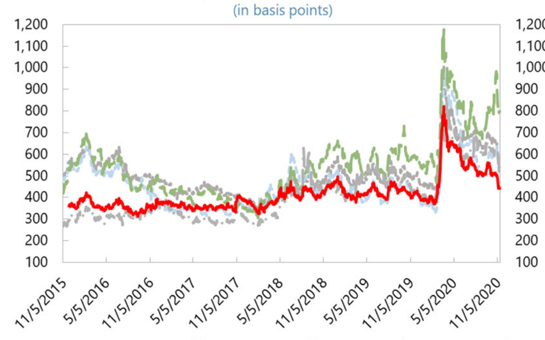
2. **The authorities have taken timely measures to lessen the economic fallout of the crisis.** They have increased critical social spending to support the most vulnerable and launched initiatives to keep workers employed. Tax payments were deferred, social security contributions were cut, and consumption tax rates on the badly hit tourism sector were temporarily reduced (text table). The Central Bank of Jordan (CBJ) cut the policy rate by 150 basis points (shadowing the U.S. Federal Funds rate); and injected 8 percent of GDP in liquidity, by reducing the reserve requirement from 7 to 5 percent (JD 550 million to banks); conducting outright purchases of government securities (JD 254 million) undertaking repo operations (JD 850 million); and expanding support for subsidized lending schemes, especially SMEs (JD 800 million) (MEFP ¶18).

3. **Notwithstanding these measures, the pandemic has inflicted a heavy economic toll.** Output is expected to contract by 3 percent in 2020, reflecting a sharp contraction in March–June, and the drag from the unfolding second wave on business and consumer sentiment (text figure). Assuming the pandemic gradually abates in 2021, growth is expected to reach 2.5 percent in 2021 and around 3 percent thereafter supported by structural reforms. Headline inflation is expected to drop to historic lows of 0.1 percent on average in 2020 due to demand contraction and lower international fuel prices, and to rebound to about 1.5 percent in 2021. Unemployment rose to an all-time high of 23 percent (50 percent for youth), and labor force participation fell. The shock to GDP, and the associated rise in the fiscal and combined public deficits, will cause public debt (net of SSC holdings) to rise to 89 percent of GDP at end-2020, in line with the May RFI projection, but still 9 ppts of GDP higher than expected at EFF approval.

4. **The current account deficit is expected to widen to around 7 percent of GDP in 2020, but international reserves have remained adequate (text figure below).** While exports are expected to decline year-on-year by 8 percent in 2020, the trade balance is, nevertheless, set to improve, due to import compression (especially of durable consumer and capital goods) and lower international energy prices. Tourism receipts are, however, forecast to contract by 74 percent, reflecting the very gradual reopening of air travel and negative impetus from the unfolding second COVID-19 wave. Remittances are projected to decline by 12 percent this year, as the negative impact of the pandemic on neighboring countries has triggered the return of many Jordanian expatriates. International reserves—although below the level envisaged at the time of program approval—have been buoyed by external borrowing, notably a very successful USD 1.75 billion Eurobond issuance in July. Jordan's EMBIG spread remains among the lowest in the region, affirming its continued market access.

EMBIG Spread, Selected MENA Countries

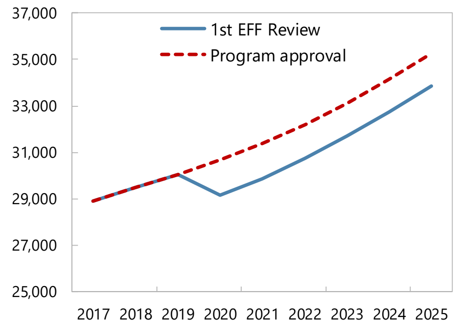
(in basis points)



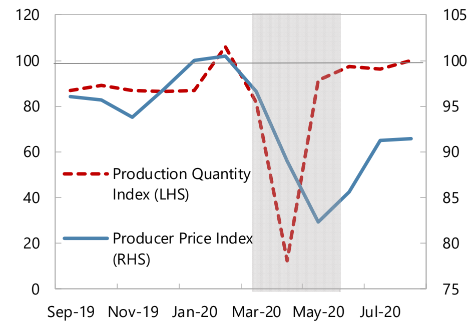
Source: Bloomberg.

Real Sector Indicators

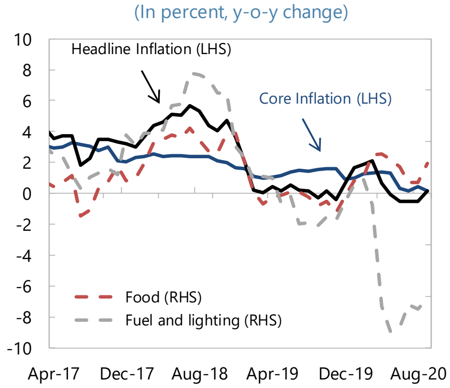
Real GDP
(In JD million)



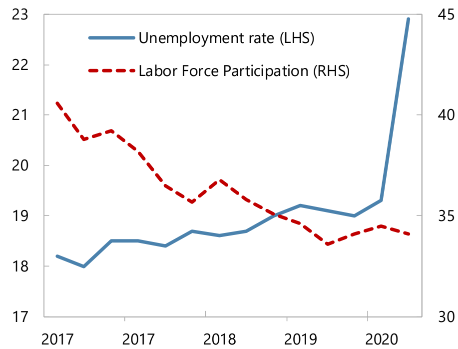
Producer Price Index and Industrial Production
(In percent of previous year's monthly value)



CPI Inflation, 2017-20
(In percent, y-o-y change)



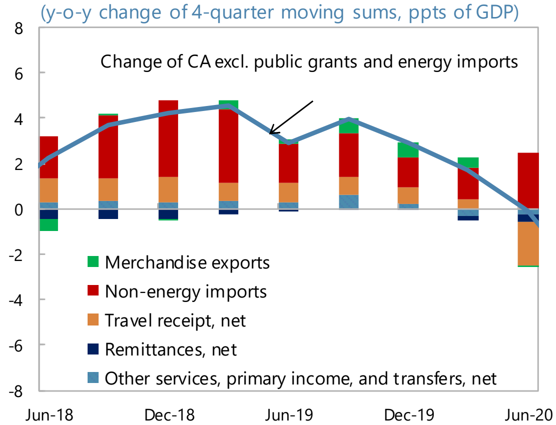
Jordan: Labor Market Developments
(In percent)



Sources: Department of Statistics; and IMF staff estimates.

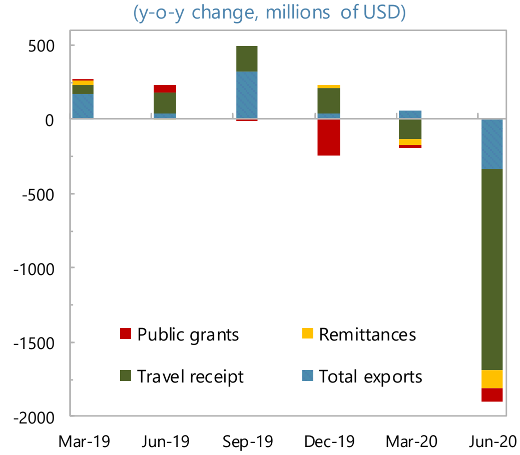
External Sector Developments

Jordan: Contributions to Change of Current Account Net of Public Grants and Energy Imports, 2018–20
(y-o-y change of 4-quarter moving sums, ppts of GDP)



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

Jordan: External Receipts, 2019–20
(y-o-y change, millions of USD)



Source: Central Bank of Jordan.

5. Downside risks to the outlook are considerable. A sustained second wave into 2021 could delay the recovery, both worldwide and domestically. In particular, a delay in the return of tourism could raise external financing needs and pressure reserves. Should large-scale lockdowns become necessary to contain the second wave, government revenues would take another hit and COVID-spending rise further, widening the budget deficit, amplifying financing needs, and raising the already-elevated debt. There is also a risk of contingent liability materializations from the broader public sector, notably the national air carrier, the General Amman Municipality and utilities. High unemployment and pre-existing demands for public wage increases, against a backdrop of limited fiscal space, could also foment social discontent. The regional geopolitical outlook is uncertain, and a military escalation of any kind, could raise Jordan's borrowing costs. These risks are mitigated by the authorities' strong commitment to the objectives of the EFF, continued donor support, pro-poor fiscal adjustment, and a well-capitalized banking system.

POLICY DISCUSSIONS

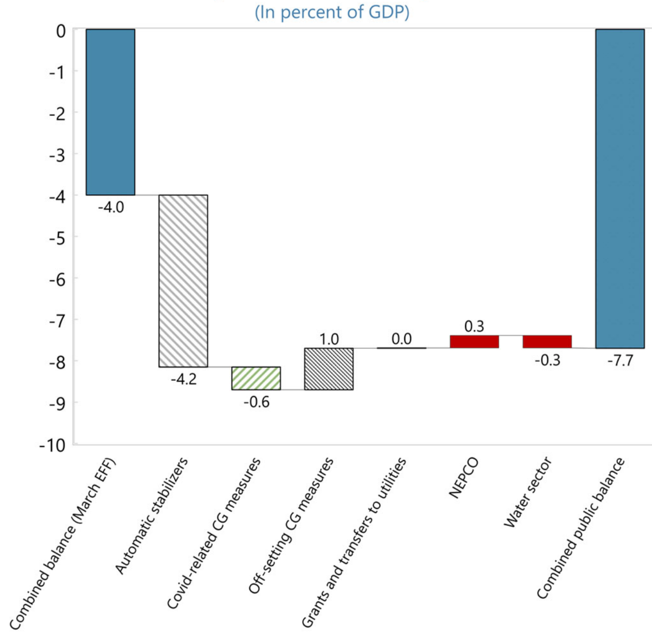
6. While the original EFF objectives remain relevant, the program needs to be recalibrated to allow policies to respond to the COVID shock, and limit scarring. Accordingly, the program targets are being relaxed to accommodate the requisite health and social protection spending, and policy support to the economy through the crisis period. Looking ahead, the program aims to: (i) resume a gradual, growth-friendly and equitable fiscal consolidation as the recovery takes hold, while mobilizing resources for critical spending, and bolstering debt sustainability; (ii) ensure monetary and financial stability to underpin the peg to the U.S. dollar; (iii) accelerate reforms in the electricity and water sectors; and (iv) advance measures to enhance employment, investment, and governance to entrench jobs-rich, inclusive, and durable growth.

7. The crisis has necessitated a temporary refocusing of the authorities' efforts from structural reforms in the program to crisis mitigation, but important milestones have still been achieved. The ahead-of-time submission to parliament of legislative amendments that allow greater public access to basic financial disclosure information by public officials is an important milestone in authorities' efforts to strengthen governance and rebuild public confidence in institutions. Measures taken in response to the COVID-19 pandemic have effectively extended temporary reductions in social-security contributions to all firms. The authorities have also hired, with a slight delay, external consulting firm to undertake a review of the most significant PPA. At the same time, important reforms—such as the adoption of a plan to reform electricity tariffs; the implementation of digital track-and-trace monitoring system to reduce cigarette smuggling; and the submission to parliament of amendments to the Investment Law to address tax arbitrage and transfer pricing abuses—were delayed and are proposed to be rephased and reformulated as new structural benchmarks.

A. Calibrating Fiscal Policy for the Recovery Phase

8. Public finances are expected to deteriorate sharply this year driven almost entirely by the COVID-related collapse in domestic revenues (MEFP ¶9) **.** Due to limited fiscal space, the discretionary fiscal measures are expected to be small (at 0.55 percent of GDP, of which 0.11 are revenue measures, see text table above). However, domestic revenues are expected to come in around 9 percent lower relative to 2019 (see text table below) due primarily to the effect of lockdowns on economic activity.[1] The decline would have been even greater but for the full effect of measures under the 2020 budget, such as: (i) implementation of the new income tax law; (ii) a crack-down on smuggling of tobacco; and (iii) curtailment and non-renewal of discretionary sales tax and customs exemptions. In addition, to offset the crisis-induced deterioration in the fiscal accounts, the authorities suspended bonuses to civil servants, postponed non-priority capital investment and planned public wage increases to end-2020, and imposed a hiring freeze for new positions (text figure). Still, despite these measures, the end-June PCs for the primary fiscal deficit and the combined public deficit; and several fiscal ITs (see Table 7) were missed. Domestic arrears to the tune of 1 percent of GDP surfaced, which the authorities are clearing.[2]

2020 Combined Public Balance: Likely Outturn vs. March Projections
(In percent of GDP)



Source: IMF staff projections.

9. Despite the ongoing pandemic, the authorities persevered with efforts to strengthen tax administration, including tax compliance (MEFP ¶4). In the course of this year, they embarked on an anti-tax evasion drive which they assess as having uncovered around 2 percent of GDP in under-reporting of income tax liabilities. Moreover, a majority of tax services has been shifted online, and a dispute resolution procedure was introduced for settling outstanding income and sales taxes. Tax administration efficiency has been improved by adopting a risk-based approach to audits, better coordination and data sharing between tax and customs agencies, as well as establishing a "gold list" of tax-compliant companies, which entitles them to special privileges. These

[1] The apparent dissonance between the larger decline in fiscal revenues relative to GDP mainly reflects the sizeable import compression, which negatively affects tax and customs collection but not GDP; the bigger impact of the pandemic on employment and spending in the informal economy, reflected in the survey-based unemployment rate reaching an all-time high; and a large discrete drop in non-tax revenues.

[2] These reflect mostly arrears to electricity distribution and refinery companies, municipalities, and various hospitals and medical treatment centers.

domestic efforts were mirrored internationally by Jordan signing the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (to tackle cross-border tax evasion and avoidance) in late September.

Fiscal Accounts in 2020 Before and After COVID-19 Shock

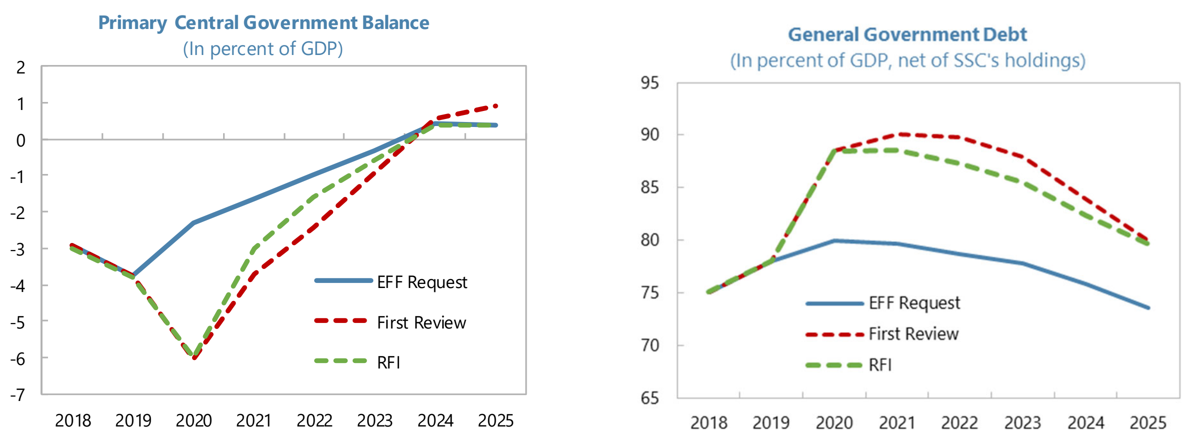
	EFF		Current Proj.		Difference	
	JD bil.	% GDP	JD bil.	% GDP	JD bil.	% GDP
Total revenue and grants	8.7	27.0	7.3	23.8	-1.4	-3.1
Tax revenue, *of which* :	5.6	17.5	4.9	16.0	-0.7	-1.5
Taxes on income and profits	1.3	3.9	1.1	3.6	-0.2	-0.3
Sales taxes	4.0	12.5	3.5	11.5	-0.5	-1.0
Nontax revenue	2.0	6.3	1.3	4.4	-0.7	-2.0
Grants	1.0	3.2	1.1	3.5	0.0	0.3
Current expenditure, *of which:*	8.4	26.1	8.3	27.2	-0.1	1.2
Wages and salaries	1.7	5.3	1.5	4.8	-0.2	-0.4
Transfers	2.4	7.4	2.5	8.3	0.2	0.9
Goods and services	0.4	1.1	0.3	1.1	0.0	0.0
Capital expenditure	1.3	3.9	1.0	3.1	-0.3	-0.8
Overall central government balance	-1.0	-3.0	-2.1	-6.5	-1.1	-3.5
Primary government balance, excl. grants and transfers to utilities	-0.7	-2.3	-1.8	-6.0	-1.1	-3.7
NEPCO operating balance	-0.2	-0.5	0.0	-0.2	0.1	0.3
WAJ overall balance, excl. grants	-0.4	-1.1	-0.3	-1.1	0.0	0.0
Water companies overall balance	0.0	-0.1	-0.1	-0.5	-0.1	-0.3
Combined public balance	-1.3	-4.0	-2.4	-7.7	-1.1	-3.7

Source: IMF staff projections.

10. To support the authorities' efforts to protect lives and jobs, the end-2020 fiscal targets have been adjusted (MEFP ¶10)**.** In particular, the primary central government deficit ceiling (excluding grants) was reset to 6 percent of GDP, a 3.7 ppt of GDP relaxation relative to the target set at the time of EFF approval. This would allow for: (i) automatic stabilizers to work through the rest of the year; and (ii) some space for targeted and temporary discretionary stimulus. The utilities balances, taken together, are expected to remain unchanged relative to the EFF, as the negative effect of the shock is offset by the delay in the coming on line of the oil shale PPA and the drop in LNG prices (see below). Thus, the combined public sector deficit target for 2020 is being relaxed by the same 3.7 ppt of GDP, to 7.7 percent of GDP.

11. Starting in 2021, a gradual fiscal consolidation in the context of a multiyear framework will help rebuild buffers and arrest the rise in debt (MEFP ¶10–11). While the recovery might be tepid, debt sustainability risks have increased, with debt approaching 90 percent of GDP in 2020–21 (see Annex I). Balancing these considerations, staff and the authorities agreed that the fiscal program should target a debt/GDP ratio of no more than 80 percent by 2025, in line with the RFI projections approved by the Board in May. To achieve the target, the authorities will implement a gradual fiscal consolidation of 4 percent of GDP over the program period, including 0.7 percent of GDP in 2021 (detailed below), and 1.1 percent of GDP each year during 2022–24. The medium-term consolidation is expected to be anchored in measures to further tighten sizable tax expenditures (see Annex 2), and rationalize current spending (including in light of ongoing studies on public sector size and compensation), while protecting the most vulnerable. Although near-term fiscal targets have been relaxed, the offsetting saving measures taken in 2020, corrective measures expected to be included in the 2021 budget and the partial phasing out of temporary stimulus measures, the planned adjustment in 2021–24, and continued robust donor support, will help ensure that debt falls below 80 percent of GDP by end-2025, and thus preserve the program's debt sustainability objectives (text figure).

Revised Fiscal Adjustment and Debt Paths



Sources: MOF; and IMF staff projections.

12. To credibly move to the adjustment path, a draft budget law for 2021 consistent with a primary deficit target of JD 1,180 million (3.7 percent of GDP) will be submitted to Parliament (prior action). The target implies a 2.3 ppts. of GDP y-o-y narrowing in the primary deficit in 2021, of which 0.7 percent of GDP is due to new discretionary measures (Table 2); and 1.6 percent of GDP on account of the post-COVID rebound, including a partial unwind of the discretionary measures introduced in 2020.

13. Concrete measures to broaden the tax base will support the 2021 budget (MEFP ¶12). The bulk of the consolidation effort in 2021 (0.5 percent of GDP) will be underpinned by efforts to close tax loopholes; simplify the tax system and reduce fragmentation; widen the tax base to ensure all earners contribute their fair share; and arrest outright tax fraud/evasion (see also Annex II). In this context, the authorities intend to:[3]

[3] The measures below are in addition to potential collections from the under-reporting of tax liabilities uncovered by the authorities' ant-tax evasion drive this year. The expected yields are based on experiences of other countries.

- Submit to parliament amendments to the 2014 Investment Law to eliminate all articles related to preferential tax treatment. This will reduce the scale of preferential corporate income tax (CIT) regimes, thus helping to close CIT loopholes; and broaden the bases for the General Sales Tax (GST) and Special Sales Tax (SST) over time *(reformulated proposed SB for end-March 2021)*.[4]

- Enact effective legislation to strengthen transfer pricing rules in line with international standards and IMF staff advice *(new proposed SB for end-March 2021).*

- Introduce "place-of-taxation" rules in the GST Law in line with international best practices *(new proposed SB for end-April 2021)* to increase efficiency of the GST and reduce the compliance gap.

- Introduce Economic Substance Regulations for all SEZs *(EFF end-December SB, proposed to be reset to end-February 2021)* to arrest the practice of using special corporate structures that do not reflect real economic activity but serve for tax minimization through profit shifting to special economic zones.

- Sign an agreement with the three largest cigarette companies, committing them to implement the track-and-trace monitoring system to reduce cigarette smuggling *(new proposed end-February 2021 SB)*. The system is to be implemented for the largest cigarette company by end-July 2021 *(delayed and reformulated SB from end-December 2020)*, with a view to full implementation in the rest of the sector by end-December 2021 (MEFP ¶16).

- Pass legislation to introduce a single tax administration and a single customs service, bringing ASEZA participants under ISTD and Jordan Customs *(delayed SB from end-December 2020, proposed to be reset to end-March 2021)*.

The above measures will be supported by robust tax administration reforms anchored in Fund TA (MEFP, ¶4), notably, strengthening risk-based audit practices; improving compliance for taxpayers in the "professionals" groups; and enhancing the technical capacity to implement reforms by strengthening the reform governance within ISTD. To this end, the authorities are hiring 50 new auditors *(end-December 2020 SB)*, on top of the 50 already hired.

14. The remaining effort (0.2 percent of GDP) is expected to come from reducing non-priority expenditures (MEFP ¶13)**.** Specifically, the authorities will: (i) postpone non-priority expenditures and improve procurement practices through broader use of competitive bidding and e-procurement; and (ii) continue to generate public wage bill savings by extending the hiring freeze on new positions in non-essential sectors until end-2021 while ensuring adequate staffing of hospitals; these savings will be partly offset by accommodating, from December 2020, the wage increase for teachers that was agreed last year but delayed due to COVID-19; and (iii) better target

[4] The authorities intend to follow up by initiating, with the help of IMF TA, a comprehensive tax expenditure analysis that will enable them to develop a plan, by July 2021, to streamline and better target tax incentives, including in the special and development economic zones.

transfers and subsidies to the most vulnerable, including by removing duplicate and inefficient programs.[5]

15. The program would continue to protect priority social spending and provide flexibility to accommodate unanticipated COVID-related spending. Following a significant increase in 2020, the program continues to provide adequate resources for social spending in 2021. It also supports the authorities' efforts in strengthening the social safety net, including by increasing the coverage of the National Aid Fund cash transfer program and enhancing its targeting and transparency. In that regard, the authorities will bring the National Unified Registry online as a single gateway for all Jordanians seeking social assistance by end-December 2020 and will conduct a comprehensive review of their social spending envelope, and publish an action plan to enhance its effectiveness and efficiency in early 2021. In addition, and in view of the elevated uncertainty about the second wave of COVID, the fiscal targets are subject to an adjustor of 0.5 percent of GDP for unbudgeted spending to prevent, detect, control, treat and/or contain the spread of COVID-19.

16. The authorities are implementing important structural reforms to improve the fiscal framework:

- ***To prevent the accumulation of new arrears*** (MEFP ¶16, (iii)), the authorities passed a cabinet decision to prohibit the issuance of medical exemptions other than within well-established eligibility rules and budgeted allocation. By end-2020, they will implement a monitoring mechanism of public sector consumption of oil products from the refinery. The authorities have issued a cabinet decision to prohibit the use of treasury advances to pay for unbudgeted expenditures, and are carrying out of a comprehensive review of trust accounts *(delayed end-September SB, proposed to be reset to end-January 2021)*. In addition, with IMF TA, they will reassess the structure and scope of the 2017 draft organic budget law and submit to parliament an amended draft law by end-December 2020.

- ***To enhance fiscal transparency*** (MEFP ¶16, (iv)), the authorities have requested a comprehensive Fiscal Transparency Evaluation (FTE) – only the second country in the region to do so. With the help of Fund TA, the authorities aim to gradually move to full general government reporting.

- ***To limit the incurrence of fiscal risks*** (MEFP ¶16, (v)), the authorities are undertaking, with the help of Fund TA, a comprehensive review of fiscal commitments and contingent liabilities from major SOEs and PPPs; and pursuing measures to limit the future incurrence of fiscal risks from these sources by: (i) fully implementing the new PPP law; (ii) adequately staffing the PPP Unit at the Prime Minister's office, the Fiscal Commitments and Contingent Liabilities unit at the MOF and the PIM Unit at MOPIC and ensuring adequate coordination and information sharing between these entities; and by (iii) monitoring financial performance of the largest public corporations (or entities with majority government ownership) in the energy, water and

[5] Over the medium term, the authorities will undertake a study on further streamlining the public sector, by merging ministries and agencies to ensure more efficient spending.

transport sector; as well as subnational governments, as some contingent liabilities have already materialized.[6] Staff emphasized that provision of government support to public enterprises or local government should be measured and conditional on credible plans to increase their operational efficiency (MEFP ¶14).

- ***To strengthen capacity for fiscal policy formulation and forecasting, and reform management*** (MEFP ¶16, (vi)), the authorities are putting in place a new project management unit and a macro-fiscal unit in the MOF.

B. Ensuring Monetary Stability and Financial Sector Resilience

17. The exchange rate peg to the U.S. dollar will continue to be the key nominal anchor. The peg has served the economy well by providing an anchor for macroeconomic stability, inflation expectations and market confidence. The pressures on the peg, observed in the immediate aftermath of the COVID-19 due to an increase in precautionary cash holdings have subsided since September. Reserves were replenished due to the RFI, a frontloaded U.S. grant, and the issuances of FX-denominated bonds domestically and internationally. Accordingly, the end-June NIR PC and end-September IT were met. However, there was agreement that the existing NIR path in the program did not reflect the larger BOP needs and the revised policies for 2021. The revised NIR path would still keep reserves above 100 percent of the Fund's ARA metric, the authorities' operational target for reserve adequacy. The authorities are committed to further strengthening reserve buffers in subsequent years.

18. The CBJ's sizable and timely stimulus should be maintained for now and be gradually unwound once the recovery takes hold (Figure 4). CBJ's main policy rate cuts have translated into immediate reductions in interbank rates but more gradual decline in bank lending rates. The 8 percent of GDP in monetary stimulus has helped propel credit growth to 6 percent year-on-year during January-August, despite the recession. Accordingly, the ITs on net domestic assets (NDA) of the CBJ for June and September were breached. Once the recovery takes hold, the CBJ would gradually unwind the crisis measures to slow credit growth and prevent pressures on the current account and reserves.

19. The CBJ's subsidized lending schemes have helped businesses, especially SMEs, transition through a difficult period, but constitute quasi-fiscal operations. Under a new JD 500 million program for SME lending, CBJ has provided four-year zero-cost money to banks on condition that banks lend to SMEs at no more than 2 percent (even this 2 percent interest is covered by the government, if the funds are used to pay salaries). To reduce the credit risk borne by banks, 85 percent of these subsidized loans are guaranteed by the Jordan Loan Guarantee Corporation (JLGC), which is owned 45 percent (55 percent) by the CBJ (commercial banks). To enable the JLGC

[6] The government issued a "comfort letter" to a commercial bank to allow Royal Jordanian (RJ) airlines to borrow up to JD 50 million from a commercial bank and is considering a capital injection to RJ of up to JD50 million. Continued support from AfD to GAM for an important rapid bus transit (BRT) project may be conditional on either a central government guarantee or channeling the loan through the central government.

to absorb potential losses, the CBJ has lent it JD 300 million at 2 percent interest rate for onward investment in government securities; the interest rate differential would help build a buffer.[7] In addition to this new lending scheme for SMEs, the CBJ has modified an existing lending program to support productive economic sectors (tourism, industry, renewable energy etc.). At this time, the CBJ does not intend to renew the schemes once their limits are exhausted. Staff supports non-renewal of the schemes, noting that they represent quasi-fiscal activity that should be conducted by the government, rather than the central bank.

20. The banking system has remained healthy, but risks bear close monitoring. At end-2019, banks were well-capitalized (with over 90 percent of capital held as Tier 1), liquid and profitable. However, the economic downturn is expected to affect credit quality. To support the bank's capital position, the CBJ's required banks not to pay out dividends in 2020.[8] CBJ stress tests show that even under a severe downside scenario, the system-wide capital adequacy ratio would remain above CBJ's regulatory minimum of 12 percent. Still, staff emphasized the importance of maintaining prudent accounting, reporting and provisioning standards for adequate monitoring of risks. Should downside risks materialize, the CBJ should require weaker banks to prepare prudent but feasible (in terms of time) capital restoration plans. Staff also recommended that the CBJ discourage banks from taking excessive credit risk on their balance sheets.

21. The legislative and regulatory framework for banks is being further strengthened. Since 2018, Jordanian banks have been compliant with the IFRS9 accounting standards, which has bolstered transparency and monitoring. New instructions regarding the application of liquidity standards were issued in early 2020. Looking ahead, the CBJ board will approve detailed guidelines to implement the Emergency Liquidity Assistance framework provided for in the CBJ Law *(SB is proposed to be reset to June-2021).* Among other things, the guidelines will define acceptable collateral, provide instructions on how to assess risks, and will include draft contracts. The CBJ is also reexamining the extent to which certain legal provisions are an impediment to IFRS compliance, and will concurrently benchmark against practices in other central banks with similar statutory requirements. The study and the resulting recommendations will be submitted to the CBJ Board by end-August 2021.

22. The authorities are working on enhancing the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). With the assistance of the Fund, the authorities have completed a National Risk Assessment, which has contributed to the ongoing review of the AML/CFT law to ensure that it is fully in line with Financial Action Task Force (FATF) standards and that it addresses all the practical issues faced by the AML/CFT Unit and other competent authorities and the recommendations of Jordan mutual evaluation. The draft amendments to the current AML/CFT law have been approved by the government in March 2020

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[7] By end-September, about JD 450 million had been disbursed through the program, of which JD 127 million was used for salaries.

[8] By June 2020, NPLs increased to 5.4 percent from 5 percent in December 2019 and the capital adequacy ratio (CAR) declined from 18.3 to 17.9 percent, which is still considerably higher than the authorities' regulatory limit of 12 percent (itself above Basel limit of 10.5 percent).

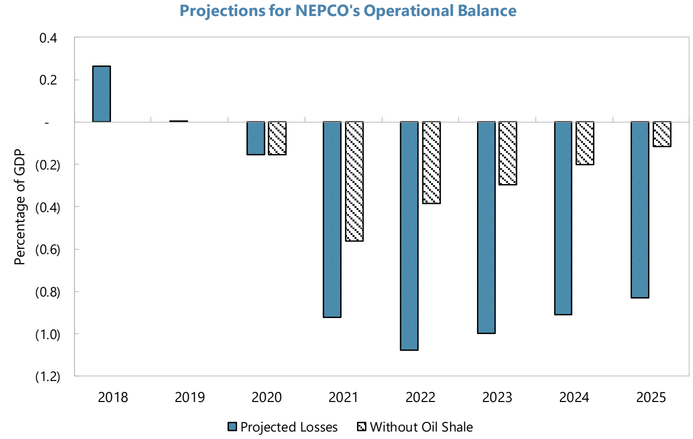
and are expected to be passed by parliament by mid-2021. All regulatory agencies, including the CBJ, have amended their regulations to ensure their conformity with FATF standards. Also, in line with IMF technical assistance recommendations, the authorities have put in place a risk-based framework for offsite and onsite supervision of banks and money-exchange firms and for other financial and nonfinancial institutions, as well as Non-Profit Organizations.

23. The authorities have requested a Financial Sector Assessment Program (FSAP) update in 2022 to take stock of the many changes in the financial sector since the last update in 2008.

C. Reforming the Electricity and Water Sectors

24. While NEPCO's financial losses are expected to the limited in 2020, its financial viability continues to rest on deep reforms. After breaking even in 2019, NEPCO is expected to register a relatively modest loss of 0.15 percent of GDP in 2020, largely due to resilient levels of electricity consumption, COVID-related delays in the coming on-stream of new PPAs; and a drop in LNG prices. NEPCO, however, is expected to return to sizable annual losses of around 1 percent of GDP starting in 2021, partly due to the coming on stream of an oil shale PPA. Staff estimates that the PPA will add costs for NEPCO of about 0.4 percent of GDP in 2021 and 0.7 percent of GDP per year over the medium term (see text figure). This outlook for NEPCO also reflects post-COVID demand shortfalls (which may only fully recover over the medium term), and of the adjustment of the fuel clause[9] to zero following the drop in oil prices below USD 55/bbl.

Projections for NEPCO's Operational Balance



Sources: IMF staff estimates.

25. Given the increased pressure on public finances, the urgency of containing NEPCO's losses has increased (MEFP ¶27). In the short run, the authorities are taking measures to (i) boost demand domestically ((by temporarily lowering tariffs for some businesses on additional consumption); and internationally (through export agreements with neighboring countries, notably Iraq); and (ii) reduce costs by optimizing gas imports, LNG infrastructures, and implementing the debt optimization plan. Importantly, the authorities will prepare an update of NEPCO's Financial Roadmap for Financial Sustainability by end-April 2021, which will lay out a comprehensive strategy to restore NEPCO's financial viability over the medium term, in light of the post-COVID conjuncture. The Roadmap will include additional measures to bring costs down, including by exploring options

[9] The fuel clause is a charge imposed on most end-users, which kicks in when international oil prices are above USD 55/bbl. In 2019, receipts from the fuel clause amounted to almost 10 percent of NEPCO's revenues.

to optimize costs related to existing PPA commitments which impose large capacity charges on NEPCO; and increase revenues.

26. The authorities remain fully committed to end-user electricity tariff reforms (MEFP ¶28). Specifically, the authorities will adopt and announce a three-year plan with evenly-phased implementation starting in 2021, that (i) redirects electricity subsidies only to those who most need them; and (ii) uses part of the realized savings to reduce electricity tariffs for key business sectors, while containing NEPCO's losses *(proposed to be reformulated and reset structural benchmark for March 2021).* The plan will seek to (i) simplify the electricity tariff structure and reduce distortions, and (ii) develop a means-tested methodology to target households who will be eligible for electricity subsidies, based on detailed data on income and electricity consumption. The authorities will launch a robust communication plan to explain the purpose of the tariff reform and its expected impact on growth and employment.

27. The authorities are also taking measures that will help avoid future incurrence of expensive PPAs In this regard, they have hired – with a slight delay due to COVID-19, an international firm to undertake a comprehensive review of the most significant PPA (prior action, MEFP ¶29). The completion of the review and the sharing of its findings with Fund staff is expected by end-March 2021 (reset SB). This review is expected to help strengthen the framework for future contraction of PPAs.

28. The COVID-19 shock has exacerbated losses in the water sector. WAJ and water distribution companies are expected to run a combined deficit of 1.6 percent of GDP (0.4 percent of GDP higher than envisaged at EFF approval). This reflects the rise in costs due to more frequent water deliveries during the lockdown, just as bill collection significantly worsened. Moreover, WAJ has continued to incur arrears to water sector PPPs; while water distribution companies have incurred new arrears to electricity distribution companies.

29. Staff emphasized the importance of containing losses and ensuring a sustainable path for the supply of water (MEFP ¶30)**.** The authorities will prepare a Financial Sustainability Roadmap for the water sector, in consultation with the World Bank and other stakeholders.[10] Following the recent implementation of WAJ's debt centralization, WAJ will be transferred under the Ministry of Water, while preserving WAJ's independent accounting and reporting of financial statements. The authorities will act to arrest the accumulation of arrears to water sector PPPs, including by providing adequate allocations to the water sector in the general budget, seeking to regularize cash transfers from the MOF to WAJ, and looking into options to replenish buffer accounts designed to provision for payments to PPPs. Finally, to mitigate fiscal risks, the water sector will fully adhere to the PPP law.

[10] The roadmap will provide a comprehensive analysis of the challenges that the sector faces in the aftermath of the pandemic and will outline actions needed to: (i) increase revenues – including through higher bill collection, a reduction in non-revenue water (both physical losses and thefts) and an analysis of the adequacy of water tariffs in all sectors; and (ii) contain costs, including those related to electricity consumption.

D. Reforms to Strengthen Employment, Investment and Governance

30. Labor market reforms have become increasingly urgent to mitigate the fallout from COVID on already elevated structural unemployment, particularly for youth. These reforms aim at encouraging formality, removing obstacles to youth and female employment, and promoting private sector employment and job creation (MEFP ¶31).

- *To encourage formality and youth employment*, amendments to the Social Security Law were adopted to allow for reduced contributions for start-ups hiring young workers. These were introduced for startups in some sectors and will be expanded to startups in all sectors once temporary measures adopted during the pandemic expire.[11] Continued streamlining and enhancement of vocational education and on-the-job training initiatives will help reduce impediments to hiring youth.

- *To enhance female labor force participation,* the authorities will finalize the instructions to larger firms to provide childcare *(delayed and proposed to be reset to end-December 2020 SB)*. Draft amendments to the Labor Law submitted to parliament address harassment in the workplace and public spaces. The authorities have also adopted a new nurseries licensing by-law, which aims to reduce the number of procedures to obtain a nursery license. To encourage female formal employment and contribution to the SSC, the authorities agreed to remove any gender bias from social security survivor benefits regime. By June 2021, the authorities will issue instructions for licensing of home-based childcare. As access to affordable and safe transportation is a major obstacle to female employment, the authorities are in the process of implementing the Code of Ethics and Professional Conduct for the transport sector.

- *To address public-private wage differentials,* which can disincentivize private sector employment, the authorities are preparing a civil service compensation reform plan, building on analysis supported by the World Bank, that will better align public sector wages to private sector compensation at all levels of seniority.

31. Fostering investment and enhancing competition and export competitiveness are crucial to growth (MEFP ¶32), including steps to reduce the costs of starting and operating businesses, eliminating red tape, and strengthening investor protection (text figure). As part of the new "Investor's Journey" program, the authorities are working on simplifying licensing procedures for businesses. They will abolish licensing requirements for bookshops, cultural centers, and the tourism sector by end-December 2020, and will amend regulations to abolish additional licenses that lack a clear legal basis, removing inter alia the requirements for judicial guarantee deposits for small businesses.[12] They are also modernizing the insolvency framework, streamlining the regulatory agencies, and strengthening the market competition framework.

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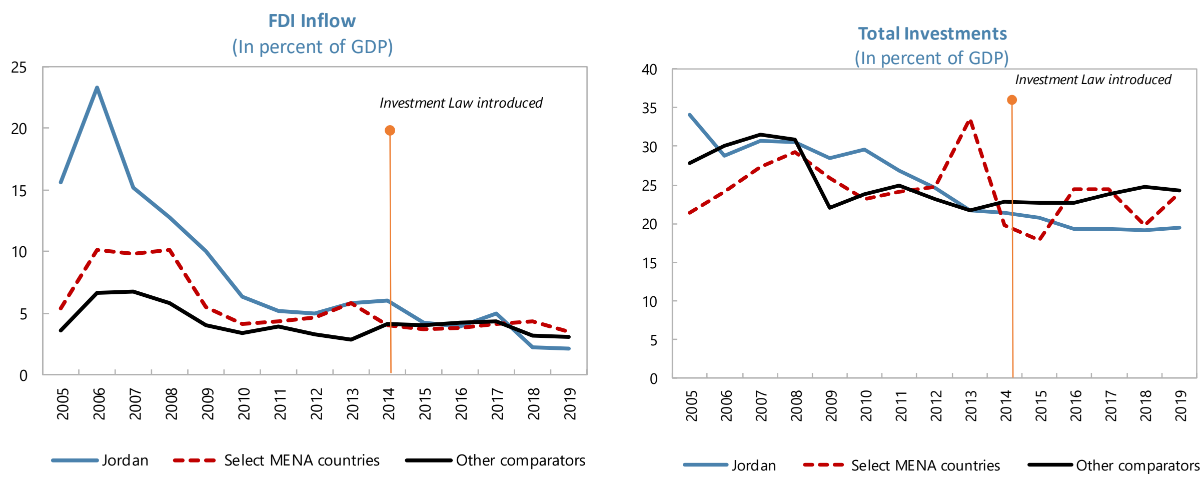
[11] The Defense Order issued by the prime minister temporarily lowered social security contributions for all firms in all sectors to help them cope with the COVID-19 shock.

[12] The abolished licenses will be replaced by alternative registration or notification procedures.

32. Reforms to facilitate access to finance will help broaden the reach and usage of financial services, particularly Small- and Medium-Sized Enterprises (SMEs), which play a critical role in boosting growth and job creation. The authorities are working on broadening the coverage of Jordan's credit bureau beyond banks to include all insurance and leasing companies, microfinance institutions and telecommunication companies, and public utilities. It is also important to make continued progress on the state of financial inclusion in Jordan, including publication of the financial inclusion report which has been delayed by the pandemic *(end December 2020 SB now proposed to be reset to end-March 2021).*

Inbound FDI and Investment
(In percent of GDP)



Sources: UNCTAD; *World Economic Outlook;* and IMF staff estimates.
Note: Select MENA countries include Djibouti, Israel, Lebanon, Morocco, and Tunisia. Other comparators include Armenia, Georgia, Greece and Turkey.

33. The authorities are implementing reforms to strengthen governance, which is critical to foster public trust and maintain public support and traction on key reforms.

- The passing of the amendments to the illicit gains law is a welcome first step to improve the effectiveness of anti-corruption bodies and increase transparency of asset disclosures by public officials. Full implementation, monitoring progress and further strengthening the asset disclosure system remains crucial.
- In line with their commitments under the RFI, the authorities have started publishing contracts for COVID-related spending on the MOF's website and issued new circulars to facilitate the continuous publication of procurement contracts, including beneficial ownership of awarded entities for all COVID-19 emergency response spending above JD 25,000.[13] Furthermore, they have committed to undertake ex-post audits of all crisis-mitigating inflows and spending and will publish the results *(new proposed end-June 2021 SB)*. Finally, the authorities will (by end-2020), issue all regulations needed to support implementation of the Unified Public Procurement By-law.

[13] https://mof.gov.jo/en-us/informationcenter/primeministryannouncementsandcirculars.aspx

PROGRAM MODALITIES

34. The authorities have requested adjustments to the program's quantitative and structural conditionality in light of the COVID-shock.

- The attached Letter of Intent and MEFP describe the authorities' progress in implementing their economic program and set out their commitments. The authorities request waivers of nonobservance of end-June PCs for the central government primary and combined public deficits, as well as re-phasing and reformulation of pending SBs, and new proposed SBs (MEFP Table 2). Staff supports the request for waivers based on the authorities' corrective action of committing to achieve the desired fiscal consolidation and bring public debt to under 80 percent of GDP by 2025.

- Staff proposes performance criteria for end-December 2020 and end-June 2021 as well as indicative targets for end-March and end-September 2021 (MEFP Table 1). The program will continue to accommodate, through PC adjustors, unbudgeted spending pressures that may stem from efforts to prevent, detect, control, treat, and contain the spread of COVID-19; as well as social protection spending financed by additional external budgetary grants (TMU ¶27 and ¶36).

- The authorities have committed to two prior actions: (i) Hiring of firm to review the most significant PPA; and (ii) submission to parliament of a budget law for 2021 consistent with a central government primary deficit target (excluding grants and transfers to NEPCO and WAJ) of no more than JD 1,180 million.

35. Financing assurances are in place, including due to a frontloading of Fund purchases into 2021–22. Firm commitments of financing assurances are in place for the 12 months following the first EFF review, with good prospects thereafter. Jordan's external financing needs would be covered by:

- **External financing from development partners.** Residual external financing needs over the 12 months following the first EFF review are projected to be fully covered, with good prospects thereafter, in the form of concessional loans and grants from development partners (text table and Tables 3c and 3d). The 2020–24 public external financing, excluding the IMF, is expected to remain in line with the 2019 London Initiative pledges. Expected shortfalls in original pledges in 2020, due to delayed disbursements of external loans with

External Financing Needs and Funding Sources, 2020–24

(In million of U.S. dollars)

	2020	12 months from First EFF review	2022	2023	2024
Financing needs	**2,031**	**2,169**	**1,259**	**817**	**99**
Official financing	**2,031**	**2,169**	**1,259**	**817**	**99**
IMF 1/	687	412	326	198	99
Identified official public external financing	1,344	1,757	933	618	0
World Bank	414	430	287	105	0
European Union	302	553	0	0	0
Japan	200	100	100	100	0
Others 2/	429	674	546	414	0
Memorandum item					
Eurobond issuance	1,750	0	1,000	0	0

Source: IMF staff projections.

1/ Purchases under the RFI in 2020 and EFF.

2/ Financial support from Canada, France, Germany, Italy, GCC, EBRD, AIIB.

conditionality and the scaling down of the second tranche of WB DPL2 as a result of policy slippages, are expected to be offset by new sources of financing in 2021–22, including emergency pandemic support by the EU.

- **Issuance of non-guaranteed Eurobonds** is expected to rollover guaranteed Eurobonds of USD 1 billion maturing in 2022. At the same time, the heightened uncertainty around the pandemic-affected economic outlook makes it prudent to build even stronger buffers to safeguard debt sustainability and reserve coverage, which would require robust financing from development partners with a greater shift to grant financing.

- **Fund access.** Staff supports the authorities' request for a reprofiling of the EFF purchases that would shift one third of the 2023–24 tranches to 2021–22, within the existing overall envelope of 270 percent of quota (SDR 926.37 million or about $1.3 billion) (Table 5). Purchases in 2020–21 will be on-lent to the government in JD and used for budget support, as part of the balance of payments needs arises for external payments. It is expected that this will serve as a catalyst for increased concessionality of existing financing and new commitments by development partners.

36. There is some risk of policy slippage in the baseline. The authorities have averred their strong commitment to and ownership of the program. However, the COVID shock could have socio-political repercussions that imply a significantly more complex environment for reforms. There are also capacity constraints in key government institutions. The program guards against these by requiring significant prior actions, phasing structural conditionality in a manner that seeks to take into account of capacity constraints, and explicitly supporting efforts to strengthen institutional capacity in the finance ministry and other government entities. Moreover, the continued strong TA engagement with the Fund and other development partners in key areas such as tax policy and administration, and the energy sector, should allow for timely corrective action in the face of new challenges. There has also been a discussion with the authorities on contingent fiscal measures, and with donors on the importance of robust support notwithstanding temporary setbacks or delays in reform implementation.

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. Fund credit outstanding will peak in 2023 at 3.4 percent of GDP, equivalent to around 9 percent of exports of goods and non-factor services and gross usable reserves. EFF repurchases and charges peak at 1.5 percent of exports of goods and services and 1.7 percent of gross usable reserves in 2024, well below the corresponding values under past Fund-supported programs. While debt sustainability risks have increased, development partners' ongoing commitment to Jordan and strong market access constitute important safeguards.

38. Safeguards assessment: In May the CBJ and the MOF signed a memorandum of understanding on their respective responsibilities for servicing Jordan's financial obligations to the Fund under the EFF. In addition, the CBJ is on track to implement the main recommendations of the recent safeguards assessment: 1) By end-March 2021 the CBJ's Board will approve a unified investment policy, which will include hierarchy of objectives of foreign reserves; roles and responsibilities of the CBJ units; rules for credit/concentration limits; a method of determining the composition of the foreign reserves; a process for handling limit breaches; and a reporting system; 2) the CBJ Board will approve detailed guidelines to implement the Emergency Liquidity Assistance framework provided for in the CBJ Law *(SB is proposed to be reset to June-2021*); and 3) the CBJ will reexamine the extent to which certain legal provisions impede compliance with IFRS, and will concurrently benchmark against practices in other central banks with similar statutory requirements. The resulting recommendations will be submitted to the CBJ Board by end-August 2021.

CONTINGENCY PLANNING

39. As noted earlier, the outlook is subject to considerable uncertainty, necessitating contingency planning for a possible downside scenario. Recent news on vaccine development are encouraging and Jordan is well-placed to roll out mass vaccination.[14] However, a downside scenario, significantly worse than the baseline, cannot be ruled out. For instance, should the pandemic continue to rage unabated either in Jordan or globally, the projected return of foreign tourism may be delayed, further damaging the already hard-hit jobs-rich hospitality, tourism and transport sectors. The attendant impacts on unemployment, public finances and the current account deficit can be very significant (just a quarter of tourist receipts is about US$1 billion).

40. The policy response in such a scenario should preserve the key program objectives of maintaining macro-financial stability and debt sustainability, while minimizing scarring.

- **Some further targeted monetary policy support may be helpful, subject to the imperative of safeguarding the peg**. Having already heavy-lifted on the stimulus during the first wave, the CBJ's policy flexibility for further easing in the event of weaker-than-expected growth outcomes will be subject to reserve adequacy considerations to support the peg. Within that space, monetary policy should remain data-driven, and targeted liquidity provision measures should continue to aim at supporting viable firms in cash-strapped conditions due to the crisis.

- **The fiscal policy response will need to be mindful of the tradeoff between cyclical and sustainability considerations, and take account of the availability of financing.** Given Jordan's elevated debt, it will be important to preserve the credibility of the medium-term debt anchor of 80 percent of GDP by maintaining progress on implementation of the discretionary consolidation measures included in the 2021 budget, which are expected to be growth-friendly and pro-poor. Subject to this, and depending on the availability of additional financing, fiscal policy should aim to protect lives and livelihoods, including by re-prioritizing spending toward essential areas and leveraging the adjustors in the program.

- **Additional concessional financing will need to be mobilized.** In the event of a deeper contraction or a more protracted recovery, donor support will need to be stepped up to provide the financing needed while protecting debt sustainability.

[14] Thanks to an advance payment earlier this year, the authorities should have early access to Pfizer or COVAX vaccines.

The authorities should remain in close consultation with the Fund ahead of the second review on the appropriate policy response as the second wave unfolds.

STAFF APPRAISAL

41. The Jordanian authorities' swift and decisive policy response to COVID-19 shock helped buffer the impact of the shock. Timely containment measures earlier in the crisis helped limit the impact of the first wave of the pandemic and allowed for a faster reopening of the economy than peers. An accommodative monetary policy stance, provision of liquidity support to banks, and subsidized lending programs targeting SMEs, coupled with targeted fiscal measures helped save jobs and protect the most vulnerable. However, the challenges ahead are still significant, including as the COVID-19 crisis is still unfolding.

42. The authorities' commitment to program objectives remains strong. While the crisis has led to temporary delays in some structural reforms, the authorities are now vigorously pursuing their implementation. By initiating a review of the most significant PPA, submitting to Parliament a strengthened Illicit Gains Law, and publishing contracts for their COVID-related spending, the authorities have progressed on key governance reforms. They are also on track to adopt a new strategy for the electricity sector, including a multi-year plan for electricity tariff reforms that will protect the most vulnerable and reduce electricity costs for key businesses. The authorities' targeted and measured fiscal response to the crisis demonstrated their resolve to safeguard public finances, and has been rewarded in the form of continued market access. Moreover, the authorities are already implementing high-quality tax measures to effect a gradual and growth-friendly fiscal consolidation starting in 2021, indicating their strong commitment to arresting the rise in public debt, and bringing it down below 80 percent of GDP by 2025.

43. High-quality fiscal measures remain critical to improve the fairness and efficiency of public finances. Broadening the tax base by closing tax loopholes and eliminating preferential tax treatment, fighting against tax evasion, and strengthening tax administration would not only yield revenues, but would contribute towards a more equitable adjustment, where the better-off pay their fair share. Improving PFM, fully implementing the PPP law, enhancing fiscal transparency, improving procurement practices, would help promote more efficient public spending and greater accountability in respect of taxpayer dollars. The authorities will need to be proactive to address emerging pressures in the broader public sector, and ensure that any support is tied to a credible restructuring plan for the entities. Jordan's public debt is sustainable with continued strong policy implementation.

44. The financial sector remains strong but will bear close monitoring. Commercial banks' indicators have remained sound thus far, and capital adequacy appears to be preserved under CBJ stress tests. However, continued vigilance and agility in supervision would be needed to ensure that a sharp deterioration in credit quality – including in the event of a more protracted recovery – does not decapitalize some banks.

45. **Reforms in the energy and water sector remain critical.** The crisis has widened the operational deficits of NEPCO, and these will need to be addressed with renewed urgency, including through measures to reduce operating costs, increase revenue, and optimize debt structure. Directing electricity subsidies to only those who need them and reducing electricity tariffs for key businesses will reduce drain on public finance, resource misallocation, and the cost of doing business. Comprehensive strategies for the electricity and water sectors should help operationalize the Financial Sustainability Roadmaps for NEPCO and the water sector.

46. **The authorities are committed to addressing key obstacles to achieve durable, inclusive and jobs-rich growth.** The crisis has further exacerbated the problems of youth unemployment, high informality, and low female labor participation, and will require urgent action to promote vocational training and internships; improve access to childcare and public transportation, and provide targeted support to startups. Strengthening competition, streamlining cumbersome licensing requirements, and reducing the economic footprint of the state on the economy will be vital to help promote entrepreneurship, and contribute to private sector job creation. Recent progress on governance reforms is welcome, but sustained efforts will be needed to strengthen the anti-corruption framework.

47. **Risks of policy slippage underscore the importance of the authorities' ownership of the program and development partner engagement.** Risks to the program can stem from materially adverse global and domestic economic developments, social discontent complicating reform implementation, and capacity constraints. These risks are ameliorated by the authorities' strong commitment to the program, as evidenced by the hiring of a firm to undertake a review of the most significant PPA (prior action); and the expected submission of the 2021 budget consistent with program targets (also a prior action). The close technical assistance engagement of the Fund and other development partners should also facilitate timely corrective action in the face of emerging challenges.

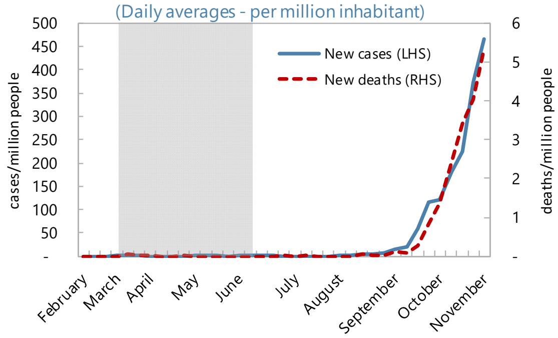
48. **Staff supports the authorities' request for the completion of the First Review under the EFF.** On the basis of the authorities' commitments to safeguard program objectives, including through corrective actions, staff supports the authorities' request for waivers of nonobservance of PCs on the central government primary deficit and the combined public deficit (both excluding grants), the modification of targets going forward and rephasing of structural conditionality. Staff also supports the authorities' request to frontload some of the available access into 2021.

49. **Staff emphasizes the importance of robust and timely development partner support for Jordan.** Continued engagement and robust financial support of development partners, notwithstanding temporary implementation delays, remains critical to the success of the program. Moreover, to protect debt sustainability, development partner support in the form of grants and concessional financing will be most helpful. And such support may need to be stepped up in the event of a more protracted recovery.

Figure 1. Jordan: Real Sector Developments

Severe lockdown measures helped contain the first wave of COVID-19, but a sizeable second wave is now unfolding.

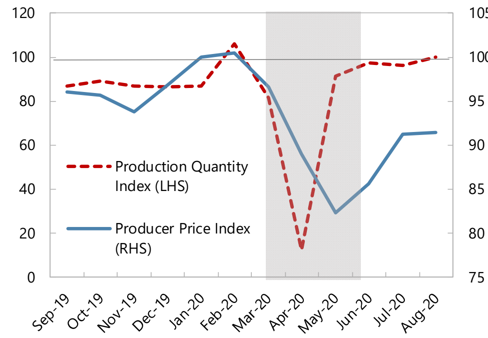
Jordan: Total COVID-19 Cases
(Daily averages - per million inhabitant)



Source: Johns Hopkins University

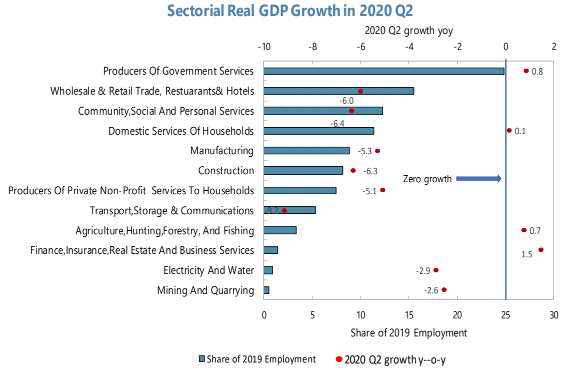
The lockdown measures severely affected production...

Producer Price Index and Industrial Production
(In percent of previous year's monthly value)



... transportation, wholesale and retail trade.

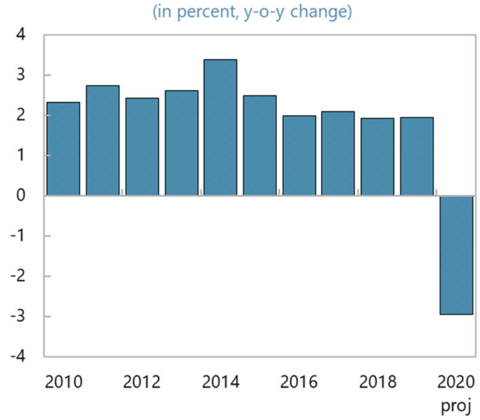
Sectorial Real GDP Growth in 2020 Q2



Source: National Authorities.

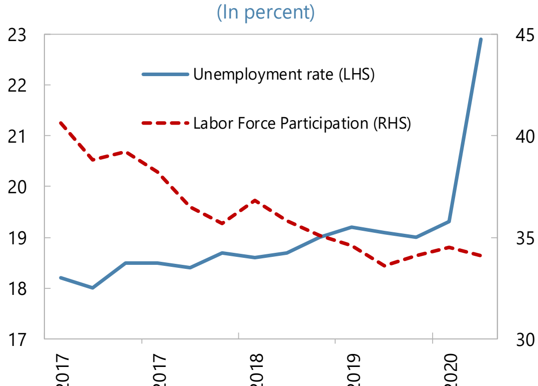
Output is expected to contract by 3 percent this year...

Real GDP Growth
(in percent, y-o-y change)



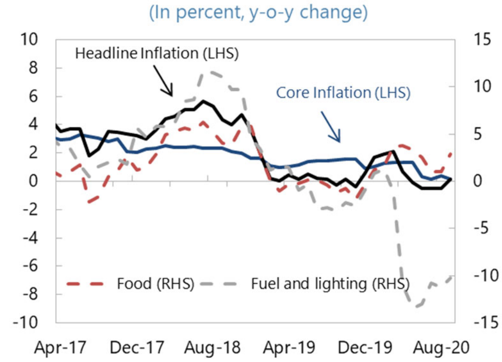
...adding to joblessness and hurting labor force participation...

Labor Market Developments
(In percent)



... placing downward pressure on core inflation.

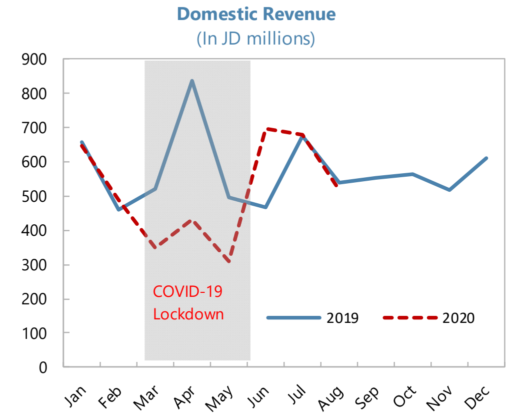
CPI Inflation, 2017–20
(In percent, y-o-y change)



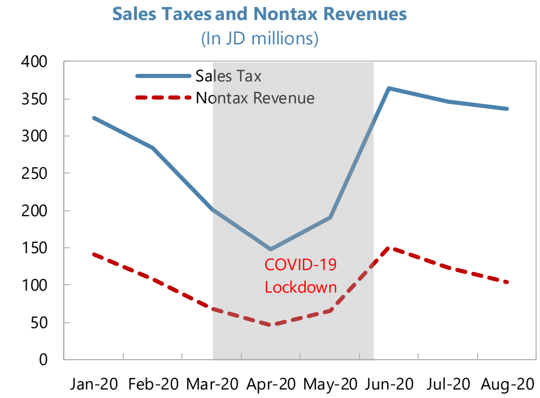
Sources: MOF, CBJ, DOS, and IMF staff estimates.

Figure 2. Jordan: Fiscal Developments

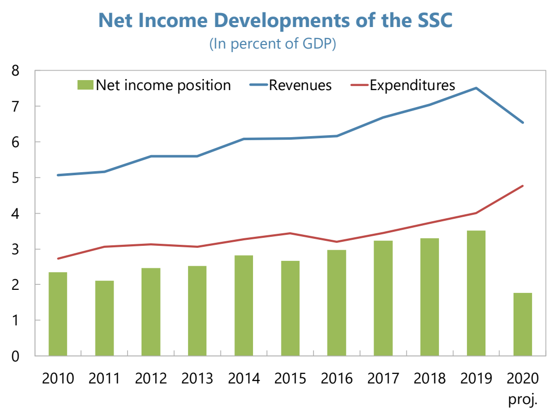
COVID-19 containment measures resulted in a sharp decline in domestic revenues…



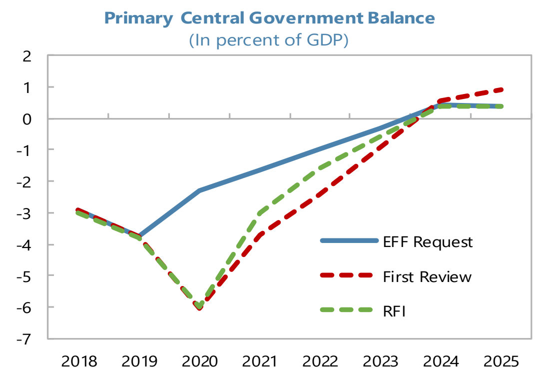
… with sales and non-tax revenues taking the biggest hit. Despite some recovery in recent months…



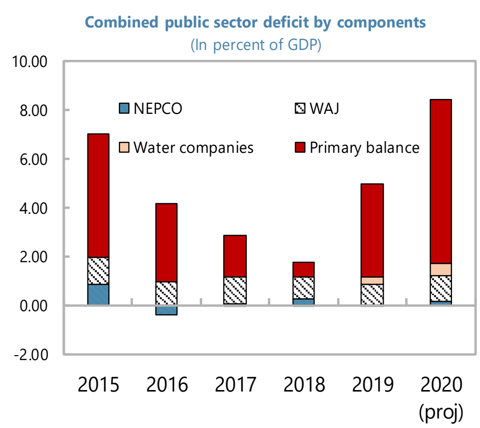
Net income of the SSC has also taken a big hit.



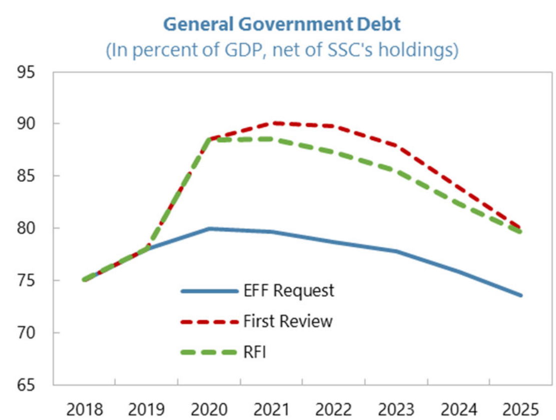
Primary balance will deteriorate…



…as will the combined public sector balance…



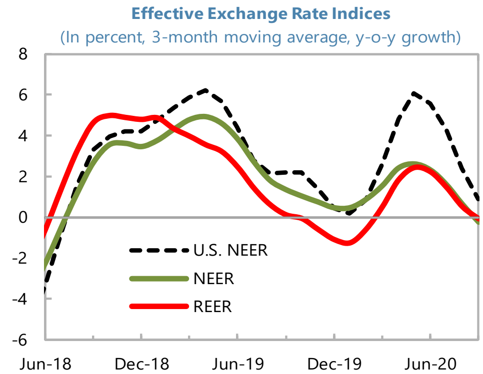
…leading to higher public debt ratio.



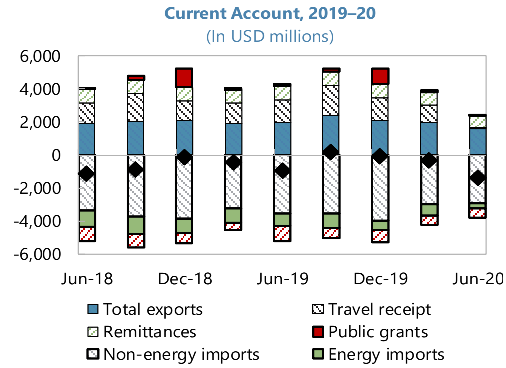
Sources: Jordanian authorities and IMF staff estimates.

Figure 3. Jordan: External Sector Developments

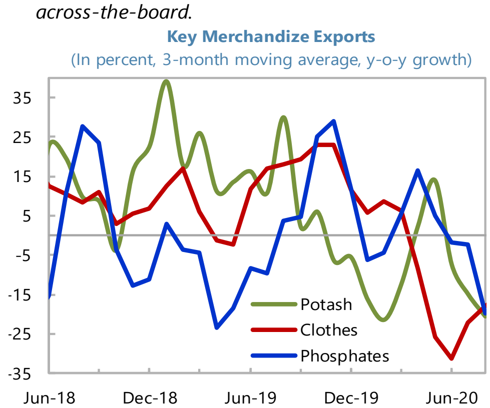
The US$ strength has led to JD appreciation since mid-2018, though the link has weakened during the COVID-19 pandemic...

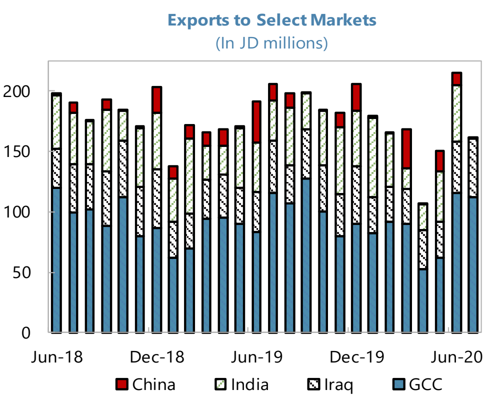


...this, however, has not been a major driver of trade flow as exports boomed and imports fell, before the pandemic wreck havoc to external trade.

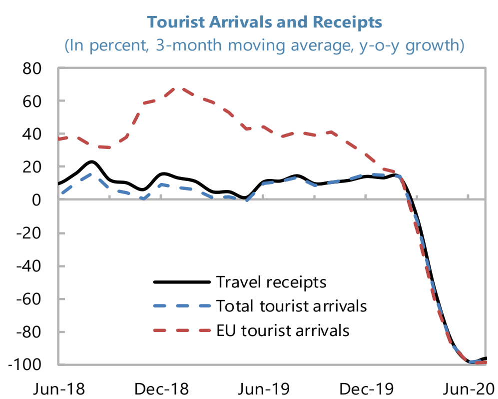


Prior to 2020, exports benefitted from rising prices of potash and phosphates and booming clothes exports, as well as improved access to GCC and Asian markets. The COVID-19 pandemic has put downward pressure on commodity prices, but export volumes have held up or increased. The demand for other exports has fallen across-the-board.

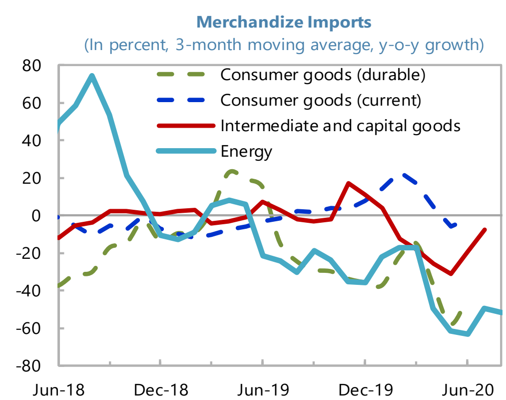




The tourism sector benefitted from the 2018 entry of European low-cost airlines, but ground to a halt during the COVID-19 pandemic.



The weakness in durable consumer and capital goods imports precedes the pandemic, but was exacerbated by it, whereas non-durables dropped sharply since April.

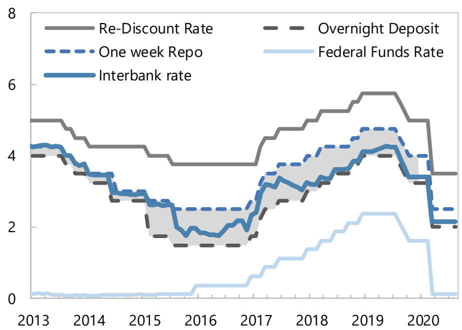


Sources: Central Bank of Jordan; Jordan Department of Statistics; and IMF staff estimates.

Figure 4. Jordan: Monetary and Financial Indicators

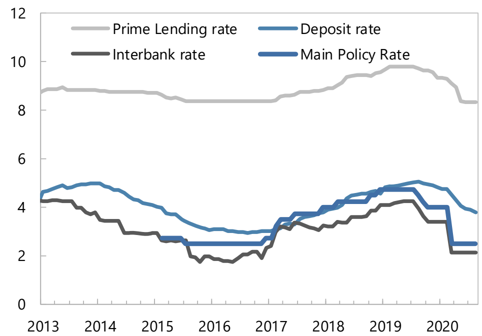
CBJ cuts its policy rate in March 2020 in response to COVID-19...

Interest Rates
(In percent)



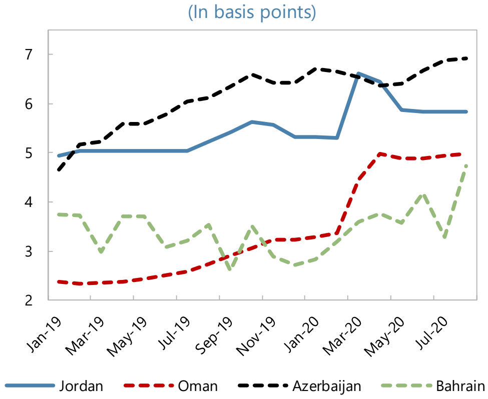
...contributing to an easing in deposit and lending rates...

Interest Rates
(In percent)



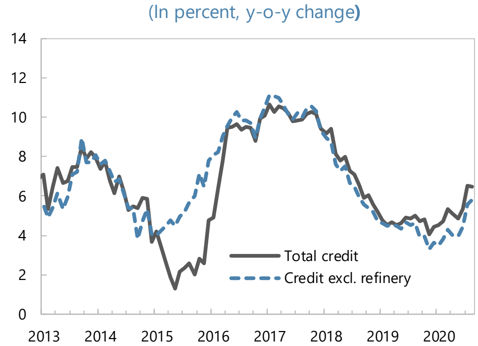
...but with partial pass through to lending rates, as in peers.

Lending Rate to Main Policy Rate Spread
(In basis points)



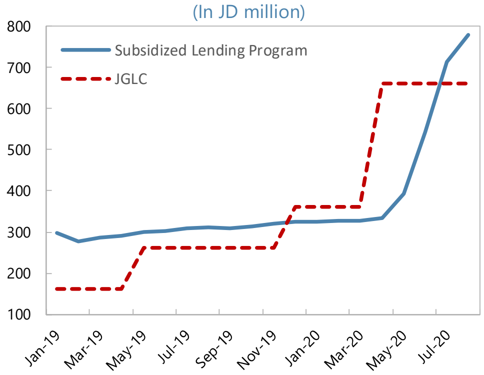
Private sector credit growth has held up well.

Credit to the Private Sector
(In percent, y-o-y change)



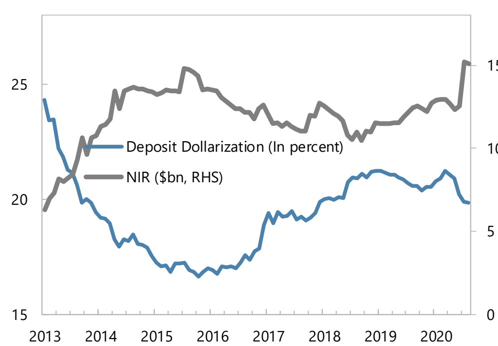
CBJ expanded its subsidized lending programs especially for SMEs.

CBJ Lending
(In JD million)



Adequate reserves have helped kept dollarization in check.

Reserves and Dollarization



Sources: Jordanian authorities; and IMF staff estimates.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2019–25

	Act. 2019	EFF 2020	Proj. 2020	EFF 2021	Proj. 2021	EFF 2022	Proj. 2022	EFF 2023	Proj. 2023	EFF 2024	Proj. 2024	EFF 2025	Proj. 2025
Output and prices													
Real GDP at market prices	2.0	2.1	-3.0	2.3	2.5	2.6	3.0	2.9	3.1	3.1	3.3	3.3	3.3
GDP deflator at market prices	1.7	1.9	0.0	2.5	1.3	2.5	2.0	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices	3.7	4.0	-3.0	4.9	3.8	5.2	5.0	5.5	5.6	5.7	5.9	5.9	5.9
Nominal GDP at market prices (JD millions)	31,597	32,313	30,654	33,882	31,814	35,632	33,419	37,582	35,302	39,716	37,394	42,052	39,594
Nominal GDP at market prices ($ millions)	44,566	45,575	43,236	47,789	44,872	50,257	47,136	53,008	49,791	56,017	52,742	59,312	55,845
Consumer price inflation (annual average)	0.7	1.5	0.1	1.7	1.3	2.5	1.7	2.5	2.5	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	0.7	0.8	-1.3	2.5	1.3	2.5	1.7	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent) 1/	19.1	...	...	...	...	...	...	...	...	...	...	...	...
Fiscal operations													
Revenue and grants	24.7	27.0	23.8	26.0	24.6	25.5	24.7	24.5	23.7	24.3	23.6	24.0	23.4
Of which: grants	2.5	3.2	3.5	2.2	2.5	1.9	2.2	1.0	1.1	1.0	1.0	0.9	0.9
Expenditure 2/	29.2	30.0	30.6	30.0	30.8	29.9	30.9	29.6	30.6	29.3	30.1	29.1	29.6
Discretionary fiscal measures 3/	0.0	0.0	0.0	0.6	0.7	1.2	1.8	1.8	2.9	2.4	3.9	2.4	4.2
Overall fiscal balance 4/	-4.9	-3.0	-6.8	-3.4	-5.5	-3.1	-4.4	-3.3	-4.0	-2.6	-2.6	-2.6	-2.1
Primary government balance (excluding grants)	-3.7	-2.3	-6.0	-1.6	-3.7	-1.0	-2.4	-0.3	-0.9	0.4	0.5	0.4	1.2
NEPCO operating balance	0.0	-0.5	-0.15	-0.6	-0.9	-0.5	-1.1	-0.4	-1.0	-0.4	-0.9	-0.4	-0.8
WAJ overall balance	-0.9	-1.1	-1.1	-0.8	-0.9	-0.8	-0.9	-0.8	-0.8	-0.7	-0.8	-0.7	-0.7
Water Distribution Companies overall balance	-0.3	-0.1	-0.5	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1
Combined public sector balance 5/	-4.9	-4.0	-7.7	-3.2	-5.8	-2.4	-4.5	-1.7	-2.9	-0.9	-1.3	-0.8	-0.5
Consolidated general government overall balance, excl. grants	-5.9	...	-9.7	...	-6.8	...	-4.6	...	-3.4	...	-2.4		-2.3
Consolidated general government primary balance, excl. grants	-2.6		-5.7		-3.0		-1.2		-0.1		0.9		0.9
Government and guaranteed gross debt 6/	97.4	100.4	110.3	100.7	114.0	100.2	115.1	99.6	114.6	98.0	111.7	96.1	108.5
Government and guaranteed gross debt, net of SSC's holdings 6/	78.0	79.9	89.2	79.7	90.9	78.7	90.3	77.8	88.3	75.8	84.2	73.6	79.8
Of which: external debt	35.0	39.5	41.3	41.1	45.0	40.8	45.5	40.0	44.3	38.3	42.4	36.1	39.8
External sector													
Current account balance (including grants), *of which:*	-2.7	-3.2	-6.9	-3.6	-6.9	-3.6	-3.4	-3.6	-3.2	-3.1	-2.8	-2.8	-2.7
Exports of goods, f.o.b. ($ billions)	8.3	8.7	7.7	9.2	8.3	9.7	8.9	10.3	9.5	11.0	10.1	11.6	10.7
Imports of goods, f.o.b. ($ billions)	17.3	18.1	15.4	18.4	16.5	19.1	17.3	19.8	18.1	20.5	18.9	21.3	19.8
Oil and oil products ($ billions)	3.1	3.2	2.2	3.0	2.3	3.1	2.4	3.2	2.5	3.3	2.7	3.3	2.8
Current account balance (excluding grants)	-5.8	-6.9	-11.0	-6.4	-10.0	-6.1	-6.3	-5.6	-5.5	-5.0	-4.9	-4.5	-4.6
Private capital inflows (net)	1.4	2.2	1.1	2.6	2.6	2.8	2.9	3.5	3.5	3.7	4.1	4.1	4.0
Monetary sector													
Broad money	4.8	7.5	2.7	...	3.4	...	5.0	...	5.6	...	5.9	...	5.9
Net foreign assets	3.1	23.5	-6.0	...	2.2	...	11.0	...	10.7	...	12.8	...	9.7
Net domestic assets	5.3	3.3	5.0	...	3.7	...	3.6	...	4.3	...	4.0	...	4.8
Credit to private sector	3.8	5.6	6.1	...	2.3	...	4.8	...	5.1	...	5.8	...	7.1
Credit to central government	13.7	-3.8	4.0	...	1.2	...	3.3	...	3.5	...	0.3	...	0.5
Memorandum items:													
Gross usable international reserves ($ millions)	13,512	15,307	14,051	16,991	14,351	17,860	15,485	17,885	15,385	18,612	16,610	19,401	17,608
In months of prospective imports	8.7	7.7	8.2	8.3	7.7	8.4	8.0	8.1	7.6	8.0	7.8	8.1	7.9
In percent of reserve adequacy metric	99	104	105	111	100	111	103	106	98	107	101	107	103
Net international reserves ($ millions)	12,743	14,462	12,814	15,879	12,719	16,485	13,553	16,259	13,399	16,907	14,802	17,809	16,027
Population (millions) 7/	10.1	10.2	10.2	10.3	10.3	10.4	10.4	10.5	10.5	10.5	10.5	10.5	10.6
Nominal per capita GDP ($)	4,426	4,464	4,235	4,631	4,348	4,830	4,530	5,061	4,754	5,315	5,005	5,627	5,266
Real effective exchange rate (end of period, 2010=100) 8/	...	...	...	...	...	...	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	...	...	...	...	...	...	...	...	...	...	...	...	...

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 need to meet the programmed fiscal adjustment.

4/ Includes statistical discrepancy.

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

6/ 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, 2018–25 1/

(In millions of Jordanian dinars)

	Act. 2018	Prel. 2019	EFF 2020	Proj. 2020	EFF 2021	Proj. 2021	EFF 2022	Proj. 2022	EFF 2023	Proj. 2023	EFF 2024	Proj. 2024	EFF 2025	Proj. 2025
Total revenue and grants	7,840	7,677	8,715	7,307	8,805	7,822	9,097	8,250	9,207	8,370	9,639	8,821	10,108	9,257
Domestic revenue	6,945	6,889	7,695	6,242	8,071	7,033	8,431	7,516	8,824	7,992	9,255	8,445	9,724	8,885
Tax revenue, *of which:*	4,724	4,823	5,647	4,907	5,927	5,313	6,180	5,658	6,453	6,014	6,754	6,350	7,080	6,668
Taxes on income and profits	965	1,020	1,269	1,111	1,322	1,098	1,387	1,181	1,460	1,285	1,540	1,369	1,628	1,450
Sales taxes 2/	3,185	3,302	4,037	3,478	4,254	3,829	4,431	4,071	4,622	4,294	4,831	4,530	5,058	4,750
Taxes on foreign trade	293	277	264	271	269	306	275	316	280	324	286	333	292	343
Nontax revenue 2/	2,221	2,066	2,047	1,335	2,144	1,719	2,252	1,858	2,371	1,978	2,501	2,094	2,644	2,217
Grants	895	789	1,020	1,065	734	789	666	734	383	378	383	376	384	372
Total expenditures, inc. other use of cash	8,933	9,220	9,692	9,362	10,171	9,808	10,641	10,330	11,142	10,792	11,620	11,255	12,229	11,730
Current expenditure	7,620	7,913	8,419	8,345	8,816	8,739	9,215	9,013	9,638	9,407	10,032	9,789	10,546	10,176
Wages and salaries	1,419	1,553	1,704	1,479	1,747	1,692	1,790	1,734	1,835	1,778	1,881	1,822	1,928	1,822
Interest payments	1,004	1,147	1,254	1,279	1,342	1,363	1,425	1,411	1,514	1,482	1,581	1,566	1,674	1,651
Domestic	648	729	840	871	857	865	939	905	1,019	970	1,097	1,075	1,176	1,167
External	357	418	414	408	485	499	486	505	495	512	484	491	498	484
Military and public security expenditure, *of which:*	2,482	2,545	2,686	2,686	2,817	2,733	2,962	2,834	3,124	2,994	3,302	3,171	3,496	3,336
Military expenditure	1,377	1,338	1,438	1,438	1,508	1,445	1,586	1,502	1,673	1,587	1,768	1,681	1,872	1,769
Subsidies	56	20	20	20	20	20	20	20	20	20	21	20	22	20
Transfers, *of which* :	2,363	2,324	2,388	2,543	2,505	2,602	2,613	2,637	2,718	2,735	2,796	2,789	2,948	2,899
Pensions	1,332	1,426	1,595	1,595	1,672	1,653	1,759	1,727	1,855	1,824	1,960	1,932	2,076	2,046
Cash transfers	161	140	110	191	110	160	110	160	110	160	110	160	110	160
Transfers to health fund, *of which:*	216	203	160	175	130	142	90	142	90	130	90	108	90	90
Health arrears clearance	130	97	70	55		40	0	40	0	40	0	18	0	0
Energy arrears clearance	54	70	0	0	44	138	84	84	62	62	0	0	0	0
Transfers to public sector institutions	293	199	221	298	233	198	235	183	247	193	261	205	277	217
Other transfers	308	285	302	284	316	312	336	342	354	366	374	383	396	387
Purchases of goods & services	296	324	367	337	385	329	405	377	427	399	451	422	478	447
Capital expenditure	948	990	1,273	965	1,355	1,068	1,425	1,317	1,503	1,385	1,589	1,466	1,682	1,554
Adjustment on receivables and payables (use of cash)	366	317	0	53	0	0	0	0	0	0	0	0	0	0
Total balance from above the line	-1,094	-1,543	-977	-2,055	-1,366	-1,985	-1,543	-2,080	-1,935	-2,422	-1,982	-2,434	-2,122	-2,473
Statistical discrepancy, net	90	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance at current policies	-1,003	-1,543	-977	-2,055	-1,366	-1,985	-1,543	-2,080	-1,935	-2,422	-1,982	-2,434	-2,122	-2,473
Discretionary fiscal measures (cumulative), of which: 3/	0	0	0	0	205	231	428	598	676	1,007	951	1,444	1,007	1,649
Overall balance after fiscal measures	-1,003	-1,543	-977	-2,055	-1,161	-1,754	-1,116	-1,482	-1,259	-1,415	-1,031	-989	-1,114	-824
Advances to water sector, *of which:*	419	512	505	419	365	401	370	387	252	266	319	322	313	303
Distribution companies		0	43	143	41	72	41	64	42	60	42	55	43	50
Financing	1,423	2,055	1,482	2,475	1,525	2,155	1,486	1,869	1,511	1,681	1,350	1,311	1,427	1,127
Foreign financing (net) 4/	590	194	1,353	1,056	720	1,092	295	504	172	261	-26	181	-111	-55
Domestic financing (net)	833	1,860	129	1,419	805	1,064	1,191	1,365	1,339	1,420	1,375	1,131	1,538	1,182
CBJ on-lending of net IMF financing	-349	-293	62	348	202	292	203	231	205	66	94	-88	-43	-123
Other domestic bank financing	303	1,093	-418	140	95	-120	453	198	570	383	685	209	950	236
Domestic nonbank financing	503	872	485	783	508	891	534	936	564	971	596	1,010	631	1,069
Use of deposits	377	112	0	147	0	0	0	0	0	0	0	0	0	0
Sale of non-financial assets	0	77	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:														
NEPCO operating balance	-79	1	-158	-47	-218	-293	-162	-360	-164	-352	-166	-340	-168	-329
WAJ overall balance, excluding project grants	-279	-281	-358	-336	-279	-284	-297	-290	-302	-297	-297	-287	-292	-276
Water distribution companies overall balance	12	-87	-43	-143	-41	-72	-41	-64	-42	-60	-42	-55	-43	-50
Primary government balance, excluding grants	-894	-1,184	-743	-1,841	-552	-1,180	-356	-805	-128	-311	167	200	176	455
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-894	-1,184	-743	-1,841	-552	-1,180	-356	-805	-128	-311	167	200	177	455
Combined public balance (PC) 5/	-1,252	-1,551	-1,302	-2,367	-1,090	-1,830	-856	-1,520	-636	-1,020	-339	-483	-327	-199
Overall public balance, including grants	-1,337	-1,891	-1,481	-2,559	-1,648	-2,354	-1,563	-2,144	-1,712	-2,070	-1,481	-1,616	-1,561	-1,421
Consolidated general government overall balance, excl. grants	-1,238	-1,588		-3,105		-2,178		-1,860		-1,455		-995		-830
Consolidated general government primary balance, excl. grants	-286	-540		-1,964		-976		-668		-227		273		483
Social Security Corporation balance	1,006	1,110	1,222	541	1,299	1,015	1,379	1,071	1,448	1,048	1,512	1,054	1,570	1,021
Government and guaranteed gross debt	28,308	30,768	32,428	33,805	34,112	36,264	35,697	38,463	37,432	40,425	38,908	41,751	40,394	42,948
Government and guaranteed gross debt, net of SSC's holdings	22,880	24,651	25,825	27,340	27,001	28,908	28,052	30,170	29,223	31,162	30,103	31,478	30,958	31,606
Of which: External	11,166	11,046	12,762	12,669	13,923	14,326	14,546	15,210	15,038	15,651	15,211	15,847	15,161	15,772
Stock of health arrears	352	110	40	55	0	15	0	0	0	0	0	0	0	0
Stock of energy arrears (fuel and electricity)	650	190	190	190	146	52	62	-32	0	0	0	0	0	0
GDP at market prices	30,482	31,597	32,313	30,654	33,882	31,814	35,632	33,419	37,582	35,302	39,716	37,394	42,052	39,594

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/ In 2019 non-tax revenues on oil derivatives were reclassified as s

3/ Unidentified fiscal measures that will need to be implemented to close primary balance deficit by the end of the program.

4/ Includes net issuance of domestic FX bonds.

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.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2018–25 1/

(In percent of GDP)

	Act. 2018	Prel. 2019	EFF 2020	Proj. 2020	EFF 2021	Proj. 2021	EFF 2022	Proj. 2022	EFF 2023	Proj. 2023	EFF 2024	Proj. 2024	EFF 2025	Proj. 2025
Total revenue and grants	25.7	24.3	27.0	23.8	26.0	24.6	25.5	24.7	24.5	23.7	24.3	23.6	24.0	23.4
Domestic revenue	22.8	21.8	23.8	20.4	23.8	22.1	23.7	22.5	23.5	22.6	23.3	22.6	23.1	22.4
Tax revenue, *of which* :	15.5	15.3	17.5	16.0	17.5	16.7	17.3	16.9	17.2	17.0	17.0	17.0	16.8	16.8
Taxes on income and profits	3.2	3.2	3.9	3.6	3.9	3.5	3.9	3.5	3.9	3.6	3.9	3.7	3.9	3.7
Sales taxes 2/	10.4	10.5	12.5	11.3	12.6	12.0	12.4	12.2	12.3	12.2	12.2	12.1	12.0	12.0
Taxes on foreign trade	1.0	0.9	0.8	0.9	0.8	1.0	0.8	0.9	0.7	0.9	0.7	0.9	0.7	0.9
Nontax revenue 2/	7.3	6.5	6.3	4.4	6.3	5.4	6.3	5.6	6.3	5.6	6.3	5.6	6.3	5.6
Grants	2.9	2.5	3.2	3.5	2.2	2.5	1.9	2.2	1.0	1.1	1.0	1.0	0.9	0.9
Total expenditures, inc. other use of cash	29.3	29.2	30.0	30.5	30.0	30.8	29.9	30.9	29.6	30.6	29.3	30.1	29.1	29.6
Current expenditure	25.0	25.0	26.1	27.2	26.0	27.5	25.9	27.0	25.6	26.6	25.3	26.2	25.1	25.7
Wages and salaries	4.7	4.9	5.3	4.8	5.2	5.3	5.0	5.2	4.9	5.0	4.7	4.9	4.6	4.6
Interest payments	3.3	3.6	3.9	4.2	4.0	4.3	4.0	4.2	4.0	4.2	4.0	4.2	4.0	4.2
Domestic	2.1	2.3	2.6	2.8	2.5	2.7	2.6	2.7	2.7	2.7	2.8	2.9	2.8	2.9
External	1.2	1.3	1.3	1.3	1.4	1.6	1.4	1.5	1.3	1.4	1.2	1.3	1.2	1.2
Military and public security expenditure, *of which:*	8.1	8.1	8.3	8.8	8.3	8.6	8.3	8.5	8.3	8.5	8.3	8.5	8.3	8.4
Military expenditure	4.5	4.2	4.5	4.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Subsidies	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers, *of which* :	7.8	7.4	7.4	8.3	7.4	8.2	7.3	7.9	7.2	7.7	7.0	7.5	7.0	7.3
Pensions	4.4	4.5	4.9	5.2	4.9	5.2	4.9	5.2	4.9	5.2	4.9	5.2	4.9	5.2
Cash transfers	0.5	0.4	0.3	0.6	0.3	0.5	0.3	0.5	0.3	0.5	0.3	0.4	0.3	0.4
Transfers to health fund, *of which:*	0.7	0.6	0.5	0.6	0.4	0.4	0.3	0.4	0.2	0.4	0.2	0.3	0.2	0.2
Health arrears clearance	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Energy arrears clearance	0.2	0.2	0.0	0.0	0.1	0.4	0.2	0.3	0.2	0.2	0.0	0.0	0.0	0.0
Transfers to public sector institutions	1.0	0.6	0.7	1.0	0.7	0.6	0.7	0.5	0.7	0.5	0.7	0.5	0.7	0.5
Other transfers	1.0	0.9	0.9	0.9	0.9	1.0	0.9	1.0	0.9	1.0	0.9	1.0	0.9	1.0
Purchases of goods & services	1.0	1.0	1.1	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Capital expenditure	3.1	3.1	3.9	3.1	4.0	3.4	4.0	3.9	4.0	3.9	4.0	3.9	4.0	3.9
Adjustment on receivables and payables (use of cash)	1.2	1.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-3.6	-4.9	-3.0	-6.7	-4.0	-6.2	-4.3	-6.2	-5.1	-6.9	-5.0	-6.5	-5.0	-6.2
Statistical discrepancy, net	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance at current policies	-3.3	-4.9	-3.0	-6.7	-4.0	-6.2	-4.3	-6.2	-5.1	-6.9	-5.0	-6.5	-5.0	-6.2
Discretionary fiscal measures (cumulative) 3/	0.0	0.0	0.0	0.0	0.6	0.7	1.2	1.8	1.8	2.9	2.4	3.9	2.4	4.2
Overall balance after fiscal measures	-3.3	-4.9	-3.0	-6.7	-3.4	-5.5	-3.1	-4.4	-3.3	-4.0	-2.6	-2.6	-2.6	-2.1
Advances to water sector, *of which:*	1.4	1.6	1.6	1.4	1.1	1.3	1.0	1.2	0.7	0.8	0.8	0.9	0.7	0.8
Distribution companies		0.0	0.1	0.5	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Financing	4.7	6.5	4.6	8.1	4.5	6.8	4.2	5.6	4.0	4.8	3.4	3.5	3.4	2.8
Foreign financing (net) 4/	1.9	0.6	4.2	3.4	2.1	3.4	0.8	1.5	0.5	0.7	-0.1	0.5	-0.3	-0.1
Domestic financing (net)	2.7	5.9	0.4	4.6	2.4	3.3	3.3	4.1	3.6	4.0	3.5	3.0	3.7	3.0
CBJ on-lending of net IMF financing	-1.1	-0.9	0.2	1.1	0.6	0.9	0.6	0.7	0.5	0.2	0.2	-0.2	-0.1	-0.3
Other domestic bank financing	1.0	3.5	-1.3	0.5	0.3	-0.4	1.3	0.6	1.5	1.1	1.7	0.6	2.3	0.6
Domestic nonbank financing	1.6	2.8	1.5	2.6	1.5	2.8	1.5	2.8	1.5	2.8	1.5	2.7	1.5	2.7
Use of deposits	1.2	0.4	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of non-financial assets	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
NEPCO operating balance	-0.3	0.0	-0.5	-0.2	-0.6	-0.9	-0.5	-1.1	-0.4	-1.0	-0.4	-0.9	-0.4	-0.8
WAJ overall balance, excluding project grants	-0.9	-0.9	-1.1	-1.1	-0.8	-0.9	-0.8	-0.9	-0.8	-0.8	-0.7	-0.8	-0.7	-0.7
Water distribution companies overall balance	0.0	-0.3	-0.1	-0.5	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-2.9	-3.7	-2.3	-6.0	-1.6	-3.7	-1.0	-2.4	-0.3	-0.9	0.4	0.5	0.4	1.2
Combined public balance (PC) 5/	-4.1	-4.9	-4.0	-7.7	-3.2	-5.8	-2.4	-4.5	-1.7	-2.9	-0.9	-1.3	-0.8	-0.5
Overall public balance, including grants	-4.4	-6.0	-4.6	-8.3	-4.9	-7.4	-4.4	-6.4	-4.6	-5.9	-3.7	-4.3	-3.7	-3.6
Consolidated general government overall balance, excl. grants	-4.1	-5.0		-10.1		-6.8		-5.6		-4.1		-2.7		-2.1
Consolidated general government primary balance, excl. grants	-0.9	-1.7		-6.4		-3.1		-2.0		-0.6		0.7		1.2
Social Security Corporation balance	3.3	3.5	3.8	1.8	3.8	3.2	3.9	3.2	3.9	3.0	3.8	2.8	3.7	2.6
Government and guaranteed gross debt	92.9	97.4	100.4	110.3	100.7	114.0	100.2	115.1	99.6	114.5	98.0	111.6	96.1	108.5
Government and guaranteed gross debt, net of SSC's holdings	75.1	78.0	79.9	89.2	79.7	90.9	78.7	90.3	77.8	88.3	75.8	84.2	73.6	79.8
Of which: External	36.6	35.0	39.5	41.3	41.1	45.0	40.8	45.5	40.0	44.3	38.3	42.4	36.1	39.8
Stock of health arrears	1.2	0.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of energy arrears (fuel and electricity)	2.1	0.6	0.6	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP at market prices (JD millions)	30,482	31,597	32,313	30,654	33,882	31,814	35,632	33,419	37,582	35,302	39,716	37,394	42,052	39,594

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/ In 2019 non-tax revenues on oil derivatives were reclassified as sales taxes.

3/ Unidentified fiscal measures that will need to be implemented to eliminate primary deficit by the end of the program.

4/ Includes net issuance of domestic FX bonds.

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.

Table 2c. Jordan: Central Government: Summary of Quarterly Fiscal Operations, 2019–20

(In millions of Jordanian dinars)

	2019					2020									
	Q1	Q2	Q3	Q4	Annual	Q1	Q1	Q2	Q2	Q3	Q3	Q4	Q4	Annual	Annual
		Act.				EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.
Total revenue and grants	1,697	1,839	1,862	2,279	7,677	1,865	1,571	2,200	1,460	2,000	2,254	2,649	2,022	8,715	7,307
Domestic revenue	1,636	1,797	1,765	1,690	6,889	1,786	1,483	2,146	1,439	1,875	1,755	1,888	1,565	7,695	6,242
Tax revenue, *of which* :	1,104	1,169	1,327	1,223	4,823	1,383	1,165	1,616	1,178	1,363	1,415	1,285	1,150	5,647	4,907
Taxes on income and profits	257	418	221	124	1,020	309	283	558	416	256	262	146	150	1,269	1,111
Sales taxes	702	627	971	1,004	3,302	988	810	973	704	1,021	1,047	1,055	917	4,037	3,478
Taxes on foreign trade	70	64	71	71	277	67	62	66	53	66	90	65	65	264	271
Other taxes	75	61	64	24	224	19	9	19	5	20	15	20	17	78	47
Nontax revenue	532	628	439	467	2,066	403	318	530	261	512	341	603	416	2,047	1,335
Grants	61	42	97	588	789	79	89	54	21	126	498	761	457	1,020	1,065
Total expenditures, inc. other use of cash	2,185	2,211	2,434	2,389	9,220	2,232	2,153	2,622	2,232	2,362	2,456	2,476	2,521	9,692	9,362
Current expenditure	1,861	2,006	2,071	1,975	7,913	1,963	1,933	2,201	2,069	2,075	2,249	2,179	2,094	8,419	8,345
Wages and salaries	381	392	392	389	1,553	415	422	432	406	426	369	432	282	1,704	1,479
Interest payments	281	262	293	310	1,147	300	313	302	289	321	328	331	349	1,254	1,279
Domestic	206	139	234	150	729	217	239	203	160	214	222	205	250	840	871
External	75	123	59	160	418	82	74	100	129	107	105	125	100	414	408
Military and public security expenditure	631	598	673	643	2,545	632	639	683	684	690	768	681	595	2,686	2,686
Subsidies	0	20	0	0	20	0	0	4	10	5	5	11	5	20	20
Transfers, *of which* :	501	668	614	541	2,324	543	512	687	622	561	713	596	697	2,388	2,543
Pensions	343	349	353	382	1,426	391	392	395	393	397	417	411	392	1,595	1,595
Cash transfers	0	140	0	0	140	0	0	110	81	0	110	0	0	110	191
Transfer to health fund	58	5	45	95	203	39	13	45	57	26	29	50	4	160	175
Energy arrears clearance	0	28	23	19	70	0	0	0	0	0	0	0	0	0	0
Transfers to public sector institutions	48	47	58	46	199	45	45	55	24	59	82	62	146	221	298
Other transfers	52	100	135	-1	285	68	61	81	66	79	74	73	154	302	284
Purchases of goods & services	67	66	99	92	324	74	48	93	58	72	66	128	166	367	337
Repayment of arrears and additional allocation to health fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure	143	169	222	456	990	139	85	371	126	286	207	477	547	1,273	965
Adjustment on receivables and payables (use of cash)	181	36	141	-42	317	130	135	50	38	0	0	-180	-120	0	53
Overall balance from above the line	-489	-372	-572	-110	-1,543	-367	-582	-422	-772	-362	-202	174	-499	-977	-2,055
Statistical discrepancy, net	132	-171	29	9	0	0	-87	0	-46	0	146	0	-13	0	0
Overall balance at current policies	-621	-201	-601	-119	-1,543	-367	-495	-422	-726	-362	-348	174	-486	-977	-2,055
Unidentified measures 1/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance after fiscal measures	-621	-201	-601	-119	-1,543	-367	-495	-422	-726	-362	-348	174	-486	-977	-2,055
Advances to water sector	123	117	146	126	512	136	85	143	90	122	73	104	171	505	419
Financing	744	318	747	245	2,055	503	580	565	816	484	422	-69	648	1,482	2,475
Foreign financing (net) 2/	100	100	155	-160	194	-17	150	1,035	-88	-41	1,358	376	-363	1,353	1,056
Domestic financing (net)	644	218	592	406	1,860	520	430	-470	905	525	-936	-446	1,010	129	1,419
CBJ on-lending of net IMF financing	-84	-84	-62	-62	-293	-52	-52	-52	-52	-35	-35	201	487	62	348
Other domestic bank financing	324	144	406	220	1,093	349	258	-513	866	493	-309	-747	-684	-418	140
Domestic nonbank financing	401	171	119	181	872	223	528	95	353	66	-18	100	-81	485	783
Use of deposits	-6	-80	130	68	112	0	-304	0	-263	0	-574	0	1,288	0	147
Sale of non-financial assets	10	67	0	0	77	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
NEPCO operating balance	30	-36	-22	24	1	-9	11	-74	-42	-60	5	-15	-22	-158	-47
WAJ overall balance, excluding project grants	-69	-70	-70	-70	-281	-74	-103	-76	-82	-107	-77	-101	-75	-358	-336
Water distribution companies overall balance	-3	-21	-21	-21	-87	-11	-20	-11	-60	-11	-35	-11	-25	-43	-143
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-401	18	-405	-398	-1,184	-146	-271	-174	-458	-166	-519	-257	-594	-743	-1,841
Combined public balance (PC) 3/	-443	-109	-517	-464	-1,551	-240	-382	-335	-642	-344	-626	-384	-715	-1,302	-2,367
Government and guaranteed gross debt 4/	28,915	29,518	30,051	30,768	30,768	31,427	31,223	32,059	32,842	32,680	33,938	32,428	33,805	32,428	33,805
Government and guaranteed gross debt, net of SSC's holdings (IT) 4/	22,797	23,401	23,933	24,651	24,651	25,086	24,758	25,623	26,176	26,178	27,279	25,825	27,340	25,825	27,340

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 2d. Jordan: General Government: Summary of Fiscal Operations, 2018–25 1/
(In millions of Jordanian dinars, unless otherwise noted)

	2018	2019	2020	2021	2022	2023	2024	2025
A. Total general government revenues:	11,907	11,879	10,880	12,335	13,251	13,818	14,766	15,577
Central government revenues, excl. grants	6,945	6,889	6,242	7,148	7,815	8,496	9,167	9,709
A*. Central government grants	895	789	1,065	789	734	378	376	372
NEPCO	1,618	1,546	1,370	1,424	1,490	1,529	1,573	1,615
WAJ	83	72	50	100	106	110	115	119
WAJ grants A**	24	18	22	50	53	54	56	57
Water distribution companies	221	210	149	196	209	219	230	241
SSC (inc. interest on government bonds)	2,144	2,374	2,003	2,677	2,897	3,085	3,304	3,520
B. Total general government expenditure, inc. use of cash:	12,226	12,661	12,898	13,673	14,325	14,840	15,328	15,977
Central government	8,933	9,220	9,362	9,692	10,031	10,289	10,533	10,905
NEPCO	1,697	1,545	1,418	1,718	1,850	1,882	1,913	1,944
WAJ	338	335	364	334	344	354	347	338
Water distribution companies	210	296	292	268	273	279	285	291
Water distribution companies deficit	19.59	33.65	10.76	10.76	10.76	10.76	10.76	10.76
SSC	1,138	1,264	1,462	1,662	1,827	2,037	2,251	2,498
Statistical discrepancy	-90	0	0	0	0	0	0	0
(A-B). General government balance incl. unidentified measures	-320	-782	-2,018	-1,339	-1,073	-1,022	-563	-400
(in percent of GDP)	*-1.0*	*-2.5*	*-6.6*	*-4.2*	*-3.2*	*-2.9*	*-1.5*	*-1.0*
C. General government overall balance, excluding grants (A-B-A*-A**)	-1,238	-1,588	-3,105	-2,178	-1,860	-1,455	-995	-830
(in percent of GDP)	*-4.1*	*-5.0*	*-10.1*	*-6.8*	*-5.6*	*-4.1*	*-2.7*	*-2.1*
D. General government primary balance, excluding grants (C+E)	-286	-540	-1,964	-976	-668	-227	273	483
(in percent of GDP)	*-0.9*	*-1.7*	*-6.4*	*-3.1*	*-2.0*	*-0.6*	*0.7*	*1.2*
General government primary balance, including grants (D+A*)	*609.1*	*248.8*	*-899.4*	*-186.4*	*66.1*	*151.7*	*649.3*	*855.2*
(in percent of GDP)	*2.0*	*0.8*	*-2.9*	*-0.6*	*0.2*	*0.4*	*1.7*	*2.2*
Central government primary balance excluding grants	*-984*	*-1,184*	*-1,841*	*-1,180*	*-805*	*-311*	*200*	*455*
(in percent of GDP)	*-3.2*	*-3.7*	*-6.0*	*-3.7*	*-2.4*	*-0.9*	*0.5*	*1.2*
Balance of utilities (NEPCO, WAJ, water distribution companies)	*-346*	*-367*	*-526*	*-649*	*-715*	*-710*	*-683*	*-655*
Combined public sector balance (2)	*-1,330*	*-1,551*	*-2,367*	*-1,830*	*-1,520*	*-1,020*	*-483*	*-199*
(in percent of GDP)	*-4.4*	*-4.9*	*-7.7*	*-5.8*	*-4.5*	*-2.9*	*-1.3*	*-0.5*
General gov. overall balance excluding grants (1+2-3 = A-B-A*-A**)	-1,238	-1,588	-3,105	-2,178	-1,860	-1,455	-995	-830
E. Interest expenditure:	953	1,048	1,141	1,202	1,192	1,228	1,268	1,313
Central government (3)	1,004	1,147	1,279	1,363	1,411	1,482	1,566	1,651
NEPCO	108	115	121	123	138	156	174	191
WAJ Interest Payments	68	60	53	45	41	37	38	36
(minus) SSC interest on holdings of government debt	228	273	312	330	397	448	509	565
Consolidated debt of general government = Debt $_{t-1}$ + Net borrowing need	22,880	24,651	27,340	28,908	30,170	31,162	31,478	31,606
(in percent of GDP)	*75.1*	*78.0*	*89.2*	*90.9*	*90.3*	*88.3*	*84.2*	*79.8*
Net borrowing need:								
General government overall deficit incl. discretionary measures			2,018	1,339	1,073	1,022	563	400
Prefunding of maturing government debt			314	31	24	20	16	10
SSIF investment outside GG			193	124	135	77	44	-48
Guaranteed off-budget project loans			41	61	48	50	50	50
CBJ repurchases in respect of 2012 EFF			0	-13	-17	-177	-356	-284
Securitization of arrears			74	0	0	0	0	0
Recapitalization and guarantee of Royal Jordanian			50	25	0	0	0	0
Memorandum items:								
SSC balance, inc. interest revenue on government bonds (1)	1,006	1,110	541	1,015	1,071	1,048	1,054	1,021
Nominal GDP at market prices	30,482	31,597	30,654	31,814	33,419	35,302	37,394	39,594

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.

Table 2e. Jordan: NEPCO Operating Balance and Financing 2019–25
(In millions of Jordanian dinars)

	2019 Act.	2020 EFF	2020 Proj.	2021 EFF	2021 Proj.	2022 EFF	2022 Proj.	2023 EFF	2023 Proj.	2024 EFF	2024 Proj.	2025 EFF	2025 Proj.
Revenues *of which*	1,546	1,582	1,370	1,635	1,424	1,690	1,490	1,720	1,529	1,751	1,573	1,782	1,615
Electricity sales 1/	1,404	1,440	1,337	1,495	1,424	1,550	1,490	1,580	1,529	1,611	1,573	1,642	1,615
Fuel clause	143	142	33	140	0	140	0	140	0	140	0	140	0
Expenses	1,545	1,740	1,418	1,852	1,718	1,852	1,850	1,884	1,882	1,917	1,913	1,951	1,944
Purchase of electricity 2/	1,386	1,561	1,242	1,664	1,535	1,651	1,652	1,676	1,665	1,700	1,679	1,726	1,693
Depreciation	29	30	30	30	30	31	31	31	31	31	31	31	31
Interest payments 3/	115	121	121	129	123	140	138	148	156	156	174	164	191
Tax on LNG	0	0	0	0	0	0	0	0	0	0	0	0	0
Other expenses	16	28	25	29	29	30	30	30	30	30	30	30	30
Operating balance (QPC)	1	-158	-47	-218	-293	-162	-360	-164	-352	-166	-340	-168	-329
Total net domestic financing	-1	158	47	218	293	162	360	164	352	166	340	168	329
Banks	114	173	388	233	374	177	376	164	352	166	340	168	329
Loans and bonds	26	173	388	233	374	177	376	164	352	166	340	168	329
Overdrafts	87	0	0	0	0	0	0	-	-	-	-	-	-
ITFC loan	0	0	0	0	0	0	0	-	-	-	-	-	-
Other items 4/	194	15	406	15	15	15	15	-	-	-	-	-	-
Increase in payables	-308	0	65	0	-65	0	0	-	-	-	-	-	-
Direct transfer from central government	-342	0	0	0	0	0	0	-	-	-	-	-	-
To cover losses and repay arrears	-342	0	0	0	0	0	0	-	-	-	-	-	-
To repay loans	0	0	0	0	0	0	0	-	-	-	-	-	-
Payables to the private sector	34	0	65	0	-65	0	0	-	-	-	-	-	-
Of which: Increase in arrears	0	0	65	0	-65	0	0	-	-	-	-	-	-
Memorandum items:													
Cumulative automatic distribution tariff adjustment (percentage above 2016Q4 average tariff)	13	…	3	…	…	…	…	…	…	…	…	…	…
Brent oil prices (USD per barrel)	61	64	41	61	44	60	46	59	47	59	49	59	50
Outstanding loans and bonds (stocks, end-of-period)	2,399	2,577	2,722	2,795	3,161	2,957	3,537	3,121	3,889	3,287	4,229	3,455	4,558
Overdrafts	227	68	68	68	68	68	68	68	68	68	68	68	68
Total payables	3,070	2,777	3,070	2,777	3,135	2,777	3,135	2,777	3,135	2,777	3,135	2,777	3,135
to government 5/	2,477	2,329	2,477	2,329	2,477	2,329	2,477	2,329	2,477	2,329	2,477	2,329	2,477
to private sector	593	448	593	448	658	448	658	448	658	448	658	448	658
Of which: arrears (IT)	0	0	65	0	0	0	0	0	0	0	0	0	0

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

1/ Projections include prospects for increased revenues from exports to the West Bank and Gaza and Iraq.

2/ Projected costs assume saving measures of 3 percent of the annual cost from 2022 onwards (about JD55 million per year). These could arise from re-negotiations of LNG contracts and

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

4/ Includes changes in accounts receivable, depreciation, project expenditures, and other items. In 2020, this includes new loans contracted with domestic banks and the EBRD.

5/ 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, 2019–25

(In millions of Jordanian dinars)

	2019 Act.	2020 EFF	2020 Proj.	2021 EFF	2021 Proj.	2022 EFF	2022 Proj.	2023 EFF	2023 Proj.	2024 EFF	2024 Proj.	2025 Proj.
WAJ Balance:												
Total Revenues	54	47	28	48	50	48	54	48	56	48	59	62
of which :												
Sales of goods and services	54	47	28	48	50	48	54	48	56	48	59	62
Current Expenditure 1/	176	166	173	157	163	163	162	165	168	171	172	173
Salaries, wages and allowances 1/	22	23	20	23	21	25	21	26	22	27	23	23
Social Security contributions	2	3	3	3	3	4	3	5	3	7	3	3
Use of goods and services	27	31	36	32	32	33	33	34	34	35	35	35
Disi Project operational charge	44	40	42	41	42	42	43	43	44	44	45	46
Samra operational charge	21	20	19	20	20	26	20	27	27	27	28	28
Arrears clearance	27	37	112	...	...	...	...	...	...	...	...	...
Interest payments, *of which:*	60	49	53	37	45	33	41	29	37	30	38	36
Interest payments on domestic loans	50	37	42	25	33	20	28	16	24	16	24	21
Interest payments on foreign loans	10	12	10	12	12	13	13	13	13	14	14	15
Primary balance 2/	-62	-70	-92	-71	-68	-83	-68	-87	-74	-93	-74	-74
Capital Expenditure	159	203	191	171	171	182	182	186	186	175	175	165
WAJ Overall balance	-281	-359	-336	-280	-284	-297	-290	-302	-297	-298	-287	-276
Overall balance of Distribution Companies 3/	-87	-43	-143	-41	-72	-41	-64	-42	-60	-42	-55	-50
Overall balance Consolidated Water Sector 4/	-368	-402	-479	-320	-356	-338	-355	-344	-357	-340	-343	-326
Total net financing	368	402	479	320	356	338	355	344	357	340	343	326
Grants	18	55	22	50	50	53	53	54	54	56	56	57
Transfers from Central Government 5/	302	307	416	230	266	246	262	250	263	245	247	228
Loans (net borrowing)	-249	-178	-178	-95	-95	-85	-85	37	37	-35	-35	-35
of which :												
Domestic loans	-297	-218	-218	-135	-135	-125	-125	-3	-3	-75	-75	-75
Foreign loans	48	40	40	40	40	40	40	40	40	40	40	40
Others 6/	297	218	218	135	135	125	125	3	3	75	75	75
Memorandum items (stocks, end-of-period):												
Domestic payment arrears of WAJ in JD million 7/	0	0	112	0	0	0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million 8/	94	137	143	178	215	219	279	260	339	302	395	445
Outstanding loans, *of which:*	2,115	2,241	2,353	2,376	2,524	2,536	2,702	2,823	3,002	3,033	3,214	3,407
Domestic loans and bonds	655	412	437	277	302	152	177	149	174	74	99	24
Foreign loans	480	520	520	560	560	600	600	640	640	680	680	720
Advances from Central Government	980	1309	1396	1539	1662	1784	1924	2034	2188	2279	2435	2663
Grants and foreign loans to capital expenditure ratio (in percent)	45	52	38	58	58	57	57	56	56	61	61	65
Grants to capital expenditure ratio (in percent)	11	27	12	29	29	29	29	29	29	32	32	35
Effective interest rate (in percent), *of which:*	2.89	2.33	2.49	1.66	1.92	1.37	1.60	1.16	1.38	1.06	1.26	1.13
Domestic loans (in percent)	5.25	5.88	6.43	6.07	7.55	7.23	9.27	10.54	13.56	10.54	13.62	21.23
Foreign loans (in percent)	2.22	2.52	2.17	2.36	2.36	2.23	2.23	2.23	2.23	2.23	2.23	2.23

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 2018, it includes accumulation of arrears for WAJ. Before 2019, it includes accumulation of arrears of distribution companies.

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

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

Table 3a. Jordan: Summary Balance of Payments, 2019–25
(In millions of U.S. dollars, unless otherwise indicated)

	2019	2020		2021		2022		2023		2024		2025
		EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Current account (CA)	-1,223	-1,449	-2,970	-1,730	-3,088	-1,792	-1,613	-1,887	-1,605	-1,740	-1,502	-1,505
Trade balance	-9,004	-9,320	-7,778	-9,217	-8,159	-9,356	-8,403	-9,460	-8,559	-9,534	-8,797	-9,068
Exports f.o.b.	8,338	8,735	7,651	9,174	8,320	9,724	8,900	10,311	9,524	10,960	10,140	10,748
Imports f.o.b.	17,342	18,055	15,429	18,391	16,479	19,080	17,303	19,771	18,083	20,494	18,937	19,816
Energy	3,080	3,201	2,185	3,007	2,312	3,131	2,426	3,188	2,542	3,253	2,656	2,768
Non-energy	14,262	14,854	13,244	15,384	14,167	15,949	14,877	16,582	15,541	17,240	16,280	17,048
Services and income (net), *of which:*	2,937	2,692	-207	2,652	528	2,789	2,271	2,996	2,669	3,166	3,027	3,297
Travel receipts	5,794	6,191	1,502	6,587	3,081	6,968	5,827	7,372	6,385	7,743	6,989	7,539
Current transfers (net), *of which:*	4,845	5,179	5,014	4,835	4,542	4,776	4,519	4,577	4,285	4,627	4,269	4,266
Public grants	1,331	1,684	1,776	1,318	1,407	1,277	1,376	1,062	1,120	1,081	1,084	1,058
Remittances	3,338	3,373	2,938	3,442	2,939	3,512	3,029	3,600	3,119	3,708	3,211	3,309
Capital and financial account 1/	101	1,341	1,045	1,798	1,437	1,840	1,713	1,128	1,033	2,322	3,105	2,872
Public sector, *of which:* 2/	-903	-60	373	174	86	16	-37	-1,222	-1,217	-228	455	122
Eurobonds	-1,000	-250	500	0	0	0	0	0	0	0	0	0
Issuance	0	1,000	1,750	0	0	1,000	1,000	0	0	0	0	1,000
Ammortization	-1,000	-1,250	-1,250	0	0	-1,000	-1,000	0	0	0	0	-1,000
Public sector loans	143	210	-47	194	186	36	13	-36	-51	-208	455	122
Disbursement (xcl. program financing)	715	669	488	566	615	412	446	412	412	412	900	733
Ammortization	-572	-458	-535	-372	-429	-376	-434	-447	-462	-619	-445	-611
GCC deposits at CBJ	0	0	0	0	0	0	0	-1,166	-1,167	0	0	0
Foreign direct investment	687	1,000	685	1,200	1,000	1,400	1,300	1,800	1,700	2,000	2,100	2,200
Portfolio flows (private)	-62	0	-216	25	150	25	50	50	50	50	50	50
Other capital flows	380	400	203	400	200	400	400	500	500	500	500	500
Errors and omissions 3/	-673	0	-593	0	0	0	0	0	0	0	0	0
Overall balance	-1,794	-108	-2,518	68	-1,651	49	100	-759	-572	581	1,603	1,366
Financing	1,794	108	2,518	-68	1,651	-49	-100	759	572	-581	-1,603	-1,366
Reserves (+ = decrease)	-190	-1,803	-17	-1,694	-300	-893	-1,135	-34	100	-757	-1,225	-1,139
Commercial banks' NFA (+ = decrease)	972	-583	700	181	-200	1	-200	63	-200	-277	-200	0
Program financing (+ = increase)	1,012	2,493	1,835	1,444	2,151	843	1,234	729	672	452	-178	-227
Official budget support	1,260	2,406	1,344	1,176	1,757	580	933	479	618	372	0	0
World Bank, *of which:*	810	1,146	414	331	430	84	287	36	105	26	0	0
Emergency pandemic support	0	...	27	...	215	...	128	...	0	...	0	0
Bilateral loans, *of which:*	449	1,259	931	845	1,312	496	616	443	469	345	0	0
EU emergency pandemic support	0	...	124	...	122	...	0	...	0	...	0	0
IMF (net), *of which:*	-248	88	491	267	394	263	301	250	54	80	-178	-227
Fund purchases, *of which:*	166	284	687	285	412	287	326	289	198	145	99	0
RFI	0	0	401	0	0	0	0	0	0	0	0	0
EFF frontloading	0	0	0	0	118	0	30	0	-99	0	-50	0
Memorandum items:												
Gross reserves	15,402	17,208	15,838	18,901	16,138	19,794	17,272	19,828	17,172	20,585	18,397	19,536
Gross usable reserves 4/	13,512	15,307	14,051	16,991	14,351	17,860	15,485	17,870	15,385	18,580	16,610	17,608
In percent of the IMF Reserve Adequacy Metric	99	104	105	111	100	111	103	106	98	107	101	103
In months of next year's imports of GNFS	8.7	7.7	8.2	8.3	7.7	8.4	8.0	8.0	7.6	8.0	7.8	7.9
Current account (percent of GDP)	-2.7	-3.2	-6.9	-3.6	-6.9	-3.6	-3.4	-3.6	-3.2	-3.1	-2.8	-2.7
Current account ex-grants (percent of GDP)	-5.7	-6.9	-11.0	-6.4	-10.0	-6.1	-6.3	-5.6	-5.5	-5.0	-4.9	-4.6
CA ex-grants and energy imports (percent of GDP)	1.2	0.1	-5.9	-0.1	-4.9	0.1	-1.2	0.5	-0.4	0.8	0.1	0.4
Energy imports	6.9	7.0	5.1	6.3	5.2	6.2	5.1	6.0	5.1	5.8	5.0	5.0
Public grants	3.0	3.7	4.1	2.8	3.1	2.5	2.9	2.0	2.2	1.9	2.1	1.9
Merchandize export growth (percent)	7.4	4.4	-8.2	5.0	8.7	6.0	7.0	6.0	7.0	6.3	6.5	6.0
Re-exports	9.8	...	-30.0	...	25.9	...	5.8	...	5.2	...	3.8	3.9
Domestic exports	7.0	...	-4.3	...	6.5	...	7.2	...	7.3	...	6.9	6.3
Merchandize import growth (percent)	-4.1	3.5	-11.0	1.9	6.8	3.7	5.0	3.6	4.5	3.7	4.7	4.6
Energy (percent)	-18.2	2.4	-29.1	-6.1	5.8	4.1	4.9	1.8	4.8	2.0	4.5	4.2
Non-energy (percent)	-0.4	3.8	-7.1	3.6	7.0	3.7	5.0	4.0	4.5	4.0	4.8	4.7
Travel growth (percent)	10.2	6.8	-74.1	6.4	105.1	5.8	89.1	5.8	9.6	5.0	9.5	7.9
Remittances growth (percent)	0.9	1.0	-12.0	2.0	0.0	2.0	3.0	2.5	3.0	3.0	3.0	3.0
Total external debt (percent of GDP)	68.0	71.9	75.2	72.6	78.0	71.4	77.5	69.7	75.4	67.2	72.4	68.7
Of which , Public external debt (Percent of GDP) 5/	35.0	39.5	41.3	41.1	45.0	40.8	45.5	40.0	44.3	38.3	42.4	39.8
Nominal GDP	44,566	45,575	43,236	47,789	44,871	50,257	47,135	53,008	49,791	56,017	52,742	55,845

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/ The June outturn on reserves and main BOP lines imply large, negative errors and omissions, likely linked to increased holdings of USD outside banks. While the situation has since stabilized, these are not expected to fully unwind in the rest of 2020.
4/ Including gold and excluding commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.
5/ Does not include GCC deposits at CBJ.

Table 3b. Jordan: External Financing Requirements and Sources, 2019–25

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

		2019	2020		2021		2022		2023		2024		2025
			EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
(1)	**Gross financing requirements**	**4,539**	**5,037**	**6,727**	**3,438**	**4,943**	**4,468**	**4,447**	**4,601**	**4,499**	**3,506**	**3,308**	**4,401**
	Current account deficit (excl. grants)	2,554	3,133	4,746	3,048	4,496	3,068	2,989	2,949	2,725	2,822	2,586	2,563
	of which: Energy imports	3,080	3,201	2,185	3,007	2,312	3,131	2,426	3,188	2,542	3,253	2,656	2,768
	Amortization of public sector loans 1/	572	458	535	372	429	376	434	447	462	619	445	611
	Amortization of sovereign bonds 2/	1,000	1,250	1,250	0	0	1,000	1,000	0	0	0	0	1,000
	GCC deposits at the CBJ	0	0	0	0	0	0	0	1,166	1,167	0	0	0
	IMF repurchases	414	196	196	18	18	24	25	38	145	65	278	227
(2)	**Change in reserves (+ = increase)**	**190**	**1,803**	**17**	**1,694**	**300**	**893**	**1,135**	**34**	**-100**	**757**	**1,225**	**1,139**
(3)	**Gross financing sources**	**3,977**	**4,150**	**5,305**	**3,670**	**3,073**	**4,494**	**4,323**	**3,867**	**3,582**	**3,746**	**4,434**	**5,540**
	FDI, net	687	1,000	685	1,200	1,000	1,400	1,300	1,800	1,700	2,000	2,100	2,200
	Public grants	1,331	1,684	1,776	1,318	1,407	1,277	1,376	1,062	1,120	1,081	1,084	1,058
	Public sector borrowing (xcl. official budget support) 2/	714	669	488	566	615	412	446	412	412	412	900	733
	of which: Unidentified prospective financing 2/	0	0	0	0	0	0	0	0	0	0	0	0
	Issuance of sovereign bonds 3/	0	1,000	1,750	0	0	1,000	1,000	0	0	0	0	1,000
	GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0	0	0
	Non-resident purchases of local debt	26	0	0	0	0	0	0	0	0	0	0	0
	CBJ other financing (net) 4/	-72	-20	-81	-20	-100	-20	-50	-20	0	-20	0	0
	Private capital flows, net 5/	1,289	-182	687	606	151	426	250	613	350	273	350	550
(4)	**Errors and omissions**	-673	0	-593	0	0	0	0	0	0	0	0	0
(1)+(2)-(3)-(4)	**Total financing needs**	**1,425**	**2,689**	**2,031**	**1,462**	**2,169**	**867**	**1,259**	**767**	**817**	**517**	**99**	**0**
	Official public external financing	**1,425**	**2,689**	**2,031**	**1,462**	**2,169**	**867**	**1,259**	**767**	**817**	**517**	**99**	**0**
	Identified official budget support, *of which*	1,260	2,406	1,344	1,176	1,757	580	933	479	618	372	0	0
	EU and WB emergency pandemic support	0	0	151	0	337	0	128	0	0	0	0	0
	IMF purchases, *of which*	166	284	687	285	412	287	326	289	198	145	99	0
	RFI	0	0	401	0	0	0	0	0	0	0	0	0
	EFF frontloading	0	0	0	15	118	0	30	0	-99	0	-50	0
	Memorandum Items:												
	Gross financing requirements (in percent of GDP)	20.3	22.0	31.0	14.3	21.9	17.7	18.8	17.3	18.0	12.4	12.5	15.7
	Gross Usable Reserves	13,512	15,307	14,051	16,991	14,351	17,860	15,485	17,870	15,385	18,580	16,610	17,608
	In percent of the IMF Reserve Adequacy Metric 6/	99	104	105	111	100	111	103	106	98	107	101	103
	In months of next year's imports of GNFS	8.7	7.7	8.2	8.3	7.7	8	8.0	8	7.6	8	7.8	7.9

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, 2019–25

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

		2019	2020		2021		2022		2023		2024		2025
			EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
(1)	**General Government Gross Needs**	**3,656**	**3,066**	**3,582**	**2,454**	**2,922**	**3,213**	**3,633**	**3,298**	**3,758**	**1,624**	**1,981**	**3,115**
	NEPCO energy imports	955	...	884	...	853	...	848	...	849	...	850	851
	Net interest payments	315	415	317	450	471	436	426	461	435	446	408	426
	Amortization of external debt 1/	1,985	1,904	1,981	390	447	1,400	1,459	1,651	1,774	684	723	1,838
	Amortization of domestic debt in FX	400	0	400	1,150	1,150	900	900	700	700	0	0	0
(2)	**General Government Sources**	**3,012**	**3,636**	**5,101**	**3,319**	**3,585**	**3,875**	**4,049**	**2,462**	**2,430**	**1,638**	**2,083**	**2,791**
	Public grants	1,331	1,684	1,776	1,318	1,407	1,277	1,376	1,062	1,120	1,081	1,084	1,058
	Public sector borrowing 2/	880	952	1,175	851	1,028	698	772	700	610	557	999	733
	Sovereign bonds 3/	0	1,000	1,750	0	0	1,000	1,000	0	0	0	0	1,000
	Local bonds in FX	800	0	400	1,150	1,150	900	900	700	700	0	0	0
	GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0	0	0
(3)=(2)-(1)	**General Government Balance**	**-644**	**570**	**1,519**	**865**	**663**	**662**	**416**	**-836**	**-1,328**	**14**	**102**	**-324**
(4)	**Financing under the EFF**	**1,260**	**2,406**	**1,344**	**1,176**	**1,757**	**580**	**933**	**479**	**618**	**372**	**0**	**0**
	Identified official budget support	1,260	2,406	1,344	1,176	1,757	580	933	479	618	372	0	0
(5)=(3)+(4)	**General Government Balance under the EFF**	**615**	**2,976**	**2,863**	**2,042**	**2,420**	**1,242**	**1,349**	**-357**	**-710**	**385**	**102**	**-324**
(6)	**CBJ Balance under the EFF**	**-164**	**-1,803**	**-17**	**-1,694**	**-300**	**-893**	**-1,135**	**-34**	**100**	**-757**	**-1,225**	**-1,139**
(7)=(5)+(6)	**Public Sector Net Balance**	**452**	**1,173**	**2,846**	**348**	**2,121**	**350**	**214**	**-391**	**-609**	**-371**	**-1,123**	**-1,463**

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, 2019–25
(In millions of U.S. dollars, unless otherwise indicated)

	2019	2020		2021		2022		2023		2024		2025
	Prel.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
Budget grants	**972**	**1,277**	**1,381**	**920**	**1,004**	**911**	**949**	**540**	**534**	**541**	**531**	**524**
EU	82	76	87	45	93	35	68	40	44	41	44	44
GCC 1/	99	400	365	100	127	100	99	0	0	0	0	0
United States	745	745	845	745	745	745	745	0	0	0	0	0
Other 2/	46	56	85	29	38	30	36	500	490	500	487	481
GCC grants transferred from CBJ to MOF	**159**	**162**	**120**	**116**	**109**	**28**	**87**	**0**	**0**	**0**	**0**	**0**
Loans	**1,471**	**2,617**	**1,524**	**1,388**	**1,969**	**792**	**1,145**	**690**	**830**	**583**	**700**	**533**
Multilateral	**1,061**	**1,371**	**607**	**543**	**741**	**295**	**548**	**248**	**366**	**238**	**349**	**233**
Arab Monetary Fund	212	212	180	212	212	212	212	212	212	212	212	212
Asian Infrastructure Investment Bank	0	0	0	0	100	0	50	0	50	0	50	0
EBRD	0	0	0	0	0	0	0	0	0	0	0	0
Islamic Development Bank	40	13	13	0	0	0	0	0	0	0	0	0
World Bank	810	1,146	414	331	430	84	287	36	105	26	88	21
Bilateral	**410**	**1,246**	**917**	**845**	**1,227**	**496**	**596**	**443**	**464**	**345**	**350**	**300**
Canada	0	0	0	0	15	0	30	0	45	0	0	0
EU	113	336	302	227	553	0	0	0	0	0	0	0
France	16	274	122	176	200	143	112	127	94	129	125	125
Germany	181	252	181	170	185	114	187	116	125	117	125	125
Italy	0	35	37	23	25	39	42	0	0	0	0	0
Japan	100	200	200	100	100	100	100	100	100	0	0	0
Kuwait	0	100	50	100	100	100	100	100	100	100	100	50
Saudi Arabia	0	25	0	25	25	0	25	0	0	0	0	0
UAE	0	25	25	25	25	0	0	0	0	0	0	0
IMF purchases	**0**	**284**	**687**	**285**	**412**	**287**	**326**	**289**	**198**	**145**	**99**	**0**
Eurobond issuance	**0**	**1,000**	**1,750**	**0**	**0**	**1,000**	**1,000**	**0**	**0**	**0**	**0**	**1,000**
Guaranted	0	0	0	0	0	0	0	0	0	0	0	0
Non-guaranteed	0	1,000	1,750	0	0	1,000	1,000	0	0	0	0	1,000
Memorandum item												
GCC grants received by CBJ	0	0	0	0	0	0	0	0	0	0	0	0

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 2023-5 expected disbursements under new MOUs.

Table 4a. Jordan: Monetary Survey, 2018–25

	2018	2019	2020		2021		2022		2023		2024		2025
			EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
	(Stocks, in millions of Jordanian dinars)												
Net foreign assets	7,288	7,513	9,159	7,063	10,123	7,216	10,589	8,010	11,228	8,870	11,916	10,006	10,975
Central bank	9,097	9,981	11,302	10,028	12,395	10,038	12,862	10,691	13,545	11,409	14,037	12,403	13,372
Commercial banks	-1,809	-2,468	-2,144	-2,964	-2,272	-2,822	-2,273	-2,681	-2,318	-2,539	-2,121	-2,397	-2,397
Net domestic assets	26,067	27,455	29,144	28,832	30,692	29,907	32,824	30,985	34,951	32,322	37,439	33,627	35,225
Net claims on general government	10,904	12,010	11,812	12,700	12,114	13,164	12,821	13,664	13,658	14,171	14,506	14,338	14,521
Net claims on central budgetary government 1/	8,113	9,225	8,904	9,591	9,078	9,705	9,622	10,029	10,295	10,384	10,976	10,411	10,465
Net claims on NEPCO	2,007	2,120	2,141	2,285	2,270	2,636	2,432	2,811	2,596	2,963	2,763	3,103	3,232
Net claims on other own budget agencies 2/	-13	-135	-66	-32	-66	-32	-66	-32	-66	-32	-66	-32	-32
Claims on other public entities	797	801	833	856	833	856	833	856	833	856	833	856	856
Claims on financial institutions	623	852	728	1,293	728	1,293	728	1,293	728	1,293	728	1,293	1,293
Claims on the private sector	23,697	24,590	26,205	26,081	27,700	26,692	29,375	27,971	30,916	29,401	32,806	31,119	33,334
Other items (net)	-9,156	-9,997	-9,600	-11,242	-9,850	-11,242	-10,100	-11,942	-10,350	-12,542	-10,600	-13,122	-13,922
Broad money	33,356	34,968	38,303	35,895	40,815	37,122	43,412	38,995	46,179	41,192	49,355	43,634	46,201
Currency in circulation	4,296	4,631	4,780	5,963	5,012	5,685	5,266	5,855	5,533	6,123	5,839	6,420	6,728
Jordanian dinar deposits	22,892	24,100	26,650	23,885	28,821	25,150	30,898	26,678	33,127	28,406	35,465	30,329	32,170
Foreign currency deposits	6,168	6,237	6,872	6,046	6,981	6,288	7,248	6,462	7,520	6,663	8,050	6,885	7,302
	(Flows, in millions of Jordanian dinars)												
Net foreign assets	-1,744	225	1,744	-449	965	152	466	794	639	860	688	1,137	969
Net domestic assets	2,167	1,388	942	1,377	1,547	1,075	2,132	1,079	2,128	1,337	2,488	1,305	1,598
Net claims on general government	902	1,107	-194	690	303	464	706	499	837	507	847	167	183
Net claims on Central Budgetary Government	759	1,111	-352	367	173	114	544	324	673	355	681	27	54
Net claims on NEPCO	168	114	158	165	129	351	162	176	164	152	166	140	129
Net claims on other own budget agencies	-182	-122	0	103	0	0	0	0	0	0	0	0	0
Claims on financial institutions	157	4	0	55	0	0	0	0	0	0	0	0	0
Claims on the private sector	1,171	893	1,386	1,492	1,494	611	1,676	1,279	1,540	1,430	1,891	1,718	2,215
Other items (net)	-56	-841	-250	-1,245	-250	0	-250	-700	-250	-600	-250	-580	-800
Broad money	423	1,612	2,686	927	2,512	1,227	2,598	1,873	2,766	2,197	3,176	2,442	2,567
Currency in circulation	-30	335	264	1,332	232	-279	254	170	266	268	306	297	308
Jordanian dinar deposits	-18	1,208	1,925	-215	2,171	1,265	2,078	1,528	2,228	1,728	2,339	1,923	1,841
Foreign currency deposits	471	69	496	-191	109	241	266	175	272	201	531	221	418
Memorandum items:													
Year-on-year broad money growth (percent)	1.3	4.8	7.5	2.7	6.6	3.4	6.4	5.0	6.4	5.6	6.9	5.9	5.9
Year-on-year private sector credit growth (percent)	5.2	3.8	5.6	6.1	5.7	2.3	6.0	4.8	5.4	5.1	6.1	5.8	7.1
Foreign currency/total deposits (percent)	21.2	20.6	20.5	20.2	19.5	20.0	19.0	19.5	18.5	19.0	18.5	18.5	18.5
Private sector credit/total deposits (percent)	81.5	81.1	78.2	87.1	77.4	84.9	77.0	84.4	76.1	83.8	75.4	83.6	84.5
Currency in circulation/JD deposits (percent)	18.8	19.2	17.9	25.0	17.4	22.6	17.0	21.9	16.7	21.6	16.5	21.2	20.9
Money multiplier (for JD liquidity)	3.7	3.6	3.7	3.4	3.7	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.9
Velocity (GDP/M)	0.91	0.90		0.85		0.86		0.86		0.86		0.86	0.86

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, 2018–25

	2018	2019	2020		2021		2022		2023		2024		2025
			EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	EFF	Proj.	Proj.
	(Stocks, in millions of Jordanian dinars)												
Net foreign assets	9,097	9,981	11,302	10,028	12,395	10,038	12,862	10,691	13,545	11,409	14,037	12,403	13,372
Foreign assets	11,052	11,687	12,958	11,996	14,159	12,208	14,792	13,013	14,826	12,942	15,375	13,810	14,618
Of which: Bilateral accounts	767	767	767	766	767	766	767	766	767	766	767	766	766
Of which: encumbered due to forwards or swaps	686	659	643	649	643	649	643	649	643	649	643	649	649
Foreign liabilities	1,954	1,706	1,656	1,968	1,763	2,170	1,930	2,322	1,281	1,533	1,337	1,407	1,246
Of which: Net Fund Position	542	358	418	706	608	986	794	1,199	972	1,237	1,029	1,111	950
Of which: GCC grants-related	1,300	1,240	1,130	1,154	1,048	1,077	1,028	1,015	201	188	201	188	188
Net domestic assets	-1,825	-1,897	-2,691	-1,170	-3,151	-1,473	-3,034	-1,777	-3,040	-2,151	-2,813	-2,758	-3,373
Net claims on central budgetary government 1/	786	688	599	875	721	1,086	845	1,237	969	1,221	982	1,051	846
Net claims on own budget agencies and other public entities	-116	-124	-121	-217	-121	-217	-121	-217	-121	-217	-121	-217	-217
Net claims on financial institutions	251	452	348	767	348	767	348	767	348	767	348	767	767
Net claims on private sector	23	23	23	23	23	23	23	23	23	23	23	23	23
Net claims on commercial banks	-2,009	-2,131	-2,717	-1,720	-2,799	-1,535	-3,305	-1,990	-3,435	-2,348	-3,321	-2,884	-3,694
Of which: FX deposits of commercial banks	840	760	768	682	775	682	791	682	808	682	841	682	782
CDs	-600	-500	-500	0	-1,000	-500	-500	-500	-500	-500	-400	-400	-200
Other items, net (asset: +)	-160	-258	-323	-898	-323	-1,098	-323	-1,098	-323	-1,098	-323	-1,098	-898
Jordanian dinar reserve money	7,272	8,083	8,611	8,857	9,244	8,565	9,827	8,913	10,505	9,257	11,224	9,645	10,000
Currency	4,802	5,162	5,303	6,494	5,535	6,216	5,789	6,386	6,055	6,654	6,362	6,951	7,259
Commercial bank reserves	2,469	2,921	3,308	2,363	3,709	2,349	4,039	2,527	4,450	2,603	4,862	2,694	2,740
Of which: required reserves	1,580	1,654	1,842	1,233	1,992	1,298	2,136	1,377	2,290	1,466	2,451	1,565	1,660
	(Flows, in millions of Jordanian dinars)												
Net foreign assets	-1,072	883	1,331	47	1,093	10	467	653	683	718	492	995	969
Foreign assets	-671	635	1,278	309	1,201	212	633	805	34	-71	549	868	808
Foreign liabilities	401	-249	-53	262	108	202	166	152	-649	-789	57	-126	-161
Net domestic assets	645	-72	-820	727	-460	-302	117	-305	-6	-374	227	-606	-615
Net claims on central budgetary government	-75	-98	62	187	122	212	123	150	124	-15	13	-170	-205
Net claims on commercial banks	396	-122	-882	411	-82	186	-506	-455	-130	-359	114	-536	-810
Other items, net (asset: +)	164	-99	0	-639	0	-200	0	0	0	0	0	0	200
Jordanian dinar reserve money	-427	812	511	774	633	-292	583	348	678	344	719	388	354
Currency	-34	360	264	1,332	232	-279	254	170	266	268	306	297	308
Commercial banks' reserves	-393	452	247	-559	401	-13	329	178	412	76	412	91	46
Memorandum items:													
Gross international reserves	14,506	15,401	17,194	15,838	18,888	16,138	19,781	17,273	19,829	17,172	20,603	18,397	19,536
Gross usable international reserves ($ millions)	12,441	13,490	15,294	14,051	16,978	14,351	17,847	15,486	17,872	15,385	18,599	16,610	17,608
As a ratio to JD broad money (in percent)	32.4	33.3	34.5	33.4	35.6	33.0	35.0	33.7	32.8	31.6	31.9	32.0	32.1
As a ratio of JD reserve money (in percent)	121.3	118.3	125.9	112.5	130.2	118.8	128.8	123.2	120.6	117.8	117.5	122.1	124.8
Net international reserves (millions of JD)	8,104	9,035	10,254	9,085	11,258	9,018	11,688	9,609	11,528	9,500	11,987	10,494	11,363
Net international reserves (millions of U.S. dollars)	11,430	12,743	14,462	12,814	15,879	12,719	16,485	13,553	16,259	13,399	16,907	14,802	16,027
Money multiplier (for JD liquidity)	3.7	3.6	3.7	3.4	3.7	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.9

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

1/ 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	102.930	30.0
Third Review	September 30, 2021	Observance of end-June 2021 performance criteria, completion of third review	102.930	30.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of fourth review	102.930	30.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	102.930	30.0
Sixth Review	March 30, 2023	Observance of end-December 2022 performance criteria, completion of sixth review	102.930	30.0
Seventh Review	September 30, 2023	Observance of end-June 2023 performance criteria, completion of seventh review	102.930	30.0
Eighth Review	March 15, 2024	Observance of end-December 2023 performance criteria, completion of eighth review	102.930	30.0
Total			**926.370**	**270.0**

II. 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	144.102	42.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of fourth review	113.223	33.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	113.223	33.0
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			**926.370**	**270.0**

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
		Projections														
Existing and prospective Fund arrangements																
		(SDR million)														
Disbursements	120.1	497.4	288.2	226.4	137.2	68.6	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit 1/	365.1	720.4	995.8	1,205.1	1,242.2	1,119.3	963.0	834.0	683.9	515.2	350.8	204.9	96.9	34.3	5.7	0
Obligations to the Fund 2/	310.3	151.0	26.6	38.8	126.6	218.2	179.3	148.0	163.5	176.4	169.7	149.3	110.1	63.6	29.0	5.9
Principal (repayments/repurchases)	298.4	142.1	12.9	17.2	100.1	191.5	156.4	129.0	150.1	168.7	164.4	145.8	108.1	62.6	28.6	5.7
Charges and interest 3/	11.9	8.9	13.7	21.7	26.6	26.6	22.9	19.0	13.4	7.7	5.3	3.5	2.0	1.0	0.4	0.2
		(Percent)														
Stock of existing and prospective Fund credit 1/ 4/																
In percent of quota	106.4	210.0	290.2	351.2	362.1	326.2	280.7	243.1	199.3	150.2	102.2	59.7	28.2	10.0	1.6	0.0
In percent of GDP	1.1	2.3	3.0	3.5	3.4	2.9	2.4	1.9	1.5	1.1	0.7	0.4	0.2	0.1	0.0	0.0
In percent of exports of goods and services	3.1	9.3	10.1	9.7	9.3	7.8	6.3	5.1	4.3	3.1	2.0	1.1	0.5	0.2	0.0	0.0
In percent of gross usable reserves	3.7	7.0	9.5	10.7	11.1	9.3	7.5	6.1	4.7	3.4	2.2	1.2	0.5	0.2	0.0	0.0
In percent of government revenue	4.7	9.6	12.2	13.7	13.6	11.4	9.3	7.6	5.9	4.2	2.7	1.5	0.7	0.2	0.0	0.0
In percent of total external debt	1.7	3.1	4.1	4.8	4.8	4.3	3.7	3.2	2.6	2.0	1.4	0.8	0.4	0.2	0.0	0.0
Obligations to the Fund (repurchases and charges) 4/																
In percent of quota	90.4	44.0	7.8	11.3	36.9	63.6	52.2	43.1	47.6	51.4	49.5	43.5	32.1	18.5	8.5	1.7
In percent of GDP	1.0	0.5	0.1	0.1	0.3	0.6	0.4	0.3	0.4	0.4	0.3	0.3	0.2	0.1	0.0	0.0
In percent of exports of goods and services	2.6	1.9	0.3	0.3	0.9	1.5	1.2	0.9	1.0	1.1	1.0	0.8	0.6	0.3	0.1	0.0
In percent of gross usable reserves	3.2	1.5	0.3	0.3	1.1	1.8	1.4	1.1	1.1	1.2	1.0	0.9	0.6	0.3	0.1	0.0
In percent of government revenue	4.0	2.0	0.3	0.4	1.4	2.2	1.7	1.4	1.4	1.4	1.3	1.1	0.8	0.4	0.2	0.0
In percent of total external debt service	10.2	4.9	1.3	1.4	5.7	9.4	5.7	4.2	4.8	7.2	6.4	3.9	3.6	1.8	1.0	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	43,236	44,871	47,135	49,791	52,742	55,845	59,130	62,608	66,291	70,191	74,320	78,691	83,320	88,222	93,411
Exports of goods and services (USD million)	16,202	10,641	13,527	17,000	18,336	19,714	21,033	22,326	21,589	22,885	24,242	25,692	27,244	28,904	30,683	32,588
Gross usable reserves (USD million)	13,490	14,051	14,351	15,486	15,385	16,610	17,608	18,666	19,787	20,976	22,236	23,572	24,988	26,489	28,080	29,767
Government revenue (USD million)	10,828	10,306	11,196	12,058	12,515	13,469	14,236	15,046	15,902	16,807	17,763	18,774	19,843	20,972	22,165	23,427
External debt service (USD million)	4,221	4,252	2,915	3,990	3,193	3,365	4,545	5,118	4,949	3,573	3,882	5,610	4,466	5,031	4,043	4,093
Total external debt (USD million)	30,306	32,503	35,013	36,533	37,526	38,175	38,392	38,033	37,654	37,279	37,036	35,116	34,386	33,112	32,847	32,582

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 1.105 (as of November 12, 2020).

4/ Using the end-2020:Q1 forecast of the SDR/USD rate in 2020-34 forecasts.

Table 7. Jordan: Proposed Quantitative Performance Criteria and Indicative Targets, June 2020–September 2021 1/

	Jun-20				Sep-20				Dec-20		Mar-21		Jun-21	Sep-21
	Performance Criteria	Adjusted	Actual	Note	Indicative Target	Adjusted	Actual	Note	Performance Criteria	Proposed Revised PC	Indicative Target	Proposed Revised IT	Proposed PC	Proposed IT
Performance Criteria														
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	320	124	729	Not met	486	281	1,248	Not met	743	1,872	53	366	650	874
Combined public deficit in JD million (flow, cumulative ceiling)	575	379	1,024	Not met	919	713	1,650	Not met	1,302	2,406	221	669	1,088	1,489
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	13,060	11,682	12,033	Met	12,753	12,776	14,228	Met	14,462	12,380	14,317	11,754	10,755	10,412
Ceiling on accumulation of external debt service arrears 2/	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0
Indicative Targets														
Social spending by the central government in JD million (flow, cumulative floor)	257	257	302	Met	385	385	643	Met	514	804	141	144	289	605
Public debt in JD million (stock, ceiling) 3/	25,623	25,622	26,176	Not met	26,178	26,076	27,279	Not met	25,825	27,379	26,261	27,383	28,256	28,624
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 4/	0	0	26	Not met	0	0	50	Not met	0	55	0	16	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 5/	0	0	54	Not met	0	0	83	Not met	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million (stock, ceiling) 6/	0	0	64	Not met	0	0	96	Not met	0	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-1,054	-274	278	Not met	-746	-1,368	-899	Not met	-1,642	80	-1,473	190	769	910
SSC net financing to the central government (flow, ceiling)	318	318	548	Not met	384	384	548	Not met	485	548	234	275	550	800
Memorandum items for adjustors														
Foreign budgetary grants received by the central government (JD millions, flow)	109	-	115		162		629		1,020	1,065	0	18	57	75
Programmed stock of the combined health and energy arrears (JD millions)	280	-	488		245		482		230	467	210	452	422	407
Stock of checks issued by the central government but not yet cashed by the beneficiary (JD millions)	...	-	72		...				200	200	...	...	...	...
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2019)	100	-	100		201		100		201	203	302	100	246	246

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 debt.

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 8. Jordan: Status and Proposed Reformulation of Existing Structural Benchmarks and Proposed New Structural Conditionality

Item	Measure	Time Frame (by end of period)	Macroeconomic Rationale
I. Prior Actions			
1	Submission to parliament of a budget law for 2021 consistent with a central government primary deficit target (excluding grants and transfers to NEPCO and WAJ) of no more than JD 1,180 million.		Fiscal consolidation
2	Hire an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.		Governance and improved PFM
II. Proposed New and Reformulated Structural Benchmarks			
1	Submit to parliament an amended Investment Law that removes all Articles related to tax incentives, in line with TA recommendations	Mar-21	Address legal fragmentation and strengthen revenue mobilization
2	Enact effective legislation to strengthen transfer pricing rules in line with international standards and IMF staff advice	Mar-21	Protect against tax base erosion and profit shifting
3	Introduce into the GST Law "place-of-taxation" rules for GST in line with international best practices	Apr-21	Increase efficiency of GST and improve tax compliance
4	Sign digital track and trace commitments with three largest cigarette companies	Feb-21	Revenue mobilization
5	Adopt and announce a three-year plan, with evenly-phased implementation starting in 2021, that (a) redirects electricity subsidies only to those who most need them; and (b) uses part of the achieved savings to reduce electricity tariffs for key business sectors, while containing NEPCO losses.	Mar-21	Address NEPCO's financial viability and cost of doing business
6	Approval by the CBJ Board of guidelines for implementation of the Emergency Liquidity Assistance (ELA) framework provided for in the CBJ Law	Jun-21	Strengthen lender of last resort function of the CBJ
7	Undertake ex-post audits of all crisis-mitigating inflows and spending, which will also assess the transparency of the procurement process and take stock of the publication of beneficial ownership of entities awarded such contracts since end-June 2020, and publish the results.	Jun-21	Governance and fiscal transparency
8	Approve legislation to introduce Economic Substance Regulations for all special economic zones.	Feb-21	Strengthen tax compliance management

III. Existing Structural Benchmarks

Item	Measure	Original Time Frame (by end of period)	Status	Macroeconomic Rationale	New Time Frame (by end of period)	Proposed Action
1	Adopt a multi-year plan – budget neutral for NEPCO – to reduce electricity tariffs of key sectors so that average electricity tariffs on corporates aligns with the average supply cost per kWh, and household subsidies are redirected to only those who need it by end-2024.	Jun-20	Not met	Cost of doing busines	…	Reformulated as new SB #5 for end-March 2021
2	Implement measures in 2020, in addition to those already taken, equal to JD75 million (on an annualized basis) to permit a reduction in tariffs paid by businesses.	Oct-20	Not met	Cost of doing business	…	Reformulated as new SB #5 for end-March, 2021
3	Issue by-laws and/or instructions aimed at increasing access to affordable childcare.	Jun-20	Not met	Labor market	Dec-20	Completion date to be reset
4	Expansion of targeted temporary reductions in social-security contributions to all new startups.	Jun-20	Met	Improving business climate and labor market flexibility		
5	Publication of a regular Financial Inclusion Report and a follow-on Financial Inclusion Action plan for 2020-21.	Dec-20	…	Financial Development	Mar-21	Completion date to be reset
6	Hire an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.	Jun-20	Not met	Governance and improved PFM	…	Proposed New Prior Action
7	Completion of the comprehensive review of the most significant PPA by an international accounting, consulting or legal firm, with the review shared with Fund staff.	Sep-20	Not met	Governance and improved PFM	Mar-21	Completion date to be reset
8	Submit to parliament amendments to existing legislation to allow greater public access to basic financial disclosure information by public officials.	Dec-20	Met	Governance		
9	Recruit 100 qualified staff (two phases: 50 by end-June and 50 by end-December), including new auditors, to be distributed across the large taxpayer directorate and newly-created ISTD directorates monitoring: (i) establishments in special economic zones; (ii) professionals; and (iii) employees and payroll deductions.	1st phase - Jun-20 2nd phase - Dec-20	1st phase - Not met, implemented with delay	Revenue mobilization	Dec-20	2nd phase target to be kept unchanged
10	Conduct a comprehensive review of the underlying trust accounts, beneficiary ministries, and use of resources, and its consistency with budget needs and practices, while limiting and monitoring their use pending this review.	Sep-20	Not met	Fiscal transparency and budgeting	Jan-21	Completion date to be reset
11	Submit to parliament an amended Investment Law that addresses tax arbitrage opportunities and transfer pricing abuses, and rationalizes investment tax incentives.	Sep-20	Not met	Strengthen tax policy		Reformulated as new SB#1 for end-March 2021.
12	Implement the Digital Volume Verification System (track-and-trace system) to monitor tobacco production and reduce cigarette smuggling.	Dec-20	…	Revenue mobilization	Jul-21	Completion date to be reset
13	Pass legislation to impose a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control.	Dec-20	…	Strengthen tax compliance management	Mar-21	Completion date to be reset
14	Pass legislation to introduce Economic Substance Regulations for all special economic zones.	Dec-20	…	Revenue mobilization by closing profit-shifting loopholes	…	Reformulated as new SB #8 for end-February 2021

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

Although risks to debt sustainability have increased, Jordan's public debt is assessed as sustainable with continued strong policy implementation. This assessment reflects a baseline which assumes that the exchange rate peg is safe, the COVID-19 pandemic will disappear by the second half of next year, the authorities remain committed to the revised fiscal consolidation path under the program, and committed donor and planned market financing come through. 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, is now projected to reach 89 percent of GDP in 2020, and to decline to below 80 percent of GDP by 2025. Risks to debt sustainability arise from COVID-induced scarring, the possibility of further adverse shocks to growth and/or financing conditions, slippages in fiscal consolidation, or materialization of contingent liabilities from the broader public sector. These risks are mitigated by continued external market access and a favorable debt structure, with long maturities and substantial current and committed concessional financing. External debt is sustainable, and would become vulnerable only under a large real exchange rate shock (which is unlikely as long as the peg stands).

A. Public Sector DSA

1. Public debt will be higher than projected at the time of the EFF approval, but is projected to decline after 2021. 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), is now projected to peak at 90.9 percent of GDP in 2021, and to decline to below 80 percent of GDP by 2025, consistent with the RFI projection in May, but 6 ppts of GDP higher than envisaged at EFF approval. The rise in debt in 2021 would have been higher if not for the decision by the SSC to hold more government bonds in the near term.[2] The impact of the COVID shock on public finances in 2020, somewhat higher deficits going forward, and weaker economic growth contribute to the higher debt to GDP. Nonetheless, given the temporary nature of the shock and the authorities' intention to restart fiscal consolidation once the effects of the outbreak abate, debt to GDP should be on a firmly downward trajectory after 2021.

2. Pressures have also increased outside the central government sector. Staff considers that the issuance of "comfort letters" by the Ministry of Finance to a commercial bank that enable Royal Jordanian to borrow up to JD 50 million amounts to a government guarantee, which increases the debt stock. The SSC's net income, while still positive, is projected to deteriorate by about 50 percent in 2020 compared to 2019, as social security contributions were reduced for all companies,

[1] The DSA is done under the assumption that NEPCO will fully honor its contractual obligations with respect to the most significant oil shale PPA. Potential resolution of the oil shale PPA presents an upside to the DSA.

[2] While increasing the cap on government debt from 60 to 65 percent of total investments helps lower the gross public debt ratio, the decision makes sense from an investment management perspective, especially in the present environment of weak and unpredictable returns on investment in the private sector.

the economy has contracted, investment income has dropped (especially on equities), and payouts have increased.

3. **The structure of public debt remains favorable.** Foreign-currency denominated debt is less than half of total public debt. The non-resident share of debt is relatively high, but the risk around it are mitigated by a long maturity of external public debt, with issuance typically in tenors exceeding five years. Moreover, a large part of the foreign-currency debt is held by official, rather than private, creditors, a pattern that will continue, given official sector pledges made as part of the Jordan Compact and the 2019 London Initiative. On the domestic side, Jordan has notably lengthened maturities in recent years: excluding treasury bills, the average maturity has almost doubled to six years since 2018.

4. **Importantly, public gross financing needs (GFNs) seem manageable**. The stress tests show that GFNs are robust to shocks. This reflects significant projected concessional financing; little private external debt maturating during the program; and the pre-COVID domestic debt maturity extension. Moreover, Jordan has maintained external market confidence following the COVID shock (its $1.75 billion Eurobond issuance in June at very attractive rates was more than 6 times oversubscribed); and Jordanian banks are adequately capitalized, so can absorb higher government domestic debt issuance (recent domestic bond issuance has been significantly oversubscribed). The SSC's net income position is expected to return to normal levels in 2021, as the Defense Orders expire, and the economy rebounds. Moreover, government bonds currently account for less than 57 percent of its investment portfolio, which implies that the SSC can scale up purchases of government bonds before the cap of 65 percent becomes binding. Taken together, these suggest manageable risks to GFN financeability. Finally, GFNs are projected to decline over the medium term, in line with the continued shift to longer-term domestic issuance, and the envisaged fiscal consolidation under the EFF.

5. **There are significant risks to debt sustainability.** Although Jordan's debt and GFN profiles point to moderate risks overall, a longer lasting pandemic associated with deeper hysteresis effects; weaker fiscal consolidation effort; or losses from SOEs and PPPs exceeding those already captured in the baseline debt projections; could pressure debt sustainability. This underlines the importance of initiating and maintaining momentum on growth-friendly fiscal consolidation once the pandemic abates; accelerating structural reforms to protect the recovery and boost potential growth, and mitigating losses from the broader public sector.

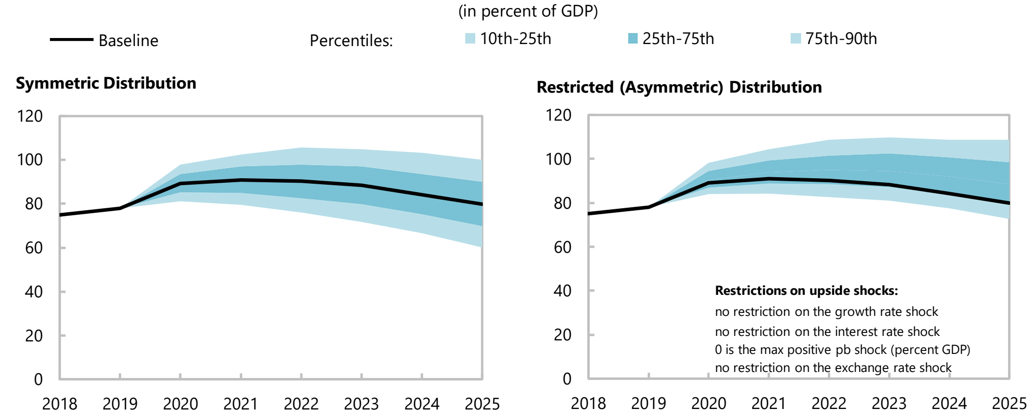
Figure AI.1. Jordan: Public DSA—Risk Assessment

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

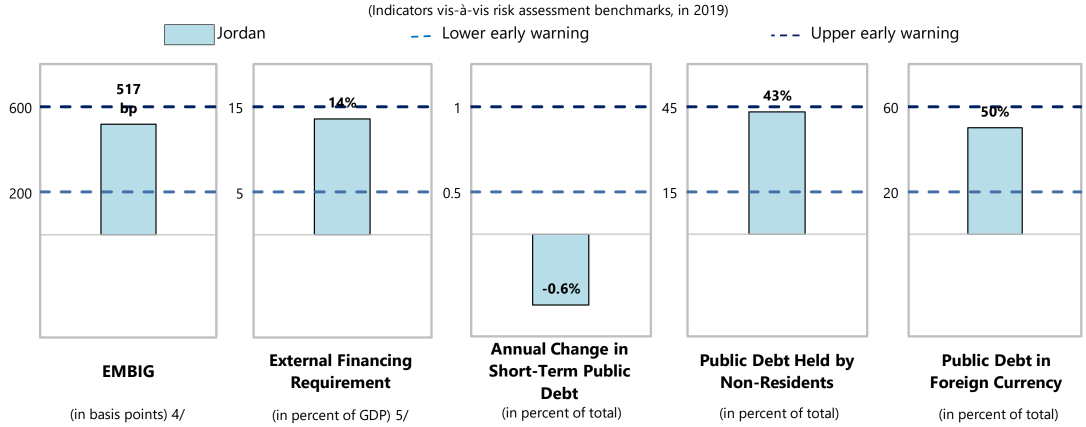
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



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.

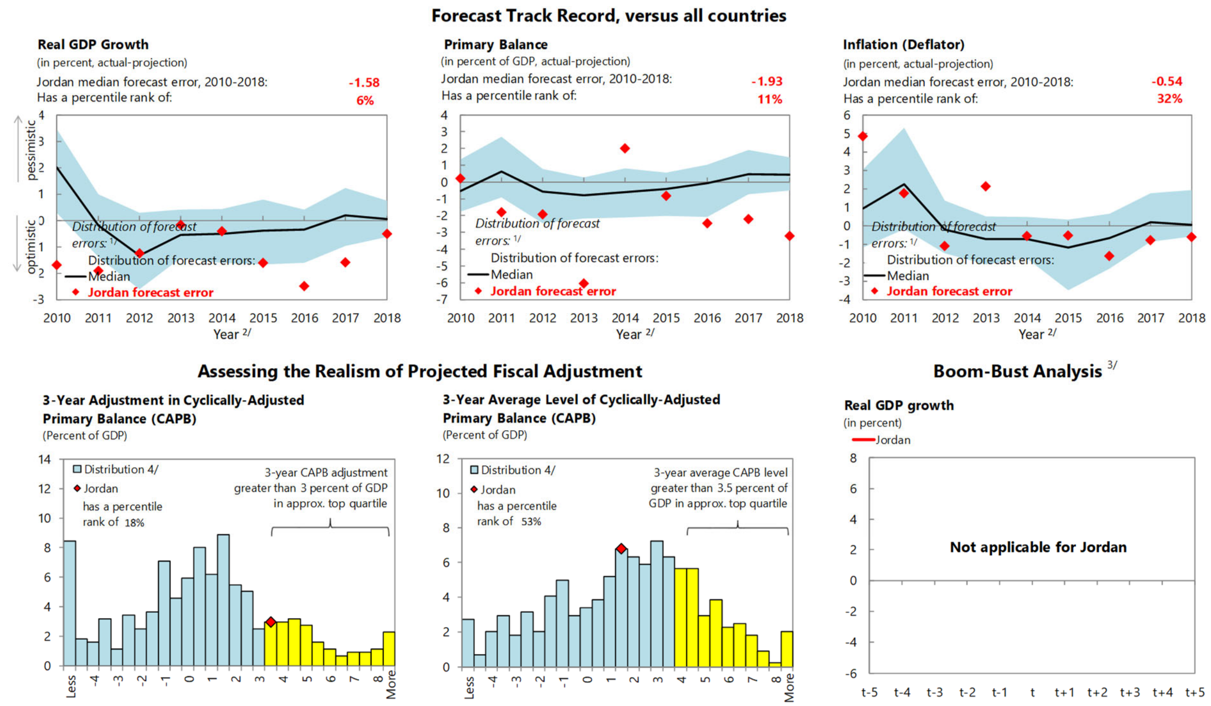
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 11-Aug-20 through 09-Nov-20.

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)

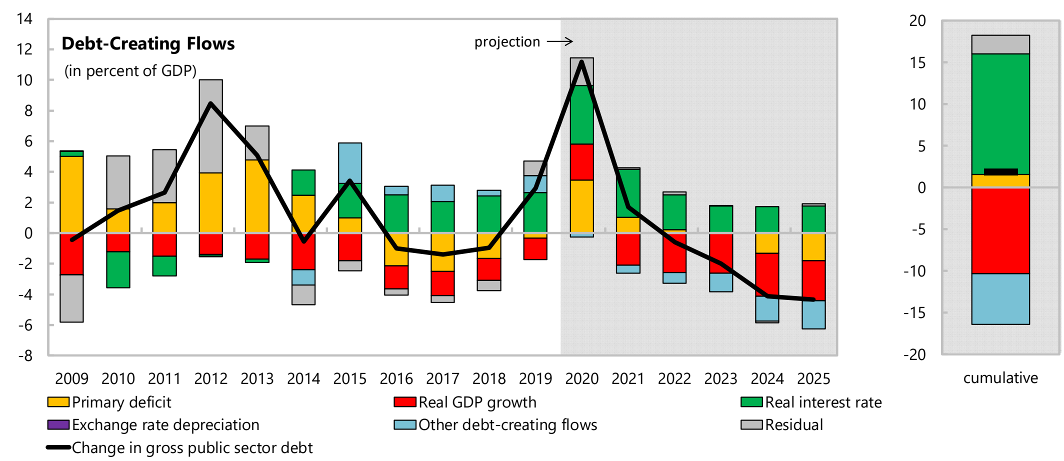
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	70.3	75.1	78.0	89.2	90.9	90.3	88.3	84.2	79.8
Of which: guarantees	9.6	11.0	9.9	10.6	10.8	11.0	11.4	10.9	9.3
Public gross financing needs	24.6	17.6	14.2	20.9	17.9	17.7	17.0	13.6	16.1
Real GDP growth (in percent)	2.8	1.9	2.0	-3.0	2.5	3.0	3.1	3.3	3.3
Inflation (GDP deflator, in percent)	4.1	1.7	1.7	0.0	1.3	2.0	2.5	2.5	2.5
Nominal GDP growth (in percent)	7.0	3.7	3.7	-3.0	3.8	5.0	5.6	5.9	5.9
Effective interest rate (in percent) [4/]	4.7	4.3	4.6	4.6	4.4	4.1	4.1	4.1	4.2

As of November 09, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		483
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							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.0	-1.0	3.0	11.2	1.7	-0.6	-2.0	-4.1	-4.3	1.8	
Identified debt-creating flows	0.9	-0.3	2.0	9.4	1.6	-0.8	-2.1	-4.0	-4.5	-0.4	
Primary deficit	1.8	-1.7	-0.3	3.4	1.0	0.2	0.0	-1.3	-1.8	1.6	-2.7
Revenues and grants	32.8	37.9	36.2	33.9	37.1	37.9	37.3	37.6	37.4	221.2	
Primary expenditures	34.6	36.2	35.9	37.3	38.2	38.1	37.3	36.2	35.6	222.7	
Automatic debt dynamics [5/]	-1.2	1.0	1.2	6.2	1.0	-0.3	-0.9	-1.0	-0.9	4.1	
Interest rate/growth differential [6/]	-1.2	1.0	1.2	6.2	1.0	-0.3	-0.9	-1.0	-0.9	4.1	
Of which: real interest rate	0.5	2.4	2.7	3.8	3.1	2.3	1.8	1.7	1.8	14.4	
Of which: real GDP growth	-1.8	-1.4	-1.4	2.4	-2.1	-2.6	-2.6	-2.8	-2.6	-10.3	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.4	0.4	1.1	-0.3	-0.5	-0.7	-1.2	-1.6	-1.8	-6.1	
Privatization Receipts (negative)	-0.1	0.0	-0.2	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/]	0.5	0.4	1.3	-0.3	-0.5	-0.7	-1.2	-1.6	-1.8	-6.1	
Residual, including asset changes [9/]	1.0	-0.7	0.9	1.8	0.1	0.2	0.1	-0.1	0.1	2.2	



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.

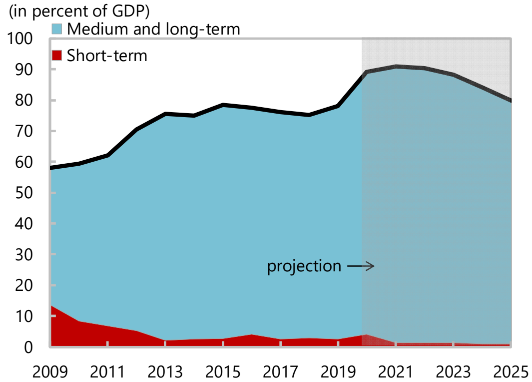
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

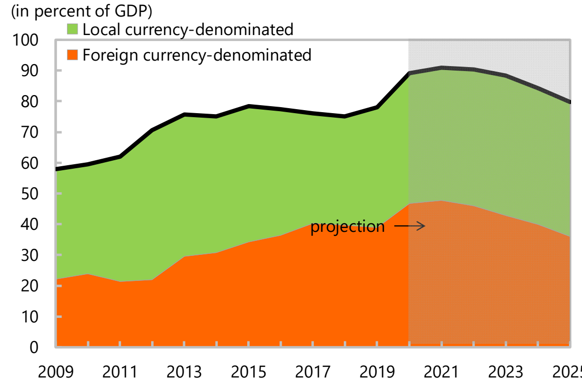
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

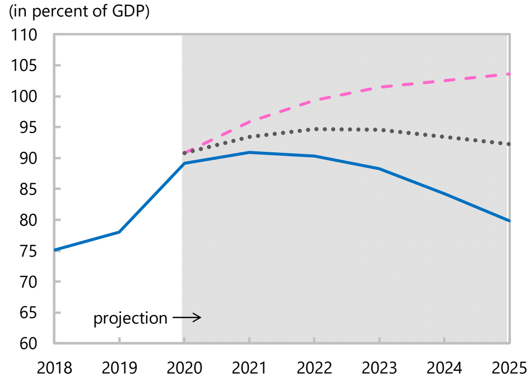


Alternative Scenarios

Baseline Historical Constant Primary Balance

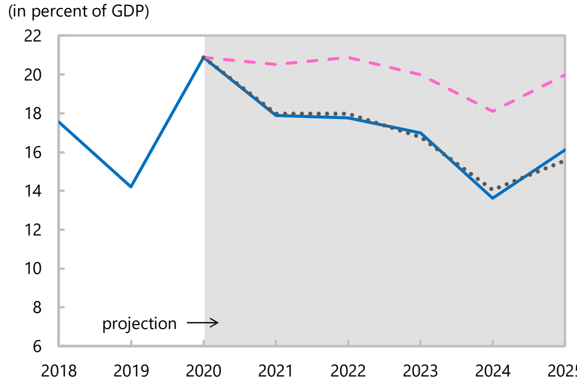
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

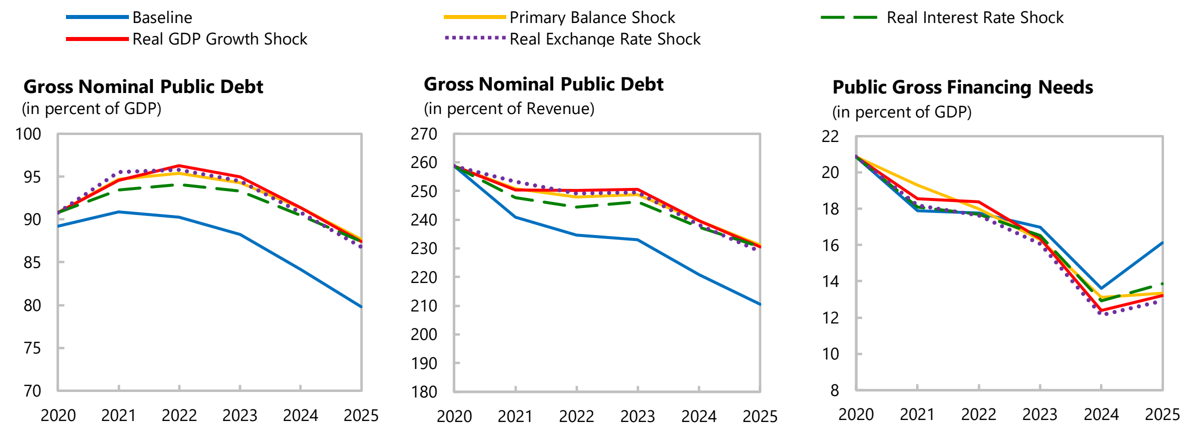
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.0	2.5	3.0	3.1	3.3	3.3
Inflation	0.0	1.3	2.0	2.5	2.5	2.5
Primary Balance	-3.4	-1.0	-0.2	0.0	1.3	1.8
Effective interest rate	4.6	4.4	4.1	4.1	4.1	4.2
Constant Primary Balance Scenario						
Real GDP growth	-3.0	2.5	3.0	3.1	3.3	3.3
Inflation	0.0	1.3	2.0	2.5	2.5	2.5
Primary Balance	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4
Effective interest rate	4.6	5.1	4.9	5.0	5.1	5.2

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.0	2.4	2.4	2.4	2.4	2.4
Inflation	0.0	1.3	2.0	2.5	2.5	2.5
Primary Balance	-3.4	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	4.6	5.1	4.7	4.6	4.5	4.5

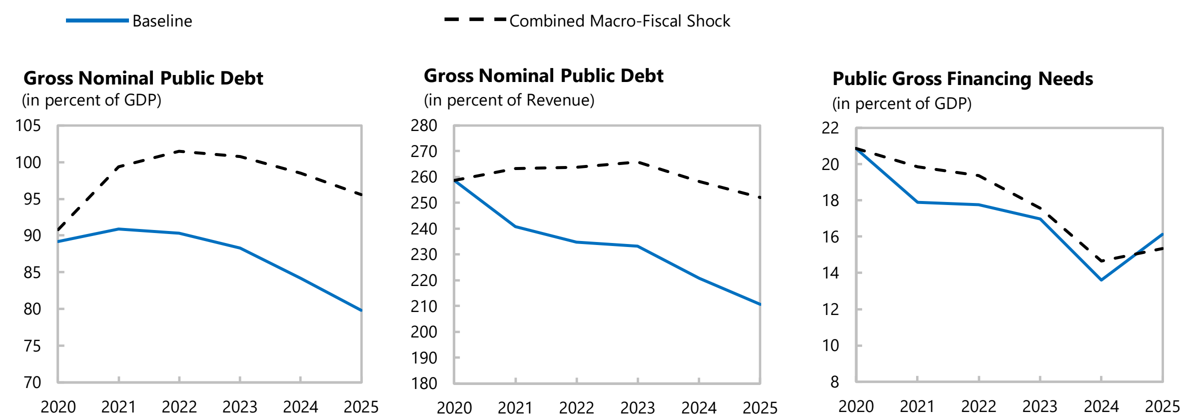
Source: IMF staff.

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

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.0	2.5	3.0	3.1	3.3	3.3
Inflation	0.0	1.3	2.0	2.5	2.5	2.5
Primary balance	-3.4	-2.2	-0.6	-0.1	0.7	1.6
Effective interest rate	4.6	5.1	5.0	5.1	5.3	5.4
Real Interest Rate Shock						
Real GDP growth	-3.0	2.5	3.0	3.1	3.3	3.3
Inflation	0.0	1.3	2.0	2.5	2.5	2.5
Primary balance	-3.4	-1.0	-0.2	0.0	1.3	1.8
Effective interest rate	4.6	5.1	5.3	5.7	6.2	6.6
Combined Shock						
Real GDP growth	-3.0	1.8	2.3	3.1	3.3	3.3
Inflation	0.0	1.1	1.8	2.5	2.5	2.5
Primary balance	-3.4	-2.2	-0.9	-0.1	0.7	1.6
Effective interest rate	4.6	5.2	5.2	5.7	6.2	6.5

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.0	1.8	2.3	3.1	3.3	3.3
Inflation	0.0	1.1	1.8	2.5	2.5	2.5
Primary balance	-3.4	-1.3	-0.9	0.0	1.3	1.8
Effective interest rate	4.6	5.1	5.0	5.1	5.2	5.4
Real Exchange Rate Shock						
Real GDP growth	-3.0	2.5	3.0	3.1	3.3	3.3
Inflation	0.0	3.3	2.0	2.5	2.5	2.5
Primary balance	-3.4	-1.0	-0.2	0.0	1.3	1.8
Effective interest rate	4.6	5.1	4.6	4.6	4.7	4.8

Source: IMF staff.

B. External Sector DSA

6. 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. The external debt is defined according to the residency criterion.

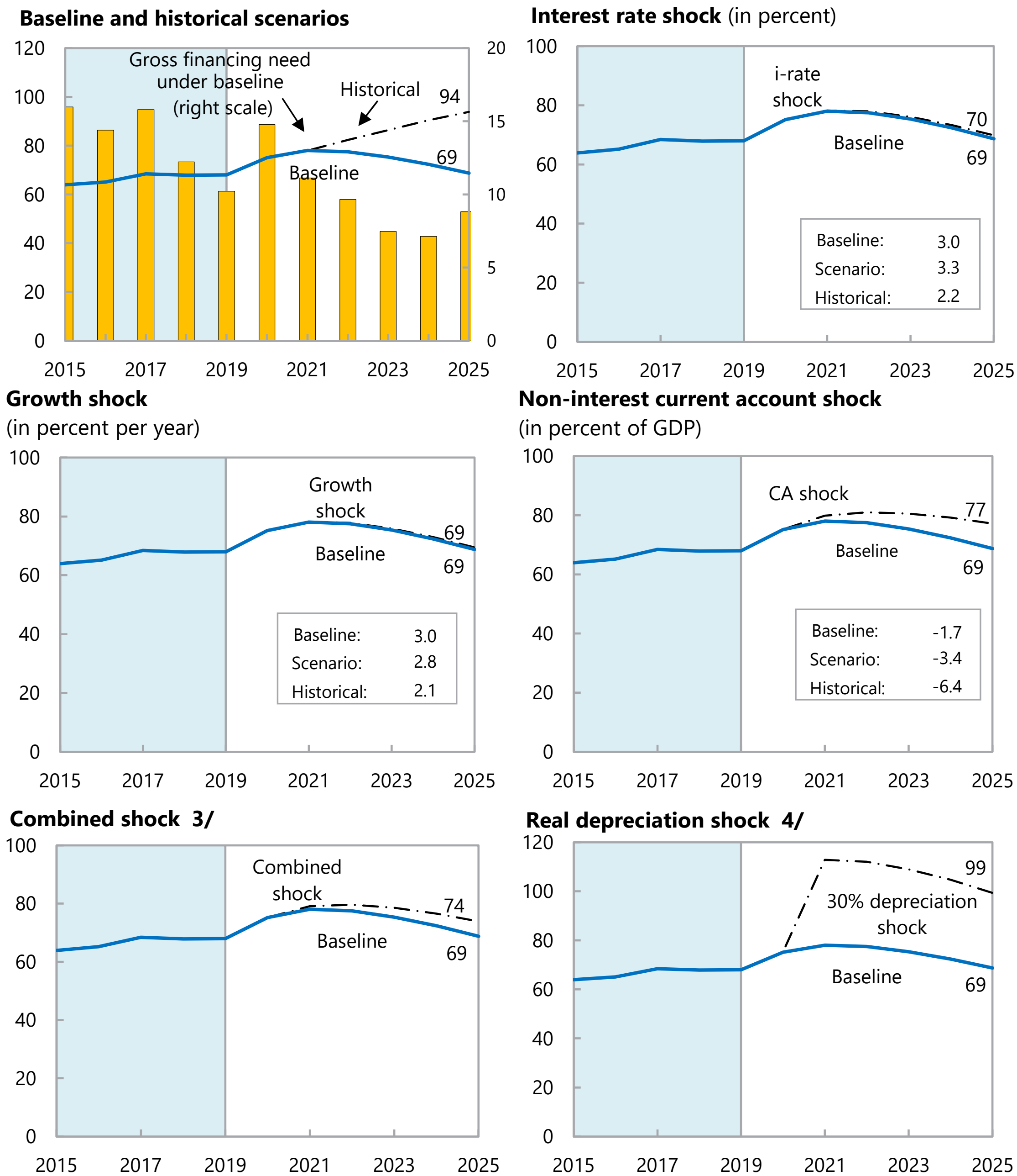
7. Jordan's public external debt remains moderate but is projected to grow slightly over the medium term. Public external debt is expected to rise from 35 percent of GDP in 2019 to 46 percent in 2022, reflecting higher external financing support in the wake of the COVID-19 pandemic, before falling back to 40 percent in 2025. 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.

8. Private external debt is expected to remain moderate in the 30–35 percent of GDP range. As of end-2019, 77 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.

9. 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, as well as amortizations of U.S. guaranteed Eurobonds falling due in 2022, which is assumed to be rolled-over on market terms prevailing at that time.

10. 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 A1.1. Jordan: External Debt Sustainability Framework, 2015–25

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	**Debt-stabilizing non-interest current account 7/**
	29.7	28.8	29.2	31.3	33.0			33.8	33.0	32.0	31.0	30.0	28.9	
1 **Baseline: External debt 1/**	63.9	65.1	68.4	67.9	68.0			**75.2**	**78.0**	**77.5**	**75.4**	**72.4**	**68.7**	**-5.8**
Of which : Public and Publicly Guaranteed External Debt	34.2	36.3	39.2	36.6	35.0			41.3	45.0	45.5	44.3	42.4	39.8	
2 Change in external debt	1.7	1.2	3.3	-0.5	0.1			7.2	2.9	-0.5	-2.1	-3.0	-3.6	
3 Identified external debt-creating flows (4+8+9)	2.0	3.7	3.3	2.2	-1.2			7.4	2.9	-1.5	-2.4	-3.5	-3.5	
4 Current account deficit, excluding interest payments	8.1	8.6	9.3	5.0	0.7			5.0	4.6	1.2	1.1	0.8	0.7	
5 Deficit in balance of goods and services	22.4	20.8	21.1	18.2	13.6			18.3	15.9	11.3	9.9	8.9	8.1	
6 Exports	36.6	34.1	34.5	35.2	36.4			24.6	30.1	36.1	36.8	37.4	37.7	
7 Imports	59.0	54.8	55.6	53.4	50.0			42.9	46.0	47.4	46.7	46.3	45.8	
8 Net non-debt creating capital inflows (negative)	-4.1	-3.9	-4.9	-2.2	-1.5			-1.6	-2.2	-2.8	-3.4	-4.0	-3.9	
9 Automatic debt dynamics 2/	-1.9	-1.1	-1.1	-0.5	-0.4			4.0	0.5	0.0	-0.1	-0.3	-0.2	
10 Contribution from nominal interest rate	0.9	1.0	1.3	1.9	2.0			1.9	2.2	2.2	2.2	2.1	2.0	
11 Contribution from real GDP growth	-1.5	-1.2	-1.3	-1.3	-1.3			2.1	-1.8	-2.2	-2.2	-2.4	-2.3	
12 Contribution from price and exchange rate changes 3/	-1.3	-0.9	-1.1	-1.2	-1.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	-0.3	-2.5	-0.1	-2.7	1.3			-0.2	0.0	1.0	0.3	0.5	-0.1	
External debt-to-exports ratio (in percent)	174.7	191.3	198.1	193.2	187.0			305.4	258.8	214.9	204.7	193.6	182.5	
Gross external financing need (in billions of US dollars) 5/	6.2	5.7	6.6	5.3	4.6			6.4	5.0	4.6	3.7	3.8	4.9	
in percent of GDP	16.0	14.4	15.8	12.2	10.2			14.8	11.1	9.7	7.5	7.1	8.8	
Scenario with key variables at their historical averages 6/						5-Year Historical Average	10-Year Standard Deviation	**75.2**	**78.0**	**82.4**	**86.3**	**90.5**	**93.8**	**-4.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.5	2.0	2.1	1.9	2.0	2.1	0.4	-3.0	2.5	3.0	3.1	3.3	3.3	
GDP deflator in US dollars (change in percent)	2.2	1.4	1.7	1.7	1.7	1.7	2.4	0.0	1.3	2.0	2.5	2.5	2.5	
Nominal external interest rate (in percent)	1.5	1.7	2.1	2.8	3.1	2.2	0.7	2.7	3.1	3.0	3.0	2.9	2.9	
Growth of exports (US dollar terms, in percent)	-9.0	-3.8	5.3	5.5	7.2	1.0	6.9	-34.3	27.1	25.7	7.9	7.5	6.7	
Growth of imports (US dollar terms, in percent)	-8.8	-4.0	5.3	-0.5	-2.9	-2.2	7.6	-16.7	11.3	8.1	4.2	4.9	4.8	
Current account balance, excluding interest payments	-8.1	-8.6	-9.3	-5.0	-0.7	-6.4	3.5	-5.0	-4.6	-1.2	-1.1	-0.8	-0.7	
Net non-debt creating capital inflows	4.1	3.9	4.9	2.2	1.5	3.3	1.5	1.6	2.2	2.8	3.4	4.0	3.9	

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. Addressing Systemic Tax Issues

1. **The structural inefficiency of the Jordan tax system has long been a matter of concern; the pandemic only cast an additional spotlight on the limitations of the tax system.** Both Jordan's corporate income tax (CIT) and general sales tax (GST) suffer from the presence of numerous preferential regimes that significantly narrow tax bases and fracture the tax system into a multiplicity of tax regimes. Highly-differentiated tax rates are imposed on different businesses, depending on their size, residency, business activity, or location. Preferential tax treatment is a norm rather than exception, even at the level of individual companies and products. Aided by loopholes in the tax system, the complex web of preferential regimes creates ample opportunities for tax arbitrage and significantly complicates tax administration. As a result, the productivity of tax system is one of the lowest in the comparator group of regional peers (Table AII.1).

Table AII.1. Productivity of Tax System[1,2]

	CIT Productivity
Georgia	0.46
Lebanon	0.35
Egypt	0.17
Tunisia	0.16
Azerbaijan	0.16
Morocco	0.15
Armenia	0.14
Jordan	**0.13**
Algeria	0.11

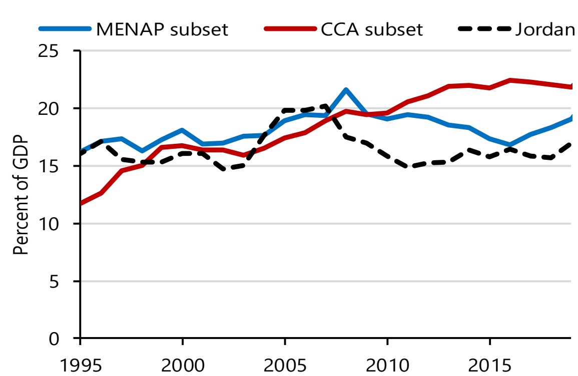
Sources: KPMG; IMF Government Financial Statistics; IMF WEO; IMF staff estimates
Note: 2019 or the latest available

	GST/VAT Productivity
Georgia	0.82
Morocco	0.56
Azerbaijan	0.51
Algeria	0.49
Armenia	0.43
Lebanon	0.41
Tunisia	0.41
Jordan	**0.31**
Egypt	0.28

Sources: FADTP C-Efficiency Database (internal); IMF staff estimates.

[1] Corporate income tax productivity is calculated as the revenue per point of the standard rate, in percent of GDP.
[2] C-Efficiency is calculated as a ratio of GST revenue to total final consumption net of GST revenue, divided by standard GST rate. A ratio closer to 1 is indicative of lesser deviation from the 'ideal' GST system, i.e., a system that features a single GST rate, uniformly applied on all consumption.

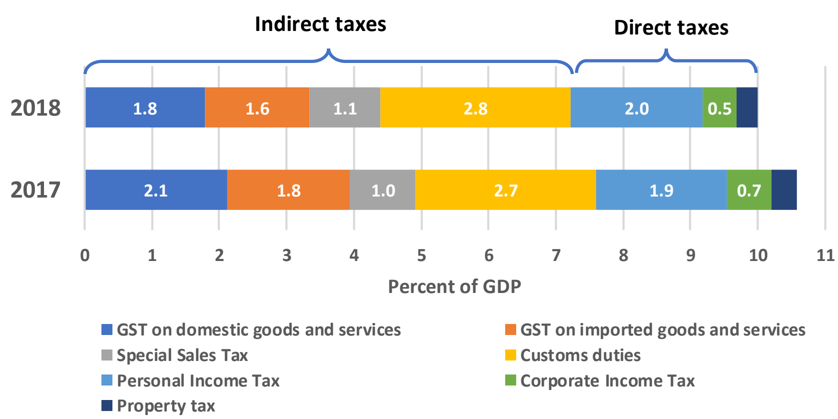
Figure AII.1. Tax-to-GDP Ratio



Sources: IMF, *World Economic Outlook;* IMF staff estimates.

2. The abundance of preferential tax treatment contributes to a significant revenue drain, depriving Jordan of much-needed resources to fund key spending. Jordan's tax-to-GDP ratio of 16 percent lags behind its regional peers (Figure AII.1); estimated tax expenditures are notable high. A USAID report published in 2013[1] estimated revenue foregone at 7 percent of GDP. The most recent evaluations conducted by the authorities derive at tax expenditures of even higher magnitude—10.6 and 10.0 percent of GDP for 2017 and 2018 respectively (Figure AII.2). Importantly, the authorities' tax expenditures assessments include only a few basic provisions of the legal framework within the standard system; leaving, most notably, revenue foregone due to presence of economic zones. 72 percent of total tax expenditures in 2018 is attributable to consumption taxes; with GST alone accounting for about 40 percent of total.

Figure AII.2. Tax Expenditures



Sources: Ministry of Finance; and IMF staff estimates.

Corporate Tax System

3. As of 2020, there are effectively nine differentiated corporate tax segments in the system *outside* economic zones (Table AII.2). In addition to the differentiated corporate income tax (CIT), a sector-specific National Solidarity Contribution (NSC) has been imposed on corporate profit since 2018, following the revision of the Income tax Law (ITL).[2] The NSC rates vary between 1 and 7 percent of the taxable income, adding complexity and further fragmenting the corporate tax system. The combined rate of tax imposed on corporate profit effectively varies from 15 to 38 percent.

4. In addition to the privileges in the "standard" tax system, an elaborate network of economic zones—55 in total—exacerbates differentiated tax application. There are 44 Free Zones (FZ)—6 public and 38 private—where a single entity could constitute a "zone." Jordan counts 12 Development Zones (DZ), which are geographic areas with specific designation of business sectors in accordance with the competitive advantage of the region. Jordan Investment Corporation

[1] Heredia-Ortiz, E. 2013. "Evaluating Tax Expenditures in Jordan: Jordan Fiscal Reform II Project." Publication prepared for the Jordan Economic Growth Office of the U.S. Agency for International Development (USAID), Amman.

[2] Article 11(F) of the Income Tax Law No. 34 of 2014 as Amended by Law No. 38 of 2018.

(JIC)—created by Jordan Investment Law of 2014 (JIL)—is awarded with the authority to register investors and award incentives in the FZs and DZs. Profit from operations inside the DZ is taxed at 10 percent. However, operations that qualify as transformational industrial activities generating at least 30 percent local value-added enjoy a reduced tax rate of 5 percent. Since 2019, the profit tax exemption has been eliminated in FZs; businesses are subject to the regular CIT regime.[3] The Aqaba Special Economic Zone (ASEZ) is the most important geographical zone inaugurated in 2001 around the Port of Aqaba. It is managed by a separate public agency, the ASEZ Authority (ASEZA), and ruled by its own laws. ASEZA collects an income tax at a rate of 5 percent on profits realized inside ASEZ.

Table AII.2. Effective Combined Tax Rates on Corporate Profit as of 2020 (In percent)

Type of Business	CIT	NSC	Total
Banks	35	3	38
Telecommunications	24	2	26
Mining (including exploration, extraction and exploitation)	24	7	31
Finance leasing and financial services	24	4	28
Production and distribution of electricity	24	3	27
Insurance and reinsurance	24	2	26
Statutory rate	20	1	21
Industrial activities	15	1	16
Pharmaceuticals and textile	14	1	15

Source: Income Tax Law No. 34 of 2014 as Amended by Law No. 38 of 2018.

5. Apart from significant revenue drain and complexity of the tax system, this tax setting creates two sets of distortions. First, it un-levels business playing field, introducing unequal competition between taxpayers that have similar characteristics, inducing welfare losses, inequities, as well as administration and compliance complications. Second, the effective tax rate differentials formed by the tax system open up unintended and unforeseen tax-planning opportunities to shift taxable profits and deductions across entities with different tax treatments. As such, preferential regimes also contribute to negative spillovers to the other parts of the domestic economy.

6. Over 50 percent of Jordan's CIT revenue is collected from the highly regulated economic sectors that are subject to elevated tax rates—banks, financial institutions, insurance companies and mining sector (Table AII.3). The other businesses are effectively taxed, on average, substantially below the nominal average tax rates, suggesting profit shifting into lower-taxed segments of the tax system. As an example, about 80 percent of all businesses activities are subject to the standard nominal CIT rate of 20 percent, while the average effective tax rate is equal to 6.5 percent (Table AII.3).

7. Further, Jordan does not have a single, all-encompassing transfer pricing legislation. The legal basis for transfer pricing is found in Article 20(D) of the ITL, which generally follows the arm's length principle. The latter requires for transactions among related persons to be conducted as if the persons were independent (that is, acting at "arm's length"). However, the definition of a "related persons" does not include indirect relationships and those between companies with common shareholders—representing an easily exploitable loophole. Further, no guidelines are

[3] Investors continue to be eligible for the exemption from the GST, the Special Sales Tax (SST), customs duties, the Land and Building tax.

available on common/traditional transfer pricing methods, on how to adhere to the best method rule, or a hierarchy among the different methods. Clear guidance on the information that taxpayers have to keep on record to adequately document and substantiate their transfer pricing position is also missing. To address the limitation of transfer pricing framework, Jordan committed to enacting an effective legislation to strengthen transfer pricing rules in line with international standards (new proposed SB for end-March 2021).

Table AII.3. CIT Collection by Economic Sector, 2019 (In percent)

Sector	Share of Taxpayers	Share of Total Tax Paid	Nominal Tax Rate	Average Tax Rate on Profit Margin[1]
Banks	0.02	39.4	35	35.0
Financial companies	0.39	2.5	24	20.5
Insurance companies	0.02	0.9	24	10.5
Telecommunications	0.01	3.0	24	17.0
Mining	0.00	3.9	24	24.0
Pharmaceuticals/Textiles	2.28	2.0	10	5.2
Industrial activities	7.21	4.7	15	5.6
Hotel/Restaurant/Tourism	10.33	5.1	20	5.2
Other	79.75	38.5	20	6.5
Total	**100.00**	**100.0**		

Sources: Ministry of Finance; and IMF staff calculations.

[1] The average tax rate on profit margin is calculated as a percentage of the tax due over the total income, corrected for exempt income minus total deductions.

8. The basic choice facing policymakers is whether or not to continue with the current corporate tax system featuring significantly differentiated tax rates and a narrow tax base. A reform path that rationalizes CIT preferences and removes tax rate differentials within and across sectors of the economy would go a long way in restoring neutrality of tax system's impact on investment decisions, leveling playing field for investors. Such system would have a stronger revenue potential, including through a lessened susceptibility to aggressive tax-planning. In the short-term, the Jordanian authorities have committed to submitting to the parliament an amended Investment Law that rationalizes investment tax incentives and addresses tax arbitrage opportunities and transfer pricing abuses under (EFF SB11, reformulated proposed new SB1). Elimination of tax differentials to re-establish a neutral investment environment should be the medium-term objective. A detailed tax expenditure analysis will be needed to identify an appropriate plan in this area.

9. In the short term, however, immediate action is required to stop the revenue losses from the negative spillovers. The introduction of substance requirements disallowing companies preferential tax treatment, if they operate having insufficient economic nexus will serve to minimize profit shifting to special economic zones (EFF SB14, reformulated proposed new SB8).

General Sales Tax

10. Indirect taxes are the workhorse of the Jordanian tax system. Since 2012, taxes on goods and services have accounted for up to three-quarters of Jordan's tax revenues, averaging around 11.5 percent of GDP. GST alone brings revenue at around 4 percent of GDP per annum. However, similar to direct taxes, GST is underperforming. Plugged by exclusions from the base, reduced rates, including domestic zero-rating, and low compliance, Jordan's GST is a low-efficiency tax (Table AII.1). The authorities' estimate the GST tax expenditures at about 40 percent of total or 3.4 percent of GDP in 2018 (Figure AII.2).

11. Jordan has a very narrow GST base. Until 2017, Jordan applied five different GST rates—a standard rate (16 percent), and four reduced rates (8, 7, 4, and 0 percent)—as well as many exemptions. Over 200 products were subject to reduced rates of GST, in addition to 75 exemptions. Immediately after the CD mission in 2016, various measures were taken to broaden the base: the number of rates was reduced from five to four, namely the standard, and three reduced rates (10, 4, and 0 percent), and, in addition, various items were moved "upwards", from the reduced rates to the standard, or from the lowest rates to the medium rates.[4] Unfortunately, some of these measures were reversed in 2019—with various items moving back "downwards", from 16 or 10 percent to 4 percent. This reversal tendency has continued in 2020. In addition, Jordan's GST law also includes extensive exemptions (Schedule 2) and non-taxable supplies (Article 10).

12. Article 12 of the JIL substantially extends the scope of both the reduced rates and the exemptions included under the GST law. By zero-rating inputs *to* businesses carrying out economic activities in the development zones, supplies to the development zone are effectively treated as exports. All supplies *within* the development areas are subject to a reduced rate of 7 percent, unless regarded as exempt. These reduced rates and exemptions are particularly problematic as they are subjective exclusions from the base (type of supplier), rather than objective (type of product), which increases the risk of erosion of the tax base, as well as evasion.

13. Apart from the revenue cost, preferential tax regimes and other exclusions from the GST base carry significant negative spillovers. They give rise to significant economic distortions, in particular they create unequal playing field amongst different suppliers, and industries. In the case of exemptions, they also result in tax cascading (tax on tax) if they apply to intermediate, or pre-retail stages, and a bias towards vertical integration, since the tax burden can be reduced by producing inputs in-house rather than purchasing taxable inputs from third parties.

14. Preferential tax regimes and other exclusions from the GST base incentivize avoidance and create opportunities for fraud. Indeed, GST data shared by ISTD shows that the share of exemptions increases with the amount of turnover (Table AII.4). For smaller firms with turnover below JD 50,000, exempted sales represented 2.3 percent of turnover, while for firms with turnover above JD 5 million, the share of exempted sales amounted to 13.5 percent. In contrast, the ratio of remitted tax to turnover decreases as the levels of turnover increase. Smaller firms remit 15 percent of total turnover in GST, while larger firms remit, on average, only 5.3 percent of their turnover. These risks of avoidance and fraud, as well as qualification problems, can significantly increase administrative costs.

[4] SST Amending Bylaw No. (15) of 2017 dated February 8, 2017; and several cabinet decisions dated February 2017.

Table AII.4. GST, 2019

Turnover Ranges (In JDs)	Exempt Sales as a Share of Turnover (%)	Ratio of GST to Total Turnover	Share of Total Collected GST (%)
0 – 50,000	2.33	14.94	0.98
50,000 – 100,000	2.92	12.76	1.40
100,000 – 2,500,000	5.76	10.57	23.61
2,500,000 – 5,000,000	5.57	6.88	8.55
> 5,000,000	13.47	5.30	65.46
Averages / Total	**6.01**	**6.25**	**100.00**

Source: IMF staff calculations based on ISTD data.

15. Similar to other areas of the Jordan tax system, GST legislative framework is fragmented. Adding to complexity and legal uncertainty is a significant amount of ancillary legislation and administrative instructions.

16. Importantly, the Jordan GST law does not include place of taxation rules that establish the country's right to tax cross-border transactions. Fundamental to any GST system, place of taxation rules are especially important for Jordan, as they would establish the right to tax transactions within Jordan territory, between different existing regimes (e.g., between ASEZ and Amman). The absence of GST place of taxation rules is a likely source of avoidance and evasion. As confirmed by Jordanian tax practitioners, at present a business is only required to register itself for GST in one of the zones to benefit from its preferential tax regime, regardless of where its customers are located. Introducing place of taxation rules, in line with international best practices, is a priority (new proposed SB3).

17. Jordan GST's base should be broadened. Only through the implementation of a broad GST base and the abolition of existing preferential GST regimes, will Jordan's C-efficiency increase, and existing problems—in particular those concerning planning, avoidance, and fraud—be satisfactorily dealt with. Nevertheless, most countries experience significant political economy difficulties when attempting to broaden the VAT base. Jordan is not likely to be an exception, and significant resistance to both base broadening measures, and abolition of preferential regimes, is to be expected. In this context, while those measures should remain as medium to long-term objectives, priority should now be given to other measures than can minimize existing problems.

18. In this respect, development of a clear anti-avoidance and anti-fraud policy is necessary to ensure the proper functioning of the GST system. While there have been significant efforts at administrative level for combating fraud, there has been limited progress at legal level. As such, in addition to a limited number of existing Targeted Anti-Avoidance Rules (TAARs) and Targeted Anti-Fraud Rules (TAFRs) new TAARs and TARFs should be introduced into the GST law, in line with best international practice, to address specific types of avoidance and fraud. These should include a TAAR that prevents the abuse of optional registration; a TAAR to prevent the use of non-monetary considerations to avoid the tax; and a TAAR to prevent underpricing of supplies. Similarly, a new TARF, allowing refusal of registration by the tax authorities, can help prevent organized fraud. At present, the administrative capacity levels would prevent an immediate introduction of General Anti-Avoidance Rule (GAAR); in the medium to long term, however, a GAAR should be introduced.

Appendix I. Letter of Intent

Amman, Jordan
November 25, 2020

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

Dear Ms. Georgieva:

Jordan is experiencing an unprecedented economic challenge due to the COVID-19 outbreak. We have acted decisively to save lives, livelihoods and preserve public health. Our efforts were successful in containing the first wave of the pandemic: up until September our infection and mortality rates were among the lowest in the world in per capita terms. However, the outbreak and lockdown measures to contain it locally and globally took a heavy toll on our economy. Interruptions to domestic activity, and to global and regional supply chains have coupled with reduced tourism, remittances and exports to adversely affect Jordanian incomes. The budget has come under pressure due to the associated revenue loss and the need to mobilize additional public resources for health and social protection, and to support the most severely impacted sectors of the economy.

Just as our economy had started to recover, we have been struck by the second wave of the pandemic and are facing again the difficult choice between limiting the spread of the pandemic on one hand, and saving livelihoods on the other. We are devoting the necessary resources for an adequate health response, enforcing the use of masks in public places, delaying school re-openings and providing e-learning, and implementing targeted weekend lockdowns. We have also increase critical social spending to support the most vulnerable, and launched initiatives to keep workers employed and limit the scarring effects of the pandemic.

Notwithstanding these challenging circumstances, we remain fully committed to the objectives of our EFF-supported reform program. Rebuilding fiscal and external buffers, maintaining monetary and financial sector stability, and preserving the exchange-rate peg are key for macroeconomic stability. At the same time, our program aims to achieve higher and more inclusive growth by strengthening social safety nets, reducing unemployment and promoting labor force participation, particularly for youth and women, enhancing competitiveness, and improving governance and transparency. These objectives to foster job-rich growth, reduce inequality, and provide opportunities for all have become even more important in the aftermath of the COVID-19 pandemic. The pledged support by the international community under the Jordan Compact and the 2019 London Initiative, will enable us to continue shouldering the burden of hosting 1.3 million Syrian refugees.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the economic policies and structural reforms that we intend to implement under the EFF. Because of the pandemic-induced revenue shortfalls and the need for the increased spending to save lives and support the economy, the end-June quantitative performance criteria (QPC) and end-September indicative targets (IT) for the primary fiscal deficit and the combined public deficit were breached, as foreshadowed at the time of the request for Fund support under the RFI in May. Similarly, most other indicative targets for end-June and end-September could not be observed. We request waivers of non-observance for the missed QPCs on the basis of corrective action that we have committed to take to safeguard program objectives. The end-June QPC and end-September IT on net international reserves (NIR) and non-incurrence of external debt service arrears were met. Moreover, a recalibration of macroeconomic policies is needed, as the crisis has rendered future program targets inconsistent with the current state of the economy and the expected pace of recovery. Therefore, we request modification of the end-December QPCs for the primary fiscal deficit, the combined public deficit and net international reserves.

With our attentions focused on fighting the health crisis and saving lives, there have been inevitable delays in implementing structural conditionality. Despite the crisis, we have embarked on a robust anti-tax evasion drive as part of our efforts to strengthen tax compliance; and enhanced tax administration capacity. We request a reset of the completion dates of related structural benchmarks, as well as reformulation of some of them, as detailed in the accompanying Memorandum of Economic and Financial Policies. To support our efforts, we request the completion of the first review of the extended arrangement under the IMF's EFF and the disbursement of the second tranche in the amount equivalent to SDR 102.93 million (30 percent of quota). As before, IMF resources will be used for budget support. In addition, we request modification of the structural conditionality to better align reforms with the new realities and the changed priorities.

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our program, but 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 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. In light of the uncertainty surrounding 2021 and the unprecedented challenges brought on by COVID, saving lives and livelihoods will remain important along with safeguarding the key program objective of maintaining debt sustainability. Should the unfolding second wave and a potential further resurgence in the pandemic lead to significant economic damage, we will aim to re-prioritize spending toward essential areas to protect lives and livelihoods, while availing ourselves of the flexibility provided by the program adjustors. We expect the second review to be completed on or after March 30, 2021, and the third review—on or after September 30, 2021.

While the 2020 external financing needs will be met thanks in part to the RFI disbursement, emergency support from other development partners, and the Eurobond issuance, the COVID-19 crisis has increased the 2021 ones. To help us meet these needs and catalyze additional donor financing, we request frontloading of purchases under the EFF by raising access to 42 percent of quota for the second and the third reviews each, and to 33 percent of quota for the fourth and the fifth reviews each. The access for the last three reviews, would be reduced to 20 percent of quota each to keep the total amount unchanged.

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

Sincerely,

/s/ /s/

Mohamad Al-Ississ
Minister of Finance

Ziad Fariz
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 our economy.** We now expect an output contraction of 3 percent this year, instead of the 2 percent growth envisioned before the pandemic. This is due to the severe disruption in tourism-dependent sectors and to a smaller extent in exports and domestic activities. We are particularly concerned by the rise in the domestic unemployment rate to 23 percent, an all-time high. The demand contraction and low international energy prices are expected to keep annual inflation low for the year. The current account deficit will likely widen to close to 7 percent of GDP, as the declines in tourism, exports and remittances, and to a smaller extent exports outweigh savings on the import bill from weaker demand and lower energy prices. The crisis-related drop in revenues and additional spending on health and social protection will cause the combined public sector deficit to widen from 5 percent of GDP in 2019 to 7.7 percent of GDP in 2020, bringing public debt net of social security fund holdings to about 89 percent of GDP.

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 and key utility payments, and temporarily reduced consumption tax rates on tourism. On the monetary side, the Central Bank of Jordan (CBJ) reduced the policy rate by 150 basis points, lowered reserve requirements, provided liquidity support to banks, and low interest rate loans to SMEs. In combination, these timely measures have helped keep workers employed, businesses afloat, and credit flowing, despite the economic contraction.

3. **In implementing the stimulus, we have taken care to limit the erosion of key fiscal and financial buffers.** To offset the crisis-induced deterioration in the fiscal accounts, we postponed non-priority capital investment, cabinet member and senior government officials accepted pay cuts, while wage increases of other government employees, teachers, and military personnel were delayed. Moreover, overtime bonuses and allowances for higher paid employees, as well as fuel and transportation allowances, and travel bonuses have been suspended; and a hiring freeze for new positions in government entities and state-owned enterprises has been instituted. The CBJ also took the important prudential measure to require banks not to pay out their 2019 dividends, ensuring adequate capital buffers. Markets rewarded our effective handling of the first COVID-19 wave and the broader policy response by heavily oversubscribing, at competitive rates, our $1.75 billion Eurobond issuance in July.

4. **Despite the ongoing pandemic, we persevered with important reforms to strengthen tax administration capacity and improve tax compliance**. A majority of tax services have been shifted online. 75 percent of returns in 2020 were submitted through e-filing (compared to only 6 percent in 2016) and 95 percent of refunds are now deposited directly into taxpayers' accounts. We set up a dispute resolution procedure this year for settling outstanding income and sales taxes, which should help minimize the need for costly and time-consuming court procedures. Instead of auditing all big firms annually, we have adopted a risk-based approach to audits. We have also established a “gold list” of tax-compliant companies; companies on the list will be entitled to fewer

audits, faster processing of tax filings and tax refunds, and deferral of tax payment on imports (to the time of sale). We have changed GST by-laws to mandate that all tax arrears be paid to businesses within 30 days instead of 6 months previously and aim to clear all of the Income and Sales Tax Department's (ISTD) outstanding arrears by year-end. We are working on strengthening the institutional and technical capacity of the ISTD, including through increased staffing, personnel training, and organizational changes. In parallel, we embarked on a robust anti-tax evasion effort that has already helped identify significant under-reported tax liabilities and led to identifying key loopholes used in tax avoidance.

5. Helped by this timely policy response, we expect growth to resume next year and the economy to return to the pre-crisis path of internal and external adjustment over the medium term. Real GDP growth is projected to turn positive in 2021, as the pandemic is brought under control, and gradually accelerate, closing the output gap over the medium term. Inflation is expected to rebound to 1.3 percent in 2021, in line with the economic recovery. The current account deficit is projected to return to its pre-COVID-19 adjustment path safeguarding international reserve adequacy, as tourism fully recovers by 2022 and our strategy to regain footing in traditional export markets and enter new ones pays off. A gradual multi-year fiscal consolidation over 2021–24 should bring public debt down to below 80 percent of GDP by end-2025.

6. In these challenging times, donor support is ever more critical in helping Jordan cope with the refugee crisis and its associated fiscal and social costs. In 2019, the shortfall between planned and received donor financing to address the needs of refugees increased to USD 1.4 billion. Data through 2020:Q3 suggest a further widening of the gap, even before factoring in the higher costs of reining-in the spread of COVID-19 among the refugee population. These shortfalls hamper the implementation of the economic reforms program under the Jordan Compact, which is crucial in ensuring that Jordan can sustainably cope with the refugee crisis and reduce macroeconomic vulnerabilities. Notwithstanding this, Jordan will continue to provide refugees with all essential services.

7. Our commitment to the EFF program remains strong. Ever since the approval of the EFF in March, we have maintained continuous engagement with the Fund on developments on the ground and on policy issues. And 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. Unfortunately, the large impact of the COVID-19 shock on GDP and the need for a forceful policy response to forestall permanent damage to the economy have rendered the existing quantitative targets unrealistic. Accordingly, the end-June quantitative performance criteria (QPC) for the primary fiscal deficit of the central government and the combined public deficit were breached. Similarly, most indicative targets for end-June and end-September could not be observed (MEFP Table 1), as had been anticipated at the time of the request for support under the RFI. Nevertheless, the end-June QPC and end-September IT on net international reserves (NIR) and non-incurrence of external debt service arrears were met, the former thanks in part to the emergency support received under the Fund's Rapid Financing Facility. With our attentions focused on fighting the health crisis and saving lives, there have been inevitable delays in implementing structural conditionality (MEFP Table 2).

8. The first review provides us with a timely opportunity to seek a recalibration of this homegrown reform program, and to aver our commitment to its objectives. We are confident that the proposed modifications to the policies, as outlined below, will support the economic recovery, while preserving macroeconomic stability and setting the stage for reinvigoration of the economy through an ambitious reforms agenda.

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY AND BOOSTING GROWTH

The immediate priority for fiscal and monetary policies is to facilitate the economic recovery and prevent a significant permanent loss in jobs and incomes. In the medium term, the objective is to rebuild macroeconomic buffers that are critical for safeguarding macroeconomic stability. Gradual and steady fiscal consolidation coupled with policies to strengthen the finances of NEPCO and WAJ, are essential to ensure medium-term debt sustainability, while preserving space for social and capital spending. Raising tax revenue will be a critical component of our consolidation efforts. Monetary and financial sector policies will continue to be anchored by the exchange rate peg—which will require maintaining adequate foreign exchange reserve buffers—and aim to preserve the health of the banking system, especially through this period of economic stress. We are committed to tackling long-standing impediments to growth in the areas of labor market, business environment and competitiveness, and governance; building on the effective implementation of the Jordan Economic Growth Plan, and anchored in particular by the Five-Year Reform Matrix launched at the 2019 London Initiative.

A. Fiscal Policy and Structural Fiscal Reforms

9. Fiscal balances have weakened in 2020 due to the revenue loss and additional spending needs associated with the crisis. The domestic revenue shortfall in 2020 compared to the EFF request is estimated at about 3.5 percentage points of GDP, with sales taxes and nontax revenues expected to decline the most. The deterioration in revenues would have been even larger, if not for the carryover effects from the 2018 income tax law; anti-smuggling measures for tobacco products; reduction of sales tax and customs exemptions; and robust anti-tax evasion campaign. The discretionary measures to contain and mitigate the impact of the crisis are expected to be limited (0.6 percent of GDP). Additional savings were realized by delaying public sector salary increases and bonuses to end-2020, postponing non-priority capital expenditures, and imposing hiring freezes on new positions. We are in the process of clearing central government domestic arrears – estimated at close to 1 percent of GDP – to electricity distribution and refinery companies, municipalities, hospitals and medical treatment centers. The combined public deficit is now projected at 7.7 percent of GDP and public debt at 89.2 percent of GDP at end-2020.

10. In light of the COVID shock, the new anchor for fiscal policy will be reaching a public debt to GDP ratio of no more than 80 percent by 2025. The large adverse shock to GDP, revenues (including the social security surplus) and utilities' balances mean that the original EFF expectation of a 74 percent of GDP debt ratio in 2025 is no longer tenable. A target for public debt net of SSC's holdings of 80 percent of GDP would allow for a more gradual pace of consolidation, which is important given the fragile state of the economy. Importantly, the new target and consolidation profile would still deliver about a 4 ppts of GDP improvement between 2019 and 2024 in the central government primary balance (excluding grants) and the combined public balance, that was envisaged at EFF approval.

11. In the context of the expected economic recovery, we will start with a gradual fiscal consolidation of 0.7 percent of GDP in 2021. We will aim to narrow our primary deficit to a targeted level of 3.7 percent of GDP, which constitutes an improvement of 2.3 percentage points of GDP compared to 2020. Of this, about 1.6 percent of GDP will come on account of the post-crisis recovery, and about 0.7 percent of GDP from discretionary measures.

12. The bulk of the effort (0.5 percent of GDP) will come from measures to broaden the tax base, close existing tax loopholes, and aggressively fight tax evasion. We are in the process of submitting to parliament amendments to the 2014 Investment Law to eliminate all articles related to preferential tax treatment, in line with the IMF TA recommendations (delayed end-September 2020 SB, proposed to reset for end-March 2021). In addition to the existing commitments in the EFF, we will: (i) enact effective legislation to strengthen transfer pricing rules in line with international standards and IMF staff advice (new proposed end-March 2021 SB); and (ii) introduce place-of-taxation rules in the GST law in line with international best practices (new proposed end-April 2021 SB).

13. The remaining effort is expected to come from reducing non-priority expenditures. We will reduce wasteful spending and reprioritize the spending envelope to protect and enhance inclusive growth. We will rationalize transfers and subsidies to households through better targeting mechanisms, remove duplicate and inefficient programs, and ensure that the most vulnerable are protected. We will reduce expenditure on goods and services by postponing non-priority expenditure, and improving procurement practices through competitive bidding and use of e-procurement. We will contain the public wage bill by extending hiring freeze on new positions in non-essential sectors until end-2021. We will also conduct a study to explore the possibilities of streamlining the public sector, by merging ministries and agencies to ensure more efficient spending.

14. The COVID-19 pandemic and the government's containment measures have had an adverse effect on the balance sheets of some public enterprises and local government units:

- **Royal Jordanian (RJ).** The five-month suspension of all incoming and outgoing commercial passenger flights and the slow pace of subsequent re-opening of the airport have pressured RJ's finances. Given its strategic national importance, we are committed to facilitate the orderly restructuring of RJ operations to enable its quick return to profitability. Any government support provided in this context will be measured, and conditional on agreeing on a plan for increasing RJ's operational efficiency and its steadfast implementation.

- **Greater Amman Municipality (GAM).** The containment measures implemented in the context of the pandemic have led to a further decline in GAM's own-source revenues. GAM is developing a comprehensive restructuring plan to strengthen revenues, decrease operating costs, stretch out its debt maturities, and implement a monitoring mechanism to enable supervision by the Jordanian government.

15. We are firmly committed to these fiscal consolidation objectives and to preserving the program's broader objectives, while continuing to focus on protecting lives and livelihoods if the fallout from COVID is significantly larger than expected. Our immediate priority remains to mitigate the health and socioeconomic impact of the pandemic. We are expanding the capacity of the healthcare system to enable the economy to remain open to the extent possible. However, should the ongoing second wave and a potential further resurgence in the pandemic lead to significant economic damage, we will aim to re-prioritize spending toward essential areas to protect lives and livelihoods, while availing ourselves of the flexibility provided by the program adjustors. We will remain in close consultation with the Fund ahead of the second review on the appropriate policy response as the second wave unfolds.

16. To durably improve the efficiency of public finances, we are targeting structural fiscal reforms in key areas:

(i) Tax policy and administration.

- *Tax policy.* Building on the recent FAD Tax Policy mission, we will initiate, with IMF technical assistance, a tax expenditure analysis to help us develop a plan, by July 2021, for streamlining and better targeting of tax incentives, including in the special and development economic zones. This, alongside other base broadening efforts, will enable the government to collect more taxes without raising tax rates. To arrest the practice of using special corporate structures that do not reflect real economic activity but serve for tax minimization through profit shifting to special economic zones (SEZs), we will introduce Economic Substance Regulations for all SEZs (end-December SB, proposed to be reset to end-February 2021). Coupled with the recent signing of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC), the introduction of this legislation will allow Jordan to be taken off the EU "Gray" List of non-cooperative jurisdictions for tax purposes.

- *Revenue administration.* We have established new directorates at ISTD to monitor sectors with poor compliance, including establishments in development and economic zones; and professionals. We have also strengthened ISTD's audit function, through incorporating risk-based practices and establishing specialized audit teams for high-risk sectors in the large taxpayer directorate (LTD). We are committed to enhance the technical capacity of ISTD. In this regard, we already recruited 50 qualified staff and are planning to recruit another 50 (end-December 2020 SB), including new auditors, to be distributed across the LTD and the new directorates. Following recommendations from the January 2020 FAD TA, we will roll out compliance improvement campaigns for professional groups by end-December 2020. To address tobacco smuggling, we have finalized the technical specifications for the track-and-trace system and signed the contract for delivery with the system provider. We will next sign digital track-and-trace commitments with the three largest cigarette companies (new proposed end-February 2021 SB). We will implement the track and trace system with the largest cigarette company by end-July 2021 (delayed and reformulated SB from end-December 2020), with the view of full implementation in the rest of the sector by end-2021. We will pass legislation to introduce a single tax administration and a single customs service in Jordan, bringing

ASEZA participants under ISTD and Jordan Customs by end-March 2021 (delayed SB from end-December 2020); this action was delayed due to the COVID pandemic and the need for the new parliament to be in session.

(ii) Social safety net. In this regard, we will conduct a comprehensive review of our social spending envelope, and publish and implement an action plan to enhance its effectiveness and efficiency in coordination with the World Bank and UNICEF early next year. We continue implementing a three-year program to strengthen the social safety net in Jordan by almost doubling the coverage of the National Aid Fund (NAF)'s cash transfer program. To enhance its targeting and transparency, we will bring the National Unified Registry (NUR) online as single gateway for all Jordanians seeking social assistance by end-December 2020. 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. To ensure that the vulnerable are adequately provisioned, we will increase this spending should the crisis deepen.

(iii) Public financial management. To put an end to accumulation of new arrears, we passed a cabinet decision to prohibit the issuance of medical exemptions other than through the existing mechanism at the Royal Court within well-established eligibility rules and budgeted allocation. By end-2020, we will: reassess the appropriateness of the budget allocation for medicine procurement in light of actual commitments by; and implement a monitoring mechanism of public sector consumption of oil products from the refinery. To eliminate off-budget expenditures, we are strengthening top-down budgeting, and improving the quality of fiscal projections, and have issued a cabinet decision to prohibit the use of treasury advances to pay for unbudgeted expenditures. The carrying-out of a comprehensive review of trust accounts, beneficiary ministries, and use of resources has been delayed by the pandemic and is now expected in early-2021 (end-January 2021 SB). In the meantime, we are monitoring their use. In addition, we will conduct a mid-year review of the general budget and, with technical assistance from the Fund, and reassess the structure and scope of the 2017 draft organic budget law and submit to parliament an amended draft law by end-December 2020.

(iv) Fiscal transparency. To signal our commitment to transparency in public finances, we have invited the IMF's Fiscal Affairs Department to undertake a comprehensive Fiscal Transparency Evaluation in the coming months. Moreover, in line with our RFI commitments, we have issued circulars to facilitate the continuous publication on the government website of procurement contracts, including beneficial ownership of awarded entities, for COVID-19 emergency response spending above JD 25,000. We will, furthermore, undertake ex-post audits of all crisis-mitigating inflows and spending, which will also assess the transparency of the procurement process and take stock of the publication of beneficial ownership of entities awarded such contracts since end-June 2020, and publish the results (new proposed end-June 2021 SB). Finally, we are broadening and digitizing public procurement processes. By end-December 2020, we will issue all regulations needed to support implementation of the Unified Public Procurement By-law. The e-Government Procurement (e-GP) system, JONEPS, will ensure the highest levels of integrity, transparency, and fair competition. Our rollout of the system experienced delays due to COVID-19, but we will continue expanding the system to cover all public institutions at the ministerial level, as well as municipalities by end-June 2022.

(v) Fiscal risks management. With the help of Fund TA, we are undertaking a comprehensive review of SOEs and PPPs, with the goal of identifying and quantifying fiscal commitments and contingent liabilities. We are also pursuing measures to limit the future incurrence of fiscal risks from these sources. To this end:

- To fully implement the new PPP law, we will issue relevant Cabinet decisions to clarify that the law is binding for all new projects for which the procurement process had not started by April 2020.

- We will adequately staff the PPP Unit at the Prime Minister's office, the Fiscal Commitments and Contingent Liabilities (FCCL) unit at the MOF and the PIM Unit at Ministry of Planning and International Cooperation and ensure adequate coordination and information sharing between the entities.

- Leveraging the IMF Fiscal Affairs Department's SOE Health Check Tool, we will start reporting annual information on the financial performance of the largest public corporations (or entities with majority government ownership) in the energy, water and transport sector; as well as subnational governments.

(vi) Fiscal policy analysis and reform capacity. The Ministry of Finance is shouldering a heavy fiscal structural reform burden on top of its substantial day-to-day responsibilities (which have surged in the wake of the COVID pandemic). To sustain reform momentum, we will establish a project management unit in the Ministry of Finance to monitor and drive the structural fiscal reform agenda by end-March 2021. We also see scope to strengthen the Ministry of Finance's capacity to generate its own medium-term forecasts, assess and elucidate the dynamic and distributional impacts of alternative revenue and expenditure measures, monitor public balance sheet risks, and carry out debt sustainability analyses. To this end, we will be putting in place a new fully-resourced macro-fiscal unit at the Ministry of Finance by June 2021.

(vii) Public sector efficiency. We are undertaking a detailed study of Jordan's public sector, with a view to merging some ministries and entities, enhance the overall efficiency of the public sector, improve the level of services, and generate durable medium-term expenditure savings.

B. Monetary and Financial Policies and Enhancing Access to Finance

17. Monetary policy will continue to be underpinned by our firm commitment to the exchange rate peg. The peg has served our economy well to preserve market confidence and avoid any potential de-anchoring of inflation expectations. Since the onset of the crisis, the CBJ has implemented a sizable package of measures, totaling about 8 percent of GDP, to support economic activity. As a result, credit to the private sector grew by nearly 6 percent year-on-year during January–August, allowing firms, including SMEs, to remain in business and keep employees on the payroll. Although additional liquidity stimulus does not appear to be warranted at this time, the CBJ will continue to carefully monitor the state of the economy. In the event of reserves pressures emerging, the CBJ will stand ready to raise interest rates and tighten liquidity. Going forward, our objective will be to continue to maintain international reserves above 100 percent of the Fund's Reserve Adequacy Metric.

18. CBJ has provided support to businesses, with a focus on SMEs, through an existing and a new lending program to protect employment. CBJ created a new JD 500 million SMEs lending program and adjusted the terms of an existing one. In the new SMEs program CBJ provides liquidity to banks at zero interest rate and banks lend to SMEs at a maximum of 2 percent interest rate; the interest payments on funds used for payment of wages to preserve employment are covered by the government. To reduce the credit risk to banks, Jordan Loan Guarantee Company (JLGC) provides a loan guarantee to these banks at 85 percent of the loan value. We have lent JD 300 million to JLGC at 2 percent interest rate to allow it to build a buffer to absorb any calls on the guarantees. In addition to this new lending scheme that targets SMEs, we have modified an existing lending program to support productive economic sectors (tourism, industry, renewable energy etc.) and to allow them to utilize the loans in financing their operational expenses in addition to their capital expenses. The two subsidized lending programs have helped Jordanian businesses weather the ongoing pandemic. In light of our assessment of current market conditions, we do not see the need to expand or renew these programs going forward.

19. CBJ will continue to manage foreign reserves conservatively with the objective of maintaining safety, liquidity and profitability. To strengthen CBJ's reserve management framework, our existing regulations on foreign reserve management will be integrated in one Board-approved investment policy by end-March 2021. Aspects that will be part of the policy include: the hierarchy of objectives of foreign reserves, roles and responsibilities of the CBJ units, maximum size of term deposits, and a formal procedure to (i) manage limit breaches, (ii) decide composition of the foreign reserves, (iii) rules for credit/concentration limits, and (iv) reporting system.

20. Our banking system has remained liquid and well-capitalized. The system-wide capital adequacy ratio was 17.9 percent at end-June 2020, only slightly lower than the 18.3 percent at December 2019, and still well above the CBJ regulatory minimum of 12 percent. The CBJ's decision not to allow distribution of banks' 2019 profits of JD 450 million provided additional cushion. Non-performing loans, appear manageable, increasing from 5 percent of total loans in December 2019 to 5.4 percent in June 2020, though they are likely to rise going forward as banks reassess their portfolios in lieu of the COVID-19 shock.

21. We will 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 the case of a significant rise in NPLs and hit to profits. 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 gradually rebuild capital.

22. The legislative and regulatory framework for banks is being strengthened further. Since 2018, Jordanian banks have been compliant with the IFRS9 accounting standards, which has bolstered transparency and monitoring. The 2019 legislative amendments to the Deposit Insurance Corporation law established a robust bank resolution framework in line with the FSB Key Attributes, while the 2019 amendments to the Banking Law: (i) strengthened the corporate governance system; (ii) enhanced the resolution regime; (iii) strengthened the legal framework for Islamic banks; and (iv) advanced the use of electronic means/transactions in the banking sector and non-banking financial institutions. In 2019, the CBJ issued revised instructions on exposure limits for banks operating in Jordan. New instructions regarding the application of liquidity standards were issued in early 2020. Looking ahead, the CBJ board will approve detailed guidelines to implement the Emergency Liquidity Assistance framework provided for in the CBJ Law (new proposed end-June 2021 SB). Among other things, the guidelines will define acceptable collateral, instructions how to assess risks, and will include draft contracts. The CBJ is also reexamining the extent to which certain legal provisions are an impediment to IFRS compliance, and will concurrently benchmark against practices in other central banks with similar statutory requirements. The study and the resulting recommendations will be submitted to the CBJ Board by end-August 2021.

23. We will continue enhancing the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). With the assistance of the Fund, we have completed a National Risk Assessment, which has contributed to the ongoing review of the AML/CFT law to ensure that it is fully in line with Financial Action Task Force (FATF) standards and that it addresses all the practical issues faced by the AML/CFT Unit and other competent authorities and the recommendations of Jordan mutual evaluation. The draft amendments to the current AML/CFT law have been approved by the government in March 2020 and are expected to be passed by parliament by mid-2021. All regulatory agencies, including the CBJ with support from Fund technical assistance, have amended their regulations to ensure their conformity with FATF standards. Also, in line with IMF technical assistance recommendations, we have put in place a risk-based framework for offsite and onsite supervision of banks and money-exchange firms and for other financial and nonfinancial institutions, as well as Non-Profit Organizations.

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

- Amendments to the Insurance Law to allow for the transfer of the supervision of the insurance sector to the CBJ have been delayed by the pandemic. The law is currently before parliament and is expected to be passed the first half of 2021, allowing for implementation of reforms to the sector's regulatory framework in line with recent IMF TA. Meanwhile, the CBJ is training staff and drafting the necessary operational guidelines. This will help foster stronger supervision, minimize spillovers from the insurance sector to banks, as well as enhance financial development and inclusion.

- Nine microfinance institutions have been licensed according to the Microfinance By-law of 2015 and the instructions issued pursuant to it. The CBJ will continue to develop and implement the instructions required for the efficient supervision and monitoring of the microfinance sector.

25. Reforms to facilitate access to finance will help broaden the reach and usage of financial services. This is particularly important for Small- and Medium-Sized Enterprises (SMEs), which play a critical role in boosting growth and job creation. To this end:

- CRIF Jordan has obtained the license as the first credit bureau as a private company in December 2015, and it has launched the credit information reporting service in October 2016. Subsequent expansion of its operations has significantly improved lenders' ability to assess risk of borrowers, including Small- and Medium-Size Enterprises (SMEs). The bureau now covers all banks and is being progressively extended to insurance and leasing companies, microfinance institutions and telecommunication companies with plans for further expansion to also cover public utilities. The bureau has provided credit scores for borrowers since 2019, and is continually exploring the potential for further value-added services; improving lending decisions for both traditional and non-traditional borrowers alike.

- The CBJ and the commercial banks have co-financed a JD50 million fund to provide loan guarantees to SMEs and start-ups. The value of the fund has been increased later to JD 67.4 million; (i) with the financial assistance from the World Bank and the Central Bank of Jordan, in December 2017 we established a $98 million equity fund, the "Innovative Startups and SMEs Fund" (ISSF), to provide capital to innovative start-ups; and (ii) we have created a JD100 million export guarantee fund, financed with a loan from the CBJ. All three initiatives are managed by the JLGC. In addition, $550 million low-cost financing has been mobilized from the World Bank and the Arab Fund for Economic and Social Developments and other donors to support SMEs. These loans have helped create more than 7,000 new jobs. The commissioning of study on the state of financial inclusion in Jordan has been delayed by the pandemic and we now expect it to start in December 2020 and be completed by end-March 2021. This study will serve as a basis for preparing the first issue of a regular Financial Inclusion Report, which will take stock of progress in implementing the 2018–20 Financial Inclusion Strategy, and updating the Financial Inclusion Action plan for 2020–21. As a result, these two reports are now expected to be completed in early 2021 (proposed to be reset to end-March 2021 SB). In addition, the CBJ amended the instructions to banks on dealing with customers to prohibit gender discrimination in accessing credit in August 2020.

26. We are requesting the IMF to conduct an Update of the Financial Sector Assessment Program (FSAP) in late 2022 with preparatory work starting in early-2022. The Jordanian financial system has witnessed significant changes since the last FSAP update in 2008. In addition, the financial system has been subjected to three major external shocks since the last update and it is important to understand the longer-term structural impact of these shocks. Once the post-COVID-19 recovery takes hold, a systemic analysis would be important to ensure the continued resilience and health of the financial system going forward.

C. Electricity and Water Sector Reforms

27. We are adopting measures to arrest the rise in NEPCO losses, post-COVID. After breaking even in 2019, NEPCO expects to register a loss in 2020. This reflects the reduction in electricity demand in the wake of the COVID-19 shock, as well as setting of the fuel clause to zero following the sizeable drop of oil prices. We expect NEPCO's losses to grow in 2021 and further years, following the coming on-stream of a costly oil shale plant. In this context, we will prepare, by end-April 2021, an update of NEPCO's Financial Roadmap for Financial Sustainability which will lay out a comprehensive strategy to restore NEPCO to financial viability over the medium term, and encompass reforms to raise revenues and reduce costs. We are already taking, and have identified, several measures in these areas:

- *Revenue measures.* To incentivize electricity consumption from the grid and raise revenues of NEPCO, which has excess capacity, the cabinet passed a decision to reduce marginal tariffs for all productive sectors to 75 fils/kWh for electricity consumed by businesses above their 2019 levels. In addition, in January 2020, we lowered electricity tariffs for small and medium industries by 10 fils/kWh (about 15 percent of the tariff), as part of a bundle of incentives to support Jordan's productive sectors. We also lowered electricity tariffs for the water sector to help the water sector reduce its operational costs. Going forward, we are committed to keep electricity tariffs equal to the electricity cost-of-service for the water sector. These measures permitted an initial reduction in tariffs for key businesses. Additional measures envisioned for 2020 to reduce electricity tariffs for businesses were delayed because of COVID. Over the medium term, we will introduce connection fees for self-generation capacity, and apply a flat tariff based on the cost-of-service for electricity purchased from the grid. Moreover, we plan to install electricity meters for every house connected to the grid to combat illegal connections and increase bill collection. The need for further tariff adjustments will be assessed by the Energy and Mineral Regulatory Commission (EMRC), as part of its quarterly review of tariffs. In addition, we have increased our electricity exports to the West Bank, and signed an agreement to increase them further in 2021. In October 2020, we also signed an agreement to export electricity to Iraq within two years.

- *Costs saving measures.* NEPCO will continue to optimize the usage of all available energy sources through adequate imports of gas (including from Egypt, the Mediterranean and LNG markets) and electricity to reduce NEPCO's costs and maximize efficiency. Second, we will continue to reduce the costs of LNG storage and regasification. Third, we will explore options to optimize costs related to existing and future PPA commitments which impose large capacity charges on NEPCO.

- *Debt optimization.* In 2021, NEPCO will continue to implement measures in the debt optimization plan, which was approved by cabinet earlier in 2020, and partly implemented in 2020 and will help reduce NEPCO's interest burden.

28. We are committed to adjusting end-user electricity tariffs to better target subsidies for households, and reduce the high cost of electricity for businesses. The adoption and announcement of our plan to reform electricity tariffs, originally envisaged for June 2020, were delayed due to the COVID pandemic. We will adopt and announce a three-year plan, with evenly-phased implementation starting in 2021, that (a) redirects electricity subsidies only to those who most need them; and (b) uses part of the achieved savings to reduce electricity tariffs for key business sectors, while containing NEPCO losses (reformulated and reset end-March 2021 SB). The reform would help remove major distortions and improve competitiveness. This slightly revised approach aligns with post-COVID financial imperatives (i.e., the more urgent need to reduce NEPCO losses). In parallel, and by end-March 2021, we will launch a robust communication plan to explain the purpose of the tariff reform and its expected impact on growth and employment. Other measures will seek to address distorted incentives created by existing tariffs which discourage consumption of electricity when the system marginal costs are low (e.g., during the day when low cost renewable energy is being supplied into the grid).

29. We will launch an external review of the most significant PPA. There was a slight COVID-19 related delay in the hiring of an international firm to undertake a comprehensive review of the most significant PPA, but this has now been completed. This would imply a delay in completing the report and its sharing with Fund staff, which is now expected in early 2021 (end-March 2021 SB). The review will be based on terms of reference prepared in consultation with the IMF staff and will be designed to: (i) assess whether the project was in line with international best practices for negotiating and contracting PPAs; (ii) identify any governance concerns related to the process, and confirm its consistency with Jordanian law; and (iii) ascertain the contracts' financial implications for NEPCO. We will make available all relevant contracts for this review to the firm undertaking the review.

30. We are committed to reform the water sector in order to contain rising losses and ensure a sustainable path for the supply of water:

- *Arresting the accumulation of arrears to PPPs*. We are committed to arrest the accumulation of arrears towards water sector PPPs, including through development partner support and cash transfers from the Ministry of Finance to WAJ. We will also investigate the possibility of replenishing buffer accounts designed to provision for payments to PPPs.

- *Financial roadmap*. We will conduct a comprehensive analysis of the sector's challenges and prepare a Financial Sustainability Roadmap in consultation with the World Bank and other stakeholders. The Financial Roadmap will lay down actions to (i) increase revenues – including through higher collection of bills, the reduction in non-revenue water (both physical losses and thefts) and an analysis of the adequacy of water tariff in all sectors; and (ii) contain costs of the sector, in particular those related to electricity consumption. As with the "Action Plan to Reduce Water Sector Losses", we will implement the roadmap and issue regular progress reports.

- *Restructuring of the sector*. We will ensure that WAJ and all distribution companies continue to report independent and frequent (quarterly and annual) financial statements, following the planned merger of WAJ into the Ministry of Water and Irrigation. Starting in 2020, we have incorporated the Water Authority of Jordan (WAJ) into the general budget and will plan an adequate budget for the water sector in 2021.

- *Electricity consumption*. We will work on electricity efficiency projects and monitor the electricity consumption of WAJ and the three water distribution companies to prevent accumulation of new arrears to electricity distribution companies. Together with the electricity sector, we will design a joint electricity-water multi-year strategy to arrest the accumulation of arrears, and, enable the efficient purchase of electricity by the water sector (e.g. set a ceiling on electricity tariffs charged to the water sector, study the possibility to connect water sector facilities such as pumping stations directly to NEPCO).

- *PPP law*. We will ensure that WAJ and the water sector fully adhere to the PPP law in procurement decisions and granting of government guarantees for all new PPPs.

D. Structural Policies to Promote Jobs and Growth

31. We are committed to sustained job creation through broad-based labor market reforms, with a focus on measures to encourage formal, female, and youth employment. The COVID-19 shock has further exacerbated Jordan's labor market challenges. The unemployment rate has risen to 23 percent, while last year's gains in labor market participation have reversed. In this context, we are working aggressively to:

- **Encourage formality.** We have amended the Social Security Law to allow for reduced contributions for start-ups hiring young workers, and have introduced these lower contribution rates in the Agricultural and ICT sectors. The expansion of these reduced rates to startups in all economic sectors through a decision of the Board of the Social Security Corporation has been superseded by Defense Order issued by the Prime Minister Defense Order, which lowered the social security contributions for all sectors to help them cope with the COVID-19 shock. Once the Defense Order expires, we will extend the same treatment accorded to startups in the Agricultural and ICT sectors to all startups.

- **Enhance gender equality in the labor market.** To further improve gender equality, the Civil Status and Passport Department (CSPD) updated the online passport application form to equalize requirements and documents for women and men, removing the requirement for women to present a Family Book. The process of finalizing the instructions clarifying the modalities through which firms with employees, who in total have 15 or more children, are required to provide in-house or options for commercial daycare has been delayed by the pandemic and is now expected to be completed by the end of the year (end-December 2020 SB). Draft amendments to the Labor Law submitted to parliament address harassment and violence in the workplace and public spaces, by protecting those who report them from losing their jobs and/or opportunities for career advancement. We have also adopted a new nurseries licensing by-law, which aims to reduce a significant number of procedures to obtain a nursery license. We will also look into the social security survivor benefits regime to ensure that there is no gender discrimination with respect to survivor benefits, which may act as a disincentive for female participation in the social security system and in the formal labor market more generally. This will help to increase female labor force participation. By June 2021, we will issue instructions for licensing of home-based childcare.

- **Ensure affordable and safe transportation.** We are in the process of implementing the Code of Ethics and Professional Conduct for the transport sector, which regulates passenger, driver and operator conduct, and tackle harassment in the public transport system. We are also working to consolidate and enhance the quality of bus services by end-2022, with an initial focus on Jerash and Amman. We are also revising the Public Transport Strategy for the cities of Irbid and Zarqa. The Greater Amman Municipality (GAM) is also developing Jordan's first Bus Rapid Transit (BRT) system, which should start operations within Amman in 2021. The Amman BRT will also benefit from a complementary interurban BRT project connecting Amman and Zarqa, which should start operations in 2022. Reforms in this space are particularly helpful in encouraging female labor force participation.

- **Address public-private sector wage differentials**. We will prepare a civil service compensation reform plan, building on past and ongoing analysis supported by the World Bank, with the goal of better alignment of public to private sector compensation at all levels of seniority, taking into account education, on-the-job training, managerial responsibilities and other relevant job requirements.

- **Reduce youth unemployment.** We are streamlining and enhancing our technical and vocational education and training (TVET) efforts, and are working on legislation that will bring our existing initiatives under a single umbrella. We will also step up enforcement of existing certification regulations to raise the profile and demand for formal technical training and certification. Through the National Empowerment and Employment Program (NEEP), launched in March 2019, we are promoting on-the-job training, offsetting the upfront cost of training new hires (for six months) on condition that the employee be retained for three years. This program has been working well and will be expanded over the next 2–3 years, potentially reaching over 30,000 job seekers.

32. A key pillar of our growth strategy is improving the business environment to foster investment and enhancing competition and export competitiveness. Our efforts in this area focus on reducing the cost of starting and operating businesses including through simplifying procedures, eliminating red tape, and further strengthening investor protection:

- In January 2020, we launched a broad reform agenda centered around the **"Investor's Journey,"** which is a program that seeks to prioritize Jordan's business-environment reforms from the perspective of the investor, covering registration, licensing, inspection, and advertising. Going forward, the ISIC4 classification of economic activities will be adopted uniformly across all government entities by March 2021 and will, henceforth, be applied for newly registered entities. This will improve the coordination between government agencies involved in "Investor's Journey", helping to simplify and expedite the registration and licensing procedures for businesses. We are in the first stage of implementation of the Public Key Infrastructure System, which will facilitate digital authentication of online users.

- We will abolish **licensing requirements** for bookshops, cultural centers, and in the tourism sector by end-December 2020, and will issue amended regulations abolishing additional licenses that have been identified as lacking a clear legal basis, removing inter alia the requirements for judicial guarantee deposits for small businesses.[1] More sectoral licenses will be streamlined by the end of 2021. The amendments to the Vocational Licensing Law for the Greater Amman Municipality (GAM) are with parliament, but their adoption and subsequent issuance of related by-laws and instruction have been delayed by the COVID-19 crisis.

- Following the modernization of our **insolvency framework** with the 2018 amendment of the Insolvency Law and enactment of associated by-laws, we are in the process of training licensed

[1] The abolished licenses will be replaced by alternative registration or notification procedures.

insolvency practitioners and judges. By the end of the March 2021, we will have at least five licensed Insolvency Practitioners ready to oversee insolvency cases.

- We will work towards streamlining the **regulatory framework** and strengthening our **market competition framework**. We will consolidate our competition and regulatory framework around three key areas: consumer protection, utilities, and the transport sector. Our goal is to create strong, technical, and effective independent bodies that ensure a stable regulatory environment and boost market competition.

- On investment, we have completed the institutional setup for the newly created **Investor Grievance Mechanism**, which aims to identify, track, manage, and resolve grievances arising between investors and public agencies within specified time periods in order to increase investment retention and expansion and prevent escalation to legal disputes. Following the adoption of the changes to the 2014 **Investment Law** (⁋ 8), with technical support from the World Bank, by end-March 2021 we will prepare a draft new Investment Law, which will enhance Jordan Investment Commission's investment promotion role.

33. Modernization of Jordan's transport and logistics sector is important for bolstering Jordan's competitiveness. In 2021, we will design a strategy to reduce the oversupply in the highly fragmented trucking sector and provide incentives for fleet renewal and industry consolidation that will enhance the efficiency of cargo transport for containers in the Aqaba-Amman corridor.

34. We have submitted to parliament amendments to the Illicit Gains Law that strengthen the regime for monitoring and verification of public officials' financial disclosures, and allow publication of basic information from those disclosures. The amendments to the Illicit Gains Law require that all disclosures be submitted to the Jordan Integrity and Anti-Corruption Commission; to ensure that all disclosure information is maintained within an electronic database, which can be shared across relevant government agencies; and to allow more public access to basic financial disclosure information by public officials to increase public trust and accountability.

35. The abruptness and severity of the COVID-19 shock has underscored the importance of timely and accurate economic data in calibrating our policy response. In this regard, we will continue 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) will publish, by end-June 2021, data on annual GDP for 2019 by the production and income approaches, and by end of the year by the expenditure approach, based on DOS annual data sources. 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

36. 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 December 2020 and June 2021 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 Targets, June 2020–September 2021 1/

	Jun-20				Sep-20				Dec-20		Mar-21		Jun-21	Sep-21
	Performance Criteria	Adjusted	Actual	Note	Indicative Target	Adjusted	Actual	Note	Performance Criteria	Proposed Revised PC	Indicative Target	Proposed Revised IT	Proposed PC	Proposed IT
Performance Criteria														
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	320	124	729	Not met	486	281	1,248	Not met	743	1,872	53	366	650	874
Combined public deficit in JD million (flow, cumulative ceiling)	575	379	1,024	Not met	919	713	1,650	Not met	1,302	2,406	221	669	1,088	1,489
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	13,060	11,682	12,033	Met	12,753	12,776	14,228	Met	14,462	12,380	14,317	11,754	10,755	10,412
Ceiling on accumulation of external debt service arrears 2/	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0
Indicative Targets														
Social spending by the central government in JD million (flow, cumulative floor)	257	257	302	Met	385	385	643	Met	514	804	141	144	289	605
Public debt in JD million (stock, ceiling) 3/	25,623	25,622	26,176	Not met	26,178	26,076	27,279	Not met	25,825	27,379	26,261	27,383	28,256	28,624
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 4/	0	0	26	Not met	0	0	50	Not met	0	55	0	16	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 5/	0	0	54	Not met	0	0	83	Not met	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million (stock, ceiling) 6/	0	0	64	Not met	0	0	96	Not met	0	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-1,054	-274	278	Not met	-746	-1,368	-899	Not met	-1,642	80	-1,473	190	769	910
SSC net financing to the central government (flow, ceiling)	318	318	548	Not met	384	384	548	Not met	485	548	234	275	550	800
Memorandum items for adjustors														
Foreign budgetary grants received by the central government (JD millions, flow)	109	-	115		162		629		1,020	1,065	0	18	57	75
Programmed stock of the combined health and energy arrears (JD millions)	280	-	488		245		482		230	467	210	452	422	407
Stock of checks issued by the central government but not yet cashed by the beneficiary (JD millions)	...	-	72		...				200	200	...	...	...	...
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2019)	100	-	100		201		100		201	203	302	100	246	246

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 debt.

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 and Proposed Reformulation of Existing Structural Benchmarks and Proposed New Structural Conditionality

Item	Measure	Time Frame (by end of period)	Macroeconomic Rationale
I. Prior Actions			
1	Submission to parliament of a budget law for 2021 consistent with a central government primary deficit target (excluding grants and transfers to NEPCO and WAJ) of no more than JD 1,180 million.		Fiscal consolidation
2	Hire an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.		Governance and improved PFM
II. Proposed New and Reformulated Structural Benchmarks			
1	Submit to parliament an amended Investment Law that removes all Articles related to tax incentives, in line with TA recommendations	Mar-21	Address legal fragmentation and strengthen revenue mobilization
2	Enact effective legislation to strengthen transfer pricing rules in line with international standards and IMF staff advice	Mar-21	Protect against tax base erosion and profit shifting
3	Introduce into the GST Law "place-of-taxation" rules for GST in line with international best practices	Apr-21	Increase efficiency of GST and improve tax compliance
4	Sign digital track and trace commitments with three largest cigarette companies	Feb-21	Revenue mobilization
5	Adopt and announce a three-year plan, with evenly-phased implementation starting in 2021, that (a) redirects electricity subsidies only to those who most need them; and (b) uses part of the achieved savings to reduce electricity tariffs for key business sectors, while containing NEPCO losses.	Mar-21	Address NEPCO's financial viability and cost of doing business
6	Approval by the CBJ Board of guidelines for implementation of the Emergency Liquidity Assistance (ELA) framework provided for in the CBJ Law	Jun-21	Strengthen lender of last resort function of the CBJ
7	Undertake ex-post audits of all crisis-mitigating inflows and spending, which will also assess the transparency of the procurement process and take stock of the publication of beneficial ownership of entities awarded such contracts since end-June 2020, and publish the results.	Jun-21	Governance and fiscal transparency
8	Approve legislation to introduce Economic Substance Regulations for all special economic zones.	Feb-21	Strengthen tax compliance management

III. Existing Structural Benchmarks

Item	Measure	Original Time Frame (by end of period)	Status	Macroeconomic Rationale	New Time Frame (by end of period)	Proposed Action
1	Adopt a multi-year plan – budget neutral for NEPCO – to reduce electricity tariffs of key sectors so that average electricity tariffs on corporates aligns with the average supply cost per kWh, and household subsidies are redirected to only those who need it by end-2024.	Jun-20	Not met	Cost of doing busines	…	Reformulated as new SB #5 for end-March 2021
2	Implement measures in 2020, in addition to those already taken, equal to JD75 million (on an annualized basis) to permit a reduction in tariffs paid by businesses.	Oct-20	Not met	Cost of doing business	…	Reformulated as new SB #5 for end-March, 2021
3	Issue by-laws and/or instructions aimed at increasing access to affordable childcare.	Jun-20	Not met	Labor market	Dec-20	Completion date to be reset
4	Expansion of targeted temporary reductions in social-security contributions to all new startups.	Jun-20	Met	Improving business climate and labor market flexibility		
5	Publication of a regular Financial Inclusion Report and a follow-on Financial Inclusion Action plan for 2020-21.	Dec-20	…	Financial Development	Mar-21	Completion date to be reset
6	Hire an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.	Jun-20	Not met	Governance and improved PFM	…	Proposed New Prior Action
7	Completion of the comprehensive review of the most significant PPA by an international accounting, consulting or legal firm, with the review shared with Fund staff.	Sep-20	Not met	Governance and improved PFM	Mar-21	Completion date to be reset
8	Submit to parliament amendments to existing legislation to allow greater public access to basic financial disclosure information by public officials.	Dec-20	Met	Governance		
9	Recruit 100 qualified staff (two phases: 50 by end-June and 50 by end-December), including new auditors, to be distributed across the large taxpayer directorate and newly-created ISTD directorates monitoring: (i) establishments in special economic zones; (ii) professionals; and (iii) employees and payroll deductions.	1st phase - Jun-20 2nd phase - Dec-20	1st phase - Not met, implemented with delay	Revenue mobilization	Dec-20	2nd phase target to be kept unchanged
10	Conduct a comprehensive review of the underlying trust accounts, beneficiary ministries, and use of resources, and its consistency with budget needs and practices, while limiting and monitoring their use pending this review.	Sep-20	Not met	Fiscal transparency and budgeting	Jan-21	Completion date to be reset
11	Submit to parliament an amended Investment Law that addresses tax arbitrage opportunities and transfer pricing abuses, and rationalizes investment tax incentives.	Sep-20	Not met	Strengthen tax policy		Reformulated as new SB#1 for end-March 2021.
12	Implement the Digital Volume Verification System (track-and-trace system) to monitor tobacco production and reduce cigarette smuggling.	Dec-20	…	Revenue mobilization	Jul-21	Completion date to be reset
13	Pass legislation to impose a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control.	Dec-20	…	Strengthen tax compliance management	Mar-21	Completion date to be reset
14	Introduce Economic Substance Regulations for all special economic zones.	Dec-20	…	Revenue mobilization by closing profit-shifting loopholes	…	Reformulated as new SB #8 for end-February 2021

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 November 25, 2020. 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]

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

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

(continued)

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

A. Quantitative Performance Criteria and Indicative Targets

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

6. 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");

7. 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");

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

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

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

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

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

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

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

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

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

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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.

17. 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

18. 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.

19. 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.

20. **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.

21. **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.

22. **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.

23. **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.

24. 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).

25. 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:

26. 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 75 percent of the shortfall.

27. 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 cap of US$200 million for 2020, and US$200 million for 2021. This adjustment will apply only to grants that have been specifically provided to protect the livelihoods of workers severely affected by the containment measures (which is spending not covered under paragraph 30 of the TMU).

28. 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).

29. 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.

30. 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 (therefore not funded and reported as part of budget allocations), 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.

C. Ceiling on the Combined Public Deficit

31. 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.

32. 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.

33. 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.

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

35. 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 75 percent of the shortfall.

36. 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 cap of US$200 million for 2020, and US$200 million for 2021. This adjustment will apply only to grants that have been specifically provided to protect the livelihoods of workers severely affected by the containment measures (which is spending not covered under paragraph 39 of the TMU).

37. 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).

38. 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.

39. 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 (therefore not funded and reported as part of budget allocations), 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.

D. Floor on the Net International Reserves of the CBJ

40. 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.

41. 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.

42. 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.

43. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates. As of June 30, 2020, the stock of NIR amounted to USD 12,033.1 million (at program exchange rates).

44. 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. 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

45. 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

46. Social spending is defined as central government spending on: (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.

G. Ceiling on Public Debt

47. 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 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.

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

49. 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

50. 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

51. 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

52. 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.

53. 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.

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

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

56. 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

57. 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.

58. 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:

59. 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.

60. 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).

61. 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).

62. Related to central government arrears:

63. 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.

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

65. Related to the combined public sector deficit:

66. All the information specified in paragraph 28.

67. 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.

68. 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.

69. 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.

70. 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.

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

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

73. 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).

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

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

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

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

78. Monetary statistics (monthly).

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

80. Banking FSI (quarterly; starting 2021 Q1)

81. Related to the continuous performance criteria:

82. 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.

83. Related to the floors on public debt:

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

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

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

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

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

89. Other economic data

90. 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).

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

92. 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).

93. National accounts statistics (quarterly).

94. 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

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

Statement by the Staff Representative on Jordan
December 14, 2020

This statement updates on developments since the issuance of the Staff Report for the First Review Under the Extended Fund Facility. The new information does not alter the thrust of the staff appraisal.

Recent developments. Following the more stringent lockdowns last month, the spread of COVID-19 has slowed, with new daily infections falling from over 6,000 in early November to below 4,000 this week. On November 26, Moody's and Fitch affirmed Jordan's sovereign rating at B1 and BB-, respectively, noting the authorities' sustained commitment to reforms and medium-term fiscal consolidation in the context of the IMF program, sound banking sector, and external partner support.

Completion of prior actions for the First Review:

- On October 25, NEPCO accepted an offer of a reputable international law firm to undertake a comprehensive **review of the most significant PPA**. The review will: (i) ascertain the contracts' financial implications for NEPCO; and (ii) assess whether the project was in line with international best practices for negotiating and contracting PPAs, identify any governance concerns related to the process, and confirm its consistency with Jordanian law. The completion of the review and the sharing of its findings with staff is expected by end-March 2021 (SB).

- On November 30, the authorities **submitted to parliament a draft budget law for 2021** consistent with a primary deficit target of JD 1,180 million (3.7 percent of GDP), excluding grants, in line with the program. The authorities expect domestic revenues to be about 0.3 percent of GDP higher than the level staff envisaged (reflecting their expectation of higher yield from their anti-evasion tax drive), which is offset by 0.35 percent of GDP higher capital expenditures. Current expenditures are in line with staff's projections.

Social protection and jobs support package. Last week, the authorities announced JD 260 million (0.8 percent of GDP) in temporary and targeted measures to support vulnerable citizens in the wake of the second COVID-19 wave and the associated lockdowns. The package includes JD 100 million to expand the cash transfer program to cover 100,000 new families and daily workers; JD 140 million to protect 180,000 jobs in affected sectors; and JD 20 million for the tourism sector. The package, which is in addition to the 2021 budget, is expected to be financed by new grants (JD 164 million); reprioritizing 2020 spending (JD 10 million); the SSC's labor support scheme (JD 66 million); and co-financing with the private sector and the World Bank for the tourism sector (JD 20 million). The new measures are consistent with the flexibility built into the program to accommodate critical and temporary spending needs. The measures are not expected to affect the program's fiscal targets as the additional spending is largely tied to grants (and, thus, covered by the adjustor on additional social protection (TMU ¶27)); or supported by the SSC, which is expected to remain in surplus over the medium term.

Statement by Mahmoud Mohieldin, Executive Director for Jordan, Sami Geadah, Alternate Executive Director for Jordan, and Mira Merhi, Advisor for Jordan
December 14, 2020

On behalf of our Jordanian authorities, we thank the country team for their hard work and proactive engagement during these extraordinary times. We are also grateful to Management and the Board for their support.

Recent economic developments in Jordan—as in the rest of the world—have been dominated by the COVID pandemic. Unlike most of the rest of the world, Jordan entered the current crisis with what its Minister of Finance refers to as “pre-existing economic conditions.” Growth was already sluggish before the pandemic, at an average rate of about 2 percent between 2012 and 2019, which was far below the preceding decade and well below the rates necessary to reduce unemployment; for 2020, GDP is forecast to decline by 3 percent. The unemployment rate—which hovered around 19 percent before the pandemic, with higher rates for youth and female unemployment—has risen to a high of 24 percent, with youth unemployment at 40 percent. Moreover, fiscal buffers were limited as the public debt was 79 percent of GDP at end-2009 despite several years of fiscal adjustment.
These challenges have been exacerbated by the large number of Syrian refugees—over 1¼ million, about one-fifth of Jordan’s population. The authorities appreciate the assistance to host the refugees, including under the London Initiative. However, this assistance continues to be substantially below needs and commitments, which has become more urgent with the pandemic, and the burden of providing this global public good is growing increasingly unsustainable. The authorities received about one-fifth of what was promised in 2019, and support has fallen even further this year. The situation for refugees is extremely critical and Jordan is doing all it can to avoid exacerbating the circumstances that the refugees and host communities are subjected to.

The response to the pandemic

The authorities responded to the first wave of the pandemic with strict containment measures which resulted in very few infections and fatalities, among the lowest globally on a per capita basis. They have shown sensibility in targeted and temporary support measures in light of the pandemic for businesses and vulnerable individuals while maintaining fiscal buffers through strategic yet difficult expenditure cuts. However, as could be expected, an economic slowdown could not be avoided. The country is now facing a second wave of the virus with a significant increase in infections. A less severe lockdown is currently in place, with curfews on one weekend day only as the authorities balance economic, social, and public health considerations. Nonetheless, the global impact of the pandemic continues to exert significant pressure on economic conditions, including through the important tourism sector and remittances.

The authorities' commitment to adjustment and reforms as reflected in the current Extended Fund Facility (EFF) arrangement—which was formulated before the pandemic—has remained strong throughout this difficult period, including with the recent change in government and Parliament. Within this framework, the pandemic has shifted near-term priorities as the authorities sought to protect lives and livelihoods, and preserve public health, which had a significant impact on public finances in the short term. As revenues were adversely affected by the decline in output, there were additional spending pressures on health and social protection. The authorities took measures to limit the deterioration in revenues through measures such as advancing efforts against tax evasion and cut non-essential spending to the extent possible, including on public sector wages. Nonetheless, an increase in the fiscal deficit was unavoidable, to a level that was still lower than had been anticipated at the time of the request for assistance under the Rapid Financing Instrument (RFI) in May. The Central Bank of Jordan also implemented a sizable package of measures to support economic activity. The authorities managed to proceed with governance and tax administration reforms despite inevitable temporary delays in the structural reform agenda.

A recalibrated program

In light of these circumstances, there was an obvious need to recalibrate the EFF program. This need was recognized by the Executive Board in May as Directors called for recalibrating the program targets during the meeting on Jordan's request for support under the RFI. The authorities highly appreciate the understanding and flexibility of the Executive Board, as well as that of IMF staff and Management.

The program has been revised in a manner that does not compromise its medium-term targets. There was a significant modification to the quantitative fiscal targets, with relatively little change to the structural reform agenda; both sets of targets remain appropriate and ambitious. In fact, further reforms were added, making this program among one with the highest number of structural benchmarks. The immediate priority is to facilitate economic recovery and prevent a significant permanent loss in jobs and incomes while protecting the most vulnerable and maintaining fiscal stability. For the medium term, the program continues to aim at rebuilding macroeconomic buffers to safeguard macroeconomic stability, lay the foundations for a robust and sustainable growth and job creation, including putting debt on a sustainable and downward path. Fiscal consolidation is to be resumed in a gradual, growth friendly, and equitable manner, while structural reforms will continue to aim at improving the business climate, enhance the labor market, strengthen governance, and address the difficulties in the electricity sector. Notwithstanding the authorities' commitment and full ownership of the program, there may be a need to assess some of its targets as current uncertainties unfold.

Fiscal policies

The authorities are committed to a gradual and steady fiscal consolidation to bring down public debt during the program period while allowing for social and capital spending that supports inclusive growth. The budget that was submitted to parliament in late November aims for a reduction in the primary fiscal deficit from 5.8 percent of GDP in 2020 to 3.7 percent of GDP in 2021, notwithstanding the fiscal support package that was announced following the presentation of the budget. The debt-to-GDP ratio remains the medium-term anchor for fiscal adjustment, aiming for 80 percent of GDP in 2025 instead of 74 percent before the pandemic in line with the RFI projections; public debt is forecast at 89 percent of GDP at end-2020.

The planned reduction in the deficit is based on measures to broaden the tax base, close loopholes, and aggressively fight tax evasion. Increasing tax rates or lowering thresholds have not yielded good results, whereas increasing the efficacy of collection (including through combatting tax evasion) has been quite effective. Expenditure measures focus on reducing wasteful spending, better targeting mechanisms, postponing non-priority expenditure, improving procurement practices, and hiring freezes on new positions in non-essential sectors. Given uncertainties related to forecasting the yield from improvements in tax administration, the authorities are prepared to take compensatory measures in the event that revenues fall below projections in an appropriate manner.

Monetary policies

The Central Bank of Jordan (CBJ) has continued its strong track record of skillful management of monetary policy, which has been anchored by the peg to the US dollar. Within the constraints of the peg, the CBJ has balanced stability and growth objectives, keeping interest rates as low as possible to support credit growth, subject to maintaining a comfortable level of foreign reserves. While the CBJ has closely matched movements in US dollar interest rates, it has been a net buyer of foreign exchange since early 2019, with the aim of maintaining reserve coverage above 100 percent of the Fund's ARA Metric. The CBJ continues to monitor domestic and external economic developments closely, and it has intervened adequately and effectively to maintain monetary stability and reserve targets.

Financial sector policies

The CBJ has a strong and effective prudential and supervisory framework, which has helped to maintain the system's financial soundness and resilience. The capitalization of the banking system is well above the regulatory minimum of 12 percent and it is among the highest in the region, liquidity buffers remain comfortable, and profitability is strong. The legislative and regulatory framework for banks is being strengthened further with the adoption of IFRS9 accounting standards, and the establishment of a robust bank resolution framework in line with the FSB Key Attributes. Amendments to the Insurance Law to transfer the supervision of the insurance sector to the CBJ have been delayed by the pandemic. The law is currently before Parliament and it is expected to be passed in the first half of 2021. The CBJ will also continue to strengthen the supervision of the microfinance sector. Initiatives to develop the nonbank financial sector are ongoing, which will contribute to further financial deepening. An FSAP is planned for 2022.

Structural reforms

Structural reforms are a high priority given their importance for growth and employment notwithstanding temporary delays in some areas because of the pandemic. The reform agenda is based on the Five-Year Reform Matrix which was launched at the 2019 London Initiative. The aim is to help make growth strong, sustained, and job-creating while supporting debt sustainability. These reforms have benefitted from the expertise of international organizations, including the World Bank, ILO, and other multilateral and bilateral donors.

Electricity sector reform is at the core of the authorities' growth agenda. The electricity company (NEPCO) is updating the strategy to restore its financial viability over the medium term. The plan is to reduce the cost of generating electricity, reduce the cost for businesses, complemented by well-targeted subsidies for the household sector while eliminating the sector's financial losses.

Another important area of structural reform is the labor market, with the aim of encouraging formal, female, and youth employment. Measures are being taken to address public-private sector wage differentials and to enhance gender equality in the labor market, including through flexible working arrangements, affordable and safe transportation, removal of gender differentiation in labor regulations, and child daycare. To reduce youth unemployment**,** technical and vocational education and training are being streamlined. The reduction of social security contributions rates for start-ups hiring young workers will be expanded to startups in all economic sectors.

A third area of the structural reform agenda is improving the business environment to foster investment and enhancing competition and export competitiveness. This area includes measures to reduce the cost of starting and operating businesses through simplifying procedures, eliminating red tape, and further strengthening investor protection. The regulatory framework and market competition framework are being further strengthened and streamlined, including through a simplification of licensing requirements and the consolidation of the competition and regulatory framework.

The Jordanian authorities value the close relations with the Fund—including through consistent consultation and technical assistance—and look forward to continued policy dialogue and collaboration. They are committed to maintaining macroeconomic stability and to persevere with economic reforms and protect the most vulnerable of the population while addressing the additional challenges associated with the pandemic.