INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/224

JORDAN

October 2021

TECHNICAL REPORT—FISCAL TRANSPARENCY EVALUATION

This Technical Assistance Paper on Jordan was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in April 2021.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

F I S C A L   A F F A I R S   D E P A R T M E N T

Jordan
Fiscal Transparency Evaluation

Richard Allen, Nabila Akhazzan, Yugo Koshima, Julien Dubertret, and Bryn Welham

September 2021

CONTENTS

TABLES

GLOSSARY

AB	Audit Bureau
BCG	Budgetary Central Government
CBJ	Central Bank of Jordan
COFOG	Classification of Functions of Government (UN)
CVDB	Cities and Villages Development Bank
EBU	Extrabudgetary Unit
FCU	Fiscal Commitments Unit
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GAM	Greater Amman Municipality
GDP	Gross Domestic Product
GBD	General Budget Directorate (MoF)
GFSM	Government Finance Statistics Manual (IMF)
GG	General Government
GGFB	General Government Finance Bulletin
INTOSAI	International Association of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MFD	Macro-Fiscal Directorate
MoF	Ministry of Finance
MoPIC	Ministry of Planning and International Cooperation
MTDMS	Medium-Term Debt Management Strategy
MTFF	Medium-Term Fiscal Framework
MTBF	Medium-Term Budget Framework
NEPCO	National Electric Power Company
OBL	Organic Budget Law
PC	Public Corporation
PFM	Public Financial Management
PIMA	Public Investment Management Assessment (IMF)
PPP	Public-Private Partnership
SEPD	Studies and Economic Policies Directorate (MoF)
SSC	Social Security Corporation
SSIF	Social Security Insurance Fund
WAJ	Water Authority of Jordan

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

PREFACE

At the request of the Minister of Finance, H.E. Mohammad Al Isssiss, an IMF mission undertook a remote Fiscal Transparency Evaluation (FTE) of Jordan between March 31 and April 26, 2021. The evaluation is based on the IMF's Fiscal Transparency Code (FTC). The mission comprised Mr. Richard Allen (head), Mr. Yugo Koshima (IMF Fiscal Affairs Department), Ms. Nabila Akhazzan (IMF Statistics Department), and Mr. Julien Dubertret, and Mr. Bryn Welham (short-term experts).

At the Ministry of Finance, the team met with H.E the Minister of Finance and Mr. Abdel Hakim Shibli, Secretary General; Mr. Majdi Al Shuriqi, Director General, General Budget Department; Ms. Hanadi Refaee, Director of Studies and Economic Policies; Mr. Ahmad Hmaidat, Director of Public Debt; Mr. Ahmad Annuz, Head of Statistics, Public Debt Department; Mr. Sulieman Al Zyoud, Director of the Treasury; Mr. Haytham Haliaqa, Director of Accounting; Mr. Osama Sulieman, Head of the FCU; Mr. Omar Asfour, Head of the Public Management Reform Unit; Mr. Wissam Al Rabadi, Advisor to the Minister; Mr. Kheiry Amr, CEO of the Government Investment Management Corporation; and other senior officials.

Outside the Ministry of Finance, the team met with Mr. Nedal Al Azzam, Head of the Research Department, Central Bank of Jordan (CBJ), and with the Bank's Banking Supervision and Financial Stability Departments; the Public Investment Management Unit at the Ministry of Planning and International Cooperation (MoPIC); the Head of the PPP Unit at the Prime Minister's Office; the Ministry of Water and the Water Authority of Jordan (WAJ); the Social Security Investment Fund (SSIF); the Audit Bureau (AB) of Jordan; the Jordan Deposit Insurance Fund; the Greater Amman Municipality (GAM), Amman Vision for Transport, and Amman Vision for Investment; the Cities and Villages Development Bank (CVDB); the Ministry of Municipal Affairs, the Ministry of Environment and the Jordan Environment Fund; and the Chair of the Parliament's Economy and Investment Committee. In addition, the mission met with representatives of the United States Agency for International Development (USAID) and other development partners.

The evaluation is based on information available at the time of the mission in April 2021. The findings and recommendations of the report represent the views and advice of the IMF mission team and do not necessarily reflect those of the authorities.

The team would like to thank the Jordanian authorities for their excellent collaboration and for the frank and open exchanges of views on all matters discussed. Special thanks are due to Dr. Hanadi and Fadwa Al Draini in the Ministry of Finance, and to Kareem Ismail and Sana Almunizel of the IMF's Resident Representative's Office in Jordan for their huge support in arranging meetings and responding to numerous requests for documents, and to our two excellent interpreters, Basma Al Far and Issa Zayed. Patrick Ryan (IMF Fiscal Affairs Department) provided valuable support in compiling data and cross-country comparisons.

EXECUTIVE SUMMARY

Jordan has taken important steps to enhance its fiscal transparency over the past decade. Notably, there is a comprehensive legal framework for the management of public finances. Fiscal reports have become more comprehensive and cover a high proportion of public sector institutions. The frequency of in-year reporting is at an advanced level, as is the timeliness of publication of the government's annual financial statements. Fiscal statistics are disseminated in accordance with international standards (SDDS). Fiscal forecasts and budgets have become more forward looking and policy oriented with the introduction of a five-year medium-term budget framework and a program classification. As a result of improvements in fiscal transparency practices, in the 2019 Open Budget Survey, Jordan scored above the global average for transparency, and is the only country in the region ranked overall as 'green' on this measure. Nevertheless, the FTE provides a more detailed and in-depth analysis with a broader focus.

Many elements of sound fiscal transparency are therefore in place, but there is room for improvement in Jordan's current ratings against the IMF's Fiscal Transparency Code. Overall, Jordan meets the basic standard of practice on 15 out of the 36 principles of the Code, good practice on seven principles and advanced practice on three principles. Table 0.1 shows that Jordan's performance is generally better on fiscal reporting (Pillar I of the Code) than on forecasting and budgeting (Pillar II) and fiscal risk analysis and management (Pillar III). The evaluation does not cover Pillar IV of the Code on the management of natural resources which is a relatively small sector in Jordan.

The evaluation highlights several areas where Jordan's fiscal transparency practices could be further improved, notably:

- Currently, various fiscal reports are published, but they are somewhat fragmented and based on different standards. The reports differ in terms of institutional coverage, flows and stocks, and the basis of accounting. There is no report that provides a comprehensive, consolidated view of public sector finances.
- Fiscal reports cover 88 percent of general government activity in terms of flows, but there are major gaps in the coverage of the stock of government assets and liabilities. Jordan does not produce a consolidated balance sheet for the public sector nor for the general government.
- Fiscal reports are compiled on a cash basis, covering most revenue, expenditure, and financing items, but do not capture flows that pass through off-budget accounts, nor do they cover available information on accrued revenues and expenditures. Limited information is published on tax expenditure which represents 10 percent of GDP, and two-thirds of tax revenue.
- Macroeconomic forecasts have a substantial optimistic bias (an average deviation of 35 percent in the GDP forecasts since 2007) thereby resulting in large errors in the revenue projections that underpin the budget.
- The budget documentation includes only limited information on the macroeconomic assumptions used in preparing the annual budget and the MTBF. The forecasts are not

independently evaluated by individuals or entities outside the government. There is no analysis in the budget of how fiscal outcomes might be affected by different macroeconomic scenarios.

- Jordan's total gross exposure of government to a range of identified fiscal risks is estimated at over 120 percent of 2020 GDP but the government's reporting and disclosure of these risks is limited. Jordan faces additional fiscal risks from long-term pressures on health and pensions spending (127 percent of GDP) but there is no publicly disclosed analysis of the long-term sustainability of the public finances.
- Some areas of specific fiscal risk (especially the banking sector) are managed well but several other areas could be improved, notably the reporting of risks related to government guarantees, PPPs, natural resources (potash and phosphate mining), the environment and natural disasters, subnational governments, and public corporations.
- Non-financial public corporations are also a substantial area of risk. In 2019, six out of the 10 largest NFPCs, including the two energy and three water companies, were either making losses or carrying a high level of liabilities with debt-to-equity ratios exceeding one or negative (i.e., negative net assets).

This evaluation report proposes 12 key recommendations to further enhance fiscal transparency in Jordan. In summary, it recommends that the authorities:

Pillar I: Fiscal Reporting

- Improve the presentation, classification, timeliness, and quality of fiscal reports for the general government sector. The report provides a roadmap to guide the government in making reforms in this area—Box 1.2.
- Harmonize fiscal reporting to ensure consistency between and within fiscal reports
- Expand the identification and quantification of tax expenditures and publish estimates for the upcoming fiscal year with the budget documentation.
- Adopt and implement pending legislation to enhance the independence of the Audit Bureau.

Pillar II: Fiscal Forecasting and Budgeting

- Improve the government's macro-fiscal forecasting credibility and build capacity in the MoF for preparing clear fiscal policy objectives and goals that provide an anchor for medium- and long-term fiscal planning.
- Disclose more information on macroeconomic forecasts in the budget documentation, including a reconciliation with previous years' forecasts, and benchmark these forecasts against independent forecasts.
- Bring forward the tabling of the budget to Parliament by one month to November 1st each year.
- Bring the National Registry of Investment Projects (NRIP) reform to completion and identify, quantify and regularly disclose commitments on multi-year investment projects.

Pillar III: Fiscal Risks

- Improve the overall management of fiscal risks by assigning responsibility for gathering data and reporting on these risks to the new Macro-Fiscal Directorate (MFD) in the MoF.
- Develop the macroeconomic forecasting risk capability of the MoF and publish with the budget assessments of the sensitivity of fiscal forecasts of key economic variables.
- Complete efforts to create a comprehensive database of PPP risks, and generate progressively more comprehensive overall PPP risk reports, in line with the institutional responsibilities set out in a recent Cabinet decision.
- Strengthen the MoF's financial oversight of public corporations and publish a comprehensive annual report on the companies' financial performance.

It would be possible for the authorities to make rapid progress in improving its ratings under the Code. Early improvements can be made by enacting new legislation before Parliament, by implementing changes already in process (e.g., on PPPs), or by straightforward improvements in the reporting of data in the budget documentation (e.g., on macroeconomic forecasts). Through such changes eight of the principles of the Code currently rated as "Not Met" could be upgraded to a "Basic" or "Good" performance and only five principles would remain as "Not Met" (Table 0.2).

This report also evaluates Jordan's public sector financial position to provide a more comprehensive view of public finances. It estimates consolidated public sector expenditure of 48 percent of GDP, public sector asset holdings and liabilities of around 152 and 159 percent of GDP respectively, and public sector net worth of minus 6 percent of GDP in 2019 (Table 0.3). While the public sector deficit and net worth do not differ significantly from the reported central government aggregates, overall public sector activities, gross assets and liabilities are considerably larger.

The remainder of this report provides a more detailed evaluation of Jordan's fiscal transparency practices against the standards of the Code. It is organized as follows:

- Chapter I evaluates the coverage, timeliness, quality, and integrity of fiscal reporting.
- Chapter II evaluates the comprehensiveness, orderliness, policy orientation, and credibility of fiscal forecasting and budgeting.
- Chapter III evaluates arrangements for the disclosure and management of fiscal risks.

Table 0.1. Jordan: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
Coverage of Institutions	Budget Unity	Macroeconomic Risks
Coverage of Stocks	Macroeconomic Forecasts	Specific Fiscal Risks
Coverage of Flows	Medium-term Budget Framework	Long-term Fiscal Sustainability
Coverage of Tax Expenditure	Investment Projects	Budgetary Contingencies
Frequency of In-Year Reporting	Fiscal Legislation	Asset and Liability Management
Timeliness of Annual Accounts	Timeliness of Budget Documentation	Guarantees
Classification	Fiscal Policy Objectives	Public Private Partnerships
Internal Consistency	Performance Information	Financial Sector
Historical Revisions	Public Participation	Natural Resources
Statistical Integrity	Independent Evaluation	Environmental Risks
External Audit	Supplementary Budget	Subnational Governments
Comparability of Fiscal Data	Forecast Reconciliation	Public Corporations

Table 0.2. Jordan: Potential Improvements to Jordan FTC Ratings Following Reforms

Existing Rating – Not Met		Reforms Already Underway / Easily Achievable	Possible rating after reform
1.1.4	Tax Expenditures	The MoF has agreed to include in future budgets an estimate of tax expenditures for the coming two years, alongside the methodology used to calculate tax expenditures.	**Basic**
1.3.2	Internal Consistency	Extend the fiscal tables (e.g., Table 36 of the GGFB) to include net financing (i.e., fiscal balance calculated as revenue less expenditure to be reconciled with net acquisition of financial assets minus net incurrence of liabilities).	**Basic**
2.1.4	Macroeconomic Forecasts	Include in the budget documentation: • A table of key macroeconomic indicators informing the budget (GDP growth, inflation, unemployment rate, employment growth, exchange rates, current balance). • A discussion on the assumptions that underpin these macroeconomic indicators.	**Good**
2.4.1	Independent Evaluation of Forecasts	Include in the budget documentation comparisons between the government's economic and fiscal projections and those of independent forecasters (CBJ, IMF, World Bank, private institutions)	**Basic**
2.4.3	Forecast Reconciliation	Include in the budget documentation a presentation of differences between successive vintages of the government's revenue, expenditure, and financing forecasts at aggregate level; add a discussion on the impact of new policies on the forecasts.	**Basic**
3.1.1	Macroeconomic Risks	Include in the budget documentation a discussion of the sensitivity of fiscal forecasts to changes in major economic assumptions (growth, inflation, interest rates at a minimum; plus, exchange rates and oil prices if possible).	**Basic**
3.2.4	Public-Private Partnerships	Complete the FCU exercise on gathering and consolidating basic financial information on PPPs. Once complete, publish this information.	**Basic**

Table 0.3. Jordan: Public Sector Financial Overview - 2019

(Percent of GDP)

	General Government								Public Corporations			Public Sector	
	Central Government												
	Budgetary central government	Extrabud. central government	Consolidation Central Govt.	Consolidated CG	Social Security Funds	Local Governments	Consolidation Gen. Govt.	Consolidated GG	Nonfinancial	Financial	Central Bank	Consolidation Public Sector	Consolidated Public Sector
Transactions													
Revenue	24.5	2.5	-0.1	27.0	7.5	1.9	-1.6	34.8	12.4	0.3	0.9	-0.1	48.3
Expenditure	27.9	3.0	-0.1	30.8	4.0	2.6	-1.6	35.8	11.5	0.0	0.8	-0.1	48.0
Net lending/borrowing	**-3.3**	**-0.5**		**-3.8**	**3.5**	**-0.6**		**-1.0**	**0.9**	**0.3**	**0.1**		**0.3**
Stocks													
Assets	**28.5**	**19.2**	**-5.9**	**41.9**	**37.7**	**56.9**	**-19.4**	**117.1**	**18.7**	**3.9**	**43.4**	**-30.8**	**152.3**
Nonfinancial	9.3	18.4	0.0	27.7	4.7	54.6	0.0	87.0	11.2	0.0	0.0	0.0	98.3
Financial	19.2	0.9	-5.9	14.2	33.0	2.3	-19.4	30.1	7.5	3.9	43.4	-30.8	54.0
Of which													
Monetary gold and SDRs											4.8		4.8
Currency and deposits	3.2	0.9	-0.4	3.6	4.7	0.2	0.0	8.5	0.7	2.8	18.6	-1.3	26.5
Debt securities	0.0	0.0	0.0	0.0	19.6	0.0	-19.4	0.2	0.0	0.1	11.1	-11.2	0.2
Loans	20.6	0.0	-5.1	15.6	0.8	0.1	0.0	16.5	0.0	0.9	8.8	-23.5	2.7
Liabilities	**138.3**	**5.4**	**-5.9**	**137.8**	**2.9**	**1.7**	**-19.4**	**123.0**	**19.1**	**3.9**	**43.4**	**-30.9**	**158.6**
Of which													
Currency and deposits	0.4	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.5	42.2	-1.3	41.4
Debt securities	66.4	0.0	0.0	66.4	0.0	0.0	-19.4	47.0	1.7	0.0	0.0	-11.3	37.4
Loans	18.9	5.1	-5.1	18.9	0.0	1.7	0.0	20.5	12.6	0.1	0.0	-23.5	9.7
Public service pension	50.4	0.0	0.0	50.4	0.0	0.0	0.0	50.4	0.0	0.0	0.0	0.0	50.4
Net worth	*-109.8*	*13.8*	*0.0*	*-96.0*	*34.8*	*55.2*	*0.0*	*-5.9*	*-0.4*	*0.0*	*0.0*	*0.1*	*-6.3*
Net financial worth (NFW)	***-119.1***	***-4.6***	***0.0***	***-123.7***	***30.1***	***0.6***	***0.0***	***-93.0***	***-11.6***	***0.0***	***0.0***	***0.0***	***-104.5***
NFW excl. Public service pension	*-68.7*	*-4.6*	*0.0*	*-73.3*	*30.1*	*0.6*	*0.0*	*-42.5*	*-11.6*	*0.0*	*0.0*	*0.0*	*-54.1*

Source: IMF staff estimates derived from GGFB and audited financial statements of individual PCs

Note: The "Consolidation" columns show the amount of inter-public sector transactions and crossholding of assets and liabilities held and/or owed by one public sector unit to another. The "Consolidated" column is calculated by summing up the flows and stocks of each subsector on a gross basis and eliminating the amount of consolidation.

I. FISCAL REPORTING

1. **Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial positions, performance, and cash flows.** This chapter assesses the quality of fiscal reporting in Jordan against the principles set out in the Fiscal Transparency Code (FTC). In doing so, it assesses the following: the coverage of institutions, stocks, and flows; the frequency and timeliness of fiscal reporting; the quality of fiscal reporting; and the integrity of fiscal reports. Fiscal reports, which include in-year budget execution reports, fiscal statistics, and annual financial statements, should:

- Cover all institutional units in the public sector classified according to international standards
- Record all assets, liabilities, revenue, expenditures, financing, and other economic flows
- Be published in a frequent and timely manner
- Reconcile the different balances calculated and have comparable data across reports; and
- Be prepared by an independent agency in the case of statistics and audited by an independent external audit authority in the case of financial statements.

2. **Fiscal reporting is the foundation of good fiscal management.** Quality fiscal reports are essential to ensure that the government's fiscal decisions are based on the most complete, up-to-date, and accurate understanding of its financial position. Fiscal reports are also the main mechanism through which legislatures, auditors, and the public hold governments accountable for their financial performance. Finally, fiscal reports are a critical source of information for markets and other external stakeholders to understand the government's financial position and its implications for economic and fiscal policy.

3. **Jordan has made significant progress to improve its fiscal reporting system.** Further, the authorities have reiterated their interest in developing a migration path for even more comprehensive and transparent reporting of fiscal data in accordance with international standards, with an emphasis on improving the quality and timeliness of general government reporting.

4. **Currently, various fiscal reports are published, but they are somewhat fragmented and based on different standards.** As shown in Table 1.1, fiscal reports differ in terms of institutional coverage, flows and stocks, and basis of accounting. While fiscal statistics for the central government sector broadly follow the IMF's Government Finance Statistics Manual framework (GFSM2001/2014), financial statements for other subsectors are based on national classifications. There is no report that provides a comprehensive and consolidated view of public sector finances.

5. Production of the main fiscal reports in the Jordan is split between public institutions. These summary fiscal reports comprise:

- **General Government Finance Bulletin (GGFB),** which is produced by the Studies and Economic Policies Directorate (SEPD) of the Ministry of Finance (MoF) and includes data on the monthly execution of the general budget for revenue, expenditures, and debt. Also included are monthly debt statistics and annual aggerated data on other subsectors of the general government.[1]
- **Quarterly and mid-year budget execution reports,** prepared jointly by the MoF and the General Budget Department (GBD). These reports include budget execution data and comparisons with the estimates of revenue, expenditure, and debt included in the budget. The reports also examine year-to-date performance with a focus on spending programs. An overview of the economic outlook is also included.
- **Public Debt Quarterly Report,** produced by the MoF's Public Debt Directorate (PDD), includes extensive data on government and government-guaranteed debt.
- **Final accounts and cash-based IPSAS Annual Financial Statements,** produced by the MoF's Accounting Directorate (AD) and audited by the Audit Bureau of Jordan (AB), covers receipts and payments of the budgetary central government and extra budgetary units (EBUs), together with statements of debt and some financial assets (deposits).

[1] Beyond the budgetary central government data which are published with a monthly frequency, data for other subsectors are published annually and are not timely (two years lag in publication). This does not allow for the compilation of a consolidated general government financial position.

Table 1.1. Jordan: List of Fiscal Reports

Report	Author	Coverage			Accounting			Publication	
		Inst.	Flows	Stocks	Basis	Class	Consol.	Frequency	Lag
IN-YEAR REPORTS									
General Government Finance Bulletin	MoF/SEPD	BCG, GG	R, E, Debt	Debt	Cash	GFSM 2001	No	Monthly	6w
Quarterly Budget execution reports	GBD	BCG	R, E,		Cash	Nat	--	Quarterly	6w
Public Debt Quarterly Report	MoF/PDD	BCG	Debt	Debt & Guaranteed Debt	Cash	Nat	--	Quarterly	6w
Mid-Year Budget execution reports	MoF/SEPD	BCG	R, E, Debt	-	Cash	Nat	--	Semiannual	6w
ANNUAL REPORTS									
Annual Financial Statements	MoF/AD	BCG, CG	R, E, Fin		Cash	Nat	No	Annual	2m
Final accounts	MoF/AD	BCG, CG	R, E, Fin		Cash	Nat	No	Annual	2m
Issuance plan of debt instruments	MoF/PDD	BCG	Debt		Cash	Nat	--	Annual	1m
Debt Strategy	MoF/PDD	BCG	Debt	Debt	Cash	Nat	--	Annual	5m
Government Financial Statistics (GFSY)	MoF/ SEPD&AD	GG	R, E, Fin	Debt, Cash holdings	Cash	GFSM 2001/2014	Yes	Annual	6m

Source: Ministry of Finance and GBD websites

Note: AD=Accounting Directorate; GBD=General Budget Department; PDD=Public Debt Directorate; SEPD=Studies &Economic Policies Directorate
R=Revenue; E=Expense; Fin=Financing

1.1. Coverage of Fiscal Reports

1.1.1. Coverage of Institutions (Good)

6. **Jordan's public sector comprises 275 institutional units of various legal forms.**[2] These can be grouped into the following subsectors:

- **Central government**. This includes 105[3] entities of which 83 are included in the general budget law and 22 EBUs[4] (own budget entities) included in the Government Units' Budget Law (see section 2.1.1). The MoF shared its concern that some of the agencies currently included as central government units may not be appropriately categorized according to international statistical standards (GFSM). For fiscal reporting purposes, the integration of own budget entities in the central budget greatly facilitates the compilation of statistics for central government. However, it would be worth undertaking a sectorization exercise aligned with GFSM standards that correctly defines the composition of the general government and the classification of public sector units. It is strongly recommended that such a study be coordinated with the Department of Statistics (within MoPIC) to ensure consistency between GFSM and national accounts data.
- **Local governments.**[5] This sector comprises 100 municipalities and the Greater Amman Municipality (GAM) which is by far the largest, accounting for 52 percent of total local government revenue and 48 percent of their total expenditures. The Ministry of Municipalities compiles data on the fiscal operations of all 100 municipalities in Jordan (except GAM which reports to the Prime Minister). While each municipality has its own budget, a common administrative structure is in place, hence making it possible to obtain data on municipalities' operations in a standardized format. The Cities and Villages Development Bank (CVDB) also compiles extensive data on the fiscal operations of all municipalities. The Bank regularly provides the MoF with source data in their existing classification and structure, which is then adjusted into the format recommended by the GFSM (see Section 3.3.1).

---

[2] The analysis in this FTE report follows the institutional classification rules of International Statistical Standards. It should be noted that the institutional coverage of debt and fiscal flows in Jordan's current EFF program with the IMF often differs from these strict statistical definitions by incorporating sectors that are seen to pose significant fiscal and financing risks over the duration of the program. These differences are reflected in the analysis of institutional arrangements described below and in the roadmap of possible reforms presented in Box 1.1.

[3] Excluding the health insurance funds, NEPCO and CBJ.

[4] For the remainder of this report, the own budget units included in the Government Units Budget will be referred to as extrabudgetary units (EBUs). Although these units do not match the statistical definition of the GFSM, some reclassification were made for statistics compilation.

[5] Jordan comprises 12 governorates. The governorates act as arms of central government and include representatives of the major spending departments (education, health etc.) but also hold special responsibilites for national security. These governorates are defined as subnational governments.

- **Social security funds.** This subsector is made up of two[6] main agencies. The first and the largest one is the Social Security Corporation (SSC) which focuses on pensions and insurance payments[7] The second is the Civil Health Insurance Fund (CHIF), an institutional unit that operates a health insurance scheme for civil servants and other segments of the population. Two additional schemes complementing this fund are the Royal Medical Services (budgetary unit) which provides health insurance for military personal and another agency covering private sector employees.

  For the SSC comprehensive financial information is produced and consolidated with its investment arm, the Social Security Investment Fund (SSIF) and is available on a quarterly basis. However, it is unclear whether current regulations would permit the release of source data on SSC operations other than those required under its statute (and published in its *Annual Report*). It is recommended that MoF staff develop an appropriate framework for data sharing. This could be made explicit in the legislation pertaining to GFS compilation.

- **Public corporations (PCs).** 67 entities are classified by the authorities as PCs. Government has a majority participation in less than half of these units, and the most important ones are involved in the provision of basic public services (water, electricity, oil and gas, and transportation). 52 PCs are nonfinancial public corporations (NFPCs) and 15 are classified as financial public corporations (FPCs).

7. Jordan's total public sector expenditures is estimated at around 48 percent of GDP in 2019.

- **General government** expenditure accounted for a 35.8 percent of GDP on a consolidated basis of which over 85 percent flows through the central government and the rest through sub-national governments and social security funds. This high level of expenditure mainly comprises current expenditures. General government capital expenditures represent only 3.3 percent of GDP and contribute to the increase in physical assets for the public sector; and

- **Public corporations'** expenditure accounted for a further 12.3 of GDP of which about 94 percent is spent by NFPCs.

8. There is no single report that provides a complete coverage of public sector activity. The mission discussed the MoF's ongoing work aimed at fully consolidating the general government sector and each of its subsectors. The authorities noted that while the major transactions and debtor-creditor relationships are captured by the current fiscal reports, the work is not yet complete and requires the formalization of a comprehensive list of general government and public sector units as defined by international standards. However, the authorities are keen

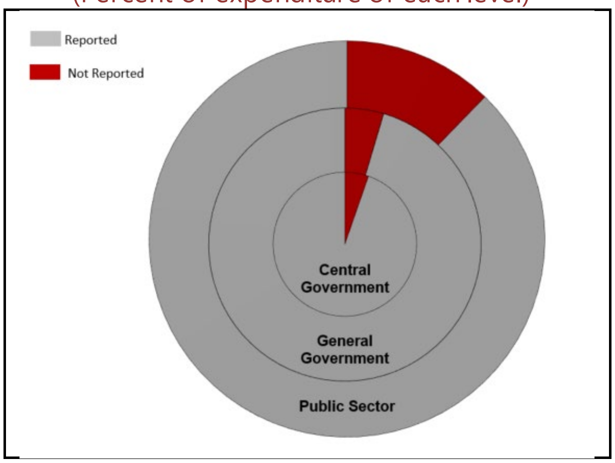
[6] Currently, the Civil Health Insurance Fund is considered to be part of extrabudgetary unit subsector.

[7] The SSC also manages, among others, the unemployment fund and maternity fund, but these are small compared to the pension scheme.

to assess the overall impact of government operations based on a set of consolidated statistics and the potential inclusion of additional agencies was not seen as having a large impact on finalizing this work.

9. Annual consolidated financial reports cover over 88 percent of all the EBUs and PCs. Figure 1.1 shows the coverage of fiscal reports. The general government sector does not include the ten public universities which account for around 5 percent of general government expenditures. The Government Units Budget Law covers several financial and nonfinancial public corporations.

Figure 1.1. Public Sector Expenditure and Coverage in Fiscal Reports, 2019
(Percent of expenditure of each level)



Source: IMF staff estimates derived from GGFB and individual audited financial statements of PCs.

1.1.2. Coverage of Stocks (Basic)

10. Although fiscal reports cover a substantial share (88 percent) of general government activity in terms of flows, stock positions are incomplete and there are major gaps in the coverage of the stock of government assets and liabilities. Jordan does not produce a consolidated balance sheet for the public sector, nor for the general government.

11. Fiscal reports in Jordan cover only two debt instruments in the liabilities side and deposits in the financial assets side. The monthly GGFB and the quarterly debt report contain most of the information about incurrence of government liabilities in the form of loans and debt securities, and central government holdings of deposits in the CBJ and other financial institutions. They also include information about government guaranteed debt but exclude other debt instruments. External debt is presented by creditor and currency.

12. The coverage of government debt is broad, but gaps in reporting of total public sector assets and liabilities remain significant (Figure 1.2). The main gaps reflect the following:

- **Deposit liabilities (e.g., deposits in trusts).** These are not included in government debt. The absence of any institutionalized oversight and comprehensive fiscal reporting for trust accounts held off-budget by the central government and own-budget entities makes it more challenging to capture them. By end-2019, deposits in trusts accounted for JD 904.5 million, equivalent to 2.9 percent of GDP.[8]

- **Other accounts payable.** The budgetary central government accumulated arrears that accounted for around 2.2 percent of GDP in 2019, mainly in the health and energy sector. The authorities' reported debt stock numbers do not include non-traditional debt instruments. Some "comfort letters" are given to entities to whom payments by the government are arrears (construction companies, a cancer center, a refinery, and municipalities); and enable the entities to obtain loans from commercial banks. The letters imply a government obligation to repay the amounts owed over a period of 5 years plus the interest (4–5 percent) that the banks charge. It is important to record these "securitized arrears" as debt, especially because the MoF must service the obligations. At end-2020, these non-traditional debt instruments amounted to 2.5 percent of GDP. In 2021, the MOF is considering the issuance of an additional JD100 million in "comfort letters" to securitize health and energy arrears. The authorities plan to start including (initially as a separate line) debt arising from the "securitization of arrears" in future reports. Out of the total stock of accounts payable by the public sector, representing 17.3 percent of GDP in 2019, the largest share (12.2 percent of GDP) was attributable to nonfinancial public corporations, of which NEPCO accounts for 10 percent.

- **Pension liabilities.** These are not reported and information on their size was unavailable at the time of the mission. The last sustainability report of the SSC indicates that the fund would be in deficit by 2041 and would be unable to pay the accrued benefits by 2051 (see Section 3.1.3). The mission estimates public service pensions to be around 50.4 percent of GDP in 2019.

- **Nonfinancial assets.** The absence of data on the stock positions of nonfinancial assets of the general government is a significant gap in fiscal reports. Most nonfinancial assets are held by the central and local governments. The total nonfinancial assets reported in the financial statements of some EBUs and the SSC accounted for 23.1 percent of GDP in 2019. Some estimates[9] by the IMF Fiscal Affairs Departments show a total of the government stock of nonfinancial assets around 87 percent of GDP. Further estimates by the World Bank[10] indicate that Jordan's natural resource wealth is around 32 percent of GDP, predominantly coming from reserves of phosphate.

- **Assets and liabilities of public corporations.** Data is available in the published financial statements of individual companies, but there is no statement that consolidates all these

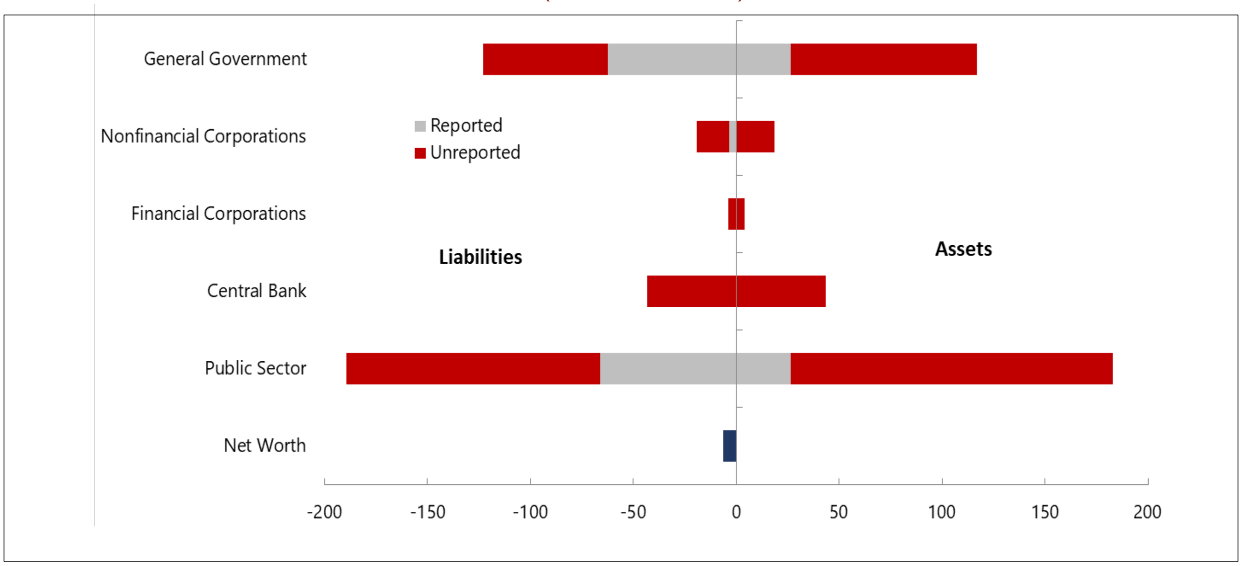
[8] See METAC Report on Trust Accounts, 2020.

[9] IMF Capital Stock Database.

[10] World Bank (2018) 'The Changing Wealth of Nations'.

stock positions. Based on available financial statements for the 12 largest NFPCs, total assets accounted for 18.7 percent of GDP and outstanding liabilities (other than equity) for 26.5 percent of GDP by end 2019 (see also Section 3.3.2).

Figure 1.2. Coverage of Public Sector Balance Sheet in Fiscal Reports, 2019
(Percent of GDP)



Source: IMF staff estimates.

13. The main composition of the public sector balance sheet on a consolidated basis is as follows (Table 1.2):

- **Nonfinancial assets** account for about 98.3 percent of GDP, concentrated in local and central government of which 27.7percent of GDP is attributed to the CG sector, 54.6 percent of GDP to local governments, and the remainder to PCs.
- **Financial assets** account for 54 percent of GDP on a consolidated basis, after eliminating crossholdings of assets and liabilities within the public sector. The general government owns about 30.1 percent of these assets while PCs own 54.8 before consolidation. The assets of the public sector are composed mainly of currency and deposits, loans, and receivables.
- **Liabilities** account for 158.6 percent of GDP on a consolidated basis. The major reported instruments include debt securities, loans and payables which represent 37.4 percent, 9.7 percent, and 17.3 percent of GDP respectively. Public service pensions are estimated at 50.4 percent of GDP.

Table 1.2. Jordan: Estimate of Public Sector Balance Sheet[1/], 2019

(Percent of GDP)

	General Government					Public Sector				
	Central Government		SSF	LGs	Consol. GG	NFPC[2/]	FPC[3/]	CBJ	Consol[4/]	Consol Public Sector[5/]
	BCG	EBUs								
Stocks										
Assets	**28.5**	**19.2**	**37.7**	**56.9**	**117.1**	**18.7**	**3.9**	**43.4**	**-30.8**	**152.3**
Nonfinancial assets	**9.3**	**18.4**	**4.7**	**54.6**	**87.0**	**11.2**	**0.0**	**0.0**	**0.0**	**98.3**
Financial assets	**19.2**	**0.9**	**33.0**	**2.3**	**30.1**	**7.5**	**3.9**	**43.4**	**-30.8**	**54.0**
Of which										
Monetary gold and SDRs								4.8		4.8
Currency and deposits	3.2	0.9	4.7	0.2	8.5	0.7	2.8	18.6	-1.3	26.5
Debt securities	0.0	0.0	19.6	0.0	0.2	0.0	0.1	11.1	-11.2	0.2
Loans	20.6	0.0	0.8	0.1	16.5	0.0	0.9	8.8	-23.5	2.7
Equity and investment fund shares	-5.2	0.0	6.2	0.1	-5.1	0.1	0.0	0.0	5.2	0.1
Insurance, pension, and standardized guarantee schemes	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.4
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.5	0.0	1.7	1.5	3.4	6.7	0.1	0.0	0.0	10.2
Liabilities	**138.3**	**5.4**	**2.9**	**1.7**	**123.0**	**19.1**	**3.9**	**43.4**	**-30.9**	**158.6**
Liabilities other than equities	**138.3**	**5.4**	**2.9**	**1.7**	**123.0**	**26.5**	**0.6**	**42.2**	**0.0**	**156.3**
Of which										
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.4	0.0	0.0	0.0	0.0	0.0	0.5	42.2	-1.3	41.4
Debt securities	66.4	0.0	0.0	0.0	47.0	1.7	0.0	0.0	-11.3	37.4
Loans	18.9	5.1	0.0	1.7	20.5	12.6	0.1	0.0	-23.5	9.7
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	-7.4	3.3	1.2	5.2	2.3
Insurance, pension, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	2.2	0.4	2.9	0.0	5.1	12.2	0.0	0.0	0.0	17.3
Public service pension	50.4	0.0	0.0	0.0	50.4	0.0	0.0	0.0	0.0	50.4
Net worth	***-109.8***	***13.8***	***34.8***	***55.2***	***-5.9***	***-0.4***	***0.0***	***0.0***	***0.1***	***-6.3***
Net financial worth	***-119.1***	***-4.6***	***30.1***	***0.6***	***-93.0***	***-11.6***	***0.0***	***0.0***	***0.0***	***-104.5***
Net financial worth excl. Public service pension	***-68.7***	***-4.6***	***30.1***	***0.6***	***-42.5***	***-11.6***	***0.0***	***0.0***	***0.0***	***-54.1***

Source: IMF staff estimates derived from GGFB, audited individual financial statements of PCs, IMF FAD and World Bank databases

1/ Methodological Note: The estimation of the balance sheet relied on multiple sources of government fiscal reports that provide information on the different variables and instruments within the balance sheet. The estimates of non-financial assets of the general government were based on the perpetual inventory method of estimation, using data on investment and assumed depreciation rates. Available financial statements were used to generate information on social security funds, EBUs and PCs. IMF databases and technical assistance reports complemented these official sources.

2/ This a includes a sample of the following NFPCS: Royal Jordanian Airlines, National Electric Power Company, Water companies (Yarmouk, Aqaba, and Miyahuna), Samra Power Generation Company, National Petroleum Company, Jordan Phosphate Mining Company, Arab Potash Company, Jordan Industrial Estates Company, Jordan Free and Development Zones, Comprehensive Multiple Transportation Company.

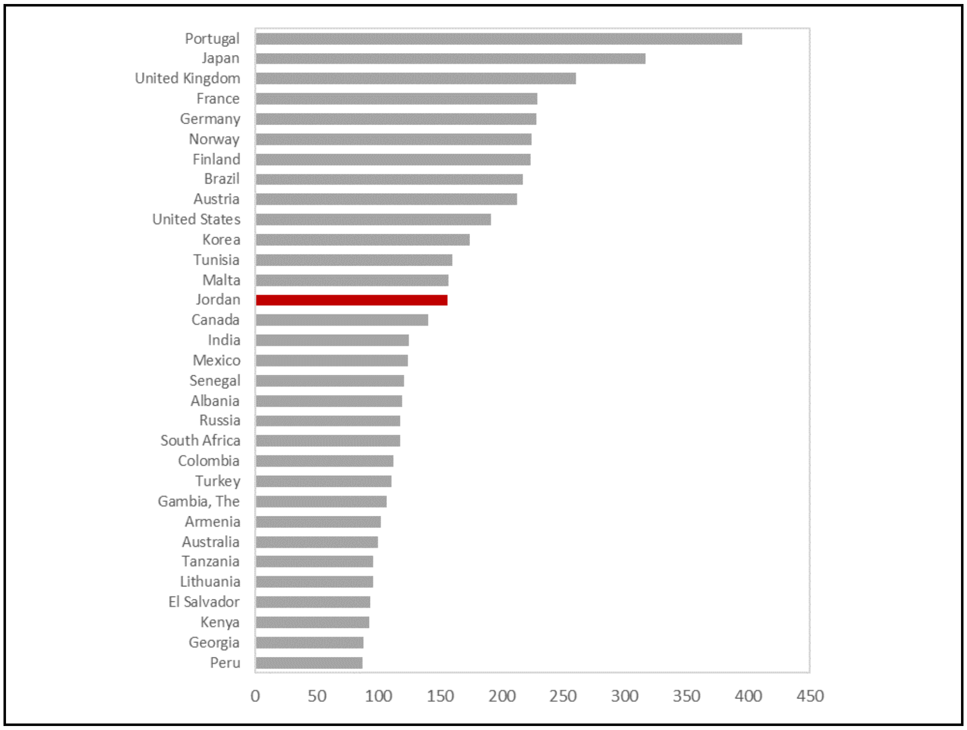
3/ This a includes a sample of the following FPCS: Cities and Villages Development Bank, Postal Saving Fund, Jordan Deposits Insurance Corporation, and the Development and Employment Fund.

4/ Refers to cross holdings between public corporations and general government.

5/ Refers to entire public sector after adjusting for cross holdings between the subsectors.

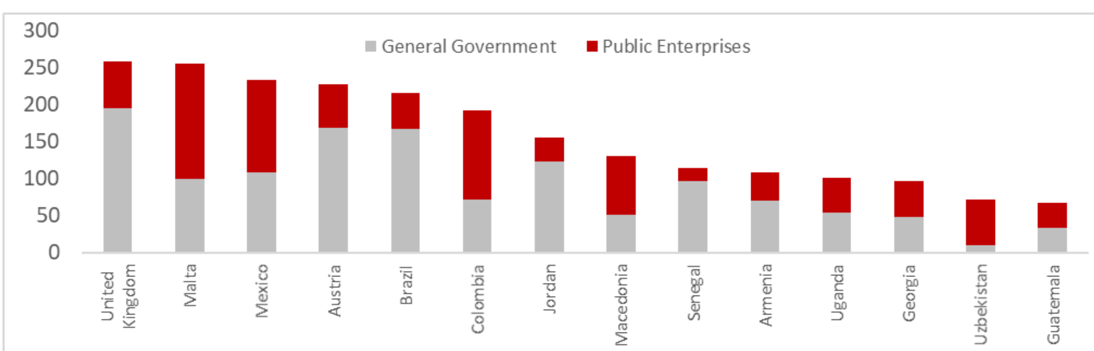
14. The stock of Jordan's public sector debt is comparable to other emerging markets (Figure 1.3). It mainly comprises central government debt securities and the debt of a few NFPCs (Figure 1.4). The net worth in Jordan is positive (around 12 percent of GDP) mainly driven by the large nonfinancial assets of the general government sector (Figure 1.5).

Figure 1.3. Public Sector Gross Liabilities in Selected Countries
(Percent of GDP)



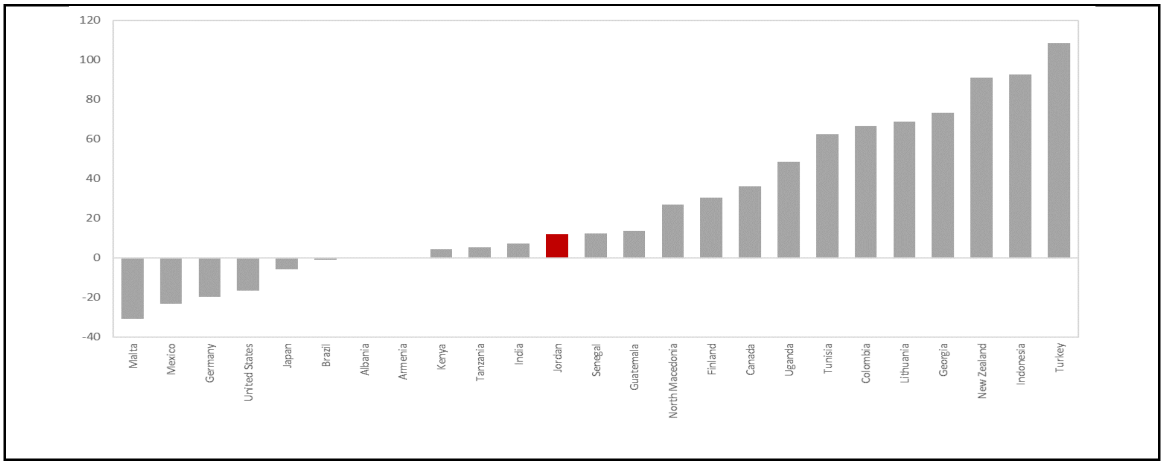
Source: IMF 2019, Public Sector Balance Sheet database
Note: Data for individual countries are from various years.

Figure 1.4. Public Sector Gross Debt in Selected Countries
(Percent of GDP)



Source: IMF 2019, Public Sector Balance Sheet database. various years for individual countries.

Figure 1.5. Public Sector Net Worth in Selected Countries
(Percent of GDP)



Source: IMF 2019, Public Sector Balance Sheet database, various years for individual countries.

1.1.3. Coverage of Flows (Basic)

15. Fiscal reports are compiled on a cash basis and cover most revenue, expenditure, and financing items but do not capture flows that pass through off-budget accounts. The monthly fiscal reports of the budgetary central government provide details of the composition of all cash receipts and payments. The annual financial statements of local governments, EBUs, the SSC, and PCs include statements of cash flow and comprehensive income as required by accounting standards. However, there is no single document that consolidates all cash movements.

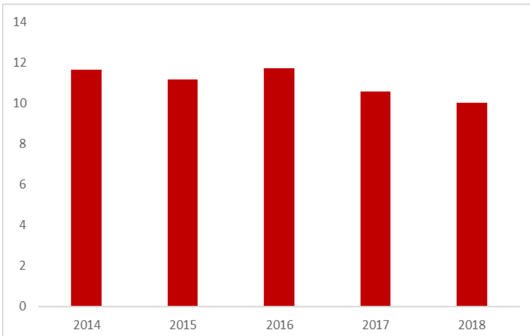
16. Fiscal reports do not capture available information on accrued revenues and expenditures. In this respect, fiscal reporting in Jordan does not meet advanced accounting and statistical practices (e.g., IPSAS and GFSM 2014). In particular, the lack of accrual recording implies that non-cash flows are not recorded. For instance, one major weakness of Jordan's fiscal reporting is the issue of spending arrears that are rising and pose serious challenges to the authorities (see Section 1.1.2).

17. The reporting of other economic flows is limited to the impact of the exchange rate on external debt. The new version of the GGFB includes a section on the impact of the exchange rate on Jordan's external debt and explains how exchange rate fluctuations contributed to the increase in the stock of debt. These exchange rate effects reached 0.7 percent of GDP in 2020 mostly driven by the increased share of debt denominated in Euros.

1.1.4. Tax Expenditures (Not Met)

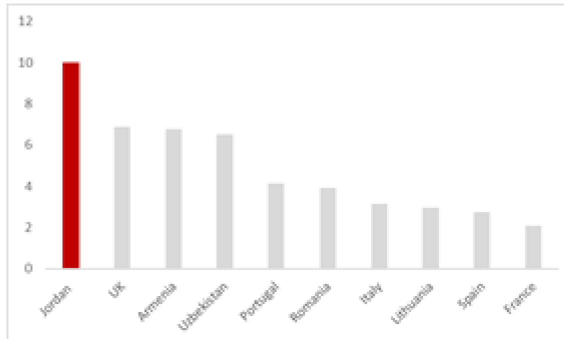
18. Tax expenditures are substantial in Jordan. The authorities quantified identified tax expenditures at about 10 percent of GDP in 2018, representing a slight decline since 2014 (Figure 1.6). This level of tax expenditures is equivalent to around two-thirds of total tax revenues. Jordan's tax expenditures as a percentage of GDP are high compared to other countries (Figure 1.7). There is no legal or policy cap or limit on total tax expenditures; and no general policy governing the circumstances or criteria under which they should be granted.

Figure 1.6. Tax Expenditures in Jordan 2014-2018
(percent of GDP)



Source: Jordan budget documents.

Figure 1.7. Tax Expenditures in Selected Countries
(percent of GDP)



Source: IMF staff estimates and Jordan budget documents; Jordan, Uzbekistan, Armenia, Georgia, Italy figures are for 2018; France, Romania, UK, Spain, Portugal, Lithuania figures are for 2017.

19. Tax expenditure information is detailed, but the current scope of reporting is incomplete. Since 2016, the main tables of the budget have contained information on the cost of exemptions and reductions against the major direct and indirect taxes. Estimates are presented for each tax using the "legal/regulatory" approach where estimates of loss are calculated against the country's own tax code as a benchmark.[11] The government intends to streamline tax incentives. It has already submitted to the legislature amendments to the 2014 Investment Law that will remove all articles related to preferential tax incentives. The IMF is providing technical assistance to support the comprehensive identification of tax expenditures, the results of which will feed into a revenue mobilization plan expected later this year.

20. The usefulness of the existing analysis would be improved by including a forward estimate of tax expenditures for the coming fiscal year in the proposed budget. This analysis would allow the government, the legislature, and the public to clearly see the size of tax expenditures in the country, and to make trade-offs between tax expenditures and regular expenditures within a budget year. Such a forecast could initially be made through a simple extrapolation of expected growth in each tax area for the coming year and applying this to the value of associated tax expenditure for that year. This forecast should also breakdown the summary information to show tax expenditures by specific policy area (e.g. the tax expenditures

[11] Tax expenditures can be calculated in different ways. The OECD (2010) 'Tax Expenditures in OECD Countries' document draws attention to three different methods. These involve calculating tax expenditures as losses compared to: (i) a theoretically 'optimal' tax structure; (ii) the country's own standard tax code; and (iii) the estimated cost of delivering the intended tax expenditure benefit through regular expenditure subsidy. Jordan's methodology is based on the second approach.

supporting the special and economic development zones) and by specific sector. The budget law currently before the legislature moves in this direction and includes a requirement that tax expenditures be incorporated into the budget as estimated expenditures.

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Fiscal Reporting (Advanced)

21. Jordan produces regular and timely in-year fiscal reports, but their institutional coverage is limited. The monthly GGFB provides a detailed and timely picture of fiscal developments that include information on budget execution over the previous year and the evolution of the main fiscal aggregates. Using the SDDS Advanced Release Calendar, cash-based fiscal reports cover the collection of central government revenues, the execution of the budget, and debt, and are published within 20 days of the end of month.[12] More detailed quarterly execution reports are also published, within one quarter. These reports provide the most comprehensive evaluation of budget execution, with information on expenditure outturns by administrative, functional, program, and economic classification. In addition to these reports, the Government Financial Management Information Systems[13] (GFMIS) Directorate in the MoF has developed a Dashboard that informs senior staff about daily fiscal developments.

22. Increasing the frequency and timeliness of fiscal report is feasible with the implementation of an appropriate IT solution. In addition to the GFMIS dashboard, the MoF, with support from USAID, developed a Government Units (GUs) Portal which has been successfully rolled out. Starting in 2018, financial data on EBUs is available through this GUs Portal. The latest final accounts of EBUs were published the 2018. In-year reports for entities outside the budgetary central government have not yet been published.

23. The authorities began a project aimed at developing a General Government (GG) Portal which could be used as a one-stop-shop for quarterly fiscal statistics. Good progress was made in the conceptual phases of this project, which was supported by USAID and Deloitte. Achievements included the development of data collection templates for different GG levels and entities, and the compilation of bridge tables to the GFSM methodology for ease of comparison and consolidation. However, since the end of the Deloitte project in September 2020, no progress has been made to further advance this work.[14] The MoF would need to capitalize on this existing groundwork to achieve its target of regular and timely GG fiscal reporting.

[12] It should be noted that end-year monthly reports (December) suffer from a lag compared to other months.

[13] The GMFIS is currently rolled out to 67 budgetary units. Data for the other units (a small portion of total expenditure) is being collected and uploaded manually in the system.

[14] This project could be advanced through the new public finance reform project that has been established by USAID, which also includes a substantial component on budgetary and fiscal issues.

1.2.2 Timeliness of Annual Financial Statements (Advanced)

24. Annual final accounts and cash based IPSAS financial statements for budgetary units are usually published by June the following year. The AD published the annual accounts for 2020 in March 2021. These accounts comprise detailed information on revenue collections, budget execution, and the financing of the budget; as well as in-year movements between different chapters of the budget. The final accounts together with the cash based IPSAS financial statements are submitted each year to the AB for audit.

25. Final accounts for other units of the general government are produced and audited, but not consolidated. The AD is also responsible for the compilation of final accounts of EBUs following the same presentation and level of detail as the general budget. The SSC and GAM produce their own financial statements that include a balance sheet, and an aggregated financial position of all municipalities is prepared by the Ministry of Municipal Affairs.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Basic)

26. The economic classification of revenue and expenditure is broadly consistent with the *GFSM 2001/2014* reporting framework. The authorities have fully mapped the budget nomenclature to this framework, and the same structure is used for budget execution. However, the fiscal tables included in the MoF's Monthly GGFB have some analytical shortcomings and this hampers country comparability. For example, current expenditure by the military is not detailed according to the economic classification and this leads to challenges in measuring certain ratios. For example, the wage bill in Jordan is approximately 50 percent of total current expenditures, whereas fiscal reports only identify around 20 percent in this spending category on the grounds that military spending is excluded.

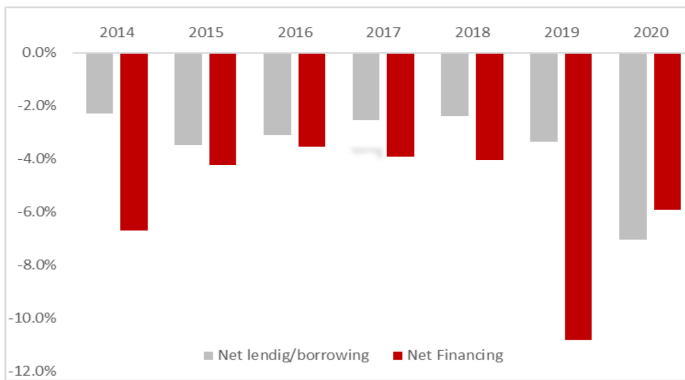
27. The functional classification is well-advanced. Budget documents and the monthly bulletin present outlays by function according to the United Nations' Classification of Functions of Government (COFOG) for central government expenditures. Spending is also presented by program and subprogram in the budget execution reports. Expenditure classifications are broadly consistent across fiscal reports.

1.3.2. Internal Consistency (Not Met)

28. The FTC requires that fiscal reports be reconciled against three summary fiscal aggregates. These reports should include at least one of three of the following reconciliations: (i) fiscal balance and financing (above and below the line consistency); (ii) debt issued and debt holdings (flows and stocks consistency); and (iii) financing and changes in the debt stock.

29. Current statistical practices in Jordan create several inconsistencies that hamper data reconciliation. Most of the summary tables included in the fiscal reports do not follow an integrated and coherent approach. Several tables show only revenue and expenditure and the deficit, but with no information on the corresponding transactions in financial assets and liabilities (i.e., what instruments were used to finance the deficit in a specified period). This makes it difficult to evaluate the vertical consistency of the data above and below the line. Figure 1.8 shows the large and persistent discrepancy between net lending/borrowing (above the line) and net financing (below the line). Work is in progress to address this shortcoming, and the forthcoming GGFB (data for January 2021) would include the net financing component which also improves the rating against the Code.[15]

Figure 1.8. Discrepancy Between Budget Balance and Net Financing
(Percent of GDP)



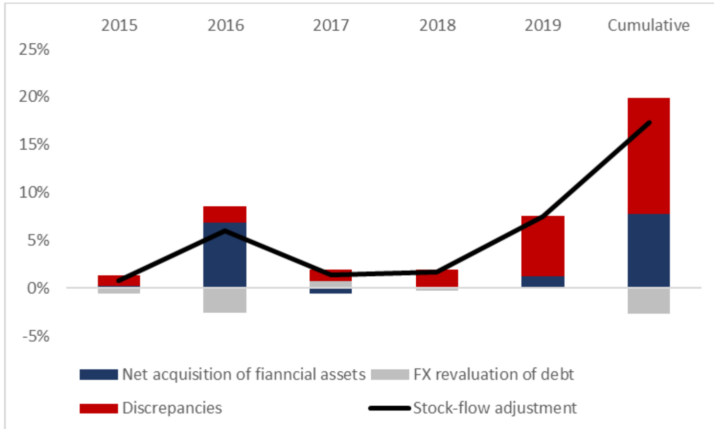
Source: GGFB and IMF staff calculations.

30. Jordan's stock-flow adjustments need further reconciliation. Moreover, it is not possible to assess from the fiscal reports whether changes in the stock positions of financial assets and liabilities are consistent with the corresponding transactions and other economic flows. Figure 1.9 shows large discrepancies between changes in government debt and the net lending/borrowing which need to be explained and disclosed. The discrepancies are mainly due to below-the-line transactions, identified from various reports. Exchange rate changes affect the value of debt denominated in foreign currencies, but its impact is limited to an average of 0.5 percent of GDP over the last 5 years.

31. More integrated reporting on revenue and expenditure, as well as data on financial transactions and corresponding balancing items, could be easily achieved. The GGFB only provides one table (Table 64) that combines annual data on revenue and expenditure with data on financial transactions and the corresponding balancing items. This table could be a starting point to align other tables of the GGFB with international standard.

[15] At the time of the mission, such information was not yet published.

Figure 1.9. Stock-Flow Adjustments of General Government
(Percent of GDP)

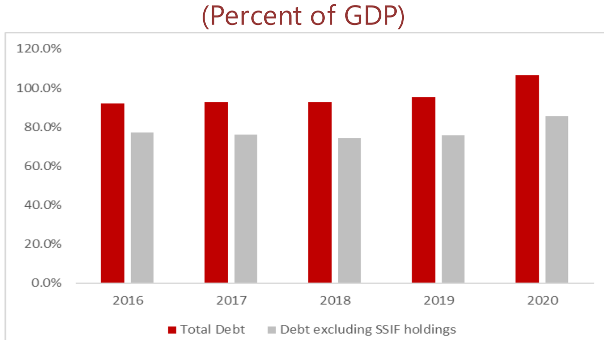


Source: GGFB, Debt reports, and staff calculation

1.3.3. Historical Revisions (Basic)

32. The magnitude and frequency of revisions to fiscal statistics are often used to gauge data accuracy and reliability; they should be disclosed and explained as they may have significant influence on how the accuracy, reliability, and transparency of fiscal data are perceived. Recently, Jordan adopted a revised statistical methodology pertaining to central government debt which is now presented excluding the SSIF holding of government debt (Figure 1.10). This revision resulted in a reduction of the ratio of central government debt by around 18 percent of GDP. The change of methodology was announced by the Minister of Finance and historical data back to 2016 has been included in the GGFB.

Figure 1.10. Government Debt Including and Excluding SSIF Holdings
(Percent of GDP)



Source: GGFB, Debt reports, and staff calculation

33. Ex-post revisions of fiscal data are not significant in Jordan. One of the reasons for the delay in the publication of the December GGFB is the time it takes the MoF to complete work on preparing the final accounts. This explains why major revisions in fiscal data are not important. However, there is need to prepare and publish more comprehensive analysis of revisions to fiscal statistics on a regular basis to strengthen the statistical process.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Good)

34. Fiscal statistics are compiled by the SEPD in the MoF, and disseminated in accordance with international standards, namely the IMF's SDDS. The national data summary page includes detailed metadata for the fiscal sector explaining the roles and responsibilities of various government agencies and departments in the production and dissemination of fiscal statistics. It also provides a list of fiscal reports published by the authorities.

35. Further strengthening of the institutional and legal framework for GFS compilation and dissemination needs to be considered if Jordan is to meet advanced practices. This could be achieved by, firstly, enshrining the MoF's responsibilities in a legal text that gives GFS compilers the authority to collect information from the respective public sector agencies on a timely and regular basis and to coordinate statistical work pertaining to the GFS. Secondly, the MoF could establish a dedicated GFS Committee to ensure *inter alia* an efficient flow of information and a common classification of public sector units for all macroeconomic datasets (see Section 1.1.1 and Box 1.2).

1.4.2. External Audit (Basic)

36. The AB is constitutionally mandated to undertake audits of public sector institutions. Its audits covered an estimated 97 percent of total general government expenditure (JD 12 523 million) in 2020. Article 119 of the Constitution establishes an independent Audit Bureau and its Head. Legislation originating from 1952 but much amended subsequently specifies the AB's current powers. Article 22 of the law requires the AB to provide to the legislature an analysis of the government's final accounts (financial statements) each year. The AB has the power to inspect all public sector institutions, and to deliver financial, compliance, and performance audits. It has progressively withdrawn from its former pre-audit control function within central government ministries but continues to play this role for local government units and the SSIF. The AB is a member of INTOSAI and is committed to auditing in line with international standards. Since 2016, the AB has audited IPSAS cash-based compliant financial statements.

37. Currently the AB lacks adequate independence from the executive, but that may change under legislation currently before the Parliament. The AB holds the status of an 'independent entity' under the relevant legislation, and the President of the AB is immune to prosecution under the relevant Articles of the Constitution. However, he or she can be removed from post by the Council of Ministers without approval from the legislature if the National Assembly is not in session—a period which lasts for several months each year. Twice in the past

21 years the legislature has insisted on the re-instatement of a President of the AB after his removal by the Council. The AB's budget is also not set independently: it is prepared by the Bureau but included in the General Budget Law and considered as part of the general budget process. The AB reports that its budget is currently insufficient to deliver its mandate. Legislation currently before the legislature would strengthen the AB's independence in line with INTOSAI requirements, notably by restricting the ability of government to remove the AB's President without approval by the legislature.

38. **The AB provides a clear summary opinion to the MoF on the reliability of government financial statements.** The AB's annual report provides a detailed analysis of both the consolidated accounts of the general government, and the financial statements of individual entities. The report focuses on compliance issues and instances where procedures have not been followed. While the annual report contains an executive summary and a clear list of recommendations for government, it does not include a clear audit opinion on the accounts, as is required by the INTOSAI standards. This opinion is instead provided in a transmittal letter from the AB to the MoF that accompanies the annual report, and which is published on the MoF website.

1.4.3. Comparability of Fiscal Data (Good)

39. **Final accounts are presented on the same basis as the General Budget Law and the Government Units Budget Law, allowing reconciliation of both budget revenue and expenditure.**[16] The final accounts on the General Budget take the form of a 700-page document, consisting mainly of tables of figures following the same structure as the General Budget Law: revenues are presented by main head; current and capital expenditures are presented by chapter and program, by economic category and by function. This presentation allows for a comparison between budget forecasts and outturns, both at aggregate and detailed levels. Comparability between budget and outturns is similarly possible for the Government Budget Units but with a significant delay as the latest final account report available for GBUs is for 2018.

40. **Reconciliation is also ensured between the budget and financial accounts, both in the budget and in final accounts.** The budget and the final accounts make a detailed presentation of the net borrowing, following the same presentation. Reconciliation of financing operations is straightforward, as shown in Table 1.3.

[16] The final accounts document for 2020 was published in February 2021. As noted, a similar document for the Government Units is published but with substantial delay. The latest available document is for the year 2018.

Table 1.3. Jordan: Reconciliation of Financing Operations for 2020

In JD billion

Sources	Forecast	Execution
Domestic loans	3,57	3,86
Foreign loans	2,34	3,17
Total	**5,91**	**7,04**

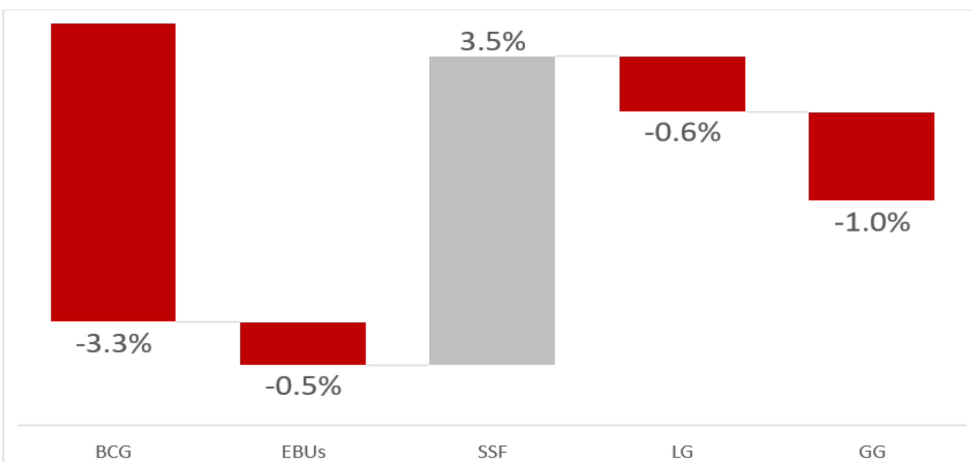
Uses	Forecast	Execution
Deficit financing	1,05	2,18
Amortization of € and $ bonds	1,17	1,17
Amortization of domestic debt	2,63	2,59
Repayment of due foreign loan instalments	0,52	0,77
Other	0,55	0,00
Total	**5,91**	**6,71**

Balance	**0,00**	**0,33**

Source: General Budget Law and Final Accounts Report.

41. **The social security sector contributes significantly in improving the consolidated general government fiscal balance.** In 2019, the large surplus of the consolidated social security sector (3.5 percent of GDP) contributed to the reduction in the general government's consolidated deficit. This surplus significantly counterbalanced the respective deficits of central and local governments (Figure 1.11).

Figure 1.11. Jordan: Reconciliation of General Government Net Borrowing, 2019
(Percent of GDP)



Source: GGFB and IMF staff calculations.

1.5. Recommendations

42. **Based on the above assessment, the mission highlights the following priorities for improving the transparency of fiscal reporting.** Box 1.2 shows a possible roadmap in four stages for the MoF to align the reporting of general government statistics with international standards. The new MFD in the MoF could take the lead in implementing the roadmap in collaboration with other departments of the MoF and other government agencies.

- **Recommendation 1.1. Enhance presentation and quality of fiscal reports** (MoF):
  - Short term:
    - Review the classification of the general government and public sector units according to international statistical standards.
    - Supply further detail of government transactions by economic nature (e.g., military expenditures).
    - Improve the timeliness of fiscal reporting by other government units.
  - Medium term:
    - Undertake an audit of expenditure arrears and prepare an arrears management strategy.
    - Progressively prepare general government and public sector balance sheets starting with financial data.
- **Recommendation 1.2. Harmonize fiscal reporting to ensure consistency between and within fiscal reports** (MoF):
  - Short term: Publish reconciliation statements of the differences between the fiscal aggregates published in various fiscal reports to allow reconciliation between the above and below the line transactions, and between stocks and flows.
- **Recommendation 1.3. Disclose more information on tax expenditures** (MoF):
  - Short term: Include an estimate of tax expenditures in budget documentation for 2022.
  - Medium term: Further expand the identification and quantification of tax expenditures.
- **Recommendation 1.4. Strengthen External Audit** (National Assembly and AB):
  - Short term: Adopt and implement pending legislation to enhance the independence of the Audit Bureau.

Table 1.4. Jordan: Summary Evaluation: Fiscal Reporting

Principle		Assessment	Importance	Recs
1.1.1	**Coverage of Institutions**	**Good:** A consolidated GFS report for general government (GG) is published, covering 88 percent of EBUs and PCs but excluding public universities. Classification of GG units is not fully aligned with international standards.	**High:** The sector classification of institutional units in fiscal reports does not follow international standards. There is no comprehensive overview of the fiscal activities of the public sector and its subsectors.	**1.1**
1.1.2	**Coverage of Stocks**	**Basic:** Fiscal reports cover main debt instruments and cash and deposits as a financial asset. Nonfinancial assets and public service pensions are not reported.	**High:** Unreported public sector liabilities could increase debt and negatively affect fiscal sustainability. No estimates are made of Jordan's overall net worth. Public sector's stock of payables (arrears) is huge - 17.3 percent of GDP in 2019.	**1.1**
1.1.3	**Coverage of Flows**	**Basic:** Fiscal reports are prepared on a cash basis and include revenue, expenditures, and financing operations for the central and GG subsectors (except public universities).	**High:** Monthly fiscal reports only cover 51 percent of the total public sector revenues and 58 percent of total expenditures.	
1.1.4	**Coverage of Tax Expenditures**	**Not met:** Data on tax expenditures are published as part of the budget but estimates are two years in arrears; there is no published information on tax expenditures for the coming budget year.	**Medium:** Tax expenditures represented 10 percent of GDP in 2018, two-thirds of total tax revenue. Work is in hand to publish more timely and complete data.	**1.3**
1.2.1	**Frequency of In-Year Reporting**	**Advanced:** Fiscal reports for BCG are prepared and published monthly and within one month, compliant with SDDS requirements.	**High:** Consolidated fiscal reports for GG are published with a long lag. Government units can share monthly data on revenues and expenditures through an interface with the MoF's IT system.	
1.2.2	**Timeliness of Annual Financial Statements**	**Advanced:** Final accounts are prepared and shared with the Audit Bureau within 3-4 months after the end of the year.	**Medium:** Final accounts of EBUs are produced with a long lag and are not consolidated.	
1.3.1	**Classification**	**Basic:** Budget documents include an economic and functional classification of central government, which is broadly consistent with the GFSM 2014 framework, but more detail should be included in budget execution reports.	**High:** Military expenditures represented 32.7 percent of total expenditures in 2020 but no breakdown by economic categories is reported in the fiscal reports.	**1.1**
1.3.2	**Internal Consistency**	**Not met:** Fiscal reports do not show a reconciliation between the fiscal deficit and its financing.	**High:** Large deviations between above and below the line transactions, averaging 2.1 percent of GDP.	**1.2**
1.3.3	**Historical Revisions**	**Basic:** Fiscal statistics are not revised. Users have been informed of a recent methodological change to central government debt statistics.	**Medium:** A methodological change of the debt ratio calculation revised the estimated level of overall debt by 18.2 percent; no other reported revisions to historical data.	
1.4.1	**Statistical Integrity**	**Good:** Fiscal statistics are compiled by a specific government unit and disseminated in accordance with international standards (GFSM 2001).	**Medium:** There is no independent verification of fiscal statistics.	
1.4.2	**External Audit**	**Basic:** The AB publishes an audit report and audit opinion on the government's annual financial statements, but the Bureau is not fully independent.	**High**: Independent audit is critical to effective fiscal management; passing legislation currently before the legislature would ensure greater independence of the AB.	**1.4**
1.4.3	**Comparability of Fiscal Data**	**Good**: Final accounts are presented in the same manner as the approved budget.	Low: Reconciliation between budget outturns and fiscal statistics is desirable to enhance the quality of fiscal reports.	

Box 1.1. A Roadmap for Improving the Reporting of General Government Fiscal Data

The GFSM 2014 compilation process distinguishes four main stages:

(1) defining the scope and coverage of the general government sector and its subsectors, primarily by applying the concept of control[1] and the market test;[2]

(2) selecting appropriate primary data sources for the units and entities covered;

(3) preparing for compiling GFS through analyzing the source data to identify any adjustments to meet the GFSM methodology (e.g., bridge tables, derivation, classification); and

(4) intra- and inter-sector consolidation.

Step 1. Prepare an exhaustive list of institutional units[3] that distinguishes between the general government sector and the rest of the public sector (i.e., differentiates between market and nonmarket producers). A market producer is an institutional unit that provides all or most of its output to others at prices that are economically significant.[4] Best practices recommend that, to be considered[5] a public corporation, the company's total revenue from the sale of goods and services should cover at least 50[6] percent of its production cost over a sustained period. NEPCO's financial statements for 2019, for example, suggest that this ratio exceeds the threshold and that the company should be reclassified as a nonfinancial public corporation. For WAJ, on the other hand, the ratio is much lower than 50 percent indicating that the company should remain classified as an EBU within the general government sector.[7]

It is highly recommended that he outcomes of this classification be shared with MoPIC and the CBJ for the purpose of compilation of other macroeconomic data sets (national accounts and monetary and financial statistics) to ensure consistency and harmonization between them. In principle, given the relatively small number of institutional units in Jordan, focusing on some borderline cases and agreeing on their sector classification could be easily achieved and could fall under the responsibility of the newly created MFD.

Step 2. Select the appropriate (primary) data sources for each unit/entity of the general government or the wider public sector that are useful for fiscal analysis and for which data are compiled. It is important that the chosen data sources provide sufficient detail on both stocks and flows and are available on a regular and timely manner. Accounting records, financial statements, or budget execution reports are the most frequently used data sources. Data sharing protocols between different information providers along with the IT solutions (GU portal or GG portal) would significantly help build a strong compilation process.

Step 3. Once the institutional coverage and sectorization have been completed and all data sources have been selected, the ground should be prepared for the compilation of GFSM 2014-compliant statistics. Very often, accounting rules, the classification scheme and valuation methods vary between institutional units. It is important to make the necessary adjustments to ensure consistency and comparability between different subsectors covered by the fiscal reports. These adjustments also include the changes in institutional coverage achieved under Step 1. For example, Central Banks are considered in the financial public corporation sector while in Jordan, the CBJ is included in the GU Budget Law and needs to be reclassified accordingly while compiling GFS. Note that the source data for GFS compilation can go beyond the regular fiscal reports to include, for example, nonmonetary transactions (in kind), imputed transactions, arrears, and accrual adjustments. In terms of classification, a lot of work is already ongoing, and several bridge tables have been developed in the context of the GG Portal to map the existing source data to the GFSM presentation.

Step 4. After identifying and making all adjustments to the source data, the process of compiling GFS statistics for each of the subsectors of general government and the public sector can proceed. The data can also be consolidated by combining all the various general government and public sector units as if they constituted a single entity. To avoid double counting, this process involves eliminating all transactions and reciprocal stock positions among the entities being combined. For example, loans and advances from the MoF to NEPCO or

Box 1.1. A Roadmap for Improving the Reporting of General Government Fiscal Data (Concluded)

WAJ would be captured and measured in gross terms and then netted out in the consolidation process. The aim of this step is to focus on the main transactions and stock positions that have an impact on the fiscal aggregates (interest, grants and transfers, loans, and accounts payable/receivable).

Source. IMF staff.

[1] Control is defined as the government's ability to determine the general corporate policy of a corporation. The GFSM 2014 lists eight indicators of control (GFSM 2014, Box 2.2).

[2] Based on whether the value of the sales of a public corporation averages at least half of its production costs over a sustained multiyear period.

[3] An institutional unit is an economic entity that is capable, in its own rights, of owning assets, incurring liabilities, and engaging in economic activities with other entities (GFSM 2014 Para. 2.22-2.48). For example, Jordan's Constitutional Court is not an institutional unit and should be reclassified within the BCG subsector.

[4] Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and, on the amounts that purchasers wish to buy.

[5] The GFSM 2014 defines various criteria to determine the sector classification of institutional units.

[6] This should be seen as indicative only. In general, there is no prescriptive numerical relationship between the value of sales (excluding both taxes and subsidies on products) and their production costs. One would expect the value of the sales by public corporations to average at least half of the production costs over a sustained multiyear period.

[7] Within the EFF program, the coverage of the fiscal sector could deviate from the statistical definition and capture al macro critical units regardless of their sector classification.

II. FISCAL FORECASTING AND BUDGETING

43. **Budgets should provide a clear statement of the government's budget policy.** Effective practice means outlining an explanation of the public finances that:

- Sets out credible projections of macroeconomic developments
- Provides comprehensive information on the government's fiscal objectives and budgetary plans so as to facilitate policy analysis and strengthen accountability; and
- Gives the legislature enough time to scrutinize and approve the plans before the budget year begins.

44. **A sound constitutional basis means that Jordan performs well in some areas; but areas connected to macroeconomic forecasting are weaker.** The budget process is set out in law and the responsibilities of the different actors are clearly described. Fiscal policy over the medium-term is well-explained, although not yet through a fully nationally owned policy process. One notable weakness is in the Code's principles relating to macroeconomic forecasting. A lack of formal disclosure of information and an absence of independent evaluation and reconciliation reduces the level of performance. All these tasks should fall within the mandate and field of expertise of the Macro-Fiscal Directorate that will soon be established in the MoF.

45. Jordan is in the process of issuing a new OBL. This law with replace the 2008 legislation. Key provisions of the new OBL include:

- A wider range of legal definitions and budget principles to be abided by (Articles 2 and 3).
- Clarification of the program-performance budgeting framework (Article 2).
- Clarification on the content of the budget, the MTFF and the MTEF (Articles 11 and 12).
- A more precise description of reporting obligations (Articles 23, 24 and 25).
- Milestones in the calendar for the preparation of the budget (Article 5 and table in the annex).
- A consolidation of the role and powers of the MoF and of the GBD (notably in Articles 4, 6, 7 and 17).
- A consolidation of the role of MoPIC (Article 8).
- A codification of some of the rules governing transfers that up to now were voted each year in the General Budget Law (Article18).

The new OBL codifies current practices and procedures and consolidates the role of the MoF. In doing so, it addresses important issues that the short 2008 law did not cover. It also promotes improvements, notably in transparency on macroeconomic and fiscal forecasts, that will help address some of the deficiencies mentioned in this report.

2.1. Comprehensiveness

2.1.1 Budget Unity (Good)

46. The annual budget provides details of planned expenditure, revenue, and financing for public sector entities covering almost the whole general government sector. The government's budget covers around 100 institutions. These are divided between the General Budget Law (for institutions that manage expenditure only) and the Government Unit Law (for institutions that manage revenue, expenditure, and receive other forms of financing). All institutions covered by the two laws have their budgets presented on a gross basis. For 2020, the coverage of the budget was comprehensive: expenditure and revenue approved in the budget accounted for 99 percent and 97 percent respectively of what is forecast for general government under the EFF program.

47. The classification of entities within the budget is not fully consistent with international standards (see also Section 1.1.1). Many NFPCs are included as government units in the budget; but other corporations (e.g., NEPCO and WAJ) are considered EBUs. The government classifies other institutions as EBUs (the Independent Electoral Commission, and the Constitutional Court) when they might be properly classified as regular entities of general government according to the GFSM 2014. Public universities are not included in the budget documents as separate entities, though they account for 4.8 percent of the 2020 budget and are audited by the AB as public sector units. To align with international standards, they should be classified as EBUs in the budget documents.

48. Including the SSC within the budget would also present a more comprehensive view of the government's plans for revenue and expenditure. The SSC—by far the largest such fund in Jordan—comprises 18 percent of estimated revenues and 11 percent of estimated expenditures for general government in 2020. Similarly, standardizing the classification of government units already within the budget laws—as well as resolving the status of public universities—would further support advanced practice regarding budget unity.

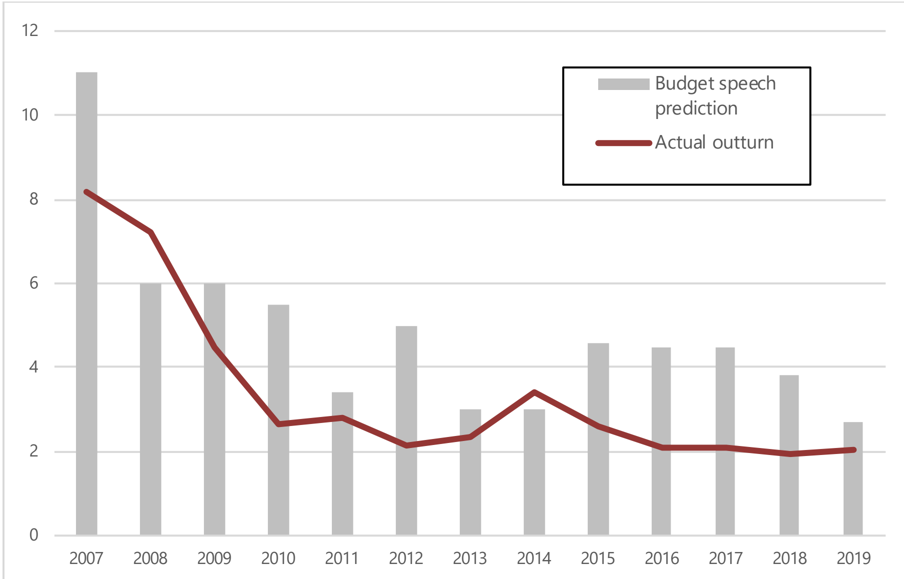
2.1.2. Macroeconomic Forecasts (Not Met)

49. The budget documentation contains no information on the macroeconomic assumptions used for the preparation of the annual budget and the Medium-Term Budget Framework (MTBF). The documents presented to the National Assembly for the tabling of the draft budget include the draft budget law itself, a series of tables summarizing revenue and expenditure figures, detailed presentations for each chapter of the budget (ministry or entity), and a list of capital projects for the years covered by the MTBF (see Section 2.1.3). These documents are accessible through the website of the General Budget Department (GBD). None of the documents, however, present any information on the macroeconomic assumptions that underpin the annual budget and the MTBF, therefore making it difficult to assess the credibility of the budget.

50. Partial information on key macroeconomic variables can be found in other sources but this does not constitute a full presentation of macroeconomic forecasts. The budget speeches for the last three years (2019-2021) mention the assumptions adopted for GDP growth and inflation only. Information on some macroeconomic assumptions can also be found in the report of the Finance Committee on the draft 2021 General Budget Law and the draft Government Units Budget Law, which discusses past growth rate, inflation performance, and the trade balance. Nonetheless, these sources of information do not comprise a full presentation of key macroeconomic variables.

51. Moreover, it should be noted that GDP growth forecasts are systematically affected by a large optimistic bias (Figure 2.0). On average, over the 2007-2019 period, the GDP growth rate for the budget year was overestimated by 1.7 percentage points, a 35 percent deviation from the outturn. Over the 2015-2019 period, the deviation reached 1.9 percentage points and 45 percent respectively. These numbers suggest an exceptionally high bias, when compared to other countries in the broader region. For example, over similar periods, the optimism biases in Tunisia (2005-2011) Armenia (2011-2016) and Albania (2002-2012) were 1.1, 0.7 and 1.5 percentage points of GDP respectively.

Figure 2.0. Forecasting Errors for Real GDP Growth, 2007-2019



52. **Including an annex to the draft budget that presents key macroeconomic variables would improve transparency and contribute to curb the observed bias.** A first easy step would be to publish such information every year alongside the budget. It would essentially consist of a table disclosing the macroeconomic assumptions, to which could be added a discussion of economic developments over the past year and a discussion of the consistency of the forecasts with those produced by other institutions (the CBJ, for example, or other independent research institutes, (see Section 2.4.1)). At a later stage, further refinements could be added, such as the impact of alternative macroeconomic scenarios on the budget (see Section 3.1.1).

2.1.3. Medium-Term Budget Framework (Good)

53. **The budget documentation includes a full MTBF detailed by ministry and economic category.** The MTBF is presented in the main tables annexed to the General Budget Law. It covers a five-year period, with outturns for the two preceding years, forecasts for the budget year, and indicative projections for the two years following the budget. It includes, on the same basis as the annual budget:

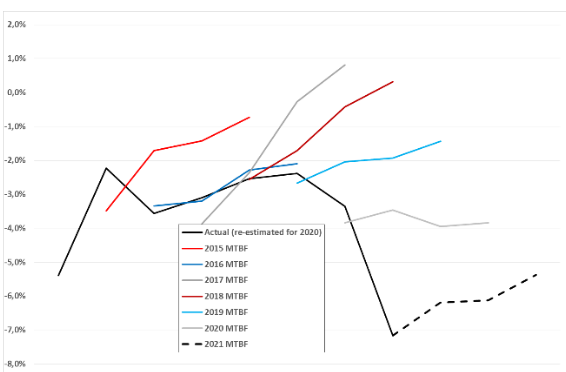
- A summary presentation of revenues, expenditures, the budget balance, and the financing of the budget.
- A set of tables that include a detailed presentation of the different heads of tax and non-tax revenues.
- A set of tables presenting expenditures (for both recurrent and capital spending), detailed by chapter (ministry/entity) and by economic category.

The Government Units Budget Law contains an adapted version of this MTBF, similarly presenting expenditures by unit and by economic category. The indicative numbers for the year after the budget year are used as a basis for launching the following year's budget discussions.

54. The MTBF nonetheless lacks an explanation of its content, methodology and key underlying assumptions. The detailed presentation of the framework provides valuable information on the composition of expected revenues, expenditures and financing. However, the absence of explanations or comments on the underlying assumptions do not facilitate an understanding of the orientation and dynamics of the macroeconomic context and the implications for fiscal policy.

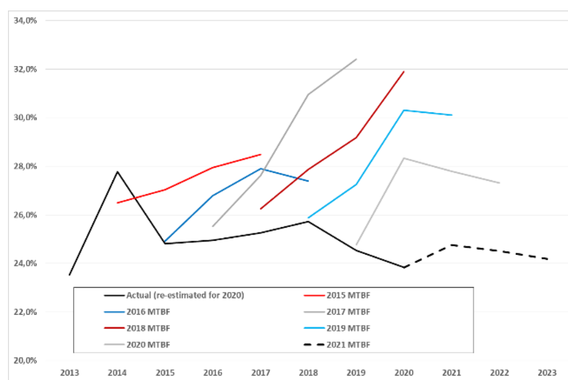
55. Presentation of the assumptions underlying the MTBF would be especially useful as the forecasts are affected by a systematic and major optimistic bias. Revenue and budget balance forecasts over the 2013-2023 period have been persistently overestimated (Figures 2.1. and 2.2.). This is due in part to over-optimistic growth assumptions: as discussed in Section 2.1.2. Although growth assumptions for the second and third years of the MTBF are not disclosed in the budget documentation, it is likely that deviations in the revenue and budget balance forecasts would also be large in these outer years, as in the budget year.

Figure 2.1. Budget Balance Outturn vs. Forecast, 2013-2023
(Percent of GDP)



Source: MTBFs, IMF staff calculations.

Figure 2.2. Aggregate Revenue Outturn vs. Forecast, 2013-2023
(Percent of GDP)

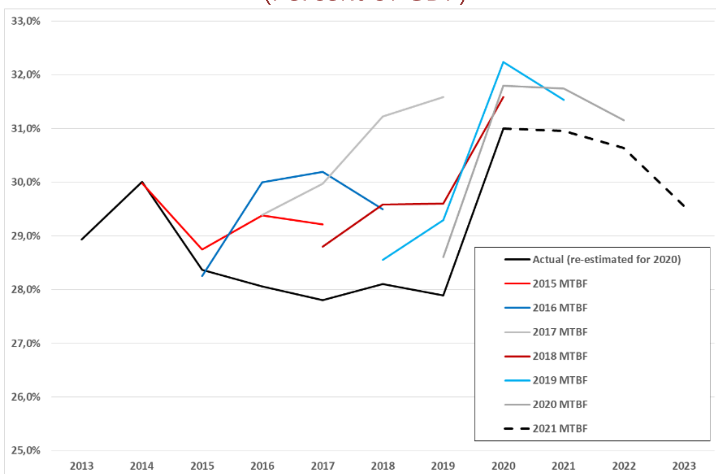


Source: MTBFs, IMF staff calculation.

56. Expenditure forecasts are similarly affected by overestimation (Figure 2.3). This may be partly due to the optimistic bias on revenue, but also to an apparently consistent over-estimation of the execution of capital expenditure projects (see Section 2.1.4).

57. These major forecasting biases do not allow the MTBF to fully play its role as a framework for the preparation of the annual budget. Although the formal characteristics of the MTBF might call for the recognition of an "advanced" practice under the Fiscal Transparency Code, these features are offset by the biases that severely reduce the framework's role in setting the government's fiscal policy goals and objectives. Developing a written narrative and justification of the projections in the MTBF would help restore the operational value of the framework. More realistic projections would better reflect the drivers of revenue and expenditure, and the reality of the budgetary constraint, as well as improving the transparency of the budget.

Figure 2.3. Aggregate Expenditure Outturn vs. Forecast, 2013-2023
(Percent of GDP)



Source: MTBFs, IMF staff calculations.

2.1.4. Investment Projects (Basic)

58. Although several improvements in public investment management are underway or planned, there remain some significant limitations both on the procedures used and the transparency of the information published. Notably, there is no disclosure of the government's total obligations under multi-annual investment projects, exceptions to the public procurement tendering procedures defined in law are frequent, and cost-benefit analysis of infrastructure projects, while improving, is not yet applied systematically.

59. For the last 15 years, Jordan's public infrastructure investment relative to GDP has followed a declining path. In contrast, most comparator countries have, on average, managed to maintain the level of their public investment (Figure 2.4). In absolute terms, public investment in Jordan has declined over time.[17]

60. This long-term trend is connected to two issues. First, in the presence of a continued budget constraint, capital expenditure is often the first type of spending to be restricted. Second, an analysis of the programming of capital expenditure in recent MTBFs suggests that other issues are also at play. The systematic deviation between ambitious forecasts and stable or declining

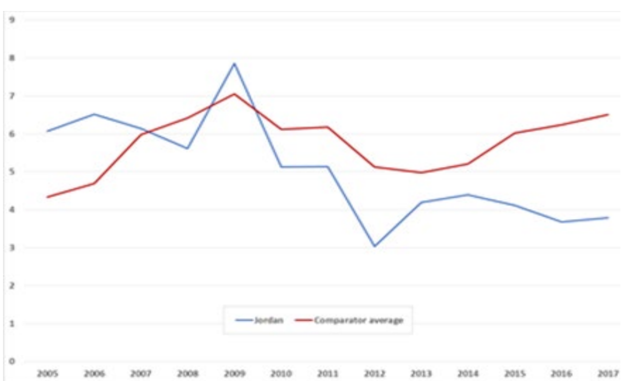
[17] These findings were already evidenced in the IMF 2017 Public Investment Management Assessment using data up to 2015. Data for 2016 and 2017 confirm this trend.

outturns points to structural deficiencies in the management of capital expenditure (Figure 2.5) as evidenced in the IMF's 2017 Public Investment Management Assessment (PIMA) evaluation report of Jordan and the 2018 follow-up report.

61. **In this context, significant efforts are being made to address many issues critical for improved public investment management (PIM)**. A PIM unit was set up in 2020 in MoPIC. Its mandate to coordinate the government's PIM reform agenda should soon be confirmed. Two guidelines for improved project appraisal and selection have already been prepared and published in 2020. These are now being implemented and cover:

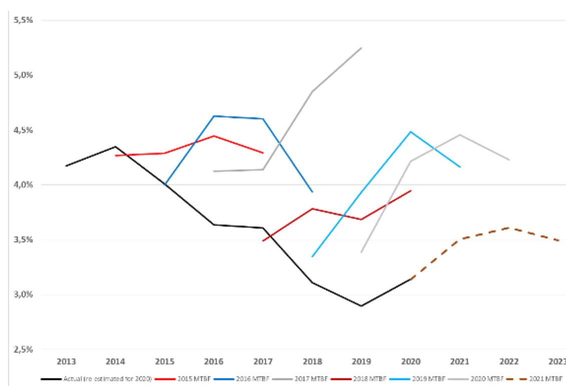
- The preparation of project concept notes and preliminary screening for all projects.
- The implementation of feasibility studies for larger infrastructure projects (above JD 10 million).
- The setting up of a National Registry of Investment Projects (NRIP), which aims at:
    - Identifying and reviewing all ongoing projects, and where necessary terminating projects that are either dormant or of little economic value.
    - Ensuring follow-up and implementation of government commitments on multi-year investment projects.

Figure 2.4. Public Investment in Jordan vs. Comparator Countries, 2005-2017
(Percent of GDP)



Source: Staff based on IMF database. Comparator countries: Morocco, Tunisia, Egypt, Georgia, Moldova, Armenia, Albania, Serbia, Tajikistan.

Figure 2.5. Capital Expenditure in MTBFS vs. Outturns
(Percent of GDP)



Source: MTBFs, IMF staff calculations.

62. **Further efforts are also needed to improve transparency of the tendering process for procurement contracts.** About 40 percent of tenders do not follow the common process set

up by the General Procurement Department. Instead, they are subject to specific procedures which negatively affect the transparency and efficiency of competitive bidding.[18]

2.2. Orderliness

2.2.1. Fiscal Legislation (Good)

63. The Constitution and the OBL set out a comprehensive framework for the management of public finances. Chapter 7 of the Constitution, which is dedicated to financial matters, as well as OBL, establishes the core rules for efficient management of the budget process, but does not specify a compulsory deadline for Parliament's approval.

64. The legislature's powers to amend the budget are precisely defined by Article 112 of the Constitution. Paragraph (iv) addresses their amendment powers on expenditures (the legislature may decrease expenditures only, no increase allowed); paragraph (v) deals with amendments on taxes (no increase or reduction); and paragraph (ii) specifies the voting method (separate vote for each chapter).

65. Article 8 of the 2008 OBL[19] defines the required contents of the executive's budget proposal but has a restricted scope. Paragraphs (a) to (j) of this article establish a comprehensive and precise list of requirements, and paragraph (k) permits the addition of any other financial information that the executive considers necessary. Although comprehensive, these requirements nevertheless result in a draft budget and MTBF which contain virtually no narrative discussion or explanations of the financial data presented. Such a narrative would allow for a better understanding of the government's budget strategy and related policies. Articles 11 and 12 of the new OBL, which demand a presentation of the overall macroeconomic and fiscal policy, should be considered as the basis for this expanded narrative.

66. Neither the Constitution nor the OBL set a deadline for approval of the budget by Parliament. The Constitution demands that the draft General Budget Law be tabled in Parliament at least one month before the beginning of each financial year (Article 112 (i)) and stipulates recourse to 'provisional twelfths'[20] in the event that enactment of the law is delayed after the beginning of the new financial year (Article 113). The revised OBL currently before the National Assembly contains a detailed timetable that sets a series of intermediate steps for the preparation of the budget around the milestones defined by the Constitution. This timetable essentially confirms the current practice. However, neither the Constitution nor the new OBL establish a closing date for the vote of the General Budget Law by the legislature. The provisional

[18] Tendering through special tender committees can be established by the Cabinet for specific projects. This practice undermines transparency and competition in capital project procurement.

[19] The text of which is reproduced by the draft OBL currently before Parliament.

[20] A constitutional provision according to which spending may continue at 1/12th the rate of the previous year's spending per month in the absence of an approved budget by the start of the year.

twelfth rule is a useful workaround but is not the equivalent of a constitutional mechanism for the timely vote and enactment of the budget. The records regarding the date of publication of the General Budget Law show a limited but persistent delay, with most budgets being published at the end of January or early February (see Section 2.2.2).

67. Time limits for the budget debate are not feasible; but additional time for legislative review of the budget would improve this situation. A legally-binding mechanism for the requiring budget approval would likely only be possible through amendment of the Constitution, which makes it a long-term and potentially challenging prospect. Other measures could therefore be implemented in the short to medium term, such as bringing forward the date on which the draft General Budget Law is tabled in the National Assembly, which the Constitution does not forbid.

2.2.2 Timeliness of Budget Documentation (Basic)

68. The submission of the budget to the legislature has met the constitutional requirement over the past five years, but publication of the approved budget has been slower. During 2017-2021 the draft General Budget Law and Government Units Budget Law were submitted to Parliament at least one month before the end of the financial year (see Table 2.1), therefore meeting the requirements of the Constitution, and over the 2017-2020 period, the voted budget was published about a month after the beginning of the financial year. Based on these observations, the performance under the Code can be considered as basic. In 2021, the publication of the budget took place two and half months after the beginning of the financial yea, but the exceptional circumstances of the COVID-19 pandemic contributed to this decline in timeliness.[21] A one-month advance on the current timetable, with the tabling of the budget to Parliament taking place on the 1st November, would give the legislature a more realistic period of two months to approve the budget and represents a time period that is more closely in line with practice in many other countries.

Table 2.1. Jordan: Key Dates in the Approval and Publication of the Budget, 2017-2021

	Draft General Budget Law and Draft Government Units Budget Law is published and submitted to legislature	Laws are approved by the legislature	Laws are approved by Royal Decree	Laws are published/made available for the public
2021 Budget	30/11/2020	28/02/2021	15/03/2021	16/03/2021
2020 Budget	28/11/2019	22/01/2020	02/02/2020	03/02/2020
2019 Budget	29/11/2018	20/01/2019	24/01/2019	27/01/2019
2018 Budget	20/11/2017	15/01/2018	15/01/2018	17/01/2018
2017 Budget	23/11/2016	24/01/2017	25/01/2017	05/02/2017

Source: MoF, General Budget Department.

[21] In 2017 and 2020, the budget was approved by the legislature within one month of the start of the financial year; but was only published after the first month of the financial year had passed, albeit in both cases by a matter of days.

2.3. Policy Orientation

2.3.1 Fiscal Policy Objectives (Basic)

69. **The government outlines its fiscal policy objectives primarily through Jordan's EFF program with the IMF**. The authorities do not set out their fiscal policy ambitions in a specific law or through a single policy document, as in many other countries. They outline their policy direction and commitments in their Memorandum of Economic and Financial Policies which are then expressed as a series of numerical and time-bound targets for most of the main fiscal aggregates, alongside other non-fiscal performance criteria in the EFF. Medium-term fiscal projections are discussed and agreed with the authorities, although in some cases the authorities' fiscal projections may differ from those reported in the EFF. Reporting on the achievement of the government's fiscal policy objectives is delivered through the six-monthly reporting cycle of program reviews. The annual budget documents include medium-term projections for revenues and expenditures, the overall deficit, and financing sources which are consistent with program objectives, as well as provisional budget ceilings for two years beyond the budget year (see Section 2.1.3). The budget speech contains some narrative discussion of the country's current fiscal situation and the government's expectations for the future.

70. **The government's capacity to set and manage its fiscal policy is expected to improve over the medium-term in light of forthcoming legal and institutional changes.** The 2020 OBL before Parliament re-commits government to publishing an MTFF document early in the annual budget preparation process. This document should improve the transparency of government policy objectives and allow for more detailed debate on macro-fiscal issues among the legislature and the public. The EFF program also contains a strong capacity building element, including a structural benchmark regarding the recruitment of staff for a new MFD by end-October 2021 and a commitment that this unit should produce its first report on the macro-fiscal outlook and risks in the first quarter of 2022. Overall, the establishment of the new MFD in the MoF is expected to strengthen the government's ability to set out and manage its fiscal policy objectives and MTFF in line with the new law.

2.3.2. Performance Information (Good)

71. **Budget documentation provides detailed performance information for each spending ministry and agency, predominantly at the output level.** This information includes: a narrative statement on the high-level vision and mission of budget units; strategic objectives with performance indicators; and a breakdown of expenditure at a program level alongside more detailed performance information. Most of these indicators are defined at the output or activity level, while a few relate to higher service delivery outcomes. Six years of performance information is presented: the results achieved in the two preceding years, the preliminary results for the present year, and the target values for the budget year and two outer years. Despite being in place for many years, the program level of budgeting is neither recognized nor required

by the existing legal framework. Draft budget legislation currently before the National Assembly includes provisions to formalize the existing practice.

72. While the volume of performance information is extensive it is not clearly linked to other aspects of the government's performance management and reporting. Current sector development plans in water and agriculture, for example, do not refer to the performance metrics presented in the budget documentation for these ministries. It is not clear how the annual program-based performance information in the budget relates to higher level medium-term sector strategies, or to the performance outcomes envisaged in the current national development plan ('Jordan 2025'). The Citizen's Guide to the budget, first produced in 2011 (see Section 2.3.3) contains a description of the expected benefits of the forthcoming budget for ordinary citizens, but no references are made in this document to the performance information contained in the budget.

73. There is scope for rationalizing the use of performance information and better informing spending decisions. Linking the annual budget's performance information more clearly to multi-year sector plans and the national development plan would help integrate and harmonize performance reporting across government. This would then offer a more holistic view of the efficiency and effectiveness of service delivery and help improve the allocation of budgetary resources.

2.3.3. Public Participation (Basic)

74. Disclosure of public information around the budget is relatively good. In the 2019 Open Budget Survey, Jordan scored above the global average for transparency and is the only country in the region ranked overall as 'green' on this measure.[22]

75. The Citizen's Guide to the budget makes use of easy-to-understand pictures, charts, and maps to explain its points; but does not provide any distributional or incidence analysis or provide any opportunities for direct citizen participation in budget preparation. The latest version of the Citizen's Guide to the budget contains a high-level discussion of the macroeconomic and fiscal context of the budget; a breakdown of expenditure by function; as well as some analysis of what the government expects to deliver in terms of public services. It does not discuss the implications of the budget in terms of a distributional or fiscal incidence analysis for average households or different demographic groups. The Citizen's Guide is published after the budget is approved and there is currently no formal means by which citizens can submit their views to the executive during budget preparation. Some civil society groups are invited to participate in hearings on the proposed budget prior to its approval held by the legislature in which the MoF and GBD also participate.

---

[22] Jordan's survey results can be found at https://www.internationalbudget.org/open-budget-survey/country-results/2019/jordan.

76. The draft OBL currently before the Parliament will strengthen some elements of public participation in the budget process. This legislation would put the Citizen's Guide on a formal legal basis and give the GBD responsibility for undertaking additional public awareness-raising activities around the budget. This might provide citizens with increased opportunity to contribute their views directly into the budget preparation process. It could also be a spur to include in the budget documents more information on the impact of tax expenditures on households (see Section 1.1.4), and on the government's performance in delivering services to specific sectors and social groups (Section 2.3.2).

2.4. Credibility

2.4.1. Independent Evaluation (Not Met)

77. The Government's economic and fiscal forecasts are not discussed or challenged by individuals or entities outside the government. This is partly the consequence of the absence of publication of the macro-economic assumptions used for the preparation of the General Budget Law (see Section 2.1.2). Without such disclosure, no rigorous evaluation of macroeconomic and fiscal forecasts can be envisaged. The Financial Committee of the Lower House produces a report on the draft General Budget Law that briefly mentions some of the macroeconomic forecasts. However, this report cannot be considered as an evaluation or challenge to the government's forecasts. This limitation is especially serious considering the large biases in the growth and fiscal projections noted in Sections 2.1.2. and 2.1.3. An independent evaluation process could, according to the experience of other countries, help limit the magnitude of these biases.

78. Measures to introduce elements of independent validation of macroeconomic forecasts could be introduced in the short term. In the absence of an independent entity such as a fiscal council in charge of checking the credibility of the government's forecasts, a first step would be to include in the budget documentation comparisons between the government's projections and those of other public or private institutions. Among possible comparators are:

- The CBJ's forecasting model,[23] noting that this kind of comparison is done in many countries where the central bank publishes its own projections.
- Forecasts developed by the IMF, the World Bank, research institutes, and other organizations.
- Other countries and/or regions within the IMF's World Economic Outlook (WEO).

[23] The CBJ's macroeconomic forecasting model follows a semi structural Keynesian approach for short-and medium-term forecasting. It is currently used mainly for the purpose of supporting the implementation of monetary policy. The CBJ produces forecasts every quarter.

2.4.2. Supplementary Budget (Basic)

79. 2020 showed that material changes to the approved budget could take place without the prior authorization by Parliament (see Figure 2.6). The composition of spending was significantly altered, notably in comparison with the limited reallocations that took place in the previous years. Moreover, the substantial reallocation from capital appropriations (that are regularly underspent) to current expenditure appropriations, is an indication that expenditure was effectively increased without Parliament's approval, even though formally the total amount of appropriations remained unchanged and rules governing transfers were abided to. Information on spending reallocations provided to the Parliament is *ex post* only and delivered in a form that makes it difficult to use.

80. In-year adjustments in Jordan are usually managed through transfers published once a year in the final accounts report, and supplementary budgets remain exceptional. There have been no supplementary budgets during the last five years (2016-2020). Even in 2020, in the context of the COVID-19 crisis, authorities did not make recourse to a supplementary budget and managed all necessary reallocations through transfers, as well as through reliance on external sources of grants and loans. 2021 will stand as an exception with the implementation of the first supplementary budget in several years. The information provided to the legislature on transfers is limited, as the publication of in-year movements is made once a year and only in the final account report.

81. Transfers are effectively governed by rules that are voted in each annual General Budget Law. These rules, comparable to those in many other countries, have remained almost unchanged since 2013 at least, and can be summarized as follows:

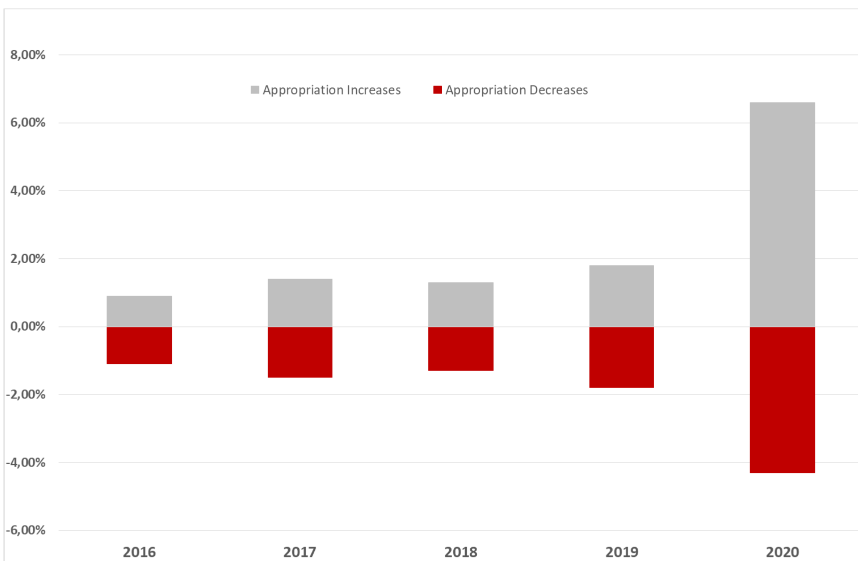
- Transfers between chapters are forbidden (Constitutional rule)
- No transfer from capital expenditures to any other type of expenditure unless approved by the Council of Ministers
- Transfers between the capital expenditures of different governorates are subject to the authorization of the Minister of Finance.
- Transfers from current expenditures to capital expenditures may take place within the same chapter with the authorization of the Minister of Finance.
- Transfers between payroll and other expenditures are forbidden.
- Other movements within a budget chapter are subject to the authorization of the Director General of the Budget.

Some other rules are occasionally set for special purposes, such as for the allocation of a contingency reserve.

82. Up to 2019, in-year transfers remained limited in comparison with the overall size of the budget but became more significant in 2020. Based on the account reports, the mission carried out a retrospective analysis of in-year movements over the last five years within the category of civilian current expenditures.[24] The results are summarized in Figure 2.6.

83. From 2016 to 2019, in-year movements in spending were limited and did not significantly alter the composition of the budget. Notably, capital expenditure was as a whole little affected by in-year reallocations. In 2020, in-year reallocations were much more substantial and resulted overall in a reduction by nearly 10 percent of capital expenditure appropriations and an increase of about 2 percent of current expenditure appropriations, even though a supplementary budget was not considered. In 2021, in the context of the COVID-19 crisis, the government has already decided to table a supplementary budget and ask for a net increase in expenditures.

Figure 2.6. In-Year Reallocations in Civilian Current Expenditure, 2016-2020[1]
(Change in appropriation amount as a share of the total initial budget)



[1] The imbalance between increases and decreases in civilian current expenditures, especially in the year 2020, is compensated by reverse reallocations on capital expenditures.

Source: Final Accounts Reports, IMF staff calculations.

84. The transparency of the reporting of in-year reallocations of budget allocations could be improved. Although the rules on in-year movements are generally clear, the reconciliation of these reallocations in the final accounts report is made extremely difficult in the

[24] Most in-year adjustments are made to civilian current expenditures which amounts to 60 percent of the budget.

absence of a summary table that presents the balance of movements on all categories of expenditure. This improvement should be achievable in the short term.

2.4.3. Forecast reconciliation (Not Met)

85. Budget documentation does not highlight differences between successive vintages of fiscal forecasts and does not discuss the key factors explaining these differences. This is especially the case for the different vintages of the MTBF, each one being presented in the General Budget Law without any reference to the medium-term projections made in previous years. The respective impacts of new policies, changes in the macroeconomic environment, and technical adjustments on the forecasts cannot therefore be identified. This absence of reconciliation is surprising given the large optimistic biases in macroeconomic and fiscal projections discussed in Sections 2.1.2 and 2.1.3. Even before the COVID crisis, the gap between the revenue forecast for the last year of the MTBF and outturns amounted to at least 2 percentage points of GDP, and sometimes much more.

86. Rapid progress could be made on improving the reconciliation of fiscal forecasts. The government could follow a phased approach on this issue, as follows:

- In the short term, a table could be included in the budget documentation showing at aggregate level the differences between the forecast of expenditures, revenues, and financing in the upcoming fiscal year and the forecasts made in the previous year's budget. A narrative discussion of this table would provide at least qualitative explanations regarding the impact of economic shocks such as the COVID-19 pandemic, changed economic conditions, and new policies on the macroeconomic forecasts.
- At a later stage, the analysis could include an assessment of the quantitative impact of macroeconomic determinants and new policies.

2.5. Recommendations

87. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal forecasts and budgets:

- **Recommendation 2.1. Build capacity in the MoF for preparing clear fiscal policy objectives and goals that provide an anchor for medium- and long-term fiscal planning** (MFD):
- **Recommendation 2.2. Strengthen the credibility of the MoF's macroeconomic forecasts and medium-term fiscal forecasts** (MFD, GBD):
    - <u>Short term:</u> prepare more realistic macroeconomic and fiscal forecasts for the budget year and the MTBF.
    - <u>Short term</u>: Disclose and present macroeconomic and fiscal forecasts in a short report published with the budget documentation.

- Medium term: In the same report, benchmark and compare the government's macroeconomic forecasts with independent institutions' forecasts.
- Medium-term: Prepare and publish a reconciliation of macroeconomic and fiscal forecasts.

- **Recommendation 2.3. Bring forward the tabling of the budget to the legislature by one month to November 1st each year** (GBD).
- **Recommendation 2.4. Continue improving public investment management** (PIM Unit, GBD):
  - Short term: Bring the NRIP reform to completion.
  - Medium term: Identify, quantify, and regularly disclose commitments on multi-year investment projects.

Table 2.2 Jordan: Summary Evaluation: Fiscal Forecasting and Budgeting

Principle		Assessment	Importance	Recs.
2.1.1	Budget Unity	**Good:** Budget documentation contains extensive financial information for central government MDAs and EBUs; but some classifications of government units are unclear and small budget institutions are excluded.	**Medium**: Budget information is relatively extensive, but off-budget social security revenue and expenditure are large, at 18 and 11 percent of GDP respectively.	
2.1.2	Macroeconomic Forecasts	**Not met:** The budget does not contain macroeconomic assumptions. GDP growth and inflation are mentioned in the Budget Speech, and there are comments on some assumptions in the Finance Committee Report.	**High:** Absence of discussion of basic macroeconomic assumptions weakens communication of the General Budget Law. Large optimism bias in GDP growth forecasts (45% deviation over 2015-2019).	**2.1**
2.1.3	Medium-Term Budget Framework	**Good:** The General Budget Law (GBL) requires a full MTBF with detailed numbers by ministry and by economic category, outturns of two preceding years, and medium-term projections.	**High:** MTBF is well established but its underlying assumptions are not disclosed. Huge deviations in fiscal forecasts (more than 2 percent of GDP on revenue in year 3) weakens MTBF's usefulness.	**2.2**
2.1.4	Investment Projects	**Basic**: Systematic cost-benefit analysis has started (not yet published); the value of total obligations is not disclosed or known; open and competitive tendering is hampered by frequent recourse to specific procedures.	**High:** Capital spending in the budget decreased from 4 percent to 3 percent of GDP in less than 10 years. Absence of data on procurement tenders and spending on multiannual projects are significant defects.	**2.4**
2.2.1	Fiscal Legislation	**Good:** The Constitution and the OBL (2008 and 2020 draft) define key content of the GBL, the legislature's amendment powers and the timetable of budget preparation/approval; but not the deadline for budget approval by Parliament.	**High**: budget documents include little discussion or explanation of financial data;; no deadline is set for parliamentary approval of the budget.	**2.2**
2.2.2	Timeliness of Budget Documents	**Basic:** Jordan has broadly complied with the time limits set in the FT Code. The serious delay in publishing the approved budget in 2021 may be an exception attributable to the COVID-19 pandemic.	**Medium:** The 2½ month time lag for the 2021 budget calls for attention. Allowing more time for approval and timely publication of the budget would align Jordan with other countries.	**2.3**
2.3.1	Fiscal Policy Objectives	**Basic:** Government fiscal policy is to follow the EFF program which includes numerical and timebound goals for most of the main fiscal aggregates. Budget documents include only limited information on fiscal objectives.	**Medium:** Fiscal policy objectives are set by the government as part of its EFF program with the IMF. Over time, there is scope for producing a home-grown fiscal policy using the newly formed FPU in the MoF.	
2.3.2	Performance Information	**Good:** Budget documentation contains extensive results and performance information, predominantly at the output level.	**Medium:** The quantity of performance information makes it hard to comprehend as a whole; it is not clear who uses this information to make decisions; or how it relates to sector and/or national strategies.	
2.3.3	Public Participation	**Basic:** The Citizens' Guide contains a detailed discussion of the budget and its implications for citizens, but there is no formal process for citizen engagement in budget preparation, and no distributional analysis.	**Medium:** Increasing citizen involvement in the budget process would help increase accountability; steps are already underway to develop more public awareness of the budget.	
2.4.1	Independent Evaluation	**Not met:** Macroeconomic assumptions are not disclosed and there is no comparison with other forecasts, nor any independent evaluation. Fiscal forecasts are not challenged outside the government.	**High:** Better disclosure and challenge of macroeconomic assumptions is essential to curb the recurrent and increasing optimistic biases in macro-fiscal forecasts. Some quick improvements could be made with the help of the CBJ.	**2.1**
2.4.2	Supplementary Budget	**Basic:** Changes to the budget are affected through transfers made according to rules voted in the GBL, and communicated to the legislature once a year only in the annual budget execution report.	**Medium**: Budget outturns have generally deviated little from planned budgets – on average around 1 percent of current expenditure – but the deviation increased to 6 percent in 2020.	
2.4.3	Forecast Reconciliation	**Not met:** No explanation is provided of any change between successive vintages of fiscal forecasts. The Budget Speech contains some discussion of the fiscal impact of new policies.	**High:** Even before the COVID crisis, the gap between the revenue forecast for the last year of the MTBF and outturns amounted to at least 2 percentage points of GDP, and sometimes much more. .	**2.2**

III. FISCAL RISKS

88. Governments should disclose, analyze, and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector. This chapter assesses the quality of Jordan's fiscal risk analysis, management, and reporting practices against the standards set by three dimensions of the Code:

- General arrangements for the disclosure and analysis of fiscal risks
- The management of risks arising from particular sources, such as contingencies and guarantees, public-private partnerships, and the financial sector; and
- Coordination of fiscal relations and related risks between central government, local governments, and PCs.

89. Jordan reports information on fiscal risks in several documents from various sources (see Table 3.1). Many of these reports are produced by the MoF as part of the annual fiscal policy and budget cycle. Other information relevant to fiscal risk reporting is disclosed by other institutions outside the MoF, for example the CBJ. As well as this existing reporting, Jordan is currently engaged in projects to create new information flows, for example through the Fiscal Commitments Unit (FCU) project to consolidate all new and existing PPP financial information.

90. Jordan's performance described in this chapter puts it somewhat in the middle of the small number of FTE comparators in the region. Jordan does not meet basic levels of performance in six areas of the Code; achieves Basic practice in five areas of the Code; and meets Advanced practice in one area. Compared to the Pillar III ratings of other countries within the Middle East and Central Asia region who have published a recent FTE, Jordan's is somewhat ahead of performance for Tunisia (2016) and Uzbekistan (2018); but behind that of Georgia (2017).

3.1. Disclosure and Analysis

3.1.1 Macroeconomic Risks (Not Met)

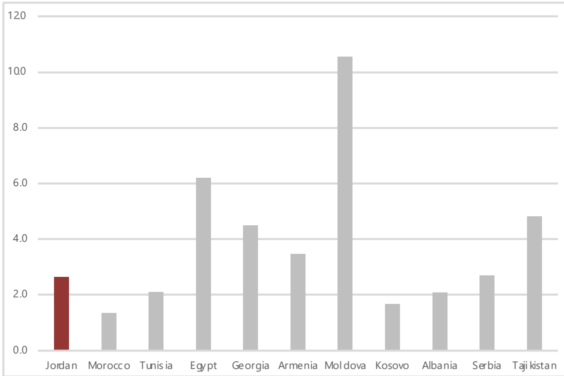
91. Budget documentation includes no discussion of how fiscal outcomes might be affected by different macroeconomic assumptions. This primarily reflects the absence of any comprehensive information on the macroeconomic assumptions used for the preparation of the General Budget Law (see Section 2.1.2). Such a discussion would be justified in Jordan. As shown in Figure 3.0, the volatility of general government revenue is high compared to other countries, while the volatility of GDP is relatively moderate.

Table 3.1. Jordan: Existing Reports Related to Fiscal Risks

Report	Frequency	Coverage	Source
General Government Finance Bulletin	Monthly	Macroeconomic risk Asset and Liability Management Guarantees Budget Contingency	MoF
Quarterly Budget Execution Reports	Quarterly	Macroeconomic risk Budget Contingency	MoF
Public Debt Quarterly Report	Quarterly	Macroeconomic risk Asset and Liability Management Guarantees	MoF
Mid-Year Budget Execution Report	Every six months	Macroeconomic risk Budget Contingency	MoF
EFF program reviews	Every six months	Macroeconomic risk Asset and Liability Management Guarantees Public Corporations	MoF and IMF
Financial Stability Report	Annual	Financial sector	CBJ
Annual reports and financial statements of PCs	Annual	Budget Contingency Public Corporations Guarantees PPPs	Individual PCs
Audit Report covering government finances and individual PCs	Annual	Budget Contingency Public Corporations Guarantees PPPs	Audit Bureau
SSC actuarial valuations	Every 2-3 years	Long-term sustainability of public finances	SSC
Medium-Term Debt Management Strategy	Every 2-3 years	Macroeconomic risk Asset and Liability Management Public Corporations Guarantees	MoF

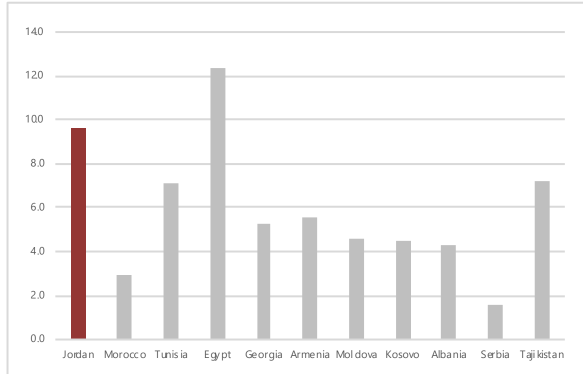
92. **This deficiency could be easily remedied.** As soon as a full set of macroeconomic forecasts are disclosed and explained in the budget documents, it should be relatively easy to also include an analysis of the sensitivity of macro-fiscal forecasts to changes in the major assumptions. A first step achievable in the short term could be to comment on the sensitivity of revenues to the GDP growth rate. The impact of inflation on revenue and expenditure could also be assessed, as well as the sensitivity of debt service to variations in interest rates. In a second stage, the analysis of full alternative macroeconomic scenarios could be envisaged. Such work could be part of the mandate of the new MFD.

Figure 3.0. Standard Deviation, Nominal GDP Growth Rate (2010-2019)



Source: IMF staff based on statistical information of respective countries

Figure 3.1. Standard Deviation, General Government Revenue Growth Rate (2010-2019)



Source: IMF staff based on statistical information of respective countries

3.1.2 Specific Fiscal Risks (Not Met)

93. **Jordan is exposed to many specific fiscal risks, but the government's reporting and disclosure of these risks is limited**. The analysis of risks around public debt is most advanced, with public reporting through the country's EFF program and the government's Medium-Term Debt Management Strategy (MTDMS). Some aspects of fiscal risk from the most important public corporations (PCs) are also monitored. For example, the revenues and expenditures of the country's main electricity and water companies are reported through the budget and most of the explicit government guarantees to these corporations are also disclosed. Risks from the financial sector are reported by the CBJ through their regular Financial Stability Reports (see Section 3.2.5). However, most other sources of specific fiscal risk—including PPPs—are not currently well identified and managed (see Section 3.2.4).

94. **Fiscal risks in Jordan are both high and closely correlated.** As set out in Table 3.2, the total gross exposure of the government to a range of identified fiscal risks is significant. Explicit and implicit fiscal risks totaled 120 percent of 2020 GDP. Furthermore, many of these explicit and implicit risks are linked, with the possibility of a cascade of fiscal risks under certain adverse circumstances such as new or increased conflict in the region, an increase in global energy prices, and/or a sudden recession. For example, many long-term PPPs in the electricity sector have been contracted by large PCs. These PCs are already operating with precarious finances, while receiving regular fiscal transfers and/or explicit government guarantees of their debt. They also operate with an implicit assumption that government will ultimately finance the delivery of their essential public services, should the companies fail. The net present value (NPV) of long-term expenditure pressures in health and pensions amount to an additional 127 percent of 2020 GDP, representing another form of fiscal risk. Effective fiscal risk analysis therefore requires an understanding of the interrelated and long-term nature of these risks.

Table 3.2. Jordan: Selected Specific Fiscal Risks in Jordan

	Magnitude (gross exposure)		Year	Reporting practice
	JD million	% GDP		
Debt and guarantees				
Guarantees	3 065	10	2020	Monthly through General Government Finance Bulletin
Full reimbursement of bank deposits /1	6,919	22.5	2019	Annually through JODIC reports.
Public sector liabilities				
Public corporation liabilities /2	8 566	27.1	2019	Largely not reported, apart from NEPCO
PPP-related liabilities	6 358	20.7	2020	Not reported, but process in place to start doing so
PPA commitments /3	11 118	36.2	2020-2040	Not reported
Local government debt	526	1.7	2019	Reported
Long-term risks				
Change in NPV pensions	30 343	99	2020-2050	Not reported
Change in NPV health	8 582	28	2020-2050	Not reported
Other risks				
Natural disasters	429	1.4	2020-2050	Not reported

Source: IMF staff estimates.

1/ Defined as the difference between the estimated reimbursement amount and the current reserves of JODIC

2/ Excluding the CBJ

3/ PPAs estimated as the NPV of expected future payments by public entities

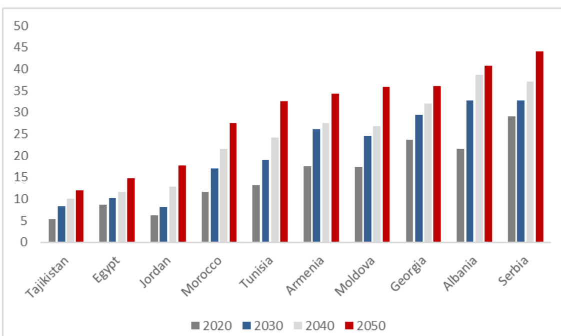
95. **A framework for managing overall fiscal risks is currently absent, but many sources of relevant information are already available.** The establishment of the new MFD in the MoF offers the chance to build this important function. This unit will have formal responsibility for identifying and managing fiscal risk across the public sector, as well as responsibilities for macroeconomic forecasting, fiscal and tax policy, and fiscal statistics. Such work can begin swiftly given that for many of the largest risks (e.g., on public debt, public guarantees, PC finances, and some of the largest PPPs) substantial data and empirical analysis, as well as regular reporting processes, are already in place. This existing information could be used to rapidly develop a basic fiscal risk report, to which more sophisticated analysis and additional information can be progressively added over time.[25]

[25] Country examples of different kinds of fiscal risk report include: South Africa's summary risk annex to the budget document, http://www.treasury.gov.za/documents/mtbps/2016/mtbps/Annexure%20A%20Fiscal%20risk%20statement.pdf ; the UK's long-term fiscal sustainability analysis https://obr.uk/fsr/fiscal-sustainability-report-july-2020/ ; Finland's statement of economic risks and liabilities. https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/162029/VM_6_2020.pdf?sequence=1; and chapters on fiscal risk in the New Zealand budget statement https://budget.govt.nz/budget/pdfs/befu2020/befu20.pdf.

3.1.3 Long-Term Fiscal Sustainability Analysis (Not Met)

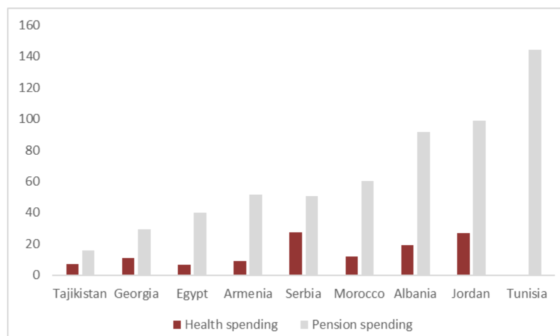
96. Jordan faces fiscal risks from long-term pressure on health and pensions spending. Although Jordan's old-age dependency ratio is expected to rise slower than in most comparable countries up to 2050, the expected increase in the cost of pension and healthcare spending over the period 2020-2050 is among the highest of these countries (Figures 3.1 and 3.2). The net present value (NPV) of increases in expenditure to 2050 is estimated at 28 percent of GDP for health and 99 percent of GDP for pensions. Previous IMF analysis of the health sector has identified relatively good health outcomes, but this needs to be set against low system-wide efficiency alongside relatively high expenditure, as well as ongoing challenges with arrears and the sustainability of prices paid for medical treatment.[26] Combined with the adverse impacts of the COVID-19 pandemic, this indicates that challenges in health financing sustainability are already-emerging.

Figure 3.2. Change in Old-Age Dependency Ratio, 2020-2050
(ratio of population 65+ per 100 population 15-64)



Source: United Nations, 2019, medium fertility variant.

Figure 3.3. NPV of Projected Increase in Pensions and Healthcare Spending, 2020-2050
(percent of GDP)



Source: IMF Fiscal Monitor, 2021. Tunisia health spending change not reported.

97. At present there is no publicly disclosed analysis of the long-term sustainability of the public finances, although there is some internal reporting. MoF forecasts for key fiscal variables do not extend beyond the three-year period of the MTFF (see Sections 2.1.3 and 2.3.1). The SSC undertakes actuarial analysis of the finances of its main insurance schemes every few years but while the results are shared internally with the MoF, they are not published. According to a recent IMF report,[27] the 2016 actuarial valuation of the main pension scheme managed by the SSC identified a long-term imbalance between inflows and outflows. This represents a fiscal risk since the government remains legally responsible for making up any shortfall for public sector workers. Steps are now being taken to reform the scheme's rules to

[26] IMF (2018) 'Public Expenditure Review and Rationalization: Issues and Reform Options'.

[27] IMF (2020) 'Jordan – Fiscal Risk Assessment'.

bring it back into long-term balance. The CHIF — the largest public health insurance scheme in Jordan covering civil servants and their dependents — undertakes financial forecasts and modelling over a three-year time frame, but this analysis is not published.

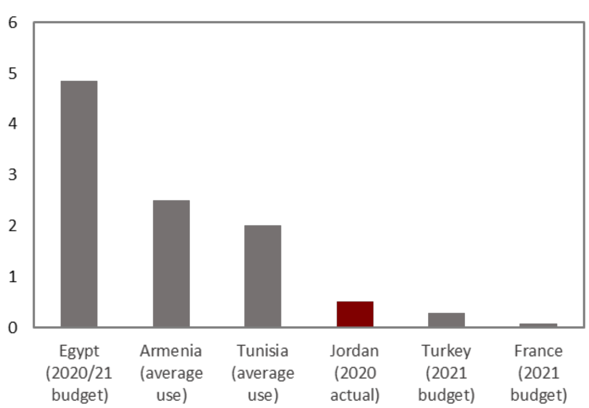
3.2. Fiscal Risk Management

3.2.1 Budget Contingencies (Basic)

98. **The budget includes an allocation for contingencies, which is less than one percent of total expenditure, but no information is published on the use of this facility, and the law does not define the criteria that are used to access the resources.** An allocation for "contingent expenditure" is included in the budget as a program in the MoF's budget. The final accounts present only the total amount of allocations for contingent expenditure and does not report for what purposes or by which agencies the allocations were used. The annual budget law (Article 7-B) states that any allocation for contingent expenditure simply requires a decision of the Council of Ministers on the recommendation of the Minister of Finance. The draft OBL will limit the use of the reserve more clearly to 'unforeseen expenditures and contingencies', although these are not defined in detail. There is also no ceiling on the allocations for contingent expenditure defined under the law.

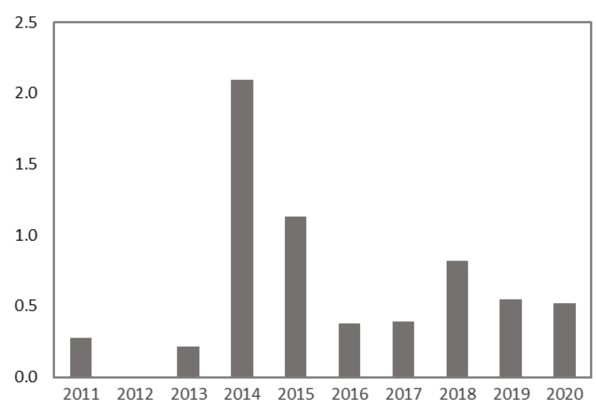
99. **The use of an allocation for contingencies historically has been small in Jordan.** The budgetary allocation for contingencies in Jordan is relatively small compared to other countries (Figure 3.3). On average between 2011 and 2020, the use of contingencies was limited to 0.6 percent of total expenditure (Figure 3.4). The usage exceeded one percent of total expenditure only in 2014 and 2015. In practice, much greater use has been made of in-year reallocations of spending ("virement"), including during the COVID-19 pandemic (see Section 2.4.2).

Figure 3.4. Contingency Allocation
(Percent of total budget expenditure)



Source: IMF staff based on budgets and final accounts of respective countries, FTE reports (Armenia, Tunisia).

Figure 3.5. Use of Contingency Allocation
(Percent of total budget expenditure)



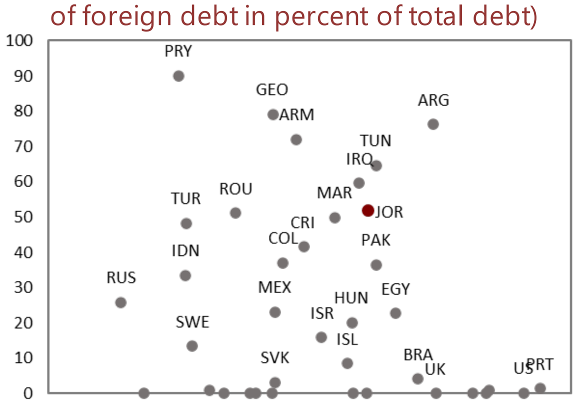
Source: IMF staff based on final accounts.

3.2.2 Management of Assets and Liabilities (Basic)

100. All government borrowing is authorized by law and analysis of the fiscal risks related to debt is published; but this is not the case for other liabilities or financial assets. The annual budget law includes the financing budget, which authorizes central government borrowing by setting limits on annual borrowing with a breakdown by different instruments and creditors. The "Medium-Term Debt Management Strategy 2017-2021" includes an analysis of, and targets associated with, refinancing, interest rate, and foreign exchange risks regarding public debt. However, there are few published reports on non-debt liabilities or financial assets. The monthly GGFB discloses only public debt (i.e., borrowing) and cash balances that are included in a net debt definition. The final accounts present data on the stock of some, but not all, outstanding lending by the government.

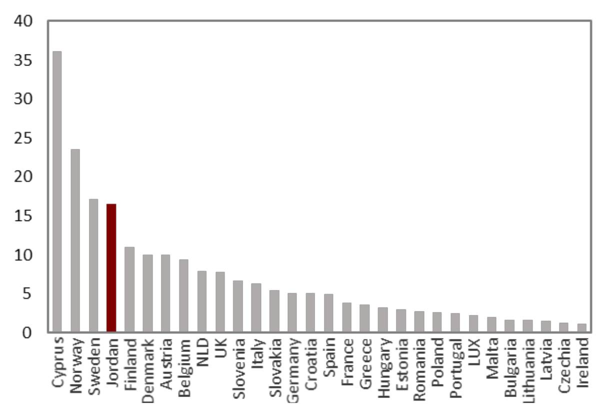
101. Jordan's public debt level is close to 90 percent of GDP, but the debt portfolio has a relatively favorable structure. According to the government's EFF program agreed with the IMF, in 2020 the level of gross public debt is estimated to be 89 percent of GDP, compared to 78 percent of GDP in 2019, with the increase due to high deficits and negative growth. The government's debt management strategy has lengthened the average maturity of public debt from 3.1 years in 2013 to 6.4 years in 2019. In addition, foreign exchange risks have been managed by maintaining a relatively high share of domestic debt, which comprises around 48 percent of total public debt (Figure 3.5).

Figure 3.6. General Government Debt and Share of Foreign Currency Debt
(x-axis: debt in percent of GDP, y-axis: share of foreign debt in percent of total debt)



Source: IMF staff based on WEO and Quarterly Public Sector Debt databases, Article IV reports, Jordan public debt bulletin.

Figure 3.7. Lending by General Government, 2020
(Percent of GDP)



Source: IMF staff based on final accounts and Eurostat database.

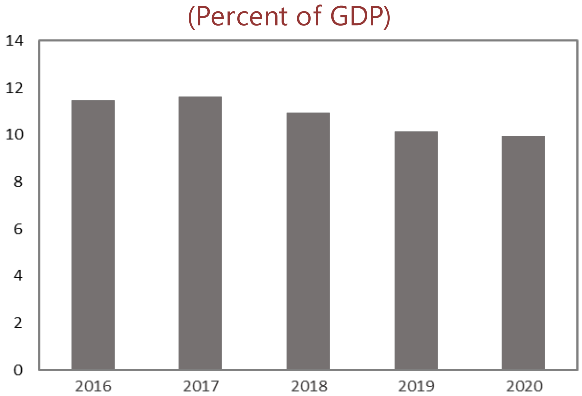
102. Fiscal risks may also stem from the financial assets owned by the general government. In addition to cash balances and shareholdings in public corporations, the general government has a sizable amount of loans on the asset side of its balance sheet. Half of these assets comprise advances to the electricity company (NEPCO) from the central government budget. In 2020, the outstanding balance of these loans is estimated to be 16.5 percent of GDP, higher than the average of European countries (Figure 3.6). Since NEPCO is facing financial weaknesses (see Section 3.3.2), these loans have a high likelihood of default, which could negatively affect the government's overall fiscal position. NEPCO is also a significant beneficiary of government guarantees and has a large exposure to public private partnerships and power purchase agreements as discussed in Sections 3.2.3 and 3.2.4.

3.2.3 Guarantees (Not Met)

103. The reporting of government guarantees is limited to disclosing guaranteed debt and does not include a full breakdown of these guarantees by beneficiary.[28] The monthly GGFB discloses the total amount of guaranteed debt and includes a chart that shows a breakdown by the main beneficiaries. However, this amount does not include guarantees that fall outside this definition. For example, a comfort letter recently issued to Royal Jordanian Airline (JD 50 million) is not included in this definition. Furthermore, information on beneficiaries is limited to only two companies, NEPCO and WAJ.

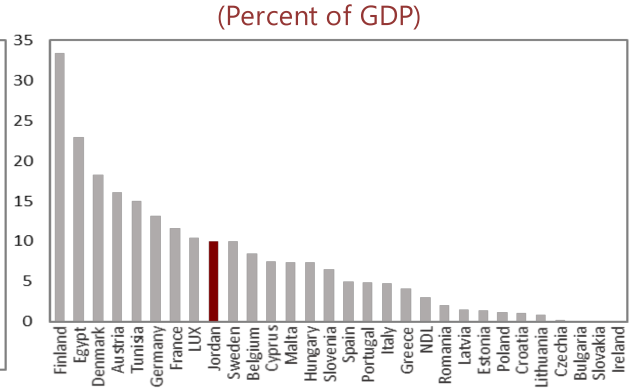
104. The stock of guarantees is relatively high and concentrated in public corporations facing financial challenges. Under Article 18 of the Public Debt Law 2001, guarantees can be issued only for projects of national interest with the approval of the Council of Ministers on the recommendation of the finance minister. The MoF has been minimizing the issuance of new guarantees in recent years, and the level of outstanding guarantees has declined gradually (Figure 3.7). However, the stock of guarantees was still 10 percent of GDP in 2020, which is relatively high compared to other countries in the region and Europe (Figure 3.8). Three-quarters of these guarantees were issued to NEPCO, which has been facing financial challenges (Section 3.3.2). Fiscal risks can emanate from a possible call on guarantees or additional advances from the budget required to avoid such a call.

Figure 3.8. General Government Guarantee Stock
(Percent of GDP)



Source: IMF staff based on GGFB.

Figure 3.9. General Government Guarantee Stock, 2019-20
(Percent of GDP)



Source: IMF staff based on Eurostat database, IMF Staff

[28] "Guaranteed debt" is defined as a one-off guarantee in a form of loan and other debt instrument guarantee under the GFSM 2014 (Para. 7.254). This does not include other guarantees, such as a comfort letter.

3.2.4 Public-Private Partnerships (Not Met)

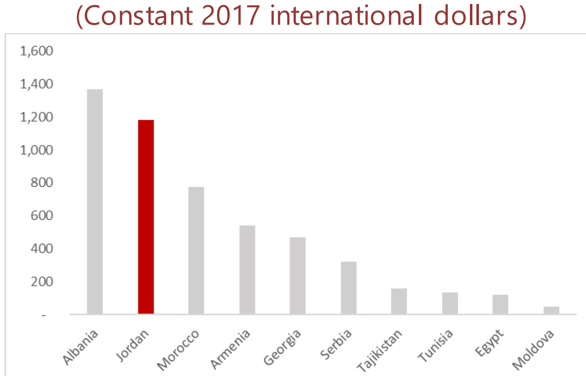
105. Public-private partnerships (PPPs), mainly for public infrastructure, are macroeconomically significant in Jordan and carry a significant fiscal risk. In 2018, the IMF estimated their value at 30 percent of total public investment; while noting that a key driver was the opportunity to move spending off budget.[29] Further IMF reports identified 47 large PPP/PPAs agreed since 2003, concentrated primarily in the water, transport, and power sector.[30] The liabilities of the largest PPP arrangements identified were estimated at 21 percent of 2020 GDP, with fiscal commitments to Power Purchasing Agreements (PPAs) having an NPV of 36 percent of GDP over the period 2020-2045. Many of the contracting authorities for PPPs and PPAs are themselves PCs with precarious finances (notably NEPCO), which increases the interrelated nature of fiscal risks from these arrangements. The impact of the COVID-19 pandemic has negatively affected the finances of many PPPs, notably the Queen Alia International Airport (QAIA). Estimates of the fiscal costs and risks related to PPPs are summarized in Table 3.3. Figure 3.9 shows that the stock of PPPs is relatively high in Jordan compared to comparator countries.

Table 3.3. Jordan: Estimation of Fiscal Costs and Risks from PPPs and PPAs, 2020
(Maximum estimated exposure)

Type	Category	In JD million	In % 2020 GDP
Fiscal costs, explicit	Non-financial assets (stock)	4 894	16.2
Fiscal costs, explicit	Liabilities (stock)	6 358	21.0
	Net worth	*-1 464*	*-4.8*
Fiscal risks, explicit	Early contract termination (flow)	3 798	12.5

Source: IMF staff calculations from 2020 based on official data. See IMF (2020) 'Jordan – Fiscal Risk Assessment' for the calculation methodology.

Figure 3.10. Capital Stock Created by PPP Flows Per Capita,
(Constant 2017 international dollars)



Source: IMF investment and capital stock estimates and World Bank population figures.

[29] IMF (2018) 'Strengthening Oversight of Public Corporations, PPPs, and Fiscal Risks (PIMA Follow-up)'.

[30] IMF (2020) 'Jordan – Fiscal Risk Assessment', drawing on USAID (2020) 'Fiscal Reform and Public Financial Management (FRPFM): FCCL Assessment Reports'.

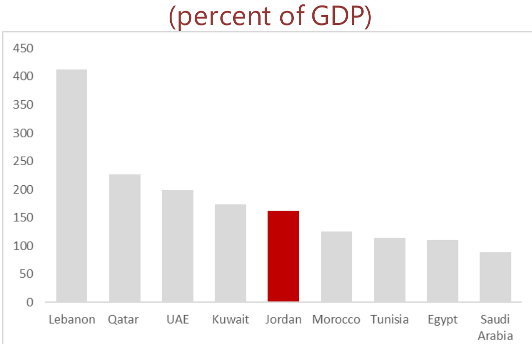
106. The government has strengthened the PPP governance framework for both new and existing projects. Prior to 2020, the government held no central database of its existing PPP arrangements and their financial commitments, and policy responsibility for determining how and when PPPs should be used was not clearly assigned. The 2020 PPP Law divided responsibility for overseeing new and existing PPPs between the PPP Unit at the PMO, the Public Investment Management (PIM) Unit at MoPIC, and the FCU at the MoF. For new projects, the law has clarified the procedure for selecting PPPs over regular public investment projects, strengthened the processes for appraising the value for money of PPP agreements, and mandated the publication of non-security related PPP contracts. For existing PPP projects, the FCU has started work on gathering key financial and non-financial information on existing PPPs, and creating a comprehensive database of all PPP projects across the public sector.

107. The new information systems must be actively used to support fiscal risk reporting on new and existing PPPs. There is a danger that a focus on project appraisal for new projects, and data gathering for existing projects is seen as an end in itself rather than as the first step in managing fiscal risk. Basic reporting on overall fiscal risks from PPPs can begin well before the relevant data gathering is fully complete and be progressively expanded over time as the additional information becomes available.

3.2.5 Financial Sector (Advanced)

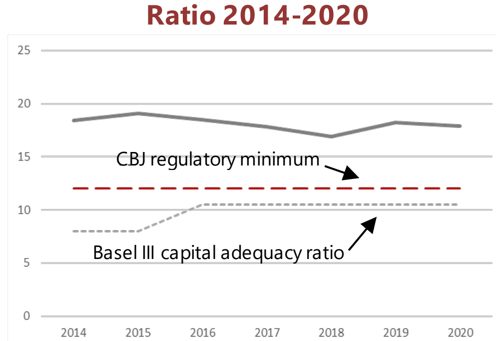
108. The financial sector in Jordan appears resilient and has been well-supported to cope with the impact of the COVID-19 crisis. Banking dominates Jordan's financial sector, comprising 93.5 percent of financial assets in 2019 and accounting for 162 percent of 2019 GDP. This puts Jordan's level of bank financial assets to GDP in the mid-range of comparable regional countries (Figure 3.10). Key indicators of banking institution health such as capital adequacy ratios remain robust despite the pressures of the COVID-19 pandemic (Figure 3.11). To support the sector during the COVID-19 pandemic, the CBJ has taken several actions to boost liquidity, increase bank capital ratios, and support continued lending. The CBJ estimates the size of these operations at 8.1 percent of 2020 GDP. Figures 3.12 and 3.13 provide data on other key financial ratios—non-performing loans and the return on assets.

Figure 3.11. Bank Financial Assets, 2019
(percent of GDP)



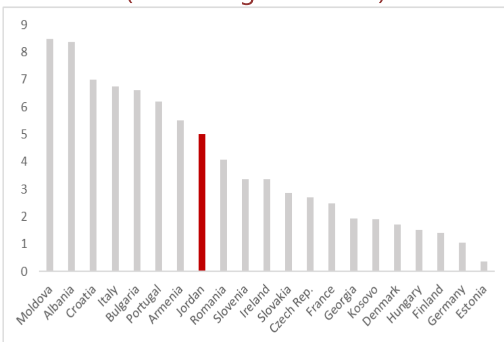
Source: Central Bank of Jordan.

Figure 3.12. Jordan Capital Adequacy Ratio 2014-2020



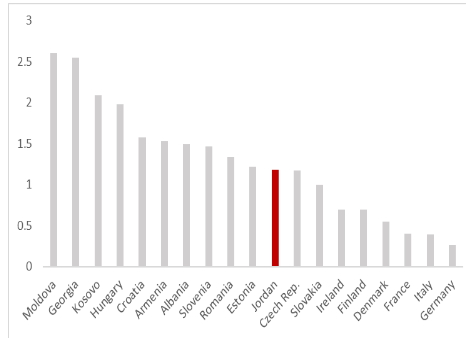
Source: Central Bank of Jordan. The 2020 figure is for first six months of the year only.

Figure 3.13. Non-Performing Loans, 2019
(Percentage of loans)



Source: IMF Financial Soundness Indicators and Central Bank of Jordan.

Figure 3.14. Return on Assets, 2019



Source: IMF Financial Soundness Indicators and Central Bank of Jordan.

109. The government's explicit exposure to the financial sector is limited and its main formal commitments are disclosed and managed. There are no state-owned banks or insurance companies. Government holds only a very small legacy shareholding in one commercial bank; and this shareholding is disclosed through regular corporate reporting processes. The Postal Savings Fund and the Development and Employment Fund operate some small-scale lending; but the revenues, expenditure, and financing of both are disclosed through the budget law and they are audited by the AB. The largest explicit fiscal risk is the government's ultimate responsibility for financing deposit insurance: the potential costs of reimbursing deposits stood at 22.5 percent of GDP in 2019. However, JODIC—the Jordanian Deposit Insurance Fund set up to deliver this responsibility—is currently capitalized above the regulatory minimum and has never yet had to pay out to depositors. JODIC regularly publishes its financial statements and other reports. Its governance structure puts it under the joint supervision of the MoF and the CBJ.

110. The interactions between government debt and public and private financial institutions raises some fiscal risks. The SSIF invested over half of its resources in government bonds in 2019; and the government remains legally liable for meeting pension payments to public sector workers if returns on the Fund fail to cover obligations. Banks have increased their holding of government debt from 14.8 percent of banking assets in 2008 to 24.1 percent at the end of 2019, equivalent to 38.9 percent of 2019 GDP. JODIC must also invest its funds—equivalent to 2.7 percent of 2019 GDP—entirely in government bonds. The risk of a debt default by the government therefore has consequences for other public and private financial institutions that, in turn, creates additional fiscal risk. Currently, Jordan's overall public debt situation is manageable in the medium-term and actions committed to under the government's EFF program will further reduce these risks.[31]

[31] Jordan's EFF program projects public debt and publicly guaranteed debt to peak at 90.9 percent of GDP in 2021 and then be on a downward path to reach less than 80 percent of GDP by 2025.

111. The CBJ reports regularly on financial sector stability and includes the results of a range of stress tests on the sector's resilience. It publishes financial soundness indicators covering key measures of financial sector stability every six months.[32] The Bank's annual Financial Stability Report provides substantial data and analysis of key financial sector risks and the results of internal stress tests of the financial system. The 2019 Financial Stability Report outlined the results of stress testing for single factor impacts (e.g., a decline in credit quality, an increase in interest rates, a change in the exchange rate) and multiple-factor scenarios (e.g., baseline, medium, and severe macroeconomic shocks involving a simultaneous deterioration in growth and employment, a fall in equity prices, and an increase in interest rates). The CBJ concluded that the banking sector would be resilient in the face of a range of shocks, with even the most severe multi-factor shock resulting in a manageable increase in non-performing loans and banks' capital adequacy ratios remaining above the CBJ and international benchmarks.

3.2.6 Natural Resources (Not Met)

112. The government publishes data on the volume of major mining reserves and the value and volume of mining sales, but not fiscal revenue from mining operations. Jordan's exhaustible natural resources are mainly composed of mining reserves of phosphate, potash, and bromine. The "Performance of the Jordanian Mining Sector During 2014-2018" published by Ministry of Energy and Mineral Resources in 2020 includes data on the annual production volume and sales value of these mines as well as the volume of phosphate mineral reserves. This publication includes an overview of mining companies but does not present the fiscal revenue from mining operations; information on which is also not available in the MoF's fiscal reports.

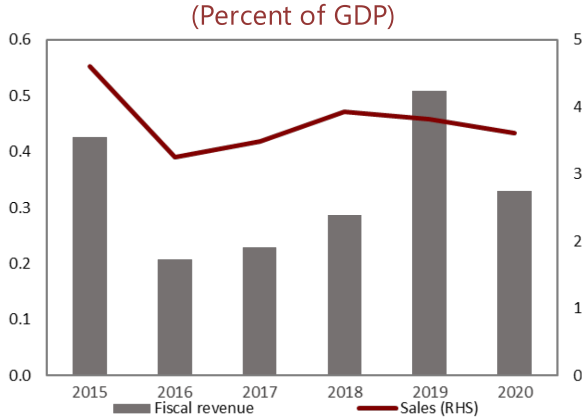
113. Jordan has extensive phosphate and potash reserves that create potentially sizable fiscal revenues. According to the United States Geological Survey (USGS), Jordan has a 1.4 percent share of global phosphate reserves, and significant potash reserves lie under the Dead Sea, although the exploitable quantity is not known.[33] Potash and phosphate mines are operated by Arab Potash (APOT) and Jordan Phosphate Mines Company (JPMC), in which the government has a 26 percent shareholding of each. The annual sales of these two entities were 3.8 percent of GDP on average between 2015 and 2020 (Figure 3.14). The companies provided revenue to the central government through royalties and mining fees, corporate income tax, and dividends equivalent to 0.2 percent of GDP in 2016 and 0.5 percent of GDP in 2019. This broadly corresponds to the level of "natural resource rent" (i.e., profits of the natural resource sector) disclosed in the World Bank database, where Jordan is below the average of non-oil producing countries in the region (Figure 3.15). The JPMC turned from loss-making to profit-

[32] The CBJ's Financial Soundness Indicators contain annual data up to 2015 and six monthly data from 2016 for key indicators of banking system and financial sector resilience such as the percentage of non-performing loans; return on assets and equity, growth rate of credit, and capital adequacy ratio. https://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=211.

[33] USGS, 2020, "Mineral Commodity Summaries 2020."

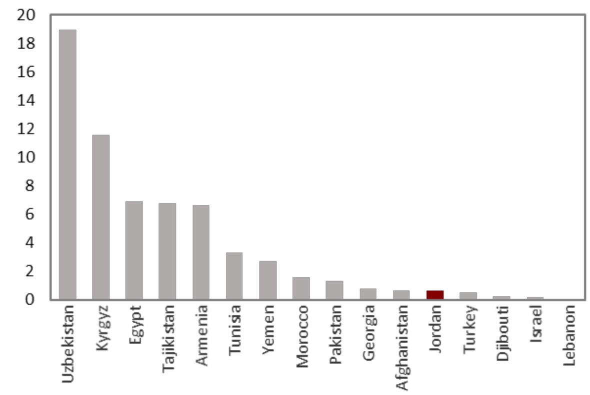
making and started to pay dividends only in 2018. There may be room for increasing fiscal revenue from the mining sector by further improving the JPMC's efficiency.

Figure 3.15. Fiscal Revenue and Sales of APOT and JPMC, 2015-2020
(Percent of GDP)



Source: IMF staff based on financial statements.

Figure 3.16. Natural Resource Rents, 2018
(Percent of GDP)



Source: IMF staff based on World Bank Development Index database.

3.2.7 Environmental Risks (Basic)

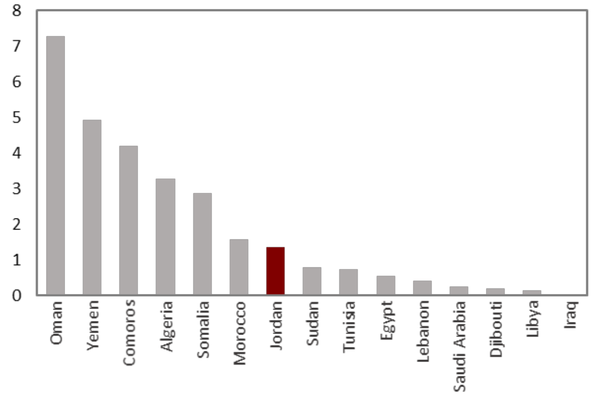
114. The government publishes an analysis of risks related to natural disasters together with a qualitative discussion of the associated fiscal costs. The National Center for Security and Crises Management (NCSCM), an independent entity under the PMO, is responsible for developing crisis prevention programs and projects and coordinating crisis response activities, including those for natural disasters and the COVID-19 pandemic. The NCSCM's "Natural Disaster Risk Reduction Strategy 2019-2022" includes an analysis of Jordan's vulnerabilities to various natural disasters and outlines the institutional and policy framework for risk reduction, including qualitative discussions of financing needs. However, analysis of natural disaster risks is a relatively new function, and quantitative analysis of the associated economic losses and fiscal risks has yet to be undertaken

115. Jordan is vulnerable to earthquakes and flash floods which could create sizable fiscal costs. According to a study by the United Nations Office for Disaster Risk Reduction (UNISDR), Jordan incurred economic losses from natural disasters equivalent cumulatively to 1.4 percent of GDP from 1981 to 2011.[34] Such losses are broadly equivalent to the average level of countries in the region (Figure 3.16). According to the UN study, Jordan is particularly vulnerable to earthquakes and flash floods, based on a "INFORM Risk Index" derived from frequencies and damages of past events and assessment of preparedness (Figure 3.17).

[34] UNISDR, 2015, "*Regional Analysis of Disaster Loss Databases in Arab States*".

Figure 3.17. Cumulative Economic Loss from Natural Disasters, 1981-2011

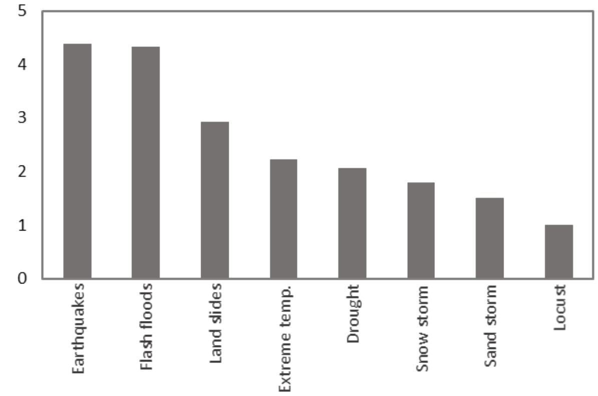
(Percent of 2011 GDP)



Source: IMF staff based on UNISDR (2015).

Figure 3.18. "Natural Disaster INFORM Index", 2018

(Index)



Source: Natural Disaster Risk Reduction Strategy. Note: INFORM Index ranges between 0 (very low risk) and 10 (very high risk), and the score 4 indicates medium risks.

3.3. Fiscal Coordination

3.3.1 Subnational Governments (Basic)

116. Data on the financial condition and performance of municipalities are published annually, but there is no limit on their borrowing. The sub-national governments of Jordan comprise the Great Amman Municipality (GAM) and 100 municipalities classified into Categories A, B, and C depending on the population.[35] The GAM and 12 Category A municipalities account for, respectively, 58 percent and 22 percent of total local government expenditure in 2019. The GGFB presents annual revenue and expenditure by aggregating the GAM and 100 municipalities. The CVDB and the Ministry of Local Administration (MLA) jointly publish an annual "Municipalities Financial Report", which presents revenue, expenditure, and borrowing data of the 100 municipalities. The GAM also publishes its annual financial statements including revenue, expenditure, borrowing, and revenue receivables. Under Article 17 of the 2015 Law on Municipalities, borrowing of the GAM and other municipalities must be approved, respectively, by the Prime Minister and the MLA. However, the approval is made on an instrument-by-instrument basis, and there is no ceiling on borrowing defined under the law. The new Law on Municipalities and Decentralization, which will be submitted to the legislature shortly, will require all municipalities to publish their budget and financial statements and implement accrual basis of accounting within two years.

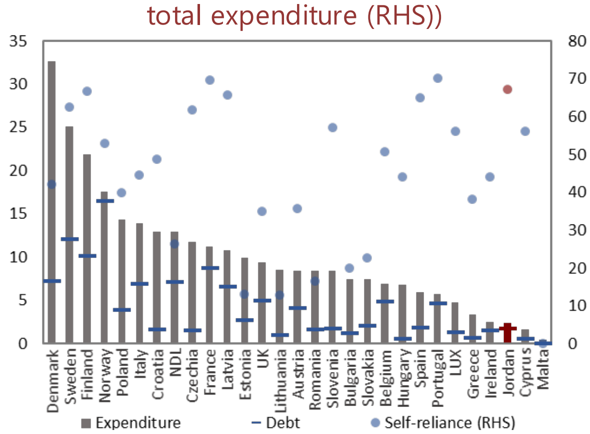
117. The size of the fiscal operations of municipalities in Jordan is small in aggregate, but some municipalities have been facing financial challenges. In 2019, total expenditure and outstanding borrowing of the GAM and the 100 municipalities was 2.6 percent and

[35] Category A includes 12 municipalities with a population of more than 100,000; Category B includes 61 municipalities with a population of more than 15,000; Category C includes 27 municipalities with smaller populations.

1.7 percent of GDP respectively, which is much smaller than the average of European countries (Figure 3.15). Around 67 percent of total expenditure is covered by municipalities' own revenue, such as property taxes and traffic violation penalties, rather than transfers from the central government budget. This self-reliance ratio is higher than the average of European countries. However, municipalities have a high level of borrowing in relation to annual self-revenue (also Figure 3.18). In the case of the GAM, its significant holding of marketable lands—the value of which is estimated to be six times as high as GAM's debt—may provide sufficient revenue to sustain the municipality's borrowing. However, this is not the case for other municipalities. Fiscal risks from the borrowing of municipalities partially materialized in 2018 when the central government took over JD 70 million of borrowing from 61 municipalities from the CVDB.[36] Even after this debt take-over, some municipalities still have debt close to 100 percent of their annual self-revenue (Figure 3.19).

Figure 3.19. Local Government Expenditure and Debt, 2019

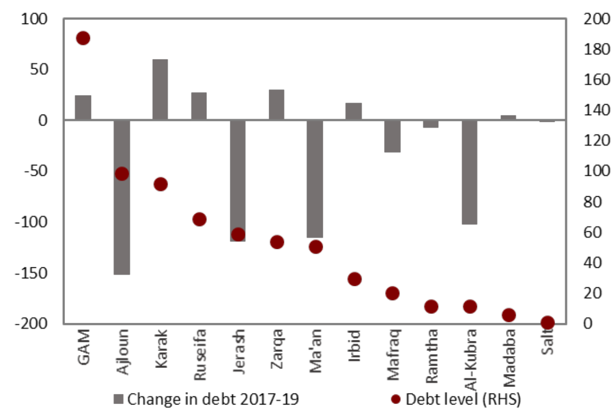
(Percent of GDP, percent of self-revenue to total expenditure (RHS))



Source: IMF staff based on Eurostat database, GAM financial report, Municipalities Financial Report.

Figure 3.20. Debt of GAM and Category A Municipalities, 2019

(Percent of self-revenue)



Source: IMF staff based on Municipalities Financial Report.

3.3.2 Public Corporations (Basic)

118. Transfers from the government to PCs are appropriated in the annual budget law, but there is no published report on the financial performance of all PCs. Financial support from the government to PCs through subsidies and transfers takes the form of financing transactions (on-lending, advances, capital injections) which are disclosed in the annual General and Government Unit Budget Laws. However, there is no fiscal report that sets out the summary financial position and performance of all PCs. The Government Investment Management Company (GIMC), which is a holding company under the MoF covering 15 PCs including the

[36] The CVDB is a financial public corporation. It holds municipalities' revenue collection accounts and is financed mainly by municipalities' deposits. It also provides credit, mainly to municipalities, although credit from the CVDB is not guaranteed by the government.

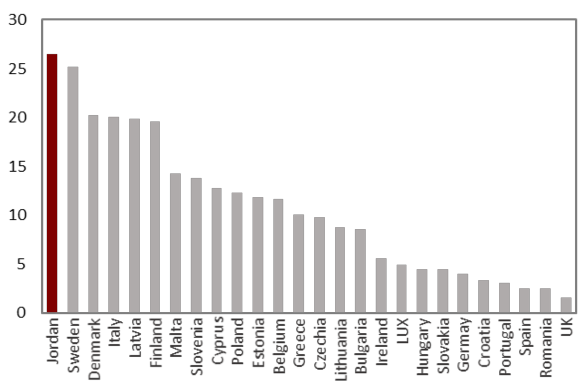
Royal Jordanian (RJ) Airline, is preparing to publish a consolidated balance sheet of its shareholdings.

119. NFPCs are a significant source of fiscal risks in Jordan. As discussed in Pillar I of this report, while the non-equity liabilities of FPCs are limited to less than 1 percent of GDP in 2019, the non-equity liabilities of NFPCs amounted to 26.5 percent of GDP in the same year; which is much higher than average of European countries (Figure 3.20). Around 70 percent of these liabilities belong to NEPCO, the assets of which cover only 19 percent of liabilities, and which is therefore balance sheet insolvent. In 2019, six out of the 10 largest NFPCs, including the two energy and three water companies, were either making losses or carrying a high level of liabilities with debt-to-equity ratios exceeding one or negative (i.e., negative net assets) (Figure 3.21).

120. The weak financial performance of energy and water PCs has required significant financial support from the budget. This support is mainly delivered through advances or on-lending to NEPCO, the financing of water projects,[37] and capital grants to water PCs (Figure 3.22). Such support reached 5.4 percent of GDP in 2014, though it has decreased to around 1- 2 percent of GDP in recent years. The COVID-19 pandemic also affected Royal Jordanian Airline's (RJA) financial performance (Figure 3.23). By the end of the third quarter of 2020, significant losses had almost exhausted the company's equity and cash resources accumulated over several years. The government has been providing financial support to RJA including a JD 50 million comfort letter and JD 50 million of capital injection. Strengthening financial monitoring and transparency of the public corporation sector is critical to address these fiscal risks.

Figure 3.21. Liabilities of NFPCs, 2019

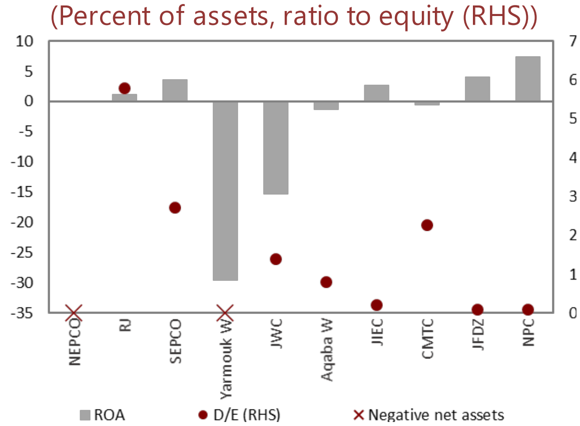
(Percent of GDP)



Source: IMF staff estimates based on Eurostat database, financial statements of PCs.

Figure 3.22. Return on Assets and Debt/Equity Ratios of 10 NFPCs, 2019

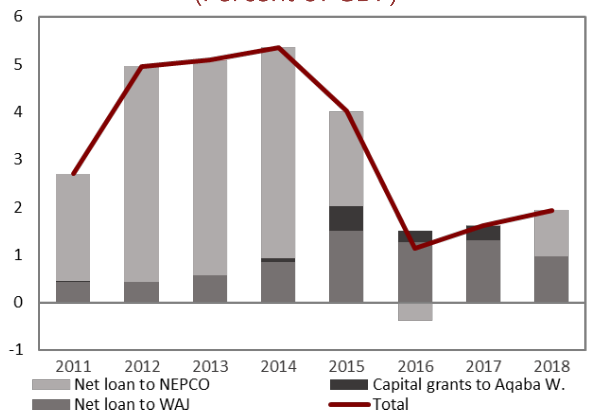
(Percent of assets, ratio to equity (RHS))



Source: IMF staff estimates based on PCs' financial statements.

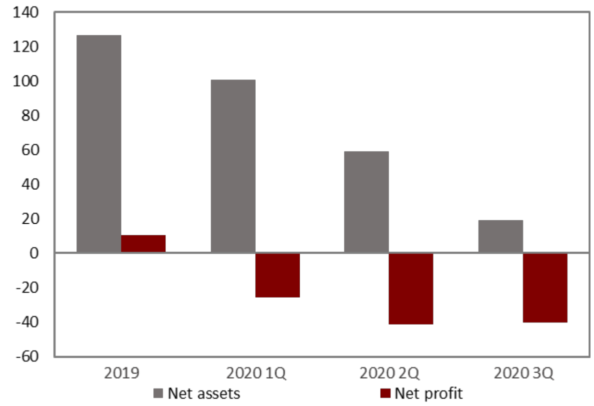
[37] The water sector of Jordan includes WAJ and three PCs owned by it. WAJ implements water infrastructure projects which are then used by three PCs. WAJ has little revenue and is financed predominantly by the government.

Figure 3.23. Financial Support to Water and Energy PCs
(Percent of GDP)



Source: IMF staff estimates based on Government Unit Budget Law.

Figure 3.24. RJA's Net Assets and Profits
(JD million)



Source: IMF staff estimates based on RJ financial statements.

3.4. Recommendations

Recommendation 3.1: **Improve the overall management of fiscal risks** (MFD):

- Short term: Assign responsibility for gathering data and reporting on fiscal risks to a specific unit in the MoF (likely the forthcoming MFD).
- Medium term: Begin generating regular internal reports on the largest fiscal risks with proposed mitigating actions, leading eventually to a comprehensive published fiscal risk statement.

Recommendations 3.2: Develop macroeconomic risk forecasting capability (MFD):

- Short term: Include in the budget documentation an assessment of the sensitivity of fiscal forecasts to key economic variables.
- Medium term: Include in the budget documentation an assessment of the impact of alternative macroeconomic scenarios on the fiscal forecast.

Recommendation 3.3: Continue strengthening PPP fiscal risk management (FCU):

- Short term: Complete efforts to create a comprehensive database of PPP risks.
- Medium term: Generate progressively more comprehensive overall PPP risk reports with corresponding mitigating actions.

Recommendation 3.4 Strengthen transparency in financial performance of PCs (MoF, potentially part of MFD):

- Short term: Operationalize a unit in the MoF/GBD with responsibility for oversight of PCs.
- Medium term: Publish annually a comprehensive report on the financial performance of all PCs.

Table 3.4. Jordan: Summary Evaluation: Fiscal Risks

3.1.1	Macroeconomic Risks	**Not met:** Budget documents contain no sensitivity analyses, no alternative macroeconomic scenarios, and no probabilistic forecasts.	**High**: Sensitivity analysis would enhance the transparency and credibility of the budget and MTBF, especially as revenue growth is volatile – standard deviation of nearly 10 percent.	**3.2**
3.1.2	Specific Fiscal Risks	**Not met:** There is no single report that consolidates specific fiscal risks, although much relevant information is available.	**High**: Jordan faces many sizeable explicit and implicit fiscal risks, which cumulatively total over 120 percent of GDP. These risks are not strategically managed.	**3.1**
3.1.3	Long-term Fiscal Sustainability	**Not met:** There is no regular publication of the long-term sustainability of key fiscal aggregates or health/social security funds, although actuarial analysis is done for the SSC funds.	**Medium**: Despite relatively low demographic pressures, Jordan faces growing fiscal risks from the NPV of expected increases in pensions spending (99 percent of 2020 GDP) and health spending (28 percent of 2020 GDP) over the coming decades.	
3.2.1	Budgetary Contingencies	**Basic:** The budget includes an allocation for contingent expenditure, but there are no access criteria defined in the law.	**Low:** Spending on contingencies has been limited to less than 1 percent of total expenditure in recent years.	
3.2.2	Asset and Liability Management	**Basic**: Borrowing is authorized by law, and analysis of risks in public debt are published; but there is no analysis of risks to other financial assets.	**Medium:** Public debt has increased to 90 percent of GDP, but the debt portfolio has a relatively favorable structure, while there is little holding of liquid assets.	
3.2.3	Guarantees	**Not met:** Fiscal reports include only data on a limited definition of "guaranteed debt" and do not contain a breakdown for all beneficiaries.	**High:** The stock of guarantees is 10 percent of GDP; most guarantees are issued to PCs facing financial challenges.	**3.1, 3.4**
3.2.4	Public-Private Partnerships	**Not met:** The government has not yet established a full database of current PPP rights, obligations, and current exposures.	**High**: Potential PPP liabilities are at least 58 percent of 2020 GDP; steps are being taken to better manage future PPP liabilities.	**3.3**
3.2.5	Financial Sector Exposure	**Advanced**: Direct government ownership of financial institutions is very limited and is disclosed; the CBJ regularly uses multiple shock scenarios to model financial sector resilience.	**Medium:** Financial sector risks have increased due to COVID-19 pressures, although they are currently managed efficiently.	
3.2.6	Natural Resources	**Not met:** The government publishes data on mining sector sales and the volume of reserves, but not fiscal revenue.	**Medium:** Jordan has a significant reserve of phosphate and potash, although the exploitable quantity is not known.	
3.2.7	Environmental Risks	**Basic:** The government publishes an analysis of natural disaster risks with qualitative discussions about fiscal costs.	**Medium:** Jordan is vulnerable to earthquakes and floods.	
3.3.1	Sub-national Governments	**Basic:** Data on the financial position and performance of municipalities is published annually, but there is no legal limit to their borrowing.	**Medium:** Total debt of municipalities is only 1.8 percent of GDP, but some municipalities have high levels of borrowing compared to own revenue.	
3.3.2	Public Corporations	**Basic:** Transfers between government and PCs are made through the budget, but there is no fiscal report on the financial performance of all PCs.	**High:** Liabilities of non-financial PCs are 26.5 percent of GDP and concentrated in entities facing financial challenges; many PCs are counterparties to large and risky PPPs.	**3.4, 3.3**