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JORDAN

December 2013

SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA

In the context of second review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 8, 2013, following discussions that ended on October 12, 2013, with the officials of Jordan on economic developments and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on October 30, 2013.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Jordan.

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

Letter of Intent sent to the IMF by the authorities of Jordan*
Memorandum of Economic and Financial Policies by the authorities of Jordan*
Technical Memorandum of Understanding*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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October 30, 2013

SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Regional instability continues to affect Jordan. The conflict in Syria and shortfalls in gas flows from Egypt are putting pressure on the fiscal and external accounts. The large inflow of refugees from Syria is also straining labor and housing markets as well as the provision of public services. Nonetheless, growth is recovering (albeit slowly), inflation is contained, and the current account deficit is narrowing.

Program performance is broadly on track. The central bank rebuilt reserves, which are now at a comfortable level and well above what was programmed. The national electricity company's losses were in line with the program through June, but the end-September performance criterion (PC) is estimated to have been missed because a temporary interruption in gas flows required more expensive fuel imports. This, together with the central government unexpectedly having to service debt of utilities, resulted in a breach of the end-September PC on the central government primary deficit. Excluding these transfers, central government performance is estimated to have stayed broadly on track. The implementation of structural reforms has been mixed, with delays in actions related to the energy sector, a revised income tax law, and public financial management. The August increase in electricity tariffs, which exempted all households, was an important step to reforming the energy sector.

Looking ahead, the program will continue to focus on fiscal consolidation, a comfortable reserve position, and higher and more inclusive growth. Fiscal consolidation will continue to place debt on a downward trend, but has been slowed down compared to the original program by up to 1.3 percent of GDP in 2013 and 1.1 percent of GDP in 2014 to help cushion the impact of external shocks, specifically from lower Egyptian gas supplies and the Syrian crisis. A better targeting of subsidies and income tax reform are among the key fiscal measures envisaged for 2014, aimed at improving equity. Energy sector reforms aim at diversifying Jordan's energy sources, enhancing efficiency, and gradually reforming tariffs while protecting the poor. The central bank will focus on maintaining an appropriate reserve buffer. Structural reforms should be accelerated to create more jobs, including through enhancing access to finance.

More grants are critical in light of elevated risks. The main risks relate to appropriately addressing the needs related to the Syria crisis, renewed disruptions to gas inflows, and a weaker current account. Such shocks could be absorbed, but growth would suffer and already high debt would expand. Securing additional grants is critical as it could help alleviate fiscal and macroeconomic pressures while stimulating employment and strengthening growth.

The completion of the second review makes available SDR 170.5 million (about $258 million).

Approved By
Adnan Mazarei and Mark Flanagan

The team comprised Kristina Kostial (head), Yasser Abdih, Andrea Gamba, Dmitriy Rozhkov (all MCD); Hui Jin (FAD); and Chad Steinberg (SPR). Rome Chavapricha (World Bank) and Sami Geadah, Alternative Executive Director, joined the staff visit in June. During June 12–20 and September 4–12, staff met with Prime Minister Abdullah Ensour, Minister of Finance Umayya Toukan, Ministers of Energy and Mineral Resources Malek Kabariti and Mohammad Hamed, Minister of Planning and International Cooperation Ibrahim Saif, Minister of Industry, Trade and Supply Hatem Hafez Al Halawani, Minister of Foreign Affairs Nasser Judeh, Minister of Water and Irrigation Hazem Al Nasser, Governor of the Central Bank of Jordan Ziad Fariz; senior officials in these institutions and the electricity company NEPCO; representatives of the private sector as well as with donors.

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CONTEXT

1. **Regional instability continues to overshadow Jordan.** Gas flows from Egypt were suspended during most of the third quarter, requiring more expensive energy imports. Also, the conflict in Syria is ever more encroaching. The large refugee inflow into Jordan is giving rise to substantial fiscal costs, straining labor markets, putting pressure on inflation, and negatively impacting the balance of payments through increased food imports and disruptions to transit trade (Box 1). The program's adjustment path has been slowed down to help cushion the impact of these shocks.

2. **The domestic political environment has improved.** The formation of a new government in late March reduced political uncertainty. The parliamentary debate on the 2013 budget and electricity tariff increases was heated and public. Nonetheless, parliament approved the budget, albeit with a narrow margin, and agreed to tariff reforms.

3. **The macroeconomic situation has remained stable and broadly in line with the program.** Following the successful management of pressures on international reserves in late 2012, the central bank has rebuilt reserves, which are now well above what was programmed. The central government's and the national electricity company's (NEPCO) performance would have been broadly in line with expectations if gas inflows from Egypt had not been disrupted. The implementation of structural reforms was mixed.

- **Central government.** The end-September performance criterion (PC) on the central government primary deficit is estimated to have been missed because the government had to take over debt service of NEPCO and water utilities and also because the suspension of gas imports from Egypt required higher transfers to NEPCO.[1] The authorities are taking corrective action by implementing strategies to reduce the losses of the utilities in the medium term as outlined in detail below.

- **Energy.** The end-September PC on NEPCO's losses is estimated to have been missed because the suspension of gas imports from Egypt required more expensive fuel imports. Corrective action has been taken by implementing a strategy which will return NEPCO to cost recovery in the medium term.

- **Monetary.** Net international reserves (NIR) exceeded the end-September PC by a large margin.

- **Structural.** A medium-term energy strategy was announced on October 23 (September 2012 benchmark), which is expected to return NEPCO to cost recovery by 2017. Three of five benchmarks so far this year have been missed. Taxpayer filing compliance has improved significantly, but still fell short of the set targets (June benchmark). Licensing of the first credit bureau (June benchmark) is delayed until year-end because it is taking the private firm longer

[1] In line with the Technical Memorandum of Understanding, the actual end-September data on the central government and NEPCO will not be available until six weeks after end-September (i.e., mid-November).

than expected to apply for the license. An income tax law yielding additional revenue of about one percent of GDP has not yet been implemented, but the authorities will fast-track it with parliament (September benchmark). Two benchmarks were met with a delay. First, a floating storage and re-gasification unit leasing agreement—a critical step toward a Liquefied Natural Gas (LNG) terminal—was signed one month later than expected (June benchmark). Second, assisted by IMF Technical Assistance (TA), the stock of central government arrears as of end-2012 was established, and a quarterly reporting system on arrears was implemented in September (June benchmark).

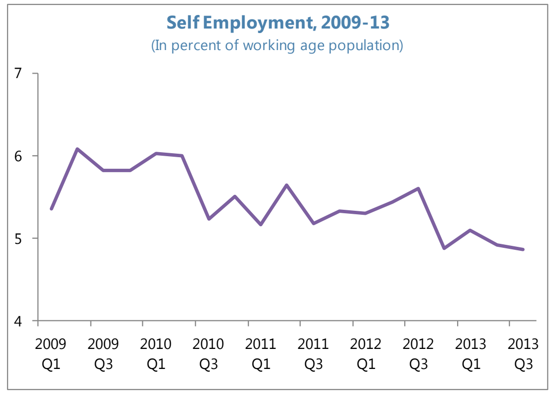
4. Looking forward, important reforms are under way while the impact of external shocks is being mitigated. Consolidation in the central government and public utilities is on track. Work is in progress on a central government 2014 budget, which—with accompanying revenue and expenditure measures—would improve equity and reduce financing needs. Electricity tariffs were increased in mid-August, with further increases scheduled at the beginning of each of the next years; poor and middle-class households are exempted. To ease fiscal and macroeconomic pressures, the program accommodates shortfalls in gas from Egypt in 2013 as well as higher—mostly Syria-related—spending in 2014. Despite this accommodation, international reserves are expected to exceed the original program targets in 2013 and 2014. Monetary policy is geared toward maintaining appropriate buffers while structural reforms aim at boosting growth and lowering unemployment.

PERFORMANCE IN 2013

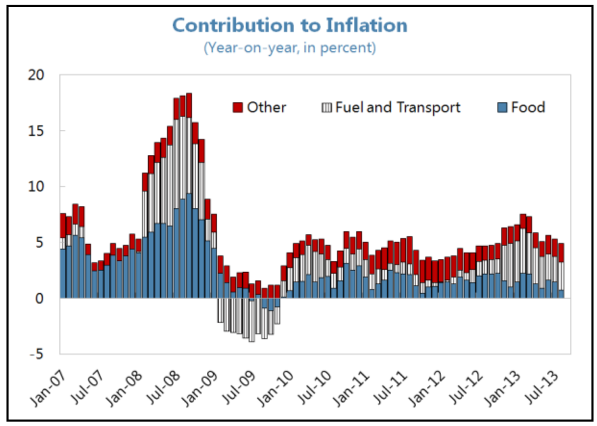
A. Economy Stable

5. Growth is only slowly recovering. Real GDP increased by 2.8 percent year-on-year through June 2013, a slight uptick from 2012 (2.7 percent). Agriculture and mining began to improve in the second quarter, following a strong contraction caused by adverse weather and contract cancellations for potash and phosphate in the wake of industrial action in 2012 (Figure 1). The construction sector picked up sharply in January–June, registering a growth rate of 8.7 percent year-on-year after a long period of negative or close to zero growth. Services, especially trade, finance and insurance, have been performing robustly, following a strong improvement in 2012. There is also anecdotal evidence of new unregistered businesses run by Syrians, possibly indicating a growing share of unmeasured output.

6. Unemployment has ticked upward. Officially registered unemployment increased to 14 percent at end-September (from 12.2 percent on average in 2012), with unemployment for women experiencing an even larger increase. Crowding out of Jordanian workers may have occurred, judging from declining trends in informal employment for Jordanians (proxied by self-employment). While high unemployment rates are not new to Jordan (the unemployment rate has been persistently high since the mid-1980s, averaging about 13.5 percent), it is clear that policies are not yet translating into high enough employment growth.



7. **Inflation is elevated.** The inflationary impact of the fuel price increase in November 2012 has subsided, aided by a pass-through of lower oil prices. Food prices (including domestically produced food) and rents increased significantly in the first nine months of the year, likely driven by increased demand from refugees. While headline 12-month end-of-period inflation has decreased to 5.5 percent year-on-year in September (from 6.5 percent in December), core inflation was at 3.9 percent at end-September, compared with 3.3 percent in December 2012.



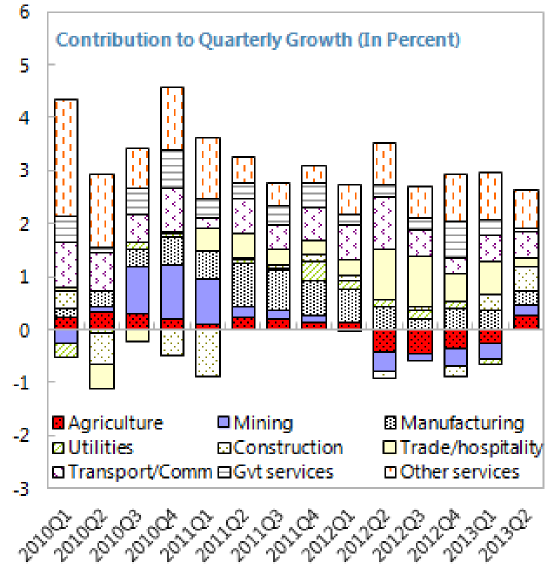
8. **The current account deficit, although narrowing, remains high.** Lower energy imports, related to the energy mix, and higher current transfers, related to Gulf Cooperation Council (GCC) grants and private receipts for Syrians, have kept the current account on an improving trend. Nonetheless, non-energy imports remain high with demand pressures (especially for food) on the rise, while the contract disruptions after the 2012 strikes in the mining sector still depress exports earnings.

9. **Financial markets have been calm.** Jordan's sovereign spreads were around 330 basis points in early October, almost 100 basis points lower than prior to the announcement of the Stand-By Arrangement in July 2012. The formation in late March of the new government together with the announcement of the U.S. government guarantee for a Eurobond provided a significant confidence-building factor. Following similar trends in emerging markets, Jordan's stock market dropped by about 10 percent between mid-May and late August, but has been stable since then.

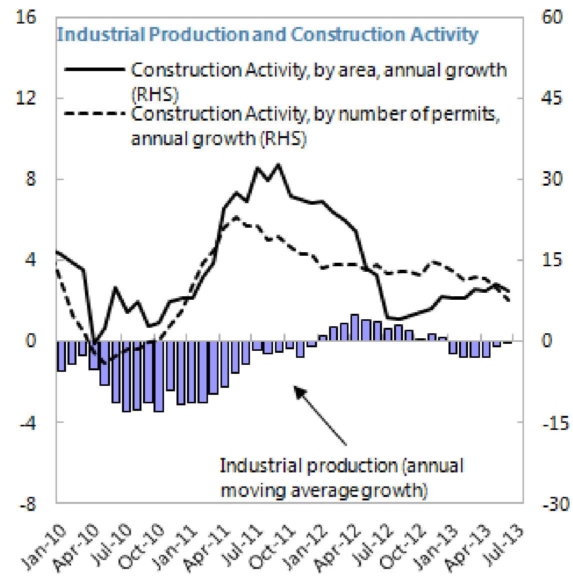
Source: Bloomberg.

Figure 1. Jordan: Real Sector Developments, 2010–13

Mining and agriculture have dragged down growth, while financial and tourism-related services are performing well...

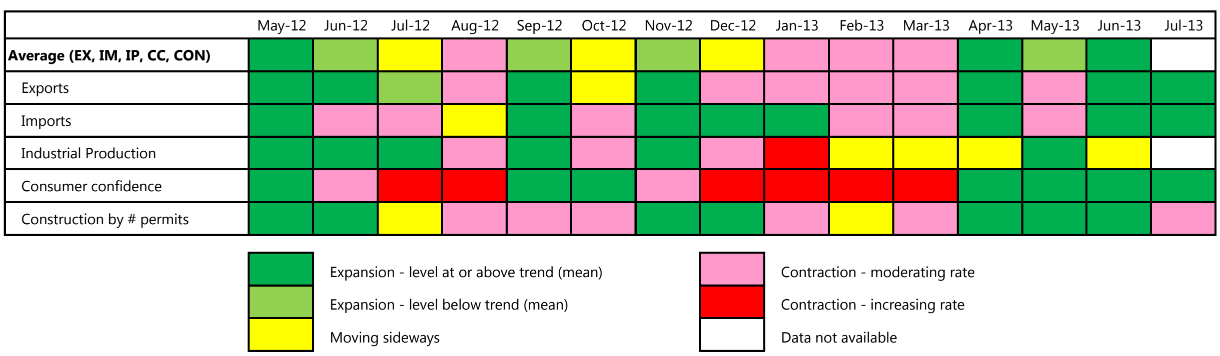


... construction activity is picking up...



... and the outlook is improving.

Assessing Growth Momentum



Sources: Jordanian authorities; and IMF staff estimates.

B. Program Broadly on Track, but Emerging Pressures from External Shocks

10. The central government has been broadly on track through September. Revenue came in lower than programmed, partly because the refinery incurred arrears—a repayment schedule through 2013 has been agreed—but also because of weak income tax performance. Capital spending was below projections. Starting in 2013, the central government had to unexpectedly take over debt repayments of utilities (of NEPCO and water companies, estimated at 1.5 percent of GDP through September) and also cover higher NEPCO losses in the third quarter from the disruption in gas inflows; without these transactions, the central government is estimated to have been in line with the program through September. The end-June indicative target (IT) on the central government accounts payable was met.

11. NEPCO's losses stayed below the end-June target, but will exceed the targets for the remainder of 2013 unless Egypt gas inflows fully resume. NEPCO's losses in the first half of the year were lower than envisaged, reflecting higher-than-programmed gas inflows from Egypt. However, inflows came to a complete halt in early July following a sabotage of the pipeline in the Sinai Peninsula. Thus, NEPCO's losses are estimated to be higher than expected through September. Egyptian officials have stated that deliveries will resume as soon as the security situation improves. Through June, NEPCO neither repaid its debt nor, as programmed, arrears to domestic suppliers, because banks did not want to expand their exposure to the company (NEPCO had expected to get bank financing for clearing arrears). Accordingly, the end-June IT on the NEPCO's arrears clearance was missed.

NEPCO Operating Balance and Financing, 2012–13

	2012 Jan–Dec Act.	2013 H1 Prog.	2013 H1 Act.	2013 Q3 Prog.	2013 Q3 Proj.	2013 Jan–Dec Prog.	2013 Jan–Dec Proj.
	(In millions of Jordanian dinars)						
Electricity sales	1,042	514	540	402	320	1,296	1,182
Expenses	2,201	1,021	1,015	672	779	2,332	2,557
Purchase of electricity	2,063	930	945	627	736	2,150	2,402
Depreciation	29	15	14	8	8	31	31
Interest payments 1/	75	61	43	31	26	123	96
Other expenses	34	15	12	7	8	30	29
Operating balance (QPC)	(1,159)	(507)	(474)	(271)	(458)	(1,037)	(1,375)
Total net domestic financing	1,159	507	474	271	458	1,037	1,375
Banks	1,143	150	(86)	75	(188)	300	(455)
Loans and bonds	1,175	150	(92)	75	(188)	300	(461)
Overdrafts	(31)	0	6	0	0	0	6
IsDB loan	0	0	0	0	0	0	248
Other items 2/	(61)	0	(40)	0	58	0	(172)
Increase in payables 3/	77	357	601	196	588	737	1,754
Direct transfer from central government	67	507	596	271	646	1,037	1,865
To cover losses	0	507	520	271	458	1,037	1,420
To repay loans	67	0	76	0	188	0	444
Payables to the private sector	…	(150)	5	(75)	(58)		(111)
Of which: Increase in arrears	46	(150)	(59)	(75)	(58)	(300)	(175)
Memorandum items (stocks, end of period):							
Outstanding loans and bonds	1,934	2,084	1,841	2,159	1,654	2,234	1,473
Overdrafts	49	49	56	49	56	49	56
Total payables	765	…	1,365	…	1,495	…	1,618
to government 2/	67	…	663	…	851	…	1,032
to private sector	698	…	702	…	644	…	586
o/w arrears (IT)	445	295	386	220	328	145	270

Sources: NEPCO; Jordanian authorities; and IMF staff estimates.
1/ Interest payments exclude interest on payables to the government.
2/ Include changes in accounts receivable, depreciation, project expenditures, and other minor items.
3/ Payables to government include transfers from the the government to NEPCO; they are excluded from the computation of the stock of payables and of arrears.

12. Electricity tariff reforms will be more gradual than envisaged. Tariffs were increased on August 15 covering about half of consumption (Box 2), and broader increases have been announced for the following years. Increases in 2013 and 2014 fall short of the anticipated adjustment, but this shortfall will be made up in the medium term.

Tariff Reforms, 2013–17

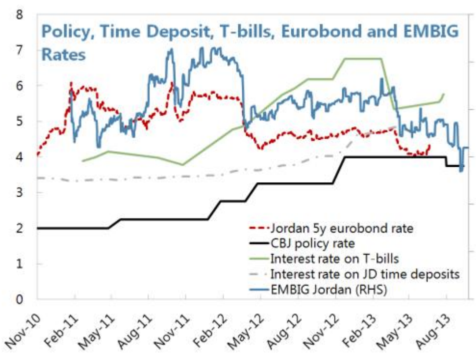
	2013	2014	2015	2016	2017
Effective end-user tariff - yoy increase, percent - Prog. 1/	16.5	23.5	5.4	5.5	6.4
Effective end-user tariff - yoy increase, percent - Proj. 1/	11.4	15.8	9.3	9.7	10.0
NEPCO losses - program	1036	700	500	200	0
NEPCO losses - projection	1375	995	608	311	0
As percent of GDP	5.7	3.8	2.2	1.1	0.0
Operating balance shortfall, percent of GDP	1.4	1.1	0.4	0.4	0.0

Sources: ERC; NEPCO; and IMF staff estimates.
1/ Effective tariff increases for 2013 and 2014 reflect also a base effect due to intra-year adjustments occurred in May–June 2012 and August 2013.

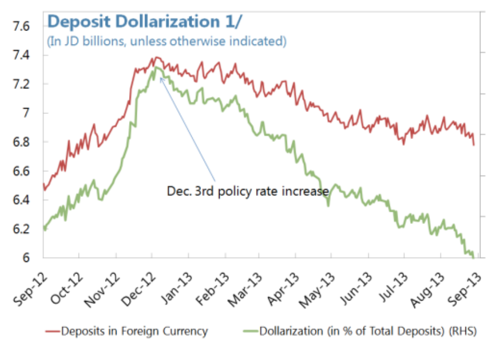
13. Reserves have over-performed by a large margin, but private sector credit growth is low. NIR stood at $8.35 billion at end-June and $9.5 billion at end-September—exceeding the adjusted program targets by about $2.4 billion and $3.1 billion, respectively. This mainly reflected faster-than-expected de-dollarization, as well as higher-than-programmed financing (in particular, deposits from the GCC in April and the issuance of two dollar-denominated domestic bonds). At the same time, the stock of outstanding forward contracts declined from its peak in mid-February by $391 million to reach $1.22 billion in early October. Decreasing T-bill rates and de-dollarization, however, have not yet translated into an acceleration of private sector credit growth, which has remained at 7½ percent through August and focused on construction, trade and industry. The CBJ lowered the policy interest rate by 25 bps each in August and October.

Figure 2. Jordan: Monetary Sector Developments, 2009–13

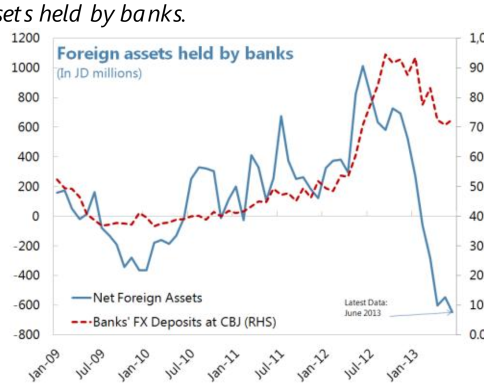
Tighter monetary policy and improved confidence…



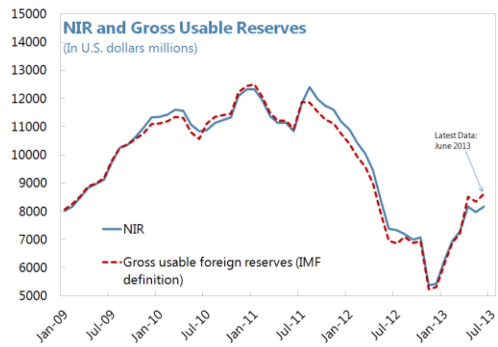
… led to a decline in dollarization of deposits, a return of the public's cash dinar holdings to banks….



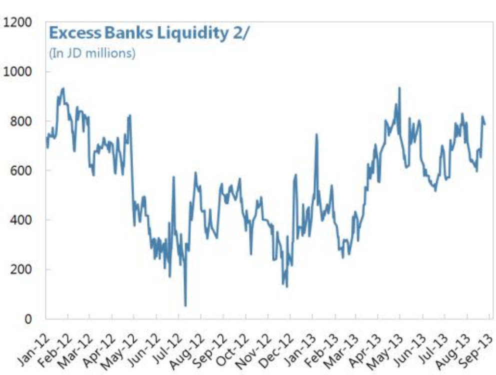
…and a corresponding decline in foreign currency assets held by banks.



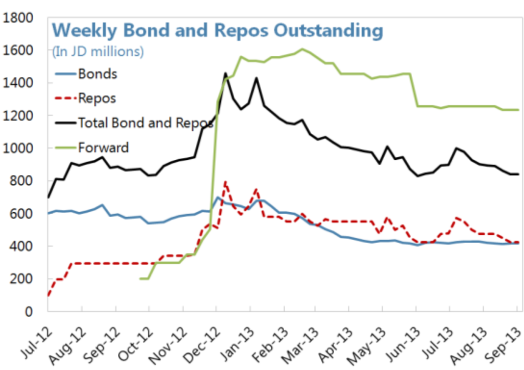
As a result, CBJ reserves rebounded sharply…



…and dinar liquidity normalized…



….leading the CBJ to partly unwind its JD liquidity injections.



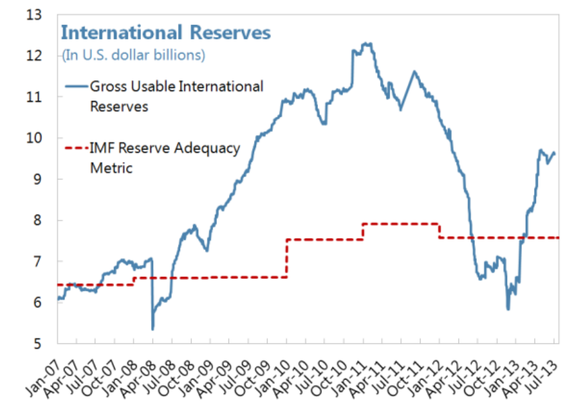
Sources: Jordanian authorities; and IMF staff estimates.

1/ Dollarization is defined as foreign currency deposits at banks of residents and nonresidents in percent of total deposits of residents and nonresidents. As such, they may differ from the dollarization figures reported in Table 4a and Figure 3, as the latter are computed as foreign currency deposits of non-government residents in percent of total deposits of non-government residents as reported in broad money. High frequency data for foreign currency deposits in nominal terms are only available for the sum of residents and nonresidents.

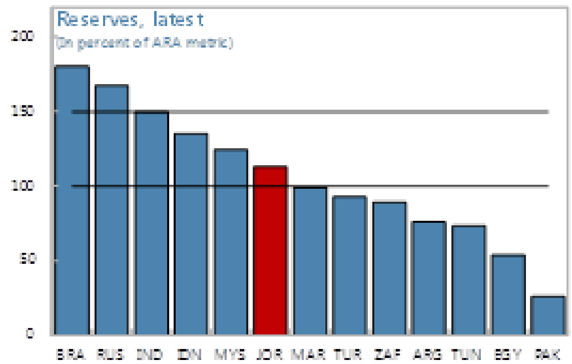
2/ Includes banks' excess reserves and overnight window deposits held at the CBJ. Excludes a large bank that traditionally holds large excess reserves for precautionary reasons, as well as Islamic banks that typically hold excess reserves because they do not hold government paper.

Figure 3. Jordan: External Sector Developments, 2007–13

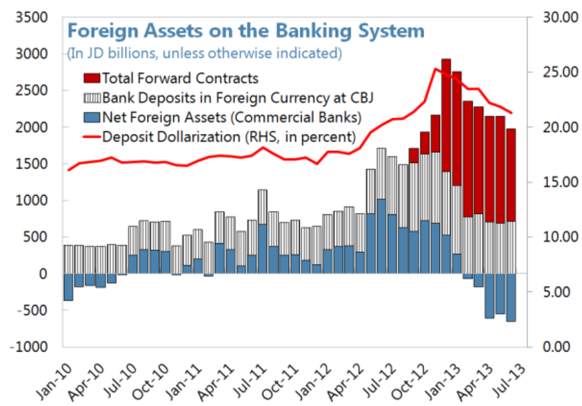
Reserves have rebounded strongly...



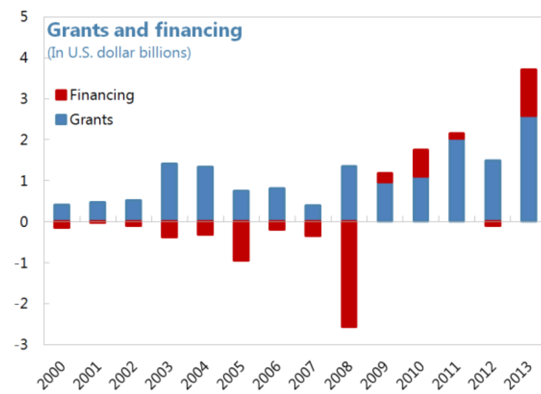
... and are now at a level similar to other emerging market countries, and above 100 percent of the Assessing Reserve Adequacy (ARA) metric.



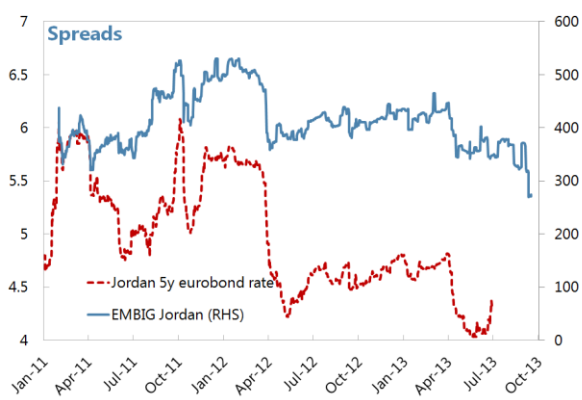
A fall in dollarization and improved confidence reduced demand for dollar assets...



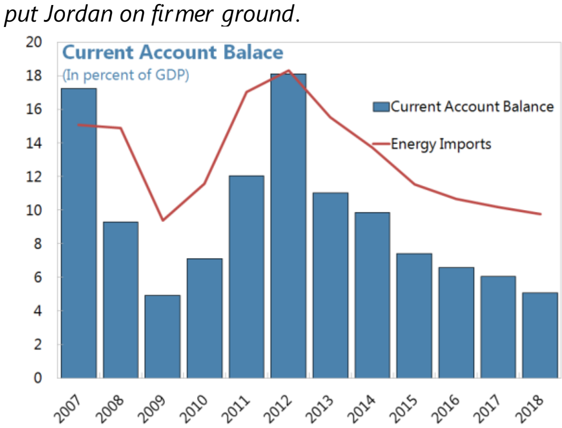
...and a sharp rise in external grants and financing increased supply.



Expected market funding later this year...



...and an improvement in the current account should put Jordan on firmer ground.



Sources: Jordanian authorities; and IMF staff estimates.

C. Outlook and Risks

14. Jordan's outlook remains broadly in line with program projections.

- **Growth** for 2013 remains projected at 3.3 percent. A pick-up is expected later in the year from an acceleration in public capital spending and continued normalization of mining exports. In the medium term, growth is expected to converge to 4½ percent—Jordan's estimated potential rate—aided in part by continued infrastructure investments funded by the GCC. It remains critical for Jordan to implement structural reforms to raise potential growth and the employment responsiveness to growth—on existing projections and in the absence of progress in such reforms, the level of growth would not be sufficient to put unemployment rates on a downward trend.[2]

- The **inflation** projection at 5½ percent on average for 2013 is also broadly unchanged. For the medium term, inflation is projected to decline to about 2 percent, consistent with maintaining the exchange rate peg.[3]

- **External position.** The current account deficit (excluding grants) is expected to improve to 19 percent of GDP in 2013 from 22 percent in 2012. This adjustment is smaller than programmed, due to a combination of lower exports in the first half of the year and higher imports, in large part due to the disruption of gas inflows and higher oil prices. The current account is projected to gradually decline to about 11 percent of GDP over the medium term. This is predicated on the assumption that the LNG facility becomes operational in mid-2015, which would substantially reduce the energy import bill.

- **Fiscal and energy policies.** The combined adjustment in the central government and NEPCO is somewhat slower than envisaged under the original program for 2013–14. This is justifiable in staff's view as it reflects the need to smooth the impact of exogenous shocks. Specifically, the revised program will accommodate temporary shortfalls of Egypt gas of up to 1.3 percent of GDP in 2013 (gas inflows are expected to resume to the full program level by year-end). For 2014, the program will slow the adjustment by 1.1 percent of GDP. The slower-than-envisaged pace of electricity tariffs was expected to be fully compensated by offsetting central government measures, but these measures were waived, mostly to account for higher spending related to hosting Syrian refugees. The larger-than-programmed consolidated deficit in both years will be financed domestically.

[2] Staff estimates Jordan's elasticity of employment with respect to real output to be about 0.5, implying an average annual employment growth of about 2.2 percent in the medium term (although the employment elasticity could shift upward with structural reforms). The United Nations projects working population growth at 2.8 percent and the International Labor Organization projects labor force participation rates to nudge up over the medium term.

[3] Jordan's de facto and de jure exchange rate arrangement is classified as a conventional peg to the U.S. dollar.

- **Monetary policy.** Mostly reflecting a strong de-dollarization trend, gross usable international reserves are expected to reach $9.9 billion by end-2013—equivalent to 113 percent of the reserve metric or 5.3 months of imports. In the medium term, reserves would decline as a percent of the metric reflecting lower risks, but remain well above 100 percent.

Jordan: Central Government, NEPCO, and Consolidated Balances, 2012–17

(In percent of GDP)

	2012	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Program						
Central government primary balance 1/	-7.4	-5.5	-4.5	-2.7	-2.3	-1.2
Central government fiscal measures	...	...	0.7	1.8	0.3	1.1
NEPCO operating losses	-5.2	-4.3	-2.7	-1.8	-0.7	0.0
Savings from tariff increases	0.5	0.4	1.5	...	...	...
Consolidated balance 2/	-12.6	-9.8	-7.2	-4.5	-3.0	-1.2
Underlying consolidated balance 3/	-11.5	-9.8	-7.2	-4.5	-3.0	-1.2
Revised program						
Central government primary balance 1/	-7.4	-5.4	-4.5	-2.9	-1.4	-1.0
Central government fiscal measures	...	...	1.8	1.6	1.5	0.3
NEPCO operating losses	-5.2	-5.7	-3.8	-2.2	-1.1	0.0
Savings from tariff increases	0.5	0.2	0.5	0.5	0.7	0.6
Consolidated balance 2/	-12.6	-11.1	-8.3	-5.1	-2.4	-1.0
Underlying consolidated balance 3/	-11.5	-9.8	-8.0	-5.1	-2.4	-1.0

1/ Excludes grants and transfers to NEPCO.
2/ Excludes arrears repayment by NEPCO.
3/ Assuming constant inflows of Egypt gas at 100 mln cubic feet per day and excluding arrears clearance in 2014.

15. **External risks are high.** The number of registered refugees stood at about 550 thousand in October, but the authorities estimate the overall number of Syrians in Jordan to be much higher, and the numbers could increase further. There might be renewed disruptions in gas supply due to security issues in Sinai. Further inflows of refugees and reduced gas inflows would put additional pressure on the fiscal and external accounts. An increase in refugees also may further stretch the social fabric through pressures on the labor and real estate markets as well as social services, particularly hospitals and schools in northern areas. Other risks stem from a weaker current account (in particular related to higher oil prices). A loss in confidence may quickly reverse the de-dollarization trend, lead to outflows, and reignite pressures on reserves.

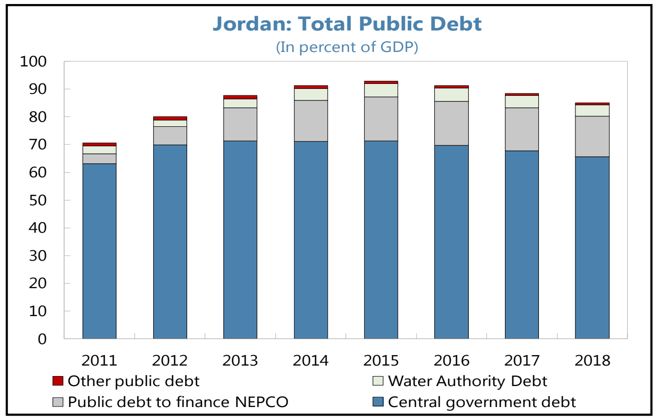
POLICY DISCUSSIONS

16. **Discussions focused on continued consolidation and efforts to boost growth while formulating an appropriate response to external pressures.** Consolidation remains on track, but the revised program accommodates pressures from temporary shortfalls in gas inflows from Egypt in 2013 and the conflict in Syria in 2014, with room provided by the strong recovery in reserves (see outlook section, above). Also, given the need for higher growth and employment, staff felt that the structural reform agenda should be accelerated. The authorities and staff also agreed that it would be highly beneficial for Jordan to secure additional grants, as this would help further alleviate some

of the fiscal and macroeconomic pressures Jordan now faces. Staff reiterated the benefits of enhanced coordination between macro-relevant agencies, especially at a time of high uncertainty. The establishment of a macroeconomic unit could help in this regard (¶9).[4]

A. Consolidation of the General Government

17. Successful consolidation would put public debt on a firm downward trend. Debt increased substantially over the past two years and is expected to reach almost 90 percent of GDP at end-2013. Although the revised program has slowed the pace of fiscal consolidation, debt is still projected to decline from a peak of 93 percent of GDP in 2015 to 85 percent of GDP over the medium term when the utilities return to cost recovery (see Debt Sustainability Analyses (DSAs)). Debt dynamics remain vulnerable to a range of shocks, including growth, although in most cases the trajectory would stay sustainable.



18. Measures center on fostering equity and efficiency. They are concentrated on bolstering the revenues of the central government and utilities. This is appropriate in light of the loss of about 5 percent of GDP in tax revenue since 2007 and utilities tariffs not having been adjusted in line with increased costs over the last decade. For the central government, the focus is on efficiency, fairness, and simplicity of taxation. For the utilities, the poorer segments of the population are exempted from tariff reforms. At the same time, central government spending will be better targeted while higher capital spending will support growth. NEPCO's fuel costs are also expected to be reduced, thanks to a diversification into cheaper energy sources, while the water companies will tackle technical and administrative losses.

19. Better accounting of the general government would improve fiscal control (¶9). This year, the central government had to take on the financing of NEPCO's losses and also increasingly debt payments of NEPCO and the water companies. Though this does not affect the consolidated balance, it makes it difficult to manage the central government's liquidity needs. Going forward, the primary fiscal deficit of the central government will be adjusted to take into account such debt payments, as banks are unlikely to extend lending to the utilities (¶10). Staff urged the authorities to develop consolidated accounts for above-the-line transactions, possibly with the help of Fund TA. This could be done by setting up a regular reporting system from NEPCO and the water companies to the ministry of finance. The utilities, though, might need support to prepare intra-year balance sheets to reconcile cash and accrual accounting.

[4] Paragraph numbers refer to the paragraphs in the attached memorandum of economic and financial policies (MEFP).

Central government—Consolidation under way

2013 budget

20. The central government is expected to stay in line with expectations (¶12). Revenue is projected to pick up in the second half of the year, reflecting the repayment of tax arrears by the refinery and the implementation of a mobile phone tax in early July (with an annual impact of 0.4 percent of GDP). Cuts in low-priority capital spending by up to 0.4 percent of GDP would offset a higher food subsidy and lower-than-envisaged electricity tariff increases. Staff agreed with the authorities that cutting capital spending is in general not desirable for keeping the fiscal program on track. It noted that such cuts should exempt socially critical projects such as increasing the capacity and improving services of hospitals. As programmed, central government spending for the Syrian refugees of 0.7 percent of GDP is included in the expenditure envelope; the program also includes implicit NEPCO and water subsidies to the refugees of 0.3 percent of GDP.

21. Establishing a unified registry for subsidies is in train (¶13). In addition to income, the registry will help ranking applicants according to several other welfare criteria for the distribution of social assistance. This is expected to ensure that assistance is going to those who most need it. Staff welcomed that a new unit in the Income and Sales Tax Department is being set up with assistance from the World Bank (October benchmark). The registry will also help in managing the planned targeting of the food subsidy (¶16).

22. Monitoring arrears is important (¶14). In the absence of an effective commitment control system (which is work in progress; see paragraph 28), joint work with other ministries helped the ministry of finance to estimate the stock of arrears at 1.5 percent of GDP at end-June 2013. About one percent of GDP is related to medical funds (the funds had arrears before 2011, but new arrears have accelerated since then, reflecting the treatment of uninsured, most likely Syrians); the remainder is related to land acquisition payments for a railway project of $4–5 billion. A repayment schedule has been agreed for the medical funds, while land acquisition payments have been put on hold, pending a cost-benefit analysis of the project. Staff urged the authorities to work on the cost-benefit study in coordination with the World Bank. It welcomed that a quarterly reporting system on arrears has been established because it will help control the risk that program cash targets are met by accumulating arrears. Staff supported the creation of a task force, which—with support from TA—will help the medical funds as well as line ministries to improve their reporting and auditing.

2014 budget

23. Central government policies aim at reducing the deficit by over one percent of GDP in 2014 (¶15). Because the budget accommodates additional spending for the medical funds (0.7 percent of GDP, of which 0.3 percent of GDP for arrears repayment),[5] this requires measures of 1.8 percent of GDP. Cabinet has already approved 0.8 percent of GDP in measures, with the

[5] Much of this is to cover expenses incurred in treating Syrian refugees. In total, central government spending on Syrian refugees could reach 1.4 percent of GDP in 2014.

remaining one percent of GDP expected from the approval of a revised income tax law. A 2014 budget in line with program understandings will be submitted to parliament by mid-December (new benchmark). Staff noted that the preparation of the 2014 budget is an opportunity to take another look at the spending envelope. It reiterated that, should more funds be needed to address the humanitarian crisis related to Syria, the program would seek to accommodate these as well. In this context, staff welcomed efforts to improve fiscal cost estimates with help from USAID. This work complements an ongoing staff's macro-economic assessment of the impact of the refugee crisis.

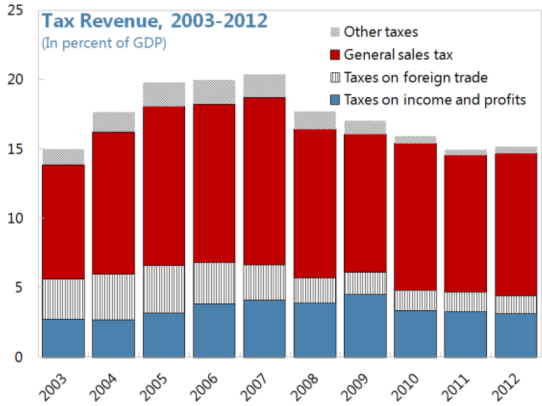
24. The cabinet approved a package of expenditure measures (¶16). These will become effective with the 2014 budget. Two measures improve the targeting of subsidies (0.5 percent of GDP). First, using the new registry, the fuel subsidy will be better targeted. Second, the current general food subsidy will be targeted (wheat flour is now sold at about one tenth of the market price, giving rise to smuggling as well as feeding bread to animals). To this end, the authorities plan to provide cash transfers to all Jordanians (upon application). However, extensive outreach is needed, and there is a possibility of delay. In this case, the authorities would increase various fees affecting nonresidents. Other measures include the discontinuation of land acquisition payments and an across-the-board cut in transfers to independent agencies.

25. The revised income tax law is expected to become the main revenue raiser for 2014 (¶17). The authorities intend to fast-track the law through parliament so that it can take effect in 2014 with an estimated revenue gain of one percent of GDP. For the personal income tax, the law would increase the top rate to 25 percent (from 14 percent) and lower the exemption threshold to JD 9,000 ($12,694) from JD 12,000. For the corporate tax, the law would raise the top rate to 35 percent (from 30 percent) and envisages a reduced rate of 15 percent for small enterprises. Staff welcomed that the draft law incorporated many recommendations of recent Fund TA. It noted that, as proposals are finalized, it would be useful to refine the proposed personal income tax thresholds (which remain high compared with other countries, excluding a very large portion of the potential taxpayer population and resulting in a revenue loss). Staff also cautioned about progressive corporate tax rates (which could offer arbitrage opportunities and impose a penalty on larger companies).

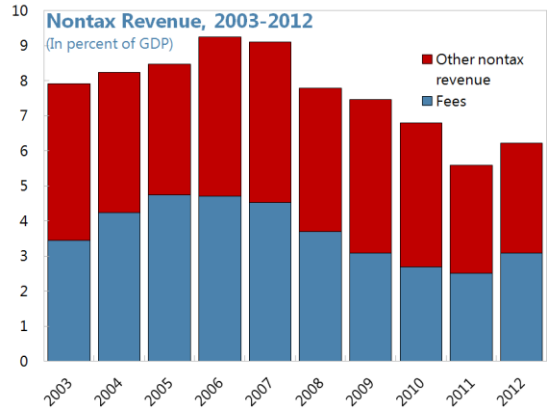
26. Should parliament not approve the income tax law by mid-December or the law generate less revenue than expected, the cabinet will approve alternative/additional measures. The aim is to have overall savings of one percent of GDP, which would bring the 2014 budget in line with program understandings (implementing measures yielding overall one percent of GDP is a new benchmark for mid-December). Staff strongly supported moving forward on the income tax law, as it would ensure that the burden of adjustment is borne more equitably across society. It discussed with the authorities possible measures if the income tax law is not approved. These measures include raising certain fees (e.g., on passports and company registration) and excise taxes on luxury goods (for instance, air conditioners and LCD screens); and removing sales tax exemptions (for instance, on steel and construction materials). They are expected to broadly yield the needed savings. Looking beyond 2014, the study on costing tax incentives (October benchmark) could help in identifying measures to raise revenue in an equitable manner in the medium term.

Figure 4. Jordan: Fiscal Sector Developments, 2003–13

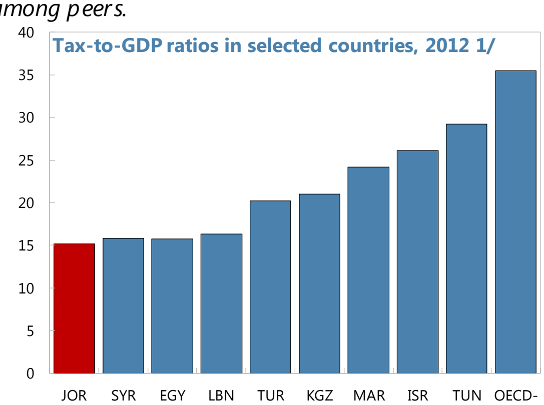
Jordan's tax revenue has declined by 5 percent of GDP over the past five years…



…with a similar trend in nontax revenue.

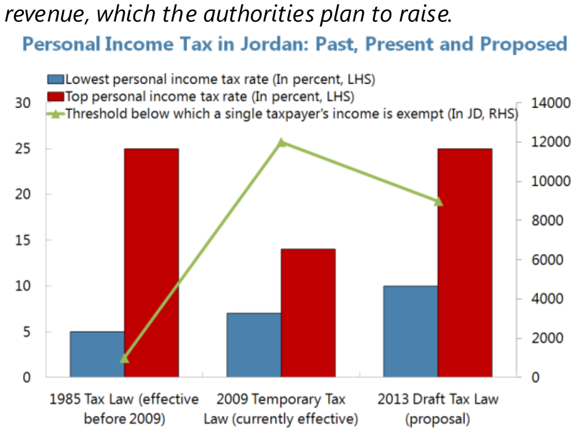


Thus, Jordan ranks relatively low in tax-to-GDP ratio among peers.



1/ Data for 2010 for Syria and for 2011 for OECD median.

Part of the decline is explained by lower income tax revenue, which the authorities plan to raise.



Sources: Jordanian authorities; and IMF staff estimates.

Structural fiscal reform

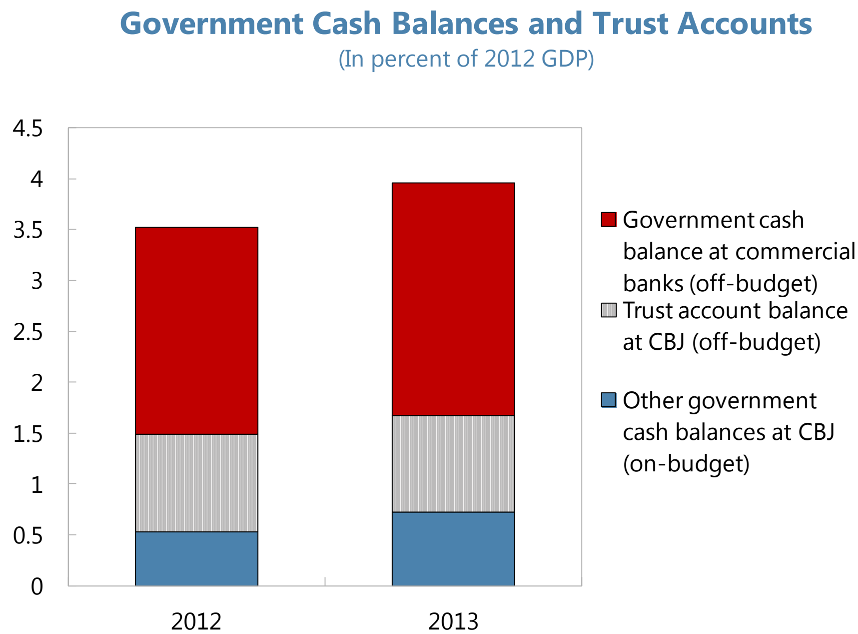
27. Better revenue administration is a critical complement to tax policy changes (¶20). Recent TA confirmed a renewed momentum in modernizing tax administration. This is encouraging, as substantial changes in tax policy, such as the revised income tax law, can be successful only when implemented by a strong administration. However, uncertainty remains as to the size of tax arrears. Staff thus urged the authorities to verify, with the help of TA, the stock of tax arrears and, in particular, their evolution over the past years. It welcomed the focus on improved management of different size taxpayer offices and on sectors with a weak compliance record.

28. PFM reforms will improve budget management (¶19). It is encouraging that progress toward a commitment control system is being made (December benchmark), including complementary changes in budget legislation. Staff urged the authorities to start tackling trust accounts.[6] These accounts are large; they complicate fiscal management and undermine the credibility of the budget process. Staff suggested gradually consolidating the trust accounts into the fiscal tables and integrating them into the treasury single account.

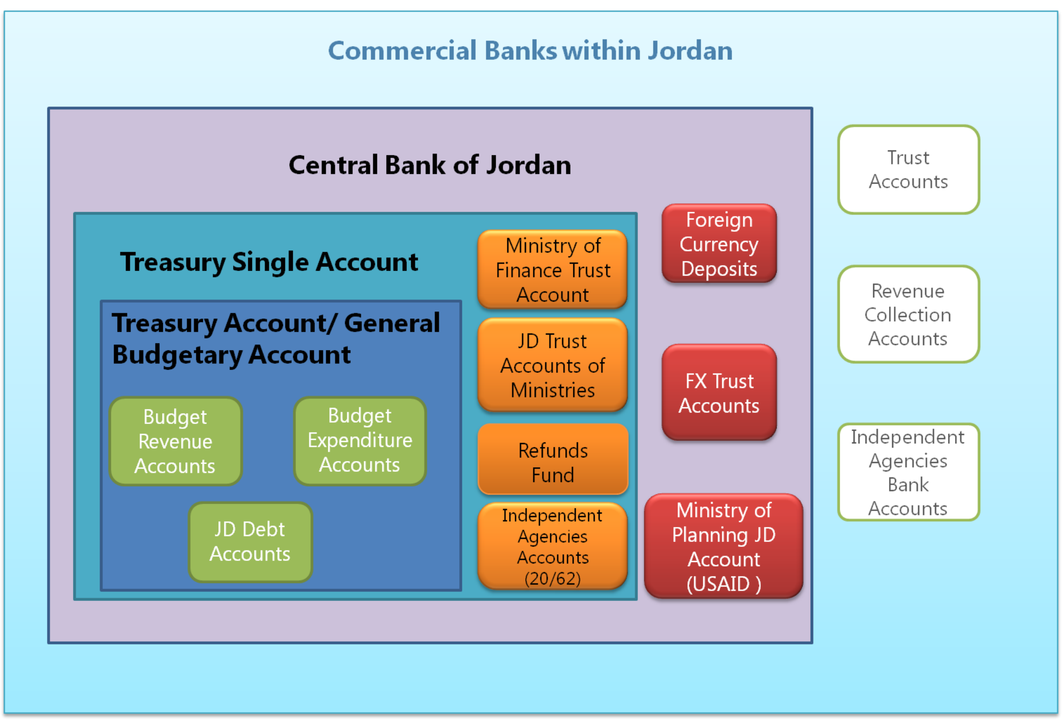
[6] Trust accounts are widely used for different on-budget and off-budget operational purposes, including for recording pending payments, donor-financed projects, deductions for social security contribution of government employees, and various extra-budgetary revenue and expenses of ministries.

Figure 5. Jordan: Fiscal Sector Developments, 2012–13

A substantial part of government cash balance is off the budget…



…most of which resides in "trust accounts" at both the CBJ and commercial banks.



Sources: Jordanian authorities; and IMF staff estimates.

Energy policy—Restoring sustainability

29. In the near term, NEPCO's losses will hinge on gas flows from Egypt (¶s21 and 22). There was an agreement that it was not possible to mitigate adverse supply conditions in the remainder of 2013. For 2014, the program assumes average gas flows of 100 million cubic feet/day. A complete disruption in gas flows would open a gap of two percent of GDP in 2014 and gradually declining gaps from then onward, as the LNG terminal would become operational in mid-2015 and the share of Egyptian gas in electricity generation would become smaller (the gap would be 0.4 percent of GDP in 2018). If Egyptian gas is below the contract level, an option would be a temporary surcharge in tariffs to cover some of the higher costs. This would reduce fiscal risks and raise public awareness. The authorities felt that discussing contingency measures was premature, but stand ready to do so if there are further shortfalls, including by implementing central government measures.

30. NEPCO is expected to resume its arrears payment (¶23). Staff welcomed the agreement with the Islamic Development Bank (IsDB), which will help reduce NEPCO's arrears.

31. The electricity strategy is estimated to return NEPCO to cost recovery by 2017 (¶s24–30). It explains how tariff reforms combined with new energy sources coming on stream and energy efficiency measures will return NEPCO to cost recovery (projections are based on joint estimates of NEPCO and the World Bank). The strategy provides appropriate timelines for the development of new energy sources. Its transparency and phasing put tariff reforms into a comprehensive context, which is in line with many of Fund recommendations on best practice (Box 2). The next tariff increase has been announced for January 1, 2014 (implementation is a new benchmark). The authorities will increase NEPCO's wholesale tariffs in tandem with end-user tariffs. There are lingering issues which energy sector reform will need to address in the future. For instance, an automatic tariff correction in line with energy prices and the fuel mix would reduce vulnerabilities. Also, there is scope for more broad-based end-user tariff increases while still protecting the poor from any tariff increases, possibly by using the current system of cash transfers. However, the authorities wished to defer further discussions, given the already difficult changes on the horizon.

NEPCO Operating Balance and Financing, 2012–17

	2012 Jan–Dec Act.	2013 Jan–Dec Prog.	2013 Jan–Dec Proj.	2014 Jan–Dec Proj.	2015 Proj.	2016 Proj.	2017 Proj.
	(In millions of Jordanian dinars)						
Electricity sales	1,042	1,296	1,182	1,443	1,672	1,943	2,265
Expenses	2,201	2,332	2,557	2,438	2,280	2,255	2,265
Purchase of electricity	2,063	2,150	2,402	2,265	2,088	2,054	2,060
Depreciation	29	31	31	35	37	42	44
Interest payments 1/	75	123	96	122	123	123	123
Other expenses	34	30	29	16	33	36	39
Operating balance (QPC)	(1,159)	(1,037)	(1,375)	(995)	(608)	(311)	0
Total net domestic financing	1,159	1,037	1,375	995	608	311	0
Banks	1,143	300	(455)	270	0	0	0
Loans and bonds	1,175	300	(461)	270	0	0	0
Overdrafts	(31)	0	6	0	0	0	0
IsDB loan	0	0	248	0	0	0	0
Other items 2/	(61)	0	(172)	0	0	0	0
Increase in payables 3/	77	737	1,754	725	608	311	0
Direct transfer from central government	67	1,037	1,865	995	608	311	0
To cover losses	0	1,037	1,420	995	608	311	0
To repay loans	67	0	444	0	0	0	0
Payables to the private sector	…		(111)	(270)	0	0	0
Of which: Increase in arrears	46	(300)	(175)	(270)	0	0	0
Memorandum items (stocks, end of period):							
Outstanding loans and bonds	1,934	2,234	1,473	1,743	1,743	1,743	1,743
Overdrafts	49	49	56	56	56	56	56
Total payables	765	…	1,618	2,343	2,951	3,263	3,263
to government 2/	67	…	1,032	2,026	2,635	2,946	2,946
to private sector	698	…	586	316	316	316	316
o/w arrears (IT)	445	145	270	0	0	0	0

Sources: NEPCO; Jordanian authorities; and IMF staff estimates.
1/ Interest payments exclude interest on payables to the government.
2/ Include changes in accounts receivable, depreciation, project expenditures, and other minor items.
3/ Payables to government include transfers from the the government to NEPCO; they are excluded from the computation of the stock of payables and of arrears.

32. **Progress is being made in developing new energy sources (¶s26–28).** The delay by one month in signing the contract for the leasing of the Floating Storage and Regasification Unit is not expected to set back the completion of the LNG terminal. A supply contract for LNG is expected to be signed by end-April 2014 (new benchmark). Work on renewable energies is continuing, but a lack of clarity about the pricing mechanism of already-approved renewable projects might result in delays. Staff estimates that the first significant contribution of renewables to electricity generation will not materialize before 2015. Conventional generation capacity is also set to increase by 20 percent in 2014, thanks to two new power plants, financed partly by donors.

33. **Savings will also come from a more efficient use of energy (¶s29 and 30).** New regulations encourage the adoption of more efficient home appliances and international efficiency standards for buildings. Moreover, the managerial and technical performance of distribution companies will be reviewed. Staff noted that distribution companies should reduce their technical losses to a level

comparable to international peers, thereby facilitating NEPCO's return to cost-recovery without resorting to further tariff increases.

Water companies—Starting to tackle the losses

34. Losses of the water companies are large. Jordan is among the least water-endowed countries in the world. Water is supplied by different companies under the supervision of the Water Authority of Jordan (WAJ). Technical difficulties and the need to pump water over long distances lead to high pumping costs. Losses of the water sector as a whole exceeded one percent of GDP in 2012 and are expected to increase in 2013, reflecting higher electricity tariffs and the strain to existing water resources and waste facilities from an increased population. With banks increasingly reluctant to lend to WAJ, the government had to take over some debt repayments on behalf of WAJ this year.

35. Work is underway to address the water companies' losses (¶31 and 32). The authorities are working on a comprehensive strategy for the water sector, which is at an advanced stage of preparation (October benchmark). The strategy aims to ensure that operating costs will be covered by around 2020. This would be achieved through a mix of measures aimed at increasing efficiency (including by reducing nonrevenue water and electricity consumption) as well as water tariff increases (mostly on nonresidential customers and richer households, and starting with connection and waste water fees). Capital projects will continue to be financed by the central government and donors, as the infrastructure needs posed by the unique Jordanian situation are particularly large. Staff noted that more front-loaded tariff adjustments would reduce the financing needs of the government. For instance, waste water fees could be raised immediately, and tariff increases on water supply for some end-users could be moved forward. Staff welcomed the authorities' plan to protect poor households from tariff reform.

B. Monetary Policy—Maintaining Buffers

36. Reserve buffers have been rebuilt (¶33). Tight monetary policy; a strong de-dollarization trend and a corresponding reduction in banks' NFA (by $2.4 billion since end-2012); the issuance of government dollar-denominated bonds twice this year; and higher-than-expected foreign financing have resulted in NIR exceeding program targets by a wide margin. At the same time, the U.S. government's Eurobond guarantee and reduced political uncertainty stemming from the formation of a new government have bolstered confidence. As a result, T-bill rates fell in April by about 1.4 percentage points, and while, since then, they have increased by 0.4 percentage points through early August, they remain well below their peak in February/March. The over performance on reserves has been locked in by revising the end-December PC on NIR, which will help in absorbing the impact of any unforeseen shock.

37. External financing will help maintain buffers (¶35). On October 28, the authorities issued a seven-year Eurobond of $1.25 billion guaranteed by the U.S. government. The issuance was almost 2 times oversubscribed with a yield of about 2.5 percent (60 basis points above seven-year U.S. treasury bonds). The authorities will seek another U.S. guarantee for a Eurobond in 2014.

38. The stance of monetary policy has been broadly appropriate (¶34). The CBJ reduced interest rates, based on a sustained de-dollarization trend and reserve built-up. Also, the output gap is negative and real credit growth moderate. However, while the second-round impact from the August tariff increase is expected to be limited (Box 3), there are still evident inflationary pressures, including from the increased housing demand. At the same time, oil prices have been on the rise, which, if sustained, could feed into higher domestic fuel prices. Also, general government financing needs continue to be large, in particular since the relaxation of the fiscal targets in 2013 and 2014 is financed domestically, crowding out the private sector. Staff suggested that further reductions in interest rates should be considered only when there is clear evidence of a downward trend in core inflation, and the pass-through from tariff increases and potentially higher oil prices is contained.

39. The exchange rate remains in line with medium-term fundamentals (¶36). This assessment is conditional on the expected significant improvement in the current account of about 10 percent of GDP over the medium term (Annex II). Such an adjustment requires firm adherence to the program's fiscal adjustment path as well as the development of new and cheaper energy sources. Maintaining confidence is important as well. To this end, a broad national buy-in for reforms is key.

C. Structural Policies—Fostering Stronger and More Inclusive Growth

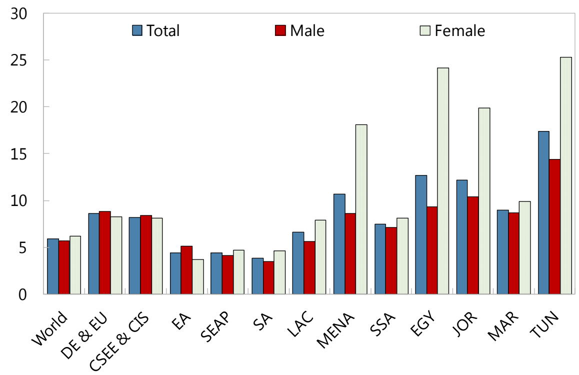
40. An acceleration of structural reforms is needed to lay the foundation for stronger job growth. While some fiscal and energy sector adjustment policies will create headwinds for growth, a programmed increase in capital spending is expected to support short and medium-term growth, given its high multiplier.[7] Also, the reduction in the general government's financing needs (including by returning the utilities to cost recovery) will provide needed room for private sector development over the medium term. Still, this is not enough to address Jordan's persistent structural unemployment problem. Thus, staff urged the authorities to review their structural agenda jointly with development partners to identify reforms that could bolster growth and create jobs. Such a review is particularly important to take into account the significant impact from absorbing refugees in the economy, which brings challenges but could also generate opportunities.

41. The national employment strategy provided the framework for discussions (¶42). Jordan's unemployment is particularly high among young and graduates (estimated at around one third of the total). There are also significant distortions in the labor market between male and female employees, and between the private and public sectors. The national employment strategy aims at correcting these distortions. It focuses on skill-intensive sectors (such as financial, education, and health services), where Jordan has a comparative advantage. Staff noted that it takes time for such initiatives to make an impact. To this end, it encouraged the authorities to work closely with development partners.

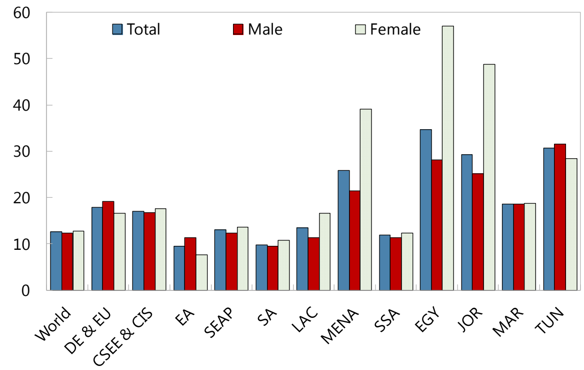
[7] See IMF Country Report No. 13/130.

Jordan and the Rest of the World: Unemployment Rates, 2012

Unemployment Rates, by Gender
(2012, in percent)



Youth Unemployment Rates, by Gender
(2012, in percent)

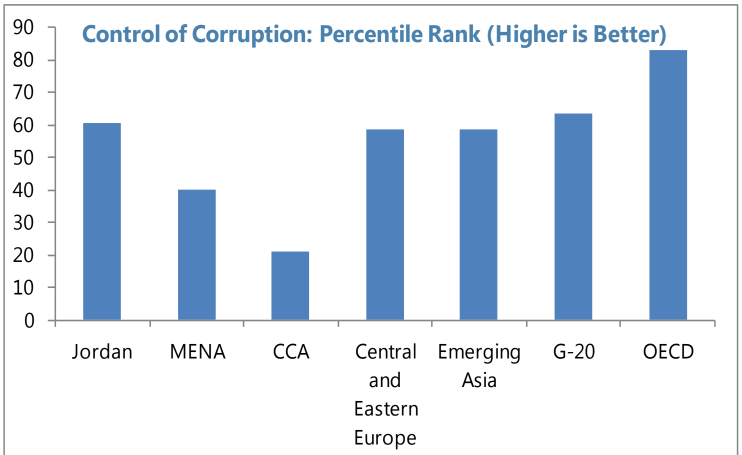


Notes: DE and EU: Developed Economies & European Union; CSEE& CIS: Central & South -Eastern Europe (non -EU) & Common Wealth of Independent States; EA: East Asia; SEAP: South -East Asia & the Pacific; LAC: Latin America & the Caribbean; MENA: Middle East and North Africa; SSA: Sub -Saharan Africa.

Sources: For regional averages and Tunisia's youth unemployment rates, International Labor Organization, Key Indicators of the Labor Market, Seventh edition, retrieved May 14, 2013. For individual countries, National Authorities (Egypt, Central Agency for Public Mobilization and Statistics; Jordan, Department of Statistics; Morocco, Haut-Commissariat Au Plan; Tunisia, Institut National de la Statistique).

42. The employment strategy recognizes that better access to finance is a cornerstone of higher and more inclusive growth (¶39). However, the World Bank's "Doing Business 2013" report identified Jordan's performance on "getting credit" as the weakest among all "Doing Business" categories (Jordan ranked 167th out of 185 countries). Establishing the first credit bureau would be an important step to facilitate risk assessment by lenders, especially critical for SMEs and low-income borrowers. It is regrettable that its licensing has been delayed, though the authorities noted that it is still expected to begin operations on schedule, in early 2014. Also, the insolvency and secured lending laws have now long been under discussion and their submission to parliament should be accelerated. The passage of the latter is holding up the functioning of a recently created registry of collateral assets and could facilitate the recovery of collateral. It should also help in improving Jordan's performance on "enforcing contracts" (another category of "doing business" where Jordan's ranking is poor). Staff supported the authorities' efforts to seek financial support for SMEs. A $70 million loan from the World Bank became effective in June (almost $50 million have been disbursed as of mid-September), and discussions with other partners are underway.

43. The discussions also focused on steps toward more transparency in government institutions (¶s41 and 43). Although a direct link between transparency and economic growth is difficult to establish, there is a widely accepted view that transparency and accountability are critical for the efficient functioning of a modern economy and for fostering social well-being. It is thus encouraging that Jordan scores well on most World Bank's governance indicators, albeit with the notable exceptions of political stability and voice and accountability. Jordan's scores on corruption indicators are better than in the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions, and are similar to the ones in Central and Eastern Europe and Emerging Asia. Further improvements in PFM (discussed above) will help to better manage the budget, but also provide improved information to stakeholders on budget execution. Staff welcomed continued efforts to address corruption by the royal committee to reinforce integrity, and noted the importance of a strong focus on identifying the causes of corrupt behavior and strengthening institutions of accountability. Also, the new investment law and Public Private Partnership law (which are being drafted with support from the World Bank) could help create a more level playing field. In this context, staff reiterated that any tax incentives should be rules-based, without creating room for discretion.



Source: World Bank, Worldwide Governance Indicators, 2012.

Jordan: Worldwide Governance Indicators

Governance Indicator	Year	Percentile Rank (0-100; 100 is best)
Voice and Accountability	2012	27.0
Political Stability/Absence of Violence	2012	29.9
Government Effectiveness	2012	54.1
Regulatory Quality	2012	56.9
Rule of Law	2012	62.6
Control of Corruption	2012	60.8

Source: World Bank.

D. Financial Sector—Fortifying Resilience

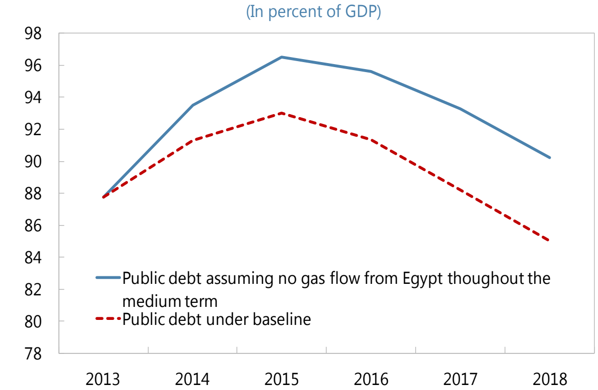
44. Maintaining the soundness of the banking sector is critical to support private sector-led development (¶37 and 40). Aggregate data for end-June 2013 (Table 5) show further improvements. The Non-Performing Loan (NPL) ratio has dropped to 7½ percent (the lowest level since 2009 and driven in part by a nominal decline in NPLs as some banks have started to restructure and write off loans related to a correction in the real estate sector since 2009) while provisioning levels have increased significantly. Staff reiterated that higher frequency information and a broader coverage of bank data could help improve monitoring (currently only aggregate data are available, on a semi-annual basis). It welcomed CBJ's plans to publish in November a new Financial Stability Report and to improve market infrastructure, in particular the payment and settlement system.

45. Progress on supervisory initiatives has been uneven (¶38). Staff welcomed the recent completion of supervisory reviews of the Internal Capital Adequacy Assessment Process (ICAAP) for banks, and stressed the importance of conducting periodic reviews of the ICAAP from now onward. The quantitative impact study for the implementation of Basel III and the development of an early warning statistical model are proceeding with TA from the IMF, and are expected to be completed by end-2013. Some other initiatives are taking longer than originally expected, including fit and proper regulations for bank boards and management, a governance code for banks, and an automated bank data collection system for supervisors. Staff encouraged the authorities to accelerate the completion of these projects as well as relevant by-laws and regulations to enable the issuance of sukuk.

ADDRESSING THE RISKS TO THE PROGRAM

46. The program is close to the limit in terms of delayed adjustment. Reserves are now at a more comfortable level than at the last review, and shocks, including long-lasting disruptions to gas supply from Egypt, could be absorbed with sustainability preserved (see paragraph 29). However, growth would begin to suffer with limited scope for further domestic financing without crowding out the private sector. Also, already large public debt, which has a trajectory that only begins to decline in the medium term, would further rise and likely decline at a slower pace.

Jordan: Public Debt under Baseline and No Gas Scenario
(In percent of GDP)



Sources: Jordanian authorities; and IMF staff estimates.

47. The program is designed to limit risks to the extent possible (Box 4). The authorities are in close contact with the Egyptian authorities, to ensure that gas inflows remain at least at the programmed level. To reduce implementation risks, the authorities are establishing a macro-unit at the ministry of finance to follow up on program implementation. There will also be continued strong TA support, particularly in the areas of PFM and tax administration. The authorities have shown their ability to implement difficult reforms (including by eliminating the fuel subsidies and starting to reduce electricity subsidies). Program ownership has improved through consultations with parliament on the energy strategy.

48. The authorities will seek more grants. Given its own challenges, Jordan is not well-positioned to bear any of the costs related to the Syrian refugees. This burden should be shouldered by the international community and accompanied by efforts to strengthen coordination to maximize the impact of the assistance. More grants would help slow down the pace of adjustment without raising public debt, in particular if more is needed to address the humanitarian needs of the Syrian refugees and if gas flows are lower than expected. They will also make for a better and more robust adjustment-financing mix and could allow the authorities to implement projects toward strengthening growth, reducing poverty and increasing employment.

PROGRAM MODALITIES

49. Waivers are being requested for unforeseen slippages in the performance of utilities on the basis of corrective actions taken to reduce future losses. The end-September PC on the central government primary deficit and the PC on NEPCO's losses were missed. Slippages in both cases were related to the unforeseen suspension of gas supplies from Egypt. The slippage on the central government primary balance reflected also the need to take over debt payments of NEPCO and WAJ. The authorities are taking corrective action by implementing strategies to reduce the losses of the utilities in the medium term.

50. The definition of two PCs and the end-December 2013 ceilings of three PCs are proposed to be modified. In recent months, transactions between NEPCO and the central government have complicated program monitoring. To help mitigate these complications and to better focus the program on the macroeconomic impact of the general government, a PC on the consolidated central government's primary deficit and NEPCO's net losses would replace the previous PC on NEPCO's net losses. A second PC on the central government's primary deficit would remain, but exclude transfers to NEPCO and the water companies to measure the true effort of the central government. The central government will also take steps to better monitor the financial performance of NEPCO (see ¶9 and 10). In line with the revised definition and to accommodate the lower gas inflows from Egypt, the end-December 2013 quantitative PCs on the consolidated central government's primary deficit and NEPCO's net losses, and on the central government's primary fiscal deficit are proposed to be modified. Also, the end-December 2013 PC on NIR is proposed to be modified to capture the NIR over performance. New PCs for March 2014 and ITs for end-June and end-September are proposed to be set as per the MEFP Table 1b.

51. New structural benchmarks support macro-critical reforms. They are focused on ensuring that the 2014 budget is in line with the program,[8] improving central bank governance and returning public utilities to cost recovery.

52. The program is fully financed for the next 12 months. The authorities cover most of their financing needs with the Eurobond issuance ($1.25 billion) in October 2013. A second smaller Eurobond is planned for the last quarter of 2014. The GCC and other donors will cover the remaining gap ((¶35), with a particularly large disbursement expected in the first quarter of 2014 ($0.8 billion). Financing assurances have been obtained. Nonetheless, if there are early indications that projected financing will not be received, the authorities will consult with the Fund on alternative financing approaches and further policy adjustments.

[8] Parliament can only propose cuts to a draft budget, but not additional spending.

Jordan: External Financing in 2013–14
(in U.S. dollar millions unless otherwise specified)

	2013 Prog.	2013 Q1 Act	2013 Q2 Act	2013 Q3	2013 Q4	2013 Total	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Total
Grants excluding GCC	*492*	**201**	**306**	**35**	**266**	**808**	**0**	**0**	**0**	**261**	**261**
EU	*79*	0	0	0	82	82	0	0	0	66	66
Saudi Arabia (budget support)	*200*	200	100	0	0	300	0	0	0	0	0
US	*212*	0	200	29	177	406	0	0	0	184	184
Other	*1*	1	6	6	7	20	0	0	0	11	11
GCC grants											
GCC grants received by CBJ	*1,610*	1,000	250	0	360	1,610	150	150	150	150	600
GCC grants received by MOF	*928*	96	9	150	150	404	340	340	340	340	1,362
Loans	*1,517*	**0**	**0**	**60**	**1,295**	**1,355**	**621**	**0**	**105**	**800**	**1,526**
France	*66*	0	0	0	0	0	66	0	0	0	66
Japan	*18*	0	0	0	0	0	129	0	0	0	129
WB	*100*	0	0	60	45	105	295	0	0	0	295
Other (Eurobond etc)	*1,200*	0	0	0	1,250	1,250	0	0	0	800	800
EU	*133*	0	0	0	0	0	131	0	105	0	236
Memorandum :											
Annual cumulative total (MOF) 1/	*2,936*	296	611	856	2,567	2,567	961	1,302	1,747	3,149	3,149
Annual cumulative total (MOF) in JD	*2,082*	210	433	607	1,820	1,820	682	923	1,239	2,233	2,233
Annual cumulative total (CBJ) 2/	*3,618*	1,201	1,757	1,852	3,773	3,773	771	921	1,176	2,387	2,387
Stock of GCC grants in CBJ		1,652	1,893	1,743	1,953	1,953	1,613	1,522	1,182	1,191	1,191

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

Note: The IsDB loan ($358 million in Q4 2013) is excluded.
1/ Includes grants excluding GCC, GCC grants received by MOF, and loans.
2/ Includes grants excluding GCC, GCC grants received by CBJ, and loans.

53. **Jordan continues to meet all exceptional access criteria.** With increased uncertainty on the gas inflows, the pressures on the current account remain high (criterion 1). While public debt would continue to increase under a no policy action scenario, the implementation of the authorities' national program will bring it to a sustainable level of 85 percent of GDP by 2018, with a debt service burden that would remain manageable. As noted above, even if the Egypt gas were to be completely suspended (a notable risk), debt would remain sustainable (criterion 2). Prospects for sustained market access within the program repayment period remain good, given the strong fiscal adjustment, the recovery of growth, and the downward debt trajectory (criterion 3). Finally, the authorities have shown their ability to implement difficult reforms (by eliminating the fuel subsidies, starting the electricity tariff reforms, and pushing ahead with development of alternative energy sources). They are also strengthening their program implementation capacity. Premised on continued progress in this review with energy and tax policy and subsidy reforms, staff believes that the policy program overall has a strong prospect of success (criterion 4).

54. **Jordan has the capacity to repay the Fund.** Jordan has an excellent record of payments to the Fund and its capacity to repay has been strengthened by higher-than-programmed level of reserves. Peak Fund access projections remain unchanged from the Stand-By Arrangement request (800 percent of the quota). Fund credit outstanding would reach a maximum of 5.2 percent of GDP in 2015.

55. The CBJ is addressing the recommendations of the safeguards assessment concluded in January 2013 (¶44). The assessment found that the elements of a sound governance framework, as well as requirements concerning Fund disbursements for direct budget financing, are in place. In line with the assessment's recommendations, the CBJ is introducing additional disclosures in its financial statements, and intends to remove audit qualifications to ensure fair and transparent presentation of assets on its balance sheet. As a next step, the CBJ will review the CBJ law and prepare draft amendments by end-2014 (new benchmark) with the view to strengthen oversight arrangements and legal underpinnings of its autonomy.

STAFF APPRAISAL

56. Jordan has faced a very difficult environment. Growth has improved, but overall remains restrained while unemployment has ticked upward. The Syria conflict has weighed on Jordan's economy, and continued uncertainty about a further escalation clouds the outlook. Meanwhile, gas inflows from Egypt—which help curb the energy import bill—have suffered recent disruptions due to the security situation in the Sinai Peninsula.

57. Against this backdrop, fiscal consolidation is broadly on track. It is encouraging that the central government finances have been managed within program targets. The recent tariff reform and the announced schedule of future increases are bold steps toward returning NEPCO to cost recovery. The temporary disruption in Egypt gas in 2013 will have to be accommodated, but highlights the urgent need to diversify energy sources.

58. The CBJ has also forcefully rebuilt reserves. Supported by an increase in interest rates in late 2012 and large donor deposits, dollarization declined rapidly in the first half of 2013, and capital outflows reversed. Despite the need to accommodate external shocks, reserves are expected to exceed the program target by end-2013.

59. Despite the program having been adjusted to help cushion the impact of external shocks, macroeconomic management will remain challenging. Confidence has improved, but hinges on continued strong policy implementation. With an uncertain external environment, close monitoring and planning for contingencies are paramount. Equally important is maintaining the reform momentum as further substantial adjustment is needed over the medium term. Staff welcomes the establishment of a macro unit in the ministry of finance to help monitoring program performance.

60. Steadfast progress with energy sector reform is critical. The authorities' strategy is based on an appropriate policy mix between diversification of energy sources, enhanced energy efficiency, and a path of tariff reforms which protects the vulnerable from any tariff increases. Progress with the LNG terminal and annual tariff increases will provide assurances that NEPCO is on its way to cost recovery. In the case of further Egypt gas shortfalls, temporary tariff surcharges could cover some part of the financing gap.

61. A strong 2014 budget will be the stepping stone toward medium-term adjustment. Staff welcomes the package of measures approved by cabinet as a further important action toward subsidy reform. It urges the authorities to closely work with parliament to ensure a successful and timely approval of the revised income tax law, which would appropriately widen the tax net and help recoup the large revenue losses of the past. Ongoing efforts in tax administration are encouraging and could further bolster revenue in the medium term as would a reduction in tax incentives. Improving the costing related to Syrian refugees would be useful.

62. **Better PFM will provide more credibility to and transparency of fiscal policies.** Setting up a commitment control system is welcome, because it will improve budget control. As a next step, the gradually elimination of trust funds should be considered. With the central government taking over the financing of public utilities, the ministry of finance should be given a stronger oversight in the utilities' budget preparation, implementation, and monitoring. In this context, progress in developing a strategy to address the water companies' losses is welcome.

63. **Maintaining high reserve buffers is paramount.** The successful issuance of the Eurobond is welcome. The CBJ should consider any further reduction in interest rates only when there is a clear downward trend in core inflation.

64. **Accelerated implementation of a comprehensive structural reform agenda is needed to make a dent in persistent unemployment.** The agenda should take into account the challenges as well as opportunities related to the influx of Syrian refugees. It can help overcoming any adverse impact on growth from the fiscal adjustment. Of particular importance are measures aimed at creating jobs, including by improving access to financing.

65. **Improved banking supervision aims at fortifying financial resilience.** The CBJ's ongoing initiatives to improve supervision are encouraging and should be accelerated. They help ensuring that banks will remain competitive in a rapidly changing global environment.

66. **Regional risks in particular remain high.** Parliament's agreement to tariff reform provides some assurances for stronger public support of the program. However, a further escalation of the Syria crisis could have major repercussions. Also, any disruption in gas flows could open a substantial gap. Because the program has been already stretched in terms of delaying adjustment, any further shocks could undermine growth and further expand debt. Tackling capacity constraints and continued good program implementation will help in entrenching a track record of commitment to program objectives while managing an adverse environment.

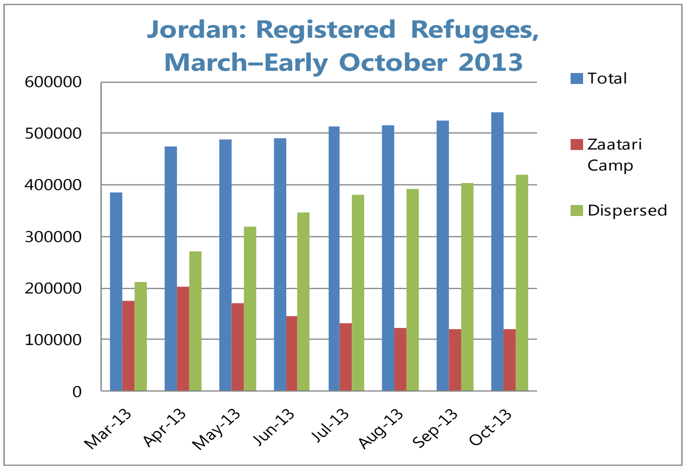
67. **Staff strongly supports the authorities' plans to seek higher grants**. The international community will have to come together to help Jordan bear the burden of hosting the Syrian refugees, in particular since there is not much more room for the government to rely on domestic financing. Additional grants could help smooth the economic and social costs of adjustment, stimulate growth, and reduce unemployment.

68. **Staff supports the completion of the second review.** It also supports (1) the waivers of nonobservance for the end-September PCs on the primary central government deficit and on NEPCO's losses, given that corrective action is taken to eliminate NEPCO's and the water utilities' losses over the medium term; (2) the modification in the definition of the two fiscal PCs; (3) the modification of the end-December 2013 ceilings of several PCs; and (4) setting PCs for end-March 2014.

Box 1. The Syria Conflict

Jordan faced prior episodes of forced migration. Most notable among them are the arrival of Palestinian refugees into Jordan in several waves since the creation of Israel in 1948 and the large-scale Iraqi migration in the aftermath of the 1991 and 2003 Gulf wars. Many of the Palestinian migrants sought work in Gulf Cooperation Council (GCC) countries and, through remittances to their extended families, have provided funds for local business start-ups and residential investments. And the Iraqi migrants—who were largely from the educated upper and middle classes—brought their capital to invest in Jordan.

The Syrian refugee crisis is different. Many of the Syrian refugees in Jordan are poor and not even of formal working age—about 53 percent of the total refugee population is less than 18 years old. While the refugees are weighing on Jordan's already limited resources, they are at the same time contributing to economic activity through increased consumption.



Security concerns have increased. Jordan's military has carried out multiple seizures of arms close to the border. The security condition in camps—though tense—has remained stable.

Refugees are now more dispersed. In April this year, 43 percent of registered Syrian refugees were hosted in the Zaatari refugee camp. By early October, this proportion has decreased to less than one quarter. People who leave Zaatari either go back to Syria, or move to Amman or other local communities.

As a result of the dispersion, the refugees are increasingly competing with Jordanians. Particularly strained are reportedly the labor and housing markets. Also, public provision of education and healthcare is suffering. For instance, there is a lack of public hospital beds, which has been partially taken over by private hospitals.

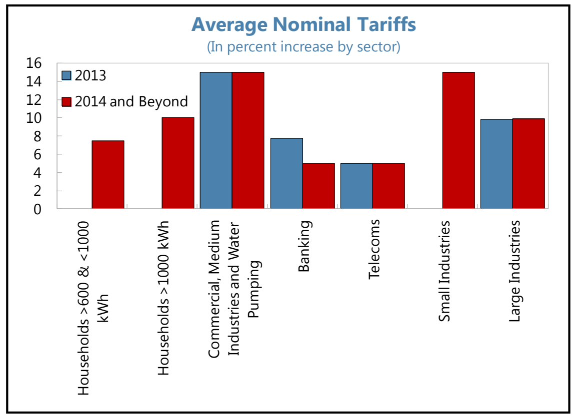
Direct costs are large. Donors cover most of the costs of hosting the refugees. As of September 27, pledges for the UN appeal to tackle the Syria crisis stood at almost $1 billion for Jordan alone. Of this, only about half (around $513 million) has been disbursed. Underfunding is an issue as is a lack of clarity about the timing of disbursements. The program includes direct fiscal costs of about one percent of GDP in 2013, of which 0.7 percent of GDP is covered by the central government, mainly for education, healthcare and security, and the remainder by implicit subsidies of the utilities. For 2014, the program includes up to 1.7 percent of GDP for hosting the refugees, of which up to 1.4 percent of GDP are covered by the central government.

Indirect costs are hard to quantify. Food and house rental prices have reportedly gone up in areas where there are many refugees. There are also additional pressures on the external sector because transit trade through and to Syria continues to be disrupted and there are higher food imports. The impact on tourism though was positive in 2012–13 because most GCC tourists avoided Lebanon and Syria.

Work is ongoing on quantifying the conflict's impact. The authorities are refining their estimates of the fiscal costs of hosting the refugees with the help of USAID. As the same time, IMF staff has embarked on a project that aims at quantifying the macroeconomic impact of the Syria crisis, including on Jordan's economic activity, the external current account, inflation, and the overall fiscal balance.

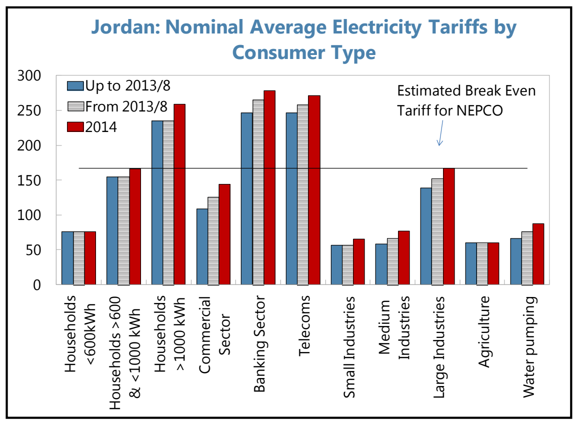
Box 2. Electricity Tariff Reform

The authorities have announced medium-term tariff reforms. Tariffs went up for selected nonhousehold consumers on August 15, 2013 between 7.5–15 percent, with the smaller increases for large industries, which had faced a significant tariff hike in 2012 already. There were no increases for households, agriculture and small industries that are below a specific consumption threshold. Discounts on selected government bodies and charities were removed. On January 1, 2014 and in subsequent years through 2017, exactly the same sector-specific increases will be re-applied. Also, tariffs for large households and small industries will rise between 5–15 percent each year, depending on electricity consumption. Agriculture and other households will continue being exempt from tariff increases in the medium term.



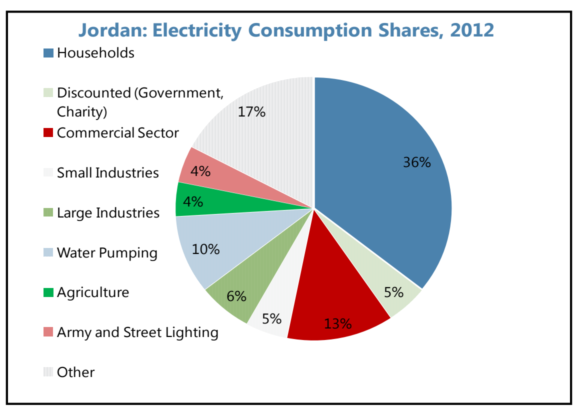
Average Nominal Tariffs
(In percent increase by sector)

The reform is in line with international best practice. Several studies (see IMF 2013) point to six main features for successful energy price reforms. These are: (i) embedded in a comprehensive strategy; (ii) transparently communicated; (iii) carefully phased; (iv) linked to efficiency improvements in state owned enterprises; (v) targeted to protect the poor; and (vi) associated with measures to make future price changes automatic.



Jordan: Nominal Average Electricity Tariffs by Consumer Type

Electricity tariffs vary substantially according to consumer category. Households are divided in seven different brackets according to their consumption levels. The nonhousehold sector is split in thirteen sectors, each with a different price. Some sectors are subject to differential tariffs according to their consumption level; most sectors face a different tariff for day and night consumption. Such a scheme is not uncommon in international practice, but could be subject to abuse.



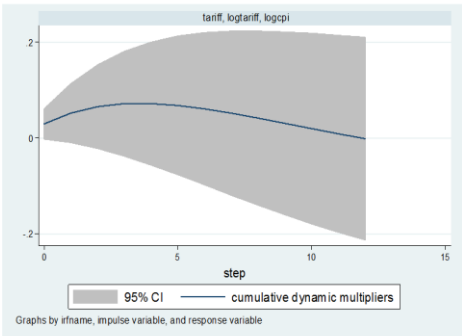
Jordan: Electricity Consumption Shares, 2012

Households, small industries, and agriculture have the lowest tariffs. For instance, small household consumers' average tariff is half of that of the average household tariff and 20 percent of the top tariff. Average tariffs are above cost recovery for a variety of consumers, including large industries and selected services (such as banking, telecoms and hotels).

Box 3. The Inflationary Impact of Electricity Tariff Reform

A vector autoregressive model[1] shows a small short-run impact from tariff reform. A 15 percent increase in the effective tariff[2] could initially push inflation up by 0.45 percent. Further inflationary pressures, if any, would likely be small and taper off in a few months.[3] Indeed, the cumulative dynamic multiplier function shows that the response of inflation to tariff increases is not statistically different from zero starting two months after the increase, as shown in Figure 1. Since the effective tariff increased by about 11 percent on August 15, these results are conservative.

Cumulative Effects of a 1 Percent Tariff Increase



These results appear to be robust:

- **Robustness checks.** First, using a longer time series, starting in 1993, we find virtually no impact of electricity tariffs on inflation, both in the short and in the medium term. Second, we construct alternative definitions of effective tariffs to capture separately increases applied to: (i) households; (ii) the business sector at large; and (iii) small and medium businesses. In all these cases, the impact on inflation is smaller than using the aggregate average tariff and not statistically significant.

- **Jordanian Department of Statistics weights of electricity in the price indices.** The weight of energy is around 6 percent in both the CPI and PPI baskets, suggesting an increase of up to 0.9 percent in both the CPI and the PPI level. But these estimates are likely to provide an upper bound to the CPI, as other energy-related goods—such as fossil fuels— are included in the weights. Assuming that half of the energy weight is indeed electricity (likely overestimating the share of electricity), then the consumer price response to a 15 percent increase in tariff would be just below 0.5 percent.

- **Jordan's recent tariff reforms**. Table 1 summarizes the path of inflation around the 2011 and 2012 episodes of tariff increases. Taking into account exemptions of particular brackets, the tariff schedule announced on August 15 would imply an increase in the average effective tariff close in magnitude to the one implemented in July 2011.

Table 1. Inflationary Impact of Recent Tariff Increases
(In percentage points)

Date of tariff increase	Jul-11	Jun-12
Inflation prior to increase	4.8	4.1
Increase in average effective tariff	10.8	19.8
Inflation one year after increase	4.0	5.7
Difference	-0.8	1.6

Source: ERC.

[1] The model uses the price level and the nominal effective exchange rate over 2002–13. These variables are usually found to be good predictors of inflation and are available monthly. A time trend is added to take into account the evolution of unobserved variables. The effect of electricity tariffs on the endogenous variables is modeled by adding the average effective electricity tariff variable over time.

[2] This is constructed by weighting the end-user tariff paid by each segment by the segment's electricity consumption.

[3] The point estimates show that the cumulative impact on inflation of a 15 percent increase in tariffs would peak at 1.1 percent four months after the increase; it would then decline and turn slightly negative a year after the increase.

Box 4. Jordan: Risk Assessment Matrix

Nature/Sources of Main Threats	**Likelihood of Realization in the Next Three Years**	**Expected Impact on Economy if Risk is Realized**	**Policy Recommendations to Mitigate Risks**
		Short-Term Risks	
Global oil shock triggered by geopolitical events (driving oil prices to $150 per barrel)	***Low*** A sharp increase in oil prices could be triggered by geopolitical events, including in the Middle East.	***High*** Jordan remains highly dependent on energy imports. Higher prices would further increase NEPCO's deficit, as well as social pressures for more current expenditure (subsidies and transfers). This will put pressures on external and fiscal accounts.	(1) Implementation of an automatic fuel pump price increase (re-established in January 2013); (2) implementation of announced increases in electricity tariffs to reduce the electricity subsidy; and (3) over the medium term, diversification of energy sources.
Spillover from prolonged civil war and the humanitarian crisis in Syria.	***High*** The influx of registered refugees has decelerated (reportedly due in part to tighter border controls), but there are already over 500 thousand Syrian refugees in Jordan. The authorities estimate that the total number is substantially higher.	***High*** The inflow of refugees is putting pressure on fiscal accounts and labor markets. Further escalation of the conflict could result in a slowdown in external inflows (remittances, tourism, and FDI), and also capital outflows, a further slowdown in intraregional trade, and possibly lower growth.	(1) Seeking grants from donors to ensure that the refugees are appropriately cared for, including through complementary central government assistance; and (2) taking measures to improve security in the border areas.
Less natural gas from Egypt	***High*** Gas inflows could again be suspended.	***Medium*** The program assumes gas flows at 40 percent of the contract levels. A complete termination of gas supplies would require additional adjustment in the fiscal and external accounts, but the gap is becoming lower in the medium term as the LNG terminal becomes operational and Egypt gas flows account for a lower share in electricity production.	(1) High-level ongoing discussions with the Egyptian authorities; (2) implementation of announced increases in electricity tariffs to reduce the electricity subsidy; and (3) in the medium term, building an LNG terminal in Aqaba.

Box 4. Jordan: Risk Assessment Matrix (concluded)

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
	Medium-Term Risks		
Protracted economic and financial volatility, especially for emerging markets	***Medium*** Higher interest rates in advanced economies (as a result of exiting from unconventional monetary policy) could trigger a sustained reversal of capital flows into risk assets, a sustained increase in risk premiums across emerging markets, and an intensification of liquidity strains on sovereigns and leveraged corporates.	***Low to Medium*** So far, Jordan was not affected by the capital outflows from emerging markets. The reversal of flows could add pressures on the external position and make the necessary adjustment more challenging.	(1) Issuing a Eurobond in October, covered by the U.S. guarantee; (2) instilling confidence through strong domestic policies, anchored in a medium-term adjustment, to attract investment to Jordan; (3) further strengthening the banking supervisory framework to monitor banks' exposures to main risks; and (4) developing an early warning model with TA from the Fund.
Renewed pressure on foreign exchange reserves	***Low*** The reserve level could drop in case of a weakening of confidence and deposit dollarization.	***Medium to High*** While banks' net open positions are reportedly small, and lending in foreign exchange to unhedged borrowers is prohibited, uncertainty could result in large capital outflows.	(1) Appropriate monetary policy in the near term to maintain reserves; and (2) a strong medium-term program with broad national buy-in to instill confidence.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2010–18

	2010	2011	2012	Prog. 2013	Projections 2013	2014	2015	2016	2017	2018
Output and prices	(Percentage change, unless otherwise indicated)									
Real GDP at market prices	2.3	2.6	2.7	3.3	3.3	3.5	4.0	4.5	4.5	4.5
GDP deflator at market prices	8.4	6.4	4.5	5.7	5.9	4.2	2.8	2.5	2.2	2.2
Nominal GDP at market prices	10.9	9.1	7.3	9.2	9.3	7.9	6.9	7.1	6.8	6.8
Nominal GDP at market prices (JD millions)	18,762	20,477	21,966	24,160	24,007	25,895	27,684	29,650	31,681	33,834
Nominal GDP at market prices ($ millions)	26,447	28,881	30,981	34,076	33,860	36,523	39,047	41,820	44,684	47,721
Consumer price index (annual average)	5.0	4.4	4.6	5.9	5.5	3.0	2.4	1.9	1.9	1.9
Consumer price index (end of period)	6.1	3.3	6.5	3.2	3.0	2.4	2.2	1.9	1.8	1.8
Unemployment rate (period average, percent)	12.5	12.9	12.2	...	12.7	...	...	...	...	...
National accounts 1/	(In percent of GDP, unless otherwise indicated)									
Consumption	84.0	87.5	96.0	97.3	90.4	92.2	88.6	87.5	86.8	86.3
Government	20.7	20.5	17.4	16.6	16.7	16.7	16.7	16.7	16.7	16.7
Other	63.3	67.0	78.6	80.7	73.6	75.4	71.9	70.7	70.1	69.6
Gross domestic investment	23.1	24.5	21.3	27.3	20.7	20.7	20.7	20.7	20.8	20.9
Government	5.2	5.2	3.1	9.7	4.7	5.0	5.0	5.0	5.0	5.0
Other	17.9	19.4	18.2	17.6	16.0	15.7	15.7	15.6	15.7	15.8
Gross national savings	16.0	12.5	4.0	17.4	9.6	7.8	11.4	12.5	13.2	13.7
Government	-0.4	-0.6	-5.8	0.6	-9.9	-3.2	-1.3	1.4	2.9	3.1
Other	16.4	13.1	9.8	16.8	19.6	11.1	12.7	11.1	10.3	10.5
Savings-investment balance	-7.1	-12.0	-17.3	-9.9	-11.1	-12.9	-9.3	-8.2	-7.6	-7.2
Government	-5.6	-5.7	-8.9	-9.1	-14.6	-8.3	-6.3	-3.6	-2.2	-1.9
Other	-1.5	-6.3	-8.4	-0.8	3.5	-4.6	-3.0	-4.5	-5.4	-5.3
Fiscal operations										
Revenue and grants	24.9	26.4	23.0	26.0	25.3	27.4	26.0	26.0	26.1	26.1
Of which: grants	2.1	5.9	1.5	4.2	3.6	4.4	3.0	3.0	3.0	3.1
Expenditure, net lending,transfer to NEPCO, and other use of cash	30.4	33.2	31.9	35.1	40.0	35.7	33.9	32.7	31.6	32.0
Additional measures needed	...	...	...	...	...	0.0	1.6	3.1	3.4	3.9
Overall fiscal balance after measures	-5.6	-5.7	-8.9	-9.1	-14.6	-8.3	-6.3	-3.6	-2.2	-1.9
Primary government balance excluding grants 2/	-5.6	-9.6	-7.7	-9.8	-14.7	-8.3	-5.1	-2.4	-1.0	-0.5
Primary government balance excluding grants (excl. NEPCO)	-5.6	-9.6	-7.4	-5.5	-5.4	-4.5	-2.9	-1.4	-1.0	-0.5
NEPCO loss	...	-4.9	-5.3	-4.3	-5.7	-3.8	-2.2	-1.1	0.0	0.0
Government and government-guaranteed gross debt 3/	67.1	70.7	80.2	83.8	87.7	91.3	93.0	91.3	88.2	85.0
Of which: external debt	24.6	21.9	22.5	22.3	24.5	26.0	25.2	25.0	25.4	25.8
External sector										
Current account balance (including grants), of which:	-7.1	-12.0	-17.3	-9.9	-11.1	-12.9	-9.3	-8.2	-7.6	-7.2
Exports of goods, f.o.b. ($ billions)	7.0	8.0	7.9	8.5	8.1	8.4	8.9	9.3	9.9	10.5
Imports of goods, f.o.b. ($ billions)	13.8	16.8	18.5	18.5	18.9	18.9	18.7	19.1	19.9	20.7
Oil and oil products ($ billions)	3.1	4.9	5.9	5.2	5.5	5.2	4.5	4.3	4.3	4.3
Current account balance (excluding grants)	-11.3	-19.0	-22.1	-16.9	-19.0	-16.1	-12.9	-11.9	-11.5	-11.2
Private capital inflows (net)	7.9	6.8	6.3	7.3	7.4	7.4	7.4	7.4	7.4	7.4
	(Annual percentage changes)									
Monetary sector										
Broad money	11.7	8.2	3.4	10.6	10.8	9.7	...	...	...	...
Net foreign assets	13.5	-7.0	-29.3	-6.1	-6.3	-0.6	...	...	...	...
Net domestic assets	10.4	20.8	24.3	16.7	17.0	12.6	...	...	...	...
Credit to private sector	7.2	9.6	6.9	7.0	7.4	7.1	...	...	...	...
Credit to central government	4.7	27.9	21.3	13.6	34.7	11.1	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	12,449	10,755	5,299	7,524	9,905	10,609	10,662	10,652	10,891	11,331
In months of prospective imports	7.4	7.5	3.6	4.0	5.3	5.7	5.8	5.6	5.5	5.5
In percent of reserve-adequacy metric	164.8	101.1	63.8	...	113.1	133.3	125.8	117.3	111.6	108.8
Short-term debt (in percent of international reserves)	5.3	1.6	3.2	2.8	2.3	2.7	3.0	2.8	2.6	2.3
Net international reserves ($ millions)	13,445	11,231	5,381	6,867	9,341	9,529	7,923	8,204	9,007	10,028
Population (in millions)	6.11	6.25	6.40	6.54	6.54	6.69	6.85	7.01	7.17	7.33
Nominal per capita GDP ($)	4,326	4,618	4,843	5,207	5,174	5,456	5,702	5,970	6,236	6,510
Stock market index (annual percentage change)	-6.0	-15.9	-1.9	...	...	...	...	...	...	...
Nominal exchange rate (peg to the US dollar)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Real effective exchange rate (end of period, 2005=100)	107.7	106.4	107.9	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	4.4	-1.2	1.4	...	...	...	...	...	...	...

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

1/ Some National Accounts items were reclassified since the first review. The reclassified program numbers for 2013 would be: Consumption 87.2; Other consumption 70.6; Gross domestic investment 22.7; Government investment 5.1; Gross national savings 12.8; Government savings -4.0.

2/For 2013, includes transfers for debt repayments of NEPCO and WAJ. Adjusted for these repayments (which do not affect the consolidated public sector balance) the estimate would be 11.1 percent of GDP (with 1.5 percent of GDP reflecting shortages in gas from Egypt).

3/ Includes NEPCO debt.

Table 2a. Jordanian Central Government: Summary of Fiscal Operations, 2011–18
(In millions of Jordanian dinars)

			Prog.	Projections					
	2011	2012	2013	2013	2014	2015	2016	2017	2018
Total revenue and grants	5,414	5,054	6,284	6,085	7,097	7,201	7,721	8,267	8,844
Domestic revenue	4,199	4,727	5,277	5,226	5,947	6,367	6,830	7,307	7,804
Tax revenue, *of which* :	3,055	3,351	3,740	3,715	4,317	4,626	4,964	5,314	5,675
Taxes on income and profits	667	688	752	691	1,005	1,084	1,171	1,262	1,347
General sales tax	2,026	2,275	2,589	2,586	2,840	3,036	3,251	3,474	3,710
Taxes on foreign trade	287	285	287	316	341	365	391	417	446
Other taxes	75	103	112	122	132	141	151	161	172
Nontax revenue	1,144	1,376	1,537	1,510	1,629	1,742	1,866	1,993	2,129
Grants	1,215	327	1,007	859	1,151	834	892	960	1,040
Total expenditures, net lending, other use of cash	6,802	7,008	8,481	9,594	9,242	9,396	9,706	10,025	10,810
Current expenditure	5,743	6,186	6,208	6,224	6,943	7,393	7,900	8,429	9,106
Wages and salaries	950	1,177	1,282	1,282	1,383	1,478	1,583	1,692	1,807
Interest payments	429	583	838	831	1,136	1,185	1,252	1,325	1,519
Domestic	346	483	666	695	988	1,006	1,010	981	1,016
External	83	100	172	136	148	179	242	344	503
Military expenditure	1,801	1,744	1,767	1,767	1,906	2,038	2,182	2,332	2,490
Fuel subsidies	567	674	0	0	0	0	0	0	0
Food subsidy	217	210	225	248	198	211	226	242	258
Transfers, *of which* :	999	1,494	1,759	1,759	1,775	1,898	2,032	2,171	2,319
Pensions	861	982	1,058	1,058	1,110	1,187	1,271	1,358	1,450
Targeted payments for energy	...	107	270	270	210	225	240	257	274
Purchases of goods & services	779	304	337	337	364	389	416	445	475
Repayment of arrears and additional allocation to health fund				0	182	195	208	223	238
Capital expenditure	1,059	676	1,236	1,124	1,305	1,395	1,494	1,596	1,705
Net lending	0	2	0	0	0	0	0	0	0
Transfer to NEPCO 1/	...	67	1,037	1,866	995	608	311	0	0
Transfer to WAJ 1/		0	0	380	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	...	77	0	0	0	0	0	0	0
Total balance from above the line	-1,388	-1,954	-2,197	-3,508	-2,145	-2,195	-1,984	-1,758	-1,966
Statistical discrepancy, net	-213	-2	0	0	0	0	0	0	0
Overall balance without additional measures	-1,175	-1,952	-2,197	-3,508	-2,145	-2,195	-1,984	-1,758	-1,966
Additional measures needed	...	...	1	0	0	438	909	1,068	1,327
Overall balance after all measures	-1,175	-1,952	-2,197	-3,509	-2,145	-1,756	-1,075	-691	-639
Financing	1,175	1,952	2,197	3,509	2,145	1,756	1,075	691	639
Foreign financing (net)	-131	10	613	559	715	100	276	475	492
Domestic financing (net)	1,306	1,942	1,584	2,950	1,430	1,656	799	216	147
CBJ on-lending of net IMF financing	0	272	524	457	366	332	-206	-400	-412
Other domestic bank financing	1,113	1,632	820	2,253	805	1,048	709	299	221
Domestic nonbank financing	193	38	240	240	259	277	296	317	338
Memorandum items:									
NEPCO loss (PC up to September 2013) (+:profit)	-1,008	-1,159	-1,037	-1,375	-995	-608	-311	0	0
Primary government deficit excluding grants (PC up to September 2013)	-1,961	-1,696	-2,365	-3,537	-2,160	-1,405	-715	-325	-160
Primary government deficit excluding grants (excluding transfers to NEPCO and WAJ, new PC)	-1,961	-1,629	-1,328	-1,292	-1,165	-797	-404	-325	-160
Consolidated central government and NEPCO primary deficit (new PC)	-2,969	-2,788	-2,365	-2,667	-2,160	-1,405	-715	-325	-160
Government and guaranteed gross debt	14,483	17,610	20,258	21,066	23,648	25,752	27,085	27,944	28,763
Of which: External	4,487	4,932	5,396	5,873	6,725	6,972	7,406	8,050	8,721
GDP at market prices (JD millions)	20,477	21,966	24,160	24,007	25,895	27,684	29,650	31,681	33,834

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

1/ For 2013, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2014 onwards, the program assumes the utilities will repay their own debt.

Table 2b. Jordanian Central Government: Summary of Fiscal Operations, 2011–18
(In percent of GDP)

	2011	2012	Prog. 2013	Projections 2013	2014	2015	2016	2017	2018
Total revenue and grants	26.4	23.0	26.0	25.3	27.4	26.0	26.0	26.1	26.1
Domestic revenue	20.5	21.5	21.8	21.8	23.0	23.0	23.0	23.1	23.1
Tax revenue, *of which* :	14.9	15.3	15.5	15.5	16.7	16.7	16.7	16.8	16.8
Taxes on income and profits	3.3	3.1	3.1	2.9	3.9	3.9	4.0	4.0	4.0
General sales tax	9.9	10.4	10.7	10.8	11.0	11.0	11.0	11.0	11.0
Taxes on foreign trade	1.4	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Other taxes	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	5.6	6.3	6.4	6.3	6.3	6.3	6.3	6.3	6.3
Grants	5.9	1.5	4.2	3.6	4.4	3.0	3.0	3.0	3.1
Total expenditures, net lending, other use of cash	33.2	31.9	35.1	40.0	35.7	33.9	32.7	31.6	32.0
Current expenditure	28.0	28.2	25.7	25.9	26.8	26.7	26.6	26.6	26.9
Wages and salaries	4.6	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Interest payments	2.1	2.7	3.5	3.5	4.4	4.3	4.2	4.2	4.5
Domestic	1.7	2.2	2.8	2.9	3.8	3.6	3.4	3.1	3.0
External	0.4	0.5	0.7	0.6	0.6	0.6	0.8	1.1	1.5
Military expenditure	8.8	7.9	7.3	7.4	7.4	7.4	7.4	7.4	7.4
Fuel subsidies	2.8	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	1.1	1.0	0.9	1.0	0.8	0.8	0.8	0.8	0.8
Transfers, *of which* :	4.9	6.8	7.3	7.3	6.9	6.9	6.9	6.9	6.9
Pensions	4.2	4.5	4.4	4.4	4.3	4.3	4.3	4.3	4.3
Targeted payments for energy	...	0.5	1.1	1.1	0.8	0.8	0.8	0.8	0.8
Purchases of goods & services	3.8	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Repayment of arrears and additional allocation to health fund				0.0	0.7	0.7	0.7	0.7	0.7
Capital expenditure	5.2	3.1	5.1	4.7	5.0	5.0	5.0	5.0	5.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to NEPCO 1/	...	0.3	4.3	7.8	3.8	2.2	1.1	0.0	0.0
Transfer to WAJ 1/	...	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
Adjustment on other receivables and payables (use of cash)	...	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-6.8	-8.9	-9.1	-14.6	-8.3	-7.9	-6.7	-5.6	-5.8
Statistical discrepancy, net	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without additional measures	-5.7	-8.9	-9.1	-14.6	-8.3	-7.9	-6.7	-5.6	-5.8
Additional measures needed	...	...	0.0	0.0	0.0	1.6	3.1	3.4	3.9
Overall balance after all measures	-5.7	-8.9	-9.1	-14.6	-8.3	-6.3	-3.6	-2.2	-1.9
Financing	5.7	8.9	9.1	14.6	8.3	6.3	3.6	2.2	1.9
Foreign financing (net)	-0.6	0.0	2.5	2.3	2.8	0.4	0.9	1.5	1.5
Domestic financing (net) 2/	6.4	8.8	6.6	12.3	5.5	6.0	2.7	0.7	0.4
CBJ on-lending of net IMF financing	0.0	1.2	2.2	1.9	1.4	1.2	-0.7	-1.3	-1.2
Other domestic bank financing	5.4	7.4	3.4	9.4	3.1	3.8	2.4	0.9	0.7
Domestic nonbank financing	0.9	0.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:									
NEPCO loss (PC up to September 2013) (+:profit)	-4.9	-5.3	-4.3	-5.7	-3.8	-2.2	-1.1	0.0	0.0
Primary government deficit excluding grants (PC up to September 2013)	-9.6	-7.7	-9.8	-14.7	-8.3	-5.1	-2.4	-1.0	-0.5
Primary government deficit excluding grants (excluding transfers to NEPCO and WAJ, new PC)	-9.6	-7.4	-5.5	-5.4	-4.5	-2.9	-1.4	-1.0	-0.5
Consolidated central government and NEPCO primary deficit (new PC)	-14.5	-12.7	-9.8	-11.1	-8.3	-5.1	-2.4	-1.0	-0.5
Government and guaranteed gross debt	70.7	80.2	83.8	87.7	91.3	93.0	91.3	88.2	85.0
Of which: External	21.9	22.5	22.3	24.5	26.0	25.2	25.0	25.4	25.8
GDP at market prices (JD millions)	20,477	21,966	24,160	24,007	25,895	27,684	29,650	31,681	33,834

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

1/ For 2013, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2014 onwards, the program assumes the utilities will repay their own debt.

2/ In 2013, 3.7 percent of GDP of the increase compared to the program is due to the central government taking over the debt service of NEPCO and WAJ. This does not affect the general government deficit or the monetary program.

Table 2c. Jordanian Central Government: Summary of Quarterly Fiscal Operations, 2013–14

(In millions of Jordanian Dinars)

	2013						2014				
	H1 Prog.	H1 Act	Q3 Proj.	Q4 Proj.	Annual Prog.	Annual Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
Total revenue and grants	3,099	2,978	1,423	1,685	6,284	6,085	1,537	1,980	1,650	1,931	7,097
Domestic revenue	2,691	2,545	1,291	1,389	5,277	5,226	1,296	1,739	1,408	1,504	5,947
Tax revenue, *of which* :	1,943	1,811	912	993	3,740	3,715	924	1,260	1,104	1,028	4,317
Taxes on income and profits	524	470	124	97	752	691	236	450	185	134	1,005
General sales tax	1,221	1,128	677	782	2,589	2,586	582	689	830	739	2,840
Taxes on foreign trade	140	157	80	79	287	316	80	88	67	106	341
Other taxes	59	56	31	36	112	122	26	33	23	49	132
Nontax revenue	747	734	380	397	1,537	1,510	371	479	304	476	1,629
Grants	409	433	131	295	1,007	859	241	241	241	427	1,151
Total expenditures, net lending, other use of cash	4,154	3,995	2,526	3,073	8,481	9,594	2,218	2,330	2,293	2,401	9,242
Current expenditure	2,996	2,963	1,453	1,808	6,208	6,224	1,659	1,831	1,635	1,818	6,943
Wages and salaries	632	623	325	334	1,282	1,282	346	346	346	346	1,383
Interest payments	423	336	164	330	838	831	222	299	234	381	1,136
Domestic	359	290	141	264	666	695	195	220	201	372	988
External	64	46	23	66	172	136	27	79	34	9	148
Military expenditure	874	899	410	458	1,767	1,767	476	476	476	476	1,906
Fuel subsidies	0	0	0	0	0	0	0	0	0	0	0
Food subsidy	112	136	62	51	225	248	49	49	49	49	198
Transfers, *of which* :	787	818	394	547	1,759	1,759	429	524	393	429	1,775
Pensions	541	516	269	273	1,058	1,058	268	274	282	287	1,110
Targeted payments for energy	90	101	10	159	270	270	90	90	0	30	210
Purchases of goods & services	168	152	98	88	337	337	91	91	91	91	364
Repayment of arrears and additional allocation to health fund							46	46	46	46	182
Capital expenditure	650	324	300	500	1,236	1,124	326	326	326	326	1,305
Net lending	0	0	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	508	596	646	623	1,037	1,866	233	174	332	257	995
Transfer to WAJ 1/	0	64	126	190	0	380	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	0	49	0	-49	0	0	0	0	0	0	0
Total balance from above the line	-1,056	-1,017	-1,103	-1,388	-2,197	-3,508	-681	-350	-644	-471	-2,145
Statistical discrepancy, net	0	0	0	0	0	0	0	0	0	0	0
Overall balance without additional measures	-1,056	-1,017	-1,103	-1,388	-2,197	-3,508	-681	-350	-644	-471	-2,145
Additional measures needed	0	0	0	0	0	0	0	0	0	0	0
Overall balance after all measures	-1,056	-1,017	-1,103	-1,389	-2,197	-3,509	-681	-350	-644	-471	-2,145
Financing	1,056	1,017	1,103	1,389	2,197	3,509	681	350	644	471	2,145
Foreign financing (net)	-89	-126	-29	714	613	559	377	-131	-12	481	715
Domestic financing (net)	1,145	1,143	1,132	674	1,584	2,950	304	481	656	-10	1,430
CBJ on-lending of net IMF financing	365	274	0	183	524	457	91	91	91	91	366
Other domestic bank financing	610	346	1,102	804	820	2,253	148	325	499	-166	805
Domestic nonbank financing	170	523	30	-313	240	240	65	65	65	65	259
Memorandum items:											
Accounts payable (IT)	682	512	682	682	682	682	682	682	682	682	682
NEPCO loss (PC up to September 2013)	508	474	458	442	1,037	1,375	233	174	332	257	995
Primary government deficit excluding grants (PC up to September 2013)	1,041	1,114	1,070	1,354	2,365	3,537	700	293	651	516	2,160
Primary government deficit excluding grants (excluding transfers to NEPCO and WAJ, new PC)	533	455	297	540	1,328	1,292	467	119	319	259	1,165
Consolidated central government and NEPCO primary deficit (new PC)	1,041	929	756	982	2,365	2,667	700	293	651	516	2,160
net external financing received by the government 2/	-89	-126	-29	714	613	559	377	-131	-12	481	715

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

1/ For 2013, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2014 onwards, the program assumes the utilities will repay their own debt.

2/ Including project loans received by the government.

Table 3. Jordan: Summary Balance of Payments, 2012–18
(In millions of U.S. dollars, unless otherwise noted)

	2012	2013		2014	2015	2016	2017	2018
	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	**(5,370)**	**(3,387)**	**(3,752)**	**(4,705)**	**(3,639)**	**(3,412)**	**(3,397)**	**(3,442)**
Trade balance	(10,559)	(9,986)	(10,789)	(10,462)	(9,820)	(9,815)	(10,006)	(10,211)
Exports f.o.b.	7,898	8,476	8,067	8,426	8,855	9,328	9,896	10,532
Imports f.o.b.	18,457	18,462	18,855	18,888	18,675	19,143	19,902	20,743
Energy	5,882	5,249	5,475	5,192	4,495	4,300	4,301	4,331
Non-energy	12,575	13,213	13,380	13,695	14,180	14,842	15,601	16,412
Services and income	838	1,254	862	1,132	1,395	1,544	1,607	1,598
Of which : travel	3,465	3,811	3,513	3,789	4,051	4,338	4,635	4,951
Current transfers	4,351	5,345	6,175	4,625	4,786	4,859	5,003	5,171
Of which : public	1,478	2,382	2,698	1,163	1,416	1,565	1,732	1,920
Of which : remittances	3,145	3,392	3,271	3,402	3,556	3,727	3,905	4,088
Capital account	**2,098**	**3,470**	**3,821**	**3,893**	**3,225**	**3,692**	**4,199**	**4,463**
Public sector	159	997	1,326	1,203	348	612	908	947
Direct foreign investment	1,494	1,674	1,764	1,902	2,034	2,178	2,327	2,485
Portfolio flows	53	105	131	141	151	162	173	184
Other capital flows	392	693	600	647	692	741	792	846
Errors and omissions	97	0	581	0	0	0	0	0
Overall balance	(3,174)	83	650	(812)	(415)	281	803	1,021
Financing	**3,174**	**(83)**	**(650)**	**812**	**415**	**(281)**	**(803)**	**(1,021)**
Reserves	3,359	(1,457)	(3,846)	296	(53)	9	(239)	(440)
Commercial banks' NFA	(564)	600	2,551	0	0	0	0	0
IMF (net)	379	774	645	516	468	(290)	(564)	(581)
Gross reserves	8,765	10,222	12,612	12,316	12,369	12,359	12,598	13,038
Gross usable reserves 1/	**5,299**	**7,524**	**9,905**	**10,609**	**10,662**	**10,652**	**10,891**	**11,331**
Memorandum items:								
Current account (% of GDP)	(17.3)	(9.9)	(11.1)	(12.9)	(9.3)	(8.2)	(7.6)	(7.2)
Energy imports	19.0	15.4	16.2	14.2	11.5	10.3	9.6	9.1
Public transfers	4.8	7.0	8.0	3.2	3.6	3.7	3.9	4.0
Export growth, %	(1.5)	7.3	2.1	4.5	5.1	5.3	6.1	6.4
Import growth, %	9.5	0.3	2.2	0.2	(1.1)	2.5	4.0	4.2
Energy, %	19.7	(7.6)	(6.9)	(5.2)	(13.4)	(4.3)	0.0	0.7
Non-energy, %	5.4	3.8	6.4	2.4	3.5	4.7	5.1	5.2
Travel growth, %	15.3	10.0	1.4	7.9	6.9	7.1	6.8	6.8
Remittances growth, %	3.6	6.3	4.0	4.0	4.5	4.8	4.8	4.7
Oil price ($ per barrel)	105.0	102.7	104.5	101.3	95.3	91.2	88.5	86.7
GDP	30,981	34,076	33,860	36,523	39,047	41,820	44,684	47,721

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

1/ Excluding gold, commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 4a. Jordan: Summary Monetary Survey, 2012–14

	2012	2013						2014	2014	2014	2014	2014
	Act.	Prog.	Proj.	Actual		Projections		Proj.	Proj.	Proj.	Proj.	Proj.
		Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
(Stocks, in millions of Jordanian dinars)												
Net foreign assets	6,620	6,220	6,201	6,511	6,375	5,671	6,201	6,165	6,142	5,883	5,604	6,165
Central Bank	6,094	6,119	7,484	6,691	7,021	6,604	7,484	7,448	7,426	7,166	6,887	7,448
Commercial Banks	526	100	-1,283	-180	-647	-933	-1,283	-1,283	-1,283	-1,283	-1,283	-1,283
Net domestic assets	18,306	21,381	21,416	18,952	19,855	21,103	21,416	24,120	22,036	23,039	23,877	24,120
Net claims on general government	9,930	11,889	12,130	10,102	10,563	11,405	12,130	13,746	12,480	13,008	13,710	13,746
Net claims on Central Budgetary Government	7,805	9,149	10,515	8,052	8,426	9,529	10,515	11,687	10,754	11,170	11,761	11,687
Net claims on NEPCO	1,478	1,778	1,023	1,405	1,385	1,197	1,023	1,168	1,059	1,096	1,132	1,168
Net claims on other own budget agencies 1/	179	479	123	160	275	204	123	423	198	273	348	423
Claims on other public entities	468	484	468	485	476	476	468	468	468	468	468	468
Claims on financial institutions	200	204	200	182	188	188	200	200	200	200	200	200
Claims on the private sector	15,954	17,066	17,139	16,236	16,646	17,031	17,139	18,363	17,442	17,888	18,144	18,363
Other items (net)	-7,778	-7,778	-8,053	-7,567	-7,541	-7,521	-8,053	-8,189	-8,087	-8,057	-8,177	-8,189
Broad money	24,926	27,600	27,617	25,463	26,230	26,773	27,617	30,286	28,178	28,922	29,481	30,286
Currency in circulation	3,215	3,530	3,534	3,205	3,314	3,396	3,534	3,846	3,578	3,673	3,744	3,846
Jordanian dinar deposits	16,332	18,896	19,266	17,035	18,042	18,429	19,266	21,231	19,754	20,275	20,667	21,231
Foreign currency deposits	5,379	5,175	4,816	5,223	4,873	4,948	4,816	5,209	4,846	4,974	5,070	5,209
(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)												
Net foreign assets	-2,750	-446	-419	-109	-136	-704	530	-35	-58	-259	-279	561
Net domestic assets	3,577	3,101	3,110	646	903	1,248	313	2,704	620	1,003	839	243
Net claims on general government 1/	2,760	1,944	2,200	172	461	843	725	1,616	351	527	702	36
Net claims on Central Budgetary Government	1,439	1,344	2,710	246	374	1,102	987	1,171	239	416	591	-75
Net claims on NEPCO	1,143	300	-455	-72	-20	-188	-174	145	37	36	36	36
Net claims on other own budget agencies	178	300	-55	-19	115	-71	-80	300	75	75	75	75
Claims on financial institutions	2	0	0	-19	6	0	13	0	0	0	0	0
Claims on the private sector	1,029	1,112	1,185	283	410	385	108	1,224	303	446	257	218
Other items (net)	-182	45	-276	210	26	20	-532	-136	-34	30	-120	-12
Broad money	828	2,655	2,690	537	767	544	843	2,669	562	744	559	804
Currency in circulation	196	315	319	-10	110	82	138	311	44	94	71	102
Jordanian dinar deposits	-1,240	2,561	2,934	704	1,007	387	837	1,965	488	521	392	564
Foreign currency deposits	1,872	-220	-563	-157	-349	75	-132	392	30	128	96	138
Memorandum items:												
Annual broad money growth (percent)	3.4	10.6	10.8	4.0	6.0	6.2	10.8	9.7	10.7	10.3	10.1	9.7
Annual JD broad money growth (percent)	0.0	14.7	16.1	9.7	8.7	8.9	8.7	9.6	0.0	0.0	0.0	0.0
Annual private sector credit growth (percent)	6.9	7.0	7.4	6.5	6.8	7.9	7.4	7.1	7.4	7.5	6.5	7.1
Foreign currency/total deposits (percent)	24.8	21.5	20.0	23.5	21.3	21.2	20.0	19.7	19.7	19.7	19.7	19.7
Private sector credit/total deposits (percent)	73.5	70.9	71.2	72.9	72.6	72.9	71.2	69.5	70.9	70.8	70.5	69.5
Currency/JD deposits (percent)	19.7	18.7	18.3	18.8	18.4	18.4	18.3	18.1	18.1	18.1	18.1	18.1

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

1/ Includes WAJ

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2012–14

	2012	2013						2014	2014	2014	2014	2014
	Act.	Prog.	Proj.	Actual		Projections		Proj.	Proj.	Proj.	Proj.	Proj.
		Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
(Stocks, in millions of Jordanian dinars)												
Net foreign assets	6,094	6,119	7,484	6,691	7,021	6,604	7,484	7,448	7,426	7,166	6,887	7,448
Foreign assets	6,981	8,015	9,709	8,245	9,020	8,497	9,709	9,499	9,500	9,269	8,839	9,499
of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767
of which: encumbered due to forwards or swaps	1,089	545	766	1,090	950	900	766	57	57	57	57	57
Foreign liabilities	887	1,895	2,225	1,554	1,999	1,893	2,225	2,050	2,075	2,102	1,952	2,050
of which : Net Fund Position	274	798	732	274	549	549	732	1,098	823	915	1,006	1,098
of which: GCC grants-related	505		1,385	1,172	1,342	1,236	1,385	845	1,143	1,079	838	845
Net domestic assets	-865	-200	-1,481	-1,671	-1,467	-963	-1,481	-1,015	-1,440	-1,023	-625	-1,015
Net claims on central budgetary government 1/	1,568	1,963	1,721	1,385	1,504	1,488	1,721	1,711	1,437	1,528	1,620	1,711
of which: outright purchases of gov. securities			375	455	407	391	375	0	0	0	0	0
Net claims on other public entities 2/	-42	-42	-42	-30	-15	-15	-42	-42	-42	-42	-42	-42
Net claims on financial institutions	78	78	78	78	74	74	78	78	78	78	78	78
Net claims on private sector	20	20	20	20	20	20	20	20	20	20	20	20
Net claims on commercial banks	-1,343	-1,073	-2,971	-2,744	-2,762	-2,242	-2,971	-2,496	-2,646	-2,321	-2,014	-2,496
of which: FX deposits of commercial banks	871		713	831	726	713	713	713	713	713	713	713
CDs	-231	-231	-231	-231	-231	-231	-231	-231	-231	-231	-231	-231
Other items, net (asset: +)	-942	-942	-56	-149	-56	-56	-56	-56	-56	-56	-56	-56
of which: repos			425	550	480	425	425	425	425	425	425	425
Jordanian dinar reserve money	5,229	5,919	6,003	5,020	5,554	5,641	6,003	6,433	5,986	6,144	6,262	6,433
Currency	3,558	3,873	3,877	3,581	3,764	3,765	3,877	4,189	3,921	4,016	4,087	4,189
Commercial bank reserves	1,671	2,047	2,126	1,439	1,791	1,876	2,126	2,245	2,065	2,128	2,176	2,245
Of which : required reserves	1,106	1,280	1,305	1,097	1,161	1,226	1,305	1,438	1,338	1,373	1,400	1,438
(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)												
Net foreign assets	-3,154	-21	1,390	597	330	-417	880	-35	-58	-259	-279	561
Foreign assets	-2,382	1,033	2,727	-1,463	775	-523	1,212	-210	-208	-232	-429	660
Foreign liabilities	772	1,008	1,338	-671	445	-106	332	-174	-150	27	-150	98
Net domestic assets	2,898	711	-616	-806	204	504	-518	466	41	417	398	-391
Net claims on central budgetary government	1,118	395	153	-182	118	-16	233	-9	-284	91	91	91
Net claims on commercial banks	1,205	270	-1,628	-1,401	-18	520	-728	475	324	326	307	-482
Other items, net (asset: +)	568	45	886	793	93	0	0	0	0	0	0	0
Jordanian dinar reserve money	-256	690	774	-209	535	87	362	546	552	613	646	779
Currency	191	315	319	23	182	1	113	303	292	321	335	404
Commercial banks' reserves	-447	375	455	-233	352	86	249	243	261	291	311	375
Memorandum items:												
Gross international reserves (GIR)	8765	10222	12612	10548	11641	10903	12612	12316	12318	11991	11385	12316
Gross usable international reserves ($ millions)	5,299	7,524	9,905	7,203	8,620	7,970	9,905	10,609	10,611	10,284	9,678	10,609
As a ratio to JD broad money (in percent)	19.2	23.8	30.8	25.2	28.6	25.9	30.8	30.0	32.2	30.4	28.1	30.0
As a ratio of JD reserve money (in percent)	71.8	90.1	117.0	101.7	110.0	100.2	117.0	116.9	125.7	118.7	109.6	116.9
Net international reserves (JD millions)	3,815	4,869	6,623	5,176	5,921	5,460	6,623	6,756	7,032	6,709	6,188	6,756
Net international reserves (USD millions)	5,381	6,867	9,341	7,300	8,351	7,701	9,341	9,529	9,918	9,462	8,728	9,529
Money multiplier (for JD liquidity)	3.74	3.79	3.80	4.03	3.97	3.87	3.80	3.90	3.90	3.90	3.90	3.90

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

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

2/ Non-Financial Public Enterprises and Social Security Corporation.

Table 5. Jordan: Indicators of Bank Soundness, 2005–13

	2005	2006	2007	2008	2009	2010	2011	2012	2013 June
	(In percent, unless otherwise indicated)								
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	19.3	19.0	17.9
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1159	1315	1336	1328
NPLs (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5	7.7	7.4
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3	69.4	74.8
NPLs net of provisions (in percent of equity)	5.1	2.8	4.3	5.7	10.6	12.6	13.4	8.3	6.7
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	143.5	144.2
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1	1.1	1.4
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3	8.6	10.4
FX-denominated loans to total loans ratio	11.1	10.2	9.7	12.8	11.6	11.8	11.4	12.9	13.4
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	29.1	25.8
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	71.4	69.3
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	15.1	14.5
Margin trading and financial services (share in total lo	5.1	6.2	7.2	7.1	6.9	5.8	5.3	4.6	4.1
Loans to GDP ratio (in percent of GDP)	86.8	91.4	93.1	83.7	78.7	77.0	77.4	81.1	76.5

Source: Central Bank of Jordan.

Table 6. Jordan: Access and Phasing Under the Stand-By Arrangement

Review	Availability Date	Action	Purchase Million SDR	Purchase Percent of Quota
	August 3, 2012	Board approval of SBA	255.75	150
First Review	December 3, 2012	Observance of end-September performance criteria, completion of first review	255.75	150
Second Review	September 3, 2013	Observance of end-June performance criteria, completion of second review	170.50	100
Third Review	December 3, 2013	Observance of end-September performance criteria, completion of third review	85.25	50
Fourth Review	March 3, 2014	Observance of end-December performance criteria, completion of fourth review	85.25	50
Fifth Review	June 3, 2014	Observance of end-March performance criteria, completion of fifth review	85.25	50
Sixth Review	September 3, 2014	Observance of end-June performance criteria, completion of sixth review	85.25	50
Seventh Review	December 3, 2014	Observance of end-September performance criteria, completion of seventh review	85.25	50
Eighth Review	March 3, 2015	Observance of end-December performance criteria, completion of eighth review	85.25	50
Nineth Review	May 15, 2015	Observance of end-March performance criteria, completion of nineth review	85.25	50
Tenth Review	July 15, 2015	Observance of end-May performance criteria, excluding the one on the combined balance, completion of tenth review	85.25	50
Total			**1364.00**	**800**

Source: IMF staff estimates
1/ Jordan's quota is SDR 170.5 million.

Table 7. Jordan: Indicators of Fund Credit, 2013–20

(In millions of SDR)

	2013	2014	2015	2016	2017	2018	2019	2020
Current SBA								
Disbursements	426.3	341.0	341.0	0.0	0.0	0.0	0.0	0.0
Stock 1/	682.0	1,023.0	1,332.0	1,140.2	767.3	383.6	106.6	0.0
Obligations 2/	2.3	16.6	59.0	220.9	398.1	393.5	279.9	107.1
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	373.0	383.6	277.1	106.6
Charges and interest	2.3	16.6	27.0	29.0	25.1	9.9	2.8	0.6
Stock of existing and prospective Fund credit 1/	682.0	1,023.0	1,332.0	1,140.2	767.3	383.6	106.6	0.0
In percent of quota	400.0	600.0	781.2	668.8	450.0	225.0	62.5	0.0
In percent of GDP	3.0	4.2	5.2	4.1	2.6	1.2	0.3	0.0
In percent of exports of goods and services	8.9	12.7	15.6	12.6	8.0	3.7	1.0	0.0
In percent of gross reserves	10.4	14.6	18.9	16.2	10.7	5.1	1.4	0.0
Obligations to the Fund from existing and prospective Fund arrangements	2.3	16.6	59.0	220.9	398.1	393.5	279.9	107.1
In percent of quota	1.4	9.7	34.6	129.5	233.5	230.8	164.1	62.8
In percent of GDP	0.0	0.1	0.2	0.8	1.3	1.2	0.8	0.3
In percent of exports of goods and services	0.0	0.2	0.7	2.4	4.1	3.8	2.6	0.9
In percent of gross reserves	0.0	0.2	0.8	3.1	5.5	5.3	3.7	1.4

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

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations

Table 8. Jordan: Capacity to Repay Indicators, 2013–18

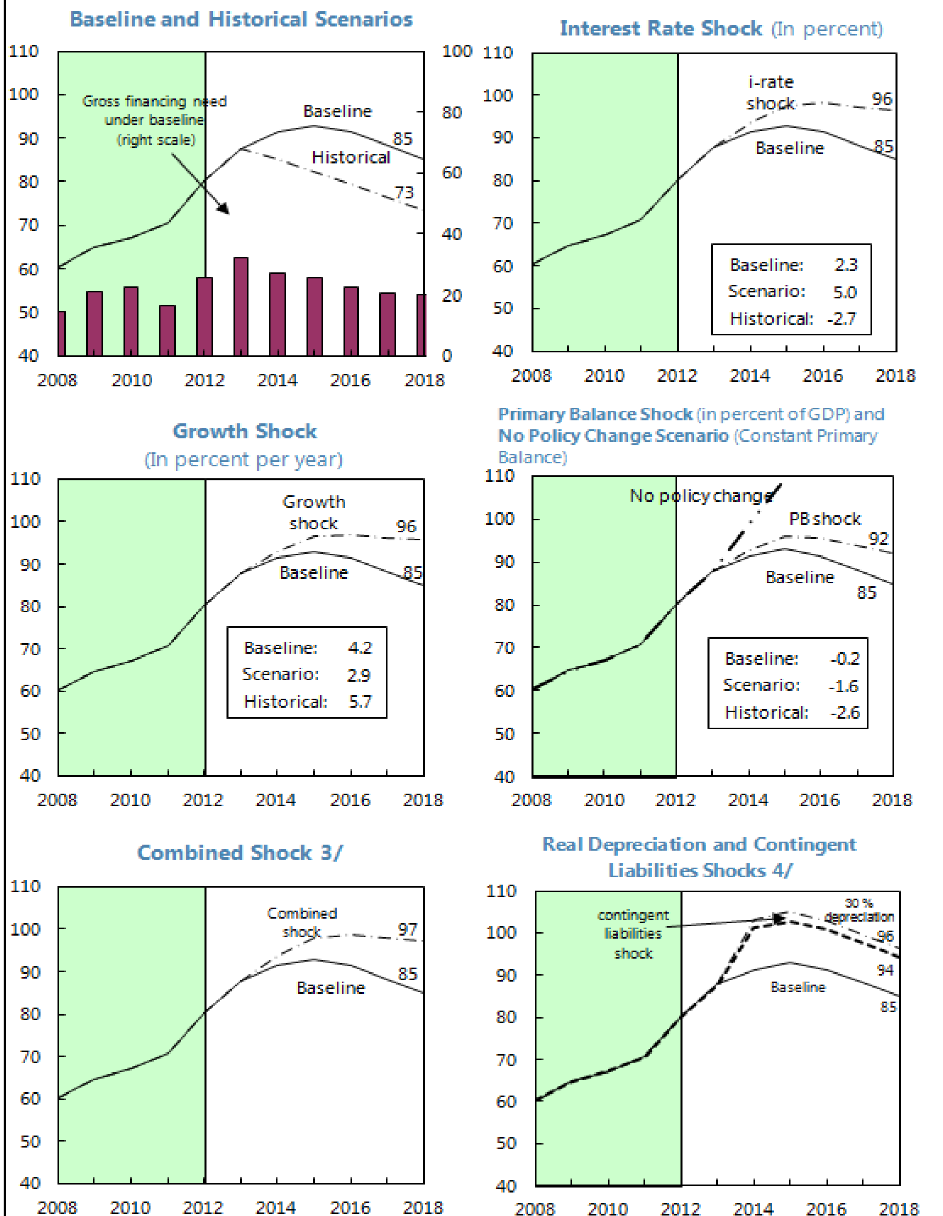
	2013	2014	2015	2016	2017	2018
Exposure and Repayments (In millions of SDR)						
GRA credit to Jordan	682.0	1,023.0	1,332.0	1,140.2	767.3	383.6
(In percent of quota)	400.0	600.0	781.2	668.8	450.0	225.0
Debt service on GRA credit	2.3	16.6	59.0	220.9	398.1	393.5
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	373.0	383.6
Charges and interest	2.3	16.6	27.0	29.0	25.1	9.9
Debt and debt service ratios						
(In percent of GDP)						
Total external government and government-guaranteed debt	24.5	26.0	25.2	25.0	25.4	25.8
Excluding proposed IMF	21.4	21.7	20.0	20.9	22.8	24.6
GRA credit to Jordan	3.0	4.2	5.2	4.1	2.6	1.2
Total external government and government-guaranteed debt service	2.6	2.0	4.6	2.9	2.7	4.1
Excluding proposed IMF	2.6	1.9	4.4	2.1	1.3	2.8
GRA debt service	0.0	0.1	0.2	0.8	1.3	1.2
(In percent of exports of goods and services)						
Total external government and government-guaranteed debt	71.5	77.7	76.2	76.4	78.1	79.4
Excluding proposed IMF	62.6	65.0	60.6	63.8	70.1	75.7
GRA credit to Jordan	8.9	12.7	15.6	12.6	8.0	3.7
Total external government and government-guaranteed debt service	7.7	5.9	14.1	8.9	8.2	12.5
Excluding proposed IMF	7.7	5.7	13.4	6.4	4.1	8.7
GRA debt service	0.0	0.2	0.7	2.4	4.1	3.8

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

Annex I. Public Debt Sustainability Analysis

Jordan: Public Debt Sustainability: Bound Tests 1/ 2/

(Public debt in percent of GDP)



Sources: International Monetary Fund; country desk data; and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2014, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Jordan: Public Sector Debt Sustainability Framework, 2008–18
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	60.2	64.8	67.1	70.7	80.2	**87.7**	**91.3**	**93.0**	**91.3**	**88.2**	**85.0**	**-1.1**
o/w foreign-currency denominated	23.3	22.9	24.6	21.9	22.5	24.5	26.0	25.2	25.0	25.4	25.8	
Change in public sector debt	-13.5	4.5	2.3	3.6	9.4	7.6	3.6	1.7	-1.7	-3.1	-3.2	
Identified debt-creating flows (4+7+12)	-13.9	3.1	-0.8	1.1	4.1	7.8	1.9	0.4	-2.5	-3.7	-3.7	
Primary deficit	2.0	6.6	3.5	4.7	6.2	11.2	3.9	2.1	-0.6	-2.0	-2.6	
Revenue and grants	30.1	26.5	24.9	26.4	23.0	25.3	27.4	27.1	28.1	28.3	28.8	
Primary (noninterest) expenditure	32.1	33.1	28.3	31.1	29.3	36.5	31.3	29.1	27.5	26.3	26.2	
Automatic debt dynamics 2/	-13.9	-2.4	-4.3	-3.6	-2.1	-3.4	-2.0	-1.6	-1.9	-1.7	-1.1	
Contribution from interest rate/growth differential 3/	-14.0	-2.4	-4.3	-3.5	-2.1	-3.4	-2.0	-1.6	-1.9	-1.7	-1.1	
Of which contribution from real interest rate	-9.8	0.7	-2.9	-1.9	-0.4	-1.0	0.8	1.8	2.0	2.2	2.6	
Of which contribution from real GDP growth	-4.2	-3.0	-1.4	-1.6	-1.7	-2.4	-2.8	-3.4	-3.9	-3.8	-3.7	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	-1.9	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-1.9	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.3	1.5	3.2	2.5	5.3	-0.2	1.7	1.3	0.9	0.5	0.5	
Public sector debt-to-revenue ratio 1/	200.3	244.7	270.0	267.5	348.4	346.2	333.2	343.6	325.3	311.2	295.7	
Gross financing need 6/	14.5	21.1	22.6	16.6	25.6	32.3	27.0	25.6	22.7	20.7	19.8	
in billions of U.S. dollars	3.2	5.0	6.0	4.8	7.9	10.9	9.9	10.0	9.5	9.3	9.4	
Scenario with key variables at their historical averages 7/						**87.7**	**85.2**	**82.3**	**79.3**	**76.2**	**73.3**	**-5.8**
Scenario with no policy change (constant primary balance) in 2013-2018						**87.7**	**98.6**	**109.2**	**119.0**	**128.5**	**138.5**	**-1.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.2	5.5	2.3	2.6	2.7	3.3	3.5	4.0	4.5	4.5	4.5	
Average nominal interest rate on public debt (in percent) 8/	4.2	4.2	3.6	3.4	4.0	4.7	5.4	5.0	4.9	4.9	5.4	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-15.7	1.3	-4.8	-3.0	-0.5	-1.1	1.2	2.2	2.4	2.6	3.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	-0.1	0.0	0.1	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	19.9	2.8	8.4	6.4	4.5	5.9	4.2	2.8	2.5	2.2	2.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	8.7	-12.4	12.8	-3.5	28.8	-11.2	-3.2	-1.4	0.1	3.8	
Primary deficit	2.0	6.6	3.5	4.7	6.2	11.2	3.9	2.1	-0.6	-2.0	-2.6	

1/ Public debt is defined as central government and government guaranteed gross debt.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes NEPCO and WAJ debt.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

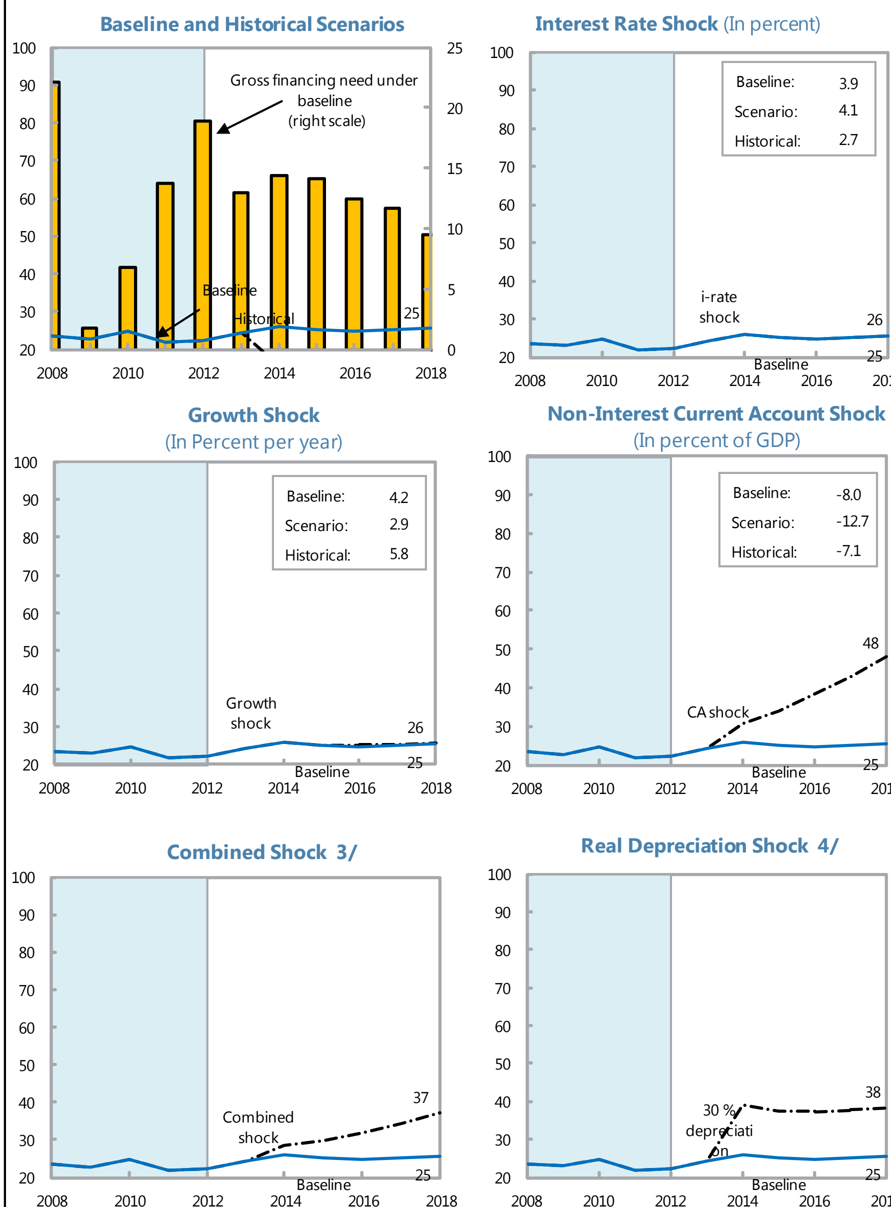
8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Annex II. External Debt Sustainability Analysis

Figure 1. Jordan: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund; Country desk data; and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2010.

Table 1. Jordan: External Debt Sustainability Framework, 2008–18
(In percent of GDP, unless otherwise indicated)

	Actual								Projections						
	2007	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	43.3	23.4	22.9	24.6	21.9	22.3			**24.3**	**25.9**	**25.0**	**24.8**	**25.1**	**25.4**	**-5.3**
2 Change in external debt	-5.3	-19.9	-0.5	1.7	-2.7	0.4			2.0	1.6	-0.9	-0.2	0.4	0.3	
3 Identified external debt-creating flows (4+8+9)	-4.1	-13.1	-8.4	-3.1	5.0	10.8			5.2	6.9	3.1	1.9	1.3	0.9	
4 Current account deficit, excluding interest payments	15.4	8.3	2.6	4.7	11.4	16.7			10.4	12.3	8.6	7.3	6.4	5.6	
5 Deficit in balance of goods and services	37.5	31.0	23.2	21.3	28.3	32.2			30.2	27.2	23.7	22.1	21.0	20.1	
6 Exports	54.2	56.5	45.9	47.8	45.6	42.3			39.2	37.4	36.0	34.7	33.6	32.7	
7 Imports	91.8	87.6	69.1	69.1	73.9	74.5			69.4	64.6	59.6	56.7	54.6	52.8	
8 Net non-debt creating capital inflows (negative)	-15.0	-12.8	-9.9	-6.1	-5.0	-4.8			-5.2	-5.2	-5.2	-5.2	-5.1	-5.1	
9 Automatic debt dynamics 1/	-4.4	-8.7	-1.2	-1.7	-1.5	-1.1			-0.1	-0.2	-0.3	-0.2	0.0	0.4	
10 Contribution from nominal interest rate	1.4	0.9	0.6	0.6	0.6	0.5			0.6	0.6	0.6	0.8	1.1	1.5	
11 Contribution from real GDP growth	-3.5	-2.4	-1.2	-0.5	-0.6	-0.6			-0.7	-0.8	-1.0	-1.0	-1.0	-1.1	
12 Contribution from price and exchange rate changes 2/	-2.3	-7.2	-0.6	-1.8	-1.5	-1.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-1.2	-6.8	8.0	4.8	-7.7	-10.4			-3.2	-5.3	-4.0	-2.1	-1.0	-0.6	
External debt-to-exports ratio (in percent)	79.9	41.3	49.9	51.4	48.0	52.7			62.0	69.1	69.5	71.4	74.7	77.7	
Gross external financing need (in billions of US dollars) 4/	3.4	4.9	0.4	1.8	4.0	5.9			4.4	5.3	5.6	5.2	5.3	4.6	
In percent of GDP	20.1	22.1	1.8	6.8	13.7	18.9	10-Year	10-Year	13.0	14.4	14.2	12.4	11.7	9.4	
Scenario with key variables at their historical averages 5/									**24.3**	**15.5**	**8.7**	**4.2**	**1.0**	**-1.6**	**-9.5**
Key Macroeconomic Assumptions Underlying Baseline							Historical Average	Standard Deviation							
Real GDP growth (in percent)	8.2	7.2	5.5	2.3	2.6	2.8	5.8	2.6	3.3	3.5	4.0	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	5.1	19.8	2.8	8.4	6.4	5.1	6.6	5.4	5.7	4.0	3.2	2.6	2.5	2.4	
Nominal external interest rate (in percent)	3.2	2.8	2.9	2.8	2.7	2.7	2.7	0.3	2.8	2.5	2.7	3.5	4.7	6.2	
Growth of exports (US dollar terms, in percent)	14.4	33.9	-11.9	15.6	4.1	0.3	12.0	13.1	1.3	2.7	3.1	3.3	3.9	4.2	
Growth of imports (US dollar terms, in percent)	18.7	22.6	-14.4	10.9	16.8	9.0	14.5	13.2	1.7	0.1	-0.9	2.0	3.2	3.4	
Current account balance, excluding interest payments	-15.4	-8.3	-2.6	-4.7	-11.4	-16.7	-7.1	9.4	-10.4	-12.3	-8.6	-7.3	-6.4	-5.6	
Net non-debt creating capital inflows	15.0	12.8	9.9	6.1	5.0	4.8	9.6	5.5	5.2	5.2	5.2	5.2	5.1	5.1	

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

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

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

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 2. Jordan: External Sustainability Framework: Gross External Financing Need, 2008–18

	Actual					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
						I. Baseline Projections					
Gross external financing need in billions of U.S. dollars 1/	4.9	0.4	1.8	4.0	5.9	4.4	5.3	5.6	5.2	5.3	4.6
In percent of GDP	22.1	1.8	6.8	13.7	18.9	13.0	14.4	14.2	12.4	11.7	9.4
						II. Stress Tests					
Gross external financing need in billions of U.S. dollars 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2013-2018 3/						4.4	3.3	4.0	3.9	4.1	4.3
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						4.4	5.3	5.6	5.3	5.3	4.6
B2. Real GDP growth is at baseline minus one-half standard deviations						4.4	5.2	5.5	5.1	5.1	4.3
B3. Non-interest current account is at baseline minus one-half standard deviations						4.4	7.1	8.2	8.3	9.0	8.3
B4. Combination of B1-B3 using 1/4 standard deviation shocks						4.4	6.2	6.8	6.7	7.0	6.3
B5. One time 30 percent real depreciation in 2014						4.4	5.3	5.6	5.2	5.3	4.5
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2013-2018 3/						13.0	8.6	9.2	8.1	7.4	7.0
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						13.0	14.4	14.2	12.5	11.8	9.5
B2. Real GDP growth is at baseline minus one-half standard deviations						13.0	14.4	14.2	12.5	11.8	9.5
B3. Non-interest current account is at baseline minus one-half standard deviations						13.0	19.4	20.8	19.8	20.0	17.2
B4. Combination of B1-B4 using 1/4 standard deviation shocks						13.0	16.9	17.5	16.2	16.0	13.4
B5. One time 30 percent real depreciation in 2014						13.0	21.8	21.4	18.8	17.7	14.2

1/ Defined as non-interest current account deficit, plus interest and amortization on medium- and long-term debt, plus short-term debt at end of previous period.
2/ Gross external financing under the stress-test scenarios is derived by assuming the same ratio of short-term to total debt as in the baseline scenario and the same average
3/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Appendix. Letter of Intent

Ms. Christine Lagarde Amman, October 29, 2013
Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Ms. Lagarde:

Our economy continues to be hit hard by exogenous shocks and the external environment has been worse than we expected when the first review of our IMF-supported program was completed in April 2013. The Syrian crisis is ever more encroaching on our economy and we expect that spillovers could become more pronounced should the conflict escalate further. Moreover, gas flows came to a halt in early July after the pipeline was sabotaged and uncertainties remain high. While donors have provided additional assistance, further external grants will likely be needed to help mitigate new pressures on the fiscal accounts and public debt.

Despite the challenging external environment, our performance under the program has been strong:

- *Quantitative performance criteria and indicative targets.* We met the end-June 2013 quantitative performance criteria on net international reserves (by a wide margin) and the electricity company (NEPCO) losses as well as the indicative targets on the net domestic assets of the Central Bank of Jordan and the stock of accounts payable of the central government. The indicative target on NEPCO's stock of arrears was missed, but, nonetheless, NEPCO's underlying performance was in line with projections. We also missed the end-June 2013 performance criterion on the primary central government fiscal balance because the central government had to unexpectedly take over the debt payments for public utilities; without these payments, we would have met the performance criterion. We met the end-September 2013 performance criterion on net international reserves, but we estimate that two end-September performance criteria have not been met—on the central government primary fiscal deficit (because of debt payments on behalf of the utilities) and on NEPCO's operating losses (because of the disruption in Egypt gas flows). We met the continuous performance criterion on non-accumulation of external arrears. We are taking corrective action by implementing strategies which will reduce the losses of the utilities over the medium term.

- *Structural benchmarks.* We met important structural benchmarks, although with a delay: we have announced a medium-term energy strategy and also signed a floating storage and re-gasification unit leasing agreement. While we have made substantial progress in tax administration, our targets on improving taxpayer filing compliance fell short of the agreed targets. With the help of IMF technical assistance, we established the stock of central government arrears as of end-2012 and put in place a quarterly reporting system. The licensing of the first credit bureau, though, has been delayed to end-2013 because the private firm intending to establish the bureau unexpectedly postponed the request for the license. Also, the implementation of an income tax law yielding revenue of one percent of GDP has been delayed, but we intend to fast-track the law through parliament.

In view of our strong performance so far in 2013 as well as further strong policy measures for 2014, we request waivers of non-observance of the missed September performance criteria on the central government primary fiscal deficit and on NEPCO's net losses and completion of the second review under the Stand-By Arrangement and approval of the related purchase. We also request a modification of December 2013 performance criteria; and propose setting performance criteria for end-March 2014, as described in the MEFP (Table 1b) and the TMU attached to this letter.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic policies that we intend to implement to achieve the objectives of our economic program of preserving macroeconomic stability and fostering inclusive growth. We believe that these policies are adequate to meet the program goals, but we stand ready to take further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will also provide the Fund with the data and information necessary to monitor performance under the program.

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

Sincerely,

/s/ /s/

Umayya Toukan
Minister of Finance

Ziad Fariz
Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

Jordan has been facing pressures from a difficult external environment, which have strained our fiscal and external balances. These pressures have intensified recently as a result of developments in Egypt and Syria. To face these pressures and to keep the fiscal and external balances on a sustainable path, we have implemented significant measures, which reduced the fiscal deficit and boosted international reserves, providing an important buffer for our economy. Notable among these measures is the bold and carefully-designed energy strategy, including the electricity tariff increases which started in mid-August. This strategy will reduce the deficit of our national electricity company, NEPCO, while protecting the poor. We remain committed to implementing socially acceptable measures to achieve our program objectives, in particular boosting growth and lowering unemployment. We describe below macroeconomic developments and our policy response this year as well as our program for 2014.

BACKGROUND

1. The external environment continues to pose significant challenges. The first half of 2013 was favorable as it saw a drop in international fuel prices and slightly higher-than-expected gas flows from Egypt. This, along with the impact of 2012 energy measures on consumption, helped reduce energy imports, and with it, NEPCO's mid-year deficit. However, international fuel prices have spiked in response to escalating tensions in the region and gas flows came to a halt during July–September after a sabotage of the pipeline. If sustained, these developments could result in pressures on the balance of payments and the fiscal position. At the same time, the conflict in Syria continues to weigh on Jordan, which is currently hosting 600 thousand registered refugees. We believe that the number of unregistered refugees is substantially higher. Such a humanitarian crisis is putting increasing pressure on the central government budget in the form of increased spending on health, education, and security. On the positive side, our bilateral partners, including the GCC, continued to support Jordan with an additional $600 million in grants received in the second quarter of 2013, following a disbursement of $1.2 billion earlier in the year. We also twice this year successfully issued domestic dollar-denominated bonds, amounting to $1.15 billion. In addition, we issued in October a Eurobond of $1.25 billion guaranteed by the U.S. government, which will help us cover, at favorable terms, part of our fiscal and external financing needs.

2. Economic performance has improved. Largely driven by services and construction, GDP growth picked up to 2.8 percent in the first half of 2013. At the same time, private sector credit growth has been gradually recovering, registering 7.6 percent year-on-year in August, up from its nadir in February of 5.3 percent. Financial markets have been calm, with the stock market remaining stable, and spreads further narrowing following the formation of the new Jordanian government. Significant increases in food and rental prices in the first half of the year were likely driven by increased demand from the Syrian refugees. Headline CPI inflation decelerated to 5.0 percent year-on-year in August from 6.5 percent in December 2012, reflecting lower international oil prices. In addition, lower energy imports helped narrow the current account deficit in the first half of 2013 to 3.7 percent of GDP compared to 11.8 percent of GDP in the first half of 2012.

3. We continued to implement sound policies that are underpinning Jordan's economic recovery:

- **Fiscal policy.** Largely reflecting tax arrears incurred by the refinery, domestic revenue came in lower than our target for the first half of the year by 0.6 percent of GDP. At the same time, the government kept overall expenditure tight, thanks mostly to selective cuts in non-priority domestically-financed capital projects. Given the inability of NEPCO and the water company to raise financing on their own, we had to take over their debt repayments in the amount of 0.5 percent of GDP. This prevented us from meeting the end-June performance criterion (PC) on the central government's primary fiscal deficit, but we met the indicative target on its accounts payable. Excluding the debt takeover for the utilities, we would have met the PC.

- **Structural fiscal measures.** We have made noticeable progress in this area. With the help of Fund technical assistance (TA), we quantified the end-2012 stock of arrears of line ministries and established a quarterly reporting system to deter their recurrence (June 2013 benchmark). Regarding tax administration, filing compliance has improved significantly, although both the Large and the Medium Taxpayer Offices came somewhat short of their targets for May (June 2013 benchmark), but we are continuing our efforts in this area. We have missed the benchmark on the implementation of an income tax law yielding one percent of GDP in revenue, but will fast-track the law through parliament (see paragraph 17).

- **Energy policy.** Thanks to the increased gas inflows from Egypt and lower international fuel prices during the first half of the year, NEPCO was able to meet the end-June PC on its operating losses. However, reflecting difficulties in raising domestic bank financing, the company did repay less arrears to suppliers than had been planned, breaching its indicative target by 0.5 percent of GDP. Amidst a difficult domestic and regional environment, we have recently taken the bold action of increasing electricity tariffs in selected sectors, while protecting households, the critical agricultural sector and small and medium-size enterprises. After extensive consultations with parliament, we also announced a medium-term energy strategy (September 2012 benchmark), which will return NEPCO to cost recovery by 2017. As outlined in our MEFP of April 2013, the strategy incorporates a path of equitable tariff increases in the coming years and relies on bringing on stream alternative energy sources. In regard to the latter, we have recently signed the lease agreement for the floating storage and re-gasification unit of the forthcoming LNG terminal in Aqaba (benchmark for June 2013).

- **Monetary policy.** A prudent monetary policy, continued de-dollarization, the issuance of government dollar-denominated bonds twice this year, as well as higher-than-expected foreign financing and an improvement in the current account helped the Central Bank of Jordan (CBJ) to build up reserves. As a result, we met the end-June PC on net international reserves (NIR) by a large margin, as well as the indicative target on net domestic assets of the CBJ. Since June, reserve buildup has continued and NIR reached US$ 9,729.7 million as of October 21. To support access to credit, we are helping a private firm to complete the final technical steps for the licensing of the first credit bureau (end-June benchmark) and expect it to be licensed by end-2013.

PROGRAM OBJECTIVES AND ECONOMIC OUTLOOK

4. We expect the macroeconomic outlook to evolve as follows:

- **Growth.** We forecast GDP growth at about 3.3 percent in 2013 and 3.5 percent in 2014, supported by higher public and private sector capital spending, improvements in the construction sector, higher consumption—also induced by the Syrian refugees— and solid tourism seasons. Growth would gradually increase over the medium term, converging to 4½ percent by 2016, thanks to: (1) continued infrastructure investments; (2) increased investor confidence brought about by our commitment to keeping our national economic program on track; (3) implementation of growth-enhancing structural reforms, including those aimed at improving transparency and governance; and (4) the expectation of reduced regional uncertainties.

- **Inflation.** Inflationary pressures following the fuel price increases of November last year have now abated. We also expect only very limited pressures on prices from the selected electricity tariff increases implemented in August, and those that are planned for next year. As a result, we forecast end-of-period consumer price inflation to decelerate from 6.5 percent in December last year to about 3 percent by end-2013 and 2.4 percent by end-2014. Over the medium term, we expect inflation to converge to about 2 percent, aided by a moderation in food and fuel prices.

- **Current account.** We expect the external current account deficit (including grants) to improve substantially to 11–12 percent of GDP in 2013 and 2014 from 16.8 percent in 2012, in part helped by lower energy imports. Our continued prudent macroeconomic policies and the diversification of energy sources, starting in mid-2015 with the LNG terminal becoming operative, would gradually bring the current account deficit to about 7 percent of GDP over the medium term.

ECONOMIC POLICIES

5. The objectives of our program remain threefold:

- **Maintaining macroeconomic stability**. Economic prosperity and improved standards of living cannot be sustained without economic stability. To that end, we will continue to undertake reforms and appropriate macroeconomic policies to reduce fiscal and external vulnerabilities. As part of this effort, we remain committed to implementing a medium-term energy strategy to bring NEPCO and other utilities back to cost recovery. We are also preparing contingency plans should adverse external shocks materialize.

- **Fostering equity and inclusion.** This includes better targeted subsidies for the vulnerable parts of the population while eliminating subsidies for those with a higher ability to pay. In this regard, we have already substituted generalized fuel subsidies with targeted cash transfers. We are now tackling electricity and food subsidies—gradually eliminating them for those who are well-off, while safeguarding the poorer segments of the population.

- **Removing structural constraints on growth.** This involves improving the investment climate, including by removing impediments to access to finance for viable businesses, and making sure that investors are protected, contracts are honored, and regulations are transparent. It also involves equipping our youth with the skills needed to find good jobs and giving businesses incentives to hire them. We will also continue to support small and medium-size enterprises (SMEs)—key vehicles for growth and employment creation.

A. Public Finances

6. **Against the backdrop of a difficult external environment, we are committed to keeping our public finances on a sustainable path**. This year has been challenging with spillovers from the ongoing Syrian crisis and the temporary suspension of gas supplies from Egypt. These shocks, which are outside of our control, have put pressure on the finances of both the central government and our national electricity company, NEPCO. Nevertheless, we are adhering to our agreed general (i.e., central government and NEPCO) government target in 2013 with the exception of temporary slippages in 2013 due to lower gas supplies from Egypt. For 2014, we will steadfastly continue our consolidation path, though at a somewhat slower pace to accommodate the impact of higher oil prices on NEPCO losses and to allow for higher spending on medical funds, which have incurred additional costs mostly reflecting the Syria crisis. As a result, we target a combined consolidated target—central government primary balance (excluding transfers to utilities) plus NEPCO operating losses—of 8.3 percent of GDP in 2014 (from 9.8 percent of GDP in 2013 excluding the recent gas shock (see next paragraph). This continued consolidation is necessary because otherwise public debt will keep rising, which ultimately current and future generations of Jordanians will have to pay for.

7. **Recent developments in Egypt have complicated our situation.** The suspension of gas supplies from Egypt during July–September could increase NEPCO's operating losses by up to 1.3 percent of GDP this year, and, if gas will be suspended again in 2014, has the potential to increase losses in 2014 by as much as two percent of GDP. The Egyptian authorities have provided us with assurances that they will do their utmost to provide gas inflows as agreed. To help ensure our debt remains on a firmly downward path, we will seek donor support to help finance these and any other unexpected exogenous shocks to our program.

8. **The Syria crisis is putting pressures on the fiscal accounts.** We estimate the fiscal costs of assistance to Syrian refugees to be well above one percent of GDP in 2013 and 1.4 percent of GDP 2014, which are covered by the central government, medical funds, as well as NEPCO and the water companies. We, however, believe that this number substantially underestimates the true costs, as much of these are indirect, e.g. through crowding out Jordanians from public services such as health and education and increasing private sector prices for these services. We are continuing to work with donors to generate estimates of such indirect costs.

9. We are taking steps to manage the central government and the utilities on a more consolidated basis. The central government this year had to take on not only the financing of NEPCO's losses, but also debt payments of NEPCO and the water companies. This reflects the utility companies' increasing difficulties in accessing new financing and rolling over existing debt because banks have a preference in dealing directly with the central government. This has made it difficult to manage the central government within program ceilings; and although this has no direct impact on our macroeconomic framework, it will affect our performance against the technical PC on the central government primary deficit**.** As discussed above, the end-June PC was missed (see ¶3 above) and we estimate to also miss the end-September PC, because of unexpected transfers to NEPCO and the Water Authority of Jordan (WAJ) to repay their maturing debt, and also part of WAJ operating losses. Excluding these transfers, we would have met both end-June and end-September PCs. We are requesting waivers for these PCs because we are taking corrective measures to address the utilities' losses. The end-December 2013 PCs will now need to be adjusted and redesigned to reflect these developments (see next paragraph). To improve coordination between the ministry of finance and NEPCO, we will empower the ministry of finance by setting up quarterly reporting system for NEPCO's losses and scheduled debt repayments. Based on these reports, the ministry will make monthly transfers to NEPCO. To facilitate arrears repayments and prevent future accumulation, transfers from the ministry to NEPCO will meet in full NEPCO's reported net loss and debt repayments falling due, including both amortization of principal and interest. We will also establish a macro-economic unit in the ministry by March 2014, which will enable us to improve the monitoring of our overall fiscal program.

10. To better measure consolidated performance, we are changing the design of the fiscal program. We propose to change the two fiscal PCs from December 2013 onward. The first PC measures the consolidated central government primary deficit and NEPCO losses (i.e., excludes any cross-government transfers) to better capture the macroeconomic impact of the general government. The second PC measures the central government only and excludes transfers to NEPCO and WAJ.

Central government

11. There have been no slippages in the central government's implementation of the budget. The central government has steadfastly adhered to all of its commitments. In fact, at every instance we have gone beyond what was agreed in the program to offset higher-than-programmed NEPCO losses. Underpinning these efforts in the remainder of 2013 and 2014 is the implementation of the income tax law and the reform of our subsidy programs. These efforts, together with policies to bring NEPCO to cost recovery, will put our public debt squarely on a downward path.

2013

12. Central government finances are expected to stay in line with expectations. The primary balance—excluding transfers to utility companies for losses and debt service—will be at 5.4 percent of GDP in line with the program. Revenue is projected to pick up in the second half of the year, reflecting the payment of tax arrears by the refinery and the implementation of a mobile phone tax in early July (with a full year revenue impact of 0.4 percent of GDP). Cuts will be done in low-priority domestically-financed capital spending to help compensate for the slightly lower-than-expected revenue, NEPCO's higher operating losses from lower-than-expected tariff increases, and a higher food subsidy. This was done only as a last resort, as there was little time left in the year to implement meaningful expenditure reform. We will strive in the future to refrain from such cuts. Economic activity will be safeguarded as we continue to implement a wide range of growth-enhancing capital projects financed by GCC grants.

13. We are working to make our widely-successful cash transfer program more targeted. To ensure that only those who need support get it, we are working to modify the application criteria to include other welfare variables in addition to income, such as ownership of land, buildings, cars, and some other identifiable assets. We have already established a database in the Income and Sales Tax Department (ISTD), which we are regularly updating. Based on the database, a national unified registry for better targeting of subsidies is expected to be operational in a new "program unit" in the ISTD by late October (an October 2013 structural benchmark).

14. We have reviewed with the major ministries whether there has been any accumulation of arrears and will continue to follow up with them on a quarterly basis (end-June benchmark). The stock of arrears of line ministries is estimated at JD 320 million at end-2012 and JD 370 million at end-June 2013, reflecting mostly arrears related to the medical insurance funds—which have been accumulated over the last several years—and to land acquisition for a large railway project. Regarding the insurance funds, we have agreed with the medical funds on a repayment schedule over the next five years which is included in the health ministry allocations under the program. Regarding land acquisition, we have stopped payments until a feasibility study for the railway project has been designed with assistance from the World Bank.

2014

15. The 2014 budget aims for more equity and a more efficient use of public funds. We envisage increasing capital spending and providing an additional allocation to the medical funds of 0.7 percent of GDP, of which 0.3 percent of GDP will be used for clearing arrears. At the same time, we will reduce the central government's deficit by one percent of GDP to make room for more private sector credit, with positive implications for investment and growth. This adjustment will bring the central government primary balance—excluding transfers to utility companies for losses and debt service—to the programmed level of 4.5 percent of GDP. To this end, we need 1.8 percent of GDP in measures. We have already approved a package of measures yielding 0.8 percent of GDP with the remaining measures of one percent of GDP to be approved by December 15 (new benchmark). We will submit the 2014 draft budget in line with program understandings to parliament by December 15, 2013 (new benchmark).

16. The cabinet has approved measures of 0.8 percent of GDP, focused on those with the ability to pay. These measures will be implemented as part of the 2014 budget.

- Following the successful fuel subsidy reform, we plan to reform the general food subsidy on wheat flour; a reform that was not originally included in the program. A blanket food subsidy is currently paid for wheat flour, which has led to much abuse, including smuggling of wheat across the borders and feeding flour to cattle. With the 2014 budget, we will replace the general subsidy with cash transfers of about JD 20 per person each year for all Jordanians who will apply for the program. We will use the same mechanism as the one we are using for the fuel cash transfer, for which eligible Jordanian will have to apply. This step is expected to yield savings of about JD 75 million (0.3 percent of GDP). We intend to further improve the targeting of this subsidy when the unified registry of targeting of subsidies is in place. We are also exploring with banks the possibility of distributing the subsidy through cash bank cards. However, this reform could take us longer than planned. If we cannot implement it with the 2014 budget, we will raise on January 1 fees for foreigner's residence and work permits, diplomatic services, and visas, which we expect to raise the same amount.

- Based on our work on a unified registry for targeting subsidies (see paragraph 13), we will provide the fuel subsidy in 2014 not only based on income but also other wealth indicators, so that it goes to those who truly need (savings of 0.2 percent of GDP).

- There will be savings of 0.1 percent of GDP by not including in the 2014 budget any payments related to land acquisition (see paragraph 14).

- The 2014 budget will reduce by 15 percent transfers to the 61 independent agencies (savings of 0.2 percent of GDP); these agencies will not be able to spend beyond their allocations because we are strengthening public financial management.

- We are expecting savings in pensions because fewer people will be eligible in 2014, following lump-sum payments in 2013 (0.1 percent of GDP).

17. We will submit to parliament the new income tax law in early November, which we intend to fast track. The law will make the tax burden more equitable. It is expected to yield one percent of GDP in new revenue, while focusing on efficiency, and simplicity of taxation. It will also ensure that those who are relatively well off pay their fair share, while those with modest incomes remain protected. Specifically, the law envisages, among other things, a reduction in personal income tax thresholds and an increase in the top personal and corporate tax rates to 25 percent and 35 percent, respectively. We will do our best to ensure that the law is approved by parliament and will become effective for 2014. If parliament has not approved the law by mid-December or the final law does not yield the revenue we expected, we will adopt additional measures so as to meet the deficit target.

Fiscal structural measures

18. A better conduct of structural fiscal policy is conducive to fostering equity, a key objection of our program. Equity entails a level playing field for businesses and citizens, one aspect of which manifests itself in more transparency in formulating regulations and disseminating information. At the same time, better administration of fiscal revenue could generate savings which, in turn, can be put to productive use benefiting all of the Jordanian population.

19. In this regard, we will continue with PFM reforms to help improve the management of our budget. Specifically**,**

- We have established a task force for monitoring and reporting arrears provided by the ministries. This task force will by end-November (i) review and audit the arrears data accumulated until end-September 2013 (by quarter) and produce a consolidated arrears report quarterly from details reported from GFMIS and the financial position statements; (ii) review and quantify all cancelled invoices as of end-2012 due to lack of cash financing at the year-end; (iii) amend GFMIS so that a compulsory drop-down text field is added to the cancelled invoice screen in order to identify unfinanced cancellations; and (iv) create a new GFMIS report to show all those canceled invoices.

- We will continue to improve our commitment control system. We need to ensure that when ministries and other budget institutions enter into contracts or other commitments, sufficient unencumbered cash balances are available, or likely to be available, at the time of their payments. To this end, we will authorize the ministry of finance to issue general and special orders below the approved budget (and consequently to allow the budget units to only commit against those general and special orders and not against the annual budget appropriation) in the 2014 budget law submitted to the parliament.

20. Better revenue administration is a critical complement to our tax policy changes. We are further improving revenue administration based on recent IMF TA recommendations. Mostly because the taxpayer coverage was not clearly distributed between the large taxpayer office (LTO), medium taxpayer offices (MTO) and small taxpayer offices (STO), we missed the end-May structural benchmark on filing compliance. We are thus in the process of re-stratifying taxpayers into the LTO, MTOs, and

STOs based on turnovers, total income, and legal status; and aim to complete this process by end-2013. We expect that this will enable us to lift the re-stratified LTO and MTO filing compliance to 100 percent and 80 percent, respectively, by the end of the next filing season (May 2014). To get a better estimate of tax arrears, we have conducted a survey for cases over JD 500,000 and classified them by collectability and already established a new court collection unit in the ISTD, which will follow up on these. We have also started to implement an improved audit strategy with a focus on smaller but more intense coverage. Therefore, we will audit in depth the top 3 percent high-risk taxpayers based on the 2012 tax filing by April 2014. Finally, we will develop a compliance improvement program for the medical sector by the LTO by June 2014, because this is a major sector with low compliance on tax.

Energy policy

21. Because of the temporary disruption in Egyptian gas supplies, we expect NEPCO to exceed the targets on its operational losses for the remainder of 2013. The gas shortfalls have forced us to buy mostly expensive diesel at a time when the oil price had substantially increased. As a result, we expect additional losses for NEPCO of up to 1.3 percent of GDP, resulting in overall losses of 5.7 percent of GDP in 2013. We also estimate that we will not meet the end-September 2013 target. We are requesting a waiver for the nonobservance of the end-September PC, given that we are implementing an energy strategy to return NEPCO to cost recovery over the medium term.

22. We are proactively addressing the risks from fuel supply fluctuations. If gas flows stay below the programmed level by end-2013, we will impose a temporary tariff surcharge in early January 2014 (at the time when other tariff increases are planned) and/or compensatory fiscal measures provided by the central government to cover at least some of the additional costs for NEPCO.

23. We will also address NEPCO's arrears. To this end, we have concluded an agreement with the Islamic Development Bank (IsDB) to provide financing of $328 million in 2013. The government will contract the debt, but the proceeds will be disbursed in-kind to directly to the refinery.[1] In exchange, the refinery will reduce NEPCO's obligations (giving priority to clearing arrears) by a corresponding amount.

24. We are forcefully implementing our recently announced energy strategy. As described in our MEFP of April 2013, the strategy will return NEPCO to cost recovery by 2017, reduce Jordan energy dependency, and diversify energy source to better hedge against external risks.[2] This will be achieved with bold and socially-acceptable measures, in particular:

- Gradual increases in electricity tariffs scheduled over the next years. The poor will be protected from any increase and the rich will pay the full cost of their consumption above 600 KW;

[1] The oil delivered to the refinery will be evaluated at prevailing international prices.

[2] We describe this strategy in more detail on the website of the Ministry of Energy and Mineral Resources (www.memr.gov.jo).

- The construction of an LNG terminal in Aqaba, new conventional power plants as well as renewable energy power plants. The infrastructure work and awarding of energy supply contracts will be conducted according to the highest international procurement standards, to ensure maximum transparency and cost-effectiveness, and minimize execution time; and

- A new legal framework to enhance energy efficiency; this is largely in place thanks to the Energy Efficiency bylaw implemented in November 2012.

25. We are making electricity tariffs more progressive. In a major achievement, we have designed and announced tariff schedules for the next five years that will both protect poor households and bring NEPCO to breakeven by 2017. This bold step comes at a time of a difficult external environment and increased social pressures. The first increases in end-users tariff took effect on August 15 for most non-household sectors. Similar increases will be applied to all non-household sectors on January 1 of each year throughout 2018 (the increase on January 1, 2014 as per our announcement is a new benchmark). Starting in January 2014, tariffs will increase also for richer households, but poorer households will not see any tariff increase in the foreseeable future. We will increase in tandem NEPCO's wholesale tariffs.

26. The construction of the LNG terminal in Aqaba is on track to start operations by end-2014. With the contract for the floating storage and re-gasification unit (FSRU) in place, we are now working on selecting the winning company for the construction of a jetty and the related inland infrastructure to transfer gas from the FSRU to the ordinary gas pipeline. We plan to sign the contract for such construction by November 2013. We will focus next on securing LNG supply, and plan to sign the supply contract by April 2014 (new benchmark). The contract will provide up to four fifths of Jordan fuel for electricity generation, with cost savings estimated at about 20 percent compared to other fossil fuels.

27. We continue to fast-track investments in renewable energies. We have established a legal framework to allow investors to identify and develop grid-connected electricity production projects through unsolicited or direct proposal submissions. We have also created a one-stop shop at the ministry of energy and natural resources to assist companies in preparing their proposal and cut red tape associated with permits and certification requirements. We have already identified 30 qualified proposals for a total generation capacity of about 860 Mega Watt (MW). We now expect 100 MW to be installed by end-2014 and 525 MW (over 10 percent of energy generation) by end-2015. These proposals will be closely coordinated with the newly established PPP unit at the Ministry of Finance, in order to ensure, among others, that fiscal risks are appropriately taken into consideration.

28. We are also strengthening our conventional generation capacity. Construction of two new dual-fuel power plants (IPP3 and IPP4) is well under way and broadly on track. Completion of work is expected around mid-2014, with the first engines entering into operation by February 2014. Upon program completion, the new power plants will add a combined total of 810 MW (increasing current generation capacity by 20 percent).

29. We are working on using energy more efficiently. To encourage the utilization of energy efficient devices and equipments, a bylaw for the exemption of the sales tax and custom duties on these has been issued recently. Because of recently introduced regulations, new buildings and redevelopments now have to meet rigorous energy efficiency standards to obtain a construction permit.

30. We will tackle distribution losses to minimize end-user tariff adjustments. We have commissioned a study on the efficiency of distribution companies. The study will be completed by end-December. It will deliver a roadmap to reduce technical losses. Based on its findings, the ERC will work with all stakeholders to design a pricing mechanism that would incentivize distribution companies to undertake investment to modernize the distribution network.

Water companies

31. Without action, we estimate that the water companies' losses will increase. Jordan has the fourth-lowest per-capita water availability in the world, and yet the rich pays for water as much as the poor. Annual losses in the past years were at about one percent of GDP, reflecting a large proportion of nonrevenue water (almost half of the water pumped is not paid for). Of the nonrevenue water, half comes from systems losses, and the other half from problems with revenue collection where people use water but do not pay for it. In the coming years, we expect the costs of water pumping to increase substantially, because of the increase in electricity tariffs (electricity accounts for about 60 percent of our operation and maintenance costs).

32. We are well advanced with our strategy to address the losses of the water company. As planned, we will announce to the public by October 2013 a medium-term action plan on the way forward (benchmark). The medium-term strategy aims to keep water supply in Jordan financially viable without harming the poor. Our objective is to allow the water sector to raise enough revenue to keep paying for its operating and maintenance cost. To raise revenue, we will implement gradual increases in connection and waste water fees and, at a later stage, water tariffs. To improve fairness, we will also contract third party collectors to curb abuses and unpaid consumption. Our strategy will be complemented by an ambitious investment plan to reduce system leakages, which will be included in the central government's capital spending envelope.

B. Monetary and Exchange Rate Policy

33. The CBJ has managed well last year's temporary pressures on reserves. Partly reflecting intensified regional uncertainties, as well as those associated with the removal of general fuel subsidies, deposit dollarization increased in November of last year and dinar liquidity decreased noticeably, putting pressure on international reserves. The CBJ responded swiftly by injecting needed dinar liquidity utilizing its updated liquidity management toolkit, which included forward foreign exchange operations with banks. At the same time, the CBJ raised its key policy rate in early December by 75 basis points to enhance the attractiveness of the Jordanian dinar. Such interventions helped calm markets, and contributed to a sustained reversal in deposit dollarization, restoration of confidence in the dinar, and a recovery in reserves. With dinar liquidity normalizing in 2013, the CBJ unwound some of those injections.

34. The CBJ cut interest rates by 25 basis points in August and by another 25 basis points in October. The reduction was prompted by the continued positive momentum in the economy, including sustained de-dollarization, increased appetite for JD-denominated assets, and contained inflationary pressures. It aimed at further promoting the expansion of private credit and investment. Looking forward, the CBJ will continue to monitor domestic and regional economic and political developments, and will stand ready to act proactively to safeguard macroeconomic stability.

35. The CBJ has steadily built up reserves and will continue to do so. Our tight monetary policy, together with the successful issuance of dollar-denominated domestic bonds twice this year, and the mobilization of donor grants helped raise NIR. We issued a Eurobond in October of $1.25 billion guaranteed by the U.S. government which helps to further increase reserves. We also fully expect the programmed external financing in 2014 to be received in line with discussions with our development partners, who have provided us with financing assurances. Such financing includes total grants of $861 million—including from the GCC ($600 million), the U.S. ($184 million), and the EU ($66 million)—and total loans of $1,526 million, including from France ($66 million), Japan ($129 million), the World Bank ($295 million), the EU ($236 million), and another Eurobond issuance ($800 million). Given the uncertainties surrounding the resumption of gas inflows from Egypt, and additional pressures on our economy from the Syrian crisis we will seek even further grants in 2014, as well as another U.S. guarantee for the Eurobond. In light of generous grants in 2013 and previous year, we hope for a continued positive response from donors.

36. The exchange rate peg will remain the anchor for our monetary policy. It has served us well over the past two decades, and will continue to underpin stability in our increasingly open economy. Our monetary policy will remain focused on containing inflationary pressures and maintaining the attractiveness of the Jordanian dinar.

C. Financial Sector Policies

37. Jordan's banking system indicators have improved. Asset quality continued to get better, with nonperforming loans (NPLs) registering 7.3 percent of total loans at June 2013, down from 8.5 percent at end-2011. Most notably, NPLs have started to decline in nominal terms. Banks also increased provisioning, which amounted to 75 percent of classified loans at June 2013—a 23 percentage point improvement over 2011. At the same time, capital adequacy and liquidity ratios remain solid, and banks' returns on assets and equity continue to be strong, at 1.1 percent and 8.6 percent, respectively.

38. The CBJ continues to strengthen the supervisory framework. A banking system that manages risks prudently, operates within a regulatory framework that fosters good governance, mobilizes savings efficiently, and allocates funds to investment projects with the highest return, is conducive to growth.

- The recently-established Financial Stability Department—whose mandate is to strengthen CBJ's capacity to assess and manage systemic risks—is undertaking risk analysis and stress testing of the financial system. It plans to produce and publish a Financial Stability Report by during November 2013.

- The CBJ recently completed supervisory reviews of the Internal Capital Adequacy Assessment Process (ICAAP) of banks. Banks are now expected to revise the ICAAP in line with the review recommendations and, from now on, the ICAAP will be subject to periodic reviews in the context of on-site inspections. Also, the aggregate automated bank data collection system for supervisors is expected to be completed by year-end. In addition, the CBJ has prepared a draft of fit and proper regulations for bank board and management and is finalizing an update to the governance code for banks. The drafts are expected to be finalized by year-end, and then sent to banks for comments.

- The CBJ continues to work on a number of other supervisory initiatives, including: (1) analyzing banks' submissions for the quantitative impact study of the implementation of Basel III (to be completed by end-2013); (2) developing an early warning statistical model (by end-2014); and (3) increasing the frequency and timeliness of the publication of banks' financial soundness indicators once the automated bank data collection system is operational (by mid-2014). We are also finalizing the necessary by-laws and regulations that would allow government and private sector companies to issue sukuks.

- To further enhance Jordan's anti-money laundering and countering financing of terrorism regime, we have reviewed the pertinent legislation to ensure compliance with the revised recommendations of the Financial Action Task force (FATF), and will amend the current regulations accordingly.

D. Growth Enhancing Policies

39. To boost growth, we maintain a strong focus on improving access to finance, particularly for Micro and Small and Medium Enterprises (MSMEs).

- Our efforts in seeking international support to secure resources for MSMEs have been successful. In March, we signed a $70 million loan agreement with the World Bank for MSMEs, and to date, $50 million have already been disbursed through banks, with many clients being the MSMEs owned by women and youth, and located in underserved areas. Furthermore, we are finalizing an agreement with the EBRD on $100 million loan for MSMEs with a loan guarantee and TA components. At the same time, however, the 75 percent guarantee for SME loans provided by the OPEC fund did not generate sufficient interest from the clients and has been discontinued.

- Equally important, we are pursuing improvements in the financial sector infrastructure and the legal framework in favor of SME financing. The registry of collateral assets will be fully functioning, once the legislation on secured lending (currently pending with cabinet) is adopted by parliament. We are revising the new insolvency law in line with recommendations from the IFC and USAID, and will submit it to parliament by end-March 2014. The licensing of the first credit bureau (structural benchmark for end-June) has been delayed due to the private firm taking more time than expected to apply for the license, but we expect the bureau to become operative on schedule, by the beginning of 2014. The microfinance by-law is work in progress and is expected to be submitted to the cabinet at the beginning of 2014.

40. We are taking steps to further improve market infrastructure and the business environment. Jordan's business environment is overall favorable in the region. Nevertheless, we are pursuing further improvements. The CBJ is implementing a recently announced strategy to develop the payment and settlement system, by identifying existing gaps and deficiencies and bringing it in line with the CPSS-IOSCO Principles for Financial Markets Infrastructure by end-2014. Moreover, we are pursuing reforms to improve investor protection and contract enforcement, as well as those aimed at reducing the cost of registering property, starting a business, and obtaining construction permits—all of which are areas of the World Bank's Doing Business where Jordan is not faring very strongly.

41. Jordanians' trust in state institutions is the cornerstone for the success of reform efforts. Jordan ranks higher than most regional peers in the World Bank's worldwide governance indicators. Nevertheless, we are determined to further improve our system of governance, based on the principles of justice, equality, rule of law, transparency, and accountability. The Royal committee to reinforce integrity, headed by the prime minister, is reviewing the current laws and performance of anti-corruption and public monitoring agencies, and is preparing amendments to the anti-corruption legislation to (1) strengthen the administration of public money and state resources; (2) promote accountability and transparency in the public sector, in particular with respect to budgets, tenders and governmental supplies; (3) set criteria for appointments in senior positions, standards for offered services, and mechanisms of processing complaints; and (4) empower monitoring bodies to deter and fight corruption. This work is being done in ongoing consultations with stakeholders (through town hall meetings and public presentations) and is benefitting from cooperation with the USAID and the EU.

42. Our employment policy is outlined in the National Employment Strategy (NES). The NES goes hand-in-hand with our strategy to increase access to finance. It aims to gradually replace foreign labor with national labor, support workers' rights, and encourage a tripartite dialogue. It also addresses labor market segmentation along two dimensions. The first is gender based because female participation is the lowest in the region. The second exists between public sector and private sector employment. Distorting incentives, such as job security, benefits, and working conditions, act as biases for the public sector. Youth employment is specifically targeted through the Jordan Job Compact (JJC) initiative. This initiative aims to assist unskilled, semi-skilled, and skilled youths to find jobs through a combination of training, stimulus packages to employers, and small and medium enterprise finance. In 2013, the government began the implementation of the JJC in partnership with private sector, NGOs, and government agencies. Specifically,

- For 2014, we will focus on absorbing the unemployed by (i) formulating a foreign labor policy and management; (ii) evaluating and then scaling up labor market programs with a proven record; and (iii) curtailing public sector employment and aligning wage structures.

- Over the medium term, we will focus on better skill matching, including scaling up school-to-work transition programs, reforming the employment, technical and vocational training sector, and introducing health insurance benefits and expanding social security coverage to SMEs.

- Over the long term, we will focus on increasing productivity, including through human capital investment in early childhood education.

43. We are also improving the investment climate. To this end, we are working with support from the World Bank on a new investment law and a law on PPPs to bring them in line with best international practice. We are also preparing amendments to the secured lending law in line with international practices with help from the IFC. These laws could help make Jordan more attractive to foreign investors, including by enhancing the transparency of the rules governing investments and creating a more level playing field. Moreover, we will shortly issue a decree to establish a one-stop shop to license economic activates at the Jordan Investment Authority.

PROGRAM MONITORING

44. We are implementing the recommendations of the CBJ safeguards assessment concluded in January 2013 in the context of Jordan's Stand-By Arrangement approved on August 3, 2012. We have taken concrete steps to address past recommendations (see April 2013 MEFP) and will now prepare to introduce a new CBJ law. In particular:

- Since the April 2013 MEFP, we are working seriously to remove audit qualifications as to ensure fair and transparent presentation of assets on CBJ's balance sheet. Work is ongoing on reviewing the procedures and controls over the program monetary data compilation process, including reconciliation with the accounting records within six weeks after each test date. Moreover, we have improved the disclosures in the Financial Statements for the year 2012 with regards to the financial position with the IMF to ensure transparency and compliance with the IFRS. Further improvements will be introduced in FY 2013 and will include derivative contracts, equity reserves, and significant investments in associates.

- Going forward, and with assistance from the IMF, the CBJ will undertake a full review of its legal framework to strengthen oversight arrangements and legal underpinnings of its autonomy. The CBJ will prepare draft amendments of its law by December 2014 (a new structural benchmark) in line with our intentions stated in the Letter of Intent of March 27, 2013.

45. Progress in the implementation of our policies will continue to be monitored through quarterly reviews, quantitative PCs, indicative targets, and structural benchmarks. These are detailed in Tables 1–3, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Jordan: Quantitative Performance Criteria and Indicative Targets, 2013

	Jun-13 Target	Jun-13 Adj. Target	Jun-13 Actual	Sep-13 Target	Sep-13 Adj. Target	Sep-13 Proj. /3
Performance Criteria						
Primary fiscal deficit of the central governement, excluding grants in JD million (flow, cumulative ceilir	1,041	1,001	1,114	1,766	1,706	2,184
NEPCO net loss in JD millions (flow, cumulative ceiling)	508	508	474	779	779	933
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	5,581	5,925	8,351	7,324	6,424	9,505
Ceiling on accumulation of external payment arrears 1/	0	0	0	0	0	0
Indicative Targets						
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-236	-480	-1,467	-851	-213	-963
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	512	682	682	682
Stock of arrears of NEPCO 2/	295	295	386	220	220	328
Memo items for adjusters						
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	539	...	433	1,595	...	607
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	1,413	...	1,757	2,863	...	1,852
Transfers from the central government to NEPCO (flow, cumulative, JD millions)	508	...	596	779	...	1,242
Cap for the downward adjustor on the NIR	900	...	900	900	...	900
Cap for the fiscal adjustor (JD millions)	40	...	40	60	...	60

1/ Continuous.
2/ Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.
3/ The NIR figure is actual.

Table 1b. Jordan: Quantitative Performance Criteria and Indicative Targets, 2013–14

	Dec-13 Revised	Mar-14	Jun-14	Sep-14
Performance Criteria 1/				
Primary fiscal deficit of the central governement, excluding grants and excluding net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	1,292	467	586	905
Combined public deficit in JD million (flow, cumulative ceiling) 2/	2,667	700	992	1,643
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	9,341	9,918	9,462	8,728
Ceiling on accumulation of external payment arrears 3/	0	0	0	0
Indicative Targets				
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-1,481	-1,440	-1,023	-625
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	682	682
Stock of arrears of NEPCO 4/	270	150	0	0
Memo items for adjusters				
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	1,820	682	923	1,239
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	3,773	771	921	1,176
Cap for the downward adjustor on the NIR	900	900	900	900
Cap for the fiscal adjustor (JD millions)	80	20	40	60

1/ The numbers for June and September 2014 are indicative targets.
2/ Defined as the sum of primary fiscal deficit of the central government excluding grants and net transfers to NEPCO and WAJ, and NEPCO's net losses.
3/ Continuous.
4/ Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

Table 2. Structural Benchmarks		
Structural Benchmarks	**Test Date**	**Status**
New: Submit a 2014 budget to parliament in line with program understandings.	December 15, 2013	
New: Implement measures of one percent of GDP to bring the budget in line with program understandings.	December 15, 2013	
Raising revenue		
Review and costing of tax incentives.	By end-October 2013	**On track.**
Implement an income tax law yielding additional revenue of about one percent of GDP.	By end-September 2013	**Not met**. Replaced by a new benchmark to implement measures of one percent of GDP by December 15.
Lift filing compliance to 100 percent in the large taxpayer office (LTO) and 90 percent in the medium taxpayer offices (MTO).	May 2013	**Not met,** but filing compliance has substantially improved (to 91 and 82 percent, respectively).
Enhancing transparency		
Introduce a commitment control system through the GFMIS to register, report, and account for expenditure commitments against cash allocations issued by the Ministry of Finance.	January 2013	**Not met,** but progress is being made and the target has been set for December 2013.
Establish a reporting system to report stocks of arrears quarterly, which include all types of pending invoices and claims for current and capital expenditure; report the end-2012 stock of arrears.	End-June 2013	**Met with delay.** With the assistance of Fund TA, the benchmark was met in September.
Amend the commitment control module in GFMIS.	By December 2013	**On track.**
NEW: Prepare draft amendments to the CBJ law to strengthen autonomy and oversight, in line with Fund advice.	By December 2014	

Table 2. Structural Benchmarks (concluded)		
Energy and Water Sector Reform		
Announce a medium-term electricity/energy strategy incorporating the inputs provided by the World Bank, including a time table and measures for bringing NEPCO back to cost recovery.	By end-September 2012	**Met with delay.** The strategy was announced on October 23, 2013.
Signing of a floating storage and re-gasification unit leasing agreement.	June 2013	**Met with delay.** The agreement was signed on July 31.
NEW: Signing of the LNG supply contract.	April 2014	
Announce to the public an action plan on how to reduce the water company's losses over the medium term.	By end-October 2013	**On track.**
New: Implement already announced tariff increases as outlined in the medium term energy strategy	January 2014	
Inclusive Growth		
Licensing of a credit bureau.	End-June 2013	**Not met,** but is expected to be implemented by November 2013.
Implement a national unified registry for targeting of subsidies.	October 2013	**On track.**

Attachment II. Technical Memorandum of Understanding (TMU)

1. This memorandum sets out understandings between the Jordanian authorities and IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the Stand-By Arrangement.

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Letter of Intent dated October 29, 2013. For the purposes of the program, the exchange rate of the Jordanian dinar to the U.S. dollar is set at JD 0.709 = $1 and the gold price is set at JD 1,117.025 per fine troy ounce for the measurement of the program performance criteria on net international reserves. The corresponding cross exchange rates are provided in the table below.

Program Exchange Rates	
Currency	**One Jordanian dinar per unit of foreign currency**
British Pound	1.105
Japanese Yen	0.009
Euro	0.887
Canadian dollar	0.692
SDR	1.073

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

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

A. Quantitative Performance Criteria and Indicative Targets

4. The quantitative performance criteria and indicative targets specified in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) are:

- a performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfer to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ);
- a performance criterion (ceiling) on the combined primary deficit of the central government (as defined above) and the net loss of NEPCO ("combined public deficit");
- a performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);
- a continuous performance criterion (zero ceiling) on the accumulation of external arrears;
- an indicative target (ceiling) on accounts payable of the central government;

- an indicative target on the accumulation of domestic payment arrears of NEPCO;
- an indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

5. The performance criteria on the central government's primary fiscal deficit and the combined public deficit, as well as the indicative targets on the accounts payable of the central government and the accumulation of domestic payment arrears of NEPCO, are monitored quarterly on a cumulative basis from the beginning of the calendar year. The performance criterion on the NIR and the indicative target on NDA of the CBJ are monitored quarterly in terms of stock levels. The performance criterion on the accumulation of external arrears is monitored on a continuous basis.

B. Ceiling on the Primary Deficit of the Central Government Excluding Grants and Net Transfers to NEPCO and WAJ

6. The **central government** is defined as the budgetary central government that is covered by the annual General Budgetary Law (GBL). It excludes the budgets of the 27 autonomous agencies but includes all ministries and government departments which operate in the context of the central authority system of the state. The operations of the central government will be measured on a cash basis.

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

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

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

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

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

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

13. Adjustors: The ceiling on the primary deficit of the central government excluding grants will be adjusted:

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

C. Ceiling on the Combined Public Deficit

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

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

16. Adjustors: The ceiling on the primary deficit of the central government excluding grants will be adjusted:

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

D. Floor on the Net International Reserves of the CBJ

17. For program monitoring purposes, **the NIR of the CBJ** in U.S. dollars are defined as foreign assets of the CBJ minus its foreign liabilities.

18. **Foreign assets of the CBJ** are readily available claims on nonresidents denominated in foreign convertible currencies. They include foreign exchange (foreign currency cash, deposits with foreign correspondents, and holding of foreign securities), monetary gold, IMF reserve position, and SDR holdings. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contract), CBJ's claims on resident banks and nonbanks, as well as on subsidiaries or branches of Jordanian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forward, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid swaps. Excluded from foreign assets is the outstanding balance of bilateral accounts with the Central Bank of Iraq of U.S. dollar 1,081 million.

19. **Foreign liabilities of the CBJ** are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forward, swaps and options, including any portion of the CBJ monetary gold that is collateralized), and Jordan's outstanding liabilities to the IMF. Excluded from reserve liabilities are government foreign exchange deposits with the CBJ, deposits from public institutions and government departments with independent budgets, commercial companies with state participation, deposits from donors (including grants received from the GCC), the two technical swaps with Citibank Jordan for U.S. dollar 80 million, and amounts received under any SDR allocations received after June 30, 2012.

20. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates as described in Table 1. As of June 28, 2012 (end-June), the stock of NIR amounted to U.S. dollar 8,556.4 million, with foreign assets of the CBJ at U.S. dollar 9,707.7 million and foreign liabilities of the CBJ at U.S. dollar 1,151.3 million (at the program exchange rates).

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

E. Ceiling on the Accumulation of External Debt Service Arrears

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

F. Ceiling on the Accounts Payable of the Central Government

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

G. Ceiling on the Accumulation of Domestic Payment Arrears by NEPCO

23. Domestic payment arrears by NEPCO are defined as the belated settlement of a debtor's liabilities which are due under obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; tax payments, and obligations to banks and other private companies and suppliers. Arrears exclude obligations to the central government arising from net transfers as specified in paragraph 15.

H. Ceiling on the Net Domestic Assets of the CBJ

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

25. For program monitoring purposes, **the net domestic assets of the CBJ** are defined as reserve money *less* the sum of net international reserves as defined above *plus* Jordan's outstanding liabilities to the IMF. Therefore, the ceiling on NDA is calculated as projected reserve money (as defined in Table 1) minus the target NIR.

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

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

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

DATA PROVISION

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

28. Related to the ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and WAJ: The nine standard fiscal data tables in the attached list as prepared by the

Ministry of Finance cover detailed information on revenue, expenditure, balances of government accounts with the banking system, foreign grants, amortization and interest, net lending, privatization proceeds, debt swaps with official creditors, and monthly change in the stocks of uncashed checks and funds owed to donor trust accounts; The government financing information from the Treasury account, as agreed by both the Ministry of Finance and the Central Bank of Jordan, and any potential discrepancy between the government financial data and the monetary survey data (all monthly); gross transfers to and from NEPCO and WAJ detailing the amounts paid or received in connection with debt transactions, transfers to cover losses, and any amount directed to repay any outstanding arrears of NEPCO or WAJ.

29. Related to the ceiling on the accounts payable of the central government: the stocks of checks issued by the central government but not yet cashed by the beneficiary; the stocks of the liabilities of the central government in the trust accounts and the deposits in the trust accounts (all monthly).

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

31. Related to the combined public sector deficit: all the information specified in para. 28; in addition, the following data on NEPCO's net loss:

- Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly) in order to compute the PC on NEPCO net loss, prepared by NEPCO's accounting department on a quarterly basis.
- Latest audited income statement signed by the auditor (usually available twice yearly with a six-month delay) with full explanation of any changes made to the unaudited version transmitted to the IMF, as soon as it becomes available to NEPCO's management.
- Breakdown of overdue payments by major creditor, and all overdue payments vis-à-vis the central government.
- Monthly gas flows from Egypt in million cubic meters (quarterly).

32. Related to the floor on NIR of the CBJ and NDA

- CBJ's foreign exchange reserves and preliminary data on dollarization (weekly).
- Data on CD auctions (following each auction).
- Monetary statistics as per the attached reporting tables.

33. Related to the continuous performance criteria:

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

34. Other economic data

- Interest rates and consumer prices; and exports and imports (monthly).

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

- List of short-, medium- and long-term public or publicly-guaranteed external loans contracted during each quarter, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, and interest rate arrangements (quarterly).

- National accounts statistics (quarterly).

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

DEFINITIONS OF THE PRINCIPAL CONCEPTS AND VARIABLES

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

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FOR IMMEDIATE RELEASE
November 8, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Stand-By Arrangement with Jordan

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Jordan's performance under a three-year program supported by a Stand-By Arrangement (SBA). The completion of the review enables an immediate disbursement of SDR 170.5 million (about US$260.8 million), bringing total disbursements to SDR 682 (about US$1.043 billion). The 36-month SBA in the amount of SDR 1.364 billion (about US$2.086 billion, or 800 percent of Jordan's quota at the IMF) was approved by the Executive Board on August 3, 2012 (See Press Release No. 12/275). The first review under the SBA was completed on April 10, 2013. (See Press Release No. 13/113

In completing the second review, the Executive Board approved the authorities' request for waivers of non-observance of end-September 2013 performance criteria on the primary fiscal deficit of the central government and on losses of National Electric power Company (NEPCO).

Following the Executive Board's discussion on Jordan, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, said:

"Regional instability continues to weigh on Jordan. The conflict in Syria and shortfalls in gas flows from Egypt are putting pressure on the fiscal and external accounts. The sizable influx of Syrian refugees is also straining labor and housing markets as well as the provision of public services. Nonetheless, growth is slowly recovering, inflation is contained, and the external current account deficit is narrowing. Underpinned by sound policies, performance under the Fund-supported program has been broadly on track. The central bank has rebuilt reserves, which are now at a comfortable level.

"Fiscal consolidation will continue to place debt on a downward path, but has been slowed down compared to the original program to help cushion the impact of lower Egyptian gas supplies and the Syria crisis. The authorities' plans for better targeting the fuel and food subsidies and completing the income tax reform initiative would not only improve the fiscal position, but also would foster equity, a key objective under the program. Looking ahead, it remains critical to further improve tax administration and public financial management.

“Implementing the authorities’ medium-term energy strategy is key to returning the electricity company to cost recovery. In this regard, the recent tariff reform, which protects households, is a bold and welcome step. Looking forward, success will hinge on implementing the announced path of equitable tariff increases and bringing on stream alternative energy sources, in particular the Liquefied Natural Gas terminal in Aqaba, while improving energy efficiency.

“The central bank’s focus on maintaining comfortable levels of foreign exchange reserves remains warranted. The recent successful issuance of a $1.25 billion U.S.-guaranteed Eurobond is welcome. Looking forward, the central bank should consider further cuts to interest rates only if there is clear evidence that core inflation is on a downward path.

“Ongoing public investment should support growth. Nonetheless, accelerated implementation of structural reforms is needed to put a meaningful dent in persistently high unemployment and boosting potential growth. Securing additional grants could help alleviate fiscal and macroeconomic pressures, including from the Syria conflict and further disruption in gas supplies from Egypt, while also stimulating employment and strengthening growth.”

Statement by Mr. A. Shakour Shaalan, Executive Director for Jordan
November 8, 2013

1. Jordan's program has remained broadly on track, with good progress achieved towards meeting its key objectives, despite a number of external shocks since its last review in April as a result of the tensions in the region, including in particular the Syrian crisis and the gas supply disruption from Egypt. The authorities are implementing a wide range of measures to safeguard macroeconomic and financial stability, and to maintain the growth momentum.

Recent developments and outlook

2. Growth continued at a gradual pace in 2013, inflation remained moderate, and the current account deficit narrowed. Additionally, the fiscal deficit also declined, despite expenditure pressures arising from the influx of Syrian refugees. Official reserves increased significantly, exceeding program targets by a wide margin, helped by the sizeable de-dollarization that accompanied an increase in confidence.

3. The Syrian crisis has put pressure on the economy. The authorities estimate that there are over one million Syrian refugees in Jordan, equivalent to about twenty percent of the country's population. While budgetary accounting does not identify spending on refugees, the fiscal costs related to the influx in terms of health, education, subsidies, and security could well exceed 2 percent of GDP, which adds to pressures on government finances. Moreover, the labor market has been affected by refugees accepting considerably lower pay than Jordanians. The refugees have also established businesses that are not covered by the tax net, and refugees haves added pressure on real estate rents. External trade and growth have also been adversely affected by the closure of the border with Syria. A study has been initiated to assess the effect of the Syrian crisis on the Jordanian economy.

4. The authorities expect macroeconomic performance to further improve. Growth is expected to pick up, buttressed largely by public and private investment and by growth-enhancing measures. Inflation is projected to fall and to remain moderate. The ongoing fiscal consolidation will put public finances on a more sustainable path. The resumption of gas supply from Egypt in October, and implementation of the recently announced medium-term energy strategy, will play a major role in reducing energy imports and improving the fiscal position. While the authorities are appreciative to donors for their generous support, continued support will be important in maintaining the momentum of reforms aimed at promoting growth, enhancing the economy's resilience to shocks, and covering the costs related to Syrian refugees.

Fiscal policy

5. Significant steps aimed at strengthening the fiscal position have been taken since the last review. These include raising electricity tariffs, cutting non-priority capital spending, increasing the coverage of the sales tax, and better targeting of cash transfers. A new income tax law is anticipated to raise revenue while simplifying the tax system.

6. The authorities have adhered to their commitments under the program. However, largely as a result of the disruption of gas supply from Egypt, the operating losses of the National Electric Power Company (NEPCO) have been higher than projected in 2013. With the central government taking over the payment of NEPCO obligations, the target for its primary deficit for end-June 2013 was missed. The authorities are requesting a waiver for nonobservance of this performance criterion in light of the corrective measures taken to address NEPCO's losses.

7. For 2014, the authorities intend to limit tax exemptions, increase capital spending, while settling government arrears to the health funds. Further subsidy reform is underway as the authorities plan to replace general subsidies with cash transfers. The new income tax law, which is awaiting parliamentary approval, is expected to raise revenues by as much as one percent of GDP. Structural fiscal reforms will also be advanced, with a focus on improving tax revenue administration and the commitment control system which will help to prevent arrears.

The energy strategy

8. A newly prepared medium-term energy strategy aims to eliminate NEPCO's financial losses by 2017 while mitigating the risks from fuel supply fluctuations. The strategy aims to diversify the energy mix with a focus on liquefied natural gas and renewable sources, improve the efficiency of distribution, and rationalize energy consumption. Implementation of the strategy is proceeding as planned. Electricity tariffs were increased in August 2013, and another increase is planned for January 2014. The LNG terminal in Aqaba is expected to become operational by end-2014, and new construction is now subject to energy efficiency regulations.

Monetary and financial sector policies

9. Monetary and exchange rate policies have successfully helped to maintain price and external stability. Following the rapid increase in reserves that accompanied de-dollarization, the central bank reduced its key policy rate by 25 bps in each of August and October. As reserves exceeded expectations, the NIR target for end-December 2013 was increased.

10. The banking sector remains sound, well capitalized, and profitable. Non-performing loans declined in nominal terms as well as in percent of total loans. Credit to the private sector is picking up, while loan provisioning has increased to a more comfortable level. On the supervisory front, the recently created Financial Stability Department at the central bank began stress testing the financial system, and it is expected to issue its first financial stability report this year. The central bank also completed its assessment of bank capital adequacy which will be subject to periodic reviews. The development of Islamic finance instruments is advancing as the sukuk legislation is in its final stages. The first credit bureau in Jordan is expected to be licensed by the end of this year.

Structural reforms

11. Higher and inclusive growth is needed to address Jordan's high unemployment rate. Efforts to increase access to credit by micro and small and medium enterprises (MSMEs) have been facilitated by loan agreements with the World Bank and the EBRD to finance MSMEs. Steps aimed at improving the business and investment environment are proceeding, with focus on improving investor confidence, enforcing contracts, and reducing the cost of starting a business. The new investment law is expected to enhance the transparency of rules related to the investment process, while the approval of a one-stop-shop to license investments is expected soon.