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2014 ARTICLE IV CONSULTATION, THIRD AND FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERION AND APPLICABILITY OF PERFORMANCE CRITERION[1]—STAFF REPORT; PRESS RELEASES; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of Article IV consultation and third and fourth reviews 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 April 28, 2014, following discussions that ended on March 18, 2014, with the officials of Jordan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 14, 2014.

- An **Informational Annex** prepared by the IMF.

- **Press Releases** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its April 28, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.

- 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*
Selected Issues Paper

*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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[1] Following the issuance of the staff report to the Executive Board and prior to the Board meeting, staff received data showing that the end-March 2014 performance criterion on the floor on the net international reserves of the Central Bank of Jordan had been met. As a result, the corresponding waiver of applicability was no longer required, reducing the number of criteria covered by this waiver to one.

JORDAN

April 14, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, THIRD AND FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERION AND APPLICABILITY OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Jordan is grappling with strong headwinds. It is facing a political transition even while the Syria crisis is stretching Jordan's social fabrics. At the same time, gas inflows from Egypt continue to fluctuate, putting pressure on both the external and fiscal accounts.

Policies were appropriately adjusted to exogenous shocks. During 2012, they were focused on crisis management. After confidence had come back at year-end, they turned toward medium-term consolidation anchored in a bold subsidy reform. Fiscal consolidation needs to continue and more emphasis is needed on reforms to address chronically high unemployment.

Aimed at protecting external stability and reducing vulnerabilities, the main Article IV recommendations are to: (1) maintain the momentum on fiscal and public utility reforms to reduce the still rising debt, while making policies more equitable and growth-friendly; (2) preserve reserve buffers in a time of high uncertainties while further enhancing the resilience of the financial sector; and (3) foster inclusive growth and job creation by generating a business environment more conducive to investment; revisiting public sector hiring and compensation while equipping new entrants with private sector skills and addressing the constraints to female labor market participation; and enhancing the quality of institutions.

The program is broadly on track and, looking forward, will focus on deep tax reform. All end-2013 targets were met. The central government is expected to meet its end-March 2014 target, but the combined public sector deficit (of the central government and the electricity company NEPCO) will be missed because of temporary shortfalls in gas delivery from Egypt. International reserves have continued to over-perform through March. The next reviews will focus on tax reform to recoup revenue losses incurred in recent years, which reflected tax policy choices, weak tax administration, declining nontax revenue, and also a slow economy.

Jordan needs more grants to manage high risks. The main risks pertain to the Syria conflict becoming deeper and more protracted and shortfalls in gas from Egypt. Jordan is also susceptible to global spillovers, including from higher U.S. interest rates, while domestic risks are non-negligible with resistance to reforms increasing. Though shocks could be absorbed, debt would further increase and growth could suffer. Additional grants now could help ease macroeconomic pressures, generate growth, and create employment, but eventually Jordan will have to prepare for an exit from external aid.

The completion of the reviews makes available SDR170.5 million (about $258 million).

Approved By

Adnan Mazarei and Mark Flanagan

The mission team consisted of Kristina Kostial (head), Yasser Abdih, Andrea Gamba, Edouard Martin, Dmitriy Rozhkov (all MCD); Hui Jin and René Tapsoba (FAD); Christopher Wilson (MCM); and Chad Steinberg (SPR) and was assisted by Vanessa J. Panaligan, Cecilia Pineda, and Rafik Selim. The missions were joined by Sami Geadah, Alternate Executive Director, and overlapped with several World Bank missions. During December 3–17 and March 4–18, staff met with Prime Minister Abdullah Ensour, Minister of Finance Umayya Toukan, Minister of Energy and Mineral Resources Mohammad Hamed, Minister of Industry, Trade and Supply Hatem Hafez Al Halawani, Minister of Labor Nidal Alkatamine, Minister of Planning and International Cooperation Ibrahim Saif, Minister of Transport Lina Shbeeb, Minister of Water and Irrigation Hazim El-Naser, Governor of the Central Bank of Jordan Ziad Fariz, senior officials in these institutions, the electricity company NEPCO, representatives of parliament, civil society groups and the private sector as well as with development partners. The team also visited the Zaatari camp for Syrian refugees and Jordanian hosting communities.

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BACKGROUND

A. Strong Headwinds

A Difficult Environment

1. **Jordan faces issues of a political transition.** A new election law paved the way to parliamentary elections in January 2013, which were peaceful though boycotted by the Muslim Brotherhood which viewed the changes as too incremental. Public protests have subsided in the last year, but the relationship between parliament and government has become more contentious and the opposition more vocal, including on corruption and political rights.

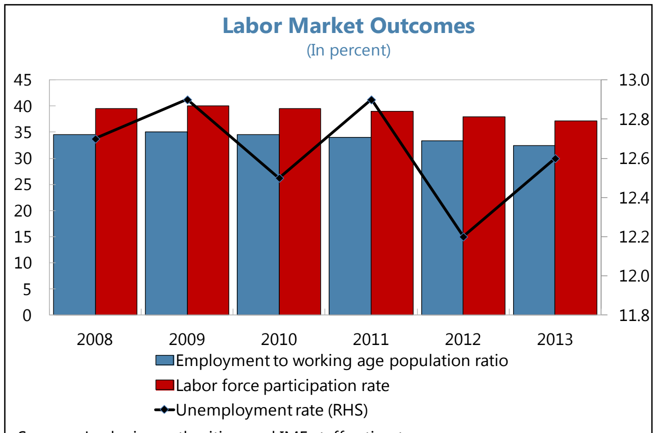
2. **Regional instability deeply affected the country.** While slowing since mid-2013, the number of officially registered Syrian refugees has increased steadily over the last two years, amounting now to about 9 percent of Jordan's population. In addition to macroeconomic implications (Box 1), this has triggered changes in the social landscape and the provision of public services has suffered. It could also worsen the already poor unemployment and poverty situation. Moreover, gas inflows from Egypt have repeatedly come to a halt, most recently at end-January, owing to sabotages of the pipeline.

3. **Policies were appropriately adjusted to cope with shocks.** During 2012, they were focused on crisis management and, after confidence had come back at year-end, turned toward medium-term consolidation. The authorities have followed the recommendations of the 2012 Article IV in the context of the stand-by arrangement, which was approved on August 3, 2012, though progress on the structural front has been slow.

Economy Slowly Picking Up

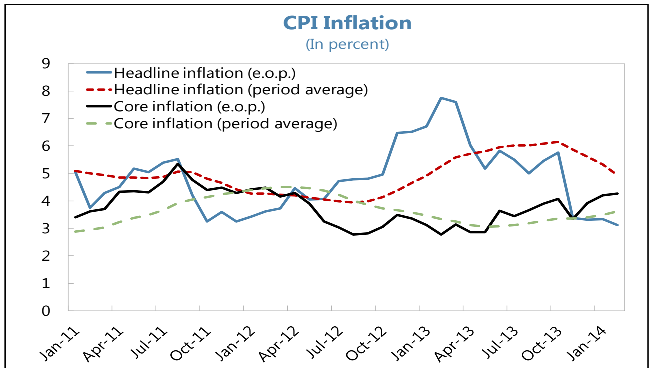
4. **Economic activity has been gradually recovering.** Following a period of strong growth during 2000–09 (averaging about 6½ percent), growth dropped sharply to 2.3 percent in 2010, largely due to the global downturn. Since then, it has picked up marginally to 2.8 percent year-on-year through September 2013. In the last two years, measured growth was hurt by shocks, including the Syria conflict (which, together with the losses of the public electricity company NEPCO, added some 5–6 percent of GDP to the fiscal and external accounts in each of 2012 and 2013, requiring significant policy tightening). The ensuing unavoidable fiscal adjustment and a sharp contraction in mining (from industrial action in 2012 and difficulties in renegotiating contracts following the break-up of the international fertilizer cartel in mid-2013) have also played a role. Services (especially communication and finance) and construction have been the drivers of growth.

5. The labor market has stayed weak. Employment increased by just over one percent from 2011 to 2013, substantially less than the working-age population (which rose by 6 percent over the same period). As a result, the employment-to-working age population ratio continued to decline, to 32 percent in 2013. Nonetheless, the annual unemployment rate remained broadly stable, owing to a further drop in labor force participation. Gender disparities have persisted, with 54 percent of men, but only 10 percent of women of working age being formally employed in 2013.



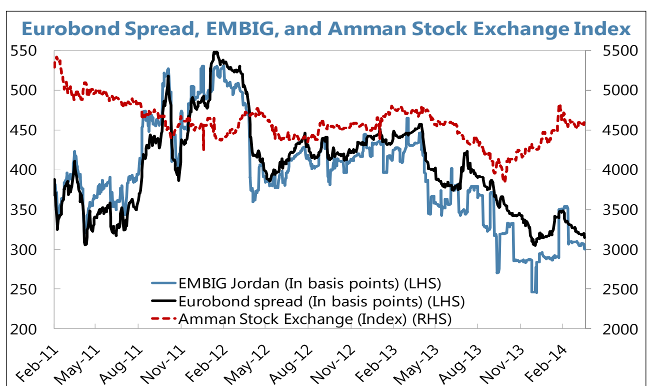
Sources: Jordanian authorities; and IMF staff estimates.

6. Despite subdued headline inflation, core inflation has increased. Demand pressures from an expanded population have contributed to a gradual increase in core inflation to over 4 percent y-o-y in February 2014. Nonetheless, headline inflation—after temporarily increasing to more than 7 percent in early 2013 on account of rising food prices and the liberalization of fuel prices in November 2012—has begun to decline, reaching 3.1 percent y-o-y in February.



Sources: Jordanian authorities; and IMF staff estimates.

7. The current account deficit has started to narrow. It peaked in 2012, reflecting a number of factors, including higher energy prices coupled with disruptions to the flow of natural gas from Egypt, lower grants, and poorer export performance brought about by lower potash prices and strikes. While mining difficulties persisted and pressures on non-energy imports intensified with rising numbers of Syrian refugees in 2013, the current account is estimated to have improved last year by over 5 percent of GDP, helped by lower energy imports (related to the energy mix and lower prices), higher current transfers (related to Gulf Cooperation Council (GCC) grants), and private receipts.



Source: Bloomberg.

8. Financial markets have recovered. After a peak in mid-2012, Eurobond spreads have declined steadily in 2013 to 317 basis points (bps) at year-end and have showed so far a limited response to the spike in volatility in emerging markets (EMs). The Amman Stock Exchange was stable until a steep drop in mid-2013, mainly in mining sector shares; since then, the market recovered to pre-2012 levels. At the same time, banks' financial soundness indicators (FSIs) have largely reversed the deterioration that occurred in 2008–09 (see Table 5).

Policies Focused on Fiscal Consolidation

9. There was a turn-around in fiscal policies. Concerns about social tensions at the beginning of 2012 and expectations that gas from Egypt would resume temporarily put on hold plans for consolidation. But starting in May 2012, the authorities have been taking measures with a net reduction in the combined primary central government deficit and NEPCO losses of over 5 percent of GDP within two years. The most notable measure was a bold reform of general subsidies. In November 2012, the authorities liberalized fuel pump prices while introducing cash transfers to 70 percent of the population. Electricity tariffs for selected economic sectors and rich households have been increased three times since May 2012, anchored in a strategy to return NEPCO to cost recovery over the medium term.[1] There were also tax and nontax measures, which recouped some of the revenue loss of 9 percent of GDP experienced during 2007–11.

10. The Central Bank of Jordan (CBJ) complemented the fiscal efforts. Because it took time to formulate an appropriate fiscal response, temporary losses in confidence in 2012 resulted in a surge in deposit dollarization and pressures on reserves, which reached a low of $5.3 billion (64 percent of the Fund's reserve adequacy metric) at end-2012. The CBJ responded by hiking policy rates three times that year. Since then, dollarization has been on a downward trend—from 25 percent in November/December 2012 to 19 percent by end-March 2014. This, along with a sizable influx of GCC grants and the issuance of dollar-denominated domestic bonds and a U.S.-guaranteed Eurobond, helped rebuild reserves to $11.5 billion at end-2013 (or 133 percent of the reserve adequacy metric). Starting in mid-2013, the CBJ's focus shifted to stimulating economic activity by reducing policy rates (three times in August and October 2013 and January 2014) by a total of 75 bps. Private sector credit growth, which slowed in 2012, has recently picked up.

B. Program Implementation

11. The program is broadly on track.

- **Central government.** The end-December 2013 performance criterion (PC) on the central government primary deficit was met and it is estimated that the central government remained on-track through end-March 2014.[2]

[1] Electricity tariffs are set on an ad-hoc basis. Specific increases for 2015-17 by sector have been announced (i.e., they would not change with fluctuations in the fuel mix and prices).

[2] The controlling PCs for the third and fourth reviews are those set for end-March 2014. The authorities are requesting waivers of applicability for the PCs on the central government and on net international reserves since:

(continued)

- **Energy.** NEPCO's losses were lower than programmed at end-2013 reflecting a resumption in gas flows from Egypt, but will exceed the target for end-March because of renewed gas shortfalls. As a result, the end-March PC on the combined government-NEPCO deficit is expected to be missed, but this should be recouped in the second half of the year through corrective action.[3]

- **Monetary.** Net international reserves (NIR) are expected to exceed the end-March PC by a large margin and the continuous PC on the accumulation of external arrears has been met.

12. Structural performance has somewhat improved. All six benchmarks set for the last quarter of 2013 and the first quarter of 2014 have been met, including two with a delay (the implementation of measures to bring the 2014 budget in line with program understandings, and the establishment of a commitment control system). The licensing of the credit bureau (June 2013 benchmark) is still pending because the license application was incomplete, but is expected to be completed soon. Notable is good progress in utility reform with the strong implementation of the water and energy strategies.

POLICY DISCUSSION—SAFEGUARDING EXTERNAL STABILITY WHILE MANAGING RISKS

13. The macroeconomic framework remains largely unchanged. It assumes that the recent shocks are temporary. In particular, it is assumed that the Syria crisis will taper off starting in 2016 with refugees gradually returning and trade links gradually normalizing. Gas from Egypt is projected to reach on average 100 million cubic feet per day (allowing for temporary disruptions), while the energy mix would improve over the medium term and mining exports recover starting in 2014 as the international fertilizer market normalizes and strikes are over.

- **Growth** is projected to increase, to 3½ percent in 2014, and to its estimated potential of 4½ percent in the medium term. While agriculture could suffer from the drought in early 2014, this should be more than offset by public infrastructure investments, which have a large growth multiplier.[4] If supported by an acceleration in product and labor market reforms, potential growth and the employment responsiveness to growth could improve, thereby reducing chronically high unemployment.

- **Inflation** is expected to decline to about 2½ percent at end-2014, and 2 percent in the medium term, aided by an expected moderation in international food and fuel prices.

(i) the final data to assess performance for end-March are not yet available; and (ii) there is no clear evidence suggesting that the PC might not be observed.

[3] A waiver of nonobservance is requested.

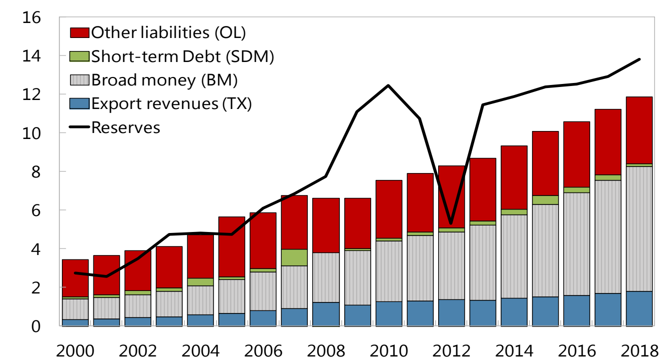
[4] See IMF country Report No. 13/130.

- The **current account deficit** (including grants) would improve to about 4½ percent of GDP over the medium term, mostly reflecting the Liquefied Natural Gas (LNG) facility becoming operational in mid-2015, which will substantially reduce the energy import bill.

- The adjustment in **fiscal and energy policies** is consistent with a gradual reduction of the combined central government's primary deficit and NEPCO's losses from more than 8 percent of GDP in 2013 to ½ percent of GDP over the medium term. This path remains unchanged from the second review and accommodates the higher fiscal costs from the Syrian refugees. The pace of adjustment is expected to create headwinds to growth, but these should be manageable, given shifts in the budget toward investment and because some of the improvement is coming from supply side effects.

14. While external vulnerabilities have abated, they remain high. The exchange rate peg has been successful in anchoring monetary policy and underpinning macroeconomic stability against the backdrop of persistent shocks to money demand in an unstable region. The peg has also facilitated economic synergies with Arab countries, which account for approximately one-third of imports and over one-half of exports. Moreover, staff estimates that the current exchange rate level remains in line with medium-term fundamentals (Box 2). This assessment is buttressed by expectations of Jordan continuing to attract FDI, capital flows, and substantial grants. Gross usable reserves are projected to remain at comfortable levels, around 130 percent of the reserve adequacy metric. Tourism-based price measures remain competitive and non-traditional exports have risen on average over 7 percent in the past five years. Although most external shocks are expected to be temporary, Jordan will remain vulnerable given its geographical location and economic structure and until fiscal and energy sector imbalances are addressed (the exchange rate assessment assumes that they will be). Also, the country will eventually have to prepare for an exit from external aid.

Reserve Metric Decomposition
(In billions of U.S. dollars)



Sources: Jordanian authorities; and IMF staff estimates.

15. Risks remain elevated. The most prominent risks pertain to the Syria conflict becoming deeper and more protracted (see Box 1 on the transmission channels) as well as shortfalls in gas from Egypt—a complete stop of gas flows would create substantial fiscal and current account gaps. Moreover, Jordan is susceptible to global spillovers, in particular from higher U.S. interest rates, which could drive up domestic lending rates and depress growth. Also, a slowdown in EMs could further reduce the prices of phosphate and fertilizers, Jordan's traditional main exports (Box 3), and adversely affect the current account. More generally, though, a protracted reduction in commodity prices would likely have a positive impact on the current account.[5] Domestic risks remain non-negligible with resistance to reform beginning to increase, making a strong case for more outreach and developing contingencies. Indeed, a loss in domestic confidence may quickly reverse the de-dollarization trend, lead to outflows, and reignite pressures on reserves.

16. To protect external stability and reduce vulnerabilities while improving Jordan's labor market outcomes, the Article IV consultation focused on the following themes:

- Maintaining the momentum in fiscal and public utility reforms to return debt to a downward trend with a view toward more equity and growth.
- Preserving reserve buffers in a time of high uncertainties and further improving the resilience of the financial sector.
- Addressing long-standing obstacles to growth toward more inclusion, more transparency, and more jobs.

A. Policy Theme 1—Maintaining the Momentum on Fiscal Reforms

17. Placing public debt on a downward trend requires further consolidation (¶9).[6] The new Market Access Country Debt Sustainability Analysis (DSA) shows results consistent with the DSA presented in the staff report for the second review. Ensuring public debt sustainability will require a very significant net fiscal adjustment by both the central government and NEPCO. Assuming a consolidated fiscal adjustment of about 9 percent of GDP during 2015–18 (this includes an adjustment of one percent of GDP of the water authority of Jordan (WAJ)), public debt would continue to increase until 2015 (to 91 percent of GDP) before declining. Confidence intervals for debt do not show unsustainable upward trajectories under a variety of shocks. While the analysis points to vulnerabilities with debt structure and financing needs, financing available from Jordan's international partners under the program addresses these in the near term. Staff welcomed plans to further lengthen the maturity profile of domestic debt, which will reduce roll-over risks and recommended to regularly access the domestic market rather than depending on the availability of external financing.

18. Both the central government and the utilities need to go through major transformations. Some automatic adjustment is expected when refugees return to Syria (up to 1.4 percent of GDP per year; Box 1), arrears of the health funds are fully repaid (0.3 percent of GDP each year over three years), and possibly from a reduction in cash transfers (which are supposed to be disbursed only when the oil price is above $100 per barrel). Moreover, the medium-term strategies for NEPCO and the water authorities—if implemented as planned—will return the utilities to cost recovery by 2017 and 2019, respectively, yielding more than half of the

[5] The 2012 Article IV found that, historically, the impact of an increase in oil prices has been positive, due to the current account linkages to oil exporting countries. This relationship is likely reversed now, as Jordan is much more reliant on fuel imports.

[6] Paragraph numbers refer to the paragraphs in the attached memorandum of economic and financial policies.

adjustment. What has been lacking so far is a well-defined adjustment strategy for the central government to generate measures of 2½–4 percent of GDP from 2015 onward (depending on when and how quickly Syrian refugees return). Staff highlighted the advantage of setting in train most of the adjustment upfront to help anchor expectations.

Jordan: Central Government, NEPCO, and Consolidated Deficits, 2012–19
(In percent of GDP)

	2012	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Program (Second Review)								
Central government primary deficit 1/	7.4	5.4	4.5	2.9	1.4	1.0	0.5	...
Central government fiscal measures	...	...	1.8	1.6	1.5	0.3	0.5	...
NEPCO operating losses	5.2	5.7	3.8	2.2	1.1	0.0	0.0	...
Reduction in losses	...	-0.5	1.9	1.6	1.1	1.1	0.0	...
Of which: from tariff increase	0.5	0.2	0.5	0.5	0.7	0.6	0.0	...
Combined public deficit 2/	12.6	11.1	8.3	5.1	2.4	1.0	0.5	...
Underlying consolidated balance 3/	11.5	9.8	8.0	5.1	2.4	1.0	0.5	...
Projections								
Central government primary deficit 1/	7.4	4.7	4.5	2.9	1.4	1.0	0.5	0.5
Central government fiscal measures	...	...	1.8	1.5	1.6	0.4	0.5	0.0
NEPCO operating losses	5.3	4.6	3.8	2.2	0.9	0.0	0.0	0.0
Reduction in losses	...	0.7	0.7	1.6	1.3	0.9	0.0	0.0
Of which: from tariff increase	0.5	0.2	0.5	0.5	0.7	0.6	0.0	0.0
Combined public deficit 2/	12.7	9.3	8.3	5.1	2.3	1.0	0.5	0.5
Underlying consolidated balance 3/	11.6	8.0	8.0	5.1	2.3	1.0	0.5	0.5

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Excludes grant and transfers to NEPCO and WAJ.
2/ Excludes arrears repayment by NEPCO.
3/ Assuming constant inflows of Egypt gas at 100 million cubic feet per day and excluding arrears clearance in 2014-2019.

19. The burden of fiscal consolidation should be distributed equitably. Adjustment in the last years concentrated on reducing subsidies and affected mostly banks, hotels, telecommunication, rich households, and non-Jordanians. Staff noted the need for making the adjustment more broad-based to minimize distortions and maintain competitiveness. It reiterated that deep income tax reform will need to play a prominent role in any credible medium-term fiscal consolidation strategy. This could reverse the revenue loss in recent years. Losses of 5½ percent of GDP in tax revenue during 2007–11 reflected to some extent tax policy choices—an increase in incentives and a revision in the income tax law costing the budget some 2 percent of GDP and regular tax amnesties possibly further eroding the tax base. Revenue also suffered from a weaker economy and a reduction in tariffs from trade arrangements. Nontax revenue declined as well by about 3½ percent of GDP, mostly related to real estate transactions and profits from public enterprises (each amounting to about one percent of GDP).

Central Government

20. The 2014 budget aims to strike a balance between consolidation and growth (¶s13–15). The primary deficit would decline to 4.5 percent of GDP. While this is only 0.2 percent of GDP tighter than the 2013 outcome, capital spending will accelerate by almost one percent of

GDP and spending on health by 0.7 percent of GDP. These increased outlays would be financed by revenue measures, and, to a lesser extent, by savings on nonessential current spending.

- **Both tax and nontax revenue will increase.**[7] Cabinet has approved a package of measures with an annual revenue impact of one percent of GDP, about half of which is already effective with the remainder to become effective shortly. The package relies heavily on fee increases. Staff welcomed these efforts, but cautioned that revenue might come in lower than expected (for instance, imposing customs fees might not be consistent with some bilateral trade agreements). To help limit risks, the pending measures should be implemented as soon as possible. Looking beyond 2014, staff felt that the scope for further raising fees was limited.

- **Expenditure measures are relatively limited.** Central government wage increases have been curbed to 2 percent. However, the wage bill would stay constant as a share of GDP, because of the need to hire new doctors and also a re-classification of wages, which had in previous budgets been recorded under capital spending. Staff welcomed savings from tightening the eligibility criteria for the cash transfers. It noted that the acceleration in capital spending in the last quarter of 2013 bodes well for implementing the full investment program in 2014. Staff also urged the authorities to front-load the transfers to the health funds to ensure early arrears clearance.

Revenue Measures for 2014

Measures	Annual impact: In millions of JD	Annual impact: In percent of GDP
Tax revenue	90.0	0.3
Increase in excise and sales prices of cigarettes	90.0	0.3
Nontax revenue	169.0	0.7
Increase work permit fees and remove exemptions	30.0	0.1
Increase visa fees	29.0	0.1
New consular fees	5.0	0.0
Increase residency fees and fines	20.0	0.1
Increase storage fees in special economic zones	10.0	0.0
Increase fees on cross-border trucks	5.0	0.0
New fees on exempted imported goods 1/	70.0	0.3
Total Measures	259.0	1.0

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ According to the authorities, this is WTO consistent.

[7] Some of the increase reflects delayed revenue payments of 0.3 percent of GDP due in 2013 (part of this revenue was already received in the first quarter of 2014). Staff regretted these delays and urged the authorities to work closely with payees to prevent a repeat.

21. The medium-term fiscal strategy needs to be anchored in deep tax reform.

- **Tax reform** (¶16–17). Reform should rest on two main pillars, specifically the new income tax law and a reduction in tax incentives, which could collectively generate up to 2.5 percent of GDP. At the same time, stronger tax administration could improve compliance and help reduce tax arrears, contributing up to 0.5 percent of GDP (see paragraph 43). The income tax law at parliament is expected to raise revenue by 0.7 percent of GDP. Staff highlighted that there was scope to go much further, and pointed to the income tax threshold, which is by far the highest in the region (only about some 3 percent of the population is currently paying income taxes). A published report on existing tax incentives shows that foregone general sales tax revenue amounted to about 2 percent of GDP in 2012. Staff encouraged the authorities to streamline such incentives, including by eliminating in particular the exemptions on services and curbing incentives provided to economic zones (which also complicate tax administration).

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

- **Expenditure reforms.** Replacing the wheat flour subsidy (which is currently sold at about one tenth of the market price) with transfers to vulnerable parts of the population could yield savings of up to ½ percent of GDP. Recognizing the political sensitivities of such targeting, staff encouraged the authorities to continue with outreach. It also recommended preserving or, if possible, increasing social and capital spending. At the same time, staff believes that another ½ percent of GDP in savings could come from a gradual reduction in the wage bill. This could come about by reforming compensation and promotion policies. And, as outlined in the National Employment Strategy (NES), there is a need to gradually eliminate waiting lists in the Civil Service Bureau, and turn them into lists for active labor market programs in the private sector.

Utilities

22. The utilities are implementing their medium-term strategies (¶s 12, 20–23).

- **Reforms are well underway to return NEPCO to cost recovery.** Making the LNG terminal operational is the only medium-term option to reduce the large energy import bill. The construction is on track and the authorities hope to complete the terminal at the latest by mid-2015. Progress has been also made on renewable energies. Staff stressed that electricity transmission and distribution network improvements should go hand-in-hand with increased generation capacity. It noted that the strategy remains vulnerable to fluctuations in fuel supply and international oil prices. Establishing an automatic tariff adjustment, in the form of a variable fuel surcharge,[8] would help to partly mitigate the impact of changes in the fuel mix and prices. Moreover, there is scope for reducing technical losses in the private sector-run electricity distribution companies. Lastly, more regular consultations between the ministry of finance and NEPCO would ensure that NEPCO can reduce its arrears as planned. A write-off of NEPCO's debt to accelerate the company's return to market access could be considered because the World Bank assesses that NEPCO is managed efficiently (so there is little moral hazard).

- **The water strategy aims to cover operation and maintenance costs.** It seeks balancing cost-savings measures to improve efficiency with investments to improve network performance and gradual increases in tariffs (Box 4). Staff welcomed that vulnerable parts of the population are exempted from tariff increases. Because implementation risks are high, careful monitoring will be essential to recalibrate as needed. Staff also noted that the strategy is based on major investments, requiring coordination with donors and the public investment program.

[8] A decision by the Electricity Regulatory Board could impose such a surcharge as it is already envisaged in the tariff structure.

Authorities' Views

23. The authorities agreed with staff's assessment but highlighted political sensitivities and the need to balance consolidation with growth. They underscored their commitment to fiscal consolidation and, in the long term, to reduce net debt to 60 percent of GDP. The authorities, however, indicated that it was difficult to go for broad-based adjustment because the middle class had been adversely affected by the lackluster economic performance of the last years. Thus, measures would need to be introduced gradually being mindful also of any potentially negative impact on the economy.

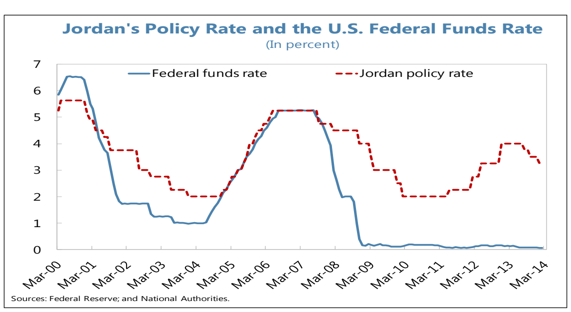
24. More grants are vital to shoulder the burden of the Syrian refugees. The budget is tight as it covers only the direct costs of Syrian refugees, but not any indirect costs. Moreover, the authorities feel that the direct costs included in the budget are potentially underestimated. They were also concerned that planned future tax increases could be perceived by the population—which was already suffering from lower-quality public services—as having to unduly pay for the Syria crisis. In this context, the authorities also highlighted donor fatigue as a risk if the Syria conflict is further protracted.

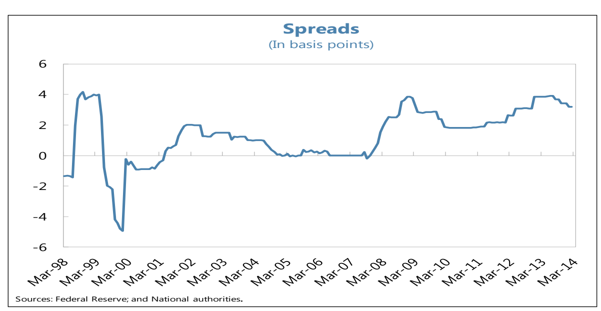
25. Energy reforms are progressing. The authorities stressed their commitment to designing contractual frameworks (such as had been done for renewables) to attract investors while putting in place appropriate fiscal safeguards. They also expressed their concern with unpredictable gas supplies from Egypt, but pointed out that the LNG terminal would provide much-needed relief. While agreeing that it would be technically easy to implement automatic adjustments in electricity tariffs, the authorities thought that reaching a consensus on tariff reforms had been politically costly and thus wanted to wait with raising the issue.

B. Policy Theme 2—Preserving Buffers and Financial Stability

Monetary Policy

26. Global financial conditions may pose a challenge. Historically, Jordan's rates have closely followed the U.S. policy rate. Thus, the expected shift in U.S. monetary policy could be challenging for Jordan. This is because it would lead to a strengthening of the dollar, and with it the dinar—thereby weighing on competitiveness—and to a rise in global yields. Notwithstanding Jordan's ability to access official or U.S.-guaranteed sources of financing, the tapering would make tapping international markets more expensive and would feed into higher domestic interest rates. Not only would this worsen debt indicators (see public sector DSA), but also, when combined with continued fiscal consolidation, may have potential negative implications for economic activity.



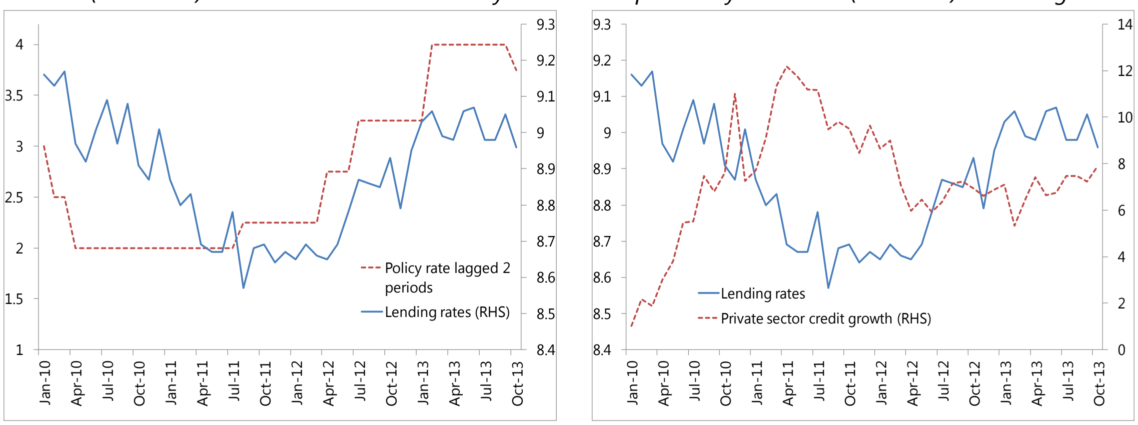


27. Staff stressed that monetary policy should carefully weigh the need to stimulate economic activity, with that of safeguarding reserve targets (¶s25 and 26). De-dollarization is expected to continue this year, but only marginally relative to last year. As such, it is not expected to be a key driver for gross international reserves. At the same time, the current account deficit will remain high; core inflation might be subject to further upward pressure; volatility in EMs could continue; and risks to the outlook remain elevated. Staff thus felt a neutral stance for monetary policy would be appropriate.

Interest Rates

(In percent)

Increases in policy rates have typically led to increases in lending rates, albeit with a lag. At the same time, Increases (decreases) in the latter have historically been accompanied by decreases (increases) in credit growth.



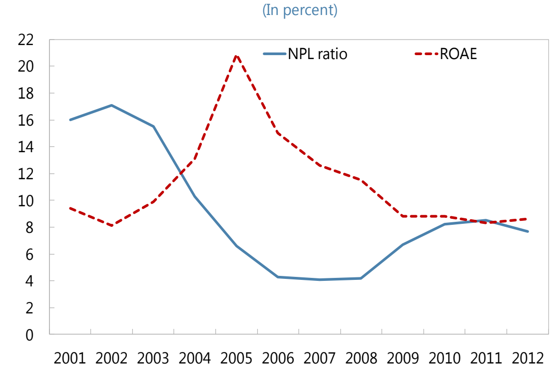
Sources: Jordanian authorities; and IMF staff estimates.

Authorities' Views

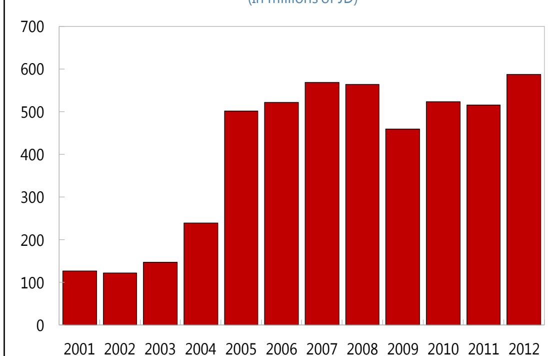
28. Monetary policy will continue to focus on maintaining adequate reserve buffers and the attractiveness of the Jordanian dinar, while providing room for growth. The authorities assess the output gap to still be negative, and believe that the recent policy rate cuts will reduce the cost of borrowing, thereby stimulating private sector credit growth—and with it aggregate demand. Such actions could yield the desired outcomes, judging from the apparent historical workings of the credit channel of monetary policy—a pass through from policy rates to lending rates, and from lending rates to credit growth. Regarding the U.S. tapering, the authorities thought that, unless there was a change in the pace, this had already been priced-in. Staff noted that there is uncertainty surrounding the cyclical position of the economy. While measured formal sector output may still be below potential, high core inflation suggests pressures in the informal economy (which has become more important given the refugee situation). Also, staff cautioned that the credit channel of monetary transmission might involve lags that have not fully played out yet.

Financial Sector

29. The banking sector is stable and overall sound. Data for the second half of 2013 (the latest available) show aggregate capitalization of about 18 percent, well above the regulatory minimum of 12 percent. Capital is of high quality, with a high proportion of tier 1 capital (mainly common equity). The depositor base is resilient, with retail deposits accounting for about two thirds of total deposits. In particular, the loan-to-deposit ratio of 71 percent provides capacity for banks to increase lending without relying on external funding. Banks therefore have strong liquidity buffers, with liquid assets composed mainly of domestic sovereign bonds. They also enjoy healthy profitability, with an aggregate return on average equity of over 10 percent. Provisioning ratios have been steadily built up, to an average of 75 percent. Non-performing loans (NPLs) remain at 7.4 percent of total loans, but are declining from a peak of 8.5 percent in 2011. Looking ahead, lower impaired loans would help banks further increase coverage ratios as a buffer to future provisioning. Staff also underscored that banks' exposure to sovereign debt has increased sharply in recent years and that banks will need to find new sources of earnings as the government consolidation proceeds.



Source: IMF Financial Soundness Indicators.



Source: IMF Financial Soundness Indicators.

30. Financial sector reform has been progressing (¶27–32). Staff conducted an assessment of the banking sector to evaluate risks and assess progress in implementing the 2009 Financial Sector Assessment Program recommendations.

- **The collection of supervisory data is being improved.** Strengthening the monitoring of FSIs will support offsite supervision by accurate and timely regulatory reporting. The authorities have been making progress in introducing an automated system for the collection of FSI data, as well as an early warning system for monitoring systemic risk indicators. They plan to complete an automated data collection system by June, which would allow supervisors to conduct regular analysis on a quarterly basis, with data submitted by banks no more than eight weeks after the end of each quarter.

- **Supervisory processes for home-host relationships require further attention.** Offshore activities by many Jordanian banks are significant in terms of their revenue impact (Box 5). Regular onsite cross-border examinations are not yet a feature of the supervisory cycle or part of the CAMELS risk-rating approach. Staff emphasized that a systematic approach to home-host supervision was important and welcomed plans to host a supervisory college for Arab Bank.[9]

- **Initiatives to strengthen capital buffers and the regulatory framework are ongoing.** The CBJ has implemented numerous bank-specific measures to increase capital buffers. For those few banks that have capital adequacy ratios just above the regulatory minimum, staff argued for raising capital. It welcomed the CBJ's plans to strengthen the crisis management framework and encouraged the authorities to use Fund Technical Assistance (TA) to proceed with the implementation of Basel II.

31. The anti-money laundering/combating the financing of terrorism (AML/CFT) framework is being strengthened (¶33). During its April 2013 plenary meeting, the Middle East and North Africa Financial Action Task Force acknowledged the progress made in addressing the deficiencies outlined in the 2009 mutual evaluation report. To further improve the effectiveness of the AML/CFT regime, the authorities have requested Fund TA.

Authorities' Views

32. The authorities felt that cross-border supervision and efforts to reduce banks' vulnerabilities were appropriate. They agreed that there was scope for improvement on cross-border supervision, but argued that onsite reviews are performed at least once every two years with a full review of cross-border establishments. They also noted that informal channels of information-sharing with host supervisors are effective. Regarding capital ratios, the authorities pointed out that they were targeting a capital adequacy ratio of 14 percent to ensure that all banks are well capitalized. While some banks are still to achieve that level, supervisors are foremost working to address the structural features of weaker banks' business models to improve asset quality, increase coverage ratios, and stabilize earnings. Capital injections or banks selling assets might be part of a comprehensive package.

C. Policy Theme 3—Inclusive Growth and Job Creation

33. Though Jordan has considerable potential, most of the obstacles to growth have been long standing. Jordan's infrastructure is good and planned electricity tariff increases are not expected to strongly affect its competitiveness (Box 6). Also, the private sector has the capacity for innovation and ability to identify profitable products for investments. Jordan's political risks are below the regional average, but are higher than the EM average and could be a deterrent to investment.[10] While macro-risks are being addressed in the program, there are

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[9] Arab Bank has extensive operations in the region and more broadly. It is active in over thirty countries and earns 80 percent of its group revenue outside of Jordan.

[10] See Political Risks Services Group, Inc.

weaknesses in the business environment, labor markets, and institutions. Discussions on structural issues were closely coordinated with the World Bank.

34. Indeed, poor labor market and social outcomes are entrenched.

- **Unemployment** is a chronic problem, averaging 13.7 percent during 2000–10 and 12.6 percent over the last three years. Young people, ages 15 to 24, account for almost half of the unemployed, and the youth unemployment rate, at about 31 percent, is among the highest in the world. Unemployment rates tend to be highest among the educated. For females, they are double that of males, because of much lower employment-to-working age population ratios and despite lower formal labor force participation. In fact, on all female labor market outcomes, Jordan ranks low, even below the MENA average, which in turn has worse female outcomes than the average of any other region in the world.

- World Bank analysis shows that **poverty** remains a concern. By 2010—the latest year for which data are available—an estimated 14.4 percent of the Jordanian population were below the poverty line. And about 33 percent of households experienced "transient" poverty—that is, they were poor during at least one quarter of the year, even though officially, they are considered non-poor because their annual per capita consumption exceeded the poverty line. At the same time, **inequality** appears to be an issue, with the top three expenditure deciles recording stronger consumption growth than the bottom four deciles. The World Bank is currently helping the authorities to strengthen their poverty analyses, including by estimating the distributional impact of policies.

35. Jordan's key challenge is to create jobs amidst ongoing fiscal consolidation. The consolidation is designed so as to minimize the adverse impact on growth by accelerating capital spending and creating room for private sector development. But the employment challenge is daunting. To absorb the new entrants to the labor force, Jordan will need to increase employment by an estimated 400 thousand full-time positions over 2013–20. These new jobs will need to be generated by the private sector, as employment in the public sector as well as emigration to the Gulf can no longer absorb as many Jordanians as they used to.[11] Staff stressed that, in the absence of further reforms to labor and product markets, creating that many jobs would require an average annual real GDP growth of 6.1 percent—a tall order. Current growth forecasts would only generate 275 thousand jobs.

Business Climate

36. Reforms to improve the business climate need to be reinvigorated. Jordan's scores in international comparisons are low, particularly on investor protection, contract enforcement, and access to finance. Reversing such outcomes would create an environment that is more conducive

[11] Emigration to the GCC has been an important employment strategy for Jordanians over the past several decades, especially among skilled males.

to investment and competition. It would also give incentives for workers to move out of the informal sector, where they have very little protection, and into the formal sector, with positive implications including on tax revenue. Staff reiterated that there is a pressing need to step back and review why long-standing reforms have stalled and whether there is a need to revamp the agenda.

37. Legislation to improve the private investment climate is proceeding slowly (¶39). Staff urged the authorities to work with parliament to expedite approval of the laws on investment, secured lending, insolvency, and Public-Private Partnerships (PPP). Legislation in line with international standards could create a more level-playing field, by enhancing the transparency of the rules governing investment. Staff welcomed the authorities' intention to approve any new incentives only after a cost-benefit analysis and in conjunction with compensating measures. It also noted that stability in the legal framework was important for investors and that re-opening agreed terms could thwart investor interest.

38. Steps are taken to further promote access to credit and financial inclusion (¶42). The financing needs of the government might have led to some crowding out of the private sector (Box 7), but the gradual reduction of government financing needs will make more space for the private sector in the medium term. Moreover, most of the $70 million loan from the World Bank for Small and Medium-Size Enterprise finance has already been disbursed and the CBJ is seeking to mobilize further donor support. At the same time, weaknesses such as difficulties in providing collateral are being addressed.

Labor Market Reform

39. More focus is needed on the labor market (¶38). The NES is designed to address high unemployment and provide employment opportunities for Jordan's growing labor force. To date, however, there has been no clarity on specific policy actions and associated timelines. Staff stressed the need to clarify NES' implementation status, including specific measures, and to step up engagement with international institutions that have labor market expertise.

40. Reforms could improve employment outcomes in the private sector. The fact that unemployment has remained high for so long suggests that the problem is largely structural and will not be resolved by a cyclical increase in output. What is needed are labor market reforms aimed at addressing:

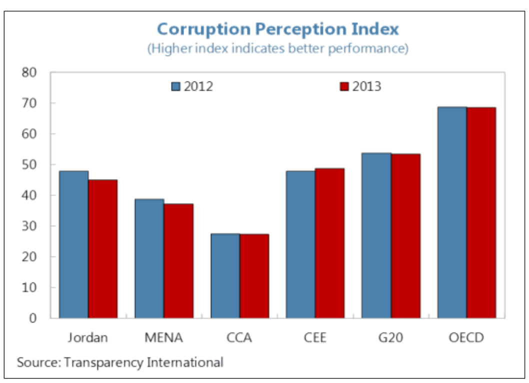
- ***Skills mismatches.*** The education system may not be producing graduates with marketable job skills, as suggested by the concentration of unemployment among the youth and educated, and the fact that firms regularly cite the lack of suitable skills among job applicants as an significant constraint to hiring. Thus, more focus is needed on realigning curriculums with private-sector needs. To put the unemployed into jobs, policy-makers could also scale up and replicate promising training programs, such as the Job Compact.

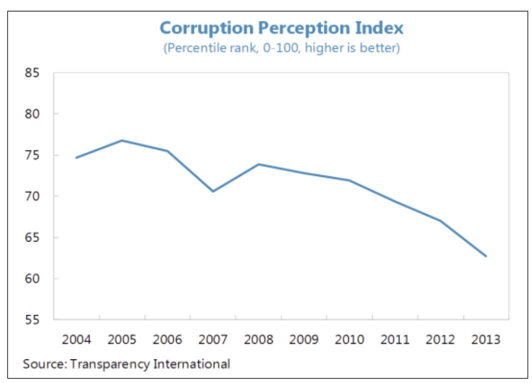
- ***Public sector hiring practices and compensation policies.*** The public sector has been an extraordinarily important source of employment. Its hiring practices have typically placed a premium on diplomas over actual skills, influencing educational outcomes and contributing to skill mismatches. At the same time, the comparatively greater job security, higher average wages, and more generous non-wage benefits offered by the public sector have inflated wage expectations among new entrants. Therefore, public sector hiring will need to place greater emphasis on skills and competition. Moreover, to strengthen the link between compensation and productivity, adjustments in government pay scales will be needed within a framework of overall wage restraint.

- ***Female participation.*** The NES suggests that various factors have led to weak labor market indicators for females, specifically: employers' perceptions; limited access to information on job opportunities; the lack of targeted active labor market policies for females; the lack of maternity benefits in the private sector; and the absence of affordable and dependable childcare. Addressing such constraints could go a long way to unlocking the employment potential of Jordanian women.

Quality of Public Institutions

41. Implementing changes hinges on strong public institutions. A large body of empirical work identifies better quality of institutions as a key driver of sustainable improvements in living standards. It finds that better institutions—that is, environments and policies providing incentives that encourage productive activities and discourage rent-seeking, corruption, and theft—not only foster physical and human capital accumulation, but also enhance total factor productivity.[12] Jordan performs well within the region in the perception of corruption though its ranking relative to other countries has deteriorated over the last years. Strengthening public institutions could help improve perceptions and support greater political involvement through more transparency and accountability.





[12] Hall, R.E., Jones, C.I. (1999), "Why do some countries produce so much more output per worker than others?" Quarterly Journal of Economics 114, 83–116; Acemoglu, D., Johnson, S., Robinson, J.A. (2001), "The Colonial Origins of Comparative Development: An Empirical Investigation" American Economic Review 91 (5), 1369–140; and Acemoglu, D., Johnson, S., Robinson, J.A. (2005) "Institutions as a Fundamental Cause of Long-Run Growth" in Handbook of Economic Growth, Volume 1A; Edited by Philippe Aghion and Steven N. Durlauf.

42. The committee to reinforce integrity could anchor efforts in transparency (¶40). Staff welcomed the establishment of this independent committee that will monitor the implementation and enforcement of an executive plan. This plan, which was prepared after broad consultations, sets an ambitious agenda of reforms, aiming at developing a culture of integrity in all of segments of the society, strengthening the rule of law and judiciary independence, and promoting transparency in government policymaking and decision-making.

43. Strengthening the structural fiscal agenda would not only generate revenue, but also foster transparency (¶s 12, 18, 19, 35–37). Staff encouraged the authorities to train (possibly with Fund TA) and empower staff in the newly-established macro unit, which should become the linchpin for macroeconomic monitoring.

- **Improvements in revenue administration are encouraging.** Collection efficiency and segment management are benefitting from the reclassification of taxpayers based on size and industry; better information sharing across public agencies; and further improvements of the national registry. Looking forward, staff encouraged the authorities to go more strongly after tax evasion, including by strengthening penalties and modernizing its audit programs in line with international standards. Removing sales tax exemptions would help to streamline revenue administration.

- **Public financial management (PFM) reforms are progressing but more is needed.** Commitment controls will prevent a re-occurrence of arrears, providing assurances that the program's cash targets are binding. Still, there is a need to improve the supervision of off-budget health funds and, to this end, the roll-out of the Government Financial Management Information System to the ministry of health is encouraging. Rather than looking into all trust accounts, staff encouraged the authorities to focus only on large ones with a view to consolidating them swiftly into the treasury single account. This would allow a better assessment of the size of the government transactions and the underlying fiscal position.

- **A rigorous selection of public capital projects will help make the most of scarce resources and could boost growth.** Staff welcomed that the authorities are establishing a framework for managing public investment with assistance from the World Bank. This will not only increase transparency of public spending but also maximize its impact on growth and jobs. Projects should be prioritized based on standardized financial and economic cost-benefit analyses, taking into account fiscal costs, including contingent liabilities. Such analyses should also inform the decision on whether to fund the projects from the budget or through PPPs.

- **Mega-projects under consideration as PPPs will need to be carefully managed.** Some of these projects could become a game changer in the long term. They include: a freight railway linking Jordan with Syria, Iraq, and Saudi Arabia; a water desalination plant on the Red Sea; the exploitation of oil shale; the construction of a pipeline from the Iraqi oil fields around Basra to the Aqaba port (for use both in Jordan and for exports); nuclear energy; and direct gas imports through a pipeline from the Eastern Mediterranean. These projects could produce large positive externalities and improvements in the current and fiscal accounts. It is thus critical to strengthen the newly created PPP unit. Because some of the energy projects could generate revenue, staff recommended working proactively on addressing the challenges arising from the taxation of natural resources and designing a fiscal framework to anchor fiscal policies.

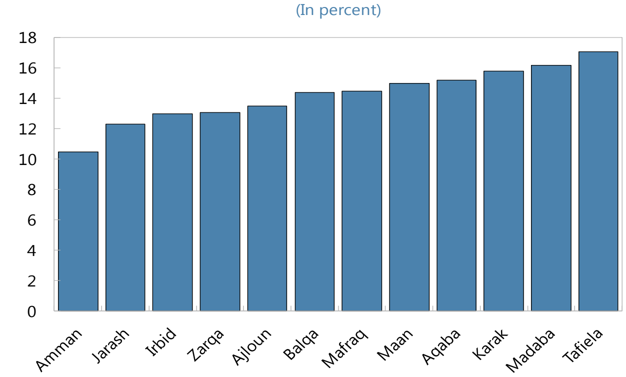
Authorities' Views

44. **The authorities felt that the standard indicators of business environment reforms did not tell the whole story.** Though acknowledging some value in these indicators, they noted that the indicators could provide a misguided picture. For instance, adequate and broad access to finance is ensured by various products, including from micro-finance and nonbank financial services, and the credit bureau will help providing better information to lenders. There is also sufficient room for private sector credit. Nonetheless, a task force is looking into how to improve specific business indicators. On perceptions of corruption, the authorities believe that this has been unduly magnified; they are working with the media to turn around those perceptions. In terms of obstacles to growth, the authorities regard the ongoing regional uncertainty as the single largest impediment.

45. **Work is in progress to bring together sectoral strategies into a holistic framework.** The authorities noted that they are reviving the structural reform agenda. They hope to achieve synergies and update the strategies in light of the challenges from the Syria crisis. The authorities see Jordan's comparative advantage in skill-intensive sectors, such as business consultation and financial services. While the GCC had been the traditional client for medical and education tourism, this was now less so the case, but other MENA countries (for instance, Libya and Yemen) were substituting for that. The authorities have also started marketing religious tourism.

46. **Work is ongoing to address the chronically high unemployment.** The authorities acknowledged the need to move toward the private sector as the main source of employment. They noted that the problem is challenging because of sizable disparities in unemployment across governorates—ranging from 10.5 percent in Amman to about 17.1 percent in Tafiela—and the massive influx of refugees. In this context, the authorities were skeptical of staff's results that the Syria conflict had no statistical impact on formal labor outcomes, arguing that the presence of refugees is strongly felt throughout the country. In response, staff clarified that its results by no means imply the absence of pressures on the labor market, but rather that such pressures appear to be mostly felt in the informal sector, especially given that refugees are not allowed to

Unemployment by Governorates
(In percent)



Source: Department of Statistics of Jordan.

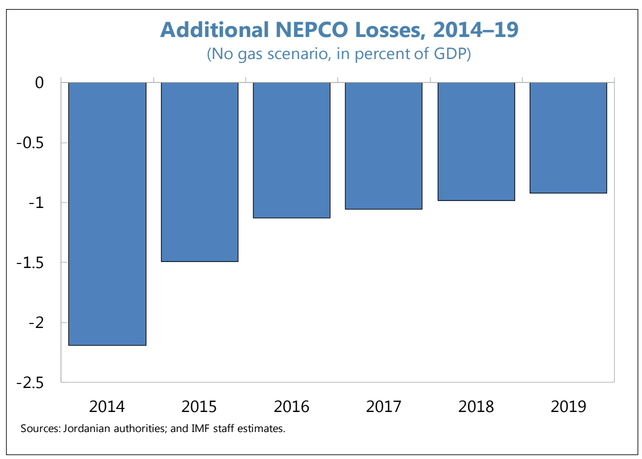
legally work in Jordan. Furthermore, the authorities highlighted several initiatives to put the unemployed into jobs, particularly in remote and rural areas where unemployment tends to be the highest. These include giving incentives to qualified industrial zones to build factories in villages while at the same time intensifying their vocational training programs to make the unemployed employable.

PROGRAM ISSUES

47. The reviews focused on program implementation and laid the groundwork for medium-term consolidation. The second review adjusted the fiscal program to help cushion disruptions in gas supplies and the impact of the Syria conflict. With reserves rebuilt and a sound energy sector strategy in place, the third and fourth reviews centered on measures to underpin the planned consolidation and further reduce program risks (Box 8). Staff stressed that strong ownership is critical for the success of the program and offered TA, which could help reduce implementation risks.

A. Agreements

48. The program safeguards the fiscal targets for 2014 (¶s14 and 20). Regarding the central government, the authorities felt confident that the measures for 2014, along with ongoing improvements in tax administration, would suffice to raise the expected revenue. Nonetheless, they stand ready to implement compensating measures to meet the target should revenue fall short of projections (several options were discussed, in particular on the revenue side). Regarding NEPCO, the authorities expect gas flows to resume soon and reach the average program target in 2014. The program accommodates a temporary disruption in gas flows by adjusting the end-June 2014 targets (on the combined deficit of the central government and NEPCO) by about ½ percent of GDP (the end-2014 target on NEPCO's losses is unchanged). If shortfalls in gas flows in the first half of the year cannot be offset by larger flows later in the year, corrective action is needed, which could be in the form of a temporary electricity tariff or a VAT surcharge.



49. Fiscal consolidation in 2015 will be addressed proactively in the next reviews (¶s16 and 17). For the central government, passage of an adequate income tax law will be a key consideration for staff to be able to assess that the program remains on track to meet its objectives (and thus to recommend the fifth review). Further, the authorities plan to approve by end-September measures which—together with the income tax law—will yield 1.5 percent of GDP and thus cover the full adjustment for 2015.

50. Additional grants could help manage the costs of gas shortfalls and also allow more spending on priorities (¶s10 and 11). Should additional grants become available, they would help first to manage any gas shortfalls (and in this context protect against a need for additional budget cuts). Grants could go also toward restoring public services to their pre-Syria crisis quality or capital spending to boost growth. There appears to be a multitude of studies on the impact of the Syrian crisis on Jordan with very different results, potentially undermining fundraising efforts. Staff noted that the recently completed USAID study provides a long-awaited solid estimate of the fiscal costs of hosting the refugees. It recommended merging this study with others on the macroeconomic and social impact into a consistent fundraising document.

B. Modalities

51. Conditionality has been adjusted to reflect program performance and objectives. PCs for end-June 2014, end-September 2014 and end-December 2014 as well as Indicative Targets for end-March 2015 are proposed to be set as per the MEFP Table 1. The new benchmarks are focused on adjustment of the central government and NEPCO as well as measures to improve the monitoring of the financial sector and prioritize public investment, all of which are macro-critical reforms.

52. The program is fully financed. For the period between April 2014 and March 2015, total grants and loans are expected to reach about $2.5 billion—including $600 million from the GCC, $340 million from the World Bank and Japan, $319 million from the EU, $177 million from the U.S. and $100 million from Saudi Arabia. The remaining gap will be covered by a Eurobond issuance of $1 billion in the third quarter of 2014, for which the authorities are seeking a U.S. guarantee. 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.

53. Staff's assessment of exceptional access criteria remains unchanged. While public debt will continue to increase under a no-policy action scenario, the implementation of the authorities' national program will bring it on a downward path to 79 percent of GDP by 2019, with a debt service burden that would remain manageable (criterion 2). The assumptions underlying this assessment are broadly unchanged from the last review. Moreover, the authorities aim at lengthening the maturity profile of domestic debt to reduce rollover risks; the government is also committed to debt reduction, with the minister of finance announcing in his budget speech to parliament that he intends to reduce central government debt to 60 percent of GDP in the long term. Other exceptional access criteria also continue to be met: current account pressure remains high (criterion 1); prospects for sustained market access remain good with some non-resident participation in domestic debt markets and, in the future, Eurobond issuances envisaged without third-party guarantees (criterion 3); and with each successive review the authorities have demonstrated their ability to implement difficult reforms, thus ensuring that the program has a strong prospect of success (criterion 4).

Jordan: External Financing in 2013–15

(In U.S. dollar millions unless otherwise specified)

	2013 Q1 Act	2013 Q2 Act	2013 Q3 Act	2013 Q4 Act	2013 Total	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Total	2015 Q1
Grants excluding GCC	**237**	**306**	**49.7**	**123**	**716**	**220**	**33**	**33**	**305**	**592**	**0**
EU	0	0	0	78	78	0	0	0	83	83	0
Saudi Arabia (budget support)	200	100	0	0	300	0	0	0	0	0	0
Saudi Arabia and Kuwait (development budget support)	36	0	34	42	113	43	33	33	33	143	0
US	0	200	13	0	213	177	0	0	177	354	0
Other	1	6	3	3	13	0	0	0	12	12	0
GCC grants											
GCC grants received by CBJ	1,000	250	0	0	1,250	0	300	0	300	600	0
GCC grants received by MOF	59	9	98	21	187	120	255	450	537	1,362	64
Loans	**0**	**0**	**0**	**1,400**	**1,400**	**150**	**450**	**1,105**	**9**	**1,714**	**0**
France	0	0	0	69	69	0	0	0	0	0	0
Japan	0	0	0	0	0	120	0	0	9	129	0
WB	0	0	0	81	81	30	319	0	0	349	0
Other (Eurobond etc)	0	0	0	1,250	1,250	0	0	1,000	0	1,000	0
EU	0	0	0	0	0	0	131	105	0	236	0
Memorandum :											
Annual cumulative total (MOF) 1/	297	611	758	2,302	2,302	490	1,228	2,816	3,668	3,668	64
Annual cumulative total (MOF) in JD	210	433	538	1,632	1,632	347	871	1,997	2,600	2,600	45
Annual cumulative total (CBJ) 2/	1,237	1,793	1,843	3,366	3,366	370	1,153	2,291	2,906	2,906	0
Stock of GCC grants in CBJ	1,652	1,893	1,771	1,750	1,750	1,687	1,732	1,282	1,045	1,045	981

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

Note: An Islamic Development Bank loan (US$ 358 million in Q4 2013) is not included in this table.
1/ Includes grants excluding GCC, GCC grants received by MOF, and loans.
2/ Includes grants excluding GCC, GCC grants received by CBJ, and loans.

54. **Jordan has the capacity to repay the Fund.** Jordan has an unblemished record of payments to the Fund and its capacity to repay has been strengthened by a 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 4.8 percent of GDP in 2015.

55. **The CBJ is addressing the recommendations of the safeguards assessment concluded in January 2013 (¶43).** It is introducing additional disclosures in its financial statements to be finalized by end-March 2014, and is working on removing audit qualifications to ensure fair and transparent presentation of assets on its balance sheet. The CBJ has also reviewed procedures and controls over the program NIR compilation process, and will ensure reconciliation with the accounting records within six weeks after each test date in 2014. As a next step, it will review the CBJ law and prepare draft amendments by end-2014 with the view to strengthen oversight arrangements and legal underpinnings of its autonomy. In addition, the internal audit review of procedures for program monetary data compilation needs to include net domestic assets and incorporate audits of the reported data, as well as an independent recalculation of the data in accordance with the technical memorandum of understanding.

STAFF APPRAISAL

56. Jordan's external and domestic environment is narrowing its space for reforms. Growth has picked up, but is insufficient to make a dent in persistently high unemployment and transient poverty. The social situation is stretched further by absorbing Syrian refugees in the economy. Hosting the refugees is also putting pressures on fiscal and external accounts, which remain vulnerable to changes in international energy prices and the fuel mix (in particular fluctuations in gas inflows from Egypt).

57. Fiscal consolidation is proceeding nonetheless and reserves have now reached comfortable levels. Both the central government and NEPCO deficits stayed within the 2013 program targets. After rebuilding reserves in the first half of 2013, the CBJ thrice reduced interest rates since the summer to stimulate private sector growth.

58. Consolidation needs to go hand-in-hand with a stronger agenda for more growth and jobs. A continued reduction in the combined deficit is needed to return debt to a downward trajectory over the medium term. Though the fiscal adjustment is designed to support growth and reverse a crowding out of the private sector, reforms are needed to address long-standing structural weaknesses.

59. Steadfast execution of the 2014 budget is key. To this end, timely implementation of measures is crucial. Staff also urges the authorities to monitor revenue closely and act quickly if expected gains from measures turn out to be lower than expected. Executing the full capital spending program will help support growth.

60. Deep and proactive tax reform is needed to underpin the medium-term adjustment. The revised income tax law presents an opportunity to substantially raise revenue and to fully realize this, the authorities should work with parliament to lower the personal income tax threshold. This, together with a reduction in tax incentives, would provide a solid basis for medium-term consolidation. There is also scope for revisiting the wage bill and the general food subsidy.

61. Utilities are now focused on implementing their strategies toward medium-term cost recovery. Energy sector reform is well underway, but remains vulnerable to shortfalls in gas from Egypt. Staff thus urges the authorities to prepare a contingency plan if gas flows are not resumed in the spring. Also, better coordination with the ministry of finance would ensure that NEPCO stays current in its payments. The key to the success of the water strategy lies in close monitoring and the implementation of the investment plan.

62. All efforts should be made to maintain an adequate reserve buffer. This is critical because of a continued high current account deficit and elevated risks. Staff recommends a neutral monetary policy stance in the near future, mostly in light of uncertainty surrounding the drivers of core inflation.

63. The banking sector remains sound, but supervisory initiatives should be expedited. Higher frequency and timeliness of FSI is a priority. Given the importance of bank activities in other countries, enhancing cross-border supervision and progressing toward implementation of the Basel frameworks would reduce vulnerabilities.

64. Structural reforms need to be retooled toward generating more jobs. Reversing Jordan's poor labor market outcomes requires a renewed momentum in structural reforms, which should be reviewed jointly with development partners. Staff urges the authorities to tackle with parliament long-standing legislation to create a more level-playing field for investors. Labor market reforms should aim at reducing skills mismatches, changing public sector hiring practices and compensation policies, and harnessing the employment potential of Jordanian women.

65. Stronger institutions could become a driver of growth. In particular, tangible progress toward more transparency and accountability could create a broader buy-in. Prioritizing public investment toward maximizing its impact on growth and unemployment is critical to make the most of scarce resources. Moreover, efforts in improving tax administration would complement tax policy changes. At the same time, PFM reforms—including by consolidating trust accounts—could substantially facilitate fiscal management.

66. Risks remain high. Given the high debt, there is little room for further slowing the adjustment path. At the same time, Jordan is already struggling to host the Syrian refugees and further inflows would likely be difficult to absorb. Also, the uncertainty surrounding gas inflows from Egypt is expected to stay, potentially requiring substantial additional financing. These pressures together with the country now entering its third year of consolidation make the case for more outreach and a stronger involvement of stakeholders. The capacity to manage the program is slowly improving with the help of TA, including from the Fund.

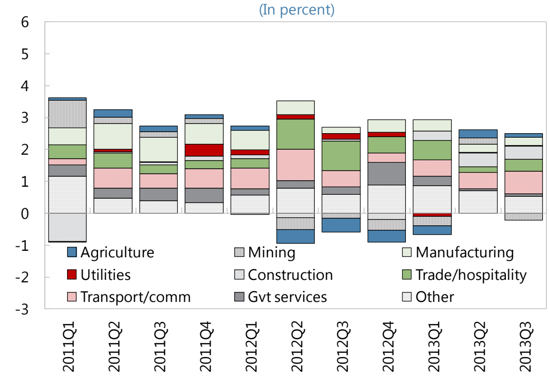
67. More grants would help in managing risks. With the analysis of the impact of the Syrian crisis on Jordan now more advanced, staff emphasizes the importance of a concerted fundraising drive. Grants could not only go into covering any shortfalls in gas from Egypt, but also toward other priorities, including projects to stimulate growth and promote employment.

68. Staff supports the completion of the third and fourth reviews. It also supports (1) the waiver of nonobservance for the end-March 2014 PC on the combined public deficit because the slippage is temporary and expected to be offset during 2014; (2) waivers of applicability for the end-March 2014 PCs on the primary fiscal deficit and on NIR; and (3) setting PCs for end-June, end-September, and end-December 2014. It is proposed that the next Article IV consultation be held on a 24-month-cycle.

Figure 1. Jordan: Real Sector and Financial Markets, 2011–14

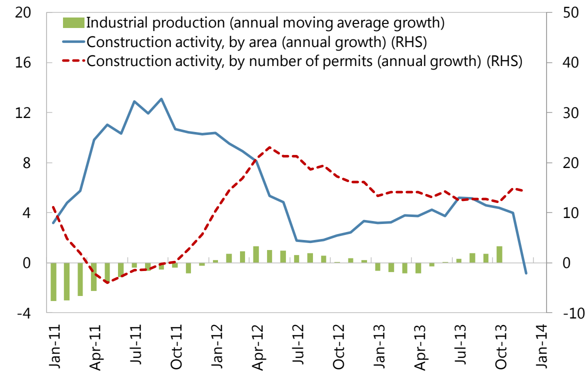
Growth declined slightly in 2013Q3, due to difficulties in the mining sector,...

Contribution to Quarterly Growth
(In percent)



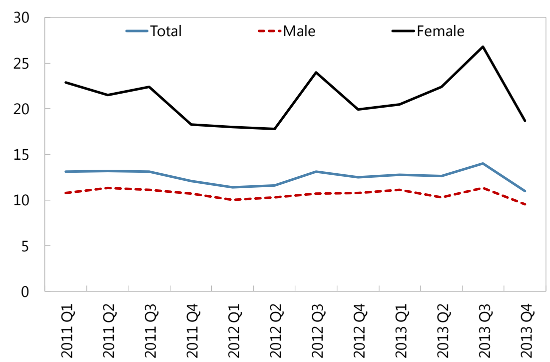
...but was buoyed by a recovery in the construction sector...

Industrial Production and Construction Activity



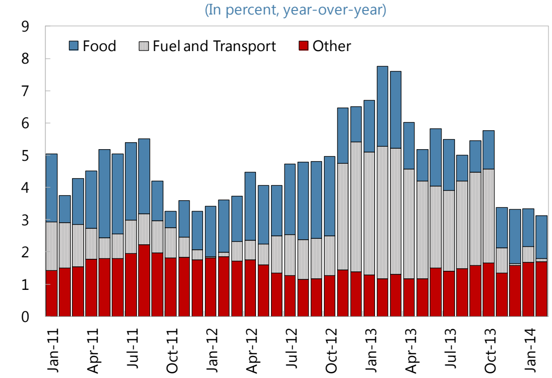
...while unemployment remains high.

Unemployment Rate
(In percent)



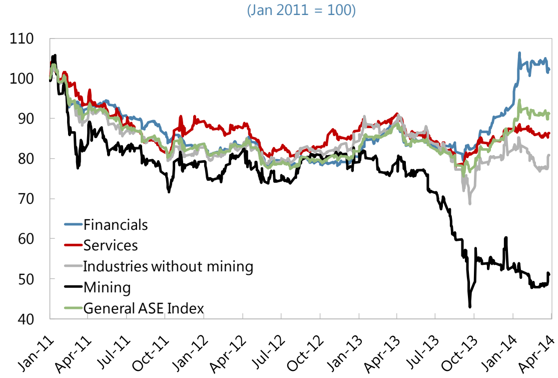
A slowdown in fuel prices helped to reduce headline inflation, but core inflation remains elevated.

Contribution to Inflation
(In percent, year-over-year)



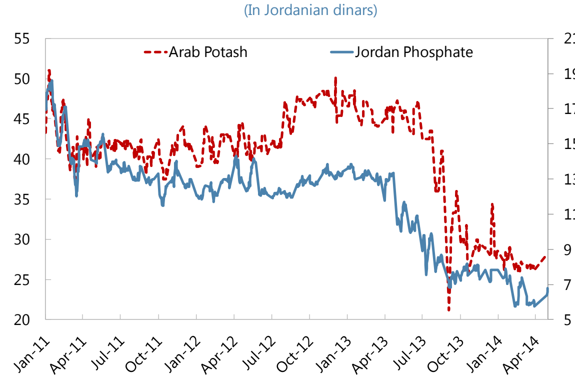
Stock indices increased sharply over the last few months...

ASE General Index and Components
(Jan 2011 = 100)



...except for the mining sector.

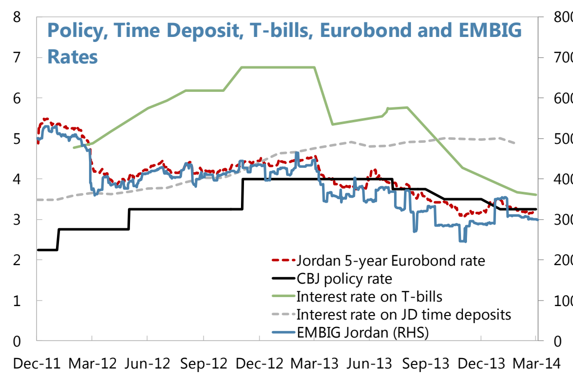
Stock Prices of Major Mining Producers
(In Jordanian dinars)



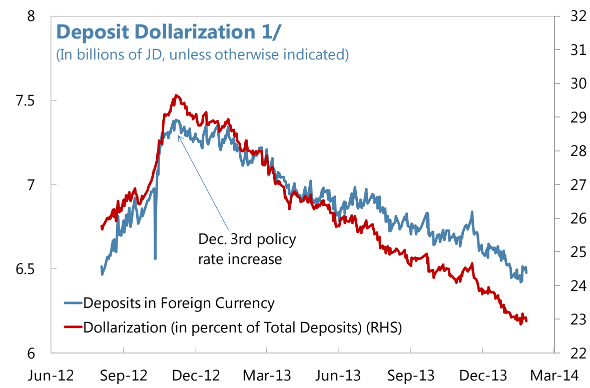
Sources: Jordanian authorities; and IMF staff calculations.

Figure 2. Jordan: Monetary Sector Developments, 2011–14

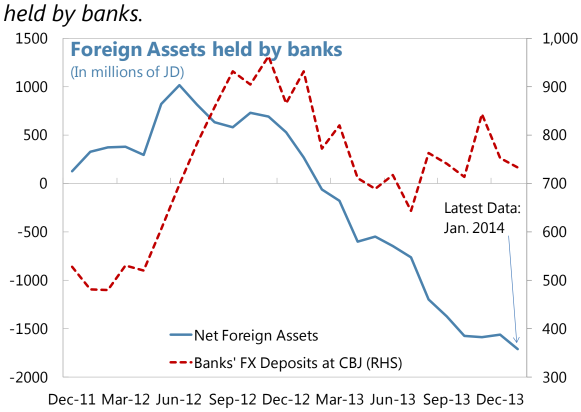
Tighter monetary policy and improved confidence….



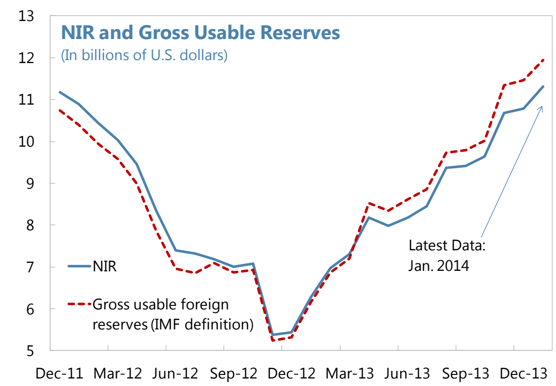
…led to a decline in dollarization of deposits…



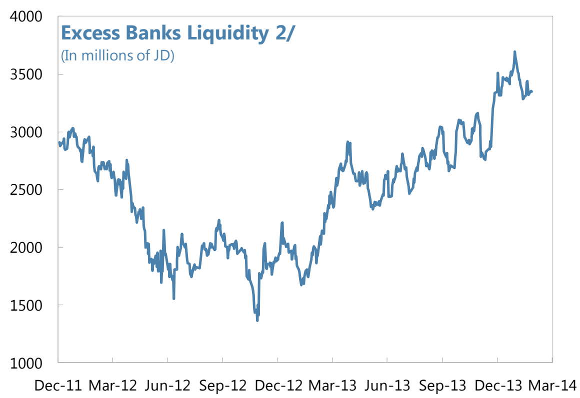
… and a corresponding decline in foreign currency assets held by banks.



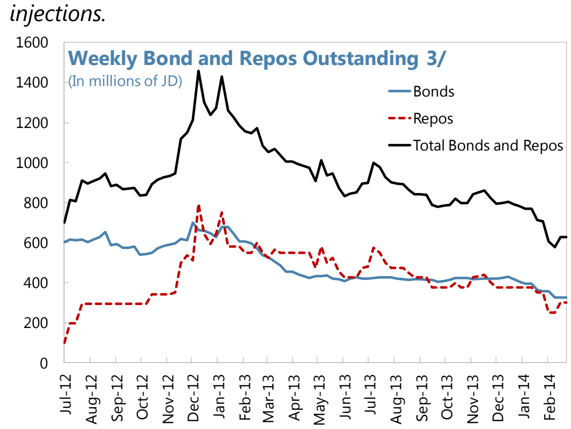
As a result, CBJ reserves rebounded sharply….



… and dinar liquidity normalized…



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



Sources: Jordanian authorities; and IMF staff calculations.

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. Data available since September 2nd, 2012.

2/ Includes banks' excess reserves and overnight window deposits held at the CBJ. Excludes Islamic banks that typically hold excess reserves because they do not hold government paper.

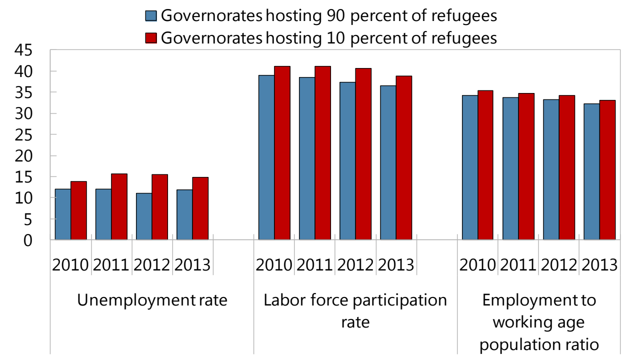
3/ Data started to be collected on July 1st, 2012.

Box 1. Macroeconomic Impact of the Syria Crisis

The Syrian crisis has greatly impacted the Jordanian economy.

Growth. Staff estimates that the crisis has delayed the economy's convergence to potential growth, with estimates pointing to losses of measured output growth of about one percentage point in 2013.

Syrian Refugees' Labor Market
(In percent)



Sources: Jordanian authorities; and IMF staff estimates.

Labor markets. The influx of Syrian refugees has led to a significant crowding out of Jordanian workers in the informal sector. At the same time, and based on available labor market data, staff's analysis finds no conclusive evidence supporting the hypothesis that the Syria crisis had negatively impacted Jordanian formal unemployment outcomes, which could be attributed to the fact that Syrian refugees are legally not allowed to work. In fact, unemployment rates have not worsened relative to pre-Syria crisis levels in governorates cumulatively hosting about ninety percent of Syrian refugees, while such rates have marginally deteriorated in governorates hosting the remaining ten percent. Instead, the public sector creating fewer jobs appears to be the main driver of worsening unemployment outcomes at the national level over the past two years, because the sector has been generating much of the jobs in the last decade. These results are broadly in line with staff's empirical results that unemployment in Jordan has been largely a structural rather than a cyclical phenomenon.

Inflation. The Syria conflict has a statistically significant effect on Jordan's rental prices in 2013 (though not on domestic food prices), with an estimated impact on end-of-period CPI inflation of about 0.6 percentage points by year-end.

External current account. The crisis has also put further strain on the current account, but the net impact is not clear. Trade through Syria—an important element of cross-border trade in the region—has been all but eliminated, and the increased size of the population has resulted in a sharp rise in overall imports. Non-energy imports increased by over 11 percent in 2013. Nonetheless, transfers through the UN agencies and from other private citizens abroad have helped to dampen the effect. A redirection of GCC tourists from more affected countries (for example, Lebanon) has also been beneficial.

Box 1. Macroeconomic Impact of the Syria Crisis (concluded)

Fiscal accounts. Based on detailed bottom-up estimates for the central government and utilities, a recent study financed by USAID calculated the fiscal impact of the Syria crisis. Fund and World Bank staff collaborated with the experts on the methodology.

- The largest costs relate to security and water. Regarding security, the military has become the first responder and first aid provider for refugees and is responsible for transporting the refugees from the border. For water, the rapid rise in the number of users causes stress on water supply systems with many refugees now living beyond the reach of support systems.

- The study distinguishes between direct costs to meet the humanitarian needs of the refugees and indirect costs to re-establish the pre-crisis quality of public services. **Direct costs** estimates by USAID are broadly in line with those in the program (which were provided by the authorities). This implies that public services remain below their pre-crisis quality (for instance, school class sizes have increased). For **indirect costs**, the study uses the depreciation over an investment's life span rather than including the full costs of investment upfront. This explains why other studies, including by the ministry of planning, show substantially higher fiscal costs.

Fiscal Cost of Hosting Syrian Refugees

(In million of JD, unless otherwise indicated)

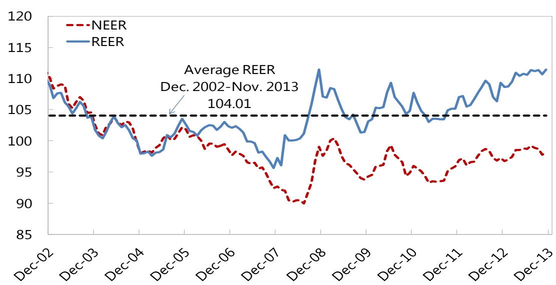
	2013			2014		
	Program	USAID		Program	USAID	
		Total	o/w: direct		Total	o/w: direct
Total	**242**	**442**	**284**	**329**	**617**	**361**
(in percent of GDP)	1.0	1.8	1.2	1.3	2.4	1.4
Central government	**169**	**277**	**204**	**251**	**385**	**249**
Security	…	165	131	…	207	134
Health	…	52	42	69	85	69
Education	…	26	0	…	42	2
Subsidies	…	19	19	…	31	31
Public works	…	15	10	…	21	14
NEPCO	**48**	**57**	**57**	**52**	**82**	**82**
WAJ	**24**	**107**	**23**	**26**	**150**	**30**

Sources: IMF staff and USAID.

Box 2. Exchange Rate Assessment

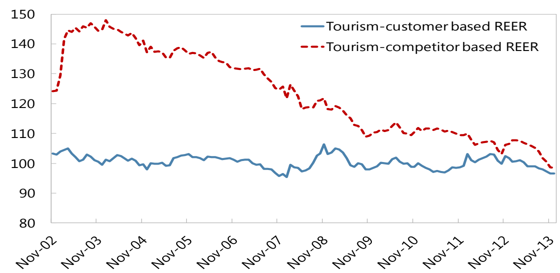
Jordan's real effective exchange rate (REER) has appreciated but tourism-based measures remain competitive. The trajectory of the trade-weighted REER turned positive in recent years as inflation in Jordan has been higher than in trading partner countries. The REER is currently between 5 and 10 percent above the 10-year average but is broadly in line with longer-term averages. Moreover, tourism-based measures of competitiveness,[1] which account for one-quarter of exports of goods and services, have continued to improve when compared with Jordan's competitor countries.

Nominal and Real Effective Exchange Rates
(2005=100)



Source: Information Notice System (INS).

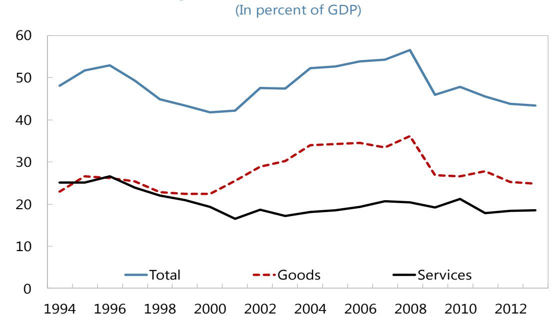
Tourism-Based Real Effective Exchange Rates
(Index)



Sources: Information Notice System; and IMF staff calculations.

Export performance has been lackluster since the onset of the global financial crisis. This reverses a trend of robust export performance in previous years. Export volumes increased by 1 percent on average over the past five years (2008–12), relative to 5 percent in the preceding five years (2003–07). As a share of GDP, exports are unchanged from their level in the mid-1990s. Recent performance reflects a combination of factors, including lower world growth, regional instability—which in particular affects tourism—and difficulties in the phosphate industry. A narrower focus on non-traditional exports—excluding phosphate, potash, and fertilizer—however, shows that export values were rising on average 7.3 percent in the past five years.

Exports of Goods and Services
(In percent of GDP)



Source: World Economic Outlook.

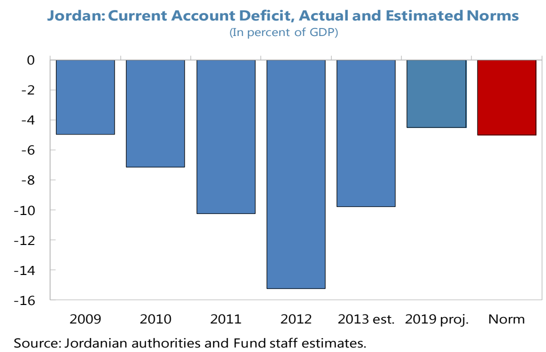
Estimates from the macro-balance approach point to a current account deficit norm between 3 and 6 percent of GDP. This is consistent across various methodologies (see text table), including samples that are tailored to the Middle East and developing countries.[2] These estimates are largely in line with estimates done at the time of the last Article IV. However, as with many of these methodologies, there is significant uncertainty with regard to the specific point estimates, with standard errors relatively large in all three specifications shown. The external stability approach points to a similar current account norm as the macro-balance approach, while the equilibrium real exchange rate approach points to an overvaluation.

A norm of this magnitude is consistent with Jordan's financing prospects: (i) foreign direct investment was approximately 5 percent of GDP in 2013 but has been on average much higher in the previous ten years (approximately double the current level); (ii) a deep domestic government bond market and an active stock market will continue to attract regional portfolio flows; and (iii) external debt levels remain relatively low (see External DSA).

Box 2. Exchange Rate Assessment (concluded)

Estimated Current Account Norms and Implied ER Misalignment

	MB					
	(1)	(2)	(3)	ES	ERER	PPP
CA norm	-6.0	-3.6	-5.3	-4.2	...	...
ER misalignment	-6.2	3.7	-3.3	1.2	24.4	-2.4



There is little evidence of a real exchange rate misalignment after closing policy gaps. The current baseline projects the current account will safely reach the norms estimated that are consistent with external stability. Underlying this projection is a current account adjustment of more than 7 percent from 2013 to 2019, which requires the development of cheaper energy sources (accounting for about two thirds of the adjustment) and fiscal consolidation. Without such an adjustment, the current level of the current account is worse than the norm, and would imply an overvaluation of around 20 percent.

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[1] Following the methodology of Emilio Pineda, Paul Cashin, and Yan Sun, 2009, "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union, "IMF WP 09/78.

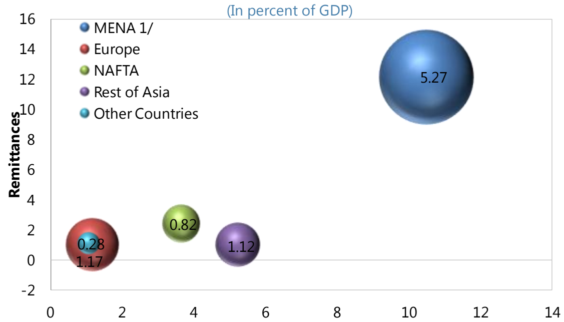
[2] For full details see Beidas-Strom and Cashin, 2011, "Are Middle Eastern Current Account Imbalances Excessive?" IMF WP 11/195. Column two estimates the model with FDI and column three estimates the model with alternative measures for the investment climate.

Box 3. Jordan's Interconnectedness

Jordan is a very open economy. Imports of goods are more than half of GDP and exports amount to more than one quarter. Tourism receipts and remittances are each about 10 percent of GDP and foreign direct investment (FDI) exceeds 5 percent of GDP.

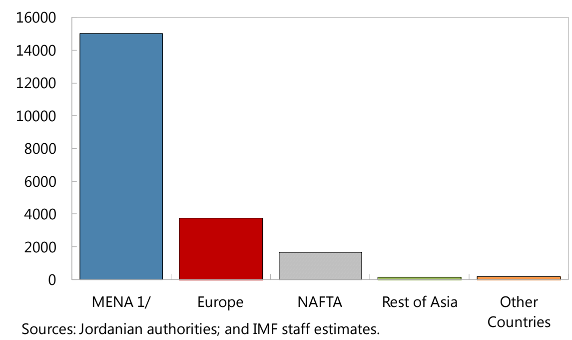
Links with Arab countries (in particular the GCC and Iraq) are the strongest. They account for the largest share of exports, remittances and tourism receipts. The U.S. and European countries follow at some distance, while a significant share of exports goes to other Asian countries (mostly to India, China, and Indonesia), in particular phosphates and fertilizers. FDI has also historically come from the Gulf region. As of 2009, around 70 percent of the total inward investment position reported by Jordan originated from the Gulf, with Saudi Arabia accounting for 18 percent.

Current Account Linkages
(In percent of GDP)



Bubble size: Tourism receipts.
1/MENA excluding Iran.
Sources: National authorities; and IMF staff estimates.

Jordan: Foreign Inward Investment Position by Source, 2009
(In millions of U.S. dollars)



Sources: Jordanian authorities; and IMF staff estimates.
1/MENA excluding Iran.

Financial links with the MENA region are significant. Jordanian banks have substantial offshore exposures (see Box 5). Ten foreign banks are operating in Jordan, and their share of total banking assets has slightly increased from about 10 percent in 2007 to about 12 percent in 2012. Non-resident deposits, two thirds of which are in foreign currency, are about 11 percent of total deposits. Loans to non-residents have been following a declining trend since 2009 and now amount to 4.4 percent of total credit.

Box 4. Water Strategy

The authorities announced a strategy to eliminate the operating losses of the water companies by 2020. Without action, annual losses are expected to increase to beyond one percent of GDP by 2020. The strategy assumes that donors will finance most capital spending required for improvements in service delivery, given Jordan's unique geographical features and extreme water scarcity (about 0.5 percent of GDP per year on average). Projected investment costs exceed $3.5 billion over 10 years, of which $1.5 billion would be needed by 2016.

The strategy is based on two pillars:

- **Cost savings.** These are expected to stem from: (i) improvements in energy efficiency by modernizing key infrastructure, including by setting up renewable energy generation near pumping stations; (ii) a reduction of physical water losses; and (iii) system optimization.

- **Revenue measures.** The authorities propose a gradual approach to: (i) reduce administrative water losses (for instance, illegal connections and billing inefficiencies); (ii) increase revenue collection through administrative improvements and the outsourcing of bill collection to third parties; and (iii) increase water and wastewater tariffs for households, industry and farmers. The authorities envisage increases in waste water tariffs starting in 2014, but water supply tariffs would increase only starting at end-2015. Envisaged tariff increases exclude most households, whose tariffs are highly subsidized. Connection and service fees have already been increased for some users, and more increases are expected starting in 2015.

Cost Recovery Ratios Implied by the Draft Water Strategy
(In percent)

	2012	2013 1/	2014	2016	2018	2020
Operations and maintenance cost recovery ratio – baseline	97	84	71	66	63	63
Operations and maintenance cost recovery ratio – full implementation of water strategy	97	89	80	85	90	104
Total cost recover ratio – full implementation of water strategy and self-financing of capital investments	59	58	57	61	66	74

Source: Ministry of Water and Irrigation.

1/ IMF staff estimates. Cost recovery ratios decrease in 2013 because of increases in electricity costs and the impact of pumping water from the Disi aquifer, which is very costly.

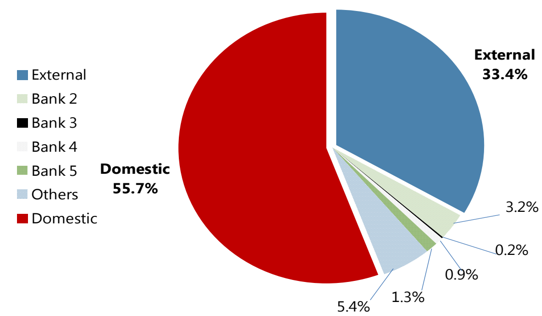
The above measures would reduce the gap between costs and revenue over the medium term, with operating cost recovery expected by 2020.

Box 5. Bank Offshore Exposures

Regionalization is not a recent phenomenon. Motivated by profitability, Jordanian banks—especially large ones—have been active in the region for decades. Regionalization took the form of the establishment of subsidiaries and branches, which were financed first through equity investments (i.e., capital), and then from the profitability of off-shore operations.

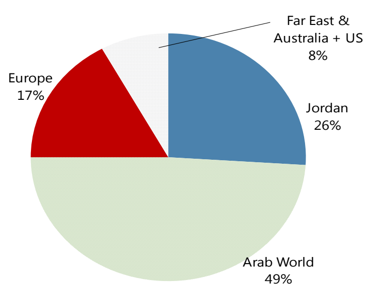
Cross-border exposures are significant. Some 44 percent of total assets in the banking system are held offshore. Arab Bank—the largest bank in Jordan accounting for about one third of domestic banking assets—represents the majority of cross-border exposures. It is systemically important throughout the Middle East and North Africa with a footprint in over 30 countries worldwide. In the Arab world, Arab Bank Group has exposures across the region including: Algeria, Bahrain, Lebanon, Palestine, Qatar, UAE and Yemen. It operates a significant presence in the West Bank and Gaza where it accounts for almost one third of domestic banking system assets and in Yemen for 12 percent. Other domestic banks have direct exposure through subsidiaries and branches including in Egypt, Iraq, Syria, and Tunisia with cross-border exposures for four of the five largest banks being significant.

Total Banking System Assets
(In percent, by geographic mix)



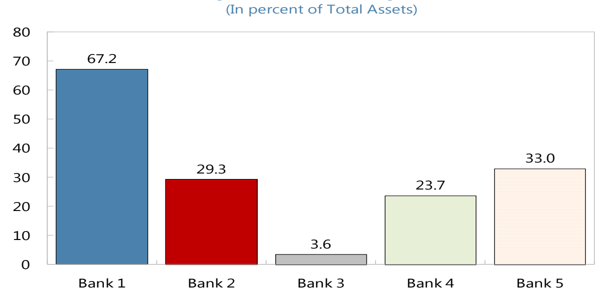
Source: Central Bank of Jordan.

Arab Bank Group - Georgraphical Breakdown of Group Assets
(In percent, as of Dec. 31, 2012)



Source: Standard and Poor's 2013.

Cross Border Exposure of the Top 5 Banks in Jordan
(In percent of Total Assets)



Source: Central Bank of Jordan.

Nonetheless, the regulatory framework is adequate. The CBJ has to approve the establishment of offshore subsidiaries of Jordanian banks. Without it, no offshore activities could take place. While there are no formal caps in place on exposures, at a minimum, each bank subsidiary or branch has to ensure that its capital adequacy ratio (CAR) is in line with international standards. In fact, each subsidiary's capital is subtracted from the parent's bank capital, so the latter also has to maintain the minimum CAR if it expands abroad. In addition to CARs, all banks (parent, subsidiary, or branch) are well-rated in terms of liquidity and asset quality; otherwise, no offshore activity is allowed.

The CBJ is expanding the supervision of banks' overseas subsidiaries. It monitors cross-border exposures and, in some circumstances, has worked with banks to take additional provisions against assets in countries where the risks are high (for instance, banks' exposures to Syria are fully provisioned). The CBJ has also performed several onsite cross-border examinations (in the U.K. and Switzerland for Arab Bank subsidiaries), and plans further examinations for 2014.

Box 6. Impediments to Growth

Competitiveness indicators consistently indicate long-standing weaknesses in the business environment and public institutions.

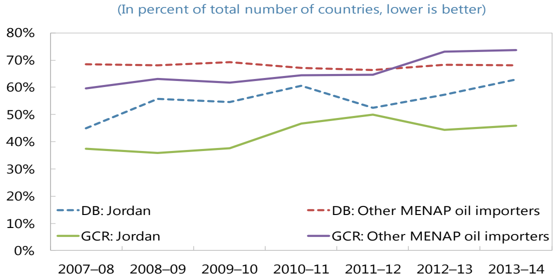
- Jordan ranked 68th out of 148 economies in the **Global Competitiveness Report** published by the World Economic Forum (WEF), which looks at a broader set of structural indicators affecting growth and competitiveness. The report shows low rankings in basic requirements (76th overall, primarily reflecting the poor macroeconomic environment, including high public debt and deficit), and efficiency enhancers (70th overall, due to the limited market size and labor market efficiency). Jordan ranks slightly better for innovation and business sophistication (50th overall) and relatively well on infrastructure (38th out of 148 economies), notably for road and air transport infrastructure, electricity supply, and mobile phone subscriptions.

- A **business survey** by the WEF ranks restrictive labor regulations, tax rates, access to financing, inefficient government bureaucracy, and policy instability as the main bottlenecks.

- Jordan ranked 119th out of 189 economies in the World Bank's **Ease of Doing Business** 2014.[1] It continues to score particularly poorly on "protecting investors" and "getting credit," ranking 170th on both indicators. While better than the average MENAP oil importers, Jordan's performance has not shown any significant improvement since 2009.

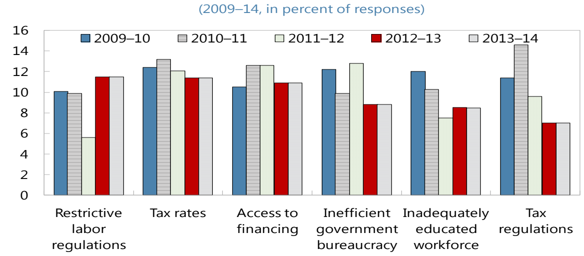
- The 2014 **Index of Economic Freedom** report published by the Heritage Foundation showed relatively good ratings for a low tax burden and "monetary freedom" (which covers price stability and price controls), but poor ones for business regulations and trade openness.

Percentile Rank
(In percent of total number of countries, lower is better)



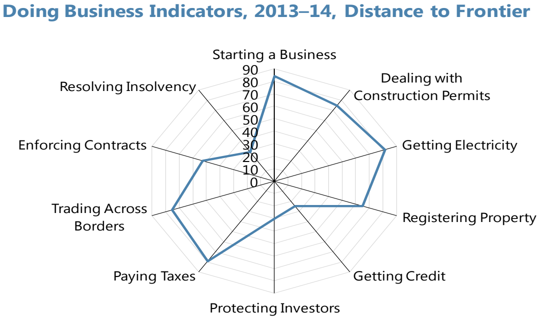
Sources: World Economic Forum Global Competitiveness Reports and World Bank Doing Business Reports.

The Most Problematic Factors for Doing Business
(2009–14, in percent of responses)



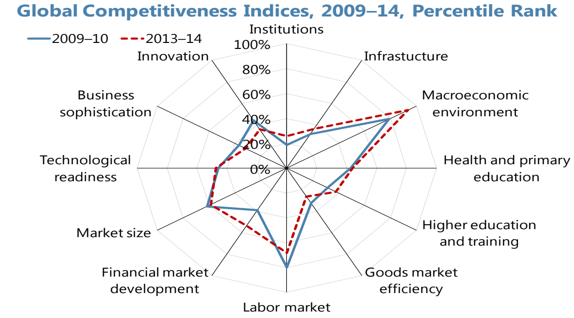
Source: World Economic Forum Global Competitiveness Reports.

Doing Business Indicators, 2013–14, Distance to Frontier



Source: World Bank Doing Business.

Global Competitiveness Indices, 2009–14, Percentile Rank



Source: World Economic Forum Global Competitiveness Reports.

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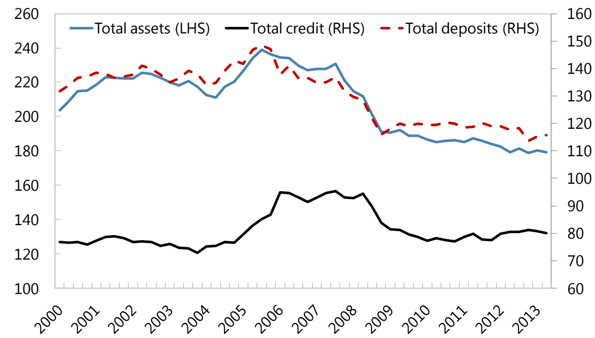
[1] The World Bank Doing Business indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Box 7. Credit to the Economy

Financial intermediation is deep, but credit declined after the global financial crisis. Banks experienced a period of rapid growth in 2004–07, driven by an increase in mortgage lending and loans to finance construction. Similar to many other EMs, the construction and real estate boom ended abruptly in the wake of the global financial crisis. This led to a significant decline of the banking system's aggregate balance sheet in percent of GDP and an increase in NPLs. Nevertheless, Jordan's banking system remains large, with total assets equivalent to about 180 percent of GDP, and total credit to the economy (both private and public sectors) of about 80 percent of GDP (excluding T-bills).

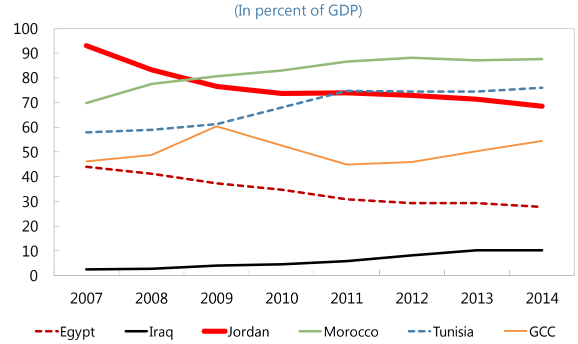
Size and Depth of the Banking System
(In percent of GDP)



Sources: Jordanian authorities; and IMF staff estimates.

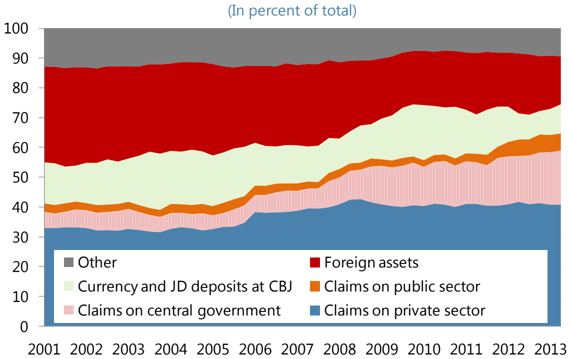
Banks have been increasingly financing the public sector. Banks covered the sharp rise in borrowing by the public sector by reducing cash holdings, deposits at the CBJ, and foreign assets. Largely because of a slowdown in credit growth to industry, trade, and somewhat the construction sector, private sector declined from about 90 percent of GDP in 2007 to about 70 percent by end-2013. This stands in contrast with the trend in most of the MENA region, where the ratios of private sector credit to GDP have rebounded following the global financial crisis.

Banking System Credit to Private Sector
(In percent of GDP)



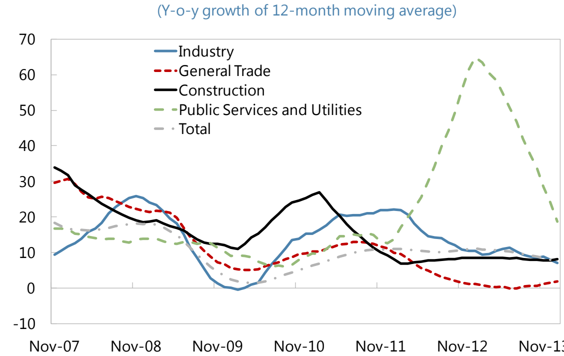
Sources: National authorities; and IMF staff estimates.

Structure of Banking System Assets
(In percent of total)



Sources: Jordanian authorities; and IMF staff estimates.

Bank Credit by Major Sectors
(Y-o-y growth of 12-month moving average)



Sources: Jordanian authorities; and IMF staff estimates.

Box 8. 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		
Spillover from prolonged civil war and the humanitarian crisis in Syria.	***High*** The influx of registered refugees has decelerated, 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 the social fabrics. 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; (2) taking measures to improve security in the border areas; and (3) continuing to implement a strong medium-term program to instill confidence and ease fiscal pressures.
Less natural gas from Egypt	***High*** Gas inflows stay suspended.	***Medium*** The program assumes gas flows at 40 percent of the contract levels. A complete termination of gas supplies would require substantial additional adjustment in the fiscal and external accounts in the short term, but the gap will gradually shrink in the medium term as alternative energy sources come on stream.	(1) High-level ongoing discussions with the Egyptian authorities; (2) implementation of announced increases in electricity tariffs to reduce the electricity subsidy; (3) introduction of monthly adjustment to electricity tariffs in line with NEPCO fuel costs; (4) by mid-2015, making operational an LNG terminal in Aqaba; and (5) higher grants from international partners.
Delays in program implementation	***Low*** This relates to utility reform and the central government.	***Medium-High*** Any delay in consolidation would increase already high financing needs and public debt and could undermine confidence.	(1) gradual implementation of measures with interim milestones; (2) for energy, longer-term diversification strategy; (3) development of contingency plans.

Box 8. Jordan: Risk Assessment Matrix (continued)

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	
Surges in global financial market volatility.	***High*** 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 EMs, 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 EMs. The reversal of flows could add pressures on the external position and make the necessary adjustment more challenging. There would also be upward pressure on domestic interest rates.	(1) Issuing a Eurobond in mid-2014, 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.
Protracted period of slower growth in emerging economies	***Medium*** Disappointing activity in EMs would bring about a reassessment that the cycle is more mature. Lower demand from EMs could affect growth in many low-income countries (particularly commodity producers) and export-intensive advanced economies.	***Low*** Limited exposure to other EMs would mitigate adverse impact on the current account; second-round effects from a decline in exports and tourism to the GCC could add to current account pressures, while a lower oil price would reduce the import bill.	(1) Accelerate structural reforms to improve competitiveness; (2) Lengthen maturity profile of debt.
Sustained decline in commodity prices	***Medium*** A deceleration of global demand and coming-on-stream of excess capacity in the medium-term could trigger a protracted period of low commodity prices	***Low*** Jordan remains highly dependent on energy imports and as such might benefit from lower oil prices. However, phosphate exports would suffer and there may be slowdown in tourism from the GCC.	(1) Diversify the export base away from phosphate (2) Diversify exports markets away from GCC

Box 8. Jordan: Risk Assessment Matrix (concluded)

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, 2012–19

		2nd Rev.	Est.	2nd Rev.	Projections					
	2012	2013	2013	2014	2014	2015	2016	2017	2018	2019
Output and prices	(Percentage change, unless otherwise indicated)									
Real GDP at market prices	2.7	3.3	2.9	3.5	3.5	4.0	4.5	4.5	4.5	4.5
GDP deflator at market prices	4.5	5.9	6.2	4.2	4.3	3.5	2.8	2.8	2.6	2.3
Nominal GDP at market prices	7.3	9.3	9.3	7.9	8.0	7.6	7.4	7.4	7.2	6.9
Nominal GDP at market prices (JD millions)	21,966	24,007	24,005	25,895	25,914	27,893	29,971	32,200	34,511	36,885
Nominal GDP at market prices ($ millions)	30,981	33,860	33,858	36,523	36,550	39,342	42,273	45,417	48,676	52,024
Consumer price index (annual average)	4.6	5.5	5.6	3.0	3.0	2.6	2.1	2.3	2.1	2.0
Consumer price index (end of period)	6.5	3.0	3.3	2.4	2.5	2.4	2.2	2.1	2.0	2.0
Unemployment rate (period average, percent)	12.2	13.1	12.6	...	...	...	...	...	...	...
National accounts	(In percent of GDP, unless otherwise indicated)									
Consumption	93.5	90.4	89.1	92.2	88.3	85.4	84.4	83.9	83.5	82.9
Government	17.4	16.7	16.4	16.7	16.5	16.5	16.5	16.5	16.5	16.5
Other	76.1	73.6	72.7	75.4	71.8	68.9	67.8	67.4	67.0	66.4
Gross domestic investment	21.7	20.7	20.7	20.7	21.7	21.5	21.4	21.4	21.5	21.6
Government	3.1	4.7	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Other	18.7	16.0	16.4	15.7	16.6	16.5	16.4	16.4	16.5	16.6
Gross national savings	6.5	9.6	10.9	7.8	11.7	14.6	15.6	16.1	16.5	17.1
Government	-5.8	-9.9	-6.8	-3.2	-5.3	-1.0	1.7	3.1	3.8	3.6
Other	12.3	19.6	17.7	11.1	16.9	15.5	13.9	12.9	12.7	13.6
Savings-investment balance	-15.2	-11.1	-9.8	-12.9	-10.0	-6.9	-5.8	-5.4	-5.0	-4.5
Government	-8.9	-14.6	-11.1	-8.3	-10.3	-6.0	-3.3	-1.9	-1.3	-1.5
Other	-6.3	3.5	1.3	-4.6	0.3	-1.0	-2.5	-3.5	-3.8	-3.0
Fiscal operations										
Revenue and grants	23.0	25.3	24.0	27.4	28.3	25.9	25.9	25.9	26.0	25.8
Of which: grants	1.5	3.6	2.7	4.4	5.3	3.0	3.0	3.0	3.0	2.9
Expenditure 1/	31.9	40.0	35.1	35.7	38.6	33.5	32.3	31.3	31.2	31.3
Additional measures needed	...	...	...	...	0.0	1.5	3.1	3.5	4.0	4.0
Overall fiscal balance after measures	-8.9	-14.6	-11.1	-8.3	-10.3	-6.0	-3.3	-1.9	-1.3	-1.5
Primary government balance, excl. grants, NEPCO, and WAJ	-7.4	-5.4	-4.7	-4.5	-4.5	-2.9	-1.4	-1.0	-0.5	-0.5
NEPCO loss	-5.3	-5.7	-4.6	-3.8	-3.8	-2.2	-0.9	0.0	0.0	0.0
Combined public sector deficit 2/	-12.7	-11.1	-9.3	-8.3	-8.3	-5.1	-2.3	-1.0	-0.5	-0.5
Government and government-guaranteed gross debt 3/	80.2	87.7	85.8	91.3	90.0	91.1	89.2	85.7	82.0	79.0
Of which: external debt	22.5	24.5	26.4	26.0	30.0	30.0	28.7	27.4	26.4	25.4
External sector										
Current account balance (including grants), of which:	-15.2	-11.1	-9.8	-12.9	-10.0	-6.9	-5.8	-5.4	-5.0	-4.5
Exports of goods, f.o.b. ($ billions)	7.9	8.1	7.9	8.4	8.5	8.8	9.2	9.6	10.1	10.7
Imports of goods, f.o.b. ($ billions)	18.5	18.9	19.4	18.9	19.7	19.5	19.7	20.2	20.8	21.6
Oil and oil products ($ billions)	5.9	5.5	5.2	5.2	5.3	4.7	4.5	4.5	4.5	4.6
Current account balance (excluding grants)	-20.0	-19.1	-16.5	-16.1	-14.2	-10.7	-9.7	-9.3	-9.2	-8.6
Private capital inflows (net)	5.0	7.4	5.9	7.4	5.9	5.9	5.9	5.9	5.9	5.9
Monetary sector	(Annual percentage change)									
Broad money	3.4	10.8	9.7	9.7	11.1	10.9	...	...	...	...
Net foreign assets	-28.9	-6.3	5.7	-0.6	15.1	6.1	...	...	...	...
Net domestic assets	24.0	17.0	11.2	12.6	9.6	12.7	...	...	...	...
Credit to private sector	6.9	7.4	8.0	7.1	8.6	9.6	...	...	...	...
Credit to central government	22.6	34.7	15.4	11.1	19.7	11.4	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	5,299	9,905	11,449	10,609	12,695	13,477	13,848	14,444	15,224	16,278
In months of prospective imports	2.4	5.3	5.1	5.7	5.8	6.1	6.1	6.2	6.2	6.4
In percent of reserve-adequacy metric	63.8	113.1	132.6	133.3	136.5	134.0	132.0	129.8	129.5	129.7
Net international reserves ($ millions)	5,381	9,341	10,968	9,529	11,699	12,013	12,674	13,818	15,179	16,668
Population (in millions)	6.40	6.54	6.54	6.69	6.69	6.85	7.01	7.17	7.33	7.50
Nominal per capita GDP ($)	4,843	5,174	5,174	5,463	5,460	5,745	6,035	6,338	6,640	6,938
Real effective exchange rate (end of period, 2005=100)	108.7	...	111.4	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	1.6	...	2.5	...	...	...	...	...	...	...

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

1/ Includes net lending,transfer to NEPCO, and other use of cash.

2/ Defined as the sum of the primary central government deficit (excl. grants and transfers to NEPCO and WAJ) and NEPCO loss.

3/ Includes NEPCO debt.

Table 2a. Jordan: Central Government: Summary of Fiscal Operations, 2012–19
(In millions of Jordanian dinars)

	2012	2nd Rev. 2013	Est. 2013	2nd Rev. 2014	2014	2015	Projections 2016	2017	2018	2019
Total revenue and grants	5,054	6,085	5,757	7,097	7,332	7,234	7,769	8,348	8,959	9,524
Domestic revenue	4,727	5,226	5,118	5,947	5,946	6,400	6,877	7,389	7,919	8,464
Tax revenue	3,351	3,715	3,653	4,317	4,132	4,448	4,779	5,134	5,503	5,881
Taxes on income and profits	688	691	682	1,005	739	796	855	919	985	1,052
General sales tax	2,275	2,586	2,533	2,840	2,867	3,086	3,316	3,563	3,818	4,081
Taxes on foreign trade	285	316	325	341	352	379	407	438	469	501
Other taxes	103	122	113	132	173	187	201	216	231	247
Nontax revenue	1,376	1,510	1,465	1,629	1,814	1,953	2,098	2,254	2,416	2,582
Grants	327	859	639	1,151	1,385	834	892	960	1,040	1,060
Total expenditures, net lending, other use of cash	7,008	9,594	8,428	9,242	9,998	9,337	9,690	10,087	10,781	11,544
Current expenditure	6,186	6,224	6,050	6,943	6,830	7,318	7,897	8,466	9,043	9,686
Wages and salaries	1,177	1,282	1,267	1,383	1,370	1,475	1,585	1,702	1,825	1,950
Interest payments	583	831	737	1,136	1,023	1,068	1,182	1,251	1,311	1,422
Domestic	483	695	635	988	861	883	993	1,025	1,030	1,089
External	100	136	102	148	162	185	189	226	281	333
Military expenditure	1,744	1,767	1,779	1,906	1,909	2,055	2,208	2,372	2,542	2,717
Fuel subsidies	674	0	0	0	0	0	0	0	0	0
Food subsidy	210	248	255	198	273	293	315	339	363	388
Transfers	1,494	1,759	1,743	1,957	1,922	2,069	2,223	2,389	2,560	2,736
Pensions	982	1,058	1,047	1,110	1,115	1,200	1,290	1,385	1,485	1,587
Targeted payments for energy	107	270	193	210	210	226	243	261	280	299
Transfer to health fund	118	93	118	282	281	303	325	350	375	401
Other transfers	288	338	385	355	316	340	365	393	421	450
Purchases of goods & services	304	337	270	364	332	358	384	413	443	473
Capital expenditure	676	1,124	1,015	1,305	1,305	1,405	1,509	1,622	1,738	1,857
Net lending	2	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	67	1,866	1,221	995	1,864	614	284	0	0	0
Transfers to WAJ 1/	0	380	203	0	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	77	0	-61	0	0	0	0	0	0	0
Total balance from above the line	-1,954	-3,508	-2,671	-2,145	-2,667	-2,102	-1,921	-1,739	-1,823	-2,020
Statistical discrepancy, net	-2	0	18	0	0	0	0	0	0	0
Overall balance without additional measures	-1,952	-3,508	-2,653	-2,145	-2,667	-2,102	-1,921	-1,739	-1,823	-2,020
Additional measures needed	...	0	0	0	0	432	934	1,126	1,379	1,474
Overall balance after all measures	-1,952	-3,509	-2,653	-2,145	-2,667	-1,670	-987	-613	-444	-546
Financing	1,952	3,509	2,653	2,145	2,667	1,670	987	613	444	546
Foreign financing (net)	10	559	749	715	572	94	270	458	486	388
Domestic financing (net)	1,942	2,950	1,905	1,430	2,095	1,576	717	155	-42	158
CBJ on-lending of net IMF financing	269	457	457	366	366	332	-206	-389	-412	-309
Other domestic bank financing	1,635	2,253	799	805	1,407	898	551	145	-59	9
Domestic nonbank financing	38	240	648	259	322	346	372	400	428	458
Memorandum items:										
NEPCO loss	-1,159	-1,375	-1,100	-995	-995	-614	-284	0	0	0
Primary government deficit excluding grants	-1,696	-3,537	-2,556	-2,160	-3,029	-1,436	-697	-322	-173	-184
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-1,629	-1,292	-1,132	-1,165	-1,165	-822	-414	-322	-173	-184
Combined public deficit (PC)	-2,788	-2,667	-2,232	-2,160	-2,160	-1,436	-697	-322	-173	-184
Government and guaranteed gross debt	17,610	21,066	20,603	23,648	23,329	25,415	26,733	27,595	28,305	29,136
Of which: External	4,932	5,873	6,348	6,725	7,686	8,395	8,429	8,976	9,380	9,945
Government and guaranteed net debt	16,530	...	18,916	...	22,299	24,385	25,703	26,565	27,275	28,106
GDP at market prices (JD millions)	21,966	24,007	24,005	25,895	25,914	27,893	29,971	32,200	34,511	36,885

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

1/ For 2013–14, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

Table 2b. Jordan: Central Government: Summary of Fiscal Operations, 2012–19
(In percent of GDP)

	2012	2nd Rev. 2013	Est. 2013	2nd Rev. 2014	Projections 2014	2015	2016	2017	2018	2019
Total revenue and grants	23.0	25.3	24.0	27.4	28.3	25.9	25.9	25.9	26.0	25.8
Domestic revenue	21.5	21.8	21.3	23.0	22.9	22.9	22.9	22.9	22.9	22.9
Tax revenue	15.3	15.5	15.2	16.7	15.9	15.9	15.9	15.9	15.9	15.9
Taxes on income and profits	3.1	2.9	2.8	3.9	2.9	2.9	2.9	2.9	2.9	2.9
General sales tax	10.4	10.8	10.6	11.0	11.1	11.1	11.1	11.1	11.1	11.1
Taxes on foreign trade	1.3	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Other taxes	0.5	0.5	0.5	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Nontax revenue	6.3	6.3	6.1	6.3	7.0	7.0	7.0	7.0	7.0	7.0
Grants	1.5	3.6	2.7	4.4	5.3	3.0	3.0	3.0	3.0	2.9
Total expenditures, net lending, other use of cash	31.9	40.0	35.1	35.7	38.6	33.5	32.3	31.3	31.2	31.3
Current expenditure	28.2	25.9	25.2	26.8	26.4	26.2	26.3	26.3	26.2	26.3
Wages and salaries	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Interest payments	2.7	3.5	3.1	4.4	3.9	3.8	3.9	3.9	3.8	3.9
Domestic	2.2	2.9	2.6	3.8	3.3	3.2	3.3	3.2	3.0	3.0
External	0.5	0.6	0.4	0.6	0.6	0.7	0.6	0.7	0.8	0.9
Military expenditure	7.9	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Fuel subsidies	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	1.0	1.0	1.1	0.8	1.1	1.1	1.1	1.1	1.1	1.1
Transfers	6.8	7.3	7.3	7.6	7.4	7.4	7.4	7.4	7.4	7.4
Pensions	4.5	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Targeted payments for energy	0.5	1.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Transfer to health fund	0.5	0.4	0.5	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other transfers	1.3	1.4	1.6	1.4	1.2	1.2	1.2	1.2	1.2	1.2
Purchases of goods & services	1.4	1.4	1.1	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Capital expenditure	3.1	4.7	4.2	5.0	5.0	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	0.0
Transfer to NEPCO 1/ .	0.3	7.8	5.1	3.8	7.2	2.2	0.9	0.0	0.0	0.0
Transfers to WAJ 1/	0.0	1.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment on other receivables and payables (use of cash) .	0.4	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-8.9	-14.6	-11.1	-8.3	-10.3	-7.5	-6.4	-5.4	-5.3	-5.5
Statistical discrepancy, net .	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without additional measures	-8.9	-14.6	-11.1	-8.3	-10.3	-7.5	-6.4	-5.4	-5.3	-5.5
Additional measures needed .	...	0.0	0.0	0.0	0.0	1.5	3.1	3.5	4.0	4.0
Overall balance after all measures	-8.9	-14.6	-11.1	-8.3	-10.3	-6.0	-3.3	-1.9	-1.3	-1.5
Financing	8.9	14.6	11.1	8.3	10.3	6.0	3.3	1.9	1.3	1.5
Foreign financing (net)	0.0	2.3	3.1	2.8	2.2	0.3	0.9	1.4	1.4	1.1
Domestic financing (net)	8.8	12.3	7.9	5.5	8.1	5.6	2.4	0.5	-0.1	0.4
CBJ on-lending of net IMF financing	1.2	1.9	1.9	1.4	1.4	1.2	-0.7	-1.2	-1.2	-0.8
Other domestic bank financing	7.4	9.4	3.3	3.1	5.4	3.2	1.8	0.4	-0.2	0.0
Domestic nonbank financing	0.2	1.0	2.7	1.0	1.2	1.2	1.2	1.2	1.2	1.2
Memorandum items:										
NEPCO loss	-5.3	-5.7	-4.6	-3.8	-3.8	-2.2	-0.9	0.0	0.0	0.0
Primary government deficit excluding grants	-7.7	-14.7	-10.6	-8.3	-11.7	-5.1	-2.3	-1.0	-0.5	-0.5
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-7.4	-5.4	-4.7	-4.5	-4.5	-2.9	-1.4	-1.0	-0.5	-0.5
Combined public deficit (PC)	-12.7	-11.1	-9.3	-8.3	-8.3	-5.1	-2.3	-1.0	-0.5	-0.5
Government and guaranteed gross debt	80.2	87.7	85.8	91.3	90.0	91.1	89.2	85.7	82.0	79.0
Of which: External	22.5	24.5	26.4	26.0	29.7	30.1	28.1	27.9	27.2	27.0
Government and guaranteed net debt	75.3	...	78.8	...	86.1	87.4	85.8	82.5	79.0	76.2
GDP at market prices (JD millions)	21,966	24,007	24,005	25,895	25,914	27,893	29,971	32,200	34,511	36,885

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

1/ For 2013–14, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

Table 2c. Jordan: Central Government: Summary of Quarterly Fiscal Operations, 2013–15
(In millions of Jordanian dinars)

	2013		2014					2015
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1
	2nd Rev Proj.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	6,085	5,757	1,585	1,980	1,691	2,178	7,332	1,460
Tax revenue	5,226	5,118	1,313	1,752	1,324	1,557	5,946	1,414
Tax revenue:	3,715	3,653	888	1,208	970	1,066	4,132	963
Taxes on income and profits	691	682	175	336	153	76	739	188
General sales tax	2,586	2,533	598	737	680	853	2,867	646
Taxes on foreign trade	316	325	82	90	91	90	352	88
Other taxes	122	113	34	46	46	47	173	41
Nontax revenue	1,510	1,465	425	544	354	491	1,814	452
Grants	859	639	271	228	366	621	1,385	45
Total expenditures, net lending, other use of cash	9,594	8,428	2,424	2,424	2,518	2,633	9,998	1,988
Current expenditure	6,224	6,050	1,667	1,728	1,654	1,781	6,830	1,601
Wages and salaries	1,282	1,267	343	343	343	343	1,370	350
Interest payments	831	737	205	260	255	304	1,023	206
Domestic	695	635	177	202	223	260	861	182
External	136	102	27	58	32	44	162	24
Military expenditure	1,767	1,779	477	477	477	477	1,909	474
Fuel subsidies	0	0	0	0	0	0	0	0
Food subsidy	248	255	68	68	68	68	273	64
Transfers	1,759	1,743	491	497	428	506	1,922	446
Pensions	1,058	1,047	272	278	279	286	1,115	231
Targeted payments for energy	270	193	70	70	0	70	210	57
Transfer to health fund	93	118	70	70	70	70	281	76
Other transfers	338	385	79	79	79	79	316	82
Purchases of goods & services	337	270	83	83	83	83	332	61
Capital expenditure	1,124	1,015	280	320	342	363	1,305	233
Net lending	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,866	1,221	477	376	522	489	1,864	154
Transfer to WAJ 1/	380	203	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	0	-61	0	0	0	0	0	0
Total balance from above the line	-3,508	-2,671	-839	-444	-827	-455	-2,667	-528
Statistical discrepancy, net	0	18	0	0	0	0	0	0
Overall balance without additional measures	-3,508	-2,653	-839	-444	-827	-455	-2,667	-528
Additional measures needed	0	0	0	0	0	0	0	0
Overall balance after all measures	-3,509	-2,653	-839	-444	-827	-455	-2,667	-528
Financing	3,509	2,653	839	444	827	455	2,667	620
Foreign financing (net)	559	749	13	185	493	-119	572	0
Domestic financing (net)	2,950	1,905	826	260	334	574	2,095	620
CBJ on-lending of net IMF financing	457	457	0	183	91	91	366	91
Other domestic bank financing	2,253	799	746	-4	162	402	1,407	442
Domestic nonbank financing	240	648	80	80	80	80	322	87
Memorandum items:								
Accounts payable (IT)	682	534	534	534	534	534	534	534
NEPCO loss	1,375	1,100	365	236	133	262	995	148
Primary government deficit excluding grants	3,537	2,556	906	412	939	772	3,029	368
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	1,292	1,132	429	36	417	283	1,165	214
Combined public deficit (PC)	2,667	2,232	794	272	550	545	2,160	362

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ For 2013–14, transfers to NEPCO and WAJ include government repayment of guaranteed debt. From 2015 onwards, the program assumes the utilities will repay their own debt.

Table 2d. Jordan: NEPCO Operating Balance and Financing, 2012–17

	2012 Jan-Dec Act.	2013 Jan-Dec 2nd Rev.	2013 Jan-Dec Proj.	2014 Q1 2nd Rev.	2014 Q1 Proj.	2014 Q2 2nd Rev.	2014 Q2 Proj.	2014 Q3 Proj.	2014 Q4 Proj.	2014 Jan-Dec Prog.	2014 Jan-Dec Proj.	2015 Q1 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
	(In millions of Jordanian dinars)														
Electricity sales	1,042	1,182	1,167	365	347	390	340	387	368	1,443	1,443	404	1,672	1,943	2,265
Expenses	2,201	2,557	2,267	598	712	563	576	520	630	2,438	2,438	552	2,286	2,227	2,265
Purchase of electricity	2,063	2,402	2,099	551	665	544	529	473	598	2,265	2,265	511	2,116	2,068	2,143
Depreciation	29	31	29	8	8	7	8	8	10	35	35	9	37	42	44
Interest payments 1/	75	96	109	31	31	7	31	31	15	122	107	24	100	81	39
Other expenses	34	29	30	8	8	5	8	8	7	16	31	8	33	36	39
Operating balance (QPC)	(1,159)	(1,375)	(1,100)	(233)	(365)	(174)	(236)	(133)	(262)	(995)	(995)	(148)	(614)	(284)	0
Total net domestic financing	1,159	1,375	1,100	233	365	174	236	133	262	995	995	148	614	284	0
Banks	1,143	(455)	(227)	120	88	150	9	(389)	(581)	270	(873)	0	0	0	0
Loans and bonds	1,175	(461)	(229)	120	88	150	9	(389)	(581)	270	(873)	0	0	0	0
Overdrafts	(31)	6	3	0	0	0	0	0	0	0	0	0	0	0	0
IsDB loan	0	248	228	0	0	0	0	0	354	0	354	0	0	0	0
Other items 2/	(61)	(172)	(170)	0	(0)	0	0	(0)	0	0	(0)	(0)	0	0	0
Increase in payables 3/	77	1,754	1,269	113	277	24	226	522	489	725	1,514	148	614	284	0
Direct transfer from central government	67	1,865	1,300	233	477	174	376	522	489	995	1,864	148	614	284	0
To cover losses	0	1,420	950	233	365	174	236	133	262	995	995	148	614	284	0
To repay loans	67	444	350	0	112	0	141	389	227	0	869	0	0	0	0
Payables to the private sector	...	(111)	48	(120)	(200)	(150)	(150)	0	0	(270)	(350)	0	0	0	0
Of which: Increase in arrears	46	(175)	(95)	(120)	(200)	(150)	(150)	0	0	(270)	(350)	0	0	0	0
Memorandum items (stocks, end of period):															
Outstanding loans and bonds	1,934	1,473	1,897	1,593	1,985	1,743	1,994	1,605	1,024	1,743	1,024	1,024	1,024	1,024	1,024
Overdrafts	49	56	52	56	52	56	52	52	52	56	52	52	52	52	52
Total payables	765	1,618	2,033	1,730	2,310	1,754	2,536	3,058	3,547	2,343	3,547	4,161	4,444	4,444	4,593
to government 3/	67	1,032	1,288	1,264	1,765	1,438	2,141	2,663	3,152	2,026	3,152	3,766	4,049	4,049	4,197
to private sector	698	586	745	466	545	316	395	395	395	316	395	395	395	395	395
o/w arrears (IT)	445	270	350	150	150	0	0	0	0	0	0	0	0	0	0

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

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

2/ Includes central government transfers to repay arrears, changes in accounts receivable, depreciation, project expenditures, and other minor items.

3/ Payables to government include transfers from the the government to NEPCO, whose status has not been agreed yet; they are excluded from the computation of the stock of arrears.

Table 3. Jordan: Summary Balance of Payments, 2012–19
(In millions of U.S. dollars, unless otherwise noted)

	2012	2013		2014		2015	2016	2017	2018	2019
	Est.	2nd Rev.	Est.	2nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	(4,718)	(3,752)	(3,303)	(4,705)	(3,650)	(2,733)	(2,465)	(2,437)	(2,452)	(2,332)
Trade balance	(10,559)	(10,789)	(11,486)	(10,462)	(11,222)	(10,697)	(10,502)	(10,547)	(10,631)	(10,975)
Exports f.o.b.	7,898	8,067	7,922	8,426	8,516	8,830	9,190	9,633	10,129	10,654
Imports f.o.b.	18,457	18,855	19,408	18,888	19,738	19,527	19,692	20,179	20,760	21,629
Energy	5,882	5,475	5,192	5,192	5,255	4,687	4,460	4,462	4,508	4,574
Non-energy	12,566	13,380	14,216	13,695	14,484	14,840	15,232	15,717	16,252	17,055
Services and income	1,490	862	1,496	1,132	1,590	1,928	2,205	2,452	2,676	2,886
Of which : travel	4,067	3,513	4,123	3,789	4,328	4,659	5,006	5,378	5,764	6,161
Current transfers	4,351	6,175	6,686	4,625	5,981	6,036	5,832	5,658	5,503	5,757
Of which : public	1,478	2,698	2,285	1,163	1,537	1,472	1,630	1,807	2,005	2,121
Of which : remittances	3,145	3,271	3,283	3,402	3,417	3,572	3,749	3,938	4,127	4,309
Capital account	2,098	3,821	4,457	3,893	4,296	3,350	3,838	4,360	4,666	4,802
Public sector	159	1,326	1,732	1,203	1,507	348	613	895	952	832
Direct foreign investment	1,494	1,764	1,798	1,902	1,941	2,089	2,245	2,411	2,585	2,762
Portfolio flows	53	131	184	141	198	213	229	246	264	282
Other capital flows	392	600	744	647	650	700	752	808	866	925
Errors and omissions	(554)	581	484	0	150	-	-	-	-	-
Overall balance	(3,174)	650	1,638	(812)	796	617	1,373	1,923	2,214	2,470
Financing	3,174	(650)	(1,638)	812	(796)	(617)	(1,373)	(1,923)	(2,214)	(2,470)
Reserves	3,359	-	(5,231)	296	(968)	(516)	(507)	(744)	(943)	(1,241)
Commercial banks' NFA	(564)	-	2,948	-	(344)	(569)	(576)	(631)	(690)	(794)
IMF (net)	379	645	645	516	516	468	(290)	(548)	(581)	(435)
Gross reserves	8,765	12,612	13,996	12,316	14,964	15,480	15,987	16,731	17,674	18,914
Gross usable reserves 1/	5,299	9,905	11,449	10,609	12,695	13,477	13,848	14,444	15,224	16,278
In percent of RAM	64	...	133	...	136	134	132	130	130	130
Memorandum items:										
Current account (percent of GDP)	(15.2)	(11.1)	(9.8)	(12.9)	(10.0)	(6.9)	(5.8)	(5.4)	(5.0)	(4.5)
Energy imports	19.0	16.2	15.3	14.2	14.4	11.9	10.5	9.8	9.3	8.8
Public transfers	4.8	8.0	6.7	3.2	4.2	3.7	3.9	4.0	4.1	4.1
Export growth (percent)	(1.5)	2.1	0.3	4.5	7.5	3.7	4.1	4.8	5.2	5.2
Import growth (percent)	9.5	2.2	5.1	0.2	1.7	(1.1)	0.8	2.5	2.9	4.2
Energy (percent)	19.6	(6.9)	(11.7)	(5.2)	1.2	(10.8)	(4.8)	0.1	1.0	1.5
Non-energy (percent)	5.4	6.4	13.1	2.4	1.9	2.5	2.6	3.2	3.4	4.9
Travel growth (percent)	18.6	1.4	1.4	7.9	5.0	7.6	7.4	7.4	7.2	6.9
Remittances growth (percent)	3.6	4.0	4.4	4.0	4.1	4.5	4.9	5.1	4.8	4.4
Oil price ($ per barrel)	105.0	104.5	104.1	101.3	103.8	98.5	94.0	90.6	88.4	84.4
GDP	30,981	33,860	33,858	36,523	36,550	39,342	42,273	45,417	48,676	52,024

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, 2012–15

	2012	2013		2014						2015	
	Act.	2nd Rev.	Act.	2nd Rev.	Projections					Projections	
		Annual	Annual	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1
				(Stocks, in millions of Jordanian dinars)							
Net foreign assets	6,620	6,201	7,046	6,165	8,109	7,100	7,160	8,039	8,109	8,600	7,826
Central Bank	6,094	7,484	8,610	7,448	9,430	8,579	8,497	9,346	9,430	9,517	9,055
Commercial Banks	526	-1,283	-1,564	-1,283	-1,320	-1,479	-1,337	-1,307	-1,320	-917	-1,229
Net domestic assets	18,306	21,416	20,297	24,120	22,255	20,909	21,942	22,050	22,255	25,086	23,264
Net claims on general government	9,930	12,130	10,946	13,746	12,190	11,929	12,216	12,179	12,190	13,619	12,698
Net claims on Central Budgetary Government	7,805	10,515	9,005	11,687	10,778	9,780	9,983	10,260	10,778	12,007	11,236
Net claims on NEPCO	1,478	1,023	1,443	1,168	570	1,531	1,541	1,151	570	570	570
Net claims on other own budget agencies 1/	179	123	47	423	391	166	241	316	391	591	441
Claims on other public entities	468	468	451	468	451	451	451	451	451	451	451
Claims on financial institutions	200	200	159	200	159	159	159	159	159	159	159
Claims on the private sector	15,954	17,139	17,223	18,363	18,707	17,532	18,041	18,320	18,707	20,506	19,086
Other items (net)	-7,778	-8,053	-8,030	-8,189	-8,801	-8,711	-8,474	-8,609	-8,801	-9,198	-8,679
Broad money	24,926	27,617	27,343	30,286	30,364	28,009	29,102	30,089	30,364	33,686	31,090
Currency in circulation	3,215	3,534	3,607	3,846	4,005	3,694	3,839	3,969	4,005	4,443	4,101
Jordanian dinar deposits	16,332	19,266	19,119	21,231	21,694	19,707	20,602	21,431	21,694	24,359	22,293
Foreign currency deposits	5,379	4,816	4,617	5,209	4,666	4,608	4,661	4,689	4,666	4,883	4,696
				(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)							
Net foreign assets	-2,750	-419	425	-35	1,064	55	59	880	70	491	-283
Net domestic assets	3,577	3,110	1,991	2,704	1,958	611	1,034	107	205	2,831	1,009
Net claims on general government	2,760	2,200	1,016	1,616	1,244	983	287	-37	11	1,430	508
Net claims on Central Budgetary Government	1,439	2,710	1,199	1,171	1,773	776	203	277	517	1,230	458
Net claims on NEPCO	1,143	-455	-34	145	-873	88	9	-389	-581	0	0
Net claims on other own budget agencies 1/	178	-55	-132	300	344	119	75	75	75		50
Claims on financial institutions	2	0	-41	0	0	0	0	0	0	0	0
Claims on the private sector	1,029	1,185	1,269	1,224	1,484	309	509	279	387	1,799	0
Other items (net)	-182	-276	-253	-136	-771	-681	238	-135	-192	-398	379
Broad money	828	2,690	2,417	2,669	3,022	666	1,093	987	275	3,321	726
Currency in circulation	196	319	392	311	399	88	144	130	36	438	96
Jordanian dinar deposits	-1,240	2,934	2,788	1,965	2,574	587	895	829	262	2,665	599
Foreign currency deposits	1,872	-563	-763	392	49	-9	53	27	-23	218	31
Memorandum items:											
Annual broad money growth (percent)	3.4	10.8	9.7	9.7	11.1	10.0	10.9	10.9	11.1	10.9	11.0
Annual private sector credit growth (percent)	6.9	7.4	8.0	7.1	8.6	8.0	8.4	8.3	8.6	9.6	8.9
Foreign currency/total deposits (percent)	24.8	20.0	19.5	19.7	17.7	19.0	18.5	18.0	17.7	16.7	17.4
Private sector credit/total deposits (percent)	73.5	71.2	72.6	69.5	71.0	72.1	71.4	70.1	71.0	70.1	70.7
Currency/JD deposits (percent)	19.7	18.3	18.9	18.1	18.5	18.7	18.6	18.5	18.5	18.2	18.4

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

1/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2012–15

	2012	2013		2014						2015	
	Act.	2nd Rev.	Proj.	2nd Rev.	Projections					Projections	
		Annual	Annual	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1
	(Stocks, in millions of Jordanian dinars)										
Net foreign assets	6,094	7,484	8,610	7,448	9,430	8,579	8,497	9,346	9,430	9,517	9,055
Foreign assets	6,981	9,709	10,690	9,499	11,376	10,615	10,748	11,369	11,376	11,742	11,048
of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767
of which: encumbered due to forwards or swaps	1,089	766	598	57	343	375	360	350	343	60	260
Foreign liabilities	887	2,225	2,080	2,050	1,947	2,036	2,251	2,023	1,947	2,225	1,993
of which : Net Fund Position	274	732	732	1,098	1,098	732	915	1,006	1,098	1,429	1,189
of which: GCC grants-related	505	1,385	1,241	845	741	1,196	1,228	909	741	688	696
Net domestic assets	-865	-1,481	-2,657	-1,015	-2,870	-2,606	-2,259	-2,863	-2,870	-2,165	-2,318
Net claims on central budgetary government 1/	1,594	1,721	1,313	1,711	1,472	1,226	1,389	1,431	1,472	1,704	1,464
of which: outright purchases of gov. securities		375	406	0	200	320	300	250	200	100	100
Net claims on own budget agencies	-27		-69		-69	-69	-69	-69	-69	-69	-69
Net claims on other public entities	-15	-42	-13	-42	-13	-13	-13	-13	-13	-13	-13
Net claims on financial institutions	78	78	69	78	69	69	69	69	69	69	69
Net claims on private sector	20	20	21	20	21	21	21	21	21	21	21
Net claims on commercial banks	-1,343	-2,971	-3,471	-2,496	-3,843	-3,334	-3,149	-3,794	-3,843	-3,370	-3,283
of which: FX deposits of commercial banks	871	712.899	708	713	766	681	762	769	766	861	790
CDs	-231	-231	-231	-231	-231	-231	-231	-231	-231	-231	-231
Other items, net (asset: +)	-942	-56	-276	-56	-276	-276	-276	-276	-276	-276	-276
of which: repos		425	400	425	400	400	400	400	400	400	400
Jordanian dinar reserve money	5,229	6,003	5,952	6,433	6,559	5,973	6,238	6,483	6,559	7,351	6,737
Currency	3,558	3,877	3,938	4,189	4,337	4,026	4,170	4,300	4,337	4,775	4,432
Commercial bank reserves	1,671	2,126	2,014	2,245	2,223	1,947	2,068	2,183	2,223	2,577	2,304
Of which : required reserves	1,106	1,305	1,271	1,438	1,443	1,310	1,370	1,425	1,443	1,620	1,482
	(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)										
Net foreign assets	-3,154	1,390	2,515	-35	820	-30	-83	849	83	205	-375
Foreign assets	-2,382	2,727	3,709	-210	686	-75	132	622	7	366	-329
Foreign liabilities	772	1,338	1,193	-174	-134	-44	215	-228	-76	278	46
Net domestic assets	2,898	-616	-1,792	466	-213	51	348	-604	-7	396	552
Net claims on central budgetary government	1,144	153	-282	-9	159	-86	163	41	41	161	-9
Net claims on commercial banks	1,205	-1,628	-2,128	475	-373	137	185	-646	-49	589	561
Other items, net (asset: +)	568	886	666	0	0	0	0	0	0	0	0
Jordanian dinar reserve money	-256	774	723	546	607	20	265	245	76	792	177
Currency	191	319	380	303	399	88	144	130	36	438	96
Commercial banks' reserves	-447	455	343	243	208	-67	121	115	40	354	82
Memorandum items:											
Gross international reserves (GIR)	8,765	12,612	13,996	12,316	14,964	13,891	14,077	14,954	14,964	15,480	14,501
Gross usable international reserves ($ millions)	5,299	9,905	11,449	10,609	12,695	11,728	11,822	12,703	12,695	13,477	12,316
As a ratio to JD broad money (in percent)	19.2	30.8	35.7	30.0	35.0	35.5	34.3	35.5	35.0	33.2	33.1
As a ratio of JD reserve money (in percent)	71.8	117.0	136.4	116.9	137.2	139.2	134.4	138.9	137.2	183.3	129.6
Net international reserves (millions of JD)	3,815	6,623	7,776	6,756	8,294	7,952	7,836	8,369	8,294	8,517	7,934
Net international reserves (millions of U.S. dollars)	5,381	9,341	10,968	9,529	11,699	11,216	11,052	11,804	11,699	12,013	11,191
Money multiplier (for JD liquidity)	3.74	3.80	3.82	3.90	3.92	3.92	3.92	3.92	3.92	3.92	3.92

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

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

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	1,159	1,315	1,336	1,328
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	12.9
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	29.1	28.6
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	71.4	70.8
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	15.1	14.7
Margin trading and financial services (share in total loans)	5.1	6.2	7.2	7.1	6.9	5.8	5.3	4.6	4.2
Loans to GDP ratio (in percent of GDP)	86.8	91.4	93.1	83.7	78.7	77.0	77.4	81.1	74.3

Source: Central Bank of Jordan.

Table 6. Jordan: Access and Phasing Under the Stand-By Arrangement 1/

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			**1,364.00**	**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	777.9	394.3	106.6	0.0
Obligations 2/	4.3	16.6	60.1	225.6	388.4	394.2	290.7	107.1
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	362.3	383.6	287.7	106.6
Charges and interest	4.3	16.6	28.2	33.8	26.1	10.6	3.0	0.6
Stock of existing and prospective Fund credit 1/	682.0	1,023.0	1,332.0	1,140.2	777.9	394.3	106.6	0.0
In percent of quota	400.0	600.0	781.2	668.8	456.3	231.2	62.5	0.0
In percent of GDP	2.8	3.9	4.8	3.8	2.4	1.1	0.3	0.0
In percent of exports of goods and services	7.5	10.5	13.2	10.9	7.1	3.4	0.9	0.0
In percent of gross reserves	9.0	12.2	15.0	12.5	8.2	3.9	1.1	0.0
Obligations to the Fund from existing and prospective Fund arrangements	4.3	16.6	60.1	225.6	388.4	394.2	290.7	107.1
In percent of quota	2.5	9.7	35.3	132.3	227.8	231.2	170.5	62.8
In percent of GDP	0.0	0.1	0.2	0.8	1.2	1.1	0.8	0.3
In percent of exports of goods and services	0.0	0.2	0.6	2.1	3.5	3.4	2.4	0.8
In percent of gross reserves	0.1	0.2	0.7	2.5	4.1	3.9	2.9	1.1

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, 2013–19

	2013	2014	2015	2016	2017	2018	2019
Exposure and Repayments (In millions of SDR)							
GRA credit to Jordan	682.0	1,023.0	1,332.0	1,140.2	777.9	394.3	106.6
(In percent of quota)	400.0	600.0	781.2	668.8	456.3	231.2	62.5
Debt service on GRA credit	4.3	16.6	60.1	225.6	388.4	394.2	290.7
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	362.3	383.6	287.7
Charges and interest	4.3	16.6	28.2	33.8	26.1	10.6	3.0
Debt and debt service ratios							
(In percent of GDP)							
Total external government and government-guaranteed debt	26.4	30.0	30.0	28.7	27.4	26.4	25.4
Excluding proposed IMF	23.6	26.1	25.2	24.9	25.0	25.2	25.1
GRA credit to Jordan	2.8	3.9	4.8	3.8	2.4	1.1	0.3
Total external government and government-guaranteed debt service	2.1	3.2	4.7	3.2	2.9	2.1	2.1
Excluding proposed IMF	2.0	3.1	4.5	2.4	1.7	1.0	1.3
GRA debt service	0.0	0.1	0.2	0.8	1.2	1.1	0.8
(In percent of exports of goods and services)							
Total external government and government-guaranteed debt	65.4	74.6	77.3	76.3	74.8	73.3	71.8
Excluding proposed IMF	57.9	64.1	64.1	65.4	67.8	69.9	71.0
GRA credit to Jordan	7.5	10.5	13.2	10.9	7.1	3.4	0.9
Total external government and government-guaranteed debt service	5.1	7.9	12.1	8.5	7.8	5.8	5.8
Excluding proposed IMF	5.1	7.7	11.5	6.3	4.3	2.4	3.4
GRA debt service	0.0	0.2	0.6	2.1	3.5	3.4	2.4

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

Annex I. Public Debt Sustainability Analysis

Jordan's public debt remains sustainable. With the fiscal adjustment envisaged under the program ("baseline"), Jordan's public debt is projected to peak at 91 percent of GDP in 2015 and then gradually decline. Gross financing needs are relatively large at around 16 percent of GDP on average in the medium term, reflecting short maturities of domestic debt (less than two years). Moreover, Jordan is expected to continue to rely on sizeable grants over the medium term, but will eventually have to wean itself off foreign aid. Jordan's heat map risk assessment points to substantial vulnerabilities as do the shock scenarios. On the upside, most debt profile indicators are below upper early benchmarks and debt is projected to decline in the medium term even under the most severe stress test.

Baseline and Realism of Projections[1]

- ***Growth and prices.*** Past projections of growth show medium-size forecast errors, with a slight tilt toward the pessimistic side. The current growth forecasts for the near team are marginally below those in the program one year ago, reflecting lower-than-expected 2012 and 2013 growth. The track record of the inflation forecast is generally in line with other countries, with actual inflation being 2.2 percentage points higher than the forecast on average. The inflation forecast has been revised down slightly from one year ago, to incorporate lower-than-expected inflation in 2012 and on the expectation that current inflation pressure gradually abate.

- ***Debt level and fiscal adjustment***. Despite significant adjustment in the medium term, the debt-to-GDP ratio will peak at 91 percent in 2015 and decline only from then onward to 79 percent in 2019.[2] Although Jordan's 3-year average level of the cyclically-adjusted central government primary balance (CAPB) is generally in line with other countries, the maximum 3-year adjustment is an outlier in the second percentile. This reflects a tightening of the CAPB from -6.1 percent of GDP in 2014 to 2.7 percent of GDP in 2017. This adjustment is overestimated because the 2013 CAPB includes government transfers to utilities of over 3 percent of GDP to service government-guaranteed debt. Still, when adjusting for these transfers, Jordan remains an outlier ranked in the second percentile. It should also be noted that past projections of the primary balance tended to be optimistic.

- ***Sovereign yields***. Although both external and domestic bond yields have moderated from earlier highs, Jordan's effective interest rate is forecast to stabilize around 5.6 percent.[3] The underlying interest rate assumptions are as follows. On external debt, the U.S.-guaranteed

[1] The new DSA framework is described in (http://www.imf.org/external/np/pp/eng/2013/050913.pdf).

[2] This path is slightly different from the last staff report, reflecting mainly different interest bill projections using the new market access county DSA template.

[3] The projection does not include interest payments for (1) pre-2013 debt issued to finance NEPCO and WAJ losses; and (2) debt to finance WAJ's losses in the medium term; these are paid directly by the utilities. This results in an underestimate of the total interest bill.

Eurobond in 2014 is estimated to have a spread of 60 bps over the U.S. Treasury bonds; the rates of other non-guaranteed debt will carry a risk premium in line with other emerging markets. On domestic debt, the risk premium over the U.S. LIBOR rate is assumed to decline gradually to historical average levels with continued strong program implementation.

- ***Maturity and rollover***. Public debt has relatively short maturities, with an average below two years. Combined with the large general government deficit, this drives gross financing needs to 26 percent of GDP in 2014. Maturities for domestic debt are assumed to be lengthened in the medium term with new issuance in 2018 having an average maturity of over 3 years. Jordan's external public debt profile is on the longer end, with maturity-at-issuance typically more than 5 years and low rollover needs in the near to medium term.

Stress Tests and Heat Map

Stress tests show that Jordan is most vulnerable to shocks to growth and contingent liabilities from the financial sector. This highlights the importance of structural reforms to promote growth and to fortify financial stability. The heat map (on the last page) highlights the needs for continued strong fiscal adjustment and the lengthening of the domestic debt maturities.

- ***Growth shock.*** In this scenario, real output growth rates are lower by one standard deviation (or 2.6 percentage points) for two years starting in 2015. As a result, the nominal primary balance improves more slowly than in the baseline as nominal revenue falls while spending is unchanged. This leads to an increase in risk premiums (see bullet above). Accordingly, the debt-to-GDP ratio reaches 88 percent of GDP in 2019 (9 percentage points higher than in the baseline) while the financing needs increase to 18 percent of GDP (2 percent of GDP higher than in the baseline).

- ***Primary balance shock***. Assuming that the authorities will implement half of the planned adjustments each year throughout the medium term, risk premiums will increase (a 25 bps increase for each one percent of GDP worsening in the primary balance). As a result, the debt-to-GDP ratio is projected to increase to 84 percent of GDP by 2019 (5 percent of GDP points higher than the baseline), while annual financing needs are about 17 percent of GDP in 2019 (1.2 percent of GDP higher than in the baseline).

- ***Contingent liability shock***. A one-time bail out of the financial sector increases non-interest expenditures by 10 percent of banking sector assets[4]. This is combined with a real GDP growth shock (one standard deviation for two years), which in turn pushes up sovereign borrowing costs. In this shock scenario, debt peaks at 107 percent of GDP in 2016 and then declines. Gross financing needs increase to 32 percent of GDP in 2015 and decline to 19 percent in 2019.

[4] For the purpose of the shock simulation, banking sector assets are defined as the sum of claims to the private sector, claims to the central government, and gross foreign assets. These add up to 102 percent of GPD.

- ***Interest rate shock.*** This scenario assumes that concerns about medium-term debt sustainability will increase spreads by 200 bps from 2015 onward. The government's interest bill climbs, reaching an effective rate of 6.9 percent by 2019. Higher borrowing costs are passed on to the real economy, depressing growth. Given that banks have large holdings of sovereign bonds in their portfolios, such a shock may weigh on banks' financial soundness, including on their capital. The debt-to-GDP ratio reaches 82 percent in 2019, despite sizeable primary surpluses, and gross financing needs increase to about 17 percent of GDP in 2019.

- ***Combined shock.*** A combined shock incorporates the largest effect of individual shocks on all relevant variables (real GDP growth, inflation, primary balance, exchange rate and interest rate). This would increase debt to its peak level of 102 percent of GDP in 2016. Gross financing needs will peak at 27 percent of GDP in 2016 and decline to 20 percent of GDP by 2019.

- ***No Egypt Gas***. Assuming there is no gas from Egypt starting in 2014, NEPCO will have to switch to more expensive fuel and incur higher losses throughout the medium term, with liquefied natural gas mitigating the adverse impact on imports and debt starting in 2015. Under this scenario, debt will peak at 96 percent of GDP in 2016 and then declines; gross financing needs will stay at 18 percent of GDP in 2019.

- ***Heat map.*** Jordan's debt level and gross financing needs are at high levels compared to other countries. On the upside, the risk from the debt profile is modest, and the share of short-term debt is expected to continue to decline. High external financing requirements are mainly driven by a large current account deficit rather than external debt amortization. Overall, these indicators highlight the importance of fiscal adjustment and a need to lengthen the domestic debt maturity profile.

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

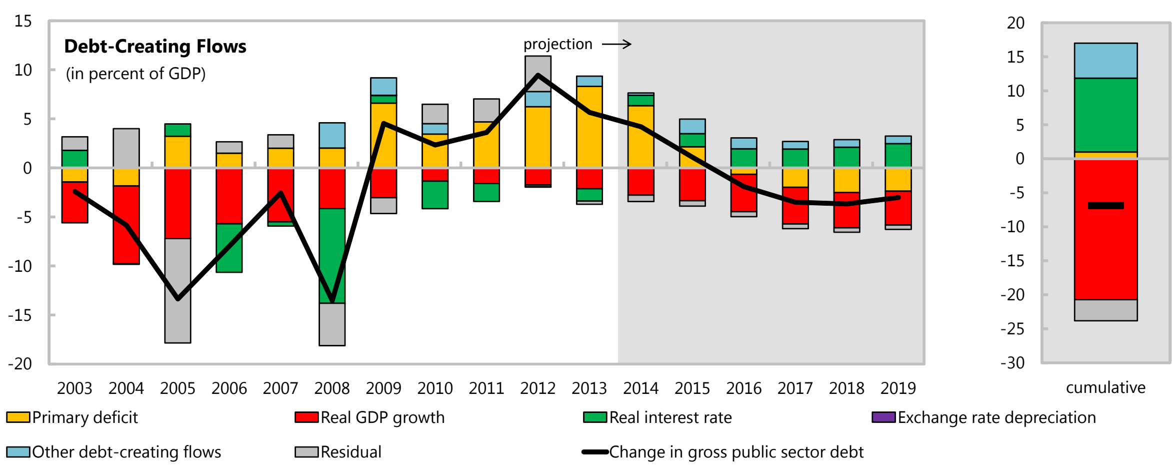
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of February 03, 2014		
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019			
Nominal gross public debt	77.6	80.2	85.8	90.0	91.1	89.2	85.7	82.0	79.0	Sovereign Spreads		
Of which: guarantees	4.7	8.3	12.2	11.3	10.5	9.8	9.1	8.5	7.9	EMBIG (bp) 3/		354
Public gross financing needs	13.0	21.6	28.8	26.8	20.9	21.9	17.5	14.1	15.6	5Y CDS (bp)		358
Net public debt	70.5	75.3	81.5	86.1	87.4	85.8	82.5	79.0	76.2			
Real GDP growth (in percent)	6.1	2.7	2.9	3.5	4.0	4.5	4.5	4.5	4.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	6.7	4.5	6.2	4.3	3.5	2.8	2.8	2.6	2.3	Moody's	B1	B1
Nominal GDP growth (in percent)	13.2	7.3	9.3	8.0	7.6	7.4	7.4	7.2	6.9	S&Ps	BB-	BB-
Effective interest rate (in percent) [4/]	4.1	4.3	4.7	5.8	5.2	5.3	5.3	5.3	5.6	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

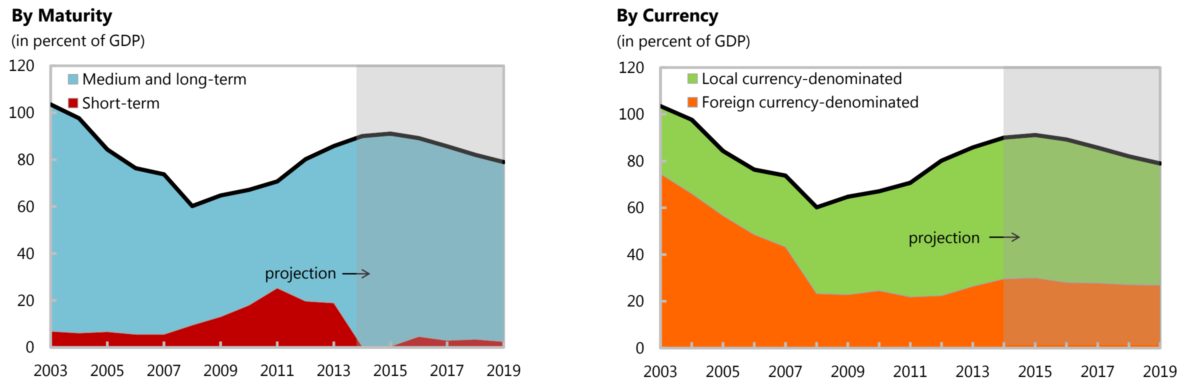
	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-3.9	9.4	5.7	4.2	1.1	-1.9	-3.5	-3.7	-3.0	-6.8	
Identified debt-creating flows	-3.4	5.8	6.0	4.9	1.6	-1.4	-3.0	-3.2	-2.6	-3.7	
Primary deficit	2.2	6.2	8.3	6.3	2.2	-0.6	-2.0	-2.5	-2.4	1.0	-0.2
Primary (noninterest) revenue and grants	30.8	23.0	24.0	28.3	27.5	29.0	29.4	30.0	29.8	174.0	
Primary (noninterest) expenditure	33.0	29.3	32.3	34.6	29.6	28.4	27.4	27.4	27.4	175.0	
Automatic debt dynamics [5/]	-6.3	-2.0	-3.4	-1.7	-2.0	-1.9	-1.8	-1.5	-1.0	-9.9	
Interest rate/growth differential [6/]	-6.3	-1.9	-3.4	-1.7	-2.0	-1.9	-1.8	-1.5	-1.0	-9.9	
Of which: real interest rate	-1.8	-0.2	-1.3	1.1	1.3	2.0	1.9	2.1	2.5	10.9	
Of which: real GDP growth	-4.5	-1.7	-2.1	-2.8	-3.3	-3.8	-3.7	-3.6	-3.5	-20.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	1.5	1.0	0.2	1.5	1.1	0.8	0.8	0.8	5.1	
Privatization Receipts (negative)	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other flows (NEPCO, WAJ, project loans)	0.0	1.5	1.0	0.2	1.5	1.1	0.8	0.8	0.8	5.1	
Residual, including asset changes [8/]	-0.5	3.6	-0.3	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4	-3.1	



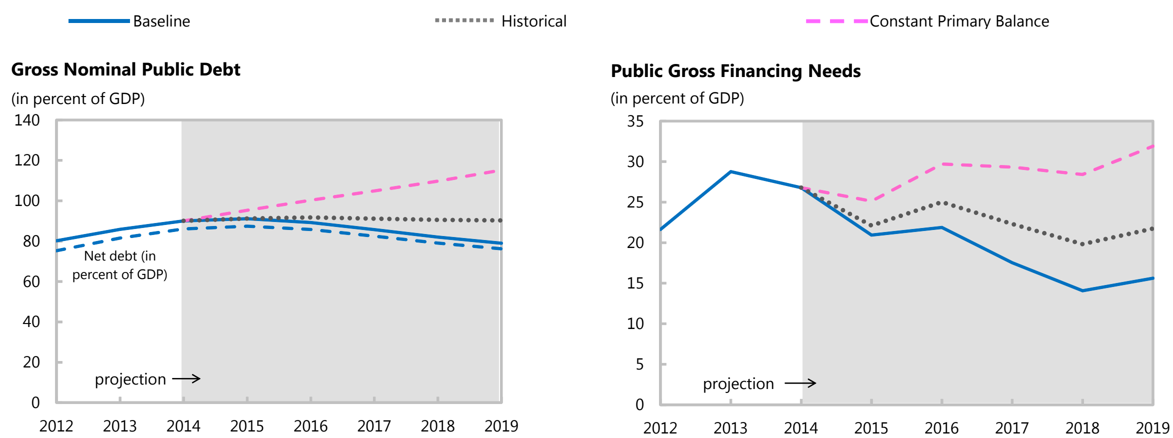
Source: IMF staff.
1/ Public sector is defined as central government and includes public guarantees, defined as guaranteed debt for NEPCO, WAJ, and other public entities..
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Jordan Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions
(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.5	4.0	4.5	4.5	4.5	4.5
Inflation	4.3	3.5	2.8	2.8	2.6	2.3
Primary Balance	-6.3	-2.2	0.6	2.0	2.5	2.4
Effective interest rate	5.8	5.2	5.3	5.3	5.3	5.6
Constant Primary Balance Scenario						
Real GDP growth	3.5	4.0	4.5	4.5	4.5	4.5
Inflation	4.3	3.5	2.8	2.8	2.6	2.3
Primary Balance	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3
Effective interest rate	5.8	5.2	5.2	5.2	5.3	5.7

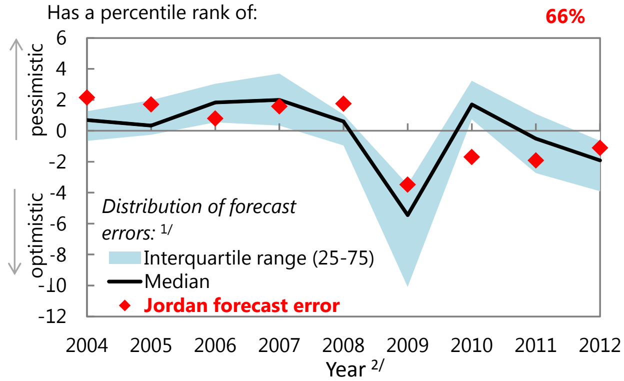
Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.5	5.6	5.6	5.6	5.6	5.6
Inflation	4.3	3.5	2.8	2.8	2.6	2.3
Primary Balance	-6.3	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	5.8	5.2	4.1	3.0	2.6	2.7

Source: IMF staff.

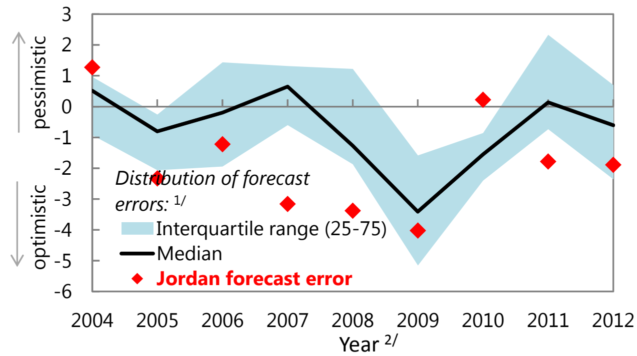
Jordan Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus program countries

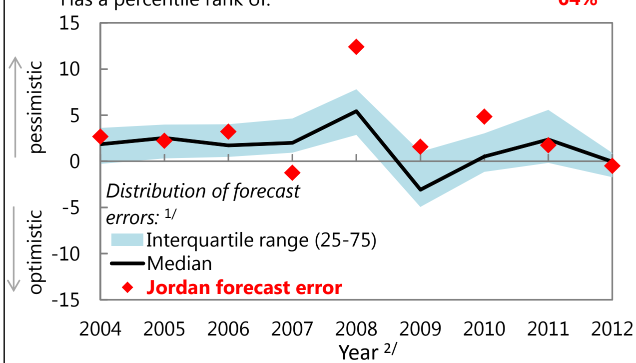
Real GDP Growth
(in percent, actual-projection)
Jordan median forecast error, 2004-2012: **0.80**
Has a percentile rank of: **66%**



Primary Balance
(in percent of GDP, actual-projection)
Jordan median forecast error, 2004-2012: **-1.89**
Has a percentile rank of: **13%**

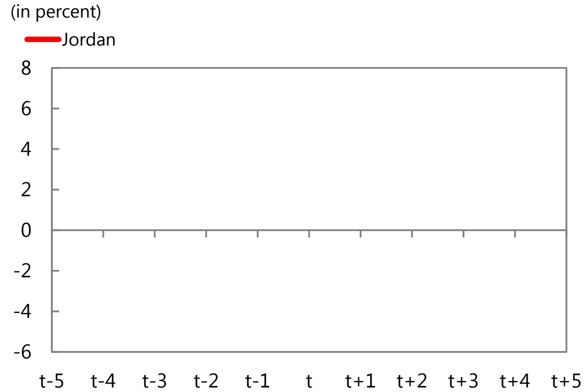


Inflation (Deflator)
(in percent, actual-projection)
Jordan median forecast error, 2004-2012: **2.23**
Has a percentile rank of: **64%**



Boom-Bust Analysis [3/]

Real GDP growth
(in percent)



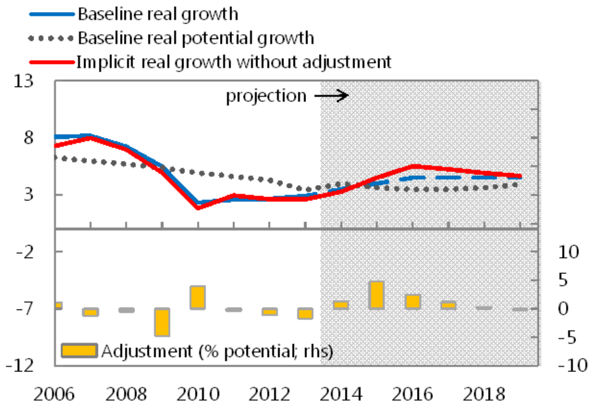
Source : IMF staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Jordan, because there is no sign that the country may be in a boom

Jordan Public DSA—Realism of Baseline Assumptions (continued)

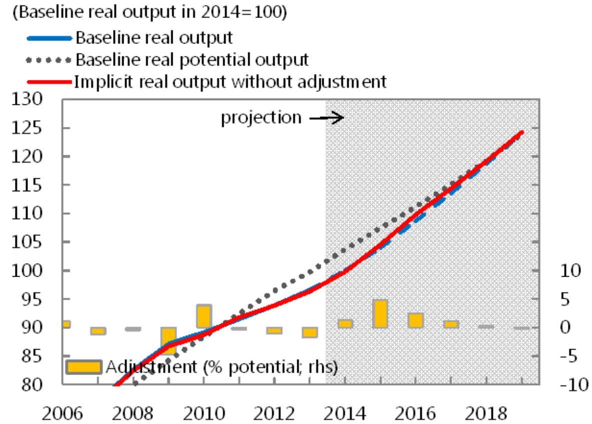
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.16, persistence of 0.3

Real GDP Growth
(in percent)

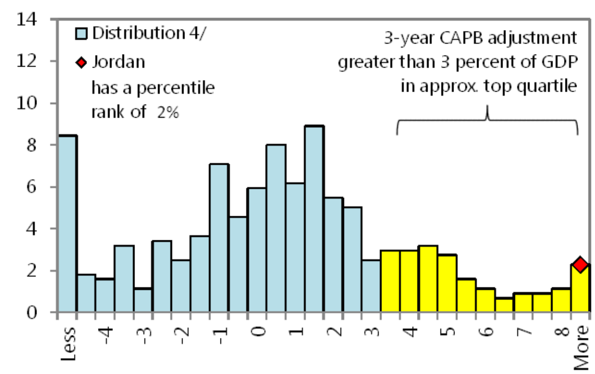


Real Output Level
(Baseline real output in 2014=100)

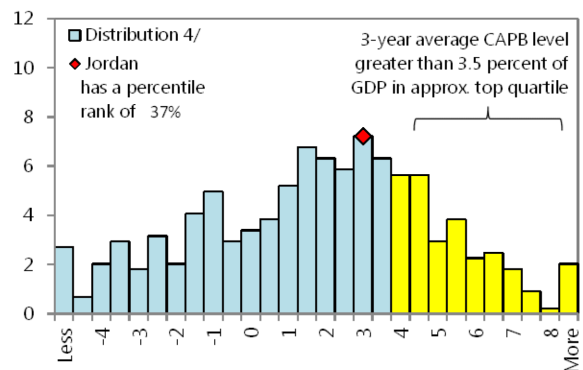


Assessing the Realism of Projected Fiscal Adjustment

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



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



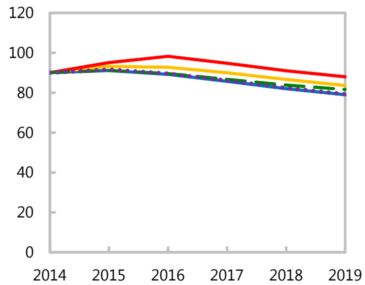
Source : IMF staff.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Jordan Public DSA—Stress Tests

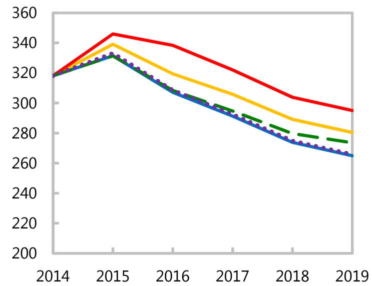
Macro-Fiscal Stress Tests

Baseline — Real GDP Growth Shock — Primary Balance Shock — Real Exchange Rate Shock — Real Interest Rate Shock

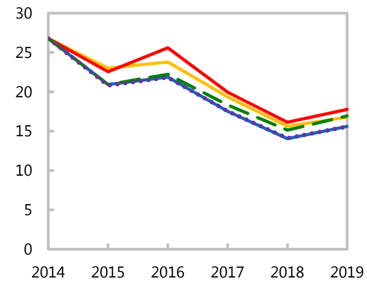
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



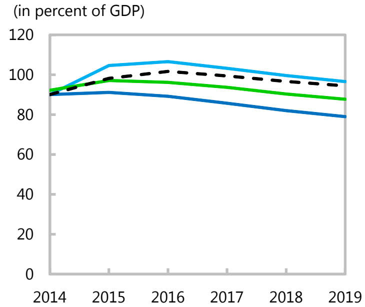
Public Gross Financing Needs
(in percent of GDP)



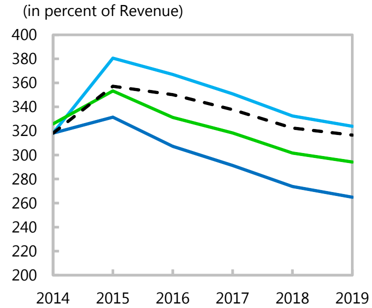
Additional Stress Tests

Baseline — No Egypt Gas — Combined Macro-Fiscal Shock — Contingent Liability Shock

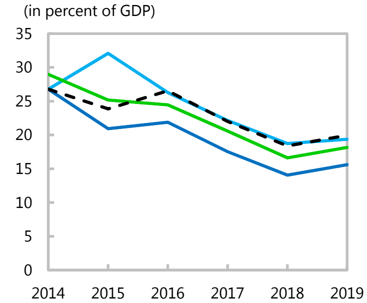
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	3.5	4.0	4.5	4.5	4.5	4.5
Inflation	4.3	3.5	2.8	2.8	2.6	2.3
Primary balance	-6.3	-4.2	-0.8	1.3	2.2	2.4
Effective interest rate	5.8	5.2	5.4	5.4	5.5	5.7
Real Interest Rate Shock						
Real GDP growth	3.5	4.0	4.5	4.5	4.5	4.5
Inflation	4.3	3.5	2.8	2.8	2.6	2.3
Primary balance	-6.3	-2.2	0.6	2.0	2.5	2.4
Effective interest rate	5.8	5.2	5.7	6.1	6.4	6.8
Combined Shock						
Real GDP growth	3.5	1.3	1.8	4.5	4.5	4.5
Inflation	4.3	2.8	2.1	2.8	2.6	2.3
Primary balance	-6.3	-4.2	-1.3	1.3	2.2	2.4
Effective interest rate	5.8	5.3	5.7	6.1	6.4	6.8
No Egypt Gas						
Real GDP growth	3.5	4.0	4.5	4.5	4.5	4.5
Inflation	4.3	3.5	2.8	2.8	2.6	2.3
Primary balance	-8.5	-6.0	-0.4	0.9	2.1	2.0
Effective interest rate	5.8	5.2	5.3	5.3	5.4	5.7

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	3.5	1.3	1.8	4.5	4.5	4.5
Inflation	4.3	2.8	2.1	2.8	2.6	2.3
Primary balance	-6.3	-3.2	-1.3	2.0	2.5	2.4
Effective interest rate	5.8	5.2	5.3	5.4	5.4	5.7
Real Exchange Rate Shock						
Real GDP growth	3.5	4.0	4.5	4.5	4.5	4.5
Inflation	4.3	5.2	2.8	2.8	2.6	2.3
Primary balance	-6.3	-2.2	0.6	2.0	2.5	2.4
Effective interest rate	5.8	5.3	5.2	5.2	5.3	5.6
Contingent Liability Shock						
Real GDP growth	3.5	1.3	1.8	4.5	4.5	4.5
Inflation	4.3	2.8	2.1	2.8	2.6	2.3
Primary balance	-6.3	-12.4	0.6	2.0	2.5	2.4
Effective interest rate	5.8	5.6	6.0	5.8	5.7	5.8

Source: IMF staff.

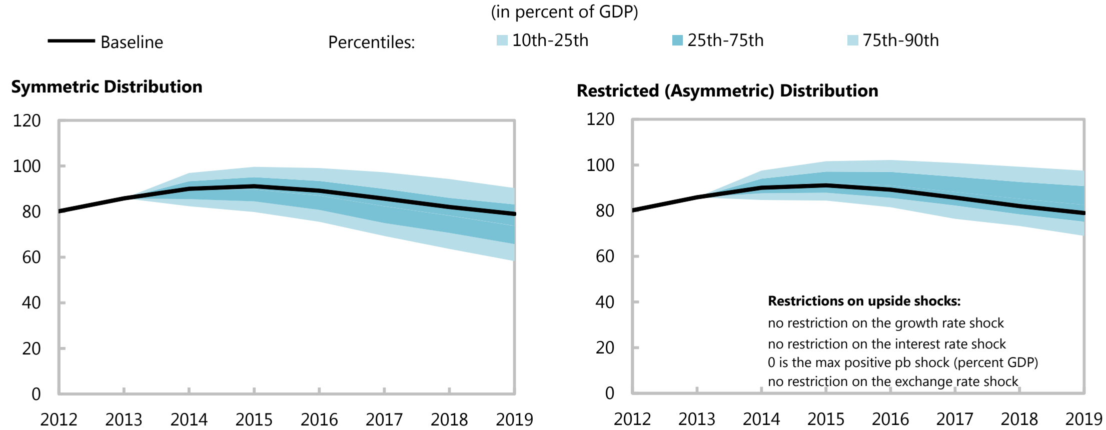
Jordan Public DSA Risk Assessment

Heat Map

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

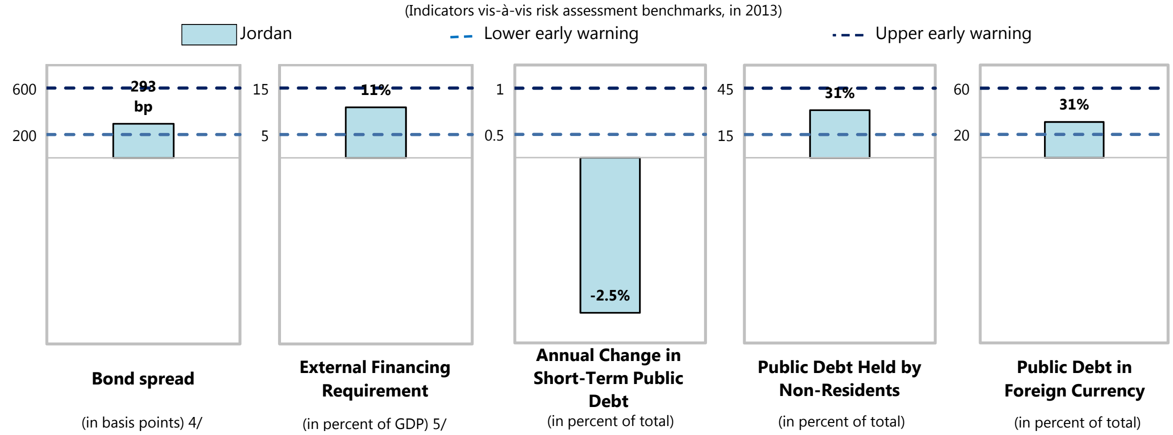
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

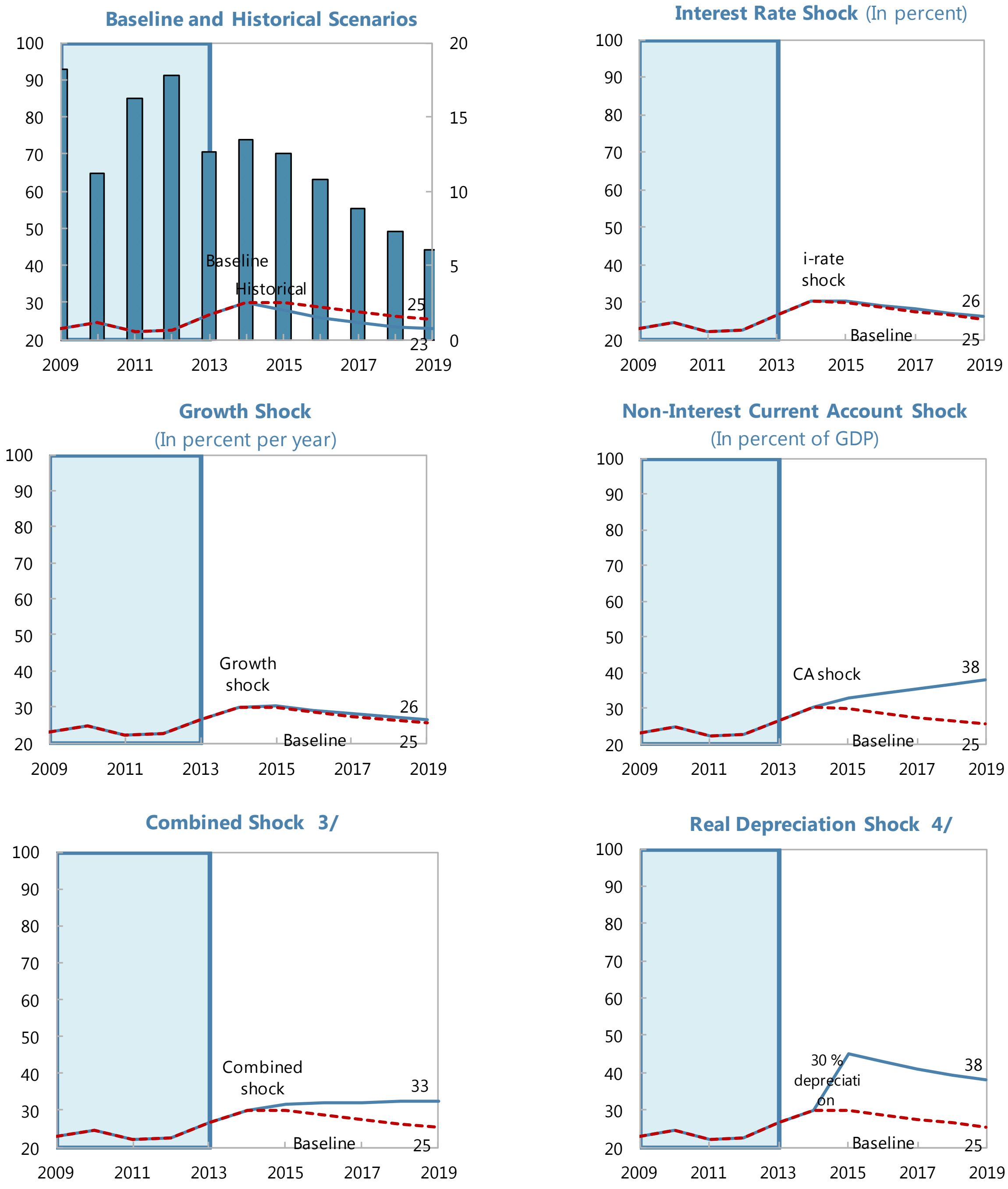
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 18-Dec-13 through 18-Mar-14.

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

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 2015.

Table 1. Jordan: External Debt Sustainability Framework, 2009–19
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
Baseline: External debt	22.9	24.6	21.9	22.5	26.4			**30.0**	**30.0**	**28.7**	**27.4**	**26.4**	**25.4**	**-7.3**
Change in external debt	-0.5	1.7	-2.7	0.5	4.0			3.6	-0.1	-1.3	-1.2	-1.1	-0.9	
Identified external debt-creating flows (4+8+9)	-4.1	-1.2	4.6	8.7	2.0			3.3	0.0	-1.3	-1.7	-2.0	-2.5	
Current account deficit, excluding interest payments	4.9	6.6	11.5	14.7	9.2			9.4	6.4	5.5	5.1	4.8	4.3	
Deficit in balance of goods and services	23.2	21.3	28.3	29.4	29.5			26.2	22.1	19.3	17.4	15.8	14.9	
Exports	45.9	47.9	45.6	38.6	35.6			35.1	34.3	33.6	33.1	32.7	32.3	
Imports	69.2	69.1	74.0	68.0	65.1			61.4	56.4	52.9	50.5	48.5	47.2	
Net non-debt creating capital inflows (negative)	-7.3	-6.1	-5.4	-5.0	-5.9			-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	
Automatic debt dynamics 1/	-1.8	-1.7	-1.5	-1.0	-1.4			-0.2	-0.6	-0.9	-0.9	-0.9	-0.9	
Contribution from nominal interest rate	0.0	0.6	0.6	0.5	0.5			0.6	0.5	0.4	0.3	0.2	0.2	
Contribution from real GDP growth	-1.2	-0.5	-0.6	-0.5	-0.6			-0.9	-1.1	-1.3	-1.2	-1.2	-1.1	
Contribution from price and exchange rate changes 2/	-0.6	-1.8	-1.5	-1.0	-1.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.6	2.9	-7.3	-8.2	2.0			0.3	0.0	0.0	0.5	0.9	1.5	
External debt-to-exports ratio (in percent)	49.9	51.4	48.1	58.1	74.3			85.5	87.4	85.3	83.0	80.7	78.7	
Gross external financing need (in billions of US dollars) 4/	4.3	2.9	4.7	5.5	4.3			4.9	4.9	4.6	4.0	3.6	3.1	
In percent of GDP	18.2	11.1	16.3	17.8	12.6	10-Year	10-Year	13.5	12.5	10.8	8.8	7.3	6.0	
Scenario with key variables at their historical averages 5/								**30.0**	**28.0**	**26.0**	**24.5**	**23.4**	**22.8**	**-12.5**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.5	2.3	2.6	2.7	2.9	5.6	2.7	3.5	4.0	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	2.8	8.4	6.4	4.6	6.2	6.9	5.2	4.3	3.5	2.8	2.8	2.6	2.3	
Nominal external interest rate (in percent)	0.0	2.7	2.6	2.7	2.5	1.0	1.4	2.6	1.8	1.3	1.1	1.0	0.9	
Growth of exports (US dollar terms, in percent)	-11.9	15.6	4.1	-9.1	0.7	10.5	14.6	6.6	5.0	5.2	5.7	5.9	5.8	
Growth of imports (US dollar terms, in percent)	-14.4	10.9	16.8	-1.3	4.7	13.1	14.2	1.7	-1.1	0.8	2.5	2.9	4.2	
Current account balance, excluding interest payments	-4.9	-6.6	-11.5	-14.7	-9.2	-10.3	5.6	-9.4	-6.4	-5.5	-5.1	-4.8	-4.3	
Net non-debt creating capital inflows	7.3	6.1	5.4	5.0	5.9	10.1	6.6	5.9	5.9	5.9	5.9	5.9	5.9	

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 US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
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, 2009–19

	Actual					Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
I. Baseline Projections											
Gross external financing need in billions of U.S. dollars 1/	4.3	2.9	4.7	5.5	4.3	4.9	4.9	4.6	4.0	3.6	3.1
In percent of GDP	18.2	11.1	16.3	17.8	12.6	13.5	12.5	10.8	8.8	7.3	6.0
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 2014-2019 3/						4.9	6.5	7.0	7.1	7.4	7.9
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						4.9	5.0	4.7	4.1	3.7	3.2
B2. Real GDP growth is at baseline minus one-half standard deviations						4.9	4.9	4.5	3.9	3.4	3.0
B3. Non-interest current account is at baseline minus one-half standard deviations						4.9	6.2	6.1	5.7	5.3	5.0
B4. Combination of B1-B3 using 1/4 standard deviation shocks						4.9	5.6	5.3	4.8	4.4	4.0
B5. One time 30 percent real depreciation in 2015						4.9	4.9	4.6	4.0	3.6	3.1
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2014-2019 3/						13.5	15.8	15.0	13.6	12.5	11.8
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviations						13.5	12.8	11.0	9.1	7.5	6.2
B2. Real GDP growth is at baseline minus one-half standard deviations						13.5	12.6	10.9	8.9	7.4	6.1
B3. Non-interest current account is at baseline minus one-half standard deviations						13.5	15.7	14.3	12.5	10.9	9.6
B4. Combination of B1-B4 using 1/4 standard deviation shocks						13.5	14.3	12.7	10.9	9.3	8.0
B5. One time 30 percent real depreciation in 2015						13.5	18.8	16.2	13.3	11.0	9.0

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

Appendix. Letter of Intent

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Amman, April 8, 2014

Dear Ms. Lagarde:

Our economy continues to suffer from the impact of exogenous events. In particular, the Syrian crisis is ever more encroaching, having not only implications on the fiscal and external accounts, but also resulting in social pressures. We expect such negative spillovers could become more pronounced should the conflict escalate further. Moreover, gas deliveries from Egypt continue to be unreliable. While donors have provided additional assistance, further external grants are needed to help mitigate new pressures on the fiscal accounts and public debt.

Despite the challenging environment, we are doing our part to ensure that public sector consolidation—the cornerstone of our program—remains on track. Losses at our electricity company (NEPCO) are being gradually reduced—supported by recent tariff increases—and are expected to be eliminated by 2017. Fiscal consolidation efforts are also well underway at the central government level. Fuel subsidies were eliminated in 2012 and we expect the revised income tax law (currently at parliament) to substantially raise revenue. We also plan to reduce tax incentives and implement other measures aiming for a cumulative consolidation effort by more than seven percent of GDP over the next three years. These efforts have instilled confidence in our government and its policies, resulting in a rapid rebound in our external reserves position.

As a result of our efforts, performance under the program has been strong. All quantitative performance criteria and indicative targets for end-March are expected to be met with the exception of the one on the combined public deficit because of a temporary shortfall in gas supplies from Egypt. Structural performance is also much improved, and we have met all six structural benchmarks since October 2013, which are focused on raising revenue, enhancing transparency, reforming public utilities in the energy and water sectors, and making growth more inclusive.

In view of our strong performance as well as strong policy measures for 2014, we request a waiver of non-observance of the missed end-March performance criterion on the combined public deficit and completion of the third and fourth reviews under the Stand-By Arrangement and approval of the related purchase. We also request a waiver for applicability of the other end-March performance criteria, for which actual data will not become available until six weeks after end-March (i.e., mid-May).

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's 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 continues to face a difficult external environment. However, we are steadfastly implementing our policies to maintain macroeconomic stability, foster equity, increase growth, and reduce unemployment. We have re-built reserves to a comfortable level and are implementing strategies that will return the electricity and water companies to cost recovery. We are now focused on further reducing the government deficit in a sustainable and equitable way while strengthening our structural reform agenda toward more inclusive growth and job opportunities, particularly for the young. We appreciate the donor support to help us alleviate fiscal and macroeconomic pressures in particular from hosting Syrian refugees.

BACKGROUND AND MACROECONOMIC OUTLOOK

1. **Jordan's external environment remains difficult.** The main risk to our program is spillovers from the Syria crisis. Currently, Jordan hosts more than a million Syrians, about 15 percent of Jordan's population. We welcomed the refugees in our communities and, together with our UN partners, set up the largest refugee camp in the world. These refugees are likely to stay in Jordan for some time. Despite help from donors, the humanitarian effort has come at a significant cost for the economy as a whole and for local communities, particularly in the north. In addition to maintaining good living conditions in the camps, this effort has created extraordinary fiscal costs that we can sustain only with stepped-up contributions from the international community. Any intensification of the conflict would have negative consequences for our economy, testing our economic, financial, and social capacity to accommodate more refugees. We are also facing the risk of renewed disruptions in gas flows from Egypt, which could significantly increase the deficit of our electricity company NEPCO as well as our external and fiscal financing needs.

2. **Despite this challenging environment, the economic recovery is gaining traction.** Notwithstanding the difficulties in the mining sector, we expect growth to have picked up to about 3 percent in 2013 from 2.7 percent in 2012, driven by sustained activity in financial services, trade, and construction. Private sector credit growth has accelerated in the last months while year-on-year headline CPI inflation has dropped sharply to 3.1 in February 2014. The stock market has gained about 3 percent since end-September 2013 and has weathered well the recent turbulence in emerging markets. With the improvement in overall macroeconomic conditions, dollarization declined and dinar liquidity improved. As a result, the yield curve on government securities declined by 350–400 basis points since end-2012, lowering the financing costs for the private and public sectors. In addition, lower energy imports, higher remittances and current transfers and better-than-anticipated tourism receipts helped reduce the current account deficit by 5 percent of GDP to below 10 percent of GDP in 2013.

3. **We expect the macroeconomic outlook to improve in the medium term.**

- **Growth.** We forecast GDP growth to accelerate to 3.5 percent in 2014, supported by a boost in public investment, largely financed by GCC grants; a rebound in private sector capital spending; and stronger domestic demand from Syrian refugees positively impacting the formal economy.

We expect growth to further pick up in the medium term, reaching 4½ percent by 2016, thanks largely to our structural reforms and the assumption that regional uncertainties will decline.

- **Inflation.** We forecast end-of-period consumer price inflation to decelerate to 2.5 percent at end-2014, and about 2 percent in the medium term, aided also by a moderation in food and fuel prices. This forecast reflects that planned electricity tariff increases for the coming years are expected to have a limited effect on inflation, as did previous ones.

- **Current account.** Owing to our efforts in diversifying energy sources, we will reduce our dependency on expensive fuel imports. This together with continued fiscal consolidation will lead to an improvement in the current account deficit (including grants) to about 4 percent over the medium term.

PROGRAM OBJECTIVES AND PERFORMANCE IN 2013

4. Our reform program is based on three objectives:

- **Macroeconomic stability** to strengthen investor confidence and withstand any economic shock; indeed, continued stability is a precondition to achieve our goals of inclusive and equitable growth. International reserves are now at comfortable levels and a sound medium-term energy sector reform is in place. Our focus now is on consolidation in the central government to gradually reduce public debt to 60 percent of GDP in the long term.

- **Equity and inclusion** for our citizens to improve their well being. We are making sure that those who have the means to pay for public services do so, while we support the poor.

- **Growth and jobs,** in particular for the young, so that Jordanians have an opportunity to work and improve their economic and social conditions.

5. We implemented strong policies in 2013, underpinning our objective of macroeconomic stability and inclusive growth:

- **Fiscal policy.** The year turned out broadly as planned and we met the end-December performance criterion (PC) on the primary fiscal deficit and the end-December Indicative Target (IT) on central government accounts payables.

- **Energy policy.** NEPCO's operating losses were much lower than expected because of the resumption in gas inflows from Egypt in the fourth quarter. As a result, we met the end-December PC on the combined public deficit (defined as the sum of the central government primary deficit and NEPCO losses; see the technical memorandum of understanding). NEPCO started repaying its overdue invoices, aided by a concessional loan from the Islamic Development Bank; nonetheless the IT on NEPCO's stock of arrears was not met as the central government delayed payments because of incomplete documentation.

- **Monetary policy.** Prudent monetary policy together with the central government's efforts built up reserves and maintained a high level of confidence in the dinar. This was supported by (1) the successful issuance of two dollar-denominated domestic bonds; (2) the issuance of a Eurobond in October for $1.25 billion which was guaranteed by the U.S.; and (3) the mobilization of donor grants. Despite setting a more ambitious target at the time of the last review, the end-December PC on net international reserves (NIR) was yet again met by a large margin, reflecting private transfers, higher capital inflows and continued de-dollarization. The end-December IT on net domestic assets was met as well.

6. We have complemented these policies with structural reforms (see also Table 2):

- **Fiscal consolidation.** Parliament approved the 2014 budget, which, together with the adoption of revenue measures, will ensure that the central government finances stay in line with program targets. We also increased electricity tariffs on January 1, 2014 as envisaged in our medium-term energy strategy. Moreover, we adopted and published a medium-term strategy to reduce the losses of the Water Authorities' of Jordan (WAJ) which exempts the low-income households from tariff increases. Finally, we strengthened budget commitment controls by issuing a circular with the 2014 budget that notifies ministries that they can commit only up to general and special orders which the ministry of finance will issue on a quarterly basis (the total value of these orders can be lower than the approved budget appropriation).

- **Equity and inclusion.** We submitted to parliament a draft revised income tax law that aims at not only raising revenue but also at improving the transparency and equity of the tax system. Moreover, with assistance from the World Bank, we created a national unified registry to better target subsidies.

- **Growth and jobs.** To improve financial inclusion, we adopted a strategy that addresses supply and demand bottlenecks (see below). We also expect to shortly license a private credit bureau. In partnership with USAID, we completed a study to cost existing tax incentives; we will use the study to reduce incentives, creating a level playing field and promoting entrepreneurship.

MACROECONOMIC STABILITY AND EQUITY

7. **Macroeconomic stability and equity are the cornerstones for sustainable growth.** Sound policies instill confidence and set the stage for inclusive growth. We are committed to continuing with our efforts started in 2012 by further reducing fiscal imbalances, addressing the losses of public utilities, and maintaining appropriate external buffers. We are also determined to leverage the stability and integrity of our banking system to enhance financial inclusion while strengthening the protection of consumers.

8. **We expect our program to stay broadly on track through March 2014.** We estimate to meet both performance criteria on the central government primary deficit and net international reserves, the latter by a large margin. Because of temporary shortfalls in gas supply from Egypt, however, the performance criterion on the overall public deficit is estimated to be missed (see paragraph 20).

A. Public Finances

9. We will continue fiscal consolidation. For 2014, we are targeting a consolidated public sector deficit of 8.3 percent of GDP (and 4.5 percent of GDP for the primary central government deficit). Over the medium term, we are gradually reducing the deficit to 5.1 percent of GDP in 2015 (and 2.9 percent of GDP for the primary central government deficit) to reach about one percent of GDP in 2017. This will reverse the upward trend in net debt, which is expected to peak at 87.4 percent of GDP in 2015 and decline to 76.2 percent of GDP in 2019. To reduce risks and costs, we are also developing a new medium-term debt strategy, for which we might request technical assistance (TA) from the Fund.

10. We are doing our best to provide for the Syrian refugees but the fiscal costs are significant. A recent study financed by USAID estimated the fiscal costs of the Syrian crisis on the central government and public utilities. The study distinguishes between direct costs to meet the acute needs of the crisis and indirect costs to re-establish services to their pre-crisis quality. For 2013, direct costs are estimated at 1.2 percent of GDP. This is broadly in line with what had been included in the central government budget (with the exception of spending by the health funds, which had accumulated some arrears; see our memorandum of economic and financial policies of October 29, 2012) and is implicitly included in the losses of the utilities. For 2014, the study estimates an increase in direct costs to 1.4 percent of GDP, which has been included in the program. However, we are not able to cover any indirect costs which are estimated at an additional one percent of GDP (based on depreciated capital spending).[1] Also, this means that our population has been experiencing a substantial decline in the quality of public services.

11. Further grants from donors are needed. First of all, gas supplies from Egypt continue to be unreliable, potentially adding a large burden on fiscal and external accounts. Should there be further shortfalls in gas supplies from Egypt, additional grants would help close this gap. Regarding the refugees, donors have already contributed directly or through the UN to provide humanitarian aid. Because the refugees are not expected to leave any time soon, we need to count on donors' support in the future. With local communities already thinly stretched, important in particular are additional grants to help us return services to their pre-crisis quality and also to increase capital spending toward fostering higher growth and employment. We appeal to our donors to further step up their support and, because our public debt has increased in the last years, we will continue to highlight that we will need assistance in the form of grants.

12. The ministry of finance (MOF) is coordinating program implementation. In particular, it will coordinate the issues related to NEPCO and WAJ. Since last year, banks have been reluctant to provide new financing to public utilities, including the roll-over of existing debt. To ensure that utilities stay current in their payments and also that NEPCO is repaying its arrears as programmed, the MOF each month is preparing a rolling 6-month plan of the liquidity needs for NEPCO and WAJ and will transfer funds as needed. We have started staffing the new macro unit, which will complement the work of the

[1] In addition to the previous costs, the fiscal balance was impacted by the revenue foregone from lower economic activity, including transit trade, and an increase in the interest premium.

research department, and expect it to be fully staffed by September. This unit will be in charge of following up on all aspects of our program. We believe that it will be instrumental in further improving the monitoring of program implementation, including of the structural agenda.

Central Government

13. We are reducing the central government primary deficit to 4.5 percent of GDP in 2014. In particular, in light of the substantial revenue losses over the last years, we are implementing measures to increase revenue to 22.9 percent of GDP (by 1.6 percent of GDP compared with 2013). Although we will increase only slightly primary current spending (that is excluding the interest bill) as a share of GDP, we will cut low-priority spending (including purchases of goods and services and transfers to own-budget agencies, see paragraph 15) to make room for an increase in the allocation to the health funds (0.7 percent of GDP). We will also increase capital spending (expected to reach 5 percent of GDP) to promote economic growth. Our underlying balance will in fact improve more strongly to 4.2 percent of GDP, when taking into account 0.3 percent of GDP for the clearance of arrears of the health funds.

14. Our revenue measures in 2014 focus on rebuilding the revenue base in a fair manner focused on the ability to pay. We have:

- **Increased the specific excise tax on cigarettes and alcohol** to JD0.42 per pack from JD0.32, which, along with an increase in sales prices, would generate revenue of another 0.35 percent of GDP.

- **Increased various fees and charges** (revenue impact of 0.4 percent of GDP). These include increasing foreigners' work permit fees; visa and residency fees; storage fee in special economic zones; fees on cross-border trucks; airport and diplomatic services. We have also imposed a new fee on consular services abroad.

- **Intensified pressure on public enterprises to ensure that they fully and timely transfer their surpluses to the central government.** This will help avoid a repeat of last year's shortfall in nontax revenue. Together with improvements in tax administration and the full-year impact of last year's increase in the sales tax rate on mobile phones, this is expected to contribute about 0.6 percent of GDP in extra revenue.

- **Introduced new fees on exempted imported goods** (revenue impact of 0.3 percent of GDP).

Given delays in implementing these measures and uncertainty about fiscal outcomes, we will take additional revenue measures at the time of the next review in the event of shortfalls from revenue projections.

15. The 2014 budget makes spending more pro-growth and pro-poor. The wage bill is expected to stay at 5.3 percent of GDP. One half of the 8-percent nominal increase is coming from a reclassification of wages recorded under capital spending in 2013 and the other half from a modest across-the-board wage increase by 2 percent (equivalent to JD26 million) and the hiring of doctors and teachers to help cope with the increased demand from Syrian refugees (JD26 million). We expect savings

(0.2 percent of GDP) from a better targeting of cash transfers and a reduction in other transfers, which will allow us to increase the allocation of the health funds:

- **Cash transfers.** To better target these transfers, we have tightened the eligibility criteria by proxy means testing (PMT) looking not only into wage income, but also at consumption and asset indicators. Asset tests, with specified thresholds on car, land, and real estate ownership are introduced for 2014. To that end, we have further developed the national unified registry database in the Income and Sales Tax Department (ISTD), with the assistance of the World Bank, to: (1) link it to other databases; and (2) allow the ranking of families using the PMT methodology. The first installment was for March and done only after improved eligibility thresholds could be applied so as to ensure the total benefit transfer is consistent with the 2014 budget allocation (JD210 million), and a better targeting of eligible beneficiaries.

- **Other transfers.** We have reduced transfers to public own-budget agencies by 0.2 percent of GDP. This reflects on-going efforts to freeze and realign the salaries of their employees with those of public servants, as well as to merge agencies with similar mandates.

While we not expect this to have any substantial impact on the 2014 budget, we are also planning in the course of 2014 to review the general food subsidy on wheat flour to prevent abuse.

16. We are making all efforts in cooperation with parliament on the income tax law seeking its approval as soon as possible. We have discussed the tax law extensively with stakeholders and, based on their feedback, submitted it formally to parliament in early February. The law is reversing some of the changes made by the income tax law in 2009. Specifically, the draft proposes to increase the personal income tax rates from 7 percent to 10 percent and 14 percent to 20 percent (there are two brackets). Moreover, it increases the main corporate income tax rate from 14 to 20 percent, while setting a higher rate of 25 percent for telecommunication and mining companies and 35 percent for the financial industry.

17. Passage of the income tax law will set the stage for the next review and the 2015 budget. An important component of this budget will be our efforts to reduce tax incentives, which have been estimated to cost the government more than 3 percent of GDP. To make the public aware of this loss and increase transparency, we have published the list of existing incentives and their cost as estimated by USAID; we intend to regularly update this list and the resulting costs with the help of TA. We intend to approve sufficient fiscal measures to cover the program adjustment in the central government primary deficit in 2015 by end-September 2014 (new benchmark), to allow sufficient time to formulate the full budget. In line with parliamentary rules, we will also submit by December 15 the draft 2015 budget to parliament in line with program agreements (new benchmark).

18. Strengthening tax administration will improve efficiency and transparency. The ISTD has already re-stratified taxpayers into the large taxpayer office, medium taxpayer offices and small taxpayer offices, which will improve the efficiency of tax collection. The ISTD has also classified taxpayers based on the International Standard Industrial Classification for better segment management, and has started to collaborate with the Anti-Money Laundering unit on information sharing. To strengthen the enforcement capacity of ISTD, we have submitted an amendment to the law on the collection of public funds to introduce appropriate penalties on tax evasion. Also, we were able to stabilize the level of tax arrears in 2013. Looking ahead, and with the IMF TA assistance, intend to establish a holistic compliance management framework by identifying and implementing specific compliance improvement programs for the high-risk segments, sectors and issues (as done with for the medial sector). The ISTD will also modernize its audit programs in line with international standards.

19. Strong public financial management (PFM) will improve governance.

- **We are repaying arrears and improving the PFM of own-budget agencies.** With Fund TA, our task force on arrears estimated the stock of health fund arrears at 0.7 percent of GDP at end-2013; these will be gradually repaid. We are on track to roll over the Government Financial Management Information System to all budget units in 2014 and will extend it to the health funds in 2015. During the interim, we will computerize the data system of the health funds.

- **We are also addressing the issue of trust accounts.** We have compiled a list of accounts at commercial banks and by March 2015 will identify those accounts that can be consolidated into the Treasury Single Account.

Public Utilities

20. We are steadfastly implementing strategies to return utilities to cost recovery, thus freeing up room for private sector development. Our main focus is on cost reduction and efficiency improvements, while exempting the poor from any tariff increases. Electricity tariffs were increased as planned in January 1. We expect that NEPCO's losses will not exceed the year-end target of 3.8 percent of GDP. Because of intermittent gas supplies from Egypt at the beginning of this year, we expect higher losses in the first half of the year, which we will recoup in the second half. We are working with the Egyptian authorities to increase the gas supply, but we also stand ready to implement contingency measures. These could include temporary electricity tariffs or general sales tax surcharges. We will raise electricity tariffs as announced on January 1, 2015 (new benchmark).

Electricity sector

21. We are making considerable progress in energy diversification:

- **Liquefied Natural Gas (LNG).** We signed on October 31 the contract for the construction of the jetty that will connect the LNG vessel to the main inland pipeline. Work has started and completion is expected by March 2015. We also selected our preferred bidder for the supply of LNG, and expect to sign the main agreement soon (benchmark for April). Supply is expected to start as soon as the infrastructure is in place.

- **Renewable energies.** We have signed the first round of contracts for the construction of solar and wind farms which will provide generation capacity of over 100MW. We expect these plants to start operation in 2015.

- **Conventional generation capacity.** The construction of two modern dual-power plants is on track. With assistance from the European Bank for Reconstruction and Development, we expect them to start operation by mid-2014, making available around 540MW as planned.

22. We are also improving efficiency. First, we are prioritizing investments on new transmission lines that will serve renewable energy power plants under construction, so that load capacity is met even as generation increases. Second, we have signed a contract for a study looking into how to reduce distribution losses to international standards (with completion expected by end-2014).

Water sector

23. We have adopted a comprehensive strategy to tackle losses in the sector. Based on this strategy, the sector would fully recover operating and maintenance costs from their revenue by 2018. This will mostly be done through cost savings and efficiency gains, in order to minimize the impact on tariffs. In fact, we have already started to upgrade our network by making the Disi water aquifer operational in mid-2013 (this has already improved the availability of water for many Jordanians). Tariffs for different uses will be raised gradually, starting with industrial customers (a first increase already took place in November 2013), and then for waste-water tariffs for non-poor residential customers (with the first increase expected by end-2014). We expect that the required large investments will be financed by the central government budget or our international partners.

B. Monetary and Exchange Rate Policies

24. 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.

25. To ensure there are adequate buffers in case of exogenous shocks, the Central Bank of Jordan (CBJ) will maintain reserves at a comfortable level. For the period between April 2014 and March 2015, we expect the programmed external financing to be fully received, which has been confirmed with our development partners. This financing includes grants of $972 million—including from the GCC ($600 million), the U.S. ($177 million), Saudi Arabia $100 million, and the EU ($83 million)—and loans of $1,564 billion, including from Japan ($9 million), the World Bank ($319 million), the EU ($236 million), and another U.S. guarantee for a Eurobond issue of $1 billion, which has been approved by the U.S. administration.

26. The CBJ's recent conduct of monetary policy was shaped by the need to stimulate economic activity within the context of the exchange rate peg and the objective of strengthening external reserves. The CBJ lowered policy rates in August and October 2013 and in January 2014, each by 25 basis points. The reduction was prompted by the continued positive momentum in the economy, including robust growth in foreign exchange reserves, sustained de-dollarization, and contained inflationary pressures. It aimed at creating an environment that is further conducive to economic growth. In fact, the output gap in the economy remains negative, and the CBJ expects that lower policy rates will reduce private sector borrowing costs, thereby stimulating credit growth. We will continue to monitor domestic and regional economic and political developments, and will stand ready to act proactively, weighing the need to stimulate economic activity with that of safeguarding our international reserve position and price stability.

C. Financial Sector Policies

27. We have made progress in implementing the 2009 Financial Sector Assessment Program (FSAP) recommendations toward better compliance with the Basel Core Principles (BCPs). We are progressing toward implementing a risk-based approach to supervision. Supported by IMF TA, we have taken steps to strengthen banking supervision and enhance the monitoring of Financial Soundness Indicators (FSIs). Stress testing and systemic risk analysis have been improved through the publication of industry standards for stress testing and the establishment of a Financial Stability Department which performs top-down stress testing and reviews results of stress tests by banks. As planned, we have published in December the first Annual Financial Stability Report. At the same time, we are gradually strengthening macro prudential analysis to address potential systemic risks.[2] We have issued a regulation that limits maturity mismatches and requires each bank to have in its credit policy limits on the debt-to-income ratio for retail customers; these limits are reviewed and approved by CBJ. We recently finalized the work on a new real estate price index that will allow us to better monitor credit risks in these sectors; an analysis of the results will be included in the forthcoming Financial Stability Report.

28. We will improve the collection and analysis of supervisory data. We have ongoing initiatives designed to strengthen our capacity to identify emerging risks and facilitate early intervention if necessary. We plan to complete by June 2014 an automated system for the collection and analysis of FSIs that will allow regular analysis on a quarterly basis of data submitted by banks no more than eight weeks after the end of each quarter (new benchmark). The implementation of this system will also facilitate the completion of an associated project regarding early warning indicators that will enhance systemic risk monitoring. We plan to conduct further work in the third quarter 2014 to finalize the design features of a statistical-based early warning model with the assistance of IMF TA for implementation in 2015. The ultimate goal of these two work-streams is to streamline the collection of supervisory data via an automated process on a quarterly frequency.

29. We plan to further develop arrangements for home-host cooperation and expand our supervision of domestic banks' cross-border operations. Recent visits have been conducted to various offshore operations of domestic banks. To complement these efforts, plans are for our risk-based supervision to include onsite reviews to significant offshore operations as part of the normal supervisory cycle by December 2014. In an effort to enhance the frequency and quality of information regarding foreign activities by domestic banks, we also plan with the help of IMF TA and in discussing

[2] Potential risks to banks' liquidity arising from non-resident deposits are not a concern. This is because they comprise mainly of deposits of Jordanians living abroad who have proved a loyal depositor base and, for large banks, also deposits of NGOs and the UN related to the support of Syrian refugees.

with hosting supervisory authorities to host a supervisory college for the Arab Bank Group in 2015 as a way to develop closer relationships with them.

30. We are working on strengthening the crisis management framework for banks. The CBJ already has in its arsenal crisis management arrangements including lender of last resort and emergency liquidity facilities. Furthermore, it has very recently established a crisis management committee whose task is to devise a formal crisis management manual to facilitate dealing with any banking crisis, and which is expected to discuss its results internally by year-end.

31. We will seek to maintain the strength of the Capital Adequacy Ratios (CARs) of banks. Various supervisory initiatives have been introduced to strengthen bank CARs. Importantly, we have focused on addressing the structural features of bank business models to improve asset quality, increase coverage ratios for Non-performing Loans (NPLs), and make earnings more stable. We will continue to encourage banks to maintain comfortable capital buffers to enhance their resilience.

32. We continue to work on strengthening our regulatory framework. With the help of IMF TA, we have undertaken initial quantitative assessments of the impact of introducing Basel III. Further analysis is required, especially in relation to liquidity. The CAMELS risk rating system also requires further adaptation to facilitate the implementation of Pillar 2 of Basel II and future alignment with the buffer regime in Basel III and a project to update the examination manual is underway. We are also working on a revised and more comprehensive corporate governance regulation which we expect to be implemented by mid-2014.

33. We remain committed to further enhancing the anti-money laundering and countering financing of terrorism (AML/CFT) regime. We have prepared a third follow-up report, which documents progress made toward addressing the deficiencies outlined in the mutual evaluation report adopted by the Middle East and North Africa Financial Action Task Force (MENA FATF) in 2009. MENA FATF acknowledged such progress in its April 2013 plenary meeting. Going forward, we plan to conduct in collaboration with other stakeholders, a national AML/CFT threat Assessment, whose objectives are (i) identifying a list of risk factors that are drawn from suspected threats or vulnerabilities; and (ii) analyzing the nature, sources, likelihood, and consequences of identified risks. Such an assessment will help us refine our risk mitigation and prevention strategies. We are currently engaging the Fund to receive TA in this regard.

GROWTH AND JOBS

34. High and sustainable growth will create jobs for our people and increase their standards of living. First, we are focusing on public investment as one engine of economic activity. At the same time, we are making sure to equip the unemployed among our young people with the necessary skills that put them to work. We are also supporting growth by broadening access to credit.

A. Improving Investment Quality

35. We are establishing a framework to improve the management of public investment on which we are seeking TA from the World Bank. Whether those projects are carried out as traditional on-budget public procurement, funded by donors, or as public-private partnerships (PPPs), we want to ensure that they promote growth and reduce unemployment, while their fiscal risks are well managed. To this end, we plan to establish with assistance from the World Bank a three-step public investment decision process that covers all line ministries, own-budget agencies, and state-owned enterprises by December (new benchmark). First, we will develop guidelines on undertaking cost-benefit analyses of projects, which we expect to complete by September 2014. Such analysis would be the basis for prioritization by a joint MOF-ministry of planning and international cooperation (MOPIC) committee and a prerequisite for any new project to be eligible for approval and inclusion in our Medium-Term Expenditure Framework. Second, we will decide whether the selected projects should be implemented as on-budget public procurement or PPPs, depending on what is more efficient. We also plan to prioritize donor-funded projects and include them in the 2015 budget. Third, for all investment projects (especially the PPPs), the MOF will review their fiscal affordability at each important "decision gateway" (such as bidding, signing of the contract, renegotiation). We will submit to parliament a PPP law by May 2014.

36. We are also working on improving the execution of our large existing project pipeline. Based on a cost-benefit analysis of each project above $250 million, the MOF and the MOPIC will prioritize by end-2014 those projects that are not yet included in the Executive Development Program. At the same time, we will review all projects that are not disbursing, in order to identify implementation bottlenecks, address them, or reallocate funding elsewhere if the project is deemed irredeemably stalled.

37. We have established a PPP unit in the MOF to manage fiscal risks from PPPs. As a first step, the unit will start to work on the five pilot projects recently identified with the World Bank. With TA from the Bank and other donors, the unit will conduct financial viability analyses, including value-for-money assessments and contingent liabilities, and take at least two fiscally affordable projects to the market before end-2014.

B. Creating Employment Opportunities

38. We are implementing the National Employment Strategy (NES), for which we will request assistance from the World Bank. We are already engaged with the Bank in implementing certain aspects of the Jordan Jobs Compact to increase access to career guidance, job search, and on-the-job training among targeted youth. At this point, the project provides a learning platform to test a number of initiatives, including: (i) school-to-work transition; (ii) job search and matching; and (iii) job readiness and placement. It is reaching about 14,000 young people. If successful, we stand ready to expand the project to more participants. Based on our recent NES progress reports, we will seek assistance from the World Bank to move forward on areas where progress has been slow.

C. Improving the Business Climate

39. A level playing field will provide higher growth opportunities. The new investment law now before parliament will create a new investment authority; improve market access for foreign investors; and establish a One-Stop-Shop with time limits to expedite applications. The law also allows cabinet to grants exemptions from the sales tax under certain conditions. We will use any such tax incentives only sparingly. In particular, before granting any incentives, we will cost them. Cabinet will approve them only in conjunction with compensating measures so that their overall impact on revenue is neutral. We will also review the incentives regularly and, if the investor does not deliver what had been agreed upon (including job creation), we will reserve the right to repeal the granted incentive. We have submitted the draft secured lending law to parliament as well as a draft insolvency law.

40. The royal committee to reinforce integrity has finalized its recommendations and a committee to oversee the implementation has been formed. These efforts will be guided by the integrity charter and executive plan it adopted in December, which brings an integrated approach to the work of government oversight agencies; and by amendments to the anti-corruption legislation aimed at strengthening PFM and promoting accountability and transparency in the public sector.

D. Enhancing Financial Inclusion

41. Our sound banking sector is expected to help boost medium-term growth. The FSIs for end-June 2013 suggest that the sector remains sound. Indicators point to an improving outlook in 2014, namely improved asset quality slowing the rate of NPLs and a pick-up in growth in private sector credit. The depositor base is resilient, with retail deposits accounting for approximately two-thirds of total deposits and a loan-to-deposit ratio of 68 percent.

42. We continue to support initiatives to encourage access to credit and financial inclusion.

- **On the infrastructure side,** the establishment of a **credit bureau** sponsored by a broad base of credit providers is intended to strengthen financial intermediation. Because it might take time for the private credit bureau to become operational, we will consider reducing the reporting threshold to the public registry as an interim measure to capture a larger pool of credit data and support credit providers until the bureau is operational. The National Payment Council led by CBJ started several **national retail payment projects** including mobile payment, bill presentment, and an Automated Clearing House. These projects are expected to enhance financial inclusion as well as the efficiency and safety of the payment system.

- **On the demand side,** we will introduce in spring 2014 a **regulatory framework for microfinance** with TA from the Gesellschaft für Internationale Zusammenarbeit (GIZ).

Encouraging access to finance is a core objective of the CBJ, as this form of financing has the potential to make growth considerably more broad-based and inclusive. While microfinance accounts for approximately one percent of total lending in the economy, micro borrowers rely on microfinance for their financing needs. Through the licensing and supervisory regime, the CBJ will take responsibility for the supervision and oversight of microfinance lenders, providing transparency and certainty in the relationship between lender and borrower. We are also working on lowering the financing cost for Small and Medium-Size Enterprises (SMEs) and Micro-Finance Institutions (MFIs) through credit lines from the World Bank and we signed an agreement with the Arab Fund for Social and Economic Development to get another credit line of $50 million which is expected to be disbursed during the coming months. Also we will continue discussing with other international and regional partners to have similar programs. In particular, the CBJ has designed a framework for Islamic banks to benefit from these lines. The recently introduced regulations on treating customers fairly are expected to encourage more SMEs to seek financing from the banking sector.

- **On the supply side,** the CBJ is communicating its strategy on financial inclusion to the market and has provided banks with low-cost credit lines with long-term maturity as discussed above. To lower the risk, the Jordan Loan Guarantee Company (owned jointly by the CBJ and banks) has adopted a new strategy and developed new products; it is increasing playing a more important role in providing partial guarantees to SMEs and exporters.

PROGRAM MONITORING

43. 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. In particular:

- The CBJ financial statements for the year 2013 were finalized by end-March 2014 and included in the Annual Report. The disclosures in the statements will be further improved, to include derivative contracts, equity reserves, and significant investments in associates.
- We have reviewed procedures and controls over the program monetary data compilation process, and will ensure reconciliation with the accounting records within six weeks after each test date in 2014.
- We are developing a plan to remove audit qualifications in the CBJ financial statements, to ensure fair and transparent presentation of assets in the CBJ balance sheet. An external committee is already looking at the resolution of Petra bank, and work is ongoing to resolve other outstanding issues. An internal committee in the CBJ was recently formed and tasked with studying and resolving other outstanding issues.
- Work is ongoing to prepare draft amendments of the CBJ law by December 2014, with the view to strengthen oversight arrangements and legal underpinnings of the CBJ's autonomy. We have formed a committee that already prepared a preliminary draft of amendments of the CBJ law,

which was discussed at the CBJ's high management level. We expect to submit a revised draft—in line with the recommendations of the CBJ safeguards assessment—to the CBJ board during the second half of 2014.

44. 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 1–2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1. Jordan: Quantitative Performance Criteria and Indicative Targets, 2013-15

	Dec-13	Dec-13	Dec-13	Mar-14	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
	Target	Adjusted Target	Projection	Target	Projection	Target	Target	Target	Indicative Target
Performance Criteria									
Primary fiscal deficit of the central governement, excluding grants and transfers to NEPCO and water companies, in JD million (flow, cumulative ceiling)	1,292	1,212	1,132	467	429	465	882	1,165	214
Combined public deficit in JD million (flow, cumulative ceiling)	2,667	2,587	2,232	700	794	1,065	1,615	2,160	362
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	9,341	8,934	10,968	9,918	11,216	11,052	11,804	11,699	11,191
Ceiling on accumulation of external payment arrears 1/	0	0	0	0	0	0	0	0	0
Indicative Targets									
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-1,481	-1,192	-2,657	-1,440	-2,606	-2,259	-2,863	-2,870	-2,318
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	534	682	534	682	682	682	682
Stock of arrears of NEPCO 2/	270	270	350	150	150	0	0	0	0
Memo items for adjusters									
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	1,820	...	1,632	682	347	871	1,997	2,600	45
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	3,773	...	3,366	771	370	1,153	2,291	2,906	0
Cap for the downward adjustor on the NIR	900	...	900	900	900	900	900	900	900
Cap for the fiscal adjustor (JD millions)	80	...	80	20	20	40	60	80	20

1/ Continuous.

2/ 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
Raising revenue		
Review and costing of tax incentives.	By end-October 2013	**Met** with assistance from USAID, which will provide TA to make this a regular exercise.
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).
Submit a 2014 budget to parliament in line with program understandings.	December 15, 2013	**Met.**
Implement permanent measures of one percent of GDP to bring the budget in line with program understandings.	December 15, 2013	**Met with delay.**
NEW: Approval of fiscal measures to cover the program adjustment in the central government primary deficit in 2015 as stated in paragraph 9 of the MEFP	End-September 2015	
NEW: Submission to parliament of a 2015 budget in line with the program	December 15, 2014	
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.

Table 2. Structural Benchmarks (continued)		
Structural Benchmarks	**Test Date**	**Status**
Amend the commitment control module in GFMIS.	By December 2013	**Met with delay.** Implemented in February 2014.
NEW: Complete an automated system for the collection and analysis of FSIs that will allow regular analysis on a quarterly basis with data submitted by banks no more than six weeks after the end of quarter.	End-June 2014	
Prepare draft amendments to the CBJ law to strengthen autonomy and oversight, in line with Fund advice.	By December 2014	**On track.**
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.
Signing of the LNG supply contract.	April 2014	**On track.**
Announce to the public an action plan on how to reduce the water company's losses over the medium term.	By end-October 2013	**Met.**
Implement already announced tariff increases as outlined in the medium term energy strategy	January 2014	**Met.**
NEW: Implement already announced annual tariff increases as outlined in the medium term energy strategy	January 2015	

Table 2. Structural Benchmarks (concluded)		
Structural Benchmarks	**Test Date**	**Status**
Inclusive Growth		
Licensing of a credit bureau.	End-June 2013	**Not met.** The CBJ is waiting for the private firm to send a revised and complete licensing application.
Implement a national unified registry for targeting of subsidies.	October 2013	**Met.**
NEW: Establish a public investment decisions process to cover the prioritization (based on benefit-costs analyses), financing modalities (e.g. on-budget or through PPPs), and continuous monitoring of fiscal affordability of all projects	December 2014	

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 1b attached to the Letter of Intent dated April 8, 2014. 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 1b 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 borne by NEPCO; (ii) any fuel transportation costs; (iii) depreciation costs; (iv) all other maintenance and operating expenses, including on wages and remuneration of the board of directors, and provisions; and (v) interest expense and any other financial costs.

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 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 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 paragraph. 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.

JORDAN

April 14, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, THIRD AND FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERION AND APPLICABILITY OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

FUND RELATIONS

(As of March 31, 2014)

Membership Status: Joined August 29, 1952; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	170.50	100.00
Fund holdings	852.19	499.82
Reserve position in Fund	0.33	0.19

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	162.07	100.00
Holdings	136.03	83.93

Outstanding Purchases:

	SDR Million	Percent Quota
Stand-By Arrangements	682.00	400.00

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SBA	8/03/12	8/02/15	1,364.00	682.00
SBA	7/03/02	7/02/04	85.28	10.66
EFF	4/15/99	5/31/02	127.88	127.88

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	0.00	31.97	191.81	309.03	149.19
Charges/interest	8.38	11.22	8.66	3.76	0.90
Total	**8.38**	**43.19**	**200.46**	**312.79**	**150.09**

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

Safeguards Assessment: Under the Fund's safeguards assessment policy, the CBJ was subject to a full assessment with respect to the Stand-By Arrangement (SBA), which was approved on August 3, 2012. An assessment was completed in January 2013 and found that the elements of a sound governance framework, as well as requirements concerning Fund disbursements for direct budget financing, are in place. The assessment made a number of recommendations, which the authorities have started implementing.

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

Last Article IV Consultation: The 2012 Article IV consultation was concluded by the Executive Board on April 9, 2012. The Staff Report and Executive Board Assessment can be found in IMF Country Report 12/119 at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=25937.0

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

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

Documents:

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

Jordan: Technical Assistance, 2011–14

Date	Purpose
Fiscal	
January 2011	Public financial management (including World Bank & METAC) expert is joining, WB, and MCD)
March 2011	Public-Private Partnership
April 2011	PPPs and fiscal risks
May 2011	Follow-up on capital expenditures
June 2011	Review, strengthen structural arrangements of HQ functions
October 2011	Assessment visit
October 2011	Strengthen compliance management of financial sector
October 2011	Subsidy reform
January 2012	Regional workshop on compliance management
February 2012	Public financial management
August 2012	Tax administration
January 2013	Public financial management
April 2013	Strengthen risk-based audit
May 2013	Tax administration reform agenda
May 2013	Public financial management
July 2013	A review of the new income tax and other issues in revenue mobilization
August 2013	Advancing the tax administration reform agenda
September 2013	Commitment control system
November 2013	Follow-up on arrears
February 2014	VAT compliance and refund management
Monetary and Financial	
January 2011	Risk management
January 2011	Regulation and supervision
January 2011	Markets instruments and infrastructure
January 2011	Setting up a risk management unit within the Central Bank
January 2011	Islamic banking: develop guidelines, assessments, tools
June 2011	Regional Workshop on debt strategy
June 2011	Developing debt management strategies
July 2011	Debt management capacity building
July 2011	Building, analyzing and evaluating debt strategies/debt management
July 2011	Assessment mission
December 2011	Early warning systems

Date	Purpose
December 2011	Licensing credit bureaus
Jan. & Apr. 2012	Manual for licensing credit bureaus
February 2012	Development of Money and Capital Markets
September 2012	Risk analysis
October 2012	Guidelines for establishing credit bureaus
January 2013	Implementation of Basel III and enhancing supervisory practices
Statistical	
January 2011	Improving BOP and IIP compilation practices
February 2011	Improving BOP and IIP compilation practices
Sept./October 2011	STE preparation of input/output tables
May 2012	National accounts
September 2012	External debt and balance of payments statistics
January 2013	Price statistics
May 2013	National accounts
November 2013	National accounts
Other	
December 2011	LTE training on the external debt statistics
February 2012	Central Bank of Jordan–IMF research workshop (MCD)

WORLD BANK GROUP STRATEGY AND OPERATIONS

1. The Country Partnership Strategy (CPS 2012–15) was discussed by the Bank's Board of Directors on January 24, 2012. The World Bank Group is supporting Jordan in its efforts to build stronger growth resilience and to foster job creation through a three-pronged strategy:

- Strengthen fiscal management and increase accountability;
- Strengthen the foundation for sustainable growth with a focus on competitiveness; and
- Enhance inclusion through social protection and local development.

In light of the government's increased focus on transparency, public participation and government accountability, the World Bank Group (WBG) is supporting these efforts across the portfolio.

A CPS Progress Report is scheduled for fiscal year (FY) 14.

2. As of March 2014, the World Bank's active portfolio in Jordan consists of thirty five projects valued at $729 million, financed mainly by IBRD (92 percent of the total portfolio), as well as some Bank-administered trust funds. The portfolio comprises investments in the Urban Development, Education, Energy, Environment, Public Sector Governance, Public Administration, Social Services, and Finance/Private Sectors. Currently, investments in Social Services account for the highest share of the portfolio at 35 percent followed by the Urban Development Sector at 21 percent. The Bank is helping to enhance Jordan's capacity and performance in the areas of governance, fiscal management, public sector efficiency and private sector-led growth through a programmatic series of two Development Policy Loans ($250 million each).

3. The World Bank also provides support on emerging needs to help build Jordan's resilience to the Syrian crisis. The large refugee influx from Syria has strained the government's capacity to deliver basic services and led to an increase in competition for jobs and social tensions. An Emergency Loan ($150 million, approved in July 2013) helped Jordan maintain access to healthcare services (vaccines and supplies) and basic household needs (bread and cooking gas) for affected households. A complementary Emergency Services and Social Resilience Grant ($50 million approved in October 2013) leveraged grants from the UK, Canada, and Switzerland, with the Arab Fund for Economic Development recently having joined in with an additional $10 million. This project will help municipalities strengthen their service delivery capacity, support local economic development and foster social cohesion in host communities.

4. WBG support to private sector development continues to focus on improving the investment environment, sector competitiveness, Micro, Small, and Medium Enterprises (MSME) financing and the framework for public private partnerships. IFC has scaled up its investment activities in Jordan during the last few years, and its portfolio has grown from $50 million at end FY05 to about $746 million at end-January 2014. IFC has also undertaken an extensive program of Advisory Services to support private sector development.

5. The Multilateral Investment Guarantee Agency's outstanding gross exposure from investments into Jordan stood at $212.9 million as of end-January 2014. In FY13, MIGA issued a $13 million political risk insurance guarantee to a U.S. investor for the expansion of the AS Samra Wastewater Treatment Expansion Project.

STATISTICAL ISSUES

(As of March 31, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance and program monitoring.
National Accounts: While progress has been made over the last few years in improving quarterly estimates of the national accounts from the production approach, Jordan has still to develop quarterly national accounts from the expenditure approach. Also, further efforts are needed to ensure that the compilation of the national accounts is compliant with the System of National Accounts 2008 (2008 SNA). The base year for calculating the GDP at constant prices should be updated (from the current 1994 to 2010).
Price statistics. An urban-only CPI, based on 12 geographic areas covering all Jordan, is compiled and released every month. The weights should be updated more frequently than the current five-year period, using expenditure data from the bi-annual household budget surveys.
Government finance. The authorities have developed a financial balance sheet in accordance with the classification and sectorization systems recommended by the *GFSM 2001* aimed at further strengthening the stock and flow data that serve as a source for compiling government finance statistics and for verification of internal and intersectoral consistency.
Monetary statistics: Timeliness of reporting monetary data for publication in *International Financial Statistics* is satisfactory.
Balance of payments: The CBJ has adopted the methodology of the fifth edition of the *Balance of Payments Manual (BPM5)* for the compilation of the BOP statistics and the international investment position (IIP), and has disseminated data in the *BPM5* format. The implementation of surveys in the area of services is important for further improving the quality of the BOP statistics.

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

Jordan: Common Indicators Required For Surveillance

(As of March 30, 2014)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Timeliness of Reporting 7/	Memo Items: Data quality—methodological soundness 8/	Memo Items: Data quality—accuracy and reliability 9/
Exchange rates	Feb. 2014	Feb. 2014	D	D	1D		
International reserve assets and reserve liabilities of the monetary authorities 1/	Feb. 2014	Mar. 2014	M	M	1W		
Reserve/base money	Jan. 2014	Mar. 2014	M	M	1M		
Broad money	Jan. 2014	Mar. 2014	M	M	1M		
Central bank balance sheet	Jan. 2014	Mar. 2014	M	M	1M		
Consolidated balance sheet of the banking system	Jan. 2014	Mar. 2014	M	M	1M	O, O, LO, LO	O, LO, O, O, LO
Interest rates 2/	Jan. 2014	Mar. 2014	W	M	1W		
Consumer price index	Feb. 2014	Mar. 2014	M	M	1M	O, LO, O, O	O, LO, O, O, O
Revenue, expenditure, balance and composition of financing 3/—general government 4/	2012	July 2013	A	A	7M	O, LO, LNO, O	O, O, O, O, NA
Revenue, expenditure, balance and composition of financing 3/—central government	Feb. 2014	Mar. 2014	M	M	1M		
Stocks of central government and central government-guaranteed debt 5/	Feb. 2014	Mar. 2014	M	M	1M		
External current account balance	Q4 2013	Mar. 2014	Q	Q	1Q	LNO, LNO, LNO, LO	LNO, LO, LO, LO, LO
Exports and imports of goods and services	Feb. 2013	Mar. 2014	M	M	1M		
GDP/GNP	Q4 2013	Mar. 2014	Q	Q	1Q	O, LO, O, O	O, LO, O, LO, LO
Gross external debt	Feb. 2014	Mar. 2014	M	M	1M		
International Investment Position 6/	2012	June 2013	A	A	6M		

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

Press Release No. 14/183
FOR IMMEDIATE RELEASE
April 29, 2014

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

IMF Executive Board Completes Third and Fourth Reviews Under the Stand-By Arrangement with Jordan and Concludes 2014 Article IV Consultation

On April 28, 2014, the Executive Board of the International Monetary Fund (IMF) completed the third and fourth reviews of Jordan's performance under a three-year program supported by a Stand-By Arrangement (SBA) and concluded the Article IV consultation[1] with Jordan. The 36-month SBA in the amount of SDR 1.364 billion (about US$2 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. 12/288). The second review under the Stand-By Arrangement was approved by the Board on November 8, 2013 (see Press Release No. 13/435). The completion of the third and fourth reviews enables the immediate release of SDR 170.50 million (about US$264.7 million), bringing total disbursements under the program to SDR 852.50 million (about US$1.3 billion).

In completing the third and fourth reviews, the Executive Board approved the authorities' requests for a waiver of nonobservance for the end-March 2014 performance criterion on the combined public deficit and for a waiver of applicability for the end-March 2014 performance criterion on the primary fiscal deficit.

A press release on the Article IV consultation will be issued separately in due course.

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

"The Jordanian authorities remain committed to reforms and prudent policies despite a difficult environment. Their Fund-supported economic program, focused on reducing external and fiscal vulnerabilities, remains broadly on track.

"The 2014 budget appropriately targets further fiscal consolidation while protecting the most vulnerable. Measures to increase central government revenue are welcome and should be

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

implemented without delay. Contingency measures should be prepared and implemented if expected revenue gains turn out to be lower than expected and fiscal targets appear at risk.

"Looking further ahead, the medium-term consolidation strategy hinges on further tax reforms to rein in rising public indebtedness. The new income tax law should aim at bringing the tax burden in line with that of regional peers. At the same time, tax incentives should be reduced. Continued implementation of reforms in the energy and water sectors is necessary to return the utilities to cost recovery.

"Monetary policy should continue to focus on preserving comfortable reserve buffers. While headline inflation has declined in recent months, a rising trend in core inflation calls for a continued cautious approach. Financial stability would be further supported by enhancements in the supervisory frameworks and improvements in financial statistics.

"Faster and more job-rich growth requires regulatory and legislative action to improve the business climate. There is also a need to step up labor market and educational reforms, strengthen public institutions, and better prioritize public investment."

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700 19th Street, NW
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IMF Executive Board Concludes 2014 Article IV Consultation with Jordan

On April 28, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Jordan and also completed the third and fourth reviews of Jordan's economic performance under a three-year program supported by a Stand-By Arrangement (SBA).

A press release on the third and fourth reviews was issued on April 29, 2014 (see Press Release No. 14/183).

Jordan has faced strong headwinds in recent years, particularly from the Syria conflict and fluctuations in gas supplies from Egypt. These have been putting pressure on the fiscal and current accounts. At the same time, unemployment has been persistently high.

Nonetheless, the economy is strengthening gradually. Growth has recovered from the trough of 2.3 percent in 2010 to almost 3 percent in 2013. Headline inflation dropped to 3.3 percent at end-2013 (though core inflation remains elevated). The current account (excluding grants) narrowed to 16½ percent of GDP in 2013, thanks to cheaper energy imports and higher transfers.

Policies were adjusted to exogenous shocks. Fiscal consolidation started in mid-2012, reducing the combined primary central government deficit and the electricity company's losses from 14.5 percent of GDP in 2011 to 8.3 percent of GDP in 2014. The consolidation was anchored in a bold reform of general subsidies, including in the electricity sector.

The Central Bank of Jordan (CBJ) complemented the fiscal efforts and reserves are now at comfortable levels. Starting in mid-2013, the CBJ's focus shifted to stimulating economic activity by gradually reducing policy rates by a total of 75 basis points. Private sector credit growth, which slowed in 2012, has recently picked up.

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The economy is expected to further strengthen in the next years. Growth is projected to increase to 3½ percent in 2014, and to 4½ percent in the medium term. Inflation is expected to decline to about 2½ percent at end-2014, and 2 percent in the medium term. The current account deficit would gradually improve to about 4½ percent of GDP over the medium term, reflecting mainly a lower energy import bill. Risks to this outlook remain substantial, mostly related to the Syria conflict and further fluctuations in gas from Egypt.

Executive Board Assessment

Executive Directors welcomed the authorities' commitment to their Fund-supported economic program, which has buttressed the economy's resilience in the face of significant external shocks. Directors noted, however, that Jordan's continued exposure to adverse global and regional spillovers underscores the importance of persevering with prudent policies and sustaining the reform momentum. Directors invited the international community to continue its support of Jordan's economic and institutional transformation.

Directors agreed that the 2014 budget strikes an appropriate balance between fiscal consolidation and supporting growth and encouraged the authorities to implement contingency measures if their fiscal targets appear threatened. More broadly, they noted that strengthening the fiscal position over the medium term will require sustained efforts. In this regard, Directors recommended the rapid approval of the new income tax law which, together with a reduction in tax incentives, would boost revenue and enhance equity. They also saw scope for streamlining expenditures, including the public wage bill and remaining universal subsidies.

Directors took note of the staff assessment that Jordan's exchange rate peg has served the country well and that the current exchange rate level remains in line with medium-term fundamentals. They commended the Central Bank of Jordan's responses to external pressures, which was instrumental in returning international reserves to a comfortable level. Directors concurred that lingering inflation risks argue for a continued cautious approach.

Directors agreed that the financial system is generally sound. They encouraged the authorities to reinforce the framework for cross-border supervision and accelerate implementation of the remaining Basel II prudential requirements. Directors looked forward to additional efforts to improve data on financial soundness and welcomed the authorities' continued efforts to fight money laundering and the financing of terrorism.

Directors underscored that structural reforms on a broad front are essential to safeguard macroeconomic stability and bolster Jordan's social outcomes. They agreed that faster job creation calls for improving the business climate, reducing skill mismatches, promoting the participation of women in the labor force, and implementing new employment policies in the public sector. In this context, Directors welcomed recent steps to facilitate access to finance to small businesses and looked forward to the approval of the new laws on investment, secured lending, and insolvency. Efforts to enhance transparency and governance, including in tax administration and public financial management, would also be important.

Jordan: Selected Economic Indicators, 2012–15

	2012	2013 2nd Rev.	2013 Est.	2014 2nd Rev.	2014 Proj.	2015 Proj.
	(Percentage change, unless otherwise indicated)					
Real sector						
Real GDP at market prices	2.7	3.3	2.9	3.5	3.5	4.0
Consumer prices index (period average)	4.6	5.5	5.6	3.0	3.0	2.6
Unemployment rate (period average, in percent)	12.2	13.1	12.6	...	...	...
Gross domestic investment (in percent of GDP)	21.7	20.7	20.7	20.7	21.7	21.5
Gross national savings (in percent of GDP)	6.5	9.6	10.9	7.8	11.7	14.6
	(In percent of GDP)					
Fiscal operations						
Revenue and grants	23.0	25.3	24.0	27.4	28.3	25.9
Of which: grants	1.5	3.6	2.7	4.4	5.3	3.0
Expenditure 1/	31.9	40.0	35.1	35.7	38.6	33.5
Additional measures needed	…	…	…	…	0.0	1.5
Overall fiscal balance after measures	-8.9	-14.6	-11.1	-8.3	-10.3	-6.0
Primary government balance, excl. grants, NEPCO, and WAJ	-7.4	-5.4	-4.7	-4.5	-4.5	-2.9
NEPCO loss	-5.3	-5.7	-4.6	-3.8	-3.8	-2.2
Combined public sector deficit 2/	-12.7	-11.1	-9.3	-8.3	-8.3	-5.1
Government and government-guaranteed gross debt 3/	80.2	87.7	85.8	91.3	90.0	91.1
	(In percent of GDP, unless otherwise indicated)					
Balance of payments						
Current account balance (including grants), of which:	-15.2	-11.1	-9.8	-12.9	-10.0	-6.9
Exports of goods, f.o.b. ($ billions)	7.9	8.1	7.9	8.4	8.5	8.8
Imports of goods, f.o.b. ($ billions)	18.5	18.9	19.4	18.9	19.7	19.5
Gross usable international reserves ($ millions)	5,299	9,905	11,449	10,609	12,695	13,477
In months of prospective imports	2.4	5.3	5.1	5.7	5.8	6.1
In percent of reserve-adequacy metric	63.8	113.1	132.6	133.3	136.5	134.0
	(Annual percentage change)					
Money and credit						
Broad money	3.4	10.8	9.7	9.7	11.1	10.9
Credit to the private sector	6.9	7.4	8.0	7.1	8.6	9.6
Exchange rates						
Local currency per U.S. dollar (period average)	1.4	1.4	1.4	...	...	...
Real effective exchange rate (end of period, percentage change)	1.6	…	2.5	...	...	...

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

1/ Includes net lending, transfers to NEPCO, and other use of cash.
2/ Defined as the sum of the primary central government deficit (excl. grants and transfers to NEPCO and WAJ) and NEPCO loss.
3/ Includes NEPCO debt.

Statement by Mr. Shaalan on Jordan
April 28, 2014

Jordan continues to implement its economic reform program in spite of a difficult external and domestic environment. In particular, the spillovers from the Syrian crisis and the interruption of gas supply from Egypt have imposed substantial costs on the economy, exerting pressures on fiscal and external balances. The authorities' prompt response to these events contributed to the successful implementation of the Fund-supported program. Support from donors remains essential to maintain the momentum of reform and help shoulder the burden of hosting the Syria refugees.

Recent developments and outlook

In spite of the impact of the Syrian refugees, who amount to more than 10 percent of the population, economic activity in 2013 picked up and inflation remained subdued while both the current account and fiscal deficits were substantially reduced. Additionally, banks' financial soundness indicators continued to strengthen. These favorable developments contributed to the buildup of foreign exchange reserves to comfortable levels.

Over the medium-term, economic performance is expected to improve further. A planned substantial increase in capital spending and a pick-up in private sector activity will help generate job opportunities. Ongoing fiscal consolidation efforts and the strategy to diversify energy sources will allow the fiscal and external balances to strengthen, and will thereby strengthen the economy's resilience to risks.

Program implementation

Overall performance under the program has been strong. Most quantitative targets and structural benchmarks were met through the end of 2013. As the final data is not available for end-March 2014, waivers are being requested on the applicability for the end-March performance criteria on the primary fiscal deficit and on other PCs where the data will not be available until mid May. The authorities are also requesting a waiver for nonobservance of one performance criterion, which is not expected to be met, related to the higher than programmed losses of the electricity company, NEPCO. The higher losses resulted from a shortfall in contracted gas supply from Egypt which necessitated the import of more expensive fuel. NEPCO losses are expected to be recouped in the second half of the year to bring the related performance criterion back on track.

Fiscal policy

Strengthening public finances remains a top priority to slow the accumulation of public debt and place the debt to GDP ratio on a declining path. The primary balance of the central government significantly improved in 2013. During the year, fuel subsidies were discontinued, non-priority government spending was cut, electricity tariffs were raised, and intensified efforts were made to improve the collection of tax and non-tax revenues.

The 2014 budget strikes an appropriate balance between fiscal consolidation and supporting growth. The budget includes larger allocations for capital spending and better targeting of cash transfers, while accommodating the rising fiscal costs of refugees. Revenue measures focus mainly on adjustments in fees collected under non-tax revenues. All structural fiscal reforms agreed under the program are proceeding as scheduled. These includes strengthening public financial management to prevent the recurrence of new arrears, and tax administration reforms directed at improving tax collection efforts and reducing tax evasion. Looking forward, tax measures have a key role in the fiscal consolidation given the limited scope for further reductions in spending. Accordingly, measures are planned to reduce tax exemption incentives and the government submitted a new income tax law to the parliament in February that would contribute to rebuilding the tax revenue base.

Strengthening the finances of public utilities is a key component of the program. Besides raising tariffs, the efficiency of the electricity sector was enhanced through measures to reduce losses in the distribution system. To diversify energy sources, a liquefied natural gas port and renewable energy farms are expected to be completed as early as next year.

Monetary and financial sector policies

Monetary policy aims to support economic growth, while maintaining price and external stability. The exchange rate peg continues to serve Jordan well and helps to maintain price stability. In line with price developments, the central bank has adjusted its policy rates throughout the year in response to market developments. After raising rates in 2012 when the foreign reserves came under pressure, rates were lowered, once foreign reserves were built-up and dollarization significantly decreased, to stimulate bank credit to the private sector.

The banking sector remains sound and resilient. Financial soundness indicators show enhanced profitability and declining non-performing loans with increased loan provisioning. Moreover, liquidity and capital adequacy ratios remain strong. A number of initiatives are under way to strengthen bank supervision and safeguard financial stability. The central bank issued its first Financial Stability Report last December. Other initiatives include steps to improve stress testing and systemic risk analysis. An automated data collection system to enhance the efficiency of bank supervision is expected to be completed in June of this year and a new corporate governance regulation will be issued soon. Plans also include expanding supervision of bank cross border operations.

Structural reforms

Ongoing structural reforms aim at boosting economic growth and generating job opportunities. Besides increasing public investment, the authorities are taking steps to prioritize public projects and improve the business and investment environments. A new investment law is awaiting parliament approval. This law will facilitate the investment process, partly through creating a one-stop-shop for investments. A secured lending law and an insolvency law were also submitted to parliament as recommended by the Fund and World Bank staff. To help address high unemployment, especially for the young, a National Employment Strategy is being implemented to facilitate job search and training. To improve access to credit, in particular by small and medium enterprises and micro-finance institutions, credit lines have been established with the World Bank and the Arab Fund for Social and Economic Development.

Finally, the authorities would like to express their appreciation for the continued support of the Fund and Jordan's partners.