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JORDAN

May 2015

SIXTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, AND REPHASING OF ACCESS—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of sixth review under the Stand-By Arrangement, Request for Waivers of Applicability of Performance Criteria, and Rephasing of Access, 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 24, 2015, following discussions that ended on April 8, 2015, with the officials of Jordon on economic developments and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on April 9, 2015.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Jordan.

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

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

*Also included in Staff Report

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

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April 9, 2015

SIXTH REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Jordan is persevering in a difficult regional environment. The conflicts in Syria and Iraq are resulting in disruptions to trade routes, less tourism, a hesitant investment sentiment, high costs to accommodate refugees, and pressures on the quality of public services. Nonetheless, growth is holding up, inflation is low, the current account deficit is narrowing, international reserves are at a comfortable level, and the banking system is robust.

Program performance remains broadly on course. All end-March 2015 performance criteria (PC) are expected to be met. Structural performance saw improvement, including the pre-approval of a credit bureau and the establishment of a new public investment framework.

Public sector adjustment needs to continue with the windfall from lower oil prices saved. Jordan will benefit from lower oil prices in the short term, including through a boost to domestic demand, a lower current account deficit, and an improvement in the finances of the electricity company NEPCO. Over the medium term, however, such benefits would fade owing to potentially lower capital and income flows from the GCC, as well as an already programmed shift to a less-expensive energy mix for NEPCO. To gradually reduce Jordan's high public debt, it is therefore critical to adhere to the planned fiscal adjustment, including through continued deep tax reform and the full implementation of the medium-term energy strategy.

Now is the time to move forward with labor market reform. There is an urgent need for broad-based policy actions in the labor market to put the unemployed into jobs, increase female labor force participation, and reform public sector compensation and hiring practices. Continuing improvements in the business environment and the quality of public institutions are also important. The authorities are working toward a 10-year framework for economic and social policies, Vision 2025, which could drive such reforms, and an important step will be to anchor this framework in a medium-term macroeconomic and fiscal framework.

The completion of the sixth review makes available SDR 142.083 million (about $196.5 million).

Approved By

Adnan Mazarei and Mark Flanagan

The mission team consisted of Kristina Kostial (head), Yasser Abdih, Apostolos Apostolou, Edouard Martin (all MCD); René Tapsoba (FAD); and Nelson Sobrinho (SPR). It was assisted by Ramsey Andrawis, Vanessa J. Panaligan, and Cecilia Pineda. The mission was joined by Sami Geadah, Alternate Executive Director, and overlapped with World Bank missions. During February 24–March 10, staff met with Minister of Finance Umayya Toukan, Minister of Energy and Mineral Resources Ibrahim Saif, Minister of Planning and International Cooperation Emad Fakhoury, Minister of Water and Irrigation Hazim El-Naser, Minister of Trade and Industry Maha Ali, Minister of Labor Nidal Katamin, Minister of Telecommunications and IT Majd Shweikeh, Minister of Tourism and Antiquities Nayef Hmeidi El Fayez, Governor of the Central Bank of Jordan Ziad Fariz, senior officials in these institutions, the electricity company (NEPCO), representatives of parliament, civil society groups, students, and the private sector as well as with development partners.

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CONTEXT

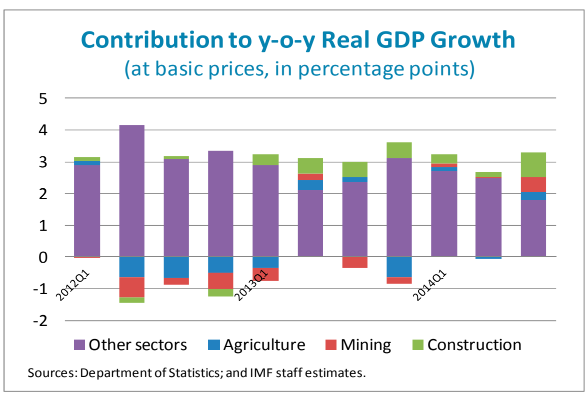
1. **Jordan is navigating an adverse regional environment.** There are continued economic and social pressures from hosting refugees and increasing disparities in income and unemployment across governorates. Exports to Iraq, Jordan's largest market, have declined by more than 20 percent y-o-y since July 2014 and gas imports from Egypt have been about one fifth of what was programmed in 2014 (necessitating costlier energy substitutes). Nonetheless, policies have stayed broadly on track, further reducing fiscal and external imbalances. And the economy is showing slow but steady signs of improvement, supported by donor assistance.

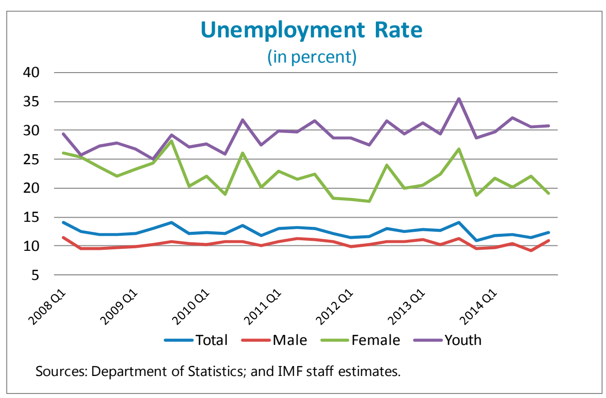
2. **Lower oil prices provide an important reprieve** (Box 1). In the coming years, they will support domestic demand while strengthening the current account and the financial position of the electricity company (NEPCO). In the medium term, however, their impact is expected to be broadly neutral as they are expected to increase again, inflows from the Gulf Cooperation Council (GCC) could slow down and because of an already programmed shift to a less-expensive energy mix for NEPCO.[1]

ECONOMIC AND PROGRAM PERFORMANCE

A. A Slow But Steady Improvement

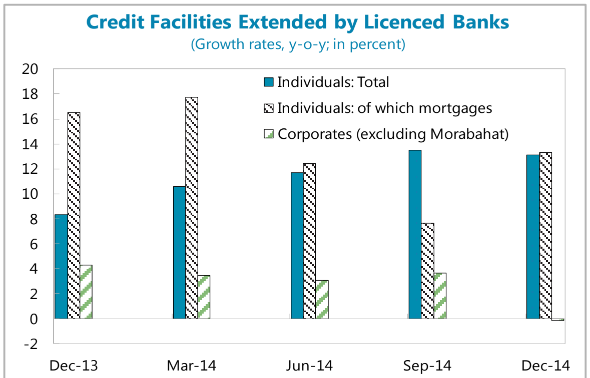
3. **Growth is picking up slowly.** The growth rate of 3.1 percent y-o-y in 2014Q3 was mainly fueled by the agricultural, mining, and construction sectors, while activity in other sectors stalled. At the same time, the GDP deflator decelerated to 3.0 percent y-o-y, reflecting a downtrend in agricultural and export prices. Employment grew but unemployment trended higher to 12.3 percent in 2014Q4, because of an increasing labor force participation.



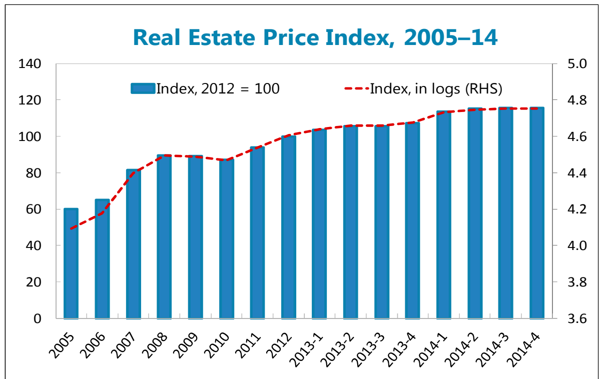


[1] NEPCO's medium-term projections had already factored in more favorable gas prices consistent with a negotiated 5-year contract.

4. **Private sector credit growth remained modest**, amounting to 4.2 percent y-o-y in January. While corporate credit growth had decelerated and stalled by year-end, mortgages grew strongly, supporting the construction sector. Real estate prices increased faster than inflation in 2014, but bank and household exposure to credit risk in real estate has remained limited.

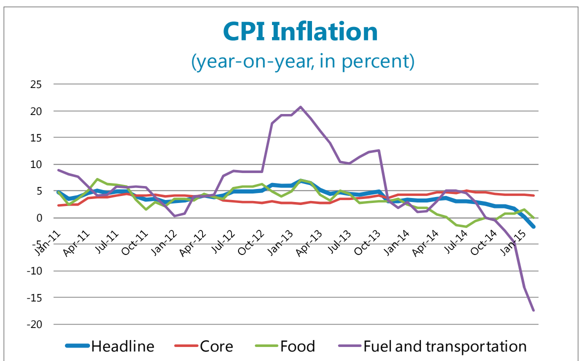


Sources: Central Bank of Jordan; and IMF staff estimates.

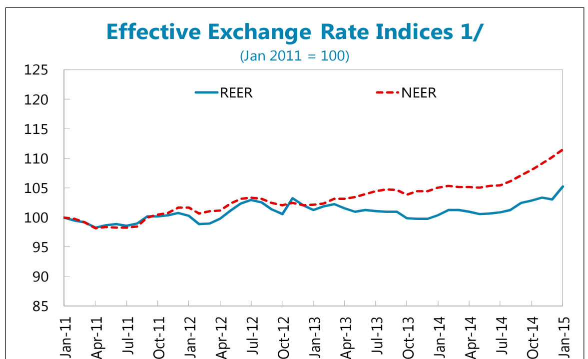


Sources: National authorities; and IMF staff estimates.

5. **Inflation declined further**, to -1.7 percent y-o-y in February. This mainly reflected lower fuel prices and was accompanied by a gradual decline in core inflation from a peak of 5 percent y-o-y in July to 4.2 percent in February. The dinar appreciated slightly in real effective terms on account of a strong U.S. dollar.[2]



Sources: Department of Statistics; and IMF staff estimates.

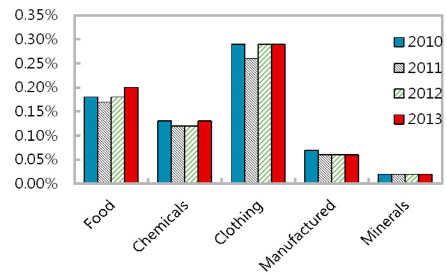


Sources: Jordanian authorities, COMTRADE and Fund staff calculations and estimates.
1/ Preliminary estimates based on trade weights using trade data for 2011-13.

[2] The impact of the appreciation could be mitigated by lower labor costs as refugees are joining the labor force. Also, about half of Jordan's exports go to traditional markets and to U.S. dollar-pegged economies (mostly GCC countries).

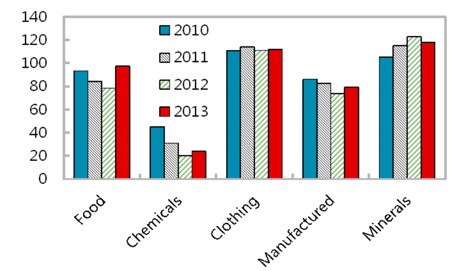
Jordan: External Sector

Jordan sustained its market shares...



Source: International Trade Center.
These commodities represent about 80 percent of Jordan's exports.

...without further diversifying.

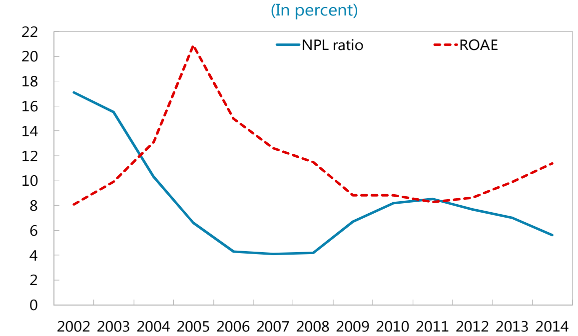


Source: International Trade Center.
Higher denotes more diversification.

6. **The current account deficit (excluding grants) narrowed sharply,** from 17 percent of GDP in 2013 to an estimated 12 percent of GDP in 2014. This reflected a moderation in non-energy imports, higher private transfers, and an improvement in net non-factor services mostly because of lower transportation and one-off revenue. The resilience of exports helped to sustain the gains in the current account—lower exports to Iraq were offset by strong performance in other markets and a rebound in the sales of mining products and fertilizers. Gross usable international reserves remained at a comfortable level, amounting to $14.3 billion at end-December (equivalent to 143 percent of the reserve adequacy metrics).

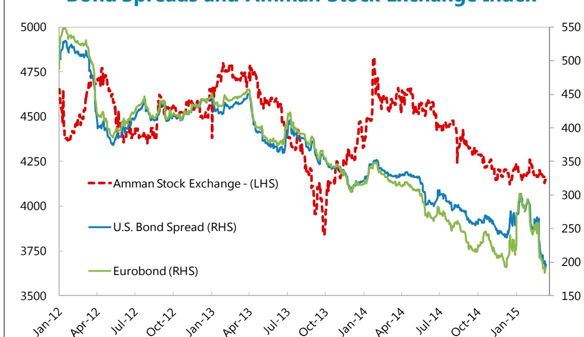
7. **The financial sector remains sound overall.** At end-2014, banks held capital well above the regulatory minimum and strong liquidity buffers. Non-performing loans (NPLs) net of provisions declined to their lowest level since 2006 while profitability also continued to improve. The stock market has leveled in recent months, after a decline early in 2014 from expectations of lower after-tax profits (from the new income tax law) while bond spreads continued to narrow.

Return on Aggregate Equity and NPL Ratio
(In percent)



Source: IMF Financial Soundness Indicators.

Bond Spreads and Amman Stock Exchange Index



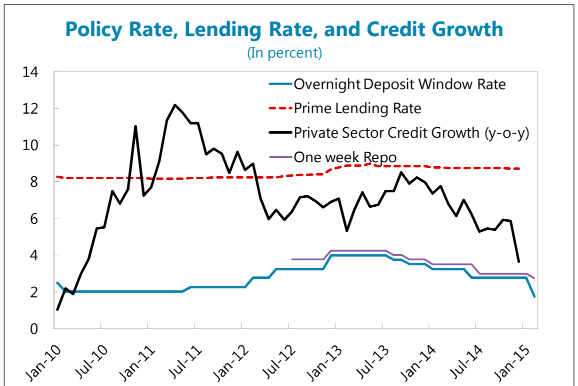
Source: Bloomberg.

B. Policy Implementation Broadly on Track

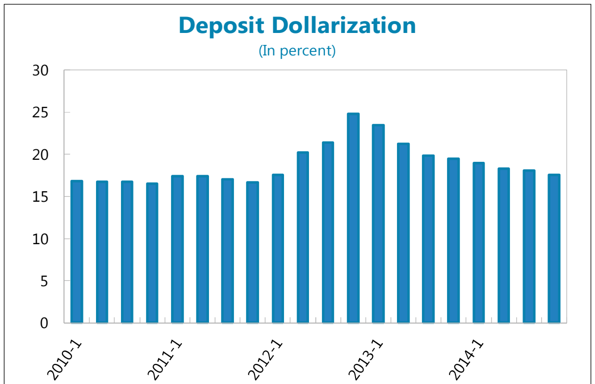
8. **The 2014 primary fiscal deficit slightly exceeded the target and is on track in the early months of 2015.** The slippage of 0.1 percent of GDP in 2014 (from a target of 4.5 percent of GDP) mostly reflected revenue shortfalls from a lower GDP deflator and growth coming largely from tax-exempted sectors, which were only partly offset by bringing on budget off-budget oil excises.[3] On the spending side, (mostly one-off) overruns in other transfers and goods and services crowded out transfers to the health funds and capital spending. The end-March performance criterion (PC) on the primary fiscal deficit is expected to have been met with lower-than-projected spending more than compensating for lower cyclical revenue.[4]

9. **After a difficult 2014, NEPCO's losses will decline owing to lower oil prices.** Its losses of 4.7 percent of GDP in 2014 were slightly higher than expected because lower oil imports did not fully offset disruptions of gas imports. In 2015, NEPCO's losses will fall to 2.1 percent of GDP as savings from the lower oil prices more than cover continuing gas shortfalls and lower tariff revenue (together around 0.7 percent of GDP; see paragraph 11). As a result, the end-March PC on the combined public deficit is expected to have been met by a wide margin.

10. **Monetary policy was loosened further.** Because of reserves comfortably above the program target as well as declines in headline and core inflation, and in the current account deficit, the Central Bank of Jordan (CBJ) cut its policy rate by 25 basis points in February, to 2.75 percent, to stimulate economic activity.[5] Preliminary data suggest that dollarization has continued to decline.



Source: National authorities; and IMF staff estimates.



Source: National authorities; and IMF staff estimates.

[3] The 2014 revenue from the excises was earmarked to cover one-off spending related to the energy sector; it became available to the budget because this spending was covered by capital grants. From January 1, 2015 onward, the excises will go to the budget.

[4] The controlling PCs for the sixth review are those set for end-March 2015. The authorities are requesting waivers of applicability for the PCs on the primary fiscal deficit of the central government and on the combined public deficit since: (i) the final data to assess performance against these PCs are not available at the time of the sixth review; and (ii) there is no clear evidence suggesting that the PCs might not be observed.

[5] The CBJ also reduced the overnight deposit rate by one percentage point to discourage banks from holding their excess liquidity in the deposit window and to encourage them to lend to the private sector instead.

11. **There was progress with structural reforms.** To enhance access to credit, the CBJ pre-approved a credit bureau, with the final license expected to be granted by end-September 2015 (June 2013 benchmark). It also finalized the draft amendments to the central bank law aimed at fostering transparency, autonomy, and oversight (December 2014 benchmark) and established a supervisory college for Arab Bank to further improve cross-border supervision (March benchmark). With the assistance of the World Bank, the authorities launched a new public investment framework, which clarifies decision gateways for each project and prioritizes investments (December 2014 benchmark). However, they repealed half of the electricity tariff increases (of 15 percent) implemented in early 2015 (January benchmark) after strong opposition by parliament.

OUTLOOK AND RISKS

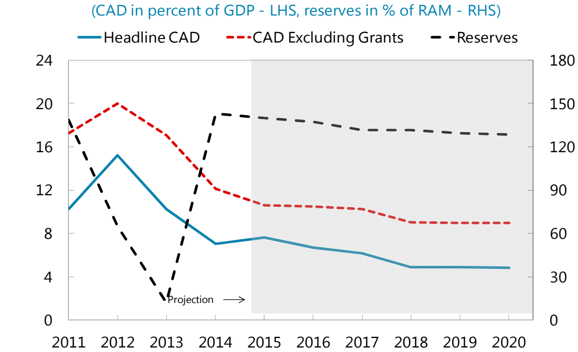
12. **Revisions to the macroeconomic framework reflect mostly the lower oil prices.** As before, the framework assumes that the Syria and Iraq conflicts will gradually unwind, starting in 2016.

- **Growth** for 2015, at 3¾ percent, is projected slightly lower than programmed, with the boost from lower oil prices offset by uncertainty continuing to weigh on the economy. Growth is projected to increase gradually to 4½ percent over the medium term, supported by an increase in public and private investment and, to a lesser extent, exports. Imports and consumption would slow down as refugees return and economic pressures in Jordan created by neighboring conflicts normalize. Despite lower oil prices, the GDP deflators in 2014 and 2015 were revised downward reflecting a carry-over of low agricultural and export prices.

- **Inflation** projections for 2015 have been revised downward mostly on account of lower oil prices. Headline inflation will rebound somewhat in 2016 as oil prices stabilize, before gradually declining to 2 percent over the medium term, reflecting a decline in core inflation as consumption growth decelerates (with lower and possibly reversed net refugee inflows).

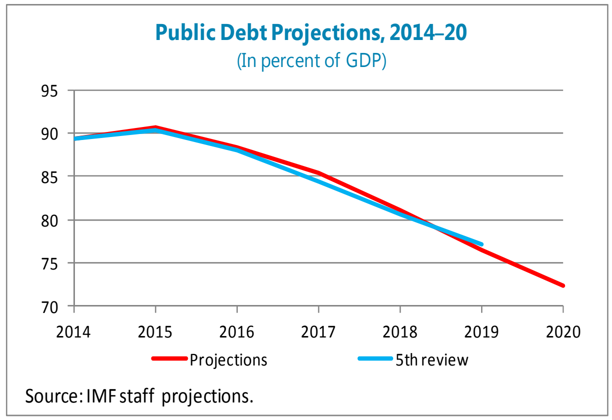
- The decline in the **current account deficit** (excluding grants), to 10.6 percent of GDP in 2015, reflects the positive impact from the lower oil prices, which is partly offset by slower tourism receipts and remittances. The current account deficit will further narrow over the medium term to about 9 percent of GDP because of continued fiscal adjustment and moderating non-energy import prices. This will help keep reserve buffers at a comfortable level (about 130 percent of the reserve metric).

Jordan: Current Account Deficit (CAD) and Reserves
(CAD in percent of GDP - LHS, reserves in % of RAM - RHS)



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

- Reflecting continued consolidation by the central government and NEPCO, **public debt** will start declining in 2016 as expected. The debt-to-GDP ratio at end-2015, however, is slightly higher than projected because lower nominal growth more than offsets gains from a lower public deficit in 2015 from oil savings (see paragraph 15). Although these savings decline quickly over the medium term, they help bringing the debt-to-GDP ratio back to the program projections in the outer years.



13. **Downside risks remain large** (Box 2):

- **Regional risks** have not abated. An escalation of the Syria and/or Iraq conflicts could further affect exports, transit trade, external inflows (remittances, tourism, and FDI), and investor confidence. It could also trigger a new influx of refugees, putting pressure on Jordan's already stretched fiscal accounts and social fabric.

- **Other risks** pertain to: a rebound in oil prices, which would hurt the fiscal and external accounts; a protracted slowdown in emerging markets, which could adversely affect the current account; and a further dollar surge, which would put pressure on Jordan's competitiveness. A loss of drive for reform remains a risk, especially if regional tensions intensify.

POLICY DISCUSSIONS

14. **Discussions focused on policies to maintain confidence and improve competitiveness.** Uncertainty is clouding short-term prospects, while over the medium term GCC inflows could slow down. At the same time, debt and gross financing needs remain high. The positive impact of lower oil prices on the economy will help cushion the continued fiscal adjustment while fiscal windfalls from the lower oil price will increase the economy's buffers and help move public debt on a decisive downward path. But more impetus on structural reform is needed to support growth and reduce persistent unemployment. A strong implementation of reforms will also help maintain high donor support in the form of grants, which, in turn, will create fiscal and policy space to undertake such reforms.

A. Public Sector Consolidation—Saving the Oil Windfall

15. **Fiscal oil windfalls, which are expected to be temporary, will be saved under the program.** In the short term, these windfalls come mostly from NEPCO, for which the change in oil prices translates into savings despite lowering the assumption on gas from Egypt to 10 million cubic feet (a fifth of what was previously projected). For the central government, lower oil prices have a

small positive impact on the budget (Box 1). These windfalls are expected to be temporary because NEPCO is shifting to a less-expensive energy mix and oil prices are expected to increase again over the medium term. Saving the windfalls in the next years will go toward paying off high debt, which will lower the interest bill and allow the government to undertake other spending instead. It will also help improve the economy's ability to respond to shocks.

16. **Fiscal adjustment will continue broadly as programmed (MEFP¶7).**[6] This implies fully implementing the medium-term energy strategy, including future tariff increases, so that the company will reach cost recovery while maintaining support for lower-income users. Also for the central government, this is about pursuing the planned adjustment path. For 2015, while the revised primary deficit target at 1.9 percent of GDP is now one percent of GDP lower than programmed, it would be adjusted upward (with a cap) for higher public investment if more non-debt creating financing (grants and privatization receipts) is secured.

Jordan: Central Government, NEPCO, and Consolidated Deficits, 2014–20

(In percent of GDP)

	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Program (Fifth Review)							
Central government primary deficit 1/	4.5	2.9	1.4	1.0	0.5	0.5	...
Central government fiscal measures	0.0	0.0	1.0	0.2	0.5	0.0	...
NEPCO operating losses	4.5	3.5	1.9	1.1	0.0	0.0	...
Reduction in losses	0.1	1.0	1.6	0.9	1.1	0.0	...
Of which: from tariff increase	0.5	0.5	0.6	0.6	0.0	0.0	...
Combined public deficit 2/	9.0	6.5	3.3	2.1	0.5	0.5	...
Revised projections							
Central government primary deficit 1/	4.6	1.9	1.4	1.0	0.5	0.5	0.5
Central government fiscal measures	0.0	0.0	1.1	0.5	0.5	0.0	0.0
NEPCO operating losses	4.7	2.1	1.5	0.8	0.0	0.0	0.0
Reduction in losses	0.0	2.5	0.6	0.7	0.8	0.0	0.0
Of which: from tariff increase	0.5	0.3	0.6	0.6	0.0	0.0	0.0
Combined public deficit 2/	9.2	4.0	2.9	1.8	0.5	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 2014–20.

Central Government

17. **The 2015 budget, alongside revenue measures, delivers the programmed adjustment (MEFP¶9–11).** Discussions centered on how to maintain the agreed pace of adjustment in view of the 2014 developments. To this end, the program accommodates a shortfall in revenue from lower

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

nominal growth (about 0.2 percent of GDP net of gains from the lower oil price) while addressing emerging expenditure pressures through measures.

- **Revenue.** Estimates reflect a downward revision in growth and a decline in sales tax revenue from oil products (0.6 percent of GDP), but also measures of one percent of GDP as programmed. Parliament passed the income tax law, but weakened it by introducing new exemptions. As a result, its revenue impact in 2015 is estimated at 0.25 percent of GDP rather than the programmed 0.3 percent of GDP (the annual revenue impact is double the amount because tax payments are back-loaded). Staff felt that the further weakening of the tax law was disappointing and encouraged the authorities to consider further reform to make the law more progressive. Other measures include bringing on budget off-budget oil excises (0.7 percent of GDP) and increases in various fees to bring public services to cost recovery.

- **Expenditure.** Allocations for other transfers were increased by almost 0.5 percent of GDP, reflecting funds to recapitalize Royal Jordanian and a contingency (together 0.2 percent of GDP) as well as delays in the planned merger of government agencies (which led to overruns in 2014). At the same time, pensions will be lower than programmed, reflecting a revision in the number of pensioners. Also, measures have been taken to ensure that the allocation to the health funds is sufficient for them to start repaying arrears (over a period of five years); they focus on better targeting the funds to those in need and avoiding abuse, by using the database established at the income and sales tax department to target fuel subsidies. Staff strongly supports the authorities' plans to secure more grants to finance higher public investment, given its effect on growth.[7]

Utilities

18. **Reforms are proceeding to bring NEPCO and the water authority to cost recovery (MEFP¶12–15).**

- **Energy.** The authorities reaffirmed their commitment to the medium-term strategy, including to future tariff increases. They also stand ready to re-instate the full increase should the oil price rebound (this would ensure that NEPCO saves at least one percent of GDP compared with the program). Progress on new energy sources remains on track and, most importantly, the liquefied natural gas (LNG) terminal is expected to start operating in mid-2015. Staff welcomed that NEPCO has resumed borrowing directly from banks (with a government guarantee) to cover its operational losses. This is a sign of renewed trust in the company and also opens up financing from Islamic banks (NEPCO can borrow in compliance with Sharia law, but the central government does not borrow directly from banks and is not yet issuing Sukuk). Direct borrowing

[7] See "Estimating Fiscal Spending Multipliers," in *Jordan: First Review Under the Stand-by Arrangement,* IMF Country Report No. 13/130; May 2013.

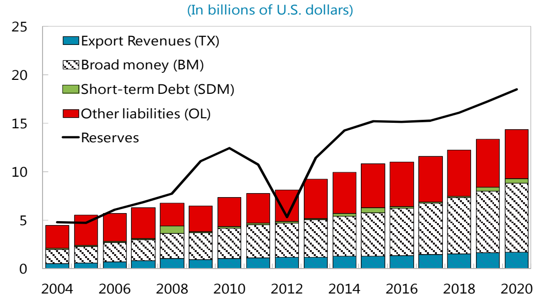
from banks, which requires authorization by the ministry of finance, could improve NEPCO's liquidity management and accelerate arrears clearance. To complement these efforts, the ministry of finance jointly with NEPCO and the refinery will conduct a full inventory of all outstanding arrears and accounts payable between them, and prepare a time-bound plan for arrears clearance and a reduction in accounts payable (proposed new benchmark).

- **Water.** There was a marked increase in revenue in the last two years from raising tariffs (without affecting the poor) and cracking down on illegal connections. As a result, the water companies remain on track to reach operational costs recovery if investments proceed as planned.

B. Monetary Policy—A Balancing Act

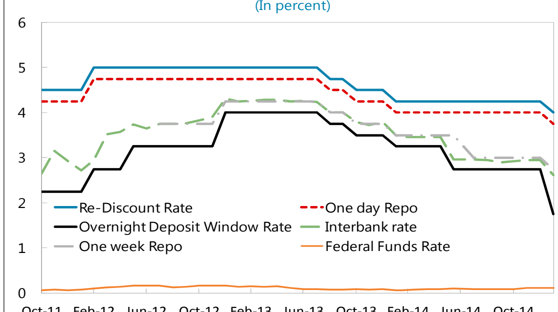
19. **The monetary stance is currently appropriate (MEFP¶18–19).** There was an agreement to stay vigilant in view of elevated regional risks and a looming increase in U.S. interest rates in order to maintain adequate reserve buffers and safeguard the attractiveness of the Jordanian dinar. Also, the impact of policy rate reductions could be dampened by regional uncertainty, which is holding back the demand for credit. Staff welcomed the CBJ's monitoring of credit to the construction and housing sectors, as well as its plans to use more effectively its instruments to manage liquidity and support a more active interbank market. To the extent that reserve accumulation continues, and core and headline inflations continue to decline, further modest loosening could be deployed to help stimulate weak credit growth toward closing the still-negative output gap.

Reserve Metric Decomposition 1/
(In billions of U.S. dollars)



Sources: Jordanian authorities; and IMF staff estimates.
1/ For more information on the IMF's Reserve Adequacy Metric, see Assessing Reserve Adequacy-Further Considerations.

Interest Rate Structure
(In percent)



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

C. Financial Sector—Further Strengthening Resilience

20. **Several initiatives are underway to enhance supervision (MEFP¶20–21):**

- **Banks.** The improvement in financial sector indicators at end-2014 is encouraging, given that banks are operating in a difficult region and that they have fully provisioned their entire investment in conflict countries, including in Syria and Iraq. Also, the CBJ's stress testing exercise reported in the 2013 Financial Stability Report suggests a broad resilience of the banking sector to various negative shocks, including to NPLs and interest rates. With the government requiring less credit in the future, the challenge for banks will be to replace public sector credit with private sector lending while maintaining sound credit risk underwriting standards. IMF technical assistance (TA) will assist in implementing the liquidity coverage and the net stable funding ratios, thereby improving the sector's ability to absorb shocks in the short term and building resilience to funding shocks in the longer term. The new supervisory college for Arab Bank will build an awareness of cross-border issues relevant to CBJ's role as the consolidated supervisor for the bank.[8] In particular, it will help strengthen information sharing on domestic banks' offshore operations, develop stronger home-host cooperation with bank supervisors in countries where Jordanian banks are active, and facilitate coordination of supervisory activities. Staff welcomed amendments to the commercial banking law to strengthen governance and accountability of bank management and boards; and offered TA.

- **Nonbanks**. The CBJ is planning to start the monitoring and supervision of microfinance and strengthen the law on money changers. This will help early detection of potential risks and spillovers to the rest of the economy. Going forward, there was an agreement to undertake an assessment of the insurance sector as companies appear to have incurred losses in the last years. Staff offered TA to do so and to jointly develop an action plan on how to strengthen the sector, including its supervision and monitoring. Also, the ongoing actuarial evaluation of the Social Security Investment Fund should be expedited to determine whether any policy action is needed.

- **Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).** Staff welcomed the authorities' plans to: revise with IMF TA, the AML/CFT law to ensure its alignment with the new Financial Action Task Force (FATF) standards; and develop a risk-based approach to AML/CFT supervision.

D. Structural Policies—Accelerating Implementation

21. **Discussions aimed at widening the scope of reforms (MEFP¶s22 and 24).** The program has focused so far on improving the business climate and strengthening public institutions. The authorities have undertaken some labor market reforms, most notably the use of active labor market policies (ALMPs) would put the unemployed into jobs, including through job-matching campaigns and financial incentives for firms. However, ALMPs are not likely to be sufficient to trigger a change in unemployment at the aggregate level. There is an urgent need for broad-based policies, including in the education sector, to unlock the constraints to female labor market participation and change public sector hiring and compensation policies. These should become an overarching theme in Vision 2025—a government strategy under discussion aimed at boosting growth and jobs. In addition to setting an agenda for such reforms, Vision 2025 should be based in a fiscal framework costing all reform initiatives and identifying fiscal adjustment measures, including deep tax reform to raise equity. In this context, staff welcomed that Vision 2025 will be translated into an operational 3-year implementation plan including a medium-term budget.

[8] There is a lawsuit against Arab Bank filed at a New York federal district court in 2004 for having provided financial services to Hamas. A verdict against Arab Bank is expected to be appealed.

22. **The near-term focus is on creating an environment conducive to investment (MEFP¶s23 and 25).**

- **Business climate**. Important next steps are: making operational the one-stop shop for investors envisaged in the recently approved investment law by giving delegated powers to staff in the shop to act on behalf of all relevant ministries and office; moving forward quickly on the bylaws for the investment law; and limiting to the extent possible the list of goods and services benefiting from tax incentives. A joint World Bank-OECD investment project could help strengthen investor protection and services and improve investment rules and regulations including for FDI.

- **Public investment management.** The implementation of the investment framework will strengthen the public investment/Public Private Partnership (PPP) decision process and provide the basis for choosing projects that carry a high social rate of return. While PPPs could provide important opportunities, each project should undergo a careful evaluation to make sure it provides value for money, and does not give rise to undue contingent liabilities for the government. This is in particular of importance for mega projects under discussion, such as the one on a build-operate-own for nuclear power plants and the Red-Dead Sea project to increase water resources to the region.

- **Access to finance.** Seeking donor support for small and medium-size enterprises is welcome as is progress with the credit bureau. The approval of the secured lending, bankruptcy, and insolvency laws should be expedited.

23. **Structural fiscal reforms continue (MEPF¶16–17):**

- **Budget preparation and implementation.** Following recommendations of recent Fund TA, the authorities will by end-May introduce preliminary budget ceilings, which will guide budget agencies' budget requests (proposed new benchmark). To enhance transparency, they are preparing a law to bring all extra-budgetary revenue on budget (proposed new benchmark); this will also help in preparing general government consolidated accounts, which is work in progress. Work to improve budget monitoring, which would help respond quickly to emerging spending pressures, could be accelerated.

- **Tax administration.** The Income and Sales Tax Department is implementing its medium-term strategy to strengthen sales tax compliance management, including by stepping up its cooperation with the Customs Departments for combating export-based sales tax fraud. The authorities noted that they are expecting an improvement in compliance from having brought to court the first requests for seizing assets from taxpayers who are in arrears. Staff encouraged the authorities to accelerate the pace of implementation of the strategy. Refraining from further tax amnesties is appropriate as they undermine revenue collection as experienced in December 2014.

PROGRAM MODALITIES

24. **The authorities are requesting a re-phasing of the remaining reviews.** The seventh and eighth reviews, based on March and May data, respectively, would be merged into one review, based on April data. This will make the schedule more tractable in view of the lags in providing program data. Accordingly, PCs for end-April 2015 are proposed to be set as per the MEFP Table 1 (an end-April target for the combined public deficit is not proposed because NEPCO maintains audited accounts only on a quarterly basis).

25. **Proposed new benchmarks** focus on resolving arrears across agencies involved in the energy sector and budget preparation and transparency, all aspects macro-critical as they instill budget discipline and lead to a better understanding of the consolidated government.

26. **Program modalities remain broadly unchanged from the last review:**

- **The program is fully financed (MEFP¶8 and text table).** Loans for April 2015 to March 2016 amount to $2.1 billion, including a U.S.-guaranteed Eurobonds of $1.5 billion (partly to help refinance a maturing Eurobond of $0.75 billion). Grants are projected at $0.8 billion during the same period.

Jordan: External Financing in 2014–16

(in U.S. dollar millions, unless otherwise specified)

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Total	2015 Q1	2015 Apr	2015 Q2	2015 Q3	2015 Q4	2015 Total	2016 Q1	2016 Total
Budget grants	**220**	**11**	**431**	**617**	**1,279**	**65**	**0**	**14**	**45**	**221**	**344**	**36**	**736**
EU	0	0	0	29	29	8	0	14	45	0	66	36	68
Saudi Arabia (budget support)	0	0	0	0	0	0	0	0	0	0	0	0	0
Saudi Arabia and Kuwait (development budget support)	43	3	76	57	179	0	0	0	0	0	0	0	0
US	177	8	3	383	571	57	0	0	0	215	272	0	406
Other/Unidentified	0	0	352	147	499	0	0	0	0	6	6	0	263
GCC capital grants													
GCC grants received by CBJ	0	145	105	0	250	0	0	250	0	250	500	0	619
GCC grants received by MOF	66	114	53	233	466	168	0	197	307	11	683	0	707
Loans	**0**	**1,420**	**5**	**11**	**1,436**	**125**	**0**	**1,662**	**11**	**319**	**2,117**	**8**	**508**
France	0	0	0	0	0	0	0	0	0	68	68	0	69
Japan	0	117	0	1	118	0	0	61	0	39	100	0	0
WB	0	303	5	10	318	11	0	11	11	211	245	8	8
Other (Eurobond etc)	0	1,000	0	0	1,000	0	0	1,500	0	0	1,500	0	0
EU	0	0	0	0	0	113	0	90	0	0	204	0	0
Unidentified	0	0	0	0	0	0	0	0	0	0	0	0	431
Memorandum :													
Non-guaranteed Eurobond	0	0	0	0	0	0	0	0	0	500	500	0	0
Annual cumulative total (MOF) 1/	286	1,831	2,320	3,180	3,180	357	357	2,230	2,594	3,644	3,644	44	1,951
Annual cumulative total (MOF) in JD	203	1,298	1,645	2,255	2,255	253	253	1,581	1,839	2,584	2,584	31	1,383
Annual cumulative total (MOF) in percent of annual GDP	0.8	5.1	6.5	8.9	8.9	0.9	0.9	5.8	6.8	9.6	9.6	0.1	5.1
Annual cumulative total (CBJ) 2/	220	1,796	2,337	2,965	2,965	189	189	2,115	2,172	3,461	3,461	44	1,863

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.

- **Jordan continues to have the capacity to repay the Fund**. Elevated risks are counterbalanced by higher reserves and Jordan being further along its adjustment path. Fund credit outstanding would peak at 5.3 percent of GDP in 2015 (see Table 7).

- **Jordan continues to meet the exceptional access criteria.** Though declining, current account pressures are still high (criterion 1). Staff continues to assess Jordan's debt to be sustainable with high probability, with confidence in the baseline bolstered by the establishment of a longer track record in following through with the programmed adjustment (criterion 2). Reflecting continued reforms, public debt will decline to just over 70 percent of GDP by 2020 with the debt service burden remaining manageable and its trajectory robust to severe stress tests. Market access is expected in the medium term based on continued nonresident participation in the domestic bond market and the planned issuance of a $500-million non-guaranteed Eurobond at end-2015 (criterion 3). Finally, parliament approval of the 2015 budget and the income tax law (even if weakened) represent broad ownership for continued reforms. This together with the authorities' continued good implementation of the program, progress on structural reforms, and the newly-projected fiscal over-performance underpin the program's prospects of success (criterion 4).

27. **Work is ongoing to address the recommendations of the safeguards assessment concluded in January 2013.** Staff welcomes the authorities' completion of the draft amendments of the CBJ law in line with IMF advice. Nonetheless, it urges the authorities to accelerate implementation of delayed measures, including removing audit qualifications in the CBJ financial statements; and completing a quality assessment review of the internal audit function of the CBJ in accordance with international standards.

STAFF APPRAISAL

28. **Jordan is persevering despite unabating regional tensions.** Regional conflicts continue to take a serious toll. Nonetheless, the economy has remained stable, with growth picking up and external and fiscal positions gradually strengthening. Looking forward, Jordan's economy will benefit from lower oil prices.

29. **The boon from the lower oil prices should not induce complacency**. NEPCO will benefit from it only temporary and a slowdown in the GCC could adversely affect the country in the medium term. Any windfalls should therefore be saved to reduce the country's high debt and build fiscal buffers. Now is the time to follow through with commitments to maintain a good track record while lower oil prices blunt the impact of reforms and rekindle private sector activity that is depressed by uncertainty.

30. **Staying on course with fiscal commitments supports confidence.** Repealing half of the 2015 tariff increase has dented the credibility of the energy strategy. The renewed commitment to the strategy and, in particular adhering to the schedule of tariff increases, is critical to reset expectations. It is encouraging that the adjustment in the central government is on track. The further weakening of the income tax law by parliament, however, is disappointing and deeper income tax reform remains an important objective for the coming years. Faster public financial management reforms would help detecting early on any new spending pressures, so as to counter them quickly, and improve transparency. There is also scope for accelerating an upgrade in tax administration.

31. **A resilient financial sector is paramount in the challenging external setting.** Monetary policy will need to be mindful of the normalization of U.S. monetary policy. Efforts to enhance supervision, including in the nonbank financial sector, are welcome.

32. **Labor market reforms need to move to the forefront.** Faster progress is needed in improving the investment climate and structural reforms should be broadened to labor market policies to tackle persistently high unemployment and respond to a possible loss in competitiveness. Vision 2025 is an opportunity to do so, but requires a costing of reforms within a medium-term fiscal strategy aimed at lowering debt and enhancing equity.

33. **Risks remain exceptionally high.** The most severe ones are regional. With Jordan's debt dynamics leaving little room for fiscal easing, continued strong international support in the form of grants is critical. Commitment to the fiscal targets and implementation of wide-ranging reforms will help Jordan to continue to enjoy such support.

34. **Staff supports the completion of the sixth review and the related purchase.** It supports: (1) the waivers of applicability of the end-March PCs on the primary fiscal deficit of the central government and on the combined public deficit; (2) the re-phasing of access; and (3) setting PCs for end-April 2015.

Box 1. Impact of the Lower Oil Price

The lower oil price will improve the current account and the fiscal positions in the short term. But the medium-term impact is less favorable because oil prices are expected to increase again.

Staff estimates suggest a positive impact on short–term growth. The savings on oil consumption will likely fuel domestic consumption and investment. Over time, however, the slowdown in the Gulf Cooperation Council (GCC) could adversely affect growth. Inflation in 2015 would be temporarily lower than previously projected, by more than one percent on average, before returning to the projected medium-term path.

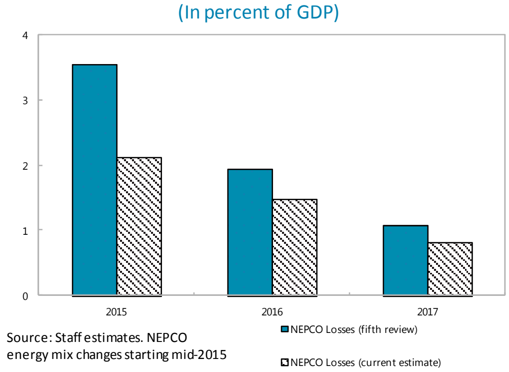
The impact on the balance of payments is positive in the short term, but will wane in the medium term. Oil imports would be lower than envisaged by about 2.7 percent of GDP in 2015, but this positive impact would gradually diminish in the medium term. This partly reflects that about half of the energy bill would switch from oil to gas and that gas price projections have not significantly changed since the Fifth Review (they were based on negotiated prices, which, in the medium term, are broadly in line with current projections). Moreover, some slowdown in the GCC is reflected in lower exports, travel receipts, FDI, and remittances from these countries.

There will be major fiscal savings in short term, but they will fade in the medium term.

- **Central government.** A revenue loss from the (ad valorem) sales tax on petroleum products is more than offset by the discontinuation of cash transfers (which are made only if the oil price is above $100 per barrel) and savings on oil-related expenditure.

- **NEPCO.** Losses would be lower by 1.4 percent of GDP in 2015 and about 0.4 percent of GDP during 2016–17. This declining trend is predicated on new energy sources coming on stream as planned, tariff increases by 15 percent in both 2016 and 2017 (the 2015 tariff increase was halved), and a reduction in gas from Egypt from the programmed 50 million cubic feet to 10 million cubic feet. The impact of the oil price on NEPCO's losses mirrors the company's declining projected reliance on oil (gas prices typically are set by long-term contracts and projections have been updated with the most recent LNG contract price) and the projected change in its energy consumption mix.

NEPCO Losses/Profits Compared to Fifth Review
(In percent of GDP)



Source: Staff estimates. NEPCO energy mix changes starting mid-2015

Box 2. 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 a prolonged civil war and the humanitarian crisis in Syria and from a deeper and broader crisis in Iraq	***High*** The influx of refugees from Syria has stopped, but there are already over 600 thousand registered refugees in Jordan; the authorities estimate that the total number is substantially higher. Jordan's role in the coalition against ISIS is increasing security spending.	***High*** Refugees in Jordan are already putting pressure on fiscal accounts and the social fabrics. Any further escalation of the regional conflicts could result in a slowdown in external inflows (remittances, tourism, and FDI), capital outflows, a further slowdown in intraregional trade, and possibly lower growth. There could also be a further influx of refugees, possibly implying a further increase in fiscal costs.	(1) Seeking grants from donors to ensure that the refugees are appropriately cared for, including through complementary central government assistance; (2) Continuing to implement a strong medium-term program to instill confidence and ease fiscal pressures; and (3) Maintaining high reserve buffers.
Delays in program implementation	***Medium*** 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) Gradually implementing measures with interim milestones; (2) Diversifying energy sources in the long term; and (3) Developing contingency plans.
Medium-Term Risks			
A sharp rise in oil prices	**Medium** Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa, leading to a sharp rise in oil prices, with negative global spillovers.	**Medium-High** Jordan remains highly dependent on energy imports but is diversifying its energy sources. At this point, it would be strongly affected by higher oil prices but this dependence is reduced over the medium term (an increase in the oil price to $80/barrel would result in a deterioration of the current account by 2.7 percent of GDP in 2015).	(1) Diversifying energy import sources and become less dependent on imported oil for electricity, in particular by making operational an LNG terminal by mid-2015; (2) Implementing announced increases in electricity tariffs to reduce the subsidy; (3) Seeking additional grants from international partners.

Box 2. Risk Assessment Matrix (concluded)

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
Pressure on foreign exchange reserves	***Medium*** 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 un-hedged borrowers is prohibited, uncertainty could result in large capital outflows.	(1) Maintaining appropriate monetary policy in the near term to preserve reserves; and (2) Implementing a strong medium-term program with broad national buy-in to instill confidence.
Persistent dollar strength	***High*** Persistent dollar strength	***Low-Medium*** Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge putting pressure on Jordan's competitiveness.	(1) Maintaining appropriate monetary policy to ensure adequate level of reserves; (2) Implementing structural reforms to improve competitiveness; (3) Further strengthening the banking supervisory framework to monitor banks' exposures to U.S. dollar debt;
Protracted period of slower growth in key advanced and emerging economies	***Medium-High*** Lower demand from EMs could affect growth in other countries. Weak demand in the Euro area and Japan, and persistently low inflation, leading to "new mediocre" rate of growth.	***Low*** Limited exposure to other EMs, the Euro area and Japan would mitigate any adverse impact on the current account, but second-round effects from a decline in exports, and tourism from the GCC and Europe could add to current account pressures.	(1) Accelerating structural reforms to improve competitiveness; and (2) Lengthening the maturity profile of debt.

Box 3. Nonbank Financial Sector and the Stock Market[1]

Jordan's nonbank financial sector is small. Its assets amounted to about 6 percent of total financial assets (or around 11 percent of GDP) in 2013. It mainly consists of insurances, microfinance, and money exchangers while there are also financial intermediation and service companies, and asset managers.

- Twenty-five **insurances** held assets of 3.3 percent of GDP at end-2013. There is one life insurance company; nine companies practice general insurance business; and fifteen companies practice both types of insurance business. At end-2013, auto insurance accounted for over 40 percent of the insurance portfolio, followed by health insurance at 26 percent, fire and property damage insurance at 14 percent, and life insurance at 10 percent. The CBJ reports that the solvency margin[2] of the sector has deteriorated from 294 percent in 2009 to 212 percent in 2013, while the return on equity has improved from 2 percent in 2009 to 8 percent in 2013; this could indicate that industry growth is fast and retained earnings may not be enough to support such additional underwriting risks. The Ministry of Industry and Trade is in charge of regulating the companies.

Insurance Sector Developments, 2009–2013
(In percent of GDP)

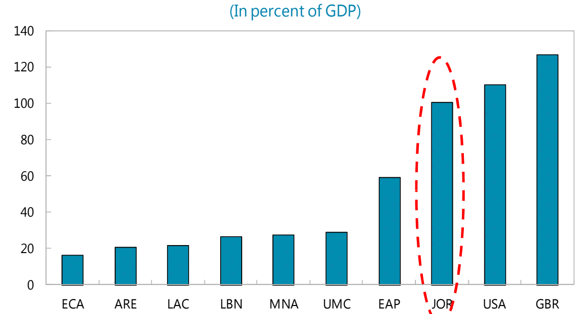
	2009	2010	2011	2012	2013
Assets	4.1	3.8	3.5	3.5	3.3
Premiums	2.2	2.2	2.1	2.1	2.1
of which : life insurance	0.2	0.2	0.2	0.2	0.2
Compensation	1.6	1.5	1.7	1.5	1.3

Sources: CBJ, Jordan Financial Stability Report (2013); and IMF staff estimates.

- There are around 300 thousand **microfinance** borrowers with a portfolio of 0.5 percent of GDP and 140 **exchange companies** at end-2013. Information on the other nonbank institutions is not available.

The total capitalization at the Amman Stock Exchange amounted to three quarters of GDP at end-2013,[3] somewhat higher than in the MENA. The index is dominated by banks, which account for more than half of the market.

Stock Market Capitalization
(In percent of GDP)



Source: World Bank (GFDD, 2011).

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[1] Based on the Jordan Financial Stability Report (2013) by the Central Bank of Jordan.

[2] Defined as capital over probable claims.

[3] There is no corporate bond market.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2013–20

		Prog.	Act.	Prog.	Projections					
	2013	2014	2014	2015	2015	2016	2017	2018	2019	2020
Output and prices				(Percentage change, unless otherwise indicated)						
Real GDP at market prices	2.8	3.3	3.1	4.0	3.8	4.5	4.5	4.5	4.5	4.5
GDP deflator at market prices	5.6	4.5	3.1	3.6	2.8	2.7	2.6	2.5	2.5	2.5
Nominal GDP at market prices	8.6	7.9	6.3	7.7	6.7	7.3	7.2	7.1	7.1	7.1
Nominal GDP at market prices (JD millions)	23,852	25,747	25,357	27,741	27,045	29,010	31,089	33,300	35,669	38,206
Nominal GDP at market prices ($ millions)	33,641	36,315	35,765	39,128	38,145	40,918	43,849	46,968	50,309	53,887
Consumer price index (annual average)	4.8	3.0	2.9	2.4	1.2	2.5	2.4	2.1	2.0	2.0
Consumer price index (end of period)	3.1	2.9	1.7	2.5	2.3	2.5	2.3	2.0	2.0	2.0
Unemployment rate (period average, percent)	12.6	...	11.9	...	...	...	...	...	...	...
National accounts 1/				(In percent of GDP, unless otherwise indicated)						
Consumption	110.5	105.7	106.2	101.5	102.9	99.9	97.7	95.4	94.2	93.4
Government	15.4	15.6	16.0	15.1	15.2	13.8	13.1	12.5	12.5	12.6
Other 2/	95.1	90.2	90.2	86.5	87.7	86.1	84.6	82.9	81.7	80.7
Gross domestic investment	20.7	22.1	21.3	21.7	20.1	21.6	22.2	22.5	22.8	23.1
Government	4.3	5.1	4.5	5.0	3.6	4.7	5.0	5.0	5.0	5.0
Other	16.5	17.1	16.9	16.7	16.5	16.9	17.2	17.5	17.8	18.1
Gross national savings	10.5	14.9	14.3	13.6	12.5	14.9	16.0	17.6	18.0	18.3
Government	-5.5	-0.7	-3.5	-1.0	-1.4	1.7	2.9	4.2	4.0	3.7
Other	16.0	15.6	17.8	14.6	13.9	13.2	13.1	13.4	13.9	14.6
Savings-investment balance	-10.3	-7.3	-7.0	-8.1	-7.6	-6.7	-6.2	-4.9	-4.9	-4.8
Government	-9.8	-5.8	-8.0	-6.0	-5.0	-3.0	-2.1	-0.8	-1.0	-1.3
Other	-0.5	-1.5	1.0	-2.1	-2.6	-3.6	-4.1	-4.1	-3.9	-3.5
Fiscal operations										
Revenue and grants	24.1	29.9	28.0	27.9	25.8	27.0	27.0	26.8	26.6	26.4
Of which: grants	2.7	7.0	4.9	4.2	2.7	3.5	3.5	3.3	3.1	2.8
Expenditure 3/	35.3	39.0	38.1	34.7	28.7	29.6	29.8	29.6	29.6	29.7
Additional measures needed	...	0.0	0.0	0.0	0.0	1.1	1.5	2.0	2.0	2.0
Overall fiscal balance after measures	-11.1	-9.1	-10.3	-6.8	-2.9	-1.6	-1.3	-0.8	-1.0	-1.3
Primary government balance, excl. grants, NEPCO, and WAJ	-4.7	-4.5	-4.6	-2.9	-1.9	-1.4	-1.0	-0.5	-0.5	-0.5
NEPCO operating balance	-4.6	-4.5	-4.7	-3.5	-2.1	-1.5	-0.8	0.0	0.0	0.0
Combined public sector deficit 4/	-9.4	-9.0	-9.2	-6.5	-4.0	-2.9	-1.8	-0.5	-0.5	-0.5
Government and government-guaranteed gross debt 5/	86.7	89.3	89.3	90.4	90.7	88.4	85.3	81.2	76.4	72.3
Of which: external debt	28.5	30.6	31.2	31.3	34.0	32.9	31.4	30.2	29.4	28.8
External sector										
Current account balance (including grants), of which:	-10.3	-7.3	-7.0	-8.1	-7.6	-6.7	-6.2	-4.9	-4.9	-4.8
Exports of goods, f.o.b. ($ billions)	7.9	8.5	8.4	8.8	8.7	9.1	9.6	10.1	10.7	11.2
Imports of goods, f.o.b. ($ billions)	19.6	20.3	20.2	20.0	19.1	19.6	20.2	20.5	21.3	22.3
Oil and oil products ($ billions)	5.2	5.7	5.5	5.2	4.1	4.3	4.5	4.1	4.2	4.2
Current account balance (excluding grants)	-17.1	-13.6	-12.1	-11.4	-10.6	-10.5	-10.3	-9.0	-9.0	-9.0
Private capital inflows (net)	5.6	4.8	4.9	4.8	4.9	5.1	5.5	5.6	6.1	6.1
Monetary sector					(Percentage change)					
Broad money	9.7	8.0	6.9	9.2	8.9	8.9	...	...	...	...
Net foreign assets	5.7	24.2	15.3	5.3	8.7	7.3	...	...	...	...
Net domestic assets	11.2	2.4	4.0	10.9	8.9	9.5	...	...	...	...
Credit to private sector	8.0	7.2	3.7	8.7	7.7	10.2	...	...	...	...
Credit to central government	15.4	7.7	2.9	11.3	-1.4	-1.6	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	11,449	14,028	14,263	14,081	15,196	15,146	15,272	16,120	17,303	18,510
In months of prospective imports	4.9	6.2	6.4	6.4	6.6	6.4	6.3	6.4	6.5	6.7
In percent of reserve adequacy metric	12.0	138.7	143.1	129.5	139.8	137.2	131.5	131.4	129.4	128.6
Net international reserves ($ millions)	10,968	13,160	13,583	12,617	13,920	14,160	14,818	16,193	17,828	19,249
Population (millions)	6.53	6.69	6.68	6.85	6.82	6.98	7.13	7.29	7.45	7.62
Nominal per capita GDP ($)	5,152	5,425	5,358	5,714	5,590	5,866	6,149	6,443	6,752	7,074
Real effective exchange rate (end of period, 2010=100)	107.0	...	113.8	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	1.6	...	6.4	...	...	...	...	...	...	...

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Government includes the central government and operating losses of NEPCO and WAJ.
2/ More than half of the reduction in medium-term private consumption reflects the return of the Syrian refugees.
3/ Includes net lending, transfers to NEPCO and WAJ, and other use of cash.
4/ Defined as the sum of the primary central government deficit (excl. grants and transfers to NEPCO and WAJ) and NEPCO loss.
5/ Includes NEPCO debt.

Table 2a. Jordan: Central Government: Summary of Fiscal Operations, 2013–20
(In million of Jordanian dinars)

	Act.	Prog.	Act.	Prog.	Projections					
	2013	2014	2014	2015	2015	2016	2017	2018	2019	2020
Total revenue and grants	5,758	7,708	7,091	7,745	6,976	7,831	8,384	8,914	9,476	10,086
Domestic revenue	5,118	5,901	5,854	6,593	6,247	6,808	7,296	7,815	8,371	9,016
Tax revenue, *of which* :	3,653	4,194	4,192	4,705	4,454	4,885	5,235	5,607	6,006	6,433
Taxes on income and profits	682	740	766	880	881	1,008	1,081	1,157	1,240	1,328
General sales tax	2,533	2,929	2,811	3,090	2,902	3,155	3,382	3,622	3,880	4,156
Taxes on foreign trade	325	352	327	380	349	375	401	430	461	493
Other taxes	113	173	287	356	323	346	371	398	426	456
Nontax revenue	1,465	1,707	1,662	1,888	1,793	1,923	2,061	2,208	2,365	2,583
Grants	640	1,807	1,237	1,152	728	1,023	1,088	1,099	1,106	1,070
of which: unidentified	...	0	0	0	0	186	0	0	0	0
Total expenditures, net lending, other use of cash	8,429	10,031	9,658	9,619	7,763	8,599	9,253	9,869	10,559	11,339
Current expenditure	6,050	6,723	6,717	7,046	6,785	7,235	7,699	8,204	8,775	9,429
Wages and salaries	1,267	1,370	1,320	1,404	1,393	1,427	1,463	1,567	1,679	1,798
Interest payments	737	970	926	1,023	1,003	1,080	1,168	1,209	1,283	1,374
Domestic	635	804	750	814	795	870	934	938	973	980
External	102	166	176	208	208	209	234	271	310	393
Military expenditure	1,779	1,909	1,918	2,004	1,988	2,150	2,304	2,468	2,644	2,832
Fuel subsidies	0	0	0	0	0	0	0	0	0	0
Food subsidy	255	273	225	232	202	219	235	252	270	289
Transfers, *of which* :	1,743	1,869	1,899	2,025	1,877	2,013	2,158	2,311	2,476	2,652
Pensions	1,047	1,115	1,116	1,201	1,165	1,250	1,339	1,434	1,537	1,646
Targeted payments for energy	193	154	177	180	0	0	0	0	0	0
Transfer to health fund	118	284	201	306	252	270	290	310	332	356
Other transfers	385	316	405	337	460	493	529	566	607	650
Purchases of goods & services	270	332	428	358	322	345	370	396	425	485
Capital expenditure	1,015	1,305	1,134	1,387	979	1,363	1,554	1,665	1,783	1,910
Net lending	0	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,221	1,963	1,572	1,187	0	0	0	0	0	0
Transfer to WAJ 1/	203	40	206	0	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	-61	0	29	0	0	0	0	0	0	0
Total balance from above the line	-2,671	-2,323	-2,567	-1,874	-788	-767	-869	-955	-1,082	-1,253
Statistical discrepancy, net	18	-9	-57	0	0	0	0	0	0	0
Overall balance without additional measures	-2,653	-2,332	-2,624	-1,874	-788	-767	-869	-955	-1,082	-1,253
Additional measures needed	0	0	0	0	0	311	478	678	727	759
Overall balance after all measures	-2,653	-2,332	-2,624	-1,874	-788	-457	-391	-277	-356	-495
Financing	2,653	2,332	2,624	1,874	788	457	391	277	356	495
Foreign financing (net)	749	866	1,471	221	720	388	435	514	557	455
Domestic financing (net)	1,905	1,289	976	1,654	67	69	-44	-237	-201	40
CBJ on-lending of net IMF financing	457	274	274	423	423	-206	-377	-374	-320	-152
Other domestic bank financing	742	414	-13	676	-556	60	104	-110	-145	-90
Domestic nonbank financing	648	600	892	555	200	215	230	246	264	283
Privatization proceeds	0	177	177	0	71	0	0	0	0	0
Memorandum items:										
NEPCO operating balance	-1,100	-1,159	-1,180	-980	-570	-427	-252	0	0	0
Primary government deficit excluding grants	-2,556	-3,168	-2,935	-2,004	-513	-400	-311	-167	-178	-191
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-1,132	-1,165	-1,157	-817	-513	-400	-311	-167	-178	-191
Combined public deficit (PC)	-2,232	-2,324	-2,337	-1,797	-1,083	-828	-563	-167	-178	-191
Government and guaranteed gross debt	20,674	22,985	22,652	25,069	24,525	25,644	26,519	27,024	27,258	27,628
Of which: External	6,803	7,888	7,915	8,685	9,198	9,531	9,750	10,062	10,484	10,985
Government and guaranteed net debt	19,097	21,955	20,556	24,039	22,429	23,548	24,423	24,927	25,518	26,270
GDP at market prices	23,852	25,747	25,357	27,741	27,045	29,010	31,089	33,300	35,669	38,206

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, 2013–20
(In percent of GDP)

	Act.	Prog.	Act.	Prog.	Projections					
	2013	2014	2014	2015	2015	2016	2017	2018	2019	2020
Total revenue and grants	24.1	29.9	28.0	27.9	25.8	27.0	27.0	26.8	26.6	26.4
Domestic revenue	21.5	22.9	23.1	23.8	23.1	23.5	23.5	23.5	23.5	23.6
Tax revenue, *of which*:	15.3	16.3	16.5	17.0	16.5	16.8	16.8	16.8	16.8	16.8
Taxes on income and profits	2.9	2.9	3.0	3.2	3.3	3.5	3.5	3.5	3.5	3.5
General sales tax	10.6	11.4	11.1	11.1	10.7	10.9	10.9	10.9	10.9	10.9
Taxes on foreign trade	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Other taxes	0.5	0.7	1.1	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Nontax revenue	6.1	6.6	6.6	6.8	6.6	6.6	6.6	6.6	6.6	6.8
Grants	2.7	7.0	4.9	4.2	2.7	3.5	3.5	3.3	3.1	2.8
of which: unidentified	…	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Total expenditures, net lending, other use of cash	35.3	39.0	38.1	34.7	28.7	29.6	29.8	29.6	29.6	29.7
Current expenditure	25.4	26.1	26.5	25.4	25.1	24.9	24.8	24.6	24.6	24.7
Wages and salaries	5.3	5.3	5.2	5.1	5.1	4.9	4.7	4.7	4.7	4.7
Interest payments	3.1	3.8	3.7	3.7	3.7	3.7	3.8	3.6	3.6	3.6
Domestic	2.7	3.1	3.0	2.9	2.9	3.0	3.0	2.8	2.7	2.6
External	0.4	0.6	0.7	0.8	0.8	0.7	0.8	0.8	0.9	1.0
Military expenditure	7.5	7.4	7.6	7.2	7.4	7.4	7.4	7.4	7.4	7.4
Fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	1.1	1.1	0.9	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Transfers, *of which*:	7.3	7.3	7.5	7.3	6.9	6.9	6.9	6.9	6.9	6.9
Pensions	4.4	4.3	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Targeted payments for energy	0.8	0.6	0.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to health fund	0.5	1.1	0.8	1.1	0.9	0.9	0.9	0.9	0.9	0.9
Other transfers	1.6	1.2	1.6	1.2	1.7	1.7	1.7	1.7	1.7	1.7
Purchases of goods & services	1.1	1.3	1.7	1.3	1.2	1.2	1.2	1.2	1.2	1.3
Repayment of arrears and additional allocation to health fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	4.3	5.1	4.5	5.0	3.6	4.7	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/	5.1	7.6	6.2	4.3	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to WAJ 1/	0.9	0.2	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)	-0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-11.2	-9.0	-10.1	-6.8	-2.9	-2.6	-2.8	-2.9	-3.0	-3.3
Statistical discrepancy, net	0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without additional measures	-11.1	-9.1	-10.3	-6.8	-2.9	-2.6	-2.8	-2.9	-3.0	-3.3
Additional measures needed	0.0	0.0	0.0	0.0	0.0	1.1	1.5	2.0	2.0	2.0
Overall balance after all measures	-11.1	-9.1	-10.3	-6.8	-2.9	-1.6	-1.3	-0.8	-1.0	-1.3
Financing	11.1	9.1	10.3	6.8	2.9	1.6	1.3	0.8	1.0	1.3
Foreign financing (net)	3.1	3.4	5.8	0.8	2.7	1.3	1.4	1.5	1.6	1.2
Domestic financing (net)	8.0	5.0	3.8	6.0	0.2	0.2	-0.1	-0.7	-0.6	0.1
CBJ on-lending of net IMF financing	1.9	1.1	1.1	1.5	1.6	-0.7	-1.2	-1.1	-0.9	-0.4
Other domestic bank financing	3.1	1.6	-0.1	2.4	-2.1	0.2	0.3	-0.3	-0.4	-0.2
Domestic nonbank financing	2.7	2.3	3.5	2.0	0.7	0.7	0.7	0.7	0.7	0.7
Privatization proceeds	0.0	0.7	0.7	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
NEPCO operating balance	-4.6	-4.5	-4.7	-3.5	-2.1	-1.5	-0.8	0.0	0.0	0.0
Primary government deficit excluding grants	-10.7	-12.3	-11.6	-7.2	-1.9	-1.4	-1.0	-0.5	-0.5	-0.5
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	-4.7	-4.5	-4.6	-2.9	-1.9	-1.4	-1.0	-0.5	-0.5	-0.5
Combined public deficit (PC)	-9.4	-9.0	-9.2	-6.5	-4.0	-2.9	-1.8	-0.5	-0.5	-0.5
Government and guaranteed gross debt	86.7	89.3	89.3	90.4	90.7	88.4	85.3	81.2	76.4	72.3
Of which: External	28.5	30.6	31.2	31.3	34.0	32.9	31.4	30.2	29.4	28.8
Government and guaranteed net debt	80.1	85.3	81.1	86.7	82.9	81.2	78.6	74.9	71.5	68.8
GDP at market prices (JD millions)	23,852	25,747	25,357	27,741	27,045	29,010	31,089	33,300	35,669	38,206

Sources: Jordanian authorities; and Fund 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, 2014–15

(In millions of Jordanian dinars)

	2014	2015							
	Annual Act.	Q1 Prog.	Q1 Proj.	April Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Prog.	Annual Proj.
Total revenue and grants	7,091	1,489	1,452	734	1,911	1,733	1,879	7,745	6,976
Domestic revenue	5,854	1,393	1,288	734	1,762	1,483	1,715	6,593	6,247
Tax revenue, *of which* :	4,192	964	949	573	1,262	1,061	1,182	4,705	4,454
Taxes on income and profits	766	189	193	300	370	201	116	880	881
General sales tax	2,811	647	601	220	720	688	893	3,090	2,902
Taxes on foreign trade	327	88	81	27	89	90	89	380	349
Other taxes	287	41	74	27	83	82	84	356	323
Nontax revenue	1,662	429	338	160	500	421	533	1,888	1,793
Grants	1,237	96	165	0	149	250	164	1,152	728
of which: unidentified	0	0	0	0	0	0	0	0	0
Total expenditures, net lending, other use of cash	9,658	2,069	1,767	754	2,051	1,909	2,036	9,619	7,763
Current expenditure	6,717	1,679	1,616	651	1,774	1,669	1,726	7,046	6,785
Wages and salaries	1,320	333	330	128	354	349	359	1,404	1,393
Interest payments	926	195	232	99	261	254	256	1,023	1,003
Domestic	750	168	188	85	210	223	175	814	795
External	176	27	44	15	51	31	82	208	208
Military expenditure	1,918	508	505	187	522	498	463	2,004	1,988
Fuel subsidies	0	0	0	0	0	0	0	0	0
Food subsidy	225	64	49	33	61	32	60	232	202
Transfers, *of which* :	1,899	518	432	161	474	455	516	2,025	1,877
Pensions	1,116	293	285	96	290	291	299	1,201	1,165
Targeted payments for energy	177	57	0	0	0	0	0	180	0
Transfer to health fund	201	76	32	17	69	49	103	306	252
Other transfers	405	92	115	48	115	115	115	337	460
Purchases of goods & services	428	61	67	42	103	81	71	358	322
Repayment of arrears and additional allocation to health fund	0	0	0	0	0	0	0	0	0
Capital expenditure	1,134	159	151	104	278	240	310	1,387	979
Net lending	0	0	0	0	0	0	0	0	0
Transfer to NEPCO 1/	1,572	231	0	0	0	0	0	1,187	0
Transfer to WAJ 1/	206	0	0	0	0	0	0	0	0
Adjustment on other receivables and payables (use of cash)	29	0	0	0	0	0	0	0	0
Total balance from above the line	-2,567	-580	-315	-21	-140	-176	-157	-1,874	-788
Statistical discrepancy, net	-57	0	0	0	0	0	0	0	0
Overall balance without additional measures	-2,624	-580	-315	-21	-140	-176	-157	-1,874	-788
Additional measures needed	0	0	0	0	0	0	0	0	0
Overall balance after all measures	-2,624	-580	-315	-21	-140	-176	-157	-1,874	-788
Financing	2,624	580	315	21	140	176	157	1,874	788
Foreign financing (net)	1,471	-91	44	353	1,060	-46	-338	221	720
Domestic financing (net)	976	671	270	-333	-920	222	495	1,654	67
CBJ on-lending of net IMF financing	274	0	0	0	152	305	-34	423	423
Other domestic bank financing	-13	533	220	-349	-1,123	-133	479	676	-556
Domestic nonbank financing	892	139	50	17	50	50	50	555	200
Privatization proceeds	177	0	71	0	0	0	0	0	71
Memorandum items:									
Accounts payable (IT)	359	521	359	359	359	359	359	521	359
NEPCO operating balance	1,180	231	129	...	152	143	145	980	570
Primary government deficit excluding grants	2,935	482	247	-79	29	172	64	2,004	513
Primary government deficit excluding grants and transfers to NEPCO and WAJ (PC)	1,157	250	247	-79	29	172	64	817	513
Combined public deficit (PC)	2,337	482	376	...	181	315	210	1,797	1,083

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

1/ In 2014, transfers to NEPCO and WAJ include government repayment of guaranteed debt.

Table 2d. Jordan: NEPCO Operating Balance and Financing, 2013–17

	2013 Jan-Dec Act.	2014 Q1 Act.	2014 Q2 Act.	2014 Q3 Act.	2014 Q4 Est.	2014 Jan-Dec Prog.	2014 Jan-Dec Est.	2015 Q1 Proj.	2015 Q2 Proj.	2015 Q3 Proj.	2015 Jan-Dec Prog.	2015 Proj.	2016 Proj.	2017 Proj.
						(In millions of Jordanian dinars)								
Electricity sales	1,167	342	335	369	345	1,443	1,391	379	381	420	1,659	1,568	1,803	2,078
Expenses	2,267	654	610	723	585	2,602	2,572	508	533	563	2,640	2,138	2,230	2,330
Purchase of electricity	2,099	617	573	687	548	2,451	2,425	479	481	531	2,497	1,981	2,071	2,208
Depreciation	29	7	7	7	7	26	26	7	7	8	31	31	42	44
Interest payments 1/	109	26	26	26	26	108	104	17	39	18	89	104	81	39
Other expenses	30	4	4	4	4	16	16	5	6	6	23	23	36	39
Operating balance (QPC)	-1,100	-312	-275	-354	-239	-1,159	-1,180	-129	-152	-143	-980	-570	-427	-252
Total net domestic financing	1,100	312	275	354	239	1,159	1,180	129	152	143	980	570	427	252
Banks	-148	-104	-179	-272	344	-1,079	-211	462	152	143	0	903	427	252
Loans and bonds	-151	-85	-133	-280	312	-1,014	-186	462	152	143	0	903	427	252
Overdrafts	3	-19	-46	8	32	-65	-25	0	0	0	0	0	0	0
IsDB loan	228	0	0	0	142	354	142	0	0	0	0	0	0	0
Other items 2/	-249	-74	14	103	-381	-80	-338	0	0	0	0	0	0	0
Increase in payables 3/	1,269	373	404	510	135	1,677	1,421	-333	0	0	980	-333	0	0
Direct transfer from central government	1,221	490	440	522	120	1,963	1,572	0	0	0	1,187	0	0	0
To cover losses and repay arrears	950	435	383	459	120	1,395	1,397	0	0	0	980	0	0	0
To repay loans 4/	271	55	57	64	0	569	176	0	0	0	207	0	0	0
Payables to the private sector	48	-117	-36	-13	15	-286	-151	-333	0	0	-207	-333	0	0
Of which: Increase in arrears	-95	-181	56	-53	161	-350	-17	-333	0	0	0	-333	0	0
Memorandum items (stocks, end-of-period):														
Outstanding loans and bonds	1,897	1,812	1,679	1,399	1,711	894	1,711	2,173	2,326	2,468	894	2,614	3,041	3,293
Overdrafts	52	33	-14	-5	27	-14	27	27	27	27	-14	27	27	27
Total payables	2,033	2,406	2,810	3,319	3,454	3,710	3,454	3,121	3,121	3,121	4,690	3,121	3,121	3,121
to government 3/	1,288	1,778	2,217	2,740	2,860	3,251	2,860	2,860	2,860	2,860	4,231	2,860	2,860	2,860
to private sector	745	628	592	579	594	459	594	261	261	261	459	261	261	261
Of which: arrears (IT)	350	169	225	172	333	0	333	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 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.

4/ The significant downward revision compared to the program reflects the latest agreements between the central government and NEPCO on the loan repayment schedule.

Table 3. Jordan: Summary Balance of Payments, 2013–20
(In millions of U.S. dollars, unless otherwise noted)

	2013	2014		2015		2016	2017	2018	2019	2020
	Act.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-3,453	-2,643	-2,512	-3,168	-2,907	-2,738	-2,707	-2,307	-2,443	-2,600
Trade balance	-11,665	-11,864	-11,815	-11,224	-10,476	-10,576	-10,583	-10,372	-10,627	-11,055
Exports f.o.b.	7,923	8,478	8,397	8,798	8,652	9,066	9,580	10,128	10,674	11,240
Imports f.o.b.	19,588	20,342	20,212	20,022	19,128	19,642	20,163	20,500	21,301	22,295
Energy	5,191	5,672	5,524	5,241	4,075	4,274	4,453	4,083	4,169	4,220
Non-energy	14,398	14,670	14,688	14,781	15,053	15,368	15,710	16,417	17,132	18,075
Services and income	1,423	2,007	2,185	2,066	1,820	1,998	2,230	2,399	2,467	2,445
Of which : travel	4,123	4,473	4,382	4,820	4,512	4,763	5,031	5,309	5,593	5,888
Current transfers	6,789	7,214	7,117	5,991	5,750	5,839	5,646	5,666	5,717	6,010
Of which : public	2,286	2,306	1,830	1,284	1,128	1,555	1,798	1,926	2,081	2,228
Of which : remittances	3,283	3,420	3,368	3,596	3,424	3,547	3,691	3,856	4,028	4,203
Capital account	3,896	4,186	3,553	3,113	3,722	3,556	3,991	4,381	4,995	5,122
Public sector	1,833	1,785	1,403	527	1,214	759	841	968	1,047	921
Direct foreign investment	1,734	1,700	1,787	1,832	1,817	2,014	2,268	2,421	2,835	3,009
Portfolio flows	159	50	-30	54	38	82	132	188	252	269
Other capital flows	170	651	392	701	653	701	751	804	862	923
Errors and omissions	1,195	279	266	0	0	0	0	0	0	0
Overall balance	1,638	1,822	1,306	-55	816	818	1,284	2,074	2,552	2,522
Financing	-1,638	-1,822	-1,306	55	-816	-818	-1,284	-2,074	-2,552	-2,522
Reserves	-5,231	-2,008	-2,318	-33	-1,006	-66	-252	-989	-1,368	-1,428
Commercial banks' NFA	2,948	-202	625	-509	-407	-461	-500	-558	-733	-879
IMF (net)	645	387	387	597	597	-290	-532	-527	-452	-215
Gross reserves	13,996	16,004	16,314	16,037	17,320	17,387	17,639	18,628	19,996	21,424
Gross usable reserves 1/	11,449	14,028	14,263	14,081	15,196	15,146	15,272	16,120	17,303	18,510
In percent of RAM	12.0	138.7	143.1	129.5	139.8	137.2	131.5	131.4	129.4	128.6
Memorandum items:										
Current account (% GDP)	-10.3	-7.3	-7.0	-8.1	-7.6	-6.7	-6.2	-4.9	-4.9	-4.8
Current account excl. grants (% GDP)	-17.1	-13.6	-12.1	-11.4	-10.6	-10.5	-10.3	-9.0	-9.0	-9.0
Energy imports	15.4	15.6	15.4	13.4	10.7	10.4	10.2	8.7	8.3	7.8
Public transfers	6.8	6.4	5.1	3.3	3.0	3.8	4.1	4.1	4.1	4.1
Export growth (percent)	0.3	7.0	6.0	3.8	3.0	4.8	5.7	5.7	5.4	5.3
Import growth (percent)	6.1	3.8	3.2	-1.6	-5.4	2.7	2.7	1.7	3.9	4.7
Energy (percent)	-11.7	9.3	6.4	-7.6	-26.2	4.9	4.2	-8.3	2.1	1.2
Non-energy (percent)	14.5	1.9	2.0	0.8	2.5	2.1	2.2	4.5	4.4	5.5
Travel growth (percent)	1.4	8.5	6.3	7.7	3.0	5.6	5.6	5.5	5.3	5.3
Remittances growth (percent)	4.4	4.2	2.6	5.2	1.7	3.6	4.1	4.5	4.5	4.3
WEO Oil price ($ per barrel)	104.1	102.8	96.2	99.4	58.1	65.7	69.7	71.8	73.1	74.0
GDP	33,641	36,315	35,765	39,128	38,145	41,163	44,220	47,411	50,783	54,395

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Excluding gold, commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 4a. Jordan: Monetary Survey, 2013–16

	2013	2014						2015						2016
	Act.	5th Rev.	Actual					5th Rev.	Projections					Proj.
		Annual	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Q1	April	Q2	Q3	
	(Stocks, in millions of Jordanian dinars)													
Net foreign assets	7,046	8,753	8,124	7,343	8,329	7,974	8,124	9,219	8,832	8,339	8,708	9,446	9,490	9,475
Central bank	8,610	10,174	10,131	9,107	10,105	10,177	10,131	10,279	10,551	10,275	10,619	11,309	11,281	10,867
Commercial banks	-1,564	-1,421	-2,007	-1,764	-1,776	-2,203	-2,007	-1,060	-1,719	-1,935	-1,911	-1,863	-1,791	-1,392
Net domestic assets	20,297	20,790	21,109	20,591	20,439	21,180	21,109	23,055	22,989	21,800	21,753	21,660	22,235	25,169
Net claims on general government	10,946	10,866	10,852	11,190	10,359	10,793	10,852	12,165	11,722	11,544	11,201	10,756	11,254	12,089
Net claims on central budgetary government 1/	9,005	9,693	9,266	9,374	8,608	9,120	9,266	10,792	9,133	9,470	9,119	8,505	8,682	8,987
Net claims on NEPCO	1,443	375	1,232	1,339	1,160	889	1,232	375	2,135	1,695	1,695	1,847	2,142	2,562
Net claims on other own budget agencies 2/	47	347	-24	23	118	308	-24	547	76	1	9	26	51	161
Claims on other public entities	451	451	379	454	472	476	379	451	379	379	379	379	379	379
Claims on financial institutions	159	159	162	154	158	160	162	159	162	162	162	162	162	162
Claims on the private sector	17,223	18,466	17,853	17,341	17,680	18,043	17,853	20,072	19,227	18,139	18,378	18,616	19,014	21,195
Other items (net)	-8,030	-8,702	-7,758	-8,094	-7,758	-7,816	-7,758	-9,341	-8,122	-8,045	-7,988	-7,874	-8,195	-8,277
Broad money	27,343	29,543	29,233	27,934	28,768	29,154	29,233	32,274	31,821	30,139	30,461	31,106	31,725	34,644
Currency in circulation	3,607	3,897	3,804	3,683	3,777	3,964	3,804	4,257	4,141	3,922	3,964	4,048	4,129	4,439
Jordanian dinar deposits	19,119	21,287	20,970	19,648	20,422	20,639	20,970	23,310	22,883	21,647	21,878	22,341	22,785	25,000
Foreign currency deposits	4,617	4,360	4,458	4,603	4,569	4,551	4,458	4,707	4,797	4,570	4,619	4,717	4,810	5,205
	(Flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)													
Net foreign assets	425	1,708	1,078	297	986	-355	150	466	708	216	...	1,106	44	642
Net domestic assets	1,991	493	812	294	-152	741	-71	2,265	1,880	691	...	-140	575	2,180
Net claims on general government	1,016	-80	-93	244	-831	434	60	1,299	870	691	...	-787	498	367
Net claims on Central Budgetary Government	1,199	689	261	370	-767	513	145	1,099	-133	204	...	-965	178	-146
Net claims on NEPCO	-34	-1,068	-211	-104	-179	-272	344	0	903	462	...	152	295	427
Net claims on other own budget agencies	-132	300	-71	-24	96	190	-332			25	...	25	25	85
Claims on financial institutions	-41	0	3	-6	4	3	1	0	0	0	...	0	0	0
Claims on the private sector	1,269	1,244	630	119	339	363	-191	1,605	1,375	0	...	477	398	1,968
Other items (net)	-253	-671	272	-63	336	-59	58	-639	-364	286	...	171	-321	-155
Broad money	2,417	2,201	1,890	591	834	386	79	2,731	2,589	906	...	967	619	2,822
Currency in circulation	392	290	198	76	94	187	-160	360	337	118	...	126	81	298
Jordanian dinar deposits	2,788	2,167	1,851	528	774	217	331	2,024	1,912	676	...	694	444	2,117
Foreign currency deposits	-763	-257	-159	-14	-35	-18	-93	347	339	112	...	147	94	407
Memorandum items:														
Annual broad money growth (percent)	9.7	8.0	6.9	9.7	9.7	6.4	6.9	9.2	8.9	7.9	8.0	8.1	8.8	8.9
Annual private sector credit growth (percent)	8.0	7.2	3.7	6.8	6.2	5.4	3.7	8.7	7.7	4.6	4.8	5.3	5.4	10.2
Foreign currency/total deposits (percent)	19.5	17.0	17.5	19.0	18.3	18.1	17.5	16.8	17.3	17.4	17.4	17.4	17.4	17.2
Private sector credit/total deposits (percent)	72.6	72.0	70.2	71.5	70.7	71.6	70.2	71.6	69.5	69.2	69.4	68.8	68.9	70.2
Currency/JD deposits (percent)	18.9	18.3	18.1	18.7	18.5	19.2	18.1	18.3	18.1	18.1	18.1	18.1	18.1	17.8

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

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

2/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2013–16

	2013	2014						2015						2016
	Act.	5th Rev.	Actual					5th Rev.	Projections					Proj.
		Annual	Annual	Q1	Q2	Q3	Q4	Annual	Annual	Q1	April	Q2	Q3	
	(Stocks, in millions of Jordanian dinars)													
Net foreign assets	8,610	10,174	10,131	9,107	10,105	10,177	10,131	10,279	10,551	10,275	10,102	11,309	11,281	10,867
Foreign assets	10,690	12,114	12,334	11,141	12,344	12,454	12,334	12,137	13,047	12,358	12,198	13,582	13,641	13,094
Of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	598	160	82	375	217	202	82	60	61	61	61	61	61	61
Foreign liabilities	2,080	1,939	2,203	2,034	2,239	2,276	2,203	1,858	2,496	2,084	2,096	2,274	2,361	2,227
Of which: Net Fund Position	732	1,006	1,006	732	915	915	1,006	1,429	1,429	1,006	1,006	1,159	1,464	1,223
Of which: GCC grants-related	1,241	825	1,088	1,194	1,216	1,253	1,088	320	958	969	969	1,007	789	896
Net domestic assets	-2,657	-3,578	-3,089	-2,574	-3,093	-3,021	-3,089	-3,059	-2,870	-3,007	-2,757	-3,808	-3,631	-2,499
Net claims on central budgetary government 1/	1,313	1,301	1,296	1,563	1,112	1,469	1,296	1,704	1,697	1,274	1,325	1,426	1,731	1,491
Of which: outright purchases of gov. securities	406	120	82	267	141	96	82	100	60	60	60	60	60	60
Net claims on own budget agencies	-69	-69	-77	-70	-51	-84	-77	-69	-77	-77	-77	-77	-77	-77
Net claims on other public entities	-13	-13	-2	-4	-7	-4	-2	-13	-2	-2	-2	-2	-2	-2
Net claims on financial institutions	69	69	71	67	68	68	71	69	71	71	71	71	71	71
Net claims on private sector	21	21	22	21	22	22	22	21	22	22	22	22	22	22
Net claims on commercial banks	-3,471	-4,093	-3,646	-3,434	-3,417	-3,644	-3,646	-3,976	-3,828	-3,542	-3,342	-4,495	-4,623	-3,251
Of which: FX deposits of commercial banks	708	742	740	692	675	631	740	827	813	813	813	813	813	895
CDs	-231	-231	-259	-231	-259	-259	-259	-231	-259	-259	-259	-259	-259	-259
Other items, net (asset: +)	-276	-563	-495	-487	-561	-590	-495	-563	-495	-495	-495	-495	-495	-495
Of which: repos	400	100	63	200	100	75	63	100	63	63	63	63	63	63
Jordanian dinar reserve money	5,952	6,596	7,042	6,533	7,012	7,156	7,042	7,220	7,681	7,267	7,345	7,501	7,650	8,367
Currency	3,938	4,228	4,178	4,019	4,153	4,413	4,178	4,589	4,515	4,296	4,338	4,422	4,502	4,813
Commercial bank reserves	2,014	2,368	2,864	2,514	2,859	2,744	2,864	2,632	3,166	2,972	3,007	3,079	3,148	3,555
Of which: required reserves	1,271	1,416	1,457	1,330	1,379	1,421	1,457	1,550	1,590	1,504	1,520	1,552	1,583	1,737
	(Flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)													
Net foreign assets	2,515	1,565	1,521	497	998	72	-46	-138	552	144	...	1,034	-28	315
Foreign assets	3,709	1,424	1,644	450	1,204	109	-120	23	713	25	...	1,224	59	47
Foreign liabilities	1,193	-141	122	-47	205	37	-74	-82	293	-119	...	190	87	-268
Net domestic assets	-1,792	-921	-432	83	-519	72	-68	741	-28	82	...	-801	177	371
Net claims on central budgetary government	-282	-12	-17	250	-451	358	-174	161	90	-22	...	152	305	-206
Net claims on commercial banks	-2,128	-622	-175	37	17	-227	-2	589	589	104	...	-954	-127	577
Other items, net (asset: +)	666	-287	-218	-211	-75	-28	95	0	0	0	...	0	0	0
Jordanian dinar reserve money	723	644	1,089	580	479	144	-115	624	639	226	...	233	149	686
Currency	380	290	240	81	134	259	-235	360	337	118	...	126	81	298
Commercial banks' reserves	343	353	850	500	345	-115	120	264	302	108	...	107	69	388
Memorandum items:														
Gross international reserves (GIR)	13,996	16,004	16,314	14,631	16,329	16,483	16,314	16,037	17,320	16,349	16,123	18,076	18,158	17,387
Gross usable international reserves ($ millions)	11,449	14,028	14,263	12,390	14,322	14,392	14,263	14,081	15,196	14,225	13,999	15,952	16,034	15,146
As a ratio to JD broad money (in percent)	35.7	39.5	40.8	37.7	42.0	41.5	40.8	36.2	39.9	39.4	38.4	42.9	42.2	36.5
As a ratio of JD reserve money (in percent)	136.4	150.8	143.6	134.5	144.8	142.6	143.6	195.0	197.8	138.8	135.1	150.8	148.6	181.0
Net international reserves (millions of JD)	7,776	9,331	9,631	8,466	9,663	9,830	9,631	8,946	9,869	9,604	9,431	10,675	10,429	10,039
Net international reserves (millions of U.S. dollars)	10,968	13,160	13,583	11,941	13,629	13,865	13,583	12,617	13,920	13,545	13,302	15,057	14,710	14,160
Money multiplier (for JD liquidity)	3.8	3.8	3.5	3.6	3.5	3.4	3.5	3.8	3.5	3.5	3.5	3.5	3.5	3.5

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, 2005–14

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 1/
	(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	18.4	18.6
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1,159	1,315	1,336	1,285	1,046
NPLs (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5	7.7	7.0	5.6
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3	69.4	77.0	84.5
NPLs net of provisions (in percent of equity)	5.1	2.8	4.3	5.7	10.6	12.6	13.4	8.3	5.6	2.9
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	143.5	149.1	152.4
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1	1.1	1.2	1.4
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3	8.6	9.9	11.4
FX-denominated loans to total loans ratio	11.1	10.2	9.7	12.8	11.6	11.8	11.4	12.9	14.1	13.3
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	29.1	23.9	20.6
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	71.4	68.6	63.7
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	14.7	14.8	15.0
Margin trading and financial services (share in total loans)	5.1	6.2	7.2	7.1	6.9	5.8	5.3	4.5	4.1	3.9
Loans to GDP ratio (in percent of GDP)	86.8	91.4	93.1	83.7	78.7	77.0	77.4	81.2	79.4	76.0

1/ Preliminary
Source: Central Bank of Jordan.

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

			Purchase	
Review	Availability Date	Action	Million SDR	Percent of Quota
	August 3, 2012	Board approval of SBA	255.750	150.0
First Review	December 3, 2012	Observance of end-September performance criteria, completion of first review	255.750	150.0
Second Review	September 3, 2013	Observance of end-June performance criteria, completion of second review	170.500	100.0
Third Review	December 3, 2013	Observance of end-September performance criteria, completion of third review	85.250	50.0
Fourth Review	March 3, 2014	Observance of end-December performance criteria, completion of fourth review	85.250	50.0
Fifth Review	November 10, 2014	Observance of end-September performance criteria, completion of fifth review	85.250	50.0
Sixth Review	March 3, 2015	Observance of end-March performance criteria, completion of sixth review	142.083	83.3
Seventh Review	July 15, 2015	Observance of end-April performance criteria, completion of seventh review	284.167	166.7
Total			**1,364.0**	**800.0**

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 Stand-By Arrangement								
Disbursements	426.3	255.8	426.3	0.0	0.0	0.0	0.0	0.0
Stock 1/	682.0	937.8	1,332.0	1,140.2	788.6	440.5	142.1	0.0
Obligations 2/	4.3	4.4	57.2	220.5	376.7	359.6	301.7	142.8
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	351.7	348.1	298.4	142.1
Charges and interest	4.3	4.4	25.2	28.7	25.1	11.5	3.3	0.7
Stock of existing and prospective Fund credit 1/	682.0	937.8	1,332.0	1,140.2	788.6	440.5	142.1	0.0
In percent of quota	400.0	550.0	781.2	668.7	462.5	258.3	83.3	0.0
In percent of GDP	3.1	4.0	5.3	4.2	2.7	1.4	0.4	0.0
In percent of exports of goods and services	8.6	11.1	15.3	12.5	8.2	4.3	1.3	0.0
In percent of gross reserves	9.0	10.0	13.3	11.4	7.8	4.1	1.2	0.0
Obligations to the Fund from existing and prospective Fund arrangements	4.3	4.4	57.2	220.5	376.7	359.6	301.7	142.8
In percent of quota	2.5	2.6	33.5	129.3	221.0	210.9	176.9	83.7
In percent of GDP	0.0	0.0	0.2	0.8	1.3	1.2	0.9	0.4
In percent of exports of goods and services	0.1	0.1	0.7	2.4	3.9	3.5	2.8	1.3
In percent of gross reserves	0.1	0.0	0.6	2.2	3.7	3.4	2.6	1.2

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, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020
Exposure and Repayments (In millions of SDR)								
GRA credit to Jordan	682.0	937.8	1,332.0	1,140.2	788.6	440.5	142.1	0.0
(In percent of quota)	400.0	550.0	781.2	668.7	462.5	258.3	83.3	0.0
Debt service on GRA credit	4.3	4.4	57.2	220.5	376.7	359.6	301.7	142.8
Principal (repayments/repurchases)	0.0	0.0	32.0	191.8	351.7	348.1	298.4	142.1
Charges and interest	4.3	4.4	25.2	28.7	25.1	11.5	3.3	0.7
Debt and debt service ratios								
(In percent of GDP)								
Total external government and government-guaranteed debt	28.5	31.2	34.0	32.9	31.4	30.2	29.4	28.8
Excluding proposed IMF	25.5	27.2	28.7	28.6	28.6	28.8	29.0	28.8
GRA credit to Jordan	3.1	4.0	5.3	4.2	2.7	1.4	0.4	0.0
Total external government and government-guaranteed debt service	2.0	3.5	5.4	2.9	3.5	3.3	5.0	4.8
Excluding proposed IMF	2.0	3.4	5.1	2.1	2.2	2.2	4.1	4.4
GRA debt service	0.0	0.0	0.2	0.8	1.3	1.2	0.9	0.4
(In percent of exports of goods and services)								
Total external government and government-guaranteed debt	79.7	87.4	98.6	97.2	94.1	91.9	90.9	90.5
Excluding proposed IMF	71.1	76.2	83.2	84.7	85.9	87.6	89.6	90.5
GRA credit to Jordan	8.6	11.1	15.3	12.5	8.2	4.3	1.3	0.0
Total external government and government-guaranteed debt service	5.5	9.7	15.6	8.7	10.6	10.1	15.3	15.2
Excluding proposed IMF	5.5	9.6	14.9	6.3	6.7	6.6	12.5	14.0
GRA debt service	0.1	0.1	0.7	2.4	3.9	3.5	2.8	1.3

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

Annex I. Debt Sustainability Analyses

***Jordan's public debt** is assessed as sustainable with high probability. It is expected to rise to 91 percent of GDP in 2015—above the high-risk benchmark used in the MAC-DSA[1]—but would gradually decline thereafter and reach levels just over 70 percent of GDP by 2020. Gross financing needs remain relatively large at around 19 percent of GDP on average in the medium term, reflecting short maturities of domestic debt (less than two years). Jordan's heat map risk assessment and stress test scenarios point to substantial vulnerabilities. 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.*

***Jordan's public external debt** is moderate and gradually declining over the medium term. The external DSA does not point to any solvency concerns and external financing requirements are projected to remain moderate over the medium term. Public external debt, however, remains vulnerable to unfavorable developments in the current account and to other shocks.*

1. **This appendix presents analyses of sustainability of Jordan's public and external debt**. Section A provides an overview of the assumptions underpinning the macro framework. Section B discusses the realism of the macro assumptions. Section C considers public debt sustainability, examining the debt trajectory under the program baseline, and shock scenarios. Section D considers external debt sustainability. The analysis shows that the SBA-supported program and the expectation that fiscal consolidation and structural reforms will continue in the medium term will help place Jordan's debt on a sustainable trajectory.

A. Assumptions

2. **Macroeconomic.** Real GDP growth projected for 2015 has been revised slightly downward to 3.8 percent to account for the impact of regional developments, partly offset by the reprieve from the lower oil price. Growth is expected to increase to 4.5 percent in 2016 and thereafter. Inflation (measured by the GDP deflator) is projected to decelerate to 2.8 percent in 2015, mostly on account of lower oil prices, and to gradually decline to 2.5 percent over the medium term. The headline current account deficit is expected to gradually decline to just below 5 percent of GDP over the medium term, after peaking at 7.6 percent in 2015. Robust FDI inflows and gradual resumption of market access in the coming years will help finance this deficit and maintain international reserves at an adequate level.

3. **Fiscal**. The combined public deficit is projected to shrink from 4 percent of GDP in 2015 to 0.5 percent in the medium term, reflecting continued fiscal consolidation at the central government level and the expectation that the electricity company NEPCO will reach cost recovery by 2018.

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

4. **Sovereign yields**. Although both external and domestic bond yields have moderated from earlier highs, Jordan's effective interest rate is projected to increase over the medium term reflecting the expected increase in global interest rates.[2]

5. **Maturity, rollover, and market access**. Jordan's domestic debt has relatively short maturities, with an average below two years. The medium-term projections assume a gradual lengthening of maturities as market access conditions improve. Jordan's external public debt profile is on the longer end, with maturity-at-issuance typically more than 5 years, which is assumed to continue in the medium term. It is also assumed that a $1.5 billion international bond with a U.S. guarantee will be issued in mid-2015 and another non-guaranteed bond of $0.5 billion be issued in the last quarter of 2015. Some of the bond proceeds will be used to retire a $0.75 billion bond coming due at the end of the year. The macroframework also assumes continued participation of non-residents in the local debt markets and that international market access will continue in the coming years. Bonds maturing in the outer years are assumed to be rolled over according to market conditions.

B. Realism of Projections

6. **Growth and inflation**. Past projections of growth show medium-size forecast errors, with a slight tilt toward the pessimistic side (with the exception of the last few years, when growth has been slightly over-projected). The track record of the inflation forecast is also slightly better than the average of other countries, with actual inflation being 2.2 percentage points higher than the forecast on average.

7. **Fiscal adjustment.** 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 in the top quartile of the distribution for program countries. Rather than signaling overoptimistic projections, this large adjustment reflects actual consolidation since the beginning of the program.

C. Public Sector DSA

8. **The coverage of public debt in this DSA includes**: (i) central government direct debt; (ii) direct and government-guaranteed debt of public agencies (NEPCO, WAJ, and other public entities); (iii) off-budget project loans; and (iv) liabilities to the IMF.

9. **Baseline projections indicate that the debt ratio would fall to just over 70 percent of GDP by 2020**. Despite the substantial past and projected fiscal adjustment, the debt-to-GDP ratio will peak at 91 percent of GDP in 2015. However, it is expected to decline to just over 70 percent of GDP by 2020, close to the MAC-DSA high-risk benchmark.

10. **A heat map and fan charts indicate that Jordan's public debt is subject to significant vulnerabilities**. Although debt profile indicators point to moderate risks overall, the heat map

[2] The projection does not include interest payments for pre-2013 debt issued to finance NEPCO and WAJ losses and debt to finance WAJ's losses in the medium term, which are both paid directly by the utilities. This result underestimates the total interest bill.

shows that the debt level and gross financing needs breach the high-risk DSA benchmarks in both the baseline and shock scenarios. Risks are particularly acute in the near term, given the still elevated debt level and high gross financing needs that reflect the short maturities of Jordan's domestic debt. In fact, the large rollover requirements and still sizeable public deficit drive gross financing needs to about 22 percent of GDP in 2015, well above the MAC-DSA benchmark. However, gross financing needs are expected to decline in the medium term under the assumption that market access conditions improve and the average maturity of newly issued domestic debt is lengthened to over 3 years. Holdings of liquid assets (cash deposits) also help mitigate rollover risks. The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an asymmetric distribution of risks. In the former, upside and downside risks to the main macro variables are treated as equally likely, while in the latter some shocks are restricted to be negative to reflect downside risks to the debt trajectory. In the asymmetric fan chart the debt outlook is skewed upward if these shocks materialize.

11. **Stress tests also point to a number of vulnerabilities, with the balance of risk mostly tilted to the downside**. The projected decline in public debt remains particularly vulnerable to lower growth, higher oil prices (by $20/barrel compared to the baseline) and contingent liabilities from the financial sector. Under a growth shock, entailing a cumulative growth decline of over 5 percentage points in 2016–17, public debt would near 100 percent in 2017. The other two scenarios also envisage public debt well above the baseline projections. All shock scenarios point to risks stemming from high debt relative to the relatively low revenue base. Altogether, the stress test scenarios highlight the importance of structural reforms to promote growth and to fortify financial stability, progress in the implementation of the medium-term energy strategy, as well as measures to strengthen revenue collection.

D. External Sector DSA[3]

12. **Jordan's public external debt is moderate and projected to gradually decline over the medium term, while external financing needs are contained**. External debt is expected to peak at about 34 percent of GDP in 2015 and then gradually converge to below 30 percent of GDP in the medium term. External financing requirements would also peak in 2015 reflecting the amortization of an international bond coming due by year-end. After declining in the coming years, financing requirements are expected to increase to about 10 percent of GDP in the two last projection years, when additional bonds come due and are assumed to be rolled over.

13. **Public external debt remains vulnerable to some shocks**. Standard current account and other shocks point to public external debt well above baseline projections, but still around manageable levels. These moderate risks to external debt sustainability are predicated on the assumption that FDI inflows will remain strong in the coming years, that international market access is maintained and that external buffers will help to cushion external shocks and anchor private sector expectations. This highlights the importance of implementing structural reforms to strengthen FDI as well as prudent policies to preserve external stability.

[3] The external sector DSA only covers the public external debt.

Public Debt Sustainability Analysis

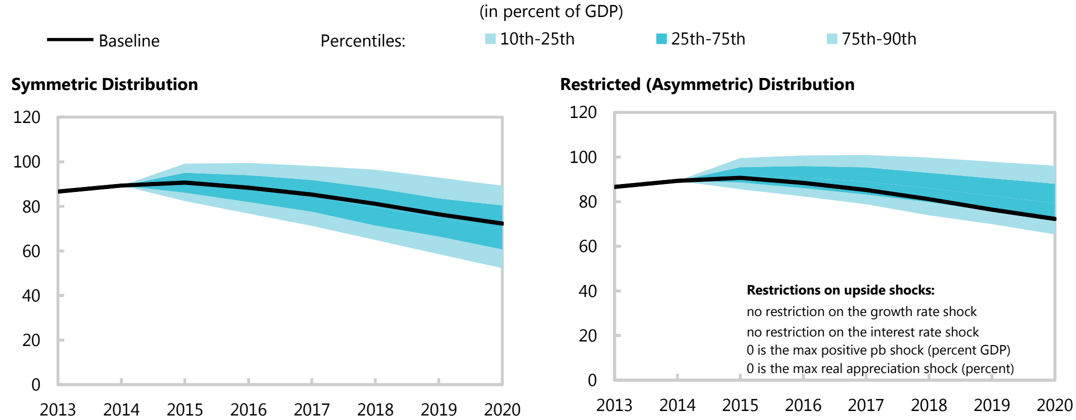
Jordan: Public DSA—Risk Assessment

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

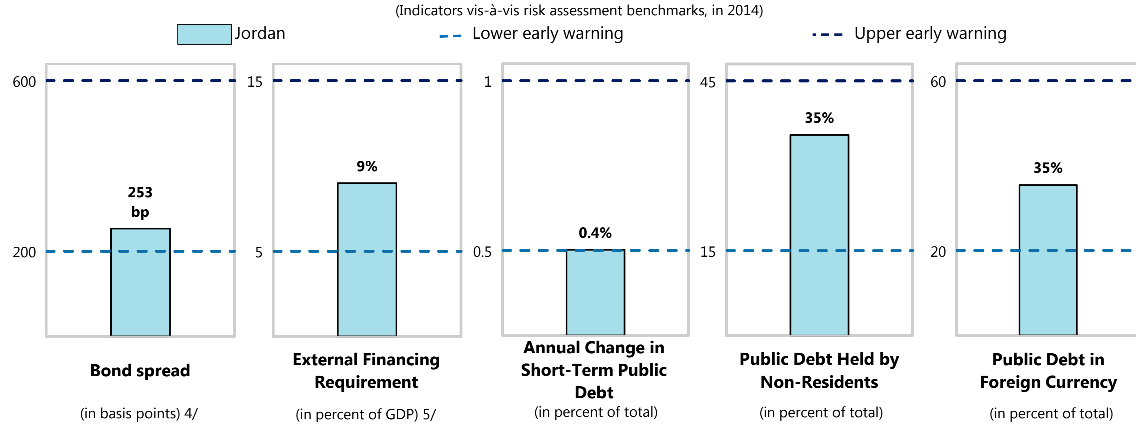
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



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.

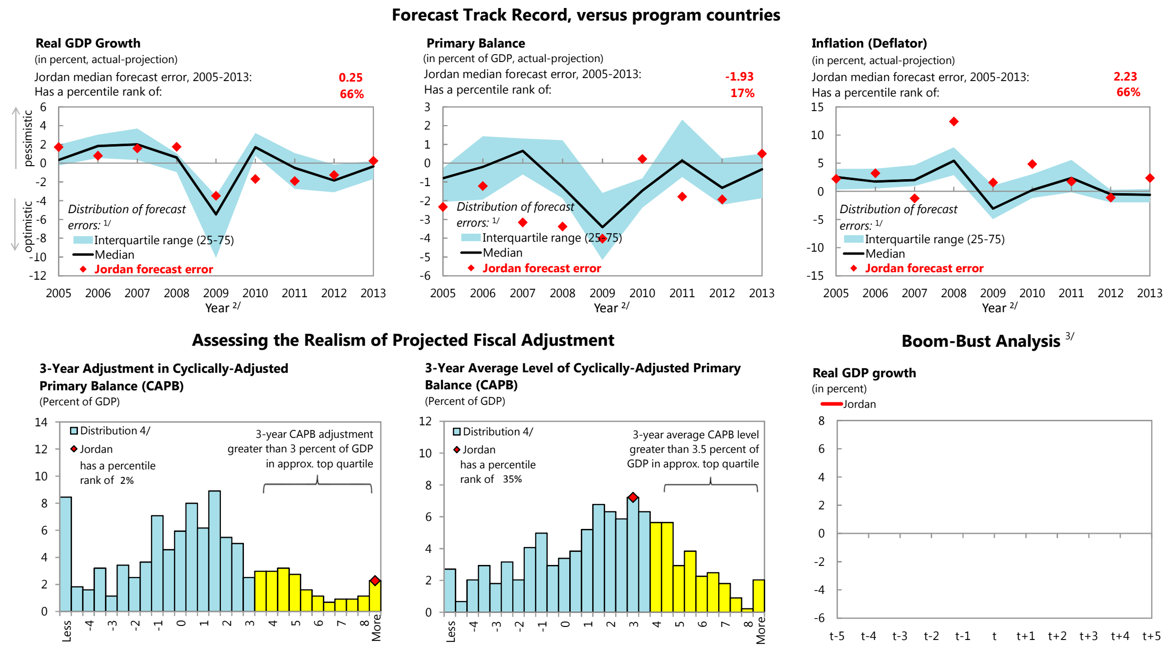
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 19-Dec-14 through 19-Mar-15.

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.

Jordan: Public DSA—Realism of Baseline Assumptions



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.
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 Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

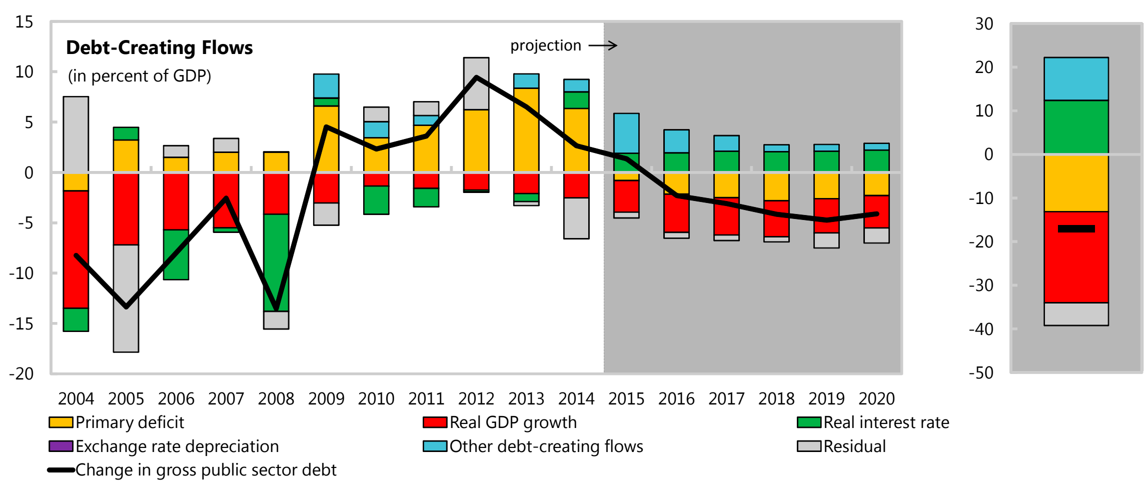
	Actual		Projections					
	2004–2013 [2/]	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	76.2	89.3	90.7	88.4	85.3	81.2	76.4	72.3
Of which: guarantees	5.6	13.0	12.2	11.3	10.6	9.9	9.2	8.6
Public gross financing needs	15.9	25.9	21.5	17.4	11.2	11.7	12.3	14.0
Net public debt	69.9	81.1	82.9	81.2	78.6	74.9	71.5	68.8
Real GDP growth (in percent)	6.1	3.1	3.8	4.5	4.5	4.5	4.5	4.5
Inflation (GDP deflator, in percent)	7.1	3.1	2.8	2.6	2.6	2.5	2.5	2.5
Nominal GDP growth (in percent)	13.6	6.3	6.7	7.3	7.2	7.1	7.1	7.1
Effective interest rate (in percent) [4/]	4.2	5.2	5.2	5.1	5.2	5.2	5.4	5.7

As of March 19, 2015

Sovereign Spreads		
EMBIG (bp) 3/	198	
5Y CDS (bp)	194	
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	BB-	BB-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual		Projections							
	2004–2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.9	2.7	1.4	-2.3	-3.1	-4.1	-4.7	-4.1	-17.0	
Identified debt-creating flows	-2.2	6.7	1.9	-1.7	-2.5	-3.6	-3.2	-2.6	-11.8	
Primary deficit	3.6	6.4	-0.8	-2.1	-2.5	-2.8	-2.6	-2.3	-13.1	-0.3
Primary (noninterest) revenue and grants	29.0	28.0	25.8	28.1	28.5	28.8	28.6	28.4	168.2	
Primary (noninterest) expenditure	32.6	34.3	25.0	25.9	26.0	26.0	26.0	26.1	155.0	
Automatic debt dynamics [5/]	-6.5	-0.9	-1.2	-1.8	-1.6	-1.5	-1.3	-1.0	-8.5	
Interest rate/growth differential [6/]	-6.5	-0.9	-1.2	-1.8	-1.6	-1.5	-1.3	-1.0	-8.5	
Of which: real interest rate	-2.1	1.6	1.9	2.0	2.1	2.1	2.1	2.2	12.4	
Of which: real GDP growth	-4.4	-2.5	-3.1	-3.8	-3.7	-3.6	-3.4	-3.2	-20.9	
Exchange rate depreciation [7/]	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	1.2	4.0	2.3	1.6	0.7	0.7	0.7	9.8	
Privatization Receipts (negative)	0.5	-0.7	-0.3	0.0	0.0	0.0	0.0	0.0	-0.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other flows (NEPCO, WAJ, project loans)	0.1	1.9	4.2	2.3	1.6	0.7	0.7	0.7	10.1	
Residual, including asset changes [8/]	0.3	-4.1	-0.6	-0.6	-0.6	-0.5	-1.5	-1.5	-5.2	



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).

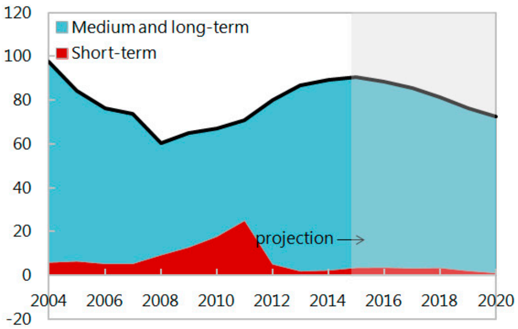
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

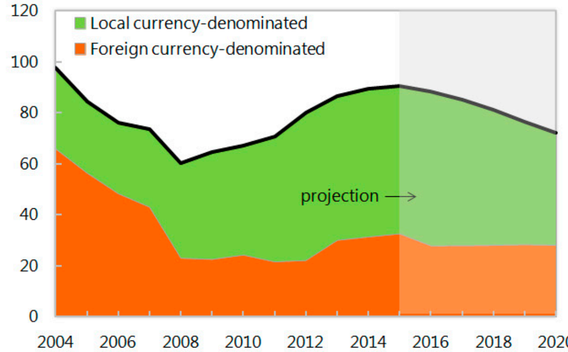
Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



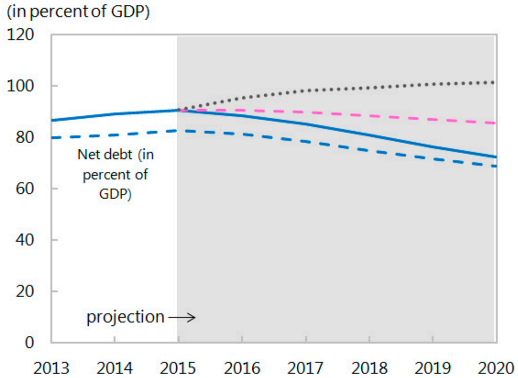
By Currency
(in percent of GDP)



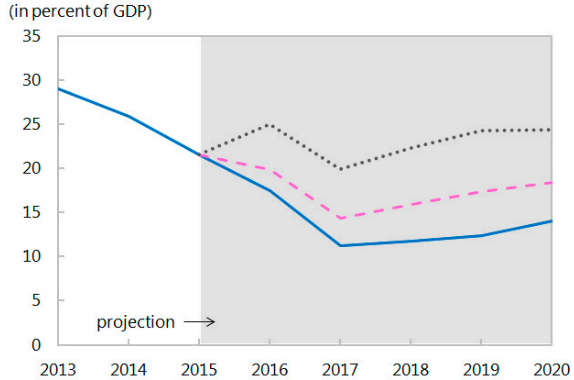
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

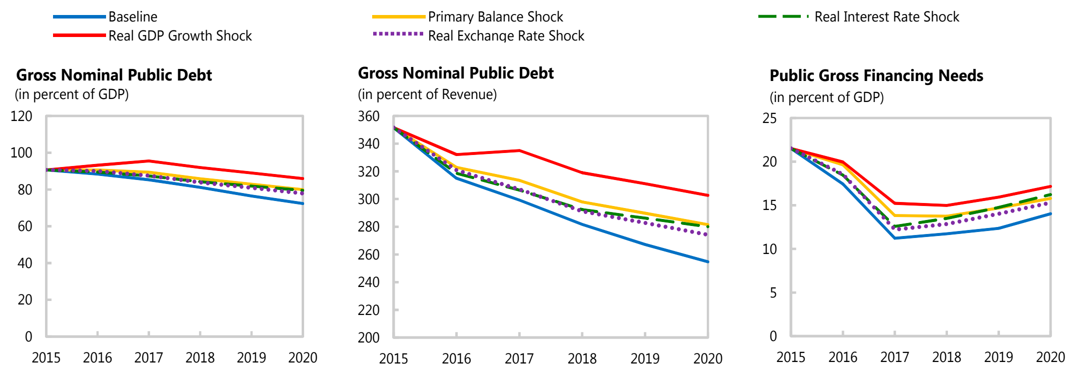
Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.8	4.5	4.5	4.5	4.5	4.5
Inflation	2.8	2.6	2.6	2.5	2.5	2.5
Primary Balance	0.8	2.1	2.5	2.8	2.6	2.3
Effective interest rate	5.2	5.1	5.2	5.2	5.4	5.7
Constant Primary Balance Scenario						
Real GDP growth	3.8	4.5	4.5	4.5	4.5	4.5
Inflation	2.8	2.6	2.6	2.5	2.5	2.5
Primary Balance	0.8	0.8	0.8	0.8	0.8	0.8
Effective interest rate	5.2	6.5	6.1	6.0	6.6	6.0

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.8	5.1	5.1	5.1	5.1	5.1
Inflation	2.8	2.6	2.6	2.5	2.5	2.5
Primary Balance	0.8	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	5.2	6.5	4.6	3.9	4.1	3.2

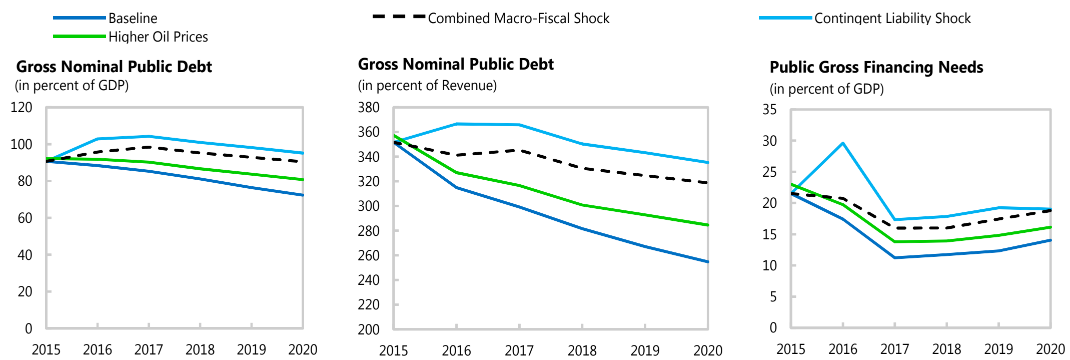
Source: IMF staff.

Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	3.8	4.5	4.5	4.5	4.5	4.5
Inflation	2.8	2.6	2.6	2.5	2.5	2.5
Primary balance	0.8	1.0	1.3	2.8	2.6	2.3
Effective interest rate	5.2	6.5	6.2	6.1	6.7	6.0
Real Interest Rate Shock						
Real GDP growth	3.8	4.5	4.5	4.5	4.5	4.5
Inflation	2.8	2.6	2.6	2.5	2.5	2.5
Primary balance	0.8	2.1	2.5	2.8	2.6	2.3
Effective interest rate	5.2	6.5	6.6	6.7	7.5	6.9
Combined Shock						
Real GDP growth	3.8	1.9	1.9	4.5	4.5	4.5
Inflation	2.8	2.0	1.9	2.5	2.5	2.5
Primary balance	0.8	1.0	0.8	2.8	2.6	2.3
Effective interest rate	5.2	6.6	6.6	6.6	7.4	6.9

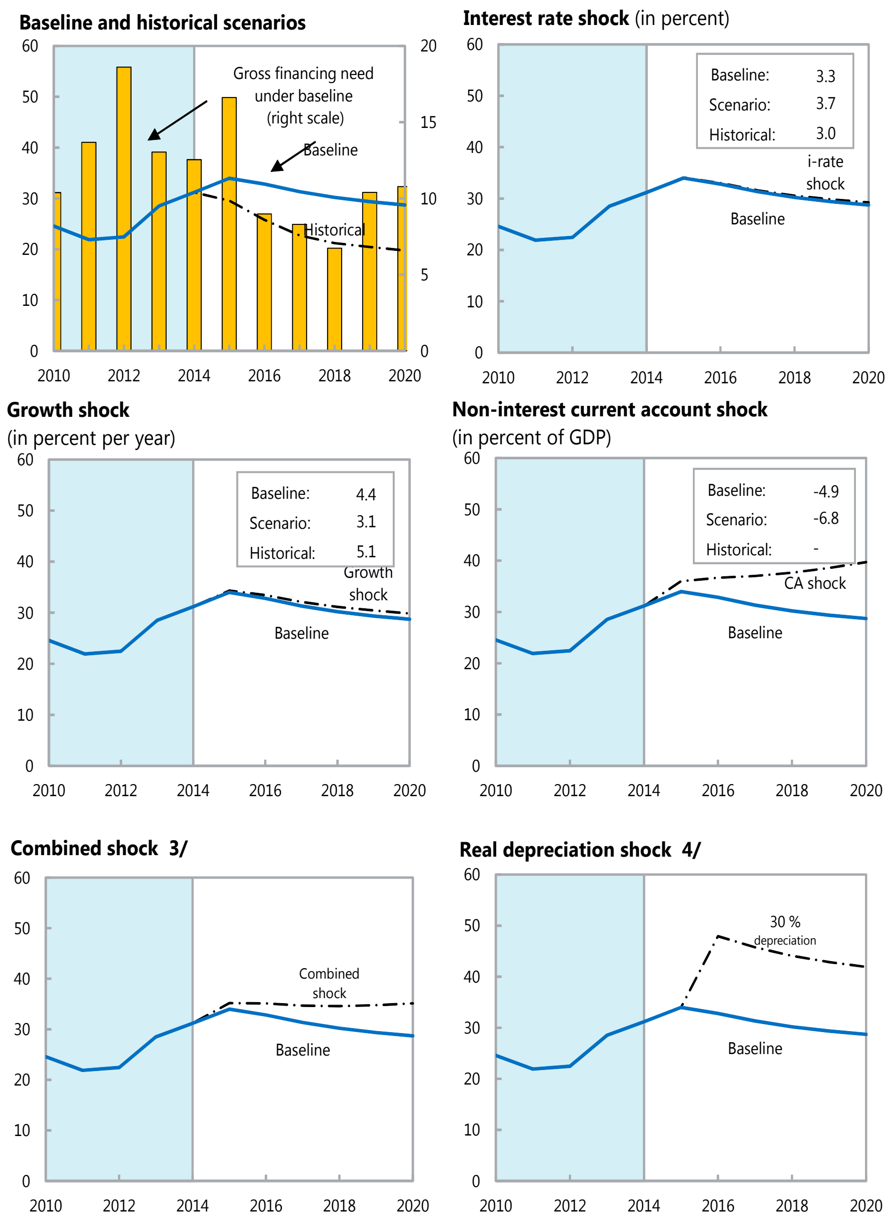
Real GDP Growth Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	3.8	1.9	1.9	4.5	4.5	4.5
Inflation	2.8	2.0	1.9	2.5	2.5	2.5
Primary balance	0.8	1.3	0.8	2.8	2.6	2.3
Effective interest rate	5.2	6.5	6.2	6.1	6.7	6.0
Real Exchange Rate Shock						
Real GDP growth	3.8	4.5	4.5	4.5	4.5	4.5
Inflation	2.8	4.3	2.6	2.5	2.5	2.5
Primary balance	0.8	2.1	2.5	2.8	2.6	2.3
Effective interest rate	5.2	6.6	6.1	6.0	6.6	5.9
Contingent Liability Shock						
Real GDP growth	3.8	1.9	1.9	4.5	4.5	4.5
Inflation	2.8	2.0	1.9	2.5	2.5	2.5
Primary balance	0.8	-8.1	2.5	2.8	2.6	2.3
Effective interest rate	5.2	6.8	6.9	6.5	6.9	6.2

Source: IMF staff.

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 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.

Table 1. Jordan: External Debt Sustainability Framework, 2010-2020

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 7/
1 **Baseline: External debt 1/**	24.6	21.9	22.5	28.5	31.2			**34.0**	**32.8**	**31.3**	**30.2**	**29.4**	**28.7**	**-6.7**
2 Change in external debt	1.7	-2.7	0.5	6.1	2.7			2.8	-1.2	-1.5	-1.1	-0.8	-0.6	
3 Identified external debt-creating flows (4+8+9)	-1.2	2.8	8.7	2.9	0.4			1.7	0.1	-0.7	-2.0	-2.5	-2.5	
4 Current account deficit, excluding interest payments	6.6	9.7	14.7	9.7	6.4			7.0	5.9	5.2	3.8	3.7	3.5	
5 Deficit in balance of goods and services	-117.3	-121.5	-120.5	-114.4	-112.5			-102.6	-99.3	-96.2	-93.0	-90.9	-89.2	
6 Exports	48.3	47.7	46.3	42.5	43.4			40.6	39.8	39.0	38.3	37.8	37.1	
7 Imports	-69.0	-73.9	-74.3	-71.9	-69.1			-61.9	-59.5	-57.2	-54.6	-53.1	-52.1	
8 Net non-debt creating capital inflows (negative)	-6.1	-5.4	-5.0	-5.6	-4.9			-4.9	-5.1	-5.5	-5.6	-6.1	-6.1	
9 Automatic debt dynamics 2/	-1.7	-1.5	-0.9	-1.2	-1.1			-0.5	-0.6	-0.4	-0.3	-0.1	0.1	
10 Contribution from nominal interest rate	0.6	0.6	0.5	0.5	0.6			0.6	0.8	0.9	1.1	1.1	1.3	
11 Contribution from real GDP growth	-0.5	-0.6	-0.5	-0.6	-0.8			-1.1	-1.4	-1.4	-1.3	-1.3	-1.2	
12 Contribution from price and exchange rate changes 3/	-1.8	-1.5	-0.9	-1.2	-0.9			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	2.9	-5.5	-8.2	3.2	2.3			1.1	-1.3	-0.8	0.8	1.7	1.9	
External debt-to-exports ratio (in percent)	50.9	46.0	48.6	67.1	71.9			83.6	82.5	80.3	78.8	77.8	77.4	
Gross external financing need (in billions of US dollars) 5/	2.7	4.0	5.8	4.4	4.5			6.3	3.7	3.6	3.2	5.2	5.8	
in percent of GDP	10.4	13.7	18.6	13.0	12.6	10-Year	10-Year	16.6	9.0	8.3	6.7	10.4	10.8	
Scenario with key variables at their historical averages 6/								**29.6**	**25.8**	**22.7**	**21.2**	**20.5**	**19.8**	**-12.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.3	2.6	2.7	2.8	3.1	5.1	2.6	3.8	4.5	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	8.4	6.4	4.5	5.6	3.1	6.8	5.3	2.8	2.6	2.6	2.5	2.5	2.5	
Nominal external interest rate (in percent)	2.7	2.6	2.7	2.6	2.3	3.0	0.6	2.0	2.6	3.1	3.6	4.0	4.8	
Growth of exports (US dollar terms, in percent)	15.3	7.8	4.1	-0.3	8.7	10.7	13.0	-0.1	5.0	5.1	5.3	5.5	5.4	
Growth of imports (US dollar terms, in percent)	10.8	16.8	7.9	5.2	2.2	10.7	11.6	-4.4	3.1	3.1	2.2	4.2	4.9	
Current account balance, excluding interest payments	-6.6	-9.7	-14.7	-9.7	-6.4	-10.1	3.9	-7.0	-5.9	-5.2	-3.8	-3.7	-3.5	
Net non-debt creating capital inflows	6.1	5.4	5.0	5.6	4.9	11.0	7.0	4.9	5.1	5.5	5.6	6.1	6.1	

1/ Public and publicly guaranteed external debt on residency basis.
2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
4/ For projection, line includes the impact of price and exchange rate changes. After 2013 also includes purchases of domestic tbills and bonds by non-residents.
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels
of the last projection year.

Table 2. Jordan: External Sustainability Framework--Gross External Financing Need, 2009-2020

	Actual						Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
I. Baseline Projections												
Gross external financing need in billions of U.S. dollars 1/	2.0	2.7	4.0	5.8	4.4	4.5	6.3	3.7	3.6	3.2	5.2	5.8
in percent of GDP	8.3	10.4	13.7	18.6	13.0	12.6	16.6	9.0	8.3	6.7	10.4	10.8
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 -2019 3/							7.7	5.7	6.2	6.8	9.2	10.5
B. Bound Tests												
B1. Nominal interest rate is at baseline plus one-half standard deviations							6.4	3.7	3.7	3.2	5.3	5.9
B2. Real GDP growth is at baseline minus one-half standard deviations							6.3	3.6	3.5	3.1	5.0	5.6
B3. Non-interest current account is at baseline minus one-half standard deviations							7.2	4.6	4.7	4.4	7.2	8.2
B4. Combination of B1-B3 using 1/4 standard deviation shocks							6.8	4.1	4.1	3.7	6.1	6.9
B5. One time 30 percent real depreciation in 2015							6.3	3.7	3.6	3.1	5.2	5.7
Gross external financing need in percent of GDP 2/												
A. Alternative Scenarios												
A1. Key variables are at their historical averages in -2019 3/							19.1	12.7	12.3	11.9	14.4	14.6
B. Bound Tests												
B1. Nominal interest rate is at baseline plus one-half standard deviations							16.7	9.1	8.4	6.9	10.6	11.0
B2. Real GDP growth is at baseline minus one-half standard deviations							16.7	9.0	8.4	6.8	10.7	11.1
B3. Non-interest current account is at baseline minus one-half standard deviations							18.8	11.2	10.7	9.3	14.2	15.2
B4. Combination of B1-B4 using 1/4 standard deviation shocks							17.8	10.2	9.6	8.1	12.5	13.3
B5. One time 30 percent real depreciation in 2015							16.6	13.3	12.3	9.9	15.3	15.8

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.
4/ The implied change in other key variables under this scenario is discussed in the text.

Appendix I. Letter of Intent

Ms. Christine Lagarde Amman, April 9, 2015

Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Ms. Lagarde:

Pressures on Jordan from an adverse regional environment continue, especially those due to the conflicts in Syria and Iraq. Transit routes are being disrupted, costs of hosting refugees have been high and security spending is increasing. At the same time, uncertainty on the near term outlook is weighing on economic activity.

Despite these pressures, we continue to successfully navigate the Jordanian economy. Growth has been gradually picking up, inflation has declined further, and our external position has been improving. Looking forward, we expect the lower oil prices to provide an important respite to the economy, which will support our program of macroeconomic and structural reforms.

Our fiscal consolidation efforts under this program are well underway, including through the parliament's recent adoption of a new income tax law and a prudent 2015 budget. However, because revenue grew less than we had expected in 2014—as nominal GDP was lower than expected and growth mostly driven by sectors that are tax exempt or pay preferential tax rates—our headline fiscal deficit in 2015 will be somewhat higher than we had expected, provided that donors can provide increased grants so that we can implement our planned capital spending. Most importantly, we will shortly issue Vision 2025, our blueprint for structural reforms aimed at boosting growth and jobs, the implementation of which will be monitored by the prime minister's office.

Performance under the program remains strong. We expect to meet all quantitative performance criteria and indicative targets for end-March. Structural performance is broadly on track, as we have met all structural benchmarks to date but for the one on the implementation of the tariff increase as outlined in the medium-term strategy (we repealed half of the increase after strong opposition).

In view of our continued strong performance as well as the policy measures for the remainder of the program, we request: waivers of applicability of the end-March performance criteria on the primary fiscal deficit of the central government and on the combined public sector, for which actual data will not become available until six weeks after end-March; completion of the sixth review under the Stand-By Arrangement and approval of the related purchase of SDR 142.083 million; and a re-phasing of the undrawn Fund purchases under the Stand-By Arrangement in one disbursement and establishment of performance criteria for end-April 2015, as described in the Memorandum of Economic and Financial Policies (MEFP) (Table 1) and the technical memorandum of understanding attached to this letter.

The attached MEFP describes the economic policies that we intend to implement to achieve the objectives of our economic program of maintaining 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

Sound macroeconomic policies have strengthened Jordan's resilience by gradually reducing fiscal and external imbalances. This has enabled the economy to withstand a difficult regional environment. Owing to continued fiscal consolidation and declining oil prices, inflation is low, the current account is narrowing, and international reserves have been rebuilt to comfortable levels. Reflecting extensive consultations with stakeholders, Vision 2025, which we will issue soon, outlines our national strategy to boost growth and create jobs for a better future of our citizens.

BACKGROUND

1. This Memorandum of Economic and Financial Policies (MEFP) supplements and updates earlier MEFPs under the Stand-By Arrangement.[1] It reviews recent economic developments and progress with the government's macroeconomic and structural program; and details policies for 2015 and beyond consistent with our objectives of:

- Safeguarding macroeconomic stability to preserve confidence and strengthen the economy's resilience to shocks.
- Fostering growth and creating jobs, in particular for the young and females, to improve our citizens' wellbeing.

RECENT MACROECONOMIC DEVELOPMENTS AND OUTLOOK

2. **The economy is withstanding an unfavorable regional environment.** Though not yet broad-based, growth has gradually improved—to an estimated 3.1 percent in 2014. Unemployment has declined to 11.9 percent. Helped by lower global commodity prices, inflation dropped to 0.2 percent year-on-year in January; and, relative to GDP, the current account deficit (excluding grants) narrowed by an estimated 5 percentage points in 2014 to 12 percent, despite lower gas from Egypt and disruptions to Iraq exports. Possibly mirroring regional uncertainty, private sector credit increased by only 4.2 percent in January 2015. At the same time, the reserve position remains comfortable, dollarization continues to fall, and the banking sector is robust.

3. **Lower oil prices are expected to benefit the economy in 2015.** Because energy imports are now foreseen to be much lower than originally anticipated, NEPCO's losses and the current account deficit (excluding grants) are projected to be lower than originally programmed, at 2.1 percent of GDP and 10.6 percent of GDP, respectively. We expect savings on oil consumption to stimulate domestic demand, thereby contributing to a further pickup in growth this year to almost 4 percent. We also foresee inflation to remain contained, and private sector credit to start recovering, partly due to our policy of reducing borrowing costs.

[1] See http://www.imf.org/external/country/JOR/index.htm.

4. **Also, the longer-term outlook is favorable.** The boost from lower oil prices will gradually wane because NEPCO is planning to use mostly gas (program projections had already gas price assumptions in line with our negotiated 5-year contract and medium-term projections). Also, income and capital inflows from the Gulf Cooperation Council (GCC), which is Jordan's main economic partner, could slow down. Nevertheless, we expect growth to pick up to 4.5 percent in the medium term, reflecting the potential for more space for private sector development brought about by continued fiscal adjustment, and higher public investment coupled with structural reforms. At the same time, we expect external pressures to abate and the current account deficit (excluding grants) to further decline to below 9 percent of GDP, while inflation would stay at low levels.

PROGRAM PERFORMANCE

5. **We achieved strong outcomes in 2014.**

- We met the end-December performance criterion (PC) on net international reserves (NIR) by a wide margin.

- We missed by a small margin the end-December PC on the primary deficit of the central government but we met the indicative target on its accounts payable. Revenue was in line with the program, but this reflected one-off revenue[2] offsetting a shortfall in underlying revenue mostly because nominal GDP growth was lower than expected. There were also overruns in some spending categories (goods and services and other transfers), which did not allow us to increase the transfers to the health funds as much as planned.[3] As a result, arrears of the funds did not decline as we had envisaged. Capital spending also fell short of our target, mostly because of a delay in signing grant agreements.

- Because of shortages in Egypt gas, the PC on the combined public deficit was not met by a small margin. Also the indicative target on NEPCO arrears was not met, but corrective action is taken (see paragraph 15).

6. **We are advancing with structural reforms.** We: (1) completed draft amendments to the Central Bank of Jordan (CBJ) law, to foster transparency; (2) established a supervisory college for Arab Bank in March 2015 to strengthen cross-border supervision; and (3) approved a public investment framework with assistance from the World Bank to enhance the efficiency of capital spending. We pre-approved a credit bureau to enhance access to credit and expect a final license to be issued by September 2015, after which the bureau is expected to start operations.

[2] This is off-budget oil excises, which were earmarked to finance energy-related projects. These projects are now financed by grants and the excise has been brought on the budget starting in 2015.

[3] The transfers to the health funds exceeded the budget allocation by JD55 million.

POLICIES TOWARD STRENGTHENING THE ECONOMY'S RESILIENCE

A. Public Finances

7. **We remain committed to following through on public sector reforms.** We will save windfalls from lower oil prices to the extent possible, particularly because these windfalls are not expected to permanently reduce NEPCO's losses and because public debt is high—a burden on all Jordanians. Also, we believe that it is best to undertake reforms in "good times" when the impact of reforms will be cushioned by the positive effect of lower oil prices on the economy. Thus, we will steadfastly implement our public sector adjustment as planned, both on the fiscal and energy fronts. At the same time, we ask donors to assist our country through continued grants, including by helping to cover the cost of hosting the Syrian refugees, and to increase the capital spending needed for building the basis for stronger growth.

8. **We have identified external financing of $3.4 billion through the next twelve months.** For the period between April 2015 and March 2016, we have confirmed financing with our development partners comprising total grants of $0.8 billion, including from the GCC ($0.5 billion), and the US ($0.3 billion); loans of $0.6 billion, including from the World Bank ($0.24 billion) and the EU ($0.1 billion); as well as a U.S.-guarantee for a Eurobond issue of $1.5 billion and a non-guaranteed Eurobond of $0.5 billion. Separately, we are working on issuing Sukuk domestically in late 2015.

Central Government

9. **The 2015 budget, combined with additional revenue measures, is delivering the planned structural consolidation.** Parliament approved the budget in March, which together with revenue and expenditure measures outlined below will result in a central government primary deficit (excluding grants and transfers to NEPCO and WAJ (Water Authority of Jordan)) of 1.9 percent of GDP. This is lower than programmed because we have not yet received grant-financing assurances for all planned capital spending. We are working with donors and hope to receive additional grants so that we can scale up capital spending, which we regard as critical for growth. In this case, the primary deficit could increase up to the programmed level of 2.9 percent of GDP. The impact of lower oil prices on the central government budget (excluding transfers to NEPCO and WAJ) is slightly positive with revenue shortfalls from the sales tax on petroleum products more than offset by lower spending; in particular, cash transfers that were introduced to mitigate the liberalization of fuel prices are discontinued when oil prices are below $100 per barrel. We expect to have met the end-March PC on the primary fiscal deficit of the central government.

10. **Revenue measures deliver an adjustment of about one percent of GDP.**

- The **new income tax law** passed by parliament raises revenue by 0.25 percent of GDP in 2015 (and double that amount from 2016 onward) mostly by raising tax rates for banks (from 30 percent to 35 percent); electricity generation and distribution, and mining (from 14 percent to 24 percent); and for legal entities (from 14 percent to 20 percent). The law also introduces a higher personal income tax (PIT) rate (20 percent on net incomes higher than JD 20,000 compared to 14 percent previously), increases the withholding rate on income earned by non-residents from 7 percent to 10 percent, and re-establishes a presumptive tax for small individual taxpayers and businesses with income less than JD 100,000 at a rate to be determined by the tax administration. For the medium term, we will seek to amend the law by lowering the threshold for the PIT exemption, which would increase the number of taxpayers and enhance fairness, and by introducing a minimum corporate tax, which would help fight tax evasion.

- **Other measures** include: (1) bringing fully the petroleum excise on budget (0.7 percent of GDP); (2) an increase in nontax revenue by returning to cost recovery take off and landing fees for flight schools and storage fees (including for silos and refrigeration) (0.05 percent of GDP); and (3) an increase in the excise on jet fuel for private air traffic (0.05 percent of GDP). We have now also instructed independent institutions to monthly transfer their profits to the treasury.

11. **We have also taken measures to offset spending pressures.**

- **Royal Jordanian (RJ).** Work is in progress on formulating a restructuring plan for RJ to bring the company on a sound financial basis in light of its losses of lucrative regional routes (such as to Iraq, Libya, and Syria). If the main other shareholders (the Mikati Group and the Social Security Investment Fund) agree with the plan, the government might have to pay its share in recapitalizing the company; our participation will not exceed the government's share in the company's capital or 0.2 percent of GDP. We will finance this recapitalization by using the JD 26 million allocated for this purpose in the 2013 budget—which has already been an expenditure in the 2013 budget and transferred into a trust account—as well as the JD 24 million already included in the 2015 budget.

- **Health funds.** We will ensure that the 2015 allocation to the health funds is sufficient to not only prevent a recurrence of arrears but also to repay some of the existing stock. To this end, a committee (consisting of the ministry of finance, the ministry of health, the prime ministry, and the Royal court) has reviewed the eligibility criteria and the coverage of medical treatments to ensure that all those in need of free medical treatment will receive it.

Utilities

12. **We are committed to implementing NEPCO's medium-term strategy.** NEPCO's savings from the lower oil bill will fade over the medium term, in particular since we now expect gas from

Egypt to stay well below programmed levels at 10 million cubic feet. Thus, we intend to implement the announced tariff increases of 15 percent in early 2016 and 2017, which are needed for NEPCO to reach cost recovery in the medium term. We have already increased electricity tariffs in early January (benchmark), but decided to reduce the increase by half to support economic growth, which has so far not been broad based. That said, should (Brent) oil prices recover to over $70 a barrel for two months, we will re-instate the full electricity tariff increase of 15 percent. Based on current oil price forecasts and gas from Egypt staying at around 10 million cubic feet per day, NEPCO's losses are projected at 2.1 percent of GDP in 2015 and 1.5 percent of GDP in 2016 with the company reaching cost recovery in 2018.

13. **New energy sources are becoming operational, as planned.** The LNG terminal will start operations by mid-2015 (providing about 20 percent of Jordan's consumption) and a number of renewable energy plants will come on-line between 2015 and 2016 (about 10 percent of consumption).

14. **We are making good progress in implementing the water strategy.** Tariff increases are being implemented as planned and protect most households. Financing for investments to upgrade the water supply network and improve service is on track. Our plan to diversify Jordan's water resources is progressing, but it is based on major investments. We are also cracking down on illegal connections, which deprive the community of its scarce water resource and increase our losses.

15. **A plan is in place to clear arrears in the energy and water sectors.** To improve coordination, the ministry of finance has agreed with banks that they will directly finance NEPCO and WAJ. Therefore, rather than the ministry of finance issuing government securities and transferring the proceeds to the utilities, the utilities will borrow from banks under government guarantees. This will help the utilities to better manage their cashflow and also access financing from Islamic banks. We expect NEPCO to have cleared its arrears in March 2015. By May, the ministry of finance jointly with NEPCO and the refinery will conduct a full inventory of all outstanding arrears and accounts payable between them; and prepare a time-bound plan for arrears clearance (including claims set-offs, where appropriate) and a reduction in accounts payable (new benchmark).

Structural Fiscal Reforms

16. **Better public financial management (PFM) is improving budget preparation and increasing transparency**. We have improved expenditure controls by introducing quarterly limits for current expenditure and are working to extend this to capital expenditure. We are steadfastly implementing an executive plan aimed at preventing the accumulation of arrears by establishing more rigorous controls for line ministries. With Fund assistance, we will introduce and have cabinet approval, by May 2015, of preliminary budget ceilings for the preparation of general budget institutions' (GBIs) base budget requests (new benchmark). We have completed the roll-out of the Government Financial Management Information System (GFMIS) to all 53 GBIs. The latter are now making payments through the system, though only 75 percent of them are using all the functionalities of the system. Going forward, we will reconfigure, by end-2015, the budget

preparation module of the GFMIS to prevent GBIs' base budget requests from exceeding the pre-approved ceilings. Also, the legislative council will, by May 2015, prepare a draft law to ensure that revenue from all agencies will go through the treasury single account with a view of consolidating sources of revenue in time for implementation with the 2016 budget (new benchmark). With the macro unit now fully-staffed and functional, work is ongoing on consolidating the central government main financial indicators with those of public utilities, so as to enhance transparency and allow for a better assessment of the government financial position.

17. **We continue to strengthen and modernize tax administration.** We have made good progress in establishing a proper taxpayer database. In particular, we are now bringing into the tax network taxpayers who have not registered with the Income and Sales Tax Department (ISTD) and are monitoring more closely announcements of new businesses. So as not to weaken tax compliance, the recent granting of tax amnesties will not be repeated. We are also stepping up the cooperation between the ISTD and the Customs Department, with a view to combating export-based general sales tax fraud, and more broadly strengthening sales tax compliance management. This cooperation is expected to be extended to other departments, such as the Commercial Register of the Ministry of Industry and Trade, the Secretariat of Amman, municipalities, the Electricity Company, and professional unions (physicians, lawyers, and other unions). Moreover, the ministry of finance has issued by-laws, which allow us to seize assets of taxpayers who are in arrears. Finally, we will update by end-June our 2013 study on the review on costing of tax incentives.

B. Monetary Policy

18. **The CBJ has enhanced its operational framework for monetary policy.** It introduced in February a benchmark interest rate—labeled the CBJ main rate—intended to give a clear signal of where the CBJ would like the interbank market to be. The CBJ will continue to use the one-week repo operations as a tool to bring the interbank rate toward the target. At the same time, the CBJ has reintroduced certificates of deposits (with maturities of one to two weeks) to manage more effectively excess liquidity in the banking system.

19. **The attractiveness of the dinar, price stability, and the output gap will continue to be the main considerations for monetary policy.** The CBJ cut interest rates in February 2015, by 25 basis points. The reduction—a continuation of a recent trend—was motivated by a comfortable level of international reserves, robust confidence in the dinar, and expectations of a narrowing current account deficit and low inflation. It aimed at fostering investment and further expanding real output, which has remained below potential with credit to corporates continuing to stagnate. The CBJ will continue to closely monitor developments, especially U.S. monetary policy normalization, and stands ready to act proactively, using all available tools, to safeguard macroeconomic stability and ensure high reserve buffers.

C. Financial Sector

20. **We are making our financial system further resilient to shocks.** Based on end-2014 financial soundness indicators, banks continue to enjoy healthy profitability, comfortable liquidity,

and strong capital buffers. And the sector's exposure to regional tensions remains limited because of adequate provisioning.

- **Banks.** We finalized the design features of a statistical-based early warning model, thereby strengthening our capacity to identify emerging risks and facilitating early intervention if necessary. We have been working with two banks to improve their capital adequacy ratios (CARs) that are just above the regularity minimum of 12 percent; through asset sales and capital injections, they have now raised their CARs. At the same time, we are amending the banking law to strengthen corporate governance, dealing with weak banks, compliance, and accountability of banks' senior management and boards. We plan to submit the final amended version to the cabinet by mid-year.

- **Non-bank financial sector** (insurance companies, microfinance institutions (MFIs), leasing companies, and money exchangers; equivalent to 6 percent of the financial sector assets). Developing this sector would not only contribute to financial deepening, thereby benefitting growth, but would also foster financial inclusion—microfinance, for example, ensures that all segments of society have access to credit. At the same time, however, shocks emanating in the non-bank financial sector can propagate and have a material impact on the rest of the economy. Against this background, cabinet has approved on December 14, 2014 the microfinance companies' by-law, and we will start supervising MFIs in June 2015 in line with best international practice with technical assistance from the Gesellschaft für Internationale Zusammenarbeit (GIZ) and financial assistance from the World Bank. In addition we have submitted to the cabinet a new money changers law to bolster our supervision of the sector in line with international best practice.

21. **We continue to take steps to bring the legal framework in line with the 2012 Financial Action Task Force (FATF) standard and enhance the effectiveness of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime.** In this respect:

- By end-2015 we will prepare, with IMF assistance, amendments to the AML/CFT law to align it with the new FATF standard. Terrorist financing was introduced and criminalized already in the AML/CFT amendments of 2010, which are currently discussed by parliament. Also, some amendments have already been addressed through instructions and regulations such as on politically exposed persons.

- In the context of strengthening our CFT regime, we are committed by September 2015 that the Technical Committee in charge of implementing the relevant UNSCRs produces an activity report on the implementation of UNSCR 1267 and its successor resolutions and UNSCR 1373 to identify potential shortcomings and develop a strategy to address them.

- We will develop a risk-based approach to AML/CFT supervision for the CBJ. In this context, we will conclude the identification of ML/TF risks by end-September.

POLICIES TO PROMOTE GROWTH AND JOBS

22. **Vision 2025 will move forward the structural agenda for job-creating growth.** The regional conflict and uncertainty are depressing growth and weighing on our living standards. Against this background, Vision 2025 brought together all Jordanian stakeholders so as to help tailor international best practice to Jordanian needs. Vision 2025 is expected to specify measurable milestones with clear implementation timelines, focused on critical sectors. A newly-created unit at the prime minister's office will oversee progress with the strategy.

A. Business Environment

23. **We are intensifying our efforts to make Jordan a hub for investors:**

- **Investment climate**. We, with the help of USAID, are drafting the by-laws for the investment law, two of which we expect to issue in April, and the remaining ones before the end of 2015. At that time, we also expect to have set up a one-stop shop for investors. We are working with the World Bank and the OECD in the context of a transition fund project to strengthen the institutions responsible for investment policy (including by improving investment rules and regulations including for FDI and enhancing investor protection and services).

- **Public Investment Management.** The new investment framework strengthens our public investment/PPP decision process and therefore provides the basis and conditions for us to advance only those initiatives that are demonstrably the most economically attractive for society.

- **Anti-corruption and auditing.** The World Bank is currently assisting the Anti-Corruption Commission (ACC) in building its capacity. Efforts are focusing on designing and implementing an automated complaints handling and case management system so that, by end-2015, the ACC can investigate corruption cases in a timely and efficient manner. This is important for building public confidence in the integrity of the justice system and the seriousness of government in fighting corruption.

B. Employment

24. **We are reviewing our National Employment Strategy** with the help of USAID. We are undertaking an evaluation of projects under the strategy, including on whether they have delivered the desired outcomes, and whether they need adjustment. In particular, we will update the strategy taking into account the new pressures from Syrian refugees on the job market. We plan on scaling up and replicating projects that have shown success to make a dent in unemployment at the aggregate level. In particular, we will move forward on policies aimed at reducing skill mismatches; changing public sector hiring and compensation policies; and unlocking the constraints to female labor market participation.

C. Access to Finance

25. **Better access to finance is a cornerstone for higher growth.** The secured lending law has been fast-tracked in parliament and is expected to be enacted by June. We will also submit to parliament by June draft insolvency and bankruptcy laws. External financing for small and medium size enterprises (SMEs) of some $420 million will be available this year, of which $95 million have already been disbursed. Also, about JD105 million (out of JD950 million) of a financing facility at the CBJ have now gone to industry, tourism, renewable energy, and agriculture including to SMEs operating there. The CBJ is working on strengthening the infrastructure for enhancing access to finance and financial inclusion in general through licensing the credit bureau, developing payments systems, enhancing consumer protection, and improving financial literacy.

PROGRAM MONITORING

26. **We continue implementing the recommendations of the CBJ safeguards assessment concluded in January 2013.** We have finalized draft amendments of the CBJ law, which we will shortly send to cabinet. A plan to remove audit qualifications in the CBJ financial statements— to ensure fair and transparent presentation of assets in its balance sheets— is under discussion with the external auditor and we expect to approve the plan by September 2015 (the qualification related to the settlement of one of the major bilateral accounts might take longer since it includes commitment of a non-Jordanian party). Work is also progressing to complete by end-May a quality assessment review of the internal audit function of the CBJ in accordance with international standards. In addition, the CBJ will conduct a public tender in the second half of 2015, for the selection of new external auditors in accordance with the CBJ's audit selection and rotation policy to ensure adequate audit quality and independence.

27. Progress in the implementation of our policies will continue to be monitored through the seventh and final review tentatively scheduled for July 15, 2015 and quantitative PCs, indicative targets, and 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, September 2014–September 2015

	Sep-14			Dec-14			Mar-15 1/			Apr-15	Jun-15	Sep-15
	Target	Projected Adjusted Target	Estimate	Target	Projected Adjusted Target	Estimate	Target	Projected Adjusted Target	Projection	Proposed Target	Projection	Projection
Performance Criteria												
Primary fiscal deficit of the central governement, excluding grants and transfers to NEPCO and water companies, in JD million (flow, cumulative ceiling)	882	822	716	1,165	1,085	1,157	250	250	247	169	276	449
Combined public deficit in JD million (flow, cumulative ceiling)	1,615	1,555	1,656	2,324	2,244	2,337	482	482	376	...	558	873
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	11,804	11,850	13,865	11,699	11,758	13,583	12,304	12,450	13,834	13,302	15,057	14,710
Ceiling on accumulation of external payment arrears 2/	0	0	0	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)	-2,863	-2,895	-3,021	-2,870	-2,912	-3,089	-2,966	-3,070	-3,007	-2,757	-3,808	-3,631
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	553	682	682	359	682	682	359	682	359	359
Stock of arrears of NEPCO in million JD 3/	0	0	172	0	0	333	0	0	0	0	0	0
Memo items for adjusters												
Foreign budgetary grants and loans received by the government (JD millions, flow, cumulative)	1,997	...	1,645	2,600	...	2,255	171	...	253	253	1,581	1,839
Foreign budgetary grants and privatization receipts received by the government (JD millions, flow, cumulative)	...	...	...	...	...	...	...	...	117	117	126	158
Foreign budgetary grants and loans received by the CBJ (USD millions, flow, cumulative)	2,291	...	2,337	2,906	...	2,965	105	...	251	189	2,115	2,172
Cap for the downward adjustor on the NIR (USD millions)	900	...	900	900	...	900	900	...	900	900	900	900
Cap for the downward fiscal adjustor (JD millions)	60	...	60	80	...	80	20	...	20	30	40	60
Cap for the upward fiscal adjustor (JD millions)	...	...	...	...	...	...	...	...	...	51	138	252

1/ For March 2015, the NIR data, the adjusted target for NIR, and the foreign budgetary grants and loans received by the CBJ are actuals.

2/ Continuous.

3/ Arrears owed by NEPCO only, to all entities. Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

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, 2013.
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.**
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 of April 8, 2014	End-September 2014	**Met with delay.**
Submission to parliament of a 2015 budget in line with the program.	December 15, 2014	**Met.**
Enhancing Transparency		
Introduce a commitment control system through the Government Financial Management Information System (GFMIS) to register, report, and account for expenditure commitments against cash allocations issued by the ministry of finance.	January 2013	**Not met,** and the target was re-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 2013, but reporting is not regular.

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.
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 eight weeks after the end of quarter.	End-June 2014	**Met with delay.** Implemented in September 2014.
Prepare draft amendments to the CBJ law to strengthen autonomy and oversight, in line with Fund advice.	By December 2014	**Met with delay.**
Establish a supervisory college for Arab bank	March 2015	**Met.**
NEW: Introduce preliminary budget ceilings consistent with the medium-term fiscal consolidation path and approved by cabinet for the preparation of GBIs' base budget requests.	May 2015	
NEW: The legislative council to prepare a draft law to ensure that revenue from all agencies will go through the treasury single account with a review of consolidating sources of revenue in time for implementation with the 2016 budget.	May 2015	
NEW For the ministry of finance to jointly with NEPCO and the refinery to conduct a full inventory of all outstanding arrears and accounts payable between them; and prepare a time-bound plan for arrears clearance (including claims set-offs, where appropriate) and a reduction in accounts payable..	May 2015	
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	**Met.**
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.**
Implement already announced annual tariff increases as outlined in the medium term energy strategy.	January 2015	**Not met.** Half of the increase was reversed in late January.

Table 2. Structural Benchmarks (concluded)		
Structural Benchmarks	**Test Date**	**Status**
Inclusive Growth		
Licensing of a credit bureau.	End-June 2013	**Met with delay.** It took the private company longer than expected to submit the request for a license. The credit bureau was pre-approved in December 2014.
Implement a national unified registry for targeting of subsidies.	October 2013	**Met.**
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	**Met with delay.**

Attachment II. Technical Memorandum of Understanding (TMU)

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

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Letter of Intent dated April 9, 2015. 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 that could lead to a significant deviation from quantitative program targets will prompt discussions between the authorities and staff on an appropriate policy response.

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

A. Quantitative Performance Criteria and Indicative Targets

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

- a performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfer to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ);

- a performance criterion (ceiling) on the combined primary deficit of the central government (as defined above) and the net loss of NEPCO ("combined public deficit");
- a performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);
- a continuous performance criterion (zero ceiling) on the accumulation of external arrears;
- an indicative target (ceiling) on accounts payable of the central government;
- an indicative target on the accumulation of domestic payment arrears of NEPCO;
- an indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

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

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

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

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 Investment Fund), 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 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

- Upward by: the extent to which the sum of foreign budgetary grants and privatization receipts received by the central government during the relevant period exceeds the level specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

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 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

- Upward by the extent to which the sum of foreign budgetary grants and privatization receipts received by the central government during the relevant period exceeds the level specified in Table 1 of the MEFP up to a maximum as specified in Table 1.

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 1) during the relevant period exceeds (falls short of) the levels specified in Table 1 of the MEFP. The downward adjustment will be capped at the maximum level specified in Table 1 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.

INTERNATIONAL MONETARY FUND

COM COMMUNICATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Sixth Review Under the SBA for Jordan

On April 24, 2015, the Executive Board of the International Monetary Fund (IMF) completed the sixth review of Jordan's three-year economic program supported by a Stand-By Arrangement (SBA). The completion of the sixth review enables the immediate release of SDR 142.083 million (about US$200 million), bringing total disbursements under the program to SDR 1.08 billion (about US$1.58 billion). The 36-month SBA in the amount of SDR 1.364 billion (about US$2 billion) was approved by the Executive Board on August 3, 2012 (See Press release No. 12/288).

In completing the sixth review, the Executive Board approved the authorities' requests to re-phase the undrawn Fund purchases in two disbursements over the remaining program period; and for waivers of applicability for the end-March 2015 performance criteria on the primary fiscal deficit and the combined public deficit.

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

"Jordan continues to persevere in a difficult regional environment. Conflicts in neighboring countries and hosting refugees continue to put social and economic pressures on the economy, including on the fiscal and external accounts. Nonetheless, growth is picking up, inflation is low, the fiscal and external positions are gradually strengthening, and the banking system is sound overall.

"Fiscal adjustment will continue in view of the high public debt. In particular, the windfall from lower oil prices, which is expected to be temporary, will be saved to reduce debt and rebuild fiscal buffers. A prudent 2015 budget together with the adoption of the new income tax law and other measures will bring about most of the adjustment in 2015.

"The authorities will continue to implement their energy strategy aimed at bringing the electricity company back to cost recovery by 2018. Progress on new energy sources remains on track and, most importantly, the liquefied natural gas terminal is expected to start operating in mid-2015. This progress, together with the planned fiscal adjustment, should bring debt on a downward path starting in 2016.

"The central bank is appropriately focused on preserving comfortable reserve buffers while being mindful of external developments. The authorities will further strengthen financial supervision, including in the nonbank sector.

"Despite the progress made in structural reforms, more is needed to support growth and reduce persistently high unemployment. The focus should be on broad-based labor market policies, especially to increase female labor market participation and reform public sector hiring and compensation practices. There is also scope for further improving the business climate and strengthening public institutions."

Statement by Mr. Beblawi and Mr. Geadah on Jordan
April 24, 2015

Jordan's economy continues to perform well. Growth has increased, inflation has declined, and the fiscal and external positions have been strengthened. The program remains on track. All program performance criteria for end-March 2015 are expected to have been met, and important structural measures have been implemented. In some areas—notably in the accumulation of external reserves and in reducing the fiscal deficit—program targets were met with significant margins.

The good implementation of the Fund-supported program could not have been achieved without broad ownership for the reform and adjustment effort. The authorities have taken politically difficult decisions—including the liberalization of fuel prices early in the program and the recent approval of the income tax law—as they balance political and social considerations with a view to maintaining the momentum of the economic transformation. They are keen to build resilience to shocks and reduce the country's dependence on external support.

Macroeconomic performance is projected to improve further in 2015. Growth is forecast to increase to 3¾ percent, while the fiscal and external deficits are expected to benefit from the decline in oil prices. Official reserves, which remain quite comfortable, are projected to increase further. While the outlook is favorable, the persistently difficult regional environment continues to impose a high toll on the economy and on its infrastructure. Besides the political, social and economic challenges of the Arab political transformations, and of hosting a large refugee population, that were noted at the time of the last Board meeting, Jordan has since been subject to the repercussions of the conflict in Syria and Iraq and to further cuts in low cost gas imports from Egypt. The security situation in Iraq, Jordan's main export market, has also disrupted trade flows and increased security costs.

Throughout these difficulties, Jordan has proved to be a good global citizen despite the paucity of its resources. The government has incurred significant direct and indirect costs in support of Syrian refugees, host communities have been stressed, and infrastructure has been overburdened. The United Nations estimated the cost of hosting refugees from Syria at US$2.9 billion in 2015, for which limited budgetary support has been received. While the authorities are appreciative to donors for the generous support, a sustainable assistance framework is needed given the significant indirect costs related to the protracted Syrian refugee crisis, including those related to security, health, education, and subsidies.

Fiscal policy

A significant fiscal consolidation has been a main pillar of the program. The deficit was reduced in 2014, and it is expected to be significantly cut in 2015 as the authorities take advantage of the decline in oil prices. The overall public sector deficit has accordingly been revised downward to 4 percent of GDP in 2015, 2½ percentage points lower than targeted at the time of the program review in December 2014, and 5¼ percentage points below the deficit in 2014. This deficit target would be raised only by the amount of additional grants received to finance capital spending.

The authorities have already taken all the revenue and expenditure measures to ensure that the targeted adjustment for 2015 is achieved. An income tax law was approved after a protracted debate in parliament, and increases in various fees will bring public services to cost recovery. Further measures were also taken to rationalize spending, including a cap on public sector wages. The government had to retract half of the increase in electricity tariffs—which will cost the electricity company less than ¼ percent of GDP in savings in 2015—after strong pressure from parliament following the decline in oil prices. The originally planned tariff increase will be reinstated in 2015 in the event that oil prices rebound to US$70 per barrel over two months, and the government remains committed to future tariff increases as part of an energy sector strategy to bring the electricity company to cost recovery within a few years.

Monetary policy

Monetary policy continues to successfully balance stability and growth objectives. The reductions in the Central Bank of Jordan (CBJ) policy rate—by a cumulative 75 basis points in 2014, and another 25 basis points in 2015—have proved to be timely and judicious. These cuts were motivated by the need to support credit growth in the context of low inflation, strong reserve buffers, and continued de-dollarization.

The CBJ has made important progress in developing the financial system's infrastructure. It significantly strengthened its liquidity management framework with the reintroduction of CBJ certificates of deposit and the reduction in its overnight deposit rate in February 2015. In addition, a new RTGS payment system and a retail payment system became operational; draft amendments to CBJ law that are aimed at strengthening its autonomy and oversight have been prepared, along with amendments to the banking law that are aimed at strengthening corporate governance, which are likely to be a model for legislation in other countries; and the final licensing of the credit bureau is expected to take place in the near future.

The banking sector remains sound, highly capitalized, liquid, and profitable. Non-performing loans continue to fall, while provisioning remains at comfortable levels. Exposure of Jordanian banks to conflict countries is limited, which is fully provisioned. A supervisory college for Arab bank—the largest commercial bank in Jordan—will help to further strengthen cross border supervision.

Structural policies

The focus of structural policies has been on improving the business climate and the quality of public services. Efforts to improve the business environment include a one stop shop for investors and generally facilitating business dealings with the government. The strengthening of the public sector covers budget preparation and implementation, the tax administration, and the public investment process. Several initiatives are also being undertaken to lower unemployment, with a focus on reducing skills mismatch and modifying public sector hiring policies. Implementation of the National Employment Strategy—which was developed in 2010—will help to bring about better functioning and competitive labor markets, and help youth find and secure meaningful work and steady employment in the private sector.

The authorities are in the process of preparing a ten year socio-economic blueprint, *Vision 2025*, which focuses on boosting growth, employment, and equity. *Vision 2025* is expected to be issued in May 2015, and it will be implemented through three year executive plans starting with 2016-18, which may coincide with a successor arrangement with the Fund. A central focus of the plan is the need for the private sector to raise labor participation and reduce unemployment. *Vision 2025* accordingly outlines the regulatory reforms to achieve sustainable improvements in the quality of the business environment. It also recognizes the necessity of the education system to support the private sector by improving the skills and job-readiness of the graduates of universities and vocational training centers. This, together with the outsourcing of non-core public sector activities, will be important to shift employment from the public to the private sector.