



TECHNICAL ASSISTANCE REPORT

JORDAN

Debt Portfolio Cost and Risk Management

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Prepared By

Samer Saab (Mission Chief), Bill Cox (External Expert), and Juan Pradelli (External Expert)

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GLOSSARY

ATM	Average Time to Maturity
CBK	Average Time to Refixing
DMO	Debt Management Office
EFF	Extended Fund Facility
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
JOD	Jordanian Dinars
IRO	Investor Relations Office
LMOs	Liability Management Operations
MoF	Ministry of Finance
MTDS	Medium-Term Debt Management Strategy
NEPCO	National Electric Power Company
PDD	Public Debt Department
SOE	State-Owned Enterprise
SSIF	Social Security Investment Fund
USD	U.S. Dollars
WAJ	Water Authority of Jordan

PREFACE

An MCM team carried out a remote mission to Jordan from May 26 to June 4, 2021 to help the authorities update their public debt management strategy and provide technical guidance on the potential scope of liability management operations (LMO). The mission team provided guidance to a group of Ministry of Finance (MoF) and Public Debt Department (PDD) staff, through a series of presentations and hands-on practical sessions on (1) analyzing costs and risks of the existing debt portfolio, (2) modeling alternative financing strategies, (3) exploring ways for government to support the liquidity of the domestic bond market, (4) updating the current debt management strategy document to cover the period 2021–2025, and (5) potential LMOs involving outstanding sovereign Eurobonds.

The cooperation of the authorities was exemplary, including pre-mission provision of requested data and information, and high-quality interaction and responsiveness of the participating to the mission’s presentations. The PDD team exhibited high levels of awareness of the key issues and trends affecting public debt management in Jordan. The mission team would like to warmly thank all staff of the MoF and PDD, particularly Dr. Abdulhakim Shibli (Secretary General), and Mr. Ahmad Hmaidat (Department Director) and Mr. Ahmad Annuz (Head of PDD Middle-office) for their hospitality and engagement.

EXECUTIVE SUMMARY

Exogenous shocks affecting Jordan in recent years have led to increased government financing needs that far exceeds available concessional financing and grant assistance.

A gradual economic recovery is expected in the next few years, and the planned gradual fiscal consolidation in the context of a multiyear framework will help narrow budget deficits and moderate the rise in public debt. In addition, the government of Jordan is committed to pursue a fiscal consolidation that targets a debt/GDP ratio of no more than 80 percent by 2025.

Overall, the cost and risk dynamics of the current public debt portfolio of Jordan appear balanced and relatively well managed. The authorities have prioritized a de-facto debt strategy that taps medium-to-long term tenors in the domestic market and maximizes access to concessional and semi-concessional funding on the external market, all while maintaining capital market access via regular issuance and refinancing of sovereign Eurobonds in U.S. dollars. This strategy has effectively managed refinancing risk (average-time to maturity 6.5 years) both domestically and externally and kept average costs relatively subdued (around 4.3 percent). The evaluation of alternative financing strategies done with the Medium-Term Debt Management Strategy (MTDS) Analytical Tool showed that the current debt management strategy has a relative cost/risk advantage

Jordan is evaluating options for a liability management operation involving the 2022 Eurobond. The mission discussed with the PDD team a simple framework that can be used to evaluate and compare different options, including an option to buy-back the existing Eurobond(s) ahead of redemption, and an option for a traditional refinancing when due. The mission advised the authorities to develop a LMO policy that outlines the mandate and objectives of LMOs in Jordan before evaluating specific operations. That policy should be developed in consultation with Jordan's financial and legal advisors compared to other alternatives.

The mission identified some capacity absorption bottlenecks in the domestic debt market. Holdings of government securities are concentrated in The Social Security Investment Fund (SSIF), and domestic banks have sometimes expressed concerns about absorption of large domestic issuances. Rapid accumulation of SSIF's exposure to the government is a growing medium-term concern that jeopardizes the sovereign-banks nexus and needs close and sustained monitoring.

Table 1. Jordan: Recommended Actions

Recommendations	Priority	Timeframe¹
<i>Medium-Term Debt Management Strategy</i>		
Update and publish the MTDS document for the period 2021-2025	High	NT
Prepare and publish in parallel to the MTDS an annual borrowing plan	High	NT
Ensure that all components of public debt (including arrears and guarantees/contingent liabilities) are recorded in the debt recording system and reported properly in accordance with international best practices.	Medium	NT
<i>Liability Management</i>		
Draft a liability management policy note anchored with cost and risk objectives and outlining the government risk tolerance and preferences.	High	NT
Revamp the investor relations function within the PDD in parallel to and ahead of any potential LMO	High	MT
Once a LMO Policy has been established, the PDD should carefully examine the option of buying back the bond maturing in 2022, or any other suitable target bond(s), in coordination with financial/legal advisors, and guided by the stated objectives in the policy.	Medium	NT

¹ Near term (NT): < 12 months; Medium term (MT): 12 to 36 months.

I. INTRODUCTION

1. **Exogenous shocks affecting Jordan over the past few years have led to increased financing needs at a time when concessional financing and grants decreased.** This led to not only to higher public debt (currently around 92 percent of GDP on a gross, general government level), but a surge in Jordan's debt service costs. In parallel, the ongoing COVID-19 crisis significantly increased the need to invest scarce resources in equity- and growth-enhancing projects. Output contraction in 2020 is estimated to have been limited at 2 percent, including due to the authorities' timely and effective fiscal and monetary support. Nominal GDP is expected to grow by 3.6 percent in 2021. At the time of the mission, Jordan's IMF-supported Extended Fund Facility (EFF) arrangement remained on track, with strong progress on key reforms.

2. **While Jordan currently retains international market access with several outstanding Eurobonds and strong demand for the latest Eurobond market operation, the authorities would like to explore ways to minimize debt service costs at an acceptable level of risk and update their current medium-term debt management strategy.** Jordan's last MTDS covers 2019–2023 and is not currently published on the MoF's website.¹ Instead, Jordan publishes quarterly debt reports with regular frequency and broad coverage. The MoF is also exploring the feasibility of liability management operations (domestic and external) to exchange more expensive debt for lower cost debt and smooth out the amortization profile, particularly in reference to the outstanding 2022 Eurobond. This technical assistance mission fulfills this request.

II. DEBT MANAGEMENT STRATEGY

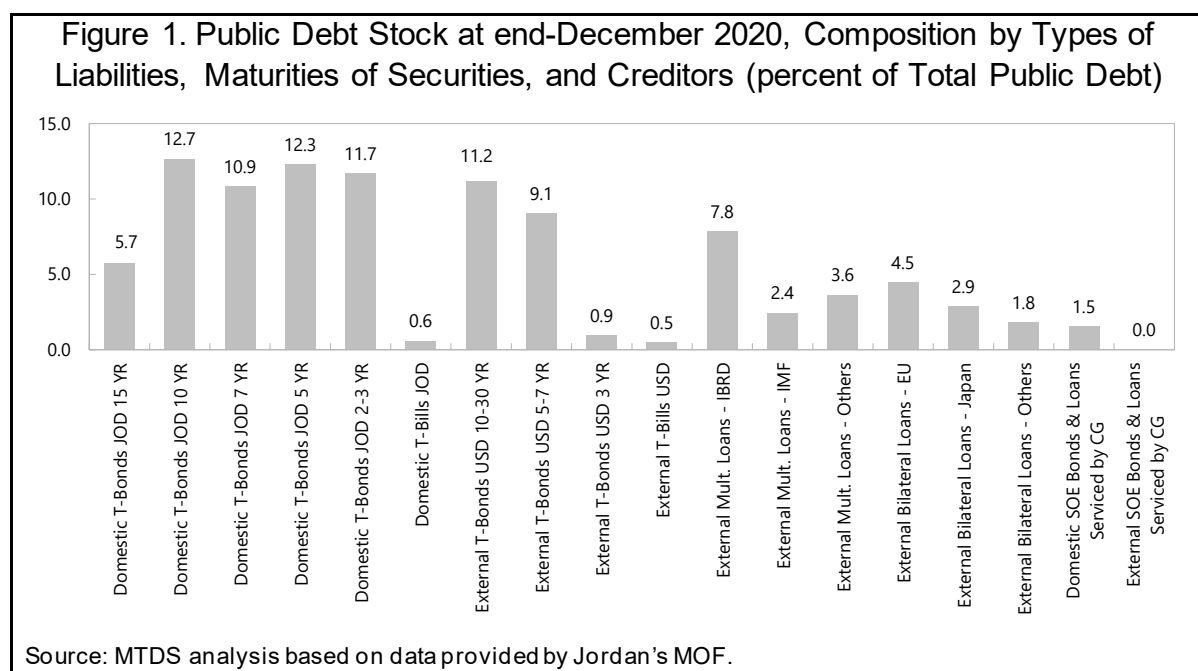
A. Scope and Structure of the Public Debt Portfolio

3. **The MTDS analysis covers the public debt serviced by the central government.** This measure includes the budgetary central government debt and the State Owned Enterprise (SOE) debt currently serviced by the central government. It is referred to as 'public debt stock' or 'public debt portfolio' for the purpose of the MTDS analysis. A broader definition of public debt used in the official Jordan Debt Quarterly Report includes the Budgetary Central Government Debt and the total SOE Debt (mostly owed by the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ), excludes the Social Security Investment Fund's (SSIF) holdings of government securities, and nets out the government deposits.²

¹ Mission staff provided country authorities with detailed specific guidance on how best to improve the quality and coverage of the next update of the MTDS document.

² The modelling exercise was done on a gross basis (including SSIF holdings) and excluding securitized arrears and some of the guarantees. Hence is not directly comparable to the debt definition used for EFF program monitoring purposes. The MTDS analysis also excludes liabilities from comfort letters, whose stock is estimated at 2.5 percent of GDP.

4. **At end-December 2020, the public debt serviced by the central government amounted to JOD 30,166 million, equivalent to 98.4 percent of GDP (Figure 1).**³ As per the legal setting for recording government financial liabilities in Jordan, the domestic and external debt are defined on a currency basis. Domestic and external liabilities accounted for 55 and 45 percent of the total public debt stock, respectively.



5. **Public debt serviced by the central government largely consists of marketable securities issued in local and international markets (see Figure 1).** Domestic (JOD-denominated) and external (USD-denominated) securities account for 53.8 and 21.7 percent of the total public debt stock, respectively. T-Bonds and T-Bills denominated in JOD and USD are issued regularly by the Treasury. The central bank acts as a financial agent for domestic debt issuance, and reportedly, the local financial institutions and investors generally hold domestic securities until maturity. Foreign banks are involved in international issuances of Eurobonds, and the pool of bondholders is believed to include Jordanian residents who purchase securities through intermediaries abroad.

6. **Loans contracted by the central government with multilateral and bilateral creditors finance investment projects (see Figure 1).** These loans represent 23.1 percent of the total public debt stock and carry semi-concessional terms—long maturities, grace, and relatively low interest rates. The IBRD and the IMF are the largest multilateral creditors,

³ According to the official Jordan Debt Quarterly Report for Q4:2020, the net public debt outstanding (excluding debt holding by SSIF and government deposits) totaled JOD 25,163 million at end-December 2020. The debt holding by SSIF and the government deposits totaled JOD 6,150 million and JOD 1,336 million, respectively. Net debt figures also exclude securitized guarantees in the amount of JOD 756 million.

accounting for about 45 percent of all loans contacted. Major bilateral creditors include Japan, France, and Germany, among others.

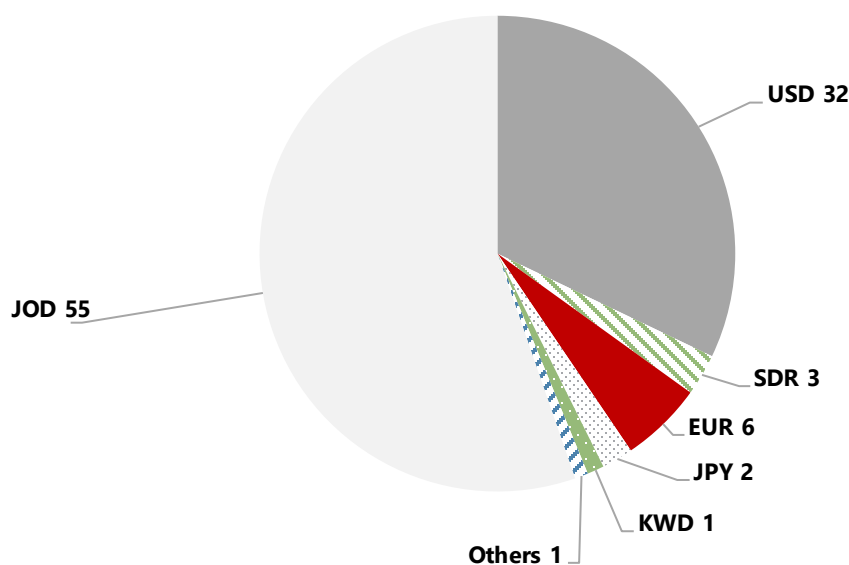
7. **To provide financial assistance to underperforming SOEs, the central government currently services bonds and loans of certain SOEs like WAJ (see Figure 1).** These liabilities constitute just 1.5 percent of the public debt stock and are included in the MTDS analysis to reflect their impact on the central government's gross financing needs⁴. Bonds issued by WAJ are about two-third of these debts.

8. **Marketable securities are mainly T-Bonds issued at various maturities (see Figure 1).** Government securities issuances have targeted an ample spectrum of maturities, ranging from 1 to 12 months for T-Bills, and from 2 to 30 years for T-Bonds. T-Bonds in the public debt portfolio were largely issued with medium- to long-term (original) maturities. Among the domestic T-Bonds, nearly 45 percent exhibits original maturities between 5 and 7 years, and another 35 percent has maturities for either 10 or 15 years. Within the external T-Bonds, about 42 percent present original maturities between 5 and 7 years, and another 53 percent mature in either 10 or 30 years. Notably, T-Bills are a very small proportion of the total public debt stock, which is peculiar of Jordan since emerging markets tend to rely more heavily on these instruments for short-term financing and cash management.

9. **Public debt serviced by the central government is chiefly denominated in JOD and USD (Figure 2).** JOD-denominated securities represent 55 percent of total public debt stock, while USD-denominated securities and loans account for 32 percent. The remaining 13 percent of liabilities are mostly denominated in EUR, JPY, and SDR.

⁴ It is worth noting that the mission observed instances whereby certain state guarantees and other contingent liabilities (including a sizeable guarantee to the Royal Jordanian national airline) often go unrecorded in public debt recording systems, which hinders the ability of the PDD to get the full scope of potential and actual liabilities in the public debt portfolio.

Figure 2. Public Debt Stock at end-December 2020, Composition by Currencies (percent of Total Public Debt)



Source: MTDS analysis based on data provided by Jordan's MOF.

B. Cost and Risk Profile of the Public Debt Portfolio

10. **Average interest rate on domestic liabilities is double that on external liabilities (Table 2).** The weighted average interest rates of domestic and external debt are 5.2 percent and 3.0 percent, respectively. Multilateral and bilateral loans, which jointly account for half of the external debt and carry a weighted average interest rate of 1.6 percent, largely explain the lower average cost of foreign liabilities. In addition, external T-Bonds tend to have lower coupon rates than domestic T-Bonds of similar original maturity. For example, external and domestic 10-year T-Bonds carry weighted average interest rates of 5.5 percent and 6.2 percent, respectively. For 5-year T-Bonds, the corresponding figures are 4.2 percent and 4.7 percent, respectively. Thus, despite the long-lasting stability of the peg between the JOD and the USD, there is a risk premium on domestic (JOD-denominated) securities over the external (USD-denominated) securities. Interest payments totaled 4.2 percent of GDP in 2020 and represented 14 percent of total budget expenditures.

Table 2. Cost and Risk Indicators of the Public Debt Stock at end-December 2020

Risk Indicators		External Debt	Domestic Debt	Total Debt
Amount (in millions of JOD)		13,486	16,680	30,166
Amount (in millions of USD)		18,994	23,493	42,487
Nominal debt as percent of GDP		44.0	54.4	98.4
Cost of debt	Interest payment as percent of GDP (2020)	1.3	2.9	4.2
	Weighted Av. IR (percent)	3.0	5.2	4.3
Refinancing risk	ATM (years)	8.7	4.7	6.5
	Debt maturing in 1yr (percent of total)	9.7	16.2	13.3
	Debt maturing in 1yr (percent of GDP)	4.3	8.8	13.1
Interest rate risk	ATR (years)	6.2	4.7	5.4
	Debt refixing in 1yr (percent of total)	26.7	16.2	20.9
	Fixed rate debt incl T-bills (percent of total)	82.5	100.0	92.2
	T-bills (percent of total)	1.1	1.0	1.1
FX risk	FX debt (percent of total)	100.0	0.0	44.7

Risk Indicators		Domestic Securities	External Securities	External Loans
Amount (in millions of JOD)		16,220	6,532	6,954
Amount (in millions of USD)		22,844	9,200	9,794
Nominal debt as percent of GDP		52.9	21.3	22.7
Cost of debt	Interest payment as percent of GDP (2020)	2.8	1.0	0.4
	Weighted Av. IR (percent)	5.2	4.6	1.6
Refinancing risk	ATM (years)	4.7	6.5	10.7
	Debt maturing in 1yr (percent of total)	15.8	14.7	5.0
	Debt maturing in 1yr (percent of GDP)	8.4	3.1	1.1
Interest rate risk	ATR (years)	4.7	6.5	5.9
	Debt refixing in 1yr (percent of total)	15.8	14.7	38.1
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	66.1
	T-bills (percent of total)	1.1	2.2	0.0
FX risk	FX debt (percent of total)	0.0	100.0	100.0

Note: Second table excludes the SOE Debt serviced by the central government, whose stock at end-December 2020 was relatively small (JOD 461 million).

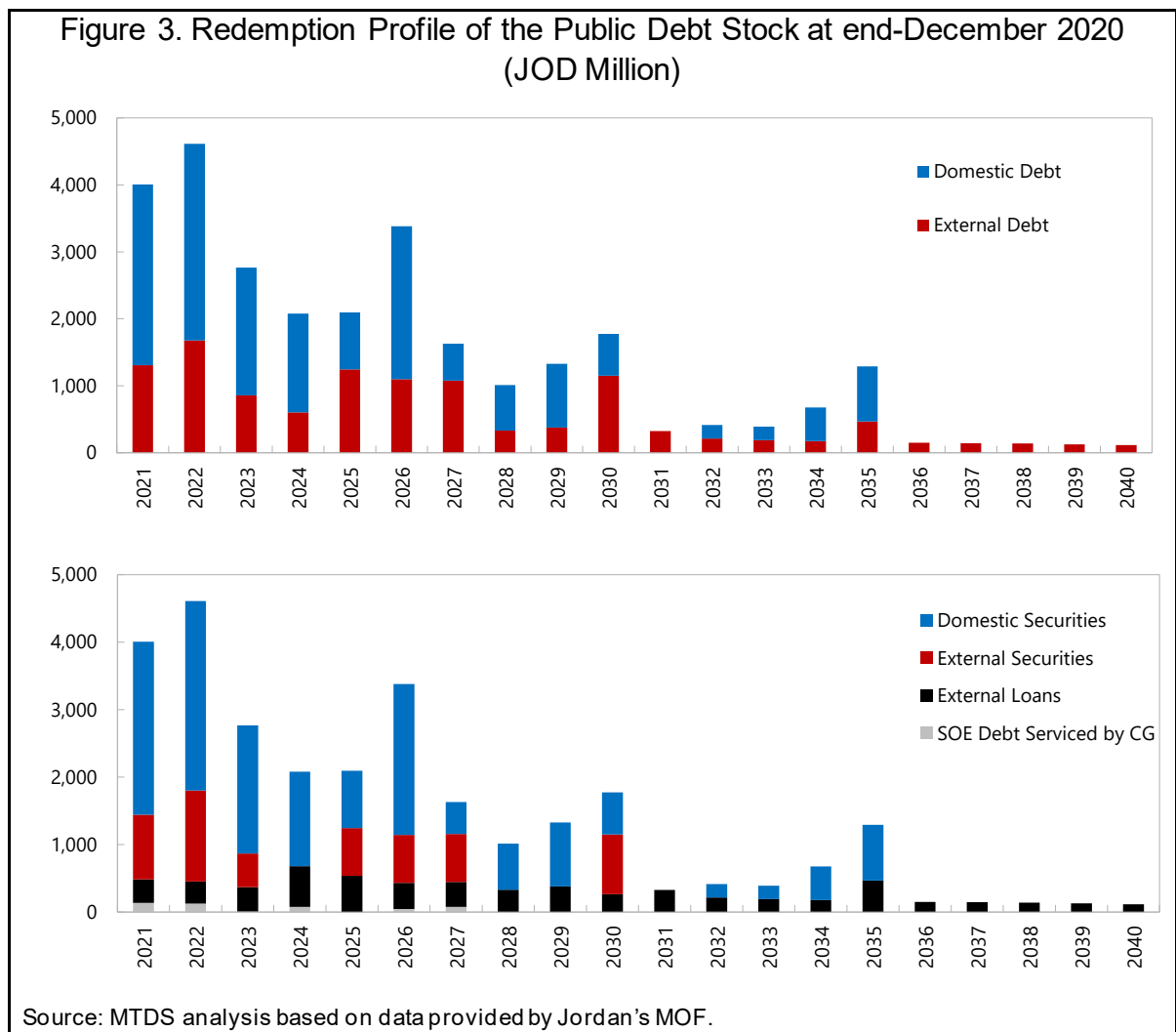
Source: MTDS analysis based on data provided by Jordan's MOF.

11. **The composition of the public debt portfolio as of end-December 2020 implies a moderate exposure to refinancing risk in the next few years.** Amortization payments corresponding to domestic and external T-Bonds (including a Eurobond) falling due in 2021–2023 that are currently expected to be rolled over at maturity. Overall, 37 percent of the existing liabilities will fall due in 2021–2023, and the financing conditions (e.g., liquidity, interest rates) are uncertain. More broadly, the public debt portfolio has an Average Time to

Maturity (ATM) of 6.5 years. ATM significantly varies across types of liabilities: ATM is 10.7 years for multilateral and bilateral loans; 6.5 years for external securities; and 4.7 years for domestic securities.

12. The redemption profile of the public debt portfolio exhibits some concentration of amortization payments falling due in 2021–2023 and 2026, with opportunities to smooth out debt-service obligations in the periods 2024–2025 and 2027–2030 (Figure 3).

The redemption profile illustrates the schedule of amortization payments falling due in future years, corresponding to liabilities outstanding at end-2020. While multilateral and bilateral loans exhibit a smoother repayment schedule, there is bunching of marketable securities with bullet payments due in 2021–2023 and 2026. Those future payments could be preemptively addressed with liability-management operations (see section III). The relatively-low repayment obligations scheduled for years 2024–2025 and 2027–2030 offer an opportunity to target those years for the maturity of new securities yet to be issued.



13. **The public debt portfolio is also moderately exposed to interest-rate risk in the next few years (see Table 2).** Most securities and loans carry fixed coupon and interest rates, an equally moderate exposure to interest-rate risk emerges from the ‘re-fixing’ of rates for those liabilities that are currently expected to be rolled over at maturity during the next three years (2021–2023). Overall, the public debt portfolio has an Average Time to Re-fixing (ATR) of 5.4 years and only 10 percent of existing debts carry floating interest rates (notably, International Bank for Reconstruction and Development and bilateral loans). ATR equals ATM for domestic and external securities, as these instruments carry fixed coupon rates. For multilateral and bilateral loans, which include liabilities with floating interest rates, the ATR is 5.9 years and thus lower than the ATM (10.7 years).

14. **Currency risk is mitigated by the long-lived fixed exchange rate regime (see Table 2).** Exposure to exchange-rate risk is moderate since 45 percent of the public debt portfolio consists of foreign currency-denominated liabilities. Nevertheless, the peg between the JOD and the USD preserves a stable value of the local currency against foreign currencies, and thus, significantly mitigates the size and likelihood of exchange-rate fluctuations (i.e., the underlying risk factor). This, in turn, reduces the vulnerability to currency risk and associated valuation effects on the public debt stock and debt-service flows.

C. Baseline Macroeconomic Assumptions

15. **Baseline macroeconomic assumptions used in the analysis for 2021–2025 are consistent with the government of Jordan commitments under the Extended Fund Facility (EFF).**⁵ A moderate economic recovery is expected in the next few years, with real GDP projected to grow at 3 percent per annum during the period 2021–2025. Starting in 2021, a gradual fiscal consolidation in the context of a multiyear framework will help narrow budget deficits and contain the rise in public debt. Economic recovery will increase revenue, while temporary stimulus measures taken in 2020 to cope with the COVID-19 pandemic are expected to be phased out. In addition, under the EFF, the government of Jordan is committed to pursue a fiscal program that targets a debt/GDP ratio of no more than 80 percent by 2025.

16. **Fiscal adjustment will gradually turn primary deficits into surpluses over the next few years (Table 3).** To achieve the program targets, the authorities are committed to implement a gradual fiscal consolidation of 4 percent of GDP over the program period, including 0.7 percent of GDP in 2021 and 1.1 percent of GDP each year during 2022–2024. The medium-term consolidation will be anchored in measures to further tighten sizable tax exemptions and rationalize current spending (including public sector size and compensation), while protecting the most vulnerable. For 2021, the government of Jordan is expected to

⁵ Baseline macroeconomic and fiscal projections utilized for the MTDS analysis are sourced from the IMF First Review Under the EFF (January 2021, IMF Country Report No 21/11).

achieve a primary deficit (including fiscal measures) of 1.2 percent of GDP, thus halving the deficit of 2.5 of GDP, observed in 2020. The gradual fiscal consolidation is anticipated to deliver a nearly-balanced primary budget in 2022–2023 and a primary surplus of 1.8 percent of GDP (on average) in 2024–2025.

Table 3. Key Macroeconomic Assumptions for 2021-2025 (JOD Million)

	2021	2022	2023	2024	2025
Revenue	7,822	8,250	8,370	8,821	9,257
Primary expenditure (excl.interests)	8,445	8,919	9,310	9,689	10,079
Fiscal measures	231	598	1,007	1,444	1,649
Primary deficit after fiscal measures	392	71	-67	-576	-827
Non-budgeted expenses (e.g., advances to water sector)	401	387	266	322	303
Memo: Settlement of spending arrears	222	225	213	188	14
GDP at current prices	31,814	33,419	35,302	37,394	39,594

Source: IMF Country Report No 21/11 and data provided by Jordan's MOF.

17. **Extra-budgetary spending will be gradually contained as well, while expenditure arrears are settled (see Table 3).** The government of Jordan is expected to continue supporting the water sector through advances to WAJ. The associated annual (un-budgeted) spending is to be reduced from 1.4 percent of GDP in 2020 to 0.8 percent of GDP by 2025. Besides, the government plans to settle expenditure arrears totaling JOD 756 million. The attendant annual payments (including principal due and estimated interests) are expected to be 0.5 percent of GDP (on average) during 2021–2025, according to information received during the mission. In the MTDS analysis, the estimated funding needs include the advances to the water sector; however, funding needs exclude the planned settlement of expenditure arrears because the information was received towards the end of the mission and the overall results were not significantly affected.

D. Representative Debt Instruments and Baseline Assumptions for Interest Rates and Exchange Rates

18. **Eighteen stylized instruments are formulated to represent both the current structure of the public debt portfolio and the future financing strategies (Table 4).** Stylized, representative debt instruments are used in the MTDS analysis to summarize the main features of the many securities and loans included in the public debt portfolio, e.g., their cost-risk profile, average financing terms, and (aggregated) debt-service obligations stemming from existing liabilities. In addition, these instruments are utilized to formulate the future financing strategies assessed in the MTDS analysis, e.g., to identify shares of gross borrowing requirements to be met with each instrument during 2021–2025, and to project the debt-service obligations associated with the new liabilities on the basis of their assumed financing terms.

**Table 4. Representative Debt Instruments in the MTDS Analysis
Financing Terms and Assumed Interest Rates for New Issuances in 2021–2025**

Representative Debt Instrument	Debt Stock at end-Dec. 2020 (JOD Million)	Share of Total Debt (Percent)	Currency	Maturity (years)	Grace (years)	Interest Rate Type	Semi- concessional Terms?	Assumed Interest Rate for New Issuances in 2021-2025 (Percent)	Average Interest Rate in Current Public Debt Portfolio (Percent)	Average Coupon Rate for Recent Issuances Jan-May 2021 (Percent)
Domestic T-Bonds JOD 15 YR	1,725	5.8	JOD	15	14	Fixed	No	6.5	6.5	5.7
Domestic T-Bonds JOD 10 YR	3,816	12.8	JOD	10	9	Fixed	No	6.0	6.2	4.5
Domestic T-Bonds JOD 7 YR	3,275	11.0	JOD	7	6	Fixed	No	5.5	5.6	n.a.
Domestic T-Bonds JOD 5 YR	3,703	12.5	JOD	5	4	Fixed	No	5.0	4.7	3.6
Domestic T-Bonds JOD 2-3 YR	3,525	11.9	JOD	2	1	Fixed	No	4.0	4.0	3.0
Domestic T-Bills JOD	175	0.6	JOD	1	0	Fixed	No	2.3	2.3	n.a.
External T-Bonds USD 10-30 YR	3,373	11.4	USD	10	9	Fixed	No	6.0	5.9	n.a.
External T-Bonds USD 5-7 YR	2,734	9.2	USD	5	4	Fixed	No	5.0	3.8	n.a.
External T-Bonds USD 3 YR	284	1.0	USD	3	2	Fixed	No	4.0	n.a.	n.a.
External T-Bills USD	142	0.5	USD	1	0	Fixed	No	2.3	n.a.	n.a.
External Mult. Loans - IBRD	2,360	7.9	USD	30	6	Variable	Yes	1.5	1.2	n.a.
External Mult. Loans - IMF	737	2.5	USD	8	4	Fixed	No	1.0	1.0	n.a.
External Mult. Loans - Others	1,095	3.7	USD	20	5	Fixed	Yes	1.5	1.6	n.a.
External Bilateral Loans - EU	1,346	4.5	EUR	25	12	Fixed	Yes	1.5	1.9	n.a.
External Bilateral Loans - Japan	862	2.9	JPY	25	8	Fixed	Yes	1.2	1.2	n.a.
External Bilateral Loans - Others	554	1.9	USD	20	7	Fixed	Yes	1.0	1.1	n.a.
Domestic SOE Bonds & Loans Serviced by CG	461	1.6	JOD	6	3	Fixed	No	6.0	5.8	n.a.
External SOE Bonds & Loans Serviced by CG	0	0.0	USD	15	4	Fixed	No	6.0	n.a.	n.a.

Note: IBRD loans assumed to carry a 1.5 percent interest rate comprising USD 6-month LIBOR plus a fixed margin.

Source: MTDS analysis.

19. **T-Bills and T-Bonds are represented by six stylized instruments of different maturities (see Table 4).** All marketable securities are denominated in JOD and carry fixed coupon rates, with their maturities ranging from 1 year for (rolled over) T-Bills to 15 years for T-Bonds. The new security issuances envisaged in the MTDS analysis for the period 2021–2025 are assumed to command coupon rates that (i) are aligned with the average interest rates implicit in the current public debt portfolio, and (ii) are constant during that period (see last columns in Table 4). Coupon rates assumed range from 4 percent for T-Bonds with short maturities (2–3 years) to 6.5 percent for T-Bonds with long maturities (15 years).⁶

20. **FX-denominated securities (T-Bills and T-Bonds) are represented by four stylized instruments of different maturities (see Table 4).** All these marketable securities are denominated in USD and carry fixed coupon rates, with their maturities ranging from one year for (rolled over) T-Bills to 30 years for T-Bonds.⁷ Coupon rates for new security issuances are also assumed to remain constant at a level similar to the average interest rates implicit in the current public debt portfolio. Coupon rates are assumed range from 4 percent for T-Bonds with short maturities (3 years) to 6 percent for T-Bonds with long maturities (10 to 30 years).

21. **Multilateral and bilateral loans are represented by six stylized instruments whose financing terms reflect those of loans contracted recently (see Table 4).** Loans are denominated in foreign currencies (USD, EUR, and JPY) depending on the multilateral or bilateral creditor. These liabilities carry fixed interest rates, with the exception of IBRD loans contracted with floating interest rates. Maturities range from 8 to 30 years. Overall, the assumed financing terms (i.e., currency, maturity, grace, and type of interest rate) are similar to the semi-concessional terms observed in loans contracted in past years. Information on planned disbursements from loans already contracted was not available at the time of the mission.

22. **Bonds and loans of SOEs that are assumed to be serviced by the central government are represented of two instruments, which are of secondary importance in the MTDS analysis (see Table 4).** Assumed financing terms for these liabilities are based on average terms observed in the current public debt portfolio.

23. **The exchange rate peg between the JOD and the USD is assumed to remain in place in the baseline scenario.** In addition, the exchange rates among the three foreign

⁶ The assumed coupon rates for T-Bonds are slightly higher than those rates observed in the most recent issuances that took place between January and May 2021. The SSIF is a major investor in domestic securities, whose holdings currently amount to 20 percent of GDP and absorb 57 percent of its total assets.

⁷ The MTDS analysis is based on an annual frequency and thus maturity must be at least one year. Thus, T-Bills having maturities of less than 12 months are assumed to be rolled over within any given year.

currencies in which external loans are denominated (i.e., USD, EUR, and JPY) are also assumed to remain stable at their current values. Risk scenarios contemplate shocks to the parities between the JOD and these three foreign currencies.

E. Shock Scenarios

24. **The MTDS analysis calibrates four shock scenarios with higher-than-expected interest and exchange rates.** Baseline and shock scenarios permit to assess the performance of alternative financing strategies under different market and pricing conditions.

- The first risk scenario considers a large, one-time shock to exchange rates: The JOD is assumed to depreciate vis-à-vis the USD (and other foreign currencies) by 30 percent in 2022; subsequently, the exchange rate is assumed to remain stable at the level reached following the depreciation.
- The second risk scenario contemplates a moderate, permanent shock to market-determined interest rates: The coupon rates of domestic securities (T-Bills and T-Bonds) is assumed to increase by 200 basis points (2 percentage points) in 2022–2025, while those of external securities are assumed to increase by 100 basis points (1 percentage point).
- The third risk scenario contemplates a large, permanent shock to market-determined interest rates: The coupon rates of domestic securities are assumed to increase by 400 basis points (4 percentage points) in 2022–2025, while those of external securities are assumed to increase by 200 basis points (2 percentage points).
- The fourth risk scenario combines a moderate, one-time shock to exchange rates with a moderate, permanent shock to market-determined interest rates: The JOD is assumed to depreciate vis-à-vis the USD by 15 percent in 2022, while the coupon rates of domestic and external securities are assumed to increase by 200 and 100 basis points (2 and 1 percentage points), respectively, in 2022–2025.

25. **While a currency depreciation may be regarded as a “tail event” higher-than-expected interest rates are not as unlikely.** Risk scenarios that assume a currency depreciation are valuable for analytical and risk management purposes and reflect sound practice in MTDS analysis. Risk scenarios with higher interest rates are also central to MTDS analysis.

F. Alternative Financing Strategies

26. **The MTDS analysis contemplates four financing strategies that seek different objectives.** Alternative financing strategies are guided by different objectives concerning the stability of debt stocks and flows, and the development of government securities. Strategies represent alternative ways of financing the government during the period 2021–2025. The

four financing strategies are formulated in terms of new issuances of the representative debt instruments during the projection period. The new issuances for each debt instrument are expressed as proportions (shares) of the gross borrowing requirements. These requirements are themselves affected by the future debt-service obligations associated with the existing and new liabilities. Size and timing of debt-service obligations depend on the actual financing terms of the existing liabilities, the assumed terms for the new liabilities, and the market and pricing conditions prevailing in each of the five scenarios.

27. **The first strategy (S1) aims to preserve the end-2020 structure of the public debt portfolio in terms of debt instruments over the medium-term (Table 5).** Thus, S1 is ‘status quo’ strategy in relation to the stocks of debt instruments—whose shares in the total public debt are constant between 2020 and 2025.

28. **The second strategy (S2) seeks to achieve the government of Jordan’s planned borrowings in 2021 committed under the EFF and prolong them over the medium term (see Table 5).** It stabilizes the shares of new issuances of debt instruments in the annual gross borrowing requirements at the levels envisaged for 2021. Thus, S2 is ‘status quo’ strategy in relation to the issuance flow of debt instruments—whose shares in the total annual gross borrowing requirements are constant between 2021 and 2025.

29. **The third strategy (S3) aims to further develop markets for domestic (JOD-denominated) securities (see Table 5).** Such an objective is pursued by expanding the use of JOD-denominated T-Bills and T-Bonds for the financing of fiscal deficits and un-budgeted expenditures (e.g., advances to the water sector). Thus, the stock of domestic securities increases over the medium term, in line with the net borrowing flows. Other debt instruments are rolled over at maturity, so their nominal stocks remain constant between 2020 and 2025. The authorities indicated a preference for limiting local-currency borrowing—e.g., to avoid crowding out the private sector—and hence the strategy S3 departs somewhat from their desired objective.

30. **The fourth strategy (S4) seeks to further support markets for long-term securities—both domestic and external (see Table 5).** This goal is pursued by increasing the use of T-Bonds with maturities of 7 or more years, for the financing of fiscal deficits and un-budgeted expenditures (e.g., advances to the water sector). Thus, the stock of long-term securities grows over the medium term, in line with the net borrowing flows. Other debt instruments are rolled over at maturity and their nominal stocks remain constant in the period 2020-2025. The authorities expressed concern about the moderate exposure to refinancing risks stemming from the current portfolio of T-Bills and T-Bonds, and the strategy S4 seeks to gradually reduce such exposure.

Table 5. Borrowing Flows and Debt Stocks Under Alternative Financing Strategies in the Baseline Scenario

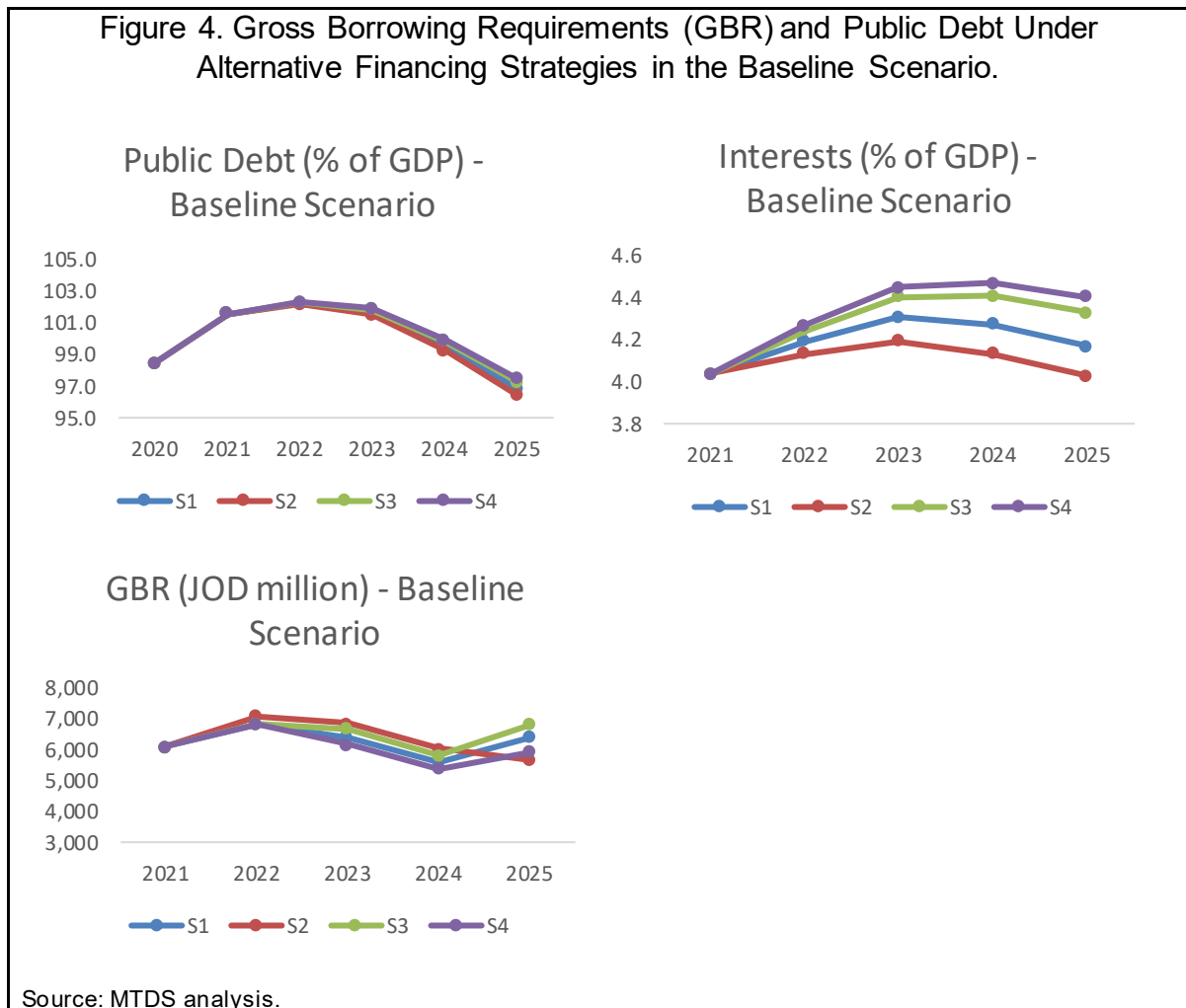
	STRATEGY 1								STRATEGY 2							
	Borrowing Flow Average 2021-2025		Net Borrowing Flow Average 2021-2025		Debt Stock At end-Dec.2020		Debt Stock At end-Dec.2025		Borrowing Flow Average 2021-2025		Net Borrowing Flow Average 2021-2025		Debt Stock At end-Dec.2020		Debt Stock At end-Dec.2025	
	JOD million	% of GBR	JOD million	% of NBR	JOD million	% of Total	JOD million	% of Total	JOD million	% of GBR	JOD million	% of NBR	JOD million	% of Total	JOD million	% of Total
Total	6,255	100.0%	1,636	100.0%	30,166	100.0%	38,346	100.0%	6,330	100.0%	1,602	100.0%	30,166	100.0%	38,178	100.0%
Domestic T-Bonds JOD 15 YR	93	1.5%	93	5.7%	1,725	5.7%	2,190	5.7%	546	8.6%	546	34.0%	1,725	5.7%	4,453	11.7%
Domestic T-Bonds JOD 10 YR	206	3.3%	206	12.6%	3,816	12.7%	4,844	12.6%	455	7.2%	455	28.4%	3,816	12.7%	6,090	16.0%
Domestic T-Bonds JOD 7 YR	601	9.6%	176	10.8%	3,275	10.9%	4,157	10.8%	409	6.5%	-16	-1.0%	3,275	10.9%	3,196	8.4%
Domestic T-Bonds JOD 5 YR	939	15.2%	199	12.2%	3,703	12.3%	4,700	12.3%	500	7.9%	-240	-15.0%	3,703	12.3%	2,505	6.6%
Domestic T-Bonds JOD 2-3 YR	2,046	32.8%	190	11.6%	3,525	11.7%	4,474	11.7%	1,750	27.7%	-60	-3.7%	3,525	11.7%	3,227	8.5%
Domestic T-Bills JOD	206	3.3%	9	0.6%	175	0.6%	222	0.6%	637	10.1%	79	4.9%	175	0.6%	569	1.5%
External T-Bonds USD 10-30 YR	253	4.0%	182	11.1%	3,373	11.2%	4,281	11.2%	0	0.0%	-71	-4.4%	3,373	11.2%	3,018	7.9%
External T-Bonds USD 5-7 YR	694	10.8%	147	9.0%	2,734	9.1%	3,470	9.0%	741	11.7%	195	12.2%	2,734	9.1%	3,707	9.7%
External T-Bonds USD 3 YR	136	2.1%	15	0.9%	284	0.9%	360	0.9%	0	0.0%	-57	-3.5%	284	0.9%	0	0.0%
External T-Bills USD	167	2.7%	8	0.5%	142	0.5%	180	0.5%	0	0.0%	-28	-1.8%	142	0.5%	0	0.0%
External Mult. Loans - IBRD	216	3.5%	127	7.8%	2,360	7.8%	2,996	7.8%	226	3.6%	136	8.5%	2,360	7.8%	3,042	8.0%
External Mult. Loans - IMF	156	2.6%	40	2.4%	737	2.4%	935	2.4%	266	4.2%	149	9.3%	737	2.4%	1,483	3.9%
External Mult. Loans - Others	134	2.1%	59	3.6%	1,095	3.6%	1,389	3.6%	217	3.4%	142	8.9%	1,095	3.6%	1,804	4.7%
External Bilateral Loans - EU	166	2.7%	72	4.4%	1,346	4.5%	1,709	4.5%	342	5.4%	248	15.5%	1,346	4.5%	2,587	6.8%
External Bilateral Loans - Japan	88	1.4%	54	3.3%	862	2.9%	1,133	3.0%	64	1.0%	31	1.9%	862	2.9%	1,015	2.7%
External Bilateral Loans - Others	50	0.8%	34	2.0%	554	1.8%	721	1.9%	178	2.8%	162	10.1%	554	1.8%	1,362	3.6%
Domestic SOE Bonds & Loans Serviced by CG	104	1.7%	25	1.5%	461	1.5%	585	1.5%	0	0.0%	-68	-4.3%	461	1.5%	120	0.3%
External SOE Bonds & Loans Serviced by CG	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

	STRATEGY 3								STRATEGY 4							
	Borrowing Flow Average 2021-2025		Net Borrowing Flow Average 2021-2025		Debt Stock At end-Dec.2020		Debt Stock At end-Dec.2025		Borrowing Flow Average 2021-2025		Net Borrowing Flow Average 2021-2025		Debt Stock At end-Dec.2020		Debt Stock At end-Dec.2025	
	JOD million	% of GBR	JOD million	% of NBR	JOD million	% of Total	JOD million	% of Total	JOD million	% of GBR	JOD million	% of NBR	JOD million	% of Total	JOD million	% of Total
Total	6,438	100.0%	1,670	100.0%	30,166	100.0%	38,514	100.0%	6,074	100.0%	1,685	100.0%	30,166	100.0%	38,589	100.0%
Domestic T-Bonds JOD 15 YR	176	2.8%	176	10.6%	1,725	5.7%	2,607	6.8%	0	0.0%	0	0.0%	1,725	5.7%	1,725	4.5%
Domestic T-Bonds JOD 10 YR	390	6.1%	390	23.4%	3,816	12.7%	5,767	15.0%	418	6.9%	418	24.8%	3,816	12.7%	5,908	15.3%
Domestic T-Bonds JOD 7 YR	760	11.7%	335	20.1%	3,275	10.9%	4,949	12.9%	843	13.9%	418	24.8%	3,275	10.9%	5,366	13.9%
Domestic T-Bonds JOD 5 YR	1,118	17.7%	379	22.7%	3,703	12.3%	5,596	14.5%	740	12.3%	0	0.0%	3,703	12.3%	3,703	9.6%
Domestic T-Bonds JOD 2-3 YR	2,374	36.8%	360	21.6%	3,525	11.7%	5,327	13.8%	1,675	27.7%	0	0.0%	3,525	11.7%	3,525	9.1%
Domestic T-Bills JOD	234	3.6%	18	1.1%	175	0.6%	264	0.7%	175	2.9%	0	0.0%	175	0.6%	175	0.5%
External T-Bonds USD 10-30 YR	71	1.0%	0	0.0%	3,373	11.2%	3,373	8.8%	489	8.1%	418	24.8%	3,373	11.2%	5,464	14.2%
External T-Bonds USD 5-7 YR	547	8.3%	0	0.0%	2,734	9.1%	2,734	7.1%	965	15.5%	418	24.8%	2,734	9.1%	4,825	12.5%
External T-Bonds USD 3 YR	114	1.7%	0	0.0%	284	0.9%	284	0.7%	114	1.8%	0	0.0%	284	0.9%	284	0.7%
External T-Bills USD	142	2.2%	0	0.0%	142	0.5%	142	0.4%	142	2.4%	0	0.0%	142	0.5%	142	0.4%
External Mult. Loans - IBRD	89	1.4%	0	0.0%	2,360	7.8%	2,360	6.1%	89	1.5%	0	0.0%	2,360	7.8%	2,360	6.1%
External Mult. Loans - IMF	116	1.9%	0	0.0%	737	2.4%	737	1.9%	116	2.0%	0	0.0%	737	2.4%	737	1.9%
External Mult. Loans - Others	75	1.2%	0	0.0%	1,095	3.6%	1,095	2.8%	75	1.2%	0	0.0%	1,095	3.6%	1,095	2.8%
External Bilateral Loans - EU	94	1.5%	0	0.0%	1,346	4.5%	1,346	3.5%	94	1.6%	0	0.0%	1,346	4.5%	1,346	3.5%
External Bilateral Loans - Japan	42	0.6%	0	0.0%	862	2.9%	862	2.3%	42	0.7%	0	0.0%	862	2.9%	862	2.3%
External Bilateral Loans - Others	20	0.3%	0	0.0%	554	1.8%	554	1.5%	20	0.3%	0	0.0%	554	1.8%	554	1.5%
Domestic SOE Bonds & Loans Serviced by CG	77	1.2%	0	0.0%	461	1.5%	461	1.2%	77	1.3%	0	0.0%	461	1.5%	461	1.2%
External SOE Bonds & Loans Serviced by CG	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

Source: MTDS analysis.

G. Performance and Evaluation of Financing Strategies

31. Under the baseline scenario, all four financing strategies deliver a temporary increase in the public debt-to-GDP ratio until 2022, and a declining path over the medium term (Figure 4). The baseline scenario is defined by the macroeconomic assumptions and market and pricing conditions in the period 2021–2025 presented earlier in this report. In this scenario, the public debt is expected to increase from 98.4 percent of GDP in 2020 to around 102.2 percent of GDP by 2022. Next, it decreases to a level around 97 percent of GDP—depending on each strategy, with a minimum of 96.4 percent for S2 and a maximum of 97.5 percent of GDP for S4.



32. Under the baseline scenario, strategy S2 outperforms the other strategies in relation to the interest burden and the gross borrowing requirements (see Figure 4). The projected public debt portfolio under S2 delivers the lowest annual interest burden (measured relative to GDP) among the four financing strategies, throughout the period 2021–2025. On the other hand, the average annual gross borrowing requirements between 2021 and

2025 are similar across the four strategies—ranging from JOD 6,074 million in S4 to JOD 6,438 million in S3. However, S2 outperforms the other strategies since it is the only one exhibiting a declining path of gross borrowing requirements over the medium term.

33. **The performance of the four financing strategies under the baseline scenario is assessed using cost-risk indicators (Table 6).** Indicators are calculated for the public debt portfolios projected for end-December 2025. The projected portfolios are obtained through simulations that combine each financing strategy with the baseline scenario’s macroeconomic assumptions and market and pricing conditions in the period 2022–2025.

Table 6. Cost and Risk Indicators of the Public Debt Stock at end-December 2025 Estimated Under Alternative Financing Strategies in the Baseline Scenario

Risk Indicators		Public Debt Portfolio				
		At end-Dec.2020 (current)	At end-Dec.2025			
			S1	S2	S3	S4
Nominal debt as percent of GDP		98.4	96.8	96.4	97.3	97.5
Cost of debt	Interest payment as percent of GDP	4.2	4.2	4.0	4.3	4.4
	Weighted Av. IR (percent)	4.3	4.4	4.3	4.6	4.7
Refinancing risk	ATM (years)	6.5	5.2	6.4	4.8	5.0
	Debt maturing in 1yr (percent of total)	13.3	21.3	18.0	22.0	20.0
	Debt maturing in 1yr (percent of GDP)	13.1	20.6	17.3	21.4	19.5
Interest rate risk	ATR (years)	5.4	4.2	5.4	4.1	4.2
	Debt refixing in 1yr (percent of total)	20.9	28.8	25.7	27.9	25.9
	Fixed rate debt incl T-bills (percent of total)	92.2	92.2	92.0	93.9	93.9
	T-bills (percent of total)	1.1	1.0	1.5	1.1	0.8
FX risk	FX debt (percent of total)	44.7	44.8	47.2	35.2	45.9

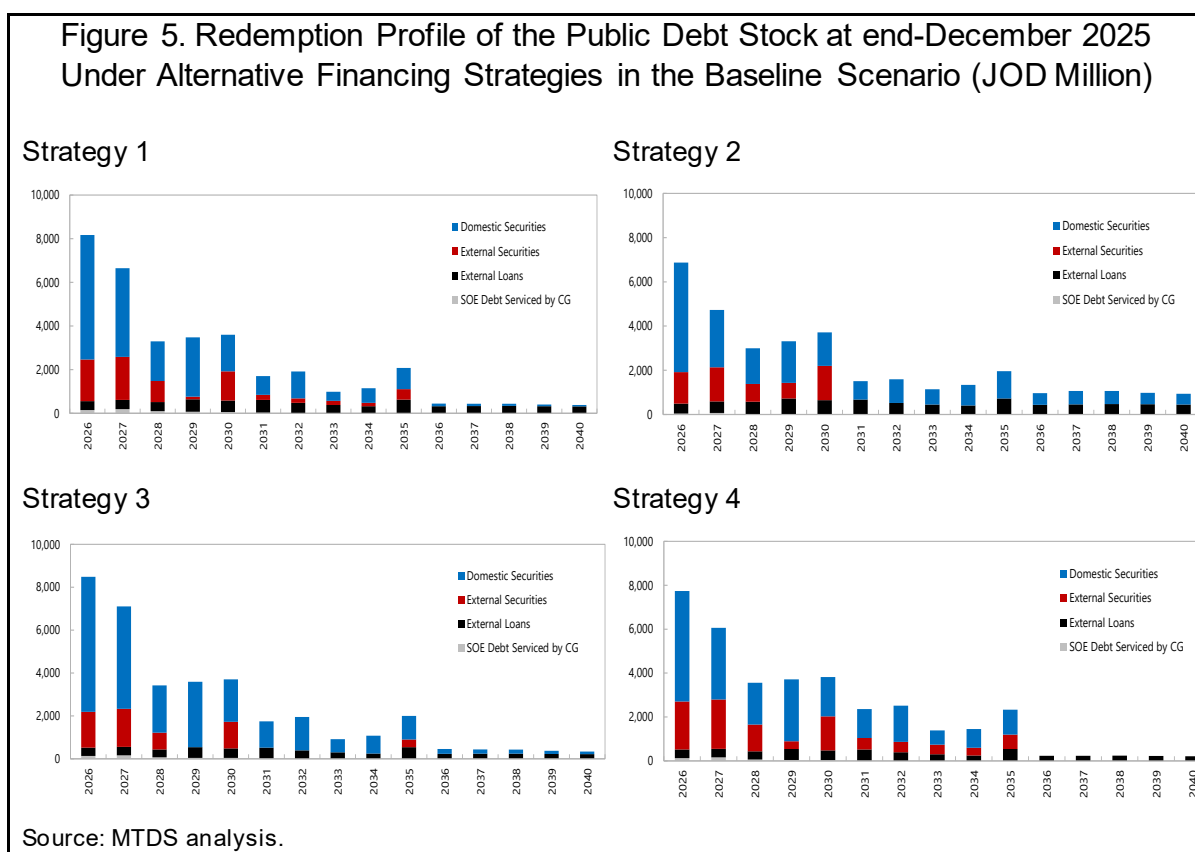
Source: MTDS analysis.

34. **The cost of debt indicators is projected to improve a little under strategy S2 (see Table 6).** The public debt portfolio at end-December 2025 projected under S2 carries a weighted average interest rate of 4.3 percent, which is similar to the average cost of the current portfolio and the lowest value across all four strategies. With S2, the projected interest payments would amount to 4 percent of GDP, which implies a reduction in the interest burden relative to the current burden (4.2 percent); in addition, it outperforms the other strategies.

35. **Exposure to refinancing risk under strategy S2 is the smallest among all four strategies (see Table 6).** The public debt portfolio at end-December 2025 associated with S2 exhibits an ATM of 6.4 years, which is similar to the ATM of the current portfolio and the highest value across all four strategies. For the projected portfolio under S2, the share of total liabilities maturing in 2026 (i.e., in 12 months or less) is 18 percent, and the share maturing in 2026–2028 (i.e., in 3 years or less) is 38 percent. While these shares are broadly similar to those of the current portfolio (13.3 percent and 37 percent, respectively), they largely

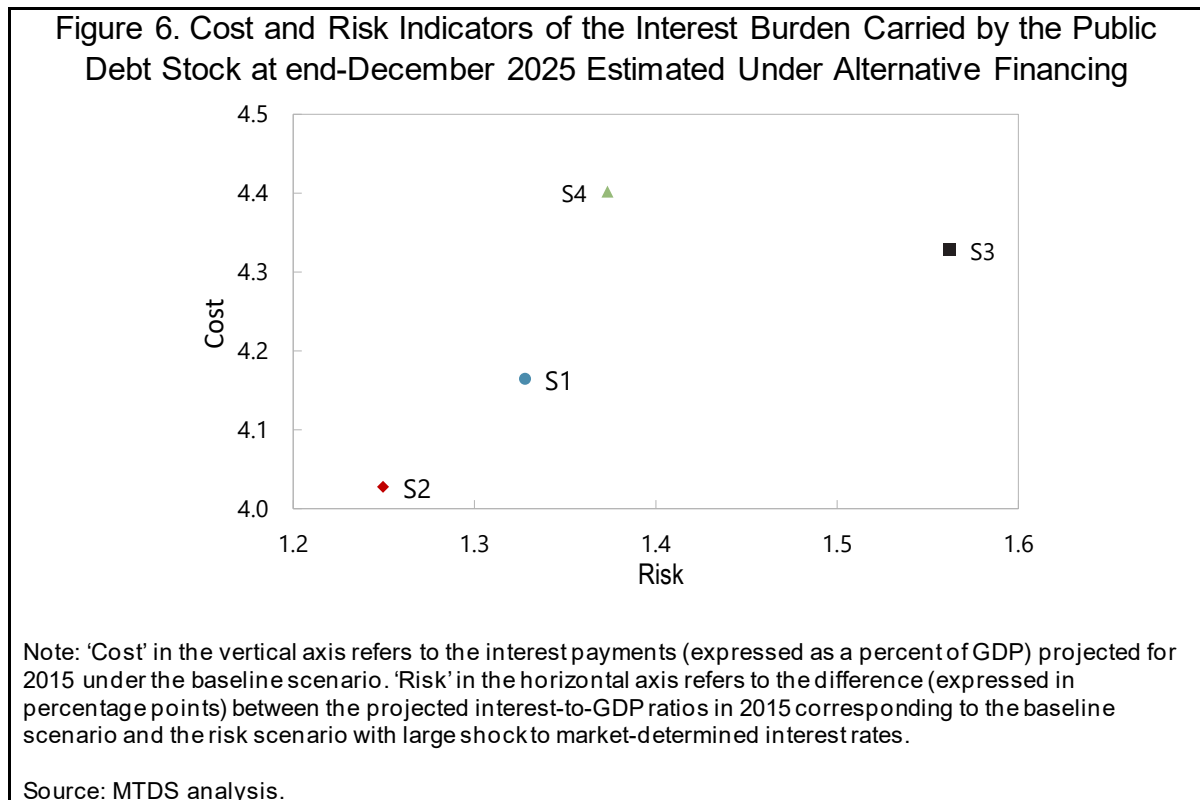
outperform the other strategies. S2 is then expected to maintain the degree of exposure to refinancing risks embedded in the current public debt portfolio. The other strategies, instead, will increase such exposure over the medium term.

36. **The redemption profile of the public debt portfolio projected for end-December 2025 is more favorable under Strategy 2 (Figure 5).** Strategy S2 yields a lower and a smoother schedule of amortization obligations due from 2026 onwards, compared to the other strategies. During 2026–2030, the average annual amortization obligations for the projected portfolio under S2 is JOD 4,325 million, while the other strategies yield estimates above JOD 5,000 million.



37. **Exposure to interest-rate risk under strategy 2 is also the smallest among all four strategies (see Table 6).** The public debt portfolio at end-December 2025 associated with S2 presents an ATR of 5.4 years, which is similar to the ATR of the end-2020 debt portfolio and the highest value across all four strategies. Thus, S2 would tend to maintain the current degree of exposure to interest-rate risk stemming from ‘re-fixing’ of coupon and interest rates when maturing liabilities are rolled over. On the other hand, a higher exposure will result from the other strategies over the medium term.

38. **The performance of the four financing strategies is also evaluated by comparing interest burdens across the baseline and risk scenarios.** In this exercise, the ‘cost’ of a given financing strategy is measured by the interest payments in 2025 projected under baseline scenario (Figure 6, vertical axis). The ‘risk’ of that strategy refers to the increase in the projected interest payments in 2025 caused by the most-adverse shock. Thus, the ‘risk’ (Figure 6, horizontal axis) is calculated as the difference between (i) the projected interest burden in 2025 under the most-adverse shock scenario (i.e., the worst-case scenario) and (ii) the projected interest burden in 2025 under the baseline scenario. For all four strategies, the most-adverse scenario is the scenario assuming a large, permanent shock to market-determined interest rates.



39. **Strategy 2 exhibits the lowest ‘cost’ and ‘risk’ estimates when assessing the performance of financing strategies in terms of their interest burdens.** Under the baseline scenario, the strategy S2 delivers a public debt portfolio at end-December 2025 whose interest burden (4 percent of GDP) is the lowest among all four strategies. If a large shock to interest rate materializes, the interest burden in 2025 is expected to worsen in all cases. In particular, the interest-to-GDP ratio raises by 1.25 percentage points in S2, and by more than 1.32 percentage points in the other strategies. Thus, the additional interest burden is the lowest for the portfolio associated with S2. Strategy S2 then outperforms the other strategies in terms of both ‘cost’ and ‘risk’ metrics

40. **Any borrowing strategy that seeks to increase its reliance on medium-to-long term domestic debt tenors will face absorption capacity challenges.** Per anecdotal evidence relayed to the mission, commercial banks seem to have become wary to purchase larger amounts of domestic bonds citing both prudential supervision and rate of return concerns. Nevertheless, recent domestic issuances have been oversubscribed. The SSIF, a major investor in domestic securities, whose holdings currently amount to 20 percent of GDP, absorbs 57 percent of its total assets in government securities, and has room to scale up bond purchases before its cap on government bonds exposure becomes binding. Going forward, sustained effort needs to be applied to help foster domestic debt development and liquidity enhancement policies.

III. LIABILITY MANAGEMENT

A. Current Market Environment

41. **Jordan has accessed the Eurobond market on a regular basis.** Current external bonds outstanding amount to a par value of \$6.25bn (Table 7). Jordan is currently rated B1/B+/BB- by the three major ratings agencies (Moody's, Standard & Poor's, and Fitch, respectively). In July 2020 Jordan issued a two-tranche bond for a total of \$1.75bn. These bonds have performed well in the market, with spreads to the UST curve tightening significantly since issuance. This deal was said to have been oversubscribed 6 times over asking offer.

Table 7. Jordan: Outstanding External Eurobonds (USD millions)

Par Amount	Maturity Date	Coupon %	Currency	Issuance Date
1,000	6/30/22	2.578	USD	6/30/15
500	6/30/25	3.00	USD	6/30/15
500	7/7/25	4.95	USD	7/07/20
1,000	1/29/26	6.125	USD	11/10/15
1,000	1/31/27	5.75	USD	11/01/16
1,250	7/7/30	5.85	USD	7/07/20
1,000	10/10/47	7.375	USD	10/10/17
6,250				

Sources: Bloomberg, and Jordan MoF.

42. **Jordan has a \$1billion Eurobond maturing in June 2022.** The bond was issued in 2015 under a Loan Guarantee Agreement (LGA) with the U.S. government and, for this reason, trades much closer to the UST curve than a stand-alone Jordan issue. Based on 4/29/21 quotes on Bloomberg, the most recently issued 10-year non-guaranteed maturity

(issued in 2020) trades at a spread over the UST curve of approximately 365bps, versus an original issue spread over 500bps. All outstanding external bond issues by the sovereign are currently trading at a premium dollar price.

B. Considerations for Conducting Liability Management Operations⁸

43. **Jordan is evaluating options for a liability management operation involving the 2022 Eurobond.** The mission discussed with the PDD team a simple framework that can be used to evaluate and compare different options, including an option to buy-back the existing Eurobond(s) ahead of redemption, and an option for a traditional refinancing when due (see Box 1 for an illustrative LMO scenario⁹).

⁸ See Appendix 1 for a fuller discussion of sound LMO practices.

⁹ The target of the potential LMO exercise was identified as the 2022 Eurobond by the authorities in pre-mission and during the mission discussions. In any case, the quantitative tool (based on an Excel spreadsheet) can accommodate any target debt instrument (including domestic bonds), and training and guidance on future use was provided to staff to that extent.

Box 1. Illustrative LMO Scenario

The following scenario is based on the following assumptions:

- Target Bond: The \$1bn 2.578 percent Coupon Bond maturing on June 30, 2022
- Price offered on Target: 103 (a small premium over the quoted market price of 102.79 on 4/29/21, according to Bloomberg Data)
- New Issue: A new, non-guaranteed bond issued at a price of par (100) with a coupon of 5 percent and a maturity date of Sep 30, 2029
- Date of transaction: September 30, 2021. Size of transaction: \$1bn

Target	(Old Bond)			New Eurobond without guarantee		
	Par Amount	1,000,000,000		Par Amount	1,000,000,000	
	Coupon	2.578%		Coupon	5.00%	
	Price			Price		
	Maturity	6/30/2022		Maturity	9/30/2029	
	Interest	Principal	NPV	Interest	Principal	NPV
	12,890,000		12,775,025			
				25,000,000		24,390,244
	12,890,000	1,000,000,000	994,901,192			
				25,000,000		23,795,360
				25,000,000		23,214,985
				25,000,000		22,648,766
				25,000,000		22,096,357
				25,000,000		21,557,422
				25,000,000		21,031,631
				25,000,000		20,518,664
				25,000,000		20,018,209
				25,000,000		19,529,960
				25,000,000		19,053,620
				25,000,000		18,588,897
				25,000,000		18,135,509
				25,000,000		17,693,180
				25,000,000		17,261,639
				25,000,000	1,000,000,000	690,465,557
Total	25,780,000		1,007,676,216	400,000,000		1,000,000,000

Results of LMO:

Cash flow in \$2,007.7mn

Cash flow out: \$2,030.0mn

This transaction has no obvious financial benefit to the issuer under the current set of assumptions. The cash outflow (price paid for Target, plus the PV of the principal and interest paid on the new issue) exceeds the cash inflow by over \$22.3mn on the full outstanding amount of the Target of \$1.0bn. The transaction is not likely to achieve 100 percent take-up, and so the final financials are unknown and can only be estimated at this time.

Source: IMF staff.

44. **The mission advised the PDD to prepare a LMO Policy document.** A LMO Policy should be a precondition for undertaking any LMO transaction. The Policy should, at a minimum, state the objective of LMO transactions, and make clear that PDD has the necessary authority to undertake LMO. The mission also noted it is unlikely that LMO involving Eurobonds would yield sizable financial savings for the country and that, for that

reason, countries that have issued Eurobonds do not generally anchor their LMO Policy on cost-saving considerations. Smoothing out the maturity profile of the debt is a preferable objective.

45. **A LMO transaction involves issuing a new bond to buy back the old one.** Once the LMO Policy is in place, the process is much the same as for any issuance. A legal advisor must be hired to work on the prospectus for the new bond, (as well as the legal documentation for the LMO) while the PDD must work on the disclosure section of the prospectus, and process any data received from counterparts at the various SOEs and other authorities (the central bank is always a key counterpart in this regard). An investment advisor should also be hired, preferably one with experience in LMO transactions. This investment advisor can also be one of the team of investment advisors who work on the new bond issuance. Standings in the relevant League Table and secondary market activity are key criteria in this process. Investment advisors usually work in three general areas: documentation (mainly legal), logistics (mainly the arrangements for any Roadshow), and the Investor Presentation. PDD input is important and is expected in all these areas.

46. **Several practical issues must be considered when considering an LMO, including the price to be offered on the Target bond.** The price paid for the Target Bond will usually have a small premium over the market price. This implies that the issuer must have a good understanding of the market for its bonds and have a view on the maximum premium over the market price that it would be willing to pay. The investment advisor would provide guidance on these matters.

47. **The new issue should target a maturity date where outstanding maturities are relatively small.** An issuer must therefore decide on the maturity date of the new issue, the bond that provides the “currency” for the transaction. If the objective is to smooth out the maturity structure, it makes sense to look for years in which the amounts of maturing debt are relatively small.

48. **Not all investors or current holders of the Target will participate in the LMO, although the PDD can take steps to enhance the attractiveness of the deal.** The issuer must understand that the acceptance of the LMO transaction is not likely to be 100 percent. The issuer can set a level of take-up that it will accept, and if the take-up does not reach this level, the transaction can be cancelled. This optionality on the part of the issuer must be made clear to investors. The investment advisor can provide guidance on this matter. In this regard, it is important that all current holders of the Target bond be contacted and made aware of the potential LMO and the deadline date for acceptance. The PDD can also promote acceptance by promising to give the maximum possible allocation on the new bond to investors who participate in the LMO.

C. Developing the Investor Relations Function

49. **Jordan’s MoF currently lacks a structured and formalized Investor Relations function** Jordan issuances of Eurobonds have relied heavily on the lead manager and team to handle communications and outreach. Looking ahead, additional capacity building is needed to strengthen the PDD. Technical assistance could cover the active usage of the MTDS Analytical Toolkit, and LMO design and execution. Significant work remains to be done on the implementation of a Market Relations Strategy, to be referenced in future updates of the MTDS Document.

50. **Investor relations is an important function of any DMO, focused on communication, publication, and transparency.** Investor relations is often centralized within an Investor Relations Office (IRO), which can be located either within the Front Office or as a stand-alone entity. The IRO is tasked with gauging investors’ demand for the country’s debt, and this requires a fluid dialogue. The IRO should know who the largest buyers are of Jordan’s debt, and maintain a database of contacts at the relevant firms. It should make sure that the MoF website contains current data on fiscal, economic and debt aggregates data on the MoF website, so that investors can access the information needed for decision-making. The IRO should strive towards achieving transparency in answering questions and divulging information and have as its goal the fullest disclosure possible.

51. **The IRO has an important role to play in any issuance or LMO.** Because the IRO is tasked with meeting with investors in Reverse Roadshows and on the road, it is important that they get involved in any roadshow associated with a new issuance. The IRO should ensure that any roadshow includes meetings with important investors and develop strategies for widening the investor base.

52. **The IRO should manage the interactions with rating agencies.** The major rating agencies (Moody’s, S&P and Fitch) are an important source of information for investors. They all publish reports on rated issuers and are experts on discerning credit trends. The IRO should understand the models used by these agencies in developing ratings, with a particular focus on the action items or factors that might be improved, leading to an upgrade in the credit rating. To facilitate this process, the IRO should maintain a dialogue with the analysts at the agencies who follow the credit.

53. **Investor Presentations are a valuable opportunity to tell the Jordan story.** The IRO should provide inputs to all investor presentations, whether they are associated with a new issuance, a non-Deal Roadshow or are prepared in conjunction with a Reverse Roadshow. The IRO should also evaluate the presentations made to the PDD by any potential investment advisors. This evaluation is a key factor in the model for ranking potential investment advisors. The IRO should maintain this model.

54. **Market feedback to the IRO is of high importance.** The IRO is an important conduit for the flow of information between investors and the issuer. The IRO is well placed

to collect the concerns of investors, and the head of the IRO should be in a position to communicate these issues and concerns to senior MoF officials. The IRO also needs to be aware of macro-economic and political trends affecting markets, as well as the current market prices and yield spreads for all issuances.

55. **The IRO's opinion should be sought when new issuances are planned.** Since the IRO is in constant communication with investors, their input should be sought when new issuance is planned. This requires a close relationship to the Middle Office of the PDD.

56. **Staff of the IRO should have a good understanding of finance, economics, markets, and the political environment in order to operate effectively.** IRO staff should understand the current debt portfolio, as well as its various trajectories under different economic scenarios. Sudden shocks to the debt stock may also be caused by the realization of contingent liabilities. Volatile markets and political developments will also affect the portfolio. All these areas involve a certain level of specialist knowledges

D. Preliminary LMO guidance

57. **The mission team offered the following guidance regarding LMOs:**

- An LMO Policy and framework is key, and a prerequisite to undertaking LMO market operations. The LMO policy should provide the anchor for LMO transactions, by identifying the objective and authorization for all LMOs. It is recommended that the objective for LMO transactions include the smoothing of the maturity profile of the external debt. This policy document can be preceded by an internal guidance note, setting out the objectives and structure of the LMO. This note can be periodically revisited to ensure adherence to objectives.
- Once a LMO Policy has been established, it is recommended that the PDD carefully examines the option of buying back the bond maturing in 2022, or any target bond(s) viewed to be relatively more expensive than its replacement. A potential Plan A in this regard would involve raising the funds for a buyback by issuing a guaranteed Eurobond sometime in late summer 2021, similar to previously issued Eurobonds that benefitted from the LGA with the US.
- Another option would be to issue a non-guaranteed Eurobond in 2021, the proceeds of which to be deposited and ringfenced in the banking system. This approach has the following advantages:
 - The risk of rising interest rates is managed since the borrowing need in 2022 is pre-funded.
 - (Temporary) Liquidity in the banking system is increased.

- The amount of government deposits is increased.
- This approach also has certain risks, as assurances need to be put in place that guarantee that the proceeds can be effectively ring-fenced and maintained to pay for the maturity on 6/30/22.
- The maturity date of the new issue should target a year where maturities are relatively slight. 2028 and 2029 are potential options in this regard (Figure 3).
- The market has to be informed about the authorities plans regarding LMO. Debt managers need to explain their strategy, the LMO's design, and the benefits of the transactions for investors. Market intelligence should inform the LMO design and execution strategy. Issuers not experienced in communicating with external stakeholders directly should rely more on their banks and advisers to guide them on communication and positioning strategies for an LMO.
- The intense level of communication with markets before, during, and after the transaction requires a strengthened investor relations function in Jordan. This should, include dedicated investor relations staff and communication outputs, as well as a comprehensive, easy to navigate web presence on the Ministry's website (in English).
- Any new market operation would need to be closely coordinated with Jordan's financial and legal advisers.

APPENDIX I. LMO MANAGEMENT SOUND PRACTICES

In addition to their capacity to achieve a more balanced maturity profile for issuers and mitigate refinancing risk, bond exchange offers are closely linked to the implementation of a medium-term debt management strategy (MTDS). Communication to both internal and external stakeholders of the role of a bond exchange offer within the context of the MTDS is critical for the success of the operation. Equally, LMOs need to be positioned as pro-active strategies to provide the markets with value – here this could be providing a new liquid point on the country’s credit curve, or by offering a new, current coupon sovereign Eurobond, helping investors get access to the credit in primary while bonds remain too expensive to source in secondary markets.

There are a range of strategies available to consider, each with merits and shortcomings. Numerous internal and external constituencies are involved in the preparation and execution of the exchange. Below is a list of considerations for Debt Section officials to incorporate into the project’s management:

- Within a discrete internal Working Group, define the challenge and the objectives, in both qualitative and quantitative terms. Secure internal agreement across relevant, affected internal parties (i.e., management, budget, and accounting).
- Ensure resource allocation is sustainable for the expected timeline for the project.
- Ensure confidentiality of all internal discussions, to ensure external parties have no access to market-sensitive matters.
- Discretely solicit advice from a small group of banks with demonstrated experience in debt exchanges. Obtain bank’s Compliance Officer sign-off on the existence of “Chinese Walls” prior to intensifying discussions, to prevent leakages of information from Debt Capital Markets teams to secondary trading desks.
- Obtain written proposals and analyse, testing presumptions, pricing mechanics and methodologies.
- Agree on fee structure for exchange agent(s), balanced with the government’s objectives for a new maturity profile.
- Embed within the mandate letter the target parameters of the exchange offer, the execution and pricing methodologies to be deployed and include timeline and project management framework references.
- Ensure exchange agent selection criteria incorporates a transparent decision matrix, to protect the debt management team and the exchange operation from external claims of bias or undue influence on the selection of the dealer manager(s)/exchange agents.

- Formally engage one to two dealer managers/exchange agents to manage the process.
- Engage legal firm to draft the necessary commercial contracts, exchange offer memo and new issue prospectus. Instruct them to commence preparation of documents as soon as possible.
- Work with dealer managers to prepare investor relations campaign surrounding the offer. Marketing materials should cover topics such as i) project objectives and rationale, ii) outline of the offering's terms including indicative term sheet for the new issue, iii) context within the MTDS and iv) update on the credit.
- Ensure all internal clearing, settlement, depository, and registrar linkages are prepared to perform in the operation.
- Maintain regular contact between the Working Group and Dealer Manager(s) to coordinate progress and ensure momentum is maintained.
- Confidentially inform the rating agencies of the exchange offer.
- Finalise all legal documentation, public notices, draft press releases, draft screen announcements, instructions for Tender Agent and clearing and settlement counterparts.
- Announce offer window. Work with dealer managers to position the operation as proactive debt management.
- Enlist the aid of a range of relationship banks by appointing them as supplementary dealer managers, to broaden the sourcing of bonds into the exchange.
- Keep relevant internal parties apprised of progress as necessary.
- If there is a cash component, undertake book building process for the new issue,
- In coordination with dealer managers, and based on pre-agreed pricing methodology, determine pricing for the exchange and new issue.
- Set final terms for the exchange and announce results.
- Ensure the back-office components of the exchange, via clearing, settlement, registrar, and depository institutions, all run to plan.
- Update all interested parties, such as management, press office and rating agencies, once the trade is priced and closed.

- Provide interested parties with confirmation of the new debt maturity profile and other ancillary benefits thereto, such as improved cash flow management and/or expanded investor base.
- Ensure results are pro-actively communicated to the international press and uploaded to the MoF's website.

Selecting Dealer Managers for an LMO

Considerable reputation risk is attached to LMO execution, as there are often two halves of the operation; a tender or exchange and the creation of a new issue. Careful selection of one or more experienced and credible Dealer Managers (DMs), coupled with fair LMO terms, can deliver a successful outcome. A transparent and objective selection process should be used to determine the lead dealer/manager(s) for the LMO. Consideration should be given to factors, such as:

- LMO structuring and execution experience in the underlying currency sector and specifically, with sovereign issuers;
- sufficient staff to manage the front- and back-office administrative logistics – and a dedication to maintain committed staff throughout the process;
- sufficient primary and secondary sovereign bond trading capabilities to manage the process;
- balance sheet capacity to warehouse bonds tendered prior to settlement, and if connected with a new issue, underwriting capacity for the credit in question;
- prior lead-management role for the targeted bonds in question and demonstrated breadth of contact with existing investors of the targeted Eurobond(s);
- ability to reach new investors for the future Eurobond offering created from the LMO;
- credibility in the markets to present an LMO to investors, working with the MoF to clearly position the LMO within the context an established debt management strategy, such as an MTDS;
- strong project management skills and a track record of delivering on proposals to the issuer;
- quality of the proposals, demonstrating awareness of, inter alia, the key cost and risk variables and structuring alternatives the MoF should consider;

- provide the integrity and commitment to provide transparency on the pricing methodologies (often the most publicly scrutinized variable of any LMO); and
- an experienced press office, familiar with the publications timetable for LMOs.

The Roles of Banks, Legal Counsel and Financial Adviser in LMOs

One of the roles of the **legal counsel** is provide written documents that encapsulate and explain the designed transactions for investors. Such documentation, such as a TOM, describes the framework within which the operation takes place. All conditions of each leg of the LMO are described to investors in specialized documents according to LMO design: Tender Offer Memorandum, Exchange Prospectus, New Issuance Prospectus. In this task, the legal counsel has to protect the issuer with the appropriate legal wording so as to not end with a very different outcome to what was primarily targeted.

Another role of the legal counsel is to prepare all contracts between the issuer and the selected banks. In the first place, a mandate letter has to be signed by banks and sovereign, where every party commits to certain points. The agreements signed between the banks and the sovereign are a Subscription or Underwriting Agreement, for when a new issue is launched, and a Dealer Manager Agreement for Tender Offers and Exchanges.

The role of the **banks** is to reflect prevailing market trends and to identify opportunities for the to meet its debt management objectives, within the restrictions and opportunities offered by the capital markets. The banks also provide advice on the pricing and structuring permutations of the different parts of the transaction, since they are the ones who trade securities in the market. Banks are traditionally responsible for overall project management, driving the entire process forwards as needed. Marketing initiatives are also supported by banks, either with the production of marketing materials like an investor presentation or managing logistics for a road show. Banks are also responsible for communicating the LMO to investors and to bring participants into either or both the Tender and or the new issue.

Structuring advice on the transaction and indicative pricing based on technicalities can sometimes be delivered by a **Financial Advisor**. Financial advisors normally are not active participants in the primary or secondary markets. They are not actively engaged in selling the new issuance of buying the old bonds. Sometimes financial advisory services are solely given by the bank, in particular for frequent issuers.

Different parties have different roles but overall it is the issuer who is the owner of the plan and the ultimate responsible for the transaction and its reputation.

Preparation for LMO Communications

LMOs are complex public transactions that contain significant execution risk. This exposes issuers to reputation risk. Strong internal and external communications are a prerequisite for the success of an LMO. Within the government, it is important to secure all necessary internal approvals, and ensure uniformity of messaging. The contemplated strategy should be consistent with the overall debt management strategy, annual borrowing plan and budget.

In connection with any LMO undertaking, the market has to be prepared and educated. Debt managers need to explain their strategy, the LMO's design, and the benefits of the transactions for investors. Market intelligence should inform the LMO design and execution strategy. Issuers not experienced in communicating with external stakeholders directly must rely more on their banks and advisers to guide them on communication and positioning strategies for an LMO.

Initial messaging on the LMO should be developed in cooperation with the DM and JLM and cleared by external counsel. It is important to note that the TOM and New Issue Prospectus are marketing documents, effectively offering documents that serve a critical communication function. These are the two main public documents that describe and position the LMO. Official press releases and clearly visible notices in leading financial newspapers are an additional vehicle to educate investors on LMO design and strategy, yet all public statements need to be consistent with the explanations and terms outlined in the TOM and the Prospectus.

LMOs are very structured transactions that expose the issuer to market risk. As such, market practice has developed an informal series of public notices to keep interested parties aware of the progress and to provide all market participants with equal access to information. While the banks, the issuer and the issuer's external counsel all contribute to the content of the key offering documents, the banks traditionally take the lead in publishing and distributing the documents to bond investors. These documents and communications content include:

- the Initial TOM, New Issue Mandate announcement, and announcement of any planned marketing initiatives, such as road show meetings,
- Indicative Pricing Results for the Tender,
- Formal launch of any accompanying new issue,
- Final Pricing Results of both the Tender or Exchange Offer and the New Issue,
- A Final Press Release summarizing the LMO results, and

- Listing Notices for publication with the relevant listing agency, informing the market of the results of the Tender Offer and the new notional amounts of the securities targeted in the offer.

The government should ensure that relevant initial and final press releases are posted on its own debt management website pages, to ensure transparency for all stakeholders.