



Extended fund Facility (EFF) Fiscal Adjustment and Structural Reform 2016-2019

The Government of Jordan (GoJ) announced on June 20, 2016 that it has reached a staff level agreement to implement a new IMF Extend Fund Facility program (2016-2019).

Jordan made considerable progress over the past few years in strengthening its fiscal and external positions, despite a very difficult regional environment. At the same time, and owing in a large part to this very adverse environment, significant challenges remain, including low economic growth, high unemployment, high levels of public debt and budget deficit, and a large current account deficit. The program, underpinned by our ten-year national vision and strategy (Jordan 2025), aims at tackling these challenges by preserving macroeconomic stability through structural reforms to boost jobs and economic growth, enhance competitiveness, and foster equity, fairness, and good governance and through gradual and steady fiscal consolidation to bring public debt as a percent of GDP to lower levels. With the implementation of the Jordan Compact, continued support from donors, particularly through grants, will be critical to the success of this program.

The Program will protect the most vulnerable households by including a floor on social spending, primarily targeted at illness and disability, old age, family and children, housing, research and development in the field of social protection, and exempting those most vulnerable households from electricity tariff increases in the short to medium term.



Program Details

1. Prior Actions

- a) Implement fiscal measures to stabilize public debt to GDP ratio in 2016 at around the ratio of 2015.
- b) Establish the Public Investment Management unit and adopt its action plan.
- c) Publish consolidated Fiscal Accounts for 2015.
- d) Nominate the director for Macro-Fiscal Unit of the Ministry of Finance.
- e) Prepare detailed quarterly financing plan for next 12 months in coordination with NEPCO and WAJ.
- f) GoJ is committed to maintain NEPCO at operational balance during the program period and over the medium term and will adopt by mid-December 2016, and start implementing on January 1, 2017, an automatic electricity tariff adjustment mechanism.

2-Fiscal Measures

a- Fiscal Measures 2016 (part of prior actions)

GoJ adopted fiscal measures to help ensure that public debt does not exceed 94 percent of GDP at end-2016, the measure included an increase in revenues of about JOD 154 million or 0.55% of GDP and a reduction of expenditures of JOD69 million or 0.25 of GDP. These measures will help reduce the central government primary deficit (excluding grants and transfers to NEPCO and WAJ) to 3.7% of GDP in 2016. In addition, GoJ adopted measures to retire public debt of JOD112 million or 0.6% of GDP. The list of measures includes the following:



⇒ **Revenue Measures:**

- Increase cigarette packet price by 0.05 JOD
- Increase cigarette packet price by 0.10 JOD - ASEZA
- Reverse tax and custom duty exemptions made in 2015 on clothes, shoes, watches, jewelry and perfumes.
- Reduce depreciation allowance on used imported cars
- Add an extra fee for "transfer of title" on used vehicles
- Increase price of diesel, kerosene and gasoline by 0.025 JOD per liter
- Increase special tax on wines and spirits from JOD 3.75 to JOD 5.5 per liter

⇒ **Expenditure Measures:**

- Reduction of current expenditures including purchase of goods and services by JOD 69 million.

⇒ **Transfer of Funds to retire Public Debt:**

- Transfers from financial surplus arrears and from funds under the revenue collection law amount to JOD 112 million or 0.6% of GDP.

b- Fiscal Measures 2017-2019

Fiscal consolidation strategy will aim at reducing gross public debt as a percent of GDP. This requires adopting additional measures of 4.6 % of GDP during 2017 to 2019 to steadily bring public debt down to 77% of GDP over the medium term. Accordingly, GoJ will adopt measures equal to 1.5%, 1.7% and 1.4% of GDP in 2017, 2018 and 2019 respectively.



3- Structural Benchmarks

a) Fiscal Framework and Management

- 1 By Mid-November 2016, comply with all requirements of Phase II of the Road Map for International Public Sectors Accounting Standards (IPSAS) implementation for the 2015 financial statements.
- 2 By Mid-November 2016, submit to Parliament a draft budget law for 2017 in line with program understandings and its projections for 2017-2019, including the estimates of tax expenditures.
- 3 By Mid-November 2016, submit to Parliament a new tax exemptions framework to reduce general sales tax (GST) exemptions on domestic and imported goods and services, and exemptions on customs duties.
- 4 By End-December 2016, submit to Parliament a new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing).
- 5 By End-February 2017, record the trust accounts entries as revenue and expenditure and classify them by purpose and use and consolidate them into fiscal tables and publish in the government finance bulletin.
- 6 By End-March 2017, rationalize the general sales tax and customs duty systems, based on IMF technical assistance recommendations.
- 7 By End-March 2017, implement new Income Tax Law (consistent with program understandings, including on the PIT thresholds, the rates structure, and transfer-pricing).



- 8 By End-June 2017, Submit to Parliament and Organic Budget Law

b) Debt Management

- 9 By End-September 2016, publish public debt management strategy.
- 10 By End-December 2016, approve an action plan to reorganize the Public Debt Directorate.
- 11 By End-June 2017, publish updated public debt management strategy.
- 12 By End-June 2017, finalize the reorganization of the Public Debt Directorate.

c) Water and Energy Sector

- 13 By End-September 2016, publish studies on cross-subsidization and options for price adjustments in response to oil price changes.
- 14 By Mid-December 2016, adopt an automatic electricity tariff adjustment mechanism, with effective implementation on January 1, 2017.
- 15 End- December 2016, submission to Cabinet and publication of an updated action plan on how to reduce the water sector's losses over the medium term.

d) Financial Sector and Access to Finance

- 16 By End-September 2016, implement a risk-based framework for offsite supervision for banks and money exchange firms.



- 17 By End-March 2017, submit to Parliament amendments to Deposit Insurance Corporation Law to align the provisions regarding the early intervention and bank resolution framework with the new commercial banking law.
- 18 By End-March 2017, amend and enact the Insolvency Law.
- 19 By End-March 2017, amend and enact the Secured Lending Law.
- 20 By End-March 2017, publish a study assessing the key issues and challenges to promote financial inclusion.
- 21 By End-March 2017, amend the Insurance law to allow for the transfer the supervision of the insurance sector to the CBJ.
- 22 By End-September 2017, transfer the supervision of the insurance sector to CBJ.

e) Business Environment

- 23 By End-October 2016, submit to Parliament a draft Inspection Law streamlining inspection mandates and processes.
- 24 By End-June 2017, address shortcomings in the Investment-Window procedures by automating and integrating the services provided by Jordan Investment commission.