May 2013
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Jordan: First Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, and Rephasing of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Jordan.

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

- The staff report for the First Review Under the Stand-By Arrangement, Request for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, and Rephasing of Access, prepared by a staff team of the IMF, following discussions that ended on March 2, 2013, with the officials of Jordan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 27, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its April 10, 2013 discussion of the staff report that completed the review.

- 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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JORDAN

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

March 27, 2013

EXECUTIVE SUMMARY

Jordan has been through challenging times. Gas inflows from Egypt were severely reduced for most of 2012, resulting in expensive fuel imports. Moreover, the conflict in Syria has resulted in a large influx of refugees. Together with regional uncertainties, this contributed to pressures on fiscal accounts and also international reserves in late 2012. The situation improved toward year-end, as the central bank managed the pressure on reserves and, with sizeable grants coming in early 2013, rebuilt its buffers. A marked increase in gas flows in November further helped. Finally, political uncertainties were alleviated by the parliamentary elections in early 2013 and the re-appointment of the prime minister.

Despite the socially difficult elimination of the fuel subsidy, program performance was mixed. The subsidy was eliminated in November, and most targets related to the central government were met, even though the end-2012 performance criterion (PC) on the primary deficit was missed by a very small margin. The electricity company's financial performance was in line with the program, but the company did not repay its arrears. The end-December PC on the Net International Reserves (NIR) was missed, but the central bank took corrective action. The implementation of the energy sector reforms has been delayed, but it is now being tackled.

Fiscal consolidation, additional reserve build-up, and higher growth are key program objectives. The fiscal position will be strengthened mostly through expenditure measures, making room for a large increase in capital spending. Strengthening the electricity company's finances is part of an energy strategy to ensure full cost recovery by 2017. Efforts are being made to protect the vulnerable segments of the population from the impact of fiscal consolidation. Bolstered by external financing, NIR are expected to end 2013 in line with the program target. Structural reforms focus on enhancing access to financing and improving labor-market skills.

Significant challenges remain. Achieving cost recovery in the energy sector in a socially acceptable way requires a broad buy-in from key stakeholders, which could be affected by the ongoing political reforms. Risks also relate to the implications of the Syria conflict on Jordan's economy, a weaker current account, and program implementation capacity.

The completion of the first review makes available SDR 255.8 million (about $387 million).

Approved By
Adnan Mazarei and James Roaf

The team comprised Kristina Kostial (head), Yasser Abdih, David Amaglobeli, Andrea Gamba, Dmitriy Rozhkov (all MCD); Hui Jin and Pokar Khemani (both FAD); and Chad Steinberg (SPR). The mission was joined by Chadi Bou Habib and Rome Chavapricha (both World Bank) and Sami Geadah, Alternate Executive Director. During December 3–20, 2012 and February 20–March 2, 2013, staff met with Prime Minister Abdullah Ensour, Minister of Finance Suleiman Hafez, Minister of Energy and Mineral Resources Alaa Al Batayneh, Minister of Planning and International Cooperation Jafar Hassan, Minister of Industry and Trade Hatem Al-Halawani, Governor of the Central Bank of Jordan Ziad Fariz, senior officials in these institutions, the Speaker of the Senate Taher Al-Masri, the electricity company NEPCO, representatives of the private sector as well as with donors.

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CONTEXT

1. **Political reform has been gradually progressing.** Since early 2011, calls for change have become a part of Jordan's political landscape. Accordingly, the election law was amended in July 2012, to support the move toward a multi-party political system. Nonetheless, the Muslim Brotherhood did not participate in the parliamentary elections on January 23. The elections were peaceful, with a turnout of 57 percent of registered voters. After unprecedented consultations with the new parliament, the king reappointed the prime minister who is now in the process of forming his cabinet. The king also issued in March a discussion paper, envisaging the gradual transformation of Jordan into a constitutional monarchy.

2. **Notwithstanding lower domestic political uncertainties, there are serious challenges.** The escalation of the conflict in Syria has resulted in a massive and accelerating influx of refugees (Box 1). While gas inflows from Egypt more than doubled in late 2012 (and are now projected at 100 million cubic feet in 2013 compared with 50 million cubic feet assumed in the program), they remain well below the contract level and could fluctuate significantly. Jordan's key social indicators are generally better than the average for the region, but there are long-standing social challenges, including high unemployment, and every seventh Jordanian living below the poverty line.

3. **The central government component of the program was broadly on track in 2012, but the electricity company (NEPCO) did not repay its arrears and net international reserves (NIR) were lower than expected:**

- **Fiscal and energy.** The December performance criterion (PC) on the central government primary deficit was missed by a very small margin (0.03 percent of GDP), while the PC on NEPCO's net borrowing was met. The indicative target on the central government accounts payable was met, but the indicative target on repaying NEPCO's arrears was not, reflecting difficulties in getting financing from banks to repay the company's arrears.

- **Monetary.** Monetary developments were in line with program targets through September 2012, but pressures on NIR emerged in October. Though the authorities have taken corrective action, the end-December 2012 PC on NIR was not met. Since then, reserves have been partially recouped.

- **Structural.** Despite the socially difficult elimination of the general fuel subsidy, progress on the structural agenda was mixed. The structural benchmark on submitting a revised income tax law to parliament was met, as was the one on implementing a targeted transfer to compensate for the elimination of the fuel subsidy. The benchmark on increasing the price of diesel by six percent was met with a delay, when more wide-ranging increases in fuel prices were implemented. The benchmark on announcing an energy strategy to the public was not met. Because the energy strategy is macro-critical, only the first review was completed. The completion of the next review is contingent on the announcement of the energy strategy and actions to achieve cost recovery in the sector, alongside satisfactory performance under the program. The benchmark on introducing a commitment control system could not be implemented because changes in the IT systems were more complex than envisaged; completion of the benchmark has been moved to December 2013.

4. Further significant reforms are planned for 2013. Consolidation in the fiscal and energy sectors will continue, with a more significant reduction in the primary deficit of the central government than had been envisaged, which will compensate for a slower-than-planned reduction in NEPCO losses. Monetary policy will aim at building reserves and containing inflation. Structural reforms will focus on strengthening the country's growth potential and reducing unemployment. Efforts to protect the vulnerable segments of the population from fiscal consolidation will continue.

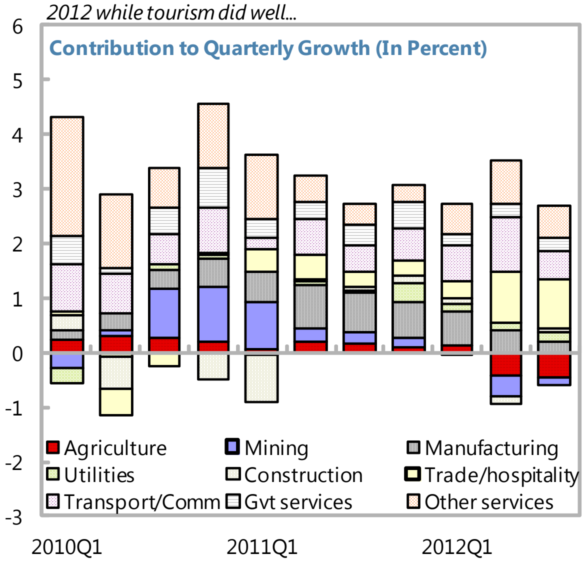
PERFORMANCE IN 2012

A. Recent Developments

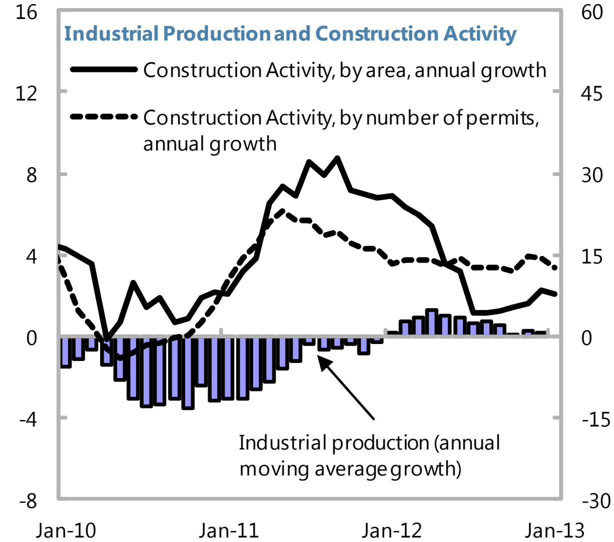
5. Growth has been moderate but stable. Growth was 2¾ percent during January–September 2012, and the annual projection was revised slightly downward to 2.8 percent. Growth is mainly driven by services, many of which are tourism-related (trade, hotels and restaurants, and transport and communication). Agriculture and mining have been contracting, due in part to the disruption of transportation through Syria and long worker strikes in the potash and phosphate producing plants. In line with subdued growth and political uncertainty, private sector credit continued to expand at rates below those observed last year; year-on-year growth was 6¾ percent at year-end, down from 9.6 percent in 2011. Unemployment remained high at 12.5 percent at end-2012.

Figure 1. Jordan: Real Sector Developments, 2010–12

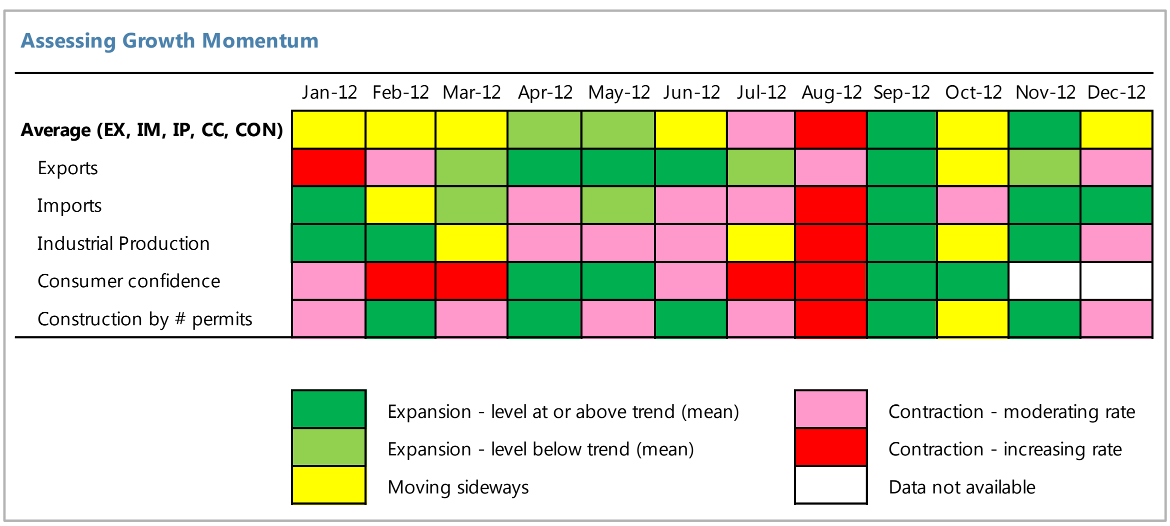
A contraction in mining and agriculture depressed growth in 2012 while tourism did well...



... as did manufacturing...

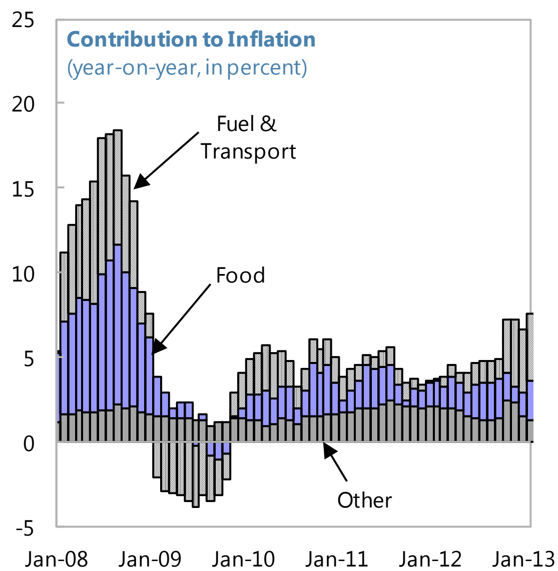


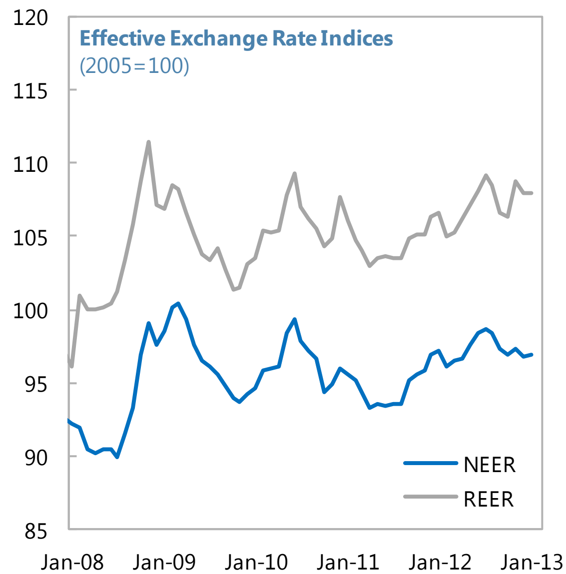
... but the outlook remains mixed.



Sources: Jordanian authorities; and Fund staff calculations.

6. Inflation picked up in late 2012. During the year, higher food and energy prices and public sector wage increases weighed on inflation. Following the liberalization of fuel prices in mid-November, inflation picked up further to 7¼ percent at year-end, and 7¾ percent at end-February. Core inflation (excluding food, fuel, and transport) was contained at about 3 percent. The real effective exchange rate (REER) and the nominal effective exchange rate (NEER) have been broadly stable since the beginning of 2012.





7. The current account deficit deteriorated substantially in 2012 to 18 percent of GDP. Some of this deterioration was envisaged under the program, reflecting lower grants and higher energy imports. However, the increase in the number of Syrian refugees has put additional pressure on imports—with food imports increasing by nearly 20 percent—while lower potash prices and strikes have depressed export earnings. These developments resulted in a current account deterioration estimated at 4 percent of GDP relative to the program and 6 percent of GDP relative to 2011. However, a stronger capital account, reflecting continued strong FDI inflows and a rebound in trade credit, helped bring the overall balance of payments to just below the program projections.

8. Financial markets have been calm. Since the announcement of the Stand-By Arrangement, Jordan's sovereign spreads have remained stable, in the range of 400 to 430 basis points. Also, Jordan's stock market has stabilized.

B. Policy Implementation

9. The central government budget was tightly managed. During August–October, higher oil prices led to a substantial increase in the fuel subsidy. After a failed attempt to raise prices for fuel products in September, the authorities liberalized all fuel prices except for LPG in mid-November and reinstated the monthly fuel price adjustment in January 2013, effectively eliminating the subsidy (Box 2). This reform was politically difficult, but was necessary to make the fiscal position sustainable.

To mitigate the impact, a cash transfer covering about 70 percent of the population was implemented at year-end. The government also paid some of NEPCO's debt. Nevertheless, because of revenue over-performance and tight expenditure control in other categories, all fiscal targets were met, with the exception of the December PC on the central government deficit, which was missed by a very small margin.

NEPCO Operating Balance and Financing

	2012 Jan-Jun	2012 Jan-Sep	2012 Jan-Dec	2013 Proj.
	(In millions of Jordanian dinars)			
Electricity sales	463	695	1027	1296
Expenses	1077	1597	2201	2332
Purchase of electricity	1013	1493	2063	2150
Depreciation	14	22	29	31
Interest payments	34	54	75	122
Other expenses	16	29	34	29
Operating balance	-614	-902	-1159	-1036
Total financing	614	902	1159	1036
Total borrowing (QPC)	928	1005	1143	300
Loans and bonds	942	1056	1175	300
Overdrafts	-15	-51	-31	0
Increase in payables	-288	-29	77	...
Increase in arrears	-281	-71	46	-300
Direct transfer from central government	...	...	...	1036
Other items 1/	-26	-74	-61	...
Memorandum items (stocks, end of period):				
Outstanding loans and bonds	1702	1815	1934	2234
Overdrafts	66	30	49	49
Total payables	400	659	765	...
o/w arrears (IT) 2/	118	328	445	145

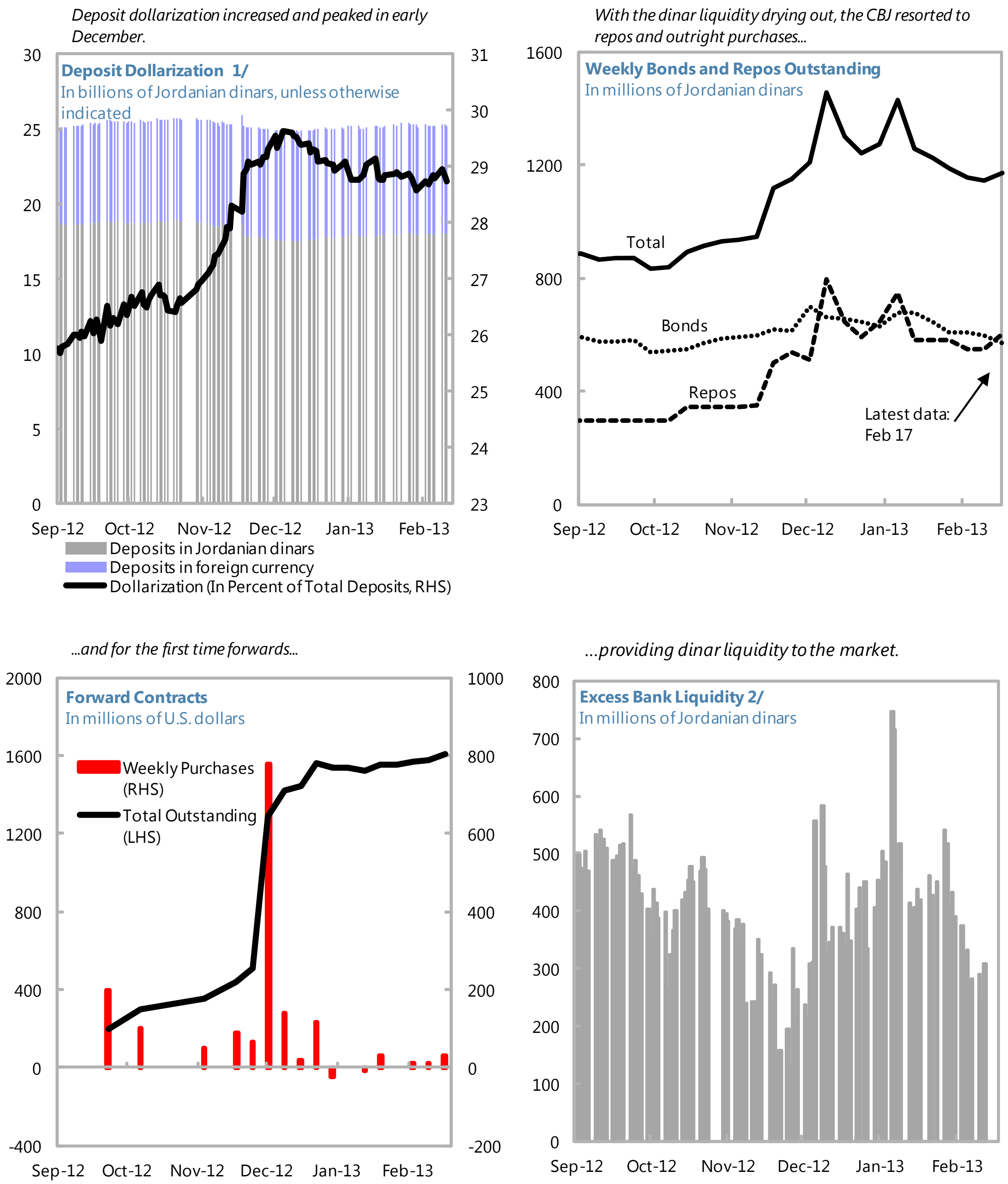
1/ Includes changes in accounts receivable, depreciation, project expenditures, and other minor items.
2/ Excludes arrears to the government of JD67 million at end-2012.

10. NEPCO stayed in line with the program, but did not repay its arrears. NEPCO's losses were as projected, partly helped by gas inflows from Egypt increasing to more than twice the programmed level during November–December. However, bank lending to NEPCO was limited with NEPCO's debt (which is government guaranteed) reaching 9 percent of GDP. As a result, NEPCO's borrowing was lower than programmed in 2012 and the company did not repay its end-2011 arrears of about 2 percent of GDP as had been envisaged.

11. Reserves came under pressure, but have been partially recouped. As a result of the better balance of payments during the summer, the September NIR target was met by a substantial margin. However, possibly reflecting concerns about various uncertainties, in mid-October depositors started to convert dinar deposits into foreign currency, some of which they kept in cash. In response, the CBJ supplied dollars. Because this resulted in a decline in dinar liquidity, it engaged in spot foreign exchange purchases in conjunction with forward contracts for the sale of dollars. On

December 3, it also raised the overnight rate by 75 basis points, and the trend toward deposit dollarization abated. Nonetheless, NIR fell to $5.4 billion by end-2012, $1.7 billion below the program target. Since then, dollarization has started to reverse, and dollar deposits (in percent of total deposits) are now lower by about two percentage points compared with the peak in early December. This, together with a deposit of $1 billion in January 2013 from the UAE in the context of the GCC grants, a budgetary grant of $200 million from Saudi Arabia, and a successful issuance of a $500 million dollar-denominated domestic bond helped raise NIR to $7.1 billion on March 14 (de facto rebuilding reserves to their programmed end-2012 level and equivalent to gross reserves of $6.9 billion).

Figure 2. Jordan: Monetary Developments, 2012–13

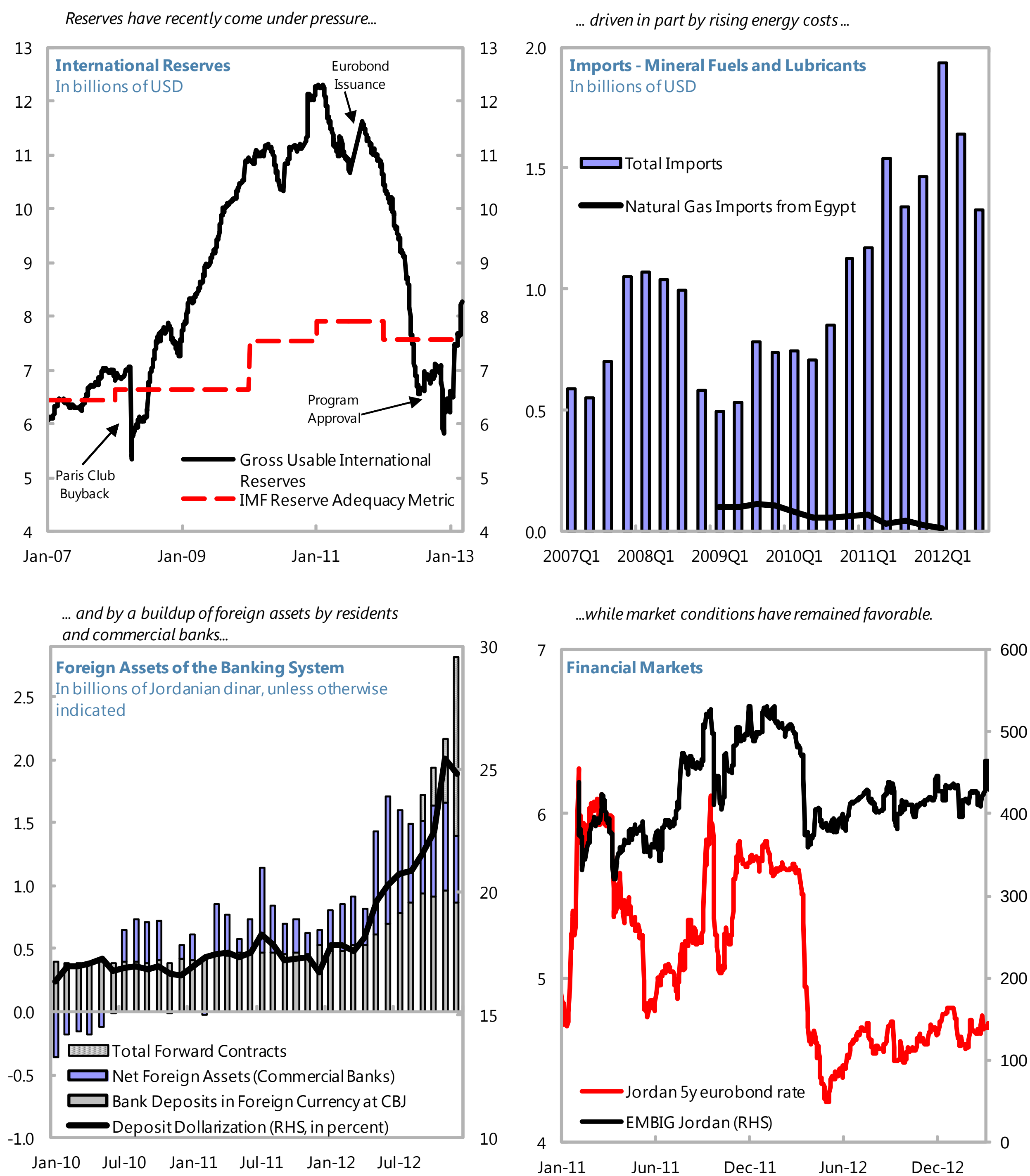


1/ Dollarization is defined as foreign currency deposits at banks of residents and nonresidents in percent of total deposits of residents and nonresidents. As such, they may differ from the dollarization figures reported in Table 4a (and Figure 3) as the latter are computed as foreign currency deposits of non-government residents in percent of total deposits of non-government residents as reported in broad money.

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

Sources: Jordanian authorities; and Fund staff calculations.

Figure 3. Jordan: External Sector Developments, 2007–12



Sources: Jordanian authorities; and Fund staff calculations.

C. Outlook

12. Jordan's outlook for 2013 and the medium term is broadly in line with program projections. While growth is expected to remain subdued in the near term, higher grants and gas flows from Egypt together with lower oil prices would facilitate in the medium term a reduction of the external current account deficit and also reduce NEPCO's losses. The success of the program will hinge on generating broad buy-in for the program and a return of confidence.

- **Growth.** The slowdown in growth in mid-2012 and higher-than-programmed fuel prices will weigh on domestic demand. Nonetheless, real growth is projected at 3¼ percent for 2013 with demand boosted by higher capital spending and the inflow of Syrian refugees. Growth is projected to return to the estimated potential of 4½ percent by 2016, aided in part by the structural reforms and infrastructure investments funded by the GCC.

- **Inflation.** Fuel and electricity price increases in late 2012 and mid-2013 will likely push up average annual inflation to 6 percent in 2013. Inflation is then projected to gradually return to 2 percent.

- **External position.** With higher grants and gas inflows from Egypt (100 million cubic feet compared with 50 million cubic feet assumed in the program), the current account deficit (including grants) would improve to 10 percent of GDP in 2013 from 18 percent of GDP in 2012. This also reflects lower global food and fuel prices, a rebound in exports (with potash and phosphate production normalizing), fiscal restraint, and further improvements in travel receipts. The current account deficit will continue to narrow in the medium term, reaching 4 to 5 percent of GDP in the outer years, driven by the strong fiscal adjustment and a Liquefied Natural Gas (LNG) facility becoming operational in mid-2015.

- **Fiscal and energy policies.** The combined central government primary deficit and NEPCO operating losses are expected to be slightly below the program target at 9.8 percent of GDP in 2013, down from 12.9 percent of GDP in 2012 (excluding arrears repayment). NEPCO's adjustment in 2013 is less ambitious than envisaged because of a delay in implementing tariff increases. The delay will allow the authorities to achieve a broader buy-in on the energy strategy from parliament. The resulting higher NEPCO losses will be more than compensated by a tighter central government budget. From 2014 onward, the consolidated targets remain as programmed, with NEPCO returning to cost recovery by 2017.

Jordan: Consolidated Central Government and NEPCO Target (excluding arrears repayment)

(In Percent of GDP)

	2012 1/	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Program						
Central government primary balance 2/	-7.9	-6.3	-4.7	-3.1	-2.6	-1.5
Measures central government			1.4	2.9	3.2	4.1
NEPCO operating losses	-5.3	-3.8	-2.7	-1.8	-0.7	0.0
Measures NEPCO			1.1	0.9	1.1	0.7
Consolidated target 3/	-13.2	-10.0	-7.4	-4.9	-3.3	-1.5
Revised program						
Central government primary balance (excluding NEPCO transfers)	-7.7	-5.5	-4.5	-2.7	-2.3	-1.2
Measures central government			0.7	2.5	2.8	3.9
NEPCO operating losses	-5.2	-4.3	-2.7	-1.8	-0.7	0.0
Measures NEPCO			1.6	0.9	1.1	0.7
Consolidated target 3/	-12.9	-9.8	-7.2	-4.5	-3.0	-1.2

1/ Actual for the revised program for 2012, including unplanned payments for NEPCO.
2/ Excludes project loans.
3/ Excluding arrears repayment by NEPCO.

- **Monetary policy.** Assuming confidence strengthens and dollarization continues to decline at its current pace, higher GCC grants and a Eurobond issuance combined with appropriate monetary policy would maintain gross usable reserves at the program level of $7.5 billion at end-2013 (about 100 percent of the Fund's reserve adequacy metric or 4 months of imports). In the medium term, reserves would strengthen further to 120 percent of the Fund's reserve adequacy metric.

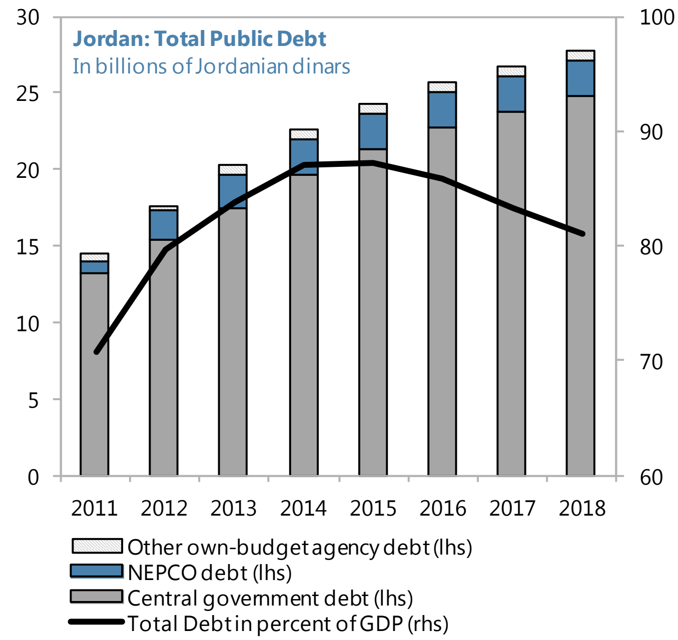
POLICY DISCUSSIONS

13. Discussions focused on strengthening confidence with the 2013 program. The program's pillars are fiscal consolidation, enlarging external buffers, and setting the stage for higher and more inclusive growth. Consolidation will continue to be gradual so as to not jeopardize growth prospects and social stability. To help build international reserve buffers, monetary policy will remain focused on maintaining the attractiveness of dinar-denominated assets. The program also envisages structural reforms to reduce unemployment and increase potential growth. To strengthen macroeconomic management, staff felt that it would be important to further improve coordination between macro-relevant agencies.[1]

[1] The central government has agreed to finance NEPCO's losses through transfers. This is expected to facilitate monitoring of the macro-relevant combined balance of the primary central government deficit and NEPCO losses.

A. Fiscal Consolidation

14. Fiscal consolidation is anchored in sustainability and social equity. Most of the medium-term correction in domestic and external imbalances will come from energy sector policies and other measures, particularly on the revenue side. These steps will gradually lower public debt (Annex I). At the same time, targeting social support will allow to minimize the adjustment burden on the most vulnerable groups, thereby safeguarding social stability. Staff asked the authorities about the scope for faster fiscal consolidation, but they felt that this could adversely affect social stability and growth. Nonetheless, they agreed that any windfall from higher gas inflows would be saved, and reiterated their readiness to respond to further shocks by additional tightening, if needed. The authorities will also start tackling the losses of the water companies.



Sources: Jordanian authorities; staff estimates.

Central government

15. The central government budget is broadly in line with program understandings. The 2013 budget[2] envisages a primary deficit of 5.5 percent of GDP compared with a programmed 6.3 percent of GDP. This reflects mostly revenue over-performance in 2012 carrying over into 2013 as well as tighter spending to compensate for a delay in electricity tariff increases. Compared with 2012, the budget envisages a large reorientation in spending toward capital spending by two percent of GDP. To allow this reorientation, while reducing the deficit, the budget includes about four percent of GDP in measures. Half of the adjustment comes from the elimination of the fuel subsidy with the remainder mostly from the expenditure side. Spending on Syrian refugees of about 0.7 percent of GDP is incorporated, broadly in line with that in 2012. Staff encouraged the authorities to refine their estimates of refugee-related costs, with ongoing assistance from the World Bank. More transparent reporting could help galvanize further donor support.

[2] The cabinet has approved a temporary budget that is being implemented. A formal budget is expected to be submitted to parliament soon; parliament can only propose cuts but not additional spending.

16. Revenue measures target the better off (¶12).[3] According to a recent Fund technical assistance (TA) assessment, there is no scope for a single measure with a major revenue yield. Thus, the authorities have resorted to numerous smaller measures, yielding 0.6 percent of GDP. They have reduced sales tax exemptions and trimmed the list of goods falling under the reduced sales tax rate; increased tax rates on various fees and luxury goods (such as international roaming calls and air tickets); and, as planned, changed mining royalties. There was agreement that changes should be made to the income tax law, aiming at raising revenue by at least one percent of GDP in the medium term; given the revenue-raising potential of this change, implementation of the law by September 2013 is a benchmark. To strengthen revenue performance further, the authorities will review and cost tax incentives by October 2013 (benchmark).

17. Expenditure measures also focus on better targeting (¶s13 and 14). The authorities have streamlined the eligibility criteria for public pensions. When eliminating the fuel subsidy, the authorities wanted to be able to start paying cash transfers right away. This, however, did not give them sufficient time to refine the targeting of the transfers, which were more broad-based than expected. In fact, the World Bank estimates that all households receiving the transfer are, on average, overcompensated. With assistance from the Bank, the authorities will improve the targeting of the transfers, yielding savings of 0.2 percent of GDP, including through adding variables other than income for means testing (such as ownership of land and cars) and establishing a unified registry (benchmark for October 2013). Staff welcomed the difficult decision to eliminate the fuel subsidy as it reduces the risks to the budget, but noted that some of the burden of the subsidy had shifted to NEPCO (which now pays international oil prices).

18. Revenue administration is being strengthened (¶16). The authorities have partially updated the taxpayer register, started to enforce tax arrears collection, and implemented a new audit strategy. They plan to increase filing compliance to 100 percent in the large taxpayer office and 90 percent in the medium taxpayer office by May 2013 (benchmark). Staff emphasized the importance of clearing tax arrears, which have increased as a share of GDP from 4 percent in 2008 to 6.5 percent as of November 2012. It welcomed efforts underway with the help of IMF TA. A strong tax administration is critical in providing taxpayers with assurances that they are treated fairly and equally. This is particularly important in light of changes to the income tax law. Staff also noted that a reduction and simplification of tax incentives could go a long way in facilitating the work of administrators.

19. Progress in public financial management is encouraging (¶17). The Ministry of Finance (MOF) and the CBJ have largely reconciled the discrepancy between above-the-line and below-the-line budgetary information. With the coverage of accounts under the central government now agreed, government financing data reported under the program are expected to be fully consistent. Cash planning has also improved through better coordination between the General Budget Department, the Treasury Department, and the CBJ. There are indications that arrears have

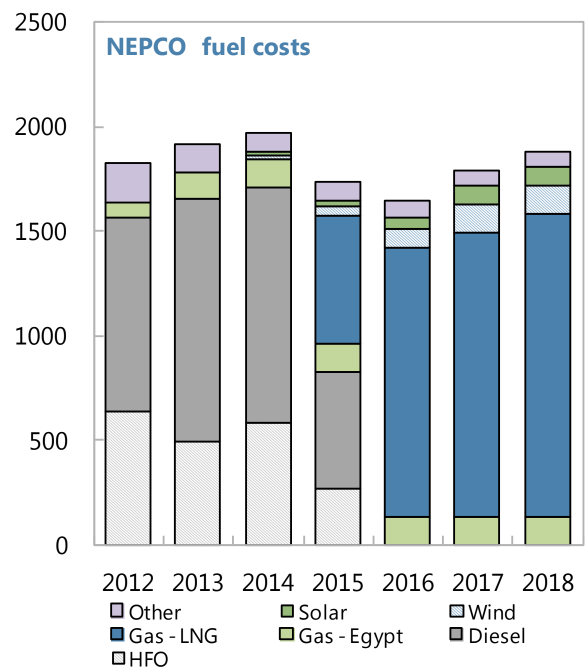
[3] Paragraph numbers refer to the paragraphs in the attached memorandum of economic and financial policies (MEFP).

been incurred amid the tight expenditure control in 2012, but at this point, there is insufficient information to determine their size. The authorities will establish a recording system to quarterly report the stock of arrears, with the first report on the end-2012 stock (June 2013 benchmark). Any arrears accumulated in 2012 are expected to be repaid during 2013 within the program ceiling. The January 2013 benchmark on introducing a GFMIS commitment control system to prevent new arrears was not met, because amending the system took more time than expected; it has been reset to December 2013.

Energy policy

20. Jordan's energy issues are macro-critical. Jordan's electricity sector was working relatively well until the gas shortfalls from Egypt. Both the generation and transmission sectors are of good quality, with low transmission losses. Electrification is universal and service is reliable, with power interruptions at the lowest level in the region. When Egypt gas flows were disrupted and the contract was renegotiated at a higher price, NEPCO's financial position became unsustainable and the current account widened considerably. NEPCO's losses, together with a more expansionary government stance in the last two years, have been driving up the debt-to-GDP ratio by about one fifth to 80 percent of GDP at end-2012.

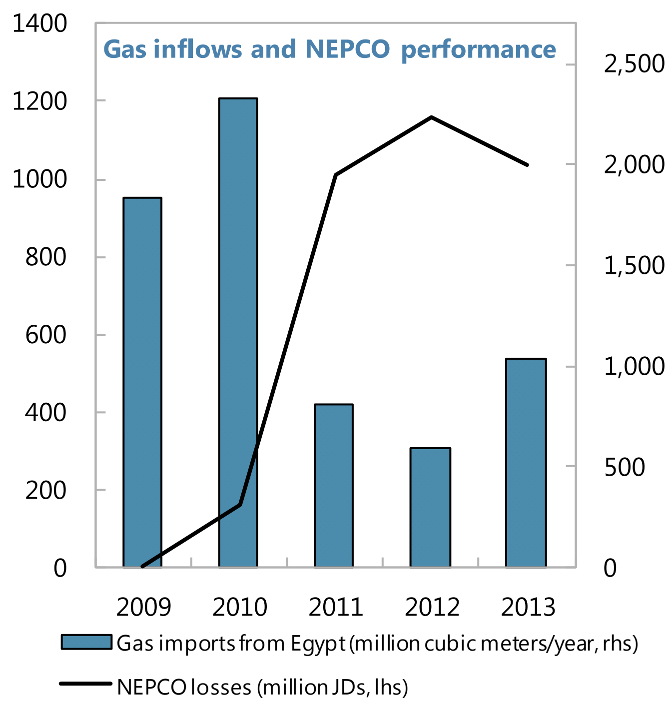
21. Parliament will provide input on a medium-term energy strategy (¶21). The program had envisaged the announcement of a medium-term energy strategy as a benchmark for September 2012. But it took until early 2013 to develop a robust medium-term model for NEPCO. Because implementing the strategy will require socially difficult electricity tariff increases, the authorities want to consult the new parliament. As a result, the first tariff increase, initially planned for April, has been delayed to July 1 to allow sufficient time for consultation;[4] all other elements of the energy strategy are proceeding as planned. Staff welcomed consultation with parliament. It also emphasized that tariff increases are an integral part of the strategy and thus should be implemented as soon as possible with the first increase before completion of the next review. The MEFP describes the main elements of the strategy (see next paragraph).



[4] To offset the resulting higher NEPCO losses, the central government has taken additional measures of 0.25 percent of GDP.

22. The World Bank assesses that the draft energy strategy is appropriately designed (¶23, Box 3). The plan will return NEPCO to cost recovery by 2017. It strikes a good balance between ensuring long-term sustainability of NEPCO and a credible path of annual tariff increases that protect the poorer households, though staff felt that the pace of tariff increases could have been more ambitious. From 2014 onward, tariff increases might need to be slightly higher than envisaged by the authorities, but this could be revisited before their implementation. The strategy also describes Jordan's diversification of energy sources with the main new source being an LNG terminal in Aqaba (Egypt gas is assumed to stay at around 100 million cubic feet per day); this switch in energy sources will substantially reduce the costs of electricity generation starting in 2015. The proposed timeline for the LNG terminal is in line with industry standards and, with a recent considerable acceleration in contracting and implementing renewable energies, targets in this area are as well within reach. Finally, the strategy fast-tracks the construction of more efficient conventional generation plants and renewable energy farms, including micro-units for single buildings; and encourages energy efficiency and energy savings, reflecting recently implemented regulations.

23. NEPCO will reduce its operating losses to 4.3 percent of GDP in 2013 (¶22). Removing the fuel subsidies together with extraordinary maintenance in one of the main power plants would have increased NEPCO's operating losses to 5.8 percent of GDP. The authorities are limiting these losses through a combination of measures. First, they re-opened negotiations on the gas contract with the Egyptian authorities, culminating in an agreement between the Egyptian and Jordanian prime ministers in December 2012 to sustain gas flows "close to the contractual level"[5] (250 million cubic feet per day). Indeed, gas inflows since January 2013 have been at about 130 million cubic feet per day compared with 50 million cubic feet per day assumed under the program (though still far below the contracted level). Second, subject to parliament endorsement, the authorities will increase the tariffs charged by NEPCO to distribution companies and industries (bulk tariff) by July 1, 2013. End-user tariff will be adjusted in line with the bulk tariff increase; the authorities are working on a schedule that protects the poorest household brackets from any increase. The increase in the bulk tariff will yield savings of 0.5 percent of GDP (one percent of GDP on an annualized



[5] See http://jordantimes.com/egyptian-gas-supply-back-to-normal-levels.

basis). Should there be pressures on NEPCO's losses, including from higher oil prices or lower gas from Egypt, the authorities stand ready to further increase tariffs, implement measures by the central government or resort to demand management measures (such as nightly "turning down" of commercial activities or blackouts).

24. NEPCO is expected to repay about two thirds of its arrears in 2013. The central government will provide transfers to cover NEPCO's operating losses. NEPCO has already negotiated financing from banks to repay about two thirds of its arrears. Staff welcomed the intention to clear arrears. NEPCO's arrears (mostly to generation and transmission companies) have forced most of these companies to run arrears with the petroleum refinery, which in turn borrowed domestically.

Other public entities

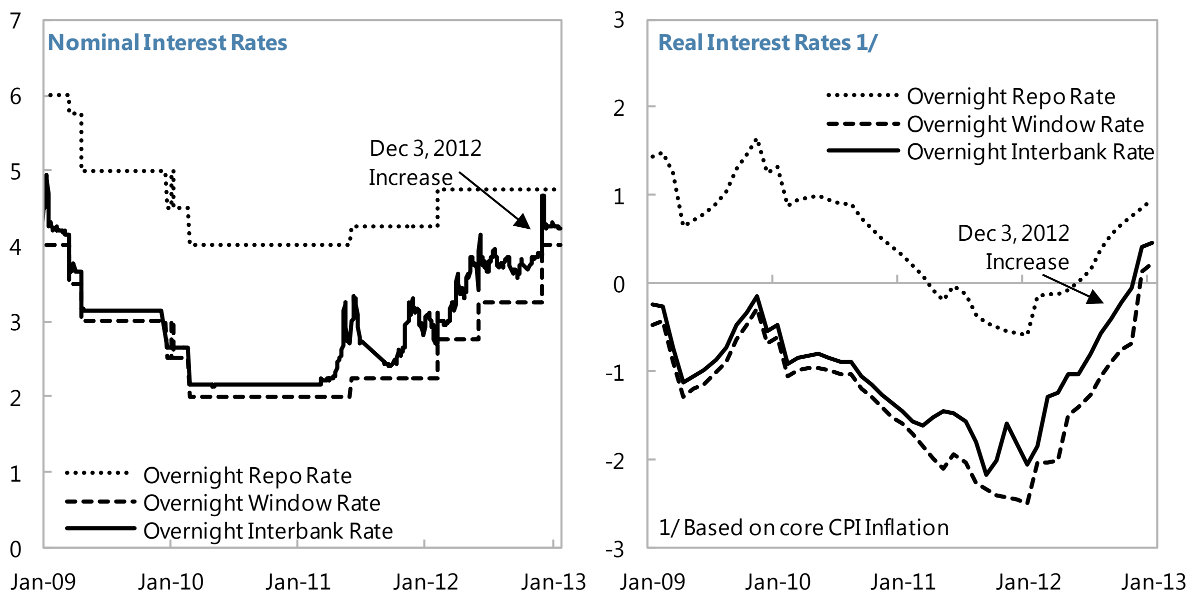
25. The authorities will reduce the losses of the water companies (¶18). Jordan is one of the most water-poor countries in the world, increasingly dependent on expensive nonconventional water resources. Tariffs cover only about two thirds of the costs of the water companies, which run an aggregate loss of about one percent of GDP per year. There are inefficiencies in revenue collection, high operation and maintenance costs, and high technical losses (estimated at about 40 percent). With assistance from the World Bank, the authorities will design an action plan to reform the sector (announcing the plan is a benchmark for September 2013).

B. Monetary Policy—Building Buffers

26. The CBJ will continue to anchor monetary policy on the exchange rate peg. The peg has served Jordan well over the past 17 years by anchoring inflation expectations, as well as supporting macroeconomic and financial stability. Monetary policy should continue to focus on limiting inflationary pressures and sustaining the attractiveness of dinar-denominated assets.

27. The current level of the exchange rate is consistent with medium-term fundamentals, but this assessment hinges on improving the external position through developing cheaper energy sources. A recent analysis of Jordan's real exchange rate indicates that it is broadly in line with fundamentals (IMF Country Report No. 12/119). The same analysis estimates a current account norm of around 6 percent of GDP, which is consistent with staff's current projection of 5 percent of GDP in 2018. Underlying this projection is a current account adjustment of more than 13 percent of GDP during the next five years. This will require not only steadfast adherence to Jordan's fiscal program, but critically depends on cheaper energy sources generating about two thirds of the adjustment. The latter significantly affects the analysis of the current account and the equilibrium level of the real exchange rate.

28. Reserve buffers are being rebuilt (¶24–26). The key objectives are strengthening confidence and reducing dollarization in order to recoup the end-2012 reserve loss. The interest rate hike in early December is a step in the right direction. It appears to have calmed markets and already resulted in a substantial reversal in dollarization. The recent issuance of a dollar-denominated domestic bond and mobilization of donor grants are also welcome. To ensure that the NIR targets can be met, staff suggested that, unless de-dollarization continues at the current pace and financing comes in as projected, the CBJ consider tightening monetary policy further using all available tools, including interest rates.

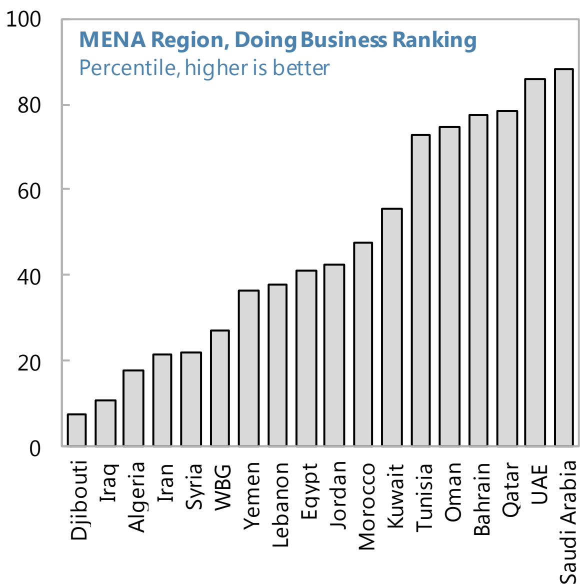


29. External financing—likely through a Eurobond—will help recoup reserves to the program level by end-2013. The authorities are seeking further financing, including from Arab funds, to shore up reserves. At the same time, they are preparing to issue a Eurobond, possibly in the range of $1–1.5 billion, in the third quarter of 2013.[6] Staff thought that, over the medium term, there is additional scope for international investment in the domestic bond market, which would reduce Jordan's need to tap international markets. The authorities noted that international investors were already active in Jordan's bond market, and felt that a substantial increase in the share of international investors would also increase risks.

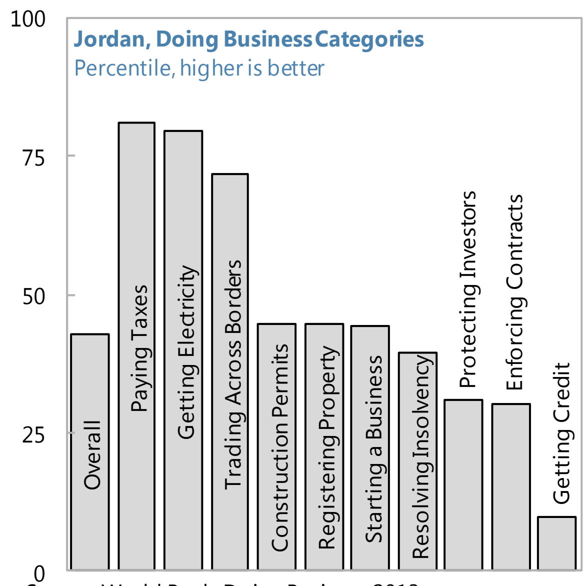
[6] Moody's and Standards & Poor's have maintained over the last year sovereign ratings of Ba2 and BB for Jordan, respectively, with a negative outlook. Fitch does not rate Jordan.

C. Structural Policies—Stronger and More Inclusive Growth

30. More could be done to improve the business environment. According to the World Bank's Doing Business 2013 report, Jordan ranks around the median of MENA countries and as 106th out of 185 countries covered by the report. Jordan scores poorly in "protecting investors," "enforcing contracts," and "getting credit." On the other hand, it does well on "paying taxes," "getting electricity," and "trading across borders." The World Economic Forum's *2012 Global Competitiveness Report* finds that Jordan ranks particularly poorly in labor market efficiency—101st out of 144 countries. Moreover, data from the World Bank's *Enterprise Surveys* indicate that over a third of firms identify tax administration and an inadequately educated workforce as key constraints.



Source: World Bank, Doing Business 2013



Source: World Bank, Doing Business 2013

31. The authorities focus on job creation in the private sector (¶s30 and 31). The substantial increase in central government capital spending in 2013 and over the medium term is expected to raise Jordan's growth rate and private sector productivity (Box 4). But more efforts are needed. The authorities concentrate on supporting growth of skill-intensive sectors (such as financial, education, and health services), where Jordan has a comparative advantage. The World Bank estimates that, if successfully implemented, this strategy could help in reducing the persistently high unemployment, especially among the youth. Also, addressing skills mismatches, in particular of university graduates, could go a long way toward reducing youth unemployment. To this end, the authorities started the "Jordan Job Compact" initiative to assist unskilled, semi-skilled and skilled youths to find jobs through a combination of training, stimulus packages to employers, and small and medium enterprise (SME) finance. Boosting trade could complement this strategy. Staff agreed that work toward a deep and comprehensive trade agreement with the European Union should be pursued, but is likely to take time.

32. The new investment law could create a more level playing field (¶32). It could significantly enhance the transparency of the rules governing investments. The draft under discussion could strengthen the accountability of industrial policymakers through (1) measuring the performance of public agencies and making the results publicly available; and (2) monitoring and evaluating the performance of firms that benefit from tax exemptions. Staff noted that the law also provided an opportunity to simplify and reduce the number of tax exemptions, given the decline in tax revenue by about one fourth since 2008. Once parliament has approved the law, the authorities will establish a "one-stop-shop" at the new Higher Investment Commission for dealing with foreign investors.

33. A stronger focus on improving access to finance is welcome (¶30). Access to finance for SMEs and low-income individuals is hampered by the high perceptions of risk and high collateral requirements. The by-laws for the credit information bureau are now effective. The first licensing of a credit bureau is expected by June 2013 (benchmark), and the institution would become operative by the beginning of 2014. The recently adopted legislation on secured lending and the creation of a registry of collateral assets would allow businesses to utilize their movable assets, including equipment, inventory and accounts receivable, as collateral. The authorities are also developing new insolvency legislation and seeking international support to secure resources for SMEs. The OPEC fund is providing a 75 percent guarantee for SME loans up to JD 1 million with a portfolio limit of JD 500 million, and a $70 million loan agreement for SMEs with the World Bank was recently approved.

34. Data indicate that the banking sector remains sound (¶27). Data for end-June 2012 (latest available) confirm that the asset quality and provisioning have stabilized after deteriorating during 2008–11, and are now beginning to improve. Capital adequacy, liquidity, and profitability indicators are strong, with liquidity and capital adequacy ratios in most banks substantially exceeding the CBJ's requirements. Recent TA from the IMF confirmed that banks should not have problems meeting the capital adequacy requirements under Basel III. Banks' exposure to exchange rate risk is limited by tight prudential limits on net open positions and by a prohibition on lending to unhedged borrowers. Banks' exposure to interest rate risk is also limited, mainly by the short re-pricing horizon of most assets and liabilities. Reporting of bank data could be improved, as it is done only semi-annually and does not include information on main exposures and risks. In this context, staff welcomed the CBJ stepping up its analytical work on financial stability and encouraged the authorities to strengthen data provision by banks, including on risks. Staff also noted the need for close monitoring of interest rate and credit risks, in light of recent interest rate increases.

35. Progress on some supervisory initiatives has been slower than expected (¶28). Notable are new regulations on customer protection issued in October. The CBJ intends to complement these regulations with a new governance code for banks (which will also cover Islamic banks) and fit and proper criteria for bank board members and managers. The quantitative impact study for the implementation of Basel III and the development of an early warning statistical model are proceeding on schedule with TA from the IMF, and are expected to be completed in 2013. Some other supervisory initiatives, though, have been delayed. Staff encouraged the authorities to accelerate the completion of these projects. It noted that new legislation on sukuk could help develop capital markets, though highlighted the need to ensure comparable tax treatment with other financing instruments.

36. Progress is being made on the anti money laundering/combating the financing of terrorism (AML/CFT) framework (¶29). Most deficiencies noted in the mutual evaluation by the Middle East and North Africa Financial Action Task Force (MENA FATF) have been addressed. Plans are under way to further improve the legislative framework, possibly with IMF TA.

RISKS TO THE PROGRAM

37. Risks remain substantial. Of particular concern is the accelerated inflow of Syrian refugees, though this could to a large extent be mitigated by international assistance. Other risks stem from lower growth, a weaker current account (in particular related to higher oil prices), and a further delay in implementing the energy strategy. These risks could trigger lower confidence, which could translate into considerable pressures on reserves. Based on recent experience, though, bilateral support might be forthcoming to replenish reserves. Moreover, the program is designed to lower these risks (Box 5). On the upside, higher gas inflows from Egypt would ease pressure on NEPCO and the fiscal position. In addition to the above, there are implementation risks to the program. Program ownership needs to be made stronger, as evidenced in domestic political unrest related to fuel price increases. The authorities have strengthened outreach and the king in early January called for all segments of society to be engaged in a national dialogue. This more inclusive consultation and the political transition, though time-consuming, are expected to help in generating buy-in for the program. Staff welcomed these efforts and offered to assist in outreach. Most importantly, coordination between macro agencies and capacity constraints pose risks to program monitoring. Building on the successful participation of a PFM expert in the last mission, it was agreed to continue integrating TA experts into future review missions.

PROGRAM MODALITIES AND SAFEGUARDS ASSESSMENT

38. The program design was modified to allow for a better monitoring of the combined central government deficit and NEPCO losses. A PC on NEPCO's net losses replaces the PC on its net borrowing, as the former provides a better picture of NEPCO's overall performance. Because the central government is now covering NEPCO's losses, its primary deficit reflects the combined financing needs of both entities; there is a downward adjuster on the primary deficit should transfers to NEPCO be lower than projected. The program's technical memorandum of understanding was strengthened taking into account the recommendations of the safeguards assessment. To ensure that NIR will stay at a prudent level, a cap for the downward adjustment of the NIR target was added in case there are shortfalls in external financing. Quantitative PCs and indicative targets were set for June, September, and December 2013.

39. Structural benchmarks for 2013 are supporting the program objectives. They focus on (1) raising revenue through tax policy and administration measures; (2) strengthening public financial management for a better budget implementation through commitment control; (3) bringing the energy and water sectors back to cost recovery; and (4) enhancing growth and making it more inclusive.

40. The program has been re-phased to better reflect the pace of energy reforms. The second review was not completed because of the delay in finalizing the energy strategy. To re-schedule the undrawn disbursement, the authorities have requested to re-phase the undrawn Fund purchases in one installment of SDR 170.5 million and eight equal installments of SDR 85.25 million spread over the program period. This re-phasing will result in a program that is better aligned with the pace of program measures. The next review will be contingent on the public announcement of the energy strategy, which appropriately eliminates NEPCO's losses, and actions to achieve cost recovery in the sector, alongside satisfactory performance under the program. While disbursements remain front-loaded because financing needs in 2013 have not changed substantially, they are now less front-loaded than in the original program.

41. The program is fully financed for the next 12 months (¶15). The GCC is expected to cover most of the financing needs, with the Fund and other donors covering the remainder. The UAE and Saudi Arabia have already transferred $1 billion and $200 million, respectively, to the CBJ. Further grants are expected to follow in 2013 from Saudi Arabia ($250 million), Kuwait ($250 million), and Qatar ($110 million). Financing assurances have been obtained for the rest of the year. Nonetheless, if there are early indications that projected financing will not be received, the authorities will consult with the Fund on alternative financing approaches and further policy adjustments. With the projected adjustment, the external debt dynamics currently appear to be broadly benign under most adverse scenarios (Annex II).

Jordan: External Financing in 2013
(In millions of U.S. dollars)

	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2013 Total
Grants excluding GCC	201	28	0	263	492
EU	0	0	0	79	79
Saudi Arabia	200	0	0	0	200
US	0	28	0	184	212
Other	1	0	0	0	1
GCC grants					
GCC grants received by CBJ	1,000	0	250	360	1,610
GCC grants received by MOF	57	290	290	290	928
Loans	0	184	1,200	133	1,516
France	0	66	0	0	66
Japan	0	18	0	0	18
WB DPL	0	100	0	0	100
Other, including market access	0	0	1,200	0	1,200
EU	0	0	0	133	133

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

42. Jordan continues to meet all exceptional access criteria. The pressures on the current account remain high (criterion 1). While public debt would continue to increase under a no policy action scenario (Annex I), the implementation of the authorities' national program will bring it to a sustainable level in the medium term (criterion 2). Jordan plans to access the Eurobond market in 2013 (criterion 3). While there are implementation risks, the authorities have shown in 2012 their ability to implement difficult reforms, and staff believes that the policy program overall has a strong prospect of success (criterion 4).

43. Jordan has the capacity to repay the Fund. Jordan has an excellent record of payments to the Fund. Peak Fund access projections remain unchanged from the Stand-By Arrangement request (800 percent of the quota). Fund credit outstanding would reach a maximum of 5.2 percent of GDP and 20.3 percent of gross reserves in 2015. Access to international credit markets will remain essential, with the forthcoming Eurobond issue a first test of Jordan's ability to access the markets.

44. The CBJ is addressing recommendations of the safeguards assessment concluded in January 2013 (¶34). The assessment found that, while elements of a sound governance framework are in place, oversight arrangements and legal underpinnings of CBJ autonomy need to be enhanced. It also identified some items relating to NIR that required an adjustment to data used for program monitoring purposes, and recommended periodic review of the program data compilation process.[7] The assessment confirmed that requirements concerning Fund disbursements for direct budget financing are in place. The CBJ is committed to implementing the recommendations and has requested Fund TA in this respect. Any further requirements will form part of the safeguards monitoring of the CBJ.

STAFF APPRAISAL

45. Jordan continues to face high uncertainties. Gas inflows from Egypt have picked up since late 2012 and there is high-level commitment to maintain them at an elevated level in 2013. On the downside, however, the influx of refugees from Syria has rapidly accelerated, putting pressures on external and fiscal accounts.

46. The political transition is an opportunity. There is a general sentiment of a return of confidence in the economy. Consultations with parliament on the selection of the government as well as consultations on the energy strategy could help in generating broader buy-in for the program.

[7] The assessment found no significant issues with the CBJ accounts, with the exception of one technical error in the computation of NIR. Accordingly, the NIR targets for September and December 2012 were modified at end-September 2012.

47. Fiscal and energy performance was broadly in line with the 2012 program; however, an accumulation of arrears is of concern. Though narrowly missing the December PC on the deficit, the central government was broadly on track thanks to revenue over-performance coupled with tight cash spending control. However, arrears might have been accumulated as commitment limits were not adjusted in line with tighter cash limits. NEPCO's operating losses were in line with expectations, but the company did not repay arrears as planned.

48. Uncertainty took a toll on NIR, but confidence is improving. Dollarization increased substantially during October–November, leading to a substantial loss in NIR. The authorities managed this episode well. They have taken action to rebuild reserves through an increase in interest rates and by attracting donor funds as well as domestic dollar-denominated financing. Since its peak in early December, dollarization has started to decline in recent months.

49. Looking ahead, policy choices are difficult. Jordan is going through a political transition and absorbing a large inflow of refugees, while continuing to suffer from chronic unemployment and poverty. Policy measures must be carefully calibrated to avoid social tensions. The authorities' program strikes a sound balance between addressing economic imbalances and safeguarding social stability. It is appropriately focused on consolidation, rebuilding reserves, and supporting growth. Given implementation risks, it is essential to ensure that all macro-relevant agencies closely work together.

50. Adjustment in the central government is well underway. The politically very difficult removal of general subsidies on fuel products highlighted the authorities' commitment. It paved the way for fiscal adjustment in 2013 while allowing for higher capital spending. Efforts to improve tax administration should be accelerated, as they could help raise substantial revenue in the medium term. Also critical for the medium term are changes to the income tax law and the costing of tax incentives, which could substantially boost revenue.

51. Stronger commitment control for budget spending is important. The central government cash budget was managed within the 2012 program targets, providing assurances for 2013. It is important to amend the expenditure commitment system to ensure that tighter cash limits do not translate into arrears in the future. Any arrears accumulated in 2012 should be regularized, as a lack of payment discipline in the government could trickle into the economy, including through tax arrears.

52. Delays in formulating and announcing the energy strategy were economically costly. The draft strategy sets an appropriate time table and milestones for bringing NEPCO back to cost recovery. Given its relevance for the economy, buy-in from parliament is important. In the medium term, the strategy envisages LNG becoming the main energy source. The new terminal would become operational in 2015 and substantially reduce energy imports. The strategy also appropriately focuses on gradual increases in tariffs, while protecting the poor. Implementing a tariff increase by July 1 will provide considerable assurances for the success of the program.

53. For 2013, NEPCO needs to stay firmly within program targets. Because NEPCO's performance hinges on the magnitude of gas inflows from Egypt and oil prices, the authorities' commitment to further tariff increases is critical, as is their intention to regularize NEPCO's arrears. With the government now raising debt to cover NEPCO's operating losses, NEPCO should be well placed to clear the bulk of its arrears in 2013.

54. The CBJ is rightly focused on rebuilding reserves. The CBJ is seeking to recoup the reserve losses incurred in late 2012. In this regard, instilling confidence in the program through enhanced outreach will play an important role, though further interest rate increases might be needed. The authorities' intention to seek additional external financing, possibly through a Eurobond, is appropriate. The CBJ's decisive tackling of the recommendations of the safeguards assessment is commendable.

55. Jordan could benefit from a stronger growth agenda. The increase in capital spending financed by the GCC is expected to help support growth. This said, Jordan lags in some aspects of its business environment, most notably access to finance. Reforms in this area are underway, but efforts to create a credit bureau should be intensified. The new investment law could make Jordan a more attractive investment location, but should be used as an opportunity to curb tax incentives to prevent a further drain on revenue.

56. Initiatives to strengthen banking supervision and develop capital markets are important. The regulations on customer protection and the sukuk legislation are welcome. Given high uncertainties, the CBJ should remain vigilant in monitoring the banking system, including the impact of recent interest rate increases.

57. Risks remain high. Political uncertainty is now less than at the time of the approval of the program. But the implications of the Syria conflict weigh heavily on Jordan's economy and there are heightened risks from a weaker current account and a further delay in the energy strategy. As experienced in late 2012, a reversal in confidence can quickly result in pressures on reserves. Thus, it is all the more important to pursue strong program performance, including by addressing capacity constraints.

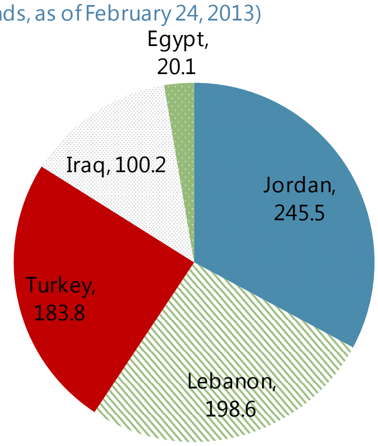
58. Staff believes that the program is moving in the right direction. It therefore recommends completion of the first review; the granting of waivers for nonobservance of the end-December performance criterion on NIR (due to corrective measures aimed at meeting the original program's end-2013 target) and of the primary fiscal deficit of the central government (due to the small deviation from the target); as well as a re-phasing of the Stand-By Arrangement.

Box 1. The Impact of the Syria Conflict on Jordan

The conflict in Syria imposes a significant burden on Jordan. The economy is primarily affected through a massive inflow of refugees and disruptions to bilateral and transit trade. Jordan's diversified trade and financial sectors are mitigating the impact (bilateral trade with Syria accounted for less than 3 percent of the total trade in 2010, and Jordanian banks' exposure to Syria is limited).

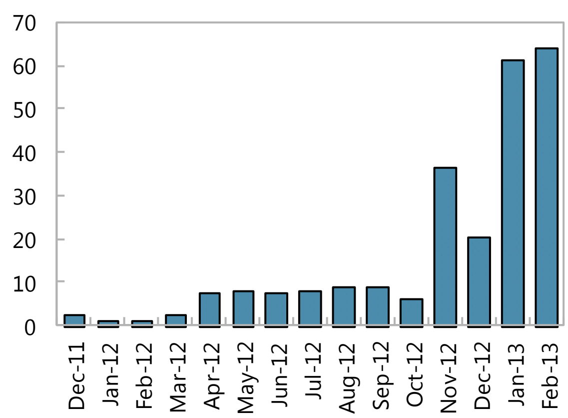
The massive influx of refugees is a challenge. Jordan is the largest recipient of Syrian refugees in the region—according to the UNHCR, since the beginning of hostilities it has received over 300 thousand refugees, of which about 250 thousand registered (equivalent to about 5 percent of Jordan's population; Figure 1). The authorities believe that the number is over 500 thousand, as many Syrians who had relatives or friends in Jordan crossed the border early on, without seeking official refugee status. With over 40 percent of the refugees aged between 18 and 59, the domestic labor force is expanding, possibly leading to pressure on the labor market. Most of the refugees reside in camps. Inflows accelerated since November 2012 when the conflict escalated (Figure 2). Prior to the conflict, Jordan was already hosting the largest refugee population in the world.

Figure 1. The Number of Syrian Refugees by Country
(In thousands, as of February 24, 2013)



Source: UNHCR.

Figure 2. Monthly Inflow of Syrian Refugees to Jordan.
(In thousands, as of February 24, 2013)



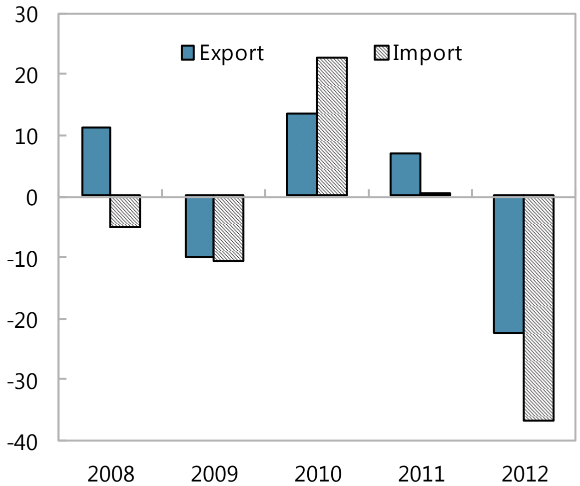
Source: UNHCR.

Costs of hosting the refugees are large. The international community covers a large part of the costs, but own-budget spending has also increased. Humanitarian assistance to refugees is provided through the United Nations agencies. Donors, in particularly the GCC, pledged at a high-level conference in Kuwait in January 2013 more than $1.5 billion in new aid to help Syrian refugees in neighboring countries and within Syria. For 2012, the authorities estimate spending of one percent of GDP on refugees, mostly related to covering their educational and healthcare needs as well as increased security.

Box 1. The Impact of the Syria Conflict on Jordan (concluded)

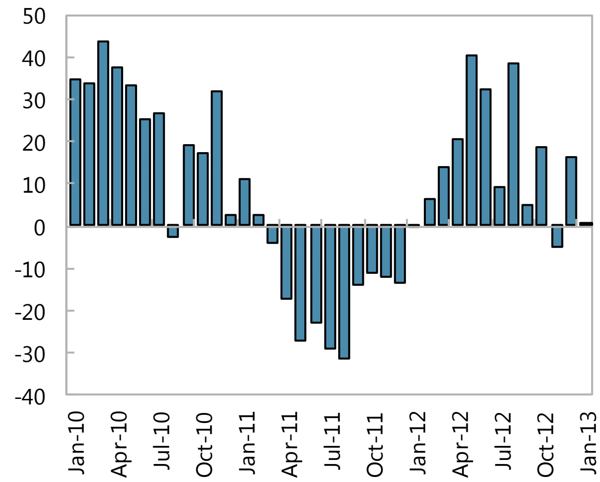
Trade and banking are adversely affected. In 2012, exports and imports with Syria declined by 22 and 37 percent, respectively, compared to 2011 (Figure 3). More importantly, transit trade halted to Turkey, Lebanon and Europe (accounting for about 11 percent of exports and 30 percent of imports). Trade has also become more costly due to heighted security concerns and an increase in the cost of alternative shipping routes (Iraq is not allowing transit trade, so trade has to go by sea). Banks' exposure to Syria is limited; those with an exposure have made adequate provisions for potential losses. After a large drop in 2011, tourism recovered in 2012, possibly also reflecting that in the summer the GCC banned their citizens from traveling to Lebanon (Figure 4).

Figure 3. Bilateral Trade between Jordan and Syria
(Year-on-year Percent Change)



Sources: Jordanian authorities; and IMF staff estimates.

Figure 4. Tourism Receipts.
(Year-on-year Percent Change)



Sources: Jordanian authorities; and IMF staff estimates.

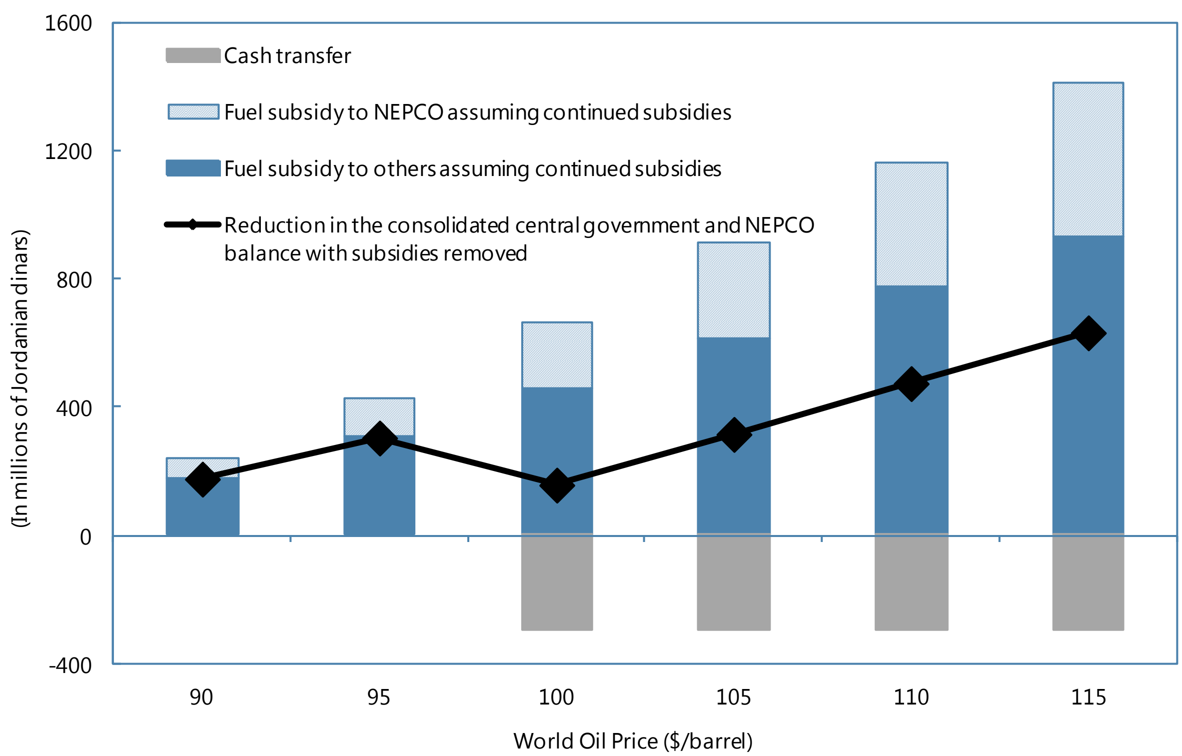
Box 2. Replacing the Fuel Subsidy with Cash Transfers

The authorities removed the general fuel subsidy on November 14, 2012. Retail prices were increased for gasoline 90 (14 percent), LPG (54 percent), and diesel and kerosene (33 percent). This brought all fuel products back to cost recovery with the exception of LPG, which retains a small subsidy. The authorities resumed on January 1 the monthly price adjustment mechanism that had been suspended in early 2011.

Cash transfers mitigated the social impact. A cash transfer (estimated at 1.1 percent of GDP in 2013) is compensating families with an annual income below JD 10,000 ($14,100) (70 percent of the population) if the oil price is above $100 per barrel. The transfer amounts to about $100 per person per year; it is capped at a maximum of six family members. The transfer is paid in three installments, the first of which was disbursed in the last few weeks of 2012.

Savings from the subsidy depend on the oil price. Based on an average oil price of $100 per barrel, the elimination of the subsidy yields gross savings of about 2½ percent of GDP. Savings on a net basis should take into account the compensatory cash transfers and that NEPCO does not anymore receive fuel products at subsidized prices.

Jordan: Savings in 2013 from Removing Fuel Subsidies



Sources: Jordanian authorities; staff estimates.

Box 3. Energy Strategy

The strategy is based on three pillars:

Gradually raising tariffs while protecting the poor. The strategy recognizes that tariff increases are the only way to reduce NEPCO losses in the short term. Tariff hikes will be gradual and evenly paced over the medium term. For each increase in the bulk tariff (the tariff NEPCO charges distribution companies and large industries), an end-user tariff schedule will be designed so as to protect the poor.

Diversifying Jordan's energy sources to reduce generation costs.

- The main source is a new LNG terminal in Aqaba, through which LNG could be imported at market prices (with a reduction in generation costs by about 20 percent). In order for the terminal to become operational, the strategy envisages, in line with industry standards: (i) the lease of a floating storage and re-gasification unit (contract to be signed at around end-2013); (ii) the construction of the land infrastructure (jetty and pipes to convey the gas to the existing pipeline; contract to be signed by June 1, 2013; benchmark); and (iii) the signing of an international supply contract (expected in early 2014).

- To reduce Jordan's dependence on energy imports, other energy sources are being developed (with varying but significantly lower than present generation costs). The construction of solar and wind farms has been fast-tracked, with two major projects expected to start generation by 2016. Jordan is also exploring the potential for oil shale exploitation, which could provide a cheap source of energy; a facility based on this technology, though, would not become operational before 2017.

Increasing energy efficiency, reducing distribution losses, and contingency measures. The strategy includes a number of actions—either already implemented or close to adoption—that aim to reduce Jordan's energy intensity. These include the introduction of low-voltage bulbs, energy efficiency ratings for buildings and appliances, and new building regulations requiring a share of energy use to be self-generated. The electricity regulator will revise the operational framework for distribution companies in order to provide incentives to reduce distribution losses and invest in the low voltage network. Demand management measures (such as rolling blackouts and selective interruption of service for commercial activities at night) are also considered in the event the planned measures prove insufficient for NEPCO losses to stay within program targets.

Box 4. Fiscal Spending Multipliers

The expenditure policy underlying Jordan's fiscal consolidation is growth friendly. The 2013 budget envisages a large reorientation in spending toward an increase in capital spending of two percent of GDP. At the same time, the elimination of fuel subsidies and most other expenditure measures will allow a reduction in the fiscal deficit in 2013. Staff's empirical analysis suggests that this is growth enhancing. Moreover, it suggests that the planned infrastructure investments funded by the GCC could go a long way in improving medium-term growth prospects.

Capital spending has a statistically significant impact on output both in the short run and the long run. Such spending not only increases aggregate demand, but also augments the economy's aggregate stock of physical capital, and thereby improves private sector productivity. Staff's empirical analysis shows that capital spending has a statistically significant short-run multiplier of 1.1 and long-run multiplier of about 2.3–2.4 (Models 1 and 2).

Overall, current spending has no statistically significant effect on GDP. While staff's empirical analysis indicates that current spending has positive short-run and long-run multipliers of 0.4 and 0.8, respectively, these multipliers are not statistically significant (Model 1). Only government spending on goods and services has a statistically significant impact on output, with an estimated short-run multiplier of 1 and long-run multiplier of 2.1 (Model 2).[1] The other components of current spending—interest payments, military spending, transfers and subsidies, and wages and salaries—do not have any explanatory power, with estimated multipliers that are not statistically significant (Models 3 through 6). For the latter three spending components, this result may reflect that they may have a large import content, dampening their impact on domestic economic activity. Also, interest payments have no direct bearing on aggregate demand, and the absence of a statistically significant impact on output is not surprising.

[1] Looking at advanced economies, Batini, Callegari, and Melina (2012, IMF Working Paper, WP/12/190) find that much of the impact of fiscal spending on output materializes within one year, implying that the size of long-run multipliers are broadly similar or only slightly higher than that of short-run multipliers. However, the findings of Ilzetzki, Mendoza, and Vegh (2010, NBER Working Paper 16479) suggest that government consumption and investment have a long-run multiplier that is about twice the size of the short-run multiplier for high-income countries. Their findings also suggest that for developing countries, as well as countries with fixed exchange rates, the long-run government consumption multiplier is at least twice the size of the short-run multiplier. Our results regarding the relative size of the long-run vis-à-vis short-run multipliers are broadly consistent with the latter study.

Box 4. Fiscal Spending Multipliers (concluded)

REAL GOVERNMENT SPENDING MULTIPLIERS 1/, 2/

Model 1	Current Expenditures		Capital Expenditures	
Sample 1985-2011	estimate	p-value	estimate	p-value
Short-run elasticity	0.11	0.214	0.07	0.090
Long-run elasticity	0.24	0.151	0.15	0.049
Share of GDP	0.30		0.07	
Short-run multiplier	0.4		1.1	
Long-run multiplier	0.8		2.3	

Model 2	Goods and Services		Capital Expenditures	
Sample 1985-2011	estimate	p-value	estimate	p-value
Short-run elasticity	0.03	0.006	0.07	0.044
Long-run elasticity	0.07	0.008	0.16	0.013
Share of GDP	0.03		0.07	
Short-run multiplier	1.0		1.1	
Long-run multiplier	2.1		2.4	

Model 3	Goods and Services		Capital Expenditures		Interest Payments	
Sample 1985-2011	estimate	p-value	estimate	p-value	estimate	p-value
Short-run elasticity	0.03	0.008	0.07	0.105	-0.02	0.754
Long-run elasticity	0.07	0.011	0.15	0.059	-0.03	0.754
Share of GDP	0.03		0.07		0.05	
Short-run multiplier	1.0		1.0		-0.3	
Long-run multiplier	2.1		2.2		-0.7	

Model 4	Goods and Services		Capital Expenditures		Military	
Sample 1985-2011	estimate	p-value	estimate	p-value	estimate	p-value
Short-run elasticity	0.03	0.022	0.07	0.051	0.06	0.624
Long-run elasticity	0.06	0.120	0.13	0.069	0.10	0.562
Share of GDP	0.03		0.07		0.09	
Short-run multiplier	0.9		1.1		0.6	
Long-run multiplier	1.7		2.0		1.1	

Model 5	Goods and Services		Capital Expenditures		Transfers and Subsidies	
Sample 1985-2011	estimate	p-value	estimate	p-value	estimate	p-value
Short-run elasticity	0.03	0.012	0.07	0.047	-0.01	0.747
Long-run elasticity	0.07	0.017	0.16	0.014	-0.02	0.745
Share of GDP	0.03		0.07		0.07	
Short-run multiplier	0.9		1.1		-0.1	
Long-run multiplier	2.1		2.4		-0.3	

Model 6	Goods and Services		Capital Expenditures		Wages and Salaries	
Sample 1985-2011	estimate	p-value	estimate	p-value	estimate	p-value
Short-run elasticity	0.03	0.005	0.07	0.080	0.08	0.441
Long-run elasticity	0.08	0.008	0.14	0.036	0.18	0.447
Share of GDP	0.03		0.07		0.06	
Short-run multiplier	1.0		1.0		1.4	
Long-run multiplier	2.2		2.1		3.1	

1/ Using historical annual time series data starting in the mid-1980s, we estimate spending multipliers in the following way: for each model, we start with an Autoregressive Distributed Lag (ADL) Model involving the logarithm of real GDP, the logarithm of real spending component(s) specified in that model, their lags, and a time trend. The latter is included to capture the combined effect of variables that affect GDP other than government spending. For each model, the lag length is determined using sequential F-tests, as well as the Schwarz Information Criterion. Short run elasticities are estimated as the contemporaneous coefficients of the real spending components. The long run elasticity is computed as the sum of the coefficients of the current and lagged spending components divided by one minus the sum of the coefficients of lagged output. The multiplier for a given spending component is then computed as the estimated elasticity divided by the share of the spending component in GDP.

2/ In all models, the coefficient of the time trend is highly statistically significant. Moreover, recursive estimation as well as recursive Chow tests show that the estimated multipliers for all models are constant over time.

Box 5. Jordan: Risk Assessment Matrix

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized	Policy Recommendations to Mitigate Risks
	Short Term Risks		
Global oil shock (driving oil prices to $140 per barrel)	***Low*** A sharp increase in oil prices could be triggered by geopolitical events.	***High*** Jordan is highly dependent on energy imports. Higher prices would make the necessary adjustment in the external and fiscal positions increasingly challenging. Social pressures for more current expenditure (subsidies and transfers) would increase. NEPCO's deficit would increase further.	(1) Implementation of an automatic fuel pump price increase (re-established in January 2013); (2) increases in electricity tariffs to reduce the electricity subsidy; and (3) over the medium term, diversification of energy sources.
Spillover from prolonged civil war and the humanitarian crisis in Syria.	***High*** The influx of refugees has recently accelerated. The UNHCR reports that there are now over 300 thousand Syrian refugees in Jordan. The authorities estimate that the total number is close to 500 thousand.	***High*** The inflow of refugees is putting pressure on fiscal accounts and labor markets. Further escalation of the conflict could result in a slowdown in external inflows (remittances, tourism, and FDI), and also capital outflows, a further slowdown in intraregional trade, and possibly lower growth.	(1) Seeking financing from donors to ensure that the refugees are appropriately cared for, including through complementary central government assistance; and (2) instilling confidence through strong domestic policies, anchored in a medium-term adjustment to attract investment in Jordan.

Box 5. Jordan: Risk Assessment Matrix (concluded)

Less natural gas from Egypt	***Medium to High*** Despite a high level agreement, there remains uncertainty regarding gas flows. Higher domestic demand for energy in Egypt, particularly in the summer, may again constrain gas supply to Jordan.	***Medium*** Projections have been doubled compared with the program, but are still at only 40 percent of the contract levels. Gas inflows remaining at the 2012 level would require an additional adjustment by about one percent of GDP.	(1) Contingency measures in case gas from Egypt is lower than programmed; and (2) in the medium term, building an LNG terminal in Aqaba.
		Medium Term Risks	
Protracted period of slow European growth.	***Medium*** This scenario entails gradual, but persistent deterioration in euro area growth, with declining private investment owing to the debt overhang on firms' balance sheets compounded by the knock-on effects to private consumption.	***Low to Medium*** There is limited exposure of Jordanian banks to the Euro zone, and limited trade links with Europe. The main impact would be through higher borrowing costs. The impact would be mitigated by banks' limited exposure to interest rate risk.	(1) Further strengthening the banking supervisory framework to monitor banks' exposures to main risks; (2) developing an early warning model with TA from the Fund.
Renewed pressure on foreign exchange reserves	***Low*** The reserve level could drop in case of a weakening of confidence and deposit dollarization.	***Medium to High*** While banks' net open positions are reportedly small, and lending in foreign exchange to unhedged borrowers is prohibited, uncertainty could result in large capital outflows.	(1) Appropriate monetary policy in the near term; and (2) a strong medium-term program with broad national buy-in to instill confidence.

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

	2010	2011	Prog. 2012	Prel. 2012	Prog. 2013	Projections 2013	2014	2015	2016	2017	2018
Output and prices			(Percentage change, unless otherwise indicated)								
Real GDP at market prices	2.3	2.6	3.0	2.8	3.5	3.3	3.5	4.0	4.5	4.5	4.5
GDP deflator at market prices	8.4	6.4	5.4	5.1	4.3	5.7	4.0	3.2	2.6	2.5	2.4
Nominal GDP at market prices	10.9	9.1	8.6	8.1	8.0	9.2	7.6	7.3	7.2	7.1	7.0
Nominal GDP at market prices (JD millions)	18,762	20,477	22,230	22,127	23,998	24,160	26,002	27,904	29,922	32,056	34,297
Nominal GDP at market prices ($ millions)	26,425	28,881	31,353	31,209	33,847	34,076	36,674	39,357	42,203	45,213	48,374
Consumer price index (annual average)	5.0	4.4	4.5	4.8	3.9	5.9	3.2	2.6	1.9	2.2	2.1
Consumer price index (end of period)	6.1	3.3	4.4	7.2	4.2	3.2	2.6	2.3	2.0	2.0	2.0
Unemployment rate (period average, percent)	12.5	12.9	11.4	12.2	...	...	...	...	...	...	...
Investment and savings			(In percent of GDP, unless otherwise indicated)								
Consumption	97.7	103.2	102.9	104.6	96.7	97.3	94.6	91.5	90.0	88.6	86.7
Government	20.7	20.5	17.8	17.3	17.8	16.6	16.6	16.6	16.6	16.6	16.6
Other	77.0	82.8	85.0	87.3	78.8	80.7	78.0	74.9	73.4	71.9	70.1
Gross domestic investment	23.1	24.6	24.2	25.4	25.9	27.3	27.4	27.0	26.7	27.2	28.2
Government	5.2	5.3	6.7	7.5	7.8	9.7	9.4	9.1	8.5	8.3	8.6
Other	17.9	19.3	17.6	18.0	18.1	17.6	18.0	17.9	18.3	18.8	19.6
Gross national savings	16.0	12.6	10.1	7.4	16.0	17.4	18.3	20.5	21.1	22.0	23.6
Government	-0.4	-0.5	0.1	-1.3	2.4	0.6	1.4	3.5	4.5	5.6	6.3
Other	16.4	13.1	10.0	8.7	13.7	16.8	16.9	17.0	16.6	16.3	17.3
Savings-investment balance	-7.1	-12.0	-14.1	-18.1	-9.9	-9.9	-9.1	-6.5	-5.7	-5.2	-4.7
Government	-5.6	-5.7	-6.5	-8.8	-5.5	-9.1	-8.0	-5.6	-4.0	-2.7	-2.3
Other	-1.5	-6.3	-7.6	-9.3	-4.4	-0.8	-1.1	-0.9	-1.6	-2.5	-2.4
Fiscal operations											
Revenue and grants	24.9	26.4	25.2	22.8	25.8	26.0	25.2	24.9	24.7	24.0	23.3
Of which: grants	2.1	5.9	4.2	1.5	3.8	4.2	3.3	3.0	2.8	2.1	1.4
Expenditure, net lending,transfer to NEPCO, and other use of cash	30.4	33.2	31.7	31.7	35.0	35.1	34.0	33.0	31.5	30.5	30.3
Primary government balance excluding grants	-5.6	-9.6	-8.2	-7.7	-10.0	-9.8	-7.2	-4.5	-3.0	-1.2	-0.3
Primary government balance excluding grants (excl. NEPCO)	-5.6	-9.6	-8.2	-7.4	-6.3	-5.5	-4.5	-2.7	-2.3	-1.2	-0.3
NEPCO loss	...	-4.9	-5.3	-5.2	-3.8	-4.3	-2.7	-1.8	-0.7	0.0	0.0
Government and government-guaranteed gross debt 1/	67.1	70.7	79.2	79.6	83.0	83.8	87.0	87.2	85.8	83.3	81.0
Of which: external debt	24.6	21.9	20.8	22.3	19.5	22.3	21.9	20.4	18.3	16.3	14.7
External sector											
Current account balance (including grants), of which:	-7.1	-12.0	-14.1	-18.1	-9.9	-9.9	-9.1	-6.5	-5.7	-5.2	-4.7
Exports of goods, f.o.b. ($ billions)	7.0	8.0	8.3	7.9	9.2	8.5	8.7	9.1	9.6	10.1	10.7
Imports of goods, f.o.b. ($ billions)	13.8	16.8	18.2	18.4	18.5	18.5	18.8	18.8	19.4	20.3	21.3
Oil and oil products ($ billions)	3.1	4.9	5.8	5.7	5.4	5.2	5.1	4.6	4.5	4.6	4.7
Current account balance (excluding grants)	-11.3	-19.0	-18.9	-22.8	-14.2	-16.9	-14.2	-10.8	-9.0	-7.8	-6.9
Private capital inflows (net)	7.9	6.8	3.9	7.3	4.7	7.3	8.5	7.9	7.4	7.4	7.3
					(Annual percentage changes)						
Monetary sector											
Broad money	11.5	8.1	8.1	3.4	9.5	10.6	...	...	...	...	...
Net foreign assets	13.4	-7.2	-22.8	-29.3	-11.7	-6.1	...	...	...	...	...
Net domestic assets	9.9	20.8	27.6	24.1	17.6	16.7	...	...	...	...	...
Credit to private sector	7.2	9.6	6.7	6.9	9.0	7.0	...	...	...	...	...
Credit to central government	4.8	27.9	17.4	25.9	14.9	13.6	...	...	...	...	...
Memorandum items:											
Gross usable international reserves ($ millions)	12,449	10,733	7,455	5,299	7,520	7,524	9,092	10,011	10,575	11,357	12,439
In months of prospective imports	7.4	5.9	4.0	2.9	3.9	4.0	4.9	5.2	5.3	5.4	5.7
Short-term debt (in percent of international reserves)	5.3	1.6	2.3	3.2	2.0	2.8	2.9	3.0	2.7	2.4	2.0
Population (in millions)	6.11	6.25	6.40	6.40	6.54	6.54	6.69	6.85	7.01	7.17	7.33
Nominal per capita GDP ($)	4,323	4,618	4,901	4,879	5,172	5,207	5,479	5,747	6,025	6,309	6,599
Stock market index (annual percentage change)	-6.0	-15.9	...	-1.9	...	...	...	...	...	...	...
Nominal exchange rate (peg to the US dollar)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Real effective exchange rate (end of period, 2000=100)	107.7	106.4	...	107.9	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	4.4	-1.2	...	1.4	...	...	...	...	...	...	...

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

1/ Includes NEPCO debt.

Table 2a. Jordanian Central Government: Summary of Fiscal Operations, 2011–18

(In millions of Jordanian dinars)

		Prog.	Prel.	Prog. 1/	Projections					
	2011	2012	2012	2013	2013	2014	2015	2016	2017	2018
Total revenue and grants	5,414	5,596	5,054	6,185	6,284	6,561	6,952	7,391	7,682	7,988
Domestic revenue	4,199	4,663	4,727	5,264	5,277	5,699	6,103	6,542	7,010	7,493
Tax revenue, *of which*:	3,055	3,333	3,351	3,757	3,740	4,044	4,327	4,638	4,971	5,311
Taxes on income and profits	667	695	688	755	752	819	889	963	1,042	1,114
General sales tax	2,026	2,181	2,275	2,405	2,589	2,786	2,990	3,206	3,435	3,675
Taxes on foreign trade	287	293	285	299	287	318	318	328	343	360
Other taxes	75	164	103	299	112	122	131	141	151	162
Nontax revenue	1,144	1,329	1,376	1,507	1,537	1,654	1,775	1,904	2,040	2,182
Grants	1,215	934	327	921	1,007	862	849	849	672	494
Total expenditures, net lending, other use of cash	6,802	7,047	7,008	8,401	8,481	8,836	9,205	9,428	9,789	10,395
Current expenditure	5,743	6,292	6,186	6,278	6,208	6,820	7,293	7,714	8,166	8,659
Wages and salaries	950	1,149	1,177	1,211	1,282	1,380	1,481	1,588	1,701	1,820
Interest payments	429	572	583	728	838	1,079	1,153	1,166	1,167	1,186
Domestic	346	476	483	609	666	899	943	983	1,017	1,106
External	83	96	100	119	172	181	210	183	151	80
Military expenditure	1,801	1,790	1,744	1,944	1,767	1,902	2,041	2,188	2,345	2,508
Fuel subsidies	567	626	674	166	0	0	0	0	0	0
Food subsidy	217	185	210	225	225	227	223	203	202	200
Transfers, *of which*:	999	1,570	1,494	1,555	1,759	1,870	2,006	2,151	2,305	2,466
Pensions	861	1,029	982	1,080	1,058	1,139	1,222	1,310	1,404	1,502
Targeted payments for energy	…	…	107	50	270	279	299	321	343	367
Purchases of goods & services	779	400	304	450	337	363	389	417	447	478
Capital expenditure	1,059	755	676	1,223	1,236	1,316	1,412	1,514	1,622	1,735
Net lending	0	0	2	0	0	0	0	0	0	0
Transfer to finance NEPCO operating loss 1/	…	…	67	900	1,037	700	500	200	0	0
Adjustment on receivables and payables (use of cash) 2/	…	…	77	…	0	0	0	0	0	0
Total balance from above the line	-1,388	-1,450	-1,954	-2,216	-2,197	-2,274	-2,254	-2,037	-2,107	-2,407
Statistical discrepancy, net	-213	…	-2	…	0	0	0	0	0	0
Overall balance without additional measures	-1,175	-1,450	-1,952	-2,216	-2,197	-2,274	-2,254	-2,037	-2,107	-2,407
Additional measures needed	…	…	…	…	1	194	691	837	1,240	1,618
Overall balance after all measures	-1,175	-1,450	-1,952	-2,216	-2,197	-2,080	-1,563	-1,200	-866	-789
Financing	1,175	1,450	1,952	2,216	2,197	2,080	1,563	1,200	866	789
Foreign financing (net)	-131	45	10	-43	613	168	-146	-388	-412	-436
Domestic financing (net)	1,306	1,405	1,942	2,259	1,584	1,912	1,709	1,588	1,278	1,225
CBJ on-lending of net IMF financing	0	541	272	324	524	366	274	-281	-490	0
Other domestic bank financing	1,113	645	1,632	1,698	820	1,288	1,157	1,572	1,449	884
Domestic nonbank financing	193	220	38	237	240	258	277	297	318	341
Memorandum items:										
NEPCO										
NEPCO loss (2013 PC)	-1,008	-1,180	-1,159	-900	-1,037	-700	-500	-200	0	0
NEPCO cash balance (2012 PC)	-563	-1,568	-1,143	-900	-300	-145	0	0	0	0
Primary government deficit excluding grants (PC) 3/	-1,961	-1,812	-1,696	-2,409	-2,365	-1,863	-1,259	-883	-371	-97
Primary government balance excluding grants (excluding NEPCO)	-1,961	-1,812	-1,629	-1,509	-1,328	-1,163	-759	-683	-371	-97
Government and guaranteed gross debt	14,483	17,606	17,610	20,158	20,258	22,618	24,326	25,682	26,715	27,772
Of which: External	4,487	4,624	4,932	5,471	5,396	5,699	5,698	5,466	5,221	5,053
GDP at market prices (JD millions)	20,477	22,230	22,127	23,998	24,160	26,002	27,904	29,922	32,056	34,297

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

1/ Original program 2013 figures were adjusted assuming government will finance NEPCO operating loss.

2/ Excluding transfer to NEPCO in 2012.

3/ The 2012 performance is not adjusted with program exchange rates in this Table. The numbers therefore differ slightly from Table 1a of the MEFP.

Table 2b. Jordanian Central Government: Summary of Fiscal Operations, 2011–18

(In percent of GDP)

		Prog.	Prel.	Prog. 1/	Projections					
	2011	2012	2012	2013	2013	2014	2015	2016	2017	2018
Total revenue and grants	26.4	25.2	22.8	25.8	26.0	25.2	24.9	24.7	24.0	23.3
Domestic revenue	20.5	21.0	21.4	21.9	21.8	21.9	21.9	21.9	21.9	21.8
Tax revenue, *of which*:	14.9	15.0	15.1	15.7	15.5	15.6	15.5	15.5	15.5	15.5
Taxes on income and profits	3.3	3.1	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.2
General sales tax	9.9	9.8	10.3	10.0	10.7	10.7	10.7	10.7	10.7	10.7
Taxes on foreign trade	1.4	1.3	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.0
Other taxes	0.4	0.7	0.5	1.2	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	5.6	6.0	6.2	6.3	6.4	6.4	6.4	6.4	6.4	6.4
Grants	5.9	4.2	1.5	3.8	4.2	3.3	3.0	2.8	2.1	1.4
Total expenditures, net lending, other use of cash	33.2	31.7	31.7	35.0	35.1	34.0	33.0	31.5	30.5	30.3
Current expenditure	28.0	28.3	28.0	26.2	25.7	26.2	26.1	25.8	25.5	25.2
Wages and salaries	4.6	5.2	5.3	5.0	5.3	5.3	5.3	5.3	5.3	5.3
Interest payments	2.1	2.6	2.6	3.0	3.5	4.2	4.1	3.9	3.6	3.5
Domestic	1.7	2.1	2.2	2.5	2.8	3.5	3.4	3.3	3.2	3.2
External	0.4	0.4	0.5	0.5	0.7	0.7	0.8	0.6	0.5	0.2
Military expenditure	8.8	8.1	7.9	8.1	7.3	7.3	7.3	7.3	7.3	7.3
Fuel subsidies	2.8	2.8	3.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	1.1	0.8	0.9	0.9	0.9	0.9	0.8	0.7	0.6	0.6
Transfers, *of which*:	4.9	7.1	6.8	6.5	7.3	7.2	7.2	7.2	7.2	7.2
Pensions	4.2	4.6	4.4	4.5	4.4	4.4	4.4	4.4	4.4	4.4
Targeted payments for energy	...	...	0.5	0.2	1.1	1.1	1.1	1.1	1.1	1.1
Purchases of goods & services	3.8	1.8	1.4	1.9	1.4	1.4	1.4	1.4	1.4	1.4
Capital expenditure	5.2	3.4	3.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to finance NEPCO operating loss 1/	...	...	0.3	3.8	4.3	2.7	1.8	0.7	0.0	0.0
Adjustment on receivables and payables (use of cash) 2/	...	...	0.3	...	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-6.8	-6.5	-8.8	-9.2	-9.1	-8.7	-8.1	-6.8	-6.6	-7.0
Statistical discrepancy, net	-1.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without additional measures	-5.7	-6.5	-8.8	-9.2	-9.1	-8.7	-8.1	-6.8	-6.6	-7.0
Additional measures needed	...	...	...	...	0.0	0.7	2.5	2.8	3.9	4.7
Overall balance after all measures	-5.7	-6.5	-8.8	-9.2	-9.1	-8.0	-5.6	-4.0	-2.7	-2.3
Financing	5.7	6.5	8.8	9.2	9.1	8.0	5.6	4.0	2.7	2.3
Foreign financing (net)	-0.6	0.2	0.0	-0.2	2.5	0.6	-0.5	-1.3	-1.3	-1.3
Domestic financing (net)	6.4	6.3	8.8	9.4	6.6	7.4	6.1	5.3	4.0	3.6
CBJ on-lending of net IMF financing	0.0	2.4	1.2	1.4	2.2	1.4	1.0	-0.9	-1.5	0.0
Other domestic bank financing	5.4	2.9	7.4	7.1	3.4	5.0	4.1	5.3	4.5	2.6
Domestic nonbank financing	0.9	1.0	0.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:										
NEPCO										
NEPCO loss (2013 PC)	-4.9	-5.3	-5.2	-3.8	-4.3	-2.7	-1.8	-0.7	0.0	0.0
NEPCO cash balance (2012 PC)	-2.8	-7.1	-5.2	-3.8	-1.2	-0.6	0.0	0.0	0.0	0.0
Primary government deficit excluding grants (PC) 3/	-9.6	-8.2	-7.7	-10.0	-9.8	-7.2	-4.5	-3.0	-1.2	-0.3
Primary government balance excluding grants (excluding NEPCO)	-9.6	-8.2	-7.4	-6.3	-5.5	-4.5	-2.7	-2.3	-1.2	-0.3
Government and guaranteed gross debt	70.7	79.2	79.6	84.0	83.8	87.0	87.2	85.8	83.3	81.0
Of which: External	21.9	20.8	22.3	22.8	22.3	21.9	20.4	18.3	16.3	14.7
GDP at market prices (JD millions)	20,477	22,230	22,127	23,998	24,160	26,002	27,904	29,922	32,056	34,297

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Original Program 2013 figures were adjusted assuming government will finance NEPCO operating loss.
2/ Excluding transfer to NEPCO in 2012.
3/ The 2012 performance is not adjusted with program exchange rates in the Table.

Table 2c. Jordanian Central Government: Summary of Quarterly Fiscal Operations, 2012–13

(In millions of Jordanian dinars)

	2012				2013				
	Q1-Q3 Prog.	**Q1-Q3 Act**	**Annual Prog.**	**Annual Proj.**	**Q1 Proj.**	**Q2 Proj.**	**Q3 Proj.**	**Q4 Proj.**	**Annual Proj.**
Total revenue and grants	3,669	3,483	5,596	5,054	1,350	1,749	1,464	1,721	6,284
Domestic revenue	3,604	3,457	4,663	4,727	1,167	1,524	1,258	1,329	5,277
Tax revenue, *of which*:	2,560	2,421	3,333	3,351	809	1,134	919	877	3,740
Taxes on income and profits	618	615	695	688	155	369	140	87	752
General sales tax	1,617	1,523	2,181	2,275	560	661	678	689	2,589
Taxes on foreign trade	216	212	293	285	68	72	75	73	287
Other taxes	109	72	164	103	27	32	26	28	112
Nontax revenue	1,044	1,036	1,329	1,376	358	389	339	452	1,537
Grants	64	26	934	327	183	226	206	392	1,007
Total expenditures, net lending, other use of cash	5,155	4,540	7,047	7,008	2,047	2,107	2,175	2,152	8,481
Current expenditure	4,769	4,130	6,292	6,186	1,489	1,507	1,554	1,658	6,208
Wages and salaries	846	871	1,149	1,177	310	322	326	324	1,282
Interest payments	399	397	572	583	189	234	192	224	838
Domestic	338	333	476	483	171	188	167	141	666
External	62	64	96	100	18	46	25	83	172
Military expenditure	1,295	1,219	1,790	1,744	428	446	453	440	1,767
Fuel subsidies	601	332	626	674	0	0	0	0	0
Food subsidy	156	113	185	210	56	56	56	56	225
Transfers, *of which*:	1,144	996	1,570	1,494	422	365	443	529	1,759
Pensions	760	733	1,029	982	258	283	271	247	1,058
Targeted payments for energy	0	0	0	107	90	0	90	90	270
Purchases of goods & services	327	201	400	304	84	84	84	84	337
Capital expenditure	386	408	755	676	300	350	350	236	1,236
Net lending	0	2	0	2	0	0	0	0	0
Transfer to finance NEPCO operating loss	0	100	0	67	258	250	271	258	1,037
Adjustment on receivables and payables (use of cash)	58	307	0	77	0	0	0	0	0
Total balance from above the line	-1,544	-1,057	-1,450	-1,954	-698	-358	-711	-430	-2,197
Statistical discrepancy, net	33	0	0	-2	0	0	0	0	0
Overall balance without additional measures	-1,519	-1,057	-1,450	-1,952	-698	-358	-711	-430	-2,197
Additional measures needed	…	…	…	…	0	0	0	0	1
Overall balance after all measures	-1,519	-1,057	-1,450	-1,952	-698	-358	-711	-430	-2,197
Financing	1,577	1,462	1,450	1,952	698	358	711	430	2,197
Foreign financing (net)	89	-44	45	10	-69	-20	773	-71	613
Domestic financing (net)	1,488	1,506	1,405	1,942	767	378	-62	501	1,584
CBJ on-lending of net IMF financing	272	272	541	272	0	365	80	80	524
Other domestic bank financing	…	1,345	645	1,632	627	-17	-171	382	820
Domestic nonbank financing	…	-111	220	38	140	30	30	40	240
Memorandum items:									
Accounts payable (IT)	543	409	682	543	682	682	682	682	682
NEPCO loss (2013 PC)	960	902	1,180	1,159	258	250	271	258	1,037
NEPCO cash deficit (2012 PC)	1,273	1,005	1,568	1,143	75	75	75	75	300
Primary government deficit excluding grants (PC) 1/	1,199	1,090	1,754	1,696	691	350	725	599	2,365
Primary government deficit excluding grants (excluding NEPCO)	1,199	990	1,754	1,629	433	100	454	341	1,328
Net external financing received by the government 2/	46	-44	-13	10	-69	-20	773	-71	613

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ The 2012 performance is not adjusted with program exchange rates in the Table.
2/ Excluding project loans in 2012, but including project loans in 2013.

Table 3. Jordan: Summary Balance of Payments, 2011–18

(In millions of U.S. dollars, unless otherwise noted)

	2011	2012		2013		2014	2015	2016	2017	2018
	Prel	Prog.	Est	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	**-3,475**	**-4,421**	**-5,640**	**-3,340**	**-3,387**	**-3,321**	**-2,545**	**-2,387**	**-2,355**	**-2,251**
Trade balance	-8,832	-9,879	-10,512	-9,344	-9,986	-10,023	-9,640	-9,800	-10,174	-10,610
Exports f.o.b.	8,018	8,307	7,896	9,166	8,476	8,749	9,120	9,582	10,107	10,661
Imports f.o.b.	16,849	18,186	18,408	18,509	18,462	18,772	18,761	19,382	20,281	21,272
Of which: energy imports	4,916	5,801	5,679	5,444	5,249	5,148	4,586	4,526	4,599	4,716
Services	664	1,246	1,008	1,579	1,470	1,831	2,241	2,582	2,910	3,250
Of which: travel receipts	3,004	3,545	3,465	3,970	3,811	4,102	4,402	4,720	5,057	5,410
Income	-180	-59	-174	-139	-216	-172	-157	-48	115	267
Current transfers	4,873	4,271	4,038	4,564	5,345	5,043	5,012	4,880	4,793	4,843
Public	2,020	1,517	1,481	1,454	2,382	1,896	1,698	1,420	1,186	1,067
Private	2,853	2,754	2,557	3,110	2,963	3,147	3,314	3,460	3,608	3,776
Of which: remittance receipts	3,035	...	3,190	...	3,392	3,548	3,710	3,856	4,008	4,166
Capital account	**2,097**	**1,235**	**2,193**	**1,415**	**3,168**	**3,240**	**2,951**	**2,951**	**3,137**	**3,333**
Public sector	140	12	-80	-366	695	117	-176	-182	-199	-216
Private sector	1,957	1,223	2,273	1,581	2,473	3,123	3,127	3,133	3,336	3,549
Direct foreign investment	1,445	1,032	1,354	1,254	1,674	2,292	2,260	2,223	2,382	2,548
Portfolio flows	110	69	53	200	105	113	121	130	139	149
Other capital flows	403	122	865	126	693	718	746	780	815	852
Errors and omissions	215	...	65	...	...	...	...	...	...	...
Overall balance	**-1,163**	**-3,185**	**-3,383**	**-1,925**	**-219**	**-81**	**406**	**564**	**782**	**1,082**
Financing	**1,163**	**3,185**	**3,383**	**1,925**	**219**	**81**	**-406**	**-564**	**-782**	**-1,082**
Increases in foreign assets (- = increase)	1,173	2,245	2,766	735	-857	-699	-919	-564	-782	-1,082
Central bank	1,153	3,278	3,336	-65	-1,457	-799	-919	-564	-782	-1,082
Commercial banks	20	-1,033	-570	800	600	100	0	0	0	0
Program financing	-10	940	616	1,190	1,076	780	512	0	0	0
IMF	0	762	378	458	774	516	387	0	0	0
Other	-10	178	238	733	302	264	125	0	0	0
Gross international reserves	12,102	...	8,765	...	10,222	11,022	11,940	12,505	13,286	14,368
In months of prospective imports	6.6	...	4.8	...	5.5	5.9	6.2	6.3	6.4	6.6
Gross usable international reserves 1/	10,733	7,455	5,299	7,520	7,524	9,092	10,011	10,575	11,357	12,439
In months of prospective imports	5.9	4.0	2.9	3.9	4.0	4.9	5.2	5.3	5.4	5.7
Memorandum items:										
Export growth, percent	13.9	3.6	-1.5	10.3	7.3	3.2	4.2	5.1	5.5	5.5
Import growth, percent	21.7	7.9	9.3	1.8	0.3	1.7	-0.1	3.3	4.6	4.9
Energy, percent	60.8	18.0	15.5	-6.1	-7.6	-1.9	-10.9	-1.3	1.6	2.5
Non-energy, percent	10.7	3.8	6.7	5.5	3.8	3.1	4.0	4.8	5.6	5.6
Travel receipts growth, percent	-16.3	18.0	15.3	12.0	10.0	7.6	7.3	7.2	7.1	7.0
Remittances growth, percent	11.1	...	5.1	...	6.3	4.6	4.6	3.9	3.9	3.9
Current account (in percent of GDP)	-12.0	-14.1	-18.1	-9.9	-9.9	-9.1	-6.5	-5.7	-5.2	-4.7
Excl grants	-19.0	-18.9	-22.8	-14.2	-16.9	-14.2	-10.8	-9.0	-7.8	-6.9
Excl grants and energy	-2.0	-0.4	-4.6	1.9	-1.5	-0.2	0.9	1.7	2.3	2.9
Current account change (in percent of GDP)	-4.9	-2.1	-6.0	4.2	8.1	0.9	2.6	0.8	0.4	0.6
Grants	2.8	-2.2	-2.2	-0.5	2.2	-1.8	-0.9	-1.0	-0.7	-0.4
Energy	-5.5	-1.5	-1.2	2.4	2.8	1.4	2.4	0.9	0.6	0.4
Other	-2.3	1.6	-2.6	2.4	3.1	1.3	1.1	0.8	0.6	0.5
Private capital (net, percent of GDP)	6.8	3.9	7.3	4.7	7.3	8.5	7.9	7.4	7.4	7.3
Import oil price assumptions ($ per barrel)	104.0	101.8	105.0	94.2	102.7	98.5	94.7	91.9	89.4	89.4
GDP ($ millions)	28,881	31,353	31,209	33,847	34,076	36,674	39,357	42,203	45,213	48,374

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: Summary Monetary Survey, 2011–13

	2011	2012						2013				
	Act.	Prog.	Act.	Actual				Projections				
		Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
	(Stocks, in millions of Jordanian dinars)											
Net foreign assets	9,358	7,227	6,620	8,867	7,786	7,456	6,620	6,220	6,237	5,945	6,811	6,220
Central Bank	9,236	6,372	6,094	8,487	6,774	6,875	6,094	6,119	6,066	5,774	6,675	6,119
Commercial Banks	122	854	526	380	1,012	581	526	100	171	171	136	100
Net domestic assets	14,761	18,836	18,325	15,638	16,973	17,798	18,325	21,381	19,315	20,049	20,386	21,381
Net claims on central government 1/	6,689	9,717	9,461	7,364	8,226	8,980	9,461	11,405	10,238	10,736	10,794	11,405
Net claims on Central Budgetary Government	6,353	7,513	7,805	6,598	6,762	7,478	7,805	9,149	8,432	8,780	8,688	9,149
Net claims on NEPCO	335	1,903	1,478	810	1,295	1,340	1,478	1,778	1,553	1,628	1,703	1,778
Net claims on other own budget agencies	0	300	179	-44	169	162	179	479	254	329	404	479
Claims on subnational governments	181	181	185	181	191	190	185	185	185	185	185	185
Claims on nonfinancial public enterprises	333	361	299	301	295	282	299	299	299	299	299	299
Claims on financial institutions	205	205	204	209	167	192	204	204	204	204	204	204
Claims on the private sector	14,925	15,920	15,954	15,252	15,593	15,781	15,954	17,066	16,167	16,402	16,681	17,066
Other items (net)	-7,571	-7,547	-7,778	-7,668	-7,498	-7,627	-7,778	-7,778	-7,778	-7,778	-7,778	-7,778
Broad money	24,119	26,063	24,945	24,505	24,758	25,254	24,945	27,600	25,553	25,994	27,196	27,600
Currency in circulation	3,019	3,237	3,215	3,062	3,160	3,198	3,215	3,530	3,268	3,298	3,424	3,530
Jordanian dinar deposits	17,574	18,133	16,335	17,666	17,227	17,309	16,335	18,896	16,975	17,514	18,583	18,896
Foreign currency deposits	3,526	4,693	5,396	3,776	4,371	4,748	5,396	5,175	5,311	5,181	5,190	5,175
	(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)											
Net foreign assets	-725	-2,133	-2,738	-491	-1,081	-329	-836	-446	-383	-292	866	-591
Net domestic assets	2,537	4,077	3,564	877	1,335	825	527	3,101	990	733	337	995
Net claims on central government 1/	1,787	3,053	2,773	676	862	754	481	1,944	777	498	58	611
Net claims on Central Budgetary Government	1,325	1,185	1,452	244	165	716	327	1,344	627	348	-92	461
Net claims on NEPCO	...	1,568	1,143	475	485	45	138	300	75	75	75	75
Net claims on other own budget agencies	...	300	178	-44	213	-7	16	300	75	75	75	75
Claims on nonfinancial public enterprises	-10	28	-34	-32	-6	-12	16	0	0	0	0	0
Claims on financial institutions	-18	0	0	4	-42	25	13	0	0	0	0	0
Claims on the private sector	1,312	995	1,029	327	341	188	173	1,112	214	235	279	384
Other items (net)	-541	0	-207	-97	170	-129	-151	45	0	0	0	0
Broad money	1,812	1,944	826	386	254	496	-309	2,655	608	441	1,203	404
Currency in circulation	176	217	196	43	98	38	18	315	53	30	125	106
Jordanian dinar deposits	1,342	559	-1,239	92	-439	81	-974	2,561	640	540	1,069	312
Foreign currency deposits	294	1,168	1,870	251	595	377	648	-220	-85	-129	8	-14
Memorandum items:												
Annual broad money growth (percent)	8.1	8.1	3.4	8.7	7.5	6.1	3.4	10.6	4.3	5.0	7.7	10.6
Annual private sector credit growth (percent)	9.6	6.7	6.9	7.1	5.9	7.2	6.9	7.0	6.0	5.2	5.7	7.0
Foreign currency/total deposits (percent)	16.7	20.6	24.8	17.6	20.2	21.5	24.8	21.5	23.8	22.8	21.8	21.5
Private sector credit/total deposits (percent)	70.7	69.7	73.4	71.1	72.2	71.5	73.4	70.9	72.5	72.3	70.2	70.9
Currency/JD deposits (percent)	17.2	17.8	19.7	17.3	18.3	18.5	19.7	18.7	19.3	18.8	18.4	18.7

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes central budgetary government and own-budget agencies, but excludes SSC.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2011–13

	2011	2012						2013				
	Act.	Prog.	Proj.	Actual				Projections				
		Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4
	(Stocks, in millions of Jordanian dinars)											
Net foreign assets	9,236	6,372	6,094	8,487	6,774	6,875	6,094	6,119	6,066	5,774	6,675	6,119
Foreign assets	9,347	7,022	6,981	8,598	6,883	7,260	6,981	8,015	7,622	7,489	8,441	8,015
of which: Gold	452	452	498	494	475	535	498	498	498	498	498	498
of which: Bilateral accounts	767	767	767	767	767	767	767	767	767	767	767	767
of which: encumbered due to forward contracts	0	0	1,089	0	0	142	1,089	545	1,089	1,089	726	545
Foreign liabilities	111	650	887	111	109	385	887	1,895	1,556	1,715	1,766	1,895
of which : Net Fund Position	1	541	274	1	1	276	274	798	274	639	719	798
Net domestic assets	-3,751	-695	-865	-3,006	-1,605	-1,687	-865	-200	-666	-236	-851	-200
Net claims on central government 1/	437	2,118	1,568	598	1,405	1,569	1,568	1,963	1,529	1,864	1,914	1,963
Net claims on NFPEs and the SSC 2/	-14	-14	-15	-14	-12	-29	-15	-15	-15	-15	-15	-15
Net claims on financial institutions	70	70	78	71	72	71	78	78	78	78	78	78
Net claims on private sector	20	20	20	20	20	20	20	20	20	20	20	20
Net claims on commercial banks	-2,548	-1,172	-1,343	-2,153	-1,624	-1,774	-1,343	-1,073	-1,105	-1,010	-1,674	-1,073
CDs	-230	-230	-231	-80	-135	-135	-231	-231	-231	-231	-231	-231
Other items, net (asset: +)	-1,486	-1,487	-942	-1,448	-1,331	-1,408	-942	-942	-942	-942	-942	-942
Jordanian dinar reserve money	5,485	5,677	5,229	5,481	5,168	5,188	5,229	5,919	5,400	5,537	5,824	5,919
Currency	3,367	3,584	3,558	3,387	3,498	3,581	3,558	3,873	3,611	3,641	3,767	3,873
Commercial bank reserves	2,118	2,093	1,671	2,094	1,670	1,608	1,671	2,047	1,789	1,896	2,058	2,047
Of which: required reserves	1,187	1,225	1,106	1,191	1,173	1,148	1,106	1,280	1,151	1,188	1,262	1,280
	(Cumulative flows, in millions of Jordanian dinars - annual for yearly columns and quarterly otherwise)											
Net foreign assets	-733	-2,865	-3,142	-749	-1,714	102	-781	-21	-28	-292	901	-556
Foreign assets	9,347	-2,325	-2,365	-749	-1,716	377	-278	1,033	-393	-133	952	-426
Foreign liabilities	111	539	776	0	-2	275	503	1,008	-340	159	51	129
Net domestic assets	1,159	3,057	2,886	744	1,401	-82	822	711	199	430	-614	651
Net claims on central government	39	1,681	1,131	161	807	164	-1	395	-39	335	50	50
Net claims on commercial banks	1,143	1,376	1,205	395	529	-151	432	270	238	95	-664	601
CDs	-34	0	-1	150	-55	0	-96	0	0	0	0	0
Other items, net (asset: +)	-2	0	543	38	116	-77	466	45	0	0	0	0
Jordanian dinar reserve money	426	192	-256	-5	-313	20	41	690	171	137	287	95
Currency	288	217	191	20	111	83	-23	315	53	30	125	106
Commercial banks' reserves	138	-26	-447	-25	-424	-63	64	375	118	107	161	-11
Memorandum items:												
Gross usable international reserves ($ millions)	10,733	7,455	5,299	9,577	6,957	6,871	5,299	7,524	6,202	6,015	7,870	7,524
As a ratio to JD broad money (in percent)	37.0	24.7	19.2	32.8	24.2	23.8	19.2	23.8	21.7	20.5	25.4	23.8
As a ratio of JD reserve money (in percent)	138.7	93.1	71.8	123.9	95.4	93.9	71.8	90.1	81.4	77.0	95.8	90.1
Net international reserves (JD millions)	7,951	5,087	3,815	7,173	5,299	4,964	3,815	4,869	4,455	3,957	5,193	4,869
Net international reserves (USD millions)	11,215	7175	5,381	10,117	7,473	7,002	5,381	6,867	6,284	5,581	7,324	6,867
Money multiplier (for JD liquidity)	3.75	3.76	3.74	3.78	3.94	3.95	3.74	3.79	3.75	3.76	3.78	3.79

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes Fund support onlent to the government by the CBJ.
2/ Non-Financial Public Enterprises and Social Security Coroporation.

Table 5. Jordan: Financing Shortfalls, 2012–15

(In millions of U.S. dollars, unless otherwise indicated)

	2012	2013	2014	2015
Gross Financing Requirements	7,662	6,435	5,790	6,124
Current account deficit (excl. official transfers)	7,121	5,769	5,217	4,242
Trade deficit	10,512	9,986	10,023	9,640
Energy import bill	5,679	5,249	5,148	4,586
Debt amortization 1/	517	680	573	1,881
IMF repurchases and charges 2/	0.0	0.0	0.0	0.0
Arab Monetary Fund	24.4	-14.1	0.0	0.0
Other, including market access 3/	0	57	57	252
Gross Financing Sources	7,024	5,362	5,057	5,737
FDI	1,354	1,674	2,292	2,260
Public grants	1,481	2,382	1,896	1,698
Off budget	1,029	1,163	680	500
Disbursements	421	175	190	205
Gross Reserve drawdown (+ decrease)	3,336	-1,457	-799	-919
Other public financing 3/	11	1,200	500	1,500
Other	421	1,387	978	993
External Financing gap	638	1073	733	386
Non-debt creating	0	0	0	0
Official Investments (GCC, EBRD, IFC and other)	0	0	0	0
Debt creating	638	1,073	733	386
Disbursement	646	1,090	780	512
of which: Multilaterals (World Bank and other)	0	232	241	125
of which: IMF	385	774	516	387
of which: bilateral donors	260	84	23	0
Repayment	7	17	47	126
of which: Multilaterals (World Bank and other)	0	2	5	7
of which: IMF 4/	5	12	39	115
of which: bilateral donors	2	3	3	3
Memo:				
Gross international reserves	5,299	7,524	9,092	10,011
(In months of prospective imports)	2.9	4.0	4.9	5.2
Proposed IMF disbursements (in SDR millions)	256	512	341	256

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ On existing debt and disbursements of new debt in the budget, excluding IMF, Arab Monetary Fund and other financing to close the gap.
2/ Existing Fund credit.
3/ Includes market access. Assumes libor plus recent spreads. Includes rolling over in 2015 of the eurobond issued in 2010.

4/ Assumes repurchases will be made as scheduled and includes GRA charges, surcharges and interest.

Table 6. Jordan: Indicators of Bank Soundness, 2005–12

	2005	2006	2007	2008	2009	2010	2011	2012 June
	(In percent, unless otherwise indicated)							
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	19.3	18.6
Non-performing loans (NPLs) (in millions of JD)	481	405	453	550	877	1159	1315	1391
NPLs (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5	8.4
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3	63.2
NPLs net of provisions (in percent of equity)	5.1	2.8	4.3	5.7	10.6	12.6	13.4	10.7
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9	148.4
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1	1.2
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3	9.6
FX-denominated loans to total loans ratio	11.1	10.2	9.7	12.8	11.6	11.8	11.4	10.8
FX-denominated deposits to total deposits ratio	36.2	35.4	33.6	26.3	21.8	21.7	21.6	24.9
Loans to deposits ratio	59.0	66.9	70.7	72.1	65.6	64.2	65.0	68.5
Construction lending to deposits ratio	8.9	10.7	12.1	12.7	12.7	14.1	14.2	14.4
Margin trading and financial services (share in total loans)	5.1	6.2	7.2	7.1	6.9	5.8	5.3	4.9
Loans to GDP ratio (in percent of GDP)	86.8	91.4	93.1	83.7	78.7	77.0	77.4	77.3

Source: Central Bank of Jordan.

Table 7. Jordan: Access and Proposed Rephasing Under the Stand-by Arrangement

Review	Availability Date	Action	Purchase Millions of SDRs	Purchase Millions of U.S. dollars	Purchase Percent of Quota
	August 3, 2012	Board approval of SBA	255.750	387.1	150.0
First Review	December 3, 2012	Observance of end-December performance criteria, completion of first review	255.750	387.1	150.0
Second Review	September 3, 2013	Observance of end-June performance criteria, completion of second review	170.500	258.0	100.0
Third Review	December 3, 2013	Observance of end-September performance criteria, completion of third review	85.250	129.0	50.0
Fourth Review	March 3, 2014	Observance of end-December performance criteria, completion of fourth review	85.250	129.0	50.0
Fifth Review	June 3, 2014	Observance of end-March performance criteria, completion of fifth review	85.250	129.0	50.0
Sixth Review	September 3, 2014	Observance of end-June performance criteria, completion of sixth review	85.250	129.0	50.0
Seventh Review	December 3, 2014	Observance of end-September performance criteria, completion of seventh review	85.250	129.0	50.0
Eighth Review	March 3, 2015	Observance of end-December performance criteria, completion of eighth review	85.250	129.0	50.0
Ninth Review	May 15, 2015	Observance of end-March performance criteria, completion of ninth review	85.250	129.0	50.0
Tenth Review	July 15, 2015	Observance of end-June performance criteria, completion of tenth review	85.250	129.0	50.0
Total			1,364.0	2064.3	800.0

Source: Fund staff estimates.
1/ Jordan's quota is SDR 170.5 million
2/ US$ = 0.660764 SDR as per TMU
3/ Except for performance criteria on NEPCO

Table 8. Jordan: Indicators of Fund Credit, 2013–20
(In millions of SDR)

	2013	2014	2015	2016	2017	2018	2019	2020
Current SBA 1/								
Disbursements	511.5	341.0	255.8	0.0	0.0	0.0	0.0	0.0
Stock 2/	767.25	1,108.25	1,332.03	1,118.91	703.31	298.38	63.94	0.0
Obligations 3/	7.2	18.5	61.2	243.8	440.3	413.7	236.9	64.3
Principal (repayments/repurchases)	0	0	31.97	213.13	415.59	404.94	234.44	63.94
Charges and interest	7.18	18.5	29.22	30.63	24.68	8.79	2.41	0.35
GRA surcharges	0.55	7.08	14.22	16.34	13.79	2.46	0	0
Stock of existing and prospective Fund credit 2/	767.3	1,108.3	1,332.0	1,118.9	703.3	298.4	63.9	0.0
In percent of quota	450.0	650.0	781.2	656.3	412.5	175.0	37.5	0.0
In percent of GDP	3.5	4.6	5.2	4.0	2.4	0.9	0.2	0.0
In percent of exports of goods and services	8.0	10.9	12.4	9.8	5.8	2.3	0.5	0.0
In percent of gross reserves	15.7	18.7	20.3	16.1	9.4	3.6	0.7	0.0
Obligations to the Fund from existing and prospective Fund arrangements	7.2	18.5	61.2	243.8	440.3	413.7	236.9	64.3
In percent of quota	4.2	10.9	35.9	143.0	258.2	242.7	138.9	37.7
In percent of GDP	0.0	0.1	0.2	0.9	1.5	1.3	0.7	0.2
In percent of exports of goods and services	0.1	0.2	0.6	2.1	3.6	3.2	1.7	0.4
In percent of gross reserves	0.1	0.3	0.9	3.5	5.9	5.1	2.6	0.7

Sources: IMF Finance Department; and IMF staff estimates and projections.
1/ Assumes rephasing of the Stand-By Arrangement as proposed in this Staff Report.
2/ End of period.
3/ Repayment schedule based on scheduled debt service obligations

Table 9. Jordan: Capacity to Repay Indicators, 2013–18

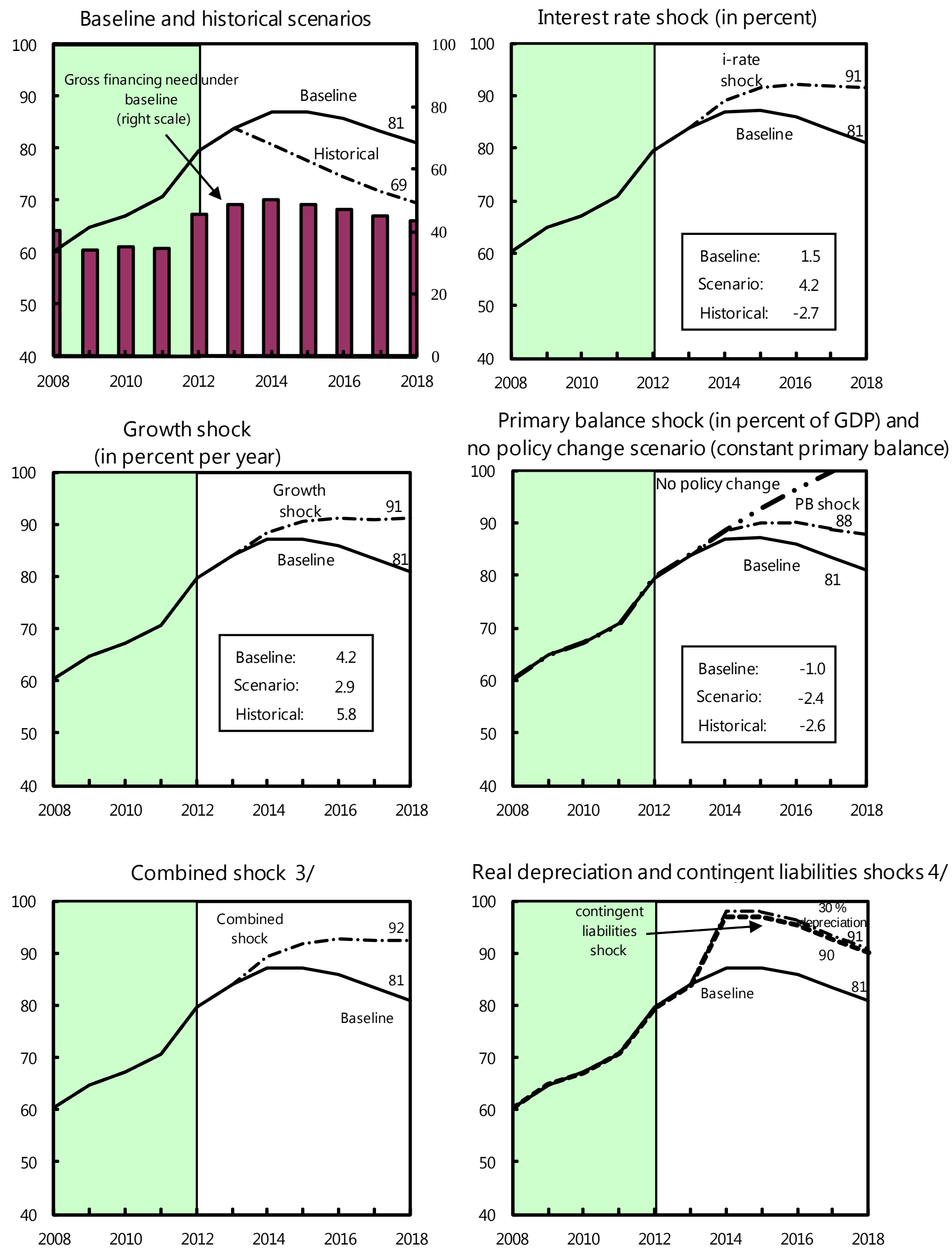
	2013	2014	2015	2016	2017	2018
Exposure and Repayments (In SDR millions)						
GRA credit to Jordan	767.3	1,108.3	1,332.0	1,118.9	703.3	298.4
(In percent of quota)	450.0	650.0	781.2	656.3	412.5	175.0
Charges and interest due on GRA credit	7.2	18.5	29.2	30.6	24.7	8.8
GRA surcharges	0.6	7.1	14.2	16.3	13.8	2.5
Debt service on GRA credit 1/	7.2	18.5	61.2	243.8	440.3	413.7
Public external debt service, incl imf	1,421	1,262	3,352	3,422	3,475	2,182
Debt and debt service ratios						
In percent of GDP						
Total external government and government debt						
Excluding proposed IMF	21.9	20.9	19.3	17.1	15.0	13.4
GRA credit to Jordan	3.5	4.6	5.2	4.0	2.4	0.9
Total external government and government guaranteed debt service	2.7	2.2	5.6	5.3	5.1	3.0
Excluding proposed IMF	2.7	2.2	5.3	4.4	3.6	1.7
GRA debt service	0.0	0.1	0.2	0.9	1.5	1.3
In percent of exports of goods and services						
Total external government and government debt						
Excluding proposed IMF	51.4	51.7	49.2	46.4	45.3	44.6
GRA credit to Jordan	8.0	10.9	12.4	9.8	5.8	2.3
Total external government and government guaranteed debt service	6.3	5.3	13.4	12.9	12.4	7.3
Excluding proposed IMF	6.2	5.1	12.8	10.8	8.7	4.1
GRA debt service	0.1	0.2	0.6	2.1	3.6	3.2

Sources: IMF Finance Department; and IMF staff estimates and projections.
1/ Includes charges, interest and surcharges due on GRA credit and payments on principal.

ANNEX I. PUBLIC DEBT SUSTAINABILITY ANALYSIS

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

(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2014, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Jordan: Public Sector Debt Sustainability Framework, 2008–2018

(In percent of GDP, unless otherwise indicated)

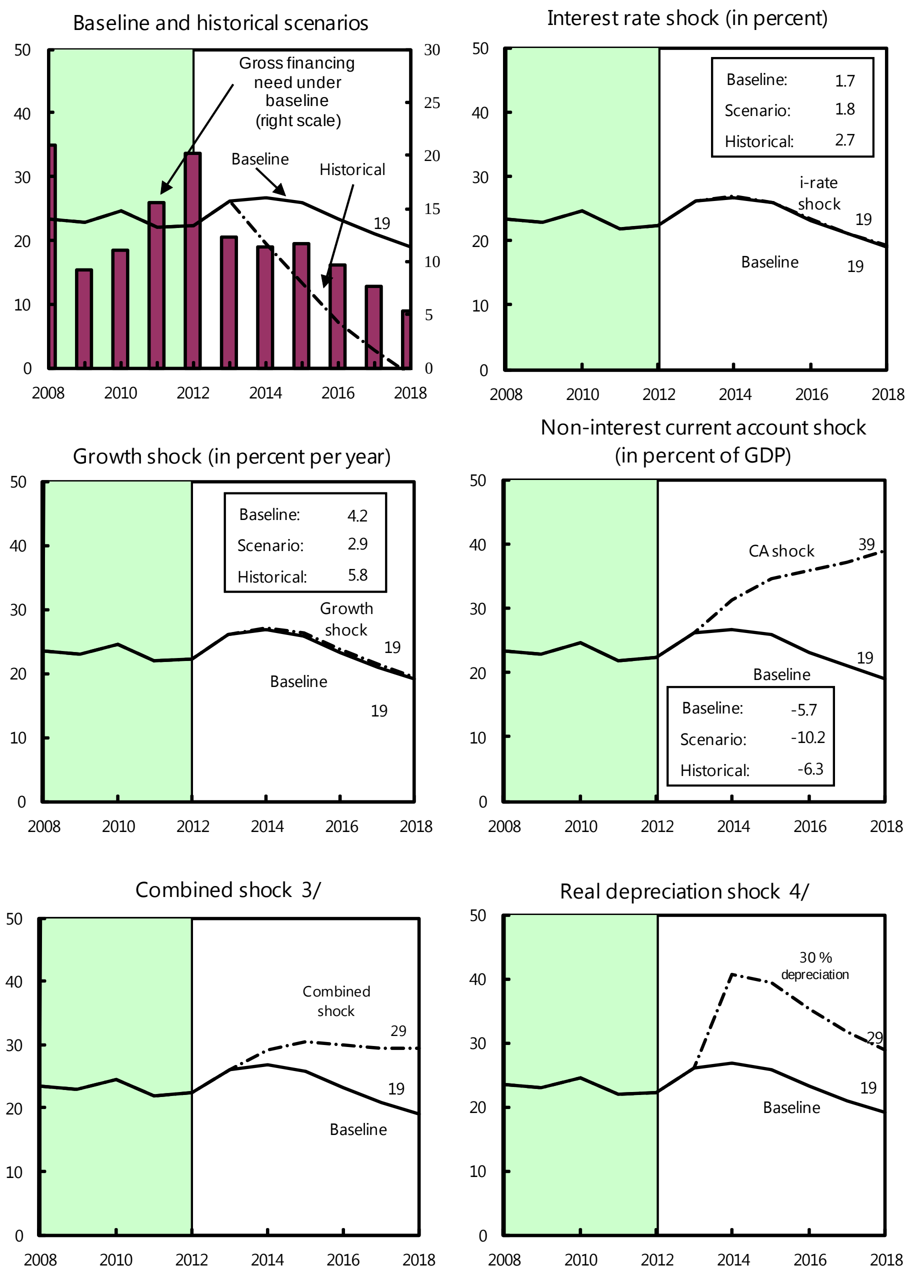
		Actual					Projections						
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Debt-stabilizing primary balance 9/
1	**Baseline: Public sector debt 1/**	60.2	64.8	67.1	70.7	79.6	**83.8**	**87.0**	**87.2**	**85.8**	**83.3**	**81.0**	**-2.1**
	o/w foreign-currency denominated	23.3	22.9	24.6	21.9	22.3	22.3	21.9	20.4	18.3	16.3	14.7	
2	Change in public sector debt	-13.5	4.5	2.3	3.6	8.9	4.3	3.1	0.2	-1.3	-2.5	-2.4	
3	Identified debt-creating flows (4+7+12)	-13.9	3.1	-0.8	1.1	3.6	2.4	2.1	-0.3	-1.9	-3.0	-3.1	
4	Primary deficit	2.0	6.6	3.5	4.7	6.2	5.6	4.1	1.8	0.5	-0.6	-1.0	
5	Revenue and grants	30.1	26.5	24.9	26.4	22.8	26.0	25.6	26.3	26.3	26.3	26.3	
6	Primary (noninterest) expenditure	32.1	33.1	28.3	31.1	29.0	31.6	29.7	28.1	26.8	25.7	25.3	
7	Automatic debt dynamics 2/	-13.9	-2.4	-4.3	-3.6	-2.6	-3.2	-2.0	-2.1	-2.4	-2.4	-2.2	
8	Contribution from interest rate/growth differential 3/	-14.0	-2.4	-4.3	-3.5	-2.6	-3.2	-2.0	-2.1	-2.4	-2.4	-2.2	
9	Of which contribution from real interest rate	-9.8	0.7	-2.9	-1.9	-0.8	-0.9	0.7	1.1	1.3	1.2	1.3	
10	Of which contribution from real GDP growth	-4.2	-3.0	-1.3	-1.6	-1.8	-2.4	-2.7	-3.2	-3.7	-3.6	-3.5	
11	Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
12	Other identified debt-creating flows	-1.9	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13	Privatization receipts (negative)	-1.9	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14	Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16	Residual, including asset changes (2-3) 5/	0.3	1.5	3.2	2.5	5.3	1.9	1.1	0.5	0.5	0.5	0.8	
	Public sector debt-to-revenue ratio 1/	200.3	244.7	270.0	267.5	348.4	322.4	340.0	331.0	326.1	316.8	307.9	
	Gross financing need 6/	40.6	34.1	35.2	34.5	45.4	48.9	50.1	48.7	47.0	44.8	43.2	
	in billions of U.S. dollars	8.9	8.1	9.3	10.0	14.2	16.7	18.4	19.2	19.8	20.3	20.9	
	Scenario with key variables at their historical averages 7/						**83.8**	**80.9**	**77.6**	**74.6**	**71.8**	**69.5**	**-5.5**
	Scenario with no policy change (constant primary balance) in 2013-2018						**83.8**	**88.5**	**92.5**	**96.2**	**99.6**	**103.4**	**-2.7**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent)	7.2	5.5	2.3	2.6	2.8	3.3	3.5	4.0	4.5	4.5	4.5	
	Average nominal interest rate on public debt (in percent) 8/	4.2	4.2	3.6	3.4	4.0	4.8	5.0	4.7	4.3	4.1	4.2	
	Average real interest rate (nominal rate minus change in GDP deflator, in p	-15.7	1.3	-4.8	-3.0	-1.1	-1.0	1.1	1.5	1.7	1.6	1.8	
	Nominal appreciation (increase in US dollar value of local currency, in per	0.0	-0.1	0.0	0.1	0.0	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	19.9	2.8	8.4	6.4	5.1	5.7	4.0	3.2	2.6	2.5	2.4	
	Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	8.7	-12.4	12.8	-4.1	12.5	-3.0	-1.3	-0.5	0.3	3.0	
	Primary deficit	2.0	6.6	3.5	4.7	6.2	5.6	4.1	1.8	0.5	-0.6	-1.0	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp))$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

ANNEX II. EXTERNAL DEBT SUSTAINABILITY ANALYSIS

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.

4/ One-time real depreciation of 30 percent occurs in 2013.

Jordan: External Debt Sustainability Framework, 2008–2018
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	23.4	22.9	24.5	21.9	22.3			**26.1**	**26.8**	**25.9**	**23.2**	**20.9**	**19.0**	**-8.3**
2 Change in external debt	-19.9	-0.5	1.7	-2.6	0.4			3.8	0.6	-0.9	-2.7	-2.3	-1.9	
3 Identified external debt-creating flows (4+8+9)	-15.8	-6.4	-5.9	2.7	8.7			2.1	0.3	-1.7	-2.8	-3.9	-4.3	
4 Current account deficit, excluding interest payments	8.3	4.3	6.5	11.4	17.5			9.5	9.2	6.3	5.3	4.1	3.6	
5 Deficit in balance of goods and services	31.0	23.2	21.3	28.3	30.5			25.4	23.2	19.6	17.4	15.4	14.6	
6 Exports	56.5	45.9	47.8	45.6	43.7			43.9	43.1	42.6	42.2	41.8	41.6	
7 Imports	87.6	69.1	69.1	73.9	74.2			69.4	66.3	62.2	59.6	57.2	56.2	
8 Net non-debt creating capital inflows (negative)	-15.5	-9.5	-10.8	-7.3	-7.7			-7.4	-8.6	-7.5	-7.4	-7.3	-7.2	
9 Automatic debt dynamics 1/	-8.7	-1.2	-1.7	-1.5	-1.1			0.0	-0.3	-0.5	-0.7	-0.7	-0.7	
10 Contribution from nominal interest rate	0.9	0.6	0.6	0.6	0.6			0.7	0.6	0.5	0.3	0.3	0.2	
11 Contribution from real GDP growth	-2.4	-1.2	-0.5	-0.6	-0.6			-0.7	-0.8	-1.0	-1.1	-1.0	-0.9	
12 Contribution from price and exchange rate changes 2/	-7.2	-0.6	-1.8	-1.5	-1.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-4.1	5.9	7.6	-5.3	-8.3			1.7	0.3	0.8	0.1	1.6	2.4	
External debt-to-exports ratio (in percent)	41.3	49.9	51.3	48.1	51.0			59.5	62.1	60.7	55.0	50.1	45.7	
Gross external financing need (in billions of US dollars) 4/	4.6	2.2	2.9	4.5	6.3			4.1	4.1	4.5	4.1	3.5	2.6	
in percent of GDP	20.9	9.2	11.1	15.6	20.2	10-Year	10-Year	12.2	11.3	11.6	9.7	7.6	5.3	
Scenario with key variables at their historical averages 5/								**26.1**	**19.4**	**13.4**	**7.2**	**2.7**	**-1.1**	**-12.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	7.2	5.5	2.3	2.6	2.8	5.8	2.6	3.3	3.5	4.0	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	19.8	2.8	8.4	6.4	5.4	6.6	5.4	4.3	4.6	3.4	3.3	3.3	2.6	
Nominal external interest rate (in percent)	2.8	2.9	2.8	2.7	2.8	2.7	0.3	3.2	2.4	2.0	1.4	1.3	1.1	
Growth of exports (US dollar terms, in percent)	33.9	-11.9	15.6	4.1	3.7	12.3	12.8	8.2	6.1	6.4	6.8	6.9	6.9	
Growth of imports (US dollar terms, in percent)	22.6	-14.4	10.9	16.8	8.6	14.5	13.6	0.7	3.4	0.9	3.4	3.6	5.3	
Current account balance, excluding interest payments	-8.3	-4.3	-6.5	-11.4	-17.5	-6.3	8.9	-9.5	-9.2	-6.3	-5.3	-4.1	-3.6	
Net non-debt creating capital inflows	15.5	9.5	10.8	7.3	7.7	12.1	6.5	7.4	8.6	7.5	7.4	7.3	7.2	

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

APPENDIX I. LETTER OF INTENT

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

Amman, March 27, 2013

Dear Madame Lagarde:

The external environment has been worse than we expected when our IMF-supported program was announced in August 2012. Oil prices have been higher than projected in 2012, and are forecast to remain higher than what the program envisioned over the medium term. At the same time, the conflict in Syria has escalated, resulting in a stronger inflow of refugees, and grants fell short of what we had expected. These developments have put additional pressure on the balance of payments and fiscal accounts.

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

- *Quantitative performance criteria and indicative targets.* We met all the end-September 2012 quantitative performance criteria (on net international reserves, the primary fiscal deficit, and the electricity company (NEPCO) losses) as well as the indicative targets on net domestic assets of the Central Bank of Jordan and the stock of accounts payable of the central government. The indicative target on NEPCO's stock of arrears was missed, but, nonetheless, NEPCO's underlying performance is in line with projections. We met all end-December targets with two exceptions. We did not meet the end-December 2012 performance criterion on net international reserves but took corrective action. We also did not meet the end-December 2012 performance criterion on the primary fiscal balance, but by a very small margin (0.03 percent of GDP). We thus request waivers of nonobservance. We met the continuous performance criterion on non-accumulation of external arrears.

- *Structural benchmarks.* We met most structural benchmarks for 2012, although some with slight delays: we have submitted to parliament an income tax reform law, and increased the price of diesel by more than what was envisioned under the program. In fact, we raised prices on all fuel products, effectively eliminating almost all fuel subsidies, and at the same time introduced targeted transfers to mitigate the impact of such price increases on the poor and vulnerable segments of the population. We are in the process of completing a medium-term energy strategy, which will be announced to the public after consultation with parliament. We are making efforts to improve our expenditure management system. Though we did not meet the January 2013 benchmark on introducing a commitment control system, we are committed to do so by December 2013.

In view of our strong performance and our implementation of strong policies for 2013, we request completion of the first review under the Stand-By Arrangement and waivers of non-observance of performance criteria. We also request a re-phasing of the undrawn Fund purchases under the Stand-By Arrangement in one installment of SDR 170.5 million and eight equal installments of SDR 85.25 million spread over the program period.

The attached Memorandum of Economic and Financial Policies (MEFP), which was approved by the prime minister and the cabinet on March 17 (cabinet decision no. 1526), describes the economic policies that we intend to implement to achieve the objectives of our economic program of preserving macroeconomic stability and fostering inclusive growth. We believe that these policies are adequate to meet the program goals, but we stand ready to take further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will also provide the Fund with the data and information necessary to monitor performance under the program.

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

Sincerely,

/s/
Suleiman Hafez
Minister of Finance

/s/
Ziad Fariz
Governor of the Central Bank

ATTACHMENT 1. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Exogenous shocks due to global and regional developments continue to give rise to significant external and fiscal challenges. Compared with our original program, these developments include increases in international oil and food prices and a stronger-than-expected influx of refugees from Syria. To preserve macroeconomic stability, we have implemented significant measures to keep our external and fiscal balances on a sustainable path while providing targeted support to the vulnerable parts of the population. We have, therefore, been able to keep our national program broadly on track. We describe below the macroeconomic developments and our policy response this year as well as our program for 2013.

BACKGROUND AND PROGRAM OBJECTIVES

1. **The external environment has been more challenging than envisaged when we designed the program.** International oil and food prices have been higher than anticipated, and forecasts suggest that they will be slightly higher as well over the medium term. Also, the conflict in Syria has escalated, resulting in an acceleration of influx of refugees, currently estimated at over 500 thousand and expected to register almost one million by end-2013. The humanitarian assistance is preliminarily estimated to have absorbed about 0.7 percent of GDP in central government spending, including through higher health, education, and security costs, in 2012. Moreover, grants did not materialize to the extent we had expected during that year. These developments have put further pressure on our external and fiscal accounts. On the positive side, the flow of gas from Egypt has increased significantly since early November 2012 to an average of about 130 million cubic feet per day, compared with 42 million cubic feet per day during January–October. In addition, $1.2 billion in grants were received from GCC countries in early 2013.

2. **Economic performance has remained broadly positive.** Driven in part by tourism and remittances, GDP growth stood at 2¾ percent during January-September of 2012 (0.4 percentage points higher than the rate observed during the same period in 2011). Private sector credit growth has been gradually recovering, registering 6¾ percent year-on-year in December, up from 5.9 percent in June, and financial markets have been generally calm, with spreads narrowing and the stock market stabilizing since late July. However, higher food prices along with higher energy prices have taken a toll on inflation, with CPI inflation reaching about 7.2 percent year-on-year in December. Also, the external current account deficit during the third quarter of 2012 was higher than

expected, due to a higher volume of oil imports and weaker-than-envisioned current transfers. But that deterioration was more than offset by better-than-expected capital account developments, due mainly to larger FDI inflows.

3. **Sound policies have ensured strong performance under the program:**

- **Fiscal policy.** Domestic revenue exceeded the target by 0.4 percent of GDP. We also kept expenditure tight, largely as transfers and spending on the military and goods and services were lower than programmed. As a result, we met the September performance criterion (PC) on the central government's primary fiscal deficit and the indicative target on its accounts payable. While we also met such indicative target for end–December, our primary fiscal deficit was marginally above the target because the central government had to temporarily finance the debt service of our national electricity company (NEPCO). Excluding the provision of financing for NEPCO, we would have stayed well within the target.
- **Structural fiscal measures.** We submitted to parliament an income tax reform law, which is expected to yield substantial revenue gains starting in 2014 (September 2012 benchmark). An important measure has been the removal of general subsidies on all fuel products on November 14, except a small subsidy on LPG, making Jordan the only country in the MENA region that has achieved such a step—the program had envisaged a considerably smaller increase in the price of diesel in October (structural benchmark). At the same time, we introduced targeted transfers to mitigate the impact of those price increases on our population (benchmark for January 2013). We were not able to meet the January 2013 benchmark on implementing a commitment control system because it is taking more time than anticipated to change our information systems, but we are committed to do so in the course of 2013 (paragraph 17).
- **Energy policy.** Electricity tariffs were increased in May and June 2012 for selected sectors and for large domestic corporations and households. With the increase in gas inflows from Egypt in November, this enabled NEPCO to meet the September and December performance criteria on its borrowing by a wide margin (1.2 percent of GDP and 1.9 percent, respectively). However, the company incurred arrears (breaching the indicative targets) in the course of last year as it had difficulties in obtaining financing; the program had assumed that arrears of about 2 percent of GDP at end-2011 would be cleared in 2012. We have not yet announced a medium-term energy strategy, which would allow to bring NEPCO back to cost recovery

(September benchmark). This is because of the need to first consult with parliament on this issue (paragraph 21).

- **Monetary policy.** The better balance of payments outcome helped the Central Bank of Jordan (CBJ) to build up reserves. As a result, we met the September performance criterion on net international reserves (NIR) by a large margin, as well as the indicative target on net domestic assets of the CBJ. In November, however, pressures on CBJ reserves re-emerged related to regional uncertainties as well as those associated with the removal of the general fuel subsidy. These pressures subsided in December following the CBJ increase in interest rates by 75 basis points, and the CBJ started to accumulate reserves in 2013. Thus, while we missed the end-December performance criterion on NIR by $1.7 billion, NIR increased since then by $1.6 billion, reaching $7.1 billion by March 14, 2013.

PROGRAM OBJECTIVES, ECONOMIC PERFORMANCE, AND OUTLOOK

4. The objectives of our program remain threefold:

- **Maintaining macroeconomic stability.** We will continue to implement appropriate policies aimed at reducing macroeconomic vulnerabilities in what could be an increasingly difficult and uncertain global and regional economic setting. As part of this effort, we will implement a medium-term strategy to bring NEPCO and other utilities back to cost recovery.

- **Fostering equity and inclusion.** This includes targeted subsidies and better opportunities for the vulnerable parts of the population while eliminating subsidies for those with a higher ability to pay. We have already done that for fuel subsidies. We are now tackling electricity subsidies, studying how to gradually eliminate them while providing targeted support to the poor and vulnerable.

- **Removing structural constraints on growth.** This involves improving the investment climate, including by removing impediments to access to finance for viable small and medium-size enterprises (SMEs)—key vehicles for growth and employment creation—and improving the business climate and promoting private investment in skill-intensive sectors, where Jordan has a comparative advantage and large export potential.

5. We expect the macroeconomic outlook to evolve as outlined below:

- **Growth.** GDP growth is estimated at 2.8 percent for 2012, slightly below the program forecast. For 2013, we expect the higher-than-programmed oil prices to weigh on growth, and have therefore conservatively revised our GDP growth projection to 3–3.5 percent. We believe that there is considerable upward potential, in particular in light of the large number of Syrian refugees contributing to consumption. Looking to the medium term, we expect growth to increase steadily—reaching 4.5 percent by 2018—largely reflecting expectations of increased investor confidence, reduced political uncertainty, the crowding-in of private sector investment that fiscal consolidation could bring about, higher and better public investment, and the implementation of growth-enhancing structural reforms.

- **Inflation.** Inflationary pressures intensified toward the end of 2012 following the increase in fuel prices in November. Additional price pressures are expected next year with the planned adjustments in electricity tariffs. We have therefore raised our average CPI inflation forecast for 2013 to about 6 percent. Over the medium term, the expected moderation in food and fuel prices would put inflation on a downward trend.

- **Current account.** Reflecting higher projections for oil and food prices, the external current account deficit is foreseen to be higher than originally anticipated. For 2012, we estimate the current account deficit (including grants) at 18.1 percent of GDP. The deficit is forecast to decline to 9.9 percent of GDP in 2013, and to decline further over the medium term—reaching 4–5 percent in the medium term—largely as a result of fiscal consolidation and diversification of Jordan's energy sources, as well as an expected moderation in import prices.

ECONOMIC POLICIES

6. To achieve these objectives, we will pursue strong policies on several fronts.

- **We will reduce the central government's primary deficit and public companies' losses, in particular those of NEPCO.** This is crucial because the financing needs of the general government are adding to public debt and are crowding out the private sector. In this regard, revenue and expenditure reforms will help to contain the fiscal deficit. Moreover, strategies will be implemented to bring NEPCO and other public companies, including the water companies, back to cost recovery by the end of 2017. In doing so, measures will be taken to protect the poor and the vulnerable segments of the population, as we have already demonstrated when we lifted the general fuel subsidies.

- **Our monetary policy will continue to be based on strict adherence to the currency peg.** The peg has served Jordan well by anchoring inflation expectations, supporting macroeconomic and financial stability, and encouraging FDI. With the peg as an anchor, we will continue to use the policy tools (including those introduced in 2012) to improve liquidity conditions and build needed buffers.

- **We will pursue structural reforms to foster inclusive growth.** To minimize adverse effects on economic activity that our fiscal consolidation might have, we are implementing reforms aimed at tackling unemployment, improving the functioning of financial markets (including through providing easier access to credit for viable businesses), encouraging SMEs financing and microfinance, as well as making Jordan an even more attractive destination for investment.

A. Fiscal Policy

7. **We are strengthening our public finances.** We made substantial efforts in 2012. We envision further consolidation in 2013 and over the medium term, aided by measures already taken in 2012. These efforts, together with policies to bring NEPCO to cost recovery, will put our public debt on a downward path.

2012

8. **We have taken the politically difficult step to eliminate fuel subsidies.** This measure and ensuing price increases were inevitable because the external shocks that hit Jordan had considerably weakened our fiscal position. Thus, on November 14, we raised prices on all fuel products by 14–54 percent, which effectively eliminated fuel subsidies. In January 2013, we resumed the monthly pricing adjustment on fuel products, which had been suspended since early 2011. This measure is expected to reduce expenditure by JD 800 million (equivalent to 3.5 percent of GDP) based on 2012 oil prices. Part of these savings is being used for a compensation scheme (see next paragraph).

9. At the same time, we introduced a compensation scheme to mitigate the impact of fuel price increases on low and middle income Jordanians. A cash transfer (estimated at JD 300 million or 1.1 percent of GDP in 2013) will compensate families with an annual income below JD 10,000. The transfer amounts to JD 70 per person per year, and is capped at a maximum of six family members. It is being paid in three installments, the first of which was disbursed in 2012. The transfer will remain effective as long as international oil prices (Brent) are above $100 per barrel. About 862,000 families or 4.6 million individuals (over 70 percent of the population) will benefit. The poor will be fully compensated for the cost of the fuel price increases while the well-off will not be subsidized.

10. The primary fiscal deficit was slightly above target in 2012 because the government financed NEPCO's debt service. Excluding this financing, we would have stayed well within the target. There were other pressures on expenditures. The higher-than-programmed oil and food prices resulted in additional spending of 0.3 percent of GDP, which were included in a supplementary budget. We also spent an extra ½ percent of GDP on cash transfers, and reduced accounts payable by 0.7 percent of GDP. The central government payments of NEPCO debt service amounted to JD 67 million (0.3 percent of GDP). Some of this additional spending was offset by higher-than-programmed revenue (0.4 percent of GDP); and cuts in low-priority capital expenditure (0.3 percent of GDP), military spending (0.2 percent of GDP), and goods and services (0.4 percent of GDP). We also maintained the freeze on public sector hiring.

2013 and beyond

11. We remain committed to further strengthening Jordan's fiscal position. We will target a further reduction in the primary fiscal balance (excluding grants) from 7.7 percent of GDP in 2012 to 5.5 percent of GDP in 2013. Below, we explain in detail the measures taken both on the revenue and expenditure sides. In addition, the central government will raise financing to cover NEPCO's operating losses (4.3 percent of GDP; see paragraph 20).

12. Revenue measures will yield 0.6 percent of GDP. This will partly offset a slight decline in nontax revenue by 0.2 percent of GDP in 2013.

- On tax revenue, we removed sales tax exemptions on international roaming phone calls and on hotels, and increased sales and excise tax rates on luxury goods, certain fuel products, and air flight tickets (0.3 percent of GDP).

- Regarding nontax revenue, we increased the government's share in the profits of telecommunication companies (0.1 percent of GDP), and increased various fees (including on visas, vehicle licenses, money transfers to overseas, and work permits with a yield of 0.2 percent of GDP).

- A revised income tax law is with parliament. While we do not expect higher revenues from this law in 2013, it will increase revenue in 2014 by about one percent of GDP (the implementation of the law is a structural benchmark for September 2013). The law envisages, among other things, a reduction in personal income tax thresholds and an increase in the top personal and corporate tax rates to 32 percent and 35 percent, respectively. A review and costing of tax incentives is underway and will be finalized in October (structural benchmark), which is expected to provide a blueprint for further medium-term revenue measures.

13. Additional expenditure measures amount to 0.9 percent of GDP.

- We will cut military spending by 0.6 percent of GDP from its 2012 level.

- To better target public assistance, we will streamline the eligibility for public pension. We will also tighten the qualification for the compensation scheme that has replaced the previous general fuel subsidies (savings of 0.2 percent of GDP).

- We will reduce spending on land acquisitions (0.1 percent of GDP).

- However, the largest savings in expenditure comes from the removal of fuel subsidy in November 2012, which absorbed 2.4 percent of GDP in 2012. Notable is also that, as in 2012, the budget includes an allocation of about 0.7 percent of GDP for assistance to Syrian refugees. Most of the expenditure cuts are in current spending, which gives room to increase capital spending by about 2 percent of GDP.

14. We will improve the targeting of cash transfers. To ensure that only those who need support get it, we will modify the application criteria to include other welfare variables in addition to income, such as ownership of land, buildings, cars, and some other identifiable assets. We will establish a "program unit" in the Ministry of Finance responsible for implementing the program and developing the national unified registry for targeting of subsidies by October 2013 (structural benchmark).

15. We are considering a Eurobond issue to reduce domestic financing, which would also further strengthen reserve buffers. Grants to the budget in 2012 fell short by $855 million relative to the program, but we expect grants in 2013 to be substantially higher than originally programmed. We plan to issue a Eurobond of at least $1.2 billion in the course of 2013 and seek a U.S. government guarantee for it. This will also help us to establish presence in international capital markets. We fully expect that the programmed grants of $1,420 million and loans of $1,516 million (including the Eurobond) in 2013 will be received in line with discussions with our development partners, who have provided us with financing assurances.

Structural fiscal reform

16. We are further improving tax administration. We have updated the taxpayer register with new company and professional data from the license database of the Ministry of Industry and Trade; classified existing arrears by size, age, collectability, etc. with a focus on cases over JD 1 million; started public auctions of seized property from insolvent taxpayers with arrears according to law; and based on the 2012 income tax filings, implemented a new audit approach with an emphasis on more in-depth quality auditing rather than high coverage. Going forward, we are committed to taking the following steps. By end-May, we will lift filing compliance to 100 percent in the large taxpayer office (LTO) and 90 percent in the medium taxpayer offices (MTO) (structural benchmark), as well as fully implement the new audit approach on both income and sales taxes. Furthermore, by December 2013, we will bring the taxpayer register fully up to date with proper classifications and implement further measures to reduce tax arrears, with continued input from IMF TA.

17. We will also continue strengthening public financial management. We have largely reconciled the above-the-line and below-the-line discrepancy for government financial statistics. A joint MOF-CBJ team has re-examined all the government bank accounts and agreed on the coverage of the budgetary central government, which will be used to report reconciled government financing data on a monthly basis. In 2013, we are committed to deepening the reforms as follows:

- Establish a reporting system by June 2013 to report stocks of arrears quarterly, which include all types of pending invoices and claims for current and capital expenditure (structural benchmark); if the report for end-2012 shows that there are arrears, we will repay these in the course of 2013 within the deficit target.

- Amend the commitment control module in GFMIS by December 2013, which will cap expenditure commitments by the smaller amount of the periodical releases of MOF cash forecast and the General Budget Department budget allocation to prevent fresh arrears (structural benchmark). We have requested IMF technical assistance for this.

- We will continue to roll out GFMIS, which will cover Ministry of Health by June 2013 and the 10 Ministry of Finance financial centers by November 2013.

18. We will start tackling the losses of the water company. Annual losses could be about one percent of GDP, reflecting inefficiencies (in particular systems losses) as well as problems with revenue collection. We will finalize and announce to the public by October 2013 an action plan on how to reduce the company's losses over the medium term (structural benchmark).

B. Energy Policy

19. We met the end-2012 target for NEPCO operating losses and borrowing (quantitative performance criterion). While the company has paid unsubsidized prices on fuel inputs since September, the doubling of gas inflows from Egypt since early November helped to keep electricity purchase costs at the programmed level. Despite operating performance in line with the program, arrears in December were higher than expected due to difficulties in obtaining financing.

20. The ministries of energy and finance have developed a plan aimed at eliminating NEPCO arrears and ensuring that NEPCO's cash needs are met. The government will raise financing to cover NEPCO's losses of JD 1,037 million, which will transfer to the company. NEPCO is expected to tap commercial financing of about JD 300 million in order to start clearing its stock of arrears; the remaining arrears of JD 145 million will be cleared in 2014.

21. The government will consult the parliament regarding the energy strategy. After incorporating parliament's views, we will announce the strategy to the public. If the financial targets for NEPCO agreed under the program cannot be met, the central government will stand ready to implement offsetting measures. Our policy intentions are outlined in the following paragraphs.

22. We intend to implement an increase in electricity tariffs by July 1. An increase in the bulk sales tariff will enable NEPCO to save around JD 115 million (0.5 percent of GDP). This tariff increase, together with higher gas from Egypt, will ensure that NEPCO's losses will stay within

JD 1,035 million in 2013 (4.2 percent of GDP). Our calculations are based on the receipt of 100 million cubic feet of gas per day from Egypt. If NEPCO's operating balance during January–May is worse than anticipated under the program, including from lower gas inflows or higher oil prices, the anticipated tariff increase will be adjusted so that NEPCO's losses stay within target. Alternatively, the central government would implement measures to ensure that the combined primary deficit of the central government and NEPCO operating losses stays at 9.7 percent of GDP. We are working to complete a schedule of end-user tariffs that is consistent with the planned savings without raising the tariff for poorer households. Tariffs for government buildings and entities will be set at cost-recovery level. We will consider complementing the tariff increases with appropriate demand measures to maximize savings, including possible selective black-outs based on a planned rotation, and a turn-down of selected commercial activities during night hours.

23. The key features of the strategy to address Jordan's energy challenges are:

- *A time-table for further tariff increases to bring NEPCO back to cost recovery by 2017.* In the meantime, electricity bills will show the fuel costs to ensure price transparency. Automatic adjustments to the bulk tariff will be introduced, so that full recovery of fuel costs is guaranteed to NEPCO.

- *A roadmap toward an effective diversification of energy sources*. It includes timeframes and deadlines for awarding contracts and infrastructure completion of an LNG facility in Aqaba, due to start operations by 2015. In particular, (i) the bids for the lease of a floating storage and re-gasification unit will be signed by June 2013 (structural benchmark) and the construction will be completed by end 2014; (ii) bids for the port infrastructure (jetty) have been launched and signing of the contract is expected by the end of September 2013; and (iii) negotiations for the supply of gas have started. Measures on alternative sources also include a final decision on the exploitation of oil shale by mid-2014, with potential operations starting by end 2017 ; and an acceleration in renewable energy capacity installation, with the first large-scale wind and solar farms to be operational by 2015.

- *Starting in 2016, natural gas imports may reach 500 million cubic feet per day and include gas from Egypt and LNG.* The share of gas in generating electricity may reach over 80 percent if the prices of LNG are less than that of heavy fuel oil; otherwise, the share will be about 70 percent.

- *A revised regulatory framework for distribution companies, to enter into force by end 2014.* The new framework will include appropriate financial incentives and sanctions to ensure distribution companies undertake critical investments to reduce distribution losses to industry standard levels. Currently Electricity Regulatory Commission (ERC) is evaluating bids to create a methodology aimed at reducing distribution losses. This contract will be awarded by the end of April 2013.

- *Fast-tracking of the new power plants (IPP3 and IPP4),* in coordination with our international partners, to ensure generation capacity meets peak load demand in the medium term. NEPCO has entered into contract agreements for both (IPP3 and IPP4) projects. These projects will start commercial operation in 2014.

- *Measures to enhance energy efficiency in the medium term*, including through stricter building regulations and higher efficiency requirements for industries and on consumer appliances and light bulbs. Some of these measures are already in place and we plan to complete the legislative and regulatory framework for energy efficiency by end-2014.

C. Monetary and Exchange Rate Policy

24. During the first half of 2012, the CBJ updated its monetary policy toolkit. We introduced a weekly repo facility and built a portfolio of short-term government securities to influence liquidity levels in the market. These tools, in addition to forward forex operations with banks introduced in September, helped the CBJ inject needed dinar liquidity during 2012. With the improvement in liquidity in 2013, the CBJ withdrew some of the injected liquidity. The CBJ will continue monitoring liquidity conditions and stands ready to use available tools to preserve the attractiveness of JD-denominated assets.

25. To preserve price stability, the CBJ raised interest rates three times in 2012 reflecting in part rising global and regional uncertainty. The latest rate increase was a substantial 75 basis points in early December, which helped calm markets in a time of growing uncertainties. Although our action did not help us meet our target on net international reserves, it contributed to a reversal in the dollarization of deposits and restoration in confidence in the JD-denominated assets. Compared to end-December 2012, NIR increased through early March 2013 by $1.6 billion.

26. Looking forward, the CBJ stands ready to adjust monetary policy as needed. The exchange rate peg will remain the anchor of monetary policy, with the CBJ continuing to focus on limiting inflationary pressures and sustaining the attractiveness of JD-denominated assets. This system has served Jordan well for the past seventeen years. To safeguard an appropriate level of international reserves, the CBJ stands ready to use all available policy instruments.

D. Financial Sector Policies

27. Jordan's banking system remains sound. Data for end-June 2012 show that nonperforming loans and provisioning ratios have improved, following a period of deterioration triggered by the global financial crisis. Capital adequacy and liquidity ratios remain solid, exceeding by far the CBJ's requirements. Banks are showing healthy rates of credit growth, and their returns on assets and equity remain strong, at 1.2 percent and 9.6 percent, respectively. Despite the recent increase in foreign exchange deposits, exchange rate risk remains limited due to regulatory requirements and prudent risk management by banks, reflected in small open positions in foreign currency.[1] Bank exposure to interest rate risk is also limited, due to (i) short re-pricing horizon of most assets and liabilities; (ii) small trading portfolios; and (iii) limited exposure to corporate bonds. Most importantly, our stress testing analysis suggests that the banking system remains resilient to potential shocks, due to large capital buffers.

28. Further strengthening the supervisory framework is one of the CBJ's top priorities. The CBJ has recently created a Financial Stability Department with a mandate to strengthen its capacity to assess and manage systemic risks. The new department will focus on risk analysis in the financial system, stress testing, as well as producing and publishing a Financial Stability Report. In October 2012, the CBJ issued new regulations on treating customers fairly, which increase the transparency of bank customer rules. The CBJ also continues to work on a number of other supervisory initiatives as per our MEFP of July 27, 2012. Some of these initiatives are expected to take longer, in particular (1) supervisory reviews of the Internal Capital Adequacy Assessment Process (ICAAP) for banks, expected now to be completed during the first half of 2013; and (2) analysis of banks' submissions for the quantitative impact study for the implementation of Basel III, which we expect to complete in 2013. The CBJ will also develop a framework for Pillar 2 of Basel 3 that will

[1] Lending to unhedged borrowers is prohibited by CBJ regulations.

enable supervisors to assign individual capital ratios for banks. Furthermore, the CBJ is updating the corporate governance code and will issue by mid-2013 fit and proper regulation which will strengthen further the governance in the banking system. The recently passed sukuk legislation is an important step in developing Islamic finance instruments. The legislation passed in September allows both government and private sector companies to issue sukuk in domestic and international markets. The necessary regulations are now being prepared by the securities regulator.

29. We remain committed to further enhancing the anti-money laundering and countering financing of terrorism (AML/CFT) regime. We have prepared a second follow-up report, which documents progress made in strengthening the AML/CFT regime and addresses the deficiencies outlined in the mutual evaluation report adopted by the Middle East and North Africa Financial Action Task Force (MENA FATF) in 2009. This report was discussed and adopted by MENA FATF in November 2012. We recently joined the Egmont group, which will enhance mechanisms of cooperation and exchanging information with our counterparts. During 2013, we will review the AML/CFT legislation to ensure compliance with revised FATF recommendations.

E. Growth Enhancing Policies

30. Improving access to finance, particularly for Micro and Small and Medium Enterprises (MSMEs), will help make growth more inclusive. In this regard, we are moving on two complementary fronts. First, we are actively seeking international support to secure resources for MSMEs. For example, the OPEC fund is providing 75 percent guarantee for SME loans up to JD 1 million with a portfolio limit of JD 500 million. In addition, we have signed a $70 million loan agreement with the World Bank for MSMEs— the targeted clients are especially those MSMEs owned by women and youth, and located in underserved areas. Second, to reduce banks' risk perception associated with MSME financing, we are improving the legal framework in favor of such financing, by focusing on four complementary axes—credit information, secured lending, insolvency law, and microfinance law—which we are committed to adopt and plan to transfer the related legislations and regulations to parliament before the end of June 2013.

- *Credit Information*: The by-laws for the credit information bureau are now effective. The first licensing of a credit bureau is expected by June 2013 (structural benchmark), and the institution would become operative by the beginning of 2014. Also, in close collaboration with IFC, CBJ is building capacity to supervise the credit bureau industry and issue credit bureau licenses.

- *Secured Lending*: The recent legislation on secured lending and the creation of a registry of collateral assets would allow businesses to utilize their movable assets, including equipment, inventory and accounts receivable, as collateral. Hence, secured lending will contribute to improving access to finance, particularly for small- and-medium-size enterprises (SMEs) and low-income individuals.

- *Insolvency Law*: Complex bankruptcy and insolvency procedures are likely to reduce incentives to invest and to increase the reluctance to engage in MSME financing. We are currently examining the new insolvency law with the support of the World Bank (IFC and IBRD) and USAID.

- *Microfinance Law*: This sector is currently operated by companies and NGOs who benefit from specific licensing procedures and rely on concessional bilateral lines of credit. The new microfinance law will be an umbrella legislation governing the functioning of microfinance companies and would allow them to raise resources from the domestic market.

31. We will continue to pursue reforms aimed at promoting employment, especially for the youth. We are committed to enhancing the scope for job creation in the private sector. In this regard, we will promote growth of skill-intensive sectors— such as information services, pharmaceuticals, business services, financial services, education services, and health services—that have the potential for employing large numbers of educated Jordanians. We will also look to traditional labor intensive sectors, where Jordan has a comparative advantage, such as tourism retail trade, and textile and clothing. Improving working conditions and enhancing real wages would help attracting skilled Jordanians to these sectors. We have already initiated the design of initiatives dealing with both supply and demand constraints facing youth employment. In line with the National Employment Strategy adopted in 2012, we have initiated in early 2013 the design of "Jordan Job Compact", an initiative aiming to assist unskilled, semi-skilled, and skilled youths to find jobs. The initiative combines trainings, better skills matches, stimulus packages to employers, and MSME finance in order to generate more and better jobs for Jordanians.

32. A draft new investment law is an important move toward promoting longer-term growth and employment. The investment law has been withdrawn from parliament and is being discussed again in the cabinet. In line with the World Bank's Development Policy Report recommendations, we will enhance the text of the law in order to improve the accountability of industrial policymakers to the wider public or media by: (1) measuring the performance of public agencies and making the results publicly available; and (2) monitoring and evaluating the performance of firms that benefit from public interventions (tax exemptions, for example). The enhanced law streamlines the number of tax exemptions and defines the conditions under which the council of ministers can grant privileges to economic activities. Also, the privileges will have to be published in an official gazette. We will ensure that that these measures will lead to a reduction in tax exemptions. We will also pursue approval of the law in the cabinet and transfer it to parliament no later than end-June 2013. Once the law is approved by the new parliament, we will establish a "one-stop-shop" at the new Higher Investment Commission to license economic activities and review and simplify licensing procedures.

33. Investing in infrastructure, whether publicly funded or through public-private partnerships (PPPs), is a cornerstone in our longer-term strategy. We negotiated with GCC countries $5 billion funding for investment projects over the period 2013–16. These projects are being selected and include, among others, investing in energy and renewable energies. In addition, we transferred a new PPP law to parliament, which we plan to be an umbrella legislation for all PPP initiatives in Jordan, given the current challenging environment where fiscal space is limited, while demand for quality public services remains high.

PROGRAM MONITORING

34. We are implementing the recommendations of the CBJ safeguards assessment concluded in January 2013 in the context of Jordan's Stand-By Arrangement approved on August 3, 2012. In particular:

- With assistance from the IMF, the CBJ will undertake a full review of its law by December 2014 to strengthen oversight arrangements and legal underpinnings of its autonomy. The revisions will include, inter alia (1) CBJ's Board composition and mandate; (2) lending to the government; (3) providing the CBJ with the sole discretion to grant emergency liquidity assistance; and (4) prohibiting the CBJ from providing solvency support.

- The CBJ will also develop a time-bound plan to remove audit qualifications and ensure fair and transparent presentation of assets on its balance sheet by June 2013. CBJ board members will oversee the audit of the annual financial statements for the FY2012 audit.
- The CBJ's Internal Audit Department will review the procedures and controls over the program monetary data compilation process and perform reconciliation with the accounting records, within six weeks after each test date, beginning from the December 2012 test date.

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

Table 1a. Jordan: Quantitative Performance Criteria and Indicative Targets, 2012

	Sep-12 Target	Sep-12 Adj. Target	Sep-12 Actual	Dec-12 Target	Dec-12 Adj. Target	Dec-12 Actual
Performance Criteria:						
Primary fiscal deficit of the central governement, excluding grants in JD million (flow, cumulative ceiling) 1/	1,199	1,159	1,088	1,754	1,674	1,690
NEPCO borrowing in JD million (flow, cumulative ceiling)	1,273	1,273	1,005	1,568	1,568	1,143
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	6,585	6,576	7,002	7,175	7,173	5,381
Ceiling on accumulation of external payment arrears 2/	0	0	0	0	0	0
Indicative Targets:						
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-620	-614	-1,687	-695	-693	-865
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	409	682	682	543
Stock of arrears of NEPCO	0	0	328	0	0	512
Memo items for adjusters (in US$ millions):						
Budgetary grants received by the government (flow, cumulative) 3/	91	...	36	1,317	...	461
Other grants (flow, cumulative) 4/	137	...	310	200	...	1,021
Net external financing excluding project loans (flow, cumulative)	65	...	-62	-18	...	14
Privatization proceeds (flow, cumulative)	0	...	0	0	...	0
Cap for fiscal adjustor (TMU par.11, in million JD)	40	...	40	80	...	80
Exchange rate ($ per dinar)	1.41	...	1.41	1.41	...	1.41

1/ Actual numbers are adjusted at the program exchange rates.
2/ Continuous.
3/ Does not include external budgetary grants that were received by the CBJ but not transferred to the government.
4/ Includes external budgetary grants that were received by the CBJ but not transferred to the government during the reference period.
For example, a $100 million grant was received by the CBJ in September, but transferred to the government in October, due to grant conditionality.
Also, $750 million of grants from the GCC was received by the CBJ in Q4, but will be transferred to the government in 2013.

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

	Mar-13 Projection	Jun-13 Target	Sep-13 Target	Dec-13 Target
Performance Criteria				
Primary fiscal deficit of the central governement, excluding grants in JD million (flow, cumulative ceiling)	691	1,041	1,766	2,365
NEPCO net loss in JD millions (flow, cumulative ceiling)	258	508	779	1,037
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	6,284	5,581	7,324	6,867
Ceiling on accumulation of external payment arrears 1/	0	0	0	0
Indicative Targets				
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-666	-236	-851	-200
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682	682	682
Stock of arrears of NEPCO 2/	370	295	220	145
Memo items for adjusters				
Foreign budgetary grants and loans received by the government (JD millions, flow,	183	539	1,595	2,082
Foreign budgetary grants and loans received by the CBJ (US$ millions, flow, cumulative)	1,201	1,413	2,863	3,618
Transfers from the central government to NEPCO (flow, cumulative, JD millions)	258	508	779	1,037
Cap for the downward adjustor on the NIR	...	900	900	900
Cap for the fiscal adjustor (JD millions)	...	40	60	80

1/ Continuous.
2/ Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.
The starting stock of arrears in 2013 is therefore JD 66.7 million lower than the end-2012 number in Table 1a.

Table 2. Jordan: External Financing in 2013
(in millions of U.S. dollars, unless otherwise indicated)

	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2013 Total
Grants excluding GCC	**201**	**28**	**0**	**263**	**492**
EU	0	0	0	79	79
Saudi Arabia	200	0	0	0	200
US	0	28	0	184	212
Other	1	0	0	0	1
GCC grants					
GCC grants received by CBJ	1,000	0	250	360	1,610
GCC grants received by MOF	57	290	290	290	928
Loans	**0**	**184**	**1,200**	**133**	**1,516**
France	0	66	0	0	66
Japan	0	18	0	0	18
WB DPL	0	100	0	0	100
Other	0	0	1,200	0	1,200
EU	0	0	0	133	133
Memorandum :					
Cumulative total (MOF)	258	760	2,250	2,936	2,936
Cumulative total (MOF) in JD	183	539	1,595	2,082	2,082
Cumulative total (CBJ)	1,201	1,413	2,863	3,618	3,618

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

Table 3. Structural Benchmarks		
Structural Benchmarks	**Test Date**	**Status**
Raising revenue		
Submit to parliament an income tax reform law, which include changes on mining sector taxation.	By end-September 2012	**Met.**
Review and costing of tax incentives	By end-October 2013	
Implement an income tax law yielding additional revenue of about one percent of GDP	By end-September 2013	
Lift filing compliance to 100 percent in the large taxpayer office (LTO) and 90 percent in the medium taxpayer offices (MTO)	May 2013	
Improving public financial management		
Introduce a commitment control system through the GFMIS to register, report, and account for expenditure commitments against cash allocations issued by the Ministry of Finance.	January 2013	**Not met,** but progress is being made and the target has been set for December 2013.
Establish a reporting system to report stocks of arrears quarterly, which include all types of pending invoices and claims for current and capital expenditure; report the end-2012 stock of arrears.	End-June 2013	
Amend the commitment control module in GFMIS	By December 2013	
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	**Not met.** Expected to be met before the second Stand-By Arrangement review.
Implement a step increase in the price of diesel by 6 percent.	October 2012	**Met with delay.** Diesel prices were increased by

		33 percent in the context of increases in all fuel prices on November 14.
Signing of a floating storage and re-gasification unit leasing agreement	June 2013	
Announce to the public an action plan on how to reduce the water company's losses over the medium term	By end-October 2013	
Inclusive Growth		
Introduce targeted transfers, which would protect the poor from higher oil prices should they increase beyond $100 per barrel.	January 2013	**Met.**
Licensing of a credit bureau	End-June 2013	
Implement a national unified registry for targeting of subsidies.	October 2013	

ATTACHMENT 2. 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 March 27, 2013. For the purposes of the program, the exchange rate of the Jordanian dinar to the U.S. dollar is set at JD (use currency acronym) 0.709 = $1 and the gold price is set at JD 1,117.025 per fine troy ounce for the measurement of the program performance criteria on net international reserves. The corresponding cross exchange rates are provided in the table below.

Program Exchange Rates

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

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

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

A. Quantitative Performance Criteria and Indicative Targets

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

- a performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants;

- an indicative target (ceiling) on accounts payable of the central government;
- a performance criterion (ceiling) on the borrowing of the National Electric Power Company (NEPCO);
- an indicative target on the accumulation of domestic payment arrears of NEPCO;
- a performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);
- an indicative target (ceiling) on the net domestic assets (NDA) of the CBJ; and
- a continuous performance criterion (zero ceiling) on the accumulation of external arrears.

5. The performance criteria on the primary fiscal deficit of the central government excluding grants and on NEPCO's net loss, 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

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

7. For program monitoring purposes, **the primary deficit excluding grants 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.

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

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

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

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

12. **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 2) 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.

- Downward by the extent to which the amount of net transfers from the central government to NEPCO during the relevant period falls short of the levels specified in Table 1 of the MEFP.

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

C. Ceiling on the Accounts Payable of the Central Government

13. **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.

D. Ceiling on the Net Loss of the National Electric Power Company (NEPCO)

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

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

15. **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 14.

F. Floor on the Net International Reserves of the CBJ

16. 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.

17. **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.

18. **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.

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

- **Adjustors:** The floors on the NIR of the CBJ will be adjusted upward (downward) by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—including the Eurobond but excluding non-resident purchases of domestically-issued government bonds—received by the CBJ (as specified in Table 2) 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.

G. Ceiling on the Net Domestic Assets of the CBJ

20. **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.

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

22. **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.

H. Ceiling on the Accumulation of External Debt Service Arrears

23. 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.

DATA PROVISION

24. 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.

25. Related to the ceiling on the primary deficit of the central government excluding grants: 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).

26. 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).

27. Related to central government arrears: all pending bills of the central government that have not been paid for more than 60 days at the end of each quarter (quarterly).

28. Related to the ceiling 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).

29. 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.

30. 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.

31. 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).

32. 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

33. 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.

Press Release No. 13/113
FOR IMMEDIATE RELEASE
April 11, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Stand-By Arrangement with Jordan and Approves US$385 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) on April 10 completed the first review of Jordan's economic performance under a program supported by a Stand-By Arrangement (SBA). The completion of the review enables the immediate release of SDR 255.75 million (about US$384.5 million), bringing total disbursements under the program to SDR 511.5 million (about US$769 million). The Executive Board also approved the authorities' request to re-phase the undrawn Fund balance under the SBA in one installment of SDR 170.5 million (about US$256.3 million) and eight equal installments of SDR 85.25 million (about US$128.2 million) spread over the program period.

Jordan's 36-month SBA was approved on August 3, 2012, for SDR 1.364 billion (about US$2.06 billion; see Press Release No. 12/288) to support the national program of economic reforms aimed at maintaining macroeconomic stability and improving the fiscal and external positions, while protecting the vulnerable segments of the population and fostering stronger and more inclusive growth.

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

"The authorities have managed a difficult environment by taking appropriate policy actions under their Fund-supported economic program. Their efforts have mitigated the adverse impact of regional political instability, higher energy import prices, and a large influx of refugees from Syria.

"The central government and the national electricity company performed broadly in line with the program, although the end-2012 quantitative performance criterion on the central government deficit was narrowly missed and the electricity company did not repay arrears as planned. The end-2012 performance criterion on net international reserves was missed as well, but the authorities took corrective actions and reserves have since recovered.

"The 2012 removal of fuel subsidies accompanied by a cash transfer to compensate lower and middle income groups was an important step toward a stronger fiscal position and improved social equity. This, together with other revenue and expenditure measures, has paved the way for higher capital spending in the current budget. Looking ahead, it remains important to further improve tax administration and the public financial management.

"Implementing the draft medium-term energy strategy, including a restructuring of electricity tariffs, is key to returning the electricity company to cost recovery. Direct transfers from the central government to cover the losses of the company are appropriate, as they improve transparency and allow the repayment of the company's arrears.

"The central bank managed pressures on reserves well by raising interest rates and maintaining the attractiveness of dinar-denominated assets. Its focus on further building foreign exchange reserves and containing inflation remains warranted.

"The planned increase in public investment will support growth. Additional reforms to boost competitiveness and reduce unemployment remain nonetheless essential. Recent measures to improve access to finance for small and medium enterprises, strengthen banking supervision, develop capital markets, and promote youth employment are welcome steps in the right direction."

Statement by Mr. A. Shakour Shaalan, Executive Director for Jordan
April 10, 2013

1. Jordan continues to demonstrate firm commitment to the program targets and objectives. The program has been broadly on track despite higher than anticipated international oil prices, regional unrest which led to a massive influx of Syrian refugees, and parliamentary elections and a change in government that were carried out as part of bold political reforms. The authorities have aimed at ensuring broad public support for the program, particularly for the socially-sensitive measures. They remain committed to maintaining macroeconomic stability, building-up policy buffers, and supporting higher and more inclusive growth.

Recent developments

2. The economy continued its gradual recovery in 2012. Unemployment dropped in spite of the freeze in public sector hiring. Although inflation increased towards the end of the year, owing partly to the removal of fuel subsidies, core inflation remained moderate at about 3 percent. Fiscal consolidation proceeded at a strong pace. A weaker balance of payments reflected lower official grants and higher oil and food prices. There was pressure on international reserves towards the end of the year, which was reversed in early 2013.

Economic outlook and risks

3. The authorities are expecting the growth momentum to pick up in 2013. Headline inflation is expected to rise on the back of the anticipated increases in fuel and electricity prices. The fiscal and external positions are projected to improve with higher grants and gas inflows from Egypt, as well as a result of the planned policies.

4. The authorities are fully aware of the downside risks facing the economy. Further escalation of the regional unrest and disruption in the supply of natural gas from Egypt remain key concerns. The authorities will continue to seek external financial support, and stand ready to take additional measures to safeguard the economy as needed.

Fiscal policy

5. Jordan’s fiscal consolidation strikes a balance between preserving macroeconomic stability, supporting growth, and guarding against the risk of social unrest. Substantial measures have been taken since the approval of the program last August. The authorities eliminated fuel subsidies, raised electricity tariffs, and cut non-priority capital spending and transfers. In January 2013, the monthly pricing adjustment for fuel product was reinstated. This mechanism resulted in a significant price increase in March, at a time when a new government was being formed, which attests to the authorities’ commitment to the program.

The impact of liberalizing fuel subsidies on the most vulnerable was mitigated through a cash transfer scheme that had been introduced in late 2012. However, the National Electric Power Company (NEPCO) was unable to raise funds—which necessitated that the government service the company's debt—resulting in the central government primary deficit slightly exceeding its end-December target (by 0.03 percent of GDP). The authorities are requesting a waiver for nonobservance of this performance criterion.

6. The 2013 budget envisages significant fiscal consolidation, with measures yielding around 4 percent of GDP to be implemented in a growth-friendly manner. Current spending has been cut in favor of development spending and the targeting of the cash transfer scheme is being strengthened. On the revenue side, taxes on luxury goods have been raised, some nontax fees increased, and tax exemptions eliminated. The income tax law which is awaiting parliament approval, along with tighter tax incentives, is expected to further increase revenues in 2014. On the structural front, tax administration measures are expected to reduce tax arrears, and a commitment control system will help to prevent the incurrence of arrears.

7. Energy sector reforms are at the center of the fiscal efforts. Despite the doubling of gas inflows from Egypt since November 2012, NEPCO's operating losses remain substantial, though declining, and they are driving up public debt. The government has prepared a medium-term energy strategy with World Bank support to bring NEPCO back to cost recovery by 2017. The new strategy has a clear path for tariff increases, a plan for diversifying energy sources, with a focus on liquefied natural gas, and measures to enhance energy efficiency and the use of renewable energy. Given its scope, it will need to incorporate parliament's views to secure broad public support. In case NEPCO is unable to meet the ceilings on its losses, the authorities stand ready to take offsetting fiscal measures.

Monetary and financial sector policies

8. Monetary policy continues to be geared towards preserving macroeconomic and financial stability, with the exchange rate peg remaining the anchor for monetary policy. Rising regional and global uncertainty in 2012 along with reduced public confidence led to pressures on official reserves toward the end of the year. The central bank responded by raising interest rates three times, which contributed to a sizeable reversal of deposit dollarization. While the net international reserves (NIR) target for end-September was met with a significant margin, the target for end-December was missed, for which the authorities are requesting a waiver. Following the central bank measures, reserves have increased sharply, and the program's NIR targets for 2013 remain unchanged. The planned Eurobond issue and further donor support will further increase reserves. The central bank stands ready to further tighten monetary policy and take additional appropriate actions as needed to attain these targets.

9. The banking sector is sound. Recent indicators point to improved performance, and stress tests show resilience to potential shocks. The central bank recently created a financial stability department to enhance capacity in the assessment, analysis, and management of systemic risks. The preparation for the introduction of a new credit bureau is in its final stages, with operations to start in early 2014. The central bank also continues to strengthen banking supervision and regulations. The recently approved sukuk legislation is a key step in developing Islamic finance instruments. To manage market liquidity, the central bank introduced a weekly repo facility in the first half of 2012 and forward foreign exchange operations in September.

Structural reforms

10. Enhancing growth potential and addressing the high unemployment rate remain a priority. New legislation aimed at boosting growth and employment in the private sector is underway. This includes in particular the new investment law which is to be submitted to parliament by mid-2013. This law will enhance the transparency of rules related to the investment process, streamline tax incentives, and pave the way for a one-stop-shop. Access to credit by small and medium enterprises should be facilitated by the recently approved secured lending legislation which allows firms to use movable assets as collateral.

Conclusion

11. The authorities' strong commitment to the program is apparent, and the program remains largely on track. Significant progress has been achieved since its approval last August. Moreover, all end-September 2012 quantitative performance criteria and indicative targets were met with one minor exception. All end-December targets were also met with two minor exceptions. The primary fiscal balance was slightly missed, by a very small margin as indicated, while corrective measures have helped to maintain the targets for international reserves.