INTERNATIONAL MONETARY FUND

JORDAN

Request for a Stand-By Arrangement

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by Adnan Mazarei and Thomas Dorsey

July 27, 2012

Background. While economic performance was strong in many ways for several years, Jordan is now facing significant external and fiscal vulnerabilities stemming largely from a negative shock to its energy sector. Repeated and extensive disruptions to the flow of natural gas from Egypt and high oil prices have resulted in imports of expensive fuel products for electricity generation, and added to the already high public debt as the national electricity company (NEPCO) incurred large losses. The rising energy import bill led to significant losses in central bank reserves during the first half of the year. More recently, these losses have been exacerbated by an increase in dollarization. Jordan's external position has also been affected by the global downturn and regional uncertainties.

The Authorities' Program. Since May 2012, the authorities have taken measures as part of their program to stabilize the economy and address Jordan's economic vulnerabilities. Specifically, the key objectives of the program are to: (i) correct fiscal and external imbalances while safeguarding the peg; and (ii) foster high and inclusive growth. To meet these objectives, the authorities plan to undertake: short- and medium-term fiscal adjustment underpinned by tax and expenditure reforms; comprehensive reforms in the electricity sector to bring NEPCO back to cost recovery, including through further increases in electricity tariffs and diversification of energy sources; and structural reforms aimed at improving the business environment, enhancing transparency, and fostering trade.

Stand-By Arrangement (SBA). In support of their program, the authorities have requested exceptional access under a 36-month SBA from the Fund in the amount of SDR 1,364 million (about $2 billion, 800 percent of quota), with SDR 255.75 million available each upon Board approval and the first review, SDR 85.25 million upon the completion of the second review, and the remainder in ten equal installment of SDR 76.725 million, subject to quarterly reviews.

Discussions. During July 1–20, the staff team met with Prime Minister Fayez al-Tarawneh, Minister of Finance Suleiman Hafiz, Minister of Planning Jafar Hassan, Minister of Energy and Mineral Resources Alaa Al Batayneh, Governor of the Central Bank of Jordan Ziad Fariz, senior officials in these institutions, NEPCO, and donors.

Staff. The team comprised Kristina Kostial (head), Yasser Abdih, Andrea Gamba, Dmitriy Rozhkov (MCD), Hui Jin (FAD), and Nkunde Mwase (SPR). The mission was joined by Chadi Bou Habib and Rome Chavapricha (World Bank).

Publication. The Jordanian authorities authorize publication of the staff report, the Letter of Intent and its attachments.

Contents Page

I. Background and Recent Economic Developments

2011—Vulnerabilities Coming to the Fore

1. **Jordan's external vulnerabilities, stemming mainly from the energy sector, increased in the last decade.** Growth averaged about 6 percent during that period, supported by a favorable external environment, with strong tourism receipts, exports, remittances, and FDI. At the same time, however, the economy became dependent on imports of cheap gas from Egypt. External grants made it possible to run substantial government deficits while reducing domestic revenue since 2007. Low regulated electricity tariffs supported by gas from Egypt since 2005 as the main source of fuel for generation allowed extensive electrification of the country, which contributed to growth but also created an important external vulnerability.

2. **Vulnerabilities were exposed in 2011, when a series of external shocks hit Jordan.** Repeated sabotage of the Arab Gas Pipeline in the Sinai Peninsula reduced the average daily flows of natural gas from Egypt. This necessitated an increase in imports of expensive fuel products for electricity generation while oil prices were high. At the same time, regional tensions adversely affected tourism, remittances, and FDI. As a result, growth slowed, investor confidence weakened, and the external current account deficit (including grants) widened to 12 percent of GDP in 2011 from 7 percent in 2010.

3. **Aided by exceptionally large grants, fiscal policy accommodated the social impact of these shocks.** In 2010, the authorities embarked on substantial fiscal consolidation, reducing the primary fiscal deficit (excluding grants) to 5.6 percent of GDP from 8.6 percent in 2009. In 2011, however, concerns grew that the regional turmoil could spill over to Jordan and deepen long-standing social problems.[1] These include unemployment, which averaged 13 percent in the last decade (with youth unemployment over 30 percent), and poverty, which, according to Jordan's Poverty Analysis Report issued in 2010 and based on the Household and Expenditure Survey of 2008, is estimated at about 13.3 percent. These considerations led the authorities to focus their attention on social policies, and to increase commodity subsidies, other social spending, and also wages. Together with a weakening in domestic revenue, these measures raised the primary fiscal deficit (excluding grants) to 9.6 percent of GDP in 2011. This increase was financed in large part by budgetary grants from Saudi Arabia of 5 percent of GDP.

---

[1] Jordan has been implementing political reforms gradually. The constitution was revised in late 2011, to better balance power between the executive, legislative, and judicial branches of the government. In July 2012, a new election law was approved by the parliament, intended to consolidate the move toward a multi-party political system. Despite the law having been amended, the Muslim Brotherhood has announced that it might boycott the end-2012 parliamentary elections. Jordan has had frequent changes in government since end-2010. Three new governments and two new central bank governors were appointed. Most recently, the prime minister resigned at end-April 2012, just six months after he took office.

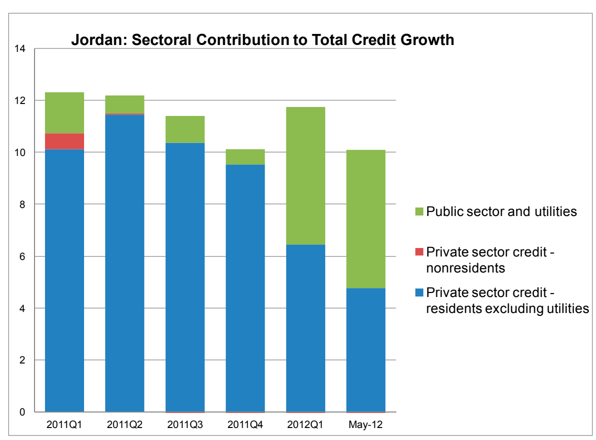
4. **Losses of the electricity company also rose sharply.** Expensive fuel imports caused losses of the publicly owned National Electric Power Company (NEPCO) to increase to 4.9 percent of GDP in 2011 from 0.8 percent of GDP in 2010. NEPCO financed these losses through central government guaranteed bonds, borrowings from domestic banks, as well as arrears to suppliers of 1.9 percent of GDP. With widening NEPCO and central government deficits, gross public and publicly guaranteed debt (which also includes guaranteed debt of government agencies other than NEPCO) increased considerably to 70.7 percent of GDP at end-2011.

2012—External Shocks Result in Large Macro Imbalances

5. **Concerns about social tensions at the beginning of the year put on hold the needed fiscal consolidation.** The 2012 budget envisaged an adjustment in the primary fiscal deficit (excluding grants) of more than 3 percent of GDP, as well as electricity tariff increases to contain the losses of NEPCO. In addition to tax and nontax measures, the general fuel subsidy was to be eliminated by reinstating the monthly fuel price adjustment, while providing targeted assistance to the needy. However, an increase in electricity tariffs implemented in February had to be reversed because of social tensions due to technical mistakes in the billing of tariff changes and the authorities put on hold all other measures until May.

6. **At the same time, balance of payments pressures intensified.** New sabotage of the gas pipeline in February and again in April nearly shut off all gas inflows, further increasing imports of expensive fuel for electricity generation. Though gas flows resumed at moderate levels in May, June, and July, they have been unreliable and, after another sabotage in July, it remains uncertain whether and when they will resume fully. The more expensive fuel imports resulted in a decline in the Central Bank of Jordan's (CBJ) reserves, which was exacerbated in May by an increase in deposit dollarization, reflecting depositor nervousness. Though the reserve loss has decelerated in recent weeks, CBJ reserves dropped to \$6.5 billion at mid-July—a decline by almost 40 percent since end-2011. In order to increase the attractiveness of JD-denominated assets, the CBJ raised overnight interest rates by 50 bps in February and again by 50 bps in May to 3.25 percent.

7. **With large public financing needs, the private sector is being crowded out.** Jordan's banking system appears to remain sound. Nonperforming loans (NPL), which picked up when the economy slowed after the global financial crisis, stabilized at 8½ percent of total loans in 2011. Bank provisioning, capital adequacy, and profitability are weaker than in 2006–07 before the global financial crisis, but remain adequate. However, private sector credit declined in percent of GDP in the first five months of 2012.



II. THE PROGRAM

8. **The authorities' program is designed to correct the fiscal and external imbalances and support the exchange rate peg.** The program would provide the authorities with a framework to achieve a gradual fiscal consolidation and thus address fiscal and external vulnerabilities, without jeopardizing growth prospects and social stability. The peg has served the country well and remains important by anchoring inflation expectations and providing macroeconomic stability in a challenging regional and global environment. Fund support would provide the necessary liquidity to maintain reserves at a safe level until alternative sources of energy are put in place (a process that could take up to three years).

9. **The authorities are facing a difficult policy trade-off.** The need to embark on ambitious fiscal consolidation to reduce public sector financing needs, lower public debt, ease pressures on reserves, and secure fiscal viability had to be carefully balanced against the risk of a recession and social unrest. The acceleration in the loss of reserves on the account of high oil prices in the beginning of the year and the sharp decline in Egypt gas flows made the need for corrective action more urgent. Thus, the new government that came into office in May alerted the public to the difficult economic situation. This communication strategy helped them take the first steps toward consolidation, including by implementing politically sensitive increases in fuel and electricity prices. Further consolidation will be implemented over the medium term. Staff urged the authorities to opt for a more ambitious adjustment, in light of high vulnerabilities and risks, but the authorities felt that what was done is sufficient and that it was not feasible in the current political environment. They believe that including the public in policy decisions will be key in creating consensus on how to design the medium-term adjustment in a socially acceptable manner.

10. **The main objectives of the program, in line with the findings of previous engagements (Box 1), are:**

- **Achieving fiscal sustainability.** Fiscal consolidation is the cornerstone of the program, aimed at gradually resolving Jordan's structural fiscal issues. The deficits of the central government and NEPCO (as well as other loss-making public agencies) will be reduced in order to return public debt to a sustainable path. To a large extent, this will hinge on the success of Jordan's strategy to diversify its energy sources and move electricity generation back to cost-recovery levels by establishing transparent and sustainable energy prices, pursued with assistance from the World Bank. Also, fiscal policies will be redesigned to reduce the high vulnerability to oil prices, as well as dependence on grants, while providing targeted support to vulnerable parts of the population.

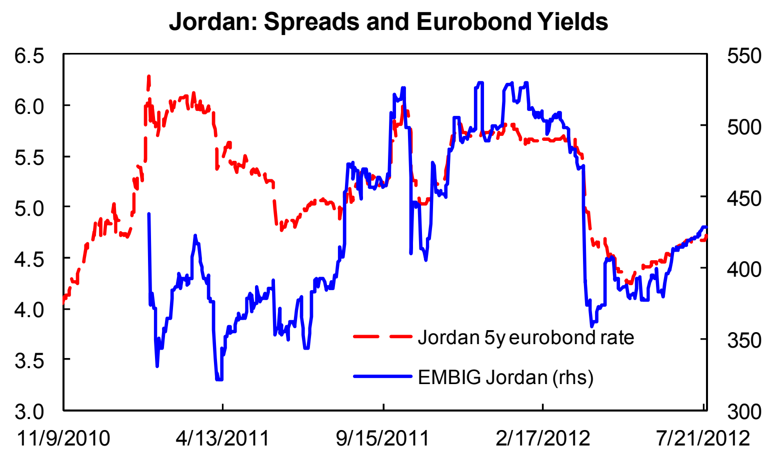
Box 1. Main Recommendations of Previous Engagements

The program addresses the main policy challenges identified in the previous engagements:

- Reducing the dependence of fiscal policy on grants and energy prices to make Jordan less vulnerable to exogenous shocks. Prior engagements highlighted the need to reform the system of administered fuel prices, which had resulted in unsustainably high and ill-targeted subsidies. They also noted the need to strengthen the social safety net to shield the poor from the impact of price increases.
- Consolidating the fiscal sector through an effective rationalization of the tax system, a reduction of current expenditure, and a more rigorous assessment of capital expenditure plans.
- Improving the business environment to reduce the cost of doing business.

- **Strengthening growth.** The large fiscal adjustment will withdraw some stimulus from the economy, and will have to be accompanied by growth-enhancing and employment-generating policies. Such policies will also help in ensuring broad support of the program.

- **Mobilizing additional external financing.** In addition to continued high grants, support is expected in the form of official support for investment projects, in particular from the Gulf Cooperation Council (GCC), including in the energy sector. Over the longer term, reliance on external grants is expected to be reduced through more frequent market financing, following Jordan's successful first-time access to sovereign international capital markets in November 2010.[2]



[2] Jordan issued a $750 million five-year Eurobond at a yield of 4.125 percent (with a premium of 300 basis points over comparable U.S. Treasury notes). The bond was oversubscribed fourfold, with demand exceeding $3.1 billion. The issuance was rated Ba2 by Moody's Investors Service Inc. and BB by Standard & Poor's Corp, consistent with Jordan's long-term foreign currency debt rating. As in other emerging markets in the region, Jordan's spreads increased with the heightened regional stress since January 2011, but have since fallen and stood at around 410–430 basis points in the last month.

11. **The program envisages a package of strong policy measures, combined with sizeable financial support.**

- **Fiscal and energy policies will carry the burden of the adjustment.** The adjustment will first and foremost require an increase in energy prices (both fuel and electricity) by reinstating pass-through and converting general subsidies to targeted ones. Beyond price adjustments, fiscal and energy policies will also address structural weaknesses. For NEPCO, this will require a comprehensive reform of the electricity tariff structure, which will be guided by the World Bank. It is also critical to diversify energy supply. For the central government, the adjustment in 2012 will be followed by further medium-term consolidation, underpinned mostly by boosting revenue through reducing tax exemptions and improving tax administration. Increasing taxes and rationalizing expenditure, including subsidies, will reduce aggregate demand, promoting a more viable current account and a more sustainable debt burden, and lower Jordan's financial risk premium.

- **Monetary and exchange rate policies will continue to be centered on maintaining the peg to the U.S. dollar.** Access to Fund resources and other financial support mobilized by the program would provide time for fiscal and external adjustment. Reform measures (in particular in the energy sector and tax revenue) and quantitative targets pursued in the context of the proposed arrangement would help address external vulnerabilities, thereby halting the pressure on reserves and creating room for private sector credit.

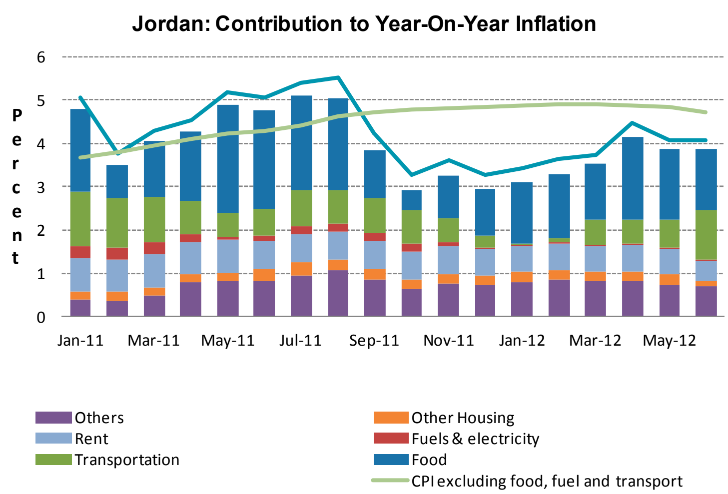
- **Structural reforms will underpin sustainable and inclusive growth.** Measures will focus on improving the business environment; promoting trade; improving transparency and accountability of industrial policies; and fostering private sector-led innovation.

A. The Macro Framework

12. **The macroeconomic framework incorporates the Egypt gas shock.** While incorporating the recent and a further expected easing in oil prices, to be on the safe side, the framework assumes that, in 2012, gas inflows from Egypt would be at about half the level realized in 2011. Over 2013–14, the framework assumes that gas inflows from Egypt would remain at low levels—only marginally higher than in 2012—and that a new energy source will come on stream by mid-2015 (possibilities include importing liquefied natural gas from Qatar through a terminal in Aqaba, which could be completed within two years). The macro framework and debt sustainability analyses (Annexes 1 and 2) assume that the fiscal measures to support medium-term consolidation are implemented and that a Fund program is in place. In particular, reserves would be kept at a level of about four months of imports during the program period, and gradually increase in the outer years of the medium term.

- **Growth.** Real GDP growth was 3 percent year-on-year in the first quarter of 2012, and is forecast to be at the same level for the whole year, supported in part by a recovery in remittances and a rebound in tourism receipts. Over the medium term, economic activity would gradually gain momentum with growth reaching 4.5 percent. This would reflect stronger investor confidence and increased FDI inflows (although to levels moderate in percent of GDP relative to the averages during 2004–11); increased political certainty following the end-2012 parliamentary election; an improved external environment, including an unwinding of regional tensions and continued growth in the GCC. It would reflect as well implementation of structural reforms to improve the business environment, address skills mismatches, enhance labor market flexibility, and foster competitiveness.

- **Inflation.** The consumer price index (CPI) rose by 4.1 percent year-on-year in May 2012. Despite an expected moderation in international food prices, CPI inflation is projected to pick up to 4.4 percent by end-year, reflecting increases in domestic fuel prices and electricity tariffs. Over the medium term, sustained fiscal consolidation combined with further moderation in international food and fuel prices would help put inflation on a downward trend.



- **External position.** The current account came under intense pressure during the first half of 2012, mostly reflecting imports of expensive fuel products for electricity generation. More recently, however, the decline in oil prices and a strong rebound in tourism receipts have started to alleviate such pressures. For the whole year, the current account deficit (including grants) is projected at 14.1 percent of GDP, about 2 percent of GDP higher than in 2011. The framework assumes a large turnaround in the current account in 2013 with a further easing of international fuel and food prices and strong export growth. Going forward, the emergence of alternative energy sources by mid-2015, continued growth in remittances and travel receipts, and implementation of structural reforms to enhance competitiveness are expected to gradually reduce the current account deficit to about four percent of GDP by 2017.

Jordan: Medium-Term Scenario
(In percent of GDP, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP growth (in percent)	5.5	2.3	2.6	3.0	3.5	4.0	4.5	4.5	4.5
GDP deflator (percent change)	2.8	8.4	6.4	5.4	4.3	4.6	3.4	3.3	3.3
Central government balance (with measures)	-8.9	-5.6	-5.7	-6.5	-5.5	-4.5	-3.5	-3.0	-3.0
Domestic revenue	24.5	22.7	20.5	21.0	21.9	21.9	21.9	21.9	21.9
Tax	17.0	15.9	14.9	15.0	15.7	15.6	15.6	15.6	15.7
Nontax	7.5	6.8	5.6	6.0	6.3	6.3	6.3	6.3	6.3
Expenditures	35.4	30.4	33.2	31.7	31.3	31.1	31.0	30.8	30.6
Measures to be identified	0.0	0.0	0.0	0.0	0.0	1.4	2.9	3.2	4.1
NEPCO									
Operational balance	…	-0.8	-4.9	-5.3	-3.8	-2.7	-1.8	-0.7	0.0
Cash balance	…	…	-2.8	-7.1	-3.8	-2.7	-1.8	-0.7	0.0
Central government balance (with measures)and NEPCO cash balance			-8.5	-13.6	-9.2	-7.2	-5.3	-3.7	-3.0
Current account balance (including grants)	-4.9	-7.1	-12.0	-14.1	-9.9	-7.7	-5.1	-4.2	-4.3
Grants	4.1	4.2	7.0	4.8	4.3	3.7	3.2	3.1	2.0
of which, budgetary grants	2.0	2.1	5.9	4.2	3.8	3.3	2.7	2.7	1.5
Memorandum items:									
Total natural gas flows from Egypt (million cubic metres)	1831.2	2332.7	806.2	448.5	509.6	509.6	509.6	509.6	509.6
Total natural gas flows from other sources (million cubic metres)							1627.9	3765.5	3765.5
Oil price ($ per barrel)	61.8	79.0	104.0	101.8	94.2	91.6	90.2	88.2	87.6

B. Fiscal Policy

13. **Staff believes that fiscal vulnerabilities are large.** Over the last decade, fiscal policies have been mostly procyclical and dependent on the availability of foreign financing. Expansionary fiscal policies during 2008 and 2009 were followed by a strong contraction in 2010. This adjustment was reversed in 2011, financed by extraordinarily high budgetary grants. Over the program period, fiscal policies are expected to provide stability and become more predictable, and also more pro-poor and pro-growth:

- **There is substantial scope for increasing tax revenue and improving tax administration.** Tax revenue declined by five percent of GDP since 2007. Though this reflects to some extent a weakening of the economy, the main contributors were tax policy choices and weak administration. Exemptions on various taxes were introduced to stimulate foreign investment and subsidize specific sectors. Also, the social safety net was enlarged through a reduced sales tax rate on products deemed socially important. For instance, there were indirect tax cuts in 2008 in response to the food and fuel price hike, but these were not reversed when prices fell, and additional cuts were introduced as part of the fiscal stimulus package in 2009. Looking ahead, there is potential for additional revenue from better administration. Recent technical assistance pointed to poor taxpayer compliance and weaknesses in income tax administration core functions, as evidenced by low filing compliance, quickly growing tax arrears, and unproductive tax audits. In the medium term, Jordan could consider reviewing taxes on capital gains and dividends, as well as property and interest income. Staff noted that focusing on the revenue side, in particular property and consumption taxes, is likely to have a less negative impact on growth relative to capital spending, and thus the bulk of the consolidation should come from there.

- **Expenditure needs to be restructured.** Current spending as a ratio of GDP is broadly at the same level as in 2008, but this masks large changes in the composition. Wages and salaries together with transfers have increased as a share of GDP. Pensions (which are included under transfers) cover about one third of the labor force at a cost of more than 4 percent of GDP; changes might be needed to increase coverage and make pensions sustainable. Subsidies were temporarily reduced when Jordan moved to a monthly fuel price adjustment in 2008, but increased again last year when the authorities froze pump prices. There are many small social assistance programs, but they suffer from waste and inefficiencies (for instance, only 15 percent of beneficiaries would be classified as poor according to the national poverty line). Capital spending has often been used as a residual to manage financing needs. According to the World Bank, capital spending on housing and social sectors has been increasing, at the expense of infrastructure, health, and other sectors that could contribute significantly to growth.

- **Despite recent progress, cash management and the control commitment system remain weak.** This is reflected in a significant statistical discrepancy between the above-the-line deficit (calculated as revenue minus expenditure) and the below-the-line deficit (calculated from the financing side) (amounting to 0.5 percent of annual GDP in the first quarter of 2012).[3] Looking forward, there is a need to improve cash forecasting and management and review whether the stock of accounts payable can be reduced.

2012

14. **Continuing pressures resulted in a further deterioration of the fiscal position.** Though the 2012 budget adopted in February had projected a large adjustment compared with 2011, by mid-year, this was no longer feasible. Additional spending of about 4 percent of GDP came from a much-higher-than expected fuel subsidy reflecting a large hike in oil prices at the beginning of the year (by 2.5 percent of GDP); a higher wage bill (by 0.6 percent of GDP as a result of a civil service reform expected to yield savings in the medium term); higher pensions and health outlays (0.3 percent of GDP); and spending on housing and medical assistance for Syrian refugees (0.5 percent of GDP). Also, revenue projections in the budget were overoptimistic by some one percent of GDP. Thus, without any

[3] A large part of the discrepancy can be explained by expenditure being registered when checks are issued, but little attention has been paid to a buildup of accounts payable, which stood at 3.3 percent of GDP at end-2011.

measures, the 2012 budget, if implemented, would have resulted in a further widening of the primary deficit (excluding grants) by 1.9 percent of GDP compared with 2011.

15. **Since May, the authorities have taken substantial measures.** (¶7–11).[4] They amount to more than 3 percent of GDP and are mostly on the expenditure side (Text Table). The new government needed to act swiftly and put together a package of measures that could be implemented quickly and was aimed at reducing the financing needs of the government while targeting parts of the population with a higher ability to pay. Because the authorities kept fiscal policies tight in the first five months of the year (capital spending was only 0.7 percent of annual GDP), the adjustment is broadly evenly distributed over the year. If downside risks materialize, the authorities stand ready to take measures, most likely cuts in capital spending.

- **Revenue** measures would keep the revenue-to-GDP ratio broadly unchanged from last year. They focus on luxury goods (such as airline tickets, alcohol, and tobacco products). The authorities believe that further revenue increases could come from a tax amnesty (tax arrears could be repaid during July–December 2012 without penalty; the fiscal projections do not include any revenue from the amnesty). Staff believes that regular tax amnesties could undermine revenue in the long run, and urged the authorities to focus instead on enhancing compliance and enforcement.

- On the **expenditure** side, the most important measures have been an increase in the pump price of gasoline 90 (by 13 percent) and reinstating the monthly price adjustment for gasoline 95, jet fuel, and heavy fuel oil. The only outstanding measure in 2012 is an increase in the price of diesel (structural benchmark). Given the high vulnerability of fiscal accounts to oil price developments, staff urged the authorities to reinstate the monthly fuel price adjustment as soon as possible (Box 2). Cuts in current spending on various other items were also implemented and extended to the military. Cuts in capital spending focused on projects with the least impact on growth, such as land acquisitions for future mega projects.

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

Jordan: Savings from Fiscal Measures in 2012
(In Percent of GDP)

Measures	Savings	
	In JD Million	In Percent of GDP
Total measures taken, *of which*	**742**	**3.34**
Revenue	**90**	**0.40**
Increase resident fees for non-Jordanians	7	0.03
Increase in money transfer fees	10	0.04
Increase tax on cars	20	0.09
Introduce sales tax on mobile phones and air conditions	8	0.04
Remove exemptions on agricultural usage items	15	0.07
Increase tax on air tickets	20	0.09
Increase tax on alcoholic and tobacco products	10	0.04
Expenditure	**652**	**2.93**
Capital spending cuts	**244**	**1.10**
Projects by Prime Ministry	25	0.11
Other capital expenditures	169	0.76
Land acquisition for mega projects	50	0.22
Step increases in domestic fuel prices	**188**	**0.85**
Gasoline 95 (26%)	111	0.50
Gasoline 90 (13%)	48	0.22
Diesel and kerosene (6%) 1/	29	0.13
Other current expenditure cuts	**220**	**0.99**
Military expenditures	150	0.67
Subsidies to independent institutions	30	0.13
Operational expenditure (15%)	30	0.13
Other current expenditure	10	0.04

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Increasing diesel and kerosene prices is the only measure that is not yet taken in 2012.

Box 2. Oil Prices, Gas Supply, and Energy Subsidies

Energy subsidies make Jordan highly vulnerable to external shocks. Energy imports increased from 9 percent of GDP in 2003 to19 percent of GDP in 2011, to a large extent reflecting higher fuel imports to generate electricity.

Energy subsidies

Fuel price subsidy. The Jordan Petroleum Refinery Company is the sole importer of crude oil and refined oil products, which it sells countrywide, including to the power generation sector, at administered prices. Until early 2011, Jordan had a monthly fuel price adjustment to change pump prices in line with international oil price developments. Responding to social pressures, this adjustment was put on hold. Prices for most oil products were set at what was deemed a socially acceptable level, and the central government has been subsidizing the refinery for the difference between the sale price and the cost of oil products. The subsidy for 2012 would have amounted to 3.7 percent of GDP without any measures.

Electricity tariffs. NEPCO, the wholesaler of electricity and the transmission company, purchases gas from Egypt at a below-market price and also imports electricity from Egypt and Syria. Non-gas fuel is bought from the refinery at administered prices. On top of these fuel supply arrangements, NEPCO buys electricity from the generation companies and sells it to distributors and large consumers at a tariff set by the Electricity Regulatory Commission.

The shock

The shock to gas supplies from Egypt in 2011 had an adverse impact on public finances through an increase in the subsidy paid to the refinery, as well as indirectly through NEPCO's mounting losses, as electricity tariffs were not adjusted to reflect the more expensive fuel mix (producing electricity with fuel is about three time more expensive than the gas from Egypt). The shock was exacerbated by a large increase in oil prices in 2011 (see below on different gas scenarios).

Gas Scenarios: Annualized NEPCO Losses and BOP Impact, 2012 Prices 1/

Gas flows from Egypt (million cubit feet per day)	50	100	150	200	250
equivalent to: million cubic meters per year	517	1,034	1,551	2,068	2,585
NEPCO losses (annualized, JD millions)	1,088	872	660	451	268
Energy import bill (USD millions)	5,485	5,228	4,970	4,713	4,456

1/ Based on 3 percent growth of annual energy supply from 2011 onward.

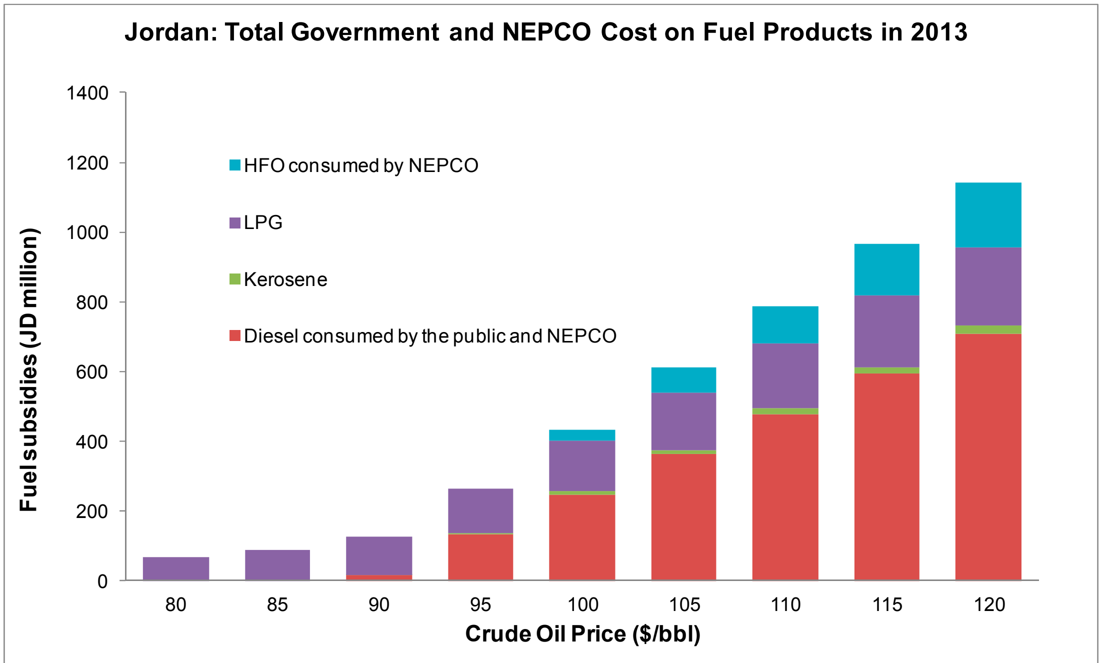
Reducing Jordan's vulnerabilities

Fuel price subsidy

In June 2012, the government reinstated the monthly fuel price adjustment for less socially sensitive types of fuel (gasoline, jet fuel, and heavy fuel oil). This, together with the planned increase in the price for diesel in 2012 and lower international prices, is expected to limit the subsidy to 2.8 percent of GDP in 2012. Based on WEO prices, the subsidy in 2013 is estimated at 0.7 percent of GDP.

The authorities plan to reinstate the monthly fuel price adjustment for all fuels in 2013. At an international price level of 100$/barrel, staff estimates that an increase of $10 per barrel would currently increase the subsidy by around JD 450 million (2 percent of GDP).

Box 2. Oil Prices, Gas Supply, and Energy Subsidies (concluded)



Sources: Jordanian authorities; staff estimates.
Note: (1) Total government and NEPCO cost includes government subsidies for fuel products consumed by the public, plus additional NEPCO cost on diesel and heavy fuel oil (HFO) when crude oil price deviates from the baseline; (2) Crude oil price is the average of spot prices for U.K. Brent, Dubai and West Texas Intermediate.

Electricity tariffs

In the **short term**, the only way to cover NEPCO's losses is to increase electricity tariffs to cost recovery level. Because this would require an almost doubling of the current average tariff, the authorities intend to move gradually. Increases will be done in an equitable way, by making the tariff schedule more progressive and ensuring that households in the lowest income decile do not suffer any increase.

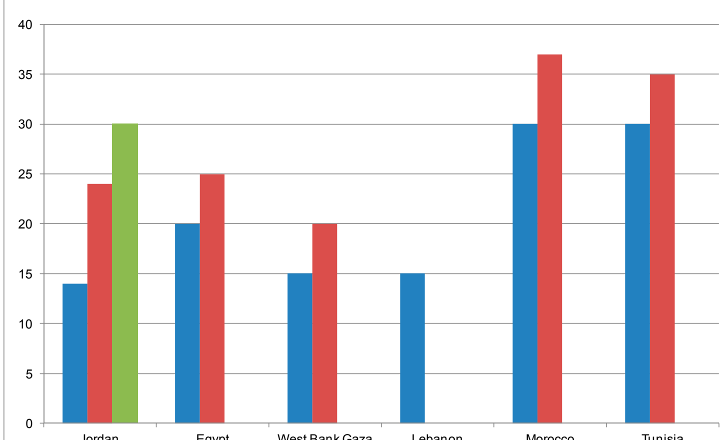
In the **medium term**, Jordan must diversify its energy sources. Tenders have been announced to build a Liquefied Natural Gas (LNG) terminal in Aqaba. Construction is expected to take around two years, with an estimated investment of $100 million. Availability of LNG from international sources would decrease NEPCO costs by around 20 percent in the medium term. There is also potential to expand gas extraction from Jordan's own field at Risha, and start the production of shale oil from domestic fields.

2013 and Beyond

16. **Stronger adjustment will be implemented in 2013 (¶13).** The authorities will reduce the primary deficit, excluding grants, by almost 2 percent of GDP to 6.3 percent of GDP. Assuming no further spending on Syrian refugees and with an expected reduction in the wage bill as a percent of GDP, this would require measures of about 1 percent of GDP. The authorities have already changed the mining royalty from specific to ad valorem in agreement with mining companies, to become effective in March 2013 (yielding an annual revenue gain of 0.3 percent of GDP). Because the preparations for the 2013 budget are at an early stage, staff discussed possible measures, which would aim primarily at increasing revenue and further containing fuel subsidies. Details will be agreed at the time of the first review. On the revenue side, options include increasing excise rates on fuel products (0.4 percent of GDP) and reducing tax exemptions by restoring the standard sales tax rate on specific goods (0.2 percent of GDP) as well as raising nontax revenue from licensing agreements (0.1 percent of GDP). Staff noted that more decisive reductions in tax exemptions would be welcome. On the expenditure side, the authorities plan to gradually reinstate the monthly fuel price adjustment for diesel and kerosene in the course of 2013 and introduce targeted subsidies if the price of oil exceeds $100 per barrel (structural benchmark). The speed of reinstating the fuel adjustment will depend on international prices. If oil prices are higher than projected or other risks materialize, the authorities stand ready to cut low-priority capital spending.

17. **Work is underway to boost revenue beyond 2013.** Though not expected to yield much revenue in 2013, the authorities will submit a revised income tax law to parliament in September 2012 (structural benchmark), which could boost revenue substantially in 2014. Staff welcomed the general features of the law, including the lowering of the personal income tax threshold as it is very high (lower-income households would not be affected) and the increase in the top individual and corporate tax rates, which would bring Jordan in line with its peers. It noted that the authorities' plan to set different corporate tax rates based on company size (intended to make small- and medium-size enterprises more competitive) may encourage large companies to evade taxes by splitting or setting up branches. In response, the authorities decided not to do so. The authorities will also review by end-2012 the tax system to explore further options for increases in revenue and will refrain from providing new tax incentives. Also, if implemented appropriately, improvements in tax administration could yield substantial revenue gains.

Jordan: Corporate Income Tax Rates Compared to Peer Group
(Tax rate in percent)



Source: IMF staff estimates.

18. **Fiscal adjustment has to go beyond the central government.** There is a need to gradually reduce the deficits of other public enterprises and own-budget agencies not included in the central government's budget (including the various regulatory commissions and public funds). These entities have on a consolidated basis run deficits between zero and two percent of GDP in the last three years. The water company is incurring the highest losses and the authorities plan to reduce its deficit, which might require increases in water tariffs. Led by the World Bank, staff will discuss with the authorities their program for addressing the financial problems of the other public agencies within the first year of the program. Staff also underscored the risks of mega-projects during the adjustment and urged the authorities to refrain from issuing any form of debt guarantees for borrowing by public entities, given the already high debt ratio.

Tax Administration

19. **The authorities are focusing on steps to enhance their tax administration strategy** (¶15). They recognize that fair, equal, and efficient treatment of taxpayers will go a long way in creating a level playing field for businesses and increasing taxpayers' willingness to contribute. Efforts aim appropriately at making the taxpayer register accurate, raising filing compliance, and bringing arrears under control.[5]

Public Financial Management

20. **The program has a strong emphasis on improving cash management** (¶16). This will help program monitoring as well as enhance coordination with the CBJ. Starting in August, the authorities will generate monthly reports on stocks of pending checks and trust account balances to better monitor accounts payable. The program also includes an indicative target on the stock of accounts payable, in order to encourage better cash management and forecasting. Accelerating the rollout of the Government Financial Management Information System (GFMIS) (introducing a commitment control system through the GFMIS to register, report, and account for expenditure commitments against cash allocations by January 2013 is a structural benchmark) and the treasury single account are expected to facilitate this process.

[5] In this context, the recent appointment of a new director of the income tax department—a position vacant for several months—is expected to provide new momentum to the reforms.

C. Energy Policy

21. **The World Bank has long been engaged in Jordan's energy sector.** Jordan has been at the forefront of energy sector reform in the region, and is a role model of public-private participation in the sector. Jordan's no energy subsidy policy—first implemented in 2008—encouraged efficient use of energy and should be gradually reinstated. The gas supply shock provides a strong rationale for Jordan to expedite the diversification of its energy sources, including the use of alternative energy.

22. **Recent tariff increases reduce NEPCO's losses by almost 1 percent of GDP on an annual basis** (¶17). Increases in electricity tariffs for some sectors (banks, the mining sector, and hotels) and large consumers were implemented in June. Nevertheless, NEPCO's financing needs are expected to rise to 7.1 percent of GDP in 2012, taking into account the repayment of arrears incurred in 2011. This estimate, however, is sensitive to unpredictable gas flows from Egypt. The projections for the remainder of 2012 assume inflows slightly above those in the first half of the year. Under this scenario, NEPCO operating losses in the second semester would decline only marginally compared to the January–June level, and amount to 5.3 percent of GDP for the full year. Further disruptions in gas supply are possible, but there is also the upside of a significant and sustained resumption. Should gas flows resume at the maximum contracted levels in the near future, NEPCO's annualized operating losses would narrow to 1.2 percent of GDP (see Box 2 for scenarios).

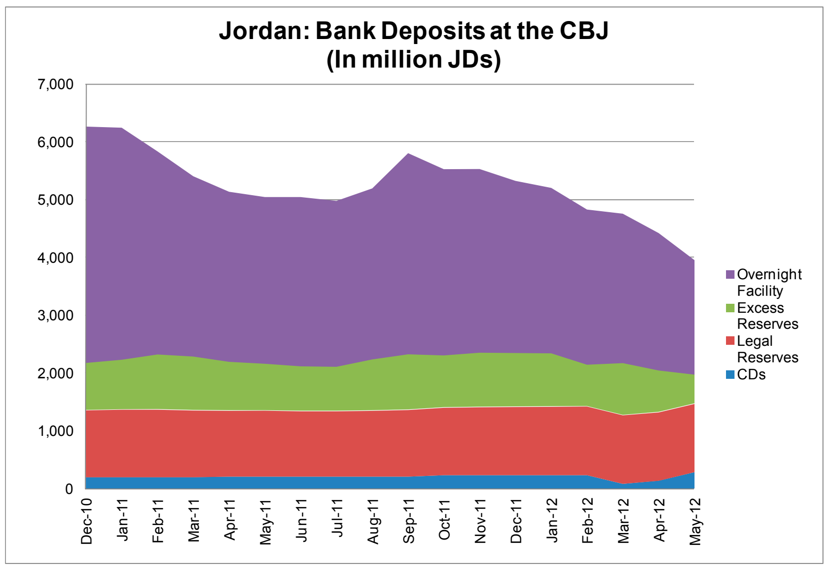
23. **Restoring cost recovery for NEPCO will be critical for the success of the program** (Box 2; ¶18–20). The authorities will reduce NEPCO's operating losses to 3.8 percent of GDP in 2013, 2.7 percent of GDP in 2014, 1.8 percent of GDP in 2015, to reach cost recovery in mid-2016. To this end, they will formulate and announce a medium-term plan to address Jordan's energy issues, incorporating the inputs already provided by the World Bank (structural benchmark for September). This plan will include a specific time table on measures for 2013 and beyond.

- In the **short term**, the authorities plan to increase tariffs. According to the World Bank, NEPCO is a well-run company and savings from making it more efficient are expected to be minor. Thus, there is little scope for efficiency gains. Even in the best case scenario of Egypt gas coming fully back on stream, cost recovery will not be achieved given the current tariff profile and the volume and price levels set in the recently renegotiated contract with Egypt. Tariff reform that brings the average tariff close to cost recovery and does not harm the vulnerable parts of the population is both technically achievable and socially acceptable with the right communication strategy. According to the World Bank, the thrust of the tariff reform would be to preserve the current tariff for households that consume less (the lowest brackets of the current tariff schedule) and impose increases, possibly sequenced, on larger consumers, including the commercial users not affected by the recent tariff hike.

- In the **medium term**, Jordan needs to diversify its sources of gas supply not only to enhance its energy security, but also to meet its growing electricity demand.[6] The main option is the construction of a liquefied natural gas terminal in Aqaba, which would require upfront capital investment, but would be the cheapest way to provide gas in the long term. Complementing this strategy would be the development of the existing small gas field and of the prospected oil shale field in Jordan.

D. Monetary and Exchange Rate Policy

24. **The exchange rate peg remains an appropriate anchor for financial stability.** With a strong improvement of the balance of payments projected in the medium term, the real effective exchange rate is estimated to remain broadly in line with medium-term fundamentals. Maintaining the peg in the medium term will hinge on following through on the strong adjustment path and a favorable external environment. In the short term, the key objective will be maintaining an appropriate level of reserves, by restoring confidence: staff estimates based on the Fund's reserve adequacy metric suggest that the current level of reserves is sufficient.[7] Over the medium term, reserve coverage would increase.



25. **The CBJ will also focus on preserving the attractiveness of dinar-denominated assets.** In response to dinar liquidity drying out (see chart) and because banks can lend in foreign currency only to hedged borrowers, the CBJ injected liquidity in late May through a new weekly repo facility and buying government papers on the secondary market. The announcement of the Fund program is expected to have a beneficial impact on confidence and lead to an arrest and then gradual decline in dollarization. This will allow the CBJ to gradually reduce its liquidity injections. Should confidence not strengthen adequately, the CBJ would consider tightening monetary policy to make dinar-denominated assets more attractive and

---

[6] The gas contract with Egypt provides 2.5 billion cubic meters per year. Staff estimates that demand for gas for electricity generation would exceed 3 billion cubic meters per year in the medium term.

[7] See IMF, 2011, Policy Paper on Assessing Reserve Adequacy. Available via the Internet: http://www.imf.org/external/pp/longres.aspx?id=4547

stem the pressure on CBJ's reserves, by using all available instruments, first and foremost further interest rate increases. The CBJ felt that an increase in reserve requirements for foreign exchange deposits would be less effective because banks keep excess reserves in foreign currency with the CBJ. In addition, the very low return on banks' foreign assets due to the low interest rate on the U.S dollar—the main currency in which foreign currency deposits are denominated—render raising reserve requirements ineffective in widening the JD-USD interest rate margin.

E. Structural Policies

26. **The CBJ will further strengthen the banking supervisory framework** (¶23–24). Banking sector indicators show that, despite some deterioration following the global financial crisis, banks remain generally sound. To enhance the ability of supervisors to monitor banking sector conditions, the authorities will improve the frequency and timeliness of banking system indicators. This would allow them to increase the frequency of publication of Financial Stability Reports, and shorten the time lag to publication. Complementing these efforts are the introduction of an automated bank data collection system for supervisors, expected in 2013, and an early warning statistical model that is being developed with Fund technical assistance. At the same time, the new credit bureau, expected to be licensed by end-2012, is expected to improve banks' risk assessment capabilities. To further improve the supervisory framework, the authorities are strengthening the governance code for banks, customer protection rules, fit and proper criteria for bank board members and managers as well as risk management by banks within the current Basel II framework. Staff welcomed the authorities' efforts. It highlighted the importance of continued strong supervision to assess any pressure on banks from fiscal tightening and the regional and global situation, as well as from recent dollarization. Accelerating the completion of the Internal Capital Adequacy Assessment Process (ICAAP) exercise might be useful. With possible technical assistance from the Fund, the authorities also intend to enhance their AML/CFT regime.

Jordan: Indicators of Bank Soundness, 2005–11

	2005	2006	2007	2008	2009	2010	2011
	(In percent, unless otherwise indicated)						
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	19.3
Non-performing loans (in millions of JD)	481	405	453	550	877	1159	1315
Non-performing loans (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3

Source: Central Bank of Jordan.

27. **Structural policies will focus on supporting growth and employment** (¶25). Although Jordan compares favorably with other countries in the region on governance and

business environment indicators, improvement has been slow, and firms continue to identify problems in the areas of tax and tax administration as major constraints to doing business.[8] Fiscal consolidation will trigger a change in the relationship between the public and private sectors. As noted by the World Bank, well-connected private firms have been benefitting from tax exemptions and weak enforcement by the tax administration. In parallel, public expenditure remains high, partially fueled by demand for public employment and funds to compensate for the lack of job opportunities in the private sector. Fiscal reforms will aim to reverse the decline in tax revenue and reduce expenditure toward enhancing the role of the private sector as the driving force for growth and employment. The authorities will step up ongoing efforts to:

- **Enhance the business investment framework in favor of job-creating activities.** To reduce the unemployment rate among the educated Jordanians, further emphasis will be placed on educational reforms and training programs aimed at addressing skill mismatches and on encouraging private investment in skill-intensive sectors where Jordan has a comparative advantage. Reforms will also aim at improving the business environment for *all* firms in an *equal* manner to create a level playing field, and strengthening Jordan's trade promotion programs.

- **Increase trade openness.** Jordan has negotiated several free trade agreements in recent years. Negotiations with the European Union and Mercosur countries as well as enhancing linkages with the GCC hold the potential for further enhancing trade and economic integration.

F. External Adjustment

28. **Exogenous factors will contribute to facilitating external adjustment, but so will policy actions.** After peaking at 14.1 percent of GDP in 2012, the current account deficit is projected to undergo large adjustment in 2013, reflecting lower food and fuel prices, a strong rebound in export growth—following a sharp deceleration in 2012 due to disruptions in transit trade through Syria and in potash and phosphate production (caused by long worker strikes)—and continued improvements in travel receipts, including from the GCC. The expected further moderation of international food and fuel prices would help further external adjustment over the medium term, and so would the authorities' commitment to sustained fiscal consolidation and diversification of Jordan's energy sources. Implementation of structural policies aimed at improving the business climate; enhancing transparency and leveling the playing field for all firms; addressing skills mismatches; and fostering trade and competitiveness should also help in this regard.

[8] *Enterprise Surveys*, World Bank.

III. PROGRAM MODALITIES

A. Length, Access, and Financing

29. **Jordan faces sizeable financing gaps in the next three years.** Current estimates point to a sizable balance of payment need and a financing gap through 2015, owing in large part to the liquidity needs to finance more expensive energy imports. Under the assumption that budgetary grants will come in as projected (3–4 percent of GDP), staff estimates suggest that to maintain reserves at about four months of imports, Jordan's additional external financing needs would reach $0.8 billion in 2012, $1.1 billion in 2013, $1.1 billion in 2014, and $0.9 billion in 2015.

30. **Donors are expected to cover most of the gap, with the Fund closing the remaining gap.** The program is fully financed, with discussions advanced on budgetary grants (including from the U.S., the European Commission, and the GCC[9]) and official financing (including loans from France and Japan). In addition, World Bank financing is expected to continue through new Development Policy Loans ($150 million is envisaged for 2013), as well as through a Micro, Small, and Medium Enterprise Facility; there is also a possibility of World Bank and IFC loans for Jordan's solar power program (Table 5). The EBRD's investments are set to begin in the coming months, focusing on the power/energy sector (wind farm and electric generation projects), agribusiness, and financial institutions (trade finance credit line), with operations reaching an annual average of about €250–300 million. Steadfast commitment of the authorities to consolidation would ensure that financing will come in as programmed. Nonetheless, if there are early indications that projected financing will not be received, the authorities will consult with the Fund on alternative financing approaches (including market access) or further fiscal adjustment. On the upside, the amount under discussion with the GCC could be larger than currently included in the macro framework.

31. **The authorities have requested a Stand-By Arrangement (SBA) covering 36 months** (Box 3). The duration of the arrangement reflects the time it will take Jordan to implement consolidation in both the central government and NEPCO, including by securing an alternative energy source. Access to such a source is currently expected by mid-2015, and NEPCO would get back to cost recovery by mid-2016. Coupled with an upfront fiscal consolidation in 2012–13, this should help generate a sufficiently large current account adjustment, thus reducing Jordan's financing needs and its fiscal and external vulnerabilities by the time the SBA expires.

32. **Jordan meets the exceptional access criteria for a proposed access of 800 percent of quota (about $2 billion; Box 4).** Access of 800 percent of quota would cover about half of

[9] Kuwait, Qatar, Saudi Arabia, and the UAE announced that they will provide $5 billion over five years to support development in Jordan. The authorities have provided a list of projects, which could be supported under this initiative.

the cumulative financing gap and ensure that reserves stay at about four months of imports. Most importantly, access at the proposed level as well as some frontloading of the program (see below) would send a strong signal to markets, which could strengthen market confidence.

33. **This level of access is consistent with past exceptional access arrangements under alternative metrics** (Text Table). The proposed total access is around the 65th percentile of high-access cases, and the proposed annual access is within the 500 percent of quota limit.[10]

34. **To maximize the confidence-building impact of the program, staff proposes frontloading access, with due regards to safeguarding the Fund exposure.** Some 300 percent of quota (SDR 511.5 million or about $763 million) would be disbursed in the first year; with an additional 185 percent of quota in 2013, 180 percent of quota in 2014, and 135 percent of quota in 2015 (Tables 5–6). Frontloading the access is critical to instill confidence in the authorities' measures and help arrest the fall in reserves.

---

[10] As of end-June 2012, Jordan has no outstanding obligations to the Fund.

Box 3. Jordan: Stand-By Arrangement

Access: SDR 1,364 million (800 percent of quota).

Length: 36 months.

Phasing: SDR 255.75 million (about 150 percent of quota) will be made available upon the Board's approval of the arrangement to replenish reserves and help restore market confidence. The second tranche of SDR 255.75 million will be made available in December 2012, upon the completion of the first review. The third tranche of SDR 85.25 million will be made available in March 2013, upon the completion of the second review. The ten subsequent tranches will be made available quarterly thereafter, and will equal SDR 76.725 million each.

Program Conditionality

Quantitative Performance Criteria

- Ceiling on the primary fiscal deficit of the central government excluding grants.
- Ceiling on the borrowing of the National Electric Power Company (NEPCO).
- Floor on the net international reserves of the Central Bank of Jordan.

Continuous Performance Criterion

- Non-accumulation of external debt payment arrears by the general government.

Quantitative Indicative Targets

- Ceiling on the stock of accounts payable of the central government.
- Ceiling on the stock of arrears of NEPCO.
- Ceiling on the net domestic assets of the CBJ.

Structural Benchmarks

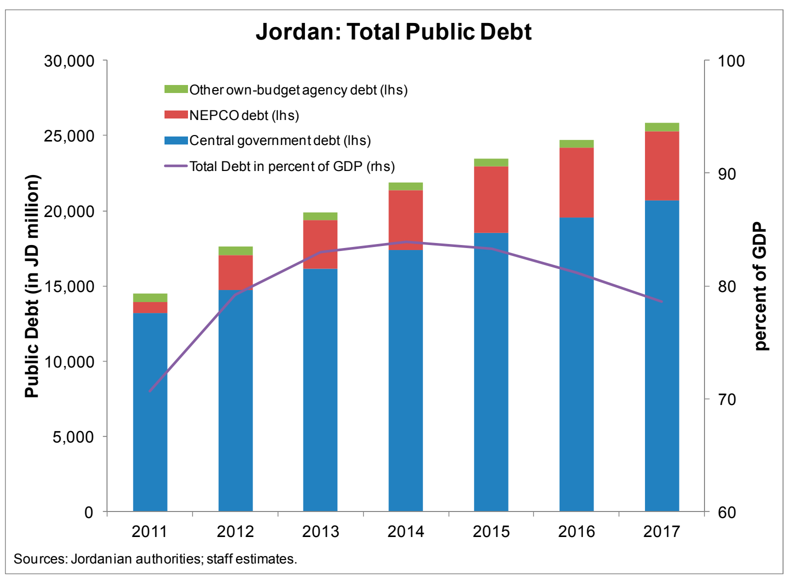
- Submit to the parliament an income tax reform law, including changes on mining sector taxation, *by end-September 2012.* (*Rationale:* fiscal consolidation by increasing revenue).
- Announce a medium-term electricity/energy strategy incorporating inputs provided by the World Bank, including a time table and measures for bringing NEPCO back to cost recovery *by end-September 2012.* (*Rationale:* fiscal consolidation and reducing external vulnerabilities).
- Implement a step increase in the price of diesel *by the first review in 2012.* (*Rationale:* fiscal consolidation through subsidy reform and reducing external vulnerabilities).
- Introduce a commitment control system through the Government Financial Management Information System to register, report and account for expenditure commitments against cash allocations issued by the ministry of finance *by end-January 2013.* (*Rationale:* governance and program monitoring).
- Introduce targeted transfers to the poor, which would protect the poor from higher oil prices should they increase beyond $100 per barrel *by end-January 2013.* (*Rationale:* protect vulnerable groups during fiscal consolidation).

Box 4. Jordan: Exceptional Access Criteria

Staff's assessment is that Jordan meets all four criteria for exceptional access. The total access under the Stand-By Arrangement equals 800 percent of quota (about $2 billion), and both the cumulative and annual access limits under the program exceed normal access limits, requiring an evaluation of exceptional access based on the four substantive criteria under the exceptional access framework:

- **Criterion 1—*The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.*** Jordan faces both current account and, more recently, capital account pressures. A large increase in the energy import bill—resulting from imports of expensive fuel products for electricity generation to substitute for the loss of natural gas flows from Egypt—led to exceptionally large current account pressures, with financing needs that cannot be met through normal access to Fund facilities. A prolonged disruption of natural gas inflows or adverse regional developments could result in a further loss of confidence and a decline in remittances, FDI, and tourism. In particular, an increase in oil prices poses a large risk for the economy. Dollarization also increased over the last months, and exceptional access with frontloading is expected to help arrest and eventually reverse this trend.

- **Criterion 2—*A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, exceptional access would be justified if there is a high risk of international systemic spillovers.*** Staff projections indicate that Jordan's public debt will remain sustainable in the medium term with high probability. The losses of NEPCO are pushing up gross public debt rapidly to a projected 83.9 percent of GDP by end-2014. The strategy of the program would focus on bringing NEPCO back to cost recovery and thus arrest the rapid increase, while reducing the central government deficit so that debt would gradually decline to 78.6 percent of GDP in 2017. This will require the energy issue to be resolved and NEPCO brought to a break-even position by mid-2016, as well as further fiscal measures to improve the government's overall balance. If NEPCO cannot be brought back to cost recovery within that time frame or risks to the program materialize, further fiscal measures are likely to be needed.



Box 4. Jordan: Exceptional Access Criteria (concluded)

- **Criterion 3—*The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.*** Jordan has one outstanding Eurobond issue maturing in 2015. Access to private markets has not been tested recently, given that Jordan's spreads increased last year as in other emerging markets in the region. Spreads have now slightly declined and were in the range of 410–430 bps in the last month. While access to the Eurobond market is contingent on developments in the euro area, the authorities intend to issue additional bonds, possibly as soon as in late 2012. Staff expects Jordan's access to private capital markets during the program period and beyond to be on a scale and timing so as to make repayments to the Fund. Rates at which the access can be obtained in the medium term are expected to have a lower spread as currently prevailing in the secondary market, reflecting the adjustments made under the program.

- **Criterion 4—*The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*** The authorities showed already in 2010 that they have the capacity to implement a large fiscal adjustment. Regarding fiscal consolidation in 2012, they have already implemented a number of difficult fiscal measures, which they expected to result in a fiscal consolidation of more than 3 percent of GDP. Further adjustment is necessary, but would need to be communicated and managed carefully, given the political risks. This said, reforms to income and mining taxation, which could substantially increase revenue, have already been discussed with parliament and appear to have good prospects of success. Staff assesses that Jordan's economic program, based on fiscal consolidation and medium-term solutions to its energy issues, is addressing remaining external and fiscal vulnerabilities and sustaining the exchange rate peg, and thus has reasonably strong prospects of success.

Jordan: Proposed Access

	Proposed Arrangement SBA	High-Access Cases 1/ Proposed Arrangement (Percentile)	20th	65th Percentile (Ratio)	80th	Median
Access						
In millions of SDRs	1,364	19	1,473	11,310	15,418	6,966
Average annual access (percent of quota)	267	47	171	439	668	300
Access during the first year (percent of quota)	300					
Average annual access (percent of total) 2/	267	47	300	754	1,009	560
Total access in percent of: 3/						
Actual quota	800	64	307	801	1,053	587
Gross domestic product	6.5	56	3.9	7.5	10.0	6.0
Gross international reserves	31.5	26	27	63	91	49
Exports of goods and nonfactor services 4/	12.4	25	11.2	31.9	40.4	22
Imports of goods and nonfactor services	8.9	13	10.3	25.8	38.8	20
Total debt stock 5/						
Of which: Public	10	32	9	17	31	13
External	32	95	7	15	21	12
Short-term 6/	30	41	20	48	102	33
M2	4	6	8	17	26	13

Sources: Executive Board documents, MONA database, and Fund staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1997 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ Correspond to quotas prior to 2008 Reform.

3/ The data used to calculate ratios is the actual value for the year prior to approval for public, external, and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables (projections for 2012 were used).

4/ Includes net private transfers.

5/ Refers to net debt.

6/ Refers to residual maturity.

B. Capacity to Repay the Fund and Risks to the Program

35. **Jordan's capacity to repay the Fund is good.** Jordan has demonstrated an excellent track record of meeting its obligations to the Fund. With proposed access of 800 percent of quota, Fund credit outstanding would reach a maximum of 5.1 percent of GDP and 21.5 percent of gross reserves in 2015, while debt service to the Fund would rise to 3.4 percent of exports of goods and nonfactor services in 2017. With the start of the repayment period to the Fund in 2017 after the completion of the program, it will be critical that Jordan has favorable access to international capital markets by then (the authorities plan to issue a Eurobond possibly as early as in 2012).[11]

[11] 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.

36. **The proposed program carries considerable risks (Box 5):**

- **The energy sector represents the main risk.** It could take longer than expected to bring the sector back to cost recovery, and program targets are highly sensitive to oil prices changes. Higher-than-projected oil prices would drive up the cost of electricity production as well as the fuel subsidies from the budget. Alternative and cheaper sources of energy might take more time to develop and, in the interim, the authorities might be reluctant to increase electricity tariffs. On the upside, gas inflows from Egypt are projected at a relatively low level, and their increase would help to contain the costs of electricity while new energy sources are being developed. Also, the liquefied natural gas terminal could be operational before 2015. Risks could also come from additional losses of other public agencies.

- **A difficult domestic situation could jeopardize reform plans and adversely impact confidence.** The program is based on strong consolidation, requiring implementation of politically sensitive measures. The reversal of the increase of electricity tariff earlier this year showed that such increases must be well communicated and justified to the public, which expects an improvement in their living conditions and a reduction in unemployment. Ongoing discussions on an election law, parliamentary elections planned for end-2012, and the expected change of the government add to tensions and uncertainty. To mitigate this risk, the authorities have been engaging with representatives of the broad social and political spectrum to generate momentum for a national program. In particular, the economic situation, the need for adjustment, and the proposed measures were presented to the parliament during the vote of confidence discussions for the new government at end-May.

- **A deteriorating regional and global environment could hurt tourism receipts and FDI, and might also have fiscal and political implications.** The situation in Syria disrupts transit trade and introduces significant uncertainty into the government's spending to accommodate refugees' needs. Moreover, activity in the regional oil exporters could slow as a result of an escalation of the euro zone crisis, and this could spill over to Jordan through lower tourism, exports, and remittances. Also, a slowdown in Europe could affect Jordan, mainly through increasing borrowing costs.

37. **Several features of the program are intended to mitigate these risks.** The inclusion of strong upfront actions in 2012, notably the increases in energy prices, should restore confidence in the government's ability to take action. Technical assistance as well as monitoring through quarterly reviews (see below) will support the program's objectives and allow for early problem detection and remedial action in case of slippages.

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
A large and prolonged increase in energy prices	***Medium*** With the large reduction in gas from Egypt, Jordan has become more dependent on energy imports. A slowdown in global demand could ease upward pressures on energy prices, but geopolitical changes, strong growth in emerging markets and China, and increasing world demand for natural gas resulting from global shift from nuclear energy could contribute to higher energy prices.	***High*** The projected narrowing of the fiscal and external current account deficits would be substantially reduced. Social pressures for more current expenditure (particularly subsidies and transfers) could increase. Despite reinstating monthly price adjustments to international prices of some fuel products, the government may face pressure to again limit pass-through of energy prices. Also, NEPCO's deficit would increase further.
Less natural gas from Egypt	***Medium to High*** The security situation in the Sinai Peninsula is fragile, and the natural gas pipeline remains vulnerable to attack. Also, higher domestic demand for energy in Egypt could constrain export growth.	***Low*** Projections are already on the basis of lower gas flows from Egypt than in 2011 and in line with the actual flows in January–June, limiting the impact of this shock. A further reduction in flows would widen the external current account deficit (due to the increased cost of importing gas-substitute fuel products) and increase NEPCO's losses.
A worsening of unrest and civil war in neighboring countries	***Medium to High*** Social unrest and protests in the region are unfolding and the outlook remains uncertain.	***High*** Increased unrest would engender a slowdown in external inflows (particularly remittances, tourism, and FDI). Persistent and heightened unrest may result in capital outflows, a slowdown in intraregional trade, further curtailment of natural gas imports, and reduced economic growth. Also, aid to more refugees from Syria would put pressure on fiscal accounts.
Pressures on the banking system from a deteriorating domestic, regional and global environment	***Medium to High*** A deterioration of the domestic, regional, and global environment could worsen household and corporate balance sheets. In addition, a slowdown in the Euro zone would have some direct adverse effects on the Jordanian economy, mainly through financial channels.	***Low to Medium*** The authorities report that banking indicators are sound and that banks' capital is adequate. The CBJ is closely monitoring the situation and is working on an early warning system. There is limited exposure of Jordanian banks to the Euro zone, and limited trade links with Europe. Jordan may though face increased sovereign and corporate borrowing costs. Jordan may also be indirectly affected by a Euro zone slowdown through a reduction in the global demand for energy, which would adversely affect Jordan's key trading partners (particularly the GCC).

C. Program Monitoring, Conditionality, and Safeguards Assessment

38. **The program will initially be monitored through quarterly reviews.** Depending on program performance, semi-annual reviews could be considered during the second year of the program.

39. **The test dates for the quantitative targets for the next six months would be the last day of quarters starting in September 2012** (Table 1 of the MEFP). Quantitative performance criteria on the primary deficit of the central government (excluding grants)[12] and NEPCO borrowing monitor progress in fiscal consolidation toward a reduction in public debt. They are complemented by indicative targets on (1) the stock of accounts payable of the central government, aimed at improving cash management and forecasting and strengthening the commitment control system; and (2) the stock of NEPCO's arrears, to be repaid in 2012. Regarding monetary policy, the program is monitored by a performance criterion on the net international reserves of the CBJ combined with an indicative target on its net domestic assets.

40. **Structural conditionality supports socially acceptable consolidation.** Planned changes in the income taxation will improve the fiscal position, while placing the burden of consolidation primarily on relatively well-off population groups. Step increases in the price of diesel will further reduce the fuel subsidy, and will be accompanied by the introduction of targeted transfers to protect the poor from significant increases in oil prices. A commitment control system to register, report and account for expenditure commitments against cash allocations issued by the ministry of finance will be an important step toward strengthening PFM. The most critical benchmark is the formulation of a medium-term electricity/energy reform strategy to bring NEPCO back to cost recovery and thus reduce Jordan's external financing needs and exposure to oil price volatility.

41. **Fund resources will be used for budgetary financing.** Jordan has an actual balance of payments problem and is implementing a Fund-supported program to address it. Fund resources would help to provide balance of payments support as well as fiscal support through its domestic counterpart. To this end, appropriate safeguards are being put in place: the ministry of finance and the CBJ will finalize a Memorandum of Understanding regarding their respective responsibilities for servicing charges and obligations to the Fund before the completion of the first review.

---

[12] The target excludes project loans (about 0.2 percent of GDP in 2012) because data on these cannot be monitored with accuracy. While any excess grants would be saved, there is a capped adjustor requiring an adjustment of up to 0.2 percent of GDP per quarter if there are grant shortfalls.

42. **A safeguards assessment of the CBJ will be conducted before the first review of the program.** Staff confirmed that the audited financial statements of the CBJ are published. The authorities have provided the necessary data and documentation, and the safeguards assessment mission is expected to visit Jordan in September 2012.

IV. Staff Appraisal

43. **Exogenous shocks have brought to the fore Jordan's vulnerabilities.** Important risks materialized in 2011 and 2012 from rising oil prices, a sharp fall in gas supplies from Egypt, and regional unrest. They put pressures on the current account, led to a decline in CBJ's reserves, and pushed the combined deficit of the central government and NEPCO into double digits, in turn crowding out the private sector. These shocks also highlighted structural weaknesses in fiscal and energy policies.

44. **At this critical juncture, the return to fiscal and external sustainability hinges on strong policies and adequate financing.** The authorities' program centers on lowering fiscal and external imbalances, as well as safeguarding the currency peg—which has served the country well in the past seventeen years. This puts the adjustment burden squarely on fiscal and energy policies with support from structural reforms to enhance growth and competitiveness. It requires establishing a pass through of international prices as soon as possible, while cushioning the effects of a difficult external environment on Jordan's population. Jordan has been enjoying strong donor support in the past, and the program is expected to be fully financed.

45. **The authorities have taken strong measures to restore confidence in domestic policies.** With a difficult political environment limiting the room for maneuver, the policy package in 2012 was a good first step in reducing financing needs, unlocking the policy paralysis, and re-establishing credibility in the government's ability to implement politically difficult measures.

46. **The "make or break" of the program is continued commitment to adjustment and policy implementation.** To provide sufficient room for private sector credit and ensure sustainability of the current account, strong action has to be taken on two fronts. Fiscal policies require a reorientation toward increasing revenue through appropriate tax policy changes, while improving the composition of spending in favor of targeted subsidies and growth-enhancing investments. This must be supported by renewed efforts to strengthen tax administration. Energy policies must focus on bringing NEPCO back to cost recovery, which will require tariff increases and diversifying Jordan's energy sources. Most importantly, adjustment beyond current plans might be needed if program risks materialize.

47. **Public financial management needs to improve.** Weaknesses in cash management render difficult the implementation and monitoring of the program as well as coordination of fiscal and monetary policies.

48. **The CBJ's management of dollarization and pressures on the peg are critical.** The peg is the linchpin of the program as an anchor for financial stability. The CBJ has managed the increase in dollarization well, but should unwind its liquidity injection when trends reverse, so as to avoid any inflationary pressures. If pressures for dollarization resume, the CBJ needs to stand ready to increase the attractiveness of dinar-denominated assets.

49. **Efforts to strengthen the banking supervisory framework are welcome.** Bank soundness indicators have stabilized at safe levels, showing that banks have so far weathered the slowdown of the economy. The CBJ should remain vigilant and focus on monitoring the impact of fiscal tightening and regional and global developments on banks. It should also increase the frequency and timeliness of reporting banking system indicators and develop an early warning mechanism. Ongoing efforts to update the governance code for banks, customer protection rules, and fit and proper criteria for bank board members and managers should be intensified.

50. **Without improvements in Jordan's business climate, the economy cannot deliver sustainable and inclusive growth.** Fiscal consolidation will require a change in the relationship between the public and private sectors, with enhancing the private sector's role for growth and employment. A better business environment with less red tape and a fair playing field is essential. Strengthening trade relationships with the GCC, the European Union and Mercosur could also provide important momentum to Jordan's exports.

51. **The risks are considerable.** By far the largest risk for both the balance of payments and the fiscal deficit comes from an increase in energy prices, given the high sensitivity of the public to fuel price increases. But there are also upside risks from a resumption in gas from Egypt and a new energy source coming on stream before 2015. Other risks pertain to a difficult domestic situation, a deteriorating regional environment (including the neighboring Syria), and a challenging global outlook.

52. **The exceptional level of access under the proposed arrangement (800 percent of quota) is justified by Jordan's balance of payments needs**. There are reasonable prospects for success if the authorities implement the envisaged policies. Though risks are high, in the absence of Fund financing, Jordan could experience considerable balance of payments difficulties, which would impose significant hardship on the population and may have regional spillovers. The proposed level of access is consistent with medium-term external and debt sustainability, provided the program is implemented as envisaged and any unforeseen shocks are addressed promptly.

53. **The authorities have indicated commitment to implement their program steadfastly, while being ready to respond to any adverse developments.** Therefore, staff supports the authorities' request for a 36-month SBA.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2009–17

			Prel.	Art IV	Projections					
	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
Output and prices	(Percentage change, unless otherwise indicated)									
Real GDP at market prices	5.5	2.3	2.6	2.8	3.0	3.5	4.0	4.5	4.5	4.5
GDP deflator at market prices	2.8	8.4	6.4	4.1	5.4	4.3	4.6	3.4	3.3	3.3
Nominal GDP at market prices	8.5	10.9	9.1	7.0	8.6	8.0	8.7	8.1	7.9	7.9
Nominal GDP at market prices (JD millions)	16,912	18,762	20,477	22,201	22,230	23,998	26,097	28,205	30,436	32,846
Nominal GDP at market prices ($ millions)	23,840	26,447	28,881	31,309	31,353	33,847	36,808	39,781	42,928	46,327
Consumer price index (annual average)	-0.7	5.0	4.4	5.9	4.5	3.9	3.8	3.0	2.9	3.0
Consumer price index (end of period)	2.7	6.1	3.3	5.9	4.4	4.2	3.1	2.9	2.9	3.0
Unemployment rate (percent)	12.9	12.5	12.9	...	11.4	...	...	...	...	...
Investment and savings	(In percent of GDP, unless otherwise indicated)									
Consumption	98.4	97.7	103.2	99.3	102.9	96.7	94.0	91.6	91.1	90.1
Government	21.6	20.7	20.5	19.4	17.8	17.8	17.7	17.6	17.4	17.3
Other	76.7	77.0	82.8	79.9	85.0	78.8	76.3	74.0	73.7	72.8
Gross domestic investment	24.4	23.1	24.6	22.5	24.2	25.9	26.3	26.0	25.5	25.7
Government	8.2	5.2	5.3	4.6	6.7	7.8	8.0	8.3	8.2	8.7
Other	16.2	17.9	19.3	17.9	17.6	18.1	18.2	17.7	17.3	17.0
Gross national savings	19.5	16.0	12.6	14.6	10.1	16.0	18.5	20.9	21.3	21.4
Government	-0.7	-0.4	-0.5	-0.6	0.1	2.4	3.5	4.8	5.2	5.7
Other	20.2	16.4	13.1	15.2	10.0	13.7	15.0	16.1	16.1	15.7
Savings-investment balance	-4.9	-7.1	-12.0	-7.9	-14.1	-9.9	-7.7	-5.1	-4.2	-4.3
Government	-8.9	-5.6	-5.7	-5.2	-6.5	-5.5	-4.5	-3.5	-3.0	-3.0
Other	4.0	-1.5	-6.3	-2.7	-7.6	-4.4	-3.2	-1.6	-1.2	-1.3
Fiscal operations										
Revenue and grants	26.5	24.9	26.4	25.8	25.2	25.8	25.2	24.6	24.6	23.4
Of which: grants	2.0	2.1	5.9	3.9	4.2	3.8	3.3	2.7	2.7	1.5
Expenditure and net lending 1/	35.4	30.4	33.2	31.0	31.7	31.3	31.1	31.0	30.8	30.6
Overall fiscal balance before measures	-8.9	-5.6	-5.7	-5.2	-6.5	-5.5	-5.9	-6.4	-6.2	-7.1
Additional measures needed	…	…	…	…	0.0	0.0	1.4	2.9	3.2	4.1
Overall fiscal balance after measures	-8.9	-5.6	-5.7	-5.2	-6.5	-5.5	-4.5	-3.5	-3.0	-3.0
Overall fiscal balance excluding grants	-10.9	-7.7	-11.7	-9.1	-10.7	-9.3	-7.8	-6.2	-5.7	-4.5
Primary fiscal balance excluding grants	-8.6	-5.6	-9.6	-6.6	-8.2	-6.3	-4.7	-3.1	-2.6	-1.5
NEPCO cash balance	…	-0.9	-2.8	-3.8	-7.1	-3.8	-2.7	-1.8	-0.7	0.0
Government and government-guaranteed gross debt 2/	64.8	67.1	70.7	70.8	79.2	83.0	83.9	83.3	81.2	78.6
Of which: external debt	22.9	24.6	21.9	21.1	20.8	19.5	18.4	16.6	16.0	15.7
External sector										
Current account balance (including grants), *of which:*	-4.9	-7.1	-12.0	-7.9	-14.1	-9.9	-7.7	-5.1	-4.2	-4.3
Exports of goods, f.o.b. ($ billions)	6.4	7.0	8.0	8.9	8.3	9.2	9.8	10.4	11.1	11.9
Imports of goods, f.o.b. ($ billions)	12.7	13.8	16.8	16.0	18.2	18.5	19.2	19.7	20.9	22.2
Oil and oil products ($ billions)	2.2	3.1	4.9	4.2	5.8	5.4	5.3	4.8	4.9	4.9
Current account balance (excluding grants)	-9.0	-11.3	-19.0	-13.1	-18.9	-14.2	-11.5	-8.3	-7.3	-6.2
Private capital inflows (net)	9.5	10.8	7.5	5.3	3.9	4.7	6.0	6.7	6.7	6.7
	(Annual percentage changes)									
Monetary sector										
Broad money	9.3	11.5	8.1	7.0	8.1	9.5	...	...	...	...
Net foreign assets	25.1	13.4	-7.2	-7.0	-22.8	-11.7	...	...	...	...
Net domestic assets	-0.7	9.9	20.7	15.8	27.6	17.6	...	...	...	...
Credit to private sector	0.5	7.2	9.6	13.2	6.7	9.0	...	...	...	...
Credit to central government	18.9	3.8	8.2	15.3	17.4	14.9	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	11,093	12,449	10,733	9,776	7,455	7,520	8,229	9,419	10,249	11,150
In months of prospective imports	7.7	7.4	6.0	5.9	4.0	3.9	4.1	4.5	4.6	5.0
Short-term debt (in percent of international reserves)	5.2	5.3	1.6	8.8	2.3	2.0	2.2	2.0	1.4	1.4
Budgetary grants ($ millions)	470	566	1,714	1,227	1,317	1,299	1,211	1,087	1,141	695
Population (in millions)	5.98	6.11	6.25	6.40	6.40	6.54	6.69	6.85	7.01	7.17
Nominal per capita GDP ($)	3,987	4,326	4,618	4,894	4,901	5,172	5,498	5,809	6,128	6,465
Stock market index (annual percentage change)	-11.5	-7.5	-7.3	...	...	...	...	...	...	...
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
Real effective exchange rate (end of period, 2000=100)	105.6	107.1	105.6	…	…	…	…	…	…	…
Percent change (+=appreciation; end of period)	-3.7	-3.6	3.6	…	…	…	…	…	…	…

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

1/ Includes statistical discrepancy.

2/ Includes NEPCO debt.

Table 2a. Jordan: Summary of Fiscal Operations, 2011–17

	Prel.	Budg.	Art IV	Projections					
	2011	2012	2012	2012	2013	2014	2015	2016	2017
				(In millions of Jordanian dinars)					
Total revenue and grants	5,414	5,810	5,717	5,596	6,185	6,579	6,949	7,481	7,696
Budgetary revenue	4,199	4,940	4,847	4,663	5,264	5,721	6,178	6,672	7,203
Tax revenue	3,055	3,547	3,541	3,333	3,757	4,082	4,407	4,761	5,141
Nontax revenue	1,144	1,393	1,307	1,329	1,507	1,638	1,771	1,911	2,062
Grants	1,215	870	870	934	921	858	771	809	493
Total budgetary expenditure	6,802	6,833	6,878	7,047	7,501	8,117	8,757	9,371	10,043
Current expenditure	5,743	5,834	5,879	6,292	6,278	6,788	7,320	7,820	8,370
Capital expenditure 1/	1,059	998	1,000	755	1,223	1,329	1,437	1,550	1,673
Net lending	0	0	0	0	0	0	0	0	0
Statistical discrepancy, net 2/	-213	0	0	0	0	0	0	0	0
Overall balance without additional measures	-1,175	-1,023	-1,161	-1,450	-1,316	-1,538	-1,808	-1,890	-2,346
Additional measures needed	…	…	…	0	0	364	820	977	1,361
Overall balance after all measures	-1,175	-1,023	-1,161	-1,450	-1,316	-1,174	-987	-913	-985
Financing	1,175	1,023	1,161	1,450	1,316	1,174	987	913	985
Foreign financing (net)	-131	…	110	45	-43	20	-235	63	171
of which project loans	…	…	…	58	59	62	64	67	70
Privatization receipts (net)	0	…	0	0	0	0	0	0	0
Domestic financing (net)	1,306	…	1,051	1,405	1,359	1,154	1,222	850	815
CBJ on-lending of net IMF financing	…	…	…	541	324	305	179	-377	-496
Other domestic bank financing	…	…	…	645	797	591	764	926	986
Domestic nonbank financing	…	…	…	220	237	258	279	301	325
Memorandum items:									
NEPCO operating balance	-1,008	…	…	-1,180	-900	-700	-500	-200	0
NEPCO cash balance	-563	…	…	-1,568	-900	-700	-500	-200	0
Government and guaranteed gross debt	14,476	…	15,718	17,603	19,913	21,889	23,486	24,716	25,830
				(In percent of GDP)					
Total revenue and grants	26.4	26.1	25.8	25.2	25.8	25.2	24.6	24.6	23.4
Budgetary revenue	20.5	22.2	21.8	21.0	21.9	21.9	21.9	21.9	21.9
Tax revenue	14.9	16.0	15.9	15.0	15.7	15.6	15.6	15.6	15.7
Nontax revenue	5.6	6.3	5.9	6.0	6.3	6.3	6.3	6.3	6.3
Grants	5.9	3.9	3.9	4.2	3.8	3.3	2.7	2.7	1.5
Total budgetary expenditure	33.2	30.7	31.0	31.7	31.3	31.1	31.0	30.8	30.6
Current expenditure	28.0	26.2	26.5	28.3	26.2	26.0	26.0	25.7	25.5
Capital expenditure 1/	5.2	4.5	4.5	3.4	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
Statistical discrepancy, net 2/	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without measures	-5.7	-4.6	-5.2	-6.5	-5.5	-5.9	-6.4	-6.2	-7.1
Additional measures needed	0.0	0.0	0.0	0.0	0.0	1.4	2.9	3.2	4.1
Overall balance after measures	-5.7	-4.6	-5.2	-6.5	-5.5	-4.5	-3.5	-3.0	-3.0
Memorandum items:									
NEPCO operating balance	-4.9	…	…	-5.3	-3.8	-2.7	-1.8	-0.7	0.0
NEPCO cash balance	-2.8	…	…	-7.1	-3.8	-2.7	-1.8	-0.7	0.0
Overall government and NEPCO balance excl. grants	…	…	…	-17.8	-13.1	-10.5	-8.0	-6.3	-4.5
Government balances:									
Primary balance excluding grants after measures	-9.6	-6.0	-6.6	-8.2	-6.3	-4.7	-3.1	-2.6	-1.5
Government and guaranteed gross debt	70.7	…	70.8	79.2	83.0	83.9	83.3	81.2	78.6
Government and guaranteed net debt 3/	65.4	…	65.5	74.3	78.5	79.7	79.4	77.7	75.3
Of which: External	21.9	…	21.1	20.8	19.5	18.4	16.6	16.0	15.7
GDP at market prices (JD millions) 4/	20,477	22,230	22,201	22,230	23,998	26,097	28,205	30,436	32,846

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes some current expenditure, such as maintenance and wage-related spending.
2/ The discrepancy is accounted for in part by the inclusion of non-budgetary accounts in the domestic financing data.
3/ Domestic debt is net of government deposits with the banking system.
4/ The 2012 budget ratios to GDP are based on staff's GDP estimates.

Table 2b. Jordan: Summary of Revenues and Expenditures, 2011–17

	Prel.	Budg.	Art IV	Projections					
	2011	2012	2012	2012	2013	2014	2015	2016	2017
	(In millions of Jordanian dinars)								
Total revenue and grants	5,414	5,810	5,717	5,596	6,185	6,579	6,949	7,481	7,696
Domestic revenue	4,199	4,940	4,847	4,663	5,264	5,721	6,178	6,672	7,203
Tax revenue, *of which*:	3,055	3,547	3,541	3,333	3,757	4,082	4,407	4,761	5,141
Taxes on income and profits	667	734	734	695	755	831	908	989	1,078
General sales tax	2,026	2,444	2,456	2,181	2,405	2,615	2,826	3,050	3,291
Taxes on foreign trade	287	289	289	293	299	310	319	338	358
Other taxes	75	79	61	164	299	326	355	384	414
Nontax revenue	1,144	1,393	1,307	1,329	1,507	1,638	1,771	1,911	2,062
Grants	1,215	870	870	934	921	858	771	809	493
Total expenditures	6,802	6,833	6,878	7,047	7,501	8,117	8,757	9,371	10,043
Current expenditure	5,743	5,834	5,879	6,292	6,278	6,788	7,320	7,820	8,370
Wages and salaries	950	1,049	1,049	1,149	1,211	1,287	1,360	1,438	1,522
Interest payments	429	545	565	572	728	795	878	927	983
Domestic	346	427	448	476	609	661	718	786	862
External	83	118	117	96	119	134	160	141	121
Military expenditure	1,801	1,940	1,940	1,790	1,944	2,114	2,285	2,466	2,661
Targeted payments for energy	…	…	…	…	50	54	59	63	68
Fuel subsidies	567	265	290	626	166	180	195	210	227
Food subsidy	217	185	185	185	225	231	245	236	232
Transfers, *of which*:	999	1,414	1,414	1,570	1,505	1,637	1,769	1,909	2,060
Pensions	861	999	999	1,029	1,080	1,174	1,269	1,370	1,478
Purchases of goods & services	779	436	436	400	450	489	529	571	616
Capital expenditure	1,059	998	1,000	755	1,223	1,329	1,437	1,550	1,673
Additional measures needed	0	0	0	0	0	364	820	977	1,361
	(In percent of GDP)								
Total revenue and grants	26.4	26.1	25.8	25.2	25.8	25.2	24.6	24.6	23.4
Domestic revenue	20.5	22.2	21.8	21.0	21.9	21.9	21.9	21.9	21.9
Tax revenue, *of which*:	14.9	16.0	15.9	15.0	15.7	15.6	15.6	15.6	15.7
Taxes on income and profits	3.3	3.3	3.3	3.1	3.1	3.2	3.2	3.3	3.3
General sales tax	9.9	11.0	11.1	9.8	10.0	10.0	10.0	10.0	10.0
Taxes on foreign trade	1.4	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.1
Other taxes	0.4	0.4	1.3	0.7	1.2	1.3	1.3	1.3	1.3
Nontax revenue	5.6	6.3	5.9	6.0	6.3	6.3	6.3	6.3	6.3
Grants	5.9	3.9	3.9	4.2	3.8	3.3	2.7	2.7	1.5
Total expenditure	33.2	30.7	31.0	31.7	31.3	31.1	31.0	30.8	30.6
Current expenditure	28.0	26.2	26.5	28.3	26.2	26.0	26.0	25.7	25.5
Wages and salaries	4.6	4.7	4.7	5.2	5.0	4.9	4.8	4.7	4.6
Interest payments	2.1	2.5	2.5	2.6	3.0	3.0	3.1	3.0	3.0
Domestic	1.7	1.9	2.0	2.1	2.5	2.5	2.5	2.6	2.6
External	0.4	0.5	0.5	0.4	0.5	0.5	0.6	0.5	0.4
Military expenditure	8.8	8.7	8.7	8.1	8.1	8.1	8.1	8.1	8.1
Targeted payments for energy	…	…	…	…	0.2	0.2	0.2	0.2	0.2
Fuel subsidy	2.8	1.2	1.3	2.8	0.7	0.7	0.7	0.7	0.7
Food subsidy	1.1	0.8	0.8	0.8	0.9	0.9	0.9	0.8	0.7
Transfers, *of which*:	4.9	6.4	6.4	7.1	6.3	6.3	6.3	6.3	6.3
Pensions	4.2	4.5	4.5	4.6	4.5	4.5	4.5	4.5	4.5
Purchases of goods & services	3.8	2.0	2.0	1.8	1.9	1.9	1.9	1.9	1.9
Capital expenditure	5.2	4.5	4.5	3.4	5.1	5.1	5.1	5.1	5.1
Additional measures needed	0.0	0.0	0.0	0.0	0.0	1.4	2.9	3.2	4.1

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

Table 2c. Jordan: Summary of Quarterly Fiscal Operations, 2012

	2012				2012
	Q1	Q2	Q3	Q4	Annual
	(In millions of Jordanian dinars)				
Total revenue and grants	**1,083**	**1,438**	**1,147**	**1,927**	**5,596**
Domestic revenue	**1,069**	**1,438**	**1,097**	**1,058**	**4,663**
Tax revenue, *of which*:	714	1,049	798	773	3,333
Taxes on income and profits	133	370	114	77	695
General sales tax	490	558	569	564	2,181
Taxes on foreign trade	67	73	76	77	293
Nontax revenue	355	389	300	285	1,329
Grants	**14**	**0**	**50**	**869**	**934**
Total expenditures	**1,251**	**2,019**	**1,885**	**1,892**	**7,047**
Current expenditure	**1,221**	**1,854**	**1,693**	**1,524**	**6,292**
Wages and salaries	266	289	292	303	1,149
Interest payments	119	147	133	173	572
Domestic	106	113	119	138	476
External	14	35	13	35	96
Military expenditure	363	452	480	495	1,790
Subsidies	130	398	230	53	811
Fuel subsidies	83	338	180	25	626
Food subsidy	46	60	50	29	185
Transfers, *of which*:	296	420	428	426	1,570
Pensions	241	255	263	269	1,029
Purchases of goods & services	48	149	130	73	400
Capital expenditure	**31**	**164**	**191**	**369**	**755**
of which financed by project loans	14	15	15	15	58
Total revenue and grants minus expenditure	**-168**	**-580**	**-737**	**35**	**-1,450**
Adjustment on receivables and payables (use of cash)	**174**	**-58**	**-58**	**-58**	**0**
Total balance from above the line	**-342**	**-522**	**-679**	**93**	**-1,450**
Statistical discrepancy, net 1/	**100**	**-33**	**-33**	**-33**	**0**
Overall balance	**-443**	**-489**	**-646**	**127**	**-1,450**
in percent of GDP	*-2.0*	*-2.2*	*-2.9*	*0.6*	*-6.5*
Financing	**443**	**489**	**646**	**-127**	**1,450**
Foreign financing (net)	134	-105	61	-45	45
of which project loans	14	15	15	15	58
Domestic financing (net)	309	594	585	-83	1,405
of which CBJ onlending of net IMF financing	0	0	272	269	541
Memorandum items:					
NEPCO deficit (PC)	586	392	295	295	1,568
Primary government deficit excl. grants (below the line)	338	341	563	570	1,812
Primary government deficit excl. grants (excl. project loans below the line, PC)	324	327	548	555	1,754
in percent of GDP	*1.5*	*1.5*	*2.5*	*2.5*	*7.9*

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

1/ Discrepancy includes expenditure financed by foreign project loans, errors in statistical coverage etc.

Table 3. Jordan: Summary Balance of Payments, 2011–17
(In millions of U.S. dollars, unless otherwise noted)

	Prel	Art. IV	Projections					
	2011	2012	2012	2013	2014	2,015	2016	2017
Current account	-3,475	-2,482	-4,421	-3,340	-2,841	-2,045	-1,793	-1,983
Trade balance	-8,832	-7,091	-9,879	-9,344	-9,448	-9,306	-9,770	-10,279
Exports f.o.b.	8,018	8,887	8,307	9,166	9,767	10,425	11,150	11,908
Of which: domestic exports, f.o.b.	6,778	7,576	7,006	7,799	8,333	8,919	9,631	10,377
Imports f.o.b.	16,849	15,978	18,186	18,509	19,216	19,732	20,920	22,187
Of which: food imports, f.o.b.	2,582	2,036	2,526	2,544	2,612	2,745	2,884	3,044
Of which: energy imports, f.o.b.	4,916	4,169	5,801	5,444	5,317	4,810	4,886	4,919
Services (net)	664	153	1,246	1,579	1,847	2,150	2,470	2,817
Of which: travel receipts	3,004	2,860	3,545	3,970	4,317	4,666	5,035	5,434
Income (net)	-180	202	-59	-139	-134	-128	-76	36
Of which: investment income (net)	-602	-170	-435	-559	-603	-652	-634	-559
Current transfers (net)	4,873	4,255	4,271	4,564	4,894	5,239	5,583	5,443
Public (net)	2,020	1,618	1,517	1,454	1,379	1,270	1,338	907
Private (net)	2,853	2,637	2,754	3,110	3,515	3,969	4,245	4,535
Of which: remittances (net)	2,647	2,641	2,759	3,108	3,505	3,945	4,211	4,494
Capital account	2,170	1,629	1,235	1,415	2,227	2,369	3,166	3,615
Public sector (net)	237	-31	12	-366	-328	-1,052	-212	-187
Of which: Disbursements	162	650	509	175	190	205	220	235
Of which: Amortization	425	681	496	541	518	1,257	432	422
Eurobond and other	-98	...	0	200	350	750	500	700
Private sector (net)	2,031	1,661	1,223	1,581	2,205	2,671	2,879	3,101
Direct foreign investment	1,440	1,586	1,032	1,254	1,854	2,294	2,475	2,671
Portfolio flows	110	51	69	200	220	240	260	280
Other capital flows	481	24	122	126	131	137	143	150
Errors and omissions	143	…	0	…	…	…	…	…
Overall balance	-1,163	-852	-3,185	-1,925	-614	324	1,373	1,632
Financing	1,163	852	3,185	1,925	614	-324	-1,373	-1,632
Increase in NFA (-) 1/	1,173	927	3,200	1,925	614	-324	-1,373	-1,632
Central bank 2/	1,153	965	4,233	1,125	364	-324	-1,373	-1,632
Commercial banks	20	-38	-1,033	800	250	0	0	0
IMF, net (expectations basis)	0	-8	-8	0	0	0	0	0
Purchases	0	0	0	0	0	0	0	0
Repurchases	0	8	8	0	0	0	0	0
Arab Monetary Fund (net)	-10	-67	-6	0	0	0	0	0
Relief from debt operations 2/	0	0	0	0	0	0	0	0
Debt rescheduling/exceptional financing	0	0	0	0	0	0	0	0
Prospective financing			**192**	**733**	**642**	**614**	**-11**	**-32**
Official support: FDI			0	500	500	500	0	0
Official support: Debt creating (net of debt service)			192	233	142	114	-11	-32
Other, including market access (net of debt service)			0	0	0	0	0	0
IMF, net of debt service			**762**	**458**	**430**	**252**	**-532**	**-699**
Gross usable international reserves 3/	**10,733**		**7,455**	**7,520**	**8,229**	**9,419**	**10,249**	**11,150**
In months of prospective imports 4/	**6.0**		**4.0**	**3.9**	**4.1**	**4.5**	**4.6**	**4.7**
Memorandum items:								
Merchandise export growth, percent	13.9	11	3.6	10.3	6.6	6.7	7.0	6.8
Of which: domestic exports	14.0	12	3.4	11.3	6.8	7.0	8.0	7.7
Of which: excluding mining exports	8.8	14	4.7	13.5	7.4	7.5	8.9	8.1
Export of GNFS growth, percent	4.1	8	8.5	10.7	7.2	7.0	7.1	7.0
Import growth, percent	21.7	-1	7.9	1.8	3.8	2.7	6.0	6.1
Of which: excluding energy	12.9	2	2.7	4.7	5.8	7.0	7.1	7.4
Of which: excl.energy/food	11.0	3	3.8	5.5	6.4	7.4	7.5	7.7
Import of GNFS growth, percent	16.8	1	7.4	2.9	4.1	3.0	5.7	5.7
Import oil price assumptions ($ per barrel)	104.0	106	101.8	94.2	91.6	90.2	88.2	87.6
Current account (in percent of GDP)	-12.0	-8	-14.1	-9.9	-7.7	-5.1	-4.2	-4.3
Excl energy imports (in percent of GDP)	5.0	5.4	4.4	6.2	6.7	6.9	7.2	6.3
Excl energy/food imports (in percent of GDP)	13.9	11.9	12.5	13.7	13.8	13.8	13.9	12.9
Current account, excl. grants (percent of GDP)	-19.0	-13	-18.9	-14.2	-11.5	-8.3	-7.3	-6.2
Private capital (net, percent of GDP)	7.0	5	3.9	4.7	6.0	6.7	6.7	6.7
External government debt (percent of GDP) 5/	21.9	21	23	23	23	22	20	17
GDP ($ millions)	28,881	31,309	31,353	33,847	36,808	39,781	42,928	46,327

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

1/ The change in Fund credit outstanding and change in foreign currency deposits of commercial banks at the central bank are deducted from the change in NFA from monetary survey.
2/ Excluding prospective and IMF financing from 2012, includes bank foreign currency deposits at the central bank.
3/ The change in gross usable reserves excludes banks foreign currency deposits at the central bank and valuation effects
4/ In months of prospective import of goods and nonfactor services (GNFS) of the following year, excluding imports for re-export purposes.
5/ Including prospective and IMF financing.

Table 4a. Jordan: Summary Monetary Survey, 2011–13

	Act. 2011	Art IV 2012	Proj. 2012	Act. 2012 Q1	Projections 2012 Q2	2012 Q3	2012 Q4	2013
	(Stocks in millions of Jordanian dinars)							
Net foreign assets	9,359	8,709	7,227	8,868	7,574	7,099	7,227	6,381
Central Bank 1/	9,237	8,709	6,372	8,488	6,776	6,144	6,372	6,094
Commercial Banks	122	…	854	380	798	955	854	287
Net domestic assets	14,760	17,093	18,836	15,637	17,425	18,392	18,837	22,146
Net claims on central government 2/	6,663	7,715	9,717	7,338	8,794	9,682	9,717	11,738
Net claims on Central Budgetary Government	6,328	7,380	7,513	6,572	6,982	7,577	7,513	8,635
Net claims on NEPCO	335	…	1,903	921	1,313	1,608	1,903	2,803
Net claims on other own budget agencies	0	…	300	-155	500	497	300	300
Claims on subnational governments	181	…	181	181	182	182	181	181
Claims on nonfinancial public enterprises	333	356	361	301	301	301	361	361
Claims on financial institutions	205	205	205	209	209	209	205	205
Claims on the private sector	14,925	16,894	15,920	15,252	15,487	15,566	15,920	17,359
Other items (net)	-7,547	-8,077	-7,547	-7,643	-7,547	-7,547	-7,547	-7,698
Broad money	24,119	25,803	26,063	24,505	24,999	25,491	26,063	28,527
Currency in circulation	3,019	3,204	3,237	3,062	3,124	3,186	3,237	3,514
Jordanian dinar deposits	17,574	18,890	18,133	17,666	17,432	17,708	18,133	19,945
Foreign currency deposits	3,526	3,708	4,693	3,776	4,443	4,597	4,693	5,068
	(Cumulative flows in millions of Jordanian dinars)							
Net foreign assets	-724	-652	-2,133	-491	-1,294	-474	127	-846
Net domestic assets	2,536	2,336	4,077	877	1,788	967	445	3,310
Net claims on central government 2/	1,786	1,051	3,053	675	1,457	887	35	2,021
Net claims on Central Budgetary Government	1,324	1,051	1,185	243	410	595	-64	1,121
Net claims on NEPCO			1,568	586	392	295	295	900
Net claims on other own budget agencies			300	-155	654	-3	-197	0
Claims on nonfinancial public enterprises	462	23	28	-32	0	0	61	0
Claims on financial institutions	-50	0	0	4	0	0	-4	0
Claims on the private sector	462	1,969	995	327	235	79	354	1,440
Other items (net)	572	-527	0	-96	96	0	0	-151
Broad money	1,812	1,684	1,944	386	494	493	572	2,464
Currency in circulation	176	185	217	43	62	62	51	277
Jordanian dinar deposits	1,637	1,316	559	92	-235	277	425	1,812
Foreign currency deposits	742	183	1,168	251	667	154	96	375
Memorandum items:								
Annual broad money growth (percent)	8.1	7.0	8.1	…	…	…	…	9.5
Annual private sector credit growth (percent)	9.6	13.2	6.7	7.1	5.2	5.8	6.7	9.0
Foreign currency/total deposits (percent)	16.7	18.2	20.6	…	…	…	…	20.3
Private sector credit/total deposits (percent)	70.7	71.2	69.7	…	…	…	…	69.4
Currency/JD deposits (percent)	17.2	17.5	17.8	…	…	…	…	17.6

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes prospective financing from 2012 onwards.
2/ Includes central budgetary government and own-budget agencies, but excludes SSC.

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

	Act.	Art IV	Proj.	Act.	Projections			
	2011	2012	2012	2012	2012	2012	2012	2013
				Q1	Q2	Q3	Q4	
	(Stocks in millions of Jordanian dinars)							
Net foreign assets	9,237	8,709	6,372	8,488	6,775	6,144	6,372	6,094
Net domestic assets	-3,752	-2,173	-695	-3,008	-1,606	-620	-695	122
Net claims on central government 1/	437	438	2,118	597	1,404	1,948	2,118	2,517
Net claims on NFPEs and the SSC 2/	-14	-14	-14	-14	-11	-11	-14	-14
Net claims on financial institutions	70	70	70	71	72	72	70	70
Net claims on private sector	20	20	20	20	20	20	20	20
Net claims on commercial banks	-2,548	-2,548	-1,172	-2,153	-1,624	-1,181	-1,174	-754
CDs	-230	833	-230	-80	-135	-135	-230	-230
Other items, net (asset: +)	-1,487	-971	-1,487	-1,448	-1,332	-1,332	-1,487	-1,487
Jordanian dinar reserve money	5,485	5,869	5,677	5,481	5,168	5,524	5,677	6,216
Currency	3,367	3,552	3,584	3,387	3,498	3,510	3,584	3,862
Commercial bank reserves	2,118	2,318	2,093	2,094	1,670	2,014	2,093	2,354
Of which : required reserves	1,187	1,277	1,225	1,191	1,173	1,195	1,225	1,350
	(Cumulative flows in millions of Jordanian dinars)							
Net foreign assets	-732	-679	-2,865	-749	-1,714	-630	228	-278
Net domestic assets	1,158	1,063	3,057	744	1,401	986	-75	817
Net claims on central government	38	0	1,681	160	807	544	170	399
Net claims on NFPEs and the SSC 2/	14	0	0	0	3	0	-3	0
Net claims on financial institutions	-2	0	0	1	1	0	-2	0
Net claims on private sector	1	0	0	0	0	0	0	0
Net claims on commercial banks	1,143	0	1,376	395	529	443	8	418
CDs	-34	1,063	0	150	-55	0	-96	0
Other items, net (asset: +)	-2	0	0	39	116	0	-155	0
Jordanian dinar reserve money	426	384	192	-5	-313	356	153	539
Currency	288	185	217	20	111	12	74	277
Commercial banks' reserves	138	199	-26	-25	-424	344	78	261
Memorandum items:								
Gross usable international reserves ($ millions)	10,718	9,776	7,455	9,577	6,955	6,450	7,455	7,520
As a ratio to JD broad money (in percent)	31.5	26.9	20.3	27.7	19.7	17.9	20.3	18.7
As a ratio of JD reserve money (in percent)	138.5	118.1	93.1	123.9	95.4	82.8	93.1	85.8
Gross usable international reserves excluding SDRs (CBJ definition)	12112	10507	7228	9350	6733	6228	7228	7293
Net international reserves (JD millions)	8,707	8,042	5,854	7951.1	6066.4	5436.2	5854.3	5,576
Net international reserves (USD millions)	12,281	11,343	8,257	11,215	8,556	7,667	8,257	7,865
As a ration to JD reserve money (in percent)	159	137	103	145	117	98	103	90
Money multiplier (for JD liquidity)	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

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 Corporation.

Table 5. Jordan: Calculations of Financing Shortfalls in 2012–15

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

	2012	2013	2014	2015
Gross Financing Requirements	**6,441**	**5,335**	**4,738**	**4,572**
Current account deficit (excl. official transfers)	5,938	4,794	4,220	3,315
Trade deficit	8,633	7,765	7,601	7,156
Energy import bill	*5,801*	*5,444*	*5,317*	*4,810*
of which:				
Oil products	2,745	2,476	2,409	1,301
Natural gas	366	485	486	1,125
Crude oil	2,497	2,290	2,229	2,128
Debt amortization 1/	496	541	518	1,257
IMF repurchases and charges 2/	0.0	0.0	0.0	0.0
Arab Monetary Fund	6.4	0.0	0.0	0.0
Market access (sovereign bond) 3/	0	0	10	26
Gross Financing Sources	**5,486**	**4,145**	**3,666**	**3,706**
FDI	*1,032*	*1,254*	*1,854*	*2,294*
Public grants	1,517	1,454	1,379	1,270
Off budget	200	155	170	185
Gross Reserve drawdown (+ decrease)	3,278	-65	-709	-473
Market access (sovereign bond) 3/	0	200	350	750
Other	-341	1,301	791	-135
External Financing gap	**954**	**1190**	**1072**	**866**
Non-debt creating	***0***	***500***	***500***	***500***
Official Investments (GCC, EBRD, IFC and other)	0	500	500	500
Debt creating	***954***	***690***	***572***	***366***
Disbursement	961	711	611	470
of which: Multilaterals (World Bank and other)	0	150	125	125
of which: IMF	767	473	460	345
of which: bilateral donors	194	88	25	0
Repayment	7	21	38	104
of which: Multilaterals (World Bank and other)	0	3	6	8
of which: IMF 4/	5	16	30	93
of which: bilateral donors	2	3	3	3
Memorandum items:				
Gross international reserves	7,455	7,520	8,229	9,419
(In months of prospective imports)	4.0	3.9	4.1	4.1
Proposed IMF disbursements (in SDR millions)	512	315	307	230

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/ 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: Access and Phasing Under the Stand-By Arrangement

Review	Availability Date	Action	Purchase			
			Million SDR	Million U.S. Dollar	Percent of Quota	Percent of Total Access
	August 3, 2012	Board approval of SBA	255.750	384	150	19
First Review	December 3, 2012	Observance of end-September performance criteria, completion of first review and safeguards assessment	255.750	384	150	19
Second Review	March 3, 2013	Observance of end-December performance criteria, completion of second review	85.250	128	50	6
Third Review	June 3, 2013	Observance of end-March performance criteria, completion of third review	76.725	115	45	6
Fourth Review	September 3, 2013	Observance of end-June performance criteria, completion of fourth review	76.725	115	45	6
Fifth Review	December 3, 2013	Observance of end-September performance criteria, completion of fifth review	76.725	115	45	6
Sixth Review	March 3, 2014	Observance of end-December performance criteria, completion of sixth review	76.725	115	45	6
Seventh Review	June 3, 2014	Observance of end-March performance criteria, completion of seventh review	76.725	115	45	6
Eighth Review	September 3, 2014	Observance of end-June performance criteria, completion of eighth review	76.725	115	45	6
Nineth Review	December 3, 2014	Observance of end-September performance criteria, completion of nineth review	76.725	115	45	6
Tenth Review	March 3, 2015	Observance of end-December performance criteria, completion of tenth review	76.725	115	45	6
Eleventh Review	May 15, 2015	Observance of end-March performance criteria, completion of eleventh review	76.725	115	45	6
Twelfth Review	July 15, 2015	Observance of end-May performance criteria, excluding the one on NEPCO, completion of twelfth review	76.725	115	45	6
Total			1364	2046	800	100

Source: Fund staff estimates.

Table 7. Jordan: Indicators of Fund Credit, 2012–20

(In millions of SDR)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Existing Fund credit									
Stock 1/	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Proposed SBA 2/									
Disbursements	511.5	315.4	306.9	230.2	0.0	0.0	0.0	0.0	0.0
Stock 1/	511.5	826.9	1,133.8	1,332.0	1,015.5	576.5	268.5	57.5	0.0
Obligations 3/	3.3	10.3	19.7	61.2	349.7	459.5	314.2	213.1	57.8
Principal (repayments/repurchases)	0.0	0.0	0.0	32.0	316.5	439.0	308.0	211.0	57.5
Charges and interest	3.3	8.1	11.6	14.8	13.6	9.6	5.4	2.1	0.3
GRA surcharges	0.0	2.2	8.1	14.5	19.6	10.9	0.9	0.0	0.0
Stock of existing and prospective Fund credit 1/	511.5	826.9	1,133.8	1,332.0	1,015.5	576.5	268.5	57.5	0.0
In percent of quota	300.0	485.0	665.0	781.2	595.6	338.1	157.5	33.7	0.0
In percent of GDP	2.5	3.7	4.7	5.1	3.6	1.9	0.8	0.2	0.0
In percent of exports of goods and services	5.5	8.0	10.2	11.2	7.9	4.2	1.8	0.4	0.0
In percent of gross reserves	10.5	16.7	21.0	21.5	15.1	7.9	3.5	0.7	0.0
Obligations to the Fund from existing and prospective Fund arrangements	3.3	10.3	19.7	61.3	349.7	459.6	314.2	213.1	57.9
In percent of quota	1.9	6.0	11.6	35.9	205.1	269.5	184.3	125.0	33.9
In percent of GDP	0.0	0.0	0.1	0.2	1.2	1.5	1.0	4.3	1.2
In percent of exports of goods and services	0.0	0.1	0.2	0.5	2.7	3.4	2.1	42.6	9.9
In percent of gross reserves	0.1	0.2	0.4	1.0	5.2	6.3	4.1	2.7	0.7

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

1/ End-of-period.

2/ Assumes a new SBA arrangement of 800 percent of quota (SDR 1364 million) conditional upon Board approval of the SBA.

3/ Repayment schedule based on obligations scheduled debt service obligations.

Table 8. Jordan: Capacity to Repay Indicators, 2012–17

	2012	2013	2014	2015	2016	2017
Exposure and Repayments (In SDR millions)						
GRA credit to Jordan	511.5	826.9	1,133.8	1,332.0	1,015.5	576.5
(In percent of quota)	300.0	485.0	665.0	781.2	595.6	338.1
Charges and interest due on GRA credit	3.3	8.1	11.6	14.8	13.6	9.6
GRA surcharges	0.0	2.2	8.1	14.5	19.6	10.9
Debt service on GRA credit 1/	3.3	10.3	19.7	61.3	349.7	459.6
Public external debt service, incl imf	1,281.5	1,095.7	1,085.0	2,314.6	1,713.3	2,084.3
Debt and debt service ratios						
In percent of GDP						
Total external government and government debt	23.3	23.2	23.0	21.6	19.5	17.5
Excluding proposed IMF	20.8	19.5	18.4	16.5	15.9	15.6
GRA credit to Jordan	2.5	3.7	4.7	5.1	3.6	1.9
Total external government and government guaranteed debt service	2.7	2.1	1.9	3.8	2.6	3.0
Excluding proposed IMF	2.7	2.1	1.9	3.6	1.4	1.5
GRA debt service	0.0	0.0	0.1	0.2	1.2	1.5
In percent of exports of goods and services						
Total external government and government debt	51.1	49.6	50.0	47.4	43.1	39.0
Excluding proposed IMF	45.7	41.7	39.8	36.2	35.1	34.8
GRA credit to Jordan	5.5	8.0	10.2	11.2	7.9	4.2
Total external government and government guaranteed debt service	5.9	4.6	4.2	8.4	5.8	6.6
Excluding proposed IMF	5.9	4.5	4.0	7.9	3.1	3.2
GRA debt service	0.0	0.1	0.2	0.5	2.7	3.4

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

1/ Includes charges, interest and surcharges due on GRA credit and payments on principal.

Table 9. Jordan: Indicators of Bank Soundness, 2005–11

	2005	2006	2007	2008	2009	2010	2011
	(In percent, unless otherwise indicated)						
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	19.3
Non-performing loans (in millions of JD)	481	405	453	550	877	1,159	1,315
Non-performing loans (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	52.3
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	152.9
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.1
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	8.3
FX-denominated loans to total loans	11.1	10.2	9.7	12.8	11.6	11.8	11.4
FX-denominated deposits to total deposits	36.2	35.4	33.6	26.3	21.8	21.7	21.6
Loans to deposits	59.0	66.9	70.7	72.1	65.6	64.2	65.0
Construction lending to deposits	8.9	10.7	12.1	12.7	12.7	14.1	14.2
Margin trading and financial services to total loans	5.1	6.2	7.2	7.1	6.9	5.8	5.3
Loans to GDP	86.8	91.4	93.1	83.7	78.7	77.0	77.4

Source: Central Bank of Jordan.

Annex 1. External Debt Sustainability Analysis

Jordan's external debt is expected to remain low. External debt has been broadly stable since 2008, hovering on average around 22 percent of GDP following the $2.1 billion buyback of Paris club debt in 2008. The external debt-to-GDP ratio is expected to stay broadly unchanged in 2011–14 because it gradually improves after a sharp widening of the current account deficit in 2012. Despite substantial prospective and IMF financing, the debt ratio would decline to about 17 percent by end-2017 driven by a sizeable adjustment in the current account in the outer years— largely reflecting fiscal consolidation, lower oil and food prices as well as diversification to a new energy source.

This update reflects a change in the macroframework relative to the 2012 Article IV consultation. The current outlook for commodity prices (particularly fuel) is now more favorable. On the downside risk, the projections assume that in 2012 Jordan receives about half the 2011 level of natural gas supplies from Egypt and about 50 million cubic feet per day during 2013–14[1] and that Jordan is able to access alternative energy sources in mid-2015. The government is expected to continue pursuing cautious external borrowing policies by relying on market access as well as official sources of external financing from multilateral and regional development banks and from the IMF. The projections assume that the $750 million Eurobond maturing in 2015 would be rolled over and new Eurobonds of $200 million and $350 million would be placed in 2013 and 2014, respectively, and $500 million and $700 million would be placed in 2016 and 2017, respectively.

The projections are sensitive to assumptions about the global/regional outlook (Table A.2):

Scenario 1 envisages a shock in tourism inflows, remittances and FDI similar to that experienced by Jordan in 2011 (Panel 6 in Figure A1). Specifically, a 16 percent decline in tourism receipts, a 4 percent decline in remittances, and an 11 percent decline in FDI in 2012 relative to 2011, and a similar decline in 2013 relative to 2012. Under this scenario, there would be a financing shortfall of about $ 4.1 billion. Assuming that the authorities use reserves to cover this shortfall, import coverage would decline to 0.6 month of imports in 2013, reaching a trough of 0.4 months of imports in 2014. If instead, the authorities maintain current reserve holdings and meet the additional financing needs through borrowing, the debt ratio would worsen by about 16 percent relative to the baseline, reaching 39 percent by end-2013.

[1] This is marginally higher than projected natural gas flows in 2012.

Scenario 2 assumes that Jordan faces a slowdown in current account inflows and FDI similar to that experienced by typical emerging market economies during shock episodes (Panel 4 in Figure A1). IMF (2011) finds that relative to pre-event trends, emerging markets, on average, tend to observe a 15 percent decline in exports, a 5 percent decline in FDI and a 5-10 percent decline in rollover rates (larger declines for longer maturities). If Jordan were to be hit by a shock of this magnitude in 2012–13, there would be a financing shortfall of about $10.9 billion ($3.3 billion in 2012 and $7.6 billion in 2013). Assuming that the authorities use reserves to cover this shortfall, reserves would decline to 1.7 months of imports in 2012 and could be depleted in 2013. If instead the authorities maintain current reserve holdings and meet the financing shortfall through additional borrowing, the debt ratio would deteriorate by about 55 percent relative to the baseline, reaching 78.4 percent at end-2013.

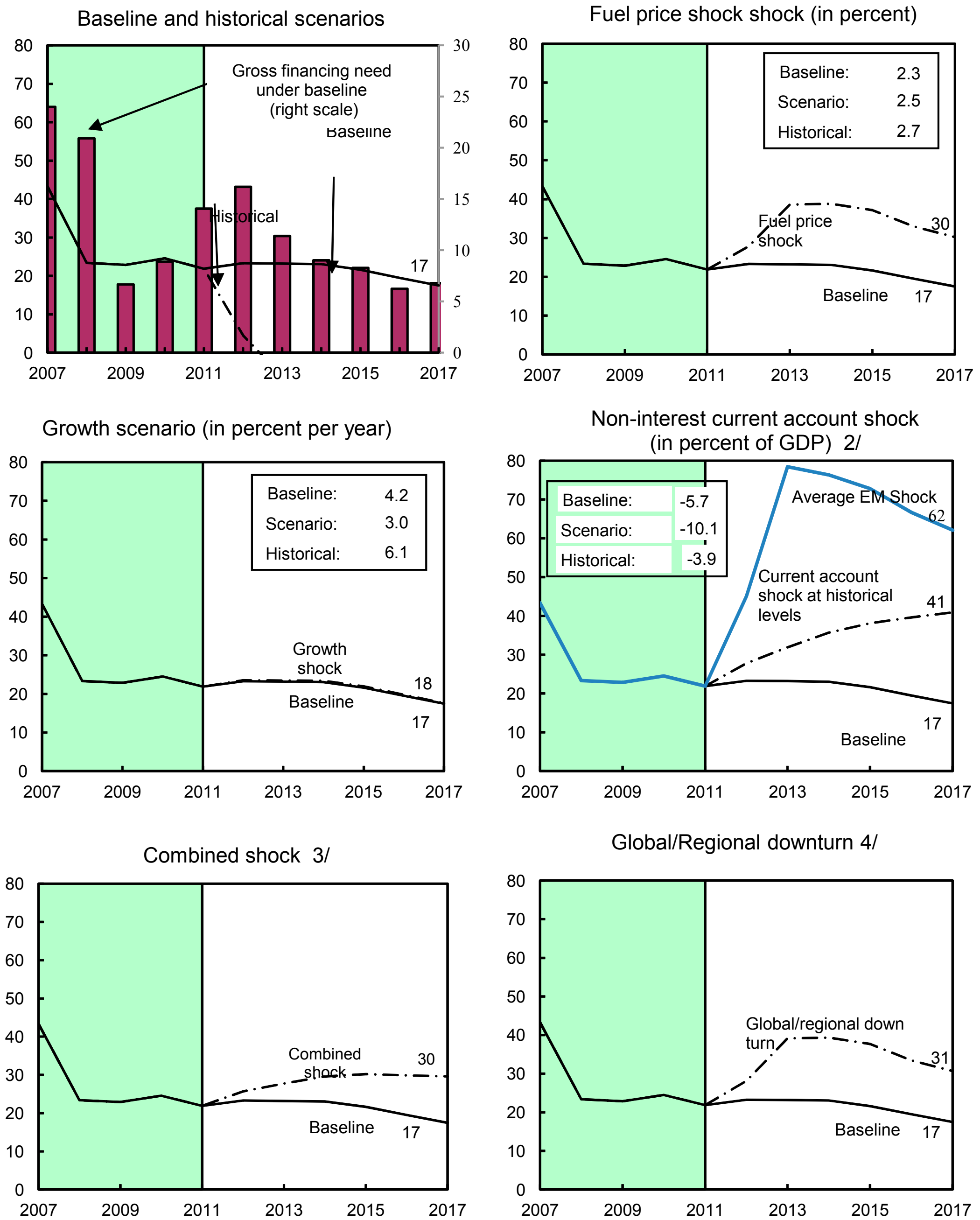
External debt sustainability is vulnerable to developments in the current account position. For instance, if fuel prices increased by 20 percent in 2012 and 2013, the debt ratio would edge up reaching a peak of 38.8 percent of GDP in 2014.

Table A1. Jordan: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
Baseline: External debt	43.3	23.4	22.9	24.5	21.9			**23.3**	**23.2**	**23.0**	**21.6**	**19.5**	**17.5**	**-6.0**
Change in external debt	-5.3	-19.9	-0.5	1.7	-2.7			1.4	-0.1	-0.1	-1.4	-2.1	-2.0	
Identified external debt-creating flows (4+8+9)	-8.9	-15.8	-6.4	-5.9	2.5			9.6	2.9	-0.6	-3.9	-3.6	-3.3	
Current account deficit, excluding interest payments	15.8	8.3	4.3	6.6	11.4			13.5	9.3	7.1	4.5	3.6	3.8	
Deficit in balance of goods and services	-146.0	-144.1	-115.0	-116.9	-119.4			-118.6	-116.4	-112.8	-109.2	-107.5	-105.9	
Exports	54.2	56.5	45.9	47.8	45.6			45.6	46.7	46.1	45.6	45.3	44.9	
Imports	-91.8	-87.6	-69.1	-69.1	-73.9			-73.1	-69.7	-66.7	-63.6	-62.3	-61.0	
Net non-debt creating capital inflows (negative)	-20.3	-15.5	-9.5	-10.8	-7.5			-3.9	-6.1	-7.3	-8.0	-6.7	-6.7	
Automatic debt dynamics 1/	-4.4	-8.7	-1.2	-1.7	-1.4			0.0	-0.2	-0.3	-0.4	-0.5	-0.4	
Contribution from nominal interest rate	1.4	1.0	0.7	0.5	0.6			0.6	0.5	0.5	0.5	0.4	0.4	
Contribution from real GDP growth	-3.5	-2.4	-1.2	-0.5	-0.6			-0.6	-0.8	-0.9	-1.0	-0.9	-0.8	
Contribution from price and exchange rate changes 2/	-2.3	-7.2	-0.6	-1.8	-1.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.6	-4.1	5.9	7.6	-5.1			-8.2	-3.0	0.4	2.5	1.5	1.3	
External debt-to-exports ratio (in percent)	79.9	41.3	49.9	51.3	48.0			51.1	49.6	50.0	47.4	43.1	39.0	
Gross external financing need (in billions of US dollars) 4/	4.1	4.6	1.6	2.3	4.1			5.1	3.9	3.3	3.3	2.7	3.1	
in percent of GDP	24.0	20.9	6.7	8.9	14.1			16.2	11.4	9.0	8.3	6.2	6.8	
Scenario with 20 percent higher fuel prices 5/								**27.8**	**38.6**	**38.8**	**37.2**	**33.0**	**30.2**	
Scenario with shock similar to that experienced by typical EM during 2012 and 2013 7/								**45.0**	**78.4**	**76.3**	**72.8**	**66.7**	**62.1**	
Scenario with tourism, FDI and remittance shock broadly similar to that experienced in 2011 8/								**28.1**	**39.2**	**39.3**	**37.7**	**33.5**	**30.7**	
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	8.2	7.2	5.5	2.3	2.6	6.1	2.4	3.0	3.5	4.0	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	5.1	19.9	2.8	8.4	6.4	6.1	5.7	5.4	4.3	4.6	3.4	3.3	3.3	
Nominal external interest rate (in percent) 9/	3.3	2.8	3.1	2.5	2.7	2.7	0.4	2.8	2.4	2.5	2.6	2.1	2.0	
Growth of exports (US dollar terms, in percent)	14.4	33.9	-11.9	15.6	4.1	13.9	15.7	8.5	10.7	7.2	7.0	7.1	7.0	
Growth of imports (US dollar terms, in percent)	18.7	22.6	-14.4	10.9	16.8	38.1	34.9	7.4	2.9	4.1	3.0	5.7	5.7	
Current account balance, excluding interest payments	-15.8	-8.3	-4.3	-6.6	-11.4	-3.9	8.9	-13.5	-9.3	-7.1	-4.5	-3.6	-3.8	
Net non-debt creating capital inflows	20.3	15.5	9.5	10.8	7.5	12.2	7.7	3.9	6.1	7.3	8.0	6.7	6.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ The large residual term in 2008 reflects a Paris Club debt buyback of 11 percent of GDP. 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 shock assumes 20 percent increase in fuel prices in 2012 and 2013.
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.
7/ The EM shock assumes a 15 percent decline in exports of goods and services and a 5 percent decline in FDI in 2012 and 2013 in line with typical shocks experienced by EM economies.
8/ A continued decline in overall tourism, remittance and FDI flows in 2012 and 2013 similar to that experienced in 2011.
9/ In 2017, about three quarters of the debt stock reflects pre-2012 debt which has an average interest rate of about 1.5 percent.

Figure A1. Jordan: External Debt Sustainability: Bound Tests 1/
(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/ The EM shock assumes a 15 percent decline in exports of goods and services and a 5 percent decline in FDI in 2012 and 2013 in line with typical shocks experienced by EM economies.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ A continued decline in overall tourism, remittance and FDI flows in 2012 and 2013 similar to that experienced in 2011.

Annex 2. Public Debt Sustainability Analysis

Jordan's public debt—mostly domestic—is set to rise sharply in the next years. Assuming that there would not be a resumption of gas flows from Egypt, the government would have to guarantee the debts of the national electricity company (NEPCO) because tariffs can be increased only gradually to full cost-recovery to offset the higher cost from importing expensive fuel and diesel oil. Accordingly, total gross public debt would increase from 70.7 percent of GDP at end-2011 to 83.9 percent of GDP at end-2014. With a new energy source coming on stream in mid-2015 and NEPCO returning to break even in the course of 2016, the trend increase in the debt ratio would be arrested in 2015.

The public debt-to-GDP ratio would gradually decline in the outer years. This will be underpinned by a continued consolidation effort by the central government throughout the medium term. As a result, public debt is expected to fall to 78.6 percent of GDP by 2017.

The debt outlook is vulnerable to adverse shocks. Public debt could rise to over 90 percent of GDP with an interest rate shock, a growth shock, a combined shock, or a global/regional downturn scenario, to which the debt flow is the most sensitive. Most other bound tests suggest that public debt would rise to slightly below 90 percent of GDP.

Fiscal consolidation and reducing NEPCO's losses are key to debt sustainability. The shocks in the bound tests would increase the 2017 public debt level by 13 percent of GDP at the most. This compares to NEPCO's losses of around 5 percent of GDP *per annum* in 2012 and 2013. The reversal in the debt-to-GDP ratio expected in 2015 rests squarely on the assumption that NEPCO will return to a balanced budget in the medium term. Thus, the authorities should focus on tapping an alternative energy source and increasing tariffs to a breakeven level.

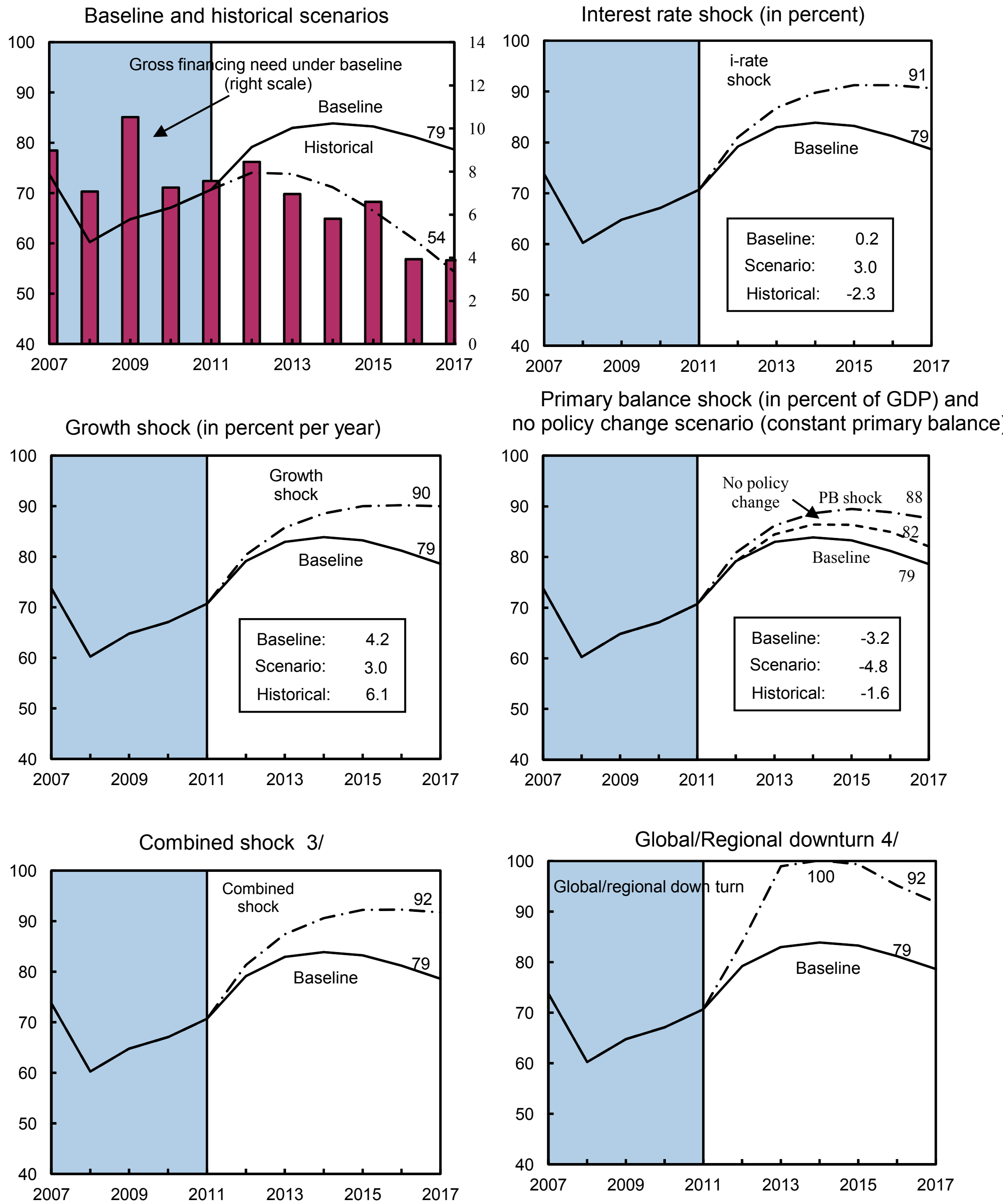
Table A2. Jordan: Public Debt Sustainability Framework, 2007–17 1/

(In percent of GDP, unless otherwise indicated)

	Actual							Projections					
	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017
1 **Baseline: Central government debt including government guarantees (gross)**	73.8	60.3	64.8	67.1	70.7			**79.2**	**83.0**	**83.9**	**83.3**	**81.2**	**78.6**
o/w foreign-currency denominated	43.3	23.4	22.9	24.6	21.9			20.8	19.5	18.4	16.6	16.0	15.7
2 Change in central government debt	-2.5	-13.5	4.5	2.3	3.6			8.5	3.8	0.9	-0.6	-2.1	-2.6
3 Identified debt-creating flows (4+7+12)	-7.1	-12.5	2.9	-0.8	1.1			0.9	-0.4	-0.8	0.1	0.1	1.2
4 Primary deficit	2.5	3.1	6.6	3.5	4.7			4.0	2.5	2.8	3.3	3.2	4.1
5 Revenue and grants	32.3	30.1	24.5	24.9	26.4			25.2	25.8	25.2	24.6	24.6	23.4
6 Primary (noninterest) expenditure	34.8	33.2	31.1	28.3	31.1			29.1	28.2	28.1	27.9	27.7	27.6
7 Automatic debt dynamics 2/	-6.1	-13.9	-2.4	-4.3	-3.5			-3.0	-2.8	-3.6	-3.2	-3.1	-3.0
8 Contribution from interest rate/growth differential 3/	-6.1	-14.0	-2.4	-4.3	-3.5			-3.0	-2.8	-3.6	-3.2	-3.1	-3.0
9 Of which contribution from real interest rate	-0.6	-9.8	0.7	-2.9	-1.9			-1.0	-0.2	-0.6	0.3	0.4	0.4
10 Of which contribution from real GDP growth	-5.5	-4.2	-3.0	-1.3	-1.6			-2.0	-2.6	-3.1	-3.5	-3.5	-3.4
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			...	...	...	...	...	...
12 Other identified debt-creating flows	-3.5	-1.7	-1.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
13 Privatization receipts (negative)	-3.5	-1.7	-1.4	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/	4.6	-1.0	1.7	3.1	2.5			7.5	4.1	1.7	-0.7	-2.2	-3.8
Central government debt-to-revenue ratio	228.3	200.3	264.5	269.9	267.4			314.5	322.0	332.7	338.0	330.4	335.6
Gross financing need 6/	9.0	7.1	10.5	7.3	7.6			8.4	7.0	5.8	6.6	3.9	3.9
in billions of U.S. dollars	1.5	1.6	2.5	1.9	2.2			2.6	2.4	2.1	2.6	1.7	1.8
Scenario with key variables at their historical averages 7/								**74.1**	**73.8**	**71.2**	**66.5**	**60.9**	**54.3**
Scenario with no policy change (constant primary balance) in 2012-2017								**79.2**	**84.5**	**86.4**	**86.4**	**85.0**	**82.1**
Scenario with shock similar to that experienced by typical EM during 2012 and 2013 8/								**100.9**	**138.2**	**137.1**	**134.4**	**128.4**	**123.2**
Scenario with tourism, FDI and remittance shock broadly similar to that experienced in 2012								**84.0**	**99.0**	**100.2**	**99.3**	**95.2**	**91.8**
						10-Year Historical Average	10-Year Standard Deviation						
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	8.2	7.2	5.5	2.3	2.6	6.1	2.4	3.0	3.5	4.0	4.5	4.5	4.5
Average nominal interest rate on public debt (in percent)	4.5	4.2	4.2	3.6	3.4	3.8	0.5	4.0	4.1	4.0	4.0	3.9	4.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.5	-15.7	1.3	-4.8	-3.0	-2.3	5.6	-1.4	-0.2	-0.6	0.6	0.7	0.7
Inflation rate (GDP deflator, in percent)	5.1	19.9	2.8	8.4	6.4	6.1	5.7	5.4	4.3	4.6	3.4	3.3	3.3
Growth of real primary spending (deflated by GDP deflator, in percent)	13.9	2.2	-1.2	-6.9	12.8	6.8	10.4	-3.6	0.3	3.4	4.0	3.8	3.9
Primary deficit	2.5	3.1	6.6	3.5	4.7	1.6	3.3	4.0	2.5	2.8	3.3	3.2	4.1

1/ Public debt is defined as central government and government guaranteed debt. The domestic component is net of government deposits with the banking system.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes measures to be identified and NEPCO's deficit, which is off budget.
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/ The EM shock assumes a 15 percent decline in exports of goods and services and a 5 percent decline in FDI in 2012 and 2013 in line with typical shocks experienced by EM economies.

Figure A2. 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 current account balance.
4/ A continued decline in overall tourism, remittance and FDI flows in 2012 and 2013 similar to that experienced in 2011.

APPENDIX

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Amman, July 27, 2012

Dear Ms. Lagarde:

Jordan has been facing large balance of payments pressures since 2011 due to regional turmoil. These pressures intensified early this year when a sabotage of the Arab Gas Pipeline in the Sinai Peninsula in February 2012 virtually shut off all natural gas inflows from Egypt, requiring imports of expensive fuel for electricity generation. As a result, energy import bill increased significantly and the public electricity company has been running large losses, which are pushing up public debt, and putting significant pressures on central bank reserves which declined in the first half of 2012 to about four months of imports. Recently, an uncertain outlook increased the level of dollarization slightly which appears to have led to a further acceleration of reserve losses. While the current buffer remains sizable, Jordan's external vulnerabilities from a high energy import bill are likely to remain over the coming two–three years. Jordan also remains vulnerable to developments in the region, including the current need to provide housing and medical assistance for refugees from Syria.

In response, the Government and the Central Bank of Jordan (CBJ) have developed a comprehensive strategy to deal with Jordan's temporary balance of payments need from the disruptions in the gas pipeline. Our strategy is firmly anchored in macroeconomic and structural policies that reduce external and fiscal vulnerabilities. The new government has already taken strong measures in 2012, which are estimated to reduce the primary fiscal deficit (excluding grants) by 1.5 percent of GDP compared with 2011. We request that the Fund support our program through a Stand-By Arrangement (SBA) for a period of 36 months in the amount of SDR 1,364 million (800 percent of quota). This arrangement, in conjunction with other official financing, will signal that Jordan will pursue sound economic policies and overcome the challenges it now faces. We expect the arrangement to strengthen investor confidence, enhance the economy's resilience to shocks, and stem dollarization pressures.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the economic policies that the Government and the CBJ intend to implement under the SBA. We plan to implement our program firmly, notwithstanding a difficult domestic and regional environment.

The implementation of our program will be monitored through quarterly quantitative performance criteria and structural benchmarks, as described in the attached MEFP and in the Technical Memorandum of Understanding (TMU). There will be twelve quarterly reviews by the Fund of the arrangement to assess progress in implementing the program and reach understandings on any additional measures that may be needed to achieve its objectives. The Government and the CBJ will provide the Fund with the data and information necessary to monitor performance under the program.

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our economic program, but we stand ready to take any 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 revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

We recognize the importance of completing a safeguards assessment by the first review of the SBA. In this regard, we have provided the necessary documentation and will receive a safeguards mission from the IMF as necessary.

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

Sincerely,

/s/	/s/
Suleiman Hafiz	Ziad Fariz
Minister of Finance	Governor of the Central Bank

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Jordan has been subject to significant exogenous shocks in the last couple of years. At the heart of these shocks is the substantial increase in the energy import bill resulting from the interruption of the gas import from Egypt and the increase in oil prices. To the extent possible, we have tried to mitigate for our population the adverse impact of these shocks which are outside the government's control. To maintain macroeconomic stability, we have adopted significant measures to bring back our fiscal and energy policies to a sustainable path while providing targeted support to the vulnerable parts of the population. We describe below the macroeconomic developments and our policy response in more detail.

I. BACKGROUND

1. **Jordan's exposure to multiple external shocks put pressure on macroeconomic policies during 2011**. Regional tensions compounded the impact of the global crisis and adversely affected tourism, remittances, and FDI in 2011, while fuel and food prices increased. Repeated disruptions in natural gas flows from Egypt due to the sabotage of the Arab Gas Pipeline in the Sinai Peninsula required imports of expensive fuel products for electricity generation in 2011. As a result, growth slowed significantly and the external current account deficit (including grants) widened to 12.0 percent of GDP in 2011 from 7.1 percent in 2010. Aided by exceptionally large external grants, fiscal policy in 2011 tried to mitigate the impact of these shocks for our population, resulting in an increase in the primary fiscal deficit (excluding grants) to 9.6 percent of GDP from 5.6 percent in 2010. In addition to the widening central government deficit, the public National Electric Power Company (NEPCO) ran losses of 4.9 percent of GDP in 2011 because of the need to use more expensive fuel (before 2010, NEPCO was broadly at cost recovery). Additional extra budgetary losses of 1.1 percent of GDP came from the public water company, because water tariffs are below cost recovery. NEPCO's and the water company's losses are not included in the central government balance, but they contributed to the increase in gross public debt considerably to 70.7 percent of GDP at end-2011 from 67.1 percent of GDP at end-2010.

2. **External pressures on Jordan's economy intensified in early 2012.** Because natural gas inflows were substantially reduced after sabotages of the pipeline in February and April, imports of expensive fuel for electricity generation increased substantially and are putting pressure on the Central Bank of Jordan's (CBJ) reserves. Though we have received some gas from Egypt since May, supply has been low and unreliable due to high volatility. If the gas inflows from Egypt continue at current low levels, we expect the losses of NEPCO to further increase to 5.3 percent of GDP, despite recent electricity tariff increases. Taking into account arrears repayments of 1.9 percent of GDP, NEPCO's cash needs in 2012 are projected to amount to 7.1 percent of GDP. In addition, according to a study by UNDP, the cost of hosting Syrian refuges is estimated to reach $300 million in 2012. On the positive side, tourism income increased by 19 percent in the first half of 2012 and remittances started

to recover while the oil price declined significantly from its level in the first half of the year and is likely to be on a downward trajectory over the medium term. However, uncertain regional developments and a significant increase in oil prices remain important vulnerabilities.

3. **To preserve fiscal and external stability, the new government has taken significant measures to lower the deficit.** It has eliminated the subsidy on most refined oil products and intends to adjust gradually the prices of the remaining products starting in October 2012. It also raised electricity tariffs. The delay in implementing measures from March to June was due to social considerations and was compensated by additional measures.

II. Program Objectives and Economic Outlook

4. **The program will have three main objectives:**

- First, to maintain macroeconomic stability, the program seeks to implement appropriate fiscal, monetary, and structural policies that will reduce external vulnerabilities in what could be an increasingly difficult and uncertain global and regional economic setting. As part of this effort, it will establish transparent and sustainable energy prices, including by bringing NEPCO and other utilities back to cost recovery.

- Second, to make our policies more equitable and inclusive, providing targeted subsidies and better opportunities for the vulnerable parts of the population while eliminating subsidies for those with a higher ability to pay.

- Third, to support growth and the medium-term external position by improving the investment climate through targeted structural reforms.

5. **We have based our macroeconomic framework for 2012 on the assumption that gas from Egypt will stay at about half of the level received in 2011.** Though this is conservative given improvements in gas flows since May, it ensures that Jordan’s economy is prepared for a more difficult outturn. Jordan’s dependence on expensive fuel products, especially diesel for electricity generation, will be reduced once new energy sources come on stream, which we expect by mid-2015.

- **GDP growth** is projected to stay broadly at the same level as last year, driven in part by tourism and remittances. Looking to the medium term, we expect that growth will increase to about 4½ percent, largely reflecting increased investor confidence.

- Despite the expected moderation in international food prices, **CPI inflation** (end-of-period) is expected to increase to 4.4 percent in 2012 due mainly to an increase in fuel pump prices. Inflation is expected to decline slightly in 2013, with further declines over the medium term.

- The **external current account deficit** is expected to increase to 14.1 percent of GDP in 2012 mostly because of the need to import more expensive fuels. Exports and tourism are expected to grow by 3.6 and 18 percent, respectively. The current account will improve over the medium term due to lower energy and food prices, but a major correction is expected only when a new energy source is operational. We expect to continue to benefit from generous support from our development partners, including from the International Monetary Fund, the World Bank, bilateral donors and the Gulf Cooperation Council to cover our sizable balance of payments financing needs during the program period. We also expect to access the sovereign debt markets soon.

III. Economic Policies

6. To achieve our program objectives, we will pursue the following policies:

- **We will reduce the central government's primary fiscal deficit and public companies' losses, in particular those of NEPCO.** In the short term, the financing needs of the central government and NEPCO are not only crowding out the private sector but are also putting pressure on CBJ's reserves. To bring our fiscal policies back on a sound footing and make them less vulnerable to external shocks, we have already made strong efforts in 2012, which are expected to reduce the primary deficit of the central government excluding grants to 8.2 percent of GDP from 9.6 percent of GDP in 2011. We envisage further consolidation in the central government over the medium term. In parallel, we are working on a strategy to bring NEPCO as well as the other public companies, including the water company, back to cost recovery within the next four years. Despite these strong efforts, we project public debt to increase from 70.7 percent of GDP in 2011 to 83.9 percent in 2014. Debt will start falling only after NEPCO has been brought back to cost recovery and the primary deficit (excluding grants) has reached its debt-stabilizing level (about 5 percent). While reducing the financing needs of the public sector will affect all of us, it will not be done at the expense of the poor. Our measures will make fiscal policies more equitable and focus support on the most vulnerable segments of the population.

- **Monetary policy will continue to safeguard the peg.** The peg has served Jordan well over the last decades by anchoring inflation expectations, supporting macroeconomic and financial stability, and encouraging FDI. Using the peg's anchor, we are introducing new policy tools to improve liquidity operations in the banking system and free up resources for the private sector.

- **Structural reforms will boost the economy's capacity to produce and export.** To prevent an adverse impact of our fiscal consolidation on economic activity, we are implementing initiatives to improve the functioning of labor and financial markets, to enhance job creation, and to protect consumers as well as to make Jordan an even more attractive destination for investment.

A. Fiscal Policy

2012

7. **Fiscal policies aim at a substantial upfront consolidation.** We have taken steps to target the impact of our measures toward those parts of the population with the ability to pay, while protecting vulnerable groups. Our consolidation is also aided by a reduction in international oil prices, which lowered the central government's outlays for the fuel subsidy. Below we explain in detail the measures taken both on the revenue and the expenditure sides amounting to 3.3 percent of GDP.

8. **Measures to increase revenue are expected to yield 0.4 percent of GDP.** Revenue dropped by 0.2 percent of GDP compared with 2011 in the first 5 months of 2012, mostly on account of compliance issues with the corporate and personal income tax. We have taken measures to more than offset this loss. About three quarters of the revenue gain comes from the tax side: We have increased taxes on luxury goods (airline tickets, cars, alcohol, and tobacco) and introduced a sales tax on mobile phones and air conditioners. Moreover, we removed exemptions from the general sales tax on agricultural usage items. We also expect revenue from a tax amnesty, but have not included this in our projections. Regarding nontax revenue, we have increased residency fees for non-Jordanians as well as money transfer fees for sending money from Jordan abroad.

9. **We are increasing pump prices for fuel products to reduce the fuel subsidy.** The cost of the fuel subsidy, which increased sharply in early 2011 when the monthly price adjustment was suspended, was almost 3 percent of GDP in that year, compared with less than ½ percent of GDP in 2010. We subsidized the use of fuel, including that used by NEPCO for electricity generation, and we were able to finance the increase in the subsidy because of exceptionally large grants. The subsidy would have increased further in 2012 because NEPCO is expected to receive less gas as well as electricity from Egypt and thus needs more subsidized diesel and heavy fuel oil. We thus have taken measures to reduce the subsidy. We increased the price of gasoline 95 by 26 percent and gasoline 90 by 13 percent. We will also increase the prices of diesel and kerosene in 2012 by 6 percent (structural benchmark). The prices on jet fuel, heavy fuel, and gasoline are now adjusted each month in line with changes in international fuel prices.

10. **We have cut other expenditure by 2.1 percent of GDP.** Our cuts focused on current spending so as to safeguard capital spending, which is expected to have a positive impact on Jordan's growth potential in the medium term through improving our infrastructure. We also cut military spending by 0.7 percent of GDP, subsidies to independent institutions by 0.1 percent of GDP, and operational and other current spending by 0.2 percent of GDP. We limited capital expenditure cuts to 1.1 percent of GDP. In choosing which projects to cut we were mindful of their contribution to growth and focused on those with the least adverse impact.

11. **We stand ready to undertake contingency measures to stay within the deficit target if risks materialize.** Until the monthly fuel price adjustment is reinstated for all fuel products, the most important risk is an increase in oil prices. In this case or in case of other shocks, we will take measures to the extent possible to ensure that the deficit stays within our announced target.

12. **We expect grants to the budget of 4.2 percent of GDP.** To this end, we are in discussions with regional partners and other potential sources of financing to get an additional $1 billion. If there are early indications that we cannot receive this financing, we will consult with the Managing Director on alternative financing approaches or adjustments to the program.

2013 and beyond

13. **We are committed to further fiscal consolidation.** For 2013, we plan to reduce the primary fiscal deficit (excluding grants) to 6.3 percent of GDP, implying additional measures equivalent to about one percent of GDP. In this calculation, we are taking into account the full year impact of the measures undertaken in 2012 as well as forecasts that the world oil price will stay at around $94 per barrel. Regarding the measures:

- **Revenue.** We believe that there is substantial scope for increasing Jordan's tax revenue as it has declined by almost 3 percent of GDP since 2008, reflecting to a large extent an increase in tax exemptions and incentives which were given to stimulate growth after the global crisis. In this context, we will review and cost all tax incentives and will refrain from providing any further ones. We will restore the standard sales tax rates for hotels, luxury goods, and building materials on January 1, 2013 and also consider implementing a special tax on fuel products. Regarding the additional measures to meet our deficit target, we expect substantial gains from the revised income tax law (which also includes changes to mining taxation), which will be submitted to parliament by September 2012 (structural benchmark) and which we expect to become effective in early 2013. The income tax law envisages, among other, a reduction in the personal income tax threshold and an increase of the top personal and corporate tax rates to over 20 percent. The tax law will consider protecting lower-income families and small and medium-sized enterprises. We have already changed the royalty from specific to ad valorem in royalty agreements with mining companies (resulting in an overall increase in royalties effective in March 2013). We will also review by end-2012 our tax system with a view to raising further revenue. Regarding nontax revenue, we intend to increase fees related to licensing agreements.

- **Expenditure.** For diesel and kerosene, we will gradually reintroduce in the course of 2013 the monthly fuel price adjustment and, at the same time, introduce targeted transfers, which would protect the poor from higher oil prices should Jordan's benchmark price increase beyond $100 per barrel (structural benchmark). These measures would allow capital spending to reach more than 5 percent of GDP (up from 3.4 percent in 2012).

14. Looking beyond 2013, we plan to further reduce the primary fiscal balance excluding grants to 4.8 percent of GDP in 2014 and 3.2 percent of GDP in 2015. This, together with our efforts in reducing NEPCO's losses, is expected to put our debt on a downward path.

Structural fiscal issues

15. **We will further improve tax administration.** Specifically, we will implement an audit strategy by end-September to emphasize more in-depth quality auditing rather than high coverage. By end-2012, we will (1) update the taxpayer register; (2) increase filing compliance in the Large Taxpayer Office and the Medium and Small Taxpayer Office to 100 and 80 percent, from the current 95 and 70 percent, respectively; and (3) implement our action plan to reduce tax arrears based on a recent review, which estimates the stock of tax arrears at JD 1.7 billion.

16. **We will also strengthen public financial management (PFM).** Over the past two years, we simplified our budget preparation calendar; compiled a comprehensive Budget Manual; enhanced expenditure analysis capacity with the publication of *Public Expenditure Perspectives*; provided extensive training for our staff on the Government Financial Management Information System (GFMIS), Key Performance Indicators (KPIs) and Results-oriented Budgeting (RoB). In the context of our on-going reform plan, we will focus on the following areas in 2012:

- Improve our cash management and Commitment Control System (CCS) by limiting the accumulation of accounts payable, which is the total stock of checks not yet cashed (pending checks) and net liability of the trust accounts. In particular, we will introduce a commitment control system through the GFMIS to register, report and account for expenditure commitments against monthly cash allocations issued by the Ministry of Finance by January 1, 2013 (structural benchmark).

- Generate monthly report on the stocks of pending checks and trust account liability to better monitor accounts payable in a timely manner.

- Accelerate the rollout of the GFMIS and TSA, especially the CCS module in GFMIS.

We will also review our accounts payable to explore whether we can reduce them.

B. Energy Policy

17. **We have started to reduce NEPCO's losses in 2012.** Without the electricity tariff increase, NEPCO's losses would have reached 5.8 percent of GDP. This reflects that, despite the subsidy from the central government, diesel and heavy fuel oil are much more expensive than gas from Egypt. We thus increased in June electricity tariffs for selected sectors (telecommunication, hotels, and energy-intensive industries) and for large domestic corporations and households, with an expected revenue gain for NEPCO of 0.5 percent of GDP (0.9 percent of GDP on an annual basis). This reduces NEPCO's losses to 5.3 percent of GDP while NEPCO's financing needs are expected to be at almost 6 percent of GDP, reflecting payments of accounts payable from 2011.

18. **We will present to the public by end-September 2012 a detailed plan to address Jordan's energy issues (structural benchmark), which we intend to design incorporating the inputs provided by the World Bank over the past months.** This plan will provide a time table on how to bring NEPCO back to cost recovery by mid-2016, outlining which energy sources we will develop and when we plan to implement tariff increases. We plan to reduce NEPCO's losses to 3.8 percent of GDP in 2013, 2.7 percent of GDP in 2014, 1.8 percent of GDP in 2015 and 0.7 percent of GDP in 2016.

19. **Because our current reliance on diesel and heavy fuel oil is the most expensive option, we are looking into other sources, including through diversifying gas imports.** Even if gas inflows from Egypt reach the maximum contracted level, NEPCO will not be at cost recovery because this level is substantially lower than what we received in 2009, when Egyptian gas accounted for almost all electricity generation and the negotiated price for the gas was lower than now. To reduce Jordan's reliance on expensive fuel oil and diesel in the medium term, we have put out tenders for building a Liquefied Natural Gas terminal in Aqaba and for solar and wind farms. Looking ahead, Jordan's own oil shale might become a substantial source of energy, but this is expected to take time. Other longer-term options include gas supply through rail from Aqaba or pipeline from Iraq.

20. **Further increases in electricity tariffs will be implemented starting in January 2013.** We will need to increase electricity tariffs to reduce NEPCO's losses and ensure that NEPCO is current in its payments to suppliers. We are studying how to implement these tariff increases without unduly burdening the poor as well as adversely affecting our competitiveness, as exports are an important source of foreign exchange to our economy.

21. **We will improve the efficiency of petroleum supply, by progressively opening up the distribution and refinery markets.** We will ensure the timely publication of audited accounts for both NEPCO and the refinery company (JPRC). We will also be working with the three electric distribution companies to increase the pace of reductions in distribution losses.

C. Monetary and Exchange Rate Policy

22. **The exchange rate peg will remain the anchor for our monetary policy.** We believe that the fixed exchange rate regime has served us well over the past 17 years, and that it continues to underpin stability in our increasingly open economy. Monetary policy will focus on limiting inflationary pressures and sustaining the attractiveness of Jordanian dinar (JD)-denominated assets. The CBJ has updated its monetary policy framework in the first half of 2012 by narrowing the interest rate corridor and introducing a weekly repo operation to signal to the market the expected interbank rate, and built a portfolio of short-term government securities to influence the level of liquidity in the market. These tools have helped the CBJ to inject the needed liquidity in the market in the second quarter and to stabilize the interest rate structure. With grants and foreign borrowing expected to finance the domestic needs in the second half of this year, the potential increase in liquidity in the market could put downward pressures on the JD interest rate. If this materializes, the CBJ stands ready to withdraw liquidity from the market using all monetary policy instruments including selling government securities and issuing CDs in order to maintain an interest rate structure that preserves the attractiveness of the JD-denominated assets. Mostly reflecting rising global and regional uncertainty, the CBJ raised interest rates twice this year and, should the need arise, stands ready to further increase rates.

D. Financial Sector Policies

23. **Jordan's banking system remains sound.** The nonperforming loan (NPL) ratio, which picked up when the economy slowed down after the global financial crisis, stabilized at 8½ percent in 2011. Provisioning levels have flattened after a decline in 2007–08, and at 52 percent of NPLs provide an appropriate cushion. Capital adequacy is very strong, exceeding by far the CBJ's requirements, and profitability remained stable during 2009–11, with an average return on assets of 1.1 percent.

24. **The CBJ continues to further strengthen the supervisory framework.** Sound banks matter for growth: banks that mobilize and allocate savings efficiently allocate capital to projects with the highest expected growth potential, and provide incentives for sound governance over funded firms, fostering innovation and growth. To this end, the CBJ has completed supervisory reviews on the Internal Capital Adequacy Assessment Process (ICAAP) for more than half of the banks, and will complete ICAAPs for the remainder of the system by end-2012. This will ensure appropriate risk management by banks and allow supervisors to set up tailored capital adequacy norms for each bank. The CBJ has started to

receive the banks' submissions for the quantitative impact study of the implementation of Basel III, and will analyze them in the second half of 2012 with the help of IMF technical assistance. The new credit bureau, expected to be licensed by end-2012, will allow better risk assessment for banks and should improve access to finance for small- and medium-size enterprises (SMEs) and low income individuals. The CBJ also continues to work on a number of initiatives, including: (1) introducing an automated bank data collection system for supervisors, expected in 2013; (2) strengthening the regulatory framework, specifically the governance code for banks, customer protection rules, and fit and proper criteria for bank managers; and (3) developing an early warning statistical model, with technical assistance from the IMF. During 2013, we will also increase the frequency and timeliness of the publication of banks' financial soundness indicators once the automated bank data collection system is operational. Last but not least, the CBJ with possible technical assistance from the IMF will continue enhancing Jordan's AML/CFT regime, in line with the recommendations of the mutual evaluation report adopted by the Middle East and North Africa Financial Action Task Force in 2009.

E. Growth Enhancing Policies

25. **Jordan has the basics for sustaining long-term growth and increasing employment.** The country has a strong human capital base, a large endowment in engineers, doctors, accountants and IT specialists, and a substantial highly-skilled diaspora. Moreover, the market-oriented reforms of the early 2000s have made Jordan one of the most open economies in the Middle East and North Africa Region and have led to the emergence of dynamic nontraditional sectors (e.g., information and communication technologies, health tourism and business services). We will focus in the next years on: (1) improving the business environment for *all* firms in an *equal* manner through (i) streamlining laws related to the business environment and ensuring appropriate enforcement, (ii) transferring responsibilities and decision-making to the appropriate tiers of the public administration in order to avoid administrative delays, and (iii) providing training on regulatory questions to relevant staff; (2) strengthening Jordan's trade promotion programs by assisting firms to penetrate the markets of those countries with which Jordan has signed free trade agreements; (3) improving the transparency and accountability framework of industrial policies by implementing and enforcing anti-trust and monopoly legislation; and (4) developing a national strategy for a comprehensive and private sector-led innovation.

F. Other

26. We recognize the importance of completing a safeguards assessment by the first review of the SBA. In this regard, we have provided the necessary documentation and will receive a safeguards mission from the IMF as necessary. Given that financing from the IMF will be used to provide direct budget financing, the Ministry of Finance and the CBJ will finalize a Memorandum of Understanding regarding their respective responsibilities for servicing of IMF lending before the first review is completed.

G. Program Monitoring

27. Progress in the implementation of our policies, which are supported by the IMF, will be monitored through quarterly reviews, quantitative performance criteria (PCs), indicative targets, and structural benchmarks. These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding. Quantitative targets for September and December 2012 are PCs.

Table 1. Jordan: Quantitative Performance Criteria and Indicative Targets

	Sep-12 Target	Dec-12 Target
Performance Criteria		
Primary fiscal deficit of the central governement, excluding grants in JD million (flow, cumulative ceiling)	1,199	1,754
NEPCO borrowing in JD million (flow, cumulative ceiling)	1,273	1,568
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	7,667	8,257
Ceiling on accumulation of external payment arrears 1/	0	0
Indicative Targets		
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-620	-695
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682
Stock of arrears of NEPCO	0	0
Memo item for adjuster:		
Budgetary grants (flow, cumulative)	91	1,317
Other grants (flow, cumulative)	137	200
Net external financing excluding project loans (flow, cumulative)	65	-18
Privatization proceeds (flow, cumulative)	0	0
Cap for fiscal adjustor (TMU par.11, in million JD)	40	80
Exchange rate ($ per dinar)	1.41	1.41

1/ Continuous.

Table 2.Structural Benchmarks

Measure	Test Date
Submit to parliament an income tax reform law, which include changes on mining sector taxation	By end-September 2012
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
Implement a step increase in the price of diesel	First review
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
Introduce targeted transfers, which would protect the poor from higher oil prices should they increase beyond $100 per barrel	January 2013

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

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

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Letter of Intent dated July 27, 2012. 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. 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

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

A. Quantitative Performance Criteria and Indicative Targets

3. 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.

4. The performance criteria on the primary fiscal deficit of the central government excluding grants and on the borrowing by the NEPCO 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

5. 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.

6. 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.

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

8. **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.

9. **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, and net of the balances on government accounts with the CBJ and commercial banks.

10. **Net domestic nonbank financing of the central government** is defined as central government borrowing from, less repayments to, the nonbank 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.

11. **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 grants, net external financing of the central government (excluding project-related loans), and privatization proceeds from abroad received 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.

C. Ceiling on the Accounts Payable of the Central Government

12. **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 Borrowing of the National Electric Power Company (NEPCO)

13. Borrowing of the NEPCO is defined as the sum of: (i) net domestic bank financing of NEPCO, including overdraft facilities; (ii) bonds, treasury bills and all other debt instruments, including those guaranteed by the central government; and (iii) net external financing of NEPCO.

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

14. **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.

F. Floor on the Net International Reserves of the CBJ

15. 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.

16. **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.

17. **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, and amounts received under any SDR allocations received after June 30, 2012.

18. 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 grants, net external financing of the central government, and privatization proceeds from abroad received during the relevant period exceeds (falls short of) the levels specified in Table 1 of the MEFP.

G. Ceiling on the Net Domestic Assets of the CBJ

19. **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) nonremunerated deposits of licensed banks with the CBJ in Jordanian dinars.

20. 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.

21. **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) by the extent to which the sum of foreign grants, net external financing of the central government, and privatization proceeds from abroad received during the relevant period falls short of (exceeds) the levels specified in Table 1 of the MEFP (see paragraph 18).

- 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

22. 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.

II. Data Provision

23. 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 and in the attached list of reporting tables.

24. 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 (all monthly).

25. 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).

26. Related to the ceiling on the borrowing of NEPCO

- Income statement, including the stock of accounts payable and payments overdue less and more than 60 days (quarterly).

- Monthly gas flows from Egypt in million cubic meters (quarterly).

27. 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.

28. 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.

29. 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).

30. 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.

III. Definitions of the Principal Concepts and Variables

Any variable that is mentioned herein for the purpose of monitoring a performance criterion and that is not explicitly defined, shall be defined in accordance with the Fund's standard statistical methodology, such as the Government Financial Statistics. For variables that are omitted from the TMU but that are relevant for program targets, the authorities of Jordan shall consult with the staff on the appropriate treatment based on the Fund's standard statistical methodology and program purposes.

INTERNATIONAL MONETARY FUND

Jordan—Assessment of the Risks to the Fund and the Fund's Liquidity Position

Prepared by the Finance and Strategy, Policy and Review Departments

(In consultation with other Departments)

Approved by Andrew Tweedie and Thomas Dorsey

July 30, 2012

1. **This note assesses the impact of the proposed Stand-By Arrangement (SBA) for Jordan on the Fund's finances and liquidity position, in accordance with the policy on exceptional access**.[1] The authorities are requesting a 36-month SBA with access of SDR 1,364 million (800 percent of quota), with SDR 255.8 million (150 percent of quota) available upon Board approval and the first review, SDR 85.3 million (50 percent of quota) upon the completion of the second review and the remainder in ten equal installments of SDR 76.7 million (45 percent of quota), subject to quarterly reviews (Table 1). The last purchase under the arrangement is scheduled for July 15, 2015.

I. Background

2. **Jordan has had several Fund arrangements since the late 1980s, and has fully repaid its outstanding GRA credit.** Since 1989, Jordan has had three Stand-By arrangements (1989, 1992, and 2002), and three Extended Fund Facility (EFF) arrangements (1994, 1996, and 1999) as shown in Table 2. The SBAs in 1989 and 1992 were equivalent to SDR 60 million (81 percent of quota) and SDR 44.4 million (60 percent of quota), respectively; only the 1992 SBA was fully drawn. Starting in May 1994, three EFFs were approved in amounts of SDR 189 million (156 percent of quota), SDR 238 million (196 percent of quota), and SDR 128 million (75 percent of quota); only the 1999 EFF was drawn completely. The last arrangement for Jordan—an SBA—was approved in July 2002 for SDR 85 million (50 percent of quota); it expired in July 2004 and only SDR 10.7 million was drawn. As of July 2012, Jordan had repaid all its GRA credit and all repayments were made in a timely manner.

[1] See Public Information Notice No. 03/37 (03/21/2003), http://www.imf.org/external/np/sec/pn/2003/pn0337.htm.

Table 1. Jordan: Proposed SBA—Access and Phasing

Availability	Date 1/	SDR mn	Percent of quota: Purchase	Percent of quota: Cumulative
2012	August 3	255.8	150.0	150.0
	December 3	255.8	150.0	300.0
2013	March 3	85.3	50.0	350.0
	June 3	76.7	45.0	395.0
	September 3	76.7	45.0	440.0
	December 3	76.7	45.0	485.0
2014	March 3	76.7	45.0	530.0
	June 3	76.7	45.0	575.0
	September 3	76.7	45.0	620.0
	December 3	76.7	45.0	665.0
2015	March 3	76.7	45.0	710.0
	May 15	76.7	45.0	755.0
	July 15	76.7	45.0	800.0
	Total	**1,364**	**800.0**	

Source: IMF Finance Department.

1/ Starting December 3, 2012, purchases will depend on the completion of a review.

Table 2. Jordan: IMF Financial Arrangements, 1989-2012
(in millions of SDRs)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Arrangement as a Percent of Quota	Amount Drawn	Purchases	Repurchases	Fund Exposure 1/
1989	SBA	14-Jul-89	13-Jan-91	60.0	81.2	26.8	66.2	28.7	73.4
1990							0.0	7.2	66.2
1991							0.0	0.0	66.2
1992	SBA	26-Feb-92	25-Feb-94	44.4	60.1	44.4	22.2	7.2	81.2
1993							11.1	33.1	59.2
1994	EFF	25-May-94	9-Feb-96	189.3	155.5	130.3	65.6	25.9	98.9
1995							75.8	5.6	169.2
1996	EFF	9-Feb-96	8-Feb-99	238.0	195.6	202.5	82.2	15.3	236.1
1997							96.7	16.2	316.6
1998							23.7	6.8	333.4
1999	EFF	15-Apr-99	31-May-02	127.9	75.0	127.9	55.4	26.0	362.9
2000							15.2	23.8	354.3
2001							30.5	40.2	344.5
2002	SBA	03-Jul-02	02-Jul-04	85.3	50.0	10.7	71.6	61.0	355.0
2003							0.0	71.4	283.6
2004							0.0	66.1	217.5
2005							0.0	52.2	165.3
2006							0.0	60.1	105.2
2007							0.0	49.8	55.4
2008							0.0	37.5	17.9
2009							0.0	10.3	7.6
2010							0.0	2.5	5.1
2011							0.0	0.0	5.1
2012							0.0	5.1	0.0

1/ Up to 2011 data as of end-December. For 2012 data as of end-May.

3. **Jordan's total external debt, comprised entirely of public sector debt, is relatively low.** Under the baseline scenario, total external debt, which has ranged between 22 and 25 percent of GDP over the last few years, is projected to decline steadily over the medium term to about 15 percent by 2019 (Table 3, Table 4). External debt is nearly wholly long-term, and given the large share of official development credit, Jordan is burdened with very little short-term debt (by residual maturity). Jordan's public external debt for end-2012 is projected to be 23.3 percent of GDP, which is just below the median of recent exceptional access cases at time of approval (Figure 1, Panel B). However, sustainability analysis shows that the external debt is vulnerable to developments in the current account position, underscoring the need for fiscal adjustment and the importance of the comprehensive energy sector reforms in the program from the perspective of supporting Jordan's repayment capacity. The external debt service to export ratio has been broadly stable and low since 2009, following the $2.1 billion buyback of Paris Club debt in 2008. In 2012, Jordan's external debt service to export ratio is projected at 5.9 percent (2.7 percent of GDP), ranking among the lowest of exceptional access cases (Figure 1, Panel C).

Table 3. Jordan: External Debt Structure, 2008-2012 1/

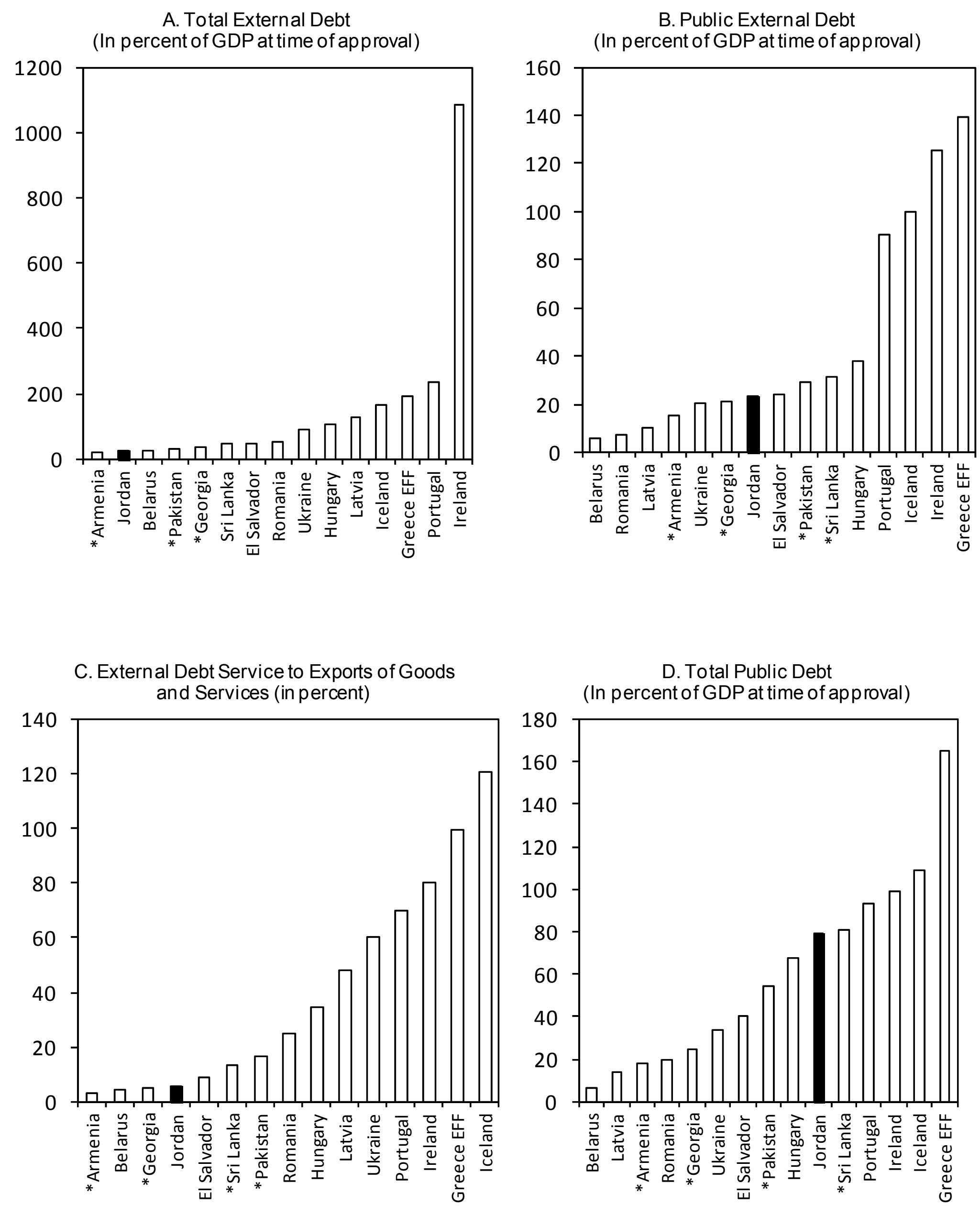
	2008	2009	2010	2011	Proj. 2012 2/
	(In Millions of Dollars)				
Total External Debt	5,135	5,455	6,490	6,319	7,302
Public	5,135	5,455	6,490	6,319	7,302
Short-term	0	0	0	0	0
Long-term	5,135	5,455	6,490	6,319	7,302
Private 3/	-	-	-	-	-
	(In Percent of GDP)				
Total External Debt	23.4	22.9	24.6	21.9	23.3
Public	23.4	22.9	24.6	21.9	23.3
Short-term	0	0	0	0	0
Long-term	23.4	22.9	24.6	21.9	23.3
Private 3/	-	-	-	-	-
Memorandum items:					
Total public sector debt (% of GDP)	60	65	67	71	79

Source: Jordanian authorities and IMF staff estimates.
1/ End of year unless otherwise indicated.
2/ Staff projections for end-2012.
3/ No reliable data on private loans and amortization.

4. **Jordan's public debt—mostly domestic—is projected to rise sharply in the next few years and represents a potential source of risk to Jordan's repayment capacity.** Total public debt is projected to peak at 83.9 percent of GDP in 2014, up 13.2 percentage points from end-2011, before declining gradually. This peak is high relative to other exceptional access cases, particularly relative to a comparable peer group (Figure 1,

Panel D). The gradual decline after 2014, and the success of the program, depends foremost on the government's commitment to consolidate in addition to reducing losses of the national electricity company.

Figure 1. Jordan: Debt Ratios for Recent Exceptional Access Arrangements 1/



Source: Jordanian authorities and IMF staff estimates, and World Economic Outlook.

1/ For arrangements approved since September 2008, estimates as reported in each staff report on the request of the arrangement. For Jordan, ratios reflect end-2012 data. Asterisks indicate PRGT-eligible countries.

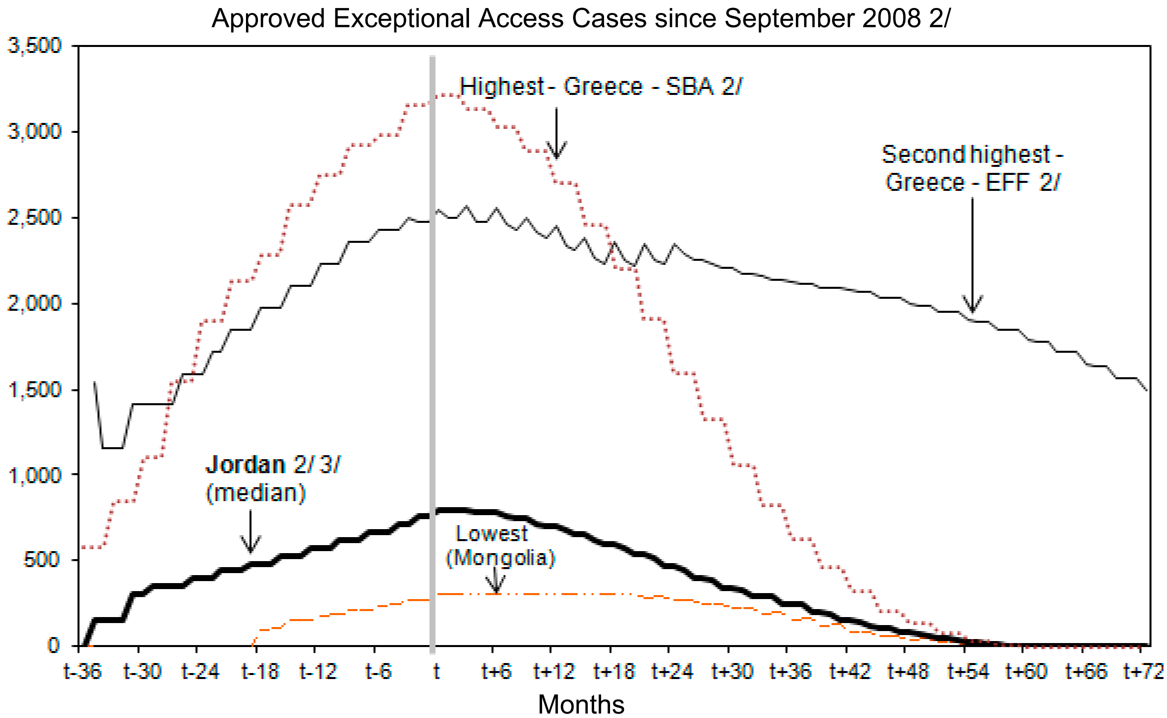
II. THE NEW STAND-BY ARRANGEMENT—RISKS AND IMPACT ON FUND'S FINANCES

A. Risks to the Fund

5. **Access under the proposed arrangement would exceed both annual and cumulative normal access limits, but would be among the lowest of the recent exceptional access cases on a number of indicators:**

- If all purchases were made as scheduled, Jordan's outstanding use of GRA resources would rise from about 150 percent of quota to about 395 percent of quota during the first year of the arrangement, and then peak at 800 percent of quota in July 2015 (Figure 2). This level of access relative to quota would be the median, but below the mean, of recent exceptional access cases.

Figure 2. Fund Credit Outstanding in the GRA around Peak Borrowing 1/
(In percent of quota at the time of approval)



Source: IFS, IMF Finance Department, and IMF staff estimates.

1/ Peak borrowing 't' is defined as the highest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis.
2/ Based on post-2008 reform quota.
3/ Median credit outstanding at peak is 802 percent of quota, which under recent exceptional access cases represents Ukraine (2008); average is 1,065 percent of quota.

- If all purchases were made as scheduled, the Fund's exposure to Jordan would peak at 5.1 percent of GDP and 23.5 percent of total external debt by 2015 (Table 4). While still sizeable, the peak ratio in terms of GDP would be among the lowest of recent exceptional access cases (Figure 3, Panel A). Peak exposure would be the highest as a share of total external debt due to a relatively low level of external debt, and would be just above one-fifth of reserves.

6. **The front-loaded disbursements and back-loaded fiscal adjustment represent additional risks to the Fund.** Total financial support of SDR 512 million (300 percent of quota) is scheduled to be disbursed during the first two purchases and about 50 percent of the program (about 400 percent of quota) is scheduled to be disbursed within the first year. While there are strong upfront actions that demonstrate the authorities' commitment, the critical fiscal and structural reforms are scheduled for 2013 and beyond, likely eroding the Fund's policy leverage.

7. **If all purchases under the proposed arrangement were made as scheduled, Jordan's debt service ratios to the Fund would be modest.**[2] Jordan's projected debt service to the Fund would peak at SDR 459.6 million in 2017 (Table 4). This would be equivalent to 5.7 percent of government revenues, 1.5 percent of GDP, 6.3 percent of gross international reserves, and 3.4 percent of projected exports of goods and services. The high share of total external debt reflects a low level of Jordan's overall external debt (Figure 3, Panel E). Jordan's total external debt service for 2017 is projected to amount to 3 percent of GDP and about 7 percent of exports of goods and services.

B. Impact on the Fund's Liquidity and Risk Exposure

8. **The proposed arrangement would reduce Fund liquidity and increase GRA credit only marginally.**

- Commitments under the proposed arrangement would reduce the one-year forward commitment capacity (FCC) of SDR 251.9 billion as of July 25, 2012 by SDR 1.4 billion, 0.5 percent (Table 5).[3] If the first purchase is made, Fund credit to Jordan would represent about 0.3 percent of total GRA Fund credit (Figure 4, Panel B). The share of the top five borrowers of total credit outstanding would remain virtually unchanged at 74 percent (Table 5).

9. **Exposure to Jordan would be moderate compared to the Fund's reserves, but still sizeable compared with the current burden sharing capacity, which is very low.** Charges on the new GRA obligations will be about SDR 10 million in 2013, over 90 percent of the current estimated burden sharing capacity, and increase to over SDR 33 million in

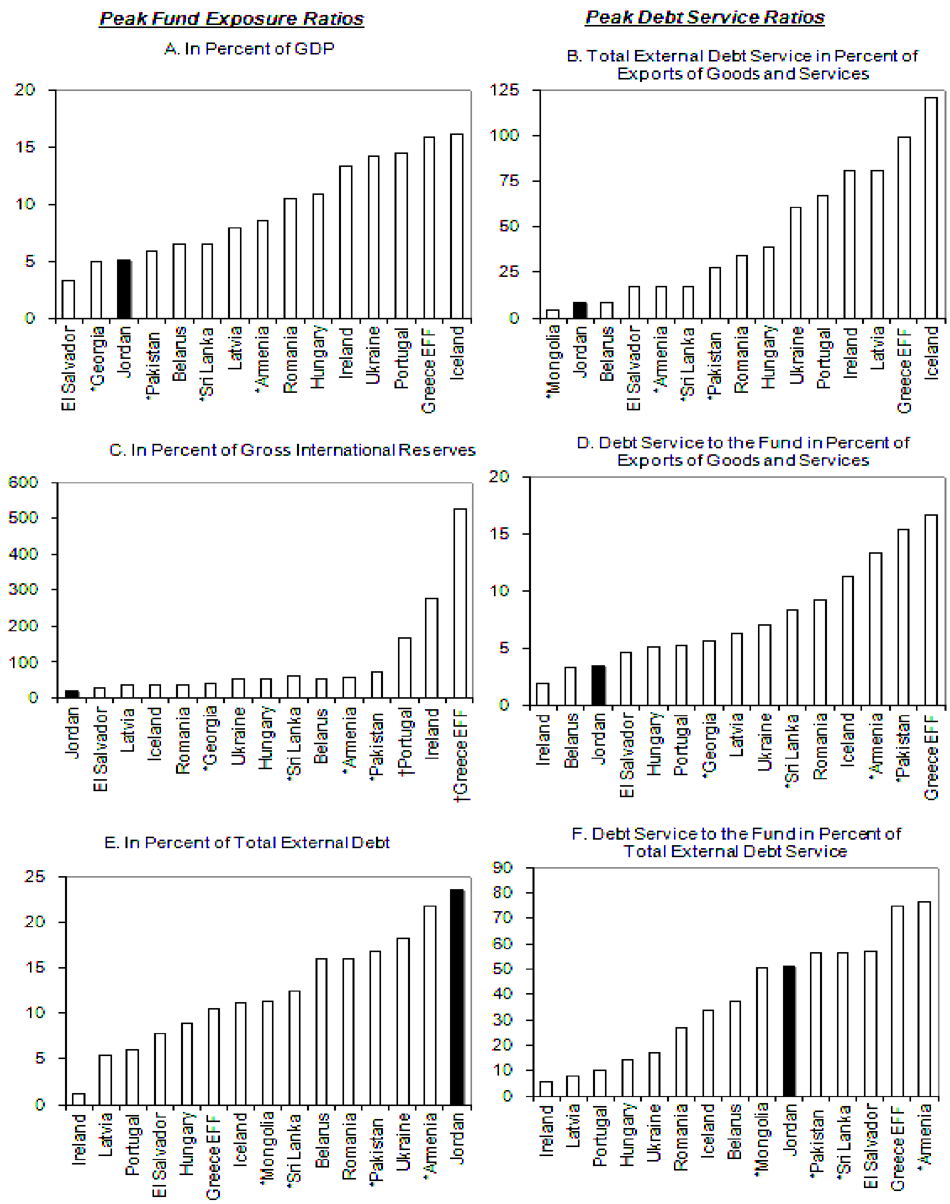
---

[2] Debt service to the Fund is calculated assuming that all repurchases are made as scheduled, i.e., each purchase is repurchased in 8 quarterly installments beginning in 3¼ years after each purchase and ending after 8 years. Surcharges apply to outstanding credit above 300 percent of quota. For comparability with other risk assessments of past exceptional access cases, Table 4 shows debt service due on GRA credit projected assuming that the SDR interest rate remains at its current level.

[3] FCC is the principal measure of Fund liquidity. The (one-year) FCC indicates the amount of quota-based, nonconcessional resources available for new lending over the next 12 months.

2016 (Table 4).[4] Estimated peak GRA credit to Jordan represents about 15 percent of current precautionary balances.

Figure 3. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases 1/



Source: Jordanian authorities and IMF staff estimates, and World Economic Outlook.
1/ Asterisks indicate PRGF eligible countries. † indicate post 2008 reform quota.

[4] Under the burden sharing mechanism, the financial consequences for the Fund that stem from the existence of overdue financial obligations are shared between creditors and debtors through a decrease in the rate of remuneration and an increase in the rate of charge, respectively. The mechanism is, inter alia, used to compensate the Fund for a loss in income when debtors do not pay charges. Under the current Board decisions, no burden sharing adjustments can be made that would result in a rate of remuneration below 85 percent of the SDR interest rate. While this limit could be changed, under the Articles of Agreement the rate of remuneration cannot be below 80 percent of SDR interest rate (Article V, Section 9(a)). No corresponding ceiling applies to the rate of charge.

Table 4. Jordan: Capacity to Repay Indicators 1/

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Exposure and Repayments (In SDR millions)										
GRA credit to Jordan 2/		511.5	826.9	1,133.8	1,332.0	1,015.5	576.5	268.5	57.5	0.0
(In percent of quota)		300.0	485.0	665.0	781.3	595.6	338.1	157.5	33.8	0.0
Charges due on GRA credit 3/		3.3	10.3	19.7	29.3	33.2	20.5	6.2	2.1	0.3
Debt service due on GRA credit 4/		3.3	10.3	19.7	61.3	349.7	459.6	314.2	213.1	57.9
Debt and Debt Service Ratios 5/										
In percent of GDP										
Total external debt	21.9	23.3	23.2	23.0	21.6	19.5	17.5	16.1	15.1	14.6
External debt, public	21.9	23.3	23.2	23.0	21.6	19.5	17.5	16.1	15.1	14.6
Total public debt	70.7	79.2	83.0	83.9	83.3	81.2	78.6	76.1	73.6	71.1
GRA credit to Jordan		2.5	3.7	4.7	5.1	3.6	1.9	0.8	0.2	0.0
Total external debt service 6/	2.6	2.7	2.1	1.9	3.8	2.6	3.0	2.3	2.1	1.7
Public external debt service 6/	2.6	2.7	2.1	1.9	3.8	2.6	3.0	2.3	2.1	1.7
Debt service due on GRA credit		0.02	0.05	0.08	0.2	1.2	1.5	1.0	0.6	0.2
In percent of Central Government Revenues										
Public external debt service 6/	10.0	10.7	8.3	7.4	14.4	9.8	11.3	8.9	7.8	6.4
Debt service due on GRA credit		0.1	0.2	0.3	0.9	4.6	5.7	3.6	2.3	0.6
In percent of Gross International Reserves										
Total external debt	58.9	98.0	104.4	103.1	91.3	81.7	72.7	68.8	66.4	66.0
External debt, public	58.9	98.0	104.4	103.1	91.3	81.7	72.7	68.8	66.4	66.0
GRA credit to Jordan		10.5	16.7	21.0	21.5	15.0	7.8	3.5	0.7	0.0
Debt service due on GRA credit		0.1	0.2	0.4	1.0	5.2	6.3	4.1	2.6	0.7
In percent of Exports of Goods and Services										
Total external debt service 6/	5.8	5.9	4.6	4.2	8.4	5.8	6.6	5.2	4.6	3.7
Public external debt service 6/	5.8	5.9	4.6	4.2	8.4	5.8	6.6	5.2	4.6	3.7
GRA credit to Jordan		5.5	8.0	10.2	11.2	7.9	4.2	1.8	0.4	0.0
Debt service due on GRA credit		0.0	0.1	0.2	0.5	2.7	3.4	2.1	1.3	0.3
In percent of Total External Debt										
GRA credit to Jordan		10.7	16.0	20.3	23.5	18.4	10.8	5.1	1.1	0.0
In percent of Total External Debt Service										
Debt service due on GRA credit		0.6	2.2	4.2	6.1	47.1	50.8	40.9	29.2	9.0
In percent of Public External Debt										
GRA credit to Jordan		10.7	16.0	20.3	23.6	18.4	10.8	5.1	1.1	0.0
In percent of Public External Debt Service										
Debt service due on GRA credit		0.6	2.2	4.2	6.1	47.1	50.8	40.9	29.2	9.0

Sources: Jordanian authorities, IMF Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings.
2/ Repurchases are assumed to be made as scheduled.
3/ Includes GRA basic rate of charge, surcharges and service fees.
4/ Includes charges due on GRA credit and payments on principal.
5/ Staff projections for GDP, external debt, central government revenues, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed SBA.
6/ Interest on and amortization of medium and long-term debt, including debt service on GRA credit.

Table 5. Jordan – Impact on GRA Finances
(millions of SDRs unless otherwise noted)

	as of 7/25/2012
Liquidity measures	
Forward Commitment Capacity (FCC) 1/	251,975
Impact on FCC on approval 2/	1,364
Prudential measures	
Fund GRA credit to Jordan	
in percent of current precautionary balances	14.4
in percent of total GRA credit outstanding 3/	1.5
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding 3/	74.0
in percent of total GRA credit outstanding including first Jordanian purchase	73.8
Jordan's annual GRA charges in percent of the Fund's residual burden sharing capacity for 2013	96
Memorandum items	
Fund's precautionary balances (end-April 2012) 4/	9,500
Fund's Residual Burden Sharing Capacity 5/	10.8

Source: IMF Finance Department and IMF staff estimates.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. It also reflects the activation of the expanded NAB for the third activation period through end-September 2012
2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one year forward.
3/ As of July 25, 2012, does not include proposed first purchase.
4/ Unaudited staff estimate. Precautionary balances exclude amounts in Special Reserves attributable to profits on gold sales in FY2010.
5/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

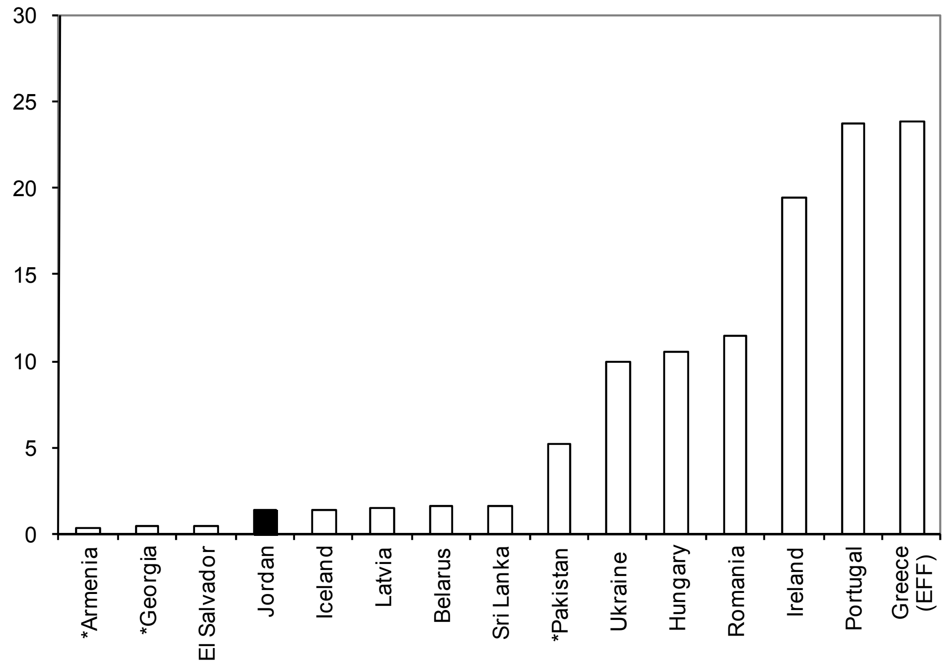
III. ASSESSMENT

10. **The financial risks under the proposed arrangement for Jordan appear manageable.** While absolute access is modest and Jordan’s debt profile does not raise concerns, the proposed access is front-loaded, intended to strengthen market confidence in Jordan’s ability to address significant fiscal and external vulnerabilities stemming largely from a negative shock to its energy sector as well as to safeguard the currency peg. The impact of the arrangement on the Fund’s liquidity position would be small. Nevertheless, there are important downside risks to the baseline scenario, including:

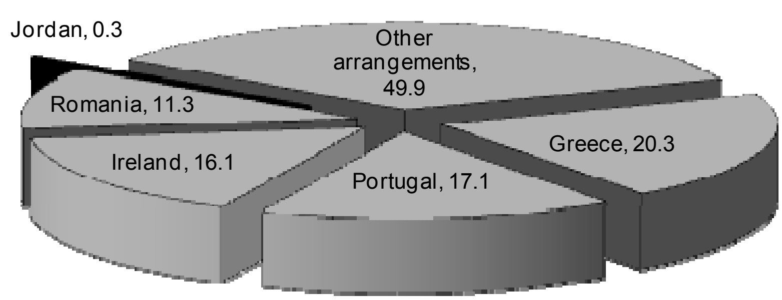
- **a worsening of the situation in the energy sector.** A large and prolonged increase in energy prices, lower natural gas inflows from Egypt, and a prolonged exploration of alternative and cheaper sources of energy could worsen substantially the fiscal and external current account deficits. On the upside, gas inflows from Egypt are projected at relatively low levels in the baseline scenario.

Figure 4. Exceptional Access Levels and Credit Concentration

A. Total Access of Recent Exceptional Access Arrangements 1/
(In billions of SDRs)



B. Credit Concentration of Fund GRA Exposure 2/
(As a percentage of total credit outstanding)



Source: IMF Finance Department.

1/ Does not include FCL arrangements. Asterisks indicate PRGT eligible countries.
2/ Credit outstanding as of July 16, 2012 plus expected first purchase under the proposed arrangement with Jordan.

- **a difficult political situation could jeopardize reform plans.** Parliamentary elections planned for end-2012 and an expected change in the government could result in a failure to implement near- and medium-term fiscal consolidation, exacerbating liquidity and debt sustainability concerns.

- **a deteriorating regional and global environment could have adverse fiscal and political implications.** Increased social unrest and protests in the region and a slowdown in activity of the regional oil exporters (as a result of an escalation of the euro zone crisis) could hurt external inflows, in particular remittances, tourism receipts and FDI inflows. Aid to more refugees from Syria would put pressure on the fiscal accounts. The euro zone crisis could affect Jordan also through increasing borrowing costs.

11. **Jordan's capacity to repay the Fund is good.** While the downside risks are substantial, the authorities have indicated their commitment to implement their program steadfastly. In 2012, against the background of a difficult political environment, the authorities have taken strong measures to restore confidence in domestic policies, aimed at reducing the financing needs of the government. If downside external and domestic risks materialize, the authorities have indicated their commitment to take additional measures, most likely cuts in capital spending. In the baseline scenario, Jordan's overall external debt and debt service are expected to remain low. While Jordan's public debt is mostly domestic, it is projected to rise sharply in the next few years, highlighting the importance of following through with reform commitments. A combination of front-loaded disbursements and the back-loaded fiscal adjustment could pose additional pressures on Jordan's capacity to repay the Fund that depends critically on Jordan's ability to access international markets at favorable conditions. Jordan's early engagement with the Fund could send a strong signal to markets, but authorities' timely implementation of the reform agenda will be key. Against this background and given Jordan's excellent track record of meeting its obligations to the Fund, Jordan's capacity to repay is expected to remain good.

INTERNATIONAL MONETARY FUND

JORDAN

Stand-By Arrangement—Request for Modification of Performance Criteria

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by Adnan Mazarei (MCD) and James Roaf (SPR)

September 24, 2012

1. **In the attached letter, the authorities request to modify the performance criteria (PCs) on the net international reserves (NIR) for end-September and end-December, 2012.**[1] The floor on the stock of the NIR of the Central Bank of Jordan (CBJ) was specified at $7,667 million for end-September and $8,257 million for end-December 2012 in Table 1 of the Memorandum of Economic and Financial Policies (attachment to the Letter of Intent dated July 27, 2012). The authorities request to modify the PC to $6,585 million for end-September and $7,175 million for end-December. There was a technical error in setting the targets for the NIR PCs, which came to light in the context of the preparations for the safeguards assessment of the CBJ.

2. **The issue relates to amounts due under a bilateral facility for $1,082 million, which is overdue and not being serviced.** The facility therefore is not readily available and was erroneously included in the NIR of the CBJ. The modification of the end-September and end-December 2012 NIR PCs does not change the substance of the program and aims at setting the correct floor for the NIR. First, the facility was not included in the calculation of gross usable international reserves and the staff report's discussion on the reserve coverage remains unchanged. Second, the amount of the facility is projected to be constant in nominal terms and its exclusion from NIR does not affect the NIR flows projected under the program. Staff supports the modification of the targets for the NIR PCs.

[1] Jordan—Request for a Stand-By Arrangement (7/27/12).

September 23, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431

Dear Ms. Lagarde,

We would like to request modifications of one of the program's performance criteria for end-September 2012 and end-December 2012. In Table 1 of the Memorandum of Economic and Financial Policies (MEFP)—attached to our Letter of Intent dated July 27, 2012—the floor on the stock of Net International Reserves (NIR) of the Central Bank of Jordan (CBJ) was targeted at $7,667 million for end-September 2012 and $8,257 million for end-December 2012. These targets were based on a stock of NIR of $8,556 million as of end-June 2012, as reported in the technical memorandum of understanding (TMU). However, a bilateral account facility with an outstanding amount of $1,082 million was inadvertently included in the NIR calculation for end-June 2012. The bilateral account under the external assets of the CBJ should be excluded from the NIR calculation as it does not meet the reserves concept definition in terms that it is not readily usable for foreign exchange. Therefore, we would like to request that the performance criteria on NIR be adjusted by the same amount to stand at $6,585 million for end-September 2012 and $7,175 million for end-December 2012 as set forth in the attached Table. If the facility becomes readily usable in the future, it would not be counted as a reserve asset in the calculation of the stock of NIR for program purposes, and the TMU will be revised to reflect this. Gross reserves—the main indicator of monetary policy space—exclude this facility. As such, the modification of the performance criteria on NIR for end-September and end-December does not change the thrust and substance of the program.

Sincerely yours,

/s/	/s/
Suleiman Hafiz	Ziad Fariz
Minister of Finance of Jordan	Governor of the Central Bank of Jordan

Table 1. Jordan: Quantitative Performance Criteria and Indicative Targets

	Sep-12 Target	Dec-12 Target
Performance Criteria		
Primary fiscal deficit of the central government, excluding grants in JD million (flow, cumulative ceiling)	1,199	1,754
NEPCO borrowing in JD million (flow, cumulative ceiling)	1,273	1,568
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	6,585	7,175
Ceiling on accumulation of external payment arrears 1/	0	0
Indicative Targets		
Net Domestic Assets of the Central Bank of Jordan in million JD (stock, ceiling)	-620	-695
Stock of accounts payable of the Central Government in million JD (ceiling)	682	682
Stock of arrears of NEPCO	0	0
Memo items for adjusters (in US$ millions)		
Budgetary grants (flow, cumulative)	91	1,317
Other grants (flow, cumulative)	137	200
Net external financing excluding project loans (flow, cumulative)	65	-18
Privatization proceeds (flow, cumulative)	0	0
Cap for fiscal adjustor (TMU par.11, in million JD)	40	80
Exchange rate ($ per dinar)	1.41	1.41

1/ Continuous

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/288
FOR IMMEDIATE RELEASE
August 3, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$ 2 billion Stand-By Arrangement for Jordan

The Executive Board of the International Monetary Fund (IMF) today approved a 36-month SDR 1.364 billion (about US$ 2.06 billion) Stand-By Arrangement for Jordan to support the country's economic program during 2012-15 to address fiscal and external challenges and foster high and inclusive growth. The approval makes SDR 255.75 million (about US$ 385.35 million) immediately available, and the remaining amount will be phased in over the duration of the program, subject to quarterly reviews. The Stand-By Arrangement entails exceptional access to IMF resources, amounting to 800 percent of Jordan's quota.

Jordan faced a series of exogenous shocks, beginning in 2011. Repeated damage of the Arab Gas Pipeline prompted an increase in imports of expensive fuel products for electricity generation. At the same time, regional tensions adversely affected tourism, remittances, and foreign direct investment. As a result, the current account deficit widened and growth slowed. The social impact of these shocks was contained because the authorities accommodated it by increasing subsidies and wages, financed by grants. At the same time, the losses of the public electricity company (NEPCO) rose due to the expensive fuel imports. External pressures intensified in 2012, when gas inflows were further reduced. Continuing large public financing needs, including from the electricity company, are pushing up government and government guaranteed debt and also started to crowd out the private sector.

Jordan's home-grown economic program aims at maintaining macroeconomic stability by implementing fiscal, monetary, and structural policies that will address challenges while fostering high and inclusive growth. As part of this effort, the authorities plan to establish transparent and sustainable energy prices and reverse the recent trend in revenue losses. In this context, the authorities intend to cut the primary deficit (excluding grants) by about 6 percent of GDP during the program period while the losses of the electricity company are expected to fall by 3 percent of GDP. The authorities' program will also focus on making economic policies more equitable and inclusive, providing targeted subsidies and better opportunities for the vulnerable segments of the population. To support growth and the medium-term external position, the program will also aim at improving the investment climate through targeted structural reforms, while strengthening labor-market skills.

Following the Executive Board discussion on Jordan, **Ms. Christine Lagarde, Managing Director and Chairperson**, said:

”Jordan is facing external and fiscal challenges stemming largely from exogenous shocks to its energy sector. These shocks have put pressure on the external accounts and increased the deficits of the central government and the public electricity company.

“The Jordanian authorities have developed an economic program focused on achieving fiscal and external sustainability in a socially acceptable manner, while strengthening growth prospects. The program envisages supporting confidence as well as strong medium-term consolidation in the fiscal and energy sectors.

“The authorities have already taken substantial measures to improve the fiscal position. Nonetheless, achieving fiscal sustainability will require continued commitment to adjust and implement difficult policies. Fiscal policies aim to reverse revenue losses of the last years through appropriate tax policy and tax administration reforms, while shifting the composition of spending toward better targeted subsidies and growth-enhancing investment, supported by improvements in public financial management. Energy sector policies, developed in cooperation with the World Bank, aim to bring the electricity company back to cost recovery through tariff reform and diversification of Jordan’s energy sources.

“The central bank’s prudent management of monetary policy is essential to underpin the exchange rate peg as an anchor for financial stability. Further efforts to strengthen the banking supervisory framework are welcome.

“Continued structural reforms to strengthen competitiveness are essential to foster high and inclusive growth and create employment. To this end, efforts to improve Jordan’s business climate, enhance trade, reform the education sector, and develop training programs will be important.”

Statement by Mr. A. Shakour Shaalan, Executive Director for Jordan
August 3, 2012

1. Following a prolonged period of solid economic performance, Jordan has been facing rising balance of payments and fiscal pressures since 2011, due mainly to the combined global economic crisis and regional tensions. In order to address these pressures and support inclusive growth, Jordan has recently embarked on a comprehensive five-year national economic reform program. To enhance credibility and confidence, and to mobilize additional external financing, Jordan is seeking the Fund's support through a three-year Stand-By Arrangement (SBA). The authorities will spare no effort to ensure successful achievement of the objectives of their program, building on their established record of strong commitment to reforms.

Recent developments

2. Economic activity in Jordan slowed significantly over the last two years. This slowdown, together with external shocks, eroded the hard-won gains in macroeconomic stability over the past decade. Recent staff reports had highlighted the track record of sound fundamentals, sound policies, and the broad consensus on economic priorities. Of particular note is (i) the adoption of an automatic fuel pricing mechanism in 2008 to reduce subsidies; and (ii) the reduction in the primary fiscal deficit excluding grants by 3 percentage points in 2010. Accordingly, staff had initially considered a PLL for Jordan. Moreover, these achievements suggest that Jordan has advanced substantially since the last SBA ten years ago, including on the policy challenges identified in the Ex Post Assessment of Longer-Term Program Engagement of November 2, 2005, as noted in Box 1 in the staff report.

3. Pressures on the fiscal and external balances emerged in 2011 with the repeated disruption of natural gas supply from Egypt, which is used for electricity generation, forcing Jordan to resort to more expensive fuel products. Meanwhile, the regional unrest along with the rising demands for social spending led to suspension of the automatic fuel adjustment mechanism and delayed the implementation of other planned price adjustment and fiscal measures. Regional social unrest also led to a decline in worker remittances, tourism receipts, and FDI inflows which dampened growth and created a drain on reserves. More recently, the large influx of Syrian refugees has added to the fiscal burden. On the positive side, exceptionally high foreign grants in 2011, especially from Saudi Arabia, helped mitigate the impact of these adversities. To address emerging challenges, the authorities undertook significant fiscal measures in 2012 and initiated a wide public campaign to gain broad support for planned reforms. Reflecting the strong policy actions, reserves stabilized in July, supported by a rebound in tourism income and remittances and a decline in oil prices.

Economic outlook

4. The authorities expect the growth momentum to pick up over the medium-term, benefitting from the return of investor confidence and the expansion in mining and financial services. Inflation, which remains moderate so far in 2012, is expected to drop further to its pre-crisis levels. The external and fiscal positions are expected to strengthen with the implementation of planned policies, and aided by lower international energy and food prices. Going forward, gas supply from Egypt is expected to improve; although staff assumes delivery of only one quarter of contracted volume in the remainder of 2012 and in 2013.

Fiscal policy

5. Fiscal measures exceeding three percent of GDP have already been implemented, without which the deficit for 2012 would have reached 9.6 percent of GDP. The measures already introduced and those that are in the pipeline reflect a substantial fiscal consolidation effort in a difficult domestic and external environment. On the revenue side, the authorities raised taxes on a number of luxury goods, broadened the coverage of the tax base, phased out some tax exemptions, and increased certain nontax fees. On the expenditure side, the authorities reduced subsidies on gasoline and electricity, cut military spending and subsidies to independent public institutions, in addition to reducing capital spending on non-priority projects. The prices of jet fuel, heavy fuel, and gasoline are now subject to monthly adjustment in line with changes in international fuel prices. The prices of diesel and kerosene, will be raised before the end of the third quarter. More importantly, the authorities stand ready to take extra measures to achieve their fiscal target.

6. The sharp reduction of gas supply from Egypt caused massive losses to the National Electric Power Company (NEPCO) in 2011 and 2012 and resulted in a substantial increase in public debt. While the recent increase in the electricity tariff will lower NEPCO's losses, a comprehensive plan to bring NEPCO back to cost recovery by mid-2016 is being prepared. Going forward, the authorities seek to diversify their gas supply sources, including by building a liquefied natural gas terminal in Aqaba, and expand gas extraction domestically.

7. Further fiscal consolidation is planned over the medium term. The path of adjustment is calibrated to strike the right balance between restoring macroeconomic stability and guarding against the risk of social unrest and slower growth. So far, it appears that the authorities' communication strategy is bearing fruit in gaining the needed public support for fiscal reforms. On the revenue side, the authorities plan to reverse the decline in tax revenues by increasing the sales tax on a number of sectors, increasing some fees and nontax revenues, adopting a revised income tax law, and reviewing the current tax system in general. On the spending side, the government will gradually contain subsidies, while protecting the most vulnerable, and preserve capital spending to support economic growth. Notably, monthly fuel price adjustments will be gradually introduced in 2013 to adjust the prices of diesel and kerosene, in tandem with targeted transfers to protect the needy. These measures will be

adequate to put public debt on a downward trajectory, ease balance of payments' pressures, and lower Jordan's financial risk premium. Furthermore, the authorities have already initiated tax administration and public financial management reforms, with the latter focusing on cash management.

Monetary and financial sector policies

8. Monetary policy has been accommodative since the onset of the financial crisis in 2008. However, the central bank has tightened the monetary stance in June 2011 and again in February and May 2012 in order to address rising inflation expectations, and enhance the attractiveness of domestic currency denominated assets. The central bank stands ready to further increase policy rates if market conditions warrant. In order to control liquidity more effectively, the central bank has updated its monetary policy operations framework in the first half of this year by creating a new monetary tool—a weekly repo operation—and narrowing the interest rate corridor. The central bank also injected liquidity into the market by trading government papers on the secondary market.

9. The pegged exchange rate regime remains the anchor of monetary policy and continues to serve the Jordanian economy well. It is a key contributor to financial stability, especially during the current turmoil in global and regional financial markets. As noted by staff, the real effective exchange rate remains broadly in line with medium-term fundamentals. Jordan will seek a buildup of gross reserves to provide a buffer against shocks. In case of renewed pressures on reserves, the central bank stands ready to further raise its policy rates.

10. The banking sector is sound, well-supervised, and highly capitalized, as attested by staff. The ratio of nonperforming loans has stabilized in 2011, while bank profitability remains stable. The new credit bureau is projected to start operating by end 2012. This will enhance bank risk assessment and hopefully boost credit to small and medium-size enterprises. The central bank continues to further strengthen the banking supervision and regulatory frameworks.

Structural reforms

11. The authorities are adopting a number of structural policies to sustain growth over the longer term. These policies include supporting a more competitive business climate for all firms, modernizing infrastructure, promoting trade relations and exports, and nurturing the development of the private sector, especially in dynamic nontraditional sectors such as IT, health, tourism and business services.

Conclusion

12. The current adversities facing Jordan are mainly exogenous. The authorities have already implemented a wide range of measures to maintain stability and have a solid plan for the coming years. Front-loaded support will increase the confidence building impact of the

Fund-supported program. The authorities stand ready to take further measures, if warranted to achieve their objectives, building on their well-developed institutional capacity and record of adherence to sound economic policies.