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ex-ante evaluation statement

Accompanying the document

Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on providing macro-financial assistance to the Hashemite Kingdom of Jordan

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Ex ante evaluation statement

EU macro-financial assistance to the Hashemite Kingdom of Jordan

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1.1 Introduction

Amid increasingly challenging global economic developments, Jordan's economic growth has remained overall stable at around 2% in the last 5 years (excluding a marked contraction in the pandemic year of 2020). However, this growth performance was weaker than that of regional peers and not strong enough to lower the very high unemployment or help ease the considerable public debt burden. Instead, fiscal pressures have remained high, with persistent budget deficits further adding to the already high public debt, which reached 88.7% of GDP (excluding holdings by the Social Security Corporation (SSC)) in 2023. Having remained relatively contained in the last 5 years, consumer price inflation slowed to 1.6% at the end of 2023 as a result of the monetary tightening policy, among other factors. The high interest rates, however, are expected to weigh on economic activity going forward. On the external side, Jordan experiences chronic external deficits (7.1% of GDP current account deficit in H1 2023), driven by the persistent deficit in trade in goods, which reflects the economy's dependence on energy, food and machinery imports in conjunction with a weak export base.

A broadly appropriate policy response and large-scale international support have so far helped the country to preserve macroeconomic stability, but the persistent economic challenges reflected in external and fiscal deficits make the economy vulnerable to external shocks. In past years, Jordan has taken initiatives to modernise its economy, most recently with the Economic Modernisation Vision of 2022, to attract foreign investment and promote growth, also supported by the reform agendas underpinning the earlier macro-financial assistance (MFA) operations.

These reform efforts were undertaken at a time when Jordan faced multiple external shocks, in particular the war in neighbouring Syria and the major influx of refugees that followed, the COVID-19 pandemic, Russia's full-scale war of aggression against Ukraine, increased security challenges along the Syrian border and, most recently, the war in Israel/Gaza and ensuing Red Sea crisis impacting important trade routes. Against this background, continued support from Jordan's international partners remains essential.

In mid-2022, the government launched the Economic Modernisation Vision, which aims to boost economic growth, create new jobs and raise the standard of living in Jordan over the next 10 years. The Vision builds on prior reform efforts, such as the London Initiative's 5-year Reform Matrix of 2018. Eight areas were identified as the main drivers to achieve these targets, amongst them manufacturing, agriculture and mining, ICT and healthcare. In the context of the Vision, the government also envisages a public administration reform, including the merge of a number of ministries and public institutions and the reallocation of powers, and political modernisation, by revitalising political parties' roles and increasing citizens' involvement in public life. Reforms to boost economic growth and to increase the efficiency of the public administration would positively impact public finances via higher tax revenue and improved public finance management, respectively, with the aim to bring down the high public debt.

In light of the multiple external shocks and its importance to ensure stability in the region, Jordan received substantial support in various forms from its international partners in the past decade. This includes three MFA programmes since 2014, where the EU and other international partners dedicated support for hosting Syrian refugees; four consecutive International Monetary Fund (IMF) programmes since 2012; and substantial US support in the form of grants. The three MFA programmes amounted in total to EUR 1 080 million in loans. MFA-I (2014-2015) amounted to EUR 180 million and MFA-II (2016-2019) to EUR 200 million. The third and latest MFA operation (MFA-III, 2020-2023), with an initial amount of EUR 500 million, was adopted in January 2020 and subsequently (May 2020) topped up by EUR 200 million in response to the socio-economic fallout of the COVID-19 pandemic in 2020. MFA-III was successfully concluded in May 2023, having supported reforms on public finance management, the utilities sector, social and labour market policy, and governance, which saw overall positive even if somewhat uneven progress.

In this context and given Jordan's continued sizeable financing needs and the many different challenges faced by the country, the Jordanian authorities requested a follow-up MFA operation of EUR 700 million on 8 October 2023 in a letter to Commissioner Gentiloni, where they specifically referred to challenging global economic prospects, restrictive credit conditions due to monetary tightening, high energy costs, inflationary pressures and the burden of the Syrian refugee crisis. The call for further assistance comes in a situation of increased uncertainty and regional instability, not least due to the outbreak of the war in neighbouring Israel and Gaza the day before the letter was sent.

The present note provides the context and rationale for a forthcoming Commission proposal on a follow-up MFA operation. Following an in-depth assessment of the political and economic situation in Jordan, the Commission is preparing to submit to the European Parliament and the Council a proposal to provide MFA of up to EUR 500 million to Jordan. The proposed legal basis will be Article 212 of the Treaty on the Functioning of the EU.

1.2 Jordan's macroeconomic situation

Economic growth has remained stable albeit relatively low (compared to regional peers) over the past years, and is expected to only slowly pick up, within an outlook with substantial downside risks. Following the contraction during the pandemic, GDP recovered at 2.2% growth in 2021 and 2.5% in 2022; growth expectations for 2023 were slightly revised downward to 2.6%, following the outbreak of the Israel-Gaza war in Q4. The sectors that contributed most to economic growth in 2023 were agriculture, manufacturing, tourism and mining, reflecting the still strong role of these sectors in the economy but also the rebound in tourism. While economic growth has generally remained stable, it has not been strong enough to lower the very high unemployment. Major structural challenges remain to boosting economic growth, in particular in the area of private sector development, where deficiencies in the business environment, access to finance, labour market flexibility and public administration persist.

Bringing down the traditionally high unemployment rate and increasing labour market participation are major structural challenges in Jordan. In 2023, the unemployment rate slightly decreased to 22.3% in Q3 (22.9% in 2022). Unemployment remains high especially for women, young people and university graduates, with women's labour force participation rate (around 14% in 2023) being one of the lowest worldwide.

Inflation decelerated considerably in 2023, with average inflation at 2.1% in 2023 (down from 4.2% in 2022). Price increases levelled out in response to the tightening of monetary policy and lower global commodity prices. The Central Bank of Jordan (CBJ) raised its policy rates in 10 steps from 2.5% in March 2022 to 7.5% in July 2023. The CBJ decisions were necessary given the Jordanian dinar's peg to the USD, to be in line with the US Federal Reserve's monetary tightening and avoid pressures on capital flows, and indeed contributed to the moderation of inflationary pressures.

The fiscal situation remains challenging, with structurally high deficits exacerbating the already high level of debt. Total public sector debt (excluding debt holdings by the SSC) stood at 88.7% of GDP in 2023, slightly down from 90.8% of GDP in 2021, as nominal GDP growth outpaced the increase in debt. Adding debt holdings by the SSC, public sector debt reached 111.5% of GDP in 2023, after having continuously increased over the past decade (from 84.5% of GDP in 2013). In its report on the new Extended Fund Facility arrangement with Jordan (January 2024), the IMF assessed Jordan's public debt level as sustainable, stating further that while debt sustainability risks remained, the authorities' policy efforts and the development partners' ongoing commitment to Jordan would constitute important safeguards. The fiscal deficit stood at 5.1% for the first 8 months of 2023 (up from 4.6% of GDP in 2022), roughly in line with the average fiscal deficit of the past 5 years. Public sector revenue increased by 5.4% during the first 8 months compared to the same period a year earlier, on the back of higher income and profit tax collection. Total expenditure grew by 2.9%, driven by higher interest payments, military expenditure and compensation of civil sector employees. In April 2023, Jordan successfully issued Eurobonds for USD 1.25 billion, despite the tightening of global financing conditions. The issuance has a maturity of 6 years at 7.5% and was oversubscribed six times, allowing the government to increase the initially sought amount.

On the external side, Jordan experiences chronic external deficits, driven by the persistent deficit in trade in goods, which reflects Jordan's dependence on energy, food and machinery imports. Main export items over the past years have been phosphoric acid, potash and phosphates, which have benefited from increased demand following Russia's full-scale invasion of Ukraine. Overall, the current account deficit averaged around 6.5% of GDP in the past 5 years, with larger deficits in 2021-2023. Most recently, the current account deficit narrowed to 7.1% of GDP in H1 2023 (from 13% in H1 2022), on the back of an increased trade in services surplus driven by increasing tourism revenue amid the tourism rebound. Strong remittances (around 8% of GDP over the past years) from abroad also contribute to mitigating the current account deficit. The CBJ's gross foreign reserves have remained strong, while decreasing slightly in 2021-2023 to USD 17.3 billion at the end of September 2023, covering an estimated 7.6 months of imports of goods and services.

The IMF, in its January 2024 forecast, expects economic growth to stand at 2.6% in both 2023 and 2024. Its previous forecast was revised slightly downwards following the outbreak of the war in Israel/Gaza. However, the war poses a major risk to the outlook, in particular due to the increased level of uncertainty in the region and the possible impact on the important tourism sector. After the Hamas terrorist attack of 7 October, sovereign bond spreads for Jordan temporarily increased but were back to pre-war levels 4 weeks later. A similar development was observed for oil prices. The ongoing Houthi attacks on cargo and energy vessels in the Red Sea pose an additional risk, increasing pressure on external accounts, as they impact Jordan's import and export capacities, most importantly Jordan's exports of minerals and chemicals. Jordan's energy imports are less affected, as they are mostly transported via pipelines locally. Given the significant public debt burden, the fiscal consolidation course needs to continue, as supported by the new IMF programme, narrowing the budget deficit by broadening the tax base and improving the efficiency and targeting of social measures. The inflation rate in Jordan has dropped to low levels and is expected to remain low in 2024, also due to the CBJ's monetary tightening. The resulting high interest rate is expected to curb credit growth to the private sector. Fiscal and external deficits are expected to remain high, reflecting the underlying structural challenges to sustainably improve fiscal revenue and the trade deficit. At the same time, since Jordan imports most of its energy and a large share of its food, including essential cereals, the slower growth of global commodity prices helps ease pressures on fiscal and external balances. The Red Sea crisis is expected to weigh on exports of fertilisers and phosphates, while the war and general regional instability is expected to reduce tourism revenue; in normal times, both sectors are expected to remain key mitigating factors to external pressures.

Table 1: Jordan – Selected macroeconomic indicators, 2018-2023

	2018	2019	2020	2021	2022	2023	Latest dates
Nominal GDP, USD million	43,371	44,563	43,642	45,180	47,518	23,663	H1 2023
Nominal GDP per capita, USD	4,358	4,412	4,277	4,400	4,666	4,244	est. Q2
Real GDP, % change	1.9	1.8	-1.6	2.2	2.5	2.7	H1 2023
Consumer price inflation, %, end of period	3.7	1.0	-0.2	2.4	4.4	1.6	
Consumer price inflation, %, average	4.5	0.8	0.3	1.3	4.2	2.1	
Key monetary policy rate, %, end of period	5.75	4.0	2.5	2.5	6.5	7.5	July
Unemployment rate, LFS, %	18.6	19.1	22.7	24.1	22.9	22.3	Q2
General government balance, % of GDP	-2.4	-3.3	-7.1	-5.4	-4.6	-5.1	Jan-Aug
Public expenditure, % of GDP	27.8	27.9	29.8	30.8	30.3	30.2	H1
Gross public debt (excl. debt held by SSC*), % of GDP	76.3	79.4	87.5	90.8	88.8	88.7	est. Dec
Gross public debt (incl. debt held by SSC*), % of GDP	92.1	95.2	106.8	111.7	114.2	113.0	est. Dec
Current account balance, % of GDP	-6.8	-1.7	-5.7	-8.2	-8.6	-7.1	H1
International reserves, USD billion	12.9	14.0	15.6	18.0	17.5	17.3	September
International reserves, months of imports	6.8	7.6	10.1	9.2	7.0	7.6	September
Gross external debt, % of GDP	72.2	72.1	82.3	86.9	81.0	81.4	H1
Net foreign direct investment, % of GDP	2.2	1.6	1.7	1.4	1.9	3.0	H1

*SSC: Social Security Corporation, LFS: Labour Force Survey

Sources: Bank of Jordan, Jordan Department of Statistics, Ministry of Finance

1.3. IMF and other donor support

In January 2024, the IMF Executive Board approved a new arrangement under the Extended Fund Facility (EFF) for Jordan worth USD 1.2 billion covering the period 2024-2027. This new arrangement replaces the previous 4-year EFF arrangement, which was set to expire in March 2024. Since only a small amount was left in the previous arrangement following significant front-loading of disbursements, the IMF had proposed to terminate the arrangement early and replace it with a new EFF arrangement. This new arrangement will focus on continuing with fiscal consolidation to place public debt on a steady downward path, safeguarding monetary and financial stability and accelerating structural reforms to support growth and job creation.

The rationale for the new arrangement is based on the need to safeguard the ongoing reform progress – in particular given the significant risks of increased instability in the region – as the IMF did not consider the reform progress advanced enough to replace the previous EFF arrangement by a non-disbursing programme. The approved IMF arrangement is based on a baseline scenario that assumes a 9-month war in Israel/Gaza, cautiously incorporating substantial impacts on tourism and private capital inflows in the macro-fiscal baseline. Pointing to a need to further strengthen buffers, the new EFF arrangement also aims to further replenish external reserves further (which stood at 7.6 months of imports in Q3 2023).

The main elements of the new EFF arrangement build on the previous one and are set out below.

- To place public debt on a steady downward path, bringing public debt to below 80% of GDP by 2028. To achieve such a gradual and steady debt reduction, Jordan will continue its fiscal consolidation process, by further broadening the tax base and improving spending efficiency, while bolstering social assistance and supporting growth.

- To boost structural reform to improve the business climate, private sector growth, competition and the creation of jobs to achieve a significant reduction in unemployment, especially among women and young people.

- To continue utilities sector reform to ensure the sector's financial viability and improve its ability to deliver essential services.

The World Bank has an active portfolio in Jordan comprising 16 projects with a total value of USD 3.9 billion in the form of loans, concessional financing, and grants. The strategic partnership framework between the World Bank and Jordan (2017–2023) focuses on key pillars in the areas of: (i) promoting private sector-led growth to create job opportunities for all; (ii) improving service quality and equity to ensure better access to basic services such as education and health; and (iii) supporting effective response and resilient recovery to address the impact of the pandemic.

The European Investment Bank (EIB) has been active Jordan since 1979. In the public sector, the EIB targets sustainable investments in the areas of water, energy, transport, urban development, and health. Since the pandemic, the EIB has partnered with several banks to support SMEs and the local economy.

1.4. External financing needs

According to the IMF's preliminary estimates, Jordan's external financing needs will remain considerable at USD 3.2 billion in the period 2024-2027, partly reflecting the structural challenges to sustainably improve the fiscal performance and the current account deficit, as well as the aim to strengthen reserve buffers. The IMF's new USD 1.2 billion programme would cover close to 40% of these external financing needs over the next 4 years. Factoring in the IMF programme, which together with other official external support bridges the financing gap in 2024, the remaining external financing gap stands at USD 1.9 billion for 2025-2027 according to the IMF's methodology. In net terms, IMF disbursements and the World Bank arrangements together represent USD 1 897 million of external financing for 2024-2027.

A considerable share of the country's external financing needs relates to the accumulation of international reserves (USD 4.6 billion over the years 2024-2027) programmed to reach 100% of the reserve adequacy metric of the IMF. International reserves declined slightly in 2021-2023 from USD 18.0 billion or 9.2 months of imports to USD 17.6 billion or 7.6 months of imports (September 2023). Given the increased uncertainty and the challenging external environment, further strengthening reserves is important to rebuild buffers for possible external shocks and maintaining external stability. Since the onset of the new programme, the economic fallout of the ongoing Israel-Gaza war described in Section 1.2, notably including the Red Sea crisis affecting Jordan's trade, has started to become more visible as significant downside risks to Jordan's economic prospects and external financing needs.

Applying the methodology endorsed by the Economic and Financial Committee, and taking into account the IMF and World Bank net disbursements, Jordan's residual external financing gap amounts to USD 7.7 billion in 2025-2027[1]. The proposed MFA operation of up to EUR 500 million (USD 543 million[2]) would cover 7.1% of this estimated residual financing gap for 2025-2027[3]. Taking into account the overall EU support to Jordan via various instruments (including the proposed MFA, EU budget support and EIB loans, excluding bilateral Member State support), the total EU support would cover 16.0% of the estimated residual financing gap; the overall EU contribution including budget support and EIB loans to Jordan is expected to be higher than in the past. Such an engagement would be in line with the principles of fair burden-sharing among donors and value added of the EU's MFA enshrined in the 2013 Joint Declaration of the European Parliament and the Council on MFA. The proposed amount appears adequate in the light of available information about Jordan's macro-fiscal outlook and the resulting external financing needs. Despite significant contributions also from other bilateral and multilateral donors aside from the IMF, the World Bank and the EU, with an MFA of USD 543 million, an amount of USD 1 369 million of external financing would yet have to be identified for 2025-2027[4].

[1] This gap is significantly larger than the one estimated by the IMF, as bilateral support grants and loans are subtracted in the calculation (see upper part of Table 2) and are added to the financing side, below the line (lower part of Table 2).

[2] Converted on the basis of an exchange rate of 1 EUR = 1.098 USD, 11.1.2024.

[3] When expressed in terms of the remaining external financing gap estimated by the IMF (USD 1.9 billion), the MFA proposal of EUR 500 million (USD 543 million) would cover 28.4%. This strongly contrasts with the 7.1% calculated according to the other external financing gap methodology, as in the case of Jordan, the traditionally and structurally large support from key partners in the form of grants (e.g. US) implies a particularly large correction of the residual financing gap relative to the residual financing gap under the IMF methodology.

[4] A large part of the outstanding amount is expected to be covered by donors (including EU Member States) in line with their long-standing commitment, although the IMF cautiously indicated the contribution of several major donors as 'zero' for the years 2025-2027 in the absence of detailed information at this stage.

Table 2: Jordan's external financing gap and potential financing sources

(USD million)	2024	2025	2026	2027	Total 2024-2027	Total 2025-2027
1. Current account balance*	-5,137	-4,100	-3,983	-3,999	-17,219	-12,082
2. Capital and financial account balance**	2,169	1,756	2,818	3,253	9,996	7,827
3. Overall balance (1+2)	-2,968	-2,344	-1,165	-746	-7,223	-4,255
4. Reserves ("-" indicates increase)	-282	-898	-1,551	-1,939	-4,670	-4,388
5. Overall External Financing Gap (3+4)	-3,250	-3,242	-2,716	-2,685	-11,893	-8,643
6. Exceptional Financing by IMF and WB	914	382	372	229	1,897	983
Net IMF Disbursements	198	53	66	29	346	148
Disbursements of World Bank budget support	716	329	306	200	1,551	835
7. Residual Financing Gap (5+6)	-2,336	-2,860	-2,344	-2,456	-9,996	-7,660
Financing of the gap						
EU MFA-IV (EUR 500 million, converted to USD***)		217	163	163	543	543
EU budget support grants	142	154	126	93	515	373
GCC grants	89	71	95	45	300	211
United States grants	853	693	693	685	2,924	2,071
Other grants	657	636	636	635	2,564	1,907
Arab Monetary Fund loan	212	212	212	212	848	636
Asian Infrastructure Investment Bank loan	85	85	80	80	330	245
EBRD loan	0	0	0	0	0	0
Islamic Development Bank loan	0	0	0	0	0	0
EIB loan	131	110	99	98	438	307
Other loan	33	0	0	0	33	0
Canada	0	0	0	0	0	0
France	137	0	0	0	137	0
Germany	164	0	0	0	164	0
Italy	81	0	0	0	81	0
Japan	100	0	0	0	100	0
Kuwait	0	0	0	0	0	0
Saudi Arabia	0	0	0	0	0	0
UAE	0	0	0	0	0	0
Commercial banks' NFA ("-" indicates increase)	-350	0	0	0	-350	0
Total identified sources	**2,334**	**2,178**	**2,104**	**2,011**	**8,627**	**6,293**
Other unidentified financing sources	*-2*	*-682*	*-240*	*-445*	*-1,369*	*-1,367*

* *Excludes official grants in the form of policy-based budgetary support.*
** *Excludes official loans in the form of policy-based budgetary support, Arab Monetary Fund and commercial banks' net foreign assets, which are shown below the line. Includes sovereign bond issuance.*
*** *All amounts were converted on the basis of an exchange rate of 1 EUR = 1.098 USD, 11.1.2024.*
Sources: Latest IMF estimates and projections (December 2023) and Commission calculations.

1.5. Structural reform challenges

Reform achievements in 2019-2023, with uneven progress across sectors

Jordan's reform agenda for 2019-2023 was underpinned by the 'Government's Economic Priorities Program' (GEPP) for 2021-2023, the comprehensive 'Five-Year Reform Matrix' for 2018-2022, which was extended to 2025, and the 'Government's Indicative Executive Program' (GIEP). The GEPP addressed key challenges in the labour market and the private sector, with 53 targets mainly derived from the Matrix and the GIEP. The Matrix prioritised deep structural reforms needed to stimulate inclusive and sustainable growth and job creation, and achieve fiscal stability. Its pillars comprised reforms in the areas of revenue mobilisation and debt management, public sector efficiency, private sector development, labour markets, social safety, infrastructure, utilities and tourism. The mid-term review in 2020 revealed that 46% of reforms had been implemented, yet delays were observed in particular for the transport and utilities pillars. In parallel, the GIEP included the government's vision for political, social and economic development that targets economic growth, job creation and poverty reduction. It went beyond the Matrix in the areas of fighting corruption and the green and digital agenda.

Despite the setbacks caused by the challenging economic environment, Jordan still advanced major reform projects in 2023. These include (but are not limited to) the following: partial roll-out of new electricity tariffs for businesses and households; substantial progress in strengthening the regime for anti-money laundering / combating the financing of terrorism; public sector modernisation (hiring and promotion of civils servants); and adjustments in the electricity sector.

Main government priorities for the near future

In June 2022, the government presented its Economic Modernisation Vision. The plan envisages creating one million new jobs, raising the standard of living and boosting economic growth over the next 10 years. Eight areas were identified as the main drivers to achieve these targets, covering economic sectors (manufacturing, agriculture and mining; ICT, healthcare and financial services; and tourism and culture) and cross-cutting topics (HR and entrepreneurship; sustainable resources; investment and doing business; green growth and climate change; and quality of life and urban development).

For 2024, the Jordanian government allocated JOD 734 million (EUR 943 million), of which JOD 250 million (EUR 321 million) financed by foreign aid, for implementing the Vision's programme. One third of this budget will be dedicated to the utilities sector, in particular to the Aqaba-Amman Water Desalination and Transport Project, reducing non-revenue water loss, supporting regional electric grid projects, and improving natural gas infrastructure. Roughly 10% of the budget will be used to support the tourism industry, promoting Jordan internationally, also to compensate for the expected revenue shortfall potentially resulting from the Israel-Gaza war. Further priority areas in 2024 include boosting high-value industries, supporting national industry, developing the food industry, and increasing the competitiveness of national exports. A focus is also set on digitalisation of the economy, for instance in hospitals and healthcare centres, e-commerce and e-gaming.

In the context of the Vision, the government also envisages to modernise the public administration. The authorities have started implementing the Public Sector Modernisation Roadmap, which aims to improve public sector services by merging a number of ministries and public institutions and reallocating powers. The government endorsed a new human resources strategy in 2023, including the set-up of a Public Service and Administration Commission, in charge of the mechanism for public service recruitment, and a new automated HR management information system with real-time civil service data and performance management functions. Future plans include the restructuring of the Ministry of Investment and the Ministry of Human Resources Development.

The Economic Modernisation Vision and the Public Sector Modernisation Roadmap are widely supported by the different ministries as an important push to advance the economic development of the country. King Abdullah II of Jordan has been taking a strong interest in the reforms, organises regular meetings with government officials, and is known to be a strong supporter of the modernisation.

The new IMF arrangement (see Section 1.3) has been set up to safeguard the reform progress and support the modernisation projects. Targeted policy conditionality building upon Jordan's structural reform plans, including via the envisaged EU MFA, can play a major role in strengthening domestic reform implementation. In this way, the MFA can – in addition to helping bridge Jordan's external financing gap – help put the country on a more sustainable economic path by supporting the authorities in tackling reforms to address key vulnerabilities that are at the root of its financing needs. Possible areas of conditionality could, in principle, include reforms to improve economic governance, including public finance management and tax administration; social and labour market policy; and governance and fight against fraud, corruption and money-laundering. Close coordination with and between development partners on reform priorities is essential in this context. Last but not least, communication by the authorities with the general public will be essential to ensure popular buy-in to the reform programme and overcome vested interests.

2. OBJECTIVES AND RELATED INDICATORS OF THE MACRO-FINANCIAL ASSISTANCE

2.1. Objectives

The objectives of the proposed MFA operation are to:

i) contribute to covering the external financing needs of Jordan in the context of a sizeable external financing gap;

ii) support the fiscal consolidation effort and external stabilisation expected under the IMF programme; and

iii) support and shield structural reform efforts that aim to improve overall macroeconomic management, strengthen economic governance and transparency, and improve the conditions for sustainable growth.

2.2 Monitoring indicators

The Commission will assess whether the objectives of the assistance have been achieved, including as part of the *ex post* evaluation (see below), on the basis of the following indicators:

i) progress with macroeconomic and financial stabilisation, notably by assessing the degree of adherence to the IMF-supported programme; and

ii) progress with the implementation of structural reforms, notably the specific policy measures to be identified as conditions for disbursement of the assistance, which will be included in a Memorandum of Understanding to be negotiated between the Commission and the Jordanian authorities.

3. DELIVERY MECHANISMS AND RISK ASSESSMENT

3.1 Delivery mechanisms

The MFA operation under consideration is expected to cover part of the residual financing gap for the 2024-2027 period and would amount to a maximum of EUR 500 million in loans. Given the proposed size of the operation, the Commission is considering releasing the assistance in three instalments.

As the proposed amount represents a significant share of the residual financing, it is important to ensure the MFA's value added, notably by providing the EU with sufficient leverage to promote reforms. To this end, policy conditions will be attached to the MFA's disbursements, with each instalment being subject to good progress with the IMF programme and the specific measures agreed with the EU in the Memorandum of Understanding as well as the fulfilment of the political precondition (see below).

The Commission proposes to provide the proposed MFA in the form of medium-term loans. As usual, these loans will carry very favourable conditions in terms of maturity (on average 20 years) and grace period (10 years) and an interest rate corresponding to the EU's triple A rating (the rate at which the EU borrows the funds in the international capital markets).

3.2 Risk assessment

There are fiduciary, credit, policy and political risks related to the proposed MFA operation.

There is a risk that the MFA, which is not dedicated to specific expenses (contrary to project financing, for example), could be used in a fraudulent way. In general terms, this risk is related to factors such as the quality of management systems in the Central Bank and the Ministry of Finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities.

To mitigate the risks of fraudulent use, several measures will be taken. First, the Loan Agreement will comprise a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. Also, the assistance will be paid to a dedicated account of the CBJ.

Moreover, in line with the requirements of the Financial Regulation, the Commission will carry out an Operational Assessment of the financial and administrative circuits of Jordan to confirm that the procedures in place for managing programme assistance, including MFA, provide adequate guarantees. The Operational Assessment will be supported by a study from an external consultant before the implementation of the MFA.

The Commission is also using budget support assistance to help the Jordanian authorities improve their governance, rule of law, accountability and effective administration. These efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors.

A second risk stems from the possibility that Jordan will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk). This could be caused by a significant additional deterioration of the balance of payments and fiscal position of the country or/and by unforeseen events. This risk is mitigated, however, by the fact that the EU's MFA would be part of an international package of official assistance led by the IMF that is supporting an adjustment and reform programme to restore fiscal and balance of payments sustainability by implementing a series of policy measures, included those to be agreed in the MoU between the EU and the Jordanian authorities. Moreover, the risks for the EU budget are in the first instance covered by the EU's External Action Guarantee.

Further, there are risks stemming from a possible weakening of the European and global economic environment and an increase in regional instability, which would have a significant effect on Jordan's fiscal and balance of payments situation.

Having made a thorough assessment of the risks, the Commission considers that there are sufficient grounds and guarantees to proceed with the proposed MFA to Jordan.

The Commission will maintain close contacts with the Jordanian authorities during the implementation of the MFA in order to quickly address any concerns that may arise.

4. ADDED VALUE OF EU INVOLVEMENT

The EU's financial support to Jordan reflects the country's strategic importance to the EU in the context of the European Neighbourhood Policy. The MFA instrument is a policy-based crisis instrument to alleviate short- and medium-term external financial needs. As part of the overall EU package of assistance, it would help support the EU's objectives of economic stability and economic development in Jordan. By supporting the authorities' efforts to set a more stable macroeconomic framework and improve economic governance, the proposed assistance would help improve the effectiveness of other EU financial assistance to the country, including budget support operations.

The EU's MFA would also complement the standard EU aid packages provided under the Neighbourhood, Development and International Cooperation Instrument (NDICI). By supporting the adoption by the Jordanian authorities of an appropriate framework for macroeconomic policy and structural reforms, the EU's MFA would increase the added value and effectiveness of the EU's involvement through other financial instruments. The proposed MFA would increase substantially the EU's leverage on policymaking in Jordan, helping steer the country towards a reform trajectory that should restore macroeconomic stability, address governance problems and boost potential growth in the longer run.

5. CHARACTERISTICS OF MACRO-FINANCIAL ASSISTANCE

5.1 Exceptional character and limited time frame

The MFA operation would aim to support the restoration of a sustainable external finance situation for Jordan. It would run in parallel to the IMF's EFF arrangement, with a staff-level agreement reached on 9 November 2023 and adopted by the Executive Board on 10 January 2024. The proposed MFA would only be implemented if the IMF programme remains on track. Against this background and given the expected time of approval of the MFA, the assistance is expected to be implemented in 2024-2027. While based on current information, Jordan does not face an external financing gap in 2024, the disbursement of the first instalment could take place already in Q4 2024 if downside risks were to materialise and all other conditions for disbursement are fulfilled. Otherwise, the instalments could be disbursed evenly over the availability period of 2.5 years starting in 2025. All disbursements are conditional on the IMF programme remaining on track and on a number of policy measures agreed with the EU and listed in the Memorandum of Understanding underpinning the proposed MFA operation. While in the short term, the country faces substantial balance of payments financing needs, the macroeconomic and structural adjustment programme to be agreed with the IMF and supported by the proposed MFA is expected to gradually strengthen the country's balance of payments and fiscal positions.

5.2 Political preconditions and EU-Jordan relations

Countries that are covered by the European Neighbourhood Policy are eligible for MFA. A pre-condition for granting MFA is that the eligible country respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights.

Political pre-condition: Jordan fulfils the political preconditions for receiving MFA. It has continued its political reform efforts to strengthen parliamentary democracy and the rule of law. In 2021, Jordan launched a political modernisation process aspiring to foster political participation of women and young people, to overcome tribal allegiance and encourage the formation of nationwide programme-based political parties, introduced through amendments to the Elections and Political Parties Laws. In 2023, the government amended the Labour Code in line with international human rights standards.

While significant political, security, economic and social challenges remain, and despite an increasingly challenging regional context, Jordan is making steps towards a more effective democratic political system based on the rule of law and respect for human rights. The EU remains fully committed in supporting Jordan in this challenging transition process. In this context, the political pre-condition for MFA is considered to be satisfied[5].

EU-Jordanian relations: The EU and Jordan enjoy excellent relations and have been linked by an Association Agreement since 2002 (advanced status since 2010). In 2022, they signed the Partnership Priorities (PPs), which aim to strengthen cooperation even further and will guide the partnership until 2027. The PPs are based on common values and dialogue, and promote reforms in areas such as good governance, the rule of law, human rights, security, social cohesion and equal opportunities for all, non-discrimination, environmental and climate protection, green economy, digitalisation, energy, water, education, job creation, macroeconomic stability and the business environment.

[5] A more detailed assessment of Jordan's compliance with the political precondition, provided by the European External Action Service (EEAS), is reproduced in the Annex to this staff working document.

5.3 Complementarity

The proposed MFA would complement the assistance provided by other multilateral and bilateral donors in the context of the recent IMF programme, ensuring reasonable burden-sharing. The EU's MFA would also complement EU support provided under the NDICI. By supporting the adoption by the Jordanian authorities of an appropriate framework for fiscal and macroeconomic policy and structural reforms, the EU's MFA would increase the added value and effectiveness of the EU's involvement through other financial instruments. The proposed MFA would increase substantially the EU's leverage on policymaking in Jordan, helping steer the country towards a sustained reform trajectory to restore macroeconomic stability, address governance problems and boost potential growth in the longer run and in a sustainable manner.

5.4 Conditionality

Disbursements under the proposed MFA operation will be conditional on successful programme reviews under the IMF programme. In addition, the Commission and the Jordanian authorities should agree on a specific set of structural reform measures, to be set out in a Memorandum of Understanding. These reform measures should support the authorities' reform agenda and complement the programmes agreed with the IMF, the World Bank and other donors, as well as the policy reform programmes financed by the EU's under NDICI. They should be consistent with the main economic reform priorities agreed between the EU and Jordan in the Association Agreement, the PPs, Jordan's Economic Modernisation Vision and other strategic documents.

The Commission will seek a broad consensus with the Jordanian authorities, to ensure their ownership and foster smooth implementation of the agreed conditionality. These policy conditions should address some of the fundamental weaknesses shown over the years by the Jordanian economy and economic governance system. Possible areas of conditionality could, in principle, include reforms to improve economic governance, including public finance management and tax administration, social and labour market policy, and governance and fight against fraud, corruption and money-laundering.

5.5 Financial discipline

The proposed MFA operation for Jordan of up to EUR 500 million in loans is planned to be disbursed in three instalments to be released from 2025, possibly already 2024, until the programme expires in 2027. The required provisioning at a rate of 9% of the External Action Guarantee will be programmed under the NDICI, for a total amount of EUR 45 million (budget line 14 02 01 70 'NDICI – Provisioning of the Common Provisioning Fund').

6. EVALUATION AND COST-EFFECTIVENESS

This assistance is of exceptional and macroeconomic nature and will be evaluated in line with the standard Commission procedures.

6.1 Evaluation

Ex post evaluations of MFA operations are envisaged in the multi-annual evaluation programme of the Commission's Directorate-General for Economic and Financial Affairs. An *ex post* evaluation of the proposed MFA to Jordan will be launched within a period of 2 years after the availability period has expired. A provision for the *ex post* evaluation is included in the proposed Decision for the assistance, and will also be included in the Memorandum of Understanding. Budget appropriations from the MFA grant budget line will be used for this evaluation.

6.2 Achieving cost-effectiveness

The proposed assistance would entail a high degree of cost-effectiveness for several reasons.

i) Since the assistance would be leveraged by the assistance provided by the international financial institutions, with which, as noted, it would be closely coordinated, its ultimate impact could be very significant compared to its cost. Moreover, in negotiating specific policy conditions, the Commission will be able to draw on the expertise of these institutions, including the IMF and the World Bank, and to influence their conditionality as well in ways that will take into account the EU's views.

ii) Providing coordinated macroeconomic support to Jordan on behalf of the EU countries, the MFA would be more cost-efficient than the provision of a similar total amount of financial support by EU Member States individually.

iii) A substantial part of the proposed assistance would be provided in the form of loans, the budgetary impact of which is more limited.

iv) Finally, the Commission will aim to achieve synergies with other EU policies and instruments used to support the implementation by the beneficiary of the relevant measures.

ANNEX

EUROPEAN EXTERNAL ACTION SERVICE

Assessment of democracy, human rights, the rule of law and political reforms in Jordan

Political reforms continue despite daunting challenges

Under the leadership of the King, Jordan is currently undergoing a three-track modernisation process (political, economic and public administration) that aims to build a party-based political system and a more representative electoral process (for the Lower House while the Senate remains entirely appointed), and to create up to one million new jobs in 10 years as well as an efficient public administration. The political modernisation aspires to foster political participation of women and young people, to overcome tribal allegiance and encourage the formation of nationwide programme-based political parties, introduced through amendments to the Elections and Political Parties Laws. Still, security remains Jordan’s overarching political priority.

The political modernisation process will be gradually introduced over three electoral cycles, starting with the next parliamentary elections in early autumn 2024. Upon invitation by Jordanian authorities, preparations are ongoing to assess whether to send an EU election observation mission to accompany the legislative elections, as a sign of tangible support to Jordan’s political modernisation process at a critical juncture when democratic principles are increasingly questioned.

In 2023, the government took some steps to improve legislation in line with international human rights standards. Jordan amended the Labour Code to add the definition of sexual harassment in the workplace and provisions for the prohibition of discrimination, including in terms of equal pay between men and women. The Penal Code was also amended to strengthen fair trial guarantees and to extend community service and other alternatives to detention.

However, significant challenges remain, especially in relation to freedom of expression (online and offline), as well as freedom of peaceful assembly and association, and the rule of law. In the context of a challenging security situation in the region, the space for civil society in Jordan has steadily shrunk in recent years, notably through legal and administrative restrictions (including the recently amended Cybercrime Law) as well as increased monitoring of activities of civil society organisations.

The administrative detention of peaceful activists also raised concerns regarding effective access to due process and fair trial guarantees. Jordan ranked 62nd out of 142 countries in the 2023 World Justice Project Rule of Law Index. Gender-based violence and lack of gender equality remain issues of concern. The economic participation of women remained very low, with the Kingdom ranking 126th out of 146 countries in the 2023 World Economic Forum Global Gender Gap Index, while discrimination of women persisted in the Personal Status Law, particularly as regards custodianship, divorce and inheritance of citizenship.

The EU and Jordan held the 13th meeting of the Subcommittee on Human Rights, Democratisation and Governance on 6-7 March 2023 in Amman. The meeting provided an opportunity for the EU to underline the importance of ensuring an environment that is conducive to a thriving civil society, which can contribute to socio-economic development and political transformation, in line with the Royal recommendations for the modernisation of the political system.

EU-Jordan relations

The EU and Jordan enjoy excellent relations and have been linked by an Association Agreement signed in 2002 (advanced status since 2010) and Partnership Priorities (2021-2027) that have been jointly agreed at the EU-Jordan Association Council in June 2022 in Jordan. These Partnership Priorities centre around three pillars, and include strengthening good governance, the rule of law, democratic reform and human rights.

Jordan continues to be a strategically important partner of the EU in the Middle East, a voice of moderation and peace, including on the Middle East peace process. Jordan also plays a very positive role in ensuring the Southern co-ownership of the Union for the Mediterranean, co-chaired with the EU since 2012.

A key concern of Jordan is the ongoing war in Gaza, which is affecting the Hashemite Kingdom on all fronts: politically, economically and socially. Since the start of the war, Jordan has stepped up its diplomatic outreach with the EU, including through King Abdullah II's visit to Brussels in November 2023, which was followed by several high-level contacts with the President of the European Commission, the President of the European Council and the High Representative. Against the backdrop of a looming humanitarian crisis, the EU is determined to support Jordan's humanitarian efforts and assists the country in weathering the economic fallout from this and other neighbouring crisis, including via a new Macro-Financial Assistance, as discussed during the visit of President von der Leyen with King Abdullah II on 18 November 2023 in Amman.

The 13th EU- Jordan Association Committee held on 6 February 2024 in Amman thus offered an important opportunity for the EU to reconfirm its commitment to continue supporting Jordan in tackling the manifold challenges. The meeting also reconfirmed the mutual willingness to continue working together to foster stability, peace and security in the Middle East.

In sum, while major political, security, economic and social challenges remain, despite an increasingly challenging regional context, Jordan is making steps towards a more effective democratic political system based on the rule of law and respect for human rights. The EU remains fully committed in supporting Jordan in this challenging transition process. In this context, the political preconditions for Macro-financial assistance are considered to be satisfied.