Hashemite Kingdom of Jordan

Ministry of Finance

MEDIUM TERM DEBT MANAGEMENT STRATEGY (2019-2023)

Public Debt Directorate

Statistics and Strategies Division

2019

Introduction

A debt management strategy presents a plan of the government's debt policy, which it intends to implement over the medium term in order to achieve an optimal composition of the government public debt portfolio, which captures the government's preferences with regard to the cost-risk tradeoff.

The strategy applies to central government debt (budgetary) including **management for contingent liabilities of publicly guaranteed debt of independent public institutions especially the Electricity, Water sector and a mechanism for monitoring the Public and Private Partnerships projects**.

This document represents an update of debt management strategy, which was formulated and published in 2016 and covering the years from 2019 to 2023 and **it will be updated annually going forward**. The proposed strategy is based on a detailed analysis of the cost and risk of alternative borrowing strategies and explicitly takes into account the macro-economic framework, including the high debt level, as well as the limits stipulated by the Public Debt Management Law no.26 of 2001[1].

The proposed strategy is in line with the Vision 2025 which was adopted by the government as a national strategy, in addition to the fiscal and structural reform program adopted by the government with the support of IMF in 2016 which aims at putting the public debt to GDP ratio on a downward trajectory whereby public debt growth rate is lower than GDP growth rate.

The Public Debt Management Directorate (PPD) of the Ministry of Finance has developed this strategy in coordination with the Central Bank of Jordan (CBJ) and Ministry of Planning and International cooperation. The debt management strategy has been approved by the Higher Ministerial committee[2].

[1] According to articles no. 21, 22 and 23 of the public debt management law, the ceiling of domestic and external debt to GDP (60%) for each and (80%0 of GDP for public debt. The date of entry into force of the provisions of these articles was postponed until end of 2024.

[2] Higher Ministerial Committee (headed by the Minister of Finance and comprised of the Minister of Planning and International Cooperation and Governor of the Central Bank of Jordan).

Objective of Debt Management

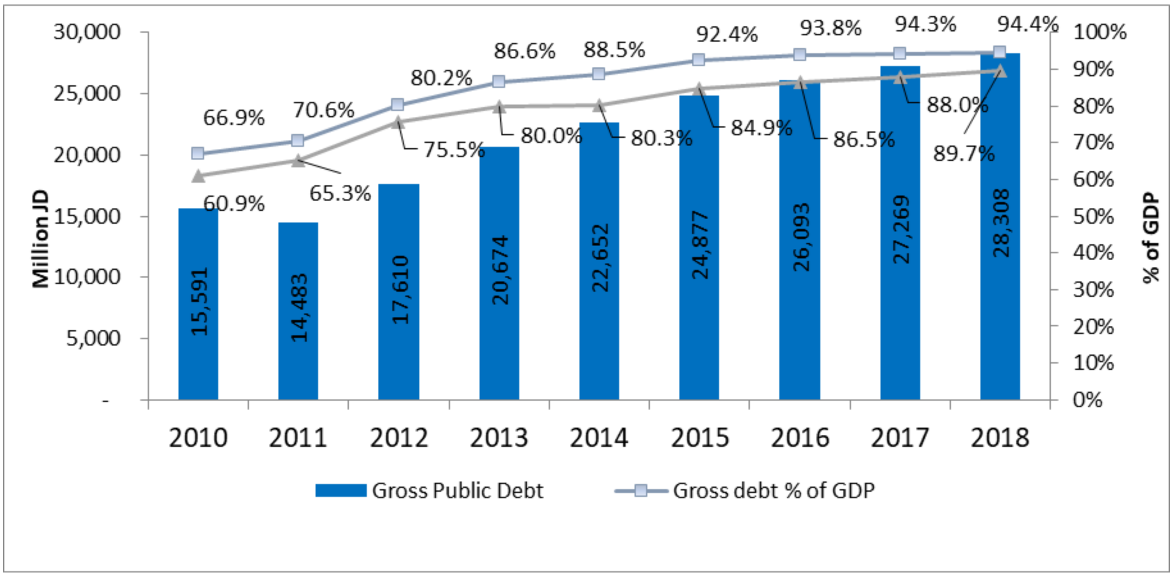
The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at all times, at the lowest possible cost over the medium to long run and consistent with prudent, acceptable degree of risk.

A secondary objective is to enhance the primary market of government securities by expanding the investor base and diversifying debt instruments, thereby supporting the development of an active market for domestic debt instruments.

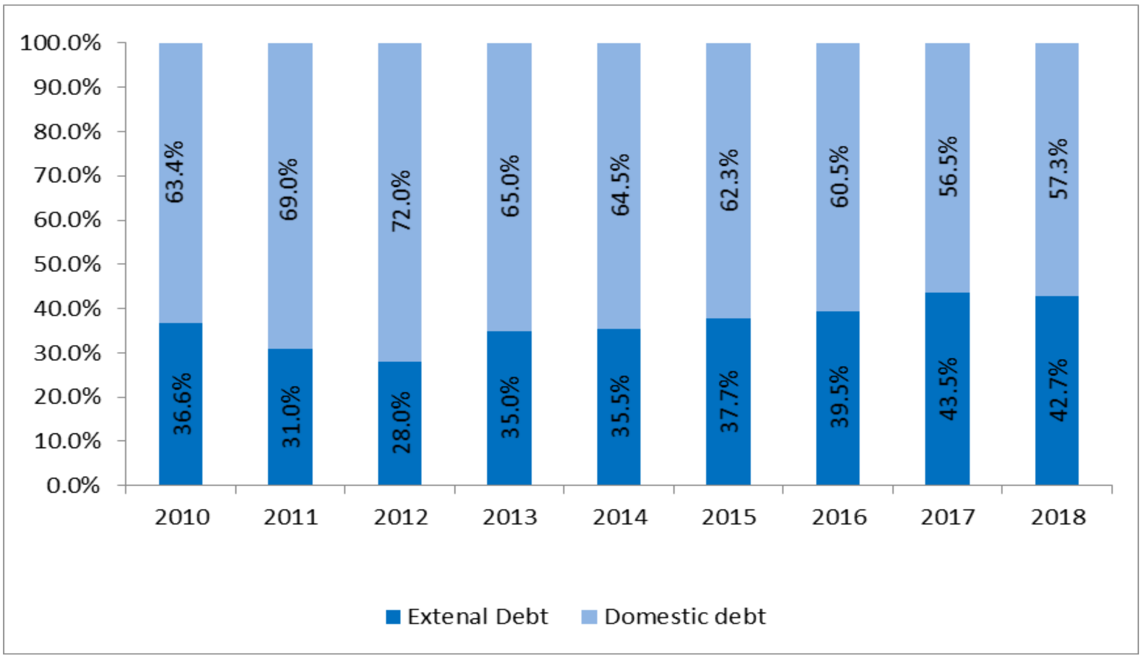
Existing Debt

By the end of 2018, the Gross Public Debt increased and reached JD (28 308) million or 94.4% of GDP compared to JD (27 269) million or 94.3 % of GDP at the end of 2017.

The total government's cash deposits are subtracted from Gross Debt to calculate the Net Public Debt. The net public debt to GDP reached 89.7% of GDP at the end of 2018 compared to 88.0% at the end of 2017.



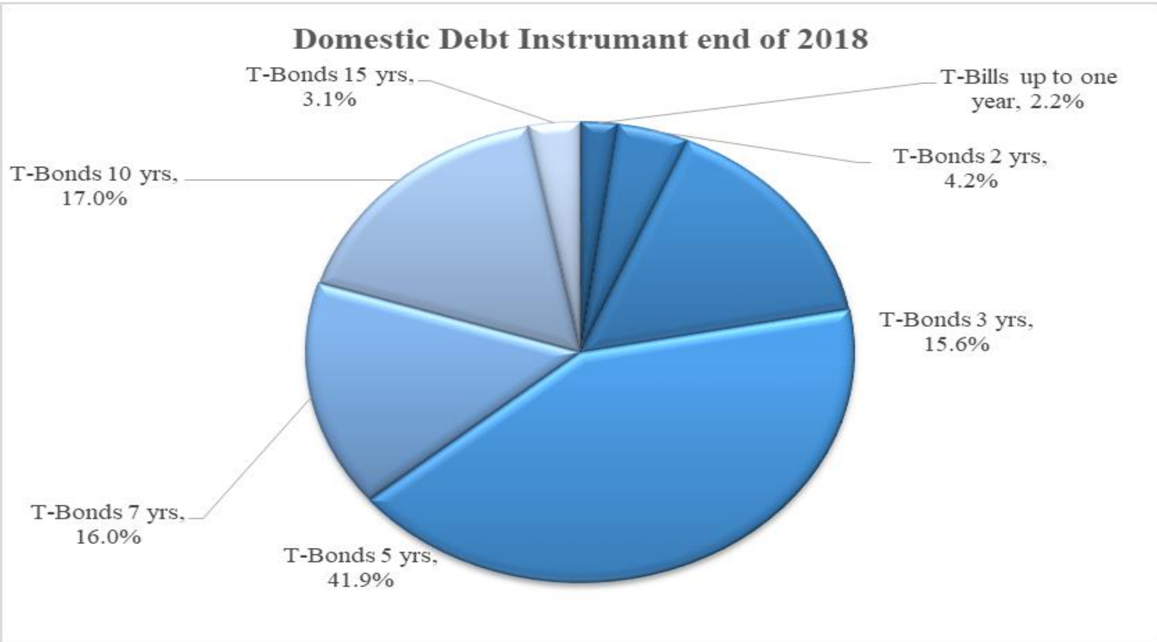
The domestic debt constitutes the main portion of debt portfolio reaching 57.3% at the end 2018, while the external debt was 42.7% at the same period.



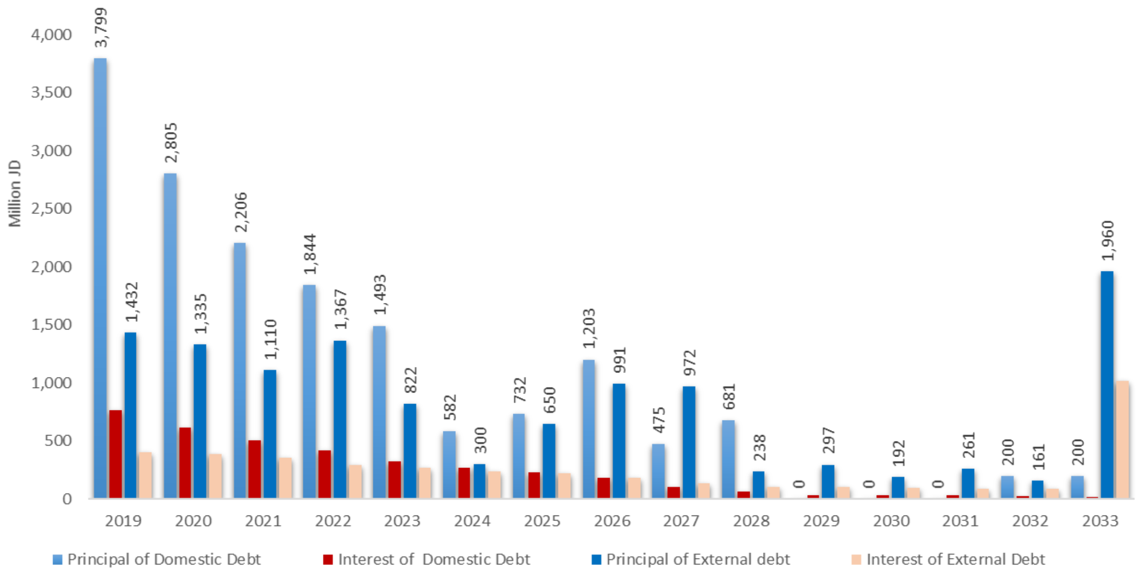
*The distinction between domestic and external debt is according to currency denomination, not residency of the investor.

By currency, Gross Public Debt is composed of 57.3% in JD, 34.3% in USD, 5.4% in EUR and 3.0% in JPY.

The Treasury bills and bonds with tenor of 2, 3, 5, 7, 10 and 15 years represent the largest portion of public debt.



Amortization schedule of public debt as of end -2018:



The main characteristics of the debt portfolio and the cost and risk indicators of the existing debt as follows:

End of 2018	**Gross Domestic Debt**	**External debt (FX)**	**Gross public debt**	***Comments***
Gross Debt in million JD	16,220.8	12,087.5	28,308.3	• *Domestic debt dominates the debt portfolio*
% of GDP	54.1	40.3	94.4	
Refinancing risk				• *The domestic debt profile has a short ATM & ATR which means that debt serving payments and consequently budget deficit are highly exposed to domestic interest rates*
Average Time to Maturity (years)	3.6	7.9	5.4	
Debt maturing in one year (%)	23.6	12.3	18.8	
Debt maturing in 2 years (%)	38.7	23.3	32.2	
Interest rate risk				• *Low cost on external debt, relatively high cost on domestic debt*
Average time to re-fixing (ATR) (years)	3.6	7.0	5.3	
Weighted average of interest rate	4.7	3.4	4.1	
FX risk				• *The main portion of FX is in USD and the JD is pegged to USD.*
FX debt as % of Gross debt		42.7		
Short term FX debt as % of reserves		16.5		

Mamanagement of contingent liabilities (guaranteed debt)

According to article no (18) of Public Debt Management law no .26 for 2001 “The Government shall not provide financial guarantees for any party except in exceptional and justified cases for investment related to the projects of national interest and Government entities provided that the Council of Ministers, upon recommendations from the Minister (Minister of Finance), approves the issuance of such guarantees. “

The current government policy for guaranteed is limited to Energy (National Electric Power Company (NEPCO)) and water sector (Water Authority of Jordan (WAJJ)) debt (1). The guarantee is providing case by case according to yearly financing budget of own budget agencies law.

This update of MTDS strategy take on consideration the financing needs of WAJ and NEPCO and the potential financing source and analyzing the effect of such guaranteed debt on the debt portfolio and the MTDS objectives.

The analyzing process for the potential financing source for NEPCO include studying the effect of disbursement of the new borrowing on the public debt portfolio and the quarterly debt ceiling under the IMF reform program.

Also, the analyzing including participate in studying the lending offers from commercial banks for financing the needs of NEPCO and raise the recommendations to the decision makers at ministry of finance.

For Water sector browning, from the beginning of 2018 ministry of finance is responsible for managing WAJ debt and the financing needs is now part of central government debt, so we analyze the effect of borrowing by studying the options of using the domestic debt instruments T-bonds with short term or long term on the cost of borrowing and the MTDS objectives.

The same policy will be applied on the Public Private Partnership “PPP” projects (which now is very limited).

(1) The outstanding of guaranteed debt (domestic & external) to NEPCO & WAJ (excluding MoF cash advances) was JD 3850 million at end of 2018 compared to JD 2724 million in 2012.

Analysis of alternative financing strategies

Based on the existing debt portfolio and assumption about the primary deficit, the financing needs of the central government and government guaranteed debt to own budget agencies, several borrowings strategies were tested through simulation against market shock scenarios. The impact of these shocks are compared with the baseline strategy and the difference is used as the measure of risk.

Susceptibility to risk	**Gross domestic debt**	**External Debt**	**Gross Public Debt**	***Comments***
Exchange rate risk exposure to the budget	Low	Low	Low	Low interest rate means that even a substantial depreciation will have limited budget effect
Exchange rate risk exposure to the size of debt	Low	Low	Low	The pegged exchange rate policy means that the exchange rate risk is low
Refinancing risk	High	Low	Medium	External portfolio has longer redemption profile. Domestic debt repayments are concentrated in the short to medium term.
Interest rate risk	High	Low	Low	Vulnerability to domestic debt stems primarily from the short maturities.

With stability of macroeconomic projections and relatively inactive domestic secondary market unchanged, the main risk factors are the refinancing risk which is addressed by re-profiling the short-term nature of short-term domestic bonds into medium to long term ones and issue more international bonds with long term tenor, decrease the percentage of debt due in one year and maintaining comfortable levels of foreign currency reserves.

Environment for debt management 2019 - 2023

The domestic market

Domestic interest rates have increased significantly since December 2018. The Central Bank of Jordan (CBJ) has raised interest rates on its instruments on four occasions for a total of 100 basis points during 2018 (three times for monetary policy instruments and one for overnight Deposit Window Rate), this in line with both local and international monetary and economic developments, most notably the US Federal Reserve Bank having raised policy rates in the United States on four occasions for a total of 100 basis points. CBJ did not raise the interest rates during the past four months of 2019.

Regarding expectations for the remaining period of 2019 and the years of 2020 – 2023, interest rates are expected to rise slightly, as a result of expectations that the US Federal Reserve will follow less contractionary monetary policies than expected in the light of the slowdown in global economic growth and growing fears of the possibility of sliding towards recession and the subsequent decline in interest rates.

Macroeconomic environment

The performance of the Jordanian economy during the year 2018 was affected by the continuing uncertainty in the region, which contributed to decline in the flow of foreign direct investment to the Kingdom, and the slowdown in the extractive sector due to the global demand. The real economic growth was 1.9% in 2018compared to 2.1% in 2017 .The general price level, measured by the consumer price index (CPI), rose by 4.5% against a rise of 3.3% in 2017, driven by a combination of internal and external factors. Domestic factors were price and fiscal measures taken by the government in early 2018, notably the liberalization of bread prices and the rising the general sales tax for a number of goods and services that were exempted or under 4% or 0% to 10%. While the rise in oil prices in the world markets is one of the main external factors that affected the domestic prices. The budget deficit after aid fell by 0.2 percentage points to 2.4 percent as a percentage of GDP in 2018, from 2.6 percent in 2017. The current account balance of payments deficit also fell to 7.0 percent of GDP in 2018, Compared with 10.6% during 2017.

On the monetary and banking level, monetary and banking policy of the Central Bank by the year 2018 has been marked flexibility and responsiveness to local, regional and global economic developments, in order to maintain the pillars of monetary and financial stability, including stability of the Jordanian dinar and the strength of the banking system. Foreign reserves, which maintained comfortable levels at around USD 11.5 billion and by adding the balance of gold ($ 1.8 billion) and Special Drawing Rights ($ 32.1 million), the total balance of foreign central bank reserves at the end of the year 2018 becomes amounted to USD 13.4 billion compared to USD 14.4 million at end of 2017. This level of reserves is equivalent to cover 7.3 months of Kingdom’s imports of goods and service.

The debt management strategy is based on the macroeconomics context as at the end of 2018 and is in line with IMF’s latest expectation (Feb 2019) for inflation, budget deficit and other fiscal indicators, whereas Jordan committed with economic reform program (Extend Fund Facility (EFF)) with IMF, the main objectives of this program is reducing the primary deficit of central government by adopting fiscal measures for both side of budget (revenues and expenditures) with inclusive growth considerations which will help the government to reduce the financing needs and putting the percentage of debt to GDP on downward path.
Besides that, the government will enhance the quality, planning and effectiveness of debt management of the central government, NEPCO and WAJ.

The expectations for macroeconomics as follows:

Macroeconomic Indicators (IMF report Feb. 2019)	**Actual**		**Projected**				
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Nominal GDP (million JD)	28,903	29,984	31,378	32,934	34,635	36,495	38,529
Nominal GDP Annual Growth (%)	3.9	3.7	4.4	5.0	5.2	5.4	5.6
Official international reserves (million USD)	14,392	13,292	14,302	15,865	17,411	18,305	19,306
In months of prospective imports	8.1	7.3	7.0	7.5	7.9	8.0	8.2
Government revenues including grants (million JD)	7,245	7,840	8,285	8,650	8,993	9,291	9,630
Government revenue (million JD)	6,717	6,945	7,685	8,089	8,470	8,863	9,293
Grants (million JD)	708	895	600	561	523	428	337
Government expenditure (million JD)	8,173	8,567	9,156	9,779	10,356	10,712	11,325
Overall balance (deficit) including grants	-748	-728	-871	-1,129	-1.363	-1,421	-1,695
Additional measures needed	0	0	0	235	606	1,056	1,126
Overall balance (deficit) including grants & measures (million JD)	-748	-728	-871	-894	-758	-365	-569

London conference initiative outcome especially, the concessional funding and grants will help the government of Jordan to meet the external obligations during the next five years and mitigation the cost of borrowing and that will participate in reducing the primarily deficit and the government financing needs and achieving the debt management strategy objectives.

The external financing expectations for 2019 -2023 as follows:*

(In millions of U.S. dollars)

	2019	2020	2021	2022	2023	2019-23
Budget support	**3,044**	**2,019**	**1,268**	**881**	**616**	**7,829**
Grants	**870**	**819**	**774**	**661**	**516**	**3,640**
European Union	94	31	22	15	7	169
Saudi Arabia (2018 financing package)	50	50	50	50	0	200
United Arab Emirates (2018 financing package)	50	50	50	50	0	200
GCC grants transferred from CBJ to MOF 3/	159	162	116	28	0	465
United States	475	475	475	475	0	1,900
Other 2/	42	51	61	43	509	705
Loans	**2,175**	**1,200**	**494**	**219**	**100**	**4,188**
Multilateral	**1,407**	**657**	**100**	**0**	**0**	**2,164**
Arab Monetary Fund	100	100	100	0	0	300
Islamic Development Bank	26	27	0	0	0	53
World Bank, *of which:*	1,281	531	0	0	0	1,811
Saudi Arabia and UAE loan guarantees	200	200	0	0	0	400
Bilateral	**768**	**543**	**394**	**219**	**100**	**2,024**
European Union	114	116	117	0	0	347
France	118	119	119	119	0	476
Germany	185	58	58	0	0	301
Japan	200	100	0	0	0	300
Kuwait	100	100	100	100	100	500
Saudi Arabia	25	25	0	0	0	50
United Arab Emirates	25	25	0	0	0	50

* IMF estimation & projections March 2019.

The strategy

The debt management strategy 2019-2023 can be summarized as follows:

- Continue reliance on external debt sources especially borrowing in USD to cover the portion of the borrowing needs with target to increase the FX as % of total debt.
- Extend the average maturity of domestic debt by issuing debt instrument with long term maturity (3, 5, 7, 10 and 15 years) taking market conditions into consideration.
- Decrease the share of debt maturing within one year.
- Issue Islamic Sukuk to diversify the financing sources and expand the investor base in government debt securities.
- Decrease percentage of gross debt to GDP from 94.4% in 2018 to 88.0% in 2023.*

Targets of the debt strategy end of Year five 2023[1]

	Current	2023
Refinancing risk		
ATM external debt (years)	7.9	6.9
ATM domestic debt(years)	3.6	4.5
ATM public debt	5.3	5.5
Interest rate risk		
Debt maturing in 1 year as % of total debt	18.8	14.6
FX risk		
FX debt as % of total	42.7	51.8
Short term FX debt as % of reserves	16.7	5.6

*Fiscal target subject to implement the fiscal reform program (Extend Fund Facility (EFF)) with IMF.

(1) The estimates above are subject to market conditions and large number of assumptions about the dynamics of macroeconomic and financial variables in the next five years and depends on IMF reports of Feb 2019.

Reporting

The Ministry of Finance will continue publishing monthly statistical reports with detailed information on borrowing activities, outstanding debt and guarantees.

In addition, an annual report with analysis and evaluation of strategy implementation, including risks related to outstanding debt and guarantees, including contingent liabilities arising from PPPs, will be published starting from early 2020.