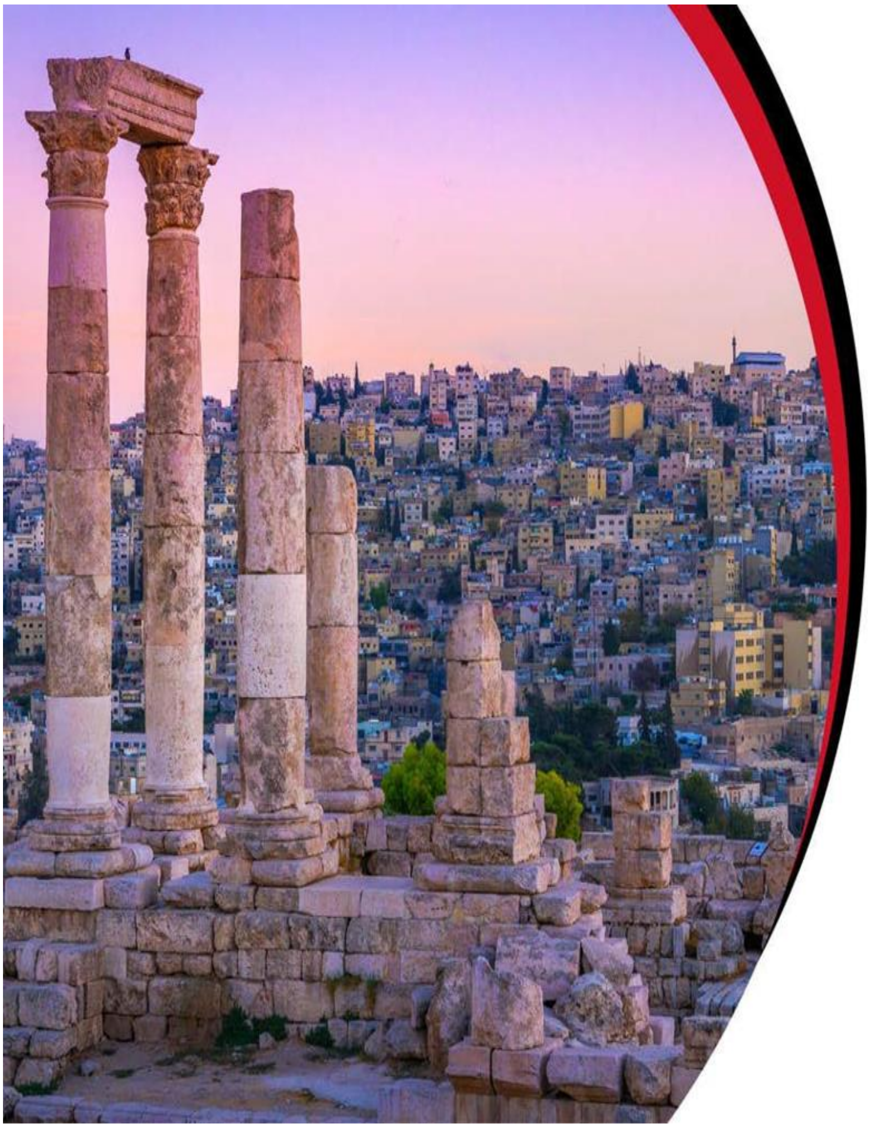
The Hashemite Kingdom of Jordan
Ministry of Finance



MEDIUM TERM DEBT MANAGEMENT STRATEGY

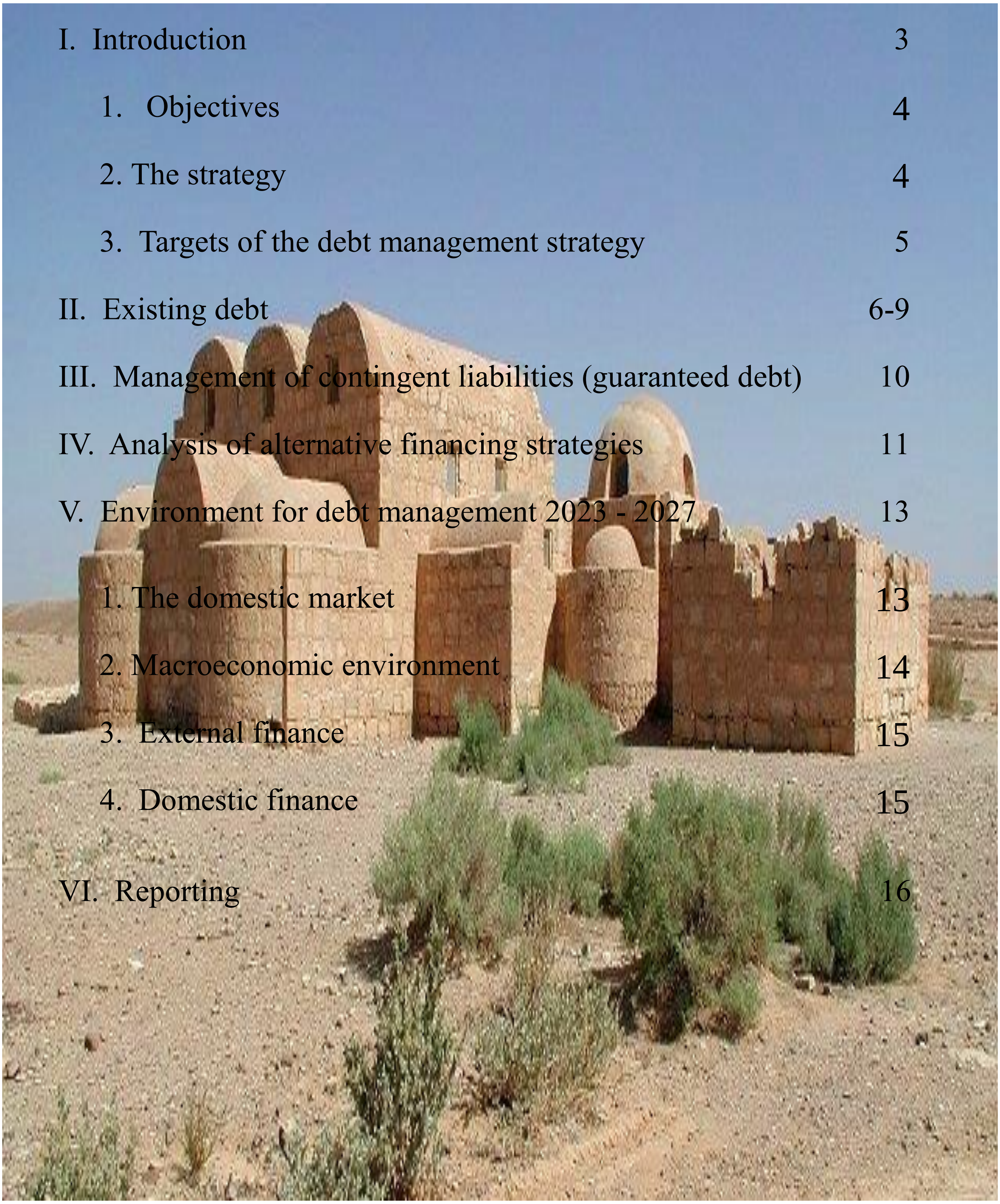
(2023-2027)

Public Debt Directorate

Statistics and Strategies Division

2023

Table of Contents



I. Introduction

A medium term debt management strategy (MTDS) 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 debt serviced by the Central Government. This debt measure includes the Budgetary Central Government Debt and the SOE Debt currently serviced by the Central Government.

In addition to that, the strategy includes management for contingent liabilities **of publicly guaranteed debt of independent public institutions especially the Electricity sector, and a mechanism for monitoring the Public and Private Partnerships project.**This document represents an update of debt management strategy, which was formulated and published in 2019 and covers the years from 2023 to 2027 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 Economic Modernization Vision 2023 – 2033[2] which was adopted by the government in 2022, in addition to the fiscal and structural reform program adopted by the government with the support of IMF in 2020 aiming 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 strategy was approved by the Minister of Finance.

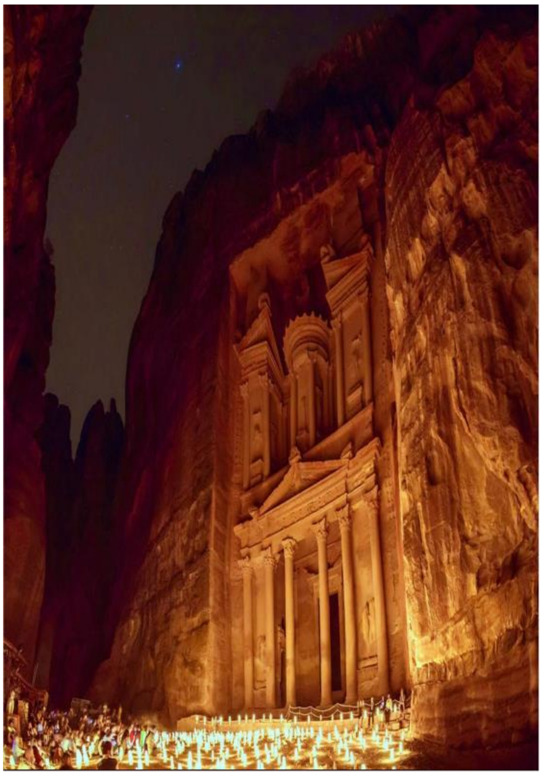
[1] According to articles no. 21, 22 and 23 of the public debt management law, the ceiling of domestic and external debt to GDP (60%) for each and (80%) of GDP for public debt. The date of entry into force of the provisions of these articles was postponed until end of 2024.

[2]The Economic Modernization Vision was based on three main pillars: accelerated economic growth (unleashing Jordan's full economic potential), quality of life (improving living standards), and sustainability (raising Jordan's ranking in the Global Sustainability Competitiveness Index.

I.1) Objectives of Debt Management Strategy.

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.



I.2) Strategy

The debt management strategy 2023-2027 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 foreign currency (FX) borrowing as % of total debt.

- Extend the average maturity of domestic debt by issuing debt instruments with long term maturity (3, 5, 7, 10 and 15 years), depending on market conditions.

- Decrease the share of debt maturing within one year.

- Diversify the financing sources and expand the investor base in government debt securities by the following initiatives:
  - Issue green bonds or green sukuk: supported by the World Bank technical assistance, during 2024 – 2025, the government aims to develop the first sovereign green bond or green sukuk in Jordan and the respective broader green bond (green sukuk) program. Also, in the medium term, a green loan or a wider spectrum of thematic bonds can be considered.

  - Issue Islamic Sukuk.

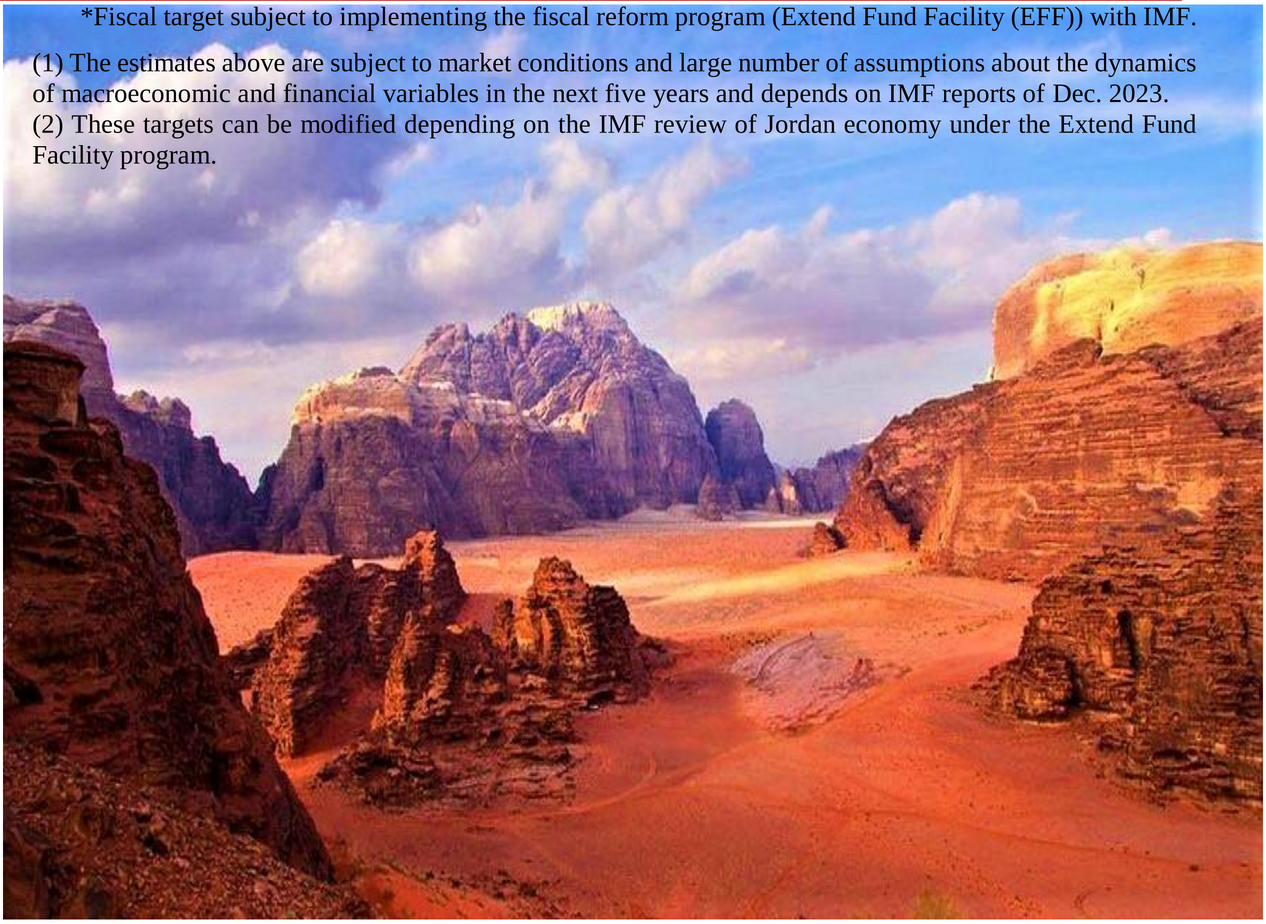
- Decrease percentage of gross debt to GDP to 82.6% in 2027.*

I.3) Targets of the debt management strategy end of Year five 2027(1)

	Current	Indicative 2024	Indicative targets 2027
Refinancing risk			
Average time to maturity (ATM) external debt (years)	8.3	8.0	7.2 (minimum) – 7.4
ATM domestic debt(years)	4.3	4.1	4.1 (minimum) – 4.3
ATM public debt (years)	6.4	6.1	5.3 (minimum) – 6.0
Interest rate risk			
Debt maturing in 1 year as % of total debt	15.7	12.7	13.1 (minimum) – 20.4
FX risk			
FX debt as % of total	43.9	51.9	47.5 - 56.4
Short term FX debt as % of reserves	19.1	5.5	15.6

*Fiscal target subject to implementing 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 Dec. 2023.
(2) These targets can be modified depending on the IMF review of Jordan economy under the Extend Fund Facility program.



II) Existing Debt

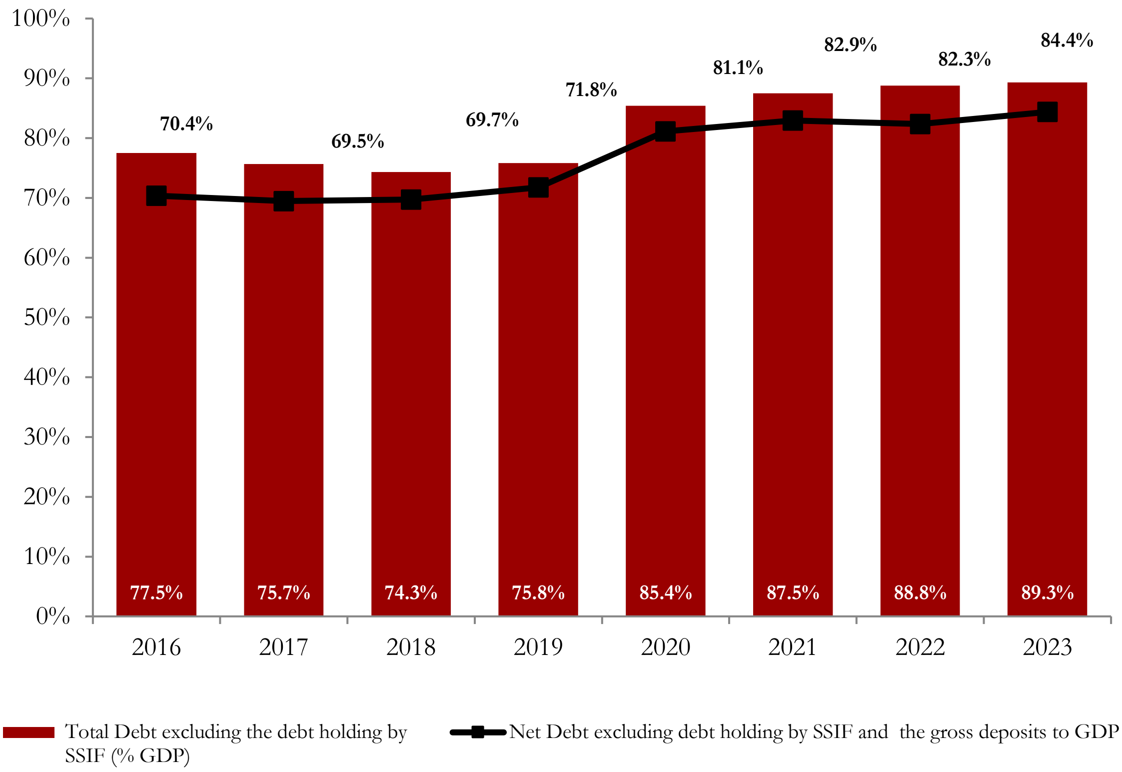
The gross debt (budgetary and guaranteed) has been consistently increasing for at least a decade, a consequence of a government's policy of successive primary deficits; increasing government's financing needs and needs of own-budget units, especially for National Electric Power Company (NEPCO) and Water Authority of Jordan (WAJ); repayment of loans of government arrears adjustment, and continuing guaranteed debt of energy sector.

By the end of 2023, the Gross Debt, excluding the debt holding by Social Security Investment Fund (SSIF), increased and reached JD (32 289) million or 89.3% of 2023 GDP compared to JD (30 668) million or 88.8% of GDP of 2022 and JD (28763) million or 87.5 % of GDP at the end of 2021.

In 2021, as a result of the COVID-19 pandemic and the necessary actions taken by the government to mitigate the pandemic's economic and social impacts, the debt to GDP reached 87.5% compared 75.8% in 2019.

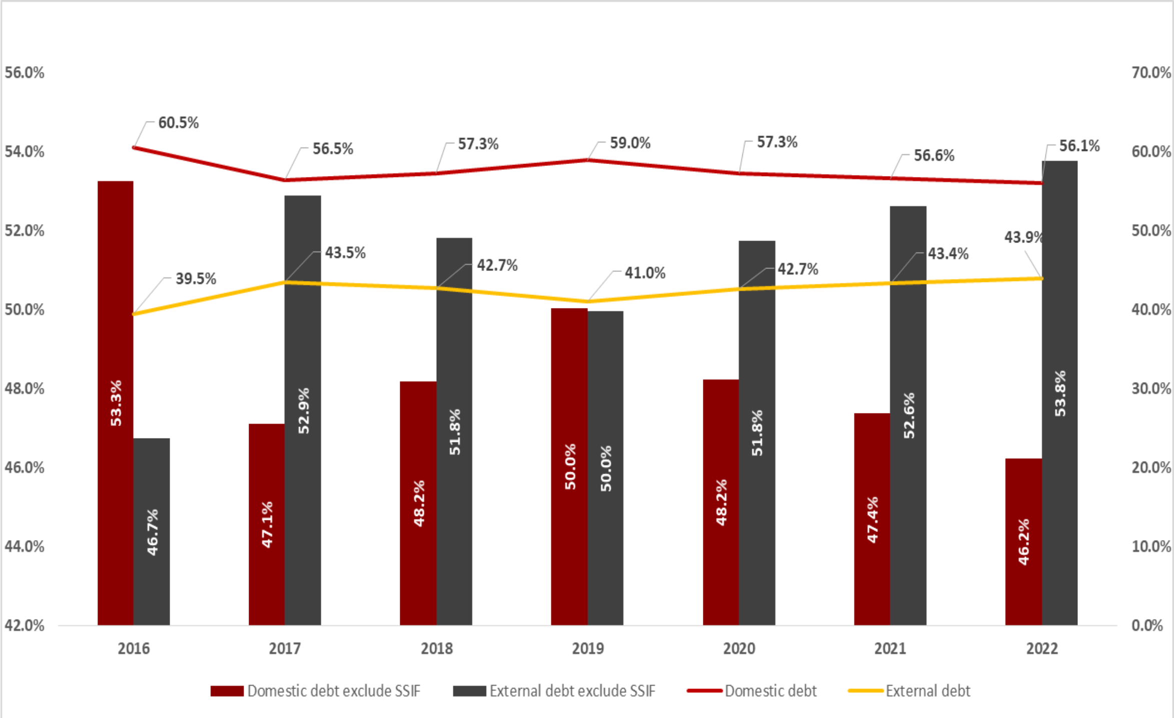
The total government's cash deposits are subtracted from Gross Debt to calculate the Net Public Debt. The net public debt to GDP reached to 84.4% at the end of 2023 compared to 82.3% of GDP at the end of 2022, and 82.9% of GDP at the end of 2021.

Figure no.1: Gross and net debt to GDP



The domestic debt constitutes the main portion of debt portfolio reaching 56.1% at the end 2022, while the external debt was 43.9% at the same period.

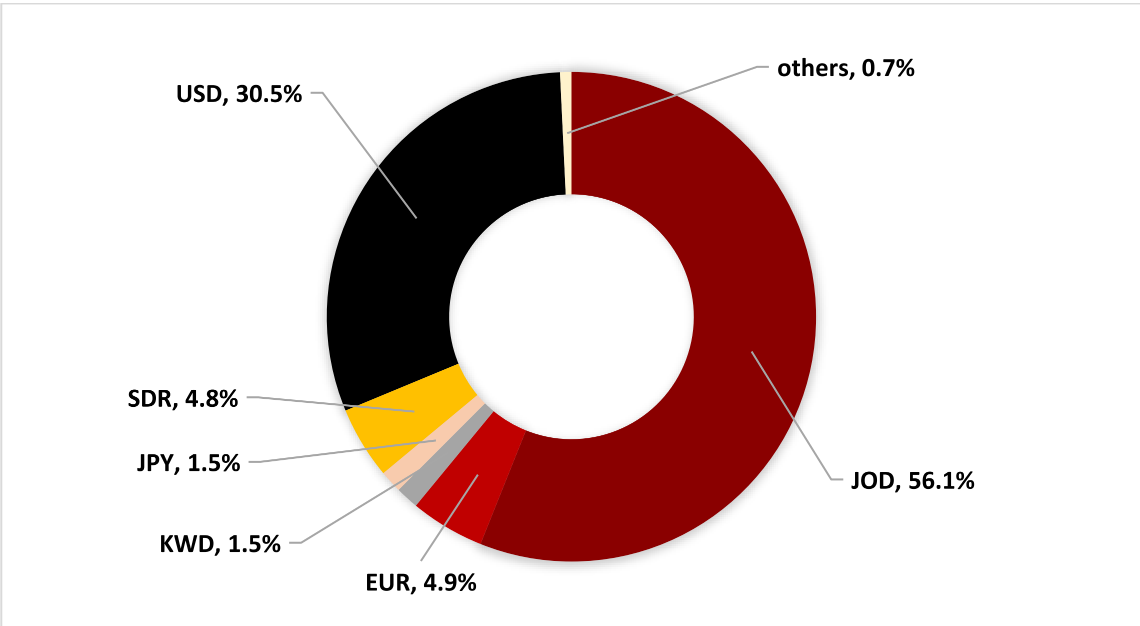
Figure no.2: Debt by source of funding



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

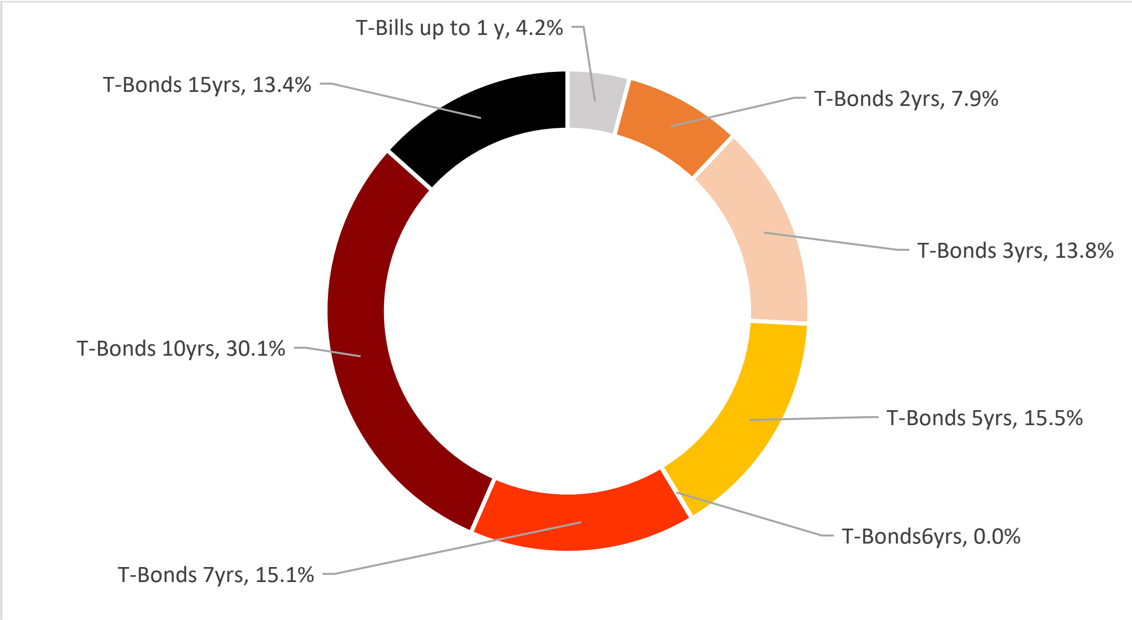
By currency, Gross Public Debt is composed of 56.1% in JD, 30.5% in USD, 4.9% in EUR, 4.8% in KWD and 1.5% in JPY, and the rest in other currencies.

Figure no.3: Debt by Currency end of 2022



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

Figure no.4: Domestic Debt by source (and tenor) of funding end of 2022



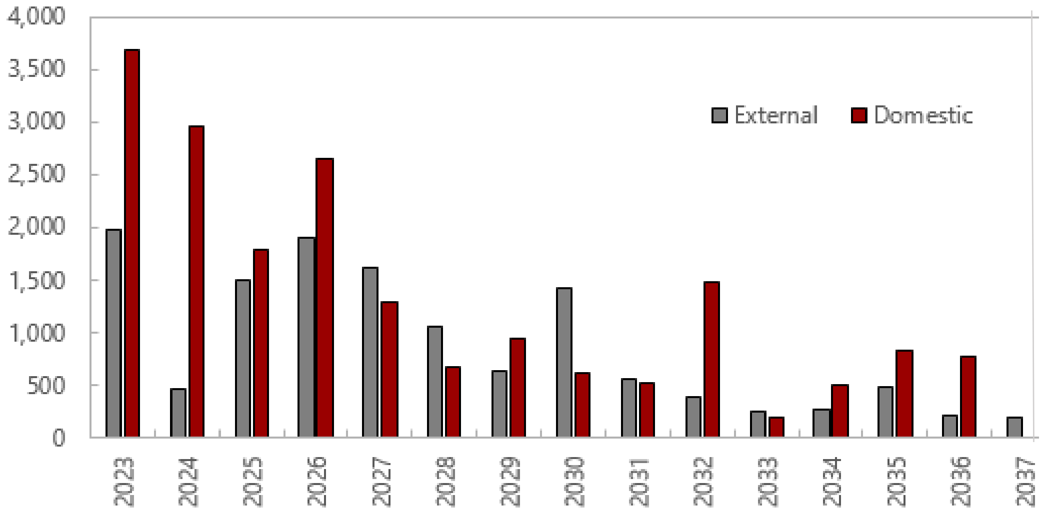
Average maturity of debt:

The government succeeded in gradually lengthening the average life of the debt to reduce refinancing risk. The average maturity of domestic debt reached to 4.3 years in 2022 compared to 4.5 years in 2021 and 1.9 years in 2013.

Figure no.5: Average maturity of Debt

Figure no.6: Amortization schedule of public debt as of end 2022:

JD million



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

End of 2022	Gross Domestic Debt	External debt (FX)	Gross public debt	*Comments*
Gross Debt exclude debt holding by SSIF (in million JD)	14,179	16,489	30,668	
% of GDP	41.1	47.7	88.8	• *Domestic debt include debt holding by SSIF dominates the debt portfolio.*
Gross Debt include debt holding by SSIF (in million JD)	**21,579**	**16,911**	**38,490**	
% of GDP	**62.5**	**48.9**	**111.4**	
Refinancing risk				
Average Time to Maturity (years)	4.3	8.6	6.3	• *The domestic debt profile has a short ATM & ATR (average time to re-fixing) which means that debt serving payments and consequently budget deficit are highly exposed to domestic interest rates*
Debt maturing in one year (%)	19.6	11.6	15.7	
Interest rate risk				
Average time to re-fixing (ATR) (years)	4.6	6.1	5.3	• *medium cost on external debt, relatively high cost on domestic debt*
Weighted average of interest rate	5.3	3.9	4.7	
FX risk				• *The main portion of FX is in USD and the JD is pegged to USD.*
FX debt as % of Gross debt		43.9		
Short term FX debt as % of reserves		19.1		

..

III. Management 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 debt is limited to Energy (National Electric Power Company, NEPCO) and Water sector. The guarantee is provided on a case-by-case basis subject to the annual financing budget as determined by the respective agencies' budget laws.

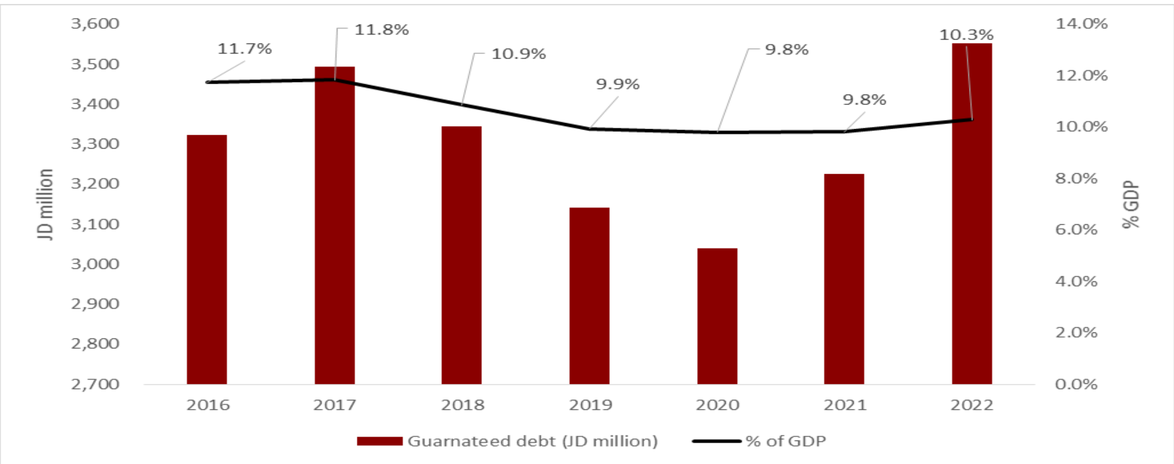
This update of MTDS strategy considers the financing needs of NEPCO, potential financing sources, and analyzes the effect of such guaranteed debt on the debt portfolio and the MTDS objectives.

The analysis for the potential financing source for NEPCO includes studying the effect of disbursement of the new borrowing on the public debt portfolio and the quarterly debt ceiling under the IMF reform program. It also considers the lending offers from commercial banks for financing the needs of NEPCO and raise the recommendations to the decision makers at Ministry of Finance.

When it comes to water sector borrowing, since the beginning of 2018 the Ministry of Finance is responsible for managing the Water Authority of Jordan's (WAJ) debt and its financing needs are now part of central government debt. Therefore, the Ministry of Finance analyzes the effect on the cost of borrowing within the short and long term and MTDS objectives, by studying the options of using the domestic debt instruments T-bonds.

The same policy will be applied on the Public Private Partnership "PPP" projects (which currently are very limited).

Figure no.7: Guaranteed debt to GDP from 2013- 2022



IV. Analysis of alternative financing strategies

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

The following four strategies have been identified and complied using MTDS tool:

Strategy no.1 (base scenario) (S1): aims to preserve the current structure of the public debt portfolio in terms of debt instruments over the medium-term.

Strategy no.2 (S2): aims to achieve the Government of Jordan's planned borrowings in 2023 committed under the EFF, and prolong them over the medium term.

Strategy no.3 (S3): aims to further develop markets for domestic (JOD-denominated) securities, increase issuance with 2- 3 years.

Strategy no.4 (S4): seeks to further support markets for long-term securities—both domestic and external:

- Increase external borrowing share by issuing Eurobonds with maturity 5-7 years and increase concessional borrowing from multi and bilateral donors.
- Decrease domestic bonds' share, decrease T-bills issuance, decrease 2-3 years bonds and increase issuance with maturity of 5 and 7 years.

Shock Scenarios:

Within the framework of the MTDS, the Debt Department also assessed the cost-risk implications of alternative financing strategies under several shock scenarios. Shock scenarios include:

- An increase in interest rates.
- Exposure to foreign exchange rate risks (changes in foreign currency).
- Decrease of GDP nominal growth by 1.0 point.

Strategy Simulation Results

Under GDP growth shock (decrease by 1%), the debt to GDP for all strategies will increase above 86% (under S4, the debt to GDP is 86.1% in 2027).

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	Medium	Medium	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, issuing more international bonds with long-term tenor, decreasing the percentage of debt due in one year and maintaining comfortable levels of foreign currency reserves.

V. Environment for debt management 2023 - 2027

V.1) The domestic market

Considering the inflationary pressures witnessed by the world after the Covid-19 pandemic, central banks tightened their monetary policies to contain these pressures. The Central Bank of Jordan, starting at the end of 2022 first quarter, moved toward tightening monetary policy, raising interest rates since then 11 times (by 500 bps on all monetary policy instruments, and 525 bps on the overnight window rate). The reason behind these decisions is to maintain the monetary stability, which represents the main goal of the Central Bank of Jordan as specified in its law, in addition to contain the inflationary pressures resulting from factors related to domestic demand, which led to keep inflation rates at acceptable levels compared to other countries in the region and the world. The inflation rate in Jordan reached 4.2% at the end of 2022, decreased to 2.2% during the first 10 months of 2023.

The monetary policy of the central bank, and its credibility in maintaining the monetary stability, contributed to enhancing the confidence in national economy, which recorded a growth of 2.7% during the first half of 2023, after recording a growth of 2.4% during 2022, driven by a performance of the external sector that exceeded expectations, especially the tourism sector, which achieved a growth of 110.5% during 2022, and 34.7% during the first 10 months of 2023.*

Likewise, the monetary and banking sector showed a strong performance; the total foreign reserves at the end of October 2023 amounted to USD 17.5 billion, covering 7.7 months of the Kingdom imports of goods and services. Also, the deposits in banks increased (on an annual basis) by JD 1.5 billion (3.5%) at the end of September 2023, reaching JD 43.3 billion. Credit facilities granted by banks increased (on an annual basis) by about JD 1.3 billion (4.7%).

The financial soundness indicators reveal that the national economy has a strong and solid banking system, capable of withstanding shocks of all kinds, especially because of the high capital adequacy levels that reached 17.4 % at the end of 2023 first half (this level is among the highest in the MENA region), higher than the minimum level set by CBJ at 12%, and the minimum set by Basel III Committee which is 10.5%. The liquidity ratios amounted to 135.4%, exceeding the 100% barrier set by the central bank.

***** Despite the slowdown in activity in the last quarter of 2023 following the start of the Israel–Gaza war, Jordan's economic performance has continued to be strong, building on the success of the previous IMF program and reflecting sound macro-economic policies. Jordan's economy is proving to be resilient, with economic growth having reached 2.6 percent in 2023.

In the first quarter of 2024, the number of tourists decreased, as compared to the corresponding period in 2023 and above the target by 10.6%. The decrease was due to Gaza war, reduction of routes by Rayan Air and Ramadan.

The nonperforming loans to total loans ratio reached 5.0% at the end of 2023 first half, despite the challenges that the national economy has experienced, which is a low percentage and within a manageable level. The coverage ratio of nonperforming loans reached 78.4% at the end of 2023 first half. The stress tests conducted by the Central Bank, which measure the ability of banks to withstand shocks, showed that our banking system is resilient and generally able to withstand shocks and high risks, assuming the worst scenarios, thanks to the it's high capital and the quality of the assets.

Tests also revealed that the capital adequacy ratio for the banking system will remain comfortably above Jordan's minimum requirements and Basel Committee standards.

V.2) Macroeconomic environment

The debt management strategy is based on the macroeconomics context as at the end of 2022 and is in line with IMF's latest projections (Dec. 2023) 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 sides of the 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 macroeconomic projections are as follows:

Macroeconomic Indicators (IMF 7th review Dec. 2023)		**Projected**				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
Nominal GDP (million JD)	34,544	36,151	37,981	40,098	42,334	44,694
Nominal GDP Annual Growth (%)	5.1	4.7	5.1	5.6	5.6	5.6
Official international reserves (million USD)	14,381	13,834	13,918	14,763	16,248	18,158
In months of prospective imports	6.9	6.6	6.6	6.6	6.8	7.0
Government revenues including grants (million JD)	8,914	9,468	10,192	10,879	11,574	12,396
Government revenue (million JD)	8,122	8,719	9,485	10,218	10,916	11,721
Grants (million JD)	792	749	708	661	658	674
Government expenditure (million JD)	10,914	11,393	12,292	12,957	13,549	13,828
Overall balance (deficit) including grants	-2,000	-1,925	-2,100	-2,078	-1,975	-1,433

The concessional funding and grants will help the government of Jordan to meet the external obligations during the next five years and mitigate the cost of borrowing, which will in turn help reduce the primary deficit and the government financing needs and achieve the objectives of the debt management strategy.

V. 3) External Finance:

The external financing expectations for 2023-2028 in million USD are as follows:*

		2023		2024		2025		2026	2027	2028
	2022	6th Rev	Est.	6th Rev	Proj.	6th Rev	Proj.	Proj.	Proj.	Proj.
Budget grants	**1,104**	**1,769**	**1,776**	**1,651**	**1,741**	**1,497**	**1,553**	**1,549**	**1,458**	**1,320**
EU	105	84	61	80	142	37	154	126	93	0
GCC 1/	105	164	129	74	89	0	71	95	45	0
United States	845	696	845	696	853	685	693	693	685	685
Other 2/	48	825	740	801	657	775	636	636	635	635
GCC grants transferred from CBJ to MOF	**58**	**77**	**77**	**77**	**77**	**0**	**0**	**0**	**0**	**0**
Loans	**1,546**	**1,685**	**1,621**	**1,232**	**1,659**	**819**	**1,635**	**1,100**	**590**	**212**
Multilateral	**745**	**966**	**979**	**865**	**1,177**	**484**	**735**	**696**	**590**	**212**
Arab Monetary Fund	212	212	212	212	212	212	212	212	212	212
Asian Infrastructure Investment Bank	65	85	59	38	85	18	85	80	80	0
EBRD	0	0	0	0	0	0	0	0	0	0
Islamic Development Bank	0	100	0	100	0	0	0	0	0	0
World Bank	468	569	708	516	716	255	329	306	200	0
EIB	0		0		131		110	99	98	0
Other	0		67		33		0	0	0	0
Bilateral	**801**	**719**	**642**	**367**	**482**	**335**	**0**	**0**	**0**	**0**
Canada	15	45	88	0	0	0	0	0	0	0
EU	0	200	222	0	0	0	0	0	0	0
France	192	51	53	105	137	105	0	0	0	0
Germany	0	50	158	105	164	105	0	0	0	0
Italy	21	82	21	32	81	0	0	0	0	0
Japan	100	100	100	0	100	0	0	0	0	0
Kuwait	105	125	0	125	0	125	0	0	0	0
Saudi Arabia	368	66	0	0	0	0	0	0	0	0
UAE	0	0	0	0	0	0	0	0	0	0
Unidentified external budget financing	0		0		0		900	404	608	0
IMF purchases	**525**	**100**	**32**	**124**	**455**	**0**	**264**	**265**	**265**	**0**
Sovereign issuance	**650**	**1,000**	**1,250**	**0**	**500**	**1,000**	**1,250**	**1,250**	**1,250**	**1,250**
Guaranted	0	0	0	0	0	0	0	0	0	0
Non-guaranteed	650	1,000	1,250	0	500	1,000	1,250	1,250	1,250	1,250

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Grants pledged at the 2018 Mecca Summit and USD 300 million grant from UAE disbursed in 2020:Q2 through 2021:Q1.
2/ Includes the grant component from the Concessional Financing Facility and in 2023-25 expected disbursements under new MOUs.

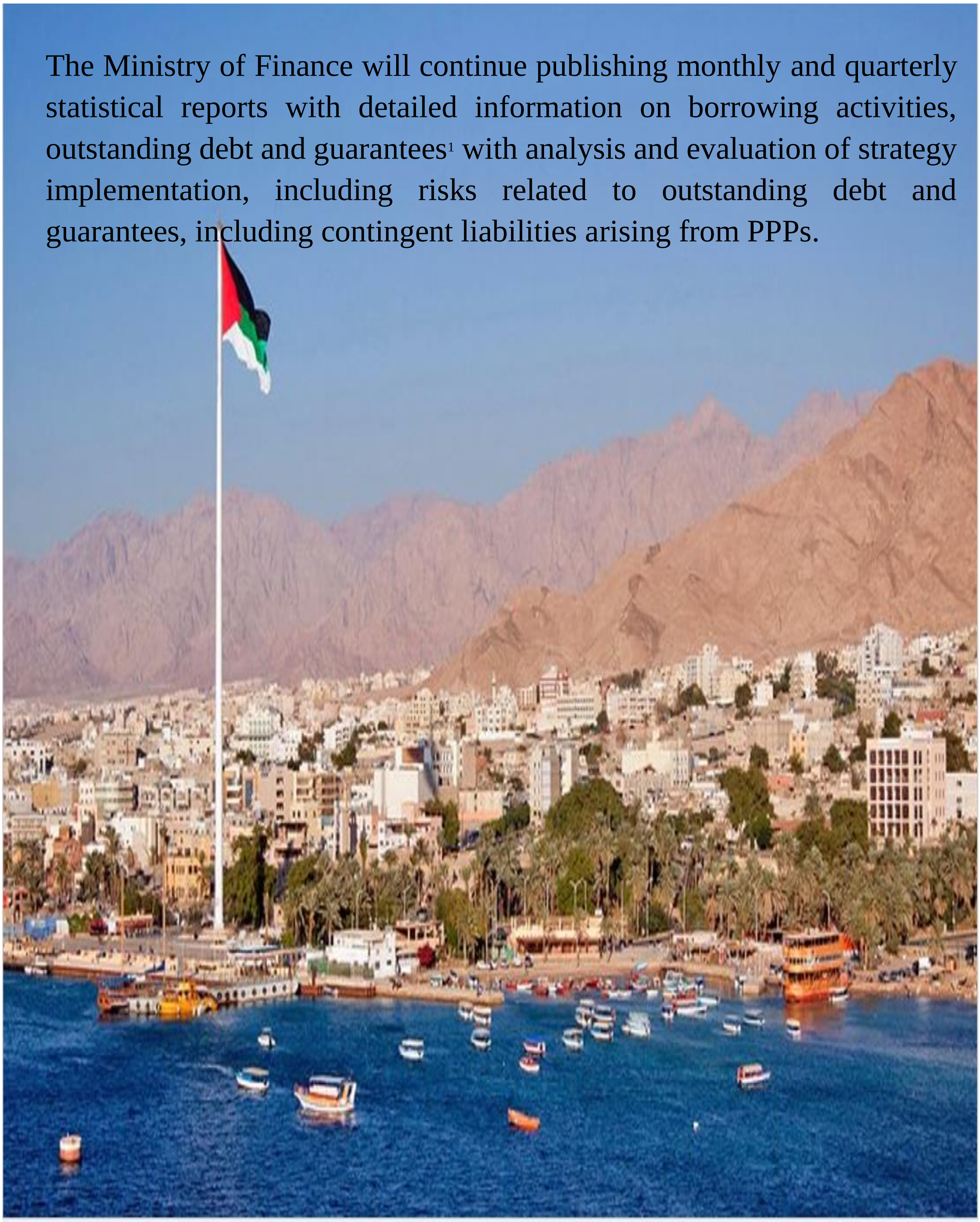
* IMF estimation & projections Jun. 2023.

V.4) Domestic Finance:

The government will continue relying on domestic market to finance the government needs by issuing T-Bills with maturity up to one year and T-Bonds with maturities 2, 3, 5, 7, and 10 years, and potential issuance of Islamic Sukuk depends on government's needs and market conditions.

VI. Reporting

The Ministry of Finance will continue publishing monthly and quarterly statistical reports with detailed information on borrowing activities, outstanding debt and guarantees[1] with analysis and evaluation of strategy implementation, including risks related to outstanding debt and guarantees, including contingent liabilities arising from PPPs.



[1] The link to the report can be found at MOF website through the following link:
https://www.mof.gov.jo/EN/List/General_Government_Finance_Bulletins
https://www.mof.gov.jo/En/List/Public_Debt