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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing macro-financial assistance to the Hashemite Kingdom of Jordan

{SWD(2013) 151 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Grounds for and objectives of the proposal**

Since early 2011, Jordan's economy has been significantly affected by the domestic events related to the Arab Spring and the ongoing regional unrest, notably in neighbouring Egypt and Syria. Combined with a weaker global environment, the political transition of Jordan has taken a heavy toll on external receipts and has strained public finances. Lower tourism and FDI inflows, higher international energy prices and the repeated disruptions to the flow of natural gas from Egypt, which forced Jordan to replace gas imports from Egypt with more expensive fuels for electricity generation, have put a drag on growth and have resulted in a marked deterioration in the balance of payments and fiscal position. Jordan has also been affected by the intensification of the Syria crisis, notably through the inflow of refugees and its fiscal implications. While Jordan has so far managed to date to maintain macroeconomic stability, including through substantial fiscal consolidation efforts and financial support from foreign donors, there are significant balance of payments and financing needs.

Under the pressure of a sharp drop of international reserves in the first half of 2012, the Jordanian authorities have agreed on a USD 2 bn (800% of quota), 36-month Stand-By Arrangement (SBA) with the IMF, approved in August 2012.

In view of the worsening economic situation and outlook, the Jordanian government requested Macro-Financial Assistance (MFA) from the EU in the amount of EUR 200 mn in December 2012. The Commission intends to submit to the European Parliament and the Council a proposal for MFA to the benefit of the Hashemite Kingdom of Jordan amounting to a maximum of EUR 180 mn in the form of a medium term loan. The proposed legal base is Article 212 of the TFEU.

The EU's MFA would contribute towards covering Jordan's residual external financing needs in 2013 and 2014, in the context of the IMF programme. The MFA would help Jordan address the lingering economic consequences of the Arab Spring and the external shocks of its energy sector. It would reduce the economy's short-term balance of payments and fiscal vulnerabilities, while supporting the adjustment and reform programmes agreed with the IMF and the World Bank, as well as the reforms agreed under the EU's budgetary support operations (including the Good Governance and Development Contract operation of EUR 40 mn financed by the *Support for Partnership Reform and Inclusive Growth* (SPRING) programme).

The proposed assistance would promote policy measures to improve public financial management and tax reform while strengthening the social safety net (including through a better targeting of the cash transfers system put in place last November to compensate households for the reform of the energy subsidy system); measures to improve the regulatory framework and climate for investment; and reforms to reduce unemployment and encourage participation in the labour market, notably among women.

The proposed MFA is consistent with the political and financial pledges made by the EU to the Jordanian authorities at the EU-Jordan Task Force meeting in February 2012. It is also in line with the aims of the new partnership for the South Mediterranean region proposed at the G8 Deauville summit and the orientations of the new European Neighbourhood Policy. In the same vein, it would signal to the other countries in the region that the EU is ready to support countries like Jordan, embarking on political reforms, in moments of economic difficulties.

In this context, the Commission considers that the political and economic pre-conditions for a MFA operation of the proposed amount and nature are satisfied.

- **General context**

Jordan has faced worsening economic conditions since 2011 due to the regional and political turmoil associated with the Arab Spring and the weaker regional and global economic environment. These circumstances negatively affected two of the main external drivers of economic growth, namely tourism receipts and foreign direct investment (FDI). In addition, the frequent interruption of gas supplies from Egypt has forced the government to replace gas with more expensive oil imports, which has increased the import bill significantly[1]. These adverse external shocks have contributed to create large fiscal and external imbalances.

In this context, and following a period of robust economic growth averaging 6.5% during 2000-2009, partly reflecting a propitious external environment, GDP growth dropped sharply to 2.6% in 2011. GDP growth picked up moderately to 2.9% in the first half of 2012, following a recovery of tourism receipts and despite the weak performance of the mining and construction sectors. In 2013, GDP growth is projected to be supported by increased FDIs in the energy and banking sectors but remain relatively low (at about 3%).

Consumer price inflation increased moderately in the course of 2012, reaching an average of 4.8%, compared to 4.5% in 2011, as the impact of domestic fuel and electricity tariff increases was partially offset by that of weaker domestic demand. Inflation is expected to rise further to 6.1% on average in 2013, partly as a result of the foreseen energy price adjustments. Since mid-2011, monetary policy has been tightened in order to preserve the attractiveness of JOD-denominated assets. The current fixed exchange rate policy (peg to the USD) has helped anchor inflation expectations.

The external position has worsened markedly since the beginning of 2011 due to the aforementioned shocks. The current account deficit (including grants) reached 12% of GDP in 2011 (19% of GDP excluding grants), up from 7.1% of GDP in 2010 (11.3% of GDP excluding grants), partly due to a 16.6% increase in the import bill. By the end of 2012, it had widened further to 17% of GDP (20.6% of GDP excluding grants), despite a 15.3% increase in tourism receipts (broadly attributed to tourist flows from Arab countries) and a 3.5% increase of remittances. The projection is, however, that the current account deficit excluding grants will narrow down to 12.1% in 2013 in view of stronger export growth and a gradual normalisation of gas supplies from Egypt. The shortfall in FDI in 2011-2012 further deteriorated the external position. Financing needs for 2011-12 were largely met through foreign assistance, in particular form the Gulf Cooperation Council (GCC) countries and the Bretton Woods institutions, and the mobilisation of international reserves, which fell by 14% (to USD 10.7 billion) in 2011 and more dramatically throughout 2012, to reach USD 5.2 billion (just above 3 months of imports) by the end of the year.

[1] Although in mid-January Jordan's Egyptian gas supplies temporarily returned to normal levels after nearly two years of reduced supply (240 million cubic feet per day compared to an average of 40 mcf for most of 2012), they have recently dropped again to one-third of their normal levels, prompting fresh concerns over the security of the country’s primary energy source. Moreover, the renegotiation of the gas supply contract with Egypt has approximately tripled its price.

Public finances have been under strain due to the social expenditure packages adopted in 2011, the budgetary impact of the increase in energy import prices and the economic slowdown. The budget deficit excluding grants increased from 7.7% of GDP in 2010 to 11.7% in 2011, while public debt had risen to 70.7% of GDP by end-2011 (from 67.1% of GDP at end-2010). Although the 2012 budget adopted in February envisaged a large fiscal adjustment compared to 2011, by mid-year it had become clear that this could no longer be possible, reflecting much higher than assumed fuel subsidies, a higher wage bill due to the reform of the civil service, higher pension and health outlays, and spending on housing and medical assistance for Syrian refugees[2]. To mitigate debt sustainability and possible shortfalls in external flows, the government decided in May 2012 to take additional fiscal measures, amounting to 3.4% of GDP. The aim was to lower the overall deficit in 2012 by approximately 1.5 percentage points of GDP (to 10.7% of GDP, excluding grants).

On the expenditure side, fiscal consolidation measures (amounting to 2.9% of GDP) included: the removal of subsidies on gasoline octane 95, jet fuel and heavy fuel oil; a 13% decrease in the subsidy for gasoline octane 90; a 6% increase in the price of diesel; as well cuts in capital spending and current expenditure. On the revenue side, the consolidation effort amounted to 0.4% of GDP and included, inter alia, the introduction of a sales tax on cellular phones and air conditions; the increase in the taxes on cars, air tickets and alcoholic and tobacco products; and the removal of certain tax exemptions.

In early September 2012, the government took the decision to introduce a 6% tax on diesel and to remove subsidies from gasoline octane 90. However, this decision, which is a structural benchmark of the IMF programme, was initially suspended by the King. The liberalization of gasoline octane 90 finally took place in mid-November (together with the lifting of subsidies on diesel, kerosene, and household gas prices), in full alignment with the price adjustment structural benchmark set by the IMF program. Although these measures led to serious social protests in mid-November, the government maintained the fuel price adjustments.

As underlined at the Joint Dialogue on Economic Reforms conducted by the Commission with the Jordanian authorities last October, Jordan has made significant progress in a number of key reform areas. This includes the adjustment of energy prices, plans to diversify the energy supply, measures to raise women's participation in the labour force, schemes to support SMEs access to finance, and the submission to parliament of legislative proposals on income taxation, PPPs and social security reform. However, substantial structural reform challenges have yet to be addressed. Moreover, many legislative proposals remain stuck in parliament and the dissolution of the parliament and organisation of parliamentary elections held at end-January 2013 further delayed their adoption.

On 3 August 2012, the IMF Board approved, as noted, a USD 2 bn (800% of quota) 36-month Stand-By Arrangement (SBA) for Jordan. The programme is relatively frontloaded, with 300% of quota (out of the total of 800%) paid out in the first two tranches (the second tranche is to be disbursed upon completion of the first programme review). The program envisages a package of measures aimed at strengthening growth while reducing vulnerability to exogenous shocks, notably by reforming the energy subsidies system, bringing NEPCO back to cost recovery and promoting energy supply diversification. The program further foresees consolidating the fiscal sector through an effective rationalization of the tax system, improved

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2 Jordan is being seriously affected by the on-going Syrian refugee crisis. With the biggest influx of Syrian refugees (about 180,000 by January 2013) and the fastest growing refugee camp (about 1,000 Syrians crossing Jordanian borders every day), Jordan has been the most affected country in the region at a time the economy is already grappling with severe shortages of water and electricity. Since the outbreak of the Syrian conflict, the budgetary cost of hosting Syrian refugees is estimated to have exceeded EUR 600 mn (about 3% of the Kingdom’s GDP).

tax administration and cuts in expenditure. For 2013, substantial additional fiscal adjustment measures are planned, including increases in diesel and kerosene prices, reductions in tax exemptions and, possibly, increases in excise taxes, with the aim of cutting the fiscal deficit excluding grants to 9.3% of GDP for that year (5.5% including grants).

Based on the latest available IMF projections, the external financing gap for the IMF programme period (2013-2015) is estimated at USD 5.9 billion, essentially reflecting a sizeable (although declining overtime) current account deficit and the need to rebuild official foreign exchange reserves With reserves already at a critically low level at the end of 2012 (just above the minimum benchmark of 3 months of imports, as noted), and Jordan's balance of payments remaining very vulnerable to external shocks, notably further disruptions in gas supplies from Egypt and political developments in the region, the IMF programme aims at a considerable replenishment of official reserves. Net of disbursements under the SBA and the World Bank's Development Policy Loan (DPL), Jordan faces a residual external financing gap of USD 4.1 billion over these three years to be covered by other donors (GCC countries, US, EU, France, and Japan). The proposed MFA from the EU would correspond to about 4.4% of the residual external financing gap.

- **Existing provisions in the area of the proposal**

None

- **Consistency with the other policies and objectives of the Union**

The EU has for long had an interest to engage with Jordan, acknowledging Jordan's stabilizing role in the region as well as its mutual economic and financial links. The contractual relations between the EU and Jordan are framed by the Association Agreement in May 2002, which liberalizes trade between the two parties and foresees the strengthening of our bilateral political dialogue and economic cooperation. Bilateral relations have been further reinforced under the EU's European Neighbourhood Policy (ENP), including through the adoption of a five-year ENP Action Plan in 2005, replaced by a new 5-year Action Plan in 2010, which identifies key reform measures in both the political and economic spheres and promotes Jordan's regulatory convergence with the EU. Moreover, Jordan is the first Mediterranean partner country with whom the EU has concluded technical negotiations leading to an "Advanced Status". It is also a member of the Union for the Mediterranean. Economic ties with the EU are also important. In 2011, the EU was Jordan's first source of imports (20.1%), although it was only the seventh destination of Jordan's exports. And the EU has offered to Jordan, as noted, the negotiation of DCFTA with the goal to increase Jordan's integration into the EU single market.

In sum, while Jordan's road to full democracy is not without difficulties and significant uncertainties remain, the country has taken significant steps towards political and economic reform and there is also a strong framework of bilateral relations between the EU and Jordan.

Since the Arab Spring began, the EU has declared on various occasions its commitment to support Jordan in its economic and political reform process. Indeed, the EU’s commitment to support Jordan’s political and economic reform was the main message of the first EU-Jordan Task Force held in Amman in February 2012.

The MFA proposal is consistent with the EU's commitment to support Jordan's economic and political transition. It is also consistent with the guidelines for the MFA, as provided by the

Council conclusions of 2002 on MFA and the accompanying letter of the Council President to the Commission President. In particular, and as explained in more detail in the Staff Working Document accompanying the Commission's proposal, the proposal is consistent with the following principles: exceptional character, political preconditions, complementarity, conditionality and financial discipline.

The Commission will continue to monitor and assess during the life of the MFA operation satisfaction of these criteria, including the assessment, in close liaison with the European External Action Service, of the political preconditions.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

- **Consultation of interested parties**

MFA is provided as an integral part of the international support to the economic stabilisation and recovery programme of Jordan. In the preparation of this proposal for MFA, the Commission services have consulted with the International Monetary Fund and the World Bank, which have already put in place sizeable financing programs. The Commission consulted the EU Member States in the Economic and Financial Committee before submitting its proposal for MFA. The Commission has also been in regular contact with the Jordanian authorities.

- **Collection and use of expertise**

An Operational Assessment verifying the quality and reliability of Jordan's public financial circuits and administrative procedures will be carried out by the Commission with the assistance of external experts.

- **Impact assessment**

The MFA and the economic adjustment and reform programme attached to it will help alleviate Jordan's short-term financing needs while supporting policy measures aimed at strengthening medium-term balance of payments and fiscal sustainability and raising sustainable growth, as agreed with the IMF. It will notably help improve the efficiency and transparency of public finance management; promote fiscal reforms to increase tax collections and improve the progressivity of the tax system; support existing efforts to strengthen the social safety net; promote labour market reforms (to reduce unemployment and raise participation rates, notably among women); and facilitate the adoption of measures to improve the regulatory framework for trade and investment.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The European Union shall make MFA available to Jordan for a total maximum amount of EUR 180 million, provided in the form of a medium term loan. The assistance will contribute to cover Jordan's residual external financing needs in 2013-14, as identified by the Commission based on the estimates of the IMF.

The assistance is planned to be disbursed in two loan instalments and to allow some frontloading given the urgency of the financing needs. The disbursement of the first instalment is expected to take place in the second half of 2013. The second instalment, conditional on a number of policy measures, could be disbursed in the first half of 2014. The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

As usual with the MFA instrument, the disbursements would be conditional on successful programme reviews under the IMF's financial arrangement (the SBA). In addition, the Commission and the Jordanian authorities would agree on specific structural reform measures in a Memorandum of Understanding. The Commission will target structural reforms aimed at improving the overall macroeconomic management and the conditions for sustainable growth (e.g. targeting the transparency and efficiency of public finance management; fiscal reforms; reforms to strengthen the social safety net; labour market reforms; and reforms to improve the regulatory framework for trade and investment).

The decision to disburse the full MFA in the form of loans is justified by Jordan's level of development (as measured by its per-capita income) and debt indicators. It is also consistent with the treatment given to Jordan by the World Bank and the IMF. Indeed, Jordan is not eligible for concessional financing from either the IDA or the IMF's Poverty Reduction and Growth Trust fund.

- **Legal basis**

The legal basis for this proposal is Article 212 of the TFEU.

- **Subsidiarity principle**

The proposal falls under the mixed competence of the EU. The subsidiarity principle applies to the extent that the objectives of restoring short-term macroeconomic stability in Jordan cannot be sufficiently achieved by the Member States alone and can therefore be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectivenes of the assistance.

- **Proportionality principle**

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of short-term macro economic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission based on the estimates of the IMF in the context of the SBA Arrangement, the amount of the assistance corresponds to 4.4% of the residual financing gap for the period 2013-2015. This is consistent with standard rules on burden-sharing for MFA operations. Given the assistance pledged to Jordan by other bilateral and multilateral donors and creditors, it is deemed an appropriate level of burden-sharing for the EU.

- **Choice of instruments**

Other instruments would not be adequate because, in the absence of a framework regulation for Macro-Financial Assistance, ad hoc European Parliament and Council decisions under Article 212 TFEU are the only available legal instrument for this assistance.

Project finance or technical assistance would not be suitable or sufficient to address these macroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be to alleviate the external financial constraint and to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate overall framework for macroeconomic and structural policies, MFA can increase the effectiveness of the actions financed in Jordan under other, more narrowly focused EU financial instruments.

4. BUDGETARY IMPLICATION

The planned assistance would be provided in the form of a loan and should be financed through a borrowing operation that the Commission will conduct on behalf of the EU. The budgetary costs of the assistance will correspond to the provisioning, at a rate of 9%, of the amounts disbursed in the guarantee fund for external lending of the EU, from budget line 01 04 01 14 ("the provisioning of the Guarantee Fund"). Assuming that the first loan disbursement will be made in 2013 for the amount of EUR 100 million and the second loan disbursement in 2014 for the amount of EUR 80 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the 2015-16 budgets.

5. OPTIONAL ELEMENTS

- **Review/revision/sunset clause**

The proposal includes a sunset clause. The proposed MFA would be made available for two years, starting from the first day after the entry into force of the Memorandum of Understanding.

2013/0128 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing macro-financial assistance to the Hashemite Kingdom of Jordan

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission[3],

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure[4],

Whereas:

(1) Relations between the European Union ('the Union') and the Hashemite Kingdom of Jordan ('Jordan') are developing within the framework of the European Neighbourhood Policy (ENP). An Association Agreement between the European Communities and their Member States, of the one part, and Jordan, of the other part, entered into force in May 2002. Bilateral political dialogue and economic cooperation have been further developed within the framework of ENP Action Plans, of which the most recent covers the period 2010-2015. In 2010, the Union granted Jordan "Advanced Status" partnership, implying expanded areas of cooperation between both parties.

(2) Jordan's economy has been significantly affected by domestic events related to the events in the Southern Mediterranean since the end of 2010, known as the "Arab Spring", and by the ongoing regional unrest, notably in neighbouring Egypt and Syria. Combined with a weaker global environment, the repeated disruptions to the flow of natural gas from Egypt, which have forced Jordan to replace gas imports from Egypt with more expensive fuels for electricity generation, and the important inflow of refugees from Syria have resulted in important external and budgetary financial gaps.

(3) Since the Arab Spring began, the Union has declared on various occasions its commitment to support Jordan in its economic and political reform process. This commitment was reaffirmed in the conclusions of the 10th meeting of the Association Council between the Union and Jordan in December 2012.

(4) Jordan has embarked on a series of political reforms, most notably leading to the adoption by the Jordanian Parliament in September 2011 of over 40 constitutional amendments, representing a significant step towards a fully-fledged democratic

3 OJ C […], […], p. […].

4 Position of the European Parliament of … 2012 and Decision of the Council of … 2012.

system. Political and economic support from the Union to Jordan's reform process is consistent with the Union's policy towards the Southern Mediterannean region, as set out in the context of the ENP.

(5) In August 2012, the Jordanian authorities and the International Monetary Fund (IMF) agreed on a three-year Stand-By-Arrangement of SDR 1,364 million in support of Jordan's economic adjustment and reform programme.

(6) The Union has made available EUR 293 million in grants for the period 2011-13 under its regular cooperation programme in support of Jordan's political and economic reform agenda. In addition, EUR 70 million has been allocated to Jordan in 2012 under the "Support for partnership, reforms and inclusive growth" (SPRING) programme, and EUR 10 million in Union humanitarian aid to support Syrian refugees.

(7) In December 2012, Jordan requested macro-financial assistance from the Union in view of the worsening economic situation and outlook.

(8) Given that, after taking into account macroeconomic support from the IMF and the World Bank, a residual financing gap remains in Jordan's balance of payments, and given the vulnerability of Jordan's external financial position to exogenous shocks, which requires maintaining an appropriate level of the foreign exchange reserves, macro-financial assistance is considered an appropriate response to Jordan's request under the current exceptional circumstances. The Union macro-financial assistance to Jordan ("the Union macro-financial assistance") would support the economic stabilisation and the structural reform agenda of Jordan, supplementing resources made available under the IMF's financial arrangement.

(9) The Union macro-financial assistance should not merely supplement programmes and resources from the IMF and the World Bank, but should also ensure the added value of Union's involvement. The Commission should ensure that the Union macro-financial assistance is legally and substantially in line with the measures taken within the different areas of external action and other relevant Union policies.

(10) The specific objectives of the Union macro-financial assistance should be to strengthen efficiency, transparency and accountability of the public finance management systems in Jordan and to promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. These objectives should be regularly monitored by the Commission.

(11) The conditions underlying the provision of the Union macro-financial assistance should reflect the key principles and objectives of the Union's policy towards Jordan.

(12) In order to ensure efficient protection of the financial interests of the Union linked to this macro-financial assistance, it is necessary that Jordan adopt appropriate measures relating to the prevention of, and the fight against, fraud, corruption and any other irregularities in relation to the assistance. It is also necessary to provide for appropriate controls by the Commission and appropriate audits by the European Court of Auditors.

(13) The release of the Union macro-financial assistance should be without prejudice to the powers of the budgetary authority.

(14) The assistance should be managed by the Commission. In order to ensure that the European Parliament and the Economic and Financial Committee are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.

(15) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers[5]. The fact that the assistance is of a substantial amount and, therefore, has a potentially important impact, justifies the use of the examination procedure, in line with Article 2(2) of Regulation (EU) No 182/2011.

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make available to Jordan macro-financial assistance of a maximum amount of EUR 180 million, with a view to supporting Jordan's economic stabilisation and reforms. The assistance shall contribute to covering Jordan's balance of payments needs as identified in the current IMF programme.

2. The full amount of the macro-financial assistance shall be provided to Jordan in the form of loans. The Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions in order to onlend them to Jordan. The loans shall have a maximum maturity of 15 years.

3. The release of the Union macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the IMF and Jordan and with the key principles and objectives of economic reforms set out in the EU-Jordan Association Agreement and the EU-Jordan Action Plan for 2010-2015 agreed under the European Neighbourhood Policy**.** The Commission shall regularly inform the European Parliament and the Economic and Financial Committee of developments in the management of the Union macro-financial assistance and provide them with relevant documents.

4. The Union macro-financial assistance shall be made available for a period of two years from the first day after the entry into force of the Memorandum of Understanding referred to in Article 2(1).

Article 2

1. The Commission, acting in accordance with the examination procedure referred to in Article 6(2), shall be empowered to agree with the authorities of Jordan on the economic policy and financial conditions attached to the Union macro-financial assistance, to be laid down in a Memorandum of Understanding which shall include a timeframe for their fulfilment (hereafter the 'Memorandum of Understanding'). The economic policy and financial conditions shall be consistent with the agreements or understandings referred to in Article 1(3). Those conditions shall aim, in particular, at strengthening the efficiency, transparency and accountability of public finance management systems in Jordan, including for the use of the Union macro-financial assistance. Progress in attaining these objectives shall be regularly monitored by the Commission.

[5] OJ L 55, 28.2.2011, p. 13.

2. The detailed financial terms of the assistance shall be laid down in a Loan Agreement to be agreed between the Commission and the authorities of Jordan.

3. During the implementation of the Union macro-financial assistance, the Commission shall monitor the soundness of Jordan's financial arrangements, the administrative procedures and the internal and external control mechanisms which are relevant to the assistance, as well as the adherence to the agreed timeframe.

4. The Commission shall verify at regular intervals that the economic policies of Jordan are in accordance with the objectives of the Union macro-financial assistance and that the agreed economic policy conditions are being satisfactorily fulfilled. In doing so, the Commission shall coordinate closely with the IMF and the World Bank, and, when required, with the Economic and Financial Committee.

Article 3

1. Subject to the conditions set out in paragraph 2, the Union financial assistance shall be made available by the Commission to Jordan in two loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding.

2. The Commission shall decide on the release of the instalments subject to a satisfactory implementation of the IMF programme and the fulfilment of the economic policy and financial conditions agreed in the Memorandum of Understanding. The disbursement of the second instalment shall not take place earlier than three months after the release of the first instalment.

3. The Union funds shall be paid to the Central Bank of Jordan. Subject to provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be paid to the Jordanian Ministry of Finance as the final beneficiary.

Article 4

1. The borrowing and lending operations related to the Union macro-financial assistance shall be carried out in euro using the same value date and shall not expose the Union to any risk related to transformation of maturities, any exchange or interest rate risk, or any other commercial risk.

2. Upon request by Jordan, the Commission shall take the necessary steps to ensure that an early repayment clause is included in the loan terms and conditions. The early repayment clause shall be matched by a corresponding clause in the terms and conditions of the Commission's borrowing operations.

3. Upon request by Jordan and where circumstances permit an improvement of the interest rate of the loan, the Commission may refinance all or part of its initial loan or restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with the conditions set out in paragraph 1 and shall not have the effect of extending the average maturity of the loan concerned or increasing the amount of capital outstanding at the date of the refinancing or restructuring.

4. All costs incurred by the Union in relation to the borrowing and lending operations under this Decision shall be borne by Jordan.

5. The Commission shall inform the European Parliament and the Economic and Financial Committee of developments in the operations referred to in paragraphs 2 and 3.

Article 5

1. The Union macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002[6] and its rules of application[7].

2. The Memorandum of Understanding and the Loan Agreement to be agreed with the authorities of Jordan shall provide for appropriate measures in relation to the prevention of, and the fight against, fraud, corruption and any other irregularities in relation to the assistance. In order to ensure greater transparency in the management and disbursement of funds, the Memorandum of Understanding and the Loan Agreement shall also provide for controls, including on-the-spot checks and inspections, to be carried out by the Commission, including the European Anti-Fraud Office. Those documents shall in addition provide for audits, including where appropriate on-the-spot audits, by the Court of Auditors.

Article 6

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.

2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Article 7

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation thereof. The report shall indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, Jordan's on-going economic and fiscal performance and the Commission's decisions to release the instalments of the Union macro-financial assistance.

2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex post evaluation report.

Article 8

This Decision shall enter into force on the 3rd day folloiwng publication in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*

6 OJ L 298, 26.10.2012, p. 1.
7 OJ L 362, 31.12.2012, p. 1.

LEGISLATIVE FINANCIAL STATEMENT

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1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Macro-financial assistance to the Hashemite Kingdom of Jordan

1.2. Policy area(s) concerned in the ABM/ABB structure[8]

Policy area: Title 01 – Economic and Financial Affairs

Activity: 03 – International economic and financial affairs

1.3. Nature of the proposal/initiative

X The proposal/initiative relates to **a new action**

1.4. Objectives

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

"To promote prosperity beyond the EU"

The major area of DG ECFIN related activity pertains to:

1. Fostering the implementation of the European Neighbourhood Policy by deepening economic analysis and strengthening policy dialogue and advice on the economic aspects of the Action Plans.

2. Developing, monitoring and implementing macro-financial assistance for partner third countries, in co-operation with the relevant international financial institutions.

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No 3: "Providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability"

ABM/ABB activity(ies) concerned: International Economic and Financial Relations, global governance.

1.4.3. Expected result(s) and impact

The proposed assistance consists of an EU loan of EUR 180 million to the Hashemite Kingdom of Jordan ('Jordan'), with a view to contributing to a more sustainable balance of payments situation. The assistance, to be disbursed in two instalments, will help the country overcome the economic and social hardships endured as a result of the domestic and regional unrest. It will also promote structural reforms aimed at raising sustainable economic growth and improving public finance management.

1.4.4. Indicators of results and impact

The authorities will be required to report on a set of indicators to the Commission services on a regular basis and provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the second instalment of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative

8 ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

procedures in Jordan that will be carried out in preparation of this operation. The EU Delegation in Jordan will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in Jordan.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, comprising an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of the Stand-By Arrangement (SBA) between Jordan and the IMF. In addition, the Commission shall agree with the Jordanian authorities on specific policy conditions, listed in a Memorandum of Understanding, to be met before the second instalment is released by the Commission.

1.5.2. Added value of EU involvement

By helping the country overcome the economic shock caused by the domestic and regional unrest, the proposed MFA will contribute to promoting macroeconomic stability, economic reforms and political progress in the country. By complementing the resources made available by the international financial institutions, the EU and other donors, it will contribute to the overall effectiveness of the package of financial support agreed by the international donor community in the aftermath of the crisis.

The proposed programme will also strengthen the government's reform commitment and its aspiration towards closer relations with the EU. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal to the other countries in the region that the EU is ready to support countries embarking on a clear path towards political reforms in times of economic difficulties.

1.5.3. Lessons learned from similar experiences in the past

Since 2004, a total of fifteen ex-post evaluations have been carried out on macro-financial assistance operations. These evaluations conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the recipient country. In most cases, MFA operations had a positive effect on the balance of payments of the beneficiary country and helped to relax their budgetary constraints. They also led to a somewhat higher economic growth.

1.5.4. Compatibility and possible synergy with other appropriate instruments

The EU is among the major donors of Jordan. The EU has made available EUR 293 mn in grants for the period 2011-13 under its regular cooperation, in support of Jordan's political and economic reform agenda. In addition, EUR 70 mn has been allocated to Jordan in 2011 under the SPRING programme, and EUR 10 mn from Humanitarian Aid to support Syrian refugees.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. MFA does not provide a regular financial support nor is meant to support the economic and social development of the recipient countries. The MFA is to be discontinued as soon as the country's external financial situation has been brought back into a sustainable path. Afterwards, regular EU cooperation assistance instruments are meant to take over.

MFA is also meant to be complementary to interventions by the international financial institutions, in particular the adjustment and reform programme supported by the IMF's SBA and the Development Policy Loan of the World Bank.

1.6. Duration and financial impact

X Proposal/initiative of **limited duration**

X Proposal/initiative in effect for 2 years from the entry into force of the Memorandum of Understanding, as stated in Article (1.4) of the Decision

X Financial impact from 2013 to 2016

1.7. Management mode(s) envisaged[9]

X **Centralised direct management** by the Commission

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

This assistance is of macroeconomic nature and its design is consistent with the IMF-supported economic programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the SBA and specific reform measures to be agreed with the Jordanian authorities in a Memorandum of Understanding (see also point 1.4.4).

2.2. Management and control system

2.2.1. Risk(s) identified

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

There is a risk that the macro-financial assistance, which is not dedicated to specific expenses, 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 and the appropriatedness of internal and external audit capabilities.

Another key risk to the operation stems from the regional economic and political uncertainty, notably in Syria, which has direct implications for the Jordanian economy. On the domestic front, the main risk is instability related to difficulties in the political and economic reform process. The full implementation of the stabilisation and reform measures supported by the international community, including the proposed MFA operation, might be undermined by social dissatisfaction.

Jordan also remains vulnerable to possible new disruptions in the supply of imported natural gas from Egypt. Finally, there are risks stemming from a possible weakening

[9] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

of the European and global economic environment and an increase in international energy and food prices.

2.2.2. Control method(s) envisaged

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF), and by the European Court of Auditors.

2.2.3. Costs and benefits of controls and probable non-compliance rate

The basic costs for the Commission related to the methods of verification and control, as well as the cost of the Operational Assessment of financial and administrative circuits conducted prior to the operation, are described in Table 3.2.1. In addition, there are costs for the European Court of Auditors and of possible interventions of the OLAF. The Operational Assessment not only helps assess risks of misuse of the funds but, as a collateral benefit, it provides useful information on the necessary reforms in the area of public finance management, which are reflected in the policy conditionality of the operation. Regarding the probable non-compliance rate, the risk of non-compliance (in the form of non-repayment of the loan or misuse of the funds) is judged to be low, based on the experience with the MFA instrument since its creation.

2.3. Measures to prevent fraud and irregularities

To mitigate the risks of fraudulent use several measures will be taken:

First, the proposed legal basis for macro-financial assistance to Jordan includes a provision on fraud prevention measures. These measures will be elaborated further in the Memorandum of Understanding and the Loan Agreement, envisaging a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, mainly in the area of public finance management, with a view to strengthening efficiency, transparency and accountability.

Second, before the agreement on the Memorandum of Understanding is reached, the Commission services, with the support of duly mandated external experts, will carry out an Operational Assessment of the financial circuits and administrative procedures at the Ministry of Finance and the Central Bank of Jordan, in order to fulfil the requirements of the Financial Regulation applicable to the General Budget of the European Communities. This review will determine whether the framework for sound financial management of macro-financial assistance is sufficiently effective in Jordan by covering areas such as management structure and organisation, management and control of funds, security of IT systems, internal and external audit capacity as well as the independence of the central bank. In the light of this assessment, specific mechanisms applying to the management of the funds by the beneficiaries may be introduced in agreement with the national authorities. Also, the assistance will be paid to a dedicated account at the Central Bank of Jordan.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including OLAF, and the European Court of Auditors.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

01 03 02: Macro-financial assistance

01 04 01 14 – Provisioning of the Guarantee Fund

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Description…………………...…….]	Diff./non-diff. (10)	from EFTA countries[11]	from candidate countries[12]	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
4	01 03 02 Macro-financial assistance	Diff.	NO	NO	NO	NO
4	01 04 01 14 Provisioning of the Guarantee Fund	Diff.	NO	NO	NO	NO

01 04 01 04 – European Union guarantee for EU loans raised for macro-financial assistance to third countries: The Guarantee Fund for external actions has to be provisioned according to the Fund Regulation, as amended. In line with this Regulation, loans are based on the outstanding amount at the end of a year. The provisioning amount is calculated at the beginning of the year "n" as the difference between the target amount and the Fund's net assets at the end of the year "n-1". This provisioning amount is introduced in the year "n" to the "n+1" preliminary budget and effectively paid in one transaction at the beginning of the year "n+1" from "the provisioning of the Guarantee Fund" (budget line 01 04 01 14). As a result, 9% (maximum of EUR 16.2 million) of the effectively disbursed amount will be considered in the target amount at the end of the year "n-1" for the calculation of the provisioning of the Fund.

The budget entry ("p.m.") reflecting the budget guarantee for the loan will be activated only in the case of an effective call on the guarantee. It is not expected that the budget guarantee be called.

☐☐New budget lines requested: not applicable.

10 Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.
11 EFTA: European Free Trade Association.
12 Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework:	**4**	[Heading: The EU as a global partner]

DG: <ECFIN>			Year **2013**[13]	Year **2014**	Year **2015**	Year **2016**	**TOTAL**
• Operational appropriations							
Budget line 01 04 01 14 Provisioning of the Guarantee Fund	Commitments	(1a)			9	7.2	**16.2**
	Payments	(2a)			9	7.2	**16.2**
Appropriations of an administrative nature financed from the envelope of specific programmes[14] (operational assessment and ex-post evaluation)							
Budget line 01 03 02	Commitments	(3)	0.05		0.15		**0.20**
	Payments	(3a)	0.05		0.05	0.10	**0.20**
TOTAL appropriations for DG ECFIN	Commitments	=1+1a +3	0.05		9.15	7.2	**16.4**
	Payments	=2+2a +3	0.05		9.05	7.3	**16.4**

• TOTAL operational appropriations	Commitments	(4)	0.05		9.15	7.2	**16.4**
	Payments	(5)	0.05		9.05	7.3	**16.4**
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)					
TOTAL appropriations under HEADING 4 of the multiannual financial framework	Commitments	=4+ 6	0.05		9.15	7.2	**16.4**
	Payments	=5+ 6	0.05		9.05	7.3	**16.4**

13 Year N is the year in which implementation of the proposal/initiative starts.

14 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

<u>If more than one heading is affected by the proposal / initiative:</u>

EUR million (to three decimal places)

Heading of multiannual financial framework:	**5**		‘Administrative expenditure’				
			Year **2013**	Year **2014**	Year **2015**	Year **2016**	**TOTAL**
DG: <…….>							
• Human resources			0.040	0.028	0.021	0.016	**0.105**
• Other administrative expenditure			0.025	0.015			**0.040**
TOTAL DG ECFIN	Appropriations		0.065	0.043	0.021	0.016	**0.145**
TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)		0.065	0.043	0.021	0.016	**0.145**

EUR million (to three decimal places)

		Year **2013**[15]	Year **2014**	Year **2015**	Year **2016**	**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0.115	0.043	9.171	7.216	**16.545**
	Payments	0.115	0.043	9.071	7.316	**16.545**

15 Year N is the year in which implementation of the proposal/initiative starts.

3.2.2. *Estimated impact on operational appropriations*

- ☐ The proposal/initiative does not require the use of operational appropriations
- X The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ⇩	Type[16]	Average cost	Year **2013** Number	Year **2013** Cost	Year **2014** Number	Year **2014** Cost	Year **2015** Number	Year **2015** Cost	Year **2016** Number	Year **2016** Cost	**TOTAL** Total number	**TOTAL** Total cost
SPECIFIC OBJECTIVE NO 3[17]												
- Output 1	Operational assessment		1	0.05							1	0.05
- Output 2	Ex-post evaluation						1	0.15			1	0.15
- Output 3	Provisioning of the Guarantee Fund						1	9	1	7.2	2	16.2
Subtotal for specific objective No 1			1	0.05			2	10.5	1	7.2	4	17.75
TOTAL COST			1	0.05			2	10.5	1	7.2	4	**17.75**

16 Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

17 As described in point 1.4.2. ‘Specific objective(s)…’

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year **2013**[18]	Year **2014**	Year **2015**	Year **2016**	Enter as many years as necessary to show the duration of the impact (see point 1.6)			**TOTAL**
HEADING 5 of the multiannual financial framework								
Human resources	0.040	0.028	0.021	0.016				**0.105**
Other administrative expenditure	0.025	0.015						**0.040**
Subtotal HEADING 5 of the multiannual financial framework	0.065	0.043	0.021	0.016				**0.145**
Outside HEADING 5[19] of the multiannual financial framework								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework								
TOTAL	0.065	0.043	0.021	0.016				**0.145**

The administrative appropriations required will be met by the appropriations of the DG which are already assigned to management of the action and/or which have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

[18] Year N is the year in which implementation of the proposal/initiative starts.

[19] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

- ☐ The proposal/initiative does not require the use of human resources.
- X The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	Year **2013**	Year **2014**	Year 2015	Year 2016	Enter as many years as necessary to show the duration of the impact (see point 1.6)		
• Establishment plan posts (officials and temporary agents)							
01 01 01 01 (Headquarters and Commission's Representation Offices)	0.15	0.12	0.08	0.05			
XX 01 01 02 (Delegations)							
XX 01 05 01 (Indirect research)							
10 01 05 01 (Direct research)							
• External personnel (in Full Time Equivalent unit: FTE)[20]							
XX 01 02 01 (CA, INT, SNE from the "global envelope")	0.25	0.16	0.14	0.12			
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)							
XX 01 04 **yy**[21] - at Headquarters							
XX 01 04 **yy**[21] - in delegations							
XX 01 05 02 (CA, SNE, INT - Indirect research)							
10 01 05 02 (CA, SNE, INT - Direct research)							
Other budget lines (specify)							
TOTAL	**0.40**	**0.28**	**0.22**	**0.17**			

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	Supervise and manage the operation, agree on the Loan Agreement review reports, lead missions and assess progress with conditionality compliance.
External staff	A seconded National Expert in Unit ECFIN D2 will be directly involved in preparing the Memorandum of Understanding, liaising with the authorities and the IFIs, liaising with external experts for the operational assessment and ex-post evaluation, conducting review missions, preparing Commission staff reports and Commission procedures related to the management of the assistance.

20 CA= Contract Agent; LA = Local Agent; SNE = Seconded National Expert; INT = agency staff ('Intérimaire'); JED= 'Jeune Expert en Délégation' (Young Experts in Delegations).

21 Sub-ceiling for external staff covered by operational appropriations (former "BA" lines).

3.2.4. Compatibility with the current multiannual financial framework

– X Proposal/initiative is compatible the current multiannual financial framework.

3.2.5. Third-party contributions

– X The proposal/initiative does not provide for co-financing by third parties.

3.3. Estimated impact on revenue

X Proposal/initiative has no financial impact on revenue.