

Macro-financial assistance to Jordan

2024/0086(COD) - 08/04/2024 - Legislative proposal

PURPOSE: to provide a further EUR 500 million in macro-financial assistance to Jordan.

PROPOSED ACT: Decision of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: the Jordanian economy has suffered significantly from protracted conflicts in the region, notably in neighbouring Syria, and most recently in Israel/Gaza and the Red Sea. Since the start of the war in Syria, the Jordanian economy has been impacted by a large inflow of Syrian refugees, which has increased pressure on its fiscal position, public services and infrastructure. In addition to regional instability, the macroeconomic and fiscal challenges related to the COVID-19 pandemic in 2020/2021, commodity price developments following Russia's invasion of Ukraine in 2022, high exposure to trade fluctuations and the increase of borrowing costs for emerging markets globally continued to weigh on the Jordanian economy. As a result, Jordan experienced an economic contraction in 2020, followed by a slow economic recovery, as unemployment increased significantly in 2020 and remained high, and new fiscal and external financing needs emerged.

The war in Israel-Gaza that started in October 2023 implies very substantial downside risk to the economic outlook, in particular due to the increased level of uncertainty in the region and the possible impact on the important tourism sector and consumer sentiment.

In light of the multiple external shocks and its importance to ensure stability in the region, Jordan received substantial support in various forms from its international partners in the past decade. This includes three MFA programmes since 2014 for a total of EUR 1 080 million. The third and latest MFA operation (MFA-III, 2020-2023) with an initial amount of EUR 500 million was adopted in January 2020 and subsequently (May 2020) topped up by EUR 200 million in response to the socio-economic fallout of the COVID-19 pandemic in 2020. MFA-III was successfully concluded in May 2023.

CONTENT: after an in-depth assessment of the political and economic situation in Jordan, the Commission is submitting its fourth MFA which seeks to make MFA available to Jordan for a total maximum amount of **EUR 500 million** available to Jordan, provided in the form of loans, which will contribute to covering Jordan's residual financing needs in the operation's availability period.

The assistance is planned to be disbursed in three instalments, provided that the policy measures attached to each instalment have been fully implemented in a timely manner. This assistance will be managed by the Commission.

The disbursement is planned to take place in three instalments, with the release of instalments strictly linked to progress with the implementation of both the IMF programme and a number of additional policy measures to be agreed between the Commission and the authorities and listed in a Memorandum of Understanding (MoU). The MoU could, in principle, include policy reforms addressing economic governance, including Public Finance Management and tax administration; social and labour market policy; and governance and fight against fraud, corruption and money-laundering.

Budgetary implications

The proposed MFA operation of up to EUR 500 million in loans for Jordan is planned to be disbursed in three instalments to be released in between 2024 and 2027. The loan will be provided under the External Action Guarantee with a provisioning at a rate of 9%, which will be programmed under the NDICI-GE, for a total amount of EUR 45 million (budget line 14 02 01 70 ‘NDICI – Provisioning of the Common Provisioning Fund’). The loans should be granted in the form of amortising loans with a grace period and subsequent capital repayments in equal tranches over a longer period. Such loan structure will be beneficial for both the beneficiary, in that it facilitates repayments, and the budget, by spreading contingent liabilities over a long time-frame.