Evaluation Report

IMF Support to Jordan, 1989–2004

INDEPENDENT EVALUATION OFFICE

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The following symbols have been used throughout this report:

– between years or months (e.g., 2003–04 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 2003/04) to indicate a fiscal (financial) year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

Some of the documents cited and referenced in this report were not available to the public at the time of publication of this report. Under the current policy on public access to the IMF's archives, some of these documents will become available five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other documents are to become available 10 or 20 years after their issuance depending on the series.

Foreword

This report evaluates the role of the IMF in supporting economic reform in Jordan during 1989–2004. The country has had a long period of participation in IMF-supported programs, initiated by a severe balance of payments crisis, as well as deep-rooted macroeconomic and related structural problems. A massive external public debt, large deficits in the external current account, and fiscal rigidities impeded the country's return to sustainable growth. In addition, Jordan was susceptible to shocks related to regional economic and political developments throughout the period of IMF engagement.

The evaluation of IMF support to Jordan provides an opportunity to assess typical features of relations between the IMF and its borrowing members, and to put into a specific country context IEO's earlier findings on program design and the links between programs, surveillance, and technical assistance. The key issues for evaluation are threefold: (1) the effectiveness of programs, including strategies, policies, as well as conditionality, in achieving their objectives, and the factors that determine outcomes; (2) the extent to which IMF surveillance activities contribute to identifying and tackling deep-rooted macroeconomic problems; and (3) identification of what drives the provision of technical assistance, and how effectively IMF technical assistance contributed to Jordan's capacity to formulate, implement, and monitor macroeconomic policies and performance.

Jordan has made major progress over the 15-year period of its IMF program involvement—it has achieved macroeconomic stability, restored external viability, and transformed the structure of its economy. However, fiscal sustainability has only been partly achieved and will remain a challenge in the medium term. While attribution of specific final outcomes is not possible, the report is of the view that IMF-supported programs did make an important contribution. Technical assistance was also crucial in this regard, and the report argues for a broader dissemination of technical assistance findings, both within the government and, as appropriate, with other interested stakeholders, recognizing that publication is ultimately the decision for the authorities. Going forward, the biggest adjustment challenge that Jordan faces is how to adjust to a projected decline from exceptional high levels of grants. This will require a more candid assessment by the IMF of the potential risks associated with this adjustment than was contained in previous staff reports. The report highlights a number of broad lessons suggested by IMF experience in Jordan as well as other lessons focusing on the IMF's future role in Jordan.

Following standard practice, this volume includes, alongside the evaluation report itself, the response of IMF management and staff to the evaluation, as well as the Summing Up of the Executive Board discussion of this report. The full case study report can be found on our website at www.imf.org/ieo.

Thomas A. Bernes
Director
Independent Evaluation Office

IMF Support to Jordan, 1989–2004

This evaluation report was prepared by a team headed by Tsidi Tsikata and including Steve Kayizzi-Mugerwa, Daouda Sembene, and Inder Sud (consultant). Chapters of the report also benefited from inputs from David Goldsbrough, Marcelo Selowsky, and Marko Skreb. Ibrahim Saif (consultant) and Marwan Kardoosh (consultant) contributed background papers. Research assistance from Patricia Yang-Yang Chen and Teresa Perez; administrative support by Arun Bhatnagar, Annette Canizares, and Maria S. Gutierrez; and editorial assistance from Ian S. McDonald and Esha Ray are gratefully acknowledged. The report was approved by Thomas A. Bernes, Director of the Independent Evaluation Office.

Abbreviations and Acronyms

ACC	Amman Chamber of Commerce
ACI	Amman Chamber of Industry
ASEZ	Aqaba Special Economic Zone
CBJ	Central Bank of Jordan
CD	Certificate of deposit
CPI	Consumer price index
DoS	Department of Statistics
DSA	Debt sustainability analysis
ECC	Economic Consultative Council
EFF	Extended Fund Facility
FDI	Foreign direct investment
FAD	Fiscal Affairs Department
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
GDP	Gross domestic product
GNI	Gross national income
GST	General sales tax
LOI	Letter of Intent
NAF	National Aid Fund
NDA	Net domestic assets
NGO	Nongovernmental organization
NPV	Net present value
ODA	Official development assistance
OED	Operations Evaluation Department[1]
PC	Performance criterion
PEM	Public expenditure management
PER	Public expenditure review
PPM	Post-program monitoring
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSET	Program for Social and Economic Transformation
QIZ	Qualifying Industrial Zone
ROSC	Report on the Observance of Standards and Codes
SDR	Special drawing right
SBA	Stand-By Arrangement
SOE	State-owned enterprise
SSC	Social Security Corporation
S&P	Standard & Poor's
TA	Technical assistance
USAID	United States Agency for International Development
VAT	Value-added tax
WTO	World Trade Organization

[1]Name changed to Independent Evaluation Group on November 8, 2005, after the Jordan evaluation was completed.

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Summary of Findings and Lessons

This evaluation assesses the extent to which the IMF contributed to tackling Jordan's major macroeconomic challenges during the extended period (1989–2004) of the country's engagement in IMF-supported programs. The programs were supported under three Stand-By Arrangements (SBAs) (approved in 1989, 1992, and 2002), and three Extended Fund Facility (EFF) arrangements (approved in 1994, 1996, and 1999). Although the main focus of the evaluation is on the effectiveness of the IMF-supported programs, the roles of IMF surveillance and technical assistance activities are also examined. This detailed case study provided an opportunity to revisit—in a specific country context—previous IEO findings and lessons on issues related to (1) program design; (2) interactions between programs, surveillance, and technical assistance activities; and (3) the impact of prolonged engagement in IMF-supported programs on the development of domestic institutions and policymaking processes.

The report's overall assessment of the IMF's role in Jordan is that it has been moderately successful. The IMF helped the authorities to address macroeconomic stabilization challenges successfully, but some of the main structural rigidities that underlay the financial crisis that led Jordan to its first IMF-supported program still remain, particularly on the fiscal side. It is important to recognize that, as in all programs that are the outcome of a complex negotiating process, the IMF was required to make judgments reflecting considerations of domestic ownership and political feasibility. The result is inevitably tempered by this reality. Whether the fiscal system is flexible enough to adapt to shocks will be again tested in the next few years if external grants, as projected, decline sharply relative to recent historically high levels.

The principal findings and lessons from the evaluation are summarized below, after a brief overview of initial conditions. Since the main focus was on the IMF's program activities in Jordan, which is now concluded, the evaluation does not make specific recommendations. However, the evaluation generates a number of lessons about the IMF's role in Jordan that are likely also to be of more general applicability as well as two key lessons about what should be the primary focus of the IMF's future role in Jordan.

Initial Conditions

At the start of its long period of participation in IMF-supported programs, Jordan faced a severe balance of payments crisis as well as deep-rooted macroeconomic and related structural problems. The country had virtually run out of international reserves and was on the verge of defaulting on its external debt payment obligations. It faced a massive external public debt, and large deficits in the external current account and government budget. A rigid fiscal structure and structural impediments to growth meant that sustainable adjustment was going to be hard to achieve, and would require time to be addressed effectively. In addition, Jordan's close regional economic ties made it susceptible to shocks related to economic and political developments in the Middle East.

Main Findings

The overarching evaluation questions may be summarized as follows:

- Was the overall design of programs relevant and appropriate to Jordan's circumstances?
- What was achieved in terms of the broad objectives of programs, and what can be said about the contribution of the IMF to observed outcomes?
- What has been the contribution of IMF support in addressing fundamental structural and institutional rigidities in Jordan and helping the country to strengthen its capacity to cope with shocks?
- How well did internal IMF processes and policies work in the institution's dealings with Jordan? In particular, did Jordan receive preferential treatment from the IMF on account of geopolitical considerations?

Appropriateness of program design

Program objectives were relevant to Jordan's circumstances and were consistent with the broad objectives spelled out in the authorities' national development plans. The core elements of the strategy to foster sustainable growth remained the same under all arrangements: the private sector was expected to be the main engine of growth; significant declines in public sector dissaving would help sustain domestic investment and contribute to reducing the public debt "overhang;" and structural reforms would boost productivity and export performance.

The programs supported under the early arrangements approached issues of external and fiscal sustainability primarily in flow, not stock, terms, reflecting the general status of international approaches to official debt relief at the time. Later programs did incorporate a more comprehensive approach to analyzing debt sustainability, in line with institution-wide developments. In the specific case of Jordan, a medium-term fiscal strategy paper prepared by IMF staff in early 2002, which informed the design of the 2002 SBA, was of high quality. Such an approach would have been helpful at an earlier stage in establishing a framework for looking beyond the short-term horizon that has characterized Jordan's budget process.

While there was some improvement in recent years, most Executive Board papers on Jordan did not provide a clear rationale for the magnitude and composition of targeted adjustment. This made it difficult to make judgments on the factors underlying any subsequent failures to achieve key objectives, and on the appropriateness of any program modifications. Moreover, analysis of the links between growth objectives and program design was limited for most of the program period.

In general, structural conditionality was reasonably well designed and seems to have observed a clear division of labor with the World Bank. The main exception was the 1999 EFF, where the IMF adopted a number of detailed benchmarks on privatization that were not well designed. More generally, many senior Jordanian officials credited IMF conditionality with helping to implement politically sensitive reforms (e.g., introduction of the general sales tax (GST), rationalization of subsidies, and pension reforms), but also cited examples in which pressure from the IMF for speedy action backfired (e.g., submission of a draft income tax law to parliament with little prior consultation with members of parliament).

In general, there was not much difference in the macroeconomic policy discussions undertaken during Article IV consultations and those in program discussions. Surveillance generally did not step back and explore alternative policy options. Following the 2002 biennial surveillance review, new guidelines were issued to staff that expanded the scope of surveillance. The one consultation report (for 2004) produced after issuance of the new guidelines did a good job of delineating program discussions from the consultations and examining longer-term sustainability and financial system stability issues.

Macroeconomic outcomes and the role of IMF support

Jordan has made major progress over the 15-year period of its IMF program involvement in achieving macroeconomic stability, restoring external viability, and transforming the structure of its economy. A deepening of the export base and a large buildup of external reserves have reduced somewhat the economy's vulnerability to shocks. While attribution of specific final outcomes to IMF involvement is clearly not possible, our overall judgment is that IMF-supported programs did make an important contribution. This view is shared by many Jordanian officials, past and present, who indicated that the presence of the IMF was important in reinforcing necessary macroeconomic discipline and in helping advance some key reforms.

However, fiscal sustainability has been only partly achieved. While total and external public debt ratios have fallen substantially, only some of the underlying fiscal rigidities have been resolved. Specific areas of success included the introduction of broader-based consumption taxation, the replacement of food price subsidies by targeted cash transfers, and reforms in the pension system; most of the latter reforms only took place late in the period of IMF program involvement and should have been given greater emphasis earlier. Less successful were the following areas:

- Direct taxes still have significant levels of exemptions that erode potential revenue.
- Jordan has still not adopted a system of pricing for domestic petroleum with an automatic link to world prices—in spite of significant policy dialogue and technical assistance (TA) on the part of the IMF.
- In spite of IMF documents constantly reminding readers about the inflexibility of public expenditures, little progress was achieved in these areas. The IMF did not put sufficient emphasis at an early stage of its program involvement on efforts at civil service reform aimed at reducing the share of the public sector wage bill in GDP.

Going forward, the biggest adjustment challenge that Jordan faces is how to adjust to a projected decline from exceptional high levels of grants, envisaged to be 10 percent of GDP in 2005, to about 1.2 percent in 2007. IMF staff projections call for an extraordinary adjustment in public expenditures over that period, by about 10 percentage points of GDP. The IMF could have highlighted more candidly and forcefully the potential risks if policies—especially public expenditure policies—do not adjust as rapidly as currently assumed. It could also have done more to advise early on possible approaches to smooth the massive upsurge of grants so as to avoid major expenditure reductions in short periods of time as these grants return to more normal (historical) levels.

IMF support and domestic institution building

In retrospect, the IMF could have taken a longer-term perspective from early on in its program involvement and could have started earlier to help the authorities put in place the necessary policies and institutions to achieve fundamental expenditure reforms. Later programs began to address some, but not all, of these rigidities. But shortcomings in reforms, like successes, cannot be attributed only to the IMF. As some of the above examples indicate, the authorities were not able to act on a number of rigidities even when the IMF did clearly diagnose the problem and suggest possible courses of action.

We found that IMF TA priorities adapted quite well to Jordan's critical needs—with an increased involvement of the authorities in setting such priorities. However, a greater focus on public expenditure policy to advise on the major expenditure cuts envisaged in the early programs would have been desirable; in this respect, IMF–World Bank cooperation, for whatever reason, was not effective (see below). Based on an examination of policy implementation as well as interviews with authorities and experts in the field, we believe IMF TA made substantial and concrete contribution in the areas of taxation, rationalization of food subsidies, public financial management, and pension reforms. Senior officials interviewed in Amman also acknowledged monetary operations, payment systems, and banking supervision as areas where the IMF made important contributions.

We found little awareness of the contribution of IMF TA and the associated policy dialogue outside recipient agencies. In our view, a wider publication of IMF TA reports would have contributed to more informed public discourse on a number of policy issues and also shed light on the rationale for IMF policy advice in key areas.

IMF internal processes and policies

Coordination between the IMF and World Bank staffs was effective in many areas, with a clear division of labor between the two from an early stage. However, in the key area of public expenditure policy, collaboration was not effective; in particular, the World Bank's public expenditure reviews provided limited input to the fiscal policy content of IMF-supported programs.

We found no significant evidence that Jordan enjoyed preferential treatment from the IMF. On access levels, the evidence indicates that they were well within the limits under prevailing guidelines. Although the programmed magnitude of fiscal adjustment in the Jordan programs was somewhat less "ambitious" than the average for IMF-supported programs, the difference was not large. With respect to TA, we found the overall amount to be within the norm provided to countries with IMF-supported programs.

Lessons

Although the lessons highlighted here reflect the experience of Jordan, they are clearly relevant to IMF operations in other countries and many tend to echo recommendations reported in earlier IEO evaluation reports. While not couched as specific recommendations, we also conclude with two key messages about the IMF's future role in Jordan.

Broad lessons suggested by the IMF experience in Jordan

Lesson 1. The Jordan case reinforces the view that the underlying rationale for key program design elements should be explained clearly in Executive Board papers. In particular, judgments on the magnitude and composition of targeted adjustment need to be grounded in an explicit assessment of external and public debt sustainability over the medium term.

Lesson 2. Internal notes by staff tended to be franker than reports prepared for the Executive Board about the risks to Jordan's programs. For example, the treatment of the upsurge in grants during 2003–04 said relatively little about the risk of a sharp reversal and the challenges of managing such a reversal. This illustrates the need for more candor in staff report assessments of risks to programs.

This, and the previous lesson, are critical to ensuring accountability by staff and management and allowing the Executive Board to exercise effectively its oversight responsibilities.

Lesson 3. Jordan's experience suggests that the nature of short-term fiscal conditionality alone—that is, whether to set performance criteria on the fiscal deficit before or after grants—can be of only limited help in dealing with the underlying issue of large and abrupt surges in grants. Such situations require that programs be set in an explicitly longer-term perspective that take account of the likely duration of the upturn in grants. But when the expected upturn is temporary, the IMF's policy advice and program design should be aimed at ensuring that the upsurge is not fully translated into immediate surges in public spending and should analyze explicitly how they will be reversed when necessary.

Lesson 4. The IMF's program involvement in Jordan would have been more effective if programs had given greater emphasis at an earlier stage to the formulation of key institutional reforms in the fiscal area even if, as was likely, they could not be fully implemented during the initial program period.

Lesson 5. While the reasons why World Bank inputs on public expenditure policy and management could not be incorporated into IMF program design were probably specific to Jordan, the lesson of more general applicability is that the two institutions need to set clear objectives for this to be achieved, including through signaling what the needs and obligations of each institution are along with candid and timely reporting to the Executive Board on any emerging problems in meeting these priorities.

Lesson 6. Jordan's experience suggests that, at least in certain circumstances, structural conditionality can have significant value added in terms of encouraging and monitoring progress on reforms. However, unrealistically "tight" deadlines can be counterproductive. Timetables need to be designed carefully, taking account of the political economy situation, especially when legislative action is involved.

Lesson 7. A wider dissemination of IMF TA reports for Jordan would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues.

The IMF's future role in Jordan

Lesson 8. Looking ahead, the IMF's main challenge will be to help Jordan manage the projected decline in grants in a manner that preserves the gains made in the areas of macroeconomic stability and longer-term fiscal sustainability. This suggests that the highest priorities for policy advice and technical assistance should be on helping the authorities design a macroeconomic framework—and an explicit delineation of accompanying policies—that will achieve a smooth transition.

Lesson 9. An important part of IMF assistance should focus on helping to design strategies to tackle Jordan's key remaining fiscal rigidities. The focus should be on exploring alternative policy options to achieve the necessary structural reforms in the fiscal area. Previous experience suggests that short-term quantitative targets without analyzing in greater depth the underlying strategies to achieve these targets are unlikely to be successful.

Chapter

I

Introduction

After 15 years of almost continuous involvement in IMF-supported programs (see Table 1.1, and Annex 1), Jordan "graduated" from reliance on such programs in July 2004. This evaluation assesses how well IMF support helped Jordan tackle the major adjustment challenges it faced from the late 1980s through 2004. The primary focus is on the effectiveness of Jordan's IMF-supported programs, but the roles and contributions of other IMF activities—surveillance and technical assistance—are also examined.

Jordan was chosen as a suitable candidate for a stand-alone case study for two main reasons. First, as a country that exited from IMF program involvement after a lengthy period under different types of arrangements, it offers significant opportunities for learning about the IMF's role and about what can be learned from such ex post assessments. Second, it provides opportunities for assessing the IMF's role in a region and with a type of country (low middle income) that has not previously been examined by the IEO.[1]

To set the stage, a brief overview of the main macroeconomic and related structural problems that Jordan faced at the beginning of its long program involvement is presented. These issues are treated in greater depth in later chapters.

Jordan turned to the IMF and World Bank following a severe balance of payments crisis during late 1988 and early 1989. At the time, it had virtually exhausted its international reserves and was on the verge of defaulting on its external debt payments. The origins of the crisis lay primarily in a failure to adjust to the end of an earlier regional economic boom fueled by high oil prices. The boom had boosted demand for Jordan's exports and facilitated large inflows of official transfers (averaging almost 15 percent of GDP a year during the first half of the 1980s) and private remittances from Jordanians working in oil exporting countries. Falling oil prices led to substantial drops in these inflows during the mid-1980s. The decline in grants substantially affected the budget, but the authorities failed to adjust and fiscal deficits ballooned. Initially, the authorities turned to foreign borrowing to finance rising government spending and, when foreign credits began to dry up in 1987–88, they resorted to massive domestic financing, which led to a heavy loss of external reserves and quickly proved unsustainable. The subsequent crisis involved a large devaluation of the dinar and was compounded by the collapse of Jordan's third largest bank. Output contracted by almost 11 percent in 1989 and inflation surged to over 25 percent.

Thus, at the start of its long program involvement with the IMF, Jordan faced both a severe immediate crisis as well as deep-rooted macroeconomic and related structural problems:[2, 3]

- A massive external public debt (equivalent to 174 percent of GDP) along with a heavy debt-service burden (over 25 percent of exports of goods and services) that had quadrupled in only five years.
- Large current account deficits (14 percent of GDP before grants in 1988) that relied heavily on substantial concessional support that was subject to shocks largely beyond Jordan's control, and external reserves that were almost exhausted.
- Large fiscal deficits (23 percent of GDP before grants in 1988) and a domestic public debt that, while small in comparison to external debt, was growing rapidly.

[1]Previous evaluations have examined case studies in the context of (1) a systemic analysis of emerging market economies subject to capital account crises (Korea, Brazil, Indonesia, and, more recently, Argentina); (2) the evaluation of the PRSP/PRGF framework (Guinea, Mozambique, Nicaragua, Tajikistan, Tanzania, and Vietnam); or (3) the evaluation of prolonged use of IMF resources (Pakistan, the Philippines, and Senegal).

[2]A comprehensive discussion of these structural weaknesses appears in Maciejewski and Mansur (1996). See also Mansur and Mongardini (2004).

[3]The statistics quoted in this paragraph are based on data available at the formulation of the 1989 SBA; see Annex 13, Table A13.1.

Table 1.1. Jordan's IMF Arrangements

Type of Arrangement	Approval Date	Expiration/Cancellation Date
1. Stand-By Arrangement	7/14/1989	1/13/1991
2. Stand-By Arrangement	2/26/1992	2/25/1994
3. Extended Fund Facility[1]	5/25/1994	2/9/1996
4. Extended Fund Facility	2/9/1996	2/8/1999
5. Extended Fund Facility	4/15/1999	5/31/2002
6. Stand-By Arrangement	7/3/2002	7/2/2004

Source: IMF Finance Department database.
[1]Canceled before expiration date and replaced with a new three-year arrangement.

- A rigid fiscal structure that made sustainable adjustment hard to achieve. Both revenues (averaging over 23 percent of GDP in the late 1980s) and expenditures (well over 40 percent of GDP) were high in comparison to other countries at a similar level of development. The revenue structure was heavily dependent on distortionary trade taxes, and on nontax revenues that were both volatile and inelastic. In addition, the tax system induced important allocative distortions due to cascading, significant use of exemptions, a multiplicity of rates, and a weak tax administration.
- At the same time, expenditures were dominated by categories that were difficult to cut in the short term (either because of their "contractual" nature—e.g., high and rising pension payments that required reforms that would be slow to yield savings, and interest payments—or because of their political sensitivity—e.g., military spending and a large civil service wage bill). In total, such "rigid" expenditures accounted for over 70 percent of total spending.
- The economy suffered from a series of structural impediments that hampered growth—including a weak business environment and regulatory framework; a regulated external trade with high tariff and nontariff barriers and substantial government intervention in the real economy. The export base was small and concentrated on a narrow range of mining and agricultural products.
- In the financial sector, the authorities still relied primarily on direct monetary instruments and the supervisory capacity of the Central Bank of Jordan was weak.

In addition, Jordan's close regional economic ties made it susceptible to shocks related to economic and political developments in the Middle East. The region is a primary destination for Jordanian exports, a source of supply for the bulk of Jordan's energy needs, employer of hundreds of thousands of Jordanians whose remittances are a major contributor to national disposable income, and the source of substantial foreign aid. Regional political developments—including the 1991 war in the Middle East, the ebb and flow of Middle East conflict and peace prospects, and the 2003 war in Iraq—had significant impact on Jordan's economic performance.[4] Consequently, an additional challenge was to improve the resilience of macroeconomic policies and institutions to such shocks.

Scope of the Evaluation

The evaluation assesses how well the IMF helped Jordan to deal with these problems. In order to focus on the contribution of the IMF, the key outcomes of interest relate to macroeconomic objectives—external viability, low inflation, and growth. Since there are many factors besides IMF support that contribute to outcomes, the approach taken in the evaluation is twofold: (1) assess progress in meeting key macroeconomic objectives (even if specific attribution is not possible); and (2) assess the quality of the IMF contributions (e.g., in terms of the nature of program design) and examine what factors have influenced the channels through which they have had their influence (e.g., in terms of program implementation). The main focus is on the contribution of programs and other forms of IMF support to better macroeconomic policies and related structural reforms. Policy issues for which the primary responsibility has been that of the World Bank are not addressed in great depth, unless such issues involve major macroeconomic linkages.

The overarching evaluation questions may be summarized as follows:

- Was the overall design of IMF-supported programs—including the nature of the underlying

[4]A chronology of selected political and economic events is presented in Annex 2.

analysis, the broad objectives, and the policy content—relevant and appropriate to Jordan's circumstances?

- What has been achieved in terms of these broad objectives and what can be said about the contribution of IMF support?
- What has been the contribution of IMF support in addressing Jordan's more fundamental structural and institutional rigidities and helping it to strengthen its capacity to cope with various shocks?
- How well did internal IMF processes and policies work in the institution's dealings with Jordan? In particular, did Jordan receive preferential treatment from the IMF on account of geopolitical considerations?

The evaluation draws upon a detailed review of IMF documents, including both papers presented to the Board and internal IMF staff documents; interviews with IMF and World Bank staffs; and interviews with a broad range of stakeholders, including former and current Jordanian officials that took place during a mission to Jordan by the IEO evaluation team during November 21–December 1, 2004.

The rest of the report is organized as follows. Chapter 2 assesses the design of IMF-supported programs, with the focus on how well suited they were to addressing Jordan's adjustment challenges. Chapter 3 examines the effectiveness of the programs, beginning with an assessment of the extent to which objectives were achieved, and discusses factors that contributed to observed outcomes and to deviations from envisaged outcomes. Chapter 4 examines the role of IMF surveillance and technical assistance activities. Issues related to IMF internal processes and policies are addressed in Chapter 5.

Chapter 2

The Design of Jordan's IMF-Supported Programs

The main question discussed here is how well suited to addressing Jordan's major adjustment challenges were the objectives, strategies, and policies contained in the various programs supported by the IMF. The chapter also briefly reviews the nature of the IMF's analysis and policy advice following Jordan's "exit" from IMF arrangements, in the context of post-program monitoring discussions.

Specifically, the focus is on the clarity and coherence of the strategies and policies that were expected to contribute to external sustainability, growth, and inflation:

- How restoring external and fiscal sustainability was analyzed and defined and how this influenced program design.
- How the pace and composition of targeted macroeconomic adjustment were derived and whether they were consistent with the broader objectives of the programs. In this context, particular attention is paid to the scale and composition of the targeted fiscal adjustment and the policies expected to achieve this adjustment.
- Inflation objectives and the design of monetary and exchange rate policy.
- The structural reform content of the various programs and whether this content was well suited to helping Jordan resolve its key adjustment challenges.
- The scope and content of program conditionality.

Several points are worth noting at the outset. First, it is not intended to report here a detailed blow-by-blow analysis of the contents of each individual program, especially since details of program design were modified during program reviews as circumstances evolved.

Second, the review covers a 15-year period during which the IMF's approach to some aspects of program design was modified as a result of various IMF-wide reviews that sought to derive lessons for enhancing the overall effectiveness of programs. The most relevant of these for the case of Jordan were the 1994 and 2000–02 "conditionality" reviews. A key message from the former was the need for programs to set fiscal adjustment explicitly in a medium-term framework that allows for evaluation of progress toward sustainability. The 2000–02 review dealt mainly with structural conditionality; it called for the "streamlining" of such conditionality in terms of quantity, scope, and criticality for meeting program objectives.[1] In this sense, there have been some changes in the internal measuring rods by which appropriate program design was judged and it is important not to judge earlier programs against explicit guidelines that were only established later.

Finally, any assessment of the appropriateness of program design has to take account of the likelihood that it will be implemented. A program that looks strong and internally consistent on paper but that has little domestic ownership is unlikely to be successful. This issue is pursued further in the next chapter.

Approaches to External and Fiscal Sustainability in Program Design

A review of program documents suggests several conclusions about the approach to restoring external and fiscal sustainability incorporated into program design in Jordan.

The operational approach to external viability that effectively drove program design was a flow, not a stock, concept—at least until very recent programs. Restoration of medium-term external viability was defined in terms of eliminating the need for "exceptional financing" (i.e., nonautonomous flows including debt relief, arrears accumulation, or IMF financing). While medium-term projections of the balance of payments prepared at the time of the programs included debt projections, there was, until the last few years, much less focus on the analysis of

[1]The findings from the 1994 conditionality review are reported in Schadler and others (1995) and Schadler (1995). On the 2000–02 conditionality review, see IMF (2000 and 2002a). An "Interim Guidance Note" on streamlining structural conditionality was issued to IMF staff in September 2000, ahead of the formal review that took place during 2001–02.

debt dynamics as a driver of the magnitude of targeted adjustment in the external current account. This analysis was largely limited to (1) a qualitative judgment that Jordan suffered from a "debt overhang" so that lowering external debt ratios would be good for growth by reducing potential disincentives for the private sector to save and invest; and (2) a judgment that a declining path of debt/GDP and debt/foreign exchange earnings indicated "sustainability," without any assessment of what would be appropriate longer-term targets and why or how such judgments might influence the pace of targeted adjustment in, say, the external current account.[2]

Projections of when such exceptional financing would be eliminated were ambitious and proved to be consistently optimistic (Table 2.1). The reasons for this are hard to disentangle, but a reluctance to acknowledge initially how long the adjustment process would be (and, correspondingly, the time span over which debt relief would be required) played a role. However, after a series of flow reschedulings from the Paris Club, the combination of an improving balance of payments situation as well as an innovative approach to an "exit" rescheduling (and the related signaling from the IMF) allowed Jordan to phase out such financing (Box 2.1).

The approach to fiscal sustainability that underlay program design followed a similar pattern. The focus in early programs was on tailoring the targeted fiscal deficits to available financing. The early SBAs defined fiscal sustainability in terms of reducing initial large deficits to levels that could be financed by "normal" aid flows and domestic financing that was consistent with internal financial stability.

A shift to a broader concept of sustainability, including a more comprehensive analysis of the trade-offs involved in various debt paths, would have been useful much earlier than it actually occurred. An approach to sustainability that concentrated on the viability of the financing of external and fiscal deficits in the short term was understandable in the early programs where a key concern was to ensure that projected financing gaps could actually be covered. However, by the time of the EFF arrangements, program design would have benefited from greater inputs from an analysis of debt dynamics to illustrate, for example, the trade-offs involved in choices on

[2]For example, the staff's 1996 analysis of the prospects for medium-term viability injected greater realism by concluding that Jordan's medium-term viability remained "questionable" because substantial financing gaps remained in each year of the projection period—implying the need for further rescheduling. It also concluded that the debt ratios were on a "sustainable" downward path and could be reduced to a level consistent with sustained high rates of economic growth—without, however, defining what those levels might be. (See Appendix V in Maciejewski and Mansur, 1996).

Table 2.1. Target Dates for Elimination of Exceptional Financing Needs[1]

	Date Specified in Original Program Document
1989 SBA	1995
1992 SBA	1998
1994 EFF	1998
1996 EFF	Beyond 2002[2]
1999 EFF	2002
2002 SBA	2007

Source: IMF program documents.

[1]Defined as the end of the period in which, according to projections at the beginning of each IMF arrangement, exceptional financing (including debt relief from the Paris Club and other creditors) would be required.

[2]Exceptional financing needs were projected throughout the forecast period that ended in 2002.

the magnitudes of targeted adjustment.[3] As will be discussed further below, the focus on shorter-term sustainability issues also limited the analysis of potential growth consequences of program design.

Nevertheless, a marked shift in the depth of the debt sustainability analysis (DSA) underlying program design in Jordan did take place beginning in 2002 with the preparation of a high-quality medium-term fiscal strategy paper. The shift also reflected the adoption, IMF-wide, of a more comprehensive approach to DSA that called for systematic medium-term debt projections and assessments of the impact of the most relevant shocks on the debt profile.[4] The shift to a greater focus on targets for the debt stock as a key input into program design tracked Jordan's adoption of explicit ceilings on total public and external debt as part of a new Public Debt law (Box 2.2).

Did these recent sustainability analyses contain an adequate assessment of the potential vulnerabilities facing Jordan's economy, and how did they feed into program design and the IMF's macroeconomic policy advice in the post-program period? Three key findings emerged from a review of the various sustainability analyses undertaken since 2002 (see Annex 3 for further details).

- The sustainability analyses did pay increasing attention to what would be an appropriate longer-term debt target for Jordan. Moreover, while there had been relatively little analysis in early

[3]IMF staff did undertake analyses of fiscal sustainability issues in the context of Article IV consultations (e.g., the 1995 and 1996 consultations) but not in a manner that analyzed trade-offs between alternative adjustment paths as an input to program design.

[4]See, for example, the paper "Assessing Sustainability" (IMF, 2002b) discussed by the Executive Board in June 2002, which formed the basis for a new framework for assessing countries' external and public debt.

Box 2.1. Paris Club Rescheduling and IMF Signaling

Jordan has had six rescheduling agreements with the Paris Club facilitated by the country's six IMF arrangements. Typically, the agreements provided relief on qualifying debt service falling due during periods that roughly corresponded to that of existing IMF arrangements.

All together, nearly $5 billion of debt-service obligations were rescheduled under the six agreements. At the time of the 2002 agreement, about 60 percent of the country's outstanding public and publicly guaranteed external debt was due to Paris Club creditors.

All the agreements have been on nonconcessional terms, on account of Jordan's status as a middle-income country. However, over time, the terms became more favorable, including longer repayment and grace periods for the rescheduled amounts. For example, under the 1997 and subsequent agreements, payment on official development assistance (ODA) loans were rescheduled over 20 years with a 10-year grace period; payments for non-ODA debt were rescheduled over 18 years with a 3-year grace period.

The 2002 agreement, which was designated an "exit" agreement, had the unusual feature of having a consolidation period that extended well beyond the expected expiration of the 2002 SBA, covering debt-service obligations falling due through 2007. As Jordan was expected to graduate from reliance on IMF arrangements at the end of the 2002 SBA, the agreement indicated that after such a graduation, debt relief would be provided to Jordan on the basis of "strong IMF involvement through semiannual monitoring of Jordan's performance." In the event, IMF "involvement" has been through the post-program monitoring (PPM) mechanism which is applied to countries that have graduated from IMF arrangements but which have obligations to the IMF in excess of 100 percent of their quota. The Executive Board completed the first PPM discussions on Jordan in January 2005.

Box 2.2. Public Debt Law of 2001

In 2001, Jordan enacted a new Public Debt Law with the twofold goal of providing a more effective framework for debt management and facilitating a medium-term strategy for the reduction of dependence on external financing. The law required that total public debt be limited to 80 percent of GDP and that external debt be limited to 60 percent of GDP by 2006. It also removed limits on the government's ability to finance fiscal deficits through issuance of domestic debt rather than through external borrowing. The law limits internal borrowing to debt instruments (bills and bonds) traded on the Amman stock exchange and prohibits direct borrowing from commercial banks or other institutions.

In the context of the 2002 SBA, the authorities presented a medium-term fiscal strategy for debt reduction designed to achieve the target set out in the law.

program documents of the consequences for growth of different paths of external adjustment, IMF staff did make greater efforts to assess such potential trade-offs from 2002 onward.

- The analysis of potential trade-offs between different strategies for continuing progress toward longer-term sustainability did result in a significant shift in program design—especially between the 1999 EFF and the 2002 SBA. The 2002 fiscal strategy paper concluded that the fiscal strategy underlying the EFF needed substantial modification in favor of a revised approach to addressing the debt problem that emphasized (1) a more gradual fiscal deficit reduction with more emphasis on specific longer-term reforms to address key fiscal rigidities; and (2) more aggressive "below the line" efforts to reduce the debt stock through debt restructuring/reduction and proceeds from privatization.
- The treatment of grants became a critical factor in judgments of longer-term sustainability. Assessments in Board papers rightly emphasized that the temporary upsurge in grants in 2003–04 should not be used to finance a permanent pickup in government expenditures. However, the assessments said relatively little about the potential dangers involved in managing a sharp reversal of grants or about policies that could help smooth the macroeconomic consequences. Internal staff notes tended to be somewhat franker about the risks, and information gathered from interviews for this evaluation suggest that the potential risks were discussed with the authorities.

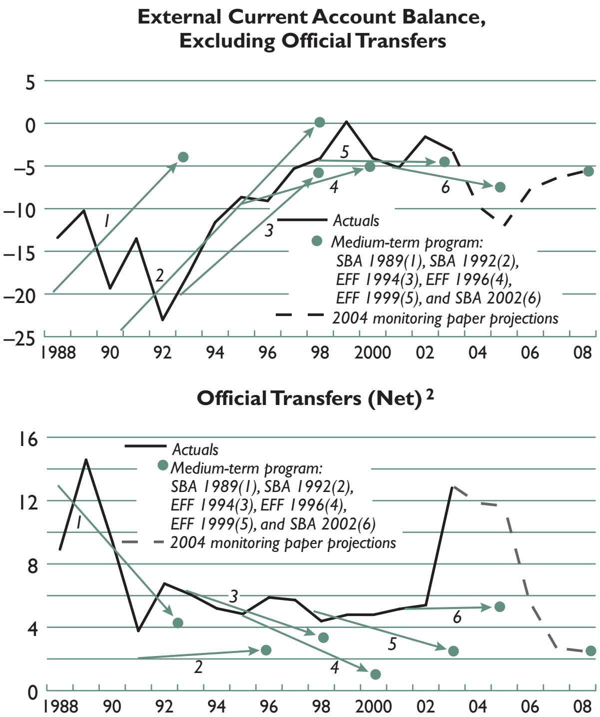
Growth Objectives and the Magnitude and Composition of Targeted Adjustment in Key Macroeconomic Variables

The broad strategy to foster sustainable growth over the medium term was in many respects unchanged throughout the long sweep of IMF program involvement, reflecting the authorities' underlying policy framework.[5] Specific growth projections varied substantially—partly reflecting the consequences of various geopolitical shocks—and macroeconomic targets as a share of GDP exhibit discontinuity because of significant revisions to national accounts data.[6] However, the core elements of the medium-term strategy were generally as follows under all the arrangements:

- The private sector was expected to be the primary engine of growth, supported by a policy framework that provided appropriate incentives for increased private investment and savings.
- A significant decline in public sector dissaving and the public debt "overhang" (along with the associated restoration of external viability and lower inflation) would help provide those necessary incentives.
- The increases in overall domestic investment would necessarily be fairly moderate and the contribution to be financed by domestic savings would rise markedly. This reflected the sharp targeted adjustment in the external current account (excluding grants) that continued at least through the 1999 EFF (Figure 2.1 and Annex 13, Table A13.2).
- Given the moderate increases in investment, a significant part of any pickup in growth over the medium term would have to come from higher productivity growth. Structural reforms designed to achieve this included liberalizing domestic trade and domestic prices; a wide range of institutional and policy reforms aimed at enhancing the business and investment climate; and a reduction of the state's intervention in the economy, including through privatization of state-owned enterprises.

While the qualitative nature of the strategy (and the expected evolution of savings and investment balances) was spelled out quite clearly in program documents, there was little analysis of what this strategy might mean in more concrete terms for the medium-term growth projections. For the most part, these projections appear to have been arrived at exogenously (e.g., relying on extrapolations from recent trends and objectives established in the authorities' own strategy documents). The general pattern was to project a rapid recovery of growth when output performance was poor at the start of the program and to project the continuation of a good growth performance if that was already the situation. Program documents would have benefited from more thorough analyses of the sources of growth and of the impact of envisaged fiscal adjustment on private savings and investment. Clearly, all such analytical exercises have their limitations, but spelling out the assumptions underlying some of these key elements of program design would have facilitated judgments on their reasonableness and on how programs might need to be modified should the assumptions prove incorrect. As noted above,

Figure 2.1. Medium-Term Targets for External Current Account and Projected Evolution of External Grants[1]
(In percent of GDP)



Source: IMF program documents.
[1]The numbered arrows show the projected medium-term path at the time of the original program design, beginning with the then-estimated actual level in the year before the program was formulated (t–1). The solid line shows latest estimated actual outturns. Some revisions to the (t–1) estimated actuals occurred after the programs were formulated, in which case the arrows showing the direction of targeted adjustment do not start on the actuals line.
[2] Balance of payments definition.

[5]A summary of the objectives, strategies, and key policies presented in the initial requests for Jordan's six IMF arrangements is contained in Annex 4.
[6]The most pronounced revisions occurred in 1998 and affected national accounts and fiscal data for 1996 and 1997. This led to a misreporting episode with the IMF (see Box 3.1).

there has been significantly more analysis of these issues in recent years.[7]

Within this broad strategy, however, there were some significant differences in approach between arrangements with respect to how the targeted external current account adjustment was to be achieved (Table 2.2 and Figure 2.2). In summary, the early SBAs expected all of the adjustment to be accounted for by a sharp reduction in the fiscal deficit (excluding grants). For reasons that are not well explained in program documents, the 1994 EFF, which targeted continued significant adjustment in the external current account, expected most of it to be generated by a higher private savings-investment balance. By the time of the 1999 EFF, when the adjustment in the external current account had essentially been achieved, the programs targeted a large—and, in retrospect, unrealistic—further reduction in the fiscal deficit in order to create room for a substantial "crowding in" by the private sector. In the event, none of the fiscal adjustment targeted under the three EFFs was achieved. The strategy underlying the 1999 EFF was eventually replaced by one under the 2002 SBA involving a more moderate path for the deficit, with the aim of greater focus on underlying fiscal reforms. However, the upsurge in grants that began in 2003 eventually led to a further change in strategy, with a significant proportion of the increased resources expected to be absorbed by higher fiscal deficits (excluding grants) but with part expected to go to financing higher private investment.

Within the targeted fiscal adjustment, expenditures were typically expected to bear most or all of the burden (see Table 2.3), but program documents did not focus enough on the fiscal structural reforms that would be needed to sustain this adjustment over the medium term. The focus on expenditure reduction was appropriate, given the initial high expenditure to GDP ratio and the need to alter the composition of revenues for efficiency reasons. However, programs would have benefited from a greater emphasis on identifying the specific reform steps to address the underlying rigidities. The following broad conclusions are suggested by a review of the fiscal structural content of various arrangements (see Annex 5 for details):

- The emphasis of the first SBA was to help the fiscal situation by adjusting administrative prices, reducing untargeted food subsidies, and increasing specific excise taxes. Given the crisis atmosphere and the need for a rapid fiscal adjustment, it is unrealistic to expect that a comprehensive program of structural reform could have been put together at this time.
- The EFFs started identifying some structural measures and supported steps in the areas of pensions, better targeting of food programs, and divestiture and restructuring of public enterprises. However, they did not address other major rigidities on the expenditure side. In particular, little was done to address, even in a long-term framework, the issues of the large public sector wage bill. The EFFs spanned a seven-year period, a sufficient period under which some initial steps could have been identified in this area—given the emphasis that program documentation gave to the expenditure rigidity issue.[8]
- As will be discussed further in Chapter 5, cooperation between the IMF and World Bank on public expenditure reviews was not very effective in generating concrete plans of action for expenditure restructuring during this period.

The 2002 fiscal strategy paper did lay out a comprehensive policy agenda to support the adjustment path it proposed. Progress was made in further supporting pension reforms and tax reforms in the subsequent 2002 SBA, but a number of other key expenditure rigidities remain.

Moreover, the potential challenges for fiscal adjustment posed by the expected reversal of the recent large upsurge in grants have received insufficient attention in recent Board papers. As a result of developments in the Middle East, including the Iraq war, Jordan began to receive a sharply increased level of grants that were reflected in a more than doubling of the targeted fiscal deficit before grants to about 10 percent of GDP under the 2002 SBA.[9] Since the surge in grants was expected to be sharply reversed after a few years, the 2002 SBA documentation incorporated projections for the medium term that

[7]Background papers prepared for the 1995 and 1998 Article IV consultations contained analyses of the sources of growth using a standard "growth accounting" framework but subsequent discussions of growth targets in program documents do not seem to have drawn on the analysis in any substantive way. The 2004 Article IV also contained an analysis of progress on structural transformation and attempted to estimate whether productivity growth had improved in practice. The results suggested that there were some signs of a pick up in productivity growth in recent years—although it is not possible to draw strong conclusions on the basis of observations for only a few years.

[8]The staff's 2002 fiscal strategy paper in effect criticized the 1999 EFF for relying on the assumption of large unspecified expenditure cuts and proposed an approach based on addressing the underlying fiscal rigidities through specific policy measures that were costed in the medium-term baseline.

[9]Part of the fiscal expansion reflected the introduction of the authorities' Plan for Social and Economic Transformation (PSET), including investment in social services and basic infrastructure, with an additional cost of about 4 percent of GDP a year to be financed by increased grant financing.

Table 2.2. Some Stylized Facts About the Composition of Targeted Adjustment

Arrangement	Size of Targeted External Adjustment and How It Was to Be Achieved[1]	What Actually Happened[2]
1989 SBA	• Large reduction in external current account deficit (by 9.2 percent of GDP). • All from higher domestic savings; no change in investment. • All from fiscal adjustment, mainly from expenditures.	• Current account deficit originally widened in 1990–91, under impact of the war in the Middle East, but then steadily declined. • Fiscal deficits also widened initially but then massive fiscal consolidation took place in 1992—exceeding the cumulative targets under the two SBAs. • Over period 1988–92, all of adjustment came from fiscal side. • The actual dec ine in the private sector savings-investment balance while significant was much less than programmed.
1992 SBA	• Large reduction in external current account deficit (12.7 percent of GDP). • All from higher domestic savings; investment higher. • Two-thirds from fiscal adjustment, mainly from expenditures.	
1994 EFF	• Large reduction in external current account deficit (8.7 percent of GDP). • Three-fourths from higher savings; one-fourth from lower investment. • One-third from fiscal adjustment, all from expenditures.	• Current account deficit continued to narrow steadily through 1999 despite the fact that none of the targeted fiscal deficit reduction under the three EFFs was achieved. • Public debt ratios continued to decline despite fiscal slippages because of debt reduction operations. • In contrast to program objectives, virtually all of the adjustment in the external current account during the period of the three EFFs reflected an improvement in the private savings-investment balance.
1996 EFF	• Modest reduction in external current account deficit (2.6 percent of GDP). • All from higher savings; investment slightly higher. • Virtually all from fiscal adjustment; all from expenditures.	
1999 EFF	• No significant change in external current account. • Significant increase in domestic savings to finance higher investment. • Large fiscal deficit reduction (i.e., large implicit "crowding in" of private sector). • Two-thirds of fiscal reduction from expenditures.	
2002 SBA	• Moderate widening of external current account deficit (by 1.7 percent of GDP). • Savings broadly unchanged; moderate increase in investment. • Moderate widening of fiscal deficit, financed by higher grants. • Most of targeted widening of deficit reflected revenue reduction.	• External current account and fiscal deficits widened more than targeted, reflecting a sharp upsurge in grants that began in 2003.
2004 post-program monitoring	• Large (temporary) widening in the external current account, financed by sharply higher grants. • Lower savings and higher investment. • Both fiscal deficit and private sector savings-investment balance projected to deteriorate.	

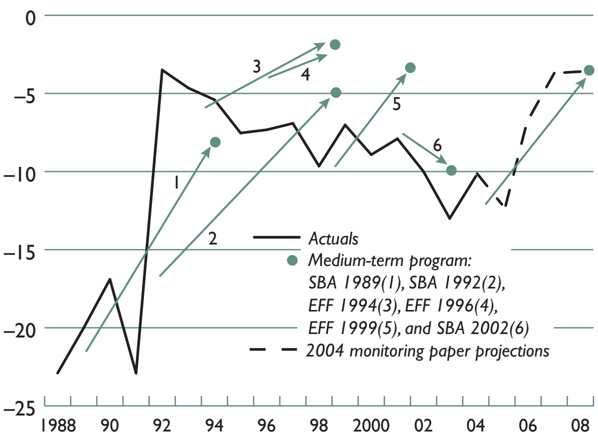
Sources: Annex 13, Tables A13.3 and A13.4.

[1]External adjustment is measured by the change in the external current account, excluding official transfers (in percent of GDP) between t–1 and t+2. We look at three aspects of the composition of this adjustment (all measured in terms of percent of GDP): (1) the distribution between changes in savings and investment; (2) the distribution between fiscal adjustment (measured as changes in the fiscal deficit, excluding grants), and the implicit private sector savings-investment balance; and (3) the distribution of the targeted fiscal adjustment between revenues and expenditures.

[2]Outcomes under the various arrangements are discussed in more detail in Chapter 3.

rapidly reversed the fiscal expansion programmed for 2003, to be achieved through a projected contraction in public expenditures from 35.5 to 31 percent of GDP by 2007 (Table 2.3). The projected swings in the fiscal stance became even sharper in the macroeconomic framework presented in the 2004 post-program monitoring paper that discusses Jordan's remaining adjustment challenges as it exits from IMF financial assistance. That paper envisages a peak level of grants for 1995—reaching almost 10 percent of GDP—and a peak level of public expenditures equal to 38 percent of GDP—the largest level during the last decade. The same paper projects then an extraordinary level of adjustment between 2005 and 2007: grants are to decline to a very low level of 1.2 percent of GDP, and public expenditures are to

Figure 2.2. The Envisaged Adjustment in Fiscal Balance, Excluding Grants
(In percent of GDP)



Sources: IMF program documents and IMF (2004b).

contract to a historically low level equal to 28 percent of GDP (Figure 2.3). In spite of this extraordinary fiscal adjustment being projected—10 percentage points of GDP in a two-year period—the post-program monitoring paper does not alert the authorities about this impending fiscal correction ahead of them and the urgent need to identify policy options to confront it.

Inflation Objectives and the Design of Monetary and Exchange Rate Policy[10]

The inflation objectives of the various programs were straightforward. The first two SBAs aimed to bring down inflation quickly (from about 26 percent in 1989 to around 6–7 percent by 1993–94). They succeeded, and subsequent arrangements aimed to keep inflation low (typically in the range 2–4½ percent a year; see Annex 13, Table A13.2).

The authorities' framework for conducting monetary policy changed markedly, reflecting shifts in the choice of exchange rate regime in the early years of IMF program engagement (see Annex 6 for details), and subsequently, a move from direct credit controls to indirect monetary control. The key elements of program design were as follows:

- Following the effective floating and significant depreciation of the Jordanian dinar in late 1988, exchange rate policy was characterized as one of "managed flexibility" during the early 1990s. What this actually meant in terms of a nominal anchor for monetary policy was not very transparent, especially since some statements about exchange rate policy in program documents seemed to suggest a real effective target.[11] In practice, the rate was held stable against the SDR basket of currencies for much of this period, which proved effective in moderating inflation. At the same time, policy instruments still relied heavily on various direct controls, including of various exchange transactions and tight direct credit control measures.
- Exchange rate policy shifted to a fixed peg to the U.S. dollar—on a de facto basis in about 1994 (in the sense that the exchange rate has been essentially stable vis-à-vis the U.S. dollar since then) and in a formally announced manner from October 1995 onward. Thereafter, the principal objective of monetary policy became defending the peg, mainly through a policy of maintaining the attractiveness of dinar-denominated certificates of deposits vis-à-vis U.S. treasury bills. The authorities acted on a number of occasions—with the encouragement of IMF staff—to widen this interest rate spread in order to prevent a shift out of dinars during periods of uncertainty (e.g., during the period of the illness and death of H.M. King Hussein).
- The framework for designing the monetary program under IMF arrangements remained virtually unchanged; it revolved around a ceiling on net domestic assets.[12] This was the traditional IMF approach and inevitably involved something of a disconnect between the principal policy instrument (namely, interest rates) and the formal structure of the monetary program (namely, quarterly net domestic assets (NDA) targets). This disconnect is not necessarily a problem and the framework could be interpreted

[10]The IMF's advice on exchange rate policy is also discussed in the context of IMF surveillance in Chapter 4.

[11]For example, the staff report accompanying the request for the 1989 SBA stated that "The government is committed to continue to follow a flexible exchange rate policy and to ensure, as a minimum, the maintenance of the real effective rate." If pursued in any operational sense—which it does not appear to have been—such an approach would have represented a major potential inconsistency in program design since it would have been hard to reconcile with the objective of rapid reduction in inflation.

[12]Following the move from direct credit controls to indirect monetary control, the limit was set on the NDA of the Central Bank of Jordan (CBJ) from 1995.

Table 2.3. Medium-Term Fiscal Objectives and Projections of Different IMF-Supported Programs and Papers
(In percent of GDP)

	Year	Fiscal Balance After Grants	Grants	Fiscal Balance Before Grants	Revenue	Expenditure
Initial values (1988, as seen at the time)		–16.4	7.3	23.7	31.8	55.5
The early SBAs						
1989 SBA	1991	–8.0	6.0	–14.0	34.0	48.0
	1993	–6.0	3.0	–9.0	36.5	45.5
1992 SBA	1995	–6.7	1.8	–8.5	28.0	36.5
	1998	–3.6	1.4	–5.0	30.0	35.5
The EFFs						
1994 EFF	1995	–0.9	3.4	–4.3	31.9	36.2
	1998	0.2	2.7	–2.5	30.8	33.3
1996 EFF	1998	0.1	2.6	–2.5	30.3	32.8
	2000	–1.0	0.8	–1.8	30.3	32.1
1999 EFF	2001	–1.4	2.6	–4.0	30.5	34.5
The 2002 SBA						
2002 SBA	2003	–4.3	6.0	–10.3	25.2	35.5
	2007	–2.7	3.6	–6.3	24.7	31.0
2004 monitoring paper[1]	2005	–3.2	9.9	–13.1	25.2	38.3
	2007	–2.5	1.2	–3.7	24.7	28.4

Source: IMF program documents.
[1]See IMF (2004b).

as a "belt and braces" approach whereby the quantitative targets act as a potentially useful signal of emerging problems especially since it is probably not practical to have formal conditionality on day-to-day interest rate policy.[13] Much depends on its implementation in practice, since estimates of underlying behavioral parameters—especially the demand for money—are inevitably uncertain. If applied in an overly rigid manner, it could lead to an "overdetermined" system.[14] Any deviations from NDA targets would need to be judged in the context of whether interest rate policy is being conducted appropriately and the objectives for inflation and external reserves are being achieved. This flexible approach does appear to have been applied in the case of Jordan. Moreover, recent Board papers placed the primary emphasis on discussion of interest rate policy.

[13]Some commentators have suggested the use of an interest rate rule as a trigger for consultation, but for countries with an explicit inflation-targeting framework for monetary policy (see Blejer and others, 2002).

[14]To continue the "belt and braces" analogy, if the tailor has only imprecise information about the size of the customer, applying a "whichever is tighter" rule would probably not yield a good fit for the trousers.

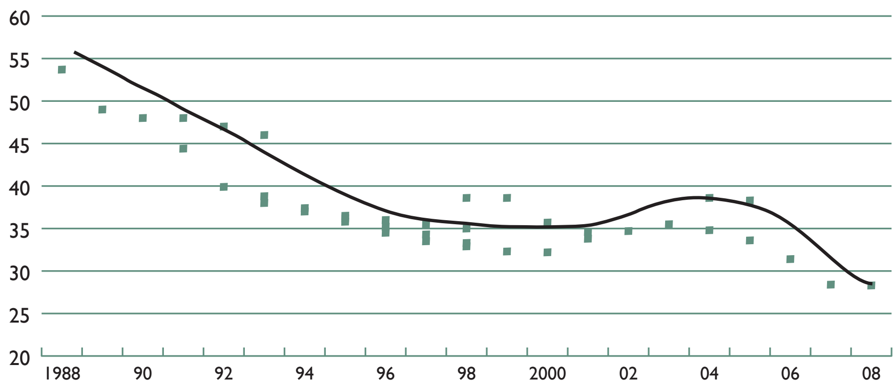
Structural Reforms Addressed by IMF-Supported Programs

The IMF and the World Bank collaborated closely on structural reforms in Jordan, with the World Bank taking the lead in several areas including the trade regime and regulatory and legislative reform for enhancing the investment climate and promoting private sector development. There were also many common areas of work, such as trade, energy, price deregulation, and privatization—areas where the Bank was also active with its own lending operations. The areas that were emphasized in the IMF-supported programs are covered below.

Tax reform. The main objectives were making revenues more buoyant and reducing the distortionary nature of the tax system. The centerpiece of the reforms was the reorientation of the tax system from an import-based one to one based on domestic consumption. In particular, a general sales tax (GST) with the features of a value-added tax (VAT) was to replace a series of existing narrowly based consumption tax. Other reforms were geared to broaden the base of direct taxes and to strengthen revenue administration. Tax reforms were closely coordinated with tariff reforms—a key element of reform of the trade regime.

Trade regime. Reform in this area figured predominantly under the first SBA and in a 1990 World

Figure 2.3. Envisaged Adjustment in Public Expenditures[1]
(In percent of GDP)



Sources: IMF program documents and IMF (2004b).
[1]Each observation represents a program target. There are multiple observations for some years because of overlapping projection periods under some of the arrangements.

Bank adjustment loan. The reforms followed the well-established principle of first converting quantitative restrictions into tariffs and replacing specific tariffs by ad valorem ones. Thereafter, effective protection was gradually lowered through the 1990s supported by the EFFs. Maximum tariffs were reduced from above 300 percent to 50 percent between 1989 and 1996, and then to 35 percent in 1999.

Price liberalization and targeting of food subsidies. The adjustment of controlled prices during the early 1990s was accompanied by the relaxation of restrictions on the import and export of food commodities by the private sector, thus increasing the role of market mechanisms in determining prices. Such reforms were part of a broader reform to replace general food subsidies by more targeted subsidies—as the former had favored the better-off more than the poor.[15] Eventually, food subsidies were gradually replaced by direct cash assistance administered by the National Aid Fund (NAF).

Financial sector. Financial sector reforms included strengthening the banking system, improving the national payment system, and deepening financial markets. IMF involvement was largely through an intensive program of technical assistance. Specific areas of support included enhancing the Central Bank of Jordan supervision capacity and bringing reporting practices to international standards. Transformation of monetary operations from direct to market-based indirect instruments was also a key element of financial sector reforms. The World Bank complemented these activities through its Economic Reform and Development Loans of 1997 and 1999, by incorporating many actions on decontrol of interest rates and new banking legislation.

Budget management. Reforms in this area started late, gaining momentum after the problems with data revisions in 1998 that led to the interruption of the 1996 EFF. Among the most significant reforms was the establishment of a macrofiscal unit in the Ministry of Finance to compile and analyze monthly fiscal data, and the introduction of a single treasury account system to improve the accuracy and timeliness of reconciliation and reporting of the state of public finances. More recently, the IMF and the World Bank have been collaborating on public expenditure management reforms aimed at improving budget formulation and execution, including introducing a medium-term framework.

Pension reform. Reforms in the public pension system—specifically, the pension schemes for the civil service and the military—were needed to address rapidly growing pressures on the fiscal position but were only addressed significantly beginning with the 1999 EFF and with technical assistance from both the World Bank and the IMF. The strategy had two major components: First, the civil service pension system was supplanted by the private pension system administered by the Social Security Corporation (SSC), with the objective of gradually phasing out the civil service pension scheme. Second, the authorities closed the military pension sys-

[15]See, for example, Shaban, Abu-Ghaida, and Al-Naimat (2001).

tem to new entrants, completing the integration of the public and private sector pension systems.

Privatization and improvements in business environment. Privatization became an important part of the authorities' strategy from 1996. Its purpose was to enhance efficiency, attract investors, promote capital market development, and help public finances. It was complemented with legislation to strengthen the judiciary and regulatory agencies, regulate leasing, and abolish controls on limits to foreign ownership. This was an area supported heavily by the World Bank through its adjustment operations. IMF involvement was more limited, focusing on the divestiture of some specific enterprises and an improved regulatory framework for the power sector to facilitate the entry of the private sector.

Design of Conditionality

Macroeconomic conditionality

Macroeconomic conditionality in all the programs sought to place (quarterly) limits on (1) some measure of domestic credit expansion; (2) the government budget deficit or some component of its financing; and (3) contracting of new nonconcessional public debt. Formal conditionality on targets for international reserves was introduced with effect from the 1994 EFF (Annex 7). Potential tensions between the structure of conditionality with regard to the monetary program and the changing nature of Jordan's monetary policy framework have already been noted. Here, the focus is on a second issue. For a country in Jordan's situation, how should grants be treated in fiscal conditionality?

This is a complex issue and it is useful to distinguish between considerations for determining the appropriate medium-term fiscal path and those involved in setting quarterly performance criteria. Clearly, the sustainability and predictability of the level of grants is a key consideration for both aspects. The IMF's own approach on the issue is that, if a country can reasonably be expected to rely upon a particular level of grants over the medium term, then the sustainable path for fiscal policy can be derived using the deficit including a realistic projection of grants. It was this consideration that led to the switch in the performance criterion on the fiscal deficit from a "before-grants" to an "after-grants" measure in the 2002 SBA. But the subsequent surge in grants in 2003–04 suggests two additional messages:

- In Jordan's case, it was prudent and realistic to formulate a medium-term fiscal path by analyzing both concepts and their longer-term implications. The "after-grants" measure indicated the impact on the public debt dynamics, whereas the "before-grants" measure flagged the magnitude of adjustment that might be required if grants could not be sustained. In practice, the staff did analyze both concepts in making their judgments about the appropriate fiscal path but, as already noted, this did not translate into sufficiently strong messages about the challenges of handling expected future sharp declines in grants.
- While quantitative conditionality has a significant role to play in monitoring and signaling, the importance of such formal conditionality should not be exaggerated, since it is no substitute for a broader assessment of the sustainability of policies. Any single deficit measure has considerable limitations as a short-term performance criterion (PC) when the level of grants is unstable and needs to be interpreted with caution. An "after-grants" PC can lead to overly optimistic signals that the program is "on track" if there is an unexpected temporary pickup in grants—which may have been a factor in the case of the 2002 SBA.[16] So the key message is not to be overly reliant on such conditionality alone. The main focus has to be on the implications for the medium-term fiscal path and debt dynamics.

Structural conditionality

Two aspects of structural conditionality are reviewed in this section. First, trends in the number of structural conditions are discussed while recognizing that such "head counts" provide only limited information on the overall burden and feasibility of conditionality. The discussion then turns to the coverage and content of such conditionality.

Compared with IMF-wide averages for SBAs and EFFs in nontransition countries, the initial program years under the 1989 and 1992 SBAs each had an above-average number of formal structural conditions (Annex 13, Table A13.6); subsequent years under the programs had about the average number of conditions. The conditions were mainly prior actions on increases in a number of administered prices and excise taxes. By contrast, the 1994 and 1996 EFFs had little formal conditionality. During 1994–98, the average number of structural conditions each year in Jordan's programs was under three, compared with an average of over seven IMF-wide. In contrast, there was a

[16]In contrast, a "before-grants" PC could send an inappropriately pessimistic signal in the case of a temporary downturn.

marked escalation of conditionality under the 1999 EFF. Under the 2002 SBA, formal conditionality was again reduced, reflecting the IMF-wide initiative to streamline structural conditionality.

In terms of coverage and content, structural conditionality tended to match the structural policy content of programs. Initially, it focused primarily on specific pricing actions and then, beginning with the 1992 SBA and stretching through all of the subsequent arrangements, various aspects of tax reform (see Annex 10). In contrast, conditionality directed at addressing structural rigidities on the expenditure side was quite limited until the 1999 EFF—with the main exception being actions to contain food subsidies. Pension reform and improved budget monitoring and control procedures were the subject of conditionality in the 1999 EFF and the 2002 SBA, but steps to address other key fiscal rigidities—such as the overall wage bill—were never the subject of conditionality, reflecting the political sensitivities discussed earlier. From 1999 onward, there was also a greater focus on conditionality with regard to the financial sector.

Most of the structural conditionality—with the exception of the 1999 EFF—reflected a strong emphasis on respecting a clear division of labor with the World Bank—well in advance of the broader initiative to "streamline" such conditionality. For the most part, there was no attempt to duplicate conditionality in areas of focus of the World Bank, although program documents reflected the broader agenda being supported by the two institutions. The only exception was the inclusion of conditionality on tariff reforms as prior actions starting with the 1994 EFF, and the award of a management contract for Amman Water as a performance criterion in the 1996 EFF, both in areas that were being handled by the World Bank. Since these two actions were a part of the Bank's program, the rationale for including them in the IMF-supported program was not strong.

The marked exception to this relatively "streamlined" approach was the first two annual programs under the 1999 EFF, which contained three to five times as many structural conditions as any preceding program—with a heavy emphasis on the restructuring, including privatization, of state enterprises. The reasons for this are not explained in the program documents but discussions with IMF staff suggest that one motivating factor was a desire to accelerate structural reforms in some areas where progress had been judged to be slow. But, many of the detailed conditions were not well designed. In particular, 14 conditions (mainly structural benchmarks), out of a total of 36 under the EFF, were related to different aspects of privatization. These 14 conditions included a rather diffuse package that appeared to pick out a number of actions from the ongoing privatization program supported by the World Bank (some of which, according to Bank staff, had already been implicitly discarded by the World Bank as not likely to be effective). They suffered from several design problems: (1) several conditions were in the form of a "head count" on the number of enterprises to be privatized (i.e., "divest at least x number of enterprises"). This put the focus on privatizing some rather insignificant enterprises rather than on addressing problems in the small number of state-owned enterprises (SOEs) that had major significance for fiscal sustainability or for the efficient provision of services critical to the private sector; (2) some specified a specific date for a significant privatization (e.g., of a private power project or components of Royal Jordanian airlines). In practice, the government can prepare a company for privatization with all due diligence only to find that at the time of offering it for sale, the market conditions have become adverse and it would simply be imprudent to go forward with the transaction. This is precisely what happened with some privatization cases in Jordan that were subject to such conditions.

Having said that, the overall conclusion of this evaluation is that, with the exception of the 1999 EFF, the design of IMF structural conditionality was generally reasonable. It focused mostly on the fiscal area, it was clearly linked to the achievement of broader program objectives, and the overall number of conditions was kept small. Indeed, the main criticism of this conditionality is the same as that of the overall structural content of the programs—namely that it was too slow in putting emphasis on underlying core reforms to improve the structure of public expenditures.

Chapter 3 Effectiveness of the Programs: What Was Achieved and How

This chapter examines the extent to which the objectives of programs were achieved, and what factors contributed to success or lack thereof. The objectives focused on are the same ones highlighted in Chapter 2: external viability, fiscal sustainability, inflation, and growth. The roles of conditionality and "country ownership" are explored in the context of program implementation.

Substantial Progress Toward External Viability

As discussed in Chapter 2, programs initially defined external viability in terms of exiting from reliance on exceptional financing. They measured progress toward this goal with indicators of external current account adjustment and the trajectory of debt and debt-service obligations. Jordan will continue to benefit from debt relief under the 2002 Paris Club agreement until 2007, but the 2002 agreement was regarded as an "exit" one. As discussed below, other indicators suggest that Jordan has made significant progress toward achieving external viability, including substantial improvement in the balance of payments, a greatly improved debt profile, and an increased resilience to external shocks. The following types of comparisons are used to measure this progress (although not all are relevant or feasible in each case): (1) progress over time (i.e., since the beginning of IMF program involvement in the late 1980s); (2) progress compared to the objectives set out in the various arrangements; and (3) comparisons vis-à-vis other countries.

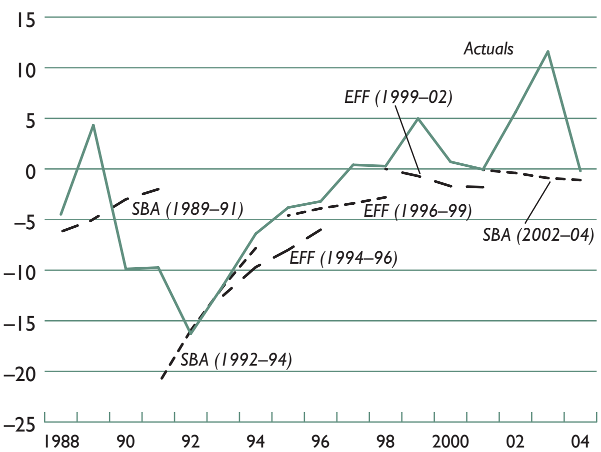
Marked improvement in the external current account balance

Compared to the early 1990s, there has been a marked turnaround in the external current account balance, measured with or without official transfers (Figures 3.1 and 3.2). The main factors that contributed to this outcome were increased exports and a strong recovery in remittances and, since 2003, a marked pickup in official transfers. Since 2000, a major source of export growth has been output from "Qualifying Industrial Zones" (QIZs), which enjoy quota- and duty-free access to the United States. After growing at less than 2 percent a year during 1996–2000, the dollar value of exports grew at over 15 percent a year during 2001–03, with most of the increase going to the United States. The QIZs have boosted nontraditional exports and converted the United States from being a minor market for Jordanian exports to the largest single country export market.

Developments in Jordan's external current account balance have also been significantly influenced by foreign grant receipts. These have sometimes fluctuated widely on account of political factors. For example, they were cut by governments in some Arab countries and the United States in the early 1990s because of Jordan's perceived support of Iraq in the 1991 war in the Middle East. More recently, they were boosted substantially in 2003 by the United States partly to compensate Jordan for the disruption to its economy caused by the U.S.-led war in Iraq. Abstracting from these bumps, official transfers recorded in the balance of payments averaged about $400 million or 5½ percent of GDP a year between 1992 and 2002.

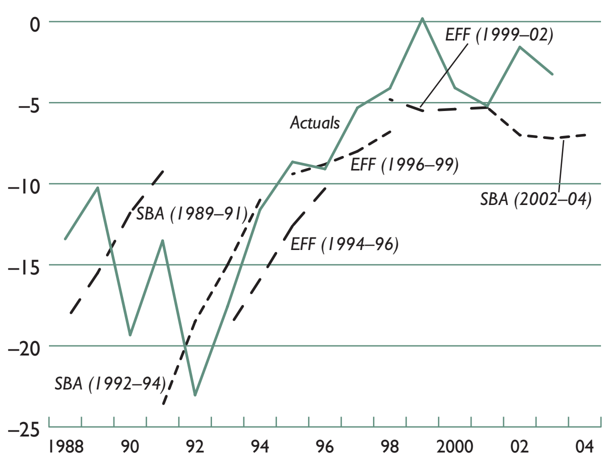
How did the adjustment that occurred in the external current account compare with program projections? Figures 3.1 and 3.2 show that since the mid-1990s (i.e., beginning with the first EFF) the current account balance has tended to improve by even more than projected. One common factor was that programs tended to project declines in official transfers, while in fact these transfers fluctuated around a roughly constant trend for most of the period under review. We also found that under the 1994 and 1996 EFFs, an important factor was that import levels (in relation to GDP), which were projected to rise, actually fell. Under the more recent arrangements (i.e., the 1999 EFF and the 2002 SBA), stronger-than-projected growth in exports and remittances were also important factors.

Figure 3.1. Current Account Balance, Including Official Transfers
(In percent of GDP)



Source: IMF.

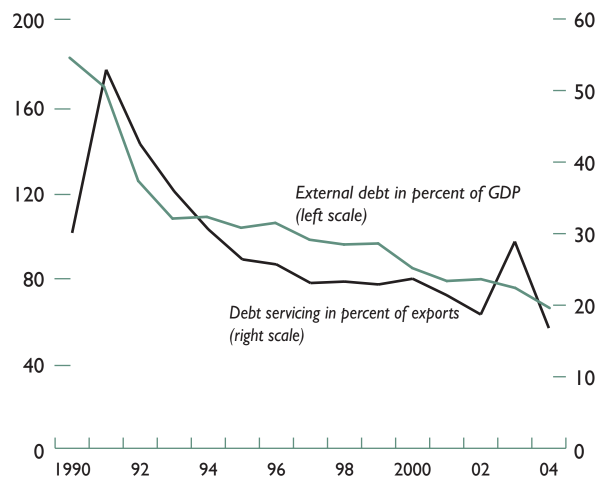
Figure 3.2. Current Account Balance, Excluding Official Transfers
(In percent of GDP)



Source: IMF.

The way in which this external adjustment was brought about—in particular, the composition between the "burden" borne by fiscal adjustment and changes in an approximate measure of the private sector savings-investment balance—often differed markedly from that which underlay the original program design. The most notable findings from this analysis were as follows (see Table 2.2 for a summary and Annex 13, Tables A13.3 and A13.4 for details):

Figure 3.3. External Debt and Debt Servicing



Source: IMF.

- Over the period of the two early SBAs combined, the fiscal adjustment eventually exceeded its target (albeit with all of the adjustment concentrated in one year, 1992, when growth rebounded). The private sector savings-investment balance declined significantly, but by less than programmed.
- Over the period of the three EFFs, none of the targeted fiscal adjustment was achieved while the external current account deficit continued to narrow. Contrary to the program strategy, all of this adjustment came from a large increase in the private sector savings-investment balance.
- Under the 2002 SBA, both the external current account and fiscal deficits widened by more than targeted. The private sector savings-investment balance was higher than programmed.

Program documents were largely silent on the divergences from the implicit structure of adjustment that had underlain program design and said nothing about what the implications might be for future design. (The 2002 SBA was a partial exception.) Private savings and investment are extremely difficult to predict in the short term, especially at times of considerable economic uncertainty, so errors in projections are not especially surprising. However, it is striking that there was no analysis of the issue and the implications for design of subsequent programs.[1]

[1]Other IEO evaluations have shown that the difficulty of predicting private sector response in program design, and the tendency not

Table 3.1. Cross-Country Comparison of Debt Burden Indicators[1]

	In Percent of Gross National Income			In Percent of Exports of Goods and Services		
	1990	2000	2003	1990	2000	2003
Total external debt						
Jordan	219.0	87.0	85.0	335.0	208.1	189.7
Low-income developing countries	56.0	45.0	40.0	396.0	214.0	180.0
Lower-middle-income countries	27.0	38.0	34.0	139.0	133.8	105.0
Middle-income countries	30.0	37.2	36.0	132.0	116.0	101.0
Middle East and North Africa	33.0	22.0	21.0	115.0	71.0	64.0
Total debt service						
Jordan	16.5	8.8	11.8	20.4	12.6	16.4
Low-income developing countries	4.0	3.0	3.0	20.0	13.0	13.0
Lower-middle-income countries	4.0	3.0	3.0	18.0	10.0	8.0
Middle-income countries	3.0	3.0	3.0	15.0	10.0	8.0
Middle East and North Africa	4.0	3.0	. . .	12.0	8.0	. . .

Sources: World Bank (2005).

[1]There are some differences (magnitudes, but not trends) between data presented here and the time series data in Figure 3.3—owing to differences in sources.

Debt burden indicators are on declining paths

Key indicators suggest that Jordan has made substantial progress toward debt sustainability. The external debt/GDP ratio and the debt-service ratios have both fallen significantly (Figure 3.3), and recent debt sustainability analyses carried out by IMF staff indicated that the debt/GDP ratio was likely to continue on a downward path in line with the official medium-term debt targets that have now been incorporated into Jordanian law (see Box 2.1).[2] Various stress tests undertaken by the staff also suggest that the debt/GDP path would be fairly resilient to all but very large and compound shocks, of which a large exchange rate shock was expected to be the most severe.

In terms of cross-country comparisons, Jordan has made substantial progress in reducing its debt and debt-service burdens, but they still remain significantly higher than the average for other lower-middle-income countries or other countries in the region (Table 3.1).

Economic growth has been the main factor driving the decline in the debt/GDP ratio. The value of the stock of public and publicly guaranteed external debt at end-2003 was approximately the same as the level at end-1990—about $7.5 billion, while its ratio to GDP fell to 76 percent from 180 percent over the same period (Annex 13, Table A13.5). This suggests that new borrowings offset the impact of various debt cancellations and debt reduction schemes that Jordan benefited from during the 1990s. During most of the period under review, the authorities sought to build up international reserves to support the exchange rate peg and as a matter of deliberate policy favored external financing over domestic financing of the government budget deficit.

External balance has become less vulnerable to the impact of shocks but adjustment to any future decline in grants would still be crucial

Jordan's geopolitical situation makes it susceptible to a wide range of potential shocks. Several developments in the structure of the economy suggest that it is now less vulnerable to these shocks than it was in the late 1980s: (1) significantly greater diversification in the composition and geographic destination of its exports; (2) a markedly lower debt-service burden; and (3) a large cushion of external reserves (equivalent to over nine months of current merchandise imports in 2004). However, the continuing importance of foreign aid and remittances in the balance of payments invites comparisons with the late 1980s and early 1990s when these inflows fell sharply on account of external economic and political shocks.

The IMF staff's medium-term projections underlying the post-program monitoring framework project a decline of about $1 billion in grants between 2005 and 2007 (equivalent to almost 10 percent of GDP) while growth increases from 5 percent to 6 percent a year. On the balance of payments side that decline in grants is projected to be compensated by a strong growth in exports, portfolio flows, and remit-

to step back and reconsider the hypotheses that underline that design, are frequent occurrences in IMF arrangements, so Jordan is not especially unusual in this respect. See, for example, *Evaluation of Prolonged Use of IMF Resources* (IEO, 2002), and *Fiscal Adjustment in IMF-Supported Programs* (IEO, 2003).

[2]IMF, 2003a (updated in IMF, 2004b).

tances that allows an increase in imports. However, on the fiscal side, projections assume that public expenditures decline by the same percentage points of GDP as grants—from 38 percent to a historically low level of 28 percent of GDP. Whether such massive fiscal adjustment is feasible and the type of measures necessary to achieve are not discussed—other than references to "fiscal measures to be identified" in the fiscal tables. A simple scenario that assumes that the baseline framework does not adjust to the projected decline in grants and that external reserves thereby bear the full burden of this decline (which is admittedly a crude assumption and may well represent the outer range of the risks) suggests that the stock of reserves would be halved in about three years (i.e., by about 2008). This exercise suggests that the substantial reserve cushion would indeed give Jordan some time to adjust to even quite large shocks. However, that time would still be limited.

Limited Progress Toward Fiscal Sustainability

Fiscal outturns through the long period of IMF program involvement can be summarized as follows (see Annex 9 for a more detailed discussion):

- A massive reduction in the fiscal deficit occurred during the period of the first two SBAs, far exceeding program targets (Figure 3.4 and Table 3.2).[3] This adjustment occurred despite program slippages in the first SBA, and all took place in 1992 as growth rebounded from the crisis-induced recession.
- Throughout the period of the three EFFs, there was essentially no further reduction in fiscal deficits (before or after grants) and deficit outcomes consistently fell short of program targets.
- The period of the 2002 SBA was characterized by a widening fiscal deficit (before grants), reflecting increased expenditures. The deficit was more than covered by increases in grants to levels that exceeded substantially the average levels of the preceding decade.

The composition of revenues changed broadly in line with the aims of the fiscal structural reforms, but attempts to synchronize the tax and import tariff reforms in order to prevent an erosion of revenues in relation to GDP failed to achieve their objective. The earlier consumption tax was replaced by a more broadly based GST whose coverage expanded over time, but at a slower pace than anticipated. Income tax reforms lowered marginal tax rates and reduced the number of tax bands, but efforts to limit widespread tax exemptions and deductions were only partially successful.

After the initial sharp reduction in the early 1990s, there has been limited progress in expenditure consolidation. Total government expenditures have hovered around 35 percent of GDP until the recent grant-induced pickup. Many of the earlier expenditure rigidities remain, although there has been progress on some:

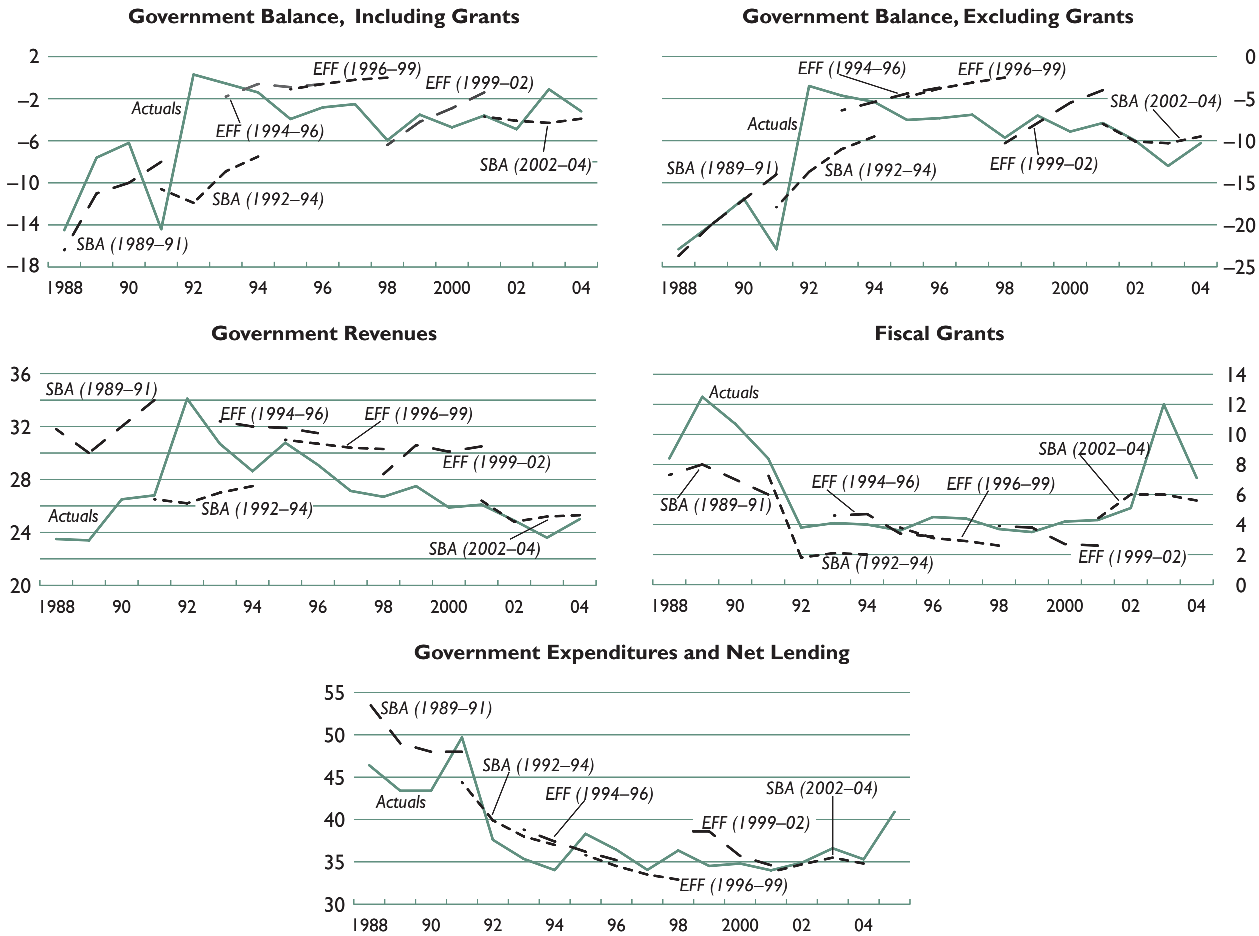
- The system of open-ended food subsidies that developed in the aftermath of the 1988–89 crisis was rationalized and eventually replaced by a system of targeted direct support to the poor.
- Significant changes were eventually made to the two public pension systems—for the civil service (beginning with the 1996 EFF), and for the military (mainly under the 2002 SBA). However, the most important changes came relatively late in the period of IMF program involvement and their impact will only be felt gradually over the medium term.
- Little progress was made in addressing two other major rigidities—the government wage bill and military expenditures.

A key remaining challenge for fiscal management in Jordan is to define a "normal" level of grants around which medium-term expenditure plans can be built, in order to avoid a situation in which expenditures increase with aid flows but are difficult to cut when aid flows fall significantly. A 2004 Public Expenditure Review conducted jointly by the World Bank and the authorities also highlighted the need to develop a framework for expenditure policy that goes beyond short-term perspectives, and which incorporates principles to guide fiscal policy over the long term, including parameters for defining the optimal level of government spending and debt.

Over the years, visits by IMF teams to conduct program negotiations or undertake Article IV consultations provided the main occasions for comprehensive reviews of fiscal developments and policies going forward. Based on interviews in Jordan and discussions with IMF staff in Washington, the eval-

[3]The outturns shown in the graphs are based on the most recently available data. The "projections" contain the outcome for the year preceding the first program year (i.e., year *t*–1) as reported at the time of program formulation. This is done in order to convey a sense of the order of magnitude of adjustment envisaged at the time of program formulation. Because of subsequent data revisions (especially to the national accounts), there are a few large discrepancies in the starting points between "projections" and "actuals."

Figure 3.4. Projections and Outturns of Fiscal Indicators
(In percent of GDP)



Source: IMF.

uation team formed the view that the authorities—especially Ministers of Finance—came to rely on such visits to integrate information from various fiscal agencies to form a coherent picture of recent developments, that served as a basis for policy discussions. A macrofiscal unit established in the Ministry of Finance in 2004 is designed to strengthen the ministry's macrofiscal analytical capacity in order to undertake on a routine basis some of the activities that the authorities had come to rely on the IMF to provide. During the evaluation team's visit to Jordan it learned that the 2004 budget cycle was the first time the authorities employed a medium-term expenditure framework to establish initial allocations contained in budget guidelines issued by the Ministry of Finance to spending ministries/units.

Success in Achieving and Maintaining Low Inflation

Under the IMF-supported programs, inflation outcomes have tended to be lower than targeted (Figure 3.5).[4] Prior to the explicit pegging of the dinar to the U.S. dollar, this reflected tighter monetary conditions than projected from 1992 onward. With the exchange rate serving as the nominal anchor from the mid-1990s, inflation continued to be lower than projected, even in periods when broad money grew faster than projected.

[4]Except for the upward spike in 1989, which largely reflected an underestimation of the price increases that were already in the pipeline from the preceding sharp depreciation of the exchange rate. Inflation declined quickly as the exchange rate stabilized.

Table 3.2. Envisaged Versus Actual Fiscal Adjustment
(Change over horizon of arrangement, in percentage points of GDP)

Arrangement/Horizon/Variables	Level at (*t*–1)[1]	Envisaged Adjustment	Actual Adjustment	Shortfall (–)/ Excess (+)
1989 SBA (*t*=1989)				
Horizon: (*t*–1) to (*t*+1)				
Fiscal balance excluding grants	–23.7	7.7	5.2	–2.5
Revenues	31.8	0.2	3.7	3.5
Expenditures	55.5	–7.5	–1.5	–6.0
Grants	7.3	–0.3	2.4	2.7
Fiscal balance including grants	–16.4	7.4	7.6	0.2
1992 SBA (*t*=1992)				
Horizon: (*t*–1) to (*t* +1)				
Fiscal balance excluding grants	–18.0	7.0	11.8	4.8
Revenues	26.4	0.6	1.8	1.2
Expenditures	44.4	–6.4	–10.0	3.6
Grants	7.3	–5.2	–4.4	0.8
Fiscal balance including grants	–10.7	1.8	7.4	5.6
1994 EFF (*t*=1994)				
Horizon: (*t*–1) to (*t*+1)				
Fiscal balance excluding grants	–6.4	2.1	0.5	–1.6
Revenues	32.4	–0.5	–0.2	0.3
Expenditures	38.8	–2.6	–0.7	–1.9
Grants	4.6	–1.2	–0.6	0.6
Fiscal balance including grants	–1.8	0.9	–0.1	–1.0
1996 EFF (*t*=1996)[2]				
Horizon: (*t*–1) to (*t*+2)				
Fiscal balance excluding grants	–4.9	2.3	–4.2	–6.5
Revenues	30.9	–0.6	–5.0	–4.4
Expenditures	35.8	–2.9	–0.8	–2.1
Grants	3.8	–1.2	0.0	1.2
Fiscal balance including grants	–1.1	1.1	–4.2	–5.3
1999 EFF (*t*=1999)				
Horizon: (*t*–1) to (*t*+2)				
Fiscal balance excluding grants	–10.3	6.3	1.5	–4.8
Revenues	28.3	2.3	0.0	–2.3
Expenditures	38.6	–4.0	–1.5	–2.5
Grants	3.9	–1.3	0.7	2.0
Fiscal balance including grants	–6.4	5.0	2.3	–2.7
2002 SBA (*t* =2002)				
Horizon: (*t*–1) to (*t*+2)				
Fiscal balance excluding grants	–8.1	–1.4	–3.4	–2.0
Revenues	26.4	–1.1	0.8	1.9
Expenditures	34.5	0.3	4.2	–3.9
Grants	4.4	1.2	5.9	4.7
Fiscal balance including grants	–3.7	–0.2	2.5	2.7

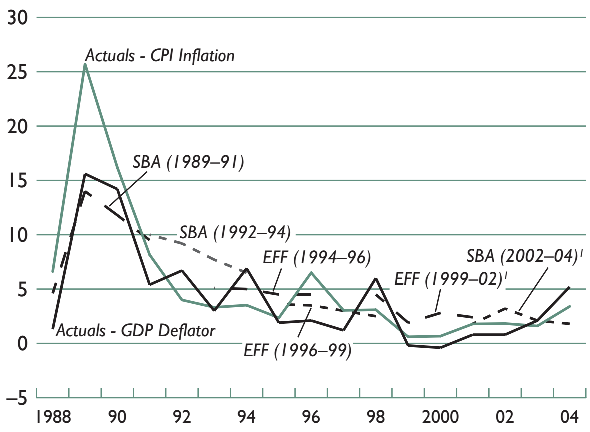
Sources: IMF and IEO calculations.
[1]Level at (*t*–1) as estimated at time of program formulation, in percent of GDP.
[2]The comparison between envisaged and actual adjustment during the 1996 EFF is especially difficult because of the large data revisions that took place after the program was finalized.

Was monetary policy too tight?

A common criticism the evaluation team heard in Jordan was that the CBJ's monetary policy—supported by the IMF—had focused excessively on accumulating international reserves, especially in the mid- to late 1990s, and that the high interest rates that had resulted harmed growth. With the exchange rate pegged to the dollar, the principal monetary target under programs related to international reserves. During periods of reserve loss, the CBJ used interest rate policy to support the peg (through increasing the yields of certificates of deposits (CDs)). But from about 1999, the CBJ allowed a steady decline in the CD yields by deliberately sterilizing only a small portion of excess liquidity associated with foreign

Figure 3.5. Inflation[1]

(In percent of GDP)



Sources: IMF.

[1]The targets under the 1999 EFF and the 2002 SBA were in relation to the CPI. Earlier targets were in relation to the GDP deflator.

exchange inflows. The aim of this strategy was to encourage commercial banks to do more lending to the private sector in order to stimulate economic activity. To a large degree, this policy was facilitated by a steady decline in U.S. interest rates from mid-2000 (Figure 3.6). It is noteworthy that international reserves continued to increase even as the CBJ eased monetary policy.

The authorities too raised concerns about the potential adverse impact of tight monetary policy on growth during the 1996 Article IV consultations. The staff response at the time included an argument that monetary policy was being tightened in part to compensate for weak fiscal performance—suggesting that if fiscal policy had been more restrained, it would not have been necessary to raise interest rates as high and to hold them at those high levels for as long as the monetary authorities did in order to support the exchange rate peg.

Beyond the issue of monetary-fiscal policy mix, is there a sense in which monetary policy could be said to have promoted "excessive" accumulation of international reserves? For emerging market economies with managed floating or fixed exchange rate regimes, Wijnholds and Kapteyn (2001) suggest a yardstick for gauging the adequacy of international reserves, based on two potential sources of capital flight that reserves should aim to cover: short-term external debt and internally generated capital flight which the authors proxy by a portion of broad money.[5] Based on this approach, a time series of "adequate" levels of international reserves for Jordan was derived and compared with the actual levels of reserves (Figure 3.7).

The results suggest that up to 1998, the level of reserves fluctuated around adequate levels—as suggested by the yardstick—but did not consistently exceed them. Since 1999, reserves have remained consistently above the calculated "adequate" levels. However, this period coincides with the period of monetary easing by the CBJ. Moreover, from 2003 onward, building some additional cushion of reserves in response to the pick up in grants—which was not expected to be permanent—seems appropriate. *Therefore, given the constraints on independent monetary policy imposed by the exchange rate peg, it is difficult to argue that the CBJ could have done significantly more to ease monetary policy.*

Growth Performance Was Strongly Influenced by Factors External to the Programs

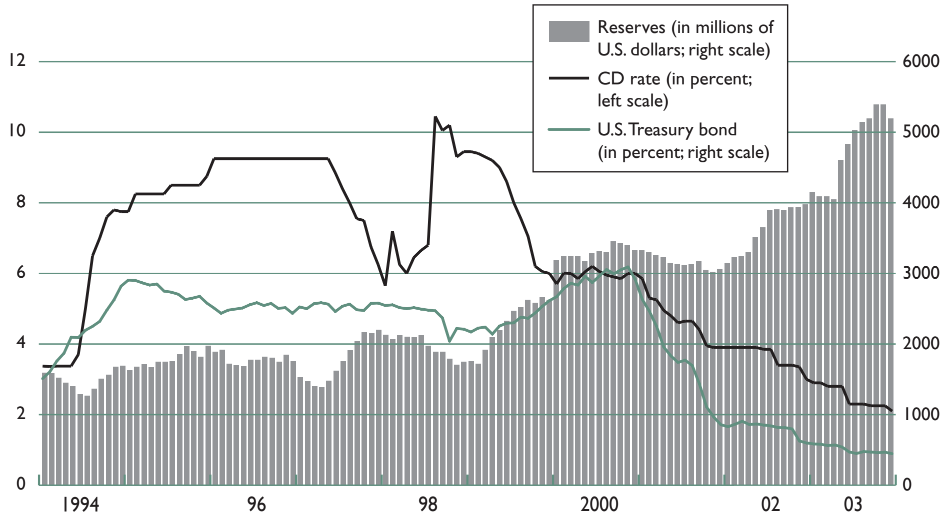
Studies of Jordan have highlighted the sharp fluctuations of external flows in the form of aid from Arab countries and remittances as a major determinant of the volatility in its growth rates (Figure 3.8).[6] For example, adverse shocks to these flows and the disruption caused by events leading up to the 1991 war in the Middle East were key factors in the poor growth performance from the mid-1980s through 1991. A spike in growth in 1992 took most observers by surprise, since the repatriation of some 300,000 Jordanians from neighboring countries was originally perceived as a negative shock to the economy. However, the returnees came back with substantial savings, and used some of these to spark a construction-led boom that lasted until the mid-1990s. Similarly, the most recent spurt in growth (7.5 percent in 2004) has also been the result of several geopolitical developments associated with the conflict in Iraq. Foreign aid increased sharply as did activities related to the reconstruction of Iraq.

This volatility arising from external events makes it particularly difficult to assess the extent to which the reform programs supported by the IMF (in conjunction with the World Bank) may have

[5]The indicator is calculated as the sum of short-term external debt and a risk-adjusted proportion of broad money. For the latter component, the authors suggest 10–20 percent of broad money for countries with a managed float or fixed exchange rate regime. The application to Jordan below, used 20 percent of broad money and applied a country risk factor of 1 (the highest).

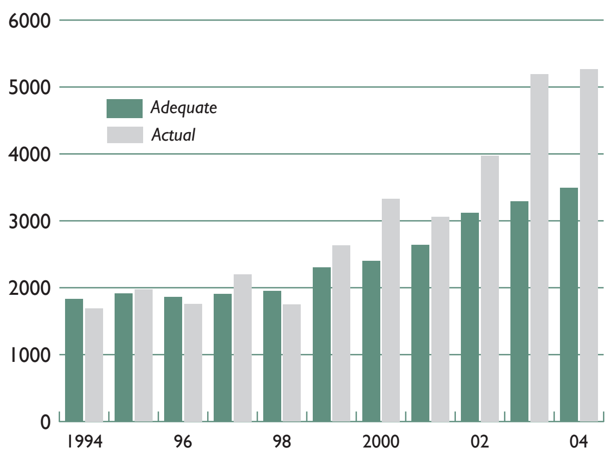
[6]See, for example, Maciejewski and Mansur (1996), IMF (1998), and Kanaan and Kardoosh (2002).

Figure 3.6. Jordanian Dinar and U.S. Dollar Interest Rates and International Reserves



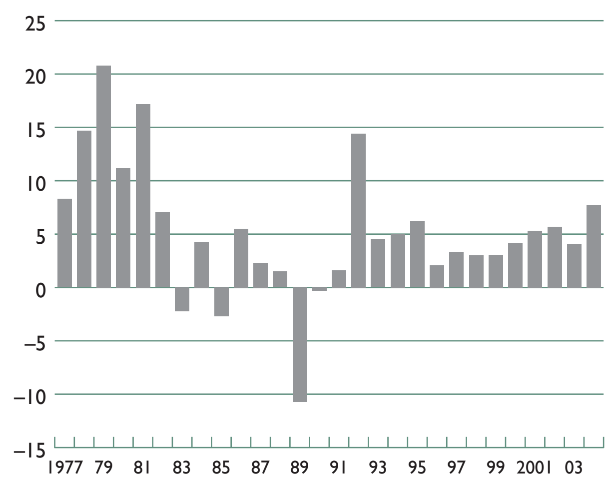
Sources: Annual Reports of the Central Bank of Jordan; and IMF.

Figure 3.7. "Adequate" Versus Actual Level of Reserves
(In millions of U.S. dollars)



Sources: IMF program documents and IEO calculations.

Figure 3.8. Real GDP Growth
(In percent a year)

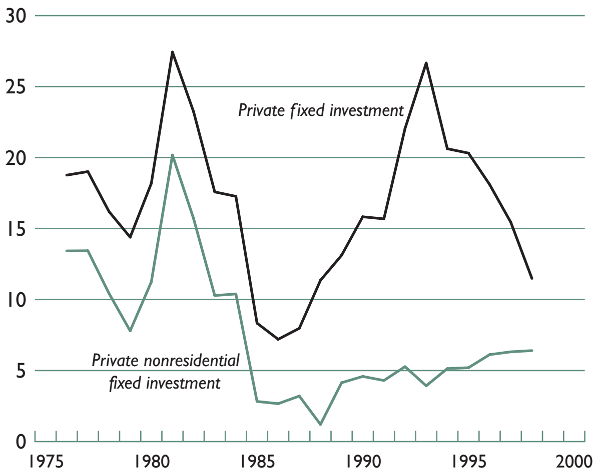


Sources: IMF program documents.

contributed to long-term growth. There are at least two mechanisms through which the reforms may have affected long-term growth. First, they could have improved the resilience of the Jordanian economy to adverse shocks, thereby reducing the likelihood of the sharp output collapses seen in the 1980s. Second, they may have contributed to long-run capacity for growth through improving the incentives for investment, productivity growth, and improved resource reallocation.

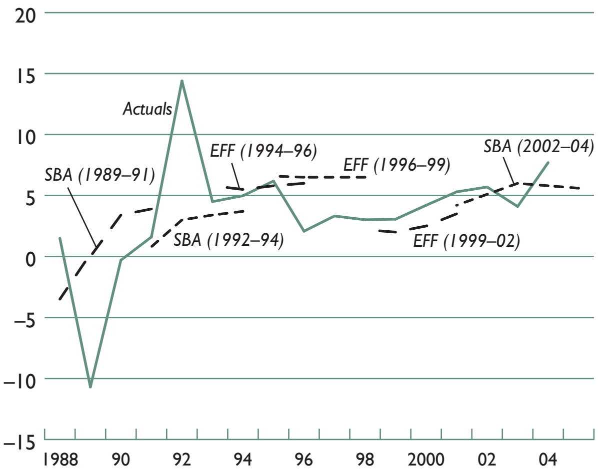
As Figure 3.8 shows, output has become more stable during the last decade—averaging about 4 percent a year. The absence of major negative shocks comparable to those of the late 1980s may partly ex-

Figure 3.9. Trends in Private Investment
(In percent of GDP)



Source: Ramachandran (2004).

Figure 3.10. Real GDP Growth
(In percent a year)



Sources: IMF program documents and IEO calculations.

plain this outcome. However, an improved policy regime also appears to have been important; for example, the uncertainty created by the long illness of the late King Hussein seems not to have been translated into instability in financial markets.

In terms of factors influencing long-term growth, three elements are worth noting. First, exports have become an important source of growth. They almost tripled between 1990 and 2003. A large part of that expansion was fueled by exports to the United States, especially from the QIZs, for which the United States provided preferential access. It can be argued that the expansion of exports is more the result of such status than the long-term improvement in the overall trade regime associated with the reforms undertaken by Jordan during the 1990s. However, exports to the rest of the world—emanating from outside the QIZs—also performed well, doubling during the period. This performance suggests a positive impact of the overall improvement in the country's trade regime.

Second, a recent growth accounting exercise by staff to update some earlier studies done at the World Bank in 1994 and 2001 suggested a modest rebound in productivity growth in the period 2001–02.[7] This may also be explained by increased productivity of the export sector that lifted overall productivity.

Third, while private investment did rebound during the mid-1990s, this appears to have been almost entirely due to the surge in housing investment by repatriated workers (Figure 3.9). Private nonresidential fixed investment fell during the 1988 crisis and recovered gradually thereafter—although to levels that were still low in comparison with earlier decades. The positive dimension is that the recovery seems to have been sustained during the 1990s without major fluctuations. An improved macroeconomic situation and a more transparent pricing and open trade regime may have helped the recovery.

Comparing growth targets and outcomes, program projections for Jordan did not exhibit a marked trend toward excessive optimism that has been noted in IMF-wide reviews on the subject (Figure 3.10).

Mixed Record on Program Implementation and Effectiveness of Conditionality

Thus far, this review has concentrated on the economic policy content of programs. It now turns to issues related to program implementation, including the effectiveness of conditionality. It starts with a look at evidence on the incidence of program interruptions, proceeds to analyze compliance with conditionality, and ends with a discussion of tensions between conditionality and ownership and how these were resolved.

[7]The methodology used is a growth accounting framework with physical and human capital as well as labor force growth (see IMF, 2004a).

Program interruptions

A review of program documents indicated two clear-cut cases of program interruptions: (1) the 1989 SBA which became inactive (in 1990) after only one disbursement, in the wake of Iraq's invasion of Kuwait and the ensuing war in the Middle East; and (2) the 1996 EFF, which was allowed to lapse in 1998 in the aftermath of data revisions that cast doubt on the credibility of program monitoring (Box 3.1).

Timeliness of completing program reviews was used as a yardstick for identifying other incidents of ("nonfatal") program interruptions.[8] Timely completion of reviews was interpreted as indicating that a program is being implemented broadly as envisaged or is judged to be "on track" to achieve its objectives. Conversely, a long delay in completing a review suggested the existence of a problem—and triggered further investigation into the cause(s) of the delay. In order to exclude minor delays, and noting that nearly all reviews under Jordan's IMF-supported programs were scheduled to be completed at approximately six-month intervals, cases where it took 12 months or more to complete a review were classified as program interruptions.

The above yardstick yielded two cases of nontimely completion of reviews. The first was a 13-month gap between the second and third reviews under the 1999 EFF, reflecting delay in the implementation of measures (e.g., adjustment of petroleum product prices) that the authorities and IMF staff had agreed on to close an emerging fiscal gap in 2001. The second was a 12-month hiatus between approval of the 2002 SBA and the first review. This was due to an extra round of discussions to take account of the impact of the 2003 war in Iraq.

All told, two war-related interruptions (in 1990 and 2002–03), and two interruptions due to problems with program monitoring (1998) or implementation (2001) were identified. There was only one case in which delay in completing a program review was linked to the implementation of an agreed measure (i.e., conditionality).

Effectiveness of conditionality

Macroeconomic conditionality

Compliance with macroeconomic conditionality was very high overall with the exception of fiscal performance criteria. The targets on the contracting of nonconcessional external debt and on net international reserves were always met. Similarly, except in 1993, the target for monitoring liquidity in the banking system (i.e., net domestic assets of the system or of the CBJ) was routinely met, often by large margins; the breaches of the targets in 1993 reflected stronger than expected expansion in credit to the private sector as well as data revisions that took place after the targets were set.

The key fiscal performance criteria were on some measure of bank financing of the fiscal deficit until the 1999 EFF, after which a PC on the overall deficit was introduced.[9] Discussions with staff and officials indicated that the shift to the broader measure of the deficit was beneficial in terms of facilitating improved monitoring—not in the sense of yielding any immediate results in terms of better final outcomes but by bringing greater focus to the overall magnitude of any fiscal slippages and thereby to negotiations on remedial measures.

Jordan received more than the average share of waivers compared to other countries but the number does not appear to have been excessive. This result is based on a comparison of Jordan data with averages reported in IEO (2002) for the number of waivers per program year, and the share of the total number of quantitative performance criteria waived. Focusing only on periods when programs were active, it is estimated that the average number of waivers per program year (0.7) is similar to the average for nonconcessional arrangements (0.6), and that the share of performance criteria waived for Jordan (about 4 percent) is about double the average for nonconcessional arrangements (2.1 percent), but still low.

Structural conditionality

Most structural measures were implemented—although in a number of cases with considerable delay (see Annex 10). The delays were most prevalent in the fiscal area, especially with respect to tax laws. For example, the introduction of the GST, which was a performance criterion under the 1992 SBA, was waived twice. It was converted to a prior action for the 1994 EFF, and was eventually implemented in June 1994. Subsequently, a waiver was again required when it came to converting the GST to a VAT in 2000.

Conditionality related to the reform of direct taxes was not as successful in achieving its goals. At the urging of IMF staff, the authorities submitted a draft amendment of the income tax law to parlia-

[8] Program reviews are an important part of the mechanism for monitoring performance under IMF-supported programs, and for the recalibration of program targets/projections to reflect recent developments. For a discussion, see Mussa and Savastano (1999).

[9] The 1999 EFF had both. The fiscal deficit PC was on a "before-grants" basis under the 1999 EFF but switched to an "after-grants" basis for the 2002 SBA.

Box 3.1. The 1998 Data Misreporting Episode

During May and June 1998, IMF staff learned of major revisions to official estimates of real GDP growth and fiscal accounts that painted a very different picture of economic performance in 1996 and 1997 than that previously discussed by the Executive Board. The Executive Board had recently discussed Jordan (April 1998) in the context of the 1998 Article IV consultation and completion of the fourth review under the prevailing EFF.

The data revisions sharply reduced growth estimates from 5 percent a year to 0.3 percent and 3 percent in 1996 and 1997, respectively, and substantially raised the fiscal deficit (excluding grants) from 4–5 percent of GDP to 7–8 percent. Apart from the impact of the downward revision in GDP growth, the revised fiscal positions also reflected significant changes to revenue and financing data.

The revisions cast serious doubt on the effectiveness of the EFF-supported program and raised fundamental questions about the integrity of the system in place for monitoring performance under the program. IMF management called for a series of internal reviews and subsequently commissioned an independent inquiry into the episode. Meanwhile IMF staff and the authorities were unable to agree on measures to bring the program back on track; no further reviews (beyond the fourth) were completed, and the EFF was allowed to lapse. However, the IMF scaled up its technical assistance to Jordan in the areas of fiscal management and real sector statistics to help the authorities begin to address institutional weaknesses that may have contributed to the problem. Subsequently, a new EFF arrangement was approved by the Executive Board in April 1999, before the internal reviews were completed (and before the independent inquiry had got off the ground).

The reports on the episode were presented to the Executive Board in October 1999 at the time of the completion of the first review under the new EFF. The reports found that available updated information was not provided to IMF staff in a timely manner by the authorities, but also that IMF staff had gone along with noncompliance with reporting requirements (for example, a requirement for monthly reporting of fiscal data to the IMF had not been implemented). The internal reviews called for more vigilance by staff in monitoring the quality of data received from countries, and for correcting deficiencies in the design of program monitoring.

Following Executive Board consideration of the reports, the IMF issued a news brief, part of which read: "Directors . . . discussed the problems which had come to light concerning misreporting of fiscal and national accounts data in 1996–98 under the previous extended arrangement. They were very concerned both by the misreporting itself and because it had contributed to a belated policy response by the authorities and a weakening of economic performance in Jordan. However, Directors were reassured by the recent improvements in the compilation of statistics and in the monitoring of fiscal accounts; the timeliness with which they are now reported to the Fund and released to the public; and the authorities' commitment to maintaining the current open and cooperative relationship with the Fund."

The authorities voluntarily repaid the IMF the last disbursement made under the 1996 EFF.

In discussions with the evaluation team, a number of former Jordanian officials claimed that the reports presented to the Board about the episode were unfair in laying the bulk of the blame on the authorities. They emphasized their reliance on IMF staff for updating the macroeconomic framework for the programs and for the government's budget. Moreover, they pointed out (as did one of the reports to the Executive Board) that some of the updated information on fiscal performance in 1996 and 1997 had been presented to parliament in December 1997 and was part of the Budget Law that was passed in early 1998, well before the Board discussion of the 1998 Article IV consultation and the fourth review under the EFF. It is not clear why information that was in the public domain had not been offered to IMF staff, nor why IMF staff had not been able to pick it up on its own from the Budget Law.

What was the impact of the misreporting episode on IMF policy advice? Given the extent of staff concerns about a debt overhang at the time, it is likely the IMF would have prescribed greater fiscal adjustment if the available data had indicated a larger fiscal imbalance. It is unlikely that evidence of much lower growth performance would have exerted much influence on IMF policy advice. As noted in Chapter 2, although the 1999 EFF discussed a countercyclical role for fiscal policy, it still proceeded to call for a large fiscal adjustment despite a recognition that the economy had been in a recession for a couple of years. In any case, IMF staff was probably aware of widespread skepticism about official growth estimates in Jordan. It is noteworthy that a group of Executive Directors who visited Jordan in 1996 reported that they encountered a widespread view that the economy was growing at much less than the IMF-endorsed official rate of about 6 percent a year at the time. Also, country reports on Jordan prepared by the Economist Intelligence Unit in the second half of the 1990s routinely characterized official growth estimates as being too rosy.

ment in 2000 that sought to broaden the tax base by reducing exemptions. By the time parliament passed the amendment, the list of exemptions had increased rather than decreased. Several officials involved in the process said that the amendment had been rushed to parliament to meet a deadline in the IMF-supported program. They argued that if they had had more time to have substantive consultations with members of parliament before the formal submission of the draft to parliament, the outcome might have been more favorable. All in all, at about 3 percent of GDP, the contribution of direct taxes remains low by international standards. Staff estimates that if appropriate reforms are implemented, direct taxes could increase overall revenues by about 1½–2 percent of GDP over the medium term.

Tariff reforms featured prominently in structural conditionality and implementation was successful, although it is difficult to attribute this to IMF conditionality. Regional as well as international impulses, including accession to the World Trade Organization and the free trade agreements with the European Union and the United States, seem to have been important drivers of the reforms. Trade liberalization also figured prominently as conditionality in many World Bank lending operations during the period.

Although the financial sector has undergone substantial reforms, very few of these were covered by conditionality in IMF-supported programs. Current and former officials of the CBJ interviewed suggested that the goal of reaching international standards provided enough motivation for undertaking many of the reforms. Interestingly, some of these reforms—for example, in the areas of monetary operations, banking supervision, and improvements to the payments system—were undertaken with the help of IMF technical assistance. A few officials suggested that tying technical assistance recommendations "too closely" to conditionality might have been counterproductive; instead of the reforms being driven by the authorities' own perceived need to meet international standards, they would have been seen as having been imposed by the IMF.

For a long time IMF staff has urged the authorities to adopt a strategy for domestic fuel pricing that would link automatically domestic energy prices to world prices—and has provided technical assistance on the subject. It became a structural benchmark in the 1999 EFF, but it was not met. It was not reinstated as a condition in the 2002 SBA. This is an area where little progress has been made.

In contrast, solid progress was made in reforming the pension system, albeit with significant delays. The first step was to replace the civil service system by the private pension scheme administered by the SSC for all new hired civil servants. A critical step was implemented in 2003, where the previous military pension system was closed to all new entrants, hence completing the unification of the public and private sector pension systems.

During the evaluation team's visit to Jordan, several current and former senior officials highlighted the importance of IMF conditionality for implementing reforms in a number of sensitive areas. They cited as examples, the reorientation of the tax system toward a broad-based domestic consumption tax (GST/VAT), rationalization of food subsidies, and pension reform. In each case, the recommendations of IMF technical assistance reports had provided important input which had been drawn on by the Minister of Finance in internal debates within the government, and sometimes in the government's interaction with interest groups outside government. The GST experience was referred to often; the general view was that although it had been a long drawn-out process, it had eventually succeeded in achieving what it set out to do. Similarly, pension reform, which had also been a very slow process, was also characterized as an eventual success, although it was acknowledged that most of the benefits of the reform will come in the future.

Ownership

Drawing on the literature on "ownership" of economic reforms and programs, the evaluation endeavored to gauge the authorities' ownership of Jordan's IMF-supported programs, and whether this made a difference to program implementation.[10] Four aspects of ownership were defined: (1) contribution of the authorities to program formulation, including the choice of measures to be subject to conditionality; (2) alignment of the policy content of programs with national development plans/programs and with annual budgets; (3) involvement of other stakeholders; and (4) support of the political leadership of the country.

We found that the process of formulation of Jordan's IMF-supported programs was highly centralized around the Minister of Finance, but with significant input from the CBJ. We also learned that IMF staff always prepared the first draft of the Letter of Intent (LOI), which then served as the basis for negotiations.[11] Based on interviews with Jordanian officials and IMF staff, the evaluation team formed the view that the authorities did not have much control over the formulation of the early programs. However, by about the time of the 1996 EFF, the CBJ had developed enough confidence and expertise to exert significant influence over the monetary and exchange rate policy components of the programs. It would take another few years (until the time of the 1999 EFF) before the authorities would have the same influence over the fiscal component.

[10]The literature drawn on included Johnson and Wasty (1993), and Boughton (2003).

[11]Senior government officials interviewed in Jordan claimed that this did not detract from their "ownership" of the contents of the LOI.

Table 3.3. Poverty Indicators

	1987	1992	1997	1999[1]	2001[1]	2004[2]
Poverty line (current annual per capita income in Jordanian dinars)	148.0	261.0	313.5	313.5	312.0	436.0
Poverty measures						
Head count index (percent of population)[3]	3.0	14.4	11.7	13.6	13.5	15–30
Poverty gap index (percent)[4]	0.3	3.6	2.5	3.03	3.01	
Number of poor people (in thousands)	87.4	554.5	538.5	668	709	. . .
Inequality (national)[5]	0.36	0.43	0.36	0.36	0.36	. . .

Sources: World Bank (2004) and USAID (2005).
[1]World Bank projections.
[2]USAID estimates.
[3]The head count index is the percentage of the population living below the poverty line deemed appropriate for the country by the authorities.
[4]The poverty gap index measures the depth of poverty in a country or locality. It increases with the distance of the poor from the poverty line.
[5]Income inequality refers to the extent of disparity between high and low incomes. The higher the ratio (Gini coefficient), the greater the extent of inequality.

A number of former and current officials we interviewed in Jordan expressed the view that often disagreements with IMF staff on structural reforms revolved around the preparation required and the pace of implementation, rather than on the desirability of the reforms per se. This view is given credence by the staff report on the request for the 1999 EFF which noted that IMF staff would have liked a faster pace of structural reforms, but that the authorities were concerned to commit to only measures and a pace they thought they would be able to deliver.

With respect to alignment of program content with national development plans, program objectives have been consistent with key objectives spelled out in the government's Social and Economic Development Plans.[12] In discussing the programs, IMF staff reports have sought to link macroeconomic objectives with the authorities' broader development goals. This was especially the case for the 2002 SBA-supported program and the government's PSET. Initially, IMF staff was concerned about the scale of the programs envisaged in the PSET and whether there would be enough "new" external grant financing for it. In the end, with the encouragement of IMF staff, the authorities worked with World Bank staff to incorporate the PSET into the government budget.

With respect to the third aspect of ownership—involvement of other stakeholders—several people interviewed by the evaluation team in Jordan made the point that where legislative action was needed to implement particular measures, it is important for the government to engage members of parliament in discussing proposals and options at an early stage, and that IMF staff could usefully contribute by explaining the rationale for its views to members of parliament and other interest groups, and in this way contribute to an informed consideration of the measures. Of course, engagement with the legislative branch would be expected to be at the invitation of the government.

Reflecting on economic reforms in Jordan, Hunaidi (2004) underscored the important role of parliament.[13] She reported that implementation of many reforms involved extensive negotiations with parliament, and that this often led to modifications of understandings about draft laws and policies reached between the government and the IMF or World Bank. In her view, this engagement was critical to sustaining the momentum for reforms. She compares the fallout from two social unrests related to the removal of subsidies—the "fuel riots" of 1989 and the "bread riots" of 1996—and attributes the more muted impact of the latter to the government's active engagement of parliament in the formulation of the measure. She argues that by contrast, the government was seen as acting alone in 1989, when the price of petroleum products (highly subsidized at the time) was raised substantially, and triggered riots in major cities. She notes that part of the problem with the 1989 measure was that it had been taken in haste, without a thorough assessment of its implications on other sectors.[14]

An analysis of the political economy of the introduction of the GST in Jordan comes to a similar conclusion (see Annex 11). Introduction of the GST

[12]Brief summaries of the objectives and macroeconomic policies contained in the three most recent plans are presented in Annex 7.

[13]The author is a former Minister of Planning in Jordan.

[14]For example, there was no adjustment in transport tariffs, which were also controlled at the time, even though the cost of transportation had gone up substantially. See also Ryan (1998).

was controversial, with a number of stakeholder groups seeing it as an imposition from abroad. The initial failure to communicate adequately the economic rationale for the GST to broader groups contributed to some of the difficulties encountered in the initial introduction of the tax, but greater efforts to broaden the debate, both inside and outside parliament, on why the tax was needed facilitated subsequent amendments.

Support of the programs by the political leadership was difficult to gauge. Some commentators have suggested that, for the most part, the political leadership remained "above the fray," leaving the reforms to be carried out by technocrats.[15] They note that the situation changed with the ascension of King Abdullah, who has taken an active interest and leadership role on economic issues. Moreover, in a survey of stakeholders in Jordan that we commissioned as part of this evaluation, a large proportion of respondents indicated that key political leaders publicly voiced support for Jordan's IMF-supported programs (Annex 12)—a result that is at odds with the view that the political leadership was on the sidelines.

Poverty

Measuring trends in poverty is complicated by differences in views on what is the appropriate measuring rod and by difficulties in obtaining a consistent time series. Nevertheless, several broad conclusions are suggested by the various measures (Table 3.3). First, poverty rates rose markedly as a result of the 1988–89 crisis, with the number of people below the national poverty line rising fivefold. Inequality also seems to have increased. Second, the share of the population below the poverty line declined in the mid-1990s but this improvement subsequently tapered off (and may have been partly reversed) leaving overall poverty rates still well above precrisis levels. However, the share of the population living in extreme poverty (i.e., those living on less than $1 a day) did continue to decline in the 1990s, from 6.6 percent in 1992 to 4 percent in 2002—probably reflecting the better targeting of the social safety net support that replaced more generalized food subsidies.

[15]See, for example, Sud (2005).

Chapter 4 The Role of IMF Surveillance and Technical Assistance Activities

This chapter examines the extent to which surveillance activities and IMF technical assistance (TA) contributed to addressing Jordan's long-term macroeconomic challenges. Topics reviewed under surveillance activities include the IMF's advice on Jordan's exchange rate policies; the Financial Sector Assessment Program (FSAP) exercise undertaken jointly by IMF and World Bank staff; and an assessment of Jordan's data dissemination practices conducted under the data module of the IMF's Reports on the Observance of Standards and Codes (ROSCs).

Article IV Consultations and Programs

Article IV consultations with Jordan have been held at an average interval of about 16 months over the last 15 years. All but one (the 1990 consultation) of the consultations were combined with program-related reports. In the view of many officials interviewed by the evaluation team, there was not much difference in the content of policy discussions between Article IV missions and stand-alone program missions; discussions picked up from where previous missions had left them, irrespective of whether they had been initiated in the context of an Article IV mission or not.

A review of staff reports by the evaluation team confirmed that the coverage of macroeconomic policy issues was broadly similar, but that the Article IV reports provided more detail on structural reforms—including those being undertaken with the support of the World Bank and others—than stand-alone program review reports.

However, Article IV consultations did provide opportunities for pursuing a number of important macroeconomic policy issues and reforms beyond the framework of program conditionality. The area of monetary reform provides an example of how surveillance and technical assistance activities can reinforce each other and contribute to achieving program objectives. For example, during the 1993 Article IV consultation, in discussing how the recently liberalized interest rate regime was functioning, the authorities and IMF staff agreed on the need for reviewing the adequacy of existing monetary instruments for managing liquidity in the banking system. The authorities requested and received IMF TA that helped the CBJ successfully move from direct to indirect monetary control in 1994. Discussions of the monetary reforms continued in the context of program-only and subsequent Article IV consultation missions, and with the help of further IMF TA, the CBJ strengthened its capacity for monetary programming and operations. During the evaluation team's visit to Jordan, current and former senior CBJ officials pointed to monetary programming and operations as an area where IMF support—policy advice in the context of surveillance and technical assistance—was instrumental in building analytical and operational capacity at the CBJ.

The injunction to use Article IV consultation discussions to step back from short-term program concerns was formalized only in guidelines issued in 2002. Therefore, it is not especially surprising that with the exception of the 2004 Article IV reports, and, to a lesser extent, the 2002 report (which reflected some of the analysis of the internal medium-term fiscal strategy brief), consultation reports were generally not used to step back from the program to explore alternative strategies.[1]

The staff report for the 2004 Article IV consultations—the first for Jordan since the 2002 surveillance review and associated staff guidelines were issued—distinguished more sharply than in the past between the reporting on consultation and program

[1]Some Article IV consultation reports were accompanied by background papers on a wide range of topics addressing longer-term issues. Particularly noteworthy were "Selected Issues" papers produced in the context of the 1995 and 1998 Article IV consultations. Topics covered in these papers included growth dynamics, trade reforms, financial sector reforms, public debt dynamics, external debt strategy, and poverty.

Box 4.1. Evolution of IMF Staff Views on Jordan's Exchange Rate Policy

The following are extracts from IMF staff reports, with indications of the dates and occasions of the reports.

May 1988 (1988 Article IV consultation). Staff welcomed the greater degree of flexibility shown in exchange rate management that had resulted in a significant depreciation of the dinar in real effective terms.

May 1989 (1989 Article IV consultation and request for SBA). The balance of payments projections assume, inter alia, pursuit of a flexible exchange rate policy designed to encourage exports, remittances, and travel receipts, and to contain import demand and capital outflows.

June 1993 (1993 Article IV consultation). The exchange rate continues to be managed in a prudent manner, which has prevented an appreciation notwithstanding large capital inflows and has helped achieve a sustained growth in nontraditional exports, increased remittances, and a pickup in tourism activities.

April 1994 (1994 Article IV consultation and request for EFF arrangement). The authorities expressed satisfaction with their policy of pegging the dinar to the SDR basket of currencies, with adjustments to ensure external competitiveness. IMF staff concurred that, in light of the strong performance of nontraditional exports and services, at present the exchange rate appeared to be broadly appropriate.

August 1994 (first review under EFF arrangement). The staff agrees that nominal exchange rate stability—particularly vis-à-vis the U.S. dollar—needs to be maintained to fight speculative pressures and reassure the financial markets.

January 1995 (second review under EFF arrangement). The policy of maintaining nominal stability with respect to the U.S. dollar contributed to the restoration of confidence in the dinar after the run on the currency during late April to June 1994.

August 1995 (1995 Article IV consultation). The peg of the dinar to the U.S. dollar remains appropriate given Jordan's competitiveness, the strong performance of current account receipts, and the need to attract foreign inflows.

January 1997 (1996 Article IV consultation). The staff agrees that the current exchange rate policy has contributed to financial stability, and that its sustainability will depend on a continued tight fiscal stance and supportive monetary policy.

April 1998 (1998 Article IV consultation). As there is little conclusive evidence to date that the dinar is significantly overvalued despite the real effective appreciation in 1996–97, the staff agreed that any change in exchange rate policy could prove counterproductive in current conditions.

April 1999 (1999 Article IV consultation). Recent experience elsewhere shows that it is difficult for emerging market economies to maintain pegged exchange rate regimes. The authorities should prepare the ground, including by developing the foreign exchange and domestic money markets, for a move to greater exchange rate flexibility once domestic and international financial market conditions have settled down.

July 2000 (2000 Article IV consultation). The staff reiterated the view that greater exchange rate flexibility would allow the real effective exchange rate to adjust to shocks affecting Jordan, rather than being dominated by movements in the U.S. dollar against other currencies. It would also decouple interest rates in Jordan from those in the United States. The staff expressed concern that the appreciation of the U.S. dollar in relation to the euro was detrimental to Jordan's tradable goods sector.

April 2002 (2002 Article IV consultation). The surge in export growth in 2001 provided some assurance that despite the real appreciation in recent years, competitiveness is not an immediate concern. Exchange rate policy should be kept under review in light of developments in competitiveness and external performance.

March 2004 (2004 Article IV consultation). The mission urged the authorities to continue reviewing the appropriateness of exchange rate policy and build up the institutional capacity to run an independent monetary policy.

discussions. The former dealt with longer-term issues of public debt and fiscal sustainability, tax reforms, financial system stability, and the sustainability of export growth. A "Selected Issues" paper that accompanied the staff report provided the analytical underpinnings for some of the discussions with the authorities and also included a chapter on policies and prospects for enhancing Jordan's sovereign creditworthiness ratings—a highly relevant topic as the country prepared to graduate from reliance on IMF-supported programs.

Evolution of Advice on Exchange Rate Policy

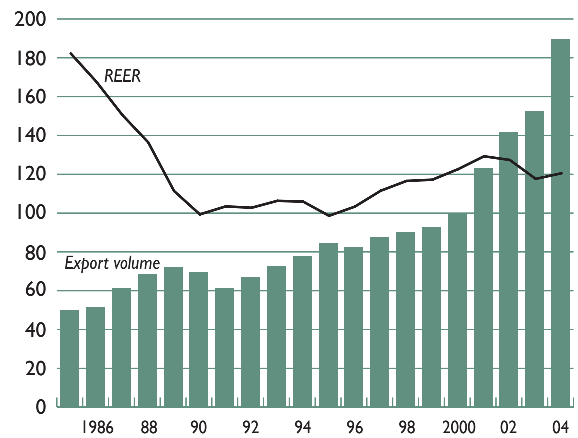
In the first few years after the 1988 crisis, the IMF encouraged the authorities to manage the exchange rate with a view to avoiding a real appreciation. Since the decision to peg the dinar formally to the U.S. dollar in October 1995, the authorities have been unwavering in their support of the peg. IMF staff views have evolved from strong support of this position in the first few years after the introduction of the peg to one of encouraging the authorities to move toward a more flexible regime since the late 1990s (Box 4.1). The views of IMF Executive Directors have also evolved. In 1994, Directors suggested that the nominal exchange rate be "explicitly anchored to signal the authorities' determination to maintain inflation at a low level." More recently, some Directors have argued for moving toward a more flexible exchange rate regime.

The authorities' arguments for maintaining the peg have revolved around three main considerations. First, they hold the view that the peg, in combination with the supporting policies they have pursued, has been instrumental in Jordan's success in establishing macroeconomic and financial stability and in attracting foreign investment into the country. They see no reason to fix a system that is not broken. Second, given their preference for a fixed exchange rate regime, they see the U.S. dollar is an appropriate peg, since the bulk of their exports are to the United States or to countries whose currencies are pegged to the dollar, and that a sizable portion of imports are denominated in U.S. dollars. Third, with respect to the level of the exchange rate, the authorities point to booming nontraditional exports and a steady increase in export volumes to cast doubt on the significance of real appreciation indicated by the evolution of the real effective exchange rate index during the second half of the 1990s and early 2000s (Figure 4.1). More recently, during 2002–04, the real effective rate has depreciated and export volumes have continued to grow rapidly. Thus, there has been notable increase in export volumes during periods of real appreciation as well as periods of real depreciation.

IMF staff agrees that the authorities have been effective in deploying monetary policy to support the peg, and that the peg has served Jordan well in terms of maintaining low inflation, bringing financial stability, and boosting investor confidence. Yet, from about 1999, IMF advice has been that as a shocks-prone emerging market, Jordan would do well to adopt a more flexible exchange rate regime. The bases of the arguments for moving to a more flexible regime have ranged from competitiveness (and growth) concerns, through desirability of having scope for independent monetary policy, to discouraging short-term (speculative) capital inflows.

The rationale provided for the advice to move to a more flexible regime seems to mix issues of the choice of regime with those related to overvaluation of the exchange rate, and to exaggerate the importance of independent monetary policy for a small open economy located in a politically volatile region. There also seems to be a presumption—at least when competitiveness grounds are cited as the rationale—that a more flexible regime can more easily be "managed" to produce a desired real effective exchange rate path. Apart from inflation risks associated with pursuing a real exchange rate path, fragility-of-confidence considerations argue for as transparent a system as possible, even if there is a change to a flexible regime. In the view of the evaluation team, this advice reflected more the evolution of an IMF view of what is appropriate for emerging market economies than analysis based on Jordan's circumstances.[2]

Figure 4.1. Real Effective Exchange Rate and Export Volume
(Indices, 1990 = 100)



Source: IMF.

Financial Sector Assessment Program and Data Report on the Observance of Standards and Codes

Financial Sector Assessment Program

The goal of the FSAP was to assess the stability of the financial system as a whole, identify weaknesses, and suggest remedies that would enhance the country's resilience to macroeconomic shocks and cross-border contagion. On the basis of the FSAP

[2]The one piece of Jordan-specific analysis by IMF staff (Bhattacharya, 2003) concluded after examining various factors—the nature of shocks that the economy is susceptible to, rigidities in real wages and relative prices, and export-diversification goals—that, on balance, a fixed exchange rate regime was appropriate. However, it recommended a shift to a basket of currencies rather than a peg to a single currency.

mission results, IMF staff prepared a Financial System Stability Assessment (FSSA) for the Executive Board.[3] The FSSA noted that the country had reached a high level of compliance with international best practice in the areas of prudential standards in the banking sector and with respect to the payment system, which was described as modern and well functioning. It also noted that some legal and institutional changes were required to address shortcomings in areas such as public debt, financial safety net, securities, insurance, and pensions with a view to improving financial intermediation and increasing resilience to systemic risk, especially in the medium term (e.g., buildup of unfunded liabilities of the public sector pension funds).

During the evaluation team's visit to Jordan, the authorities indicated that they saw the FSAP as an independent validation of their reform efforts and as input to future reforms. CBJ officials characterized the FSAP as very useful; a form of due diligence which had helped them to learn about the effectiveness of their operations and to better prioritize planned actions. Although specific attribution is always difficult, the CBJ took the following actions after the FSAP (and some officials indicated that the FSAP had been influential): (1) adopted the framework of prompt corrective action in supervision as well as a handbook for corporate governance in banks; (2) introduced a new system of data for off-site supervision; (3) included country risk in assessments; and (4) improved licensing procedure for banks. To some degree, the FSAP also represented a transfer of knowledge, a notable example being in the area of stress testing. One area where the FSAP had little impact was on policies for dealing with weak banks, perhaps in part because the issues were not discussed in a very transparent manner in the FSAP documents.

Outside the CBJ (and, to a lesser extent, the Ministry of Finance), we found less familiarity with the final FSAP report, especially with institutions that were not directly contacted by the FSAP team. Even some institutions that participated in the exercise were unaware of even the portions of the final report related to their operations. The highly restricted circulation of the final FSAP report and the nonpublication of the FSSA may have limited the impact of the FSAP exercise in Jordan. But interviews with officials suggest that the overall FSAP process—especially the interaction with experts during the FSAP mission itself—significantly benefited a wide range of regulators (e.g., the Deposit Insurance Corporation and Insurance Commission).

[3]The authorities did not agree to publication of the FSSA.

Data Report on the Observance of Standards and Codes

A data ROSC for Jordan in 2002 found that although the country's macroeconomic statistics were broadly adequate for conducting surveillance, there were shortcomings in the coverage of government finance and external statistics and in the timeliness of monetary and producer price data. The report also drew attention to human resource constraints in the compilation of external sector statistics and to coordination problems among institutions compiling interrelated statistics.

A ROSC update mission undertaken in December 2003 noted that the bulk of the recommendations of the 2002 ROSC had been addressed by the authorities (Annex 13, Table A13.7). It reported significant improvement in the institutional environment, resource allocation, compilation of government finance and balance of payments statistics, and overall methodological soundness. Among the remaining shortcomings was that GDP and balance of payments statistics were not sufficiently covered on a quarterly basis, while the timeliness of international reserves data was inadequate. Still, the picture that emerges is that of progress within an already reasonably good data dissemination system. In interviews during the evaluation mission to Jordan, the authorities confirmed the findings of the ROSC update mission.

Overall, the ROSC effectively focused the authorities' attention on shortcomings in the country's macroeconomic data compilation and dissemination practices and provided guidance on steps to bring these practices to international standards. It helped attract resources to the production of statistics and the technical assistance it generated seems to be yielding tangible results.

The Contribution of Technical Assistance

IMF TA has been provided to Jordan in three broad areas: (1) public finances; (2) central bank operations; and (3) macroeconomic statistics. Assistance in the area of public finances has been the most wide ranging—covering tax policy, revenue administration, pension reform, social safety net, public expenditure management, budget formulation, and macrofiscal management. Assistance directed at central bank operations has focused on monetary operations, banking supervision, the payments system, and the development of interbank markets. With respect to statistics, the main areas include national accounts, prices, money and banking, government finance, and the balance of payments. Two main questions are addressed in this section:

- How were priorities determined?
- What can be said about impact, especially on institution/capacity building?

How were priorities determined?

According to several sources interviewed in Jordan, the authorities' requests to the IMF for TA often arose from mutually perceived needs. In the past, the requests tended to be initiated by IMF staff, but this changed over the years, with the authorities now tending to be the initiators.

During the first years of IMF-supported programs, the TA focused largely on tax reform. Evidence of an early attempt to put IMF TA to Jordan in a broad framework can be found in the staff report on Jordan's request for an EFF arrangement in 1994. In their Letter of Intent requesting the arrangement, the authorities listed several areas in which they intended to seek TA from the international community to help in the design and implementation of their medium-term adjustment and structural reform program. In response, IMF staff indicated the following as areas in which the IMF would contribute (in order of priorities):

- Reform of the system of direct taxes.
- Review of the operations of the GST, and its synchronization with tariff reform.
- Strengthening the institutional capacity of the CBJ for monetary policy operations.
- Review of the existing social safety net system.
- Development of an interbank market for foreign exchange.

Overall, this was a reasonable set of priorities at the time, given the diagnosis of Jordan's adjustment challenges. With hindsight, an early program of TA in the area of statistics would have been appropriate in light of the problems with monitoring macroeconomic performance that arose under the 1996 EFF. During the mid-1990s, IMF TA to Jordan expanded to cover the pension system, the payments system, and banking supervision.

Priorities changed significantly in 1998, following the data problems that derailed the 1996–98 EFF. As part of an effort to address these problems, there was a flurry of TA missions starting in the second half of 1998 that aimed to strengthen the management and monitoring of government finances, and to improve the timeliness of the compilation of national accounts. More recently, as Jordan moved toward graduation from reliance on IMF-supported programs, the IMF's TA has been geared mainly to institution building, although assistance on key policy issues (e.g., pension reform and tax policy) has continued.

To summarize, the focus of IMF TA to Jordan broadened from assistance geared mostly to inform program formulation under the early IMF arrangements to include assistance aimed at enhancing program monitoring and supporting the structural actions in the fiscal and financial sectors. In more recent years, there has been less emphasis on linking TA to programs and more on institution/capacity building. This set of priorities seems appropriate, although an earlier and greater collective focus (in conjunction with the World Bank) on TA on expenditure policy would have been warranted given the major public expenditure reduction targets envisaged under different arrangements.

Impact

In assessing impact below, a distinction is made between the impact of TA on policy formulation and implementation, on the one hand, and on institution/capacity building, on the other. The assessments are based on different types of evidence including reviews of TA recommendations and the extent to which they were implemented; interviews with TA recipients; and interviews of IMF staff involved in the provision of TA and with other TA providers.

Policy formulation and implementation

There were at least three areas in which IMF TA made substantial and concrete contributions to policy formulation and implementation: taxation, rationalization of food subsidies, and pension reforms. In one key area—petroleum pricing—the IMF provided substantial technical assistance but the authorities have not yet translated the recommendations into policy.

Even before the introduction of the GST, IMF TA provided key inputs to the formulation of the tax policy content of Jordan's annual government budgets. With respect to the GST, two missions (undertaken in 1990 and 1992) were critical to the design of the tax, and subsequent visits by a peripatetic adviser helped with implementation. Another mission that visited Jordan in 2002 to review the operations of the GST made a recommendation that led to the merger of the Income Tax and GST Departments.

The IMF's contribution to the rationalization of food subsidies was informed by the reports of two TA missions. A 1990 mission provided the analytical basis for conditionality in IMF arrangements on moving away from an open-ended subsidy program to a more targeted one. A 1994 mission took the next step of recommending measures to move away from price subsidies and providing direct and more targeted income support to low-income families.

Other providers of TA—especially the World Bank—also contributed to the evolution of the social safety net.

In the area of pension reforms, the authorities and IMF staff singled out the 1996 TA report prepared by the Fiscal Affairs Department (FAD) as critical to the dialogue on the subject even though the authorities moved gingerly to implement the recommendations. Further assistance—including in the sensitive area of reforming the military pension system—was provided in 2002 when the authorities were ready to move forward with the next stage. IMF staff not only provided written recommendations, but at the request of the authorities, participated in briefings for key policymakers.

During its visit to Jordan, the evaluation team found little awareness of the contribution of IMF TA, and the associated policy dialogue, outside the recipient agencies. Nongovernmental stakeholders interviewed—especially journalists and academics—urged the IMF to be more forthcoming with the analyses that underpin its advice to the government. A wider publication of IMF TA reports would have contributed to more informed public discourse on key policy issues such as those involving tax policy and pension reform. Clearly, because of various sensitivities, automatic release of reports may not be appropriate, but there is considerable scope for greater dissemination of the content of reports. This would not only enhance policy discourse in the country but would also shed light on the rationale for IMF policy advice.[4]

Institution and capacity building

For TA to have a lasting impact, it has to contribute to capacity building on the ground. In this section, the focus is on assessing the extent to which IMF TA contributed to capacity building in public finance institutions, in the CBJ, and in the Department of Statistics (DoS).

Public finance institutions.[5] IMF TA appears to have been instrumental in strengthening capacity in revenue administration, especially with respect to the GST. In contrast, IMF TA has had less impact on capacity building in the Ministry of Finance to date. In fact, a heavy reliance on IMF staff for consolidating fiscal data and for macrofiscal analysis may have hindered capacity building in the ministry. The recent provision of TA aimed at building capacity in macrofiscal analysis and management is a step toward addressing this weakness. In recent years, the IMF has been providing assistance in the compilation of government finance statistics in accordance with international methodologies developed at the IMF. It is too early to assess the impact of this assistance.

Central Bank of Jordan. The CBJ receives assistance from multiple sources. Furthermore, the central bank has a highly successful training program under which it sends its staff for training abroad. Thus, it is difficult to attribute a strengthening of capacity to one provider of TA. All the same, senior officials interviewed identified monetary operations, payments system, and banking supervision as areas in which IMF TA had made major contributions. Officials of the CBJ also drew attention to an area in which they felt IMF TA had not been very effective, namely the compilation of balance of payments statistics. They attributed this, in part, to underfunding of surveys that were the responsibility of the Department of Statistics (DoS). However, it also appears that the authorities were not satisfied with the quality of some of the advice they received.

Department of Statistics. The senior management of DoS was highly complimentary of the quality of the assistance received from the IMF. DoS management cited progress in reducing the lag in the compilation of annual national accounts from two years to one quarter as tangible evidence of the impact of this assistance.

[4]This is also a recommendation of the IEO report on Technical Assistance (IEO, 2005).

[5]The main public finance institutions that received IMF TA were the Ministry of Finance and the Revenue Department (especially Income Tax and GST). There was little direct assistance to other key agencies, such as the Budget Department (responsible for the formulation and execution of the recurrent budget) and the Ministry of Planning (responsible for the capital budget).

CHAPTER 5

Issues Related to IMF Internal Processes and Policies

In this chapter, IMF-Jordan relations are examined from the perspective of IMF internal processes and policies, focusing on the following aspects:

- The interaction between internal staff analysis and the content of Board papers.
- IMF–World Bank cooperation.
- Finally, we also discuss arguments made by some observers that Jordan received preferential treatment on account of geopolitical considerations.

Internal Processes and Information Provided to the Board

A review of a broad range of internal documents and interviews with the staff suggest the following broad messages:

- *In the case of Jordan, the ability to step back and ask, from a longer-term perspective, what is and what is not working does seem to have improved markedly in recent years.* For example, the internal 2002 briefing paper on a fiscal strategy for the medium term was a high-quality, candid document that did influence subsequent program design. Similarly, the analysis of macroeconomic frameworks in the context of their longer-term implications for debt sustainability have grown more rigorous.
- *The internal review process generally did flag many of the key risks to achievement of longer-term program objectives.* In particular, review department comments drew increasing attention during the period of the EFFs to the slow progress in underlying fiscal adjustment. Another area highlighted by review departments was the need to introduce an automatic mechanism for adjusting petroleum product prices to reflect changes in world prices. However, this did not feature in program conditionality in any significant way.
- *The overall assessments of policies and risks in Board papers were reasonably candid, but such assessments generally did not include any elaboration of the consequences of significant policy slippages.* Interviews with staff indicate that the consequences of potential policy slippages were discussed in detail with the authorities, even if not in Board papers. Nevertheless, a more concrete discussion of alternative scenarios could have improved the quality of information available to the Board. For example, a more concrete assessment should have been provided of the consequences for the current macroeconomic framework if government expenditures do not adjust to the projected fall in grants.
- *It was difficult to obtain from the Board papers alone a full understanding of the rationale underlying a particular program design* (e.g., why a specific magnitude of fiscal adjustment was chosen or what were the behavioral assumptions underlying a specific NDA target). This also made it difficult to judge the reasonableness of any subsequent program modifications. Board papers for the 2002 SBA and its reviews (especially at the time of the 2004 Article IV consultation) generally provided a clearer discussion of the rationale than in earlier arrangements.

IMF–World Bank Cooperation

The division of labor between the two institutions appears to have generally worked well, with clear understandings on which agency had lead responsibility for particular issues. Although there were disagreements on a number of issues—two examples are given below—the view of the "lead agency" appears to have prevailed. Within this generally positive assessment, however, there are three areas where results of the cooperation were not as effective as they could have been: (1) the IMF was not able, for whatever reason, to utilize sufficiently World Bank inputs from its public expenditure reviews (PERs) in the design of the fiscal adjustment strategy; (2) World Bank

Box 5.1. Selected Findings from OED's Jordan Country Assistance Evaluation

In 2002–03, OED undertook an evaluation of World Bank assistance to Jordan during the 1990s. Below are some findings that touch on relations with the IMF or on subject areas relevant to the IMF's work.

- The World Bank's operations complemented IMF stabilization program(s) with structural reforms designed to address constraints to private sector and export-led growth.
- Collaboration with the IMF was successful in stabilizing the Jordanian economy and laying the foundations for structural reforms.
- High growth projections of the 1990s (over 6 percent a year) used in World Bank work were unrealistic, considering the low level of investment (both government and private nonhousing) since 1985. The projections were not based on careful independent analysis; they often reflected uncritical acceptance of the growth assumptions underlying IMF-supported programs.
- The World Bank could have made much more use of the results from its analytical work on public expenditures to push more forcefully for reducing the level of government expenditures while enhancing their quality.

Source: Hassan and Al-Saci (2004).

analysis on growth issues did not play a significant role in deriving the growth projections incorporated into IMF-supported programs; and (3) as already noted, the use of detailed conditionality on privatization in the 1999 EFF was one occasion when the "division of labor" between the two institutions broke down, with poor results.

The evaluation team sought evidence on the extent to which IMF staff drew on analytical work by the World Bank in the design of IMF-supported programs. In light of the findings of the 1994 conditionality review referred to in Chapter 2 and the critical importance of addressing Jordan's longer-term fiscal rigidities on the expenditure side, we were particularly interested in what use IMF staff made of World Bank work on public expenditure. We found that the World Bank's periodic public expenditure reviews had relatively little influence on IMF program design. We asked IMF staff specifically about the 1999 PER report, which an evaluation of World Bank assistance to Jordan during the 1990s conducted by the World Bank's Operations Evaluation Department (OED) found to have been of high quality. IMF staff suggested that the main reason for not drawing on the 1999 PER report was that its emphasis on "performance budgeting" lacked traction with the authorities.[1] In our view, the report provided some useful material for developing a medium-term framework for fiscal policy, but the development of such a framework was not a priority for IMF staff until toward the end of the 1999–2001 EFF (as part of the preparation for the successor arrangement—the 2002 SBA). Subsequently, a joint IMF–World Bank PEM mission in 2004 took up some of the key issues addressed in the 1999 PER.

Another area in which we sought evidence of collaboration in program design was with regard to growth projections. We found that IMF staff drew on World Bank analysis in the preparation of Selected Issues papers as part of Article IV consultations. However, growth projection for programming purposes tended to rely on simple extrapolation of recent trends. It also appears that World Bank staff used IMF growth assumptions in their macroeconomic projections, a practice that the OED evaluation criticized (Box 5.1).

There were a few areas where the views of the two staffs diverged. One such area concerned the use of fiscal policy to support growth objectives. In early 1998, with the economy perceived as largely stabilized, World Bank staff recommended that the IMF take account of increased availability of external aid (compared to the expected levels at the onset of the 1996 EFF) to program a larger fiscal deficit before grants, in support of the authorities' and the program's growth and poverty alleviation objectives. Citing concerns about future recurrent cost implications of aid-financed expenditures and expected permanent revenue losses associated with some reforms of the tax system, IMF staff took the position that additional aid should go toward financing expenditures already budgeted, rather than toward new spending. Subsequently, especially under the 2002 SBA, the staffs worked together to incorporate the authorities' growth and poverty reduction goals (as spelled out in the PSET) into the IMF-supported program.

A second area of divergent views related to the creation of export enclaves/zones characterized by generous tax incentives, for example, the establishment of the Aqaba Special Economic Zone (ASEZ). IMF staff advised a cautious approach, pointing to potential adverse effects on government revenue

[1] We understand that, in deference to the authorities' wishes, the report was never finalized.

Table 5.1. Access Limits
(In percent of quota)

Arrangement	Prevailing Limits: Annual	Prevailing Limits: Cumulative	Average Annual Access[1]	Initial Average Annual Access[2]	Jordan's Access: Augmented annual[3]	Jordan's Access: Cumulative
1989 SBA	n.a.	102–125				81
1992 SBA	n.a.	102–125	56	40	n.a.	60
1994 EFF	100	300	30	35	65	156
1996 EFF	100	300	44	55	65	196
1999 EFF	100	300	40	25	n.a.	75
2002 SBA	100	300	43[4]	25	n.a.	50

Source: IMF.
[1]Average annual access for all similar arrangements approved in the same year as Jordan's.
[2]Average annual access at time of approval.
[3]A series of augmentations increased the annual access for 1995 and 1996 above the initial levels.
[4]Excluding Brazil (564 percent of quota) and Turkey (456 percent of quota).

from the diversion of output from these zones to the domestic market. The World Bank, on the other hand, saw good potential for export generation, growth, and employment creation and assisted the authorities to set them up. The ASEZ became operational only in 2001, and so it is too early to gauge its impact on growth.

Did Jordan Receive Preferential Treatment from the IMF?

Some commentators have claimed that Jordan received preferential treatment from the IMF on account of the international community's desire to see the country remain stable in a region marked by instability. In particular, it is suggested that the IMF has been lenient in dealing with slippages in the implementation of programs, and that Jordan has continued to receive a large amount of technical assistance even though it has been slow (or unwilling) to implement recommendations from such assistance.

We explore the following aspects of IMF-Jordan relations to test the hypothesis of favorable treatment: (1) levels of financial assistance provided; (2) volume of technical assistance provided; and (3) response to slippages under programs.

Factors taken into account in establishing the level of financial assistance provided under IMF arrangements include (1) the extent of the balance of payments problem faced by the country; (2) the strength of the adjustment program to be supported under the arrangement; and (3) the extent to which the country has been a prolonged user of IMF resources. There is a lot of room for exercising judgment in applying the above criteria, and we do not attempt to examine details of how the access levels were actually determined. Instead we compare Jordan's access levels with those for similar arrangements approved in the same year. Also, as a proxy for "strength of program," we compare the envisaged fiscal adjustment in the Jordan programs with that of programs for other countries using a framework employed in IEO's recent evaluation of fiscal adjustment in IMF-supported programs.

On access levels, the evidence indicates that they were well within the limits set in prevailing guidelines at the time the various arrangements and, while higher than average for all countries with similar arrangements, not excessively so (Table 5.1). Several augmentations to original access levels were granted to Jordan in the mid-1990s in response to pressures on international reserves associated with the redemption of Jordanian dinar for U.S. dollars in the West Bank and Gaza. In our view, the augmentations were an appropriate response to an external shock.

On fiscal adjustment, IEO (2003) found that the main determinants of projected fiscal adjustment in IMF-supported programs were the initial sizes of the fiscal and external current account balances, the size of the envisaged adjustment in the external current account, and the initial level of government expenditure. We fitted Jordan data to the regression equation estimated in the IEO report and found that, after controlling for the determinants indicated above, the programmed magnitude of fiscal adjustment in Jordan was somewhat less "ambitious" than the norm for IMF-supported programs. However, except for the 1992 and 2002 SBAs, the differences (not reported here) were generally not large.

The recently completed IEO evaluation of IMF technical assistance (IEO, 2005) found that during 1998–2003, per capita GDP and the existence of a multiyear arrangement with the IMF were the strongest influences on the allocation of IMF technical assistance to countries. Specifically, other things being equal, the amount of technical assistance provided was found to be inversely related to a country's per capita income, and to be positively associated with the presence of an arrangement under the EFF or the Poverty Reduction and Growth Facility (PRGF). After controlling for Jordan's per capita income level, we found the overall amount of technical assistance provided by the IMF to the country to be within the "norm" provided to other countries with IMF-supported programs.

The IMF clearly made political economy judgments about how far to insist on some measures that, if implemented, would have improved Jordan's longer-term fiscal sustainability. For example, while it encouraged the authorities to reduce the burden of the civil service wage bill and military expenditures and to introduce a permanent market-based mechanism for the pricing of petroleum products, such actions never became a precondition for agreement on a program. But such judgments reflected considerations of domestic ownership and political feasibility that were no different from those the IMF has to make in program negotiations in other countries. We found no evidence that the "threshold" of an acceptable program content was significantly different in Jordan because of its geopolitical importance. The one possible exception was the relatively quick move to a new arrangement soon after the poor performance under the 1996 EFF. However, as noted earlier, the contents of the 1999 EFF were quite ambitious.

In conclusion, there is always an element of political judgment involved in IMF decision making about its support for adjustment programs, and this was likely to be the case for a country in Jordan's geopolitical position. The question is whether such factors led to treatment that was out of the ordinary. We found no significant evidence that this was the case.

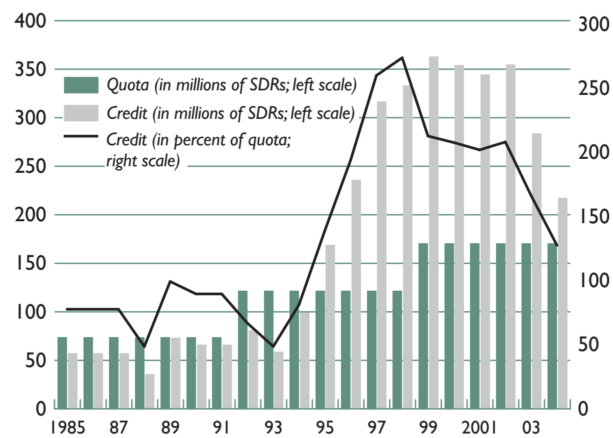
ANNEX I

Jordan's IMF Arrangements

Jordan has had six IMF arrangements (see Table A1.1). The first, an 18-month SBA was a key element in the authorities' effort to normalize relations with external creditors following the 1988–89 crisis. About a year after its approval, none of the envisaged program reviews had been completed and subsequent events that culminated in the 1991 war in the Middle East interrupted the program. A second SBA approved in 1992 was to assist Jordan resume its economic adjustment effort in the aftermath of the 1991 war in the Middle East. The duration of that arrangement was extended from an initial 18 months to 24 months; all the envisaged program reviews were completed, and the approved amount of financial support was fully disbursed.

A succession of three arrangements under the EFF followed. The shift from SBAs to EFFs symbolized an increased focus on structural reforms. The first EFF (approved in 1994) was cancelled some 15 months early, and replaced by a new one in 1996. The new arrangement sought to better align IMF support to a significantly changed external outlook, reflecting widespread optimism about prospects for Middle East peace and economic growth. In the event, the 1996 EFF was allowed to lapse in its third

Figure A1.1. Outstanding IMF Credit[1]



Source: IMF.
[1]The outstanding loans include Jordan's borrowings under the Compensatory Financing Facility in 1985, 1989, and 1999.

Table A1.1. Jordan's IMF Arrangements
(In millions of SDRs)

Type of Arrangement	Approval Date	Expiration/ Cancellation Date	Duration (In months)	Amount Agreed	Amount Drawn	Disbursement Ratio (In percent)[1]
Stand-By Arrangement	7/14/1989	1/13/1991	18	60.0	26.8	44.7
Stand-By Arrangement	2/26/1992	2/25/1994	24	44.4	44.4	100.0
Extended Fund Facility[2, 3]	5/25/1994	2/9/1996	21	189.3	130.3	68.8
Extended Fund Facility[4]	2/9/1996	2/8/1999	36	238.0	202.5	85.1
Extended Fund Facility	4/15/1999	5/31/2002	38	127.9	127.9	100.0
Stand-By Arrangement[5]	7/3/2002	7/2/2004	24	85.3	10.7	12.5

Source: IMF Finance Department database.
[1]The ratio of amount drawn to amount agreed.
[2]Cancelled before expiration date and replaced with a new three-year arrangement.
[3]The "amount agreed" includes two augmentations; the original agreed amount was SDR 127.8 million.
[4]The "amount agreed" includes one augmentation; the original agreed amount was SDR 200.8 million.
[5]Converted to a precautionary arrangement after first review.

year because of problems with the reporting of fiscal and national account data that came to light in mid-1998. The third EFF (approved in April 1999) ran its course, albeit with some delays in completing program reviews, and was fully disbursed.

The last arrangement, a 24-month SBA approved in July 2002, was mainly to facilitate a debt-rescheduling agreement with the Paris Club. Three envisaged program reviews were duly completed, but the authorities chose not to make any more drawings after the initial disbursement, on account of significantly strengthened balance of payments and international reserves positions. At the expiration of the SBA, in July 2004, the authorities decided not to request a successor arrangement, but agreed to participate in the post-program monitoring mechanism.

At the end of 2004, Jordan's outstanding loans from the IMF amounted to SDR 217 million, equivalent to 128 percent of Jordan's quota at the IMF (Figure A1.1).

ANNEX
2

Chronology of Selected Political and Economic Events, 1989–2004

Date	Event
April 1989	Riots in Ma'an protesting sharp increases in fuel prices (reflecting cuts in subsidies).
	Cabinet reshuffle.
July 1989	IMF Executive Board approves first arrangement with Jordan—a Stand-By Arrangement.
	External debt-rescheduling agreement with the Paris Club (first).
November 1989	National elections.
December1989	Change in Prime Minister and the cabinet of ministers.
August 1990	Iraq invades Kuwait.
January–February 1991	War in the Middle East.
June 1991	Change in Prime Minister and the cabinet of ministers.
November 1991	Change in Prime Minister and the cabinet of ministers.
February 1992	External debt-rescheduling agreement with the Paris Club (second).
January 1993	Jordan Consultative Group meeting.
May 1993	Change in Prime Minister and the cabinet of ministers. New Minister of Finance.
November 1993	National elections.
April 1994	Palestine Liberation Organization and Israel sign protocol on economic relations.
May 1994	Jordan Consultative Group meeting.
June 1994	External debt-rescheduling agreement with the Paris Club (third).
October 1994	Signing of Peace Treaty between Jordan and Israel.
January 1995	Change in Prime Minister and the cabinet of ministers.
October 1995	Amman Economic Summit.
November 1995	Assassination of Israeli Prime Minister Rabin.
February 1996	Change in Prime Minister and the cabinet of ministers. New Minister of Finance.
July 1996	Jordan Consultative Group meeting.
August 1996	Riots in Kerak protesting increase in bread price.
November 1996	Launch of Qualifying Industrial Zones arrangements; exports can enter U.S. market duty and quota free provided they have minimum of 35 percent value-added.
March 1997	Change in Prime Minister and the cabinet of ministers. New Minister of Finance.
May 1997	External debt-rescheduling agreement with the Paris Club (fourth).
November 1997	National elections.
July 1998	Announcement that King Hussein is suffering from cancer.
August 1998	Change in Prime Minister and the cabinet of ministers. New Minister of Finance.
February 1999	King Hussein dies, King Abdullah enthroned.
March 1999	Change in Prime Minister and the cabinet of ministers.
May 1999	External debt-rescheduling agreement with the Paris Club (fifth).
April 2000	Jordan becomes a member of the World Trade Organization.
June 2000	Change in Prime Minister and the cabinet of ministers.
September 2000	Beginning of "Intifada" in the West Bank and Gaza.
January 2001	Government designates Aqaba (Red Sea port) a Special Economic Zone, with low tax rates and duty-free arrangements.
November 2001	Government introduces Plan for Social and Economic Transformation (PSET).
	National elections postponed, and parliament suspended.

(concluded)

Date	Event
December 2001	Free trade area between Jordan and the United States comes into effect; provides for the progressive e imination of tariffs on most goods traded between the two countries.
May 2002	The Jordan-EU Association Agreement comes into effect.
July 2002	External debt-rescheduling agreement with the Paris Club (sixth).
March 2003	War in Iraq.
June 2003	National elections.
October 2003	Change in Prime Minister and the cabinet of ministers. New Minister of Finance.
July 2004	Expiration of Stand-By Arrangement with the IMF; marks Jordan's "graduation" from reliance on IMF-supported programs.

Sources: IMF program documents; and Economist Intelligence Unit, various reports on Jordan.

Annex 3 Review of the IMF Staff's Debt Sustainability Analyses and Their Input into Program Design

The review is based on the four major examples of debt sustainability analysis undertaken for Jordan since 2002: (1) the February 2002 internal briefing paper on the medium-term fiscal strategy, part (but not all) of which was reproduced (as Annex II) in the subsequent staff report on the 2002 Article IV and review of the EFF; (2) the debt sustainability analyses prepared in mid-2003 at the time of the first review of the 2002 SBA (Annex II of IMF, 2003b); (3) the discussions of external and fiscal debt dynamics prepared for the 2004 Article IV (Chapters IV and V of IMF, 2004a); and (4) the debt sustainability analysis prepared as part of the post-program monitoring discussions (IMF, 2004b).

The conclusions are as follows. First, these sustainability analyses did pay increasing attention to the issue of what would be an appropriate longer-term debt target for Jordan. For example, the background papers for the 2004 Article IV consultation contained a comprehensive assessment drawing on a mix of quantitative indicators, analysis of debt dynamics, and cross-country comparisons. It concluded that Jordan has a relatively high degree of liquidity compared to developing countries as a whole and most subgroups (in terms of debt service on a cash basis and external reserves) and that the future paths of external adjustment and fiscal consolidation were, to a considerable extent, policy choices rather than been driven by exogenous financing constraints as in earlier years. However, it also noted that, from a stock perspective, external debt was still large in relation to GDP by virtually any cross-country comparison; for example, debt in relation to the size of the economy or exports of goods and services was still generally on par with that of heavily indebted lower-income countries.[1] While the stock of debt was not judged to be a problem in a solvency sense, the assessment concluded that, even after over a decade of declining debt ratios, the image of a debt overhang was still an issue. While notions of the appropriate long-term levels of external and public debt are inevitably very imprecise, the staff did undertake an insightful analysis of what the authorities' macroeconomic framework would imply for various deficit and debt measures through 2008, compared with the average current level of those variables for countries with an investment grade credit rating.[2] The conclusion was that maintenance of the authorities' then-targeted adjustment path would lead projected fiscal outturns and public sector net external debt to outperform the average "BBB" rating and, hence, would contribute significantly to a possible achievement of investment grade status, with positive consequences for market confidence and, ultimately, for growth.

Second, while there was relatively little analysis in early program documents of the consequences for growth of different paths for external and fiscal adjustment, IMF staff have made greater attempts to assess potential trade-offs more recently. The rationale for fiscal consolidations under all of the programs was to contribute significantly to the achievement of external objectives and to growth by boosting domestic savings and creating room for private credit and investment. However, the underlying analysis in earlier programs typically did not go beyond this broad qualitative rationale. For example, until the 1999 EFF, there was very little discussion of conditions under which fiscal policy could be deployed to play a countercyclical role. The 2002 medium-term fiscal strategy paper represented a significant and welcome turning point in this regard, since it explored (1) the potential consequences of debt reduction for domestic investment and hence

[1]For example, the net present value (NPV) of the debt to exports ratio was estimated to be in excess of 200 percent at end-2003—higher than the threshold 150 percent NPV of debt to exports targeted under the Heavily Indebted Poor Countries exercise.

[2]The comparison was with countries that had a "BBB" sovereign rating (the second lowest investment grade) from Standard & Poor's (S&P). See Chapter VII of the background paper (IMF, 2004a) to the 2004 Article IV consultation. Jordan's sovereign credit rating by S&P at the time was "BB," the second highest "speculative" grade.

growth;[3] (2) trade-offs between the potential future impact of fiscal adjustment on improving longer-term growth prospects and the shorter-term consequences for growth;[4] and (3) an analysis of the potential macroeconomic effects of the Plan for Social and Economic Transformation (PSET) which was launched in November 2001.

Finally, given the historical importance of grants in the Jordanian economy, their treatment in program design—and the sustainability analyses that underlie the IMF's macroeconomic policy advice—is a critical issue. Following the initial sharp drop in grants during 1989–91, programs have incorporated fairly cautious projections for grants. They were generally assumed to decline gradually, and actual outcomes were usually higher than program projections—albeit only moderately so until the recent upsurge in grants in 2003–04. The 2002 internal fiscal strategy paper concluded that, given the fact that grants had remained fairly stable over the previous decade, it would be appropriate to shift to formulating fiscal targets including grants.[5] Ironically, this shift took place just before grants became, once again, potentially highly volatile. More fundamentally, recent assessments tended to underplay the potential vulnerabilities posed by the recent upsurge in grants and matching boom in government expenditures. While the assessments contained in the Board papers rightly emphasized that the grants should not be used to finance a permanent pickup in expenditures, they implicitly assumed that the subsequent adjustment to a drop-off in grants would be relatively smooth. For example, the two assessments undertaken in 2004 consider the consequence of a variety of shocks (to the exchange rate, interest rates, real GDP) and conclude that the external debt burden would remain manageable under all but the most severe shocks (with the most worrisome scenario judged to be a large exchange rate shock). But these assessments say relatively little about the potential dangers involved in managing a sharp reversal of grants or about policies that could help smooth the macroeconomic consequences. The discussion in internal staff notes tended to be somewhat franker about the potential risks.

This analysis of potential trade-offs between different strategies for restoring stability did result in a significant shift in program design. The 1999 EFF had targeted an ambitious fiscal consolidation effort (a reduction in the overall fiscal deficit, before grants, equivalent to over 5 percent of GDP during the three-year program period)—an objective that was not achieved as fiscal targets were missed repeatedly. The EFF also underemphasized the impact of "below the line" debt reduction operations which, in the event, helped to reduce Jordan's public debt significantly despite the fiscal slippages. Consequently, the 2002 strategy brief concluded that the fiscal strategy underlying the 1999 EFF needed substantial modification and recommended a revised approach to addressing the debt problem that emphasized (1) a more gradual contribution from "above the line" revenue/expenditure measures—less ambitious in quantitative terms but focusing on wide-ranging reforms in the areas of tax policy and administration and of expenditure policies to address key rigidities that were driving the rapid trend growth in many expenditure categories; and (2) more aggressive efforts to reduce debt through debt restructuring/reduction operations and the use of privatization proceeds. Much of this strategy was subsequently adopted in the 2002 SBA.[6] However, the Board paper that presented the program under the new SBA was less forthcoming than the internal briefs on the rationale behind the change in approach.

[3]An illustrative quantitative exercise indicated that a reduction in Jordan's pre-cutoff date bilateral official debt by 50 percent in NPV terms could increase domestic investment by 1–2 percentage points of GDP—by easing the impact of the "debt overhang" on private investment and by creating room for higher public and social capital outlays.

[4]The basic conclusion was that exclusive focus on (short-term) fiscal adjustment could undermine the objective of higher economic growth and alleviation of poverty, at least initially, and that establishing implicit quantitative limits on expenditure growth could be frustrated if the underlying structural factors (e.g., various revenue and expenditure rigidities) were not adequately factored into the medium-term fiscal targets, along with the necessary fundamental policy changes to address them.

[5]The paper referred to an approach that measured fiscal performance in terms of the deficit excluding grants as "prudent but impractical" for a country in Jordan's circumstances (i.e., where grants were likely to be sizable for the foreseeable future and where they had "remained fairly stable"). Reflecting this judgment, the key fiscal performance criteria under the 2002 SBA shifted to a ceiling on the overall deficit after grants, in contrast to a ceiling on the deficit before grants under the 1999 EFF.

[6]In the event, the massive surge in grants that occurred in 2003–04—and the associated pickup in government expenditures—caused the fiscal deficit before grants to increase substantially even though the fiscal performance criteria under the 2002 SBA (the deficit after grants) were met.

ANNEX
4 Objectives, Strategies, and Policies in Jordan's IMF-Supported Programs

Objectives and Strategies	Macroeconomic Policies	Structural Reforms and Social Po icies
1989 SBA		
Broad objectives Increase the rate of economic growth while maintaining relative price stability, and substantially reduce the budget and balance of payments deficits. ***Key targets/projections*** (1) Steady recovery from negative economic growth in 1988 to 4 percent in 1992 and beyond. (2) Reduce inflation rate from 14 percent in 1989 to less than 7 percent by 1993. (3) Eliminate the external current account deficit (including official transfers) by 1993; from 6 percent of GDP in 1988. ***Strategies*** (1) Boost investment incentives. (2) Eliminate government dissaving to raise domestic savings. (3) Seek rescheduling of external debt-service obligations in order not to constrain imports unduly.	Measures to reduce the government budget deficit included (1) increases in petroleum product prices; (2) increases in tax rates on cigarettes, and new taxes (royalties) on phosphate and potash; and (3) reduction in subsidies (on food items and for domestic production). Measures to contain monetary expansion included reduction in government borrowing from domestic banking system. Exchange rate to be managed flexibly with a view to maintaining the real effective exchange rate at a competitive level.	***Structural reforms*** Specific policies for trade liberalization and tariff reform to be discussed with a forthcoming World Bank mission. ***Social policies*** Protect the poor through continued subsidies on basic food items, but improve targeting.
1992 SBA		
Broad objectives Restore and sustain economic growth in a non-inflationary environment, generate employment, and achieve budgetary and balance of payments viability. ***Key targets/projections*** (1) Increase real GDP growth rate to 4 percent by 1997 (from a negative average rate during 1989–91). (2) Reduce inflation from 10 percent in 1991 to below 5 percent in 1997. (3) Reduce the external current account deficit (excluding official transfers) from 24 percent of GDP to near balance by 1998. ***Strategy*** Gradually increase domestic savings and investment and improve the efficiency of investment.	Reduce budget deficit excluding grants from about 18 percent of GDP in 1991 to 5 percent in 1998 (8 percentage point reduction in current expenditure, 4 percentage point increase in revenue). Pursue a tight credit policy to contain liquidity expansion to a level consistent with the inflation target. Maintain flexible exchange rate policy (to help achieve an expansion of exports and contain import demand).	***Structural reforms*** (1) Tariff reform, including lowering of maximum rate. (2) Rationa ize petroleum pricing. (3) Introduce GST by 1/1/93. (4) Strengthen banking supervision. ***Social policies*** (1) Continue targeted subsidies of selected food items. (2) Salary increase in 1992 to partially offset the effect of subsidy removals and price increases.

(continued)

Objectives and Strategies	Macroeconomic Policies	Structural Reforms and Social Policies
1994 EFF		
Broad objectives Sustain economic growth in a noninflationary environment, enhance job opportunities, and improve living standards. ***Key targets/projections*** (1) Real growth of 6 percent a year on average during 1994–98 (estimated growth for 1993 was 5.8 percent). (2) Hold inflation at 4–5 percent (was 5.1 percent in 1993). (3) Eliminate exceptional financing by end-1997. (4) Maintain a comfortable level of foreign exchange reserves. ***Strategy*** Increase domestic savings to sustain investment levels needed to meet growth objectives.	Reduce fiscal deficit excluding grants, from 6.4 percent of GDP in 1993 to 2.5 percent in 1998. Specific measures included (1) reduce non-interest current outlays—e.g., reduce subsidies by a combination of price adjustments and better targeting of benefits; and (2) contain public sector wage bill and military and security outlays. Maintain flexible exchange rate policy. Accept obligations under IMF Article VIII (i.e., abolish restrictions on external current account transactions).	***Structural reforms*** (1) Reorient tax system from import-based to broader domestic-consumption-based system (including the introduction of GST by May 1994). (2) Switch to indirect monetary control. ***Social policies*** Improve the targeting of food subsidies (TA requested from the IMF to help improve social safety net system).
1996 EFF		
Broad objectives Improve living standards, expand employment opportunities, and lower the debt and debt-service burden. ***Key targets/projections*** (1) Annual growth rates of 6.5 percent during 1996–98 (slight increase over average 6.1 percent during 1993–95). (2) Inflation rates projected to go from 3.1 percent in 1995 to 2.5 percent in 1998. (3) Narrow the external current account deficit including grants, from 4.6 percent in 1995 to 2.8 percent in 1998. (4) Build up gross official reserves to the equivalent of about 3 months of imports (from 1.6 months at end-1995). ***Strategies*** (1) Maintain high investment ratio (34 percent of GDP), but also allow for an increase in real per capita consumption (reversing some of the sharp decline during 1994–95). (2) Further fiscal consolidation; needed to reduce external debt burden and increase fiscal flexibility. (3) Accelerate structural reforms to improve environment for private-sector-led and outward-oriented growth.	Overall budget deficit excluding grants targeted to decline from 4.8 percent of GDP in 1995 to 2.5 percent by 1998, notwithstanding losses in revenue associated with some envisaged structural reforms. Noninterest current outlays to be reduced. Monetary policy: active interest rate policy to be used to maintain attractiveness of Jordanian-dinar-denominated assets. Exchange rate policy: maintain nominal stability of the Jordanian dinar vis-à-vis the U.S. dollar (to bolster confidence in the Jordanian dinar).	***Structural reforms*** (1) Enhance revenue elasticity and efficiency of the tax system (e.g., through amendments to GST and income tax laws). (2) Public pension system reform. (3) Strengthen banking supervision and prudential regulations. (4) Promote development of secondary financial markets. (5) Trade reforms (e.g., lower the maximum tariff rate and number of tariff bands). (6) Reform of public enterprises, including privatization. ***Social policies*** Extend the coverage of the National Aid Fund's income support program, while curtailing untargeted subsidies.
1999 EFF		
Broad objectives Steadily raise economic growth, maintain low inflation, and strengthen the international reserves position. ***Key targets/projections*** (1) Raise growth from 2.2 percent in 1998 to 3.5 percent by 2001. (2) Maintain low inflation; in the range of 2–3 percent (was 0.5 percent in 1998). (3) External current account deficit excluding grants to go from 4.8 percent of GDP in 1998 to 5.3 percent in 2001. (4) Increase foreign exchange reserves from $1.2 billion at end-1998 to $1.7 billion in 2001.	Reduce the budget deficit excluding grants, from 10 percent of GDP in 1998 to 4 percent in 2001; mainly through expenditure retrenchment. The exchange rate peg will continue to serve as a nominal anchor. The monetary program of the CBJ is designed to build up foreign exchange reserves while maintaining low inflation.	***Structural reforms*** (1) Create fiscal monitoring unit in the Ministry of Finance. (2) Tax reform (geared mainly to improving the business environment). (3) Draft VAT law. (4) Further tariff reform. (5) Power sector reforms (regulation and privatization). (6) New banking law.

(concluded)

Objectives and Strategies	Macroeconomic Policies	Structural Reforms and Social Policies
Strategies (1) Fiscal consolidation; but balance the need for sustainable fiscal policy and structural improvement in public finances, while avoiding undue recessionary effects from rapid contraction. (2) Wide-ranging structural reforms.		***Social policies*** Continue to protect the more vulnerable social groups and promote employment generation, in particular through the Social Productivity Program.
2002 SBA		
Broad objectives Raise economic growth and living standards. ***Key targets/projections*** (1) Real GDP growth of 5½ percent on a sustainable basis from 2005 (estimated at about 4 percent in 2000 and 2001). (2) Continued moderate inflation (about 2 percent). (3) A modest deficit in the external current account including transfers (from near balance in 2001 to 1.4 percent in 2004). (4) Reduction in external debt/GDP ratio to about 52 percent by 2007 (from about 80 percent in 2001). (5) Maintenance of external official reserves at levels averaging about 25 percent of broad money during 2002–07 (steady decline from about 30 percent in 2001 to 20 percent in 2007). ***Strategies*** (1) Deepen structural reforms. (2) Fiscal consolidation.	Reduce the overall fiscal deficit to less than 3 percent of GDP by 2007 (from targeted 4.1 percent in 2002); grants are projected to decline. A major portion of privatization proceeds to be used for debt reduction. Monetary policy to continue to support price stability and the exchange rate peg. Reserves and monetary stability will be protected through an active interest rate policy.	***Structural reforms*** (1) Pension reform. (2) Further tax reform and strengthening of tax administration. (3) Implement single treasury account system. (4) Privatization and legislative reforms. ***Social policies*** Provision is made for increases in income transfer programs (administered by the National Aid Fund), and in spending for health and education under the Program for Social and Economic Transformation.

Source: IMF program documents.

ANNEX 5

Review of the Fiscal Structural Content Under IMF Arrangements

This annex provides further details on structural actions in the fiscal area in support of the discussion in Chapter 2 on how effectively they addressed underlying fiscal rigidities. As noted in the main text, the targeted fiscal adjustment was to be achieved largely by expenditure reductions. In addition, under the EFFs, it was also recognized that some of the structural reforms being undertaken on the trade regime side would lead to revenue losses, to be partly compensated by tax reforms to move to consumption taxes with a broad base and improved tax administration.

The Early SBAs

The main structural actions on the fiscal side were increases in administered prices (fuel prices, steel products), increasing specific excise taxes (cigarettes, alcoholic beverages, telephone services, etc.) and the reduction of budgetary subsidies to basic food products. These measures were targeted to account for about 4 percent of GDP in fiscal savings. Beyond this, the programs contained relatively little structural reforms designed to contribute to the sustainability of public finances. Some of the pricing actions (e.g., for petroleum products) consisted of one-off increases rather than putting in place market mechanisms or institutional arrangements that would allow for automatic adjustment in administrative prices. IMF staff did push for such mechanisms but the authorities were reluctant for reasons of political sensitivity.

The Three EFFs

The first two EFFs started to introduce a more comprehensive set of medium-term reforms: the

Box A5.1. The 2002 Fiscal Strategy Paper[1]

The paper contained a comprehensive analysis of the dynamics of public debt and the necessary structural underpinning of the fiscal adjustment. It suggested a more gradual and, hence, realistic reduction in fiscal deficits than the one advocated by the 1999 EFF but emphasized that even a revised fiscal adjustment would require significant policy efforts. The paper's contribution is to identify and cost out many of these policy efforts, including the impact of the PSET plan on the budget.

The paper suggested an adjustment path as follows:

- Composition of the adjustment: A fiscal effort between 2002 and 2006 involving increases in tax revenues equal to 3 percent of GDP and reductions in noninterest current expenditures by 4 percent of GDP. About half of the decline in expenditures would be the result of a decline in PSET expenditures as grants associated with the PSET are projected to end after 2006.
- Increased privatization revenues to help reduce public debt along with selective debt buy-back and debt-for-development swaps to reduce further the external debt.
- Revenues: Expand the GST to energy products and water. Convert oil surplus into a system of specific taxes. Income tax rates for corporations to be unified and eliminate income tax exemptions.
- Expenditures: Measures to focus on keeping wages, purchase of goods and services, and military spending constant in real terms—which will require substantial adjustments. Pension reform should equalize retirement ages for men and women, increase retirement age for the military, and full-scale pension reforms should start in 2003 with the objective to limit growth of pensions to nominal GDP growth. These measures will allow to protect basic social spending and on core transfer programs while allowing for some moderate increase in capital spending.

[1]The strategy paper was an internal staff briefing paper (i.e., shared with management but not the Board). Part, but not all, of the assessment in the paper was summarized in an annex to the first review of the 2002 SBA.

gradual introduction of the new general sales tax (GST); attempts to amend the income tax laws to reduce exemptions and increase the base; and a rationalization of the system of food subsidies in order to target better the subsidy. Tax administration was to be enhanced by increasing the number of assessors and auditors. Nevertheless, progress was not easy: attempts to adopt a strategy for domestic petroleum pricing (instead of ad hoc adjustments in administrative prices) and eliminating exemptions to the income tax were not successful.

Important structural measures started to be supported by the last (1999) EFF. These included beginning a dialogue to reform the pension system and agreements to start restructuring and divesting public enterprises and utilities.

The large wage bill in the public sector stemming from the high level of public employment and wages for middle-level personnel (relative to the private sector) was diagnosed as a major issue for longer-term fiscal sustainability in almost all the programs. However, the various programs contained little discussion of options for addressing the problem through civil service reform. One of the few specific references is in the Schedule of Implementation of Structural Reforms attached to the Letter of Intent for the Second Review under the 1994 EFF, which refers to "implementation of civil service reform program, as appropriate, in the context of the 1995 budget." It also states that "further work is being done in consultation with the World Bank." But the initiative did not yield any concrete results.

Developments from 2002 Onward

The fiscal strategy paper suggested a more gradual fiscal adjustment accompanied by greater emphasis on specific reforms to address key rigidities (see Box A5.1). It proposed a greater effort on the revenue side than was programmed in the previous EFF, through stronger efforts at eliminating tax exemptions and improving collections. A major contribution of the paper was to identify more precisely specific policy efforts and their contributions to the projected fiscal adjustment—taking into account the need to protect certain spending items. Furthermore, it called attention to the future recurrent expenditure implications of present investments in the PSET plan—particularly if grant funding for the plan were to fall sharply in the next several years.

The medium-term projections in the program supported by the 2002 SBA aimed for a fiscal adjustment similar to that set out in the fiscal strategy paper. However, the program addresses only a subset of the structural areas raised in the strategy paper (see Table A5.1). Given the strong expenditure adjustment envisaged between 2001 and 2003, one would have expected that issues regarding the wage bill and military spending, representing about 45 percent of total public expenditures, would have received some discussion, even though they were obviously politically sensitive.

The 2004 monitoring paper does not address the structural reforms required to reduce public expenditures and its rigidity, in spite of projecting 10 percentage points of GDP reduction in such expenditures over a three-year period.

Table A5.1. Follow-Up on Specific Suggestions for Reforms Contained in the 2002 Fiscal Strategy Paper

Suggestions	Follow-Up in the 2002 SBA or in the 2004 Monitoring Paper
Broadening of the tax base and improving elasticity	
• Further reform the income tax law.	Partially addressed.
• Broadening the GST tax base through elimination of most tax exemptions.	Partially addressed.
• Expansion of GST to petroleum products.	Addressed in SBA.
• Significant number of nonstandard customs exemptions should be eliminated.	Not addressed.
• Tax leakages in the Aqaba Special Zone.	Not addressed.
Tax administration	
• Check whether GST registrants are fi ing.	Addressed in SBA.
• Undertake minimum number of audits.	Addressed in SBA.
• Lack of coordination across tax departments.	Addressed in SBA.
Public pension system	
• FAD mission to provide recommendations regarding retirement age, adjusting military disabi ity entitlements, and bringing military pensions more in line with the civilian scheme.	Addressed.

Table A5.1 *(concluded)*

Suggestions	Follow-Up in the 2002 SBA or in the 2004 Monitoring Paper
Wage and employment policies	
• Jordan has a relatively large civil service for its level of development and there is evidence of overstaffing. Low-level civil servants are paid above their opportunity cost in the private sector, while higher level civil servants are paid less. The government should review its wage and employment policies. The aim should be to keep the wage bill constant in real terms, hence, declining as a share of GDP. This could be achieved by freezing the size of the civil service.	Not addressed.
Military spending	
• Total military spending (including pensions) equal to 13 percent of GDP—extremely high even by the standards of the region. Even if real military outlays are kept constant in real terms, the authorities could save 1.8 percent of GDP over the medium term.	Military pensions were addressed but not other aspects.
Poverty reduction and safety nets	
• Untargeted subsidies on food have been replaced by targeted cost transfer and then by a faulty income supplement scheme, training and employment support programs, and country infrastructure. The fiscal paper suggests these expenditures should be maintained.	Not explicitly discussed but incorporated into framework.
Capital spending	
• According to the strategy paper, there are number of areas where the government can undertake projects with high social returns. Present expenditures at 5–6 percent of GDP should not be reduced.	Not explicitly discussed but incorporated into framework.

Sources: IMF (2003b and 2004b).

Annex

6

Chronology of Exchange Rate Policy Changes and Related Events

October 1988. The Central Bank of Jordan (CBJ) stopped supplying funds to the foreign exchange market, effectively allowing the Jordanian dinar to float.

February 1989. Money changers closed. Exchange rate fixed to the U.S. dollar.

May 1989. Exchange rate linked to currencies in the SDR basket, but with weights reflecting each currency's relative importance in Jordan's international transactions.

July 1989. Introduction of a dual exchange rate regime. Import payments transactions at official rate quoted by CBJ; for other transactions, commercial banks and financial institutions allowed to buy and sell foreign exchange at freely determined rates.

February 1990. Unification of the exchange rate system at the more depreciated commercial rate.

November 1992. Money changers and foreign exchange houses allowed to reopen.

February 1995. Jordan accepts obligations under Article VIII of the IMF's Articles of Agreement, thus removing restrictions on current account transactions.

October 1995. The dinar is pegged to the U.S. dollar "in order to impart greater transparency" to exchange rate policy.

July 1997. Liberalization of capital account transactions.

Note. Based on IMF program documents and CBJ Annual Reports.

Annex 7 Objectives and Macroeconomic Policies in Jordan's Recent Economic and Social Development Plans

Economic and Social Objectives	Strategies	Macroeconomic Targets	Policies
1993–97 Plan			
(1) Create an enabling environment for sustainable growth.	Liberalize the economy and its institutions, eliminate distortions, and develop an appropriate business climate.	(1) Average growth in real GDP of 6 percent a year.	Fiscal policy will aim to control expenditures and increase domestic revenues. Specific measures to include:
(2) Expand and diversify the productive base to strengthen the country's ability to generate more income and new job opportunities sustainably.	Reduce government direct involvement in production, and enhance the role of the private sector.	(2) General budget deficit (before grants) increases from 6 percent in 1992 to 7.7 percent in 1993, and then decreases gradually to about 2½ percent in 1997.	(1) Introduce GST; eventually to be converted to a standard VAT. (2) Reduce government subsidies on goods while ensuring provisions for the poor and needy.
(3) Develop a strategy for achieving self-sufficiency; priorities include narrowing the deficits in the balance of payments and general government budget.	Make room for active participation of the private sector in investment in infrastructure and basic services, and for its participation in the ownership and management of public corporations.	(3) Achieve balance in the external current account by 1997 (from a deficit of 18 percent of GDP in 1992). (4) Reduce external debt/GDP ratio from 143 percent in 1992 to 98 percent in 1997.	(3) Price government services in a manner that ensures cost recovery.
(4) Decrease disparities among social groups and geographic regions; support equal opportunity, combat poverty, and meet the minimum needs of all citizens while providing basic services for the whole population.	Reform the financial system and markets, to facilitate freer movement of capital and higher rates of saving.	(5) Limit inflation to 4–5 percent annually. (6) Maintain foreign exchange reserves to cover at least three months of imports.	Monetary policy objectives are price stability and ensuring adequate supply of suitable financing for economic activities. Specific measures include: (1) Keep expansion in money supply broadly in line with GDP growth. (2) Liberalize interest rate structure. (3) Create a deposit insurance institution. (4) Extend central bank oversight to all deposit-taking financial institutions by modifying banking law.
1999–2003 Plan			
(1) Raise economic growth to levels that exceed population growth.	Establish a conducive investment climate for the private sector (domestic and foreign).	(1) Average annual growth in real GDP of 4.5 percent.	Un ike the 1993–97 Plan, the 1999–2003 Plan had ittle discussion of specific policy measures to be undertaken.

(2) Reduce population growth by 0.1 percent annually to enable national economy absorb the new numbers into the labor force while maintaining decent standard of living. (3) Reduce absolute poverty by 1.5 percent annually and abject poverty by 0.5 percent annually (to 15 percent and 5 percent, respectively, by 2003). (4) Reduce unemployment rate to below 10 percent in 2003.	Accelerate privatization. Public sector disengagement from direct economic activities to take on more regulatory role. Maintain monetary stability. Enlarge the role of national savings in financing investment; mobi ize savings from pub ic finances as well as through the banking and insurance sectors.	(2) Average growth in exports and imports of 5.2 percent and 5 percent, respectively. (3) Reduce outstanding public debt from 102 percent of GDP in 1999 to about 75 percent in 2003. (4) Reduce the government budget deficit from 7 percent of GDP in 1999 to 1.3 percent in 2003; domestic revenues fall from 30 percent of GDP to 27 percent, while expenditures go from 37 percent of GDP to 28 percent. (5) The current account of the balance of payments is projected to show a small surplus throughout the plan period. A widening trade deficit is offset by a larger increase in the surplus in the services account.	
2004–06 Plan			
(1) Encourage a move from a resource-based to a knowledge-based economy; optimize the use of human resources and increase their productivity. (2) Improve Jordan's external competitiveness. (3) Enhance the principles of good governance by stressing participation, freedom, plura ism, and transparency. (4) Expand basic government services and improve accessibility to them for all citizens.	Reduce government's role in direct production; make room for more a more dynamic private sector. Sell government equity in enterprises in the energy, mining, transport, and other sectors. Strengthen capital markets to attract savings and stimulate local and foreign investment. Ensure consistency of monetary policy and higher economic growth (especially through appropriate interest rate structure).	(1) Achieve a sustainable annual rate of growth in real GDP of 6 percent by 2006. (2) Maintain inflation at around 2 percent a year. (3) Lower the budget deficit (after grants) from about 4 percent in 2004 to about 3 percent in 2006; revenues and grants are projected to fall by 3 percentage points of GDP and total expenditures by 4 percentage points. (4) Reduce the ratio of external public debt from 65 percent in 2004 to 53 percent in 2006, and total pub ic debt from 91 percent of GDP to 78 percent over the same period. (5) Maintain an external current account surplus. (6) Maintain foreign exchange reserves at a level sufficient to cover at least seven months of imports of goods and services.	Maintain monetary stability in support of the government's commitment to the Jordanian dinar peg to the U.S. dollar. Keep expansion of domestic iquidity broadly in line with GDP growth. Limit all new borrowing to medium- and long-term maturities, mostly at concessional interest rates. Use part of privatization proceeds to repay some external debt.

Source: Jordanian authorities.

ANNEX
8

Variables Used for Setting Quantitative-Performance Criteria Under IMF Arrangements

Target Variable[1]	1989 SBA	1992 SBA	1994 EFF	1996 EFF	1999 EFF	2002 SBA
Net international reserves (floor)			√	√	√	√
Net domestic assets of the banking system (ceiling)	√	√	√			
Net domestic assets of the Central Bank of Jordan (ceiling)[2]			√	√	√	√
Net claims on public sector by banking system (ceiling)	√	√	√	√		
Net bank claims on the general budgetary government (ceiling)[3]					√	
Spending out of privatization proceeds[4]					√	
Overall deficit before grants of the central government (cei ing)[5]					√	
Overall deficit after grants of the central government (cei ing)[6]						√
Contracting of medium- and long-term nonconcessional debt (cei ing)[7]	√	√	√	√	√	
Contracting of short-term debt (ceiling)			√			
Net disbursement of short-term debt (ceiling)[8]				√		
Outstanding stock of short-term external debt (cei ing)[9]					√	√
Elimination of external payments arrears	√	√				

Source: IMF program documents.
[1]Check marks indicate the variables on which performance criteria were set in the course of the various IMF arrangements.
[2]The switch from NDA of the banking system to NDA of the CBJ was with effect from March 31,1995. It followed a move from direct to indirect monetary control.
[3]A switch was made from "net claims on public sector" to "net claims on the general budgetary government" with effect from June 30, 1999 (upon approval of the 1999 EFF).
[4]Introduced with effect from September 30, 2000.
[5]Introduced with effect from September 30, 2001. It replaced "net claims on the general budgetary government" and "spending out of privatization proceeds."
[6]Introduced with effect from September 30, 2002 (upon approval of the 2002 SBA).
[7]With subceilings for different maturities (typically up to 5 years, and up to 12 years).
[8]Introduced with effect from March 31, 1996 (upon approval of the 1996 EFF).
[9]Introduced with effect from June 30, 1999 (upon approval of the 1999 EFF).

ANNEX
9 Review of Fiscal Outcomes

Massive Adjustment in the Early 1990s Was Not Sustained

Based on the evolution of the fiscal deficit excluding grants, the period under review can be divided into four phases (Table A9.1): (1) 1989–92, marked by a massive reduction in the deficit—reflecting strong contributions from both revenues and expenditures; (2) 1993–98, marked by steady increase in the deficit, driven mainly by lower revenues; (3) 1999–2001, when the fiscal balance improved modestly, notwithstanding continuing falls in revenue; and (4) 2002–04, which saw a reversion to deterioration in the fiscal balance, reflecting expenditure increases financed by increased aid.

Phase I (1989–92). The bulk of the 20 percentage points of GDP reduction in the fiscal deficit (excluding grants) during this phase occurred in 1992. The main factors behind this performance were discretionary tax measures (including taxation of imports brought into the country by "returnees") and the impact of the rebound in real GDP (boosted revenues and reduced the expenditure/GDP ratio). Real GDP grew by over 14 percent in 1992 after declining by about 11 percent in 1989 and stagnating during 1990–91.

Phase II (1993–98). Major changes to the tax and tariff systems were implemented during this phase, including the introduction of the GST in 1994. A series of tariff reductions were also implemented as part of trade reform. Although attempts were made to compensate for short-term revenue losses associated with the tariff reforms by increasing other tax rates, these did not succeed.

Phase III (1999–2001). This phase coincided with the 1999 EFF, which sought to reestablish the credibility of the IMF-supported program after a belated recognition of serious slippages under the preceding arrangement. Current expenditures appear to have borne the brunt of the adjustment that occurred in this period, as revenues continued to decline. However, the overall fiscal adjustment was modest, especially in comparison to that targeted under the EFF.

Phase IV (2002–04). The last phase corresponds broadly to the period of the 2002 SBA. It was characterized by a deterioration in the fiscal balance (excluding grants), reflecting increases in capital expenditure. The deficit was more than covered by increases in grants to levels that exceeded substantially the average levels of the preceding decade.

Revenues Were Restructured Broadly as Envisaged but Yields Have Fallen Substantially

The main structural reforms that affected government revenues were the replacement of the existing consumption tax with a more broadly based GST, attempts to improve the efficiency and equity of direct taxes, and tariff reforms (see Box A9.1). The coverage of the GST widened over time; initially it was levied only on imports, domestic manufacturing sector output, and a few services. By the early 2000s, coverage had expanded to include retail trade and a wider range of services. Amendments to the Income Tax Law lowered high marginal rates and reduced the number of tax bands, while also seeking to safeguard the tax base by eliminating most tax holidays and limiting tax exemptions and deductions. With respect to trade-based taxes, specific rates were converted to ad valorem rates and the tariff schedule was simplified and exemptions curtailed. Imported and domestic goods were to be taxed at the same GST rate and tariffs were to be used primarily for protection and not revenue generation.

Attempts to synchronize tax and tariff reforms in order to prevent erosion of total revenue failed to achieve their objective (Figure A9.1). Tax reforms were implemented with considerable delay, and reflecting political pressures from key domestic stakeholders, the final measures approved by parliament sometimes fell short of the proposals submitted by the government. Thus, for example, not only did it take about three years to implement the GST, but the introductory rate approved by parliament (7 percent) was lower than what the government had proposed (10 percent). Also, notwith-

Table A9.1. Fiscal Adjustment, 1989–2004
(In percentage points of GDP)

	Cumulative Changes During			
	1989–92	1993–98	1999–2001	2002–04
Fiscal balance excluding grants	20.4	–6.8	2.4	–3.3
Revenue	9.2	–5.1	–2.5	0.9
Expenditure and net lending	–11.2	1.7	–4.9	4.2
Current expenditure	–1.3	1.1	–4.3	0.2
Capital expenditure	–3.5	0.2	–2.1	4.6
Other[1]	–6.4	0.4	1.5	–0.6
Memorandum item				
Grants	–4.8	0.0	0.4	5.9

Sources: IMF program documents and Ministry of Finance.
[1]Net lending and residual (difference between the deficit calculated from financing data, and from "above the line").

Box A9.1. Chronology of Tax and Import Tariff Reforms

1989–93. Coverage of the consumption tax broadened while preparations are under way for introduction of a general sales tax (GST).

1989–92. Conversion of trade taxes to ad valorem bases (from specific rates). Maximum tariff rate reduced from over 300 percent to 70 percent.

June 1994. GST replaces the consumption tax; to be levied on imports, manufactured goods, and selected services. Basic rate set at 7 percent. The GST law imposed a moratorium on changes to the system; only changes of an administrative nature could be made before 1999.

September 1995. Increase in the GST basic rate to 10 percent.

September 1995. Amendments to the income tax law include elimination of most tax holidays, the lowering of the maximum rates for corporate and personal income taxes, and reduction in the number of tax bands.

January 1996. Maximum tariff rate reduced from 70 percent to 50 percent.

1996. Creation of a separate GST Department; separated from the Customs Department.

June 1999. GST extended to the sale of goods at retail level, and the basic rate is raised to 13 percent.

1999. Maximum tariff rate reduced to 35 percent.

2002. Amendments to GST law to reduce exemptions and to extend the tax to essential consumer goods at a lower rate of 2 percent.

April 2003. GST basic rate increased to 16 percent, and lower rate increased to 4 percent.

2004. Merger of Income Tax and GST Departments.

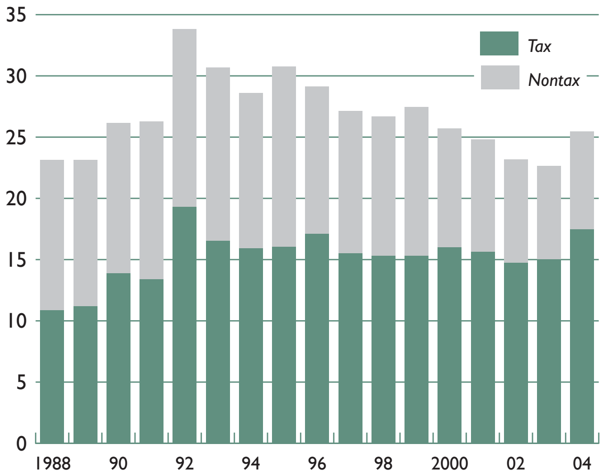
standing attempts to curtail them, exemptions and special treatments to favored sectors are widespread (e.g., special tax privileges in "free zones" and reduction of GST rate on hotel accommodation intended to help boost tourism).

Nontax revenues—which tend to be less elastic with respect to GDP than tax revenues—continue to contribute a large share (more than one-third) of total revenues.

The composition of tax revenues has changed, broadly in line with the aims of fiscal structural reforms. As intended, the consumption tax/GST has become the main source of tax revenue and the contribution of trade taxes has been reduced considerably (Figure A9.2). The share of the consumption tax/GST has risen from about a quarter in the late 1980s to over half in recent years. Over the same period, the contribution of import duties has fallen from nearly 60 percent to about 25 percent. Income taxes have maintained their share of total taxes at about 20 percent, and exemptions and deductions remain a key feature of the direct tax system.

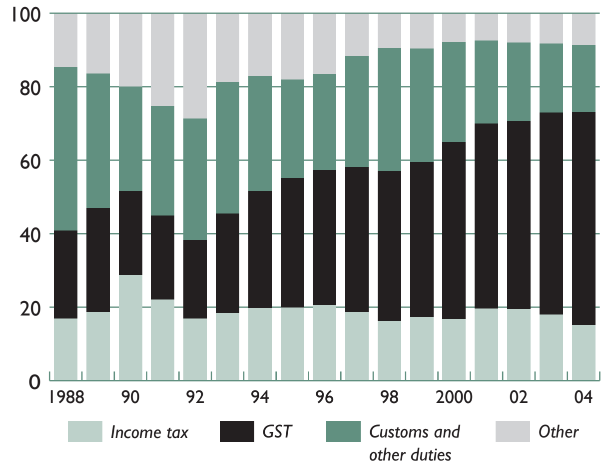
Weaknesses in revenue administration and in enforcement of the tax laws are widely acknowledged to have contributed to the poor performance of revenues. Recent measures to tackle revenue administration challenges include the merger of the GST and Income Tax Departments—in order to harmonize operations—and increasing staff on the enforcement side. To increase efficiency of collection, offices for medium and large taxpayers were created.

Figure A9.1. Government Revenues
(In percent of GDP)



Sources: IMF program documents and Jordanian authorities.

Figure A9.2. Composition of Tax Revenue
(In percent of total tax revenue)



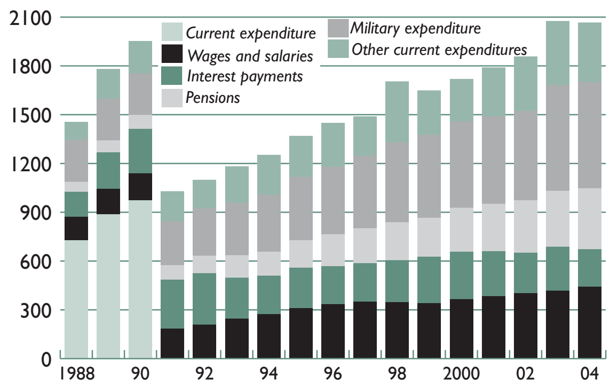
Sources: IMF program documents and Jordanian authorities.

Limited Progress So Far on Expenditure Consolidation

For most of the period under review, total government expenditures have hovered around 35 percent of GDP—with recurrent and capital expenditures accounting for 30 percent and 5 percent of GDP, respectively. The structure of recurrent expenditures have remained rigid, with four items—wages and salaries, interest payments, pensions, and military expenditures—accounting for about 80 percent of the total (Figure A9.3). The most significant change has been a reduction in the share of interest payments (from nearly 30 percent of the total in the early 1990s to less than 15 percent in recent years), and an increase in the share of pensions (from less than 10 percent in the early 1990s to about 17 percent in recent years). Reform of food subsidies and, more recently, of the public pension system, were the most important expenditure-side structural reforms under the IMF-supported programs.

A system of open-ended food subsidies that developed in the aftermath of the large devaluations in 1988–89 was rationalized and eventually terminated. The subsidies arose when the authorities left the domestic sale prices of a range of food items unchanged, in spite of rising import costs, in order to protect the poor from the adverse effects of the adjustment program.[1] Budgetary outlays for the subsidies rose sharply from less than 0.5 percent of GDP in 1989 to 3 percent in 1989 and 1990. A rationing scheme—covering sugar, rice, and powdered milk—was introduced in late 1990 to curtail the cost of the subsidies to the budget and to address the regressive nature of the system.[2] Means testing was introduced in 1994 to

Figure A9.3. Composition of Current Expenditures
(In percent of current expenditures)



Sources: IMF program documents and Jordanian authorities.

[1]The items covered initially were wheat, barley, sorghum, rice, sugar, fresh meat, frozen chicken, olive oil, and lentils.

[2]An IMF technical assistance mission estimated that the open-ended generalized subsidy system benefited the rich and middle classes much more than the poor; see Ahmad (1991).

better target the subsidies. With assistance from the IMF, the system was changed fundamentally in 1996; prices were raised to cover economic costs and compensatory cash payments were made to the poor through the National Aid Fund (NAF). In 1998, under the Social Productivity Program, NAF expanded its support to cover all the poor, whether working or nonworking.

Significant changes have been made to the two public pension systems (civil service and military), but the impact of these changes will be felt only in the medium term. In practice, the reforms have involved measures to make the public systems more like the program run by the Social Security Corporation (SSC) and to eventually integrate them into the SSC system. Thus, under the 1996 EFF, new recruits into the civil service were covered under the SSC system. Similar changes were made to military pensions under the 2002 SBA. Importantly, disability pensions for the military were adjusted to match those provided by the SSC, while eligibility criteria were tightened. For both military and civil service employees, the length of service before eligibility for pensions was also increased.

Wages and salaries have remained at around 6–7 percent of GDP over the period under review. From time to time, the IMF-supported programs have discussed the need to contain the wage bill as part of a comprehensive civil service reform program.[3] To date, not much has happened in this area. The level of expenditure on the other large item in the recurrent budget, namely military spending, has hovered around 8–9 percent of GDP since the early 1990s, down from about 11 percent of GDP in the late 1980s. The programs have had little to say about the scope for further reductions in military spending, presumably in recognition of the unstable regional security environment that Jordan faces.

[3]For example, structural reforms under the 1994 and 1996 EFFs included civil service reform, for which the authorities were said to be receiving technical assistance from the World Bank.

ANNEX 10

Structural Conditionality

Objectives	Summary of Prior Actions and Performance Criteria	Were Conditions Met?
Public finance (1) Broaden the base of GST and raise its efficiency; (2) increase the role of income tax in total revenue generation; (3) improve tax administration; and (4) rationalize expenditures.	**1992 SBA** • One PC on the introduction of the GST. **1994 EFF** • A prior action on the par iamentary passage of the GST law. **1996 EFF** • Three prior actions on amendments to the GST and income tax laws; capping the budget for food subsidies; rationalization of food subsidies. • In 1998, two PCs on the extension of the 10 percent service tax on international calls to domestic subscribers and extension of taxes to commercialized SOEs. **1999 EFF** • A prior action on the creation of a fiscal monitoring unit in the Ministry of Finance. • Two PCs on setting maximum import tariff at 35 percent and raising the GST to 12 percent and introducing VAT legislation. • In 2000, two PCs on amendments to income tax laws and on introduction of VAT.	The bu k of the prior actions and performance criteria in the area of public finance were implemented, albeit with some delay. • Implementation of the GST law was delayed (and the condition was waived). • The GST law was finally approved by parliament in June 1994. • The PC in the 1999 EFF on reducing the maximum tariff to 35 and raising the GST rate to 12 percent was not met (delayed by a month to July 20, 1999). • More substantive delays related to PCs on the introduction of VAT and amendments to the income tax law. The VAT was eventually presented as part of the 2001 budget, while the income tax amendment was not done until May 2001.
Financial sector Improve the structure, efficiency, and transparency of monetary and financial sector operations—ensure attainment of international standards.	**1999 EFF** • Two prior actions on trust funds at CBJ and commercial banks and submission of new banking law to par iament.	While the banking law was submitted to parliament as planned, the reform of trust funds operations was delayed by six months.
Trade policy Integrate Jordan into global economy, increase domestic competition, and create conditions for export-led growth.	**1996 EFF** • A prior action on the implementation of the tariff reform agreed with the World Bank **1999 EFF** • A PC on the reduction of maximum tariff rate to 35 percent (together with GST increase of at least 12 percent). • A PC on the reduction of maximum tariff to 30 percent with the submission of the 2000 budget.	Conditions in the trade policy area were eventually met—although attempts to synchronize with GST reforms caused delays. There was also considerable cross-conditiona ity with the World Bank.
Privatization and other SOE reforms Enhance economic efficiency, improve the regulatory environment and boost investment—make the private sector the "engine of growth."	**1996 EFF** • Three PCs on allocation of privatization proceeds, raising of municipal water tariffs and a management contract for the Jordan Water Authority. **2002 SBA** • Two prior actions on raising electricity tariffs and imposing taxes on petroleum.	The management contract for the Jordan Water Authority was delayed to 1998. However, raising tariffs for electricity and increasing petroleum prices were done promptly.

(concluded)

Objectives	Summary of Prior Actions and Performance Criteria	Were Conditions Met?
Pension reform Ensure that the pension system is fiscally sustainable.	**2002 SBA** • A prior action related to the initiation of the pension reform process along the lines of a government review. • Two PCs related to the inclusion of all new military recruits in the pension plan administered by the Social Security Corporation and tightening of e igibility for military disability benefits.	Pension reforms were delayed, but the inclusion of the new military recruits in the SSC was done by March 2003, while the tightening of disability benefits was not done until early 2004.

Source: IMF program documents.

ANNEX
II The Political Economy of the General Sales Tax in Jordan

A decline in rents accruing to the Jordanian economy—mainly private remittances and official aid flows from Arab countries—led the government to introduce tax reforms in the late 1980s, with a general sales tax (GST) as the centerpiece. [1] A sales tax had been a well-established source of revenue before Jordan embarked on its first IMF-supported program. However, the plan of the government to change it into a GST with features of a value-added tax (VAT), had important implications for many business and consumer groups—and was resisted at various levels. This annex looks at how various stakeholder groups behaved during the introduction and implementation of the GST, thereby revealing the political economy of a major intervention.

Introduction of the GST

The government prepared the first draft of the GST law during 1989–91 without much formal consultation with stakeholders. The initial public reaction to both the draft and the way it was prepared was negative. The private sector claimed that the economy was not ready for the introduction of such a tax. The Amman Chamber of Commerce and other business associations were concerned at the lack of consultation. Parliament, on the other hand, was conscious of the potential political ramifications; the demonstrations from 1989 over fuel price increases loomed large. Furthermore, some members of parliament held the view that the new tax was an imposition from multilateral agencies and the West.

In an attempt to accommodate stakeholder demands for broader consultation, the Economic Consultative Council (ECC)[2] and the Ministry of Finance began holding meetings with business and NGO representatives from late 1992, and the government postponed the introduction of the GST to after parliamentary elections schedule for November 1993.

Following the elections, the new government promoted the GST more vigorously than its predecessor. In early 1994, the government embarked on broad consultations with business groups to study their concerns and a committee was set up to scrutinize their recommendations. Significantly, differences arose between the Amman Chamber of Commerce (ACC) and the Amman Chamber of Industry (ACI) regarding the treatment of various types of imports. ACI sought tax exemptions on a broad range of imported inputs, while the ACC wanted exemptions to be more product specific. However, both demanded that the basic GST rate be lower then the proposed 10 percent.

On the whole, the GST debate was a new experience. It was the first clear example in Jordan of the emergence of a participatory process in government decision making. The media followed the debate closely, with articles in favor and against. Those in support cited the need to abandon old policies and to move towards a more market-oriented regime. On the other hand, articles not in favor of the law were driven mainly by skepticism toward the role of the IMF and the World Bank in policymaking and the general perception that the GST was an external imposition.

The GST law was eventually enacted on June 1, 1994, after parliament changed several aspects of the draft submitted to it by the government. First, the GST was to be implemented gradually, starting with manufactured goods and proceeding to services in the second phase. Second, the list of exemptions was increased threefold—a concession to influential business and consumer groups. Third, the basic GST rate was reduced from the proposed 10 percent to 7 percent, and the rate on luxury goods was reduced from the proposed 25 percent to 20 percent. Parliament also recommended that the salaries and social security allowances for low-income groups be increased to compensate for the impact of the GST on their purchasing power.

[1]This annex is an abridged version of a report prepared for this evaluation by Ibrahim Saif (Economic Studies Unit, Center for Strategic Studies, University of Jordan).

[2]The ECC is a consultative body that was created in 1986 as a forum for private sector–government interaction. Though the ECC has no constitutional or legal role, royal patronage gives it considerable credibility.

Amendments to the GST Law

During the first year of the GST, a number of problems were detected. The available institutional capacity was below what was required to implement the law effectively. The law had a number of loopholes arising from the imprecise nature of the legal provisions and the absence of a comprehensive list of exemptions—which allowed for a high degree of arbitrariness in determining them. There were also cases where domestic suppliers of intermediate inputs did not enjoy the tax exemptions available to direct importers of such goods.

The first amendment of the GST (1995) allowed the government to streamline the legislation and to simplify its administration. Overall, it sought to remove the numerous ambiguities that impeded the effective implementation of the GST, notably the definition of goods (manufactured or otherwise). In the short run, the most important outcome of the amendment was the increase of the basic rate from 7 to 10 percent, to partially compensate for revenue losses associated with the lowering of customs duties.[3] The second (2000) amendment of the GST focused on the building of institutional capacities in order to make GST implementation more effective.

Passing the amendments through parliament proved to be less contentious than the initial introduction of the GST. The uncertainty that surrounded the initial GST law had dissipated as it became clear that the GST was not as detrimental to producers and consumers as had been feared. In 2004 the government decided to further increase the basic GST rate from 13 percent to 16 percent. The government announced its intentions publicly and even went further to challenge critical stakeholders to propose alternative revenue sources. Debates and interviews between supporters and opponents of the GST were a common feature on national television. Interestingly, the focus was not so much on whether the tax should be increased or not but on how vulnerable groups would be best protected from the impact of the increase. The government went on to implement the increase with little public outcry.

[3]The GST rate was further increased from 10 percent to 13 percent in July 1999.

Conclusions

The introduction of the GST was controversial, with a number of stakeholder groups seeing it as an imposition from abroad. In retrospect, the government had failed to adequately communicate the economic rationale of the GST to the public at large. Its initial strategy of co-opting certain stakeholder groups with lower GST rates and exemptions in order to smoothen the passage of the law proved costly. Subsequently, a number of amendments were required to remove the distortions introduced at initiation. Compared to its introduction, amending the GST was much easier. This had much to do with the lessening of the earlier uncertainty that surrounded its introduction.

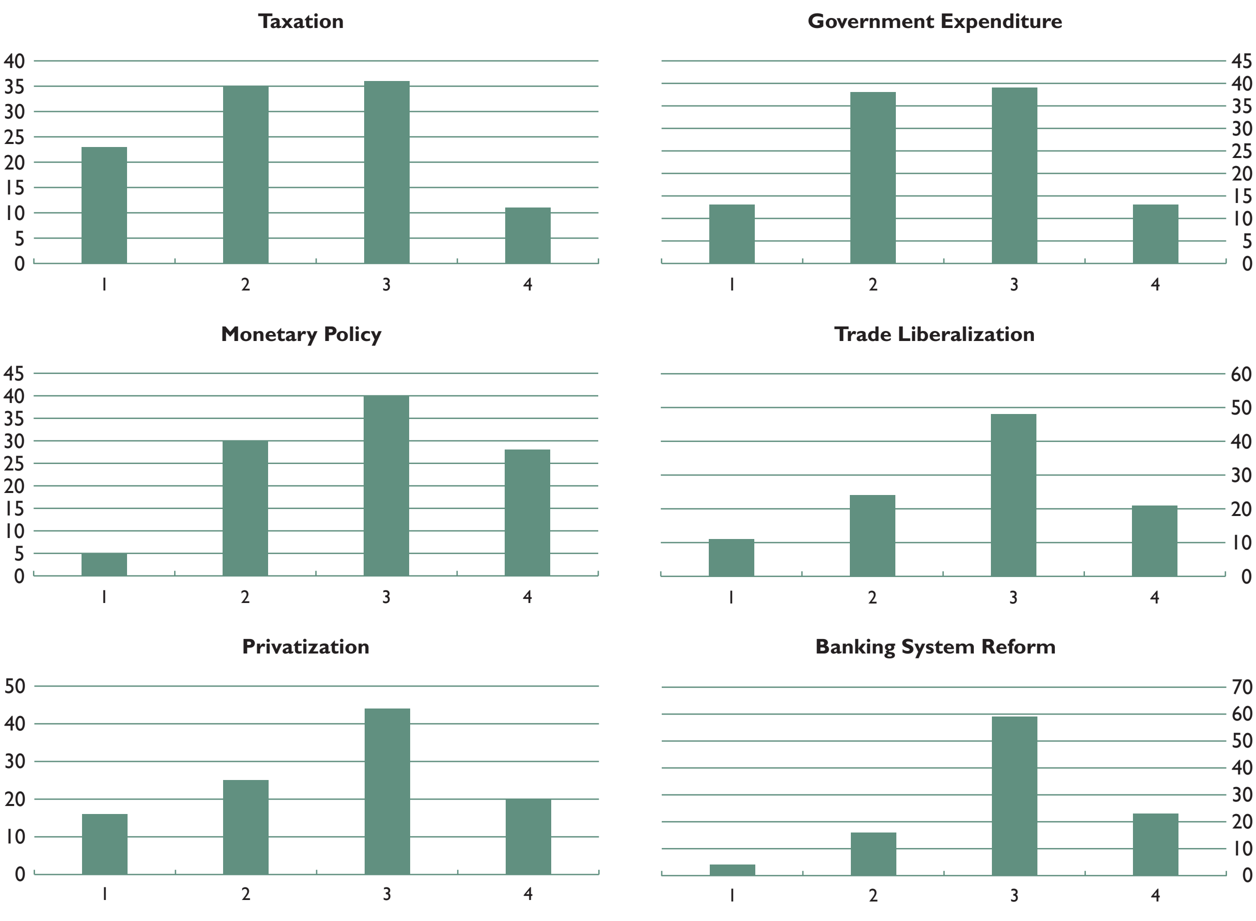
Annex 12 Results from Survey of Stakeholders

Methodology

The survey was conducted in Amman during November 2004 (see Figures A12.1–A12.3). It targeted government officials, members of parliament or senate, organized labor, the academic and research community, journalists, NGOs, and the donor community. The goal was not to sample the views of the population as a whole but to evaluate those of a cross-section of groups considered knowledgeable on issues of eco-

Figure A12.1. IMF Influence over Domestic Policies[1]

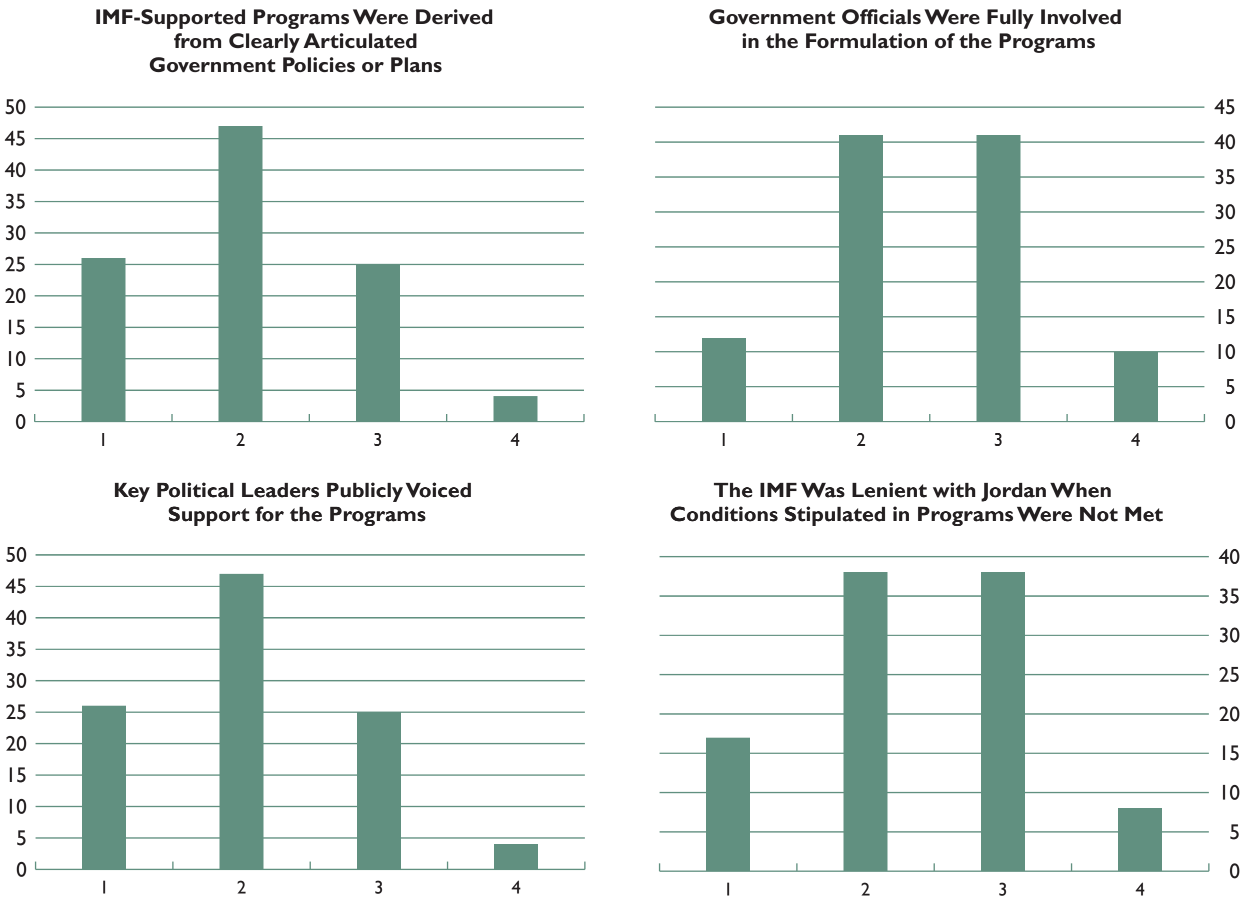
(1 = Highly negative influence; 2 = Negative influence; 3 = Positive influence; 4 = Highly positive influence)



Source: Survey of stakeholders for this evaluation undertaken in November–December 2004.
[1]Y-axis represents the number of respondents.

Figure A12.2. Assessment of Domestic Ownership of Programs and Conditionality[1]

(1 = Completely disagree; 2 = Disagree; 3 = Agree; 4 = Completely agree)



Source: Survey of stakeholders for this evaluation undertaken in November–December 2004.
[1]Y-axis represents the number of respondents.

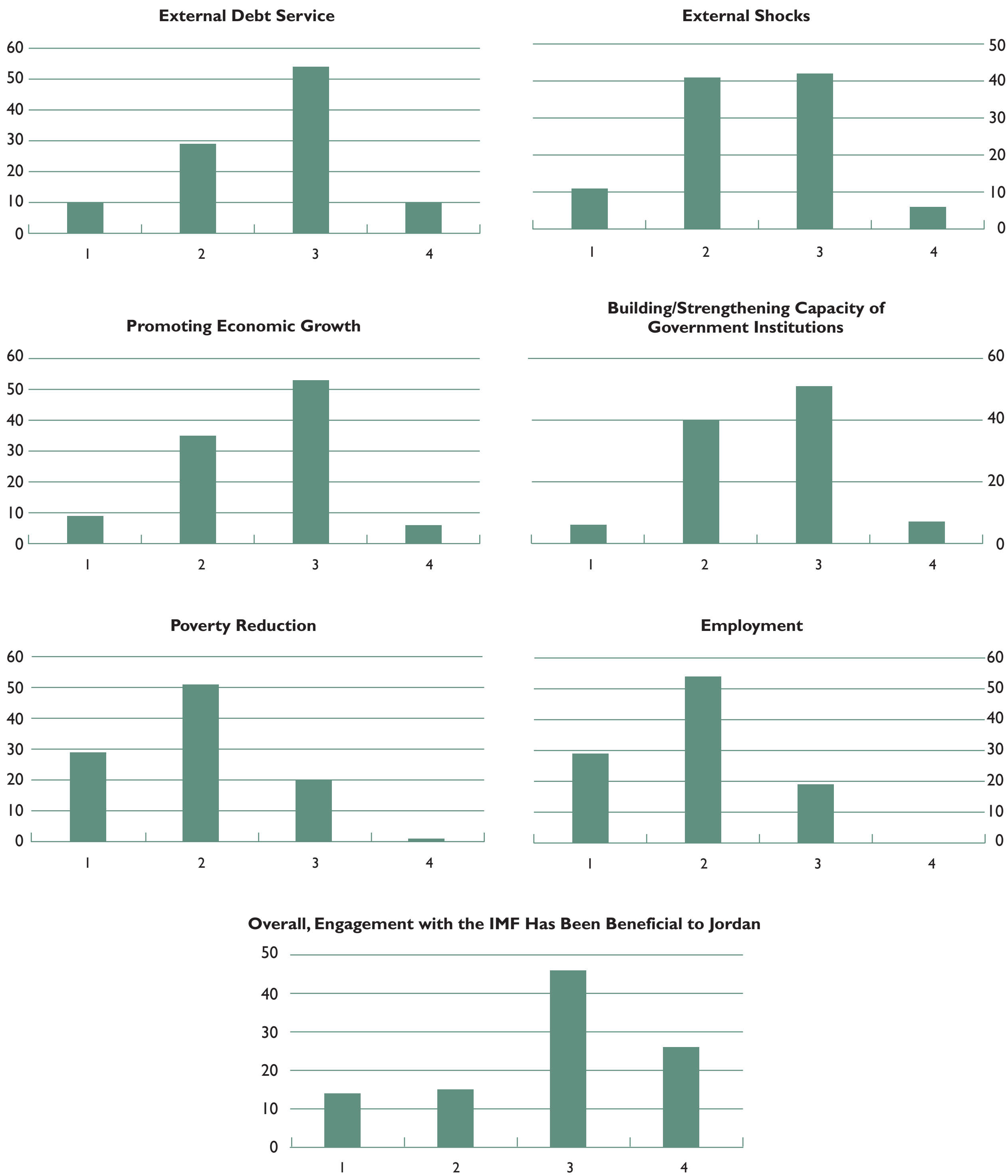
nomic policy and/or who had participated directly in the debate on or in the implementation of IMF-supported programs in Jordan. The questions focused on three main areas: IMF influence over policies, ownership and conditionality, and the impact of IMF activities. There were a total of 105 respondents.

Main Messages

- Respondents indicated that the IMF's influence over monetary policy and macroeconomically critical areas, such as trade liberalization, privatization, and banking system reform, was positive. However, with respect to fiscal policy, notably taxation, respondents considered the IMF's influence to have been negative. In assessing IMF influence over the government expenditure, however, respondents indicated a degree of polarization.
- In terms of outcomes, respondents agreed that, on the whole, Jordan's engagement with the IMF was beneficial. However, there was wide variation with respect to specific areas of performance. Respondents indicated that while the impact on external debt service, the promotion of economic growth, and the building/strengthening of capacity in government institutions was positive, that on poverty reduction and employment was negative. Respondents were ambiguous with respect to the impact on the country's vulnerability to external shocks.
- The stakeholders' assessment of the issue of domestic ownership of programs and policies varied considerably. While the majority of respondents

Figure A12.3. Impact of IMF-Supported Programs on Policies and Performance[1]

(1 = Highly negative; 2 = Negative; 3 = Positive; 4 = Highly positive)



Source: Survey of stakeholders for this evaluation undertaken in November–December 2004.
[1]Y-axis represents the number of respondents.

agreed that key leaders had publicly voiced support for the programs, an equally large number disagreed that the policies advocated were derived from clearly articulated government policies or plans. The views of the respondents were split with regard to whether government officials were fully involved in the formulation of the programs and, whether, to the extent that the conditions stipulated in the programs were not met, the IMF was lenient with the Jordanian authorities.

Annex

13 Background Tables

Table A13.1. Selected Financial Indicators[1]

	1983	1984	1985	1986	1987	1988
			In percent of GDP			
Central government operations						
Revenues	28.2	27.7	27.4	31.3	31.5	31.8
External grants	13.8	7.1	11.7	8.8	7.6	7.3
Expenditures and net lending	46.7	43.3	49.3	45.9	56.7	55.6
Overall balance, including grants	–4.7	–8.5	–10.2	–5.8	–17.6	–16.5
Financing	4.7	8.5	10.2	5.8	17.6	16.5
Foreign financing	4.3	5.7	7.8	5.3	0.4	0.8
Domestic financing	0.4	2.8	2.4	0.5	17.2	15.7
External current account balance	–9.9	–6.9	–6.2	–1.0	–7.0	–6.2
			In millions of U.S. dollars, unless otherwise indicated			
External current account balance	–390	–271	–254	–46	–349	–282
Of which						
Exports, f.o.b.	580	757	789	732	932	1,026
Imports, c.i.f.	3,036	2,784	2,722	2,423	2,694	2,741
Remittances	1,110	1,237	1,023	1,185	938	903
Unrequited transfers (public)	798	681	739	633	599	566
Of which						
From Arab governments	712	605	666	553	501	439
External public debt (end of period)[2]	2,254	2,443	2,985	3,391	3,676	7,982
In percent of GDP[2]	57.5	62.6	73.2	72.3	73.9	174.1
External debt service	220	323	331	479	734	861
In percent of exports of goods and services	7.2	9.8	10.6	15.5	22.8	25.3
Gross official reserves	824	515	422	436	423	110
In months of imports	3.3	2.2	1.9	2.2	1.9	0.5

Source: IMF.

[1]Based on data used in the formulation of the 1989 SBA-supported program.

[2]For 1983–87, excludes military loans and revolving oil credits; thus not comparable to 1988 data.

Table A13.2. Medium-Term Macroeconomic Framework in IMF Arrangements[1]

(In percent of GDP, unless otherwise indicated)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1989 SBA																			
Real GDP growth (percent a year)	–3.5	0.0	3.4	3.9	4.0	4.0													
Inflation (percent a year)[2]	4.6	14.0	11.8	9.5	7.8	6.5													
Investment	26.2	26.0	26.0	26.0	26.0	27.0													
Domestic savings	–3.3	–2.0	3.0	5.0	7.0	8.0													
External current account balance, including transfers	–6.2	–5.0	–3.0	–2.0	–1.0	0.0													
Fiscal balance, including grants	–16.4	–11.0	–9.0	–8.0	–7.0	–6.0													
1992 SBA																			
Real GDP growth (percent a year)			–0.6	0.8	3.0	3.4	3.7	3.7	3.8	4.1	4.3								
Inflation (percent a year)[2]			9.6	10.0	9.2	7.7	6.5	5.6	4.8	4.6	4.5								
Investment			17.3	19.3	21.1	21.4	21.6	21.9	22.5	23.1	23.1								
Domestic savings			–8.6	–0.9	4.5	7.4	11.0	13.8	16.4	18.8	20.5								
External current account balance, including transfers				–21.2	–15.9	–11.6	–7.8	–4.5	–1.8	0.1	2.1								
Fiscal balance, including grants			–7.6	–10.7	–12.0	–8.9	–7.5	–6.7	–5.8	–4.9	–3.6								
1994 EFF																			
Real GDP growth (percent a year)				1.8	11.2	5.8	5.5	5.8	6.0	6.2	6.5								
Inflation (percent a year)[2]				4.5	4.6	5.1	5.0	4.5	4.5	4.5	4.5								
Investment				21.9	30.3	30.1	29.1	28.2	27.4	26.9	26.0								
Domestic savings				0.1	–3.6	–2.2	0.5	3.6	5.9	8.2	9.7								
External current account balance, including transfers				–17.4	–15.6	–12.5	–9.7	–8.0	–6.0	–4.0	–2.1								
Fiscal balance, including grants				–8.9	0.4	–1.8	–0.6	–0.9	–0.6	–0.2	0.2								
1996 EFF																			
Real GDP growth (percent a year)						5.9	5.9	6.4	6.5	6.5	6.5	6.5	6.5						
Inflation (percent a year)[2]						3.1	3.9	3.6	3.5	3.0	2.5	2.4	2.3						
Investment						34.2	33.1	32.9	33.8	33.9	33.9	34.0	34.1						
Domestic savings						6.1	12.0	14.9	15.1	15.9	17.2	19.4	21.1						
External current account balance, including transfers						–11.8	–6.7	–4.6	–3.9	–3.4	–2.8	–4.4	–3.9						
Fiscal balance, including grants						–1.6	–2.3	–1.1	–0.6	–0.2	0.0	–1.1	–1.1						
1999 EFF																			
Real GDP growth (percent a year)									1.0	1.3	2.2	2.0	2.5	3.5					
Inflation (percent a year)[3]									6.5	3.0	4.5	1.9	2.8	2.4					
Investment									30.7	26.8	25.7	26.5	28.0	28.2					
Domestic savings									5.4	3.6	4.4	6.0	7.8	8.1					
External current account balance, including transfers									–3.3	0.4	0.0	–0.7	–1.7	–1.8					
Fiscal balance, including grants									–2.9	–2.6	–6.4	–4.2	–2.9	–1.4					
2002 EFF																			
Real GDP growth (percent a year)												3.1	4.0	4.2	5.1	6.0	5.8	5.6	5.6
Inflation (percent a year)[3]												0.6	0.7	1.8	3.2	2.1	1.8	1.8	1.8
Investment												25.2	27.2	25.9	25.7	26.0	26.3	26.4	26.7
Domestic savings												7.2	0.5	0.4	–0.5	0.0	0.6	1.3	2.1
External current account balance, including transfers												5.0	0.7	–0.1	–0.4	–0.9	–1.1	–1.4	–1.4
Fiscal balance, including grants												–3.5	–4.7	–3.7	–4.1	–4.3	–3.9	–3.3	–2.8

Source: IMF.

[1] Projections in initial request documents are shown in the shaded areas. The unshaded areas show historical data reported at the time of program formulation.

[2]Based on GDP deflator

[3]Based on CPI.

Table A13.3. Summary of Key Adjustment Targets in IMF-Supported Programs[1]

(In percent of GDP)

	Program Year[1]				Cumulative Changes	
Arrangement and Approval Date	*t*–1	*t*	*t*+1	*t*+2	*t*–1 to *t*+1	*t*–1 to *t*+2
1989 SBA (year *t*=1989)						
Current account balance, excluding official transfers	–18.5	–15.5	–11.8	–9.3	6.7	9.2
Government balance, excluding grants	–23.7	–20	–17	–14	6.7	9.7
Implied private sector savings minus investment balance[2]	5.2	4.5	5.2	4.7	0	–0.5
Memorandum items						
Fiscal grants	7.3	8	7	6	–0.3	–1.3
Government balance, including grants	–16.4	–11	–10	–8	6.4	8.4
1992 SBA (year *t*=1992)						
Current account balance, excluding official transfers	–23.7	–18.5	–15	–11	8.7	12.7
Government balance, excluding grants	–17.9	–13.7	–11	–9.5	6.9	8.4
Implied private sector savings minus investment balance[2]	–5.8	–4.8	–4	–1.5	1.8	4.3
Memorandum items						
Fiscal grants	7.3	1.8	2.1	2	–5.2	–5.3
Government balance, including grants	–10.6	–11.9	–8.9	–7.5	1.7	3.1
1994 EFF (year *t*=1994)						
Current account balance, excluding official transfers	–19	–15.9	–12.6	–10.3	6.4	8.7
Government balance, excluding grants	–6.4	–5.4	–4.4	–3.7	2	2.7
Implied private sector savings minus investment balance[2]	–12.6	–10.5	–8.2	–6.6	4.4	6
Memorandum items						
Fiscal grants	4.6	4.7	3.4	3.2	–1.2	–1.4
Government balance, including grants	–1.8	–0.6	–0.9	–0.6	0.9	1.2
1996 EFF (year *t*=1996)						
Current account balance, excluding official transfers	–9.4	–8.8	–8	–6.8	1.4	2.6
Government balance, excluding grants	–4.8	–3.8	–3.1	–2.5	1.7	2.3
Implied private sector savings minus investment balance[2]	–4.6	–5	–4.9	–4.3	–0.3	0.3
Memorandum items						
Fiscal grants	3.8	3.1	2.9	2.6	–0.9	–1.2
Government balance, including grants	–1.1	–0.6	–0.2	0	0.9	1.1
1999 EFF (year *t*=1999)						
Current account balance, excluding official transfers	–4.8	–5.5	–5.4	–5.3	–0.6	–0.5
Government balance, excluding grants	–10.3	–7.9	–5.5	–4	4.8	6.3
Implied private sector savings minus investment balance[2]	5.5	2.4	0.1	–1.3	–5.4	–6.8
Memorandum items						
Fiscal grants	3.9	3.8	2.7	2.6	–1.2	–1.3
Government balance, including grants	–6.4	–4.2	–2.9	–1.4	3.5	5
2002 SBA (year *t*=2002)						
Current account balance, excluding official transfers	–5.3	–7	–7.2	–7	–1.9	–1.7
Government balance, excluding grants	–8	–10.1	–10.3	–9.5	–2.3	–1.5
Implied private sector savings minus investment balance[2]	2.7	3.1	3.1	2.5	0.4	–0.2
Memorandum items						
Fiscal grants	4.4	6	6	5.6	1.6	1.2
Government balance, including grants	–3.7	–4.1	–4.3	–3.9	–0.6	–0.2

Source: IMF.

[1]Initial program targets.

[2]Calculated as current account balance, excluding official transfers minus government balance, excluding grants.

Table A13.4. Summary of Key Adjustment Outturns in IMF-Supported Programs[1]

(In percent of GDP)

Arrangement and Approval Date	Level at t–1	t	t+1	t+2	Cumulative Changes t–1 to t+1	t–1 to t+2
1989 SBA (year t=1989)						
Current account balance, excluding official transfers	–14	–16.9	–29.1	–20.9	–15.1	–6.9
Government balance, excluding grants	–23.8	–21	–17.7	–17.4	6.1	6.4
Implied private sector savings minus investment balance[2]	9.8	4.1	–11.4	–3.5	–21.2	–13.3
Memorandum items						
Fiscal grants	8.7	13.1	11.2	8.7	2.5	0
Government balance, including grants	–15.1	–7.9	–6.5	–8.7	8.6	6.4
1992 SBA (year t=1992)						
Current account balance, excluding official transfers	–20.9	–21.2	–17.9	–12	3	8.9
Government balance, excluding grants	–17.4	–3.2	–5.9	–6.1	11.5	11.3
Implied private sector savings minus investment balance[2]	–3.5	–18	–12	–5.9	–8.5	–2.4
Memorandum items						
Fiscal grants	8.7	3.9	4.2	4.2	–4.5	–4.5
Government balance, including grants	–8.7	0.7	–1.7	–1.9	7	6.8
1994 EFF (year t=1994)						
Current account balance, excluding official transfers	–17.9	–12	–8.8	–9.5	9.1	8.4
Government balance, excluding grants	–5.9	–6.1	–5.3	–7.6	0.6	–1.7
Implied private sector savings minus investment balance[2]	–12	–5.9	–3.5	–1.9	8.5	10.1
Memorandum items						
Fiscal grants	4.2	4.2	3.6	4.7	–0.6	0.5
Government balance, including grants	–1.7	–1.9	–1.7	–2.9	0	–1.2
1996 EFF (year t=1996)						
Current account balance, excluding official transfers	–8.8	–9.5	–5.5	–4.1	3.3	4.7
Government balance, excluding grants	–5.3	–7.6	–7.2	–9.5	–1.9	–4.2
Implied private sector savings minus investment balance[2]	–3.5	–1.9	1.7	5.4	5.2	8.9
Memorandum items						
Fiscal grants	3.6	4.7	4.5	3.6	0.9	0
Government balance, including grants	–1.7	–2.9	–2.6	–5.9	–0.9	–4.2
1999 EFF (year t=1999)						
Current account balance, excluding official transfers	–4.1	0.2	–4.1	–5.2	0	–1.1
Government balance, excluding grants	–9.5	–7	–8.9	–8	0.6	1.5
Implied private sector savings minus investment balance[2]	5.4	7.2	4.8	2.8	–0.6	–2.6
Memorandum items						
Fiscal grants	3.6	3.5	4.2	4.3	0.6	0.7
Government balance, including grants	–5.9	–3.5	–4.7	–3.7	1.2	2.2
2002 SBA (year t=2002)						
Current account balance, excluding official transfers	–5.2	–0.9	–1.7		3.5	
Government balance, excluding grants	–8	–10.2	–13.2		–5.2	
Implied private sector savings minus investment balance[2]	2.8	9.3	11.5		8.7	
Memorandum items						
Fiscal grants	4.3	5.2	12.1		7.8	
Government balance, including grants	–3.7	–5	–1.1		2.6	

Source: IMF.

[1]Outturns series represents most current data from IMF program documents.

[2]Calculated as current account balance, excluding official transfers minus government balance, excluding grants.

Table A13.5. Selected Economic Indicators

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Real GDP growth (percent a year)	–2.7	5.5	2.3	1.5	–10.7	–0.3	1.6	14.4	4.5	5.0	6.2	2.1	3.3	3.0	3.1	4.2	5.3	5.7	4.1	7.7
GDP deflator (percent change a year)	6.1	7.8	–0.3	1.3	15.6	14.2	5.4	6.7	3.0	6.9	1.9	2.1	1.2	6.0	–0.2	–0.4	0.8	0.8	2.1	5.2
CPI Inflation (percent a year; average)	3.0	0.0	–0.2	6.6	25.7	16.2	8.2	4.0	3.3	3.5	2.4	6.5	3.0	3.1	0.6	0.7	1.8	1.8	1.6	3.4
Discount rate (end period; percent a year)	6.25	6.25	6.25	6.25	8.00	8.50	8.50	8.50	8.50	8.50	8.50	8.50	7.75	9.00	8.00	6.50	5.00	4.50	2.50	3.75
Central government balance (percent of GDP)	–9.0	–14.4	–13.4	–14.5	–7.6	–6.2	–14.4	0.3	–0.5	–1.4	–3.9	–2.8	–2.5	–6.0	–3.5	–4.7	–3.6	–4.9	–1.1	–3.2
Central government balance excluding grants	–18.5	–20.8	–19.0	–22.9	–20.0	–16.9	–22.9	–3.5	–4.6	–5.4	–7.5	–7.3	–6.9	–9.7	–7.0	–8.9	–7.9	–10.0	–13.0	–10.3
Central government revenue and grants	31.9	29.4	28.8	31.9	35.9	37.2	35.2	37.9	34.8	32.6	34.4	33.6	31.5	30.4	31.0	30.1	30.4	30.0	35.6	32.1
Of which																				
Grants	9.5	6.4	5.6	8.4	12.5	10.7	8.4	3.8	4.1	4.0	3.6	4.5	4.4	3.7	3.5	4.2	4.3	5.1	12.0	7.1
Revenue	22.4	23.0	23.2	23.5	23.4	26.5	26.8	34.1	30.7	28.6	30.8	29.1	27.1	26.7	27.5	25.9	26.1	24.9	23.6	25
Central government expenditure and net lending	40.9	43.8	42.2	46.4	43.4	43.4	49.7	37.6	35.3	34.0	38.3	36.4	34.0	36.3	34.5	34.8	34.0	34.9	36.6	35.3
Pub ic debt, at year-end (in percent of GDP)	. . .	. . .	. . .	. . .	. . .	208.1	198.5	143.1	134.1	133.5	112.8	109.8	101.4	109.8	106.8	92.2	96.2	99.0	99.6	94.4
External current account balance (percent of GDP)	–5.1	–0.7	–5.2	–4.5	4.3	–9.9	–9.7	–16.3	–11.5	–6.4	–3.8	–3.2	0.4	0.3	5.0	0.7	0.0	5.6	11.6	–0.2
Of which																				
Trade balance	–38.6	–26.4	–26.1	–27.2	–24.1	–36.5	–33.1	–40.5	–40.8	–31.3	–28.6	–35.7	–31.2	–25.6	–23.0	–31.7	–28.3	–23.9	–25.8	–37.1
Exports f.o.b.	15.8	11.4	13.8	16.2	26.3	25.6	26.1	23.0	22.3	22.8	26.3	26.2	25.3	22.8	22.5	22.4	25.6	29.0	30.3	33.7
Imports c.i.f.	54.4	37.8	39.9	43.4	50.4	62.1	59.2	63.5	63.1	54.1	54.9	61.9	56.6	48.4	45.5	54.1	53.8	52.9	56.2	70.9
Remittances (net)	15.7	14.6	11.2	11.9	12.6	10.3	8.9	14.3	17.2	16.0	16.9	20.8	20.1	16.9	17.9	19.5	20.3	20.5	20.2	. . .
Pub ic transfers (net)	14.8	9.9	8.9	8.9	14.6	9.4	3.8	6.8	6.1	5.2	4.8	5.9	5.7	4.4	4.8	4.8	5.2	5.4	12.8	. . .
External debt, total outstanding at year-end																				
In billions of U.S. dollars	. . .	. . .	. . .	. . .	. . .	7,576	7,330	6,625	6,008	6,734	6,928	7,284	7,050	7,523	7,772	7,111	7,007	7,544	7,602	7,541.8
In percent of GDP	. . .	. . .	. . .	. . .	. . .	182.1	168.7	124.7	107.2	108.0	102.9	105.2	97.3	95.1	95.6	84.1	78.1	78.9	74.8	65.516
International reserves (at year-end)[1]																				
In billions of U.S. dollars	399	413	413	110	460	848	825	750	1,632	1,692	1,972	1,759	2,200	1,750	2,629	3,331	3,062	3,976	5,194	5,267
In months of imports c.i.f.	1.8	2.0	1.8	0.5	2.6	3.9	3.8	2.7	5.5	6.0	6.4	4.9	6.4	5.5	8.5	8.7	7.6	9.4	10.9	7.7
Exchange rate, US$/JD (period average)	2.538	2.858	2.952	2.692	1.753	1.507	1.469	1.471	1.443	1.431	1.428	1.410	1.410	1.410	1.410	1.410	1.410	1.410	1.410	1.410
NEER[2]	206.5	197.0	184.4	166.5	117.1	100.0	106.0	111.9	124.6	135.4	133.3	139.5	154.0	163.8	169.7	183.6	197.9	198.1	184.9	175.6
REER[3]	183.7	168.9	151.7	137.5	112.2	100.0	104.2	103.4	107.1	106.6	99.3	104.0	112.3	117.4	118.1	123.6	130.2	128.3	118.5	121.4

Sources: Central Bank of Jordan, IMF, and IEO calculations.

[1]"Foreign exchange reserves" in IMF, *International Financial Statistics*.

[2]Nominal effective exchange rate index; increase indicates appreciation (and vice versa)

[3]Real effective exchange rate index; increase indicates appreciation (and vice versa).

Table A13.6. Structural Conditions Per Program Year

Year	Jordan[1]				Average for SBAs and EFFs in Nontransition Countries[2]			
	Total	PA[3]	PC[4]	B[5]	Total	PA[3]	PC[4]	B[5]
1989	3	3	0	0	1.2	0.4	0.8	0.0
1990	1	0	1	0	1.1	0.0	1.1	0.0
1991	. . .	. . .	. . .	. . .	2.0	0.9	0.6	0.6
1992	4	4	0	0	1.2	0.2	0.2	0.9
1993	1	0	1	0	4.0	2.8	0.2	0.9
1994	1	1	0	0	5.7	2.0	0.7	3.1
1995	0	0	0	0	9.1	3.3	1.2	4.5
1996	4	4	0	0	9.6	5.2	0.9	3.4
1997	3	0	3	0	5.0	2.7	0.0	2.4
1998	4	2	2	0	7.9	1.6	1.7	4.5
1999	22	4	5	13	7.9	2.2	1.2	4.5
2000	13	0	2	11	. . .	. . .	. . .	. . .
2001	1	0	0	1	. . .	. . .	. . .	. . .
2002	7	3	2	2	. . .	. . .	. . .	. . .
2003	3	0	0	3	. . .	. . .	. . .	. . .
2004	2	0	0	2	. . .	. . .	. . .	. . .

Source: IMF.
[1]IMF program documents.
[2]IMF (2001).
[3]Prior actions.
[4]Performance criteria.
[5]Benchmarks.

Table A13.7. Findings of the Report on the Observance of Standards and Codes and Action Taken by the Authorities

Shortcomings Identified by the ROSC October 2002	Assessment by the ROSC Update December 2003
• Lack of a clear lead agency made it difficult to compile and disseminate government finance statistics. It was, for example, not possible to compile fiscal aggregates outside budgetary central government. • The statistical and data gathering divisions in the Central Bank of Jordan lacked resources. This led to shortcomings in the coverage of external statistics and in the time iness of monetary data. • Metadata, especially on compilation and dissemination practices for government financial statistics, was inadequate. • There were significant shortcomings in the methodology for collecting data for the balance of payments.	• There was significant improvement in the institutional environment and in the allocation of resources. The data units in the Ministry of Finance and the Central Bank of Jordan were strengthened and the compilation of government finance and the balance of payments statistics improved. • Steps had been taken to enhance the relevance and accessibility to data and metadata, including greater transparency on data dissemination practices. • The methodological soundness, accuracy, and reliabi ity of datasets also showed significant improvement. • However, the quarterly coverage of GDP and balance of payments statistics, timeliness of international reserves data, and the analytical accounts of the Central Bank of Jordan, as well as periodicity and timeliness of data on wages and earnings remained inadequate.

Source: IMF.

ANNEX 14 List of People Interviewed During IEO Mission, November 21–December 1, 2004

Name and Affiliation	Title
Ministry of Finance	
Moh'd Abu Hammour	Minister of Finance
Ismail Zaghloul	Director, Research and Studies Department
Muhammad Hamadah	Advisor to Minister of Finance
Jorge Baldrich	Resident Expert, Macrofiscal Project
Central Bank of Jordan	
Umayya Toukan	Governor
Faris Sharaf	Deputy Governor
Mohammed Said Shahin	Deputy Governor
Nabih Y. Musa	Acting Director, Research Department
Ministry of Planning and International Cooperation	
Tayseer Al-Smadi	Secretary-General
Jamal Al-Asal	Director, Po icies and Studies Department
Hania Jalal Khutat	Head, World Bank Group Section
Ministry of Industry and Trade	
Farouq Al-Hadeed	Secretary-General
Ministry of Social Development	
Hmoud Olimat	Secretary-General
Nisreen Najdawi	Director, Social Community Development
Ahmad Al Lafi	Assistant Secretary-General
Yahea Al Hoyan	Head, Financial Division
Budget Department	
Ibrahim Al-Dwairi	Director-General
General Sales Tax and Income Tax Department	
Eyad J. Kodah	Director-General
Customs Department	
Mahmoud Quteishat	General Manager
Mahmoud Al-Titi	Head, General Revenue Section
Saleh Al-Zorqan	Finance Directorate
Department of Statistics	
Hussein Shakhatreh	Director-General
Osama M. Al-Zoubi	Director, Agricultural and Environmental Statistics
Adnan Badran	Head, Price and Cost of Living Division
Parliament	
Abdullah Al-Jazi	Member of Finance Committee, Lower House
Mufleh Al-Ruhaimi	Member of Finance Committee, Lower House
Taher Masri	Former Senator
Kamal Shair	Former Senator
Former Senior Officials—Government and CBJ	
Taher Kanaan	Deputy Prime Minister (1997–98)
Hana Odeh	Minister of Finance (1984–89)
Sami Gammoh	Minister of Finance (1993–94)
Marwan Awad	Minister of Finance (1996–97)
Michel Marto	Minister of Finance (1998–2003)
Jawad Hadid	Minister of Planning (2000)
Mohamed Said Nabulsi	Governor, CBJ (1973–85, 1989–94)
Ahmad Mustapha	Former Deputy Governor, CBJ
Ahmad Abdul Fattah	Former Deputy Governor, CBJ
Mohammad Al-Jafari	MD, Deposit Insurance Corp.; former senior official of CBJ
Business Community	
Mufleh Akel	CEO/General Manager, Association of Banks
Hatem Halawani	Chairman, Jordan Chamber of Industry
Thabet I. Elwir	Jordan Chamber of Industry
Adnan Abu Ragheb	Jordan Chamber of Industry
Zaki M. Ayoubi	Amman Chamber of Industry
Juma Abu-Hakmeh	Amman Chamber of Industry
Civil Society/Academics/Researchers/Journalists	
Hani Hourani	Director General, Al-Urdun al Jadeed Research Centre
Wahib Shair	Author
Riad Al-Khouri	Economist
Fahed Al Fanek	Journalist
Abdalla Al Malki	Journalist
Mustafa B. Hamarneh	Director, Center for Strategic Studies, University of Jordan
Donors	
Michael Harvey	Deputy Director, USAID
Brooke Isham	USAID
Jim Barnhart	USAID
Hideo Morikawa	Resident Representative, JICA
Naoyuki Ochiai	Deputy Resident Representative, JICA
Christine McNab	Resident Representative, UNDP
Peter Balacs	Macroeconomist, European Union
Jean Mulot	GTZ Team Leader, Ministry of Finance

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Statement by the Managing Director

IMF Staff Response
IEO Comments on Staff Response

Summing Up of IMF Executive Board Discussion by the Acting Chair

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Statement by the Managing Director on the Evaluation by the Independent Evaluation Office of IMF Support to Jordan, 1989–2004

Executive Board Meeting
November 21, 2005

In its report, the Independent Evaluation Office (IEO) examined the effectiveness of IMF-supported programs in Jordan over an extended period of engagement. The analysis is useful and most of the report's main findings appear robust and to support the ex post assessment—itself an IEO recommendation—prepared by staff.

The lessons are straightforward and the recommendations are similar to those made in previous IEO reports, and that were subsequently implemented. The staff statement provides a more detailed response to the findings and recommendations. I look forward to the Board discussion, which will provide the opportunity for Executive Directors to consider the implications of these recommendations for the institution.

Staff Response to the Evaluation by the Independent Evaluation Office of IMF Support to Jordan, 1989–2004

Executive Board Meeting
November 21, 2005

This IEO report provides a thorough and valuable analysis of Jordan's prolonged use of Fund resources. Overall, staff concurs with most of the report's main findings, although we should be careful when attempting to distill broad policy lessons from a single-country case study. Also, we note that the findings are close to those of staff's Ex Post Assessment (EPA).

There are, however, a few areas where we think the report could have gone further.

- We think the report would have benefited from more in-depth evaluation of the internal decision making in the Fund—the role of the review process, management, and the Board—as was done in the case of Argentina. In particular, the report could have examined the decisions to support Jordan despite the lack of progress on some critical reforms, such as petroleum price reform. The IEO is uniquely placed to conduct such an evaluation.
- Similarly, the report could have explored more deeply the external and political factors influencing the Fund's decision to assist Jordan. The analysis provided in Section IV is welcome, but could have been complemented by a more direct assessment of how decisions were actually made. In this connection, the link between Fund arrangements and Jordan's requests for Paris Club agreements could have been explored further. Again, this is the type of evaluation the IEO is best placed to do.

We disagree with the report's characterization of staff's views on exchange rate policy. While it is true that the changes in the staff's views about the appropriate exchange rate regime for Jordan have been influenced by lessons from the rest of the world—as should be expected and welcomed—the changes in views also very much reflect changes in Jordan's own circumstances. Staff's advice to move toward a more flexible exchange rate regime reflects a host of factors, including the nature of shocks Jordan faces (most real as opposed to nominal in nature), a well-established track record of low inflation, and improved capacity to conduct monetary policy.

We agree with the report's recommendations with respect to the Fund's future role in Jordan (Lessons 8 and 9) but would also underscore the challenge posed by Jordan's vulnerability to large terms of trade shocks. We concur that adjusting to the lower level of external grants and reducing fiscal rigidities are key priorities and challenges—and these echo the views of recent staff reports and the staff's EPA. However, we would also emphasize that the decline in grants has increased Jordan's vulnerability to terms of trade shocks, such as those stemming from sharply higher oil prices and the loss of preferential market access following the elimination of MFA quotas.

We can also agree with most of the report's broader lessons for the Fund, though we would also note that similar lessons have been drawn before, including in earlier IEO reports, and have contributed to change the way the Fund operates. Specifically:

- We can agree with Lessons 1, 3, 4, 5, and 6, which call for the need to explain the rationale for judgment on the magnitude and composition of targeted fiscal adjustment; ground program design in explicit assessment of external and public debt; give greater emphasis at an earlier stage to the formulation of key institutional reforms; assess medium-term fiscal risks; incorporate World Bank inputs into program design; and more carefully designed timetables for structural conditionality. These are very similar to lessons that the IEO as well as Fund staff, management and the Board have drawn before. Indeed, the changes in the design of the 2002 SBA with Jordan—with more focus on medium-term fiscal issues and debt sustainability— reflect Fund-wide improvements largely in response to such earlier findings.

- On Lesson 2, we welcome candor in staff reports on program risks. We do not agree, however, that internal staff notes, which tend to be franker than staff reports prepared for the Board, should set the standard for candor. The greater frankness of staff's internal notes reflects the nature of these notes—which are part of a lively and healthy exchange of sometimes divergent views before agreement is reached among staff and management.
- With respect to Lesson 7, which suggests that a wider dissemination of IMF TA reports for Jordan would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues, we would note that the decision to publish such reports is one for the authorities to take, subject to the agreement of the Fund management.

Independent Evaluation Office Comments on Staff Response to the Evaluation of IMF Support to Jordan, 1989–2004

Executive Board Meeting
November 21, 2005

The staff's response indicates that they concur with most of the evaluation report's main findings, and the IEO has only a few comments on their response. We also share the staff's caution about drawing general lessons from a single-country case study, but would note that many of these lessons reinforce messages from other IEO evaluations.

The report does discuss internal decision-making processes in the Fund. For example, an important finding that motivated Lesson 2 was that the internal analysis of policies and risks was often much more pointed than that provided to the Board. However, we agree with the staff suggestion that systemic factors, such as the link between the requirement for a Fund arrangement and various Paris Club rescheduling agreements, also influenced the Fund's decisions. These systemic factors were also discussed at length in the earlier IEO evaluation of the prolonged use of Fund resources.

On candor in staff reports, we do not suggest that reports to the Board should reflect fully the healthy give and take of internal debate where, as the staff rightly notes, divergent views should be exchanged before consensus is reached among staff and management. The point made in Lesson 2 is that some key risks that the staff was well aware of and had analyzed internally—most notably the present challenge posed by the projected massive decline in grants—were not flagged sufficiently in recent Board papers.

On the staff's exchange rate advice, our review of the evidence suggests that staff advice on this issue, while appropriately influenced by lessons from the rest of the world, tended to downplay Jordan-specific analysis, including the results of staff analysis that highlighted the importance of nominal shocks in Jordan and which suggested that there was not a strong basis for a change in the exchange rate regime.

We recognize that the decision to publish TA reports is one for the authorities to take. However, the lack of wider in-country dissemination of TA advice has probably diminished their influence and the Fund should encourage the authorities to foster greater dissemination.

The Acting Chair's Summing Up

Independent Evaluation Office—An Evaluation of IMF Support to Jordan, 1989–2004

Executive Board Meeting
November 21, 2005

Executive Directors commended the Independent Evaluation Office (IEO) for preparing a thorough and valuable assessment of the Fund's support to Jordan during 1989–2004. They noted that the report addresses important questions about the Fund's program engagement in Jordan during that period, and seeks to draw valuable lessons and recommendations in key areas of the Fund's work, including program design, surveillance, and technical assistance. Directors welcomed the opportunity to reflect on the report's assessment of that longer-term program engagement.

Directors recalled that the period covered by the IEO report began when Jordan faced a severe balance of payments and debt crisis, and ended, some fifteen years and six Fund arrangements later, with Jordan's decision not to request another arrangement after the successful completion of the Stand-By Arrangement in July 2004. They agreed with the report's overall assessment that Jordan's long engagement in Fund-supported programs had helped the authorities address macroeconomic stabilization challenges successfully, although some of the main structural rigidities that underlay the financial crisis that led Jordan to its first IMF-supported program still remain to be addressed.

Directors shared the view that Jordan still faces the challenges of adjusting to the sharply lower level of foreign grants and reducing fiscal rigidities. Most Directors noted that these challenges would have been less daunting had more progress been made on critical reforms during Jordan's longer-term program engagement, including an increase in the flexibility of public expenditure and introduction of an automatic formula to allow domestic fuel prices to fully reflect world oil prices. They considered that a longer-term perspective, with greater emphasis at an earlier stage on the formulation of key institutional reforms in the fiscal area, would have increased the effectiveness of Fund-supported programs in Jordan, even if the reforms were to be completed only at a later stage. In this regard, a number of Directors also pointed out that any single budget deficit measure—before or after grants—has limitations as a short-term performance criterion and needs to be interpreted with caution, focusing on the implications for the medium-term fiscal path and debt sustainability.

Directors took note of the evolution of the Fund's advice on exchange rate policy, while recognizing that the peg has generally served Jordan well during the period under review. Many Directors shared the perception that the advice to Jordan for a shift to a more flexible exchange rate regime has been more a reflection of the evolution of the Fund's view on exchange rate policy in general rather than based on Jordan's circumstances. They felt that the staff's advice could have taken more fully into account Jordan's specific susceptibility to real and nominal shocks, as well as its vulnerabilities. Many other Directors observed, however, that the increasing emphasis on the merits of a flexible exchange rate regime in the later part of its longer-term program engagement had been appropriate in light of the increasing importance of real and external shocks. In any event, Directors continued to see a need for candor in the treatment of exchange rate policy in Board documents. They also observed that assessments should be based on a careful analysis of the costs and benefits of alternative regimes for each country.

Directors concurred with the IEO's lesson that a wider dissemination of IMF technical assistance (TA) reports for Jordan could have contributed to more informed public discourse and shed light on the IMF policy advice on key issues. Wider dissemination could also prove beneficial to other countries in similar circumstances. At the same time, Directors noted that decisions on disseminating such reports are ones for the authorities to take. A number of Directors observed that, in some cases, wider dissemination of TA reports could also increase resistance to reforms, particularly by creating the perception about policy changes being externally imposed. They considered that the country authorities are best placed to determine whether increased awareness of TA reports would help in reform implementation.

Directors welcomed the IEO's analysis of issues related to the Fund's internal processes and policies. They noted that the analysis found no significant evidence that the nature of Jordan's longer-term program engagement reflects preferential treatment because of this member's geopolitical position. A number of Directors, however, felt that the IEO report could have explored more deeply the external and political factors influencing the Fund's decisions to assist Jordan, for instance, through a more direct assessment of how decisions were actually made.

Directors considered that the findings of the evaluation report are generally consistent with the Ex Post Assessment prepared by Fund staff. Some Directors questioned whether the preparation of two reports with significant overlap had been necessary, and thought that the analysis in the two reports could have been more differentiated. While Directors were generally pleased with the broad coverage of the report, they considered that further discussions of some issues—such as program ownership, poverty alleviation efforts, and quality of fiscal adjustment—would have been useful.

Many Directors agreed that the Jordanian experience reinforces the need for Board papers to provide clearly the underlying rationale for key elements of program design. They also supported the IEO's call for greater candor in staff report assessments, especially of the risks to the program and recommendations on how best to mitigate and manage them. These steps were seen as ensuring accountability by staff and management, and enabling the Board to take more informed decisions and to exercise its oversight responsibilities more effectively. While agreeing that structural conditionality had been well designed, many Directors also pointed to the lessons for the timing of these conditions offered by the Jordanian experience. In particular, they noted the importance of ambitious but realistic timetables that take into account a country's implementation capacity as well as the prevailing political and social environment.

Directors welcomed the broad policy lessons for the Fund offered by the IEO case study of Jordan, while recognizing the limitations in distilling general policies from the experience of a single country. Directors noted that similar lessons have been drawn before, including in earlier IEO reports, and have resulted in a number of policy changes that have contributed to improving the effectiveness of Fund operations, including in Jordan. Directors urged the staff to pursue their efforts to ensure that the policy changes introduced in these areas continue to be implemented as effectively as possible across the entire membership.