Independent Evaluation Office Announces Release of Report on the Evaluation of IMF Support to Jordan, 1989–2004

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Independent Evaluation Office

of the International Monetary Fund

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December 6, 2005 - The Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) today released the report ***Evaluation of IMF Support to Jordan, 1989–2004***. The report assesses the extent to which the IMF contributed to tackling Jordan's major macroeconomic challenges during the period of the country's engagement in IMF-supported programs. Jordan "graduated" from reliance on such programs in July 2004 after 15 years of almost continuous involvement. The main focus of the evaluation is on the effectiveness of the IMF-supported programs, but the roles and contributions of IMF surveillance and technical assistance are also examined.

Jordan turned to the IMF following a severe balance of payments crisis during late-1988 and early-1989. At the time, 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 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. The IMF could have taken a longer-term perspective to addressing these rigidities from the outset of its program involvement. Moreover, the IMF should have highlighted more candidly the adjustment challenges posed by the likely decline in the recent very high level of grants.

Macroeconomic outcomes and the role of IMF support. Jordan has made major progress in achieving macroeconomic stability, restoring external viability, and transforming the structure of its economy. A deepening of the export base and a large build-up of external reserves have reduced somewhat the economy's vulnerability to shocks. 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. While determining the precise contribution of IMF involvement to specific economic outcomes is clearly not possible because of the many factors at play, IEO's overall judgment is that IMF-supported programs did make an important positive contribution.

Appropriateness of program design. Program objectives were relevant to Jordan's circumstances, and were consistent with broad objectives spelt out in the authorities' national development plans. However, most staff papers to the Board on Jordan did not provide a clear rationale for the magnitude and composition of targeted adjustment. This made it difficult for the Board 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.

IMF surveillance and remaining macroeconomic challenges. In general, there was not much difference in the macroeconomic policy discussions undertaken during Article IV consultations and those in program discussions. Until very recently, IMF 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. Going forward, the biggest adjustment challenge that Jordan faces is how to adjust to a projected decline from exceptional high levels of grants. The IMF should have highlighted more candidly and forcefully the potential risks if policies—especially public expenditure policies—do not adjust as rapidly as assumed. It could also have done more earlier to advise on possible approaches to smooth the massive upsurge of grants that began in 2003 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. IMF technical assistance (TA) priorities adapted quite well to Jordan's critical needs, with an increased involvement of the authorities in setting such priorities. IMF TA made substantial and concrete contributions in the areas of taxation, rationalization of food subsidies, public financial management, and pension reforms. 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 was not effective. In particular, the World Bank's public expenditure reviews provided limited input to the fiscal policy content of IMF-supported programs.

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; 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 no significant evidence that Jordan enjoyed preferential treatment from the IMF, with regard to either the levels of IMF financing or the targeted magnitude of fiscal adjustment under IMF-supported programs.

Lessons

The report contains seven broad lessons suggested by the IMF's experience in Jordan, many of which echo recommendations reported in earlier IEO evaluation reports:

- The underlying rationale for key program design elements should be explained clearly in 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.
- 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.
- The nature of short-term fiscal conditionality alone—i.e., 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 Fund's policy advice and program design should be aimed at ensuring the upsurge is not fully translated into immediate surges in public spending and should analyze explicitly how they will be reversed when necessary.
- 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.
- 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 Board on any emerging problems in meeting these priorities.
- 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.
- A wider dissemination of IMF TA reports both within the government and, as appropriate, to other interested stakeholders, while recognizing that publication is ultimately a decision for the authorities, would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues.

The report also has two key messages about the IMF's future role in Jordan:

- 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.
- 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 are unlikely to be successful without analyzing in greater depth the underlying strategies to achieve these targets.

The report was discussed by the IMF's Executive Board on November 21, 2005. Directors agreed with the report's overall assessment that Jordan's long engagement in Fund-supported programs 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. Directors shared the view that adjusting to the sharply lower level of foreign grants and reducing fiscal rigidities remain key priorities and challenges for Jordan. They welcomed the broad policy lessons for the Fund offered by the IEO case study of Jordan.

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