JORDAN'S IMF ARRANGEMENTS

1. 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.

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.

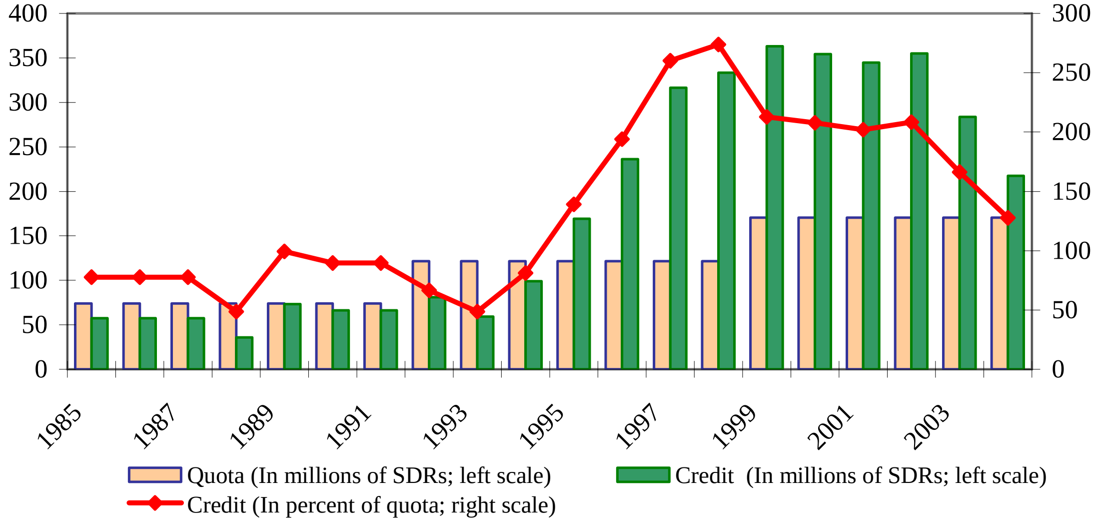
1/ The ratio of amount drawn to amount agreed.
2/ Cancelled before expiration date and replaced with a new three-year arrangement.
3/ The "amount agreed" includes two augmentations; the original agreed amount was SDR 127.8 million.
4/ The "amount agreed" includes one augmentation; the original agreed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

2. 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 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.

3. 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.

4. 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).

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.

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.

CHRONOLOGY OF SELECTED POLITICAL AND ECONOMIC EVENTS, 1989–2004 (concluded)

Date	Event
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	i) Government introduces Plan for Social and Economic Transformation (PSET). ii) National elections postponed, and parliament suspended.
December 2001	Free trade area between Jordan and the United States comes into effect; provides for the progressive elimination 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.

REVIEW OF THE IMF STAFF'S DEBT SUSTAINABILITY ANALYSES AND THEIR INPUT INTO PROGRAM DESIGN

1. 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 of which (but not all) 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).

2. 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.[42] 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.[43] 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,

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[42] 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.

[43] The comparison was with countries that had a "BBB" sovereign rating (the second lowest investment grade) from 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.

hence, would contribute significantly to a possible achievement of investment grade status, with positive consequences for market confidence and, ultimately, for growth.

3. 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 growth;[44] (2) tradeoffs between the potential future impact of fiscal adjustment on improving longer-term growth prospects and the shorter-term consequences for growth;[45] and (3) an analysis of the potential macroeconomic effects of the Plan for Social and Economic Transformation (PSET) which was launched in November 2001.

4. 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.[46] Ironically, this shift took place just before grants

[44] 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.

[45] 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.

[46] 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

(continued)

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.

5. 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.[47] 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.

"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.

[47] 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.

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

Objectives and Strategies	Macroeconomic Policies	Structural Reforms and Social Policies
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 noninflationary 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 points reduction in current expenditure, 4 percentage points 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) Rationalize 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.

OBJECTIVES, STRATEGIES, AND POLICIES IN JORDAN'S IMF-SUPPORTED PROGRAMS (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 noninterest 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.

OBJECTIVES, STRATEGIES, AND POLICIES IN JORDAN'S IMF-SUPPORTED PROGRAMS (concluded)

Objectives and Strategies	Macroeconomic Policies	Structural Reforms and Social Policies
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 US$1.2 billion at end-1998 to $1.7 billion in 2001. ***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.	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. ***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 PSET.

Source: IMF program documents.

Review of the Fiscal Structural Content Under IMF Arrangements

1. 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

2. The main structural actions on the fiscal side were increases in administered prices (fuel prices, steel products), increasing specific excise taxes (cigarettes, alcohol 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

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

4. 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.

5. The large wage bill in the public sector stemming from 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

6. 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.

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.

7. 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.

8. 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 filing.	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 disability entitlements, and bringing military pensions more in line with the civilian scheme.	Addressed.
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).

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.

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. (2) Expand and diversify the productive base to strengthen the country's ability to generate more income and new job opportunities sustainably. (3) Develop a strategy for achieving self-sufficiency; priorities include narrowing the deficits in the balance of payments and general government budget. (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.	Liberalize the economy and its institutions, eliminate distortions, and develop an appropriate business climate. Reduce government direct involvement in production, and enhance the role of the private sector. 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. Reform the financial system and markets, to facilitate freer movement of capital and higher rates of saving.	(1) Average growth in real GDP of 6 percent a year. (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. (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. (5) Limit inflation to 4–5 percent annually. (6) Maintain foreign exchange reserves to cover at least three months of imports.	Fiscal policy will aim to control expenditures and increase domestic revenues. Specific measures to include: (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) Price government services in a manner that ensures cost recovery. 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 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. (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.	Establish a conducive investment climate for the private sector (domestic and foreign). 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; mobilize savings from public finances as well as through the banking and insurance sectors.	(1) Average annual growth in real GDP of 4.5 percent. (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.	Unlike the 1993–97 Plan, the 1999–2003 Plan had little discussion of specific policy measures to be undertaken.

OBJECTIVES AND MACROECONOMIC POLICIES IN JORDAN'S RECENT ECONOMIC AND SOCIAL DEVELOPMENT PLANS (concluded)

Economic and Social Objectives	Strategies	Macroeconomic Targets	Policies
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, pluralism, 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 public 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 liquidity 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: Jordan authorities.

VARIABLES USED FOR SETTING QUANTITATIVE PERFORMANCE CRITERIA UNDER IMF ARRANGEMENTS 1/

Target Variable	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 (ceiling) 5/					√	
Overall deficit after grants of the central government (ceiling) 6/						√
Contracting of medium- and long-term nonconcessional debt (ceiling) 7/	√	√	√	√	√	
Contracting of short-term debt (ceiling)			√			
Net disbursement of short-term debt (ceiling) 8/				√		
Outstanding stock of short-term external debt (ceiling) 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).

Review of Fiscal Outcomes

Massive Adjustment in the Early 1990s Was Not Sustained

1. 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.

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”).

2. *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.

3. *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.

4. *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.

5. *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

6. 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 A). 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.

7. 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, notwithstanding 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).

8. 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.

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.

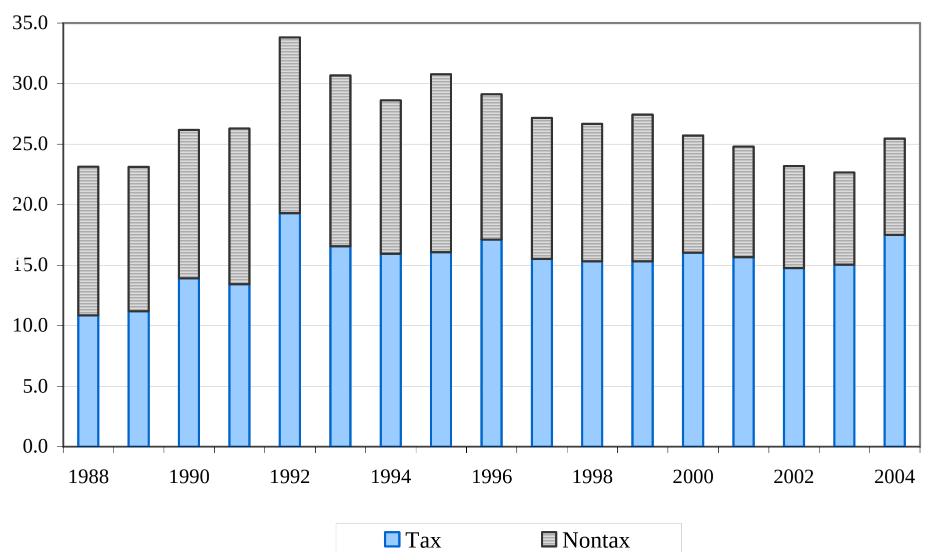
1999. Maximum tariff rate reduced to 35 percent.

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.

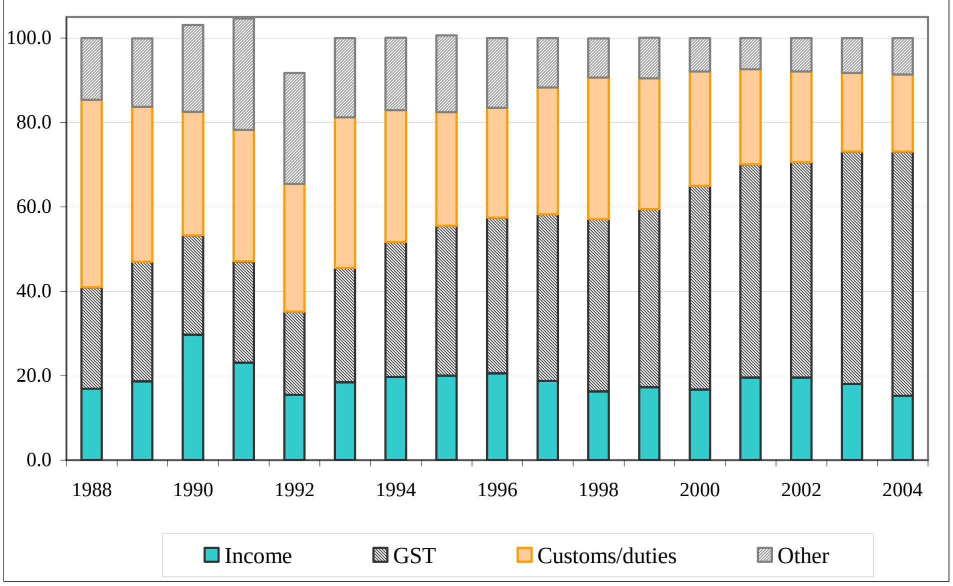
Figure A9.1. Government Revenues
(In percent of GDP)



Source: IMF program documents, and Jordan authorities.

9. 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.

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



Source: IMF program documents, and Jordan authorities.

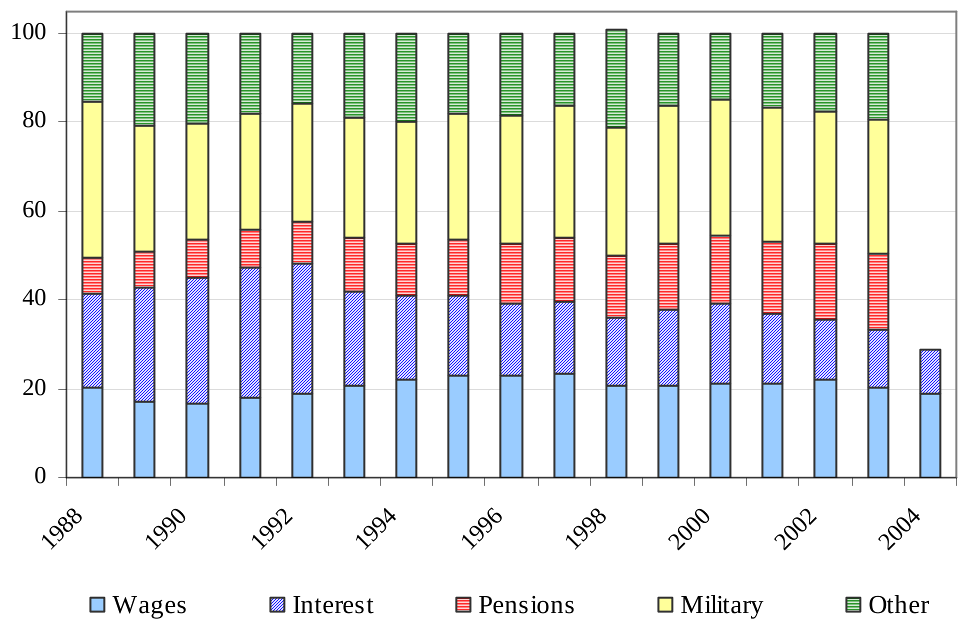
10. Weaknesses in revenue administration and in enforcement of the tax laws are widely acknowledged to have contributed to the poor performance of revenues. Recent measures to tackle revenue administration challenges include the merger of the GST and Income Tax departments—in order to harmonize operations—and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

Limited Progress So Far on Expenditure Consolidation

11. 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.

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



Sources: IMF program documents and Jordanian authorities.

12. 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.[48] 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.[49] Means testing was introduced in 1994 to

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

[49] 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.

13. 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.

14. 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.[50] 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.

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[50] 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.

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 parliamentary 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, 2 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, 2 PCs on amendments to income tax laws and on introduction of VAT.	The bulk 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 parliament.	While the Banking Law was submitted to parliament as planned, the reform of trust funds operations was delayed by six months.

STRUCTURAL CONDITIONALITY (concluded)

Objectives	Summary of Prior Actions and Performance Criteria	Were Conditions Met?
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-conditionality 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.
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 eligibility 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.

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.[51] 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)[52] 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.

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[51] 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).

[52] 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.

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 towards 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.

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.[53] 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

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

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.

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.

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 economic 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

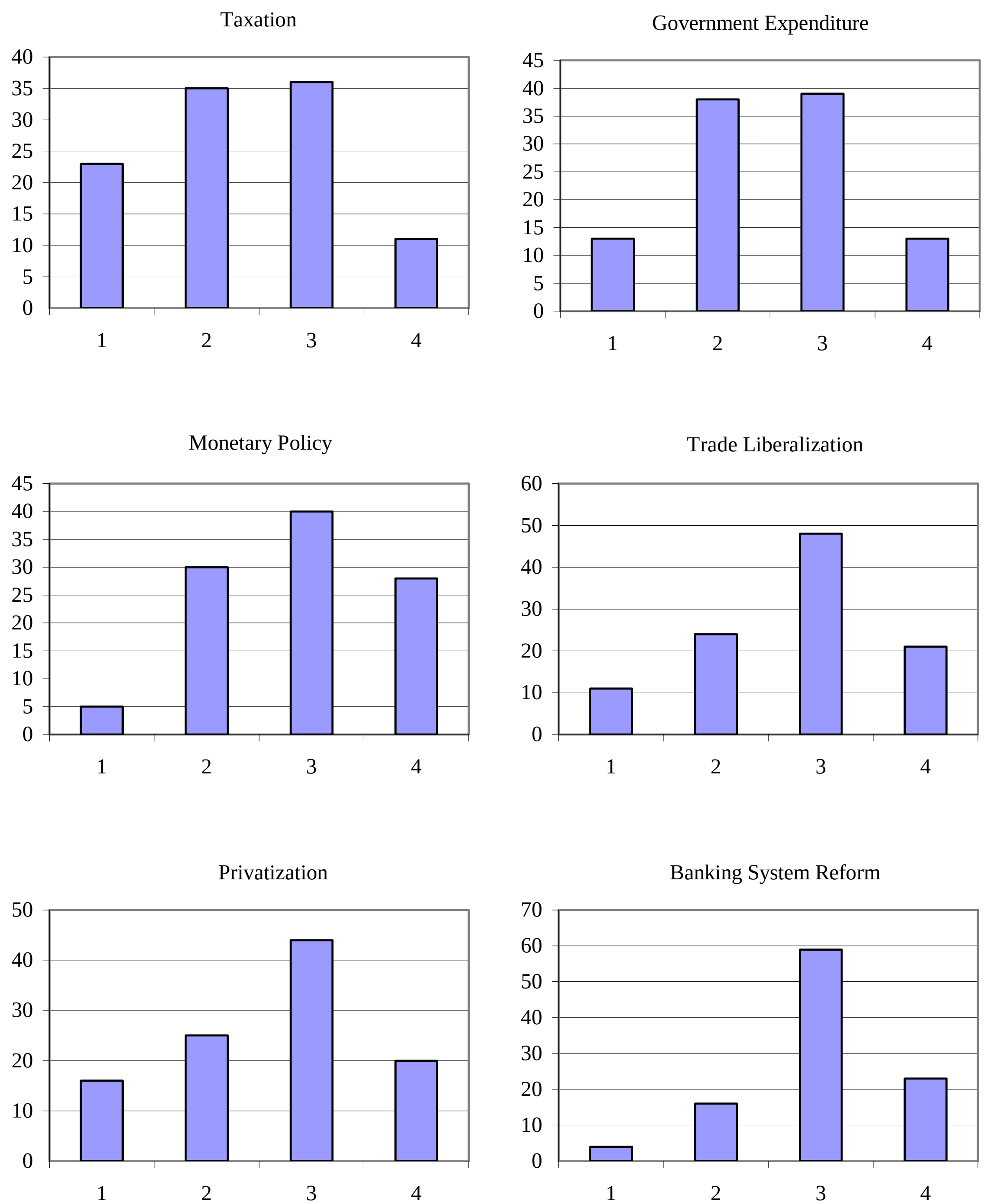
- Respondents indicated that the IMF's influence over monetary policy and macroeconomically critical areas such as trade liberalization, privatization and banking system reform was positive. However, with respect to fiscal policy, notably taxation, respondents considered the IMF's influence to have been 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 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.

Figure A12.1. IMF Influence over Domestic Policies 1/

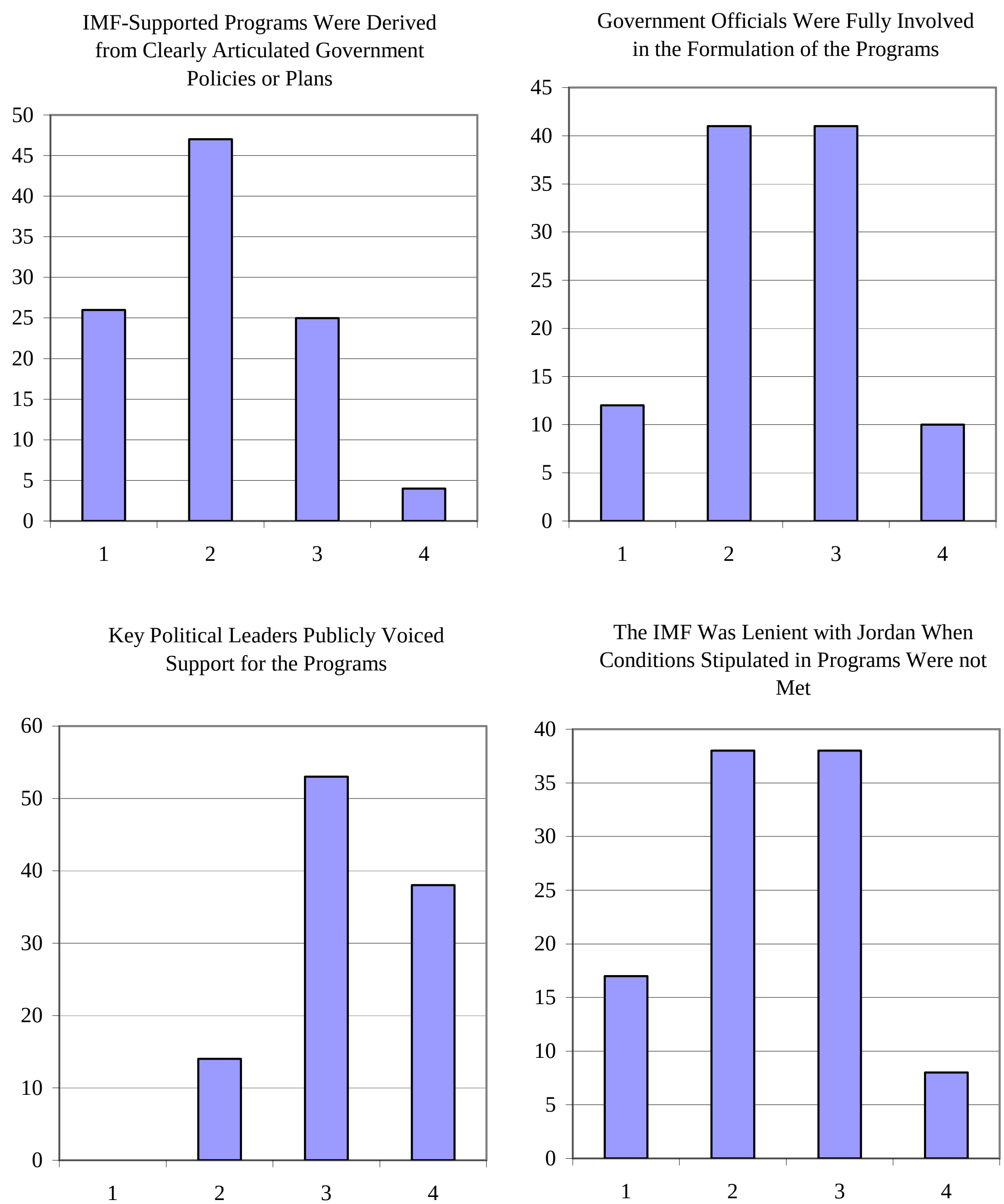
(1=Highly negative influence; 2=Negative influence; 3=Positive influence; 4=Highly positive influence)



Source: Survey of stakeholders for this evaluation undertaken in November–December 2004.

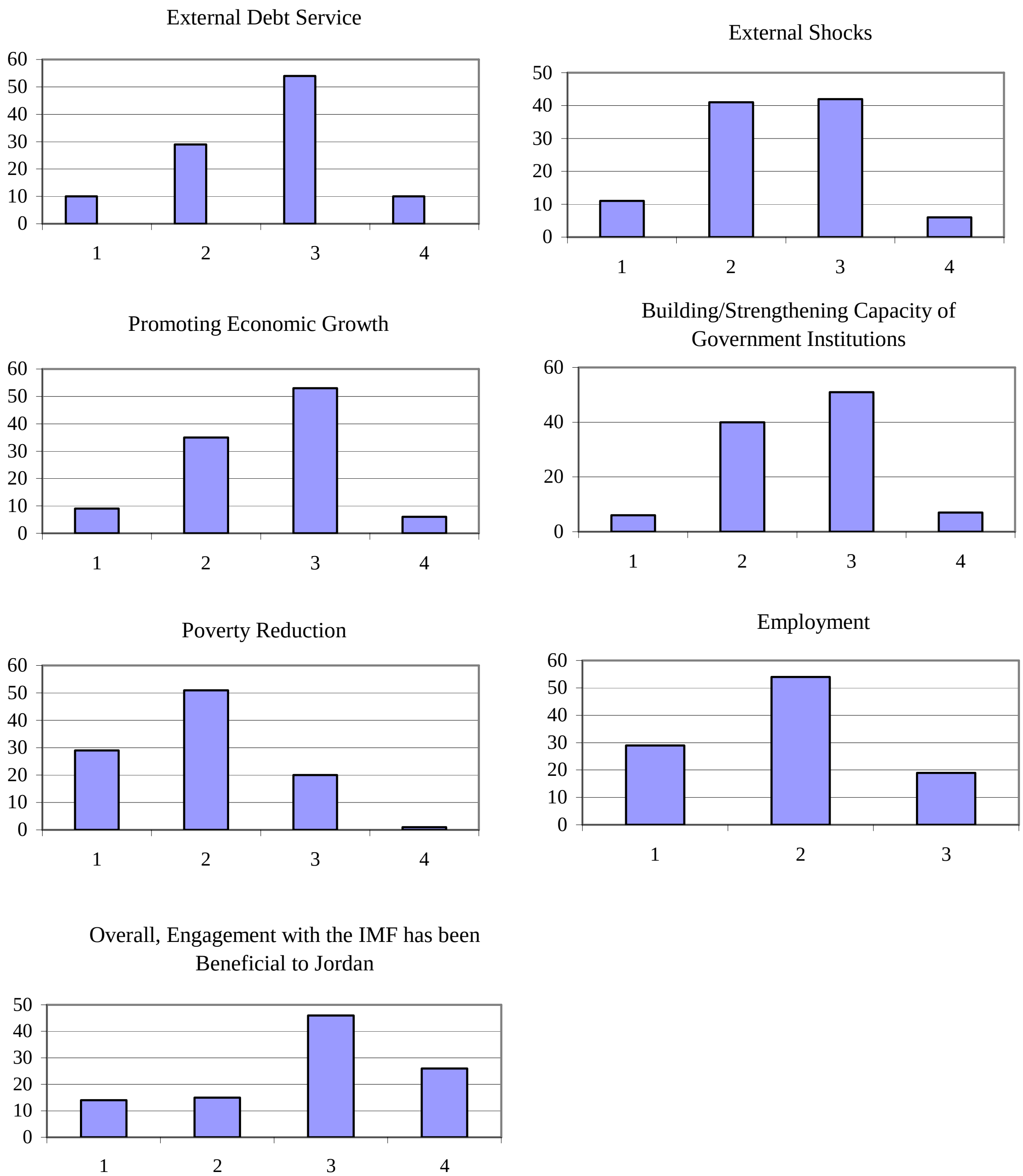
1/ Y-axis represents the number of respondents.

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

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

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 per annum) 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)

Arrangement and Approval Date	Program Year 1/				Cumulative Changes	
	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)

	Level at				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	-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 changea 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 per annum; 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 per annum)	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 & 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 & 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
Public 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	...
Public 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	7541.8
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

Source:s 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	...	...	...	...

Sources: IMF.

1/ IMF program documents.
2/ IMF (2001).
3/ Prior actions.
4/ Performance criteria.
5/ Benchmarks.

Table A13.7. The ROSC Report's Findings and Action Taken by the Authorities

Shortcomings Identified by the ROSC Report October 2002	Assessment by the ROSC Update Report 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 timeliness 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 reliability 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.

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, Macro-Fiscal 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, Policies 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

Name & affiliation	Title
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