I. INTRODUCTION

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

Table 1.1. Jordan's IMF Arrangements

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

Source: IMF Finance Department database.

1/ Canceled before expiration date and replaced with a new three-year arrangement.

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

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

33. Jordan turned to the IMF and World Bank following a severe balance of payments crisis during late 1988 and early 1989. At the time, it had virtually exhausted its international reserves and was on the verge of defaulting on its external debt payments. The origins of the crisis lay primarily in a failure to adjust to the end of an earlier regional economic boom fueled by high oil

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

prices. The boom had boosted demand for Jordan's exports and facilitated large inflows of official transfers (averaging almost 15 percent of GDP a year during the first half of the 1980s) and private remittances from Jordanians working in oil exporting countries. Falling oil prices led to substantial drops in these inflows during the mid-1980s. The decline in grants substantially affected the budget, but the authorities failed to adjust and fiscal deficits ballooned. Initially, the authorities turned to foreign borrowing to finance rising government spending and, when foreign credits began to dry up in 1987–88, they resorted to massive domestic financing, which led to a heavy loss of external reserves and quickly proved unsustainable. The subsequent crisis involved a large devaluation of the dinar and was compounded by the collapse of Jordan's third largest bank. Output contracted by almost 11 percent in 1989 and inflation surged to over 25 percent.

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

- A massive external public debt (equivalent to 174 percent of GDP) along with a heavy debt-service burden (over 25 percent of export of goods and services) that had quadrupled in only five years.

- Large current account deficits (14 percent of GDP before grants in 1988) that relied heavily on substantial concessional support that was subject to shocks largely beyond Jordan's control, and external reserves that were almost exhausted.

- Large fiscal deficits (23 percent of GDP before grants in 1988) and a domestic public debt that, while small in comparison to external debt, was growing rapidly.

- A rigid fiscal structure that made sustainable adjustment hard to achieve. Both revenues (averaging over 23 percent of GDP in the late 1980s) and expenditures (well over 40 percent of GDP) were high in comparison to other countries at a similar level of development. The revenue structure was heavily dependent on distortionary trade taxes, and on nontax revenues that were both volatile and inelastic. In addition, the tax system induced important allocative distortions due to cascading, significant use of exemptions, a multiplicity of rates, and a weak tax administration.

- At the same time, expenditures were dominated by categories that were difficult to cut in the short term (either because of their "contractual" nature—e.g., high and rising pension payments that required reforms that would be slow to yield savings, and interest payments—or because of their political sensitivity—e.g., military spending and a large

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

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

civil service wage bill). In total, such "rigid" expenditures accounted for over 70 percent of total spending.

- The economy suffered from a series of structural impediments that hampered growth—including a weak business environment and regulatory framework; a regulated external trade with high tariff and nontariff barriers and substantial government intervention in the real economy. The export base was small and concentrated on a narrow range of mining and agricultural products.

- In the financial sector, the authorities still relied primarily on direct monetary instruments and the supervisory capacity of the Central Bank of Jordan was weak.

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

Scope of the Evaluation

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

37. The overarching evaluation questions may be summarized as follows:

- Was the overall design of IMF-supported programs—including the nature of the underlying analysis, the broad objectives, and the policy content—relevant and appropriate to Jordan's circumstances?

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

- What has been achieved in terms of these broad objectives and what can be said about the contribution of IMF support?

- What has been the contribution of IMF support in addressing Jordan's more fundamental structural and institutional rigidities and helping it to strengthen its capacity to cope with various shocks?

- How well did internal IMF processes and policies work in the institution's dealings with Jordan? In particular, did Jordan receive preferential treatment from the IMF on account of geopolitical considerations?

38. The evaluation draws upon a detailed review of IMF documents, including both papers presented to the Board and internal IMF staff documents; interviews with IMF and World Bank staff's; and interviews with a broad range of stakeholders, including former and current Jordanian officials that took place during a mission to Jordan by the IEO evaluation team during November 21–December 2, 2004.

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

II. The Design of Jordan's IMF-Supported Programs

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

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

- How restoring external and fiscal sustainability was analyzed and defined and how this influenced program design.

- How the pace and composition of targeted macroeconomic adjustment were derived and whether they were consistent with the broader objectives of the programs. In this context, particular attention is paid to the scale and composition of the targeted fiscal adjustment and the policies expected to achieve this adjustment.

- Inflation objectives and the design of monetary and exchange rate policy.