

population below the poverty line declined in the mid-1990s but this improvement subsequently tapered off (and may have been partly reversed) leaving overall poverty rates still well above precrisis levels. However, the share of the population living in extreme poverty (i.e., those living on less than \$1 a day) did continue to decline in the 1990s, from 6.6 percent in 1992 to 4 percent in 2002—probably reflecting the better targeting of the social safety net support that replaced more generalized food subsidies.

Table 3.3. Poverty Indicators

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

Sources: World Bank (2004) and USAID (2005).

1/ World Bank projections.

2/ USAID estimates.

3/ The head count index is the percentage of the population living below the poverty line deemed appropriate for the country by the authorities.

4/ The poverty gap index measures the depth of poverty in a country or locality. It increases with the distance of the poor from the poverty line.

5/ Income inequality refers to the extent of disparity between high and low incomes. The higher the ratio (Gini coefficient), the greater the extent of inequality.

IV. THE ROLE OF IMF SURVEILLANCE AND TECHNICAL ASSISTANCE ACTIVITIES

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

A. Article IV Consultations and Programs

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

previous missions had left them, irrespective of whether they had been initiated in the context of an Article IV mission or not.

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

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

133. The injunction to use Article IV consultation discussions to step back from short-term program concerns was formalized only in guidelines issued in 2002. Therefore, it is not especially surprising that with the exception of the 2004 Article IV reports, and to a lesser extent, the 2002 report (which reflected some of the analysis of the internal medium-term fiscal strategy brief), consultation reports were generally not used to step back from the program to explore alternative strategies.³⁶

134. The staff report for the 2004 Article IV consultations—the first for Jordan since the 2002 surveillance review and associated staff guidelines were issued—distinguished more sharply than in the past between the reporting on consultation and program discussions. The former dealt with longer-term issues of public debt and fiscal sustainability, tax reforms, financial system stability, and the sustainability of export growth. A “selected issues” paper that accompanied the staff report provided the analytical underpinnings for some of the discussions with the authorities and

³⁶ Some Article IV consultation reports were accompanied by background papers on a wide range of topics addressing longer-term issues. Particularly noteworthy were “selected issues” papers produced in the context of the 1995 and 1998 Article IV consultations. Topics covered in these papers included growth dynamics, trade reforms, financial sector reforms, public debt dynamics, external debt strategy, and poverty.

also included a chapter on policies and prospects for enhancing Jordan's sovereign creditworthiness ratings—a highly relevant topic as the country prepared to graduate from reliance on IMF-supported programs.

B. Evolution of Advice on Exchange Rate Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

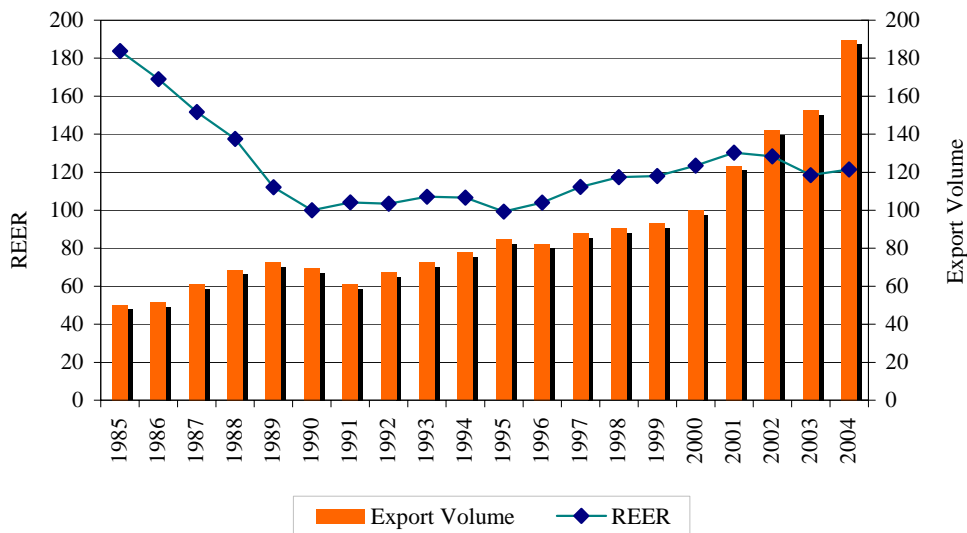
July 2000 (2000 Article IV consultation). The staff reiterated the view that greater exchange rate flexibility would allow the real effective exchange rate to adjust to shocks affecting Jordan, rather than being dominated by movements in the U.S. dollar against other currencies. It would also decouple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

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

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

138. The rationale provided for the advice to move to a more flexible regime seems to mix issues of the choice of regime with those related to overvaluation of the exchange rate, and to exaggerate the importance of independent monetary policy for a small open economy located in a politically volatile region. There also seems to be a presumption—at least when competitiveness grounds are cited as the rationale—that a more flexible regime can more easily be “managed” to produce a desired real effective exchange rate path. Apart from inflation risks associated with pursuing a real exchange rate path, fragility-of-confidence considerations argue for as transparent a system as possible, even if there is a change to a flexible regime. In the view of the evaluation team, this advice reflected more the evolution of an IMF view of what is appropriate for emerging market economies than analysis based on Jordan’s circumstances.³⁷

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



Source: IMF.

³⁷ The one piece of Jordan-specific analysis by IMF staff (Bhattacharya, 2003) concluded after examining various factors—the nature of shocks that the economy is susceptible to, rigidities in real wages and relative prices, and export-diversification goals—that, on balance, a fixed exchange rate regime was appropriate. However, it recommended a shift to a basket of currencies rather than a peg to a single currency.

C. Financial Sector Assessment Program and Data Report on Standards and Codes

Financial Sector Assessment Program

139. The goal of the FSAP was to assess the stability of the financial system as a whole, identify weaknesses, and suggest remedies that would enhance the country's resilience to macroeconomic shocks and cross-border contagion. On the basis of the FSAP mission results, IMF staff prepared a Financial System Stability Assessment (FSSA) for the Executive Board.³⁸ The FSSA noted that the country had reached a high level of compliance with international best practice in the areas of prudential standards in the banking sector and with respect to the payment system, which was described as modern and well functioning. It also noted that some legal and institutional changes were required to address shortcomings in areas such as public debt, financial safety net, securities, insurance, and pensions with a view to improving financial intermediation and increasing resilience to systemic risk, especially in the medium term (e.g., buildup of unfunded liabilities of the public sector pension funds).

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

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

³⁸ The authorities did not agree to publication of the FSSA.

Data Report on Standards and Codes

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

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

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

D. The Contribution of Technical Assistance

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

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

How were priorities determined?

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

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

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

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

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

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

Impact

151. In assessing impact below, a distinction is made between the impact of TA on policy formulation and implementation, on the one hand, and on institution/capacity building, on the other. The assessments are based on different types of evidence including reviews of TA

recommendations and the extent to which they were implemented; interviews with TA recipients; and interviews of IMF staff involved in the provision of TA and with other TA providers.

i) Policy formulation and implementation

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

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

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

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

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

dissemination of the content of reports. This would not only enhance policy discourse in the country but would also shed light on the rationale for IMF policy advice.³⁹

ii) Institution and capacity building

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

158. *Public finance institutions.*⁴⁰ IMF TA appears to have been instrumental in strengthening capacity in revenue administration, especially with respect to the GST. In contrast, IMF TA has had less impact on capacity building in the Ministry of Finance to date. In fact, a heavy reliance on IMF staff for consolidating fiscal data and for macrofiscal analysis may have hindered capacity building in the ministry. The recent provision of TA aimed at building capacity in macrofiscal analysis and management is a step toward addressing this weakness. In recent years, the IMF has been providing assistance in the compilation of government finance statistics in accordance with international methodologies developed at the IMF. It is too early to assess the impact of this assistance.

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

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

³⁹ This is also a recommendation of the IEO report on Technical Assistance (IEO, 2005).

⁴⁰ The main public finance institutions that received IMF TA were the Ministry of Finance and the Revenue Department (especially Income Tax and GST). There was little direct assistance to other key agencies, such as the Budget Department (responsible for the formulation and execution of the recurrent budget) and the Ministry of Planning (responsible for the capital budget).