

BUFF/05/182

November 8, 2005

**Staff Response to the Evaluation by the
Independent Evaluation Office of IMF Support to Jordan, 1989-2004
Executive Board Meeting
November 21, 2005**

1. **This IEO report provides a thorough and valuable analysis of Jordan's prolonged use of Fund resources.** Overall, staff concurs with most of the report's main findings, although we should be careful when attempting to distill broad policy lessons from a single-country case study. Also, we note that the findings are close to those of staff's Ex post Assessment (EPA).
2. **There are, however, a few areas where we think the report could have gone further.**
 - We think the report would have benefited from more in-depth evaluation of the internal decision making in the Fund—the role of the review process, management, and the Board—as was done in the case of Argentina. In particular, the report could have examined the decisions to support Jordan despite the lack of progress on some critical reforms, such as petroleum price reform. The IEO is uniquely placed to conduct such an evaluation.
 - Similarly, the report could have explored more deeply the external and political factors influencing the Fund's decision to assist Jordan. The analysis provided in Section IV is welcome, but could have been complemented by a more direct assessment of how decisions were actually made. In this connection, the link between Fund arrangements and Jordan's requests for Paris Club agreements could have been explored further. Again, this is the type of evaluation the IEO is best placed to do.
3. **We disagree with the report's characterization of staff's views on exchange rate policy.** While it is true that the changes in the staff's views about the appropriate exchange rate regime for Jordan have been influenced by lessons from the rest of the world—as should be expected and welcomed—the changes in views also very much reflect changes in Jordan's own circumstances. Staff's advice to move toward a more flexible exchange rate regime reflects a host of factors, including the nature of shocks Jordan faces (most real as opposed to nominal in nature), a well-established track record of low inflation, and improved capacity to conduct monetary policy.
4. **We agree with the report's recommendations with respect to the Fund's future role in Jordan (Lessons 8 and 9) but would also underscore the challenge posed by Jordan's vulnerability to large terms of trade shocks.** We concur that adjusting to the lower level of external grants and reducing fiscal rigidities are key priorities and

challenges—and these echo the views of recent staff reports and the staff’s EPA. However, we would also emphasize that the decline in grants has increased Jordan’s vulnerability to terms of trade shocks, such as those stemming from sharply higher oil prices and the loss of preferential market access following the elimination of MFA quotas.

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

Specifically:

- We can agree with **lessons 1, 3, 4, 5, and 6**, which call for the need to explain the rationale for judgment on the magnitude and composition of targeted fiscal adjustment; ground program design in explicit assessment of external and public debt; give greater emphasis at an earlier stage to the formulation of key institutional reforms; assess medium-term fiscal risks; incorporate World Bank inputs into program design; and more carefully designed timetables for structural conditionality. These are very similar to lessons that the IEO as well as Fund staff, management and the Board have drawn before. Indeed, the changes in the design of the 2002 SBA with Jordan—with more focus on medium-term fiscal issues and debt sustainability—reflect Fund-wide improvements largely in response to such earlier findings.
- On **Lesson 2**, we welcome candor in staff reports on program risks. We do not agree, however, that internal staff notes, which tend to be franker than staff reports prepared for the Board, should set the standard for candor. The greater frankness of staff’s internal notes reflects the nature of these notes—which are part of a lively and healthy exchange of sometimes divergent views before agreement is reached among staff and management.
- With respect to **Lesson 7**, which suggests that a wider dissemination of IMF TA reports for Jordan would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues, we would note that the decision to publish such reports is one for the authorities to take, subject to the agreement of the Fund management.