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POLICY BRIEFS

The International Monetary Fund and World Bank Intervention in Jordan

A Misguided Approach to Economic Reform

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Preface

The Hashemite Kingdom of Jordan, a resource-starved developing country that has withstood a series of socioeconomic shocks over the years, has come to rely heavily on foreign loans and assistance funds. Its strategic importance for the protection of the regional interests of its international partners, especially the United States of America, has been its main guarantee that such funds would continue to flow, enabling the country to retain a modicum of political and socioeconomic stability in a troubled region. Yet, in spite of increasing levels of financial assistance it has benefited from over the years—particularly over the past three decades—Jordan has failed to develop sustainably, meaning that it has been unable to build a progressively independent national economy capable of progressively releasing the country from its financial dependence on its partners and international financial institutions (IFIs). In fact, the opposite has occurred.

Meanwhile, the living conditions in the country have hardly improved over the years, as poverty and unemployment rates have remained high, and citizens continue to be in need of a better protection of their socioeconomic human rights.

Historically, Jordan has relied heavily on the support of two main IFIs—the International Monetary Fund and the World Bank. Billions of dollars in loans have been disbursed since Jordan first began receiving IMF assistance in 1989, allowing the country to cover its current expenditures, pursue developmental projects, and retain some level of economic growth. However, these funds have come at a price. In return for much-needed financial assistance, Jordan has had to agree to a number of conditions—typically in the form of policy prescriptions—as part of its multilateral agreements. Through the implementation of successive structural adjustment programs (SAPs), the two IFIs have championed broad economic liberalization in the country, accompanied by the implementation of austerity-minded policies.

As Jordan today continues to face key socioeconomic challenges, it is assumed that IFI interventions have failed to promote sustainable development in the Kingdom. This paper will examine how successive IMF and World Bank interventions in Jordan, and their policy prescriptions, have impacted on the country's society and economy, and how they have contributed Jordan's ever-

increasing dependence on foreign assistance, and the growing influence of international actors on the country's internal affairs. In doing so, we will begin by providing a background of the socioeconomic conditions Jordan faced in the years leading up to the signing of its first stand-by agreement with the IMF in 1989. We will then provide an overview of the first IMF and World Bank interventions in Jordan, which took place between 1989 and 2004, and their impact. Then, we will examine the IMF's approach to financial assistance in Jordan since 2012, and where the country stands today, against the backdrop of its recent past. At the end of the paper, a section will be included which will summarize the key conclusions drawn.

Background

Over the years, Jordan's social, political, and economic life has been deeply marked by the effects of regional and international events. While some benefited the country in different ways—such as the Iran-Iraq war, which greatly boosted the flow of trade through the port of Aqaba, and the 1975 Lebanese Civil War, which allowed Jordan to establish itself as an alternative provider of professional and financial services, boosting the country's growth—others have caused it to experience severe economic and demographic shocks, as was the case with the 2008 Global Financial Crisis, the wars in neighboring Syria and Iraq, and the present refugee crisis.

Like much of its Arab neighbors, Jordan also benefited from increased inflows of official development assistance (ODA) following the 1973 and 1979 oil booms, in addition to an increase in remittances from Jordanian workers working in Arab Gulf countries. This contributed a period of relative prosperity which stretched from the mid-70s to the mid-80s, when Jordan's growth rates were among the highest in the world (reaching nearly 25% in 1976), and per capita income and living conditions improved substantially. Yet, this period of vigorous growth fueled by ODA and external financing also consolidated Jordan's dependence on its international partners, as public and private consumption levels were allowed to rise well above what could have been reached solely through domestic GDP. Jordan's reliance on ODA inflows would eventually prove to be unsustainable (though it would continue to increase over the years). Meanwhile, the strength of the Jordanian Dinar (JOD) led to an increase in



imports, to the detriment of productive domestic sectors, the growth of which could have contributed curb Jordan's high levels of unemployment, while simultaneously making exports less attractive to international partners. The high levels of ODA-fueled domestic expenditure also led to inflation, further hampering domestic production, and encouraging consumption over savings and investment. As the second Gulf oil boom drew to a close, demand for Jordanian goods and labor waned among the country's regional partners, who also began cutting financial aid. This led to a sharp rise in public debt, which would reach an average of 200% of GDP, and to the rapid deterioration of the national economy (Kanaan and Kardoosh, 2002).

Since the mid-1980s, the IMF and World Bank had begun pushing for the liberalization of the financial sector and exchange rates in Jordan. Under pressure from the two IFIs, the government introduced a new Encouragement of Investment Law in 1988, which eased constraints on the movement of capital both in Jordan and abroad. In the same year, the country was forced to abandon the Jordanian Dinar's peg to the US Dollar, as a condition for receiving financial support from the Fund and the Bank.

From 1985 onwards, Jordan would witness a period of economic decline which would reach its apex during the 1989 currency and banking crisis. In 1988, the country entered a recession which would extend into 1990, leading to a substantial decline in GDP per capita, investment, employment, and quality of life. Combined with other issues, the freezing of hiring and wages in the public sector contributed to the eruption of riots in Karak, Ma'an, and Tafleeh. Also in 1988, debt obligations reached 5.8 bn US\$, and the country was no longer able to continue servicing its foreign debt, which, by 1989, totaled 9.5bn US\$. In addition to inflation and high levels of foreign debt, the national currency, which had historically been deemed stable, collapsed, and in 1989 living costs rose by 25.8%, further fueling public discontent.

IMF Involvement in Jordan (1989-2004)

In 1989, Jordan initiated a 15-year period of economic interventions by IFIs, by signing its first agreements, first with the IMF, in July, and then with the World Bank, in December. These agreements,

which allowed Jordan to reschedule its foreign debt and restore the country's access to credit, were to accompanied by the implementation of a series of measures aimed at pulling the country out of its currency and banking crises. From the start, the IMF's strategy to revitalize the Jordanian economy via the implementation of one of many structural adjustment programs only made a bad situation worse—by pressuring the Jordanian government to liberalize interest rates, the Fund set off a chain reaction which amplified the effects of the ongoing recession. Interest rates rose rapidly, resulting in an increase in nonperforming loans (Leathers, 2015), which led to a run on banks and bank insolvencies. In order to address these issues, in 1989 the government was forced to inject the equivalent of 10% of GDP to settle foreign obligations and meet the run on the insolvent banks (Harrigan et al., 2006).

Despite a consensus among observers that the exacerbation of the country's economic ailments had largely been the result of misguided IMF policy 'recommendations', the Fund ultimately attributed it to the negative effects of the Gulf War (which did not break out until late 1990) (Khan, 2004). In reality, however, it would have been difficult not to question the authority of the IMF on matters concerning Jordan's domestic policy, and not to ascribe the ultimate failings of its prescriptions to a poor understanding of the country's complex socioeconomic reality.

Another area of focus for the IMF during this first period was that of subsidies, with prescribed austerity measures – meant to control budget deficit – led to the slashing of government subsidies on fuel, beverages, and cigarettes. The ensuing steep rises in prices quickly led to riots, namely in Ma'an (Leathers, 2015).

As Jordan's economic situation continued to deteriorate, so did living conditions, as the country's historic achievements in reducing poverty and promoting socioeconomic equality were shattered. By 1992, poverty level had risen to 14.4%, unemployment to 19.2%, and inequality of income returned to the same values as before the socioeconomic improvements of the 1980s (Harrigan et al., 2006). Regarding poverty levels, other sources indicate that it may have risen even higher than World Bank estimates, reaching 19.8% (Kossaifi, 1998).

In early 1991, Jordan's first SBA (Stand-by Agreement) with the IMF was terminated, with only



half of the agreed-upon funds having been disbursed, following the country's initial unwillingness to oppose the regime of Saddam Hussein in the course of the first Gulf War. Unconstrained by IMF policy prescriptions, the government reinstated capital market and price controls and, instead of continuing to increase prices on basic goods, such as food, reinstated fuel and food subsidies (Harrigan et al., 2006). However, as Jordan returned to the fold in regards to Saddam's Iraq following the end of the first Gulf War in 1992, the IMF reinstated its financial support by renewing the terminated SBA.

Between 1992 and 1999, Jordan would become the much-praised 'model student' of the World Bank and the IMF, committing itself to the strict implementation of the 'recommended' measures and policies. Together, the Bank and the Fund would demand broad fiscal austerity and push for increased economic liberalization. Among their core measures, the two IFIs prescribed trade, energy, and price deregulation; the privatization of state-owned assets; tax reforms; tariff reduction; the continued reduction and elimination of subsidies, such as in energy and food – the latter of which, according to the IMF, "favored the better-off more than the poor;" and public sector cuts (IMF, 2005). Between 1992 and 1995, Jordan's economic growth would rise as high as 8.6%—indicating, to some, that IMF and World Bank prescriptions were contributing to the revitalization of the Jordanian economy. Similarly, between 2000 and 2004, Jordan's economy would rise at an annual average of 4.81%. However, scholars have shown that these periods of respectable economic growth were unsustainable. Instead of having been spurred by increases in domestic productivity, they were the result of factor accumulation, and "much of the growth was in the non-tradable sectors, especially the construction sector, rather being (...) sustainable export-led growth" (Harrigan and El Said, 2014).

Likewise, though poverty levels slumped from 14.4% in 1994 to 11.7% in towards the end of the decade, by 2002 they again stood between 15-30% (Harrigan and El Said), showing once more that the growth Jordan was experiencing could only bring about a form of transient socioeconomic development.

Meanwhile, the country's poor suffered the most from the implementation of the austerity-heavy, neoliberal policies prescribed by the two IFIs—as Jordan was unable to reduce interest payments and military expenditures, austerity measures primarily

brought about the weakening the support of social protection mechanisms. In particular, the removal and reduction of subsidies, as the prices of goods and services increased – particularly those of bread, which more than doubled as international wheat prices rose (Leathers, 2015) – led to a further deterioration of living conditions among the poorer social strata and rural areas, as subsidies on farm production costs were also removed. In response to a wave of public outcry, resembling that of 1989, the government put forth the possibility of introducing living cost allowances to lighten the financial burdens of poorer families. However, when it was finally introduced, this measure was accompanied by the elimination of subsidies on dairy products. Finally, adding to the shrinking of social safety nets and the broad withdrawal of government support on living costs, unemployment levels were also on the rise, reaching 15.3% in 2002 (Mossallem, 2016).

With the dawning of the 21st century, Jordan reaffirmed its commitment to the implementation of IMF and World Bank prescriptions, and was encouraged to continue implementing "far-reaching structural reforms" (quoted in Harrigan, 2006). In the years that followed, the IMF in particular would become more vocal in its recommendations of the privatization of state-owned assets, the reduction of civil and military pension, the implementation of flexible wage policies, the reduction of public sector wages, and the reduction of worker protection. Simultaneously, the World Bank continued to push for increased trade liberalization and the promotion of a "business-friendly environment." For tackling poverty, the two institutions emphasized the importance of boosting public investment in infrastructure, health, and education, so as to improve the quality of public services. The remaining food subsidies were removed, and replaced with (cheaper) cash transfers, tariff rates were further reduced, and 51 privatizations were concluded by mid-2002. The measures implemented over this period drew criticism from members of the Jordanian parliament, which was promptly dissolved, as IFI prescriptions continued to be followed through. Over 211 new laws pertaining to a broad range of economic issues were endorsed.



Post-2011 Involvement and Jordan's Current Landscape

Over the years between 2005 and 2012, Jordan signed no additional SBAs. Yet, it continued to pursue much the same model of fiscal austerity and trade liberalization which had been introduced under IMF and World Bank auspices. As such, come late 2012, when Jordan once again required financial assistance due to problems with its balance of payments, it possessed no social safety nets capable of minimizing the impact of the newly-prescribed austerity measures on the population, and public demonstrations ensued. Perhaps in light of these consequences, subsequent IMF reports would underline the need for “an effective inclusive growth strategy” capable of creating jobs, reducing inequality, and providing equal opportunities. Nevertheless, it continued to prescribe the same form of fast-paced economic liberalization as before (Mossallem, 2015).

In 2015, having completed the seventh and final review of Jordan's SBA-supported economic program, the IMF disbursed the final 396.3m US\$ out of a total of approximately 2bn US\$. In its final appraisal, the IMF remarked that the “deficit is narrowing, foreign reserves remain at an adequate level, and inflation is low” (IMF, 2015). It went on to underline “the need to move on structural reforms geared to job creation, and focused on labor market reforms as well as improvements in the business climate and the quality of public institutions” (IMF, 2015).

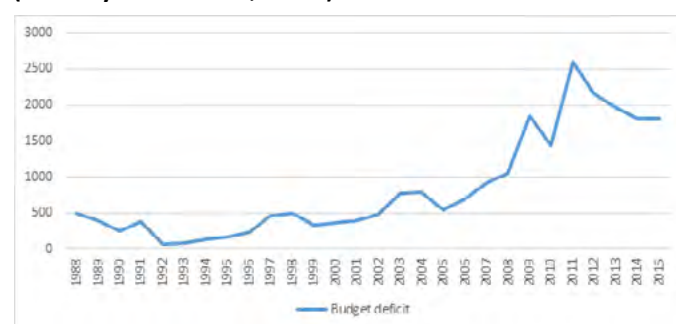
The following year, a new wave of measures aimed at “fiscal consolidation” were approved, as required for gaining access to IMF aid: Additional austerity measures were implemented; fuel prices were raised; and both the sales tax and customs were increased (The National, 2016). The IMF, in addition, had called for electricity prices to be tied to oil prices, in spite of the likelihood of this leading to increases in electricity prices as well.

Once more, these measures had a disproportional impact on the poorer segments of the population, as they endangered, for many, the affordability of many basic goods—an endangerment which necessarily reflects on Jordan's levels of transient poverty, which is marked by “vulnerability to failing consumption” (Jalan and Ravallion, 2007). Considering that World Bank estimations place the percentage of transient poor in Jordan at 18.6%, and that the poverty ratio

– that is, the percentage of the total population whose per capita expenditure was less than the absolute poverty line of 814 JOD per year – stood at 14.4% as of 2012 (Department of Statistics, 2015), approximately one third of Jordanians may be considered poor in some way. Likewise, and in line with previous strategies, tax increases only added to the already heavy burden borne by the Jordanian population in terms of direct and indirect taxes—which, together, amounted to 24%, while the country's income tax remained among the lowest in the world (The National, 2016). Meanwhile, Jordan's high levels of corruption and tax evasion—the latter of which is estimated to cost state coffers between 800m and 1bn JOD per year—have remained largely unaddressed.

The IMF's assessment report also expressed the Fund's optimism that “further fiscal adjustment and decisive structural reforms (...) will eventually reduce the need for donor support” (IMF, 2015). Yet, Jordan's dependency on foreign financial aid is at an all-time high. Though, as can be seen in the graphic below, Jordan's deficit indeed seems to be narrowing, the Fund's evaluation report fails to mention the amount of grant money the country receives annually, and how much of it is committed to direct budget support—in 2014 alone, Jordan received 1.742bn US\$ in grants, 538.68m of which classified as “budget support” (MOPIC, 2015).

Figure 1: Jordan's budget deficit (million JOD) 1988-2015 (Ministry of Finance, 2016)

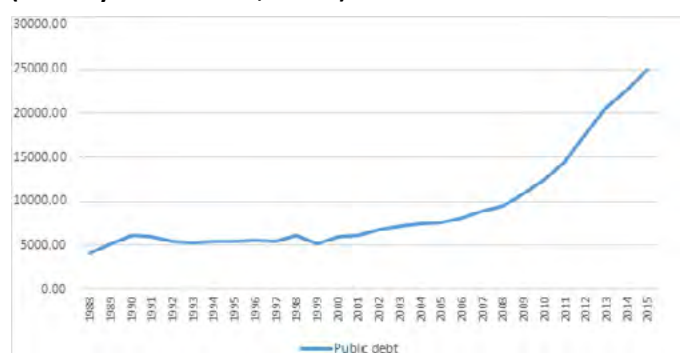


Another economic indicator which is cause for concern is Jordan's public debt. As shown in Graphic 2 below, at the time when Jordan signed its first agreements with the IMF and World Bank its debt levels were on the rise—between 1988 and 1990, Jordan's public debt rose from 4.1bn JOD (5.8bn US\$). Over the following decade, public deficit levels would be subject to only minor fluctuations, with the exception of 1998, at which point it initiated an ascent which would become particularly pronounced



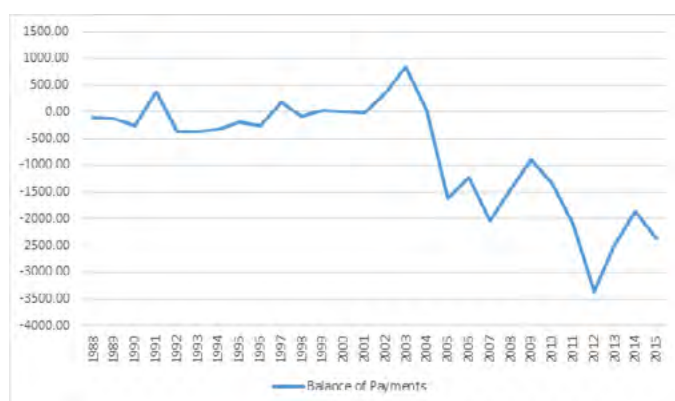
from 2008 onwards. By 2015, it had reached 24bn JOD, or 35bn US\$. According to the latest official data on the public debt in Jordan for 2016, it reached 26.1bn JOD (36.5bn US\$), representing 94.4% of the GDP. This remains a major impediment to Jordan’s development, as it has been shown how foreign debt can severely cripple the capacity of low- and middle-income countries to ensure economic growth and shows that years of IMF-sponsored SAPs have left the country unable to address its own socioeconomic challenges without falling ever deeper into debt.

Figure 2: Jordan’s public debt (million JOD) 1988-2015 (Ministry of Finance, 2016)



Finally, it is important to underline how Jordan’s balance of payments has steadily declined since 2003, save brief periods of recuperation, reflecting the debilitated state of the country’s productive, exporting sectors. Most recently, between 2012 and 2014—the first two years since the signing of the latest SBA—Jordan’s balance of payments recovered from a deficit of 3.4bn JOD (4.8bn US\$) to one of 1.8bn JOD (2.5bn US\$), only to once again reach a 2.3bn JOD (3.2bn US\$) deficit in 2015 (see Graphic 3). As such, Jordan is still far from achieving the type of export-led growth that might progressively release it from its dependency on financial assistance. Regardless of this, the IMF and World Bank continue to urge policymakers to promote “trade openness” (IMF, 2012), and to favor importation. Meanwhile, the country’s industrial capabilities have waned, along with its ability to finance its own development through trade.

Figure 3: Jordan’s balance of payments (million JOD) 1988-2015 (Ministry of Finance, 2016)



Meanwhile, the failure to ensure Jordan’s economic autonomy, such as by fostering its job-creating industrial sector, has contributed to the steady decline of the country’s job-creating capabilities, which dwindled from 70,000 a year in 2007 and 2008 to only 48,000 in 2015 (Department of Statistics, 2016). Accordingly, unemployment rates have remained high, particularly among youth and females. While current unemployment rates stand at 15.8% for the whole of the workforce, current estimates place youth unemployment rates at approximately 32-40% (Department of Statistics, 2016), which is above the MENA region average of 30.4% (World Bank, 2014). There are also stark differences between males and females—by the fourth quarter of 2016, 24.8% of female workers in Jordan were reportedly unemployed, to 13.8% of males (Department of Statistics, 2017).

Youth unemployment is tied to educational insufficiencies. Aside from the monumental challenge of education system-labor market mismatch in Jordan, young Jordanian graduates are generally perceived to possess skill levels which are add odds with their levels of education, in that employers are often dissatisfied with the knowledge and skills of young applicants. These impressions have been further corroborated by the Ministry of Higher Education and Scientific Research, which has recently concluded that the most recent graduates possess only half of the knowledge and skills expected from someone with their level of education (MHESR, 2016).

The gap between male and female employment in Jordan must also be looked at in the light of the much larger gap between male and female activity rates. By the fourth quarter of 2016, only 13.4% of Jordanian females of working age (15 or older) were



economically active, to 57.7% of males (Department of Statistics, 2017). This represents an enormous untapped economic potential, especially considering that Jordanian women are not only more educated, on average, than their male peers, but that they outperform them academically.

Simultaneously, the ever-increasing need for better and farther-reaching social protection has remained a largely unaddressed concern. Recently, it was found that 52% of Jordanians earned 565 US\$ a month or less, while only 56% of workers in Jordan were covered by the national social security system (Department of Statistics, 2012). Considering that informality is widespread, having accounted for 44% of the national workforce in 2012 (Department of Statistics, 2012), this means that nearly half of the population are not covered by social protection.

For those 44% of workers in the informal sector—a figure which may well have increased since 2012, the latest year for which official figures are available—the situation is even more precarious. Possessing no formal contract, they often earn below-minimum wages, do not enjoy adequate levels of occupational safety and health, and are vulnerable to arbitrary dismissals.

Informality, however, also presents its share of important challenges for employers and business-owners. In terms of the promotion of a favorable business environment, it is important to underline that, though they make up 99% of Jordan's private firms and employ 77% of the workforce, small and medium enterprises receive only 13% of the total value of commercial loans in Jordan (Schiff et al., 2015). In spite of this, in its most recent assessment report, the IMF expresses satisfaction towards the fact that “facilities for small- and medium-sized enterprises have been scaled up” (IMF, 2015).

The issue of social protection is especially relevant given the emphasis placed by the IMF and World Bank on the promotion of a business-friendly environment, which, among other measures, has included the facilitation of layoffs and the liberalization of trade policies, simultaneously impacting on the overall income of workers and on the level of job security they enjoy. These measures often come in the form of conditionalities tied to such loans as the 723 US\$ IMF loan to Jordan approved in August 2016, which hinged on the acceptance of numerous IMF prescriptions in the fiscal, monetary and structural policy areas. Once more, these conditions – similar in nature to the

ones which, as discussed above, constitute the IMF's unwavering liberal approach to addressing Jordan's struggles with high levels of debt and unremarkable growth – are expected to pose further obstacles to the advancement of socioeconomic human rights and sustainable development in Jordan.

Conclusions

While IMF and World Bank-prescribed policies have attempted to tackle Jordan's economic challenges, the country's developmental priorities have largely remained unaddressed. The insistence on the promotion of fiscal austerity, on the one hand, and trade liberalization, on the other, have often exacerbated Jordan's socioeconomic challenges, such as unemployment and poverty levels, while leaving the most vulnerable strata of the population without strong social protection mechanisms. In fact, as prices and taxes have been increased, so have the numbers of Jordanians classifying among the transient poor, in danger of falling below the poverty threshold. Meanwhile, Jordan's fundamental economic challenges have remained, as public debt continues to skyrocket and the country's budget deficit, balance of payment deficit continues to broaden significantly over the years. Accordingly, Jordan has grown increasingly dependent on foreign financial assistance in covering its still sizeable budget deficit.

The country's exporting sectors have failed to develop throughout the years, which has led to the progressive worsening of the national balance of payments deficit, and hindered job creation. This, along with other factors, such as a lack of harmony between the education system and the labor market, has translated into a failure to curb unemployment, which remains worryingly high, especially among females. Consequently, a lack of employment opportunities has pushed increasing numbers of workers into the informal sector, where wages are low and decent work standards are nearly impossible to enforce satisfactorily, thus leading to the deterioration of average working conditions in Jordan.

In light of what has been shown in the course of this paper, it is safe to state that the way in which Jordan has developed in recent years—under the close supervision of its foreign and multilateral partners—is unsustainable, as it does not provide the country with the means through which to progress towards greater financial and developmental autonomy.



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