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30 Years on, Has the IMF Helped or Hindered the Jordanian Economy?

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Abstract

In spite of the hostile external environment, Jordan has displayed resilience in maintaining internal cohesion in the face of adversity. The combination of the global financial crisis, energy crisis, closure of trade routes resulting to a de facto economic siege, Arab spring regional turmoil, increasing the cost of security, decreases in remittance and the rising oil and food prices have placed substantial pressure on the Jordanian economy and fiscal effort. As a result of the economic crises, Jordan encountered profound macro-economic and structural related issues as well as a severe balance of payments crisis.

In the past three decades, Jordan has adopted various reform programs in cooperation with the International Monetary Fund (IMF) in hopes of stabilizing its economy through neo-liberal policies (El-Said, Harrigan, 2009). This paper aims to determine the extent to which IMF programs contributed to Jordan's economic prosperity in tackling challenges in its macro-economy from 1989 to 2019. The IMF reform programs were supported under several stand-by agreements (SBA'S) and Extended Fund Facility (EFF) arrangements. This paper would discuss what the overall objectives of the reform programs were and whether they were relevant to Jordan's circumstances. Whether the IMF policies and processes worked in favour of Jordan's institutional dealings and if Jordan received preference from the IMF concerning their geopolitical considerations.

Key words: IMF; Jordan economy; 1980 crisis; World bank; Post Economic Crisis

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INTRODUCTION

The Hashemite Kingdom of Jordan is a small, resource-poor middle economy country with a population of 60million. It is strategically located in the centre of the Arab world, sharing borders with Saudi Arabia, Iraq, West Bank and Israel (Ahid & Augustine, 2012). Jordan's economy is characterized by its strong dependence on both global and regional aid; it is a labour exporting, oil-importing economy that has a limited industrial base (Pfeifer, 1999). The fate of Jordan is greatly influenced by political events in the region and the fluctuating oil market. Jordan's economy over the past charted expansionist fiscal policies or "bad habits" such as lavish subsidies for food and other primary commodities and creation of jobs in the over stamped public sector (El-Said, Harrigan & Wang 2014).

In spite of the hostile external environment, Jordan has displayed resilience in maintaining internal cohesion in the face of adversity. The combination of the global financial crisis, energy crisis, closure of trade routes resulting to a de facto economic siege, Arab spring regional turmoil, increasing the cost of security, decreases in remittance and the rising oil and food prices have placed substantial pressure on the Jordanian economy and fiscal effort. As a result of the economic crises, Jordan encountered profound macro-economic and structural related issues as well as a severe balance of payments crisis.

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ECONOMIC PROSPERITY IN THE 1970'S AND EARLY 1980'S

To comprehend the fundamental economic issues facing Jordan, it is essential to discuss the period after the 1973 Arab-Israeli War due to its enduring repercussions on the economy (El-Said, Harrigan & Wang, 2006). During this period, Palestinian refugees who were at the time residing in Jordan considered work in the surrounding Gulf states due to the lack of opportunities in Jordan, and this led to the first wave of exporting skilled workers to Oil-rich Arab countries (El-Said & Harrigan, 2014). In the 1980s almost one-third of the labour force was employed in the gulf leading to an increase in the inflow of remittance, which increased the private consumption to 8.8 % (1970-1980).

Following the war, the United States (U.S.) government coerced the Jordanian government to enter a peace treaty with Israel. This placed the late King Hussein at the time in an awkward position as half of his population were of Palestinian origin and directly or indirectly supported the PLO. The Palestinian community in Jordan also dominated the private sector, severing ties with the Palestinians would create uncertainty in both political and economic future of Jordan (El-Said, Harrigan & Wang, 2006). Therefore, a peace treaty with Israel would have been synonymous with political jeopardy. This motivated the U.S. suspending all aid revenue to Jordan as a consequence of King Hussein's political stance. Hence, it led to the reluctance of both the IMF and World Bank to enter Jordan. However, after the war ended, Jordan received financial aid from both the international community and regional states due to the political and economic conditions (El-Said & Harrigan, 2014). The wealth of the Oil-rich Arab states also contributed high levels of aid to Jordan, which compensated for the absence of American assistance. Simultaneously the demand for Jordanian industrial and agricultural exports in the region increased, more than half of Jordanian exports and imports were with the Arab countries. Jordan also imported its Oil from the region, which was its highest imported commodity, during the 1970's-1980' s it solely came from Iraq at a highly subsidized price (El-Said, Harrigan & Wang, 2006).

Additionally, Jordan, in the 1970s, strengthened its import substitution industrialization strategy (ISI) that commenced in the 1950s (Imai, 2012). The government introduced a range of protective measures comprising of financial incentives and high tariffs and non-tariff obstacles that were implemented to protect the domestic market from foreign competition to prompt domestic production (El-Said, Harrigan & Wang 2014). These protection methods were put in place temporarily in hopes to encourage new industries to mature adequately to face foreign competitors.

Despite the government's actions to increase its trade revenue, Jordan heavily relied on a massive inflow of external aid and remittances to manage its economy and meet the targeted growth rates. As a result of the inflow of aid and remittances during this period, Jordan generated strong economic outputs (El-Said, Harrigan & Wang 2014). The government was able to invest in both physical and human infrastructure; public spending also increased in the 1970s from 35.3% to 47% in the 1980s. As an outcome of the positive economic outputs, Jordan's economy performed strongly with an annual GDP increase of 11.6% and the unemployment rate reaching a low of 4.8% in 1982 (Assaf & Shteiwi, 2018). Jordan also observed improvements in areas such as an increase in literacy levels and access to education, a decrease in infant mortality rates, increase in life expectancy and advancements in physical infrastructure (El-Said, Harrigan, 2009).

While Jordan witnessed strong economic growth during this period, it is essential to consider specific characteristics that illustrated the Jordanian economy. First, despite the massive inflow of aid, the Jordanian government experienced large budget deficits, without aid the GDP ratio to the budget deficit would be 28.6% however, with the help of aid this budget deficit decreased to 10.8% (Jordan Strategy Reform, 2017). Second, the economy was also experiencing a growing trade discrepancy that surpassed the 50% GDP mark in 1980. The dependency on aid and remittances had clear negative implications such as trade and budget deficits (Jordan Strategy Reform, 2017). This made the Jordanian economy reliant on external outputs in which policymakers had little to no control off. This was the first of many external income shocks that soon pursued to control the growth dynamics of the country (El-Said, Harrigan & Wang 2014).

THE 1989 CRISIS

The 1980's collapse of the oil market significantly impacted regional economies as the sharp decrease in oil prices led to an economic slowdown. Jordan, as an oil-importing state to some degree, benefitted from the decrease in oil prices; however, confronted more significant challenges such as the decrease in remittances, investment and tourism revenue (El-Said, Harrigan & Wang 2014). Also, aid to GDP ratio decreased from 16.3% to 12.5% as Arab aid in the region was directed towards Iraq during the Iraq/Iran war. The decrease in oil prices also harmed the trade sector as the demand for Jordanian labour and products in the region weakened, and this led to a rise in unemployment in Jordan as many expatriates returned home (El-Said, Harrigan, 2009).

Additionally, despite the challenges of the external environment, the role of the Jordanian government further exacerbated the economic situation in the country. The government reinforced the protection of the local economy and avoided austerity measures advised by local economists (Jordan Reform Strategy, 2017). From the period of 1983 till 1988 the government implemented a range of expansionary policies centred on running down reserves and external borrowing. This led to the decline of reserves of the central bank in 1989 to a low of $68million, which resulted in a significant increase in budget deficits. In 1989, the public debt reached a high of 9.5billion US, and the government was unable to fulfil its foreign debt commitments (El-Said, Harrigan & Wang 2014). Although Jordan entered into formal agreements with the Washington based financial institutions in 1989, both the IMF and World Bank played a dominant role in pushing for the liberalization of the Jordanian economy during the mid-1980s. The government decided to move to a floating currency amid both political and economic instability despite the warnings that the circumstances at the time would lead to a financial crisis (El-Said, Harrigan & Wang 2014).

During this period, there was also the increasing tension between the late King Hussein of Jordan and Arafat of the PLO; they failed to reach a consensus on who would represent Palestine during peace negotiations with Israel. As a consequence, King Hussein resorted to an approach where he held secret corporations with the Israeli state (El-Said & Harrigan, 2014). This rifted ties with the Palestinian community residing in Jordan which predominately dominated the private sector as the negotiations with Israel and ties with Westbank created insecurity in their economic and political future in Jordan. Therefore, the Palestinian community immersed in taking their capital elsewhere and reduced their investment activities in the country, which further contributed to the declining economic situation. The following six months the Jordanian dinar lost 50% of its value, and the countries per capita income was halved; as a result, the Jordanian government was forced to resort to IMF and World Bank to fund public spending and reschedule foreign debt. Subsequently, the living standards declined rapidly, and the social impact of the economic downfall was severe (El-Said, Harrigan & Wang 2014). The government's commitment to equity and poverty reduction over the past decades were immediately reversed. Within a year the living standards of Jordanians almost halved following the fall of the dinar value, high inflation rates and slow economic growth (Alam, Inchauste & Serajuddin 2017).

IMF PROGRAM 1989-2004

In 1989 Jordan entered into the first formal agreement with the IMF and was granted 60million SDR in Standby agreements (Pfeifer, 1999). We can argue that the IMF's involvement in Jordan was not only an outcome of Jordan's dire economic situation but also its political circumstances including its negotiations with Israel and the West Bank and its attempts to liberalize the economy which was greatly influenced by Washington (El-Said, Harrigan & Wang, 2006). The reform programs initiated by the IMF was funded through three Extended Fund Facility (EFF) and two Stand- By agreements between the periods of 1989 and 2004 (Assaf & Shteiwi, 2018). The programs aimed to focus on stabilizing Jordan's macroeconomy and amending structural challenges facing the general budget, which was a significant contributor to the economic crisis of 1989. The IMF was to also improve Jordan's increasing external debt, the retreating foreign exchange reserves at the Central Bank and the increasing deficit in the general budget.

The stabilization programs introduced by the IMF started with a period of austerity measures, which included freezing public sector wages, salaries and employment, reduction of public expenditure, increases in taxes and cutbacks in subsidies (Yom, 2015). As speculated, this led to the rise in poverty and social instability. Riots started across the nation predominantly in the southern cities in which there was a higher population of the poor, as a response to the government's reform policies which were worsening already devasting living situations (Alam, Inchauste & Serajuddin 2017).

When measuring the three performance indicators set by the IMF during the period 1989-2004, we observed that Jordan failed to meet all three set measures. First, Jordan did not meet the targeted economic outputs (Assaf & Shteiwi, 2018). Second, inflations rates were lower than expected although government expenditure was increasing, and the Dinar was pegged to the U.S. dollar as part of the reform measures (Zeitun & Benjelloun, 2012). Thirdly, the fiscal deficit notably decreased in the early '90s due to severe reductions in government expenditure; however, total government expenditure did not decrease rigorously (Assaf & Shteiwi, 2018). The only positive reform to emerge from the general budget reforms was the establishment of the Open Food Assistance program which was aimed at assisting those most in need and which was later discontinued.

During the Gulf-War in 1991-1992 Jordan refrained from supporting the U.S. and its allies during the coalition against Sadam Hussein and remained disengaged from the regional conflict irrespective of its strong opposition against foreign intervention (El-Said, Harrigan & Wang, 2006). As a consequence, all aid flows to Jordan from the U.S. and its Gulf allies were immediately discontinued, including the suspension of the IMF agreement with less than half of the finance been disbursed (El-Said, Harrigan & Wang, 2006). Correspondingly, the government restored price controls and capital market, refrained from price increases of food items and instead increased food and petrol subsidies. It was only the end of 1992 when King Hussein expressed his alignment with the U.S. and its allies against Sadam the IMF reinstated the agreement and aid revenue was reimbursed. The period following Jordan's alliance with the Coalition Jordan had become one of the largest recipients of U.S. aid in the region and the IMF lending facilities. This is a clear example of how Jordan's foreign policy was severely influenced by the U.S. as long as IMF and W.B. were providing financial assistance.

The SBA agreements were renewed for a period of 12 months, and 4.4 million was allocated. However, the government only witnessed real growth in the year 1992, and this was not due to the reform measures set by the IMF, but rather external factors such as the returning expatriates during the Gulf War (Assaf & Shteiwi, 2018). This led to more investment in the country and as an outcome, an increase in export revenue. Also, during the Gulf War, Jordan experienced a large influx of Iraqi's migrating to Jordan, which positively contributed to the economy as it witnessed increases in investments and production rates.

Following the renewal of the IMF agreement in 1992, Jordan focussed its resources in meeting the conditions set out by the IMF to liberalize its economy successfully, and it did this through strategically reforming its public sector by introducing a civil service program. The purpose of the plan was to cease public sector salaries, wages and all-new recruitment initiatives (Assaf & Shteiwi, 2018). Various processes were conducted to rationalize and reform the trade sector, including the removal of price controls and bans on imports, reducing the limitations on import and reducing the tariff rate. Additionally, in 1994, a General Sales Tax (GST) was introduced, and it covered a broad range of services at a 10% rate. Furthermore, in 1995, the Dinar was pegged to the U.S. dollar and currency was convertible, and this led to the capital market successfully liberalizing by the end of 1996 (Pfeifer, 1999).

Succeeding the end of the IMF and Jordan agreement, the government continued with the majority of the structural reforms enforced by the IMF. However, the government recommenced food and petrol subsidies that were halted during the stabilization period and introduced income taxes that compensated for the expenses of the new subsidies (Alam, Inchauste & Serajuddin 2017). The country during this period witnessed positive developments in its micro-economy due to two factors; first the pegging of the US dollar reinstated trust in the Jordanian dinar, second, the demand for Jordanian services and products increased across the world (Jordan Reform Strategy, 2017).

POST ECONOMIC CRISIS

In 2011 the Jordanian economy was exposed to several external shocks after the global financial crisis. The severe impact of the financial crisis reflects Jordan's dependency on food and petrol imports that make it highly susceptible to fluctuations in regional economies (El-Said, Harrigan & Wang 2014). The fall in oil prices in the region led to an economic slowdown that in turn, affected tourism and expatiates revenue. Though the Jordanian banking sector was not affected by the crisis as it was relatively isolated from the global market due to structural changes implemented by the government (Alam, Inchauste & Serajuddin, 2017). The crisis could be described as a chain effect where the economic slowdown in the region influenced consumer behaviour in Jordan, as the decline in remittances and increase in oil prices impacted the purchasing power of Jordanians which as a result led to an increase in unemployment and poverty rates (Ahid & Augustine, 2012). The 2008 crisis also hindered the natural gas supply from Egypt following attacks in the Sinai region; the government increased the import of fuel to generate electricity to recompensate for the gas supply (Ahid & Augustine, 2012).

Subsequently, the Syrian war in 2011 had a substantial impact on the Jordanian economy as the large influx of Syrian refugees drained state resources such as health and education. Also, the increase in refugees led to a rise in inflation rates as the higher demand for food and services led to an increase in food prices and as a result, increase in food importation (Alshoubaki & Harris, 2018). Before the 2011 Syrian crisis, the government was aiming to reduce food importation to control the increasing food prices, but after the massive influx of refugees the government was unable to do so, and subsidies decreased (Alshoubaki & Harris, 2018). The war was also a burden on the trade sector as the transit routes to send good and services to Lebanon and Turkey were disrupted. This trade route generated 30% of imports and 11% of exports, disturbances of this trade route demanded Jordanian exporters find new trade routes (Alshoubaki & Harris, 2018).

As a consequence of the deteriorating economic situation in Jordan, the government pursued the IMF for a standby credit facility agreement to sustain fiscal and external stability (Assaf & Shteiwi, 2018). The aim of the SCF during the period between 2012-2015 was to first stabilise the macro-economy by carrying out a range of monetary and structural policies to reduce the external imbalances in regional markets (Assaf & Shteiwi, 2018). This was conducted by restoring state institutions such as the National Electric Power (NEPCO) to the state to ensure they gain recovery. Second, construct fair government policies that offer better outcomes and opportunities for those most vulnerable rather than those of high income. Third, promote economic prosperity in the medium term by pursuing structural reforms to improve the investment climate (Assaf & Shteiwi, 2018).

To sustain the macroeconomy during this period, the government reinstated the IMF fiscal policies and introduced cash transfers to eliminate or reduce subsidies due to raising the living cost (Yom, 2015). As an outcome of the elimination of subsidies, the government offered cash transfers for Jordanian families whose annual income did not exceed 12,000 JD and did not possess any real estate or two cars (Cobham & Dibeh, 2010). The government also initiated reforms in the pension and taxation systems, and as a result of these fiscal policies the government was able to partly achieve fiscal sustainability as the external and total debt ratios have decreased significantly (Zeitun & Benjelloun, 2012).

Although there was slight economic progress in restoring the external stability, the country failed to meet the targeted economic growth rates set by the IMF. During this period, Jordan's actual growth rate ranged between 2.5 % and 3.5 % however; the expected growth rate was set between 3% - 4.5%. (Assaf & Shteiwi, 2018). Also, Jordan's economy did not meet the targeted inflation rates, IMF expected decreases in inflation rated due to the rise in fuel prices in the year 2012-2013 however the inflation rate began to decrease only in the year 2014 (Assaf & Shteiwi, 2018). Furthermore, despite the total and external debt ratios reducing significantly, the economy did not reach the expected debt-to-GDP ratio anticipated by the IMF in the period ending 2015. This highlights that although IMF supported programs contribute to positive changes in the overall economy, specific outcomes set by the IMF are not attainable (Assaf & Shteiwi, 2018).

IMF PROGRAMS 2016-2019

In June 2016 Jordan and the IMF entered into another Extended Fund Facility agreement to address the existing economic challenges such as the countries fiscal imbalance and debt levels (Economic Policy Council, 2018). The aim of the agreement was to ensure Jordan executes several structural reforms in its macro-economy growth stimulation to raise 653 million USD in state revenue to stabilise the economy and enhance its competitiveness nature (Al-Katib, Abu Anzeh & Mansur, 2019). As discussed earlier the GDP grew at a 2.5 – 2% rate during 2011-2015 in comparison to the 2002-2010 average of 6.5%, which is the ideal growth rate for the economy to meet its market needs. The EFF objectives for 2016 was not significantly different from those of previous years. There were various structural procedures set out by the EFF during the period of 2016-2019 to reduce the deficit through both monetary and fiscal policies. In terms of economic growth, the set measures of the EFF were described to be more realistic and more achievable in comparison to previous arrangements, as the target growth rate for 2016 was 2.8% and the highest would be 4%. Furthermore, the tax reforms for this period included introducing a new income tax that would increase total tax revenue and stabilise public debt to 94% by the end of 2016 (Assaf & Shteiwi, 2018).

Reiteratively the government failed to achieve these measures as the debt reached 95.1% in 2016 and in 2018 it reached a high of 28%, and NEPCO was still recording losses. As anticipated increasing fees and energy prices during a period of weak economic growth would further decrease growth rate, and this resulted to cutbacks in government's revenue as individuals reduced their investment, consumption and production activities. The government predicted revenue following softening of EU policies for Jordanian exports that later failed considerably, investment prospects that came along with the signing of the Cooperation agreement with Saudi Arabia that was never really initiated and the reopening of trade routes with Iraq which did not accumulate much revenue (Al-Katib, Abu Anzeh & Mansur, 2019). Contrarily, the Jordanian government put into consideration the existing Syrian conflict and its repercussions on Jordanian institutions, the decline of trade, tourism revenue as a result of the instability in the region.

WHAT WERE THE IMPLICATIONS OF IMF PROGRAMS IN JORDAN?

Although the IMF programs are highly criticized by academic's, the public, professionals and political parties over the last 15 years Jordan has observed slight economic progress during the period of IMF involvement in restoring external viability, attaining macro-economic stability and transforming the economic structure (Assaf & Shteiwi, 2018). Additionally, public debt has decreased, while fiscal stability has been partially achieved. The IMF considers the replacement of food subsidies with cash transfers, the introduction of comprehensive income and consumption taxation and amendments in the pension system as areas of success (Assaf & Shteiwi, 2018). However, such reforms fail to acknowledge the social impact they endure on society and undermine social provisions; thus, by diminishing social welfare provisions, the IMF underestimated the most imperative forms of authority (Al-Katib, Abu Anzeh & Mansur, 2019).

Jordan's prolonged efforts in achieving economic success are often described as an IMF victory in the region or the "good pupils of the IMF" (Pfeifer, 1999). Contrariwise, Jordan's deep reliance on foreign aid resulted to blindly following IMF reform programs without any well-defined exit plans entailing how the country will convert these programs to coincide with their country's needs. Following the end of IMF agreement, the government's means of creating economic policies were greatly influenced by the IMF's former approaches rather than trying to establish policies that target its economic culture and mirrors the country's capacity and natural progression (Weaver, 2010). This is a clear example of how foreign aid contributes to the dysfunctionality of developing states as aid makes poor governments underperform.

Additionally, the governments lack of transparency when dealing with IMF programs is one of the biggest concerns of the public. The public is not engaged during the negotiating and designing of these programs (Al-Katib, Abu Anzeh & Mansur, 2019). There are no national dialogues or information transmission mechanisms put in place to engage the wider public. Hence, the IMF programs are established by IMF staff in reference to the country's national development plans with minimal participation from the Minister of Finance, who instead focuses his efforts in controlling what was implemented (Al-Katib, Abu Anzeh & Mansur, 2019).

Furthermore, the IMF policies focused significantly on increasing government revenue through the removal of subsidies and higher tax in the conquest of economic growth. The reform programs failed to comprehend how the population would adapt to these changes or how the private sector would cope with tax burdens in an already harsh economy (Al-Katib, Abu Anzeh & Mansur, 2019). The recent unemployment survey published in 2017 indicated that the unemployment rate was at 18.5% and was reaching a total of 36.4% for young people between 20-24, and 22.8% for degree holders. This showed that the reform programs failed to address the economic and social issues facing the younger population (Al-Katib, Abu Anzeh & Mansur, 2019). The IMF policies should have considered the future outlook for its policies during the initial stages of its involvement to help the Jordanian government implement the required institutions and policies changes to attain significant expenditure reforms.

It is also essential to discuss the political implication of IMF reform programs in Jordan, as discussed earlier in this paper, aid flow to Jordan has been subjective to the country's political position in regional politics (Al-Katib, Abu Anzeh & Mansur, 2019). There are extensive study and theoretical literature that explains the detriments of aid and the perception that aid allocation is broadly influenced by donor interest. Jordan is no exception to this analogy; many public and political figures discuss how the IMF reform programs coerce Jordan to comply with political concessions which are funded mostly by the Gulf countries and the U.S. (Al-Katib, Abu Anzeh & Mansur, 2019). This indicates that economic necessity is not the only factor that influences the scheduling of IMF loans and shift in foreign policy viewpoint such as the signing of the peace settlements with Israel is a good forecast. Hence, Jordan's geopolitical positioning in the region received preference from the IMF, despite Jordan not meeting the IMF's desired reform objectives as discussed above, this was tolerated by the IMF so it can maintain a strong foot in the region (El-Said, Harrigan & Wang 2014).

CONCLUSION:

To conclude Jordan may have achieved partial economic stability with the help of IMF in the last three decades, however the country still heavily relies on its neighbouring allies and Washington in solving its economic woes. Following 15 years of IMF involvement in Jordan the country still faces both fiscal and monetary volatility such as high debt and lower per capita GDP. The Jordanian governments lack of good governance in regard to economic issues such as low productivity, institutionalism, public debt and deficit still prevail to exist. The absence of strategic economic policy that would lead the decision-making process and focuses on the long-term vision rather than short-term plans is the reason why the country is failing to achieve desirable growth outcomes. If Jordan were to pursue a further IMF agreement it needs to renegotiate the agreement terms to ensure it meets the needs of its economy as the current IMF policies have led to lower incomes, unemployment, increase in crime and wider poverty. Furthermore, the IMF would need to put into consideration the internal and external issues that negatively affect the Jordanian economy before trying to annex Jordan to the global economy as this tremendously weakens the economy and exacerbates existing crises. Furthermore, IMF austerity programs would need to stress on social welfare as they bear significant implications such as deteriorating government-population relationships.

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