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The International Monetary Fund (IMF) Programs and the Jordanian Economy

Abdullah Ali Al-Masaeed[1] Prof. Evgeny Tsaregorodtsev[2]
[1]Ph.D student, Department of Economics and Finance, Mari State University, Russia, Part-time Lecturer, Faculty of Finance, Business and Management, Department of Finance and Business, Economics, Al-Al Bait University, Jordan, [2]Department of Economics and Finance, Mari State University, Russia

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Introduction

The economic crisis experienced by the Kingdom during the 1980s influenced the performance of several key economic indicators; real GDP fell by (11%) and inflation rose by (25%) in 1989, as a result of the balance of payments crisis that led to the collapse of the Jordanian dinar exchange rate. This crisis dates back to the early 1980s; the Kingdom followed several economic development plans and relied on financing for external loans and grants. With grants and foreign aid reduced in the mid-1980s, the government continued to work on structuring its expenditures and relied on foreign loans to finance the deficit recorded in the general budget. In 1987 and 1988, the government largely turned to internal borrowing to fill the budget deficit, in light of the Kingdom's inability to obtain the necessary external financing, which led to the depletion of the Central Bank's reserves of foreign currencies and the collapse of the exchange rate. In the light of these variables; Jordan has adopted several economic reform plans in cooperation with the IMF and the World Bank to restore macroeconomic stability by minimizing internal and external imbalances such as rising public budget deficits, debt ratios, current account balance of payments and restoring confidence in the Jordanian dinar.

Despite many external shocks to the Kingdom during the period (1989-2004), it succeeded in achieving some of the main objectives within these programs despite the slow momentum of economic reform, especially in the area of public finance. The period following the Kingdom's exit from IMF programs has seen a marked improvement in many macroeconomic indicators; the real GDP of the Kingdom grew by an average of 9.7% during the period (2005-2008) driven by increased global demand for Jordanian goods and services, and restore confidence in the Jordanian dinar after a peg to the US dollar in the mid-nineties. However, unfavorable regional and global economic conditions adversely affected the Kingdom's economic performance, especially after the impact of the Kingdom on the global financial crisis in 2009 and the subsequent events of the "Arab Spring", which affected the political and economic stability of many countries in the region, which affected the ways of land trade linking the Kingdom with the countries of the region, in addition to cutting off the Kingdom's supply of Egyptian gas after the revolution of January 25, 2011. Faced with these challenges, the Kingdom has adopted a national reform plan, in cooperation with the International Monetary Fund, in 2012 to address the imbalances that resulted from local and regional political and economic conditions. These goals were aimed at reversing the budget deficit and the current account to sustainable levels, reducing the volume of public debt and achieving total and sustainable macroeconomic stability[1].

Programs held by Jordan with the International Monetary Fund

Jordan has joined the International Monetary Fund in the sixties and specifically on August 29, 1952, and its share in the fund 343.10 million SDR (IMF Bulletin, August 2016). With success stories and failure stories, depending on the size of the state and the policy adopted by the International Monetary Fund.

This is the most important programs implemented by Jordan with the Fund.

[1] Mashaal, Z. (2019) Jordanian Journal of Economic Sciences, Volume 6, Issue 1, 2019, The Impact of the IMF Macroeconomic Stabilization and Reform Programs: Evidence from Jordan, p.1, Amman, Jordan

Table (1): Programs held by Jordan with the Fund since (1989-2004)[1]

Type of agreement	approval date	Expiry date	Duration of the agreement per month	The agreed quantity	Quantity withdrawn
Credit readiness	14/7/1989	13/1/1991	18	60	26.8
Ranking Reserve	26/2/1992	25/2/1994	24	44.4	44.4
Facilitating the extended fund	25/5/1995	9/2/1996	21	189.3	130.3
Facilitating the extended fund	9/2/1996	8/2/1999	36	238	202.5
Facilitating the extended fund	15/4/1999	31/5/2002	38	127.9	127.9
Ranking Reserve	3/7/2002	2/7/2004	24	85.3	10.7

Source: Dr. Mohammed Rashed, article published in the Arab Democratic Center on 17/6/2017, Impact of the IMF's Economic Reform Program in the Light of International Experiences and the Egyptian Case, p. 9, Egypt.

From this table it is clear that: Jordan has obtained three types of facilities provided by the monetary fund, namely: credit readiness, standby arrangement and facilitating the extended fund. These previous programs have targets that Jordan has been striving to achieve where it was about reducing the current account deficit at varying rates over the years and try to increase the volume of investment, and the provision of nearly three-quarters of savings, which was in facilitating the extension fund in 1994, in addition to correcting the genera financial situation of expenditure.

First Economic Correction Phase (1989-1998)[2]

In the stage of economic correction in Jordan, which followed the severe economic and financial crisis faced by the Kingdom represented by the crisis of the exchange rate and the worsening situation of external indebtedness and budget deficit, in 1989, Jordan introduced the first economic correction program covering the period 1989-1993. But the work of this program did not last for more than 15 months, as the country was negatively affected by the crisis of the second Gulf War. Jordan then resumed its negotiations to conclude a new agreement for a second correction program (1992-1998) aimed at resuming the process of rectifying the economic situation through an integrated package of financial, monetary and trade policies and exchange rate policies and sectorial policies, at the forefront of these policies is the public debt management policy, the program came to solve many problems, including: the external debt crisis, and restore internal and external financial balance through the rescheduling of external debt and the adoption of ceilings for new external borrowing and to focus on the new borrowing conditions being easy , and correcting imbalances accumulated over previous years.

Although macroeconomic indicators during this phase show the success of these reform efforts in reaching a successful macroeconomic management policy based on the gradual containment of fiscal deficits and the application of a broad system of structural reforms, unemployment and poverty rates remained relatively high, average per capita income also saw modest growth, and despite the significant reduction in external indebtedness and the budget deficit, these indices remained at high levels.

During this period, the economy achieved moderate growth rates. The average annual growth rate in GDP at current prices was 9.2% and fixed prices were 2.9%. This corrective program continued until 1998, the World Bank renewed the duration of the program for a second period extends from (1998-2004) this was the last and final period in which the program was implemented in an understanding with the International Monetary Fund.

The former Minister of Finance, Mohammed Abu Hammour, the existence of political and social conditions that would prolong the period of application of the program more than planned, and he was also

[1] Rashid, M. (2017) article published in the Arab Democratic Center , the impact of economic reform programs of the International Monetary Fund in the light of international experience and the Egyptian situation, p. 9, Egypt.

[2] Al-Masaeed, A. (2012) Unpublished Master Thesis, Al-Bayt University, The Impact of Financial Policy on Economic Growth in Jordan, p. 136, Mafraq, Jordan.

mentioned that one of the reasons for resorting to this program was the difficulties and challenges faced by the Jordanian economy and was summarized by the existence of two gaps suffered by the Jordanian economy, the first internal gap is the difference between domestic revenues and public expenditures, this is usually expressed in the budget deficit. The second is an external gap, which is the difference between cash flows into and out of the economy expressed in the balance of payments deficit[1].

At this stage Jordan has implemented two development plans

First: The five-year development plan (1986-1990), which was one of the main objectives of achieving a reasonable economic growth of about (5%), depending on the obstacles and difficulties experienced by the Jordanian economy at the time, including the decline in oil prices globally and the reduction of remittances of workers abroad.

An annual GDP growth rate of (5%) requires the implementation of an investment program of KD 3.1 billion at current prices. This strategy has relied heavily on the private sector, private sector investments were expected to reach KD 1.5 billion, mostly in agriculture, industry, housing, transport and construction[2].

One of the most important objectives of the five-year development plan (1986-1990):[3]

• Achieve economic growth of about (5%).

• Increase employment opportunities so that the plan provides about 1200 thousand jobs in order to anticipate an increase in population due to the natural growth of the population and because of the return of expatriates from neighboring countries.

• Increase domestic savings by trying to reduce consumption by GDP.

• Increase domestic revenues and rationalize current government spending, thereby improving the utilization of available resources.

• Distribution of development gains between different governorates.

Second: then came the second five-year plan at this stage and lasted from 1993-1997. This plan came a little later, because of the second Gulf War, in which Jordan, according to the United Nations, was considered the most affected after both ends of the war Kuwait and Iraq.

One of the main objectives of this plan is to achieve economic growth in GDP at an annual average of 6% and to reduce the deficit in the general budget to more than 5% of GDP, The reduction of public debt from 141% of GDP for 1992 to about 100% of GDP, and reducing the unemployment rate, all of these goals were aimed at achieving financial and monetary stability and the prospect of real growth.

As for this period, and specifically in 1988, the spread of depletion of foreign reserves in the country and the spread of expectations of the near devaluation of the exchange rate, this led to the disposal of the balances of the Jordanian dinar and significantly and the capital preferred to emigrate abroad and all this put great pressure on the dinar exchange rate, which led to the Central Bank of several actions, including: The closure of exchange shops and the prohibition of importing some luxury goods for one year starting in 1989.

However, this has led to instability and then the depletion of dollar balances with the Central Bank by the end of 1988 resorted to the declaration of floating dinar which led to a decline in confidence and yielding under the weight of speculations, which led to the loss of the Jordanian dinar about 50% of its value[4]. As a result of these circumstances have been resorted to external borrowing and try to schedule debt and these attempts led to the imposition of the first correction program and this convinced some countries and international institutions to give Jordan the facilities, loans and assistance it needs to end this crisis, which has hit the Jordanian economy.

And that this corrective program that Jordan has undergone is not new. There are 46 developing countries that preceded Jordan and implemented such a program, some succeeded and some failed to overcome their crisis, this is due to the availability of the national will in the completion of the correction and follow the policies and decisions that will make the program successful and enable it and achieve its objectives, but Jordan has a practical experience with this program, Jordan applied the first correction program in 1989 for 15 months but stopped because of the Gulf War as we mentioned earlier and the Jordanian economy achieved a great success in this important era, in the amount and speed of what any other economy achieved in similar circumstances, but the exchange rate crisis also led to the suspension of the program[5]. An IMF statement in 1996 which represents the official view of the reforms carried out by Jordan: Jordan continues to make impressive progress under the reform and structural adjustment program, the Jordanian economy has recorded a high rate of economic growth, low inflation rates and increased foreign exchange reserves. Thus, the economy is poised to

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[1] Jordan New Center for Studies, "Public Finance under the Liberalization of the Jordanian Economy Challenges and Prospects" Proceedings of the panel discussion organized by the Jordanian Forum for Economic Development, Marmara Hotel Hall, Dar Sindbad Publishing, Amman, 25/6/2001, p. 10.

[2] Mustafa Hamarneh, "The Jordanian Economy Problems and Prospects," Center for Strategic Studies, 1946, pp. 78-79

[3] Ministry of Planning, Jordan, "Economic and Social Development Plan (1986-1990)", National Printing Press, Amman, pp. 83-91.

[4] Mustafa Hamarneh, (1994) "The Jordanian Economy Problems and Prospects," Center for Strategic Studies, p. 126

[5] Fahd Al-Fank, "Economic Correction Program 1991-1998", Fahd Al-Funk Foundation, First Edition, 1992, p. 19

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move ahead with higher economic growth, increased employment opportunities and better living[1]. Economists in Jordan agree on the reasons for going to the Fund. And the most important of these reasons:[2]

The first reason: The Jordanian economy is unable to meet its external debt obligations of about 1.3 $ billion annually. Therefore, he needed to reschedule his debts with a long grace period. He also had high hopes for a maximum interest rate cut and maximum exemption from his loans. All this is not possible without the support of the International Monetary Fund and his testimony to creditors that Jordan adopts a program to correct the economy and is committed to implement it seriously.

The second reason: The Jordanian economy suffers from certain imbalances that it had to deal with their adjustment and treatment, in order to avoid new financial and economic crises, that is, regardless of the directives of the International Monetary Fund. These imbalances are budget deficit, balance of payments deficit, and consumption overruns to the level allowed by Jordan's own resources.

The most important objectives of the reform program which has been negotiated and agreed between the Jordanian government, the International Monetary Fund and the World Bank, are divided according to the following policies:

1 - Financial policy: One of the most important objectives taken in the field of fiscal policy[3]:

• Increasing local revenues to the Treasury faster than GDP growth, rising from 26.5% in 1998 to 30.0% in 1998. This is through a number of actions:[4]

A - Raise the efficiency of tax collection and prevent smuggling of tax and increase the consumption tax on various goods and subject new goods to this tax.

B. Expanding the income tax base by reducing the volume of tax exemptions, thus increasing the contribution of direct taxes in the domestic revenue stream.

C- Increasing the prices of fuel, leading to stopping the support to achieve more revenues for the state treasury.

• Adjust public expenditure to increase annually but less than the growth rate of GDP, therefore, it decreased from (4.44%) of GDP in 1991 to (0.35%) in 1998. This was achieved by:

- Reducing the volume of government subsidies for commodities by directing them to eligible groups.
- Restriction of emergency expenditures and extra-budgetary expenditures of the central government.
- Reduce the rate of growth of workers in the public sector, and maintain the low real wages in the public sector.
- Reducing subsidies to government institutions through their financial restructuring and to achieve financial independence by increasing the prices of its services to cover the real cost.

2- Monetary policy: Monetary policy aims at stabilizing the Jordanian dinar exchange rate and curbing inflation by adjusting interest rates on deposits in local currencies, thus raising savings rates and encouraging external financial flows. As well as control the growth rate of credit to the public sector to ensure the needs of the private sector to finance its investments, as well as restructuring weak institutions in the banking system to help achieve monetary stability.

3- Trade policy: The economic adjustment program aims to reduce the balance of payments deficit through substitution policies and domestic demand-restraint policies. In the view of the correction program that the future of economic growth lies in increasing the ability to export goods and services, Increasing the production base to export and find new export outlets. Emphasis should be placed on small and medium transformative Industries to increase Jordanian exports, and agricultural exports would be scarce due to water scarcity.

4- Exchange rate policy: The program aims to implement a flexible policy of exchange rate of the dinar. This policy includes the failure of the government to take any measures to maintain the exchange rate through the restrictions on foreign trade or installment payments and servicing of external debt or the use of foreign currency reserves, except through joint consultation with the International Monetary Fund (IMF), and after reviewing the level of export performance and the country's foreign exchange reserves.

5- Sectorial policies (structural reform): Sectorial policies are prominent within the IMF-supported correction program policies. In all sectors, agriculture, energy, or other sectors, the policy was to phase out subsidies on these sectors in order to increase their efficiency and guide the consumption of others, all this is a prelude to privatize it.

6- The establishment of a general framework for foreign debt policy by setting a top ceiling for external borrowing and away from small and medium-term loans and that the Jordanian economy at the start of this

[1] IMF.1996, IMF statement on Jordan by Mohamed EL-Erian, News Briefe 96/95, 21 August 1996.available online: www.IMF.org/extermal/np/sec/nb/1996/NB 9605.HTM
[2] Fahd Al-Fank, "Economic Correction Program 1991-1998," op. Cit., P. 7.
[3] Ibid., P.9
[4] Mohamed Mahmoud Al-Syriani, "Unemployment in Jordan", unpublished research, Department of Geography, Yarmouk University, Irbid, p.13

program should not have the benefits or old installments of these loans and try to schedule these loans in order to alleviate the burden of external debt.

7- Protection of affected groups: The implementation of this program has negative repercussions on the social groups, especially in the early stages, the most important of which is the high level of prices, and the low standard of living accordingly. The rise in the general level of prices leads to an increase in the prices of consumer, capital and intermediate imports, this leads to higher prices of locally produced goods, in addition to rising commodity prices as a result of the shift of government support.

To address these negative impacts on low-income populations, the program included a number of measures, including:[1]

• Maintaining the support of some commodities and direct them towards the poor and low-income sectors.

• Increase the resources available to the Development and Employment Fund and similar institutions to create new entry.

• Opening new projects to rehabilitate and train young people to join the labor market, reduce unemployment and increase income for poor or low-income families.

• Develop a program for small industries and try to support them.

• Increasing salaries and wages of the public sector, but less than the increase in the general level of prices.

Conditions for obtaining a loan (1992-1998)

Of the policies imposed by the Fund on Jordan:

- The increase in indirect taxes, which led to the increase in most of the cost of most commodities.
- Decreased government expenditure on services.
- Lift all forms of subsidies on domestic production and national exports.
- Liberalizing internal trade and removing customs barriers to facilitate the flow of foreign goods.
- The state abandons the direct contribution to the completion of economic development projects and the provision of facilities for foreign investments.
- Privatization of public sector institutions.

These policies have left severe economic and social consequences for the poor and middle-income countries, and have led to poor living conditions for the vast majority of the country's citizens, these policies also contributed to the deepening of the economic crisis and the increase in unemployment. By 2000, Jordan had joined the World Trade Organization (WTO) and a free trade agreement with the United States of America was signed one year later.[2]

Second Economic Correction Phase (2012)

Jordan has only reached the increase and exacerbation of the government deficit; however, in the last half of 2012, challenges have increased at the macro level of the economy, as the pressure on the fiscal accounts increased due to high oil prices. Jordan was forced to import fuel at high prices, lower grants at the expected level and increased expenses due to the hosting of Syrian refugees as well as increased pressure on the balance of payments where expensive fuel imports have increased because of the repeated sabotage of the gas pipeline, and then the increase in the percentage of losses of the electricity company and then reduced reserves of the Central Bank this has become more damaging as the dollarization process has increased as a result of the prevailing tension in the country as well as the decline in the proceeds of tourism and remittances of workers abroad and then all of the above exacerbated the crisis and external indebtedness.

As a result of the above[3]: growth slowed considerably and weak investor confidence, and the size of the external current account deficit widened, including grants, expanded to (12%) of GDP in 2011 instead of (7%) in 2010. In response to the crisis, the national government adopted a national reform program in May 2012 to achieve its objectives. Jordan has asked the International Monetary Fund for financial assistance in accordance with the 36-month credit agreement aimed at improving the prevailing financial conditions, removing imbalances and improving growth[4]. This credit allows Jordan about 2 billion US $[5].

The following table shows some economic indicators: inflation, unemployment and GDP growth.

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[1] Mahmoud al-Syriani, "Unemployment in Jordan," op. Cit., P.15
[2] Journal of the seventh day, Wednesday (10/8/2016)
[3] Bulletin of the International Monetary Fund (3/8/2012)
[4] Jordan, a Program Note by monetary fund
[5] Press Release No. 275/12 July 25, 2012

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Table (2): inflation, unemployment and GDP growth

year	GDP growth	Unemployment	Inflation
1983	1.9	–	5.02
1984	8.6	–	3.8
1985	3.45	–	2.9
1986	7.01	–	0
1987	2.89		-0.2
1988	-1.8	–	6.6
1989	-13.4	–	25.7
1990	97.	–	16.1
1991	1.82	15.4	8.15
1992	18.6	17.5	3.9
1993	4.6	19.7	3.3
1994	4.9	18.3	3.5
1995	6.1	14.6	2.3
1996	2.08	13.7	6.5
1997	3.2	11.8	3.03
1998	2.9	12.5	3.09
1999	3.4	11.5	0.6
2000	4.2	13.7	66.
2001	5.2	15.8	1.7
2002	5.7	16.2	1.8
2003	4.1	15.4	1.6
2004	8.5	12.4	3.3
2005	8.1	14.9	3.4
2006	8.09	14	6.2
2007	8.01	13.1	5.3
2008	7.2	12.7	14.9
2009	5.4	12.9	-67.
2010	2.3	12.5	5.01
2011	2.5	12.9	4.15
2012	2.6	12.2	4.5
2013	2.8	12.6	4.8
2014	3.09	11.1	2.8

Source: World Bank, http://databank.albankaldawli.org/data/home.aspx

By looking at the previous table it is clear that:

- The growth in the previous year of the first loan was so low that it was negative, despite the marked increase in inflation. This is due to the increase in Jordan's accumulated deficit in addition to the Kingdom's tendency to make a development based on external borrowing in 1989.
- There has been a noticeable and temporary improvement in growth in the years following the loan to the state's tendency to get out of the crisis but inflation is still high due to the implementation of the policies of the Fund from the increase in indirect taxes, which led to higher prices of most commodities.

- The improvement in growth and non-real inflation continued until we reached 1992, i.e., its second loan, and then the implementation of the policy of the privatization and liberalization of trade, as well as the return of labor from abroad following Iraq's invasion of Kuwait and the unemployment rate then rose significantly and he continued to rise for a long time.
- In the recent period, the crisis has increased on Jordan, especially the oil crisis and its high prices, accompanied by a drop in foreign grants alongside Syrian refugees, which led to the return of the rise in inflation again.

Third Economic Correction Phase (2019)

This stage does not have sufficient data, but what we can say is that at this point it was agreed with the International Monetary Fund to give Jordan a loan of 1,200 billion and two hundred million this is without difficult conditions, according to the current Jordanian government. However, it is clear to the experts that the conditions are very difficult, including a significant increase in income tax, an increase in electricity and water prices by 40% and an increase in the interest rate on loans by the central bank.

The Jordanian government has stated that this loan will be directed to the repayment of bad debts.

In summary, the improvement in Jordan is a temporary and temporary improvement of the loan due to external factors such as the crisis of the Syrians, or even the war between Iraq and Kuwait, as well as internal factors due to the increase in indebtedness, due to the fact that the policies adopted by Jordan were not favorable and did not achieve development Sustainable development.

Recommendations:

1. States should require the International Monetary Fund (IMF) for long-term loans to enable them to establish development projects rather than short-term loans, which are often used to finance interest on debt.
2. States should request the Fund to facilitate its conditions.
3. Borrowing States shall issue investment laws that include incentives and guarantees for projects for youth.
4. The Fund should take into account the poor classes when setting its conditions, which is to increase taxes, cancel subsidies and reduce government spending.
5. Countries should use the loans optimally so that the loan can be repaid from the returns of the investment projects.
6. Plan to attract foreign investments through an investment map, including the comparative advantages of each geographic region, giving Jordanian exports a significant value that will contribute to supporting growth of GDP and thus creating jobs.
7. The Jordanian government must be aware of the importance of reform plans and is based on its implementation quickly and vigorously and from these reforms:
8. Encourage growth rates, reduce the budget deficit and government debt.
9. Create jobs and strengthen the social protection network during the reform process.
10. Increase the efficiency of the money market and reduce inflation.
11. Reducing public debt levels from 98% to 88% in 2019-2020, through increasing revenues, rationalizing spending and prioritizing investment in infrastructure.

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