When I joined the Ministry of Finance in November 2019, I naively thought that our biggest challenge would be getting the budget through Parliament (it was in fact no small feat). Our relationship with the IMF, with a stagnating Extended Fund Facility (EFF) program, also left much to be desired. We believed that after these two issues were resolved, it would be smoother sailing. Little did we know. By March 2020, we had passed the budget and had a fresh EFF program built on completely different principles. In this homegrown program, we aimed to widen the tax base instead of raising marginal tax rates. We also intended to instill discipline over our primary deficit, but not at the expense of safety nets or growth. Few people initially believed we would succeed; even fewer did when we were hit with three consecutive “black swans”: COVID-19, the Russia-Ukraine crisis, and global stagflation.

Today, Jordan’s macro-fiscal and monetary stability is acknowledged by all major credit rating agencies. Moreover, Jordan’s April 2023 Eurobond issuance was six times oversubscribed. We still have a long way to go, but it’s worth taking a look at how we got here.

Back in academia, we debated the fiscal paths and structural frameworks proposed by the IMF. For policymakers, however, managing fiscal risk is not about neat mathematical equations or econometric models; it is about the political economy of owning reforms and tailoring them to your country’s circumstances. I’ll first elaborate on how we strove to do that, then examine what this process revealed about the flaws of international financial institutions and what might be done to rectify them.

Reclaiming the reform momentum

First, we stopped relying on packaged prognoses and instead did our own evidence-based analysis in 2018 and 2019. After a deep dive into the causes of our fiscal challenges, we looked at which reforms would help achieve equitable macroeconomic stability. Previous shocks from the region, which amounted to 44 percent of our GDP, drove up our deficits and debt. There was a significant fiscal impact from...
these shocks, including closing our borders because of conflict in neighboring states, a disrupted energy supply, and an influx of Syrian refugees comprising 20 percent of our population essentially overnight. But when we stepped back from the pressing need for ad hoc measures, Jordan could identify the virtuous intersection of progressively widening the tax base, enacting countercyclical pro-growth reforms, expanding targeted safety nets, and managing debt service. Our new evidence-based path built credibility with the IMF and allowed us to challenge the standard approach of indirect taxation, subsidy cuts, and reduced procyclical expenditures.

Our approach was a feasible yet ambitious overhaul unique to Jordan. On the revenue side, we tapped into the virtuous intersection of progressively widening the tax base, enacting countercyclical pro-growth reforms, expanding targeted safety nets, and managing debt service. Our new evidence-based path built credibility with the IMF and allowed us to challenge the standard approach of indirect taxation, subsidy cuts, and reduced procyclical expenditures.

The second step was to build trust by generating results. The revenue mobilization strategy is bearing fruit: in 2022, Jordan had met its income tax target for the first time in years. We focused on improving the efficiency and equity of revenue collection. We closed tax loopholes via legislative changes such as transfer pricing, unified the tax administration throughout the country, cracked down on tax evasion, and unified tax rates to limit arbitrage across multiple categories. On the expenditure side, we sharpened targeting while expanding safety nets, attempted to pay back arrears, and boosted capital expenditure for the first time in years.

The third step was to build trust by generating results. The revenue mobilization strategy is bearing fruit: in 2022, Jordan had met its income tax target for the year by August; in the first quarter of 2023, domestic revenue rose 9.1 percent year over year, driven mainly by taxes on income and profits. The country’s fiscal discipline in 2022 yielded a primary surplus of 10.2 percent of GDP, thanks to higher-than-expected domestic revenues. To say the plan was perfectly executed would be inaccurate, but instead of raising rates on the average citizen, we ensured that those who could afford to pay taxes paid their fair share. The revenue benefit was tangible, as was the greater social stability that followed.

It is an example of good policy being good in itself—and growing more effective the more progressive it becomes.

The third step was flexibility and focus on the big picture. Within the Ministry of Finance, macroeconomic stability remains our key goal, but context matters, and context is malleable. For example, our IMF program was one of the first with a built-in COVID adjustor and other adaptive features. As a result, Jordan achieved its EFF program targets ahead of schedule, in June 2023.

Surviving within this global system, however, is not the same as thriving—Jordan faces many ongoing challenges. For instance, rising global interest rates mean that our gains on income tax revenue go toward the rising cost of servicing debt instead of improving public services. I believe the onus is on the IMF to continue its leadership position of adapting the financial system to global changes. Here are a few suggestions.

**Setting benchmarks for the IMF**

Our international financial institutions rose from the ashes of World War II. Their very premise is therefore reactive, not preemptive. These institutions often mobilize resources for a country only once a shock has occurred, leading to knee-jerk firefighting, not structural measures that preventively enhance resilience. Governments tend to provide aid after the middle class has fallen into poverty rather than working to prevent it; emerging markets need tools to navigate risks preemptively, which is more cost-effective than dealing with the aftermath.

**First, the IMF should add preventive tools to its roster.** Jordan’s recent experience shows what can happen if this practice is encouraged on a larger scale. At the onset of the pandemic, the directives of His Majesty King Abdullah II, we avoided the post-COVID global food supply and demand shocks most countries experienced by ensuring investment in better wheat storage facilities and reserve buffers. As a result, we averted some of the expensive repercussions of the Russia-Ukraine war and other price fluctuations. Moreover, we included an adjustor for unforeseen pandemic expenditures and were able to expand spending on vaccination and treatment. The IMF should systematically embed such adjustors in its programs.

**Second, if international financial institutions stand behind globalization, they must provide buffers against globalization’s challenges.** We cannot assume that an unequal global system will miraculously spread the spillovers and costs of conflicts equally; we must pursue global solutions. As IMF Managing Director Kristalina Georgieva reminded us, “War in Ukraine means hunger in Africa.” Yet resources are not mobilized in a way that balances need and availability.

**Third, economy-wide stability is a prerequisite for household-level stability—but that alone does not guarantee it.** Governments should take a more proactive approach to ensuring that the middle class has better, more affordable buffers, as opposed to expanding social safety nets following a crisis. Consider, for example, rising home mortgages, which put the squeeze on families. This must be remedied before we see widespread defaults.

**Fourth, international financial institutions must be the world’s apolitical institutional memory.** As governments change, these institutions must keep reminding the global community of pressing, unresolved challenges before shifting resources to the crisis du jour. The international community should not abandon the Syrian refugees residing in Jordan just because headlines turn attention elsewhere. Jordan is left with a financial penalty for providing a global public good.

**Last, the IMF must empower countries’ ownership of their reform agenda, as it did with Jordan.** In our case, equitable, progressive fiscal policies, when we were able to implement them, worked. It is not ethos, nor is it theory. The fairest policies—those that favored national interests over individual private interests—proved the most fiscally viable as well.

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