

CHAPTER - II

ECONOMIC DEVELOPMENT AND SECTORAL BANK LENDING

(A) Historical Perspective

As a consequence of World War I the Emirate of Transjordan came into existence, and the country achieved its freedom on May 5, 1946. Since then, it has been known as the Hashemite Kingdom of Jordan (HKJ). The palestinian war of 1948 had its serious effects on the region. Israel occupied some portion of palestine and the remaining palestinian territories in the hands of Arabs and the same were annexed, with the kingdom of Jordan in 1950. In 1952, the constitutional frame work was created. As a result the Jordan emerged in its present constituency form.

Jordan has 97,740 square kilometers, out of this 7,555 square kilometers cover the area of the Dead sea, 84,535 square kilometers the area of the East Bank and 5,650 square kilometers the area of the West Bank¹. The large portion of its land area was desert.

At the end of 1947 the population of Jordan was 375,000². The war of 1948 inducted 350,000 palestinian refugees out of which 280,000 settled in the West Bank and 70,000 in the East Bank. Between 1948-50 the population of Jordan was tripled but the area remained static. Approximately 45 per cent of population of Jordan is below 15

1. The Federation of Arab Chambers of Commerce, Industry and Agriculture Economic Development in the Arab Countries 1950-65 (Beirut : Albain Press 1967) pp.7-8.
2. The economic development of Jordan published for the International Bank for Reconstruction and Development By the Johns Hopkins Press, Baltimore 1957, p.49.

years of age. One third of labour force is engaged in agriculture. The country has limited natural resources. The phosphate and potash have been the most significant discovery.

The economy of Jordan has been characterised³ by the following main features.

1. Growing population;
2. Low per capita income;
3. An agrarian character;
4. Heavy reliance on foreign aid;
5. Low productivity of land;
6. Heavy dependence on rainfall for agricultural production;
7. Scarcity of natural and capital resources;
8. Low level of education;
9. Problem of unemployment;
10. Lack of proper administrative machinery to initiate the developmental process,
and
11. Chronic Trade deficit.

The above brief survey of the economy highlights that the Jordan is a developing economy. The Government introduced developmental planning to achieve a high growth rate in domestic product (GDP), modernised its infrastructure, started a number of manufacturing industries, and introduced agriculture

3. Jordan Development Board Seven Years Plan for Economic Development of Jordan 1964-70 (Jerusalem : The Commercial Press)

and irrigation projects. In addition to this, a number of developments have taken place in the areas of education, health, housing, cultural, banking and administrative set up.

Jordan has undoubtedly, made a substantial economic progress through its developmental planning. Therefore, let us outline the stages of its economic development. The principal stages of its developmental planning are summarised briefly as under.

The various stages have been characterised by fundamental changes that have resulted in expanding the scope and prospects of future development.

The developmental process itself moved from planning for single projects in the fifties to comprehensive economic programmes in the sixties.

The seventies and eighties witnessed the emergence of socio-economic plans on a national level.

During the years, 1952-1966, prior to the Israeli occupation of the West Bank, the Jordanian economy achieved substantial growth inspite of limited resources and an increasing defence burden.

The period 1967-73 was characterised by economic recession on account of regional political and security considerations.

During the years 1973-80, there was an unprecedented growth rates. It continued even during the first two years 1981 and 1982, of the five year plan of 1981-85. Due to acute economic crisis the planning was abandoned in the late 1988.

The present plan comes after four years of interruption in the planning process during which the Economic Adjustment Programme (EAP) for the period 1989-93 was launched. Due to Gulf crisis in the second year, it produced the negative effects on Jordanian economy.

During the years 1992-98, an amendment programme was launched for achieving higher economic growth, monetary and Fiscal stability and for removing macro economic imbalances in the Jordanian economy.

Jordan's earlier plans were projects and investment programmes. The present plan has a package approach to integrate socio-economic policies. The previous plans had government control on economic matters and a major role was played by the public sector in the investment programme. The current plan aims at providing a greater role to the private sector in the direction of investment, augmentation of production and in creation of employment opportunities.

(B) Development of Financial Institutions

• The Central Bank of Jordan (CBJ)

The development of industrial sector, agricultural sector, and the financial sector, along with the creation of infrastructural facilities facilitates the development of an economy. The industrial sector, agricultural sector and the infrastructure sector are the backbone of an economy. The financial sector is the key sector in the economy. The financial sector, plays a vital role in promoting the planned development of these sectors

as it facilitates the efficient payments system. The Central bank has the crucial role in developing the financial sector, in any economy. The Central bank is the highest monetary authority of an economy. In fact it is a premier financial institution of the country. The Central bank of Jordan (CBJ) has chiefly contributed to the planned economic development of Jordan by developing suitable financial institutions, directing the flow of required credit into the productive channels, maintained required money supply and created suitable climate and framework for monetary policy. The suitable fiscal policy of the Government helped the execution of plans and thereby contributed to the rapid economic development of Jordan. However, the present structure of the financial sector developed by the Central Bank of Jordan has its unique character. Therefore, let us briefly examine the historic development of the Central Bank of Jordan and then relate its role to the present evolvement of the financial sector and the overall economic development of Jordan.

Prior to 1959, the commercial banks were not subject to any law. But in 1959, to control the commercial banks, a law was published in the official Gazette⁴. The authority to issue licences was entrusted to the Minister of finance. The licences were issued to the companies which have registered under company law in Jordan. The Minister was empowered to ask the required informations before granting licence in the public interest. The minimum capital required was 250,000 J.D. for local banks and the equivalent of 500,000 J.D. for foreign banks. However, the foreign banks were asked to keep not less than the equivalent of 150,000 J.D. as working capital for its branch in Jordan⁵.

4. Official Gazette, No. 1413, February 14, 1959, p.161.

5. Control of Banks Law, Article 3 and 4.

The granting of credit to customers is regulated under article six of the law. Bank shall not grant credit or guarantee to any customer for more than 20 per cent of its paid-up capital and reserves. But the Minister of Finance was empowered to raise the limit to 50 per cent of capital and reserves. The banks were not allowed to grant credit against the security of their own shares and also of the members of the board of directors. The bank employees were entitled for credit upto half year's salary. The banks were not allowed to engage themselves into wholesale, retail, export and import trades. The commercial banks were restricted to advance upto 15 per cent of their paid-up capital and reserves to any financial, industrial and agricultural undertaking.

The article 10 of the law relates to the minimum of specified liquid assets to be maintained by the commercial banks. The provisions were there for inspection, follow-up and external audit for maintaining sound banking practices.

The commercial banks are allowed to pay dividends, after all capitalised expenditures⁶ have been completely paid off.

The law of 1959 was ineffective in application on account of absence of the 'Central Bank' in Jordan. Therefore, the Central Bank of Jordan was started on 1st October 1964 and the Central Bank of Jordan (CBJ) started its operations on the same day of its establishment. The Central Bank of Jordan (CBJ) replaced the Jordan Currency Board which was established in 1950. The Jordan Currency Board (JCB) was confined to maintaining sterling assets against the issue of local currency. It had no role to play in

6. Include preliminary expenses, organising expenses, share selling commission, brokerage, amounts of losses incurred and any item or expenditure not represented by tangible assets.

controlling money supply or credit nor in supervising banks. A new law was passed after two years of operations of the Central Bank of Jordan. The temporary Banking law No. (94) of 1966⁷ was a modified version of the previous law. The new law has been properly modified to meet the required needs of growing financial institutions.

The new law has transferred all powers of the Minister of finance regarding control of banks to the Central Bank. The new law has been liberal in respect of credit extension by commercial banks and more stringent with regards to the inspection and control of commercial banks.

The Central Bank of Jordan, since its establishment performs the following functions :

1. Issuing and regulating the bank notes and coins;
2. Manages and maintains the official reserves of gold and foreign exchange;
3. Monitoring the quantity, quality and cost of credit to meet the requirements of growing economy and maintain monetary stability (i.e. price stability);
4. Takes necessary measures to deal with local economic and financial problems;
5. Acting as a banker to the licensed banks;
6. Supervising licensed banks to ensure the sound financial position and also protects the rights as well as interest of depositors and shareholders;
7. Working as banker and fiscal agent to the government and public entities;

7. Official Gazzett (No. 1958, October 22), 1966, p. 2136.

8. Advising the government on the formulation and implementation of financial and economic policy.
9. Representing the government in the international forums.

The Functions of Central Bank of Jordan (CBJ)

1. Issuing Currency and Regulating the Money Supply in Jordan.

Dinar is the unit of currency in circulation in Jordan. The Central Bank of Jordan (CBJ) has the monopoly right to issues currency (coins and notes) in Jordan. The currency supply is backed by gold, foreign exchange in convertible currencies, treasury bills and government bonds. The Central Bank of Jordan (CBJ) is required by law to maintain the value of assets equal to currency in circulation. The Central Bank of Jordan (CBJ) also performs an equal important function of determining the exchange value of Jordanian Dinar (JD) in terms of foreign currencies of the world.

The function of Central Bank of Jordan is to supply currency in adequate quantity into the economy, is most vital function. In the monetary management this function has a direct and overwhelming influence on the economic development of the country. The Central Bank of Jordan (CBJ) has to estimate the demand for currency and accordingly supply the same. If supply of currency in circulation is less than demand for it ($*Scu < **Dcu$), it will adversely affect the economic development of the country. If supply of currency is greater than demand for it ($Scu > Dcu$), the country will face the phenomenon

* Scu = Supply of currency

** Dcu = Demand for currency

of inflation. The excess money supply will increase the purchasing power of the people. As a consequence, the economy will experience 'demand pull' inflation. Therefore, the Central Bank of Jordan (CBJ) has to maintain an equilibrium between rate of growth of money supply and rate of growth of output in the economy. This function of Central Bank of Jordan (CBJ) can promote growth with price stability.

2. Managing the Gold Reserves and Foreign Exchange.

The Central Bank of Jordan (CBJ) is the custodian of gold and foreign exchange reserves on behalf of the Government. The Central Bank of Jordan (CBJ) selects the most suitable sources of investments with consideration of safety. The Licensed Commercial Banks (LCB) are allowed to hold the foreign assets strictly according to the regulations framed by the Central Bank of Jordan (CBJ). The Central Bank of Jordan (CBJ) has gradually removed the foreign exchange controls. This measure has been introduced to facilitate the exporters and importers. It has also helped to attract the foreign investors in Jordan.

3. Acts as Banker to the Government.

On behalf of Government, the Central Bank of Jordan (CBJ) receives revenue and incurs expenditures. The Central Bank of Jordan (CBJ) keeps the accounts of such incomes received and payments made on behalf of the government. The Central Bank of Jordan (CBJ) disburses, transfers and collects funds within the country and also between the other countries. The Central Bank of Jordan (CBJ) manages the public debts, comprising of treasury bills and government bonds. The Central Bank of Jordan (CBJ)

sells these treasury bill and government bonds to the licensed commercial banks, Specialised Financial Institutions (SFI) and public. The Central Bank of Jordan (CBJ) also manages the payment agreements between Jordan and other countries.

4. Banker to Licensed Banks.

Every licensed commercial bank has to maintain a certain percentage of their deposits and cash legally as a reserve with the Central Bank of Jordan (CBJ) which is stipulated as per the act. The Central Bank of Jordan (CBJ) is a parent financial institution in the country. So, it acts as a lender of last resort for commercial banks. It means when the commercial banks need liquidity for commercial operations and when all other alternatives are exhausted for the commercial bank, then, the Central Bank of Jordan is the last resort of help to the commercial bank. Therefore, at any time of crisis, the Central Bank of Jordan (CBJ) helps the commercial bank and solves their problem of liquidity. By this function the Central Bank of Jordan (CBJ) can maintain the confidence of public in the banking system and promotes the banking stability in Jordan.

5. Central Bank of Jordan (CBJ) Supervises and Regulates the Working of Commercial Banks.

The Central Bank of Jordan (CBJ), regularly inspects the books of accounts and their records. This function is performed by the Central Bank of Jordan (CBJ) to ensure sound banking in Jordan. The Central Bank of Jordan (CBJ), analyses the financial working of the licensed commercial banks through cash reserve, legal liquidity, credit-deposit and capital-to-deposit ratio. The Central Bank of Jordan (CBJ) also directs the licensed commercial banks for volume and direction of bank credit. It encourages the

flow of bank credit to productive purposes and discourages the flow of bank credit to unproductive and speculative purposes. The Central Bank of Jordan (CBJ) directs the licensed commercial banks to ensure the end use of credit. The Central Bank of Jordan (CBJ) also, fixes maximum or minimum interest rates on deposits and bank credit. It also provides the clearing house facilities and the services of a centralised risk office.

6. Role of Central Bank of Jordan in Economic Developments.

The Central Bank of Jordan (CBJ) is the highest monetary institution in the country. It controls the overall financial system in the economy. Therefore, it performs a key role in the economic development of Jordan. The Central Bank of Jordan (CBJ), is actively and effectively engaged in the monetary management of the economy. Thereby it maintains a required supply of currency to meet the growing demand resulted on account of development of various sectors of the economy. The Central Bank of Jordan (CBJ) have developed the Housing Bank, Pension Fund, Jordan Securities Corporation, Amman Financial Market (AFM) and many other. These Developmental Financial Institutions (DFI) have been developed by the Central Bank of Jordan (CBJ) to meet the demand of specialised sectors of the economy. The development financial institutions by the Central Bank of Jordan (CBI) has considerably contributed to the economic development of Jordan. The Central Bank of Jordan (CBJ) controls the volume, quality as well as the cost of bank credit. The Central Bank of Jordan (CBJ) thus, formulates and implements the monetary policy. In order to have conducive and a favourable monetary situation, the Central Bank of Jordan (CBJ) makes efforts to increase the pool of savings, and channelises these savings into productive lines. This function of the Central Bank of

Jordan (CBJ) helps to improve economic condition and helps to attract the flow of foreign investment in Jordan.

The local banks require minimum capital of 250,000 J.D. and foreign banks also require 250,000 J.D. provided that the bank's⁸ assets in the Jordan shall at all times exceed its liabilities by at least 250,000 J.D. for opening new branches. This has been done by way of amalgamation or alteration in its articles of incorporation or through its by-laws. The concerned licensed commercial banks have to obtain prior sanction of the Central Bank in this respect. While granting license to any company for banking business, the Central Bank undertakes a detail study about the adequacy of capital structure, earning potential, the general character of management and the requirements of the management and the requirements of economy for their services.

For a customer the credit or guarantee limit has been raised to a maximum of 25 per cent of the bank's paid up capital and reserves. The commercial banks have been permitted to grant unsecured credit upto 3000 J.D. to any member of its board of directors. A bank has been allowed to grant unsecured credit to its employee upto his annual salary. The banks investment in any financial, industrial or agricultural undertaking is upto maximum of 25 per cent of its paid up capital and reserves.

Loans secured by real estate should not exceed 40 per cent of the total deposits. The Central Bank of Jordan (CBJ) has prescribed the limit for holding foreign exchange by licensed banks.

8. Banking Law No. 94 of 1966. Article 3,4,5,6.

The Central Bank of Jordan (CBJ) under article 17 of the law fixes minimum 25 per cent of liquid assets for every licence bank's demand and time deposits. Such liquid assets includes any or all the below mentioned assets.

1. Jordanian notes and coins;
2. Balance held with the Central Bank;
3. Net credit balances with other licensed banks;
4. Net balances in convertible currencies with banks abroad;
5. Government or government-guaranteed securities maturing within the period of three months, and
6. Foreign securities marketable in international financial markets denominated in convertible currencies and maturing within the period of three months.

The licensed commercial banks have to send periodically the informations required by the Central Bank as well as the copy of the annual report conducted by an outside auditor.

The Central Bank of Jordan (CBJ) provides clearing house and centralisation of risk facilities. The Central Bank also helps the commercial banks as a lender of last resort during their crisis.

The Central Bank of Jordan (CBJ) plays a dynamic role in developing monetary and financial institutions for mobilising and channelling savings into high potential development projects. The Central Bank of Jordan (CBJ) encourages savings atmosphere and directs the savings into productive and safe investment. It also endeavours for

attracting foreign investment in Jordan. In short, the Central Bank of Jordan (CBJ) plays a crucial role of promoting economic development in the country.

It may be mentioned here that it is very necessary to summarise the main functions of the Central Bank of Jordan (CBJ) since it enjoys the sole right of note issue and acts as a banker and agent to the Government. It also maintains the reserves of commercial banks, acts as a lender of last resort to commercial banks in need, maintains economic stability by controlling credit through changes in the supply of money in circulation and thus, controls wide fluctuations in prices. The main three types of functions of Central Bank are :

1. Central Banking Functions;
2. Supervisory Functions, and
3. Promotional Functions.

The credit control measures of the Central Bank of Jordan (CBJ) pertain to : (1) quantitative control tools. They are traditional and indirect. Quantitative control tools consist of :

1. Bank Rate or Discount Rate Policy (BRP);
2. Open Market Operations (OMO), and
3. Variations in Reserve Ratios or Reserve Ratio Requirements (RRR).

Qualitative control tools (i.e. selective credit control measures) relate to the following areas. They are modern in nature and direct.

1. Regulation of Consumer Credit;
2. Margin Requirements;
3. Direct Action;
4. Rationing of Credit, and
5. Moral Suasion.

The most important and extensively used method of credit is direct action by the Central Bank of the country. It is often used as an alternative to, or in relation with the Bank Rate Policy or Open Market Operations. Direct action refers to all the controls and directions which the Central Bank may enforce on all banks or any bank in particular concerning lending and investment.

Monetary policy plays a crucial role in moulding the economic character of the nation because money and credit in a modern economy exercises vital influence upon the course, nature and volume of economic activities. An appropriate conceived monetary policy can significantly aid economic growth by adjusting the money supply to the needs of growth by directing the flow of funds into the desired channels and by making institutional credit available to the specific needs of economic pursuits. Monetary policy can also help in correcting the economic ills of the economy such as inflation or deflation. In short, the Central Bank of Jordan (CBJ) has strived over the years by evolving the monetary policy stance in such a manner that it has been possible to the Central Bank, to attain many macro-economic goals enunciated by the Government of Jordan.

It may be mentioned that a sound monetary policy is the main pre-requisite of a Central Bank of the country. The Central Bank of Jordan (CBJ) has been successful that it

has helped the Government efforts of a comprehensive programme of developmental planning. A proper monetary policy is, however, not a sufficient condition but a necessary one for higher economic growth, because economic growth is a real phenomenon and not a monetary phenomenon. Indeed, money has a dynamic role to play, because it activates idle resources and the spending of money lead to its allocation. A well-structured money policy of the Central Bank of Jordan (CBJ), from time to time, has facilitated economic growth and at the same time, helped to restrain inflation.

- **Specialised Credit Institutions**

Our brief survey of economic development of Jordan has revealed that the Jordan has made a rapid progress in various economic and social fields. This has been mainly due to planned, need-based, and timely development of financial institutions (DFIs) in Jordan. The multi strategic development projects in different economic fields, particularly agriculture, industry, housing, etc., have been encouraged by the Central Bank by providing long term loans by these specialised financial institutions. The specialised development financial institutions have acted as catalyst for the development and promotion of different sectors in the economy of Jordan.

These specialised credit institutions have provided medium and long-term facilities to the different sectors on easy terms and thereby accelerated the tempo of economic developmental process in Jordan. Therefore, let us examine the role played by the Development Financial Institutions (DFI) briefly.

Agricultural Credit Corporation (ACC)

It came into existence in 1959 with a capital of 7 million J.D. Its aim is to promote agricultural development in the country. It provides loans to agriculture at a concessional rate of interest. It also provides seasonal loans to the farmers at 8 per cent per annum. The Agricultural Credit Corporation (ACC) provides medium and long term loans at 6-7 per cent per annum depending on the nature of the project and the size of loan. It borrows from local and international financial institutions at low rate of interest.

The Industrial Development Bank (IDB)

It was started in 1965. It provides short term and medium term loans to the industrial and tourism sectors. Industrial Development Bank (IDB) charges interest rate at 8 per cent per annum on loans rendered to rural projects and 8-9 per cent per annum to companies and other projects. It depends on the Central Bank, Arabs and friendly countries for additional resources.

The Housing Bank (HB)

Its main aim is to provide loans for buying, building residential houses and apartments. It was established in 1974. It accepts public deposits. It also provides loans to the companies which are engaged in building housing projects.

The Cities and Villages Development Bank (CVDB)

Its main function is to provide loans to the developmental projects of municipal and village councils. It was set up in 1980. It charges interest rate at 8 per cent annum on

loans given to municipal councils, to be repaid within 10 years and interest rate at 6.5 per annum on loans to village councils, to be repaid within 15 years. The bank borrows additional resources from the Central Bank, Arab Institutions, World Bank and Foreign Institutions.

The Jordan Co-operative Organisation (JCO)

The Government provides leadership guidance and encourages the development of co-operative movement. It was started in 1968. It provides loans to the co-operative societies at 6.5-8 per cent per annum.

The Housing Corporation (HC)

It came into existence in 1965 to solve the problem of housing in Jordan. It is engaged in the development of housing projects. It sales the housing units to public on terms of payment of 20-30 years at 5 per cent per annum interest rate. The Housing Corporation (HC) has completed several projects and contributed immensely in solving the problem of housing.

Savings And Other Financial Institutions

In addition to the above specialised financial institutions, the financial structure of Jordan has the coverage of number of institutions engaged in mobilising financial resources and collecting local savings. As such, there are 35 insurance companies, 23 are Jordanian and remaining branches of foreign companies. For the last ten years a postal savings system, a pension fund and social security corporation have been established.

The Post Office Savings Fund (POSF)

The principal aim of this institutions is to collect the small savings. The post office savings fund (POSF) has a vast net work of its branches. So, it has a wider coverage of population and area.

The Pension Fund (PF)

It is financially and administratively independent. Its aim is to share the present and future financial obligations of the government in the payment of pension. It was started in 1977. It deploys its resources in financial and real estate investment including sponsoring the establishment of medium and large scale industrial companies.

The Social Security Corporation (SSC)

It come into existence in accordance with the social security Law No. 30 for 1978 which aims at providing the worker and his family with a permanent family income to secure them a decent life. There is a monthly salary deduction from those employees who are not covered under the pension Law. The same fund is invested carefully to meet the (SSC) obligations for the insured.

Insurance Companies (IC)

There are eleven insurance companies. Out of eleven, seven are Jordanian insurance companies. These companies have covered all types of conventional insurance. They have expanded their coverage according to the developmental needs of the economy.

Representative Offices (RO)

Jordan has the representative offices of the foreign banks and financial companies. They are governed by local regulations and have to obtain licences from the Central Bank. These offices collect the financial and commercial information on Jordan. These institutions develop relations with the Central Bank of Jordan (CBJ), commercial banks and other financial companies.

Money Changers

Under the money changing law, the Central Bank issues licences to the Money Changing Offices (MCO).

Other Institutions

Institutions engaged in mobilising local savings for investment in real estate and the loan associations in the financial markets.

An indepth analysis of financial structure in Jordan is further supplemented with the help of exhibit II-1.

Conclusion

A brief survey of economic development and financial system of Jordan have revealed that the planning has made a significant contribution in the transformation of socio-economic conditions of people in Jordan. The Jordanian economy has made a remarkable progress through the development of financial system.

- **Sectoral Development and Bank lending**

Our analysis of financial system has shown that Jordan has achieved rapid economic progress on account of sophisticated development of its financial sector. The present financial system will considerably contribute to the future economic development of Jordan. Among the financial institutions mix, the commercial banks are the principal financial intermediaries. The commercial banks have through effective participation by rendering bank credit to various sectors have promoted the economic development of Jordan. Therefore, an attempt is made to quantify the sectoral bank lending of commercial banks in Jordan. The trend analysis of bank lending will highlight the contribution of commercial banks in the development of various sectors of the Jordanian economy. It will also help the Government to direct their assets allocation policy according to the strategy of development planning through Central Bank of Jordan.

Table II.1 shows the sectoral distribution of credit by all commercial banks in Jordan for the period 1979 to 1992. There is an upward trend in the supply of bank credit to all the sectors in Jordan. The total bank credit increased from a low level of 465 million J.D. in 1979, to as high as 2218.3 million J.D. in 1992. This shows that commercial banks in Jordan have provided larger volume of credit to the different sectors during the period 1979-92. The allocation of credit by the commercial banks have contributed considerably to the economic development of Jordan.

Table II.1

SECTORIAL DISTRIBUTION OF OUTSTANDING COMMERCIAL BANK CREDIT

(MILLION JDS)

Heads/Years	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
MUNICIPALITIES & PUBLIC ENTITIES	27.7	64.5	65.4	85.0	117.1	142.4	203.8	215.7	217.7	218.8	201.5	186.7
AGRICULTURE	17.3	24.6	25.6	25.6	26.2	32.6	40.0	47.1	47.4	53.7	49.8	54.4
MINING	4.0	14.0	20.5	27.4	32.0	44.2	45.3	33.3	19.3	12.3	5.2	20.0
INDUSTRY	56.5	98.5	118.4	142.3	157.1	176.7	175.3	188.2	219.7	224.6	245.3	269.3
GENERAL COMMERCE & TRADE	134.2	285.0	276.7	296.1	308.5	338.7	363.7	402.5	391.5	407.8	465.9	524.9
CONSTRUCTION	150.9	216.7	271.3	324.0	331.6	353.7	358.2	374.5	399.1	422.7	436.2	463.3
TRANSPORTATION	13.0	32.9	50.4	58.4	64.0	49.3	38.8	52.0	42.9	45.5	65.5	78.3
TOURISM, HOTELS & RESTAURANTS	9.7	20.5	25.7	23.7	29.8	37.5	32.5	27.0	30.8	33.3	31.8	37.3
FINANCIAL INSTITUTIONS	4.8	19.6	25.6	29.6	26.9	29.2	31.4	25.2	31.3	45.5	35.6	48.8
PROFESSIONALS & PRIVATE INDIVIDUALS	29.7	69.6	108.1	121.5	127.6	137.2	159.3	203.0	253.8	288.5	318.8	375.3
OTHER	17.0	41.1	43.0	50.9	53.2	53.4	64.5	61.4	75.7	110.8	110.1	160.0
TOTAL	465.0	887.1	1030.9	1184.8	1274.4	1395.4	1513.0	1634.0	1729.2	1863.5	1965.8	2218.3

- Source :
1. Central Bank of Jordan, Quarterly Statistical Series (1964-1989), October, 1989.
 2. Central Bank of Jordan, Monthly Statistical Bulletin, Vol. 29, No.2, p. 277, February 1993.

Main Economic Sectors

The commercial banks lending have to play a more dynamic role in future as a biggest financial intermediaries in the changed scenario of market driven economy. A major thrust will have to be the provision of larger bank lendings to private sector to promote the faster economic development of Jordan.

Agriculture

Jordan is an agrarian economy. The agriculture is an important sector in terms of employment, income and foreign trade. According to Agriculture census, the total cultivated area is small and constitute 13 per cent of its area, and provides employment to over third of labour force; 9 per cent of the cultivated land is under irrigation; 12 per cent under forestry; 12 per cent under grazing, and 67 per cent under rainfall farming. The average size of agricultural holdings have been less than 10 hectares and 50 per cent have been between 1 and 10 hectares⁹. So, the units of cultivation have been small and fragmented. This involves high cost of production, wastage of productive land in path ways and fencing. Further it has lead to disputes, litigations, under- utilisation of labour and resources. The fragmented land holdings have created difficulties in supervision and management of agricultural production. The farmers are uneducated and satisfied with primitive methods and techniques of production. There are owner cultivators, tenant cultivators and landless labourers. The structure of land organisation is defective and

9. Wasef Y. Azar. The Role of Foreign Trade in the Development of the Jordan Economy (Beirut, A.U.B. : Unpublished Thesis, 1969).

exploitative in nature. The farmers are poor. They require credit for production, consumption and for social purposes. They borrow mostly from non-institutional sources, particularly from money lenders, traders, friends and relatives. These non-institutional credit agencies charge high cost for the credit provided and exploit the farmers. As a consequence, the farmer is born in debt, lives in debt and dies in debt. This has aggravated rural poverty and have perpetuated social injustice. Further, inequality of land ownership is mainly responsible for inequality of incomes.

Agriculture has forward and backward linkages with industrial and service sectors. The agricultural sector contributes about 7 per cent to (GDP) and absorbs an equal percentage of labour. Agriculture has 11 per cent in the value of goods exported and imports of agricultural goods have been given almost four times the value of agricultural exports.

However, the agriculture sector faces the following main problems.

1. Limited area of cultivable land and small size of agricultural holdings;
2. Limited sources of water available for agricultural purposes and heavy competition over their use for other purposes;
3. Low level of marketing efficiency and inadequacy of activities geared to the marketing of agricultural products;
4. Smallness of the agro-industrial base;
5. Low effectiveness of financing institutions and inappropriateness of current legislation with regard to attracting the required financial resources;

6. Inadequacy of research and extension bodies in developing agricultural production;
7. Misuse of pasture and lack of protective measures; and finally
8. Aversion of Jordanians to manual labour, leading to dependence on foreign labour.

Agriculture plays an important role in the economic development of Jordan. Therefore Government has given a big push to the development of agricultural sector in economic planning¹⁰. A major thrust has been accorded to the agricultural sector, especially to solve the problems of agriculture in each and every developmental plan of the country. The outlays for agricultural projects have almost accounted for 50 per cent of the total developmental expenditures in 1969.

A major proportion of total agricultural output depends upon rainfall. The rainfall is uncertain, uneven and erratic. As a result, agricultural production suffers. Since water is a basic input to obtain higher agricultural production, the Government has given a high priority to the development of irrigation schemes. The Major Yarmouk scheme of irrigation has been started in Jordan¹¹. The government has made multi irrigation schemes approach to expand the coverage of irrigation facilities in Jordan. A serious attention has been provided to promote the drought resistant farming.

10. The Central Bank of Jordan, Six Annual Report, 1969, p. 7.

11. Hanna S. Odeh, Economic Development of Jordan 1954-1971, 0. 17.

In order to step up the productivity of land per hectare, serious planned efforts based on agricultural research and development have been made by the government and priority has been accorded in recent years. The Government through extension services have persuaded the farmers to use the modern techniques of production, and modern inputs. So, the attempts are made to modernise the Jordanian agriculture.

The credit is a vital input. If it is timely provided, it can bring about transformation in the agricultural sector. The larger quantum credit if provided to all the category of farmers, it will certainly help to enhance the agricultural output and thereby higher agricultural incomes. Presently, the farmers are exploited by non-institutional sources of credit. Due to the high cost credit charged by the non-institutional credit agencies, the agriculture has remained backward. Therefore, Government has introduced the multi-agency approach to provide credit through institutional credit structure, to farmers in meeting their full credit requirements. In 1959, the Agricultural Credit Corporation (ACC), a specialised institution for agriculture credit has been established. The Jordan Co-operative Organisation (JCO), to improve the socio-economic conditions of the farmers has also been started. The Government is providing increasing help to develop the co-operative movement. Since, there are small land holdings and low per capita income, the co-operative organisations are the most suitable to provide credit, inputs and other requirements to the rural masses. In the most of the countries co-operatives have been accepted as the best institution for improving the socio-economic conditions of the target groups of rural masses, and also for the development of agriculture and promotion of rural development. Accordingly, the co-operative movement

started functioning in 1952 in Jordan. The Government has given a major emphasis to accelerate the development of co-operative movement in Jordan¹².

The commercial banks provide very low percentage of the total credit to agriculture. Their preference to provide credit to agriculture is relatively very low since agriculture is depended on vagaries of monsoon. However, the commercial banks are providing credit to the farmers of larger land holdings and marketing shops. Under the new policy and the developmental approach, the Government is directing and persuading the commercial banks to restructure their asset allocation policy and asset management portfolio according to the strategy and priority of the economic development of the country. Accordingly, the commercial banks have now redirected their bank lending to agriculture in the national interest. As a result of this, the share of agriculture in total bank credit has increased substantially from 17.3 million J.D. in 1979 to 54.9 million J.D. in 1992.

A large portion of population in Jordan derive their livelihood from agriculture and it has direct effect on the development of the economy. Therefore, the Government has given a serious attention to the development of agriculture. So, planned efforts are made to recognise landownership, improve the size of land holdings, increase irrigation facilities, provide research input, institutional credit, marketing, fertilizers, seeds, modern technology, storage, transport, and better prices to the farmers.

12. Jordan Co-operative Organisations, Annual Reports (Amman) Jordan (Co-operative Organisation)

Industry

After the partition of palestine, the Jordan was relatively less industrialised country. During 1950 the industrial growth was of marginal singificance. The low industrial growth was recorded due to political instability, underdevelopment of transport and infrastructural facilities. By late 1950s comparative political stabiity, major improvement in infrastructure, particularly in the road net work and Agaba port provided a big push for rapid industrialisation. However, a few big industrial units existed. Many of them were centered around the production of handicrafts and small skilled professions such as metal working and carpentry. In order to boost up the industrial development in the early fifties, the Government introduced the following supportive measures.

1. Land was provided at low prices or at symbolic prices for industrial purposes;
2. Imported raw materials, tools and equipment were exampted from all taxes;
3. Home infant industries were protected through high custom duties;
4. Feasibility studies were conducted for certain core projects to motivate the potential investors;
5. Government provided part of seed capital for promoting the industries which have a high element of risk;
6. Industrial profits were exampted from income taxes totally for the first three years and partially for the second two years, and
7. In 1965 government established the Industrial Development Bank (IDB) for providing long term and medium loans to industries¹³.

13. Jamil Bareket, "Why do people Avoid Industrial Investment", The Jordanian Economy (March 1972), pp. 15-16.

In addition to the above, the relative skills and liquid capital of palestinian refugees helped the industrial development in Jordan¹⁴. Thus, many industries came into existence during fifties and sixties, exhibiting a major trend of industrial development. The main industries are oil refinery, leather, mining, cement, vegetable oil, tobacco, textiles and batteries.

The large scale industries are relatively less in number. Such as phosphate mining, cement, tobacco, pharmaceuticals and petroleum refinery. The industrial development is mostly dominated by small scale industries. These industries need relatively less capital, involve little risk and do not have long gestation period. Such small firms employing less than 10 workers accounted for 93 per cent of the total number of Firms. These industries contribute bulk of value added.

The development of foreign trade with demonstration effect provided means and motivation to the enterprises to do away the traditional social attitudes and adopt modern technology and methods of production.

However, there were certain inhibiting factors which adversely affected the development of industries in Jordan. These factors were as follows.

1. High cost of power and fuels;
2. Absence of poineering group of industry;
3. Low per capita income;

14. Wasef Y. Azar, The Role of Foreign Trade in the Development of the Jordan Economy, pp. 35-36.

4. Lack of effective demand;
5. Small size of domestic market;
6. Shortage of the supply of raw materials of required quality;
7. Short supply of skilled manpower;
8. Low productivity of labourer;
9. High cost of transportation, and
10. Lack of clear long term policy and perspective planning for industrial investment¹⁵.

The war of 1967 seriously affected the industrial development of Jordan. The transportation cost for exports and imports were high on account of closure of the Suez Canal. In 1972, the internal and external political conditions returned to normal. This has accelerated the industrial development of Jordan.

Industries have potential of growth but they are restricted due to insufficient availability of industrial credit. The Government has followed a new economic philosophy of freeing the economy from internal and external constraints and encourages the private sector to expand its industrial coverage. As a consequence, the commercial banks being the largest financial intermediaries, have to play a vital role through bank lendings to promote industries. In fact, the future industrial development of Jordan will depend upon the role of the commercial bank lending because the bank credit is one of the main input of industrial development. Therefore, the bank credit to industrial sector has gone up considerably from 56.5 million J.Ds in 1979 to 269.3 million J.D. in 1992.

15. Jamil Barakat, "Why do people Avoid Industrial Investment", The Jordanian Economy, p. 16.

The Government has introduced economic planning with a strategy on high priority for the development of its industrial sector because economic development is defined in terms of its industrial development.

Infrastructure Sectors

Infrastructure sectors consist of power, mineral resources, water and irrigation, telecommunication, construction and transport. These sectors have the highest share in labour absorption. Transportation is one of the principal segment of infrastructural facilities, and it is the life line of the country. The entire developmental planning is based on transport system. But due to constant instability, this sector has suffered. Also, the share of bank credit has remained relatively low to this sector. However, the bank credit to transportation sector has increased from a low level of 13 million J.D. in 1979 to as high as 78.3 million J.D. in 1992.

The Government has made heavy investments in these sectors. They have contributed 36 per cent share in capital formation in 1992. By the end of 1992 households provided with electricity in the Kingdom increased to 98.2 per cent, drinking water 97 per cent and sanitation networks rose to 55 per cent. During the same period the number of telephone subscribers rose to around 276,000, while primary, secondary and rural road reached 2,650 km., 1,679 km. and 1,898 km in length respectively.

The infrastructural sectors have faced the following problems.

1. Infrastructure services are largely concentrated in the cities;
2. Operating and maintenance outlays by institutions in these sectors are high;
3. Pricing policies have failed to ensure even recovery of cost incurred.



Foreign Trade

Trade is an engine of economic growth. So, foreign trade has an important place in the Jordanian economy. In fact, Jordan is heavily dependent on its multi requirements through foreign trade. Jordan is an importing country¹⁶.

The trade sector contributed approximately 5.2 per cent in 1992. The decline in share can be attributed to the financial and economic difficulties encountered by the national economy since the early 1980s as well as owing to decreased value added in the Ministry of supply's trade account which was adversely affected by the devaluation of the Jordanian Dinar. Finally, depressed profit margins due to higher commodity prices and lower effective demand contributed to the overall deteriorating situation in the foreign trade. However, this sector absorbs around 10 per cent of total labour force.

The amount of credit provided to general commerce and trade has recorded a phenomenal rise from 134 million J.D. in 1979 to 524.9 million J.D. in 1992. So, it has received highest amount of bank credit from commercial banks in 1992. This sector consist of retail, wholesale and foreign trade. This sector is relatively more profitable and highly secured for bank lending. The import trade has a very high share in total trade credit provided by the commercial banks. The commercial banks also finance export trade. The commercial banks guarantee on behalf of the exporters remittances to Jordan, the foreign exchange proceeds of exports.

16. Khalil Salim, "Views of Future", News Week, August 1972, p. 5.

At present it faces the following main problems.

1. Complicated Free zone procedures for the entry and exit of merchandise;
2. Lack of awareness by exporters of the advantages of the generalized system of preferences granted to Jordan by certain industrialised countries;
3. Reliance by some exporters in exportation activities on bilateral trade agreements and complementary financial protocols which has tended to prevent the upgrading of exported products and to reduce their marketing potential.

Construction

The private and public sectors have considerably contributed to the growth of construction industry. The private sector construction consists of dwellings commercial, agricultural and industrial housing. While public sector construction consists of all types of infrastructures e.g., public buildings, schools, hospitals, roads, etc.

After 1967, the inflow of a large number of people increased demand for small houses. As a consequence, the private sector entered into construction activity due to growing profitability in construction industry. So, the private sector fully exploited the opportunity and accelerated their construction activities. This has placed this sector in national economy as one of the leading sectors¹⁷. The expansion and increase in the construction activities had strong cumulative spread effects on other allied activities having direct linkages with construction. In particular, the construction activities

17. Jordan, The Housing Corporations, The Housing Corporation Achievements 1966-1970. (Unpublished report), p. 5.

provided big push to the development of cement industry and also increased demand for the services of blacksmiths and carpenters. This gave rise to the importance and the development of the tertiary sector.

The rapid development of construction activities and allied activities simultaneously increased demand for housing finance. Unfortunately, Jordan had no such specialised institutions like real estate banks. However, the Housing Corporation started its activities in 1966. But it could not contribute to minimise the problem of housing.

The commercial banks had an opportunity to direct their lending for financing the private construction business. The volume of bank credit to construction sector increased considerably from 150 million J.D. in 1979 to 463.3 million J.D. in 1992. So, it ranks second in terms of volume of bank credit in 1992. It is also relatively more secured and profitable sector for bank lending because there is a fast appreciations in values of real estates.

The rapid development of construction of new buildings in private and public sectors, equally created demand for essential services. This had created a pressure on municipalities to provide necessary public utility services to the users in the country. In order to cope up with the demand the government created the Municipal and Village Loan Fund (MVLFF) to provide loans to Municipalities and villages for infrastructure requirements. As a matter of fact, the commercial banks have scope for bank lending due to the developmental projects of municipalities and villages.

Tourism

Jordan has potentialities and prospects for the development of tourism. Jordan has religious sites, historical heritage and beautiful natural sites and scenic places. Therefore, Government has given a high priority in the development plane sites for developing tourism industry. Further, the tourism industry has made a significant contribution to total national output and employment creation.

In order to develop tourism industry, the Government has prepared a separate plan. The main features are given below.

1. The development of national parks at historical places in different parts of the country;
2. The touristic sites have been developed;
3. The roads have been constructed to make the movement of tourists within the country easy, comfortable and speedy;
4. Tourist project i.e., Agaba south coast plan was put into practice;
5. Amman Airport was expanded, and
6. The Jerusalem Airport was upgraded and expanded.

The earning from tourism was 339 million J.D. in 1990. Due to the gulf crisis the earnings were decreased to 216 million J.D. in 1991, but recovered sharply to reach around 300 million J.D. in 1992. The tourism is facing the following major problems.

1. Legal obstacles regarding land acquisition for tourist projects;
2. Weakness of tourist promotion drives;

3. Lack of trained technical labour, coupled with the inability of the Hotel Colleges Institutes to provide qualified personnel.

The tourist industry is facing the problem of credit for its expansion and development. The Industrial Development Bank provides credit but it is less than the requirements of the industry. Therefore, the commercial banks have an opportunity to direct their lending policy on priority basis to tourism industry and earn good profits. However, the political disturbances have been responsible for slow and tardy development of Tourism Industry in Jordan. As a consequence, the share of tourism in total bank credit has remained low. It has increased from 9.7 million J.D. in 1979 to 37.3 million J.D. in 1992.

Financial Institutions (FI)

The commercial bank lending to financial institutions increased from 4.8 million J.D. in 1979 to 48.8 million J.D. in 1992 which is quite remarkable. In early 1980s, two important institutional innovations had taken place. An introduction of financial intermediaries who are generally known as 'compradors'. These individuals act as intermediaries between the banks and would be borrowers and depositors. They accept deposits from the public as well as securing loans for clients at a premium, over and above normal bank lending rates. The second institutional innovation was the creation of real estate and saving institutions. These institutions have expanded their coverage of lending to real estate and also diversified their financial activities as well as areas.

Mining

The commercial bank credit granted to the mining sector in Jordan increased from 4.0 million J.D. in 1979 to 20.0 million J.D. in 1992 which is quite phenomenal. The increase in the bank credit has helped to increase the production of phosphate and potash.

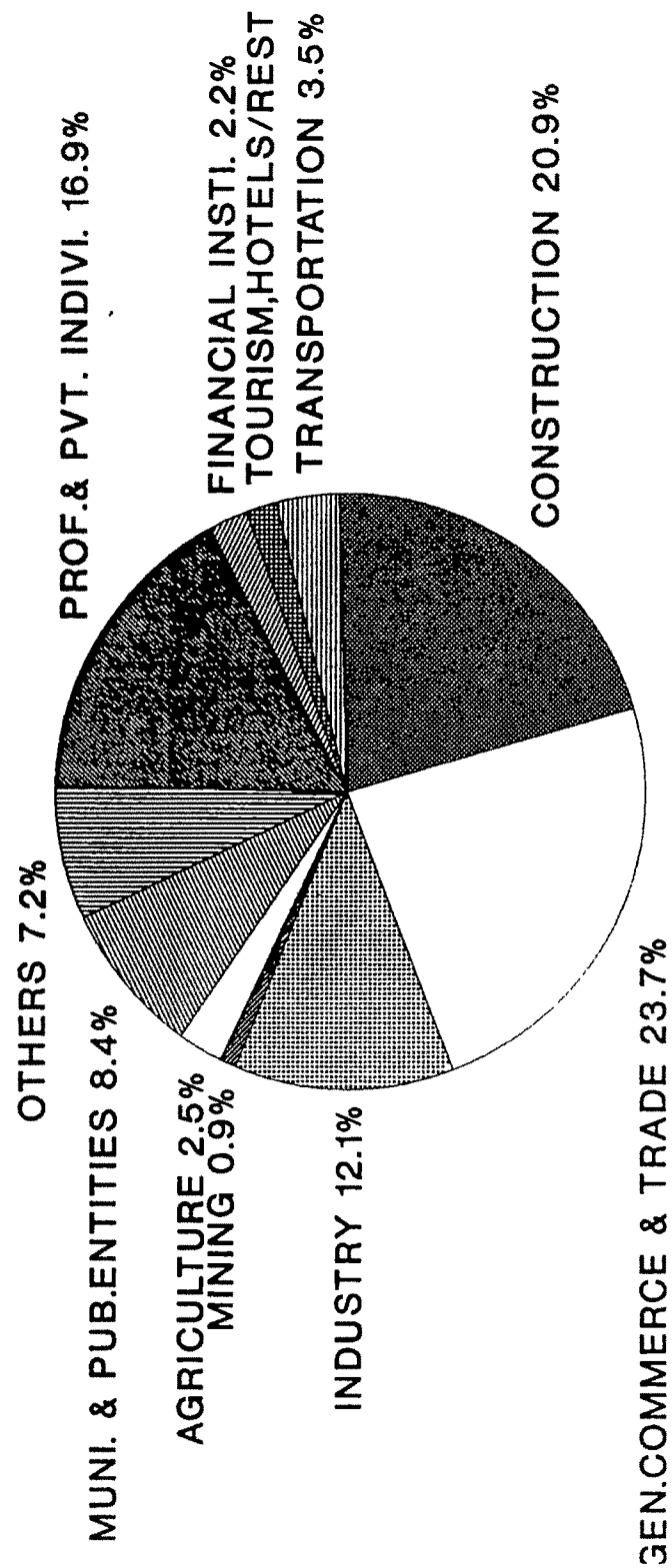
Although in absolute terms, there has been increase in the distribution of credit by commercial banks, under various activities (Table II.1), it may be pointed out that the distribution of credit in terms of percentages, under different activities, financed by the commercial banks, does not indicate a remarkable increase, over the period 1979 to 1992 (Table II.2). However, in terms of distribution of credit under the commercial banks lending programme the activities which have received large quantum (in absolute terms as well as in percentage terms in 1992 over 1979) are : professionals and private individuals and other activities as shown in Table II.2. No doubt, there has been overall increase in the commercial bank lending programme which stood at 465.0 J.Ds. (millions) in 1979. As compared to this figure, there has been substantial increase at 2,218.3 J.Ds. (millions) in 1992. It may, however, be pointed out that there is a need to step up bank lending under agriculture because it is a primary sector which is the backbone of any economy.

Analysis of sectoral commercial bank lending shows that the total amount of bank credit in Jordan has increased from a low level of 465 million J.D. in 1979 to as high as 2,218.3 million J.D. in 1992. The general commerce and trade, constructions and industry have received relatively high shares in total bank credit. So, it implies that commercial banks have performed remarkably well in terms of bank lending during the period under

Table II.2

SECTORIAL DISTRIBUTION OF OUTSTANDING COMMERCIAL BANK CREDIT (PERCENTAGE)												
Heds/Years	1979	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
MUNICIPALITIES & PUBLIC ENTITIES	6.0	7.3	6.3	7.2	9.2	10.2	13.5	13.2	12.6	11.7	10.3	8.4
AGRICULTURE	3.7	2.8	2.5	2.2	2.1	2.3	2.6	2.9	2.7	2.9	2.5	2.5
MINING	0.9	1.6	2.0	2.3	2.5	3.2	3.0	2.0	1.1	0.7	0.3	0.9
INDUSTRY	12.2	11.1	11.5	12.0	12.3	12.7	11.6	11.5	12.7	12.1	12.5	12.1
GENERAL COMMERCE & TRADE	28.9	32.1	26.8	25.0	24.2	24.3	24.0	24.6	22.6	21.9	23.7	23.7
CONSTRUCTION	32.5	24.4	26.3	27.3	26.0	25.3	23.7	22.9	23.1	22.7	22.2	20.9
TRANSPORTATION	2.8	3.7	4.9	4.9	5.0	3.5	2.6	3.2	2.5	2.4	3.3	3.5
TOURISM, HOTELS & RESTAURANTS	2.1	2.3	2.5	2.0	2.3	2.7	2.1	1.7	1.8	1.8	1.6	1.7
FINANCIAL INSTITUTIONS	1.0	2.2	2.5	2.5	2.1	2.1	2.1	1.5	1.8	2.4	1.8	2.2
PROFESSIONALS & PRIVATE INDIVIDUALS	6.4	7.8	10.5	10.3	10.0	9.8	10.5	12.4	14.7	15.5	16.2	16.9
OTHER	3.7	4.6	4.2	4.3	4.2	3.8	4.3	3.8	4.4	5.9	5.6	7.2

GRAPH NO. II.1
 SECTORAL DISTRIBUTION OF OUTSTANDING
 COMMERCIAL BANK CREDIT (1992)



study and have also provided growing volume of bank credit to all sectors of the economy in Jordan. Therefore, it can be proved statistically that the commercial bank lending has contributed significantly to the development of Jordanian economy. Now, let us examine the effects of increased bank lending on their profitability. This constitutes the core area of this research study.