

Chapter

THREE

FINANCIAL STRUCTURE OF
JORDAN'S ECONOMY

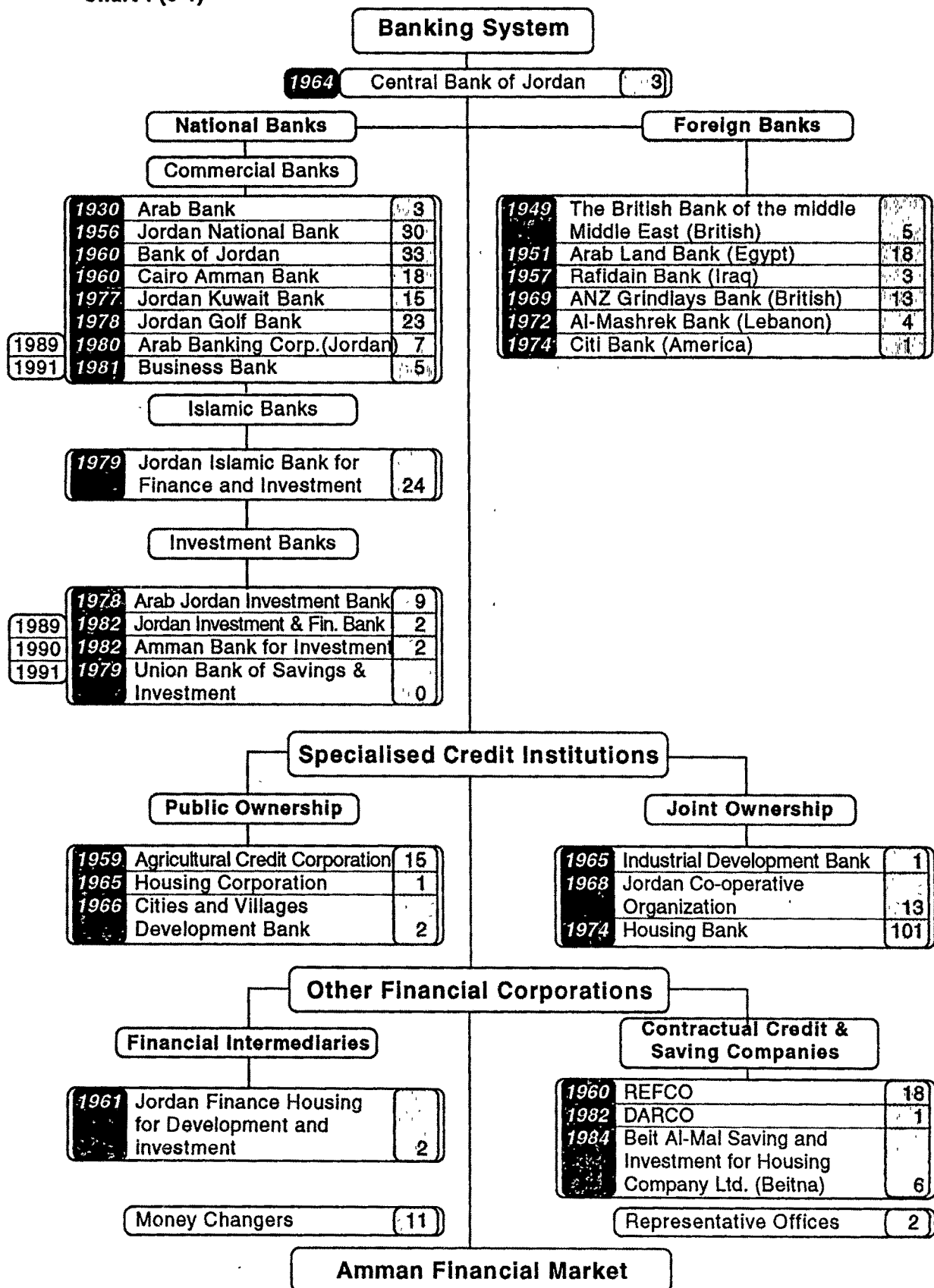
FINANCIAL STRUCTURE OF JORDAN'S ECONOMY

Since its establishment, the Hashemite Kingdom of Jordan has witnessed lots of developments in various economical and social fields. Perhaps the growth of financial sector has been the fastest, the most conspicuous and the most interesting aspect among of the general economic development.¹ The financial system of Jordan has passed very rapidly through a successive stages of development, from a rudimentary stage to a sophisticated one. It is very much comparable to what other countries were able to achieve in much longer period of time. The growth of financial system is obviously illustrated in chart "1" which reflects that expansion of the financial system took place even before the existence of the Central Bank of Jordan.

It is worthnoting that Jordan Currency Board came into existence in 1950. Even before this, two commercial banks were operating in Jordan (see chart "1"). The Central Bank of Jordan which came into existence in 1964, it has today three branches. The main branch is located in Amman, the capital of the country. The second branch founded in 1974 is in Aqaba city, south of Jordan while third one established in 1978 is based in Irbid city, north of Jordan. The chart reveals that, by the end of 1992, eight national commercial banks

(1) "Financial Structure of Jordan" Department of Research and Studies, Central Bank of Jordan, Oct., 1989, p.1.

Chart : (3-1)



- Number of branches including headquarters. ● Year of establishment.
 ○ Year of Conversion to licensed bank. () Nationality.

Note : This chart is taken from Central Bank Report 1992.

with 156 branches, six foreign banks with 44 branches came up. Three banks with 25 branches are Arab one's affiliated to Egypt, Iraq and Labanon, while rest of foreign banks are non Arab owned of which two are British and one is an American owned. Again besides commercial banks, Jordan has four investment banks with 16 branches and one Islamic bank with 24 branches. The chart also shows that there are six specialized credit institutions and four non-banking financial institutions which have 133 branches and 27 branches respectively. It also reveals that there are 11 money changer, and two representative offices of foreign banks operating in the country. The total branches of Jordans banking system are 418 which operate in a small country having an area of 94.740 k.m.

The significant fact is that Amman Financial Market has been able to absorb the excess liquidity of banks by making better utilization of funds towards a productive investment projects. Again as a part of Jordan's financial system there are a number of saving and investment funds such as postal saving fund, social security corporation. Alongwith them there are quite a good number of national and foreign insurance companies.

Here, this study treats all national and foreign commercial banks, investment banks, Islamic bank and housing bank under the concept of Licensed Banks. This is the treatment considered by CBJ in its statistical data. By looking at table (3-1), it becomes clear that tremendous growth in financial system was affected after the inception

of the Central Bank of Jordan in 1964. A part of this structure i.e. assets / liabilities of CBJ, increased by 77.71 fold whereas M_2 has grown from 53.67 to 4193.00 million J.D which is increase about 78.23 fold. Again by 1992 licensed banks assets / liabilities increased by 99.86 fold as deposits indicated quite a brilliant picture in its actual term. Again looking into assets / liabilities of specialized credit institutions it is revealed almost the same progress in terms of increase by 95.69 fold. In case of other financial corporations, their total assets increased from 0.49 million J.D in 1979 to 67.98 million J.D in 1992. The chart and table(3-1) illustrate that qualitative and quantitative growth of financial system is just an indication of how financial deepening and widening has taken place in Jordan. This would lead us to investigate the performance and growth of the financial system. This is the point taken up for analysis in following lines.

Evolution of Central Bank of Jordan :

Prior to the inception of Jordan Currency Board in 1950, several currencies has been used in the country. The first official currency was the currency of Othman Empire, which was replaced by Egyptian pound in 1917 as a result of British colonization in Jordan and Palestine. It remained as a medium of exchange till 1927. Thereafter it was replaced by the Palestinian pound, which was declared as a legal tender in "Trans-Jordan" since December 1927 and remained operative till Jordan Currency Board came to existence in 1950. The Jordan Currency Board then introduced the Jordanian dinar as a

Table : (3-1)
Main Indicators of Financial and Monetary System

(In Million J.D)

	1964	1992	Increase
(1) Central Bank of Jordan			
- Assets / liabilities	25.90	2012.80	77.71 fold
- Foreign assets	25.80	1001.10	38.80 fold
- Currency issued	24.40	1032.40	42.31 fold
- Money supply			
- M ₁	39.80	1716.10	43.12 fold
- M ₂	53.60	4193.00	78.23 fold
(2) Licensed Banks			
- Assets / liabilities	63.20	6311.10	99.86 fold
- Foreign assets	24.70	2324.80	94.12 fold
- Credit facilities	29.20	2218.30	75.97 fold
- Treasury Bills & Bonds (1969)*	3.80	390.50	102.76 fold
- Deposits	48.70	4749.00	97.52 fold
- Foreign liabilities	2.70	1596.50	591.30 fold
(3) Specialized Credit Institutions			
- Assets / liabilities	14.60	1397.10	95.69 fold
- Treasury Bills & Bonds (1969)*	0.40	83.80	209.50 fold
- Loans and Advances	12.10	646.20	53.40 fold
- Deposits (1974)*	3.10	904.30	291.71 fold
- Borrowing	4.60	207.80	45.17 fold
(4) Other Financial Corporation (1978)*			
- Assets / liabilities	0.49	66.98	136.69 fold
- Loans and advances	0.14	31.32	223.71 fold
- Deposits with banks	0.08	17.31	216.38 fold
- Deposits	0.05	40.14	802.80 fold

* Year of Inception.

Sources of Data :-

(1) Yearly Statistical Series 1964-1994 Oct. 1994, CBJ.

(2) Data of Other Financial Corporation quoted from Monthly Statistical Bulletins, June 1983 and December 1992, CBJ.

medium of exchange in the Kingdom of Jordan. This Board was authorized to issue the currency notes and coins against an advance payment of Sterling pound in London for delivering Jordanian dinar. But the Board has not functioned as per the expectation : *"During its life time, the J.C.B had none of the functions of a monetary authority and had no powers for implementing monetary policy. It kept itself completely detached from the economic life of the country. It exercised no influence on money supply or credit in Jordan, either directly by its own operations or indirectly by influencing or controlling operations of commercial banks"*.² This made the government of Jordan realise the need to have an independent monetary authority in the country. By 1959, the first law for establishment of central banking was implemented and as a result the Central Bank of Jordan started its operations by 1st October 1964 replacing the old Jordan Currency Board. But there is no mention anywhere of its objectives as to economic growth : *"Note worthy is the fact that no reference among its objectives was made to economic growth and development of the country which in sharp contrast to the objectives of central banks in most other countries."*³ Two years later, "Law No.93, 1966" came into effect which clarified the objectives of the central bank by adding a significant objective of promoting economic growth. Since then many laws of central banking enacted which progressively promoted the functions and operations of the Central Bank of Jordan. Since its inception the Central Bank of Jordan

(2) Hayek, M. and Sami Zreiqat, "The Financial System in Jordan" Economics Department. Royal Scientific Society, (September 1976), p.3. Amman. For further details see Marto, Michael "An Econometric Money Supply Model for Jordan" Economic Research Centre, Royal Scientific Society, (1974), Amman, Jordan.

(3) Ibid... Page 3

has been an apex institution of Jordan's monetary and financial system.

Monetary Policy :

The Central bank of Jordan has played significant role in promoting economic development in general and monetary stability in particular. In order to play its role more effectively the CBJ is empowered to use both quantitative and selective credit control measures. In an expanding economy of Jordan, keeping adequate flow of financial resources is an urgent need. The CBJ has seen to it that key sectors do not starve for want of such resources. Being an agent to the government, the CBJ has provided credit to government as and when needed. The competing claims of private sector and foreign sector are met to the possible extent. Both quantitative and selective powers have been deployed to achieve the goal of growth with stability. In order to avoid duplication of text books the role of each instrument in historical context has not been discussed. Rather we have concentrated more on general aspects of its contribution to economy. One of the key instruments used to promote investment in the economy of Jordan is interest rate policy. Key rates of interest are administered rates and they are kept below its true market equilibrium level. One might say that the CBJ was resorted to financial repression policy.* Interest rate is the cost of investment and escalation in rates would

* A notable policy measuer taken by C.B.J. in 1990 when rates of interest were left to be determined by banks management. *See for further details* Central Bank of Jordan 1990, Annual Report, Page, 20.

adversely effect investment and growth. In recent years, the Central Bank of Jordan has resorted to a floating rates within the limits prescribed. Thus the economy has entered into an era of managed floating rates. The CBJ has been entrusted with the task of managing rates in such a way that it neither reduces the flow of savings nor it adversely affects the capital expenditure in the economy, which is a key factor to promote growth.

The behaviour of some key nominal and real rates are given in table (3-2). It shows that depositors with banks have received negatively rates in some years and positive rates in other years, but relatively very low. Despite this, savings generated by household sector has not declined. The credit goes to the CBJ and licensed banks to maintain adequacy of flow of resources. It can also be said that savers in Jordan are not very sensitive to the return on their deposits. Perhaps the social and cultural factors alongwith liquidity and safety of bank claims could explain the steady growth of savings and particularly investment savings. As we know, in a redimentary financial system, currency is the most popular and the only instrument available to wealth holders. The Central Bank of Jordan maintains steady supply of currency to meet the demand of banks for cash reserves and that of individuals for purpose of transaction. The currency as percentage of total money has grown steadily in an absolute term from 82.43 million J.D in 1970 to 1003.90 million J.D in 1992. But its proportion in the total money supply has declined from 63.83% in 1970 to 23.53% in the year 1992. This behaviour is very much expected in expanding

Table : (3-2)
Structure of Rate of Interest

(in percentage)

Year	Nominal Rate		Inflation Rate	Real Rate	
	On Loans	On deposits		On Loans	On deposits
1970	7.00	4.50	6.94	0.06	-2.44
1971	7.00	4.50	4.55	2.45	-0.05
1972	9.00	5.50	5.59	3.41	-0.09
1973	9.00	5.50	11.76	-2.76	-6.26
1974	9.00	5.50	19.47	-10.47	-13.97
1975	9.00	5.50	11.89	-2.89	-6.39
1976	9.00	6.05	11.42	-2.42	-5.37
1977	9.00	6.10	14.49	-5.49	-8.39
1978	9.00	6.10	7.10	1.9	-1.00
1979	9.00	6.10	14.12	-5.12	-8.02
1980	9.00	6.40	11.11	-2.11	-4.71
1981	9.00	6.50	7.73	1.27	-1.23
1982	9.00	6.50	6.34	1.66	-0.84
1983	8.81	6.50	5.11	3.70	1.39
1984	8.40	8.50	3.74	4.66	4.76
1985	8.40	8.50	3.06	5.34	5.44
1986	8.00	7.50	0.00	8.06	7.50
1987	7.60	7.50	-0.17	7.77	7.50
1988	8.30	8.50	6.65	1.65	1.85
1989	10.00	8.50	25.62	-15.62	-17.12
1990	13.00	9.75	16.21	-3.21	-6.46
1991	13.00	9.50	8.21	4.79	1.29
1992	14.00	8.88	3.95	10.05	4.93

Sources of data :

- (1) "1970-1971" Nominal Rate of Interest based on Ja'fari Mohammad L. and Jamal H. Hems, "Interest Margin in Jordan Exchange Market", Department of Research and Study, Central Bank of Jordan (October 1993), page 14. While rest of years quoted from "Yearly Statistical Series, (October 1983)" and various issues of "Monthly Statistical Bulletin" of CBJ.
- (2) Rate of Inflation : Based on Cost of Living Index 1992 = 100. Calculated from "Yearly Statistical Series", (October 1994), Central Bank of Jordan.

economy as the substitute of currency in the form of demand, savings and time deposits emerges in the financial market.

The Central Bank of Jordan has been operating in an environment which is not perfectly conducive to effective monetary managements. The CBJ has not only to act as a bank; but also has to remain at the centre of all activities, such as promoting saving, investment and controlling inflation without adversely affecting growth. Thus the task of the CBJ has become difficult due to relatively unstable and relatively less developed financial market and is heavily loaded with task of not only monetary management but also public debt and fiscal management. Many times its role is subordinated to facilitate government operations. Like many developing economies, Jordan also faced perennial problem of inflation. The central bank could control it as inflation was caused not only by excess aggregate demand. The central bank could only influence stability by demand management rather than supply. In spite of all adverse circumstances the CBJ has been able to manage its activities in the economy reasonably well and has provided strong support to fiscal and monetary stabilization programmes. It is needless to repeat that the CBJ is a major holder of government claims and is the only institution issuing perfectly liquid claims "currency" to the holders, both individuals and institutional. Through these activities the CBJ has not only acted as bank but has remained at the centre of economic development of Jordan.

Licensed Banks :

As we mentioned in the previous section, the practice of commercial banks in Jordan is very old. It goes even before the inception of the Central Bank of Jordan. The private banking system goes back to early stages of development. It was when "Othman Bank"* started its branch in Amman in 1925, at the time of "Turkish Empire", when private banks were dominated by foreign banks. The first national bank which came up in the country was Arab Bank,** Its branch was started in Amman in 1934. As a result of Arab-Israeli war in 1948, this bank had to shift its head office from Jerusalem to Amman. Since then it became the pillar of Jordan's banking and finance. There after a number of national and foreign banks came into existence in Jordan.

The Central Bank of Jordan which was founded in 1964 encouraged the working and existence of new banks in the country. In 1978, it followed a policy of encouraging investment banks in the country. Again by mid summer of 1989, as a result of reorganizing banking sector followed by the CBJ number of new investment banks came into existence due to merging of small companies in Jordan.***

* This bank came to be called Grindlays Bank later on.

** This bank was established in Jerusalem in 1930.

***(1) Arab Banking Corporation emerged on January 21, 1990 due to merging of Jordan Securities Corporation and Arab Banking Corporation, Bahrain.

(2) Amman Bank for Investment came up due to merging of Finance and Credit Corporation with Jordan Equipment Leasing Company.

(3) Business Bank started its operation in 17 November, 1990 as investment bank, but converted into commercial bank in 3 November, 1991 after buying the three branches of the collapsed BCCI in Jordan.

(4) Arab Finance Corporation Jordan came up following merger with National Company for Reconstruction and Finance converted to investment bank in May, 1989.

(5) Union Bank for Savings and Investment converted to investment bank in 1990.

In contrary to this, some of the national and foreign banks working in Jordan collapsed.*

What is mentioned just earlier is a picture of rise and fall of licensed banks in Jordan, even though the financial system has functioned properly. It is worth mentioning here that all the Jordanian banks followed the practice that the main office is located usually in the capital Amman, while the branches are scattered in Amman and other cities, urban and rural areas of the country. The total number of licensed banks branches were 343 showing a high density of banks in Jordan.

Banking Density :

This section discusses aspects of banking density which can be measured by the population served versus number of bank branches. Table (3-3), reveals that the density has gone up substantially from 0.18 in 1970 to 0.80 in 1992. This indicates that the accessibility of banking services has been improved by the emergence of new banking

* Among such events effected the financial structure was -

- [1] Islamic National Bank ceased off operations in early 1991 after nearly thirteen months of operations due to its failure in operating normally in accordance with the term of license.
- [2] Petra Bank, had 25 branches operating in the country and collapsed due to the deterioration in its financial position as manifested by widening deficit between its liabilities and assets, and loss of clients confidence in its viability. C.B.J. reacted by liquidating Petra Bank on July 15, 1990 after investigation made by Economic Security Committee which has been appointed by Central Bank of Jordan to investigate into banking performance in the country.
- [3] Syrian Jordanian Bank has been liquidated by CBJ on May 11, 1991, after 11 years of its operations.
- [4] Bank of Credit and Commerce International had to be ceased off its three branches in Jordan on 10th September, 1991; due to its international its international financial scandle and swindling operations.

Table : (3-3)
Banking Density

Year	No.of Branches*	Population in million	Thousand of population per Bank**	Banking Density ***
1970	41	2.30	56.10	0.18
1971	41	2.38	58.05	0.17
1972	45	2.46	54.67	0.18
1973	53	2.54	47.92	0.21
1974	70	2.62	37.43	0.27
1975	79	2.70	34.18	0.29
1976	88	2.78	31.60	0.32
1977	92	2.71	29.46	0.34
1978	105	2.77	26.38	0.40
1979	121	2.84	23.47	0.43
1980	142	2.92	20.56	0.49
1981	174	3.01	17.30	0.58
1982	205	3.10	15.12	0.66
1983	233	3.20	13.73	0.73
1984	252	3.30	13.10	0.76
1985	272	3.41	12.54	0.77
1986	285	3.52	12.35	0.80
1987	288	3.63	12.60	0.79
1988	296	3.75	12.67	0.79
1989	300	3.88	12.93	0.77
1990	307	4.01	13.06	0.77
1991	333	4.15	12.46	0.80
1992	343	4.29	12.51	0.80

* Including branches of Housing Bank.

Population x 1000

** -----
No. of Branches

10,000 x Branches
*** -----
Population

Sources of data:

- (1) Up to year 1988 number of branches quoted from "Yearly Statistical Series", (October 1989), CBJ while rest of years calculated from Central Bank of Jordan annual reports 1989, 1990, 1991, 1992.
- (2) Population time series data quoted from "International Financial Statistics", Year Book (1992) and (September 1994), IMF.

branches.* It is noticed that the ratio of population served versus the number of banks has declined from 56 thousand in 1970 to 12.51 thousand in 1992. It is worth mentioning here that in 1964 the density³ was 0.12 and population served by each bank was 82.37 thousand. The changing scenario from 1964 to 1992 shows a considerable improvement in banking service. It also reveals an important role played by the Central Bank of Jordan in managing banking system. In brief such density behaviour is a revelation of financial development which also indicates that financial widening and deepening has taken place in Jordan.

Indicators of Financial Development :

As stated earlier, the licensed banks have played a vital role in economic development by intermediating financial resources. Banks have created claims which are far more attractive to holders and thus, institutionalization of savings has been promoted. The claims issued by banks are mostly in the form of deposits which are classified as demand, time and savings deposits. It is true that deposits are the claims on the banks but growth of these claims promote financial savings which in turn permits financing of investments projects. The household sector is the major holder of these claims. About 61.19% of the total deposits were held by this sector in 1964 which increased

* This result is analogous to the proportion of bank offices per square mile in the U.S.A. *See for further details* Douglas D. Evanoff's "Branch Banking and Service Accessibility", Journal of Money, Credits and Banking. Vol.20, No.2 (May 1988), pp.191-202.

3. Khatib, Fawzi M., "Financial Institutions and Economic Growth in Jordan : 1964 - 1984." (Un-Publish Ph. D. thesis, University of Leicester), U.K. (1987), Page, 127.

rapidly in the following years to reach 90.43% of the deposits held by household sector in 1992. The behaviour of these claims is reviewed in following paragraphs.

Demand deposits increased considerably in the initial years. It was about 30.00 million J.D, i.e., (53.40% of the total deposits in 1970. The rate of interest paid on demand deposits was about 4%. Demand deposits has grown gradually in the following years although it showed a temporary decline to 56.05% in 1976 as against 58.05% in 1975. This is shown in table(3-4), which indicates a steady decrease in percentage term almost after 1976 although a continuous increase in demand deposits is observed almost throughout the years. In 1992 demand deposits was 1107.66 million J.D which amounted to about 23.32% of total deposits whereas the rate of interest⁴ paid in that year was 6%. Inspite of this the share of household sector in demand deposits has increased from 73.25% in 1970 to 94.32% in 1992. The declining trend or behaviour in demand deposits was favourable to time deposits. Whereas, savings deposits claimed the lowest percentage of total deposits as compared to demand and time deposits.

Though savings deposits have shown an increase in absolute term, table (3-4), indicates decreasing trend in percentage term after 1977. It has declined from 19.63% in 1977 to 12.65% in 1992 i.e. about 5.87 million J.D in 1977 to 1107.66 million J.D in 1992. Inspite of this,

(4) Monthly Statistical Bulletin, Oct., 1994, C.B.J., Table-21, p.39.

Table : (3-4)
Deposits by Type as Percentage of Total

(in percentage)

Year	Demand Deposits	Savings Deposits	Time Deposits	Total %
1970	53.40	10.18	36.42	100.00
1971	51.01	12.31	36.68	100.00
1972	54.12	13.09	32.79	100.00
1973	55.32	14.45	30.23	100.00
1974	56.27	14.21	29.52	100.00
1975	58.49	14.59	26.92	100.00
1976	56.05	19.62	24.33	100.00
1977	52.68	19.63	27.69	100.00
1978	38.48	18.97	42.55	100.00
1979	35.93	18.40	45.67	100.00
1980	35.64	15.96	48.40	100.00
1981	32.36	16.48	51.14	100.00
1982	30.52	15.53	53.95	100.00
1983	27.74	15.45	56.81	100.00
1984	25.55	14.67	59.78	100.00
1985	21.44	13.66	64.90	100.00
1986	19.04	13.14	67.82	100.00
1987	17.73	13.23	69.04	100.00
1988	18.54	13.21	68.25	100.00
1989	19.40	13.18	67.42	100.00
1990	20.39	12.23	67.38	100.00
1991	21.05	12.67	66.28	100.00
1992	23.32	12.66	64.02	100.00

Sources of data -

* Author's calculation from following sources :

- (1) "1970-1983" Calculated from Yearly Statistical Series, 1964-1983 CBJ.
- (2) "1984-1990" Monthly Statistical Bulletin, September, 1991, CBJ.
- (3) "1991-1992" Monthly Statistical Bulletin, December, 1992, CBJ.

the share of household sector in saving deposits increased from 83.67% in 1970 to 99.72% in 1992. When rate of interest paid was 7%⁵ in that year. The decreasing share of savings and demand deposits as percentage of total deposits of licensed banks could be ascribed to majority people in Jordan using (current and saving) account facility due to safety and accessibility of funds and not because of the interest rate.⁶

The earlier interpretation indicates changing public preference in favour of time deposits. In Jordan, time deposits are of various types. It can be for one year or nine month or six month or even one month period. Different rates of interest are paid according to the period of time for which the amount is deposited. In initial stages, the time deposits had a little share of total deposits, i.e., 21.01 million J.D which means 36.43% of the total deposits in 1970. This is higher than that of savings deposits and lower than that of demand deposits as indicated in table(3-4). Although it marked a decline in following years, suddenly in 1978, it shot up to 190.84 million J.D, i.e. 42.55% of total deposits. It is again higher than the share of each, demand deposits and savings deposits in the same year. This sudden rise in time deposits may be attributed to higher amount inflowed by the private sector resident. The amount deposited by the private sector resident reached about 137.45 million J.D* in 1978 as against 73.24 million J.D. in 1977. Since then time deposits have shown a continuous increase in absolute terms of the as well as the percentage term. In

(5) Ibid., Table-21, p.39.

(6) Khalib, F.M., Q.P.Cit. p.138.

* Calculated from "Yearly Statistical Bulletin" (1964-1983), table, 12. Central Bank of Jordan

1987 time deposits contributed 69.04% of total deposits which further decreased in 1992 to 64.02%. The real yield on time deposits was 4.93% in that year while the inflation rate was 3.95%. The contribution of household sector in time deposits reached 99.49% in 1992 as against 87.45% in 1970.

Attempt is also made to review financial structure in terms of certain ratios which are crucial indicators of financial development shown in table (3-5). In course of economic development the currency ratio is expected to fall whereas the deposits ratio is likely to rise. The currency share in money supply declined from 63.83% in 1970 to 23.52% in 1992. The trend remained the same in terms of the currency ratio in GDP as it has fell from 39.46% in 1970-1981 to 31.58% in 1981-1992. But it does not exhibit opposite behaviour as deposits to GDP ratio increased from 54.10% in 1970-1981 to 99.53% in 1981-1992, of this the time deposits enjoyed the lion's share in showing growth from 21.85% in 1970-1981 to 63.63% in 1981-1992. Such behaviour of these ratios indicate that substitution has taken place as indicated by the fall of currency and the increase in deposits revealing a high degree of monetization in Jordan. This is supported also by finance ratio exhibiting the same behaviour growing from 1.05% in 1970-1981 to 1.44% on average in 1981-1992. The same truth is reflected by financial interrelation ratio which has grown from 4.58% in first period to 5.54% on average in second period. Again the intermediation ratio is measured here as the ratio of highly liquid to less liquid assets growing from 2.70% in 1970-1981 to 3.90% on average in 1981-1992.

Table : (3-5)
Indicators of Financial Structure

Year	Currency	Cur- rency GDP	Total* deposits GDP	Time deposits GDP	FIR**	Finance Ratio***	HLA
	Money Supply						LLA
1970	63.83	47.26	33.07	12.04	6.82	0.92	3.02
1971	61.44	44.58	32.04	11.75	7.09	1.09	1.64
1972	55.62	39.32	35.17	11.53	6.40	1.05	1.70
1973	55.37	44.65	39.28	11.87	5.68	1.11	1.91
1974	52.34	46.68	46.53	13.73	5.21	1.18	2.02
1975	47.97	45.52	54.06	14.56	4.69	1.10	2.35
1976	42.42	38.27	59.31	14.43	3.82	0.93	2.62
1977	39.98	36.56	61.23	37.11	3.19	0.95	2.98
1978	35.79	34.71	70.94	30.19	3.57	1.05	2.99
1979	35.11	36.57	78.77	35.97	3.44	1.10	3.41
1980	35.15	30.54	70.23	33.99	2.81	1.08	3.66
1981	34.02	28.90	68.53	35.05	2.24	1.02	4.11
1982	32.55	28.69	70.90	38.25	2.72	1.04	4.47
1983	30.76	29.22	79.16	44.97	3.63	1.14	4.29
1984	28.93	28.05	84.76	50.67	4.11	1.18	4.42
1985	26.89	27.00	88.70	57.56	6.30	1.24	4.39
1986	26.77	27.61	92.04	62.42	6.57	1.29	4.24
1987	26.21	30.32	99.06	68.39	7.04	1.56	3.15
1988	29.25	36.57	105.76	72.18	7.01	1.67	3.51
1989	41.56	37.39	112.69	75.97	7.09	1.76	3.95
1990	31.41	38.51	101.15	68.16	6.01	1.75	3.36
1991	26.05	35.71	144.71	95.91	7.87	1.87	3.88
1992	23.52	31.04	146.84	94.00	5.80	1.81	3.02

* Deposits held with Licenced Banks.

** The Ratio of the total volume of Financial Assets to stock of physical capital at the same time.

*** The Ratio of Financial Claims to National Income at the same time.

Sources of Data - Author's calculations from the following sources

(1) "1970-1979" Yearly Statistical Series, 1989, CBJ.

(2) "1980-1992" Yearly Statistical Series, 1994, CBJ.

Behaviour of these ratios supports our contention that financial deepening and widening has taken place in Jordan, as indicated by high degree of substitution and high level of intermediation. This is expected in developing process and such a behaviour in economic growth is again inductive to research.

Banking Credit and Lending :

Though credit facilities were increasing, throughout the years, credits have shown decrease in terms of percentage. Before going into details of credit, it would be worth mentioning that credit facilities are being extended in terms of bills discounted, overdraft and also in terms of loans and advances. About 49.19% of the total banks assets and 82.50% of total banks credit facilities were attributed to loans and advances in 1970. This share came down to 18.16% of the banks assets in 1992 which was equal to 51.67% of the credit. In fact the picture was different in case of bills discounted and overdraft both of which form 10.42% of the total banks assets and 17.50% of the banks credit in 1970. This picture changed and dichotomised later on in 1992 as about 5.19% bills discounted and 11.80% overdraft of the banks assets which claimed respectively 14.76% and 3.57% as share of the credit extended by licensed banks. In brief it can be said that in 1992 licensed banks extended credit to its clients mainly in the form of loans and advances which was more than 50% of the total credit.

The most striking feature one can notice from credit outstanding is its increase year by year. The total credit was 45.55 million J.D in 1970

which increased to 2218.30 million J.D in 1992. This indicates about 48.70 fold increase in credit over that in 1970. The question arising out of this phenomenon is which sectors are the most beneficial from these credit. This can be answered by looking at table(3 - 6). In this table sectors are being classified according to their relative contribution in GDP, and to the amount of credit received by them from licensed banks. It is clear that the wholesale trade sector and the retail trade sector claim lion's share of the credit. Though it showed decreasing trend it is still higher than that of any other sector. The data show that this sector has received on average 32.49% of credit and contributed about 15.53% to GDP during the period 1970-1992. The case is not the same for productive sectors like agriculture and manufacturing. The credit to the agricultural sector was rising consistantly throughout. While its contribution to GDP was declining. However, it performed better during 1970-1981. When the credit received averaged to 2.86% and the contribution to GDP was 9.28%. The data further shows that the manufacturing sector, though was receiving lower credit as compared to the construction, it had done better performance in contribution to GDP during in 1970 and 1992. Its relative share in GDP was 18.07% which was higher than that any other sector. It would be worth noticing that though the construction sector received the quarter share of the credit it contributed very low to GDP as compared to the transportation and the communication sectors which received 3.7% of the credit while contributed 12.34% to GDP during the entire period i.e., 1970-1992. While others a comprised of small sectors received a good amount of credit and made noticeable contribution to GDP.

Table : (3-6)
The Relative Weight of the Main Economic Sectors in both
GDP* and Bank Credit

(Percentage)

Year	Wholesale and retail trade ¹		Agriculture ²		Manufacturing ³		Construction		Transportation & Communication		Others	
	% of Credit	% of GDP	% of Credit	% of GDP	% of Credit	% of GDP	% of Credit	% of GDP	% of Credit	% of GDP	% of Credit	% of GDP
1970	39.23	20.81	1.27	10.08	10.45	11.51	24.65	4.98	5.33	9.24	19.07	43.37
1971	42.30	19.88	1.70	14.40	9.78	11.20	22.40	4.46	5.58	8.80	18.24	41.26
1972	44.24	19.53	1.58	14.55	9.19	11.49	21.09	5.03	4.79	9.46	19.12	39.93
1973	42.80	20.17	3.33	9.32	10.13	12.71	23.36	8.05	3.54	9.48	16.84	40.27
1974	37.47	17.45	4.41	12.50	12.31	17.95	22.91	6.94	6.23	9.41	16.66	35.77
1975	41.94	22.07	2.85	8.58	11.92	19.50	24.16	6.33	2.91	8.22	15.53	35.30
1976	40.62	21.17	2.49	9.58	10.67	18.95	24.14	7.03	3.77	8.59	18.28	34.40
1977	37.77	21.41	3.40	9.48	10.94	19.00	26.95	8.37	4.55	8.16	19.35	33.58
1978	32.19	18.61	3.82	10.63	11.51	18.41	30.21	9.26	2.52	10.76	19.75	32.33
1979	30.94	18.49	3.73	6.52	13.01	19.70	32.47	10.54	2.80	9.41	17.05	35.34
1980	31.71	14.44	5.64	7.05	12.96	19.15	32.06	10.73	17.65	12.21	15.06	36.42
1981	33.51	16.92	6.24	5.50	12.37	19.65	27.87	10.74	3.23	13.34	16.78	33.85
1982	34.42	17.27	7.27	5.57	12.69	19.02	24.44	11.19	3.71	13.83	17.47	33.12
1983	29.33	16.71	6.35	6.30	13.47	16.87	26.32	12.18	5.00	14.17	19.63	33.77
1984	26.99	17.20	7.18	4.75	14.33	19.46	27.35	10.59	4.94	13.37	19.21	34.63
1985	26.55	16.70	9.20	4.87	14.85	17.96	26.02	8.99	5.02	15.32	18.36	36.16
1986	26.96	15.43	10.21	5.43	15.84	17.29	25.35	8.14	3.54	15.50	18.10	38.21
1987	26.19	14.69	13.47	6.91	14.59	17.95	23.67	6.88	2.56	15.14	19.52	38.43
1988	26.29	13.53	13.20	6.02	13.56	17.36	22.92	6.23	3.18	15.49	20.86	44.37
1989	24.42	8.73	12.59	6.37	13.82	22.34	23.08	5.16	2.48	17.38	23.61	40.04
1990	23.67	9.14	11.74	7.89	12.71	24.49	22.68	4.91	2.44	15.91	26.76	37.66
1991	25.32	10.52	10.25	7.20	12.74	21.92	22.19	5.19	3.33	15.10	26.17	40.05
1992	25.35	9.31	9.63	7.99	12.89	21.62	20.88	5.58	2.43	15.51	28.82	39.99
Average	32.49	16.53	6.59	8.16	12.47	18.07	25.13	7.92	3.76	12.34	19.58	37.18

* GDP at factor cost.

(1) Includes Tourism, Hotels and Restaurants.

(2) Includes forestry and fishing.

(3) Includes mining, quarrying, manufacturing, electricity and water supply.

Sources of Data -

Author's calculation from the following sources :

(1) "1970-1975" Yearly Statistical Series (1964-1989) Oct. 1989, CBJ.

(2) "1976-1992" Yearly Statistical Series (1964-1993) Oct. 1993, CBJ.

The declining trends of bank credit to many sectors reflected during 1981-1992 as against 1970-1981, implies reluctance of banks in extending more credit. It becomes clear from the excess liquidity kept with banks portfolio which means that the savings of the public is not fully utilized by banks in Jordan. Supporting this argument is the reluctance of banks in financing long term loans to the agriculture sector which as a result received lower credit as compared to other sectors. Such a strategy of having self liquidation reflects the fact that short-term loans are viewed by banks as more productive from the point of security. So the question arises here how these sectors are being financed ? The next section concentrates on this issue.

Specialized Credit Institutions [SCIs] :

The growth of SCIs in Jordan is in response to the increasing demand for funds not met sufficiently by banks. Earlier interpretations indicate that the liabilities of licensed banks in Jordan are short term ones and they do not extend medium or long term loans specially to the main sectors in the economy. The credit extended to agricultural sector by banks averaged at 6.58% during 1970-1992, whereas it was 12.47% in favour of manufacturing sector. This was an insignificant share as compared to that of the trade sector which received 32.49%. As these loans extended by licensed banks are on a short term recovery, there was a need for setting up a specialized institutions which grant a medium as well as long term credit facilities to the productive sectors to enhance economic development directly at a concessional terms.

As depicted by chart '1', SCIs functioned either exclusively under public ownership or under a joint ownership. By the end of 1992⁷ six specialized institutions were operating in Jordan.* They are specialized in extending fund to agriculture, industrial developmental projects of cities and villages, housing activities and co-operative societies. Though they are very less in number but their area of operation is quite spacious. They have filled the gap which left uncovered by licensed banks. Worth mentioning here it is that these institutions acquire their funds by relying on domestic and foreign loans arranged with the help of the government. These loans usually carry a low rate of interest.

The history of the SCIs in Jordan is exhaustive and vast. There is no need to revise or discuss it. But it is worth mentioning that some of the institutions like the Agriculture Credit Corporation, the Industrial Development Bank came into existence before the Central Bank of Jordan. Regarding to their functions briefly they are mainly involved in extending loans to productive sectors such as agriculture, industry and also encouraging small scale industry. Again they extend loans to housing and tourism sector. One of the important functions performed by them is that they extend loans and aids to municipalities and village councils to meet the needs of basic social services and public utilities in the country. In a nutshell it can be said that they assist developing of the infrastructure of Jordan economy.

Again looking at table(3-7), it becomes evident that the amount of

(7) Twenty Ninth Annual Report, 1992 Central Bank of Jordan.

* See Chart No.1.

loans extended by the SCIs has increased considerably, say from 14.08 million J.D in 1970 to 646.20 million J.D in 1992 with an average of about 261.16 million J.D per year. The fact indicates that the SCIs loans, as percentage of licensed banks credit facilities remained about 29.13% in 1992 against 30.91% in 1970; while the lowest was 23.95% in 1975 and the highest was 33.19% in 1987. This reveals the fact that licensed banks have been mainly the domestic financier of the economic development in Jordan. The Housing Bank contributed on an average 55.61% which is the highest among the SCIs credit extended. The credit extended by the Housing Bank equals about 17.58% of the total credit extended by licensed banks in 1992, which is a significant ratio. The Agriculture Credit Corporation extended on average of 16.15% of the total loans, while the City and Village Development Bank contributed about on an average of 14.36% and Industrial Development Bank about 12.37%. The Housing Corporation and the Jordan Cooperative Organization extended on an average 6.71% and 4.48% of the loans respectively. In brief though important role has been played by the SCIs in financing some specific sectors the licensed banks has been the dominant one. This becomes clear from the credit of 519.00 million J.D extended by the licensed banks to agricultural sector during 1970-1992 as against that of 468.76 million J.D extended by the SCIs during the same period. This further reveals that although credit gaps in financing priority sector has been reduced through SCIs credit, the credit of licensed banks remains a major factor affecting economic development of Jordan.

Table : (3-7)
Loans Outstanding of Specialized Credit Institutions
(in percentage)

Year	Total Loans. Million JD	Cities & Villa- ges Dev. Bank	Industrial Deve- lopment Bank	Hous- ing Corpo- ration	Hous- ing Co-op. Bank	Agricul- tural Credit Corp.	Jordan Co-Op- Organi- sation
1970	14.08	29.90	16.41	5.97	-	42.05	5.68
1971	14.86	31.22	16.89	6.93	-	39.77	5.18
1972	16.24	30.48	16.87	7.88	-	39.47	5.30
1973	17.52	29.79	17.35	6.62	-	41.50	4.74
1974	22.49	24.86	17.74	12.58	4.31	35.48	5.02
1975	30.36	21.25	18.21	8.04	17.49	29.22	5.80
1976	53.87	14.11	14.61	4.18	43.35	18.04	5.72
1977	80.13	11.32	13.54	3.44	53.63	13.28	4.79
1978	104.58	10.56	12.81	2.41	58.48	11.10	4.64
1979	131.45	9.49	11.90	1.76	61.99	9.68	5.18
1980	163.04	8.22	11.13	3.10	63.23	8.62	5.70
1981	196.52	7.81	12.51	2.42	63.06	8.79	5.42
1982	255.05	9.16	12.09	2.35	61.09	7.93	7.39
1983	317.88	9.95	11.31	2.67	62.29	6.92	6.86
1984	375.10	9.62	10.08	2.56	65.88	6.00	5.87
1985	416.60	9.51	9.19	2.81	66.78	6.22	5.50
1986	441.30	10.27	8.91	4.55	67.37	6.34	2.56
1987	502.10	9.86	8.03	11.85	61.90	6.05	2.31
1988	535.30	9.79	7.88	13.88	60.23	6.05	2.17
1989	544.20	9.30	8.53	12.70	61.34	6.21	1.93
1990	554.80	8.81	8.94	11.68	62.20	6.60	1.77
1991	573.00	8.03	9.53	11.71	61.64	7.28	1.82
1992	646.20	6.86	10.11	12.30	60.35	8.76	1.62
Ave- rage	261.16	14.36	12.37	6.71	55.61	16.15	4.48

Sources of Data :

* Author's Calculations from the following sources :

- (1) "1970-1983" Yearly Statistical Series, (1964-1983) Oct. 1983, CBJ, p.19.
- (2) "1984-1988" Twenty Fifth Annual Report, 1988, CBJ, p.116.
- (3) "1989-1992" Thirtieth Annual Report, 1993, CBJ, p.160.

Other Financial Corporations :

Other financial corporations form another aspect of non-banking financial institutions as depicted in chart '1'. This group comprises of credit and saving companies and financial intermediaries. Establishing of these institutions in 1978 with full support of the Central Bank of Jordan was with a view to cover the needs of credit left out of the traditional services offered by commercial banks. The main function of these institutions is to strength on the credit structure through increasing, managing and directing investments towards successful projects which may foster economic development. They arrange local and foreign funds to meet investments. Hence they are permitted to deal in foreign exchange.

The table(3-8), indicates that the balance sheet of these corporations reflect tremendous growth in terms of their deposits as percentage of the deposits licensed banks. The deposits grew from an insignificant figure of 0.01% in 1978 to 7.19% in 1988 and then after it showed a steady decline to 0.85%. The data reflect that these institutions have grown continuously and at an appreciable rate during the entire period of 1978-1988, while after that there was sluggishness of their operation. Such a drastic decline may be attributed to the existence of investment banks* as a result of merger took place between small financial companies. The newly emerged investment banks have shown an excellent growth. The function of the investment bank differs from other banks as they are mainly involved in all investments

Table : (3-8)
Relative Significance of Other Financial Corporations
As Compared to Licensed Bank.

(Million J.D)

Year	Depsits other O.F.C	as % of Licen- sed banks depo- sits	Loans O.F.C	as % of Licen- sed banks loans	Total assets O.F.C	as % of Licen- sed banks total assets	Liquid assets O.F.C	as % of Licen- sed banks liquid assets
1978	0.05	0.01	0.14	0.04	0.49	0.08	0.08	0.04
1979	0.58	0.10	1.25	0.27	2.72	0.33	1.17	0.52
1980	0.70	0.83	5.10	0.90	13.10	1.22	5.77	2.39
1981	18.64	1.91	16.55	2.29	30.02	2.26	6.02	2.08
1982	26.43	2.28	28.00	3.16	48.75	3.14	12.19	4.47
1983	64.00	4.58	29.40	2.85	138.84	7.45	26.74	7.14
1984	80.26	5.01	66.75	5.63	166.78	7.81	32.48	7.45
1985	117.02	6.70	82.55	6.50	201.84	8.44	56.83	10.63
1986	133.43	6.86	110.93	7.95	232.15	8.81	71.59	11.48
1987	148.83	6.95	120.64	7.97	260.46	8.99	73.75	10.37
1988	168.58	7.19	131.21	8.03	288.35	8.87	75.49	10.59
1989	155.43	5.92	132.59	7.66	258.54	6.84	58.16	6.58
1990	56.56	2.14	47.25	2.54	96.91	2.37	18.48	2.22
1991	36.42	0.91	28.47	1.45	58.54	1.05	14.34	1.18
1992	40.14	0.85	31.25	1.41	66.98	1.06	18.63	1.47

Sources of Data :

- Author's calculations from the following sources :

- (1) "1978-1981" Monthly Statistical Bulletin, June, 1983, CBJ.
- (2) "1982-1983" Monthly Statistical Bulletin, December, 1985, CBJ.
- (3) "1984-1988" Monthly Statistical Bulletin, July, 1989, CBJ.
- (4) "1989-1992" Monthly Statistical Bulletin, December, 1992, CBJ.

businesses, commercial and real estate, besides brokerage business at the Amman Financial Market. They also accept short and long term deposits, as they extend loans. But they never allow overdraft loans. These institutions are acting not as a competitor to banking sector but as an essential complement to them.

In addition to the above, the Jordan financial sector includes a number of miscellaneous financial institutions engaged in mobilizing resources and local savings. Under this category falls postal savings fund which started its operation in September, 1974 with eight branches covering different parts of the country. In 1992, the number of branches increased to 350. Another kind of these institutions is the Jordan investment corporation a legal successor of the pension fund, which was established in 1976. It shoulders the present and future obligations of the government in the field of pension to be paid to civil and military personnels as per the law. However non-government employees are not benefited from this corporation. They get the retirement compensation through the social security corporation which came into existence in 1978. Representative offices of foreign banks, money changers and insurance companies are another kinds of the miscellaneous to fall under the Jordan financial structure.

* This was due to Central Bank of Jordan intense efforts to re-organizing the banking system, which began a mid 1989.

Capital Market :

As a part of financial structure there exists in Jordan, a stock exchange which is represented by the Amman Financial Market the only one of its kind in the country. This market started its operations in first January, 1978 as a public financial institution with a legal and financial independence. It embodies a market for trading securities as well as securities exchange commission. The Amman Financial Market came into existence as a result of the efforts exerted by the Central Bank of Jordan with the support of the government besides technical assistance offered by the International Financial Corporation. The establishment of the Amman Financial Market made it more accessible to investors, as earlier to its existence, buying and selling shares used to take place through Real Estate Agents and Brokers who did it besides many other activities. Buying and selling of securities and shares used to be at high cost for both buyer and the seller and fluctuation of share prices was not announced.

As a capital market, the Amman Financial Market fostered saving through encouraging investment in securities. Its trading behaviour is illustrated in the table(3-9), which indicates a drastic increase in traded securities since its inception. The total amount of shares, bonds and treasury bills traded in the market was 5.62 million J.D in 1978 which increased to 883.10 million J.D in 1992, which is about 157.14 fold increase. The data indicates a fluctuating growth rate of total trading securities; whereas some years experienced a negative growth rate and some years witnessed a positive growth rate. The year 1992 saw a positive growth rate which was about 200.48% over that of 1991.

Table : (3-9)
Trading at Amman Financial Market

(Million J.D)

Year	Shares	Develop- Bonds	Corporate Bonds	Treasury Bonds	Treasury Bills	Total	Growth rate %
1978	6.62	-	-	-	-	5.62	N.A.
1979	15.84	0.78*	-	-	-	16.62	195.73
1980	41.43	0.83	0.83*	-	-	46.09	159.27
1981	75.42	2.15	0.17	-	-	77.74	80.41
1982	128.29	1.82	0.12	-	-	130.23	67.52
1983	141.43	0.40	0.21	-	-	142.04	9.07
1984	59.33	1.23	0.42	-	-	60.98	57.07
1985	66.73	3.29	0.32	-	-	70.34	15.35
1986	69.52	1.01	1.52	-	-	72.05	2.43
1987	148.18	0.97	0.81	-	-	142.96	108.13
1988	132.63	4.64	1.88	1.90*	8.24*	149.29	0.45
1989	365.20	4.80	11.00	1.40	5.00	387.40	159.50
1990	266.40	1.90	0.70	0.70	0.0	269.70	30.38
1991	292.40	1.10	0.40	0.0	0.0	293.90	8.97
1992	878.80	4.20	0.10	0.0	0.0	883.10	200.48

* Indicate the year of introduction in the market.

Sources of Data :-

- (1) "1978-1988", Amman Financial Market, 13th Annual Statistics, 1991.
- (2) "1989-1992", Amman Financial Market, Sixteenth Annual Report, 1993.

This high growth was related to the inflow of savings of returnees from the Gulf countries.⁸ Again the data reflects that the trading of shares was very high during the years 1972 to 1992. It was above 94.27% of the total traded activities all over the years, with an exception of 1988 during which it was about 88.84% of the total. This decline may be related to the government's resort to open market⁹ where about 10.14 million J.D of treasury bonds and bills have been sold. Bonds and bills continued to be a very low part of the trading activities. These securities are being subscribed mainly by the banking sector due to its exemption from the tax as the public in general, however, mainly prefer to go for bank deposits which is also exempted from the tax.¹⁰ Going back to trading activities in shares, one may note that during 1978-1992, the Industrial sector maintained a growth rate of about 45.05% while the banking sector maintained the second place with growth rate of 41.93% and that of services and the insurance sectors maintained a growth rate of 6.69% and 4.33%. This would support our earlier contention that during 1970-1992, the industrial sector which received 12.47% of the bank credit facilities and contributed 18.07% to GDP.



(8) Twenty eighth Annual Report, 1992. C.B.J.

(9) Twenty Fifth Annual Report, 1988, Central Bank of Jordan, p.16. (Arabic Script).

(10) 1982 Annual Report, Amman Financial Market, p.92.