

## *chapter seven*

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## CHAPTER VII

### Summary of Major Findings and Recommendations

This chapter deals with the major findings which emerge from our study and the recommendations we have made elsewhere in this research undertaken, or we would like to make. These recommendations are in line with our main objective that the banking system of the country plays a positive role in foostering the rate of economic growth which any country starves to achieve.

- (1) Economic growth is a direct function of the rate of capital formation. Financial institutions can contribute to the economic development of a country through rising the rate of capital formation because these institutions are specialized in collecting the savings of the savers and made them available to the investors.
- (2) Financial institutions represent the backbone of development and they play an important role in promotion of savings and directing the uses of funds within the general objectives of the plans. The effeciency of the banking sector in an economy adds to the success of development and prosperity .
- (3) Commercial banks in Jordan have witnessed an appreciable increase in their number as well as in the number of their branches since 1964. The number of commercial banks has increased from 4 in 1964 to 11 in 1986, their branches have increased substantially from thirteen in

1964 to two hundred forty in 1986.

- (4) Commercial banks have experienced phenomenal growth rate in all types of deposits (i.e.) Demand Deposits, Time Deposits "due on fixed dates" Time Deposits "subject to notice" and Saving Deposits.
- (5) The progress in deposits mobilization could be partly ascribed to the fact that Jordanian economy has reached considerable degree of monetization and it seems that the growth in the financial structure and the absorption of financial assets by the public has reached its plateau and the Jordanian economy has reached the stage of an appropriate financial development.
- (6) It is universally accepted and is proved hypothesis that the nearer a bank is to its depositors, the larger would be its deposit - mobilization, and that is why commercial banks in Jordan have distributed their branches to cover more rural and urban areas. Branch expansion policy helps in deposit mobilization and also in the development of the financial intermediaries.
- (7) The ratio of money stock (M1,M2) to Gross National Product, as an indicator of the size of the monetary structure in Jordan was found to be 24.78 and 33.31 for M1 and M2 respectively in 1964. These ratios have increased to 93.88 and 207.50 in 1986. This shows the vital role played by commercial banks in mobilization of resources.
- (8) Deposits are the main source of bank funds and they have constituted about 75.5 percent of total commercial banks

liabilities in 1970 and 73.8 percent in 1986.

- (9) The share of the private sector "Resident" in the total commercial banks credit was 57.80 percent in 1964 and it has increased to 73.21 percent in 1986.
- (10) There should be different schemes to encourage the private sector "Non-resident" to increase its share in total deposits as this sector holds a huge amounts of funds in foreign banks, adding to this most of "Non-resident" Jordanians are using major part of their savings in dwellings and land purchases, away from any rationalization in the uses of their savings to direct them to more productive activities which can contribute much to the social and economic development of Jordan.
- (11) The increasing trend in the deposits to National Income and Credit to National Income ratios shows the importance of the relationship of banking activities with the growth of over all economic activities in Jordan and the impact of growth of financial intermediaries on the growth of the economy.
- (12) The sectoral distribution of bank credit is rising in favour of general commercial and trade over other productive sectors.
- (13) Since 1974, there has been a significant shift in the sectoral distribution of bank credit. In other words, the share of commercial sector in bank credit went down noticeably in favour of industry. Agricultural sector and municipalities and public corporations are also claiming a rising share.

- (14) Gold and foreign exchange reserves constitute an important assets of commercial banks. It is found that around 10 to 30 percent out of total assets of commercial banks in Jordan are in the form of gold and foreign exchange.
- (15) The credit of commercial banks has been an influencing lever as far as the real economic activity in Jordan is concerned. In this context, commercial banks credit has played a more catalyst role in the economic development than Jordanian economy has experienced over the previous decade (i.e.) 1975-1985.
- (16) The examination of sector - wise credit growth rates shows the distinct impression that in number of years the bank credit has moved in an anti-cyclical manner to real economic activity. This implies that the bank credit has been utilized as a fine tuning device in an attempt to dampening down the fluctuations of nominal growth rate of Gross National Product.
- (17) Bank credit have shown that the financial development and economic development have moved closely and they have taken place simultaneously (i.e.) both have complemented the growth of each other.
- (18) In the year 1975, the population served per office was around 22917, in the year 1980, it has come down to the level of 15612 in 1986. It has reached to the level of 10057 on average. There was 5-6% fall in the population served per office "branch" in Jordan annually.

- (19) The commercial banks, as financial intermediaries, seem to have done their job admirably well and they were successful in tapping enormous amount of real surplus balances and diverting these financial resources to the desired productive channels.
- (20) Commercial bank's investments in the Kingdom have increased substantially in absolute terms as well as in proportion to their total investments. Meanwhile, their investments in government securities "Bonds and bills" have significantly risen due to the absence of other domestic securities. This indicates that the commercial banks have financed the developmental programmes in an increasing rates.
- (21) The profitability of commercial banks measured by the ratio of profit before taxes to capital and by profit to capital plus reserves ratio has an increasing trend over the period from 1975 to 1986. This leads us to conclude that the management of the commercial banks in Jordan has performed its assigned duties effeciently towards the bank share holders. This born out by the fact that a bank with high rate of return on capital will be in a position to capitalize (i.e.) it can make advantage of all favourable opportunities.
- (22) There is a definite need to regulate the investments in to proper channels as the industrial growth in Jordan has not been commensurate with the size and demand of the country due to the paucity of adequate funds for financing industries.

- (23) The relative importance of industry in the Gross National Product at factor cost has increased from a rate of 10% for the period from 1964 to 1972, to about 18% during the subsequent plans (i.e.) Three Year Plan 1972-1975, First Five -Year Development Plan 1976-1980 and Second Five - Year Development Plan 1981-1985.
- (24) The services sector has dominated the sectors contributing to the G.N.P. Its share has remained about 60% through out the period from 1964 to 1986.
- (25) There did exist an alarming situation during the period from 1973 to 1986 where the performance of the industrial sector has not been up to the mark , only for few years the actual growth of industrial sector has touched the planned figures, rest of the years were much below the planned targets.
- (26) Commercial banks have not extended the needed financial assistance to the industrial sector. The share of the industrial sector in the total commercial banks credit was around 10% in the period from 1964 to 1972 and increased to about 14% in the remaining period.
- (27) Commercial banks are hisitant to invest in industrial projects as these projects need financing for periods considered too long for them to invest in. In contrast, major share of commercial banks credit goes to the general trade sector.
- (28) The industrial sector in general and the Industrial Development Bank in particular are depending much on the advances extended by the Central Banks of Jordan to

finance their activities. It is a recognition from the C.B.J. to the vital role of the I.D.B. in Promoting the industrial growth in the country.

- (29) The Industrial Development Bank (I.D.B.) is shouldring the assigned responsibilities in promoting the industrial progress by purchasing a larger share of the floated shares of the industrial projects in Jordan.
- (30) The I.D.B. is contributing to the tourism industry by granting a reasonable amount of loans to this sector as it is a vital source of foreign exchange earnings.
- (31) The I.D.B. is shifting its dependance on external financing, in meeting the financial requirements of its borrowers to depend on internal sources which helps in cutting down the interest paid on external loans.
- (32) The policy of I.D.B. is to concentrate on the medium-term loans rather than on long - term loans which indicates the far - sighted policy of the Bank management in making the borrowers more serious about the performance of their projects for which the loans were granted to avoid any default in the payment of the installments.
- (33) The Small Scale Industries and Handicrafts Fund has performed its duties remarkably in cattering to the financial needs of the small scale industries in the kingdom.
- (34) The Fund has contributed to the regional development by granting loans to borrowers in different regions away from any discriminatory policy of developing one region



at the cost of others.

- (35) In regard to the regional distribution of the fund loans, Amman has got the highest share followed by Irbid and Zarka governorates.
- (36) The loans granted by the Fund should be plan - oriented (i.e.) to be distributed in accordance with the targets of the plan in regard to the regional development.
- (37) There is much need for the re-structuring of the institutional setup for industrial finance so as to bring about the best and most efficient allocation of the funds in order to bring about rapid industrial growth as envisaged by the Plans.
- (38) Major part of the reduction in the industrial production was mainly due to the lower external demand and mounting competition from imported substitutes, which need to be controlled in order to encourage the local industries and to save foreign exchange from flying out of the country, meanwhile to encourage the export of some products where Jordan enjoys a favourable terms of trade.
- (39) Small scale sector should concentrate on intensive labour industries where increase in population characterise the status of a developing nation. Man power education and training should help to use this human capacities in small scale industries more than in highly developed technologies.
- (40) In order to achieve expansion in agricultural productions finance should be readily available for this

sector. Jordan experience shows that the financial institutions are hizitant to invest in this sector.

(41) There is much need to develop the institutional sources of finance to agriculture in order to prevent farmers from approaching the non-institutional sources as they charge exorpetant rate of interest wich is considered by all norms higher than the ability of the farmer to bear.

(42) It is a matter of regrate to note that commercial banks in Jordan do not take agricultural finance as an important part of their commercial business and almost this sector is neglected by commercial banks. The share of agricultural sector in the commercial banks credit through out the period from 1964 to 1985 ranged between 1.5% to 3% .

(43) The ignorance of commercial banks to agricultural sector indicates clearly that these banks do not react in a positive manner towards the implementation of the agricultural programmes setup by the government.

(44) To increase the involvement of the commercial banks in agricultural finance, the banks should:

- A. Participate effectively in the paid up capital of the agricultural credit socities.
- B. Divert a fixed percentage of their total deposits as agricultural loans with the refinancing facilities of these loans at the Central Bank of the Jordan.
- C. Underwrite the agricultural loans with the Government guarantee.

- (45) Commercial banks do finance industry in a larger share than agriculture. This is not accepted by all means as agriculture is not in competition with industry, rather they complement each other. The advancement of agriculture leads to the industrial development and in turn to the expansion and diversification of industrial activities which in turn brings about a general development in the rural areas.
- (46) The Central Bank of Jordan has performed its responsibilities very effectively by providing advances to the Agricultural Credit Corporation. Although they are not very huge, yet they give an indication to the financial institutions of confidence which the C.B.J. is putting in the A.C.C. to promote the agricultural sector.
- (47) There should be an autonomous body within the C.B.J. to look after and take care of the agricultural finance in Jordan. Duties and responsibilities of this body can be framed by a team of experts in this field.
- (48) The Planners in Jordan should allocate to the agricultural sector the due share in the sectoral distribution of the plan investments. The past experience tells us that this sector has been neglected by the planners and this is visible from the poor performance of the agricultural sector during the period of our study. In some years the actual growth from this sector has never touched the planned targets.
- (49) The Agricultural Credit Corporation being the only

governmental financial corporation has left its land marks on the agricultural production and finance in Jordan since its establishment thirty years ago.

- (50) The position of overdues of agricultural loans has assumed alarming proportions. Not only because they are growing year after year, but because their proportions to the repayments have reached a level which concerns the authorities.
- (51) Regional development in the sphere of agriculture is of much concern to the A.C.C. The Corporation has distributed the loans granted to different regions where its fourteen branches are located with much care away from any discrimination in the distribution of its loans. Where ever the finance is required, the A.C.C. has extended a helping hand.
- (52) In order to bring down the overdues amounts to an acceptable level, the A.C.C should adopt a policy of crop - loans system.
- (53) The A.C.C. is giving two types of loans namely, medium loans and seasonal loans. Since the second types is of a temporary natures , they are less in numbers as well as in amounts as farmers need longer period to repay their loans.
- (54) The amount of loans granted by the A.C.C. go side by side with the size of ownership holdings as the longer land needs larger amount of loans. The holdings of above 200 dunums have enjoyed the highest share among other holding catagories. This leads us to say that

some times these amounts may not have been directed to the purposes for which they were granted and this put more responsibilities on the A.C.C. administration to supervise the disbursements of these loans. End use of credit is to be monitored by the A.C.C. officers.

(55) The value added in agriculture has registered a good rise during the period of the Second Five - Year Plan (1981-1985) a rise from JD 75 million in 1981 to JD 114.5 million in 1985.

(56) Interest rate is playing vital role in the ability of the farmers to approach for loans. Farmer should get loans with less rate of interest and this requires the cooperation of all institutions concerned.

(57) It is of much importance to note that the A.C.C. must be granted a preferential treatment from the monetary authorities in Jordan to give the farmers an access to the credit available.

(58) In order to bring out an acceptable rate of growth in agricultural production there should be a higher, strong and well managed agricultural finance institutions to sponser and support the agricultural finance in Jordan.

(59) The emphasis should be put in the factors which lead to production stabilization and growth. Agricultural production should be directed towards those crops in which Jordan enjoys economic and climatic advantages whether such crops were to meet domestic demand or for export purposes.

- (60) The contribution of the Central Bank of Jordan (C.B.J.) has been significant in the spheres of commercial banking, industrial finance and agricultural finance and in general in the economic development which had occurred in the kingdom.
- (61) The cash ratio has increased during the period from 1964 to 1967 and then it has declined there after, this shows that there was less borrowings by the commercial banks from the C.B.J.
- (62) The increase in the investment ratio and the credit/deposits ratio indicate the rising trend in the commercial banks investments and in the demand for credit by various sectors.
- (63) The C.B.J. has the traditional instruments of monetary and credit controls like bank rate, open market operations, legal reserve requirements. The Bank has performed its functions as a fiscal agent to the government remarkably well and has extended the adequate help in public debt management operations, such as treasury bills and development bonds.
- (64) In the presence of pegged interest rate structure, the bank rate policy can not play a vital role in control of credit.
- (65) The bank rate on advances does not have any effect on guiding the monetary policy. The structure of the reserve requirements is of much importance as an instruments of monetary and credit controls.
- (66) The Central Bank of Jordan has played a role of

catalyst to economic growth and it is to point out that the Bank has exercised its promotional and developmental roles equally as it has exercised its regulatory role.

(67) The C.B.J.'s developmental and promotional responsibilities should be curtailed so as to make it easy for the Bank to carry out its regulatory responsibilities in an effective way. By doing so, the function of extending finance to industry through banks and financial institutions should be transferred to the Industrial Development Bank, same can be said about agricultural credit which is to be carried out solely by the Agricultural Credit Corporation. All this through special arrangements between the C.B.J. and the specialized financial institution, mean while the C.B.J. should continue to augment the operational resources of the I.D.B. and the A.C.C. Short term credit to agriculture and industry can be given by commercial banks.

(68) The C.B.J. has adopted an easy monetary policy during the period from 1971 to 1975 and the monetary brakes were not very hard but this has not resulted into very high rates of inflation.

(69) The actual level of credit/deposit ratio is one of the important factors which the Bank could take into account while formulating measures of credit control. Higher level of this ratio would reflect the higher level of utilization of the banks resources. The

economy of Jordan has achieved a high credit/deposit ratio of about 80 to 85 percent.

(70) Commercial banks in Jordan are heavily relying on the C.B.J. for finance to meet their urgent credit needs. The ratio of borrowing by these banks from the C.B.J. to expansion in bank credit is a measurement of the C.B.J. direct contribution to credit expansion. The ratio was 0.13% in 1976 and increased to 2.6% in 1978. This shows that the commercial banks were unable to raise funds through deposits.

(71) The slow down in the growth rate of domestic liquidity (M2) indicates that the monetary policy has attempted to simultaneously maintain monetary stability and combat inflation without ever stifling the economic development process.

(72) The credit extended to the government is going side by side with the budget deficit and by the expansion and contraction of (M2).

(73) The most important contribution that the monetary authorities can give is to maintain the economic growth with some degree of price stability.

(74) The monetary system must play its assigned role in augmenting the pool of financial savings and to allocate these savings for productive purposes in accordance with National and Plans goals.

(75) The interest rate on savings deposits was higher than the return on real investments. This led savers to save rather than putting their savings in demand deposits.



- (76) The C.B.J. has to create financial instruments such as Call Money market, Bill market in order to develop the banking habits among the people and to increase their confidence in the banking system.
- (77) The Jordanian economy has experienced growth of net issues and outstanding stock of primary securities. The net issues of primary securities increased from JD 19.4 million in 1971 to JD 381.5 million in 1984, where as the stock of outstanding primary securities increased from JD 86.1 million in 1970 to JD 2347.8 million in 1985.
- (78) The composition of primary securities has revealed that the issues of government sector, corporate sector and household sector have increased throughout the period of our study. This reflects the leading role of these sectors in process of economic development of Jordan.
- (79) The external financing ratio that is the ratio of net issues of primary securities to net capital formation, has increased from 63.2% in 1971 to 123.1% in 1973 and from 39.7% in 1981 to 78.5% in 1984.
- (80) Gross domestic capital formation as a percentage of Gross National Product at market prices (G.N.P.) increased from 13.47% in 1970 to 37.62% in 1981 which confirm our hypothesis of rising net issues of primary securities to gross domestic capital formation ratio in the early stage of economic development.
- (81) The ratio of total assets of all financial intermediaries to national income has increased from

1.07 in 1970 to 2.17 in 1985. As the financial intermediaries develop along with the financial and economic development of a country, the rate of growth of assets of the financial intermediaries tends to be faster than the national product during the period of financial development of a country.

- (82) The relative share of assets of monetary and non-monetary intermediaries to the total assets of all financial intermediaries has revealed that the share of monetary intermediaries declined from 90.90% in 1970 to 78.39% in 1985 and that of the non-monetary intermediaries increased from 9.10% to 21.61% during the same period.
- (83) The composition of government debt, namely internal and external debt shows the share and significance of external debt which has assumed a greater proportion as compared with the internal debt. The share of the external debt in the total debt of the government was 90.8% in 1970 and in 1985 was 75.2%. The reduction was due to the increase in the internal debt of the government.
- (84) The net issues of indirect finance increased from JD 1912 thousands in 1971 to JD 268132 thousands in 1984. Net issues of indirect finance to national income ratio increased from 0.95 percent in 1971 to 16.96 percent in 1976, which bring support to our hypothesis of rising indirect securities to national income ratio.

- (85) The analysis of financial intermediation ratio has shown upward trend in the ratio. The ratio has increased from 16.4 percent 1971 to 242.4 percent 1985. These results do support our hypothesis of rising indirect finance ratio during the process of financial and economic development.
- (86) The analysis of indirect finance by the type of financial intermediaries (i.e.) monetary and non-monetary intermediaries has shown that percentage of the net issues of domestic primary securities purchased by the monetary intermediaries is more than that purchased by the non-monetary intermediaries during the period under study. The monetary intermediaries dominated the purchases of primary securities. Thus, our findings confirm the hypothesis that the monetary intermediaries tend to purchase larger proportion of primary securities in the initial process of financial intermediation, and that of the non-monetary intermediaries will increase along with the upward trend in the indirect finance during the process of the financial development.
- (87) The money income ratio has remained around 0.69 in 1970 to 1.01 in 1985. These results have not shown any upward trend, but it remained at a higher level throughout the period under study. These observations do not lend support to our hypothesis of rising money income ratio in the earlier stage of economic development. It is of much importance to note here that

the ratio would have increased from a low level in the earlier stage of economic development. On the basis of the above mentioned observation, we can conclude that the observed money income ratio fits well with the above mentioned hypothesis.

- (88) We examined the importance of monetary expansion in Jordan with the help of the money debt ratio. This ratio has declined from 1.5 in 1970 to 0.8 in 1989. This does not mean that the non - financial assets have been substituted for money, but the reason for this decline lies in the fact that the primary securities have occupied an important place in the assets portfolio of the non - financial spending units due to the growth of primary securities.
- (89) All financial intermediaries have grown up by different rates. The share of the C.B.J. in the total assets of all financial intermediaries declined from 53.03 percent in 1970 to 18.97 percent in 1985. The share of commercial banks increased in an steady way from 37.87 percent in 1970 to 59.42 percent in 1985.
- (90) From our empirical studies we confirm the importance of the transfer of savings for capital formation carried out by the financial intermediaries, and because Jordan is a country where the rate of interest is low and that is why the transfer of domestic savings had greater influence upon capital formation.

- (91) The size of the financial sector contributes directly to the rate of capital formation.
- (92) The private investment in Jordan is positively influenced by the per capita income, the government investments and foreign investments. An increase in the average level of interest rate and a fall in the rate of inflation could raise the private domestic investment ratio.
- (93) The liberalization of interest rates may be a dangerous tool specially during the transational phase and might lead to considerable institutional imbalances which could indanger the stability of the financial system.