

chapter two

**ROLE OF COMMERCIAL BANKS
IN
THE ECONOMIC DEVELOPMENT OF JORDAN**

The mobilisation of financial resources has always been a major objective among the policy makers.

There are various ways in which a government can mobilize or obtain the savings of a community.

An authoritarian regime would forcefully take away the required resources; an alternative way is taxation by the government which along with government expenditure constitutes fiscal policy, the third way is the deficit financing or inflation. The point is that inflation is also essentially a fiscal device in as much as the government pre-emptes larger resources than is sustainable in the real terms, or compared to the growth rates of real output.

The fourth and the most important way is to encourage the development of the financial structure in the economy.

Obviously the first three ways are not generally feasible and at times not desirable. Inflation, now a days is also not being preferred as an instrument to foster development of an economy. What is the most remarkable feature of the fourth method and which is also the thesis of the present chapter, is the fact that an appropriate and rapid financial development does lead to accelerating economic development by facilitating the decentralized decision - making of investors and savers; the development

of the financial structure leads to specialization in the function of the savings and investments and thereby to channalization of investible resources from less productive investment opportunities to more productive investment opportunities. This has also the effects of increasing the marginal productivity of the aggregate capital stock (Guarly and Show, 1966; Patrik, 1966; Shah, 1977).

Further more, the financial development through the financial intermediaries like commercial banks would result in an increase in the saving propensity in economic backward societies. This is based on the premise that savers are not always the best investors; further they are not always ready to make their savings directly available to the investors because of the differences in their risk awareness, desired maturity patterns, rates of return as well as the element of liquidity...ect. The point is that in a society without a financial system, the savers would have no incentive to save more than they can effeciently invest, and the investors would not be able to save enough to self-finance all their desired investments.

The surplus units would therefore, tend to over consume and investors would be forced to under invest. The development of an efficient financial system would encourage and help the savers to save to their desired level by offering to them a wide range of financial instrument to match their risk, return and liquidity preferences with those of the investors. Further by the sheer size of their portfolio, the financial institutions can pull the risk and

minimize and spread between the lending and deposit rates, there by making saving more attractive (Patrik,1966; Shah,1977).

The commercial banks constitute the oldest, biggest and fastest growing financial intermediary in the Hashemite Kingdom of Jordan. As early as 1930, Arab Bank Ltd. was established, since then, the Jordanian economy has witnessed rapid progress of banking development through the increase in the number of banks and their branches.

This process was re-inforced and was far more systematized with the establishment of Central Bank of Jordan in 1964.

The following exhibit as is apparent, shows a summary picture of Jordanian Banking System . The first point to note is that the development of the banking system in Jordan has been a gradual process, a process that has evolved in response to emerging structural changes of the Jordanian economy over the last three decades. In spite of the existence of non-banking financial institutions, foreign banks and specialized credit institutions, the role of the commercial banks in the economic development of Jordan economy has been a unique one. This is born out by the fact that in 1964 there were four major commercial banks operating in the economy, this number has increased to eleven commercial banks in 1986.¹ What is remarkable in this context is the fact that over a period 1964-1986, the

1. Including the Housing Bank which was established in 1974.

JORDAN BANKING SYSTEM1964 Central Bank of JordanNational Banks

1. Arab Bank Ltd.
2. Jordan National Bank
3. Bank of Jordan
4. Cairo-Amman Bank
5. Jordan-Kuwait Bank
6. Jordan and Gulf Bank
7. Petra Bank
8. Syrian - Jordan Bank
9. Arab Jordan Invt. Bank
10. Jordan Islamic Bank

Foreign Banks

1. B.B.M.E.
2. Arabland Bank
3. Rafidain Bank
4. Grindlays Bank
5. Bank Almashrik
6. Citi Bank
7. B.C.C.I.

Specialised Credit InstitutionsPublic Ownership:

1. Agricultural Credit Corporation
2. Cities and villages Development Bank
3. Jordan Cooperative organisation

Non-Banking Financial institutionsFinancial Intermediaries

1. Arab Finance Corporation "Jordan"
2. Jordan Securities Corporation
3. National General Invt. Co.
4. Jordan Finance House
5. Islamic Investment House
6. Finance and Credit Corp.
7. Jordan Investment and Finance Corp.

Joint Ownership

1. Industrial Development Bank
2. Housing Bank

Real Estate and Saving

1. REFCO
2. DARCO
3. National Development and Finance Co.
4. Beit Al-Mal Savings and Investment for Housing Co. Ltd. "Beitna"

Money Changers

In Aman
Outside Aman

Representative Offices

branches of commercial banks have increased substantially from thirteen to two hundred forty; that is to say a percentage increase of 1746%. (Table 2.14).

Table 2-1 depicts quantitative growth of both commercial banks branches and the types of the financial assets which the commercial banks mobilize. The Jordanian economy experienced phenomenal percentage growth rates of 1746, 1510, 516, 1619 and 8174 in commercial banks branch expansion, demand deposits, time deposits "due on fixed dates", time deposits "Subject to notice" and savings deposits respectively over the period 1964 - 1986.

Examining the sub-periods, the gradual evolution of banking facilities in Jordan economy is clearly visible. It should be noted that the percentage change shown in Table 2.1 over each five years period has been substantial in all the categories; The commercial banks branch expansion recorded highest percentage increase of 122 in the period from 1979 to 1983.

This could partly be attributed to the fact that all the types of the deposits mobilized by commercial banks showed highest percentage growth rates in the preceding five years. For example, the demand deposits, time deposits "due on fixed dates", time deposits "subject to notice" and savings deposits recorded percentage growth rates of 167, 648, 238 and 420 percent respectively. It is also interesting to note that during the last five years period of 1982-86, all the categories have shown relatively modest increase compared to previous similar time period. This could partly be 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

Table 2.1

Percentage Growth Rates of Different Type fo Deposits

Period	Branch expansion	Demand deposaits	Time Deposits due on fixed dates	Time Deposits subject to notice	Saving deposits
1964-68	76.92	33.83	(1.69)	(33.54)	25.85
1969-73	43.47	54.03	9.17	57.79	159
1974-78	57.44	166.55	648.62	237.81	420.2
1979-83	121.34	81.92	228	80.91	97.88
1982-86	42.01	4.55	138	9.69	35.57
1964-86	1746.1%	1510%	516%	1619%	8174%

Source : C.B.J. Yearly Statistical Series (1983) Various Table

Note : Figures in Parentheses Indicate Minus

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 that is why the growth rates of the banks facilities were not as substantially as they were in the preceeding years.

This also implies that Jordanian economy has reached the stage of an appropriate financial development - Furthermore if we consider the ratio of money stock to G.N.P. (M1+M2) as the indicator of the size of the monetary structure in Jordan, it is found that these ratios were 24.78 and 33.31 for M1 and M2 respectively in the year 1964. These ratios have increased to 93.88 and 207.50 in the year 1986.

However, it should be noted that the ratio of M1/GND has recorded the highest figure of 96.10% in 1984, when the ratio of M2/GNP was 192.29%, M1/GNP recorded highest figure of 99.52% in the year 1983.

These simple observations and facts brings out the vital role of commercial banks as an intermediary for mobilizing massive savings of the community. This was made possible by the increased branch expansion as well as by the offer of different types of financial assets embodying different risks, returns and maturity. The commercial banks seemed to have met with considerable amount of success in tapping the financial savings and attracting flow of funds which are vital for investment and growth of the economy.

The ability of the commercial banks to create credit and expand the supply of the loanable funds is of

Table 2.2 : Ratio of Money Stock to G N P
1964 - 1985

(In Millions of JDs)

Year	M1	M2	G.N.P	M1/GNP (%)	M2/GNP (%)
1964	39.8	53.5	160.6	24.78	33.31
1965	47.1	64.1	180.5	26.09	35.51
1966	56.0	75.8	185.7	30.15	40.82
1967	75.2	94.1	142.5	52.77	66.03
1968	88.0	108.8	166.4	52.88	65.38
1969	96.2	118.8	197.4	48.73	60.18
1970	105.5	129.1	187.0	56.42	69.03
1971	108.0	135.1	199.4	54.16	67.75
1972	115.0	146.5	221.0	52.03	66.29
1973	139.2	176.1	241.5	57.64	72.92
1974	172.0	219.8	279.3	61.58	78.69
1975	225.0	288.3	376.0	59.84	76.67
1976	276.9	378.3	509.0	54.40	74.32
1977	330.9	467.6	521.8	63.41	89.60
1978	375.4	606.7	598.4	62.73	101.38
1979	472.6	773.1	645.5	73.21	113.57
1980	594.8	984.7	757.9	78.48	129.92
1981	701.6	1179.8	831.1	84.42	141.95
1982	787.5	1403.3	887.8	88.70	158.06
1983	869.4	1615.1	873.6	99.52	184.87
1984	878.4	1757.6	914.0	96.10	192.29
1985	848.2	1874.8	903.5	93.88	207.50

much importance towards the smooth functioning of Jordanian economy. Table 2.3 shows the types of deposits which commercial banks hold. Deposits are the main source of bank funds and they have constituted about 75.5 percent of total commercial banks liabilities in 1970 and about 73.8 percent in 1986.

Demand deposits which means that "they can be withdrawn by the depositor or transferred to some one else at any time, without previous notice to the bank".²

These deposits are maintained by depositors who need liquid balance at any time. "subject to notice".

Time deposits which can be defined as those deposits which are not payable on demand and deposited with banks for a certain period of time. These should be a notice of withdrawal and "they can not be withdrawn by check but must be converted into currency or demand deposits".³

Time deposits "due on fixed dates" which means that there is inforce a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by chek or otherwise, prior to the date of maturity.

Savings deposits which is referred to as a regular or pass-book savings account which is the most common type of time deposits.

By survaying the Tables 2.3 a,b,c we can conclude

2. Reed, Catter, Gill, Smith "Commercial Baqnking"
Prentice-Hell Inc. 1976 p. 74.

3. Ibid, p.75.

that the total demand deposits mobilized by commercial banks during the period from 1964 to 1970 and during the period from 1979 to 1986 were 33% and 74% respectively, these growth rates were relatively modest or lower compared to the period 1971 to 1978, during which demand deposits reported growth of 46.7% "Phenomenal growth Rates". It should also be noted that during the entire sample period of 1964 to 1986, the demand deposits increased by almost 1600%.

The changes that took place in the structure of time deposits indicate the accelerating financial development in general and the success of commercial banks as financial intermediaries in attracting the flow of funds, the total time deposits "due on fixed dates" growth rate for the period from 1964 to 1986 was a phenomenal figure of 826 percent.


In regard to time deposits "subject to notice", we can see the same trend prevailed with time deposits "due on fixed dates". They have increased from a growth rate of 7.22% in 1966 to 44.36% in 1980, over the period under study this types of deposits grew by 1619 percent (i.e.) from 1964 to 1986. The Tabel indicates that the percentage share of saving deposits were around 8% during the period 1964 - 1970, till then, they have gradually increased to an average of 16% in the total deposits mobilized by all commercial banks until recently, except for the years 1967 and 1976, the growth rates of savings deposits were around 25-30%, however there has been a considerable decline in growth rates of savings deposits in the recent years. 

Table 2.3a : Deposits of Commercial Banks by Types of Deposits
1964- 1986
(In Thousands of JDs)

End of Period	Total Demand Deposits	Total Time Deposits due on Fixed Dates	Total Time Deposits Subject to Notice	Total Savings Deposits	Grand Total
1	2.	3.	4.	5.	6.
1964	23015	14017	8597	3087	48716
1965	24501	10778	4887	3938	44104
1966	30941	12520	5240	414	52842
1967	31588	12975	5190	3635	53388
1968	30801	13781	5714	3885	54181
1969	32436	13149	7028	4784	57399
1970	30795	11713	9301	5865	57674
1971	30434	11650	10229	7340	59653
1972	39441	12744	11159	9544	72888
1973	47443	14356	11563	12392	85754
1974	64753	18532	15424	16353	115062
1975	98679	28552	16862	24621	168714
1976	140146	39582	21242	49062	250032
1977	165845	66593	20589	61814	314841
1978	122601	138735	52105	85060	413501

Table 2.3(B) : Percentage Share of Different Types of Deposits in
The Total Deposits of Commercial Banks.

End of Period	Total Demand Deposits	Total Time Deposits due on Fixed Dates	Total Time Deposits Subject to Notice	Total Savings Deposits	Grand Total
1.	2.	3.	4.	5.	6.
1964	47.2	28.7	17.6	6.5	100
1965	55.5	24.4	11.0	9.1	100
1966	58.5	23.7	9.9	7.9	100
1967	59.0	24.3	9.7	7.0	100
1968	56.8	25.4	10.5	7.3	100
1969	56.5	22.9	12.2	8.4	100
1970	53.4	20.0	16.0	10.4	100
1971	51.0	19.5	17.0	12.5	100
1972	54.0	17.5	15.0	13.5	100
1973	55.3	16.7	13.5	14.5	100
1974	56.2	16.0	13.4	14.4	100
1975	58.4	16.9	10.0	14.7	100
1976	56.0	15.8	8.5	19.7	100
				10.8	100

Table 2.3 (C) : Growth of Deposits of Commercial Banks
by Types of Deposits

End of Period	Total Demand Deposits	Total Time due on fixed dates	Total Time Deposits subject to notice	Total Savings Deposits	Grand Total (%)
1.	2.	3.	4.	5.	6.
1965	6.45	(23.11)	(43.16)	27.56	(9.47)
1966	26.28	16.16	7.22	(89.49)	19.81
1967	2.09	3.63	(0.96)	778.01	1.03
1968	(7.5)	6.21	10.09	6.87	1.48
1969	5.30	(4.95)	22.99	23.14	5.93
1970	(5.60)	(10.93)	32.34	22.59	0.47
1971	(1.18)	(0.54)	9.97	25.14	3.43
1972	29.59	9.39	9.09	30.02	22.18
1973	20.28	12.64	3.62	29.84	17.65
1974	36.48	29.08	33.39	31.96	34.17
1975	52.39	54.06	9.32	50.55	46.62
1976	42.02	38.63	25.97	99.26	48.19
1977	18.33	68.24	(3.80)	25.99	25.92
1978	4.07	108.33	153.07	37.62	42.45
1979	23.49	48.20	25.23	28.26	32.24
1980	35.16	44.49	44.36	18.27	36.30
1981	9.86	25.50	34.92	24.86	20.92
1982	12.00	31.89	5.99	16.92	19.62
1983	9.38	37.46	(12.38)	14.60	19.52
1984	5.64	21.96	13.28	8.89	14.68
1985	(8.56)	20.41	5.40	1.51	8.89
1986	(1.60)	18.04	4.85	7.12	11.39

Source : Table 2.3 (A)

Figure in Parentheses indicate minus.

By discussing the deposits of commercial banks according to depositors, we can see from Tabela 2.4 a,b,c that the private sector "Resident" has maintained the highest share in total deposits of commercial banks during the years from 1964 to 1986, it began with JD 28160 thousand and ended with JD 1424996 thousand.

Percentage share of private sector "Resident" was in 1964, 58.80 percent and in 1986 it was 73.21 percent. It is worth mentioning here, that although the public sector have shown some high growth rates in some years, yet the private sector "resident" have maintained a rising trend throughout the period. The Table also brings out clearly the neglected share of the private sector "non-resident" in the total deposits of commercial banks. This type of private sector has to be encouraged by different schemes and inducements in order to increase its share in total deposits of commercial banks as non-resident individuals are holding huge amounts in foreign banks abroad adding to this, the most of "non-resident" Jordanians are using major part of their savings in dwellings or land purchases, away from any rationalization in the uses of their funds in order to direct these funds to more productive activities which can contribute much to the social and economic development.

Table 2.4 (A) : Deposits of Commercial Banks Classified by Types Depositors

(In Thousands of JDs)				
End of Period	Public Sector	Private Sector	Total	
		Resident	Non-Resident	
1.	2.	3.	4.	5.
1964	18913	28160	1643	48716
1965	6355	35763	1986	44104
1966	6234	44462	2146	52842
1967	10630	40627	2131	53388
1968	9417	42915	1849	54181
1969	9540	45320	2539	57399
1970	11696	43445	2533	57674
1971	8760	48816	2077	59653
1972	9615	61233	2040	72888
1973	10298	73313	2143	85754
1974	12761	98672	3629	115062
1975	16485	143595	8634	168714
1976	25005	204655	20371	250031
1977	28450	267445	18946	314841
1978	36401	364633	47476	448510
1979	60648	465398	67090	593136
1980	94653	580572	133253	808478
1981	127697	706396	143555	977648
1982	114514	883386	171579	116479
1983	145700	1035427	216694	1397821
1984	156418	1169800	276869	1603087
1985	178498	1274405	294265	1747168
1986	215761	1424996	305495	1946252

Source : C.B.J. Yearly Statistical Series (1983) Table 11.
C.B.J. Monthly Statistical Bulletin December 1987
PP. 26,27

Note : Public Sector Includes Govt. and Semi-Govt.,
Municipalities and Public Corporations Deposits

Table 2.4(B) : Percentage Share of Different Types of
Deposits in Total Commercial Banks
Deposits Classified by Types of
Depositors.

End of Period	Public Sector	Private Sector		Total
		Resident	Non- Resident	
1.	2.	3.	4.	5.
1964	38.82	57.80	3.38	100
1965	14.41	81.00	4.59	100
1966	11.79	84.14	4.07	100
1967	19.91	76.09	4.00	100
1968	17.38	79.20	3.42	100
1969	16.62	78.95	4.43	100
1970	20.27	75.32	4.41	100
1971	14.68	81.83	3.49	100
1972	13.19	84.00	2.81	100
1973	12.00	85.49	2.51	100
1974	11.09	85.75	3.16	100
1975	9.77	85.11	5.12	100
1976	10.00	81.85	8.15	100
1977	9.04	84.94	6.02	100
1978	8.11	81.29	10.60	100
1979	10.23	78.46	11.31	100
1980	11.70	71.81	16.49	100
1981	13.06	72.25	14.69	100
1982	9.79	75.53	14.68	100
1983	10.42	74.07	15.51	100
1984	9.75	72.97	17.28	100
1985	10.21	72.94	16.85	100
1986	11.08	73.21	15.71	100

Source : Calculated from Table 2.4(A)

Note : Col. 5 = Cols. 2+3+4.

Table 2.4(C) : Growth of Deposits of Commercial Banks
by Types of Depositors

End of Period	Public Sector	Private		Sector	Total
		Resident	Non-Resident		
1.	2.	3.	4.	5.	
1965	(66.4)	26.99	20.87	9.47	
1966	(1.91)	24.32	8.05	19.81	
1967	70.51	(8.63)	(0.70)	1.16	
1968	(11.42)	5.63	(13.24)	1.50	
1969	1.30	5.60	37.31	5.93	
1970	22.59	(4.14)	(0.24)	0.47	
1971	(25.11)	12.36	(18.01)	3.43	
1972	9.76	25.43	(1.79)	22.18	
1973	7.10	19.72	5.04	17.65	
1974	23.91	34.59	69.34	34.17	
1975	29.18	45.52	37.91	46.62	
1976	51.68	42.52	35.93	48.19	
1977	13.77	30.68	7.00	25.92	
1978	27.94	36.33	150.05	42.45	
1979	66.61	27.63	41.31	32.24	
1980	56.06	24.74	98.61	36.3	
1981	34.91	21.67	7.73	20.92	
1982	(10.33)	25.05	19.52	19.62	
1983	27.23	17.21	26.29	19.52	
1984	7.35	12.97	27.76	14.68	
1985	14.11	8.94	6.28	8.98	
1986	20.87	11.81	3.81	11.39	

Source : Calculated from Table 2.4(a)

Note 1. : Figures in Parentheses Indicates Minus.

Note 2. : Col. 5 = Cols. 2+3+4

Tables 2.5 a,b,c shows that the private sector holding of demand deposits accounted for about 75-80% of the ~~total~~ demand deposits mobilized by the Commercial banks.

Upto 1970, this percentage share of demand deposits owned by residents constituted about 70% of the total demand deposits, till then this percentage share had gone up to 70-80%.

The most interesting part of whole period is the fact that the private sector "Resident" has maintained almost 70% to 80% of the total demand deposits, followed by Govt. deposits and private sector non-resident and public corporations.

It is of much interest to note that the highest growth rate of deposits by private sector was recorded in the year 1975. Private sector "resident" recorded a growth of 53.96% and that of the "non-resident" was 180.74%. In case of Public sector, the highest growth rate of 363% was recorded by municipalities in 1976, other figures also available for the rest of the period under study.

To conclude we can say that the increasing trend in demand deposits of commercial banks throughout the period from 1964 to 1986 reveals the strength of the commercial banks in extending credit to different sectors on one hand and the spread of banking habits among the people and the institutions on the other.

Table 2.5(A) : Total Outstanding Demand Deposits With Commercial Banks.

End of Period	Public sector				Private Sector		Total
	Govt.	Semi. Govt.	Municipalities	Public Corps.	Resident	Non-Resident	
1.	2.	3.	4.	5.	6.	7.	8.
1964	3032	2349	370	1490	14867	901	23015
1965	1301	1697	441	1045	19280	737	24501
1966	2592	1595	386	420	24895	1053	30941
1967	5172	1058	497	805	22416	1640	31588
1968	3862	1055	581	1088	22762	1453	30801
1969	4908	1009	409	1251	23269	1592	32436
1970	4681	1351	754	1451	20821	1737	30795
1971	2903	1229	458	1576	22932	1336	30434
1972	3725	882	487	2052	30960	1335	39441
1973	4255	930	532	2633	37692	1401	47443
1974	5929	1269	628	2735	52364	1828	64753
1975	5081	3969	985	2889	80623	5132	98679
1976	9090	3943	4568	2794	106576	13175	140146
1977	9299	6110	2718	3656	133434	10628	165845
1978	5173	3316	2978	3374	143928	14132	172602
1979	5535	8663	4591	3609	173802	16949	213149
1980	6603	6800	3695	2616	218854	49532	288100
1981	6970	5401	4635	3488	272008	24008	316510
1982	9338	6295	3633	5117	296354	33764	354501
1983	11565	5441	6787	6860	325032	32080	307763
1984	16750	6042	6005	5007	325855	49956	409635
1985	19794	6426	5070	10737	292640	39936	374603
1986	19544	8107	4737	6084	299915	32258	370645

Source : C.B.J. Yearly Statistical Series (1983) Table 12

C.B.J. Monthly Statistical Bulletin, December 1987 P.P 26,27

Note : Col. 8 = Cols. 2+3+4+5+6+7

Table 2.5 (B) :Percentage Share of Depositors in the total Outstanding Demand Deposits with Commercial Banks.

Year	Public Sector				Private Sector		Total (%)
	Govt.	Semi-Govt.	Municipalities	Public Crops.	Resident	Non-Resident	
1.	2.	3.	4.	5.	6.	7.	8.
1964	13.0	10	1.6	6.5	65.0	3.9	100
1965	5.3	6.9	1.8	4.3	78.7	3.0	100
1966	8.4	5.1	1.2	1.3	80.4	3.6	100
1967	16.4	3.3	1.6	2.5	70.9	5.3	100
1968	12.5	3.4	1.9	3.5	73.8	4.9	100
1969	15.0	3.1	1.3	3.5	71.7	5.1	100
1970	15.2	4.3	2.4	4.7	67.7	5.8	100
1971	9.5	3.2	1.5	5.2	75.3	5.3	100
1972	9.4	2.2	1.2	5.2	78.4	3.6	100
1973	8.9	1.9	1.1	5.5	79.4	3.2	100
1974	9.1	1.9	0.9	4.2	80.8	3.1	100
1975	5.1	4.0	1.0	2.9	81.7	5.3	100
1976	6.5	2.8	3.2	1.9	76.0	9.6	100
1977	5.6	3.6	1.6	2.2	80.4	6.6	100
1978	3.0	1.9	1.7	1.8	83.3	8.3	100
1979	2.6	4.0	2.1	1.7	81.5	8.1	100
1980	2.3	2.3	1.3	0.9	76.0	17.2	100
1981	2.2	1.7	1.5	1.1	86.0	7.5	100
1982	2.6	1.7	1.0	1.4	83.5	9.8	100
1983	3.0	1.4	1.7	1.8	83.8	8.8	100
1984	4.1	1.5	1.5	1.2	79.5	12.2	100
1985	5.3	1.7	1.3	2.9	78.1	10.7	100
1986	5.3	2.2	1.3	1.6	80.9	8.7	100

Sources : Calculated from Table 2.5(a)

Table 2.5(C) : Growth Rates of Demand Deposits of Commercial Banks
Classified by Types of Depositors

Year	Public sector				Private Sector		Total
	Govt.	Semi. Govt.	Municipalities	Public Corps.	Resident	Non-Resident	
1.	2.	3.	4.	5.	6.	7.	8.
1965	(57.10)	(27.76)	19.18	(30.15)	29.68	(18.21)	6.45
1966	99.23	6.02	(12.48)	(58.81)	29.12	42.87	26.28
1967	99.53	(33.67)	38.75	91.66	(9.96)	55.74	2.09
1968	(25.33)	(0.29)	16.90	35.15	1.54	(11.41)	(2.50)
1969	27.00	(4.37)	(29.61)	14.98	2.22	9.56	5.30
1970	(4.63)	(33.89)	84.35	15.98	10.53	9.10	(5.60)
1971	(37.99)	(9.04)	(39.26)	8.61	10.13	(23.09)	(1.18)
1972	28.31	(28.24)	6.33	30.20	35.00	(0.08)	29.59
1973	14.22	5.44	9.24	28.31	21.74	4.94	20.28
1974	39.34	36.45	18.04	3.87	38.92	30.47	36.48
1975	(14.31)	212.76	56.84	5.63	53.96	180.74	52.39
1976	78.90	(0.66)	363.00	(3.29)	32.19	156.72	42.02
1977	2.30	54.95	(40.50)	30.85	25.20	(19.34)	18.33
1978	(44.38)	(45.73)	9.56	15.92	7.86	32.96	4.07
1979	6.99	161.24	54.16	17.40	20.75	19.93	23.49
1980	19.29	(21.51)	(19.52)	27.52	25.92	192.24	35.16
1981	5.55	(20.58)	25.43	33.33	24.28	(51.54)	9.86
1982	33.97	16.55	(21.62)	46.70	8.95	40.63	12.00
1983	23.84	13.57	86.81	34.06	9.67	(4.99)	9.38
1984	45.00	11.04	(11.53)	(11.53)	0.25	55.72	5.64
1985	18.03	6.35	(15.58)	114.43	(10.20)	(20.06)	(8.56)
1986	(1.27)	26.15	(6.57)	43.34	2.48	(19.23)	(1.06)

Source : Calculated from Table 2.5(a)

Note Figures in Parentheses Indicate Minus.

Tables 2.6 a,b,c shows that the ownership of the private sector has remained very high of the total time deposits mobilized. The private sector contributed more than 70% upto 1987, it is only after the year 1979 that private sector share in time deposits "due on fixed dates" decreased to about 50-60%. It is only recently that private sector, share has again shown as increase in the total time deposits mobilized by commercial banks during the period from 1964 to 1970. Private sector share in Time Deposits "Due on Fixed dates" has shown decreasing growth rate of about 16% where is during the periods 1971-74 and 1979-86, the growth rates of private sector share has shown astonishingly excelerating rates of 1090% and 470% respectively.

Tables 2.7 a,b,c show that, the private sector has always held almost 80-90% of the total time deposits "subject to notice" mobilized by comomercial banks between the years 1964 and 1977, till then, the private sectors share in Time Deposits "subject to notice" has declined to 65% until recently, it seems that there has been a ssubstitution going on between private and public sector regarding their shares in time deposits "subject to notice" - public sector has a share of 12% to 18% between 1964 and 1977, where as this share of public sector has increased on average to 25% in the years after 1979. The time deposits "subject to notice" has shown a very fluctuating growth every year. The growth rates have never been stable.

Table 2.6(A) : Total Outstanding of Time Deposits with Commercial Banks (Due on fixed dates)

(In Thousands of JDs)					
End of Period	Public	Sector	Private	Sector	Total
	Govt. and Semi. Govt.	Municipalities and public Corps.	Resident	Non-Resident	
1.	2.	3.	4.	5.	6.
1964	6200	362	6989	466	14017
1965	636	371	8828	943	10778
1966	1007	85	10668	760	12520
1967	2398	475	9929	173	12975
1968	2335	306	11013	127	13781
1969	1463	266	10655	765	13149
1970	1053	513	9507	640	11713
1971	589	277	10193	591	11650
1972	642	424	11104	574	12744
1973	330	309	13115	602	14356
1974	812	252	15842	1626	18532
1975	1034	490	23871	3157	28552
1976	1625	541	31942	5474	39582
1977	4394	450	54877	6872	66593
1978	11627	1421	101727	23960	138735
1979	21539	2089	136840	45145	205613
1980	33769	13798	179243	70300	297110
1981	38590	28259	210422	95609	372880
1982	37454	17552	315339	121477	491822
1983	60107	30200	429484	156277	676068
1984	60204	30576	536678	197111	824569
1985	"N.A."	"N.A."	658560	224278	882838
1986	"N.A."	"N.A."	779288	243929	1023217

Source : C.B.J. Yearly Statistical Series (1983) Table 12
C.B.J. Monthly Statistical Bulliten, December 1987 P.27

Note : Column 6 = Columns 2+3+4+5

Table 2.6(B) : Percentage Share of Depositors in The Total
Outstanding of Time Deposits with Commercial Banks
(Due on Fixed dates)

Year	Public	Sector	Private	Sector	Total (%)
	Govt. & Semi Govt.	Municipa- lities & Public Corps.	Resident	Non - Resident	
1.	2.	3.	4.	5.	6.
1964	44.2	2.6	49.8	3.4	100
1965	5.9	3.4	81.9	8.8	100
1966	8.0	8.8	85.2	6.0	100
1967	18.4	3.6	76.5	1.5	100
1968	16.9	2.2	79.9	1.0	100
1969	11.1	2.0	81.0	5.9	100
1970	8.9	4.3	81.1	5.7	100
1971	5.0	2.3	87.4	5.3	100
1972	5.0	3.3	87.1	4.6	100
1973	2.2	2.1	91.3	4.4	100
1974	4.3	1.3	85.4	9.0	100
1975	3.6	1.7	83.6	11.1	100
1976	4.1	1.3	80.6	14.0	100
1977	6.6	0.6	82.4	10.4	100
1978	8.4	1.0	73.3	17.3	100
1979	10.5	1.0	66.5	22.0	100
1980	11.3	4.6	60.3	23.8	100
1981	10.3	7.6	56.4	25.8	100
1982	7.6	3.5	64.1	24.8	100
1983	8.9	4.5	63.5	23.1	100
1984	7.3	3.7	65.0	24.0	100
1985	-	-	-	-	-
1986	-	-	-	-	-

Source : Calculated From Table 2.6(A)

Table 2.6(C) : Growth of Time Deposits (Due on Fixed Dates) of
Commercial Banks Classified by Types of Depositors

Year	Public	Sector	Private Sector		Total(%)
	Govt. & Semi Govt.	Municipa- lities & Public Corps.	Resident	Non - Resident	
1.	2.	3	4.	5.	6.
1965	(89.75)	(2.48)	26.31	102.36	(23.11)
1966	58.33	(77.09)	20.84	(19.46)	16.16
1967	138.13	458.82	(6.93)	(77.24)	3.63
1968	(2.63)	(35.58)	10.91	(26.59)	6.21
1969	37.35	(13.08)	(3.26)	502.36	(4.59)
1970	(28.03)	92.85	(10.78)	(16.34)	(10.93)
1971	(44.07)	(46.01)	7.21	(7.66)	(0.54)
1972	8.99	(53.06)	8.93	(2.88)	9.39
1973	48.60	(27.12)	18.11	4.87	12.60
1974	146.06	(18.45)	20.79	170.09	29.08
1975	27.33	94.44	50.68	99.15	54.06
1976	57.15	10.4	33.81	73.39	38.63
1977	170.40	16.83	71.8	25.53	68.24
1978	164.61	215.77	85.37	248.66	108.33
1979	85.24	47.00	34.51	88.41	98.2
1980	56.78	560.50	30.98	55.72	44.49
1981	14.27	104.80	17.39	36.00	25.50
1982	(2.95)	(37.89)	49.86	27.05	31.89
1983	60.48	72.06	36.19	28.64	37.46
1984	0.16	1.24	24.95	26.12	21.96
1985	-	-	-	-	-
1986	-	-	-	-	-

Source : Calculated From Table 2.6(A)

Note : Figures in Parentheses Indicate Minus

Table 2.7(A) : Total Outstanding of Time Deposits
Subject to Notice with Commercial Banks

(In Thousands of JDs)

End of Period	Public Sector	Private Sector		Total
		Resident	Non-Resident	
1.	2.	3.	4.	5.
1964	5104	3220	273	8597
1965	863	3727	297	4887
1966	147	4765	328	5240
1967	223	4656	311	5190
1968	189	5260	265	5714
1969	223	6628	177	7028
1970	1870	7282	149	9301
1971	1701	8393	135	1022
1972	1375	9656	128	11159
1973	1309	10133	121	11563
1974	1136	14158	130	15424
1975	2037	14630	195	16862
1976	2364	17819	1059	21242
1977	1813	18364	412	20589
1978	8529	35725	7851	52105
1979	14258	48068	2930	65256
1980	26772	56263	11173	94208
1981	38952	70711	17450	127113
1982	34305	91051	9382	134738
1983	23368	73818	20867	118055
1984	31109	81309	21319	133737
1985	25569	93538	21857	140965
1986	25958	99279	21568	147805

Source : C.B.J. Yearly Statistical Series (1983) Table 12
C.B.J. Monthly Statistical Bulletin
December 1987, P.27

Note : Col. 5 = Cols. 2+3+4

Table 2.7(B) : Percentage Share of Depositors in The
Total Outstanding of Time Deposits
(Subject to Notice) with Commercial Banks

End of Period	Public Sector	Private Sector		Total
		Resident	Non-Resident	
1.	2.	3.	4.	5.
1964	59.4	37.4	3.2	100
1965	17.6	76.3	6.1	100
1966	2.8	90.9	6.3	100
1967	4.3	89.7	6.0	100
1968	3.3	92.0	4.7	100
1969	3.1	94.3	2.6	100
1970	20.0	78.3	1.7	100
1971	16.6	82.0	1.4	100
1972	12.3	86.5	1.2	100
1973	11.3	87.6	1.1	100
1974	7.3	91.8	0.8	100
1975	12.0	86.7	1.3	100
1976	11.0	83.8	5.2	100
1977	8.8	89.0	2.2	100
1978	16.3	68.5	15.2	100
1979	21.8	73.6	4.6	100
1980	28.4	59.7	11.9	100
1981	30.6	55.6	13.8	100
1982	25.4	67.5	7.1	100
1983	19.8	62.5	17.7	100
1984	23.2	60.8	16.0	100
1985	18.1	66.4	15.5	100
1986	18.2	67.2	14.6	100

Source : Calculated From Table 2.7(A)

Note : Col. 5 = Cols. 2+3+4

Table 2.7(C) : Growth of Time Deposits (Subject to Notice)
with Commercial Banks Classified by
Types of Depositors

Year	Public Sector	Private Sector		Total(%)
		Resident	Non- Resident	
1.	2.	3.	4.	5.
1965	(83.10)	15.74	8.79	(43.16)
1966	(82.97)	27.85	10.43	7.22
1967	51.70	(2.29)	(5.19)	(0.96)
1968	(15.25)	12.97	(14.80)	10.09
1969	17.98	26.00	(33.21)	22.99
1970	(61.44)	9.86	(15.82)	32.34
1971	(9.04)	15.25	(9.40)	9.97
1972	(19.17)	15.04	(5.19)	9.09
1973	(4.80)	4.93	(5.47)	3.62
1974	(13.22)	39.72	7.43	33.39
1975	79.31	3.33	1.50	9.32
1976	16.05	21.79	443.07	25.97
1977	(23.31)	3.05	(61.10)	(3.80)
1978	370.43	94.53	90.55	153.07
1979	67.17	34.55	(62.68)	25.23
1980	87.76	17.04	281.33	44.36
1981	45.49	25.67	56.18	34.92
1982	(11.94)	28.76	(46.24)	5.99
1983	(31.87)	(18.93)	122.42	(12.38)
1984	33.12	10.14	2.15	13.28
1985	(17.81)	15.04	2.52	5.40
1986	5.43	6.13	(1.33)	4.85

Source : Calculated From Table 2.7(A)

Note : Figures in Parentheses Indicate Minus.

As we have defined earlier the meaning of the term "Savings Deposits" and to conclude our discussion on this type of deposits we can see from the Table 2.8 a.b.c that the Private sector "resident" has maintained the biggest share of total savings deposits by commercial banks throughout the period as indicated by the Table. It began in 1964 with JD 3084 thousand and by the end of 1986 it reached to JD 246516 thousand. The private sector "resident" has maintained a percentage share of about 98% during the period under study. It is noticeable that the Public sector has also maintained a good amounts in this form of deposits as clearly visible from Table 2.8 (a), though its percentage share was less than one percent throughout the period, yet it has grown from 1% in 1969 to 189.28% in 1976 and declined upto 1981, where it increased to 133.66% after which it has declined to the level of 71.86% in 1986.

The Table clearly brings out the important role played by the Private sectors Resident and Non resident in building up the savings deposits of commercial banks.

Table 2.8(A) : Total Outstanding of Savings Deposits
with Commercial Banks

(In Thousands of JDs)

End of Year	Public Sector	Private Sector		Total
		Resident	Non- Resident	
1.	2.	3.	4.	5.
1964	1	3084	2	3087
1965	1	3928	9	3938
1966	2	4134	5	4141
1967	2	3626	7	3635
1968	1	3880	4	3885
1969	11	4768	5	4784
1970	23	5835	7	5865
1971	27	7298	15	7340
1972	28	9513	3	9544
1973	-	12373	19	12392
1974	-	16308	45	16353
1975	-	24471	150	24621
1976	81	48318	663	49062
1977	10	60770	1034	61814
1978	283	83253	1533	85069
1979	364	106688	2066	109118
1980	600	126212	2248	129060
1981	1402	153255	6488	161145
1982	820	180642	6956	188418
1983	1367	207094	7469	215930
1984	646	225958	8475	235079
1985	693	229669	8189	238551
1986	1191	246516	7739	255446

Source : C.B.J. Yearly Statistical Series (1983) Table 12
C.B.J. Monthly Statistical Bulletin, December
1987 P.P. 26 - 27

Note : Column 5 = Columns 2+3+4

Table 2.8(B) : Percentage Share of Depositors
in The Total Outstanding of Savings
Deposits With Commercial Banks

End of Year	Public Sector	Private Sector		Total(%)
		Residen	Non- Resident	
1.	2.	3.	4.	5.
1964	0.03	99.9	0.07	100
1965	0.03	99.7	0.28	100
1966	0.05	99.8	0.15	100
1967	0.05	99.7	0.25	100
1968	0.02	99.8	0.18	100
1969	0.2	99.6	0.2	100
1970	0.4	99.5	0.1	100
1971	0.3	99.4	0.3	100
1972	0.3	99.6	0.1	100
1973	-	99.8	0.2	100
1974	-	99.7	0.3	100
1975	-	99.4	0.6	100
1976	0.2	98.4	0.4	100
1977	0.1	98.3	1.69	100
1978	0.33	97.8	1.87	100
1979	0.3	97.7	2.0	100
1980	0.5	97.8	1.7	100
1981	0.8	95.0	4.2	100
1982	0.4	95.8	3.8	100
1983	0.6	95.9	3.8	100
1984	0.3	96.1	3.6	100
1985	0.3	96.2	3.5	100
1986	0.5	95.5	3.0	100

Source : Calculated From Table 2.8(A)

Table 2.8(C) : Growth of Savings Deposits With Commercial Banks Classified by Types of Depositors

End of Year	Public Sector	Private Sector		Total(%)
		Resident	Non- Resident	
1.	2.	3.	4.	5.
1965	1.00	27.36	4.50	27.56
1966	2.00	5.24	(44.45)	5.15
1967	1.00	(12.29)	1.90	(12.22)
1968	(0.5)	7.00	(42.86)	6.87
1969	11.00	22.88	1.25	23.14
1970	109.09	22.37	1.40	22.59
1971	17.39	25.07	114.28	25.14
1972	3.70	30.35	(0.2)	30.02
1973	-	30.06	533.33	29.84
1974	-	31.8	136.84	31.96
1975	-	50.05	233.33	50.55
1976	189.28	97.45	4.42	99.26
1977	(87.66)	25.77	55.95	25.99
1978	28.30	36.99	48.25	37.62
1979	28.60	28.14	34.76	28.26
1980	64.83	18.3	8.80	18.27
1981	133.66	21.42	188.61	24.86
1982	(41.52)	17.87	7.21	16.92
1983	66.70	14.64	7.37	14.60
1984	(52.75)	9.10	13.46	8.86
1985	7.27	1.64	(3.38)	1.47
1986	71.86	7.33	(5.50)	7.08

Source : Calculated From Table 2.8(A)

Note : Figures in Parentheses Indicate Minus

Sectorial Distribution of Outstanding Commercial Bank Credit

From the Tables 2.9 a,b,c one can easily make out that the commercial banks in Jordan give credit to five sectors namely⁴

1. Municipalities and Public corporation
2. Agriculture
3. Industry mining
4. General Commerce and Trade (which includes inland and foreign trade)
5. Others (includes Transportation, Construction, Tourism, Hotels, Financial institution, Private individuals and Professionals)

Out of all these five sectors, the general commerce and trade and "others" got around 70-80% of the total credit disbursed by commercial banks.

The sectorial distribution of credit by commercial banks in Jordan 1964-86 closely bring out the facts that the proportion of credit flowing to Agriculture and Industry as a percentage of the total remained more or less constant throughout the period.⁵ Agriculture sector received around 2-3% of the total credit whereas the industrial sector received 11-13% of the total credit from the commercial banks. It must be noted that there exists specialized credit institutions which entirely cater to the financial needs of the agricultural and industrial sectors. These institutions are Agricultural Credit Corporation established in the year

4. C.B.J. Yearly Statistical Series (1983) p.13.

5. This apparently stable but relatively lower shares should be judged in the view of the fact that since 1958 the specialized Credit Institution existed in Jordan economy catering to the needs of industry and agriculture, the analysis of which is deferred until Chapters 3 & 4 of this research.

1959, and Industrial Development Bank established in the year 1965. Since agriculture and industry constitute important aspect of Jordanian economy, a separate and far more detailed analysis required to appraise the role of the specialized credit institutions in the development of Industrial and Agricultural sectors and we have preferred to deal with it in chapters three and four of this research undertaking.

The major share of the total banks credit in the beginning (1964) was to general commerce and trade (i.e.) 50% of the total credit. General commerce and trade and the sector entitled "others" accounted for almost 75-80% of the total credit extended by commercial banks during the period 1964-86.

"General Commerce and Trade" continued to enjoy relatively larger share before 1970, since then its share has shown a declining trend where as the share going to activities like construction, transportation, Tourism, Hotels and mining ... etc., has been on the exendency.

The commercial banks in Jordan have served largely General Commerce and Trade and "others" sectors since about 75-80% of the total credit was given to these sectors, the developments of General Commerce and trade and also the construction activity, Transportation, Tourism, Hotels financial institutions, self employed people and mining is largely due to the credit extended by commercial banks over a period of time in Jordan. It is obvious that the development of the above mention activities will always lead

to the faster development of the principle sectors namely, Agriculture and Industry; thus, one can say that the commercial banks have helped in creating the infra-structure for the development of Agricultural and Industrial sectors respectively.

The commercial banks have been a major source of finance to various sectors of Jordanian economy. Outstanding banks credit increased from JD 29.2 million in 1964 to JD 1395 a million in 1986. The outstanding commercial banks credit as a proportion of GNP has been 18.2, 24.35, 47.75 and 72.77 in the year 1964, 1970, 1980 and 1986 respectively.

As is evident from table 2.9 b the sector classified as general commerce and trade and "others" (which include construction, transportation, tourism, mining, financial institution, individuals and Hotels) accounted for 70-80% of the total outstanding banks credit throughout the period from 1964-1986. It should be noted that this was not accomplished at the cost of credit extended to the core sectors like Agriculture and Industry, the shares of which remained about 3% and 11% throughout the period. The Jordanian Banking System seems to have been concerned with financing of domestic trade, wholesale and retail, and also encouraging activities like construction, transportation classified as "others" increased its share from 31% in 1964 to 51% in 1986. It is interesting to note that the share of General Commerce and Trade has declined from 49% in 1964 to 24% in 1986. This decrease in the allocation of credit to

trade sector might seem to reflect the deliberate policy move to discourage highly unproductive commercial activities of big traders (i.e.) speculation and hoarding⁶. It is also interesting to note that bank credit extended to municipalities and public corporations has increased from 5% in 1964 to 10% in 1986.

This suggest that the sector oriented towards social services at the Governorates level have not been deprived of their due share in bank credit. Furthermore, a larger flow of credit made available to the activities like construction, transportation ..etc. (others) would seem to reflect the fact that the policy makers view this activities as catalyst or atleast major contributing factors to economic growth of Jordanian economy. This remains true if ~~one~~ considers these activities to be the fundamental infrastructure facilities of any economy.

The preceeding figures and observations seem to reflect this basic objectivity expoused by policy makers in the allocation of credit extended over the years to different sectors.

Table 2.10 shows that the gold and foreign exchange reserves constitute an important asset of the commercial banks. If one looks at the growth rates of gold and foreign exchange reserves of commercial banks, one will find that year to year, there are big fluctuations, but at the same time, it is one of the principle assets of the commercial banks in Jordanian.

6. C.B.J. Annual Report 1977, p.35.

Table 2.9(A) : Sectoral Distribution of Outstanding Commercial Banks Credit 1964 - 1986

(In Thousands of JDs)

End of Period	Municipalities & Public Corps.	Agriculture.	Industry	General Commerce and Trade	Others	Total
1.	2.	3.	4.	5.	6.	7.
1964	1610	860	3326	14405	9070	29271
1965	2064	678	4321	17075	9161	33299
1966	2579	613	4723	20327	10739	38981
1967	2921	767	4232	17352	13614	38886
1968	3684	654	4012	17076	15571	40997
1969	2936	717	4052	19059	18625	45389
1970	2829	583	4029	16890	21217	45548
1971	3029	799	3916	18964	20220	46928
1972	3602	804	4354	21458	20372	50590
1973	3673	2061	5873	25079	25131	61817
1974	5046	3745	10087	30302	35770	84950
1975	7281	3608	14831	51372	49652	126744
1976	122612	5162	21808	81614	86246	207091
1977	17919	8311	26599	81427	109799	244055
1978	24023	12708	36578	100531	158961	332799
1979	27756	17501	56477	134236	229229	465059
1980	31851	17705	68718	166956	279126	563856
1981	45000	19386	82437	225791	348703	721317
1982	64499	24630	98532	284944	414566	887171
1983	65434	25626	118428	276650	544784	1030922
1984	85064	25689	142372	296097	635633	1184825
1985	117188	26298	157165	308555	665210	1274416
1986	142483	32671	176743	338744	704971	1395412

Source : C.B.J. Yearly Statistical Series 1983 Table 13
C.B.J. Monthly Statistical Series December 1987 P.31

Note Column 7 = Columns 2+3+4+5+6

Table 2.9(B) : Percentage Share of Different Sectors in The
Total Outstanding Commercial Banks Credit

End of Period	Municipa- lities & Public Corps.	Agricul- ture.	Industry	General Commerce and Trade	Others	Total
1.	2.	3.	4.	5.	6.	7.
1964	5.5	2.93	11.36	49.21	31	100
1965	6.19	2.03	12.97	51.27	27.54	100
1966	6.6	1.57	12.11	52.14	27.58	100
1967	7.51	1.97	10.88	44.62	35.02	100
1968	8.98	1.59	9.78	41.65	38	100
1969	6.46	1.57	8.92	41.99	41.06	100
1970	6.21	1.27	8.84	37.08	46.6	100
1971	6.45	1.70	8.34	40.41	49.54	100
1972	7.11	1.58	8.60	42.41	40.3	100
1973	5.94	3.33	9.50	40.56	40.67	100
1974	5.93	4.40	11.87	35.67	42.13	100
1975	5.74	2.84	11.70	40.58	39.19	100
1976	5.92	2.49	10.53	39.40	41.66	100
1977	7.34	3.40	10.89	33.36	45.01	100
1978	7.21	3.81	10.99	30.20	47.79	100
1979	5.96	3.73	12.14	28.86	49.31	100
1980	5.64	3.05	12.18	29.60	49.53	100
1981	6.23	2.68	11.42	31.30	48.37	100
1982	7.27	2.77	11.10	32.11	46.75	100
1983	6.34	2.48	11.48	26.83	52.87	100
1984	7.17	2.16	12.01	24.99	53.67	100
1985	9.19	2.06	12.33	24.21	52.21	100
1986	10.21	2.34	12.66	24.27	50.52	100

Source : Calculated From Table 2.9(A)

Table 2.9(C) : Growth of Each Sector Contributing to The Total
Outstanding Commercial Banks Credit - 1965 - 1986

End of Period	Municipa- lities & Public Corps.	Agricul- ture.	Industry	General Commerce and Trade	Others	Total
1.	2.	3.	4.	5.	6.	7.
1965	28.19	(21.17)	29.91	18.53	1	13.76
1966	24.95	(9.59)	9.30	19.04	17.22	17.06
1967	13.26	25.12	(10.40)	(14.64)	26.77	(0.25)
1968	26.12	(14.74)	(5.20)	(1.60)	14.37	5.42
1969	(20.31)	9.63	0.99	11.61	19.61	10.71
1970	3.65	(18.69)	0.99	(11.39)	13.91	0.35
1971	7.06	37.04	(2.81)	12.27	(4.70)	3.02
1972	18.91	0.62	11.18	13.15	0.75	7.80
1973	1.97	56.34	34.88	16.87	23.36	22.19
1974	37.38	81.70	71.75	20.82	42.33	37.42
1975	44.21	(3.66)	47.03	69.53	38.80	49.19
1976	68.39	43.07	47.04	58.86	73.70	63.39
1977	46.14	61	21.96	(0.23)	27.30	17.84
1978	34.06	52.90	37.51	23.46	44.77	36.36
1979	15.53	36.61	54.40	33.52	44.20	39.74
1980	14.75	(0.90)	21.67	24.37	21.76	21.24
1981	41.28	12.67	19.96	35.23	24.92	27.92
1982	43.33	27.05	19.52	26.19	18.88	22.99
1983	1.44	4.04	20.19	(2.92)	31.14	16.20
1984	29.99	0.12	20.21	7.02	16.67	14.92
1985	37.76	2.49	10.39	4.20	4.65	7.56
1986	21.58	24.23	12.45	9.78	8.10	9.49

Source : Calculated From Table 2.9(A)

Note : Figures in Parentheses Indicate Minus.

Table 2.10 : Gold and Foreign Exchange Reserves of Commercial Banks 1964 - 1986

(InThousands of JDs)			
End of Period 1.	Commercial Banks 2.	End of Period 1.	Commercial Banks 2.
1964	24732	1976	19237
1965	10054	1977	36733
1966	7264	1978	74632
1967	5304	1979	80064
1968	6234	1980	205213
1969	4835	1981	233293
1970	6067	1982	255398
1971	3072	1983	304387
1972	3389	1984	330528
1973	6555	1985	384893
1974	7961	1986	403318
1975	12451		

Source : C.B.J. Yearly Statistical Series (1983) Table 5
C.B.J. Monthly Statistical Bulletin December 1987 P. 12

The commercial banks in the Hashemite Kingdom of Jordan accepting Deposits in foreign currencies and granting loans in foreign currencies too, subjects to the approvals of the Central Bank of Jordan.

Around 10-30% out of the total assets of the commercial banks they are in the form of gold and foreign exchange. The balance of payments problems of the economy in any year will be having its repercussions effects on the commercial banks portfolio.

Growth Rates of Bank credit and Real output of specific sectors

In this section an attempt is made to examine the growth rates of commercial banks credit given to few selected sectors and growth rates of real output of these specific sectors. The time period chosen is 1975 to 1985 and the base for real output is 1975. It is preferable to examine the growth of bank credit and real output rather than nominal growth of output, this is because if the nominal growth of output contains a trend, then we suspect that examination of nominal growth rates of bank credit and output might give us a distorted picture of any underlying relationship. In 1975, corresponding to this, General commerce and trade reported almost 100% increase in the real growth rate in 1985 over a decade.

Tables 2.11 (a,b,c) present data on outstanding bank credit given to sectors like mining, General Commerce

and Trade, Transportation, Financial Institutions, Tourism, Hotels and Restaurants for the period 1975 to 1985.

Tables 2.12 (a,b) present information regarding the growth of contribution to real G.D.P. by each sector enumerated in Table 2.11(a).

As is well known that the commercial banks in Jordan extend loans and advances of a short and medium term nature to different economic sectors, especially to the sectors of General Trade and construction. Examination of Tables 2.11 (a) and 2.11 (b) reveals some interesting facts about the impacts of commercial banks credit on real economic activity, this is not to suggest that all the changes that occurred in real economic activity indicated by different sectional growth rates could be attributable solely to the corresponding changes that took place in the availability of the commercial banks credit during the period under consideration. Nevertheless the association between peaks and troughs of credit growth rates and sectoral growth rates is striking and highly suggestive (e.g.) general commerce and trade had been extended bank credit worth of JD 308.5 million which was 500% more than the corresponding credit figure reported almost 100% increase in the real growth rate in 1985 over a decade. Similarly mining received the highest percentage increase in the amount of credit that it received during 1975-1985 and interestingly, this is the sector which also contributed maximum to the growth rates of real G.D.P.

Table 2.11(A) : Total of outstanding Commercial Banks Credit
 Classified by Type of Economic Activity - 1975 - 1986
 (In Thousands of JDs)

Year	Mining	General Commerce and Trade	Trans- portation	Financial Institution	Tourism, Hotels and Restaurants	Const- ruction	Total
1.	2.	3.	4.	5.	6.	7.	8.
1975	283	51372	3691	336	1783	31491	88956
1976	332	81614	7779	557	2518	50042	142842
1977	233	81427	11083	585	3422	65784	162534
1978	1978	100531	8379	1184	6612	100541	218958
1979	4038	134236	13040	4756	9657	150994	316721
1980	4357	166956	14479	8699	11843	180758	387092
1981	6827	225791	23286	9359	15890	201036	482189
1982	14069	224944	32887	19602	20485	216753	588740
1983	20542	276650	50483	25637	25683	271345	670340
1984	27416	296097	58482	29592	23716	324055	759358
1985	32070	308555	64029	26933	29825	331569	792981
1986	44281	338744	49364	29209	37530	353678	852806

Source C.B.J. Yearly Statistical Series 1983 Table 13
 C.B.J. Monthly Statistical Bulletin December 1987 P.31

Note Column 8 = Columns 2+3+4+5+6+7.

Table 2.11(B) : Percentage Share of Sectors in The Total Outstanding Commercial Banks Credit

Year	Mining	General Commerce and Trade	Trans- portation	Financial Institution	Tourism, Hotels and Restaurants	Constr- uction	Total (%)
1.	2.	3.	4.	5.	6.	7.	8.
1975	0.3	57.74	4.15	0.37	2	35.44	100
1976	0.23	57.13	5.44	0.38	1.76	35.06	100
1977	0.14	50.09	6.81	0.36	2.10	40.50	100
1978	0.78	45.91	3.82	0.54	3.02	45.93	100
1979	1.27	42.38	4.11	1.50	3.05	47.69	100
1980	1.12	43.13	3.74	2.24	3.06	46.71	100
1981	1.41	46.82	4.82	1.94	3.29	41.72	100
1982	2.38	48.39	5.58	3.32	3.47	36.86	100
1983	3.06	41.27	7.53	3.82	3.83	40.49	100
1984	0.61	38.99	7.70	3.89	3.12	42.69	100
1985	4.04	38.91	8.07	3.39	3.76	41.83	100
1986	5.19	39.72	5.78	3.42	4.40	41.49	100

Source : Calculated from Table 2.11(A).

Table 2.11(C) : Growth of Commercial Banks Credit Classified by Type of Economic Activity (1975 - 1986)

Year	Mining	General Commerce and Trade	Trans- portation	Financial Institution	Tourism, Hotels and Restaurants	Constr uction	Total (%)
1.	2.	3.	4.	5.	6.	7.	8.
1975	(23.72)	69.53	(30.27)	(54.54)	16.76	61.94	54.22
1976	17.31	58.86	110.25	65.77	41.22	58.90	60.5
1977	(29.92)	(0.23)	42.47	5.02	35.92	31.45	13.78
1978	634.33	23.46	(24.40)	102.39	93.22	52.83	34.71
1979	136.00	33.52	55.62	301.68	46.05	50.18	44.64
1980	7.89	24.37	11.03	82.90	22.63	19.71	22.21
1981	56.69	35.23	60.82	7.58	34.17	11.12	24.56
1982	106.60	26.19	41.23	109.44	28.91	7.81	22.09
1983	46.00	(2.92)	53.50	30.78	25.37	25.18	39.02
1984	33.46	7.02	15.84	15.42	(7.66)	19.42	13.27
1985	16.97	4.20	19.48	(8.99)	25.75	2.31	4.42
1986	38.07	9.78	(22.91)	8.45	25.83	6.66	7.54

Source : Calculated from Table 2.11(A).

Note : Figures in Parentheses Indicate Minus.

Tables 2.12 (a) and (b) also bring out an important fact that over the period from 1975 to 1985 all the sectors had received increasing amount of credit and these sectors also recorded concomitantly higher growth rates expressed on real terms. These observations, though not adequate enough to assert any causal link between credit and real economic activity. However, they are sufficient enough to suggest that the commercial banks credit has been an influencing lever as far as the real economic activity in Jordan is concerned. In this sense commercial banks credit has played a catalyst role in the economic development that Jordanian economy has experienced over the last decade. What is most revealing from the tables are the dynamics of credit allocation which took place during the period 1975-1985; this is born out by the fact that during the period 1975-1980 foremost of the sectors credit growth rates were substantial and during the same period credit allocations seem to have been concentrated around the sectors like constructions, mining and general commerce and trade. A careful perusal of the tables 2.12 (a) and 2.12 (b) convince one of the fact that there has been a continuous Process of substitutions between these sectors regarding the credit allocation between these sectors. The general commerce and trade and construction are the two sectors which have shown sizable yearly growth rates as well as substantial shares in total credit, however, general commerce and trade share had declined to 18% in 1985 from 57% share in 1975.

Table 2.12(A) : Gross Domestic Product at Constant Prices (1975)
1975 - 1985

(In Millions of JDs)

Year	Mining	General Commerce and Trade	Transp- ortation	Financial Insti- tutions	Tourism, Hotels and Restaurants	Constr uction	Real output G.D.P.
1.	2.	3.	4.	5.	6.	7.	8.
1975	16.3	66.9	24.9	32.9	6.0	19.2	302.4
1976	20.6	70.8	31.1	35.4	6.9	31.0	357.2
1977	21.4	18.3	33.0	42.1	7.9	32.4	374.7
1978	28.1	81.4	46.4	54.3	8.7	33.5	452.1
1979	34.1	92.17	43.7	65.0	10.7	48.1	497.4
1980	47.3	109.7	44.9	74.9	13.3	54.2	601.1
1981	51.4	116.1	50.9	68.0	11.6	68.6	630.3
1982	53.1	120.7	58.5	77.3	12.7	86.6	681.4
1983	57.4	125.8	62.1	75.4	12.8	83.5	695.0
1984	77.8	131.0	69.0	82.0	13.1	81.7	759.7
1985	86.1	137.2	71.3	83.1	13.9	72.4	778.2

Source C.B.J. Monthly Statistical Bulletin December 1987 P.P. 70-71
C.B.J. Monthly Statistical Bulletin March 1989 P.P. 70 - 71

Table 2.12(B) : Growth of Gross Domestic Product at
Constant Prices (1975)

Year	Mining	General Commerce and Trade	Transp ortation	Financial Insti tution	Tourism, Hotels and Restaurants	Constr uction	Real output G.D.P.
1.	2.	3.	4.	5.	6.	7.	8.
1976	26.38	5.82	24.89	7.59	15.0	61.5	18.1
1977	3.88	10.59	66.10	11.92	14.49	4.5	4.8
1978	31.30	3.95	40.60	28.97	10.12	3.4	20.6
1979	21.35	13.88	(5.82)	19.70	22.98	43.5	10.0
1980	38.70	18.33	2.74	15.23	24.29	12.7	20.8
1981	8.66	5.83	13.36	(9.22)	(12.79)	26.6	4.8
1982	3.30	3.96	14.93	13.67	9.48	26.2	8.1
1983	8.09	4.22	6.15	(2.46)	0.78	(3.6)	1.9
1984	35.54	4.13	11.11	8.75	2.34	(2.1)	9.3
1985	10.66	4.73	3.33	1.34	6.10	(11.4)	2.4

Source Computed From Table 2.11(A)

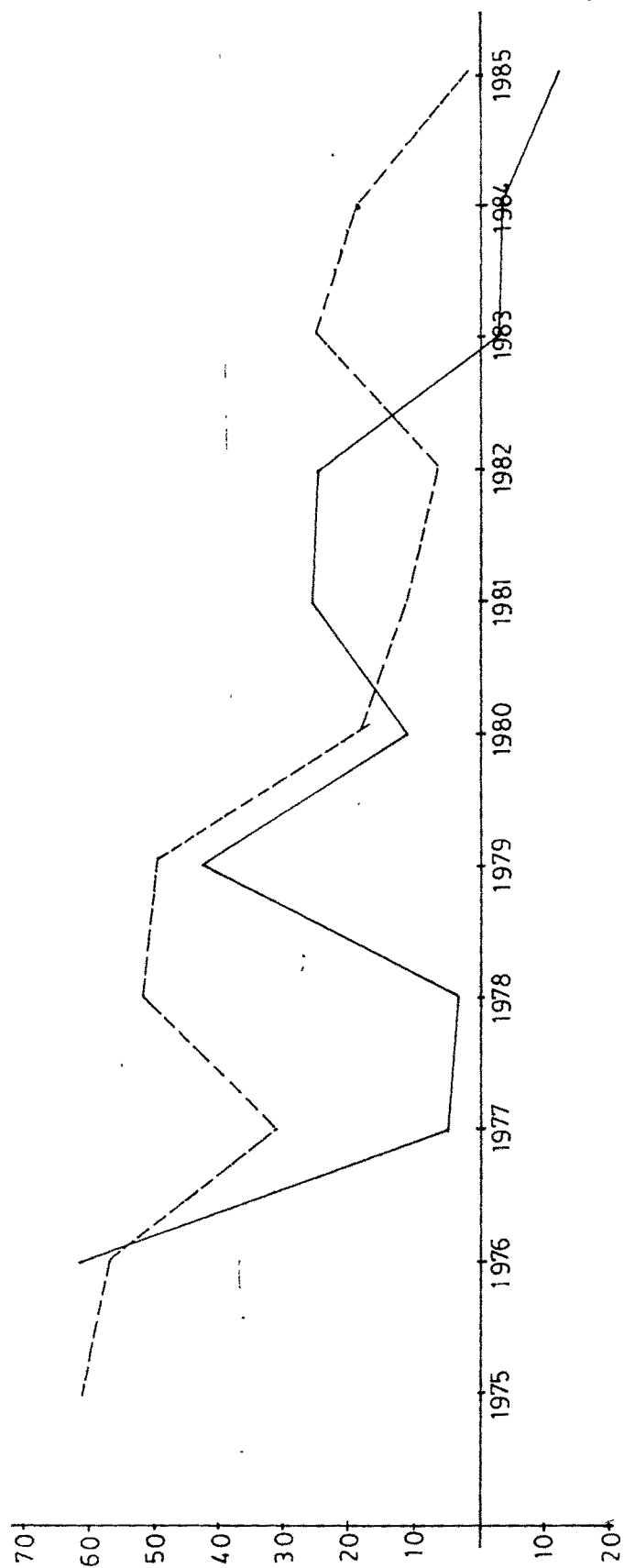
Note : Figures in Parentheses Indicate Minus.

The sectors like Financial Institutions, Transportations, Hotels, Restaurants had obtained a larger share of the total bank credit allocation compare to the period from 1975 to 1980.

A clear picture emerges if a visual inspection is attempted of the accompanying diagrams drawn for different sectors which are based on Tables 2.11 (c) and 2.12 (b).

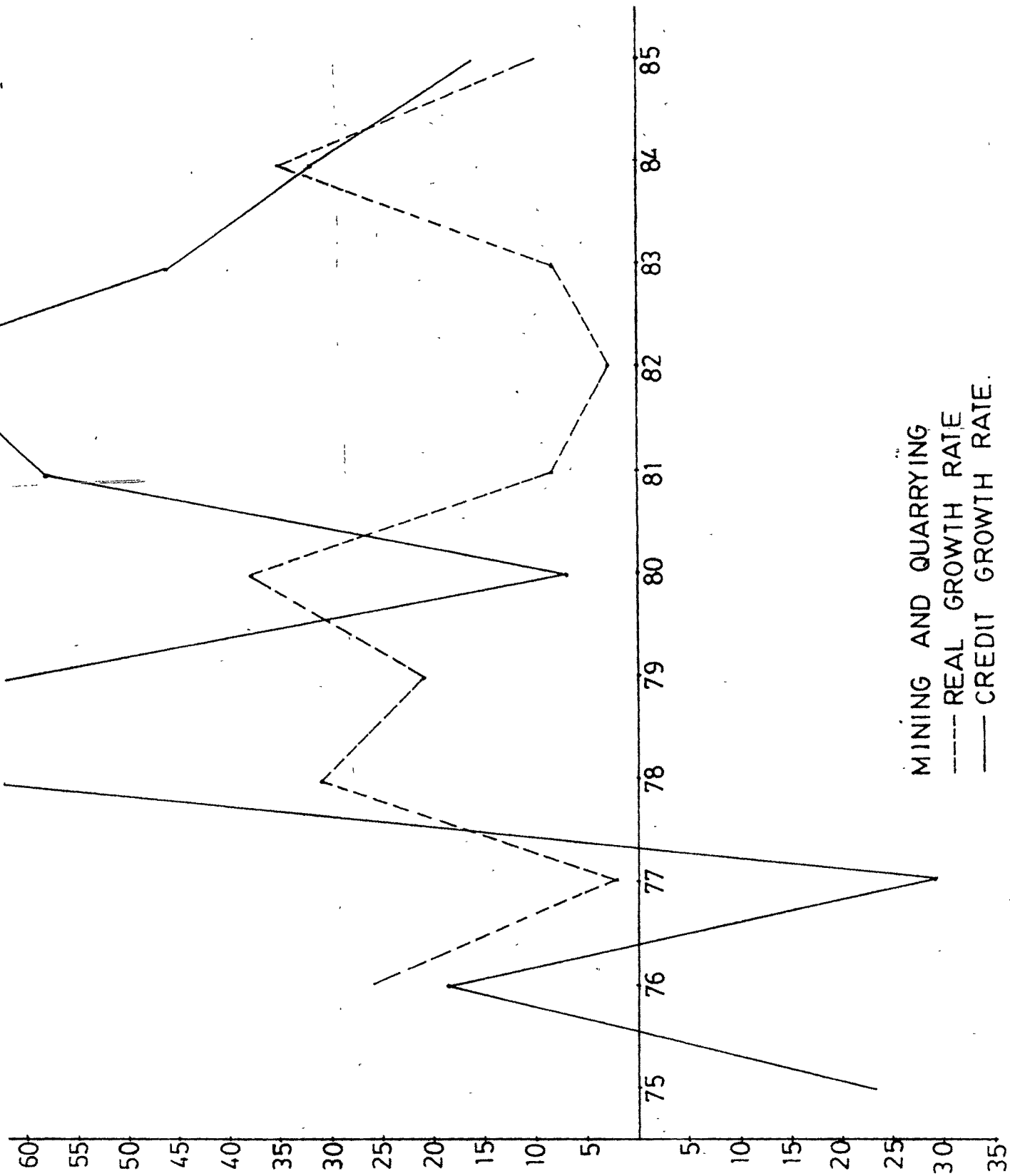
The diagram for construction reveals that at number of time periods the turning points in real growth rate and credit growth rate for construction have moved quite closely and at times were partly coincident; More important is the downward trend in construction activity which has persisted after 1978 following the declining growth rates in credit allocation which this sector received, this is especially true during the period 1982-1985 when the real growth rate of construction become negative. This could partly be ascribed to credit squeeze imposed by the Policy makers on construction activity.

With respect to mining and quarrying, the years 1978 and 1982 recorded highest credit growth rates, however, during the year 1978-79 and 1982-83 the real economic activity had been found to be at a low ebb. Furthermore, the diagram shows an interesting fact that from 1976 onwards, there had been peak in real economic activity every second year except for the year 1982. Both the credit and real growth rates have moved in a cyclical fashion.



CONSTRUCTION.

— REAL GROWTH RATE
--- CREDIT GROWTH RATE

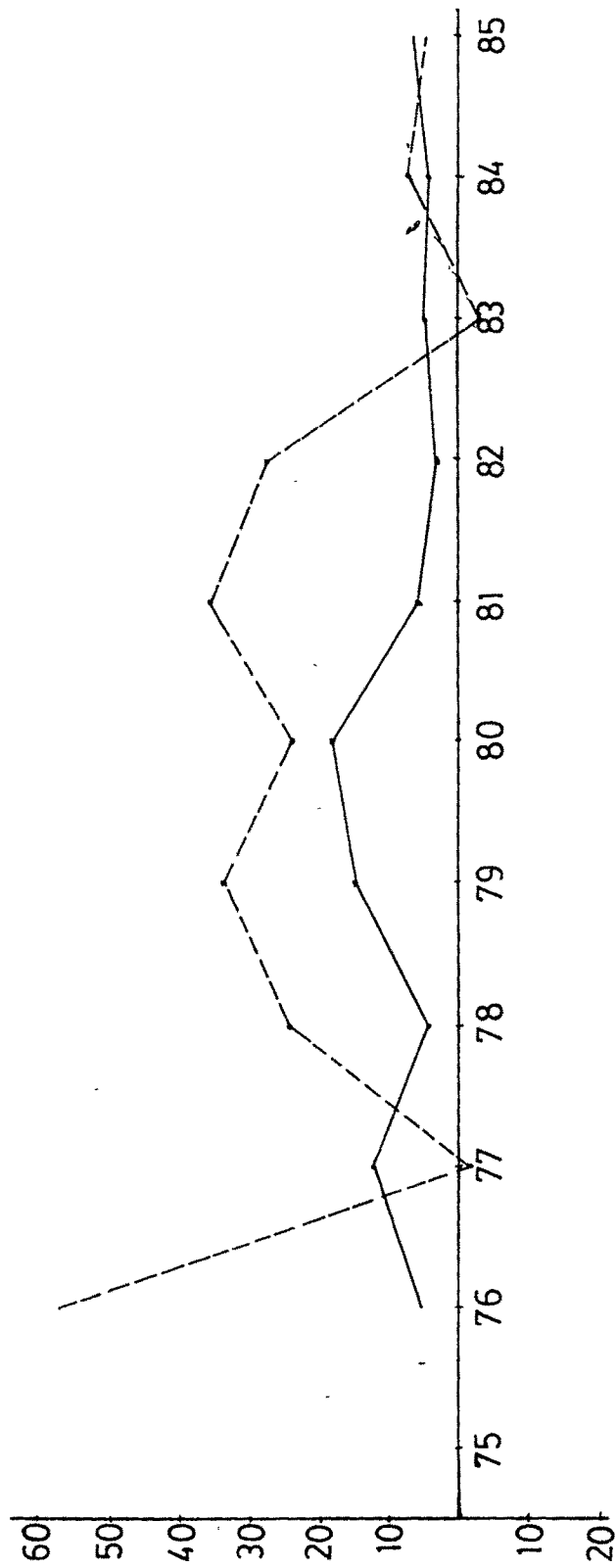


MINING AND QUARRYING
 --- REAL GROWTH RATE
 — CREDIT GROWTH RATE.

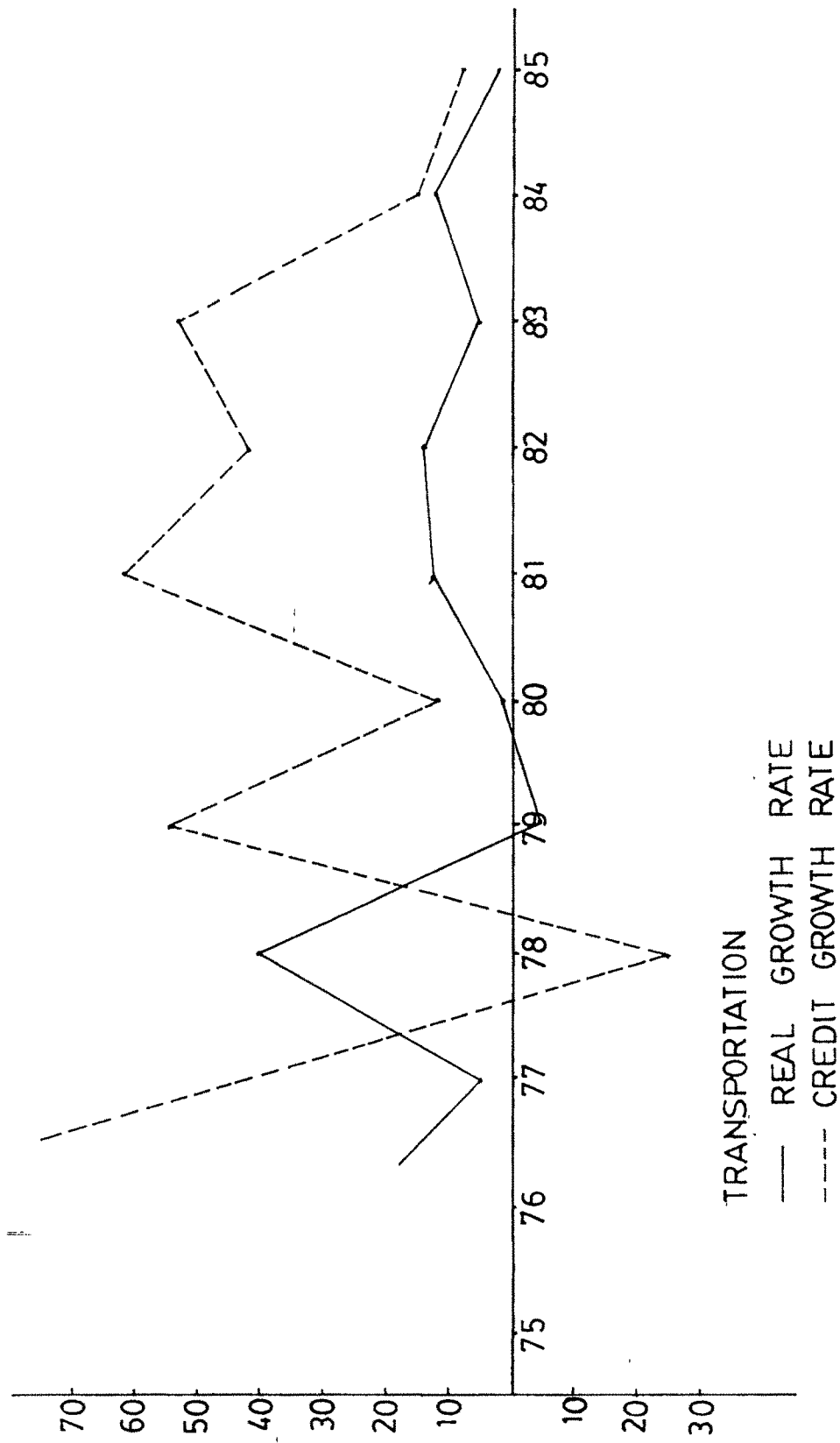
Considering General Commerce and Trade, the corresponding changes in credit and real output seemed to exhibit similar movements except for the year 1979-80 during which real output growth rates were relatively higher, this sector has shown some stability in the growth rates of real output for the rest of the years.

It is interesting to note that the average real growth rate for this sector had hovered around 5.5% per annum during the period 1976-1985 excluding the period 1979-80. In this connection it should be noted that occurrence of highest real growth rate 18.33% during 1979-1980 could be accounted for by the corresponding highest nominal growth rate of 35% during the same period; more important, the diagram also reveals an interesting fact that after 1981, the credit growth rate has remained considerably low till recently and seem to have resulted into lower real actual growth rates in real output relation to the average growth rate of 5.5%.

With respect to Transportation, the association between movement in credit and real output seem to be less clear and less pronounced as compared to other sectors. Despite the prevalence and of higher growth rates and availability of bank credit, this sector's contribution to real G.D.P. seems to have remained on average stagnant or at worst, has declined; this is especially true if one considers the contribution made by this sector to the real G.D.P. in 1979.



GENERAL COMMERCE & TRADE.
— REAL GROWTH RATE
---- CREDIT GROWTH RATE

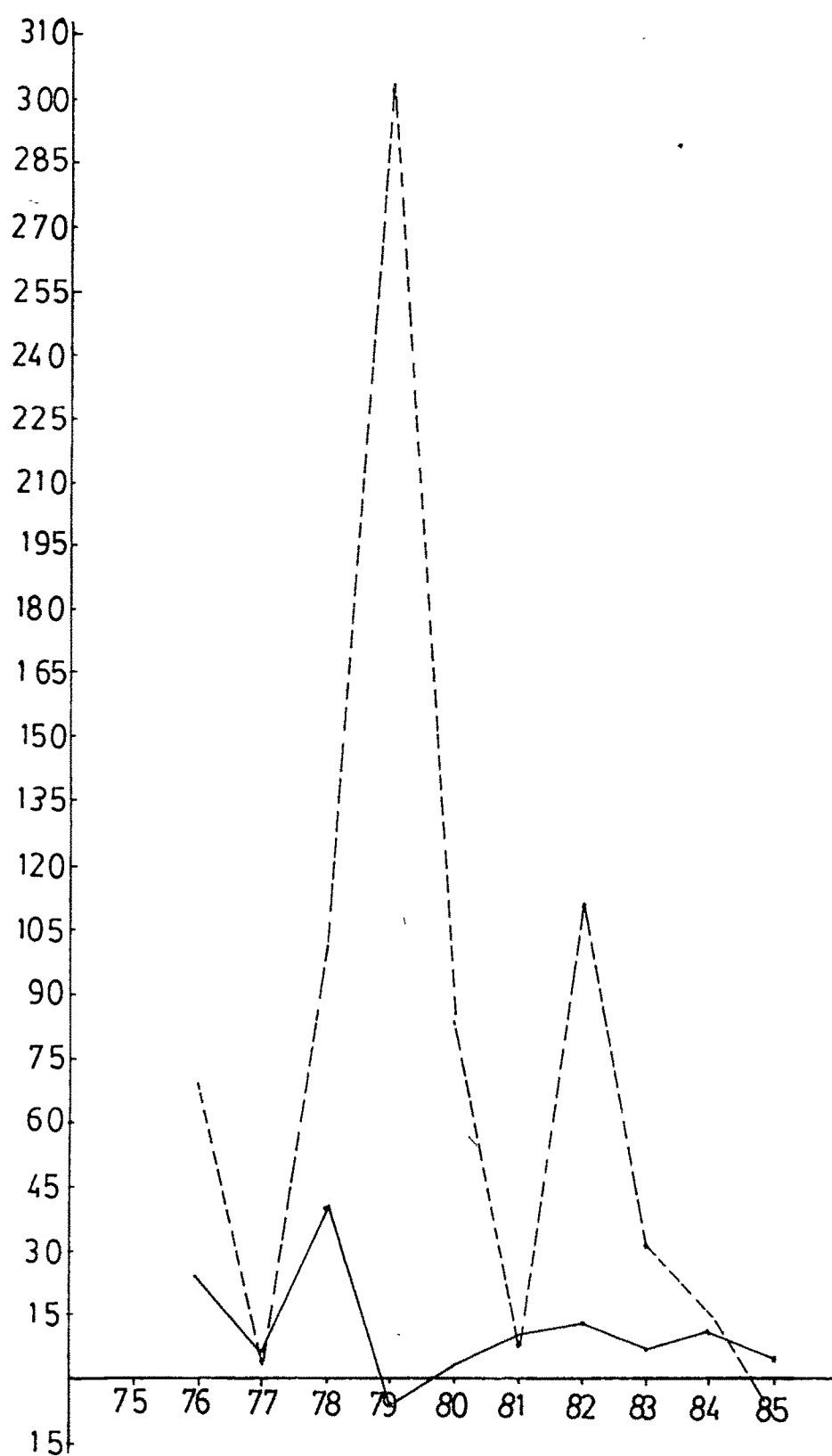


In case of Financial Institutions, the highest growth rate of bank credit to this sector occurred in the year 1979 whereas in the years 1977, 1981 and 1985, the growth rates of bank credit were exceedingly low with the consequence that this type of discretionary credit policy seems to have affected the productivity of this sector which has resulted into some modest annual contribution of financial institutions to real G.D.P. in Jordan.

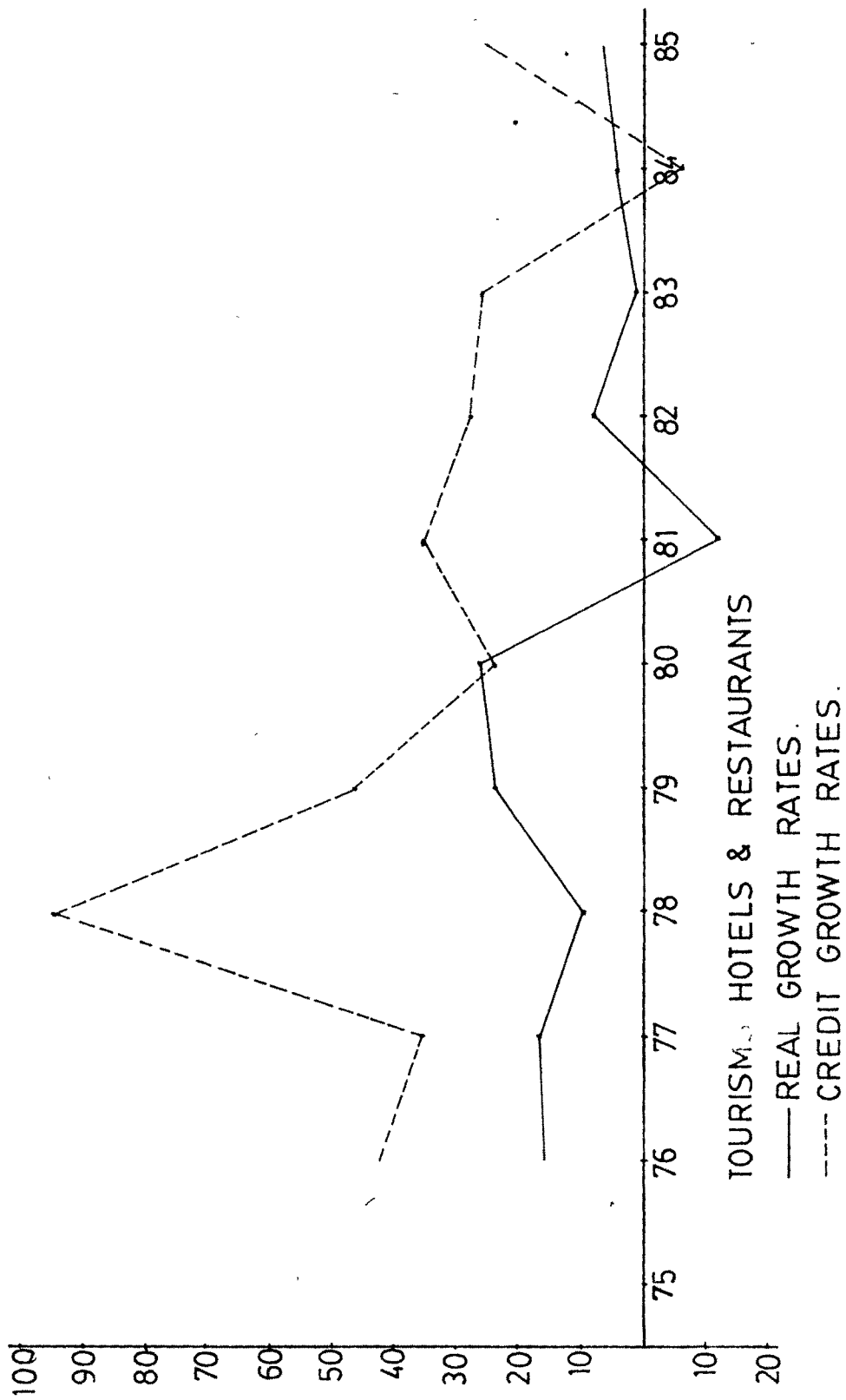
For Tourism, Hotels and Restaurants, a similar pattern is observed. The highest credit growth rate was observed in the year 1978 and it seems that this has augmented the real growth rates in the following two years 1979 and 1980. It should be noted that since 1979 there seems to have occurred a secular decline in the credit growth rate till 1984, this is clearly reflected by the fact that the actual yearly real growth rate after 1980 has never been above the average annual growth rate for the period 1976-80.

In summary, we can draw some tentative conclusions from the preceding analysis regarding the role of commercial banks in the economic development of the kingdom.

1. The commercial banks seem to have done their job as financial intermediaries admirably well and they were successful in tapping enormous amount of idle surplus balances and more than that they were responsible for diverting these financial resources to the desired productive channels and in this way they seem to have overcome the basic financial bottlenecks which the Jordan economy might have faced in the absence of such



FINANCIAL INSTITUTIONS
— REAL GROWTH RATE
--- CREDIT GROWTH RATE



an institutional framework, further more their major success and contribution lie in the fact that they have facilitated and were instrumental in opening up new avenues for economic growth of Jordan economy both at aggregate level and disaggregate level. At the disaggregate level the commercial banks fostered economic progress by diverting flow of funds to the desired sectors at appropriate time and in adequate amounts.

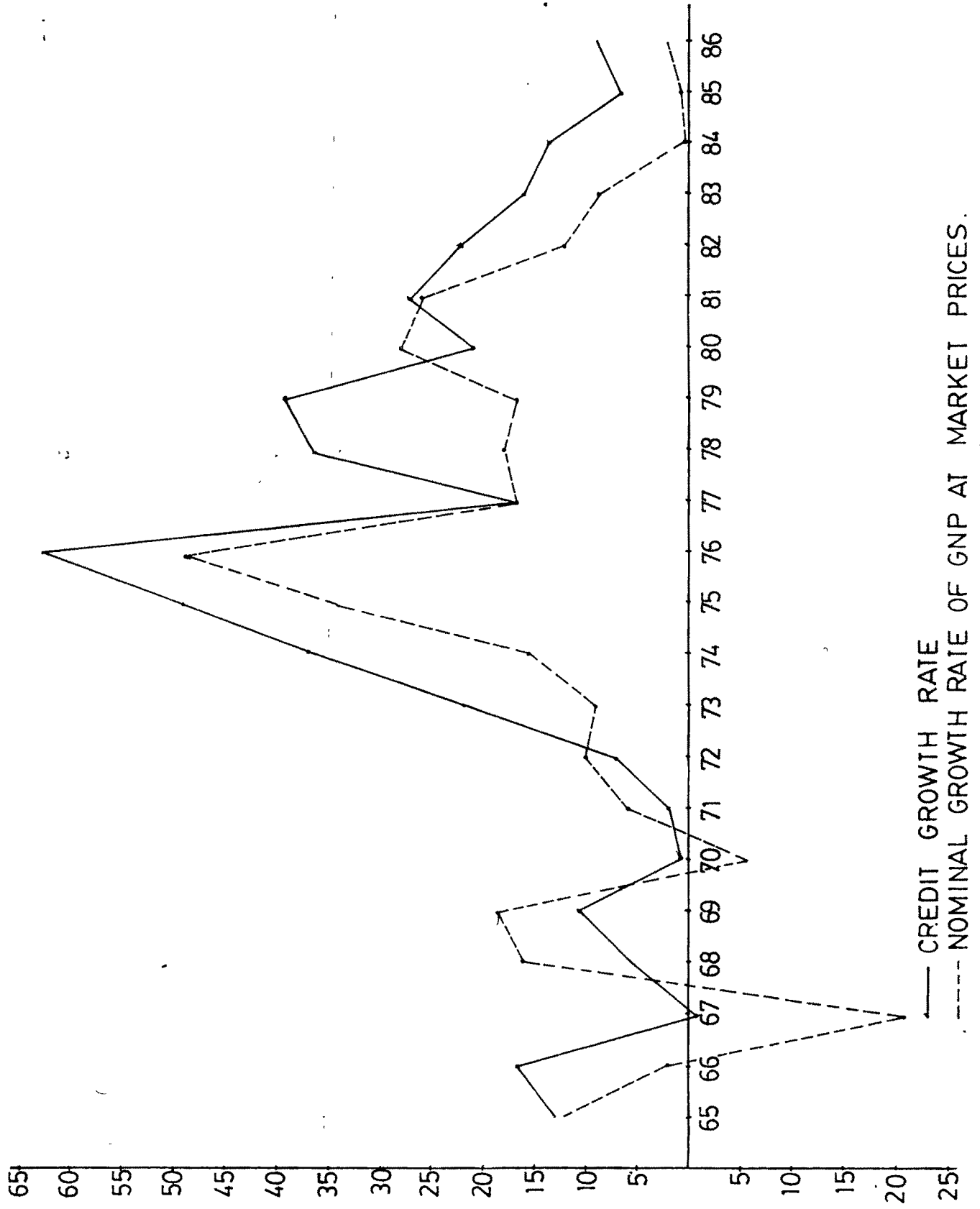
This observation seem to be far more true in the period from 1964 to 1978, and at the aggregate level, commercial banks have played their vital role in maintaining high growth and price stability at crucial times.

2. The examination of sector-wise credit growth rates conveys the distinct impression that in number of years the bank credit has moved in an anti-cyclical manner to real economic activity pertaining to various sectors; 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 rates of (G.N.P.).

This is born out by the fact that in number of years following the down turn in the economic activity, the credit growth rates have generally been on the rise in order to prevent any recessionary trends and on the other hand, following an upturn or arise in the economic activity (indicated by both nominal and real trend), a deliberate restricted credit policy move seem to have been effective in

order to contain inflationary trends in the Jordanian economy; in short a careful study of the changes in the credit growth rates do bare testimony to the fact that commercial banks credit has been the most significant instrument in the arsenal of the policy makers who have always strived to achieve high economic growth with price stability.

3. The analysis carried out on the preceeding sections should not lead one to believe that the credit growth rates have always led or caused changes in real economic activities. Our excercise points out that the financial development and economic development have moved closely and they have taken place simultaneously; that is to say, both seem to have complemented the growth of each other.
4. Though the credit policy as reflected in extension of credit to different sectors or the whole might look appropriate and very promissing, we fear at times it has beeneratic and seemingly distabilizing (e.g.) there was a sudden increase by 634% in credit extended to mining in 1978 and in the subsequent year again there were increases of 136% in credit extended to mining and financial institutions respectively (Table 2.11 c), we fail to understand such exorbitant increases in credit all of a sudden. We believe this to be a serious lacunae in credit policy adopted by the authorities since it has very serious implications for the objective of price stability. This is evidenced by the fact that the general



price level on average increased by 37% between 1976 and 1980.⁷ This could partly be ascribed to additional doses of liquidity pumped into the economy by the authorities in the form of substantial flow of credit to the sectors of the economy. After having discussed major items of bank assets and liabilities separately. A consolidated picture of the banking business is presented in Table 2.13 in the form of major banking ratios. These ratios enable one to obtain an insight into certain temporal changes in the magnitude of banking business and in the inter-relationship between different banking variables.

The three ratios which are presented in table 2.13 clearly brings out the relationship of banking activities with the growth of over all economic activity in Jordan. The ratios which are in the form of deposits/N.Y. and Credit/N.Y., they are found to be increasing which clearly denote the impact of growth of financial intermediaries on the growth of the economy.

The credit/deposit ratio was found to be increasing from 1964 to 1976, then in the year 1977 there was a big decline in this ratio which was an outcome of the credit squeeze imposed by the C.B.J. specially on general commerce and trade. From 1977 onward, upto 1986, the credit/deposit ratio was found to be more or less stable except for some minor decline in one or two years. The credit/deposit ratio during the last decade ranges between 0.77 and 0.7.

7. C.B.J.Y.S.Series 1983 p.47, M.S.Bulletin Dec 1987 p.88.

Table 2.13 : Main Key Banking Ratios - 1964 - 1986

Year	Depo sits/ N.Y.	Credit/ N.Y.	Credit/ Deposit	Year	Depo sits/ N.Y.	Credit/ N.Y.	Credit/ Deposit
1.	2.	3.	4.	1.	2.	3.	4.
1964	0.3	0.1822	0.601	1976	0.94	0.368	0.828
1965	0.24	0.1844	0.755	1977	0.47	0.369	0.77
1966	0.28	0.210	0.737	1978	0.53	0.426	0.742
1967	0.32	0.273	0.725	1979	0.64	0.505	0.784
1968	0.37	0.246	0.76	1980	0.68	0.475	0.697
1969	0.33	0.239	0.79	1981	0.65	0.480	0.737
1970	0.29	0.244	0.79	1982	0.69	0.523	0.7585
1971	0.31	0.235	0.786	1983	0.76	0.552	0.7375
1972	0.30	0.299	0.69	1984	0.86	0.639	0.74
1973	0.36	0.256	0.721	1985	0.94	0.689	0.73
1974	0.41	0.304	0.739	1986	1.01	0.727	0.717
1975	0.45	0.337	0.75				

Source : Calculated From Different Annual and Monthly
Reports of The C.B.J.

Note : N.Y. = National Income

In the year 1975 the population per office served was around 22917, (Table 2.14) in the year 1980, it reduced to the level of 15612 and in the year 1986 it has gone down further to the level of 10057. Over a period of one decade (i.e.) from 1975 to 1986 the over all fall in the population per office served by the banks turned out to be 56%. So one can say on average that there is 5-6% fall in the population served per branch in Jordan annually.

Table 2.14 : Total Number of Population Served per Office of Commercial Banks

Year	Population Served per Office
1975	22917.7
1980	15612.8
1985	10088.7
1986	10057.9

Source : Department of Statistics - Statistical Year Book 1986
C.B.J. Annual Reports, Various Issues.

If one looks at the table 2.15 one can say that the branch expansion in Jordan by all-commercial banks has increased tremendously.

The Theme of this chapter as we have indicated earlier is to highlight the vital role that commercial banks play in the intermediation process which leads to economic development. The fact is that they handle a substantial share of funds that flow from lenders to borrowers. The checking accounts of commercial banks give them nearly exclusive rights to accounts that can be used as a means of payment and these accounts provide most of the country's payment system.

Table 2.14 : Branching of Banks in Jordan 1964 - 1986

End of Period	Arab Bank Ltd	Bank of Jordan	Jordan National Bank	Cairo-Amman Bank	Jordan Kuwait Bank	Petra Bank	Syrian Jordan Bank	Jordan Islamic Bank	Arab Investment Bank	Jordan & Gulf Bank	The Housing Bank	Total
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.
1964	3	3	4	3	-	-	-	-	-	-	-	13
1965	3	6	4	3	-	-	-	-	-	-	-	16
1966	4	9	5	3	-	-	-	-	-	-	-	21
1967	4	10	5	3	-	-	-	-	-	-	-	22
1968	5	10	5	3	-	-	-	-	-	-	-	23
1969	5	10	5	3	-	-	-	-	-	-	-	23
1970	6	11	5	3	-	-	-	-	-	-	-	25
1971	6	11	5	3	-	-	-	-	-	-	-	25
1972	6	12	7	3	-	-	-	-	-	-	-	28
1973	7	13	10	3	-	-	-	-	-	-	-	33
1974	9	14	11	9	-	-	-	-	-	-	4	47
1975	9	16	11	9	-	-	-	-	-	-	8	53
1976	9	16	12	9	-	-	-	-	-	-	13	59
1977	9	16	13	9	1	-	-	-	-	-	15	63
1978	10	16	14	9	4	1	-	-	1	2	17	74
1979	10	16	16	10	6	3	-	1	1	5	21	89
1980	11	16	20	11	8	10	1	2	1	7	23	110
1981	15	18	23	12	10	10	1	5	1	10	34	139
1982	17	21	24	12	10	12	1	7	1	12	52	169
1983	23	22	24	12	12	14	1	8	2	14	65	197
1984	24	22	24	13	12	15	1	8	2	17	72	210
1985	24	23	26	14	13	21	1	11	2	20	77	232
1986	24	24	29	15	13	22	1	11	2	20	79	240

In order to discuss the achievements made by commercial banks in Jordan, in addition to what we have discussed earlier, we will examine the consolidated balance sheet of the commercial banks in Jordan for the period from 1970 to 1986 to arrive at a solid and cemented conclusion derived from the general trends in the balance sheet over the period under study that is to what extent the commercial banks have contributed and are contributing to Jordan's economic development.

The importance of the balance sheet of the commercial banks is to show at the end of the year the financial ability and conditions which are prevailing during a fixed period.

The balance sheet of commercial banks is a customary reveals the properties and their values available at the end of the financial year for the shareholders or the claims and obligations ranged against them, so we can define the balance sheet of commercial banks as a dual financial picture depicting on one hand the funds that are utilized, on the other the sources of those funds.

In the coming discussion on balance sheet of commercial banks, we will take up four financial ratios as a sample of the financial development that commercial banks have achieved over a period of time.

Current ratio or working capital ratio may be defined as the proportion of the current assets which are receivable within one year to meet the current liabilities and obligations which are payable within one year. It shows

the excess over fraction in the ability of the management to meet day to day expenditure.

From the analysis of the Tables 2.16(b) the current ratio shows decreasing trend from 1970 to 1986 taking five years interval period.

The current ratio shows, inspite of its decreasing trends a satisfactory figures against the standard ratio which is supposed to be 2:1. the ratio is to reveal the excellent ability of the management to pay their obligations, but the table shows a declining ability through out the period understudy.

Capital Structure Ratio:

The accountant use the term "Capital" to indicate the proprieties of the commercial banks, while others use the term "Capital Structure" in much broader term not only equity but also all long term liabilities for the purpose of our study, the capital structure ratio has been calculated by taking the long-term liabilities as numerator and capital as denominator.

The ratio reveals the proportion of long-term loans to capital. As the long term capital becomes longer in proportion to the capital, the position of shareholders weakened because of the longer claims on the shareholders and because smaller margin of safty is given to them.

Table 2.16 (b) shows that the long-term loans to capital ratio has experienced a fluctuating trend from 1970 to 1986. It indicates also the high proportion of long term

loan to capital and the position of shareholders is weakened due to the increase in the shares of outsiders in the commercial banks.

Current Asset To Fixed Asset Ratio:

The ratio of current assets is an important analysis to examine the ability of the banks to meet day to day requirements. The larger the ratio the better the position and the ability of the commercial banks is quite satisfactory. The ratio has been calculated by dividing current assets over fixed assets. Table 2.16 (b) shows that the ratio has an increasing trend in 1975 and 1980 as compared to 1970 and 1986. The ability of commercial banks to meet its day to day requirements is excellent all over the period under study.

Loan-capital Ratio:

The Loan capital ratio is an important approach to study the reason of high gearing in capital structure and the escaping from taxation. The ratio has been calculated by dividing long-term loans over the paid up capital plus long-term loans.

The Table reveals that the proportion of long-term loans to paid-up capital and long-term loans was 0.88 to 1, the ratio increased in 1975 and slightly decreased in 1980, but it has experienced a sharp decline in 1986.

Table 2.16(A) : Consolidated Balance Sheet of Commercial Banks - 1970 - 1986

	1970	1971	1972	1973	1974	1975
Cash in Jordan Currency	1980	1587	1909	2067	2524	2968
Balance with C.B.J	12863	14862	17267	16759	21968	32911
Cash in Foreign Currency	7	4	5	1	11	19
Balance with Foreign Banks	5474	2347	2668	5783	7040	11245
Investment Abroad	586	721	716	771	910	1187
Balance with Local Banks	314	258	254	323	5414	10494
Bills Discounted	7964	8124	10375	12782	16710	22771
Loans and Advances	37584	38804	40215	49035	68240	103973
Investment in The Kingdom	895	898	911	1167	1349	1367
Govt. Bonds and Bills	3341	8553	16175	16938	14909	24478
Bills Receivable	791	920	1230	1209	2073	2683
Fixed Assets	2239	2222	2226	2374	2811	3763
Other Assets	2361	2897	1578	2388	4507	8374
Assets = Liabilities	76399	82197	95529	111597	148466	226233

(In Thousands of JDs)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
3575	4447	5150	6507	6936	8563	10548	12565	12031	13249	12622	
50644	63147	67555	95123	109640	106559	107947	121455	124197	148617	167932	
56	31	34	166	385	1039	725	1853	3063	2665	1798	
17594	34916	72269	76563	201083	227427	245869	283551	311187	367904	385375	
1587	1786	2329	3335	3745	4827	8804	18983	16278	14324	16145	
8398	17504	48971	51250	64922	92883	51695	93002	91394	144219	167150	
36278	43506	73413	93952	104160	148450	175948	187764	212044	225127	240495	
176813	200549	259386	371107	459696	572867	711223	843158	972781	1049288	1154917	
1598	3680	4981	6709	9639	13418	20313	27788	33769	36176	38585	
23030	32852	68598	73822	59809	80780	102775	147223	208507	228291	275699	
4228	4067	6660	11060	11755	16031	24454	20687	21820	19305	16449	
5446	7522	9099	13315	17875	27060	38929	46529	57866	66832	67981	
10380	8456	9685	20808	20851	30841	54291	58751	71084	76085	89625	
333627	422463	637130	823717	1070497	1330745	1553521	1863309	2136021	2392082	2634773	

Assets = Liabilities	76399	82197	95529	111597	148466	226233	333627
Capital	4715	4715	4715	4715	7575	10965	16194
Reserves	3270	3307	3308	3298	3985	3491	4830
Deposits of Banks from Abroad	525	419	400	463	634	733	2772
Deposits of Non-Residents	2533	2077	2040	2143	3629	8634	20371
Loans from Foreign Banks	478	-	-	-	-	981	-
Govt. and Semi-Govt. Deposits	8743	6109	6208	6136	8399	12032	16602
Municipalities and Public Crops.	2953	2651	3407	4162	4362	4453	8403
Private Sector Deposits (Resident)	43445	48816	61233	7313	98672	143595	204655
Deposits of Local Banks	1484	5926	5295	5118	5822	11156	12717
Loans from C.B.J. and Local Banks	259	694	310	230	412	2854	273
Bills Payable	438	481	586	843	941	2372	3571
Other Liabilities	7556	7002	8027	11176	14035	24959	43239

Source : C.B.J. Annual and Quarterly Series (1983) Tables 6 and 7
C.B.J. Monthly Statistical Bulletin December 1987, P.21

422463	637130	823717	1070497	1330745	1553521	1863309	2136021	2392082	2634773
25507	43069	51496	55274	62836	82049	82049	83224	100724	103250
7236	11669	16413	21484	28858	49113	58294	69680	63723	74284
2275	12481	16562	14971	33861	29160	30040	36756	40314	39267
18247	47476	67090	133253	143555	171579	216694	276869	294265	305495
-	-	-	-	-	348	854	1976	2972	3336
21036	24297	45818	63612	77189	78323	97246	111907	121282	156215
7414	12104	14830	31041	50508	36191	48454	44511	57216	59546
267445	364633	465398	580572	706396	883386	1035427	1169800	1274405	1424996
21821	50262	54731	64348	87033	46161	68496	71654	125118	130830
6599	8660	7180	10000	14678	39067	64660	89069	103763	118669
2501	3149	3269	4321	5034	6081	5133	5929	5879	5341
41682	59330	80934	91621	120797	132059	155962	174646	202421	213544

Table 2.16(B) : Main Financial Ratios in The Consolidated
Balance Sheet of Commercial Banks

Year	Working Capital Ratio	Capital Structure Ratio	Ratio of Current Assets to Fixed Assets	Loan - Capital Ratio
1.	2.	3.	4.	5.
1970	4.41	7.97	11.06	0.88
1975	3.88	9.48	22.53	0.90
1980	3.10	8.31	25.42	0.89
1986	1.93	11.18	15.10	0.08

Source : Table 2.16(A)

Note :

Column 2 : $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Column 3 : $\frac{\text{Long Term Loans}}{\text{Capital}}$

Column 4 : $\frac{\text{Current Assets}}{\text{Fixed Assets}}$

Column 5 : $\frac{\text{Long Terms Loans}}{\text{Capital Plus Long Term Loans}}$

Returns On Commercial Banks Capital:

The assumption of a normal level of economic activity in Jordan during 1975 had a tangible impact on the activities of the banking in particular. Table 2.17 shows clearly the continues increasing trend in the capital of commercial banks, starting with JD 10.9 million in 1976 and reached to JD 103.2 million at the end of 1986. This increase was due to the fact that in addition to the increase in the capital of some established commercial banks, some of the un-paid capital of banks was paid.

Survaying the columns of the Table understudy, we see that the legal reserves are those assets that may be counted as reserves for the purpose of meeting the C.B.J. requirements. Legal reserves have experienced a good rise from JD 3.5 million in 1975 to JD 74.3 million at the end of 1986. This trend reflects the increases in the deposits of commercial banks and the rising of the legal reserve ratio by the monetary authorities (i.e.) C.B.J.

Column on net profit, which appears in the publications of the Central Banks of Jordan under the title "Net Profit Before Taxes", shows that for the whole period there was a good rise in the net profit from JD 1.50 million in 1975 to JD 22.00 million in 1986.

Now we will discuss the ratios involved in this table. Ratio of net profit to capital or the earning per share or the rate of return earned on owners equity; that is how effectively the owner's contributions were employed during the year. This ratio indicates how well management

has used the funds supplied by creditors and owners, the higher the ratio the more effect is the use of funds by the bank. This ratio of net profit to capital has experienced a fluctuated trend through out the period from 1975 to 1986 as indicated by the table. The weakness of this ratio that it gives a bad picture of a rapidly growing bank which must add additional outside equity capital in order to maintain an adequate equity base. Since the new shares will reduce earnings per share for few years after the new issue is sold and therefore it is not a proper or fair indicator of the commercial bank's performance .

The ratio began in 1975 with 13.7 percent and increased to 41.8 percent by the end of the 1981, after which it has declined to a rate of 21.3 percent by the end of 1986. It is worth mentioning here that the ration of 1984 which was 30.6% was because a certain bank has wrote off a substantial debt in this particular year.

Taking the column on net profit to capital plus reserves we can say that the ratio of net profit to gross capital and legal reserves has a declining tendency through out the period from 1975 to 1986. Taking the year wise ratio, we find that the ratio of net profit to capital and reserves showed increasing trend from 1975 to 1981 except for the year 1977 which was 9.3 percent, and later on the ratio showed a declining trend in the remaining years of the period under study with the exception of 1981 with 287 percent.

We can conclude here with much confidence that the management of commercial banks has performed its assigned duties and discharged its responsibilities effeciently towards the bank's shareholders. The maximum net profit to capital and reserve ratio was achived in the year 1981 (28.7 percent). This year is of much importance as it showes the maximum net profit before taxes which was JD 26.3 million and in the same year the ratio of net profit to capital was the highest though out the period with 41.8 percent. A bank with high rate of return on capitalwill be in a position to capitalize i.e. it can take advantage of all favourable opportunities.

Table 2.17 : Returns on Commercial Banks Capital

(In Millions of JDs)

Year	Capital	Reserves	Net Profit Before Taxes	Net Profit/ Capital(%)	Net Profit/ Capital Plus Reserves (%)
1.	2.	3.	4.	5. = (4/2)*100	6. = (4/2+3)*100
1975	10.9	3.5	1.5	13.7	10.4
1976	16.2	4.8	4.4	27.2	21.0
1977	25.5	7.2	3.1	11.9	9.3
1978	43.1	11.7	7.5	17.5	13.7
1979	51.5	16.4	12.3	23.8	18.1
1980	55.3	21.5	14.8	26.8	19.3
1981	62.8	28.8	26.3	41.8	28.7
1982	82.0	49.1	26.6	31.2	19.5
1983	82.0	58.3	21.7	26.5	15.5
1984	83.2	69.7	25.4	30.6	16.6
1985	100.7	63.7	20.1	19.9	12.2
1986	103.2	74.3	22.0	21.3	12.4

Source : Calculated from C.B.J. Annual Reports - Various Issues