CHAPTER 3

THE ROLE OF COMMERCIAL BANKS IN THE INDUSTRIAL AND ECONOMIC DEVELOPMENT OF JORDAN

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3.1 INTRODUCTION :

Industrial development refers to the development of an advanced economic structure which is more systematic and elaborate in its working. An advanced economic structure is reflected in the overall economic development of a country which includes a rise in the national income, per capita output, improvement in the skills, and efficacy of labour, transportation and communication consequently indicating a rise in the standard of health and living of the people.

The extent to which a country's financial system influences the real economic growth is a controversial issue. Numerous empricial studies have emphasised a strong and positive relationship between finance and the country's economic growth. The most significant studies in this regard have been carried out by Gurley, Shaw and Goldsmith, the results of which have had significant implications for setting up developmental strategies in the less developed countries.(1)

These authors elucidated the process of financial development, relative importance of various types of financial institutions, in comparison with the real infrastructure of national wealth and natural resources. The degree of self financing is closely related to a basic feature of the country's economic and financial structure namely degree of separation of savings and investment measured by the volume, distribution and regularity of financial surplus and deficits.

According to Goldsmith, for comparative analysis, we have to take into consideration the relationship of the volume of financial assets outstanding with the income as well as the figures of annual new issues of financial instruments, the most significant ratio being FIR (Financial Interrelation Ratio) that is quotient of the volume of financial institutions outstanding at a given date. The FIR for developed countries is higher than that of less developed countries.

According to them, for a thorough analysis of financial structure and development, it is not sufficient to treat all financial institutions as one aggregate but it is necessary to distinguish at least three to four main groups - The banking system (central and commercial banks), saving institutions (saving banks, postal saving), insurance institutions (LIC, pension funds) and a fourth category of other financial institutions.

Shaw talks about a new strategy of financial deepening - strategy of financial liberalization in economic development. This has widened and diversified the financial market. It has permitted the financial process of mobilizing and allocating savings and tends to equalize the distribution of income.

Financial intermediation is a process by which funds are collected from savers and made available to the investors. Financial development in a developed economy reveals two distinct patterns of financial intermediation - one in which the financial institutions are set up with the primary aim of direct involvement in the overall promotion of industrial expansion, and the other in which these institutions have merely responded to the emerging demands made for their services. Germany can be cited as an ideal example of the former and England as an example of the latter.[2]

The difference in the financial needs of both the countries can be largely attributable to the varying development needs, which in turn necessitated the use of different financial institutions and its evaluation pattern.

The English case reflects the upturn during the industrial revolution which was largely based on consumer goods industries, particularly textiles. Later with the emergence of the joint stock company, a mechanism for channellising savings for investment purposes was established. Therefore, the main task of the English financial system was to provide short term credit and fulfill financial requirements of various industries.

To take German case, financial development in the country was very different from that of England during the industrial revolution. Moreover, there was also a relative absence of joint stock companies, instead much emphasis was being laid on railway investment which initiated the need for financial intermediation. Consequently, the German financial system coped with these needs by extensive provision of short term and long term financial assistance.

Investigations also reveal that economic development of a country signifies diversified financial and specialised institutions in order to meet the growing and more sophisticated needs of the economy. The financial system has a crucial role in facilitating and promoting the required infrastructural changes.

A very vital function of the financial system is the provision of entrepreneurial talent and the financing of technical and industrial innovation. This function has a direct developmental impact for the stimulation of economic growth.[3] The historical evidence of banking evolution in many countries has shown that commercial banks play a leading role in financing technical innovations and long term requirements of industrial expansion.

The economic planners of Jordan have visualized a very promising economic future of Jordan. The 'free enterprising environment' of Jordan as well as its free market economy have been playing a dynamic role, focussing on the varied economic, social and service activities. The highly promotional and catalystic activities of the government have further strengthened the overall scope and prospects of economic development. On the other hand, an otherwise accelerated economic growth has been hampered by a number of intervening factors such as a rising trend in population growth, migration of people from rural to urban areas, incoming Palestinian refugees as well as the transfer of skilled labour to the oil producing countries of the middle east.[4]

The setting up of a sound financial structure in Jordan has not been a short term process, instead it has been a worthwhile result of the innumerable economic development programmes and projects established and materialised over the past few decades, on a national level.

3.2 BANKING STRUCTURE IN JORDAN :

Jordan has suffered serious setbacks more than most countries prior to independance as well as after independence from territorial changes that have largely influenced its financial structure. Two years after attaining independence in 1946, the

1948 Arab-Israeli war followed by another 1967 Arab-Israeli war radically altered the geographical boundaries of Jordan with the creation of Israel from the former and occupation of the West Bank by Israel as a consequence of the latter war. The above political changes were accompanied with parallel developments in the financial sphere. With the establishment of the Jordan Currency Board in 1950, an independent monetary unit, the Jordanian Dinar was introduced for the Hasemite Kingdom of Jordan.

The banking history of Jordan essentially took roots with the establishment of the Ottoman Bank in 1925, one of the largest colonial banks operating in the Middle East. This was followed by the establishment of the Arab Bank in Palestine in 1950. This bank in turn opened two branches, one in Amman in 1934 and the other in Irbid in 1943. As a consequence of the Palestine war and the establishment of Israel in 1948, the head office of the Arab Bank was transferred to Jordan.

The above information suggests that until 1949, the banking system in Jordan was dominated by foreign banks, mainly British. Till 1959, no such banking rules and regulations prevailed as banks were free to undertake business in any manner. The dominance of foreign banks largely influenced the general characteristics of the banking system and biased its operations towards external rather than domestic activities.

As colonial banks were originally established with the primary aim of facilitating economic and trading ties with the U.K., it was not surprising that Credit extended to the foreign trade sector constituted the bulk of total credit with the requirements of the agricultural and manufacturing sectors not being adequately met with lack of any domestic banking system further aggravating this situation.(5)

However, the situation today is altogether different. Jordan now possesses a sound financial structure comprising of the Central Bank of Jordan at the apex level and the Commercial Banks, Specialized Credit institutions, and the more recent Islamic Banks at the grass-root level.

Before we critically analyze the working of the commercial banks in Jordan, their assets and liabilities, it becomes essential to understand the concept of Islamic Banking in the Kingdom, and its direct or indirect effect on the commercial banking structure of Jordan.

3.2.1 Islamic Banking in Jordan :

Islamic banking in Jordan stems from the principles laid down in the Quran with respect to the charging of interest or 'usury'. Islamic banks operate according to the principles of "Shariah" which validate the introduction of interest free banking and profit and loss sharing schemes. The major distinguishing characteristic that segregates the western style of banking from that of Islamic banking is the treatment of interest. While western style banks pay and charge interest on loans and deposits, Islamic banks totally prohibit the charging of interest. The Quran says "Those who swallow usury cannot rise up save as that ariseth whom the devil hath prostrated by his touch. That is because they say, trade is just like usury whereas Allah hath permitted trading and forbidden usury". Based on this ethical concept, Islamic Banking is gaining ground in Jordan.

Two important features of Islamic banking can be cited as :

(1) In place of interest, there is a sharing of profit or losses.

(2) A greater emphasis is laid on the importance of labour.

The rise of Islamic banking has also been termed as the "Islamic Renaissance, behind which the whole philosophy of Islam lies". In accordance with the Islamic economic system, Allah is the creator of this earth and no man on earth should gain unearned income. The elimination of interest from the economic system helps to promote equitable and fair distribution of wealth.

Mobilization of funds for such Islamic banks is done through the general public, in the form of current and investment accounts. Such banks provide all the capital to their clients and all losses incurred on this capital are borne by the banks.

The Jordan Islamic Bank has continued its operation in Jordan since its establishment in 1979, thus indicating its growing popularity. Such banks have attempted to promote harmony amongst people with the fair distribution of wealth, but some critics are of the opinion that the growing popularity of these banks provide no such competition to the traditional banking system.

3.3 CONTRIBUTION OF COMMERCIAL BANKING IN INDUSTRIAL DEVELOPMENT AND OVERALL GROWTH OF JORDAN :

Commercial banks constitute the oldest, biggest and fastest growing financial intermediaries in the Hashemite Kingdom of Jordan. Commercial banks are the major source of credit in Jordan followed by the Specialised Credit Institutions. A primary objective of these banks is to mobilize resources in an efficient and systematic manner. An efficient financial development of a country is a prerequisite for the savers to save in accordance with the wide range of opportunities offered, also giving incentive to the investor to invest his proportion of the money in the desired sector. Hence financial institutions such as commercial banks may be appropriately defined as business commercial concerns that give customers and backward societies an access to the financial services offered by them in return for payment such as interest, discount fees and so on. Their primary concern revolves around profitability. Moreover banks are also overcautious with regard to balancing profitability and liquidity. Banks need to maintain a higher level of liquidity because of the nature of their liabilities including the public's money repayable on demand.

Prior to the establishment of the Central Bank of Jordan, there was no such law regulating the liquidity of banks, though ideally the commercial banks maintain a high ratio of liquid assets. The first such law which stipulated that bank holdings of specified assets should range between 25% and 35% of total bank deposits was passed in 1966 by the Temporary Banking Law. Later, in accordance with the Temporary Banking Law of 1971, the maximum ceiling of 35% was removed with banks having to satisfy a minimum ceiling of 25%.(7)

3.3.1 The Traditional Commercial Banking Theory :

One main area in which a serious functional deficiency was observed in the working of the commercial banks was their strict adherence to the provision of short term loans. Term lending, that is, medium and long term lending was almost non-existent. Though it is undoubtedly true that this concept of 'borrowing short and lending short' contributed to a financially sound banking structure in Britain under whose footsteps the Jordanian banking system was structured, however the advent of the Economic

Depression of 1933 in USA, showed a clear indication of the fact that the short term, characters of banks could not help in maintaining liquidity for long. With the growth of many industrial firms in USA, a need arose for long term credit which could not be provided by Commercial Banks. Theoretically too the above innovation could be justified. Hence Jordan Banks too viewed this change which could best provide for their liquidity.

Prior to independence, the industrial and agricultural activities did not receive much attention which ideally required long-term facilities for their development. Concentration was more on foreign-trade transactions which required short term credit extension. It was after independence that the domestic areas started receiving more attention. Lack of any long term financing facilities hindered the expansion of industrial sectors and enterprises.

The argument for long term loan facilities in the case of Jordan is not only necessitated by the increasing demand for such loans, but is further encouraged by structure and nature of bank deposits.

A major portion of Jordan's liabilities are made up of deposits which are of four main types. Demand Deposits, Time Deposits due on fixed dates, Time deposits subject to notice and Saving deposits. Another noteworthy feature of the bank deposits is the importance of government deposits which occupied over one-third of the total deposits during 1950-64 period. Today the deposits of government bodies occupy a relatively minor portion of the total deposits, indicating the influence of privatization on these banks.

Today, the commercial banks in Jordan are privately owned and compete with one another for customers. Various questions may arise in one's mind with regard to whether the privately owned structure of banks is more beneficial than a nationalized system ? How successful have the banks been in attracting savings ? Are the lending policies of commercial banks consistent with the government's development objectives? What is the contribution of these banks to economic management and control of inflation? A detailed analysis of the deposits of commercial banks, type of deposits and total outstanding savings deposits during the time period 1976-1990, balance between its assets and liabilities, and the sectoral distribution of outstanding commercial bank credit has been carried out in the following pages in order to assess the impact of commercial banking activity on the economy of Jordan.(8)

3.3.2 Deposits of Commercial Banks :

Commercial banks are empowered with this unique ability to create money as well as credit. For any bank to earn assets, it must acquire funds either by receiving primary deposits or by increasing its existing capital. Once the bank acquires its assets and receives all its cash assets, the next step of the bank is to determine the amount of reserves required which is done by multiplying the reserve requirement with the bank liabilities. This volume of legal reserves determines the amount of assets that the bank can acquire which include various types of loans and investment.

In short, in order that a bank may wish to increase its assets in the form of cash, loans and investment, it is necessary that the bank acquires legal reserves. Legal reserves are considered as assets which may be counted as reserves for the purpose of meeting the state reserve requirements.[9] Moreover, the amount of loans and investments that the bank can make possible is also highly dependent upon the public's demand for funds.

(a) Types of deposits :

Table 3.1 depicts the breakdown of the type of deposits of commercial banks between 1964 and 1990. Prior to this analysis, it becomes essential to distinguish between the four main types of deposits of the commercial banks.

1. Demand deposits are those which can be withdrawn or transferred to someone else at any time, without prior notice to the banks.
2. Time Deposits 'subject to notice' can be defined as those deposits which are not payable on demand and are deposited with banks for a specified period of time. These deposits cannot be withdrawn by cheque instead there should be a notice of withdrawal.
3. Time Deposits 'due on fixed dates' are defined as a written contract with the depositors that neither the whole nor any part of such deposits may be withdrawn by cheque or otherwise, prior to the date of maturity.
4. 'Saving deposits' refer to a regular or passbook savings account which accounts for the most common type of deposits.

- Upto 1980, the demand deposits on which cheques could be written dominated the market because of its highly liquid nature. However after 1980, the position occupied by demand deposits were replaced by time deposits 'due on fixed dates' and 'subject to notice'. A look at the total deposits of commercial banks as indicated in table 3.1 shows that there has been a rise of JD 2392.7 million over the past 15 years of the study (1976-90) depicting a compound growth rate of 17% per annum. The total demand deposits experienced a constant increase from JD 140.2 million in 1976 to JD 538.7 million in 1990, exhibiting a compound growth rate of 9.38% per annum. Its peak growth rate took place between 1976-80, that is, a growth of 15.4% per annum. By 1980, the demand deposits occupied 35.6% of the total deposits, its share declining to 20.4% in 1990 as a consequence of the strengthening of position of the total time deposits and savings deposits.

- With regard to the time deposits, the increasing demand was again primarily due to the increasing popularity and success of commercial banks in its role as a financial intermediary. On observing the total time deposits 'due on fixed date' and 'subject to notice', it can be seen that there was a noteworthy increase from JD 60.5 million in 1976 to JD 1780.7 million in 1990, the calculated compound growth rate being 25.2% per annum. The percentage contribution of the time deposits to the grand total of deposits soared from 48.4% in 1980 to 67.4% in 1990. In this case too, the highest growth rate of time deposits of 45.2% per annum was observed between 1976 and 1980.
- Saving deposits occupied a comparatively smaller percentage of the total deposits, its share declining from 16% of the total deposits in 1980 to 12.2% in 1990. However, the saving deposits have shown a noticeable rise from JD 49.3 million in 1976 to JD 323.3 million in 1990, showing a compound growth rate of 13.3 % per annum.

By having multiple time deposits opened at different periods, depositors have managed to maintain a potentially liquid cash flow position with respect to their bank assets.[10] Time deposits 'subject to notice' are less flexible than time deposits 'due on fixed date' probably because interest rates on time deposits subject to notice are usually 0.25% lower than on fixed time deposits, hence the latter are more popular.

Therefore both time and saving deposits represent the less liquid claims on commercial banks. As compared to the more volatile demand deposits, these deposits generally have a stable character.

Table 3.1
Total of Different Types of deposits of Commercial Banks (CB)

(JD Million)

Year	Total Demand Deposits	Total Time Deposits due on fixed date & subjects to notice	Total Saving Deposits	Grand Total Deposits
1964-70	204.1	135.0	29.2	368.3
	(55.4)	(36.7)	(7.9)	(100)
1971-75	281.0	151.1	70.1	502.2
	(56.0)	(30.1)	(13.9)	(100)
1976	140.2	60.5	49.3	250.0
	(56.1)	(24.2)	(19.7)	(100)
1977	165.8	86.9	62.1	314.8
1978	172.6	190.9	85.0	448.5
1979	213.1	271.0	109.0	593.1
1980	288.1	391.5	128.9	808.5
	(35.6)	(48.4)	(16.0)	(100)
1981	316.5	500.0	160.9	977.4
1982	354.5	626.7	188.3	1169.5
1983	387.7	794.1	216.0	1397.8
1984	409.7	958.2	235.2	1603.1
1985	374.5	1134.0	238.7	1747.2
	(21.4)	(64.9)	(13.7)	(100)
1986	370.6	1319.9	255.8	1946.3
1987	380.0	1479.1	283.3	2142.4
1988	435.0	1601.2	309.9	2625.4
1990	538.7	1780.7	323.3	2642.7
	(20.4)	(67.4)	(12.2)	(100)
COMPOUND GROWTH RATE (% per annum)				
1976-80	15.4	45.2	21.1	26.4%
1981-90	5.4	13.5	7.22	10.4%
1976-90	9.38	25.2	13.3	17%

Source : (1) Central Bank of Jordan yearly statistical series (1964-1990) Oct : 1994.
(2) Annual Reports 1964-90.
(3) Figures in parenthesis indicate percentage.

(b) **Ownership of Deposits as Distributed in the Public and Private Sectors :**

While taking into account the deposits of commercial banks as distributed in the public and private sectors, table 3.2 depicts an interesting picture. Banks can only succeed in playing a major role in the economy if they are successful in attracting deposits. The table 3.2 clearly reveals that the main source of deposits is the private sector within the country itself, comprising of individuals and private enterprises. The contribution of the public sector towards the total deposits has also been gradually dominated by the non-resident sector, specially during the late eightees. Banks have been extremely successful in attracting deposits from non-residents in recent years. The term public sector includes the government, semi-government institutions, municipalities and public corporations.

We observe from the table that the resident private sector occupied a major bulk of the total deposits, its value rising from JD 204.6 million in 1976 to JD 1956.4 million, at the end of 1990 experiencing a compound growth rate of 16.2% per annum during the 15 year study period, the highest growth rate of 23.1% being observed between 1976-1980. However, the percent contribution of the private sector to the total deposits declined slightly from 81.8% in 1976 to 74% in 1990. Despite the slight decline in the rate of growth of assets, important changes in the structure occured mostly in the private sector and public corporations. A plausible drop in the growth rate of private sector deposits (resident) by the end of 1983 was propelled by the decrease in the real GNP.

On the other hand, the contribution of the non-resident private sector rose from 8.2% in 1976 to 14.7% in 1990, with a compound growth rate of 21.6% per annum during the period of study. This implies that the commercial banks were active in encouraging different schemes and inducements in order to increase its share in total deposits of commercial banks as non-resident individuals were holding a huge amount in foreign banks abroad. Moreover, these funds have been used for more productive activities which can contribute much to the social and economic development.

The rise in foreign liabilities in 1983 was most probably ascribed to the increase in the remittances from Jordanian's working in the Arab countries either intending to settle in Jordan in the near future or willing to domicile their savings in Jordan in apprehension of political and economic instability there.

Foreign currency deposits held with commercial banks reached an equivalent of JD 422.5 million at the end of 1988 thereby generating JD 2346.1 million of the overall increase in deposits. By 1989, the deposits of the resident private sector shot up by 13.2% over the previous year because they seemed to prefer channelling their savings into foreign currencies specially uncertainty prevailing in domestic money and capital markets.

With regard to the public sector, figures reveal an increase from JD 25 million in 1976 to JD 299.2 million in 1990, exhibiting a compound growth rate of 17.9% per annum. The efforts of the public sector are primarily directed towards the construction of public utilities and implementation of basic infrastructure projects along with expansion of educational and health services. The private sector has mainly participated in financing and implementing large scale projects that include cement, oil, refinery and phosphate production. The non-resident private sector occupied a lesser proportion of the deposits as it experienced a slow start from JD 20.4 million in 1976 to about JD 133.2 million in 1980. The ownership of deposits of commercial banks suffered a serious setback by the emergence of the Gulf crisis whose repercussions were reflected in the reduction of remittances of Jordanians working in Gulf, influx of refugees, decrease in Jordanian experts and freezing of Arab financial aid. A further improvement can be bought about if the private sector is encouraged by different schemes thus bringing about an increase in share of the total deposits of commercial banks.

Table 3.2
Ownership of Deposits of Commercial Banks by the Public and Private Sectors

(JD Million)

Year	Public Sector	Private (Resident)	Sector Non Resident	Total
1964-70	72.9	280.5	14.8	368.2
	(19.8)	(76.2)	(4.0)	(100)
1971-75	58.1	425.7	18.4	502.2
	(11.6)	(84.8)	(3.6)	(100)
1976	25.0	204.6	20.4	250.0
	(10.0)	(81.8)	(8.2)	(100)
1977	28.5	267.5	18.9	314.8
1978	36.4	364.6	47.5	448.5
1979	60.6	465.4	67.1	593.1
1980	94.7	580.6	133.2	808.5
	(11.7)	(71.8)	(16.5)	(100)
1981	127.7	706.4	143.6	977.7
1982	114.5	883.4	171.6	1169.5
1983	145.7	1035.4	216.7	1397.8
1984	156.4	1169.8	276.9	1603.1
1985	178.5	12744.0	294.3	1747.2
	(10.2)	(73.0)	(16.8)	(100)
1986	215.8	1425.0	305.5	1946.3
1987	177.6	1664.0	300.8	2142.4
1988	176.3	1747.3	422.5	2346.1
1989	245.7	1979.3	400.4	2625.4
1990	299.2	1956.4	386.9	2642.5
	(11.3)	(74.0)	(14.7)	(100)
COMPOUND GROWTH RATE (percent per annum)				
1976-80	30.5	23.1	45.5	26.4
1981-1990	8.88	10.7	10.4	10.4
1976-1990	17.9	16.2	21.6	17.0

Source : (1) CBJ : Yearly statistical series (1964-90) Oct : 1994.
(2) Annual Reports 1964-90.
(3) Figures in parenthesis indicate percentage.

(c) Ownership of Demand Deposits :

Table 3.3 gives a more detailed description of the contributions of the Government, Semi-Government, Municipalities, resident and non-resident demand deposits of the public and private sectors respectively. The table once again confirms the superiority of the private sector which occupies a major share of the total outstanding demand deposits.

Deposits by government bodies, including municipalities and state-oned entities are a relatively minor portion of the total deposits, reflecting the fact that majority of the Jordanian economy is in private hands.

During the early seventies the private resident sector occupied the highest percentage that is 79.9% of the total deposits followed by 7.8% of the government deposit. The semi govt. and deposits with municipalities occupied a minor portion of the total deposits. Between 1971-75, primarily all the agencies under the public and private sector assumed a negative growth rate, the major reasons being political imbalances after the turn of the 1967 war. There was a sudden rise in the population due to forced immigration, thus the economy of Jordan showed a deteriorating picture. This led to a decline in the investment expenditures both by the public and private sector. This deteriorating state of affairs of the kingdom was slowly revived back when the government made an ardent attempt to improve the economic and social conditions between 1973 and 1980. It is interesting to note that the private resident sector has maintained an accelerated growth rate occupying 75-80% of the total demand deposits during the whole period, with a compound growth rate of 9.2% per annum. However it can also be observed from the table that the highest growth rateof 15.4% per annum was recorded during the time period 1976-80. This has been followed by the private 'non-resident' sector whose deposits have risen by 14.4% per annum its percentage share of the total deposits rising from 9.4% in 1976 to 18.6% in 1990, the highest growth rate of 30.2% taking place between 1976-80. In the case of the public sector, the highest growth rate of 8.9% per annum during the study period has been recorded by the public corporations, followed by a growth rate of 4.8% recorded by the government sector. Municipalities depicted a negative trend of 3.4% in relation to the total outstanding demand deposits. The Five Year Plan of 1976-80 and 1981-85 highlighted the necessity for developing an institutional frame work for the banking system with regard to savings and credit. These plans also aimed at reducing inflation and gearing local savings toward investments that served the aims of development.

Development in the structure of commercial banks assets reflected the continuation of tepid demands for credit facilities due to economic recession as well as conservative credit policies and investers preference of financial investments, specially Government bonds and inter bank deposits. Thus, increase in the total deposits was concentrated in the deposits of the private sector (resident) which generated 75% of the total aggregate demand deposits.

Therefore, it can be concluded that, though the mid-eightee's experienced a severe economic crisis, not much of a negative impact was observed on the total demand deposits which showed a regular upward trend from JD 288-1 million in 1980 to JD 538.7 million in 1990. The above table hence reveals the importance of the commercial banks as a credit institution and its growing importance to the different sectors of the economy. The above data also validates the spread of banking habits among people and institutions. Hence it may be suggested that commercial banks have been successful in institutionalising domestic savings.

Table 3.3
Ownership of Demand Deposits of Commercial Banks by Sector/Subsection

(JD Million)

Year	Public Sector				Private	Sector	Total
	Govt.	Semi-Govt.	Munici-palities	Public Corps	Resident	Non Resident	
1964-70	25.6	10.1	3.5	7.6	148.2	9.1	204.1
	(12.5)	(4.9)	(1.7)	(3.7)	(72.6)	(4.6)	(100)
1971-75	21.9	8.3	3.2	12.0	224.6	11.0	281.0
	(7.8)	(3.0)	(1.1)	(4.3)	(79.9)	(3.9)	(100)
1976	9.1	3.9	4.6	2.8	106.6	13.2	140.2
	(6.5)	(2.8)	(3.3)	(2.0)	(76.0)	(9.4)	(100)
1977	9.3	6.1	2.7	3.7	133.4	10.6	165.8
1978	5.2	3.3	3.0	3.1	143.9	14.1	172.6
1979	5.5	8.7	4.6	3.6	173.8	16.9	213.1
1980	6.6	6.8	3.7	2.6	218.9	49.5	288.1
	(2.3)	(2.4)	(1.3)	(0.9)	(75.9)	(17.2)	(100)
1981	7.0	5.4	4.6	3.5	272.0	24.0	316.5
1982	9.3	6.3	3.6	5.1	296.4	33.8	354.5
1983	11.5	5.4	6.8	6.9	325.0	32.1	387.7
1984	16.8	6.1	6.0	5.0	325.8	50.0	409.7
1985	19.8	6.4	5.1	10.7	292.6	39.9	374.5
	(5.3)	(1.6)	(1.4)	(2.9)	(78.1)	(10.7)	(100)
1986	19.5	8.1	4.7	6.1	299.9	32.3	370.6
1987	19.0	5.3	2.9	7.3	312.7	32.8	380.0
1988	20.5	5.1	4.1	5.2	344.4	55.7	435.0
1989	17.4	7.1	2.7	9.5	413.2	59.4	509.3
1990	18.4	5.9	2.7	10.1	401.1	100.5	538.7
COMPOUND GROWTH RATE (percen per annum)							
1976-80	-6.2	11.7	-4.2	-1.4	15.4	30.2	15.4
1981-90	10.1	0.88	-5.1	11.1	3.07	15.3	5.4
1976-90	4.8	2.7	-3.4	8.9	9.2	14.4	9.3

Source : CB.J Yearly statistical series (1964-90) Oct. 1994
Annual Reports 1964-90.
Figures in parenthesis indicate percentage.

(d) **Ownership of Time Deposits with Commercial Banks (Due on Fixed Dates and Subjects to Notice) by Sector Sub-Section.**

Table 3.4 gives an account of the total outstanding time deposits with commercial banks. The time deposits have come second in importance to demand deposits during the study period. These deposits are either due on a fixed date or they are withdrawable subject to an agreed period of notice. Once again the private sector showed its supremacy by occupying a major portion of the deposits. Till 1976, the private resident sector occupied approximately 80% of the total time deposits.

The relative size of the time deposits in the deposit structure declined to a noticeable 60-65% between 1980-85. This was owing to the notable rise in saving deposits. In turn, on comparing the growth rate of demand deposits and time deposits, a fall in the rate of increase of demand deposits was accompanied by an annual rise in time deposits. The monetary and banking policies of the plan period between 1981-85 stressed the "utilization of various monetary policy tools particularly interest rates and monetary legal reserves in favour of time deposits in order to maintain monetary stability".[11]

It is worth mentioning that the savings and time deposits increased at a higher percentage than demand deposits - a situation which confirms well with the Central Bank objectives of strengthening the structure of deposits and reducing their liquidity as the five year plans of 1976-80 and 1981-85, aimed at mobilizing local savings for financing various developmental projects. As a result, the volume of time deposits exceeded that of demand deposits. Additionally, the term structure of interest rates which relates the interest rate to the deposits term helped bring about a shift of preference in favour of time deposits whose relative importance crept upwards over the past few year.

The percentage contribution of the private 'resident sector' to the total outstanding time deposits experienced a marginal decrease from 82.1% in 1976 to 69.9% in 1990, depicting an annual growth rate of 23.9% between 1976-1990. On the other hand the time deposits of the private 'non-resident' sector rose from 10.7% in 1976 to 15.4% in 1990, its annual compound growth rate being 28.3%. Although the public sector has shown high growth rates in recent years, yet it has not been able to surpass the higher growth rates enjoyed by the private sector.

On observing the public sector in terms of its total share of the time deposits, the growth rates of the government, semi-governments, municipalities and public corporations have not shown a very stable picture. Till the year 1975, the public sector had not been given much importance. Time period between 1971-1975 indicates an average of JD 4.9 million occupied by the government sector, semi-government occupied JD 3.8 million, municipalities JD 0.5 million and public corporations held JD 0.42 million of the total time deposits. This rose to JD 59.5 million by government, JD 84.9 million by semi-government, JD 10.5 million of municipalities and JD 106.5 million of public corporations. These figures indicate the low profile maintained by the public sector.

Various monetary policies aimed at curbing inflation, three year development plans and a minimum interest rate extended on time deposits resulted in an increase in the savings and time deposits of commercial banks from JD 60.5 million in 1976 to JD

1780.7 million in 1990, with an annual growth rate of 25.2%. The highest growth rate of 45.2% was recorded during 1976-80.

Table 3.4

OWNERSHIP OF TIME DEPOSITS OF COMMERCIAL BANKS (DUE ON FIXED DATES AND SUBJECT TO NOTICE) BY SECTOR SUB-SECTION.

Year	Public Sector				Private Sector		Total
	Govt.	Semi-Govt.	Municipalities	Public Corps	Resident	Non-Resident	
196-70	17.4	5.6	1.1	2.1	103.1	5.7	135.0
	(12.9)	(4.1)	(0.8)	(1.6)	(76.4)	(4.2)	(100)
1971-75	4.9	3.8	0.5	3.5	131.1	7.3	151.1
	(3.2)	(2.5)	(0.3)	(2.3)	(86.8)	(4.9)	(100)
1976	1.0	2.4	0.0	0.9	49.7	6.5	60.5
	(1.7)	(4.0)	(0.0)	(1.5)	(82.1)	(10.7)	(100)
1977	2.2	3.4	0.5	0.2	73.3	7.3	86.9
1978	2.7	13.0	0.4	5.5	137.5	31.8	190.9
1979	6.9	24.7	2.6	3.8	184.9	48.1	271.0
1980	14.0	36.0	2.7	21.8	235.5	81.5	391.5
	(3.6)	(9.2)	(0.7)	(5.5)	(60.2)	(20.8)	(100)
1981	12.2	51.5	4.1	38.0	281.1	113.1	500.0
1982	20.5	41.9	4.3	22.7	406.4	130.9	626.7
1983	25.2	54.5	5.5	28.5	503.3	177.1	794.1
1984	29.7	59.0	5.0	28.1	618.0	218.4	958.2
1985	36.7	58.0	8.1	32.9	752.1	246.2	1134.0
	(3.2)	(5.2)	(0.7)	(2.9)	(66.3)	(21.7)	(100)
1986	55.7	72.1	13.4	34.6	878.6	265.5	1319.9
1987	60.4	42.4	2.6	36.9	1077.3	259.5	1479.1
1988	43.7	41.0	5.2	51.0	1102.1	358.2	1601.2
1989	57.4	79.1	3.9	66.1	1288.7	332.9	1770.1
1990	59.5	84.9	10.5	106.5	1244.7	274.6	1780.7
	(3.3)	(4.8)	(0.6)	(6.0)	(69.9)	(15.4)	(100)
COMPOUND GROWTH RATE (% per annum)							
1976-80	69.5	71.8	40.1	89.1	36.4	65.8	45.2
1981-90	17.1	5.12	9.8	10.8	16.0	9.2	13.5
1976-90	31.3	26.8	22.5	37.4	23.9	28.3	25.2

Source : CBJ Yearly statistical series (1964-90) Oct. 1994
Annual Reports from 1964-90.
Figures in parenthesis indicate percentage.

(e) Ownership of Saving Deposits of Commercial Banks by Sector Subsection :

As explained earlier in the chapter, saving deposits refer to the regular or pass book saving account which is the most common type of time deposits. The following table 3.5 brings out the essential role played by both the private as well as the public sectors in setting up the saving deposits of the commercial banks.

The table clearly indicates that here too the private sector resident sector has held an upper hand in terms of the total saving deposits. These total saving deposits have risen from a figure of JD 49.3 million in 1976 to JD 323.3 million in 1990, experiencing a growth rate of 13.3 million per annum.

On an average the private 'resident' sector has occupied 95% of the total saving deposits during 1976-90. This sector has shown an upward trend from JD 48.3 million in 1976 to JD 310.6 million in 1990, indicating a compound growth rate of 13.2% per annum. The highest value of JD 337.4 million was attained by the private 'resident' sector in 1989. As evident from the table, saving deposits have appeared less attractive to the private 'non-residents', primarily because they being an affluent class can easily maintain time deposits rather than saving deposits which offer lower returns and at the same time require more frequent transactions based on regular payments. The highest growth rate of 25.7% was recorded by the non-resident private sector in terms of the total outstanding saving deposits between 1976-80, with an annual growth rate of 20.7%.

The public sector occupied an almost negligible share of the total outstanding saving deposits between 1976-90, its share rising from JD 0.3 million in 1976 to JD 0.9 million in 1990 indicating a compound growth rate of 7.5% per annum. Between 1981-90 the public sector experienced a negative growth rate of -4.3%. Its share of the saving deposits did not exceed more that 0.6% of the total.

Both saving and time deposits reflect the less liquid claims on commercial banks. They have a more stable character as compared to the volatile demand deposits. Hence saving deposits are considered similar to time deposits and are even merged into one category distinct from demand deposits. Moreover, the holder of saving deposits cannot draw cheque on his account and can withdraw money only if he cashes it himself over the counter of his bank.

Table 3.5
Ownership of saving deposits of commercial banks by sector subsection 1976-1990.

Year	Public Sector	Private Sector		Total
		Resident	Non-Resident	
1964-70	0.0	29.2	0.0	29.2
	(0.0)	(100)	(0.0)	(100)
1971-75	0.0	70.0	0.1	70.1
	(0.0)	(99.9)	(0.1)	(100)
1976	0.3	48.3	0.7	49.3
	(0.6)	(98.0)	(1.4)	(100)
1977	0.3	60.8	1.0	62.1
1978	0.2	83.2	1.6	85.0
1979	0.2	106.7	2.1	109.0
1980	0.5	126.2	2.2	128.9
	(0.4)	(97.9)	(1.7)	(100)
1981	1.4	153.3	6.2	160.9
1982	0.8	180.6	6.9	188.3
1983	1.4	207.1	7.5	216.0
1984	0.7	226.0	8.5	235.2
1985	0.8	229.7	8.2	238.7
1986	1.6	246.5	7.7	255.8
	(0.6)	(99.4)	(3.0)	(100)
1987	0.8	274.0	8.5	283.3
1988	0.5	300.8	8.6	309.9
1989	0.5	337.4	8.1	346.0
1990	0.9	310.6	11.8	323.3
	(0.3)	(96.1)	(3.6)	(100)
COMPOUND GROWTH RATE (% per annum)				
1976-80	10.7	6.6	25.7	21.1
1981-90	-4.3	7.3	6.6	7.2
1976-1990	7.5	13.2	20.7	13.3

Source : CBJ, Yearly statistical series (1964-90)
Annual Reports 1964-90.
...Figures in parenthesis indicate percentage.

3.3.3 Economic Significance of Commercial Bank Assets :

The significance of banks in order to influence the economic situation of the country has been correctly stated as - "the existence of bank money is undoubtedly determined by the banking institution but the decision with regard to the use of money in the appropriate channels lies in the hands of the public".(12)

The primary objective of banks is to make profit for its shareholders. This profit is derived from the income attached to these assets. Banks exchange assets with the public by initiating bank deposits in return for assets such as cash, bills of exchange, government securities etc. Liquidity of banks signifies the bank's ability to exchange the deposits held by the public for cash. The earning of profit requires the bank to maintain a certain level of liquidity in order to satisfy the depositors' claims. A bank must be able to readily convert its assets into cash, without increasing any losses. A sound commercial banking system also requires some of its assets to have a certain degree of shiftability onto the Central Bank.

(i) Bank Liquidity :

A bank always strives to obtain maximum balance between liquidity and profitability in the management of its assets and liabilities. Maintaining adequate liquidity is one of the most important constraints upon bank management's primary objective of maximizing profits. A bank is considered liquid if it holds cash assets or primary reserves equal to its expected liquidity demands, or a sufficient amount of other assets that can be exchanged for cash or it has the ability to acquire cash through the creation of various liabilities.

Liability management involves the continuous establishment of and provision for the bank's immediate short term or seasonal and long term cash requirements.[13]

(ii) Bank Assets :

Long term economic and social prospects are not only relevant to domestic development efforts but they also interact with and are influenced by new economic and political developments. As these long term trends cannot be forecasted with any degree of certainty, the future outlook of Jordan's economy is confined to an overall view of the long term development objectives, the challenges that confront them and the policies to realize them. The distribution of funds between domestic and foreign outlets on one hand and composition of the bank's domestic investment on the other hand, all influence the allocation of capital among various sectors of the economy. Ideally the more the resources are allocated in domestic sectors, larger is the contribution of the commercial banks to the economic development of the kingdom. The allocative function of these institutions is confined to the adjustment of their asset structure in accordance with the economic and developmental strategies adopted in three year and five year development plans.

Therefore judging the economic prosperity of the Hashemite Kingdom of Jordán, one of the most significant 'parameters' that can be utilized is the assets of commercial banks in Jordan. The most important assets of the commercial banks in order of declining liquidity are :

(a) Domestic assets,

(b) Foreign assets,

(c) Government bonds and bills,

(d) Capital reserves,

(e) Fixed assets,

(f) Bills recoverable, and

(g) Other assets.

Therefore, to assess the impact of commercial banking activity on the economy, it is necessary to examine the bank's asset structure and patterns of lending.

Table 3.6 shows the composition of Jordan's Commercial Bank assets over the 1976-90 period.

- Domestic assets account for, by far the largest portion of assets, constituting more than half of the total assets that is 59.6% of the total assets in 1980 and 51.9% in 1990. The value of domestic assets have risen from JD 217.1 million in 1976 to JD 2122.4 million in 1990, the calculated compound growth rate being 16.4% per annum. Loans and advances account for the largest portion of domestic assets. The above change reflects to a certain extent the domestic economic developments. Firstly, the low level of private investments depressed the domestic demand for credit facilities and secondly, banks were reluctant to expand their credit facilities under the prevailing recessionary conditions during 1984-85, hence chose to increase their investments in securities. Consequently development in the structure of commercial bank assets reflected the continuation of limited demand for credit facilities due to economic recession as well as conservative credit policies and investors' preference for financial investments specially Government bonds, treasury bills and inter bank deposits.

- Foreign asset holdings also appear to be of considerable significance, as they increased in relation to the total assets during the 1976-1990 period and have remained at a high level. Foreign assets of commercial banks have risen from JD 19.2 million in 1976 to JD 1045.7 million in 1990. These assets have also recorded the highest compound growth rate of 30.5% per annum between 1976-90. Foreign assets did not exceed one - fifth that of 1980 due to the decrease in interest rates in world markets and the Central Bank's instruction to the Commercial Banks to reduce the ceiling of their holdings of foreign balances. This development can be mainly attributed to the sharp rise in interest rates in the world markets which widened the gap between returns on domestic investment and world interest rates. It also increased the flow of foreign currencies in the form of non-resident accounts at commercial banks. Jordan's banks consider foreign asset holdings more profitable than the deployment of funds domestically. Authorities in banks argue that some foreign assets holding is precautionary, given the foreign liabilities because of non-resident deposits. Between 1976 to 1980, these deposits were in dinars with no foreign currencies. A more likey cause of the increase in foreign assets holdings after 1980 was the appreciation of the dollar and Euro-dollar interest rates. Today, Jordan banks find foreign asset holdings more profitable than deployment of funds domestically. The other notable development has been the increase in the proportion of fixed assets from JD 5.5 million in 1976 to JD 90 million in 1990 recording a compound growth rate of 20.4% per annum. The increase in foreign asset holdings has had a slight adverse effect on the relative holdings of government bonds and bills.

- Commercial bank borrowing has never been a significant source of government finance in Jordan, the government bonds and bills occupying a share of 9.5% of the total assets by the end of 1990. Reserves have experienced an upward trend from JD 54.2 million in 1976 to JD 216.6 million in 1990, depicting a compound growth rate of 9.6% per annum.

- All in all, the total assets have soared from JD 333.6 million in 1976 to JD 4090.0 million in 1990 with an annual growth rate of 18.2%. Increase in credit facilities was quite low in 1989 as compared with an increase in the previous four years; plausibly this shift is ascribed to the continuous slow-down in the economic activity which must have reduced the domestic demand for credit. Despite the slight decline in the rate of growth of assets, important changes in the structure occured mostly concentrated in credit facilities provided to the private sector and public corporations. Expansion was also partly attributed to the Central Bank's measures in promoting developmental credit and tolerating credit expansion to the private sector to finance the exceptional foreign trade volume.

Table 3.6

Assets of Commercial Banks during 1964-1990

(JD Million)

Year	Reserves	Foreign Assets	Domestic Assets	Govt. Bonds Bill	Bills Recover-able	Fixed Assets	Other Assets	Total Assets
1964-70	90.5	64.6	286.0	7.1	7.4	10.8	20.3	486.7
	(18.6)	(13.3)	(58.8)	(1.5)	(1.5)	(2.2)	(4.1)	(100)
1971-75	115.0	33.5	393.3	81.0	8.1	13.4	19.7	664.0
	(17.3)	(5.0)	(59.2)	(12.2)	(1.2)	(2.1)	(3.0)	(100)
1976	54.2	19.2	217.1	23.0	4.2	5.5	10.4	333.6
	(16.2)	(5.7)	(65.1)	(6.9)	(1.3)	(1.7)	(3.1)	(100)
1977	67.5	37.2	264.8	32.9	4.1	7.5	8.5	422.5
1978	81.7	76.1	385.3	68.6	6.6	9.1	9.7	637.1
1979	101.6	82.8	520.3	73.8	11.1	13.3	20.8	823.7
1980	116.5	205.2	638.4	59.8	11.8	17.9	20.9	1070.5
	(10.9)	(19.2)	(59.6)	(5.6)	(1.1)	(1.7)	(1.9)	(100)
1981	115.1	244.4	816.5	80.8	16.0	27.1	30.8	1330.7
1982	118.4	277.5	937.1	102.8	24.5	38.9	54.3	1553.5
1983	134.1	331.9	1124.2	147.2	20.7	46.5	58.7	1863.3
1984	136.2	359.1	1281.4	208.5	21.8	57.9	71.1	2136.0
1985	161.9	412.4	1427.3	228.3	19.3	66.8	76.1	2392.1
1986	180.5	431.8	1572.7	275.7	16.5	68.0	89.6	2634.8
1987	181.0	480.3	1709.8	345.9	25.8	73.9	81.8	2898 5
1988	149.4	702.6	1870.9	334.9	22.3	78.1	92.3	3250.5
1989	259.4	858.2	2014.3	369.0	19.5	84.0	178	3780.3
1990	216.6	1045.7	2122.4	388.8	20.9	90.0	205.6	4090.0
	(5.3)	(25.6)	(51.9)	(9.5)	(0.5)	(2.2)	(5.0)	(100)
COMPOUND GROWTH RATE (% per annum)								
1976-80	16.5	60.6	24	21	22.9	26.6	14.9	26.2
1981-90	6.5	15.6	10.0	17.0	2.7	12.7	20.9	41.1
1976-90	9.6	30.5	16.4	20.7	11.2	20.4	22.0	18.2

Source : CBJ

Yearly statistical series (1964-90)

Annual Reports - 1964-90

..Figures in parenthesis indicate percentage.

(iii) The Ratio of Bank Assets / Deposits to GNP 1976-1990.

With respect to the relative share of bank assets / deposits to GNP between 1976-1982, the GNP at current prices achieved a figure of 16.8%, this being the annual compound growth rate of the given period.

This figure was in sharp contrast to the low growth rates during the period between 1967-73, that is, 4.8% of GNP. The 1967 Arab-Israeli war proved to be a major set back for the agricultural land of Jordan and more so due to the occupation of the west bank by Israel. The closure of the suez canal after the war also had an adverse effect upon the Jordanian trade. The 1973 Arab-Israeli war worsened the economic position of the country, wherein the GDP rose at a very slow rate of 9.28%.

By and large, as described earlier, the period between 1976-82 could be regarded as the period when there was a prosperous growth in the economy of Jordan.

As indicated in table 3.7, the National Income grew from a figure of JD 572.5 million to JD 1702.5 million between 1976-1982, indicating a sharp annual growth rate. However, during 1983-1990, there was a slackening growth of the economy, during which the GDP grew at the rate of 3.4% per annum. With a rapid drop in the oil prices, there was shrinkage in the Jordanian export market. The gulf-crisis of 1990 further aggravated the situation.[14]

On observing the same time period of study with regard to progress made in the bank assets, figures indicate a steep rise from JD 333.6 million in 1976 to JD 4090 million in 1990, rising at a compound growth rate of 18.1% per annum. The total deposits of banks have risen from JD 250 million to JD 2642.7 million at an annual growth rate of 17%.

Columns (5) and (6) of table 3.7 give us a fair idea about the ratio of bank assets and deposits to GNP from 1976 to 1990. The bank assets have occupied a much higher percentage share of the GNP in contrast to the total deposits during the time period of this study.

From being 58.3% of the total GNP in 1976, bank assets were 172.1% of the total national income by the end of 1990, indicating a linear rate of growth throughout, except for 1981 when there was a slight decline in its percentage share of the total GNP.

The percentage share of the total deposits also exhibit a linear relationship of growth except for a slight decline observed by the end of 1981 and 1990. Its percentage share to total GNP rose from 43.6% in 1976 to 111.2% by the end of 1990.

Table 3.7
Ratio of Bank assets/Deposits to GNP 1976-1990

Year	Bank Assets and liabilities	Total Deposits	GNP National Income	Ratio of bank assets to GNP (2/4 x 100)	Ratio of deposits to GNP (3/4 x 100)
(1)	(2)	(3)	(4)	(5)	(6)
1976	333.6	250.0	572.5	58.3	43.6
1977	422.5	314.8	688.9	61.3	45.6
1978	637.1	448.5	797.3	79.9	56.2
1979	823.7	593.1	972.9	84.7	60.9
1980	1070.5	808.5	1183.6	90.4	68.3
1981	1330.7	977.4	1484.2	89.6	65.8
1982	1553.5	1169.5	1702.5	91.2	68.6
1983	1863.3	1397.8	1815.0	102.6	77.0
1984	2136.0	1603.1	1905.0	112.1	84.1
1985	2392.1	1747.2	1965.1	121.7	88.9
1986	2634.8	1946.3	2097.3	125.6	92.8
1987	2898.5	2142.4	2112.5	137.2	101.4
1988	3250.5	2346.1	2129.9	152.6	110.1
1989	3780.3	2625.4	2206.4	171.3	118.9
1990	4090.0	2642.7	2375.9	172.1	111.2

Source : CBJ Yearly statistical series (1964-93) (Oct. 1994)

3.3.4 Economic Significance of Commercial Bank Liabilities :

Consolidated statements of liabilities are very well demonstrated in their balance sheets. In simplified terms, liabilities are promises given against which assets are received. It is the primary object that a 'business undertaking' receives in cash against the promise given to the owner to repay it at some definite time in the future. Deposits form the most significant liability as commercial banks deal in other people's money which they receive as deposits. This fund is then utilized to acquire, convert and reconvert various assets.

The matching concept of debit and credit in accounting explains that very liability must therefore find a matching asset, that is, at a certain point of time the total liabilities and assets of a bank must match.[15]

Liabilities are also of varying degrees of maturity. Current liabilities are liabilities which are payable either on demand or after a fixed period of time but nevertheless payable within a period of 12 months. The rest are termed as long term liabilities which are payable after a period of 12 months.

Banks forming the primary financial intermediary of the country, deposits mobilization by them perhaps remains the most important form of mobilization of public savings. The growth of total deposits and various types of deposits has been discussed elaborately in the same chapter.

Current liabilities and deferred liabilities together constitute the external borrowings or debt of banks. Retained earnings of the banks are profits added onto the reserves of the following year. The major function of these funds is to provide a balance against possible losses incurred by the bank.

Borrowings from the Central Bank of Jordan also occupy a great deal of operational significance as it gives us an idea about the adequacy or inadequacy of the bank's resources. In India, while the RBI has laid down regulations on the raising of public deposits by non-financial companies, no such restrictions have been followed here.[16]

(i) Liabilities of the Commercial Banks :

The main liabilities of a bank include the deposits of its customers that form a major part of its total liabilities. Other liabilities include the capital of its shareholders, reserve funds, foreign liabilities, and loans from central and other banks. The only bank liability of economic importance is deposits in currency and deposit accounts, since bank deposits can be drawn upon by cheque.

On observing the liabilities of commercial banks from table 3.8, a number of points may be highlighted. Between 1976-1990, the total assets/liabilities of commercial banks have risen from JD 333.6 million to JD 4090.0 million. On the liabilities side, this rise was contributed largely by the private sector deposits that rose from JD 204.7 million in 1976 to JD 1956.4 million in 1990 exhibiting a compound growth rate of 16.2%. Its percentage contribution was 61.4% of the total liabilities in 1976 which declined to 47.8% in 1990 with a gradual rise in foreign liabilities, and deposits of local banks. However, in contrast, the government funds and deposits showed a downward trend, their contribution to the total liabilities declining from 5.9% in 1980 to 4.1% in 1990, though in absolute terms, capital and reserves rose during the period under study, their relative growth rate was much less. The percentage share of capital declined from 4.8% in 1976 to 3.4% in 1990.

Foreign liabilities also occupied a fairly stable position, its percentage contribution rising from 6.9% to 11.2% between 1976-90, its annual growth rate being 22%.

The highest annual compound growth rate of 62.8% was recorded by liabilities as loans from central bank and other local banks, which rose from JD 0.4 million in 1976 to JD 449.2 million in 1990, its percentage share also soaring from 0.1% to 11% during the same time span. Deposits by Government bodies, including municipalities are a relatively minor portion of total deposits, reflecting the fact that the major part of the Jordanian economy is based on private banks. Moreover, no such marked tendency has been seen for the share of Government deposits to increase. Deposits and loans from local banks are of even less significance, illustrating the under-development of the inter-bank market in the country.

A rise in the foreign liabilities can be probably ascribed to the increase in the remittances from Jordanians working in the Arab Gulf countries. The turbulent circumstances witnessed in the region during 1990, were responsible for its growth rate to decline by 8% over the previous year.

Table 3.8

Liabilities of the commercial banks

Year	Capital	Reserves	Foreign Liabilities	Govt. Semi-Govt. Deposits	Municipalities & Public Deposits	Private Sector deposits Resident	Deposits Local Banks	Loans from central bank & local bank	Bills payable	Other liabilities	Total liabilities
1964-70	29.7	15.7	20.9	58.6	14.2	280.6	9.3	0.4	3.4	53.9	485.7
	(6 1)	(3.2)	(4.3)	(12.0)	(2.9)	(57.8)	(1.9)	(0.1)	(0 7)	(11 0)	(100)
1971-75	32.7	19.8	22.3	38.8	19.2	425.6	33.3	4.5	5.3	62.5	664 0
	(4.9)	(3.0)	(3.4)	(5.8)	(2.9)	(64.1)	(5.0)	(0 7)	(0.8)	(9.4)	(100)
1976	16.2	8.2	23.1	16.6	8.4	204.7	12.7	0.3	3.6	39 8	333 6
	(4 8)	(2.5)	(6.9)	(5.0)	(2.5)	(61.4)	(3.8)	(0.1)	(1.1)	(11.9)	(100)
1977	25.5	12.9	21.2	21.0	7.4	267 4	21.8	6.6	2.5	36 2	422 5
1978	43.1	20.3	59.9	24.3	12.1	364.6	50.3	8.7	3.1	50 7	637.1
1979	51.5	29 0	83.7	45.8	14.8	465 4	54.7	7.2	3 2	68.4	823 7
1980	55.3	37.7	148.2	63.6	31 0	580.6	64.4	10.0	4.3	75.4	1070 5
	(5.2)	(3.5)	(13.8)	(5.9)	(2.9)	(54.2)	(6.0)	(0.9)	(0.5)	(7.2)	(100)
1981	62.8	49.8	177.4	77.2	50.5	706.4	87 0	14.7	5.0	99.9	1330.7
1982	82.0	77.8	201.1	78.3	36 2	883.4	46.1	39.1	6.1	103.4	1553.5
1983	82.0	90.6	247.6	97.3	48.4	1035.4	68 5	64.7	5.1	123.7	1863.3
1984	83.2	104.6	315.6	111.9	44.5	1169.8	71 7	89 1	5.9	139.7	2136 0
1985	100.7	100 5	337.5	121.3	57.2	1274.4	125.1	103.8	5.9	165.7	2392 1
	(4 2)	(4.2)	(14 1)	(5 1)	(2.4)	(53.3)	(5.2)	(4.3)	(0.2)	(7.0)	(100)
1986	103.3	111.0	348.1	156.2	59 6	1425 0	130.8	118.7	5.3	176 8	2634.8
1987	103.5	125.7	381.6	127.3	50.3	1664 0	133.2	112.6	8.6	191 7	2898.5
1988	105.5	145.6	552.3	110.6	65.7	1747.3	167.4	115 2	13.5	227.4	3250 5
1989	110.4	170.4	504.9	161.1	84.6	1979.3	172.5	221.2	16 2	359 7	3780.3
1990	138.0	174.4	459 8	168.8	130 4	1956.4	178 4	449.2	18 2	416.4	4090.0
	(3 4)	(4.3)	(11.2)	(4 1)	(3.2)	(47 8)	(4.4)	(11.0)	(0.4)	(10.2)	(100)
COMPOUND GROWTH RATE (% per annum)											
1976-80	27.8	35.6	45.0	30.8	29.8	23.1	38 3	101.6	3.6	13.6	26.2
1981-90	8.19	13.3	9.9	8.13	9 9	10 7	7.4	40.7	13.7	15.3	11 8
1976-90	15.3	22 6	22.0	16.7	20.06	16.2	19.2	62.8	11.4	16.9	18 1

Source : CBJ, Yearly statistical series (1964-90) (October, 1994)
Annual Reports 1964-90.
..Figures in parenthesis indicate percentage.

3.4 SECTORAL DISTRIBUTION OF OUTSTANDING COMMERCIAL BANKS CREDIT :

Table 3.9 brings to light the sectoral distribution of outstanding commercial bank credit. The various sectors that have enjoyed the facility of commercial bank credit include :

(1) Agriculture, (2) Industry and Mining, (3) General Trade and Commerce, (4) Construction, (5) Municipalities and Public entities, (6) Transportation, (7) Tourism, (8) Financial institutions, (9) Various professional and private individuals, and (10) others.

During the time period 1964-75, hardcore attempts were made by the government to expand the economy despite scarcity of rainfall and the resultant poor agricultural season. Despite the massive losses incurred in the various economic sectors and the partial or complete paralysis of certain development projects that as a consequence of the Israeli aggression, the Jordanian economy did not lose hope and resumed its activities once again. The commercial banks increased their volume of loans, advances and bills. Since the value of the Jordanian dinar was re-established, it provided a favourable climate for economic activity.

(1) Agriculture :

On observing the credit offered to the agricultural sector, interesting trends may be noticed. From a share of JD 5.2 million in 1976, it rose to JD 53.7 million in 1990 exhibiting a compound growth rate of 16.8% per annum. Its share of the total outstanding commercial bank credit did not show any significant rise, increasing from 2.5% in 1976 to 3.1% in 1980 and thereafter declining to 2.9% in 1990. After 1979-80, a rising trend in providing credit to the agricultural sector was observed. The Jordanian economy showed rapid improvement along with favourable climatic conditions increasing the income of the agricultural sector. Therefore the credit facilities extended by the commercial banks also continued their growth at higher rates. Between 1981 and 1990, a growth rate of 10.7% of outstanding credit facilities extended by banks to the agricultural sector was observed. During this decade, most of the government investment was aimed at setting up agricultural projects. A greater share of the investments were utilized in making an advanced irrigation system in the Jordan valley. During this period, a major part of the credit also went towards the introduction of advanced technology in irrigation and agriculture.

A decline in the growth rate of agricultural credit extended was largely due to the acute crisis faced by the Jordanian economy during 1988-89, and also due to the outbreak of the gulf crisis in August, 1990.

Besides commercial banks, Jordan has specialized credit institutions such as Industrial Development Bank of Jordan and Agriculture Credit Corporation which offer loans to this sector.

(2) Industry and Mining :

On scrutinizing the industrial credit extended by commercial banks, a number of conclusions may be arrived at. This time period poses an interesting picture in terms of the gradual rise in the credit facilities from JD 22.1 million in 1976 to JD 236.9 million in 1990 with the continual expansion of the economy. The compound growth rate per annum was estimated to be 17.1% between 1976 and 1990. A continuous rise was seen in terms of the credit-extended to the industries during 1976-1985. This was a result of the increasingly important role played by the three year and five year development plans in response to the rapid improvement of the economic situation in Jordan. All the principal industries such as cement, phosphate, electricity, paper, card board and chemicals showed marked increase in production. With an upcoming local demand and improved export opportunities, new industrial units were set up and attempts were made towards expanding their production.

By 1982, though industrial production slowed down, a major portion of the income came from the manufacturing industries. The commercial banks continued to extend medium and long term loans through syndicated loans and corporate bonds issued on behalf of the share holding companies. By 1985, a drop in the number of new industrial companies was registered, largely due to the economic slowdown faced by the country during this period. Despite the economic and political instability, the commercial banks continued to extend loans to the industrial and mining sectors, its share increasing from JD 189.3 million in 1985 to JD 236.9 million in 1990. In terms of percentage, its shares declined from 14.9% to 12.8% of the total credit facilities given by commercial banks during the same time period.

(3) General Trade and Commerce :

The general trade and commerce sector has played a participatory role in stimulating the economic activities which are directly or indirectly associated with it.

Most of the trade and supply activities fall under the private sector. The private sector does a major portion of foreign and domestic trade of the country. On evaluating the credit received by this sector from commercial banks, its relative importance to the Jordanian economy can be judged from the increasing amount of credit extended for trade and commerce during the given time period of the present study, that is, from 1976 to 1990.

Amongst all the sectors, general trade and commerce sector has got the maximum percentage share, that is, an average of 27.8% during the given period of study. During 1976-80, this sector experienced a rising trend. The trade sector absorbed the largest share of 39.4% of the total credit extended in 1976 which declined to 29.6% in 1980, with the growing importance of the construction sector. The credit extended experienced a compound growth rate of 11.3% per annum in the trade sector. The highest growth rate of 15.3% was observed during 1976-1980, which subsequently declined to 6% between 1981 and 1990. This was primarily due to the growing importance of other sectors of trade and commerce which required larger credit facilities from commercial banks. This sector again remained unaffected with the emergence of the gulf crisis in 1990 whose repercussions were reflected in a number of sectors. The trade sector got JD 407.8 million or 21.9% of the total credit by the end of 1990.

(4) Construction :

The construction sector also derives great importance from the magnitude of its activities in terms of employment, investment and extensive interaction with other economic sectors. Construction sector of Jordan is said to be directly proportional to the investment volume and as a whole, this sector has received serious attention with regard to financial management, technical sophistication, and adequate utilization of advanced technology. The past two decades have been marked with accelerated development in the construction sector as shown in table 3.9.

This sector has undergone marked improvements with a gradual increase in the volume of loans advanced to the construction sector by the commercial banks. Credit extension to this sector has risen from JD 50 million in 1976 to JD 422.7 million in 1990, depicting a compound growth rate of 15.2%. The highest growth rate of 29.3% per annum was observed during the time period 1976-80 which indicated a brisk demand for housing as the number of people coming from the West bank to the East bank rose tremendously, hence creating a serious housing problem. As such the income generated by the construction sector increased several folds. New licensed buildings were coming up. Success of this sector can also be attributed to the favourable investment climate along with the restoration of law and order by mid-eighties.

Between 1985-90, there was a relative decline in the importance of the trade sector as a result of which credit was shifted in favour of other sector, particularly the construction sector, the total loans outstanding to this sector rising from JD 331.6 million in 1985 to JD 422.7 million in 1990.

A point to be noted here is that even though the speculative construction boom came to an end by 1978, outstanding loans for construction from commercial bank continued to increase in value. Many reasons have been cited here, the two most probable explanations being,

- Even though there may have been a reduction in the number of new loans granted for construction, the debt outstanding on the already existing loans might have increased.
- Secondly, the non-resident Indians also place deposits with Jordanian banks as they are not eligible for receiving loans from the partly state-owned Housing Bank. Hence, the commercial banks continued similar patterns of lending for the construction sector.

(5) Municipalities and Public Entities :

On observing the time period between 1976 and 1990, it can be said that the importance of this sector has grown over the years, from 5.9% of the total outstanding commercial bank credit in 1976 to 11.7% of total in 1990. In absolute terms, the value of loans extended to this sector has shown an upward trend from JD 12.3 million in 1976 to JD 218.8 million in 1990. Credit facilities continued their growth at higher rates than those prevailing in the previous year, with a compound growth rate amounting to 21.1% per annum.

However, this sector was not free from problems. There was an increasing pressure on the basic facilities in the cities as a result of expansion in area and population growth. Moreover, lack of co-operation between the regional planning agencies and the ministry, limited the participation and interaction of municipalities and village councils. The five year plan for economic and social development (1985-90) has made an attempt to overcome the problems faced, as such credit facilities increased from JD 117.2 million in 1985 to JD 218.8 million in 1990.

(6) Transportation :

The overall strategies planned for this sector are largely determined by domestic, Arab and international considerations. On studying the credit extension of commercial banks to the transportation sector during 1976-90, as given in table 3.9, a series of fluctuation may be observed. Between 1976-80, the public transport subsector was unable to meet the demand of the citizens with its low efficiency levels, the relationship between movement of credit and output seemed to be least affected in this sector, in comparison to other sectors.

However, growth of this sector improved by 1980, from JD 7.8 million in 1976 to JD 14 million in 1980, that is, 2.5% of the total outstanding credit. This further increased to JD 64 million in 1985, that is, 5% of the total credit. There was a decline in the credit extended between 1986-90, as this sector was suffering from a numbers of problems. Planning and organization of the transportation sector suffered a great deal with a lack of technical and administrative personnel and a low level of maintenance. The decline was from JD 64 million in 1985 to JD 45.5 million in 1990. However the compound growth rate experienced by this sector was 12.4% per annum.

(7) Tourism :

Jordan is a country which has remarkable archeaological, historical, religious and tourist sites with the prevalence of a temparate climate and a geographically centrally located area and so it attracts a number of tourists from various parts of the world.

This sector has also witnessed significantly developing changes over the years which can be reflected from the number of expanding hotels and development of tourist sites such as Aquaba, Petra, Dibben and many more. The credit facilities extended to this sector have shown a continuous rise except during periods of political unrest and wars.

The rapid growth in credit extension to this sector during 1976-80 was due to a four fold increase in the number of tourists, 20% annually, consequently the compound growth rate during this period being 36.3% per annum. However, between 1980-85, due to economic and political unrest, there was a marked decline in the number of tourists. Improvement was brought about through the Five Year plans of 1980-85 and 1986-90. The credit facilities extended by commercial banks rose from JD 11.8 million in 1980 to JD 33.3 million in 1990. On observing the credit facilities in terms of percentage, a decline was observed from 2.1% of the total in 1980 to 1.8% in 1990.

However, this sector still faces problems in terms of economic fluctuations, concentration of tourism investment only to certain regions of the country and due to weakness in domestic production.

(8) Financial Institutions :

With regard to the commercial bank credit extension to the financial institution, table 3.9 reflects a rise in the credit outstanding from an almost negligible JD 0.6 million in 1976 (0.3% of the total outstanding credit) to JD45.5 million (2.4% of the total credit). This sector has experienced the highest compound growth rate of 33.4% per annum between 1976-90, as compared to the credit extended by commercial banks to other sectors of the economy. Loans provided by the specialized credit institutions to the private sector and municipalities expanded mainly as a result of the increase in credit facilities extended by the Agricultural Credit Corporation and Municipal and Village loan funds.

(9) Professional and Private Individuals :

The other significant proportion of lending given to professional and private individuals increased from 5.5% of the total outstanding commercial bank credit in 1976 to 15.5% in 1990, with an annual compound growth rate of 24%.

Jordan is embarking on a new era of economic transformation, as such there has been a remarkable increase in the number of professional and private individuals with the rapid expansion of manufacturing, irrigation, educational, health, and housing projects.

The total credit extended has risen from JD 11.4 million to JD 288.5 million between 1976-90.

During the second half of 1980's, Jordan faced an acute economic crisis leading to a drop in the standard of living and a greater external debt burden on the banks. However, the nintees have witnessed economic and political revival both at regional and international levels, thereby increasing the percentage occupation of the total outstanding credit of commercial banks by professional and private individuals.

Table 3.9
Sectoral distribution of outstanding commercial banks credit during 1964-1990

Year	Agriculture	Industry & Mining	General Commerce & Trade	Construction	Municipalities & public entities	Transportation	Tourism	Financial Institutions	Professional and Private Individuals	Others	Total
1964-70	5.0	29.5	122.3	37.3	18.6	14.7	6.9	1.4	17.3	19.3	272.3
	(1.8)	(10.8)	(44.9)	(13.7)	(6.8)	(5.4)	(2.5)	(0.5)	(6.4)	(7.2)	(100)
1971-75	11.0	41.3	147.3	86.6	22.6	15.9	6.5	2.2	24.9	12.7	371.0
	(3.0)	(11.1)	(39.7)	(23.3)	(6.1)	(4.3)	(1.8)	(0.6)	(6.7)	(3.4)	(100)
1976	5.2	22.1	81.6	50.0	12.3	7.8	2.5	0.6	11.4	13.6	207.1
	(2.5)	(10.7)	(39.4)	(24.1)	(5.9)	(3.8)	(1.2)	(0.3)	(5.5)	(6.6)	(100)
1977	8.3	26.8	81.4	65.8	17.9	11.1	3.4	0.6	13.1	15.6	244.0
1978	12.7	38.3	100.5	100.6	24.0	8.4	6.6	1.2	21.2	19.3	332.8
1979	17.4	60.5	134.2	151.0	27.7	13.0	9.7	4.8	29.7	17.1	465.1
1980	17.2	73.1	167.0	180.8	31.8	14.0	11.8	8.7	38.7	20.3	563.9
	(3.1)	(13.0)	(29.6)	(32.1)	(5.6)	(2.5)	(2.1)	(1.5)	(6.9)	(3.6)	(100)
1981	19.4	89.2	225.8	201.0	45.0	23.3	15.9	9.4	60.8	31.5	721.3
1982	24.6	112.6	284.9	216.8	64.5	32.9	20.5	19.6	69.6	41.2	887.2
1983	25.6	138.9	276.7	271.3	65.5	50.5	25.7	25.6	108.1	43.0	1030.9
1984	25.6	169.8	296.1	324.0	85.1	58.5	23.7	29.6	121.5	50.9	1184.8
1985	26.3	189.3	308.5	331.6	117.2	64.0	29.8	26.9	127.6	53.2	1274.4
	(2.1)	(14.9)	(24.2)	(26.0)	(9.2)	(5.0)	(2.3)	(2.1)	(10.0)	(4.2)	(100)
1986	32.7	221.0	338.7	353.7	142.5	49.4	37.5	29.2	137.3	53.4	1395.4
1987	40.0	220.7	363.7	358.2	203.8	38.8	32.5	31.5	159.3	64.5	1513.0
1988	47.1	221.5	402.5	374.5	215.7	52.0	27.0	29.3	203.0	61.4	1634.0
1989	47.4	239.0	391.5	399.1	217.7	42.9	30.8	31.3	253.8	75.7	1729.2
1990	53.7	236.9	407.8	422.7	218.8	45.5	33.3	45.5	288.5	110.8	1863.5
	(2.9)	(12.8)	(21.9)	(22.7)	(11.7)	(2.4)	(1.8)	(2.4)	(15.5)	(5.9)	
Compound growth rate (% per annum)											
1976-80	27.02	27.0	15.3	29.3	20.9	12.4	36.3	70.7	27.6	8.3	22.1
1981-90	10.71	10.2	6.0	7.7	17.1	6.9	7.6	17.0	16.8	13.4	9.9
1976-90	16.84	17.1	11.3	15.2	21.1	12.4	18.8	33.4	24.0	15.0	15.7

Source : CBJ, Yearly statistical series (1964-90), (Oct. 1994)
CBJ, Annual Reports 1964-90.
Figures in parenthesis indicate percentage

3.5 GOLD AND FOREIGN EXCHANGE RESERVES OF COMMERCIAL BANKS :

Table 3.10 exhibits the growing importance of the Gold and foreign exchange reserves as assets of the commercial banks during the time period of 1976-90. Jordan's gold and foreign exchange reserves increased from JD 19.2 million in 1976 to JD 1045.7 million 1990, indicating a compound growth rate of 30.5% per annum.

The proportion of foreign exchange reserves of the grand total soared from 9.5% to 73.1% during the same time period. Over the years, growth of foreign reserves have shown great fluctuations, yet it sill formed a very important part of the assets of the commercial banks. By 1982, the policy liberalizing foreign exchange restrictions was adopted which attracted Arab and foreign capital to finance a number of development projects in Jordan. Moreover in order to safeguard Jordan's foreign exchange balances, the central bank prohibited the transfer of funds outside the country through commercial banks.

The ceiling on commercial bank holdings abroad was dropped from 35% to 25% of their foreign exchange obligations, as a result of which, the foreign exchange reserves of the commercial banks showed a further upward trend reaching a higher value of JD 412.4 million or 50.9% of the total foreign reserves in 1985.

Monetary stability was maintained along with convertibility of the Jordanian dinar, hence diverting the credit from consumption to productive sectors with further strengthening of the foreign exchange reserve position.

By 1990, there was a marked stability of the foreign exchange market the commercial bank reserves amounting to JD 1045.7 million or 73.1% of the total foreign reserves of the country. The gulf crisis of 1990 did not show any adverse effects on the gold and foreign exchange reserves policy of the government and the Central Bank of Jordan, as reflected by the continuous narrow margin between official and market exchange rates of the Jordanian dinar.

Table 3.10
Gold and Foreign Exchange Reserves of Commercial Banks

(JD Million)

Year	Commercial Banks	Grant Total
1964-70	64.6	586.7
	(11.0)	
1971-75	33.5	590.0
	(5.7)	
1976	19.2	201.6
	(9.5)	
1977	37.2	266.5
1978	76.1	362.4
1979	82.8	453.6
1980	205.2	624.7
	(32.8)	
1981	244.4	682.8
1982	277.5	654.6
1983	331.9	757.0
1984	359.1	769.5
1985	412.4	808.8
	(50.9)	
1986	431.8	850.4
1987	480.4	898.9
1988	702.6	958.3
1989	858.2	1209.1
1990	1045.7	1429.1
	(73.1)	
1976-80	60.6	
1981-90	15.6	
1976-90	30.5	

Source : CBJ, Yearly statistical series (1964-90) (Oct. 1994)
Annual Reports, 1964-90.
..Figures in parenthesis indicate percentage.

3.6 BANK AS PAYMENT SYSTEM :

Amongst the facilitative functions of banks, one that demands special reference is its mechanism of the payment system. Everyday individuals all overthe country are sending cheques drawn on their accounts at one bank to people holding accounts in other banks. The bank receiving these cheques becomes a creditor of the other banks, hence the working of the "payment, system" involves the clearance of the customers cheques presented to the banks.

The growth of this payment clearance system goes hand in hand with growth of banking assets / liabilities or number of accounts, provided that efficiency in the payment system is matching with that of financial intermediation process.[17]

In general terms, a payment system involves the transfer of purchasing power from one transactor in exchange to another and in order to facilitate this exchange process, institutional arrangements are made to have a common means of payment. Within the country payment is done in the national currency whereas across countries foreign currencies are utilized.

The speed of payment also varies with the inflow of funds through the economy, and the availability of individual transactions.[18]

- **The number and value of cheques presented for bank clearing (1976-1990)**

Other than the growing number of commercial banks in Jordan over the given time period of study, another criteria for assessing its increasing importance amongst the people is by evaluating the total number and value of cheques presented to the commercial banks spread in various parts of the country for clearance.

The cheque clearance process involves the physical transfer of cheques through the banking system. On presentation of the cheque to the payee, it is mailed to his or her respective bank. When a cheque is drawn on another bank, it is required that the payee's bank forwards the cheque to the payer's bank through one or more clearing facilities. Upon delivery to the paying bank, the amount of cheque is then transferred from the payer's to the payee's banks.[19]

As analysed from table 3.11, the commercial banks established in Amman enjoyed a major share of the total number and value of cheques presented for clearance. During the years 1976 and 1977, clearance facility of commercial banks in Amman occupied a monopoly after which they were spread to Irbid, Zarqa and Aquaba respectively.

The total number of cheques presented for clearance in Amman banks soared up from 1643.2 thousand in 1976 to an impressive 4313.1 thousand their total value rising from JD 1186.3 million to JD 4718.8 million respectively by the end of 1990.

The total number and value of cheques presented for clearance exhibited an annual compound growth rate of 7.7% and 10.4% respectively. Banks in Irbid followed Amman with respect to their clearing activities. The total number and value of cheques cleared in Irbid banks rose at an annual compound growth rate of 16.1% and 21.8% respectively, in comparison to a growth rate of 6.6% and 9.6% as observed in banks of Amman. This shows that even though the number and value of cheques cleared in commercial banks of Amman exhibited a much higher value than those of Irbid, yet the annual compound growth rate of cheques cleared in Irbid was almost three times that observed in Amman banks.

Table 3.11

The number and value of cheques presented for banks clearing during 1976-90

	The total number of cheques presented for clearing					The total value of cheques presented for clearing				
Year	Aqaba	Zarqa	Trbid	Amman	Total No.	Aqaba	Zarqa	Irbid	Amman	Total value
1976	-	-	-	1643.2	1643.2	-	-	-	1186.3	1186.3
				(100)	(100)				(100)	(100)
1977	-	-	-	1730.9	1730.9	-	-	-	1199.1	1199.1
				(100)	(100)				(100)	(100)
1978	-	-	49.1	1924.2	1973.3	-	-	16.6	1523.3	1539.9
			(2.5)	(97.5)	(100)			(1.1)	(98.9)	(100)
1979	-	-	155.8	2259.0	2414.8	-	-	62.7	2138.9	2201.6
			(6.5)	(93.5)	(100)			(2.8)	(97.2)	(100)
1980	-	120.3	180.2	2560.3	2860.8	-	45.3	85.0	2667.5	2797.8
		(4.2)	(6.3)	(89.5)	(100)		(1.6)	(3.0)	(95.4)	(100)
1981	-	189.0	194.3	3002.5	3385.8	-	89.5	111.7	3636.6	3837.8
		(5.6)	(5.7)	(88.7)	(100)		(2.3)	(2.9)	(94.8)	(100)
1982	62.4	222.3	221.5	3331.9	3843.1	116.7	106.6	131.9	4370.5	4725.7
	(1.6)	(5.8)	(5.8)	(86.8)	(100)	(2.5)	(2.3)	(2.8)	(92.4)	(100)
1983	72.8	241.5	256.5	3529.4	4100.2	120.1	125.4	147.9	4673.6	5067.0
	(1.8)	(5.9)	(6.3)	(60.0)	(100)	(2.4)	(2.5)	(2.9)	(92.2)	(100)
1984	85.0	249.0	281.5	3653.5	4269.0	159.3	119.5	144.8	4694.1	5117.7
	(2.0)	(5.8)	(6.6)	(85.6)	(100)	3.1)	(2.3)	(2.8)	(91.8)	(100)
1985	91.1	261.3	298.5	3743.4	4394.3	188.1	126.4	160.5	4659.0	5134.0
	(2.1)	(5.9)	(6.8)	(85.2)	(100)	(3.7)	(2.5)	(3.1)	(0.7)	(100)
1986	87.7	262.1	301.8	4005.8	4657.4	156.8	126.2	154.9	3906.3	4344.2
	(1.9)	(5.6)	(6.5)	(86.0)	(100)	(3.6)	(2.9)	(3.6)	(89.9)	(100)
1987	96.9	302.0	317.9	4118.1	4834.9	158.2	141.8	164.5	3769.4	4233.9
	(1.9)	(5.9)	(6.6)	(85.2)	(100)	(3.7)	(3.3)	(3.9)	(89.1)	(100)
1988	103.7	320.8	351.9	4559.3	5335.7	214.4	147.1	184.6	4077.3	4623.5
	(1.9)	(6.0)	(6.6)	(85.5)	(100)	(4.0)	(3.0)	(3.9)	(89.1)	(100)
1989	96.5	303.0	341.5	4419.8	5160.8	205.6	152.5	197.6	4530.1	5085.9
	(1.9)	(5.9)	(6.6)	(85.6)	(100)	(4.0)	(3.0)	(3.9)	(89.1)	(100)
1990	89.8	301.8	343.5	4313.1	5048.2	170.7	158.7	215.6	4718.8	5263.8
	(1.8)	(6.0)	(6.8)	(85.4)	(100)	(3.2)	(3.0)	(4.1)	(89.7)	(100)

Source : CBJ, Yearly statistical series (1964-90), (Oct. 1994)
CBJ, Annual Reports 1964-90.
Figures in parenthesis indicate percentage

- **Total number of population served per office of commercial banks 1976-1990.**

If one looks at table 3.12, the vital role played by commercial banks in terms of serving the Jordanian population can very well be highlighted. In the year 1976, the population served per bank including its branches totalled upto 21.5 thousand which formed 1.13% of the total population. It reduced to the level of 9.9 thousand by the end of 1985 which has improved slightly to the level of 11.2 thousand of the total population by the end of 1990.

On observing this decline in the population served per bank decade wise, it can be said that from 1976 to 1985 the overall fall in the population per office turned out to be 53.9% whereas from 1986 to 1990 there was a slight improvement of 9.8%.

The table again clearly indicates the tremendous increase in the number of banks and its branches set up in various parts of Jordan which rose from a number of 88 in 1976 to 307 branches by the end of 1990, growing at an annual compound growth rate of 8.6%. The population served per bank indicated a downward trend of 4.2% between 1976 and 1990.

Therefore one can say that inspite of the significant branch expansion of commercial banks in Jordan, on an average there was a 4.2% fall in the population served per branch in Jordan, annually.

Table 3.12
Total number of population served per office of commercial banks during (1976-1990)

Year	Total population (In Thousand)	Number of banks and branches	Thousands of population per bank (including branches)
1976	1,889.0	88	21.5
1977	1,972.0	92	21.4
1978	2,058.0	105	19.6
1979	2,132.0	121	17.6
1980	2,218.0	142	15.6
1981	2,307.0	174	13.3
1982	2,399.0	205	11.7
1983	2,495.0	233	10.7
1984	2,595.0	252	10.3
1985	2,694.0	272	9.9
1986	2,796.0	275	10.2
1987	2,897.0	288	10.1
1988	3,001.0	296	10.1
1989	3,111.0	319	9.8
1990	3,453.0	307	11.2
COMPOUND GROWTH RATE PER ANNUM.			
1976-90	4.1	8.6	-4.2

Source : Central Bank of Jordan yearly statistical series (1964-1993)
(October 1994)

The detailed explanation of the role of commercial banks in industrial development and overall development of Jordan shows that the contribution of commercial banks in terms of providing credit to different sectors has not been very significant. The share of credit provided to agriculture, industry and mining, construction, trade and commerce, tourism, transportation, etc. increased in the initial years of the present study and then showed a decline between 1980 and 1985 due to some or the other critical problems and then increased. Not only this, commercial banks limited credit to short term loans only and did not play a significant role as expected from commercial banks in underdeveloped countries. The experience of many underdeveloped countries show that the industrial development is possible only if commercial banks play a leading role in providing sufficient and timely credit to industrial sector. But in Jordan, commercial banks credit to industrial sector increased from 10.7% in 1976 to 14.9% in 1985, while it declined to 12.8% in 1990. This shows that the people of Jordan have to depend more on Specialized Credit Institutions and Amman Capital Market for their long term financial requirements rather than commercial banks. Thus, we can say that commercial banks have not played a significant role in bringing industrial development and economic development in Jordan.

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