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# A PRELIMINARY ASSESSMENT OF THE FINANCIAL SYSTEM OF JORDAN

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*Bureau for Private Enterprise  
U.S. Agency for International Development*

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A MEMBER OF ARTHUR YOUNG INTERNATIONAL

A Preliminary Assessment  
of  
THE FINANCIAL SYSTEM OF JORDAN

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The Aries Group, Ltd.

for

ARTHUR YOUNG & COMPANY  
under contract with

AGENCY FOR INTERNATIONAL DEVELOPMENT

August 27, 1986

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## INTRODUCTION

In July 1986 the consultant was asked by Mr. Herbert Wegner, Director, Financial Market Program, Agency for International Development, and Arthur Young & Co., the program contractor, to conduct a study of the financial system of Jordan and to prepare a report, including recommendations for improving the operational efficiency of the financial system.

The assignment was conducted over a five-week period, three of which were spent in Jordan. During the visit, the consultant met with H.E. Dr. Hanna Odeh, Minister of Finance, and H.E. Husayn S. Kasim, Governor of the Central Bank, and held discussions with the following officials of financial institutions, who were most cooperative, supportive and generous in their time:

Dr. Maher Shukri: Deputy Governor of the Central Bank of Jordan  
Dr. Ziad Annab: Manager Director, Industrial Bank of Jordan  
Dr. Adeeb Haddad: Executive Manager, Research & Studies, CBJ  
Mr. Walid Khairallah: Executive Manager, Foreign Dept, CBJ  
Mr. Basil Jerdaneh: General Manager, Jordan Investment & Finance Company  
Dr. Hashem Al-Sabbagh: General Manager, Amman Financial Market  
Mr. Zuhair Khoury: General Manager, The Housing Bank  
Mr. Issa Khoury: Deputy General Manager, Petra Bank  
Mr. Munzer Fahoum: Deputy General Manager, the Arab Bank  
Dr. Michel Marto: Deputy General Manager, The Bank of Jordan  
Mr. Halim Salfiti: General Manager, Halim Salfiti & Sons Exchange Company  
Mr. Zubyr I. Soomro: Vice President, Citibank

This report is in two parts. Part I reviews the size and structure of the financial system of Jordan; the role of the financial intermediaries; and the type and size of the financial instruments. It also discusses recent developments in the financial institutions, including commercial banks, merchant banks, specialized credit institutions and the Amman financial market. Part II reviews major functions of the financial intermediaries and presents recommendations with regard to their operations; liquidity of the system; interest rate structure; money market development; merchant banks as vehicles for privatization; and the Amman Stock Exchange.

The report provides the USAID Mission with specific suggestions, identifying areas where the Mission could supply technical assistance and/or policy dialogue. Time constraints did not allow for a total study of the financial institutions; thus the report does not cover the Pension Fund, the Social Security Corporation, the Post Office Savings Fund, and the insurance companies. The consultant believes that, although the results of an extended study would not materially affect the conclusions of this report, it could provide the Mission with additional targets for technical assistance and options for policy dialogue, and therefore recommends that a study of these institutions be undertaken during a follow-up visit.

In conducting the study the consultant was assisted by Susan Riley, Project Officer, USAID Mission, which was much appreciated. The consultant also would like to place on record his appreciation for the cooperation and support given to him by Mr. Lewis Reade, Director, and Mr. Tom Rishoi, Chief of the Private Sector and Project Development Office, of the USAID Mission.

**PART I**

**SUMMARY ASSESSMENT OF  
THE FINANCIAL SYSTEM OF JORDAN**

**A. OVERVIEW**

The financial system of Jordan is in the process of rapid development. Total assets of the system at the end of 1985 were JD 3,641 million (approximately US\$12,560 million), consisting of claims on the government and public corporations for JD 424 million (11.6 percent); claims on the private sector for JD 1,574 million (43.3 percent); financial assets with the monetary system for JD 604 million (16.6 percent); foreign assets of JD 781 million (21.5 percent); and fixed and other assets of JD 256 million (7 percent). In terms of assets, the size of the financial system has increased from JD 2,123 million in 1981 to JD 3,641 in 1985, an increase of 71.5 percent. Table 1 shows the consolidated balance sheet of the financial system for the years 1983 through 1985.

The financial system of Jordan consists of the Central Bank of Jordan and a wide range of financial institutions. The Central Bank, which started operation in 1964, is vested with all authorities to pursue macroeconomic policies; providing cash to the system; offering banking facilities to the government, the statutory corporations, and the financial institutions; managing the country's foreign exchange resources; regulating the quantity, quality and cost of credit; and supervising the financial institutions.

A chain of financial institutions intermediate between the main clients of the system; households, farmers, local businesses, industries, multinational firms, and financial and non-financial statutory bodies. The financial institutions consist of seventeen commercial banks (of which ten are locally incorporated) with 162 branches throughout the country, six specialized credit institutions, ten financial companies, the Post Office Saving Fund (POSF), the Pension Fund, the Social Security Corporation, thirty three insurance companies, seventy five licensed money changers, two leasing companies, and the Amman Financial Market (the stock exchange). The functions of each category of the financial institutions, with regard to their sources of funds, means of deployment of resources, and methods of operation, are adequately defined and regularly supervised by the Central Bank and other regulatory agencies. Their link with the Central Bank provides stability in the system.

Table 1:

**CONSOLIDATED BALANCE SHEET OF THE FINANCIAL SYSTEM**  
(in JD thousands)

	<u>1983</u>	<u>1984</u>	<u>1985</u>
<b><u>ASSETS</u></b>			
1. Foreign Assets	729,559	740,872	781,351
2. Claims on Government	283,024	313,627	328,696
(a) Treasury Bills	(95,991)	(102,895)	(110,434)
(b) Loans & Advances	(106,422)	(121,519)	(129,244)
(c) Government & Public Corps. Bonds	(80,611)	(89,213)	(89,018)
3. Claims on Municipalities & Public Corps.	45,112	60,847	94,859
4. Claims on Private Sector	1,314,461	1,473,688	1,573,860
(a) Loans & Advances	(1,123,641)	(1,247,952)	(1,326,137)
(b) Corporate Bonds	(50,257)	(54,080)	(57,880)
(c) Domestic Investments	(140,563)	(171,656)	(189,843)
5. Assets with the Monetary System	443,522	473,780	605,158
6. Fixed Assets	51,353	64,784	75,093
7. Other Assets	102,210	171,018	181,679
<b>Assets = Liabilities</b>	<b>2,969,241</b>	<b>3,298,616</b>	<b>3,640,696</b>
<b><u>LIABILITIES</u></b>			
1. Money Supply	883,555	888,598	860,974
(a) Currency in cir- culation	(515,291)	(530,094)	(531,304)
(b) Demand Deposits	(368,264)	(358,504)	(329,670)
2. Saving & Time Deposits	787,707	938,876	1,109,861
3. Liabilities to the Government	139,511	131,514	130,147
4. Foreign Liabilities	276,620	360,751	383,923
5. Liabilities to the Monetary System	406,195	447,306	564,449
6. Capital & Reserves	295,748	326,664	343,749
7. Other Liabilities	179,905	204,907	247,593

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Source: The Central Bank of Jordan

## B. COMMERCIAL BANKS

Commercial banks mobilize funds through deposit takings and act as the pivot of financial operations, having two-way transactions with almost all the entities in the system. All commercial banks are privately owned--ten by Jordanians and seven by foreign banks--and they are the major provider of credit to the private sector. In 1985, the commercial banks (including the Housing Bank) provided JD 1,274 million to the private sector, accounting for approximately 80 percent of the total credit provided by the entire financial system to this sector. At the end of 1985 they also held JD 110 million in treasury bills and JD 118 million in bonds (JD 41 million in government, JD 27 million in public corporations and JD 50 million in corporate bonds).

Commercial banks provide medium and short-term credit to all sectors of the economy. Table 2 shows the sectoral distribution of outstanding credit for the years 1983 through 1985:

Table 2:

### COMMERCIAL BANKS CREDIT DISTRIBUTION BY SECTOR (in JD millions)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1985</u> <u>Percent</u>
Agriculture	25.6	25.6	26.3	2.1
Mining	20.5	27.4	32.1	2.5
Industry	118.4	142.4	157.2	12.3
Commerce & Trade	276.7	296.1	308.5	24.2
Construction	271.3	324.0	331.6	26.1
Transportation	50.5	58.5	64.0	5.0
Tourism	25.7	23.7	29.8	2.3
Financial Institutions	25.6	29.6	26.9	2.1
Professional & Private Individuals	108.2	121.4	127.6	10.0
Municipalities & Public Corp.	65.4	85.2	117.2	9.2
Others	43.1	50.9	53.2	4.2
Total	1031.0	1184.8	1274.4	100.0

Source: The Central Bank of Jordan



The Arab Bank is the largest bank in the system in terms of both deposits and portfolio. The Bank operates internationally through numerous branches, subsidiaries, and affiliate companies in Arab speaking and European countries. It does not publish separate financial statements for its Jordanian operation, therefore it is not possible to analyze its domestic financial performance. However, it is estimated that the Arab Bank holds a 35 percent share in the domestic banking market. The Arab Bank, on the basis of its international operations, is extremely liquid; its consolidated balance sheet for the year ending December, 1985 shows a balance of US \$7.5 billion in "cash and at banks" which is 63% of its total asset of US \$11.8 billion; at the same time, its' credit/deposit ratio was only 23.2 percent, as compared with a ceiling of 70 percent allowed by the Central Bank of Jordan.

The Housing Bank is the second largest Jordanian bank in terms of deposits, holding approximately 25 percent of the deposits of the banking system; the bank is privately owned, though the largest minority shareholder of the bank is the government; it is permitted to accept deposits on a commercial banking basis and to handle commercial loan activities. However, its lending operation is focused on the housing and construction sectors, and is often included among the specialized credit institutions.

There are seven foreign commercial banks operating in Jordan, namely the British Bank of the Middle East (UK), Arab Land Bank (Egypt), Rafidain Bank (Iraq), Grindlays Bank (UK), Bank Al-Mashrek (Lebanon), Citibank (USA), and Bank of Credit and Commerce International (UK). The British Bank of the Middle East is the largest of the foreign banks. The foreign banks hold approximately 15% of the Jordanian Banking Industry in terms of both deposit and lending.

The Central Bank has instructed the commercial banks on a number of occasions in recent years to increase their capital; the minimum capital requirement was raised from JD 0.5 million in 1980 to JD 5 million in 1984. In December 1983 the Central Bank announced plans for the Jordanization of the domestic banking system, requiring the foreign owned commercial banks to sell at least 51% of their share capital to the Jordanians. However in April 1985 the proposed plan was rescinded. Table 3 shows the consolidated account of the commercial banks for the years 1983 through 1985.

Table 3:

**CONSOLIDATED BALANCE SHEET OF THE COMMERCIAL BANKS**  
(in JD thousands)

<u>ASSETS</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
1. Cash	12,565	12,031	13,249
2. Balances with Central Bank	121,455	124,197	148,617
3. Balances with Local Banks	93,002	91,394	144,219
4. Foreign Assets	304,387	330,528	384,893
(a) Cash & Balances with Foreign Banks	(285,404)	(314,250)	(370,569)
(b) Investments Aboard	(18,983)	(16,278)	(14,324)
5. Treasury Bills	63,432	102,845	110,404
6. Bonds	83,791	105,662	117,887
(a) Govt. & Public Corps.	(37,918)	(58,200)	(68,015)
(b) Corporate Bonds	(45,873)	(47,462)	(49,872)
7. Credit Facilities	1,030,922	1,184,825	1,274,415
(a) Loans & Advances	(340,539)	(435,376)	(493,715)
(b) Bills Discounted	(187,764)	(212,044)	(225,127)
(c) Overdraft	(502,619)	(537,405)	(555,573)
8. Bills Receivable	20,687	21,820	19,305
9. Domestic Investments	27,788	33,769	36,176
10. Fixed Assets	46,529	57,866	66,832
11. Other Assets	58,751	71,084	75,085
<b>Assets = Liabilities</b>	<b>1,863,309</b>	<b>2,136,021</b>	<b>2,392,082</b>
<u>LIABILITIES</u>			
1. Demand Deposits	338,677	336,867	308,447
(a) Private (Resident)	(325,030)	(325,855)	(292,640)
(b) Municipalities & Public Corps.	(13,647)	(11,012)	(15,807)
2. Time Deposits	745,204	877,444	1,023,174
(a) Private (Resident)	(710,397)	(843,945)	(981,765)
(b) Municipalities & Public Corps.	(34,807)	(33,499)	(41,409)
3. Foreign Liabilities	247,588	315,601	337,551
(a) Deposits of Non-Residents	(216,694)	(276,869)	(294,265)
(b) Foreign Bank Deposits	(30,040)	(36,756)	(40,314)
(c) Foreign Loans	(854)	(1,976)	(2,972)
4. Govt. Deposits	97,246	111,907	121,282
5. Bank Deposits	68,496	71,654	125,118
6. Borrowed from	64,660	89,069	103,763
(a) Central Bank of Jordan	(60,260)	(78,123)	(87,748)
(b) Banks & Financial Corps.	(4,400)	(10,946)	(16,015)
7. Bills Payable	5,133	5,929	5,879
8. Capital	82,049	83,224	100,724
9. Reserves	58,294	69,680	63,723
10. Other Liabilities	155,962	174,646	202,421

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Source: The Central Bank of Jordan

### C. MERCHANT BANKS

There are a number of financial institutions grouped under the "Financial Companies" which undertake the function of merchant banking in the Jordan financial system. These companies were established in the late 70's and early 80's, when buoyant economic activity prevailed. At present there are ten financial companies operating in the market and their total assets at the end of 1985 amounted to JD 202 million as compared with JD 2,392 million for the commercial banks. Table 4 shows the summary consolidated financial statement of the financial companies for the years 1983 through 1985.

Six of the financial companies are considered as merchant bankers and are involved in investment banking and wholesale commercial banking--they are Jordan Investment and Finance Corporation, Islamic Investment House, Finance and Credit Coporation, Arab Finance Corporation, Jordan Security Corporation, and National Development and Finance Company. The merchant banks list their activities as follows:

1. Corporate and project financing which include short term credits and long term loans.
2. Capital market services; acting as stock brokers in the Amman Financial Market (stock exchange); underwriting new equity and bond issues; and managing portfolios.
3. Leasing and factoring services; providing finances for receivables, inventories and equipment.
4. Technical financial services including mergers, acquisitions and equity and debt restructuring.
5. Acceptance of time deposits and issuance of certificates of deposit.

The other four institutions in the category of the "financial companies" provide a more specific service such as leasing, real estate financing, or lending on Islamic principles.

The main sources of funds for these "financial companies" have been: (1) equity, (2) private time deposits, (3) advances by the Central Bank, and (4) deposits by non-resident individuals and banks. Interbank deposits by commercial banks have been negligible; in fact, at the end of 1985, the net deposits of the commercial banks with the "financial companies" amounted to only JD 600,000 (deposits by commercial banks JD 46.7 million less deposits with the commercial banks JD 46.1 million). In the capital market, the financial companies have been able to raise funds mainly by issuing and marketing government-guarantied bonds and syndicate loans, mainly used for government projects.

At present, a large part of the income of the merchant banks is derived from corporate financing. Their other activities are in the state of stagnation attributable mainly to (1) the present interest rate structure which will be explained in the following pages, and (2) the prevailing economic condition; the adverse effects of the stagnant oil market which has led to a decline in Arab aid, decline in demand for Jordanian goods and services of Jordanian expatriates.

#### D. SPECIALIZED CREDIT INSTITUTIONS

The specialized credit institutions were established in order to provide medium and long term credit to finance development projects in various economic sectors, especially in agriculture, industry and housing. The total assets of the specialized credit institutions at the end of 1985 amounted to JD 667 million, compared with JD 2,392 million for commercial banks and JD 202 million for merchant banks. There are six specialized credit institutions as follows:

1. Housing Bank
2. Industrial Development Bank
3. Cities and Villages Development Bank
4. Housing Corporation
5. Agricultural Credit Corporation
6. Jordan Co-operation Organization

Housing Bank is privately owned; 90 percent by institutional investors and individuals, and 10 percent by the government. 50 percent of the share capital is owned by foreign governments; 8.3% Oman, 8.3% Qatar, 8.3% Iran, and 25% Kuwait. It operates on the basis of commercial banking, mobilizing fund by accepting deposits and issuing certificate of deposit and bonds.

The Industrial Development Bank is also privately owned; 84 percent by private financial institutions and 14 percent by the government. IDB, however does not raise fund by accepting deposits; it's main source of funds is either the government or international financial institutions, both of which are no longer readily available. At present, approximately 35 percent of IDB's portfolio is in " non-performing status" though it is not reflected on the bank's financial statement.

The remaining four institutions in this group are government owned, providing concessionary loans for low-income housing construction and farming. Table 5 shows the consolidated balance sheet of the specialized financial institutions for the years 1983 through 1985:

**Table 5 :**  
**CONSOLIDATED BALANCE SHEET OF THE**  
**SPECIALIZED CREDIT INSTITUTIONS**  
 (in JD thousands)

<u>ASSETS</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
1. Cash	1,242	1,372	1,600
2. Deposits with the Central Bank	873	1,211	2,971
3. Deposits with Commercial Banks	47,967	40,176	55,737
4. Treasury Bills	820	840	953
5. Loans & Advances to	317,877	375,106	416,562
(a) Individuals & Private Enterprises	(241,420)	(264,282)	(265,713)
(b) Municipalities & Public Enterprises	(76,457)	(90,826)	(130,855)
6. Securities	5,621	7,071	9,453
(a) Govt. & Public Entities	(1,500)	(2,565)	(5,244)
(b) Corporate Bonds	(4,121)	(4,506)	(4,211)
7. Other Negotiable Assets	90,594	111,765	127,555
8. Fixed Assets	23,365	29,314	33,699
9. Other Assets	20,183	24,229	18,967
<b>Assets = Liabilities</b>	<b>508,545</b>	<b>591,086</b>	<b>667,520</b>
 <u>LIABILITIES</u>			
1. Private Deposits (Resident)	147,503	170,128	187,918
(a) Demand	(29,154)	(28,608)	(27,599)
(b) Savings	(77,098)	(90,102)	(95,701)
(c) Blocked	(30,112)	(39,573)	(54,736)
(d) Time (subject to notice)	(11,139)	(11,845)	(9,882)
2. Deposits by Govt. Municipalities & Public Entities	50,898	55,463	55,887
3. Deposits in Foreign Exchange	31,738	41,367	36,042
4. Deposits by Commercial Banks	4,194	3,887	11,647
5. Borrowing from	159,330	184,348	202,880
(a) Central Bank of Jordan	(76,504)	(88,094)	(100,869)
(b) Foreign Insts.	(26,153)	(30,795)	(32,932)
(c) Government	(2,003)	(2,119)	(2,164)
(d) Other	(54,670)	(63,340)	(66,915)
6. Grants & Aid (from Public Sector)	277	-	140
7. Paid-up Capital	56,086	59,068	60,565
8. Reserves	23,050	28,749	28,270
9. Other Liabilities	35,469	48,076	84,181

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 Source: The Central Bank of Jordan

## E. AMMAN FINANCIAL MARKET

Jordan's small but rapidly growing securities market (stock exchange ) started operation in January of 1978, in order to facilitate the expansion of Jordan as a financial center. The objectives of the AFM, as prescribed in the Provisional Law (No.31) of 1976 are as follows:

1. To promote savings by activating and encouraging investment in financial papers, and to direct such savings to serve the development of the national economy.
2. To organize and control issues of, and dealings in financial papers so as to ensure the soundness, ease and speed of such dealings and to guarantee the financial interest of the country and the protection of small savers.
3. To gather and publish the statistics and information necessary to realize the said objectives.

The instruments traded on the market are private corporate equities and bonds, Jordanian Government Bonds, Treasury Bills, newly issued 2 year Treasury Bonds (zero coupon) and Jordanian Dinar certificates of deposit issued by the commercial banks and other financial institutions. Every Jordanian public share-holding company with paid-in capital of JD 100,000 or more is required by law to apply for the acceptance of its shares at the Market. Other share-holding companies, also can apply for listing, but must submit two annual reports, as compared with one annual report for public share-holding companies. At present there are 119 companies listed in the Market; 104 in the regular market, and 15 in over-the-counter market. 27 licensed brokers handle all the transactions in the market; 95% of trading is done for individuals and 5% for institutions.

The growth of AFM activities was rapid until 1983 in terms of volume and value of trading; this was mainly attributed to the speculative environment which dominated the market during the early 1980's. The excess optimism and speculations faded when the general economy and, more specifically, the listed companies whose shares were being traded at an extremely high price/earning ratio, failed to perform as expected; the price index of traded shares dropped from 263.5 in 1982, to 198.7 in 1983, 137.3 in 1984, and an estimated 105 in 1985, a loss of approximately 60%.

## PART II

### FINDINGS AND RECOMMENDATIONS

The consultant, on the basis of his discussions with the officials of the financial institutions, and the preliminary analysis of their consolidated financial statements, wishes to make the following observations; his findings and recommendations:

#### A. LIQUIDITY OF THE FINANCIAL INSTITUTIONS

The liquidity of the commercial banks has been increasing in the recent years from 40.5% in 1982 to 43.2% in 1983, 43.8% in 1984, and an estimated 48% in 1985, as compared with the legal liquidity requirement of 30%. It means that the growth in the liquid assets of the commercial banks has been greater than the growth in their loan portfolio. Since 1982 the credit facilities of the commercial banks to the private sector increased by 43.6%, while their holdings of treasury bills increased by 2.11 fold and government bonds by 50.5%. Although the commercial banks have been able to attract foreign deposits (JD 384.9 million in 1985), they have not been able to use the funds in the Jordanian economy, as their consolidated balance sheet shows a net negative cash flow for the last four years:

#### Foreign Assets and Liabilities of the Commercial Banks (JD Millions)

	1982	1983	1984	1985
Foreign Assets	255.4	304.4	330.5	364.9
Foreign Liabilities	201.1	247.6	315.6	337.5

On the part of the commercial banks, this could mean: (1) a lack of confidence in Jordanian Dinar, (2) a lack of confidence in Jordan's economy, and/or (3) mere conservatism; either of which is not promising for Jordan's economic and private sector development.

The consultant recommends that the USAID Mission periodically review the liquidity position of the banking system, as it is a good barometer for measuring the performance of the commercial banks especially with regard to the extent of their participation in Jordan's economic and private sector development. The Mission may also want to maintain policy dialogue with the Central Bank on this issue and make suggestions regarding the alternative methods which can be used for putting the excess liquidity to productive use, without undermining the safety and stability of the banking system.

## B. INTEREST RATE STRUCTURE

The interest rate structure is excessively rigid; the real rate of interest is high; the spread between deposits and lending rates is too thin (averaging 1.5%), and does not allow for a risk factor. The banks therefore are reluctant to provide credit to private sector, unless they are excessively secured by mortgages or government guaranties. Interest rates on all types of deposits, credits, and loans are regulated by the Central Bank, and the free market forces play a minimal role in determining the rates of interest. Therefore, the interest rate structure is not conducive to economic and private sector development, and is a deterrent to the development of the capital market. Table 6 shows the major features of the interest rate structure for the years 1983 through 1985.

The Government of Jordan and the Central Bank are aware of this problem and are under pressure by the financial institutions to lift some of the restrictions. However, there are a number of issues at stake: the value of the Jordanian Dinar; the fear of inflation, expansion of expenditures, and a drop in the inflow of foreign exchange by Jordanian expatriates; the discussion of which is beyond the scope of this report.

This is a decision that GOJ must make, and the USAID could offer expert opinion and suggest various methods which could be used in dealing with the problem of the interest rate structure.

## C. MONEY MARKET DEVELOPMENT

The development of the Money Market has not kept up with the rapid development of the financial system. Treasury Bills are the only instruments which are traded in the secondary market; other instruments such as trade acceptances, certificates of deposit, and certificates of bonded warehouse, remain with the originating commercial banks and financial companies till maturity. Inter-bank lending, though practiced on limited and selective basis, is not a common practice among banks. Arab Bank, by far the largest bank in the country, is not a participant in the money market; therefore, at times when some banks are flush with money, others are stranded for cash, and the Central Bank, instead of the money market, must provide the necessary credit facilities; either through its discount window or by providing advances. A secondary market for commercial paper is non-existent.

The USAID Mission can provide technical assistance for the introduction of new money market instruments and the development of the secondary market. In a policy dialogue, the Central Bank should become aware that the commercial banks in general, and the Arab Bank in particular, should participate in this market, if a meaningful money market is desired.



Table 6:

**MAJOR FEATURES OF THE INTEREST RATE STRUCTURE**  
(in percent)

	<u>1983</u>	<u>1984</u>	<u>1985</u> (Nov)
Central Bank:			
Rediscount rate	6.25	6.25	6.25
Advance to commercial banks	6.00	6.00	6.50
Export facility	6.00	6.00	6.00
Commercial bank maximum rates:			
Overdraft and discounts	8.75	8.75	8.75
Loans (residents)	8.75	8.75	8.75
Demand deposits	4.00	4.00	4.00
Savings deposits	6.00	6.50	6.50
One-year time deposit	8.00	8.50	8.50
One-year certificates of deposit	8.25	8.75	8.75
Commissions	1.25	1.25	1.25
Housing Bank maximum rates:			
Individual loans	8.50	8.50	8.50
Commercial loans	8.75	8.75	8.75
Cooperative loans	8.50	8.50	8.50
Demand deposits	4.00	4.00	4.00
Savings deposits	5.25	5.25	5.25
One-year time deposits	7.50	8.50	8.50
Specialized credit institutions' maximum loan rates:			
Agricultural Credit Corporation	7.00	7.00	7.00
Industrial Development Bank	8.75	8.25	7.50-8.00
Housing Corporation	5.00	5.00	5.00
Jordan Cooperative Organization	8.00	8.00	6.50-8.00
Three-month treasury bills	5.00	5.00-5.50	5.00

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Source: Central Bank of Jordan

#### D. MERCHANT BANKS AS VEHICLES FOR PRIVATIZATION

The merchant banks sprang to the surface during the years when buoyant economic activity prevailed. Today their activities are limited mainly to the area of corporate finance, which is not enough to keep all six merchant banks viable. The consultant anticipates that within the next two years, some mergers, acquisitions, and consolidations will take place among these institutions, which should be encouraged.

Merchant banking is an excellent vehicle for development of capital market and promotional activities. These institutions pursue the cause of privatization, and their assistance and cooperation should be sought in any privatization project. The consultant therefore recommends that the Center for Privatization should consult with, and seek the cooperation of, the merchant banks in their privatization undertakings in Jordan.

#### E. SPECIALIZED CREDIT INSTITUTIONS: NEED FOR REORIENTATION

The specialized credit institutions which are often referred to as "development finance institutions" were a phenomenon of the sixties and seventies, when the primary objective of the governments in the less developed countries was to develop projects at almost any cost; and when the role of the private sector was minimal, and the profitability factor was a secondary consideration. These institutions are now facing major problems in mobilizing funds and managing their cash flow. Historically, the only stable source of funds for the development finance institutions has been either governments or international financial institutions, both of which are no longer readily available.

Development banking in its present form has proven to be a "losing proposition" in the banking industry. In the past, the commercial banks in the developing countries have managed to avoid long-term development projects, leaving them to development finance institutions, most of which were owned and/or funded by governments. Development finance institutions, therefore, have been perceived as sources of subsidized loans, financing relatively lower quality projects, with high debt/equity ratios and easy pay-back periods, often with political motivation overriding profitability considerations.

In order to maintain financial stability, the specialized financial institutions must mobilize domestic savings, expand and diversify their financial services and sources of funds, and operate with economic efficiency. The Housing Bank, in this group of financial institutions, has taken this course of action and has become one of the most successful banks in the system. The Mission could recommend this course of action to the other specialized financial institutions.

USAID Mission, in its policy dialogue with the Ministry of Finance and the Central Bank, can also suggest privatization of the government owned specialized financial institutions, not only with regard to the equity ownership but also the management and the role of free market forces. USAID can provide technical assistance for these undertakings.

#### F. STOCK EXCHANGE: SOME SUGGESTIONS

Amman Financial Market (the stock exchange) was well conceived with the intent to make Jordan a financial center, and provide a capital market for the development of Jordan's industry and the expansion of the domestic financial intermediaries. There are numerous laws which are designed to encourage and attract foreign investment (the latest of which is the law passed in March, 1986 for the attraction of Arab Investment), and to encourage investment in various industries in Jordan. Tax laws provide up to a 12 year tax-holiday for public share-holding companies in numerous industries; capital gains and dividends are tax exempt; and machinery and equipment imported for approved projects are exempt from custom duties and other fees.

The AFM, nevertheless, has experienced a radical change in terms of the value and volume of securities trade, during the past four years; the value of trade which increased from JD 75 million in 1981 to JD 120 million in 1983 (an increase of 60%), declined to JD 64 million in 1985 (a drop of 47%). It is true that over the last three years Jordan's securities market has been experiencing a period of slow-down, but it should be noted that the rampage of 1981-1982 was unwarranted, and was based on speculation and anticipation; it takes some time before the confidence of individual investors in the market is regained (95% of trade is placed by individual investors). Banking professionals are not optimistic about the Arab investment in the market and they attribute their pessimistic view on the prevailing economic and political condition in the region.

The consultant therefore believes that, except for the seesaw movements of recent years and with due consideration to the state of the economy in the region, AFM has made good progress over the last 8 years; and that future efforts should be focused on the ways and means that would prevent the recurrence of past excesses. To this end, and during the present transitional period, the AFM can pursue, and AID Mission can assist, either in policy dialogue and/or by providing technical assistance, the following courses of action:

1. The company law has been under review by a committee of notables for the past three years, and is ready for submission to the Parliament. The consultant understands that the revised law would include a number of provisions which would improve the business environment for the private sector and individual investors. It also would include provisions regarding the management of public share-holding companies, and creation of mutual funds for safeguarding small and unsophisticated investors. USAID Missions may want to obtain a copy of the proposed law for study by experts (not yet available in English) and make suggestions while the bill is being debated in the parliament.

2. AFM should study and introduce new money market and capital market instruments in order to be able to satisfy the needs of various domestic and foreign prospective investors. USAID Mission can provide technical assistance for this undertaking.

3. AFM should establish a mechanism for adjusting to variations in supply and demand for securities. This can be accomplished, in part, by encouraging institutional investors to become more active in the market and by introduction of Market Makers.