



منتدى الاستراتيجيات الأردني  
JORDAN STRATEGY FORUM

## Licensed Banks in Jordan: 4th of December is a Day to Celebrate

December 2022

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## منتدى الاستراتيجيات الأردني JORDAN STRATEGY FORUM

The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at [www.jsf.org](http://www.jsf.org) or contact us via email at [info@jsf.org](mailto:info@jsf.org). Please visit our Facebook page at [Facebook.com/JordanStrategyForumJSF](https://Facebook.com/JordanStrategyForumJSF) or our Twitter account [@JSFJordan](https://twitter.com/JSFJordan) for continuous updates about Jordan Strategy Forum.



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**Policy Papers: A policy paper is a research piece which focuses on a specific issue or problem and provides clear recommendations for policy makers.**

## 1. Background

The United Nations (UN) observes designated days, weeks, years, and even decades, each with a theme, or topic. The purpose of the designated occasions is to **“educate the general public on issues of concern, to mobilize political will and resources to address global problems, and to celebrate and reinforce achievements of humanity”**.

In 2019, the UN General Assembly designated December 4 as the **“International Day of Banks”**. On this day, the UN celebrates international financial institutions, multilateral development banks, and national banking systems in recognition of their role in growth and development.

The role of banks, stock markets, insurance companies, and financial institutions in economic growth and development should not be underestimated. The World Bank, for example, outlines five key functions of financial systems.

1. Produce information (financial and other) about possible investment projects, and allocate capital based on such assessments.
2. Monitor borrowing individuals and firms and exert corporate governance after lending.
3. Mobilize and pool savings.
4. Trading in the equity, bond, and derivative markets facilitates the diversification of risk.
5. Ease the exchange of goods, services, and financial securities (stock, bonds, and options).

Relative to the above-mentioned functions of financial systems, and as a major part of almost all financial systems, it is known that banks accept deposits and grant loans and advances to individuals and businesses. Banks transfer funds, make periodic payments, and manage the portfolio of their clients. Banks issue letters of credit, undertake safe custody of valuables, provide customers with facilities of foreign exchange dealings, underwrite shares and debentures, and many others. In addition, banks play an important role in the transmission of central banks' monetary policy.

All in all, banks are corporations with big influence on people, societies, industries, countries, and even on the world. In general, everyone has a relationship with a bank, directly or indirectly. This is why banking systems all over the world, and with varying degrees, are committed to “Corporate Social Responsibility” to maintain their corporate reputation and image, and financial performance over time.

**As far as licensed banks in Jordan are concerned, the 4<sup>th</sup> of December 2022 is special for two reasons.**

**First**, this day marks the International Day of Banks.

**Second**, this year marked the launch of the **“Economic Modernization Vision”** by His Majesty King Abdullah II. The vision covers 8 national economic drivers including **“Future Services”**. Among others, this driver includes **“Financial Services and Markets”**.

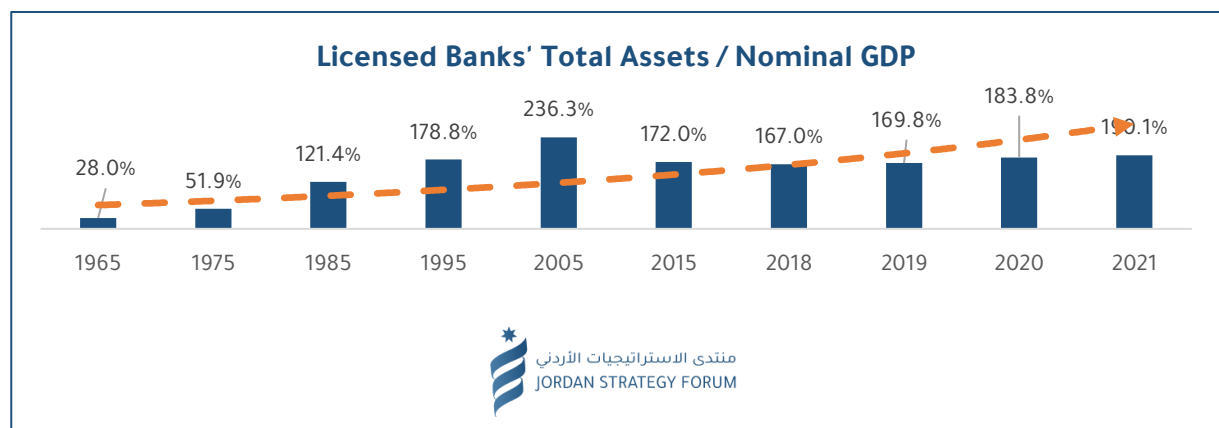
**To celebrate the International Day of Banks**, this Policy Paper, published by the Jordan Strategy Forum (JSF), involves two objectives:

1. To provide some basic and informative statistics about licensed banks in Jordan that highlight their importance and performance.
2. To outline where the Jordanian banking sector stands on the IMF's financial institutions' development index. The objective of this part is to recommend some policy measures whose aim is to enhance the standing of the banking sector on the index, and as a result, its contribution to the Jordanian economy.

## 2. The Banking Sector in Jordan: Some Observations

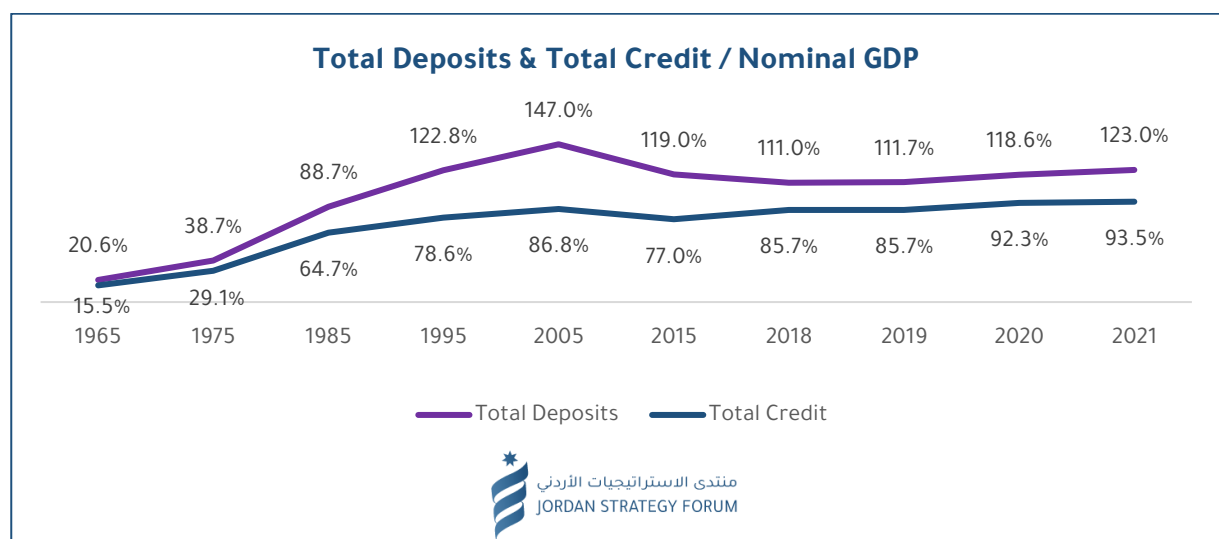
In Jordan, there are 12 Jordanian and 7 foreign commercial banks, and 4 Islamic banks (3 Jordanian and 1 foreign). Relative to any standard, banks in Jordan are large. Below, we outline few observations.

- A. Over time, the total assets of licensed banks have increased by more than nominal Gross Domestic Product (GDP). This can be seen from the increase in their total assets to GDP ratio.



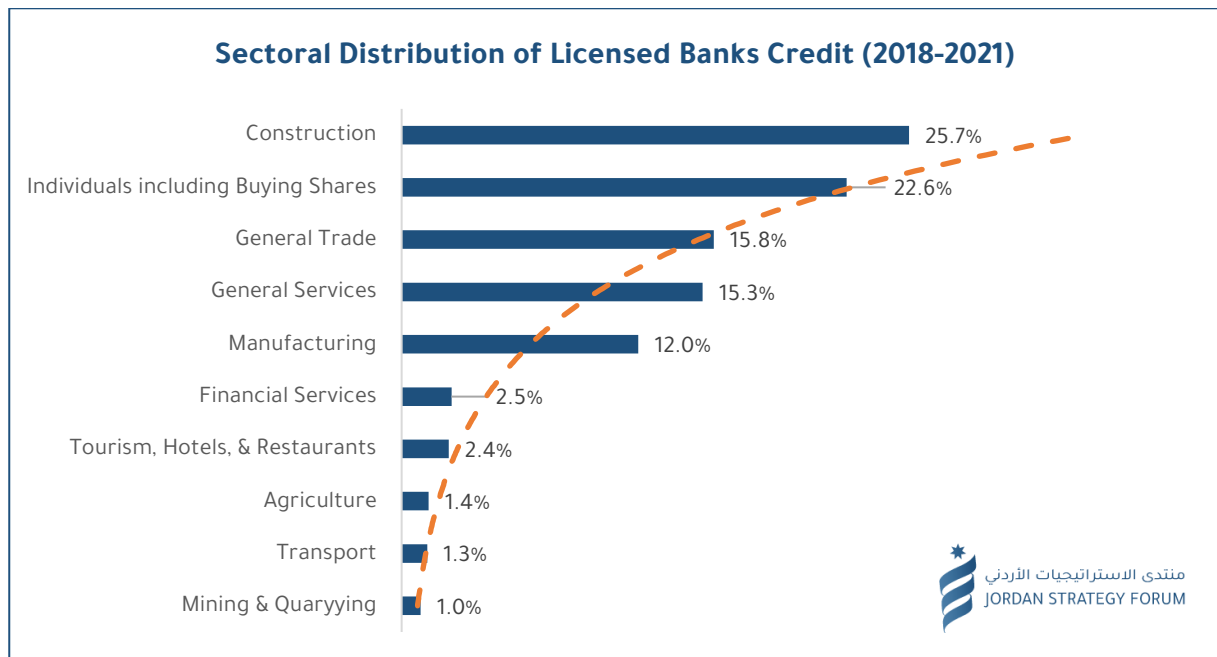
Source: Central Bank of Jordan.

- B. Over time, total deposits and total credit facilities have also increased by more than nominal GDP. This can be seen from the increases in their total deposits and total credit to GDP ratios.



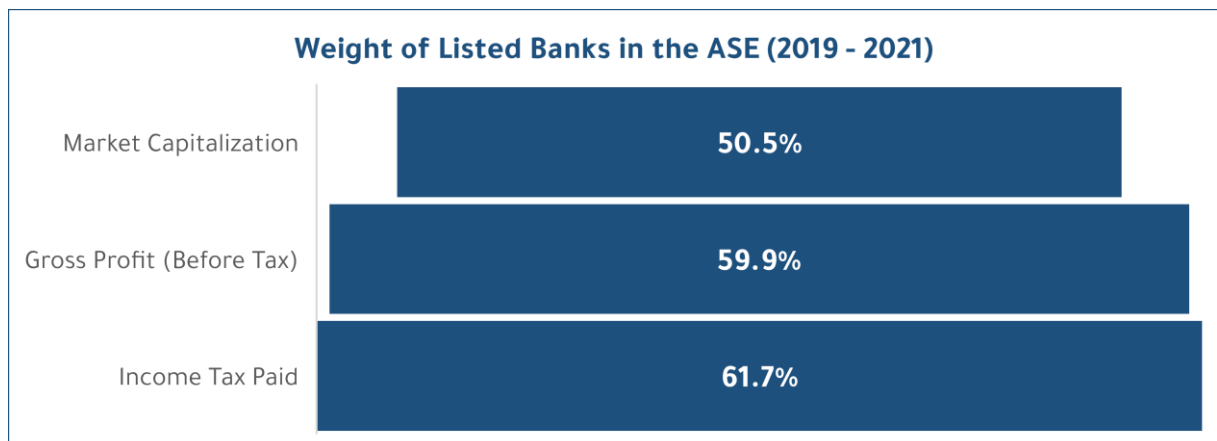
Source: Central Bank of Jordan.

- C. On average, during the past few years (2018-2021), the largest borrower from licensed banks has been the construction sector (25.7% of total credit).



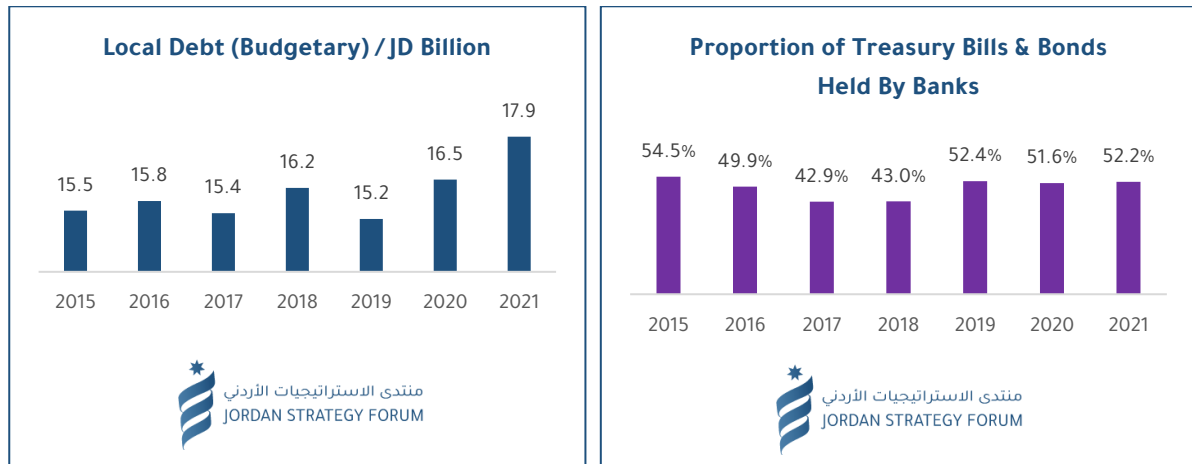
Source: Central Bank of Jordan

D. The total number of Jordanian banks which are listed on the Amman Stock Exchange (ASE) is equal to 14. Together, these banks constitute a significant part of the capital market. These listed Jordanian banks' gross income (before tax) is equal to 59.9% of all listed companies' gross income. In actual fact, in 2021, these listed banks paid 61.7% of the taxes paid by all listed companies. In addition, the market capitalization of these banks constitutes about 50.5% of the capitalization of all listed companies.



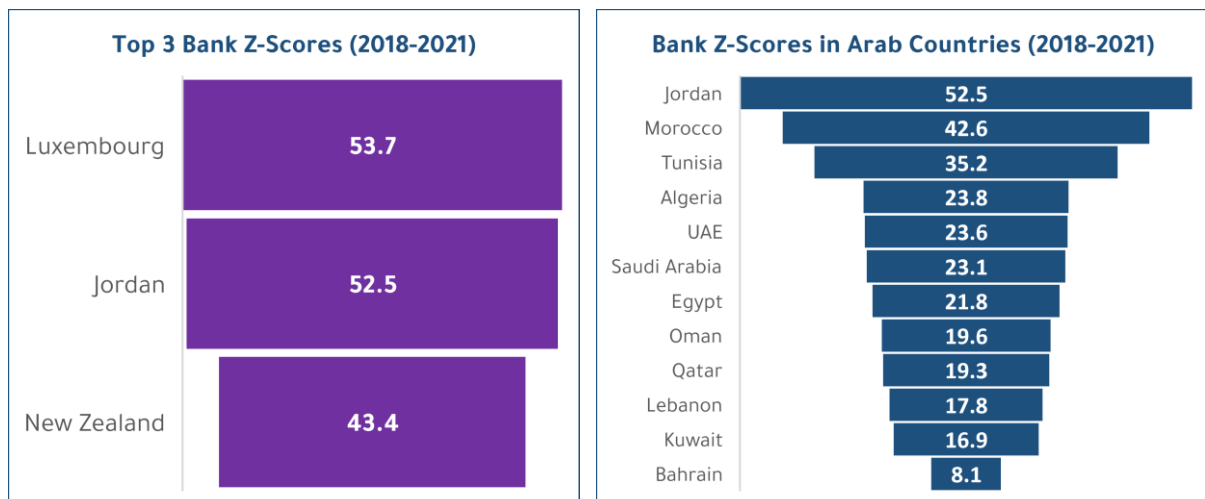
Source: ASE Database / Companies Guide.

E. Licensed banks in Jordan are a major lender to the government. For example, during the past few years, the proportion of the issued treasury bills and government bonds held by banks has been around the 52.0%.



Source: Central Bank of Jordan.

F. It is informative to note that the banking sector in Jordan is the **second most stable** among 165 banking sectors. Luxembourg comes in 1<sup>st</sup>. This is based on the World Banks' Z-score.



Source: The World bank Database.

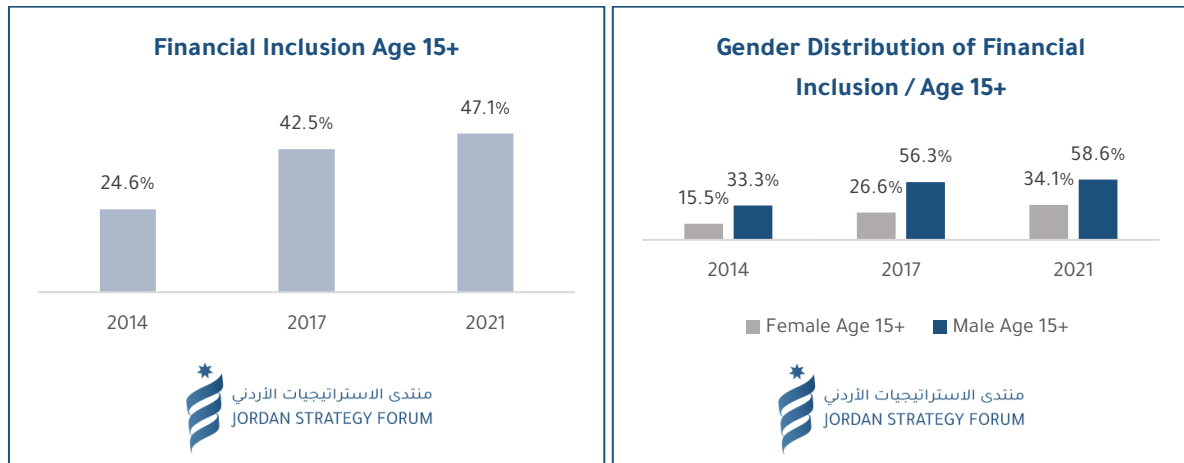
This score **“captures the probability of default of a country’s banking system. Z-score compares the buffer of a country’s banking system (capitalization and returns) with the volatility of those returns”**. It is calculated as follows:

$$\frac{[(\text{Return on Assets} + (\text{Equity Capital} / \text{Total Assets}))]}{\text{Standard Deviation of Return on Assets}}.$$

From this expression / equation, one can conclude that the reasons behind the high score of Jordan’s banking sector are good (return on assets), capitalization (equity capital to total assets), and low volatility (standard deviation of return on assets).



G. In addition to the above-mentioned observations, it is useful to note that over time, financial inclusion in Jordan has increased from **24.6% in 2014 to 47.1% in 2021**. While females are less financially included than males, their inclusion did increase at a faster rate. Indeed, the proportion of financially included females more than doubled (**from 15.5% in 2014 to 34.1% in 2021**).



**IN A NUTSHELL**, based on the above-mentioned observations, one can conclude that licensed banks in Jordan are large relative to the size of the national economy (GDP), constitute a major part of the ASE, important lenders to the government, and their performance is stable relative to 165 banking sectors across the globe. In addition, one can state the extent of financial inclusion is relatively low.

### 3. The IMF's Financial Development Index: Where does Jordan Stand?

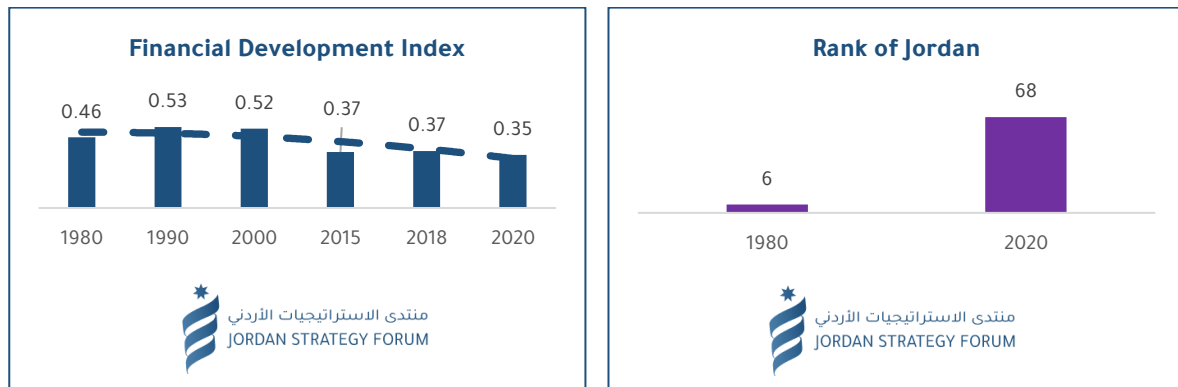
Given the socio-economic importance of finance, the IMF has been publishing what is called the **"Financial Development Index"** for 183 countries since 1980.

On a scale of 0 to +1.0, this Index ranks countries' financial development index based on how developed their financial institutions (banks and insurance) and financial markets (stock market) are in terms of three sub-pillars: **Depth, Access, and Efficiency**. As shown below:

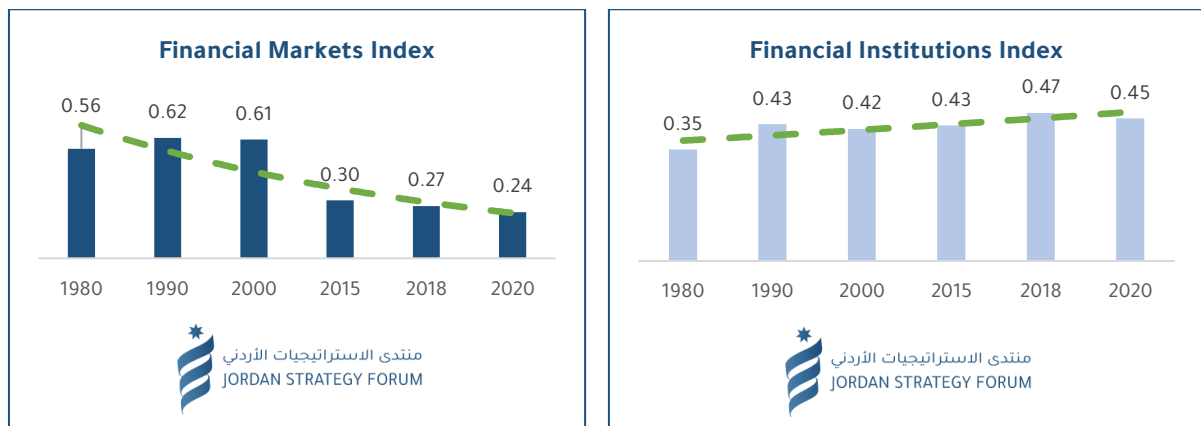
Financial Development Index		
Sub-pillars	Financial Institutions	Financial Markets
<b>Depth</b>	<ul style="list-style-type: none"> <li>• Bank credit to the private sector in percent of GDP</li> <li>• Pension fund assets to GDP ratio</li> <li>• Mutual fund assets to GDP ratio</li> <li>• Insurance premiums to GDP ratio</li> </ul>	<ul style="list-style-type: none"> <li>• Stock market capitalization to GDP ratio</li> <li>• Stocks traded to GDP ratio</li> <li>• International debt securities of government to GDP ratio</li> <li>• Total debt securities of financial and non-financial corporations to GDP ratio</li> </ul>
<b>Access</b>	<ul style="list-style-type: none"> <li>• Bank branches per 100,000 adults</li> <li>• ATMs per 100,000 adults</li> </ul>	<ul style="list-style-type: none"> <li>• Percent of market capitalization of outside of top 10 largest companies</li> <li>• Total number of issuers of debt (domestic and external)</li> <li>• Non-financial and financial corporations per 100,000 adults.</li> </ul>
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>• Banking sector net interest margin</li> <li>• Lending-deposits spread</li> <li>• Non-interest income to total income</li> <li>• Overhead costs to total assets</li> <li>• Return on assets and return on equity</li> </ul>	<ul style="list-style-type: none"> <li>• Stock market turnover ratio (stocks traded to capitalization)</li> </ul>

Based on the IMF's database, this section traces “Financial Development” in Jordan.

- A. In 1980, Jordan's financial development index was equal to 0.46. **This score ranked Jordan 6<sup>th</sup> out of 183 economies on the index.** In 2020, Jordan's score fell to 0.35. As a result, Jordan's rank on the financial development index deteriorated **from 6<sup>th</sup> in 1980 to 68<sup>th</sup> in 2020.**



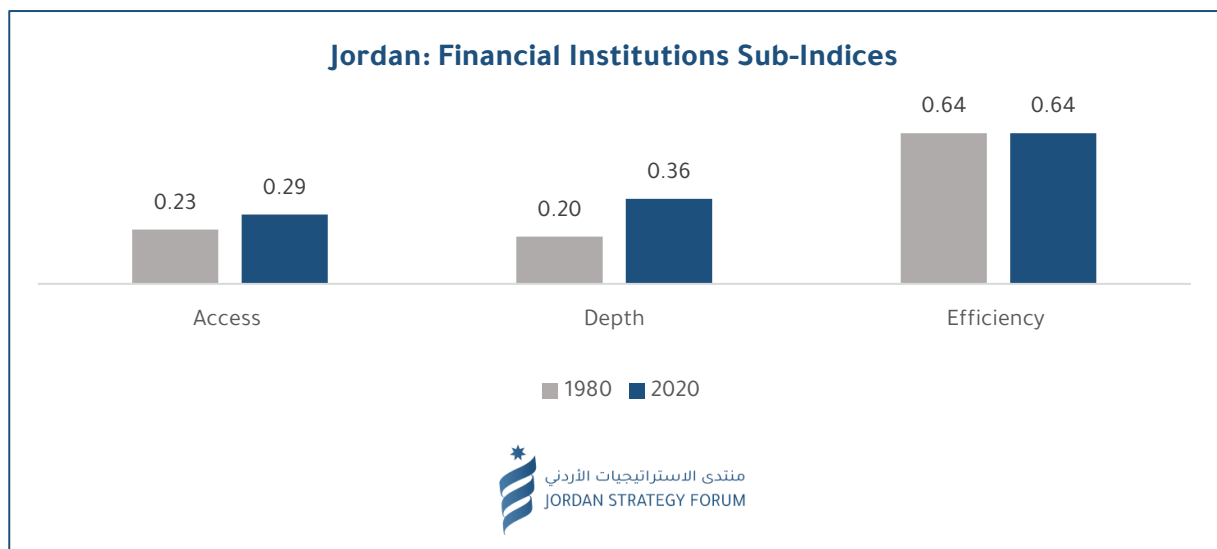
- B. The deterioration in Jordan's score and rank on the IMF's financial development index is due to the financial markets index and not the financial institutions index. Indeed, the score of the financial markets index decreased from 0.56 in 1980 to 0.24 in 2020. The financial institutions index, on the other hand, increased from 0.35 in 1980 to 0.45 in 2020.



- C. In the financial markets index, Jordan topped the Arab countries in 1980. In 2020, Jordan's rank became 9<sup>th</sup>. In the financial institutions index, Jordan ranked 2<sup>nd</sup> among Arab countries in 1980. In 2020, Jordan's rank went down to only 3<sup>rd</sup>.

Arab Countries Financial Markets & Financial Institutions Indices							
Financial Market Index				Financial Institutions Index			
Country	1980	Country	2020	Country	1980	Country	2020
Jordan	0.56	Qatar	0.60	Lebanon	0.40	Kuwait	0.48
Qatar	0.33	UAE	0.55	Jordan	0.35	Lebanon	0.46
Bahrain	0.20	Saudi Arabia	0.54	Qatar	0.34	Jordan	0.45
Egypt	0.17	Bahrain	0.48	Oman	0.28	Qatar	0.45
Saudi Arabia	0.16	Oman	0.32	Bahrain	0.27	Morocco	0.44
Oman	0.10	Egypt	0.29	Kuwait	0.27	Oman	0.41
UAE	0.09	Morocco	0.26	Morocco	0.21	Tunisia	0.41
Tunisia	0.07	Kuwait	0.25	Egypt	0.20	UAE	0.35
Kuwait	0.05	Jordan	0.24	Tunisia	0.20	Saudi Arabia	0.34
Morocco	0.04	Lebanon	0.15	UAE	0.17	Bahrain	0.32
Lebanon	0.03	Tunisia	0.06	Saudi Arabia	0.15	Egypt	0.30

D. As far as the financial institutions sub-pillars are concerned, it is encouraging to note that over time, they have improved. However, in terms of access and depth, the scores are low.



To improve Jordan's score in financial institutions in particular, relevant stakeholders should look at what is included in measuring the three sub-pillars of this index.

**Based on the used banking indicators, we can outline few observations.**

1. While domestic credit to the private sector to GDP ratio (2018-2020) in countries like the USA, and Japan, are exceptionally high, in Jordan, this proportion is in the low range. Increasing bank credit to the private sector would increase the score of the financial institutions index.

Domestic Credit to Private Sector to GDP Ratio (2018-2020)							
USA	196.0%	Singapore	122.7%	Finland	96.6%	Italy	78.0%
Japan	178.0%	Cyprus	118.4%	Morocco	89.7%	Turkey	69.4%
Denmark	161.8%	France	111.3%	Greece	85.0%	Oman	63.1%
UK	135.9%	Qatar	106.7%	UAE	81.3%	Ireland	36.4%
Sweden	134.0%	Netherlands	102.0%	Germany	81.2%	Egypt	25.6%
Malaysia	125.0%	Spain	100.9%	<b>Jordan</b>	<b>78.8%</b>		

Source: The World Bank Database

2. While banks' non-interest income to total income in Ireland, Cyprus, and France are exceptionally high, in Jordan, this ratio is in the low range. Increasing bank non-interest income to total income (more diversification of income sources) would increase the score of the financial institutions index.

Bank Non-Interest Income to Total Income: (2018-2021)							
Ireland	72.1%	Spain	56.8%	Morocco	38.9%	UK	29.4%
Cyprus	71.6%	Germany	56.6%	USA	38.0%	<b>Jordan</b>	<b>25.5%</b>
France	70.8%	Sweden	52.2%	Malaysia	35.9%	Turkey	25.4%
Switzerland	70.2%	Tunisia	47.0%	Kuwait	35.7%	S. Arabia	24.4%
Finland	63.3%	Singapore	42.2%	Japan	33.7%	Egypt	22.3%
Denmark	60.4%	Netherlands	40.7%	Greece	33.7%	Qatar	21.2%
Italy	59.3%	UAE	40.1%	Oman	32.2%		

3. While banks' overhead costs (operating expenses to total assets) in Japan, Qatar, and France, are exceptionally low, in Jordan, this ratio is in the medium range.

Bank Overhead Costs to Total Assets: (2018-2021)							
Japan	0.5%	Kuwait	1.2%	Egypt	1.5%	Turkey	1.8%
Qatar	0.7%	UAE	1.2%	Ireland	1.5%	<b>Jordan</b>	<b>1.9%</b>
France	0.8%	Malaysia	1.2%	Germany	1.6%	Switzerland	2.0%
Singapore	0.9%	Spain	1.3%	Oman	1.6%	Tunisia	2.4%
Finland	0.9%	Denmark	1.3%	Morocco	1.7%	USA	2.6%
Netherlands	1.0%	S. Arabia	1.3%	Greece	1.7%	Cyprus	5.5%
Sweden	1.1%	UK	1.4%	Italy	1.7%		

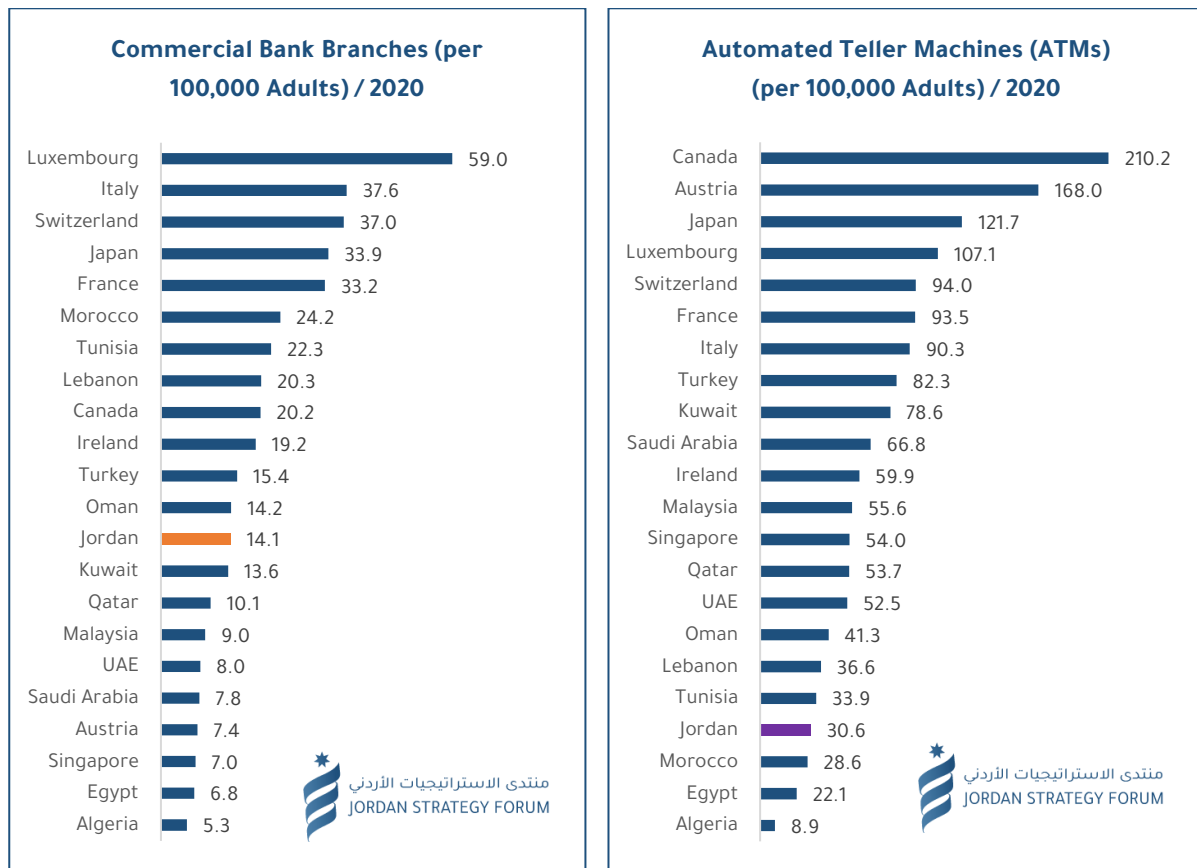
4. While banks' return on assets in countries in Greece, Germany, and Switzerland are exceptionally low, in Jordan, this ratio is in the medium range.

Bank Return on Assets / Before Tax (2018-2021)							
Egypt	2.4%	UAE	1.3%	Ireland	0.9%	Italy	0.3%
S. Arabia	1.8%	Turkey	1.3%	Denmark	0.7%	France	0.3%
Tunisia	1.6%	Malaysia	1.3%	Finland	0.6%	Japan	0.2%
USA	1.5%	Morocco	1.2%	Netherlands	0.6%	Switzerland	0.2%
Qatar	1.4%	Kuwait	1.1%	UK	0.6%	Germany	-0.1%
<b>Jordan</b>	<b>1.3%</b>	Singapore	1.1%	Spain	0.4%	Greece	-0.5%
Oman	1.3%	Sweden	1.0%	Cyprus	0.4%		

5. While banks' return on equity in countries in Greece and Germany are exceptionally low, in Jordan, this ratio is in the medium range.

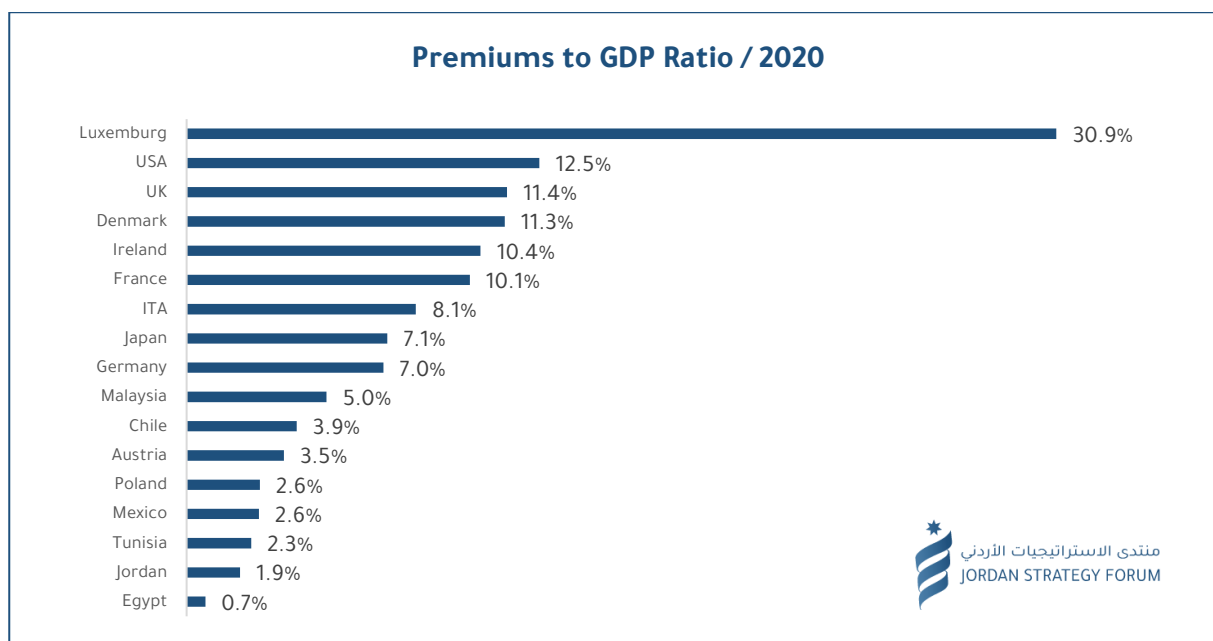
Bank Return on Equity / Before Tax (2018-2021)							
Egypt	28.2%	Morocco	11.5%	Netherlands	8.5%	Japan	4.4%
Tunisia	17.9%	S. Arabia	11.1%	Kuwait	8.0%	Italy	4.2%
Sweden	14.3%	Malaysia	10.8%	Denmark	8.0%	Cyprus	4.1%
USA	13.7%	<b>Jordan</b>	<b>10.0%</b>	France	7.1%	Switzerland	2.2%
Qatar	13.2%	UAE	9.8%	UK	6.2%	Germany	-2.6%
Turkey	12.6%	Finland	8.7%	Ireland	4.9%	Greece	-4.2%
Singapore	11.5%	Oman	8.5%	Spain	4.7%		

6. While the number of commercial bank branches per 100,000 adults in countries in Luxemburg is exceptionally high, in Jordan, this figure is in the low range. Similarly, while the number of automated teller machines per 100,000 adults in Jordan is in the low range.



Here, it is worth noting that with the spread on e-banking and other on-line services, the number of branches or ATMs per 100,000 individuals are probably not as important as before. In other words, the IMF will probably drop these measures from its index.

- While gross insurance premiums to GDP ratio in Luxembourg, USA, UK, few other countries are exceptionally high, this ratio is exceptionally low in Jordan.



## 4. Economic Modernization Vision: Enhancing the Performance of the Financial Services & Markets Sector

As mentioned in the first section, this year marked the launch of the “Economic Modernization Vision”. The vision covers 8 national economic drivers including “Future Services” which includes “Financial Services and Markets”. Here, it is worth noting what some of the stated “initiatives” are:

1. To increase access to credit by individuals and the private sector, it is necessary to:
  - Update Financial Inclusion Strategy.
  - Launch campaigns to increase financial literacy.
  - Roll-out MSME lending initiatives.
  - Develop a pre-approved list for microfinance funding loans/grants.
  - Develop leasing regulatory framework.
2. To strengthen the insurance sector and its developmental role in the Jordanian economy, it is necessary to:
  - Restructure insurance sector.
  - Establish local re-insurance company.
3. To develop the financial sector, it is necessary to:
  - Develop Financial Sector Development Roadmap.
  - Develop a deep and liquid capital market (bonds and equities).
  - Expedite the sector’s digital transformation.
  - Develop agile and responsive Fintech regulations.

**IN A NUTSHELL**, if these initiatives are well-executed, we can all expect that Jordan’s score on the IMF’s financial institutions index will improve. In more specific terms, with higher proportions of financial inclusion, bank customers would increase, and as a result, bank credit to the private sector would increase. Similarly, the initiative “Roll-out MSME lending initiatives”, if successful, would increase bank credit to the private sector. The initiatives “Establish local re-insurance company” and “Restructure insurance sector” should only develop the insurance sector. Finally, the development of the capital market with improve Jordan’s score and ranks on the IMF’s Financial Development Index.



# The Importance of Banks in the Amman Stock Exchange

The ASE market is composed of three main sectors, which include 19 sub-sectors. Banks are considered as the most significant across all the sub-sectors in the Amman Stock Exchange.

## Industrial Sector



## Financial Sector



**Banks**

## Services Sector



The total number of Jordanian banks which are listed on the Amman Stock Exchange (ASE) is equal to 14. Together, these banks constitute a significant part of the capital market:



**%59.9**

Of all listed companies' gross income.



**%61.7**

Of the taxes paid by all listed companies.



**%50.5**

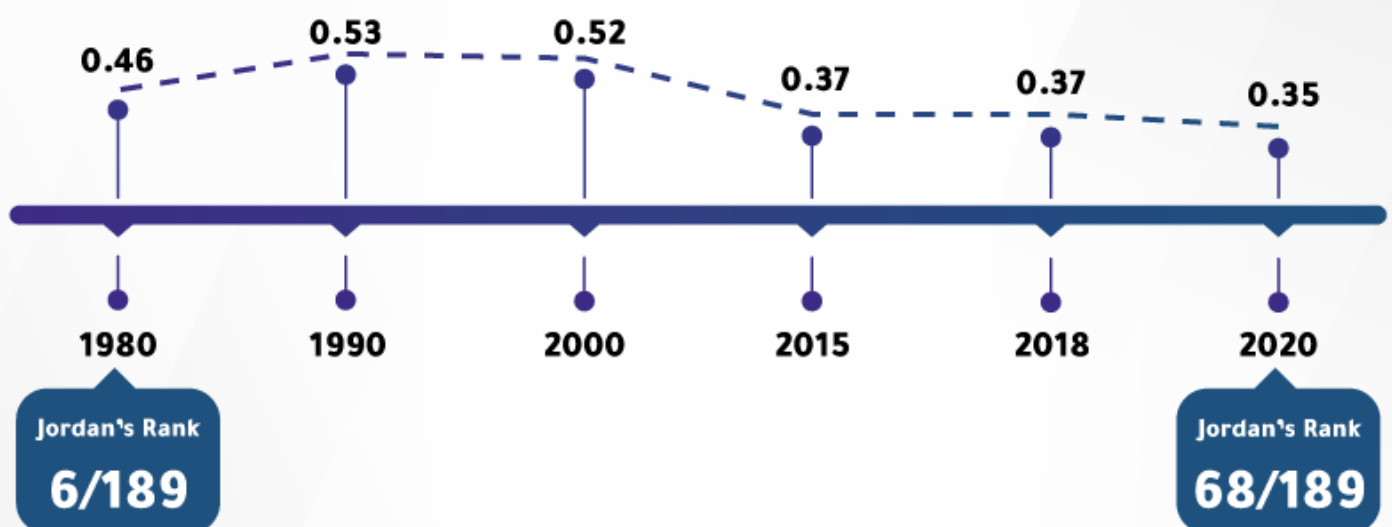
Of the capitalization of all listed companies.

# Jordan's Performance on the Financial Development Index

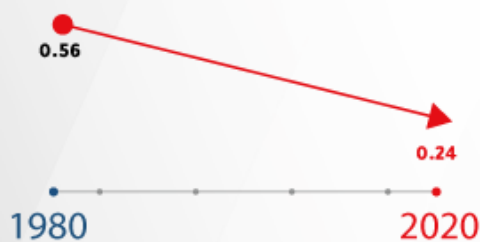
## Financial Development Index

The Financial Development Index is an index released by the IMF since 1980. This index ranks countries' financial development on a scale of 0 to +1.0, based on how developed their financial institutions (banks and insurance) and financial markets (stock market) are in terms of three sub-pillars: Depth, Access, and Efficiency.

### Jordan's score on Financial Development Index

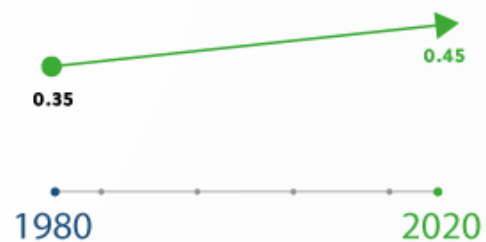


### Financial Markets Pillar (Score)



Jordan's performance witnessed a clear decline in the Financial Markets pillar. It was leading all Arab countries in the year 1980, but it ranked ninth in the Arab world in the year 2020.

### Financial Institutions Pillar (Score)



Jordan still maintains its advanced rank in the Arab world in the Financial Institutions pillar. Jordan ranked 2nd in the Arab world in 1980, and ranked third in the Arab world in 2020.



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