منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

IN A NUTSHELL

LICENSED BANKS IN JORDAN

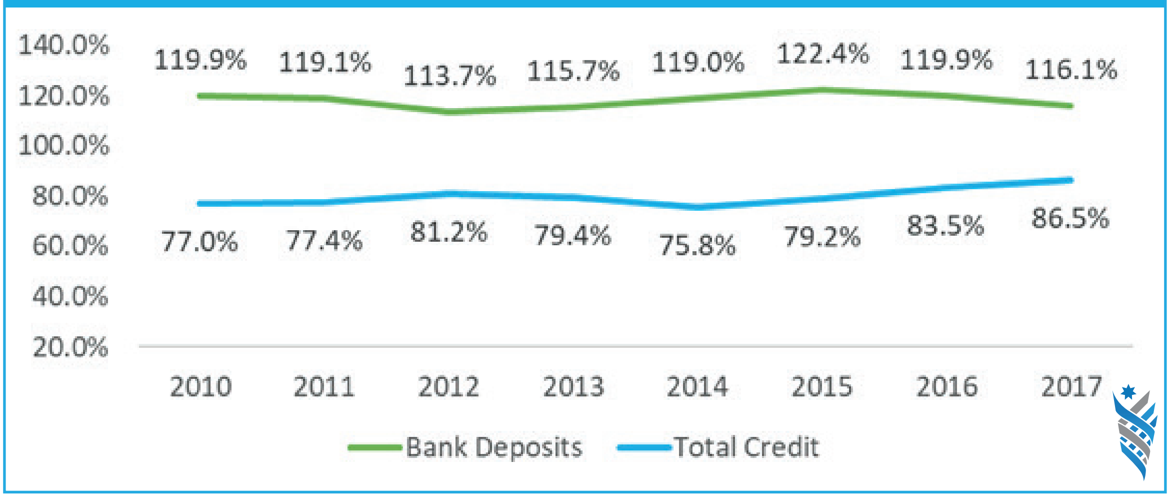
SHOULD BE ENCOURAGED TO LEND MORE?

It is well acknowledged that banks can play a major role in promoting real economic growth and development. After all, banks channel funds from those with excess capital to those in need for their investments and other purposes. In addition, in order for banks to be effective in fostering growth, it is important that they lend to the sectors that are conducive to economic growth and development.

Within the context of the economic role of banks, this brief "In a Nutshell" paper examines licensed banks in Jordan in terms of their lending activity. Following a simple look at their deposits, credit, and credit to industry and individuals, JSF reports the impact of total bank credit, bank credit to the industry, and bank credit to individuals on real economic growth during the period 1993-2017.

First, relative to any standard, licensed banks in Jordan are large. Indeed, by the end of 2017, their total deposits to GDP ratio was equal to 116%. While this proportion is lower than that which exists in Switzerland (277%), it is much higher than the mean of the richest countries in the world (around 100%).

Licensed Banks Deposits & Credit to GDP Ratio



Second, in the long-run, when total bank credit increases by 1%, real GDP increases by 0.9%!

Third, in the long-run, when bank credit to the manufacturing sector increases by 1%, real GDP increases by 1.04%!

Fourth, in the long-run, when bank credit to individuals increases by 1%, real GDP increases 0.89%!

Finally, over time, total bank credit, bank credit to the manufacturing sector, and bank credit to individuals show increasing importance in explaining the annual changes in real GDP.

IN A NUTSHELL, Based on the above-mentioned observations, the JSF recommends that all stakeholders must look into the ways and means to increase bank credit, especially to the manufacturing sector.

Within this context, the JSF recommends not to increase the corporate tax rate on the banking sector from 35% to 37%. Indeed, such an increase might have some negative implications to banks' credit policy.