Chapter 6
SUMMARY AND CONCLUSIONS

The present economic growth in Jordan is a manifestation of the influence of an efficient financial system in the country. While the Central Bank, along with other financial institutions, has contributed to economic growth, the establishment of the Housing Bank in the year 1974 was a solution to the acute housing shortage experienced in Jordan. The significant changes noticed in both social and economic growth since the establishment of the Housing Bank have led to this study of the role played by the Housing Bank in Jordan's economy.

In this study the first chapter gives an introduction to the problem and a brief survey of the studies carried out in related fields. The second chapter gives a brief history of Jordan and its features. The third chapter explains the financial structure of Jordan, starting with the Jordan Currency Board. In 1964 with the replacement the Currency Board with the Central Bank of Jordan, the financial sector of Jordan took a new look. The commercial banks including foreign banks with specialized credit institutions look after the financial requirements of the country. The Amman financial market (stock exchange) established with the help of the International Finance Corporation reflects the high level development of Jordan's financial sector.

Like any other developing country Jordan also experienced large scale urbanization and consequent flow of migrants from rural
areas to urban areas. Jordan, being a comparatively peaceful country, turned out to be the safe destination for migrant Arabs. People showed great desire to settle in Jordan to lead a peaceful life. The population of Amman, the capital of Jordan, increased at an alarming rate and the need for housing come out as an acute social as well as economic problem. Government's direct involvement to provide full attention to this specific problem resulted in the establishment of the Housing Bank in 1974. The basic objective of the bank was to meet the increasing demand for housing with adequate supply of housing units. The efficient operational control through expert management and strong initial facilities and support provided by the government helped the Housing Bank to play a vital role in the development of Jordan's economy.

The analysis is brought out in two stages. First a descriptive picture is given of the operations of the bank by explaining the growth in deposits, savings and loans. Chapter four gives a detailed coverage of these aspects. The second stage is the analysis of the theoretical aspect, the influence of the bank's developmental activities on the gross national product of Jordan. The study is limited to construction activity and its impact is analysed with the help of econometric models in Chapter five.

Due to various reasons the analysis is based on information available up to 1990 only. The data and results fully support the sound starting and the growth process achieved through policy measures. The functioning of the Housing Bank is compared with
that of the other banking system, including the Central Bank of Jordan. We notice a tremendous spurt in the development process since the late 70s. The developmental plans supported by timely financial support helped in achieving these sectorial growths. Loans and credit facilities extended to construction activity, which plays a vital role in the development process, increased substantially in the 80s. In this area the Housing Bank played a dual role, one by lending long term loans to individuals (low and medium income groups) to own a house and second by lending to small and private companies engaged in construction activities. This was achieved at great speed by extending cooperation to existing housing corporations and housing societies. Long term loans at affordable terms and flexible procedures with the same time stringent repaying measures created hope and confidence in the minds of the people. People started rushing to the Housing Bank for fulfillment of their long standing desire to own a house and invested their hard earned money with the Housing Bank. The deposits of the Housing Bank alone are about 18 to 20 per cent of the deposits of the other banking system put together. The government's support and initiative helped in a good start and the confidence of the people helped its further growth. Except for two years 1982 and 1985 the yearly growth of the Housing Bank's deposits was much higher than that of the yearly growth of the other banking system. Providing incentives and a variety of individual saving schemes like opening foreign currency accounts, issue of certificates of deposits, monthly lottery scheme and introducing family welfare schemes, the saving deposits of the Housing Bank grew rapidly. The saving deposits of the Housing
Bank was only 4 per cent of that of the other banking system in 1975; it grew to 120 per cent of that of the other banking system in 1990.

The number of housing units financed by the Housing Bank during its first decade of operation shows an increasing trend. During 1976 and 1982 immediately after the Lebanon wars the number of units financed by the bank reached the mark of 8000. This shows the popularity as well as the availability of financing resource for housing. Looking into the economic stability of the country, the Housing Bank started extending its help to other areas as well. Keeping social development along with economic growth as its main goal, the Housing Bank started providing loans to municipalities and other government institutions for the implementation of developmental plans. Hotels and tourist centres were constructed and supplied with modern amenities to attract tourists, a main source of national income. Places of archaeological importance have been renovated to maintain the natural wealth of the country. Hospitals, schools, offices and bank buildings have been constructed in many places which can be considered as an example of infrastructural growth and at the same time real estate investment for the Housing Bank. For financial security the bank also accumulated a good amount of equity shares of various companies and organizations.

This tremendous growth helped the Housing Bank not only to increase the lending facility but also to extend its operation to other social welfare programmes as well. Along with
infrastructural growth including work force, the bank showed interest in developing work efficiency of its staff by organizing various training courses and sponsoring conferences of economic importance. Introducing computer technology and linking the functioning of the bank with the international network is another progressive step taken by the bank management. Introduction of exchange programmes to keep contact with and participate in the economic growth of the entire Arab world is another achievement of the Housing Bank.

Although the concentration of the Housing Bank's working area is Amman, the capital of Jordan, housing loans were given to people in other governorates also. Zarqa, Irbid and Balqa are the other governorates which received considerable attention. Due to the economic recession in the second half of 1988, there was a declining trend in 1989 but recovering in 1990.

The statements showing the income and expenditure and assets owned by the Housing Bank clearly show the gradual upward march. The interest taken by the bank in the welfare activities of its employees as well as others along with its banking activities for economic development helped in gaining people's confidence in the working capacity of the bank and is the main secret behind its success.

Although a countrywide economic growth was noticed in Jordan in the 80s, to give an empirical verification to the hypothesis that a well progressing financial system partly provided by the
Housing Bank played an important role in the process. In the fifth chapter we tried to define a possible relationship which will determine the change in the gross national product for a change in the construction sector or the growth process brought out in Jordan's economy by the Housing Bank. For this a comparative analysis is made for two time periods: 1964 to 1973, the period before the establishment of the Housing Bank and 1974 to 1990, the period after the establishment of the Housing Bank. The regression model (see chapter 5) with yearly growth in the gross national product (GNP) as the dependent variable and yearly growth in construction activity as the dependent variable shows a significant difference in explaining the rate of change in GNP. The impact of change in construction on GNP got nearly doubled (from 0.273 to 0.491) in the second period which can be said with 95 per cent confidence. This is an empirical support to our hypothesis.

In a second exercise the growth in fixed capital formation along with growth in loans by the Housing Bank for construction activity is linked with GNP. The positive and highly significant importance of both these explanatory variables on GNP also indicates the importance of the role played by the Housing Bank in the economic growth of Jordan through housing activity and other developmental activities.

The relationship of construction activity with the loan amount allotted for housing purpose only gives almost a one to one correspondence, i.e. a 1 per cent increase in loan will increase
construction activity by 0.94 per cent, showing the extent of dependence of construction activity in Jordan on loans from the Housing Bank. This relationship is highly important with magnitudinal changes when loan amount sanctioned for only new houses is considered as the independent variable. A 1 per cent increase in such loans will increase the growth in construction by 2.26 times. That is for new houses the demand for construction materials will increase. This will indirectly influence the production of materials required for construction like cement, iron, steel, etc. In its endeavour to encourage investment and provide development finance to individuals and institutions, the bank introduced during 1990 a new lending programme to finance vocational and small investors projects. The bank also continued offering development finance to public and private corporations and institutions as a contribution to the financing of plans and projects for economic and social development.

While the analysis is based on the data till 1990, it is worth mentioning a few observations for later years, i.e. 1991 and 1992. The invasion of Kuwait by Iraq in 1990 and the breakout of the Gulf War again activated large scale migration to Jordan which led to housing shortage. This in fact turned out to be a boon to the Housing Bank. The construction sector showed big growth in 1992, area licensed in 1992 recorded an estimated 5.9 million square meters against 4.4 million square meters in 1991, an increment of 35 per cent. Building permits also increased to reach 20,295 in 1992, an increment of 18 per cent over 1991.
This huge growth of the construction sector increased the contribution of this sector to the gross domestic product (GDP) from 4.7 per cent in 1991 to 5.2 per cent in 1992. Total loans and credit facilities increased to JD 383.1 million in 1992 from JD 330.5 million in 1990. Housing loans granted by the Housing Bank also increased from JD 118.0 million in 1990 to JD 170.1 million in 1992. Mortgage loans increased from JD 58.7 million in 1990 to JD 92 million in 1992. A three-fold increase within this two-year period is noticed in the case of housing units financed by the Housing Bank an increase from 3997 in 1990 to 11455 in 1992. This one figure itself will talk volumes about the importance of the Housing Bank as an ultimate solution to the housing problem in Jordan. The activity of the Housing Bank expanded to such an extent in the Kingdom of Jordan that in 1992 the number of operating branches reached 107, which accounts for 30 per cent of the total number of Bank's branches in the Kingdom. After entering the membership of the Visa International Group which is the largest credit card issuer in the world, the Housing Bank issued about 1046 Visa credit credit cards in 1992. Introduction of this credit card received widespread acceptance from the public.

Last but not the least, greater stress should be placed by the bank on resource mobilization rather than on construction of houses. It seems desirable to separate the financial function from the construction function since the services provided are sharply different. As mentioned in the study the loan origination function will be greatly strengthened if potential
borrowers are already known as regular savings depositors. Separation of the financing phase from the construction phase will make it easier for the households to have choices in their housing rather than being confronted by a de facto public sector monopoly construction agency.

A proper policy environment is the foremost factor in the growth of a housing finance system in three ways: by being favourable to financial development, by being supportive of housing objectives and by providing consistent and coherent actions.

This study shows the concentration of the activities of the Housing Bank in three major governorates: Amman, Irbid and Zarka. Other governorates like Balqa, Ma'an, Karak, Mafraik and Tafiel have very few branches. Not only this, even if according to population the number of branches of the Housing Bank should be increased in order to capture the poor.

A healthy institutional competitive atmosphere should be created for the flourishing of the Housing Bank in Jordan.

This can be made possible by allowing other banks like Cairo Amman Bank and Bank of Jordan engaged in similar type of activities. There will be a free and fair competition among the banks which in turn will lead to development of housing facilities in Jordan and at the same time the overall economic development of Jordan.