ISLAMIC BANKING IN JORDAN

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ISLAMIC BANKING—THE JORDANIAN EXPERIENCE

The subject of Islamic finance has received increasing attention in recent years, both from Moslem scholars and from those in the West with an interest in Islamic affairs. Much of the writing is of a theoretical nature, however, and it is only recently that the results of empirical investigations have started to appear. This paper is intended as a modest contribution to this empirical literature.

There are several reasons why the Jordanian experience is of special interest, and why it is worth examining in some detail.

1. Jordan, despite its small size, is one of the most developed Islamic countries, where the majority of the population use banks. The kingdom's gross national product per capita of $2,000 understates its level of development, as Jordan has perhaps the best educated and qualified population in the entire Islamic world.

2. The economy is very open, with international transactions of considerable importance, reflecting Jordan's geographical position, market size, and economic structure. Much banking business therefore involves trade finance, and the handling of remittances, which are still of considerable importance for the Jordanian economy, despite the oil recession in the Gulf.

3. The banking laws are liberal, with the major banks being privately owned. Foreign banks are permitted to operate, although most business is handled by domestically-owned banks. There is much competition in the financial sector, involving both the banks themselves and money changers who handle a large portion of remittance transactions and business involving the West Bank where Jordanian banks no longer operate.1

4. Islamic banking is well established in Jordan, with the Jordan Islamic Bank for Finance and Investment founded in 1978, and operating since September 1979. It has a more extensive branch network than any other national Islamic bank. There is also an Islamic Investment House in Amman, which has built up a significant investment portfolio while working in accordance with the Shari'a's financial principles.

5. There has been little written about Islamic banking in Jordan, despite the seven years of experience with modern Islamic finance.2

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1 The Israeli military authorities prohibited Jordanian banks from operating in the West Bank after 1967, but recently the Cairo Amman Bank was granted permission to re-open its Ramallah branch.

2 Ahmed El Ashker has written extensively on the Egyptian experience of Islamic banking, and a shortened version of his thesis will be published in 1987 by Croom Helm of England. Mohammed Bashir has written on the Sudanese experience, and an article summarising the main findings of his thesis appeared
Jordan’s current financial position

The Jordanian economy has been remarkably resilient for over three decades, despite the traumatic experiences of the Israeli occupation of the West Bank in 1967, the civil war in 1970, the difficult relations with Syria, and the spillover effects from the Gulf War involving Iraq, Jordan’s major trading partner. Growth rates have been high, often averaging over 10 per cent per annum, well above those of neighbouring states such as Syria and Iraq. The government’s policy of encouraging private initiative and enterprise seems to have paid off, with a flourishing small business sector, and a diversified range of light consumer-orientated industries which serve both Jordan and Iraq.

The economy’s main weakness has always been the trade imbalance, however, with export receipts covering only 20 to 30 per cent of import payments. Until recently this was not a problem as the foreign exchange gap was covered by remittances and aid inflows from abroad, initially from Britain and the United States, but in recent years mainly from Saudi Arabia and the Gulf. With the oil recession in the Gulf, aid inflows have fallen sharply. Those from Kuwait in 1985 fell to a quarter of the previous year’s level, and in the case of Saudi Arabia, the major donor, the decline exceeded 50 per cent. Early indications suggested aid disbursements were even lower in 1986, as aid to Iraq was being given priority over assistance to Jordan, given the former’s critical situation because of the Gulf War.

At the same time remittances are falling sharply, the value declining by over one-quarter in 1985. Although remittances in 1986 were better than expected, prospects are poor. The demand for foreign labour has declined sharply in the Gulf, partly reflecting the completion of labour-intensive infrastructural projects, but also as a result of the fall in investment caused by the fall in oil revenues. Even if the oil situation improves, it seems unlikely that there will be any substantial recruitment of new workers from Jordan, as the pressures are now great to indigenise employment in the Gulf, especially as some of the states now face a problem of youth unemployment. Even those Jordanian passport holders working in administration and teaching are finding their services are no longer required when contracts come up for renewal.

The Jordanian banking scene

It is important to be aware of these disturbing economic trends when assessing the prospects for banking in Jordan, including those for the Islamic banks. The future growth of the economy and banking business will inevitably be affected by developments in the international oil market, even though Jordan itself is not an exporter of oil. Much will also depend on the outcome of the Gulf War, given Iraq’s significance as a market for Jordan. In view of Jordan’s ability to overcome the gravest