

## The Role of Central Bank of Jordan in Economic Development

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### Abstract

The main purpose of this research is to study and highlight that central bank of Jordan (CBJ) plays an important role in economic development. The objective of the financial organization shall be to keep up financial and money stability, to confirm the interchangeability of the Dinar, and to contribute in achieving the banking and money stability within the Kingdom likewise as promoting sustained economic process in accordance with the overall economic policies of the government. To achieve the above- mentioned objectives, CBJ assumes many tasks portrayed in drawing and implementing the financial policy within the Kingdom through an integrated system of monetary policy instruments, setting a evaluation policy of the Dinar compatible with the Jordanian economy, maintaining and managing the Kingdom's reserves of gold and foreign currencies, regulation credit within the Jordanian economy so as to realize financial and money stability likewise as comprehensive economic process, and issue and regulation bank notes and coins. Subsequently, the central bank plays necessary role within the economic resource allocation of the country. The banking industry may be a major issue that affects the organization of social and economic life cycle within the economies of the planet. it is thought about as associate degree indicator of economic and social growing.. Also, developed financial set up ought to be characterized by the existence of a contemporary and complicated banking industry that contributes to achieving economic balance. It conjointly encourages domestic and foreign investment through the banking system's ability to states. The aim of the banking industry is to draw in savings domestically and abroad, and direct those savings into productive investment. As a result, this contributes to the accomplishment of economic and social development method, and conjointly facilitates investment activity.

**Keywords:** Central bank; Economic development; Gross domestic product; Monetary policy.



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### 1. Introduction

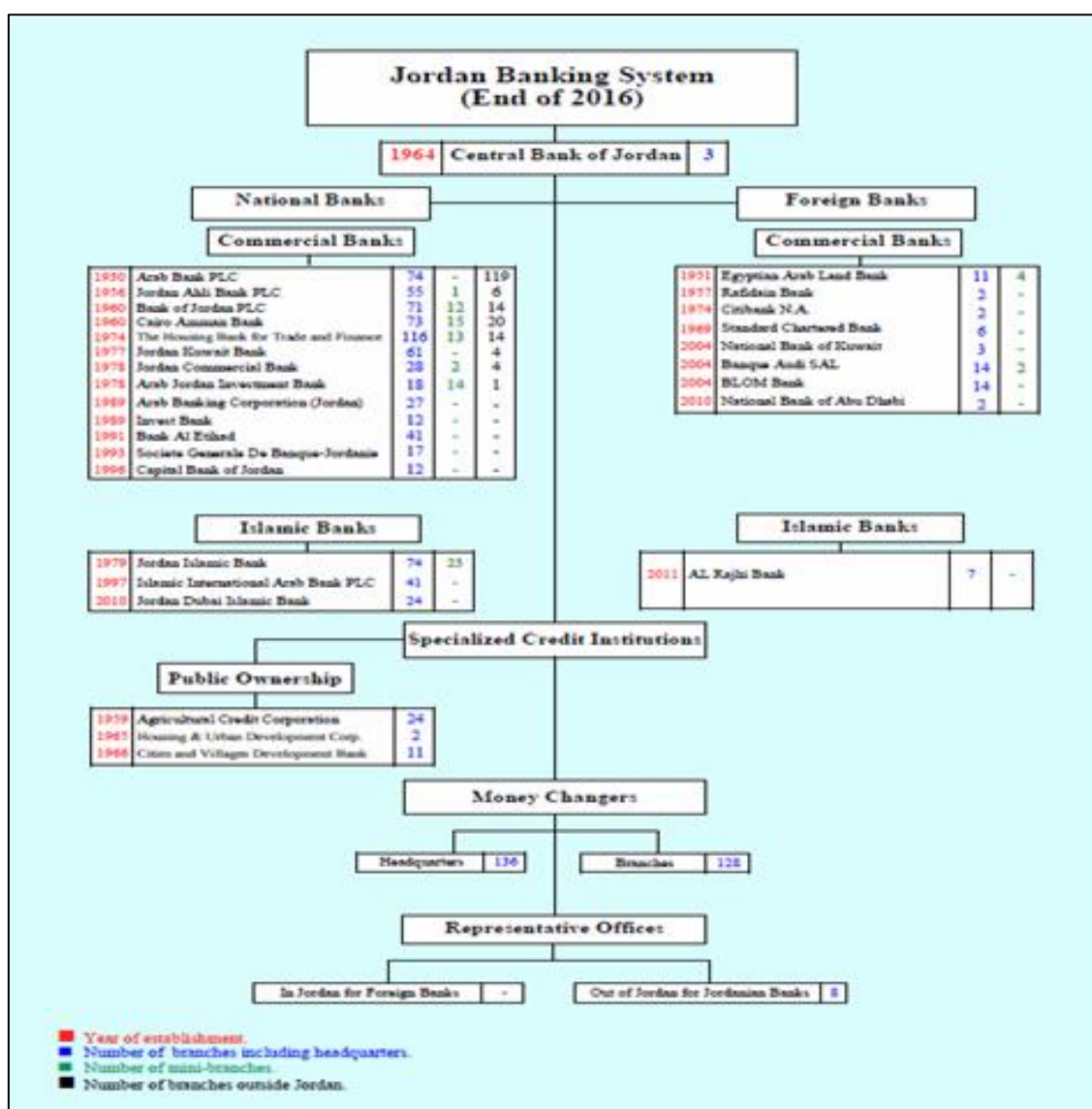
The central Bank is a different state of governmental organizations that ascendance money related protection approach, controls bank funds and gives budgetary administration including financial research (Abu Aliqah and Al Rfou, 2012). The most objective lens is to stabilize and maintain the nation's currency, controls and keep state initial and stop increasing inflation. Moreover, central bank has an effect on economic outgrowth by restraint the liquid within the economic system they need many money many fiscal policy peckers to attain these objectives that if achieved would graphite to improvement in financial stability (Brian *et al.*, 2016).To have effective money related framework Exchange investment funds bank must set an accumulation prerequisite that commits buck private bank expanding on how much money they need on menus this withdrawnness is required in face of any monetary issues happen it will keep them from crumbling (Amadeo and Kimberly, 2017). Central Sir Joseph Banks used open market operations to shop for and sell protection. This allowed changes to money available while not dynamical the reserve demand. This tool was used throughout the money crisis of 2008 (Brian *et al.*, 2016). Banks bought government bonds and mortgage backed securities to stabilize and maintain the banking industry. On the opposite hand, commercial banks should set targets on stake rates they charge their node that scout rates for loans, mortgages and bonds rearing involvement rates and slows growth that prevents inflation (Bindseil *et al.*, 2003). Financial policy takes concerning six calendar months for the result to travel through the economy .Banks can misread monetary information as the Federal Reserve System in 2006. However, if Central banks invigorate the economy excessively, they can trigger inflation as realized that Central banks evade inflation (Vittorio, 2010). National banks control their individuals by requiring adequate state army to screen potential advance misfortunes. They are additionally in charge of guaranteeing the budgetary solidness and ensuring investors' fiscal store (Amadeo and Kimberly, 2017). They additionally routine as personal banks that mean they physical method checks and lend cash to their members; they additionally store currency in their interchange reserve.

## 2. Literature Review

Central banks are financial institutions that are given the assurance to accept demand sedimentation, and shuffling loan in addition to that cannot provide clients with financial services,, these services include providing credit cards and maintaining financial management for each and every account shown in their organization .There are banks such as commercial banks, saving banks, investing banks, Islamic banks .However, everyone is familiar with these banks. Start with commercial bank; Commercial Banks are money box that receive money from the public and gives shortstop terminal loan toward individual who needs cash, commercial banks provide much more services like assembling check, retention money of individuals. These banks are useful for people with low income, to create a group and the deposits collected from customers are invested in bonds and security measures (Schwarcz and Steven, 2017). On the other hand, investment banks are banks that helps business sector to work in the financial securities sector, if the owner of a business wants to go public (sell stocks) they should consider going to investment banks (Pollock and Alex, 2015).

Moreover, Islamic banks are banks that unchanged within the principles of Sharia (Islamic Law) and its natural process and drill are through the growth of Islamic economics, there is another term for Islamic banking, which is "Sharia-compliant finance" Sharia law forbids the endorsement for explicit premium or charges for credits of cash it is known as Reba (Mushtaq and Hicham, 2015).

The Central Banking organization are responsible to maintain the financial constancy. Financial stability is a state of matter, in which the financial system which includes the financial markets and the financial institutional system, is a shield to economic shocks and is fit to smoothly fulfill its basic functions, financial stability is one of the most widely discussed (Kutum et al., 2015).



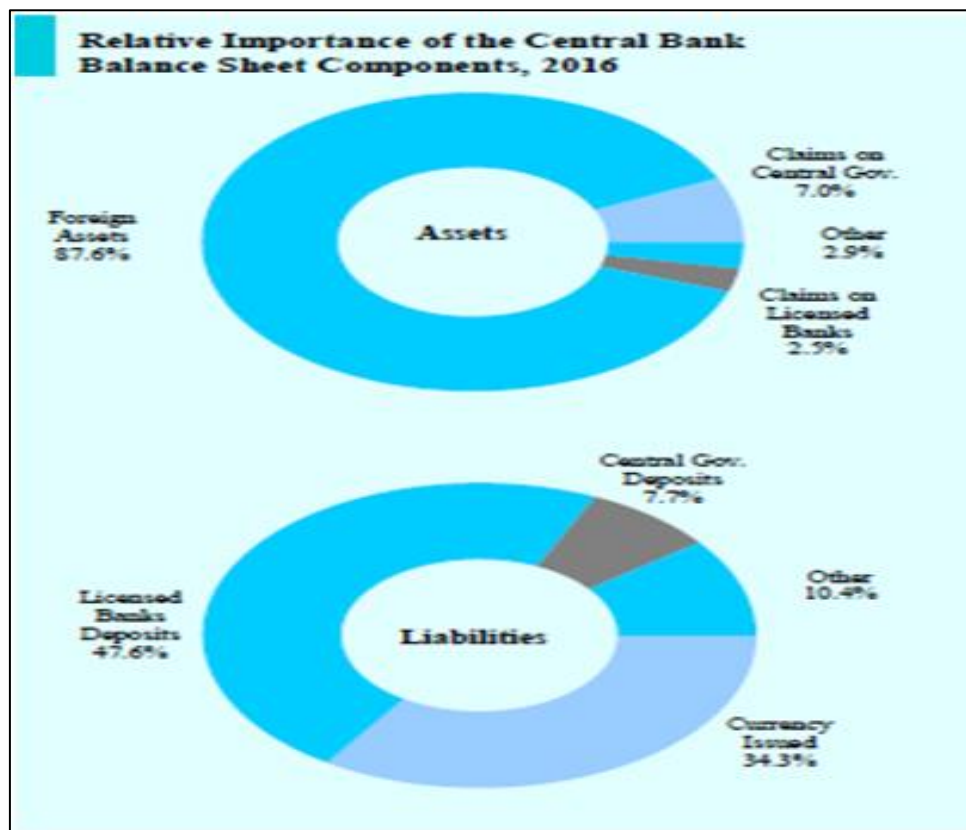
## 3. Monetary Policy

Monetary and fiscal constancy are essential to create a secured and attractive investment environment, provide uncrowdedness of visual sense, enhance corporate trust and reduce risk. In light of this, the central bank will continue to achieve its objectives of maintaining monetary stopper in the Land, ensuring the convertibility of the Jordanian Dinar, contributing to banking and financial constancy, enhancing the resilience of the banking system,

alongside promoting the ability of other banking and financial foundation to face risk of exposure, as well as contributing to the promotion of sustained economic growth in conformity with the general economic policies of the Kingdom (Pritchard, 2015). In parliamentary law to accomplish the aforementioned, the Central Bank has adopted a flexible monetary policy that is highly responsive to changes and developments in the local anesthetic, regional and global economies (Schwarcz and Steven, 2017).

#### 4. Within the Outline of this Policy, the Central Bank Remains to Work on the Following

1. Utilizing monetary instruments, including interest rates and open market instruments, to increase the appeal of assets denominated in Dinars and to provide the appropriate loudness of funds to banks at a competitive cost.
2. Ensuring a comfortable foreign reserves buffer.
3. Promoting the strength and resilience of the banking arrangement in accordance with best international practices and standards.
4. Expanding the Banks regulatory umbrella to include non banking financial institution in order to enhance financial stability, inclusiveness, and financial inclusion body.
5. Contributing to the promotion of inclusive economic growth by ensuring that financing needs are provided with cite three senses of cost that encourage growth, without infringing on the Central Bank's other target (Central Bank of Jordan Financial Stability Report, 2012).
6. Promoting and deepening financial inclusion, spreading a culture of financial awareness, and protecting consumer.
7. Supporting, empowering and including microfinance institutions under the Central Bank's supervisory umbrella.
8. Mobilizing more support source for Micro, Small and Medium-size enterprises (MSMEs) and high value added economic sectors.
9. Enhancing the role of the Jordan Loan guarantee corporation for exports (Wagner, 2010).
10. Facilitating and encouraging commercial and Islamic banks to establish Private Fairness and Venture Capital investment funds.
11. Implementing the Real number Time Gross Settlement (RTGS to automate public debt operations and cutrate sale and purchase of government adherence.
12. Increasing the efficiency of electronic defrayal channels and cooperating with partner to modernize the substructure of payment systems to enhance efficiency and protection (Cukierman, 2003).
13. Building comprehensive electronic payment systems that support various economic and market sectors.



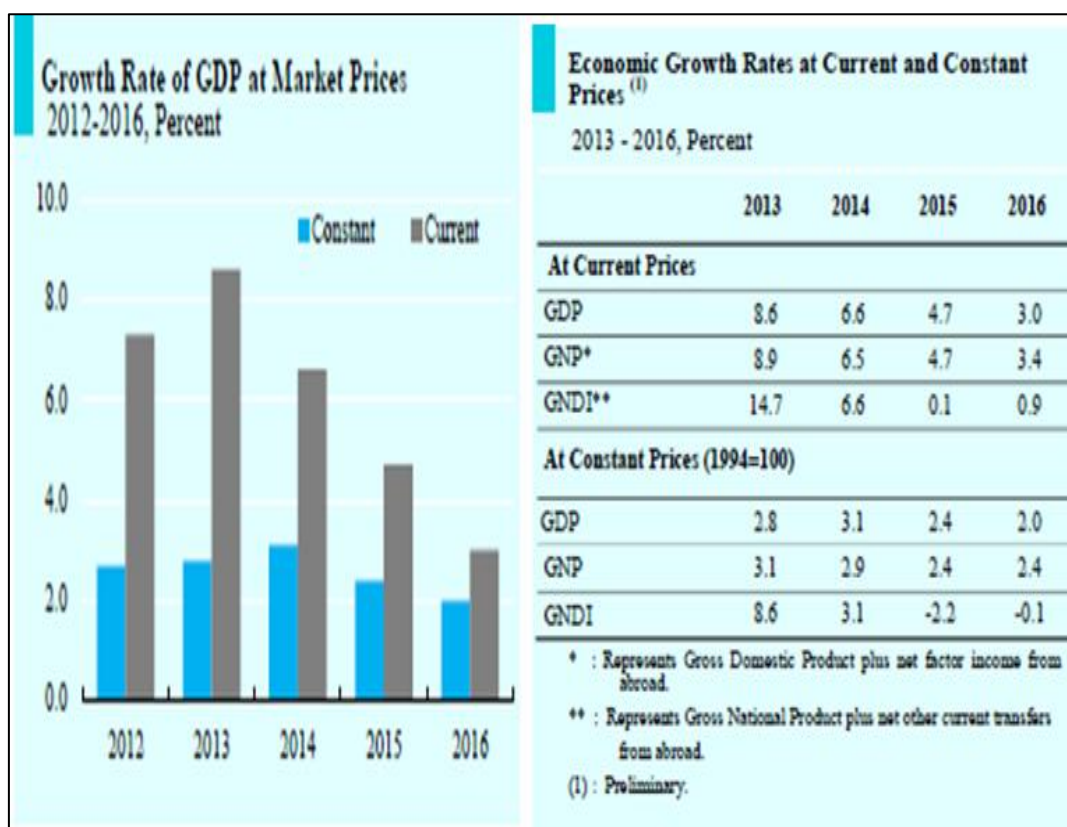
## 5. Central Bank Role

The Central bank of Jordan has launched a group of economic ingenuities to demonstrate the growing and job creation (Wagner, 2010). These applied actions included building up estimation that keeps money with a capital of JD125 Million, in order to put these capitals into medium-sized enterprises. Among these actions, the CBJ additionally boosted a modified to help national fares credit, to which JD100 Million has been allotted. The Governor of CBJ aforesaid the initiatives came as role of the banking system's answer to the recommendations of the Economic Policies Council (EPC), boosted by His Majesty launched by His Stateliness King Abdullah II and then supported and embraced by the council. One of these applied actions is supporting fares through a JD100,000,000 advance from the Central bank of Jordan to the Jordanian Loan to Guarantee that Corporation is building up a reserve, the desired profits that would empower the association to ensure Jordanian exports credit and, in this way, help the segment in goals abroad, particularly recently opened markets. The Central Bank of Jordan (CBJ), meanwhile, was working with Planning and International Cooperation Ministry to establish a Jordanian store for business enterprise at an estimated cost reaches around \$100,000,000 to be boosted in the first half of 2017, with the assets put resources into new companies that was equally divided between the CBJ and the World Bank. With the important help of new companies, small and medium enterprises (SMEs) estimated, the CBJ would add extra JD 50,000,000 to ensure that the credits of these associations will be with the spending plan of JD50,000,000 then it is spent. The actions have enhanced the incorporate, setting up the two keeping money projects in Jordan. The first project is called a "Trade Banks Society for Investment" with a capital of JD100,000,000 and the second one is called "Islamic Investment Company," whose capital stands at JD25,000,000. These two organizations will put their resources into medium size organizations to enhance the development that will reflect definitely on their activity age limits. Jordan has demonstrated many-sided despite financial difficulties and referring to achievement in reducing the spending amount that reached 3% a year ago, with a standard to make it lower to reach 2.4% in 2017. Focusing on the CBJ's ongoing option to increase financing costs, he highlighted that the exception made for some segments such as farming, industry, traveling industry and sustainable power source, including SMEs in these enterprises.

	2012	2013	2014	2015	2016
<b>Foreign assets</b>	7.0	10.6	12.1	12.5	11.8
<b>Domestic assets</b>	3.3	2.6	1.9	1.8	1.7
Claims on government	2.1	1.6	1.2	1.0	0.9
Claims on licensed banks	0.4	0.5	0.5	0.3	0.3
Other	0.8	0.5	0.2	0.5	0.5
<b>Assets = Liabilities</b>	<b>10.3</b>	<b>13.2</b>	<b>14.0</b>	<b>14.3</b>	<b>13.5</b>
<b>Currency issued</b>	3.6	3.9	4.2	4.3	4.6
<b>Licensed banks' deposits, of which:</b>	4.6	6.2	7.3	7.6	6.4
Certificates of deposit in JD	0.2	0.2	0.3	1.1	1.0
Central government deposits	0.8	1.1	1.0	0.9	1.0
Other	1.3	2.0	1.5	1.5	1.5

The Central bank has confirmed \$440,000,000 from worldwide and local institutions for neighborhood banks, which, reloaded these resources to little and medium enterprises with the purpose of forcing the credit cost for these debtors, mostly in light of their huge obligation to business and financial development (Jordan times, 2017). The Credit approximately reached out to the private part extended a year ago by nearly 10%, compared with around 4.6% in 2015, you can observe that the development in the travel industry segment and cash moves in the final quarter a year ago, keeping an upward in January (Amman 3rd District, 2017). Agents who are managing an account part are going to gathering featured the significance of these activities in reducing poverty and joblessness, the implementation of the keeping money area in the previous 10 years and the difficulties challenging the national

economy (Jordan times, 2017). The adventurous launched included launching two banking investment companies in Jordan, the first company is called "Trade Banks Society for Investment" with an estimated capital of JD100,000,000 and the second one is called "Islamic Investment Company," whose capital is estimated as JD25,000,000. The two companies will be investing in medium size companies to start getting desired growth that reflects positively on their job spread capability. Jordan has proved its flexibility and resolution in facing their economic challenges, quoting success in reducing the budget shortage last year, with a prediction to make it lower to reach 2.4% in this year (Mushtaq and Hicham, 2015). The bank has protected \$440,000,000 from regional and international mental Banks, which, Conversely, has loaned again the financial resource to small and medium enterprises (SMEs) with the purpose of modifying the credit cost for these borrowers, especially based on their significant contribution to employment and also the economic growth. Credit extended to the private segment which has increased last year by 10%, compared with 4.6% in 2015, noting has grown in the tourism segment and money transfers from emigrant in the fourth quarter in the last year, keeping an uptrend in January (Wagner, 2010). This was published in Amman 3rd District (2017), the head of the Lower House Finance Commission. Representatives of the banking sector have attended this meeting which highlighted the importance of the enterprises in reducing poverty and specially unemployment, which has been carried out of the banking sector in the past 10 years and the challenges that are facing the national economy (Zeitun et al., 2012).



## 6. Impact of Central Bank Role in Jordanian Economy

The Gross Domestic Product (GDP), at consistent market costs, enlisted a development of 2.0 percent to reach JD 11,642.9 million, contrasted with a development of 2.4 percent in 2015. While barring the "net duties on items", the GDP at consistent essential costs developed by 2.2%, contrasted with a development rate of 2.6% in 2015 (Amman 3rd District, 2017). This was a result of the unique execution of different financial parts. The "back and protection administrations", "discount and retail exchange", and development developed with a quickened pace, while assembling, "power and water", and horticulture showed a log jam. In the meantime, "mining and quarrying" and "eateries and inns" saw a withdrawal in their exhibitions (Central Bank of Jordan Instruction to Licensed Banks, 2011). The GDP Deflator, which mirrors the costs everything being equal, and administrations locally created, developed by 1.0 percent contrasted with a development of 2.3 percent in 2015. Thus, the GDP at current market costs developed by 3.0 percent to reach JD 27,444.8 million out of 2016 (Zeitun et al., 2012).

Considering the enrolled deficiency of the "net factor salary from abroad" in the measure of JD 216.0 million; the Gross National Product (GNP), at current market costs, developed by 3.4 percent contrasted with its dimension in 2015 added up to JD 27,228.8 million. Notwithstanding the withdrawal of "other net current exchanges from abroad" by 15.5 percent to remain at JD 3,369.6 million, the Gross National Disposable Income (GNDI), at current market costs, developed by 0.9 percent to reach JD 30,598.4 at the end of 2016 (Amman 3rd District, 2017).

## 7. Conclusion

Subsequently, the central bank of Jordan plays vital use within the economic resource parceling of country, it is also a major divisor that affects the organization of sociable and economic life cycle in the economies of the world, it

is thought about as associate degree indicator of economic and social growing. Also, developed financial set up ought to be characterized by the existence of a contemporary and complicated banking industry that contributes to achieving economic counterbalance. The (CBJ) also encourages domestic help and foreign investment through the ability of banking system. The aim of the banking plans is to draw in preservation regionally and abroad, and direct those preservation into productive investment. As associate degree outcome, this contributes to the accomplishment of economic and social development physical method, and additionally facilitates investment activity. Basically, the central bank has a vital role in advancing development within the economy. It performs the role of aggregation savings (unit of surplus) and directive those savings into units of the shortage. This may be accomplished through its role in funding the various economic sphere and also the development of economic activity. The central bank plays an important role in the funding of small and medium projection has a major impression in supporting the poor and the middle layer, it is working to reduce the rate of unemployment. Thus, (CBJ) supply medium and semi permanent finance for the task of production and services. Infrastructure construction includes a massive role in attracting domestic and foreign investments, export promotion, geographic growth of banks, chess gap new bank branches, and employees coaching in banks. Consequently, this helps to stimulate the economy and cut back the scale of state and also the support of latest comes.. Consequently, this is going to helps in stimulating the economy and reducing the rate of unemployment and the support of new projects.

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