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JORDAN AND THE STERLING AREA

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P R E F A C E

The objective of this thesis is to study the relationship of Jordan with the Sterling Area System and find out the advantages that Jordan accrues from being in the Area and whether it is more beneficial for it to leave the Area and stay alone or join another Currency Area. A few suggestions about the monetary and banking system of Jordan are included in the study.

The study is divided into three main parts; the first part which includes the first chapter is a study of the Sterling Area System; it includes two major subdivisions: (i) the historical sketch of the system and (ii) the working of the system. The historical sketch is devised to give the general background and it starts with the evolution of sterling as the main world currency because of Britain's world supremacy prior to 1914, and leads us to the present status of Sterling Area as a monetary area comprising mostly territories that used to be part of the British empire.

The working of the area helps us understand the way the system operates. It gives us a clear picture of the reasons that keep the area together at the moment as well as the measures taken to perpetuate such relationship.

The second part of our study deals with Jordan. It is divided into three chapters. The first chapter is a brief study of the national income of Jordan and the government's budget. The second chapter is a study of the banking and monetary system; it is more detailed because of its immediate bearing on the purpose of our study, while the third chapter of the second part is a study of the balance of payments of Jordan; it

shows what relationship Jordan has with other Sterling Area members.

The last part comprises the conclusions drawn from the study conducted in the first two parts. It includes a few suggestions about the monetary and banking systems of Jordan.

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A B S T R A C T

Jordan is an independent kingdom, with a population estimated in 1960 at 1,655,000. One third of the population are refugees while out of a labor force of 415,000, 150,000 are unemployed.

The country is predominantly an agricultural one, it is largely poor and underdeveloped. Its national income has been ~~fluctuating~~^{fluctuating} in the last decade between 40 and 50 million Jordan Dinars. According to the latest estimate of national income, it came up to J.D. 42 million in 1960, thus giving the country a per capita income of J.D. 38 which is a very low level.

Jordan has a chronic balance of payments deficit, which it has been financing with the help of foreign grants and subsidies. Its imports in 1958 came up to 83 per cent of its national income while its exports, visible and invisible, were 21 per cent of its imports. Moreover, Jordan's reserves are not enough to finance one year's imports should the foreign grants and loans stop flowing. At the same time should foreign grants stop flowing Jordan's consumption would fall from J.D. 62 million to J.D. 37 million and its per capita income would decline from J.D. 38 to J.D. 23.

On the other hand Jordan's banking and credit facilities are still in a developing stage. Many of the banks operating are foreign banks. In the lack of an organized money market they hold their reserves in the form of foreign assets. Jordan does not have a central bank; the central banking functions are being done by different government organs with the largest those in the hands of the Currency Board. Non-commercial banking is in a very early stage of development and is being re-organized.

Against the background, Jordan is an independent member of the Sterling Area. Its reserves are in sterling, its trade is invoiced in sterling, its currency cover is 100 per cent backed by sterling.

The benefits that accrue to Jordan from being in the Sterling Area are varied. Having an undeveloped money market, it can depend on the London money market, it can borrow funds, if if needed and it can invest its assets in sterling securities. Being a poor and underdeveloped country with a very small amount of reserves it can depend on the sterling to get strength and stability of its dinar. It can depend on the London pool for foreign exchange and hard currency requirements.

The Sterling Area does not get as many advantages from Jordan's membership. Except for the last two years when Jordan was a net contributor to the dollar pool, it used to be a drag on it. Besides, Jordan's main trading partners are the Arab States, as a whole; while out of the Sterling Area, Britain is the only country which has a sizeable trade traffic with Jordan.

With all the above taken into consideration, Jordan has to decide whether it is better for it to stay in the Sterling Area or leave it and join another monetary association.

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CHAPTER I

THE STERLING AREA

I. DEFINITION AND ORIGIN

The Sterling Area is a monetary Area defined by the United Kingdom from time to time in terms of its exchange control regulations. In a more general way the Sterling Area can be described as an association of the United Kingdom with certain countries whose trade is conducted mainly in sterling and whose reserves are mainly held in sterling. (1)

Generally speaking, before the First World War, the Sterling Area encompassed most of the world; practically every country was in it. "The rest of the world very largely kept in London not only its working balances, but its periodical excess reserves of foreign exchange. When they had a surplus in their Balance of Payments, they ran up their sterling balances; when they had a deficit, they ran them down." (2)

The United Kingdom was able to carry the responsibility of holding the foreign exchange reserves of the world, with a minute gold reserve, because it was on balance a large short term creditor. (3)

After World War I, Britain ceased to have more short term money owing to it from abroad than it owed and, by the late 1920's the foreign owned sterling balances in London were almost certainly in excess of Britain's gold reserves plus the foreign debts owed to it from abroad.

(1) Conan A.R., The Sterling Area, MacMillan C. London, 1952, p. VII

(2) Paish, F.W., "The Sterling Area", International Affairs, V. 28, p. 322

(3) The flow of funds was regulated by manipulating the Bank Rate.

1. Sterling Area in 1931

The Sterling Area, as such, took its regional name and became a defined monetary area in 1931. During this year the gold standard collapsed. As a result the United Kingdom and other Commonwealth countries left it.

In the succeeding years the term "Sterling Area" (or Sterling Bloc) came into use to designate a group of countries whose currencies were based on Sterling because of trading or financial relationships, though at that time it did not have the same connotation as it did later. "Not only was the Sterling Area much wider and less homogeneous than after the war, but as a working system it was very different from that now in existence."⁽¹⁾

Then, and especially after 1931, the more homely phrase "Sterling Bloc" had for many years described the loose, informal and wholly voluntary association which was all that the ill-defined area then comprised - a concept without any substance in law and carrying with it no legal implications whatever. It was a club where custom and habit took the place of Rules..⁽²⁾

But, although foreign countries were later found to be loosely attached to the system, Commonwealth countries were linked together by stronger ties, mainly of a commercial and financial character.⁽³⁾

(1) Conan, A.R., op.cit., p. 148

(2) The Economist, Nov. 23, 1946

(3) Conan, A.R., op.cit., p. 149

There were three leading features that the Sterling Area established at this period:⁽¹⁾

- (a) Its members tended to hold "sterling balances" for the whole or part of their central monetary reserve.
- (b) They tended to have their foreign trade invoiced in sterling.
- (c) The Sterling Area group tended to keep their currencies fairly stable in relation to Sterling.

The larger Sterling Area, as it tended to establish itself after 1931, included as well as the British Commonwealth and Empire (except Canada) Norway, Sweden, Denmark, Portugal, Japan, the Argentine, Iran, Egypt, Iraq; Greece and Turkey joined at a later date.⁽²⁾

The reasons leading these nations to choose sterling as the basis of their currency were various, amongst them can be mentioned the following:⁽³⁾

1. The importance of the overseas trade of Britain; the fact that Britain took the bulk of the produce exported by these other countries and provided most of the manufactured goods imported by them.
2. The highly organized commodity markets in London and Liverpool, where trade was done in Sterling.
3. The outstanding qualities of the banking mechanism provided by London with its closely knit system of overseas branches and its representation in every capital in the world.

(1) Harrod, Roy - The Pound Sterling, Essays in International Finance. Feb. 1952, p. 9

(2) Ibid., p. 10

(3) Bareau, P.L., The Sterling Area, British Commonwealth Affairs. - No. 3, Longmans Green and Co., London, 1948 pp. 5 - 6

4. The fact that sterling was a universally accepted currency: (a) it was easily converted into gold or any other currency; (b) the bill on London was the most efficient instrument for financing international trade.

Moreover, the fact that the sequel to sterling's departure from gold in 1931 had revealed a stability of sterling prices whereas commodity prices expressed in terms of gold and currencies tied to gold continued to fall, made some of these countries to join the Sterling Area. Amongst these late comers were Uruguay, Yugoslavia and France. (1)

2. Sterling in World War II

The outbreak of the second World War divided the history of the Sterling Area into two clearly distinct periods. But much more important than this division into two periods is the fact common to both periods, that the Sterling Area has been and is essentially a defensive mechanism. (2) The whole period since 1931 is one in which Britain and a group of countries closely attached to her have made attempts to minimize the effects of the outside pressures of adverse economic forces. "The Sterling Area has been an attempt to absorb the effects of outside pressures with as little pain as possible, and, indeed, to prevent some of these forces from operating at all."

Yet, towards the end of the thirties non-commonwealth members broke away, since Sterling was less used as an international means of payment, and with the outbreak of the war, the Sterling Area became more

(1) Ibid., p. 7

(2) Day, R.C., The Future of Sterling, Oxford, 1954, p. 36

consolidated, though with narrower limits. The Area now consisting of the British Commonwealth and Empire with a few additions like Egypt and Iraq, became a legal entity, by English legislation. (1) Within this area payments could be made freely and around it there came to be erected a high fence of Exchange controls, more or less uniform in character and intention in the case of each member. (2)

The Sterling Area now enjoyed special facilities with respect to internal movement of funds, and its central feature was the Dollar Pool. (3) The net dollar takings were turned in by the whole area to the Bank of England and its dollar requirements financed from this central pool. To the extent that there was a net dollar contribution by the outer area, (4) its sterling balances rose in proportion at the same time, Britain deliberately let her exports fall away quite regardless of her solvency.

The new Exchange control system that became effective at the beginning of the war, involved rigid and discriminatory restrictions on payments to non-Sterling countries. "These restrictions arose from a realization that the area's pool of gold and scarce currencies was not equal to the demands that would be made on it, if there were no control"; (5) for the first time serious attention was paid to the gold and dollar pool in its relation to the Sterling Area as a whole, and not merely to the payments position of the United Kingdom.

(1) The Sterling Area was defined by statutory rules and orders issued under defence regulations as including the United Kingdom and the isle of Man, all the dominions, colonies, dependencies, and mandated territories (except Canada, New Foundland, and Hong Kong) and Egypt, the Anglo Egyptian Sudan and Iraq. As quoted in Bureau op.cit., p. 9

(2) Ibid., p. 42

(3) Harrod, Roy, op.cit. p. 10

(4) The area other than Britain it includes independent Sterling Area members and dependent overseas territories.

(5) Day, A.C. op.cit., p. 45

The reason is obvious. By 1941 England had used up the whole of its gold reserves, and it couldn't finance the purchase of food and war equipment by itself. It started bringing supplies from the Commonwealth, and other allies and postponing payments to them by accumulating sterling balances. The Rest of the Sterling Area were net dollar earners and in that respect they contributed to the pool, besides they were in a position to help Britain financially. "The essential factor in the growth of sterling balances was the uneven flow of current commercial transactions between Britain and the other countries concerned. Britain continued to import food and raw materials from countries in the Sterling Area; there was no corresponding exports because most of British resources were used in war material".⁽¹⁾

At the end of 1938 the foreign exchange assets of the 15 largest Sterling Area countries - other than Britain, totalled £ 216 million. By June 1945 the sterling balances and short term assets held by Sterling Area countries had risen to £ 2,674 million.⁽²⁾ The way these balances were, is shown in Table I.

(1) Bareau, P. op.cit., p. 10

(2) Ibid.

TABLE I

NET BANKING LIABILITIES OF UNITED KINGDOM TO

STERLING AREA COUNTRIES

June 30, 1945

Millions of Sterling

<u>A. Dominions</u>	<u>Sterling Million</u>
Australia	118
New Zealand	63
South Africa	33
Eire	178
<u>B. Other Major Sterling Area Countries</u>	
India	1,138
Egypt & Sudan	402
Iraq	70
<u>C. British Colonies, Mandates etc.</u>	
Palestine & Transjordan	116
Ceylon	68
Hong Kong	33
Malaya	87
East Africa Colonies	95
West Africa Colonies	93
Other British African Colonies	43
Trinidad	23
Other British W. Indian Colonies	18
Other Colonies	<u>96</u>
 <u>TOTAL</u>	 <u>2674</u>

Source: Bureau, P. The Sterling Area, London 1948, p. 11

On the other hand by the end of the war England had around £ 600 million of gold and dollars in reserve. To place the picture in better perspective we can say that England finished the war with an amount of £ 600 million in reserves and almost £ 3,000 million of short term foreign debts. ⁽¹⁾ Needless to say that this was a position of very great danger and instability; when, should the creditors withdraw a fifth of what Britain owed them, the sterling would have become illiquid and insolvent. But Britain would not let that happen, for, with the help of the U.S.A. and Canada the Sterling was to be rejuvenated.

3. Post War Sterling Area

Before delving into the Sterling Area as it started to take its post-war-shape it may be advisable to take a brief look at the post war world economy and see how the Sterling Area fitted in it.

Europe came out of the war a demolished and devastated continent. The war had inflicted severe damages upon its man-power, means of communication, and mostly upon its productive capacity. Asia and Africa were partly damaged, but even if they were not damaged by the war, they were underdeveloped and could not help in the reconstruction of Europe.

On the other hand, the western hemisphere, mainly the U.S.A. and Canada came out of the war with little damage to their economies. Their productive capacity had grown during the war period and on top of that they were the main international creditors.

(1) Paish, op.cit., p. 324

For the sake of convenience, the world can be divided into three major parts at the end of World War II:

1. A devastated Europe, badly in need of reconstruction and rehabilitation.
2. Two big continents, underdeveloped and in need of development.
3. A wealthy North America, with a huge productive capacity and an abundance of resources.

The financial situation was closely related: the war damaged and the underdeveloped needed help from the rich and powerful. This is one of the reasons leading to the problem of dollar shortage that the world, outside the dollar area, had to face in the post war years. Europe was in need of American machinery to help in its reconstruction, and to buy the machinery dollars were needed. The U.S.A. came to Europe's help with Marshall aid program, but that was not sufficient.

As to the Sterling Area its post war position could be summarized as such:

1. The United Kingdom emerged as a net debtor.
2. The Rest of the Sterling Area had a sum of £ 2.3 billion Sterling accumulated.
3. The whole area had a sum of £ 600 million of gold and dollar reserves.

In 1946 and 1947 the sterling balances of Sterling Area countries were reduced by £ 36 million and £ 165 million respectively. ⁽¹⁾ Moreover, in these two years the Sterling Area countries other than the United

(1) Bureau, op.cit., p. 13

Kingdom were still a net contributor to the Sterling Area dollar pool. Their deficit of £ 41 million with the dollar area was offset by the sale of £ 82 million of gold, ⁽¹⁾ but by the end of 1947 the position changed for the worse. The deficit rose to £ 273 million while their sales of gold were £ 84 million, thus leaving a gap of £ 189 million to be covered from the pool.

The actual size of the pool in the three years following the end of the war were £ 610 million, £ 664 million and £ 512 respectively. ⁽²⁾ But in 1946 an agreement was reached between United Kingdom and U.S.A. whereby the U.S.A. gave Britain a loan of \$ 3,750 million. Another agreement with Canada provided a Canadian loan of \$ 1,159 million. ⁽³⁾

4. Anglo-American Agreement

One of the underlying reasons of this agreement was the rendering of sterling convertible so as to help liberalize international trade. As to the sterling balances under the Anglo-American financial agreement, the following provisions were made regarding their future treatment.

"The government of the United Kingdom intends to make agreements with the countries concerned, varying according to the circumstances of each case for an early settlement covering the sterling balances accumulated by the Sterling Area and other countries The settlements with the Sterling Area countries will be on the basis of dividing these balances into three categories:

(1) Ibid., p. 13

(2) Mayer, op.cit., p. 80

(3) Wright, R. "Dollar Polling in the Sterling Area" American Economic Review, 1954, p. 569

1. Balances to be released at once and convertible into any currency or current transactions.
2. Balances to be similarly released by instalments over a period of years beginning in 1951.
3. Balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.⁽¹⁾

Moreover the United Kingdom undertook that within a year of the date of the agreement, the sterling receipts from current transactions of all Sterling Area countries will be freely available for current transactions in any currency area without discrimination with the result that any discrimination arising from the so-called sterling dollar pool will be entirely removed.⁽²⁾

It was also agreed that the \$ 3,750 million line of credit made available by the U.S.A. would not be drawn upon to effect repayments of other creditors of United Kingdom.

The following is what actually happened as a result of the agreement.

The United Kingdom made agreements with India, Egypt, Iraq and Palestine to free certain parts of the sterling balances. The arrangement with Palestine has involved the temporary departure of that country and

(1) Bureau, op.cit., p. 12

(2) Ibid., p. 13

(1)
of Transjordan from the Sterling Area.

On July 16, 1947, the sterling pound became convertible into dollars, as required by the terms of the Anglo American Financial Agreement. The degree of convertibility was still limited; the United Kingdom undertook to exchange dollars for sterling only in the case of certain types of sterling and only for certain purposes. Broadly, the agreement required the United Kingdom to make this exchange only for sterling earned after July 16, 1947, and for sterling released in accordance with British agreements with war creditors. Even in these cases the exchange for dollars was required only if the dollars were to be used to finance
(2)
current transactions.

The emphasis on confining the convertibility obligation to an exchange of dollars for current purposes for sterling currently earned reflected merely the intention of both parties to the agreement that the U.S.A. credit should be used in the interests of trade and not as a means of settling old debts. This idea seems straightforward and reasonable enough but in practice the distinction between old and new claims is very hard to define and harder yet to enforce.

The United Kingdom did not undertake, and the Agreement did not require it to undertake, an unlimited obligation to exchange dollars for sterling held by its own residents, although there was such an obligation to other residents of the Sterling Area. Also, there was nothing explicitly said in the Agreement to prevent other Sterling Area

(1) Transjordan and Palestine left the Sterling Area in 1948. Jordan, later joined the Area in 1950. This is discussed in more detail in a later chapter.

(2) Polk, op.cit., p. 71

members from limiting their dollar expenditures by means of direct - and even concerted controls on dollar imports. All that was spelled out in the Agreement was that the United Kingdom should not impose a limitation on the access of sterling holders elsewhere in the area, or elsewhere in the world, to dollars held by the United Kingdom authorities, as long as the sterling was currently earned and the dollars were wanted for current transactions. (1)

5. Result of the Convertibility of 1947

The new freedom to convert sterling into dollars in July, 1947 was introduced in an unfavourable atmosphere. The Sterling Area's own dollar position was deteriorating. During the first half of 1947 its dollar deficit was running at the daily rate of \$ 10 million, some ten times higher than the year before. Meanwhile, with the date for convertibility well advertised ahead of time in the terms of the agreement, most holders of sterling were anticipating a feast at London's convertible table and were guarding their appetites; they did what they could to settle their sterling debts in inconvertible sterling and to postpone their sterling earnings until they could be received in convertible sterling.

On June 30, 1947, the eve of dollar convertibility, the Sterling Area had \$ 2.3 billion left, or less than half, of the United States and Canadian credits. It had another \$ 2.4 billion in official gold and dollar reserves - a total of \$ 4.7 billion. But against this reserve, the Sterling Area in the first half of 1947 was running a dollar

(1) Ibid., p. 72

deficit at the annual rate of almost \$ 4 billion, and sterling debts stood at over \$ 14 billion, of which almost \$ 5 billion were in the hands of people outside the Sterling Area. (1)

When in August, the drain on Britain's dollars had reached the point where only \$ 400 million was left of the United States credit, the new convertibility was called off and Britain returned to the old system of choosing administratively among the various claimants for dollars.

It now seems clear that Britain was not ready for the convertibility attempt. The credits were double the Sterling Area's reserves. They were fundamentally an addition to reserves - a dollar availability other than current earnings. The 1947 crisis wiped out the new United States and Canadian credits and threatened the remaining British reserves. It was, indeed, the result of an excessive demand for dollars - most nations wanted dollars, so they get out of sterling when the getting was good. (2)

The details of the drain on dollars that occurred during the crisis is shown in Table II.

(1) Ibid., p. 73

(2) Ibid., p. 74

TABLE II
DRAIN ON BRITAIN'S DOLLARS, 1947

Millions of Dollars

	Total Dollar Drain	United Kingdom's Dollar Deficit	Rest of Sterling Area Dollar De- ficit	Other Calls on Gold & Dollar Re- serves
1st quarter	917	592	170	155
2nd quarter	973	631	179	163
3rd quarter	1,537	996	279	262
4th quarter	704	454	131	119
<u>TOTAL</u>	<u>4,131</u>	<u>2,673</u>	<u>759</u>	<u>699</u>

Source: Polk, Judd, Sterling, its Meaning in World Finance - Harper
 Bros. N.Y. 1956, p. 76

Thus it can be observed in Table II that a total drain of \$ 4,131 million occurred in 1947. Most of the drain occurred on Britain's dollars where, it amounted to \$ 2,673 million, while the Rest of the Sterling Area incurred a deficit totalling \$ 759 million. Moreover the third quarter witnessed the most dollar drain.

Prior to the convertibility move which occurred in the third quarter - July, 1947, the drain on dollar reserves amounted to \$ 917 million and \$ 973 million in the first and second quarters respectively. The deficit increased to \$ 1,537 million in the third quarter, denoting

that people or nations inside and outside the Sterling Area got rid of sterling balances and acquired dollars when they were permitted to that hold check.

The supply of "Current" sterling held outside the United Kingdom now became the crucial determinant of the potential demand for dollars, and the authorities in London could not, as before, arbitrarily sort out the demand to fit the supply. "The United Kingdom could continue to limit its own expenditure of dollars, as before, it could exhort its colleagues in the Sterling Area to do the same; it could no longer be the final arbiter in providing dollars to the various claimants; it could no longer ration them unilaterally."⁽¹⁾

Thus convertibility was tried and failed. The sterling was not ready for it yet and so the Sterling Area went back to its former regulations and controls.

The Cardinal features of the system were at the end of 1947:⁽²⁾

1. The fixed exchange rate.
2. The use of sterling for settlement within and between certain limited regions.
3. The covering of other deficits out of central reserves on the basis of agreed limitations of dollar imports in the case of Sterling Area countries and on the basis of specific understandings with non-sterling countries.

Once again, one of the real means of adjustment when the claims presented against London for foreign exchange exceeded the supply was the tightening of direct controls on imports.⁽³⁾ Besides, the problem

(1) Ibid., p. 72

(2) Ibid., p. 76

(3) Another means of adjustment was the expansion of exports to the dollar area.

of maintaining dollar equilibrium was handled through dollar pooling, and the problem of arresting deficits was handled through segregation of dollar transactions from other foreign expenditures and establishing separate, and more severe quotas for dollar goods than for other goods.

In early 1948, the United States line of credit was exhausted. (1) For a few months, the central reserves of the sterling system were without any basic United States support. Restrictions on imports were effective in bringing down expenditures by about a third. And the reserve position was maintained, so was the Exchange Rate. The Exchange Rate was \$ 4.03 to the pound sterling. (2) However, by early 1949 external deficits again made recourse to reserves necessary and this pressure on reserves was aggravated by the United States recession of that year. (3)

6. Devaluation of the Sterling

As the basic reserve drain continued, it was worsened by growing speculation against sterling in anticipation of a forced devaluation. The general concensus of opinion among United States officials was that the sterling dollar rate did not satisfactorily reflect the two countries' respective cost structures in production for the International market, and that a devaluation of sterling would help check Britain's tendency toward persistent external and particularly dollar deficit. (4)

By the end of June 1949, reserves stood at \$ 1,651 million and the Sterling Area's dollar drain was running at a monthly rate

(1) Until Marshall Plan dollars first became available to Britain.

(2) Polk, op.cit., p. 78

(3) Ibid., p. 78

(4) Alternative methods of arresting the reserve drain without financial assistance would have been the raising of interest rates, or a further tightening of restrictions on dollar imports.

(1)
of over \$ 200 million. Britain had either to raise the price of dollars or suspend their automatic sale for authorized purposes, including a large volume of imports contracted but not yet paid for. On September 19, the dollar price was raised. A pound sterling would now purchase only \$ 2.80 rather than \$ 4.03 as previously. (2) The Rest of the Sterling Area followed suit, except Pakistan which did not devalue its currency. (3)

It seems possible, that the devaluation of 1949, would have been followed by a much more balanced period in sterling's international status had it not been for new external problems created by the Korean war which broke in June 1950. The said war produced new problems which made it more difficult to avoid inflation and large external deficits. Following the outbreak of the war in 1950, the United Kingdom announced that no more aid would be needed after 1950 and military aid of significant proportions was started in July 1950.

Moreover, Marshall aid which was coming to Britain from the United States at an annual rate of one billion dollars was terminated in June 1951. "The termination of economic aid was the result of the favourable balance of payments achieved by Britain - in fact by the entire Sterling Area - in 1950." (4)

The devaluation measures did not go unquestioned by the Rest of the Sterling Area members, most of them were outraged because Britain went along with the measure without consulting them. Even though,

(1) Ibid., p. 79

(2) Ibid.,

(3) For a full discussion of the devaluation of 1949, the reader is referred to Judd Polk, Sterling. pp. 80-84

(4) Ibid., p. 84

this did not leave much imprint on the relationship between the Sterling Area members, the talks that occurred reflected badly on the disadvantage of a loosely knit relationship, which characterized the Sterling Area.

As to the effects of the devaluation on the sterling balances of the Rest of the Sterling Area members, it can be easily demonstrated arithmetically that they lost part of their purchasing power outside the Sterling Area. In other words they lost part of their value, and thus the liabilities against Britain were decreased by that amount.

Another major crisis faced the post-war Sterling Area, in 1951 when there was a drain on the reserves for four consecutive months. This necessitated a conference of the Commonwealth nations. The Commonwealth Ministers of Finance met in London and agreed to cut the dollar imports by 25 per cent. ⁽¹⁾ This was a temporary measure, and together with some help which came from the U.S.A. the drain was stopped.

7. Gradual Easing of Restrictions

As a consequence to 1951 Crisis a foreign exchange market in London was established. For the first time in twelve years authorized dealers were permitted to buy and sell foreign currencies on their own account. Both spot and forward dealings were permitted, and in order to give the market needed flexibility the official spread between buying and selling rate was widened to the equivalent of \$ 2.78 (selling) and \$ 2.82 (buying) per pound, compared to the previous narrow spread of \$ 2.79 ⁽²⁾ 7/8 to 2.80 1/8.

(1) Ibid., p. 86

(2) Ibid., p. 89

In March 1954, a major change in Sterling rules occurred. Virtually all sterling held by residents of Sterling Area was made transferable and capital transfers, for current payments outside the dollar world were officially sanctioned. (1)

"The extension of the transferable account area was the greatest single simplification in the Exchange Control regulations that has taken place since their introduction in 1939, with a few temporary exceptions, two of which have since been discontinued, the whole fabric of bilateral accounts was swept away and all non-resident sterling other than that held in American, Canadian and blocked accounts was unified. That is, sterling could be transferred without restriction throughout virtually the whole non-dollar area; the one remaining restriction on transfers was that on payments from non-dollar to dollar accounts. No longer could the irreverent speak lightly of sterling's '57 varieties'". (2)

The significance of this relaxation in Exchange Control was further increased by the removal of the restrictions on the use of transferable sterling for capital purposes. Previously, transfers of sterling, even between two transferable account countries, could be made only to effect payments arising from direct current transactions between those two countries. (3)

Thus by 1956, official sterling regulations distinguished three broad classes of sterling holders; the differences lie in the purposes for which each class of holders can use its sterling. (4)

(1) Ibid., 89

(2) The Economist, "Steady Flooding for Sterling"
Nov. 20, 1954, p. 11

(3) Ibid.,

(4) Polk, Judd, op.cit., p. 43

1. The first and inner group in the Sterling Area

As a rule members of the area place almost no restrictions other than tariffs on their trade with one another, and very few on Capital movements among themselves. It is not quite clear who in effect owns the gold and dollar reserves of the area. They are centralized in London. But Sterling Area countries consider these reserves as automatically available for their use on the basis of rules mutually agreed upon. As a counterpart to this mutual access to reserves they keep their international spending policies on roughly similar lines in the entire range of transactions which might involve pressure on these reserves. They also base their own currencies primarily or entirely on a variety of sterling obligations issued by the British treasury.

2. Transferable Account Countries

These include all countries outside the sterling and dollar area, they can use their sterling with a high degree of freedom for both current and capital transactions with the Sterling Area and with one another. They have, however, no direct access to the foreign exchange reserves in London.

3. Dollar Countries

These are countries which enjoy complete access to the foreign exchange reserves of London for conversion of all their current earnings of sterling and to a considerable degree for the sterling they hold on Capital account. In selling their goods, the dollar countries enjoy only limited access to sterling market.

In the beginning of 1959, a further move toward the convertibility of sterling was made by the United Kingdom and some restrictions on its transferability were removed.

The Financial Times wrote in that respect: The treasury is lifting all restrictions on the free transfer of current account sterling held by people living outside the Sterling Area. From day-to-day there will be only one variety of externally held current account sterling and it will be freely convertible into gold or dollars at the official rate of exchange.

Exchange control, however, is to ^{be} retained. Permission will still be needed to move capital outside the Sterling Area, and overseas holders of sterling assets will still normally be entitled to sell them only for security sterling. The position of Sterling Area residents is not immediately affected. Resident sterling, will remain convertible only to the extent permitted by the Exchange Controls of Sterling Area. But it will make a difference to the United Kingdom as a banking nation. The bulk of the turnover in transferable sterling - unofficially estimated at £ 1,000 millions a year - that previously took place in the free markets may be switched to London, while working balances of sterling held in London may be increased now that foreign holders are no longer exposed to the actual and possible fluctuations in the transferable rate. (1)

Both these render back to London its former status as a major financial centre.

(1) The Financial Times, Dec. 29, 1958

Nevertheless, we have to note that sterling is not fully convertible - its convertibility is limited to non-residents of the Sterling Area; this means that Sterling Area countries, whose sterling holdings, as shown on Table III, amount to £ 2,580 million at the end of 1958, cannot use them to buy anywhere in the world especially in the dollar area.

TABLE III
WHO HOLDS STERLING
 Sterling Million

Year	Overseas Sterling Area	Dollar Area	OECE Countries	Others	Rest	Total
1953	2,798	62	223	410	511	4,004
1954	2,924	97	244	438	476	4,179
1955	2,857	44	232	442	470	4,045
1956	2,891	43	230	340	472	3,976
1957	2,790	30	276	277	652	4,025
1958	2,580	39	350	297	636	3,902

(1) Non-territorial organizations.

Source: The Financial Times, Dec. 29, 1958

II. WORKING OF THE STERLING AREA SYSTEM

Having traced briefly the history of the Sterling Area, we can now go on to describe the way it operates and the different justifications that make the outer sterling countries or the Rest of the Sterling Area (RSA) stay within the monetary system rather than act independently or join another system.

To recapitulate we can say that the Sterling Area is an association of the United Kingdom with certain countries whose trade is financed mainly in sterling and whose reserves are mainly held in sterling. Sterling is the currency of the United Kingdom, because the United Kingdom was the main and most powerful nation, and the sterling was fully convertible into gold, its currency became the basis of international monetary policy.

We showed how the outbreak of the Second World War witnessed a Sterling Area drawn much closer together by regulations and controls. These regulations were eased for a short period when the sterling became fully convertible as a result of the Anglo-American Financial Agreement. The convertibility was abolished and old controls resumed when the run on sterling proved the inadequacy of the system, and the need for dollars was made more obvious.

The United Kingdom had more liabilities than reserves. The Rest of the Sterling Area had sterling balances that were blocked. They could not be used in Britain or outside. True, the United Kingdom concluded a few agreements with some of these countries but still they had the bulk of their reserves in sterling and they were blocked.

Besides having these sterling balances in common, the Rest of the Sterling Area had common political and trade relations (as will be seen later). Moreover, they were all in need of dollars to buy goods in the United States and toward the best solution of their dollar problem, they had the dollar pool.

1. Members of the Sterling Area

For the purpose of our analysis the Sterling Area countries can be divided into two main categories; besides the United Kingdom:

1. The independent countries
2. The dependent countries

The independent countries of the Sterling Area are subdivided into:

- a. Commonwealth countries, which include Australia, Ceylon, Federation of Rhodesia, New Zealand, India, Nyasaland, Pakistan, South West Africa, Union of South Africa, Ghana, Malay and Burma.
- b. The other countries include; Iceland, Irish Republic, ⁽²⁾ Jordan, Libya, and Persian Gulf states (Bahrein, Kuwait, Qatar, and the Trucial States).

The dependent territories are the countries which have the same ⁽³⁾ common quota with the United Kingdom in the international monetary fund.

(1) Polk, op.cit., p. 145

(2) We need to emphasize the presence of Jordan in this group for further reference.

(3) The dependent overseas territories are listed as follows: Gambia, Nigeria, Sierra Leone, Cyprus, Gibraltar, Malta, Bahamas, Bermuda, Jamaica, Falkland Islands, Kenya, Uganda, Tanjamyka, Zanzibar, Barbados, Trinidad, British Guiana, British Honduras, Mauritius, Seychelles, Fiji, Tonga, and Saranak.

Since the dependent territories are dependent on the United Kingdom from a political, economic as well as the financial aspect, their currencies are based 100 per cent on sterling and are operated by currency boards and commissioners, which for the most part, operate in London and invest their assets in sterling securities. (1) All of these territories don't have any central banks and most of them lack the trained personnel to administer their respective economics and their currency system. Their presence in the Sterling Area is more than justified by their very close ties with the United Kingdom and their local currencies are bound to sterling by very close ties and they have a mutual line of credit through the linkage of their credit structures. (2)

It is not necessary to discuss any more the justification of their presence in the area, but the important role that most of them play in being within the Sterling Area shall be discussed as we proceed. This is important since many of them are net dollar earners. They produce commodities that can be marketed in dollar areas.

As to the Rest of the Sterling Area, their membership in the Area will be studied in the light of the working of the system and the extent to which it is or it is not beneficial to all concerned, the United Kingdom included. This study is to give us the general justification for Jordan's presence in the Area.

2. General Background

From the standpoint of economics it is largely arbitrary to group the independent members of the Sterling Area together. Most of them draw resources from the system, some contribute resources to it. The apparent behavior of the group as a whole is not, necessarily,

(1) Bureau, op.cit., p. 15

(2) Polk, op.cit., p. 11

descriptive of the behavior of an individual member. Nevertheless, the common fact of independence has economic significance since it bears on the promptness, nature and severity of measures taken to correct difficulties in the area's balance of payments. It bears on the degree of willingness to pool reserves. It affects local credit structures which although based heavily on sterling reserves, have their own flexibility and can produce important variations from time to time in the rate of use of sterling. (1)

In a more general sense, the fact of independence is bound to have an important bearing on the nature of the trade pattern within the sterling world. The traditional pattern, originating in colonial days and involving exports of food and raw materials to the centre (Britain) from other sterling members, and exports of manufactures to other members from the centre (Britain), tends to break down. The trend is changing as overseas countries are developing and are using some or all of the raw materials they produce. They are more in need of heavy machinery in exchange for processed consumers goods and some raw material. (2)

But trade is not the only reason; true, most of the independent sterling countries were formerly British dependencies. Even those which were not, have been strongly influenced by British administration. They grew up in a sterling world and now that they are more developed, dependent financial relations with Britain have not ordinarily appeared as serious limitations to political independence. Therefore, we can assume, for the present only, that no matter how sterling countries may

(1) Polk, op.cit., p. 146

(2) Ibid., p. 148

have come into the area, their remaining in it has to be based on real financial advantages.

In general the financial ties of the independent countries to Britain are more flexible, but not necessarily less deep, than those of the British dependencies. ⁽¹⁾ Unlike the dependencies they have their own central Banks, their own local money markets, their own tariffs and import controls, free of the control of London. There is a growing tendency amongst them to maintain national gold and dollar reserves, and thus to rely less on the central pool administered by Britain. Moreover, any of them is free to leave the area any time it chooses.

In addition, they are all independent members of the International Monetary Fund. So what is it that keeps them in the Area?

3. Reasons that Keep Independent Countries in the Area

The reasons that keep the area together are varied; the way the entire system evolved and came into being can give us a clue, but tradition is not enough of a justification for the working of a monetary area.

"The justification for the area's existence has changed from time to time as circumstances changed significantly. The early thirties, the war years, the period of reconstruction, and the present day are all times in which the justifications for the area's existence have differed". ⁽²⁾

(1) Ibid., p. 149

(2) Day, op.cit., p. 53

The presence of the Sterling Area, or of any other currency union is justifiable by the mere fact that it renders some help toward the liberalization of trade. The Sterling Area countries, besides having common backgrounds, and common or similar systems, have more than one economic reason to be together in currency union, and the United Kingdom by being the centre of such a union has quite a responsibility and derives some benefits.

"A payments union which is a mutual accounting organization and has no other purpose gives clear advantages to those member countries who do not take the responsibility of the centre. These members can make payments easily to any other country in the world simply by using the banking facilities of the centre country".⁽¹⁾

Most of the Sterling Area countries are underdeveloped, whether they are rich or poor is out of the present context. All of them have rudimentary banking systems and practically no money market, thus their association with Britain can make up for all these deficiencies. Such countries cannot easily afford the expense of holding working balances in many foreign countries, and it is unlikely that many foreign countries would accept the currency of such a country in payment of its debts.⁽²⁾

This leads us to one of the most important reasons for the existence of the Sterling Area, the centralized monetary reserves and this is very closely related to both, the dollar pool and the credit structure of the member countries.

(1) Ibid., p. 59

(2) Ibid., p. 60

A. Reserve Pool

By this centralizing of the reserves arrangement, the United Kingdom "undertakes to make available to other Sterling Area countries the dollar exchange, which they may currently require to settle unfavourable balances in their dollar transactions. On the other hand, any surplus gold or dollar exchange which such countries may currently acquire from international transactions - or in the case of gold, from domestic production or dishoarding - is customarily made available to the United Kingdom."⁽¹⁾

This plan was based on the assumption that as some member countries normally earned more dollars than they needed, there would be a surplus available for countries with a dollar deficit⁽²⁾. The pooling arrangements have been modified from time to time, but they still constitute an integral part of the mechanism of the system.

(1) Conan, op.cit., p. 69 - as quoted from New Zealand Federal Reserve Bulletin, Feb., 1941

(2) These changes may be noted:

1. The withdrawal of South Africa from the pool as of Jan. 1, 1948
2. The introduction after the war of fixed quotas of hard currencies for certain member countries such as Ireland, India, Pakistan, Ceylon and Iraq - the use of fixed quotas was later abolished.
3. The acknowledgement by United Kingdom in 1949 that Ceylon was free to dispose of its dollar earnings and the allotment to Ceylon of a separate gold and dollar reserve taken from the Central reserves

By pooling reserves, the members do not have to have reserves which are high enough to cover the maximum likely need of each country separately. Smaller pooled reserves should suffice since at any given time some member's needs will probably be offset by the contribution of others,⁽¹⁾ for example there are years when the United Kingdom is a net contributor to the pool but in other years the Rest of the Sterling Area is the net contributor.

"The Rest of the Sterling Area as a whole made a considerable contribution to the central pool in the first eight years after the war - a total of £ 508 million."⁽²⁾

The Pool is administered by the Exchange Equalization Account, the Rest of the Sterling Area countries keep such foreign exchange earnings as they require for day-to-day transactions. But all foreign exchange earnings in excess of day-to-day requirements are handed over to the Exchange Equalization Account, in exchange for sterling securities. These sterling securities are deposited by their owners with the Bank of England. Similarly, if the Rest of the Sterling Area countries sell gold to the United Kingdom, they receive sterling securities in exchange.⁽³⁾

There are few formal agreements that regulate members withdrawals from the pool. Restraint is exercised by a "common understanding... to put in as much as possible and take out as little as possible."⁽⁴⁾

(1) Polk, op.cit., p. 168

(2) Ibid., p. 135

(3) Meyer, op.cit., p. 75

(4) Ibid., p. 76

"The Commonwealth Finance Ministers' decision in 1949 to cut dollar imports into the Sterling Area by 25 % was a gentleman's agreement and not a formal treaty. Again the Commonwealth Finance Ministers' conference of 1952 reached informal understandings on how to cope with the Balance of Payments problems of the Sterling Area and its members. But no formal treaty was concluded. However, restraint is exercised also through the various funding agreements which limit withdrawals of sterling balances from restricted account."⁽¹⁾

The strength of the pool depends on the balance of payments surplus of the United Kingdom, on the balance of payments surplus of the Rest of the Sterling Area, on the flow of funds from the Rest of the Sterling Area countries to the United Kingdom on one hand and on the net dollar earning capacity of the individual members.

Table IV shows the gold and dollar exchange holdings of the United Kingdom and the Sterling Area countries between 1950 and 1958, the sum total represents the amount in the Pool.

(1) Ibid., p. 75

TABLE IV

GOLD AND FOREIGN EXCHANGE HOLDINGS

Millions of U.S. Dollars

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
United Kingdom	3,668	2,374	1,958	2,546	2,798	2,156	2,172	2,374	3,105	3,175
Other Sterling	5,720	5,495	4,900	5,345	5,430	5,155	4,980	4,460	4,115	-
Australia	1,492	1,134	1,032	1,362	1,133	835	953	1,321	1,120	-
Burma	119	159	198	211	124	92	121	93	119	122
Ceylon	191	217	163	114	169	204	221	183	172	172
Ghana	140	182	194	206	318	342	335	301	276	-
Iceland	8	9	9	16	20	14	14	16	16	16
India	2,000	1,945	1,796	1,862	1,867	1,866	1,435	942	722	787
Iraq	117	114	129	181	233	294	354	261	289	312
Ireland	245	206	220	234	260	243	234	252	262	263
Jordan	25	26	24	26	34	36	47	44	46	45
Malaya	229	262	273	270	291	315	324	328	330	340
New Zealand	172	217	183	271	239	180	195	138	187	217
Pakistan	507	638	296	296	328	370	373	291	258	259
Union of South Africa	476	386	382	295	416	366	372	288	317	329

Source: International Financial Statistics - International Monetary Fund
August, 1959, p. 16

But Table IV is incomplete, it shows the assets in gold and dollars while the liabilities or holdings against the United Kingdom and the Sterling Area in general is shown in Table V.

It can be seen that against reserves of \$ 3,175 million in 1959 the United Kingdom has liabilities equal to \$ 9,612, the figures for other years also are shown in the two tables.

TABLE V

STERLING LIABILITIES

Million of Dollars

	1950	1951	1952	1953	1954	1955	1956	1957	1958	Sept. 1959
Sterling Liabilities	9,752	10,016	9,013	9,780	10,368	10,013	9,582	9,164	9,376	9,612
To United Kingdom Colonies	2,013	2,573	2,867	3,060	3,419	3,584	3,587	2,472	2,464	2,484
To Other Sterling Countries	4,978	4,665	4,082	4,542	4,483	4,155	4,057	4,830	4,589	5,001
To Other Countries	2,761	2,778	2,064	2,178	2,467	2,274	1,938	1,862	2,323	2,123
North America)										
Latin America)	347	266	112	286	294	187	194	185	212	190
Western Europe	879	918	669	624	683	596	540	728	1,142	938
Others	1,535	1,593	1,282	1,268	1,490	1,490	1,204	949	968	1,000

Source: International Financial Statistics, International Monetary Fund, Feb., 1960 - pp. 250-251

B. Trade Amongst Sterling Area Members

A second justification for keeping the Sterling Area together as a financial system using the sterling as a currency is the complementarity of the economics of the countries in the Area. Even though the patterns of trade have been changing since during the post-war period, the amount of trade amongst the members of the Sterling Area amounts to around 50 % of their trade with the rest of the world.

Table VI shows the percentage distribution of trade according to regions. ⁽¹⁾ It can be observed that the Sterling Area had 51 % of its exports with the Rest of the Sterling Area in 1954 and 46 % in 1958, and 49 % of its imports in the two years respectively, while its trade with Continental European Payments Union Countries came up to 23 % of its exports and 19 % of its imports in the last four years.

While the patterns of trade amongst the Sterling Area countries changed, it seemed to have not affected the volume of trade amongst them. Other industrial countries took part of the growing trade with the Rest of the Sterling Area countries, but Britain kept the largest share. (see Table VI).

(1) The amount of trade of the Sterling Area members is shown in Appendix I

TABLE VI

PERCENTAGE DISTRIBUTION OF TRADE

	<u>Exports</u>					<u>Imports</u>						
	1954	1955	1956	1957	1958	1959	1954	1955	1956	1957	1958	1959
<u>Sterling Area</u>	10	11	12	12	13		14	16	16	16	15	
United States & Canada												
Latin America	3	2	2	3	3		4	4	4	4	4	
Continental European Payment Union Countries	23	23	23	23	22		18	18	19	19	20	
Continental European Payment Union Countries - Outer Territories	1	1	1	1	1		2	2	2	2	1	
Sterling Area	51	49	47	45	46		49	47	44	43	44	
United Kingdom	21	19	18	17	17		18	18	17	17	17	
Rest of World	11	13	14	15	15		13	14	16	15	16	
<u>United Kingdom</u>												
United States & Canada	11	11	13	13	15	15	17	20	19	20	18	16
Latin America	4	4	4	5	5	5	7	6	7	8	8	8
Continental European Payment Union Countries	26	25	26	26	25	26	22	22	28	22	24	23
Continental European Payment Union Countries - Outer Territories	2	2	2	2	2	2	2	2	2	2	2	2
Sterling Area	48	48	44	44	44	41	44	40	39	38	38	40
Rest of World	9	10	11	11	10	11	8	9	10	9	11	11

Source: International Financial Statistics - International Monetary Fund
August, 1959, p. 29

"From 1950 to 1952 the relative shares of exports of the whole Sterling Area to major destinations remained remarkably stable, the area itself retaining almost half of the combined exports of all its members and sending just 20 % to non sterling countries in western Europe and 14-16 % each to the dollar area and the rest of the world.

At the same time, dollar imports rose from 1/6 of the total to 1/5⁽¹⁾. In 1953 the import surplus declined from 2,300 million in 1951 to less than \$ 1,100 million in 1953.⁽²⁾

In 1954 and 1955, even though the United Kingdom remained the major supplier of manufactured goods to the Rest of the Sterling Area, her relative share fell significantly while the shares of North America, Japan and Western Continental Europe increased.⁽³⁾

In 1957 and 1958 there was a slight recession which affected the world trade; but in 1959 the overseas sterling countries had largely recovered from that recession. The value of their exports in the third quarter of 1959 (the last available figures) was £ 998 million, which was 16 % higher than in the same quarter of 1958; and the total for the six months, April to September, at £ 1,996 million, was slightly higher than in the same months of 1957.⁽⁴⁾

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- (1) General Agreement on Tariffs and Trade, International Trade, 1952 - p. 42
 - (2) General Agreement on Tariffs and Trade, International Trade, 1953 - p. 61
 - (3) For detailed figures see International Trade, 1955 - General Agreement on Tariffs and Trade - p. 116
 - (4) The Economist, "Recovery in the Sterling Area", Feb. 20, 1960

The rise is mainly attributable to bigger shipments to the non-sterling world. Between the first nine months of 1958 and 1959, overseas Sterling Area exports rose by 10 %, and shipments to the dollar area alone rising by 25 %⁽¹⁾. As to the imports into the overseas sterling countries, they have been lagging behind the recovery in exports. Total imports in the third quarter, at £ 1,173 million were 4½ % higher than in the same quarter of 1958, and the total for the six months, April to September, at £ 2,368 million was 3 % higher than in the same month of 1958.⁽²⁾

The details of the overseas Sterling Area trades in the last two years divided by quarters, are shown in Table VII. It can be deduced from the same Table the ratio of trade between the Sterling Area and all the countries which would also confirm the statement about the large proportion of trade occurring amongst the Sterling Area countries, and the extent to which the economy of each individual country is interlocked with that of the Rest of the Sterling Area. Moreover, it can be seen from the Table the volume of trade that has gone between the Sterling Area and other areas.

(1) Ibid.

(2) Ibid.

TABLE VII

TRADE OF OVERSEAS STERLING COUNTRIES

Quarterly Averages: £ Million

<u>Imports from:</u>	<u>S.A.</u>	<u>Non-Sterling</u>	<u>Dollar Area</u>	<u>Western Europe</u>	<u>All Countries</u>
<u>1958</u>					
1st quarter	584	639	175	202	1,223
2nd quarter	564	608	179	188	1,172
3rd quarter	542	583	156	187	1,124
4th quarter	570	656	191	194	1,226
<u>1959</u>					
1st quarter	508	605	173	194	1,114
2nd quarter	545	650	190	210	1,195
3rd quarter	537	636	179	193	1,173
<hr/>					
<u>Exports to:</u>					
<u>1958</u>					
1st quarter	482	457	125	169	939
2nd quarter	445	417	116	145	862
3rd quarter	454	408	115	127	862
4th quarter	476	454	130	150	930
<u>1959</u>					
1st quarter	476	463	139	159	939
2nd quarter	479	519	150	181	998
3rd quarter	493	505	154	157	998

Source: "The Economist" - Feb. 20, 1960 - p. 745

C. Flow of Capital Funds

"One major factor in Sterling Area cohesion, comes from the reliance of Sterling Area countries on the London market as a source of capital".⁽¹⁾

Table IX shows the amount of private investment to and from Britain in millions of sterling.

It can be seen that Britain's average yearly investment in the Rest of the Sterling Area is £ 190 million, as compared to £ 10 million its investment in non-Sterling Area countries. Its gross investment is £ 330 million.

A third justification linking the Sterling Area countries together is the flow of investment funds from Great Britain to the other members of the area. Not only do the independent Sterling Area countries rely on London facilities to finance their trade, but they rely on it for receiving development funds.

Available figures up to 1953 show that United Kingdom invested in the Rest of the Sterling Area countries the amount of £ 1,270 million from this we should subtract the increase in United Kingdom liabilities to Rest of the Sterling Area amounting to £ 473 million, leaving us with a net investment of £ 797 million, for the years 1946 - 1953. The amount of each year's invested capital is shown in Table VIII

(1) Polk, op.cit., p. 130

TABLE VIII

PRIVATE INVESTMENT 1946-1953

Millions of Sterling

<u>Year</u>	<u>Investment</u>
1946	63
1947	277
1948	180
1949	263
1950	184
1951	177
1952	94
1953	158
<u>TOTAL</u>	<u>1,270</u>

Source: J. Polk, Sterling, Its Meaning in World Finance
Haper Bros., N.Y. 1956 - p. 130

TABLE IX

PRIVATE INVESTMENT TO AND FROM UNITED KINGDOM

Millions of Sterling

<u>Rest of Sterling Area</u>	1952	1953	1954	1955	1956	1957	1958	Total	Average Yearly
Outward	-169	-212	-221	-182	-221	-261	-187	-1453	-210
Inward	+ 19	+ 22	+ 41	+ 72	+ 31	- 19	-13	+ 153	+ 20
Net	<u>-150</u>	<u>-190</u>	<u>-180</u>	<u>-110</u>	<u>-190</u>	<u>-280</u>	<u>-200</u>	<u>-1300</u>	<u>-190</u>
 <u>Non-Sterling Area</u>									
Outward	- 88	- 77	-110	-140	-210	-140	-113	- 878	-120
Inward	+ 58	+ 57	+ 70	+120	+200	+150	+123	+ 778	+110
Net	<u>- 30</u>	<u>- 20</u>	<u>- 40</u>	<u>- 20</u>	<u>-10</u>	<u>+ 10</u>	<u>+ 10</u>	<u>- 110</u>	<u>- 10</u>
 <u>All Areas</u>									
Outward	-257	-289	-331	-322	-431	-401	-300	-2331	-330
Inward	+ 77	+ 79	+111	+192	+231	+131	+110	+ 931	+130
Net	<u>-180</u>	<u>-210</u>	<u>-220</u>	<u>-130</u>	<u>-200</u>	<u>-270</u>	<u>-190</u>	<u>-1400</u>	<u>-200</u>

Source: "The Economist", Aug., 29, 1959 - p. 668

The United Kingdom has been running a deficit averaging some £ 40 million a year in its current transactions with the rest of the world, which makes it obvious that it cannot have been providing net funds for investment abroad. Yet the United Kingdom made a net investment £ 800 million in the Rest of the Area. To meet its dollar deficit, Britain has been able to use special dollar receipts and the dollar surplus earned by the dependent countries. Therefore, it is reasonable to suppose that British investment in the Independent Sterling Area has been made possible by funds that flowed into London from the two sources. In short, Britain has not been the original source of funds to finance the immense expansion of British investment in the Independent Sterling Area since the war. The investment has been possible only because funds, mainly dollars funds, were available from outside in an amount equalling Britain's dollar deficit, but exceeding its over-all deficit on current account.

These funds for capital exports were obtained from the London market and mainly through borrowing by the governments, through grants and loans to the British territories under the Colonial Welfare and Development Act, through investments by the Commonwealth Development Finance Company and commercial credits covered by the Exports Guarantees Scheme.⁽¹⁾

On the other hand, capital exports from non-sterling sources (representing drawings on the International Monetary Fund and World Bank and credits provided mainly by the U.S.A. and Germany) continued

(1) General Agreement on Tariffs and Trade, International Trade - 1957-58

to flow into the overseas Sterling Area at an expanding rate. They reached a peak level of £ 1,000 million in 1958 as compared with ⁽¹⁾ £ 700 million in 1957 and £ 440 in 1956.

III. CONCLUSION

As a conclusion it can be said that three main justifications for the presence of the Sterling Area have been found.

1. The need of all the countries for foreign currency and especially the dollar, has been partly helped by the pooling of reserves.

The Sterling Area countries are united in the dollar pool for the external backing of their currencies. This is advantageous, especially to small countries like Jordan. ⁽²⁾ Moreover, now that the U.S.A. leads the world economy in trade, it is desirable to have exchange stability with the dollar. "This is done more cheaply through joint currency policy than in isolation. ⁽³⁾ The Sterling Area countries like all non-dollar countries, want dollars. To that extent they are competitive. If they competed for dollars individually, they would bid against each other for dollars. It would then be quite impossible to have a stable value of these currencies in terms of each other and in terms of dollars. Through the pool they economize dollars and avoid competitive depreciations ⁽⁴⁾ of currencies.

Moreover, we have found that the countries will require less reserves by pooling their reserves with other countries and drawing on them.

(1) Ibid.

(2) The degree to which it is advantageous will be discussed in a later chapter.

(3) Meyer, op.cit., p. 93

(4) Ibid., p. 93

"Each country in the system can allow itself more latitude in its actions with given reserves if it pools its reserves with other countries, or what amounts to the same thing, it can allow itself the same degree of latitude with less reserves."⁽¹⁾

Stability is being bought by the Sterling Area countries at the cost of holding less reserves, because these reserves are pooled with those of other countries. Since the main purpose of the possession of reserves of international currency is to provide a cushion against the immediate or passing effects of adversities, which would otherwise demand a fall in the exchange rate or some equally drastic remedy each time circumstances turned at all unfavorable, it is obvious that an increase in the effective size of a country's reserves is a big contribution to its potential stability.⁽²⁾

The advantageous standing of the Sterling Area countries with regards to the pooling of their reserves is brought more to focus when we take into consideration that most of the countries are underdeveloped ones, and that because most of them are in the process of developing, they can use their extra reserves for buying machinery or products needed for development rather than keep them idle as reserves.

One argument against the beneficial functioning of the dollar pool is worth mentioning though. The argument is that external deficits in general, and dollar deficits, in particular, have tended to be cumulative rather than offsetting, so that the counterbalances on which the system must depend have not come into effect.⁽³⁾

(1) Day, A.C., op.cit., p. 78

(2) Ibid.

(3) Polk, Judd - op.cit., p. 234

Most countries tended to need dollars at the same time and when the dollar shortage became acute, the system locked any automatic or speedy methods of coordination to counter it.

2. The volume of trade obtaining amongst the Sterling Area countries is a second justification for the presence of the Sterling Area.

It has been seen that roughly around 50 per cent of the trade of each sterling country is done with the other members of the Sterling Area. We won't be exaggerating in emphasizing the importance of a common currency system, when such a volume of trade is occurring amongst trade partners.

Two major points are worth mentioning in this respect.

- a. Eventhough the United Kingdom has been declining in importance as a market and as a source of supply for the independent Sterling Area members, it still remains their most important trading partner.
- b. Some criticisms have been levelled against the Sterling Area on the grounds that it hampers the freedom of international trade by imposing restrictions. This is half the the truth, since it is not the presence of the area which causes the imposition of restrictions, as they would be imposed by the members regardless of which area they belong to.

3. The third justification is the London capital market.

The Sterling Area system helps the movement of capital from London, which is a major capital market, to other Sterling Area countries that are in dire need of capital.

It has been seen, though, that some of the Sterling Area countries have been fulfilling part of their capital requirements by borrowing from other countries and other sources at an increasing rate.

This together with some of the characteristics of the London money market may be taken as an example of the lowering of the ties amongst the Sterling Area countries.

(1)

These characteristics are:

1. It has depended on the large volume of dollar loans and grants which have now ceased and cannot be expected to resume.
2. There has been a large volume of colonial deposits in London, which so far have been pretty well maintained but which may taper off and thus decrease the amount of invisible funds.

But this loosening of ties is advantageous to the system since it shows flexibility but this flexibility is going too far in other respects, and has led towards a trend of greater independence on the part of Sterling Area countries from London guidance. This trend is best illustrated by the following developments.

(2)

- a. Sterling has become less important as a reserve behind local issues of currency.
- b. Independent countries have been building up their own gold and dollar reserves, outside the pooled central reserve.
- c. Monetary and fiscal policies are developing toward stability and growth rather than balanced budget in international trade alone.

Now that we studied the history and the functioning of the Sterling Area, and listed the justifications that lead the Independent

(1) Polk, op.cit., p. 170

(2) Ibid.

Sterling Area countries to remain in the area, it is our intention to find out whether Jordan, which is an independent Sterling Area country is justified in its being a member of the Sterling Area, and what are the best monetary measures it should follow, together with the benefits it derives.

But before doing so we have to analyze Jordan's economy, monetary system and balance of payments account so as to have the correct background to our study and recommendations.

CHAPTER II

THE ECONOMY AND BUDGET OF JORDAN

I. GENERAL BACKGROUND

Jordan is an independent kingdom which has existed in its present form since 1948. (1) It is landlocked except for a small strip of the coast at the northern tip of the gulf of Aqaba in the extreme south of the country, where Aqaba port is located. The total area of Jordan is 96,500 square kilometers, of which 91,000 are in East Jordan, and the remaining 5,500 in West Jordan. The country is mostly mountainous, and large areas are desert; there are, however, two large valleys formed by the Jordan and Yarmouk rivers.

A census of population has not been made in Jordan; but in 1952, a census of housing was taken, on the basis of which fairly reasonable estimates of the total population have been made. The total population at the end of 1958 was estimated at 1,606,746. (2) In a most recent report by the Development Board of Jordan (3) the population is estimated to be at the beginning of the year 1960 at 1,655,000.

It is worth noting at the outset that this population includes $\frac{1}{3}$ rd, who are considered refugees from the Jewish part of Palestine, and who are living on rations they get from United Nations Relief and World Agency.

-
- (1) Technically speaking the two parts of Jordan viz. Transjordan, and that part of Palestine which remained in the hands of the Arabs, were united officially in 1950.
 - (2) Hashemite Kingdom of Jordan, Statistical Yearbook 1958. The population is estimated with the 1952 housing census results as basis, it consists of 821,398 males and 785,348 females.
 - (3) Jordan Development Board, "Economic Development in Jordan: Framework and Targets, 1960-1969"- Type-script, 1960

1. Labor Force

The labor force in Jordan is estimated at 415,000 as shown in table I.

TABLE I

LABOR FORCE ESTIMATE 1960

	Population	In Thousands		(2)
		(1)	(2)	
		Population between 15-65	Labor Force without Women in Agriculture in percentage	Women in Agriculture in number
Male	830	415	95	395
Female	<u>825</u>	<u>415</u>	<u>5</u>	<u>20</u>
<u>TOTAL</u>	<u>1,655</u>	<u>830</u>	<u>100</u>	<u>415</u>

(1) It is generally agreed that the age 15-65 represents the age group of people able and willing to work.

(2) Women are excluded from the Labor Force

Source: Jordan Development Board, "Economic Development in Jordan: Framework and Targets, 1960-69", typescript - Amman, 1960

These 415,000 are divided as follows over the various economic sectors (in thousands)

Public sector	65
Urban private enterprise	<u>60</u>
Non agrarian employment	125
Active labor force in agriculture	140
Largely unemployed	<u>150</u>
<u>TOTAL</u>	<u>415</u>

Thus we can note from the above classification a basic characteristic in the economy of Jordan which is the large number of the unemployed population which amounts to 150,000 persons, or almost 36 per cent of the whole labor force.

Because of the limited cultivated area, Jordan may be regarded as a comparatively densely populated country, even if the refugees are not taken into account. (1) The cultivated area totals approximately 8,500 square kilometers, while the estimate of non-refugees is approximately 867,000. (2) This gives a population density of approximately 102 persons per square kilometer of cultivated land. (3) The ration will certainly be different should the refugee population be included.

The Arab Israeli conflict has an important bearing on Jordan's economic position. More than one third of the present population of

(1) Mr. H. Firhan quotes the cultivated area in 1955 at 9,700 square kilometers in addition to 2,300 square kilometers of forests while Mr. Selehdar puts it at 8,500 square kilometers, for a full report see, H. Firhan, "Development Projects in Hashemite Kingdom of Jordan". L'Economie Libanaise et Arabe, April, 1955 and A.K. Selehdar, "Financial Institutions in Jordan" International Monetary Fund papers 1957, pp. 4-6

(2) Selehdar, A.K. op.cit., p. 4

(3) While the cultivated area in Jordan is estimated at 8,500 square km. the area actually under crops in 1952 (not a drought year) was 6,650 square km. The person's per crop irrigated square km. was higher in Jordan than in most other neighbouring countries:

Jordan	635
Syria (UAR)	337
Iraq	235
Egypt (UAR)	549
Lebanon	695

The figures are adjusted to take account of the fact that some land is cropped more than once a year.

Jordan are Palestinian refugees. Most of the refugees are living in camps and are on relief. "Since the United Nations Organization - through United Nations Relief and Work Agency meets the expense of the relief program, and the refugees, for the most part, do not enter the labor market, they do not constitute currently a heavy burden on the local economy"⁽¹⁾. Nevertheless, the Jordanian government, takes the refugees into consideration in all its planning for the development of the country, and the presence of such a large quantity of human resources has a great effect on the economy.

"With regard to the wage rates, the existence of large unemployed groups in refugee camps in addition to a group of some 120,000 persons of so-called 'economic refugees'⁽²⁾ has had a depressing effect on the already low wage level"⁽³⁾.

II. NATIONAL INCOME

Jordan is a predominantly agricultural country,⁽⁴⁾ the main source of income in the country is agriculture, as 80 per cent of the non-refugee population engages in agricultural pursuits. Aside from the low level of production, the principal feature of agricultural production is the wide variation from year to year in cereal production. In years of

(1) Selehdar, A.K., op.cit., p. 15

(2) Persons in west Jordan whose lands are cut off by the armistice line but who are not entitled to U.N. rations.

(3) Ibid.

(4) International Bank for Reconstruction and Development. The Economic Development of Jordan, Johns Hopkins, 1957, p. 3

good rainfall, Jordan is an exporter of cereals; in years of poor rainfall, an importer.⁽¹⁾ Moreover, because of heavy transportation costs, the price variation for cereals from good to bad years is large.

There is no recent data of the national income of Jordan. Such studies, on the subject, that are available indicate that in recent years national income in Jordan has ranged between 40 and 50 million Jordan Dinars, the variation being due in large measure to changes in agricultural output resulting from varying weather conditions.

"A conservative estimate of national income at the beginning of 1960, would be J.D. 42 million; if this be adopted, it can be assumed that at present per capita income in Jordan is about J.D. 25 or \$ 70".⁽²⁾

A study of the national income of Jordan was made in 1956 by Dr. A. Badre and associates. The national income figures for the years 1952, 1953 and 1954 are shown in Table II.

(1) Selehdar, op.cit., p. 5

(2) Jordan Development Board, op.cit., p. 3

TABLE II
NATIONAL INCOME OF JORDAN
(In J.D. Millions)

Sector	1952	per cent	1953	per cent	1954	per cent
Agriculture	17.6	39.6	11.6	29.9	19.7	39.4
Mining & Quarrying	0.1	0.2	0.1	0.26	0.2	0.4
Industry	1.8	4.0	2.1	5.4	2.7	5.4
Construction	0.6	1.3	0.4	1.0	0.6	1.2
Real Estate	4.8	10.8	4.8	12.4	4.9	9.8
Public Utilities	0.2	0.45	0.1	0.26	0.1	0.2
Transportation & Communication	2.7	6.07	2.9	7.47	3.2	6.4
Government	7.6	17.08	7.9	20.3	8.8	17.6
Services	1.4	3.15	1.5	3.86	1.6	3.2
Trade	7.4	16.6	7.1	18.3	7.9	15.8
Finance	0.3	0.7	0.3	0.8	0.3	0.6
<u>TOTAL</u>	<u>44.5</u>	<u>100.0</u>	<u>38.8</u>	<u>100.0</u>	<u>50.0</u>	<u>100.0</u>

Source: Badre, A. National Income of Jordan - Typescript, Economic Research Institute, 1956.

It can be seen from the Table that the National Income fluctuated between 1952 and 1954. In 1953 it was lower by 13 per cent than that of 1952 and in 1954 the National Income exceeded that of 1952 by 12 per cent and that of 1953 by 30 per cent.

This fluctuation is due mainly to the fluctuation in agricultural output, which depends in turn on the rain. ⁽¹⁾ No wonder that this is the case since the most important sector in the national income is the agricultural sector which decreased from J.D. 17.6 million in 1952 to J.D. 11.6 million in 1953 and then increased to J.D. 19.7 million in 1954.

The government sector is the second most significant sector in the national income of Jordan. Its share of the total national income for the years 1952, 1953 and 1954 amounted to 17.08 per cent, 20.3 per cent and 17.6 per cent respectively. As to the trade sector, it ranked third in importance; its part of the whole national income is quite significant since it came up to 16.6 per cent 18.3 per cent and 15.8 per cent for the years 1952, 1953 and 1954 respectively.

On the other hand, it can be observed that the industrial sector is relatively unimportant. The contribution of industry to the national income of Jordan increased from J.D. 1.8 million in 1952 to J.D. 2.7 million in 1954. In relative terms the share of industry rose from 4.0 per cent in 1952 to 5.4 per cent in 1954. This increase is hoped to continue with the upsurge of the new development plans implemented by the government.

(1) 1953 was a drought year

Since the study being undertaken lies mainly in the international finance field; and international finance requires above all else the investigation of (1) domestic finance, i.e. fiscal systems and monetary systems and (2) international trade. Currently a study of the government budget system will be undertaken because it is part of the domestic finance and as such, it can render many benefits toward reaching conclusions as to the part of Jordan in the Sterling Area. Moreover, the study of the government's budget, is significant because of the share the government is taking toward the development of the country and its great contribution to the national income of Jordan; the role of the government can best be visualized by the study of its budget.

III. GENERAL BUDGET

Nearly all financial activities of the central government of Jordan are conducted through the general budget. Jordan has only a few autonomous budgets namely, the Agricultural Bank, Aqaba Port, the Hijaz Railway, and the Municipalities. ⁽¹⁾ The municipalities have their own budgets, with revenues obtained partly from their own sources and partly from the general budget.

⁽²⁾ Beginning with the year 1953-54, the general budget has been divided into three parts which segregate expenditures according to the

(1) United Nations Relief & Work Agency, Quarterly Bulletin of Economic Development - No. 13, p. 143

(2) Fiscal years begin April 1, all years in the following discussion are fiscal years unless otherwise indicated.

source of revenue and purpose of expenditure:

1. Part I, covering the regular ministries, is financed entirely from internal sources, such as taxes and fees and other local revenues. ⁽¹⁾ Deficits in this budget are met by drawing upon the Reserve Fund.
2. Part II, covering the military budget is financed almost entirely through contributions by the United Kingdom and the U.S.A. and sometimes by other neighbouring countries.
3. Part III, covering the development budget of the Development Board, and used to be financed entirely by British loans, but lately it has been financed by American grants.

Table III shows a summary of the government fiscal operations from the year 1953 until 1959. But before discussing the implications of the figures in this Table, it is well to start by noting the degree of increase in the government budget between the years 1950 and 1954. This is important since in 1950 the first budget for the unified Jordan was issued. The ⁽²⁾ totals of that budget are:

Receipts	J.D. 10,886,000	
Expenditures	J.D. <u>9,763,000</u>	
Surplus		1,123,000

At the same time it can be seen from Table III that in 1954 the total revenue was J.D. 14,328,000 and total expenditure was J.D. 14,895,000, showing an increase in the budget of almost 5 million Jordan Dinars.

(1) Other local revenues are: Fines and Confiscations, Interest on Government Bank Account, Pensions Fund, Reimbursements for Services to Military Units, Oil Royalties from Tapline, Oil Royalties from I.P.C., and Profits from Currency Cover Investment.

(2) United Nations Relief & Work Agency, op.cit., No. 13, p. 145.

TABLE III

JORDAN: GOVERNMENT FISCAL OPERATIONS

(In J.D. Thousands)

Item	1953/54 Actual	1954/55 Actual	1955/56 Actual	1956/57 Actual	1957/58 Actual Bill	1958/59 Budget Bill
<u>Total Revenue</u>	14,328	16,446	16,929	18,472	27,680	32,511,829
Domestic Sources	5,633	7,495	7,954	9,712	8,040	9,000,000
Foreign Grants-in-Aid	8,695	8,951	8,975	8,760	19,640	22,381,829
<u>Total Expenditure</u>	14,895	16,560	17,608	20,162	26,529	32,511,829
National Defence	....	8,960	9,380	10,630	14,540	16,580,000
Other Government Departments	....	6,380	6,638	7,972	10,160	+7,476,629
Development Board	....	1,220	1,590	1,560	1,830	2,556,000
<u>Surplus or Deficit</u>	-567	-114	-679	-1,690	-1,151	
Drawings on United Kingdom Loans or Development Loan	1,327 54	1,221	1,588	1,562	731	
Cash Balances						1,130,000
Decrease (+) Increase (-)	-760	-1,107	-909	128	-1,882	

Source: (1) United Nations Bureau of Economic Affairs - as quoted in Economic Development in the Middle East, 1956/57, p. 64. See also International Bank for Reconstruction and Development, Economic Development of Jordan, pp. 384-385

(2) Figures for 1957/58 from Hashemite Kingdom of Jordan, General Budget, 1957/58

(3) Figures for 1958/59 from Hashemite Kingdom of Jordan, General Budget, 1958/59

Since average wholesale prices in Jordan in 1954 were not greatly different from the level in the year 1950, ⁽¹⁾ this increase represents a substantial and real expansion in both expenditures and total receipts. However, the increase in receipts came largely from foreign contributions. Local revenues - apart from foreign contributions - were only 33 per cent ⁽²⁾ larger in 1955 than in 1950.

The expansion in general budget expenditures was due to:

1. The Palestine war of 1948 which resulted in a larger increase in military expenditures. Military expenditures increased from J.D. 1.5 million in 1946, to J.D. 4.9 million in 1950, to J.D. 8.8 million in 1955.

(1) There is no official wholesale price index for Jordan. United Nations Relief & Work Agency's cost-of-food index for Jordan based upon October 1950 = 100.0 was as follows:

1951 = 138.7
1952 = 137.5
1953 = 114.2
1954 = 102.0

United Nations Relief & Work Agency, Quarterly Economic Bulletin, No. 10

United Nations Relief & Work Agency's index of wholesale prices at Amman based upon March - December, 1952 = 100.0 was as follows:

1953 = 95.0
1954 = 91.7
1955 = 81.2

(2) United Nations Relief & Work Agency, op.cit., No. 13, p. 144

2. The influx of nearly half a million refugees from that part of Palestine that became Israel. They constitute one third of the total population. Although they receive rations and various other assistance from United Nations Relief & Work Agency, the influx of such a large number of refugees has necessitated increased expenditures by the Jordanian government.

3. A general trend towards more economic and social activities (1) by the Jordanian government.

A. Revenues

A close analysis of Table III reveals the great dependence of the government on foreign grants and loans. Wherever foreign loans increased, government expenditures increased. (or projected expenditures were based upon promised grants and loans). The ratio of external aid to total revenue for the years 1953 to 1958 is shown in Table IV

(2)
TABLE IV

RATIO OF EXTERNAL AID TO TOTAL REVENUE

(In J.D. Thousands)

Item	1953	1954	1955	1956	1957	1958
Total Revenue	14,328	16,446	16,929	18,472	27,680	32,512
Foreign Grants	8,695	8,951	8,975	8,760	19,640	22,382
Ratio	60.7	54.4	53.0	47.4	71.0	68.8

(1) Ibid., p. 146

(2) Sources in Table II

It can be observed that as the total revenue figure more than doubled rising from J.D. 14,328 million to J.D. 32,512 million, the foreign aid almost increased by three times. The ratio was 60.7 per cent in 1953, it tended to decrease in 1954 and 1955 because these two years witnessed good harvests which caused an increase in output especially in the agricultural sector and as a consequence less dependence on foreign aid. Nevertheless, the degree of dependence of the government on foreign grants as a source of revenues increased in the last two years. As seen in the Table they became 71.0 per cent and 68.8 per cent respectively. Such dependence has to be emphasized; there will be no exaggeration if such emphasis is made, especially in our case when the relationship of the country with a monetary system is being studied.

Up to 1957, Jordan used to get aid from Great Britain. "Since the end of the war, Britain has given Jordan £ 82 million about £ 70 million in subsidies to the Arab Legion, £ 3.35 million budgetary assistance and £ 8.6 million for economic development. During the fiscal year 56-57, total payments to Jordan were raised to £ 12.5 million, £ 9.2 million to the legion, £ 2.3 million for development, and one million sterling as budgetary aid."⁽¹⁾

Even though most of the aid came from Britain in the form of a subsidy to the Arab Legion, yet Jordan would have had to pay

(1) Middle Eastern Affairs, Aug. Sept. 1957, p. 275

that if nobody else helped it, or else go without a less efficient army.

The military aid stopped coming from Britain after the termination of the Anglo-Jordanian treaty in 1957. But economic help in the form of interest free loans did not stop (1) flowing.

In 1957, 1958 and 1959, most of the aid came from U .S. A.

TABLE V

UNITED STATES GRANTS TO JORDAN

1951 - 57

(Millions Sterling)

Economic and Technical Assistance	33.9
Famine and Emergency Relief	1.1
Agricultural Commodities	<u>2.9</u>
	37.9
Less Returns	<u>0.1</u>
Net Grants	<u>37.8</u>

Source: Middle Eastern Affairs, No. 57, Vol. VIII

(1) The Economist of London commented on the termination of the treaty by saying: "When Jordan asked Britain for economic aid, it was British practice for some years to give Jordan interest for development advances, quite separate from the subsidies provided for by the 1948 Anglo-Jordanian treaty. The termination of the treaty did not necessarily mean that the development grants, euphemistically termed loans, would cease, and the Foreign Office is at present considering the Jordanian request." The Economist, June 8, 1957, Vol. 183 p. 870

Besides the British help, Jordan used to get American Point IV assistance. The total of the assistance came to \$ 37.8 million up to 1957; during 1958 and 1959 Jordan got direct budgetary assistance from the U.S.A. The amount of aid came up to J. D. 6,730 thousand and J.D. 16,277 thousand respectively. (1)

B. Domestic Revenue

Moreover, on the revenue side, it can be observed in Table III that domestic revenue increased from J.D. 5.6 million in 1953 to J.D. 9 million in 1958. While the total revenue doubled approximately, the revenue from internal sources did not quite increase in the same proportion.

The subdivision of the revenue from domestic sources is shown in Table VI. The percentages are computed so as to show mainly the ratio of direct and indirect taxes to the general budget. (2) Studying Table VI leads one to conclude that the indirect taxes have a greater percentage than any other item in the domestic revenue, and that the direct taxes, which include the income tax range from 11.0 per cent to 14 per cent of the total domestic revenue. In 1957 they came up to 15.3 per cent and in 1958 to 14 per cent. It is worth noting that this is a ratio of the direct taxes to the domestic revenue of the budget and not to the total revenue.

(1) United States Operations Mission, op.cit., p. 5

(2) Direct taxes are: income tax, buildings and land tax, land tax, animal tax, toll, tithe and unified tax, companies profit tax, while indirect taxes are mainly customs duties and air force tax, trades licenses, and court fees.

The total revenue for 1958 came up to J.D. 32,511,829; if the direct taxes are computed in relation to this total, they can throw some light on the income that the government derives from the productive capacity of the country. This ratio was 4 per cent for 1958, which is very insignificant. On the other hand, the ratio of indirect taxes to the total revenue is very high; except for the years 1956-57, when the ratio was 34.5 per cent, the ratio of the indirect taxes to the total domestic revenue ranged between 40 and 50 per cent during 1953 through 1959. This ratio reached a peak in 1955 when it amounted to 54.4 per cent of the total domestic revenue.

The miscellaneous receipts mentioned in Table VI comprise such receipts as interest on the currency cover, and returns on government enterprises such as the phosphate and cement factories. In 1956, the receipts included a direct subsidy to the budget, and were higher than the usual, otherwise, the ratio of the receipts to the total domestic revenue could be seen to have fluctuated between 17 per cent and 30 per cent. In 1958 they stood at 22.3 per cent.

TABLE VI

REGULAR MINISTRIES BUDGETS
SUMMARY OF RECEIPTS AND RATIO TO TOTAL
(In Dinars)

Item	(1)						1958-59
	1950	1951	1952	1953	1954	1955	
Direct Taxes	735,880	635,147	739,897	778,325	836,765	731,000	1,230,100
Percentage	12.4	11.6	13.3	13.5	14.1	11.0	15.3
Indirect Taxes	2,579,708	2,586,778	2,536,482	2,883,933	2,668,850	3,619,500	3,385,000
Percentage	43.6	47.4	45.5	50.0	45.0	54.4	42.1
Fees	538,053	602,134	629,601	639,268	643,425	918,675	1,116,000
Percentage	9.2	11.0	11.3	11.1	10.9	13.8	13.9
Miscellaneous Receipts	1,059,102	1,635,704	1,665,880	1,465,833	1,777,095	1,385,700	2,309,000
Percentage	17.9	30.0	19.9	25.4	30.0	20.8	28.7
Loans	1,000,000						
Percentage	16.9						
TOTAL	5,912,743	5,459,763	5,511,860	5,767,357	5,926,135	6,654,875	8,040,100

Source: 1950 - 1955 - United Nations Relief & Work Agency, Government Budget of Middle East Countries - Bulletin No. 13

Notes on Table: (1) Figures for the year 1954 and 1955 are slightly different in the general budget from those in the United Nations Relief & Work Agency - Bulletin No. 13.

(2) In 1956, the miscellaneous receipts of the general budget include a direct grant, that is why the figure and the percentage are higher by far than the regular ones of other years. They can be compared to the total of loans and miscellaneous receipts of 1950 which amounted to 33.8 per cent

C. Expenditure

On the expenditure side of the budget the following characteristics can be noticed. See Table III

1. The greatest part goes into defense. The expenditures almost doubled between 1954 and 1958; so did the defense expenditure, which rose from J.D. 8.950 million in 1954 to J.D. 16.58 million in 1958. If we compare the degree of increase in defense and foreign loans we can see that while in 1954 the foreign grants were exactly the same as defense namely J.D. 8.950 million, in 1958 they were much more. The difference between both figures goes to show the second characteristic of the budget of Jordan which is,

2. The great increase in funds that went for development projects. In 1954 J.D. 1.22 million were spent for development, this amount increased to J.D. 2.55 million in 1958.

All of the funds that were spent on development have been channelled through the Development Board, ⁽¹⁾ which was established in 1952, with the initial purpose of supervising the expenditures ⁽²⁾ of the British Development loans. Funds are released from the loans upon recommendation of the Development Board, and such releases are shown as actual expenditure under the development budget. Unexpended funds from a loan in any one year are carried

(1) United Nations Relief & Work Agency, Ibid., No. 13, p. 177

(2) The Jordan Development Board is under the chairmanship of the prime minister. Prior to 1957, it used to have a representative of the British government.

over to the next year.

3. The third characteristic of the government expenditure is that pertaining to the expenditure of the government departments. Table III indicates an increase from J.D. 6.38 million in 1954 to J.D. 11.47 million in 1959. It did not quite double, as was mentioned earlier. It is worth noting that this part of the government expenditure is financed completely by the domestic revenue. Each year, the domestic revenue is first assessed and then assigned to each ministry for spending. Nevertheless, despite this system of assessing revenues and then assigning expenditures, there are years when the expenditures exceed the domestic revenue; in 1958, the domestic revenue amounted to J.D. 9 million while the current government expenditure came up to J.D. 11.47 million.

The expenditures' side of the regular ministries budget, stated in Table III as other government departments is divided (1) into two sections, namely, the ordinary budget consisting of recurrent expenses that must be met every year, such as wages, salaries, allowances, repairs, maintenance, stationery, fuel, electricity, telephone charges etc... and the extraordinary budget consisting of non-recurring expenses that are chiefly but not entirely capital items.

(1) United Nations Relief & Work Agency, Ibid., No. 13
p. 165

(1)
"Current expenditures, accounted for 82.5 per cent and capital expenditures for 17.5 per cent of total regular ministries expenditures in 1953/54. Approximately two thirds of current expenditures go for salaries and allowances. The government is the largest single employer in the country".
According to the national income study, undertaken by Dr. Badre and associates, the total government contribution to the wage bill (including salaries paid to the army) in 1954 amounted to J.D. 8.8 million or 17.6 per cent of total national income in that year, as against J.D. 7.9 million or 20 per cent of national income in 1953.

The significant trends in the expenditure pattern over the last years are:

1. The very rapid expansion in social and economic activities.
2. The modest increase in capital expenditures which would represent a very marked increase in capital expenditures if account be taken of capital expenditure in the development budget.
3. The relatively constant expenditure in administration.

(1) Current expenditure can be classified into five classes: Administration, Social Welfare, Justice, Internal Security, Economic Activity.

(2) United Nations Relief & Work Agency, Ibid., No. 13

(3) Badre, A. op.cit., p. 11

(4) Ibid., United Nations Relief & Work Agency, No. 13

4. The relatively constant expenditure on internal security throughout the period.
5. The increase in defense expenditure.

D. Public Investment

The Public Investment comprises those investments that the government undertook on some enterprises with local business people. The government has participated in these enterprises with capital, the rest of the capital coming from the private sector. These include a cement factory, an olive oil refinery, a phosphate fertilizer works, a development bank, a fishing company, an electricity company, petroleum refinery, and a potash company.

The total paid up capital by the government in these enterprises amounted to J.D. 866,250 in 1957, out of a total paid up capital of J.D. 2,040,171. ⁽¹⁾ These are projects which are completely different from other projects that the government undergoes through the development board which were discussed earlier.

Other capital works included in this subsection are government industrial enterprises, irrigation works, agricultural demonstration, farms, public utilities, etc... "Expenditures for such capital works usually exceed one million dinars per year." ⁽²⁾

(1) United Nations Relief & Work Agency, op.cit., No. 13
p. 172

(2) Ibid.

It was mentioned earlier that the budget is divided into three parts, namely, the general budget, the military budget and the development budget. The general budget was discussed already; therefore the other two budgets will be currently discussed.

The military budget was treated independently as a sub-division of the general budget prior to 1958. Later it became included in the ordinary general budget. In Table III, the expenditure for military purposes is termed National Defence, and is seen to have been increasing at a high rate. In 1954 the national defence expenditure amounted to J.D. 8,960 thousand, it increased slightly during 1955 and 1956 when it came up to J.D. 9,380 thousand and J.D. 10,630 thousand respectively. In 1958, the defence expenditure stood at J.D. 16,580,000 almost twice as much as that of 1954.

E. Public Debt

Prior to 1957, the third part of the general budget, namely, the development budget, was financed entirely by interest free British loans. These loans are considered as a public debt. The breakdown of the public debt is shown in Table VII.

TABLE VII

JORDAN PUBLIC DEBT

(In J.D. Millions)

Amount	Date of Transfer	Due Date	Interest Rate
1.0	1950 - 51	Not specified	Free
0.5	May 1, 51	First instalment 1954	1 per cent
1.5	1952 - 53	Not specified	Free
0.5	1953 - 54	Not specified	Free
1.6	1954 - 55	Not specified	Free
1.75	1955 - 56	Not specified	Free
1.0	1958 ¹	Not specified	Free
<u>0.5</u>	1959	Not specified	Free
<u>8.35</u>	<u>TOTAL</u>		

Source: United Nations Relief & Work Agency, Government Budgets of Middle East Countries - Beirut, 1956, p. 194

1. Currency Control Department - "Jordan Balance of Payments 1958 & 1959" typescript - Amman Jordan.

In 1951 the governments of Jordan and the United Kingdom entered into an agreement covering the settlement of financial matters outstanding as a result of the termination of the mandate. It was agreed that Jordan would make an annual contribution of £ 15,000 toward the pensions of former officials of the mandatory government resident in Jordan. The Jordan

government acknowledged an obligation of one million sterling to the United Kingdom, to be discharged by relinquishing £ 500,000 of Jordan's share of the surplus of the Palestine Currency Board, the remainder to be repaid in sterling in half yearly instalments over 15 years, beginning in June 1954, with interest at 1 per cent per annum. ⁽¹⁾ However, no provision for interest or capital payments appears in 1954-55 or 55-56 budget. This is the only loan with interest, all the others as shown in the table, are interest free with no provision made for any date of repayment.

The British loans were in sterling, Jordan as a result has been able to utilize the proceeds for payment of imports, and with the proceeds in local currency, it has been able to increase expenditure especially on development for which purpose the loans were made to start with. ⁽²⁾

The Development Board is the authority which supervises the development budget. All development projects receive funds released through the Board.

F. Reserves

Known financial reserves of the government of Jordan are largely in the form of deposits in banks in Jordan, the bulk of them in a time - deposit account of the treasury in the Ottoman Bank in Amman.

(1) International Bank for Reconstruction and Development, op.cit., p. 391

(2) Information is not available on any arrangements that Jordan and the United Kingdom may have made for the repayment of these loans.

(1)
Data published on deposits in Jordan Banks held in the name of the Jordan government, indicate a steady rise in the total amount of these deposits at the end of each year during the period 1952-1959. As of the end of September, 1959, the total was J.D. 11.703 thousand, compared with J.D. 2.527 thousand at the end of 1952 (Table VIII).

It is to be noted that the largest increases in government deposits during the period 1952-1958 took place in the years 1955 (J.D. 1,610 thousands) and 1956 (J.D. 1,251 thousand). It is also to be noted that total deposits constituted an increasing proportion of total actual expenditures of the Jordan government during the period 1952-56, rising from 19 per cent in 1952 to 40 per cent in 1956. (2)

The total amount of government bank deposits or reserves are not enough to cover budget expenditures for more than five months. Therefore, it can be safely maintained that they are not adequate. In fact, these reserves, may prove to be too small to enable the Jordan government to maintain continuity of government services should a situation develop in the future causing serious losses in Jordan government's revenues from domestic or foreign sources. A situation of this kind is likely to develop at any time and for a variety of reasons but most

(1) United Nations Operations Mission, The Jordan Budget, 1952-60 - Type script, Amman, Jordan, 1960.

(2) Ibid,

(3) Ibid.

(1)

importantly because of:

1. Uncertainty of year-to-year extension of external budget assistance and timing of payments of foreign budget support aid.
2. Inability of the government of Jordan to borrow in the domestic and foreign markets.
3. Government of Jordan's heavy dependence ^{on} import duties as the principal source of revenues and vicissitudes in such revenues due to political and other factors.
4. Recurrence of severe droughts and their impact on the total economy and government of Jordan's budget.

(1) Ibid.

TABLE VIII

GOVERNMENT OF JORDAN'S RESERVES IN JORDAN BANKS

(In J.D. Thousand)

Year	Total	<u>Amount</u>	Demand	Time
1952	2,527		2,414	113
1953	3,420		3,294	126
1954	3,445		3,226	219
1955	5,105		3,788	1,317
1956	7,956		5,301	2,655
1957	8,451		3,299	5,152
1958	9,650		2,043	7,607
1959 (1)	11,703		6,255	5,448

(1) Except for 1959 when the month is September, all the other years are as of 31 December.

Source: United States Operations Mission, The Jordan Budget 1952-60 - Typescript, Amman, 1960, p. 14.

IV. AUTONOMOUS BUDGETS

Autonomous budgets exist for four concerns in Jordan, namely, the Agricultural Bank, the Aqaba Port, The Hijaz Railway, and the Municipalities.

A. Agricultural Bank

The Agricultural Bank is a government enterprise created in 1922. It is administered by a Board of Directors composed of the under-secretaries of the Ministries of Interior, Finance and Agriculture, the manager of the Agricultural Bank and a representative of the Department of Lands and Surveys.

The Bank has its own budget. Its operating receipts derived chiefly from interest on loans amounted to J.D. 22,098 in 1954/55 (1) and its operating expenses totalled J.D. 11,729.

The capital of the Bank is derived from annual grants from the land tax, from non-interest treasury loans and from accumulated (2) profits. To replenish its capital, the Bank depends also upon the repayment of its loans to farmers.

The total loanable capital in 1954 amounted to J.D. 556,023 which is mostly loaned out. "About 60 per cent of the loans advanced by the Bank to farmers were against a first mortgage on (3) immovables".

B. Aqaba Port

Aqaba is Jordan's only outlet to the sea. In 1952 the government established the Aqaba Port authority in Amman to supervise port operations and to prepare development plans. Another body, the port management, was set up in Aqaba to carry out the actual routine work of the port.

(1) United Nations Relief & Work Agency, Ibid., No. 13. p. 181

(2) Originally the bank took over the assets of the defunct Ottoman Agricultural Bank which amounted then to the equivalent of J.D. 3,500, to this the government added J.D. 3,500 annually from 1933 to 1946. This sum was obtained for an additional levy of 1 per cent to the title tax (11 per cent instead of 10 per cent) from 1947 the contribution was raised to J.D. 15,000 annually being now taken from part of the proceeds of the land tax. In 1953, the annual grant by the government was raised to J.D. 50,000 for full discussion, see United Nations Relief & Work Agency, op.cit., No. 13 p. 180-181. More details on the operation of the Bank are discussed in the following chapter.

(3) Ibid., p. 181

Aqaba Port was included in the regular ministries part of the general budget in 1952/53. From 1953, the Aqaba Port budget has been a completely independent budget, with its own revenues and expenditures. ⁽¹⁾ Development expenditures are covered in the Development part of the general budget. Total expenditures in 1955 amounted to J.D. 27,458, while total receipts amounted to J.D. 15,970 for the same year.

In 1954 and 1955 there was a surplus of J.D. 5,838 and J.D. 8,566 respectively. The treasury undertakes to meet all deficits, and surpluses are to revert to the treasury.

C. The Hijaz Railway

The Hijaz railway is a narrow gauge (1.05 meters) starting from Damascus going through Jordan and ending in Medina, Saudi Arabia. ⁽²⁾ Its length in Jordan is 437 kilometers. That part of the railway that goes through Jordan has its own autonomous budget.

In 1956 the current earnings of the railway amounted to a total of J.D. 380,000 while the current expenditures came up to J.D. 350,000, giving the government a surplus current revenue of J.D. 30,000. Part of the current surplus revenue used to be ploughed back into the system in the form of development expenditure, but the rest of the development expenditure came from funds allotted by the Development Board. ⁽³⁾ These sums amounted to a total of J.D. 224,000 in 1956.

(1) Ibid., p. 182

(2) The whole length from Damascus to Medina is 1048 kms. of which 141 kms. are in Syria, 437 kms. in Jordan and 830 kms. in Saudi Arabia.

(3) United Nations Relief & Work Agency, Ibid., No. 13, p. 185.

D. Municipalities Budget

There were 39 municipalities in Jordan as of May 1955, each of which has its own budget. The municipalities are directed by municipal councils which are authorized by law to carry out various functions such as town planning, issuing building licenses, providing water and electricity, keeping a fire brigade, inspecting slaughter houses, collecting and disposing of rubbish, etc...

Each municipality is required by law to prepare a yearly budget approved by the municipal council and sanctioned by the minister of interior.

The main sources of municipal revenue are certain taxes and fees defined in municipal law No. 29, of 1955. (1) All of the municipal taxes including those collected by the central government on behalf of the municipalities, and separate from the central government taxes, do not appear in the general budget of the central government. (2) The amount of municipal receipts and expenditures in 1954 amounted to J.D. 1,125,128 and J.D. 1,083,151 respectively. (3) The receipts and expenditures of the municipalities in the years 1956 - 1957 and 1958 are shown in Table IX.

-
- (1) Official Gazette No. 1225, May 1, 1955. Some of the fees and taxes listed are: buildings and lands tax, fresh fruits and vegetable fees, auctioneering tax, transport license fees, fines, animal tax, education tax, slaughter houses fees etc...
 - (2) United Nations Relief & Work Agency, op.cit., No. 13 p. 186
 - (3) Ibid.

TABLE IX
REVENUES AND EXPENDITURES
OF MUNICIPALITIES
(In J.D.)

	1956	1957	1958
Revenue	1,106,000	1,304,300	1,362,900
Expenditure	1,030,600	1,267,400	1,383,700

Source: Hashemite Kingdom of Jordan, Department of Statistics
Statistical Yearbook 1958.

V. CONCLUSION

To sum up, the findings can be divided into two parts, the first are related to the economy, the second to the characteristics of the budget, which would also reflect on the nature of the economic system in Jordan.

As far as the economy is concerned, it can be said that Jordan is a poor underdeveloped country, with few natural resources, its national income is a fluctuating one because its greatest sector, the agricultural sector, is heavily dependent on the weather.

Moreover, Jordan is plagued with one third of its population in the form of refugees who are living off rations from the United Nations. The presence of the refugees have tended to depress the wage level and to add to the number of unemployed in the economy, which was estimated at 150,000; this is in addition to the underemployed

which characterize underdeveloped countries. As to the study of the Jordanian budget the findings can be summarized as follows:

1. Jordan depends for its subsistence on foreign aid in the form of grants to the military and loans for development purposes. It has been shown that around 50 per cent of the government's budget is financed by foreign loans and grants, ⁽¹⁾ and most of these came either from Britain or from the U.S.A.
2. Jordan is in the process of developing. It is doing that with the help of foreign loans. The projects are planned, supervised and financed by a Development Board.
3. The government's budget has been increasing gradually. It more than doubled in a space of five years. This is more significant due to the fact that the price level remained almost stable all ⁽²⁾ along.
4. That the ratio of direct taxes to total revenue is very small and insignificant due to the fact of the small amount of productive power of the economy. On the other hand the ratio of indirect taxes, and mainly custom duties, is relatively great, it amounted to almost 40 per cent of total domestic revenues.
5. That the financial reserves of the government increased in the past decade but were found to be inadequate.

(1) The significance of this will be discussed later.

(2) Price indices for Jordan are, 1953 = 100

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Wholesale Prices	88	97	94	101
Retail Prices	101	105	101	118

CHAPTER III

MONETARY AND BANKING SYSTEM

I. EVOLUTION OF THE JORDAN DINAR

Prior to February, 1927, the Turkish and Egyptian currencies, predominantly in coin, were the media of exchange in Transjordan and Palestine. The Egyptian currency ^Ntrasplanted the Turkish currency with the occupation of the allied forces of Palestine in November 1917; it was proclaimed legal tender in the same year and confirmed as such in (1) 1921 by a Public Notice which read as follows:

1. It is hereby notified that from the 22nd day of January, 1921, the following only shall be legal tender in Palestine:
 - a. Egyptian gold, notes, silver and nickel coins.
 - b. The British gold sovereign at the rate of 97.50 piasters Egyptian.
2. Nothing contained in this Notice shall be taken as restricting the circulation in the ordinary course of trade of coins of any other currency at their current market rates.

The use of Egyptian currency did not meet with any serious difficulties. "The people of Palestine (and Transjordan) readily accepted the coins, and the suspicion with which they at first met Egyptian notes soon vanished when the stability of the currency was realized." (2) The British gold sovereign, on the other hand was rarely used as a

(1) Himadeh, S. Economic Organization of Palestine, American Press, Beirut, 1938, p. 446

(2) Ibid.

medium of exchange because a small amount of it was in circulation. It gradually went out of circulation, together with the Turkish gold pound which, though not legal tender, continued to circulate for some time at current market value.

This arrangement was not profitable for Palestine, in spite of the fact that Palestine was using Egyptian bank notes and coins, it did not participate in the profits accruing from this issue. In fact there was no agreement between the Egyptian government or the National Bank of Egypt on the one hand, and the government of Palestine on the other hand, (1) regulating the use of the Egyptian currency by the latter. Besides resulting in the loss of profits from the issue of fiduciary money, the arrangement was unfavorable. The Palestine government had absolutely no control over the currency used in the country and no share in the policy that regulated its issue, because of the absence of any legal relations between the issuing agency and Palestine. Consequently, when conditions in the country became normal and stable, it was necessary for Palestine to institute its own currency system. In February, 1927, the Palestine pound was declared legal tender in Palestine and Transjordan. It was at par and fully exchangeable into sterling. The right of issue was vested in the Palestine Currency Board with headquarters in London, and represented in Palestine by Barchlays Bank. It was then agreed that the proceeds from investments of the note issue cover held by the board would be divided between Palestine and Transjordan according to the currency circulation in each of them. (2) Circulation in Transjordan was very small, partly because

(1) Ibid., p. 447

(2) Selehdar, op.cit., p. 9

of the self-sufficiency of the local peasant and bedouin economy and partly because of the people's lack of confidence in paper currency and the age-old preference for gold coins.

The monetary standard of Palestine (currency) was virtually the sterling exchange standard, with the Palestine Pound as the monetary unit. ⁽¹⁾ Currency notes and coins were issued by the Palestine Currency Board. These notes were redeemable in sterling exchange, although no promise of such redemption was made on the currency notes; the currency board was required to issue against notes tendered in Palestine drafts or telegraphic transfers, payable in sterling in London at the nominal rate of one pound sterling to one Palestine pound. ⁽²⁾

The control and administration of the currency of Palestine was vested in the Currency Board, whose members were headquartered in London. The functions of the Board, as defined by the regulations issued by the secretary of state, were: "To provide for and to control the supply of currency to Palestine, to ensure that the currency is maintained in satisfactory condition, and generally to watch over the interests of Palestine so far as currency is concerned. To fulfill this function, the Board is authorized to arrange for the minting of coins and the issue of notes. These notes and coins are delivered in Palestine against prepayment of sterling in London as the need for currency in Palestine makes itself felt. To ensure the convertibility of the currency the Board keeps and administers a reserve fund in London against which it stands ready to issue sterling drafts and telegraphic

(1) The value of the Palestine pound was equal to 123.27447 grains of standard gold. Himadeh, S. op.cit., p. 448

(2) Ibid.

transfers in return for notes tendered in Palestine". (1)

Currency in circulation in Transjordan, increased gradually as people became accustomed to using and holding paper money, but there was no large increase until the war years. "It is estimated roughly that circulation in Transjordan increased from about 500,000 pounds in 1939, to about 5 million Palestine pounds in early 1948". (2)

II. CURRENCY SYSTEM OF JORDAN

After Transjordan became an independent State in 1946, the introduction of an independent currency was planned, but no steps were taken until 1948 when the British mandate in Palestine came to an end. The new state of Israel did not wish to join the Sterling Area, and the Palestine Currency Board was placed in a state of liquidation. In these circumstances, Transjordan also left the Sterling Area, but announced its intention of returning as soon as it could establish an independent Currency System. (3)

Nevertheless, the new state of Transjordan kept using the Palestine banknotes as its own currency until 1950. In 1948, the Palestine Currency Board had 60 million Palestine pounds in circulation. (4) The Jews exchanged £ 27 million, Transjordan had 7 million pounds, which left the Palestinians (Arabs) with a total of 26 million pounds.

(1) Himadeh, S. , op.cit., p. 448

(2) Selehdar, op.cit., p. 9

(3) Ibid.

(4) Dajani, Ali, op.cit., p. 24. Mr. Firhan quotes the amount in circulation at 5 million pounds. See Firhan H. L'Economie Libanaise et Arab. April, 1955

(1)
A law entitled, "Temporary Law for Jordan Currency" was issued in 1949, declaring the Jordan Dinar legal tender as from January 1, 1950, and providing for the establishment of the Jordan Currency Board to be responsible for the note issue.

The law provided that all monetary transactions carried out before January 1, 1950, which involved an agreement to pay in Jordan a sum in Palestine pounds on the said date or thereafter, would be carried out in dinars in the ratio of 1 to 1, and that Palestine pounds would cease to be legal tender in Jordan after March, 1950 up to which time they could be surrendered for dinars. The Palestine pounds so acquired were convertible into sterling.

As had been the case of the Palestine pound, the Jordan dinar was fixed at par with sterling. Dinar notes and coins may be issued only against payment in sterling, and dinars are convertible into Sterling. Under these arrangements, a sterling reserve of 100 per cent has been maintained; at the same time Jordan rejoined the Sterling Area as an independent Sterling Area member.

The currency Board as mentioned had few of the powers of a central bank. It used to be quartered in London, but in 1958 its headquarters were moved to Amman. With regards to the Board, the currency law states:

"In accordance with the provisions of this law, there shall be established a board consisting of a chairman and four members, to

(1) For the full text of the Law, See Appendix II//

be known as the Jordan Currency Board enjoying the status of a corporate body and can sue and be sued under that name. Its chairman and members shall be appointed by the council of ministers, with the approval of the king for a period of three years".⁽¹⁾

Article 7 of the aforementioned Law spells out the functions of the Currency Board. The Board is authorized:

1. To make all arrangements necessary for minting coins, and printing notes for circulation in Jordan.
2. To make all arrangements necessary for the issue and re-issue of coins and notes, for the cancellation of notes that have become unsalable, for the destruction of cancelled notes and for the keeping of records of the issues or cancellation of notes, in such manner as it may decide.
3. To make all arrangements necessary for the safe-keeping of the stocks of currency not in circulation.
4. To establish a Currency Reserve Fund and to keep it in such manner as will ensure the convertibility of currency as required by this law.
5. To credit the Currency Reserve Fund with sterling received for the issue of notes and coins and to debit the reserve currency fund with payments made in sterling for the redemption of notes and coins.
6. To open a Currency Fund Income Account and to credit it with all the money received by the Board other than the sterling received against

(1) Article 6. See Appendix I

the issue of notes and coins and to debit it with all expenditure incurred other than expenditure arising from the redemption of currency notes and coins.

7. To invest its assets in such sterling securities as should be approved by the Board, and issued by governments other than that of the Jordan itself, except for that part of the assets which the Board decides to keep as cash in hand. Should that amount of cash of the Reserve Fund be insufficient to effect all payments due under this article, the Board has the right to borrow, on the security of bonds in its possession, such amounts as it deems necessary for the settlement of those payments.

Article 8 states that the Currency Board may, from time to time, issue or re-issue currency. The sum necessary for the redemption of these issues shall be considered a first charge on the funds and securities in the possession of the Board in the first instance, and after that on the general revenue of the Jordan.

While Article 16 of the same Law says that every holder of Palestine currency notes has the right to exchange them for the equivalent in Jordan currency notes in Jordan within a period of two months beginning from January 1st, 1950.

As is the case with the Palestine Currency Board, the Jordan Currency Board is required to issue currency in Jordan on payment of sterling in advance in London; it is also required to make available sterling in London against the surrender of dinars in Jordan in each case at the rate of one dinar for one Sterling.⁽¹⁾

(1) International Bank for Reconstruction and Development, op.cit., p. 363

In other words the Jordanian currency is backed 100 per cent by sterling. The Currency Board sees to it that this is so at all times. To implement these provisions the Board is required to maintain all its assets other than cash in hand in the form of sterling securities issued by governments other than the Jordan government. (1)
In fact, only United Kingdom securities are held.

Income accrues to the Board from interests on its assets and to a minor extent from a commission of 1/8th per cent charged on transfers to and from Jordan. After setting aside an investment reserve (2) against any actual or potential fall in the market value of securities held, the Board pays to the Jordan government the balance of income over expenses.

The contributions of the Jordan Currency Board to the Jordanian treasury came up to J.D. 150,000, each year for 1955 and 1956, and J.D. 250,000, each year; 1957 and 1958. (3)

(1) International Bank for Reconstruction & Development, op.cit., p. 363

(2) A distinction should be made between the currency reserve fund proper and the total value of the assets that constitute the cover for the Jordan currency. These assets consist of the investments of the Board, the cash due in hand, and the value of silver coin whether in stock or in circulation. The Currency Reserve Fund on the other hand, is less than the value of the assets by the value of silver in circulation and the amount of the investment reserve. The investment reserve is a reserve against depreciation in the value of the securities held by the Currency Board and is annually increased by the yearly net appreciation of these securities.

H. K. I

(3) Hashemite Kingdom of Jordan, Official Gazette, No. 1398, p. 816

The operations of the Board did not actually begin until July, 1950, by the end of the year the conversion of Palestine pounds into Jordan dinars was completed and in fact, by September, 1950, the total of Jordan currency amounted to 9.04 million dinars, which was sufficient to replace the Palestine currency. (1)

When the Arab part of Palestine - with the exception of the Gaza - strip became under the Jordanian administration in 1948-49, the total amount of currency in circulation was estimated at 23.5 million Palestine pounds. In 1950 only 9 million pounds were left. (2)

This significant decline of money in circulation resulted from the interrelation of many factors:

"In 1948 - 1949 and 1950, it is estimated that the building boom in Amman and other Jordanian cities accounted for a freezing of J.D. 10 million; on the other hand J.D. 5 million were spent on extra imports of food stuff". (3)

Because Palestinian currency at the time was backed 100 per cent by sterling, the spending of such an amount meant a corresponding decrease in the money in circulation.

(1) Selehdar, op.cit., p. 10

(2) Since the total amount of Palestine pounds issued by the Palestine Currency Board was 60 million distributed as follows: In million Palestine Pounds

Israel	27
Gaza - strip	5.3
Arab refugees in Arab countries	4.2
Jordan	23.5
<u>TOTAL</u>	<u>60.0</u>

For a full evaluation see H. Firhan, "Development Projects in Hashemite Kingdom of Jordan" - Economie Libanaise et Arabe - April, 1955. And Sayigh, Y. Economic Implications of UNRWA Operations in Jordan, Syria and Lebanon. M.A. Thesis, A.U.B.1952, pp 53-55

(3) Firhan, H. The Economy of Lebanon and the Arab World - The Development Schemes of Jordan - April, 1955 p. 20

This sharp decrease in money in circulation did not depress the price level by the same amount because (a) Jordan depended immensely on imports and the prices of imported goods did not go down too much (b) The influx of refugees from Palestine increased the demand on local commodities and offset any possible decrease in prices which might have resulted from the decrease of money in circulation. Wages on the other hand went down tremendously, " while there was undoubtedly a substantial decline in effective prices between 1947 and 1951, it did not approach the magnitude of the fall in money wages, and it is probable that even those wage earners who were steadily employed suffered a reduction of at least 50 per cent in their real income".⁽¹⁾

Figures of average earnings of Arab daily workers in September, 1947 can be compared with wage rates for Jordan derived from the 1951 wages survey of the Ministry of Economy⁽²⁾

	<u>1947</u>	*	<u>1951</u>
	<u>Palestine Mils</u>		<u>Palestine Fils</u>
Food	535		160
Construction	641		250
Transport	739		190

* 1 mil = 1 fil = 0001 J.D.

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- (1) International Bank for Reconstruction and Development, op.cit., p. 46
- (2) United Nations Relief and Work Agency, Quarterly Bulletin of Economic Development No. 15. Nov. 1952

Table I shows the amount of currency note issue during 1950 through 1959.

TABLE I
CURRENCY BOARD NOTE ISSUE
(In J.D. Million)

End of Month	Currency Notes	Foreign Assets
1950 December	9.08	
1951 December	9.35	12.01
1952 December	8.76	12.97
1953 December	9.32	14.81
1954 December	12.00	17.94
1955 December	12.93	21.80
1956 December	16.781	25.92
1957 December	15.631	26.79
1958 December	16.331	30.73
(1) 1959 June	16.681	29.92

Source: Hashemite Kingdom of Jordan - Statistical Yearbook 1958

(1) For June, 1959, Hashemite Kingdom of Jordan - Special Statistical Bulletin, 1959

During 1951, 1952 and 1953, the currency outstanding was fairly stable, ranging between J.D. 8.5 million and J.D. 9.5 million. During 1954, there was a sharp increase in the note issue from J.D. 9.3 million at the end of 1953 to J.D. 12.0 million at

the end of 1954. Another sharp increase occurred during 1956 when the currency increased from J.D. 12.9 million to J.D. 16.78 million dinars. It decreased to J.D. 15.6 million in 1957 but increased to J.D. 16.3 million and then to J.D. 16.6 million in 1958 and 1959 respectively.

The factors contributing to the increase in the money supply were the increase in Jordan's foreign assets and in bank credit extended.

Jordan's foreign assets are public and private. The public foreign assets are those held by the government, and more particularly by the Currency Board and they are in the form of sterling securities and form the cover for the currency in Jordan. The private foreign assets are those held by the banks, mainly the British banks with branches in Jordan, whenever the foreign assets held by the government increase, they lead to an increase in the currency cover and a further increase in the money in circulation.

While on the other hand improvements in the government's cash position and increases in time deposits helped check the rate of increase in the money supply; ⁽¹⁾ the cash position of the government improved, its reserves in local banks increased, these reserves are held mainly in the form of time deposits at the Ottoman Bank in Amman. Using these reserves as time deposits in local banks, shifts their use as currency cover by the government. Had they been used for currency cover they would increase the amount of money in circulation.

(1) Selehdar, op.cit., p. 20

The foreign assets of Jordan are shown in a separate column in Table I. They increased sharply during the year 1954-1955, from J.D. 14.81 million in 1953 to J.D. 21.80 million in 1955. As to the increase in time deposits they can be shown when we discuss the commercial banks.

Jordan has experienced substantial monetary stability in recent years. Increases in the money supply have been moderate in the periods 1951 - 58, except in 1954; but even in this year, as will be shown later, there were no heavy pressures on the balance of payments and a substantial increase in foreign assets took place.

The growing level of foreign loans and grants has made possible not only an increasing trade deficit but a continual increase in foreign assets.
(1)

Increasing foreign assistance has also made possible increased expenditures and a growth in government cash balances. The growth in bank credit has been related to a large extent to the growing volume of imports.

1. Monetary Policy

Jordan is a member of the Sterling Area. As such it follows the regulations adopted by other members of the Area. Moreover, Jordan is a member of the International Monetary Fund, but it falls under Article XIV,
(2)
and has an inconvertible currency and uses exchange control.
(3)

-
- (1) The degree of increase in foreign assistance is shown in Chapter II and Chapter IV.
 - (2) Article XIV of the International Monetary Fund Agreement states that in the post-war transitional members may maintain, and adapt to changing circumstances, restrictions on payments and transfers for current international transactions.
 - (3) Jordan rejoined the Sterling Area in 1950. It joined the International Monetary Fund and World Bank in Aug, 1952, with a quota in the fund set at \$ 3 million.

The exchange control system in Jordan was originally based on (1) the pattern adopted in other Sterling Area countries. However, in practice, almost all transactions with Syria and Lebanon and certain transactions with other countries, used to be effected outside (2) the official exchange market.

In January, 1955, the exchange control system was substantially reorganized. A free exchange market for transactions in Arab League currencies was introduced and the bulk of Jordan's foreign exchange transactions was brought under effective control.

The administration of the exchange control is exercised by the Exchange Control Department of the Ministry of Finance under the responsibility of the Controller of Currency. Import licensing regulations are enforced by the Controller of the Import Department (3) of the Ministry of Trade.

"Prior to January, 1955, there was no recognized free exchange market in Jordan and a considerable part - 40 per cent of Jordan's international transactions was effected through the free exchange markets in the neighbouring countries, and mainly through the (4) Beirut free Market."

(1) For details, see Chapter I

(2) Selehdar, op.cit., p. 13

(3) Ibid.

(4) Ibid.

Exchange was furnished at the official rates to cover:

- a. Imports from countries other than Syria and Lebanon.
- b. Specified invisible payments to these countries.
- c. Invisible payments to Syria and Lebanon for such items as educational expenses and medical treatment.

No exchange was granted for other payments which were financed with exchange obtained mainly in the Beirut market and included:

- a. Imports from Syria and Lebanon.
- b. Invisible payments to Syria and Lebanon except for items noted above.
- c. Imports without licenses and outside the official program for countries other than Syria and Lebanon. ⁽¹⁾

The changes of 1955 included the legal recognition of the free exchange market in Arab League currencies, the channeling of a substantial part of transactions in these currencies through Jordan Banks, the abolishment of the system of imports subject to fines, an increase in import duties on imports which had previously entered the country mainly under the system of penalty imports.

The purpose of these changes was not only to develop an organized free market in Syrian and Lebanese pounds and to simplify the exchange system by reducing the number of rates applicable to imports, but also to reduce the spread between the free market and the official market and to differentiate more sharply the transactions taking place in the two markets. ⁽²⁾

(1) Selehdar, op.cit., p. 13.

(2) Ibid.

The official exchange rate and the Arab League trade rate were
(1)
as follows:

<u>Year</u>	<u>Official Rate</u>	<u>Arab League Rate</u>
1950	2.80	
1951	2.80	2.13
1952	2.80	2.42
1953	2.80	2.58
1954	2.80	2.63
1955	2.80	2.58
1956	2.80	2.59
1957	2.80	2.63
1958	2.80	2.74
1959	2.80	2.80

III. BANKING SYSTEM

A. Commercial Banking

(Financial institutions in Jordan are in an early stage of development. The advent of national paper money is fairly recent, and until recently the nature of the self - sufficient bedouin economy which characterized East Jordan did not necessitate the utilization of paper money on a large scale. Moreover, the age-old preference for gold coins persisted.

Nevertheless, the currency in circulation increased sharply in the last decade. This increase is the more important as

(1) International Monetary Fund - International Financial Statistics, Feb., 1960

reflecting an increase in economic activities, due to the fact that the price index remained almost stable all along.

There is no central bank in Jordan. But a number of central banking functions are provided for in the following manner:

1. The authority of note issue lies with the Jordan Currency Board.
2. By an agreement signed in Nov., 1952, between the government and the Ottoman Bank, Amman, the latter was designated as the official depository of government balances. In Irbid district the agent is the Arab Bank.
3. Exchange control is under the provision of the Controller of Currency, who is responsible to the Minister of Finance.

There is no money market in Jordan; domestic assets and government securities or obligations are not found or traded; in rediscounting notes, an act done by central banks as a regulation of bank rate or interest rate, is also lacking.

There are eight banks operating in Jordan. Six of these are branches of banks with head offices outside the country. The other two are Jordanians; head quartered in Amman. ⁽¹⁾ Since November, 1952, the Ottoman Bank, Amman, one of the foreign banks, has been designated as the banker of the government. The other commercial banks hold balances with the Ottoman Bank, but for most banks their reserves are mainly balances held with head offices abroad.

(There are a few major characteristics of the banking system in Jordan:

1. Most of the banks are foreign banks.
3. The system has close connection with the London market, upon it

(1) The banks are: The Arab Bank Ltd., Al-Ahli Bank, Intra Bank, The Ottoman Bank, British Bank of the Middle East, Amman, Arab - Land Bank, Rafidain Bank, Cairo Bank.

relies for raising liquid assets, as well as for the investment of funds surplus to local requirements. To a large extent, this¹⁵ is a consequence of Jordan's monetary system and membership of the Sterling Area. In addition, the most important foreign banks are mainly British companies integrated in some degree with important British banks. They maintain their head offices and board of directors in London.

3. Owing mainly to the lack of acceptable local short term investment, banks in Jordan employ any excess funds outside the country, mainly on the London market. Such employment of funds is usually relatively low yielding. The local banks employ their money in Arab States and in the country. The number of bank branches is small relative to the total population, and banking activities are mainly concentrated in four towns: Amman, Jerusalem, Nablus, and Irbid. No!

Of the four principal commercial banks in Jordan, one is Jordanian, namely, the Arab Bank, and the other three are foreign. The Ottoman Bank, and the British Bank of the Middle East are British, and Intra Bank is Lebanese. Commercial Banks in Jordan are concerned almost exclusively with financing external and internal trade. This fact stems partly from the lack of demand for short term industrial credit and the uncertainties and administrative difficulties involved in agricultural credit in Jordan. ⁽¹⁾

(1) Selehdar, op.cit., p. 7

The criteria adopted by the banks in granting credit tend to follow English practices - as might be expected owing to the influence of British mandate on the country. "A major part of the banks' activities is the financing of imports, mostly by the opening of documentary credits, in some cases up to 90 per cent of the value of the goods. The banks, moreover, obtain very little of the business arising from exports, in part because they have been unable to offer rates of exchange as attractive as those available from other dealers"⁽¹⁾.

The operations of the commercial banks are not confined to Jordan. Most of the banks are branches of foreign banks, while only Jordanian big bank has branches operating outside Jordan. Thus a rise in their liquid assets accruing from operations in Jordan puts little pressure on them to expand their Jordanian earning assets. There is always the ready alternative of investing funds in London, in Beirut or any other Arab country, has always been followed.

The changes made for advances vary between banks, between customers, and between the different types of advances; but generally, the rate varies between 4 and 7 per cent. Overdrafts are generally granted at rates between 6 and 9 per cent plus 1 per cent commission on maximum amount of authorized overdraft.⁽²⁾ Interest is charged semiannually or sometimes quarterly.

(1) International Bank for Reconstruction and Development, op.cit., p. 367

(2) Selehdar, op.cit., p. 18

The nominal term of discount bills is up to 120 days. Rates of discount have recently been between 6 and 9 per cent, on exceptional occasions it went down to 5 per cent. A commission of 1/8th to 1/4th per cent of nominal amount of bills discounted is generally charged in addition. (1)

The Jordan Banks perform all the usual services generally offered by banks elsewhere. Among these services, the most important are the opening of documentary credits for importers and the collection of documentary remittances. Opening of documentary credits is charged at the flat rate of $\frac{1}{2}$ to 1 per cent, plus $\frac{1}{4}$ to $\frac{3}{8}$ of 1 per cent exchange commission. For the collection of documentary remittances, collection commission at the rate of 1/8 to $\frac{3}{8}$ of 1 per cent is supplemented by an exchange commission of $\frac{3}{8}$ of 1 per cent. (2)

A considerable expansion in commercial banking operations took place during and after world war II. During the war large military expenditures in the country, resulting in a large increase in money incomes and an increase in trading activities, were the principal contributing factors to this expansion. After the termination of hostilities in Palestine in 1949, fairly large amounts of Palestinian currency and deposits in Palestine were transferred into Jordan and to banks working in Jordan. While part of this transfer was associated with the annexation of the territory now composing

(1) Selehdar, op.cit., p. 18

(2) Ibid., p. 19

west Jordan, part is related to the transfer of assets of refugees from the area now composing Israel, a process which is still continuing to a smaller extent.

Table II shows the credit given by the banks during the years 1953 through 1959. It can be seen that the total credit more than doubled during the said period. It rose from J.D. 4,788 thousand in 1953 to J.D. 12,298 thousand in 1959.

This increase came about mainly through an increase in loans and advances to private firms and individuals coupled with an increase in bills discounted; the loans and advances to private firms and individuals rose from a total of J.D. 3,376 thousand to a total of J.D. 8,058 thousand, while the bills discounted increased from J.D. 800 thousand in 1953 to J.D. 3,274 thousand in 1959. The former more than doubled while the latter increased by four times. Advances are mainly, but not exclusively, short-term, and are heavily concentrated in commerce and industry, where the kind of security acceptable to the banks is most readily available. (1)

The loans and advances to public institutions almost doubled during the same period. They increased from J.D. 497 thousand in 1953 to J.D. 966 thousand in 1959. While the Jordan government has not floated any domestic loans, the significant increase in the amount of credit extended to public authorities by the commercial banks, comprises the advances to various municipalities by the Ottoman Bank with the guarantee of the government.

(1) International Bank for Reconstruction and Development, op.cit., p. 368

Besides the increase in credit extended by the commercial banks a similar increase in their foreign assets occurred. The increase is shown in Table II. These foreign assets increased from J.D. 2.66 million in 1951 to J.D. 14.4 million in 1958.

This increase in foreign assets was caused mainly by the lack of acceptable ⁽¹⁾ local investment. The increase in the holding of sterling securities is due to the special link between Jordan monetary and banking systems and those of the United Kingdom. In other words because of Jordan's membership in the Sterling Area.

(1) Acceptable to the banks.

TABLE II

EARNING ASSETS OF JORDAN'S COMMERCIAL BANKS

(In J.D. Millions)

	1951	1952	1953	1954	1955	1956	1957	1958
A. <u>Foreign Assets</u>								
Sterling	2.59	3.97	4.99	5.74	8.03	8.68	10.54	13.08
Non-Sterling	.07	.12	.39	.12	.52	.46	.71	1.32
B. <u>Credit Extended</u>								
Loans and advances (private)	2.71	2.96	3.38	3.72	4.95	5.97	7.84	7.47
Loans and advances (muni- cipalities, public ser- vices, and international agencies)	.24	.49	.50	.49	.55	.70	.73	.83
Bills discounted	.74	.74	.80	1.17	1.51	1.51	2.20	2.67

Source: International Monetary Fund, International Financial Statistics, February, 1960

As to the commercial banks deposits, they are shown in detail in Table III. Table IV shows the same information compiled differently so as to show the total of banks deposits, private deposits and public deposits. If we add the interbank deposits to the total deposits in Table III we can get the same amount as that of the total deposit in Table IV.

The deposits in Table III are divided into government and private deposits as well as into current and time deposits.

Total deposits with the banking system have more than doubled during the period 1953-58. The amount in 1958 was three times as much as that of 1951.⁽¹⁾

Between the end of 1953 and 1958, private deposits increased from J.D. 5 million to almost J.D. 10 million while government deposits increased from J.D. 3.42 million to J.D. 9.65 million. Various factors account for this growth of private deposits, which occurred despite the fact that deposit facilities are not available to a large proportion of the population who are not familiar with these facilities anyhow, and (b) average per capita income is low. Apart from a persistent fear that accounts may be disclosed, placing depositors at a disadvantage, notably from a taxation point of view, the political situation and the experience of the depositors after the war between the Arab States and Israel have not been conducive to a growth in bank deposits especially in West Jordan.⁽²⁾

(1) In 1951 the total deposits were J.D. 7.429 million, see - Annual Statistical Yearbook, 1955, Jordan Ministry of National Economy.

(2) Selhedar, op.cit., p. 16

Another deterrent to current deposits accounts is the stamp duty of 15 fils charged on checks and the fact that no ~~interest~~ interest is paid on current deposits.

Banks accept all forms of deposits. However, the rate offered in time and savings deposits are not very high. Interest up to 2 to $2\frac{1}{2}$ per cent is paid on 3 to 6 months deposits. It may reach 3 per cent on deposits of one year or over. ⁽¹⁾ Nevertheless, private time deposits increased from J.D. 948,000 in 1953 to 3,336 thousand in 1958. While private current deposits remained more stable, they increased only by two million and a half Dinars, from J.D. 4 million to 6.754 million Dinars between 1953 and 1958. The public deposits, on the other hand, increased very sharply during the same period, they more than doubled. They increased from a total of J.D. 4.608 million in 1953 to a total of J.D. 10.966 million in 1959. (See Table IV).

The upward trend of public deposits during recent years reflects ⁽²⁾ the strong budget position based on foreign assistance. As stated in Chapter II the government budget increased from J.D. 14.328 million to J.D. 32.512 million between 1953 and 1958.

International and foreign agencies deposits have shown an upward trend too, probably related in part to a growth of counterpart funds under U.S. economic assistance.

Inter - resident bank deposits, represented almost exclusively by deposits of other resident banks with the Ottoman Bank, have increased between 1953 and 1955; after 1955 they decreased sharply

(1) Selhedar, op.cit., p. 16

(2) Refer to Chapter II

TABLE III

BANK DEPOSITS 1953 - 1958

(In J.D. Thousands)

End of Year	1953		1954		1955		1956		1957		1958	
	Current	Time	Current	Time	Current	Time	Current	Time	Current	Time	Current	Time
Deposits in Jordan Dinars												
Government	3,294	126	3,226	219	3,788	1,317	5,301	2,655	3,299	5,152	2,043	7,607
Private (1)	4,026	948	4,525	1,235	5,412	1,695	5,145	2,534	6,593	3,241	6,754	3,336
Other	1,050	130	1,580	240	950	1,380	537	179	900	3,241	6,754	3,336
<u>TOTAL</u>	<u>8,360</u>	<u>1,204</u>	<u>9,331</u>	<u>1,694</u>	<u>10,150</u>	<u>4,392</u>	<u>10,983</u>	<u>5,368</u>	<u>10,792</u>	<u>8,653</u>	<u>11,216</u>	<u>11,242</u>
Deposits in Foreign Currency												
	56		13		275							
Inter-Bank Deposits in J.D.												
	1,040		1,095		1,628		824		749		733	
<u>Banks Deposits</u>												
Resident	965		1,023		1,363		592		717		683	
Non-Resident	75		72		265		232		32		50	

Source: Jordan Ministry of Economy - Statistical Yearbook, 1958.
See Appendix II for notes on Table III

(1) Municipalities, public services and foreign and international institutions.

from J.D. 1,628 thousand in 1955 to J.D. 733 thousand in 1958. This decrease show that the banks have been using these deposits for local purposes or increasing their foreign assets and using these deposits in investment in sterling securities.

Moreover, while current deposits increased very little by a steady amount the time deposits increased sharply at a much higher ratio. The current deposits increased from J.D. 8.63 million in 1953 to J.D. 11.216 million in 1958, while the time deposits increased from J.D. 1.204 million in 1953 to J.D. 11.242 million in 1958. In 1953, time deposits were almost 12 per cent of total deposits, in 1958 they became 50 per cent of the total deposits.

One of the factors contributing to this growth is the growth of government time deposits, government time deposits increased from J.D. 126,000 to J.D. 7.607 million.

TABLE IV

BANK DEPOSITS

(In J.D. Thousands)

Years	Banks Deposits	Private Deposits	Public Deposits	Total	Foreign Assets
1953	1,040	4,974	4,608	10,622	14.81
1954	1,095	5,760	5,246	12,101	17.94
1955	1,628	7,107	7,426	16,161	21.80
1956	824	7,679	8,672	17,175	25.92
1957	749	9,834	9,611	20,194	26.79
1958	733	10,090	12,368	23,191	30.73
1959	1,047	11,336	10,966	23,349	29.92

Source: Special Statistical Bulletin, 1959 - Department of Statistics Jordan, p. 82

The total money supply in Jordan is compiled in Table V. This Table demonstrates how the total money supply increased from J.D. 14.247 million in 1951, to J.D. 24.014 million in 1958.

The money supply has been increasing since the end of 1952 with the rate of increase reaching a very high level in 1954 then dropping in 1955, then rising in 1958. "The factors contributing to the increase in the money supply were the increase in Jordan's foreign assets, and in bank credit extended"⁽¹⁾.

Jordan has experienced substantial monetary stability in recent years except for 1955, increases in the money supply have been moderate.

TABLE V
MONEY SUPPLY IN JORDAN
(In J.D. Thousands)

	-1-	-2-	-3-	-4-	-5-	
End of	Note Issue	Cash in Banks' Tills	Cash in Government's Tills	Net Currency in Circulation	Private Current Deposits	Total Money Supply
1951	9,345	984	24	8,337/	4,910	14,247
1952	8,761	1,040	18	7,703	4,910	12,613
1953	9,316	774	17	8,525	5,080	13,605
1954	12,001	1,356	32	10,613	6,110	16,723
1955	12,931	1,796	26	11,109	6,360	17,469
1956	16,781	222	28*	14,281	5,682	19,963
1957	15,631	92	29*	14,421	7,493	21,914
1958	16,331	117	32*	14,841	9,173	24,014

Source: Table II for Column -1-
International Monetary Fund - International Financial Statistics
Feb., 1960 - for Column -2-
Selehdar, A.K., "Financial Institutions in Jordan" - International
Monetary Fund - Typescript, 1957, for Column -3- except in 1957 & 58*
Table III for Column -5-

(1) Selehdar, op.cit., p. 20

* The figures are estimates based on previous years. The estimate is made due to the lack of accurate information about it.

B. Non-Commercial Banking

1. Agricultural Credit

In Jordan, as elsewhere in Asia and the Middle East, the small farmer is dependent upon the village shopkeeper, the landlord, the money lender, and the merchant - middle man for seasonal credit and, in most instances, for whatever medium credit he can obtain. The village shopkeeper supplies him on credit with day to day necessities of life at prices which are often two to three times those charged cash customers. If he is a tenant, his landlord furnishes him, his seed, fertilizer, simple agricultural equipment, work animals etc..., often borrowing the necessary funds from banking institutions or money lenders.

If the present farmer holds title to his land, he turns to the money lender or the merchant middle man, for the credit to meet these requirements. He mortgages his land, gives a lien on his crop, or puts up such movable property as his livestock or his wife's jewelry as security, and accepts terms of repayment which in effect require him to pay interest charges varying from 20 to 40 per cent. These interest charges are seldom if ever stated in the agreement between the lender and the borrower... However, in as much as repayment is usually made in the farmer's produce, interest is effectively charged by placing an arbitrarily low unit price on the lender's share of the peasant's crop. With no other available sources of credit, the small farmer must accept these exorbitant charges if he is to obtain the goods, implements, and money he needs to keep himself and his family alive.

The role of indigenous money lenders in Jordan is apparently important in certain agricultural areas, where farmers, pressed for credit facilities, especially in years of drought, seek loans at high interest rates 20 to 30 per cent. Village shopkeepers and merchants of agricultural produce generally supply this financing.⁽¹⁾

Heavy indebtedness to money lenders after the drought of 1947 threatened farmers with wholesale loss of their lands. A law called the "Land Moratorium Law for 1947" prohibiting the sale of land in case of failure to repay the principal of interest on loans guaranteed by the land was issued in 1947 and was renewed several times in 1951 and 1953.⁽²⁾

While facilities for agricultural credit have been expanded in recent years, the conclusion appears inevitable that present facilities are inadequate for both short term and long term credit. The problem of agricultural credit is furthermore complicated by the instability in production from year to year. "In drought years, the farmer is often unable to meet his maturing debts. As a consequence, credit needs to be provided on a flexible basis, minimizing payments in bad years and maximizing them in goods years."⁽³⁾

(1) Selehdar, op.cit., p. 8

(2) Baster J. "Basic Factors in the Economy of Jordan, Typescript, Economic Research Institute, 1954

(3) Selehdar, op.cit., p. 21

2. Agricultural Bank

At present, the most important source of agricultural credit
(1)
is the Agricultural Bank which was established in 1922.

The Bank is a government enterprise administered by a manager and an assistant and a council composed of the under secretaries of finance, agriculture and interior, together with representatives of the Lands and Surveys Departments, the Chamber of Commerce and the farming community. It is financed by an annual grant from the land tax, the interest received on its loans, interest - free loans from the Jordan treasury and occasional loans from commercial banks.

The purpose of the Bank is to provide working capital for farmers and to finance agricultural development. Its loans' activities are limited to individuals and the maximum amount which may be lent to any single individual is J.D. 1,000. The maximum term of repayment is ten years and the interest charges range from 4 to 6 per cent per annum. Repayment is usually made in instalments at the end of the harvest. The security for loans is generally a first mortgage on land and buildings but joint
(2)
security on a village is sometimes taken.

The operations of the Bank have been considerably affected by the legislation declaring a moratorium on agricultural debts which was first passed in 1947. "In March 1952 the value of the

(1) See Chapter II, p. for more details

(2) Ibid., p. 22

defaults on instalments outstanding had risen to J.D. 174,000". (1)

In 1956, the total amount of capital and reserves amounted to J.D. 503,623; while loans outstanding came up to J.D. 499,848. (2)

Even though the Bank's activities have been expanding gradually it has a few major short-comings:

- a. It has limited contribution to short term credit needs, in which its requirement of formal security is a factor.
- b. It is not only a state owned institution, but also to a very large extent a government managed institution, reportedly subject to political pressure. (3) This fact leads undoubtedly to channeling loans according to political aims rather than according to necessity and need. (4)
- c. Few loans are given for land development.
- d. Its working capital is relatively too small to be sufficient for the enormous responsibilities it can be made to shoulder.

3. Co-operative Societies

A law for the promotion of cooperation was passed in 1952, and a Department of Cooperative Societies was established within the Ministry of Reconstruction and Development. (5) A total of J.D. 167,000 was allocated to the department by the Jordan Development Board between 1953 and 1956. These funds have been lent to

(1) Ibid.,

(2) Ibid.,

(3) International Bank for Reconstruction and Development, op.cit., p. 143

(4) Ibid.,

(5) Ibid.,

cooperative societies, which charged interest at 4 per cent per annum. The societies lend to their members at 7 per cent per annum, using the difference of 3 per cent to cover their expenses and to build up reserves.

At present, the societies rely heavily upon Jordan Development Board loans to provide their members with the required credit facilities. Capital and reserves of the societies and, still more, members' deposits, while on the increase, make but a small contribution to available funds.⁽¹⁾

4. The Development Bank of Jordan

The Development Bank of Jordan was established under an agreement between the Jordan government and United Nations Relief and Work Agency in June, 1951, for the purpose of making long term loans to productive enterprises in agriculture and industry designed mainly to assist the refugees. Loans usually range from 5 to 10 years and the rate of interest is usually 6 per cent.⁽²⁾

The authorized capital is J.D. 500,000 divided into equal shares as follows:

J.D. 50,000 class A shares for subscription by commercial banks.

J.D. 50,000 class B shares by the Jordan government.

J.D. 400,000 class C shares by United Nations Relief and Work Agency.

The Bank is controlled by a board of directors of seven members: three from United Nations Relief and Work Agency, three

(1) International Bank for Reconstruction and Development, op.cit., p. 143

(2) Jordan Development Board, "The Development Bank of Jordan," a report typescript - Amman, Jordan, 1959

that represent commercial banks in Jordan and one from the government.

Even though the capital of the Bank is relatively small, its activities in the past eight years of operation have been extensive. It has given 305 agricultural loans amounting to J.D. 416,385; 29 industrial loans amounting to a total of J.D. 156,110; and 23 loans for construction, totalling J.D. 32,100; making a general total of 357 loans amounting to J.D. 604,595. (1)

The amount of repaid loans came up to J.D. 284,236; while the profit and loss account of the Bank in 1959 showed a gross profit of J.D. 17,164 as contrasted to J.D. 15,606 the profit for 1958.

As in the case of the Agricultural Bank, one of the major discrepancies of the Development Bank is the limited amount of loanable capital.

IV. SUMMARY

In discussing the monetary and banking system of Jordan, it has been observed that as a member of the Sterling Area, Jordan has its currency based on sterling, and its currency cover consists of sterling securities. The currency is controlled and run by a Currency Board.

"The currency board system has been widely developed amongst dependent territories of the Sterling Area, and remains in use in a number of countries such as Malay, Ghana and Jordan, that have become recently independent; the Boards issue currency on demand

(1) Ibid.

against foreign assets at a fixed rate. They do not have the attributes of a central bank as ordinarily understood".⁽¹⁾

Even though the Currency Board arrangement, in requiring 100 per cent reserves against the note issue, might be limiting the exchange availabilities for balance of payments purposes, yet the increase in foreign assets of the banks which was found to have occurred denotes the opposite. "The 100 per cent reserve requirement has had little practical effect on the economic situation in recent years in view of the payments situation in which a monetary expansion has taken place and at the same time the commercial banks have been able to acquire additional exchange reserves which are freely available for balance of payments purposes".⁽²⁾

(Moreover, it has been observed that the monetary and banking arrangements that now exist in Jordan appear to function reasonably well and to meet most of the needs of the economy. The banking institutions as well as the banking activities grew rapidly in the last decade. The principal exception is with respect to agricultural and industrial finance where appropriate institutional arrangements could make a suitable contribution to increasing agricultural and industrial productivity. As the economy expands, there will be need to develop institutions for both agricultural and industrial financing and to encourage savings and direct them into appropriate investment channels.)

(1) International Financial Statistics, Feb. 1960

(2) Selehdar, A. Ak., op.cit., p. 2

As to the central banking activities, even though some of its functions are being provided by the Currency Board and other agencies, other functions are lacking. It is understood that Jordan intends to establish a central bank and a law to that effect has been enacted (see Appendix IV).

The establishment of a central bank will be discussed in more detail in the last chapter, because it involves not only the description of the law but an evaluation of its different implications.

CHAPTER IV
BALANCE OF PAYMENTS

I. BACKGROUND

Now that we have studied the economy of Jordan and realized its poverty and underdevelopment as well as its large dependence on foreign aid, we can proceed in this chapter and study the implications of this dependence.

The International Bank mission to Jordan commented on the situation in that country as follows:

"In total, foreign grants and loans have contributed approximately one quarter of the total value of the goods and services available for all purposes in Jordan in recent years . Thus enabling the country to run a deficit on the current balance of payments of approximately J.D. 13 million ⁽¹⁾ each year and in 1955 the deficit reached J.D. 18 million." ⁽²⁾ This deficit is equivalent to almost 35 per cent of Jordan's national income.

Jordan is heavily dependent on foreign assistance. It imports most of the commodities it needs, even the most basic ones in drought years; more important still is its current importation of machinery for development. A study of its balance of payments is necessary in order to assess the exact position of the country.

"The Balance of Payments of a country is a systematic record of all economic transactions between the residents of the reporting

(1) Years after 1955 are excluded.

(2) International Bank for Reconstruction and Development, op.cit., p. 54

country and residents of foreign countries".⁽¹⁾ Therefore, this study will not be most helpful for our objective.

It is our intention in this Chapter to study the balance of payments position of Jordan, to analyze its trade pattern with major trade partners, as well as the various sources of capital account imports or donations. This will enable us to find out how much did Jordan depend on the Sterling Area, in this respect.

For the purpose of our analysis we shall divide the study of the balance of payments of Jordan into four parts: A. Visible Trade, B. Invisible Trade, C. International Transfer Payments, and D. Capital Account.

Table I is a summary of the Balance of Payments account of Jordan during 1953 - 1959. The figures are in millions of Jordan Dinars.

(1) Kindelberger, C. International Economics,
Richard Irwin Inc., N.Y., 1953 - p. 16.

TABLE I

JORDAN BALANCE OF PAYMENTS

(In J.D. Millions)

Item	1953	1954	1955	1956	1957	1958	1959
<u>Current Account</u>							
Exports ⁽¹⁾ F.O.B.	2.66	3.05	3.57	5.16	5.37	3.53	3.41
Imports ⁽²⁾ C.I.F. (excluding military)	<u>-18.21</u>	<u>-18.59</u>	<u>-25.26</u>	<u>-21.88</u>	<u>-29.76</u>	<u>-33.97</u>	<u>-39.39</u>
Trade Balance	-15.55	-15.54	-21.69	-16.72	-24.39	-30.44	-35.98
Invisible (Net) ⁽³⁾	<u>1.56</u>	<u>2.66</u>	<u>4.39</u>	<u>2.43</u>	<u>1.17</u>	<u>5.58</u>	<u>3.11</u>
Current Balance	-13.99	-12.88	-17.30	-14.29	-23.22	-24.86	-32.87
<u>Transfers</u>							
Private Donations ⁽⁴⁾	2.34	1.65	1.66	1.66	---	---	5.78
Private Capital	0.10			0.25	0.30	0.58	0.11
Official Donations ⁽⁵⁾	12.26	12.62	15.43	14.89	16.89 ⁽¹⁾	23.91 ⁽²⁾	25.14
United Kingdom	6.43	5.87	8.04	8.01	1.75	1.34	2.42
U.S.A.	0.97	1.25	2.73	0.47	6.73	16.32	17.32
U.N.R.W.A.	4.86	5.50	4.66	5.56	4.90	4.75	5.40
Arab States					3.51	1.50	
<u>Capital Account</u>							
Official Bank Capital ⁽⁶⁾	-0.94	-1.55	-0.36	-2.20	-1.59	-2.85	-0.97
Long Term Liabilities (official loans)	0.72	1.30	1.29	1.86	3.33	1.00	0.50
Other Assets	0.20	1.14	0.70	0.08	---	---	---
Short Term Capital ⁽⁷⁾ (a minus sign denotes an increase in holdings)	-1.86	-3.99	-2.35	-4.14	-1.74	-3.85	+0.47
Net Errors Omissions	0.23	0.16	0.57	-0.31	4.44	3.22	0.87

Source: 1953 - 56, International Monetary Fund, Balance of Payments Yearbook, Vols. 6 and 9

1958 - 59, Currency Control Department, Balance of Payments for the year 1959 - Typescript.

- (1) International Monetary Fund, Balance of Payments Yearbook, Vol. 11 and 12, 1958-59.
- (2) Ibid.

Notes on Table

In 1957: Net errors and omissions include private donations.

- (1) Exports figures include re-exports.
- (2) The figures for imports do not include imports of military nature and imports of non-resident contracting companies. The figures include:

Commercial Imports.

Charitable Imports.

U.S. Aid Programme.

Diplomatic Imports.

- (3) Invisibles include on the debit side: expenditure on education of Jordanian students abroad, medical and travel expenditures plus profit of foreign companies operating in Jordan, while the credit side includes: revenue derived from tourism in Jordan as well as income from Banks' balances abroad plus receipts from oil companies for rights of way and prospecting rights.
- (4) Private donations cover receipt of charitable and religious institutions and their imports from abroad. It also includes remittances made by Jordanians working abroad.

- (5) Official donations cover remittances of United Nations Agencies, and their imports to meet the expenditures on refugees, the U.S. government aid in cash and kind, and the United Kingdom government grant in aid.
- (6) Official and bank capital covers the long term liabilities minus the long term assets plus short term capital. Official and bank capital denotes the net capital account transfers - a minus sign means an increase.
- (7) Short term capital includes foreign exchange holdings as well as currency cover.

II. VISIBLE TRADE

While studying the international trade section of the Balance of Payments, it is our objective to find out the trade partners of Jordan, and how much has it been trading with each of them.

Table II; lists in detail the value of imports into Jordan by countries of origin for the years 1954 through 1958. The imports increased from a total of J.D. 19.84 million in 1954 to J.D. 34 million in 1958.

The following characteristics of the import pattern of Jordan can be depicted from the Table:

1. The United Kingdom and Ceylon are the only Sterling Area countries who do any trade with Jordan. The imports from the United Kingdom have invariably been the most significant for any one country. They reached a peak of J.D. 5.37 million in 1956 or 19 per cent of the total imports declining to J.D. 4.23 million in 1958 or about 12 per cent of total imports.

2. Germany and the U.S.A. rank respectively second and third in importance. Germany's share of Jordan's imports has been steadily increasing; the rate of increase being higher than any other country.
3. That amongst the Arab countries; Syria, Lebanon, Iraq, Egypt and Saudi Arabia were the major trading partners of Jordan. Their exports to Jordan amounted to 76.4 per cent; 55.2 per cent; 70.5 per cent; 59 per cent and 60.3 per cent in the years 1954 through 1958 respectively.

TABLE II
VALUE OF IMPORTS BY COUNTRIES OF ORIGIN

(In J.D. Thousands)

Country of Origin (1)	1954	1955	1956	1957	1958
Total	19840.5	27058.5	27818.7	30486.2	34028.7
United Kingdom	3055.5	5217.8	5365.8	5029.7	4232.4
Germany	1106.4	2313.9	2496.5	2461.1	3754.7
U.S.A.	1917.1	2810.7	1846.5	2272.8	2919.1
Syria (U.A.R.)	2202.5	1810.9	1670.1	1939.6	2815.9
Lebanon Foreign	2298.9	2156.4	2934.8	2724.8	1978.9
Local	852.6	908.9	1190.5	1590.5	1203.9
Italy	881.8	525.3	1027.6	1298.2	1402.6
Japan	524.9	842.8	685.2	1328.1	1372.1
Iraq	666.2	1038.6	869.3	658.6	1274.4
Netherlands	355.9	499.1	729.8	800.0	1194.3
Egypt	514.6	758.9	909.8	1175.2	1049.8
Belgium	424.5	614.2	595.8	710.9	923.6
Chychoslovakia	197.0	258.9	505.9	547.9	879.5
France	1026.2	1642.2	973.8	246.4	744.9
Saudi Arabia	452.5	732.4	1195.0	1641.4	739.9
Poland	40.7	73.4	383.6	216.8	679.5
Turkey	49.3	24.3	103.8	389.6	568.1
Austria	208.3	347.5	380.7	476.3	541.3
Canada	14.1	10.6	8.9	25.2	536.1
Sweden	227.3	310.9	298.8	406.1	516.5
Ceylon	321.0	507.5	352.1	608.7	435.7
East Germany	69.1	125.8	58.9	123.1	314.7
Denmark	67.5	98.9	110.8	166.5	285.8
Other Countries	2366.6	3428.6	3124.7	3647.9	3665.0

Source: Hashemite Kingdom of Jordan, Department of Economics,

Statistical Yearbook 1958

(1) Notes: Figures are different from those in Balance of Payments because they include military imports.

TABLE III

DOMESTIC EXPORTS BY COUNTRIES OF DESTINATION

(In J.D. Thousands)

Countries	1954	1955	1956	1957	1958
Total	3050.0	3570.0	5160.0	5370.0	3530.0
Syria	682.9	707.6	1144.1	1197.1	970.7
Lebanon	1201.6	719.0	1764.6	999.4	326.7
Iraq	338.8	437.9	443.2	465.2	305.3
Kuwait	17.5	45.2	118.3	208.8	263.5
Saudi Arabia	73.0	50.5	166.4	295.2	255.5
Egypt	13.5	9.4	5.3	0.9	4.6
Yugoslavia	-	-	202.2	435.8	424.9
Czechoslovakia	-	198.3	277.5	272.0	281.7
India	12.4	73.5	108.5	153.3	198.3
Poland	-	10.8	-	-	48.6
Greece	0.2	40.2	-	-	25.1
U.S.A.	21.1	18.1	17.4	16.4	13.5
Italy	32.7	89.5	70.6	45.1	0.1
Germany	4.1	2.1	3.7	4.0	4.5
Others	652.2	1167.9	838.2	1276.8	407.0

Source: Hashemite Kingdom of Jordan, Department of Statistics,
Statistical Yearbook, 1958 - Amman, Jordan

On the export side, it is clear that Jordan does not export many products. Table III shows the major countries which import Jordanian goods and the value of goods they imported during the years 1954 through 1958.

The countries which import most of the Jordanian goods are the Arab countries. The value of their imports and exports from and to Jordan is shown separately in Table IV. Other countries which import Jordanian goods are Yugoslavia, Czechoslovakia, India, Poland, Greece, U.S.A., Italy and Germany. Except for India, none of these countries belongs to the Sterling Area. The United Kingdom does not import any goods from Jordan; there has been an exception in the year 1958 when it imported goods at a value of J.D. 100,000. (1)

Jordan's main exports are vegetables and edible plants, fruits, cereals, olive oil and salts and phosphates. The exports of these items for the years 1957 and 1958 came up to: In J.D.

	(2) 1957	(3) 1958
Vegetable and edible plant	920,060	1,063,300
Fruits	481,552	476,100
Olive Oil	492,588	86,500
Salts and phosphates	1,009,325	1,028,400
Cereals	470,302	44,600

While these are the main export items, it must be borne in mind that the agricultural crop like cereals and its derivatives and

- (1) National Bank of Egypt, "Economic Bulletin," Vol. XII No. 1, 1959.
- (2) Hashemite Kingdom of Jordan, Department of Statistics Special Statistical Bulletin, 1959, p. 74
- (3) Hashemite Kingdom of Jordan, Development Board, "Economic Policy for Jordan, Industrial and Economic Development", Typescript - 1960.

olive oil, whose production is mainly dependent on rain, have fluctuated within the two years span. Olive oil exports amounted to J.D. 492,588 in 1957, and dropped to 86,500 in 1958, while the cereal exports⁽¹⁾ dropped from J.D. 470,302 in 1957 to J.D. 44,600 in 1958.

As to the fruits and vegetables which grow mainly in the valleys and do not depend as much on the rain, their exports were, more or less, stable in the two years. The exports of vegetables came up to J.D. 920,060 and J.D. 1,063,300 in 1957 and 1958 respectively, while the exports of fruits were J.D. 481,522 and J.D. 476,100 in 1957 and 1958 respectively.

Moreover, phosphates whose exports have been steadily rising since 1954 do not depend on any weather condition and, therefore, do not fluctuate. Phosphate exports amounted to J.D. 5,000 in 1954, they rose to J.D. 600,000 in 1955, J.D. 690,000 in 1956, J.D. 900,000 in 1957 and J.D. 980,000 in 1958.⁽²⁾ Plants are being implemented to raise the present productive capacity of phosphate mines by tenfold and thus increase their exports.

The most striking feature of the balance of payments over the last seven years is the remarkable increase in the value of imports. In 1953, Jordan imported J.D. 18 million worth of goods; in 1959, it imported goods for J.D. 39 million; that is in the span of seven years the imports of Jordan more than doubled, the maximum amount of increase occurred in the last three years when the imports rose from J.D. 21 million in 1956 to J.D. 39 million in 1959.

(1) 1958 was a drought year in Jordan.

(2) International Monetary Fund, International Financial Statistics, Feb., 1960, p. 175

The exports, on the other hand, did not increase by a remarkable amount. Although the value of exports rose steadily between 1954 and 1957, it dropped during 1958 and 1959, thus increasing the deficit in the trade balance of Jordan. Moreover, the ratio of exports to imports is very small, in 1958, the value of exports came up to 10 per cent of the value of imports and in 1959 it became 8 per cent.

A. Trade With The Arab World

The summary of the trade which occurred with the Arab world during the past five years is presented in Table IV. Whereas the imports of Jordan from the Arab states fluctuated between 19 per cent and 23 per cent of its total imports, its exports to them had a higher ratio.

In 1954, the exports of Jordan to other Arab states amounted to J.D. 2.33 million out of a total export of J.D. 3.05 million or 76 per cent of the total export. The ratio was least in absolute and relative value in 1955 when the exports of Jordan to the Arab countries totalled J.D. 1.97 million or 55 per cent of its total exports. In absolute terms the exports of Jordan to other Arab states was highest in 1956 when they amounted to J.D. 3.64 million. The ratio in the same year was 70 per cent of total exports as compared to 76 per cent in 1954.

The reason why the Arab states constitute the main market for Jordanian exports is that most of Jordan's exports are agricultural products which are easily perishable. The measures of the Arab markets to Jordan facilitates the export of these products, while

the fluctuation in the output of other non-perishable products like cereals and pulses makes it difficult to market them in other non-Arab countries. Moreover, in the Arab markets there is a constant demand for such products.

The imports from other Arab states increased in absolute terms during the period. In 1954, it was J.D. 4.69 million while in 1958, it came up to J.D. 7.08 million. In relative terms the ratio of imports from Arab states to total imports decreased from 23.6 per cent in 1954 to 20.8 per cent in 1958.

The reason for the decrease in the ratio of Jordan's imports from the Arab states and the increase in the ratio of its imports from the United Kingdom, Germany and the U.S.A. is that the latter countries are more developed and industrialized and could fulfill Jordan's need of machinery and capital goods.

TABLE IV

TRADE WITH ARAB STATES

(In J.D. Thousands)

Countries	1954		1955		1956		1957		1958	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
Syria	2202.5	682.9	1810.9	707.6	1670.1	1144.1	1939.6	1197.1	2815.9	970.7
Lebanon*	852.6	1201.6	908.9	719.0	1190.5	1764.6	1590.5	999.4	1203.9	326.7
Iraq	666.2	338.8	1038.6	437.9	869.3	443.2	658.6	465.2	1274.4	305.3
Egypt	514.6	13.5	758.8	9.4	909.8	5.3	1175.2	0.9	1049.8	4.6
Saudi Arabia	452.5	73.0	732.4	50.5	1195.0	166.4	1641.4	295.2	739.9	255.5
Kuwait	—	17.5	—	45.2	—	118.3	—	208.8	—	263.5
	4688.4	2327.3	5249.7	1969.6	5834.7	3641.9	7005.3	3166.6	7083.9	2126.3
<u>TOTAL</u>	19840.5	3.05	27058.5	3.57	27818.7	5.16	30486.2	5.37	34028.7	3.53
Ratio	23.63	76.4	19.4	55.2	20.9	70.5	22.9	59.0	20.8	60.3

* Imports figures exclude imports from the Zone Franche in Beirut.

Source: Tables II and III

III. INVISIBLE TRADE

The net invisibles rose in value at a fluctuating rate, during the period 1952-59. They reached a maximum in 1958 with J.D. 5.58 million. In 1959, they dropped to J.D. 3.11 million. The most important source of revenue in the invisible account is tourism. In-⁽¹⁾come from tourism came up to J.D. 2.5 million in 1957. Other important sources are receipts from oil companies for rights of way and prospecting rights and income from investment of Jordan Currency Board.

The invisibles account is shown in detail for the last two years in Table V.

TABLE V
INVISIBLES ACCOUNT, 1958 AND 1959
(In J.D. Millions)

	1958		1959	
	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>
1. Foreign Travel	1.22	1.61	2.85	1.93
2. Transportation, Insurance		0.12	0.11	0.13
3. Investment Income	0.73	0.12	0.67	0.18
4. Government ⁽¹⁾	2.89	0.27	1.56	0.82
5. Miscellaneous	<u>3.55</u>	<u>0.69</u>	<u>1.35</u>	<u>0.37</u>
	8.39	2.81	6.54	3.43

(1) Credit entries cover receipts from oil companies for rights of way and prospecting rights.

Source: The Hashemite Kingdom of Jordan, Currency Control Department - Balance of Payments for the Year 1959 Typescript.

(1) See footnote (1) on page 132.

In 1958 the receipts were higher than in 1959. They decreased from J.D. 8.39 million to J.D. 6.54 million while the payments increased from J.D. 2.81 million to J.D. 3.43 million.

On the payments side of the invisible trade account, the travel abroad was the most significant item; it came up to J.D. 1.61 million and J.D. 1.93 million in 1958 and 1959 respectively.

The travel abroad includes expenses for educational and medical purposes. In 1959 these amounted to J.D. 61.000, while J.D. 1.32 million were taken abroad by Jordanian travellers. The number of Jordanians travelling abroad has increased in the last few years. The amount of money they spent abroad was J.D. 239 thousand and 465 thousand; in 1950 and 1951 respectively, but it rose to J.D. 1.1 million in 1955⁽¹⁾ and J.D. 1.32 million in 1959.⁽²⁾ Since this figure is estimated on the basis of a fixed sum per Jordanian leaving the country, it reflects an increase in the number of Jordanians travelling abroad.

-
- (1) Income from tourism as stated in a bulletin by the Jordan Development Board, amounted to the following:

	<u>J.D. Million</u>
1952	1.4
1953	1.68
1954	2.21
1955	2.42
1956	1.95
1957	2.50
1958	1.06

"A note on Tourism in Jordan" - Jordan Development Board, Amman, Jordan - Typescript.

- (1) Hashemite Kingdom of Jordan, Department of Statistics - Jordan Balance of Payments 1950-55, Typescript, Amman, May, 1956
- (2) Hashemite Kingdom of Jordan, Jordan Balance of Payments 1959.

Although the receipts from net invisibles have steadily increased in the past six years, the increase was not enough to offset the large deficit in the balance of visible trade. Thus the current balance as shown in Table I has been in constant deficit. The amount of the deficit in the current balance of trade of Jordan amounted to J.D. 32.87 million in 1959. The way it was financed will be described in the study of the International Transfer Payments, and of the capital account.

IV. INTERNATIONAL TRANSFER PAYMENTS

International Transfer Payments comprise all payments and receipts which do not give rise to any corresponding claim on the receiving country. In the case of Jordan, they consist of private remittances and official donations.

Private remittances are payments by Jordanians living abroad to relatives in Jordan together with funds brought to Jordan by religious and charitable institutions. ⁽¹⁾ These payments have been increasing recently, even though they had been stable for a few years. In 1954, 1955 and 1956 they amounted to J.D. 1.66 million each while in 1959 they came up to J.D. 5.78 million. In Table I, the figures for private donations are included in net errors and omissions because of the difficulty involved in assessing them accurately.

One of the reasons for the increase in private remittances is the increase in the number of young Jordanians working abroad

(1) As a large proportion of these transactions are effected through channels which lie outside the normal banking system of the country, it has been extremely difficult to make accurate estimates of their value.

especially in neighboring Arab countries. Another reason is the increase of the activities of the religious and charitable institutions.

Official transfers, on the other hand, comprise money received from the United Kingdom, ⁽¹⁾ local expenditure on various construction work undertaken under the terms of the agreement between the United Kingdom and the Jordanian government and pensions paid to officials of the former Palestine government. Transfers comprise also United Nations Relief and Work Agency funds financing its operations in Jordan, together with the value of goods imported by it, as well as money and goods received from the U.S.A. government under the various programmes of technical assistance and foreign aid.

The official donations increased gradually in 1954, 1955 and 1956, but the ratio of increase was stepped up in 1957, 1958 and 1959. Donations amounted to J.D. 14.89 million, in 1956, but came up to J.D. 25.14 million in 1959. This sharp increase was mainly caused by the inflow of American donations which rose to a level capable of upsetting the decrease in the British help.

The U.S.A.'s donations which amounted to J.D. 0.47 million in 1956 increased tremendously and abruptly to reach a level of J.D. 17.32 million in 1959. The British help decreased from

(1) This money used to come as a subsidy to the Arab Legion. In the last three years it came as an outright grant-in-aid and it was less than the amount of the former subsidy

J.D. 8.01 million in 1956 to J.D. 2.43 million in 1959. In 1957 and 1958 the British aid amounted to J.D. 1.75 million and 1.34 million respectively. United Nations Relief and Work Agency expenditure or donations were stable all along. They were J.D. 5.56 million in 1956, and J.D. 5.40 million in 1959. This sum decreased by a small amount in 1957 and 1958 when it dropped to J.D. 4.90 million, and J.D. 4.75 million respectively.

American aid particularly replaced British aid because of political reasons. In 1957 the Anglo-Jordanian treaty whereby the United Kingdom subsidised the Arab Legion was abrogated. For a while the Arab states, mainly Saudi Arabia, Syria and Egypt, replaced Britain in paying the subsidy, that is reflected in the balance of payments. The amount of the subsidy was J.D. 3.51 million and J.D. 1.50 million, for the years 1957 and 1958 respectively. No aid came from that side afterward.

In the case of the American help, it came to Jordan under different names. The amount in total is reflected in the Balance of Payments (see Table I).

In 1957 the American aid was J.D. 6.73 million while in 1958 it came up to J.D. 16.32 million. The sharp increase was due to the lack of help coming from other sources.

It is worth noting here that this American aid came in the form of American funds - in dollars - this is an important point, since we are trying to find out whether Jordan contributed any dollars to the dollar pool or vice versa.

It can be noted from Table I that international transfer payments to Jordan (the sum of private and official donations) were more than enough to finance the deficit on goods and services transactions, throughout the period, except in 1957 when it was less than the deficit. In 1955 they failed to do so by a very small amount viz. J.D. 281,000. That is why it can be concluded that during these years there was either an increase in the reserves of Jordan or an increase in its assets abroad.

V. CAPITAL ACCOUNT

The capital account can be divided into two parts. There are first of all capital receipts which are the results of deliberate acts of policy on the part of individuals or governments. These comprise the long term liabilities which are mainly official loans and other liabilities which are either private capital or other official capital transactions.

The second part of the capital account shows how the surplus or deficit resulting from the addition of capital receipts to the over-⁽¹⁾all balance of payments was financed. The movements in the column headed short term capital, in Table I which includes foreign exchange reserves and currency cover, can be regarded as being determined by the movement of all other items in the Table.

Long term liabilities are official loans contracted by the government. Their amount varied in different years; in 1953 they were J.D. 0.72 million, while in 1954 and 1955 they came up to J.D. 1.30 million

(1) Hashemite Kingdom of Jordan, op.cit., 1950-55 - p. 5

and 1.29 million respectively. They reached a very high level in 1957 when they amounted to J.D. 3.33 million. In 1959, the sum was J.D. 0.5 million which was a loan from the United Kingdom. (1)

As to the short term capital the minus sign denotes an increase in it. Therefore, the short term capital in Table I shows us an increase in the currency holdings except for 1959 when it shows a decrease of J.D. 0.47 million. The increase was highest in 1956 when it amounted to J.D. 4.14 million. The currency notes have increased by almost the same amount, from J.D. 12.93 million to J.D. 16.78 million. While there is a correlation between the currency notes issue and the short term capital, since an increase in foreign holdings means a possible increase in note issue, the degree of change is not the same. (Compare short term capital figures in Table I, Chapter IV and figures in Table II, Chapter III).

Table VI includes the net figures which show how the deficit in Jordan's Balance of Payments has been financed.

(1) Hashemite Kingdom of Jordan, Currency Control Department, op.cit., p. 4

TABLE VI
THE FINANCING OF JORDAN'S DEFICIT ⁽¹⁾
(In J.D. Millions)

	1953	1954	1955	1956	1957	1958	1959
Deficit on goods and services	13.99	12.88	17.30	14.29	32.22	24.86	32.87
Plus or minus errors and omissions	<u>-.23</u>	<u>-.16</u>	<u>-.57</u>	<u>+.31</u>	<u>-4.44</u>	<u>-3.22</u>	<u>-.87</u>
Net Deficit	<u>13.76</u>	12.72	16.73	14.60	18.78	21.64	32.00
International transfers	14.60	14.27	17.09	16.55	16.89	23.91	30.92
Capital receipts	<u>1.02</u>	<u>2.44</u>	<u>1.99</u>	<u>2.19</u>	<u>3.63</u>	<u>1.58</u>	<u>0.61</u>
	<u>15.62</u>	16.71	19.08	18.74	20.52	25.49	31.53
Net change in reserves and currency cover	1.86	3.99	2.35	4.14	1.74	3.85	-.47

The figures are quoted from Table I and they show that except for 1959, all the other years 1953-58 have witnessed an addition to the reserves caused by an excess transfer payments coupled with capital receipts.

It can be not noted from Table VI though that except for the years 1957 and 1959, there would have occurred a net addition to the reserves without any capital receipts. In other words the capital receipts were less than the net change in reserves except for 1957 and 1959.

(1) Table I.

In 1959, Jordan had to use 470,000 dinars from the reserves so as to meet the deficit. This is not a big sum as it might first seem; since Jordan's deficit during the same year rose very abruptly and reached an all time peak of J.D. 32 million.

The reserves of Jordan during the same period are shown in Table VII.

TABLE VII
THE RESERVES OF JORDAN 1953-1959
(In Millions of Dollars)

Year	Sum
1953	26
1954	34
1955	36
1956	47
1957	44
1958	46
1959	48

Source: International Monetary Fund, International Financial Statistics, Feb., 1960

VI. SUMMARY AND CONCLUSION

(Jordan has a chronic deficit in its balance of trade. This has been increasing at a very high rate, and it has been financed by foreign aid. Up to 1957, most of the foreign aid came from Britain, in the form of sterling funds for Arab Legion subsidy. The amount of

aid that came from the U.S.A. has been insignificant up to 1957

After 1957, when Jordan started receiving aid from the U.S.A. on a large scale, the pattern of its imports did not change. The dollars it received, it paid to the pool of the Sterling Area, but it drew on the pool for other currencies to finance its imports.

Jordan's imports came from 87 countries, most of these imports were paid for in soft currencies. For the year 1958, Jordan received J.D. 17.364 million ⁽¹⁾ in dollars, while its expenditure in the dollar area came up to J.D. 3.686 million. ⁽²⁾ Therefore, it can be said that for this particular year Jordan was a net contributor to the dollar pool.

Moreover, the study of the balance of payments of Jordan, emphasizes the dependence of the country on foreign aid. Without this foreign aid the standard of living of the population would drop. Jordan depends heavily on this foreign aid to finance its imports of necessary foodstuff and badly needed capital goods.

"How terrifying this situation is, becomes immediately clear, if one dares to imagine what would become of the economy if capital imports should for any reason sharply decline, that is to say, if imports should fall to the level of exports. Consumption would fall from J.D. 38 per capita to J.D. 23 per capita and investment would probably drop by 50 per cent." ⁽³⁾

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- (1) Hashemite Kingdom of Jordan, Statistical Yearbook, 1958, p. 74
 - (2) Ibid., p. 75
 - (3) Hashemite Kingdom of Jordan, Jordan Development Board, op.cit., p. 4

In the case of Jordan's trade it has been found that Jordan's major trading partners are, the neighboring Arab states which provide good markets to Jordan's agricultural products and the United Kingdom, West Germany and the U.S.A. which export to Jordan its necessities of capital goods.

Although Jordan is a member of the Sterling Area, its trade with other members of the Area has not been outstanding. The United Kingdom is the only major trading partner which belongs to the Sterling Area; Ceylon and India are the only two other Sterling Area members which do any trade with Jordan.

CHAPTER V

CONCLUDING REMARKS AND RECOMMENDATIONS

In the preceding chapters a discussion was conducted of the working of the Sterling Area and the benefits that members derive from being in it. Subsequently, a description was made of the economy of Jordan, its currency and banking systems and its balance of payments accounts. The object of this chapter is to synthesise the analysis of the Sterling Area and the analysis of the Jordanian economy, and find out whether Jordan is justified in its being a member of the area in view of the benefits it is getting from such membership and notwithstanding disadvantages it may be incurring.

It is intended, moreover, to make a few suggestions about the economy and the banking and credit systems of Jordan because they are so much related to the status of Jordan as a member of the Sterling Area.

A. Advantages From Being in the Sterling Area

There are two categories of advantages that accrue to Jordan from being a member in the Sterling Area:

There are first of all the advantages that accrue to countries from joining any currency union and secondly there are other advantages that come to all members of the Sterling Area and that tend to keep them associated together in the area. The former are general advantages deriving to nations from joining any currency union, while the latter are advantages peculiar to members of the Sterling Area.

1. Advantages From Joining a Currency Union

- a. A payments union which is a mutual accounting organization and has no other purpose gives clear advantages to those member countries who do not take the responsibilities of the centre. These members can make payments easily to any other country in the world simply by using the banking facilities of the centre country. "This is a clear advantage, especially for relatively underdeveloped countries with rudimentary banking systems, and for poor countries. Such countries cannot easily afford the expense of holding working balances in many foreign countries; and it is unlikely that many foreign countries would accept the currency of such a country".⁽¹⁾

(2)

It is the opinion of Mr. Nahed Ramadan, that the Jordan Dinar is not well known in European countries, therefore Jordan's membership in the Sterling Area and the invoicing of bills in sterling instead of in Jordan Dinars, gives the Jordan more accessibility to foreign markets and gives its dinar relatively more stability.

Jordan is a trading nation, it imports most of its necessities from eighty seven different countries. Having a relatively unknown currency unit, due to its small size and small size and small volume of world trade, makes it difficult to

(1) Day, op.cit., p. 59

(2) This is based on an interview with Mr. Nahed Ramadan, Assistant Manager of British Bank of the Middle East in Amman, Jordan.

to trade. The use of sterling as a currency unit facilitates Jordan's trade and widens the area of trade where Jordan can operate.

Besides, Jordan's association with the Sterling Area and especially with Britain has led to Jordan's extensive use of the British banking facilities to finance its trade. True there are eight banks operating in Jordan, but two of the main four banks are British, namely, the Ottoman Bank and the British Bank of the Middle East and their head offices are in London. During 1950 through 1955 these two Banks together with the Arab Bank were the only banks operating in Jordan. The two British banks used their connections and knowhow and got all the help from their central offices (1) in London.

- b. A second argument of convenience in favor of a currency union system concerns the internal payments system of the dependent members of the system. Countries at a relatively early stage in economic development and especially those whose market economy is very largely concerned with the import-export trade, may well find it convenient to allow their internal monetary system to be based largely upon external control. (2)

"In the early days of the development of a country, such partial integration of the monetary system into that of some developed trading partner has clear advantages, as is exemplified by the higher degree of monetary stability enjoyed in

(1) This is based on an interview with Mr. G. Tadros, Manager of the British Bank of the Middle East in Jerusalem, Jordan.

(2) Day, A.D. op.cit., p. 67

British or French colonies than in some south American countries, which for political reasons could not enjoy such close integration".⁽¹⁾

Jordan is deriving this benefit from its membership in the Sterling Area. The control that is being done by the Bank of England, on behalf of the United Kingdom, has not been too restrictive to cause any unfavorable results. "The British have been very liberal in their capacity as the centre of the Sterling Area, with Jordan, they have been giving the Jordanians all the permits the latter want, to purchase foreign currencies".⁽²⁾

It can be maintained in this respect that Jordan derives the benefits without having to suffer any unfavorable results that centre countries of the system have to suffer.

c. A third argument which expresses the convenience of currency area systems concerns the stable exchange rate aspect of currency areas. To some extent a system of internal stability of exchange rates is implied by the other two arguments of convenience already outlined.

The Jordanian dinar has been quite stable in the past decade. And it is very improbable that this stability could be achieved outside the Sterling Area especially with Jordan's underdeveloped economy and poverty in natural resources and

(1) Ibid.

(2) From an interview with Mr. G. Tadros, Manager of the British Bank of the Middle East, Jerusalem, Jordan.

its dependence on foreign aid. The stability was mainly achieved because of the 100 per cent sterling cover that the Jordan dinar has, and its subsequent increase with the increase in the money in circulation. Nevertheless, it has been observed while discussing the monetary system of Jordan, that the rate of the Jordan dinar at the Beirut free market fluctuated during the last decade between a rate of \$2.13 to \$2.78 per Jordan dinar. This was the case because the rate of the Jordan dinar at the Beirut free market is highly dependent on the invisible trade of Jordan, since such foreign earnings of Jordan are traded in the Beirut Market. "When tourists come into Jordan, the demand for dinars increases, the supply of foreign currency, which is highly in demand in Beirut free market increases too, thus pushing up the rate of the Jordan dinar"⁽¹⁾, that is why in years when tourism into Jordan is prosperous like the past year, the rate of the dinar is high, \$2.80 per dinar, while in years when tourism is very small, like in the years 1955 and 1956, the rate of the dinar is very low, \$2.58 per dinar.⁽²⁾

2. Advantages Accruing to Jordan from Joining the Sterling Area

In the study of the Sterling Area, it has been concluded that there are three justifications that have kept the Sterling Area together, despite the many obstacles the area had faced in the post-war period. These justifications are:

(1) Based on an interview with Mr. G. Tadros.

(2) For Beirut market rate of Jordan Dinar see p. 97.

- a. "The presence of the dollar reserve pool"; it has been found out that "each country in the system can allow itself more latitude in its actions with given reserves if it pools its reserves with other countries, or what amounts to the same thing, it can allow itself the same degree of latitude with less reserves."⁽¹⁾

The monetary reserves are real resources, from the point of view of the countries holding them, and the holding of reserves is only one of the possible uses competing for the limited amount of resources at the disposal of each country. In a wealthy country, or in a country in which there is little prospect for economic development, the maintenance of adequate reserves may necessitate no practical sacrifice. In a poor country, however, the maintenance of these reserves is at the expense of urgently needed industrial or agricultural capital goods.⁽²⁾

Jordan, is a poor, developing country which has been importing machinery at a large scale and which needs every bit of available resources for development. Therefore, the fact that less reserves are required by joining the Sterling Area is a real advantage by itself.

(1) See page, 46

(2) International Monetary Fund, Staff Papers, Vol. III, no. 2, pp. 194-195.

The reserves of Jordan in 1959 amounted to \$48 million,⁽¹⁾ or what is equivalent to J.D. 17 million, while its imports during the same year came up to J.D. 39.4 million,⁽²⁾ The question which comes out on this occasion is whether Jordan has adequate monetary reserves to back its international trade and thus keep its balance of payments from running into such a deficit that it would affect the stability of the Jordan dinar.

"Monetary reserves can be considered adequate when capable of meeting short term deficit or monetary disequilibrium in the balance of payments account. As such, the intensification or introduction of restrictions, or the devaluation of the exchange rate are avoided."⁽³⁾

In our discussion of the balance of payments account of Jordan, it has been observed that Jordan is incurring a chronic deficit in its current balance of payments account. The amount of this deficit came up to J.D. 24.86 million and J.D. 32.87 million in 1958 and 1959 respectively, while the reserves of Jordan for the two years were J.D. 16.4 million and J.D. 17 million respectively,⁽⁴⁾ that is for the year 1959

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- (1) International Monetary Fund, International Financial Statistics, Feb., 1960
 - (2) Hashemite Kingdom of Jordan, Currency Control Department Balance of Payments for the Year 1959, Typescript, p. 2
 - (3) International Monetary Fund, Staff Papers, Vol. III, No. 2, p. 195.
 - (4) For details see Chapter IV.

True, Jordan has been getting foreign aid to compensate for the deficit in its Balance of Payments account, but should this foreign aid stop flowing the amount of reserves in the possession of Jordan won't be enough to pay for its imports during half a year.

This situation would surely lead us to one conclusion, that the monetary reserves of Jordan are inadequate. But the point which needs an answer at this moment is whether Jordan's presence in the Sterling Area would change the situation; i.e. would it render Jordan's reserves more adequate or would it change the status of the Jordan dinar. It is the belief of Mr. Ramadan ⁽¹⁾ that the membership of Jordan in the Sterling Area has added stability to the Jordan dinar. In real terms the membership of Jordan in the Sterling Area does not change quantitatively the amount of reserves of Jordan but it creates in the minds of people and nations a notion of confidence in the stability of the dinar.

The reserves of a country are considered adequate or not by the people; it is in a way psychological expectation. In 1947, Britain got an American and a Canadian long term loans enough to make it consider its reserves adequate to back a convertible currency. But since the people did not hold the same opinion of the pound sterling, there was a run on the reserves of the United Kingdom and as a result convertibility was suspended. With respect to Jordan, its membership in the Sterling Area gives the people confidence in its

(1) Taken from an interview with Mr. Nahed Ramadan.

currency, because they are under the impression that the entire Sterling Area with its dollar reserves pool is backing the Jordanian dinar, this gives a sense of adequacy to Jordanian reserves and stabilizes the rate of the dinar.

(1)
This opinion is backed by Mr. George Tadros, Manager of the British Bank of the Middle East in Jerusalem who holds that whereas the Jordan dinar is not known in foreign countries, and whereas Jordan depends highly on trade, the trading position of Jordan vis-a-vis Europe and the rest of the non-Arab countries would be much weaker without the sterling backing of the Jordan dinar. Therefore, with respect to the first justification which keeps the Sterling Area together, namely, the pooling of reserves, Jordan derives a number of advantages and as a result it is justified in remaining in the Sterling Area.

- b. The second justification that has kept the Sterling Area together is:

"The trade amongst Sterling Area members".

The Sterling Area members conduct around 50 per cent of their trade with other members of the Sterling Area; having a common currency union makes such trade much easier.

Jordan's trade with the Sterling Area is not very great. Amongst Sterling Area members, Jordan trades with the United Kingdom, India and Ceylon, and the only sizeable amount of trade is done with the United Kingdom from where Jordan

(1) Based on an interview with Mr. G. Tadros.

imported goods equivalent to 12 per cent of its total imports
(1)
for the year 1958. There is a slight advantage to Jordan
from being in the Sterling Area in this respect, its having
a common currency union with Great Britain facilitates its
trading with it, but since Jordan's imports come from 87
different countries and its exports go mainly to neighboring
Arab states the advantages deriving to Jordan from being in
the Sterling Area are not based on this trade partnership
criterion but on the added stability given to the Jordan di-
nar from being in the Sterling Area that was mentioned earlier;
therefore the trade with other Sterling Area members is not
enough of a justification to keep Jordan in the area.

- c. The third justification for keeping the Sterling Area to-
gether is the Flow of Capital Funds mainly from the United
Kingdom to other Sterling Area countries.

"One major factor in Sterling Area cohesion comes from
the reliance of Sterling Area countries on the London market
(2)
as a source of capital".

Jordan did not conform to this characteristic of the
Sterling Area. It has depended more on the British govern-
ment per se than on the London market. It was mentioned in
Chapter II that the British government has given Jordan upto
1959, J.D. 8.35 million interest free loans for development.

(1) See page 124.

(2) Polk, J., op.cit., p. 130

Moreover, the British government has been paying up to 1957 a direct subsidy to the Arab Legion which came up to £70 million.⁽¹⁾ On the other hand there is no evidence of any private flow of funds from London market to Jordan, except for the working balances of the two British banks now operating in Jordan.

Judging from the above justifications for the presence of Jordan in the Sterling Area, we can sum up by saying that Jordan derives a number of benefits from its being a member of the Sterling Area. Such benefits are more advantageous in view of the fact of the special economic circumstances that characterize the country.

Jordan is undergoing a very ambitious development programme aiming at doubling the national income in the next decade. To implement this programme the country needs foreign capital, foreign goods, and foreign knowhow. Moreover, the country needs to develop some of its economic institutions so as to guide and control this development toward the most efficient way. It needs most of all to follow a sound monetary policy and keep a stable currency. Therefore it cannot afford to gamble on the stability of its currency by leaving the Sterling Area. Since it is the consensus of opinion of five bankers in Jordan⁽²⁾ that there are no disadvantages to Jordan's membership in the Sterling Area, one

(1) See p. 62.

(2) They are: Mr. Nahed Ramadan, Mr. George Tadros, Mr. Hatem Zou'by, Mr. Odeh Khoury and Mr. Saheb Wasfi.

cannot suggest that Jordan leave the Sterling Area.

"What has existed in the past three years, since Jordan started getting sizeable amounts of American aid is an advantageous position to the United Kingdom and the rest of the Sterling Area, whereby they have been getting the dollar earnings of Jordan and giving the latter sterling drawing rights" ⁽¹⁾ maintains Mr. Hatem Zou'by, assistant manager of the Cairo Bank in Amman, what the Jordan can do at the moment in the form of monetary reform to go along in helping development in other fields of the economy. Development in the other fields, or rather a structural change in the economy of Jordan which would make Jordan depend more on local production rather than on foreign aid is very much required, and to go along with it sound monetary policy aiming at maintaining a certain level of employment and controlling inflationary tendencies is required too.

B. The Economy and Monetary Reform

In the description of the Jordanian economy, the national income has been found to fluctuate during the last five years, without following any specific trend of growth. Moreover, the government has been depending more on foreign aid than on taxing local productive capacity for its revenue. As to the economy it can be exposed the best way through Keynesian approach of national income.

(1) Based on an interview with Mr. Hatem Zou'by, assistant manager to the Cairo Bank in Amman.

If National income (Y) Equals
Total consumption (c) Plus
Total investment (I) Plus
Total exports (E) minus
Total imports (M)

$$Y = (C + I + E) - M$$

For our purpose it is more convenient to write the equation as follows:

$$Y + M = C + I + E$$

The national income (Y) for the year 1959 is estimated at J.D. 42 million, (1) while the imports (M) came up to J.D. 35 million and the exports were J.D. 7.5 million divided into: visible exports, J.D. 3.5 million and invisible exports J.D. 4 million. (2)

We thus can write for the year 1959

$$Y + M = C + I + E$$

As $42 + 35 = C + I + (3.5 + 4)$

It is further assumed that investment is about 10 per cent (3) of (Y + M) that is to say 10 per cent of (42 + 35) or what is equivalent

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- (1) Hashemite Kingdom of Jordan, Development Board, "Economic Development of Jordan; Framework and Targets, 1960-1969" Amman, Typescript.
 - (2) Ibid., Invisible exports are estimated as follows: Private remittances, J.D. 2.7 million plus Tourism to Jordan, J.D. 2.5 million minus tourists from Jordan, J.D. 1.2 million.
 - (3) International Bank for Reconstruction and Development, op.cit., p. 67

to J.D. 7.5 million, from which it follows that the numerical value for (C) must be J.D. 62 million, thus the picture of the Jordanian economy can be numerically shown as follows:

$$42 + 35 = 62 + 7.5 + (3.5 + 4)$$

The significance of these figures is very grave: imports which are equal to 83 per cent of the national income are covered only to the extent of 21 per cent by the visible plus invisible exports, while the capital imports are about four times the capital formation in the country. On the other hand, actual consumption estimated at J.D. 62 million exceeds national income by J.D. 20 million or by about 50 per cent.

The Jordanian economy can be focused properly if one finds out what would become of the economy if capital imports should for any reason decline, that is to say, if imports should fall to the level of exports. The following would be the case:

$$42 + 7.5 = 37 + 5 + (3.5 + 4)$$

Consumption would fall from J.D. 62 million to J.D. 37 or J.D. 38 (\$106) per capita to J.D. 23 (\$64) per capita. Investment, moreover, would drop by around 50 per cent. This situation would be aggravated by the presence of 150,000 unemployed persons or what is equivalent to 36 per cent of the labor force.

The government, as was mentioned earlier, is in the process of executing a ten year development plan to double the national income, the details of the plan are outside the scope of this presentation

but it is our intention to suggest a few monetary reforms to back up the monetary aspect of the plan.

The monetary and banking situation of the Jordan have been found to be quite satisfactory, but they are not well equipped to meet the demands on them from the expected development plans.

"The monetary and banking arrangements which now exist in Jordan appear to function reasonably well and to meet most of the needs of the economy."⁽¹⁾ The banks have increased in number in the past decade, and their activities increased at a high rate.

The principal exception to this increase is with respect to agricultural and industrial finance where appropriate institutional arrangements could make a suitable contribution to increasing agricultural and industrial productivity.

An agricultural expansion as well as an industrial one are envisaged for Jordan, the present institutions for agricultural and industrial credit are not adequate to meet the present requirements; therefore, as the economy is expanding, there is a need to develop institutional arrangements for agricultural and industrial financing and to encourage savings and direct them into appropriate investment channels.

Besides, the commercial banks have a substantial degree of liquidity in the form of cash in the safe or foreign assets, in the absence of a money market in Jordan this type of banking arrangement in the country is inevitable; therefore, it is suggested

(1) Selehdar, A.K., op.cit., p. 2

hereby that the government start organizing a money market; so as to be able to put these financial resources to better use. In the absence of a central bank in Jordan, central banking operations are divided amongst the Currency Board which issues currency, the Ottoman Bank which acts as a depository of the Currency Board and the Exchange Control department which controls the exchange of currencies and issues currency permits. In 1959 a law was enacted for the organization of a central bank;⁽¹⁾ no measures have been taken yet for putting this law into effect. Nevertheless, it is hereby suggested that central banking functions should be gathered in one body or organization namely, the Currency Board until the time is ripe for a central bank to start functioning.

Jordan is not well equipped for a Central Bank at the present. "It is not possible, in the space of a few years to create an authority exercising all the functions of a Central Bank. At present even the basic statistical information on bank operations is ambiguous and unreliable. Even after the collection of statistics is put on a satisfactory basis, some years of experience in the interpretation of the data are required before a monetary authority can act with confidence. Furthermore, it will take time to assemble a staff qualified by training and experience to exercise central banking functions. At present no Jordanians are being given such training

(1) Hashemite Kingdom of Jordan, Official Gazette, No. 1413, Law No. 4, for the year 1959, for details see Appendix IV.

(1)
or acquiring such experience."

Moreover, the Central Bank Law enacted in 1959, is not adequate enough since it creates a bank which is very much tied to the government machinery (2) since it is under the direct control of the finance ministry instead of being an independent organ with independent monetary policy.

Therefore, it is suggested in this respect, that although a central bank is desired in the long run for Jordan, in the short run other measures should be taken to deal with the situation. The Currency Law should be amended to meet the demands of a developing economy and the Currency Board should be given more authority and more power.

"The first task the Board should do is to recruit a staff competent to make continuing studies of the monetary and fiscal situation in the country. It should undertake the collection of adequate statistics on the operation of the commercial banks. Eventually its sphere of responsibility should extend to all the banking and credit institutions in the country, including the Agricultural Bank and the Development Bank. Once supplied with adequate and accurate information and equipped with a sufficiently well trained staff, it should be expected to play an active role in recommending adaptation of the entire credit credit structure to the changing needs of the economy;" (3) and

(1) International Bank for Reconstruction and Development, op.cit., p. 32.

(2) See Appendix 2

(3) Ibid.

with the trained staff and personnel it can be easily switched to a central bank.

Moreover, the Currency Board should be given immediate authority to buy and sell and hold Arab League currencies, and other currencies as is necessary to achieve stabilization of the free market exchange rate. In this respect it will be acting as a sort of stabilization fund.

The International Bank Mission to Jordan suggests moreover, the amendment of the Currency Law of Jordan. "The Currency Law must be amended so as to enable the Currency Board to rediscount certain short term bonds and commercial bank assets. The domestic assets to be held by the Currency Board might be government securities, or obligations carrying the guarantee of the government issued by the Development Bank, the Agricultural Bank, or the Municipal Equipment and Development Fund."⁽¹⁾

This is a very desirable step due to the need of Jordan for funds for development programs and the availability of these funds in the banking institutions in the form of foreign assets. At present, the banks have plenty of liquid assets held in the form of sterling securities; should the government or the Currency Board issue Jordanian securities, the banks would hold their assets in them and the funds can be used for development purposes.

A further cause requiring the amendment of the current Currency Law and demobilizing part of sterling currency cover assets for use

(1) International Bank for Reconstruction and Development, op.cit., p. 376.

in development programs is the continued growth which is planned and envisaged for Jordan. The development projects are expected to lead to doubling the national income in a period of ten years. This is expected to lead to a further expansion of the currency issue. Under the present arrangement requiring 100 per cent reserves against the note issue, this would necessitate the immobilization of an assistance additional to that required for the development program or the freezing of more of the domestic assets to keep the cover at a 100 per cent.

Therefore, it is suggested in the respect that the Currency Law be amended so as to change the ratio of the cover for the currency issue from 100 per cent to probably 50 per cent or 60 per cent. This amendment does not require or necessitate any changes in Jordan's relationship with the Sterling Area since there is no rule in the area necessitating a 100 per cent sterling cover for the note issue. Besides, such change can be coupled with a change in the form of the currency cover in such a way that it would consist of dollars, gold and other convertible currencies besides the sterling. Such a measure would minimize the risk of any losses coming to Jordan as a result of any possible fluctuations in the rate of sterling. It is worth noting on this occasion that holding and accumulating reserves individually rather than with the rest of Sterling Area has been a trend amongst Sterling Area members because, "As a country becomes more developed economically, it is likely to give up its dependence on the promises of
(1)
a foreign treasury as a basis for the issuance of its own currency".

(1) Polk., J., op.cit., p. 164.

Finally, one can state that Jordan has been deriving many advantages from its membership in the Sterling Area. The disadvantages incurred are of minor importance. Hence it can be concluded that it would not be in the interest of Jordan to alter such an advantageous relationship. On the other hand, Jordan's banking and monetary systems have been found fairly adequate for the currency of Jordan. However, some reforms or changes should be made in the future. This is deemed necessary in view of the future development and economic growth envisaged for the economy of Jordan.

APPENDIX I

TABLE VII

EXTERNAL TRADE OF THE OVERSEAS STERLING AREA

	(1)	(Million Dollars)			
		1955	1956	1957	1958
Dependent Overseas Territories of the United Kingdom	E*	3,285	3,571	3,645	3,517
	I*	3,982	4,275	4,577	4,358
	B*	-697	-704	-932	-841
Australia	E	1,747	1,887	2,203	1,654
	I	2,160	1,964	1,945	2,058
	B	-413	-77	+ 258	-404
Burma	E	227	250	230	194
	I	181	198	296	203
	B	+ 46	+ 52	-66	-9
Ceylon	E	407	364	353	359
	I	397	342	379	360
	B	+ 100	+ 22	-26	-1
Ghana	E	243	222	229	263
	I	246	249	270	237
	B	-3	-27	-41	+ 26
India	E	1,276	1,300	1,350	1,216
	I	1,413	1,725	2,154	1,815
	B	-137	-425	-804	-599
Pakistan	E	401	340	358	298
	I	290	417	440	396
	B	+111	-77	-82	-98
Iraq	E	519	478	360	567
	I	272	321	343	307
	B	+247	+157	+17	+260
Jordan	E	8	14	16	9
	I	76	78	85	95
	B	-68	-64	-69	-86
Kuwait	E	830	840	855	1,085
	I	250	270	300	310
	B	+580	+570	+585	+775
Libya	E	13	12	15	14
	I	40	46	79	90
	B	-27	-34	-64	-76

		<u>1955</u>	<u>1956</u>	<u>1967</u>	<u>1958</u>
Federation of Malaya	E	774	739	713	616
	I	504	572	590	540
	B	+270	+167	+123	+ 76
New Zealand	E	785	776	774	699
	I	802	751	827	796
	B	-77	+25	-53	-97
Federation of Rhodesia and Nyasaland	E	484	509	437	380
	I	441	506	560	497
	B	+43	+3	-123	-117
Union of South Africa	E	1,059	1,183	1,296	1,120
	I	1,481	1,524	1,693	1,714
	B	-422	-341	-387	-594
Others	E	185	185	180	165
	I	80	110	115	75
	B	105	+75	+65	+90
Total Independent Sterling Countries	E	8,898	9,099	9,399	8,639
	I	8,543	9,073	10,076	9,493
	B	+355	+26	-677	-854
Total Overseas Sterling Area	E	12,183	12,670	13,044	12,156
	I	12,525	13,348	14,653	13,851
	B	-342	-678	-1,609	-1,695

Source: General Agreement on Tariffs and Trade - International Trade 1957-1958, p. 151

Note : E* = Exports
I* = Imports
B* = Balance

(1) Dependent Overseas Territories are:-

Barbados, British Guiana, Jamaica, Trinidad, Malta, Aden, Cyprus, Brunei, Hong Kong, North Borneo, Sarawak, Singapore, Fiji, Kenya, Uganda, Mauritius, Nigeria, Sierra Leone, Tanganyika.

APPENDIX II

Notes on Table III, Chapter III

1. Demand Deposits Current accounts and those for periods of less than one month.
2. Time Deposits All deposits for periods of one month or longer as well as saving deposits.
3. Public Deposits
 - a. Government: All accounts in the name of the Jordan government, the treasury the ministries, the post office, customs and excise, Jordan Development Board, etc...
 - b. Public Services: All accounts in the name of publicly - owned or publicly - controlled institutions of a commercial, industrial, agricultural or financial character.
 - c. Foreign and International Agencies: All accounts in the name of the agencies such as United Nations Relief and Work Agency, United States Operations Mission, United States - Jordan Cooperative Department, but excluding those of embassies and legations, which are considered as private deposits.
 - d. Other Public Authorities: All accounts in the name of municipalities, government or municipal schools, the wakfs, official or philanthropic institutions.
4. Private Deposits: Accounts opened in the name of private individuals and firms, religious institutions etc... exclusive of all accounts

opened in the name of banking institutions.

5. Bank Deposits Accounts opened in the name of Banking institutions.

APPENDIX III

Translation of

LAW No. 35 of 1949

Temporary Law for Jordan Currency

1. This temporary law shall be called the Jordan Currency Law and shall come into force one month after its publication in the official gazette.
2. As from 1st January, 1950 the Jordanian dinar will be the unit of currency in the Hashemite Kingdom of the Jordan. Every dinar will consist of 1,000 Fils.
3. Contracts, bills of sale, payments, bills, documents, bonds, transfers, promissory notes, bank securities, operations, transactions and dealings of all sorts connected with money or entailing the payment or promise of payment of any amount of money shall, as from the 1st day of January, 1950, be considered as though they had been made, agreed to, concluded or effected in the Hashemite Kingdom of the Jordan in accordance with the unit of currency mentioned in the second article of this law, unless otherwise stipulated in a special agreement.
4. All monetary transactions carried out before the 1st of January 1950 which involve an agreement to pay, in the Hashemite Kingdom of the Jordan, a sum in Palestine currency on the said date or thereafter, shall be deemed to have been carried out in accordance with the unit of currency fixed in article two of this law and exchange will take place at the following rate:

1 Jordanian dinar = 1 Palestine pound
1 Jordanian fils = 1 Palestine nil

5. Any ordinance, regulations, orders, notices, instructions and schedules attached thereto as well as all deeds in which appear the words Palestine pound or Palestine nil, shall as from the 1st of January, 1950 be read as though they referred to a Jordanian dinar or Jordanian fils. The penalties prescribed by the laws in force in the Hashemite Kingdom of the Jordan against counterfeiters of Palestine currency will apply to counterfeiters of Jordan currency as from 1st January, 1950.
6. In accordance with the provisions of this law there shall be established a Board consisting of a chairman and four members, to be known as the Jordan Currency Board enjoying the status of a corporate body and can sue and be sued under that name. Its chairman and members shall be appointed by the Council of Ministers with the approval of His Majesty the King for a period of three years. They shall be eligible for re-appointment and shall, in return for their services, be paid emoluments in such amount as shall be determined by the Council of Ministers upon the advice of the Minister of Finance and Economics. The office of the Currency Board shall be such place as is designated by the Council of Ministers. Quorum shall be constituted by the attendance of the chairman and two members. Should the chairman, for any reason, be absent the other four members shall, by a majority of votes, elect one of them to act as chairman. Should a member of the Currency Board be absent the Council of Ministers may, with the approval of His Majesty the King, appoint a member to replace him and have the right to exercise all the powers vested in that member.

7. The functions of the Currency Board shall be as follows:
- (a) to make all arrangements necessary for minting coins, and printing notes for circulation, in the Hashemite Kingdom of the Jordan,
 - (b) to make all arrangements necessary for the issue and re-issue of coins and notes, for the cancellation of notes that have become unusable, for the destruction of cancelled notes and for the keeping of records of the issue or cancellation of notes, in such manner as it may decide,
 - (c) to make all arrangements necessary for the safe-keeping of the stocks of currency not in circulation, and the preparation, safe custody and destruction of plates for the printing of notes,
 - (d) to establish a Currency Reserve Fund and to keep it in such manner as will ensure the convertibility of currency as required by this law,
 - (e) to credit the Currency Reserve Fund with sterling received for the issue of notes and coins and to debit the Reserve Currency Fund with payments made in sterling for the redemption of notes and coins,
 - (f) to open a Currency Fund Income Account and to credit it with all moneys received by the Board other than the sterling received against the issue of notes and coins and to debit it with all expenditure incurred other than expenditure arising from the redemption of currency notes and coins,
 - (g) to invest its assets in such sterling securities as shall be approved by the Board, and issued by governments other than

that of the Hashemite Kingdom of the Jordan itself, except for that part of the assets which the Board decides to keep as cash in hand. Should that amount of cash of the Reserve Fund be insufficient to effect all payments due under this article, the Board has the right to borrow, on the security of bonds in its possession, such amounts as it deems necessary for the settlement of those payments,

(h) subject to the instructions that may be issued by the Ministry of Finance, the Board is responsible for seeing that the securities are safeguarded in such place as may seem suitable to the Board for the carrying out of the functions and responsibilities assigned to it in this law,

(i) and, in general, to take such measures as are lawful and necessary for the execution of the provisions of this law.

8. The Currency Board may, from time to time, issue or re-issue currency notes to the value of 500 fils, 1 dinar, 5 dinars, 10 dinars and 50 dinars. The sums necessary for the redemption of these issues shall be considered a first charge on the funds and securities in the possession of the Board in the first instance, and after that on the general revenue of the Hashemite Kingdom of the Jordan.
9. The Currency Board has the right, from time to time, to issue coins of the following denominations: 100 fils, 50 fils, 20 fils, 10 fils, 5 fils, and 1 fils. The sum necessary for the redemption of these issues shall be considered a first charge on the funds and securities in the possession of the Board in the first instance, and after that on the general revenue of the Hashemite Kingdom of the Jordan.

10. The value of notes and coins shall be shown thereon and their shape, design and size shall be prescribed by the Council of Ministers. Notes issued in accordance with this law shall be signed by the Minister of Finance and Economics and an authorized representative of the Jordan Currency Board. The coins shall be of a weight and metal determined by the Council of Ministers.

11. In all payments made between individuals on or after the 1st January 1950 in notes or coins issued in accordance with this law those notes and coins shall be considered legal tender as follows:

(a)	currency notes for the payment of any amount
(b)	100 fils pieces for the payment of 10 dinars
(c)	50 " " " " " " " 5 "
(d)	20 " " " " " " " 2 "
(e)	10 " " " " " " " 1 dinar
(f)	5 " " " " " " " 500 fils
(g)	1 " " " " " " " 100 fils

Nevertheless, the Treasury shall accept coins of all values in settlement of any amount.

12. Every coin issued under this law shall be legal tender for its nominal value provided that it has not been unlawfully treated and that its weight be not lower than the official minimum set by the Council of Ministers. Coins shall be deemed to have been unlawfully treated if they have been damaged or reduced in size or weight otherwise than by the normal use or defaced by stamping, engraving or perforation whether or not they be lessened in size or weight. Coins which cease to be legal tender, having been unlawfully treated or lessened in weight below the legal minimum shall be withdrawn and broken or destroyed.

13. As from 1st January 1950 notes issued in accordance with this law shall be legal tender for the amounts mentioned. As from a date to be fixed by the Council of Ministers by notice in the official gazette, coins issued under this law shall be legal tender for the amounts mentioned.
14. All (Palestinian) notes in circulation in the Hashemite Kingdom of the Jordan will cease to be legal tender on 1st March 1950. All (Palestinian) coins in circulation in the Hashemite Kingdom of the Jordan will cease to be legal tender as from a date to be fixed by the Council of Ministers.
15. The Council of Ministers has the right to cancel any coins or notes issued in accordance with this law and replace them by a new issue provided that a notice to this effect is published in the official gazette.
16. (a) Every holder of Palestine currency notes has the right to exchange them for the equivalent in Jordan currency notes in the Hashemite Kingdom of the Jordan within a period of two months beginning from 1st January 1950. It shall be the duty of the Currency Board to make the arrangements necessary for the issue of Jordan notes sufficient for the redemption of Palestine currency notes in circulation in the Hashemite Kingdom of the Jordan. It shall also take the measures necessary to facilitate exchange operations at the rate of one Jordan dinar for every Palestine pound. In exceptional circumstances, the Board shall, as it may deem fit, have the right to issue Jordanian currency notes against Palestinian notes after the expiration of the said time. It shall also be the duty of the

Board to arrange for the redemption of Palestinian notes presented to it in accordance with this article by the Palestine currency Board.

(b) Every holder of Palestine coins has the right to exchange them for the equivalent in Jordanian coins within a period to be determined by the Council of Ministers.

17. The Currency Board shall, on demand, issue currency notes or coins in the Hashemite Kingdom of the Jordan against payment in advance in sterling in London. No currency notes may be issued otherwise except as provided for in article 16 of this law. Any such issue shall be made at the rate of one Jordanian dinar for one sterling pound. The Currency Board may charge a commission at a rate to be determined by it. This commission which may vary according to whether a transfer is made by post or telegraph, shall not in any case, exceed 1 per cent. The Currency Board shall publish the rate of commission in the official gazette and may, from time to time, determine the sums acceptable in such transactions, after obtaining the sanction of the Council of Ministers.
18. The Currency Board shall accept for exchange in the Hashemite Kingdom of the Jordan currency notes or coins and issue the equivalent on demand in the form of postal or telegraphic transfers payable in London in sterling at the rate of one pound sterling against one Jordanian dinar. The Currency Board may charge a commission at a rate to be determined by it. This commission which may vary according to whether a transfer is made by post

or telegraph, shall not in any case exceed 1 per cent. The Board shall publish the rate of commission in the official gazette and may, from time to time, determine the sums acceptable in such transactions, after obtaining the sanction of the Council of Ministers.

19. When the Currency Board finds that its reserve assets are sufficient to guarantee the redemption of currency notes and coins in the manner provided for in this law in the ratio of not less than 100 per cent, and also a reserve fund sufficient to cover a fall in the value of its assets, it shall pay its excess profits to the Treasury of the Hashemite Kingdom of the Jordan.
20. The financial year for the Currency Board shall consist of 12 months beginning from 1st April of every solar year, (and shall end on the 31st March). The Currency Board shall submit to the Minister of Finance an annual statement of account of the Currency Reserve Fund at the end of every financial year, together with a full report showing transactions carried out during the year. The said return and report shall contain the particulars required by the Minister of Finance and Economics.
21. At the end of each six months of the financial year, the Currency Board shall publish in the official gazette a summary showing the amount of notes and coins actually in circulation and the position of the Currency Reserve Fund and the Currency Fund Income Account as at the last day of the half year. It shall also publish a return showing the nominal value of securities belonging to the Currency Reserve Fund, their purchase price and the latest market price on

- the day of drawing up the statement.
22. Expenses incurred as a result of the enforcement of the provisions of this law shall be borne by the revenue of the Currency Fund and until this revenue does come into existence such expenditure shall be defrayed from the Treasury and shall be debited to the Fund and be settled when the said revenue exists, with interest at the rate of 2 per cent per annum.
 23. The Currency Board shall be represented in the Hashemite Kingdom of the Jordan by an officer to be known as the Currency Officer, to be appointed by the Currency Board with the approval of the Council of Ministers. It shall also be represented by one or more agents who shall be one or more banks operating in the Hashemite Kingdom of the Jordan.
 24. The Currency Board may appoint such officers and spend such money as it may deem necessary for the execution of its duties in accordance with this law.
 25. No person shall be entitled to recover from the Currency Board the value of any note which has been lost or stolen or mutilated or effaced or has become in any way imperfect. The circumstances and limits within which, and the conditions on which the Currency Board shall refund, ex gratia, the value of lost or stolen or mutilated or imperfect notes, shall be at the complete discretion of the Currency Board.
 26. The books and (bank) accounts of the Board shall be audited once a year by an auditor to be appointed by the Council of Ministers upon the recommendation of the Currency Board.

27. The Minister of Finance may, from time to time, order examinations to ensure that appropriate arrangements have been made for the registration and safeguarding of notes and coins not issued and that the number of notes and coins held by the Board agree with the records.
28. The decree issued on the 13th of October 1927 concerning the use of Palestine currency and the Palestine Currency Ordinance 1928 together with the appendix attached thereto, shall be annulled as from 1st March 1950.
29. The Council of Ministers shall be responsible for the execution of the provisions of this law.

Translation of

LAW No. 53 of 1949

Temporary Law (Amendment) to Law No. 35 of 1949 (Temporary Law for the Jordan Currency).

1. This law shall be called the "Temporary Law (Amendment) to Law No, 35 of 1949 - the Jordan Currency Law " and shall come into force from the date of its publication in the official gazette.
2. The phrase "1st day of January 1950", whenever it reads in the law, shall be substituted by "such date as the Council of Ministers may decide".
3. Clause 7 (f) shall be substituted by "To open a Currency Fund Income Account and to credit it with all moneys received by the Board other than sterling received against the issue of notes and coin and to debit it with all expenditure incurred other than in the redemption of currency notes and coin".
4. Clause 7 (g) shall be substituted by the following: "to invest its assets in such sterling securities as shall be approved by the Board, and issued by governments other than that of the Hashemite Kingdom of the Jordan itself, except for that part of the assets which the Board decides to keep as cash in hand. The Board also has the right to sell such securities as it may deem necessary. Should that amount of cash of the Reserve Fund be insufficient to effect all payments due under this article, the Board has the right to borrow, on the security of bonds in its possession, such amounts as it deems necessary for the settlement of those payments".
5. The phrase "1st day of March 1950" appearing in Clauses 14 and 28 of the Law shall be substituted by "as from such date as the Council of Ministers may decide".

6. The Cabinet shall be responsible for the execution of the provisions of this Law.

APPENDIX IV

Short Summary of the Central Bank Law of Jordan

INTRODUCTION

1. Article 3 of Law No. 4, 1959 stipulates the setting-up of a central bank for Jordan, which will be located at Amman.
2. The objectives of the bank (article 6) are:-
 - a) To regulate the issuing of bank notes.
 - b) To stabilize the value of the dinar domestically and internationally.
 - c) To control and regulate savings in the country.
 - d) To function as a government bank.
3. The above objectives are to be achieved through the following means:-
 - a) The manipulation of the interest rate in the country and the control of the quality and quantity of savings so that it will meet the prerequisites of commerce, industry and agriculture.
 - b) The supervision of the activities of the commercial banks.
 - c) The control of the government gold and foreign exchange reserves.
 - d) The implementation of the necessary steps to cope with financial and economic crises.

CAPITAL AND RESERVES

1. The capital of the bank, consisting of one million dinars, will be provided by the government.
2. At the end of the financial year, all the administrative expenses, dead loans and asset depreciation will be subtracted from total revenues; and the residual profit will be accumulated in the general reserve account.

3. When the reserves become greater than the original capital but does not exceed double that capital, then 90 % of the accruing profits will go to the government budget and the remaining 10 % will be added to the reserve balance.
4. When the total reserves exceed double the original capital, then all the annual profits will be paid to the government.

ADMINISTRATION

1. The bank will be run by an appointed Board, consisting of a governor, deputy governor and five other members.
2. The governor will directly be in charge of the Bank's activities and he is expected to exercise the rights and prerogatives guaranteed to the bank under the law. However, the governor and his deputy will be responsible to the Board.
3. The Board is to be appointed by the Council of Ministers with the approval of the king; and the Board members are not allowed to occupy other posts besides that of the bank.

ACTIVITIES

Among the important functions of the Bank are the following:-

1. To issue currency.
2. To issue cheques and transfers on its branches.
3. To accept deposits.
4. To buy and sell gold.
5. To purchase, sell, discount and rediscount securities and bonds that are signed by two or more trustworthy persons and that are due within three months time.

6. To purchase, discount and rediscount securities and internal bond, for the purpose of financing seasonal agricultural and marketing activities, that are due within nine months time; but on condition that the value of such securities and bonds is not to exceed 50 % of the value of the Bank's securities and bonds.
7. To buy, sell, discount and rediscount the government bonds in the market which are due in three months time.
8. To supervise government loans in Jordan.
9. To buy and sell foreign currencies; and to buy, sell foreign discount and rediscount foreign bonds, provided they are due within 93 days.
10. To act as an agent for any International bank.

On the other hand, the Bank (article 25):-

1. Should not grant extra facilities to the government directly or indirectly by way of discount, rediscount, loans or purchase of bonds (besides the facilities stated in the above paragraphs).
2. Should not engage in any activity having a direct relation to commerce, agriculture or industry except those which pertain to getting back of loans.
3. Should not purchase shares in any company or bank, and should not give loans against such shares.
4. Should not pay interest on demand deposits.

CURRENCY ISSUANCE

1. The central bank is the only organization in the country which is authorized to issue currency.

2. The currency issued at any time should be covered by assets equivalent to it in value.
3. The assets of the Bank should be composed of:-
 - a) gold
 - b) currencies convertible into gold
 - c) Sterling balances
 - d) British Treasury Bonds
 - e) other bonds issued or guaranteed by the British government, but on condition that such bonds will not constitute more than 70 % of total assets and on condition also that the bonds are due within five years.

RELATIONS WITH COMMERCIAL BANKS

1. Every commercial bank operating in Jordan must deposit a portion of its assets in the form of reserves with the central bank.
2. The total assets of any commercial bank are to be:-
 - a) Bank notes issued by the central bank.
 - b) The bank's deposits with the central bank.
 - c) The bank's deposits with any other bank in the kingdom.
 - d) The bank's deposits with foreign banks.
 - e) Government bonds due within three months.
 - f) Internal bonds (commercial or agricultural) that can be re-discounted at the central bank.
 - g) The bank's deposits with banks in the United Kingdom.
 - h) Promissory notes signed by two trustworthy persons and which are due in England in three months time.
 - i) British Treasury bonds due in 93 days.

3. The central bank has the right to request from any bank a report about its activity and the bank which violates this rule (article 37 item d) will be fined 25 dinars for every delayed day.
4. The central bank should, with the cooperation of other banks, set-up clearing centers in the kingdom to facilitate financial transactions between the banks, and these clearing centers have to send monthly reports to the central bank indicating the total number of cheques cleared.

RELATIONS WITH THE GOVERNMENT

1. The central bank will keep the government accounts and will be in charge of her internal and external financial transactions.
2. The bank is allowed to give the government a temporary loan to cover a deficit in the budget; but such a loan should not exceed 10 % of total budget revenues and it should be repaid before the end of the government financial year. However, if a default occurs, then the bank shall not extend new credit to the government until the previous loans are repaid.

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