Financial Development in the Middle East and North Africa

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s countries in the Middle East and North Africa (MENA) (Box 1) consider ways to promote more rapid and lasting economic growth, further financial sector reform should be high on the agenda. Policies aimed at enhancing financial sector performance result in higher economic growth: both theory and evidence support this proposition. A more developed financial system promotes efficiency and growth by reducing information, transaction, and monitoring costs. Research in this area is typically based on a broad cross section of countries, but comparatively little work has been done on the specifics of financial development in the MENA region.

In this study, we review what the economic literature says about financial development and growth and draw general lessons for macroeconomic and financial policy. After assessing financial sector development in the MENA region, we propose several policy measures to enhance this sector’s performance. Drawing on recent research by the IMF on the MENA countries, we evaluate financial sector development by constructing an index that encompasses six themes: monetary policy, banking sector development, regulation and supervision, nonbank financial sector development, financial openness, and institutional quality, such as the strength of creditor rights. Using a subset of
indicators for which data are readily available for non-MENA countries, we also analyze the MENA region’s performance over time relative to a few other regions.

Overall, we find that the relative strength of MENA countries, as a group, include regulation and supervision as well as financial openness. But they need to do more to reinforce the institutional environment and to promote nonbank financial sector development. Based on our measurements, the MENA region performs better than most other developing country regions, but ranks far behind the industrialized countries and East Asia. However, within the MENA region there is substantial variation in the degree of financial development; some countries have advanced financial sectors, while for others progress in this area has been limited.

Financial Development and Growth

The theoretical argument for linking financial development to growth is that a well-developed financial system performs several critical functions to enhance the efficiency of intermediation by reducing information, transaction, and monitoring costs. A modern financial system promotes investment by identifying and funding good business opportunities; mobilizes savings; monitors the performance of managers; enables the trading, hedging, and diversification of risk; and facilitates the exchange of goods and services. These functions result in a more efficient allocation of resources, a
more rapid accumulation of physical and human capital, and faster technological progress, which in turn feed economic growth.

What leads to a well-developed financial sector? Conversely, what hinders financial sector development? These questions are the subject of a large and still growing research literature from which some general conclusions can be drawn. In brief, there is agreement that macroeconomic stability is critical for the growth of financial sector services. Countries should adopt appropriate macroeconomic policies, encourage competition within the financial sector, and develop a strong and transparent institutional and legal framework for financial sector activities. In particular, there is a need for prudential regulations and supervision, strong creditor rights, and contract enforcement.

What hinders financial sector development? Often, the answer is government-imposed restrictions and price distortions on the financial sector, mainly so that it can use the financial system as a source of public finance. In developing countries, examples of these policies include high inflation taxation, high required reserves ratios, subsidized or directed credit, collusive contracts between public enterprises and banks, credit rationing, and ceilings on deposit and loan interest rates (or rates of return). These conditions as a whole are collectively referred to as “financial repression” and a large body of research has shown that these financial repression policies undermine economic growth. Some studies have shown that a strong degree of financial repression results in lower per capita GDP growth of over 1 percentage point a year.

Research also supports the thesis that financial sector development boosts economic growth. In a wide range of studies, the initial level of financial development is shown to be a good predictor of subsequent rates of economic growth, physical capital accumulation, and productivity growth, even after controlling for income, education, political stability, and measures of monetary, trade, and fiscal policy. Some studies have shown that countries with higher levels of financial development grow faster by about
0.7 percentage points a year. However, the direction of causation is sometimes unclear, as financial development can be thought of as following or accommodating growth. For example, improvements in communication technologies could enhance financial sector efficiency. Similarly, the financial sector could grow in anticipation of real economic growth, or financial services may grow as incomes grow because people demand more financial services.

In summary, our current state of knowledge on the issue suggests that a well-developed financial sector can facilitate growth and a lagging financial sector can drag down or inhibit growth prospects. Government decision makers should therefore facilitate and support the process of financial development and, in addition, eliminate financial repression conditions as an important element of their policy package to stimulate and sustain economic growth.

**Measuring Financial Development in the MENA Region**

To assess financial sector development in the MENA region, we construct a detailed set of financial development indicators. Research to date has been largely based on a few “standard” quantitative indicators, such as the ratios of broad money to GDP and of credit to the private sector to GDP, for a broad cross section of countries. These measures, though easily available and amenable to cross-regional and intertemporal comparisons, do not necessarily capture what is broadly meant by financial development. Financial sector development is a multifaceted concept, encompassing not only monetary aggregates and interest rates (or rates of return) but also financial openness, regulation and supervision, technological advances, degree of competition, and institutional capacity such as the strength of creditor rights. The financial structure of a country is composed of a variety of markets and financial products, and it is difficult to conceive of a few measures that could adequately capture all relevant aspects of financial development.
The simple quantitative measures may also give a misleading picture of financial development. For instance, although a higher ratio of broad money to GDP is generally associated with greater financial liquidity and depth, the ratio may decline rather than rise as a financial system develops because people have more alternatives to invest in longer-term or less liquid financial instruments. Going beyond the standard quantitative indicators, some earlier studies used combined measures of market structure, financial products, financial liberalization, institutional environment, financial openness, and monetary policy instruments. These more detailed measures provide a richer description of financial development, and motivate our measures of financial development in the MENA region.

**Gathering the Data**

Against this background, we began by collecting over 100 quantitative and qualitative statistics for 20 MENA countries. We surveyed the MENA country economists at the IMF to collect information on the nature of financial products and institutions in these countries. We organized the data according to six themes, each of which reflects a different facet of financial development: (1) development of the monetary sector and monetary policy; (2) banking sector size, structure, and efficiency (including the role of the government in the sector); (3) quality of banking regulations and supervision; (4) development of the nonbank financial sector; (5) financial openness; and (6) the institutional environment.

**Economic Rationale Behind Data on Financial Development**

Controls on deposit or lending rates and on the allocation of credit are common modes of repression in underdeveloped financial systems. Forcing banks to provide subsidized credit to certain sectors, or restricting the quantity of credit to be allocated, induces distortions in the credit market and lowers efficiency. One of the most important tasks that financial intermediaries perform in a market
The economy is to identify the most promising firms and investment projects and allocate capital to its most productive uses accordingly. Interest rate and credit controls interfere with this service. The monetary sector and monetary policy theme examines the extent to which indirect monetary policy instruments are used by the regulatory bodies as opposed to direct controls on interest rates and credit allocation. It also assesses the range of government securities that are available and how they are distributed, and tries to capture the economy's reliance on cash.

The banking sector theme captures the development of commercial bank markets and the ease of access to bank credit. The choice of variables also reflects the assumption that commercial banks that operate in competitive environments (with less direct government intervention, low market concentration, and where foreign banks are allowed entry) are likely to be more efficient. Government restrictions (such as interest rate ceilings, high reserve requirements, and directed credit programs) on the banking system repress financial development.

Owing to the information asymmetries and associated market failures inherent in banking sector transactions, appropriate banking regulation and supervision is an important aspect of financial sector development. Regulatory bodies need to ensure that depositors' interests are protected, which in turn boosts confidence in the banking sector and eases the process of financial intermediation. The regulation and supervision theme assesses banks' performance with respect to minimum capital adequacy requirements and provisions against nonperforming loans. Among other items, it also evaluates the transparency and openness of the regulatory environment. This latter component in part responds to some recent research that suggests that heavy regulation and supervision, in the absence of other key factors such as a strong institutional environment, may not be consistent with financial development.
The *nonbank financial sector theme* explores whether nonbank financial institutions are present. The theme further differentiates between countries where stock, mortgage, bond, insurance, and interbank markets are characterized by substantial trading activity from countries where these institutions exist only nominally.

With the trend toward globalization and integration of world capital markets, the degree of openness of financial institutions has become an increasingly important component of overall financial progress. The *financial openness theme* evaluates whether there are significant restrictions on the trading of financial assets or currency by foreigners or residents and whether the currency exchange system operates smoothly and is relatively free of interventions. As with other components of the overall index, the positive impact of financial openness is brought out when other aspects of the financial system are also well developed.

The legal and political environment within which the financial system operates is an important determinant of the range and quality of services that financial institutions can offer. In many developing countries, banks are reluctant to extend loans when an inefficient judicial system or corrupt bureaucracy and political institutions act as deterrents to the recovery of nonperforming loans. The *institutional environment theme* tries to judge the quality of institutions that are relevant to the financial system.

**Financial Development in the MENA Region**

Analysis of the data suggests common strengths, trends, and weaknesses, and points to future areas for reform. MENA countries in general perform reasonably well in regulation and supervision and in financial openness. But they need to do more to strengthen the institutional environment and to promote nonbank financial sector development. Within the MENA region, progress on financial sector reforms has been uneven.
Some countries now have well-developed financial sectors, particularly banking sectors, such as the countries of the Gulf Cooperation Council (GCC, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates or U.A.E.), Lebanon, and Jordan. Others, such as Egypt, Morocco, and Tunisia, have made important advances over the past three decades. However, overall, more remains to be done.

The main findings for the MENA region, according to the six themes, are summarized below.

**Monetary policy.** For the most part, interest rates (or rates of return) are freely determined in the MENA region, indirect monetary policy tools are employed, and government securities exist. However, the limited development or nonexistence of secondary markets for government securities hinders the broad use of open market operations by central banks. In addition, a few countries do not follow a comprehensive framework for designing and conducting monetary policy.

**Banking sector.** In a few countries, such as many of the GCC countries, the banking sector is well developed, profitable, and efficient. But in about half the region, this is not case. In many of these countries, the banking sector is dominated by public sector banks, which are characterized by government intervention in credit allocation, losses and liquidity problems, and wide interest rate spreads (or spreads in rates of returns). In more than half the countries, the banking sector is highly concentrated, with assets of the three largest banks accounting for over 65 percent of total commercial bank assets, and the entry of new banks is difficult. And in many parts of the region, there is an urgent need for developing modern banking and financial skills.

**Regulation and supervision.** Many MENA countries, such as the GCC countries, Jordan, Lebanon, Morocco, and Tunisia, have strengthened banking supervision and regulation, they have established up-to-date procedures to collect prudential information on a regular basis, and they inspect and audit banks. They
have taken steps to conform to international Basel standards by increasing capital adequacy ratios and reducing nonperforming loans. However, success in the latter has been limited, and for most countries nonperforming loans remain in the range of 10 percent to 20 percent of total loans.

Nonbank financial sector. In most of the region, the nonbank financial sector—comprising the stock market, corporate bond market, insurance companies, pension funds, and mutual funds—needs further development. Where such markets exist, trading is usually quite limited. The development of these markets is complicated by legal limitations on ownership and the need for a clear and stable legislative framework.

Financial openness. MENA countries have gradually opened up their current as well as capital accounts. Nearly half the countries have open financial sectors, although many maintain restrictions on foreign ownership of assets and repatriation of earnings. Some countries continue to maintain parallel exchange markets and/or multiple currency rates.

Institutional environment. In much of the MENA region, the quality of institutions, including the judicial system, bureaucracy, law and order, and property rights, is poor. For instance, in several countries, the judicial system is susceptible to political pressure and long delays, resulting in poor legal enforcement of contracts and loan recovery. Property rights enforcement also tends to be weak. This hinders commercial activity and investment, and hence growth.

New Measures of Financial Development

Based on the above-mentioned areas, we developed six different indices, which we then combined to construct a comprehensive index. Each of the six indices was a composite of between four and nine different indicators that allowed us to measure the various sub-facets of each area. The comprehensive index therefore was a combination of 36 different indicators, and served as a
composite measure of financial development. We then grouped countries according to this composite index under three categories of high, medium, and low financial development.

To compute the comprehensive index, we assigned a set of weights to each of the 36 indicators. But to ensure robustness, we calculated it using different sets of weights. We found that the grouping of countries into high, medium, and low financial development categories was robust to the different weighting schemes, although the relative ranking of countries within each grouping changed slightly (see Table 1).

On average, countries at higher levels of financial development outperformed countries at lower levels in each of the six aspects of financial development (see Table 2). But countries in the highest third of financial development for the region received particularly high marks for regulation and supervision, and for financial openness. Countries in the middle third also scored fairly well in these two areas. However, across the region, countries fare poorly on development of a strong institutional environment and the nonbank financial sector (see Figure 1).

Table 1. Middle East and North Africa: Financial Development Ranking

<table>
<thead>
<tr>
<th>Level of Financial Development</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>Algeria</td>
<td>Iran, I.R. of</td>
<td></td>
</tr>
<tr>
<td>Jordan</td>
<td>Djibouti</td>
<td>Libya</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>Egypt</td>
<td>Sudan</td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td>Mauritania</td>
<td>Syria</td>
<td></td>
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<tr>
<td>Oman</td>
<td>Morocco</td>
<td>Yemen</td>
<td></td>
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<tr>
<td>Qatar</td>
<td>Pakistan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Tunisia</td>
<td></td>
<td></td>
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<tr>
<td>U.A.E.</td>
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</table>

1Based on an index of qualitative and quantitative data; 2000–01 data; scoring 0–10, with 10 being the highest level of development. Within each category, the countries are arranged in alphabetical order.
Table 2. MENA: Comparative Financial Development Indicators  
(Comprehensive index, scale 0–10, 2000–01)

<table>
<thead>
<tr>
<th></th>
<th>Comprehensive Index</th>
<th>Banking Sector</th>
<th>Nonbank Financial Sector</th>
<th>Regulation and Supervision</th>
<th>Monetary Sector and Policy</th>
<th>Financial Openness</th>
<th>Institutional Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>MENA average</td>
<td>5.4</td>
<td>5.3</td>
<td>4.8</td>
<td>6.5</td>
<td>5.4</td>
<td>6.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Financial development levels (average scores)(^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>7.5</td>
<td>7.3</td>
<td>6.7</td>
<td>8.9</td>
<td>7.3</td>
<td>8.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Medium</td>
<td>5.3</td>
<td>5.0</td>
<td>4.1</td>
<td>6.5</td>
<td>5.6</td>
<td>6.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Low</td>
<td>3.3</td>
<td>3.1</td>
<td>2.7</td>
<td>3.5</td>
<td>3.1</td>
<td>3.9</td>
<td>3.8</td>
</tr>
</tbody>
</table>

\(^1\)Within overall scale of 0–10, intermediate scales are as follows: High—above 6; Medium—4–6; Low—below 4.
In comparison to other countries in the region, MENA countries with high levels of financial development tended to have (1) a greater use of indirect monetary policy instruments; (2) a smaller degree of public ownership of financial institutions; (3) smaller or no monetary financing of the fiscal deficit; (4) stronger prudential regulation and supervision; (5) higher-quality human resources, including management and financial skills; and (6) a stronger legal environment.

Indices that attempt to capture several different dimensions of an issue in a single or in a small set of measures invariably
involve choices of variables to use and weights to assign. This imparts an element of subjectivity to the analysis, and a biased choice of variables or weights could lead to incorrect inferences. Our own choice of variables and weights reflect our understanding of what is likely to be important to distinguish more developed financial systems from less developed ones, and what is commonly found in the literature. It also reflects constraints on what can be measured quite easily. By altering the assigned weights, we confirm that our qualitative inferences are not sensitive to the particular choice of weights.

**MENA and the Rest of the World**

How have the financial systems within the MENA countries developed over time, and how does the MENA region compare with other regions? Since information on the comprehensive index is not available at the required level of detail either for the MENA countries over time or for other countries, we used an alternative index we developed based solely on the available quantitative information. This index is related to the one developed by Beim and Calomiris (2001) and is based on quantitative data only. To construct the index, we combined four variables commonly used in the literature using a statistical technique called Principal Components Analysis. The four variables were ratio of broad money (M2) to GDP; ratio of the assets of deposit money banks to the total assets of the central bank and deposit money banks; reserve ratio; and ratio of credit to private sector by deposit money banks to GDP. These variables measure the size of the financial sector, the importance and relative ease with which commercial banks provide funds, and the extent to which funds are provided to the private, as opposed to the public, sector. Aggregating across the variables not only attempts to capture different aspects of financial development in a single measure but also reduces biases or errors that may plague a particular data series. Furthermore, in keeping with the standard practice of averaging the variables in either 5-year panels or 10-year
panels to smooth out business cycle fluctuations and focus on trends, we averaged the data in 10-year panels to obtain observations for the 1960s, 1970s, 1980s, and 1990s.

The rankings of countries within the MENA region closely track each other under both the comprehensive and the alternative indices. This provides some confidence in using the alternative index to make intertemporal and interregional comparisons. In addition, the alternative index produces rankings of financial development similar to those developed in other research.

According to the alternative index, we find that most MENA countries experienced financial development from the 1960s through the 1980s. In the 1990s, many countries continued to experience financial deepening, although in a few countries political instability or conflict resulted in a deterioration of the index (see Figure 2). Our research indicates that the MENA

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Figure 2. MENA and Global Comparators: Quantitative Index of Financial Development, 1960s–1990s


1Decade averages; scale 0–10.
region ranks well below the industrialized countries in financial development but above most other developing country regions. However, it is interesting that, although the MENA region ranked well above the newly industrialized economies of East and Southeast Asia in the 1960s, it fell considerably behind them in the 1980s and the 1990s, as these Asian countries stepped up financial deepening. With the exception of sub-Saharan Africa, financial development in all other regions has progressed considerably more rapidly than in most countries in the MENA region. The countries in the MENA region in which there have been important advances in financial development since the 1960s are Egypt, Jordan, Morocco, and Tunisia (see, for example, Box 2). In the remaining countries the level of financial development over the four decades has improved only slightly or, in a couple of cases, declined.

Finally, how is economic growth in MENA related to financial development? Very little work has been done to determine the contribution of financial development to growth specifically for the MENA region. A potentially important aspect is examining the contribution to non-oil growth, which is hindered somewhat by the availability of data. Preliminary regression work suggests a positive link between the two variables, even after controlling for other determinants of growth. This result mirrors the findings in the rest of the literature, including in particular the role of macroeconomic and institutional factors in promoting financial development and growth. Nevertheless, further work in this area remains to be done before the results are confirmed.

Conclusions

MENA countries have reformed their financial sectors over the past three decades. However, while they have made progress, their efforts have been eclipsed by faster reform and growth in other parts of the world. Against the backdrop of an increasingly globalized world, the challenge for MENA policymakers in moving away from financially repressive policies will be to implement
Jordan has made solid progress in the monetary and financial sectors by implementing a comprehensive economic adjustment and reform program. The reforms have resulted in a well-developed financial sector, placing Jordan among the MENA countries with the highest financial development scores in all areas. Financial depth in Jordan, measured either by the comprehensive financial development index or as broad money to GDP, is close to the highest in the MENA region.

In the late 1980s, the Jordanian government initiated a series of financial sector reforms to improve the structure and efficiency of the sector. As a result, interest rates were fully liberalized in the early 1990s. In 1993, the Central Bank of Jordan moved away from direct instruments of monetary control by issuing its own certificates of deposit to mop up excess liquidity. In 1996, the central bank’s rediscount subsidies and preferential credit facilities were eliminated, except for small specialized banks involved in credit to the agricultural, handicrafts, and export sectors. In the same year, a new investment law was passed, allowing equal treatment for domestic and foreign investors and further opening financial markets to foreign participation. In 1997, a new Securities Law was approved to improve the structure of the stock market. Capital account transactions in capital markets securities and money market instruments were also liberalized. In 1998, the central bank introduced an overnight repurchase agreement with commercial banks, and opened an overnight deposit facility. In 2000, a banking law was approved, which protects deposits, reduces money market risk, guards against loan concentration, and contains articles on new banking practices (e-commerce and e-banking), and money laundering. In addition, government securities were introduced through a regular series of auctions. In 2001, a new public debt law was passed that bars any new direct credit facilities to the government and calls for the gradual repayment of outstanding credit. Lately, the Central Bank of Jordan has taken measures to outlaw money laundering activities and combat the financing of terrorist activities.

Over the years, monetary policy has been guided by the objective of supporting price stability. The central bank mainly uses indirect monetary control instruments through weekly auctions of certificates of deposit. More recently, the government securities market has become active; however, secondary market trading for these securities remains limited. The government has recently embarked on a new strategy for further deepening the financial system by issuing five-year treasury bonds denominated in Jordanian dinars at regular intervals, with a current yield of about 4–5 percent.
Financial savings in Jordan are primarily intermediated through the banking sector. Jordan’s banking system is fully privately owned, well-developed, profitable, and efficient. Some banks have started implementing modern banking practices, including automated check clearing and the use of magnetic check processors, unified reporting forms, and electronic data-transmission networks. Moreover, several banks have started tele-banking and e-banking services. Banks can extend loans and credit facilities in foreign currencies for trade-related purposes. Increasingly, banks have started introducing new products and corporate bond issues. The interbank money market has become prominent over the last few years.

There are 21 banks in Jordan, consisting of nine local commercial banks, two Islamic banks, five investment banks, five foreign banks, and five specialized credit institutions dealing with agricultural credit, housing, rural and urban development, and industry. The banking system has JD 14.2 billion in assets (21.5 percent of GDP) and a vast network of branches covering about 11,000 persons a branch. However, Jordan’s banking system is highly concentrated, with the three largest banks accounting for 90 percent of total assets. The Arab Bank dominates the sector with 60 percent of all assets and the Housing Bank is the second largest, with the most extensive branch network.

Financial intermediation through the banking system is mostly short-term, however. Banks seek to match maturities by lending short term, with only a few corporate loans stretching beyond three years in maturity. A large proportion of the lending activity is therefore short-term trade financing and consumer credit. The authorities recognize the need for further financial deepening. In 1994, the Jordan Loan Guarantee Corporation was established to provide guarantees for small and medium-sized enterprises, low and middle income housing, and craftsmen. In 1996, the Jordan Mortgage Refinance Corporation was established to foster longer term mortgage lending. At end-2001, Loan Guarantee Corporation guaranteed loans amounting to about 0.3 percent of GDP and Mortgage Refinance Corporation lending amounted to 0.9 percent of GDP.

Prudential regulations and banking supervision have been strengthened considerably in recent years. The Central Bank of Jordan exercises strict controls to ensure that banks do not take risky positions on foreign exchange. The risk-weighted capital adequacy requirement was raised to 12 percent in June 1997. All banks are well capitalized, with an average risk-weighted capital of 17.5 percent at end-2002. The regulations limit exposure to single borrowers. Moreover, banks are subject to annual on-site inspections and frequent off-site inspections.
The nonbank financial system is well diversified. As of 2000, there were 27 insurance companies, 76 authorized money changers, 37 investment companies (with assets of about 4 percent of GDP), and a Public Pension Fund (with assets of both private and public sector employees amounting to about 21 percent of GDP). In addition, a new Trust Law will permit the introduction of private mutual funds by creating proper fiduciary requirements and standards.

The stock exchange market is well developed. The Amman Stock Exchange index increased by 30 percent in 2001, buoyed by strong performance of the financial sector and the ratification of the bilateral Free Trade Agreement with the U.S. The index remained broadly unchanged in 2002, despite substantial corrections in equity markets throughout the world. The stock market capitalization to GDP amounted to 80 percent in 2002, and the number of listed companies totaled 159. The corporate bond market remains underdeveloped owing to the absence of a secondary market for such issues.

Jordan has a relatively strong institutional environment. The Central Bank of Jordan is independent of the government and its accounting framework is now in broad compliance with International Accounting Standards. The legal system facilitates and protects the acquisition and disposition of all property rights.

The current peg to the U.S. dollar seems to have served Jordan well. Jordan accepted Article VIII obligations of the IMF in 1995 and current account and most capital account transactions are fully liberalized. Foreign exchange accounts are permitted, both domestically and abroad. There are no repatriation requirements on export proceeds. Real estate purchases are allowed if reciprocal treatment exists. However, nonresident investments are restricted to a maximum of 50 percent ownership in certain sectors of the economy.

Notwithstanding this relatively high level of development for the region, the need for further financial deepening is still felt throughout the economy. For consumers, greater supply of long-term fixed or partially fixed mortgages would make housing more affordable for a large portion of the population not covered under the government housing subsidies. For corporations, long-term investments remain largely financed out of shareholders' capital or through foreign financing.
allocation and strengthened institutional quality, particularly of the legal system.

Efforts should be concentrated where financial development appears to have been the weakest. For some countries, this means less involvement of the government in the financial system, including cutting back on public ownership of financial institutions and minimizing monetary financing of budget deficits, enhancing competition, investing in human resources, and strengthening the legal environment.

Experience shows that as policymakers implement reforms and stay the course, confidence in economic policies grows, with a positive impact on investment, economic growth, and employment over time.
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