

Jordan: Technical Assistance Report-Monetary and Financial Statistics Mission



JORDAN

TECHNICAL ASSISTANCE REPORT—MONETARY AND FINANCIAL STATISTICS MISSION

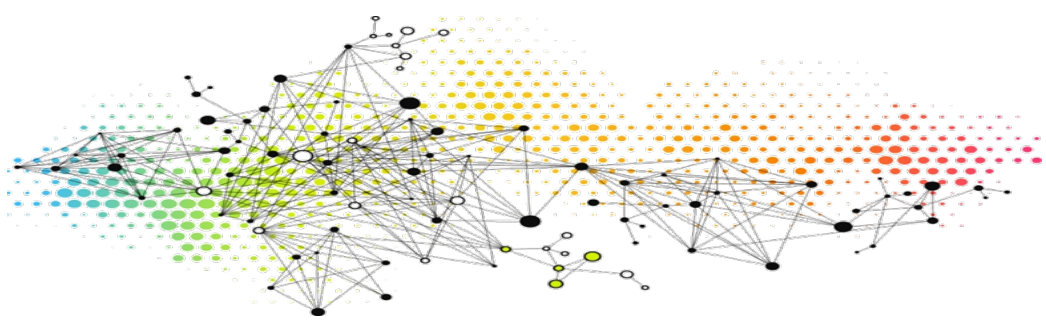
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JORDAN

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TECHNICAL ASSISTANCE REPORT OF THE MONETARY AND FINANCIAL STATISTICS MISSION (JUNE 24–JULY 8, 2018)

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Glossary

| | |
|---------------|---|
| BSD | Banking Supervision Department |
| CBJ | Central Bank of Jordan |
| CB | Central bank |
| DIFO | Investments and Foreign Operations Department |
| FSIs | Financial soundness indicators |
| ODC | Other depository corporations |
| OFC | Other financial corporations |
| IFRS | International Financial Reporting Standards |
| <i>IFS</i> | <i>International Financial Statistics</i> |
| IMF | International Monetary Fund |
| MAD | Monetary Affairs Division |
| MCD | Middle East and Central Asia Department of the IMF |
| <i>MFSMCG</i> | <i>Monetary and Financial Statistics Manual and Compilation Guide</i> |
| MOF | Ministry of Finance |
| SD | Statistics Division |
| SSC | Social Security Corporation |
| SRFs | Standardized report forms |
| STA | Statistics Department of the IMF |
| TA | Technical assistance |

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. In response to a request from the Central Bank of Jordan (CBJ), and with the support of the International Monetary Fund's (IMF) Middle East and Central Asia Department (MCD), a monetary and financial statistics (MFS) technical assistance (TA) mission visited Amman during June 24–July 8, 2018.¹ The purpose of the mission was to work with the staff of the CBJ to: (i) introduce the standardized report form (SRF) for the central bank (CB); (ii) introduce the SRF for the other depository corporations (ODCs); (iii) ensure proper classification and sectoring, in accordance with the methodology of the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*; (iv) agree on an operating plan for the CBJ to commence regular reporting of the SRFs; and (v) discuss the possible scheduling of a TA mission on the financial soundness indicators (FSIs) in Fiscal Year 2019.

2. The mission delivered these objectives and agreed with the authorities on an action plan to improve the country's monetary statistics. The CBJ will start submitting the SRFs for the CB and ODCs using the bridge tables developed during the mission. The compilation of quality MFS will contribute to internationally comparing Jordan's data and provide the necessary underlying information necessary for monetary policy and macroprudential analysis at the national level. The data quality can be further enhanced by addressing certain methodological issues, including a subdivision of resident sector data that deviates in some respects from the *MFSMCG* sectorization scheme. The CBJ is working on building a sectoral breakdown tree in line with the methodology in *MFSMCG*.

3. The CB source data are broadly adequate for the compilation of SRF 1SR, however there are some departures from the methodology of the *MFSMCG*. The mission reviewed the accounting principles and valuation rules and found that they are mostly in line with international standards, save some special recording of the changes in valuation adjustments. The legal framework² of the CBJ requires that the latter item should be classified in a special account under other assets/liabilities rather than under equity as recommended in the methodology of the *MFSMCG*. The CBJ should continue to monitor the size of this departure and assess its impact on

¹ The mission would like to thank CBJ staff, particularly the Research Department for their excellent support and contributions to the mission outcomes.

² According to the CBJ law 1971 article (56), any loss or profit arising from the re-valuation of the assets and liabilities of the CB in gold or foreign currencies as a result of any change in the par value of any foreign currency, shall be excluded from the statement of profit and loss of the CB and shall be carried in a special account. The CB may allocate in subsequent years the funds required for the amortization of such losses carried in this special account, and may use any part of its general reserve, on the recommendation of the Board and with the approval of the Council of Ministers, to cover such losses carried in the special account or any part thereof.

equity. The staff of the Monetary Affairs Division (MAD) and Statistics Division (SD) developed a bridge table linking the source data to the SRFs. The CBJ should start regular reporting of CB data to the IMF starting in December 2014 using the bridge table developed by the mission linking the source data to the SRFs.³

4. The mission mapped the ODC source data from the consolidated call reports to the SRF 2SR for May 2018 data. Following the 2008 TA mission, the MAD developed preliminary SRFs based on the old call reports in 2012. However, in 2014, the banks started to use new call reports containing more granular data which are more suitable for the SRF compilations. The mission thoroughly examined the new reports and linked them to the SRFs by using a new flexible bridge table for May 2018. The MAD should now use the mapping developed by the mission for historical data starting in December 2014.

5. The mission discussed the possibility of scheduling a TA mission on the compilation of FSIs. The mission met with the Banking Supervision Department (BSD) staff who were keen to start reporting the FSIs to the IMF's Statistics Department (STA) and to publish them on the IMF's FSI website. STA will follow up and contact the BSD to discuss the timeline of a future TA mission.

6. To support progress in the aforementioned work areas, the mission recommended a detailed action plan with the following priority recommendations. Further details can be found in the section *Detailed Technical Assessment and Recommendations*.

Table 1. Priority Recommendations

| Target Date | Priority Recommendation | Responsible Institutions |
|---------------|--|--|
| December 2018 | Regular reporting of monthly CB data to IMF STA using SRF 1SR for publication in <i>International Financial Statistics (IFS)</i> and their use by IMF MCD. | CBJ's Monetary affairs and Statistic Divisions – Research Department |
| December 2018 | Regular reporting of monthly ODCs data to IMF STA using SRF 2SR for publication in <i>IFS</i> and their use by IMF MCD. | CBJ's Monetary affairs and Statistic Divisions – Research Department |
| December 2019 | Submit the SRF 2SR (ODC) based on the new reporting forms containing the new sectoral classification in conformity with the <i>MFSMCG</i> . | CBJ's Monetary affairs and Statistic Divisions – Research Department |

³ The preliminary SRFs data back to 2014 were submitted in November to STA for review.

BACKGROUND

A. Context

7. This TA mission on MFS is a follow-up to the March 2008 mission conducted by STA.

The March 2008 mission assisted the authorities in developing monetary statistics for the CB and ODC based on the IMF's SRFs. The high turnover of MAD's staff did not allow for follow-up work in developing the SRFs as all counterparts who worked with the previous mission left MAD. However, the new staff have the necessary skills to compile the SRFs as three of them have attended an MFS advanced workshop. The mission encourages CBJ to continue to support officials' participation in the IMF's MFS courses to improve their methodological knowledge and skills in compilation and interpretation of MFS.

B. Financial System in Jordan

8. CBJ performs all the traditional functions of a CB in Jordan, including the licensing and supervision of most of the ODCs.

As a CB, the CBJ operates within the legal framework defined by the law, number 23 of the Year 1971 and its subsequent amendments. Thus, Article 4 of this law makes the CBJ responsible for issuing national currency (Jordanian Dinar), conducting monetary policy, providing banking services to the central government, supervising commercial banks and other financial intermediaries, and managing international reserves. The CBJ is also responsible for regulating and developing the National Payments System to ensure sound and effective payment, clearing and settlement systems. Under the current institutional arrangements, the Ministry of Finance (MOF) is Jordan's fiscal agency and has a legal responsibility for liabilities to the IMF and a legal ownership of claims on the IMF. The CBJ is its depository agent with a legal responsibility for maintaining accounts with the IMF.⁴

9. The financial system of Jordan is dominated by ODCs, which constitute around 63 percent of the financial system's assets.

Its institutional coverage comprises the CBJ, 25 are operating banks, two are (nonoperating) banks in liquidation. Among these banks were 16 domestic banks, three of which were Islamic banks and nine were branches of foreign banks, including one branch of a foreign Islamic bank.

10. The other financial corporations (OFC) sector, which plays an important role in Jordan's financial system, constitutes around 37 percent of its assets.⁵

All OFCs are under the supervision of the CB, except for the insurance corporations and Amman Stock Exchange. However, changes in the supervisory framework for insurance corporations are underway,

⁴ The quota and IMF No.1 accounts are recorded in the MOF book, the SDR holding and allocation are recorded in the CBJ's book.

⁵ This includes the Social Security Investment Fund which is included in the central government in the SRFs data.

including the review of relevant legislation and the establishment of a supervisory function to the CBJ. This will facilitate the compilation of the SRFs for the OFC as almost all the subsectors are under CBJ supervision.

Table 2. The Financial System in Jordan

| Sector | Number of institutions | Total assets (DJA million end 2017) | Share of assets in total assets |
|--|-------------------------------|--|--|
| Central Bank of Jordan | 1 | 13367.6 | |
| Other Depository Corporations | 25 | 49102.4 | 63 |
| National Banks | 16 | 44579.3 | 57 |
| Commercial Banks | 13 | 37149.5 | 47 |
| Islamic Banks | 3 | 7429.8 | 9.5 |
| Foreign Banks | 9 | 4070.6 | 5.2 |
| Commercial Banks | 8 | 3475.2 | 4.4 |
| Islamic Banks | 1 | 595.4 | 0.7 |
| Banks under liquidation | 2 | 452.5 | 0.6 |
| Other Financial Corporations | 42* | 28,882.7 | 37 |
| Insurance companies | 24 | 948 | 1.2 |
| Life insurance | 1 | N/A | |
| General insurance | 8 | N/A | |
| Life and general insurance | 15 | | |
| Mutual Funds | 4 | 3.4 | 0 |
| Under liquidation | 1 | | |
| Social Security Investment Fund** | 1 | 9239.1 | 12 |
| Deposit Insurance companies | 1 | 694.3 | 0.9 |
| Jordan Loan Guarantee corporations | 1 | 177.7 | 0.2 |
| Jordan Mortgage Refinance Company | 1 | 430.6 | 0.6 |
| Exchange Companies** | 140 | 149 | 0.2 |
| Micro-finance company | 9 | 278 | 0.3 |
| Amman Stock Exchange (Market capitalization) | 1 | 16962.6 | 22 |

Source: CBJ and IMF staff calculations.

*Except Exchange Companies.

**Preliminary (at the end of 2016).

**Social Security Investment Fund is classified under central government in the SRFs.

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Implementation of the Previous Missions' Recommendations

- 11. Although the CBJ has completed some of the benchmark recommendations of the 2008 MFS mission related to the compilation of the source data, the compilation of the SRFs has not been finalized.** Since the 2008 mission, as recommended by the mission, the source data of the CB and the ODCs have been improved and are now more suitable for the compilation of the SRF 1SR and 2SR.
- 12. Some progress has been made in the CB trial accounts regarding the sectorization and classification of the financial instruments.** For the CB balance sheets, the asset side data contains supplementary information about the breakdown of loans. However, financial derivatives are not yet separately identified, and no breakdown is available by either currency or sector.
- 13. For the ODC sector, new call reports were implemented in December 2014.** These reports contain more comprehensive information about sectorization and classification of financial instruments and are adequate for the SRF compilation.
- 14. The CBJ has made substantive progress in improving human resource skills among staff.** While the MFS compilation team is newly hired, they are well equipped with skills needed for MFS compilation. Three of them have participated in the IMF's workshop and training courses on MFS. CBJ is encouraged to continue to increase the skills of the staff working on the SRFs by encouraging them to participate in the IMF's training courses on the MFS compilation.
- 15. Recommended Action:** CBJ to continue to train their staff by having them participate in the IMF's training courses.

B. Compilation of Monetary and Financial Statistics

- 16. The mission mapped the ODC and CBJ source data to the SRFs.** The mission, together with officials of the MAD and SD, reviewed the trial accounts of the CBJ as well as the source data for the ODCs and found them adequate for the SRF compilation. The bridge tables linking the source data to the SRFs were built for May 2018. The CBJ should now use these bridge tables to compile the SRFs back to December 2014 and start submitting the SRFs to STA.
- 17. Recommended Action:** CBJ to start submitting the SRF 1SR on a regular basis to STA for publication in *IFS*.

18. The mission assessed the quality of the monetary statistics. The discussions between the mission and CBJ staff covered aspects of the sectorization of the accounts, the classification of financial assets, the valuation of securities, accrual basis accounting, and the delays in the collection of the primary data.

19. The mission examined the source data of the CBJ and ODCs and found that the main issue concerns sectorization of financial instruments. The CBJ is adopting a sectorization of its financial system not fully in line with what is recommended by the *MFSMCG*, particularly the classification of the Social Security Corporation (SSC) as detailed below. Adjustments have been made to the sectorization to bring it in line with international standards.

20. The sectoring of the public sector in Jordan required some adjustments to bring it in line with the methodology recommended by the *MFSMCG*. The public sector in Jordan's MFS is broken down into central government and public institutions. The central government contains budgetary central government and extra-budgetary agencies, which were mapped under the central government in the SRF 1SR. Among the public institutions, the SSC was classified as a public non-financial corporation. The mission suggested reclassifying the SSC under the central government as it is a compulsory scheme covering a large section of the community. In addition, the public nonfinancial corporation encompassed municipalities as well as local councils and public nonfinancial corporations. The mission remapped the municipalities and local councils under the local government.

21. Recommended Action: CBJ to adopt the *MFSMCG* classification of resident sector data by: (i) central government; (ii) state and local government; (iii) public nonfinancial corporations; (iv) other nonfinancial corporations; (v) ODCs; (vi) OFCs; and (vii) other resident sectors. Communicate to the BSD the list of sectors and implement the new sectorization in the call reports.

Standardized Report Form 1SR

22. The accounting principles are broadly in line with the methodology of the IMF with some departures related to market valuation. CBJ adopts the International Financial Reporting Standards in their accounting principles. Only the securities held for trading are revalued at market value, which represents 80 percent of the securities. The mission indicated that all the securities should be valued at market value.

23. The classification broadly conforms with the methodology of the *MFSMCG*, but further improvement could be made in the classification of accrual interest. The mission, together with CBJ staff, reviewed the classification of some accounts, notably the IMF accounts. The IMF accounts were correctly remapped under their correct items. For instance, this was the

case of the Extended Fund Facility⁶ which was included in *the IMF No 1 Account* and remapped under *Use of Fund Credit*. As the MOF is responsible for the IMF accounts, the quota is recorded in MOF book. Regarding the accrual interest, in the CBJ trial accounts the accrual interests are not associated with its corresponding financial instruments but classified under other assets/liabilities. The mission discussed with the MAD, SD and the Department of Investment and Foreign Operation (DIFO) the possibility of getting the breakdown of the accrual interest by sectors. DIFO confirmed the availability of the data by sectors, and thus agreed to sharing the information on the sector counterpart with the Research Department and SD in order to associate it with its underlying financial instruments.

24. Recommended Action: MAD to undertake a project in collaboration with DIFO to provide the counterpart sector of the accrual interest recorded in the miscellaneous assets/liabilities and classify it under its corresponding financial instruments.

25. The main departure from the methodology of the MFSMCG that persists is regarding the classification of the valuation adjustment. The amount of the latter account represents the differences in the valuation of foreign currencies and gold. In 2015, the law related to the treatment of the valuation adjustment was amended and the valuation adjustment which was previously booked under equity are presented under the other assets if its balance was debit, or under the liabilities if its balance was credit. While the treatment of the valuation adjustment in the balance sheet differs from the International Financial Reporting Standards CBJ discloses the amounts related to the valuation adjustment of the financial statements in the annual report publication release. CBJ should continue to disclose and monitor this amount so that policy makers can assess its impact on equity.

Standardized Report Form 2SR

26. The banks submit their call reports to CBJ on a regular basis containing granular information on the sectorization. The main component of the reports is the balance sheet, which is accompanied by two schedules that provide further granularity and contain the deposit and credit breakdown by sectors. The banks upload their financial statements and other supervisory information to CBJ via an application within 10 days of the relevant month. The data are processed by CBJ in about two weeks and shared with the Research Department and SD.

27. The accounting and valuation methodology implemented by the ODCs in Jordan are broadly in line with the recommended compilation practices identified in the MFSMCG. All commercial banks in Jordan began to comply with the International Financial Reporting Standards 9 in 2012. The main deviation to the methodology of the MFSMCG is the non-availability of the classification of the accrued interest by sectors. Going forward, CBJ may

⁶ Jordan has two lending arrangements outstanding with the IMF, extended fund facility and stand by arrangement contracted respectively in December 2016 and 2012.

consider the implementation of additional statement in the call reports collecting the interest rates by sectors. This departure would be documented in the metadata.

28. Recommended Action: MAD should collaborate with SD to implement the counterpart sector of the accrued interest in the new call reports and associate it with its corresponding financial instruments.

29. The mission mapped the aggregated call reports of all ODCs for May 2018 to the SRF 2SR form, developing a simpler tool to be used by the authorities. Considering the change in the source data since 2014, the mission re-mapped the source data, using data from the aggregated balance sheet of the banking sector and the accompanying schedules through a bridge table. The mission built a time series for all the required data and created a tool linking the data to the SRFs. The tool provides CBJ staff with a simpler method for data compilation.

ACTION PLAN

| Priority | Action/Milestone | Risk/Assumption/Verifiable Indicator | Target Completion Date |
|--|---|---|--------------------------------|
| Outcome: Source data are adequate for the SRFs | | | |
| H Benchmark | The compilation of the SRFs follows the sectorization of the last manual. | Adopt the <i>MFSMCG</i> sectorization scheme by subdividing resident sector data by: (i) central government; (ii) state and local government; (iii) public nonfinancial corporations; (iv) other nonfinancial corporations; (v) ODCs; (vi) OFCs; and (vii) other resident sectors. Communicate to the BSD the list of sectors and implement the new sectorization in the call reports. | December 2019 |
| Outcome: A new data set has been compiled and disseminated internally and/or to the public. | | | |
| H Benchmark | New SRFs for the CB, as set out in the <i>MFSMCG</i> , are available for compiling surveys for the financial corporations' sector and its subsectors. | Report regularly to IMF STA monthly ODCs data using SRF 2SR for publication in <i>IFS</i> and use by MCD. | December 2018 Completed |
| H Benchmark | New SRFs for the ODCs, as set out in the <i>MFSMCG</i> , are available for compiling surveys for the financial corporations' sector and its subsectors. | Report regularly to IMF STA monthly CBJ data using SRF 1SR for publication in <i>IFS</i> and use by MCD. | December 2018 Completed |

| Priority | Action/Milestone | Risk/Assumption/Verifiable Indicator | Target Completion Date |
|--|---|--|------------------------|
| Outcome: Data are compiled and disseminated using the appropriate basis of recording consistent with the latest manual/guide (DQAF 2.4). | | | |
| M | The compilation of the SRF for the CB fully follows the basis of recording set out in the <i>MFSMCG</i> . | Implement a project with the collaboration of DIFO to provide the counterpart sector of the accrual interest recorded in the miscellaneous assets/liabilities. Associate the accrued interests with their underlying financial instruments in the assets/liabilities. | December 2020 |
| M | The compilation of the SRF for the ODCs fully follows the basis of recording set out in the <i>MFSMCG</i> . | Undertake with the collaboration of BSD a project providing the counterpart sector of the accrued interests recorded in the miscellaneous assets/liabilities. Associate the accrued interests with their underlying financial instruments in the assets/liabilities. | December 2020 |
| Outcome: Staff capacity has increased through training, especially on developing source data, compilation methods, and dissemination (DQAF 0.2) | | | |
| M | The number of the trained staff is adequate for the compilation of these statistics. | Continue to train their staff by having them participate in the IMF training courses. | April 2019 |

Appendix I. Officials Met by the Mission

| Name | Institution |
|----------------------|---|
| Dr. Hassan Barakat | Executive Manager, Research Department |
| Dr. Nedal Alazzam | Executive Manager Assistant, Research Department |
| Dr. Mohamad Khreisat | Executive Manager Assistant, Research Department |
| Dr. Talal Hammouri | Head of Statistics Division, Research Department |
| Dr. Ibrahim Al Naser | Head of Monetary Affairs Division, Research Department |
| Wael Mahadien | Senior Economist, Statistics Division, Research Department |
| Mahmoud Qasem | Senior Economist, Monetary Affairs Division, Research Department |
| Motasem Qaddoura | Economist, Monetary Affairs Division, Research Department |
| Ahmad Dajani | Economist, Statistic Division, Research Department |
| Reem Massad | Economist, Monetary Affairs Division, Research Department |
| Reham Hajyounes | Assistant Economist, Monetary Affairs Division, Research Department |
| Ruba Sulieman | Assistant Economist, Statistics Division, Research Department |
| Ziad Ghnama | Executive Manager, Banking Supervision Department |
| Samah Qutaishat | Specialist, Banking Supervision Department |
| Aya Gharaibeh | Specialist, Banking Supervision Department. |
| Moawia Jaber | Senior Specialist, Financial Department |
| Rami Obeid | Head of Division, Banking Supervision Department |
| Ghassan Khader | Executive Manager Assistant, Investment and Foreign Operations Department |