

Financing Activities in Private Banks and their Role in Promoting Economic Development: Case Study of Jordan Housing Bank for Trade and Finance 2014-2018

Ali Gaboussa¹ Wafa Ramadani^{2*} Wessam A. Abughalia³ Abdulhkim Abushhewa⁴

1. Lab: PEDAA, El Oued University - Algeria.

2. EL-Oued University - Algeria .

3,4. Faculty of Economic and Political Science Tripoli University - Libya.

التمويلات في البنوك الخاصة ودورها في تعزيز التنمية الاقتصادية دراسة بنك الإسكان للتجارة والتمويل الأردني للفترة 2014_2018

1. علي قابوسة 2. وفاء رمضان 3. وسام أبو غالية 4. عبد الحكيم أبو شهيو

1. جامعة الوادي- الجزائر 3، 4. كلية الاقتصاد والعلوم السياسية، جامعة طرابلس- ليبيا.

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Abstract:

This research aims to diagnosing the reality of private banks. In addition, their role for enhancing the development capacity of the economy, by highlighting on Jordan Housing Bank for Trade and Finance, as a model of the study. The financial performance of this bank was presented to various economic agents in the Jordanian society. The Housing Bank for Trade and Finance can play a clear role in the development and upgrading the development capacity of the Jordanian economy. Through a channel of different types of financing structures. The results showed the diagnostic and analytical side of financing data. The extent of their contribution to economic development emphasizes that private banks have a positive impact on the economic growth and development. Through increasing GDP, raising employment rates, etc. The correlation relationship between the structure of financing structure and some economic development indicators indicated that financing structures granted by the Housing Bank for Trade and Finance have a positive relationship with GDP.

Keywords: Private Banks; Finance; Economic development; Employment

(JEL) Classification: E5 ; O1; J6.

الملخص:

تهدف هذه الدراسة إلى تشخيص واقع البنوك الخاصة ودورها في تعزيز التنمية الاقتصادية من خلال التركيز على بنك الإسكان للتجارة والتمويل كإنموذجاً للدراسة، وانسجاماً مع هذا الهدف تم صياغة الفرضية على نحو يمكن للبنوك الخاصة (بنك الإسكان للتجارة والتمويل الأردني) أن تمارس دوراً واضحاً في تطوير ورفع القدرة التنموية في الاقتصاد الأردني عبر قناة مختلف أشكال التمويل الممنوحة. بينت النتائج من الجانب التشخيصي والتحليلي للبيانات التمويلية وفي مدى مساهمتها في تعزيز التنمية الاقتصادية تؤكد على أن البنوك الخاصة لها تأثير إيجابي على النمو والتنمية الاقتصادية (زيادة الناتج المحلي الإجمالي، رفع معدلات التوظيف...إلخ)، أما من الجانب التحليل القياسي فقد أكدت نتائج الارتباط بين أشكال التمويل الممنوحة وأحد مؤشرات التنمية الاقتصادية والمتمثل في مؤشر الناتج المحلي الإجمالي، على أن هذا الأخير تربطه علاقة قوية مع جميع أشكال التمويل التي يمنحها بنك الإسكان للتجارة والتمويل.

الكلمات المفتاحية: البنوك الخاصة، التمويل، التنمية الاقتصادية.

الترميز الاقتصادي (JEL): E5 ؛ O1 ؛ J6

I- Introduction :

Financing is one of the most important requirements of the economic development process over the ages. It's the major resource requested to run the development activities of any economy. Thus, it is important to provide different funding resources for implement and activating the economic development projects .

In general, the financial system includes banks whether public or private, as a central entity along with other financial services providers. Which interested in providing and supplying the economic projects and activities, with the most important financing requirements. This is highlighted by their ability, to mobilize national savings and efficiently reorient them to the various fields of investment. The function of the banks that appears through supporting the funding channel. Has contributed positively on many of the developing and developed countries economies, to improve the growth and development of the productive sectors .

As mentioned above, regarding the positive relationship between bank financing and economic growth. In addition, the importance of bank financing and its major role to enhance different economic indicators. It has become an important issue to study and analyze the relationship between bank financing structure patterns and economic growth. Within the private bank of Jordan (Housing Bank for Trade and Finance). The study aims to investigate a number of points as present: the function and the roles of the Housing Bank for Trade and Finance, explaining the financing structures granted by the Bank, and measure the degree of correlation between the patterns of the structure of private bank financing and some indicators of economic development.

However, the study is about testing the role of private bank financing structure patterns. In enhancing the economic development capacity. Focused on Housing Bank for Trade and Finance as a case study, to examine two hypotheses, which are:

- Housing Bank for Trade and Finance has a major.
- Housing Bank for Trade and Finance has no role in enhancing and upgrading the growth capacity of the Jordanian economy. Role in enhancing and upgrading the growth capacity of the Jordanian economy.

Thus, the importance of the study is to examine the effectiveness of private bank financing (Housing Bank for Trade and Finance) and its role in promoting the economic development process.

1. Literature Review:

Al Ezawi and Hamoud (2014) have sought through their study, to explore the impacts of funding that granted by the government and private banks. On supporting the economic activities developing, the small projects and creating job opportunities. A sample of small projects, which borrowed from government and private banks, was selected for Baghdad. Amounted to 80 projects distributed to each of the samples, (of which 20 public and 40 private). The study found that, the loans granted to small projects out of the total loans. In addition, advances of government banks amounted to a low percentage and do not represent the required support. While it was found that the loans granted by private banks had a positive impact on the development of the small projects, also on the operation of these projects and provided job chances.(Al Ezawi & Hamoud, 2014).

Another study was intended to analyze the impacts of the banking system loans, directed to the public and private sector in Romania during 1990-2014. PETRESCU (2015) confirmed that the

economic growth recorded during that period was due to the funds granted by the banks (PETRESCU, 2015). Kebba (2018) summarized and analyzed the effectiveness of the Real Estate Bank as a private bank as well as its contribution's to economic development. This study also examined the funding sources and bank financing in particular during the period 2002-2016. They concluded that the relationship between the percentage of loans granted and the percentage of the profit recipients is a positive relationship. The study also found that the expansion of the banking sector in the public and private sectors has negatively influenced the performance of the Real Estate Bank, therefore the Real Estate Bank has not played its role in raising the developmental capacity of the state. (Kebba , 2018).

A study used the integration and the Error Correction Model (ECM) to examine the relationship between bank credits granted to the public and private sectors and the economic growth in Algeria during 1998-2017. Wafa (2019) found a negative impact of bank credits and loans on economic growth, on the other hand the Granger causal's test pointed out that a causal relationship that is moving from economic growth to bank loans. (Wafa, (2019).

2. Financing structure patterns of the banks and economic growth

There are different types of financing structure patterns of the banks depending on the purpose required, for example: bank financing by economic activity is classified as three patterns of financing which are investment, commercial and consumer financing .

Investment financing is finance projects and productive institutions in order to provide investment requirements, the commercial financing is intended for funding to be used for the financing of current project expenditures and the consumer financing is considered to be financing normally granted to individuals to finance their various consumer processes of goods and services, particularly durable goods. (Abdulmutalib , 2006, pp. 114-116)

Bank financing by time period is classified as short-term financing less than one year, medium-term financing which is starting at one year up to five years in order to financing the investment activities, and long- term relationships which is more than five years and up to twenty years in order to finance and support the capitalist activities. (Sheiha, 1985, p.452)

There are also banks financing by type of guarantee: (Abdulmutalib , 2006, pp.116-117).

1). Guaranteed financing; this type of financing is a form of goods, securities, etc., or in a personal form the status of the financial position of the customer.

2). Non-Guaranteed financing; this type of financing is only the promise of the borrower to pay the amount of the loan granted to him.

Bank financing by the applicant: It is classified as public sector funding, such as government and official institutions and funding directed to the private sector, such as private individuals, corporations and private companies. (Akkawi, 2013).

3. The role of banks in economic development:

Banks are the backbone of the modern economies; the well-organized banking sector is a necessity for the economic growth of any country. Banks play an important role in the national economy. Financial institutions play a very large role in providing the necessary liquidity to finance various investment projects in all sectors. Banking institutions occupy a great place in modern economies. They are one of the institutions that directly influence both, the financial and monetary

policies of any economy. This is achieved through financial and monetary transactions, especially in the field of internal and external financing. (Kebba, 2018).

II- Methods and Materials:

1. Methodology and sample:

This study employed two different types of methods to investigate the study importance. The first method is representing the descriptive and analytical approach at the beginning of the data collection from 2014 to 2018. The second method is represented in the statistical approach with its analytical standard tools, to measure the issue of the study. Housing Bank for Trade and Finance/ Jordan was the study sample and the annual reports were employed in this study.

III- Results and discussion :

1. Analysis of the structure of finance in enhancing the development capacity in Jordan (Case Study of Housing Bank for Trade and Finance)

1.1. Conceptual Framework of the Housing Bank for Trade and Finance

Housing Bank of Trade and Finance is a comprehensive bank operating in accordance with Jordanian law. It was Established in 1973 as a Jordanian public limited company, the bank started its work as a specialized bank in the field of housing finance with a capital of half a million Jordanian dinars (JOD). A new phase began in the bank's career after 24 years of its establishment, when it became a comprehensive commercial bank in 1997. Its capital has been increased more than once during the past years, the last of which was in 2017, which became JOD 315 million (equivalent to the US \$ 444 million). The successive departments of the Bank have been keen to strengthen its capital base by strengthening its various reserves until its total equity reached JOD1080 Million (equivalent to the US\$ 1.5 billion) as at the end of 2018. (www.hbtf.com/en/AboutUs).

The most important pioneering initiatives undertaken by the Housing Bank of Trade and Finance are:

- ◆ The first bank to implement the savings accounts awards system (1997)
- ◆ The first bank in Jordan and the Arab world to establish a branch for children (1993).
- ◆ The first bank in Jordan and the Arab world to apply the mobile branch (2014).

According to the annual report of the Housing Bank of Trade and Finance of Jordan for the year 2018. This bank has one hundred and twenty-nine branches on the level of Jordanian territory, and four external branches were: Palestine (with 15 branches), a branch in Bahrain, Algeria (7 branches), Syria (with 31 branches). It can also be noted that there are three subsidiaries of the bank, the first specialized is in financial leasing, the second is the International Financial Center, and the third is the Jordan Real Estate Investments. In addition, to three representative offices in the UAE, Libya and Iraq.

Housing Bank of Trade and Finance offers a variety of contemporary services, which can be summarized in the following points, as explained at (<https://www.hbtf.com/ar/AboutUs>):

- ◆ Financing Operations: The Housing Bank of Trade and Finance (HBTF) is engaged in financing all the needs of individuals (personal, residential, car finance etc.) and financing commercial companies in the fields of production, industry and tourism, renewable energy, infrastructure,

telecommunications, water, Arab commercial projects. Moreover, to financing all the needs of investors specialized in small and medium enterprises.. etc.

- ◆ Foreign Trade: the Bank ensures the implementation of international business transactions immediately through fast and efficient payment services at the international level, such as documentary operations, pledges and letters of guarantee .
- ◆ Investment and Savings: the banking services provided by Housing Bank of Trade and Finance, are characterized by modern banking standards and innovative international technologies. Among these services are ATM, Mobile Banking, Mail Swift, Visa International Peace Card, E-Amina online payment service, automatic payment machines, ATM machines ... etc .

The information presented in Table 1.0 explains some points that can be summarized as :

Commercial activity: total customer deposits increased significantly in 2018 compared to 2014, from JOD 5459.9 million in 2018 and recorded an increase of JOD 413.9 Million or 7.58% compared to 2014. We point out that this increase and recovery in the total balance of customer deposits is the result of enhancing the bank's reputation in the market and its exposure to the best services in addition to financial and in kind incentives provided by the bank to deposit account holders, especially savings and term. The following chart shows the growth of the structure of the distribution of customer deposits by depository and by the type of account for the period 2014-2018:

It is clear from the above figure1 that retail deposits accounted for the largest percentage of total customer deposit balances over the period 2014-2018. This is indicative of the increased customer confidence in the bank and the ability of its employees to build good relationships with this category .

The above figure 2 shows that time deposits accounted for the largest proportion (exceeding the 40% threshold) of total customer deposit balances over the period 2014-2018. Savings deposits came second with a threshold above 30%, while the current and demand accounts exceeded 21%.

◆ Financing activity: the level of total granted funds has witnessed a clear growth during the period studied. This balance has moved from JOD 2716.5 million in 2014 to reach JOD 4255.4 million in 2018, with an increase of JOD1538.9 Million and a growth rate of 56.65%. This improvement in the balance of financing is due to the implementation of a conscious policy in the field of liquidity management as the main source and the main pillar of the Bank's financial strength and its ability to move to the required level within the available resources and market needs.

In addition to the commercial and financing activities provided by the Housing Bank of Trade and Finance, the main services launched in 2018 can be mentioned as follows:

- ◆ Launching of the new Housing Online System.
- ◆ Launching the transfer service to other local banks through the Eskan Mobile system (allowing the transfer of individuals' remittances in four currencies namely the Jordanian Dinar, US Dollar, Euro and Pound Sterling).
- ◆ Launching a Renewable Energy Financing program.
- ◆ Signing a cooperation agreement between the Bank and the King Hussein Cancer Center in order to provide treatment for cancer patients for all ages.
- ◆ Promote investment in the human capital and develop the professional skills of employees by providing a number of pioneering programs in the field of training, the most important of which are

the newly appointed cashiers' qualification program, the customer service staff qualification program, etc .

2. Analytical reading in the distribution of the form of financing of the Housing Bank for Trade and Finance - Jordan for the period 2014-2018

2.1. Distribution of Financing Pattern of Housing Bank of Trade and Finance

Numerous funds granted by Housing Bank for Trade and Finance as explained below in the following table 2.

From the above table 2, the following observations can be concluded:

- ◆ The track of total financing took an upward trajectory during the period of the research, which witnessed a quantitative development that moved from JOD 2,978,824.444 million in 2014 to reach JOD 4,645,584.693 million in 2018, with an increase of JOD 1,666,760.249 million and a growth rate of 55.95%.
- ◆ Financing activity in the Housing Bank for Trade and Finance in Jordan witnessed a remarkable growth during the research period. The growth rate of current accounts receivable was 46.12% for individuals, 57.98% for institutions and 34.63% for real estate financing.
- ◆ The rest of the other types of financing have also witnessed a noticeable growth. The funding granted to individuals amounted to 39.73%, institutions to 49.01%, while the growth rate of funds granted to the government sector reached 147.26% .

3. Distribution of Housing Bank for Trade and Finance Pattern by Economic Trader

The financial activity we can be classify it, in terms of the economic factor to the funds granted to private institutions and individuals as well as those granted to the government and public sector according to the following table 3 :

The following observation we made from the above table 3:

- ◆ The movement of the funds granted to institutions of various forms (large, small and medium) and individuals as well as to the government sector during the research period has taken an upward trend, with the growth rate reaching 65.65%, 8.44% and 147.26% respectively.
- ◆ The relative importance of all the mentioned funds has also evolved, especially with regard to the financing granted to significant institutions. This amounted to 40.35% over the research period, which indicates the role of the bank in supporting the activity of this type of institution .

In general, what has been said about tracking the forms of financing that granted by the Housing Bank for Trade and Finance in Jordan. We can be said that all of these funds, which mentioned a movement of upward reveal the evolution of the financing activity of the bank on the one hand and the extent of confidence that the same bank enjoys from the public.

4. The role of the Housing Bank for Trade and Finance in Jordan on economic development indicators for the period 2014-2018

4.1. The total percentage of the Housing Bank for Trade and Finance ' financing contribution to GDP

To explain the impact of the total funding granted on the Jordanian economy, the percentage of total funding granted by the Housing Bank for Trade and Finance to GDP should be stated at constant prices.

The table 4 shows that the percentage of the total financing contributions of the Housing Bank for Trade and Finance to GDP during the period of research has exceeded the threshold of 144. Overall, this percentage has witnessed an increasing trend, with the highest recorded in 2018 at 160.35 and the lowest in 2014 at 111.79.

4.2. The total percentage of the Housing Bank for Trade and Finance' financing for private institutions to the total funding

The funding granted to private institutions as a percentage of total funding reflects the efficiency of the bank. On one hand, the extent to which these institutions contribute to the formation of GDP and increase jobs, etc., as investment institutions .

The financing of private enterprises is a benefit for the national economy; this is through the extent to which these institutions contribute to increasing domestic output and providing job opportunities. The table 5 shows that the financing granted to private institutions as a percentage of total financing, has been characterized by an increasing trend exceeding 27% over 2014 to 2017, The highest rate of 2018 was recorded at 31.47% that reflects the efficiency of the bank's distribution of funds, and the extent to which the economy contributes to the increase in output. From the same table, it is also evident that the funds granted to SMEs as a percentage of total financing have also seen positive rates exceeding the 7% threshold during the period 2014-2018 .

Overall, the funding granted to various institutions (large, small and medium) as a percentage of total financing during the period 2014-2018 has registered an upward trend, which can be illustrated according to the following figure 3:

5. Analysis of the correlation matrix of the financing structure patterns of the Housing Bank for Trade and Finance of Jordan with some indicators of economic development for the period 2014-2018.

This study used the correlation matrix, which will be calculated to base on the Pearson coefficient of correlation to the study data. On the financing structure patterns in the Housing Bank for Trade and Finance of Jordan, affecting some economic development indicators GDP. Then discussing and interpreting the results for the type of funding and its relationship to the selected economic development indicator. Pearson correlation coefficient is calculated according to the following relationship:

$$r = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum(x_i - \bar{x})^2} \sqrt{\sum(y_i - \bar{y})^2}}$$

In order to determine the degree of correlation between the type of funding granted by the Housing Bank for Trade and Finance of Jordan and GDP as well as the type of relationship between them, the researchers will analyze the correlation between funding to GDP .

From the correlation matrix shown in the above table 6, it can be concluded that most of the types of funding structure granted by Housing Bank for Trade and Finance of Jordan have a strong and positive relationship with GDP that exceeded the threshold of 53%.

The strongest correlation between funding granted to private large institutions and GDP was recorded by 99.37% of the correlation matrix above. Then it was followed by finance to individuals by 97.63%, finance to government sector by 73.49%, and finance to small and medium enterprises by 53.82%.

IV- Conclusion:

The research problem was addressed by explaining the role of private banks in enhancing the developmental capacity of the economy. This has enabled the Housing Bank for Trade and Finance of Jordan as a case study to monitor the following conclusions and recommendations.

The Housing Bank for Trade and Finance of Jordan has raised a noticeable development movement. The results showed that the level of funding granted by the Bank has been rated to a high level and this in various forms and patterns at the level of the business environment in the Jordanian economy. It represented 56.56% during the period 2014-2018. For the outputs of the analysis of the degree of correlation between the type of financing in the Housing Bank for Trade and Finance and one of the indicators of economic development, this is the GDP. It has been confirmed that private banks have a positive role in promoting the economic development of the country; most of the forms of financing granted by the Housing Bank for Trade and Finance (HBTF) have a strong and direct relationship with GDP, all of which exceeded the 53% threshold .

When analyzing the relationship of GDP with the various forms of financing approved by the Housing Bank for Trade and Finance, we found that the strongest relationship was with the financing granted to large private institutions by 99.37%, followed by the financing granted to individuals by 97.63%. Financing granted to the government sector by 73.49%, financing to small and medium enterprises by 53.82%, and in the context of economic development indicators, we pointed out that the Housing Bank for Trade and Finance and private banks in particular through the financing granted to various institutions can also contribute from raising the share of employment and reduce unemployment.

Based on the findings, the following some recommendations can be made:

- ♦ The success of the country's private banks and their contribution to promoting economic development requires a strong financial and legislative environment.
- ♦ Jordanian Government authorities should give greater confidence to the private banks, to increase their investment activity. Also, should work to increase the expansion of its branches to include different parts of the country.
- ♦ The religious imposition that imposes itself from not dealing with Riba-based banks (interest), even if the latter has a positive role on the economy, necessitates the need to allow Islamic banking to practice its various developmental and service activities.

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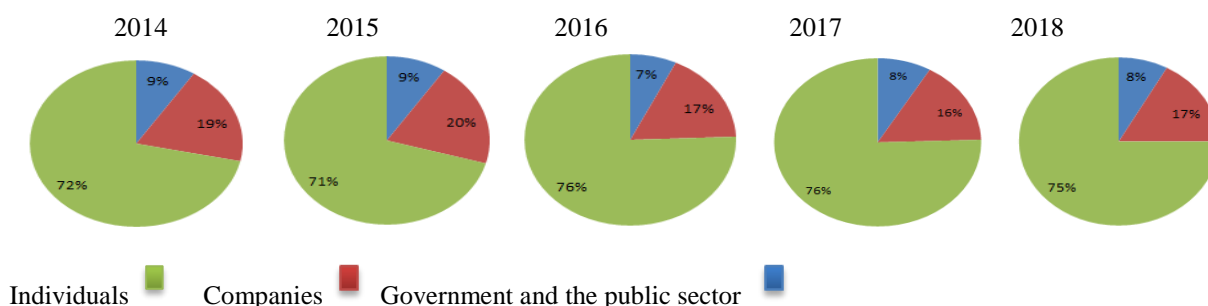
Appendices :

Table 1: A summary of the main activities and funding for Housing Bank of Trade and Finance during 2014-2017.

Type of activities / Year		2014	2015	2016	2017	2018
Commercial activities	Level of total customer deposits	5459.9	5809.8	5647.5	5828.1	5873.8
Funding activities	Level of total funding	2716.5	3494.7	4042.1	4212.6	4255.4

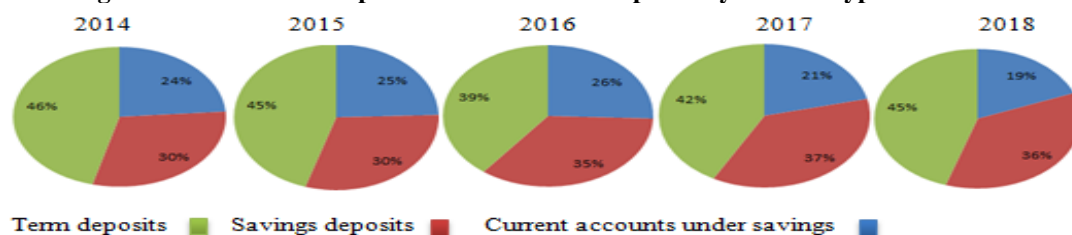
Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance of Jordan, 2014-2018.

Figure 1: The relative importance of customer deposits by depository 2014 - 2018



Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance of Jordan, 2014-2018

Figure 2: The relative importance of customer deposits by account type 2014 – 2018



Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance of Jordan, 2014-2018.

Table 2: Distribution Funding of Housing Bank for Trade and Finance Jordan 2014 – 2018

Items	2014	2015	2016	2017	2018
Current accounts receivable for individuals	8749.673	9906.516	8527.129	11758.289	12784.648
Financings granted to individuals	530072.400	571823.469	669602.931	730149.153	740669.106
Credit cards granted to individuals	10823.136	11318.663	11687.075	13503.865	15430.232
Real estate financing	903674.195	1003871.813	1135348.105	1205968.385	1216608.027
Current accounts receivable for enterprises (Large, Medium, Small)	361372.143	251719.221	348055.428	410650.977	570889.996
Funds granted for enterprises (Large, Medium, Small)	803308.194	1074076.772	1234169.703	1273685.176	1197016.889
Funds granted for Government	360824.703	854464.955	90544.852	843684.942	892185.795
Total	2978824.444	3777181.409	4312935.223	4489400.787	4645584.693

Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance, Jordan 2014-2018.

Table 3: Distribution Funding of Housing Bank for Trade and Finance according to Economic Dealing, Jordan 2014 – 2018.

Economic Dealing /Year	2014	2015	2016	2017	2018
Corporate Finance	882570.495	1036400.365	1234029.675	1325395.488	1461979.95
Relative importance %	42.53	37.37	38.84	40.37	42.64
SME financing	282109.842	289395.628	348195.456	358940.665	305926.935
Relative importance %	13.59	10.43	10.96	10.93	8.92
Individual Finance	549645.209	593048.648	689817.135	755411.307	768883.986
Relative importance %	26.49	21.38	21.71	23.00	22.24
Government and public sector funding	360824.703	854464.955	90544.852	43684.942	892185.795
Relative importance %	17.39	30.81	20.99	18.79	19.21
Total Funding	2075150.249	2773309.596	3177587.118	3283432.402	3428976.666

Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance, Jordan 2014 – 2018.

Table 4: Contribution ratios of Housing Bank for Trade and Finance to GDP 2014 – 2018 (JOD Millions).

	2014	2015	2016	2017	2018
Credit	2978824.444	3777181.409	4312935.223	4489400.787	4645584.693
GDP	26645.640	27282.923	27829.600	28418.400	28969.800
Credit/GDP	111.79	138.44	154.97	157.97	160.35

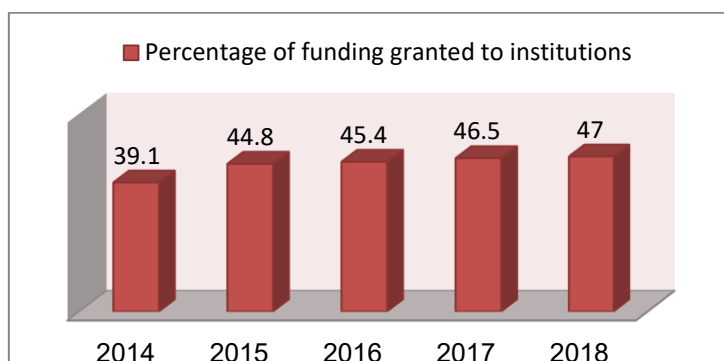
Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance, Jordan 2014 – 2018.

Table 5: Funding development granted to private institutions of the total funding for the period (2014-2018).

Economic Dealing /Year	2014	2015	2016	2017	2018
large institutions Financing	882570.495	1036400.365	1234029.675	1325395.488	1461979.95
Small and medium institutions Financing	282109.842	289395.628	348195.456	358940.665	305926.935
Total Funding	2978824.444	3777181.409	4312935.223	4489400.787	4645584.693
Percentage of funding major institutions	29.63	27.43	28.61	29.52	31.47
Percentage of funding small institutions	9.47	7.66	8.07	7.99	6.59

Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance, Jordan 2014 – 2018.

Figure 3: Evolution of Financing to Institutions as a Percentage of Totals Financing 2014-2018



Source: data collected by researchers based on the annual report of Housing Bank for Trade and Finance of Jordan, 2014-2018.

Table 6 Correlation relationship between financing structure patterns of Housing Bank for Trade and Finance of Jordan and GDP

Variables	GDP	CDI	CPME	CP	CG
GDP	1	-	-	-	-
CDI	0.993742	1	-	-	-
CPME	0.538247	0.593233	1	-	-
CP	0.976388	0.983283	0.696979	1	-
CG	0.734933	0.761298	0.557810	0.709953	1

Source: Source: data prepared by researchers based on the data of table (1). Note: : Gross Domestic Product (GDP).

Table 7 : Link Matrix

Correlation					
	GDP	CGI	CPME	CP	CG
GDP	1.000000	0.993742	0.538247	0.976388	0.734933
CGI	0.993742	1.000000	0.593233	0.983283	0.761298
CPME	0.538247	0.593233	1.000000	0.696979	0.557810
CP	0.976388	0.983283	0.696979	1.000000	0.709953
CG	0.734933	0.761298	0.557810	0.709953	1.000000

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