

THE EFFICIENCY OF THE USE OF LOAN CAPITAL BY JORDANIAN BANKS

Altayawe Fathi*

1. Introduction

In the current domestic and foreign economic literature an understanding of economic efficiency is often treated as a performance activity. Accordingly of most economic and financial dictionaries they treat efficiency as a relative effect or effectiveness (as individual aspects of the subject of activity and all of its activities), providing positive feedback of the expenditure incurred by itself [1]. The effectiveness of the use of loan capital is one of the most urgent topical problems of every modern bank, as depending on the volume, timing and cost of attracting deposits it largely depends on the performance of all credit operations of the bank (deposits and lending), and even the reliability of its own.

2. Analysis of studies and publications in recent years

Studies of efficiency concepts are devoted by foreign and domestic scientists, among which should be mentioned first of all, works of such foreign economists as I. A. Blank, V. Bogatin, A. D. Vyvarets, L. V. Distergeft, R. Dornbusch, E. G. Zudov, B. C. Ivanitsky, V. V. Kovalev, H. Liebenstein, N. M. Ratner, O. A. Romanova, A. Ross, M. Savina, T. S. Khachaturov, Paul Heine, K. Phipps, S. Fischer, V. A. Shvandar, S. M. Shefrin, R. Schmalensee, D. A. Endovitsky, and others. Among domestic economists, the works of such scientists as a G. I. Bashnyanin, M. A. Bolyuh, V. I. Osipov, S. F. Pokropivny, L. I. Schwab and others deserve the attention. It should be noted that most of the listed authors consider efficiency as the effectiveness of the measure in quantitative aspect. At the same time domestic economists, rightly considering that the concept of “efficiency” comes from the word “effect” (“result” from the Latin) consider the effectiveness as the final positive result obtained from the subject’s activity, or the result of the use of its resources, allowing increasing its income.

3. Tasks setting

The article deals with the efficiency of loan capital of Jordanian banks as the ratio of the effect obtained from using it to its expenses (bank interest received for its attractions), which caused its formation. The effectiveness of the use of loan capital characterizes the effectiveness of its use. Accordingly, the efficiency of using the loan capital is the effectiveness of the credit process (deposits and lending operations) of the bank, determining the ratio it received of interest margin (because of the use of loan capital in the credit activities of the bank) to expenditures that provide its revenues. (Expenditures obtained by percentage). The purpose of the article is to study the nature of the loan capital and the efficiency of its use by Jordanian banks.

4. Expositions of research material basics

The activities of banks as credit institutions are based on credit (economic relations relative to the revenues flow) which help the banks to form the loan capital, interest bearing, and give out the loans.

Loan capital represents money of the capital concentrated and is based on a credit-based bank ability to generate profits. The money-capital, attracted by banks in the form of the various contributions received its name “Loan” because, that it is intended to provide loans to banks. Not casually several economists characterizing banking activity believe that the banks – is “... a

* © Altayawe Fathi, Postgraduate student of Banking Department; Odessa National Economic University.

special kind of business, associated with the movement of loan capital, mobilization and distribution” [2, p.6; italics E. Zh. stressed A. F.; 3, p.70].

Considering the specific nature of capital, interest bearing (the loan capital), K. Marx wrote: “... The owner of money who wants to use the money as capital, interest-bearing, alienates it to a third person, throws it into circulation, makes it goods as *capital*, – as capital, not only for itself, but also for others. It is the capital not only for the person who alienates the money, but also to a third person, they are already start transferred as the equity, as the cost, which contain a use-value, it creates surplus value, profit; as the cost which is in the motion, is retained and after its operation is returned initially expended to its face, in this case, the owner of the money; therefore, only for the time it is removed from the hands and from its owner only temporarily passed into the possession of a functioning capitalist, the payment is not received and is not sold, but only given as a loan, only under the condition of alienated, that after a certain deadline it firstly returns to its starting point, and secondly, will return as realized capital and realizes its use value, its ability to produce surplus value” [4, p.377]. The motion of loan capital (interest-bearing capital) unlike the industrial and commercial capital has only one form of value – money, meaning thereby, that the loan capital is in monetary form only value ($M - M'$). Diagrammatically motion of loan capital is represented in Fig. 1.

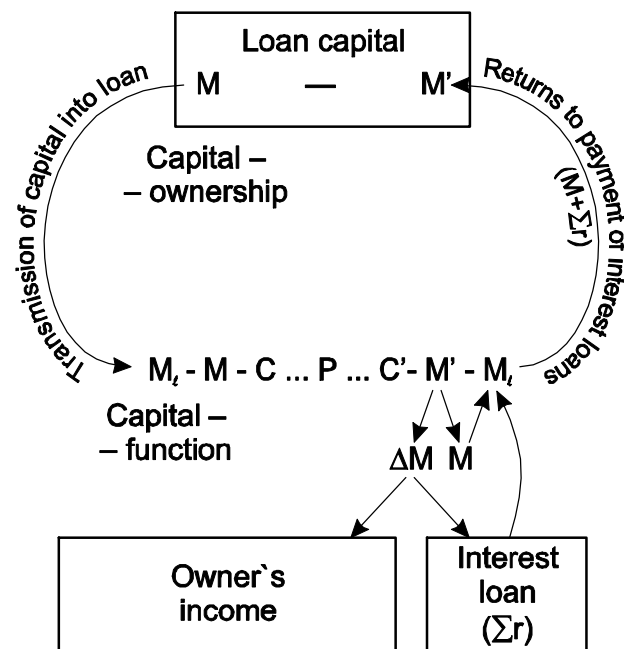


Fig. 1. Scheme of movement of loan capital [5, p.374]

As it is seen in Fig. 1, the loan capital is a specific form alienation – of the loan form. Not casually, K. Marx notes that “... Giving money loan for a certain time, and getting it back with interest (Surplus value) – that is the whole form of motion inherent in the capital, interest bearing, as to that” [4, p.383]. Under such condition, the loan, as a specific form of alienation of loan capital, has the character of a return motion. However, bank established monetary capital at the expense of attracted deposits by it and intended for the grant of loans, accordingly, received its name – loan capital as monetary capital, dedicated for the issuance of loans. Fig. 1 also shows that the alienation of loan capital in the form of loans, it (the capital) it splits into capital-ownership & capital-function, which on the one hand, as the circuit operates in the borrower ($M - C \dots P \dots T' - D'$), and on the other hand, the same amount for the creditor is as a capital-ownership. It belongs to the owner of capital borrowed. It follows from that the loan capital – is a capital-ownership.

Loan capital has the form of goods, that capital as the goods, which the owners of loan capital “sell” as goods. However, the use value of loan capital as a goods, is different from the use-values of

ordinary goods and it lies in the ability of this particular specific goods – capital loan (disposed in the form of loans) to make a profit (“...append and add value” [4, p.386].

Fig. 1 also shows that obligatory attribute of loan capital is interest loan, exacted by the owner of the loan capital as a reward for the temporary provision of capital in the form of employer-borrower loan. Interest on loans is an integral part of the loan capital – monetary capital, interest bearing.

It is pertinent to note that the loan capital grows faster than real capital, firstly, because when commercial banks’ lending to their customers can multiplicatively expand monetary weight, and in addition to make loans in excess of their available resources; secondly, because a growing number of banks and their branches increased volume of attracted funds by banks [7].

It merits attention that the larger loans is issued by banks with loan capital, so consequently the greater weight and interest is received as well as is the interest margin, and net income and efficiency of assets used [6]. On the other hand, if the volume of loans issued by banks exceeds the volume of their attracted deposits (created by banks loan capital), there is a potential violation of the bank liquidity. In this case, if the loans/deposits ratio is greater than 1, then it usually reduces the liquidity of banks, as it creates a risk of the untimely return of deposits (or else requires the costs of raising the additional amount of cash), in connection with which the need for maintaining its liquidity by banks is increasing.

Investigation of the effectiveness of capital loan use, formed by Ukrainian banks showed that the ratio of loan capital to assets of banks is from 71.8% to 76.1%, and a tendency to grow, while the volume of loans provided by Jordanian banks in the economy of Jordan does not exceed 50% of their assets, that can be concluded as low effective use of capital loan created by the banks, which is clearly seen in Fig. 2.

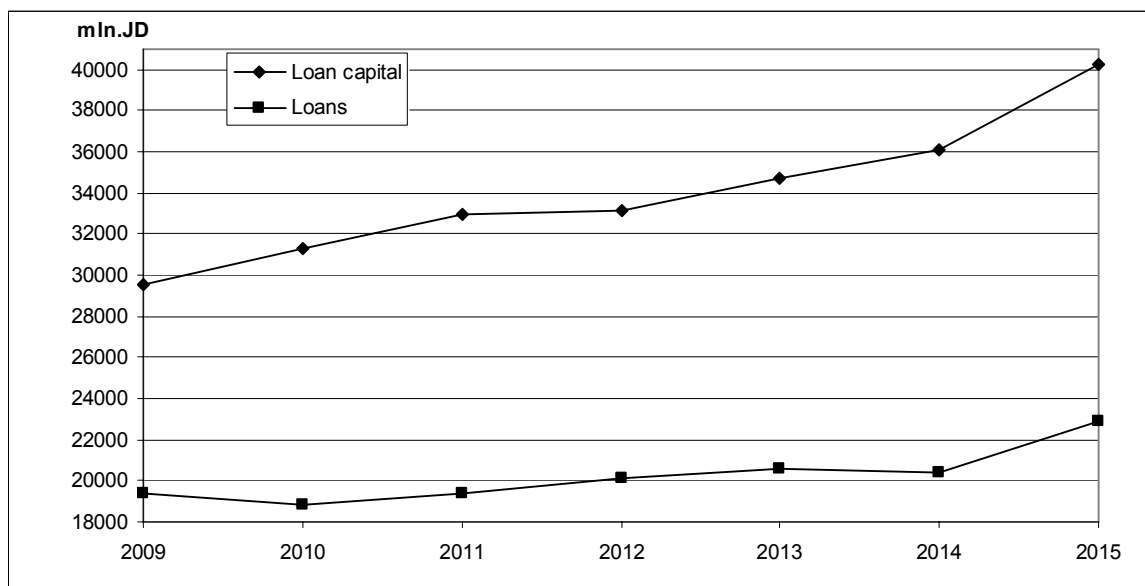


Fig. 2. Dynamics of capital loan and loans granted Jordanian banks in 2009–2015

As can be seen in Fig. 2, loan capital of Jordanian banks issued almost twice as much of their loans and shows a tendency to grow. This means that the costs of Jordanian banks for the payment of interest on deposits are growing and significantly reduce the possibility of increasing interest margins of banks, thus reducing the efficiency of the use of capital loan.

5. Conclusions

The study of efficiency of use of capital loan in Jordanian banks leads to the conclusion that it was of insufficient efficiency use during almost all the years of the studied period. At the same time, the expansion of the volume of Jordanian banks’ lending operations are advisable to carry out due to an increase in lending in the real economy and, above all in agriculture and industry. Analysis showed

that within the period of 2009–2015 the largest volume of loans was granted by Jordanian banks to the private sector (residents – economic entities), while the volume of loans issued in the sphere of material production did not exceed 39% of total bank lending in the studied period. In this case, the largest (21%) share of loans was directed to the construction, less than 15% – to industry, and ten times as little (that less than 1.5%) – to agriculture. In addition, if the specific weight of loans provided by banks in the Jordanian industry and construction had a tendency to grow, then relative weight of loans provided to agriculture had a tendency to decrease. Expansion of lending Jordanian banks in the material sphere of production and, above all, agriculture, enabling them to increase the volume of interest received (with the same amount of interest paid) interest margin, and as a consequence, enlarges a net profit of banks and, consequently, the effectiveness of the use of their assets and capital.

Under these conditions, an increase in the use of loan capital in Jordanian banks will not only increase the efficiency of its use, but will also contribute to the development of the national economy.

References

1. Raizberg, B. A., Lozovskiy, L. Sh., Starodubtseva, E. B. (1998), Modern Dictionary of Economics [Sovremenniy ekonomicheskiy slovar], INFRA-M, Moscow, 479 p. (rus)
2. Zhgukov, E. F. et al. (1997), The banks and bank operations [Banki i bankovskie operatsii], UNITI, Banks and stocks exchanges, 471 p. (rus)
3. Bregel, E. Ya. (1973), Money Turnover and Credit in Capitalist Country [Denezhnoe obrashchenie i kredit kapitalisticheskikh stran], Finance, Moscow, 376 p. (rus)
4. Marx, K. (1970), The Kapital [Kapital], Politizdat, Moscow, Vol. 3, 1084 p. (rus)
5. Riabinina, L. N. Money and Kredit [Dengi i kredit], TSUL, Kiev, 2014 (rus)
6. Primostka, L. O. (2002), Analysis of banking: current concepts, methods and models: monograph [Analiz bankovskoy deyatelnosti: sovremennye kontseptsii, metody i modeli: monografiya], KNEU, Kiev, available at: http://buklib.net/index.php?option=com_jbook&catid=126 (rus)
7. Maslak, N. G. Svekla, A. V. (2009), “Methodological approaches to assessing the efficiency of the bank’s activities” [Metodicheskie podkhody k otsenke effektivnosti deyatelnosti banka] Business Inform, No. 12 (2), pp. 187–191 (rus)

Summary

The article is devoted to the efficiency of the use of loan capital by the Jordanian banks. The article shows the character of the movement and a form of the monetary value of the loan capital. It shows the relationship and differences of the loan capital from loan and credit. It shows that loan interest is an integral part of the loan capital – monetary capital, bringing the loan interest and exacted by the owner of capital from the borrower as a reward for providing it in a form of a loan for a period. The article also shows that the share of loan capital of Jordanian banks in some years exceeded 3/4 of their liabilities and, accordingly, the value of assets. During the studied period (2009–2015 years) the share of loan capital increased from 71.8% to 76.1% and nearly twice as many loans were issued by them, which allows the make conclusion about underutilization of the Jordanian banks of the loan capital created by them. However, the increase in the volume of granted loans allows the Jordanian banks to increase the total amount of interest received (with the same amount of interest paid), interest margin, and, accordingly, increase the return and the efficiency of the use of loan capital. Under such conditions it should be noted that today there is the prospect of more efficient use of loan capital by the Jordanian banks.

Keywords: efficient use; loan capital; loan interest; loan; credit; interest margin.

JEL classification: G210

UD classification: 330.142.22:336.71

Date of acceptance: 14.10.2015.