

## The Impact of Global Financial Crisis on the Commercial Banks in Jordan

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### Abstract

This study aimed at recognizing the concept, reasons and impact of the global financial crisis on the competitive advantage and available liquidity of the commercial banks in Jordan. The sample consisted of 24 commercial banks in Jordan, while data was analyzed by using SPSS Package. The study found that the global financial crisis (the mortgage crisis) affected the competitive advantage and available liquidity of the commercial banks in Jordan. The study recommends making more efforts to enhance the credit measures, controls for the mortgage and offering shares to the stock exchange, transfer the Jordanian funds from outside to Jordan in order to support the liquidity of the banking sector in Jordan, as well as the extension of external loans to the commercial banks in Jordan.

**Keywords:** Financial Crisis, Commercial Banks, Jordan

### Introduction:

The impact of the financial and economic global crisis is still existed largely in the economies of advanced and developing countries. The crisis began in 2007 in USA with the crisis of mortgage funding. This crisis changed into a hard economic crisis in the sectors of manufacturing and production, This crisis lead to bankruptcy of some reputed and large financial institutions in USA, These banks were characterized by financial discipline and resilience, besides the decline of American, European and Asian stock exchanges, That situation prompted the governments to interfere while some small countries began to seek the aid of IMF to encounter the expected bankruptcy. (Mahmoud, Eissa, 2009).

These chaos didn't include the monetary and securities markets only, but it also contained the financial institutions, like banks and insurance companies, Some large companies announced its bankruptcy like Lehman Brothers bank, The losses of twenty global banks was estimated by US\$ Billion 130 in 2007 alone, These imbalances became a global financial crisis, where USA and Europe governments hurried up to support some institutions with millions of dollars, to help them regain the balance, besides nationalization of some other institutions. (Murabit, Sa'aid, 2009).

Therefore, this study attempted to investigate the impact of such crisis on the performance of the commercial banks in Jordan.

### Problem of the Study:

The study tried to answer the following questions:

1. Is there an impact of global financial crisis on the liquidity of commercial banks in Jordan?
2. Is there an impact of global financial crisis on the competitive advantage of the commercial banks in Jordan.

### Objectives of the study:

1. Define the concept and reasons of global financial crisis.
2. Recognize the impact of the global financial crisis on the competitive advantage of the commercial banks in Jordan.
3. Determine the impact of the global financial crisis on the available liquidity of the commercial banks in Jordan.

### Previous Studies:

Makhloof, Ahmad (2009) study aimed at investigating the nature of the global financial crisis through introducing solutions by using the principles of disclosure, transparency and corporate governance from Islamic perspective. The study showed that the solution of this crisis is the adoption of Islamic thought and concepts in administering the economy.

Hamdan, Shatha R (2010) study aimed at determining the impacts of the global financial crisis on the profits and market value of the public companies. The results indicated the influence of this crisis on profits decline in all sub sectors by high rates.

Reinhart & Rogoff (2008) study aimed at investigating the history of financial crises, in addition to the focus on credit and the related topics such as the meta data of banks liquidity based on the data and information of its

central content

Kiyota (2009) study aimed at exploring and investigating the impact of the global financial crisis on the efficiency of banks and banking profit systems in Africa. The study indicated that the financial crises has negative impacts on the African banks due to its inefficient traditional systems applied by the African financial institutions like the fundamentals of quality, capitalism and operationalism as the rates of liquidity in the profits of African banks.

### Population and Sample of the study:

The population of the study consisted of all 24 commercial banks in Jordan that have their shares listed in Amman Stock exchange (ASE), while the sample was the population itself. The sector of banking was selected for the study due to its importance to the national economy.

### Sources of Data Collection:

The study depended on the following sources:

1. Primary Sources which include the annual reports of the commercial banks in Jordan.
2. Secondary Sources: which include the books, papers and research articles.

### Hypotheses of the Study:

H01: There is no impact for the global financial crisis on the liquidity of commercial banks in Jordan.

H02: There is no impact for the global financial crisis on the competitive advantage of the commercial banks in Jordan

### Results:

**The first hypothesis:** There is no impact for the global financial crisis on the liquidity of commercial banks in Jordan.

Table 1 shows that the calculated T > tabulated T, while sigma=0.00. Therefore, this hypothesis was rejected and the alternative hypothesis was approved. This means that there was an impact for the global financial crisis on the liquidity of commercial banks in Jordan.

Table1 : Simple Regression

Variable	R2	Calculated T	Tabulated T	Sigma
Liquidity	0.35	3.21	1.40	0.00

**The second hypothesis:** There is no impact for the global financial crisis on the competitive advantage of the commercial banks in Jordan. Table 2 shows the results

Table 2: Simple Regression

Variable	R2	Calculated T	Tabulated T	Sigma
Competitive Advantage	0.58	7.34	1.93	0.00

Table 2 shows that the calculated T > tabulated T, while sigma=0.00. Therefore, this hypothesis was rejected and the alternative hypothesis was approved. This means that there was an impact for the global financial crisis on the competitive advantage of commercial banks in Jordan.

### Recommendations

1. Adopt credit measures and controls for the mortgages as well as offering shares in the stock exchange.
2. Transfer Jordanian funds invested outside to the domestic market to support the liquidity in the banking sector
3. Expansion of external lending to the commercial banks in Jordan

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