JORDAN ECONOMIC REPORT

AMID THE TRADE OFF BETWEEN GROWTH ENHANCEMENT NEEDS AND FISCAL CONSOLIDATION REQUIREMENTS

TABLE OF CONTENTS

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- Sluggish growth dynamics

The Jordanian economy continues to be constrained by sluggish growth dynamics. Real GDP grew by 2.2% in 2019 – an almost similar pace to that of 2018. While economic growth benefits from rising net exports amid the partial rebound in tourist arrivals, it is constrained by weak domestic demand. Furthermore, economic growth has been insufficient to alleviate pressures on the domestic labor market. As a result, unemployment continues to rise, reaching 19.1% in June 2019, up from 18.6% at September-end 2018.

- Current account deficit tangibly slashed on the back of reinforced external position

Jordan's external position has witnessed a tangible improvement over the past year, as the current account deficit has been cut significantly, from a deficit of US$ 2.9 billion over the first nine months of 2018 to a deficit of US$ 1.1 billion over the first nine months of 2019, mainly on the back of a contraction in trade deficit supported by increasing exports and retreating imports, and amid higher receipts from tourism activity boosting the services account.

- Shy fiscal performance setting indebtedness ratio on a gradually increasing path

Fiscal performance has been somewhat under pressure in 2019. In fact, the authorities continued to rely on capital spending cuts given the difficulty of cutting politically contentious current spending, on the one hand, and given lower-than-expected revenue collection since sales tax receipts declined in light of the weak economic activity, on the other hand, despite the recently enacted tax reform which relatively improved income tax collection. This situation reinforced downside risks to growth and pressured fiscal accounts further. As such, central government fiscal data for the first ten months of 2019 pointed to a tiny growth in public revenues compared to a higher growth in public expenditures. Therefore, the overall budget deficit reached 4.3% of GDP over the period (the highest since 2013), up from 3.4% of GDP a year ago.

- Easing monetary policy amid subdued inflationary pressures

Jordan's monetary conditions were marked in 2019 by receding inflationary pressures, the first growth in the Central Bank of Jordan's gross official reserves since 2014 and an expansionary monetary stance, which has followed the lead taken by the US Federal Reserve in easing policy. In details, inflation was subdued in Jordan in 2019, as shown by a 0.3% increase in the Consumer Price Index. The CBJ main rate was reduced three times over the year by a cumulative 75 bps to reach 4.00% at end-2019. The broader money supply (M2) widened by 4.8%, following a smaller expansion of 1.2% in 2018 (the equivalent of US$ 567 million).

- Healthy activity growth for a sound banking sector

Jordanian banks witnessed a year of healthy activity growth in 2019, marked by a relative pick up in economic growth across the Kingdom and ensuing additional liquidity at hand for banks, which extended new waves of credit facilities to clients. Measured by the aggregated assets of banks operating in Jordan, banking sector activity grew by 5.3% year-on-year in 2019 to reach the equivalent of US$ 75.7 billion at end-December 2019, comparing to a lower growth of 3.7% in the year before.

- Extended equity price falls, bond prices on the rise tracking US Treasuries move

Jordan's equity market continued to operate in negative territory in 2019 despite relatively attractive market valuations, mainly weighed down by sluggish growth dynamics. In contrast, the fixed income market witnessed healthy price gains over the year 2019, mainly tracking US Treasuries move following three rate cuts by the US Federal Reserve.

- Both opportunities and challenges looking ahead

Going forward, real GDP growth is forecasted to rise slightly to 2.4% in 2020 and 2.6% in 2021 as further increases in net exports of goods and services are expected while at the same time domestic demand is expected to remain weak. Trade and investment opportunities in what were traditionally Jordan's two largest markets – Iraq and Syria – will slowly increase looking ahead, especially in Syria owing to reconstruction efforts. In a bid to boost growth and employment prospects, the Jordanian government is trying to balance its aspiration to modernize the economy and drive stronger economic growth and job creation with the need to consolidate the Kingdom's public finances, while maintaining political stability.

The Jordan Economic Report can be accessed via internet at the following web address: http://www.bankaudigroup.com

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The Jordanian economy continues to be constrained by sluggish growth dynamics. Real GDP grew by 2.2% in 2019 – an almost similar pace to that of 2018. While economic growth benefits from rising net exports amid the partial rebound in tourist arrivals, it is constrained by weak domestic demand. Furthermore, economic growth has been insufficient to alleviate pressures on the domestic labor market. As a result, unemployment continues to rise, reaching 19.1% in June 2019, up from 18.6% at September-end 2018.

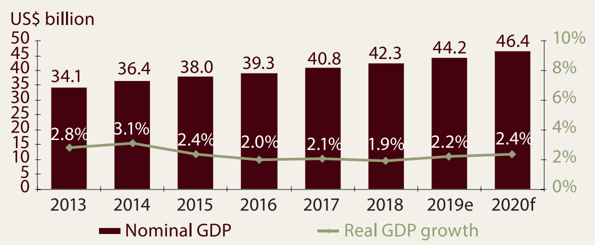
At the external level, goods exports rose by 8.6% year-on-year over the first ten months of 2019 on the back of higher exports to the US and China. In addition, the reopening of the Iraqi and Syrian borders in September 2017 and October 2018 contributed to a slight recovery in goods exports to both countries, though keeping in mind that total trade volume remains significantly below the levels seen prior to the closure of the borders. In parallel, tourists arrivals increased from 4.5 million in 2018 to 5.2 million in 2019, exhibiting a growth of 15% amid a partial rebound in tourism.

At the monetary level, Jordan's international liquidity position is adequate. The Central Bank of Jordan's (CBJ) gross foreign reserves increased to US$ 13.3 billion in December 2019 from US$ 12.7 billion in December 2018 as rising external borrowing from other countries and multilateral banks more than offset the decrease in private sector capital inflows (e.g. foreign direct investment; FDI). FX reserves cover 32.7% of domestic currency money supply, a sound reserve coverage relative to international standards. Amid a mild 4.8% money supply growth, inflation remains contained at 0.3% in 2019. In line with the US Federal Reserve, the Central Bank of Jordan decreased its main policy rate by 75 basis points since summer 2019, keeping the interest rate differential with the US at 2.25%.

At the fiscal level, central government gross debt rose from 94.4% of GDP at end-2018 to 97.1% of GDP at end-October 2019, on the back of a still large budget deficit and slower nominal GDP growth. It is worth mentioning that despite the adoption of a new income tax bill in late 2018, tax revenue growth has remained below expectations, while spending on non-discretionary items such as the public wage bill and social benefits has increased. As such, the fiscal deficit to GDP ratio has widened from 3.4% over the first 10 months of 2018 to 4.3% over the first 10 months of 2019 as a result of a lower resource mobilization ratio (moving from 23.8% to 23.2%) coupled with higher public spending to GDP (moving from 27.2% to 27.5%).

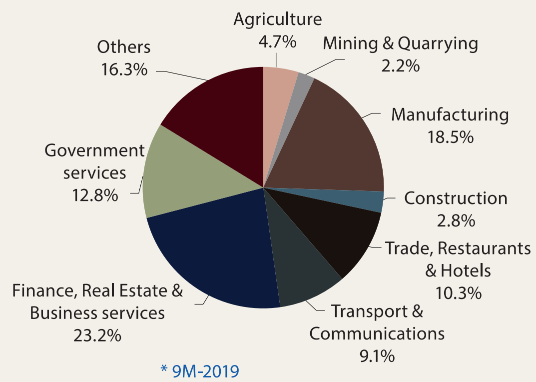
At the banking sector level, the macro prudential risk of the Jordanian banking sector remains low amid acceptable activity growth. All activity aggregates displayed positive growth in 2019, with assets growing by 5.3%, deposits rising by 4.3%, credit facilities upticking by 3.7% and shareholders equity increasing by 5.1% over the year. The banking sector benefits from good capital and liquidity buffers but is exposed noticeably to the Jordanian State. Meanwhile, asset quality remains satisfactory, with the sector- wide

GROSS DOMESTIC PRODUCT



Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



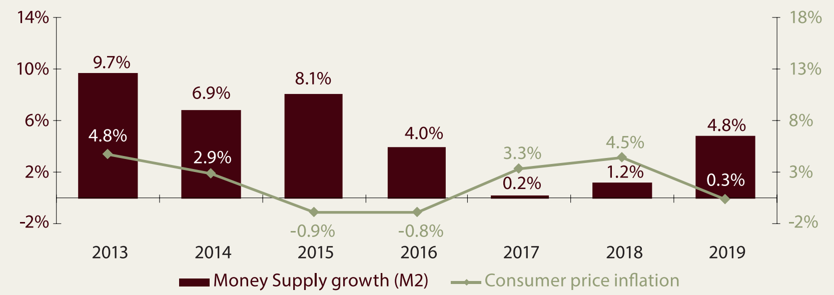
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

NPL ratio standing at 5.2% in 2019 and a 68.2% of provision coverage ratio on the back of an average capital adequacy ratio of 17.0%, bearing witness to an overall sound banking sector. At the profitability level, the return on average assets stood at 1.17% in the first half of 2019 while the return on average equity stood at 9.4% over the same period.

At the capital markets level, the year 2019 was not a good year for equity and bond markets. The Stock market price index contracted by 7.5% in 2019, decreasing market capitalization to GDP from 53.8% in 2018 to 47.6% in 2019. The price contraction comes amid a weakening trading activity. The total value traded contracted from US$ 3.3 billion in 2018 to US$ 2.2 billion in 2019, decreasing the turnover ratio (annual value traded to market capitalization) from 14.4% to a new decade low of 10.6%.

The detailed developments in the real sector, external sector, public sector and financial sector are outlined in the sections that follow while the concluding remarks address the Kingdom's near and medium term economic outlook looking forward.

BROAD MONEY AND INFLATION



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Continued growth in Jordan's primary and secondary sectors

The primary sector continued to contribute by 4.7% to Jordan's GDP in the first three quarters of 2019, similar to its level in the same period of the previous year. In nominal terms, the sector added US$ 1.1 billion in the first nine months of 2019, improving by a yearly 5.7%.

The country's agriculture sector reported an annual growth of 2.6% in the first nine months of 2019, following a rise of 3.2% year-on-year in the same period of 2018, as Jordan's Ministry of Agriculture implemented the "agriculture as a national strategy" movement, which has been targeting the protection of the local agricultural produce and livestock sectors.

However, the number of registered companies classified within the agricultural sector contracted from 621 during the first nine months of 2018 to 465 in the same period of 2019, a yearly decline of 6.2%. Yet, the agricultural companies' capital expanded from US$ 9.6 million to US$ 29.8 million over the covered period.

On another level, there were no credit facilities extended to the agricultural sector at end-December 2019, whereby net new loans remained at a negative value.

The growth in the production and contribution of the primary sector was also reflected at the level of the external sector which reported a growth in agricultural exports, reversing the previous year's trend. Agricultural exports expanded by a yearly 3% to stand at US$ 817 million in the first ten months of 2019.

It is worth noting that The Food and Agriculture Organization of the United Nations (FAO) and the Ministry of Agriculture (MoA) launched a pioneering project to provide capacity building and technical support for the Integrated Agri-Aquaculture farming systems in Jordan. This project is expected to cultivate the sector further.

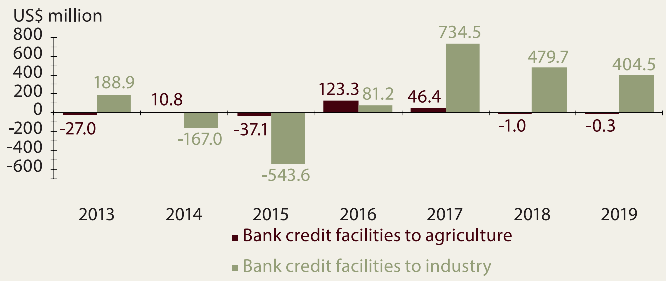
Jordan's industry sector performed well, mainly at the level of its largest contributors, mining and quarrying and manufacturing.

AGRICULTURE AND INDUSTRY OUTPUT

US$ million	2014	2015	2016	2017	2018	10M-18	10M-19	Var 10M/10M
Agricultural exports	1,375	1,304	1,047	1,030	920	794	817	2.9%
Industrial exports	5,907	5,462	5,154	5,323	5,674	4,595	5,016	9.1%
Phosphate (000 tons)	7,109	8,264	7,989	8,666	7,987	6,433	7,382	14.8%
Potash (000 tons)	2,086	2,355	2,003	2,320	2,434	2,031	2,079	2.4%
Fertilizers (000 tons)	886	619	547	695	882	759	607	-20.0%
Chemical acids (000 tons)	1,442	1,206	1,083	1,309	1,375	1,132	1,057	-6.6%
Petroleum products (000 tons)	3,007	3,212	2,793	2,604	2,213	1,869	1,856	-0.7%
Electricity (million kWH)	8,148	6,557	4,536	4,722	2,270	2,114	844	-60.1%

Sources: Central Bank of Jordan, Bank Audi's Group Research Department

CREDIT FACILITIES FLOWS TO AGRICULTURE & INDUSTRY



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

Looking at the main components, the share of mining and quarrying improved slightly from 2.0% in the first three quarters of 2018 to 2.2% in the same period of 2019. This component added US$ 717.6 million to Jordan's GDP at current prices, up from a contribution of US$ 616.9 million over the same period in 2018. In real terms, mining and quarrying expanded by 5.7% year-on-year over the same period.

The share of manufacturing edged down slightly from 18.8% in the first nine months of 2018 to 18.5% in the same period of 2019. Again, the component reported a real growth of 1.3% over the covered period. In nominal terms, manufacturing contributed by US$ 6.0 billion in the first nine months of 2019, up from US$ 5.8 billion in the same period of the previous year.

Along with this expansion, credit facilities extended to the sector (mining and industry combined) took over a share of 13.5% of total credit facilities at end-2019, up from 13.1% at end-2018. However, net new loans declined by 15.7% year-on-year from US$ 480 million in 2018 to US$ 405 million in 2019.

Regarding the number of companies classified within the industrial sector, these retreated by a yearly 13.3% from 1,335 in the first nine months of 2018 to 1,157 in the same period of 2019. However, the capital of these companies was on a positive trend, reporting US$ 82.6 million in the aforementioned period of 2019.

In an overall look, both the primary and secondary sectors in Jordan continued to report a positive performance over the past year, acting as key drivers for the country's overall economy.

1.1.2. Construction

Construction sector stagnates last year

Jordan's construction sector contracted by 0.3% in the first nine months of 2019. Nonetheless, the Kingdom's construction sector, which made up 2.8% of GDP in the first three quarters of 2019, was supported by a 2.0% rise in credit facilities to the sector in the past year.

In line with the slowdown in Jordan's construction sector, demand for construction permits dropped by 33.0% year-on-year during the first nine months of 2019. Similarly, the country's residential permits, which accounted for 91.1% of construction permits, witnessed a contraction of 32.4% in 9M 2019.

Moving on to construction permits granted by city, Amman formed the lion's share of total permits given during the first nine months of 2019 at 27.1%, followed by Irbid at 24.1%, and Zarqa at 12.0%. The number of newly registered companies within the construction sector grew by 18.4% year-on-year in the first nine months of 2019.

It is worth noting that limited private investor interest and weak household spending capacity restrained growth in Jordan's residential building sector, while constraints on public spending hindered the government's large-scale urban redevelopment programs. The non-residential building sector attracted some investment, and Jordan's efforts to diversify its economy could have a positive impact on the sector.

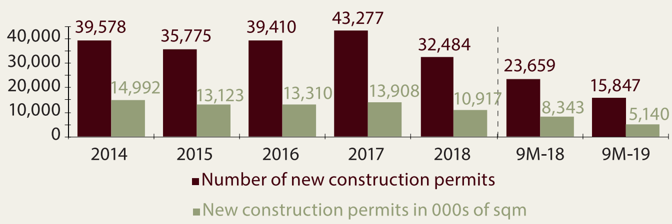
CONSTRUCTION INDICATORS

US$ million	2014	2015	2016	2017	2018	2019	Var 19/18
Bank credit facilities to construction (variation)	658	496	1,302	1,091	324	197	-39.2%
Number of registered companies*	224	148	121	147	122	155	26.8%
Capital of new registered companies*	16	11	7	7	5	10	83.2%

* 9-month annualized figures for 2019

Sources: Central Bank of Jordan, Bank Audi's Group Research Department

EVOLUTION OF CONSTRUCTION PERMITS



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

In details, the Jordanian government signed a loan agreement with the French Development Agency for a € 60 million loan in December 2019 which will fund the North East Balqa Waster water project. Furthermore, Jordan Phosphate Mines Company (JPMC)'s unit Jordan Chemicals Company signed an agreement with Indiabased Alufluoride to set up an aluminium fluoride factory in Jordan.

Moreover, Jordan enjoys relatively high-quality roads, but the quality of roads in rural areas has eroded over recent years, as per Fitch Solutions. While cross-border connections are numerous, they have been restricted due to security issues in recent years. The key project currently underway in the roads sub-sector is the reconstruction of the 220-km stretch of road from the Queen Alia International Airport to the Ma'an Governorate.

Last but not least, Jordan's construction sector came under some pressure last year despite a rapidly growing population, as public spending capacity was restricted in light of capital spending cuts.

1.1.3. Trade and Services

Tertiary sector growth remains on a positive note in 2019

Jordan's trade and services sector remained on a positive trend in 2019. As a matter of fact, it expanded by 2.4% year-on-year during the first nine months of last year. The sector was positively impacted by the relatively improved security conditions in the region which offered trade and investment opportunities for Jordan, while a revival in tourism was seen in the Kingdom.

The sector's expansion was led by growth in the "social and personal services", "transport & communications", and "finance, insurance, real estate and business services" segments. The social and personal services subsector expanded by 3.4% in the first nine months of 2019. As for the transport and communications segment, it grew by 3.1% year-on-year in the first nine months of 2019. It was followed by a 2.9% growth rate by the finance, insurance, real estate and business services segment.

As for the tourism subsector of Trade & Services, it continued performing strongly during the past year. An easing in regional political instability contributed to attracting more visitors, with the numbers of arrivals, excluding Jordanians, up by 14.7% year-on-year in 2019, following a rise of 12.6% in 2018. They reached 5.2 million tourists in 2019 compared to 4.5 million tourists in 2018.

Further reflecting the positive trend in the tourism sector, receipts from the touristic sector registered an increase of 9.0% year-on-year to reach JD 3.1 billion over the first nine months of 2019.

Moving on to the performance of the hotels sector, it moved in line with the rising tourists' numbers. Accordingly, data published by Ernst & Young show that occupancy within four and five star hotels in the capital increased to 61.9% in 2019 from 59.3% in the previous year, while the average room rate was down by 3.4% annually to US$ 144. As for rooms' yield, it rose by 1.1% during 2018.

In conclusion, the relative improvement in the regional security situation reinforced the recovery in the trade and services sector, with the tourism sector outperforming, and lead to a resumption of trade after the reopening of some border routes.

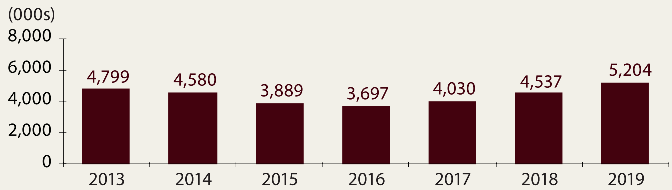
TRADE AND SERVICES

US$ million	2014	2015	2016	2017	2018	2019	Var 19/18
Bank credit facilities to trade & services (var)	-75	2,701	869	758	994	848	-14.7%
Number of new registered companies*	4,367	3,578	3,675	3,673	2,836	2,701	-4.7%
Capital of new registered companies*	135	127	91	221	126	126	0.2%

* 9-month annualized figures for 2019

Sources: Central Bank of Jordan, Bank Audi's Group Research Department

EVOLUTION OF TOURIST ARRIVALS*



* Excluding Jordanian arrivals

Sources: Central Bank of Jordan, Bank Audi's Group Research Department

1.2. EXTERNAL SECTOR

Current account deficit tangibly slashed on the back of reinforced external position

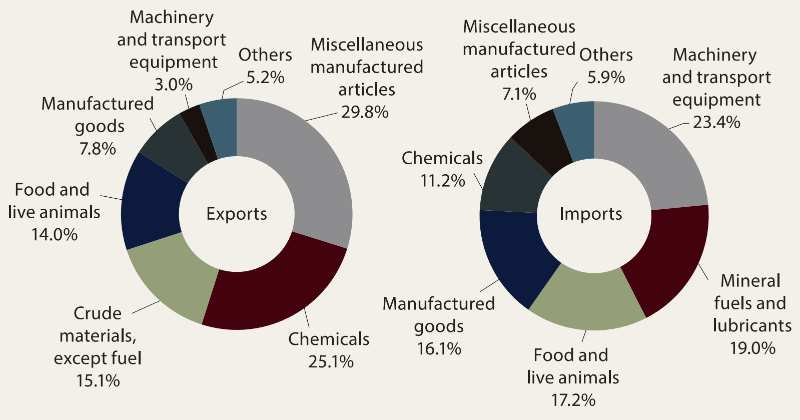
Jordan's external position has witnessed a tangible improvement over the past year, as the current account deficit has been cut significantly, from a deficit of US$ 2.9 billion over the first nine months of 2018 to a deficit of US$ 1.1 billion over the first nine months of 2019, mainly on the back of a contraction in trade deficit supported by increasing exports and retreating imports, and amid higher receipts from tourism activity boosting services account.

In details, foreign trade figures show a rise in total exports by 8.6% alongside a decline in total imports by 5.5% over the first ten months of 2019 compared to the same period of 2018, contributing to an important drop in foreign trade deficit by 14.0%, according to the Central Bank of Jordan. In fact, Jordan's trade deficit contracted from US$ 10.5 billion to US$ 9.0 billion between the two periods. As such, Jordan's foreign trade activity went down slightly in terms of volume, as the sum of exports and imports declined by 2.2% moving from US$ 22.2 billion over the first ten months of 2018 to US$ 21.7 billion over the first ten months of 2019. Accordingly, the exports to imports coverage ratio went up from 37.7% to 43.3% during the same period, i.e its highest level since 2010.

At the level of total exports, a total of US$ 6.9 billion was registered in the first ten months of 2019, compared to US$ 6.3 billion in the first ten months of 2018, supported by the gradual reopening of trade routes through conflict countries in the region, mainly with Iraq and Syria, reviving regional trade. In parallel, the breakdown of domestic exports by commodity shows that the main exports during the first ten months of 2019 were the exports of miscellaneous manufactured articles with 29.8% of total domestic exports, followed by chemicals with 25.1%, crude materials (except fuels) with 15.1%, and food and live animals with 14.0% of the total over the period. The geographic distribution of domestic exports indicates that 27.4% of total exports went to USA, followed by Saudi Arabia with 11.1% of the total, India with 9.6%, Iraq with 8.3%, Kuwait with 4.4% and UAE with 3.7% of total domestic exports.

At the level of imports, a total of US$ 15.9 billion was recorded in the first ten months of 2019, compared to US$ 16.8 billion in the first ten months of 2018, mainly on the back of lower oil prices leading to a contraction in energy imports by 14.4%, along with a 3.2% decline in non-energy imports over the same period. The breakdown of domestic imports by category suggests that imports of machinery and transport equipment posted the most significant share of 23.4% of total domestic imports in the first ten months of 2019, followed by mineral fuels and lubricants with a share of 19.0%, food and live animals with 17.2% and manufactured goods with 16.1% of the total. The breakdown of imports by country of origin shows that most of the inward merchandise in the first ten months of 2019 came from Saudi Arabia with 16.9% of the total, followed by China with 16.4%, USA with 8.3%, India with 4.6%, Germany with 4.4%, Turkey 2.9% and UAE with 2.8% of total domestic imports.

BREAKDOWN OF EXPORTS & IMPORTS BY COMMODITY (10M-2019)



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

Within this context, the current account deficit contracted considerably by 62.2% during the first nine months of 2019 relative to the same period of 2018 to reach the equivalent of US$ 1.1 billion, as per the latest available statistics. This tangible net improvement in current account deficit was mainly attributed to a decline in trade deficit and a significant recovery in services account. In fact, the latter went up by 27.6% on the back of a net improvement in travel receipts by 9.0% given the signs of recovery in the tourism industry. Within this context, the current account deficit contracted from 6.6% of GDP in 2018 to an estimated 6.0% in 2019, and is expected to narrow to 5.2% of GDP in 2020, as per the IIF.

1.3. PUBLIC SECTOR

Shy fiscal performance setting indebtedness ratio on a gradually increasing path

Fiscal performance has been somewhat under pressure over the year 2019. In fact, the authorities continued to rely on capital spending cuts given the difficulty of cutting politically contentious current spending, on the one hand, and given lower-than-expected revenue collection since sales tax receipts declined in light of the weak economic activity, on the other hand, despite the recently enacted tax reform which relatively improved income tax collection. This situation reinforced downside risks to growth and pressured fiscal accounts further. As such, central government fiscal data for the first ten months of 2019 pointed to a tiny growth in public revenues compared to a higher growth in public expenditures. Therefore, the overall budget deficit reached 4.3% of GDP over the period (the highest since 2013), up from 3.4% of GDP a year ago.

Going further into details, total revenues and grants totaled JD 6.05 billion (or US$ 8.5 billion) over the first ten months of 2019, moving up by 1.6% relative to the same period of 2018, as per the Central Bank of Jordan. This shy rise total revenues was the result of a modest rise in tax revenues which increased by 3.1% over the period to reach the equivalent of JD 3.87 billion (or US$ 5.5 billion, constituting 65% of total revenues and grants). As to foreign grants, they went down by 21.3%, totaling around JD 207 million (or US$ 292 million) in the first ten months of 2019. However, it is worth mentioning that USAID has granted the Treasury around US$ 745 million under a cash transfer agreement, by end-2019, to support economic development, provide employment opportunities, improve the quality of life and promote local development. Donor assistance remains crucial for the Kingdom to ensure the provision of services to support a large refugee population as well as to embark on much-needed fiscal adjustment.

On the other hand, total public expenditures went up by a moderate 5.4% in the first ten months of 2019 compared to 2018 corresponding period, to reach a total of JD 7.18 billion (or US$ 10.1 billion). In details, current expenditures increased by 6.3% totalling JD 6.58 billion (or US$ 9.3 billion) over the same period, while its breakdown by category shows that military expenditures (representing 30% of total current expenditures) went up by 5.0%, compensations of employees (constituting 18% of total current expenditures) were up by 10.4%, while interest payments (representing 13% of total current expenditures) were up by 11.5% in the first ten months of 2019 compared to the previous year's same period.

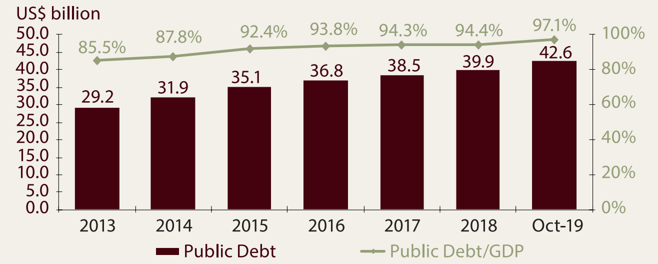
As such, the general budget deficit (including foreign grants) went up significantly by 31.6% over the first ten months of 2019 when compared to the same period of 2018, to record JD 1.13 billion (or US$ 1.6

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2014	2015	2016	2017	2018	10M-18	10M-19	10M/10M
Public revenues & grants	10.3	9.6	10.0	10.5	11.1	8.4	8.5	1.6%
Public revenues & grants/GDP	28.2%	25.2%	25.4%	25.7%	26.1%	23.8%	23.2%	-0.6%
Public expenditures	11.1	10.9	11.2	11.5	12.1	9.6	10.1	5.4%
Public expenditures/GDP	30.4%	28.7%	28.6%	28.3%	28.6%	27.2%	27.5%	0.3%
Fiscal balance	-0.8	-1.3	-1.2	-1.1	-1.0	-1.2	-1.6	31.6%
Fiscal balance/GDP	-2.3%	-3.4%	-3.2%	-2.6%	-2.4%	-3.4%	-4.3%	-0.9%

Sources: Central Bank of Jordan, IMF, Bank Audi's Group Research Department

PUBLIC INDEBTEDNESS



Sources: Central Bank of Jordan, IMF, Bank Audi's Group Research Department billion) over the period and to reach 4.3% of GDP, up from 2.4% of GDP in full-year 2018. When excluding foreign grants, the general budget deficit went up by 19.4%, to reach JD 1.34 billion (or US$ 1.9 billion) in the first ten months of 2019.

In parallel, gross domestic public debt increased by 9.1% as at end-October 2019 compared to its level as at end-December 2018, to reach US$ 25.0 billion, while the outstanding external public debt (budgetary and guaranteed) increased by 3.3% as at end-October 2019, compared to its level as at end-December 2018, to stand at US$ 17.6 billion. As a result, gross public debt (domestic and external) went up by 6.7% over the period, to reach US$ 42.6 billion as at end-October 2019 (or a peak of 97.1% of GDP) compared to US$ 39.9 billion as at end-December 2018 (or 94.4% of GDP).

Last but not least, the Lower House passed in January the 2020 State budget draft law and the draft for the year's budgets of independent public institutions. The 2020 draft State budget law saw a rise in domestic revenues to reach JD 7.75 billion, registering an increase of 10.4% from the JD 7.02 billion re-estimated in 2019, as tax revenues are expected to increase to JD 5.65 billion compared with JD 4.80 billion re-estimated for 2019, while non-tax revenues are expected to see a 5.4% drop to JD 2.10 billion in 2020, down from the JD 2.22 billion re-estimated for 2019. Foreign grants are expected to reach JD 807 million in 2020, the same as the re-estimated value in 2019. The deficit in the 2020 budget is estimated to reach JD 1.25 billion after grants, slightly up from JD 1.22 billion in the re-estimated value for 2019.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Easing monetary policy amid subdued inflationary pressures

Jordan's monetary conditions were marked in 2019 by receding inflationary pressures, the first growth in the Central Bank of Jordan's gross official reserves since 2014 and an expansionary monetary stance, which has followed the lead taken by the US Federal Reserve in easing policy.

In details, inflation was subdued in Jordan in 2019, as shown by a 0.3% increase in the Consumer Price Index, moving from 124.7 on average in 2018 to 125.0 on average in 2019, according to the Central Bank of Jordan, mainly owing to a decrease in average oil prices and weak domestic demand. The breakdown of the Consumer Price Index by category shows that eight out of 12 categories, accounting for three-quarters of the consumer goods basket, posted yearly increases in 2019, while three categories registered contractions and one category saw no change year-on-year.

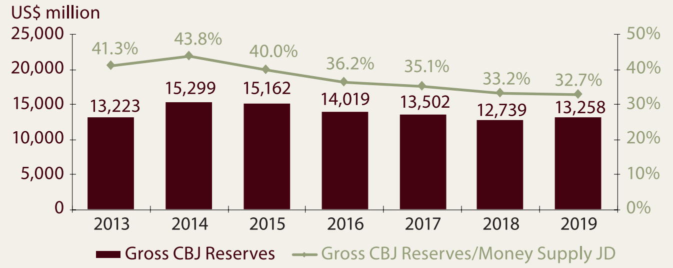
A closer look at individual categories shows that the "food and non-alcoholic beverages" category, which is the heaviest in the basket (33.4% of the CPI), posted a shy rise of 0.1%, while the "housing" category, accounting for 21.9% of the CPI, recorded a rise of 1.6%. The other six categories, registering yearly expansions of 0.1% to 1.9%, account for 19.7% of the CPI, and are the household furnishings and equipment, the health, the culture and recreation, the education, the restaurants and hotels, and the other goods & services categories.

MONETARY SITUATION

Flows in US$ million	2014	2015	2016	2017	2018	2019
Net foreign assets	1,423	289	999	391	-2,474	195
Net claims on public sector	-148	1,249	-1,045	-1,424	1,297	1,405
Claims on private sector (resident)	889	1,201	2,660	2,730	1,670	1,463
Claims on financial institutions	1	-2	161	307	181	322
Net other items	482	599	-982	-1,889	-107	-1,114
Uses=Sources	**2,647**	**3,336**	**1,792**	**115**	**567**	**2,271**
Money supply (M1)	1,161	915	715	-355	-647	912
Quasi-money	1,486	2,421	1,078	470	1,214	1,359

Sources: Central Bank of Jordan, Bank Audi's Group Research Department

EXCHANGE MARKET INDICATORS



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

Following four consecutive years of contractions, the CBJ's gross official reserves registered their first expansion in 2019, moving from US$ 12.7 billion at end-2018 to US$ 13.3 billion at end-2019, up by 4.1% or the equivalent of US$ 519 million, mainly as rising external borrowing from other countries and multilateral banks more than offset the decrease in private sector capital inflows. Accordingly, the CBJ's foreign exchange reserves covered around eight months of the country's imports, which is higher than the international standard for foreign reserves coverage of three months, as per the Central Bank Governor. That being said, the CBJ's foreign exchange reserves covered 32.7% of money supply in Jordanian dinar at end-2019 as compared to a higher coverage ratio of 33.2% at end-2018.

Given the Jordanian dinar peg to the US dollar at JD/US$ 0.71 since 1995, a global monetary easing environment, a benign outlook for inflation and a rebound in foreign currency reserves, the Central Bank of Jordan adopted an accommodative monetary policy over the year 2019, cutting its key policy rates several times in the aim of encouraging local spending and investment needed to spur domestic economic growth. In details, the CBJ main rate was reduced three times over the year by a cumulative 75 bps to reach 4.00% at end-2019. The re-discount rate was also cut from 5.75% at end-2018 to 5.0% at end-2019. Also, the CBJ slashed the overnight repurchase agreements rate three times by a total of 75 bps to reach 4.75% at end-2019. The overnight deposit window rate was reduced three times by a cumulative 75 bps to reach 3.25% at end-2019.

The broader money supply (M2) widened by 4.8% or the equivalent of US$ 2.3 billion in 2019 to reach US$ 49.3 billion at the end of the year, following a smaller expansion of 1.2% in 2018 (the equivalent of US$ 567 million). This growth in money supply compares to a money creation of US$ 3.4 billion in 2019 that mainly resulted from a US$ 195 million growth in net foreign assets, a US$ 1.41 billion expansion in net claims on public sector, a rise in claims on the resident private sector of US$ 1.46 billion, and an increase in claims on financial institutions of US$ 322 million. The difference between the growth in money supply (M2) and money creation amounting to US$ 1.1 billion corresponds to a demonetization of monetary claims in 2019.

Looking forward, as international food prices started rising in 2020 following the outburst of the coronavirus, consumer prices in Jordan are set to pick up, while renewed financial backing from western countries, multilateral agencies and Gulf Arab States and intermittent bond issuances would help keep CJB's foreign reserves at a comfortable level overall.

1.4.2. Banking Activity

Healthy activity growth for a sound banking sector

Jordanian banks witnessed a year of healthy activity growth in 2019, marked by a relative pick up in economic growth across the Kingdom and ensuing additional liquidity at hand for banks, which extended new waves of credit facilities to clients. Measured by the aggregated assets of banks operating in Jordan, banking sector activity grew by 5.3% year-on-year in 2019 to reach the equivalent of US$ 75.7 billion at end-December 2019, comparing to a lower growth of 3.7% in the year before.

Activity growth continued to be fostered by customer deposits, which account for two-thirds of banks' balance sheets and thus ensure the bulk of the funding needs of Jordanian banks. Deposits actually rose by a yearly 4.3% in 2019 to reach the equivalent of US$ 49.8 billion at end-December. In details, with public sector deposits slightly contracting, the private sector was solely responsible for the growth in total deposits parked at banks in Jordan.

Among private sector deposits that account for more than 90% of the total stock of deposits, 87% of the total growth in 2019 was attributed to the resident sector, while non-residents accounted for close to 14% and non-banking financial institutions deposits almost stagnated over the year. Jordan indeed benefits from a high proportion of core deposits, which prove to be more stable during difficult times and reflect confidence in the domestic banking sector.

A glance at the breakdown of deposits by currency shows that local currency deposits clearly drove the total stock of deposits higher, as foreign currency deposits barely inched up during 2019. Foreign currency deposits rose by 0.2% on a yearly basis to account for 23.2% of total deposits at end-December

2019, against 24.2% at end-December 2018, marking a retreat in deposit dollarization in the Kingdom within the context of a relatively better year for the Kingdom's economy.

Foreign liabilities have proven to be the second largest driver of funding growth in the Kingdom's banks last year, but account for only 15% of total balance sheets at end-December 2019. Jordanian banks do not rely much on external financing whether from the interbank market or through long-term borrowing. Another source of financing is their shareholders' equity, which was the third largest contributor to balance sheet growth in 2019, noting that capital accounts and allowances rose by 5.1% year-on-year to reach the equivalent of US$ 11.7 billion, or 15.4% of total assets.

As such, banks operating in Jordan further reinforced their capitalization last year, to withstand potential pressures on their capital base and adequately cover credit, market and operational risks. The latest Central Bank of Jordan figures point out to a rise in already solid capital adequacy ratio standing at 17.0% at end-June 2019, above minimum requirements. Basle III regulations have been in force since 2016 for conventional banks and is now effective for Islamic banks, noting that additional buffers are required for systemically important banks (+1.5%-2.0%) and banks with operations abroad.

On the asset utilization side, additional liquidity during 2019 was primarily channeled towards lending to the private and public sectors and the Central Bank of Jordan through deposits. Banks boosted their reserves, especially their deposits with the sector regulator in local currency that accounted for 21% of total asset growth, noting that banks' foreign currency funds parked at the CBJ contracted last year.

The largest beneficiary of additional liquidity at banks in the Kingdom were new loans extended to the economy, in the form of credit facilities to the private sector and investments in government securities. Total credit facilities grew by 3.7% on a yearly basis to reach the equivalent of US$ 38.2 billion at end-December 2019, driven by the resident private sector. Lending activity has been positively impacted by the lowering of key interest rates following the US Federal Reserve's successive policy rate cuts throughout the year, and by the CBJ subsidized lending of 1.75% in the capital city and 1% outside of it to specific sectors, including industry, tourism, agriculture, IT, renewable energy and engineering consulting.

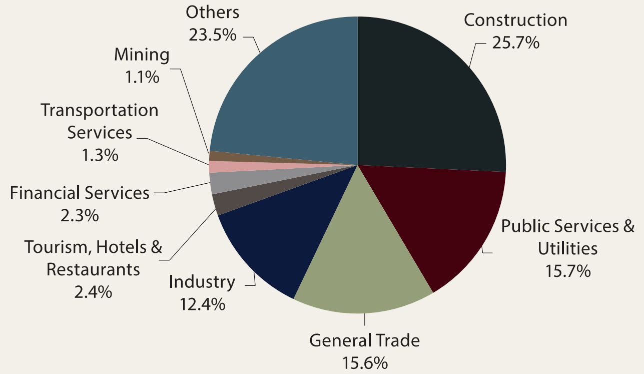
The breakdown of credit facilities by sector shows that the top beneficiaries of new credit facilities in 2019 were public services and utilities, industry and construction in respective order. It is worth noting that banks' lending concentration to cyclical sectors is non-negligible. For instance, the exposure to the construction industry accounts for a quarter of their total loan book. Furthermore, foreign currency credit facilities accounted for around one third of the total growth in credit facilities last year, leaving the bulk to Jordanian dinar-denominated credit facilities. The dollarization ratio of such facilities reached 12.0% at end-December 2019.

BANKING SECTOR INDICATORS

US$ million	2014	2015	2016	2017	2018	2019
Banking Activity						
Assets	63,282	66,477	68,240	69,254	71,814	75,656
Deposits	42,680	45,977	46,402	46,822	47,739	49,795
Credit facilities	27,185	29,764	32,306	34,889	36,828	38,193
Capital accounts and allowances	9,554	10,025	10,241	10,669	11,094	11,654
YTD Growth rates						
Assets	4.8%	5.0%	2.7%	1.5%	3.7%	5.3%
Deposits	9.7%	7.7%	0.9%	0.9%	2.0%	4.3%
Credit facilities	1.8%	9.5%	8.5%	8.0%	5.6%	3.7%
Capital accounts and allowances	10.2%	4.9%	2.2%	4.2%	4.0%	5.1%

Sources: Central Bank of Jordan, Bank Audi's Group Research Department

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



* December 2019

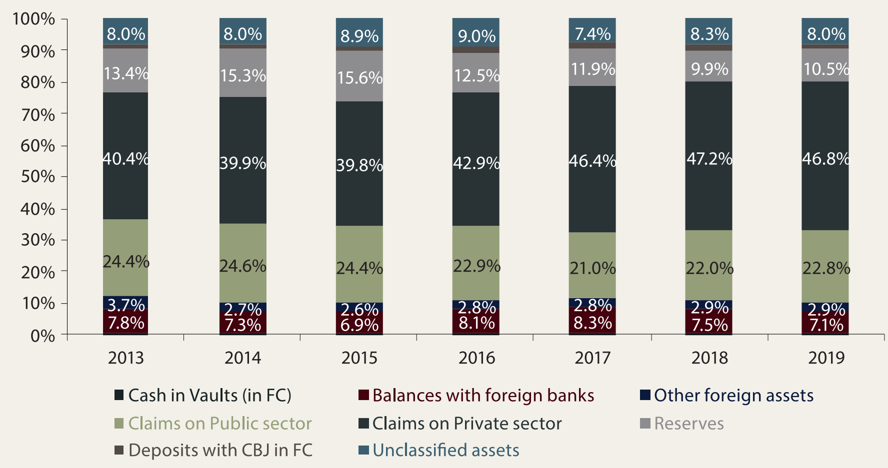
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

Banks operating in the Kingdom also increased their exposure to the public sector through investments in government securities in order to fund the public sector's budget shortfall. Treasury bills and bonds subscribed by the banking sector rose by 14.6% last year, bearing witness to the rising sovereign exposure of banks operating in the Kingdom amounting to 1.1x capital accounts and allowances.

Anyhow, Jordanian banks continue to enjoy healthy liquidity buffers. Core liquidity, which we measure as the sum of cash in vaults in foreign currencies, balances with foreign banks, reserves and deposits with CBJ in foreign currencies, represented 29.5% of total deposits, which is considered to be favorable in absolute terms and relative to regional and international benchmarks. It is also worth mentioning that regulations on liquidity requirements were implemented in 2019, notably the stable funding ratio providing a view of long-term liquidity and funding stability, and the liquidity coverage ratio, according to S&P that believes such rules reinforce transparency and promote prudent liquidity management in the banking sector.

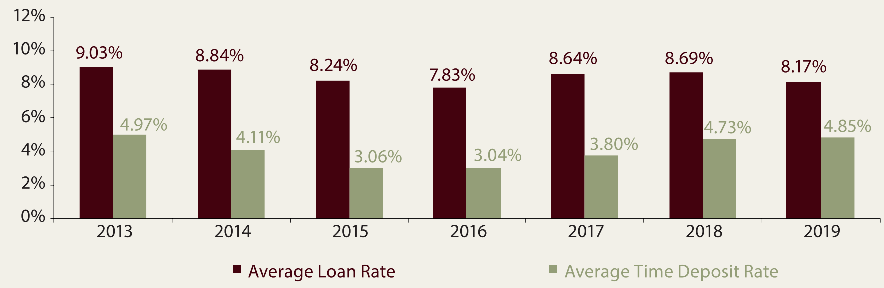
On the asset quality front, banks display favorable metrics on the overall, noting that the non-performing loans to total loans ratio stood at 5.2% at end-June 2019 as per the latest available official figures, which although increasing slightly from 4.9% at end-December 2018 remains favorable compared to emerging markets and global averages in the 7% range. Banks are more or less adequately covered against those NPLs, given that provisions total circa 70% of NPLs.

ASSET COMPOSITION



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

BANKING SECTOR INTEREST RATES IN JD



Sources: Central Bank of Jordan, Bank Audi's Group Research Department

Last but not least, high interest rates' ensuing upward effect on cost of funding during H1 2019 offset the moderate lending activity growth and added some pressure on interest margins which accounted for 75% of gross income in last year's first half. This, coupled with the spillovers of mild economic growth on banks' fee income generation capacity, had an impact on banks' profitability. Net profits after taxes of the Jordanian banking sector declined by 4.3% year-on-year in the first half of 2019, leading to a slight contraction in annualized return on equity from 9.8% to 9.4% over the covered period.

To sum things up, Jordanian banks benefit from stable funding sources in the form of core customer deposits, healthy liquidity buffers and adequate capitalization ratios, which offset rising sovereign exposure and asset quality pressures in light of the challenging operating conditions and tough geopolitical environment.

1.4.3. Equity and Bond Markets

Extended equity price falls, bond prices on the rise tracking US Treasuries move

Jordan's equity market continued to operate in negative territory in 2019 despite relatively attractive market valuations, mainly weighed down by sluggish growth dynamics. In contrast, the fixed income market witnessed healthy price gains over the year 2019, mainly tracking US Treasuries move following three rate cuts by the US Federal Reserve.

Activity on the Amman Stock Exchange (ASE) remained tilted to the downside in 2019 for the twelfth consecutive year, amid a slowdown in private lending and government spending along with weakened real domestic economy. This compounded with a flight to US exchange-traded funds in emerging markets ahead of a phase-one trade agreement between the US and China early-2020. Jordanian equities continued to trace a downward trajectory during the first two months of 2020 amid a wide sell-off mood in global and emerging stock markets following the outbreak of coronavirus and on growing concerns over its impact on global economic growth.

The general weighted price index fell from 3,797.1 at end-2018 to 3,513.8 at end-2019, down by 7.5%, and extended its decline during the first two months of 2020, moving down by 1.9%. The breakdown of the ASE general weighted price index by sector in 2019 shows that the "banking and financial sector" was the main drag on the index, posting a yearly price drop of 14.0%, followed by the "services sector" with -7.7% and the "insurance sector" with -6.8%, while the "Manufacturing and Mining sector" registered yearly price gains of 13.1%.

Against a background of equity price falls, the market capitalization contracted by 7.5% year-on-year, moving from US$ 22.7 billion at end-2018 to US$ 21.0 billion at end-2019. Accordingly, the ASE market capitalization accounted for 47.6% of GDP at end-2019, down from 53.8% of GDP at end-2018, which sheds light on the continuous declining dimension of the ASE relative to the Jordanian economy.

The ASE total trading value contracted by 31.6% year-on-year to reach US$ 2.2 billion in 2019, mainly driven by a 70.7% contraction in the total turnover in the "industrial sector". The division of the total trading value by sector shows that the "financial sector" captured 66% of activity, followed by "the industrial sector" with 18%, and "the services sector" with 16%. The number of traded shares reached 1,247 million shares in 2019, traded through 503 thousand transactions, compared with 1,246 million shares traded during the year 2018 through 512 thousand transactions. The noticeable drop in the total turnover was coupled by a smaller contraction in the market capitalization, which resulted into a fall in the ASE turnover ratio from 14.4% in 2018 to 10.6% in 2019, in a sign of reduced activity on the Amman Stock Exchange.

Non-Jordanian buying operations amounted to US$ 746 million in 2019, representing 32.4% of the total trading value, while non-Jordanian selling operations reached US$ 585 million, resulting into net investments of +US$ 161 million as compared to net investments of +US$ 683 million over the year 2018. Accordingly, non-Jordanian ownership in companies listed at the ASE by end-December 2019 represented 51.6% of the total market value, 35.8% for Arab investors and 15.8% for non-Arab investors.

At the level of the bond market, sovereigns maturing in 2026, 2027 and 2047 registered yearly price gains of 11.06 pts, 13.35 pts and 17.97 pts respectively in 2019, mainly tracking US Treasuries move following three rate cuts by the US Federal Reserve aimed to ensure the US economy weathers a global trade war without slipping into a recession. Jordanian sovereigns continued to post decent price improvements the first two months of 2020, registering price gains of up to 4.39 pts as investors moved into safe-haven assets on concerns that the spreading coronavirus from China would curb global economic growth.

As to credit rating changes, Fitch Ratings published in June 2019 Jordan's long-term foreign currency Issuer Default Rating of "BB-" with a "stable" outlook. Jordan's ratings are supported, according to Fitch, by a track record of fiscal and economic reforms and resilient availability of domestic and external financing linked to the liquid banking sector, growing public pension fund and funding from Jordan's external partners. Jordan's ratings are constrained, as per Fitch, by high government debt, weak growth and risks stemming from domestic and regional politics, large external financing needs and GDP per capita that is lower than the "BB" median.

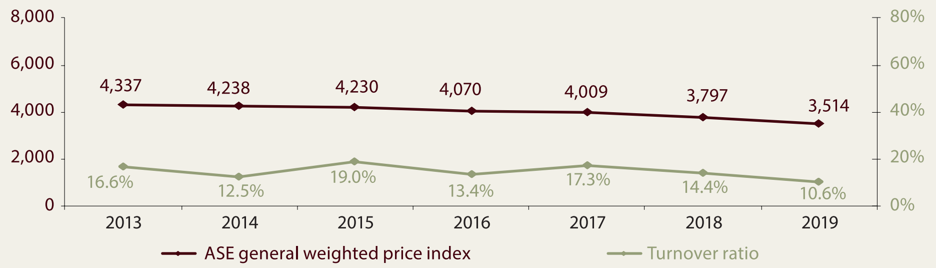
Also, Standard and Poor's affirmed in September 2019 its "B+/B" long-term and short-term foreign and local currency sovereign credit ratings on Jordan, with "stable" outlook. The "stable" outlook balances S&P's expectation that donor funding would continue to support the government's financing needs and keep debt-servicing costs low, against the risk that the government would significantly increase spending to alleviate social and economic challenges.

CAPITAL MARKETS INDICATORS

	2014	2015	2016	2017	2018	2019
Market capitalization (US$ billion)	25.5	25.4	24.5	23.9	22.7	21.0
Market cap/GDP	70.1%	66.8%	62.3%	58.7%	53.8%	47.6%
Total value traded (US$ billion)	3.2	4.8	3.3	4.1	3.3	2.2
Total volume of traded securities (million)	2,322	2,586	1,837	1,717	1,246	1,247
Total number of transactions (000s)	956	899	786	718	512	503
% Chg. in ASE general weighted price index	-2.3%	-0.2%	-3.8%	-1.5%	-5.3%	-7.5%
P/E ratio	15.3x	14.0x	16.6x	19.5x	17.9x	11.4x
P/BV	1.3x	1.3x	1.2x	1.2x	1.2x	1.1x
Dividend yield	4.2%	3.6%	4.1%	4.6%	5.0%	5.7%

Sources: Amman Stock Exchange, Bank Audi's Group Research Department

STOCK MARKET PERFORMANCE



Sources: Amman Stock Exchange, Bank Audi's Group Research Department

2. CONCLUDING REMARKS

Going forward, real GDP growth is forecasted to rise slightly to 2.4% in 2020 and 2.6% in 2021 as further increases in net exports of goods and services are expected while at the same time domestic demand is expected to remain weak. Trade and investment opportunities in what were traditionally Jordan's two largest markets – Iraq and Syria – will slowly increase looking ahead, especially in Syria owing to reconstruction efforts. In a bid to boost growth and employment prospects, the Jordanian government is trying to balance its aspiration to modernize the economy and drive stronger economic growth and job creation with the need to consolidate the Kingdom's public finances, while maintaining political stability.

At the external level, Jordan's still high current account deficit constitutes an important external liquidity risk as it renders the economy reliant on large capital inflows. Still, the CBJ's current FX reserve cushion continues to be adequate given that reserves fully cover short-term external debt on a remaining maturity basis (import cover is around eight months). It is yet worth mentioning that the import bill is expected to grow slowly in 2020 as modest demand growth and stagnant energy prices offset the impact on import spending of higher food prices, before increasing more strongly over years to come.

At the monetary level, inflationary pressures are expected to be subdued over the next few years, with CPI inflation forecasted at 2.5% only in 2020 (an average of 2.5% over the next few years) based on the overall expectation that domestic demand will remain sluggish. Having said that, as Jordan is heavily import-reliant, any depreciation of the US dollar to which the Jordanian dinar is pegged might contribute to an increase in imported inflation. In parallel, within the context of a continuing peg of the Jordanian dinar against the US dollar, the Central Bank's monetary policy stance will remain largely determined by stable exchange rate objectives. We believe the Central Bank of Jordan will remain committed to maintaining the peg, which, despite the associated level of flexibility, has helped to instill confidence in domestic monetary policy.

At the fiscal level, although the current IMF-supported reform program provides an anchor for economic policy, implementation risk in certain targets (e.g. fiscal adjustment) continues to be significant. Furthermore, policy making is complicated by public discontent over austerity measures and potential trade-offs between very important policy challenges such as reducing the government's large debt burden through fiscal consolidation measures and stimulating economic growth in order to reduce high unemployment. That said, the fiscal strategy should be supported by continued efforts to strengthen tax and customs administration as well as measures to enhance public financial management, fiscal transparency and governance.

When looking at the Kingdom's outlook, it is important to assess key strengths and underlying weaknesses. At the level of strengths, we mention the moderately high likelihood of support from external donors, the adequate international reserves, the manageable (though increasing) net external debt, the track record of implementing structural reforms and commitment to fiscal consolidation, and the sound banking sector providing adequate access to domestic funding sources. At the level of weaknesses, we mention the sluggish economic growth prospects, the uncertainty about future course of economic policy, the significant socioeconomic challenges such as high unemployment and the high reliance on capital inflows due to chronic current account deficit.

While challenges and risks are real, we believe opportunities outpace threats at the horizon. Still, it is important for Jordan to continue efforts to reduce vulnerabilities, increase economic resilience and support stronger growth, especially the broader private sector growth. To achieve this, the IMF recommends a combination of deep structural reforms with steady and gradual fiscal consolidation that credibly places public debt on a downward path over the medium term, while also improving social protection measures at large.

DISCLAIMER

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