الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Hashemite Kingdom of Jordan

December , 2020

TRUST . TRANSPARENCY . INDEPENDENCE

Economic Overview

With a population of around 10.1 million people in 2019 and a GDP of USD 43.74bn, Jordan's GDP per capita places it as a lower middle-income country. Geopolitical tensions in the region have impacted not only the growth potential of the country, but also resulted in a high number of refugees. As of April 5, 2020, Jordan was hosting around 656,213 refugees largely from neighboring Syria. In recent years, the economy has been adversely affected by the closure of trade routes, both land and marine, impacting trade and tourism in the country. Amid challenges, Jordan has been sustaining a growth rate of around 2.0% in both 2017 and 2018 and 2.2% in 2019. Key economic drivers are the country's mineral resources, tourism, finance and insurance services, transport, storage and communications, agriculture and manufacturing. Jordan is currently implementing Jordan Economic Growth Plan 2018-22 which focuses on renewable energy, ICT, manufacturing and tourism as catalysts for future economic growth and social development. The government also announced measures with core objectives being stimulating the economy through financial reforms and improving citizens' livelihood.

While the economy was expected to grow by 2.2% in 2020, a downtrend is likely with expectations of a severe global recession amid the on-going COVID-19 pandemic. The country remained under lockdown for several weeks with all major businesses and retail sector closed with sharply reduced economic activity. Around 95% of the private sector businesses are SMEs, contributing around 40% of GDP, which may have been adversely affected during the lockdown. During March 2020, Jordan signed a USD 1.3bn program under IMF's Extended Fund Facility. While the program was signed for economic and structural reforms to increase job opportunities, the fund has also been utilized for measures taken to fight against COVID-19. According to CBJ, real GDP at market prices has already declined by 1.2% during the H1'20, compared to growth of 1.9% during the same period of 2019. Besides, nationwide lockdowns have been imposed again in October 2020, with a spike in coronavirus infections.

Despite housing a highly qualified workforce, Jordan has been facing high unemployment being 23% as of end Q2'20 having deteriorated over same period last year with a slow economyhaving worsened labor market conditions. A vast majority of the workforce working in the retail and SME sector as well as daily wage earners in the construction and agricultural sector may face distress, likely resulting in diminished buying power.

On the monetary policy front, Central Bank of Jordan has been following an easing stance in line with emergency rate cuts, to zero percent range by the Federal Reserve. During March 2020, the CBJ cut its policy rate by 150 bps to 2.5%. Due to slower demand and lower oil prices, inflation is expected to remain on the lower side during 2020. With the economic slowdown and higher public spending, a higher fiscal deficit of 4.0% of GDP is expected during 2019 (2018: -2.4% of GDP). Fiscal consolidation efforts would be further dented during 2020 as the government will spend more to combat the ongoing pandemic. Government has taken various fiscal measures to ease the economic burden of the pandemic, including sales tax exemptions for medical equipment, postponement of customs duty collections and reduction in social security contributions from private sector establishments. The government also allocated additional budget of USD 71mn for medical equipment purchase and cash transfers of USD 114mn to the unemployed and self-employed in addition to tax relief to the tourism sector which has been the worst hit by the crisis.

Jordan's balance of payment position has posted significant improvement in recent periods as the current account deficit had declined to JD 770mn during Q1-Q3'2019 against a deficit of JD 2.1bn during 2018. The improvement is largely derived from strong exports supported by the gradual opening of trade routes in conflicted areas including Syria and Iraq. Moreover, imports recorded a decline with significant reduction in energy related imports as oil prices moderated during the year. With economic downturn, travel and trade bans, the balance of payments maybe hit during 2020, although checked by further fall in energy imports with hydrocarbon prices having plummeted in the current year.

As the country runs twin deficits on both the fiscal and current accounts, public debt has remained on the higher side further increasing to 97.2% of GDP as at end-Oct'19 (2018: 94.4% of GDP). Public institutions including the National Electric Company (NEPCO) and Water Authority (WAJ) remain highly indebted institutions in the country.

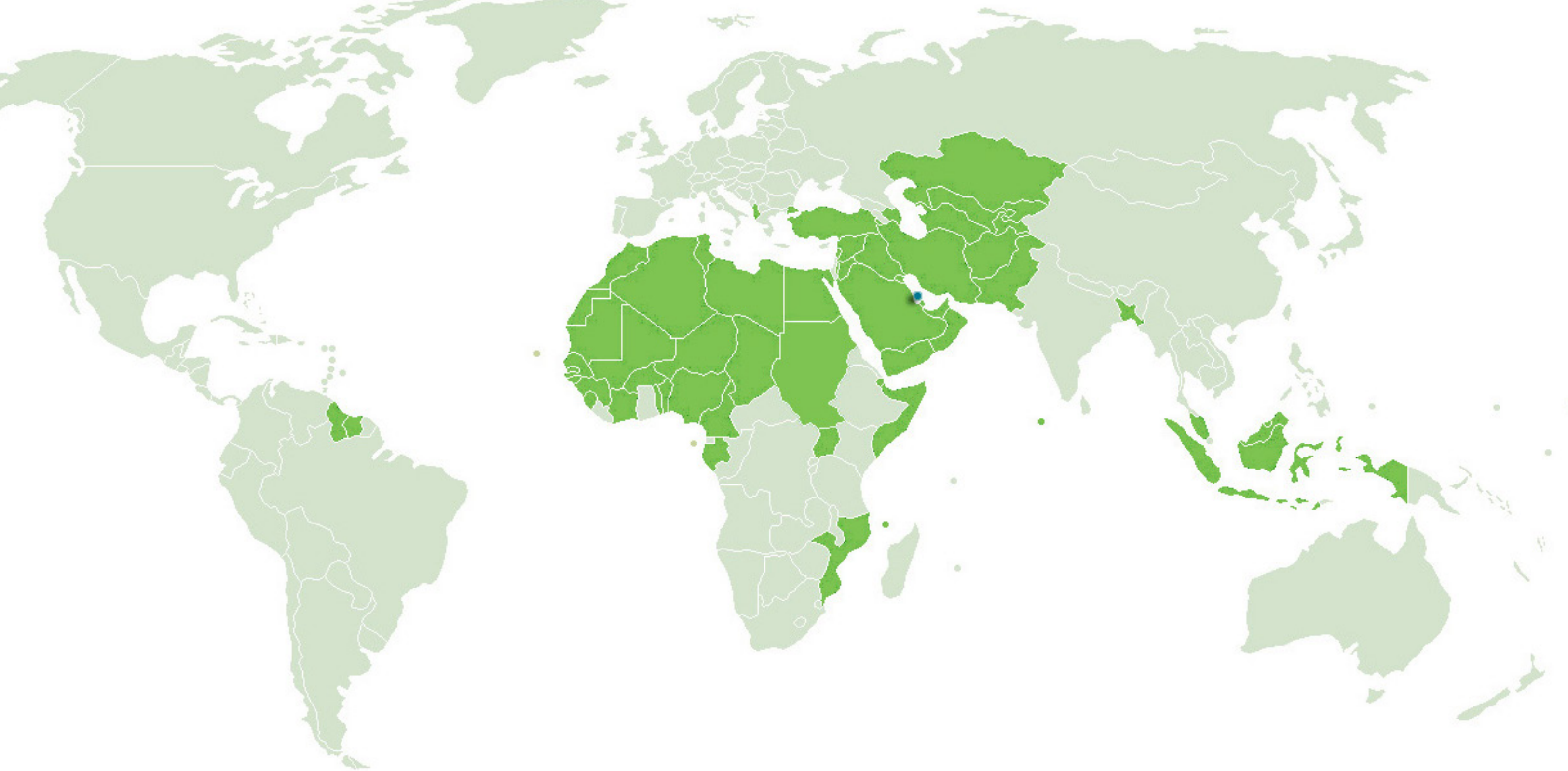
As the world has entered a recession, likely to be worse than the Financial Crisis of 2008, Jordan's economy is also expected to suffer in the short to medium term. Subject to the ongoing global health crisis easing off, by next year, the global economy is expected to show some recovery during 2021, with concurrent recovery in MENA and local business levels.

FINANCIAL SECTOR OVERVIEW

Financial sector represents around one fifth of GDP in Jordan and is supported by profitable, highly capitalised banks. Banking system asset size has reached JD53.8bn as of end-April 2020, with a 5.3% annual growth in 2019. Central Bank of Jordan (CBJ) issued Basel III regulations on capital requirements in November 2016 and announced additional capital charge for D-SIBs to further reduce system-wide risks; JIB is one of the D-SIBs as identified by CBJ with an additional capital requirement of 0.5%.

The Central Bank of Jordan has taken a set of precautionary procedures aimed to contain the negative impact of the COVID-19 virus on the economy during 2020.The measures included: (1)Allowing banks to restructure the loans of individuals and companies, especially on SMEs, which have been affected by the pandemic. (2)Injected additional liquidity of JD 550mn by reducing the mandatory reserve ratio on deposits from 7% to 5%.(3) To expand the sector coverage,CBJ reduced interest rates on its refinancing program from 1.75% to 1% in Amman and from 1% to 0.5% in other governorates, while increasing loan tenors and volume limits; (4) Reduced the cost and expanded the coverage of guarantees provided by the Jordan Loan Guarantee Corporation on SME loans.

Total deposits in Jordan's licensed banks stood at JD35.4bnas at end-August 2020, with around 94% of deposits coming from the private sector.With growth of around 6.4% during 2019, total domestic credit extended by the banking systemstood at JD 39.5bnasat end-August 2020.Jordan Economic Growth Plan 2018-2022 plans to enhance financial inclusion and ensure adequate financing to small and medium enterprises (SMEs), and allocate 15% of the international and regional financial institutions' loans to SMEs and startups.



الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

P.O. Box 20582, Kingdom of Bahrain
Tel: +973 17211606, Fax: +973 17211605
Website: www.iirating.com | Email: iira@iirating.com