



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

**The Hashemite
Kingdom of Jordan**

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Jordan is located strategically at the crossroads of Asia, Africa and Europe. It is a relatively small country with 10.3 million people and an increasing presence of refugees from neighboring countries, owing to persistent geo-political tension in the region. This has led to interruptions to trade routes and adversely affected tourism receipts. Despite these challenges, Jordan has been growing consistently, having maintained its GDP growth in real terms at 2.0% during 2018 (2017: 2.2%), with a GDP of USD 42.3b (2017: USD 40.1b).

The country thrives on foreign trade, mineral resources and tourism. During February 2019, Jordan signed multiple agreements in energy, shipping and industry with Iraq, which is expected to boost economic growth in coming years. Jordan has also pushed forward with reforms that will make the economy more robust in the longer term. Jordan 2025, a ten-year socio-economic blueprint, and the Jordan Economic Growth Plan 2018-22 focuses on renewable energy, ICT, manufacturing and tourism, as key drivers for economic growth and social development.

The Kingdom has been facing high unemployment, which increased further to an average of 18.6% during 2018 from 18.3% in 2017. A major reason behind increased unemployment rate is subdued economic growth, which has resulted in an increasing supply-demand gap in the market. Informal employment of refugees is also straining the job market.

Creeping inflation poses another threat to economic growth, having risen to 4.5% during 2018 (2017: 3.3%). Against the backdrop of increasing inflation, a pegged currency and interest rate hikes by the Federal Reserve, Central Bank of Jordan (CBJ) had been increasing interest rates, with repurchase agreements rate reaching 5.5% as of December 23, 2018. Increasing interest rates have also narrowed margins in the banking sector. Further rate hikes are not anticipated given no further expectation of an increase in Fed rate in the current year.

Jordan has been effectively working towards fiscal consolidation, as efforts to fulfill the stipulations of USD723mn fund facility agreement with the International Monetary Fund continue. Fiscal deficit has been shrinking since 2015 coming down to JD 727.6mn or -2.4% of GDP during 2018 (2017: JD -747.9mn or -2.6% of GDP). An uptick of 3.38% was noted in domestic revenues reaching JD 6,944mn (2017: JD 6,716mn). Tax revenues constituting 65% of total domestic revenues, increased by around 4.4% to JD 4,535mn (2017: JD 4,343mn). On the other hand, public expenditure grew by 4.8% (2017: 2.8%) to JD 8,567mn (2017: JD 8,173mn) due to strong increase in current expenditure, while capital expenditure registered a marginal decline during the period.

Owing to some improvement in regional geo-political conditions, Jordan's exports have increased by 3.5% reaching JD 5,518mn during 2018 (2017: JD 5,333mn). Total imports shrank by around 1.3% to JD 12,758mn during 2018 (2017: JD 12,926mn). With improvement in the trade balance and strong growth in secondary income account, current account deficit has improved to JD -2,107m or -7% of GDP (2017: JD -3,053mn or -10.6% of GDP).

However public debt has risen significantly over the years, reaching JD 28,308mn or 94% of GDP as at end-2018, and only marginally falling from prior year-end (2017: JD 27,269mn or 94.3% of GDP). Net outstanding domestic debt reached JD 16,221mn or 53.9% of GDP as at end-2018 with a significant portion of public sector entities' debt including NEPCO and Water Authority (WAJ). Outstanding external public debt stood at JD 12,088mn as at end-2018, which is covered up to 67.8% by official reserves. Debt levels are nevertheless high and unsustainable at current levels, underscoring the need for continued efforts towards consolidation of the economy.

Jordan has a strong institutional framework compared with regional peers. However, twin deficits, although declining, and a high debt burden constrain economic recovery. Moreover, regional political dynamics, high unemployment and presence of refugees continue to pose challenges.

Financial sector Overview

Financial sector represents around one-fifth of GDP in Jordan and is supported by profitable, highly capitalised banks. 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%.

Total deposits in Jordan's licensed banks stood at JD33.7bn as at end-February 2019, with around 92% of deposits coming from the private sector. With a growth of around 7% during 2018, total financings stood at JD 35.6bn as at end-February 2019. 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 start-ups.

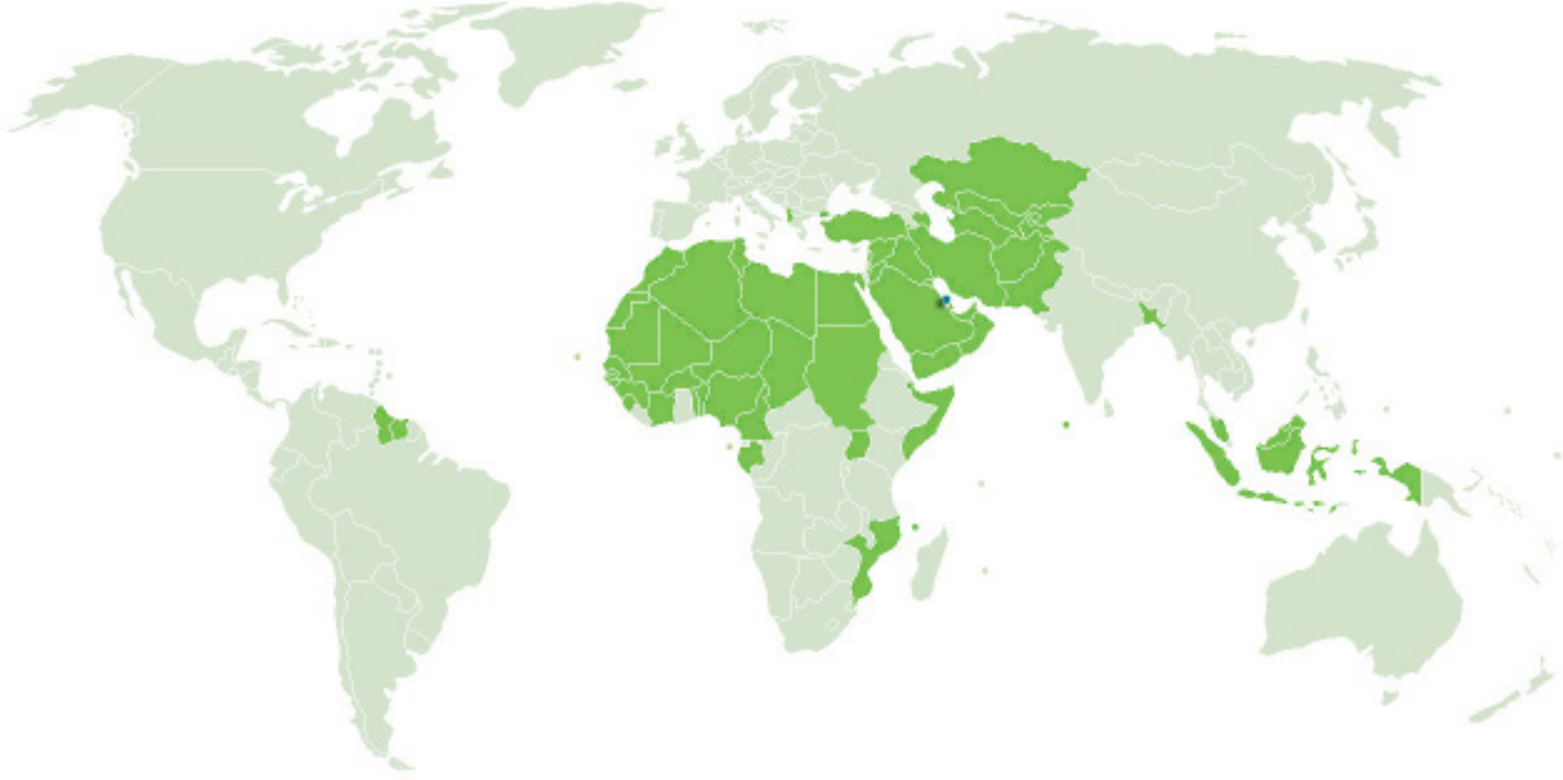
The Islamic Banking Industry in Jordan

There are four licensed Islamic banks in the country – three Jordanian and one foreign. Jordan's Islamic banking industry is systemically important with a share of around 16% of total banking assets as of 2018 year-end. Growth followed a moderate increase in Islamic banking asset base of almost 3.0%, which is largely in line with banking sector asset growth of 3.7% during 2018.

Gross financing in Islamic banks grew by around 5.8%, which is marginally lower than industry credit growth of 7% during 2018, despite higher pace in deposits growth of 2.7%, vis-à-vis industry deposit growth of 2.0%, and resulting in improved liquidity buffers.

Following the issuance of its maiden sovereign Sukuk of USD105.9mn in May 2016, further Sukuk issuance was noted during 2018, with another Sukuk issue from NEPCO. The market nevertheless lacks depth with the sovereign and state owned NEPCO being the only issuers to date.

The 2017 edition of the Islamic Finance Development Report and Indicator (IFDI) ranked Jordan 8th globally in terms of industry-wide quantitative development, knowledge, governance, corporate social responsibility and awareness.



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

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