Bank Audi

JORDAN ECONOMIC REPORT

MARCH 2021

TABLE OF CONTENTS

Executive Summary 1

Introduction 2

Economic Conditions 3

Real Sector 3

External Sector 6

Public Sector 7

Financial Sector 9

Concluding Remarks 15

CONTACTS

Research

Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Farah N. Nahlawi
(961-1) 959747
farah.nahlawi@bankaudi.com.lb

Zeina M. Labban
(961-1) 952426
zeina.labban@bankaudi.com.lb

Michele Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

IN THE AFTERMATH OF A HEAVY ECONOMIC TOLL, GRADUAL RECOVERY FORESEEN STARTING 2021 WHILE A NUMBER OF CHALLENGES PERSIST

Heavy Economic Toll in 2020

The pandemic has inflicted a heavy economic toll on the Kingdom in 2020. Real output is set to have contracted by 3% over the year, mainly reflecting a sharp contraction in the second quarter, and the drag from the unfolding second wave on business and consumer sentiment. Headline inflation is set to have dropped to historic lows of 0.1% on average in 2020 due to demand contraction and lower international fuel prices. Unemployment rose to an all-time high of 23% (50% for youth), and labor force participation fell.

Coronavirus crisis exacerbates Jordan's public finances

Fiscal performance remained under pressure in 2020. Revenues were hard hit by the Coronavirus crisis and the decline in output, while there were additional spending pressures on health, social protection and most severely impacted sectors of the economy, which caused the fiscal deficit to widen from 3.3% to 6.3% of GDP. Concurrently, a deterioration in public finances and a contraction in real output due to the COVID-19 shock contributed to a record high level of public debt to GDP in excess of 100%.

Monetary policy remains accommodative following COVID-19 outbreak and on muted inflation

Jordan's monetary policy remained accommodative in 2020, shadowing the US Federal Reserve loose monetary stance aimed to ease the economic impact of the Coronavirus crisis, and on muted inflation amid a contraction in real output, while maintaining a firm commitment to the currency peg. The Central Bank of Jordan's gross official reserves remained adequate in 2020, standing at US$ 13,227 million at end-year, despite challenging economic conditions, reduced tourism, remittances and exports following the COVID-19 outbreak.

Banking sector adversely impacted by macro contraction but financial soundness remains healthy

The Jordanian banking sector was somewhat impacted by the Coronavirus Pandemic crisis in the year 2020 amid net contraction in the real economy, but remained relatively healthy on the overall as outlined by its various financial soundness indicators pertaining to liquidity, asset quality, profitability and capital adequacy while activity growth remained relatively resilient. Measured by the aggregation of assets in the banking sector, banking activity grew by 6.4% in the year 2020, to reach US$ 80.5 billion at end-December, the equivalent of 189% of GDP.

Jordanian equities continue nosedive, bond market on the rise after Coronavirus outbreak

Jordan's equity market remained on the decline during the Coronavirus crisis in 2020, yet bounced back early 2021 on prospects of a global economic recovery following vaccine rollouts. In contrast, activity on the Jordanian fixed income market was skewed to the upside in 2020, mainly on fears about a global economic fallout after the rapid spread of the pandemic. Yet, this trend was reversed so far this year on bets that a progress in the rollout of Coronavirus vaccines and an unprecedented US relief package would sustain a global economic recovery and bolster reflation trade.

Gradual recovery foreseen starting 2021

Looking forward, the economy is set to begin a gradual recovery from 2021. The start of the vaccine rollout in January and the program's expansion later in the year, should boost recovery in the important tourism and retail sectors from late 2021 and into 2022. Construction sector growth would pick up gradually, accelerating as consumer demand and incomes recover in 2022-24. Meanwhile, a gradual return to normality in international travel from 2022, following the widespread distribution of a coronavirus vaccine, should increase tourism inflows. It will, however, take several years for tourism flows to reach 2019 levels. Within this context, the Kingdom's real GDP growth is forecasted by the IMF at 3.4% for 2021 and at 3.2% for the next five years.

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb

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The pandemic has inflicted a heavy economic toll on the Kingdom in 2020. Real output is set to have contracted by 3% over the year, mainly reflecting a sharp contraction in the second quarter, and the drag from the unfolding second wave on business and consumer sentiment. Headline inflation is set to have dropped to historic lows of 0.1% on average in 2020 due to demand contraction and lower international fuel prices. Unemployment rose to an all-time high of 23% (50% for youth), and labor force participation fell.

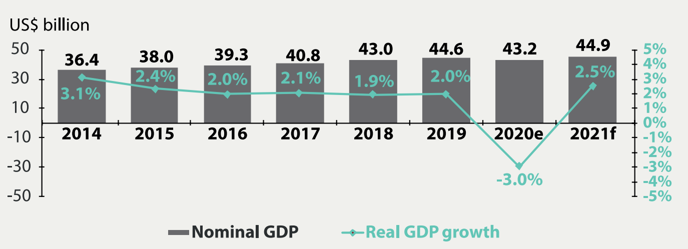
At the external level, the current account deficit is set to have widened to around 7% of GDP in 2020, but international reserves have remained adequate. While exports are estimated to have declined year-on-year by 8% in 2020, the trade balance is, nevertheless, set to improve, due to import compression (especially of durable consumer and capital goods) and lower international energy prices. Tourism receipts are, however, set to contract by 74%, reflecting the very gradual reopening of air travel and negative impetus from the unfolding second COVID-19 wave. Remittances are projected to have declined by 12%, as the negative impact of the pandemic on neighboring countries has triggered the return of many Jordanian expatriates.

At the fiscal level, the shock to GDP, and the associated rise in the fiscal and combined public deficits, causes public debt (net of SSC holdings) to rise to 89% of GDP at end-2020. Despite the ongoing pandemic, the authorities persevered with efforts to strengthen tax administration, including tax compliance. In the course of the year, they embarked on an anti-tax evasion drive which they assess as having uncovered around 2% of GDP in under-reporting of income tax liabilities. Moreover, a majority of tax services has been shifted online, and a dispute resolution procedure was introduced for settling outstanding income and sales taxes. Tax administration efficiency has been improved by adopting a risk-based approach to audits, better coordination and data sharing between tax and customs agencies, as well as establishing a "gold list" of tax-compliant companies, which entitles them to special privileges.

At the monetary level, the exchange rate peg to the U.S. dollar continues to be the key nominal anchor. The peg has served the economy well by providing an anchor for macroeconomic stability, inflation expectations and market confidence. The pressures on the peg, observed in the immediate aftermath of the COVID-19 due to an increase in precautionary cash holdings have subsided since September. International reserves have been buoyed by external borrowing, notably a very successful US$ 1.75 billion Eurobond issuance in July. Jordan's EMBIG spread remains among the lowest in the region, affirming its continued market access.

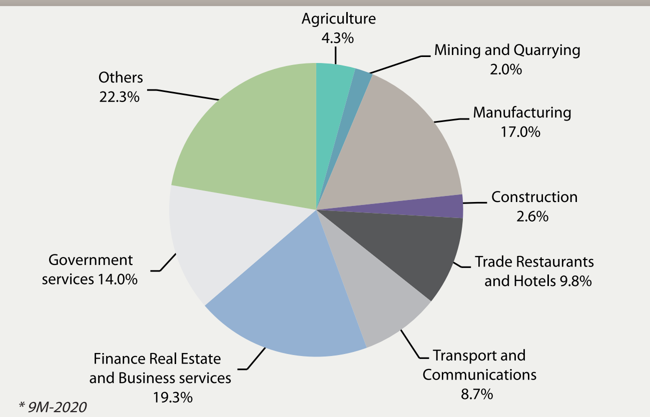
At the banking level, the banking system has remained healthy, but risks bear close monitoring. At the onset of the Cornavirrus crisis, banks were well-capitalized (with over 90 percent of capital held as Tier 1), liquid and profitable. However, the economic downturn is expected to affect credit quality. To support the bank's capital position, the CBJ's required banks not to pay out dividends in 2020. CBJ stress tests show that even under a severe downside scenario, the system-wide capital adequacy ratio would remain above CBJ's regulatory minimum of 12 percent. It is worth mentioning that the legislative and regulatory framework for banks is being further strengthened. Since 2018, Jordanian banks have been compliant with the IFRS9 accounting standards, which has bolstered transparency and monitoring. In parallel, new instructions regarding the application of liquidity standards were issued in early 2020.

GROSS DOMESTIC PRODUCT



Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



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

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With respect to capital markets, they were at the image of a sluggish economy last year. The Amman Stock Exchange General Price Index contracted by 13.2% in 2020 to extend further the contraction of the previous few years. Subsequently, market capitalization fell from US$ 21.0 billion at end-2019 to US$ 18.2 billion at end-2020. The price contraction was registered amid less efficient market with lower liquidity. Total traded value amounted to US$ 1.5 billion in 2020, against US$ 2.2 billion in 2019, a contraction of 51% year-on-year. Finally, market valuation ratios likewise saw net retreats. The Price to Earnings ratio of listed stocks moved from 11.4x at end-2019 to 10.0x at end-2020 while the Price to Book ratio moved from 1.1x to 0.9x over the same period.

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 economic near and medium term outlook looking forward.

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture

COVID-19 measures cause slowdown in agricultural sector growth and contraction at the level of the secondary sector

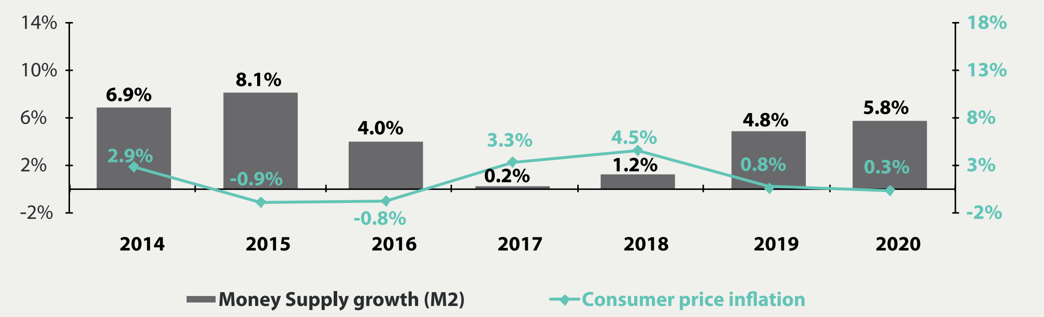
Jordan's agriculture sector reported a real growth of 1.7% in the first nine months of 2020, slowing down from an expansion of 2.6% in the same period of the previous year, as the COVID-19 pandemic spread in the country imposing a number of lockdowns. The primary sector contributed by 4.3% to the country's nominal GDP in the aforementioned period of 2020, slightly down from 4.7% in the same period of 2019.

On another level, the number of registered companies classified within the agricultural sector retreated from 660 with a capital of US$ 32.5 million in 2019 to 451 companies with a capital of US$ 17.1 million in 2020.

At the external level, agricultural exports reported a positive performance, whereby these increased from US$ 942 million in 2019 to US$ 981 million in 2020, an annual increase of 4.1%.

To develop the agricultural sector, the FAO and the UN Development Program (UNDP) are working on implementing Jordan's first GCF-funded project, which targets around 210,000 people - almost half of

BROAD MONEY AND INFLATION



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

whom are women - in areas of the Dead Sea basin that are particularly vulnerable to climate-induced water stress. The project focuses on key investments in water-related infrastructure at the household and regional level to support the adaptive capacity of communities and institutions and increasing the efficiency of water management systems. It promotes innovative solutions including harvesting rooftop rainwater, introducing innovative irrigation and cropping technologies, and enhancing the use of reclaimed water. It will also provide tailored information to rural women through extension services. Investing in improved water access will lift agricultural productivity and promote more sustainable farming practices, a double win for smallholder incomes and the environment. The project contributes to Jordan's capacity to adapt to the impacts of climate change while also supporting the long-term sustainable development targets of the agricultural sector.

Jordan's secondary sector witnessed an even more pressured performance. At the level of mining and quarrying, the sector did not report any real growth, while manufacturing reported a contraction of 2.8% in the first nine months of 2020. In nominal terms, mining and quarrying contributed by 2.0% to the country's GDP in the first nine months of 2020, edging down slightly from 2.2% in the same period of 2019. Manufacturing contributed by 17.0% over the 2020 9-month period, with its share retreating from 18.5% over the same period of 2019.

Along with this, the number of companies classified with the industrial sector retreated from 1,569 in 2019 to 1,251 in 2020. The capital of these companies retreated by 56.7% year-on-year in 2020.

At the level of credit facilities, those extended to the sector (mining and industry combined) stood at 13.1% at end-2020, down from a share of nearly 13.5% at end-2019. Net new loans retreated by 41.9% to stand at US$ 237.1 million in 2020.

In conclusion, it is clear the spread of the COVID-19 pandemic and the restrictive measures that came along with it pressured the primary and secondary sectors in Jordan.

1.1.2. Construction

Jordan's construction sector contracts due to the Covid-19 pandemic and associated economic impact

The country's construction sector contracted by 4.0% year-on-year in the first three quarters of 2020, as the Covid-19 pandemic remained a source of downside risk.

In nominal terms, the sector added US$ 847.1 million to Jordan's GDP in the aforementioned period of 2020 (2.6% of the GDP), down from US$ 904.4 million (2.8% of GDP) in the same period of 2019.

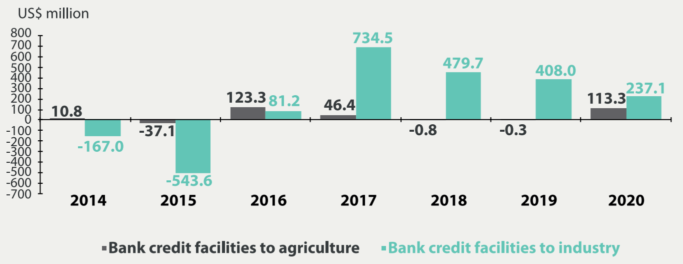
At the level of forthcoming construction activity, the negative performance resided as construction permits contracted in terms of numbers from 22,080 in 2019 to 19,200 in 2020. As for the area, it declined from

AGRICULTURE AND INDUSTRY OUTPUT

US$ million	2015	2016	2017	2018	2019	2020	Var 20/19
Agricultural exports	1,304	1,047	1,030	917	942	981	4.1%
Industrial exports	5,462	5,154	5,323	5,674	6,101	6,125	0.4%
Phosphate (000 tons)	8,264	7,989	8,666	7,987	9,089	8,616	-5.2%
Potash (000 tons)	2,355	2,003	2,320	2,434	2,487	2,456	-1.2%
Fertilizers (000 tons)	619	547	695	882	748	929	24.2%
Chemical acids (000 tons)	1,206	1,083	1,309	1,375	1,292	1,392	7.7%
Petroleum Products (000 tons)	3,212	2,793	2,604	2,213	2,274	1,855	-18.4%
Electricity (million kWH)	6,557	4,536	4,722	2,270	973	1,031	6.0%

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

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7,080 thousand square meters in 2019 to 5,721 thousand square meters in 2020. In details, the country's residential permits which accounted for 93.4% of the country's total permits in number contracted from 20,147 permits in 2019 to 17,929 permits in 2020, as the Covid-19 pandemic and associated economic disruption contributed to a huge contraction in activity in the residential and non-residential building sector in 2020. Amman continued to capture the lion's share; however, the number of new construction permits retreated from 5,897 in 2019 to 4,443 in 2020.

At the level of credit facilities, the construction sector took over a share of 25.4% of the country's credit facilities. The variation of credit facilities to the sector nearly doubled from US 204 million in 2019 to US$ 404 million in 2020.

Furthermore, the number of companies classified with activities related to the construction sector retreated from 156 in 2019 to 125 in 2020. The capital of these companies reported a retreat of 66.7% year-on-year.

In sum, the spread of the COVID-19 pandemic had an economic impact on the growth prospects in Jordan's construction sector throughout 2020. It is worth noting that Jordan is home to a small construction and infrastructure market, particularly in comparison with fast-growing regional markets, as per Fitch Solutions. Limited public spending capacity limited growth, although the market has benefitted in recent years from overseas development funding and the use of public-private partnerships, which has allowed more large-scale projects to move forward in the transport and energy infrastructure sectors.

1.1.3. Trade and Services

Pandemic spread weighs on the performance of most of the tertiary sectors' units in 2020

Jordan's tertiary sector contracted during the first nine months of 2020, as most of its branches were hit by the spread of the COVID-19 pandemic and the imposed restrictions that suspended their activity.

In details, finance, real estate and business services contributed by 19.3% to the country's GDP in the first three quarters of 2020. The sector reported a minor growth of 1.6% year-on-year. Government services took over a nominal share of 14.0% of the country's GDP. This edged up slightly by 1.1% in real terms. Trade, restaurants and hotels which contribute by 9.8% the country's GDP, reported a real contraction of 3.1% in the aforementioned period, impacted by several of the lockdown rules. Transport and communications contributed by 8.7% to Jordan's nominal GDP. The latter contracted by 5.0% in the aforementioned period, amid the weakness exposed by the COVID-19 crisis as lockdowns and shop closures left subscribers with some problems over the period.

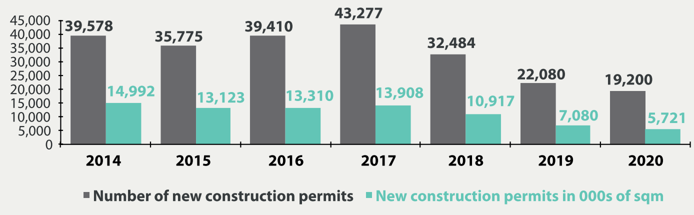
The number of companies classified with the trade sector contracted from 970 in 2019 to 852 in 2020, with

CONSTRUCTION INDICATORS

US$ million	2015	2016	2017	2018	2019	2020	Var 20/19
Bank credit facilities to construction (variation)	496	1,302	1,091	324	204	404	98.0%
Number of registered companies	148	121	147	122	156	125	-19.9%
Capital of new registered companies	11	7	7	5	15	5	-66.7%

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

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their capital declining by a yearly 31.5%. The number of companies classified with services dropped from 1,720 in 2019 to 1,455 in 2020, with a 39.4% retreated in capital.

At the level of tourism, the sector was hardly hit globally due to travel bans. The number of tourists declined from 5,204 thousand tourists in 2019 to 1,090 thousand tourists last year.

Moving to the performance of the hotel sector, Amman's four and five stars hotels reported a decline in occupancy from 62% in 2019 to 26% in 2020. The average room rate retreated from US$ 145 to US$ 109 over the covered period. Accordingly, the room yield contracted from US$ 90 in 2019 to US$ 27 in 2020.

In an overall look, the trade and services sector was heavily impacted by the spread of the COVID-19 pandemic as most of its units were affected by travel bans, strict lockdown rules and restrictions.

1.2. EXTERNAL SECTOR

2020 external deficit exacerbated amid COVID-19 pandemic

Jordan's external position witnessed serious challenges exacerbated by the coronavirus outbreak during 2020. In this context, the current account deficit in the first nine months of 2020 widened by 88.4% year-on-year after it was reduced significantly over the past couple of years. This noticeable aggregation in the overall current account over the first three quarters of year 2020 was mainly triggered by the foreign trade deficit and the deterioration in the services balance registering a deficit mainly due to drop in tourism receipts (-72.2% year-on-year). On another level, the negative impact of the pandemic on neighboring countries triggered the return of many Jordanian expatriates. Hence, the personal transfers shrunk by 13.1% year-on-year mainly to due to decrease in the workers' remittances amounting to US$ 2.0 billion in the first nine months of 2020 versus US$ 2.2 billion in the first nine months of 2019.

Within this context, the current account deficit is set to have widened from US$ 1.3 billion over the first nine months of the in 2019 to US$ 2.4 billion during respective period of 2020. Accordingly, the current account deficit to GDP is expected to record 7% in FY 2020 from 6.0% in FY 2019 as per the IMF. In parallel, the financial account deficit widened by 52% during the first nine months of 2020, moving from US$ -1.5 billion to US$ -2.3 billion between two periods. This was triggered by the deterioration in portfolio investment affected by the economic squeeze and less confidence in the markets amid the pandemic phase, mainly in second half of 2020.

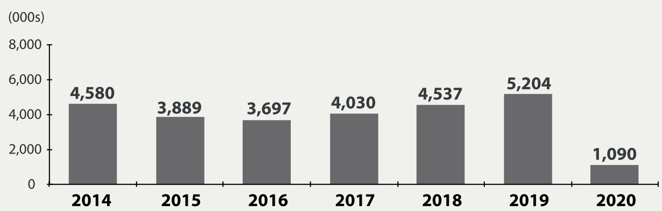
Trade balance figures available for full-year 2020 paradoxically suggest the deficit improved from US$ 12.1 billion in 2019 to a deficit of US$ 9.9 billion in 2020 due to a modest increase in exports alongside with a net decrease in imports and lower international energy prices. Consequently, the exports to imports coverage ratio rose from 48.2% to 52.8% between the two periods.

TRADE AND SERVICES

US$ million	2015	2016	2017	2018	2019	2020	Var 20/19
Bank credit facilities to trade and services (variation)	2,701	869	758	994	841	1,519	80.6%
Number of new registered companies	3,578	3,675	3,673	2,831	2,690	2,307	-14.2%
Capital of new registered companies	127	91	221	125	116	72	-37.9%

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

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At the level of exports, activity registered a negligible increase of 1% moving from US$ 7.0 billion in 2019 to US$ 7.1 billion in 2020. The COVID-19 pandemic put downward pressure on commodity prices, but export volumes have held up while the demand to other exports has fallen. Based on the latest statistics by Central Bank of Jordan, the breakdown of exports by products during 2020 reveals that the increase among the major categories was in chemicals (fertilizers, medical & pharmacy products, phosphoric acid,...) with a hike of 16.7% year-on-year representing 29.3% of total exports during year 2020. The exports of crude materials (phosphate and potash) contracted by 9.1% year-on-year constituting 14.0% of total exports of year 2020. The geographical distribution of exports during same period indicates that 24.2% of total exports went to USA, followed by India with 12.2%, KSA with 11.4% and Iraq with 8.8% as per the latest statistics by the Central Bank of Jordan.

At the level of imports, activity witnessed a decline of 11.3% standing at US$ 17.0 billion during 2020 versus US$ 19.2 billion in 2019. The breakdown of imports by products related to year 2020 as per the latest available statistics by the Central Bank of Jordan reported a significant drop in mineral fuels and lubricants registering a fall of 38.4% year-on-year (constituting 13.0% of total imports), followed by imports of machineries and equipments showing a drop of 19.0% year-on-year (constituting 21.3% of total imports). The breakdown of imports by country of origin shows that most of the inward merchandise came from the European Union Countries with 16.2% of the totals, followed by China with 15.9%, KSA with 12.4% and USA with 8.3% as per the latest statistics by the Central Bank of Jordan.

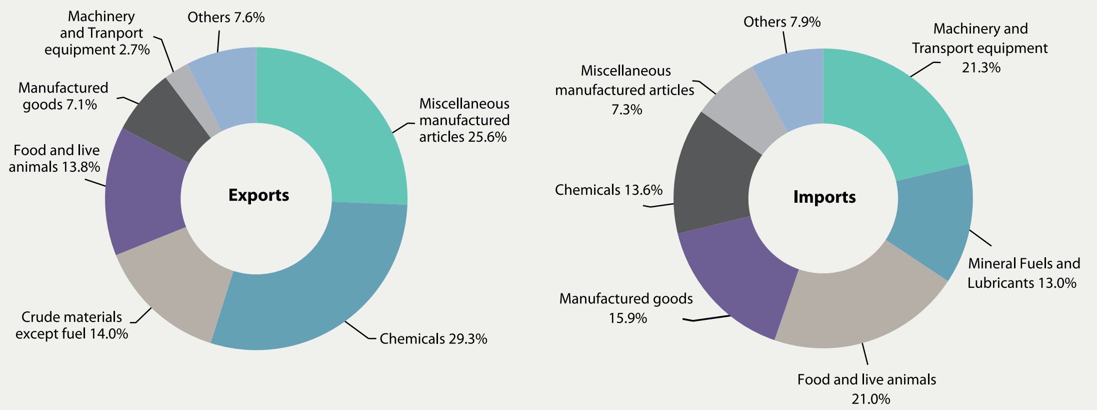
1.3. PUBLIC SECTOR

Coronavirus crisis exacerbates Jordan's public finances

Fiscal performance remained under pressure in 2020. Revenues were hard hit by the Coronavirus crisis and the decline in output, while there were additional spending pressures on health, social protection and most severely impacted sectors of the economy, which caused the fiscal deficit to widen. Concurrently, a deterioration in public finances and a contraction in real output due to the COVID-19 shock contributed to a record high level of public debt to GDP.

Going further into details, total revenues and grants totalled JD 6.35 billion (or US$ 9.0 billion) over the first eleven months of 2020, moving down by 3.3% relative to the same period of 2019, as per the Central Bank of Jordan, as revenues were adversely hit by a deep recession in 2020. The contraction in "total revenues

BREAKDOWN OF EXPORTS & IMPORTS BY COMMODITY (2020)



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

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and grants" was the result of a significant year-on-year fall in "other revenues" of 46.5% to reach JD 1.1 billion (US$ 1.58 billion) during the first eleven months of 2020, while foreign grants more than tripled year-on-year, moving from JD 213 million (US$ 300 million) to JD 712 million (US$ 1.0 billion). The significant yearly rise in foreign grants over the first eleven months of 2020 came within the context of a US$ 700 million in US grants provided to Jordan in September 2020, as part of an US$ 845.1 million annual US aid, and other additional grants provided to the Jordan Response Plan (JRP) to the Syrian crisis.

On the other hand, total public expenditures went up by 3.4% in the first eleven months of 2020 compared to 2019 corresponding period, to reach a total of JD 8.12 billion (or US$ 11.45 billion) due to additional spending pressures on health and social protection during the Coronavirus crisis. In details, current expenditures increased by 5.0% year-on-year totalling JD 7.56 billion (or US$ 10.7 billion) over the first eleven months of 2020. The breakdown of the current expenditures by category shows that social benefits (constituting 22% of total current expenditures) expanded by 12.6% year-on-year during the first eleven months of 2020. Compensation of employees (representing 20% of total current expenditures) grew by 6.0% year-on-year, while interest payments (representing 15% of total current expenditures) went up by 11.6% year-on-year. In contrast, capital expenditures contracted by 14.6% year-on-year during the first eleven months of 2020 to reach JD 561 million (US$ 791 million).

As such, the general budget deficit (including foreign grants) went up significantly by 37.2% over the first eleven months of 2020 when compared to the same period of 2019, to record JD 1.77 billion (or US$ 2.5 billion) over the period and to reach 6.3% of GDP, up from 3.3% of GDP in full-year 2019. When excluding foreign grants, the general budget deficit expanded significantly by 65.2%, to reach JD 2.48 billion (or US$ 3.5 billion) in the first eleven months of 2020.

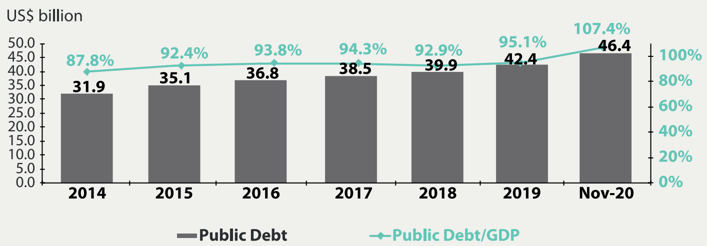
In parallel, gross domestic public debt increased by 6.4% as at end-November 2020 compared to its level as at end-December 2019, to reach US$ 26.6 billion, while the outstanding external public debt (budgetary and guaranteed) increased by 13.5% over the first eleven months of 2020, moving from US$ 17.4 billion at end-2019 to US$ 19.8 billion at end-November 2020, as Jordan issued a US$ 1.75 dual-tranche bond in July 2020. As a result, gross public debt (domestic and external) went up by 9.3% over the period, to reach US$ 46.4 billion as at end-November 2020 (or a peak of 107.4% of GDP) compared to US$ 42.4 billion as at end-December 2019 (or 95.1% of GDP).

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2015	2016	2017	2018	2019	11M-19	11M-20	11M/11M
Public revenues and grants	9.6	10.0	10.5	11.1	10.9	9.3	9.0	-3.3%
Public revenues and grants/GDP	25.2%	25.4%	25.7%	25.7%	24.5%	22.7%	22.7%	0.0%
Public expenditures	10.9	11.2	11.5	12.1	12.4	11.1	11.5	3.4%
Public expenditures/GDP	28.7%	28.6%	28.3%	28.1%	27.8%	27.2%	29.0%	1.8%
Fiscal balance	-1.3	-1.2	-1.1	-1.0	-1.5	-1.8	-2.5	37.2%
Fiscal balance/GDP	-3.4%	-3.2%	-2.6%	-2.4%	-3.3%	-4.4%	-6.3%	-1.9%

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

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Last but not least, the Lower House passed in February the 2021 State budget draft law and the draft for the year's budgets of independent public institutions. The 2021 draft State budget law saw a rise in domestic revenues to reach JD 7.30 billion, registering an increase of 14.9% from the JD 6.35 billion re-estimated in 2020, as tax revenues are expected to increase to JD 5.39 billion compared with JD 4.94 billion re-estimated for 2020, and non-tax revenues are expected to see a significant expansion of 35.1% to JD 1.91 billion in 2021, up from the JD 1.41 billion re-estimated for 2020. Foreign grants are expected to reach JD 577 million in 2021, down from a re-estimated value of JD 851 million in 2020. Also, the 2021 draft State budget law saw a rise in total expenditures to JD 9.93 billion in 2021, up from JD 9.36 billion re-estimated in 2020. The deficit in the 2021 budget is estimated to reach JD 2.06 billion after grants, slightly down from JD 2.16 billion in the re-estimated value for 2020.

In the coming period, the IMF sees that should large-scale lockdowns become necessary to contain the second wave of Coronavirus, government revenues would take another hit and COVID-spending would rise further, widening the budget deficit, amplifying financing needs, and raising the already-elevated debt.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Monetary policy remains accommodative following COVID-19 outbreak and on muted inflation

Jordan's monetary policy remained accommodative in 2020, shadowing the US Federal Reserve loose monetary stance aimed to ease the economic impact of the Coronavirus crisis, and on muted inflation amid a contraction in real output, while maintaining a firm commitment to the currency peg.

In details, inflation remained subdued in 2020, reaching its lowest levels in four years, mainly weighed by an oil price slump and demand contraction following the Coronavirus outbreak that has taken its heavy toll on the domestic economy. The Consumer Price Index averaged 101.1 in 2020 as compared to 100.8 in 2019, slightly up by 0.3%, according to the Central Bank of Jordan. The breakdown of the Consumer Price Index by category shows that nine out of 12 categories, accounting for a total weight of 56% in the index, registered yearly expansions, while only three categories posted contractions in 2020.

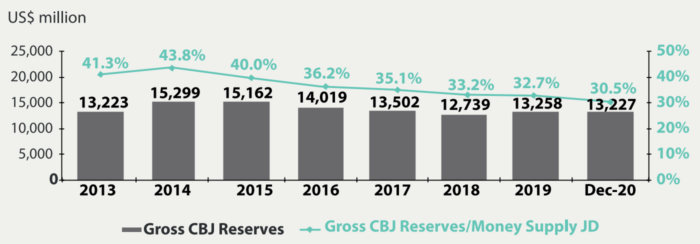
The division of the Consumer Price Index by category shows that the "alcohol and tobacco and cigarettes" category, registered the largest yearly price expansion (+3.0%), followed by the "health" category with +2.7%, the "food and non-alcoholic beverages" category with +2.3%, noting that it accounts for the largest weighting in the Consumer Price Index of 26.5%, the "other goods and services" category with +2.2%, the "restaurants and hotels" category with +2.1%, the "education" category with +1.8%, the "culture and recreation" category with +1.0%, the "communication" category with +0.9% and the "household furnishings and equipment" category with +0.6%. In contrast, the "transportation" category posted the largest yearly contraction of -2.0%, followed

MONETARY SITUATION

Flows in US$ million	2015	2016	2017	2018	2019	2020
Net foreign assets	289	999	391	-2,474	196	49
Net Claims on Public Sector	1,249	-1,045	-1,424	1,297	1,405	1,482
Claims on Private Sector (resident)	1,201	2,660	2,730	1,670	1,490	2,103
Claims on Financial Institutions	-2	161	307	181	322	719
Net other items	599	-982	-1,889	-107	-1,141	-1,474
Uses=Sources	3,336	1,792	115	567	2,271	2,880
Money Supply (M1)	915	715	-355	-647	912	2,578
Quasi-Money	2,421	1,078	470	1,214	1,359	303

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

by the "housing" category with -1.8%, noting that it has the second largest weighting in the index of 23.8% and the "clothing and footwear" category with -0.9%.

The Central Bank of Jordan's gross official reserves remained adequate in 2020, standing at US$ 13,227 million at end-2020 as compared to US$ 13,258 million at end-2019, despite challenging economic conditions, reduced tourism, remittances and exports following the COVID-19 outbreak. International reserves were mainly buoyed by a US$ 396 million Rapid Financing Instrument (RFI) provided by the IMF in May 2020, external borrowing, notably a US$ 1.75 Eurobond issuance in July 2020, and a US$ 700 million grant provided by the US in September 2020. Within this context, the CBJ's foreign exchange reserves-to-JD money supply coverage ratio fell from 32.7% at end-2019 at 30.5% of at end-2020, which is its lowest level since 2012.

Jordanian monetary authorities remained committed to the exchange rate peg to the US dollar at JD/US$ 0.71, despite pressures in the immediate aftermath of Coronavirus crisis due to an increase in precautionary cash holdings, as the peg has served the economy well by providing an anchor for macroeconomic stability, inflation expectations and market confidence. Given the Jordanian Dinar peg to the US dollar, the Central Bank of Jordan's monetary policy remained accommodative in 2020, tracking the monetary easing by the US Federal Reserve to reduce the economic impact of the fast-spreading COVID-19. The CBJ slashed its main rate by 150 bps in March 2020 to 2.50%. The re-discount was also cut from 5.0% at end-2019 to 3.50% at end-2020. The overnight repurchase agreements rate was reduced by 150 bps to 3.25%. The overnight deposit window rate was cut by 125 bps to reach 2.0% at end-2020. This followed across-the-board rate cuts of 75 bps in 2019.

The broader money supply (M2) widened by 5.8% or the equivalent of US$ 2.9 billion in 2020 to reach US$ 52.2 billion at the end of the year, following an expansion of 4.8% in 2019 (the equivalent of US$ 2.3 billion). This came within the context of a strong expansion in claims on the resident private sector in 2020 of JD 1.5 billion (US$ 2.1 billion), as the CBJ has implemented a sizable package of measures since the onset of Coronavirus crisis and lowered interest rates to support economic activity.

In a forward look, the CBJ would continue to monitor domestic and external economic developments closely, and intervene adequately and effectively to maintain monetary stability and reserve targets. Its monetary policy should remain data-driven and supportive given the still-fragile economy, while safeguarding the peg, according to the IMF.

1.4.2. Banking Activity

Banking sector adversely impacted by macro contraction but financial soundness remains healthy

The Jordanian banking sector was somewhat impacted by the Coronavirus Pandemic crisis in the year 2020 amid net contraction in the real economy, but remained relatively healthy on the overall as outlined by its various financial soundness indicators pertaining to liquidity, asset quality, profitability and capital adequacy while activity growth remained relatively resilient.

Measured by the aggregation of assets in the banking sector, banking activity grew by 6.4% in the year 2020, to reach US$ 80.5 billion at end-December, the equivalent of 189% of GDP. Deposits grew by 4.2% to reach US$ 51.9 billion at end-December. Loans rose by 5.7% to reach US$ 40.4 billion. Shareholders equity rose by 7.6% over the year to reach US$ 12.4 billion, the equivalent of 15.4% of total assets.

Meanwhile, the year 2020 reported a noticeable decrease in creditor and debtor rates. The average time deposit rate in Jordanian Dinar contracted by 127 basis points over the year, moving from 4.92% at end-2019 to 3.65% at end-2020. In parallel, the average loan rate in Jordanian Dinar fell from 8.46% at end-2019 to 7.17% at end-2020, a net contraction of 129 basis points over the year.

At the liquidity level, banks operating in Jordan are set to maintain a stable deposit base and their liquidity is sound, with liquid assets standing at 37% of total assets in mid-22020. It is worth mentioning that banks have low reliance on foreign and short-term market funding.

Their market funding comprises mainly interbank facilities from the CBJ and development agencies relating to specific programs (and typically well matched in terms of maturities to the assets they fund).

At the level of asset quality, Nonperforming loans (NPLs) increase as the economy contracts. Policy measures to promote loan rescheduling, restructuring and payment deferrals reduced the severity of borrower stress this year and NPLs would rise slightly to close to at 6% of lending from close to 5% previously, according to Moody's. Some borrowers would eventually default and NPL formation will pick up from 2021. In parallel, loan-loss provisions increases in anticipation of the NPL rise. At the profitability level, profitability comes under pressure from high provisions and low loan volumes. Jordanian banks' profitability is facing headwinds from steeper provisioning in 2020. Revenue also drops as lending and other business growth declines, and as lower interest rates weigh on interest margins. Within this context, Moody's expects return on assets for 2020 to fall to 0.6%-0.8%, from 1.2% at end-June 2019.

Solid capital continues to provide buffers against risks. The system's capital to assets ratio of 15.4% is in line with regional peers and will continue to provide a solid buffer against losses. The legal framework is strengthening. New rules include enhanced Insolvency and Banking laws. Amendments to the Banking Law have strengthened the corporate governance system; enhanced the resolution regime; strengthened the legal framework for Islamic banks; and support the use of electronic transactions at large.

1.4.3. Equity and Bond Markets

Jordanian equities continue nosedive, bond market on the rise after Coronavirus outbreak

Jordan's equity market remained on the decline during the Coronavirus crisis in 2020, yet bounced back early 2021 on prospects of a global economic recovery following vaccine rollouts. In contrast, activity on the Jordanian fixed income market was skewed to the upside in 2020, mainly on fears about a global economic fallout after the rapid spread of the pandemic. Yet, this trend was reversed so far this year on bets that a progress in the rollout of Coronavirus vaccines and an unprecedented US relief package would sustain a global economic recovery and bolster reflation trade.

The Amman Stock Exchange continued its nosedive in 2020, extending a downward streak that has started in 2008, mainly weighed down by the rapid spread of the Coronavirus pandemic in 2020 and fears about a global economic fallout. Within this context, non-Jordanian market players, who used to be net buyers over the past couple of years, became net sellers in 2020. This took place despite relatively attractive market pricing ratios, since the P/E ratio moved from 11.36 times at end-2019 to 9.98 times at end-2020.

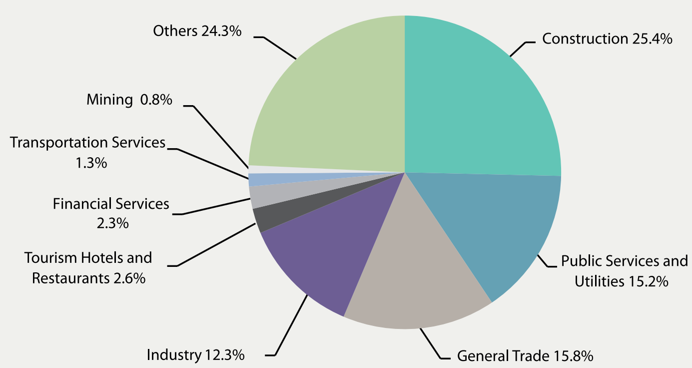
The general price index weighted by market capitalisation contracted by 13.2% in 2020, moving from 3,513.8 at end-2019 to 3,049.6 at end-2020, yet rebounded to 3,237.51 at end-February 2021 on optimism over a global reopening following vaccine rollouts. The breakdown of the ASE general weighted price index by category in 2020 shows that the "banks and financial institutions" category was the main drag

BANKING SECTOR INDICATORS

in US$ million	2015	2016	2017	2018	2019	2020
Banking Activity						
Assets	66,477	68,240	69,254	71,814	75,657	80,462
Deposits	45,977	46,402	46,822	47,739	49,795	51,887
Credit Facilities	29,764	32,306	34,889	36,828	38,197	40,386
Capital accounts and allowances	10,025	10,241	10,669	11,094	11,498	12,372
YTD Growth rates						
Assets	5.0%	2.7%	1.5%	3.7%	5.4%	6.4%
Deposits	7.7%	0.9%	0.9%	2.0%	4.3%	4.2%
Credit Facilities	9.5%	8.5%	8.0%	5.6%	3.7%	5.7%
Capital accounts and allowances	4.9%	2.2%	4.2%	4.0%	3.6%	7.6%

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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



** December 2020*

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

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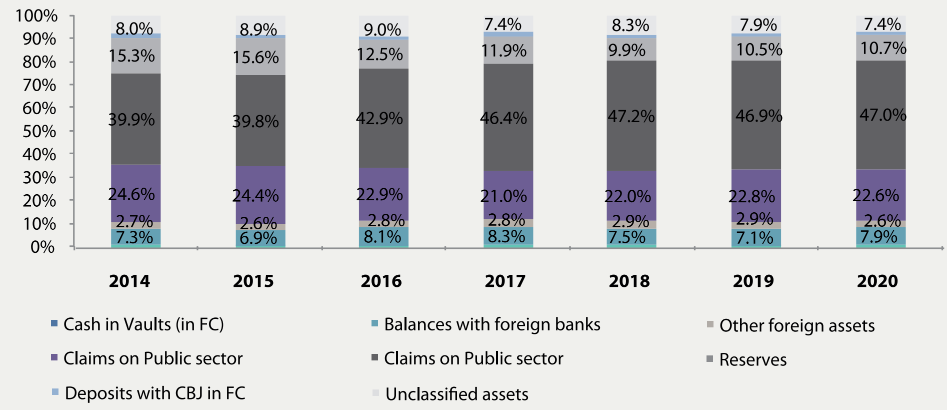
to the index in 2020, posting a yearly price drop of 23.7%, followed by the "services companies" category with -4.3%, while the "manufacturing and mining companies" category posted yearly price gains of 7.8%, followed by the "insurance companies" category with +2.1%.

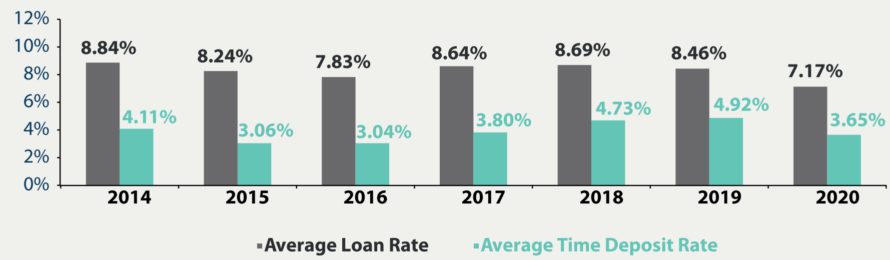
In parallel, the number of listed companies on the ASE declined from 191 at end-2019 to 179 at end-2020. Given some delisting activity and double-digit equity price falls, the ASE market capitalization contracted by 13.5% year-on-year, moving from US$ 21.0 billion at end-2019 to US$ 18.2 billion at end-2020. The division of the market capitalisation by sector shows that the "financial sector" is the largest sector, representing 56.6% of the total market capitalisation, followed by the "industrial sector" with 28.2% of it, and the "services sector" with 15.2% of it. The ownership of non-Jordanian investors, who became net sellers, in listed companies represented 51.1% of the total market capitalisation at end-2020, down from 51.6% at end-2019. The market capitalization-to-GDP ratio, which measures the size of the stock market relative to the economy, declined from 47.6% at end-2019 to 42.7% at end-2020, which spots light on the continuously declining dimension of the ASE relative to the Jordanian economy.

BANK 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

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The ASE total turnover remained on a contractionary mode for the third consecutive year, noting that activity was suspended over the March 17-May 9, 2020 period to halt further declines caused by the Coronavirus crisis. The ASE total trading value fell by 33.8% year-on-year, moving from US$ 2.2 billion in 2019 to US$ 1.5 billion in 2020. Concurrently, the average daily trading value decreased from US$ 9.0 million in 2019 to US$ 6.9 million in 2020. The division of the total trading value by sector shows that the "financial sector" captured 62.6% of activity, followed by "the services sector" with 20.1% and "the industrial sector" with 17.4%. The number of traded shares on the ASE reached 1,143 million shares in 2020, traded through 421 thousand transactions, compared with 1,247 million shares traded during the year 2019 through 503 thousand transactions. That being said, the ASE total turnover, measured by the total turnover to market capitalization, declined from 10.6% in 2019 to 8.1% in 2020, in a sign of reduced activity on the Amman Stock Exchange.

At the level of the bond market, sovereigns maturing in 2026, 2027 and 2047 registered yearly price gains of 4.04 pts, 4.65 pts and 9.82 pts respectively in 2020, mainly tracking US Treasuries move as growing global growth concerns following the outbreak of the Coronavirus pandemic stoked demand for safe-haven assets. Yet, this trend was reversed so far in 2021, after the yield on the benchmark 10-year US Treasury notes reached a 14-month high level in March 2021 on prospects of a global economic recovery following Coronavirus vaccine rollouts and following a newly inked large US stimulus package.

Regarding new bond issues, Jordan raised in July 2020 US$ 1.75 billion from the sale of a dual-tranche bond. The first tranche consists of a five-year US$500 million bond at a coupon rate of 4.95%. The second tranche consists of a 10-year US$ 1.25 billion bond at a coupon rate of 5.85%. The bond sale attracted bids worth over US$ 6.25 billion. The proceeds of the bond sale were used to cover a US$ 1.25 billion bond that has matured in October 2020, and inject liquidity for the private sector by paying arrears accumulated by present and previous governments.

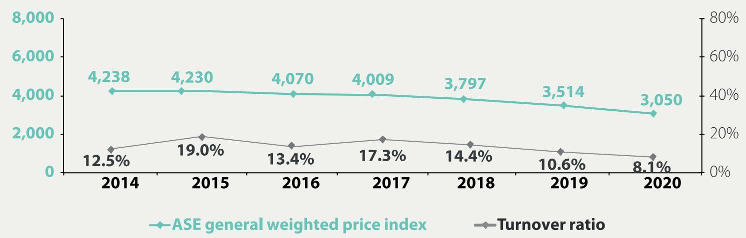
As to credit rating changes, Standard and Poor's affirmed in September 2020 its "B+/B" long-term and short-term foreign and local currency sovereign credit ratings on Jordan, with a "stable" outlook. The "stable"

CAPITAL MARKETS INDICATORS

	2015	2016	2017	2018	2019	2020
Market Capitalization (US$ billion)	25.4	24.5	23.9	22.7	21.0	18.2
Market Cap/GDP	66.8%	62.3%	58.7%	52.9%	47.6%	42.7%
Total value traded (US$ billion)	4.8	3.3	4.1	3.3	2.2	1.5
Total volume of traded securities (million)	2,586	1,837	1,717	1,246	1,247	1,143
Total number of transactions (000s)	899	786	718	512	503	421
% Chg. in ASE general weighted price index	-0.2%	-3.8%	-1.5%	-5.3%	-7.5%	-13.2%
P/E ratio	14.0x	16.6x	19.5x	17.9x	11.4x	10x
P/BV	1.3x	1.2x	1.2x	1.2x	1.1x	0.9x
Dividend yield	3.6%	4.1%	4.6%	5.0%	5.7%	1.8%

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

STOCK MARKET PERFORMANCE



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

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outlook balances S&P's expectation that, over the next 12 months, donor funding would continue to support the government's financing needs and keep debt-servicing costs reasonably low, against the risk that the fiscal performance is significantly weaker than its current projections.

Fitch affirmed in November 2020 Jordan's long-term foreign currency Issuer Default Rating at "BB-", with a "negative" outlook. Jordan's ratings are supported by a track record of gradual fiscal and economic reforms and resilient availability of domestic and external financing linked to the liquid banking sector, public pension fund and funding from Jordan's external partners. Jordan's ratings are constrained by high government debt, weak growth, risks stemming from domestic and regional politics and large external financing needs. The "negative" outlook reflects the impact of the Coronavirus pandemic, which is causing marked increases in the budget deficit, government debt and net external debt, amid Jordan's first economic contraction in three decades. The shock has increased the risk that government debt deteriorates further over the medium term, despite fiscal reform efforts, according to Fitch.

Also, Moody's affirmed in November 2020 the Government of Jordan's "B1" issuer and senior unsecured ratings and maintained the "stable" outlook. Moody's decision to affirm the ratings takes into account credit supports such as the government's sustained commitment to economic reforms and to medium-term fiscal consolidation, namely in the context of the new IMF program. Furthermore, it reflects the broad-based international commitment to support Jordan's economic, financial and social stability agenda through budgetary grants and concessional lending, and the pre-pandemic structural improvements in Jordan's current account, which reduced its external vulnerability. The "stable" outlook reflects Moody's expectation that government debt (excluding liabilities to the state-owned Social Security Investment Fund, SSIF) would peak below 90% of GDP in the next few years.

Looking forward, a second wave of Coronavirus into 2021 and a delay in the return of tourism activity could raise Jordan's external financing needs and encourage the Hashemite to return to international debt markets.

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CONCLUSION

Looking forward, following a deep recession in 2020, with real GDP contracting by an estimated 3% over the year, the economy will begin a gradual recovery from 2021. In the near term, Jordan's economic policy will focus on controlling the pandemic, including by scaling up vaccination efforts and managing its economic fallout with limited financial resources. Jordan has started a small-scale rollout a Covid-19 vaccine, ahead of an anticipated wider program being introduced in mid-2021. Ongoing pandemic waves and more transmissible virus strains might complicate Jordan's efforts to reduce the public health threat and chart a path to economic recovery.

The start of the vaccine rollout in January and the program's expansion later in the year, should boost recovery in the important tourism and retail sectors from late 2021 and into 2022. Construction sector growth would pick up gradually, accelerating as consumer demand and incomes recover in 2022-24. Meanwhile, a gradual return to normality in international travel from 2022, following the widespread distribution of a coronavirus vaccine, should increase tourism inflows. It will, however, take several years for tourism flows to reach 2019 levels. Within this context, real GDP growth is forecasted by the IMF at 3.4% for 2021 and at 3.2% for the next five years.

At the monetary level, with the lingering effects of the 2020 recession still weighing on domestic demand in 2021, particularly owing to a sharp rise in joblessness, inflation is expected to remain muted, expected at 1.4% by the IMF for 2021. Inflation is yet expected to accelerate to an average of 2.1% a year in the next five years, driven by recovering domestic demand and higher global oil prices. A weakening US dollar, to which the Jordanian dinar is pegged, will still generate some import-related inflationary pressures.

At the external level, the partial restoration of global trade from 2021, after it was heavily disrupted by slumping demand due to the pandemic over most of 2020, should support a pick-up in goods exports. However, this would be outweighed by rising import costs due mainly to rising oil prices, as well as a recovery in domestic demand. As a result, the trade deficit is expected to expand throughout the next year, yet finally returning to pre-pandemic levels in years after. The current account deficit which rose from 2.3% of GDP in 2019 to 6.8% of GDP in 2020, is set to decline over the years 2022-2025 to reach circa 3.0% of GDP at a 5-year horizon.

Starting in 2021, a gradual fiscal consolidation in the context of a multiyear framework would help rebuild buffers and arrest the rise in debt. While the recovery might be tepid, debt sustainability risks have increased, with debt approaching 90% of GDP in 2020–21. Balancing these considerations, the IMF and the Jordanian authorities agreed that the fiscal program should target a debt/GDP ratio of no more than 80% by 2025. To achieve the target, the authorities will implement a gradual fiscal consolidation of 4% of GDP over the program period, including 0.7% of GDP in 2021, and 1.1% of GDP each year during 2022–24.

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 track record of implementing structural reforms and commitment to fiscal consolidation, the strong and broad-based international support and the access to ample domestic funding sources. At the level of weaknesses, we mention the high government debt burden, the social pressures stemming from weak growth and high unemployment and the external vulnerability due to a large, albeit declining, energy import bill. While challenges and risks are real, we believe opportunities outpace threats at the horizon.

In its latest Article IV Consultation Report issued in January, the IMF says that sustained efforts are needed to achieve durable, inclusive, and jobs-rich growth. Reforms should focus on improving the business climate, reducing unemployment, particularly among women and youth, enhancing competitiveness, and strengthening governance. While the COVID-19 outbreak continues to pose significant risks to program implementation, these are mitigated by the authorities' strong commitment to the program as per the Fund. This, together with stepped up financial support from development partners, especially in the form of grants, would help Jordan achieve program objectives, build a stronger economy, and support refugees at large.

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb