JORDAN ECONOMIC REPORT

THE TRADEOFF BETWEEN ACHIEVING FISCAL CONSOLIDATION AND MAINTAINING SOCIAL STABILITY

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- Regional unrest generated adverse spillover effects on economic activity in the Kingdom

The regional turmoil has imposed considerable costs on the Jordanian economy. While sound macroeconomic policies have helped Jordan to navigate through a challenging period, developments during the past couple of years somehow aggravated an already difficult economic situation in Jordan. The economy has been indeed struggling with high energy prices, a shortfall in foreign grants, budget cuts and a significant influx of Syrian refugees, putting a considerable strain on resources. Real GDP growth has maintained relatively low levels of 2.6% in 2011 and 2.8% in 2012.

- External vulnerabilities widened as evidenced by growing trade and current account deficits

Amidst the adverse spillover effects of the regional turmoil and global sluggishness, the current account deficit rose from 7.1% of GDP in 2010 to 12.0% in 2011 and 18.0% in 2012. The drift in the current account deficit has been generated by export losses via Syria in particular, along with some tourism receipts foregone as a number of foreigners and Jordanian expatriates somehow refrained from visiting the region, leading to an 8.4% drop in the overall number of visitors in 2012.

- Fiscal deficit soars again despite austerity efforts

The fiscal costs associated with a frail politico-security environment, a sluggish economic growth and the resulting weaker revenues as well as rising subsidies were again felt on Jordan's accounts despite efforts initiated towards mid-year to set a range of austerity measures. The public finance deficit rose from 6.8% of GDP in 2011 to 8.2% in 2012, its highest level seen since 2009, as per IMF data. As part of the recently agreed US$ 2 billion IMF stand-by arrangement, which was revised by the IMF in early March, the government has agreed to introduce "socially acceptable" fiscal retrenchment and a number of structural reforms, which should prevent any wholesale policy reversals.

- Monetary policy remained tight aiming to contain inflation and support foreign reserves

Jordan's monetary conditions were marked by a rise in inflation rate, primarily driven by the removal of fuel subsidies and a relatively moderate expansion in money supply in 2012. The Consumer Price Index grew by an average of 4.8% in 2012, according to the Central Bank of Jordan, with prices mainly driven by the complete removal of fuel subsidies in November. The Central Bank's foreign currency reserves fell significantly by 30% year-on-year due to a higher import bill of fuel products, a retrenchment in inward investment, and an increase in deposit dollarization.

- Banking activity reported lower growth while maintaining adequate financial standing

Jordan's banking sector reported a moderate yet slower activity growth during a year marked by a challenging domestic and regional operating environment, while continuing to steer through the overall politico-security tensions. Banking sector activity posted a 4.3% growth last year to reach US$ 55.5 billion at end-December 2012. Banks yet maintained an adequate overall financial standing with a liquidity ratio of 38.3%, a capital adequacy ratio of 18.6%, an NPL ratio of 8.4% of total loans and a return on assets ratio of 1.2%, yet coupled with a higher bank exposure on the sovereign.

- Capital markets reported a sluggish activity in a market suffering from a lack of liquidity

Sluggishness was the main feature characterizing Jordan's capital markets over the year 2012, with the total trading value and turnover ratio on the Amman Stock Exchange reaching their lowest levels in seven years, and equity prices and market capitalization posting small declines year-on-year. The Amman Stock Exchange general weighted price index retreated slightly by 1.2% in 2012. The fixed income market, in parallel, remained calm, with no new issues or credit rating actions taking place.

- Economy expected to recover gradually over the years ahead

The Kingdom's real GDP growth should pick up slightly in 2013, although it will remain low, at 3.3% as forecasted by the IMF, reflecting the dampening impact on domestic demand of recent fuel price hikes and the slow government spending with cuts in capital spending restraining investment. The economy is set to recover thereafter, lifted by rising investment, with the IMF growth forecasts averaging above 4% for the 2014-2018 period. Having said that, as authorities continue their program of reforms to improve the country's business environment and keep the fiscal and external balances on a sustainable path, consolidation should continue to be gradual so as to not jeopardize growth prospects and social stability.

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

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The regional turmoil has imposed significant costs on the Jordanian economy. Political tensions in Jordan have sharpened in the wake of the Arab uprisings, creating growing domestic political uncertainties. The regional unrest has generated adverse spillover effects on economic activity in the Kingdom, driven by a retrenchment in investment, tourism and exports which also suffered from the continued poor performance of the world economy. Real GDP has maintained relatively low growth levels of 2.6% in 2011 and 2.8% in 2012. Inflation has reported an average of 4.5% over the past couple of years, somehow impacted by the influx of Syrian refugees and their spending attitude.

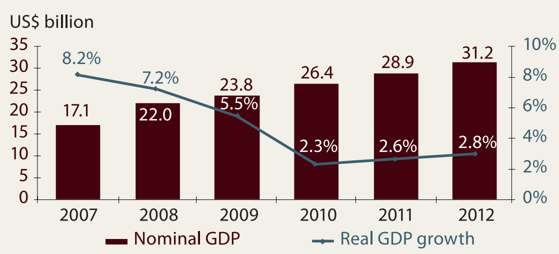
Among the regional turmoil costs as well, we mention the higher current account and fiscal deficits as a percentage of GDP. The former rose from 7.1% in 2010 to 12.0% in 2011 and 18.0% in 2012, while the latter rose from 5.6% in 2010 to 6.8% in 2011 and 8.2% in 2012. The drifts in the current account have been generated by export losses via Syria in particular, along with losses in tourism receipts as both foreigners and Jordanian expatriates somehow refrained from visiting the region, leading to an 8.4% drop in the overall number of visitors in 2012. The drifts in public finances were generated by increased social spending, including on fuel and food subsidies, along with the adverse impact of sluggish growth on domestic revenues.

As a matter of fact, concerned with lower than expected public receipts and rising subsidy outlays, the government has sought to introduce a range of austerity measures. The latest was the removal of fuel subsidies in November 2012, which should allow for annual savings of above US$ 700 million, some being channeled as compensatory cash payments to poorer households. As part of the recently agreed US$ 2 billion IMF stand-by arrangement, which was revised by the IMF in early March, the government has agreed to introduce "socially acceptable" fiscal retrenchment and a number of structural reforms, which should prevent any wholesale policy reversals.

At the monetary level, there were growing exchange market pressures, driven by concerns over the currency stability, inducing increased dollarization and corollary declines in reserves. Deposit dollarization went up from 21.7% in 2010 and 21.6% in 2011 to 29.1% in 2012. In parallel, international reserves fell from US$ 13.1 billion in 2010 to US$ 11.5 billion in 2011 and US$ 8.1 billion in 2012. As a percentage of Money supply, they reported their lowest level in more than a decade, closing the year 2012 at 29.3% and suggesting growing exchange market vulnerability.

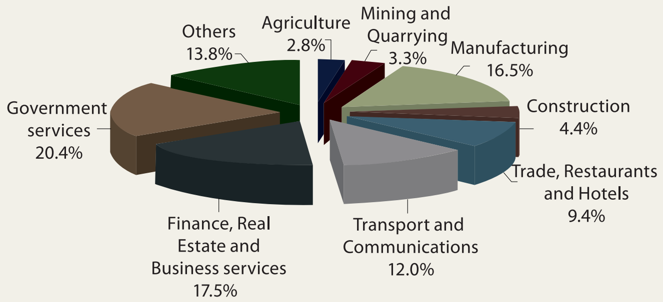
At the banking level, activity reported relatively low growth but sustained resilience to the regional turmoil. Consolidated assets of domestic banks rose slightly by 4.3% between end-2011 and end-2012. Deposits and credit facilities grew by 2.5% and 12.5% over the year, respectively. Deposits in foreign currencies actually grew by 38.2% in 2012, while deposits in Jordanian Dinars retreated by 7.3%.

GROSS DOMESTIC PRODUCT



Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



* Full-year 2012

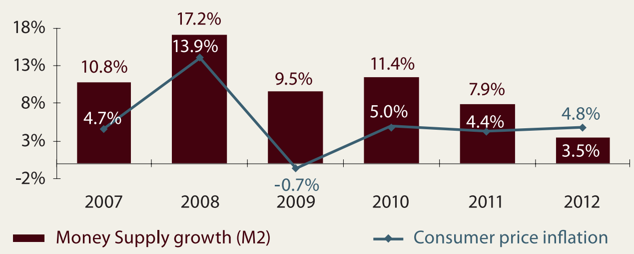
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

Although the spread differential between the weighted average interest rate on loans and advances and the weighted average interest rate on time deposits fell from 5.21% to 4.76%, Jordanian banks managed to report a positive profit growth. The sector actually reported a 20.3% rise in annualized profits over the first half of 2012, mainly supported by quantity effects stemming from new lending volumes that offset to a certain extent tighter interest margins.

At the capital markets level, the Jordanian equity market reported a relative stability in prices over the past year, after four years of consecutive price contractions. The Amman Stock Exchange posted a slight decline of 1.2% in a market that increasingly suffers from bad liquidity and efficiency. The annual market turnover ratio reported a low of 10.3% in 2012, compared to ratios above 100% in emerging markets at large. As a matter of fact, the total value traded reported a net contraction of 30% in 2012, with the number of transactions dropping by 26%. In parallel, the z-spread of the single sovereign bond issued by the Jordanian Kingdom reported a contraction of 38 basis points over the year 2012, moving from 472 basis points to 434 basis points respectively.

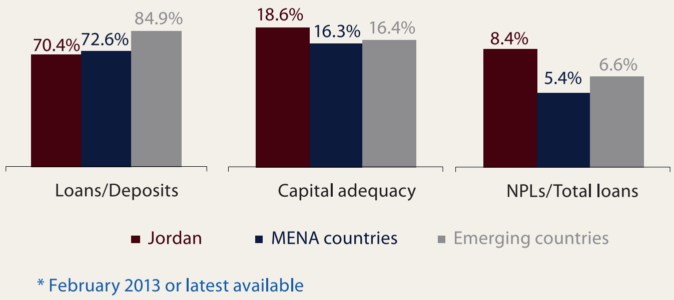
The detailed developments in the real sector, external sector, public sector and financial sector are outlined in the sections that follow while the concluding remarks address the Kingdom's economic challenges looking forward.

BROAD MONEY AND INFLATION



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

COMPARATIVE FINANCIAL SOUNDNESS INDICATORS*



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

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Primary and secondary sector activity somehow curtailed by local and external factors

The impact of the adverse weather conditions, coupled with that of adverse politico-security events, was felt on Jordan's agricultural activity. As a matter of fact, the sector, which made up 2.8% of GDP in 2012, reported a real contraction of 9.4% last year, following a growth of 3.9% seen in 2011, as per Central Bank data. Such a result was mainly tied to the performance of the sector during the third quarter of the year, period during which it posted an annual tightening of 16.6% in real terms as a result of weak crop production due to the dry summer season. The former, coupled with the rise in the number of Syrian refugees, were contributing factors to the rise in the prices of vegetables products which edged up by 15.3% year-on-year in the second half of 2012 following a contraction of 0.5% posted in the first half of the year. On the overall, the slowdown in the activity of the agricultural sector was felt on the local front within the context of slower production and on the external one within the context of weaker export growth.

Effectively, exports of agricultural products increased by 8.0% in 2012, slowing down from the 17% growth rate seen in 2011 with those of vegetable products declining by 0.6% last year subsequent to a rise of 10% posted in 2011, as per Central Bank data. In particular, agricultural products exported to Arab countries, which make up the bulk of the total, grew by nearly 8% in 2012 compared with a double-digit rise of around 16% in 2011. Exports of vegetable products to Arab countries contracted by 3% in 2012 after rising by 6% in 2011. On the internal front, the number of registered companies classified within the agricultural sector declined by 23% in 2012, after growing by 9% in 2011, as per the same sources. In parallel, no significant change was recorded at the level of credit facilities to the agriculture sector which reported an increase of 11% in 2012, a growth rate more or less close to that recorded in 2011, despite the environment that prevailed last year, warranting for more support for such activities.

The industrial sector, as was the case for agriculture, was subjected to a slowdown within the context of a jittery local environment weighing on investors' appetite to initiate projects. Yet, it managed to avoid the contraction trap as it was boosted by the electricity and water component within the context of efforts to meet the population's demand. Accordingly, the sector's activity, which includes mining and quarrying, manufacturing, electricity and water, posted a real growth rate of 1.1% in 2012 following a higher one of 5.2% in 2011. In parallel, credit facilities extended to industrial activities (excluding mining), were higher by 16% in 2012, rising at a slightly weaker pace relative to a growth of 19% reported in 2011. The external component of the sector was at the image of the local one as exports of industrial products declined by 2.7% in 2012 following a rise of 13.1% in 2011. This trend is more or less linked to a weaker demand from

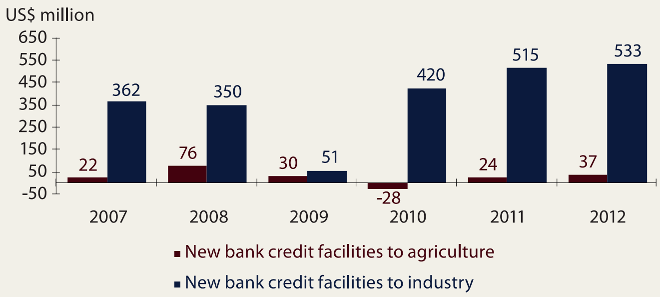
AGRICULTURE AND INDUSTRY

US$ million	2008	2009	2010	2011	2012	Var 12/11
Agricultural exports	743	734	889	1,046	1,130	8.0%
Industrial exports	5,524	4,315	5,069	5,732	5,576	-2.7%
Phosphate (000 tons)*	6,266	5,153	6,529	7,594	7,488	-1.4%
Potash (000 tons)*	2,005	1,123	1,934	2,259	2,207	-2.3%
Fertilizers (000 tons)*	788	721	760	723	715	-1.1%
Chemical acids (000 tons)*	1,393	1,434	1,576	1,413	1,431	1.3%
Petroleum Products (000 tons)*	3,670	3,539	3,350	3,158	4,147	31.3%
Electricity and Water (Mill.K.W.H.)*	9,023	8,130	7,806	8,160	9,447	15.8%

* output

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

Arab countries. Exports to countries within this geography, which made up 40% of industrial exports and increased by 2.7% in 2011, moved down by 0.3% in 2012.

At the level of manufacturing activities, the growth slowed down from 4.0% in 2011 to 2.3% in 2012, as per Central Bank data. In parallel, the production quantity index remained almost constant on a yearly basis, reporting a slight increase of 1.3% in 2012. The quantities exported were also on a slower path as they grew by 3.8% in 2012 following a circa 7% rate posted in 2011. With regards to the activity of the mining and quarrying segment, it contracted by 17.1% in real terms during 2012 after growing by 17.6% in 2011. Such a drastic change is reflected in the indicators published by the Central Bank. As a matter of fact, the mining and quarrying production quantity index, a gauge of the level of output, declined by 16.9% in 2012 after rising by 16.5% in 2011. Credit facilities extended to the mining and quarrying segment contracted by 8.2% in 2012 following an increase of 43.5% a year earlier. As to the electricity and water segment, its activity managed to slightly accelerate in 2012. Accordingly, the real growth reached 6.7% last year following a rate of 5.1% in 2011. The rise in the industrial production index hastened from 4.5% in 2011 to 6.5% in 2012. Credit facilities to public services and utilities rose by 77.5% in 2012 compared with a much lower rate of 8.1% in 2011.

1.1.2. Construction

Ongoing local difficulties curtailing construction activity

The construction sector, accounting for 4.4% of GDP in 2012, was still subjected to some local-driven difficulties which however managed to ease a bit last year when compared to the activity seen in 2010 and 2011. Accordingly, Jordan's construction sector posted a contraction of 1% in real terms during 2012 following two years during which the sector's activity had also tightened by up to 4.6%, as per Central Bank data. Indeed, an environment of frail politico-security conditions coupled with a somewhat sluggish economic activity warranted for more caution when it came to initiating new projects related to the construction sector.

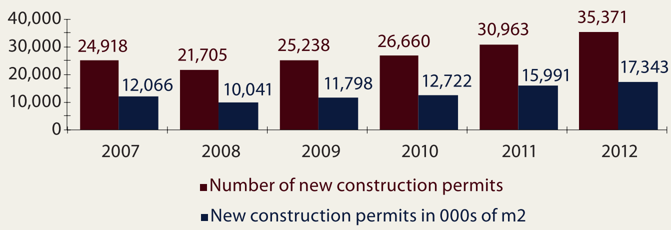
In details, two government policy actions were adopted in 2012 and had a significantly slowing impact on construction. First, the government revoked the real estate tax and fee exemptions at the beginning of the year due to the dampening impact they had on the State Treasury. Second, it was noted that contractors complained about the government's lack of payment of dues which, coupled with a shortage of credit facilities, have impeded their capacity in project delivery. Noteworthy is that new credit facilities extended to activities classified under the construction sector extended their declining streak to edge down by 24.5% in 2012 following another drop of 49.6% in 2011. Consequently, and as the government froze the implementation of several projects within the context of its austerity measures, demand for construction permits was contained last year as its growth slowed from a double-digit rate of 26% in 2011 to 8% in 2012. In parallel, the number of registered companies within the construction sector experienced a drastic contraction of 29% in 2012 after two consecutive years of increases of up to 9% in 2010 and 2011. The

CONSTRUCTION INDICATORS

US$ million	2008	2009	2010	2011	2012	Var 12/11
Clinker production (000 tons)	3,579	3,064	1,699	1,206	1,273	5.6%
Bank credit facilities to construction (var)	497	409	827	417	315	-24.6%
Number of registered companies	339	294	313	341	241	-29.3%
Capital of new registered companies	123	29	22	49	23	-53.0%

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

capital of these companies followed the same path as it edged down by 53% last year subsequent to a two-fold increase in 2011. Yet, it was reported that the conflict in Syria helped divert some construction-related investments from the Gulf region to the Kingdom. They were estimated at a total of circa US$ 2 billion.

The slowdown in the construction sector extended to the real estate market as reflected by figures released by the Department of Lands and Survey. They showed that the decline in the trading volume accelerated from 6% in 2011 to 13% in 2012 on interior economic pressures driven by the budget deficit, the rising cost of support for the energy sector, and the lower foreign aid as investors were not keen on injecting their capital within the prevailing instability. In particular, foreigners showed less interest in the Kingdom's market than in the previous year as mirrored by the decline in the value of sales to non-Jordanians. The latter reversed the 27% increase seen in 2011 to move down by 4% in 2012.

Regardless of these results, the Jordanian authorities are exerting efforts to attract more investments within the construction sector mainly stemming from the Gulf region. Accordingly, Al Maabar, an Abu Dhabi-based firm, started the first construction phase of Marsa Zayed, the biggest real estate and tourism project in Jordan valued at US$ 10 billion. The Ministry of Planning and International Cooperation has unveiled a total of US$ 1.3 billion worth of infrastructure projects funded by a Kuwaiti grant.

1.1.3. Trade and Services

Activity relatively faring well the regional turmoil

While several components of the Jordanian economy experienced some difficulties during 2012, the trade and services sector witnessed a rising momentum as it partly reaped some benefits of instabilities in neighboring countries. Accordingly, the combined real output growth slowdown of the sector's components reversed last year, accelerating from 3.3% in 2011 to 4.8% in 2012.

The acceleration was more evident at the level of services activities, as seen in the number of companies classified within this segment which increased by 3.2% in 2012 following a decline of 1.4% in 2011. As to the number of companies classified within trade, it declined by 18% within the context of a slowdown in the rise of countries' trade volume.

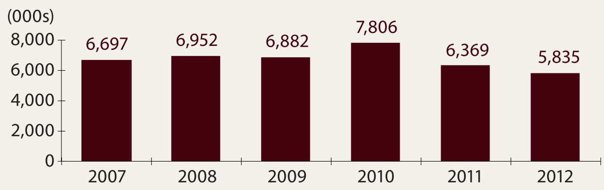
The fastest growing segment of the sector was trade, restaurant and hotel component (9.4% of GDP in 2012) which reported a real growth of 6.8% in 2012, compared with 3.7% in 2011. Such a rising streak is mostly linked to the base effect the country benefitted from during the first half of the year, as multiple protests hit the Kingdom during the second part of the year. Accordingly, tourism, Jordan's largest employer, somehow benefitted from the Arab tourists which diverted towards the Kingdom as they were deterred from visiting conflict stricken countries. A detailed look shows that while the number of arrivals of non-Jordanians edged down by 8.4%, against a decline of 18% seen in 2011, arrivals of Iraqis as well

TRADE AND SERVICES

US$ million	2008	2009	2010	2011	2012	Var 12/11
Number of vessels at the Aqaba Port	2,662	2,331	2,369	2,395	2,632	9.9%
Merchandise at the Aqaba Port (000 tons)	16,952	14,201	16,851	19,184	19,355	0.9%
Bank credit facilities to trade and services (var)	1,573	-118	389	979	1,944	98.5%
Number of new registered companies	5,739	5,424	5,004	4,990	4,632	-7.2%
Capital of new registered companies	682	258	217	366	180	-50.8%

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

as those of other Arab origin (excluding Saudis, Syrians and Egyptians) were higher by 13.3% and 40.3%, respectively. Renewed interest was also seen from British and American tourists with their combined numbers rising by 3.3% in 2012. The Central Bank highlighted the fact that such results contributed to the rise in revenues from tourism which edged up by 15.3% in 2012. Amman's hotel occupancy was also of a dual nature. After rising by 24 percentage points during the first half of 2012 compared to the same period of 2011, the hospitality segment ended 2012 with an occupancy rate of 52%, slightly lower from the 55% ratio in 2011, as per Ernst & Young's Hotel Benchmark Survey.

Activity at the level of Jordan's transport and telecommunications sector also accelerated last year with a real growth moving from 3.3% in 2011 to 4.1% in 2012. According to figures released by the Airport International Group, the Jordanian consortium responsible for the rehabilitation, expansion and operation of the airport, the annual traffic of passengers travelling through Queen Alia International Airport exceeded six million passengers for the first time in the airport's history in 2012. The number of passengers passing through the Queen Alia International Airport was higher by 14.3% in 2012 to a total of 6,250,048. The number of aircrafts at the airport was also higher by 5.9% to reach 67,190 aircrafts in 2012. Queen Alia International Airport has completed the construction of a US$ 750 million terminal, which was inaugurated in March 2013. The new terminal encompasses an area of 103,000 square meters and is expected to increase the airport's capacity to nearly nine million passengers per year.

Maritime transport reflected a weaker trade activity but a higher number of passengers. As a matter of fact, the quantities of goods exported and imported through the Aqaba port remained practically constant last year, posting a slight rise of 0.9% in 2012 following a double-digit growth of 13.8% in 2011. Conversely, the numbers of incoming and departing passengers rose by 12.8% and 15.4% in 2012, following downward movements of 9.6% and 12.9% in 2011, respectively. Finally, the number of vessels followed the same trend by accelerating from a growth of 1.1% in 2011 to 9.9% in 2012, as per Central Bank data.

1.2. EXTERNAL SECTOR

Multiple constraints accentuate external vulnerabilities

Jordan's external accounts were subjected to drastic downward pressures mostly on account of regional related factors, a relatively dampened private demand and a sluggish global economic environment. Accordingly, the country's trade volume increased by 6.1% year-on-year to reach a total of US$ 28.6 billion in 2012, following a rise of 18.1% in 2011.

In details, the rise in Jordan's imports decelerated from 21.7% in 2011 to 9.2% in 2012. The value of incoming merchandise was driven downward first and foremost by the slowdown of imports of mineral and fuels which account for 30% of the total. Effectively, they edged up by 21.3% in 2012 subsequent to a rise of 60.6% in 2011. Such a trend is partly tied to the multiple disruptions the Kingdom had witnessed on the pipelines linking its fields to those of Egypt. Another factor to have weighed on the overall value of imports was food and live animals which, accounting for 16% of the total, increased by 10.6% following a rise of 22.5% in 2011. This comes along with a relatively frail political environment warranting for more caution when it came to the trend of private demand. In parallel, a breakdown of imports by country of origin showed that most of the markets reported a weaker growth. Those from the Arab region, making up nearly 35% of the total, rose by 4.9% in 2012, thus slowing down from the much higher pace of 28.5% in 2011. The most notable movement within this region was recorded at the level of Bahrain, Iraq, and Syria from which imports declined by a combined 42.2%. As to the imports from the European continent (18% of the total), they declined by 6.1% in 2012 following a rise of 20.8% in 2011.

Total exports shifted to an annual decline in 2012 reversing the rise seen in 2011 and 2010. Accordingly, they declined by 1.5% last year following increases of up to 14% during the two previous years. Such a movement is mostly tied to disruptions in transit trade through Syria not to mention the weaker demand from the economically shaken global counterparts. While exports to Arab nations rose by 2.1% in 2012 (a rate weaker than the 6.3% rise registered in 2011), exports to Syria, Lebanon, and Kuwait declined by 22.2%. The quantities destined to the European Union were lower by 1.9% in 2012 compared to a double-digit growth of 41.4% in 2011. Those to non-Arab Asian countries were on the same path, declining by

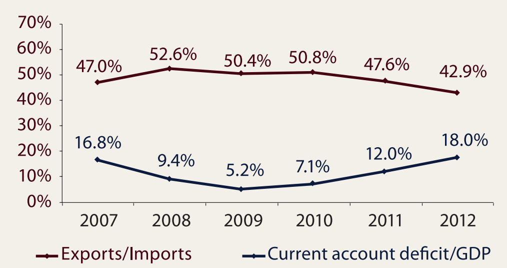
12.8% following a rise of 21.1%. In parallel, the growth of exports was depressed by the weaker agricultural production as well as lower output levels of potash and phosphate on account of multiple strikes initiated by workers within this segment. Exports of the former products increased by 8.0% in 2012 following a rise of 17.5% in 2011. Those of the latter declined by 13.1% in 2012 following a significant increase of 44.0% in 2011.

The rise in total imports coupled with a decline in total exports has led to a wider trade deficit which sank deeper into the negative territory in 2012, widening by 19.0% from 2011. The trade shortfall as a percentage of GDP reached around 34% last year, against about 30% in 2011, a level not seen in a significant amount of time. Furthermore, the export-to-import coverage ratio has sustained its declining streak to reach 42.9% in 2012, against 47.6% in 2011.

Overall, the pressure on Jordan's external accounts intensified in 2012 as the current account deficit widened to US$ 5.6 billion in 2012, up by 61.6% from 2011, year during which it had risen by 84.3%. Indeed, Jordan's external constraints were further accentuated by the difficulties at the level of the incomes and the current transfers account. Within the former, income related to investment posted a net deficit of US$ 683 million in 2012, wider from 2011 on account of a 9.1% decline of receipts in 2012 while payments were higher by nearly 20%. As to the latter, the surplus declined by 17% in 2012 mainly due to weaknesses at the level of remittances inflows which posted a slight rise of 3.6% in 2012 while other components were on a downward path. Conversely, at the level of the services account, the 15.3% rise in tourists' receipts managed to offset other weaknesses, thus boosting the overall surplus by 72.6% in 2012 following a contraction of 43.7% in 2011. Yet, the current account deficit accounted for circa 18% of Jordan's GDP in 2012, compared with a ratio of 12% in 2011 and sustaining the upward streak which started in 2010.

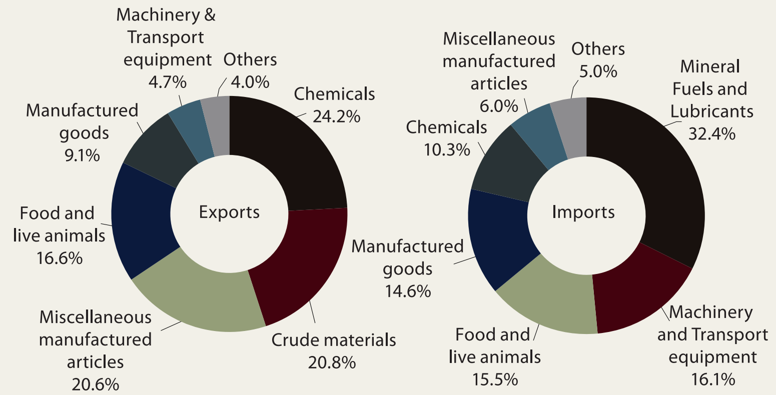
While the surplus at the level of the financials account did rise in 2012 despite the ongoing decline in FDI inflows (-4.8% in 2012), pressures on the balance of payments indeed did not ease last year. The sabotages of the gas pipeline has led to further increasing imports of expensive fuel for electricity generation. While gas flows resumed moderately later on, they have been unreliable as resumption was not in full capacity. The more expensive fuel imports resulted in a decline in reserves, which was exacerbated in May by an increase in deposit dollarization. The balance of payments deficit soared to US$ 3.2 billion in 2012 compared with US$ 1.2 billion in 2011 which bodes ill for the Kingdom's external growth drivers.

FOREIGN SECTOR INDICATORS



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

BREAKDOWN OF EXPORTS & IMPORTS BY COMMODITY IN 2012



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

1.3. PUBLIC SECTOR

Fiscal deficit soars again despite austerity efforts

The fiscal costs associated with a frail politico-security environment, a sluggish economic growth and the resulting weaker revenues as well as rising subsidies were again felt on Jordan's accounts despite efforts initiated towards mid-year to set a range of austerity measures in the aim to reduce the deficit. Accordingly, such actions did not contain fiscal vulnerabilities as the shortfall of 6.8% of GDP in 2011 rose to a ratio of 8.2% in 2012, the highest level seen since 2009, as per IMF data. In absolute terms, the shortfall reached US$ 2.5 billion in 2012, up by 30.2% from 2011, year during which it had increased by 32.9%. Indeed, the authorities' efforts to contain leakages at the level of fiscal accounts was met with obstacles impeding revenue-raising measures and consequently, the deficit sank to a new high placing again the fiscal constraint at the forefront of Jordan's economic issues.

In details, an environment of somewhat contained activity has obviously impeded attempts to amass revenues with most of the components reporting lower figures than what was initially budgeted. As a matter of fact, fiscal resources attained US$ 7.1 billion in 2012, down by 6.6% from 2011, year during which they had risen by 16.2%, as per IMF figures. A breakdown by type shows that domestic revenues fell short of budgeted figures by nearly 5.6% while foreign grants declined from the exceptional amount seen in 2011. Tax and non-tax revenues have declined as a proportion of GDP from 2005-2008 averages of about 20% and 9.5%, respectively, to around 15% and 6% during 2011 and 2012. With regards to foreign grants, Jordan had received an exceptional amount of US$ 1.7 billion in 2011 to curtail the adverse economic impact of the regional turmoil. In 2012, foreign grants were weaker by nearly 23%, as per IMF data.

Within public expenditures, the year 2012 was one of a dual nature for the government. Since May of last year, authorities have taken substantial measures to tighten outlays in the aim to rein in the deficit within the context of a sluggish economic environment. These austerity measures include reductions in capital spending, cuts in fuel subsidies and a rise in electricity prices (albeit only for selected industries). Fiscal expenditures totalled US$ 9.7 billion in 2012, remaining practically unchanged from 2011, year during which they had risen by 19.2%. The government managed to tighten capital expenditures when compared to the 2011 levels and to the pre-set budgeted figures. IMF figures revealed that they were down by 28.7% from 2011 and 24% lower than the 2012 budget. Conversely, current spending was still up by nearly 9% from the 2011 level coming from higher-than-expected fuel subsidy reflecting a large hike of oil prices at the beginning of 2012, a higher wage bill as a result of a civil service reform expected to yield savings in the medium term, higher pensions and health outlays and spending on housing and medical assistance for Syrian refugees. It is worth recalling that in November 2012, the government announced the end of fuel subsidies in the Kingdom which sparked widespread protests. According to the announcement, there will be a 50% increase in the price of bottled gas (used mainly for cooking), a 33% rise for diesel and kerosene and a 14% increase in the price of lower-grade petrol.

A combination of weaker-than-expected revenues and a higher increase of expenditures led to a further widening of fiscal imbalances. This has pushed the government's indebtedness ratio up in 2012, adding to additional borrowing from own budget agencies. As such, the government's debt-to-GDP ratio rose from 70.7% in 2011 to 79.6% in 2012, nearing the 80% mark and almost twice the emerging markets average.

For 2013, Jordan's government approved a US$ 10.5 billion budget with an estimated gap of US$ 1.8 billion or 5.4% of GDP. The draft budget sets current spending at US$ 8.7 billion, down by 2.1% from 2012 and capital expenditure at US$ 1.8 billion, up by 76.6%. Revenue is forecast at US$ 8.7 billion, of which nearly 10% would stem from foreign grants. The budget deficit would reach US$ 3.0 billion without foreign grants and US$ 1.8 billion after adding foreign aid.

On the overall, the budget deficit remains a constant challenge for Jordan's government which, caught between external factors beyond its control and internal political constraints, is still having little success in plugging its deficit. Indeed its fiscal and debt ratios remain amongst the highest when compared to countries within the MENA geography, and exceed the region's average as well as that of the emerging world.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Maintained tight monetary policy to contain inflation and support foreign reserves

Jordan's monetary conditions were marked in 2012 by a rise in inflation rate, primarily driven by the removal of fuel subsidies, and a relatively moderate expansion in money supply. The Central Bank's foreign currency reserves fell significantly year-on-year due to a higher import bill of fuel products, retrenchment in inward investment, and increase in deposit dollarization.

The Consumer Price Index grew by an average of 4.8% in 2012, according to the Central Bank of Jordan, against an average of 4.4% in 2011, with prices mainly driven by the complete removal of fuel subsidies in November 2012. The breakdown of the Consumer Price Index by category reveals that prices of the other goods and services category surged by 5.7% on average year-on-year, followed by the clothing and footwear category with 4.8% in 2012, the food items category with 4.6%, and the housing category with 3.5%. The IMF expects an average inflation rate of 5.9% in 2013, given the extended impact of the removal of fuel subsidies and a probable increase in electricity tariffs.

In order to address rising inflation pressures, enhance the attractiveness of domestic currency denominated assets, support capital inflows, and manage pressures on international reserves, the Central Bank of Jordan pursued its tight monetary policy that it started in June 2011 and continued to narrow the interest rate corridor by widening the interest rate differential between the Jordanian Dinar and the US Dollar, with the re-discount rate, and the interest rate on advances to specialized credit institutions, advances to licensed banks, and export promotion facilities moving up by 50 basis points each in February 2012 to close at 5.00% each, while the interest rate on repurchase agreements was lifted by 50 basis points to reach 4.75% and the overnight deposit window rate was raised in February and May by a total of 100 basis points to 3.25%. Also, in order to control liquidity more effectively, the central bank has updated its monetary policy operations framework in the first half of 2012 by creating a new monetary tool, namely a weekly repo operation. The Central Bank also injected liquidity into the market by trading government papers on the secondary market.

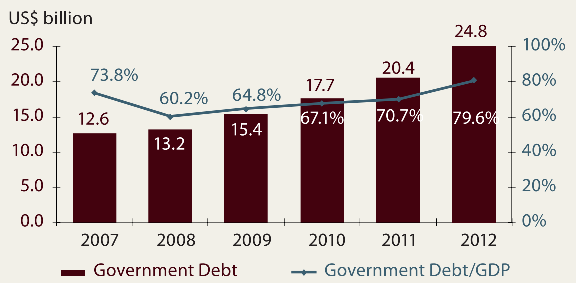
The broader money supply (M2) widened by 3.5% or US$ 1.2 billion in 2012 to reach US$ 35.2 billion at the end of the year, following an expansion of 7.9% in 2011. The growth in money supply in 2012 compares to a money creation of US$ 1.5 billion, resulting mostly from an increase of US$ 3.9 billion in net claims on the public sector, a US$ 1.5 billion rise in claims on the private sector, and a drop in net foreign assets of US$ 3.8 billion. The difference between the growth in money supply and money creation, amounting to US$ 333 million, suggests a demonetization of monetary claims in 2012.

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2008	2009	2010	2011	2012
General government revenues	6.6	6.3	6.6	7.6	7.1
General government revenues/GDP	30.1%	26.5%	24.9%	26.4%	22.8%
General government expenditures	7.6	8.3	8.0	9.6	9.7
General government expenditures/GDP	34.4%	35.0%	30.4%	33.2%	31.0%
General government fiscal balance	-0.9	-2.0	-1.5	-2.0	-2.5
General government fiscal balance/GDP	-4.3%	-8.5%	-5.6%	-6.8%	-8.2%

Sources: IMF, Bank Audi's Group Research Department

GOVERNMENT INDEBTEDNESS



Sources: IMF, Bank Audi's Group Research Department

The CBJ's foreign exchange reserves (excluding gold) fell sharply by 29.5% (the equivalent of US$ 3.4 billion in 2012) to reach US$ 8.1 billion at end-2012, as interruption in Egyptian gas supplies coupled with higher oil prices have required imports of expensive fuel products for electricity generation, in addition to a retrenchment in inward investment, and an increase in deposit dollarization. The Central Bank's foreign reserves accounted for 29.3% of local currency money at end-2012 as compared to 39.5% at end-2011, noting that this is its lowest level in a decade. Also, CBJ's international reserves covered 5.3 months of imports in 2012 versus 8.2 months in 2011. However, the CBJ's international reserves rebounded during the first two months of 2013, moving up by 17.9% (the equivalent of US$ 1.4 billion) to reach US$ 9.5 billion at end-February 2013, mainly due to sizeable grants from GCC countries. In fact, the UAE has deposited US$ 1 billion at the Central Bank in January 2013 in addition to US$ 250 million in December 2012, which constitutes its contribution to a US$ 5 billion grant for Jordan that was endorsed by the Gulf Cooperation Council at end-2011.

The CBJ stays committed to the maintenance of the currency peg, despite the associated lack of monetary flexibility, as the peg has served the country well and remains important by anchoring inflation expectations and providing macroeconomic stability in a challenging global and regional environment.

Looking forward, the Central Bank's monetary policy would continue to focus on limiting inflationary pressures and sustaining the attractiveness of Jordanian Dinar-denominated assets. With grants and foreign borrowing expected to finance the domestic needs, the potential increase in liquidity in the market could put downward pressures on the JD interest rate. The pegged exchange rate regime is set to remain the anchor of monetary policy and continues to be a key contributor to financial stability.

1.4.2. Banking Activity

Increasing sovereign exposure but still adequate overall financial standing

Jordan's banking sector reported a moderate yet slower activity growth during a year 2012 marked by a challenging domestic and regional operating environment, while continuing to steer through the overall politico-security tensions. Banking sector activity, measured by total assets of banks operating in the Kingdom, posted a 4.3% growth last year, moving from US$ 53.2 billion at end-December 2011 to US$ 55.5 billion at end-December 2012. The slowing economic activity momentum translated into a slower overall activity growth for the Kingdom's banks, with the asset growth in volumes proving 38% lower than during the previous year.

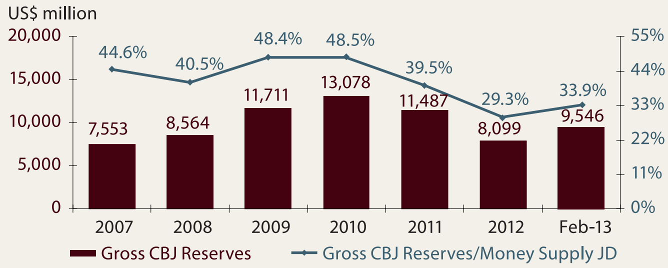
Total deposits, the main activity driver for the sector ensuring the bulk of funding for banks and accounting for almost two thirds of banks' balance sheets, reported sluggish growth over the course of the year 2012, its weakest in volumes in more than decade within the context of a slowdown in domestic economic activity and difficult conditions in neighboring countries. As a matter of fact, total deposits increased by a quite mild 2.5% between December 2011 and December 2012 to reach US$ 35.3 billion, which compares to a much higher 8.1% yearly growth in the previous year.

MONETARY SITUATION

Flows in US$ million	2008	2009	2010	2011	2012	2M-13
Net foreign assets	-1,092	2,532	1,688	-1,023	-3,804	-376
Net Claims on Public Sector	2,884	475	454	2,514	3,866	120
Claims on Private Sector (resident)	2,141	256	1,294	1,818	1,476	76
Claims on Financial Institutions	82	-137	-21	-26	0	-20
Net other items	-234	-667	-182	-780	-333	410
Uses=Sources	**3,781**	**2,459**	**3,232**	**2,503**	**1,205**	**211**
Money Supply (M1)	1,036	673	719	1,002	-74	29
Quasi-Money	2,745	1,787	2,513	1,501	1,279	181

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

The breakdown of sector deposits shows that the mild rise in total deposits at Jordanian banks was mostly attributed to rising funds from the private sector. Private sector deposits accounted for 74% of total deposit growth in Jordan, while public sector deposits, accounting for a mere 7% of total sector deposits at end-2012, contributed to the remaining 26%. More specifically, at a time of quasi-stagnation in non-resident deposits amidst a relatively uncertain environment, resident private sector deposits pushed total deposit figures upward last year, albeit at a rather tepid pace relative to the previous year.

A look at deposits from a currency angle reveals that foreign currency deposits pulled the overall deposit base upward in 2012, as local currency funds were on the decline within the context of net conversions from local to foreign currency. Accordingly, the deposit dollarization ratio moved from 21.6% at end-December 2011 to a five-year high of 29.1% at end-December 2012. Late in 2012, the Central Bank of Jordan raised the interest rate on overnight window deposits in Jordanian Dinars by 75 basis points, bringing the total increase to 175 bps last year. The Central Bank move aimed at increasing the attractiveness of the local currency while enhancing national savings, noting that time deposits with Jordanian banks were on a slightly downward trend during 2012. The weighted average interest rate on time deposits with banks increased by 17 bps in December and by 73 bps during the full-year 2012.

Other key policy rates, namely the rediscount and repo rates, remained unchanged since February 2012 in an aim to support banks' lending activity given its positive spillovers on economic activity in the Kingdom. In fact, total credit facilities extended by banks in Jordan posted a noticeable growth last year, their highest since the global crisis outburst, progressing by 12.5% in the 12 months to December 2012 to reach US$ 25.2 billion. The breakdown of credit facilities by sector shows that the public services and utilities was the largest contributor to total credit facilities growth last year, accounting for 44% of the total increase.

Second was the industrial sector with around 19% of total new credit facilities during 2012. As a matter of fact, and in line with the Central Bank's commitment to promote medium-term financing for the industrial sector through banks, the sector regulator decided to lower the interest rates on medium-term advances extended to banks for the sole purpose of re-lending them to the industrial sector. The Central Bank said that under the new arrangement, it would offer medium-term advances to banks priced at the rediscount rate on the day the advance is extended minus 200 bps, with this initiative extended until the end of March 2013 and aiming to enhance the industrial sector's competitiveness and role as a growth engine.

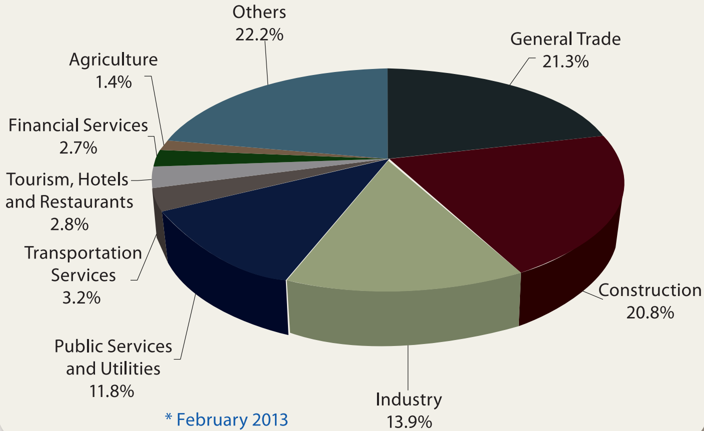
Lending activity to the construction sector continued to increase last year, with new credit facilities extended to the sector accounting for close to 11% of new credit facilities. In contrast, other sectors more

BANKING SECTOR INDICATORS

US$ million	2008	2009	2010	2011	2012	Feb-13
Banking Activity						
Assets	42,039	45,163	49,411	53,154	55,458	55,939
Deposits	25,540	28,686	31,796	34,384	35,258	35,864
Credit Facilities	18,403	18,820	20,417	22,357	25,158	25,244
Capital accounts and allowances	5,367	6,183	6,994	7,612	8,258	8,534
YTD Growth rates						
Assets	11.0%	7.4%	9.4%	7.6%	4.3%	0.9%
Deposits	13.1%	12.3%	10.8%	8.1%	2.5%	1.7%
Credit Facilities	15.3%	2.3%	8.5%	9.5%	12.5%	0.3%
Capital accounts and allowances	7.9%	15.2%	13.1%	8.8%	8.5%	3.3%

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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



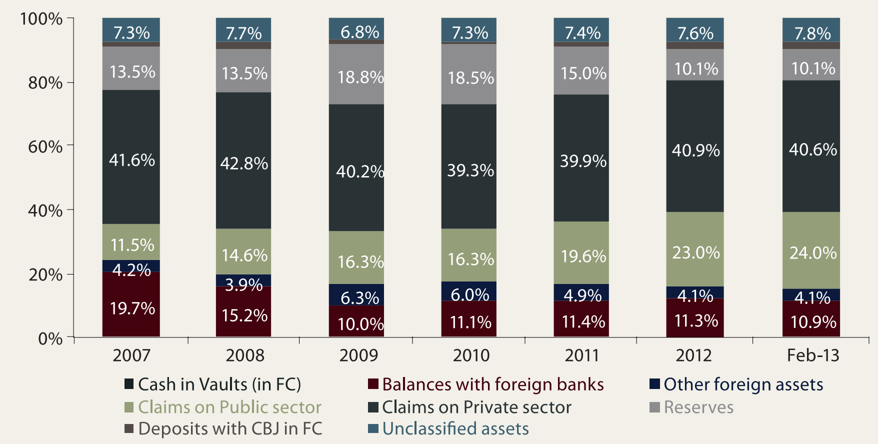
* February 2013

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

or less reported a stagnation in credit facilities, probably reflecting the still cautious attitude on behalf of banks and not yet improved risk appetite on behalf of borrowers given the prevailing conditions. It is worth noting that the bulk of new credit facilities were extended in the local currency, with foreign currency credit facilities accounting for a quarter of the total 2012 increase.

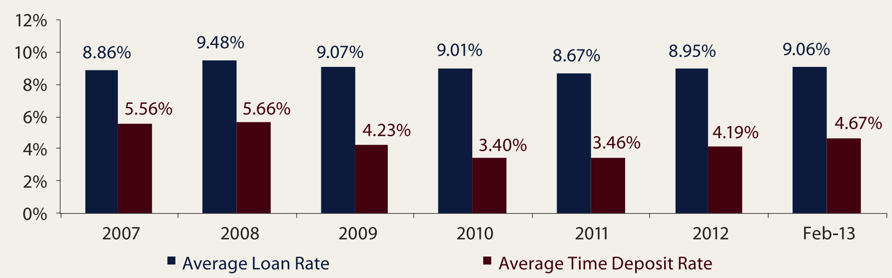
While lending activity growth to specific sectors played a noticeable role in boosting banks' total lending activity last year, banks' exposure to sovereign risk surged over the covered period amid large public sector financing needs (part of which could be observed through the higher public services and utilities lending volumes) and was a major balance sheet growth driver for banks. Overall claims on the public sector, including the government and public entities, rose by 22.0% last year to reach 23.0% of total assets at end-December 2012 (19.6% of total assets at end-December 2011), and now account for 1.5x total capital accounts and allowances, thus increasing the correlation of banks' balance sheet health with sovereign risk at large.

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

While sovereign exposure is a growing risk for Jordanian banks these days, they remain sufficiently sound on the overall to withstand tough operating conditions. On the one hand, they are adequately capitalized. According to the latest Central Bank figures, the sector's capital adequacy ratio stood at 18.6% at end-June 2012, higher than the minimum requirement and comparing favorably to international benchmarks. On the other hand, core liquidity, measured as the ratio of cash and placements with the Central Bank and other banks to deposits, reached 38.3% at end-December which, although declining on a year-on-year basis on the back of lower deposits with the Central Bank in local currency, remains quite satisfactory both in absolute and comparative terms.

In parallel, asset quality metrics remained contained in Jordan. The ratio of non-performing loans to total loans, which increased when the economy slowed down after the global crisis outburst, stood at 8.4% at end-June 2012, against a slightly higher 8.5% at end-2011 but gradually up from 4.2% at the eruption of the global financial crisis. NPL coverage ameliorated during the same period, with the coverage ratio moving from 52.3% at end-December 2011 to 63.2% at end-June 2012, thus getting closer to regional and international averages. NPLs net of provisions accounted for 10.7% of equity at end-June 2012, ameliorating from a higher 13.4% at end-December 2011.

Furthermore, although remaining weaker than in the pre-crisis period, profitability is deemed as adequate and appears to have improved in the first half of 2012. The interest margin to gross income ratio moved up over the period, from 70.1% at year-end 2011 to 72.2% at end-June 2012, while the annualized return on assets and return on equity reached 1.2% and 9.6% respectively, against lower corresponding ratios of 1.1% and 8.3% in full-year 2011 as per Central Bank published figures.

As such, Jordan's banking sector seems to have fared well amid growing turmoil in neighboring countries and a tough operating environment on the domestic front. Banks' financial standing remains broadly adequate, with good capitalization and liquidity standards, satisfactory profitability and contained asset quality ratios. That said, while the increase in lending to some sectors is welcomed, the swiftly rising public sector exposure within the context of growing sovereign financing needs is increasing the susceptibility of the banking sector to sovereign risk and, at a time of deteriorating fiscal position and especially given risks of crowing out the private sector to some extent, remains the main challenge at hand in the period ahead.

1.4.3. Equity and Bond Markets

Trading value and market turnover at their lowest levels in seven years

Sluggishness was the main feature characterizing Jordan's capital markets over the year 2012, with the total trading value and turnover ratio on the Amman Stock Exchange reaching their lowest levels in seven years, and equity prices and market capitalization posting small declines year-on-year. The fixed income market, in parallel, remained calm, with no new issues or credit rating actions taking place.

In details, the Amman Stock Exchange general weighted price index retreated slightly by 1.2% in 2012 to close at 4,593.9, yet rebounded during the first quarter of 2013 to close at 4,738.3, up by 3.1%. The breakdown of the ASE general weighted price index by sector in 2012 shows that the insurance sector witnessed the sharpest fall in prices (-26.6%), followed by the services sector (-4.7%), the banking sector (-3.2%), while the industrial sector moved up by 4.0%. As compared to other Arabian markets, the Amman Stock Exchange ranked in the 8th position in the MENA region in terms of performance in 2012, according to the S&P Pan Arab Composite Index.

The number of listed companies at the ASE declined from 247 at end-2011 to 243 at end-2012. The fall in the number of listed companies on the ASE, coupled with a drop in the general price index, resulted into a 0.7% decrease in market capitalization to reach US$ 27.0 billion at end-2012. The ASE market capitalization stood at 87% of GDP at end-2012, down from 94.1% in 2011, which reflects the declining dimension of the ASE relative to the Jordanian economy. However, non-Jordanian ownership of market capitalization moved up slightly from 51.3% at end-2011 to 51.7% at end-2012.

The ASE total trading value amounted to US$ 2.8 billion in 2012, falling sharply by 30.6% relative to the previous year to reach its lowest level since end-2005. The division of the total trading value by new sector classification showed that the financial sector captured 60.1% of activity, followed by the services sector with 20.4% and the industrial sector with 19.5%. On the backdrop of a decline in market capitalization and a sharper fall in total trading value, the turnover ratio stood at 10.3% in 2012 as compared to 14.8% in 2011, noting that this is its lowest level in seven years, which spots light on the slowdown in activity on the Amman Stock Exchange. As to valuation ratios, the ASE price-to-earnings ratio stood at 15.6x in 2012 as compared to 22.6x in 2011, which renders ASE stock prices relatively more attractive for equity investors.

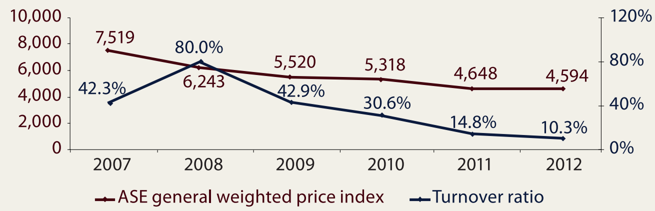
At the level of the bond market, Jordan saw no new sovereign bond issues in 2012 and during the first quarter of 2013, noting that the Kingdom currently has one outstanding five-year bond that was launched in November 2010 for US$ 750 million with a coupon rate of 3.875%. After witnessing significant spread expansions in 2011 in line with other regional expansions, the bond actually saw its spread contracting over the year 2012, moving from 472 basis points at end-December 2011 to 434 basis points at end-December 2012 and reaching 381 basis points by the closing date of this report. Over the longer term, reliance on external grants is expected to be reduced through more frequent market financing, following Jordan's successful first-time access to sovereign international capital markets in November 2010. As to credit ratings, no changes were made in 2012 and during the first quarter of 2013. The latest credit rating action taken by Standard & Poor's was in February 2011 when it affirmed the "BB/B" long-term and short-term foreign currency ratings on Jordan with "negative" outlook. Also, Moody's has taken its latest credit rating action in February 2011 when it downgraded the outlook on Jordan's "Ba2" foreign-currency government bond from "stable" to "negative".

CAPITAL MARKETS INDICATORS

	2008	2009	2010	2011	2012
Market Capitalization (US$ billion)	35.8	31.8	30.9	27.2	27.0
Market Cap/GDP	163%	134%	117%	94%	87%
Total value traded (US$ billion)	28.7	13.7	9.5	4.0	2.8
Total volume of traded securities (million)	5,442	6,023	6,989	4,072	2,384
Total number of transactions (000s)	3,781	2,965	1,880	1,318	975
No. of listed companies	262	272	277	247	243
% Chg. in ASE general weighted price index	-17.0%	-11.6%	-3.7%	-12.6%	-1.2%
P/E	18.8x	14.4x	26.3x	22.6x	15.6x
P/BV	2.2x	1.8x	1.7x	1.5x	1.5x
Dividend yield	2.5%	2.8%	2.7%	3.3%	4.6%

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

STOCK MARKET PERFORMANCE



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

2. CONCLUSION: LOOKING AHEAD

Developments during the past couple of years somehow aggravated an already difficult economic and fiscal situation in Jordan. The economy has been indeed struggling with high energy prices, a shortfall in foreign grants, budget cuts and a significant influx of Syrian refugees, putting a considerable strain on resources. While sound macroeconomic policies have helped Jordan to navigate through a challenging period, the policy tradeoff between embarking on fiscal consolidation, which would improve public finances and ease pressure on reserves, against the impact on growth and inflation as well as political and social stability, has become more extreme.

Jordan's fiscal and balance of payments imbalances were actually exacerbated by the succession of external shocks, the first shock being generated by the spillover effects of the global financial crisis and the second shock being driven by the adverse impact of the regional turmoil. Such challenges require supplementary financing, the absence of which will create further currency pressures and possible depletion of foreign exchange reserves. For the time being, the stock of international reserves is still considered sufficient to offset any pressure on the currency stemming from short term liquidity problems or negative political developments. Having said that, the Central Bank of Jordan is set to stay committed to the maintenance of the Dinar's peg to the US dollar, despite the lack of monetary flexibility, as the peg has instilled monetary confidence and has not substantially harmed competitiveness.

While increased government grants this year, in particular from GCC, should provide the government with some room for maneuver, further austerity measures are likely to generate renewed political and social tensions which could pose challenges to the implementation of the fiscal plan. In parallel, while the IMF loan and the GCC grants provide Jordan with some buffer to partially offset the spillover effects of external shocks, they are not a substitute for fundamental reform in the realms of government spending and the much needed private sector led growth. Structural reforms to reinforce competitiveness through enhancing transparency, fostering trade and improving labor market skills among others are essential to foster high and inclusive growth and create employment.

Looking ahead, after sluggish rates of growth for the past couple of years, the economy is expected to recover gradually over the years ahead. Real GDP growth should pick up slightly in 2013, although it will remain low, at 3.3% as forecasted by the IMF, reflecting the dampening impact on domestic demand of recent fuel price hikes and the slow government spending with cuts in capital spending restraining investment. The economy is set to recover thereafter, lifted by rising investment, with the IMF growth forecasts averaging above 4% for the 2014-2018 period. Foreign Direct Investment, especially from the Gulf States, is likely to trend higher after having dropped amid the global economic downturn and concerns over regional unrest.

In parallel, the removal of fuel subsidies will put upward pressure on prices in 2013, with the average inflation rate forecasted at 5.9% by the IMF for the year, but inflation is expected to fall to 3% and below starting 2014. A renewed surge in global oil and food prices and a possible further slowdown in global or regional growth are particular concerns for the Kingdom, on the back of its fiscal and external vulnerabilities and the openness of its economy. Higher than projected oil prices would drive up the cost of electricity and the level of subsidies.

In sum, the Kingdom's authorities have undoubtedly implemented a wide range of measures to maintain stability and have a solid plan for the coming years. According to the IMF, authorities stand ready to take further measures, if warranted to achieve their objectives, building on their well-developed institutional capacity and record of adherence to sound economic policies. Finally, as authorities continue their program of reforms to improve the country's business environment and keep the fiscal and external balances on a sustainable path, consolidation should continue to be gradual so as to not jeopardize growth prospects and the social stability at large.

DISCLAIMER

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