JORDAN ECONOMIC REPORT

BETWEEN A LARGE INTERNATIONAL SUPPORT AND ADVERSE REGIONAL TURMOIL SPILLOVER EFFECTS

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CONTACTS

Research

Marwan S. Barakat
(961-1) 977409
marwan.barakat@banqueaudi.com

Jamil H. Naayem
(961-1) 977406
jamil.naayem@banqueaudi.com

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

Fadi A. Kanso
(961-1) 977470
fadi.kanso@banqueaudi.com

Sarah F. Borgi
(961-1) 964763
sarah.borgi@banqueaudi.com

Gerard H. Arabian
(961-1) 964047
gerard.arabian@banqueaudi.com

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

- Slight improvement in economic conditions though regional spillover effects continue

On the back of a stronger domestic consumption, looser monetary policy and the impact of the adherence to the IMF program on confidence in the country, Jordan's real GDP growth has slightly improved over the past year moving from 2.9% in 2013 to 3.1% in 2014, but remains well below the 5% long term growth trend amidst continued regional headwinds. Events in neighboring countries are continuing to have spillover effects on Jordan's economy, hurting business confidence and impacting foreign trade, tourism, investment and fiscal and external balances. The influx of refugees, which now exceed 10% of the Jordanian population, is putting pressure on the Jordanian resources, adding to domestic security concerns and social tensions.

- Reduced fiscal imbalances, with a net contraction in public finance deficit

Jordan's public finances were marked in 2014 by reduced fiscal imbalances despite pressures arising mainly from Syrian refugees. Fiscal reforms have indeed begun to produce relatively more positive results. Domestic revenues have increased, keeping pace with rapidly rising current and capital expenditures, resulting into a mild contraction in the public deficit. Total public debt expanded by 8.3% during the first 11 months of 2014 to attain US$ 31.6 billion at end-November, accounting for 87.0% of GDP.

- Extended expansionary monetary policy amidst contained inflation and record reserves

Jordan's monetary conditions were characterized in 2014 by contained inflationary pressures on the back of declines in oil and food prices, a new record high level of international reserves amid strong external financial support, and several rate cuts prompted by increased appetite for JD-denominated assets. Inflationary pressures indeed remained contained over the year 2014, with the Consumer Price Index rising by 2.8% on average, against an average of 5.6% in 2013. The Central Bank of Jordan's readily available foreign exchange reserves continued to rise at a robust pace in 2014 to hit a new record high level of US$ 15.3 billion at the end of the year, moving up by 15.7% relative to end-2013. The broader money supply (M2) widened by 6.9% to reach US$ 41.2 billion at the end of 2014.

- Satisfactory banking activity growth coupled with adequate financial standing

Jordan's banking sector witnessed a year of satisfactory growth in 2014, pretty much in line with the overall economic conditions characterized by moderate expansion amidst a tough regional politico-security context. The sector activity, reflected in the aggregated assets of banks operating in the Kingdom, grew by 4.8% year-on-year to reach US$ 63.3 billion at end-December 2014. Financial soundness indicators remain satisfactory on the overall, with a primary liquidity ratio of 36.7%, a capital adequacy ratio of 17.4%, a non-performing loan ratio of 7% of total loans on the back of loan loss provisions of 76.4% of total loans, while profitability has been constrained at an estimated return on average assets of 1.4% and a return on average equity of 11.7%.

- Opposite trends governing equity and fixed income markets

Jordan's equity market saw further price declines in 2014 that triggered an extended drop in market capitalization to reach its lowest level in a decade, amidst continuing regional concerns and expectations of lower after-tax company profits. In parallel, the fixed income market benefited from improved investor sentiment, mainly helped by an improved economic recovery, strong reserve position, relatively reduced external and fiscal imbalances, and an outlook revision by S&P from "Negative" to "Stable" that led to further contractions in sovereign spreads.

- Twin deficits likely to benefit from lower oil prices looking ahead

Economic growth is expected to improve gradually looking forward on the back of the adoption of a 10-year development plan that is aimed at enhancing competitiveness and attracting more investment. Jordan is undertaking tangible measures, including monetary policy easing, to accelerate growth and help reduce the high unemployment rate of 12.2% today. Real growth is expected to reach 4% in 2015 as per IMF forecasts, supported by growth in net exports and modest domestic demand. Jordan is likely to witness some alleviation of its twin deficits in the near term. Beyond the improvement in fiscal deficit looking ahead, the current account deficit, projected at 5.9% of GDP in 2015, is apt to benefit from the contractionary effect of lower oil prices on the country's oil bill.

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

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

On the back of a stronger domestic consumption, looser monetary policy and the impact of the adherence to the IMF program on confidence in the country, Jordan's real GDP growth has slightly improved over the past year moving from 2.9% in 2013 to 3.1% in 2014, but remains well below the 5% long term growth trend amidst continued regional headwinds. Events in neighboring countries are continuing to have spillover effects on Jordan's economy, hurting business confidence and impacting foreign trade, tourism, investment and fiscal and external balances. The influx of refugees, which now exceed 10% of the Jordanian population, is putting pressure on the Jordanian resources, adding to domestic security concerns and social tensions. High unemployment remains a chronic problem and continues to drag on domestic spending, though work on large infrastructure projects should help to somehow boost employment.

At the external level, following a significant improvement in 2013 with current account deficit/GDP dropping from 15.2% to 10.2%, a further improvement was reported last year with the current account deficit hovering around 8% of GDP. Exports are reporting strong growth, driven by food, fertilizer and clothes. Exports of goods and services make up more than 40% of the country's GDP, with the United States being Jordan's largest trading partner. External transfers, driven by workers remittances and official grants from the Gulf, are quite elevated at 19% of GDP, one of the high ratios around the World.

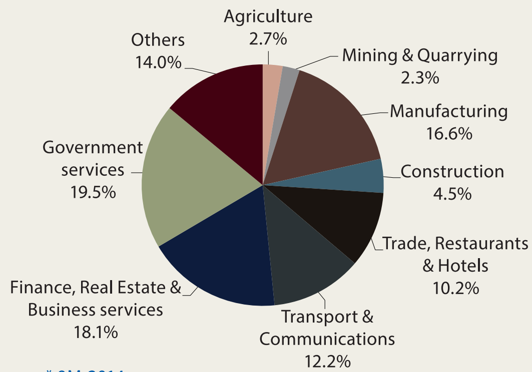
At the fiscal level, fiscal reforms have begun to produce positive results. Considerable progress has been made in improving public finance conditions through drastic measures, the most important of which is the removal of petroleum subsidies a couple of years ago. As far as revenues are concerned, domestic receipts rose by 18.5% in the first 11 months of 2014, supported by reform measures such as the elimination of some exemptions from value added tax and tax hikes on alcohol and cigarettes. The result was a net reduction in the fiscal deficit by 18% over the period. Still, persistently high fiscal deficits coupled with subdued GDP growth continue to drive Jordan's debt ratio upwards, approaching the threshold of 90% of GDP at end-2014.

At the monetary level, the country has witnessed a strong rise in international reserves, an easing bias on behalf of monetary policy and a moderation of inflation. International reserves went up by 15.7% in 2014 to reach US$ 15.3 billion, the equivalent of 8.1 months of imports and 43.8% of Money Supply in local currency. The Kingdom's long standing currency peg against the US dollar rests on the maintenance of a high level of reserves, which is supported by a positive interest rate differential with US dollar rates. Against the backdrop of a comfortable reserve position, the Central Bank was able to cut the overnight rate to 1.75% in an attempt to encourage bank lending and support economic growth. As to annual inflation, it went down from 3.3% at end-2013 to 2.5% at end-2014, its lowest level in over a decade.

GROSS DOMESTIC PRODUCT

Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



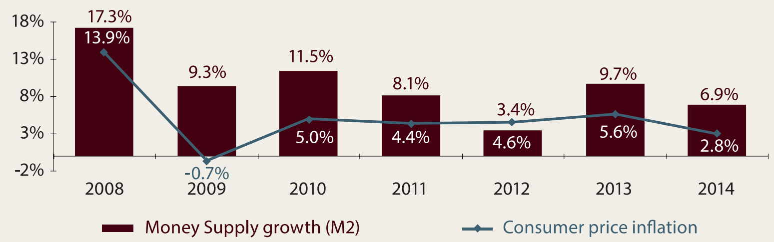
* 9M-2014

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

At the banking level, banking sector deposits grew by a healthy 9.7% in 2014, coupled with a mild growth in loans of 1.8% over the year. Financial soundness indicators remain satisfactory on the overall, with a primary liquidity ratio of 36.7%, a capital adequacy ratio of 17.4%, a non-performing loan ratio of 7% of total loans on the back of loan loss provisions of 76.4% of total loans, while profitability has been constrained at an estimated return on average assets of 1.4% and a return on average equity of 11.7%. The authorities' strict supervision of the large banking sector has helped to ensure that the financial standing of banks remains sound despite the more challenging economic climate.

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 term outlook looking forward.

BROAD MONEY AND INFLATION



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

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Overall improving performance for primary and secondary sectors

During the year 2014, Jordan's agricultural sector reported a relatively favourable performance, registering increases in agricultural output, export volumes and earnings, despite the region's poor politico-security conditions. The sector, showing signs of recovery after two years of contraction, grew at a rate of 4.0% in the aforementioned year, up from a negative rate of -3.5% in 2013.

The breakdown of GDP by economic activity indicates that the share of agriculture in Jordan's GDP edged down from 3.1% in the first nine months of 2013 to 2.7% in the aforementioned period of 2014. Furthermore, the sector added US$ 700 million to GDP at current prices in the first three quarters of 2014, up from a contribution of US$ 677 million in the same period of 2013, as per the Central Bank of Jordan.

Credit facilities extended to the agricultural sector constituted 1.3% of the total credit facilities at end-December 2014. These recorded US$ 11 million in 2014, rising from their negative level in 2013. In parallel, the number of registered companies classified within the agricultural sector rose from 687 in 2013 to 751 in 2014, thus posting a 9.3% increase. This followed a contraction of 2.8% witnessed in 2013.

It is worth noting that along with the growth in the activity of the agricultural sector, the external sector maintained a positive export growth. Agricultural exports grew by 9.3%, from US$ 1,276 million in 2013 to US$ 1,395 million as a 10-month annualized figure for 2014.

In parallel, the country imported more than 2.1 million tons of wheat and barley in 2014, in order to serve the rising domestic consumption demand, which is closely linked to the continuing influx of Syrian refugees.

The industrial sector maintained its positive performance in 2014, growing at a rate of 2.6%, up from 2.3% posted in 2013. The sector posted an expansion in its activity that came in line with the growth in mining and quarrying, manufacturing, and electricity and water.

Primarily, mining and quarrying, which contributed by 2.3% to the Jordanian GDP in the first nine months of 2014, grew by 10.5%, from US$ 541.9 million in the first three quarters of 2013 to US$ 598.9 million in the aforementioned period of 2014.

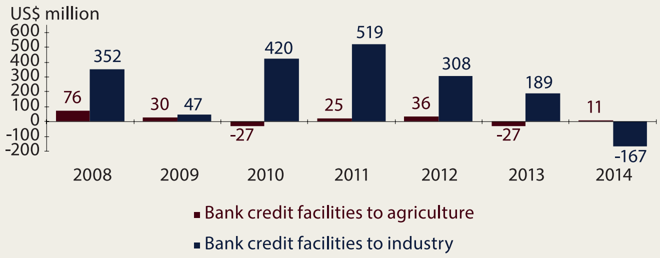
AGRICULTURE AND INDUSTRY

US$ million	2009	2010	2011	2012	2013	2014	Var 14/13
Agricultural exports*	732	888	1,046	1,130	1,276	1,395	9.3%
Industrial exports*	4,316	5,060	5,732	5,569	5,501	5,885	7.0%
Phosphate (000 tons)	5,153	6,529	7,594	6,383	5,274	7,109	34.8%
Potash (000 tons)	1,123	1,934	2,259	1,823	1,728	2,086	20.7%
Fertilizers (000 tons)	721	760	723	640	678	886	30.7%
Chemical acids (000 tons)	1,434	1,576	1,413	1,291	1,266	1,442	13.8%
Petroleum products (000 tons)	3,539	3,350	3,158	3,476	3,082	3,007	-2.4%
Electricity and water (Mill.K.W.H.)	8,130	7,806	8,160	7,895	7,539	8,148	8.1%

* 10-month annualized figures for 2014

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

The share of manufacturing in GDP stood at 16.6% in the first nine months of 2014. The contribution of this component to GDP at current prices grew by 4.7%, from US$ 4,162.9 million in the first three quarters of 2013 to US$ 4,358.3 million in the same period of 2014.

The electricity and water segment's activity accelerated in 2014. The segment added US$ 591.5 million to the country's GDP in the first three quarters of last year, up by 14.0% from its level in the same period of the previous year. In parallel, the electricity and water output posted an 8.1% increase over the past year, moving from 7,539 million KWH in 2013 to 8,148 million KWH in 2014.

Furthermore, the output of phosphate, potash, fertilizers, and chemical acids rose by 34.8%, 20.7%, 30.7%, and 13.8% in 2014, respectively. The output of petroleum products was the only one to decline by 2.4% in the aforementioned year.

The number of registered companies classified within the industrial sector posted a 3.7% decrease from 2,263 in 2013 to 2,179 in 2014. The capital of these companies contracted from US$ 230.3 million in 2013 to US$ 82.1 million in 2014. On a side note, credit facilities extended to industrial activities constituted 13.1% of the total credit facilities extended.

The relatively positive performance left its imprints on the industrial exports at large. These rose by 7.0%, from US$ 5,501 million in 2013 to US$ 5,885 million as a 10-month annualized figure for 2014.

In brief, the majority of indicators for both sectors assures that the primary and secondary components of the Kingdom's real sector are undergoing a relatively more favourable performance on the overall.

1.1.2. Construction

Overall sectoral trend remains favourable in 2014

The construction sector in Jordan, which accounted for 4.5% of GDP in 2014, witnessed an improvement from the previous year. In fact, the sector grew by 9.1% in real terms in 2014, compared to an expansion of 8.3% in 2013.

The construction sector formed 23.6% of total credit facilities in 2014, against a share of 21.6% in 2013. New credit facilities extended to activities classified under the construction sector expanded by US$ 658 million in 2014, compared to US$ 569 million in the previous year.

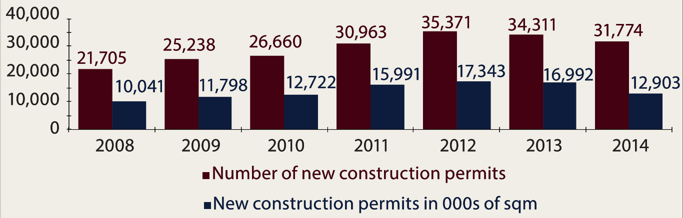
On the other hand, demand for construction permits further slowed in 2014, moving from a negative growth of 3.0% in 2013 to a 7.4% contraction in 2014. It is worth mentioning that Jordan's residential permits formed the biggest chunk of construction permits in 2014 at 90.4%, marginally down from 91.6% in the previous year. Furthermore, construction permits given to the residential sector contracted by 8.6%

CONSTRUCTION INDICATORS

US$ million	2009	2010	2011	2012	2013	2014	Var 14/13
Clinker production (000 tons)	3,064	1,699	1,206	1,026	906	865	-4.5%
Bank credit facilities to construction (var)	408	825	417	309	569	658	15.5%
Number of registered companies	294	313	341	241	217	224	3.2%
Capital of new registered companies	29	22	49	23	15	16	7.8%

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

EVOLUTION OF CONSTRUCTION PERMITS



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

in 2014, further declining from a 2.2% contraction in 2013.

As for construction permits granted by city in Jordan, Amman constituted the lion's share of total permits given in 2014 to reach 39.3%, down from 44.4% in the previous year. The city of Amman was followed by Irbid and Zarqa, each constituting a share of 23.2% and 12.8%, respectively, of total construction permits granted.

On a different note, the number of new registered companies within the construction sector witnessed a growth of 3.2% in 2014, compared to a 10.0% contraction in 2013. The capital of these companies followed the same path, rising by 7.8% in 2014 subsequent to a 34.8% drop in the previous year.

Looking ahead, a number of large construction projects are under way driving the construction sector, including the relocation of Aqaba port and the exploitation of Jordan's mineral resources in addition to two major new projects in Aqaba and the Dead Sea, including the Red Sea Astrarium project and the Porto Dead Sea development. Transport projects are an important driver of the construction sector as well, with Saudi Arabia planning a rail link with Jordan, in addition to two key domestic rail projects, namely a rail link between the southern Red Sea port of Aqaba and Chidiya area in south Jordan to transport phosphates to the export terminal on the one hand and a railway link between Amman and Zarqa on the other hand. Last but not least, the expansion of the electricity grid and development of both conventional and renewable energy sectors (both solar and wind) would also help to spur growth over the medium term.

1.1.3. Trade and Services

Maintained though slower growth in the tertiary sector

The trade and services sector, which contributes to more than 60% of Jordan's GDP, has been growing at a consistently slower pace over the past few years with year-on-year real output growth moving from 4.8% and 3.2% in the first nine months of 2012 and 2013 to 2.8% in the same period of 2014.

While all components of the tertiary sector managed to report higher activity, growth in trade and services was mainly driven by the following sub-sectors: Finance, real estate and business services which grew by 2.7%; trade, restaurants and hotels by 4.3%; and transport and communications which reported a real growth of 1.8%.

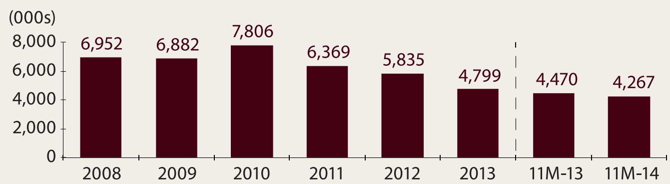
At the level of the transport sector, 2014 was another milestone year at the Queen Alia International Airport (QAIA). In fact, the airport received 7,089,008 passengers during 2014, a 9% increase over 2013. Meanwhile, aircraft movements registered a similar growth of 7.6%, reaching a total of 73,125 airplanes during 2014. This has mirrored, for the second consecutive year, the expansion in capacity that was put in place in March 2013 and targeting a full capacity of 9 million passengers a year. At the same time, works on the second expansion phase of the QAIA seem to be on track, and would enable Jordan's prime gateway to further boost its annual traffic capacity to 12 million after 2016 and to 16 million by 2032.

TRADE AND SERVICES

US$ million	2009	2010	2011	2012	2013	2014	Var 14/13
Number of vessels at the Aqaba Port	2,331	2,369	2,395	2,632	2,441	2,269	-7.0%
Merchandise at the Aqaba Port (000 tons)	14,201	16,851	19,184	19,355	16,316	19,045	16.7%
Bank credit facilities to trade and services (var)	-117	388	979	2,146	706	-75	-
Number of new registered companies	5,424	5,004	4,990	4,632	4,687	4,367	-6.8%
Capital of new registered companies	257	216	366	180	190	135	-28.8%

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

On the other hand, activity at the Aqaba port was less vibrant except for trade activity. At the level of passengers, 2014 was another year of negative growth where the number of passengers using the port decreased by 25.6% to 540,963, following another decline of 17.8% reported in 2013. As to the number of vessels, they reached a total of 2,269 in 2014, down by 7.0% year-on-year, almost equal to the level of negative growth registered in 2013. When it comes to the quantity of imported and exported goods, it however increased by 16.7% year-on-year to a total of 19.05 million tons during 2014. This is mainly due to an 18.8% increase in the quantity of goods imported through the port. This does actually reverse the trend registered in 2013, whereas the quantity of imported and exported goods had declined by 17.8% over the one registered during 2012.

As to the tourism sector, 2014 witnessed a slight decline in the number of foreign incomers, following three consecutive years of more negative growth. In fact, numbers published by the Central Bank show that arrivals, excluding Jordanians, were down by 4.5% in 11M 2014. They reached a total of 4,266,750 tourists compared to 4,470,100 in 11M 2013. This is mostly due to a drop in the number of incomers from Syria, Iraq and Saudi Arabia of 30.2%, 22.5% and 1.7% respectively over the covered period.

When it comes to the luxury segment of the tourism sector, numbers published by Ernst & Young point to a flat level of activity. Occupancy within four and five star hotels in the capital decreased by a slight 1.0% to 60% in 2014, while the average room rate was up by 3.1% to US$ 160, still one of the lowest rates among Middle Eastern cities.

Moreover, according to Central Bank figures, receipts from the sector managed to register an increase of 8.8% to reach US$ 3.4 billion over the first nine months of 2014, against a contraction of 0.5% registered in the 2013 corresponding period. This hints to the fact that while Jordan's surrounding environment wrestles with the regional turmoil that started in 2011, the country's hospitality sector has great potential to prosper. Given its relative political stability and its diverse range of tourism offerings, it is likely that the Kingdom will become an increasingly established tourist destination in the Middle East. Add to this, the government's back-up of the sector recently materialized through the US$ 1.5 billion Red Sea Astrarium project and the USS$ 1.1 billion Porto Dead Sea development, due for completion in 2017 and 2016, respectively.

1.2. EXTERNAL SECTOR

Continuous improvement in the current account deficit

The external sector witnessed a net improvement in export growth on the back of a continuing moderate growth in imports. Total exports registered a growth of 4.6% in the first 11 months of 2014 to reach the equivalent of US$ 7.6 billion, following a growth of 0.3% registered during full-year 2013. This increase is attributed to a growth of 6.3% in domestic exports to US$ 6.6 billion and a 5.3% decline in re-exports to US$ 1.0 billion. The breakdown of domestic exports by commodity shows that the main Jordanian exports were clothes (17.6%), vegetables (8.8%), potash (8.4%), medical and pharmacy products (7.9%), phosphates (6.3%), fertilizers (6.0%), and machinery and transport equipment (5.0%). The geographic distribution of domestic exports indicates that the largest importer of Jordanian produce is the United States (17.9%), followed by Iraq (16.3%), Saudi Arabia (13.7%), and India (9.1%). Other arab countries such as the UAE (3.8%), Syria (2.7%), and Qatar (2.1%) come next.

Jordan's imports grew by 4.3% in the first 11 months of 2014 as compared to 5.4% in the full year 2013 and 9.6% in the full year 2012, to reach a total of US$ 21.0 billion. The slowdown in growth is mainly due to lower increase at the level of both consumer and investment goods. At the level of consumer goods, growth was at 2.9% in 11M14 for food and live animals (compared to 6.3% in full-year 2013), 3.6% in 11M14 for beverages and tobacco (compared to 27.5% in full-year 2013), and 3.1% in 11M14 for clothing and footwear (compared to 18.3% in full-year 2013). When it comes to investment goods, lower growth was registered at the level of manufactured goods (-9.0% in 11M14 versus 16.5% in full-year 2013) and machinery and transport equipment (1.5% in 11M14 versus 16.7% in full-year 2013). The breakdown of imports by country of origin shows that most of the merchandise in the first 11 months of 2014 came from Saudi Arabia (19.3%), European Union countries (19.6%, in particular Germany, Italy, and France), China (10.5%), India (5.8%), United States (5.8%), Turkey (3.7%), South Korea (3.4%), and Russia (2.9%).

The rise in total imports coupled with a similar rise on a lower base of total exports has led to a wider trade deficit reaching the equivalent of US$ 13.3 billion in the first 11 months of 2014, 4.1% higher than that of the same period of 2013, noting that the export-to-import coverage ratio remained almost unchanged year-on-year. The current account deficit-to-GDP has been on a continuous improvement since its peak of 2012. It has actually moved from 15.2% in 2012 to 10.2% in 2013 and to 7.3% in the first nine months of 2014, as per the latest available statistics.

1.3. PUBLIC SECTOR

Reduced fiscal imbalances, yet continued grants are needed

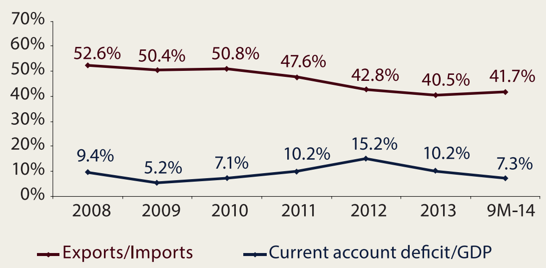
Jordan's public finances were marked in 2014 by a sustainable debt level and reduced fiscal imbalances despite pressures arising mainly from Syrian refugees. Domestic revenues have increased, keeping pace with rapidly rising current and capital expenditures, resulting into a mild contraction in the public deficit. Total public debt expanded by 8.3% or the equivalent of US$ 2.4 billion during the first 11 months of 2014 to attain US$ 31.6 billion at end-November, accounting for 87.0% of GDP.

In details, total revenues and grants totaled US$ 8.5 billion during the first 11 months of 2014, moving up by 18.5% or the equivalent of US$ 1.3 billion relative to the corresponding period of 2013. This was mainly driven by a 16.9% growth in domestic revenues and a 30.4% surge in foreign grants. In details, domestic revenues totaled US$ 7.5 billion during the first 11 months of 2014 as compared to US$ 6.4 billion during the same period of 2013, mainly reflecting high tax receipts. In fact, tax revenues, which made up 70% of domestic revenues, increased by 13.0% or the equivalent of US$ 603 million during the first 11 months of 2014, attaining US$ 5.3 billion. As to foreign grants, they surged by 30.4% or the equivalent of US$ 249 million during the first 11 months of 2014, totalling US$ 1.07 billion.

Total public expenditures reached a total of US$ 9.8 billion during the first 11 months of 2014, up by 12.0% or the equivalent of US$ 1.0 billion from the total registered during the same period of 2013. This came within the context of an increasing number of Syrian refugees that put pressure on public spending and public services, and the disruptions in gas flows from Egypt that were replaced by much more expensive imports of diesel and heavy fuel oils. Also, the security situation in Iraq, one of Jordan's main export markets, has also disrupted trade flows and increased security costs.

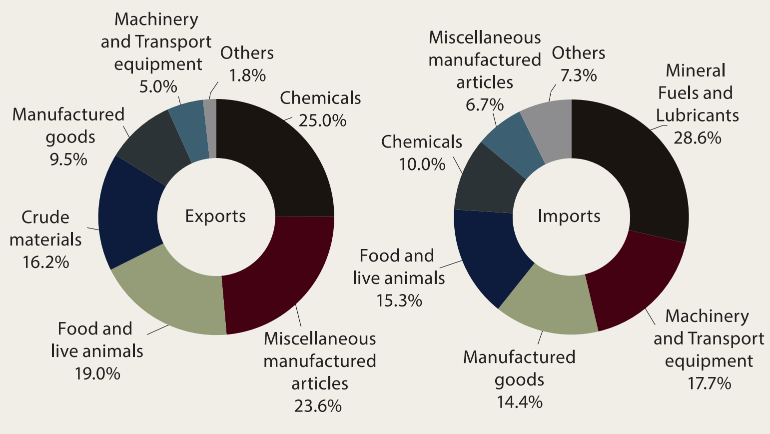
Capital expenditures exceeded US$ 1.2 billion, up from US$ 1.0 billion during the first 11 months of 2013, equivalent to an increase of 23.4%. Current expenditures increased by 10.5% or the equivalent of US$ 812 million during the first 11 months of 2014, totalling US$ 8.6 billion. A breakdown of current expenditures by category shows that interest payments increased by 29.9% or the equivalent of US$ 280 million during the first 11 months of 2014, totalling US$ 1.2 billion; purchases of goods and services surged by 34.9%

FOREIGN SECTOR INDICATORS



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

BREAKDOWN OF EXPORTS & IMPORTS BY COMMODITY IN 10M 2014



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

or the equivalent of US$ 206 million during the first 11 months of 2014 to total US$ 434 million; social benefits went up by 9.2% or the equivalent of US$ 162 million during the first 11 months of 2014, totalling US$ 1.9 billion; and military expenditures increased by US$ 173 million or 7.4% to total US$ 2.5 billion. In contrast, subsidy spending declined by US$ 10.9 million, or 2.6% from the level spent during the first 11 months of 2013, mainly driven by a 3.2% decline in the value of subsidies categorized under the "foods and oils" category.

That being said, the public deficit (including grants) contracted by 18.3% during the first 11 months of 2014, attaining US$ 1.27 billion as compared to a wider deficit of US$ 1.55 billion during the first 11 months of 2013, as higher fiscal resources, mainly in terms of grants, overweighed the reported increase in expenditures. When excluding grants, the public deficit narrows by 1.5%, moving from US$ 2.37 billion during the first 11 months of 2013 to US$ 2.33 billion during the same period of 2014, down by a tiny US$ 35 million, accounting for 7.0% of GDP, as per the Central Bank figures.

In parallel, Jordan's external debt grew by 11.1% or the equivalent of US$ 1.1 billion during the first 11 months of 2014 to reach US$ 11.3 billion at end-November. This is mainly driven by a US$ 1.0 billion rise in government bonds following the issuance of US-guaranteed sovereign debt papers in June 2014. As to the gross domestic debt, it expanded by 6.8% or the equivalent of US$ 1.3 billion during the first 11 months of 2014, attaining US$ 20.3 billion at end-November. This is mainly due to a 12.8% rise (US$ 2.0 billion) in Treasury bills and bonds.

Despite the spending pressures arising from the large inflow of refugees, the Jordanian authorities have taken significant measures to reduce the fiscal deficit. On the spending side, the authorities imposed a cap on the wage bill, reduced food subsidies, and signed LNG supply contract which will result in substantial energy savings in the long-term. On the revenues side, the new income tax law, which was submitted to Parliament, is expected to raise tax rates, reduce the basic exemption allowance, and introduce a tax on the foreign branches of Jordanian companies. Structural fiscal reforms are also advancing, with a focus on improving tax administration, social assistance, and public financial management. The recently adopted fiscal measures are projected to reduce the general government deficit and put public finances on a more sustainable path. These efforts are also set to benefit from the recent sharp decline in oil prices.

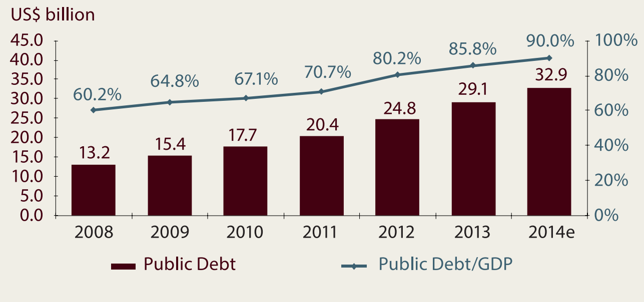
Looking forward, continued adjustment will move debt onto the programmed downward trend, while new grants would cover higher electricity company (NEPCO) losses owing to lower Egyptian gas supply. Recently adopted fiscal measures close most of the fiscal gap for 2015, with the expected Parliament approval of the income tax law to cover the remainder. The new law, in addition to reducing tax incentives, would provide substantial revenue while making the tax system fairer, as per the IMF.

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2009	2010	2011	2012	2013	2014e
General government revenues	6.3	6.6	7.6	7.1	8.1	10.3
General government revenues/GDP	26.5%	24.9%	26.4%	23.0%	24.0%	28.3%
General government expenditures	8.3	8.0	9.6	9.8	12.0	14.1
General government expenditures/GDP	35.0%	30.4%	33.2%	31.5%	35.4%	38.6%
General government fiscal balance	-2.0	-1.5	-2.0	-2.6	-3.9	-3.8
General government fiscal balance/GDP	-8.5%	-5.6%	-6.8%	-8.5%	-11.4%	-10.3%

Sources: IMF, Bank Audi's Group Research Department

PUBLIC INDEBTEDNESS



Sources: IMF, Bank Audi's Group Research Department

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Extended expansionary monetary policy amidst contained inflation and record reserve position

Jordan's monetary conditions were characterized in 2014 by contained inflationary pressures on the back of declines in oil and food prices, a new record high level of international reserves amidst strong external financial support, and several rate cuts prompted by increased appetite for JD-denominated assets, noticeable de-dollarization and an accepted level of expected inflation. As such, the Central Bank of Jordan's monetary policy remained expansionary in the aim of stimulating growth and encouraging bank lending.

In details, inflationary pressures remained relatively contained over the year 2014, with the Consumer Price Index growing by 2.8% on average, according to the Central Bank of Jordan, against an average of 5.6% in 2013, given a sharp slowdown in international food and fuel prices, reflecting international trends and a base effect (the elimination of fuel subsidies in November 2012 had triggered a one-off upward adjustment in fuel prices). The breakdown of the Consumer Price Index by category shows that the housing category rose by 3.5% on average in 2014, mainly driven by a 6.3% increase in "housing and related expenses" as rents continued to increase driven by a growing demand from Syrian refugees; the clothing and footwear category surged by 9.9%, also reflecting increased demand from Syrian refugees; the other goods and services category went up by 2.3%, mainly due to a 6.9% rise in medical care. Within this context, the IMF expects inflation to decelerate further in the medium-term, aided by an expected moderation in international food and fuel prices, and a decline in core inflation as refugees gradually return to Syria.

The Central Bank of Jordan's readily available foreign exchange reserves continued to rise at a robust pace in 2014 to hit a new record high level of US$ 15.3 billion at the end of the year, moving up by 15.7% relative to end-2013 or the equivalent of US$ 2.1 billion. The extended rise in CBJ's FX reserves over the year 2014 came within the context of a strong external support from the GCC and other donors including the US. In fact, the 5-year GCC grant of US$ 5 billion until 2016 has been partially received with payments from Saudi Arabia, UAE, and Kuwait so far, while the US provided support to the Kingdom by guaranteeing a US$ 1 billion Eurobond issue in June 2014. As a result, the CBJ's FX reserves covered 43.8% of money supply in Jordanian Dinar at end-2014 as compared to a lower coverage ratio of 41.3% at end-2013. Within this context, the Jordanian authorities reiterated that they will continue to monitor domestic and regional developments closely and stand ready to take action, if needed, to maintain comfortable reserve buffers.

The CBJ stays committed to maintaining the Jordanian dinar's peg to the US dollar, despite the associated lack of monetary flexibility, as the peg has instilled monetary confidence and prompted stability in Jordan's increasingly open economy.

Given a continued positive momentum in the economy including a strong external position, the increased attractiveness of dinar-denominated assets in light of the current dinar-dollar interest rate differential, the robust confidence in the dinar, a record build up in foreign currency reserves, contained headline inflationary pressures and improved inflation outlook, and given subdued credit growth to the private sector, the Central bank of Jordan adopted an expansionary monetary policy in 2014 and early-2015. Indeed, it implemented several rate cuts in the aim of fostering investment and further expanding real output, which has remained below potential. In details, the CBJ reduced its overnight deposit rate twice in 2014 by a cumulative 75 basis points and cut it further by 100 bps in February 2015 to reach 1.75% at the time of writing this report as compared to 3.50% at end-2013. Also, the CBJ cut its rediscount rate by 25 bps in January 2014 and reduced it twice in early-February and early-March 2015 by a cumulative 50 bps to reach 3.75% at the time of writing this report as compared to 4.50% at end-2013. In addition, the CBJ lowered its repo rate by 25 bps in January 2014 and by a similar 25 bps in February 2015 to reach 3.75% at the time of writing this report as compared to 4.25% at end-2013.

The broader money supply (M2) widened by 6.9% or US$ 2.65 billion in 2014 to reach US$ 41.2 billion at the end of the year, following an expansion of 9.7% in 2013. The growth in money supply in 2014 compares to a money creation of US$ 3.62 billion, resulting mostly from a rise in net foreign assets of US$ 1.4 billion and a US$ 889 million increase in claims on the private sector. The difference between the growth in money supply and money creation, amounting to circa US$ 482 million, suggests a monetization of financial claims in 2014.

Looking forward, monetary policy is set to continue to carefully weigh the need to safeguard price stability and the attractiveness of the dinar with that of stimulating economic activity. The IMF expects headline inflation to decline to about 2% over the medium term, and recommends giving time to the latest policy rate reduction to play out so as to determine whether it has contributed to higher private sector credit growth at large.

1.4.2. Banking Activity

Satisfactory activity growth coupled with adequate financial standing

Jordan's banking sector witnessed a year of satisfactory growth in 2014, pretty much in line with the overall economic growth momentum characterized by moderate expansion amidst a tough regional politico-security context. The sector activity, reflected in the aggregated assets of banks operating in the Kingdom, grew by 4.8% year-on-year to reach US$ 63.3 billion at end-December 2014.

The main driver of activity for banks in Jordan remains customer deposits, which account for more than two thirds of total balance sheets. Total deposits actually posted a healthy 9.7% progression in 2014, moving from US$ 38.9 billion at end-December 2013 to US$ 42.7 billion at end-December 2014. The US$ 3.8 billion increase in funds parked at banks in Jordan proved more or less similar to the one registered in the previous year, and bears witness to the continued steady growth in deposits at Jordan banks.

The Kingdom's banking sector actually benefits from a stable retail-oriented deposit base with a rather limited reliance on foreign funding. For instance, foreign liabilities represent not more than 15% of total balance sheets of banks (figures as at end-2014), a share that has been quite stable over the past few years.

The breakdown of deposits shows that the rise over the year 2014 is mostly attributed to higher deposits from the private sector to the extent of 83%, with the remainder owed to the public sector, especially the government and municipalities as deposits from the non-public financial institutions and the social security corporation slightly retreated over the covered period. Within the private sector, resident deposits were the major driving force behind the rise in total deposits (+8.0% year-on-year) while those of non-residents, lower in volumes, grew by 10.9% over the same period.

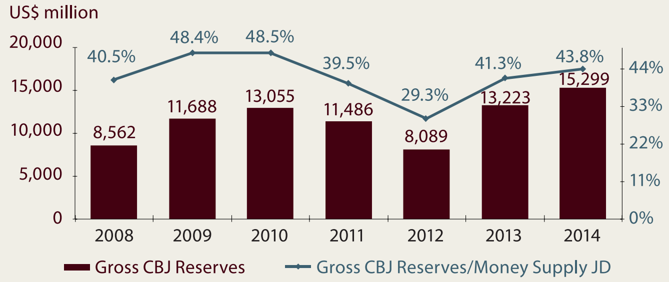
From a currency perspective, local currency deposits were solely responsible for the increase in banks' deposit base in 2014, having grown by 14.3%, or the equivalent of US$ 4.2 billion. In contrast, foreign

MONETARY SITUATION

Flows in US$ million	2009	2010	2011	2012	2013	2014
Net foreign assets	2,510	1,688	-999	-3,815	364	1,423
Net claims on public sector	462	455	2,527	3,850	1,430	-148
Claims on private sector (resident)	226	1,297	1,851	1,451	1,790	889
Claims on financial institutions	-137	-21	-26	-1	-53	1
Net other items	-650	-185	-797	-320	-120	482
Uses=Sources	**2,411**	**3,235**	**2,556**	**1,165**	**3,411**	**2,647**
Money supply (M1)	658	720	1,018	-85	1,689	1,161
Quasi-money	1,753	2,515	1,538	1,250	1,722	1,486

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

currency deposits retreated mostly due to lower time deposits on behalf of the resident private sector and lower savings deposits on behalf of the non-resident private sector, within the context of net conversions in favour of the local currency.

But banks in Jordan have not much utilized the additional liquidity at hand for private sector lending purposes despite the key policy rate cuts implemented by the sector regulator in the past couple of years. In fact, lending activity growth remains weak and stood at a mere 1.8% in 2014 for the stock of total credit facilities to reach US$ 27.2 billion at year-end.

The modest rise in lending activity was solely due to new credit facilities extended in the local currency, as those in foreign currencies slightly retreated during 2014, a trend witnessed for the first time in about five years. At the same time, the yearly increase in lending volumes is also almost solely attributed to the resident private sector, as the broad public sector and the financial and non-resident private sectors posted declines in their overall credit facilities obtained during 2014. This reflects the focus on financing the domestic private sector with the aim of giving a boost to economic activity despite the tough operating conditions in the Kingdom.

There seems to be a rather limited appetite for borrowing on behalf of corporates within the context of the currently prevailing politico-security situation in the region. In parallel, banking institutions tightened their standards given the tough environment and the cautiousness with regards to extending new credit, especially to smaller borrowers. Among the sectors that witnessed a yearly decline in lending activity were the industrial, general trade and transportation sectors, while the construction and hospitality sectors were among those witnessing an increase.

As deposit growth is outpacing lending activity growth, the ratio of credit facilities to deposits continued to decline. The latter moved from 68.6% at end-December 2013 to a nine-year low of 63.7% at end-December 2014, thus providing banks with capacity to increase lending without relying on external funding.

Perhaps what bears witness more to the improving liquidity position of banks operating in the Kingdom is their core liquidity ratio, measured as the ratio of cash in vaults and reserves and deposits at the Central and at banks abroad to total deposits. The latter reached 36.7% at end-December 2014, and is relatively favourable when compared to regional and international benchmarks. It is worth noting that the core liquidity level rose last year following an increase in deposits with the Central Bank of Jordan in local currency, suggesting they are nowadays seeking to ensure an adequate liquidity cushion.

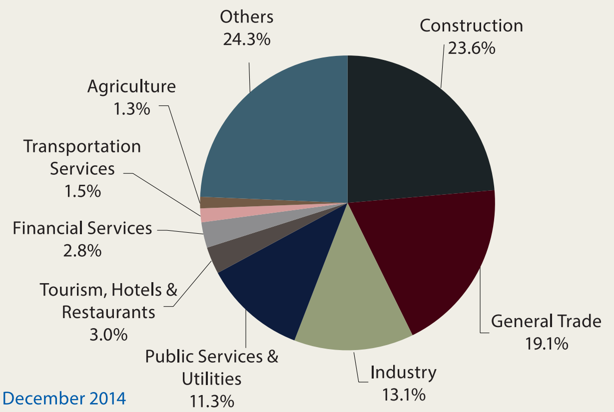
However, a growing portion of available liquidity is channelled unto claims on the public sector. The latter, including the central government and public entities, continued to grow last year (+5.3% relative to 2013) to account for almost a quarter of total assets and 1.6x capital accounts and allowances of banks

BANKING SECTOR INDICATORS

US$ million	2009	2010	2011	2012	2013	2014
Banking Activity						
Assets	45,072	49,326	53,152	55,394	60,369	63,282
Deposits	28,628	31,741	34,383	35,217	38,917	42,680
Credit facilities	18,782	20,382	22,356	25,129	26,713	27,185
Capital accounts and allowances	6,171	6,981	7,612	8,248	8,669	9,554
YTD Growth rates						
Assets	7.2%	9.4%	7.8%	4.2%	9.0%	4.8%
Deposits	12.1%	10.9%	8.3%	2.4%	10.5%	9.7%
Credit facilities	2.1%	8.5%	9.7%	12.4%	6.3%	1.8%
Capital accounts and allowances	15.0%	13.1%	9.0%	8.4%	5.1%	10.2%

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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



* December 2014

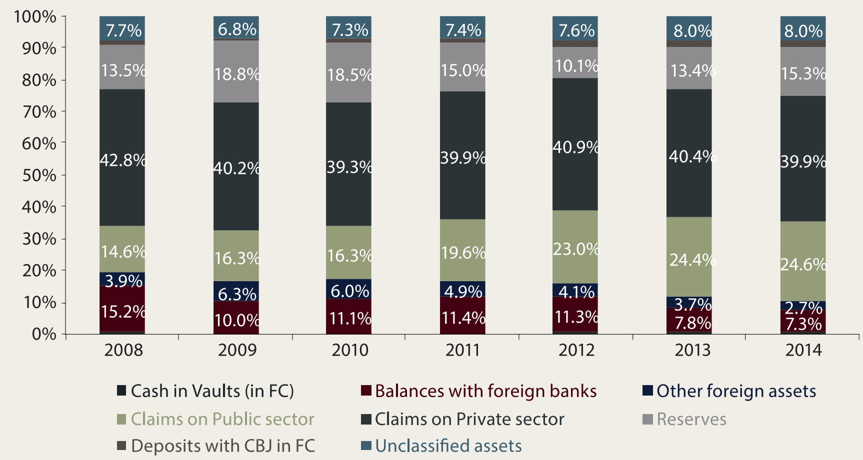
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

operating in Jordan. This actually highlights the non-negligible sovereign exposure and correlation between balance sheet soundness and sovereign risk metrics.

Sovereign exposure may be increasing but banks in Jordan remain adequately capitalized to face potential pressures on their own funds base. The latest available Central Bank of Jordan-disclosed capital adequacy ratio for the banking sector stood at 17.4% at end-June 2014, significantly higher than the minimum requirement of 12% set by the regulator and the 8% limit specified by the Basle committee. Also, most of the total regulatory capital consists of Tier 1 core capital, the highest quality component of capital and the most capable of absorbing losses. The Central Bank's close supervision of sector institutions has contributed to ensuring that capital and liquidity levels on the overall remain comfortable despite the relatively tough domestic operating conditions.

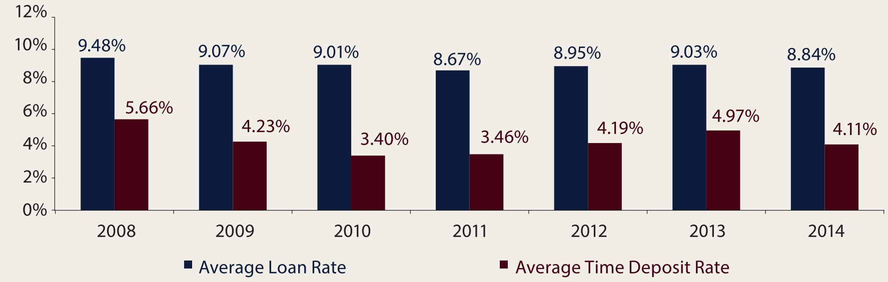
In parallel, asset quality metrics have shown further improvement lately. The non-performing loans to total loans ratio reached a post-global crisis low of 7.0% at end-June 2014 according to the latest available published statistics, while the Central Bank Governor lately said this went down further to 6.2% towards the end of last year. The decline in the NPL ratio over the past couple of years is attributed to the relative improvement of economic conditions in Jordan reflecting positively on borrowers' NPL formation. Provisioning levels are adequate by regional and global standards with the NPLs coverage ratio reaching 76.4% at end-June 2014, as banks and the Central Bank have been keen on allocating a reasonable amount of provisions for NPLs. Along the same lines, NPLs net of provisions accounted for only 5.8% of total equity

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

at end-June 2014. Furthermore, the IMF noted that the exposure of Jordanian banks operating in Gaza, Iraq and Syria remains limited and fully provisioned.

Last but not least, profitability is deemed as rather satisfactory and appears to have ameliorated during the first half of the year 2014 despite weak lending volume growth. While the interest margin to gross income ratio hovered around the 77% mark over the covered period, the annualized return on assets and return on equity reached around 1.4% and 11.7% respectively. This compares to lower corresponding ratios of 1.2% and 9.9% in full-year 2013 as per official Central Bank statistics on the consolidated figures of banks operating in the Kingdom.

1.4.3. Equity and Bond Markets

Extended slow activity on the equity market, relatively improved investor sentiment on bond market

Jordan's equity market saw further price declines in 2014 that triggered an extended drop in market capitalization to reach its lowest level in a decade, amidst continuing regional concerns and expectations of lower after-tax company profits. The dividend yield declined year-on-year while market valuation ratios stand among the highest in the region, rendering Jordanian equities less attractive. In parallel, the fixed income market benefited from improved investor sentiment, mainly helped by a gradual economic recovery, strong reserve position, relatively reduced external and fiscal imbalances, and an outlook revision by S&P from "Negative" to "Stable" that led to further contractions in sovereign spreads.

In details, lingering regional political and security concerns and lower financial results for heavyweight companies (such as Arab Potash, Jordan Telecommunication and Jordan Phosphate, etc.) over the first nine months of 2014 took their toll on investor sentiment and the Amman Stock Exchange's activity. Non-Jordanians became net sellers for the first time since 2010, noting that their ownership of market capitalization moved down from 49.9% at end-2013 to 48.8% at end-2014.

The ASE general weighted price index dropped further in 2014, extending the downward trend that prevailed since 2008, to close at 4,237.62 at end-December 2014, down by 2.3% relative to end-December 2013. The breakdown of the ASE general weighted price index by sector in 2014 shows that the industrial sector witnessed the sharpest price fall of 16.2%, followed by the services sector (-3.5%), while the insurance sector registered a price rise of 10.2%, followed by the banking sector (+4.2%).

The number of listed companies at the ASE declined from 240 at end-2013 to 236 at end-2014. The fall in the number of listed companies, coupled with a drop in the general price index, resulted into a 0.8% decline in market capitalization to reach US$ 25.5 billion at end-2014, which is its lowest level in a decade. The ASE market capitalization stood at 70% of GDP at end-2014, down from 76% in 2013, which reflects the declining dimension of the ASE relative to the Jordanian economy.

The ASE total trading value amounted to US$ 3.2 billion in 2014, down by 25.2% relative to the previous year. The division of the total trading value by new sector classification showed that the financial sector captured 66.8% of activity, followed by the industrial sector with 16.7% and the services sector with 16.5%. On the back of a larger fall in the total trading value than market capitalization, the turnover ratio dropped from 16.6% in 2013 to 12.5% in 2014, spotting light on the slow activity reigning over the Amman Stock Exchange. As to valuation ratios, the ASE price-to-earnings ratio rose from 14.7x in 2013 to 15.3x in 2014, rendering stock prices somewhat less attractive for equity investors. The dividend yield went down from 4.6% in 2013 to 4.2% in 2014.

At the level of the bond market, Jordan raised US$ 1 billion in five-year Eurobonds guaranteed by the US at a coupon rate of 1.945% in June 2014. The US guarantee, which allowed Jordan to access affordable financing from international capital markets, aims at supporting the string of economic reforms the Government of Jordan is pursuing to promote the economic stability and growth needed. The international support to the Kingdom, the gradual recovery of the Jordanian economy, the declining inflation rate, the narrowing current account deficit, the reduced fiscal imbalances despite spending pressures arising mainly from Syrian refugees, and the record high level of external buffers, supported investor confidence in the economy's prospects, triggering contractions in sovereign bond spreads. In fact, the five-year US$ 750 million bond issued in November 2010 saw contractions in its Z-spread from 310 bps at end-2013 to 247 bps at end-2014, following a 124 bps contraction in 2013.

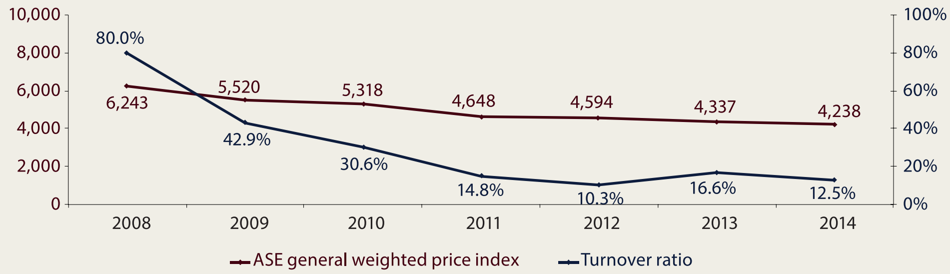
As to credit rating changes, Standard & Poor's revised in October 2014 its outlook on the Kingdom of Jordan from "Negative" to "Stable", while affirming Jordan's long-term and short-term foreign and local currency sovereign credit ratings at "BB-/B". The outlook revision reflects S&P's view that the deterioration in Jordan's fiscal and external balances would stabilize and that these balances would moderately improve over the medium term. S&P anticipates ongoing energy diversification and a more favourable oil price environment for Jordan, supported by government reform efforts. The international rating agency also forecasts that public finances would strengthen as the State-owned power company (NEPCO) moves back toward cost recovery through 2017, and as a result of the government's fiscal consolidation efforts. This trend would be supported by lower energy imports as well as lower oil prices and high current transfers stemming from official grants and private remittances.

CAPITAL MARKETS INDICATORS

	2009	2010	2011	2012	2013	2014
Market capitalization (US$ billion)	31.8	30.8	27.2	27.0	25.7	25.5
Market cap/GDP	133%	117%	94%	87%	76%	70%
Total value traded (US$ billion)	13.6	9.4	4.0	2.8	4.3	3.2
Total volume of traded securities (million)	6,023	6,989	4,072	2,384	2,706	2,322
Total number of transactions (000s)	2,965	1,880	1,318	975	1,074	956
No. of listed companies	272	277	247	243	240	236
% Chg. in ASE general weighted price index	-11.6%	-3.7%	-12.6%	-1.2%	-5.6%	-2.3%
P/E	14.4x	26.3x	22.6x	15.6x	14.7x	15.3x
P/BV	1.8x	1.7x	1.5x	1.5x	1.3x	1.3x
Dividend yield	2.8%	2.7%	3.3%	4.6%	4.6%	4.2%

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

STOCK MARKET PERFORMANCE



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

2. CONCLUDING REMARKS

Economic growth, which is held back by a challenging regional backdrop since the start of the regional turmoil in 2011 with civil wars raging in neighboring Syria and Iraq, is expected to improve gradually looking forward on the back of the adoption of a 10-year development plan that is aimed at enhancing competitiveness and attracting more investment. Jordan is undertaking tangible measures, including monetary policy easing, to accelerate growth and help reduce the high unemployment rate of 12.2% today. From growth rates of 2.9% in 2013 and 3.1% in 2014, real growth is expected to reach 4% in 2015 as per IMF forecasts, supported by growth in net exports and modest domestic demand.

Jordan is likely to witness some alleviation of its twin deficits in the near term. On the one hand, the fiscal deficit, projected at 6% of GDP by the IMF in 2015, is narrowing as a result of a reduction in subsidies and tax reforms with the aim to keep expenditures flat through the postponement of capital spending and limiting wage increases to inflation. This is helping to slow the rise in the debt ratio which is expected to report 91% in 2015 amidst a favorable debt profile driven mainly by multilateral and bilateral borrowing, bearing in mind that the government of Jordan has never defaulted on its local or foreign currency debt. Among potential pressures on the Kingdom's fiscal conditions rises the increase in interest rates in the United States amidst an expected change in the Federal Reserve's monetary stance to monetary tightening, which, other things held constant, is likely to raise debt service requirements in Jordan.

On the other hand, the current account deficit, projected at 5.9% of GDP in 2015, is also improving and is apt to benefit from the contractionary effect of lower oil prices on the country's oil bill. Despite the relative improvement in external flows, the imbalance remains wide, with Jordan's financing needs the highest and its external liquidity the lowest in a decade. Still, bilateral loans and grants will likely continue to support Jordan's external financing needs. International support to the Kingdom is likely to remain strong in the short to medium term horizon. In particular, the IMF support remains sound, with Jordan broadly on track with its program under its Stand-By Arrangement, a 36-month facility set up by the IMF a couple of years ago to give Jordan access to credit in exchange for undertaking fiscal consolidation measures and structural reforms.

While some structural reforms are moving forward with the Parliament adopting the Public-Private Partnership and investment laws, priority should be henceforth given to labor market reform, further improving the business climate and upgrading public financial management and tax administration. There is room to improve the business environment considerably in the Kingdom. Jordan ranks 117th in the ease of doing business as per the World bank 2015 Doing Business report, a poor rating compared to regional peers, with particular weakness in getting credit, enforcing contracts and resolving insolvency. Transparency and accountability should be increased to create a more level-playing field for businesses.

If we were to assess the strengths and weaknesses of Jordan's economic outlook, we would mention the following. At the level of the strengths rise essentially the relatively diversified and open economy, the history of external support, the favourable debt structure with low rollover risk, the comparatively strong institutional framework, the robust banking sector with sound financial standing and the positive spillover effects of declining oil prices. At the level of weaknesses, we would mention the weak public finance conditions, the high unemployment with a relatively low portion of the working age population participating in the labour force, the weak though improving external position on the back of a volatile current account balance, in addition to the spillover effects of widening regional uncertainties.

Successful implementation of key political and structural economic reforms, supporting more sustainable economic growth and further easing fiscal and external vulnerabilities, could improve tangibly the Kingdom's medium term economic outlook. In a longer term, Jordan has considerable shale oil reserves, which, if brought into production, could lead to a significant improvement in the country's economic prospects. While this will take years to materialize, it would at that point constitute a game changer for the Jordanian economy, raising tangibly output levels, investment aggregates and income per capita at large.

DISCLAIMER

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