JORDAN ECONOMIC REPORT

THE CHALLENGE OF TURNING AMBITIOUS ADJUSTMENT PROGRAMS INTO GENUINE REFORMING ACTIONS

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- Real economy in a low growth mode

The Kingdom's macroeconomic performance remains sluggish on the overall. Real GDP is expected to be around 2.3% in 2017, against 2.0% in 2016, while remaining far below the economy's potential growth rate, which is estimated at 6%. Trade and tourism continue to perform poorly, government spending remains pressured and the continued increase in fees and taxes, along with the increasing unemployment weigh significantly on domestic consumption. In parallel, unemployment has relatively increased to reach around 18.5% in the fourth quarter of 2017, while poverty and declining living standards have become widespread.

- Widening current account deficit with persisting weak public finances

Jordan's external position witnessed a net deterioration in 2017 as exports remained subdued largely due to a relative disruption of trade routes to neighbouring Iraq and Syria on the one hand, and to the appreciation of the real effective exchange rate by nearly 30% since 2011, eroding its competitiveness and worsening its trade imbalance on the other hand, while imports increased on the back of higher global commodity prices. As such, recent balance of payments figures for the first nine months of 2017 suggest a net deterioration in the current account deficit which widened by 23% year-on-year despite a relative improvement in travel receipts. At the fiscal level, public finances remain the key challenge, owing to the heavy debt burden and high financing requirements, with government deficit standing at 3% of GDP and gross public debt remaining high at 95% of GDP at end-2017.

- Tight monetary policy in light of US Fed rate hikes and some inflationary pressures

The year 2017 was marked in Jordan by a sustained comfortable level of foreign exchange reserves along with some inflationary pressures that came within the context of an oil price recovery. The Central Bank of Jordan adopted a steeper rate hiking path than the US Federal Reserve to preserve the attractiveness of Jordanian dinar assets and maintain monetary stability, while remaining committed to the fixed exchange rate regime. In details, consumer prices rose by 3.3% on average in 2017 following two consecutive years of deflationary pressures. Despite an environment of contractionary monetary policy, gross official reserves declined by 3.7% over the year 2017 or the equivalent of US$ 516 million to reach US$ 13.5 billion at end-December.

- Pick-up in domestic lending activity in a financially sound banking sector

Jordan's banking sector witnessed rather difficult operating conditions throughout 2017 amid mild domestic economic growth momentum and a difficult regional environment with the war/tensions in neighboring Syria/Iraq and fiscal consolidation in neighboring GCC markets. Nonetheless, prudent management and conservative regulatory practices allowed the banking sector to withstand headwinds. Total assets of banks operating in the Kingdom pulled out a 1.5% increase in 2017 to reach US$ 69.2 billion at end-December due to a surge in domestic lending to the economy offsetting a decline in credit to the central government.

- Equity market skewed to the downside, price gains on bond market

Jordan's equity market continued to operate on a negative territory in 2017 amid relatively unattractive market pricing ratios and lingering geopolitical concerns. The general weighted price index posted declines for the tenth consecutive year, moving down by 1.5% in 2017. On the other hand, the fixed income market witnessed healthy price gains over the year along with new bond sales. Sovereigns maturing in 2026 and 2027 posted price gains of 2.39 pts and 5.01 pts respectively in 2017.

- Both opportunities and challenges looking ahead

A constrained fiscal position and continued regional instability will slow the pace of recovery looking ahead, despite the fact that the relatively improved security conditions in two neighboring markets will offer trade and investment opportunities for Jordan. Although high unemployment will limit private consumption growth, large infrastructure and tourism projects should increase employment, assuming private sector participation and multilateral agency support are forthcoming. While challenges and risks are real, we believe opportunities outpace threats at the horizon. Still, it is important for Jordan to well secure its targeted reform process and turn it into genuine actions and measures.

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

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The Kingdom's macroeconomic performance remains sluggish on the overall. Real GDP is expected to be around 2.3% in 2017, against 2.0% in 2016, while remaining far below the economy's potential growth rate, which is estimated at 6%. Trade and tourism continue to perform poorly, government spending remains pressured and the continued increase in fees and taxes, along with the increasing unemployment weigh significantly on domestic consumption. In parallel, unemployment has relatively increased to reach around 18.5% in the fourth quarter of 2017, while poverty and declining living standards have become widespread.

At the external level, external liquidity has remained under pressure in 2017 and the country's chronic current account deficit stayed high at 11.2% of GDP, due to relatively low worker remittances and higher trade deficit. FX reserves fell further to US$ 13.5 billion at end-2017, against US$ 14.0 billion at end-2016, but continue to provide reasonable coverage of the country's gross external financing needs. While vulnerabilities remain high, Jordan's adequate access to international markets and the availability of support from the IMF financing under the extended external fund facility agreement should help partly mitigate near-term external refinancing risks and alleviate any immediate pressures on the exchange rate regime.

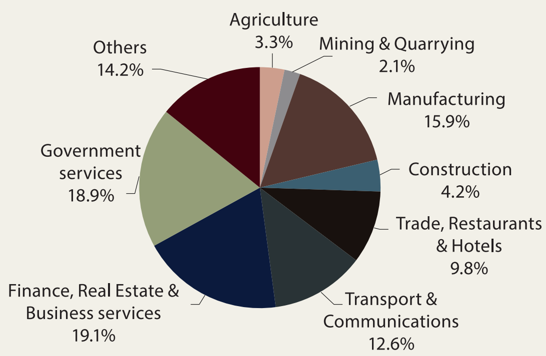
At the monetary level, after two years of deflation, consumer price levels nudged upwards in 2017. The IMF forecasts a consumer price inflation of 3.3% in 2017, against -0.9% in 2015 and -0.8% in 2016. Inflationary pressures are largely due to low-base effects driven by a global recovery in international oil and food prices, the introduction of tax enhancing measures and the recent depreciation in the US dollar. Within this environment, the Central Bank of Jordan has adopted a contractionary monetary policy in line with Federal Reserve Board hikes to maintain an attractive risk premium and support the exchange rate peg, with four hikes taking place in Jordan since December 2016.

At the fiscal level, public finances remain the key challenge, owing to the heavy debt burden and high financing requirements. With government deficit standing at 3% of GDP in 2017, gross public debt remains high at 95% of GDP at end-2017, but near term financing risks appear manageable given that the majority of scheduled debt repayments are in local currency and local banks appeal willing and able to buy local currency debt. Jordan is known for its expenditure rigidity, with an elevated share of salaries, subsidies and interest expenses that approximate 50% of GDP, while revenue flexibility continues to be constrained by the relatively high share of non-tax revenue and weaknesses in the tax system, especially with regard to tax collection.

GROSS DOMESTIC PRODUCT

Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



* 9M-2017

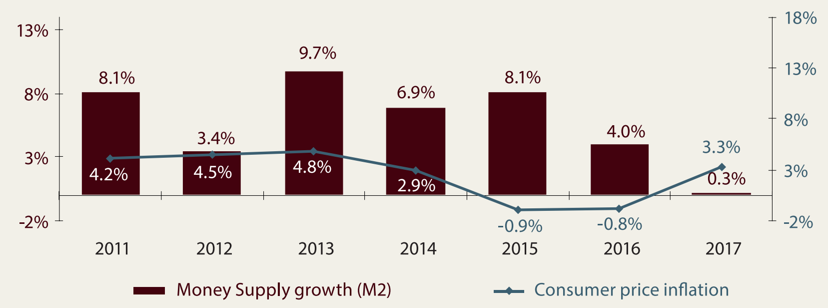
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

At the banking level, the sector remains stable and relatively sound. Thanks to prudent management and conservative regulation, the Jordanian banking system is effectively supervised and has proven resilient to large domestic and external shocks. While liquidity buffers remain adequate, the capital adequacy ratio remains high at 17.6%, well above the minimum regulatory level of 12%. The ratio of NPLs to total loans stand at 4.4%, i.e below regional and global averages, while 79% of NPLs are provisioned. Profitability ratios yet remain relatively modest, with a ROA of 1.2% and ROE of 9.4%.

Capital markets were at the image of a sluggish economic activity on the overall in 2017. The ASE general price index lost an additional 1.5% over the year, i.e a streak of 10 years of successive contractions. On the overall, the market has lost 47% since end-2007. As such, market capitalization has continued its downward trend, to reach US$ 23.9 billion at end-2017, the equivalent of 59.1% of GDP. The equity market continues to lack liquidity and efficiency, with the turnover ratio, measured as the annual traded value to market capitalization, registering 17.3% in 2017.

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

Positive internal drivers offset by external woes for primary and secondary sectors

Jordan's agricultural sector grew by 5.9% year-on-year during the first two quarters of 2017, compared to an expansion of 6.6% in the corresponding period of 2016, amidst a relative easing in regional instability. The breakdown of GDP by economic activity indicates that the share of agriculture in the country's GDP slightly rose from 3.1% in the first nine months of 2016 to 3.3% in the corresponding period of 2017. It is worth noting that the sector added US$ 968 million to GDP at current prices in the aforementioned period of 2017, up from US$ 864 million in the first nine months of 2016, according to the Central Bank of Jordan.

Moreover, credit facilities extended to the agricultural sector accounted for 1.4% of total credit facilities at end-December 2017. Net new loans stood at US$ 46 million, down from levels of US$ 123 million in 2016. Additionally, the number of registered companies classified within the agricultural sector fell from 763 during the first 11 months of 2016 to 748 in the same period of 2017, a yearly decrease of 2.0%. Moreover, the agricultural companies' capital significantly expanded from US$ 21.1 million in 11M 2016 to US$ 163.7 million in the same period of the past year.

Despite growth in the activity of the agricultural sector within the context of higher production, the external sector registered a contraction in agricultural exports. This came within the context of the closure of routes between Jordan and Syria. Agricultural exports fell by a yearly 3.7% to stand at US$ 950 million in 11M 2017, down from US$ 987 million in 11M 2016.

Moving on to the Kingdom's secondary sector, Jordan's industrial sector posted a growth of 11.4% in the first six months of 2017, against a contraction of 2.3% reported in the same period a year earlier. The sector managed to post a notable expansion, mainly driven by growth in its two components, namely manufacturing, and mining & quarrying.

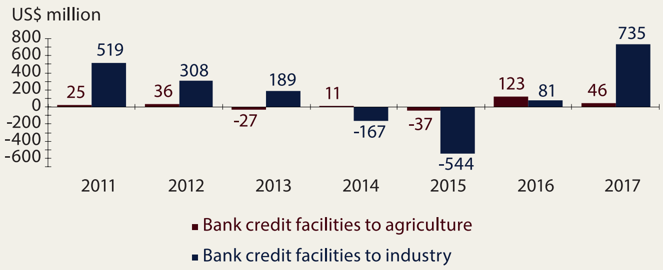
Furthermore, credit facilities extended to industrial activities captured a share of 11.0% of total credit facilities at end-2017, up from 9.6% at end-2016. Net new loans reported US$ 735 million in 2017, up from flows of US$ 81 million registered a year earlier. Regarding the number of companies classified within the industrial sector, these decreased by a yearly 10.3% from 2,308 in 11M 2016 to 2,071 in the same period of 2017. However, the capital of these companies was on a positive trend, rising from US$ 55.9 million in 11M 2016 to US$ 91.8 million in the aforementioned period of 2017.

AGRICULTURE AND INDUSTRY OUTPUT

US$ million	2012	2013	2014	2015	2016	11M-16	11M-17	Var 11M/11M
Agricultural exports	1,130	1,276	1,375	1,304	1,047	987	950	-3.7%
Industrial exports	5,569	5,501	5,907	5,462	5,154	4,630	4,753	2.7%
Phosphate (000 tons)	6,383	5,274	7,109	8,264	7,989	7,458	7,823	4.9%
Potash (000 tons)	1,823	1,728	2,086	2,355	2,003	1,785	2,104	17.9%
Fertilizers (000 tons)	640	678	886	619	547	508	648	27.6%
Chemical acids (000 tons)	1,291	1,266	1,442	1,206	1,083	1,013	1,197	18.1%
Petroleum products (000 tons)	3,476	3,082	3,007	3,212	2,793	2,548	2,415	-5.2%
Electricity (million kWH)	7,895	7,539	8,148	6,557	4,536	4,154	4,357	4.9%

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

In a detailed look at the components of the sector, mining and quarrying added US$ 625.5 million to the Jordanian GDP at current prices in the first three quarters of 2017, a decrease of 1.9% relative to the same period of 2016. The share of mining and quarrying in GDP stood at 2.1% in the first nine months of 2017, slightly lower than a contribution of 2.3% posted in the same period of the previous year.

Manufacturing, which contributed by 15.9% to the country's GDP in the first nine months of 2017, grew by a yearly 1.1% in real terms in the aforementioned period of last year, growing faster from the 0.8% expansion reported in the first three quarters of 2016. This segment contributed to Jordan's nominal GDP by US$ 4,676 million in the first three quarters of 2017, up from US$ 4,488 million in the aforementioned period of 2016.

On another note, industrial exports performed well, expanding by a yearly increase of 2.7% from US$ 4,630 million in 11M 2016 to US$ 4,753 million in 11M 2017.

In conclusion, the primary sector encountered an encouraging performance at the level of activity in 2017, and the industrial sector saw a positive recovery. Nonetheless, both sectors experienced some pressures at the external level mainly due to the overall instability in the surrounding region.

1.1.2. Construction

Construction sector reflects mixed growth prospects

Jordan's construction sector witnessed a negative growth of 0.4% in the first half of 2017, compared to an expansion of 1.7% in the same period of 2016 in the wake of negative spillover effects of the Syrian civil war. The country's construction sector reflected mixed growth prospects, with a rise in residential projects countered by a drop in transportation projects. The Kingdom's construction sector, which made up 4.2% of GDP in the first three quarters of 2017, was reinforced by an 18.7% rise in credit facilities to the sector in the past year.

In contrast with the decline in the growth of Jordan's construction sector, demand for construction permits rose by 9.8% annually in 2017. Similarly, the country's residential permits, which accounted for 92.0% of construction permits, witnessed an expansion of 9.4% in the past year.

Moving on to construction permits granted by city, Amman formed the lion's share of total permits given in 2017 at 36.1%, followed by Irbid at 24.1%, and Zarqa at 12.5%. The number of newly registered companies within the construction sector grew by 16.8% year-on-year in the first 11 months 2017, compared to a 16.7% contraction in the corresponding period of 2016.

It is worth noting that numerous construction projects are underway in the Kingdom, including new housing, transport, energy and air travel projects. Expansion of the electricity grid and development of both the conventional and renewable energy sectors would also help to spur growth in the construction sector, subject to continued financial support from overseas backers, as per the Economist Intelligence Unit.

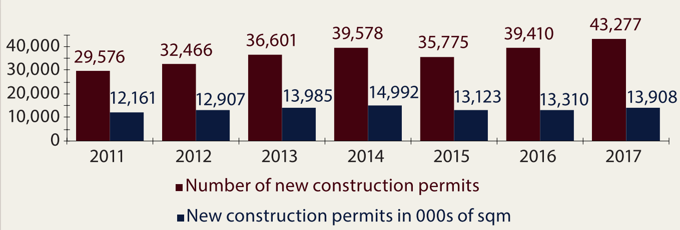
CONSTRUCTION INDICATORS

US$ million	2012	2013	2014	2015	2016	2017	Var 17/16
Clinker production (000 tons)*	1,026	906	865	653	575	488	-15.1%
Bank credit facilities to construction (var)	309	569	658	496	1,302	1,092	-16.2%
Number of registered companies*	241	217	224	148	121	152	25.3%
Capital of new registered companies*	23	15	16	11	7	6	-22.9%

* 11-month annualized figures for 2017

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

Furthermore, Jordan's National Resilience Plan (NRP) could provide a short-term boost to the construction sector. The latter was developed after the country saw a major influx in refugees as the Syrian civil war unfolded. Investments under the NRP included US$ 394.7 million in education, including infrastructure investment to ensure access to schooling, US$ 110.1 million in energy infrastructure including extensive development of solar power plants, US$ 484.1 million in health including the construction of new hospitals and health centers.

In parallel, the Kingdom recently completed the execution of several projects including the new Amman Customs with a value of JD 96 million (US$ 134 million), Justice Department buildings valued at JD 16 million (US$ 22 million) and a housing project containing 400 housing units.

Jordan also plans to convert its Amman chartered and VIP airport into a regular passenger airport, as part of plans to ease growing air traffic in the Kingdom. The Jordanian cabinet approved the project to turn the airport in the Marka district into a full international passenger airport. The cost of the Marka airport project is estimated at around JD 150 million (US$ 211 million).

Last but not least, the prospects for Jordan's construction sector remain mixed. While a rapidly growing population increased demand for new housing construction as well as expanded energy infrastructure, public spending capacity was restricted in light of ongoing fiscal consolidation.

1.1.3. Trade and Services

Trade and services sector shows signs of a recovery in 2017

Jordan's trade and services sector showed relative signs of a recovery in 2017, growing by 2.3% year-on-year during the first six months of 2017. Despite a relative easing in regional political instability, the Kingdom's economic activity remained constrained by a disruption in trade routes while a revival of tourism and direct investment was seen in the country.

The sector's expansion was led by growth in the "social and personal services", "finance, insurance, real estate and business services", "electricity & water", and "transport & communications" segments. The social and personal services subsector expanded by 4.0% in the first half of 2017, against 3.5% in the same period of the previous year. It was followed by a 3.3% growth rate by the finance, insurance, real estate and business services segment. Next, the electricity & water subsector's expansion came in at 2.8% in the first six months of 2017. As for the transport and communications segment, it grew by 1.8% year-on-year in the first six months of 2017.

Moving on to the tourism subsector of Trade & Services, it witnessed a resurgence in the past year. An easing in regional political instability contributed to attracting more visitors, with the numbers of arrivals, excluding Jordanians, up by 9.0% year-on-year in 2017, following a decline of 5.0% in the same period of 2016. They reached 4,030 thousand tourists compared to 3,697 thousand tourists in 2016.

Further reflecting the positive trend in the tourism sector, receipts from the touristic sector registered an increase of 12.1% to reach JD 2.5 billion (US$ 3.1 billion) over the first nine months of 2017, against a decline of 1.2% registered in the corresponding period of the previous year.

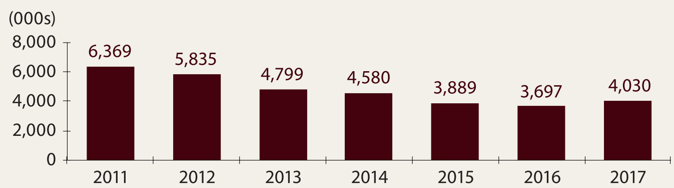
TRADE AND SERVICES

US$ million	2012	2013	2014	2015	2016	2017	Var 17/16
Bank credit facilities to trade and services (var)	2,146	706	-75	2,701	869	779	-10.3%
Number of new registered companies*	4,632	4,687	4,367	3,578	3,675	3,765	2.4%
Capital of new registered companies*	180	190	135	127	91	131	43.4%

* 11-month annualized figures for 2017

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 for the hotels sector, it moved in contrast with the rising tourists' numbers in the Kingdom. Accordingly, data published by Ernst & Young show that occupancy within four and five star hotels in the capital decreased to 49.4% in 2017 from 50.1% in the previous year, while the average room rate was down by 9.0% annually to US$ 142, one of the lowest rates among Middle Eastern cities. As for rooms' yield, they dropped by 10.2% during full year 2017.

Last but not least, Jordan could become a major commercial hub for the Levant region in the long term, benefiting from its position as an island of stability and relatively advanced infrastructure nestled between the West Bank, Syria and Iraq. The stabilization of politics and an improvement in the security situation in the region could contribute to a full recovery in the trade and services sector, further improving the performance of the tourism sector and leading to a resumption of trade after the reopening of the border.

1.2. EXTERNAL SECTOR

Widening current account deficit despite improving travel receipts in the first nine months of 2017

Jordan's external position witnessed a net deterioration in 2017 as exports remained subdued largely due to a relative disruption of trade routes to neighbouring Iraq and Syria on the one hand, and to the appreciation of the real effective exchange rate by nearly 30% since 2011, eroding its competitiveness and worsening its trade imbalance on the other hand, while imports increased on the back of higher global commodity prices. As such, recent balance of payments figures for the first nine months of 2017 suggest a net deterioration in the current account deficit despite a relative improvement in travel receipts.

In details, foreign trade figures show a rise in domestic imports by 5.4% alongside a tiny increase in domestic exports by 1.5% in the first eleven months of 2017 compared to the same period of 2016, contributing to a 7.2% increase in the foreign trade deficit, according to the Central Bank of Jordan. In fact, Jordan's trade deficit expanded from US$ 12.0 billion in the first eleven months of 2016 to US$ 12.8 billion in the first eleven months of 2017. As such, Jordan's foreign trade activity posted a net improvement in terms of volume, as the sum of exports and imports went up by 4.5% moving from US$ 23.2 billion to US$ 24.2 billion during the same period. Accordingly, the domestic exports to imports coverage ratio consequently fell from 32.0% to 30.8% during the same period, its lowest level since 2010.

At the level of domestic exports, a total of US$ 5.7 billion was registered in the first eleven months of 2017, compared to US$ 5.6 billion in the first eleven months of 2016. This stagnation in export activity was due to a combination of sluggish global demand, a strong Jordanian dinar (pegged to the US dollar), and continued lack of access to key export markets, most notably Iraq. In parallel, the breakdown of domestic exports by commodity shows that the main exports during the first eleven months of 2017 are the exports of chemicals, clothes, crude materials (except fuels) and food and live animals, which accounted for 80.3% of total domestic exports. The geographic distribution of domestic exports indicates that 25.0% of total exports went to USA, followed by Saudi Arabia with 12.8% of the total, India with 8.3%, Iraq with 7.8%, Kuwait with 5.6% and the UAE with 4.5% of total domestic exports.

At the level of domestic imports, a total of US$ 18.5 billion was recorded in the first eleven months of 2017, compared to US$ 17.6 billion in the first eleven months of 2016, within the context of the large import bill of continued heavy dependence on imported food and fuel and driven by higher global commodity prices in 2017. The breakdown of imports by category suggests that imports of mineral fuels and lubricants posted the most significant increase of 19.7% year-on-year to make up 16.1% of total imports in the first eleven months of 2017, followed by machinery and transport equipment with a hike of 16.4% (and 27.2% of total imports). The breakdown of imports by country of origin shows that most of the inward merchandise in the first eleven months of 2017 came from China with 13.8% of the total, followed by Saudi Arabia with 13.0% of the total, USA with 10.1%, UAE with 4.8%, Germany with 4.3% and Italy with 4.0%.

On the other hand, the current account deficit widened significantly by 22.8% during the first nine months of 2017 relative to the same period of 2016 to reach the equivalent of US$ 3.4 billion, as per the latest available statistics. This hike in current account deficit was mainly attributed to the increase in trade deficit that has more than offset the impact of the improvement in services account on the current account deficit. As such, services account went up by a considerable 38.9%, on the back of a net improvement in travel receipts by 12.1% given the signs of recovery in tourism industry. In parallel, net current transfers declined by 6.7% as a result of a stagnation in workers' remittances inflows and a drop in net public transfers. Within this context, the current account deficit widened from 9.6% of GDP in the first nine months of 2016 to 11.2% in the first nine months of 2017, the highest since 2012. In parallel, the financial account has risen by 24.2% during the first nine months of 2017, moving up from US$ 2.6 billion to US$ 3.3 billion, which is attributed to an increase in direct investment inflows by 19.1% and a rise in reserve assets by 4.3% during the same period.

Beyond the near term, the current account deficit is expected to narrow helped by the potential reopening of trade with Iraq, structural reforms to improve competitiveness, lower energy import bill as Jordan agrees to import cheaper natural gas from Israel, and as the authorities make progress to increase energy independence by developing and investing both in renewable and non-renewable sources.

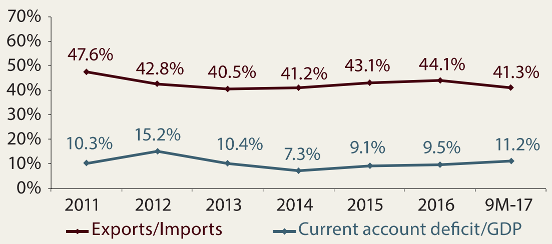
1.3. PUBLIC SECTOR

Continuing fiscal consolidation efforts leading to a retreat in the budget deficit ratio

Given the sharp rise in the government debt ratio over the past few years, the government emphasis in 2017 was put on fiscal consolidation efforts by introducing relatively limited revenue-raising measures in early 2017, through rising sales taxes and tackling at the same time the grey economy. On the expenditure side, the focus was on containing losses at the State water and electricity companies through a combination of tariff reform and operational efficiency gains, in addition to the success of the Jordanian authorities in diversifying the country's energy mix, by shifting from dependence on heavy fuels to LNG and renewables to make-up around 20% of the overall energy mix. As a result, Jordan's public finances in 2017 witnessed an adequate rise in public revenues, yet less ambitious than envisaged by the authorities, coupled with a slower rise in public expenditures.

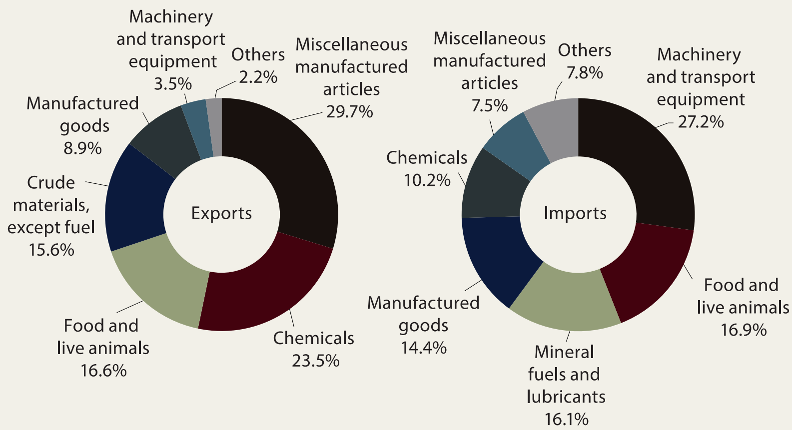
Going further into details, total revenues and grants totaled US$ 10.5 billion in 2017, moving up by 5.0% relative to 2016, as per the Central Bank of Jordan. The rise in domestic revenues was the main driver of the former, as domestic revenues went up by 7.8% in 2017 to reach US$ 9.5 billion, while tax revenues increased by 2.1% in 2017 to reach the equivalent of US$ 6.1 billion. As to foreign grants, they went down by 15.3% totaling around US$ 1.0 billion last year. It is worth mentioning that the government took a set of economic measures in early 2017 that included hiking fees and taxes on cigarettes, soft drinks and telecom services, as well as increasing fees to issue passports and on several other items. In parallel, and despite popular resentment, the authorities are attempting this year also to take into consideration IMF calls for tax rises, as the cabinet announced in January 2018 a major package of IMF-guided tax hikes it says are crucial to gradually lower record public debt. The package includes removing exemptions on

FOREIGN SECTOR INDICATORS



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

BREAKDOWN OF EXPORTS & IMPORTS BY COMMODITY (11M-2017)



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

general sales tax and unifying low 4% to 8% rates on a large number of items at 10% while leaving it at a 16% ceiling for others, alongside raising special taxes on tobacco, premium gasoline and streamlining customs duties.

On the other hand, total public expenditures went up by a moderate 2.5% in 2017 compared to 2016, to reach a total of US$ 11.5 billion. In details, current expenditures increased by 2.8% totaling US$ 10.0 billion in 2017, while its breakdown by category shows that military expenditures (representing 33% of total current expenditures) went up by 4.9%, compensations of employees (constituting 20% of total current expenditures) were up by 1.2%, given the rise in the minimum wage limit from JD 190 to JD 220 in January 2017, while interest payments (representing 12% of total current expenditures) were up by 2.5% in 2017 compared to 2016. In contrast, purchases of goods and services went down by 14.3% from the level spent in 2016. It is worth mentioning that a decision was taken last January to end subsidies on bread, therefore the price of a kilo of white pita bread was raised by 60% and the price of large pita bread nearly doubled, while the government has put in place a mechanism to offset the effect on the poor families by cash transfers.

As such, the general budget deficit (including foreign grants) went down by a significant 14.9% in 2017 compared to 2016, to record US$ 1.1 billion in 2017 and to reach 2.6% of GDP, from 3.2% of GDP in the previous year. When excluding foreign grants, the general budget deficit went down by 15.1%, to reach US$ 2.1 billion in 2017 from a deficit of US$ 2.4 billion in 2016.

During the same period, gross domestic public debt decreased by 2.5% as at end-December 2017 compared to its level as at end-December 2016, to reach US$ 21.7 billion, while the outstanding external public debt (budgetary and guaranteed) increased by 15.2% as at end-December 2017, compared to its level as at end-December 2016, to stand at US$ 16.7 billion. As a result, gross public debt (domestic and external) went up by 4.5% in 2017, to reach US$ 38.5 billion as at end-December 2017 (or 95.0% of GDP) compared to US$ 36.8 billion (or 95.1% of GDP) as at end-December 2016.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Tight monetary policy in light of US Fed rate hikes and some inflationary pressures

The year 2017 was marked in Jordan by a sustained comfortable level of foreign exchange reserves along with some inflationary pressures that came within the context of an oil price recovery. The Central Bank of Jordan adopted a steeper rate hiking path than the US Federal Reserve to preserve the attractiveness of Jordanian dinar assets and maintain monetary stability, while remaining committed to the fixed exchange rate regime.

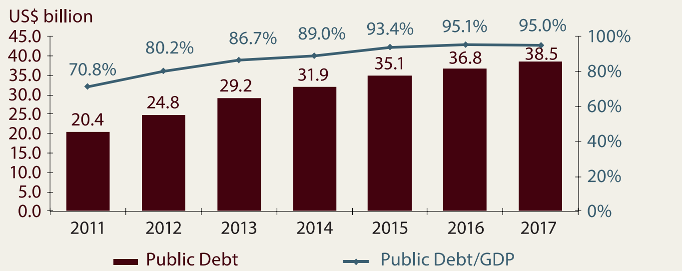
In details, consumer prices rose by 3.3% on average in 2017 following two consecutive years of deflationary pressures, according to the Central Bank of Jordan, mainly reflecting a rise in rental costs, a recovery in global oil prices, the pass through of increased fuel excises, and the removal of general sales tax exemptions. The breakdown of the Consumer Price Index by category shows that the "transportation

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2012	2013	2014	2015	2016	2017
Central government revenues	7.1	8.1	10.3	9.6	10.0	10.5
Central government revenues/GDP	23.0%	24.1%	28.6%	25.5%	25.8%	25.9%
Central government expenditures	9.7	10.0	11.1	10.9	11.2	11.5
Central government expenditures/GDP	31.3%	29.7%	30.9%	29.0%	29.0%	28.5%
Central government fiscal balance	-2.6	-1.9	-0.8	-1.3	-1.2	-1.1
Central government fiscal balance/GDP	-8.3%	-5.5%	-2.3%	-3.5%	-3.2%	-2.6%

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

PUBLIC INDEBTEDNESS



Sources: Central Bank of Jordan, IMF, Bank Audi's Group Research Department category" was the largest inflationary impulse, rising by 12.9% on average in 2017 amid an oil price recovery, with Brent prices crossing the US$ 60 per barrel threshold; followed by the "alcohol, tobacco and cigarettes" category with +7.9%; the "education" category with +2.9%; and the "housing" category with +2.8%, mainly owing to a 2.5% rise in rents, noting that the aforementioned four categories account for circa 45.3% of the Consumer Price Index. In contrast, the heavyweight "food and non-alcoholic beverages" category accounting for around 33.4% of the CPI registered a retreat of 0.4%, and the "clothing and footwear" category recorded a decline of 2.4% over the year.

The Central Bank of Jordan continued to tighten its monetary policy in 2017, raising its key policy rates four times over the year by a cumulative of 125 basis points, partly following the lead taken by the US Federal Reserve, in the aim of sustaining the attractiveness of Jordanian dinar-denominated assets and preserving monetary and financial stability. Accordingly, the Central Bank of Jordan lifted its main rate from 2.75% at end-December 2016 to 4.00% at end-December 2017. Also, the CBJ raised the interest rate on the overnight deposit window facility from 1.75% at end-December 2016 to 3.0% at end-December 2017. The interest rate on repurchase agreements was also lifted from 3.50% to 4.75% over the covered period.

The Jordanian dinar remained pegged to the US dollar, which despite the associated lack of flexibility, has helped to instill confidence in the monetary policy and was viewed by Jordanian authorities as an important anchor for the economy.

Despite an environment of contractionary monetary policy, gross official reserves declined by 3.7% over the year 2017 or the equivalent of US$ 516 million to reach US$ 13.5 billion at end-December amid a continued current account deficit and increased deposit dollarization. Accordingly, the CBJ's foreign exchange reserves covered 8.0 months of imports, down from 8.7 months of imports in 2016. They also covered 35.1% of money supply in Jordanian dinar at end-2017 as compared to a higher coverage ratio of 36.2% at end-2016.

The broader money supply (M2) widened by a shy 0.3% or the equivalent of US$ 117 million in 2017 to reach US$ 46.5 billion at the end of the year, following a higher expansion of 4.0% in 2016 (the equivalent of US$ 1.79 billion). This shy growth in money supply compares to a money creation of US$ 1.98 billion in 2017 that mainly resulted from a US$ 356 million expansion in net foreign assets along with a large drop in net claims on public sector of US$ 1.4 billion, a significant rise in claims on the resident private sector of US$ 2.7 billion, and an increase in claims on financial institutions of US$ 307 million. The difference between the growth in money supply (M3) and money creation amounting to US$ 1.9 billion corresponds to a demonetization of monetary claims in 2017.

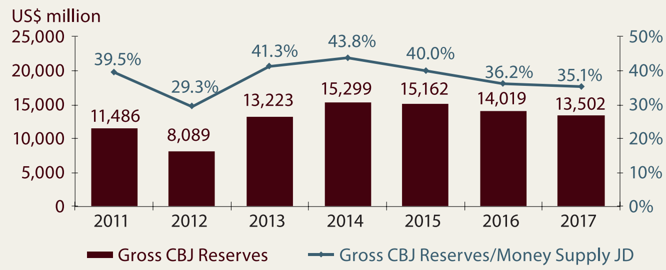
Looking ahead, inflationary pressures are expected to persist, reflecting the elimination of further subsidies (bread subsidy removal in January 2018) as well as rising global oil prices. The CBJ's monetary policy is set to tighten further due to Jordan's currency peg and the projected US Federal Reserve's rate hikes, while remaining focused on maintaining adequate level of international reserves and stable financial conditions.

MONETARY SITUATION

Flows in US$ million	2012	2013	2014	2015	2016	2017
Net foreign assets	-3,815	364	1,423	289	999	356
Net claims on public sector	3,850	1,430	-148	1,249	-1,045	-1,424
Claims on private sector (resident)	1,451	1,790	889	1,201	2,660	2,742
Claims on financial institutions	-1	-53	1	-2	161	307
Net other items	-320	-120	482	599	-982	-1,864
Uses=Sources	**1,165**	**3,411**	**2,647**	**3,336**	**1,792**	**117**
Money supply (M1)	-85	1,689	1,161	915	715	-355
Quasi-money	1,250	1,722	1,486	2,421	1,078	472

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

1.4.2. Banking Activity

Pick-up in domestic lending activity in a financially sound banking sector

Jordan's banking sector witnessed rather difficult operating conditions throughout 2017 amid mild domestic economic growth momentum and a difficult regional environment with the war/tensions in neighboring Syria/Iraq and fiscal consolidation in neighboring GCC markets. Nonetheless, prudent management and conservative regulatory practices allowed the banking sector to withstand headwinds. Total assets of banks operating in the Kingdom pulled out a 1.5% increase in 2017 to reach US$ 69.2 billion at end-December due to a surge in domestic lending to the economy offsetting a decline in credit to the central government.

Customer deposits, which remain the backbone of banks' balance sheets in the Kingdom at 60% of total balance sheets of banks, rose mildly in 2017 amid difficult economic conditions at large domestically and regionally. Deposits actually rose by as much as they did in the previous year, i.e. by close to US$ 420 million to reach the equivalent of US$ 46.8 billion at end-December (+0.9% on a yearly basis).

The subdued deposit growth can be attributed to a contraction in public sector deposits counterbalancing some rise in private sector deposits (especially non-resident funds). The sluggishness in deposit growth (especially during the earlier part of 2017) could be linked to the spillovers of relatively low oil prices on Jordanian expatriates in the GCC and their remittances, as well as to overall liquidity conditions affecting GCC depositors' eagerness to park their excess funds at banks in Jordan. It is worth adding that the sector seemingly witnessed some competition between banks to entice funds and this lead to a rise in creditor interest rates, especially at the level of time deposits.

A glance at deposits by currency shows only a modest increase in deposit dollarization throughout 2017, from 21.1% at end-2016 to 22.8% at end-2017, reflecting continued depositor confidence in the Jordanian dinar. Having said that, the retail customer deposit base remains comfortable allowing banks to extend new credit waves without resorting to foreign financing. Indeed, foreign liabilities account for less than 15% of total balance sheets of banks.

On the asset utilization side, excess liquidity was channeled to lending to the economy. The government has been increasingly resorting to external funding to cover its fiscal needs through the issuance of Eurobonds and concessional borrowing from bilateral and multilateral organizations, triggering a crowding in effect with bank lending surging by 8.1% year-on-year to reach the equivalent of US$ 34.9 billion at end-2017 due to higher private sector lending.

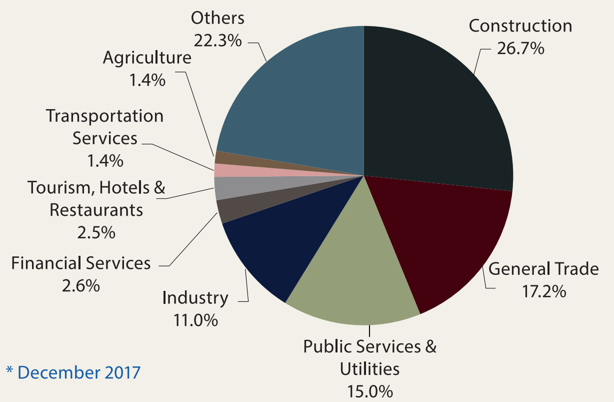
The breakdown of credit facilities by sector shows that the construction sector got the largest chunk of new loans in 2017, followed by the industrial sector, the public services and utilities sector and the

BANKING SECTOR INDICATORS

US$ million	2012	2013	2014	2015	2016	2017
Banking Activity						
Assets	55,394	60,369	63,282	66,477	68,240	69,231
Deposits	35,217	38,917	42,680	45,977	46,402	46,824
Credit facilities	25,129	26,713	27,185	29,764	32,306	34,911
Capital accounts and allowances	8,248	8,669	9,554	10,025	10,241	10,631
Growth rates						
Assets	4.2%	9.0%	4.8%	5.0%	2.7%	1.5%
Deposits	2.4%	10.5%	9.7%	7.7%	0.9%	0.9%
Credit facilities	12.4%	6.3%	1.8%	9.5%	8.5%	8.1%
Capital accounts and allowances	8.4%	5.1%	10.2%	4.9%	2.2%	3.8%

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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



* December 2017

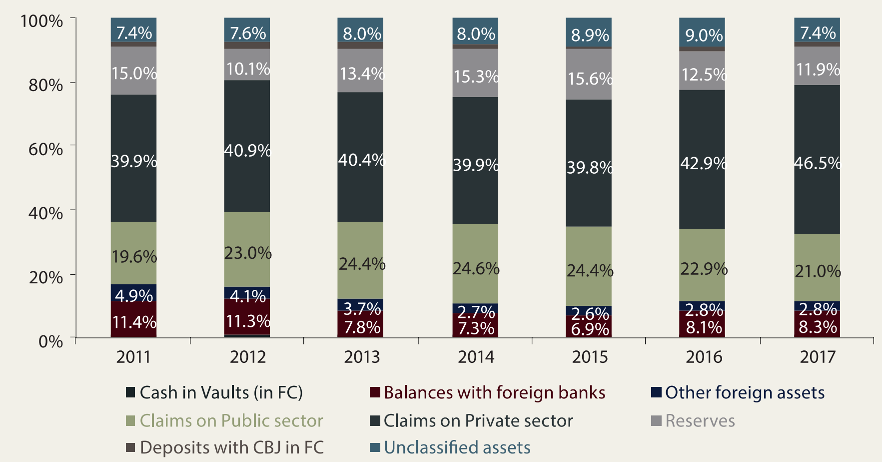
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

general trade sector. Lending dollarization slightly retreated as the rise in lending activity was owed to the local currency side, reaching 10.5% at end-2017 against 11.9% at end-2016.

It is worth mentioning that Jordanian authorities have established a credit bureau which should facilitate the hastening of credit decisions for SMEs, loans to which have been scaled up lately. The bureau is receiving data from all banks and started compiling credit reports. With fiscal consolidation taking a toll on bank financing to a public sector that is also resorting to external borrowing, lending to the economy could pick up further without the need for higher capital requirements.

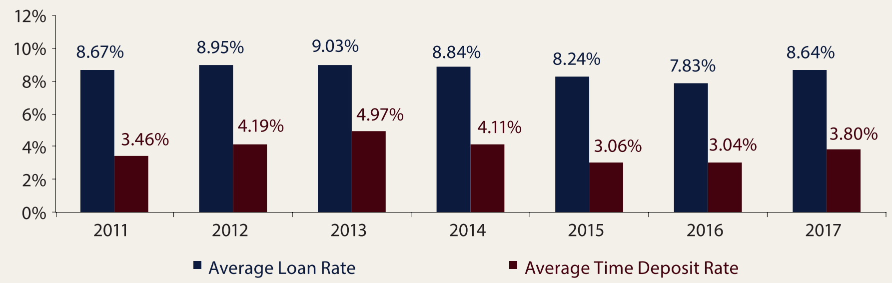
Besides, banks in Jordan have sufficient firepower to grant new loans in the near future, noting that the credit facilities to deposits ratio stood at a relatively reasonable 75% at end-2017, especially when compared to those of Gulf neighbors, while banking institutions maintain sufficient liquidity at hand. In fact, the core liquidity ratio, another measure of liquidity and perhaps a more accurate one we measure as the ratio of banks' cash and deposits with the Central Bank and banks /total deposits, attained 33% at end-2017. It proved to be almost unchanged relative to end-2016 as rising liquidity at hand and in the form of deposits at banks and the Central Bank in foreign currencies offset a slight decline in deposits with the Central Bank in dinars over the course of 2017. The core liquidity ratio remains more than satisfactory and helps shield banks from potential pressures on liquidity and from a deposit run in case of a drastic change in operating conditions or a sharp swing in depositor sentiment towards the Kingdom's banking sector.

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

With credit to the public sector on the decline as authorities are resorting more to foreign financing and at the same time pursuing their fiscal consolidation efforts, banks' sovereign exposure has declined (albeit remaining relatively high). As a matter of fact, the total claims on the public sector to capital accounts and allowances ratio moved from 1.53x at end-2016 to 1.37x at end-2017, a six-year low.

While banks' lending activity has gained further ground in the past couple of years, asset quality metrics have ameliorated generally. The non-performing loans to total loans ratio moved from 4.9% at end-2015 to 4.3% and end-2016 and edged up slightly to 4.4% at end-June 2017 (latest data available) though this level remains practically a decade low, largely due to write-offs and restructuring efforts on behalf of banks. In parallel, banks have built up provisions with the coverage ratio inching up to a new high of 79.3% at end-June 2017.

Banks operating in Jordan maintain comfortable capital buffers should pressures arise, displaying a risk-weighted capital adequacy ratio of 17.6% at end-June 2017, above regulatory requirements and mostly composed of common equity Tier 1 capital. The IMF acknowledged that the gradual adoption of Basel III, and the authorities' decision to complement it with an additional capital buffer, provide important resilience to shocks and would help preserve financial stability. Central Bank-conducted stress test confirm the sector's resilience to shocks. The system, according to the same source, can tolerate sizeable shocks (drop in GDP growth, rise in NPLs, fall of stock prices, dinar depreciation, and deposit withdrawals).

1.4.3. Equity and Bond Markets

Equity market skewed to the downside, price gains on bond market

Jordan's equity market continued to operate on a negative territory in 2017 amid relatively unattractive market pricing ratios and lingering geopolitical concerns. On the other hand, the fixed income market witnessed healthy price gains over the year along with new bond sales.

Activity on the Amman Stock Exchange remained tilted to the downside in 2017 amid reduced attractiveness of Jordanian stocks, with the price-to-earnings ratio rising from 16.6x in 2016 to 19.5x in 2017. The general weighted price index posted declines for the tenth consecutive year, moving down by 1.5% in 2017 to close at 4,009.4 at year-end, before rebounding by 6.3% during the first two months of 2018. Non-Jordanian investors were net sellers in 2017, recording net investments of –US$ 472 million as compared to net investments of +US$ 334 million in 2016. This was mainly driven by a large block trade conducted in February 2017, through which Oger Middle East Holding sold its stake in the Arab Bank to a group of Arab and Jordanian investors. Accordingly, the non-Jordanians' ownership of market capitalization reached 48.1% at end-December 2017, down from 49.6% at end-December 2016.

The breakdown of the ASE general weighted price index by sector in 2017 shows that the "insurance sector" was the main drag to the index, posting a year-on-year price slump of 9.0%, followed by the "services sector" with -2.2%, the "banking and financial sector" with -1.3% and the "manufacturing and mining sector" with -1.2%.

On the back of price declines, the ASE market capitalization reached US$ 23.9 billion at end-2017, which is its lowest level in more than a decade, as compared to US$ 24.5 billion at end-2016, down by 2.2%. The ASE market capitalization stood at 59.1% of GDP at end-2017, down from 63.2% at end-2016, which reflects the declining dimension of the ASE relative to the Jordanian economy.

The ASE total trading value rose by 25.6% year-on-year to reach US$ 4.1 billion in 2017. The division of the total trading value by sector shows that the "financial sector" captured 65% of activity, followed by "the industrial sector" with 22% and "the services sector" with 13%. The number of traded shares reached 1,713 million shares in 2017, traded through 717 thousand transactions, compared with 1,837 million shares traded during the year 2016 through 786 thousand transactions. Given a substantial rise in the total trading value that was coupled with a decline in the market capitalization, the turnover ratio increased from 13.4% in 2016 to 17.3% in 2017, which spots light on the increased activity on the Amman Stock Exchange.

At the level of the bond market, sovereigns maturing in 2026 and 2027 posted price gains of 2.39 pts and 5.01 pts respectively in 2017, yet registered shy price declines of 0.76 pt and 0.13 pt respectively during the first two months of 2018. Regarding new issues, Jordan tapped in April 2017 an existing 10-year US$ 500 million bond, issued in November 2015 and offering a coupon of 6.125%, with an additional US$ 500 million, noting that the tap was more than three times oversubscribed. Also, Jordan raised in October 2017 the amount of US$ 1 billion from the sale of 30-year bonds at a coupon rate of 7.375%. The order book size exceeded US$ 4.3 billion. More than 240 investors, including major investment funds from the US, the UK and Europe, participated in the underwriting. The issuance is part of a government plan to manage cash flows and public debt. Jordan'47 closed up by 4.88 pts between October 3, 2017 and February 28, 2018.

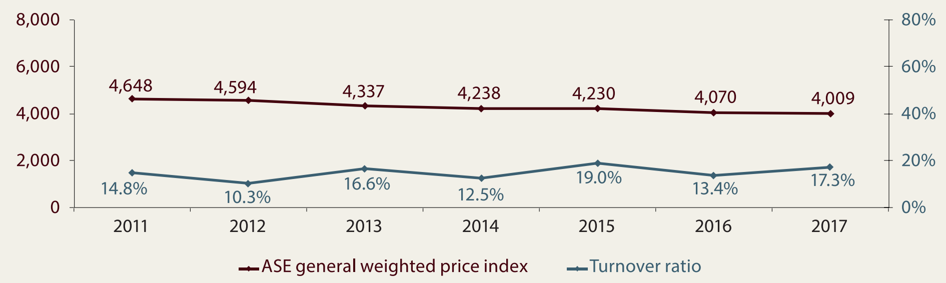
As to credit rating changes, Standard & Poor's lowered in October 2017 its long-term foreign and local currency sovereign ratings on the Hashemite Kingdom of Jordan to "B+" from "BB-", with a "stable" outlook. The downgrade reflects, as per S&P, Jordan's weakening debt profile amid low growth and implementation pressures related to fiscal reforms and higher external risks. The "stable" outlook balances greater risks from a slower pace of fiscal consolidation than S&P previously expected against continued support from bilateral donors, at a rating of "B+".

CAPITAL MARKETS INDICATORS

	2012	2013	2014	2015	2016	2017
Market capitalization (US$ billion)	27.0	25.7	25.5	25.4	24.5	23.9
Market cap/GDP	87.1%	76.4%	71.1%	67.5%	63.2%	59.1%
Total value traded (US$ billion)	2.8	4.3	3.2	4.8	3.3	4.1
Total volume of traded securities (million)	2,384	2,706	2,322	2,586	1,837	1,713
Total number of transactions (000s)	975	1,074	956	899	786	717
% Chg. in ASE general weighted price index	-1.2%	-5.6%	-2.3%	-0.2%	-3.8%	-1.5%
P/E	15.6x	14.7x	15.3x	14.0x	16.6x	19.5x
P/BV	1.5x	1.3x	1.3x	1.3x	1.2x	1.2x
Dividend yield	4.6%	4.6%	4.2%	3.6%	4.1%	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. CONCLUDING REMARKS

A constrained fiscal position and continued regional instability will slow the pace of recovery looking ahead, despite the fact that the relatively improved security conditions in two neighboring markets will offer trade and investment opportunities for Jordan. Although high unemployment will limit private consumption growth, large infrastructure and tourism projects should increase employment, assuming private sector participation and multilateral agency support are forthcoming. It is worth mentioning that Jordan needs to grow by at least 4% a year to create enough jobs for the fast growing labor force and to reduce unemployment.

The 2018-2022 Economic Plan aims to accelerate growth by implementing deeper structural reforms. Likewise, the authorities' Vision 2025 aims at broadening structural reforms to enhance competitiveness, reduce supply bottlenecks and improve governance. To this end, Vision 2025 includes measures to rationalize bureaucracy, curtail bloated public sector employment and raise efficiency. Ongoing reforms could help to achieve macroeconomic stability, ease access to finance and improve the business environment.

At the monetary level, inflation will rise over the next couple of years, reflecting the elimination of further subsidies as well as rising global oil prices, in addition to some new tax measures. Nearly all the country's energy needs and some food requirements are met by imports, meaning that fluctuations in the dollar will contribute to an increase in imported inflation. The IMF expects a rise from a 1.5% inflation in 2018, to 2.5% in 2019 and thereafter. At the foreign exchange level, the Central Bank of Jordan will remain committed to the maintenance of the dollar peg, which, despite the associated lack of flexibility, has helped to instill confidence in monetary policy. Monetary policy tightening is also anticipated to preserve the attractiveness of the Jordanian dinar in light of Fed rate hikes and in support of the JD/US$ exchange rate peg.

At the external level, the recovery in global prices of potash and phosphates and improved access to some regional markets will help to boost exports earnings over the next couple of years but will be offset by the impact on Jordan's large import bill of continued heavy dependence on imported food and fuel. The strength of the dollar may restrict the extent to which the EU's relaxation of rules of origin support export growth, but it would also help to limit import costs from Europe. On the overall, the trade deficit is expected to widen over the next few years but narrow as a proportion of GDP. The current account deficit is forecasted at 8% of GDP on average in the next couple of years, with foreign aid and concessional borrowing helping to finance the shortfall.

At the public finance level, fiscal consolidation will continue to emphasize revenue enhancing and expenditure limiting measures as the government seeks to put the public finances on a stronger footing. As such, the World Bank forecasts the overall fiscal deficit, excluding grants, to almost halve over the medium term, while the primary balance would be finally brought to a surplus.

When looking at the Kingdom's outlook, it is important to assess key strengths and underlying weaknesses. At the level of strengths, we mention the steady -though slow- economic expansion despite regional adversities, the government commitment to reforms, the resilient and stable banking sector and the likelihood of external donor support in times of stress. At the level of weaknesses, we mention the declining FX reserves limiting the Kingdom's absorption capacity, the high public debt and weak budget structure, the substantial geopolitical risk factors and the significant socio-economic challenges, which are exacerbated by the Syrian refugee crisis.

While challenges and risks are real, we believe opportunities outpace threats at the horizon. Still, it is important for Jordan to well secure its targeted reform process and turn it into genuine actions and measures. In its latest Article IV Consultation mission report, the IMF stressed the need for reforms to enhance competitiveness and inclusive growth. In particular, the IMF emphasized the critical importance of promptly exploring options and advancing reforms to reducing costs for formal jobs and promote job creation. Finally, the development of a financial inclusion strategy would help enhance access to finance and support investment, while simplifying regulatory processes would improve the business environment at large.

DISCLAIMER