JORDAN ECONOMIC REPORT

FURTHER REFORMING EFFORTS, YET AMID PERSISTENTLY MODEST GROWTH PERFORMANCE

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- Slow economic growth relative to job creation needs

  Jordan continued to implement reforms and measures to maintain macroeconomic stability and reinforce the conditions for higher and more inclusive growth. Nonetheless, economic growth remained at about 2% while inflation remained relatively steady, falling below 4% by year-end. Within this environment, tourism provided a slight support to growth, with a 12.5% annual growth in the number of tourists to reach a 5-year high of 4.5 million tourists in full-year 2018. But persistently modest growth and weak investment remain insufficient to generate the much needed job creation, as unemployment has reported 18%, relatively high by regional and international benchmarks.

- Current account deficit witnessing its first contraction since 2014

  Despite persistently challenging external conditions, Jordan's external imbalances witnessed a relative improvement in 2018. In fact, the current account deficit has narrowed for the first time since 2014, on the back of a declining trade deficit, driven by contracting non-energy imports and increasing exports supported by the re-opening of the borders with Iraq. In parallel, stronger tourism receipts provided a solid support for services earnings after falling in 2015/2016 when regional political instability deterred visitors. Within this context, the current account deficit contracted by 17.0% during the first nine months of 2018 relative to the same period of 2017 to reach the equivalent of US$ 2.8 billion, as per the latest available statistics.

- Fiscal consolidation measures at a softer pace in 2018

  After implementing wide-ranging fiscal consolidation measures in the past three years, the government relatively loosened its fiscal stance in 2018, as fiscal consolidation measures were somehow put on hold amid the tensions surrounding the income tax law in spring 2018. Central government fiscal data for the first eleven months of 2018 point to a growth in public expenditures outpacing the increase in public revenues. Therefore, the overall budget deficit is estimated to have exceeded 3.5% of GDP in 2018, up from 2.6% of GDP in 2017.

- Continuous monetary policy tightening along with limited inflationary pressures

  The year 2018 was marked by a contractionary monetary stance as the Central Bank of Jordan continued to follow the lead taken by the Federal Reserve in tightening policy, along with relatively limited inflationary pressures and an extended fall in gross official reserves. Consumer prices in Jordan continued to trace an upward, though moderate, trajectory for the second consecutive year in 2018, as shown by a 4.5% increase in the Consumer Price Index, moving from 119.3 on average in 2017 to 124.7 on average in 2018, according to the Central Bank of Jordan. The CBJ's foreign exchange reserves decreased to US$ 12.7 billion at end-2018, from US$ 13.5 billion at end-2017, down by 5.6%, yet still cover seven months of the country's imports, which is higher than the international standard for foreign reserves coverage.

- Persistently positive banking activity growth along with satisfactory capital and liquidity buffers

  Jordan's banking sector has had a satisfactory year in 2018 on the overall, amid a slight increase in economic growth and a relative amelioration in regional conditions. Banks have continued to collect deposits, especially time deposits within the context of rising interest rates, and extend waves of loans -albeit at a slower pace- to cater to the economy's funding needs in both its private and public sector components, while boasting adequate financial standing indicators. Measured by the aggregated assets of banks operating in the Kingdom, total sector activity grew by 3.6% on a yearly basis to reach the equivalent of US$ 71.8 billion at end-December 2018. The 2018 asset growth in volumes proved to be 2.5x higher than that recorded in the previous year.

- Jordan's capital markets under downward price pressures

  Jordan's equity and bond markets came under downward price pressure in 2018, mainly weighed down by declines in US Treasuries amid a sustained US monetary policy tightening, emerging market weakness, and some concerns over a new taxation on stock trading profits on the Amman Stock Exchange.

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

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Jordan continued to implement reforms and measures to maintain macroeconomic stability and reinforce the conditions for higher and more inclusive growth. Nonetheless, economic growth remained at about 2% while inflation remained relatively steady, falling below 4% by year-end. Within this environment, tourism provided a slight support to growth, with a 12.5% annual growth in the number of tourists to reach a 5-year high of 4.5 million tourists in full-year 2018. But persistently modest growth and weak investment remain insufficient to generate the much needed job creation, as unemployment has reported 18%, relatively high by regional and international benchmarks.

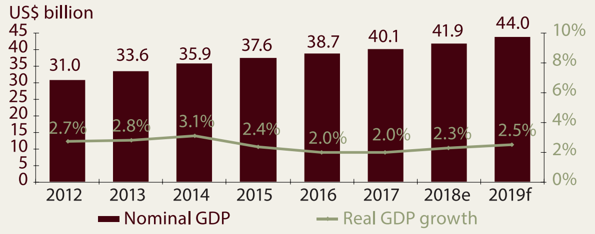
At the external level, the Kingdom's current account deficit reported 9.6% of GDP in 2018, against 10.7% in 2017. The slight improvement in the current account deficit comes on the back of a narrower trade deficit, while inflows remain sluggish. In the first eleven months of 2018, the merchandise trade deficit narrowed by 3% driven by improving exports and declining non-energy imports, despite the higher energy bill. The relative recovery in merchandise exports by 3% is tied to the rise in trade with major trade partners such as United States and India, while benefits of reopening trade routes with Iraq are gradually materializing. In parallel, touristic receipts remain on an increasing trend thus boosting exports of services.

At the fiscal level, the past years witnessed some improvement at the level of fiscal consolidation, though more is yet required. The overall fiscal balance is set to reach 4% of GDP in 2018, with the primary balance set to record 1.1% of GDP. Meanwhile, the growth in public debt is somewhat slowing down, but public debt in US dollars edged up to US$ 40 billion by end-November 2018 (96.7% of GDP), up from US$ 38.5 billion (95.9% of GDP) at end-2017.

At the monetary level, the Kingdom has maintained a contractionary monetary stance in 2018, as part of efforts to support the Jordanian dinar, strengthen monetary and financial stability, limit inflationary pressures and maintain a competitive return on dinar-denominated investments. The policy was set to ensure domestic interest rates are more consistent with global and regional trends. Jordan's exchange market pressure, high dollarization rates and low foreign inflows have imposed downward pressures on foreign reserves that declined to US$ 12.7 billion at end-2018 (33.2% of domestic currency money supply), down from US$ 13.5 billion at end-2017 (35.1% of domestic currency money supply).

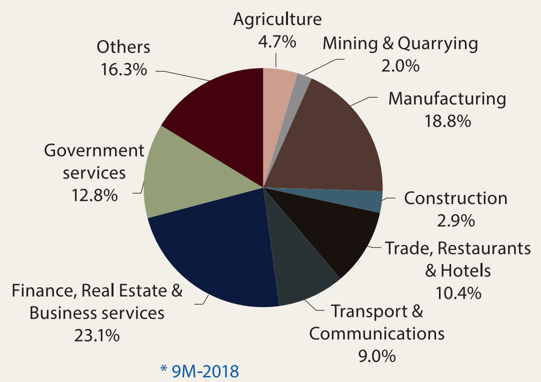
At the banking level, the year 2018 saw a more enhanced assets and deposits growth, while loans to the private sector slowed down amid a persistently sluggish economic environment. Measured by the consolidated assets of operating banks, banking activity grew by 3.6% in 2018 (1.5% in 2017) to reach US$ 71.8 billion, the equivalent of 171% of GDP. Asset growth was mostly driven by deposit growth of 2%

GROSS DOMESTIC PRODUCT



Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY*



* 9M-2018

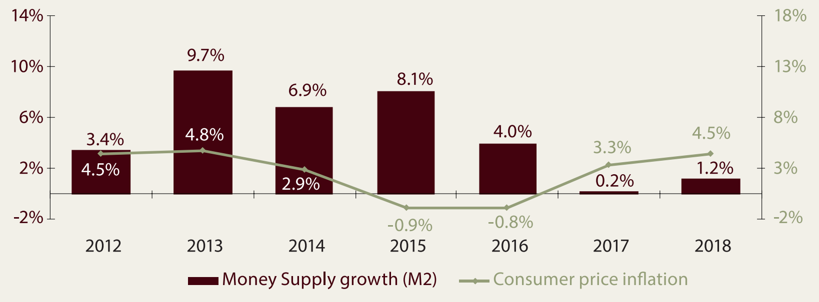
Sources: Central Bank of Jordan, Bank Audi's Group Research Department

(0.9% in 2017). Credit facilities however, which had grown by an average of 8.7% over the previous three years, slowed down to 5.5% in 2018.

As to capital markets, equity and bond markets were under further adverse pressures in 2018. Stock prices declined by 5.3% in 2018, extending the consecutive contraction for the 11th consecutive year with the outburst of the regional turmoil. The stock market reported in parallel a 20% decline in trading volumes to offset fully the improvement of the previous year. Annual trading values contracted from US$ 4.1 billion in 2017 (the equivalent of 17.3% of market capitalization) to US$ 3.3 billion in 2018 (the equivalent of 14.4% of market capitalization). The price contraction subsequently contracted P/E and P/BV ratios to 17.9x and 1.1x respectively at end-2018 (against 19.5x and 1.2x at end-2017), while the dividend yield continued to hover around the 5.0% threshold.

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

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

Primary and secondary sectors report an overall positive performance

Jordan's primary sector continued to see real growth in the first three quarters of 2018, reporting a rise of 3.2% year-on-year, as the regional instability eases while neighboring countries increase control over their security situation.

In the first nine months of 2018, agriculture contributed to 4.7% of Jordan's GDP, compared to 3.3% in the same period of the previous year, whereby domestic demand has largely driven growth especially for fruits and vegetables. In nominal terms, the sector added US$ 1.4 billion in the first nine months of 2018, up by a yearly 6.0%.

Looking at the number of registered companies classified within the agricultural sector, the latter expanded from 469 during the first seven months of 2017 to 498 in the same period of 2018, a yearly rise of 6.2%. Yet, the new agricultural companies' capital declined from US$ 19.6 million to US$ 7.9 million over the covered period.

It is worth noting that new credit facilities extended to the agricultural sector were nil at end-December 2018. Net new loans reported a slightly negative value, down from levels of US$ 46 million in 2017.

The growth in the production and contribution of the primary sector were not reflected at the level of the external sector which reported a decline in agricultural exports. The closed trade routes between Jordan and Syria and the relatively not fully settled situation in the neighboring country put pressure on agricultural exports which contracted by a yearly 9.3% to stand at US$ 934 million in 11M 2018.

Jordan's secondary sector reported a positive performance as well, mainly driven by growth in its largest contributors namely mining and quarrying and manufacturing.

Along with this expansion, credit facilities extended to the sector took over a share of 11.7% of total credit facilities at end-2018, up from 11.0% at end-2017. However, net new loans declined from US$ 735 million in 2017 to US$ 480 million in 2018.

Regarding the number of companies classified within the industrial sector, these decreased by a yearly 22.0% from 1,385 in the first seven months of 2017 to 1,081 in the same period of 2018. However, the

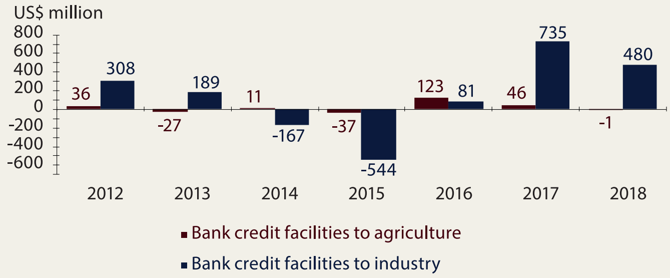
AGRICULTURE AND INDUSTRY OUTPUT

US$ million	2012	2013	2014	2015	2016	2017	2018	Var 18/17
Agricultural exports*	1,130	1,276	1,375	1,304	1,047	1,030	934	-9.3%
Industrial exports*	5,569	5,501	5,907	5,462	5,154	5,323	5,517	3.7%
Phosphate (000 tons)	6,383	5,274	7,109	8,264	7,989	8,666	7,987	-7.8%
Potash (000 tons)	1,823	1,728	2,086	2,355	2,003	2,320	2,434	4.9%
Fertilizers (000 tons)	640	678	886	619	547	695	882	26.9%
Chemical acids (000 tons)	1,291	1,266	1,442	1,206	1,083	1,309	1,375	5.1%
Petroleum products (000 tons)	3,476	3,082	3,007	3,212	2,793	2,604	2,213	-15.0%
Electricity (million kWH)	7,895	7,539	8,148	6,557	4,536	4,722	2,270	-51.9%

* 11-month annualized figures for 2018

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

capital of these companies was on a positive trend, rising from US$ 32.2 million in the first seven months of 2017 to US$ 36.8 million in the aforementioned period of 2018.

Looking at the main components, the share of mining and quarrying edged down slightly from 2.1% in the first three quarters of 2017 to 2.0% in the same period of 2018, whereby it added US$ 616.0 million to Jordan's GDP at current prices, up from a contribution of US$ 515.1 million over the same period of 2017. In real terms, mining and quarrying grew by 1.9% year-on-year over the same period.

The share of manufacturing grew from 15.9% in the first nine months of 2017 to 18.8% in the same period of 2018. Moreover, the component reported a real expansion of 1.5% over the covered period, reporting a growth faster than that of the previous year. In nominal terms, manufacturing contributed by US$ 5.8 billion in the first nine months of 2018, up from US$ 5.7 billion in the same period of the previous year.

On the external level, industrial exports reported a positive performance. The latter increased from US$ 5.3 billion in the first 11 months of 2017 to US$ 5.5 billion in the same period of 2018, an increase of 3.7% year-on-year.

In sum, both the agriculture and industry sectors saw growth over the past year contributing positively to the country's GDP, reflecting a relative easing in regional instability.

1.1.2. Construction

Construction sector stagnates in 2018

Despite the waning impacts of the Syrian civil war, Jordan's construction sector witnessed aslightly negative growth of 0.3% in the first nine months of 2018. Nonetheless, the Kingdom's construction sector, which made up 2.9% of GDP in the first three quarters of 2018, was reinforced by a 3.5% rise in credit facilities to the sector in the past year.

In line with the contraction in Jordan's construction sector, demand for construction permits dropped by 24.9% annually in 2018. Similarly, the country's residential permits, which accounted for 90.7% of construction permits, witnessed a contraction of 26.0% in the past year.

Moving on to construction permits granted by city, Irbid got the lion's share of total permits given in 2018 with 27.4%, followed by Amman with 22.1%, and Zarqa with 13.8%. The number of newly registered companies within the construction sector contracted by 12.0% year-on-year in the first seven months 2018.

In the face of the sluggish performance of the sector in 2018, the latter is expected to support economic growth after 2020 as several large construction projects would be launched, including a new capital city and housing, transport and air travel developments, according to the Economist Intelligence Unit. Expansion of the electricity grid and the development of the energy sector would also help to spur growth, subject to continued international financial support.

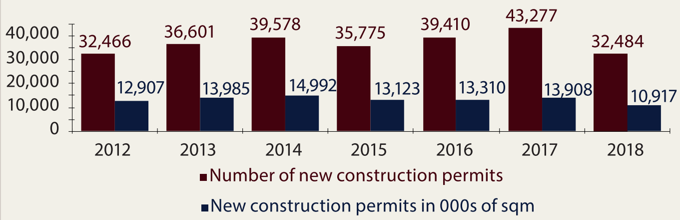
CONSTRUCTION INDICATORS

US$ million	2012	2013	2014	2015	2016	2017	2018	Var 18/17
Clinker production (000 tons)	1,026	906	865	653	575	543	587	8.1%
Bank credit facilities to construction (var)	309	569	658	496	1,302	1,091	324	-70.3%
Number of registered companies*	241	217	224	148	121	147	125	-14.9%
Capital of new registered companies*	23	15	16	11	7	7	4	-37.0%

* 7-month annualized figures for 2018

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

Within this context, Saudi Arabia plans to build a rail project in Jordan as part of a JD 500 million (US$ 705 million) joint investment. The Saudi-Jordan Investment Fund Company and the Aqaba Special Economic Zone Authority (ASEZA) signed a memorandum of understanding to connect the ports of Aqaba on the Red Sea with Ma'an. Upon completion, the railway would operate along a 195 kilometer (121 mile) track, transporting cargo containers to and from Aqaba, Jordan's only outlet to the sea, as well as phosphate from the mines in Shidiya for export.

In parallel, the highway connecting Jordan and Saudi Arabia was opened, with the JD 200 million project funded by the Saudi Fund for Development (SFD). The project, which was built by both Jordanian and Saudi contractors, is meant to facilitate regional trade and movement.

Furthermore, the Aqaba Special Economic Zone Authority (ASEZA) would offer tenders early next year for the implementation of a JD 2 billion scheme to develop the northern zone of Aqaba. All projects under the mega scheme would be implemented through public-private partnerships, with efforts to be exerted to highlight the investment opportunities in the northern zone of Aqaba to investors from across the region.

In conclusion, Jordan's construction sector came under some pressure last year, as public spending capacity was restricted in light of ongoing fiscal consolidation despite a rapidly growing population.

1.1.3. Trade and Services

Trade and services sector stays on track in 2018

Jordan's trade and services sector capitalized on its recovery and remained on a positive trend in 2018. As a matter of fact, it expanded by 3.0% year-on-year during the first nine months of last year. The sector was positively impacted by improved security conditions in Syria and Iraq which offered trade and investment opportunities for Jordan, while a revival in tourism was seen in the Kingdom.

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 3.9% in the first nine months of 2018. As for the transport and communications segment, it grew by 3.0% year-on-year in the first nine months of 2018. It was followed by a 2.9% growth rate by the finance, insurance, real estate and business services segment. Next, the electricity & water subsector's expansion came in at 2.3% in the first aforementioned period of 2018.

As for the tourism subsector of Trade & Services, it continued performing strongly during the past year. An easing in regional political instability contributed to attracting more visitors, with the numbers of arrivals, excluding Jordanians, up by 12.6% year-on-year in 2018, following a rise of 9.0% in 2017. They reached 4,537 thousand tourists in 2018, compared to 4,030 thousand tourists in 2017.

Further reflecting the positive trend in the tourism sector, receipts from the touristic sector registered an increase of 12.4% to reach JD 2.9 billion (US$ 4.1 billion) over the first nine months of 2018.

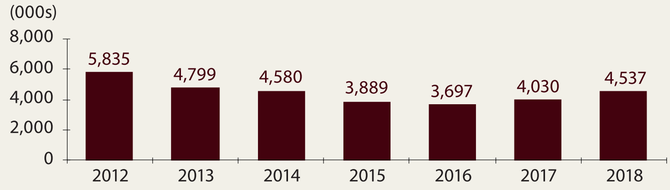
TRADE AND SERVICES

US$ million	2012	2013	2014	2015	2016	2017	2018	Var 18/17
Bank credit facilities to trade & services (var)	2,146	706	-75	2,701	869	758	990	30.7%
Number of new registered companies*	4,632	4,687	4,367	3,578	3,675	3,673	3,122	-15.0%
Capital of new registered companies*	180	190	135	127	91	221	92	-58.6%

* 7-month annualized figures for 2018

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

Moving on to the performance of the hotels sector, it moved in line with the rising tourists' numbers. Accordingly, data published by Ernst & Young show that occupancy within four and five star hotels in the capital increased to 60.0% in 11M 2018 from 56.8% in the previous year, while the average room rate was down by 2.7% annually to US$ 142. As for rooms' yield, they rose by 2.4% during 11M 2018.

Last but not least, the relative stabilization of domestic politics and an improvement in the security situation in the region almost led to a full recovery in the trade and services sector, with the tourism sector outperforming and leading to a resumption of trade after the reopening of some border routes.

1.2. EXTERNAL SECTOR

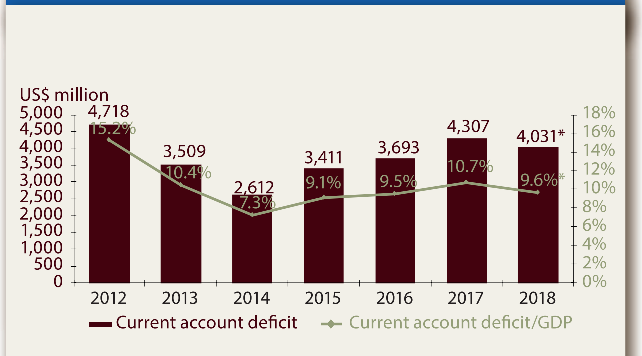
Current account deficit witnessing its first contraction since 2014

Despite persistently challenging external conditions, Jordan's external imbalances witnessed a relative improvement in 2018. In fact, the current account deficit has narrowed for the first time since 2014, on the back of a declining trade deficit, driven by contracting non-energy imports and increasing exports supported by the re-opening of the borders with Iraq. In parallel, stronger tourism receipts provided a solid support for services earnings after falling in 2015/2016 when regional political instability deterred visitors.

In details, foreign trade figures show a rise in domestic exports by 3.0% alongside a tiny decline in domestic imports by 0.8% in the first eleven months of 2018 compared to the same period of 2017, contributing to a 2.9% decrease in the foreign trade deficit, according to the Central Bank of Jordan. In fact, Jordan's trade deficit contracted from US$ 12.9 billion in the first eleven months of 2017 to US$ 12.5 billion in the first eleven months of 2018.

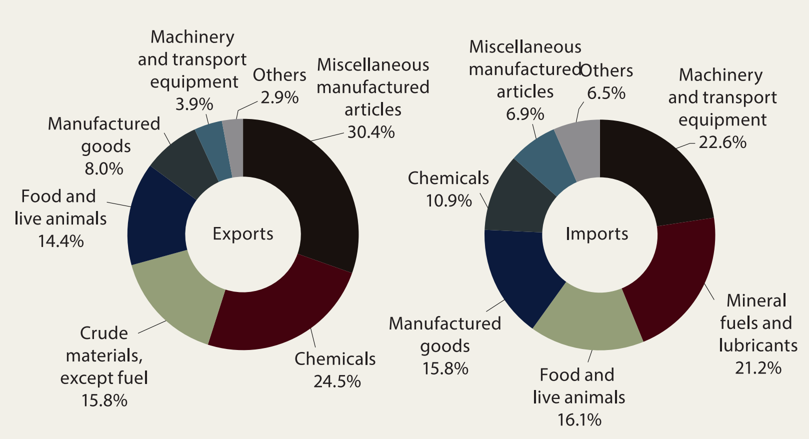
At the level of exports, a total of US$ 5.9 billion was registered in the first eleven months of 2018, compared to US$ 5.7 billion in the first eleven months of 2017, supported by the gradual reopening of trade routes through conflict countries in the region, mainly with Iraq in late 2017. It is worth mentioning that the reopening of border crossing between Jordan and Syria (Nassib gate) to people and goods in October 2018 after being closed for three years, will revive regional trade, as the closure of the Nassib crossing in 2015 cut a crucial transit route for hundreds of trucks a day transporting goods between Turkey and the Gulf, and between Lebanon and the Gulf. In parallel, the breakdown of domestic exports by commodity shows that the main exports during the first eleven months of 2018 are the exports of miscellaneous manufactured articles with 30.4% of total domestic exports, followed by chemicals with 24.5%, crude materials (except fuels) with 15.8%, and food and live animals with 14.4% of the total over the period. The geographic distribution of domestic exports indicates that 26.4% of total exports went to USA, followed by Saudi Arabia with 10.9% of the total, India with 10.4%, Iraq with 10.0%, UAE with 4.1% and Kuwait with 3.9% of total domestic exports.

FOREIGN SECTOR INDICATORS



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

BREAKDOWN OF EXPORTS & IMPORTS BY COMMODITY (11M-2018)



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

At the level of imports, a total of US$ 18.5 billion was recorded in the first eleven months of 2018, compared to US$ 18.6 billion in the first eleven months of 2017, despite the large oil import bill (up by 30.9%) driven by higher global oil prices, as the non-energy imports went down by 6.8% over the period. The breakdown of imports by category suggests that imports of machinery and transport equipment posted the most significant share of 22.6% of total domestic imports in the first eleven months of 2018, followed by mineral fuels and lubricants with a share of 21.2%, and food and live animals with 16.1% of the total. The breakdown of imports by country of origin shows that most of the inward merchandise in the first eleven months of 2018 came from Saudi Arabia with 16.9% of the total, followed by China with 13.8%, USA with 8.7%, Germany with 4.6%, UAE with 4.2%, Turkey 3.9% and Italy with 3.2%.

Within this context, the current account deficit contracted by 17.0% during the first nine months of 2018 relative to the same period of 2017 to reach the equivalent of US$ 2.8 billion, as per the latest available statistics. This improvement in current account deficit was mainly attributed to a decline in trade deficit and a significant recovery in services account. In fact, the latter went up by 17.7%, on the back of a net improvement in travel receipts by 18.7% given the signs of recovery in tourism industry, as the regional security gains, coupled with expanding low-cost flight connectivity to Europe, had a positive impact on inbound tourism. Within this context, the current account deficit contracted from 10.7% of GDP in 2017 to an estimated 9.6% in 2018, and it is expected to narrow gradually to 8.6% of GDP in 2019, as per the IMF.

1.3. PUBLIC SECTOR

Continuing fiscal consolidation efforts though at a softer pace

After implementing wide-ranging fiscal consolidation measures in the past three years, the government relatively loosened its fiscal stance in 2018, as fiscal consolidation measures were somehow put on hold amid the tensions surrounding the income tax law in spring 2018. Central government fiscal data for the first eleven months of 2018 point to a growth in public expenditures outpacing the increase in public revenues. Therefore, the overall budget deficit is estimated to have exceeded 3.5% of GDP in 2018, up from 2.6% of GDP in 2017.

Going further into details, total revenues and grants totaled US$ 9.2 billion in the first eleven months of 2018, moving up by 2.6% relative to the same period of 2017, as per the Central Bank of Jordan. This moderate rise in total revenues was the result of a modest rise in tax revenues which increased by 2.3% over the period to reach the equivalent of US$ 5.8 billion (constituting 63% of total revenues and grants). As to foreign grants, they went up by 30.1%, totaling around US$ 440 million in the first eleven months of 2018.

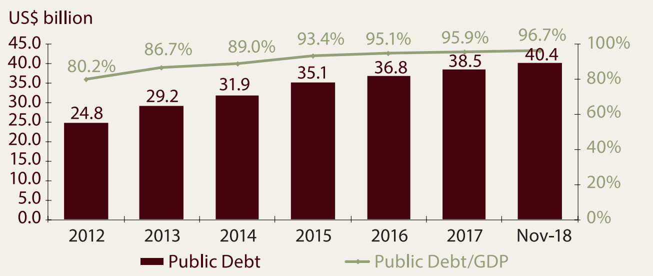
It is worth mentioning that central government fiscal data for 2018 suggests a relative loosening of the government's fiscal stance, as the Parliament rejected the proposed income tax law by the former Prime Minister, which sparked popular protests in late May/early June, and drove King Abdullah II to reshuffle the government and appoint a new Prime Minister who pledged to withdraw the tax bill and focus more on fighting tax evasion, which is estimated at US$ 800 million a year (or 2% of GDP). The proposed tax law was part of the economic reform program, supported by the IMF, and aimed at narrowing the fiscal deficit to bring down the public debt to GDP ratio to more sustainable levels (to 77% by 2022). In late November,

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2013	2014	2015	2016	2017	11M-17	11M-18	11M/11M
Public revenues & grants	8.1	10.3	9.6	10.0	10.5	9.0	9.2	2.6%
Public revenues & grants/GDP	24.1%	28.6%	25.5%	25.8%	26.1%	24.3%	23.9%	-0.4%
Public expenditures	10.0	11.1	10.9	11.2	11.5	10.2	10.6	3.1%
Public expenditures/GDP	29.7%	30.9%	29.0%	29.0%	28.7%	27.8%	27.5%	-0.3%
Fiscal balance	-1.9	-0.8	-1.3	-1.2	-1.1	-1.3	-1.4	6.9%
Fiscal balance/GDP	-5.5%	-2.3%	-3.5%	-3.2%	-2.6%	-3.5%	-3.6%	-0.1%

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 however, after amendments were introduced to limit the impact on middle-income earners, the law was passed. The measure is expected to bring in around US$ 400 million (less than 1.0% of GDP) in 2019.

On the other hand, total public expenditures went up by a moderate 3.1% in the first eleven months of 2018 compared to 2017 corresponding period, to reach a total of US$ 10.6 billion. In details, current expenditures increased by 5.3% totalling US$ 9.6 billion over the same period, while its breakdown by category shows that military expenditures (representing 33% of total current expenditures) went up by 6.3%, compensations of employees (constituting 19% of total current expenditures) were up by 1.5%, while interest payments (representing 14% of total current expenditures) were up by 18.0% in the first eleven months of 2018 compared to the previous year's same period. Meanwhile, the scope of adjustment on the spending side to narrow the fiscal deficit is limited. Expenditures are dominated by categories that are difficult to further cut in the short term because of their political sensitivity (military spending and wage bill), and because of their contractual nature (large and rising pension payments).

As such, the general budget deficit (including foreign grants) went up by 6.9% over the first eleven months of 2018 when compared to the same period of 2017, to record US$ 1.4 billion over the period and to reach 3.6% of GDP, up from 2.6% of GDP in full-year 2017. When excluding foreign grants, the general budget deficit went up by 11.8%, to reach US$ 1.8 billion in the first eleven months of 2018.

During the same period, gross domestic public debt increased by 8.2% as at end-November 2018 compared to its level as at end-December 2017, to reach US$ 23.5 billion, while the outstanding external public debt (budgetary and guaranteed) increased slightly by 0.6% as at end-November 2018, compared to its level as at end-December 2017, to stand at US$ 16.8 billion. As a result, gross public debt (domestic and external) went up by 4.9% over the period, to reach US$ 40.4 billion as at end-November 2018 (or 96.7% of GDP) compared to US$ 38.5 billion as at end-December 2017 (or 95.9% of GDP).

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Continuous monetary policy tightening along with limited inflationary pressures

The year 2018 was marked by a contractionary monetary stance as the Central Bank of Jordan continued to follow the lead taken by the US Federal Reserve in tightening policy, along with relatively limited inflationary pressures and an extended fall in gross official reserves.

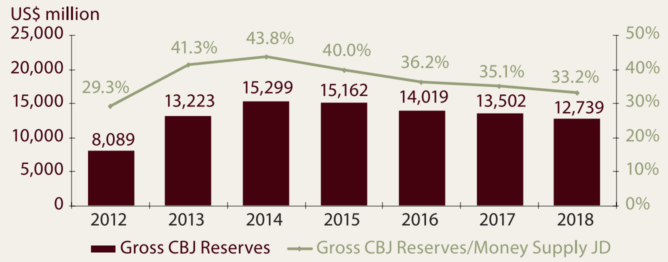
In details, consumer prices in Jordan continued to trace an upward, though moderate, trajectory for the second consecutive year in 2018, as shown by a 4.5% increase in the Consumer Price Index, moving from 119.3 on average in 2017 to 124.7 on average in 2018, according to the Central Bank of Jordan. Higher consumer prices mainly reflect higher global and food prices, an increase in goods and services tax and the elimination of flour subsidies. The breakdown of the Consumer Price Index by category shows that three out of 12 categories constitute more than two-thirds of the consumer goods basket and posted

MONETARY SITUATION

Flows in US$ million	2013	2014	2015	2016	2017	2018
Net foreign assets	364	1,423	289	999	391	-2,511
Net claims on public sector	1,430	-148	1,249	-1,045	-1,424	1,297
Claims on private sector (resident)	1,790	889	1,201	2,660	2,730	1,651
Claims on financial institutions	-53	1	-2	161	307	182
Net other items	-120	482	599	-982	-1,889	-53
Uses=Sources	**3,411**	**2,647**	**3,336**	**1,792**	**115**	**567**
Money supply (M1)	1,689	1,161	915	715	-355	-647
Quasi-money	1,722	1,486	2,421	1,078	470	1,214

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

yearly increases in 2018. In details, the heavyweight "food and non-alcoholic beverages" category, which accounts for circa 33.4% of the CPI, posted an increase of 3.2%, mainly owing to a 22% increase in prices of cereals in July 2018. The "housing" category, accounting for 21.9% of the CPI, recorded a rise of 3.5%. The "transportation" category, which accounts for 13.6% of the CPI, registered an increase of 9.9%. Within this context, it is worth mentioning that the "clothing and footwear" category was the only one that recorded a decline in 2018 (-1.5%).

Given the Jordanian dinar peg to the US dollar at 0.71 US dollar per dinar, the sustained US monetary policy tightening over the year 2018, and the continuous domestic inflationary pressures, the Central Bank of Jordan maintained a contractionary monetary policy over the year 2018, raising its key interest rates several times as part of its efforts to support the local currency and maintain a competitive return on dinar-denominated investments. In details, the CBJ main rate was lifted three times over the year by a cumulative of 75 bps to reach 4.75% at end-2018. The re-discount was also raised from 5.0% at end-2017 to 5.75% at end-2018. Also, the CBJ lifted the overnight repurchase agreements rate three times by a total of 75 bps to reach 5.50% at end-2018. The overnight deposit window rate was raised four times by a cumulative of 100 bps to reach 4.0% at end-2018.

The CBJ's gross official reserves remained on the decline for the fourth consecutive year in 2018, due to a significant decrease in private sector capital inflows (particularly foreign direct investment), continued current account deficit, Jordan's exchange market pressure and increased deposit dollarization rate that has reached 24% at end-December 2018. The CBJ's foreign exchange reserves decreased to US$ 12.7 billion at end-2018, from US$ 13.5 billion at end-2017, down by 5.6%, yet still cover seven months of the country's imports, which is higher than the international standard for foreign reserves coverage of three months, as per the Central Bank Governor. That being said, the CBJ's foreign exchange reserves covered 33.2% of money supply in Jordanian Dinar at end-2018 as compared to a higher coverage ratio of 35.1% at end-2017.

The broader money supply (M2) widened by 1.2% or the equivalent of US$ 567 million in 2018 to reach US$ 47.0 billion at the end of the year, following a smaller expansion of 0.2% in 2017 (the equivalent of US$ 115 million). This growth in money supply compares to a money creation of US$ 619 million in 2018 that mainly resulted from a US$ 2.51 billion contraction in net foreign assets, a US$ 1.30 billion growth in net claims on public sector, a significant rise in claims on the resident private sector of US$ 1.65 billion, and an increase in claims on financial institutions of US$ 182 million. The difference between the growth in money supply (M2) and money creation amounting to US$ 53 million corresponds to a demonetization of monetary claims in 2018.

In the coming period, the Central Bank of Jordan would continue to balance the need to maintain an adequate level of reserves to support the Jordanian dinar, while also keeping a close eye on supporting domestic economic conditions. Should tax increases and subsidy cuts be gradual and global oil prices be slightly lower compared with 2018, price pressures may ease in Jordan in 2019-2020.

1.4.2. Banking Activity

Continued activity growth along with satisfactory capital and liquidity buffers

Jordan's banking sector has had a satisfactory year in 2018 on the overall, amid a slight increase in economic growth and a relative amelioration in regional conditions. Banks have continued to collect deposits, especially time deposits within the context of rising interest rates, and extend waves of loans -albeit at a slower pace- to cater to the economy's funding needs in both its private and public sector components, while boasting adequate financial standing indicators. Measured by the aggregated assets of banks operating in the Kingdom, total sector activity grew by 3.6% on a yearly basis to reach the equivalent of US$ 71.8 billion at end-December 2018. The 2018 asset growth in volumes proved to be 2.5x higher than that recorded in the previous year.

Breaking down banks' consolidated balance sheet shows that on the funding side, total deposits continued to drive activity growth, along with foreign liabilities which yet account for a mere 15% of total balance sheets, in addition to a sustained rise in banks' capital base. Total deposits rose by 2.0% year-on-year to reach US$ 47.7 billion at end-December 2018, with the US$ 917 million yearly rise proving to be 2.2x higher than that recorded in the full year 2017. Jordanian banks actually benefit from an ample customer deposit base, enable them to tap a stable funding source.

The rise in total deposits last year is almost equally attributed to the private and public sectors of the economy. At the level of the public sector, higher deposits were attributed to the social security corporation that parked more funds with banks in the form of time deposits, whereas all other public sector depositors, namely the central government, municipalities and villages councils, and public non-financial institutions, reported an insignificant contraction in their total deposits.

At the level of the private sector, the non-resident private sector was the largest contributor to private sector deposit growth with two-thirds of total private sector growth in 2018 (yet only an 11% share in the total deposit base at end-2018), followed by non-banking financial institutions and the resident private sector. It is worth noting that with the local currency pegged to the greenback, the Central Bank of Jordan raised interest rates tracking US Federal Reserve moves throughout the year, thus enticing depositors into the Kingdom's banking sector amid a relative amelioration in domestic operating conditions.

Relative to the previous year, the deposit mix shifted further in favor of time deposits, which had a share of 55.6% in total deposits at end-2018 (53.1% at end-2017), at the expense of demand deposits (27.7% of total deposits at end-2018 against 29.6% at end-2017) and saving deposits (16.7% against 17.3% respectively). Foreign currency deposits contributed to almost all deposit growth last year, bringing the total deposit dollarization ratio to 24.2% at end-December 2018 from 22.8% at end-December 2017.

In parallel, banks operating in Jordan continued to build capital buffers and increased their capital accounts and allowances by 3.6% to reach US$ 11.1 billion at year-end, or a satisfactory 15.4% of total assets. The Basel III regulation has been implemented for more than two years now for conventional banks and is now effective for Islamic banks. S&P lately noted that extra buffers are being required for systemically important banks (+1.5%-2.0%) while adding that the Central Bank is confident that the banks' already high capital and liquidity buffers will allow a smooth transition. The Central Bank-published capital adequacy ratio stood at a comfortable 17.2% at end-June 2018 as per recent disclosures.

On the asset utilization side, the additional funding available was mainly channeled towards extending further loans to the public and private sector components of the Jordanian economy, and to a certain extent increasing exposure to the non-resident private sector through lending as well, while banks' liquidity at banks abroad and at the Central Bank declined on a yearly basis.

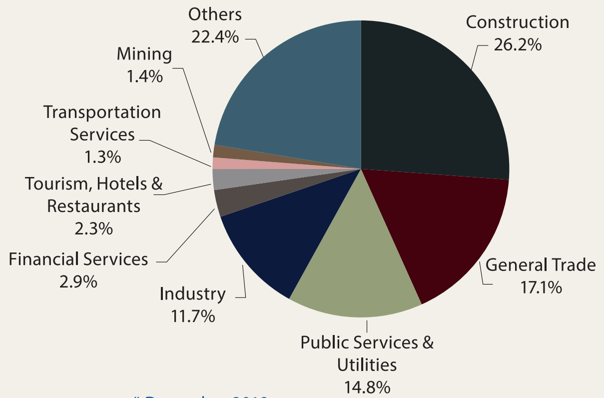
Official figures show that total credit facilities extended by banks operating in Jordan rose by 5.5% between December 2017 and December 2018 to reach the equivalent of US$ 36.8 billion at year-end. It is yet worth noting that the yearly growth in lending activity, equivalent to US$ 1.9 billion, proved to be 24%-25% lower than the yearly volume growth of the past three years. This is likely attributed at least

BANKING SECTOR INDICATORS

US$ million	2013	2014	2015	2016	2017	2018
Banking Activity						
Assets	60,369	63,282	66,477	68,240	69,254	71,780
Deposits	38,917	42,680	45,977	46,402	46,822	47,739
Credit facilities	26,713	27,185	29,764	32,306	34,889	36,823
Capital accounts and allowances	8,669	9,554	10,025	10,241	10,669	11,052
Growth rates						
Assets	9.0%	4.8%	5.0%	2.7%	1.5%	3.6%
Deposits	10.5%	9.7%	7.7%	0.9%	0.9%	2.0%
Credit facilities	6.3%	1.8%	9.5%	8.5%	8.0%	5.5%
Capital accounts and allowances	5.1%	10.2%	4.9%	2.2%	4.2%	3.6%

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

CREDIT FACILITIES BREAKDOWN BY ECONOMIC ACTIVITY*



* December 2018

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

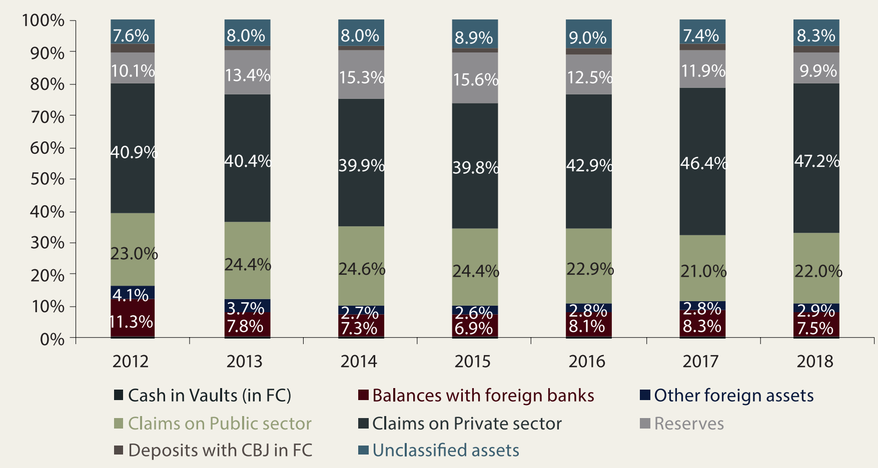
partly to the successive increases in interest rates tracking the US Federal Reserve over the past couple of years, which dented corporate and household appetite for new borrowings. Anyhow, the new loans extended this year mostly went to the industrial sector (24.8% of total credit facilities growth), followed by the general trade sector and the construction sector (17.4% and 16.7% respectively).

It is worth noting that even though lending activity growth slowed last year, banks in Jordan have sufficient firepower to grant new loans in the period ahead, noting that the credit facilities to deposits ratio stood at a relatively reasonable 77% at end-2018, especially when compared to those of GCC neighbors.

The public sector has had its share of loans as well, with the consolidated balance sheet of licensed banks showing an 8.6% increase in total claims on the public sector (rising for both central government and public sector entities). As such, sovereign exposure resumed its upward trend after a contraction in the previous year, with the claims on public sector representing 1.43x capital accounts and allowances at end-2018, against 1.36x at end-2017, yet remaining below the levels of the previous few years (1.5x-1.7x).

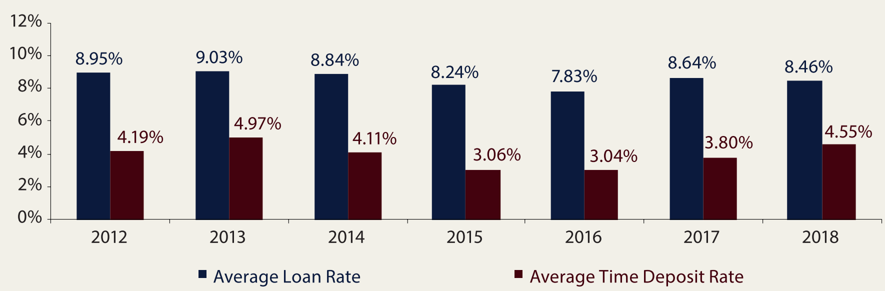
While banks continued to extend loans, they have slightly reduced their liquidity parked at the Central Bank and banks abroad during 2018. As a result, the core liquidity ratio, which we measure as the ratio of banks' cash and deposits with the Central Bank and banks/total deposits, attained 29.5% at end-December 2018, against 33.0% at end-December 2017. The core liquidity ratio yet remains 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 banks.

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

In parallel, Jordanian banks are benefiting from adequate asset quality metrics. The NPL ratio for domestic banks has gradually improved over the past few years, from levels hovering around the 8%-9% marks at the start of the decade to 4.6% at end-June 2018 (4.2% at end-2017), and banks have buffeted the cost of risk with decent loan loss coverage that reached 74.1% at end-June 2018. Last but not least, the relative amelioration in net interest income in a rising interest rate environment offset a modest rise in operating expenses, thus helping banks post an increase in net profits. The latest consolidated statistics for Jordan branches show that net profits increased by 4.9% on a yearly basis in the first half of 2018.

1.4.3. Equity and Bond Markets

Jordan's capital markets under downward price pressures in 2018

Jordan's equity and bond markets came under downward price pressure in 2018, mainly weighed down by declines in US Treasuries amid a sustained US monetary policy tightening, emerging market weakness, and concerns over a new taxation on stock trading profits on the Amman Stock Exchange.

Activity on the Amman Stock Exchange remained skewed to the downside in 2018, despite a 44.7% yearly surge in full-year net profits of 193 out of 195 listed companies, an increase in the ASE dividend yield from 4.56% at end-2017 to 4.96% at end-2018, and although Jordanian stocks traded near their book value at a P/BV of 1.15x, which is its lowest level in more than a decade. Jordanian equities were on the decline in 2018, tracking emerging market weakness (as reflected by a 16.8% drop in the S&P Emerging Frontier Super Composite Index) and dragged by concerns over a new taxation on stock trading profits on the ASE. In fact, the Jordanian cabinet approved at end-December 2018 regulations to facilitate procedures for collecting income tax on stock trading profits.

The general weighted price index continued to trace a downward trajectory for the eleventh consecutive year, falling from 4,009.4 at end-2017 to 3,797.1 at end-2018, down by 5.3%, before bouncing back during the first two months of 2019, moving up by circa 3.5%. The breakdown of the ASE general weighted price index by sector in 2018 shows that the "services sector" was the main drag to the index, posting a yearly price drop of 14.7%, followed by the "Manufacturing and Mining sector" with -11.6% and the "banking and financial sector" with -1.1%, while the "insurance sector" registered yearly price gains of 9.1%.

Non-Jordanian buying operations amounted to US$ 1,737 million in 2018, while non-Jordanian selling operations reached US$ 1,054 million, resulting into net investments of +US$ 683 million as compared to net investments of -US$ 472 million over the year 2017. Accordingly, the non-Jordanians' ownership of market capitalization reached 51.7% at end-December 2018, up from 48.1% at end-2017.

Within the context of equity price falls and one new listing on the ASE in 2018 to reach 195 listed companies, the market capitalization contracted by 5.0% year-on-year, moving from US$ 23.9 billion at end-2017 to US$ 22.7 billion at end-2018. Accordingly, the ASE market capitalization accounted for 54.3% of GDP at end-2018, down from 59.6% of GDP at end-2017, which sheds light on the continuous declining dimension of the ASE relative to the Jordanian economy.

The ASE total trading value contracted by 20.7% year-on-year to reach US$ 3.3 billion in 2018. The division of the total trading value by sector shows that the "financial sector" captured 48% of activity, followed by "the industrial sector" with 42%, and "the services sector" with 10%. The number of traded shares reached 1,246 million shares in 2018, traded through 512 thousand transactions, compared with 1,717 million shares traded during the year 2017 through 718 thousand transactions. The noticeable drop in the total turnover was coupled with a smaller contraction in the market capitalization, which resulted into a fall in the ASE turnover ratio from 17.3% in 2017 to 14.4% in 2018, in a sign of reduced efficiency on the Amman Stock Exchange.

At the level of the bond market, sovereigns maturing in 2026, 2027 and 2047 registered yearly price drops of 7.01 pts, 7.26 pts and 15.75 pts in 2018, along with expansions in bid z-spreads of up to 109 bps, mainly tracking US Treasuries move after the US Federal Reserve raised its benchmark interest rate four times in 2018, and following emerging market weakness (as reflected by a 38% expansion in JP Morgan EMBIG Z-spread). However, Jordanian sovereigns rebounded during the first two months of 2019, registering price gains of up to 7.75 pts along with contractions in bid z-spreads of up to 68 bps, after the US Federal Reserve put rate rises on hold in its January 2019 FOMC meeting and said that it would be "patient" as it determines what future adjustments to the target range for its federal funds rate may be appropriate in light of global economic and financial developments and muted US inflation pressures.

As to credit rating changes, Moody's affirmed in November 2018 Jordan's long-term issuer and senior unsecured ratings at "B1" with "stable" outlook. The rating affirmation reflects, according to Moody's, credit challenges posed by an increasingly adverse global financing and trade environment, in the context of very large current account deficits and declining foreign exchange reserves, and rising domestic social pressures. It also takes into account credit supports such as the government's proven commitment to fiscal consolidation, strong and broad-based international commitment to support Jordan's economic, financial and social stability, and reforms of Jordan's energy sector and changes in energy sources that would reduce the sovereign's vulnerability to higher oil prices, as per the international rating agency.

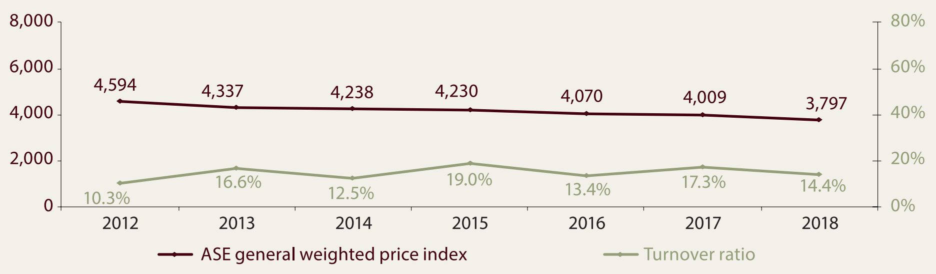
Also, Standard and Poor's affirmed in September 2018 its "B+/B" long-term and short-term foreign and local currency sovereign credit ratings on Jordan, with "stable" outlook. The "stable" outlook balances S&P's expectation that donor funding would continue to support public finances and low interest costs against the risk that the government would reverse planned fiscal consolidation to alleviate social and economic challenges.

CAPITAL MARKETS INDICATORS

	2013	2014	2015	2016	2017	2018
Market capitalization (US$ billion)	25.7	25.5	25.4	24.5	23.9	22.7
Market cap/GDP	76.4%	71.1%	67.5%	63.2%	59.6%	54.3%
Total value traded (US$ billion)	4.3	3.2	4.8	3.3	4.1	3.3
Total volume of traded securities (million)	2,706	2,322	2,586	1,837	1,717	1,246
Total number of transactions (000s)	1,074	956	899	786	718	512
% Chg. in ASE general weighted price index	-5.6%	-2.3%	-0.2%	-3.8%	-1.5%	-5.3%
P/E	14.7x	15.3x	14.0x	16.6x	19.5x	17.9x
P/BV	1.3x	1.3x	1.3x	1.2x	1.2x	1.1x
Dividend yield	4.6%	4.2%	3.6%	4.1%	4.6%	5.0%

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

Looking ahead, the outlook for the Jordanian economy brings some improved momentum at the horizon. The re-opening of the border with Iraq and associated trade and investment agreements, the extension and broadening of the trade agreement with the EU, as well as other efforts to lower the cost of generating electricity, all bode well for a steady recovery in exports, competitiveness and growth. In parallel however, challenges still remain, in particular from tighter and more volatile global financing conditions and elevated vulnerabilities.

Within this context, real GDP growth is forecasted at 2.5% for 2019 and an average of 2.8% over the next five years. A more material growth acceleration hinges on a regional peace dividend to reinvigorate consumption, investment and exports, implementing a reform agenda to improve productivity, exports and FDI, and attracting international financial assistance to smooth the adverse impacts of transforming the economy.

At the external level, Jordan's current account deficit is expected to narrow gradually over the medium term on the back of stronger exports outpacing a growing energy-import bill. It is yet to be noted that a stronger boost to the Kingdom's export activity and foreign inflows hinges on economic recovery of GCC and full revival of trade with Iraq to pre-border closure levels. As such, the current account deficit is set to average 7.2% of GDP over the next five years.

At the fiscal level, government indications suggest that Jordan will continue its fiscal consolidation looking ahead. Fiscal policy is expected to remain tight in line with government's medium term fiscal framework. The overall fiscal balance is expected at an average of 3.7% of GDP over the next five years, yet associated with a sizeable primary surplus needed for debt service. In parallel, debt to GDP is set to contract to an average of 88% over the next five years, reaching 79% at the horizon 2023.

At the monetary level, the Kingdom is expected to continue following a monetary policy that supports the JD USD peg. The Central Bank of Jordan will remain committed to the maintenance of the peg, which, despite the associated lack of flexibility, has helped to instill confidence in monetary policy. Inflation is set to ease to an average of 2.4% over the next five years, as the impact of higher domestic energy and transport costs fades and annual average global oil prices decline, bearing in mind that inflation will also depend on fluctuations in global food prices.

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 relatively sound banking sector, the track record of structural reform implementation under IMF programs, the government's proven commitment to fiscal consolidation, the strong and broad-based international support, energy sector reforms that have reduced the sovereign's vulnerability to higher oil prices and the outperformance of regional peers on government effectiveness and control of corruption. At the level of weaknesses, we mention weak growth amid regional countries' political and security instabilities, high unemployment and significant socio-economic challenges, large current account deficits, and high government debt in the context of an increasingly adverse global financing and trade environment and rising domestic social pressures.

While challenges and risks are real, we believe opportunities outpace threats at the horizon. Still, it is important for Jordan to confront its persisting challenges and improve economic performance, and ensure a gradual and steady fiscal consolidation and a continued implementation of reforms to enhance business conditions and employment prospects, with such policies and reforms to be supported by significantly greater efforts from the international and regional donor community.

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