الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

The Hashemite Kingdom of Jordan

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TRUST . TRANSPARENCY . INDEPENDENCE

Jordan's real GDP growth slowed down to 2.4% in 2015, as unstable regional circumstances affected the macroeconomic environment in the country. The conflicts in neighboring countries such as Iraq and Syria have negatively affected the growth of wholesale & retail trade and tourism[1] sectors to 1.2% (2014: 3.9%) and -3.3% (2014: 2.9%) respectively. The loss of investor confidence amidst regional instability and the delay in the disbursement of grants by Gulf Cooperation Council (GCC) countries has led to a deceleration in the growth of construction sector to -1.3% (2014: 6.8%). However, certain sectors such as electricity & water and finance & insurance services performed well during 2015. Concurrently, the decline in economic growth has led to an increase in the unemployment rate in 2015 to 13.1% (2014: 11.9%).

On the positive side, the decline in oil prices and a strong US Dollar led to deflationary conditions in 2015 which has benefitted the country to some extent. Within this environment, the Central Bank of Jordan reduced the policy rate to 3.75% in order to encourage credit off take and stimulate the economy. The Central bank official reserves at JD 10.03b have helped to boost the confidence in Jordanian Dinar and maintenance of the dollar-peg.

Table 1: Economic Indicators	2012	2013	2014	2015
Real GDP[2] (JD' millions)	10,515.3	10,812.9	11,147.6	11,413.2
Real GDP Growth (%)	2.7	2.8	3.1	2.4
Nominal GDP[2] (JD' millions)	21,965.5	23,851.6	25,437.1	26,637.4
Nominal GDP Growth (%)	7.3	8.6	6.6	4.7
Inflation (%)	4.5	4.8	2.9	-0.9
Domestic Debt (% of GDP)	53.0	49.7	49.2	50.5
External Debt (% of GDP)	22.5	30.3	31.6	35.3
Fiscal Account Balance[3] (% of GDP)	-8.3	-5.5	-2.3	-3.5
Current Account Balance (% of GDP)	-15.2	-10.4	-7.3	-9.0
Gross Official Reserves (JD' millions)	4,702.5	8,512.0	9,981.9	10,034.8
Population (millions)	7.4	8.1	8.8	9.5
Source: Central Bank of Jordan				

The country's imports reduced by 11.3% in 2015, which was mainly contributed by 22.2% reduction in the imports of crude materials & intermediate goods due to significant drop in oil prices. The import of crude products accounts for more than half of the country's total imports. The exports also suffered a decline due to violence at the country's borders by insurgents in neighboring countries. This led to the closure of trade path between Jordan and Syria and further diminished already decreasing cargo shipments between Jordan and Iraq. The 7.1% decline in total exports in 2015 was lower than the imports decline, leading to a contraction in trade deficit which was reported at 27.2% of GDP (2014: 33.4%). The current account deficit widened to 9.0% of GDP in 2015, despite the contraction in trade deficit. This was mainly due to the decline in the receipts from tourism services as an unstable regional environment along with a strong US dollar affected Jordan's tourism sector. Moreover, a decrease in foreign grants by about 40% also impacted the current account balance.

The fiscal balance deteriorated as external grants, mainly contributed by the GCC countries, underwent a sharp decline in 2015. Jordan has been a beneficiary of support from GCC over the recent years; however amidst declining oil prices and liquidity pressures in the region, such assistance has reduced. The domestic revenues also declined slightly by 2%. Revenues earned through tax and pension contributions remained almost at prior year's level; however revenues from selling goods and services and property income declined during 2015. Government expenditure declined by 2% as both current and capital expenditures were controlled. Amongst various expenditure heads, grants declined notably by 43% and food & oil subsidies were lower by 11%.

The government debt levels continued to increase and stood at 85.8% of the GDP (2014: 80.8%). The increase was due to the issuance of sovereign Eurobonds in international markets and the receipt of final tranches of the loan from International Monetary Fund (IMF), overweighting external debt as a proportion of overall debt. Sustained fiscal adjustment efforts, from the government, are required in order to reduce the high debt ratio to more acceptable levels.

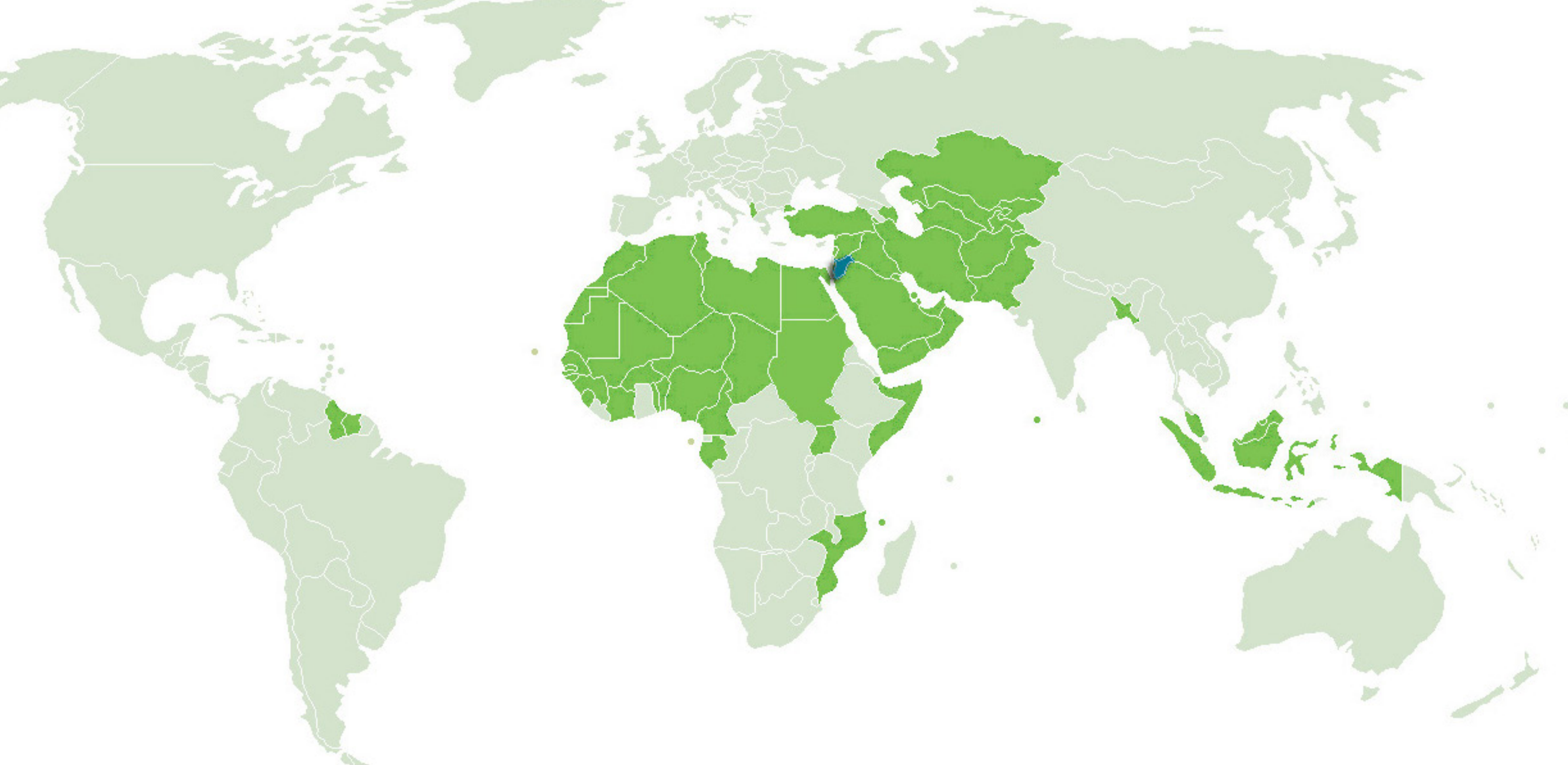
[1] *Restaurant and Hotels*
[2] *At market Prices*
[3] *Including Grants*

Banking Sector

Jordan's banking sector indicators largely remained sound amidst regional pressures and ensuing effects on the domestic economic environment. The total assets of the banking system achieved a similar growth of 5% in 2015 as in the prior year. Financings represented the majority of the asset base at 65%. The banks' lending to both the public and private sector increased by 5% during the year. Much of the growth in public sector lending is due to the increase in banks' exposure towards National Electric Power Company (NEPCO), as part of the government's investment drive. The growth in the private sector lending has slowed down in recent periods given limited financing opportunities in the current stressed environment. The regulatory authorities have taken certain initiatives in order to increase the financings to the SME sector. Also, the establishment of a credit bureau recently will improve the underwriting standards. The deposit growth of the banking sector has slowed down to 8% in 2015 compared to an average growth of 10% recorded in the prior two years. The deposit base mainly comprises stable resident private sector deposits to the extent of 79%, which enables the banks to finance its operations by local currency funds vis-à-vis having to access foreign funding and being exposed to fluctuations in global credit markets.

	2012	2013	2014	2015
Nonperforming Loans/Total Loans	7.7%	7.0%	5.6%	4.9%
Coverage Ratio	69.4%	77.0%	77.6%	74.7%
NPLs (net of provisions)/Equity	8.3%	5.6%	4.3%	4.5%
Capital Adequacy Ratio	19.01%	18.39%	18.40%	19.1%
Leverage Ratio	13.31%	12.93%	12.46%	12.7%
ROE	8.6%	9.9%	11.0%	10.3%
ROA	1.1%	1.2%	1.4%	1.3%
Interest Margin/Gross Income	76.6%	77.6%	77.9%	77.4%
Net Profits After Taxes	413.94	501.78	595.90	582
Liquidity Ratio	143.5%	149.1%	152.2%	149.0%

The financial soundness indicators continued to improve in 2015, as gross impairment ratio declined during the year, supported by tighter credit disbursement standards which have helped in the curtailment of NPLs. Although, the coverage ratio decreased in 2015, it still reflects adequate provisioning levels. The aggregate capital and liquidity levels continue to remain above the regulatory requirements and are considered sound.



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