



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & FINANCIAL SECTOR OVERVIEW

**Hashemite Kingdom
of Jordan**

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ECONOMIC OVERVIEW- HASHEMITE KINGDOM OF JORDAN

Jordan has a strategic location as it is placed at the crossroads of Asia, Africa, and Europe. It is a relatively small country with 10.3 million people with a higher presence of refugees coming from neighboring countries owing to a series of geopolitical tension in the region. Jordan is bordered to the north by Syria, to the east by Iraq, to the southeast and south by the Kingdom of Saudi Arabia, and to the west by Israel and the West Bank. Geography has contributed to the upper-middle-income country's political and economic conditions ever since it was founded.

Jordan has been seriously affected by external factors over which the country has little control such as regional tensions and consequent interruptions to trade routes and tourism receipts. Despite these challenges, Jordan has been growing consistently to maintain its GDP growth in real terms at 2.0% during 2018 (2017: 2.0%), with a GDP of USD 42.3b (2017: USD 40.1b) during the year. The country thrives on foreign trade, mineral resources¹, and tourism. Other major GDP contributing sectors included finance and insurance services, transport, storage, and communications, agriculture and manufacturing. During February 2019, Jordan signed multiple agreements in energy, shipping and industry with Iraq which should boost the economy in the coming years. Jordan has also pushed forward with reforms that will make the economy more robust in the longer term. Jordan 2025, a ten-year socio-economic blueprint, and the Jordan Economic Growth Plan 2018-22² focus on renewable energy, ICT, manufacturing and tourism as key drivers for economic growth and social development.

Despite one of the most highly qualified workforces in the region, Jordan has been facing a high unemployment rate which increased further to an average 18.6% during 2018 from 18.3% in 2017, with a significantly higher unemployment rate for females. A major reason behind the increased unemployment rate is subdued economic growth which resulted in an increasing supply-demand gap between newly passed graduates and available jobs in the market. The informal employment of refugees is also straining the job market.

As the impact of price and tax measures taken during early 2018 has faded out, most prominent amongst which was the tobacco and cigarette tax and liberalization of bread prices, inflation has significantly declined to 0.3% during the first ten months of 2019 (Jan-Oct'2018: 4.5%). Lower inflationary environment further supported by interest rate cuts by the Fed during 2019. Central Bank of Jordan's (CBJ) has also cut its policy rate, with the repurchase agreements rate reaching 4.75% as of Oct'2019 (Dec'2018: 5.5%).

Jordan has been effectively working towards fiscal consolidation, as efforts to fulfill the stipulations of USD723m extended fund facility agreement with the International Monetary Fund continue. The fiscal deficit has been shrinking since 2015 coming down to JD 727.6m or -2.4% of GDP (2017: JD -747.9m or -2.6% of GDP).

Due to higher growth in exports, a decline in imports and strong growth in secondary income account, the current account deficit has improved to JD -2,107m or -7% of GDP (2017: JD -3,053m or -10.6% of GDP), albeit remaining high and indicating significant vulnerability on the external front. Twin deficits in both fiscal and current accounts have caused high over all in indebtedness with gross public debt being JD 28,308m or 94% of GDP as of end-2018 (2017: JD 27,269m or 94.3% of GDP). Net outstanding domestic debt reached JD 16,221m or 53.9% of GDP as of end-2018 with a significant portion outstanding against Public sector entities including National Electric Company (NEPCO) and Water Authority (WAJ). Outstanding external public debt stood at JD 12,088m as at end- 2018, which is sufficiently covered by its reserves, with a 67.8% debt coverage ratio.

Jordan has a strong institutional framework compared with regional peers. However, regional political dynamics as well as high unemployment and the presence of refugees, remain key challenges for the economy.

¹ Jordan's Arab Potash Company (APC) is the eighth largest producer of potash worldwide. Jordanian potash is extract from the Dead Sea.

² The plan was devised by the Economic Policies Council, an independent 15-member council chaired by King Abdullah II that was created in 2016 and comprises a mix of public and private sector representatives. The plan aims to triple the growth rate to 6.5% in 2021 and reach 7.5% in 2025 via a broad range of reforms and incentives affecting all sectors of the economy.

INDUSTRY OVERVIEW

Jordan's insurance sector consists of 24 insurance companies, 15 of which are licensed to provide both, non-life and life insurance, 8 are operative in only non-life insurance segment and one in the life segment. Meanwhile, there are two takaful companies in the country. Premium generation is concentrated with 5 largest insurers commanding almost half of the market share, and around 66% of the industry's net profit. After witnessing a subdued year, the Jordan insurance sector posted a strong profit of JD 18.6m during 2018. All 21 insurers achieved combined net profits of JD 22.1m while three insurance companies suffered aggregate net losses of JOD3.5m. A growth of 2.2% was noted in written premiums reaching JD 606m during 2018 (2017: JD 593m). Total claims paid by the insurance companies amounted JD 462m, 3.7% higher than the previous year.

During the year 2018, IIC stood at 5 out of 21 companies in terms of profitability with three companies posting significant losses. The insurance industry is largely affected by the slow-down in the economy with almost no new projects, a large number of insurance providers in a relatively small market, with increasing competition putting a lot of pressure on pricing, and consequently shrinking margins with every passing year.

The insurance industry has been working towards shifting regulatory supervision of the insurance sector to the Central Bank of Jordan. This proposal is currently under consideration with the Parliament. The industry expects this transfer to be finalized by the year end-2019, and is expected to raise the standard of business conduct within the sector.

FINANCIAL SECTOR OVERVIEW

Financial sector represents around one fifth of GDP in Jordan and is supported by profitable, highly capitalised banks. Central Bank of Jordan (CBJ) issued Basel III regulations on capital requirements in November 2016 and announced additional capital charge for D-SIBs to further reduce system-wide risks; JIB is one of the D-SIBs as identified by CBJ with an additional capital requirement of 0.5%.

Total deposits in Jordan's licensed banks stood at JD33.7b as at end-February 2019, with around 92% of deposits coming from the private sector. With a growth of around 7% during 2018, total financings stood at JD 35.6b as at end-February 2019. Jordan Economic Growth Plan 2018-2022 plans to enhance financial inclusion and ensure adequate financing to small and medium enterprises (SMEs), and allocate 15% of the international and regional financial institutions' loans to SMEs startups.

THE ISLAMIC BANKING INDUSTRY IN JORDAN

There are four licensed Islamic banks in the country – three Jordanian and one foreign. Jordan's Islamic banking industry is systemically important with a share of around 16%³ of total banking assets as of 2018 year-end. Growth followed a moderate increase in Islamic banking asset base of almost 3.0%, which is largely in line with banking sector asset growth of 3.7% during 2018.

Gross financing in Islamic banks⁴ grew by around 5.8%, which is marginally lower than industry credit growth of 7% during 2018, despite higher pace in deposits⁵ growth of 2.7%, vis-à-vis industry deposit growth of 2.0%, and resulting in improved liquidity buffers.

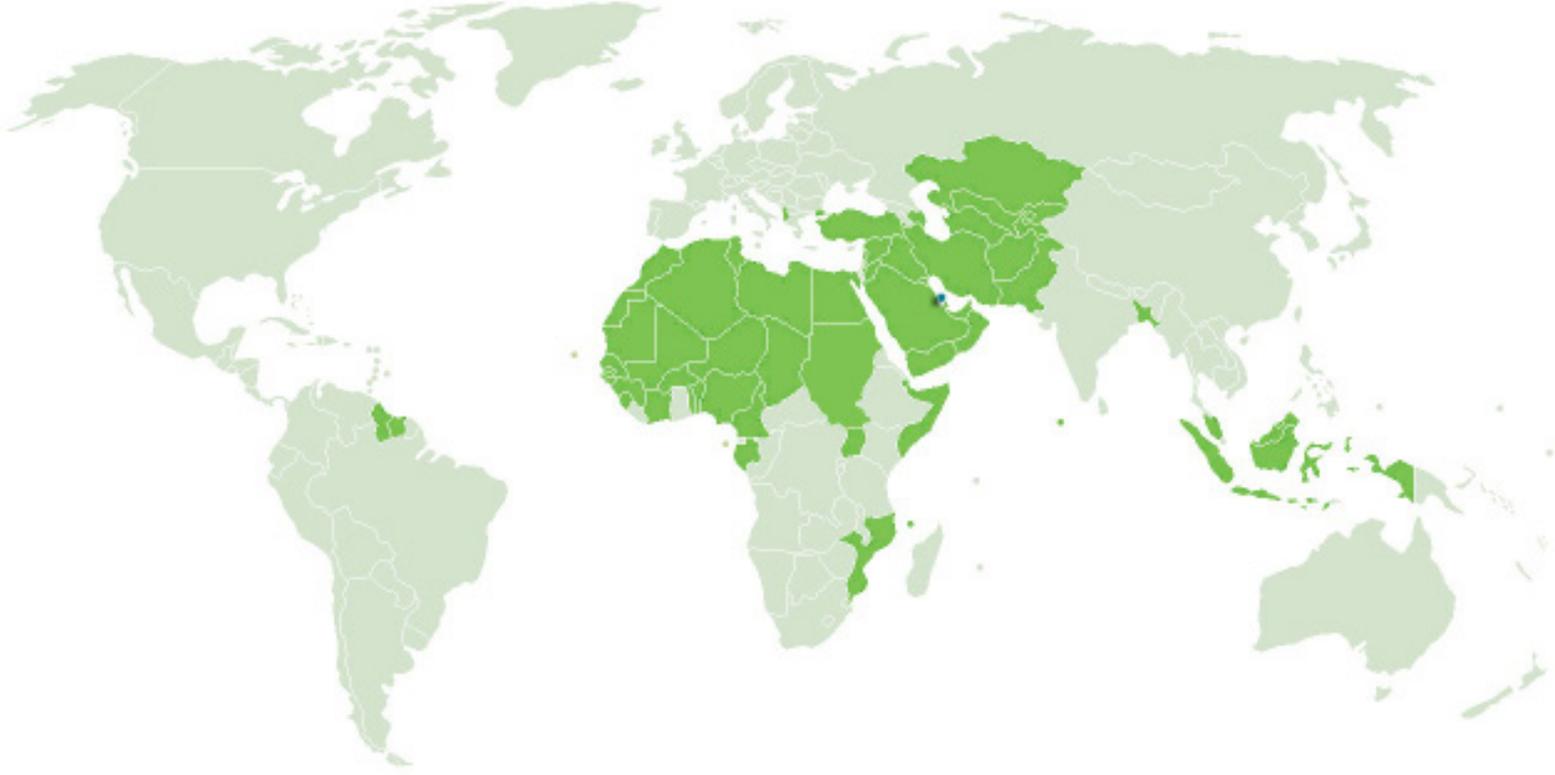
Following the issuance of its maiden sovereign Sukuk of USD105.9m in May 2016, further Sukuk issuance was noted during 2018, with another Sukuk issue from NEPCO. The market nevertheless lacks depth with the sovereign and state owned NEPCO being the only issuers to date.

The 2017 edition of the Islamic Finance Development Report and Indicator (IFDI) ranked Jordan 8th globally in terms of industry-wide quantitative development, knowledge, governance, corporate social responsibility and **awareness**.

³ Estimated number based on last year asset size of Al Rahji Bank

⁴ Excluding Al Rahji bank

⁵ Excluding Al Rahji bank



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