

# **FINANCIAL STABILITY REPORT**

## **2023**

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**FINANCIAL STABILITY DEPARTMENT**

## PREFACE

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The Financial Stability Report 2023 (JFSR 2023) complements the Central Bank of Jordan's (CBJ) continuous endeavors to strengthen the stability of the financial and banking sector in the Kingdom, as well as to provide sufficient data on different aspects of Jordan's economy and financial sector. Under the CBJ's amended Law of 2016, the CBJ's objectives were broadened to explicitly include preserving financial stability as a main objective alongside achieving monetary stability. Financial stability is intended to enhance the capacity of banks and other financial institutions to withstand risks and to alleviate any structural imbalances.

Economic activity was surprisingly resilient amid the global disinflation of 2022 and 2023. As global inflation descended from its mid-2022 peak, economic activity grew steadily, defying warnings of stagflation and global recession. Despite high interest rate hikes in that period, growth in employment and income held steady, reflecting supportive demand developments including greater-than-expected government spending and households' consumption. However, the uncertainty weighs again on the world economic outlook, amid the consequences of the Russian-Ukrainian crisis and the war on Gaza.

As for Jordan's economy, the growth strengthened to 2.6% in 2023, compared to 2.4% in 2022. However, the growth is expected to reach 2.4% and 2.9% in 2024 and 2025, respectively, according to the International Monetary Fund's (IMF) projections. Despite the headwinds in Jordan and countries worldwide due to the COVID-19 pandemic, and subsequent global geopolitical tensions, in particular the Russian-Ukrainian crisis and the war on Gaza, and the resulting global, regional, and domestic increase in interest rates, Jordan proved high resilience and soundness in front of external shocks, as Jordan's prudent monetary and fiscal policies have maintained monetary, financial, and economic stability, and supported Jordan's access to international markets; these measures were reflected positively on the adequacy of foreign reserves, the soundness of the banking system, and the curbing the inflation despite pressures of the global prices. These achievements were rewarded by upgrading Jordan's credit rating to Ba3 with a stable outlook.

The Financial Sector Assessment Program (FSAP) conducted by the IMF and the World Bank in 2022 and the first quarter of 2023, concluded that the banking sector in Jordan is sound and robust, and is highly resilient to shocks and high risks, as banks enjoy high levels of capital and comfortable levels of liquidity and profitability, besides the CBJ's sound banking surveillance, which is based on international standards thereof.

Furthermore, the CBJ will keep improving this Report taking into consideration the developments of domestic, regional, and international risks, to enhance the pillars of the financial stability in the Kingdom. This report is published on the CBJ's website [www.cbj.gov.jo](http://www.cbj.gov.jo).

**The Governor**  
**Dr. Adel Al-Sharkas**

## EXECUTIVE SUMMARY

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### GLOBAL FINANCIAL STABILITY:

Economic activity was surprisingly resilient during the global disinflation of 2022 and 2023. As global inflation descended from its mid-2022 peak, economic activity grew steadily, defying warnings of stagflation and global recession. Despite high interest rate hikes in that period, growth in employment and incomes held steady, reflecting supportive demand developments including greater-than-expected government spending and households' consumption. It also reflects households in advanced economies being able to benefit from their spending by drawing down accumulated pandemic-era savings. However, the uncertainty weighs again on the world economic outlook, amid the consequences of the financial sector turbulence and the Russian-Ukrainian crisis and the war on Gaza.

The global growth recorded a slight slowdown at 3.2% in 2023, compared to 3.4% in 2022, however, the IMF's April 2023 forecasts indicate that the global economy is set to grow modestly by 3.2% in 2024 and 2025.

**The uncertainty weighs again on the world economic outlook amid the consequences of the Russian-Ukrainian crisis and the war on Gaza**

**The global economy is projected to grow modestly by 3.2% in 2024 and 2025**

### JORDAN ECONOMY:

The growth improved at 2.6% in 2023, compared to a growth of 2.4% in 2022. The economic growth is expected to reach 2.4% and 2.9% in 2024 and 2025, respectively, according to the IMF's projections.

Despite the headwinds in Jordan and countries worldwide due to the COVID-19 pandemic, and the subsequent global geopolitical tensions, in particular the Russian-Ukrainian crisis and the war on Gaza, and the resulting global, regional, and domestic hikes in interest rates, Jordan proved high resilience and soundness in front of external shocks, as Jordan's prudent monetary and fiscal policies have maintained monetary, financial, and economic stability, and supported Jordan's access to international markets. These measures reflected positively on the adequacy of foreign reserves, the soundness of the banking system, and curbing inflation despite pressures of the global prices. These achievements were rewarded by Jordan's credit rating being upgraded to Ba3 with a stable outlook.

**The gradual recovery of Jordan's economy is on the right track**

**Despite of adversities, the financial stability in Jordan remained steady supported by sound economic policies**

## **THE BANKING SECTOR IN JORDAN:**

Despite the geopolitical tensions that affected Jordan, the region, and the world due to the ramifications of the war on Gaza and the Russian-Ukrainian crisis, the banking sector in Jordan remained sound and resilient in terms of financial and administrative positions. The financial ratios and indicators for banks improved markedly in 2023, compared to their levels in 2022, as indicated below:

**A remarkable improvement in most banks' financial ratios and indicators**

### **• CAPITAL ADEQUACY:**

The banking system in Jordan enjoys a high capital adequacy ratio (CAR) that ranged between 17% and 21% during the period (2007- 2023), with a comfortable margin well above the CBJ's minimum requirement of 12%, and the Basel Committee's minimum requirement of 10.5%. The CAR increased to reach 17.9% at the end of 2023, compared to 17.3% at the end of 2022, sufficiently higher than the minimum requirement of 12%.

**The CAR of the banking sector in Jordan increased to reach 17.9% at the end of 2023, compared to 17.3% at the end of 2022; sufficiently higher than the minimum requirement of 12%**

### **• QUALITY OF ASSETS:**

The non-performing loans (NPLs) ratio increased slightly to 5.1% at the end of 2023, compared to 4.5% at the end of 2022. This indicates that despite the prevailing geopolitical tensions, especially the war on Gaza and the Ukrainian-Russian crisis, the increase was slight, which validates that banks' assets are of high quality.

**The NPLs of banks reached 5.1%, of which 76% are covered by provisions**

As for the provisions coverage ratio of NPLs, it increased to 75.6% at the end of 2023, compared to 81.5% at the end of 2022; which denotes that the provisions are sufficient to cover almost 76% of banks' NPLs.

### **• LIQUIDITY:**

The liquidity level of the Jordanian banking sector is adequate and safe as evident by the liquidity ratios recorded at the end of 2023. It reached to 142.5% at the end of 2023, compared to 138% at the end of 2022, sufficiently higher than the CBJ's minimum requirement of 100%.

**The liquidity levels of the Jordanian banking system are safe and higher than the minimum regulatory requirements**

### **• PROFITABILITY:**

In 2023, banks' profits improved, as net profits after tax of banks operating in Jordan reached JD 659.4 million, compared to JD 598.6 million in 2022, increasing by JD 60.8 million, or 10.2%. In addition, in 2023, the Return on Assets (ROA) increased to reach 1.1% in 2023, compared to 1 % in 2021 and 2022.

**Banks' profits improved in 2023 bouncing back to their pre-pandemic levels**

- **CONCENTRATION IN THE BANKING SECTOR:**

As for the market share of banks (concentration), the assets of the largest five banks out of 20 banks accounted for 57.1% of licensed banks' total assets at the end of 2023, compared to 59.6% at the end of 2006. This indicates the decline in concentration, and the improvement in level of playing field in the banking sector.

The concentration ratio declined and the competitiveness improved in the banking sector

- **CREDIT GROWTH:**

Direct credit facilities grew by 2.5% in 2023 to reach around JD 33 billion. It is noteworthy, that total credit facilities accounted for 91.5% of GDP at the end of 2023; Jordan ranked second after Kuwait in terms of credit to GDP ratio as compared to a number of countries in the region, which reflects the vital role of banks in the economic development in Jordan.

Credit continued to grow reflecting the gradual recovery of the national economy

- **STRESS TESTING:**

Stress testing results of financial data of branches of banks operating in Jordan as well as for consolidated financial data (branches and subsidiaries of banks operating in Jordan and abroad), which are used to measure banks' ability to withstand shocks, revealed that the Jordanian banking system is capable to withstand shocks and high risks. A hypothetical scenario is suggested assuming the adversities following the COVID-19 pandemic, the ramifications of the Russian-Ukrainian crisis, and the war on Gaza to linger and exacerbate, alongside the challenges they impose on the national economy. This includes increasing prices of energy and primary commodities, which will set back the growth to less than anticipated, and increase in inflation rates. It was also assumed that interest rates would continue to increase to curb inflationary pressures and to maintain the attractiveness of the JD as a saving currency. The results of these tests revealed that under the severe scenario, the CAR of the branches of banks operating in Jordan is expected to reach 15.9%, 14.9% and 14.6% in 2024, 2025, and 2026, respectively, while at the consolidated level it is expected to record 16%, 15.4%, and 15.2% in 2024, 2025, and 2026, respectively. Accordingly, under the severe scenario, the CAR will remain higher than the minimum requirement of 12% applied in Jordan, and the Basel Committee's minimum requirement of 10.5%. These positive results are attributed to the high levels of capital, and sufficient levels of liquidity and profitability of the banking sector in Jordan.

Stress testing results of financial data of branches of banks operating in Jordan and consolidated financial data revealed that the Jordanian banking sector is capable to withstand shocks and high risks as banks in Jordan enjoy high levels of capital and sufficient levels of liquidity and profitability

- **THE FINANCIAL STABILITY INDEX IN JORDAN (JFSI):**

The JFSI was developed in 2016, supported by countries best practices. The index increased from 0.44 in 2020 to reach 0.47 in 2021, 50% at the end of 2022, and 0.56 at the end of 2023, which indicates that the financial system in Jordan is highly stable and constantly improving despite the

The JFSI indicates that the banking sector in Jordan is highly stable, despite the unprecedented adversities that affected the world in general, and the region in particular

unprecedented adversities which affected Jordan and the world due to the COVID-19 pandemic, as well as subsequent crises and geopolitical tensions afterwards. The banking stability index (BSI) in particular indicates that the banking sector in Jordan is highly sound, resilient, and stable, as Jordan ranked first compared to 23 countries using the same methodology of the JFSI.

#### **THE HOUSEHOLD SECTOR:**

The household indebtedness increased to reach JD 13.3 billion at the end of 2023, compared to JD 13 billion at the end of 2022, increasing by 2.3%, compared to 10% in 2022. As mentioned in the previous JFSR, a large part of the increase in households' indebtedness in 2021 and 2022 is explained by the postponements of debt installments due on stressed clients affected by the COVID-19 pandemic, or postponements during the occasions of Eid, thus it is not a real growth.

The NPLs in the households' loans portfolio declined from 4.9% at the end of 2020 to 4.1% at the end of 2021, and declined further to 3.8% at the end of 2022, yet it increased to 4.9% as of end 2023, but rather lower than the aggregate NPLs ratio to total facilities of banks at the end of 2023 of 5.1%. This indicates that defaults in the household's portfolio is relatively low, which reflects positively on the financial stability in the kingdom.

**The NPLs of the households' loans portfolio is lower than the aggregate NPLs ratio for banks operating in Jordan**

#### **THE CORPORATE SECTOR:**

The performance of public listed companies (financial and non-financial) improved significantly during the period (2021-2023), as they continued to recover from the ramifications of COVID-19 pandemic, as well as the remarkable improvement in several economic indicators in the Kingdom. The after-tax profits of listed companies, which submitted their annual financial data to Amman Stock Exchange (ASE) reached to JD 1,916.7 million in 2023, compared to JD 2,447.2 million in 2022. Despite that decline, the profits of 2023 were the second highest level to be recorded historically. However, several challenges still weigh on the corporate sector and the national economy in general, especially those related to the increase in energy and primary commodities prices due to the supply chain disruptions after the COVID-19 pandemic, the ramifications of the Russian-Ukrainian crisis, and the economic implications of the war on Gaza.

**The corporate sector performance improved significantly in 2021, 2022, and 2023 compared to 2020, as the repercussions of the COVID-19 pandemic receded gradually, and most economic indicators in the kingdom had improved. However, several challenges are looming large including supply chain disruptions, the repercussions of the Russian-Ukrainian Crisis, and the war on Gaza.**

#### **THE REAL ESTATE SECTOR:**

In 2023, the trading volume of the real estate market increased by 19% to approximate JD 6,961 million, compared to its level in 2022, due to the continuous recovery of Jordan's economy. It is worth mentioning that credit facilities extended to the real estate sector for residential and commercial purposes reached to JD 6.17 billion at the end of 2023 (accounting for 18.7% of total credit facilities extended by banks),

**The credit facilities extended to the real estate sector totaled JD 6.17 billion, accounting for 18.7% of total facilities extended by banks**

compared to JD 6.22 billion at the end of 2022, a slight decline of 0.7%. It is worth mentioning that the average annual growth of real estate facilities during the period 2011-2023 reached 5.7%.

### **GREEN FINANCE MOBILIZATION AND CLIMATE CHANGE RISK MANAGEMENT:**

On 13/11/2023, the CBJ launched the Green Finance Strategy (2023-2028), which is a part of the CBJ's endeavors to confront the risks of climate change and to keep pace with latest practices in green finance, which are directed towards climate responsive investments and projects that reduce the effects of climate change on the national economy. In 2022, the CBJ in cooperation with the World Bank, embarked the preparation of this strategy in coordination and partnership with the banking and financial sector and relevant stakeholders in the public and private sectors. This strategy covers the banking sector, the insurance companies, and Microfinance companies (MFIs). This strategy is the first of its kind in the Middle East and North Africa (MENA) region, and represents a model to other Arab countries.

The climate change risk management requires supervisory authorities to take exceptional measures including integrating these risks into their supervisory and prudential policies, which contributes to instruct banks and financial institutions to include them in their business models, credit and investment policies, and risk management policies, as well as to commit to disclose these risks, alongside enabling banks and financial institutions to mobilize green finance. This strategy will serve as a road map to enable the CBJ and the banking and financial sector to mobilize green finance and mitigate the risks of climate change. The vision of this strategy is to transform the banking and financial sector in Jordan into a leading force in green finance and enhance its resilience and adapting to environmental and climate-related risks, while also enabling Jordan to become a regional leader in sustainable finance.

The strategy has three overarching objectives: (a) to strengthen capacity and governance, operationalize systems, and implement policies for green financing and climate risk management, leading to (b) enhanced resilience of the financial sector to climate-related and environmental risks (c) increased mobilization of green finance. In this regard, the CBJ will aim to achieve these objectives through a number of intermediate results, including *inter alia*: (a) coleading the development of the National Green Taxonomy, (b) conducting the first comprehensive climate risk assessment (CRA) for the financial sector in Jordan, (c) implementing a comprehensive capacity-building program, and (d) issuing

**The CBJ launched the Green Finance Strategy (2023-2028)**

**This strategy is the first in the MENA region**

**This strategy will serve as a roadmap to enable the CBJ and the banking and financial sector to mobilize green financing and mitigate the risks of climate change**

**The vision of this strategy is to “transform the banking and financial sector in Jordan into a leading force for green finance and enhance its resilience against and adapt to environmental and climate-related risks, while also enabling Jordan to become a regional leader in sustainable finance”**

supervisory guidelines and regulations that help supporting the efforts of banks and financial institutions to integrate climate-related considerations into their governance structures, risk management frameworks, and introducing green finance products and services.

### **THE FINANCIAL INCLUSION:**

The CBJ’s vision is to promote financial inclusion in the Kingdom, in a way that contributes to achieve economic and social development by enabling all segments of society, individuals and the businesses alike, to access appropriate and affordable financial services and products, including payment and transfers, finance, savings, and insurance services from formal financial institutions, in a way that meets their needs and helps them in improving their living standards in a safe and sustainable manner. To manifest this vision, the CBJ launched at the end of 2017 the first national financial inclusion strategy (NFIS) (2018-2020) to align policies and efforts across the public and private sectors, and conduct clear and measurable initiatives and action plans in cooperation with stakeholders to enhance the financial inclusion in the Kingdom. The strategy has outperformed its main objectives, as the financial inclusion diagnostic study 2022 revealed that the financial inclusion rate in the Kingdom increased from (33.1%) to (43.1%), and the gender gap in the financial sector narrowed from (53%) to (22%).

**The NFIS (2018-2020) achievements outperformed targeted levels in the strategy**

**The CBJ launched a new NFIS (2023-2028) which vision is “responsible and sustainable access and use of financial products and services by different segments of society, in a way that contributes to achieve economic and social development in the Kingdom.”**

Building on these achievements, the CBJ in March 2024 launched the second NFIS (2023-2028), serving as a roadmap to enhance the financial inclusion in the Kingdom, which ensures the leverage of possible resources to achieve economic growth and sustainable development, and enable the financially excluded groups to participate in the production cycle. The strategy aligns with the Kingdom’s Economic Modernization Vision (2022-2033) and its executive program- during the period they overlap- which is the roadmap for the national economy over the next decade, as it is a cornerstone for developing the financial markets and services sector, and support the Kingdom’s efforts to achieve the United Nations Sustainable Development Goals (SDGs) for 2030.

The NFIS’s vision (2023-2028) is “the sustainable and responsible access and use of financial products and services by different segments of society, in a way that contributes to achieve economic and social development in the Kingdom.” The general framework of this strategy includes target groups, main pillars, and cross-cutting enablers, aligns with the priorities of financial inclusion in the Kingdom, and promotes responsible, sustainable, and overarching use of financial services. The strategy targets individuals and the business sector, especially financially excluded persons, in particular the bottom 40%, women, youth, refugees, and micro, small, and medium enterprises (MSMEs).

**The bottom 40%, women, youth, refugees, and MSMEs are the targeted groups in the NFIS (2023-2028)**



The inclusion of the insurance sector as a new main pillar in the strategy because it is intended to address emergencies and meet essential needs for a decent life. Special attention is given to women to bridge the gender gap in accessing financial services and products and empower them to assume their role in society and to participate effectively in achieving the economic growth. As for refugees, policies will be tailored to their conditions, committing to the Jordanian role in supporting refugees and emphasizing their fundamental right to use financial services and products that suit their conditions and income levels, and enable them to improve their quality of life in a manner that preserves their dignity and desires.

The NFIS (2023-2028) is structured around four main pillars: finance, savings, insurance, and payment and transfers. Savings was added as a main pillar in the strategy to enhance savings products that help financial consumers in proper financial planning and motivate the use of savings products. The above-mentioned pillars are supported by cross cutting enablers that will enhance access and effective and sustainable use of financial services and products, including: financial consumer empowerment and market conduct, FinTech and innovation, data and research, regulatory and legal frameworks, and institutional coordination and commitment.

**Finance, saving, insurance, and payment and transfer are the four main pillars of the NFIS (2023-2028)**

#### **LEGISLATIVE FRAMEWORK:**

In 2022 and 2023, the CBJ continued its comprehensive review of the legislative framework governing the banking and financial institutions under its supervision. Chapter Two of this Report illustrates the major supervisory amendments conducted by the CBJ in 2022 and 2023, namely: instructions for regulating the insurance sector and the exchange sector, instructions for the CBJ's provision of liquidity to Islamic banks which aim to assist them in managing liquidity with greater flexibility, and other instructions which were enacted to cope with latest developments and best practices of central banks in achieving monetary and financial stability.

**The CBJ continued to review the legislative framework to keep abreast with latest developments and best practices of central banks in achieving monetary and financial stability**

As for the new issuance of banknotes, the CBJ has put all denominations into circulation; they were issued according to the (Issuing Jordanian Banknotes Bylaw) No. (55) of 2022, which was issued pursuant to paragraph (a) of Article (28) of the Central bank of Jordan Law No. (23) of 1971. The bylaw stipulates that the "dinar" is the Jordanian legal tender, and is issued in denominations of one dinar, five dinars, ten dinars, twenty dinars, and fifty dinars. This bylaw was issued as one

**The new issuance of banknotes intends to keep pace with latest developments in this field, and to leverage technology in adding new security features that make notes more difficult to counterfeit**

of the legal requirements to issue new banknotes, which is intended to keep pace with latest developments in this field, and to leverage technology in adding new security features that make notes more difficult to counterfeit. The bylaw also includes the portraits that appear on various notes, as the portraits of their Majesties in Arabian folk costumes shall appear on the front of the notes. This is in addition to certain

specifications such as the phrase (The Hashemite Kingdom of Jordan), which is written in Arabic on the front of the note and in English on its back, as well as other details such as the serial number.

On another front, the Financial Action Task Force (FATF) announced the removal of Jordan from the list of countries under increased monitoring in combating money laundering and terrorist financing, what is known as the “Gray List”, at its plenary meeting held during the period 23-27 October, 2023 in the French capital, Paris, in the presence of the CBJ Governor, Dr. Adel Al-Sharkas, the Chairman of the National Committee for combating money laundering and terrorist financing, and the presence of the head of the Anti-Money Laundering and Counter-Terrorist Financing Unit. During this meeting, Al-Sharkas delivered a speech in which he stressed that this announcement comes as recognition of the Kingdom’s success in strengthening the national system to combat money laundering, terrorist financing, and the proliferation of weapons of mass destruction, and aligning it with international standards, and completing the implementation of all items of the action plan adopted by the FATF in October 2021.

Member states welcomed and commended the efforts of the Kingdom to exit the gray list, and the implementation of all action plan’s items by relevant authorities, which came to raise the level of compliance with international standards and the remarkable achievement and progress, achieved before the end of the deadlines set timeline for the plan. The Group also commended the high-level political commitment made by the Kingdom at all levels.

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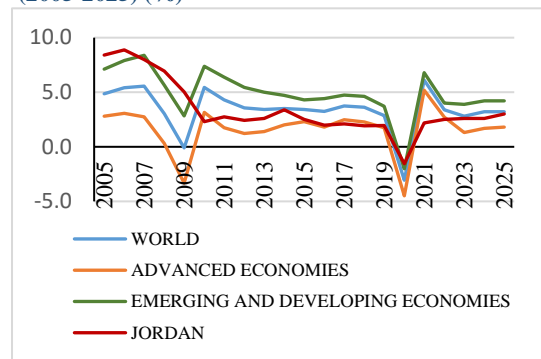
## CHAPTER ONE: GLOBAL AND DOMESTIC ECONOMIC AND FINANCIAL DEVELOPMENTS AND PROSPECTS

### 1-1 GLOBAL ECONOMIC DEVELOPMENTS AND GROWTH

Economic activity was surprisingly resilient through the global disinflation of 2022 and 2023. As global inflation descended from its mid-2022 peak, economic activity grew steadily, defying warnings of stagflation and global recession. Despite interest rate hikes in that period, growth in employment and income held steady, reflecting supportive demand developments including greater-than-expected government spending and households' consumption. It also reflects households in advanced economies being able to benefit from their spending by drawing down accumulated pandemic-era savings.

Furthermore, changes in mortgage and housing markets over the pre-pandemic period of low interest rates moderated the near-term impact of interest rate hikes. As inflation converges toward target levels, central banks are anticipated to pivot toward policy easing in many economies, however, a tightening of fiscal policies aimed at curbing high government debt, with higher taxes and lower government spending, is expected to weigh on growth. The IMF's April 2024 World Economic Outlook (WEO) Report indicates that risks to the global growth outlook are now broadly balanced, the global growth declined slightly in 2023 to reach 3.2%, down from 3.4% in 2022. The IMF's April 2024 projections indicates that the global growth will grow modestly by 3.2% in 2024 and 2025; the forecast for 2024 were revised up by 0.1 percentage point from the projections of January 2024, while they remained unchanged for 2025. (Table 1-1 and Figure 1-1).

**FIGURE 1-1: JORDAN AND GLOBAL REAL GDP GROWTH DEVELOPMENTS AND PROSPECTS (2005-2025) (%)**



Source: IMF, WEO Database, April 2024

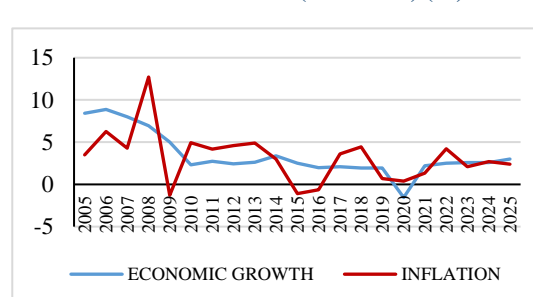
**TABLE 1-1: WORLD ECONOMIC OUTLOOK AT A GLANCE 2024**

	Year	The World	Advanced Economies	Emerging Economies
Actual Data	2022	3.4	2.7	4.0
	2023	3.2	1.6	4.3
Latest Estimates April 2024	2024	3.2	1.7	4.2
	2025	3.2	1.8	4.2
Estimates of January 2024	2024	3.1	1.5	4.1
	2025	3.2	1.8	4.2

Source: IMF, WEO Database, January 2024 and April 2024

As for Jordan's economy, growth strengthened to 2.6% in 2023, up from 2.4% in 2022, supported by the stability of the epidemiological situation in Jordan, and the precautionary and overarching measures conducted by the government and the CBJ to support economic sectors in the Kingdom. According to the CBJ's projections, the growth is expected at 2.4% and 2.9% in 2024 and 2025, respectively. (Figure 1-2).

**FIGURE 1-2: THE REAL GDP GROWTH AND INFLATION RATE DEVELOPMENTS AND PROSPECTS IN JORDAN (2005-2025) (%)**



Source: IMF, WEO Database, April 2024 and the CBJ

Furthermore, the domestic financial stability remained steady, propelled by prudent economic policies, in particular the monetary and the macro- and micro-prudential policies, which continued to support the Jordanian dinar and maintain its attractiveness, and to maintain a robust and sound financial sector despite tremendous existing challenges.

### 1-1-1 PUBLIC FINANCES DEVELOPMENTS

As the economic and financial outlook for the global economy is stabilizing, efforts to normalize fiscal policy continue to struggle with the legacies of high debt and deficits while facing new challenges. After a sharp reduction in fiscal deficits and public debt levels in 2021–2022, fiscal aggregates turned in 2023. The IMF's Fiscal Monitor Report of April 2024 indicated that four years after the COVID-19 pandemic outbreak, fiscal deficits and debts are higher than pre-pandemic projections. Higher interest rates pushed up interest expenses, while spending on social benefits, subsidies, and transfers was buoyed by the extension of support measures taken in response to the pandemic and the energy price shocks.

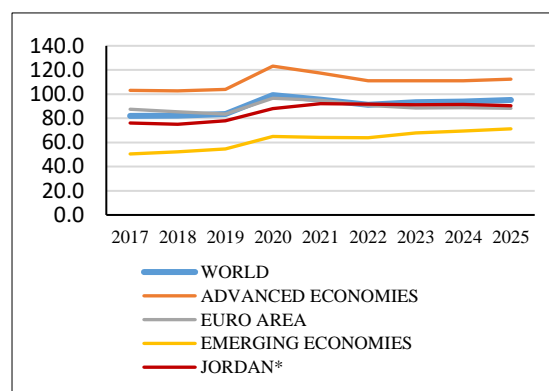
In addition, the report also indicates that in 2024, the overall primary deficit is expected to narrow to 4.9% of GDP. However, substantial risks to public finances remain large, and resuming fiscal policy normalization will require significant efforts against several headwinds, in addition the Global public debt is projected to approach 99% of GDP by 2029, driven by China and the United States, where, under current policies, public debt is projected to continue rising beyond historical peaks and spending pressures to address structural challenges, including transition to green investments, are expected to increase as well. The Report also stresses out that fiscal consolidation is needed in most countries to strengthen debt sustainability and financial stability.

#### 1-1-2 PUBLIC DEBT

The IMF's Fiscal Monitor Report of April 2024 revealed that the average global public debt

increased in 2023 to record 93.2% of GDP, compared to 91.3% in 2022. However, it is set to increase in the coming years to stand at 93.8% and 95.1% in 2024 and 2025, respectively. (Figure 1-3).

**FIGURE 1-3: PUBLIC DEBT (% OF GDP) (2017-2025)**



Source: IMF, Fiscal Monitor Database, April 2024

\*Jordan's public debt projections: WEO Database, IMF, April 2024

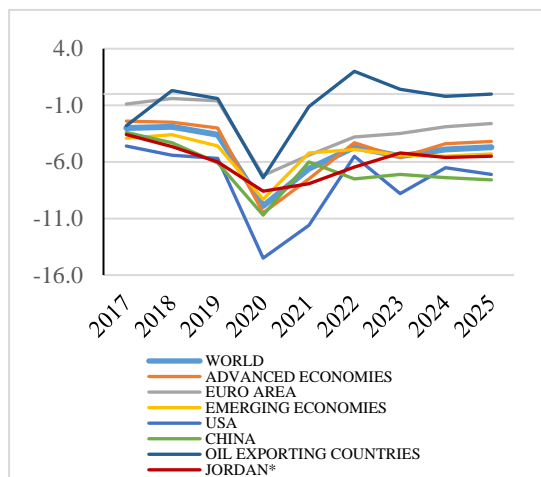
In advanced economies, the public debt to GDP ratio fell to 111.0% in 2023, down from 111.2% in 2022, whereas for emerging markets it increased from 64% in 2022, to reach 68% in 2023, and is expected to increase to 71.3% by the end of 2025. Furthermore, the Report emphasized that stronger international cooperation is needed to address multiple existing challenges, through more rapid improvements in the global debt restructuring.

#### 1-1-3 FISCAL DEFICIT

According to the IMF's Fiscal Monitor Report of April 2024, the fiscal deficits were divergent across major countries and economies worldwide. The global fiscal deficit increased to reach 5.5% of GDP in 2023, compared to 3.9% in 2022. However, it is expected to decline to 4.9% and 4.7% in 2024 and 2025, respectively. (Figure 1-4).



**FIGURE 1-4: FISCAL DEFICIT IN JORDAN AND SELECTED MAIN ECONOMIES AND COUNTRIES (2017-2025) (% OF GDP)**



Source: IMF, Fiscal Monitor Database, April 2024  
 \*Jordan: IMF, WEO Database, April 2024

In advanced economies, the fiscal deficit increased to 5.6% of GDP at the end of 2023, compared to 3.1% in 2022, and is set to decline to approach 4.2% by the end of 2025. However, in emerging markets, the fiscal deficit increased to 5.4% at the end of 2023 compared to 4.9% in 2022, yet it is expected to increase to 5.5% in 2024, and to drop again in 2025 to 5.3%.

## 1-2 FINANCIAL SYSTEM STABILITY

### 1-2-1 GLOBAL FINANCIAL STABILITY

The IMF’s Global Financial Stability Report of April 2024 indicated that global financial markets have turned optimistic amid declining global inflation and expectations that monetary policy will be easing, stocks are up about 20% globally, and corporate and sovereign bonds spreads have narrowed notably, hence improving global financial conditions.

Confidence in the global economy ability to stable is growing based on global economic data; investors and central banks alike are expecting monetary policy to ease during 2024, as cumulative interest rate increases over the last two years are believed to have created monetary conditions sufficiently restrictive to bring inflation back to central banks’ targets.

The Report also illustrates that near-term financial stability risks have receded, and there is less of a downside risk to the global growth in the

coming year. However, several fragilities are looming large that may affect financial stability. In the real estate sector, prices of commercial real estates have declined by 12% globally over the past year amid rising interest rates and structural changes after the COVID-19 pandemic. The residential real estate prices have continued to decline in most countries; generally, remain above pre-pandemic levels. Declines in housing real prices have been driven by higher mortgage rates. As for corporates, corporate credit spreads have narrowed although the recent rise in corporate earnings appears to be losing momentum in most parts of the world, in addition to the liquidity buffers for firms in advanced economies and emerging markets which eroded further over 2023, owing to still-high global interest rates. With respect to banks, the majority of banks showed resilience during the March 2023 turmoil; strong capital and liquidity buffers and improved profitability have lifted stock prices of banks.

## 1-3 DOMESTIC ECONOMIC AND FINANCIAL DEVELOPMENTS AND PROSPECTS:

### 1-3-1 OVERVIEW

During the period 2012-2019, the Middle East was challenged by political and security instability. At that time, the deepening of political and security unrest, and subsequent economic implications set the national economy to slow down; growth was relatively stable at rates not exceeding 2%. The COVID-19 and the Russian-Ukrainian crisis as well as the war on Gaza added new economic and social burdens to the already existing challenges, yet the government actions and the CBJ’s monetary and banking measures helped to subdue these crises and to maintain the monetary and financial stability pillars in the Kingdom.

The CBJ’s monetary policy, which was in line with the monetary policies of global and regional central banks, contributed to maintaining monetary and financial stability in the Kingdom, as one of a cornerstone to the economy, represented by maintaining stable inflation rates, and the exchange rate peg of the Jordanian dinar

to the US dollar, in addition to the sound and resilient banking sector with a strong and stable financial structure. This led Jordan's credit rating to be upgraded to Ba3 with a stable outlook by Moody's for the first time in 21 years, thanks to the economic policies pursued by the government and the CBJ, as well as Jordan's efforts, flexible economic performance, and prudent financial and monetary policies. This upgrade reflects the effective macroeconomic management and risk mitigation measures, and the resilience of the national economy and its high ability to withstand shocks, which demonstrates the strength of the macro economy in Jordan.

### 1-3-2 ECONOMIC GROWTH

The GDP at constant prices grew by 2.6% in 2023, compared to 2.4% in 2022, as the proactive and overarching measures taken by the CBJ, the government, and the social security alleviated the impact of the successive crises on the national economy, which supported the gradual recovery in the Kingdom. (Table 1-2).

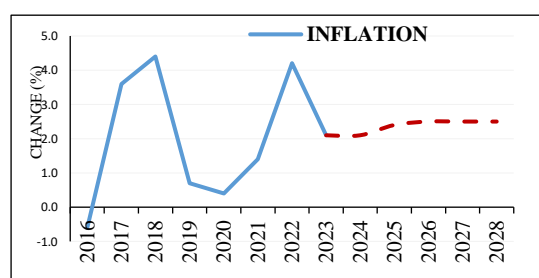
### 1-3-3 UNEMPLOYMENT

Supported by gradual improvement of economic conditions in the Kingdom, the unemployment rate declined by 0.8 percentage points to reach 22.0% at the end of 2023, compared to 22.8% in 2022, however, it is still high figure.

### 1-3-4 INFLATION

The general prices level, measured by the consumer price index declined to reach 2.1% in 2023, compared to 4.2% in 2022. The inflation is projected to remain stable in 2024 at 2.1%.

**FIGURE 1-5: INFLATION RATE IN JORDAN (END OF PERIOD) FOR THE PERIOD 2016-2023, AND PROJECTIONS FOR 2024-2028 (%)**



Source: CBJ Statistical Database, March 2024  
IMF's forecasts for inflation in Jordan, WEO database, April 2024

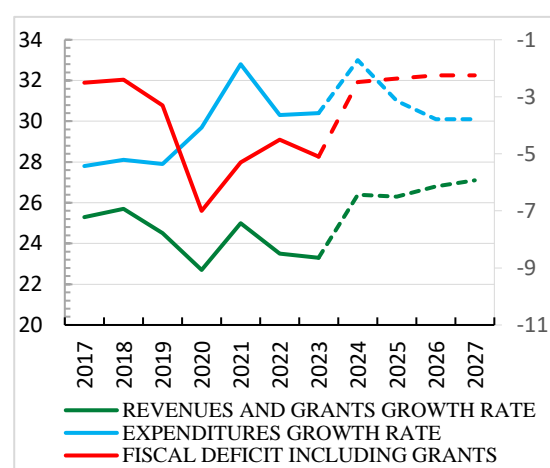
(Figure 1-5).

## 1-3-5 PUBLIC FINANCES DEVELOPMENTS

The overall fiscal deficit including grants increased by JD 307.6 million to reach around JD 1,860.1 million in 2023 (5.1% of GDP) compared to a deficit of JD 1,552.5 million in 2022 (4.5% of GDP). (Figure 1-6).

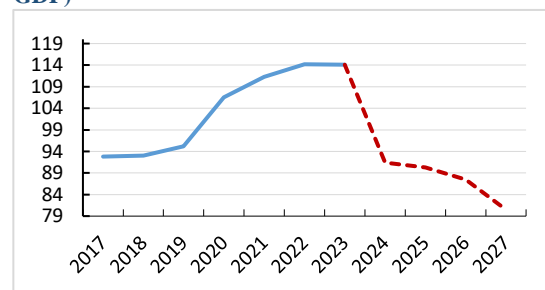
At the end of 2023 total public debt reached to JD 41,181.7 million, or 114.1% of GDP, compared to JD 38,490 million, or 114.2% of GDP at the end of 2022. (Figure 1-7).

**FIGURE 1-6: DEVELOPMENTS OF PUBLIC FINANCES IN JORDAN (2017-2023) AND OUTLOOK (2024-2027) (% of GDP)**



Source: Ministry of Finance Monthly bulletin, January 2024  
IMF estimates, WEO database, April 2024

**FIGURE 1-7: TOTAL PUBLIC DEBT IN JORDAN (2017-2023) AND OUTLOOK (2024-2027) (% of GDP)**

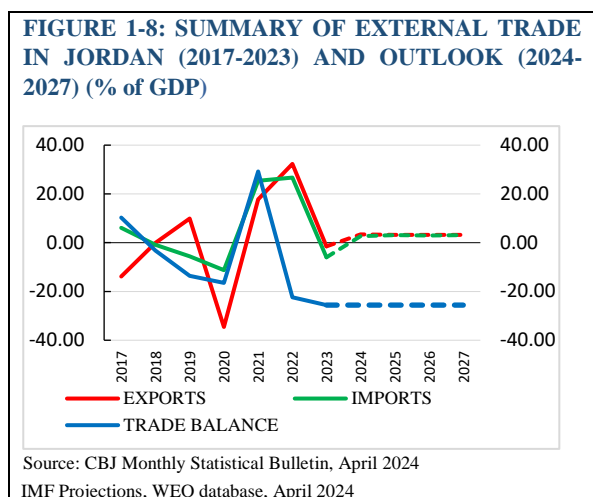


Source: Ministry of Finance Monthly bulletin, January 2024  
IMF Projections for public debt in Jordan, WEO database April 2024

### 1-3-6 EXTERNAL SECTOR

In 2023, total exports declined by 1.5% to reach JD 8,939 million, and imports also declined by 6.0% to reach JD 18,259 million. Accordingly, trade balance deficit in Jordan recorded JD

(9,320) million, declining by 10.0% compared to its level in 2022. (Figure 1-8) and (Figure 1-9).

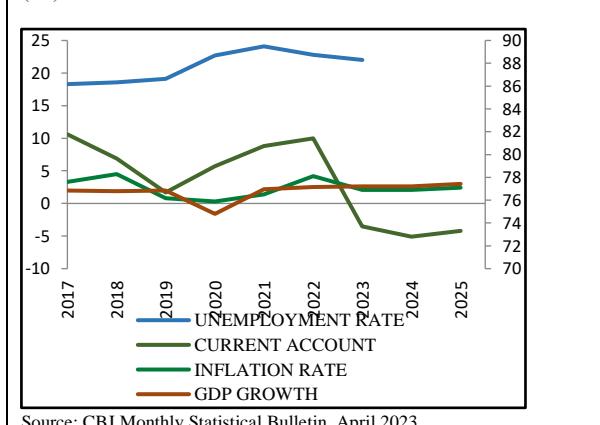


**TABLE 1-2: SELECTED ECONOMIC INDICATORS FOR JORDAN & THEIR PROSPECTS (2008-2025)**

Year	GDP Growth Rate in constant market prices (%)	Inflation Rate (End of Period) (%)	Unemployment Rate (% of Labor Force)	Population (Growth Rate)	Total Public Debt (% of GDP at constant market prices)	Current Account (% of GDP)
2008	7.2	14.0	12.7	3.0	59.6	-9.1
2009	2.0	-0.7	12.9	3.1	64.4	-5.1
2010	3.5	4.8	12.5	3.2	66.9	-6.9
2011	3.3	4.2	12.9	4.3	70.6	-10.0
2012	2.0	4.5	12.2	6.0	80.2	-14.9
2013	2.2	4.8	12.6	8.8	86.6	-10.2
2014	3.5	2.9	11.9	8.2	88.5	-7.1
2015	2.8	-0.9	13.0	7.9	92.4	-9.0
2016	2.0	-0.8	15.3	2.8	92.8	-9.7
2017	2.0	3.3	18.3	2.6	93.2	-10.6
2018	1.9	4.5	18.6	2.5	93.3	-6.9
2019	2.0	0.8	19.1	2.3	95.2	-1.7
2020	-1.6	0.3	23.2	2.4	106.5	-5.7
2021	2.2	1.4	24.1	2.3	111.3	-8.8
2022	2.4	4.2	22.8	2.2	114.2	-10
2023	2.6	2.1	22.0	1.9	114.1	-3.5
2024	2.4	2.1	-	-	113.7	-5.1
2025	2.9	2.4	-	-	114.3	-4.2

Source: CBJ, Monthly Statistical Bulletin. IMF projections, WEO Database, available forecasts of April 2024

**FIGURE 1-9: SELECTED ECONOMIC INDICATORS AND THEIR PROSPECTS IN JORDAN (2024-2025) (%)**



### 1-3-7 MONETARY DEVELOPMENTS

In 2022 and 2023, the CBJ raised the interest rates on all monetary policy instruments for 11 times, the last one was on 30/07/2023. Raising interest rates was intended to maintain the monetary stability in the kingdom, and to preserve the attractiveness of assets denominated in JD. Afterwards, the CBJ maintained that the interest rates remained unchanged, as the national economic environment was stable and the economy restored the momentum of positive performance despite the prevailing conditions in the region, and the strong and resilient Jordanian banking system. Proceeding with the balanced economic policies implemented by the CBJ and the government over the past two years has contributed to curb and subdue inflationary pressures in the Kingdom.

The CBJ's total foreign reserves, including gold and Special Drawing Rights (SDRs) reached to JD 13,287.1 million, which is equivalent to USD 18,740.6 million. This is a comfortable level sufficient to cover Jordan's imports of goods and services for 8.2 months, which is safe and exceeds the acceptable limits set by international standards.

### 1-4 JORDAN IN SELECTED INTERNATIONAL INDICATORS

#### 1-4-1 TRANSPARENCY AND CORRUPTION PERCEPTION INDEX

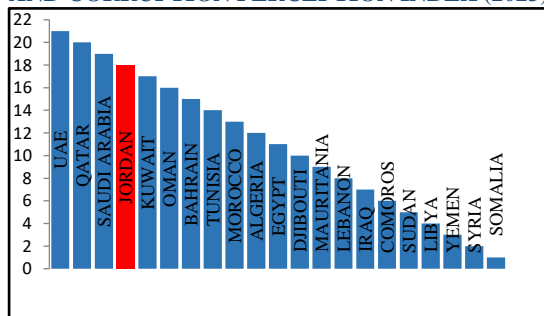
The 2023 Corruption Perception Index addressed the civil rights, civil liberties, and democracy as part of anti-corruption efforts to ensure an approach that puts in place independent controls required to bring authority under accountability, and to build a corruption-free society.

The 2023 Annual Report, indicates that most countries worldwide did not show any progress in terms of anti-corruption practices; two-thirds of countries scored below 50.

In comparison with Arab countries, Jordan occupied a favorable ranking in the corruption perception index for the fourth year in a row, as

Jordan ranked 4<sup>th</sup> compared to 21 Arab countries; UAE and Qatar scored the highest with (68) and (58) points, respectively, while Yemen scored (16) points, Syria (13) points, and Somalia (11) points. (Figure 1-10).

**FIGURE 1-10: JORDAN AND SELECTED ARAB COUNTRIES RANKINGS IN TRANSPARENCY AND CORRUPTION PERCEPTION INDEX (2023)**



Source: [Corruption Perception Index, 2023](#)

### 1-4-2 HUMAN DEVELOPMENT INDEX

The United Nations Development Program (UNDP) issues an annual report that summarizes the achievements and trends in three key dimensions of human development: healthy life and high life expectancy rate, being knowledgeable and educated, and having a decent standard of living.

In 2023/ 2024 Report, Jordan ranked (99) out of (193) countries in the Human Development Index (HDI), which classifies Jordan among the highest countries in terms of human development. (Table 1-3).

**TABLE 1-3: JORDAN'S RANKING IN THE HDI DIMENSIONS 2022\***

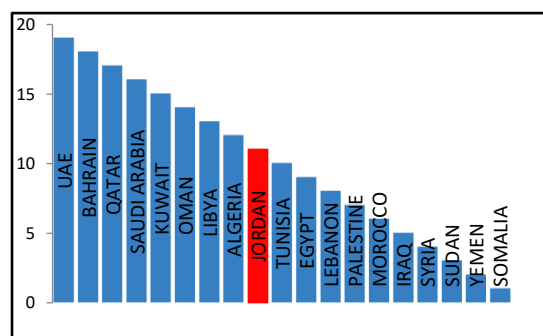
Rank	HDI Ranking	HDI (net)	Inequality Adjusted HDI (IHDI)	Gender Development Index** (GDI)	Gender Inequality Index*** (GII)	Multidimensional Poverty Index (2011-2022)
		Value				
99	High Human Development	0.736	0.615	0.863	0.449	0.002

Source: UNDP, Human development Report 2023/ 2024  
 \*Jordan is classified in group 5 in terms of the HDI gender equality index.  
 \*\* Jordan ranked 111 out of 193 countries in Gender Inequality Index

In addition, Jordan ranked in the middle, compared to 19 Arab countries included in the Report, outperforming a number of Arab countries including Tunisia, Egypt, Lebanon,

Palestine, Morocco, Iraq, Syria, Sudan, Yemen, and Somalia. (Figure 1-11).

**FIGURE 1-11: HDI RANKING OF JORDAN AND ARAB COUNTRIES**



Source: HDI 2023/ 2024

### 1-4-3 THE COMPETITIVENESS INDEX

The World Competitiveness Ranking issued by the International Institute for Management Development (IMD) is a worldwide reference point on competitiveness of countries; it analyzes and ranks countries according to how they manage their competencies to create sustainable value in the long term. The Yearbook of World Competitiveness ranking of 2023, which provides coverage of 64 countries, revealed that Jordan ranked sixth compared to Arab countries, following UAE, Qatar, Saudi Arabia, Bahrain, and Kuwait.

Furthermore, the Yearbook highlighted that the most prominent economic challenges facing Jordan this year are the lingering risks in the global economic environment resulting from geopolitical crises and their repercussions on supply chains, energy and food prices, and the continued burden of Syrian refugees, especially with the decline in international grants that do not meet their development needs, in addition to the high rates of poverty and unemployment in the Kingdom.

### 1-5 CONCLUSION

Despite the headwinds in Jordan and the world due to the COVID-19 pandemic, and the global geopolitical tensions afterwards, especially the Russian-Ukrainian crisis, and the war on Gaza, and the resulting hikes of interest rates globally, regionally, and domestically, Jordan remained highly resilient and robust amid the external shocks, as the prudent fiscal and monetary

policies preserved the monetary, financial, and macroeconomic stability, as well as Jordan's ability to access international markets. These measures reflected positively on the adequacy of foreign reserves, the soundness of the banking system, and curbing inflation despite global price pressures. These achievements were rewarded by upgrading Jordan's credit rating to Ba3 with a stable outlook by Moody's.

## CHAPTER TWO: THE INFRASTRUCTURE AND LEGISLATIVE STRUCTURE OF THE FINANCIAL SYSTEM

### 2-1 INTRODUCTION

A proper infrastructure and regulatory structure are essential elements and factors to achieve financial stability. During the last period, the CBJ maintained its efforts to enhance the financial system’s infrastructure and respective financial legislations. The CBJ endeavors emphasized two main aspects: sound and well-structured promotion of financial inclusion, green finance mobilization, and strengthening the legislative framework of the financial system.

### 2-2 PROMOTING FINANCIAL INCLUSION

#### 2-2-1 THE CONCEPT OF FINANCIAL INCLUSION

Financial inclusion in the Kingdom -as defined in the NFIS (2023-2028)- is “the state wherein individuals and businesses have convenient access to and use of affordable and suitable financial services and products (payment and transfers transactions, savings, finance, and insurance) that meet their needs and help them to improve their lives, in a responsible and sustainable way.”

In 2022, the CBJ conducted a financial inclusion diagnostic study, in cooperation with an international consulting firm- the Finance and Consulting Business. The study was intended to assess quantitatively and qualitatively the financial inclusion status for households and MSMEs in the Kingdom, as well as addressing the impact of the NFIS (2018-2020); the results of the survey shall inform the formulation of the new NFIS (2023-2028).

The results of survey revealed that the NFIS (2018-2020) succeeded in achieving its main goals, as the financial inclusion increased from (33.1%) to reach (43.1%), and the gender gap in the financial sector declined from (53%) to (22%). The survey also assessed the status of the financial inclusion in terms of its three aspects:

access, use, and the quality of official financial services and products (finance, savings, insurance, and payment and transfer services).

In addition, the study provides indicators categorized by target groups in the NFIS (2023-2028) namely, the bottom 40%, women, youth, refugees, and MSMEs. This is to ensure that accurate quantitative and qualitative goals are in place and reflect the actual needs of each target group in order to enhance the financial inclusion, which contributes to support the economic and social growth in the Kingdom

**The financial inclusion for households in the Kingdom is summarized in five indicators as listed below:**

Accounts Ownership	Finance	Savings	Insurance	Payment and Transfer
<b>43.1%</b>	<b>14.4%</b>	<b>4.3%</b>	<b>60.9%</b>	<b>39.8%</b>
Hold a bank account or e-wallet	Borrowed from a financial institution in 2022	Saved money in an official financial institution in 2022	Have insurance	Used e-payment in 2022

**As for the financial inclusion for MSMEs in the Kingdom, the survey revealed the following:**

Account Ownership	Finance	Savings and Investment	Insurance	Payment and Transfer
<b>52.4%</b>	<b>28.3%</b>	<b>15%</b>	<b>32%</b>	<b>31.5%</b>
Hold accounts	Borrowed from financial institutions in 2022	Hold any kind of saving or investment products in 2022	Have an insurance	Used e-payment in 2022

#### 2-2-1-1 FINANCIAL INCLUSION FOR HOUSEHOLDS

##### 2-2-1-1-1 ACCOUNT OWNERSHIP

Financial inclusion indicators for 2017 and 2022:

Financial Inclusion Indicator	2017 (%)	2022 (%)	Change (%)
The share of adults with accounts	33.1	43.1	+10
Bank accounts ownership	32.0	34.9	+2.9
E-wallets ownership	0.9	14.9	+14

- The share of adults holding any type of accounts increased significantly from (33.1%) in 2017 to (43.1%) in 2022, an increase of (10) percentage points.

- Bank accounts ownership grew moderately from (32%) in 2017 to reach (34.9%) in 2022, despite the introduction of the basic bank account product which was designed to target the financially excluded.

- E-wallets ownership grew markedly, from (0.9%) of adults in 2017 to reach (14.9%) in 2022, an increase of (14) percentage points.

- The increase in the use of e-wallets was driven by the efforts of employers and the government and international institutions to disburse national aids and grants, and other payments via e-wallets.

The COVID-19 pandemic played a vital role in encouraging employers and the government to reduce cash and check transactions, which supported the use of e-wallets.

#### 2-2-1-1-2 PAYMENT AND TRANSFER

Households in Jordan are increasingly using e-channels to make payments and money transfers, which is driven by several factors. In 2022, (39.8%) of adults used e-payments, a substantial increase from (18.3%) in 2017. The COVID-19 pandemic contributed significantly to this change and growth, as employers become more willing to disburse salaries via electronic means, the government disbursed a much higher share of financial aids to accounts, and households became more cautious about using cash to avoid infection. Other main factors that influenced the growth of e-payments include government-sponsored raising awareness initiatives, greater availability of point-of-sale (POS) terminals, and improvements in the technical infrastructure for payment. Furthermore, the introduction of the instant payment system (CliQ), which allows for instant and free money transfers between banks and payment service providers (PSPs), also contributed to the growth of e-transfers.

In addition, payment cards (debit, credit, and prepaid cards) are the main instruments for

making e-payments, as they are held by (24.7%) of adults. However, conducting cardless payments using QR code are starting to become more accepted and are likely to become more widespread.

#### 2-2-1-1-3 FINANCE

Borrowing increased in 2022 due to the COVID-19 pandemic; primarily from informal sources. The share of adults that borrowed informally in 2022 was (39.3%), much higher than the (14.4%) that borrowed from formal sources, thus borrowing rates were up from their levels in 2017; as (13.3%) borrowed informally and (9.9%) borrowed from formal sources.

In 2022, the MFIs' role was pivotal, as (8.3%) of adults borrowed from these institutions, higher than the (6.6%) borrowing rate from banks. In addition, alongside the MFIs, other non-bank financial institutions such as finance companies and government-sponsored lenders, contributed to support financial inclusion, as (1.9%) of adults borrowed from these institutions in 2022, compared to (1%) in 2017. The enactment of the Finance Companies Bylaw No. (107) of 2021, which came into force on May 30, 2022, brought finance companies under the CBJ's supervision and oversight. This may affect the number of intermediaries, and the quality of service provided, which in turn ensures the soundness of the financial sector.

#### 2-2-1-1-4 SAVING

The share of adults that saved money in any way reached (14.7%) in 2022. This relatively low figure is mainly attributed to the effects of the COVID-19 pandemic, as households had less money to save, in addition to have felt pressure to lend money to their friends and relatives. On another front, the World Bank's Findex study in 2017 revealed that (45.2%) of adults had saved money.

The survey found that keeping cash at home is the preferred method for saving; practiced by (10.6%) of adults, whereas, the share of adults that saved their money in formal accounts

declined from (9.3%) in 2017 to reach (4.3%) in 2022.

### 2-2-1-1-5 INSURANCE

Insurance is the financial product with the highest ownership rate in the Kingdom, as (60.9%) of adults had some form of insurance in 2022. The reason for this high ownership is that most adults are receiving insurance automatically, through their employers, through government schemes for low-income households, or as add-on to other financial products such as loans. It is uncommon for individuals to apply for and purchase insurance services- other than compulsory auto insurance- on their own discretion. The medical insurance is the most common type of insurance, held by (55.5%) of adults, followed by auto insurance (16.9%), life insurance (4.7%), and property insurance (0.9%). Most insurance policies are issued in group by employers, with a relatively small share issued to individuals. In addition, microinsurance is available in Jordan and is usually connected to microloans to cover life insurance and hospitalization insurance. Although almost half of Jordanian banks are licensed to practice bancassurance, the volume of insurance issued through banks is low. Unlike banks and MFI's, insurance companies have not yet leveraged the use of online and mobile phone applications as means to educate, promote, and sell their products, which may explain why few policies are issued to individuals (as compared to group policies).

### 2-2-1-2 FINANCIAL INCLUSION FOR MSMEs

#### 2-2-1-2-1 ACCOUNT OWNERSHIP

Ownership of accounts and e-wallets by formal MSMEs in Jordan is essential to facilitate e-payment and promote financial inclusion.

- **Bank account ownership:** account ownership is strongly correlated with the enterprise size and formality. (48.2%) of formal MSMEs in Jordan holds accounts, (43.7%) of which, are accounts of micro enterprises, (87.9%) of small enterprises, and (100%) of medium enterprises.

- **E-wallets ownership:** e-wallets - which allows for e-payment transactions- are not linked to the enterprise size; thus, they are a convenient option for e-payment transactions. In addition, e-wallets ownership rate is similar for MSMEs, despite their different sizes.

#### 2-2-1-2-2 PAYMENT AND TRANSFER

- **Use of e-payment:** (31.5%) of formal MSMEs used e-payment in 2022, with (29.5%) conducted e-payments, and (13.3%) received e-payments from their customers.

- **Common uses of e-payment:** the most common form of e-payment conducted by formal enterprises is paying utility bills (24.5%), followed by paying suppliers (12.6%), and employees (5.4%).

- **Receiving e-payments:** (11.3%) of MSMEs received e-payments from customers via bank transfers, and through other channels; POS terminals (6%), e-commerce sites (5.4%), and QR code (3.8%).

- **Correlation with the size and formality of the enterprise:** there is a very strong correlation of increasing the use of e-payment as the size and formality of the enterprise increase. Only (7.7%) of informal micro enterprises used e-payment, significantly below the share of medium enterprises that used e-payment (72%).

These results indicate the increasing use of e-payment by formal MSMEs in Jordan, which is used for different purposes. In addition, the use of e-payments also tends to increase as the enterprise size and formality increase, which validates the potential for e-payment being increasingly used by various businesses in the Kingdom.

#### 2-2-1-2-3 FINANCE

- **Obtain a loan or a line of credit:** the survey revealed that (28.3%) of formal MSMEs reported having an outstanding loan or a line of credit from a financial institution. Loans ownership differs significantly by size, as (38%) of medium enterprises, (34.5%) of small enterprises, and



(27.6%) of formal micro enterprises obtained a loan(s) from financial institutions.

- **Borrowing from informal sources:** it is likely that micro enterprises tend to borrow informally to fulfill their needs for credit, thus, their loans from financial institutions are low.

- **Islamic finance:** Islamic finance is an alternative source of financing, which is popular for all size categories of formal enterprises. (23.5%) of formal enterprises had some type of Islamic finance products, with Ijarah (Islamic leasing) being the most common.

#### 2-2-1-2-4 SAVINGS AND INVESTMENT

(15%) of formal MSMEs in Jordan have some form of savings or investment products, including savings accounts, time deposit accounts, certificates of deposit, stocks, or bonds.

- **The Ownership rate:** the ownership rate of savings or investment products is almost identical for small and medium enterprises at (26%), but is significantly lower for formal micro enterprises, at (13.8%).

- **Possible reasoning for divergence:** formal micro enterprises may have less awareness of these financial products, less excess cash to invest, or struggle to meet the products' minimum requirements, such as initial deposit or average balances.

- **Informal enterprises:** none of the informal MSMEs surveyed reported having used savings or investment products, indicating the limited access of informal enterprises to these financial instruments.

- **Specific products:** micro and small enterprises were most likely to have saving accounts, whereas medium enterprises were more likely to have time deposit accounts.

These results proved that the use of savings and investment products vary according to different sectors of formal MSMEs in Jordan. In addition, MSMEs are facing certain challenges that deter their access to and use of these financial instruments.

#### 2-2-1-2-5 INSURANCE

**Insurance penetration:** the insurance penetration rate in Jordan reached (1.99%) in 2021, of which (0.34%) is for life insurance, and (1.66%) for other types of insurance, which indicates that life insurance rate in the Kingdom is low.

**Insurance ownership:** the insurance ownership rate in Jordan is highly dependent on the size and formality of MSMEs. The insurance ownership rate among formal enterprises reached to (32.5%); with (29.3%) for micro enterprises, (56.9%) for small enterprises, and (84%) for medium enterprises.

#### 2-2-2 RATIONALE FOR FINANCIAL INCLUSION

Financial inclusion is a crucial element aligned with the goals outlined in the Economic Modernization Vision of the Kingdom, and other national development objectives. The financial inclusion in Jordan is particularly important to foster sustainable economic growth, poverty eradication, enhance socio-economic development, and maintain stability in the Kingdom. Financial inclusion connects with the key priorities and objectives as follows:

##### 2-2-2-1 THE ECONOMIC MODERNIZATION VISION

Financial inclusion is a cornerstone of the Economic Modernization Vision and its executive program, as it aims to leverage inclusive financial services to stimulate economic activity, especially among financially excluded persons. This is achieved by providing access to financial services such as banking, credit, and insurance. The vision seeks to empower individuals, SMEs, and rural communities in order to enable them to participate more actively in the formal economy.

##### 2-2-2-2 POVERTY ERADICATION AND STRENGTHENING SOCIO-ECONOMIC DEVELOPMENT

Financial inclusion plays a pivotal role in poverty eradication strategies by enabling access to affordable credit, savings, and insurance services,

thus empowering individuals and entrepreneurs to generate income and improve their livelihoods. In addition, financially excluded groups, women, and youth can access the tools and resources necessary to participate in economic activities, contributing to the inclusive socio-economic development.

### 2-2-2-3 MAINTAIN ECONOMIC STABILITY AND RESILIENCE

Inclusive financial systems contribute to maintaining economic stability by reducing income inequality, enhancing resilience against economic shocks, and fostering a more inclusive financial ecosystem. Expanding access to financial services, especially in rural and remote areas, aims to create a more robust and stable financial infrastructure that benefits all segments of society. By integrating financially excluded groups into the formal financial sector, Jordan can unlock its economic potential, driving towards achieving inclusive economic growth and development goals.

### 2-2-2-4 ALIGNMENT WITH SUSTAINABLE DEVELOPMENT GOALS

The NFIS in Jordan is aligned with the United Nations SDGs, as it contributes to the achievement of (Goal 1: No poverty), (Goal 8: Decent Work and Economic Growth), (Goal 9: Industry, Innovation and Infrastructure), and (Goal 10: Reduced Inequalities). The strategy acts as a catalyst for poverty eradication, economic empowerment, and reducing inequalities within the society. This is in addition to supporting the development of robust infrastructure and innovative ecosystems, which stimulate sustainable economic growth in accordance with the SDGs.

### 2-2-3 THE NFIS (2023-2028)

Financial inclusion gained paramount significance amid recent events affecting countries, institutions, and individuals, and emerging challenges that need to be addressed by decision-makers at the national, regional, and international levels. This includes recurring financial crises affecting low-income segments, climate change impact on rural communities, and

international conflicts and wars resulting in rising prices and fluctuations in energy prices, which negatively affect the business and industrial sector. Therefore, the CBJ has prioritized the financial inclusion in response to these challenges.

The CBJ's vision is to promote financial inclusion in the Kingdom, in a way that contributes to achieving economic and social development by enabling all segments of society, individuals and businesses alike, to access appropriate and affordable financial services and products, such as payment and transfers, finance, savings, and insurance services through formal financial institutions, in a way that meets their needs and helps them improving their living standards in a safe and sustainable manner. To manifest this vision, the CBJ launched the NFIS (2018-2020) aligning policies and efforts across the public and private sectors, and conduct clear and measurable initiatives and action plans in cooperation with stakeholders to enhance the financial inclusion in the Kingdom. The strategy has outperformed its main objectives, as the financial inclusion diagnostic study 2022 revealed that the financial inclusion increased in the Kingdom from (33.1%) to (43.1%), and the gender gap in the financial sector declined from (53%) to (22%).

Building on these achievements, the CBJ has launched the NFIS (2023-2028) serving as a roadmap to promote financial inclusion in the Kingdom, which ensures the efficient allocation of possible resources to achieve economic growth and sustainable development, and enable financially excluded groups to engage in the production cycle. The strategy aligns with the Kingdom's Economic Modernization Vision (2022-2033) and its executive program- during the period they overlap- which is the roadmap for the national economy over the next decade, as it is a cornerstone for developing the financial markets and services sector, and supporting the Kingdom's efforts to achieve the United Nations' SDGs of 2030.

### 2-2-3-1 THE VISION AND GENERAL FRAMEWORK OF THE NFIS (2023-2028)

The vision of the NFIS (2023-2027) is “Responsible and sustainable access and usage of financial services and products by various segments of society in a way that contributes to achieving economic and social development in the Kingdom.”

In the last years, the CBJ has been leading efforts to promote financial inclusion in the Kingdom, with support from stakeholders from the public and private sectors. Following the NFIS (2018-2020), the CBJ has adopted a collaborative approach involving all stakeholders, which clarifies the roles and responsibilities, fosters common understanding, and coordinates initiatives and efforts in the Kingdom under a unified framework. This ensures the achievement of objectives and efficient resource allocation to priority sectors and target groups, to promote financial inclusion.

The NFIS (2023-2028) general framework includes target groups, main pillars, and cross-cutting enablers, aligns with the priorities of financial inclusion in the Kingdom and promotes the responsible, sustainable, and inclusive use of financial services. The strategy targets individuals and the business sector, especially those excluded from the financial system, in particular the bottom 40%, women, youth, refugees, and MSMEs.

The inclusion of the insurance sector as a new main pillar in the strategy because it is intended to address emergencies and meet essential needs for a decent life. Special attention is given to women to bridge the gender gap in accessing financial services and products and empower them to assume their role in society and to participate effectively in achieving the economic growth. As for refugees, policies are tailored to their conditions, committing to the Jordanian role in supporting refugees and emphasizing their fundamental right to use financial services and products that suit their conditions and income, and enable them to

improve their quality of life in a manner that preserves their dignity and desires.

The NFIS (2023-2028) is structured around four main pillars: finance, savings, insurance, and payment and transfers. Savings was added as a main pillar in the strategy to enhance savings products that help financial consumers in proper financial planning and motivate the use of savings products.

The above-mentioned pillars are supported by cross-cutting enablers that will enhance access and effective and sustainable use of financial services and products, including: financial consumer empowerment and market conduct, FinTech and innovation, data and research, regulatory and legal frameworks, and institutional coordination and commitment

### 2-2-3-2 LEGAL AND REGULATORY FRAMEWORKS

Legal and regulatory frameworks are essential for developing financial sector in general, and promoting financial inclusion in particular, as they cover a broad range of topics relevant to financial inclusion that concern financial institutions and financial consumers. The CBJ included in the NFIS (2023-2028) a set of strategic legal and regulatory measures to promote financial inclusion initiatives as follows:

- Review the commissions and fees charged on bank accounts, in coordination with relevant divisions at the CBJ.
- Review laws related to allowing youth under 18 to open accounts.
- Simplify the required documents for opening e-wallets for refugees, remove obstacles, and facilitate related procedures in cooperation with relevant authorities.
- Review bank policies related to opening accounts to become gender sensitive.
- Enterprises are required to hold financial account as a prerequisite for licensing, in coordination with the Ministry of Trade, Industry and Supply.

- Offer tax benefits such as lower tax rates on income earned through e-channels, in coordination with relevant authorities.
- Enforce the Insolvency Law and the movable collateral registry.
- License finance companies.
- Address the need to review the credit bureau's legal and regulatory framework to keep pace with international developments in credit information industry.
- Put in place regulatory tools to collect data on various finance companies.
- Introduce necessary legislations for finance companies.
- Conduct regulatory reforms in cooperation with banks, to identify obstacles that the MSMEs may encounter when opening saving accounts, and introduce necessary reforms thereto.
- Review the instructions related to opening a saving account, so that the commission and fees charged on the account minimum balance are reduced.
- Implement a risk-based solvency regime by enforcing the Solvency Margin Instructions No. (7) of 2023, and ensure companies' compliance with the minimum solvency margin.
- Enact the new minimum capital requirements No. (6) of 2023 to increase the ability of insurance companies to better serve customers' needs and meet their policy obligations.
- Review compulsory motor insurance instructions.
- Create a legal environment for insurance companies to conduct micro-insurance business, by issuing new instructions to regulate micro-insurance business, which intend to enable companies to develop new products and services.
- Review the instructions of licensing and regulating the business insurance services providers for brokers and agents.
- Issue instructions to regulate the insurance business provided through electronic means,

which provides an appropriate environment to facilitate digital channels.

- Issue revised code of conduct for insurance companies.
- Enact conditions and directives for new insurance products.
- Issue instructions for penalties and fines imposed on breaches related to financial consumer protection issues.
- Update the effective instructions of "Dealing with Customers Fairly and Transparently", and issue the new instructions of "Financial Consumer Protection for the Banking Sector."

### 2-2-3-3 SMEs

The SMEs are cornerstones in most economies worldwide, and one of the most main job creators; they account for 70% of total corporates, and create more than 50% of jobs worldwide. According to the World Bank data, these figures are higher if the SMEs operating in the informal sector were included. Therefore, providing a proper support for these enterprises is crucial to foster sustainable and inclusive recovery from the pandemic and the crises that occurred afterwards.

The CBJ formulated an internal committee to manage projects intended to promote financial inclusion, including supporting the SMEs access to finance. This is in the context of the CBJ's endeavors to support MSMEs given their pivotal role in stimulating economic growth, reducing unemployment, and eradicating poverty, and to enable them to access the financing needed to run their business, with medium or long maturities at preferential interest rates. To support the SMEs access to finance, the CBJ cooperated during the past period with the Ministry of planning and international cooperation, as well as international and regional financing institutions to attract around USD 430 million funding for the SMEs sector, at competitive interest rates and suitable tenors. The funds transferred to Jordan amounted to USD 330 million, which were provided as loans to more than 17 thousand MSMEs, of which more than 64% are based outside Amman. The financing contributed to creating new jobs and to

maintaining existing jobs, which totaled 23,551 jobs; the CBJ intends to withdraw remaining amounts in 2024 and 2025. In addition, a credit line of USD 120 million was provided directly to banks by the European Bank for Reconstruction and Development (EBRD) to support MSMEs; the CBJ supports and facilitates banks' access to the credit line. Furthermore, the EBRD has signed USD 90 million agreements with three banks.

In 2023, the CBJ proceeded with providing financing to economic sectors including SMEs at preferential interest rates and suitable maturities under the **CBJ's financing programs**, namely: financing and supporting economic sectors program, supporting SMEs to withstand COVID-19 crisis program, and the national self-employment program (INHAD), in addition to provide financing to specialized lending institutions and the Jordan Loan Guarantee Corporation (JLGC) as follows:

1. **The CBJ's program of financing and supporting economic sectors (medium term advances program):** in 2023, the total financing provided under this program reached to JD 363.3 million; 538 projects have benefited from these loans, and contributed to creating 888 jobs. These loans were provided mainly to the manufacturing sector accounting for 56.4% of the total financing provided for projects in the program in 2023, followed by the renewable energy sector, which accounted for 15.2%, the tourism sector 8.6%, the agriculture sector 8.4%, and 11.4% for remaining eligible projects in other sectors in the program. The total outstanding financing reached to JD 1,697 million as of end 2023, benefiting 1,950 projects. Meanwhile, the outstanding balance of advances provided reached to JD 791.6 million as of end 2023, accounting for 56.5% of the program limit of JD 1.4 billion.
2. **In 2023**, the program's interest rates were maintained unchanged at (0.5% for projects in governorates, and 1% for projects in Amman) despite the frequent hikes of interest rates on all the CBJ's monetary policy instruments.
3. **The CBJ's program to support SMEs to withstand the COVID-19 crisis:** until 30/04/2023, the total financing reached to JD 73.9 million, provided to 354 projects, bringing the total number of projects benefiting from the program since its initiation to 6,632 projects, while the total financing provided reached to JD 700 million (100% of the program's financing limit of JD 700 million). Since the onset of the pandemic until the program's termination on 30/04/2023, the program contributed to keep around 112.2 thousand employees in their jobs.
4. **The National Self-Employment Program "INHAD":** the financing provided under the program reached to JD 0.503 million in 2023, provided to 14 projects, and contributed to create 31 jobs. The total financing provided since the initiation of the program in 2019 reached to JD 9.4 million as of end 2023, provided to 280 projects, and contributed to create 883 jobs.
5. **Financing provided to the Agricultural Credit Corporation:** the financing provided to the corporation in 2023 reached to JD 31.04 million, bringing the total financing provided to the corporation to JD 113.9 million, accounting for 99% of the financing limit allocated for the corporation of JD 115 million.
6. **Financing provided to the JLGC:** in 2023, no financing was provided to the JLGC; the total outstanding balance of the financing provided to the JLGC reached to JD 550 million by the end of 2023 (JD 100 million for the export credit guarantee program, JD 50 million for small startups loans guarantee program, JD 100 million for the housing loans guarantee-facilitated housing program, and the SMEs loans guarantee program to withstand COVID-19 crisis of JD 300 million).

Therefore, the outstanding balance of the CBJ's advances provided to all banks, specialized lending institutions, and the JLGC reached to JD 1,709.9 million at the end of 2023, compared to JD 1,657.1 million at the end of 2022, increasing by JD 52.8 million (3.2%).

### 2-2-3-4 THE FINANCE SECTOR

As part of the CBJ's endeavors to expand its supervisory umbrella- which started in 2015 by bringing the MFIs to its supervision and oversight- to include all finance companies, the Finance Companies Bylaw No. (107) of 2021 was enacted, and entered into force on 30/5/2022, which aims to integrate these companies into the financial sector, ensure their compliance with international standards, strengthen the consumer protection scheme, and provide an institutional framework for these companies in a way that supports economic growth and financial stability. The bylaw constitutes a legal reference to license finance companies, whereby all companies carrying out any of the financing activities stipulated in the bylaw are subject to the CBJ's supervision. In addition, the bylaw allows the outstanding finance companies to finalize licensing requirements by 30/5/2024 according to the bylaw's provisions. Moreover, the CBJ has extended that period until 12/1/2025. In this regard, the following actions were undertaken:

- The CBJ has put in place specified forms designated for licensing/ finalizing licensing requirements for finance companies in the Kingdom, which were published on the CBJ's website. A number of finance companies has submitted applications for licensing/ fulfilling licensing requirements in 2023.
- Coordinate with the Ministry of Industry, Trade, and Supply regarding the procedures of enforcing the provisions of the Finance Companies Bylaw No. (107) of 2021, in terms of fulfilling licensing requirements by existing finance companies which practice any of the financing activities stipulated in the bylaw; the Ministry shall take the necessary actions thereof.
- The microfinance sector, which joined the formal financial system in 2018, comprises of (9) licensed MFIs. The CBJ, during the past years, issued a set of instructions to govern the microfinance business, which is intended to lay the ground for corporate governance, enhancing the supervisory role of the board of directors and

management, strengthening the internal controls and risk management systems, and strengthening the financial consumer protection according to international best practices and guidelines.

- The CBJ managed to review and update its legislations to oversee and supervise the finance sector through the following:

- Put in place additional requirements for licensing/ finalizing the licensing requirements of finance companies practicing lending based crowdfunding activities.
- Amend a number of provisions of the Corporate Governance Instructions for Microfinance Companies No. (10/ 2020) dated 6/12/2020, the most prominent of which was allowing companies to hold board meetings electronically under specified controls, pursuant to Circular No. (28/2/4791) dated (8/3/2023).
- Request licensed finance companies to furnish the CBJ with information related to non-Jordanian employees in these companies, as they shall not be appointed in case competent and skilled Jordanians are available to fill the vacancies, as stipulated in Circular No. (28/2/9521) dated 24/5/2023.
- With respect to published reports:
  - Issuing the "Microfinance Sector Report 2022", which included several topics, mainly, the legislative and supervisory framework for the microfinance sector business, in terms of financial indicators, products, and its role in women's empowerment, as well as the locations where the sector operates in the Kingdom according to governorates. The report was published on the CBJ's website.
  - The financial indicators of the microfinance sector for 2022 was published on the CBJ's website.

### 2-2-3-5 FINANCIAL CAPABILITIES AND FINANCIAL EDUCATION

Promoting financial and banking education is an essential enabler to promote the financial inclusion and enhance the financial consumer

protection. Several studies revealed that raising individuals' financial literacy is a key factor to increase their savings, thus, supporting economic growth through providing the liquidity needed for investments, which will enhance countries capability to withstand financial and economic crises. In Jordan, the CBJ highly prioritizes the financial education, given its importance in strengthening the financial, economic, and social stability in the Kingdom. The CBJ believes in the importance of financial education to the Kingdom; accordingly, it initiated a project to promote and strengthen financial education in the Kingdom intended to raise Jordanian's capabilities in terms of the following:

- Comprehend the fundamental financial and banking principles and concepts.
- Management and optimal investment of savings and personal properties.
- Increase the chances to access the financial services offered by banks and financial institutions.

The project deploys several programs that target key sectors in society. The main financial education program at schools was rolled out in cooperation with the Ministry of Education and INJAZ organization (a Jordanian non-profit organization). Financial education at schools started for the 7<sup>th</sup> grade curriculum in 2015/2016, for the 8<sup>th</sup> and 11<sup>th</sup> grades curricula in 2016/2017, for the 9<sup>th</sup> and 12<sup>th</sup> grades curricula in 2017/2018, and for the 10<sup>th</sup> grade curriculum in 2018/2019.

In addition to the financial education program at schools, the project will include other programs in the future as follows:

- a- Financial education at higher education institutions.
- b- Promoting financial education through media.
- c- Financial education for startups.
- d- Financial education at workplaces.
- e- Financial education for women and rural areas.
- f- Digital financial education.

Furthermore, in February 2023, the financial education program at schools was extended until the end of June/ 2026, aimed at enhancing the financial education curricula to keep abreast with the latest developments in digital financial services, FinTech, and green and sustainable finance. In October 2023, the National Center for Curriculum Development formed a committee that included a number of experts, university professors, a representative from the CBJ, and a representative from the Injaz organization to put in place a new specialized framework for financial education curriculum, set criteria for teaching it, and identify relevant performance indicators. The committee has completed its work, and the special framework was approved in June 2024.

## 2-2-3-6 FINANCIAL CONSUMER PROTECTION

To extend the CBJ's endeavors to strengthen the financial consumer protection scheme in Jordan, which ensures the consumers being treated fairly and transparently by banks and financial institutions, and to provide sufficient protection for these consumers, **a number of legislations were enacted, mainly the following:**

- A circular was directed to all banks operating in the Kingdom, whereby, prizes linked to saving accounts are allowed for a couple of years until the end of 2025, as it is strongly regulated, and it achieved desired goals during the past years.
- A circular was directed to all banks operating in the Kingdom, whereby they are requested to obtain the CBJ's prior approval before advertising and promoting any banking product; these advertisements and related terms and conditions must be comprehensive, unambiguous, and formulated in straightforward and plain language that does not allow room for interpretations.
- Enact the instructions of "Commissions for Microfinance Companies", which aims to regulate the fees and

commissions charged in a way that ensures improving the sales and marketing practices, and protects customers from any unfair practices.

- A warning was issued to citizens regarding dealing with companies promoting for saving products in media, pretending to realize high returns in a short period. This is to ensure that citizens will avoid being scammed and exposed to the risk of losing their money.

**As for studies**, the financial consumer protection department at the CBJ conducted the following:

- An online survey was carried out for the second year in a row, to conduct a market study to assess the satisfaction of consumers with disabilities and the holders of basic bank account, regarding the financial services and products provided to them. Banks were instructed to take corrective actions regarding the findings -if any- of these surveys.
- Conduct a survey to gauge the financial health of individuals in line with international best practices thereto, to conduct a market study to assess citizens' ability to meet their current financial obligations, the extent to which they feel secure about their financial future, and their ability to make financial decisions that enable them to have a comfortable financial life. A report including the results of the survey was published on the CBJ's website.
- Participate in a survey to measure financial literacy for 2023, conducted by the International Network for Financial Literacy (INFE) of the Organization for Economic Co-operation and Development (OECD), which included a number of countries. The report issued by the organization was published on the CBJ's website.
- Conduct a study on the controls and

procedures that must be taken by service providers upon advertising for their products, services, and the prizes they offer. This aims at strengthening the disclosure and transparency principle between financial and banking services providers and their clients, in a manner that ensures that clients are informed of all information and data, and does not deter their interests, in accordance with international best practices. Accordingly, instructions were drafted, which are currently being reviewed by relevant sectors.

**With regard to reports**, the financial consumer protection department issued the clients' complaints against banks and non-banking financial institutions reports for 2022 and the first half of 2023; these reports were submitted to banks and non-banking financial institutions.

**As for supervision**, in 2023 the department conducted several inspection visits (off-site or on-site) on banks and non-banking financial institutions as follows:

- **Off-site supervision:** review the websites of banks and non-banking financial institutions to ensure their compliance with the provisions of the financial consumer protection instructions in force. In addition, the social media platforms of banks, MFIs, and e-payment and money transfer companies were examined to verify the clarity and transparency of advertisements and whether they include adequate and complete information, as well as to verify the extent to which advertisements comply with the terms and conditions of the product promoted.
- **On-site supervision:** visit a number of banks' branches to assess their compliance with the provisions of the effective instructions of financial consumer protection, and their readiness to deal with customers with disabilities. Furthermore, a full inspection was



conducted on several e-payment and money transfer companies and exchange companies. A thematic inspection was also conducted on all MFIs, whereby the fees and commissions charged on customers were evaluated in accordance with the provisions of the instructions of commissions for microfinance companies. In addition, the practices of MFIs in communicating with customers and guarantors and collecting payments were evaluated in accordance with the collection guidelines for MFIs. Furthermore, mystery shopping visits were conducted on a number of bank branches and exchange companies.

**As for promoting financial awareness and literacy, the following was conducted:**

- Roll out of several campaigns dedicated for raising financial awareness and literacy campaigns targeting different segments of society (women, children, youth, persons with disabilities, elderly, and military personnel) in all governorates, on several occasions. This is expected to reflect on their financial literacy, help them learn sound financial behaviors, and assist them to build sound financial health in the future.
- Design tools oriented to each segment of society and cover priority topics, including the awareness guide regarding financial scams, which was introduced in response to increased risks of cybersecurity and financial scams, as well as receiving complaints from financial and banking sector clients about being exposed to fraudulent practices. This is in addition to distributing a variety of publications in campaigns, some of which are published on the CBJ's website and its pages on Facebook.

**With regard to complaints handling**, the complaints handling division at the financial consumer protection department has handled all

complaints submitted to the CBJ from the clients of banks and non-banking financial institutions, by contacting services providers. In addition, the clients' inquiries were answered in cooperation with relevant departments through all available channels. Furthermore, a new separate help line was introduced at the division to answer phone calls, which is directly linked to a new complaints system to answer all inquiries; the helpline allows tracking incoming calls and ensures that they are being answered efficiently and effectively.

**As for monitoring unsafe market practices**, several ads on social media (Facebook) were monitored and detected as they pretend to extend credit to citizens at appealing and preferential terms; these practices were reported to the Public Security Directorate and the Anti-Cyber Crimes Unit, as well as the Companies Control department to take necessary actions.

## 2-2-3-7 INFRASTRUCTURE REQUIRED TO PROMOTE FINANCIAL INCLUSION

### 2-2-3-7-1 DIGITAL FINANCIAL SERVICES

The CBJ maintained the operation of the Real Time Gross Settlement System (RTGS-JO) to carry out transfer transactions between the accounts of member banks in Jordanian Dinar, US Dollar, Euro, and Pound Sterling. These transactions were as follows:

	2022		2023	
	Number (thousand)	Value (million )	Number (thousand)	Value (million )
JD	382	68,704	462	74,852
USD	36	52,019	40	53,567
Euro	4	2,880	4	1,952
GBP	0.8	196	0.6	354
Secondary Market Transactions (Number)	7,937 transactions		7,264 transactions	
Secondary Market Transactions (Value)	JD 6,608 million		JD 3,568 million	

In 2023, the CBJ continued to provide digital banking services to its clients of ministries and governmental institutions and departments through the (E-Banking) system. In 2023, the system allowed the clients to use the inquiry service to check their accounts balances, and to

obtain bank statements and notices. The CBJ also provided banking services to its clients including (transfers/ cash checks, and checks deposited through the Electronic Check Clearing (ECC)).

#### 2-2-3-7-2 CREDIT BUREAU

- CRIF-Jordan is one of the milestones of the financial system infrastructure. It continued to expand and furnish its database in terms of numbers and diversified sectors of information providers included. CRIF signed agreements with around (70) providers as of end 2023, (20) banks, (11) financial leasing companies, (9) MFIs, and (29) from other sectors. Credit providers can use the credit inquiry service.
- CRIF mainly provides the credit inquiry service, which was enhanced markedly since its launch in 2016; the total number of inquiries for all sectors amounted to around (1,766) thousand as of end 2023, compared to about (23) thousand as of end 2016.
- In addition, CRIF pursued to provide a set of value-added services, including the credit scoring, the Portfolio Alert, and the Batch Inquiries. Furthermore, CRIF provides credit reports through digital channels, which are available through a number of banks applications.
- In 2023, CRIF-Jordan database was enriched by including information on bounced checks, as the instructions on Business Controls for Credit Information Companies No. (13/ 2022) dated 21/12/2022 entered into force at the beginning of the second quarter of 2023. The instructions cover several aspects of CRIF's business, including the periods set to show information and data in customers' credit reports, as well as the obligations of data providers/ credit providers, including banks being required to provide the company with bounced checks data on a daily basis.

### 2-3 GREEN FINANCE MOBILIZATION AND CLIMATE CHANGE RISK MANAGEMENT

On 13/11/2023, the CBJ launched the Green Finance Strategy (2023-2028), which

complements the CBJ's endeavors to confront the risks of climate change and to keep pace with latest practices in green finance, which are directed towards climate responsive investments and projects that reduce the effects of climate change on the national economy. In 2022, the CBJ in cooperation with the World Bank, embarked the preparation of this strategy in coordination and partnership with the banking and financial sector and relevant stakeholders in the public and private sectors. This strategy is intended to cover the banking sector, the insurance companies, and MFIs. This strategy is the first of its kind in the MENA region, and represents a model to other Arab countries.

The climate change risk management requires supervisory authorities to take exceptional measures including integrating these risks into their supervisory and prudential policies, which contributes to instruct banks and financial institutions to include them in their business models, credit and investment policies, and risk management policies, as well as to commit to disclose these risks, alongside enabling banks and financial institutions to mobilize green finance. This strategy will serve as a road map to enable the CBJ and the banking and financial sector to mobilize green finance and mitigate the risks of climate change. The vision of this strategy is to transform the banking and financial sector in Jordan into a leading force in green finance and enhance its resilience and adapting to environmental and climate-related risks, while also enabling Jordan to become a regional leader in sustainable finance.

The strategy has three overarching objectives: (a) to strengthen capacity and governance, operationalize systems, and implement policies for green financing and climate risk management, leading to (b) enhanced resilience of the financial sector to climate-related and environmental risks (c) increased

mobilization of green finance. In this regard, the CBJ will aim to achieve these objectives through a number of intermediate results, including *inter alia*: (a) coleading the development of the National Green Taxonomy, (b) conducting the first comprehensive climate risk assessment (CRA) for the financial sector in Jordan, (c) implementing a comprehensive capacity-building program, and (d) issuing supervisory guidelines and regulations that help in supporting the efforts of banks and financial institutions to integrate climate-related considerations into their governance structures, risk management frameworks, and introducing green finance products and services.

## **2-4 THE FINANCIAL SYSTEM LEGISLATIVE INFRASTRUCTURE**

The foundation of an appropriate legislative framework for the financial system would definitely enhance the financial stability; practices evidenced that inappropriate supervisory and regulatory legislations for the financial system would obviously deepen systemic financial crises when they occur. The CBJ constantly verifies the soundness and performance of the banking and financial institutions under its supervision, and ensures the soundness of their financial positions according to effective laws, bylaws, regulations, and banking practices, and the requirements for sound banking and the monetary and financial stability. The CBJ in 2023 proceeded with a comprehensive review of the legislative framework governing the business of the banking and financial institutions under its supervision, in line with the CBJ's strategy for effective banking supervision that complies with international best standards and practices, and extends the CBJ's efforts to lay the ground for robust banking and financial industry, as follows:

### **2-4-1 LAWS AND BYLAWS**

#### **2-4-1-1 THE INSURANCE REGULATORY LAW**

As mentioned in previous JFSRs, a Royal Decree was issued to pass the Insurance Regulatory Law No. (12) of 2021, published in the Gazette on 16/5/2021, which entered into force thirty days after publication. The insurance business was brought under the CBJ's supervision, and the provisions of this Law shall apply to insurance companies, reinsurance companies, insurance services providers, and all relevant parties, to regulate and supervise the insurance sector, ensure the rights of the insured and beneficiaries, as well as ensure the soundness of the insurance and reinsurance companies' financial positions.

The Law reflects the CBJ's vision and its endeavors towards improving the regulatory and supervisory frameworks of the insurance business in accordance with international standards and best practices. It also aligns with the CBJ's disposition to strengthen the stability and soundness of the insurance sector, and enabling it to perform its envisioned role in serving the national economy.

#### **2-4-1-2 ANTI MONEY LAUNDERING AND COUNTER TERRORIST FINANCING LAW**

As mentioned in previous JFSRs, a Royal Decree was issued to pass the Anti Money Laundering and Counter Terrorist Financing Law No. (20) of 2021, which was published in the Gazette on 16/9/2021. The law includes a set of articles that draw the general policy for combating money laundering, terrorist financing, and proliferation of weapons of mass destruction. The Law identifies the perpetrators of money laundering and terrorist financing offenses as any person commits, assists, abets, or conceals a money laundering and terrorist financing offense, or has the intention to commit, involve in, or try to commit that offense which is penalized according to the legislations in force. This will help competent authorities to recover proceeds generated directly or indirectly from these offenses.

### 2-4-1-3 ISSUING JORDANIAN BANKNOTES BYLAW

This bylaw shall be called (Issuing Jordanian Banknotes Bylaw) No. (55) of 2022, issued pursuant to paragraph (a) of article (28) of the Central bank of Jordan Law No. (23) of 1971. The bylaw stipulates that the “dinar” is the Jordanian legal tender, and is issued in denominations of one dinar, five dinars, ten dinars, twenty dinars, and fifty dinars. This bylaw was issued as one of the legal requirements to issue new banknotes, which is intended to keep pace with latest developments in this field, and to leverage technology in adding new security features that make notes more difficult to counterfeit. The bylaw also includes the portraits that shall appear on various notes, as the portraits of their Majesties in Arabian folk costumes shall appear on the front of the notes. This is in addition to certain specifications such as the phrase (The Hashemite Kingdom of Jordan) which is written in Arabic on the front of the note and in English on its back, as well as other details such as the serial number. The notes also include security features such as the 3D security thread and dotted security thread that appear differently according to each note.

## 2-4-2 INSTRUCTIONS

### 2-4-2-1 THE FINES INSTRUCTIONS FOR INSURANCE BUSINESS

The Fines Instructions for Insurance Business No. (4/ 2023) were enacted according to the CBJ’s Board decision No. (68/2023) dated 20/3/2023, in pursuant to the provisions of Article (42/b/9), Article (96), and Article (109/b) of the Insurance Regulatory Law No. (12) of 2021, these instructions entered into force on 20/3/2023.

These instructions determine the fines imposed on insurance companies for violations, as well as on violations committed by persons other than insurance companies and insurance service providers.

### 2-4-2-2 INSTRUCTIONS OF ACCOUNTING POLICIES AND TEMPLATES REQUIRED FOR THE PREPARATION AND PRESENTATION OF FINANCIAL REPORTS AND STATEMENTS OF 2023

The Instructions of Accounting Policies and Templates Required for the Preparation and Presentation of Financial Reports and Statements of 2023 No. (5/2023) were issued on 5/6/2023 according to the CBJ’s Board decision No. (128/2023) dated 22/5/2023 pursuant to the provisions of Paragraph Article (24/f), and Article (109/b) of the Insurance Regulatory Law No. (12) of 2021, they entered into force on 22/5/2023.

These instructions require insurance companies to follow the accounting policies stipulated in the attached templates for financial statement disclosures. The insurance companies and the insurance companies licensed to practice Takaful insurance are required to prepare annual financial reports and statements using the templates included in the annexes attached to these instructions. They must also provide the CBJ with final financial statements audited and certified by external auditors. According to these instructions, the insurance companies are required to furnish the CBJ with semi-annual and quarterly financial statements, using the issued templates (according to a Governor’s decision) designated thereto.

Furthermore, amended instructions for the accounting policies and the templates required for the preparation and presentation of financial reports and statements of 2023 No. (2/ 2024), dated 21/1/2024 were enacted according to the CBJ’s Board decision No. (15/ 2024) dated 14/1/2024, pursuant to Article (109/b) of the Insurance Regulatory Law No. (12) of 2021. The amendments include updating annexes (1) and (2), set a deadline for insurance companies to furnish the CBJ with the final financial statements of the previous year in Article (5), and in Article (6) insurance companies are required to provide the CBJ with semi-annual and quarterly data at specified dates.

These instructions repeal the instructions of the Accounting Policies and the templates required

for the preparation and presentation of financial reports and statements No. (2) of 2003, provided that the decisions and supplementary materials issued pursuant thereto shall remain in effect until they are repealed or updated.

#### **2-4-2-3 INSTRUCTIONS FOR LICENSING EXCHANGE COMPANIES BRANCHES**

The Instructions for Licensing Exchange Companies Branches **No. (8/2023)** were enacted on 8/6/2023 according to the CBJ's Board decision No. (142/2023) dated 22/5/2023, pursuant to the provisions of Article (11) of the Exchange Business Law No. (44) of 2015 and Article (17) of Licensing Exchange Companies Bylaw Law No. (39) of 2021; these instructions shall come into force as of 8/6/2023.

These Instructions regulate the procedures of opening branches of exchange companies in the Kingdom, relocating exchange companies' headquarters or any of their branches, or temporarily suspending the operations of any branch. These instructions repeal the instructions of opening local branches for licensed exchange companies in the Hashemite Kingdom of Jordan issued pursuant to the CBJ's Board decision No. (27/2009), which was amended according to the decision No. (27/2020), and any other instructions that contradicts with them.

#### **2-4-2-4 THE INSTRUCTIONS OF LICENSING AND REGULATING THE BUSINESS AND RESPONSIBILITIES OF INSURANCE AGENTS**

The Instructions of Licensing and Regulating the Business and Responsibilities of Insurance Agents **No. (10/2023)** were issued on 10/9/2023, in accordance with the CBJ's Board decision No. (207/ 2023) dated 13/8/2023, pursuant to the provisions of Article (82/ a) and Article (109/ b) of the Insurance Regulatory Law No. (12) of 2021, and shall come into force on 1/9/2023.

These instructions determine the business, responsibilities, and delegations of insurance agents, as well as the general conditions and procedures for licensing them, or updating the data and information provided in the original license. In addition, the instructions require insurance agents to furnish the CBJ with periodic

data, regulate the agency contracts concluded between the insurance agents and the insurance companies, identify the responsibilities of insurance agents and the insurance companies, and put in place the code of ethics for insurance agents. The instructions also stress the importance of duly maintaining organized books and records, set the conditions for adding insurance branches to the existing license, stipulate the requirements for opening branches and cases of revoking licenses of insurance agents. The instructions also require the inspection on insurance agents, and identify corrective measures and administrative penalties in case of breaches. These instructions supersede the Instructions for Licensing and Regulating the Business and Responsibilities of Insurance Agents No. (1) of 2005 and its amendments.

#### **2-4-2-5 THE INSTRUCTIONS FOR THE DOCUMENTATION AND RECORD KEEPING OF EXCHANGE TRANSACTIONS, BOOKKEEPING, AND FINANCIAL REPORTING**

The Instructions for the Documentation and Record Keeping of Exchange Transactions, Bookkeeping, and Financial Reporting **No. (11/ 2023)** were issued on 8/10/2023 according to the CBJ's Board decision No. (226/ 2023) dated 28/9/2023, pursuant to the provisions of Article (21) of the Exchange Business Law No. (44) of 2015; the decision will come into force on 8/10/2023.

These instructions apply to all services provided by licensed exchange companies to customers, and specify the procedures for dealing with cash, the records and accounts of exchange companies, and their audited final financial statements. These instructions repeal the instructions of exchange business issued pursuant to the provisions of the Exchange Business Law No. (26) of 1992.

#### **2-4-2-6 THE INSTRUCTIONS OF FINANCIAL SOUNDNESS INDICATORS AND THEIR LIMITS FOR EXCHANGE COMPANIES**

The Instructions of Financial Soundness Indicators and their Limits for Exchange Companies **No. (13/ 2023)** were enacted on

15/11/2023 according to the CBJ's Board decision No. (244/2023) dated 2/11/2023, pursuant to Article (17/b) of the Exchange Business Law No. (44) of 2015, they are effective as of 15/11/2023.

These instructions put in place the financial soundness indicators for exchange companies and set their limits, namely: 1. The liquidity ratio for exchange companies, should not be less than (65%), at any time.

2. The share of the company's total fixed assets, should not exceed (20%) of the company's paid-up capital; the total assets should not exceed (5) times the amount of paid-up capital.

3. The account receivable or payable resulting from the company's transactions with a single external or internal entity should not exceed (40%) of its paid-up capital.

#### **2-4-2-7 THE INSTRUCTIONS FOR THE ACCOUNTING AND MEASUREMENT OF ASSETS AND LIABILITIES OF INSURANCE CONTRACTS**

The Instructions for the Accounting and Measurement of Assets and Liabilities of Insurance Contracts **No. (1/2024)** were enacted on 21/1/2024, according to the CBJ's Board decision No. (13/2024) dated 14/1/2024, pursuant to Article (24) and Article (109/b) of the Insurance Regulatory Law No. (12) of 2021; they entered into force as of 14/1/2024.

These instructions require the insurance companies to recognize and measure the assets and liabilities of insurance contracts in accordance with IFRS 17; the assumptions and methods used shall be approved by the actuary, and a certification must be submitted to the CBJ using the form (approved according to a Governor's decision) designated thereto. The instructions also set out the classifications for the treatment of expected recoveries from insurance contracts within the cash flows related to the calculation of the liabilities provision for incurred claims.

These Instructions replace the Technical Provisions Calculation Basis Instructions No. (2) of 2002 and its amendments, and the decisions issued pursuant thereto.

#### **2-4-2-8 THE INSTRUCTIONS FOR THE CRITERIA AND CONDITIONS OF CHARTERED ACCOUNTANTS**

The Instructions for the Criteria and Conditions of Chartered Accountants (auditing licensed exchange companies) **No. (3/ 2024)** were enacted on 23/1/2024 according to the CBJ's Board decision No. (9/2024) dated 14/1/2024, pursuant to article (4/b/4) of the Central Bank of Jordan Law No. (23) of 1971 and its amendments, and Article (23/a) of the Exchange Business Law No. (44) of 2015. These instructions are effective as of 23/1/2024.

The exchange companies must put in place a policy for the external audit, which must be approved by the top-level management in the company. The instructions also set the minimum criteria and requirements for the audit team and the partner, taking into account the international standards on auditing and quality control. The instructions stipulate that the external auditor shall be changed every (7) years at maximum, the partner and the audit team must be independent and objective throughout the contract period, and the main responsibilities of the partner were determined. The provisions of these instructions must be implemented taking into account the existing contractual obligations between exchange companies and chartered accountants.

#### **2-4-2-9 THE INSTRUCTIONS FOR LIQUIDITY INSTRUMENTS PROVIDED BY THE CBJ TO ISLAMIC BANKS**

The Instructions for Liquidity Instruments Provided by the CBJ to Islamic Banks **No. (3/ 2024)** were enacted on 20/2/2024, as the CBJ is keen on updating and evaluating its tools periodically to keep pace with international best practices of central banks. The instructions aim at providing Islamic banks a greater flexibility in managing their liquidity. The most important measures are:

1. Provide intraday liquidity to Islamic banks through collateral benevolent loans (Qard Al-Hasan).
2. Provide overnight (or higher maturity) liquidity to Islamic banks through the Investment Agency.

3. Address the impact of these tools on the balance sheet and liquidity requirements of Islamic banks. These instructions came into force as of 20/2/2024, and repeal any previous instructions that contradict with what stipulated therein.

#### **2-4-2-10 THE INSTRUCTIONS FOR DEALINGS OF LICENSED EXCHANGE COMPANIES IN THE KINGDOM WITH EXCHANGE AND MONEY TRANSFER COMPANIES ABROAD**

The Instructions for Dealings of Licensed Exchange Companies in the Kingdom with Exchange and Money Transfer Companies Abroad **No. (7)** were enacted on 5/5/2024 according to the CBJ's Board decision No. (78/2024) dated 25/4/2024, pursuant to article (18/b) of the Exchange Business Law No. (44) of 2015. These instructions are effective as of 5/5/2024.

The provisions of these Instructions apply to the exchange companies as per business and category, according to the effective licensing exchange companies Bylaw. The instructions stipulate that exchange companies dealing with foreign companies must apply to the CBJ's prior approval, using the form designated thereof. The CBJ also determines the documents or data that it deems necessary to be submitted with the application, as the company's compliance with the provisions of effective legislations shall be considered. After receiving the approval, the company must commit, when dealing with foreign companies, to abide by the provisions of all legislations in force in the Kingdom, in addition to use the means and mechanisms that the company is authorized to deal with according to effective legislations in the Kingdom. The dealings must be limited to the scope of what the foreign company is allowed to practice by the competent authorities in its country.

These instructions repeal all the CBJ's circulars issued in this regard, and what contradict with the provisions of these instructions.

#### **2-4-3 SUPERVISORY CIRCULARS**

In 2023, and the first half of 2024, the CBJ has enacted several supervisory circulars; namely:

- Circular No. **(9/3/17/6091)** dated 29/3/2023, directed to licensed exchange companies that obtained prior CBJ's approvals to deal with the Syrian market, whereby, the condition that requires companies not to carry out any transactions for clients of foreign exchange companies (third parties) when dealing with Syrian companies was suspended until further notice, provided that the beneficial owner must be based in Jordan for inbound transfers, and in Syria for outgoing transfers. However, other conditions and requirements regulating the transactions of licensed exchange companies with the Syrian market shall remain in effect.
- Later, the Circular No. **(9/4/17/21906)** dated 28/12/2023 was issued, whereby the condition stated in the above circular No. (9/3/17/6091) was suspended. The condition states that the company shall not carry out any transactions for clients of foreign exchange companies (third parties) when dealing with Syrian companies, provided that the beneficial owner shall be based in Jordan for inbound transfers, and in Syria for outgoing transfers.
- Circular No. **(9/4/6310)** dated 2/4/2023 directed to licensed exchange companies, whereby they are required to commit to the businesses they are licensed for as per category, in a manner consistent with the provisions of Licensing Exchange Companies Bylaw No. (39) of 2021 and its amendments; non-compliance is subject to legal action.
- Circular No. **(28/2/9521)** dated 24/5/2023 addressed to licensed finance companies, regarding the appointment of non-Jordanians; all companies must provide the CBJ on an annual basis with information related to their non-Jordanian employees according to the approved form, no later than 15<sup>th</sup> of January each

- year.
- Circular No. **(17/3/9912)** dated 5/6/2023, directed to insurance companies and insurance business management companies, whereby they must not receive requests for prior approvals or medical claims from medical service providers, nor responding to them by any means, as per effective instructions.
  - Circular No. **(27/3/12478)** dated 17/7/2023 directed to banks operating in the Kingdom regarding prizes linked with savings accounts, whereby offering prizes linked to saving accounts was extended until the end of 2025; the same conditions and controls included in the CBJ's Circular No. **(27/5/3808)** dated 10/3/2019 must be applied.
  - Circular No. **(10/2/13508)** dated 2/8/2023, directed to all banks operating in the Kingdom regarding repealing the license granted to Standard Chartered Bank Jordan, effective as of end of Thursday, 10/8/2023, and the transfer of its assets and liabilities to the Arab Jordan Investment Bank in accordance with the agreement signed between the two banks and the Framework agreement.
  - Circular No. **(10/6/14206)** dated 14/8/2023 addressed to banks operating in the Kingdom and mobile payment service companies, regarding activating accounts on e-channels. The CBJ emphasizes the need to implement certain controls and measures such as customer identity verification when opening accounts on e-channels, reactivate their accounts, or change usernames or reset passwords through these channels. The circular requires to send a one-time password (OTP) when log in to the account from unknown devices for banks in order to allow customers to access their accounts using more than one device, and for banks to follow up the activity of customers' phone numbers linked to their accounts, and to review logs on e-channels periodically, and document the results of the review.
  - Circular No. **(9/1/14747)** dated 22/8/2023 directed to exchange companies, which was enclosed by the following:
    - 1- A guiding manual for licensing exchange companies.
    - 2- The forms designated for licensing and renewals of licenses of exchange companies, as well as temporary suspending of their operations.
    - 3- An annex for the minimum requirements for the companies' location.
    - In addition, the instructions of licensing limited liability exchange companies issued pursuant to the CBJ's Board decision on 27/2/2007 and its amendments were considered legally repealed, in addition to the instructions and conditions of licensing exchange companies issued pursuant to the CBJ's Board decision on 30/7/1992 and its amendments.
  - Circular No. **(9/4/14/15027)** dated 27/8/2023 directed to licensed exchange companies, whereby they are permitted to provide Co-Branding to open e-wallets and issue prepaid payment cards, in the context of working as agents with e-payment and money transfer companies.
  - Circular No. **(17/2/15865)** dated 10/9/2023 directed to insurance agents regarding the professional certificates approved for obtain licensing in general insurance/ life insurance/ premium payment life insurance and/or the investment-linked insurance and/or the pension funds management.
  - Circular No. **(17/2/15868)** dated 10/9/2023 directed to insurance agents regarding the legal part-time insurance agents dealing with limited-benefit and coverage contracts.



- Circular No. **(9/4/16549)** dated 20/9/2023 directed to licensed exchange companies, whereby they are required to put in place measures and controls to ensure the security and safety of Cash-in-Transit (CIT) at licensed exchange companies in the Kingdom, aiming at enhancing security and supervisory controls related to security of cash, and reducing the risks confronting the exchange sector, in particular those related to CIT operations.
- Circular No. **(2/3/4204)** dated 4/3/2024 directed to licensed banks operating in the Kingdom, regarding some banks and their branches refusing to deposit coins, and providing customers with banknotes and coins they need. Banks are requested to accept coins deposits and not to refer them to the CBJ to exchange coins for banknotes, and to meet customers' needs for coins and small denominations banknotes (exchange) and not to refer them to the CBJ to get the service. Banks also must have a sufficient stock of coins and banknotes at their headquarters and branches to meet the increasing demand during Ramadan and Eids and holidays.
- Circular No. **(23/2/4456)** dated 12/3/2024 directed to licensed banks operating in the Kingdom, whereby banks as pursuant to the stress testing instructions for banks operating in the kingdom No. (1/20216) dated 6/12/2016, were requested to conduct the attached sensitivity analysis and scenario testing for their data as of 31/12/2023.
- Circular No. **(9/1/4894)** dated 17/3/2024 directed to licensed exchange companies operating in the Kingdom regarding promotional campaigns, whereby they are required to obtain the CBJ's prior approval before rolling out promotional campaigns for their various activities, and must provide the CBJ with the details and themes of those campaigns supported by original documents. In addition, they must apply for approval ten days before the promotional campaign, and adhere to all legislations governing the dealings of licensed exchange companies, including the Financial Consumer Protection Instructions for Licensed Exchange Companies No. (1/2021).
- Circular No. **(9/4/5382)** dated 27/3/2024 directed to licensed exchange companies operating in the Kingdom, whereby all exchange companies are required to obtain the CBJ's prior approval before providing any digital services for their customers.
- Circular No. **(9/1/5549)** dated 31/3/2024 directed to licensed exchange companies operating in the Kingdom regarding ensuring business continuity in cases of total power outages, whereby they must put in place a clear policy that includes the measures and procedures to be taken according to the CBJ's instructions to ensure the company's business continuity and to ward off any risks in cases of disruption and total power outages; this policy must be updated constantly at least annually.
- Circular No. **(17/2/6509)** dated 17/4/2024 directed to insurance companies and insurance agents, whereby they are requested to review the draft decision of the professional liability insurance contract for insurance agents, and furnish the CBJ with comments thereto, if any.
- Circular No. **(28/2/8809)** dated 28/5/2024 directed to specialty finance companies and mortgage refinance companies, regarding extending the deadline for finalizing the licensing requirements until 12/1/2025.

## CHAPTER THREE: DEVELOPMENTS AND RISKS OF THE FINANCIAL SECTOR

### 3-1 INTRODUCTION

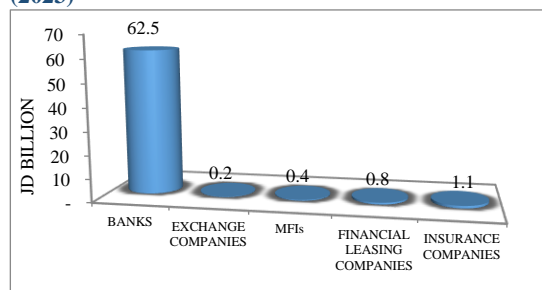
The financial sector in the Hashemite Kingdom of Jordan consists of banks, insurance companies, exchange companies, financial intermediation, financial services companies, and financing companies, which include MFIs, financial leasing, factoring, mortgage financing, mortgage refinancing, and lending-based crowdfunding.

The CBJ assumes the oversight and supervision on the banking sector, the exchange companies, and the MFIs, which were brought under the CBJ's supervision since 1/6/2015. Furthermore, the Finance Companies Bylaw No. (107) of 2021 was enacted and entered into force on 30/5/2022, whereby all companies practicing financing activities are subject to the CBJ's licensing and supervision.

In addition, a Royal Decree was issued to pass the Insurance Regulatory Law No. (12) of 2021, published in the Gazette on 16/5/2021, whereby the CBJ is in charge of overseeing and supervising the insurance sector.

Banks dominate the financial sector in Jordan, with total assets of JD 65 billion, accounting for 96.3% of the financial sector's total assets as of end 2023. (Figure 3-1).

**FIGURE 3-1: TOTAL ASSETS OF THE FINANCIAL SECTOR ACCORDING TO THE COMPONENTS OF THE FINANCIAL SECTOR (2023)**

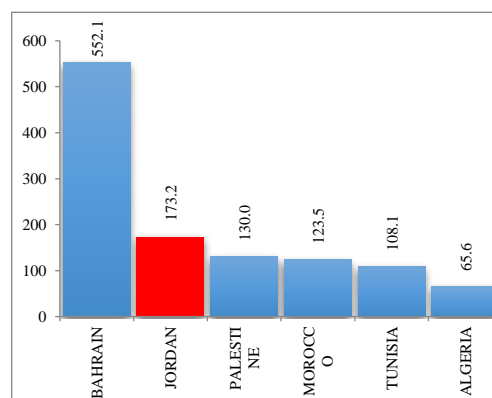


Source: CBJ

### 3-2 MAJOR DEVELOPMENTS OF THE BANKING SECTOR IN JORDAN (ASSETS AND LIABILITIES OF BRANCHES OPERATING IN JORDAN)

Assets of licensed banks reached JD 62.5 billion at the end of 2023, accounting for 173.2% of GDP, compared to 179.9% in 2022. Jordan ranked second in terms of this ratio as compared to selected Arab countries. (Figure 3-2).

**FIGURE 3-2: TOTAL ASSETS OF BANKS IN SELECTED ARAB COUNTRIES (2023) (% OF GDP)**

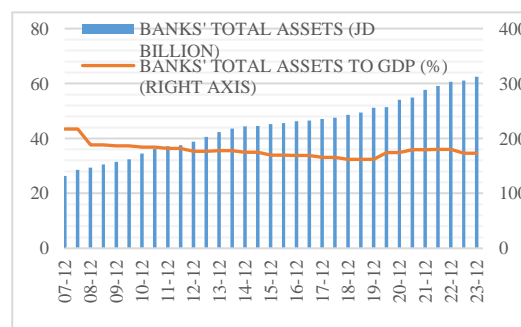


Source: Jordan's data: CBJ

Data of other Arab countries: Financial Stability in Arab Countries Report 2023

Although banks' assets in percent of GDP increased in Jordan, they were on the decline during the period (2007-2023). They decreased from 217.2% at the end of 2007, to reach 173.2% at the end of 2023. (Figure 3-3).

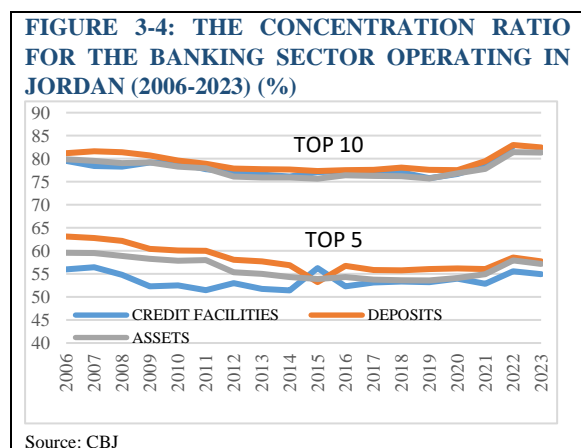
**FIGURE 3-3: DEVELOPMENTS OF ASSETS OF BANKS OPERATING IN JORDAN AND THEIR RATIO TO GDP (2007-2023)**



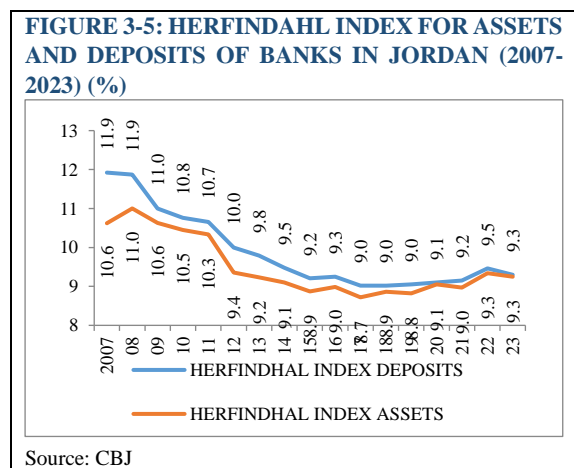
Source: CBJ

As for the market share of banks (concentration), the assets of the largest five banks (out of 20 banks) accounted for 57.1% of licensed banks' total assets at the end of 2023, compared to 59.6%

at the end of 2006. However, the assets of the largest ten banks approximated 81.4% at the end of 2023, compared to 79.9% as of end 2006. (Figure 3-4).



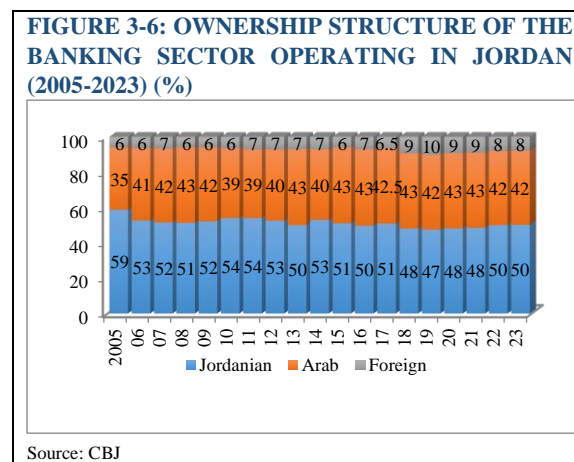
As for the competitiveness of the banking sector in Jordan; according to the Herfindahl Index (HI) of the banking sector’s assets, the competitiveness was improved, as the HI declined from 10.6% at the end of 2007, to reach 9.3% by the end of 2023. These figures suggest that competitiveness of the banking sector in Jordan is improving steadily, as banks are enhancing their businesses and products to boost their competitiveness. (Figure 3-5).



### 3-2-1 BANKS’ OWNERSHIP STRUCTURE

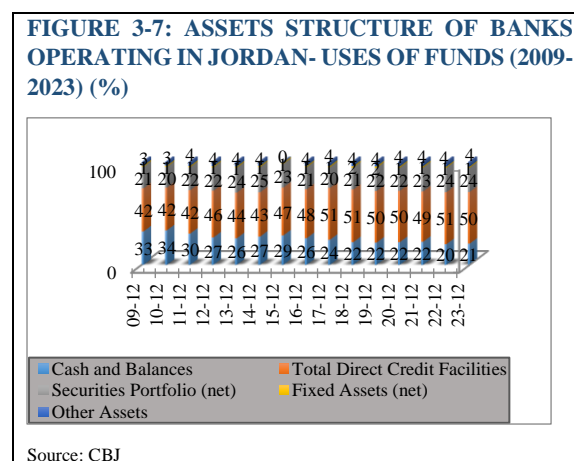
The share of foreigners (Arabs and Non-Arabs) in the capital of licensed banks in Jordan remained unchanged at the end of 2023 compared to its level in 2022 of 50%, compared to 52% in 2020 and 2021, which is considered amongst the highest in the region, as no restrictions are

imposed thereto, which reflects the investors’ confidence in the banking system in particular and in the Jordanian economy in general; most of these ownerships are stable strategic contributions. It is worth mentioning that this share declined in 2010 and 2011, and increased steadily afterwards until the end of 2021, however, it declined slightly at the end of 2022, and remained stable in 2023. (Figure 3-6).



### 3-2-2 USES OF FUNDS (ASSETS)

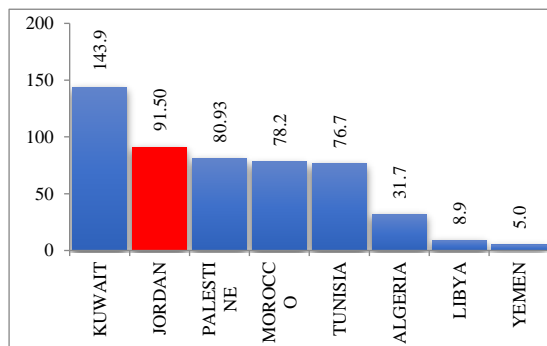
As for the assets structure of banks operating in the Kingdom (uses of funds), credit facilities portfolio is still the largest component; accounting for around 50.3% of banks’ total assets at the end of 2023, compared to 51% in 2022. This decline is due to the growth of credit facilities at slower rates than assets. (Figure 3-7).



Direct credit facilities grew by 2.5% at the end of 2023 to reach around JD 33 billion, compared to a growth of 8.6% in 2022. It is worth mentioning that total credit facilities accounted for 91.5% of GDP at the end of 2023, compared to 94.7% in

2022. In terms of this ratio, Jordan ranked second compared to a number of countries in the region following Kuwait, which validates the significant contribution of banks to the economic development in Jordan (Figure 3-8).

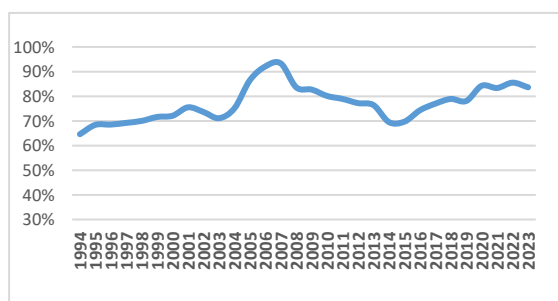
**FIGURE 3-8: CREDIT FACILITIES FOR JORDAN AND SELECTED ARAB COUNTRIES IN 2023 (% OF GDP)**



Source: Jordan's data: CBJ  
Data of other countries: Financial Stability in Arab Countries Report 2023

Credit gap analysis in Jordan revealed that, despite the increase of this ratio by 2.2% as compared to its historical trend, no additional capital buffers are required to be imposed on banks. According to Basel III Accord, a capital buffer shall be imposed on banks if credit growth is not proportionate with economic activity, as it signals to the accumulation of systemic risks, and price bubbles are very likely, however, the analysis of systemic risks reveals that no accumulation of risks is found and price bubbles are unlikely to occur currently. (Figure 3-9).

**FIGURE 3-9: CREDIT EXTENDED TO THE PRIVATE SECTOR (% GDP) (1994-2023) (%)**

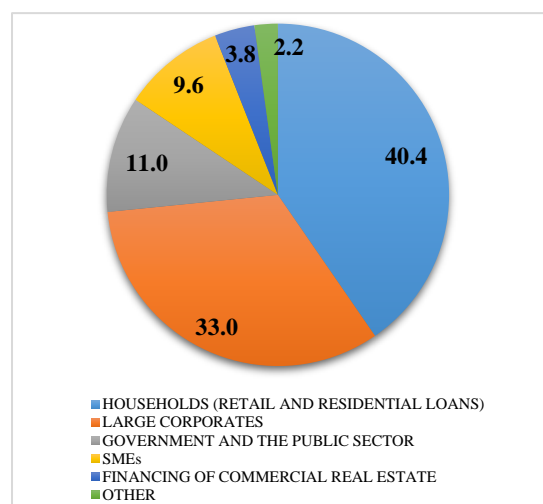


Source: CBJ

With regard to the sectoral distribution of direct credit facilities as of end 2023, credit extended to households accounted for the largest share of 40.4%, followed by credit extended to corporates, which formed 33%. Credit extended to the

government and the public sector accounted for 11% as of end 2023, compared to 10.6% at the end of 2022. Moreover, credit provided to SMEs declined slightly to 9.6% as of end 2023, compared to 9.9% at the end of 2022. However, the lowest share is for credit extended to financing commercial real estates, which accounted for 3.8% at the end of 2023, and the end of 2022. (Figure 3-10).

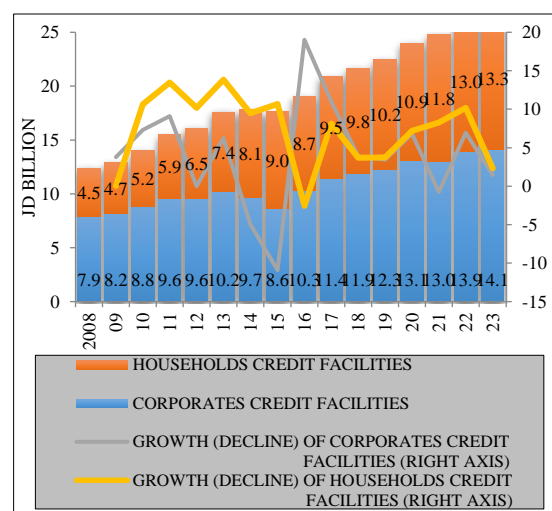
**FIGURE 3-10: SECTORAL DISTRIBUTION OF CREDIT FACILITIES EXTENDED BY BANKS OPERATING IN JORDAN AS OF END 2023 (%)**



Source: CBJ

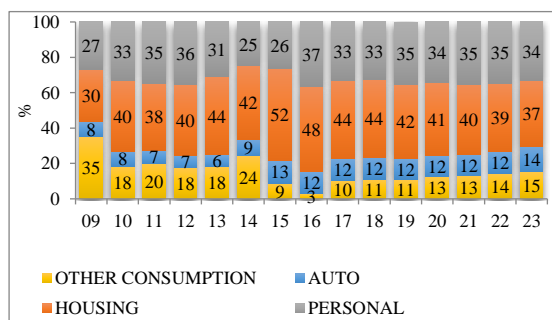
As for credit extended to households, which approximated JD 13.3 billion at the end of 2023; mortgages accounted for the largest share of around 37% of households' loans at the end of 2023, compared to 38.5% at the end of 2022, followed by personal loans, which formed 34.1% at the end of 2023, compared to 34.7% at the end of 2022. Furthermore, consumption loans accounted for 15.4% at the end of 2023, against 14.5% at the end of 2022. However, auto loans share of households' loans increased from 12.3% at the end of 2022 to 13.5% at the end of 2023. In addition, credit facilities provided to corporates (large, small, and medium) increased by 1% at the end of 2023, to reach JD 14.1 billion, compared to 6.9% at the end of 2022. (Figures 3-11, 3-12).

**FIGURE 3-11: DEVELOPMENTS OF CREDIT FACILITIES EXTENDED TO HOUSEHOLDS AND CORPORATES (2008-2023) (JD BILLION)**



Source: CBJ

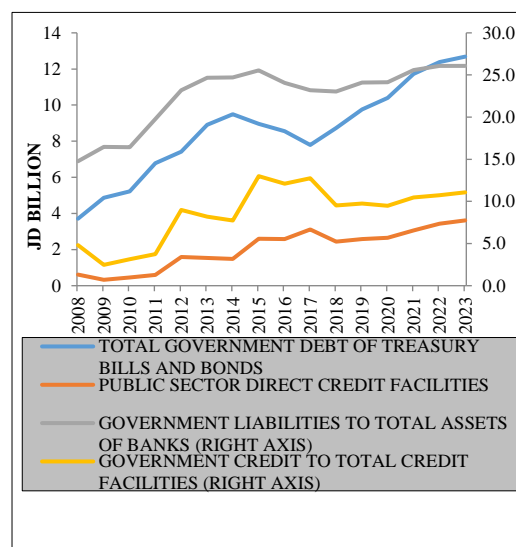
**FIGURE 3-12: CREDIT FACILITIES EXTENDED TO HOUSEHOLDS (2009-2023) (%)**



Source: CBJ

With regard to banks’ exposure to government debt, in terms of investments in government bonds or providing government-guaranteed loans to certain public institutions, the government debt held by banks reached around JD 16.3 billion (accounting for 26.1% of banks’ total assets) at the end of 2023, compared to JD 15.8 billion (accounting for 26.1% of banks’ total assets) at the end of 2022. The increase in government debt was mainly due to the increase in government bonds from JD 12.4 billion in 2022 to JD 12.7 billion in 2023. It is worth mentioning that, government debt owed to banks as of end 2023 consists of JD 12.7 billion of government bonds, and JD 3.6 billion of credit facilities. (Figure 3-13)

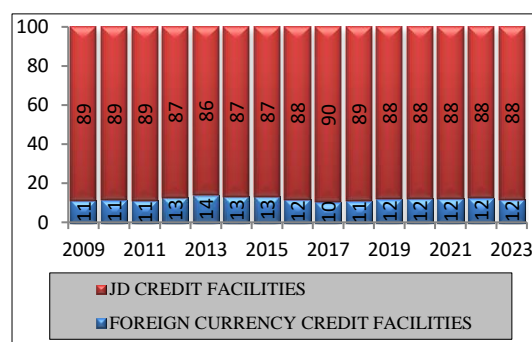
**FIGURE 3-13: BANKS EXPOSURE TO JORDANS’ GOVERNMENT DEBT (2008-2023)**



Source: CBJ

As for credit facilities according to currency, they are primarily denominated in JD, which maintained its level of 88.3% of total credit facilities during the period (2020-2023). (Figure 3-14).

**FIGURE 3-14: CREDIT FACILITIES EXTENDED BY BANKS OPERATING IN JORDAN ACCORDING TO CURRENCY (2009-2023) (%)**

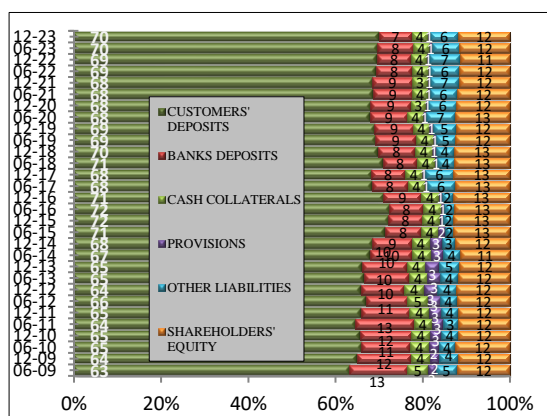


Source: CBJ

### 3-2-3 SOURCES OF FUNDS (LIABILITIES)

Analyzing the sources of funds in the banking system reveals that customers’ deposits represent the major source of funding, accounting for 70% as of end 2023, compared to 69.5% at the end of 2022. (Figure 3-15).

**FIGURE 3-15: LIABILITIES STRUCTURE OF BANKS OPERATING IN JORDAN (2009-2023)**



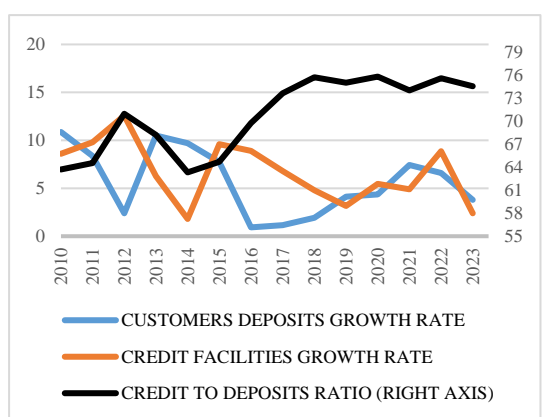
Source: CBJ

The second main source of funding is the shareholders' equity, which increased from JD 7 billion at the end of 2022, to reach JD 7.4 billion at the end of 2023, accounting for 11.9% of total sources of funds.

Bank deposits are the third source; they declined from 7.9% of total deposits at the end of 2022, to 7.5% at the end of 2023.

Customer deposits in the banking sector, increased by 3.8% in 2023, compared to 6.6% in 2022, to reach around JD 43.7 billion. The ratio of credit facilities to deposits at the banking system in Jordan declined from 75.6% at the end of 2022, to reach 74.6% at the end of 2023. (Figure 3-16).

**FIGURE 3-16: DEPOSITS AND CREDIT FACILITIES GROWTH RATES, AND CREDIT TO DEPOSIT RATIO (2010-2023) (%)**

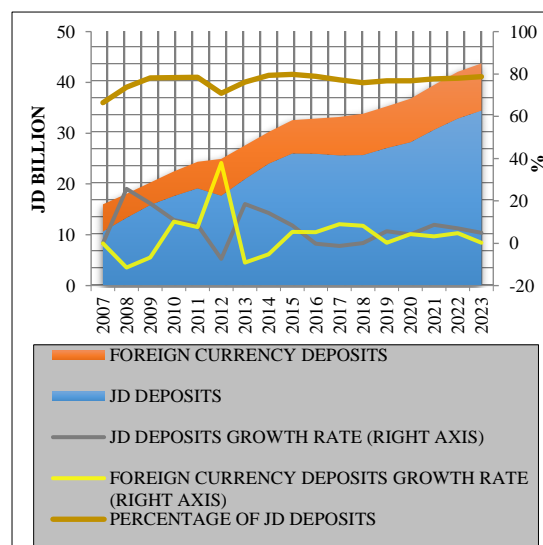


Source: CBJ

As for the composition of deposits in terms of currency, JD-denominated deposits account for

the largest share. Analyzing the changes in the ratio of JD-denominated deposits to total deposits indicates that they increased markedly from 66.4% at the end of 2007 to reach 78.4% at the end of 2011. However, it started to decline afterwards to reach its record low of 71% at the end of 2012, due to the economic headwinds that hit Jordan in 2012. Nevertheless, in 2013, 2014, and 2015, and due to the improving economic conditions, as most economic and monetary fundamentals improved, the JD-denominated deposits bounced back to reach its peak of 79.8% of total deposits at the end of 2015. During the period (2016- 2018) they decreased to reach 75.8% at the end of 2018, and increased afterwards during the period (2019-2023) to record 78.8% as of end 2023. This level is comfortable, and reflects the confidence in the JD as a saving currency, and supports the monetary and financial stability in the Kingdom (Figure 3-17).

**FIGURE 3-17: JD AND FOREIGN CURRENCY DEPOSITS LEVELS AND GROWTH RATES (2007-2023)**



Source: CBJ

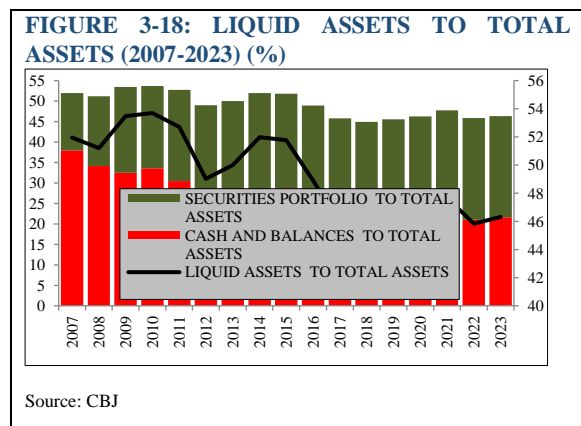
### 3-2-4 RISKS OF THE BANKING SECTOR IN JORDAN- FINANCIAL SOUNDNESS INDICATORS

Despite the unprecedented adversities that hit Jordan and the world due to the ramifications of COVID-19 pandemic, the Russian-Ukrainian crisis, and the war on Gaza; the financial and administrative positions of the banking sector in

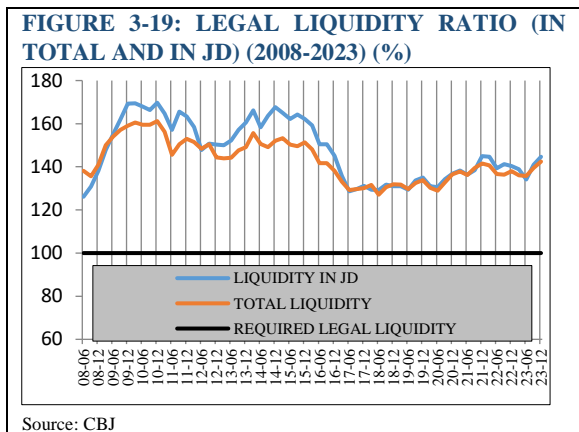
Jordan were broadly sound and resilient. In 2023, most financial indicators and ratios of the banking sector showed a remarkable improvement, supported by the gradual recovery from the implications of COVID-19 pandemic and the following crises. The next sections elaborate on the main developments of banks' financial ratios and indicators.

### 3-2-4-1 LIQUIDITY

The banking sector in Jordan enjoys a safe liquidity position; the liquidity indicators at the end of 2023 evidenced that the liquidity position of banks is adequate and safe. The cash and balances accounted for 21.6% of total assets at the end of 2023, compared to 21% at the end of 2022, while the share of securities portfolio (highly liquid) to total assets reached to 24.7% at the end of 2023, compared to 24.8% at the end of 2022. Accordingly, high-liquid assets accounted for around 46.3% of total assets at the end of 2023, compared to 45.8% at the end of 2022 (Figure 3-18).



The total legal liquidity ratio imposed by the CBJ on banks increased from 138% at the end of 2022, to 142.5% at the end of 2023; it is adequately higher than the CBJ's minimum requirement of 100%. (Figure 3-19).

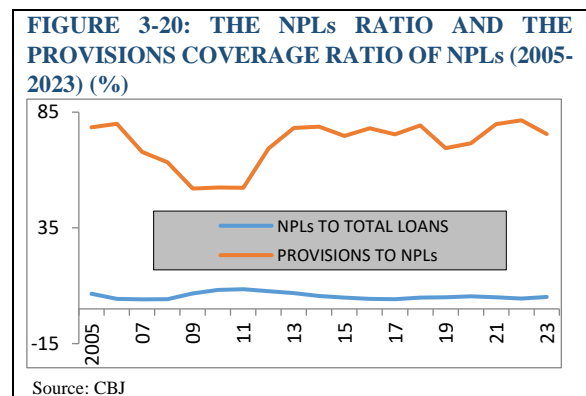


The Liquidity Coverage Ratio (LCR) also increased at the end of 2023 to reach 243.9%, compared to 231% at the end of 2022; the CBJ's minimum requirement of LCR is 100%.

### 3-2-4-2 QUALITY OF ASSETS

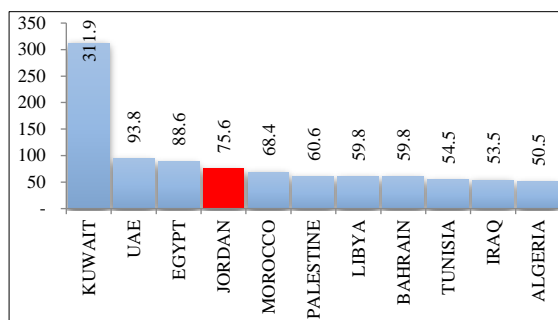
The ratio of NPLs to total loans increased slightly at the end of 2023 to reach 5.1%, compared to 4.5% at the end of 2022. This implies that despite the prevailing geopolitical tensions in particular the Russian-Ukrainian crisis and the war on Gaza, the NPL increased only slightly, which validates that the quality of assets at banks in Jordan is excellent.

As for the provisions coverage ratio to NPLs, it reached to 75.6% at the end of 2023, compared to 81.5% at the end of 2022, which means that approximately 76% of NPLs are covered, (Figure 3-20). This indicates that provisions of banks are adequate to ward off credit risks.



The banking system in Jordan ranked fourth compared to 11 Arab countries in terms of the NPLs coverage ratio; a relatively high ranking (Figure 3-21).

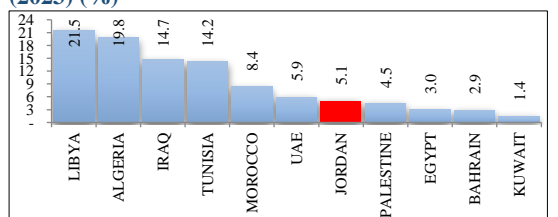
**FIGURE 3-21: THE PROVISIONS COVERAGE RATIO FOR NPLs IN JORDAN AND SELECTED ARAB COUNTRIES (2023) (%)**



Source: Jordan's data: CBJ.  
Data of other countries: Financial Stability in Arab Countries Report 2023.

The outstanding balance of NPLs (excluding interest in suspense) at the banking system stood at JD 1,630.4 million at the end of 2023; increasing by JD 220.2 million compared to its level in 2022 of JD 1,410.2 million. Despite the increase in NPLs in numbers, the NPLs ratio to total loans increased only slightly, and the provisions are adequate to cover these NPLs. As compared to selected Arab countries, the ratio of NPLs to total loans in Jordan is relatively low, which is a good indicator. (Figure 3-22).

**FIGURE 3-22: THE NPLs TO TOTAL LOANS FOR JORDAN AND SELECTED ARAB COUNTRIES (2023) (%)**



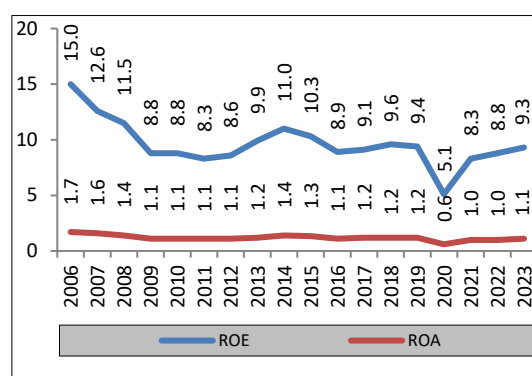
Source: Jordan's data: CBJ  
Data of other countries: Financial Stability in Arab Countries Report 2023

**3-2-4-3 PROFITABILITY**

In 2023, banks' profits improved as banks' net profits after tax reached to JD 659.4 million in 2023, compared to JD 598.6 million in 2022, increasing by JD 60.8 million, or 10.2%. Furthermore, the ROA stood at 1.1% in 2023, compared to 1% in 2021 and 2022. Historically, the ROA of the banking system recorded 1.7% at the end of 2006, and declined gradually to 1.1% at the end of 2009, affected by the implications of the global financial crisis on profits of banks. The ROA maintained that level until the end of 2012,

to increase to 1.2% and 1.4% in 2013 and 2014, respectively, as banks' profits increased markedly. In 2015 and 2016, banks' ROA declined slightly to 1.3% and 1.1%, respectively. However, banks' ROA increased again at the end of 2019 to reach 1.2%, and declined afterwards to 0.6% in 2020 due to the repercussions of COVID-19 pandemic. It increased to 1% in 2021 and 2022, and increased further to reach 1.1% in 2023 as mentioned earlier. (Figure 3-23).

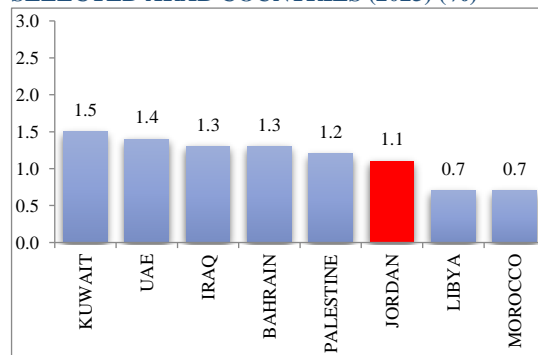
**FIGURE 3-23: BANKS' ROE AND ROA (2006-2023) (%)**



Source: CBJ

The comparison of Jordan to selected Arab countries (with available data) in terms of ROA, indicates that Jordan occupied a relatively low ranking; Morocco and Libya had the lowest ROA of 0.7%, while Kuwait ranked the highest with 1.5% ROA. (Figure 3-24).

**FIGURE 3-24: ROA FOR JORDAN AND SELECTED ARAB COUNTRIES (2023) (%)**



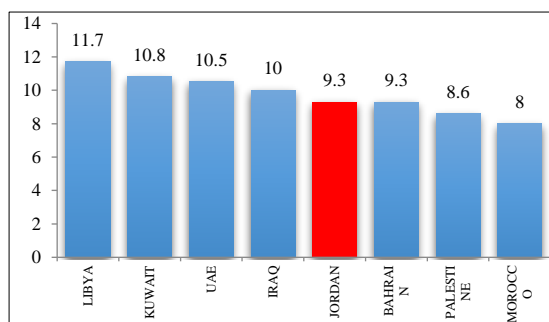
Source: Jordan's data: CBJ  
Data of other countries: Financial Stability in Arab Countries Report 2023

As for ROE, it increased at the end of 2023 to reach 9.3%, compared to 8.8% in 2022, due to the increase in banks' profits in 2023. (Figure 3-23).



In comparison with selected Arab countries, Jordan occupied a middle ranking among 8 Arab countries in terms of the ROE. Morocco had the lowest ROE of 8%, while Libya had the highest ratio of 11.7%. It is noteworthy that the modest ROE of banks in Jordan is attributed to the banks' low risk appetite and high levels of capital, and the income tax is relatively high. (Figure 3-25).

**FIGURE 3-25: BANKS' ROE FOR JORDAN AND SELECTED ARAB COUNTRIES (2023) (%)**



Source: Jordan's data: CBJ  
Data of other countries: the Financial Stability in Arab Countries Report 2023

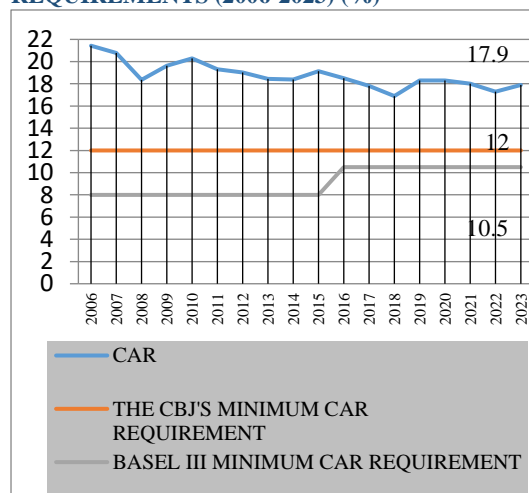
### 3-2-4-4 CAPITAL ADEQUACY

The Capital Adequacy Ratio (CAR) of the banking sector in Jordan is high; it ranged from 18% to 21% during the period (2007-2016). It is sufficiently well above the 12% minimum requirement of the CBJ, and the 10.5% minimum requirement of Basel Committee. However, the CAR decreased in 2017 and 2018 to record 17.8% and 16.9%, respectively. The CAR's notable decline in 2018 is partially due to the implementation of IFRS (9), which required holding additional provisions for credit losses; these provisions were transferred from shareholders' equity, in particular retained earnings. At the end of 2019, the CAR increased significantly to reach 18.3%, as the CBJ requested banks not to distribute dividends, which intended to support banks' capital base and enable them to ward off the ramifications of COVID-19 pandemic, and support the national economy. However, in 2020, the CBJ allowed banks to distribute dividends, which shall not exceed 12% of the paid-in capital, provided that banks must achieve profits in 2020. Furthermore, these distributions shall not breach the CAR and liquidity ratios requirements stipulated in the law

and the instructions. Limiting the distribution of dividends contributed to enhance the capital base of banks and to stable the CAR in 2020, which remained at its 2019 level of 18.3%. However, the CAR declined slightly to reach 18% and 17.3%, at the end of 2021 and 2022, respectively, which is attributed to the notable growth of credit during this period. Afterwards the CAR increased to reach 17.9% in 2023, which is well above the minimum requirement of 12%.

Furthermore, Tier I core capital ratio increased to reach 16.7% at the end of 2023, compared to 16.5% at the end of 2022. It is noteworthy, that the capital of banks in Jordan is mostly composed of tier I core capital; the highest quality component and the most capable to absorb losses. (Figure 3-26).

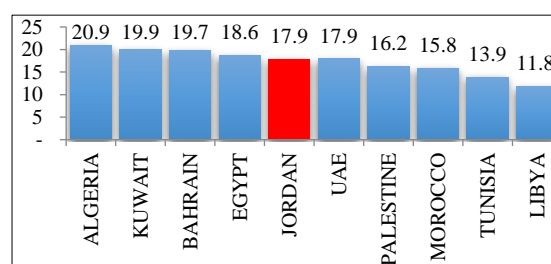
**FIGURE 3-26: ACTUAL CAR COMPARED WITH THE CBJ AND BASEL COMMITTEE MINIMUM REQUIREMENTS (2006-2023) (%)**



Source: CBJ.

In comparison with selected Arab countries, the CAR in Jordan ranked approximately in the

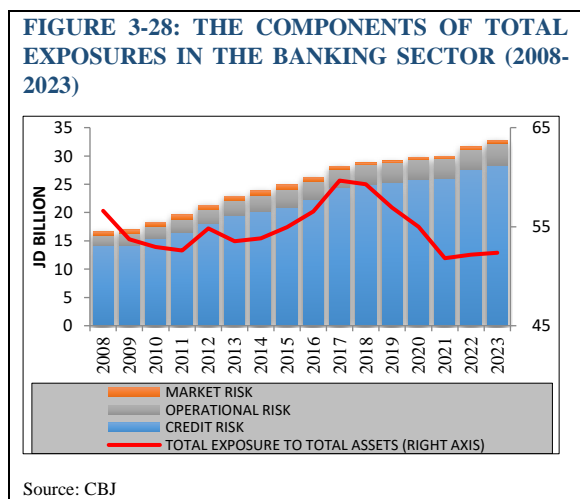
**FIGURE 3-27: CAR FOR JORDAN AND SELECTED ARAB COUNTRIES (2023) (%)**



Source: Jordan's data: CBJ  
Data of other countries: the Financial Stability in Arab Countries Report 2023

middle among 10 Arab countries with available data. (Figure 3-27).

With regard to banks' exposures, credit risk is the most significant risk forming 86.7% of total risks as of end 2023, followed by operational risks forming around 11.9%, and market risks 1.4%. These figures are close to their levels in 2022, which validates that the risk structure at banks is stable, and no substantial changes occurred.



(Figure 3-28).

### 3-2-4-5 OPERATIONAL EFFICIENCY OF BANKS

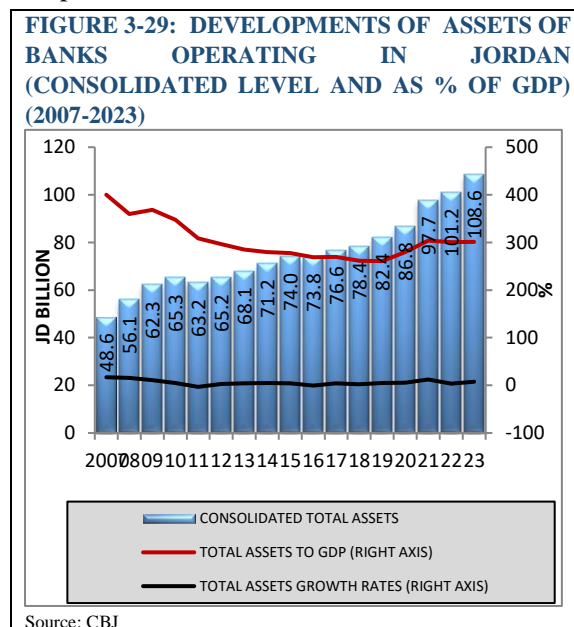
The operational efficiency for banks is measured primarily by the Cost (excluding interests) to Income Ratio (CIR). The CIR of banks declined from 74.4% at the end of 2020 to reach 60% at the end of 2023. This decline indicates improvement in the operational efficiency of banks as they are relying more on Fintech in providing their financial and banking products and services.

### 3-3 ASSETS AND LIABILITIES OF CONSOLIDATED BANKING SECTOR IN JORDAN (BRANCHES OPERATING IN JORDAN AND ABROAD AND SUBSIDIARIES)

#### 3-3-1 ASSETS

The number of Jordanian banks operating abroad are (7) banks, however, the Arab Bank's assets

abroad constituted around 77.8% of these banks' total assets, and 74.2% of the Arab Bank's consolidated total assets as of end 2023. The consolidated total assets of banks approximated JD 108.6 billion at the end of 2023, compared to approximately JD 101.2 billion at the end of 2022, increasing by JD 7.4 billion or 7.3%. Assets of branches in Jordan accounted for 57.5% of consolidated total assets at the end of 2023, compared to 59.9% at the end of 2022.



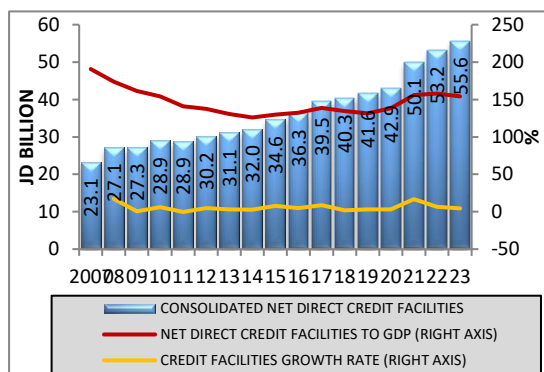
The consolidated assets of the banking sector relative to GDP ratio were on a continuous decline during the period (2007-2019), it declined from 400% in 2007 to around 260.7% at the end of 2019. Afterwards, it increased to reach 279.7% and 304% in 2020 and 2021, respectively, as assets grew significantly higher than the GDP, which was influenced by the repercussions of COVID-19 pandemic. However, it declined slightly again at the end of 2022 to reach 300.3% of GDP, and increased slightly in 2023 to reach 301.1% of GDP, which is due to the assets being increasing at higher rates than the GDP thus affected by the prevailing geopolitical tensions especially the Russian-Ukrainian crisis and the war on Gaza.

#### 3-3-2 CREDIT FACILITIES

The net balance of consolidated credit facilities of the banking system grew by 4.5% to reach around JD 55.6 billion at the end of 2023, compared to

JD 53.2 billion at the end of 2022 (a growth of 6.3%). The consolidated credit facilities as percent of GDP reached to 154.1% at the end of 2023, compared to 158% at the end of 2022. (Figure 3-30).

**FIGURE 3-30: DEVELOPMENTS OF CREDIT FACILITIES OF BANKS OPERATING IN JORDAN (CONSOLIDATED LEVEL AND AS % OF GDP) (2007-2023)**

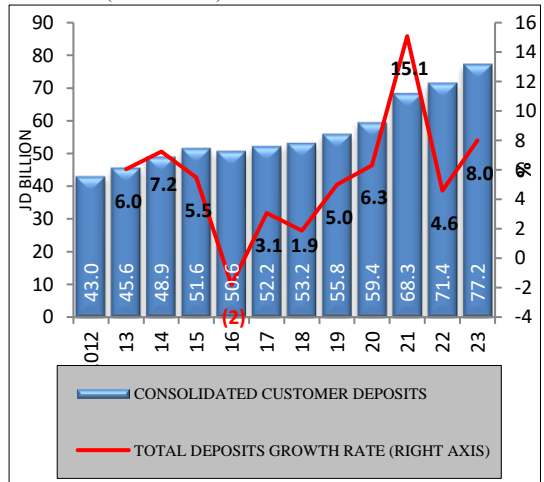


Source: CBJ

### 3-3-3 DEPOSITS

Consolidated customers' deposits increased to JD 77.2 billion at the end of 2023, growing by 8% compared to JD 71.4 billion (a growth of 4.6%) at the end of 2022. (Figure 3-31).

**FIGURE 3-31: DEVELOPMENTS OF CONSOLIDATED CUSTOMERS' DEPOSITS AT BANKS (2012-2023)**

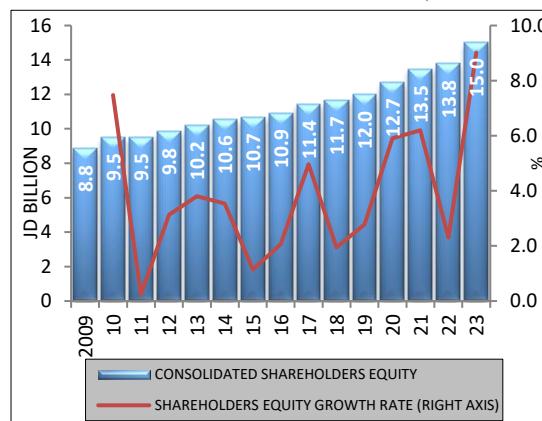


Source: CBJ

### 3-3-4 SHAREHOLDERS' EQUITY

The consolidated balance of shareholders' equity for banks totaled JD 15 billion at the end of 2023, compared to JD 13.8 billion at the end of 2022. It is worth mentioning that shareholders' equity was trending upward since 2009 (Figure 3-32), which enhances banks' solvency and resilience to withstand risks, and strengthens the stability of the financial sector.

**FIGURE 3-32: TRENDS OF CONSOLIDATED BANKS SHAREHOLDERS' EQUITY (2009-2023)**



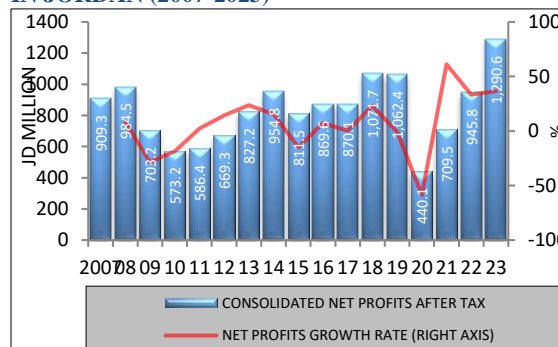
Source: CBJ

### 3-3-5 NET PROFIT AFTER TAX, ROA, AND ROE

#### 3-3-5-1 NET PROFIT AFTER TAX

The banking system's net profit after tax recorded a substantial increase at the end of 2023 to reach JD 1,290.6 million, compared to JD 945.8 million at the end of 2022, a growth of 36.5%. This is due to the gradual recovery from the repercussions of COVID-19 pandemic and the following crises in Jordan and countries where Jordanian banks operate. (Figure 3-33).

**FIGURE 3-33: TRENDS OF NET PROFIT AFTER TAX FOR CONSOLIDATED BANKS OPERATING IN JORDAN (2007-2023)**



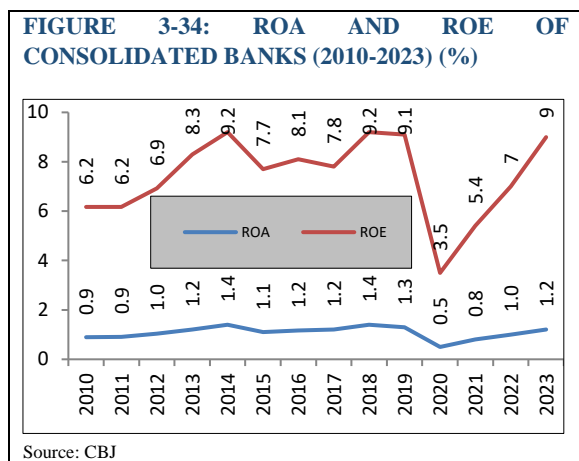
Source: CBJ

### 3-3-5-2 ROA

Due to the increase in the consolidated banks' profits, the ROA of consolidated banks increased to 1.2% as of end 2023, compared to 1% at the end of 2022. (Figure 3-34).

### 3-3-5-3 ROE

The ROE of consolidated banks also increased at the end of 2023 to reach 9%, compared to 7% at



the end of 2022. (Figure 3-34).

## 3-4 FINANCIAL STABILITY INDEX

### 3-4-1 INTRODUCTION

As mentioned in previous financial stability reports, the CBJ in 2017 introduced Jordan Financial Stability Index (JFSI) according to countries practices in designing similar index; countries use different approaches in terms of variables, statistical methods, weights, and other factors. Therefore, the JFSI was developed according to international best practices thereon, yet it was tailored to fit the features of the Jordanian economic and financial system.

The JFSI is a composite of three sub-indices; each index represents a key element of the Jordanian financial system, namely: the banking sector index, which constitutes of ten variables, the macroeconomics index which includes seven variables, and the capital market index, which consists of two variables. These 19 sub-indices were calculated and analyzed by using historical data for the period (2007-2023).

<sup>1</sup> Banking Stability Index: A Cross-Country Study.

### 3-4-2 THE METHODOLOGY

The methodology used to develop the JFSI is one of the most widely used by countries<sup>1</sup> calculating the same index. The JFSI was developed based on international best practices thereupon, and tailored to the features of the financial sector in Jordan, which is dominated by the banking sector. Accordingly, more than half of the indices used to calculate the composite JFSI refer to the banking sector indicators. A synopsis of the methodology used to calculate the JFSI is set out below.

#### Data Normalization:

The re-scaling was used for sub-indices, by subtracting the minimum value of the sub-index from the value of the index and then divide the output by the range of the sub-index according to the formula (1) below.

$$di = \frac{Ai - \min}{\text{Max} - \min} \dots \dots \dots (1)$$

Where min<sup>2</sup> and Max represent the minimum and maximum values of the di sub-index.

#### Calculation of sub-indices:

The sub-index is calculated by using the weighted average of normalized indices, and determining the weights based on the relative importance of indices. Several methods are available for selecting the weights of indices; however, the best-used one is to rely on the professionals and experts' opinions, as weights are estimated according to the significance of the sub-index and its impact on the financial stability in the Kingdom. Therefore, the following weights were allocated to the banking sector indices:

Variable	Weight
CAR	28.3%
Quality of Assets	28.3%
Liquidity	28.3%
Profitability	15%
Total	100%

The sub-indices of the banking sector, macroeconomics, and the capital market were calculated using the following formulas:

**Banking Sector Index** (weighted average of sub-indices):

$$Bsi = \frac{\sum_{i=1}^{10} W_b d_b}{10} \dots \dots \dots (2)$$

#### Macroeconomics Index:

$$Esi = \frac{\sum_{i=1}^7 d_E}{7} \dots \dots \dots (3)$$

#### Capital Market Index:

$$Msi = \frac{\sum_{i=1}^2 d_M}{2} \dots \dots \dots (4)$$

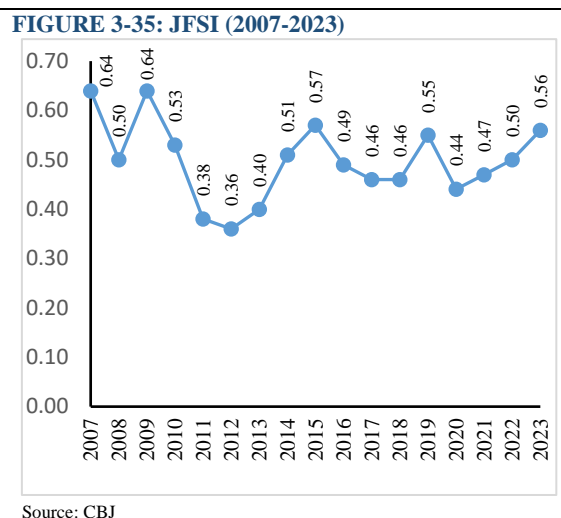
#### Calculating the Composite Financial Stability Index:

Using the weighted average of the three sub-indices, the JFSI is calculated using the following formula:  
 JFSI= ((10/19) \*Bsi) + ((7/19) \*Esi) + ((2/19) \*Msi). (5)  
 The JFSI's value ranges from zero to 1.

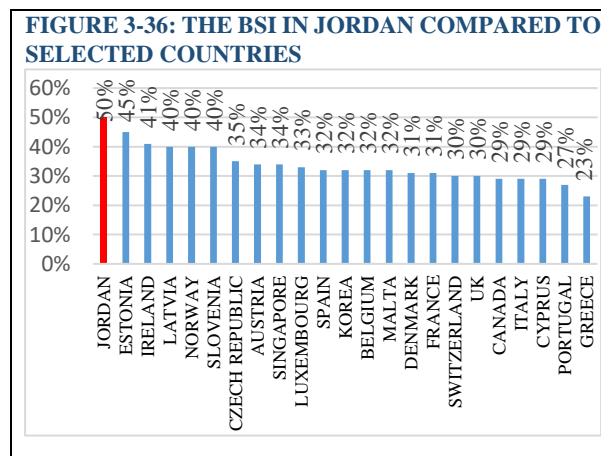
<sup>2</sup> The minimum value is determined according to the minimum values stipulated in respective regulations in force rather than the minimum values in the study.

### 3-4-3 THE JFSI RESULTS

The JFSI value ranges from zero to one, the closer the value to one, the greater the stability of the financial system. The pre-financial crisis JFSI was 0.64 at the end of 2007, and dropped to 0.5 at the end of 2008 due to the global financial crisis. However, it increased to 0.64 at the end of 2009 to fall again during the period (2010-2012) with the lowest value recorded at the end of 2012 of 0.36, influenced by the Arab Spring and the refugees' crisis, as well as the challenging economic conditions that hit the Kingdom, especially in 2012. The JFSI started to recover and reached 0.57 at the end of 2015, and declined during the period (2016-2018) to reach 0.46 in 2018. In 2019, the JFSI improved markedly compared to the period (2016- 2018)<sup>3</sup> to record around 0.55, supported by improved liquidity ratios, CARs, and the financial leverage ratio of banks operating in Jordan, as well as the increase in the CBJ's reserves of foreign currency and gold. In 2020, the COVID-19 pandemic substantially affected the economic and financial conditions in the Kingdom; the JFSI declined to reach 0.44. However, in 2021 and 2022, it increased to 0.47, and 0.50 respectively, and increased further to 0.56 in 2023, reflecting the constant improvement in the stability of the financial system. This improvement is due to the notable increase of the (Esi) from (0.54) in 2022 to (0.66) in 2023, supported by the continuous improvement in the performance of most economic fundamentals including improved economic growth and the increase in foreign reserves in 2023, in addition to the decline in the current account deficit and inflation rates and the credit-to-GDP gap in 2023, (Figure 3-35). Furthermore, the (Bsi) increased from (0.47) in 2022 to (0.50) in 2023, as most financial ratios and indicators of banks were improved markedly in 2023 compared to 2022.



As compared to 23 countries using similar index, Jordan ranked first in terms of the (Bsi), as indicated in (Figure 3-36). This ensures that the banking sector in Jordan is highly stable, owing to the sound and robust financial indicators, as well as banks being implementing best corporate governance rules and international financial standards.



## 3-5 DEVELOPMENTS OF NON-BANKING FINANCIAL SECTOR (NON-BANKING FINANCIAL INSTITUTIONS)

### 3-5-1 THE INSURANCE SECTOR

The insurance sector is a vital component of the financial sector, as it protects individuals and properties against risks, in addition to attracting and investing national savings to support

<sup>3</sup> One of the main drawbacks of the FSI, which was acknowledged by most countries using such index, is its high sensitivity to any changes in the values of the sub-indices included in the calculation, irrespective of how small these changes are.

economic development. The contribution of insurance premiums to GDP reached around 2.02% in 2023. Given the importance of this sector in strengthening the financial stability, the Cabinet on 24/02/2016 entrusted the insurance sector supervision to the CBJ, in consistency with international practices of supervisory authorities. To this end, the CBJ in cooperation with the Ministry of Industry, Trade, and Supply drafted the insurance regulatory law of 2019, which was passed by the Parliament in March 2020. The Insurance Regulatory Law No. (12) of 2021 was enacted by a Royal decree, and published in the Gazette on 16/05/2021. The provisions of this Law apply to insurance companies, reinsurance companies, insurance services providers, and all relevant parties involved in regulating and supervising the insurance sector. This is to protect the rights of the insured and beneficiaries, as well as to ensure the soundness of the financial positions of the insurance and reinsurance companies. The Law reflects the CBJ's vision and endeavor to strengthen the regulatory and supervisory frameworks of the insurance business, in accordance with international standards and best practices, which builds on the CBJ's dedication to support the stability and the soundness of the insurance sector and to enable it achieving its envisioned role in the economy.

The Insurance sector consists of (21) licensed companies operating in Jordan; one is licensed to provide life insurance; (5) companies are licensed to practice general insurance; while (15) companies are licensed to carry out both types of insurance (general insurance and life insurance), three of which are providing Takaful insurance (two are licensed to practice life and general insurance). The insurance sector consists of (787) insurance services providers as of 31/12/2023, including insurance agents and brokers, reinsurance brokers, loss settlement specialists, inspectors, authorized delegates to subscribe, actuaries, insurance consultants, insurance business management companies, banks licensed to practice insurance business, and reinsurance brokers residing abroad.

The CBJ has put in place a set of measures and instructions to ensure the optimal implementation of the requirements of IFRS 17 on the date determined by the International Accounting Standards Board (IASB), as the standard entered into effect on 1/1/2023. The IFRS 17 replaced IFRS 4, and meant to unify the accounting treatments in insurance companies worldwide and to enhance transparency and accuracy through results measurement and recognition of actual revenues and financial obligations of the insurance company, making it more analyzable and comparable to other insurance companies.

#### **Main indicators of the insurance sector:**

- Total assets of the insurance companies in the Kingdom reached to around JD (1.053) million at the end of 2023, compared to around JD (993) million at the end of 2022; growing by (6) %.
- The investments approximated JD (663) million at the end of 2023, accounting for (63%) of total assets of the sector, compared to around JD (619) million at the end of 2022, increasing by around (7%).
- The total equity of insurance companies in the Kingdom amounted to around JD (363) million at the end of 2023, compared to about JD (345) million at the end of 2022, an increase of around (5%).
- The capital of insurance companies reached to around JD (236) million at the end of 2023, accounting for (65%) of the total equity of the sector, compared to JD (235) million at the end of 2022, an increase of (0.4%).
- The net profits after tax of the insurance sector in the Kingdom grew by (29%) at the end of 2023, to reach around JD (32) million, compared to JD (25) million at the end of 2022; technical profits constituted around JD (23.6) million, or (57%) of the sector's net profits before tax, distributed as follows:

**TABLE 3-1: THE INSURANCE AND REINSURANCE COMPANIES FINANCIAL RESULTS (JD MILLION)**

Portfolio	The results of insurance and reinsurance business 2023
Motor	4.5
Marine and Transportation	4.4
Aviation	0.1
Fire and Other Damages for Properties	4.4
Civil Liability	(0.3)
Credit	0.2
Medical	4.8
Other Classes	2
Life Insurance	3.5
<b>Total</b>	<b>23.6</b>

All insurance licenses realized technical profits from the subscriptions, except the civil liability license.  
 \*Note that the above data is preliminary and includes data of (18) companies out of (21) insurance companies.

### 3-5-2 NON-BANKING FINANCIAL INSTITUTIONS

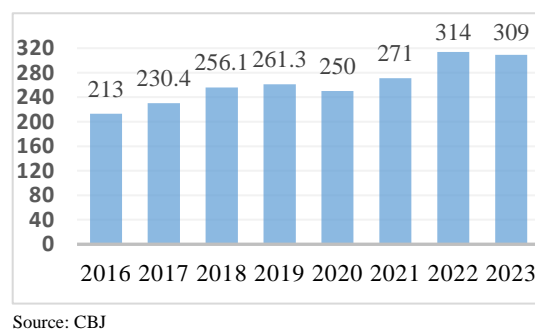
Non-banking financial institutions are essential to the economy, as they provide credit to unbanked vulnerable segments. The following section elaborates on these institutions.

#### 3-5-2-1 MICROFINANCE SECTOR

The microfinance sector in Jordan started its business in 1994, and expanded rapidly during the last years. Microfinance loans portfolio recorded a steady growth during the period (2017-2019) that averaged 7.1%. However, in 2020, it declined by 4.3%, influenced by the ramifications of the COVID-19 pandemic. However, it increased markedly by 8.4% in 2021, and 15.9% in 2022, yet it declined in 2023 by 1.6%. (Figure 3-40).

The MFI's total loans portfolio reached to JD 309 million at the end of 2023, compared to around JD 314 million at the end of 2022, declining by 1.6%. The number of borrowers increased by 1.13% to reach 446 thousand borrowers at the end of 2023, compared to 441 thousand borrowers at the end of 2022. In addition, the average value of loans declined from JD 913 at the end of 2022, to JD 874 at the end of 2023, a decline of 4.3%.

**FIGURE 3-40: DEVELOPMENTS OF THE MFIs LOANS PORTFOLIO (2016-2023) (JD MILLION)**

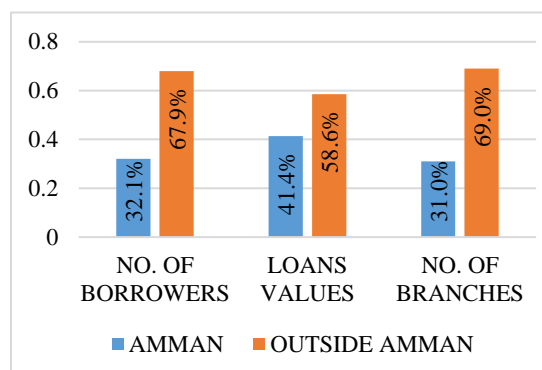


The MFIs typically target women, aiming to empower them and enhance their contribution to the economy and society. The MFIs services also focus on borrowers outside Amman to achieve economic and social development throughout the Kingdom as follows:

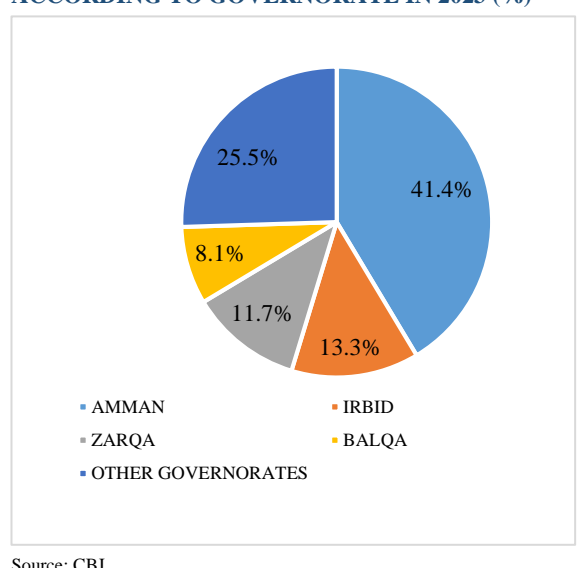
#### 3-5-2-1-1 THE MICROFINANCE SECTOR ACTIVITIES OUTSIDE AMMAN

The microfinance sector activities are concentrated outside Amman, as 67.9% of borrowers, 58.6% of total loans, and 69% of MFIs branches are located outside Amman (figure 3-41).

**FIGURE 3-41: THE MICROFINANCE SECTOR ACTIVITY INSIDE AND OUTSIDE AMMAN IN 2023 (%)**



The distribution of MFIs Loans according to governorates in 2023 (Figure 3-42), revealed that Amman received 41.4% of these loans, followed by Irbid 13.3%, Zarqa 11.7%, Balqa 8.1%, while other governorates received 25.5% of total loans.

**FIGURE 3-42: DISTRIBUTION OF MFIs LOANS ACCORDING TO GOVERNORATE IN 2023 (%)**

### 3-5-2-1-2 THE MICROFINANCE SECTOR MAIN FINANCIAL INDICATORS (2021-2023)

The microfinance sector's assets reached to JD 366 million at the end of 2023, compared to JD 375 million at the end of 2022, declining by 2.4%. However, the equity increased to reach JD 199 million at the end of 2023, compared to JD 186 million at the end of 2022. The sector's net profits after tax decreased from JD 20 million in 2022 to reach JD 16 million in 2023, declining by 20%. In addition, the ROE declined to reach 8.4% in 2023, compared to 11.2% in 2022, and the ROA declined from 5.5% in 2022 to reach 4.4% in 2023, (Table 3-2).

Item	2021	2022	2023
Total assets	335	375	366
Equity	164	186	199
Net profit (loss) after tax	17	20	16
Return (after tax) on average assets	5.4%	5.5%	4.4%
Return (after tax) on average equity	11.0%	11.2%	8.4%
Bad debt ratio to total portfolio	3.3%	2.8%	3.7%
Portfolio At Risk (PAR)/ over 30 days	5.3%	5.1%	7.4%
Liquidity ratio	2.3	2.3	2.3

Source: CBJ

<sup>4</sup> The data covers (8) financial leasing companies, which are subsidiaries of banks, and dominate the financial leasing activity in Jordan. However, the financial leasing transactions provided by Islamic banks are not included in calculations.

### 3-5-2-2 FINANCIAL LEASING COMPANIES<sup>4</sup>

Total assets of financial leasing companies which are subsidiaries of banks in Jordan reached to JD 773.2 million at the end of 2023, compared to JD 682.1 million at the end of 2022; an increase of 13.4%. With respect to financial results of these companies, net profits after tax declined in 2023 by 22.9% to reach JD 15.6 million, compared to JD 20.2 million in 2022. In addition, the ROE declined from 5.93% in 2022 to reach 4.61% in 2023, and the ROA also declined from 2.97% in 2022, to 2.02% in 2023. The total number of financial leasing companies stood at 13 companies as of end 2023, compared to 12 companies as of end 2022. (Table 3-3).

**TABLE 3-3: DEVELOPMENTS OF FINANCIAL LEASING COMPANIES (2017- 2023) (JD MILLION)**

Item	2017	2018	2019	2020	2021	2022	2023
Revenues	37.7	43.3	53.2	51.5	47.2	50.4	57.8
Paid-In Capital	142.5	175	210	212.5	195	197	201
Total Assets	499.7	582	604.6	649.4	620.6	682.1	773.2
Shareholders' Equity	251.8	309	323	333	322.3	340.9	338.1
Profit After tax	17.6	17.7	21.8	13.5	18.9	20.2	15.6
ROE (%)	7.3%	6.8%	6.9%	4.1%	5.90%	5.93%	4.61%
ROA (%)	3.9%	3.5%	3.7%	2.1%	3.04%	2.97%	2.02%

Source: annual statements of the financial position for financial leasing companies (subsidiaries of banks).

### 3-5-2-3 THE EXCHANGE SECTOR

The number of licensed exchange companies in the Kingdom stood at 323; 112 headquarters and 211 branches located in governorates all over Jordan (Table 3-4).

**TABLE 3-4: NO. OF EXCHANGE COMPANIES AND BRANCHES IN JORDAN**

Governorate	No. of Companies	No. of Branches	Total
Amman	65	128	193
Zarqa	11	20	31
Irbid	6	24	30
Aqaba	4	7	11
Other Governorates	26	32	58
Total	112	211	323



In light of the developments in the exchange sector and the notable growth in its business during the last two decades, which made it one of the most vital sectors in the Kingdom, and to respond to economic updates and developments, the Money Exchange Business Law No. 44 of 2015 was enacted on 18/10/2015, which repealed the law No. 26 of 1992.

The Law constitutes the legislative framework that governs the exchange business in the Kingdom, by setting out the conditions and requirements for licensing, merging, liquidation, and management of exchange companies, and the records and books that must be retained by these companies, as well as validating the role of the chartered accountant in auditing the exchange companies, in terms of expanding the scope of the auditor according to best practices. The Law also contributed to establish the legal basis for informing exchange companies about any decisions or instructions issued by the CBJ, and strengthened the CBJ's authority to enact the instructions of the acceptable ratios and limits for sound financial positions of the exchange companies, and the size of non-Jordanian workforce. The Law lays the legal basis for the formulation of an ad hoc committee dedicated to handle complaints submitted to the CBJ against the exchange companies' services.

Furthermore, the CBJ conducts on-site and off-site supervision on the exchange sector. The off-site supervision mainly intends to examine and analyze periodic statistical data and audited financial statements of exchange companies, and provides appropriate recommendations thereon. However, the on-site supervision, which is carried out through on-site inspection visits, verifies the compliance of exchange companies with all relevant laws and regulations in force, which adds to the work of the external auditors of the exchange companies as stipulated in the provisions of the Law.

As for the financial results of the exchange sector, total assets (business size) reached to approximately JD 207.9 million in 2023, compared to JD 191 million in 2022. The ROA and return on capital increased in 2023 to reach 1.75% and 3.13% respectively, compared to 1.58%, and 2.77% in 2022. This remarkable increase in profits ratios of exchange companies is attributed to the increase in their profits as the implications of the COVID-19 pandemic on this sector and other economic sectors have receded. (Table 3-5).

**TABLE 3-5: MAIN INDICATORS OF THE EXCHANGE SECTOR IN 2023**

Indicator	JD Million
Total Business size	207.9
Total Capital	115.9
Total Financial guarantees provided by exchange companies	36.8
Total Purchases of foreign currency	7,319
Total Sales of foreign currency	7,353
Return on capital	3.13%
ROA	1.75%

### 3-5-3 SOCIAL SECURITY CORPORATION<sup>5</sup> (SSC)

The SSC plays a pivotal role in the society; the social security covers 69,789 active firms, 60.3% of which are based inside Amman as indicated in the SSC annual report of 2023. The SSC umbrella is extended to cover 1.56 million insured persons working in more than 69 thousand active enterprises in the public and private sectors. The umbrella also expanded to cover the voluntary participation of Jordanians, which reached to around 90.5 thousand subscribers, thanks to the SSC's efforts represented by issuing the regulations intended to cover freelancers on 29/8/2019, which entered into force on 1/1/2020.

In addition to its fundamental role in society, the SSC significantly contributes to achieving the financial stability through its massive investments portfolio diversified in financial and non-financial assets, as well as its effective

<sup>5</sup> Despite the SSC is not considered as a non-banking financial institution, financial stability reports in most countries include social security corporations with them, as they are essential to achieve financial stability through their diversified investments in financial and non-financial assets.

lending to the government through treasury bills and bonds. The main features of the SSC are listed below:

- The SSC has a massive investment capacity with a long-term investment horizon, as it invests to raise funds for retirement claims of individuals at different ages, which enables the SSC to undertake investments at different maturities, and helps to diversify the risk premiums for various maturities. This policy is particularly important during financial crises when market suffers shortages of liquidity. The SSC's investments accounted for 40% of GDP at the end of 2023, compared to 41.6% at the end of 2022.
- The SSC conducts self-financing investments; unlike banks, the SSC's source of funds is the subscribers' deductions rather than borrowings or deposits. Therefore, the SSC is not exposed to high leverage ratio, nor risks of maturity mismatch between sources and uses of funds. These two factors led several international banks to fail during the last global financial crisis in 2008, which validates that the SSC is not a possible source of systemic risk in the financial system.
- The deductions from workers and employers are retained for a long period, and cannot be withdrawn as the case in banks, thus, they are not exposed to liquidity runs.

The SSC's role during the COVID-19 crisis was crucial; the SSC pursued a clear and determined approach to respond to the crisis, which consisted of two pillars: the first represents the corporation's commitment towards its responsibilities as a cornerstone to provide the social protection for workers in the Kingdom, while the second is the provision of liquidity to the private sector enterprises and assisting them to ward off the ramifications of the pandemic. The SSC also embarked several intervention programs enacted through defense orders and announcements thereof. These programs injected additional liquidity to the private sector amounted to JD 232 million as of today.

Building on the SSC's importance in stimulating investments, and in order to boost its funds, the Social Security Investment Fund (SSIF) was founded and started its business at the beginning of 2003. The SSIF invests the SSC's funds to realize high and constant returns, preserve the real value of the SSC assets, as well as provide the sufficient liquidity to meet the SSC's obligations. The SSIF's assets reached to around JD 14.9 billion at the end of 2023, compared to JD 13.8 billion at the end of 2022, increasing by 7.5%. In addition, the SSIF's income increased by JD 112 million, or 16.4% to reach JD 797 million at the end of 2023, compared to JD 685 million at the end of 2022. The SSIF's investment portfolios consist of seven major portfolios. (Table 3-6).

**TABLE 3-6: DISTRIBUTION OF THE SSIF PORTFOLIOS (2022-2023) (JD MILLION)**

Investment Portfolios	2022	2023
Money Market Instruments Portfolio	1,808.6	2,023.3
Bonds portfolio	7,645.4	8,446.1
Loans portfolio	447.9	545.6
Equity portfolio	2,479.9	2,329.6
Real estate portfolio	817.3	851
Tourism portfolio	317.7	314.4
Other assets	286.5	328
Total	13,803.2	14,838
Source: SSIF		

The SSIF's investments are diversified in different economic aspects. The SSIF is the second largest buyer (after banks) of government treasury bills and bonds, and government-guaranteed bonds which are allocated to the money market instruments portfolio (mature in less than one year), and the bonds portfolio (mature in more than one year). Moreover, the SSIF loans portfolio consists of medium- and long-term loans including direct loans and syndicated loans. The equity portfolio consists of shares of public companies listed in ASE, as well as the shares of the strategic private placements companies, according to the SSIF's investment policy. The real estate portfolio includes all real estate investments in lands, real estate projects, and real estate development, while the tourism portfolio constitutes of all investments in the tourism sector. The allocation of the SSIF's investments among these portfolios aims to

diversify the investments, and to mitigate risks, according to specified investment considerations.

It is worth mentioning that the SSC is a strategic shareholder in the capital of several banks in Jordan. The total contribution of the SSC in Jordanian banks' capital approached JD 986 million at the end of 2023, accounting for 12.5% of the market capitalization of banks shares in Jordan of JD 7.9 billion (Table 3-7).

**TABLE 3-7: THE SSC CONTRIBUTIONS IN JORDANIAN BANKS CAPITAL AS OF END 2023 (JD MILLION) (%)**

Bank	Contribution (JD Million)	Share (%)
Jordan Kuwait Bank	81.1	21.04%
Jordan Commercial Bank	24	19.84%
Arab Bank PLC.	502.1	17.18%
Housing Bank for Trade & Finance	181.2	15.42%
Bank al Etihad	40.4	11.03%
Jordan Ahli Bank PLC	22.2	10.25%
Safwa Bank	18	9.38%
Cairo Amman Bank	21.2	8.19%
Capital Bank	38.6	7.19%
Jordan Islamic Bank	47.5	5.82%
Arab Jordan Investment Bank	8	4.08%
ABC Bank	1.6	2.05%
Bank of Jordan	0.1	0.01%
Total	986.2	12.5%

Source: SSIF

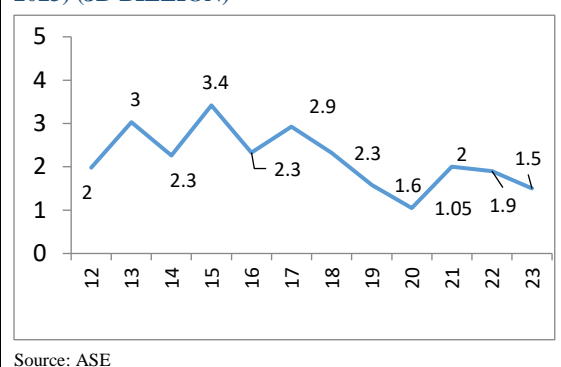
### 3-5-4 AMMAN STOCK EXCHANGE (ASE)

The ASE performance and market capitalization declined slightly in 2023. Despite the challenges and adversities in the region, the ASE remained balanced; the free float share price index ASE100 decreased slightly by 2.8% to reach 2,431.2 points at the end of 2023, compared to 2,501.6 points at the end of 2022. In addition, the free float share price index ASE20 reached to 1,308.8 points at the end of 2023, compared to 1,345.3 points at the end of 2022, decreasing by 2.7%. The total return index ASETR increased by 4.1%. Meanwhile, the market capitalization of listed shares dropped by 5.9% at the end of 2023 compared to 2022, to reach around JD 17 billion, accounting for 50.3% of GDP, thus the market capitalization peaked to its highest levels since 2014.

The trading volume declined by JD 446.7 million to reach JD 1,457 million in 2023 (figure 3-43), which is the outcome of the following:

1. The increase of the trading volume in the industrial sector by JD 21 million.
2. The decline of the trading volume in the financial sector by JD 289.9 million.
3. The decline of the trading volume in the services sector by JD 177.8 million.

**FIGURE 3-43: TRADING VOLUME IN ASE (2012-2023) (JD BILLION)**



The number of shares traded in 2023 declined by 35.5 million shares to reach around 1,120.2 million shares, compared to 1,155.7 million shares traded in 2022. As for shares traded by sector, the financial sector accounted for 37.3% of the trading volume in 2023, followed by the industrial sector 32%, and the services sector 30.7%. (Table 3-8).

**TABLE 3-8: RELATIVE IMPORTANCE OF TRADING VOLUME BY SECTOR (2013-2023) (%)**

Sector	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Industrial	13.1	16.7	10.1	30.2	22.4	42.2	18.2	17.4	25.1	23.4	32
Services	13.5	16.5	21.2	18.2	12.8	9.8	16.2	20	24.7	32.8	30.7
Financial	73.4	66.8	68.7	51.6	64.8	48	65.6	62.6	50.2	43.7	37.3

Source: ASE

With regard to the transactions of non-Jordanian investors in ASE, they purchased around JD 151.1 million shares in 2023, and sold JD 181.2 million shares (Table 3-9).

**TABLE 3-9: PURCHASES AND SALES OF SHARES BY NON-JORDANIAN INVESTORS IN ASE (2015-2023) (JD MILLION)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Purchases</b>	981.7	666.5	994.9	1231.8	528.7	96.8	220.2	274.2	151.1
Arabs	894.3	520.3	638.7	214.4	147.5	75.7	194.5	234.4	130
Foreigners	87.4	146.2	356.3	1,017.4	381.2	21.1	25.8	39.7	21.1

<b>Total Selling</b>	971.1	429.4	1329.2	747.3	414.6	164.4	281.1	342.2	181.2
Arabs	873.5	304.1	1177.6	177.1	374.8	94.1	186	263.2	106.9
Foreigners	97.6	125.3	151.6	570.2	39.8	70.3	95.1	79	74.3
<b>Net Investment</b>	10.6	237.1	-334.3	484.5	114.1	-67.5	-60.9	-68	-30.1
Arabs	20.7	216.2	-538.9	37.3	227.3	-18.4	8.5	-28.8	23.1
Foreigners	-10.1	20.9	204.7	447.2	341.4	-49.1	-69.3	-39.3	-53.2

Source: ASE

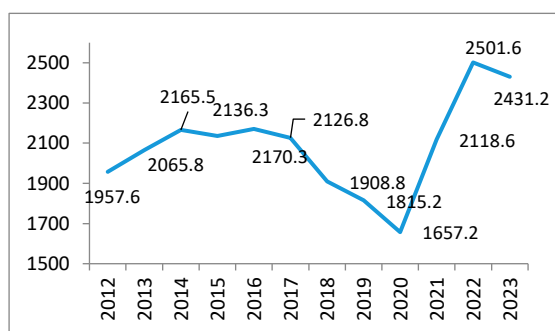
### 3-5-4-1 THE FREE FLOAT WEIGHTED SHARE PRICE INDEX

As mentioned previously the ASE100 declined to reach 2,431.2 points at the end of 2023, compared to 2,501.6 points at the end of 2022; decreasing by 2.8%. The ASE20 also declined to reach 1,308.8 points at the end of 2023, compared to 1,345.3 points at the end of 2022, decreasing by 2.7%.

### 3-5-4-2 THE MARKET CAPITALIZATION WEIGHTED SHARE PRICE INDEX

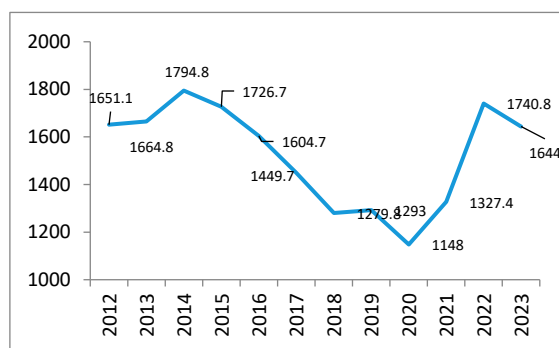
The market capitalization weighted share price index dropped by 314.1 points (6.6%) in 2023, compared to its level recorded in the previous year to reach 4,416.3 points. This decline is due to the decrease in the indices of the industrial companies and services companies.

**FIGURE 3-44: FREE FLOAT MARKET CAPITALIZATION WEIGHTED SHARE PRICE INDEX (CLOSING PRICE OF DECEMBER 1999=1000) (2012-2023) (POINTS)**



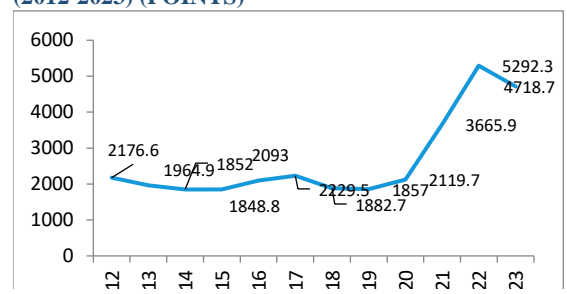
Source: ASE

**FIGURE 3-45: THE FREE FLOAT MARKET CAPITALIZATION WEIGHTED SHARE PRICE INDEX OF THE SERVICES SECTOR (CLOSING PRICE OF DECEMBER 1999=1000) (2012-2023) (POINTS)**

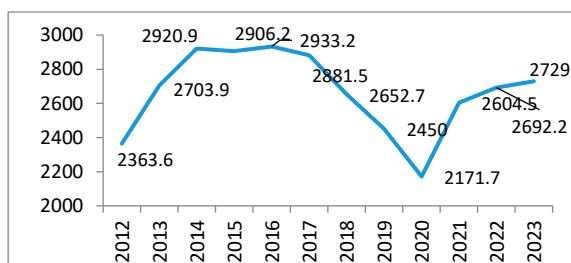


Source: ASE

**FIGURE 3-46: FREE FLOAT MARKET CAPITALIZATION WEIGHTED SHARE PRICE INDEX OF THE INDUSTRIAL SECTOR (CLOSING PRICE OF DECEMBER 1999=1000) (2012-2023) (POINTS)**



(POINTS)



Source: ASE

### 3-5-4-3 BANKS' EXPOSURE TO STOCK MARKETS RISKS

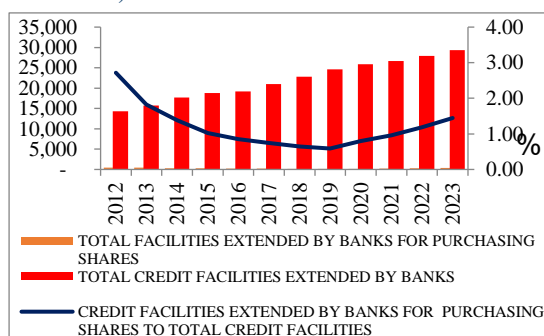
Capital markets are essential to stimulate the economy's impetus, as they attract foreign investments, promote national savings, and provide financing sources for economic projects, which ultimately serve the national economy. As capital markets are crucial, risks facing these markets captured an increasing attention, especially after the global financial crisis of 2007, through monitoring stock prices bubbles and assessing risks in stock markets, as well as the exposure of banks to these risks.

Regarding the exposure of banks to stock market risks in Jordan, it could evolve from credit facilities extended by banks to finance the purchase of shares or through investments of banks in shares. Banks' exposure to these risks is analyzed below:

#### 3-5-4-3-1 CREDIT FACILITIES EXTENDED BY BANKS FOR PURCHASING SHARES

Credit facilities extended to finance purchasing shares constitute a minimal percentage of total credit facilities extended by licensed banks. They reached to JD 517.7 million at the end of 2023, accounting for 1.6% of total credit facilities, compared to JD 466.2 million at the end of 2022, an increase of 11%. (Figure 3-48).

**FIGURE 3-48: CREDIT FACILITIES EXTENDED BY BANKS FOR PURCHASING SHARES & TOTAL CREDIT FACILITIES (2012-2023) (JD MILLION)**



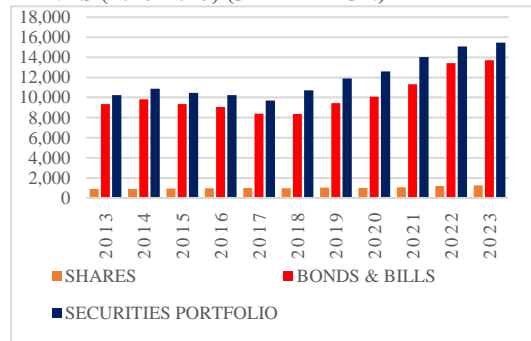
Source: CBJ

#### 3-5-4-3-2 BANKS' INVESTMENTS IN SHARES

The securities portfolio of banks in Jordan reached around JD 15,449.5 million at the end of

2023, compared to JD 15,071.8 million at the end of 2022, increasing by 2.5%. Banks' investments in shares accounted for 8% of total investments in securities at the end of 2023, which is the same level recorded in 2021 and 2022; they are much lower than investments in bonds (mostly government bonds) which capture the largest share of banks' investments in securities. Banks' investments in shares are relatively low due to the restrictions imposed by the Banking Law and the CBJ's instructions on these investments, which intend to lower market risk for banks and maintain the financial stability in the kingdom. Figure (3-49)

**FIGURE 3-49: SECURITIES PORTFOLIO OF BANKS (2013-2023) (JD MILLION)**



Source: CBJ





## CHAPTER FOUR: DEVELOPMENTS AND RISKS OF THE NON-FINANCIAL SECTOR

### 4-1 THE HOUSEHOLD SECTOR- BORROWERS FROM BANKS

#### 4-1-1 EXPOSURE OF BANKS TO THE HOUSEHOLD SECTOR

In the context of the CBJ's monitoring of the households' indebtedness to banks, the next section illustrates the major developments of household debt and related ratios thereto.

#### 4-1-2 THE HOUSEHOLD INDEBTEDNESS TO BANKS

Table (4-1) illustrates the household indebtedness to banks during the period (2018-2023); it reached to JD 13.3 billion at the end of 2023, up from JD 13 billion at the end of 2022, increasing by 2.3%, which is lower than the growth registered in 2022 of 10%. As mentioned in the previous JFSR, a large part of the increase in households' indebtedness in 2021 and 2022 does not reflect actual growth, rather, it resulted from banks postponement of loans repayments due on stressed clients impacted by the COVID-19 pandemic, or postponements on the occasions of Eid al-Fitr and Eid al-Adha.

Indebtedness	2018	2019	2020	2021	2022	2023
The Banking System (JD Million)	9,800	10,169	10,903	11,840	13,027	13,322
Growth (YOY) (%)	3.7	3.7	7.2	8.6	10	2.3

Table (4-2) illustrates the household indebtedness according to loan types provided by banks during the period (2018-2023):

Loan Type	2018	2019	2020	2021	2022	2023
Residential Loans	4288	4277	4479	4722	5012	4,927
Personal Loans	3199	3523	3746	4163	4517	4,542
Auto Loans	1221	1232	1311	1408	1618	1,798
Credit Cards	225	242	256	304	417	480

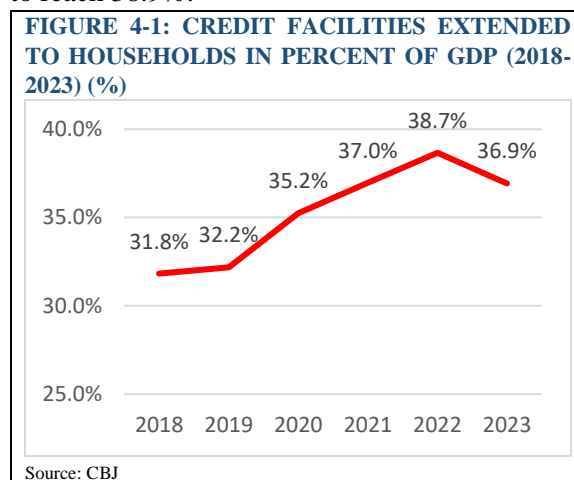
Consumption Loans	648	671	885	1019	1223	1,282
Loans for utilities	7	9	10	10	13	15
Other	212	215	216	214	227	278
<b>Total</b>	<b>9,800</b>	<b>10,169</b>	<b>10,903</b>	<b>11,840</b>	<b>13,027</b>	<b>13,322</b>

The number of household loans provided by banks, reached to around 970 thousand loans at the end of 2023, while the credit cards provided from banks to households reached to 389 thousand.

It is noteworthy, that male borrowers accounted for 78.7% of total loans extended to households, while the female borrowers accounted for 21.3% of total household loans.

#### 4-1-2-1 THE RATIO OF CREDIT FACILITIES EXTENDED TO HOUSEHOLDS TO GDP

The figure below indicates that the ratio of credit facilities extended to households relative to GDP started to increase since 2019, to reach 38.7% at the end of 2022, yet it declined at the end of 2023 to reach 36.9%.



#### 4-1-3 DEBT BURDEN RATIO FOR HOUSEHOLD BORROWERS FROM BANKS

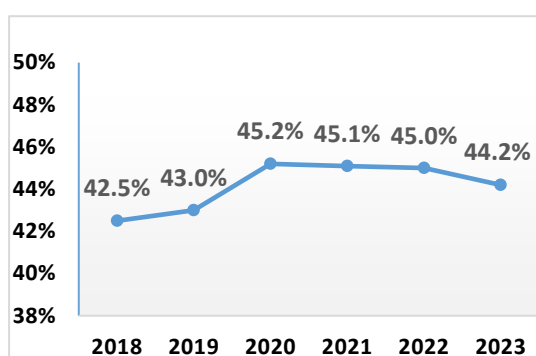
The Debt Burden Ratio (DBR) for household borrowers from banks, which is measured by the monthly installments and interest payments paid by borrowers relative to their regular monthly income, is one of the key ratios to measure the risks of household indebtedness to banks and to the individuals themselves. High DBR imposes negative effects on the financial and economic stability, and dampens individuals' capability to



repay their loans, which in turn increases default rates, and weakens individuals’ ability to spend and consume, which adversely affects economic growth.

Figure (4-2) illustrates the DBR for household borrowers from banks in Jordan during the period (2018-2023). The DBR declined to reach 44.2% at the end of 2023, compared to 45 % at the end of 2022, 45.1% at the end of 2021, and 45.2% at the end of 2020. This ratio is acceptable according to international standards, as the average DBR in most countries ranges between (40%-50%).

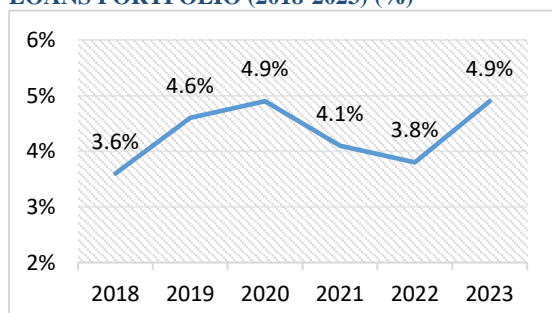
**FIGURE 4-2: THE DBR OF HOUSEHOLDS (2018-2023) (%)**



Source: CBJ

The NPLs in the households’ loans portfolio declined from 4.9% at the end of 2020, to record 4.1% as of end 2021, and 3.8% at the end of 2022, yet it increased to 4.9% at the end of 2023. However, it is still lower than the ratio of NPLs to total facilities provided by banks, which stood at 5.1% at the end of 2023. This indicates that the defaults in the households’ loans portfolio are relatively low, which reflects positively on the financial stability in the Kingdom (Figure 4-3).

**FIGURE 4-3: THE NPLs RATIO IN HOUSEHOLDS LOANS PORTFOLIO (2018-2023) (%)**

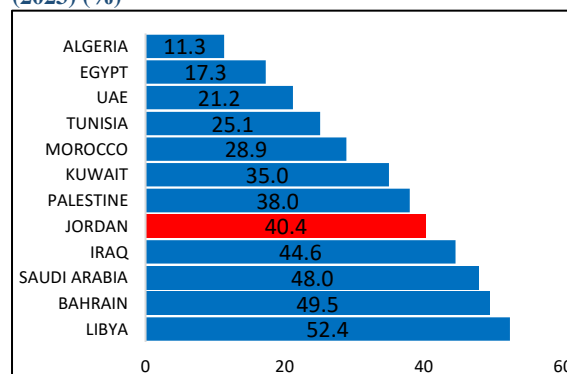


Source: CBJ

#### 4-1-4 HOUSEHOLD INDEBTEDNESS TO BANKS IN SELECTED ARAB COUNTRIES

As the data is limited, the household indebtedness to banks in selected Arab countries were estimated using the ratio of facilities extended to households relative to the total facilities extended by banks. In 2023, Jordan recorded (40.4%), ranking fifth among selected Arab countries in terms of this ratio following Iraq, Saudi Arabia, Bahrain, and Libya. The ratio in Jordan is higher than Palestine, Kuwait, Morocco, Tunisia, UAE, Egypt, and Algeria. (Figure 4-4).

**FIGURE 4-4: CREDIT FACILITIES EXTENDED TO HOUSEHOLDS RELATIVE TO TOTAL CREDIT FACILITIES EXTENDED BY BANKS IN JORDAN AND SELECTED ARAB COUNTRIES (2023) (%)**



Source: the Financial Stability in Arab Countries Report 2023

#### 4-1-5 SUMMARY

The DBR figures of the household borrowers from banks during the last five years (2018-2023), indicate that this ratio is declining constantly as it reached 44.2% at the end of 2023 compared to 45%, 45.1%, and 45.2% in 2022, 2021, and 2020, respectively. The average DBR ratio in Jordan falls within the international acceptable limits, which range between (40%-50%), which implies that the risks of household indebtedness for banks and the individuals are normal and acceptable compared to other countries. Furthermore, the NPLs in the households’ loans portfolio at the end of 2023 is lower than the NPLs ratio to total facilities extended by banks, which validates the good quality of households’ loans portfolio at banks in Jordan.

## 4-2 NON-FINANCIAL COMPANIES SECTOR

### 4-2-1 INTRODUCTION

The corporate sector in Jordan consists of non-banking financial companies and non-financial companies<sup>1</sup>. The non-banking financial companies sector consists of the insurance companies, securities companies, MFIs, financial leasing companies, and other companies providing diversified financial services. However, the non-financial companies listed in ASE includes the industrial, services, and real estate sectors, which are overseen by the Ministry of Industry, Trade, and Supply. In 2023, total assets of non-financial companies amounted to JD 11,896.9 million, compared to JD 11,823 million at the end of 2022, increasing slightly by 0.6%, which is mainly due to the increase in industrial companies' assets by 1.4%.

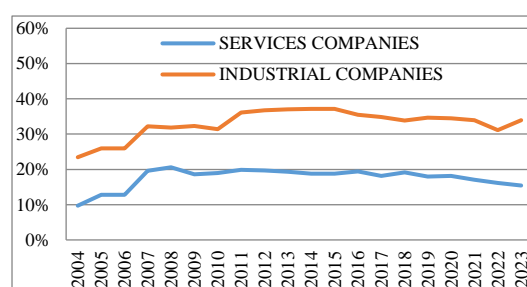
The following section elaborates on the developments of the non-financial companies (industrial, service, and real estate). According to the ASE's annual report, the listed companies in ASE reached to 167 at the end of 2023, compared to 170 companies at the end of 2022. With regard to the evolution and risks of the financial companies, they were detailed in Chapter three.

### 4-2-2 THE OWNERSHIP STRUCTURE OF NON-FINANCIAL COMPANIES

According to the Securities Depository Center data, the non-Jordanian ownership (securities owned by Arabs and foreigners) in non-financial industrial and service companies reached to 33.9% and 15.4%, respectively, at the end of 2023 (in the form of shares, bonds, and subscription rights), compared to 31.1% and 16.1%, respectively, at the end of 2022. The non-Jordanian ownership in these companies broadly reflects investors' confidence in the Jordanian economy; these ownerships are stable contributions (Figure 4-5).

<sup>1</sup> Based on the data of non-financial companies listed in ASE for 2023, as data of non-financial companies not listed in ASE are not available (noting that some data for previous years were changed from its source).

**FIGURE 4-5: NON-JORDANIAN OWNERSHIP (ARABS AND FOREIGNERS) IN NON-FINANCIAL COMPANIES FOR THE PERIOD (2004-2023) (%)\***

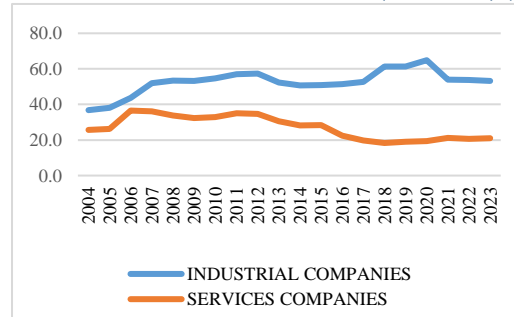


Source: Securities Depository Center website

\*Represent non-Jordanian ownership ratio according to the number of securities owned

With regard to sectoral non-Jordanian ownership in listed shareholding companies according to market capitalization, it reached to 53.3% for the industrial sector, and 20.9% for the service sector. (Figure 4-6).

**FIGURE 4-6: SECTORAL NON-JORDANIAN OWNERSHIP IN THE CAPITAL OF LISTED COMPANIES FOR THE PERIOD (2004-2023) (%)\***



Source: ASE Annual Report 2023

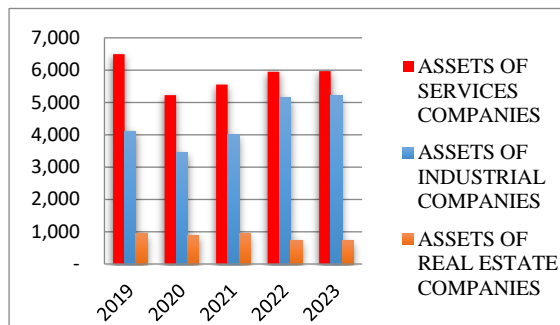
\*Represent non-Jordanian ownership according to market capitalization

### 4-2-3 ASSETS OF NON-FINANCIAL COMPANIES

Assets of non-financial companies listed in ASE approximated JD 11,896.9 million at the end of 2023, compared to JD 11,823 million at the end of 2022, increasing by 0.6%. The industrial companies' assets increased by 1.4% to reach JD 5,213.6 million at the end of 2023, compared with JD 5,143.9 million at the end of 2022. Furthermore, the assets of service companies increased by 0.4%, to reach JD 5,970.9 million at

the end of 2023, compared to JD 5,947.2 million at the end of 2022, while assets of the real estate companies declined by 2.6% to reach JD 712.5 million at the end of 2023, compared to JD 731.8 million at the end of 2022. (Figure 4-7).

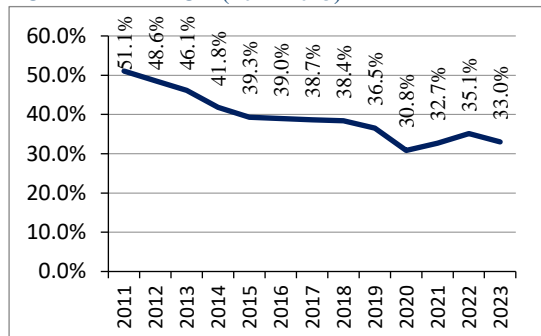
**FIGURE 4-7: ASSETS OF NON-FINANCIAL COMPANIES FOR THE PERIOD (2019-2023) (JD MILLION)**



Source: ASE Website

The assets of non-financial companies relative to GDP reached to about 33% at the end of 2023, compared to 35.1% at the end of 2022; it recorded 51.1% at the end of 2011. (Figure 4-8).

**FIGURE 4-8: ASSETS OF NON-FINANCIAL COMPANIES SECTOR AS PERCENT OF GDP FOR THE PERIOD (2011-2023)**



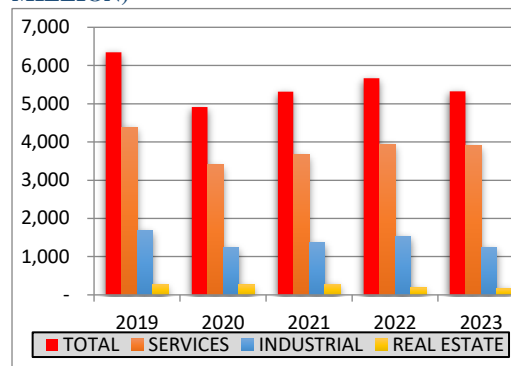
Source: ASE Website, and the CBJ

#### 4-2-4 LIABILITIES OF NON-FINANCIAL COMPANIES

Liabilities of non-financial companies reached to JD 5,326.6 million at the end of 2023, compared to JD 5,664 million at the end of 2022, a decline of around 6%. The liabilities of the services companies reached approximately JD 3,908.2 million at the end of 2023, compared to JD 3,938.5 million at the end of 2022. However, liabilities of the industrial companies reached to JD 1,251.2 million at the end of 2023, compared to JD 1,537.9 million at the end of 2022. As for

the liabilities of real estate companies, they reached to JD 167.2 million at the end of 2023, compared to JD 187.7 million at the end of 2022 (Figure 4-9).

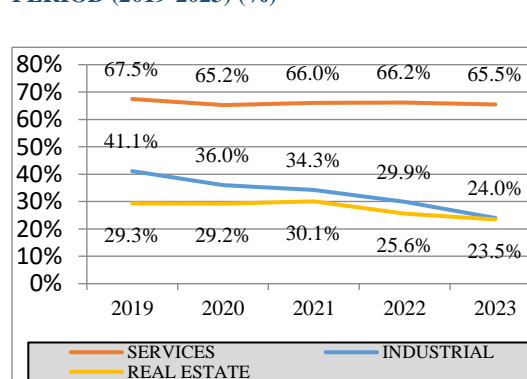
**FIGURE 4-9: LIABILITIES OF NON-FINANCIAL COMPANIES FOR THE PERIOD (2019-2023) (JD MILLION)**



Source: ASE Website

Furthermore, the liabilities to assets ratio declined slightly for the service companies at the end of 2023, to reach 65.5%, down from 66.2% at the end of 2022. In addition, the ratio for industrial companies declined from 29.9% at the end of 2022, to 24% at the end of 2023, and declined from 25.6% at the end of 2022 to 23.5% at the end of 2023 for the real estate companies. (Figure 4-10).

**FIGURE 4-10: LIABILITIES TO ASSETS RATIO OF NON-FINANCIAL COMPANIES DURING THE PERIOD (2019-2023) (%)**



Source: ASE Website

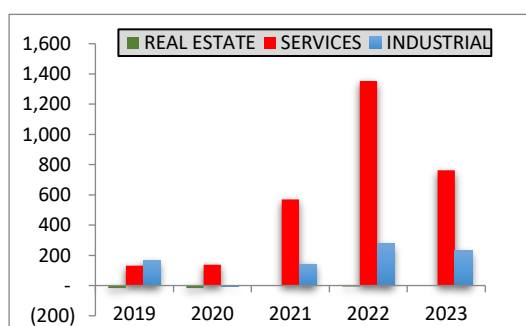
#### 4-2-5 PROFITABILITY OF NON-FINANCIAL COMPANIES

Profitability of non-financial companies declined compared to the previous year; net profits of non-financial companies declined to reach JD 992.7 million at the end of 2023, compared to JD 1,621.4 million at the end of 2022. It is

noteworthy, that they increased drastically in 2022, supported by improving conditions of these companies, as they bounced back after deteriorating sharply due to the repercussions of the COVID-19 pandemic, and the unprecedented increase of the industrial companies' profits as compared to previous years. This is owing to the increase in the profits of the extractive industries companies, especially the phosphate and potash, which increased due to the unprecedented increase in the production, sales, and the prices of their products in 2022. Afterwards, the profits declined in 2023, because of the significant increase in the prices of some production inputs, and the fluctuation in the prices of the products of these two companies in global markets. This is in addition to the downside price pressures in the global fertilizer market and the logistic challenges resulting from the prevailing geopolitical tensions in the world, especially the Russian-Ukrainian crisis and the War on Gaza.

Furthermore, industrial companies recorded profits of JD 762.5 million at the end of 2023, compared to JD 1,352.6 million at the end of 2022. As for service companies (services sector), the profits recorded at the end of 2023 decreased slightly to reach JD 275.8 million at the end of 2022. As for listed real estate companies, they realized profits of JD 1.2 million at the end of 2023, compared to losses of JD 7.1 million at the end of 2022. (Figure 4-11).

**FIGURE 4-11: NET PROFITS OF NON-FINANCIAL COMPANIES FOR THE PERIOD (2019-2023) (JD MILLION)**

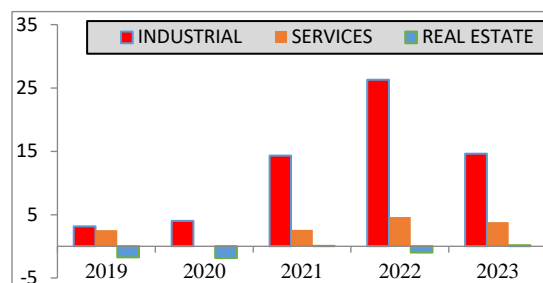


Source: ASE Website

The ROA of the industrial companies dropped to 14.6% at the end of 2023, compared to 26.3% at the end of 2022, and it declined for the service

companies from 4.6% at the end of 2022, to 3.8% at the end of 2023. However, the ROA of the real estate companies increased from -1% at the end of 2022, to reach 0.17% at the end of 2023. (Figure 4-12).

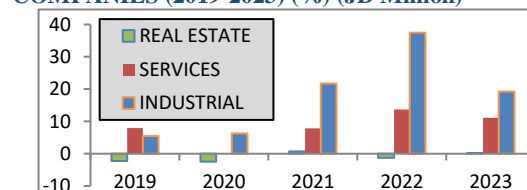
**FIGURE 4-12: ROA OF NON-FINANCIAL COMPANIES (2019-2023) (%)**



Source: ASE Website

Likewise, the ROE of the industrial companies declined from 37.5% at the end of 2022, to 19.2% at the end of 2023, and from 13.7% at the end of 2022, to 11.1% at the end of 2023 for the services companies. Meanwhile, it increased for the real estate companies from -1.3% at the end of 2022, to reach 0.2% at the end of 2023. (Figure 4-13).

**FIGURE 4-13: ROE OF NON-FINANCIAL COMPANIES (2019-2023) (%) (JD Million)**

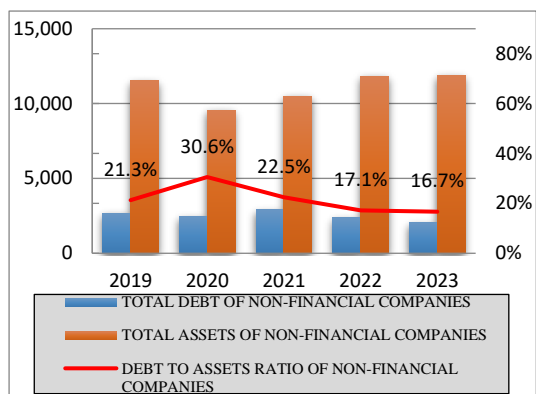


Source: ASE Website

#### 4-2-6 FINANCIAL LEVERAGE OF NON-FINANCIAL COMPANIES

Most non-financial companies listed in ASE are still less dependent on borrowing. The debt to assets ratio of non-financial companies declined to around 16.7% at the end of 2023, compared to 17.1% at the end of 2022, due to the decline in the debt of these companies in 2023 as compared to 2022. (Figure 4-14).

**FIGURE 4-14: DEBT TO ASSETS RATIO FOR NON-FINANCIAL COMPANIES (2019-2023) (JD MILLION) (%)**

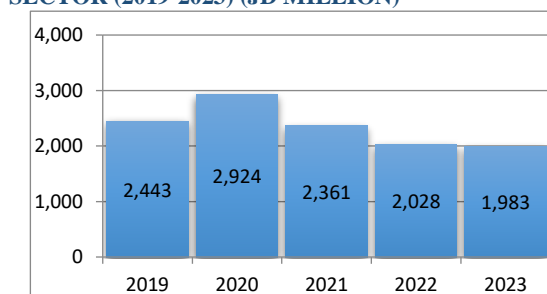


Source: ASE Website

#### 4-2-7 INDEBTEDNESS OF NON-FINANCIAL COMPANIES TO THE BANKING SECTOR

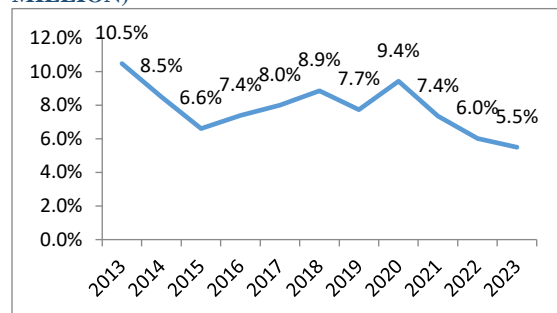
The facilities extended by banks to non-financial companies listed in ASE reached to JD 1,983 million at the end of 2023, compared to JD 2,027.5 million at the end of 2022, a decrease of 2.2%, (Figure 4-15). The indebtedness of non-financial companies in percent of GDP increased consecutively during (2015-2020), yet it declined during (2021-2023) to record 7.4%, 6%, and 5.5%, respectively. (Figure 4-16).

**FIGURE 4-15: INDEBTEDNESS OF NON-FINANCIAL COMPANIES TO THE BANKING SECTOR (2019-2023) (JD MILLION)**



Source: ASE website and the CBJ

**FIGURE 4-16: INDEBTEDNESS OF NON-FINANCIAL COMPANIES TO THE BANKING SECTOR IN PERCENT OF GDP (2013-2023) (JD MILLION)**



Source: ASE Website, and the CBJ

#### 4-2-8 STRESS TESTING FOR NON-FINANCIAL COMPANIES

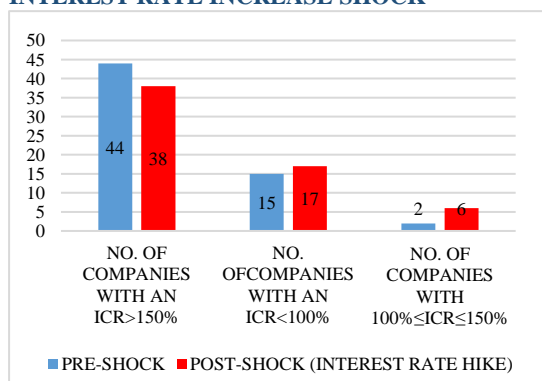
Stress testing was conducted for a number of non-financial public shareholding companies to assess the soundness of the corporate sector and its ability to withstand shocks, thus evaluating the companies' capability to repay their debts to banks and the financial sector in general. The Financial Stability Department at the CBJ built a model for the corporate sector stress testing, using the Interest Coverage Ratio (ICR) for the borrowing companies, which is a widely used and a significant gauge to assess the companies' ability to repay their debts. The ICR is the ratio of earnings before interest and tax (EBIT) to interest expenses paid on loans; it assesses the ability of borrowing companies to cover the interest expenses for loans using current period revenues. The debt is totally covered if the ICR exceeds (150%), the debt is at risk if the ICR falls between (100%-150%), whereas, the debt is uncovered if the ICR declines below 100%. The tests assume certain shocks in terms of increasing interest rates or declines in companies' profits due to the potential economic implications of the global geopolitical tensions in particular the Russian-Ukrainian crisis and the war on Gaza. The tests estimate the impact of each shock on the ICR; the post-shock ICR is used to assess the companies' ability to repay their debts to banks.

### 4-2-8-1 A SHOCK OF INCREASING INTEREST RATES

An interest rate hike will raise the interest expenses paid by borrowing companies to banks, provided that, their revenues remain constant. This will negatively affect the companies' ability to pay their interest expenses to banks, thus the ICR for borrowing companies will decline as interest expenses will increase. If interest rates on loans provided to these companies increased by 200 basis points, the ICR will decline from 690% to 548%, which is adequately higher than the minimum acceptable limit of 150%. This validates that the effect of this shock will be relatively immaterial.

On the individual level, (6) companies will have their ICRs below 150%, which will bring down the number of companies with a covered ICR from (44) to (38) companies. However, the number of companies with an ICR between (100%-150%) will increase from (2) to (6) companies, and the number of companies with an ICR below 100% will increase from (15) companies to (17) companies. (Figure 4-17).

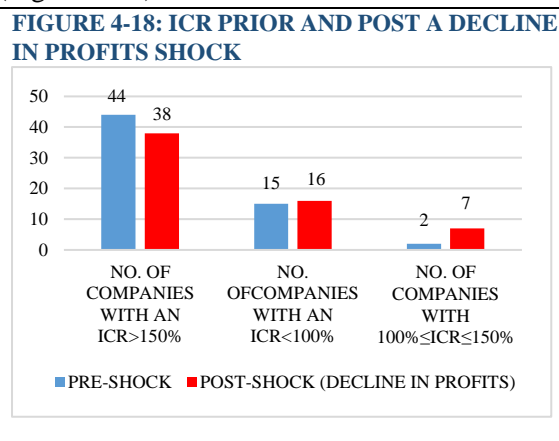
**FIGURE 4-17: ICR PRIOR AND POST AN INTEREST RATE INCREASE SHOCK**



### 4-2-8-2 A SHOCK OF A DECLINE IN PROFITS OF BORROWING COMPANIES

If the profits of borrowing companies declined by 25% due to probable economic implications of the global geopolitical tensions, especially the Russian-Ukrainian crisis and the war on Gaza, the ICR will decline from 690% to 512%; the effect of this shock will be higher than the interest rates hike shock.

On the individual level, (6) companies will have their ICR below 150%, which will bring down the number of companies with a covered ICR from (44) to (38) companies. The number of companies with an ICR between (100%-150%) will increase from (2) to (7) companies, while the number of companies with an ICR below 100% will increase from (15) to (16) companies. (Figure 4-18).



On the sectoral level, the average ICR will decrease from 446% to 328% for service companies, from 770% to 572% for industrial companies, and from 173% to 130% for real estate companies.

### 4-2-9 SUMMARY

The results of the stress tests for non-financial companies revealed the ability of these companies at the sectoral level to withstand interest rate and lower profit shocks, with some effects on single companies, which is anticipated. Public shareholding companies (financial and non-financial) performance improved markedly during (2021-2023) supported by the continued recovery from the implications of the COVID-19 pandemic and the noticeable improvement in several economic indicators in the Kingdom. The profits after tax in 2023 for public shareholding companies listed in ASE (which provided their annual financial statements to the ASE) amounted to JD 1,916.7 million, compared to JD

2,447.2 in 2022<sup>2</sup>. Nonetheless, the profits of 2023 were the second highest figure recorded by companies historically. However, several challenges remain for the corporate sector and the national economy in general, especially those related to the increase in energy and primary commodities prices, due to the supply chains disruptions after the COVID-19 pandemic as well as the ramifications of the Russian-Ukrainian crisis and the economic implications of the war on Gaza.

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<sup>2</sup> The profits of insurance companies which were allowed to finalize licensing requirements by the end of May 2024, were excluded from the profits of 2023 and 2022.

## CHAPTER FIVE: THE EXPOSURE OF BANKS IN JORDAN TO RISKS OF THE REAL ESTATE MARKET AND THE REAL ESTATE PRICE INDEX

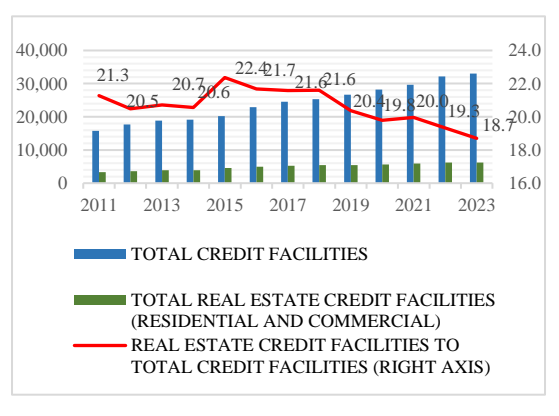
### 5-1 INTRODUCTION

The risks of the real estate sector and the financing provided to it captured an increasing attention after the global financial crisis, which was triggered by a real estate bubble in US in 2007; it affected most economies worldwide, including Jordan.

During the last two decades, the real estate market in Jordan experienced successive spikes driven mainly by the political and economic conditions in the region, and the resulting abnormal population growth in Jordan, due to the influx of large numbers of Arabs from neighboring countries, especially Iraq and Syria. This chapter highlights the real estate sector in Jordan and the exposure of banks operating in Jordan to its risks. This chapter also elaborates on the development of real estate prices in the Kingdom through analyzing the Real Estate Price Index (REPI); an indicator developed jointly by the CBJ and the Department of Lands and Survey.

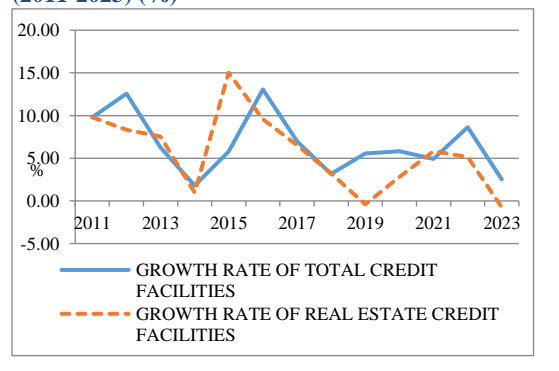
Credit facilities extended to the real estate sector for residential and commercial purposes declined by 0.7% to reach JD 6.17 billion at the end of 2023 (accounting for 18.7% of total credit facilities provided by banks), compared to JD 6.22 billion in 2022 (a growth of 5.2%) in 2022. It is noteworthy, that the average annual growth rate during 2011-2023 stood at 5.7% (Figure 5-1).

**FIGURE 5-1: DIRECT CREDIT FACILITIES EXTENDED TO THE REAL ESTATE SECTOR AND THEIR RATIO TO TOTAL DIRECT CREDIT FACILITIES (2011-2023) (JD MILLION) (%)**



The average annual growth rate of facilities extended to the real estate sector during 2011-2023 was slightly lower than the average annual growth rate of total facilities; it recorded 5.7% compared to 6.7% growth in total credit facilities (Figure 5-2). In addition, the trading volume at the real estate market in Jordan increased by 19% in 2023 compared to its level in 2022, to reach approximately JD 6,961 million, due to improving economic conditions in the Kingdom and the ongoing gradual recovery from the repercussions of COVID-19 pandemic and subsequent crises, which affected most sectors including the real estate<sup>1</sup>.

**FIGURE 5-2: THE REAL ESTATE CREDIT FACILITIES GROWTH RATES COMPARED TO TOTAL CREDIT FACILITIES GROWTH RATES (2011-2023) (%)**



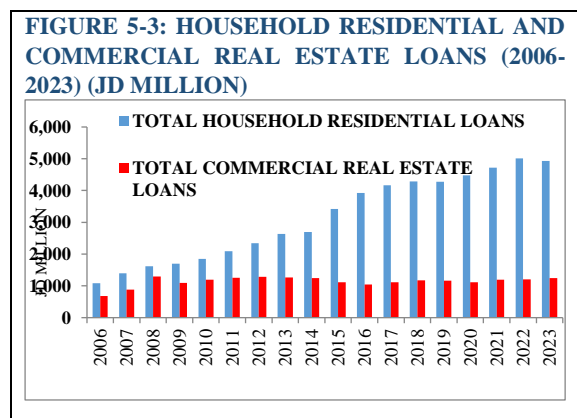
<sup>1</sup> The real estate bulletin Jan/ 2024, the Department of Lands and Survey



The ratio of credit facilities extended to the real estate sector in percent of GDP reached 17.1% in 2023, compared to 18.5% in 2022. Figure (5-3) illustrates the evolution of this ratio 2007-2023. The figure indicates that during 2007-2008, the ratio increased markedly to reach 18.7% at the end of 2008, and dropped afterwards to reach 15.8% at the end of 2014 due to the repercussions of the global financial crisis and the headwinds in the region then. However, this ratio kept fluctuating up and down to reach 17.1% at the end of 2023 as mentioned earlier.

## 5-2 COMPONENTS OF CREDIT FACILITIES EXTENDED TO THE REAL ESTATE SECTOR

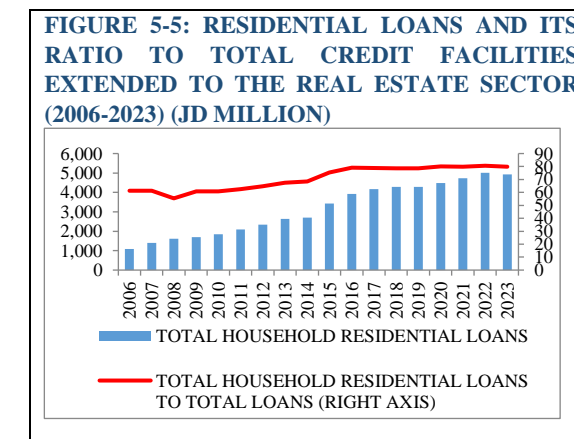
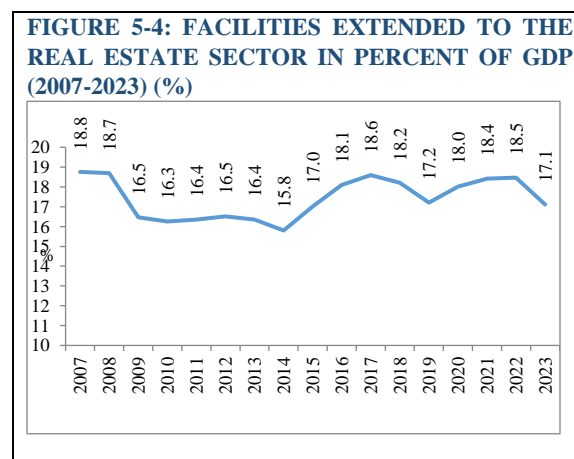
With regard to the components of credit facilities extended to the real estate sector, the household residential real estate loans accounted for 79.8% of these facilities at the end of 2023, while the commercial real estate loans accounted for 20.2% (Figure 5-3).



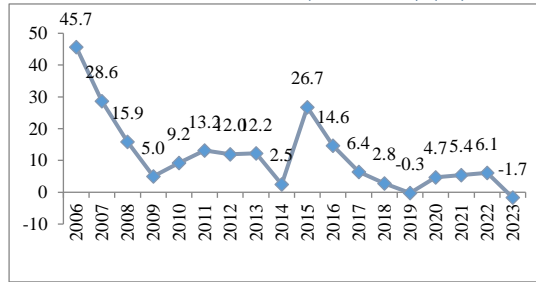
### 5-2-1 HOUSEHOLD RESIDENTIAL LOANS

Total household real estate residential loans extended by banks declined by 1.7% to reach JD 4,927.4 million at the end of 2023, down from JD 5,011.7 million at the end of 2022. Historically, these loans grew significantly during the pre-global financial crisis period of (2006-2008), due to the high demand for real estates, especially by non-Jordanians; the average growth rate of residential loans reached to around 30%. Thereafter, during (2009-2010), the growth pace started to slow down due to the ramifications of the global financial crisis, in tandem with

uncertainty, as well as banks reluctance to provide real estate loans. The growth of residential loans bounced back during (2011-2015) as the impacts of the global financial crisis have abated, market conditions improved, and the demand for real estate increased due to the influx of Arab refugees, especially from Syria. However, during (2016-2019) the growth of residential loans was gradually slowing down due to the geopolitical developments in the region, and the increase of uncertainty and its implications on the economic sectors in the Kingdom, in particular the real estate sector. However, the growth of residential loans improved during (2020-2022), which is partially explained by the postponement of installments of loans due on stressed individuals impacted by the COVID-19 pandemic, or postponements on Ramadan and the Occasions of Eid. As mentioned earlier, the ratio declined in 2023 by around -1.7% due to the geopolitical conditions in the region arising from the war on Gaza and its implications on the Middle East. (Figure 5-4) and (Figure 5-5).

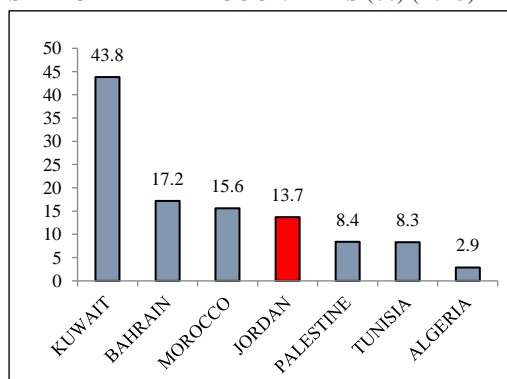


**FIGURE 5-6: HOUSEHOLD RESIDENTIAL LOANS GROWTH RATES (2006-2023) (%)**



The household residential loans in percent of GDP stood at 13.7% at the end of 2023, compared to 14.9% at the end of 2022. Jordan ranked in the middle among selected Arab countries in terms of this ratio; Jordan is lower than Morocco, Bahrain, and Kuwait, yet it is higher than Palestine, Tunisia, and Algeria (Figure 5-7).

**FIGURE 5-7: RESEDENTIAL REAL ESTATE LOANS IN PERCENT TO GDP IN JORDAN AND SELECTED ARAB COUNTRIES (%) (2023)**



Source: the Financial Stability in Arab Countries Report 2023, the Arab Monetary Fund

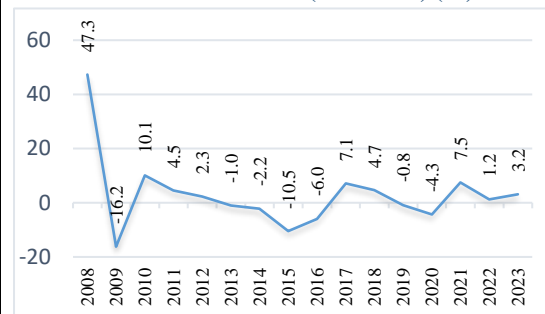
It is noteworthy that the number of apartments sold in 2023 approached 35,940, compared to 38,279 in 2022, declining by 6.1%.

### 5-2-2 COMMERCIAL REAL ESTATE LOANS

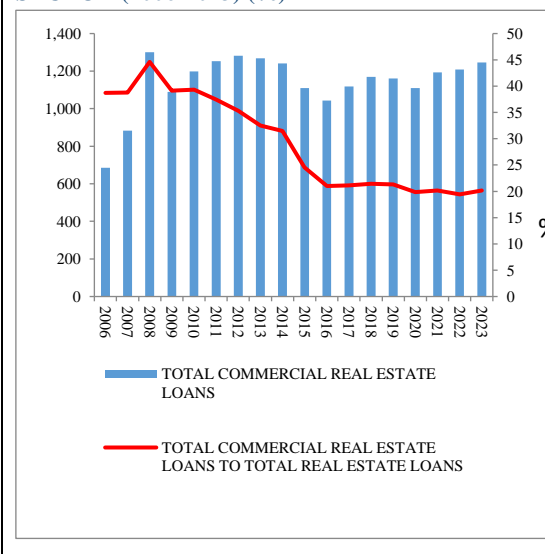
Total commercial real estate loans extended by banks increased by 3.2%, to reach JD 1,246.3 million at the end of 2023 (20.2% of total credit facilities for the real estate sector), compared to JD 1,208 million at the end of 2022. The commercial real estate loans were growing rapidly during the pre-crisis period (2005-2008);

they increased from JD 400 million to around JD 1,300 million, with an annual average growth rate of 49%. Afterwards, they declined significantly in 2009 to reach around JD 1,089 million, due to the tremendous adverse effect of the global financial crisis on commercial real estates. These loans were slowing down during (2010-2012), and declined further during (2013-2016), however, these loans increased again in 2017, and 2018, yet they decreased in 2019 and 2020 due to the implications of the COVID-19 pandemic, and they bounced back in 2021, 2022, and 2023 as illustrated in figures (5-8) and (5-9).

**FIGURE 5-8: COMMERCIAL REAL ESTATE LOANS GROWTH RATES (2008-2023) (%)**



**FIGURE 5-9: COMMERCIAL REAL ESTATE LOANS AND THEIR RATIO TO TOTAL CREDIT FACILITIES EXTENDED TO THE REAL ESTATE SECTOR (2006-2023) (%)**

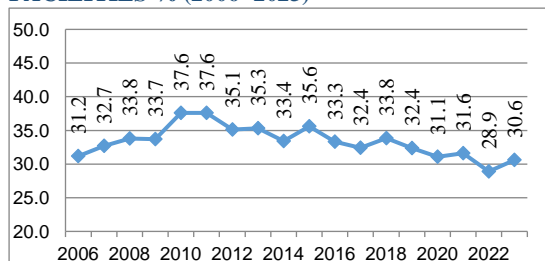


### 5-3 DIRECT CREDIT FACILITIES EXTENDED USING REAL ESTATES AS COLLATERALS

Banks are directly exposed to the risks of the real estate market, as they provide credit facilities to finance the purchase or construction of residential or commercial real estates, which are generally used as collaterals for these loans. Another channel for banks' exposure to the real estate market risks, through using real estates as collaterals to secure different credit facilities extended by banks. Accordingly, any decline in the prices of real estates will affect the value of collaterals, and dampen banks' ability to recover their funds if the borrower defaults and cannot repay. Total direct credit facilities extended by banks for purposes other than mortgages using real estate as collaterals amounted to JD 4,025 million at the end of 2023, compared to JD 3,154.9 million in 2022.

In addition, total direct credit facilities extended using real estates as collaterals for residential, commercial, and other purposes reached around JD 10,117 million, accounting for 30.6% of total facilities at the end of 2023, compared to 28.9%

**FIGURE 5-10: CREDIT FACILITIES EXTENDED BY BANKS USING REAL ESTATES AS COLLATERALS RATIO TO TOTAL CREDIT FACILITIES % (2006- 2023)**



in 2022. (Figure 5-10).

### 5-4 THE LOAN TO VALUE (LTV) RATIO UPPER LIMIT FOR HOUSEHOLD RESIDENTIAL AND COMMERCIAL REAL ESTATE LOANS IN JORDAN

The LTV ratio is one of the most significant ratios and indicators that need to be monitored, in order to assess banks' exposure to the real estate market risks. The immense increase in this ratio may

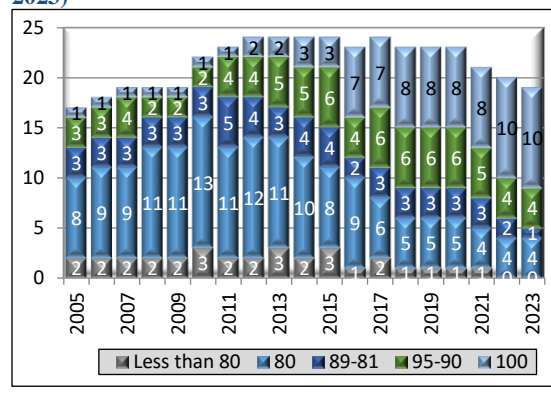
expose banks to high risks in case of real estate prices fall, thus deterring banks' ability to recover their funds in case of clients' default, as the value of real estates used as collaterals for these loans will drop.

In addition, if the real estate market signals for a price bubble, countries usually set limits on the LTV ratio to curb the real estate prices bubble, reduce the probability of bankruptcy when house prices fall down, and reduce losses by raising the value of collaterals, which enhances banks' ability to ward off these risks.

To analyze the LTV ratio in Jordan, the CBJ has compiled certain LTV data from banks in terms of the upper limits and the actual average.

Figure (5-11) illustrates the upper limit of the LTV ratio for household residential loans. The figure illustrates that the LTV ratio for 4 banks out of 19 banks does not exceed 80%, one bank has an LTV ratio between 81% and 89%, whereas, 4 banks have an LTV ratio between 90% and 95%, and the remaining (10) banks have a 100% LTV ratio.

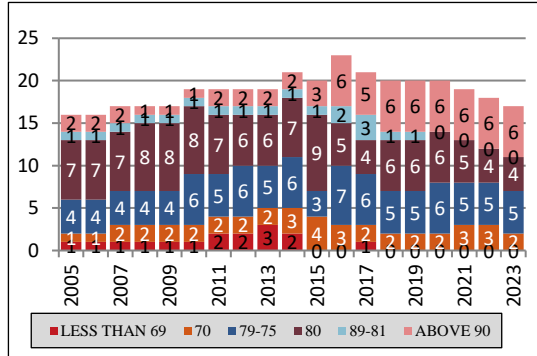
**FIGURE 5-11: BANKS LTV RATIO UPPER LIMIT FOR HOUSEHOLD RESIDENTIAL LOANS (2005-2023)**



The figure above indicates that the number of banks with an LTV upper limit of 100% increased from (3) banks in 2015 to (10) banks in 2023, which implies that some banks in Jordan are providing loans that exceed the values of residential real estates in the Kingdom.

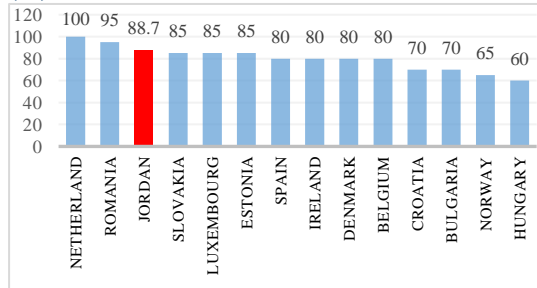
The majority of banks set their LTV upper limit for commercial real estate loans lower than the ratio for residential loans, as 64.7% of banks providing commercial real estate loans with an LTV ratio not exceeding 80% (Figure 5-12).

**FIGURE 5-12: BANKS LTV RATIO UPPER LIMIT FOR COMMERCIAL REAL ESTATE LOANS (2005-2023)**



The average LTV ratio upper limit varies across countries; it falls between 60% and 100%. Banks in Jordan had an average LTV upper limit of around 88.7%, ranking third amongst 14 countries with available LTV data (Figure 5-13).

**FIGURE 5-13: LTV RATIO UPPER LIMIT FOR REAL ESTATE LOANS (RESIDENTIAL AND COMMERCIAL) FOR SELECTED COUNTRIES (%)\***

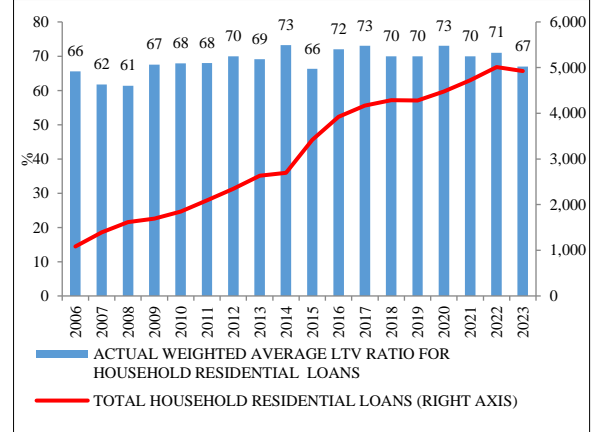


\*: European Mortgage Federation (EMF), November 2021  
-Jordan: data of 2023

### 5-5 ACTUAL AVERAGE LTV RATIO FOR HOUSEHOLD RESIDENTIAL AND COMMERCIAL REAL ESTATE LOANS

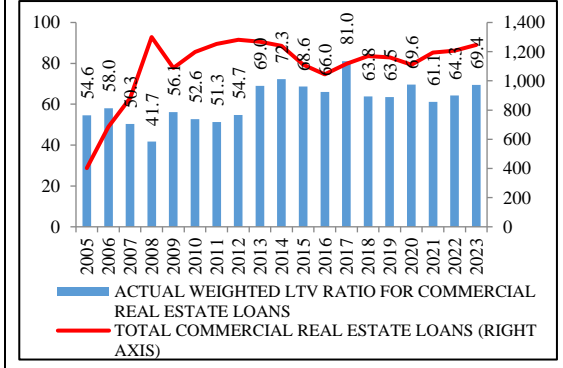
Despite the increase of the LTV ratio upper limit in some banks, the actual average is below the upper bound banks can finance (i.e., the ratio specified in banks' credit policies). The actual weighted average of the LTV ratio stood at 73.2% at the end of 2014, dropped to 66.3% at the end of 2015, and fluctuated to reach 67% at the end of 2023 (figure 5-14). It is noteworthy, that the ratio is relatively stable during the last seven years (2016-2022) recording (70%-73%). However, as mentioned earlier, it declined to 67% at the end of 2023, which is a positive sign that strengthens the financial stability in the Kingdom.

**FIGURE 5-14: TOTAL HOUSEHOLD RESIDENTIAL LOANS AND ACTUAL WEIGHTED AVERAGE LTV RATIO FOR HOUSEHOLD RESIDENTIAL LOANS (2006-2023) (JD MILLION)**



With regard to the actual average of the LTV ratio for commercial real estate loans, it increased to 69.4% in 2023, against 64.3% in 2022. (Figure 5-15).

**FIGURE 5-15: TOTAL COMMERCIAL REAL ESTATE RESIDENTIAL LOANS AND ACTUAL WEIGHTED AVERAGE LTV RATIO FOR COMMERCIAL REAL ESTATE LOANS (2005-2023)**



### 5-6 THE CBJ MEASURES TO MITIGATE BANKS' EXPOSURE TO THE RISKS OF THE REAL ESTATE MARKET AND ENHANCE BANKS' RESILIENCE TO WITHSTAND THESE RISKS

As mentioned in previous JFSRs, the CBJ has put in place certain controls, aiming at reducing banks' exposure to the real estate market risks and enhancing their resilience to ward off these risks as follows:

1. The effective CBJ's Instructions of Capital Adequacy weighted the risks of residential loans with an LTV ratio not exceeding 80% at

35%; however, the weight increases to 100% if the LTV ratio exceeds 80%. To put it differently, if the LTV ratio is above 80%, residential loans are subject to higher capital requirements, which improves banks' ability to withstand these risks, and strengthens the financial stability in the Kingdom.

2. Enacting the Instructions for Large Exposure Limits and Credit Controls No. (2/2019) dated 4/3/2019, which repealed the Instructions of Credit Concentrations No. (9/2001). These Instructions set the maximum limit of credit provided by banks for the construction of or purchasing real estates at 20% of total JD customer deposits. These Instructions came into effect on 30/6/2019.

### **5-7 THE REAL ESTATE ASSETS PRICE INDEX IN JORDAN**

The total value of real estate assets is a backstop for investment activities in the economy, as they are highly interlinked with other investment sectors, and the real estate prices reflect on inflation, the monetary policy, and the financial stability. Drawing on the high importance of calculating a price index for real estate assets (REPI), and as already mentioned in previous JFSRs, an REPI for Jordan was jointly developed by the CBJ and the Department of Lands and Survey at the beginning of 2014, according to international best practices taking into consideration the data available at the Department of Lands and Survey. Currently, in order to keep pace with international best practices and methodologies for calculating REPI and to deal with limited data, the previous methodology used to calculate the index is no longer used as of end 2021, however, a new methodology that considers international best practices is underway.

The REPI is significant to interpret several developments such as detecting price bubbles of the real estate assets, thus estimating the real estate market risks, in addition to forecasting economic growth, estimating the value of houses,

which is used to estimate wealth, and it can be used as a benchmark for international comparisons.

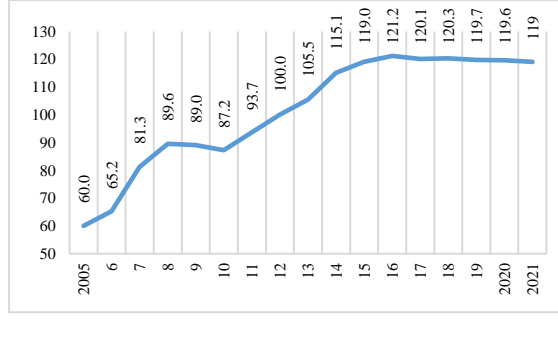
Figures (5-16) illustrate the REPI in Jordan and the changes in this index during (2005-2021). As the new methodology to calculate REPI is not finalized yet, changes in real estate prices cannot be figured in 2023, however, the figure indicate that the REPI in Jordan dropped from 119.6 points in 2020 to 119.0 points in 2021, declining slightly by 0.5%, compared to a decline of 0.1% in 2019, and 0.5% in 2020. That slight decline in REPI in 2021, is attributed to the increase in the land price index by 0.08%, and the decline in the residential and non-residential indices by (2.3%) and (1.1%), respectively. In this regard, and as mentioned in previous reports, the REPI went through several stages, which are summarized in four phases as follows:

The first phase, pre-global financial crisis (2005-2008): the demand for real estate especially by non-Jordanians was considerably high, and the prices of residential and non-residential real estates increased substantially. While the second phase (2009-2010) was prevailed by the repercussions of the global financial crisis and uncertainty, and loans extended by banks were declining; these factors apparently contributed to weaken the demand for real estate assets, which brought their prices down. Accordingly, the government in mid-2009 expanded the scope of the exemptions for apartments, and lands were included to boost the real estate market. During the third phase (2011-2016), the real estate investments bounced back, yet at a slower pace than pre-global financial crisis era.

During the period (2017-2021), the real estate assets prices dropped again due to the slowdown of economic activity in the Kingdom and its impacts on the real estate sector, the worsening conditions of Jordanian workers in the Gulf countries, who are the most willing to purchase real estates, as well as the implications of the

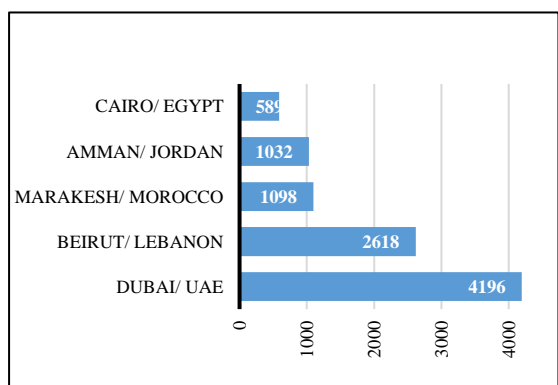
COVID-19 pandemic which had a toll on most sectors including the real estate.

**FIGURE 5-16: THE REPI (RESIDENTIAL, COMMERCIAL, AND LANDS) IN JORDAN (2005-2021)**



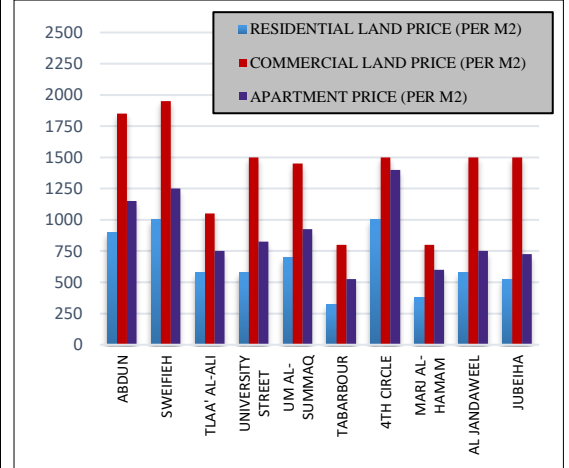
As for the average residential price per square meter in Amman, and according to the information available (for the most attractive places for investment), the average residential price per square meter reached to JD 1,032. It is noteworthy that the prices per square meter in several Arab cities such as Marrakech, Beirut and Dubai are higher than in Amman, (Figure 5-17 and Figure 5-18).

**FIGURE 5-17: SQUARED METER PRICES IN AMMAN COMPARED TO SELECTED ARAB CITIES (JD PER M<sup>2</sup>)**



Source: <http://www.globalpropertyguide.com>

**FIGURE 5-18: THE PRICE OF A SQUARED METER IN SELECTED AREAS IN AMMAN (JD PER M<sup>2</sup>)**

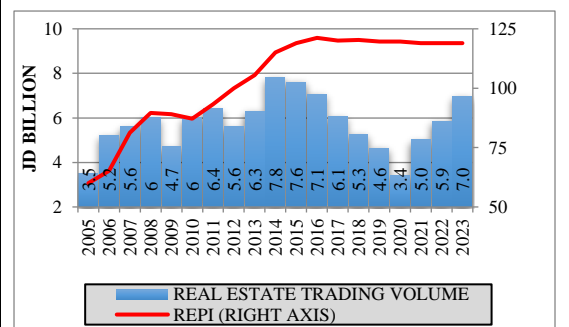


Source: [www.qoshan.com](http://www.qoshan.com)

### 5-8 TRADING VOLUME IN THE REAL ESTATE MARKET IN JORDAN

The real estate publication of the Department of Lands and Survey 2023, revealed that the trading volume in the real estate market in Jordan increased by 19% in 2023, to reach JD 6,961 million compared to JD 5,850 million in 2022. This is due to improving economic conditions in the Kingdom and the ongoing recovery from the repercussions of the COVID-19 pandemic and subsequent crises, which affected most sectors including the real estate sector. Figure (5-19) indicates the developments of the real estate trading volume, and the REPI for Jordan during (2005-2023).

**FIGURE 5-19: THE REAL ESTATE TRADING VOLUME AND THE REPI IN JORDAN (2005-2023)\***



\*The REPI as of end 2021

Source: the real estate bulletin, Department of lands and Survey 1/2024

Sales to non-Jordanians reached to JD 202.2 million at the end of 2023, accounting for only 2.9% of total real estate trading volume,

compared to JD 303 million (5.2% of total real estate trading) in 2022. Sales to Iraqis accounted for the largest share in 2023 with an investment of JD 75.4 million, or 37% of total estimated sales to non-Jordanians in 2023 (Table 5-1).

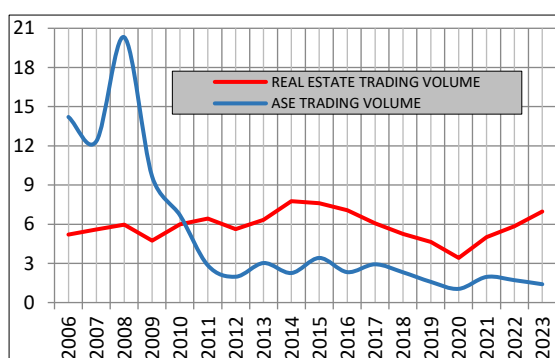
**TABLE 5-1: SALES TO NON-JORDANIANS DURING (2016-2023) (JD MILLION)**

Nationality	2016	2017	2018	2019	2020	2021	2022	2023
Iraqi	168.4	157.2	111.5	86.1	76.7	107.6	118.9	75.4
Saudi	50.2	63.4	44.0	30.9	34.9	46.4	62	19.2
Syrian	19.4	18.1	17.5	N.A.	11	20.3	22.7	23
American	21.5	N.A.	N.A.	N.A.	N.A.	12.7	N.A.	N.A.
Gaza	N.A.	N.A.	N.A.	30.2	16	9.6	N.A.	N.A.
Other	115.6	83.1	111.4	89	40.4	60.4	99.4	84.6
<b>Total</b>	<b>375.1</b>	<b>321.8</b>	<b>284.4</b>	<b>236.2</b>	<b>179</b>	<b>257</b>	<b>303</b>	<b>202.2</b>

Source: Real Estate Bulletin-Department of Lands and Survey 1/2024

Comparing the real estate trading volume to the trading volume in ASE, indicates that the trading volume in the financial market was much higher than the real estate market during 2005-2009, due to the boom of the ASE during that period, accompanied by a large inflow of liquidity to the financial market by Arabs, especially Iraqis. This led prices to increase immensely in the financial market, which also attracted many Jordanian investors to join. However, after the deepening of the global financial crisis and the significant decline of prices in the financial market, the trading volume dropped sharply in the financial market, much below the trading volume in the real estate market; the real estate investments are safe haven compared to financial investments. (Figure 5-20).

**FIGURE 5-20: THE REAL ESTATE TRADING VOLUME AND THE ASE TRADING VOLUME (2006-2023) (JD MILLION)**



Source: the real estate bulletin, Department of lands and Survey 1/2024, ASE 2023

To stimulate the real estate and housing sector, the Cabinet in 2022 and 2023 decided on the following:

- Enact amending law of the Land Registration Fees Law No. (26) of 1958, and the annex attached to the law. Under this law, fees on 17 types of transactions were brought down, the most important of which are:

1. Reduce sales fees between ancestors and descendants, as well as sales between partners from 1% to 0.5%.
2. Reduce sales fees among citizens from 5% to 3%.
3. Reduce delegation fees from 5% to 4%, and transfer fees from 1% to 0.5%.
4. Reduce inheritance fees from 0.5% to 0.2%.
5. Reduce alienation fees from 1% to 0.5%.
6. Reduce fees for allotment between partners and combined separation from 0.5% to 0.3%.
7. Reduce new registration fees from 5% to 4%.
8. Reduce insurance fees from 1% to 0.08%

- The single houses and apartments (irrespective of the seller) not exceeding 150 m<sup>2</sup> are exempted from registration fees, and remaining area exceeding the 150 m<sup>2</sup> are subject to lower fees of 3%.

- Enact the amending law of the Tax on Real Estate Sales of 2023, aiming to stimulate investment in the real estate and housing sector as well as increasing the trading volume of real estate trading. Under the law, the property sales tax was reduced from 4% to 3%. This is in addition to enabling the Department of Lands and Survey to refund the property sale tax collected for incomplete transactions to avoid judicial claims. Under the law, subsequent sales transactions conducted through Murabaha contracts conducted by Islamic banks and financial institutions practicing Murabaha for real estates will be exempted from the property sales tax.

- Enact the amending law of the Real Estate Ownership of 2023, to enable the Department of Lands and Survey to receive all applications for

its transactions and services electronically, with the exception of signing disposal contracts, and to empower appraisal committees to evaluate property values based on certain criteria and standards. The Law also grants the Cabinet the authority to transfer ownership of state-owned lands to public investment funds or state-owned companies to enable them to run their business or provide some plots as in-kind shares in investment projects, and to ease restrictions on foreign ownership in the Kingdom to stimulate investment.

## **5-9 CONCLUSION**

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The trading volume in the real estate market and the REPI in Jordan indicate that the real estate market was affected by the slowdown of the economic activity in the Kingdom and the economic and political developments in the region more apparently in 2017. In 2020, the ramifications of the COVID-19 deepened the slowdown of the real estate sector; the real estate trading volume decreased by -26% in 2020. However, in 2021 the real estate sector improved significantly, as the trading volume increased by 46.9%, and improved further in 2022 and 2023 by 17% and 19%, respectively, as discussed earlier. The REPI declined slightly in 2021 by -0.5% compared to 2020; this index is relatively stable (with a small tendency to decline) during the past five years, which indicates that a price bubble in the real estate market in Jordan is unlikely in the short and medium terms. This is a positive sign that reduces the risks of the real estate sector, and strengthen the financial stability in the Kingdom. At the end of 2021, REPI is no longer calculated; however, a new methodology that considers international best practices and reflects precisely the actual developments in the real estate sector is underway.

The slowdown in the real estate sector albeit minimal, requires some banks to reconsider the upper limit of the LTV ratio, especially banks with an LTV ratio exceeding 80%, to avoid any risks arising from falling real estate prices.



## CHAPTER SIX: STRESS TESTING

### 6-1 INTRODUCTION

Stress testing is an important tool used by regulatory authorities and banks to assess banks' ability to withstand shocks and high risks they may confront. The objective of these tests is to evaluate the financial position of a bank under severe yet plausible scenarios, accordingly the tests results are used to determine the levels of capital and liquidity that banks must hold to withstand financial shocks and high risks.

These tests are forward-looking risk assessments that use sophisticated tools rather than statistical methods that use historical information, and help top management to understand a bank's conditions in times of crises. Stress testing is crucial for risk management and the planning for capital and liquidity, nonetheless, it cannot cover all aspects of a bank's vulnerabilities; it is useful within an integrated risk management policy intended to enhance the soundness and robustness of banks, and strengthen the entire financial system.

#### ❖ STRESS TESTING FOR THE BANKING SECTOR (BRANCHES IN JORDAN)

##### 6-2 SENSITIVITY ANALYSIS

The sensitivity analysis tests are typically used to measure the impact of changes in single risk factors on a bank's financial position, such as the increase of NPLs ratio, changes in interest rates, fluctuations of exchange rates, and changes in stock prices. Generally, the source of the shock (i.e., the source of the risk) is not identified in these tests. The sensitivity analysis conducted by banks operating in the Kingdom for several risk factors are illustrated next.

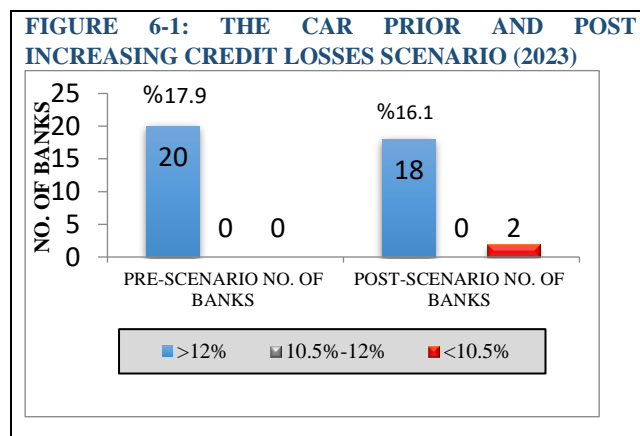
##### 6-2-1 SENSITIVITY ANALYSIS FOR CREDIT RISK

The sensitivity analysis for credit risk assumed an increase in probability of default (PD) by 100%, and a decline in banks' profits by 50% in 2024 compared to their levels in 2023. The loss Given

Default (LGD) ratio is also supposed to reach 65% of NPLs. In this case, the Capital Adequacy Ratio (CAR) of the banking sector in Jordan will drop from 17.9% to 16.1%, which implies that the banking sector is broadly capable to withstand this shock; the post-shock CAR remains higher than the 12% minimum requirement applied in Jordan. The limited impact of this shock is attributed to the following:

- 1- High CARs for banks in Jordan, which are considered among the highest in the region.
- 2- High profits of banks, which enable them to handle additional provisions and losses resulting from the shock when it occurs, without significantly affecting the capital, which in turn protects banks' capital.

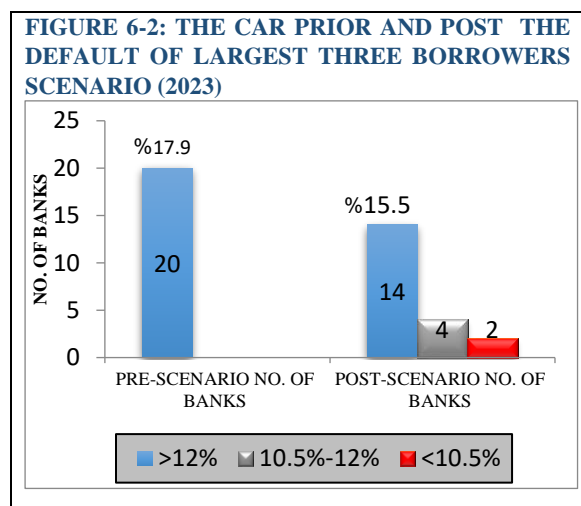
At the individual bank level, the CAR will remain higher than 12% for (18) banks, while it will decline below 10.5% for two banks, which validates the ability of most banks in Jordan to withstand this shock (Figure 6-1).



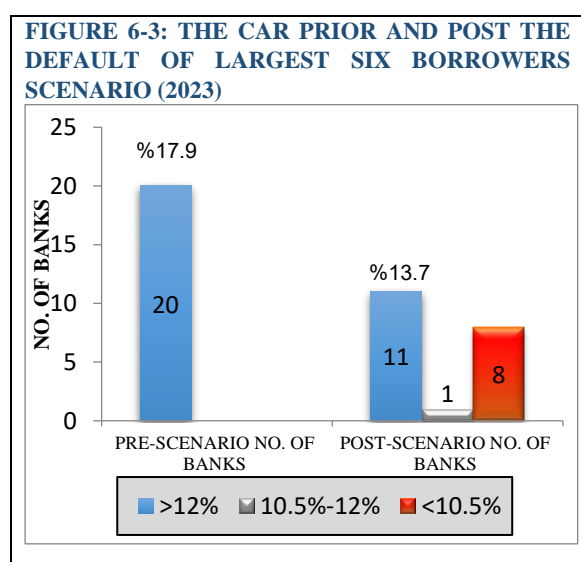
##### 6-2-1-1 SENSITIVITY ANALYSIS FOR CREDIT CONCENTRATION RISKS

As for credit concentrations risks, and in case of the default of the largest three borrowers (excluding credit facilities provided to the government of Jordan and the government-guaranteed facilities) at the individual bank level, the CAR will decline from 17.9% to 15.5%, which is higher than the minimum requirement. The CAR will remain higher than the minimum requirement of 12% for (14) banks, while it will fall below 12% for (6) banks, four of which will maintain a CAR above the international

minimum requirement of 10.5%. (Figure 6-2).



However, under the assumption of the default of the largest six borrowers (excluding credit facilities provided to the government of Jordan and the government-guaranteed facilities) for each single bank, the CAR of the banking sector will decline from 17.9% to 13.7%, yet it remains above the minimum requirement. At the individual bank level, the CAR will remain above 12% for (11) banks, while it will fall below 12% for (9) banks, which validates that certain banks are required to reduce their concentration risks. It is worth mentioning that the CBJ monitors banks' concentration risks on an ongoing basis through credit concentration instructions (Figure 6-3).



<sup>1</sup> The impact of the shock was calculated using the gap analysis test that examines the status quo at banks in terms of the balance of assets and liabilities sensitive to interest rate risk.

## 6-2-2 SENSITIVITY ANALYSIS OF MARKET RISKS

A number of tests were conducted to assess banks' sensitivity to market risks and their impact on capital adequacy. The analysis used only three types of shocks: interest rates, exchange rates, and stock prices, which are the most commonly used variables thereupon.

### 6-2-2-1 INTEREST RATE SHOCK

Assuming that the interest rates will hike by 200 basis points, the CAR of the banking sector will remain unchanged at 17.9%<sup>1</sup>. However, at the individual bank level, the CAR will remain above 12% for all banks exactly as prior to the shock, which indicates the ability of banks in Jordan to withstand this shock.

### 6-2-2-2 FOREIGN EXCHANGE RATE SHOCK

Assuming a 25% decline in the exchange rate of the Jordanian dinar<sup>2</sup> against all foreign currencies, the banking sector's post-shock CAR will remain unchanged at 17.9%. This indicates that the banking sector is highly capable to withstand this shock, thanks to the comfortable coverage of foreign currency assets to banks' foreign liabilities; long foreign currency positions for most banks.

### 6-2-2-3 EQUITY PRICE SHOCK

The test assumes a decline in the stock prices in the financial market by 30%, in this scenario the CAR of the banking sector in Jordan will remain unchanged at 17.9%, which implies that this shock will not affect the banking sector in general. At the individual bank level, the ratio will remain above 12% for all banks, exactly as before the shock. This indicates that banks in Jordan are able to withstand the shock of equity price risks due to the low exposure of banks to the financial market in Jordan.

<sup>2</sup> This is a hypothetical scenario that aims primarily to examine banks' exposure to exchange rate risk, noting that the CBJ's foreign currency reserves at the end of May 2024 approached USD 18.7 billion, sufficient to cover 8.2 months of the Kingdom's imports, which is a very comfortable level and significantly strengthens the stability of the dinar exchange rate.

### 6-3 MACRO-STRESS TESTING

Credit risk is one of the main significant risks facing banks, which has the most influence on their solvency. Therefore, a Satellite Model was used to predict the PDs of banks borrowers for 2024-2026. In this context, a series of scenarios were assumed; medium and severe macro-stress scenarios, which represent hypothetical scenarios designed to assess banks' ability to withstand shocks. The tests assume lingering ramifications of the geopolitical challenges and tensions due to the Russian-Ukrainian crisis and the war on Gaza, and the adversities they bring to Jordan's economy, in terms of the increase in the prices of energy and primary commodities, which will set the economic growth to significantly slow down compared to projections, and fueling the inflation rates. Moreover, the interest rates are also assumed to increase to curb inflationary pressures and to preserve the attractiveness of the Jordanian dinar as a saving currency. To measure the impact of these assumptions on banks, the output gap was calculated through estimating the Gap between the growth rate and the GDP growth trend using HP filter; this gap was used as one of the macroeconomic variables that affect the PDs, and measuring the impact on the regulatory CAR and Tier1 capital<sup>3</sup> for a bank. Economic research suggests that the decline in economic growth rate will increase the PDs, as it affects the customers' ability to repay their debts. Other variables such as the average interest rates on loans, and inflation rates, were also used to predict the PDs. The stress testing methodology using the Satellite Model suggested three scenarios to predict the value of the dependent variable (PD), and to examine their effect on the NPLs and CAR of banks for the coming years. These scenarios, in terms of severity, are classified as follows:

- Baseline Macro Stress Scenario.
- Medium Macro Stress Scenario.
- Severe Macro Stress Scenario.

<sup>3</sup> According to Basel III definition

<sup>4</sup> This model was estimated using the Panel Least Squares (PLS) method, which provides optimal estimates for cross-sectional data regressions by modifying the least squares to calculate the effects of autocorrelation and homoscedasticity in the dependent variables, which result from an autocorrelated relationship between the dependent variable and the independent variables.

To forecast the PD, the following model was used<sup>4</sup>:

$$PD_t = C + B_1 \text{ GDP GAP}_t + B_2 \text{ LENDING RATE}_{(t-1)} + B_3 \text{ INFL}_t$$

Where:

PD<sub>t</sub> = projected probability of default at banks.

C = Constant

GDP GAP<sub>t</sub> = GDP gap

LENDING RATE<sub>(t-1)</sub> = Average interest rate on loans and advances.

INFL<sub>t</sub> = inflation rate

The statistical tests revealed a significant inverse relationship between the growth rate gap and the PDs, and a significant positive relationship between the average lending rate and inflation rate and the PDs at banks, according to the following equation:

$$PD_t = -3.1 - 0.07 \text{ GDP GAP}_t + 0.44 \text{ LENDING RATE}_{(t-1)} + 0.09 \text{ INFL}_{(t-1)}$$

The following table shows the results of the econometric analysis of the above-mentioned model:

Variable	Coefficient	T-Statistic
C	-3.1	-3.9
GDP GAP <sub>t</sub>	-0.07*	-1.9
LENDING RATE <sub>(t-1)</sub>	0.44*	4.5
INFL <sub>(t-1)</sub>	0.09*	4.7
Coefficient of Determination (R <sup>2</sup> )	26%	
Adjusted R <sup>2</sup> Coefficient	22%	
(*) Statistically significant at 95% confidence level		

#### 6-3-1 ASSUMPTIONS OF THE MODEL

The CBJ has developed stress tests so that the PDs and their effect on banks' CAR are predicted for several coming years (Multiple-Period Stress Testing), instead of a single year. Consequently, the PDs ratios for 2024-2026 were projected based on output gap, the average lending rate, and the inflation rate. The following scenarios were

assumed, noting that the model used is based on the assumption that banks' profits in 2024 will drop by 50% compared to their levels in 2023, and the LGD will hit 65% of NPLs:

**TABLE 6-2: MACRO STRESS TESTING SCENARIOS FOR 2024-2026**

Year	Variable	GDP Gap	Lending rate	Inflation rate
Scenarios of 2024	Baseline Scenario	1.1	8.4	2.1
	Medium Macro Stress Scenario	-0.7	9.4	3.9
	Severe Macro Stress Scenario	-2.5	10.4	8.4
Scenarios of 2025	Baseline Scenario	1.8	7.9	2.4
	Medium Macro Stress Scenario	0.0	8.4	5.6
	Severe Macro Stress Scenario	-1.8	8.9	8.7
Scenarios of 2026	Baseline Scenario	2.2	7.4	2.5
	Medium Macro Stress Scenario	0.4	7.9	5.7
	Severe Macro Stress Scenario	-1.4	8.4	8.8

The scenarios were assumed according to the following methodology:

**Medium Macro Stress Scenario:** The projected GDP gap for 2024-2026 minus one standard deviation of GDP gap for (2002-2023), the projected inflation rate for 2024-2026 plus one standard deviation of the inflation rate data for (2002-2023).

**Severe Macro Stress Scenario:** The projected GDP gap for 2024-2026 minus two standard deviations of GDP gap for (2002-2023), the projected inflation rate for 2024-2026 plus two standard deviations of the inflation rate data for (2002-2023).

**For average lending rate,** the interest rates were assumed to increase by 100 basis points for medium scenario, and by 200 basis points for severe scenario in 2024, and to increase by 50 and 100 basis points in 2025 and 2026, for both the medium and severe scenarios, respectively, compared to the projected baseline lending rate which is projected for each year and was calculated assuming the decline of interest rates by 50 and 100 basis points as compared to the baseline projected for 2024.

\*Represents the weighted average interest rates on credit facilities/ loans and advances of May 2024.

### 6-3-2 RESULTS FOR BRANCHES IN JORDAN

Table (6-3) and Figure (6-4) illustrate projected NPLs ratio and CARs for 2024 assuming the scenarios above. Under the severe scenario, the NPLs will increase from 5.1% in 2023 to 9.5% in 2024, thus the CAR will drop from 17.9% to 15.9% in 2024.

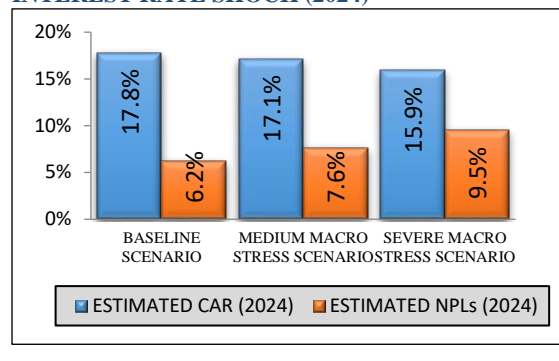
**TABLE 6-3: MACRO STRESS TESTING RESULTS FOR 2024**

Scenarios	Projected NPLs (2024)	Projected CAR (2024)
Baseline Scenario	6.2%	17.8%
Medium Macro Stress Scenario	7.6%	17.1%
Severe Macro Stress Scenario	9.5%	15.9%

\* The NPLs ratio at the end of 2023 stood at about 5.1%.

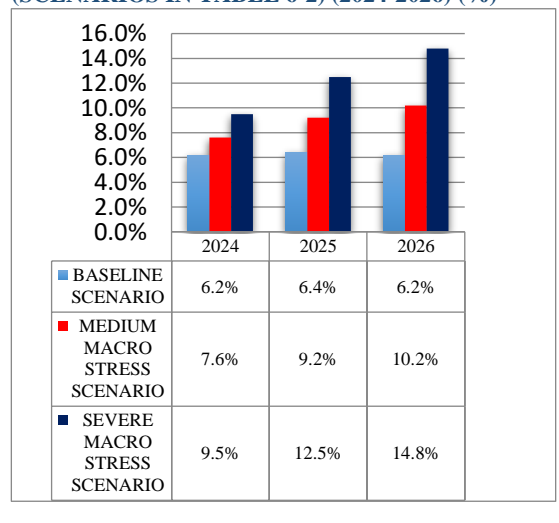
\*\* The CAR at the end of 2023 reached to 17.9%

**FIGURE 6-4: THE CAR PRIOR AND POST AN INTEREST RATE SHOCK (2024)**



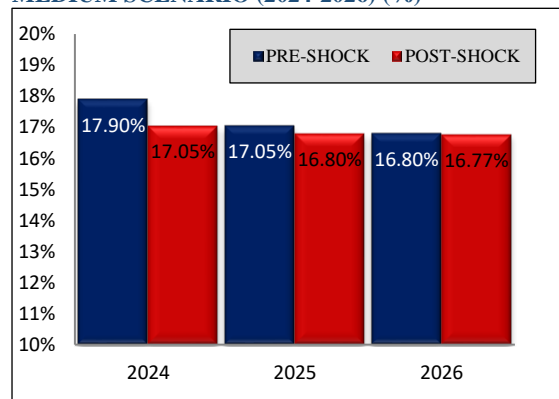
If these scenarios occur (Table 6-2: scenarios), the projected NPLs ratios for 2024-2026 assuming the (three) scenarios will be as illustrated in Figure (6-5).

**FIGURE 6-5: THE POST SCENARIOS NPLs (SCENARIOS IN TABLE 6-2) (2024-2026) (%)**

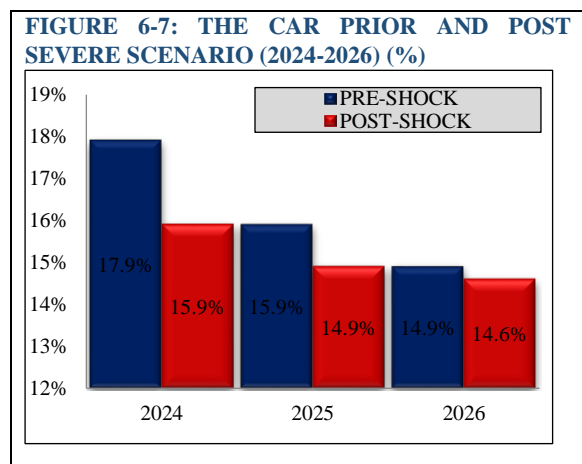


Accordingly, after applying the medium scenario, the CAR for 2024-2026 (figure 6-6) will decline to 16.77% in 2026, which remains sufficiently higher than 12% for the three years (2024-2026). This implies that the banking sector in Jordan is capable to withstand this shock (figure 6-6).

**FIGURE 6-6: THE CAR PRIOR AND POST MEDIUM SCENARIO (2024-2026) (%)**



In addition, implementing the severe scenario indicates that the CAR will drop to 14.6% in 2026, and remains higher than 12% for the years (2024-2026), which means that the banking sector’s CAR is high and capable to withstand this shock as well (figure 6-7).



**❖ STRESS TESTING FOR THE CONSOLIDATED BANKING SECTOR (BRANCHES AND SUBSIDIARIES IN JORDAN AND ABROAD)**

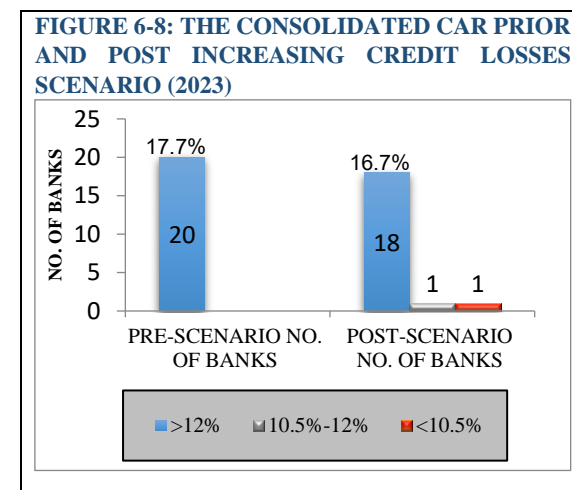
**6-4 SENSITIVITY ANALYSIS ON CONSOLIDATED LEVEL**

**6-4-1 SENSITIVITY ANALYSIS FOR CREDIT RISK**

The sensitivity analysis for credit risk assumed an increase in PDs at the consolidated level by 100%, and a decline in banks’ profits by 50% in 2024 compared to their levels in 2023. The LGD is also supposed to reach 65% of NPLs. In this case, the CAR of the consolidated banking sector in Jordan will drop from 17.7% to 16.7%, which implies that the banking sector is broadly capable to withstand this shock; the post-shock CAR remains higher than the 12% minimum requirement applied in Jordan. The limited impact of this shock is attributed to the following:

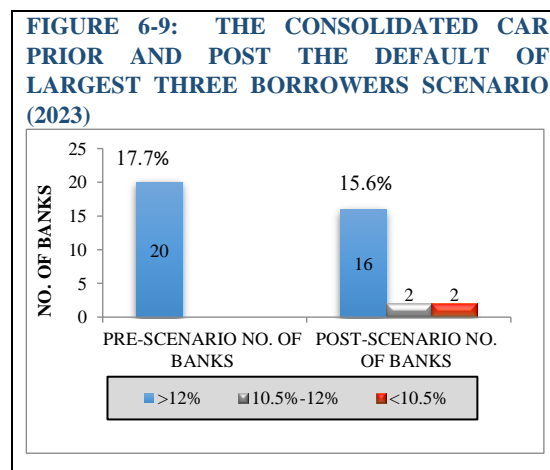
- 1- High consolidated CAR for banks in Jordan.
- 2- Banks have high profits, which enable them to handle additional provisions and losses resulting from the shock when it occurs, without significantly affecting the capital, which in turn protects banks’ capital.

At the individual bank level, the CAR will remain higher than 12% for (18) banks, while it will decline below 12% for two banks (one of which will maintain a CAR above the international minimum requirement of 10.5%), which validates the ability of most banks in Jordan to withstand this shock (Figure 6-8).



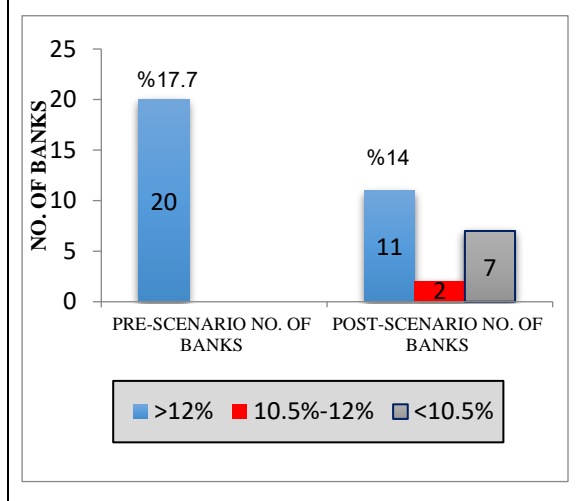
**6-4-2 SENSITIVITY ANALYSIS FOR CREDIT CONCENTRATION RISKS**

As for credit concentration risks, and in case of the default of the largest three borrowers (excluding credit facilities provided to the government of Jordan and the government-guaranteed facilities) at the consolidated level, the CAR will decline from 17.7% to 15.6%, which is higher than the minimum requirement. At the individual level, the CAR for banks will remain higher than the minimum requirement of 12% for (16) banks, while it will fall below 12% for (4) banks, two of which will maintain a CAR above the international minimum requirement of 10.5%. (Figure 6-9).



However, under the assumption of the default of the largest six borrowers (excluding credit facilities provided to the government of Jordan and the government-guaranteed facilities) at the consolidated level of banks, the CAR of the banking sector will decline from 17.7% to 14%, yet will remain above the minimum requirement. At the individual bank level, the CAR will remain above 12% for (11) banks, while it will fall below 12% for (9) banks (7 banks of which will have their CARs below the international minimum requirement of 10.5%), which validates that certain banks need to reduce their concentration risks. It is worth mentioning that the CBJ constantly monitors banks' concentration risks through credit concentration instructions (Figure 6-10).

**FIGURE 6-10: THE CONSOLIDATED CAR PRIOR AND POST THE DEFAULT OF LARGEST SIX BORROWERS SCENARIO (2023)**



### 6-4-3 SENSITIVITY ANALYSIS OF MARKET RISKS

A number of tests were conducted to assess banks' sensitivity to market risks and their impact on capital adequacy. The analysis used two types of shocks only: interest rates, and stock prices, which are the most commonly used variables thereupon.

#### 6-4-3-1 INTEREST RATE SHOCK

Assuming that the interest rates will hike by 200 basis points, the consolidated CAR of the banking sector will decline from 17.7% to 16.3%<sup>5</sup>. However, at the individual bank level, the CAR will remain above 12% for all banks, exactly as before the shock, which indicates that banks in Jordan are capable to withstand this shock.

#### 6-4-3-2 EQUITY PRICE SHOCK

The test assumes a decline in the stock prices in the financial market by 30%, in this scenario the consolidated CAR of the banking sector in Jordan will decline from 17.7% to 17.6%, which implies that this shock will have immaterial impact on the banking sector in general. At the individual bank level, the ratio will remain above 12% for all banks, exactly as before the shock. This indicates that banks in Jordan are able to withstand the shock of equity price risks due to the low exposure of banks to the financial markets in general.

### 6-5 CONSOLIDATED MACRO-STRESS TESTING

Stress tests for banks at the consolidated level were conducted; medium and severe macro-stress scenarios were assumed in order to assess banks' ability at the consolidated level to withstand shocks.

As most banks' operations abroad are based in the MENA region, geopolitical challenges and tensions resulting from the Russian-Ukrainian crisis and the war on Gaza are assumed to continue and affect the countries in the region in terms of the increase in the prices of energy and primary commodities, which will set the economic growth to significantly slow down compared to projections, and increase the inflation rates.

To forecast the PD, the following model was used<sup>6</sup>:

$$PD_t = C + B_1 \text{ GDP GAP}_{(t-1)} + B_2 \text{ LENDING RATE}_{(t-1)} + B_3 \text{ INFL}_{(t-1)}$$

Where:

<sup>5</sup> The impact of the shock was calculated using the gap analysis that examines the balance of assets and liabilities sensitive to interest rate risk at banks.

<sup>6</sup> This model was estimated using the Ordinary Least Squares (OLS).

**PD<sub>t</sub>**: the projected probability of default for consolidated banks.

**C**: Constant

**GDP GAP<sub>(t-1)</sub>**: output gap for the MENA region.

**LENDING RATE<sub>(t-1)</sub>** = Average interest rate on loans and advances in the MENA region.

**INFL<sub>(t-1)</sub>** = inflation rate in the MENA region.

The statistical tests revealed a significant inverse relationship between the output gap and the PDs of banks, and a significant positive relationship between the average lending rate and the inflation rate and the PDs at banks, according to the following equation:

$$PD_t = -4.6 - 0.1 \text{ GDP GAP}_{(t-1)} + 0.58 \text{ LENDING RATE}_{(t-1)} + 0.22 \text{ INFL}_{(t-1)}$$

The following table illustrates the results of the econometric analysis of the above-mentioned model:

Variable	Coefficient	T-Statistic
C	-4.6	-1.8
GDP GAP <sub>(t-1)</sub>	-0.1*	-1.9
LENDING RATE <sub>(t-1)</sub>	0.58*	2.0
INFL <sub>(t)</sub>	0.22**	3.6
Coefficient of Determination (R <sup>2</sup> )	57%	
Adjusted R <sup>2</sup> Coefficient	42%	
(*) : Statistically significant at 90% confidence level		
(**) : Statistically significant at 95% confidence level		

### 6-5-1 ASSUMPTIONS OF THE MODEL AT THE CONSOLIDATED LEVEL

The PDs for 2024-2026 were projected based on the output gap, the average lending rate, and the inflation rate in the MENA region. The following scenarios were assumed, noting that the model used is based on the assumption that banks' profits in 2024 will drop by 50% compared to their levels in 2023, and the LGD will hit 65% of NPLs:

**TABLE 6-5: CONSOLIDATED MACRO STRESS TESTING SCENARIOS FOR 2024-2026**

Year	Variable	GDP Gap	Lending rate	Inflation rate
Scenarios of 2024	Baseline Scenario	0.0	8.0	4.2
	Medium Macro Stress Scenario	-2.3	9.0	6.4
	Severe Macro Stress Scenario	-4.6	10.0	8.5
Scenarios of 2025	Baseline Scenario	0.1	7.5	4.2
	Medium Macro Stress Scenario	-2.2	8.0	6.4
	Severe Macro Stress Scenario	-4.5	8.5	8.5
Scenarios of 2026	Baseline Scenario	0.3	7.0	4.2
	Medium Macro Stress Scenario	-2.0	7.5	6.4
	Severe Macro Stress Scenario	-4.3	8.0	8.5

The scenarios were assumed according to the following methodology:

**Medium Macro Stress Scenario:** The projected output gap for 2024-2026 minus one standard deviation for output gap of (2002-2023), the inflation rate of 2023 plus one standard deviation of the inflation rate of (2002-2023).

**Severe Macro Stress Scenario:** The projected output gap 2024-2026 minus two standard deviations of output gap for (2002-2023), the inflation rate of 2023 plus two standard deviations of the inflation rate of (2002-2023).

**For average lending rate,** the interest rates were assumed to increase by 100 basis points for medium scenario, and by 200 basis points for severe scenario in 2024, and to increase by 50 and 100 basis points in 2025 and 2026, for both the medium and severe scenarios, respectively, compared to the projected baseline lending rate which is projected for each year and was calculated assuming the decline of interest rates by 50 and 100 basis points as compared to the baseline projected for 2024.

### 6-5-2 CONSOLIDATED RESULTS

Table (6-6) and Figure (6-11) illustrate projected NPLs ratio and CARs for 2024 assuming the scenarios above; under the severe scenario, the NPLs ratio will increase from 5.3% in 2023 to 9.8% in 2024, thus the CAR will drop from 17.7% to 16% in 2024.

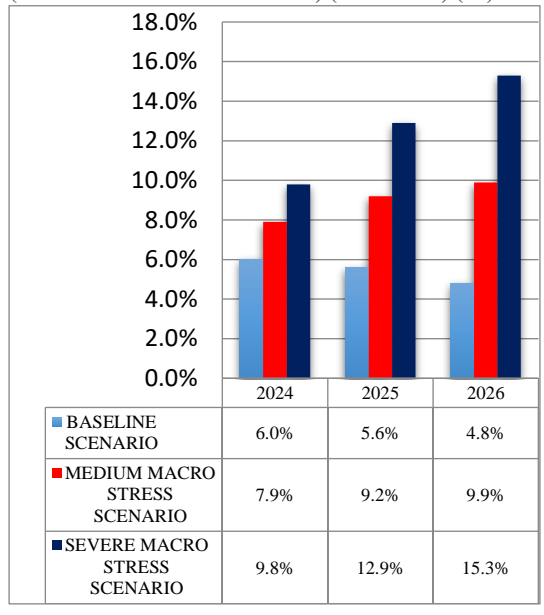
Scenarios	Projected NPLs (2024)	Projected CAR (2024)
Baseline Scenario	6.0%	17.7%
Medium Macro Stress Scenario	7.9%	17.3%
Severe Macro Stress Scenario	9.8%	16.0%

\* The consolidated NPLs ratio at the end of 2023 stood at about 5.3%.

\*\* The consolidated CAR at the end of 2023 reached to 17.7%

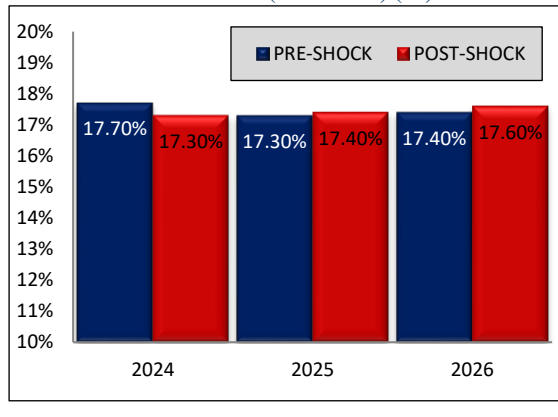
If these scenarios occur (Table 6-5: Scenarios), the projected NPLs ratios for 2024-2026 assuming the (three) scenarios will be as illustrated in Figure (6-11).

**FIGURE 6-11: THE POST SCENARIOS NPLs (SCENARIOS IN TABLE 6-5) (2024-2026) (%)**



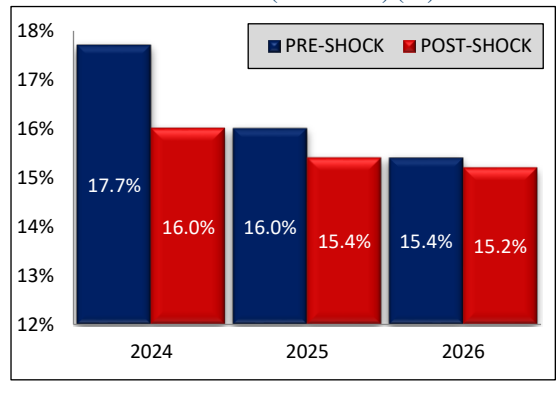
Accordingly, after applying the medium scenario, the CAR for 2024-2026 (Figure 6-12) will decline to 17.6% in 2026, still sufficiently higher than 12% for (2024-2026). This implies that the consolidated banking sector in Jordan is capable to withstand this shock (Figure 6-12).

**FIGURE 6-12: THE POST MEDIUM SCENARIO CONSOLIDATED CAR (2024-2026) (%)**



In addition, implementing the severe scenario indicates that the CAR will drop to 15.2% in 2026, and remain higher than 12% for (2024-2026), which means that the consolidated banking sector’s CAR is high and capable to withstand this shock as well (Figure 6-13).

**FIGURE 6-13: THE POST SEVERE SCENARIO CONSOLIDATED CAR (2024-2026) (%)**



**6-6 CONCLUSION**

According to the results of (2024-2026), the banking sector at the branches level in Jordan level and the consolidated level (branches and subsidiaries in Jordan and abroad) is broadly capable to withstand the shocks and high risks resulting from lingering ramifications of the geopolitical tensions arising from the Russian-Ukrainian crisis and the war on Gaza. Assuming the severe scenario, the CAR of the banking sector for the branches in Jordan will reach to 15.9%, 14.9% and 14.6%, in 2024, 2025, and 2026, respectively, whereas, the consolidated CAR will reach 16%, 15.4%, and 15.2%, respectively, in 2024, 2025, and 2026. These positive results are attributed to the high levels of capital and comfortable level of profits of banks, which enable them to handle additional provisions and losses resulting from the assumed shocks without significantly affecting the capital, thus providing a sufficient protection for banks’ capital. Furthermore, the sensitivity analysis revealed that credit concentration risk has a greater impact on some banks compared to other risks, which requires these banks to reduce their concentration risk. The CBJ will continue to conduct and enhance these tests taking into consideration developments of risks at the international, regional, and national levels to ensure the soundness and robustness of the banking sector in Jordan.