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Research Report

Banking in Jordan: Financing corporates and SMEs in the era of COVID-19. Evidence from the EIB bank lending survey

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BANKING IN JORDAN

Financing corporates and SMEs
in the era of COVID-19

Evidence from the EIB Bank Lending Survey

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March 2022

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About the Economics Department

The mission of the Economics Department is to provide economic analyses and studies to support the Bank in its operations and in defining its strategy and policy. The department, a team of 40 economists, is led by Director Debora Revoltella.

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Foreword

The EIB Bank Lending Survey (BLS) in Jordan was carried out by the EIB, with support from the Central Bank of Jordan, to deepen our understanding of market conditions, particularly in the context of the COVID-19 crisis. The BLS covers cyclical developments and structural aspects of lending to corporates and small and medium-sized enterprises (SMEs) in Jordan. It complements commonly available banking sector data by disentangling the credit supply and demand factors that are driving banking sector dynamics. The survey also gives insights on the short- and long-term effects of the COVID-19 pandemic, and elucidates climate risk and the digital transformation of the banking sector, in terms of internal processes and client outreach. The CBJ's support has been essential in ensuring the success of the survey and is gratefully acknowledged.

Using newly collected data from the BLS, this publication examines opportunities for Jordanian financial institutions to support the private sector and investigates the actions taken by surveyed banks during the pandemic. Continued access to finance has helped firms to stay afloat during the COVID-19 crisis period, while the financial sector's transformation has been accelerated, driven by the digitalisation of various aspects of banking activities.

The report is structured as follows. The first section summarises macroeconomic developments in Jordan. The second section then overviews the Jordanian banking sector, analysing regulatory data provided by the Central Bank of Jordan. Finally, the third section describes and analyses the novel BLS data collected by the EIB during spring 2021, providing a closer look at the banking sector in terms of SME and corporate lending and in relation to the impacts of Covid-19 as well as climate change.

We hope you will find this report useful and that the analysis it contains can inform sound and effective investment decisions.

Debora Revoltella
Director, Economics Department
European Investment Bank

Banking in Jordan

Financing corporates and SMEs in the era of COVID-19

Evidence from the EIB Bank Lending Survey

Executive summary

- **The Jordanian economy has been hit significantly by the effects of the COVID-19 pandemic**, particularly on the tourism sector. Yet Jordan has suffered less than other Middle East countries, which were also affected by country-specific events and/or domestic economic and political crises.
- **The performance of the banking sector has remained solid and a credit crunch was avoided.** These outcomes are attributable to a combination of policy support (including liquidity injections, loan rescheduling and additional guarantees for SMEs) and robust credit demand from firms, which resulted in steady credit growth and resilient banking sector profitability. A significant deterioration of credit quality has been avoided, with the non-performing loan (NPL) ratio of the Jordanian banking sector not surpassing 5.5%.
- **To deepen our understanding of the Jordanian banking sector, the EIB carried out the Bank Lending Survey (BLS).** The survey elucidates credit supply and demand dynamics, taking into consideration the impact of COVID-19 and the challenges generated by climate risk and digitalisation. Data were collected in spring 2021 via an online tool, with unique insights and information gathered from 21 respondent banks in Jordan — representing over 90% of banking sector assets.
- **The BLS shows that the impact of the pandemic on credit supply in Jordan has been relatively contained.** Around two-thirds of surveyed banks reported a stable or even increasing supply of credit. On average, SMEs¹ have been less affected than corporates: 50% of surveyed banks saw their credit supply to SMEs increase, while 25% reported a decrease; the respective percentages for corporates are 25% and 45%. While these results may seem surprising, they are explained by three main factors: (i) credit to SMEs was low to begin with, so there was relatively little room for decline; (ii) support measures were put in place by the authorities to ensure that credit continued to flow to the private sector and SMEs in particular, which benefitted from dedicated guarantee schemes; and (iii) SMEs entered the crisis in good shape and demonstrated flexibility and resilience throughout.
- **Respondent banks signalled significant impact of COVID-19 on the evolution of credit risk management:** 71% of banks required more collateral and guarantees, while 57% increased reliance on external credit guarantees.
- **Our BLS data suggest that credit demand remains largely stable**, with two exceptions: credit demand increased for working capital loans (over 70% of banks), signalling increased liquidity needs, and for debt restructuring (90%).
- **The deterioration of credit quality among corporate and SME borrowers remained well under control.** SME portfolio quality is partially lower than for corporates and more heterogeneous across banks. The percentage of respondent

¹ Banks were asked to apply the local definition of SME (Small and Medium enterprises) when answering to the Bank Lending Survey. In Jordan small enterprises has assets or annual sales/revenues between JOD 100,000 and JOD one million and between 5 and 20 employees; a medium-sized enterprise has assets or annual sales/revenues between JOD one and three million and between 21 and 100 employees.

banks with a low share of loans past due (below 5% of the portfolio) is 40% for the SME segment and 63% for the corporate segment.

- **COVID-19 has been a game changer for various areas of banking, including operational activities, with a strong push towards greater digitalisation.** On the impact of COVID-19 on internal operations, 90% of respondents agree that the pandemic will accelerate the digitalisation of internal processes; 81% that banks' daily operations will be impacted (81%); and 90% that banks' online offer will be enhanced (90%).
- **Climate risk is not a concern for two-thirds of respondent banks.** 26.3% of banks take into account climate risk when assessing clients, but almost 60% signalled that (a) their risk management framework lacks an explicit process to assess clients' climate risk or (b) they do not consider climate risk when assessing clients; or (c) they do not assess their portfolio exposure to climate risk. On average, almost 20% of banks plan to implement one of these measures during the next 12 months.
- **Banks that do not consider climate risk in their operations mostly state that this is not a priority for them (80%).** Although this attitude could change as the Central Bank of Jordan (CBJ) implements new measures related to climate risk, the lack of regulatory requirements, limited expertise, lack of data and insufficient resources remain relevant factors.

Macroeconomic overview

The Jordanian economy was hit hard by the COVID-19 crisis but suffered comparatively less than other Middle East and North African countries, which were also affected by country-specific events and/or domestic economic and political crises. Overall, Jordan's real gross domestic product (GDP) declined by 1.6% in 2020, and a sharp drop in tourism—a key economic sector—has been one of the main transmission channels of the crisis. With 3.8 million foreign visitors per year, tourism normally accounts for almost 40% of Jordan's export receipts and 10–15% of GDP. The sector's GDP share dropped to 3% in 2020 and its recovery is expected to be rather slow.

However, Jordan was already on a low-growth trajectory before the COVID-19 crisis: the economy's annual growth rate averaged 2% in 2016–2019, compared to 6.4% in 2000–2009. Per capita GDP growth was even more modest, reflecting the recent and sizeable influx of refugees: from Syria, Jordan hosts about 750 000 registered refugees and a similar number of unregistered refugees, collectively accounting for 10–15% of the total Jordanian population. The conflict in Syria has imposed a significant burden on Jordan (whose main export markets were Iraq, Iran and Syria), and the presence of so many refugees has not only strained the infrastructure endowment but also put great pressure on the job market. Against this backdrop, Jordan's investment to GDP ratio has dropped from over 30% on average in 2005–2010 to below 20%.

Unemployment has continued to increase, reaching 25% in 2021 — the highest level in over 25 years, 6 percentage points higher than in 2019, and double the figure in 2011. Unemployment remains a huge challenge, particularly for youth, women and university degree holders, with respective unemployment rates above 45%, 30% and 30%.

Despite the challenges, macroeconomic stability has been preserved and moderate growth rates are projected for 2022 (2.7%) and 2023 (2.7%) by the International Monetary Fund (IMF), in forecasts presented in the October 2021 World Economic Outlook. Real GDP grew by 3.2% in the first half of 2021. Trade is also signalling a rebound in activity: exports grew by 16% overall and 33% towards the European Union, while imports grew by over 20% in the first eight months of 2021. Inflation is at 1.6% (as of September 2021).

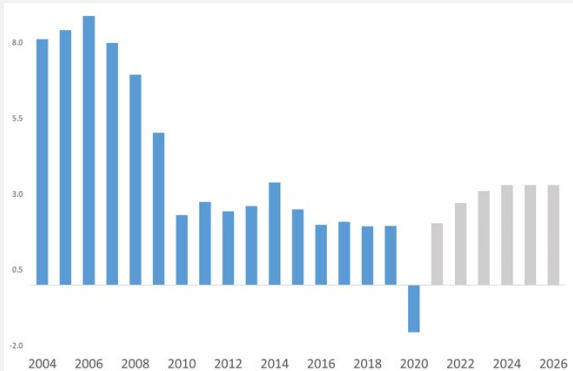
The government has been very prudent in managing the health crisis, imposing one of the strictest lockdowns in the world during the first pandemic wave in 2020. In terms of case numbers, the November 2020 and March 2021 waves were significantly more acute, with 550 and 800 cases per 100 000 inhabitants, respectively. Meanwhile, over 40% of the population has been fully vaccinated as of December 2021, a significantly higher share than in other countries in the region, besides Israel. The government and the CBJ have introduced numerous measures to alleviate the economic effects of the pandemic, as described later. However, because of high public debt, Jordan has limited fiscal space to support the economy.

Public debt is high, at close to 90% of GDP (according to IMF definition), **over 10 percentage points higher than before COVID-19**. The pandemic shock further amplified the complexity of consolidating public finances, with the fiscal deficit remaining close to 8% in 2021 and only gradually trending lower. Weak tax administration and the prioritisation of current over capital spending has left the country with substantial unmet investment needs. Although risks to debt sustainability have increased, the IMF still considers Jordan's public debt to be sustainable,² provided policy implementation remains strong. According to the IMF, the structure of public debt remains favourable: debt maturities are long; foreign currency denominated debt is half of total public debt, with a large part held by official creditors; and

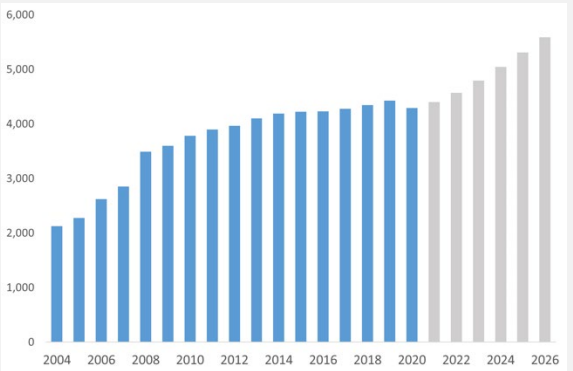
² The latest IMF debt sustainability assessment was carried out in August 2021, during the second review under the IMF Extended Fund Facility.

public gross financing needs are manageable. Moody's rates Jordan B1 with a stable outlook, Standard & Poor's rates Jordan B+ with a stable outlook, and Fitch rates Jordan one notch higher than the other agencies (BB-) but with a negative outlook. Those sovereign ratings are, on average, one or two notches higher than those of other countries in the EU Southern Neighbourhood, such as Egypt, Tunisia and Algeria.

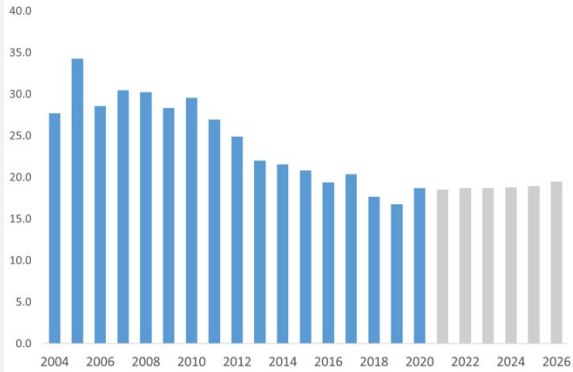
REAL GDP GROWTH (%)



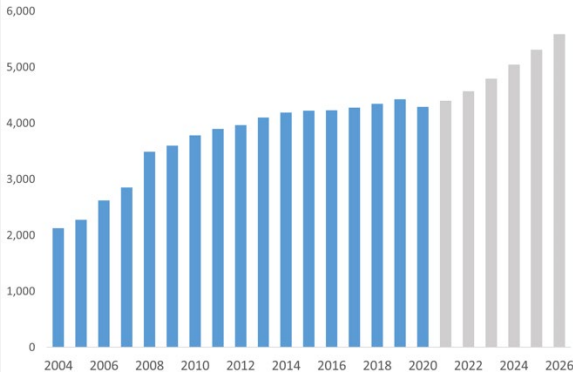
PER CAPITA GDP (USD)



INVESTMENTS (% OF GDP)



Gross government debt (% of GDP)



Source: IMF, October 2021 World Economic Outlook

Jordan has a long history of strong donor support. Owing to good relations with Western and Gulf countries and to its strategic geopolitical location, Jordan has been able to mobilise considerable amounts of foreign aid. A major portion of external borrowing is concessional, and cooperation with international institutions is strong. Jordan is currently benefitting from IMF-supported programmes, having signed the Extended Fund Facility (EFF) and the Rapid Financing Instrument (RFI) in 2020, followed by an addition to the EFF in July 2021. Jordan’s funding from these programmes amounts to USD1.9 billion (4.2% of GDP), of which USD1.2 billion has been disbursed since the start of the pandemic. The EFF envisages a reform agenda centred on further strengthening governance and the business environment and overhauling the electricity sector.

Table 1. Jordan: IMF macroeconomic projections

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDP (USD bn)	41.5	43.0	44.6	43.8	45.3	47.5	50.2	53.1	56.3	59.6
GDP per capita (USD)	4,274	4,341	4,426	4,286	4,394	4,565	4,793	5,043	5,307	5,584
Real GDP growth (%)	2.1	1.9	2.0	-1.6	2.0	2.7	3.1	3.3	3.3	3.3
Investment (% of GDP)	20.3	17.6	16.7	18.7	18.5	18.7	18.7	18.8	18.9	19.4
Inflation, avg	3.6	4.5	0.7	0.4	1.6	2.0	2.5	2.5	2.5	2.5
Unemployment (%)	18.3	18.6	19.1	22.7	-	-	-	-	-	-
Current account (% of GDP)	-10.6	-6.9	-2.1	-8.0	-8.9	-4.4	-3.2	-2.8	-2.6	-2.0
Govt net lending/borrowing (% of GDP)	-3.6	-4.7	-6.0	-8.9	-7.7	-5.9	-5.2	-3.9	-1.8	-1.8
Gross Government Debt (% of GDP)	76.0	75.1	78.0	88.0	90.9	90.6	88.4	84.3	79.9	75.9

Source: IMF, October 2021 World Economic Outlook

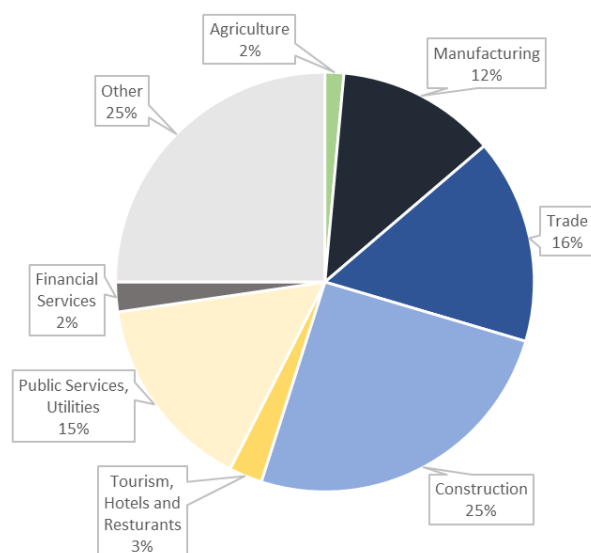
The banking sector in Jordan

Jordan's banking sector comprises 25 commercial banks, including three Islamic banks and nine foreign banks, with total assets of Jordanian dinar JOD 57 billion (or EUR69.6 billion). The sector's total assets increased by 5% on average in 2010–2020, driven by average lending growth of 7% during the same period.

The sector is rather concentrated (although less now than in the past), with the five largest banks accounting for 50% of branches and 54.1% of total assets at the end of 2020. Foreign banks are typically subsidiaries of banking groups based in the Middle East (Lebanon, Egypt or Kuwait) or with a worldwide presence. For instance, Citibank and Standard Chartered have a small number of branches to mainly serve their international clientele. Total credit facilities extended by licenced banks amount to JOD 30 billion (or €37.4 billion), of which 8% is granted to the government and public entities.

Credit to SMEs represents 10% of total credit facilities, of which one-third is dedicated to small enterprises. Foreign currency lending accounts for 12% of total lending (as at the end of 2020), and this ratio has been rather stable during the last two decades; most lending (88%) is in local currency. Total credit to GDP ratio has been traditionally high, increasing from 75% in 2010 to 85.6% in 2018 and then 90% in 2020.

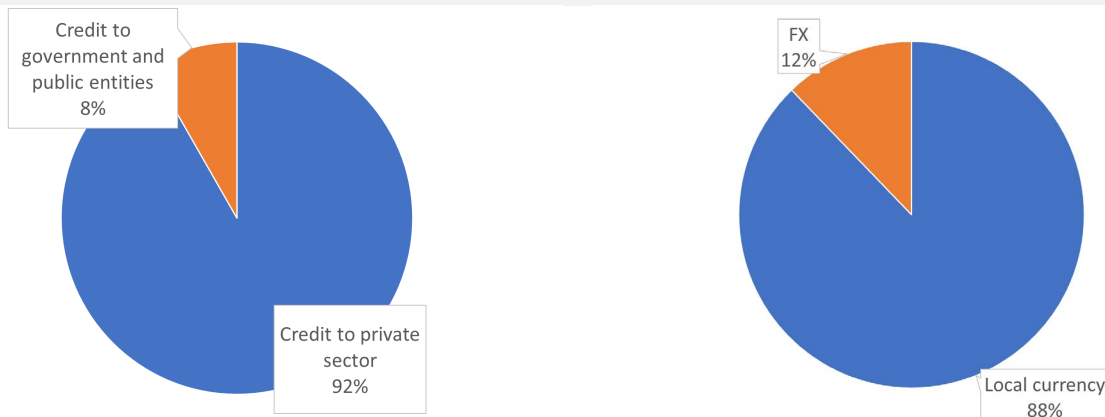
Total credit facilities extended by licenced banks, by sector (% of total, 2020)



Source: Central Bank of Jordan

The Jordanian private sector is dominated by services and construction activities. This structure is reflected in the allocation of credit.

Borrowers from the construction sector make 25% of total lending provided by Jordanian Banks, Trade 16%, while tourism, hotels and restaurants account for 2.6%. The manufacturing sector accounts for 12.3% of total lending.

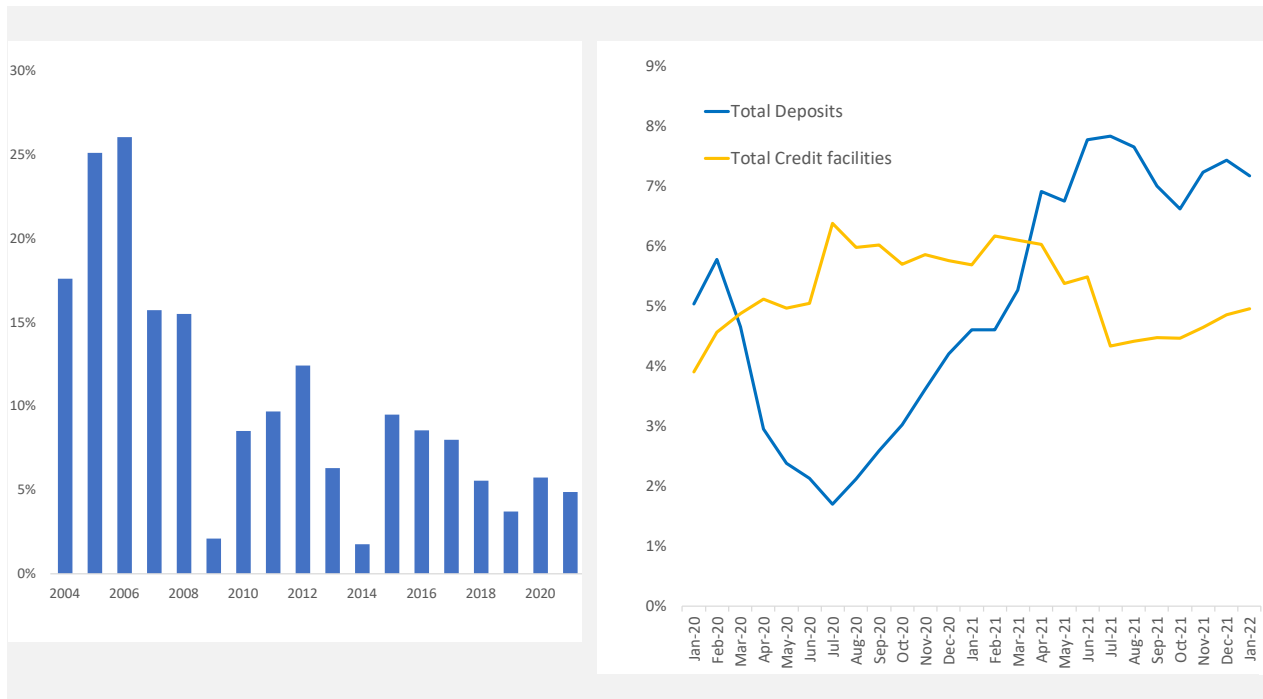


Source: Central Bank of Jordan

Banks have held up well so far and no credit crunch materialised during any of the pandemic waves. They entered the crisis in good shape (with good credit quality and high capital and liquidity buffers), and various support measures by the authorities have maintained steady credit growth. More precisely, credit growth decelerated significantly in 2017–2019 but accelerated again in 2020. It grew at a healthy pace (around 6% in year-on-year terms) during the second half of 2020 and the first half of 2021, supported by supply factors (banks’ ability to provide credit) and demand factors (SMEs’ and corporates’ increasing liquidity needs). However, credit growth started decelerating again during 2021, as shown in the chart below (depicting data available up to January 2022). At the same time, total deposit growth (including private and public sector deposits) accelerated significantly from mid-2020, especially due to increased precautionary household saving, which generated additional liquidity for the banking sector, and stabilized during the second part of 2021. In this context, having remained rather stable in 2019–2020 (between 78% and 80%), the loan-to-deposit ratio slightly during 2021 (76% at the end of 2021).

Total credit facilities extended by licenced banks: in 2004–2021 (annual % growth)

Deposit and credit facilities monthly evolution (year-on-year % growth)



Source: Central Bank of Jordan

The CBJ has introduced various measures to support financial stability and ease liquidity stress, endorsing amounts equating to 8.6% of GDP during 2020, and focused particularly on SMEs. These measures included:

- injecting additional liquidity by reducing the compulsory reserve ratio on deposits and entering repurchase agreements with banks;
- increasing loan tenors and volume limits;
- allowing banks to reschedule loans and postpone loan repayments due from individuals and companies;
- reducing the cost and expanding the coverage of guarantees provided by the Jordan Loan Guarantee Corporation on SME loans (these loans are 85% guaranteed);
- requesting banks to postpone dividend payments (to retain earnings and strengthen their capital base).

In 2021, some measures were prolonged: the CBJ expanded its subsidised lending schemes for SMEs and extended the bank loan service moratorium to negatively impacted borrowers until the end of 2021. These measures have had a strong influence in maintaining the flow of credit, especially to SMEs.

Banking sector profitability was temporarily weakened (in 2020) by the COVID-19 induced economic slowdown but has already returned to healthy levels in 2021. The non-performing loans (NPL) ratio increased only marginally due to COVID-19 (from 5% in 2019 to 5.5% at the end of 2020), and had already fallen back to 5.3% by mid-2021. Profitability suffered only in 2020: the return on assets (RoA) of Jordanian banks declined from over 1.2% in 2019 to 0.6% in 2020, before then returning to the 2019 level in 2021. Return on equity (RoE) displays a similar trend. The reduced profitability in 2020 is mainly due to the allocation of higher provisions to address the risks deriving from the COVID-19 crisis. Other contributors include the postponing debt instalments and rescheduling of loans.

Capital and liquidity ratios remained solid throughout the pandemic. Jordanian banks' Common Equity Tier 1 (CET1) ratio remained stable at 18.3% in 2019, 2020 and 2021, as did liquidity ratios. In summary, the impact of COVID-19 on the Jordanian banking sector has been and is expected to remain limited.

Table 2. Jordan: financial soundness indicators

	2015	2019	2020	H1 2021
Non performing Loans (NPL, % on total)	4.9%	5.0%	5.5%	5.3%
Coverage ratio (%)	74.7%	69.5%	68.0%	75.2%
Net Profits before Taxes (JOD million)	862	879	493	433
Return on equity (RoE, %)	10.3%	9.4%	5.1%	9.5%
Return on assets (RoA, %)	1.3%	1.2%	0.6%	1.2%
Liquidity ratio (%)	149.0%	133.8%	136.5%	136.2%
Capital Adequacy ratio (%)	19.1%	18.3%	18.3%	18.3%

Source: Central Bank of Jordan

Lending to SMEs: the firms' point of view

Access to finance is considered an obstacle by 17.4% of Jordanian companies, which is lower than the regional average of Southern Neighborhood³ (31%). This information is derived from the Enterprise Survey, which provides valuable additional insights on SME lending in Jordan, beyond the official financial sector statistics published by the CBJ. The Enterprise Survey is an ongoing collaborative effort by the EIB, the European Bank for Reconstruction and Development (EBRD) and the World Bank (WB). Run between April and November 2019, before the outbreak of the COVID-19 pandemic, the latest round of the survey

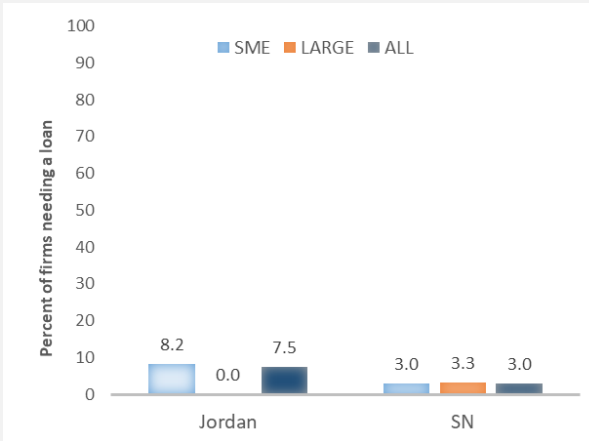
³ Egypt, Tunisia, Morocco, Lebanon, Jordan and Palestine.

focuses on structural features concerning enterprises, especially SMEs. Its objective is to deepen understanding of the challenges and opportunities for private sector firms in running their daily business. The main topics in focus are investments, corporate governance, innovation, exports, climate governance and investments, and access to finance. Following the outbreak of the pandemic, the Enterprise Survey was complemented by a COVID-19 module to monitor its effects.

A high share of Jordanian firms needing a loan are discouraged from applying (49% of SMEs, 59% of large corporates), in line with the averages of Southern Neighborhood. Only a small proportion of firms (7.5%) have had loan applications rejected by banks, (because many do not even attempt to apply). For many companies, especially SMEs, internal finance is the main source of financing. Bank-based financing is limited, with only 14% of SMEs and 28% of large corporates in Jordan having a credit line, and 22% of SMEs having no bank account. Responses of the COVID-19 module revealed that a large majority of Jordanian companies (92%) faced lower liquidity and cash flow availability, while 58% experienced greater restrictions on purchasing on credit. However, only 21% of companies reported having relied on banks to deal with cash flow shortages.

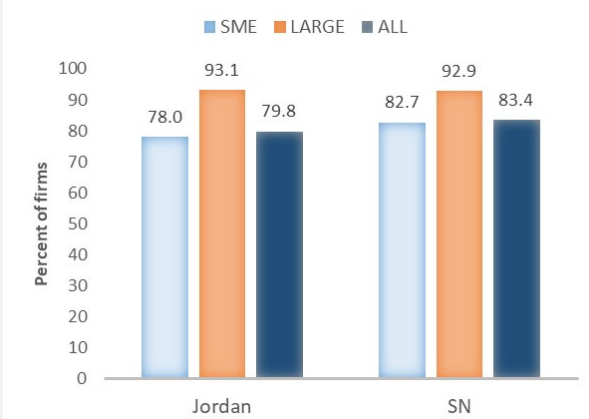
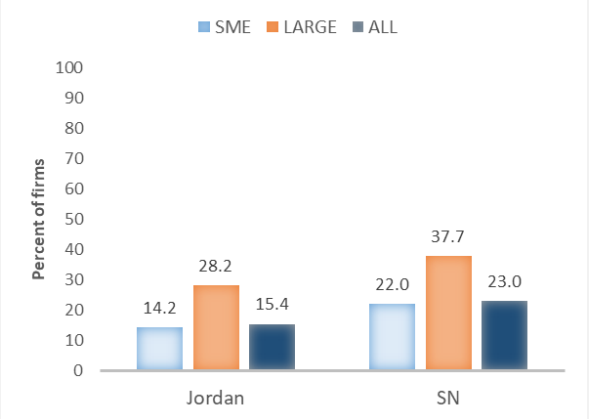
Firms discouraged from applying for loans

Rejected loan applications



Firms with a bank loan or credit line

Firms with a checking and/or savings account



Note: SN refers to Southern Neighbourhood, i.e. Egypt, Tunisia, Morocco, Lebanon, Jordan and Palestine.

Source: Enterprise Survey

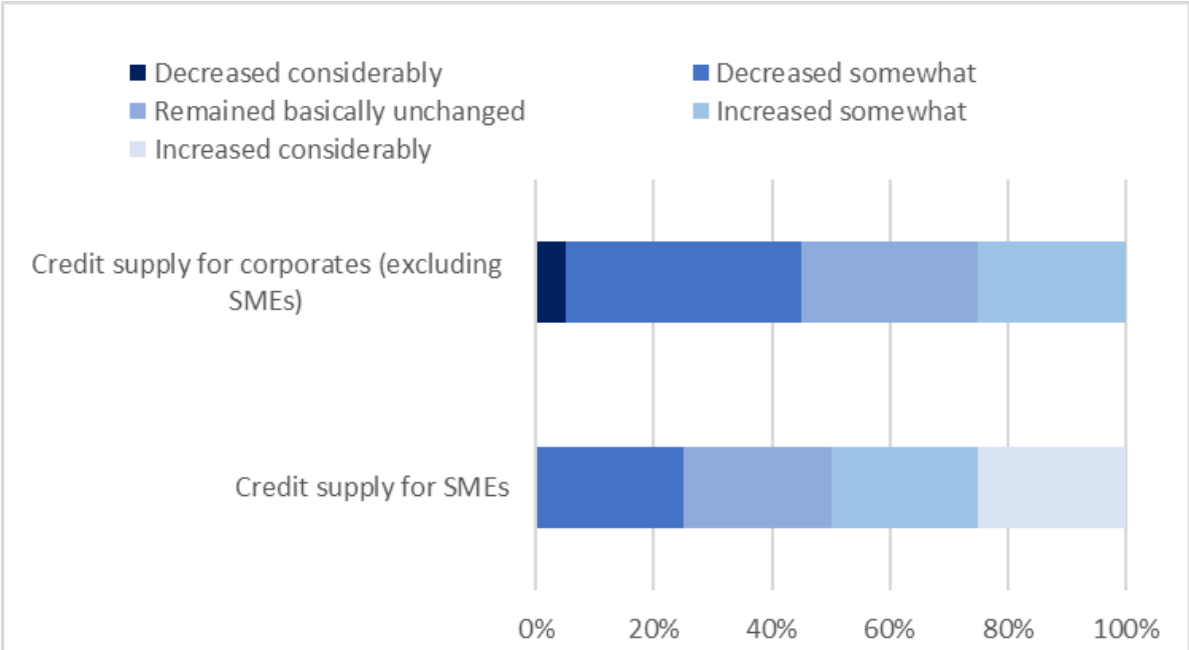
Banking in Jordan: evidence from the EIB Bank Lending Survey

COVID-19 impact

Based on the responses from Jordanian banks⁴ surveyed in spring 2021, the impact of the COVID-19 crisis on credit supply has been contained. As shown in Figure 1, banks' answers were rather balanced in assessing the pandemic's effect on their lending to corporates and SMEs and they did not signal a significant, widespread deterioration in credit supply. Only one bank reported a significant reduction of credit supply, and that was only for corporates. Overall, around two-thirds of respondent banks reported a stable or even increasing supply of credit.

Surprisingly, credit to SMEs has held up better than to larger corporates. The share of banks reporting a decline in credit supply to larger corporates (45%) was almost twice as big as the share reporting lower credit supply to SMEs (25%). Similarly, half of surveyed banks saw credit supply to SMEs increasing, whereas only 25% reported an increase in their lending to corporates. Overall, almost three-quarters of surveyed banks reported stable or increasing credit supply to SMEs, compared to 55% for corporates. An important explanation for these results is that many of the measures put in place by the CBJ were dedicated to SMEs. Other possible reasons include the strong resilience of SMEs and their higher flexibility to the economic difficulties generated by the pandemic.

Figure 1. COVID-19's impact on corporate and SME lending



Question: Please rate the extent to which the COVID-19 pandemic and related spillovers are estimated to affect your bank.

Source: EIB Bank Lending Survey

⁴ Survey results from the 21 respondent banks are weighted equally, rather than by the size of each bank (e.g. by total assets). For each question, the percentages are calculated by the number of banks that provided a response to that particular question.

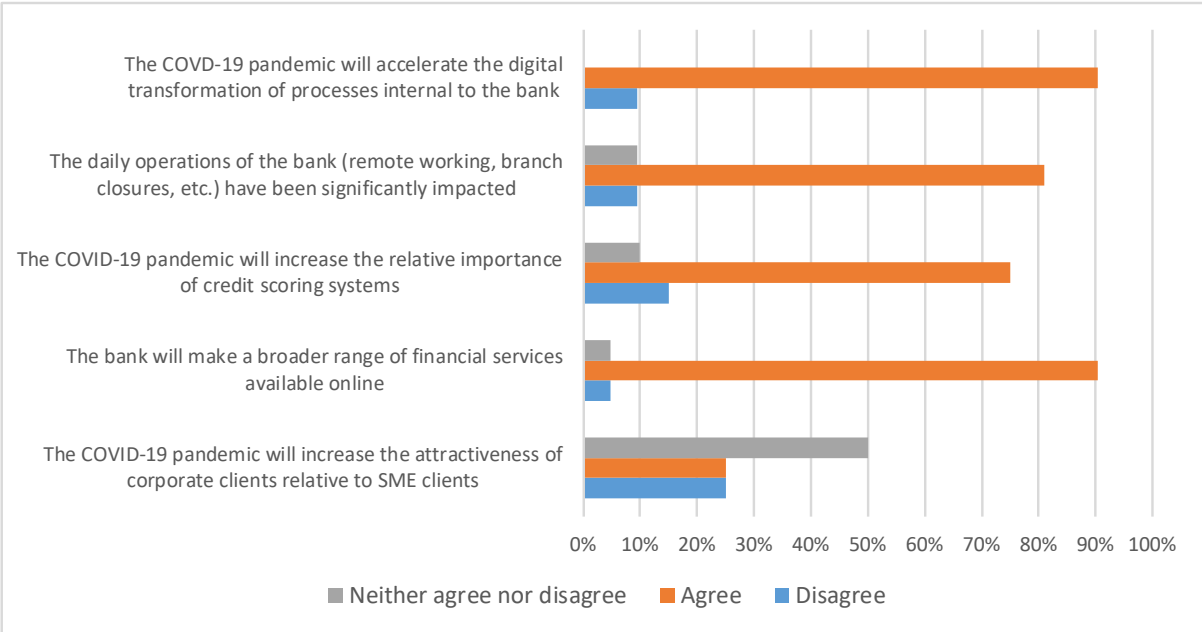
Respondent banks signalled a substantial impact of COVID-19 on the evolution of credit risk management: 71% of banks required more collateral and guarantees, while 57% increased reliance on external credit guarantees. Moreover, 86% of banks noted a deterioration in their clients' financial strength. However, only 30% said that this had affected risk pricing.

COVID-19 has been a game changer for various areas of banking, including operational areas, with a strong push towards greater digitalisation. Regarding the impact of COVID-19 on internal operations, respondents' opinions signal various changes to ways of doing banking:

- 90.5% of respondents (28.6% somewhat, 61.9% strongly) agree that COVID-19 will accelerate the digitalisation of internal processes;
- 80.9% of respondents (33.3% somewhat, 47.6% strongly) agree that banks' daily operations have been impacted;
- 75% of respondents (40% somewhat, 35% strongly) agree that the use of credit scoring tools in appraisal systems will increase;
- 90.5% of respondents (42.9% somewhat, 47.6% strongly) agree that the online offer of banks will be impacted.

However, the majority of respondent banks do not believe that the attractiveness of corporate clients relative to SMEs will increase.

Figure 2 – COVID-19 impact on banks' operations



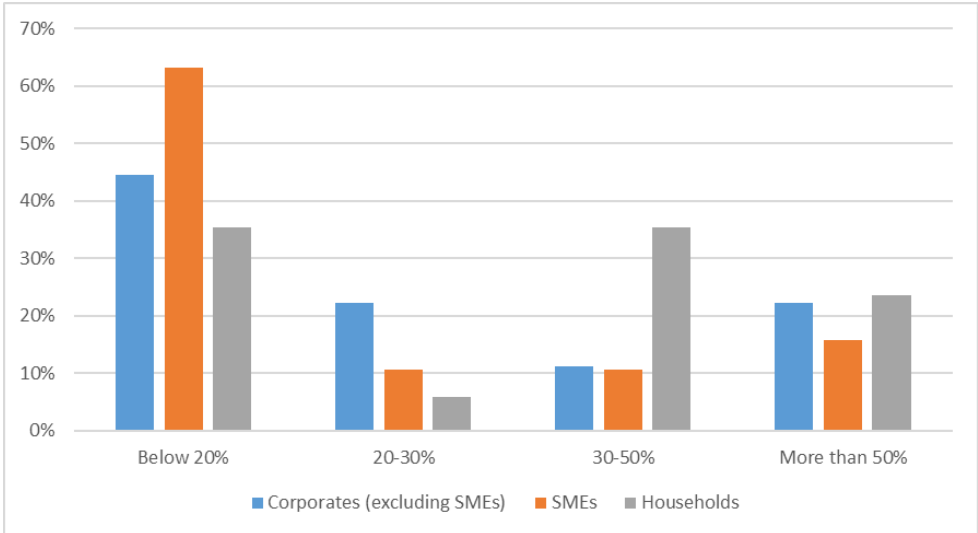
Question: Please rate the extent to which you agree with the following statements. Note: "Agree" combines "Agree somewhat" and "Agree strongly"; "Disagree" combines "Disagree somewhat" and "Disagree strongly."

Source: EIB Bank Lending Survey

Macroeprudential and regulatory measures are generally viewed favourably by all banks, particularly the flexibility on treating non-performing loans. Banks also consider the automatic capital relief already embedded in regulations for crisis times (81%) and public guarantees (65%) as beneficial for their activities. Furthermore, banks welcome the adjustment of risk weights (58.8%) and the introduction of additional and temporary capital relief measures in response to the COVID-19 crisis (47.8%).

Moratoria on outstanding loans were used more for corporate clients than for SMEs: 63% of surveyed banks reported that moratoria amounted to less than 20% of their SME portfolio, compared to 44% for corporates and 35% for households. Having over 50% of any of the three portfolios under moratoria is less common among banks (between 16% and 24% of respondent banks, depending on the segment).

Figure 3. Moratoria in banks' corporate, SME and household portfolios (% of total balance sheet size)



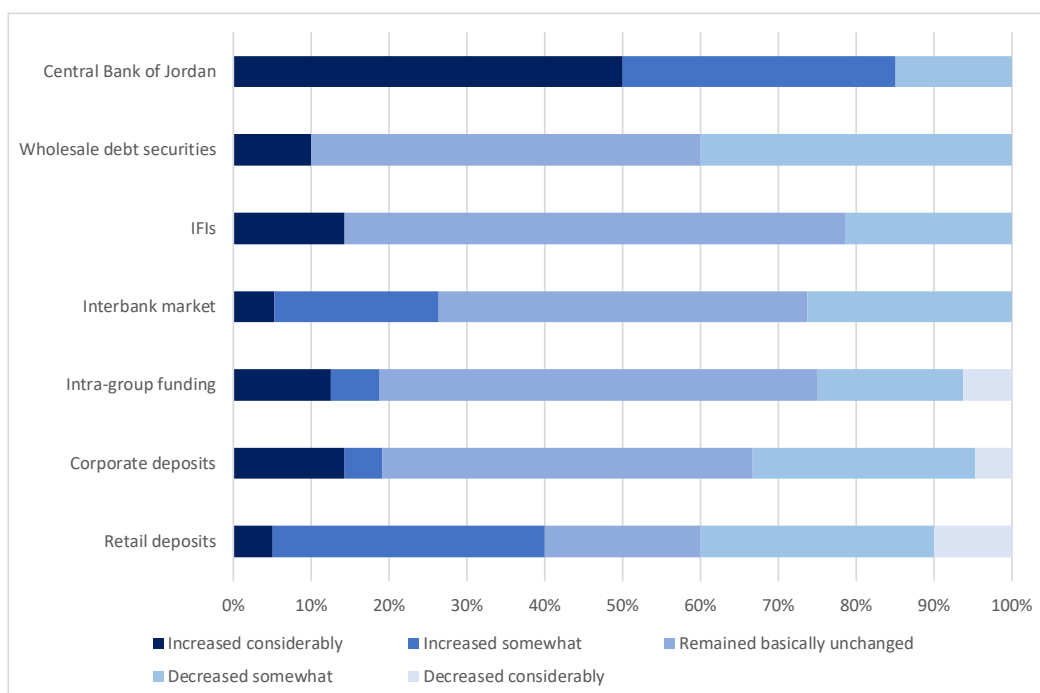
Question: What percentage of your corporate/SME/household portfolio, in terms of total balance sheet size, took up moratoria for their outstanding loans?

Regarding international financial institutions (IFIs), surveyed banks indicate that portfolio guarantees would be the most useful instrument to support the financial sector. 75% of responding banks consider that portfolio guarantees to lower credit risk, followed by technical assistance to facilitate bank transformation (65%) and stronger support with hard currency funding (55%) would be most helpful.

Funding

During the pandemic, the availability of funding has remained largely unchanged or even increased in some instances. This applies particularly to funding from the CBJ, with 80% of banks signalling an increase. Support from the CBJ compensated the decline in other funding sources generally experienced by surveyed banks (retail deposits, corporate deposits, intra-group funding, IFIs and wholesale debt securities). Only three banks reported a sharp drop in funding (“Decreased significantly”): two due to less deposits collected and one due to less intra-group funding from the parent bank. Funding from IFIs, which is significant in Jordan with the presence of numerous players, was not perceived as changing significantly. Firms’ short-term needs were mainly covered by banks due to the CBJ’s intervention, and most respondents benefitted from the relative stability of other funding sources.

Figure 4 – Banks' funding sources

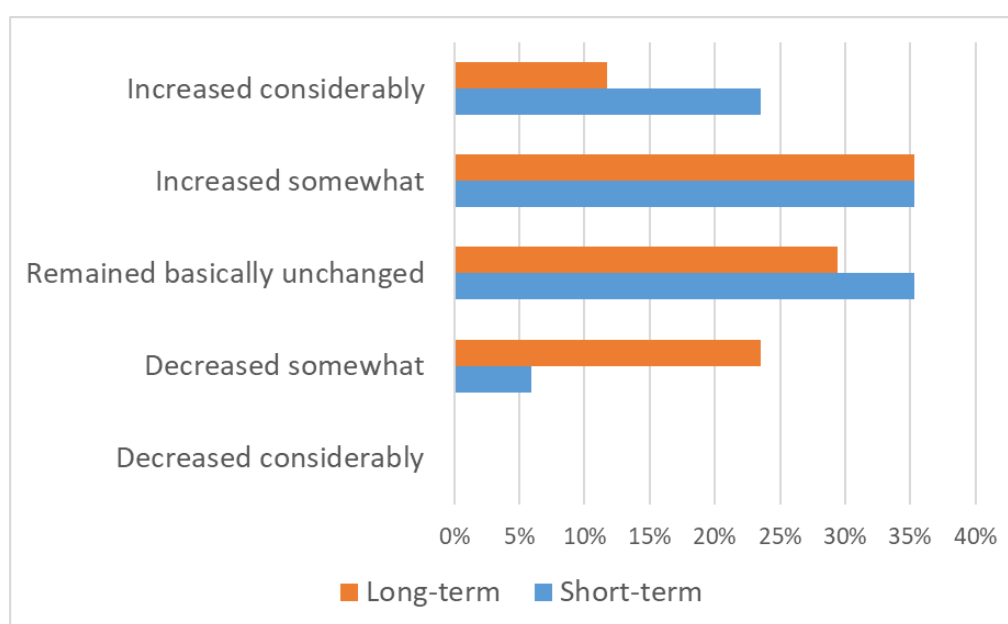


Question: Please rate the extent to which the availability of the following funding sources has changed over the last 12 months.

Source: EIB Bank Lending Survey

The evidence on funding maturities indicates that short-term funding evolved more favourably than long-term funding. Almost 60% of surveyed banks saw an increase in short-term funding, potentially related to the CBJ's support measures. In any case, neither short-term nor long-term funding have decreased considerably, in line with the increase in availability of the different funding sources shown in Figure 4.

Figure 5. Funding maturities

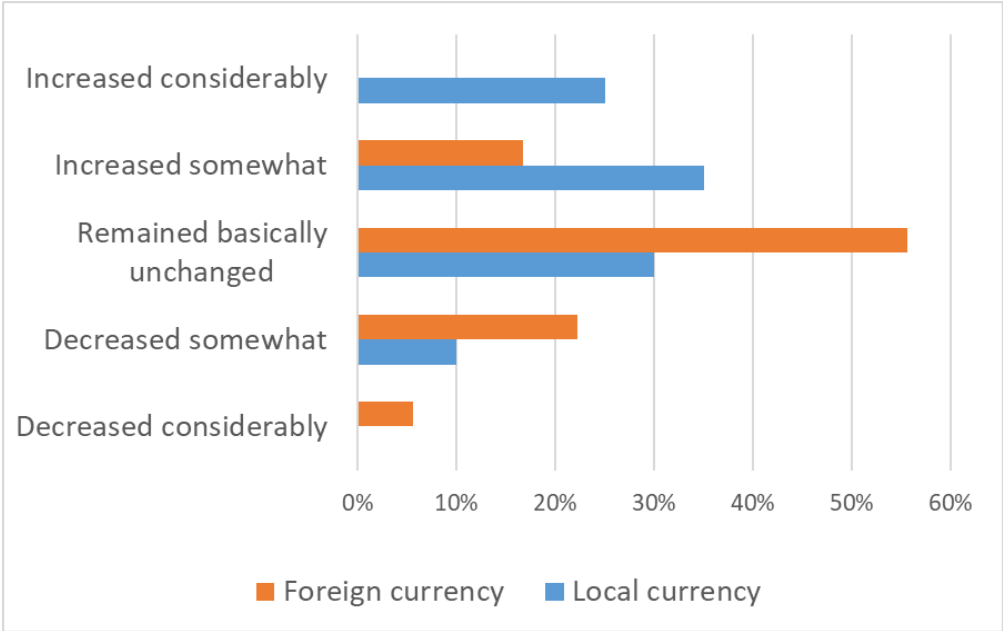


Question: Please rate the extent to which the availability of short-term and long-term funding (of any source) has changed over the last 12 months.

Source: EIB Bank Lending Survey

Regarding funding currencies, local currency funding appears to have become more readily available than foreign currency funding. Again, this is consistent with the higher support provided by the CBJ. For 90% of surveyed banks, local currency funding increased or remained unchanged, compared to 72% for foreign currency.

Figure 6. Local vs. foreign currency funding



Question: Please rate the extent to which the availability of the following sources of funding has changed over the last 12 months

Source: EIB Bank Lending Survey

Corporate lending

All respondent banks are active in corporate lending, and despite the pandemic's effects, their lending volumes and clientele have been increasing on average. The evolution of demand shows that customers' behaviour is evolving. The BLS helps to disentangle some of the credit demand and supply factors affecting Jordanian banks. These factors are not otherwise visible, for instance because total credit growth reflects the concurrent interplay of both demand and supply factors.

Evolution of credit demand from corporates

Credit demand has remained largely unchanged, except for demand for working capital loans and debt restructuring:

- 74% of surveyed banks reported increased demand for working capital loans in local currency, signalling a rise in the need for liquidity for many firms;
- 89% reported increased demand for debt restructuring (with 61% reporting a considerable increase).

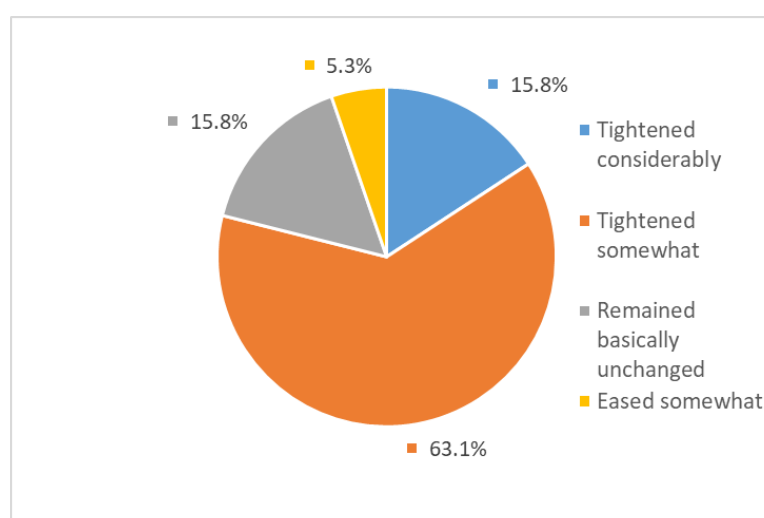
These results illustrate the stress experienced by many firms trying to address their liquidity need via short-term financing and/or debt restructuring.

Evolution of credit supply to corporates

Many banks have responded to their clients' demands, particularly to greater short-term liquidity needs, by increasing lending: 72% of surveyed banks increased their lending (in percentage or volume) compared to the previous year.

However, given the highly uncertain context, banks have taken greater precautions when dealing with corporate customers: 79% of surveyed banks tightened their credit standards (16% "considerably" and 63% "somewhat"). Only 5% reported easing credit standards over the previous 12 months.

Figure 7 – Change in credit standards over the last 12 months

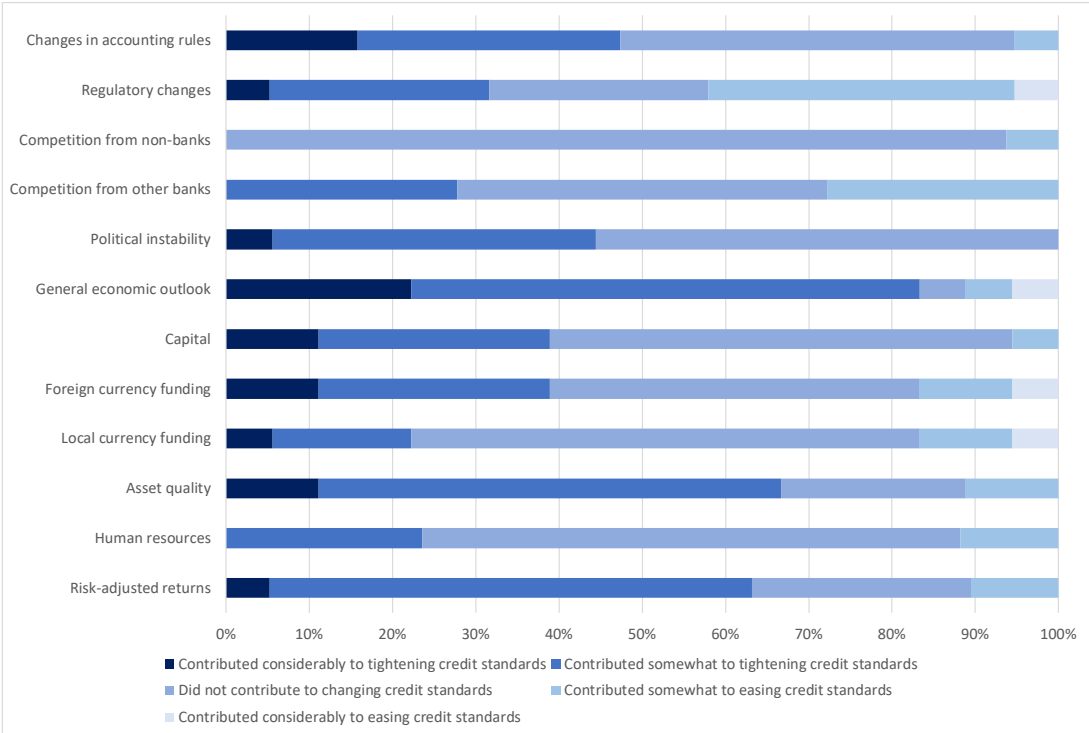


Question Over the last 12 months, how have your bank's credit standards, as applied to loans or credit lines to corporates, changed?

Source: EIB Bank Lending Survey

Uncertainty surrounding the general economic outlook and the expected deterioration in asset quality appear to be the predominant drivers of banks tightening their credit standards. Other prominent contributors include risk-adjusted returns and changes in accounting rules. Conversely, regulatory changes (presumably related to COVID-19 measures) and competition from other banks were the two main factors leading banks to ease credit standards for corporates.

Figure 8. Corporate lending: factors contributing to changes in credit standards



Question: Please rate the extent to which the following factors contributed to changes in credit standards for loans to corporates over the last 12 months.

Source: EIB Bank Lending Survey

Structure and maturity of corporate credit portfolio

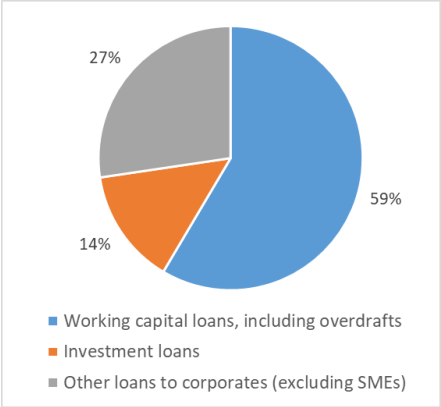


Figure 9. Corporate loans structure

Question: What is the structure of your total corporate (excluding SME) portfolio at the end of financial year 2020?

Source: EIB Bank Lending Survey

The corporate lending portfolio of respondent banks is dominated by working capital financing, averaging 59% of the total (around 7 percentage points higher than for the SME lending portfolio). Investment loans represent 14% of the total, on average.

The average maturity of the portfolio ranges from 12 months to 3 years, with only one bank reporting an average maturity of 5 years. These findings confirm the orientation towards short-term lending, with limited appetite for investments loans. The maximum offered maturity ranges from five to ten years, in line with the more limited interest in long-term investment loans.

Portfolio quality

The deterioration of credit quality among corporate borrowers remained well under control. The maximum reported percentage of corporate loans more than 180 days past due is 12%, while one third of banks report having past due loans close to zero. Two-thirds of surveyed banks have past due loans below 5% of their corporate portfolio, and 31% between 5% and 10%. The distribution of corporate loans more than 180 days past due shows that corporate customers' credit quality is not a main source of concern, despite the challenging macroeconomic outlook. Clearly, moratoria and other measures have been instrumental in relieving banks from a sudden increase in problem loans.

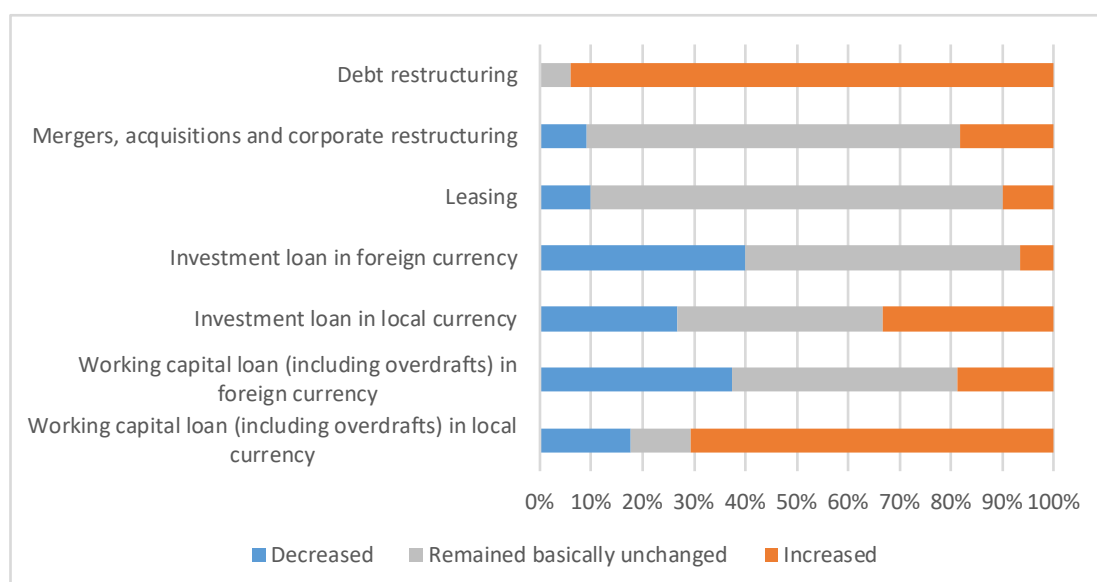
SME lending

Most Jordanian banks offer SME lending and they tend to organise it in two ways, through either a specialised SME department (71% of surveyed banks) or a more general credit department (29%). Only 15% of surveyed banks had no SME lending in place, which may be too small a sample for drawing significant inferences. Reasons cited for not lending to SMEs included the lack of credible financial statements, insufficient projected cash flow, lack of acceptable collateral and lack of capital.

Evolution of credit demand from SMEs

The evolution of SMEs' credit demand resembles that for corporates, with working capital loans in local currency having risen (for 70% of respondent banks) along with debt restructuring (95%). The demand for other loan categories remained basically unchanged. The main factor behind these developments is again the uncertainty of the general economic outlook, which explained 70% of answers.

Figure 10. SME loans structure



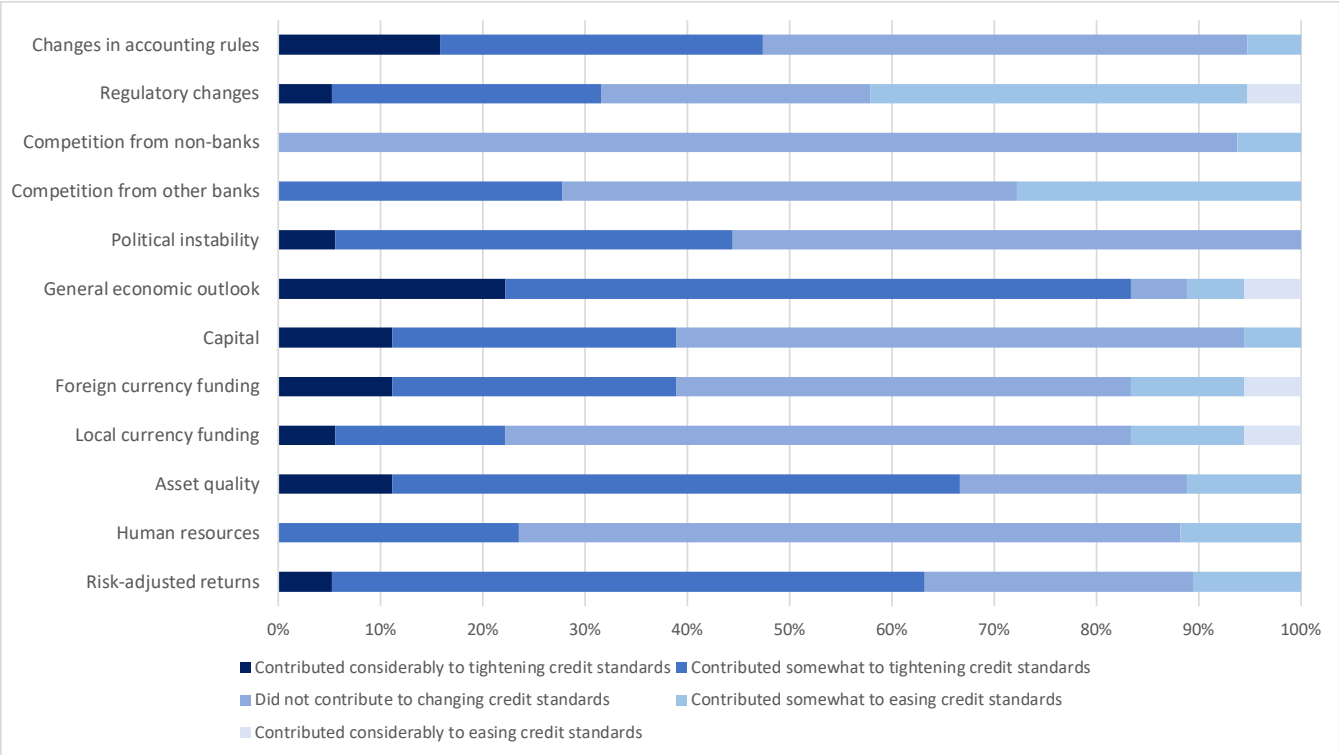
Question: Please rate the extent to which demand from SMEs has changed over the last 12 months.

Source: EIB Bank Lending Survey

Evolution of credit supply to SMEs

The majority of surveyed banks tightened credit standards for SME (59%), albeit to a less extent than for corporates (79%). Respondents cited risk-adjusted returns, asset quality and the general economic outlook as key factors behind this tightening. Conversely, regulatory changes, competition from other banks and the availability of local currency funding contributed to banks easing credit standards for SMEs.

Figure 11. SME lending: factors contributing to changes in credit standards

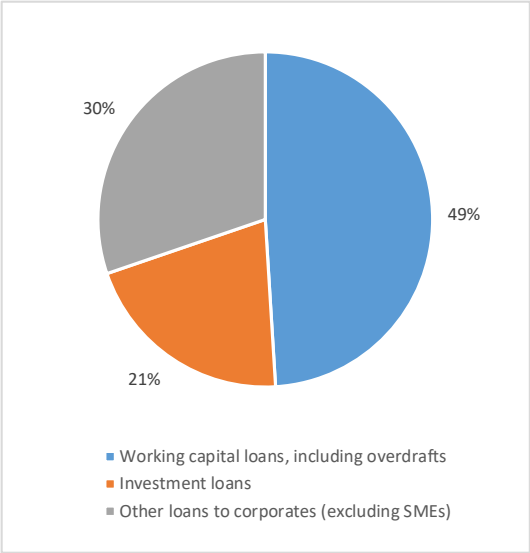


Question: Please rate the extent to which the following factors have contributed to changes in credit standards for loans to SMEs over the last 12 months. Source: EIB Bank Lending Survey

SME clients remain generally attractive for banks, but some SME characteristics drove banks to reject applications, including insufficient projected cash flow (which 100% of survey banks indicated as a cause to reject applications at times), lack of capital (87.5%) and poor credit history (87.5%). Incomplete loan applications and lack of acceptable collateral are reported as less relevant. For non-client SMEs to become clients, the key problems reported by respondent banks are these SMEs’ informal and unregistered status (52.9%) and their poor credit history (64.7%).

Structure and maturity of SME credit portfolio

The structure of the SME portfolio does not significantly differ from that of the corporate portfolio. However, working capital loans, including overdrafts, account for a somewhat smaller total share (49% for SME vs. 59% for corporates). Investment loans are proportionally more important for SMEs (21% vs. 14% for corporates).



The distribution of maturities for SME lending—ranging between 12 and 36 months—is shorter than for corporate lending.

Conversely, the maximum maturity is between five and ten years, which is similar to corporate portfolios.

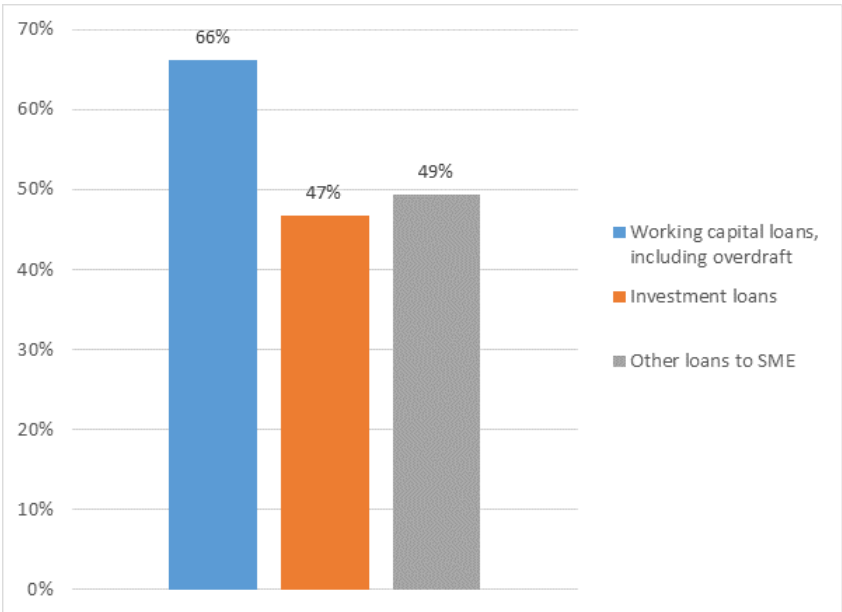
A small proportion of SME loans are denominated in foreign currencies, mainly for working capital loans (including overdrafts) and other loans.

Figure 12. SME loans structure

Source: EIB Bank Lending Survey

Working capital loans generally have higher collateral coverage, with 66% of the total loan portfolio collateralised, on average. For investment loans, 37.5% of surveyed banks reported that they did not request collateral, whereas 43.8% requested collateral for above 70% of the value of their loans.

Figure 13. Average portfolio protection by collateral



Question: What percentages of your SME loans are secured by collateral?

Source: EIB Bank Lending Survey

Among assets such as (real estate, machineries, inventories, personal assets, patents), real estate is used very frequently as collateral by banks, while patents almost never. Personal assets are also used more frequently than machinery/equipment and inventories (possibly due to the fact that the publicly accessible electronic registry for moveable assets has been established in 2018). The majority of banks reported needing more than one year to enforce collateral. Some banks mentioned use of the courts to settle claims, with 35% of surveyed banks using this mechanism for over 50% of claims.

Portfolio quality

SME portfolio quality is lower than for corporates and more heterogeneous across banks. Nonetheless, credit quality remained under control for SMEs too during 2020. The share of loans more than 180 days past due is much larger for SMEs than for corporates. Regarding SMEs, 40% of surveyed banks have an overdue loans ratio below 5%, while the rest have ratios mainly between 5% and 15%. The high share of problem loans has been mitigated by the availability of collateral and credit guarantees.

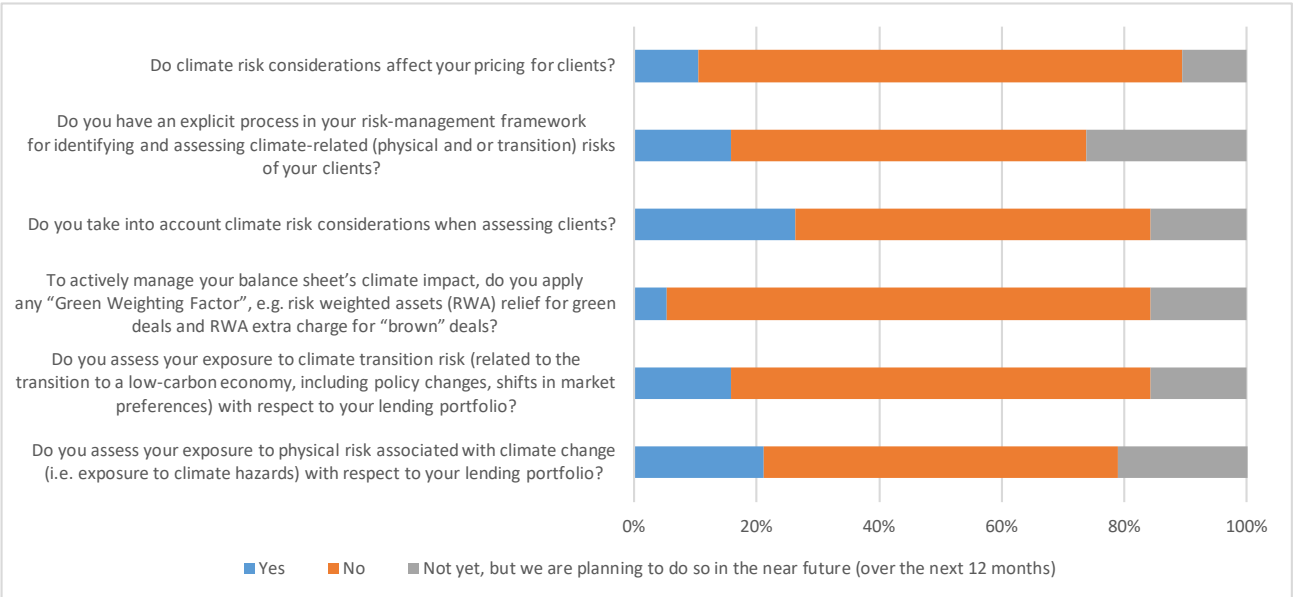
Climate risk

Climate risk is not a concern for over two-thirds of respondent banks. Only 32% view climate risk as relevant to their lending portfolio exposure. Just above 20% of banks take into account climate risk when assessing clients and assess their own physical risk exposure. However, almost 60% of banks:

- have no explicit process in their risk management framework to assess clients' climate risk;
- do not consider climate risk when assessing clients;
- do not assess their portfolio exposure to climate risk.

Around 20% of banks are planning to implement some of these measures during the next 12 months, especially the incorporation of climate risk into risk management frameworks. Half of respondents do not expect climate risk considerations to be explicitly included in the regulatory framework.

Figure 14. Climate change risk management

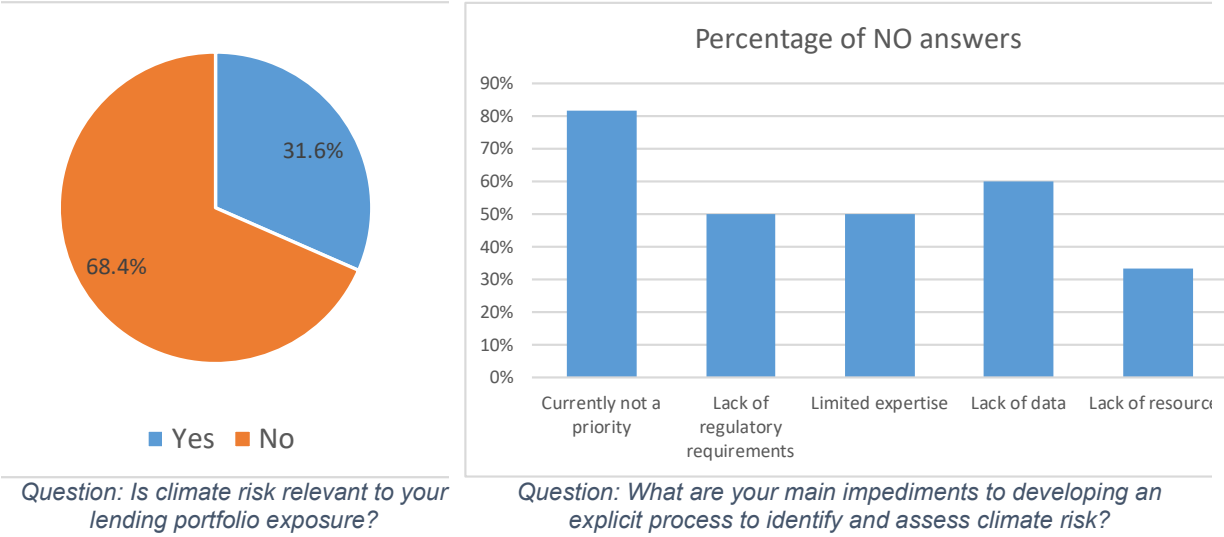


Source: EIB Bank Lending Survey

For banks that perceive climate risk as relevant, the client's sector and size are the main criteria considered to identify firms more exposed to climate risk.⁵ The most popular instruments applied to manage climate risk are client's rating (by the bank, 66.7% of respondents) and requesting guarantees from clients (50%). Conversely, pricing, loan maturity and incentives for green projects are applied less frequently or not at all.

Banks uninterested in considering climate risk mostly state that climate risk is not a priority (80%). For the others, main impediments to developing an explicit process for identifying and assessing climate risk are the lack of regulatory requirements (50%), limited expertise (50%), lack of data (60%) and lack of resources (33%).

Figure 15. Relevance of climate risk (left) and impediments to tackling climate risk (right)



Source: EIB Bank Lending Survey

⁵ Respondents answered the following question: “In case you evaluate climate risk only for some categories of clients—not for the entire portfolio—which criteria do you apply to select the clients to be evaluated?”

Concluding remarks

Responses from the 21 banks that participated in the BLS in spring 2021 help to deepen understanding of the Jordanian banking sector. Specifically, the survey's insights disentangle some of the credit demand and supply factors affecting Jordan's banks, while also elucidating other dynamics such as the impact of COVID-19 and the challenges generated by climate risk and digitalisation.

COVID-19 has significantly affected the Jordanian economy, but the banking sector has remained protected and banks have reacted prudently and wisely to the situation. Internally, banks are improving and digitalising their internal processes and their product offer; externally, they are leveraging the measures introduced by regulatory authorities and support from IFIs.

A credit crunch was avoided: credit supply did not drop, while credit demand remained stable, sustained by companies' higher liquidity needs (with increased demand for working capital and debt restructuring). The measures put in place by regulatory authorities were key to preserving the regular flow of credit and maintaining the quality of lending portfolios. The CBJ played a direct role by providing funding and boosting liquidity available for banks, and an indirect role via regulatory measures that have alleviated stress on borrowers (principally moratoria and loan rescheduling). Overall, credit quality remained healthy and the NPL ratio did not surpass 5.5%.

The pandemic also pushed banks towards transforming their operational processes, thus accelerating the digital transformation. Finally, Jordanian banks' awareness and management of climate risk appear to need substantial improvement. Climate risk is not yet a concern for more than two-thirds of surveyed banks, most of which do not consider it a priority. This prevailing attitude is explained by the lack of data and resources, lack of regulatory requirements and limited expertise.

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