



THE HASHEMITE KINGDOM OF JORDAN

Ministry of Finance

Budget Speech 2008

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In the Name of Allah, the Beneficent, the Merciful

"My Lord, make this a City of Peace, and bless its people with fruits" (Baqara: 126)

Your Excellency Mr. Speaker,

Honorable Deputies,

I am pleased at the outset of my speech to extend to Your Excellency Mr. Speaker and to all Honorable Deputies my sincere congratulations on the occasion of blessed holidays, and on gaining the trust of the Jordanian people , which will allow you to fully participate in building our precious country under the guidance of His Majesty King Abdullah II.

I am also pleased to express on this occasion the government's appreciation of your esteemed Assembly, and the government's commitment to build a genuine partnership with you for the purpose of mutually achieving the best for Jordan's present and future.

Your Excellency Mr. Speaker,

Honorable Deputies,

The General Budget Draft Law for the year 2008 embodies our national priorities, which have been translated into development policies, programs and projects agreed upon in both the National Agenda and the “We Are All Jordan”. The Law ultimately aims at strengthening the Kingdom's fiscal and monetary stability as well as enabling our national economy to achieve high growth rates that reflect positively on the lives of citizens all around the Kingdom.

I am sure that all of you realize the great challenges facing our economy, of which the most important are the rise in poverty and unemployment rates, the chronic twin deficit in the general budget and the current account of the balance of payments, in addition to the debt burden, the increase in international prices of commodities, the low productivity level, and the decline in the global competitiveness of our economy according to several international indicators.

These and other challenges necessitate more joint effort and diligence in order to address such difficulties. The government is confident that it

will succeed in this mission in collaboration with your esteemed Assembly and all institutions of the civil society and the private sector.

As you are well aware, our national achievements and accomplishments over the past years have been great, notwithstanding the scarcity of available resources. These achievements are cumulative, and we are keen to build on them and ensure their sustainability through pursuing reforms in steady steps. Sustained reform is the right approach that enables us to face our evolving challenges, and to achieve our national objectives.

Your Excellency Mr. Speaker,

Esteemed Members of Parliament,

The government believes that the basic pillar of a viable economic and fiscal reform is reflected in having a healthy budget that is free of distortions, reflects the principle of self-reliance , and meets the needs of citizens and the welfare of future generations.

The healthy budget is thus based on realizing efficient utilization of resources as well as ensuring equity, equal opportunity and fair distribution of development gains. This is in addition to enhancing the

quality of basic public services in order to provide an attractive investment environment and an effective social safety net for all segments of the population, especially the poor and the limited-income segment.

Your Excellency Mr. Speaker,

Honorable Deputies,

The poor and limited-income citizens deserve priority in providing public support, but the current subsidizing mechanism, oriented towards subsidizing commodities, constitutes a clear distortion in the General Budget. This mechanism is not fair, and currently constitutes a threat to fiscal and monetary stability. Indeed, the largest part of the present subsidy works for the benefit of the rich and the non-Jordanians, whereas the poor and limited-income citizens receive only a small portion of the government subsidy provided.

Therefore, the government believes that changing the subsidizing mechanism through targeting the deserving citizen has become one of the most urgent priorities.

Your Excellency Mr. Speaker,

Honorable Deputies,

- Our economic progress in 2007, especially during the second half of the year, has faced heavy pressures arising from soaring international prices of imported goods, especially oil and cereals. The prices of these two vital commodities reached unprecedented levels, which obligated the government to issue a second supplement for the General Budget in September 2007, constituting an amount of JD 500 million.
- This was in addition to the first budget supplement of JD 78 million, issued in April 2007 to cover the increase in the salaries of public employees and pensioners in both the civil and military service.
- With the sustained increase in international oil prices, the Treasury was subject to an additional burden as a result of fuel subsidies. This burden amounted to JD 80 million over and above the appropriations allocated for this purpose in the second supplement of the Budget Law.
- Making the situation even more difficult, foreign grants decreased by an amount of JD 228 million below their estimated level in the 2007 General Budget Law.

Your Excellency Mr. Speaker,

Honorable Deputies,

- These extra burdens would have increased the budget deficit for 2007 from JD 310 million targeted in the *original* Budget Law to a level of JD 1076 million.
- However, re-estimated figures for the budget deficit indicate that 2007 deficit shall not exceed JD 616 million, or 5.4% of Gross Domestic Product (GDP).
- This decrease in the fiscal deficit is due to a rise in domestic revenues resulting from improvements in collection efficiency, on the one hand, and more effective control of public expenditures, on the other.
- As for government debt, outstanding public debt declined as a percent of GDP to reach 71.6% at the end of November 2007, compared to 73.5% at the end of 2006.
- Concerning the national privatization program, the electricity generation and distribution companies as well as Irbid District Electricity Company have been privatized during 2007, in addition to the Royal Jordanian.
- The government has been keen to execute the Royal directions ordering the allocation of a part of proceeds of certain privatized

companies to the benefit of employees and pensioners of the armed forces and security departments.

- Regarding foreign trade developments, domestic exports recorded a growth of 10.7% during the first ten months of 2007 compared to 14% in the year 2006, whereas imports increased by 14% for the same period, compared to 10% in 2006.
- As a result, the trade balance deficit increased to reach JD 4,377 million during the first ten months of 2007 against JD 3,754 million over the corresponding period of 2006.
- Concerning foreign reserves at the Central Bank of Jordan (CBJ), they increased from US\$ 6,102 million at the end of 2006 to reach US\$ 6,974 million this month, covering approximately six months of the Kingdom's imports.
- The inflation rate during the first eleven months of 2007 reached 5.4%, against 6.3% in 2006.
- Regarding the unemployment rate, it recorded 14.3% at the end of the third quarter of 2007, compared to 13.9% in the year 2006.
- As a result of all the aforementioned developments, real GDP recorded a growth of 5.8% during the first half of 2007, compared to 6.3% in 2006.

Your Excellency Mr. Speaker,

Honorable Deputies,

Regarding the General Budget Draft Law for 2008, I would like to mention that this Draft has been prepared according to the Result-Oriented Budgeting (ROB) concept within an approved Medium-term Fiscal Framework (MTFF). Hence, this Draft is characterized by including specific indicators for measuring the performance of government ministries and departments, with a view to enhancing the efficiency of public expenditures, and ensuring that such expenditures achieve the intended objectives.

Furthermore, in response to the recommendation of the Economic and Financial Committee of your esteemed Assembly, the Ministry of Finance started allocating appropriations for development projects within the budgets of the ministries that are responsible for executing these projects. This allocation is conducted in two phases ending in the year 2009, with a view to reaching an integrated and transparent budget that avoids duplication and overlapping in the work of ministries.

Finally, the government was keen during the preparation process of this Draft Law to involve all ministries and departments, both in the center

and the governorates, in identifying budget priorities that reflect our national priorities in all spheres, particularly the economic and social sectors. Against this background, the most important priorities of the 2008 Budget Law are stated below:

First: Improving living standards of citizens

In consistency with the Royal directions, re-emphasized by His Majesty in the Speech from the Throne, to achieve a noticeable improvement in the living conditions of Jordanian citizens, the government is devoted to adopt a comprehensive and equitable Social Safety Net (SSN) that targets support to needy citizens.

The government's objective from adopting this SSN package, estimated at JD 301 million annually, is to raise living standards of needy segments in a manner that exceeds and compensates for the negative impact on these segments resulting from subsidy removal for certain commodities.

The following is an overview of the main features of SSN:

1. Linking the basic salary of employees in both the civil and military service as well as in municipalities with the inflation rate, in addition to providing an extra allowance to improve the employees' living conditions and compensate them for the repercussions of

price increases. The total increase in employees' salary will depend on salary level: employees who earn *below* JD 300 monthly will be given a *higher* increase than those with salaries exceeding this level.

2. Providing the civil and military pensioners an increase in their pension salaries equivalent to the inflation rate, in addition to providing a further allowance to improve the pensioners' living standards and compensate them for the repercussions of price increases. Similar to the case of employees, pensioners who receive *below* JD 300 monthly will be given a *higher* increase than those who get pension salary exceeding this limit.
3. Increasing the monthly cash assistance provided for the needy citizen benefiting from the National Aid Fund (NAF) by JD 10.
4. Adjusting the salary rankings of public employees in official universities, whether working in academic or administrative positions, to assist in improving their standard of living .
5. Approving a new salary scheme for civil and religious judges, as well as employees of the Al-Iftaa Department, with the aim of improving their living conditions.

6. Placing personnel working under Da'wa Fund at the Ministry of Awqaf within the Civil Service Statute. Such a measure will ensure that the increase in the monthly salary of those employees will be comparable to the increase received by other personnel under the Civil Service Statute.
7. Providing direct cash subsidies for citizens who are not either employees or pensioners under the civil or military service, and whose individual share of the household income is less than JD 1000 annually, in addition to including these citizens in the health insurance umbrella, in order to enable them to face the 2008 price increase.
8. The government will conduct a constructive dialogue with various organizations of the private sector to encourage them to follow the public sector, and increase the salaries in private sector firms in order to ensure the comprehensiveness of the SSN at the national level.
9. Providing a cash subsidy for herd raisers who own 300 head or less. The aim of this subsidy, amounting to JD 10 per head, is to

protect small livestock breeders against the increase in fodder prices.

In this regard, the government will encourage the citizens to cultivate barley and wheat through its commitment to buy the domestic production of these two crops at prices higher than international price levels, and will disseminate this decision through the media.

- The government will also designate lands owned by the Treasury in all governorates for the purpose of planting wheat and barley.
- In addition, a special fund will be established to finance the agriculture of wheat and barley with the aim of encouraging the domestic production of these crops. The fund will be supported through a once-only amount of JD 40 million, distributed equally between 2008 and 2009.

10. Maintaining electricity tariffs for small consumers and prices of bread at their current levels.

11. The government has been keen to ensure that the 2008 public budget covers the social safety cornerstone in its broader concept. The budget will allocate approximately JD 380 million to provide support for basic food items, the National Aid Fund, and medical

treatments for the non-insured, in addition to poverty combating programs, productive projects, school nutrition and supporting those with special needs.

Second: Improving the investment environment

As you know Honorable Deputies, the general budget law reflects the government's economic and social program. Therefore, the 2008 Budget Draft Law focuses greatly on ensuring a favorable investment environment that promotes both domestic and foreign investments conducive to sustainable economic growth. This is done through providing investment incentives, removing investment impediments, and building the infrastructure necessary for encouraging the private sector to invest in all governorates of the Kingdom, especially in the development zones launched recently in Mafraq, Irbid and Ma'an.

The government expects that the draft Law on Development Zones, presented to your esteemed Assembly, will effectively contribute to promoting private sector projects in these zones as well as in other prospective areas.

Furthermore, the government will, in cooperation with the Parliament, implement a package of tax reforms based on realizing equity, efficiency, and effectiveness besides simplifying tax procedures, in

order to increase national savings and create an attractive environment for domestic and foreign investment, which is the main driver for combating unemployment and poverty.

Third: Housing sector

In light of the Royal directions to make the year 2008 a Housing Year, the 2008 Budget Draft Law includes appropriations to support large housing projects with a total value of nearly JD 86 million. The beneficiaries of these projects are: government employees, public teachers, employees and pensioners of armed forces and security departments as well as poor families. This governmental support constitutes an integral part of a medium-term plan to alleviate the burden on the citizens arising from the rise in real estate prices.

Within this plan, the government will assign a part of treasury lands to lower the cost of owning a home in all governorates of the Kingdom.

Fourth: Human resources development

Investment in Jordanian human capital and in education and training represents a key pillar for successful reform and the modernization effort. Based on this vision, the 2008 Budget Draft Law allocates JD 581 million for general education, higher education and vocational

training. The ultimate objective is to provide an educational and training environment that supports robust economic growth through enhancing the productivity of Jordanian human resources.

Fifth: Health care

Promoting the health of citizens and providing medical services of the required quality and efficiency are considered among the most significant components of the government's work program for 2008. Therefore, the Budget Draft Law for 2008 includes increased appropriations for the health sector to reach JD 513 million, compared to JD 447 million in 2007.

Sixth: Water security and energy supply security

Achieving sustainable development depends significantly on our economy's capability to provide the necessary quantity and quality of different energy and water resources for all productive sectors of the economy.

Therefore, the 2008 Budget Draft Law places great attention to infrastructure projects in energy and water sectors. About JD 158 million will be allocated to implement many large projects, such as: the Disi Water Conveyance Project; building a number of dams; sewerage projects; natural gas distribution networks; and renewable energy

projects, in addition to implementing a national strategy for ensuring an adequate reserve of different energy resources to realize our economic and national security in its broader concept.

Seventh: National security

The government recognizes that maintaining and enhancing the capabilities and readiness of the Jordanian armed forces and security departments and improving the living conditions of their members are regarded as a basic cornerstone for meeting the evolving challenges and promoting Jordan's investment and competitiveness position. Therefore, the general budget focused its attention on our brave armed forces and vigilant security bodies, which enables Jordan to sustain, protect and develop its national accomplishments.

Your Excellency Mr. Speaker,

Honorable Deputies,

The Budget Draft Law for 2008 is founded on a number of key assumptions , most notably:

- The domestic economy will pursue its real growth momentum of about 6%, which exceeds population growth.

- The inflation rate is projected to rise to 8-9% due to various reasons, most notably are world inflation and eliminating the government subsidy on certain commodities.
- In order to alleviate the negative impact of rising inflation on the competitiveness of our economy and on living standards, monetary policy will be conducted to maintain a proper level of domestic liquidity, which enables the national economy to achieve the targeted real growth rates within a relatively stable price environment.
- The current account deficit is expected to reach about 14% of GDP, affected by the projected growth in domestic exports of 12% and in imports by 14%.
- An increase in fixed capital formation to reach 31% of GDP.
- A decline in outstanding external debt outstanding by 13 percentage points of GDP, as a result of executing a debt buyback agreement with Paris Club countries, concluding further debt swap agreements, and ensuring that external borrowing is limited to key national priorities.
- The Central Bank will maintain a comfortable level of foreign currency reserves essential for monetary and fiscal stability in the Kingdom.

Your Excellency Mr. Speaker,

Esteemed Members of Parliament,

Based on the above projections and priorities, and in line with the government's reform process, allow me to present the main features of the General Budget Draft Law for 2008:

First: Revenues:

Domestic revenues are estimated at about JD 4,061 million, exceeding their re-estimated level for 2007 by 11.5%, to stand at 31.7% of 2008 nominal GDP.

It is worth mentioning in this regard that the expected rise in domestic revenues in 2008 is basically due to the projected growth in economic activity as well as to expected further improvement in collection efficiency, and not to planned increases in tax rates.

Foreign grants are expected to reach JD 440 million against JD 346 million re-estimated for 2007.

On this occasion, allow me to express my deep appreciation for brotherly and friendly countries for their continuous support for the

Kingdom, most notably Saudi Arabia, USA, the EU countries and Japan.

Accordingly, total revenues are estimated at JD 4,501 million, reflecting an increase of JD 512 million, or 12.8% above their re-estimated level in 2007.

Second: Expenditures:

Current expenditures are estimated at JD 4,101 million, representing an increase of 8.8% above their 2007 re-estimated figures. Current expenditures represent around 31.9% of GDP in 2008, which is less than their level in 2007, which amounted to 33.2%.

Capital expenditures are estimated at JD 1,124 million, representing an increase of JD 288 million or 34.4% above the 2007 level. These expenditures represent around 8.8% of GDP for 2008, in comparison with 7.4% in 2007.

This rise in capital expenditures is driven by the need to finance various capital projects in different governorates of the Kingdom, with a view to meeting the basic needs of citizens, and to provide a friendly environment for private investments across the Kingdom.

As a result, public expenditures (current *plus* capital) in the 2008 Budget Draft are estimated at JD 5,225 million, reflecting an increase of 13.4% over the re-estimated level for 2007. Despite this increase, estimated public expenditures as a percent of GDP maintain their 2007 levels of 40.7%.

Third: Budget deficit:

The fiscal deficit after grants for the 2008 Budget Draft Law is estimated at JD 724 million or 5.6% of GDP, against JD 616 million or 5.4% of GDP in 2007 re-estimated figures. In the medium term, the budget deficit is projected to fall to 4.8% of GDP in 2009 and to fall further to 3.9% of GDP in 2010.

Regarding the budget deficit excluding external grants, it is estimated at JD 1,164 million or 9.1% of GDP, compared to JD 962 million or 8.5% of GDP in 2007. This deficit is envisaged to decline to 7.3% of GDP in 2009 and then to 6.2% in 2010.

Despite the increased deficit in the 2008 Budget Draft, imposed by the aforementioned exceptional conditions, the coverage of domestic revenues to current expenditures has improved, reaching about 99% in 2008. It is worth mentioning that under Jordan's Medium-term Fiscal

Framework (MTFF), this coverage ratio is projected to reach 103% in 2009 and 106% in 2010, against just 91% in 2007.

Your Excellency Mr. Speaker,

Honorable Deputies,

To conclude, these are the main features of the Budget Draft Law for 2008, and we are confident that it will contribute *Insha Allah* in enhancing self-reliance as well as achieving better spending efficiency, effectiveness of revenue collection, and fairness in distributing development gains to various governorates.

While the government is aware that the year 2008 poses multiple challenges, it believes that meeting such challenges is a joint responsibility that requires firm and appropriate decisions. Our mutual obligation is to protect our national achievements and accomplishments, preserve our economic and social security, provide sufficient protection for citizens and ensure a better future for later generations.

We pray to Allah Almighty to help us bearing the responsibility of our decisions, and to guide us in our endeavors to realize the prosperity of

our country, and to maintain Jordan as a resilient and the model country, as visualized by His Majesty King Abdullah II.

"And say: do deeds! Allah will surely observe your deeds, and His Messenger, and the believers " (Al-Tawba: 105).

May Peace and Mercy of Allah be upon You,,

Amman, December 24, 2007

Dr. Hamed Kasasbeh

Minister of Finance