In the Name of Allah, the Beneficent, the Merciful

Your Excellency Mr. Speaker,

Honorable Deputies,

On behalf of the government, I am honored to present to your esteemed Assembly the draft General Budget Law and Government Units' Budgets Law for 2012 pursuant to the constitutional amendments recently approved. The presentation of these budgets came coincident with the unprecedented situation of the world economy and regional economy as well as with the unparalleled state of tension and uncertainty in the Arab region.

Naturally, this situation has been reflected on the performance of the Jordanian economy and hence on the performance of the public finance. The sovereign debt crisis in the European countries -which forced the adoption of stringent austerity plans in these countries- is still evolving, and might result in a sharper slowdown in growth in the European countries with possible implications on the performance of the Jordanian economy.

This requires an urgent priority to ensure that the fundamentals of our national economy are in place, and ready to meet any unfavorable developments or surprises in the global and regional economy. Of great importance, this necessitates the correction of the fiscal path for both the general budget and budgets of independent units as well as the preservation of our foreign exchange reserves to ensure the stability of the exchange rate of the Jordanian dinar. This can be achieved through restoring growth rates realized before the start of the global economic and financial crisis in 2008, and through the adoption of a realistic program of fiscal reform covering revenues, expenditures, budget financing options, and debt containment. I will elaborate on these issues later.

Your Excellency Mr. Speaker,

Honorable Deputies,

The real growth rates of the Jordanian economy, and hence gross income growth, reached an average of 6.5% for the period 2001-2009. This high growth came as a result of the policies of liberating the national economy, openness to global economy, and attracting private sector investments, both domestic and international. This was accompanied by reorienting the role of the government to the regulatory functions, including combating monopoly; protecting the consumer from price exaggeration; safeguarding the environment; preserving national security and public money; and intervening in the market mechanism when the market fails in correcting imbalances in various sectors.

If certain errors have occurred during this phase of solid growth -some of which is already clear- and if certain consequences followed -some of which are undesirable or unintended like injustice in the distribution of growth gains- then we should treat these errors and undesired consequences with wisdom and responsibility. Indeed, public activism witnessed by many regions of the world, including our Arab region, reflects discomfort and the feeling that the outcome of the economic system needs reform, and the financial and banking system requires commitment to integrity and good governance.

Several factors have doubled the size of national challenges since early 2011, namely: the recurrent rise in the world commodity prices, particularly energy and food items; the irregular supply of natural gas from Egypt; the unexpected slowdown in the recovery of world economy; and the repercussions of the sovereign debt crisis in the Euro area. Further, the political events witnessed by certain Arab countries have added negative impacts on the Kingdom's rate of economic activity, particularly in tourism, workers' remittances and investment inflows.

Economic Growth

As a result of all events and developments previously mentioned, real growth in Gross Domestic Product (GDP) fell from 7.2% in 2008 to 2.3% in 2010. It is expected that 2011 growth rate will remain at this low level, which hardly exceed population growth rate, and barely cover the additional demand on the labor market. Without easy monetary policies pursued by the Central Bank and the stimulating fiscal policies adopted by the government since the end of 2008, economic growth would be even lower.

Naturally, the fundamentals of the Jordanian economy did not achieve better performance than the economic growth rates, and were as follows:

Inflation Rate

The inflation rate during the first ten months of 2011 reached about 4.6%, compared to 4.8% during the same period of 2010. Inflation rate for 2011 as a whole is projected to amount about 5.5%.

Unemployment

Unemployment rate remains high, reaching 13.1% during the first three quarters of 2011, and is expected to continue around this level for the remainder of the year.

Current Account of the Balance of Payments

During the first half of 2011, the current account of the balance of payments registered a deficit of JD 1,151.4 million, or 12.3% of GDP. It is expected that this deficit will reach around 9.8% of GDP in 2011 compared to 5.0% in 2010. The performance of current account items was as follows:

Domestic exports witnessed a growth of 15.6% during the first nine months of 2011 compared to 17.4% in the same period of the last year. Similarly, imports rose by 18.8% during the first nine months of 2011 against 9.4% during the same period of 2010. These developments have resulted in a noticeable rise in the trade balance deficit, which reached JD 5.3 billion at the end of September 2011, mainly because of the increase in the Kingdom's imports of crude oil and its derivatives.

Within the services balance, workers' remittance receipts fell by about 4.5% and tourism income dropped by around 17.7% during the first three quarters of 2011.

The investment inflows to the Kingdom did not contribute as in previous years in covering the current account deficit, as these inflows dropped by about 14.4% during the first half of 2011 to reach JD 561.0 million. This fall reflected for the first time since ten years in lowering foreign reserves in the Central Bank to reach US$ 11.3 billion at the end of September 2011. Nevertheless, these reserves remain comfortable and cover (7) months of the Kingdom's imports of goods and services.

Public Finance:

In view of the slowdown in Jordan's economic activity in 2011, re-estimated domestic revenues reached JD 4,389 million in 2011, reflecting a rise of 3% over their level recorded in 2010. As for foreign grants, they registered an unprecedented rise to reach JD 1,196 million. As a result, public revenues rose to JD 5,585 million, reflecting an increase of approximately 20% over their level in 2010.

In this regard, the government extends its greatest thanks and gratitude to brotherly and friendly countries, topped by the Kingdom of Saudi Arabia, for their support to Jordan in such special circumstances. Furthermore, we would like to extend our sincerest thanks and appreciation to His Majesty King Abdullah II for his sustained efforts with brotherly and friendly states.

On the other side of the public finance, current expenditures increased to JD 5,837 million, registering a growth of 23% over their level in 2010. This is a high increase by all standards, resulting mainly from rising subsidies to a record level of JD 1,300 million in 2011. If we add the loss of the electricity company resulting from the continuation of electricity subsidy amounting to JD (1) billion, total subsidies would reach some JD 2,300 million.

Re-estimated capital expenditures amounted to JD 1,012 million in 2011, representing an increase of 5.3% compared to their level in 2010.

Consequently, public expenditures reached JD 6,850 million, with a 20% increase compared to their level in 2010.

These unfavorable developments have led to an increase in the budget deficit, including foreign grants, to reach about JD 1,265 million, or 6.2 % of GDP against 5.6 % of GDP in 2010.

Net Public Debt

Net public debt is expected to reach around JD 13,260 million by the end of 2011, forming 65% of GDP, and exceeding its level in 2010 by JD 1.8 billion. In this regard, allow me to mention that the exceptional increase in public debt is mainly due to the rising indebtedness of the National Electricity Company.

Your Excellency Mr. Speaker,

Honorable Deputies,

It is necessary to emphasize that the prevailing levels of fiscal deficit and debt should not be continued because of their negative repercussions on macroeconomic stability and monetary and banking stability, both achieved after exerting restless efforts during the last decade. It is useful here to outline the negative effects resulting from the continuation of current levels of budget deficit and public debt.

First, increased borrowing to finance government deficit will crowd out private sector on available liquidity in the banking market, thus raising interest rate and might adversely affect investment expenditures and hence economic growth. The propensity of banks to invest their surplus reserves in risk-free government securities will negatively affect channeling savings to other financial instruments available for the private sector, particularly in the financial market.

Furthermore, fiscal policy that relies on internal and external borrowing in deficit financing will create higher-than-desired levels of liquidity and might induce future inflationary pressures. As known, higher inflation rates hurts export competitiveness and harms the attractiveness of real rate of returns on domestic investment projects as well as the attractiveness of returns on financial instruments in Jordanian dinar compared to returns on financial instruments in foreign currency, thus might affect the exchange rate stability of the Jordanian dinar.

In addition, growing borrowing to finance government deficit might reduce Jordan's credit rating, as happened in the past, thus raising the difficulty and cost of borrowing from international markets and lowering the attractiveness of Jordan for foreign investments.

Finally, allow me to emphasize to your respected Assembly that widening external deficit measured by current account deficit of the balance of payments actually reflects - according to national income identities- an internal deficit in both the private and public sectors arising from over-consumption in luxury goods in the private sector and unproductive investment expenditures in the public sector.

Your Excellency Mr. Speaker,

Honorable Deputies,

Against this background, the government is seeking through the proposed 2012 General Budget Law and Government Units' Budgets Law to take necessary actions to gradually restore balance in public finance and tackling its structural imbalances, as it is unacceptable to continue relying on foreign grants and borrowing to finance our current expenditures, including salary and pension expenditures.

To achieve this goal, this Government is committed to pursue a disciplined fiscal policy aiming at reducing unproductive public expenditures, lowering resource waste and misallocation, and improving tax collection and compliance.

The following is a summary of main assumptions to which the two mentioned draft laws are based:

First: Assumptions related to Macro-economic Indicators:

• The performance of the national economy is expected to remain modest in light of the slowdown in the world economy and political and security events witnessed by certain countries of the region. GDP in nominal terms is projected to grow by 8.5 % in 2012, and 9.0% on average for 2012-2014. At constant prices, GDP is projected to grow by 3.0% for 2012 and 3.5% on average for 2012-2014.

• Inflation rate is expected to reach about 5.5% in 2012 and 5.0% on average for the period 2012-2014.

• Domestic exports are projected to grow by 11.0% on average for 2012-2014.

• Imports are projected to grow by 9.0% on average for 2012-2014.

• World oil prices are expected to reach an average of US$ 100 per barrel during the period 2012-2014.

• The deficit of the current account in the balance of payments is projected to register 9.0% of GDP in 2012, gradually falling after that to reach 7.0% in 2014.

• Foreign reserves at the Central Bank are expected to remain at comfortable levels necessary to maintain the stability of the JD exchange rate.

These assumptions, Your Excellency Mr. Speaker and Honorable Deputies, are based on latest international reports, and on our consultation with international institutions regarding the future prospects of the global and regional economy.

Second: Assumptions on Fiscal Measures:

• Continue allocating necessary appropriations for the armed forces and security bodies to protect the security of the country and the citizen, which constitutes the core pillar of Jordan’s economic growth and development.

• Securing necessary appropriations for the social safety net to protect the living standard of the Jordanian citizen through: maintaining food and gas subsidy; providing adequate housing for the poor and limited income groups; expanding health insurance and school nutrition program; supporting the Needy Student Fund; pursuing the implementation of vocational training programs; and reinforcing social productivity program.

• Controlling operational expenses, particularly items of fuel, electricity, water, telephone, and travel. Limiting the use of government cars and restricting delegations’ travel to urgent cases.

• Securing the appropriations needed for financing key and priority development needs in all governorates of the Kingdom.

• Allocating appropriations for the project of public sector salary restructuring as of early 2012.

• Allocating financial appropriations for the early retirement fund for military employees covered by the social security system.

• Allocating financial appropriations to cover the increase in pension salary for both civil and military retirees.

• Providing needed appropriations to implement the National Strategy on Employment, with a view to provide job opportunities for Jordanian labor force.

• Setting clear and transparent rules and controls to benefit from medical treatments. Such treatments should be confined to needy citizens uncovered by health insurance.

• Reorienting fuel subsidy to eligible segments of low- and medium-income groups, stopping distortions suffered by the current system, and avoiding duplication in subsidy provision. In consultation and cooperation with your esteemed Assembly, the government will adopt a set of measures that do not affect limited-income groups. Allow me to emphasize to your respected Assembly that the current subsidy mechanism causes clear distortions on prices, suffers from injustice, and encourages consumption expenditures channeled to imports and not exports.

• Restricting electricity and water subsidy to eligible segments of low- and medium-income citizens. Electricity and water prices should reflect their costs for other segments in a gradual manner over the medium- term (2012-2014).

• Amending taxes and fees for a limited number of luxury goods that do not affect limited-income groups. Further, certain exemptions from sales tax enjoyed by some goods and services should be eliminated as such exemptions proved ineffective.

• Improving tax collection efficiency and limiting tax evasion.

Your Excellency Mr. Speaker,

Honorable Deputies,

Building on the above assumptions, allow me to present the main features of the draft General Budget Law and Government Units' Budgets Law envisaged for the fiscal year 2012 as follows:

First: The Draft General Budget Law:

• Domestic Revenues:

Domestic revenues are estimated to reach JD 4,940 million in 2012, with a growth of 12.6% over their re-estimated level in 2011, forming 22.3% of GDP against 21.5% in 2011.

The projected developments in these revenues reveal an improvement in the level of self-reliance, as the coverage ratio of domestic revenues to current expenditures is expected to rise from 75.2% in 2011 to 84.6% in 2012, and to 88.6% and 91.7% in 2013 and 2014, respectively.

• Foreign Grants:

Foreign grants are estimated at JD 870 million in 2012 compared to JD 1,196 million in 2011.

Public Revenues

Based on the above, public revenues are estimated at JD 5,810 million in 2012, forming 26.2% of GDP against 27.4% in 2011.

• Current Expenditures:

Current expenditures are estimated at JD 5,839 million in 2012, thus maintaining their re-estimated level in 2011. As a percent of GDP, these expenditures constitute about 26.4% of GDP in 2012 against 28.6% in 2011.

• Capital Expenditures:

Capital expenditures are estimated at JD 998 million in 2012, with a drop of JD 16 million under their re-estimated level in 2011. These expenditures are projected to form around 5.0% of GDP in 2012 and 15.0% of total public expenditures against 14.8% in 2011.

Public Expenditures:

Public expenditures are estimated at JD 6,837 million in 2012 compared to a re-estimated figure of JD 6,850 million in 2011, reflecting a decrease of JD 13 million. In percent of GDP, public expenditures constitute 30.9% in 2012 against 33.6% re-estimated in 2011.

Fiscal Deficit:

As an outcome of total revenues and total expenditures, the fiscal deficit (including foreign grants) is estimated at JD 1,027 million, or 4.6% of GDP in 2012, against JD 1,265 million, or 6.2% of GDP in 2011. This deficit is expected to continue to fall, reaching 4.0% of GDP in 2013, and 3.5% in 2014. As for fiscal deficit excluding foreign grants, it is estimated to reach 8.6% of GDP in 2012 compared to 12.1% in 2011. It is projected that this deficit will follow a declining trend to reach 7.5% and 6.6% of GDP in 2013 and 2014, respectively.

Based on all of the above, net public debt is expected to fall as a percent of GDP in 2012 to amount 64.5% in 2012 against 65.0% in 2011, and to continue its gradual decrease to 62.0% in 2014.

Second: The Draft Government Units' Budgets Law:

1- Total Revenues: Total revenues of government units are estimated at JD 882 million in 2012, against JD 530 million re-estimated for 2011. Government subsidy in 2012 formed JD 274 million of these revenues and foreign grants are estimated at JD 96 million.

2- Total Expenditures: Total expenditures of government units are estimated at JD 1,819 million in 2012, distributed between JD 992 million for current expenditures and JD 827 million for capital expenditures.

Therefore, the increase registered in total expenditures for 2012 will be around JD 343 million above their level in 2011. The main reason for this increase is the rise of capital expenditures for: Aqaba Development Corporation (due to starting implementing the new port project); Samra Electric Power Generating Company (due to starting the project of the Thermal Power Station- Phase III); Water Authority of Jordan (due to the implementation of water and sanitation projects in Zarqa governorate); and capital expenditure appropriations for both Jordan Radio and Television Corporation and Jordan Atomic Energy Commission. In current expenditures, the rise was mainly in debt interest item, particularly for National Electricity Company and Water Authority of Jordan.

3- Net Deficit before Financing: Net deficit of all government units is estimated at JD 937 million in 2012, against JD 947 million in 2011.

4- Total Surplus estimated to be transferred to the General Budget: Total surplus is estimated at JD 173 million in 2012. Therefore, it is clear that net government subsidy (gross subsidy minus surplus transferred to the general budget) is projected at JD 101 million in 2012.

Your Excellency Mr. Speaker,

Honorable Deputies,

While the Government is fully aware of the size of fiscal challenges we are facing, it also believes that meeting such challenges will be gradual and over the medium and long-term. This is essential to protect our economic and social security, to preserve our national achievements, and to secure a better future for coming generations. Based on this, the draft 2012 General Budget Law is built on a number of fundamental directions consistent with the

Royal Appointment Letter, the output of the national economic dialogue, and the recommendations of the National Agenda, as follows:

1- Pursuing fiscal reform process and enabling the general budget to efficiently deal with economic and political developments at the regional and global arena.

2- Improving the degree of self-reliance in the general budget and in the budgets of government units.

3- Focusing on development projects related to enhancing the productivity of human capital and employment, such as education, health, labor, small and micro projects, as well as infrastructure projects in electricity, water, and information technology.

4- Developing governorates and distributing development gains to all regions of the Kingdom in a way that achieve equity and equal opportunity. This is attained through completing the establishment of a fund to finance the basic development needs of all governorates of the Kingdom.

5- Improving the investment environment and stimulating growth through completing the legislative package needed for attracting foreign investments and strengthening domestic investments. This will encourage the private sector to enter in partnership agreements with the public sector to implement large development projects in key sectors.

6- Pursuing the adoption of good governance concepts in the fields of monitoring, evaluation, and accountability according to international practices.

7- Adopting a concrete time-framed plan to approve appropriate options for financing the budget deficit in line with the general framework of the public debt management. The aim is to reach to safe levels of public debt and to reinforce credibility of the Kingdom in regional and international levels.

Your Excellency Mr. Speaker,

Honorable Deputies,

Diagnosing the challenges ahead and deciding on setting fiscal priorities as well as proposing needed solutions to respond to such challenges, should not prevent us from admitting the great achievements realized in our beloved country in the political, economic, and social fields.

I would like to emphasize to your esteemed Assembly that we tried our best in the draft General Budget Law for 2012 to reconcile between urgent security and social priorities and pressing fiscal and economic pressures. In this exceptional phase, we should achieve a hard trade-off between fiscal discipline and economic growth. To succeed in fiscal reform process in revenue and expenditure sides, the importance of keeping a balance between rights and duties for all components of the Jordanian society is highlighted. Indeed, we are all partners in responsibility under the rule of law.

In the end, I pray to Allah Almighty to guide us all to achieve further accomplishments and to serve our country and the citizen.

May Allah protect Jordan, its people, and our dear and beloved leadership His Majesty King Abdullah II.

May Peace and Mercy of Allah be upon You,,

Dr. Umayya Salah Toukan

Amman, December 11,2011