

REPUBLIC OF RWANDA



Ministry of Finance and Economic Planning

BUDGET SPEECH

FINANCIAL YEAR 2015/16

***THEME: INFRASTRUCTURE DEVELOPMENT
FOR ECONOMIC AND SOCIAL TRANSFORMATION***

**TO BE PRESENTED TO BOTH CHAMBERS OF THE PARLIAMENT OF
THE REPUBLIC OF RWANDA ON JUNE 11, 2015**

By

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MINISTER OF FINANCE AND ECONOMIC PLANNING

I. INTRODUCTION

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

1. As provided under article 79 of the Rwanda Constitution of 2003 and as amended to date as well as articles 36 and 42 of the Organic Law of State Finances and Property as amended to date, I have the honour to present to you on behalf of the Government, the Budget and Economic Policy for the fiscal year 2015/2016.
2. The budget Framework Paper for 2015/16 -2017/18 was presented to this august house in the last month, and we thank you for the comments and inputs you provided which informed the finalization of this finance bill.
3. In the last decade our economy has registered significant progress that has resulted in higher standard of living for millions of our citizens. However in the two years before 2014 when our economy regained its average growth levels, we have faced several challenges of both external and domestic nature that have impacted negatively on our economic performance. On the external front, risks to global growth and implications for resource flows to the developing countries including Rwanda in the form of aid and investment still persist. Developed economies such as the Eurozone continue to struggle with the legacy from the financial and sovereign debt crises; emerging economies like China are moderating after years of rapid growth. In addition, the overall official resources that countries or multilateral institutions are willing to transfer or lend to developing countries is on a downward trend, while foreign investment flows are sensitive to fears surrounding regional instability.
4. Regarding the domestic front, adverse weather conditions could negatively affect agricultural production with the potential risk to growth and food security. Lower economic growth could also reduce domestic revenue collection. In addition, capacity and other structural constraints continue to delay implementation of some strategic investment projects especially in the infrastructure portfolio.
5. In view of the uncertainties that I have just mentioned on the global front it is important that we redouble our efforts to increase our foreign exchange earnings through the export of goods and services to reduce the aid dependency. However we have identified the inadequacy of infrastructure –energy and transport in particular- as the main obstacles to achieving a higher growth rate including the expansion of our exports to maximise foreign exchange earnings.

6. Indeed this situation of lack of infrastructure and its negative impact on growth is not only peculiar to Rwanda but also applies to several countries in Africa. The African countries and the international community have recognised this fact and it is now important that all countries need to pay attention to this deficiency and take steps to address this infrastructure gap both at the country and regional level.
7. Even though since 2010 Government has been implementing strategic policies aimed at addressing the infrastructure needs in order to increase export of goods and services it is still necessary to do more in these areas. It is in the light of the importance attached by Government to the infrastructure and export policies that the Government has chosen the topic **“INFRASTRUCTURE DEVELOPMENT FOR SOCIAL AND ECONOMIC TRANSFORMATION”** as the theme for the budget and economic policy statement for fiscal year 2015/16. The policies in the budget as well as in the medium term have therefore been designed to focus on infrastructure development and export promotion.
8. The budget and economic policy statement for fiscal year 2015/16 is therefore organized as follows:
 - a) First, I will provide this august house with a brief summary of the global economic performance for 2014 and the projections for 2015 and 2016.
 - b) Second, I will briefly summarize our economic performance in fiscal year 2014/15. This summary will also include the execution of the 2014/15 budget including achievements;
 - c) The third section of my presentation will deal with the highlights of our medium term macro-economic framework. This framework covers the period 2015/16 to 2017/18.
 - d) In section four I will focus my attention on the details of the 2015/16 budget and the broad economic policy for this fiscal year. This section will not only deal with our resource mobilisation but will also highlight detailed allocation of resources consistent with our EDPRS 2 priorities and expected outcomes for this fiscal year.
 - e) The fifth and last section of my delivery will focus on some expected challenges we are likely to encounter and how we plan to deal with these challenges to ensure that we continue to give our country men and women a good life. I will then end my budget speech with some concluding remarks.

II. THE GLOBAL ECONOMIC PERFORMANCE IN 2014 AND OUTLOOK FOR 2015 AND 2016.

a) Global Economic outlook

*Honourable President of Senate,
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9. According to the April 2015 World Economic Outlook (WEO) of the IMF, Global output expanded by 3.4 percent in 2014. This was similar to growth in 2013, but in 2014 the recovery of the United States was offset by moderated growth in emerging markets. In the Sub-Saharan African region, economic growth was a solid 5.0 percent, driven by investments in mining and infrastructure, and boosted further by strong private consumption. The outlook for the world economy is characterized by uneven performances across regions. Global growth is projected at 3.5 percent in 2015 and 3.8 percent in 2016, due to subdued near-term prospects for key large emerging market economies. On the other hand, advanced economies are expected to recover further over this time horizon, with their consumption and investment supported by lower oil prices in particular. Growth in Sub-Saharan Africa is projected at 4.5 percent in 2015, due to the adverse impact of lower oil prices for the region's oil exporters, before it recovers to 5.1 percent in 2016. The uneven pace of growth across the world highlights the importance of securing market diversity for Rwandan exporters and also fostering investment links with a broad range of partners.

10. In the case of the advanced economies, growth shows some positive momentum as they registered a growth rate of 1.8 percent in 2014 which is higher than the growth rate of 1.3 percent in 2013, reflecting the lower oil prices and supportive financial conditions. Growth in Emerging and Developing countries was 4.6 percent in 2014 which is slightly lower than 5 percent in 2013. Low performance of the Chinese economy which performed at 7.4 percent in 2014 compared to 7.8 percent in 2013 combined with low demand in some advanced countries and weak activities in oil exporting countries explain this low performance. Growth in Sub-Saharan Africa remained strong although it slightly decelerated from the growth rate of 5.2 percent in 2013 to 5.0 percent registered in 2014 due to higher private consumption and investments made in infrastructures development. Average growth rate in EAC countries was 6.0 percent in 2014 from 5.8 percent average growth rate in 2013.

11. For 2015 and 2016, the global growth is expected at 3.5 percent and 3.8 percent in 2015 and 2016 respectively. This projection reflects a reassessment of prospects in China, Russia, the euro area, and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices. The growth rate in Sub-Saharan Countries is projected at 4.5 percent and 5.1 percent in 2015 and 2016 respectively. These projections are at the lower end of the range registered in recent years, mainly reflecting the adverse impact of the sharp decline in oil and other commodity prices. Continued implementation of sound policies together with increase in domestic capital investment and exports will support these high growth rates in sub-Sahara Africa.

b) Inflation

12. Inflationary pressures remained subdued on account of declines in commodity prices. In advanced economies, due to lower than potential output, inflation stabilized at 1.4 percent in 2014, the same rate as in 2013, while projected to decrease to 0.4 percent in 2015. In the Euro area, deflationary pressures remained a concern and the ECB took unprecedented policy measures by unveiling a massive bond-buying programme to drive up the economy and push inflation closer to the target of 2 percent.
13. In sub-Saharan Africa, inflation at the end of 2014 remained at 6.1 percent which was the same at the end of 2013. It is projected to reach 7.4 percent at the end of 2015 then decline to 6.6 percent at the end of 2016. In the EAC countries, inflation declined at 5.1 percent in 2014 from 5.8 percent at the end of 2013. It is projected to further decline to 4.9 percent and 4.8 percent at the end of 2015 and 2016 respectively.

c) World Commodity Prices

14. In 2014, commodity prices have declined by 28 percent mainly owing to a 38 percent drop in energy prices. The large fall in oil prices by 43 percent was driven by both demand and supply factors. On demand side, the decline was due to unexpected demand weakness in major economies particularly emerging markets economies. On the supply side, the decline was caused by the decision of OPEC to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States. Nonfuel prices also fell whereby industrial metal prices declined by 15 percent, food prices by 7 percent while agricultural commodities prices declined by 6 percent. Further declines of oil prices are projected in 2015 and 2016. In the case of nonfuel prices, food prices are projected to decline by 16 percent and 3 percent in 2015 and 2016 respectively.

d) Domestic Economic Performance

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

i) Real GDP Growth.

I will now turn my attention to our economic and financial achievements in the last fiscal year.

15. The Rwandan economy grew by 7 percent in 2014, in line with average growth over the last five years, and well above 2013 growth of 4.7 percent. All sectors contributed to this growth performance. The recent improvement in performance was especially notable in services, which grew by 9 percent compared to 5 percent in 2013. Agricultural expansion of 5 percent supported this. Positive developments in agriculture were reflected in the low inflation environment experienced throughout the year.
16. The vast majority of service sub-sectors recorded higher growth than in 2013 with wholesale and retail trade being the largest contributor to overall GDP growth (1.2 percentage points). Construction grew by 8 percent and added over a half percentage point to GDP growth. However, manufacturing recorded mediocre annual growth of 1 percent due to the impact of unilateral tariffs in the DRC market during the year.
17. From the demand-side, final consumption and investment grew by 7 percent and 10 percent respectively, close to their five-year averages. Investment was boosted by ongoing projects in ICT, such as Korea Telecom's 4G LTE, online services projects, and the completion of Gigawatt and Nyabarongo I hydropower plant. This is reflected in accelerating imports compared to 2013 and growth in the ICT sector of 17 percent.

ii) Inflation

18. Inflation stabilised from 2.1% at the end December 2014 to 2.2 % at the end of May 2015. Lower inflation rates were mainly driven by the decline in food prices following good domestic harvests and energy and transport prices which remained low mainly due to the downward trend in international oil prices.

iii) External Sector Performance.

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

19. I will now deal briefly with our trade and financial relations with the global market. The performance of this sector is greatly influenced by commodity price movements, our ability to produce for exports as well as the levels of financial flows which determine our imports.
20. In 2014, total merchandise exports accrued at US\$ 723.1 million from US\$ 703.0 million in 2013. Traditional exports including tea and minerals were adversely affected by weaker global prices despite coffee prices increasing by 36 percent. International commodity prices for Rwanda declined by 13.5 percent for tea, 16.6 percent and 11.4 percent for tantalum and tungsten respectively. Coffee exports in 2014 were US\$ 59.7 million from US\$ 54.9 million in 2013. Tea exports in 2014 were US\$ 51.8 million, which shows a slight decrease compared to US\$ 55.5 million in 2013 due to a decrease in prices despite the increase in volume exported. Overall, Rwanda's terms of trade, i.e. its ability to pay for imports using exports, deteriorated in 2014, particularly due to the poor performance of minerals and tea.
21. Re-exports continued their recent trend of strong growth and non-traditional exports including hides, skins and pyrethrum posted a strong year performance, particularly for milling products that increased by 46 percent which contributed 1.3 percent to total exports growth. However, Pyrethrum exports were US\$ 1.8 million in 2014 down from US\$ 4 million or 55% drop over 2013. Informal export growth was constrained in 2014 due to the imposition of non-tariff barriers by DRC. However, these were removed by late 2014 through negotiations in the CEPGL regional bloc.
22. Total merchandise imports in 2014 were US\$ 2000.1 million, which shows an increase of 8 percent from US\$ 1,851.5 million in 2013. An acceleration of imported capital equipment, faster implementation of public and private investment projects in the first half of 2014 and intermediate goods reflecting a rebounding private sector explain this increase in imports.
23. Acceleration in imports combined with a modest increase in exports resulted in a deterioration of the trade balance by 11.8 percent compared to the improvement made in 2013 and adversely affected our current account balance.

24. Our foreign reserves at the end of 2014 are projected to cover 4.5 months of imports in 2015, compared to 5.2 months of cover in previous year 2014. Four months is the minimum level of reserves recommended by the International Monetary Fund.

iv) Monetary, Exchange Rate and Financial Sector Developments.

*Honourable President of Senate,
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25. In 2014 the Central Bank continued its policy of using monetary policy to contain inflation whilst ensuring that there was enough liquidity for economic growth. Consistent with this policy, broad money grew by 19.0 percent against 15.6 percent recorded in 2013. New authorised loans increased by 38.2 percent. Higher increase in domestic assets was driven by increase in both credit to public and private sector.
26. The banking liquidity conditions remained comfortable. The banks liquid assets increased by 23.5 percent amounting to FRW 282.9 billion in December 2014 from FRW 229 billion in December 2013. Credit to private sector increased by 19.6 percent amounting to FRW 906.3 billion in 2014 from FRW 758 billion in 2013.
27. The banking sector remained resilient to shocks as it was well capitalised, profitable and liquid. The capital adequacy ratio stood at 24.2 percent in 2014 compared to 23.1 percent in 2013. The asset quality of the industry improved as the non-performing loans ratio reduced from 6.9 percent in 2013 to 6.0 percent in 2014. The liquid assets to total deposits ratio used as an indicator of liquidity position of the banking sector stood at 51.7 percent in 2014, which is well above the prudential limit of 20 percent.
28. The Rwandan franc depreciated against the US dollar by 3.6 percent in December 2014 compared to the depreciation rate of 6.1 percent in 2013. This was due to high demand for foreign exchanges. However, the Rwanda franc appreciated against the British pound by 2.4 percent and by 8.5 percent against the Euro in the same period.
29. The microfinance sector which has become an important tool both in resource mobilisation as well as a source of financing for the economy continued to expand in 2014. It now comprises 491 institutions including 13 limited companies and 478 SACCOs of which 416 are UMURENGE SACCOs. Total assets grew by 23.8 percent from FRW 128.7 billion in December 2013 to FRW 159.3 billion December 2014 largely driven by large loans which

rose by 22.4 percent. Deposits increased by 23.9 percent from FRW 69.5 billion in December 2013 to FRW 86.1 billion in December 2014.

v) Capital Market development

30. Since last year, the Ministry of Finance and Economic Planning in collaboration with the Central Bank of Rwanda have taken a firm commitment to plan regular bond issuance, with the objective of promoting the capital market in Rwanda by stretching the maturity of Treasury securities, availing long term investment opportunities and attracting long term savings as well. As a result, the capital markets mobilized funds worth RwF 78.4 billion; through RwF 55 billion worth of treasury bonds and RwF 23.4 billion sale of equities in a local company that solely held 20% shares in MTN Rwanda, giving the public an opportunity to invest in the leading telecoms operator in the country.
31. The GoR policy to rejuvenate the bond market with quarterly issuances aims to build the yield curve as well. Existing maturities range from 2 to 10 years, the last of which was issued last month. In this fiscal year 2014-15, the average oversubscription of the issued treasury bonds, was 188.3%, with foreign investor participation standing at 8% of the total stock.
32. Similarly, equities traded on Rwanda Stock exchange continued to increase, whereby the market total turnover from the beginning of July, 2014 up to the end of May, 2015 was Frw 46.2 billion from 119.56 million of shares traded in 1,046 deals or transactions.
33. Under the legal and regulatory framework, the Government continues to recognize the development of the capital markets and during this year, the capital market legal framework continued to expand. The law regulating commodities and derivatives exchange trading was tabled in Parliament.

vi) Fiscal Performance.

*Honourable President of Senate,
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I will now present the highlights of our 2014/15 budget performance and outcomes.

34. Implementation of the 2014/15 budget was complicated by lower domestic tax collections as well as delays in disbursement of donor support funds and slow execution of some infrastructure projects resulting in lower spending, particularly in the July-December period.

35. Accrued domestic revenues at the end of May 2015 were FRW 860.4 billion or 88.8 percent of the projected total domestic revenues. Domestic tax collection performance was only 88 percent due to the lag in the accrual of additional revenue from the implementation of agreed revenue measures.
36. In the case of external donor resources comprising loans and grants, 94.5 percent of the expected external donor resources had accrued to the budget by end May 2015.
37. Regarding public expenditures, the shortfall in resources together with delays in the execution of some infrastructure projects resulted in lower spending in the July-December 2014 period. Since the beginning of 2015 project implementation has improved and at end May 2015, 92.4 percent of the total outlays had been spent. On this trend we are likely to implement our expenditure policies for the fiscal year 2014/15 in full.

B) Key achievements in Fiscal Year 2014/15.

*Honourable President of Senate,
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38. After highlighting the general budget implementation for 2014/15 fiscal year, I will now mention some key programmes and projects implemented as well as some results achieved in key sectors.
39. In the Education Sector, key achievements registered in 2014/15 fiscal year include:
 - i. In pre-primary education, 1260 kits were distributed in 1260 nursery schools and one teacher from each school was trained. Also enrolment has increased by nearly 12% in 2014 and the number of institutions increased by 17%;
 - ii. In primary education, the Government continued to increase the number of class rooms and 1,609 new classrooms and 2,604 latrines were built in line with the intention to increase education for all children and expanding access to 12 years of basic education.
 - iii. For secondary education, 19 new schools were created and new classrooms were equipped with 24,840 desks;
 - iv. The number of TVET centres increased from 306 in 2013 to 365 in 2014. Also the number of trainees enrolled in TVET programmes increased from 83,893 students in 2013 to 93,024 students in 2014; and the number of trainers in TVET centres increased from 3,020 trainers in 2013 to 3,595 trainers in 2014;

- v. In order to strengthen the performance in science, technology and innovation at all levels of education, and application of science, technology and innovation in relevant sectors of the economy, 274 12YBE schools with sciences combination received science practical examination materials;
- vi. 274 12YBE schools with sciences combination received science practical examination materials. Hence, 658 teachers from these schools were trained on skills related to preparation of practical experiments and administration of practical exams.
- vii. In tertiary education, 22.5% of tertiary students are in science and technology fields, of which 34% in agriculture and health sciences;
- viii. The University of Rwanda was established and merged the former 7 Higher Learning Institutions to improve the quality of education;

40. In the Health Sector, the following achievements were registered in the 2014/15 fiscal year:

- i. The construction and rehabilitation works at various Hospitals are ongoing (Nyabikenke Hospital stands at 30%, Rutare modern health center at 82% and Nyagatare Hospital at 74%) while the Architectural and technical design for Ruhengeri Hospital was completed and the construction works will begin next Fiscal Year.
- ii. In order to ensure quality and availability of human resources for health, deployment of qualified nurses, Midwives, Medical Doctors, and Specialists in health facilities continued across the country, including in new provincial and referral hospitals.
- iii. For District pharmacies to comply with national standards, 5 District Pharmacies (Gatsibo, Nyagatare, Nyaruguru, Ruhango and Muhanga) are under construction and the work progress is estimated at 80%.
- iv. The availability of vital medical products in health facilities has improved and on average 100 % of Health facilities (District pharmacies and District hospitals) reported less than 5% of vital medical products stocked-outs.

41. The following achievements have been registered in the Agriculture Sector during the 2014/15 fiscal year:

- i. A total number of 16,115 ha of radical terraces and 44,499 ha of progressive terraces were constructed;
- ii. The number of marshland irrigation constructed was 750 ha and construction works of new 1,270 ha are under way;

- iii. The number of hillside irrigation reached 1,095 ha was constructed and prepared for maize and vegetables cultivation.
- iv. Livestock development has been enhanced through GIRINKA Programme whereby 13,658 animals were distributed to poor families. Also the number of artificially inseminated cows was 94,868;
- v. The feeder roads network improved whereby 117 km were constructed in 2014/15 fiscal year.
- vi. The number of students undertaking specialised training in agriculture increased whereby 106 students were sent to Israel for specialisation in irrigation, agribusiness and horticulture.

42. In the Trade and Industry Sector, the following achievements have been registered during the 2014/15 fiscal year:

- i. In order to facilitate national Exporters to access foreign markets , 90 exporters have been trained in handicrafts, honey, bananas, pineapple, Nuts, essential oil, flour and light and 16 exporters have been supported to attend the Uganda and Germany trade fairs;
- ii. The Market Infrastructure Master Plan was completed and Implementation Plans for Districts are being developed;
- iii. Relocation of industries from Gikondo Park is ongoing as planned;
- iv. Completed expropriation for five provincial industrial parks of Huye, Rusizi, Nyabihu, Bugesera and Rwamagana.
- v. In order to help new entrepreneurs to access finance to start their businesses, 1500 start-up toolkits were provided.

43. The following are the key achievements realized in Transport Sector during 2013/14 fiscal year:

- i. Construction works of the Kivu Belt lot 4&5 road (66 km) is at 70 percent and will be completed in 2015/16 fiscal year;
- ii. Completed the access road to Bushenge Hospital (3 km);
- iii. Construction works of Muhanga-Ngororero-Mukamira (99 km) road are ongoing at 75 percent;
- iv. Constructed the access road to Mugombwa Refugee camp;
- v. Maintained the road Ndatemwa-Muhura (23 km);
- vi. Completed the detailed study of Muhanga-Karongi rehabilitation and negotiations for funds will be carried out in 2015/16 fiscal year;

- vii. Construction works of the road CIMERWA-Bugarama are at 80 percent;
- viii. Completed Rusumo One Border Post;
- ix. Completed the runway for Kamembe Airport

44. In the Energy Sector, the following achievements were registered in the 2014/15 fiscal year:

- i. Electricity connectivity was increased by 2 percent and 50,000 new households were connected whereby access to electricity reached 21 percent;
- ii. Transmission lines increased by 318.9 km of MV lines, 517.6 km of LV and 140.4 km of HV;
- iii. Construction works of Rusumo Hydro Power Plant that will give 80 MW are on track and the plant is expected to be completed in 2019;
- iv. Negotiations for a new methane project are ongoing as planned and expected to be completed by June 2015.

45. In the Water and sanitation Sector, the following achievements were registered in the 2014/15 fiscal year:

- i. Constructed 149.3 Km of water pipe line in Rubavu, Rulindo and Nyamagabe and that supplied clean drinking water to 152,869 households;
- ii. Construction works of 66Km water pipe line in Rulindo expected supply 28,250 is at 75% and will be completed by June 2015;
- iii. Upgraded 47 Km in urban areas, Nasho-Ngoma, Cyampirita-Gatsibo, Katabogamua-Nyagatare;
- iv. Reinforced water system in Nkombo and construction of Mbona-Nyabirasi-Kivumu water pipeline are ongoing;
- v. Construction works of Runda Water supply system are at advanced stage;
- vi. Introduced the e-payment system to facilitate the payment of water consumption bills using mobile money and electronic banking

III. MEDIUM TERM OBJECTIVES AND POLICIES.

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

46. After sharing with you our economic and social performance including our achievements and problems in the last fiscal year, I now turn my attention to our medium term macro-economic objectives and policies.

i. Real sector projections

47. The next FY 2015/16 will be one of consolidation and GDP growth is projected at a conservative 6.5% in 2015 and 2016 before returning to higher growth path over the medium term.

48. Agriculture is expected to grow by 5.2 percent in 2015 and will continue to grow at 5.3 percent in 2016. It is expected that agriculture productivity will continue to improve due to ongoing programs such as increasing areas under irrigation for marshland and hillside as well as other efforts that are being invested in exports crops.

49. Industry sector is expected to grow at 8.5 percent and will continue to grow at 8.2 percent and 8.0 percent in 2016 and 2017 respectively. This performance of industry sector will come from increased capacity of CIMERWA and the recovery of BLARIRWA which will boost manufacturing, as well as increased electricity supply.

50. The service sector is expected to grow at 7.3 percent in 2015 and 2016. Growth in the services is expected to come from trade, transport, real estate, financial services, hotel and restaurant and communication. Trade will be boosted by local production in agriculture and industry. Transport will benefit from the good harvest in agriculture and the impact of the big number of new buses imported recently and the new plane for RWANDAIR expected in 2015. Hotel and restaurant will be boosted by international meetings and conferences which are increasingly attracted to the country as well as the completion of Convention Centre and Marriott hotels.

ii. Inflation

51. With good agriculture production expected on the domestic side and declining commodity prices globally, inflation is expected to remain contained at less than 5% in the medium term. The drop in oil prices will contribute to reduce pressures on inflation giving more room for an accommodative monetary policy by BNR to continue supporting the economic financing by the banking sector and keep inflation rate around the medium term objective.

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

I will now deal with our external sector policies for 2015 as well as in the medium term.

52. Decreases in global commodity prices for Rwanda's main commodity exports are expected to unfavourably affect exports. Exports in 2015 are expected to grow in value terms by 6% percent rising from US\$ 723.1 million in 2014 to US\$ 764.4 million in 2015. Coffee and tea are projected to yield US\$ 64.1 million from US\$ 59.7 million in 2014 and US\$ 62 million from US\$ 51.8 million in 2014, respectively. This performance is the result of an increase in volume by 10.8 % and 12.7%, and a decline in international prices of about 3.1% for coffee and a slight increase of 6.3% for tea. For 2016, coffee will decline in term of value especially due to the expected cyclical decline in volume whereas Tea is expected to increase by 11% especially due to the volume increase of 10%. Minerals will increase by 12% and 17% in terms of value due to the expected increase in volume of 16.4% in 2015 and 16.6% in 2016 despite the projected price decline.
53. Basing on the ongoing economic activities, especially in construction sector, imports value (fob basis) are projected to increase by 7% from US \$ 2,000.1 million in 2014 to US \$ 2,139.6 million in 2015 and will decline by 2% to reach US \$ 2,099.8 million in 2016. Capital and intermediate goods imports (infrastructure related) will contribute a large share in 2015 for the implementation of delayed projects, and this will impact negatively the trade balance deficit, as well as current account balance. With these projections both the trade balance and current account deficits are expected to decline by 9% and 15% respectively in 2016. Reserves at end 2015 are projected to cover 4 months of imports in 2016.

iii. Monetary and Exchange Rate Policies

54. The BNR will maintain its prudent stance of monetary policy during 2015 in a bid to anchor inflationary expectations while supporting growth. Broad money will increase at 15.6 percent in 2015 while credit to private sector is expected to remain at 2014 growth level of 19.6

percent. Lower demand at global level which affect the prices of our exports will continue to exert pressures on exchange rates leading to further depreciation of the Rwandan franc.

55. BNR will therefore continue to strengthen the use of forward looking monetary policy tools to ensure that policy actions are guided with clear assessment of the development of the domestic and global environment.

iv. Financial sector policies

56. Financial sector policies will remain geared toward continuing the improvement in the fundamentals of the sector and sustaining financial stability. Policies rolled out to tackle the increase in non-performing loans have proved effective so far and commercial banks will continue to comply with the new guidelines, including the implementation of the recovery plans. BNR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision and capacity building efforts for bank supervisors will be sustained. BNR communication with banks will continue to focus on strategies to improve the quality of loans and reducing operating expenses.
57. Additionally, awareness of the population on their financial rights and obligations in order to increase the bargaining power with banks will be the focus. This is expected to reduce the rigidity of the lending rates which remain high.

v. Capital market

58. The market will continue to be developed through reorganizing the primary market by broadening the investor base and transforming short term securities into medium to long term instruments. Hence, a bond steering committee and a T-bond Government program has been established with the mandate of developing the Government Bond Market in Rwanda. BNR will also continue to stimulate the development of interbank and secondary markets for debt securities.
59. Public education and awareness will continue to be a focal initiative to attract more investors to participate in the domestic capital markets.

vi. Medium term Fiscal Framework

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

60. I will now deal with our medium term fiscal framework and strategies that form the basis of our 2015/16 budget.
61. Fiscal consolidation through increased revenue mobilization and expenditure prioritization to reflect reduced donor funds remain the key objectives of the Government in the medium term. This is supported by the fact that total donor support grants amounted to 9.2 percent of GDP in 2013/14 then declined to 7.3 percent of GDP in 2014/15 and is now projected to further decline to 5.7 percent of GDP in 2015/16 and 4.6 and 4.7 percent of GDP respectively in 2016/17 and 2017/18 .
62. The medium term revenue forecasts take into consideration the challenges encountered in implementing domestic revenue collection measures such as the use of Electronic Billing Machines which will take longer than expected to yield the results. Hence, domestic tax collection are expected to remain about 15.1 percent of the GDP in 2015/16 and will rise at about 0.3 percent of GDP on average in the following years.
63. In the case of outlays, the major focus in the medium term is to implement a prioritization policy that will allocate adequate resources for the completion of on-going strategic investment and social protection projects and programs and also take on board new expenditures that are necessary to achieve the EDPRS 2 objectives. Accordingly, total expenditure and net lending which amounted to 29.4 percent of GDP in 2014/15 is projected to decline to 26.6 percent of GDP in 2015/16, and stabilize at about 25.3 percent of GDP in 2016/17 and 2017/18.

IV. The Budget for Fiscal Year 2015/16

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

I will now proceed to give you the highlights of the 2015/16 budget.

64. The budget for fiscal year 2015/16 is consistent with the medium term fiscal framework. The total budget for 2015/16 fiscal year is projected at FRW 1,768.2, showing an increase of FRW 5.8 billion compared to the 2014/15 revised budget of 1762.3.
65. Total domestic revenues are estimated at FRW 1,174.2 billion, representing 66% of the total budget. This shows an increase of FRW 41.6 billion compared to the domestic revenues of FRW 1,132.6 in the 2014/15 revised budget. Tax revenues are estimated at FRW 894.8 billion

compared to the total of FRW 894.5 billion in the 2014/15 revised budget. Non tax revenues are projected at FRW 219.3 billion compared to the total amount of FRW 179.2 in the 2014/15 revised budget. Domestic borrowing will accrue at FRW 60 billion compared to the total amount of FRW 58.8 billion in the 2014/15 revised budget.

66. Total external resources are estimated at FRW 594.0 billion, which shows a reduction of FRW 35.8 billion compared to the total amount of 629.8 in the 2014/15 revised budget. Total grants in 2015/16 budget are estimated at FRW 358.3 billion, which shows a reduction of 58.8 billion compared to the total amount of FRW 417.2 billion in the 2014/15 revised budget. Total loans are projected at FRW 235.7 billion, which shows an increase of FRW 23.0 billion in the 2014/15 revised budget.
67. In the cases of outlays, total recurrent expenditures are estimated at FRW 1,020.9 billion compared to the total amount of FRW 975.4 billion in the 2014/15 revised budget. Development expenditures are estimated at FRW 747.3 billion compared to the total amount of FRW 787.0 billion in the 2014/15 revised budget. The reduction in development budget in 2015/16 is due to the reduction in external project assistance (grants and loans combined) of about FRW 66.5 billion, from FRW 346.6 billion in the 2014/15 revised budget to FRW 280.2 billion. Nevertheless, domestically financed projects show an increase of FRW 26.7 billion from FRW 440.4 billion in the 2014/15 revised budget to FRW 467.1 billion in 2015/16 budget.

i. Tax policies and Administration Measures

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

68. As I mentioned earlier, we propose to increase domestic tax revenue in 2015/16 budget. These efforts will be supported by the introduction of following tax policies and administrative measures:

a. Widening the Tax base:

- Partnering with key stakeholders e.g. Rwanda Cooperatives Agency that has over 6,000 registered cooperatives, to register and sensitize the cooperatives members about their tax obligations.

- Moving towards a sector specific VAT registration approach to capture key services sectors like Hardware, restaurants, hotels and garages to create a level playing field for the VAT registered taxpayers.
- Working with Local Government to capture businesses that are not registered with RRA
- To undertake Agriculture Taxation benchmarking study to inform on a sound agricultural tax policy.

b. Improve Tax compliance:

- Enforcing usage of Electronic Billing Machines
- Leveraging on existing risk management tools to do data matching (DWH) to ensure compliance across all tax heads
- Introduce a business community –wide EBM as opposed to only targeting VAT registered taxpayers only; to capture information on business transactions enabling reconciliation of tax compliance across the various tax heads.
- Improve enforcement of Tax arrears

c. Local Government Taxes:

- Develop an automated Local Government Taxes Management System and build a comprehensive data base
- Reduce cost of compliance by implementing mobile declaration and payment
- Revision of the Property Tax
-

d. Tax policies:

- Increased levy on fuel for Road Maintenance Fund: RWF 5.2 billion
- Introduction of a Levy on Fuel for Strategic Oil Reserves: RWF 8.6 billion
- Changing the Excise Tax for Tobacco: RWF 5 billion
- Introduction of the Infrastructure Levy on Imports: RWF 10.6 billion

69. These efforts will be supported by the introduction of following tax policies and administrative measures:

- Increased levy on fuel for Road Maintenance Fund: RWF 5.2 billion
- Introduction of a Levy on Fuel for Strategic Oil Reserves: RWF 8.6 billion
- Changing the Excise Tax for Tobacco: RWF 5 billion
- Introduction of the Infrastructure Levy on Imports: RWF 10.6 billion
- RRA will continue to enforce compliance, in particular with regard to VAT, including the proper use of Electronic Billing Machines

70. Following recent consultations with Ministers of Finance of the East African Community, the following changes in the common external tariff (CET) for Rwanda were agreed for a period of one year starting July 01st 2015:

- Road Tractors for Semi Trailers - CET of 0 percent instead of 10 percent instead of 25 percent;
- Motor Vehicles for transport of goods with gross vehicle weight exceeding 5 tons but not exceeding 20 tons - CET of 10 percent instead of 25%;
- Motor vehicles for transport of goods with gross vehicle weight exceeding 20 tons - CET of 0 percent instead of 25%;
- Buses for transportation of more than 25 persons and not exceeding 50 persons - CET of 10 percent instead 25 percent;
- Buses for transportation of more than 50 persons - CET of 0 percent instead 25 percent;
- Sugar – CET of 25% percent instead of 100 percent to import a volume of 70,000 MT;
- Hard Wheat and Wheat grain - CET of 0 percent instead of 35 percent;
- Rice in the husk, Husked (brown) rice, semi milled or wholly milled rice, broken rice - CET of 45 percent (or USD 200/MT) instead of 75 percent;
- List of Rwanda industrial inputs and raw materials - CET of 0 percent;
- List of key Telecommunication Equipment - CET of 0 percent;
- List of goods imported for Rwanda Armed Forces Shop (AFOS) - CET of 0 percent.

j. Expenditure policies and projections.

*Honourable President of Senate,
Honourable Speaker of Chamber of Deputies,
Honourable Members of Parliament,*

71. I now turn my attention to our expenditure policies and projections for fiscal year 2015/16.

i. Detailed Resource Allocation to EDPRS 2 Clusters

72. As I mentioned earlier, expenditure projections have therefore been based on the priority areas of the EDPRS 2 and the identified sector priorities. The EDPRS II therefore informs the process of prioritizing budget allocations towards specific programmes and projects and away

from areas of non-priority spending. The inclusion of a programme or project in the budget depended on the availability of funds and the relative priority given to the various initiatives set out in EDPRS II.

73. Furthermore, to strengthen the linkage between institutional plans and budgets and ensure their alignment with the priorities highlighted in EDPRS II, planning consultations were organized and successfully concluded in February 2015. The planning consultations came up with key priority areas that are closely linked to EDPRS II and informed the resource allocation in 2015/16 budget.
74. Emerging priorities under EDPRS 2 are grouped under four thematic areas of Economic transformation for rapid growth, Rural Development, Productivity and youth employment creation as well as Accountable Governance. These were allocated a total amount of FRW 869.0 billion representing 50% of the total budget for 2015/16.
75. Foundational Issues reflect long-term priorities where, in most cases, significant progress has already been made during EDPRS I but form the platform for Rwanda's sustainable development. These were allocated a total amount of FRW 678.3 billion equivalent to 38percent of the 2015/16 total budget.
76. The support function which focuses on the provision of economical, efficient and effective support services was allocated a total amount of FRW 230.8 billion representing 13 percent of the total budget for 2015/16.

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77. Allow me now to talk about key priority projects funded under each EDPRS II intervention area.

a) Economic Transformation

78. The key projects and programmes under this thematic area that have been allocated resources in the 2015/16 financial year are:
 - Construction of National Wide Transmission Line: 13.3 billion;
 - Electricity Access Roll Out Program : 12.2 billion;
 - Kivu-belt (66 km) lot 4 &5 Rehabilitation- Mwitwazo -Karongi Road: 10.7 billion;

- Kivu-belt (50 km) lot 7 Rehabilitation Rubavu-Gisiza road: 10.3 billion;
- Huye-Kitabi road rehabilitation: 8.4 billion
- Development of peat to power plant: 8.2 billion;
- Rukomo-Base(lot 2:51.5km): 7.2 billion;
- Project -Relocation of Gikondo industrial park: 6.5 billion;
- Tea expansion project: 5.3 billion;
- Kivu-belt (24.5 km) lot 6 Rehabilitation-Rubengera-Gisiza road: 5 billion;
- Rehabilitation and extension of Kamembe and Rubavu airport runways: 4.4 billion;
- Land tenure regularisation support project:: 3.8 billion;
- Kigali urban roads network: 2.9 billion;
- Rehabilitation of 3 hydro power stations : Mukungwa 1-Gihira-Gisenyi: 2.7 billion;
- Regional ICT Center for Excellence: 2.4 billion;
- Kigali convention Center access road(10km): 2 billion;
- Construction of 4 Provincial Industrial Parks: 1.8 billion;
- Gako Beef Farm: 1.3 billion;
- Construction of Kigali cultural village project: 1 billion

b) Rural Development

79. The key projects and programmes that have been allocated resources in the 2015/16 budget are:
- Priority Crops Intensification (including fertilizer imports): 10.6 billion;
 - LWH - Land Husbandry Hillside Irrigation And Water Harvesting: 10.5 billion;
 - RSSP : Rural Sector Support Project (Phase II): 10 billion;

- Rural Water Supply And Sanitation II (PRSC-PEAMER): 9.2 billion;
- Improvement of Urban Water Supply: 7.6 billion;
- Feeder roads development project:16.1 billion;
- Immediate Action Irrigation Project (GFI): 5.5 billion;
- PAIRB: Projet D'appui Aux Infrastructures Rurales De La Region Naturelle De Bugesera : 4.2 billion ;
- Livestock infrastructure support program (LISP): 3.8 billion;
- Lake Victoria Water Supply And Sanitation Project Phase II: 2.6 billion;
- National Strategic Food Reserve Project: 2.5 billion
- Rulindo Challenge Programme: 2.4 billion;
- Post-Harvest And Agribusiness Support Project(PASP): 2.4 billion;
- Improvement of Sanitation In Urban Areas: 2.2 billion;
- One Cup of Milk Per Child: 2.1 billion;
- Upgrading of Rubavu Urban Road: 2 billion;
- KWAMP: Kirehe watershed management project: 1.9 billion;
- One cow per poor family program: 1.5 billion;

c) Productivity and Youth Employment

80. The key projects and programs that have been allocated resources in the 2015/16 financial year are:

- Sustainable Economic Development & Employment Project: 5.2 billion;
- CHAN 2016 Stadiums Project: 5.2 billion;
- National Employment Program: 3.7 billion;
- KOICA Training of Trainers Project: 2.9 billion;

- Rwanda Integrated Trade Logistics Project: 2.8 billion;
- Reintegration Support to Disabled Ex Combatants: 2.7 billion;
- Support to Skills Development in Science and Technology: 2.1 billion;
- Acquisition of Hostels at College of Arts: 2 billion;
- Construction of National Archives Building: 1.8 billion;
- Technical Assistance Pool Fund For TVET System Capacity Building Project: 1.6 billion;
- Implementation of IWAWA Master Plan: 1.3 billion.

d) Accountable Governance

81. The key projects and programs that have been allocated resources in the 2015/16 financial year are:
- National Statistics Basket Fund (NSDS): 5.1 billion;
 - Capacity Building to Judiciary and Prosecution Project: 2.8 billion;
 - Inmates and Tigistes Social Welfare: 3.7 billion;
 - National Cyber Security: 2.4 billion;
 - Kigali Forensic Laboratory - KFL Construction (Phase II): 2.4 billion;
 - Construction of Police General HQs and Kimihurura Police Station: 2.1 billion;
 - Prisons Rehabilitation and Management : 1.5 billion ;
 - Construction of one Block, Administrative Building and Installation of Biogas and Electricity at Mageragere Prison: 1 billion;
 - Capacity Development Pool Funds (CDPF): 1 billion

V. POSSIBLE DOWNSIDE RISKS TO ECONOMIC PERFORMANCE AND BUDGET IMPLEMENTATION

*Honourable President of Senate,
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I wish now to discuss some few downside risks that we see in the coming fiscal year.

82. Government recognises that the 2015/16 macro-economic program and the budget have been formulated against the backdrop of several challenges both domestic and external. On the external front, risks to global growth and implications for resource flows to the developing countries including Rwanda in the form of aid and investment still persist. Uncertainties concerning commodity prices and the expected low performance of mining sector could worsen further the terms of trade for Rwanda and reduce the flow of foreign exchange resources further.
83. Regarding the domestic front, adverse weather conditions could negatively affect agricultural production with the potential risk to growth and food security. Lower economic growth could also reduce domestic revenue collection. In addition, capacity and other structural constraints continue to delay implementation of some strategic investment projects especially in the infrastructure portfolio. Government will continue to monitor these risk closely with a view to taking corrective actions where required.
84. Corrective policy actions are likely to include (among others), a mild fiscal stimulus through frontloading and/or increasing public spending to inject some liquidity into the economy to promote growth. Such additional spending will be financed by resorting to domestic borrowing; this will have implications on our debt stock and the exchange rate. However Government will ensure that such action does not crowd out the private sector. These corrective policy adjustments have been discussed at length with the International Monetary Fund and have been included in the current review of the Policy Support Instrument.

VI. CONCLUSION

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85. I have now come to the end of the budget and economic policy statement and will now conclude by stating that the budget framework for 2015/2016 fiscal year and the medium term reflect the current economic situation in Rwanda, the region and global outlook. It is also in line with EDPRS 2 priorities and with the proposed expenditure allocations we expect that progress will be made towards attaining most of the targets outlined in the EDPRS 2 policy document.
86. The Government recognizes the role of private sector towards the achievements of EDPRS 2 targets and much effort will be invested in various programmes and projects aimed at harnessing the private sector potential for accelerated growth. Thus public expenditure will be supported by contribution from a dynamic private sector.
87. I hereby recommend to you the Government's budget and economic policy for fiscal year 2015/16 and the accompanying draft law to consider and consequently approve in the framework and timeframe prescribed by the law.

I thank you