

## **EXPLANATORY NOTE TO THE 2018/19 BUDGET REVISION PROPOSALS**

### **1. The Revised Budget for fiscal year 2018/19.**

Article 41 of the Organic Law No 12/2013/OL of 12/09/2013 on State finances and property states that the Government may submit a revised draft budget to the Chamber of Deputies for discussion and approval based on performance and needs identified during the first six months of budget implementation. The revised budget proposals herewith presented are therefore consistent with this legal requirement.

### **2. Background to the Budget Revision.**

The proposed revisions to the 2018/19 budget reflect changes in the resource envelope as well as the corresponding adjustments on expenditures. As a result of the proposed changes, the total budget is projected to rise from FRW 2,443.5 billion to FRW 2,585.2 billion showing an increase of FRW 141.6 billion.

The following are the key changes being proposed:

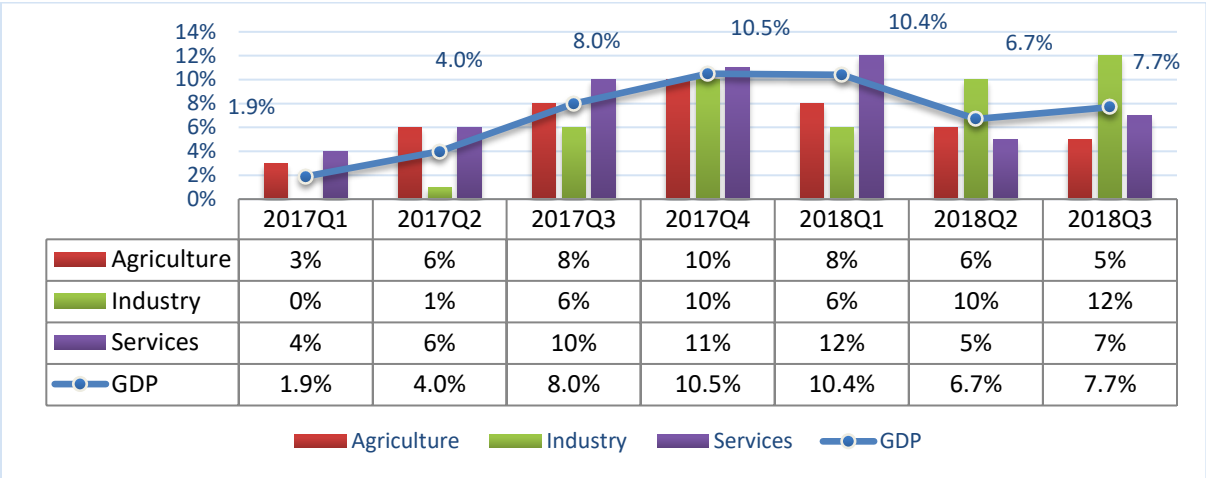
- Increase from domestic revenues arising from expected additional taxes following a good economic performance and from non-tax revenues on account of higher receipts from Peace Keeping Operations expected;
- Increase in external grants from Global Fund for ongoing programs (HIV, Malaria and TB) in Health Sector and from DFID to support textbooks development;
- Increase in external loans from African Development Bank to finance energy infrastructure projects.
- Increase in total outlays to cater for the planned recruitment of teachers, implementation of the revised Government fleet policy, operationalization of the new embassies, upgrading of Amahoro Stadium, refilling government petroleum reserves and preparation for the 25<sup>th</sup> commemoration of the Genocide against Tutsi among others.

### **3. Revised Macro-economic**

#### **✓ 2018 GDP performance**

The GDP grew by 7.7% in the third quarter of 2018, mainly on account of good performance in Services and Industry Sectors, which contributed 3.6% and 2.1% respectively.

**Graph 1: GDP Growth by Sector**



Agriculture sector grew by 5% in the third quarter of mainly due to good performance in livestock and food crops which grew by 14% and 3% respectively.

The Industry Sector grew by 12% in the third quarter of 2018 mainly from Construction, which grew by 17% and manufacturing by 10%. The overall Industry sector performed well despite the negative growth of Food processing (-1%) due to Cereals processing which decreased by 17%. This can be linked to the negative growth in cereals production (-2%). After 5 quarters of negative growth, Beverages and Tobacco continued its recovery with a positive growth (+15%) in Q3 following Q2 (+8%). This is mainly due to the modern beer production, which grew by 20% in Q3 2018.

The Services Sector grew by 7% and was the biggest contributor to the overall growth. This was mainly from professional, scientific and technical activities, which grew by 19%, followed by information and technology and hotels and restaurants which grew by 17% and 13% respectively. Architecture and engineering activities recorded a negative growth but recovering (-10% in Q3 from -46% in Q2); however there still is a base effect since it was growing at 149% in Q3 2017. The average growth for the three quarters stood at 8.3%, with only a growth 4% required to achieve the projected growth of 7.2% in 2018. Preliminary figures, show that growth performance in the last quarter of 2018 is estimated to be higher than 4.0%, giving assurance to reach the 7.2% growth at a minimum.

✓ **Inflation**

On inflation, headline inflation rose by 1.1% at the end of December 2018 compared to the same period in the previous year. The increase in transport prices by 9.5% due to increase in fuel prices was almost offset by the decline in food prices (-4.1%), thanks to good performance in agriculture. Rural inflation is still negative at -0.6 but increased in December compared to a decrease of -1.8%

registered end November 2018 mainly due to food and clothing prices. On annual average, core inflation stood at 1.6% which is the lowest in the region and well below the average target of 5% in EAC region.

### ✓ **Monetary developments**

Monetary developments remain accommodative, on account of subdued inflationary and exchange rate pressures, coupled with improving aggregate demand. Broad Money (M3) grew by 9.6% in October 2018 compared to the same period in 2017. Net Foreign Assets (NFA) decreased by 2.4%. However, with most of the donor disbursements expected in December now disbursed, the Gross reserves target of US\$1,284 million by end December 2018 is likely to be reached. Credit to Private Sector grew by only 3.7% between December 2017 and October 2018, far below the target of 12% for the end year. With reference to December 2017, the Rwandan Franc (FRW) depreciated by 4.02% against the US\$ (as of December 2017). Pressures on exchange rate remained moderate due to the good developments in the external sector.

### ✓ **External Sector Performance**

During Jan-Oct 2018, the trade deficit has slightly increased by 2.5% to US\$ 1,129.4 million from US\$ 1,102.2 million recorded between Jan-Oct 2017. Exports increased by 12.5% (in value terms, to US\$ 818.7 Million from US\$ 727.6 million) and imports modestly increased by 6.5% (to US\$ 1,948.1 million from US\$ 1829.8 million recorded between Jan-Oct 2017). During Jan-Oct 2018, Export performance was driven by volume increase of coffee (+16.0%), Tea (+17.6%) and Products of milling (+54.5%) and value increase of minerals (3Ts) export (+27.1%). Import of goods has increased during Jan-Oct 2018 due to value increase in importation of cement products (+32.2%), petroleum products (+25.4%), Machines (+15.5%), and cereals, flours and seeds (+15.7) compared to Jan - Oct 2017.

Comparison to exports and imports targets for 2018: January-October 2018 trade deficit stood at US\$ 1,129.4 million compared to the projected trade deficit of US\$ 975.4 million. Thus, we have only achieved 75.6% of total projected export value for the entire year while imports achieved represent 79.2% of projected imports. However, we are on track with the volume target since we have already achieved 80.3% of the projected export volume. Tea especially is doing very well and have achieved above average 89.3% share of 2018 projection.

## Summary Trade balance as of end October 2018

Trade	Jan – Oct 2017		Jan - Oct 2018		% change	
	Value USD	Volume Tons	Value mn USD	Volume Tons	Value	Volume
<b>Export</b>	<b>727.6</b>	<b>518,568</b>	<b>818.7</b>	<b>582,011</b>	<b>▲ 12.5%</b>	<b>▲ 12.2%</b>
Coffee	52.7	14,572	56.6	16,903	▲ 7.4%	▲ 16.0%
Tea	72.2	22,550	78.2	26,528	▲ 8.3%	▲ 17.6%
Minerals (3Ts)	97	6,465	123.3	7,066	▲ 27.1%	▲ 9.3%
Other Exports	505.7	474,981	560.5	531,513	▲ 10.8%	▲ 11.9%
o/w Other minerals	166	739	167	465	▲ 0.6%	▼ -37.0%
o/w re-export	235.7	262,231	276.4	303,494	▲ 17.3%	▲ 15.7%
<b>Import</b>	<b>1,829.80</b>	<b>1,709,904</b>	<b>1,948.10</b>	<b>1,904,532</b>	<b>▲ 6.5%</b>	<b>▲ 11.4%</b>
Consumer goods	614.1	650,543	628.5	705,490	▲ 2.3%	▲ 8.4%
Capital goods	513.5	51,954	524	62,192	▲ 2.1%	▲ 19.7%
Intermediate goods	498.3	743,557	543.5	833,577	▲ 9.1%	▲ 12.1%
Energy and lubricants	203.9	263,850	252.2	303,273	▲ 23.7%	▲ 14.9%
<b>Trade deficit</b>	<b>1,102.20</b>	<b>1,191,337</b>	<b>1,129.40</b>	<b>1,322,521</b>	<b>▲ 2.5%</b>	<b>▲ 11.0%</b>

### ✓ Fiscal Performance

## Fiscal Performance July-December 2018

<i>In billion FRW</i>	Jul-Dec 2018 Proj.	Jul-Dec 2018 Prov. Act
<b>Revenue and grants</b>	<b>1,024.8</b>	<b>1,033.8</b>
<b>Total revenue</b>	<b>768.6</b>	<b>799.9</b>
Tax revenue	643.8	657.9
Direct taxes	265.5	272.5
Non-tax revenue	124.8	142.0
<b>Total Grants</b>	<b>256.2</b>	<b>234.0</b>
Budgetary grants	128.4	106.2
Capital grants	127.8	127.8
<b>Total expenditure and net lending</b>	<b>1,237.9</b>	<b>1,186.0</b>
Current expenditure	666.9	634.6
Capital expenditure	477.8	454.9
Net lending	93.3	96.5

In Economic classification terms, total revenue and grants were projected at FRW 1,024.8 billion for the July-December 2018 period. From the preliminary numbers as of end December, tax revenue collections recorded a good performance with an excess of FRW 14.1 billion as a result of good performance under direct taxes. Non-tax revenue collections performed well with an

excess of 17.2 billion FRW and the main contributor to this good performance is reimbursements from the UN for Peace keeping operations as well as other administrative fees.

In relation to total grants, amount disbursed during the period under review is 234 billion FRW, which is 22.3 billion FRW lower than the 256.2 billion FRW projected, due to delayed disbursement by some development partners.

Total expenditure and net lending were projected at FRW 1237.9 for the July-December 2018 period. Total recurrent expenditure amounted to 634.6 billion FRW which is 32.3 billion FRW lower than the projected amount of 666.9 billion FRW. Reason for this lower expenditure in the first half of the year was due to delays in finalizing new commitments including contracts in the first quarter.

For the first half of the fiscal year 2018/19, capital expenditures amounted to FRW 454.9 billion compared to the projected amount of FRW 477.8 billion. Which shows an underspending of FRW 22.9 billion. This underperformance was mainly due to delayed spending for projects financed with Global Fund grants as well as some other infrastructure projects mainly energy and roads projects. Net lending that was projected at RWF 93.3 billion, recorded an excess of FRW 3.2 billion during the period under review, on account of front loading of Rwandair working capital due to continued expansion of its operations.

#### **4. The Revised 2018/19 budget proposals.**

The budget revision process has been informed by the economic and budget performance for the first six months of 2018/19 by carrying out an assessment of implementation status of the development projects allocated resources as well as continuing the budget rationalization process to ensure that public resources are spent where the desired impact is mostly achieved.

Hence, this explanatory note highlights the details of the proposed changes that are being made to the 2018/19 budget for consideration and reflect the following changes:

##### **a) Resources**

On the resources, total revenue and grants have increased from FRW 1,904.9 Billion in Original budget to FRW 1,996.8 Billion, showing a net increase of FRW 91.9 Billion. The following are key changes proposed:

##### **✓ Tax Revenue**

Tax revenues are projected to increase by FRW 20.0 Billion, from FRW 1,353.0 billion in original budget to FRW 1,373.0 Billion. This increment will come from direct taxes as a result of good economic performance, which will offset a small decline in projected taxes on international trade.

### ✓ **Non-tax Revenue**

In the original budget, the total amount of FRW 155.7 billion is being revised upwards to FRW 198.4 billion, showing a net increment of FRW 42.7 billion. This increase is expected from PKO reimbursements from both new deployments and previously due repayments.

### ✓ **Total grants**

The original budget amount of FRW 396.3 Billion is being increased to FRW 425.4 billion showing a net increase of FRW 29.1 billion. This increment reflects additional budget support of FRW 6.6 Billion from DFID for textbooks development and FRW 22.5 Billion additional grants from Global fund for ongoing programs in health sector.

## **b) Total Expenditures and Net lending**

In the case of expenditures, total expenditure and net lending is being raised from FRW 1,507 billion to FRW 1,557 billion showing a net increase of FRW 50 billion. The expenditure envelope has been revised to reflect the changes for some items under recurrent spending and capital expenditure as follows:

### ✓ **Recurrent Expenditure**

The original budget estimate of FRW 1,266.1 billion is being raised to FRW **1,310.0**billion showing a net increase of **FRW 43.9 billion**. The following items are affected:

#### ▪ **Wages and Salaries**

The original figure of FRW 437.4 billion is being raised by FRW 8.7 billion to FRW 446.1 billion. This increase is meant to cater for the planned 10% increase in teachers' salary, recruitment of new teachers, salaries for the recently established institutions (R-FDA and new embassies) and implementation of the reviewed institutions (OAG, NISR, RRA, NIRDA and NRS).

#### ▪ **Recurrent Non-wage**

The total amount of **FRW 1,069.5** billion in Original Budget is being raised by **FRW 28.6** billion to **FRW 1,098.1** billion. This increment is mainly meant to provide for implementation of the revised Government fleet policy, operationalization of new Embassies (Harare and Maputo), operationalization of Rwanda Food and Drugs Authority (RFDA), refilling government petroleum reserves as well as the preparation for 25<sup>th</sup> commemoration for Genocide against Tutsi.

- **Public debt servicing**

The total interest and amortization of FRW 173.0 billion in original budget is being raised by a net amount of FRW 8.4 billion to FRW 181.4 billion. The increase is to cater for the expected increase in interest payments on additional domestic arising from loans at maturity period.

- ✓ **Capital Expenditures**

The original budget figure of FRW 936.6 billion is being raised by a net amount of **FRW 104.3 billion FRW to FRW 1,041.0 billion**. The changes affect both domestically and foreign financed capital expenditures.

With regard to the domestically financed Expenditure, the original budget amount of FRW 549.6 billion FRW is being raised by **FRW 89 billion to FRW 638.6 billion**. This increased amount is to be used to finance upgrading of Amahoro Stadium, financing key transmission lines and access to electricity projects, provision for technology trainings through the partnership with Andela Developer, Gabiro Agribusiness hub project, Tourism Development Projects, provision for ongoing contract of the supply of Fortified Blended Food and allocation for key projects financed by Global Fund.

In the case of the foreign financed expenditure, the original allocation amount of FRW 387.0 billion is being raised by FRW 15.4 billion to 402.4 billion FRW to cater for key externally financed projects in infrastructure and agriculture sectors.

### **c) Revised Deficit and financing Projections**

As a result of the proposed changes in the resources and expenditures, the overall cash deficit figure will also change. Accordingly, the overall cash deficit amount of FRW 436.8 billion, (representing 4.6% of GDP) in original budget is being raised to FRW 484.9 billion (representing 5.4% of GDP), showing a net increase of FRW 48.1 billion.

The new cash deficit will be financed with net foreign borrowings amounting to FRW 435.7 billion as budgetary and project loans (mostly concessional loans) and domestic financing amounting to FRW 49.2 billion.

## **CONCLUSION**

The revised 2018/19 budget is part of the revised medium term macro-economic framework that aims to continue the fiscal consolidation and prudent borrowing policies to make debt and external imbalances sustainable. The Government will continue to monitor closely all components of economic performance that may affect the smooth implementation of the revised 2018/19 budget and will take any necessary corrective measures to ensure full implementation of the budget and at the same time maintain macro-economic stability.