Ministry of Finance and Economic Planning

Budget Framework Paper 2012/13-2014/15

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I. INTRODUCTION

The Budget Framework Paper (BFP) is a document that outlines Government's macro-economic and fiscal policy stance for the fiscal year 2012/2013 and the medium term. The document reflects and supports the country's commitments as defined in the Economic Development and Poverty Reduction Strategy (EDPRS) and Vision 2020.

This year's BFP is being prepared under very serious downside risks in the international outlook for 2012 stemming from weak global demand, lower commodity prices as well as high oil prices. There is no doubt that these factors will affect domestic macro-economic conditions. These changing conditions have been taken into account in formulating the macro-economic policies and the budget framework for 2012/2013 and the medium term. They not only present challenges but also opportunities for the economic and social progress of the country. The Budget Framework Paper therefore articulates the flexible policies that have been designed to respond to these opportunities and challenges to move the country forward.

The major objective of the Budget Framework Paper is to consolidate the Government's commitment to achieving a medium term fiscal consolidation through an accelerated domestic resource mobilization and expenditure prioritization in order to narrow the fiscal gap and reduce the reliance on external donor financial assistance.

The Budget Framework Paper is also consistent with the Central Bank's(BNR) medium term monetary policy stance which aims at ensuring adequate liquidity to promote sustainable growth and at the same time achieve single digit inflation over the medium term. It is also in line with the Government's medium term debt strategy (MDTS) which also ensures that the country's public debt is maintained at an appropriate and sustainable level in the medium term.

II. OUTLINE OF THE BUDGET FRAMEWORK PAPER

Chapter one summarizes recent domestic economic performance including the global impact on performance. Chapter two outlines the structure of the paper while chapter three presents the global outlook and the medium term macro-economic and budget policy framework including trends in revenue and expenditures. The fourth chapter deals with the budget for 2012/2013 including economic classification of the budget and sectoral allocations as well as financing. Policy issues arising from the 2012/2013 budget formulation are discussed in chapter five, whilst some possible risks to the economic and budget implementation are outlined in chapter six. Chapter seven deals with concluding remarks and finally annexes providing detailed numbers are shown in chapter 8.

III. RECENT DOMESTIC ECONOMIC PERFORMANCE

a. The Global Performance

Global economic activity in 2011 was mixed as real GDP decelerated to 3.8 percent compared to 5.2 percent in 2010. Output is projected to decline further to 3.3 percent in 2012 due to mixed adverse developments across countries including the after effects of the Tsunami and earthquake in Japan and the Euro area going into recession resulting from the rise in sovereign yields, effects of deleveraging on the real economy and impact of additional fiscal consolidation. Growth in the emerging development economies is also expected to slow from 6.2 percent in 2011 to 5.4 percent in 2012 because of worsening external environment and a weakening of internal demand. These factors will also impact negatively on Sub-Saharan African performance as output is projected to rise only marginally from 4.9 percent in 2011 to 5.5 percent in 2012 responding to improved economic policies coupled with large infrastructure development.

Commodity prices declined in 2011 in response to weaker global demand. Oil prices however remained high because of supply developments. Geopolitical risks to oil prices have risen again and will affect prospects for 2012. For non- oil commodities, improving supply conditions and slowing global demand are expected to cause further price declines by about 14 percent in 2012. Rwandan exports will be affected by these price declines.

Global inflation is projected to ease as demand softens and commodity prices stabilize or recede. Inflation is projected to fall to 1.5 percent in 2012 from a peak of 2.75 percent in 2011. In emerging and developing countries, pressures are expected to drop as both growth and food price inflation slows to 6.25 percent in 2012 from 7.25 percent in 2011.

b. The domestic Performance

i. Real GDP growth

The table below shows the GDP performance in 2008 to 2011.

Price constants 2006 (GVT) (in Billion Rfw)				
	2,008	2,009	2,010	2,011
GDP	2,054	2,182	2,340	2,541
Agriculture	721	776	815	853
Food Crop	603	659	692	727
Export Crop	23	20	22	23
Industry	296	300	326	383
Mining and quarrying	13	11	10	14
Manufacturing	124	128	140	151
Construction	155	157	171	211
Services	920	977	1065	1160
Wholesale & retail trade, rest. & hotels	308	316	342	374
Transport, storage, communication	166	181	197	208
Finance & insurance,	56	54	66	80
Adjustments	117	128	135	145
Less: Imputed bank service charge	-31	-30	-35	-46
Plus: Taxes	148.7	157.7	169.6	191.0
Annual change				
GDP	11.2%	6.2%	7.2%	8.6%
Agriculture	6%	8%	5%	5%
Food Crop	6%	9%	5%	5%
Export Crop	29%	-15%	14%	3%
Industry	15%	1%	8%	18%
Mining and quarrying	-16%	-18%	-11%	56%
Manufacturing	6%	3%	9%	8%
Electricity, gas, & water	18%	15%	15%	15%
Construction	28%	1%	9%	24%
Services	14%	6%	9%	9%
Wholesale & retail trade, rest. & hotels	17%	3%	8%	9%
Transport, storage, communication	24%	9%	9%	5%
Finance & insurance,	2%	-4%	24%	21%
Adjustments	12%	9%	5%	7%
Less: Imputed bank service charge	10%	-6%	18%	32%
Plus: Taxes	12%	6%	8%	13%

Source: National Institute of Statistics of Rwanda and Minecofin for 2010

Reflecting the expected impact of high world fuel and food prices on the economy, real GDP growth for 2011 was projected at 7 percent, slightly lower than the 7.2 percent achieved in 2010. However provisional estimates for 2011 put real GDP growth at 8.6 percent. This growth was mainly achieved with a strong 18 percent growth performance from the industry sector led by the construction, minerals, chemicals and nonmetallic minerals sub sectors. The agriculture sector with a good season 'B' food crop harvest maintained a strong growth of 5 percent, the same as was achieved in 2010.

The services sector with significant contributions from the wholesale and retail trade, transport and communication as well as from public administration sub sectors maintained its strong contribution with a growth of 9 percent also the same as was obtained in 2010.

ii. Consumer Price Inflation

In the EAC countries, inflation continued to rise throughout 2011 caused by high oil and food prices as well as the drought in the horn of Africa. In Rwanda inflation rose sharply in 2011, but remained in single digits reaching 8.3 per cent at end December 2011 from 0.2 percent at end December 2010— the lowest in the East African Community (EAC). Government's fiscal and monetary policies have responded to keep the inflation at single digits in Rwanda on account of both demand side and supply side factors. On the supply side, the reduction in fuel taxes during the year 2011/12 contributed to reduce the inflationary pressure and stabilize prices as fuel is an important commodity that influences the prices of goods and services especially through transport costs. This reduction together with the good season "B" harvest in food crop had a positive impact on maintaining a low inflation posture. On the demand side, monetary policy tightening, through increases in the Central Bank policy rate (Key Repo Rate) – consecutively in October and November 2011 of 0.5 percent each time also helped curb inflationary pressures.

c. Fiscal Performance

The table below shows the details of fiscal performance in the July-December period of 2011

	July - Dec 2011	July - Dec 2011
	Proj	Prov Act
Revenue and Grants	585.9	587.3
Total revenue	284.1	284.2
Tax revenue	252.6	258.6
Direct taxes	95.5	99.7
Taxes on goods and services	137.1	138.2
Taxes on international trade	20.0	20.8
Non-tax revenue	31.4	25.6
Airtel licence fees	17.4	17.4
Total Grants	301.9	303.1
Budgetary grants	209.6	210.9
Capital grants	92.2	92.2
Projects	56.9	56.9
Of Which Global Fund	35.3	35.3
Total expenditure and Net Lending	524.2	480.4
Current expenditure	287.2	298.5
Capital expenditure	251.8	198.6
Net lending	-14.8	-16.6
Deficit (cash basis)	54.0	99.0
Financing	-54.0	-99.0
Foreign financing (net)	72.2	74.6
Domestic financing	-138.4	-173.6

The implementation of the 2011/2012 budget in the July-December period was affected by some challenges. In the resource area, uncertainties concerning timely disbursements of donor support funds complicated Government cash-flow management. Regarding spending, delays in completing tender processes for capital projects reduced execution of some programs and projects. Delays in disbursement of external loans also affected projects execution.

i. Resources

✓ Domestic tax and non-tax collections

The table below shows the details of tax revenue collections in the July-December 2011

	Value in Millions of RWF	
Tax Category	July-Dec 2011 Proj.	July-Dec 2011 Act.
Total Tax Revenue	252.6	258.6
Direct taxes	95.5	98.3
Companies	12.4	12.8
Individuals(PAYE)	34.0	35.1
Others and Property taxes	6.5	6.7
Taxes on goods and services	137.1	138.2
Excise taxes	46.0	46.4
VAT	81.9	82.5
Road Fund	9.2	9.3
Taxes on international trade	20.0	20.8
Import tax	16.7	17.3
Other (including Electrogaz fuel import)	3.4	3.5
VAT+PAYE as % of Total tax revenue	*45.9%*	*45.5%*
Taxes on international trade as % of Total tax revenue	*7.9%*	*8.0%*

Despite the permanent loss of 0.2 percent of GDP of revenue resulting from the reduction in fuel taxes with a view to start the harmonization of fuel taxes in Rwanda with EAC levels and, at the same time contain, the impact of transport costs on inflation in 2011, domestic revenue collections to end December 2011 amounted to RWF 284.2 billion (of which tax revenue of RWF 258.6 billion and non-tax revenue of RWF 25.6 billion) and met the estimated target for this period.

Tax revenue collection was RWF 5.6 billion higher than the target of RWF 252.6 billion by the end of December, driven mainly by higher direct taxes especially PAYE collections and consumption taxes (excise duties and VAT). However, a shortfall of RWF 5.8 billion in non-tax revenue was due to lower collections from administrative fees and charges as well as dividends.

- ✓ External Grants and Budgetary Loans

The table below shows the details of budget support grants disbursements in the July-December 2011 period.

	July-Dec 211 Proj.	July-Dec 211 Act.
World Bank	70.0	67.7
AfDB	37.3	37.3
DFID	62.1	103.5
EC (EU)	65.6	61.9
Germany	15.8	15.7
Netherlands	15.7	15.7
Belgium	8.1	0.0
FTI	20.0	20.0
S/Total	294.5	321.8
AU PKO	47.6	41.6
Demob Prog.	4.2	2.8
Total Grants (USD)	346.3	366.2
Budgetary Loans		
WB Budgetary Loan(PRSG)	65.0	62.0
Third Community Living Standards	6.0	6.2
AfDB (Agric . Sector Budget Support)	20.4	20.1
Total loans (USD)	85.4	82.3

Budget support grants that accrued to the budget up to December 2011 amounted to RWF 210.9 billion compared to RWF 209.6 billion expected for July – December 2011. The largest donors in this period were the World Bank which disbursed US$ 57.5 million and DFID with US$ 49.1 million. An amount of US$ 19.5 million was also received from the UN/AU as reimbursement for the costs associated with peace-keeping operations in the Sudan.

In the July-December period budgetary loans of RWF 53.4 billion accrued to the budget. This amount was RWF 1.2 billion higher than the RWF 52.2 expected. The World Bank (US$62.0 million) and the AFDB (US$ 20.1 million) provided these resources.

ii. Expenditures

By end December, total provisional spending for the first half of fiscal year 2011/2012 had reached RWF 480.4 billion compared to the total spending of RWF 524.2 billion programmed for this period. Whilst total recurrent expenditure at RWF 298.5 billion exceeded the projected amount of RWF 287.2 billion by RWF 11.3 billion, capital expenditure at RWF 198.6 billion was RWF53.2 billion lower than projected. With regards to recurrent expenditure, excess spending occurred under wages and salaries and transfers but these were offset by lower expenditure under goods and services. In the case of wages and salaries, the excess spending of RWF5.5 billion was due to frontloading of payments concerning the regularization of Teachers' salaries including increases in the minimum wage. The excess in the area of transfers was on account of the frontloading of transfers to the Local Development Fund (LDF) of the districts for the implementation of various projects and programs. With respect to goods and services the lower expenditure was due to the delays in completing payment documents to allow various Government suppliers to be paid on time.

In the area of capital expenditure both domestically and externally funded projects contributed to the lower spending. The main reason for this lower spending was due to delays in completing all tender documents on time. The affected projects were the fiber optic and energy projects including the Nyabarongo hydro project as well as projects and programs funded by the Global Fund. Despite the lower total spending during this period, the priority expenditure target was met.

iii. Fiscal deficit and financing

The fiscal deficit for the first half of the fiscal year 2011/2012 was about 1 percent of GDP smaller than projected. This performance reflects the accrual of higher budget support funds (loans and grants) as well as the lower total spending. As a result, there was a larger build- up of deposits under net domestic financing which reached RWF 173.6 billion at end December as against a build- up of RWF 138.4 billion projected. Net domestic financing from the accumulation of deposits for 2011 at RWF 107.2 billion therefore exceeded the estimated target of RWF 66.4 billion for that period.

d. Outlook for the Remaining Fiscal Year 2011/2012

Since the beginning of the year, there has been an acceleration of spending under goods and services and capital expenditure as the bottlenecks that delayed spending have been resolved. With regards to transfers and wages and salaries, monthly expenditures have returned to normal levels. The execution of the budget in the second half of the fiscal year 2011/2012 is therefore on track.

i. External Sector

The table below shows a summary of the balance of payments for 2009-2011

	2009	2010	2011
Exports , f.o.b.	234.9	297.3	464.2
Main Exports , f.o.b.	141.0	179.6	289.9
of which Coffee	37.3	56.1	74.6
Tea	48.2	55.7	63.9
Minerals	55.4	67.9	151.4
Other Exports	94.0	117.6	174.3
Imports, f.o.b.	1,246.8	1,389.4	1,975.5
Capital Goods (incl. Large Projects)	372.4	357.6	550.3
Intermediary Goods	332.5	382.0	526.6
Energy goods	178.0	210.8	345.6
Consummer Goods	364.0	439.0	553.1
Trade Balance	**-762.06**	**-786.70**	**-1,099.57**
Services net	-242.5	-329.9	-318.6
of wich tourism	251.8	276.0	317.5
Income net	-36.8	-45.8	-54.7
of wich remittances	88.1	98.2	166.2
Current transfers (net)	604.0	657.4	880.6
Public	524.3	566.7	747.3
Private	79.7	90.7	133.3
Capital and Finacial Account	0.0	0.0	0.0
of which FDIs	118.7	42.3	106.2
Long Term Debt	42.7	129.0	148.8
Overall Balance	**57.0**	**72.1**	**233.9**

Exports in value terms (f.o.b basis) showed a strong growth of 56 percent in 2011 compared to 2010 led by minerals exports. At the same time imports also in value terms (f.o.b basis) rose sharply by 44 percent in 2011 compared to 2010. This sharp growth was due to a large surge in capital goods imports responding to the investment requirements for growth as well as higher outlays for energy products reflecting the high prevailing world oil prices. As a result of these developments, the trade deficit widened by about 40 percent in 2011 compared to 2010.The services and income balances improved, mainly from an increase in tourism receipts and the AirTel (telecom) license fee. Current transfers, including from the Global Fund, also increased sharply resulting in only a marginal deterioration of about 10 percent in the current account deficit in 2011 compared to 2010.

Both public and private borrowings increased in 2011 compared to 2010, reflecting ongoing implementation of some public strategic investment projects as well as private sector projects in the transportation, communication, real estate and coffee sectors. As a result of this performance in the capital and financial accounts the overall balance of payments closed with a surplus of US$ 233.5 million in 2011 compared to a surplus of US$ 72.1 million in 2010. Gross international reserves increased and reached coverage of about 7 months of imports.

ii. Monetary and Exchange rate Developments

Broad money supply recorded an annual increase of 26.7 percent at end-2011, driven mainly by the growth of credit to the private sector of 28.4 percent. The increase in monetary aggregates has been significantly higher than initially projected, in line with the higher-than-projected economic growth. Which reached 8.6 percent compared to 7.2 percent originally projected. This performance in monetary aggregates was driven by the increase in Net Foreign Assets (NFA) by 29.4 percent and the growth of about 8.5 percent in Net Domestic Assets (NDA). The initially underestimated demand for money constituted a challenge for the central bank in implementing the reserve money program during the second and third quarters of 2011. However, following the adjustments made in the monetary program in November, the BNR met the end-2011 net foreign assets and reserve money targets.

At end 2010, total new authorized loans by the commercial banks and BRD amounted to RWF 262 billion. By end 2011 this amount had risen to RWF 336 billion showing an increase of 28 percent. Regarding the distribution of loans by economic activities, the largest share (36.7 percent) went to the commerce, restaurants and hotels sectors whilst the second largest share (24.7 percent) was given for public works and construction. New loans for the agriculture sector continues to be low, even though 2011 saw an increase to RWF11.9 billion from RWF 5.1 billion in 2010.

✓ Liquidity Management

Liquidity in the banking system improved considerably throughout 2011 reflecting the recovery of the economy. To regulate this liquidity, BNR used the Repurchase Agreement Operations (REPO) more frequently to absorb the excess liquidity due to its flexibility in terms of investment maturity and its role to steer the market rates. At end December 2011, Commercial banks' outstanding investments in REPO amounted to RWF85 billion compared to RWF 60.6 billion at end December 2010.

- ✓ Interest Rates Developments.

Developments in the money market interest rates have been consistent with the change in the banking sector liquidity. This situation was significantly influenced by the level of the reserve money targets. The REPO rates were therefore stable during the first 9 months of 2011.

However from October, the REPO rates fluctuated as a result of the adjustment to the reserve money target to respond to higher economic activities and the increase in the policy rate. Thus the average REPO rate moved to 6.53 percent in December 2011 from 6 percent in September, while the average Treasury bills rate also increased to 7.62 percent from 6.71 percent. The interbank rate also rose to 8.08 percent from 6.93 percent during the same period.

With regard to money market rates, commercial banks deposit interest rates went up slightly to 7.17 percent in November 2011 from 6.84 percent in December 2010 whilst lending rates have been fluctuating between 17.04 percent and 15.63 percent.

- ✓ Exchange Rate Developments.

Regarding exchange rate policy, BNR continued to maintain a flexible exchange rate regime and only intervened on the domestic foreign exchange market by selling foreign exchange to banks to smoothen the exchange rate volatility. During calendar year 2011, the Rwandan franc remained stable, depreciating against the US dollar only by 1.6 percent.

- ✓ Financial sector

The banking system continues to be highly liquid and profitable with the overall nonperforming loans ratio declining from 10.8% at end-2010 to 8.0% at end--2011. The SACCO supervision structure is under development and will be completed by end March 2012. The draft action plan of the SACCO structure is also being worked on and will be completed as soon as the structure is finalized.

Regarding the regulatory framework, BNR continued to reinforce its supervisory roles by conducting both off site surveillance on onsite inspection. During the year 2011, 9 onsite inspections were conducted against 7 carried out in 2010. During the year 2011, the BNR .Board of Directors approved two banking regulations; one on Reporting requirements and another one on Risk Management in December 2011.

IV. OBJECTIVES AND POLICIES IN THE MEDIUM TERM 2012/2013-2014/2015.

Rwanda has recently conducted a household living conditions survey (EICV 3). The survey results show that poverty has been reduced of 12 percentage points over the last five years (from 2005/6 to 2010/11). This represent in nominal terms, more than a million Rwandans being lifted out of poverty.

The results of the last surveys (EICV 3 and DHS 4) have shown that a lot of progress has been made in achieving the targets we had committed to under our EDPRS for the implementation of our Vision 2020. By 2010/11, more than 85% of the targets under our EDPRS had been achieved.

Many of the targets under Vision 2020 have already been achieved by 2011, and others are on track to be achieved; some before 2020. As such, the country has decided to revise those targets to the level of our ambitions.

One such target is the GDP per capita, it was set at USD 900, and we have now revised it at USD 1,240. This level of GDP per capita will ensure that Rwanda is middle income country by 2020. It will require a double digit average growth rate of about 11.5% over the next decade. This objective compares to an average of 8.5% growth rate over the past decade. It implies that we will need to do many things differently. One of them is continue controlling our population growth rate, while ensuring that our population becomes more productive.

This medium-term budget framework goes a long way towards setting the stage for this required growth. We intend to be more aggressive in attracting and facilitating investment in Rwanda: it translates into more than doing business to address the infrastructure bottlenecks, establishing the foundations for economic transformation based on an export-oriented growth strategy, growing our agriculture and ensuring it linkages to the manufacturing sectors, raising competitiveness of our firms as our economic development more than ever will depend on the private sector becoming more competitive as we integrate within the region and beyond.

While an average real GDP growth of 11.5 percent is the objective to achieve, this medium term policy framework is built on a more conservative growth outlook, on account of economic downside risks stemming from global economic slowdown threats (weak global demand, low commodity prices and high oil prices).

The medium term macro-economic framework as presented here will be revisited when the EDPRS2 is completed to take into account the new growth path as well as policies to achieve it.

a. Overview of the 2012/13 policy statement and Medium term Macro-economic Framework

i. Real Sector and Inflation Projections

The table below shows the projected GDP growth by sectors for the 2012-2015

Price constants 2006 (GVT) (in Billion Rfw)				
	2012 proj	2013 proj	2014 proj	2015 proj
GDP	2,736	2,941	3,153	3,374
Agriculture	908	968	1032	1096
Food Crop	774	827	885	943
Export Crop	28	32	35	38
Industry	426	463	505	554
Mining and quarrying	16	17	17	18
Manufacturing	164	177	194	208
Construction	239	261	285	316
Services	1257	1354	1451	1554
Wholesale & retail trade, rest. & hotels	401	424	453	482
Transport, storage, communication	220	233	250	264
Finance & insurance,	90	106	116	130
Adjustments	145	156	164	169
Less: Imputed bank service charge	-52	-61	-67	-75
Plus: Taxes	197	217	232	245
Annual change				
GDP	7.7%	7.5%	7.2%	7.0%
Agriculture	6.5%	6.6%	6.6%	6.2%
Food Crop	6.5%	6.9%	7.0%	6.5%
Export Crop	22.5%	12.8%	9.1%	8.9%
Industry	11.3%	8.8%	9.1%	9.6%
Mining and quarrying	10.8%	3.9%	3.9%	6.2%
Manufacturing	8.6%	8.1%	9.4%	7.2%
Construction	13.2%	9.3%	9.1%	11.0%
Services	8.3%	7.8%	7.2%	7.1%
Wholesale & retail trade, rest. & hotels	7.2%	5.6%	7.0%	6.4%
Transport, storage, communication	6.0%	6.0%	7.2%	5.5%
Finance & insurance,	12.3%	18.0%	10.0%	12.0%
Adjustments	0.4%	6.9%	5.7%	3.0%
Less: Imputed bank service charge	12.3%	18.0%	10.0%	12.0%
Plus: Taxes	3.3%	9.8%	6.9%	5.6%
Source: National Institute of Statistics of Rwanda and Minecofin for 2010				

Against the background of the slowdown in the global economy, real GDP growth is projected at 7.7% in 2012 and to remain strong over the medium term, averaging not less than 7.3 percent a year in the next three years.

Continued macroeconomic stability is a necessary condition for meeting this growth. The growth rate will be led by agriculture, construction and services.

In the medium term, the agriculture sector will continue to be significant with an annual average growth of about 6.4 percent led by food crops production especially cereals. This projection reflects the on-going public investments under the CIP through the provision of fertilizer and seeds, land consolidation and the increase in irrigated areas. The expansion in micro credit to the rural area should also allow significant farmer investments in agricultural activities. The expected results should provide food security for the nation and help reduce food imports in the medium term.

The industry sector which saw a high growth in 2011 led by construction is projected to grow on average by 9.7 percent in the medium term led by the construction and electricity, gas and water sub-sectors. The contribution from construction will come from both public and private sectors and reflect the on-going and projected investments. Regarding electricity, gas and water, the expected growth also reflects the ongoing and planned investments in both power generation and distribution as well as in water projects to meet the Millennium Development Goals in water and sanitation.

Growth in the services sector is estimated to average 7.6 percent per annum in the medium term. This growth will be led by the wholesale and retail trade, finance and insurance sub-sectors. This expected performance will reflect the increasing monetization of the economy, increasing yields from food crops production and profitability of banking and insurance activities. With regard to the transport and communication sub-sectors, growth will reflect the value addition from completed and new public and private investment. The on-going recovery in both domestic and foreign tourism numbers will be expected to continue in response to the various activities in the sub-sector and spearhead growth in this area.

Inflation is targeted at 7.5 percent for end-2012 and is projected to stabilize at 5 percent over the medium-term. The expected increase in food production together with the adoption of prudent monetary policies by BNR will support the achievement of the inflation rate objectives both in 2012 and in the medium term.

However, the risks of higher inflation remain due to uncertainties related to exogenous shocks, including fuel prices. The NBR stands committed to further tighten monetary policy to maintain a low level of inflation whilst ensuring adequate provision of credit to the private sector to promote the required growth.

ii. External Sector Policies

The table below shows a summary of the projected external sector performance in the 2012-2014 period.

Rwanda Balance of Payment in millions of USD (Projections)

	2012	2013	2014
Exports , f.o.b.	**466.7**	**492.2**	**514.0**
Main Exports , f.o.b.	296.5	312.6	322.1
of which Coffee	76.6	91.8	100.5
Tea	65.2	60.7	63.4
Minerals	142.0	147.3	143.5
Pyrethrum	5.7	5.8	7.4
Hides and Skins	7.0	7.0	7.2
Imports, f.o.b.	**1,778.4**	**1,771.9**	**1,841.4**
of which Capital Goods	765.6	737.8	801.0
Intermediary Goods	425.8	448.1	464.3
Energy goods	304.8	314.2	317.5
Consumer Goods	407.5	384.9	382.0
Trade Balance -goods	**-1,311.6**	**-1,279.7**	**-1,327.4**
Services net	-256.1	-250.3	-228.3
of which tourism	276.0	317.5	365.0
Income net	-73.8	-82.2	-93.8
Current Transfers (net)	939.3	853.4	759.6
of which public official trsfrs.-credit	815.6	727.7	633.3
Private (net)	134.9	137.7	140.6
of which remittances	171.7	178.4	185.3
Capital and Financial Account	692.3	643.1	735.1
0f which FDIs	171.9	120.8	150.0
Overall Balance	**9.7**	**115.6**	**154.2**

The country's external sector performance in the medium term will be influenced by the results of the comprehensive export strategy as well as global financial developments including behaviour of commodity prices. In 2012, weak global demand, low commodity prices and high oil prices are expected to impact negatively on external sector performance. The value of exports is projected to increase only by 1 percent despite significant increases in the volume of our export products (coffee, tea and minerals). For coffee and tea volume increases of 41 percent and 10 percent respectively are projected whilst prices will decline by 27 percent and 7 percent respectively in 2012. In the case of minerals volume of exports is projected to rise by 11 percent even though a -10 percent decline in prices is expected.

Responding to the investment needs of the country and reflecting the expected increase in oil prices, imports are projected to rise in value terms by 14 percent in 2012. However despite the projected increase in current transfers especially from Global Funds, the current account deficit (including official transfers) is expected to widen by US$ 240.5 million in 2012 compared to 2011. Net capital flows including public and private borrowings to finance ongoing public and private investment projects cover the current account gap and allow a small overall balance of payment deficit. Gross reserves at end 2012 are projected at comfortable levels of 5 months of imports.

In the medium term exports in value terms are projected to increase on average by 5 percent per annum to reflect the implementation of the comprehensive national export strategy. Responding to the investment requirements of the country, imports in value terms are also projected to rise on average by 6.3 percent per annum over the medium term. Mirroring the projected decline in budgetary grants, the current account balance will be expected to deteriorate slightly in the medium term.

Public and private capital flows are projected to increase to partly offset the decline in grants and also to respond to the expected rise in FDIs for private sector projects. The balance of payments in 2013 and 2014 are projected to show deficits resulting in draw down of reserves. Despite the projected draw-down of reserves, official reserves will be expected to remain at comfortable levels covering4.3 months of imports of goods and services.

iii. External Debt Policy

In the area of external debt, the Government will explore all avenues for concessional financing. However given the large requirement of resources for the financing of our development agenda, some non - concessional financing will be necessary. The Government has already agreed to a ceiling of US$240 million of non- concessional borrowing during the PSI period for RwandAir and the Kigali Conference Center (KCC). The Government is in the process of finalizing financing plans and options for other large strategic investment projects (Energy, the Bugesera airport and the Regional railway project). The Government will review the ceilings when these plans are completed. The review however will not compromise debt sustainability in the medium to long term.

iv. Monetary and Exchange Rate Policies

BNR has been implementing a prudent monetary policy to avoid risks of exacerbating inflationary pressures while continuing to support financing of the economy. Monetary and exchange rate policies in the medium-term will continue to be more proactive to support the country's ambitious economic growth. In this regard, the Central Bank will continue to use reserve money as anchor for its monetary program. In the medium term both reserve money and broad money will grow in line with nominal GDP growth. This means that they will grow on average by 14.7 percent per annum consistent with the average annual nominal growths projected for the 2012-2015 period. In the case of 2012, both reserve and broad money are projected to grow by 17 percent reflecting the nominal growth rate for this year. To respond to the investment needs for growth this year private sector credit is projected to grow by -18.4 percent.

BNR will continue to use all available monetary policy instruments including the policy rate not only to safeguard the targeted inflation rate but also to ensure that real interest rate remains positive to further support domestic savings mobilization and the financial sector deepening.

With regard to exchange rate policy, BNR in 2012 and in the medium term is committed to maintaining a market driven exchange rate. It will therefore continue to only intervene from time to time on the foreign exchange market to smoothen the rate volatility. The Central Bank will also continue to ensure that the exchange rate policy remains supportive of external sector competitiveness and prospects for export diversification.

v. Financial Sector Reforms

In 2012 and the medium term, BNR will continue to enforce stability and the soundness of the financial sector by performing several activities including streamlining the legal, regulatory and supervisory framework for the supervised institutions. In addition BNR will monitor closely the strategies of the financial institutions in order to reduce the level of Non-Performing Loans (NPLs) of lending institutions as well as report and use credit information supplied by the credit bureaus.

In the area of micro finance, emphasis in 2012 will be put on actions aimed at completing the licensing of SACCOs established in line with UMURENGE SACCO Program as well as their monitoring and supervision. It is also expected that the year 2012 will see the establishment of the Deposit Insurance Fund.

b. 2012/2013 Budget Framework and Medium Term Fiscal Strategy and

Fiscal consolidation through increased domestic revenue mobilization and expenditure prioritization to close the fiscal gap remain the key components of Government's medium –term fiscal strategy. On the resource side the framework is guided by the fact that domestic revenue is projected to rise from 14 percent of GDP in 2012/2013 to 14.3 percent of GDP in 2013/2014. Over the medium term domestic revenue will be expected to rise on average by 0.3 percent of GDP per annum and reach 14.9 percent of GDP by 2015/2016. In the case of external resources, the projections are guided by the uncertainties in donor grant commitments in the outer two years of the medium term. Total budget support grants for 2012/2013 are projected at 11.4 percent of GDP. These are expected to decline in the medium term and reach 7.2 percent of GDP by 2015/2016. However in view of the fact that Rwanda is no more classified as a grants only country but a mixed country eligible for budget support loans, the gap created by the decline in grants is expected to be partially filled with budgetary loans. These are projected to rise from 0.2 percent of GDP in 2012/2013 to 0.6 percent in 2014/2015.The fact that the budgetary loans do not fully offset the gap in grants coupled with the projected small annual increases in domestic revenue point to inadequate available resources for public expenditure in the medium term.

The major focus regarding expenditure policy in the medium term therefore is to implement a prioritization policy that will allocate adequate resources for the completion of on-going strategic investment projects and programs and at the same time take on board new outlays that are consistent with the EDPRS objectives. In line with the medium term budget framework, total expenditure and net lending is projected to rise to 28 percent of GDP in 2012/2013 in order to accommodate the wage increases in the public sector as well as in the domestically financed capital budget. To partially finance the needed increases in the domestically funded capital expenditures and the wage-bill in fiscal year 2012/2013, allocations for the purchase of goods and services are being reduced without altering the efficiency of public services delivery. In the medium term the allocations for the purchases of goods and services will be augmented on average by 0.2 percent of GDP per annum with savings of equal amount from the domestically financed expenditures.

Total outlays in the medium term are therefore projected to decline steadily to 23.7 percent of GDP by 2015/2016. Mirroring these projections the overall deficit (including grants) is projected to decline from 2.6 percent of GDP in 2012/2013 to 1.6 percent of GDP in 2015/2016.

In the medium term, Government intends limit the size of domestic borrowing for the financing of the budget deficit to a level that will be consistent with maintaining macro-economic stability.

i. The Budget for Fiscal Year 2012/2013

The table below gives a summary of the budget for fiscal year 2012/2013 compared to the fiscal year 2011/2012.

	2011/ 2012	2012/2013
Revenue and grants	1,028.6	1,206.6
Total revenue	565.1	665.7
Tax Revenue	519.7	641.2
Non-tax revenue	45.4	24.5
Total Grants	463.5	540.9
Budgetary grants	279.1	297.0
Capital grants	184.4	243.9
Of which : Global fund	70.7	96.2
Total expenditure and net lending	1,105.6	1,331.0
Current expenditure	596.3	679.9
Capital expenditure	508.6	641.3
Domestic	248.9	271.0
Foreign	259.7	370.3
Of which : Global fund	70.7	96.2
Deficit (cash basis)	-88.8	-132.4
Financing	88.8	132.4
Foreign (net)	116.6	119.6
Domestic	-28.0	12.7

The budget for fiscal year 2011/2012 is consistent with the medium term macro-economic framework and the PSI for fiscal year 2012/2013 agreed with the IMF. It seeks to deepen the fiscal consolidation strategy. The main objectives are to increase revenue mobilization as well as allocate additional resources for the needed wage increases in the public sector under the Pay and Retention Policy and for domestically financed capital projects to reduce poverty. The objective of the Pay and Retention Policy is to enable Government enhance its capacity to attract, retain and adequately motivate personnel with requisite skills to the public sector with a view to improve service delivery at the national and local levels. To ensure sustainability of the pay and retention policy in the medium term, total allowable increases in fiscal year 2013/2014 will be limited to a level consistent with maintenance of macroeconomic stability.

The 2012/2013 budget will continue the steps undertaken last fiscal year to broaden the coverage of projects grants in fiscal operations of Government. Projects included in the budget for 2012/2013 are mostly projects with funding from some UN agencies.

Total revenue and grants are therefore projected at RWF1206.6 billion (25.4 percent of GDP) compared to the revised total of RWF1028.6 billion (25.1 percent of GDP) in 2011/2012. Domestic revenue collections are projected at RWF 665.7 billion (14 percent of GDP) whilst non tax revenue is estimated at RWF 24.5 billion (0.5 percent of GDP). Total grants are estimated at RWF 540.9 billion (11.4 percent of GDP) comprising RWF 297.9 billion (6.2 percent of GDP) of budget grants and RWF243.9 billion (5.1 percent of GDP) of capital grants. The capital grants include Global Funds of RWF 96.2 billion (2 percent of GDP).

Total expenditure and net lending is estimated at RWF 1 331 billion (28 percent of GDP) as against the revised total of RWF 1105.6 billion (26.9 percent of GDP) in 2011/2012. Recurrent spending is projected at RWF 679 billion (14.3 percent of GDP) compared to RWF596.3 billion (14.5 percent of GDP) in 2011/2012. Capital spending and net lending are expected to take RWF 641.3 billion (13.5 percent of GDP) and RWF9.8 billion (0.2 percent of GDP) as against RWF508.6 billion (12.4 percent of GDP) and RWF 0.7 billion (0.1 percent of GDP) in 2011/2012 respectively. This sharp increases in outlays in the 2012/2013 budget reflect the increases needed to finance the wage bills of the public sector workers (0.7 percent of GDP) and the additional expenditure under capital spending (1.1 percent of GDP) to reduce poverty.

The 2012/2013 budget is projected to close with an overall deficit (including grants) of RWF 124.4 billion (2.4 percent of GDP) compared to RWF 77.1 billion (1.9 percent of GDP) in 2011/2012. Net domestic financing of the deficit will amount to RWF 12.7 billion (0.3 percent of GDP). In 2011/2012, there was a net retirement of debt of RWF 28 billion (0.7 percent of GDP) reflecting partial savings of the privatization receipts from the IPO of MTN and Banque de Kigali.

- ✓ Resources
- ✓ Domestic Revenue Projections
    - ▪ Tax Revenue Projections

Tax revenue collections have been estimated at RWF 641.2 billion (13.5 percent of GDP) compared to RWF 519.7 billion (12.7 percent of GDP) in 20111/2012. This projection shows an increase of RWF 121.5 billion. Direct taxes led by profit taxes and PAYE collections are projected to contribute RWF 258 billion (5.4 percent of GDP) whilst taxes from domestic goods and services will yield RWF 339.8 billion (7.1 percent of GDP). Within taxes from domestic goods and services, the largest contributions will come from excise duties and VAT collections.

Taxes on international trade are estimated at RWF 42.5 billion (0.9 percent of GDP) as against RWF 41 billion (0.9 percent of GDP) projected for 2011/2012. This result shows an increase of only RWF 1.5 billion. The projected figure for 2012/2013 reflects the expected revenue losses arising from changes in sources of imports with an increasing share of the country's imports coming from the EAC and COMESA regions. Since 2009 when Rwanda joined the EAC, imports from the EAC countries have risen by 50 percent from US$449.7 million in 2009 to US$ 674.7 million in 2011.The small increase in the estimated revenue figure therefore is based on the projected increase in the value of imports from the rest of the world as well as the expected depreciation of the currency vis-à-vis the US dollar in fiscal year 2012/2013.

The tax revenue projections do not envisage any substantial changes to the tax regime. They are underpinned by on-going revenue administration measures by the Rwanda Revenue Authority (RRA) as well as the following measures.

- ✓ Revenue administration measures for 2012/13
    - o Tax policy measures for 2012/13
        - – Increase in tax rates, starting July 2012, for imported construction materials by 5 percent on average on import duties, VAT and excise duties yielding revenue of RWF 1.0 billion.
        - – Revision of the investment code, yielding revenue of RWF 5.2 billion.
        - – Introduce Electronic Sales Register (ERS) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers yielding revenue of RWF 10.9 billion.
        - – Introduce gaming tax yielding revenue of RWF1.0 billion.

- Non tax Revenue Projections.

A shortfall in non -tax revenue collections of RWF 13.3 billion (0.3 percent of GDP) is estimated for fiscal year 2011/2012. This is mainly due to lower collections of dividends and constitutes a permanent loss of revenue in the future as a result of the increasing privatization of public enterprises. Accordingly, non- tax revenue collections for fiscal year 2012/2013 have been projected at RWF 24.5 billion (0.5 of GDP) compared to RWF 32.1 billion expected in 2011/2012.The collections in 2011/2012 were boosted by the license fees of RWF 17.4 billion paid by AirTel. The projected performance in 2012/2013 is RWF 7.6 billion lower than achieved in 2011/2012.

Table of Non tax revenues for 2012/2013-2015/2015 (in RWF billion)

Items	July 2011-June 2012	July 2012-June 2013	July 2013-June 2014	July 2014-June 2015
Miscellenous Fines	0.9	1.1	1.7	2.0
Administrative fees	10.8	18.2	16.2	19.5
Of Which: Passport /travel document fees	1.5	2.9	3.0	3.0
Migration Visas	0.7	2.7	2.9	2.9
Driving Licences (incl.Provisional Driving Licence)	4.3	5.3	6.5	7.8
Other Administrative fees	4.2	2.8	2.9	2.9
New ID Cards	0.0	4.5	1.0	0.0
Other non tax Revenues	23.2	5.2	7.3	8.0
Of Which: Dividends	2.0	1.6	2.3	2.4
Airtel License fees	17.4	0.0	0.0	0.0
Other non tax revenue receipts	3.8	3.6	5.0	5.6
Total	34.9	24.5	26.2	29.5

Administrative fees and charges contribute the largest share amounting to RWF 18.2 billion. This figure includes a yield of RWF 4.5 billion from the issuance of ID cards to citizens between the ages of 15 and 18 years.

- ✓ External Resources

  - Budgetary Grants

Total grants for the 2012/2013 budget have been estimated at RWF 540.9 billion (11.4 percent of GDP) compared to RWF 463.5 billion (11.3 percent of GDP) in 2011/2012. This performance shows an increase of RWF 77.4 billion.

The table below shows the details of budgetary grants by donors for fiscal years 2011/2012 and 2012/2013.

	2011/2012 Proj.	2012/2013 Proj.
World Bank	101.5	100.0
AfDB	37.3	50.7
DFID	103.5	79.3
EC (EU)	64.8	64.2
Germany	15.7	9.5
Netherlands	19.8	10.9
Belgium	6.6	14.6
FTI	20.0	24.0
USA	0.0	8.0
S/Total	369.2	361.2
AU PKO	73.9	90.8
Demob Prog.	4.7	6.0
S/Total USD	447.8	458.0
<u>Budgetary Loans</u>		
WB Budgetary Loan(PRSG)	62.03	0.00
Third Community Living Standards	6.23	0.00
AfDB (Agric .Sector Budget Support)	20.06	13.76
Total loans	88.32	13.76
S/Total USD	536.09	471.73
Global Fund	200.53	226.90
G/Total	736.62	698.63

<u>Footnote:</u> For GF the amount of 198.2 represent 85% of 233.2 million $US for 2012 and 148.4 million $US represent 85% of 174.6 million $ US for 2013

Budgetary grants accruing to the 2012/2013 budget are projected at RWF 297 billion (6.2 percent of GDP) as against RWF 279.1 billion (6.8 percent of GDP) in 2011/2012.This projection shows an increase of RWF 17.9 billion over 2011/2012 fiscal year. The contributions from the largest donors notably DFID and the World Bank show a decline compared to 2011/2012. This is due to the frontloading of disbursements at the request of Government in 2011/2012 fiscal year. The contribution from the AfDB shows a small increase because of the change in the composition of funds. Because Rwanda is now classified as a mixed country eligible for both grants and budgetary loans a portion of the grants is being replaced with budgetary loans.

The shortfall in expected disbursements from the largest donors is being offset with increased re-imbursements from the UN/AU for peace-keeping operations in Sudan and Haiti amounting to RWF 58.9 billion which is RWF22.2 billion higher than the amount received in 2011/2012.The projected increase in grants of RWF 17.9 billion in 2012/2013 is therefore attributable to the additional reimbursements for PKO.

Capital grants are projected at RWF 243.9 billion showing an increase of RWF 59.5 billion compared to the figure of RWF 184.4 billion in 2011/2012. An increase in the expected disbursements from the Global Fund from RWF 70.7 billion in 2011/2012 to RWF 96.2 billion and the broadening of the coverage to include grants from some UN agencies (UNEP,UNICEF) account for the increase in capital grants.

- External Project loans

The table below shows the project loan draw-downs for fiscal year 2012/2013 by Creditor.

CREDITOR	2012/13
BADEA	10.6
EXIMCHINA	29.5
EXIMINDIA	12.9
FAD	14.0
FIDA	1.6
FKWD	7.2
FSD	5.9
IDA	8.3
OPEC	36.4
Total Projected Disbursements	126.4

Loan draw-downs amounting to RWF 134.9 billion have projected for fiscal year 2012/2013 as against RWF127.6 billion in 2011/2012. Project loans are estimated at RWF 126.4 billion compared to RWF 75.4 billion in 2011/2012. Budget loans at RWF 8.6 billion are lower than the RWF 52.2 billion estimated for 2011/2012.

Regarding bilateral loans there are only two donors namely EXIM Bank of India and EXIM bank of China. A draw-down of RWF 12.9 billion has been projected from the EXIM Bank of India for the Nyabarongo Hydro project whilst RWF 29.5 billion from the EXIM bank of China will be utilized for some road projects. In the case of budgetary loans only AfDB is providing RWF 8.6 billion for budget support.

- ✓ Expenditure Projections
  - ✓ Expenditure Projections by economic classifications
    - ▪ Recurrent Expenditure

Recurrent expenditure has been projected at RWF 679.9 billion (14.3 percent of GDP) compared to RWF 596.3 billion (14.5 percent of GDP) in 2011/2012, showing an increase of RWF 83.6 billion.

– Wages and Salaries.

The revised allocation of RWF 148.1 billion (3.6 percent of GDP) in 2011/2012 is being increased to RWF 186.6 billion (3.9 percent of GDP) in 2012/2013, showing an increase of RWF 38.5 billion. This level of allocation will allow the Government to implement the new pay and retention policy. The objective of this policy is to enable the Government to enhance its capacity to attract, retain and adequately motivate personnel with the requisite skills to the public sector with a view to improve service delivery at the national and local levels.

A large share of this increase amounting to RWF 29 billion will be used to increase the minimum wages of the lowest paid workers particularly the teachers as well as reduce the relativities between the lowest paid and the highly paid civil servants. The remaining RWF 9.7 billion of the increase will be used to cater for late promotions and new recruitments in some critical areas.

– Goods and Services.

Outlays for goods and services are being reduced from the level of RWF 148.4 billion (3.6 percent of GDP) in 2011/2012 by RWF 23.1 billion to RWF 125.3 billion (2.6 percent of GDP) to generate some savings for the partial increase in wages and salaries. The reduction in allocations affect non-essential items such as office supplies including clothing and uniforms, gifts, entertainment expenses, and expenditure associated with public relations. To ensure that service delivery is not affected by the reduction in funds, the priority areas including expenditure on drugs and vaccines by MINISANTE, education materials such as books, feeding and other accessories by MINEDUC as well as road maintenance spending are being ring fenced and protected. It is therefore expected that the reduction in allocations will not lead to a decline in general service delivery in the public sector in 2012/2013.

– Interest Expenditure.

An allocation of RWF 18.2 billion (0.4 percent of GDP) is being made to cater for Government's interest costs in 2012/2013. This amount is RWF 2.2 higher than the expenditure in 2011/2012. Domestic interest accounts for RWF 8.2 billion, whilst RWF 10 billion will be used for external interest payments.

In the case of the domestic component, RWF 1.8 billion will be used to cover interest payments on the BNR overdraft and the sale of Treasury bills to finance the budgetary needs of Government in the January-June period of 2013.

– Transfers and Subsidies.

Expenditure under transfers and subsidies is being raised from RWF 223.9 billion (5.5 percent of GDP) in 2011/2012 to RWF 264.1 billion (5.5 percent of GDP) in 2012/2013, showing an increase of RWF 40.2 billion. An amount of RWF 7.6 billion of the increase is being used to increase the wages and salaries of the public servants under transfers in line with the pay and retention policy. Accordingly, the wages and salaries portion is projected to rise from RWF 40 billion in 2011/2012 to RWF 47.9 billion in 2012/2013.

The allocated amount will also provide funds for the running of the various development boards and the tertiary institutions as well as the allocation of block grants to the districts in support of their operations. The allocations for transfers also include funds for subscriptions to international organizations.

– Exceptional Expenditure.

An amount of RWF 85.7 billion (1.8 percent of GDP) has been allocated for exceptional spending in 2012/2013. This amount is RWF 8.8 billion higher than the expenditure of RWF 76.9 billion (1.9 percent of GDP) in 2011/2012. In fiscal year 2012/2013 RWF 22.9 billion will be used as transfers to FARG, whilst RWF3.9 billion will be spent on demobilization and social reintegration of demobilized armed personnel and returning rebels to civilian life. Peacekeeping operations in Sudan and Haiti will require spending of RWF 58.9 billion.

▪ Capital Expenditure.

An allocation of RWF 641.3 billion (13.5 percent of GDP) is being made to finance capital expenditure in 2012/2013. This amount is RWF 132.7 billion higher than the RWF 508.6 billion (12.4 percent of GDP) in 2011/2012. Domestically financed projects will take a share of RWF 271 billion whilst the externally financed part is allocated RWF 370.3 billion. The externally financed portion also includes various health projects (prevention of HIV/Aids, Tuberculosis, malaria etc.) amounting to RWF 96.2 billion to be funded from the Global Fund grants. The allocation also includes projects funded by some UN agencies that have been included for the first time under the broadening of the coverage policy.

Consistent with EDPRS priorities, the projected increase in resources will allow a scaling up of spending on strategic investments in energy (energy roll out program with construction of hydro power stations and distribution networks), transportation (roads construction), irrigation projects as well as construction of schools and health facilities. Export promotion projects will also benefit from these allocations.

- Net Lending.

Gross spending under net lending has been estimated at RWF 22 billion in fiscal year 2012/2013. A large portion of this amount will be used to finance the operations of RwandAir as well as contributions into the Strategic Investment Fund. During the year however, privatization receipts of RWF 12.2 billion are expected to accrue to the budget from the sale of the Shagasha and Mulindi tea factories. As a result of this transaction, the net expenditure is projected at RWF 9.8 billion (0.2 percent of GDP) compared with RWF 0.7 billion (0.1 percent of GDP) in 2011/2012.

- Principal Debt Payments.

In the 2012/2013 budget, RWF 15.3 billion (0.3 percent of GDP) has been allocated to pay the principal of external debt compared to RWF10.9 billion (0.3 percent of GDP) in 2011/2013. The increase in the allocation is due to an increase in the draw-down of new project loans including the loans for the Kivu belt roads construction in the fiscal year 2012/2013.

Regarding the domestic non- bank component, RWF 12.2 billion (0.3 percent of GDP) has been allocated as against RWF 10 billion (0.2 percent) in fiscal year 2011/2012. The increase is mainly due the planned amortization of the ONATRACOM debt. Government however expects to sell Treasury bills and bonds equivalent to RWF 12.2 billion to the domestic non- bank sector. As a result of this transaction, there will be no increase in the stock of debt to this sector at end June 2013.

✓ The Budget deficit and Financing

The overall cash deficit for the fiscal year 2012/2013 is projected at RWF 132.4 billion (2.8 percent of GDP) which is higher than the RWF 77.1 billion (1.9 percent of GDP) estimated for the 2011/2012 budget. This deficit will be funded with net foreign loans inflows of RWF 119.6 billion (2.5 percent of GDP) and net domestic borrowing from the banking system of RWF 12.7 billion (0.3 percent of GDP). With this increase in debt, the Government's domestic debt which is estimated at RWF 175.4 billion at end June 2012 (4.3 percent of GDP) will only rise marginally to RWF 188.1 billion (4 percent of GDP) by end June 2013. The largest share of this debt will be held by the banking sector (BNR and Commercial Banks).

ii. Details of Sectoral Allocations and Priorities

✓ Sector allocation over the EDPRS period compared with EDPRS target

The fiscal year 2012/13 is the final year of EDPRS implementation since the fiscal year 2008. It was envisaged at commencement of EDPRS implementation that Government would make a total investment of RWF 3,436.0 billion to achieve EDPRS targets. Compared to the total cost, it was estimated that Infrastructure Cluster would take a share of RWF 678.0 billion or 19.7%, Productive Cluster RWF 573.0 Bn or 16.7%, Human Development and Social Cluster RWF 1,176.0 or 34.2% and finally Governance and Sovereignty Cluster was estimated at RWF 1,009.0 billion or 29.4%.

The resource allocation in the final year of EDPRS implementation indicate that total investment in EDPRS has exceeded initial estimate of 3,436.0 billion by 49.3% rising to a total budget of RWF 5,129.4 Bn. Indeed, most of the EDPRS targets have been achieved and exceeded.

The estimated budget allocation for Infrastructure cluster up to the end of EDPRS implementation was RWF 678.0 Bn and this accounted for only 19.7 percent of the total budget. Compared to this target, the total allocation to Infrastructure Cluster up to 2012/13 fiscal year is RWF 1,173.0 Bn, which is 22.9% of the total EDPRS allocation and 73.0% in excess of the target. The increased investment in infrastructure cluster was made possible by innovative and off-budget financing mechanisms within the human development and social sectors which created an additional fiscal space for the infrastructure sector. Some of the key innovative interventions include the Umuganda (Community Service), Army Week and Girinka Munyarwanda in social protection, community participation in construction of schools in Education sector as well as the health insurance scheme (Mutuelles) in the Health sector. The increased investment in productive sectors by the private sector especially in Agriculture sector allowed room to increase funding for the Infrastructure sectors. Moreover, it was evident that improved infrastructure created an enabling environment for the productive sectors.

The estimated investment in the Productive Cluster was RWF 573.0 Bn and this accounted for only 16.7% of the total budget. The total budget allocated to this cluster up to the end of 2012/13 is estimated at RWF 727.5 Bn, which is 14.2% of the total budget allocation. Compared to the EDPRS target of 16.7%, the share of total budget allocation to this cluster is 2.5% below the estimate but the total amount invested exceeds the initial estimate by 27.0%. Indeed, private sector investment in this sector has been increasing steadily and is projected to remain high. Despite this lower share in total expenditure, however, total budget allocation and performance indicators are broadly on track.

The total budget allocation for the Human Development and Social Cluster is RWF 1,597.4 bn compared to the EDPRS target of RWF 1,176.0 Bn, which is 35.8% in excess of the initial target. In terms of the share of expenditure, this represents 31.1% compared to the EDPRS estimate of 34.2%, which is 3.1% below the targeted share. Like the Productive Cluster, the decline in the share of budget allocation does not affect the total budget allocation and performance indicators and both remain on target.

The total budget allocation for the Governance and Sovereignty Cluster is RWF 1,631.5 bn compared to the EDPRS target of RWF 1,009.0 Bn, which is 61.7% in excess of the initial target. In terms of the share of expenditure, this represents 31.8% compared to the EDPRS estimate of 29.4%, which is 2.4% below the targeted share. The share of total budget allocation to this cluster has remained above the target mainly because of the allocation to foreign military aid in favour of peacekeeping operations, which has increased beyond the initial expectations. The table below shows annual budget allocation throughout the EDPRS period compared to the EDPRS target.

Annual budget allocation compared to the EDPRS targeted allocation

EDPRS Budget Shares by Sector and EDPRS Targets Compared															
S/N	EDPRS Clusters	2008		2009/10		2010/11		2011/12		2012/13		Total for EDPRS		EDPRS Target	
		Budget	Share	Budget	Share	Budget	Share	Budget	Share	Budget	Share	Budget	Share	Budget	Share
1	Infrastructure	157.8	23.4%	193.7	21.6%	243.3	24.7%	256.9	21.5%	321.2	23.3%	1,173.0	22.9%	678.0	19.7%
2	Productive Capacities	57.1	8.5%	90.2	10.0%	137.4	14.0%	208.5	17.5%	234.4	17.0%	727.5	14.2%	573.0	16.7%
3	Human Development and Social Sectors	195.9	29.1%	286.7	31.9%	305.7	31.1%	358.0	30.0%	451.1	32.7%	1,597.4	31.1%	1,176.0	34.2%
4	Governance and Sovereingty	263.2	39.0%	328.4	36.5%	297.6	30.2%	370.7	31.0%	371.6	27.0%	1,631.5	31.8%	1,009.0	29.4%
	Total	674.0	100.0%	899.0	100.0%	984.0	100.0%	1,194.2	100%	1,378.3	100.0%	5,129.4	100.0%	3,436.0	100.0%

- ✓ Sector Priorities and allocations for the 2011/12 Fiscal Year

The indicative budget ceilings for the financial year 2012/13 were issued together with the second budget call circular of January 5, 2012. The circular provided comprehensive guidelines for budget preparation including a list of programmes and projects that will be given priority in resource allocation. The ministerial budget consultations were held from February 22 to March 02, 2012 and the total envelope that was shared by all government institutions is RWF 1,378.3 billion. The following sub-sections gives more detailed resource allocation in each sector and sub-sector as well as the key projects and programmes to be financed during the 2012/13 financial year.

(a) Infrastructure Cluster

The infrastructure cluster covers the sectors of economic affairs as well as housing and community amenities. The budget allocated to the infrastructure cluster is RWF 321.2 billion and is about 23.3% of the total budget. Economic Affairs, which cover fuel and energy, transport, and communication, constitute about 91% of the total cluster budget. Housing and community amenities cover housing development and community development and these constitute about 9% of the total cluster budget for the 2012/13 financial year. The allocation of resources to the cluster and its sectors is shown in the table below:

Infrastructure Cluster Resource Allocation (RWF, billions)

Code	Cluster and Sector	2011/12 Revised Budget	2012/2013 BUDGET	2013/2014 BUDGET	2014/2015 BUDGET
1	**INFRASTRUCTURE SECTORS**	**256.9**	**321.2**	**375.1**	**350.0**
704	**Economic affairs**	**213.6**	**293.6**	**347.9**	**320.1**
7043	Fuel and energy	106.2	132.6	157.7	111.8
7045	Transport	75.1	132.7	137.4	149.1
7046	Communication	32.2	28.2	52.7	59.2
706	**Housing and community amenities**	**43.4**	**27.7**	**27.2**	**29.9**
7061	Housing development	16.8	18.3	18.2	20.0
7062	Community development	26.5	9.3	9.0	9.9
7066	Housing and community amenities n.e.c.	0.0	0.1	0.0	0.0
	As a share of total budget (%)				
1	**INFRASTRUCTURE SECTORS**	**21.5**	**23.3**	**24.3**	**22.6**
704	**Economic affairs**	**17.9**	**21.3**	**22.5**	**20.7**
7043	Fuel and energy	8.9	11.1	13.2	9.4
7045	Transport	6.3	11.1	11.5	12.5
7046	Communication	2.7	2.4	4.4	5.0
706	**Housing and community amenities**	**3.6**	**2.0**	**1.8**	**1.9**
7061	Housing development	1.4	1.5	1.5	1.7
7062	Community development	2.2	0.8	0.8	0.8
7066	Housing and community amenities n.e.c.	0.0	0.0	0.0	0.0

The key projects and programmes of the infrastructure cluster that have been allocated resources in the 2012/13 financial year are:

- Finalization of Kigali-Ruhengeri road (83.1 km)
- Rehabilitation of Kitabi-Crete Congo/Nil road (30Km)
- Paving the road of Cyangugu (Rusizi)-Ntendezi-Mwityazo (50 Km)
- Rehabilitation of Kigali-Gatuna road (77.8km)
- Rehabilitation of Kivu-Belt road (66 km) Lot 4 and 5
- Rehabilitation of Kivu-Belt (24.5 km) Lot 6
- Expropriation of Bugesera International Airport
- Construction of access Road to Bugesera Airport (25 KM)
- Extension of Kigali International Airport
- Extension and rehabilitation of Kamembe Terminal and runway
- Construction of access road to Tumba College
- Rehabilitation of Nyabarongo Bridge
- Rehabilitation of Huye Urban Roads (4 KM)
- Upgrading of 5.4Km in Rubavu Urban Roads Network
- Rehabilitation of Rusizi Urban Road (2.4 KM)
- Upgrade of Ngoma-Nyanza road network (130 KM)
- Updrade of Huye-Kibeho-Musee Road (57 KM)
- Updrade of Muhanga Urban Road (2.8 KM)

- Updrade of Gicumbi-Musanze road (30 KM)
- Updrade of Rwamagana and Nyagatare urban roads (30 KM)
- Commissioning of Detailed Engineering Design of Isaka-Kigali-Keza-Gitega-Musongati Railway
- Provide for energy subsidies to augment energy generation
- Support the running costs of RwandAir
- Expropriation of One Stop Border Post at Gatuna
- Refurbishment of One Stop Border Post at Rusumo and Bridge displacement
- Fast track PICO & Micro Hydro sites development estimated capacity 24.18MW in 10 poorest districts to supply power to 61,000 Households by 2013/14
- Increase of the national power generation by 15 MW from the development of Peat to Power project in Bugarama, Rusizi district
- Speed up the ongoing development hydropower projects and prepare new generation projects including the regional hydropower projects such as Rusizi and Rusumo
- Speed up the exploitation of geothermal resource, the first drilling is planned to start by June 2012. Geothermal energy, once confirmed, is one of the cheapest and most reliable energy sources
- Extending the electricity network and connecting as many new customers to the network as possible. The targeted intervention is to improve access to electricity in the 10 poorest districts highlighted in the Household Living Conditions Survey from 2% to 13% by end of 2013.
- Continue the implementation of energy efficiency measures such as energy saving bulbs distribution and the solar water heaters to allow better use of resources and reduction of costs to end-consumers
- In order to ensure sustainable use of biomass resources in the country and decrease the pressure on the national forests, reduce the use of biomass through more efficient cooking stoves, dissemination of improved carbonization techniques, domestic biogas and through the promotion of alternative fuels such as LPG, biogas or peat

(b) Productive Capacities Cluster

The productive capacities cluster is made of two sectors namely, economic affairs and environmental protection. The sector of economic affairs covers the sub-sectors of agriculture, trade and industry as well as water and sanitation. The economic affairs sector comprises about 82% of the 2012/13 total cluster budget. The sector of environmental protection comprises about 18% of the total resources allocated to the cluster for the 2012/13 budget.

The productive capacities cluster has been allocated RWF 234.5 billion and this represents 17% of the total budget for the 2012/13 financial year. The allocation of resources to the cluster and sectors is shown in the table below:

Productive Capacities Cluster Resource Allocation (RWF, billions)

Sector shares as a proportion of total budget (Billion RwF)					
Code	**Cluster and Sector**	**2011/12 Revised Budget**	**2012/2013 BUDGET**	**2013/2014 BUDGET**	**2014/2015 BUDGET**
2	**PRODUCTIVE SECTORS**	**208.5**	**234.4**	**282.5**	**307.4**
704	**Economic affairs**	**182.9**	**192.2**	**230.4**	**261.6**
7041	General economic, commercial, and labor affairs	75.9	91.5	98.7	114.2
7042	Agriculture, forestry, fishing, and hunting	72.7	75.1	102.7	115.6
7044	Mining, manufacturing, and construction	1.4	0.9	0.9	1.0
7047	Other industries	7.8	8.4	9.5	10.4
7049	Economic affairs n.e.c.	25.1	16.3	18.6	20.5
705	**Environmental protection**	**25.6**	**42.3**	**52.2**	**45.8**
7052	Waste water management	19.4	29.6	38.4	30.1
7053	Pollution abatement	0.0	0.1	0.1	0.2
7054	Protection of biodiversity and landscape	3.5	8.9	8.3	9.7
7056	Environmental protection n.e.c.	2.8	3.7	5.4	5.8
As a share of total budget (%)					
2	**PRODUCTIVE SECTORS**	**17.5**	**17.0**	**18.3**	**19.8**
704	**Economic affairs**	**17.5**	**17.0**	**18.3**	**19.8**
7041	General economic, commercial, and labor affairs	6.4	7.7	8.3	9.6
7042	Agriculture, forestry, fishing, and hunting	6.1	6.3	8.6	9.7
7044	Mining, manufacturing, and construction	0.1	0.1	0.1	0.1
7047	Other industries	0.6	0.7	0.8	0.9
7049	Economic affairs n.e.c.	2.1	1.4	1.6	1.7
705	**Environmental protection**	**2.1**	**3.1**	**3.4**	**3.0**
7052	Waste water management	1.6	2.5	3.2	2.5
7053	Pollution abatement	0.0	0.0	0.0	0.0
7054	Protection of biodiversity and landscape	0.3	0.7	0.7	0.8
7056	Environmental protection n.e.c.	0.2	0.3	0.4	0.5

The key projects and programmes that have been allocated resources in the 2012/13 financial year to finance productive capacities are:

- Support fertilizer purchase and use through increasing the supply of fertilizer in the country to over 45,000 MT.
- Improve post-harvest storage facilities through warehouse and silo investments.
- Implement the One Cow per Poor Family Program to boost rural family incomes.
- Develop over 25,000 hectares of tea and coffee in Southern Province to increase smallholder incomes.
- Scale-up farmer extension services across the country through farmer field schools and researching on how to improve seed productivity for the farmer.
- Continue Doing Business reforms to level the field for the Rwandan private sector and attract more Foreign Direct Investments.
- Support Hangumurimo program for start-up SMEs and SME cluster development.
- Increase value addition of local produce through establishing community processing centers for priority products.

- Develop a pilot industrial park at provincial level and continue relocation of the Gikondo industrial park to the new SEZ in Kigali.
- Continue to provide technical and financial Support to Umurenge SACCO, with the aim of making them sustainable and increase access to financial services and access to credit.
- Plant 500,000 agro forestry trees and grasses for soil replenishment and grasses.
- Construct radical and progressive terraces in Musasa, Mushubati, Boneza (Rutsiro District), Kilimbi and Gihombo (Nyamasheke District), Mururu (Rusizi District)
- Rehabilitate Sebeya and Kadahokwa watersheds

(c) Human Development and Social Cluster

The human development and social cluster covers the sectors of education, health, social protection and recreation, culture and religion. Education sector accounts for 50.0% of the total 2012/13 cluster budget while health gets 37.8%, social protection 9.9% and the remaining 2.2% goes to recreation, culture and religion. The budget allocated to the human development and social cluster in the financial year 2012/13 is about RWF 451.1 billion and represents about 32.7% of the total budget. The allocation of resources to the cluster and sectors is shown in the table below:

Human Development and Social Cluster Resource Allocation (RWF, billions)

Sector shares as a proportion of total budget (Billion RwF)					
Code	Sector	2011/12 Revised Budget	2012/2013 BUDGET	2013/2014 BUDGET	2014/2015 BUDGET
3	HUMAN DEVELOPMENT AND SOCIAL SECTORS	358.0	451.1	482.7	453.4
707	Health	128.1	170.5	192.9	144.9
708	Recreation, culture, and religion	8.8	10.1	7.6	8.5
709	Education	191.0	225.7	241.2	257.1
710	Social protection	30.1	44.8	41.0	42.9
As a share of total budget (%)					
3	HUMAN DEVELOPMENT AND SOCIAL SECTORS	30.0	32.8	31.3	29.3
707	Health	10.7	12.4	12.5	9.3
708	Recreation, culture, and religion	0.7	0.7	0.5	0.6
709	Education	16.0	16.4	15.6	16.6
710	Social protection	2.5	3.3	2.7	2.8

The key projects and programmes that have been allocated resources in the 2012/13 financial year are:

- Operationalization of the new Mutuelle de santé policy to promote health insurance and increase access to health care for the population.
- Continue the construction and equipment of Health facilities to improve geographical accessibility to health care.
- Support performance based financing programme for health personnel remuneration to increase the quality of health care.
- Implement the new programs of male Circumcision, HPV vaccine, and specialized surgical interventions.
- Develop programs for non communicable diseases.
- Deploy more health professionals in hospitals and health centers.
- Support capacity building of health professional through review of programs for Nursing training and training of doctors.
- Organization of Itorero Health Professionals.
- Increase access to education through construction of additional new classrooms and latrines.
- Train all the teachers in English to ensure proficiency, procure textbooks written in English at Primary and Secondary Levels in order to reduce pupil –textbook ratio, and recruit more qualified teachers.
- Promote science and technology by putting up more science laboratories in the school.
- Integrate ICT in Primary Education through provision XO Laptops (OLPC).
- Promote Technical vocational Education and Training by providing equipments in Integrated Polytechnic Regional Centre (IPRCs) and other technical and vocational centers.
- Set up a social protection Management Information System (MIS)
- Conduct an assessment to harmonize social safety nets
- Conduct ITORERO of 500 Historically Marginarized People at Nkumba.
- Monitor and evaluate the implementation of social programs.
- Develop LED National campaign materials and disseminate them to all stakeholders
- Organize and conduct Umuganda competitions targeting local community and review of Umuganda regulation
- Monitor and sensitize people on settlement in Imidugudu.
- Monitor the operationalization of post Nyakatsi Program.

(d) Governance and Sovereignty Cluster

The Governance and Sovereignty cluster is comprised of 3 sectors namely, General Public Services, Defense and Public Order and Safety. Of the total budget allocated to the cluster in the year 2012/13, General Public Services gets 53.3%, Defense gets 30%, while Public Order and Safety gets the remaining 16.7%.The budget allocated to the Governance and Sovereignty cluster in the fiscal year 2012/13 is RWF 371.6 billion and is about 27% of the total budget. The allocation of resources to this cluster and its sectors is shown in the table below:

Governance and Sovereignty Cluster Resource Allocation (RWF, billions)

Sector shares as a proportion of total budget (Billion RwF)					
Code	Sector	2011/12 Revised Budget	2012/2013 BUDGET	2013/2014 BUDGET	2014/2015 BUDGET
4	GOVERNANCE AND SOVEREIGNTY SECTORS	370.7	371.5	406.5	438.8
701	General public services	226.6	198.0	215.0	231.7
702	Defense	85.7	111.3	125.8	135.0
703	Public order and safety	58.4	62.2	65.7	72.1
As a share of total budget (%)					
4	GOVERNANCE AND SOVEREIGNTY SECTORS	31.0	27.0	26.2	28.4
701	General public services	19.0	14.4	13.9	15.0
702	Defense	7.2	8.1	8.1	8.7
703	Public order and safety	4.9	4.5	4.2	4.7

The key projects and programmes that have been allocated resources in the 2011/12 financial year for the governance and sovereignty cluster are:

- Support effective implementation of the National Census
- Implement fully the Electronic Trading Platform and the National Investment Trust to promote secondary financial markets and leverage domestic savings
- Support the operations of monetary policy for prudent fiscal and monetary management
- Provide the transfer to districts for operating costs (block grant) as provided by the law
- Provide for Debt and interest repayments
- Implementation of the Public Finance Management Reform Strategy
- Support for the functioning of the Rwanda diplomatic missions abroad
- Provide for remuneration of personnel of Judiciary, defense and national police
- Strengthening of institutional capacities in charge of internal security
- Construction and rehabilitation of buildings for Embassies
- Support to peace keeping operations abroad
- Implementation of ID projects and operationalization of the Smart Card
- Strengthen regional integration as well as regional and international cooperation
- Support for the functioning of executive and legislative organs

V. POLICY ISSUES FOR CONSIDERATION

During the Ministerial budget consultations held from February 22 to March 02 2012, all sectors presented their budget estimates and accordingly gave their justification. In a number of cases, sectors presented additional requests that were over and above the provided ceilings by significant margins and this was the case especially for Energy, Transport, Agriculture, Trade and Industry, and Education. While some demands were met through inter and intra-sectoral resource re-allocation, some other requests were postponed for implementation in subsequent years due to resource constraints. A number of other policy related issues also emerged from discussions and these are summarized below for Cabinet consideration:

i. Sustainability of the Wage and Pay Policy

The financial impact of the approved Pay and Retention Policy has been incorporated in the 2012/13 budget and is about RWF 46.7 Bn. Furthermore, the financial impact of merging of some Government agencies seem to have resulted in more wage costs rather than efficiency savings as originally envisaged. The details of the 2012/13 financial impact of the bill as well as the wage bill trend of agencies that benefited most are shown on *Annex XII*. It is further proposed to freeze further increases in the wage bill for the subsequent two fiscal years for sheer affordability considerations.

ii. Ad hoc changes and piece meal adjustments to the Structures

It was observed in the recent assessment of the public sector pay and retention environment that the 2006 pay reforms were greatly undermined by ad hoc and piece meal adjustments which later created distortions. The implementation of the 2012 Pay and Retention Policy is prone to the same risks if no measures are taken to the contrary. It is therefore proposed to keep the approved structures and index values stable for a period of at least 2 years before another comprehensive review of structures can be done.

iii. Unfunded priorities

As already mentioned, all sectors submitted budget requests that were way beyond the provided budget ceilings. This required sectors to reprioritize and be able to fit in the ceiling and sometimes sequencing of programmes and projects. It has been agreed that priority activities that have not be funded in the 2012/13 should be deferred to subsequent budgets. However, some institutions bring back these unfunded activities as urgent and priority activities during budget implementation. The Cabinet is requested to endorse the proposal that where priorities emerge after the budget is approved and which do not constitute activities that were not foreseen at the time of preparing the budget or are urgent in nature to qualify for payment under impromptu budget line, the concerned institution be required to propose re-allocations from its budget.

iv. Efficiency Savings

The resource constraint for the 2012/13 budget was so tight and be able to fund some priority programmes and projects, it become necessary to cut some non-priority programmes. Accordingly, a list of selected budget lines was proposed for cutting including costs for meetings, seminars and trainings. It is proposed to cut an additional RwF 1.1 Bn from meetings, seminars and training costs across all budget agencies excluding districts to mobilize resources for the funding of Kamembe Airport runway. This translates into an average of 4.2% cut on the allocation of each of the budget lines mentioned. This is in addition of the cutting done during budget consultations.

v. Contractual Personnel

The 2012/13 budget consultations indicated that Contractual Personnel translate into a parallel wage bill which can sometimes impose a significant financial impact. While hiring contractual personnel to compensate for the absence of permanent staff is fully justified, most institutions recruit contractual personnel over and above the staff limit provided in the organizational structure. It is proposed that where agencies have a need to recruit contractual staff that are over and above the numbers provided in the organizational structure, such recruitment be approved by Cabinet or be formally authorized by the Ministry of Public Service and Labour with a copy to the Ministry of Finance and Economic Planning.

VI. POSSIBLE RISKS TO ECONOMIC PERFORMANCE IN FISCAL YEAR 2012/2013

The Government's macro-economic framework and budget policy have been formulated against the backdrop of global downside risks which stem from weaker global demand, lower commodity prices and higher oil prices. The underlying pressures are already beginning to be felt as the value of exports show only a modest increase on account of the projected lower commodity prices. On the other hand outlays for oil imports have been increased to respond to the high price levels. Downside risks regarding delays in external donor support funds and flow of domestic revenue also exist. The Government will continue to monitor these risks and developments more closely with a view to taking corrective actions when required. In the case of fiscal policy, the Government stands ready in the event of shortfall in resources (revenue and grants) to delay the implementation of some non-priority spending in order to ensure that there is no additional borrowing in fiscal year 2012/2013.

VII. CONCLUSION.

The budget framework for 2012/2013 which covers the last year of the EDPRS reflects the priorities enshrined in the policy document. With the proposed allocation of resources, we expect that at end of fiscal year 2012/2013, most, if not all, the EDPRS targets will have been met.

The medium term projections show declining donor grants in the outer two years. Though the decline is expected to be partially offset with budgetary loans as Rwanda is now a mixed country, external resources will be expected to decline in total. At the same time the growth in domestic resource mobilization will not be enough to close the medium term resource gap entirely. This therefore calls for the targeting of resource allocation to projects and programs that have high impact on growth and employment, which have been the guiding principles of the medium term budget frame work. The proposed public expenditure in the frame work will be augmented by private sector investment to ensure the high growth that the economy requires for its poverty reduction objective. The Government is fully committed to realizing these growth objectives whilst maintaining macro-economic stability.

Cabinet is requested to approve of the macro-economic frame-work for the medium term and the budget framework for fiscal year 2012/2013.

VIII. ANNEXES:

1. Annex I: Explanatory Note to the BFP 2012/13-2014/15
2. Annex II: Basic Macro Indicators 2008-2013
3. Annex III: Fiscal Projections for 2012/13-2014/15
4. Annex IV: EDPRS Sector Shares 2012/13-2014/15
5. Annex V: Mid-year budget execution tables for 2011/12
6. Annex VI: External borrowing and loan servicing projections
7. Annex VII: Domestic borrowing and loan servicing projections
8. Annex VIII: Public Enterprises Revenues and Expenditure Projections
9. Annex IX: Summarized CG Transfers to Districts for 2012/13-2014/15
10. Annex X: Consolidated Districts Revenues and Expenditures for 2012/13-2014/15
11. Annex XI: Block grant allocation table for 2012/13
12. Annex XII: 2012/13 Wage Bill Impact and Trend for Selected Agencies