

# **BUDGET STATEMENT 2004**

## **STATEMENT DELIVERED** **TO THE CHAMBER OF DEPUTIES**

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**MINISTER FOR FINANCE AND ECONOMIC PLANNING**

**KIGALI, 4 / 12 / 2003**

Excellency President of the Chamber of Deputies  
Honourable Deputies.

1. I am honoured to lay before this august Parliament the Government Budget Proposals for Fiscal Year 2004. It is the occasion at which we take the opportunity to brief the House and the Nation, on the state of the economy on the year about to end, our projections and economic policies for the coming year.
2. A few weeks ago, H.E. The Prime Minister presented the Government programme for the coming seven years. The Budget we present today aims at beginning the implementation of the agenda.
3. The Budget for 2004 amounts to **247 billion frw for the Ordinary Budget and 88.1 billion for the Development Budget**. It represents an increase of 23.0 billion on the Capital Budget and 60 billion on the Ordinary Budget, overall an increase of 83.2 billion on last year.
4. It is an expansionary budget at a time when logic and economic conditions would militate for a tightening of the belt. It is imperative therefore to justify this increase, explain how it is going to be financed without increased domestic borrowing thus worsening inflationary pressures which have built up in the last six months, without increasing domestic taxation burden or reliance on foreign dependence.

5. Let me explain the reasons for the increase:

Regarding the Development Budget, after many years of declining public investment due to low absorptive capacity. Many new projects and programmes are now mature to take off. The House will notice a steady decline since 1999 which is now reversing.

1999	71.2
2000	65.9
2001	56.8
2002	56.9
2003	65.1

Of particular noteworthy :

- The speeding up of a number of externally funded projects that lead to an increase of 8 billion francs;
- The need to provide adequate counterpart funding cause an extra 6 billion as you know, this has always been a factor in low absorptive capacity;
- The Common Development Fund is increased by 1.5 billion making it a total of 5.5 billion for the Fund.

Mr. Speaker,

As I will be mentioning shortly, the situation of Rwanda's exports is a cause for concern, so is the declining productivity of our Agriculture. For this reason Government is earmarking a total of 7.5 billion francs for fertilizers, export promotion and a number of ICT projects capable of boosting our exports.

Furthermore, finally an Agreement has been reached with the IMF to put in place an Agricultural Guarantee Fund which is allocated seed money of 300 millions. We hope to mobilize additional funding from donors.

6. Concerning the recurrent budget the essential of the increase is due to:

i.	Introduction of free education	2.3 bn
ii.	Anti-retroviral drugs	1.3 bn
iii.	Feeding detainees due to retreat of ICRC	1.5 bn
iv.	Repayment of CSR debt to consolidate workers pension	5 bn
v.	Impact of new Constitution and costs arising thereof	1.5 bn
vi.	Restructuring of CHR	2.0 bn
vii.	Recapitalization of BRD	0.7 bn
viii.	Increased number of policemen	1.2 bn
ix.	Increased gradual pay for health workers	0.8 bn
x.	Increased grants to Districts who have been unable to	3.6 bn

	raise taxes now 3% of revenue	
xi.	The recurrent costs associated with the programmes of export promotion, fertilizers, HIMO, TIG and some infrastructures;	-
xii.	Impact of delayed DARR-costing another	3 bn
xiii.	Strengthening District Hospitals and Health Centres	0.4 bn
xiv.	FARG up by 1 billion which is statutory	1.0 bn
xv.	Payment of Arrears and internal debt	27 bn
	<b>TOTAL</b>	<b>52.4 bn</b>

On top of this we have increases in :

(i)	Education wages	+ 1.5
(ii)	RCA	+ 0.9
(iii)	The statutory 3% increase on wages	+ 0.6
(iv)	Debt repayment	+ 5.0
(v)	Increased transfers to institutions	<u>+ 0.8</u>
	Commissions	
	<b>TOTAL</b>	<b>8.8</b>

How will this increase, be financed between Domestic and Foreign resources?

7. In this year's budget, the domestic tax resources financed about 119 billion, then we had 90 billion of grants and 25 billion of loans from World Bank and ADB.

In the budget, we are proposing to the House, there are no proposed increase in taxation; yet we are confident we can increase locally collected revenue to 134 billion. We have fully committed, certain foreign grants of 111 billion, World Bank and AfDB concessional loans totalling 85.0 billion.

This Budget is therefore fully financed. However although our contribution as Rwandans is remarkable, the contribution of external inflows increases significantly. It is a welcome sign of solidarity with our country which needs those resources to finance all these programmes which our country needs, but the reliance on foreign resources is not a trend to be encouraged in the medium term.

Mr Speaker, Mr President

I would now like to return to the overall economic aims of this Budget.

8. The 2004 Budget aims at:

- a. Reversing the decline in GDP and attaining 6% real GDP growth.
- b. Shift resources to the productive sectors of the economy which are showing stress.
  - Fertilizer use
  - Agricultural Guarantee Fund
  - Export promotion

- Labour Intensive Public Work.
  - c. Boost resources to infrastructure, roads, ICT etc.
  - d. Keep pace of progress in social sectors of education, health and HIV/Aids.
  - e. Restructure and consolidate the financial sector.
9. The Budget seeks to attain the above goals, in the general context of stabilizing the currency, contain inflation and stay on track of the PRGF programme.

I must note here that, while the Development Budget is up 30%, internal financing of our Development Budget has doubled to 30%.

Hence Agriculture and Infrastructure get the lion's share of the Budget.

### **The Economy in 2003**

10. In the year 2002, our Country saw a good rate of economic growth of 9.9% in the context of very low inflation and a stable currency.

In contrast this year 2003, economic growth has been very disappointing and inflationary pressures have built up.

Agriculture the mainstay of our economy grew by less than 1% and exports fell by 30%. This is very troubling. While industrial

sector expanded by 5.3%, it was driven mainly by Construction, the other sectors were generally flat.

The services Industry continued to grow at 6.6%.

11. This counter performance of the agricultural sector and exports is a matter we must address without delay:

	<b><u>2002</u></b>	<b><u>2003(Proj)</u></b>	<b><u>2003 (outturn)</u></b>
<b><u>Exports</u></b>	67.3	71.7	61.8
Coffee	14.6	16.8	13.4
Tea	22.0	24.6	22.0
Others	30.7	30.3	26.4
<b><u>Imports</u></b>	233.7	253.6	247.4
<b><u>Balance</u></b>	-166.4	-181.9	-185.6

I would like to rank this as our country's top economic problem; the high and rising external deficit.

## **12. Budget Performance 2003**

- Domestic revenue performance continued to be quite good. Projections were on target and even slightly exceeded. We had expected to collect 117.9 billion and we collected 119.4 billion.

All categories of taxes generally performed satisfactorily, perhaps the only exception being excisable goods down by 1.1 billion due to lower production of beer and limonade;

- In contrast to domestic revenue; foreign flows fell short by 31 billion as EU delayed disbursements and a BCR transaction related to World Bank tranche was not paid. In contrast to revenues; expenditure performance overran the projections from 151 to 164 billion, an overrun of 13 billion;
- Wages exceeded target by 2 billion due to delayed demobilisation and salary/TPR adjustments;
- Goods and Services exceeded target by 9.1 billion, as Government expenditure increased with the end of transition related expenditure;
- Interest payments exceeded target by 1.8 billion due to payment on the treasury bills;
- Strategic Petroleum reserves of about 2 billion.

The combined effect of shortfall in external inflows and increase in expenditure caused an overall cash deficit of 21.3 billion which had to be financed by BNR overdraft and Commercial Bank borrowing.

This was a most unwelcome development.

Especially coming at a time when bank lending to non-Government entities was also expanding rapidly from 84 billion in March to 101 billion today. This increased money supply (currency in circulation and bank deposits) from about 134 billion at about this time last year to 160 billion and has had the combined effect of :

- (i) Reducing our Forex reserves from about 103 billion to less than 90 billion in the last six months.
- (ii) Increasing inflation which is now hovering around 9 %, the first time in seven years inflation has attained this level.

Mr Speaker, Mr President

13. Given the special circumstances of this year which was exceptional in ways more than one, we can interpret these developments in that context. Nonetheless we must act quickly and decisively to arrest the situation and return to the original path of macroeconomic stability and economic growth we have known over the last seven years.

In the Budget, we are proposing for 2004 and the Medium Term Path for the coming three years, the aim is to :

- (i) stabilise inflation at below 5%
- (ii) sustain real GDP growth of 6%
- (iii) Stabilize the currency in 2004 at an average of 586 Fr/Dollar.

#### **14. External inflows in 2004**

Grants increase: from 90 to 111 billion  
 Soft loans increase: from 25 to 85 billion  
 Total external resources jump: from 115 to 196 billion francs.

#### Allocation of Budget by Ministries

<b><u>Ordinary Budget (top 5)</u></b>		<b><u>Development Budget (top 5)</u></b>	
MINADEF	25.9	MININFRA	21.9
MINEDUC	20.8	MINALOC	19.1
MINALOC	11.8	MINEDUC	8.8
MINISANTE	8.4	MINISANTE	7.4
MININFRA	6.9	MINAGRI	6.8

#### In terms of the Combined Budget

MINALOC	30.8
MINEDUC	29.6
MININFRA	28.8
MINISANTE	15.8
MINAGRI	10.1

The large increase of MINALOC is due to FARG, CDF and the HIMO programmes.

MINEDUC jump is explained by the programme of free basic education.

MINISANTE, it is due to increase in salaries of doctors and health workers.

MININFRA's increase is due to new infrastructure projects and greater allocation to increase capacity of the ministry.

The programme for fertilizers and exports explain the large share of MINAGRI.

**15. Domestic Debt**

In the year 2004, Government will pay a total of 6.6 billion on domestic debt composed of :

- 1.7 billion to the BNR
- 2.6 billion on development bonds
- 5.0 billion on debt owed to CSR repayable over 15 years at 7.5%
- 1.2 billion on various obligations to BCR
- 1.3 billion to CSS
- 2.0 billion on various obligations to other domestic creditors
- 1.3 Arrears old consolidated
- 
- 14.6 billion

This is made up of 8 billion in principal and 6.6 billion in interest.

I would like to remind the House that this excludes the Domestic Debt on Goods and Services as well as Net Lending.

Mr speaker, Mr President

I began by saying that as Rwandans we ought to be proud the way year after year, our revenue performance has improved. I want to express Government's appreciation to Rwandan individual and corporate tax payers for their civil spirit. I want also to express my appreciation to the RRA for the good work they continue to do.

I want to salute in particular, the continued successful dialogue between taxpayers and the RRA.

As a result of continued good revenue performance and as a result of consultations with the Business Community, Government does not propose to introduce any new tax measures this year. We instead, intend to consolidate and stabilize the tax regime. Furthermore, experts are helping us to examine the current laws which are now 7 years old but have been amended so often. It requires a review. We shall associate the Business Community in this respect.

However, although there are no new tax measures. I propose that a number of amendments to the income tax and customs laws be made for administrative reasons.

- A) Concerning customs, we propose an amendment of the law to introduce GATT valuation. This is intended to make Rwanda fully compliant with WTO conventions. It will also simplify procedures for economic operators as it moves away from reference values which have sometimes been seen as arbitrary.
- B) Secondly, Parliament has already voted a law making Rwanda a full member of the COMESA Free Trade Area effective January 2001. However as there are members of COMESA who are not in the Free Trade Area, we propose full reciprocity. In other words Free Trade Area privilege will be accorded to only those who are in the FTA, for the rest it will be on principle of equalization of duty levels.
- C) Another proposal by Government concerns is to fully exempt some items from duties irrespective of origin; these are malaria drugs, chemically treated mosquito nets, textbooks and scientific journals. The House will appreciate that these are measures which are long overdue.

Mr Speaker, Mr President

The Rwandan Diaspora has frequently informed Government of the difficulties experienced by bona fide returnees in respect to their personal effects including vehicles. We propose to exempt all personal effects of Rwandans returning home. It must be

understood however that, we will stringently apply the regulations to ensure no abuse of this facility by unscrupulous individuals.

The next proposal concerns reform of PAYE. It is proposed to raise the level of exemption from 180.000 to 360.000 Frw p.g. and the top rate of 30% from 960.000 to 2.400.000. The intermediate brackets are also changed. This will facilitate application of PAYE.

Mr Speaker,

Allow me now to touch on the **Development Budget.**

Government is very pleased to note that of the allocated amount of 88.2 billion, a substantive increase from 65.1 billion francs, the local contribution represents almost 30%, the foreign component is 70%. I would like to recall here that the domestically financed component has been increasing since 1999 when it represented only 7% and the foreign financing 93%.

We are noting also that from a trend of declining budget from 71 billion in 1999 reaching 56.4 in 2002, we are now on the upward path.

In terms of structure of this Budget, Internal Financing will contribute 5.5 billion to CDF, 2.5 billion counterpart funding and 17.9 billion for the rest.

As I have already mentioned, the total is 62.3 billion, 46% is grant and 24% is loans.

I would like to point out that the sectors of Infrastructure, Agriculture, Education and Health account for 60% of this Budget.

MININFRA accounts for 21%, MINALOC 15%, MINAGRI 13% MINEDUC 10% MINITERE 9% and MINISANTE 8% .

I invite the house to note further the improving absorption capacity from 58% in 2001 , 69% in 2002 and 75% in 2003.

Among the new projects in the Budget for 2004 to add to the existing portfolio are :

(i)	Special export programmes .....	6.5
(ii)	Cash and Export Crop Development.....	1.0
(iii)	HIMO.....	1.3
(iv)	CDDP.....	1.5
(v)	Rehabilitation of Electrical and Water Infrastructure for Kigali.....	0.9
(vi)	Water Supply Karengé.....	1.2
(vii)	Kigali Urban Development	---
(viii)	Rehabilitation of Mukungwa, Gihira and Gisenyi.....	1.5
(ix)	Electrical line Kibuye –Karongi.....	0.35
(x)	Four major roads.....	8.00
(xi)	Laying optic fibres .....	0.5

It is possible that a number of projects mature in the course of the year, if negotiations succeed.

I must caution the House however, that a number of Agencies are expressing concern about capacity for so many infrastructure projects at a go. Nonetheless, we will do everything we can to ensure those civil works proceed .

I take the opportunity to inform the House of the forthcoming completion of the Kigali Intercontinental Hotel and the Gisenyi Kivu Sun, in the context of our privatisation programme. I have no doubt that these projects together with other purely private sector facilities will boost tourism in this country.

The financing of these hotels have entailed Government guarantees to raise finance and we hope the facilities will generate income to pay the loans.

Mr Speaker, as I come close to my statement, let me highlight the fact that the new Constitution we voted, will from a financial viewpoint require gradual implementation.

A number of proposed Commissions and Institutions will come into being once existing ones are wound down. We will need to be careful in the future in the way we carry out reforms including meticulous examination of fiscal implications. Over the previous few years our country has made a number of reforms which were necessary but are onerous. This year was an exceptional one. In

the coming year I urge the House and the country to assist us stabilize the economy so it can resume its upward path.

In particular, I would like to emphasize that although this Budget is expansionary, it contains close to 50% foreign financing. We will spend the money only after it is available. If it is not, we will cut the Budget. Additionally, I want to make it clear that we are building in this Budget a considerable precautionary contingent level of expenditure. The aim is to avoid resort to domestic borrowing when the foreign resources fall short.

Mr. Speaker, Mr. President,

I take the opportunity on behalf of Government to express my appreciation to the House and to wish the new members of the House and the Public Accounts Committee success in their new tasks and promise our full support.

Mr Speaker, Mr President

I now have the honour to lay these proposals before the House.

-----Thank you for your attention-----