BUDGET AND FINANCE LAW 2005

STATEMENT DELIVERED

TO THE CHAMBER OF DEPUTIES

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Mr. Speaker,

Honourable Deputies,

1. ***I have the honour to represent to the House Government's Budget proposals for Fiscal Year 2005. It is the occasion also to brief and update the House on the state of the Economy and projections for the coming year.***

2. ***The total Budget for 2005 amounts to <u>368 billion RWF</u> francs from last year's of <u>335 billion RWF</u>. It consists of <u>265 billion RWF for the Ordinary Budget from 247 billion last year and 103 billion for the Development Budget an increase from 88 billion in 2004</u>. It represents therefore a modest increase over last year's Budget equivalent to 9%. Our overall intention is for a tight budget. In real terms there is no increase.***

Ordinary Budget	***Real Budget***	***Development Budget***
335	***247***	***88***
368	***261***	***107***
33	***15***	***19***

3. It is the Government's intention to ensure that this slight increase in the Budget's financed in a sustainable way, maintaining macroeconomic stability, without introducing new taxes or increasing Rwanda's external debt burden.

4. This year has been very challenging one for our country and this Budget reflects those challenges. The increase in the Ordinary Budget of 15 billion is due to the wage bill from 48 billion to 55 billion, an additional 7 billion and about 8 billion on Goods and Services. I will return to this shortly in particular to explain increases in water, health and education.

5. The increase in the Development Budget of 19 billion is explained by the energy crisis, 14 billion francs is entirely allocated to energy programs including network rehabilitation, micro-centrales and diesel engines. The House should take note that in this year along, we have spent or intend to spend by year end a total of 18 billion to respond to the crises – and this is being done at a time of record oil prices. It is the intention of Government this year that

energy receives attention even if this means savings elsewhere.

6. ***Yet, as I shall be explaining also shortly, we have had a challenging year from the dismissal performance of agriculture and in this year, we provide additional resources to address the issue via special programs in the Districts and by a special dotation to BRD.***

Mr. Speaker

Honourable Deputies,

7. ***Let me return to the overall performance of the economy in 2004. When I presented the Budget last year, the economy had contracted to 3%, owing essentially to unsatisfactory agricultural performance. While most other Sectors were growing at above 7%, agriculture was barely above 0%.***

PROPOSALS FOR 2005.

The objective to attain growth in real GDP above 6% in the coming two years and continue to reduce inflation to below 4% and the exchange rate at current levels.

Without increasing taxation, the aim is to attain 14% revenue to GDP. It means therefore that total Government expenditures account for 30% of a National Income, yet raising only 14% in taxation. It therefore means 16% financed from abroad.

Put it another way, the overall deficit before grants is 16%. However, since we do receive grants from multilateral agencies and friendly countries, the deficit after grants is 1.9%.
This remains a key problem.

<u>Our Budget is typically by three issues:</u>

(i) Total available national/ external resources

(ii) Built in inflexibility and earmarked funds

(iii) Monetary stability

<u>Revenues</u>

I expect revenue collection to rise from 136 billion RWF to 156 billion, a 20 billion RWF increase – <u>without raising taxes</u> to come from more efficiency and reasonably good performance on PAYE, excises, vat international trade

	2004	2005
Direct taxes :	***38***	***41***
Goods and Services: (VAT / Excises)	***64***	***71***
Customs	***25***	***31***

In terms of non tax revenues, we are programming 3.2 billion second portion of sale Government houses which is given as loan to CHR to enable it become a Housing Bank. We are also entering joint venture with the private

sector to set up a national lottery expected to generate 500mn.

Proposals

Parliament is in the process of passing a new Income Tax Law to provide <u>simplicity</u>, <u>predictability</u>, <u>user friendly</u> and <u>equitable.</u>

- ***Reduce Corporate tax 35% - 30%***
- ***Exempt >30.000 from income tax***
- ***Simplify procedure***
- ***Introduce new brackets***
- ***Implement indemnities policy***

Customs Law

- ***Basic principles of Kyoto convention***
- ***Take account of regional integration***
- ***WTO valuation – Recently inaugurated ASCYUDA +++***
- ***Electronic declaration***
- ***Provide for EPZ***

House is aware that since January, Comesa goods are zero terrified.

In this draft law, Government is proposing to reduce duties on raw materials to zero, which could cost Treasury close to 1.6 billion.

Finished goods : 30%

Intermediate : 15%

Raw materials : 0%

Capital goods : 5% (some 0%)

Note nonetheless that the House has passed laws exempting several categories of Capital goods and ICT. I am aware of the controversies surrounding the Magerwa <u>Statistical tax</u>, the <u>Withholding tax</u> and the overall <u>Magerwa monopoly</u>. Government is looking into all three and I will be returning to the House with a proposal on all three reminding the House that the Withholding tax is only for "hard to tax" categories.

Government is also aware of the charges and taxes levied by Minicipalities – which have to be coordinated with national taxation.

I wish to recall also that a revised investment law is before the House for consideration which gives more transparent and comparable incentives to neighbouring countries, including ZERO taxation in the free zone.

Mr. Speaker

Honourable Deputies,

In our quest for continued support to Industry I am proposing a shift from a single advalorem tax on cigarettes to a specific tax - Industry has successfully petitioned.

- ***To combat inflow of low quality brands***
- ***Comparability with neighbours***

We have not yet reached a decision for petrol, alcohols and soft drinks. The matter remains under study.

<u>Expenditures</u>

Wages	***47***	***55***
Goods and Services	***50***	***60***
Other categories: - Exceptional - Transfers	***68***	***79***
Debt: - Principal - Interest	***25 15***	***29 16***
Lending to Public enterprises and Arrears	***36***	***25***

Fixed expenditures

Out of recurrent budget of 243 in 2004 about 160 billion are fixed.

- ***Fixed costs/recurrent : 66%***
- ***Fixed costs/revenue :117% of domestic revenues***
- ***Wage bill/revenue: 50%***

Therefore caution is wage policy. Expectations are that the ongoing public sector reform can provide ways of raising wages but not wage bill.

Public Sector Reform

- ***Retrenchment : 500mn***
- ***Reintegration : 1000 million***

  Training

  Projects

  Recycling

The rise in wage bill is due to :

(i) ***Statutory increase of 3%***
(ii) ***New recruitment of teachers and police (1000)***
(iii) ***Replacement of qualified with unqualified***
(iv) ***Incentives/ Service conditions to health workers***
(v) ***Reform in the Justice and prosecution services***

(vi) New Institutions provided for by the Constitution Senate, a bigger House, New Embassies (Tokyo, Ottawa)

Aware that public officials complaint of low pay in relation to cost of living.

Let me say a word about teachers arrears amounting to about 850 million. Government is paying 150 million and 450 next year. In 2006, we will pay 250 miilions and the matter is closed.

<u>Goods and Services</u>

In agreement with World Bank;

(i) Capitation grants and other programs equal to 1.8 billion RWF in support of Universal Primary Education

(ii) Health Support programs 1.8 billion

a. Improve services at Health Centres

b. Improve working conditions

c. Support for vulnerables to Mutuelles

d. Some District Hospitals

e. Equipment

f. Immunization 90%

g. Malaria / Tuberculosis program

Mr. Speaker,

I recall also that we have contracted a 12 mn $ loan from the Saudi Fund to re-equip, rehabilitate Faycal Hospital to save on the huge amounts spent each year on patients abroad – This is over and above 1 billion from local Funding

(iii) Water programs 1 billion

<u>Road Fund</u> : From 3.2 to 4.0
Aware grossly inadequate
Maintenance especially now major investments:

- ***Kayonza***
- ***Akanyaru***
- ***Cyangugu***
- ***Bugesera***
- ***Studies underway Kigali-Gisenyi***
- ***City Roads***

<u>Civil Service Reform</u> : <u>1 billion</u>
Training/Redeployment: 0.4
Income generating : 0.4
Scholarships : 0.2

Increased Fuel costs

Government expenditure up from 4.1 to 5.9 billion

Electricity / Water Consumption

Up from 0.9 to 2.3 billion

Discuss petroleum subsidy issue

True	***CIF***	***673/l***
Reference	***CIF***	***543/l***

Government foregoes

For October – December is 2.3 billion

Each time petroleum market increases and there is no raise at the pump, subsidy increases.

TRANSFERS

(Money transferred to individuals /Institutions)

4 billion	***(Electrogaz Subsidy)***
2 billion	***(Higher Education)***
2 billion	***(to BRD export promotion)***
1.5 billion	***(Reflecting the Statutory salary increase for institutions)***

Up by 13 billion

0.5 billion to kick off the lottery

0.5 billion (district subsidies for seeds),

1.0 billion (CSS) (annual allocation)

Issues

1. ***Electrogaz Subsidy***

   ELZ 132 Fr/kwh (including taxes)

   104 Fr/Kwh (excluding duties)

   92 Fr/Kwh (with gains in efficiency)

   Government position

   (i) Waive duties

   (ii) ELZ increase efficiency

   (iii) Differential tariffs and Cross Subsidies

Population note Diesel generation is expensive and we must use electricity carefully.

2. ***Higher Education***

- ***Science and Technology emphasis for abroad students***
- ***Expatriate staff/Staff development***

3. ***Institutions***

- ***Increase in salaries***
- ***Increase in transfers to them to cover higher costs.***

Cannot over emphasize need to show down on new Institutions and review existing one and

their Budget. This Budget provides in annex budgets <u>of all institutions</u>.

TRANSFERS

38. 3 to 51.0

Wages and salaries 16.6 to 18.1 (Statutory)
Except Expatriate

Goods and services – due to higher fuel and electricity

Exceptional

Reduction 29.8 to 29.1

FARG 6.7 to 7.7

DARR 12.6 to 8.7 (Reprogramming delay)

Election 2.9 ?

Prison feeding 2.4 to 3.5 (ICRC withdrawn)

Peace keeping 3.3

BRD

Of the 4.6 billion francs to BRD, 1.6 billion is for recapitalization and covering exchange losses. And 3.0 billion is an annual dotation to enable BRD carry forward Government programs in agriculture, export promotion. We expect this to be via interest rate subsidy, guarantees, equity, export finance and matching grant. I am pleased to recall that the 300 million BNR programme

for the coffee season, providing guarantees up to 30% of Bank loan has performed very well

- ***Government aim to make BRD an effectve aim***
- ***Interest rate subsidy (as needed)***
- ***Equity***
- ***Matching Funds***
- ***Export Finance***
- ***Guarantees***

<u>DEBT</u>

Rwanda will reach completion point shortly 1.0 billion off the books.

<u>INTEREST</u>

7.9 billion

1.7 billion higher last year

Interest on bond for restructuring

BCR/BACAR	***1billion***
Additional increase on T/Bill	***0.8 billion***

<u>Principal</u>

9.7 up by 2.2

BCR /BACAR 1.8

There is also CSR

We owe 45 billion 15 years 7 ½ %

3.2 billion interest

1.8 billion principal

External Debt

Without Interim HIPC we owe 48.1 million on our outstanding debt 1.556 billion

Multilateral 1.455

of which IDA 1.0

Bilaterals 141 million

Of which Paris Club 70 million

Due to interim HIPC 20.3 million

We expect HIPC Completion so it will be lower.

***Net Lending* (Pret net)**

CHR	***3.2 billion (Housing sale proceed)***
BRD	***1.62 billion (Recapitalization/Exess loss)***
Prime	***9.70 billion (Repay Domestic Banks)***
Equity	***3.40 billion (Rwandair)***

Arrears

7 billion

- ***Teachers***
- ***Expropriation***
- ***Goods and Services***
- ***Pre 94 audited arrears***

<u>Development Budget</u>

106 billion above 22% 87.2 billion last year

70 billion (on going projects)

37 billion new projects

49% Foreign grants (52 billion)

24% Foreign loans (26 billion)

23% Rwanda own funds (24 billion) – 9 bn goes to energy <u>projects</u>;

4.2 % counterpart funds 4.5 bn

so Rwanda's own contribution 29 bn i.e 27% of resources <u>very good</u>.

In terms of DB allocation Energy and water accounts for 25 of the new 55 projects.

Or out of 37 bn worth new projects about 15 billion goes to the two sections (list in docs)

<u>Financing</u>

Domestic Resources	***155 bn***
Foreign grants	***(159 bn)***
-Capital	***52 bn***
-Budget	***104 bn***
Foreign loans	***(55)***
-capital	***20 bn***

-budget 29 bn

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366 bn

therefore Rwanda's contribution to the recurrent budget of 262 is 60%, external is 40%
For projects Rwanda contributes 30%
Total loans in the Budget is 15%. This is due to HIPC

It is important to reduce borrowing, secure grants Appreciate PRSC and ADB. Last week 50 mn $ grant IDA, 15 loan.
House notes there is no domestic borrowing. We expect to repay BNR 8 billion francs. It should help inflation

Reduce crowding out.

CONCLUSION

It is growth oriented address energy issues. Consolidates progress in health / education via BRD address issue of agriculture, export promotion solidify banking sector develop financial make .

Continue economic stabilization

- ***recovery is good***
- ***continue to tackle inflation***
- ***Stabilize currency – Too much currency circulating due partly to expand microfinance institute.***

Our economy next year will face three issues.

(i) ***High cost energy generation***
(ii) ***High petroleum***
(iii) ***Unreliable rains***

-----------------------------------JOIN HANDS---------------------------------------