REPUBLIC OF RWANDA

Ministry of Finance and Economic Planning

BUDGET SPEECH

FINANCIAL YEAR 2012/13

Theme: "BUILDING ON PAST ACHIEVEMENTS TO ACCELERATE GROWTH AND POVERTY REDUCTION".

TO BE PRESENTED TO BOTH CHAMBERS OF THE PARLIAMENT OF THE REPUBLIC OF RWANDA ON JUNE 14, 2012

BY

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I. INTRODUCTION

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

1. As provided under article 79 of the Rwanda constitution of 2003 as amended to date as well as articles 36 and 42 of the Organic Law on State Finances and Property as amended to date, I have the honour to present to you on behalf of the Government, the Budget and Economic Policy of the financial year 2012/2013.

2. The budget and economic policy framework for the fiscal year 2012/2013 has been prepared under very serious downside risks in the international outlook for 2012 and beyond causing 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 therefore been taken into account in formulating the macro-economic policies and the budget proposals for 2012/2013 and the medium term. They not only present challenges but also opportunities for the economic and social progress of the country. This Budget and economic policy statement therefore articulates the flexible policies that have been designed to respond to these opportunities and challenges to move the country forward. In this regard the policies will reinforce the significant progress made in the economic and social transformation of our country and also seek to address the remaining shortcomings associated with the incidence of poverty in the country.

3. It is in the light of this background that I have chosen the theme "***Building on Past Achievements to Accelerate Growth and Poverty Reduction"*** for the budget of fiscal year 2012/2013. I have chosen this theme because the recently concluded EICV 3 (3rd Household Living Conditions Survey) and DHS 2010 (Demographic Health Survey) have shown that the country has achieved an impressive record in translating its recent good economic growth performance into improvements in living conditions and poverty reduction across the country. In particular the results show that in the last five years (from 2005/2006 to 2010/2011), at least one million Rwandese lifted themselves out of poverty. The results however also identified specific areas where poverty is still endemic. We need to divert resources to these areas with a view to eradicating poverty completely not only in these areas but in the whole country.

4. The Budget and economic policy statement is therefore organised as follows:

   a) First, I will begin with a brief summary of the global performance in 2011 and outlook for 2012 and 2013 including the performance and outlook for sub-Saharan countries and the likely impact on our domestic economy.

   b) Second, I will briefly summarize our recent economic performance in the fiscal year 2011/2012. This will include a status report on our EDPRS implementation in 2011 incorporating a summary of the EICV 3 and DHS 2010 results.

   c) The third portion of my presentation deals with the Government's medium term macro-economic framework. This framework summarises briefly our objectives and policies for the next three years.

   d) The fourth section focuses on the Government's Budget and Economic Policy for fiscal year 2012/2013. It will also spell out some of the actions we intend to take to address the imbalance and eradicate poverty in the areas identified in the EICV 3 and DHS 4 reports.

   e) In the fifth and final portion I will end with some concluding remarks.

II. THE GLOBAL PERFORMANCE IN 2011 AND OUTLOOK FOR 2012 AND 2013

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

5. Global economic activity in 2011 according to the World Economic Outlook (WEO) was mixed as real GDP decelerated to 3.9 percent from 5.3 percent in 2010. Output is projected to decline further to 3.5 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. A small recovery is projected for 2013, raising output to 4.1 percent.

6. Growth in the emerging developing economies is also expected to slow from 6.2 percent in 2011 to 5.7 percent in 2012 because of the worsening external environment and a weakening of internal demand. Responding to the expected global recovery, growth is projected to increase slightly to 6 percent in 2013. These global factors also impacted negatively on Sub-Saharan African performance as output was estimated to have risen only marginally to 5.1 percent in 2011. It is now projected at 5.4 percent and 5.3 percent in 2012 and 2013 respectively responding to improved economic policies coupled with large infrastructure development.

7. In the EAC region, output growth in 2011 at 6.2 percent was better than the Sub-Saharan average of 5.1 percent. Output growth for 2012 and 2013 is now projected at 5.5 percent and 6 percent respectively, still slightly higher than the Sub-Saharan average.

8. Non fuel primary commodity prices which increased by 17.8 percent in 2011 are now projected to decline by 10.3 percent and 2.1 percent respectively in 2012 and 2013 in response to weaker global demand. Oil prices on the other hand remained high and increased by 31.6 percent in 2011. A further increase of 10.3 percent in 2012 is expected but a small decline of 4.1 percent is projected for 2013. Rwandan exports and imports will be affected by these price developments.

9. 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 the advanced countries. 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. For sub-Saharan Africa, inflation which rose from 6.9 percent in 2010 to 9.7 percent in 2011 is projected to decline slightly to 8.6 percent in 2012 and decelerate further to 7 percent in 2013.

10. In the EAC countries, inflation accelerated from 5 percent in 2010 to 14.6 percent in 2011, on account of high oil and food prices as well as the drought in the horn of Africa. Consumer price inflation however is projected to decline to 11.6 percent in 2012 and to fall further to 6.9 percent in 2013.

III. RECENT ECONOMIC PERFORMANCE

a) Real GDP growth

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

11. I will now highlight briefly our economic and financial achievements in the last fiscal year.

12. In the fiscal year 2011/2012, our major objective was to improve food production and contain inflation. For this purpose we increased resource allocation to the productive sector notably agriculture and reduced the fuel tax levy to minimize the pressure of transport costs on price levels. I am happy to tell this audience that our objectives in both cases were achieved and I will now highlight our achievements.

13. At the beginning of 2011, we projected real GDP growth at 7 percent, slightly lower than the 7.2 percent achieved in 2010. This projection was based on the expected adverse impact of high fuel and food prices on our economy. However NISR estimates for 2011 put real GDP growth at 8.6 percent which is better than we expected. This growth was mainly achieved with a strong 18 percent growth performance from the industry sector led by the construction, minerals, chemicals and non-metallic products (including construction materials such as burnt bricks) sub-sectors. Regarding agriculture, the good season 'B' food crop harvest allowed the sector to maintain a strong growth of 5 percent, the same as was achieved in 2010. This performance demonstrates that our good policies under the Crop Intensification Program (CIP) aided by good weather conditions have yielded tangible results and we intend to continue these policies.

14. 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. Overall, the good output performance in 2011 was by and large attributable to the strong performance of the financial sector as credit to the private sector for investment and working capital expanded from RWF 397.1 billion in 2010 to RWF 509.8 billion in 2011 showing an increase of 28.4 percent. This output performance also shows that we remained relatively insulated from the slowdown in the advanced economies in 2011.

b) Consumer Price Inflation

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

15. In the area of inflation we can continue to take pride in the fact that despite unfavourable international environment, inflation in Rwanda continues to be low compared to our region and beyond. In the EAC countries, inflation continued to rise throughout 2011 to levels above 20 percent as I have mentioned earlier, caused by high oil and food prices as well as the drought in the horn of Africa. In Rwanda, inflation also rose sharply in 2011, but remained in single digits reaching 8.3 percent at end December 2011 from 0.2 percent at end December 2010, the lowest in the East African Community (EAC).

16. Our fiscal and monetary policies played a significant part to keep 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 the lowering of inflationary pressures and stabilized 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. In summary we can say that our policies to contain inflation were successful.

c) External Sector Performance

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

17. I now turn my attention to our trade and financial relations with the global market. Our external sector performance was greatly influenced by commodity price movements.

18. Exports in value terms showed a strong growth of 56 percent in 2011 compared to 2010 on account of high prices led by minerals exports. In the area of minerals exports, production in 2010 carried over to 2011 contributed to the increase in receipts. At the same time imports in value terms also 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.This performance is not only unsustainable but it shows how critical it is for us to ensure that our national export strategy is successful so we can close the trade gap.

19. 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 7 percent in 2011 compared to 10 percent in 2010.

20. 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 healthy surplus of US$ 233.5 million in 2011 compared to a surplus of US$ 72.1 million in 2010. The nation's foreign exchange reserves therefore increased and reached coverage of about 5 months of imports.

d) Monetary, Exchange rate and Financial Sector Developments

Honourable Speaker of Parliament
Honourable President of Senate
Honourable Members of Parliament,

21. I will now turn my attention to our recent monetary and financial developments.

22. Monetary policy in 2011 had the objective of containing inflation and at the same time ensuring that there was enough liquidity for economic growth. Consistent with this objective, 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. 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 to public works and construction. New loans for the agriculture sector continue to be low, even though 2011 saw a more than 100 percent increase to RWF11.9 billion from RWF 5.1 billion in 2010. We will continue to urge our banks to increase their financial support to this vital economic sector. The public's confidence in the domestic banking system therefore remains strong.

23. 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.

24. In the case of financial sector performance, the banking system continues to be highly liquid and profitable with the overall nonperforming loans ratio declining from 11.3 percent at end 2010 to 8.2 percent at end 2011. Regarding the regulatory framework, BNR continued to reinforce its supervisory roles by conducting both off site surveillance and onsite inspection. During the year 2011, 9 onsite inspections were conducted against 7 carried out in 2010. In addition, the BNR Board of Directors approved two banking regulations; one on Reporting requirements and another one on Risk Management in December 2011.

25. In the area of micro finance Government continues to promote the growth and soundness of the SACCOs. In this regard, BNR hired 60 inspectors two in each district during the year to supervise the SACCOs and ensure sound management practices.

26. Concerning capital market developments, a law regulating Collective Investment Scheme in Rwanda was published and we expect that the Trust Law which is currently being considered by Parliament will be passed soon. On the equity market, the Bank of Kigali (BK) listed its shares on the Rwanda Stock Exchange (RWE) market on September 1st 2011 following a successful Initial Public Offer (IPO) which was oversubscribed by 276 percent. In 2011, the equity market recorded a turnover of about RWF 21 billion from 1793 transactions including trading in BRALIRWA and BK shares.

e) Fiscal Performance

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

27. I will now present the highlights of our 2011/2012 budget execution. In June last year, Parliament approved a budget totalling RWF 1,116.9 billion for 2011/2012 fiscal year. This budget was RWF 132.9 billion higher than the revised budget of RWF 984 billion approved in 2010/2011. In the later part of 2011, additional resources from some donors and domestic tax and non-tax sources became available to Government. This necessitated a revision of the budget to provide additional resources to some under-funded priority programs and projects as well as take on board new priority expenditures. As a result Parliament at end 2011 approved a revised budget which amounted to RWF 1,194.2 billion showing an increase of RWF 77.3 billion. Given that the Government borrowed RWF 77.8 billion from the banking sector (mostly with Treasury bills) to finance the deficit in fiscal year 2010/2011 which increased the domestic debt substantially, it was decided to use some of the resources accruing from the Airtel license fees and the IPO of BK and MTN to retire a portion of this debt. Accordingly the revised budget projected a repayment of debt (retirement of maturing Treasury bills) amounting to RWF 28 billion.

28. By end March 2012, total resources that accrued to the budget amounted to RWF 796.7 billion representing 78.8 percent of total resources of RWF 1,010.6 billion projected for the fiscal year 2011/2012 In the area of resources, total domestic collections at RWF 432.6 billion by end March 2012 exceeded our projections of RWF 425.5 billion by RWF 7.1 billion. Excess collections by RRA of RWF 16.7 billion were offset by a shortfall in non-tax revenue collections RWF 9.5 billion. The performance of RRA benefited from the better than projected real GDP growth as well as the on-going administrative reforms which continue to broaden the tax base and came mainly from PAYE and VAT collections. In the case of non-tax revenue collections, the shortfall came mainly from lower dividend payments from public enterprises resulting from increasing privatisation of public enterprises as well as lower collections from administrative fees and charges on account of shortfalls in driving license and other fees.

29. On the expenditure side total expenditure and net lending at end March 2012 of RWF 785.4 billion represented 72.2 percent of the fiscal year 2011/2012 revised estimate of RWF 1087.6 billion We are therefore confident that the expenditure policies especially those in the area of public critical investments will be implemented in full by the end of the fiscal year 2011/2012.

30. The better performance of revenue collections together with the delayed spending during the first quarter of 2012 resulted in a better performance of Government's financial position with the banking sector. At end March, the build-up of Government deposits in the banking system notably BNR amounted to RWF 92.8 billion and was RWF 9.2 billion higher than the RWF 83.8 billion estimated. On this trend, Government is on track to realise the savings required for the retirement of debt amounting to RWF 28 billion carried over from 2010/2011 fiscal year as indicated in our revised budget by end June 2012.

IV. KEY ACHIEVEMENTS IN FISCAL YEAR 2011/2012 AS WELL AS PROGRESS IN EDPRS

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

31. After giving the highlights of our general budget implementation, I will now mention some key programs and projects implemented as well as some results achieved in key sectors during the 2011/12 financial year. I addition I will also give a summary of achievements made to date in the implementation of the Economic Development and Poverty Reduction Strategy (EDPRS).

a) Programmes and projects implemented in 2011/12

A. Education:

i. Construction of 9YBE classrooms were completed in the financial 2011/12, 2,679 new classrooms and 5,242 new latrines were constructed and fully equipped. This has greatly improved access to education services to 100 per cent for the 9 years of basic education. We were also able to pay all arrears related to 9YBE that had complete supporting documents and an amount worth about RwF 1.3 billion was paid. I would like to thank the Rwanda community for their relentless effort in achieving this important milestone.

ii. The quality of education continued to improve with the proportion of students obtaining division 1 at primary leaving examinations and at Ordinary level examinations increasing by 11% and 6.3% respectively between 2010 and 2011. The proportion of qualified teachers has increased from 98.5 percent to 100 percent at primary level and from 60 percent to 70 percent at secondary level between 2010 and 2012. Furthermore, the pupil text book ratio has improved from 1:3.7 to 1:2.8 over the same period.

iii. The pupil to qualified primary teacher ratio now stands at 58:1, an impressive improvement from last year’s 63:1, due to recruitment of nearly 4,000 primary school teachers during 2011/12.

iv. The post-basic education (PBE) system has been scaled-up to meet the needs of the labour market by accelerating the expansion of the upper secondary and TVET. Enrolment in higher learning institutions continued to expand with the number of students in public HLIs increasing from 31,565 in 2010 to 33,768 in 2012 and the number of students in private HLIs increasing from 31,171 in 2010 to 36,125 in 2012.

B. Health:

i. Enhanced health infrastructures to increase universal access to health care. In this regard, 3 district hospitals (Masaka, Ntongwe) were constructed and 7 Health Centres (Kabarore, Mudende, Bugeshi, Mukoma, Bushenge, Bisesero and Ngeruka) completed and fully operational.

Furthermore, a surgical block in Gisenyi (Rubavu) Hospital is completed as well as the Maternity, Emergency and Paediatric block in the Butare (Huye) University Teaching Hospital while construction of a Maternity and Emergency block in Kanombe Military Hospital is ongoing.

ii. Improved health transport and 34 high standard ambulances have been procured. Now districts have a comprehensive emergency transportation and the SAMU has been reinforced.

iii. Scaled-up disease treatment and quality of health care and continued to fight against communicable diseases. About, 2,923,245 mosquito nets were distributed by end May this year and treatment of Malaria continues to be subsidized. About 90,913 patients are now under treatment of HIV, and efforts are being done to eliminate mother to child HIV transmission. Additionally, vaccination against Human Papilloma Virus in young girls to prevent cervix cancer has been extended to over 915,000 young girls. PREPEX program for male circumcision was initiated during the year 2012 to minimize the risks of sexually transmitted diseases including HIV and about 1.0 million males will be circumcised before the year end.

iv. In order to increase financial accessibility to heath care, the Government implemented the new policy of "Mutuelles de santé" from July 2011 and the financing of the health insurance scheme has been strengthened to better address the increasing health care risks. Whilst the average 'mutuelles' adherence rate remained at the 2010 rate of 91%, the utilization of health services increased significantly to 99% due to improved healthcare services.

C. Agriculture:

i. Registered increased agricultural productivity through the scaling up of irrigation of hillsides and soil erosion control through the key government project of Land Husbandry, Water-Harvesting and Hillside Irrigation (LWH) where yields for Irish Potatoes have grown from around 4 tonnes per hectare to around 30 tonnes per hectare. This has resulted in large income gains to the farmers.

ii. Scaled-up efforts to increase agricultural productivity and production through the crop intensification program. The national average of fertilizer use is 30 kg/ha/annum compared to 6 kg/ha in 2006. This has been supported by land consolidation initiatives and provision of extension services with currently 436 Agro-dealers operating at the sector level.

iii. Enhanced large-scale marshland irrigation projects and additional 3,000 hectares of rice have been provided in 2011 in order to increase the incomes of farmers. For the existing irrigated marshlands, the estimated returns are in the region of USD 9.5 million for 10,000 households which is around USD 930 per household from the irrigated land. It is envisaged that Rwanda will be self-reliant in rice production by 2014.

iv. Strengthening of post-harvest storage program to ensure food security continued through the construction of several strategic grain reserve facilities in various parts of the country. This included a facility with capacity of 20,000 MT at the Free Trade Zone. These construction activities will continue to increase in subsequent years.

v. Livestock development has been enhanced through GIRINKA Program and about 3,300 cows were distributed in the 2011/12 financial year through Government budget. This has been accompanied with increased veterinary services to ensure sustainability of this program. Additionally, One Cup of Milk per Child was scaled-up and the programme benefited 75,000 pupils in the Southern and Western provinces.

vi. Improved market access for agricultural produce through supporting value addition in tea, coffee and horticulture commodities. Export values for tea and coffee alone have increased to 139 million USD in 2010 calendar year from 112 million USD in 2010 calendar year, an overall increase of 24 percent.

D. Trade and Industry:

i. Continued to promote conducive business environment and online registry is fully operational in RDB, the Rwanda Electronic Single Window System was implemented in Customs head offices, connecting with other agencies (RDB, RBS and MAGERWA) on 1st February 2012 at Gikondo Customs Office.

ii. Construction of 9 industrial units in Kigali Special Economic Zone started, 9 light industries will be relocated from Gikondo Industrial Park to SEZ.

iii. 3,541 SMEs accessed technical support in business skills including business plan development, book keeping, SMEs and Cooperatives management and other technical skills.

iv. Hanga Umurimo program was launched with over 16,000 business ideas received and selected 50 from each district for development of business plans. The selected best 10 per district will be linked to financial institutions to access loans and start their business.

v. Ten (10) selling points have been constructed in 10 different districts and this will facilitate farmers to sell their produce easily and increase farm gate prices.

vi. Continued to facilitate trade and promote standards to create competitiveness for the Rwandan products in regional and international markets. 18 new products and 2 systems have been certified. 33 new standards developed and 85 standards reviewed.

E. Financial Sector Development:

i. Enhanced financial deepening and 335 out of 416 Imirenge SACCO have full operating license. All Imirenge SACCOs have the authorization to grant loans.

ii. Continued to ensure Private Sector issuances and Cross-listings through the Capital market.

iii. 201 Automated Teller Machines (ATM), among them 77 working with Visa international and 317 Point of Sales (POS) now accept both local and international transactions.

F. Information Communication Technology:

i. The Fiber Optic cable was completed and currently 324 institutions have been migrated to the Network and have access to broadband connectivity. In addition, Wibro Technology has been deployed covering 80% of Kigali City. The technology has been launched with 350 subscribers and plans are underway to cover the Kigali and deploy Wireless Broadband in Districts.

ii. National Data Center project was completed and the center provides a secure, reliable and highly available physical infrastructure for effective data processing. Currently, the data center is providing 152 email and web hosting services, 7 virtual services and 8 collocation services. In addition, cloud-computing solution has been deployed in the Data center to increase the capacity of hosting services.

iii. Embassy Intranet has been put in place with the aim to establish a private secure communications network that will improve communication and collaboration between the Ministry of foreign affairs and cooperation, Rwandan Embassies, and other stakeholders. So far all Rwandan Embassies in Africa have been connected to the network and plans are underway to connect the remaining embassies in Asia, Europe and USA.

iv. The CMU-R campus was launched in 2011 and started offering professional courses in January 2011. It is planned to start Masters in ICT engineering in August 2012 to boost the ICT skills for private sector development.

v. A total of 60 Service Access points were established in all districts, two for each district, with the aim of providing for ICT needs of the people living in underserved rural area in the country.

G. Transport:

i. Rehabilitation and upgrading of paved road network for Musanze-Rubavu (64.5km), Gitarama-Ngororero (47km) and Ngororero-Mukamaira (55km) were undertaken

ii. Rehabilitated and upgraded Kigali City roads (36km), Kigali Special Economic Zone (6.6km), Rubavu roads (7.5km) and Huye roads (4.6km).

iii. Rehabilitation of Gitarama–Ngororero Road (46 km): The works of the project also supported the maintenance of connecting feeder roads (73 km).

iv. Rehabilitaton of Rusizi – Ntendezi-Mwityazo road (51 km). The works have already started and so far about 45 % of the works have been completed.

v. Completed rehabilitation of Rubavu-Musanze-Kigali road network with over 197 Km now in good condition.

vi. Completed technical detailed design for the new Bugesera International Airport and mobilization of financing is in progress.

H. Energy:

i. The construction of the micro hydro power plants of Keya (2.22MW) in Rubavu, Nkora (0.68MW) and Cyimbili (0.3MW) in Rutsiro, was completed in July 2011. The official inauguration took place on 27/10/2011.

ii. A number of electricity generation projects were pursued and the current installed capacity is at 100.4 MW.

iii. About 23% of primary schools and 44% of secondary schools have access to electricity (grid and off grid) against EDPRS target of 50% for both primary and secondary.

iv. The current rate of health centers with access to electricity including both on grid and off grid, is at 90% compared to EDPRS target of 100%.

I. Social Protection and Governance:

i. Successfully conducted the senatorial elections in September 2011.

ii. Organized and conducted Itorero Program for about 35,783 students who completed their secondary school education.

iii. Scaled-up the VUP program from 90 to 120 sectors and all components are being implemented.

iv. Scaled-up the "Umudugudization Program" and the population settling in Imidugudu sites increased from 39 percent in 2011 to 43 percent in 2012.

v. Fully implemented the Nyakatsi programme and 47,075 families that lived in grass thatched houses have been supported to own decent houses.

32. After giving the highlights of the general budget implementation, I will now mention some key programs and projects implemented as well as some results achieved in some key sectors during this fiscal year.

b) Progress in EDPRS Implementation

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

33. The fiscal year 2011/2012 represents the fourth year of our EDPRS and we are glad to note that we have achieved significant results during the implementation period. In the fiscal year 2010/2011, Government conducted 2 major surveys: the 3rd household living conditions (EICV 3) and the fourth demographic and health (DHS 4) surveys. We also conducted a review of the EDPRS implementation after 4 years.. Regarding the EDPRS the results indicate that by end 2011, with a little more than one year to go, we had already achieved more than 85% of the targets we had set for 2012/13.

34. The results from the EICV 3 and DHS 4 showed that robust economic growth averaging 8.5 percent together with sound Government policies in the past five years impacted positively on Rwandans in a number of respects as follows:

35. In the area of poverty reduction, the poverty headcount ratio declined from 56.7 percent in 2005/2006 to 44.9 percent in 2010/2011 measured by the national poverty line, and from 72.1 percent in 2006 to 63.2 percent in 2011, measured by an internationally threshold ($ 1.25 purchasing power parity (PPP) per day). Poverty reduction was seen in all provinces, in particular outside Kigali city. In other words we managed to lift more than 1 million Rwandans out of poverty during this period;

36. Regarding agricultural income and job creation, the results show that the reduction in poverty is supported by enhanced productivity and commercialization of the agricultural sector which covers more than 70 percent of employment. The number of non-farm jobs also increased by 60 percent.

37. With regards to income inequality, the survey results showed that improved living conditions across income levels have resulted in reduced inequality: the Gini coefficient declined from 0.52 in 2005/2006 to 0.49 in 2010/2011, below the level in 2000/2001 (0.51). The ratio of the 90th percentile of consumption to the 10th fell from 7.1 to 6.4 during the last five years.

38. I would like now to highlight some of the key achievements made to date in the implementation of the Economic Development and Poverty Reduction Strategy (EDPRS).

- **Economic Cluster**

39. According to the EICV3, Agriculture sector has been a key contributor to the reduction of poverty by 12 percentage points from 2005/2006 to 2010/2011. This drives the attainment of MDG 1c that is to 'halve the proportion of people who suffer from hunger' between 1990 and 2015. Also, food security balance sheet from crop assessment survey for 2012 season A indicates that the surplus of food is equivalent to 126,000MT compared to 82,000MT in 2010/11.

40. The move from subsistence to marketable agriculture has been a particular policy focus for the agriculture sector particularly focusing on the program of post harvest handling storage. The share of agriculture output to the market from rural areas has moved from 21% in 2005/06 to 26 %in 2011/12.

41. The World Bank Doing Business Report 2012 ranked Rwanda the 45th easiest country in doing business, an impressive ascent from 58th in 2011 and 167th just three years ago. In fact, Rwanda has been hailed as the second most reformed country worldwide over the last six years. Rwanda is now the 3rd best placed country in Sub-Saharan Africa in the rankings (behind South Africa and Mauritius) and number 1 in East Africa.

42. In Land and Environment Sector, Land tenure regularization programme continued in 2011/12 and as of December 2011, 8,957,361 land parcels were demarcated and adjudicated compared to the target of 7 million parcels.

43. In mining, total revenue from exports of minerals is USD 116 million. This means that the total revenue from exports of minerals exceeded the EDPRS target of USD 106 million for the year 2011-2012.

44. In Water and Sanitation, progress has been made in access to safe water and access to hygienic sanitation. In 2011/12, 222 Km of new water schemes were constructed and supplied clean water to 147,990 people dwelling in rural areas. An estimated 84 percent of population had access to safe water supply exceeding the target of 83 percent and an estimated 62 percent has access to hygienic sanitation facilities.

- **Social Cluster**

This cluster covers Health, Education, Social Protection and Youth. The achievements in this cluster include:

45. In the Health Sector, the percentage of women aged 15-49 using modern contraceptive methods increased from a baseline of 10 percent in 2006 to an estimated 45 percent, exceeding the target of 44 percent. The percentage of U5 mortality attributable to confirmed malaria decreased from 13% to 8% exceeding the target of 11.5 percent by 3.5 percentage points.

46. According to the RDHS 2010/11, the main maternal health indicators continue to improve. Compared to IDHS 2008, the total fertility rate was reduced from 5.5 to 4.6. Assisted deliveries in health facilities increased from 45% in 2008, to 69% in 2011/12.

47. With regard to the percentage of utilization rate of primary health care services (all visits at health centres, private dispensaries and visits by community health workers), performance of 95 percent was achieved against the set target of 85 percent.

48. In Education, Primary school completion rate reached 79 percent overall against the set target of 59 percent in 2011/12. Of these, 82 percent are girls against the target of 58 percent. Pupil per qualified teacher ratio reached 58:1 in 2011/12 surpassing the target of 64:1.

49. Transition from basic to upper secondary education reached 94 percent from 90 percent exceeding the target by 6 percent. 31 percent of male and 21 percent of female students in science streams passed S6 examinations compared to the targets of 30 percent and 20 respectively.

50. The EDPRS flagship VUP programme is now operational in 120 sectors and is reaching 86,000 households with direct support or public works. Extremely poor households employed in public works were 61,335 of which 49 percent were women headed households. In direct support, a total of 9,692 households received direct support and the financial services component that was launched in March 2010 has already reached 55,675 borrowers through Ubudehe Credit Scheme. Other key programs are also reaching tens of thousands of vulnerable people. For example, FARG is supporting 23,360 needy genocide survivors with direct support and 164,187 with Mutuelle de Santé. 2,443 vulnerable disabled ex-combatants receive a monthly subsistence allowance through Rwanda Demobilization and Reintegration Commission.

– **Governance Cluster**

51. This cluster covers Public Financial Management (PFM), Justice, Reconciliation, Law and Order (JRLO), Decentralization, Citizen Participation, Empowerment, Transparency and Accountability (DCPETA), and Capacity Building and Employment Promotion (CBEP).

52. In the area of Decentralization, Citizen Participation Empowerment, Transparency and Accountability, the Local Government Capacity Building Strategy Implementation Plan was successfully elaborated. The senatorial elections were effectively organized and conducted from 26th September up to 27th September 2011.

53. In the Justice, Reconciliation, Law and Order (JRLO) sector, the rule of law has shown further tremendous improvement as manifested by decreased number of backlog cases. Much effort has gone into devising ways to avoid unnecessary delays and adjournments of cases as well as into looking at ways to avoid cases entering courts unnecessarily. Cumulatively, 27,575 backlog cases have been cleared during last 9 months (July 2011-March 2012) compared to 43,036 backlog cases cleared during FY 2010/11 (this is on track compared to the target). Alternative dispute resolution and mediation mechanisms have been reinforced and strengthened not only by government but also by key NGO’s.

54. Two major developments related to the quality of the Rwandan Prosecution, and Judiciary were the verdicts by the European Court of Human Rights and the International Criminal Tribunal for Rwanda (Arusha) to allow for extradition of suspected genocidaires for trial in Rwanda. The National Gacaca Secretariat has also finalized the Evaluation Report on the entire Gacaca period and is in the final stages of dealing with the revision of caseload.

55. In the area of Public Finance management, 65% of all Budget agencies submitted internal audit reports in 2011/2012. 70% of Government expenditure was audited by Office of the Auditor General.

56. In the Capacity Building and Employment Promotion Sector, IPPIS (Integrated Payroll and Personal Information System) has been deployed to 90 institutions including 23 Ministries and higher institutions, 4 Provinces, 30 districts and 33 public agencies and commissions.

57. The Pay and Retention Policy was approved by the Cabinet in January 2012 and its implementation shall commence in July 2012.

58. Some challenges have emerged in the implementation of the EDPRS over the last four years and this budget is focusing on addressing them. The main concern is Electricity generation and despite increasing from 45 MW in 2006 to 100.4 MW in 2011/12, there are still difficulties in meeting the target of 120 MW. Additional 16.938 MW will be generated from Rukarara II, Mazimeru and Musarara mini hydros.

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

Honourable Speaker of Parliament
Honourable President of Senate
Honourable Members of Parliament,

59. After discussing our recent economic and social performance including progress under our EDPRS, I will now turn my attention to our medium term macro-economic objectives and policies..

60. I have already highlighted some of the important results from the EICV 3 and the DHS 4 results which showed a significant reduction in poverty and social deprivation.

61. The results also showed that 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 Government has decided to revise those targets to the level of our ambitions.

62. One such target is the GDP per capita, which 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. . Two of them are to continue to control our population growth rate, while ensuring that our population becomes more productive and to increase our total domestic investment significantly.

63. This medium-term budget framework goes a long way towards setting the stage for this required growth. We intend to align this framework to the pillars of the new EDPRS 2 namely economic transformation, rural development, productivity and youth employment and accountable Governance. To implement these policies we will be more aggressive in attracting and facilitating investment in Rwanda: it translates into more than doing business to address the infrastructure bottlenecks, an export-oriented growth strategy, growing our agriculture and ensuring its linkages to the manufacturing sectors, and 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.

64. While an average real GDP growth of 11.5 percent is the objective to achieve our revised VISION 2020 objectives, 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).

65. 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.

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

66. I will now summarise the contents of our medium term macro- economic objectives and policies.

a) Real Sector and Inflation Projections

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

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

69. 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 (through the establishment and transformation of SACCOs) 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.

70. 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.

71. 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 reflects 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.

72. 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.

73. 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.

b) External sector policies

74. Our 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.

75. 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 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 4.7 months of imports.

76. 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.

77. 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 covering 4.3 months of imports of goods and services.

c) External Debt Developments and Policy

78. In the area of external debt, we have recently finalized a debt sustainability analysis (DSA), which confirmed that our debt dynamics are sustainable. The main changes that necessitated the revised DSA were the increase in debt resulting from higher concessional resources from IDA and AfDB starting from 2010 and the higher non concessional borrowing required for the Kigali Conference Center and Rwandair now expected to peak in 2012 and 2013 instead of 2011.

The changes also took into account higher exports projections reflecting the national exports strategy, higher domestic revenue projections as well as higher GDP growths. The results show an increase in debt service payments in 2013 and 2014 compared to the previous DSA. The present value of debt (PV) in percent of exports therefore rises from 110.3 at end 2014 in the previous DSA to 117 at end 2014. This is still well below the threshold of 150 percent.

79. Consistent with the new projections used for the DSA, Government's total external debt (including guaranteed debt) which amounted to US$ 1135 million at end 2011 (18 percent of GDP) is projected to rise to US$ 1287 million in 2012 (19.1 percent of GDP) and reach US$ 1588 million (19.1 percent of GDP) by end 2014.

80. 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). We will explore all avenues for concessional financing of these projects. However where possible we will use non-concessional funds. We will however ensure at all times that new borrowings will not compromise debt sustainability in the medium to long term.

d) Monetary and Exchange Rate Policies

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

81. In the area of monetary and exchange rate policy, BNR has been implementing prudent policies 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. With regards to monetary policy 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. As at end April 2012 total credit to the private sector amounted to RWF 572.8 billion showing an increase of 12.4 percent from RWF 509.8 billion at end 2011. On this trend we are confident that we will achieve our private sector credit growth target by end of 2012.

82. 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.

83. With regard to exchange rate policy, BNR is committed to maintaining a market driven exchange rate both in 2012 and in the medium term. 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.

e) Financial Sector Reforms

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

84. In 2012 and the medium term, we 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.

85. 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. As of end March 2012, all 416 SACCOs are authorised to grant loans including the 273 fully licensed (authorised to loan up to 40 percent of their deposits) and the remaining 143 not fully licensed (up to 20 percent of their deposits)

f) Medium Term Fiscal Sector Strategy

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

86. 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 (excluding PKO receipts) 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.

87. 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 10.2 percent of GDP. Even though the value in nominal US dollars is not projected to decline, in the medium term this value is projected to decline as a share of GDP 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 in GDP terms is expected to be partially filled with budgetary loans. These loans are projected to rise from 0.2 percent of GDP in 2012/2013 to 0.6 percent in 2014/2015.

88. 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 new 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 and other poverty reduction outlays as well as in the domestically financed capital budget.

89. To partially finance the needed increases in the domestically funded capital and other expenditures as well as 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.

90. 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.

91. In the medium term, Government intends to 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 as well as allowing sufficient resources for private sector credit for investment.

VI. THE BUDGET AND ECONOMIC POLICY FOR FISCAL YEAR 2012/2013

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

92. After sharing with you the contents of our medium term macroeconomic objectives and strategies, I will now turn my attention to our budget and economic policy for fiscal year 2012/2013.

I have already summarised the results of the recently concluded EICV 3 and DHS 2010 and the significant achievements. The surveys identified some main factors that have contributed to the poverty reduction. The most important factors are:

- *Improved productivity and agriculture production as well as increased commercialisation- more cash to farmers,*
- *Declining fertility rate and smaller household size,*
- *Increased importance of wage income in the household earnings—creation of non- farm jobs and wages,*
- *Increased importance of transfers and subsidies both public and private.*

Most importantly the surveys also showed significant regional patterns of poverty within provinces. While reductions in poverty were observed in all provinces, the magnitude of the reduction varied substantially. For instance poverty reduction has been larger in the Northern Province but the main pockets of poverty remain in the Southern and Western Provinces, notably in Nyamagabe, Nyamasheke, Nyaruguru and Karongi. Some key factors contributing to higher poverty rates in these districts are:

- *Lack of economic diversification into non-agricultural activities;*
- *Limited access to markets;*
- *Difficult topography resulting in low agriculture potential, poor road connectivity and very low electricity coverage.*

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

93. The budget for fiscal year2012/2013 is consistent with our baseline medium term macro-economic framework and the PSI for fiscal year 2012/2013 agreed with the IMF. It seeks to reinforce our past performance as well as deepen the fiscal consolidation strategy. The main objectives are to increase revenue mobilization as well as allocate additional resources for both recurrent and capital expenditure to some less endowed districts. The budget will also allocate the resources needed for wage increases in the public sector under the Pay and Retention Policy.

94. 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, Government will ensure that the total allowable increases in fiscal year 2013/2014 and beyond will maintain the real value of public service wages level and at the same time be consistent with maintenance of macroeconomic stability.

Starting from fiscal year 2012/2013, we have decided to change the classification of the UN reimbursements and payments for services including the use of military equipment in respect of peace-keeping operations (PKO) that up till now have been included in donor support grants as non tax receipts. This is due to the fact that a large share of these receipts from the UN represents fees for use of various equipment for peace-keeping operations. As a result our domestic resource figure will increase compared to fiscal year 2011/2012.

95. The Government is of the view that the SACCOs can become an important instrument of economic and social transformation especially in the rural areas and is therefore determined to make them become successful. It is in the light of this policy that the budget for 2012/2013 has allocations of RWF 2.6 billion to support technical assistance activities in the SACCOs development. In addition we are providing RWF 5 billion to increase the capital of UMWALIMU SACCO Teachers' Cooperative.

96. The 2012/2013 budget will continue the steps undertaken last fiscal year to broaden the coverage of projects grants in fiscal operations of Government.

a) Revenue Projections and Revenue Measures

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

97. In line with our objectives as well as the change in classification mentioned above total resources are therefore projected at RWF 1,385.3 billion compared to the revised total of RWF 1,194.2 billion in 2011/2012.

98. I will now give you the details of our resources estimates as well as the proposed revenue measures to achieve our objectives.

99. Consistent with our fiscal consolidation policy we continue to increase our domestic resource mobilisation in order to finance an increasing share of our public expenditure and reduce the reliance on external support. Total domestic revenue collections for fiscal year 2012/2013 have been projected at 745.3 billion compared to RWF 611.8 billion in 2011/2012 showing a 21.8 percent increase. This means that we are financing 54 percent of our total expenditure and net lending in fiscal year 2012/2013 as against 51 percent in 2011/2012. Tax revenue collections will contribute RWF 641.3 billion whilst the non-tax revenue contribution including PKO receipts has been estimated at RWF 104.1 billion.

100. Regarding tax revenue, we expect direct taxes led by profit taxes and PAYE collections to contribute RWF 258 billion whilst taxes from domestic goods and services will yield RWF 339.8 billion. Within taxes from domestic goods and services, the largest contributions will come from excise duties and VAT collections.

101. We have estimated taxes on international trade at RWF 42.5 billion as against RWF 41 billion projected for 2011/2012. This result shows an increase of only RWF1.5 billion. The projected figure for 2012/2013 reflects the expected revenue losses arising from changes in sources of imports with an increasing share of our imports especially consumer goods 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.

102. The tax revenue projections do not envisage any substantial changes to the tax regime with the exception of the SME tax schedule. The change in the SME tax regime is expected to help promote their development through simplification of the tax law in order to lower administrative costs whilst increasing compliance. The new SME tax regime therefore groups all SMEs in two categories and applies new tax rates as follows:

- ✓ Small enterprises with a turnover of RWF 12 million to RWF 50 million will now pay a flat tax rate of 3 percent instead of 4 percent per annum.
- ✓ Micro enterprises with a turnover of RWF 12 million or less are now grouped in four bands with tax amounts as follows:
  - *From 10.000.001 to 12.000.000 will pay 300.00*
  - *From 7.000.001 to 10.000.000 will pay 210.000*
  - *From 4.000.0001 to 7.000.000 will pay 120.000 and*
  - *From 2.000.000to 4.000.000 will pay 60.000*

103. The tax revenue projections for 2012/2013 are underpinned by on-going revenue administration measures by the Rwanda Revenue Authority (RRA) especially those I outlined last year in the 2011/2012 budget as well as the following proposed measures.

- 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 RWF 1.0 billion.

In addition to these measures, the increase in public sector wages and salaries whilst maintaining existing tax brackets and rates will yield an additional RWF 9.3 billion in revenue.

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

104. Following recent consultations of the Ministers of Finance of the EAC member states, the following changes on the common external tariff for Rwanda were agreed:

- ✓ Regarding the application of the Common External Tariff (CET), it was agreed to stay application for Rwanda for a period of one year (FY 2012/13) on the following products:

    - Rice: CET of 35% (instead of 75%)
    - Tractors of carrying capacity of 10 tones and above: CET of 10% (instead of 25%)
    - Trucks carrying capacity of 20 tones and above: CET of 0% (instead of 25%)
    - Wheat flour: CET of 35% (instead of 60%)
    - Wheat grains: CET of 0% (instead of 35%)
    - Road tractors and semi-trailers: CET of 10% (instead of 25%)
    - Importations of telecommunication equipments: CET of 0%
    - Construction materials for investors with projects of at least US$ 1.8 million: CET of 10% (instead of 25% for most of the construction materials).
    - Rwanda also proposed the review of CET rate on electricity and energy from 10% to 0% because electricity is an essential good and instrumental industrial input. This review has been favourably welcomed by all the five EAC countries.

105. In fiscal year 2011/2012, we had a shortfall in non tax revenue collections of about RWF 13.3 billion. This was 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. With the reclassification of PKO receipts from grants to non tax revenue, total, non-tax revenue collections for fiscal year 2012/2013 have now been projected at RWF 83.2 billion compared to RWF 32.1 billion expected in 2011/2012.

These collections in 2012/2013 include RWF 58.7 billion receipts for PKO ,whilst RWF24.5 billion is estimated to accrue from other domestic non tax sources.

106. 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.

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

107. I will now give you highlights of the external financing portion of our budget. We continue to rely on our international partners. In my 2011/2012 budget statement, I indicated that whilst for many years our traditional sources of external support have been budgetary grants, we have, starting from 2011/2012 fiscal year become eligible to receive budgetary loans. This was due to the fact that the international community have more confidence in Rwanda's debt management capacity and has now classified it as a country with moderate risk of debt distress. With this classification, Rwanda is now eligible to receive budget loans from the African Development Bank (AfDB) and the World Bank Group. Consistent with this change in status we received budgetary loans of RWF12.1 billion from the AfDB and RWF 41.3 billion from the World Bank group for the 2011/2012 budget. For the fiscal year 2012/2013 and in the medium term similar loans are projected.

108. For fiscal year 2012/2013 total grants of RWF 484 billion have been projected as against RWF 463.5 billion in 2011/2012. This projection shows an increase of RWF 20.5 billion.

109. 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 account for the increase in capital grants.

110. Project loans are estimated at RWF 126.4 billion compared to RWF 75.4 billion in 2011/2012. Budget loans at RWF 17.5 billion are lower than the RWF 52.2 billion estimated for 2011/2012 on account of changes in the composition of budgetary support funds from AfDB and the World Bank Group in fiscal year 2012/2013. scal year.

111. We also project to receive privatization receipts of RWF 12.2 billion that are expected to accrue to the budget from the sale of some Government assets including Shagasha and Mulindi tea factories. These will augment domestic resources in the fiscal year 2012/13 and the loss of future revenue stream related to the sale of these assets is negligible.

Expenditure Policies and Projections

Honourable Speaker of Parliament
Honourable President of Senate
Honourable Members of Parliament,

112. I will now proceed to give you the details of our expenditure policies and projections. We have projected total outlays for 2012/2013 at RWF 1385.3 billion. This amount is RWF 191.1 billion higher than the revised 2011/2012 budget figure of RWF 1,194.2 billion. Within the total envelope of RWF 1385.3 billion, recurrent expenditure has been projected at RWF 708.1 billion compared to RWF 596.3 billion in 2011/2012, showing an increase of RWF 111.8 billion. Capital expenditure is projected at RWF 647.3 billion as against RWF 508.6 billion in the revised 2011/2012 budget showing an increase of RWF 138.7 billion.

113. The revised allocation for salaries and wages of RWF 148.1 billion in 2011/2012 is being raised to RWF 181.6 billion in 2012/2013, showing an increase of RWF 33.5 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.

114. In the 2012/2013 budget, expenditure on goods and services is being reduced from the level of RWF 148.4 billion in 2011/2012 by RWF 20.9 billion to RWF 127.5 billion 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 stationeries, gifts, entertainment expenses, and expenditure associated with public relations like travels, conferences and meetings. 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.

115. An allocation of RWF 18.2 billion 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.

116. Expenditure under transfers and subsidies is being raised from RWF 223.9 billion in 2011/2012 to RWF 266.2 billion in 2012/2013, showing an increase of RWF 42.3 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. The increased allocation also includes RWF 5 billion contribution of Government to the UMWALIMU SACCO Teachers' Cooperative to improve teachers' welfare. This amount will increase the capital stock in order to allow more teachers to benefit from personal loans to supplement the increase in salaries.

117. The allocated amount for transfers and subsidies include RwF 28.4 billion which we have distributed on the basis of poverty levels to cater for the deprived districts mentioned in the EICV 3 and the DHS surveys as areas where poverty is high to respond to the budget theme.

118. An amount of RWF 85.7 billion 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 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.

119. Regarding capital spending, we are proposing to raise the allocation to RWF 647.3 billion in 2012/2013. Consistent with EDPRS priorities, the projected increase in resources will allow a scaling up of spending on strategic investments projects as well as construction of schools and health facilities. Export promotion projects will also benefit from these allocations. This allocation also allows an increase in resources for investment in the deprived districts where poverty was identified as being higher than in other districts. In addition it includes RWF 1.8 billion for the promotion of off-farm employment especially for youth (Hangumurimo).

120. 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. As a result of these transactions, the net expenditure is projected at RWF 9.8 billion compared with RWF 0.7 billion in 2011/2012.

121. In the 2012/2013 budget, RWF 15.3 billion has been allocated to pay the principal of external debt compared to RWF10.9 billion in 2011/2012. The increase in the allocation is due to an increase in the draw-down of new project loans in the fiscal year 2012/2013.

b) The Budget deficit and Financing

122. Consistent with the increase in spending, the overall cash deficit for the fiscal year 2012/2013 is projected at RWF 137.3 billion which is higher than the RWF 77.1 billion estimated for the 2011/2012 budget. This deficit will be funded with net foreign loans inflows of RWF 128.5 billion and net domestic borrowing from the banking system through sales of Treasury bills of RWF 8.7 billion. With this increase in debt, the Government’s domestic debt stock which is estimated at RWF 175.4 billion at end June 2012 will only rise marginally to RWF 184.1 billion by end June 2013. The largest share of this debt will be held by the banking sector (BNR and Commercial Banks)..

c) *Details of Sectoral Allocations and Priorities*

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123. 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 billion 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%.

124. 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 49.4% rising to a total budget of RWF 5,133.3 Bn. Indeed, most of the EDPRS targets have been achieved and exceeded.

125. The estimated budget allocation for Infrastructure cluster (Transport, Energy, Communication, Housing and Community Amenities) up to the end of EDPRS implementation was RWF 678.0 Bn and this accounted for 19.7% of the total budget. The total allocation to Infrastructure Cluster up to the end of 2012/13 fiscal year is RWF 1,173.0 Bn, which is 73% above the initial target.

126. The estimated investment in the Productive Cluster (Agriculture, Trade and Industry as well as Water and Environment) 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 734.4 Bn, which is 27% above the initial target.

127. The total budget allocation for the Human Development and Social Cluster (Education, Health, Social Protection as well as Sports, Youth and Culture) is RWF 1,597.4 bn compared to the EDPRS target of RWF 1,176.0 Bn, which is 36% in excess of the initial target. In addition, there were a number of other off-budget support interventions like community service in schools construction and construction of houses for vulnerable people, the Army Week and the Girinka Munyarwanda Programme which supplemented the Government budget. I take this opportunity to recognize the contribution of those Rwandans that made this happen and it is a big thank you.

128. The total budget allocation for the Governance and Sovereignty Cluster (General Public Service, Justice, Law and Order as well as Defense) is RWF 1,631.5 bn compared to the EDPRS target of RWF 1,009.1 Bn, which is 61.7% in excess of the initial target.

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129. To maximize benefits from the investment allocated to the implementation of the final year of EDPRS, we have allocated funds to the following high impact projects and programmes in the various EDPRS clusters:

– **Infrastructure Cluster**

130. The budget allocated to the infrastructure cluster is RWF 321.2 billion and is about 23.3% of the total budget. It represents a 25% increase compared to the 2011/12 revised budget.

131. The key projects and programmes 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 (Kivu belt road - 50 Km)
- Rehabilitation of Kigali-Gatuna road (77.8km)
- 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 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 Muhanga Urban Road (2.8 KM)
- Updrade of Gicumbi-Musanze road (30 KM)
- Updrade of Rwamagana and Nyagatare urban roads (30 KM)
- 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 Micro Hydro sites development with estimated capacity of 24 MW in 10 poorest districts to supply power to 61,000 Households by 2013/14.
- Enhance the operations of Carnegie Mellon University and Kigali Technopole to boast ICT for private sector development
- 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.
- 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

- **Productive Capacities Cluster**

132. 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. Compared with the 2011/12 revised budget, this is a 12% increase in resource allocation.

133. The key projects and programmes that have been allocated resources in the 2012/13 financial year 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.
- Support HANGUMURIMO program for start-up SMEs and SME cluster development allocated Rwf 1.6 Bn.
- Increase value addition of local produce through establishing community processing centers for priority products.
- Develop a pilot industrial park at provincial level (in each province) 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.
- Construct radical and progressive terraces in Musasa, Mushubati, Boneza (Rutsiro District), Kilimbi and Gihombo (Nyamasheke District), Mururu (Rusizi District)
- Rehabilitate Sebeya and Kadahokwa watersheds

– **Human Development and Social Cluster**

134. 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. Compared with the 2011/12 revised budget, this is a 26% increase in resource allocation.

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

- Construction of 7 Health Centres in Kigali City as well as construction of Nyabikenke, Muhororo, Rutare, Karongi and Kirehe Phase III Districts Hospitals.
- Operationalization of the new Mutuelle de santé policy to promote health insurance and increase access to health care for the population.
- Support performance based financing programme for health personnel remuneration to increase the quality of health care.
- 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.
- 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)
- Monitor and sensitize people on settlement in Imidugudu.
- Monitor the operationalization of post Nyakatsi Program.

– **Governance and Sovereignty Cluster**

1. 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. This represents a 0.2% increase compared to the 2011/12 revised budget.

2. The key projects and programmes that have been allocated resources in the 2012/13 financial year 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
   - Handling court cases transferred from Arusha International Criminal Tribunal for Rwanda
   - Implementation of the Public Finance Management Reform Strategy
   - Construction and rehabilitation of buildings for Embassies
   - Acquisition of Emergency Rescue Equipments for Rwanda National Police
   - Construction of Forensic Laboratory for enhanced crime investigations
   - Support to peace keeping operations abroad
   - Implementation of ID projects including issuance of ID Cards to all Rwandese under the age of 16 as well as operationalization of the Smart Card.
   - Increase allocation on Block Grants to Districts from Rwf 179.2 Bn in 2011/12 to Rwf 240 Bn in 2012/13 in support of their operations.

VII. KEY STRUCTURAL REFORMS FOR 2012/2013 AND THE MEDIUM TERM

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3. Government has recognized that implementing sound macro-economic policies alone do not lead to economic and social progress unless they are complimented with structural reforms that remove bottlenecks that impede productive activities. In the last few years various structural reforms in various areas have been on-going. Most of these reforms are aimed at improving conditions that are conducive for private sector growth, increasing exports as well as ensuring accountability and effectiveness in public financial management. I will now mention a few of them.

a) Public Financial Management (PFM)

4. The Public Financial Management reform agenda is firmly on track as has been noted in the various reviews that have been undertaken in the last few years. The major objective of Government is to address the key existing challenges that include among others: addressing the apparent disconnect between planning and budgeting, difficulties in automating public financial management operations, creating a critical mass of professionals across the key PFM functional areas and building PFM capacity at decentralized level.

5. This current PFM reform is set to expire at end June 2013. Given the importance that Government attaches to the reform process, we have already initiated actions to elaborate the second generation of reforms and financing mechanism. For the remaining period of the first phase we intend to implement the following key priorities in fiscal year 2012/2013:

   - Complete the design of the detailed system and technical requirements of the IFMIS including functional, technical requirements documents and quality review;

- Review the program structure of the budget and revamp the Medium Term Expenditure Framework (MTEF). This action will help in aligning the strategic plans of MDAs to the program structure which is a key weakness in PFM;

- Support implementation of the Fiscal Decentralisation Strategy (FDS). This strategy was approved by Cabinet last year and we intend to implement it this fiscal year;

- Finalise the update of the law on state finances and property;

- Continue to support the Institute of Certified Public Accountants of Rwanda (ICPAR) after the launch of its first professional accountancy qualification (CPA-Rwanda) to create a mass of certified accountants;

- Support the School of Finance and Banking to secure the services of ITC-ILO as part of a twinning arrangement to develop capacity at SBF to meet the country's needs public procurement personnel.

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b) National Exports Strategy implementation

6. With regards to the implementation of national exports strategy (NES), Rwanda Development Board (RDB), which is responsible for the implementation of the strategy, has started to produce a semi-annual implementation report of the NES action plan. Government will ensure that this is regularly submitted to the Industrial Development and Export Council (IDEC) for policy guidance. The first report will be ready by July 2012. This report will review and assess NES performance of both cross cutting and sector activities against agreed NES targets.

7. Government has recognised that financing of the NES still poses a challenge as we still have some gaps. RDB is therefore, preparing a NES financing strategy concept note to be submitted to the IDEC for approval by June 2012 which will determine the financing gap/needs and provide recommendations and strategies on how to close the gap. Following consultations with all stakeholders, a NES financing strategy will be developed for implementation by end 2012.

VIII. CONCLUSION

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8. The Government's macro-economic framework and budget policy have been formulated against the backdrop of global downside risks on our external sector stemming 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 .On the budget side downside risks regarding delays in external donor support funds and flow of domestic revenue also exist.

9. The budget framework for 2012/2013 which covers the last year of the EDPRS reflects the priorities enshrined in the policy document. The proposed resource allocations reflect our EDPRS priorities which also aim to put resources in the deprived districts identified in the EICV 3 and DHS 4 surveys as having a high incidence of poverty. 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.

10. Given the downside risks that I have mentioned, Government will continue to monitor these risks closely with a view to taking corrective actions when required. In the case of fiscal policy, the Government stands ready in the event of shortfalls in resources (domestic revenue and external donor funds) to delay the implementation of some non-priority spending to ensure that there is no additional domestic borrowing in fiscal year 2012/2013.

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11. The proposed public expenditure levels in the 2012/2013 budget will be augmented by private sector investment to ensure that the high growth that the economy requires to reduce poverty is realised. The Government is fully committed to realizing these growth objectives whilst maintaining macro-economic stability.

12. I hereby recommend to you the Government's budget and economic policy for fiscal year 2012/2013 and the accompanying draft law to consider and consequently approve in the framework and timeframe prescribed by the law.

I Thank You.