REPUBLIC OF RWANDA

Ministry of Finance and Economic Planning

BUDGET SPEECH

FINANCIAL YEAR 2014/15.

THEME: INFRASTRUCTURE DEVELOPMENT TO ACCELERATE EXPORT GROWTH

TO BE PRESENTED TO BOTH CHAMBERS OF THE PARLIAMENT OF THE REPUBLIC OF RWANDA ON JUNE 12, 2014

By

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I. INTRODUCTION

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

1. As provided under article 79 of the Rwanda Constitution of 2003 and as amended to date as well as articles 35 and 38 of the Organic Law of 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 for the fiscal year 2014/2015.

2. In the last decade our economy has registered significant progress that has resulted in higher standard of living for millions of our citizens. However in the last two years, we have faced several challenges of both external and domestic nature that have impacted negatively on our economic performance. On the external front the weak global economy with its negative impact on commodity prices and other financial flows together with the lagged impact of the aid shock in 2012 affected our economic performance in 2013. These external developments together with adverse weather conditions which reduced agricultural production and the spillover effects of the aid shock which affected the services sector reduced real GDP growth in 2013.

3. In view of the uncertainties that I have just mentioned on the global front it is important that we redouble our efforts to increase our foreign exchange earnings through the export of goods and services to reduce the aid dependency. However we have identified the inadequacy of infrastructure – energy and transport in particular- as the main obstacles to achieving a higher growth rate including the expansion of our exports to maximize foreign exchange earnings.

4. Indeed this situation of lack of infrastructure and its negative impact on growth is not only peculiar to Rwanda but also applies to several countries in Africa. The African countries and the international community have recognized

this fact and in the recently completed annual meeting of the African Development Bank Group here in Kigali it was one of the major topics discussed. The message from the discussions was that all countries should pay attention to this deficiency and take steps to address this infrastructure gap both at the country and regional level.

5. Even though since 2010 Government has been implementing strategic policies aimed at addressing the infrastructure needs in order to increase export of goods and services it is still necessary to do more in these areas. It is in the light of the importance Government attaches to the infrastructure and export policies that I have chosen the topic **"INFRASTRUCTURE DEVELOPMENT TO ACCELERATE EXPORT GROWTH"** as the theme for the budget and economic policy statement for fiscal year 2014/15. The policies in the budget as well as in the medium term have therefore been designed to focus on infrastructure development and export promotion.

6. The budget and economic policy statement for fiscal year 2014/15 is therefore organized as follows;

First, I will provide this august house with a brief summary of the global economic performance for 2013 and the projections for 2014 and 2015.

a) Second, I will briefly summarize our economic performance in fiscal year 2013/14. This summary will also include the execution of the 2013/14 budget including achievements;

b) The third section of my presentation will deal with the highlights of our medium term macro-economic framework. This framework covers the period 2014/15 to 2016/17.

c) In section four I will focus my attention on the details of the 2014/15 budget and the broad economic policy for this fiscal year. This section will not only deal with our resource mobilization but will also highlight detailed allocation of resources consistent with our EDPRS 2 priorities and expected outcomes for this fiscal year.

d) The fifth and last section of my delivery will focus on some expected challenges we are likely to encounter and how we plan to deal with these challenges to ensure that we continue to give our countrymen and women a good life. I will then end my budget speech with some concluding remarks.

II . THE GLOBAL ECONOMIC PERFORMANCE IN 2013 AND OUTLOOK FOR 2014 AND 2015.

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

7. According to the recently published World Economic Outlook (WEO) of the IMF, despite the pick- up in global output and a rise in world trade in the second half of 2013, world output grew only by 3 percent which was lower than the 3.2 percent recorded in 2012. Slower growth in the advanced economies as well as in Emerging Markets and Developing countries contributed to this performance.

8. In the case of the advanced economies growth of 1.3 percent in 2013 was slightly lower than 1.4 recorded in 2012. Sluggish growth of 1.9 percent in the US which was half of the 2.8 percent achieved in 2012 on account of a moderate fiscal tightening and the negative growth of minus 0.5 percent in the euro area reflecting on-going implementation of austerity measures contributed to the lower growth in 2013.

9. Growth of 4.7 percent in Emerging and Developing countries was also slightly lower than the 5 percent achieved in 2012. Output growth of 7.7 percent by China was the major contributor to this performance by emerging and development countries and offset lower growth in other developing countries including India. In sub-Saharan Africa, growth remained robust at 4.9 percent, the same as in 2012 as the various economies responded to improved economic policies. EAC countries also registered robust growth rates with rates of 5.6 percent in Kenya, 6 percent in Uganda, 7 percent in Tanzania and 4.5 percent in Burundi.

10. For 2014 and 2015 the global recovery is expected to continue with growth rates of 3.6 percent and 3.9 percent respectively. A major impulse of the global growth will come from the US with growth rates of 2.8 percent and 3 percent in 2014 and 2015 respectively reflecting positive fiscal and monetary policies. In the euro area economic growth is expected to turn positive in 2014 and 2015

with growth rates of 1.2 percent and 1.5 percent respectively mainly on account of reduction in fiscal tightening. Growth rates in emerging market and developing economies are projected at 4.9 percent and 5.3 percent in 2014 and 2015 respectively. Stronger exports to advanced economies will underpin these growth rates with significant contributions from China and India.

11. In sub-Saharan Africa robust growth rates of 5.4 percent and 5.5 percent are projected for 2014 and 2015 respectively. Growth in EAC countries is also expected to be robust with the following projections for 2014: Uganda 6.4 percent; Kenya 6.3 percent; Tanzania 7.2 percent and Burundi 4.7 percent. Continued implementation of sound policies together with increases in domestic capital investment and commodity exports will support these high growth rates in sub-Sahara Africa.

12. However some key downside risks that could have a negative impact on global growth remain. The major ones are i) low inflation in advanced economies that could lead to deflation; ii) tighter financial conditions in emerging markets and developing economies resulting in higher cost of capital and a slowdown in investment and durable goods consumption and iii) geopolitical risks in central Europe with the potential risk of spillages to other areas.

i. Inflation

13. Inflationary pressures eased in most advanced economies especially in the euro area declining from 2 percent in 2012 to 1.4 percent in 2013. In 2014 it is projected to rise slightly to 1.5 percent and to 1.6 percent in 2015. In 2013 the emerging market and developing economies registered an inflation rate of 5.8 percent compared to 6 percent in 2012. Inflationary pressures are projected to ease slightly with a decline to 5.5 percent in 2014 and a further decline to 5.2 percent in 2015.

14. In sub-Saharan Africa, inflation slowed down in most countries as a result of the decline in commodity prices and a slowdown in economic growth, despite high domestic demand, persistent capacity constraints and exchange rate depreciation. Inflation slowed down to 6.3 percent in 2013, lower than the 9 percent in 2012. A further decline to 6.1 percent in 2014 is projected. In the EAC countries inflation showed a declining trend in 2013. A further deceleration in

the EAC countries is projected for 2014 as follows: Uganda 6.3 percent; Kenya 6.6 percent; Tanzania 5.2 percent and Burundi 5.9 percent.

ii. World Commodity Prices

15. Regarding commodity prices, oil prices eased slightly and declined by 0.9 percent in 2013 compared to an increase of 1 percent in 2012. Oil prices are expected to increase by 0.1 percent in 2014 and then decline by 6 percent in 2015. In the case of nonfuel prices the decline by 1.2 percent in 2013 was lower than the 10 percent decline observed in 2012. Further declines of 3.5 percent and 3.9 percent are projected for 2014 and 2015 respectively.

III RECENT ECONOMIC PERFORMANCE.

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

a) Real GDP Growth.

I will now turn my attention to our economic and financial achievements in the last fiscal year.

- **Domestic Economic Performance**

16. At the beginning of 2013, we estimated real GDP growth at 7.5 percent which was slightly higher than the rebased figure of 7.3 percent achieved in 2012. Economic performance in fiscal year 2013 was however affected by the delayed negative impact of the aid shock in 2012 as well as adverse weather conditions which reduced agricultural output. As a result of the adverse weather conditions, the agriculture sector registered a low growth of 3 percent the same as was achieved in 2012. All sub sectors including food crops contributed to this sluggish performance.

17. In the case of the aid shock, the negative spill over effects impacted mainly the services sector, which represents 45 percent of GDP. The sector registered a growth of 4 percent due to the combination of (i) a slowdown in growth of

credit to the private sector, itself constrained by limited availability of foreign exchange and (ii) lower government spending which reduced total domestic consumption and also led to the stagnation of total investment. The industry sector however recorded a solid growth of 11 percent led by construction activities and the beverage industry sub sector which grew by 11 percent and 4 percent respectively. The industry sector was the main driver of growth in 2013. Real GDP growth in 2013 was therefore 4.6 percent which was lower than the revised estimate of 6.6 percent.

i. Inflation

18. Inflation, both headline and core inflation (that excludes fresh food and energy, was firmly contained. Headline inflation stood at 3.7 percent year-on-year in December while core inflation stood at 3.8 percent. This reflected a combination of lower inflation in trading partner countries in the region, the reduction in fuel prices, and low import commodity prices.

ii. External Sector Performance.

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

I will now deal briefly with our trade and financial relations with the global market. The performance of this sector is greatly influenced by commodity price movements, our ability to produce for exports as well as the levels of financial flows which determine our imports.

19. In 2013 our exports grew in value terms by 19 percent rising to US$ 703 million from US$ 590.8 million in 2012. Exports were boosted by receipts from minerals which increased by US$ 89.6 million rising from US$ 136.1 million in 2012 to US$ 225.7 million in 2013. The increase in world mineral prices was the main factor for this performance. Both coffee and tea receipts declined by about 10 percent and 16 percent respectively fetching US$ 54.9 million and US$ 55.5 million respectively compared to US$60.9 million and US$ 65.7 million respectively in 2012 .In the case of coffee even though there was an increase in volume of 18 percent the decline in prices by 23 percent led to the decline in receipts.

Concerning tea both volume and unit prices declined by 6 percent and 10 percent respectively resulting in the lower earnings from exports.

20. The value of imports of US$ 1851.5 million in 2013 was almost the same as the US$ 1859 million achieved in 2012. The 2013 figure was US$ 304.6 million lower than the original estimate of US$ 2156.1 million. This weak performance was partly due to the general economic slowdown as well as delays in implementing some large investment projects, including the Kigali Conference Centre which reduced capital and intermediate goods imports. As a result of this performance the trade deficit narrowed slightly from US$ 1268.3 million in 2012 to US$ 1148.4 million in 2013. With the accrual of the delayed donor disbursements from 2012, the current account deficit (including grants) also narrowed slightly from US$ 704.9 million in 2012 to US$ 537.5 million in 2013. The favourable current account performance together with the unused proceeds of the Eurobond, helped to stabilize reserves to cover 4.3 months of imports.

IV. Monetary, Exchange Rate and Financial Sector Developments.

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

I now turn my attention to recent developments in our monetary and financial sectors.

21. In 2013 the Central Bank continued its policy of using monetary policy to contain inflation whilst ensuring that there was enough liquidity for economic growth. Consistent with this policy, broad money grew by 15.7 percent against 14 percent recorded in 2012. This upturn was due to the large expansion in net foreign assets by 33.9 percent on account of the accrual of delayed budget support funds and the unused EURO bonds proceeds but offset by a decline in net domestic assets .The decrease in net domestic assets was due to a reduction in credit to Government and to some extent a lower private sector growth of

11.1 percent compared to the initial estimate of 14.3 percent and 34.8 percent recorded in 2012.

22. This slowdown in private sector credit growth occurred despite the fact that liquidity conditions in the banking system remained comfortable throughout the year. It therefore reflected the slowdown in the economy I had mentioned earlier and commercial banks tightening of lending criteria following increases in non-performing loans, mostly in the services sector. Regarding reserve money this also grew by 12.6 percent and was consistent with expectations.

23. Concerning the distribution of loans by sector of economic activity, commerce and hotels continue to be sectors benefitting the most with a share of 46.1 percent. They are followed by public works and building industries with a share of 19.8 percent. Agriculture, fisheries and livestock sectors continue to be the least recipients with a share of only 1.9 percent.

24. The exchange rate remains fundamentally market driven. The Central Bank therefore intervenes from time to time on the domestic foreign exchange market by selling foreign exchange to banks in order to smooth the RWF exchange volatility. As a result of higher than expected foreign exchange demand in 2013, the currency depreciated by 6.1 percent against the US$ compared to 4.5 percent recorded in 2012 but slightly lower than 6.5 percent initially projected.

25. In the case of interest rates, short term interest rates have been declining since June 2013 following eased monetary condition during the year that led to increased liquidity in the banking system. As a result, Treasury bills, repo and interbank interest rates fell respectively to 5.6 percent, 3.9 percent and 5.6 percent in December 2013 from respectively 12.4 percent, 7.5 percent and 11.1 percent in December 2012. BNR deliberately reduced its mopping up of liquidity operations during the year to encourage the commercial banks to increase lending to the private sector.

26. Regarding market rates, deposit rates also declined during the second half of 2013 in line with money market interest rates. The lending rate followed the same trend but with some lags, declining from 17.8 percent in September to 16.9 percent in December 2013.In the area of financial sector developments, one new

commercial bank and one new microfinance bank were licensed. As a result there are now ten commercial banks, four microfinance banks, one development bank and one cooperative bank operating in Rwanda. The financial sector is still dominated by commercial banks accounting for 78.6 percent of the banking sector's total assets.

27. The banking sector remains profitable, liquid and well capitalized to support economic growth. It is also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework. The capital adequacy ratio (CAR) stood at 23.1percent as of end 2013, far above the 15 percent minimum regulatory requirement. The nonperforming loans (NPL) slightly increased to 7 percent at end 2013 as against 6 percent at end December 2012.

28. The microfinance sector which has become an important tool both in resource mobilisation as well as a source of financing for the economy continued to expand in 2013. It now comprises 491 institutions including 13 limited companies and 478 SACCOs of which 416 are UMURENGE SACCOs. Total assets rose from RWF 101 billion at end December 2012 to RWF 128.7 billion by end December 2013 showing an increase of 27.4 percent. During the same period total loans granted also rose from RWF59.2 billion at end December 2012 to RWF 73.5 billion at end 2013 showing an increase of 24.2 percent. This performance was achieved against the backdrop of a slight deterioration in asset quality as the ratio of non- performing loans rose from 5.3 percent in 2012 to 7.3 percent at end 2013. Lack of skills in portfolio management and weak governance caused this adverse performance.

iii) Fiscal Performance.

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

I will now present the highlights of our 2013/14 budget performance and outcomes.

29. The revised budget of 2013/14 was RWF 1677.6 its Implementation was complicated by lower economic growth which impacted negatively on domestic tax collections as well as delays in disbursement of donor support funds and slow execution of some infrastructure projects resulting in lower spending. On the resources side, the down turn in economic activity together with a lag in the accrual of additional revenue from the implementation of agreed revenue measures led to a shortfall in domestic tax collections. As a result of these developments only 84.9 percent of the projected total domestic tax revenue had been collected at end May 2014.

30. In the case of external donor resources comprising loans and grants delays by some donors as well as slow execution of some infrastructure projects that I have just mentioned reduced disbursement of these external resources in the July-December 2013 period. However there has been an improvement in the January-March 2014 period and as a result about 97.7 percent of the expected external donor resources had accrued to the budget by end May 2014.

31. Regarding public expenditures, the shortfall in resources together with delays in the execution of some infrastructure projects resulted in lower spending in the July-December 2013 period. Since the beginning of 2014 project implementation has improved and by end May 2014 91.5 percent of the total outlays had been spent. On this trend we are likely to implement our expenditure policies for the fiscal year 2013/14 in full.

V. KEY ACHIEVEMENTS IN FISCAL YEAR 2013/14.

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

After highlighting the general budget implementation for 2013/14 fiscal year, I will now mention some key programmes and projects implemented as well as some results achieved in key sectors.

32. In the Education Sector, key achievements registered in 2013/14 fiscal year include:

i. Government continued to increase the number of class rooms. In pre-primary education, this year showed an increase in class rooms of 1870 raising the number to 2148. In the case of primary education 2,000 new class rooms and 3,000 latrines were built in line with the intention to increase equitable access to 9 years of basic education for all children and expanding access to 12 years of basic education. Construction of four TVET in Nyamasheke, Rusizi, Rutsiro and Karongi were completed while construction works for various VTCs are ongoing.

ii. In line with the efforts to reduce textbook to pupil ratio from 1:2 to 1:1 in primary schools, 1:3 to 1:2 in lower secondary and 1:10 to 1:5 in upper secondary schools, 973,011 textbooks have been distributed in primary schools, 417,720 text books distributed in lower secondary schools and 219,323 text books in upper secondary schools.

iii. Under One Laptop per Child programme, 10,000 laptops were distributed. In all 42,978 laptops have been purchased and distribution is under way.

iv. In order to improve the quality of education as well as efficiency in higher education, all public higher learning institutions were merged to form University of Rwanda which is now operational. The government continued the construction of learning complexes in some colleges.

33. In the Health Sector, the following achievements were registered in the 2013/14 fiscal year:

i. With the effort to increase geographical accessibility to health services, the construction of Kibuye hospital phase one and Kirehe hospital as well as Mukura health center and Rulindo modern health center was completed. The supply of medical equipments is ongoing. The design of Ruhengeri and Byumba hospitals was completed, construction works are planned to start in 2014/15 fiscal year. Furthermore, construction works at Nyagatare and Nyabikenke hospitals as well as Rutare health center are underway.

ii. In order to ensure quality and availability of human resources for the health sector several nurses, Midwives, Medical Doctors and other Specialists were recruited and deployed to the various health facilities.

iii. In order to continue to reduce child mortality, health providers in six districts with high child mortality have been trained.

34. The following achievements have been registered in the Agriculture Sector during the 2013/14 fiscal year:

i. To reduce production loss and enhance strategic reserves, additional 276.39 MT of beans have been purchased to augment the strategic food reserves. With this purchase, the strategic reserves now comprise 10,237MT of maize and 3,893MT of beans.

ii. To increase land for Agriculture production, 11270Ha of Radical terraces were constructed by MINAGRI using earmarked transfers whilst 827 Ha were irrigated.

iii. Livestock development has been enhanced through GIRINKA Programme where 9,282 cows were distributed in the first half of 2013/14: 3,757 Beneficiaries were trained during the Girinka week in the eastern province.

iv. In the area of feeder roads, 97.28km of feeder roads in 5 Districts (Muhanga, Ngoma, Huye, Bugesera and Rubavu) were rehabilitated and work on 8km in Rulindo and Ngororero Districts is ongoing.

v. In order to increase the value of agricultural produce, a number of agro-processing initiatives including Irish potato plant in Musanze district and animal feed plants in Musanze and Rwamagana districts were supported.

35. In the Trade and Industry Sector, the following achievements have been registered during the 2013/14 fiscal year:

i. The effort to mobilize Investors for the construction of cross border market infrastructures and trade logistics centres was continued.

ii. This resulted in the mobilization of some local investors to invest in construction of Cross Border Markets for Cyanika, Rugari, Rusizi-I, Rugando, Akanyaru Haut and Nemba.

iii. Expropriation of land for the 3 industrial parks (Huye, Rusizi, Nyabihu) was completed.

iv. Construction of basic infrastructures in Bugesera industrial park was started and the study for its development is ongoing.

v. Industrial infrastructure was developed for Gikondo relocation phase

36. The following achievements have been registered in the Information Communication Technology Sector during the 2013/14 fiscal year:

i. Manual Document Tracking and Workflow Management System in eighty five public institutions have been automated.
ii. 45institutions were equipped with Video conferencing solutions bringing the total number of video conferencing end points to fifty five.
iii. Over 5,109 people in rural areas have been trained in basic ICT skills through the ICT bus project. The ICT buses have also supported ICT awareness initiatives around Digital migration and Girls in ICT among others.
iv. 950 ICT professionals were trained and certified in various professional level courses
v. The first batch of 24 students graduated from the Carnegie Mellon University - Rwanda with Master of Science degrees in Information Technology (MSIT) and Master of Science degrees in Electrical and Computer Engineering (MSCE).
vi. Rollout of national 4G LTE project begun with Kigali – trial phase was launched on 1st April 2014 with 60% coverage.
vii. Completed architectural designs of the Regional ICT Centre of Excellence
viii. Eleven institutions were trained in high level cyber security aspects
ix. A Computer Security Incident Response Team (CSIRT) was established and has undergone several specialized Cyber security trainings.

37. The following are the key achievements realized in Transport Sector during 2013/14 fiscal year:

i. Completed the rehabilitation of Rusizi - Ntendezi-mwityazo road

ii. The rehabilitation and upgrading of the 80km paved road network for Kigali-Gatuna was continued and is now almost completed with 88% of work done.
iii. Started the rehabilitation and upgrading of Kivu belt road Lot 4&5
iv. Kigali International Airport terminal building expansion is on going and expropriation of land for the Bugesera International Airport is also ongoing.
v. Started the Rehabilitation of Huye urban and Kitabi Crete Congo Nil Roads.

38. In the Energy Sector, the following achievements were registered in the 2013/14 fiscal year:

i. Continuation of ongoing construction of new hydropower plants (Nyabarongo which is now at an execution rate of 99%, 6 Micro Hydropower plants project and Rukarara II),
ii. Rehabilitation 3 hydro power projects (Mukungwa I, Gihira and Gisenyi),
iii. The payment of pending invoices of the Electrification of 6 districts in eastern province with STEG,
iv. Government continued to provide fuel subsidies to EWSA for electricity generation.

39. In the Social Protection Sector, the following achievements were registered in the 2013/14 fiscal year:

i. The government continued to support needy genocide survivors. In the education support, a monthly living allowance and school fees were paid to 16,359 students in the higher learning institutions while school fees and other school materials were provided to 24,141 students in secondary and TVET schools. In medical support; 26,147 survivors were supported with medical treatment. In the shelter component, 800 houses for the genocide survivors were rehabilitated, 30 new houses built. Furthermore, 21,039 individuals benefited from a monthly direct support (DS) stipend that is given to the most vulnerable including 1,560 childless elderly people “INCIKE”. Finally, 181 associations and cooperatives were financially supported under income generating activities.

ii. Through Rwanda Demobilisation and Reintegration Commission (RDRC), 2,773 disabled and categorized ex-combatants received health insurance (mutuelle de sante) and medical care. 2,759 disabled ex-combatants receiving monthly subsistence allowances. The construction of 70 houses for disabled ex-combatants in category II is in progress.

iii. The categorization of persons with disability has started and good progress has been made so far.

iv. VUP Direct Support has been scaled up to 240 sectors with 59,122 household beneficiaries including 37,952 female heads and 21,170 male heads of households.

v. Public Works and Financial Support are operational in 150 Sectors where 25,850 people including 12,842 males and 13,008 females received loans for running income generating activities.

vi. 36,469 out of 47, 447 households have been relocated from high risk zones which make 76%.

vii. 2,115,019 people under category one and two of Ubudehe were supported to pay community based health insurance premium.

VI. MEDIUM TERM OBJECTIVES AND POLICIES.

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

40. After sharing with you our economic and social performance including our achievements and problems in the last fiscal year, I now turn my attention to our medium term macro-economic objectives and policies.

41. The fiscal year 2014/15 represents the second year of EDPRS 2. The calendar year 2013 was a difficult year as the economy slowed down on account of adverse weather conditions that affected agricultural production as well as an aid shock that delayed donor support disbursements thereby slowing down public investment and reducing Government consumption with negative implications for overall growth especially the contribution from the services sector. With the normalization of aid flows and resumption of work on Government infrastructure projects, a stronger outlook for economic growth is expected in 2014 and the medium term.

42. However, given the aid shock in 2012 and the resulting implications in 2013, the Government has embarked on a review of the strategies to fast track implementation of the EDPRS 2 that are expected to accelerate growth in the medium term to achieve the EDPRS average GDP growth rates of 11.5 percent by 2020. Consistent with this review, Government beginning with fiscal year 2014/15 is implementing aggressive reforms to address the vulnerability of agriculture production to increase productivity, ensure fast implementation of both private and public projects in the industrial sector and to promote thriving services. This will entail addressing energy supply constraints, prioritization of infrastructure towards productive uses and implementing a private sector led approach to export of goods and services.

43. Meanwhile, given the latest economic developments resulting in somewhat low GDP growth of 4.6 percent in 2013, a baseline scenario for 2014 and the medium term has been designed. This scenario envisages a recovery of growth in 2014 to 6 percent, rising to 6.7 percent in 2015 and 7 percent in 2016. Fiscal, external sector and monetary policies have therefore been designed to achieve these

baseline growth objectives. This baseline scenario will be revised after the completion of the review and reforms I have just mentioned.

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

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

i. Real sector projections

44. In 2014, a recovery in output growth to 6 percent from the 4.6 percent achieved in 2013 is projected. For 2015 and 2016 real GDP growth rates of 6.7 percent and 7 percent respectively have been projected. Strong contributions from all sectors are expected to allow these rates to be achieved with supporting measures under the medium term fiscal framework.

45. Strong performance in agriculture led by food crops is expected to support this recovery with a growth of 5 percent compared to 3 percent in 2013. Measures to be undertaken in 2014/15 and over the medium term include an increase in arable land favourable for food crops through radical and progressive terracing, addressing productivity related gaps through intensified preparation of agricultural seasons to ensure at least 40% households use improved seeds and 30% use inorganic fertilizer, continue reducing vulnerability to climatic conditions through increased irrigation and diminishing post-harvest losses with the construction of new post-harvest facilities. While exports crops are a small contributor to agriculture, they remain very important as foreign exchange earners, as such export crops are projected to grow around 13% over the next couple of years – double of last year 7%, and more over the medium term.

46. This growth is stemming from expanded plantations of tea following privatization of factories which is expected to increase tea production by 22%, as well as from coffee and pyrethrum. Horticulture exports are also starting in 2014 with further scale up of Gishari Flower Park to 10 ha.

47. In the case of the industry sector, growth is projected to be 6 percent which is lower than the 11 percent achieved in 2013. Industry growth is projected to rebound to 9% and higher in 2015 and beyond. The lower industrial growth rate of 2014 is mainly due to a projected moderate increase in construction of 6% as many construction activities are reaching completion and as domestic private construction projects are very dependent on availability of foreign exchange and credit. However, construction will still have a very positive impact on the overall growth in the sector with a growth of 6 percent in 2014 and construction activities rebounding to double digit growth in 2015 and the medium term as new projects start in 2014/15.

48. The new projects include hydro power projects and roads in secondary cities such as Rusizi, Huye and Musanze. Furthermore, the electricity and gas sub-sector will see much stronger growth than in previous years due to the addition of new power plants to the grid. A strong growth in this sub-sector of 18 percent which is double the level of 9 percent achieved in 2013 is projected. Growth in manufacturing is expected to double from 2% to 4% in 2014 and higher in later years due to both food manufacturing and beverages production that are doubling as agricultural production grows and targeted measures undertaken under the budget to ensure increased linkages between agriculture and the agro-business industry, including for exports.

49. Growth in the services sector is expected to recover from 4 percent in 2013 to 7 percent in 2014 and the medium term. This is due to the expected upturn in Government consumption and credit growth as well as the projected better performance of agriculture impacting positively on trade services. Good performance from the wholesale and retail trade sub sector is expected to lead the way with a projected growth of 8 percent as against 7 percent in 2013. Likewise the restaurants and hotels sub-sector is in line to perform better with a strong growth 7 percent compared to a low growth of 1 percent in 2013 on account of the expected upsurge in tourism through various conferences during the year and the medium term as several investments are expected to yield results, including the Kigali Convention Centre, the Marriot and other hotels expected to become operational by 2015 and as the MICE strategy is being implemented.

50. Good contributions from the real estate and business services sub sectors with growths of 8 percent and 4 percent in 2014 respectively compared to 6 percent and negative 4 percent respectively in 2013 are also projected. Transport and communication as well as finance and insurance sub sectors will continue to be contributor to the overall growth of the services sector as credit continues to grow.

ii. Inflation

51. On inflation this declined slightly from 3.6 percent at end December 2013 to 2.7 percent at end April 2014. With good agriculture production expected on the domestic side and declining commodity prices globally, Government expects inflation to remain low and not exceed 5 percent by end 2014. In the medium term it is expected to be contained at 5 percent.

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

I will now deal with our external sector policies for 2014 as well as in the medium term.

52. Consistent with our theme for the fiscal year 2014/15 our immediate objective is to raise significantly our foreign exchange earnings with increased export of goods and services. This means that we cannot afford any more to do things in the normal way and must shift from low productivity activities such as traditional agriculture and informal businesses to mostly tradable and higher productive activities in our export policy. Our expenditure policies will therefore focus on addressing specific market failures that hold back foreign direct investment and other private sector finance in high value export industries. This approach is guided by the results of a recent public-private sector dialogue with some exporters. We therefore expect significant improvements in our foreign exchange earnings in the next few years.

53. Regarding 2014, expected declines in global commodity prices including coffee and tea are expected to negatively affect export our receipts. Exports in 2014 are expected to grow in value terms by 7 percent rising from US$ 703 million in

2013 to US$ 751 million in 2014. Of this amount coffee and tea exports will contribute 7.9 percent and 9 percent respectively. Minerals export will contribute a share of 30 percent whilst the largest share amounting to 53.1 percent will come from non-traditional exports and re-exports to the region.

54. Consistent with the expected pickup in economic activity, we expect imports in value terms to increase by about 16 percent from US$ 1851.5 million in 2013 to US$ 2147.4 million. Capital and intermediate goods imports for infrastructure projects with a share of about 65 percent will dominate the rebound in imports reflecting the expected pick-up in the implementation of delayed projects including the KCC and the Nyabarongo hydro project. This surge in imports will cause the current account deficit to widen from US$ 537.5 million percent in 2013 to US$ 803.2 million in 2014 and also result in an overall balance of payments deficit of US$ 176.7 million.

55. This deficit will be financed with the unused EURO bonds receipts allocated to the Kigali Convention Centre and the hydro project. Nominal reserves will therefore decline slightly as these Eurobond proceeds are used for the completion of the Kigali Convention Centre and the energy projects. Foreign exchange reserves as measured in months of imports are expected to remain at 4 months of imports.

56. Going forward I have already said that we want to do things differently to boost exports. I have mentioned some reforms we are implementing and will add some few. We are constructing various feeder roads including the ones for the Kinazi cassava plant to boost production. We are also addressing the land requirements for tea, pyrethrum and horticulture and are introducing a beef farm for export in Gako. Furthermore we expect to double the number of one million dollar exporters. Exploration work is on-going in the minerals area to discover new deposits that can be extracted. All these efforts are expected to increase our export receipts going forward. However it is possible that there will be a lag before we get the full benefits from these initiatives.

57. In this regard our projection for export receipts is showing only a modest increase of 5 percent rising from US$ 751 million in 2014 to US$ 792 million in 2015. Strong contributions from coffee and nontraditional products including horticulture products are expected whilst receipts from tea and minerals will show only modest increases. Regarding services we expect that with the Kigali Conference Centre and the Marriot hotel becoming operational in 2015 there will be a boost in earnings from services including tourism receipts.

58. Imports in value terms are projected to increase only marginally by about 4 percent rising from US$ 2147.4 million in 2014 to US$ 2225 million in 2015. With these projected increases in foreign exchange earnings, both the trade and current account balances are expected to remain almost the same as projected in 2014. Reserves of the Central Bank at end 2015 will be enough to cover 4 months of imports.

iii. Monetary and Exchange Rate Policies

59. The BNR will maintain its prudent stance of monetary policy during 2014 in a bid to anchor inflationary expectations while supporting growth. Consistent with these objectives the monetary aggregates are projected to grow in tandem with nominal GDP growth. Accordingly, both broad money (M3) and reserve money are projected to grow by 14.3 percent in 2014 These projections will allow a pick -up in private sector credit growth in 2014 of 16.1 percent compared to 11.1 percent in 2013 as the economy reverts to its potential.

60. In order to strengthen the monetary policy framework through tackling the structural excess liquidity, BNR intends to issue mopping up instruments with longer-term maturities and also developing a secondary market. The exchange rate will remain market driven and BNR will continue to allow greater exchange rate flexibility to maintain the spread within normal levels and ensure reserve levels remain comfortable (at a minimum level of 4 months of prospective imports (CIF)).

iv. Financial sector policies

61. Financial sector policies will remain geared toward continuing the improvement in the fundamentals of the sector and sustaining financial stability. Policies rolled out to tackle the increase in non-performing loans (have proved effective so far) and commercial banks will continue to comply with the new guidelines, including the implementation of the recovery plans. BNR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision and capacity building efforts for bank supervisors will be sustained. Additionally, given the increasing importance of cross-border banks, BNR will increase its participation in supervisory colleges to conduct joint on-site inspection of cross-border banks.

V. Capital market

62. Rwanda established the capital market to support economic growth and self-reliance. This is part of the strategy to enable the Government and private sectors mobilize long-term capital and at the same time provide investment opportunities in Rwanda.

63. In the financial year ending June 2014, the Government of Rwanda raised RWF 12.5 billion through the issuance of a Treasury Bond under the new initiative to issue more bonds frequently to spur the growth of the domestic bond market. In addition, the IFC (International Finance corporation) issued a domestic currency denominated bond with a face value of RWF 15billion to be invested in Rwanda as the first tranche of the approved notes issuance program. The level of oversubscription on both bonds exceeded 100% showing a lot of confidence by investors in the economy. Continuous issuance of bonds will lead to the development of the yield curve which in turn is expected to attract private sector issuers, and, increased activity on the secondary market.

64. The equity market registered a cross listing by Uchumi Supermarket which started trading its shares on the Rwanda Stock Exchange(RSE) in October 2013 making it the 3rd company to cross list on RSE and the 5^{th} company to trade its shares on the Rwandan bourse .

65. To encourage SMEs to raise long term capital through the capital market, softer disclosure and listing requirements have been developed and some of Government assets will be privatized through the capital market.

66. The Rwanda Stock Exchange (RSE) market activity was dominated by shares trading. A total turnover of more than RWF 40 billion was recorded from the sale of 75 million shares. The Rwanda Share Index (domestic stocks) increased by 15% in the year under review and the market capitalization (market value of all listed companies on the exchange) stood at RWF 1.38 trillion (more than USD 2 Billion) by the end of the period.

67. In order to sustain market confidence, further regulations and one law were published. Specifically, regulation on Asset Backed Securities (ABS), regulation on issuance of debt securities, regulation on Real Estate Investment Trusts (REITs), disclosure guidelines for SMEs, Guidelines for issuance of Municipal Bonds and a regulation on book building process and the Law regulating the creation trusts and trustees were published.

68. Public education and awareness will continue to be a focal initiative to attract more investors to participate in the domestic capital markets.

69. The Rwanda National Investment Trust has been registered and it is planned that it will be operational in 2014/2015 financial year. This is expected to encourage the emergence of private sector led fund management industry.

70. The legal framework for commodity and derivatives exchange trading has been drafted and is under consideration to support an organized and efficient trading of commodities. The newly established Commodity exchange conducted some auctions successfully as it emerges towards full operations. The exchange will mostly contribute to price discovery and can serve as financing tool where warehouse receipts will be used to secure loans with financing institutions which has posed challenges to the financing of agriculture in Rwanda.

V. Medium term Fiscal Framework

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

I will now deal with our medium term fiscal framework and strategies that form the basis of our 2014/15 budget.

71. Fiscal consolidation through increased revenue mobilization and expenditure prioritization to reduce the fiscal gap thereby reducing the reliance on donor funds remain the key objective of Government in the medium term.

72. Consistent with the medium term objectives, Government aims on the revenue side to increase tax revenue on average by 0.9 percent per annum in the medium term. Accordingly, domestic tax revenue collections which will reach 15.3 percent of GDP in 2013/14 are projected to rise to 15.8 percent of GDP in 2014/15, 17.2 percent of GDP in 2015/16 and 17.7 percent of GDP by 2016/17. Strong real GDP growth together with the implementation of several revenue measures during this period are expected to help achieve these targets.

73. In the case of outlays, the major focus in the medium term is to implement a prioritization policy that will allocate adequate resources for the completion of on-going strategic investment projects especially in energy, roads, export promotion and social protection projects and programs and also take on board new expenditures that are necessary to achieve the EDPRS 2 objectives. Accordingly, total expenditure and net lending which amounted to 31.3 percent of GDP in 2013/14 is projected to decline to 29.6 percent of GDP in 2014/15, reach 28.6 percent of GDP in 2015/16 and decline further to 27.2 percent of GDP by 2016/17.

74. Reflecting these declines in outlays, the overall deficit (on cash basis) which stands at 5.3 percent of GDP in 2013/14 is projected to decline to 3.1 percent of GDP in 2014/15, reach 2.7 percent of GDP by 2015/16 and further drop to 2.4 percent of GDP by 2016/17. Domestic finance of the budget which is projected at 3.2 percent of GDP in 2013/14 and 1.2 percent of GDP in 2014/15 due to the draw-down of the unused EURO bonds proceeds to finance earmarked strategic investment projects is projected to turn into moderate buildup of reserves in the banking system thereafter of about 0.7 percent of GDP in the medium term.

V. The Budget for Fiscal Year 2014/15

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

I will now proceed to give you the highlights of the 2014/15 budget.

75. The budget for fiscal year 2014/15 is consistent with the medium term fiscal framework. It continues the policy started in 2013/14 of reducing exemptions by including taxes on project imports in revenues as well as broadening the tax base by including some local Government taxes collected in the districts in RRA collections. It is also based on conservative assumptions regarding expected donor budget support grants.

76. The total budget for fiscal year 2014/15 is projected at RWF 1753.3.billion compared to the revised budget of RWF 1677.7 billion in 2013/14. There is therefore an increase of RWF 75.6billion. Total domestic revenue collections are estimated at RWF 986 billion (17.2 percent of GDP). Of this amount RWF 906.8 billion is expected to come from tax revenue whilst RWF 79.3 billion will accrue from non-tax revenue including PKO reimbursements. Gross Domestic financing is projected to decline from RWF 185.3 billion in 2013/14 to RWF 95.6 billion.

77. Total grants are projected at RWF 544.8 billion (9.5 percent of GDP) as against RWF 463 billion (9.1 percent of GDP) in 2013/14, showing an increase of RWF 81.8 billion. Budget support grants are RWF 328.4 billion whilst capital grants are estimated at RWF 216.4 billion. Both budget support and capital grants include Global Funds of RWF 82.8 billion. Total loans are projected at RWF 122.8 billion, only slightly lower than the RWF 123.1 billion in the revised 2013/14.

78. On the outlays side, recurrent spending is estimated at RWF 864.5 billion, Capital outlays are projected at RWF 784.1 billion. Net lending increases to RWF104.7 billion in 2014/15.

79. The 2014/15 budget is expected to close the fiscal year with an overall cash deficit of RWF 177.2 billion (3.1 percent of GDP) as against RWF 271.2 billion (5.3 percent of GDP) in 2013/14. The deficit is projected to be financed with net foreign financing of RWF 107.6 billion, and net domestic financing of the 2014/15 amounting to RWF 69.6 billion. Of this amount RWF 54.1 billion will represent

the remaining unused EURO bonds for KCC and net new bank borrowing will amount to RWF 15.6 billion.

VI. DOMESTIC REVENUE AND GRANTS PROJECTIONS.

i. Domestic Revenue Projections and Tax measures.

As I have just mentioned, we propose to raise RWF 906.8 billion from domestic taxes.

80. In the area of direct taxes an increase from RWF 326.1 billion in 2013/14 to RWF 379.2 billion is projected showing a rise of RWF 53.1 billion. A significant portion amounting to RWF 28.7 billion is due to the inclusion of some direct taxes (property and other taxes) that are being collected by Local Government administration in RRA collections. This is consistent with the policy to broaden the tax base to increase revenue collection of the state.

81. Taxes on goods and services are rising from RWF 397.7 billion in 2013/14 to RWF 461.5 billion showing an increase of RWF 63.8 billion. The estimate for taxes on international trade is RWF 66.1 billion compared to RWF 58.7 billion in 2013/14. . The tax revenue estimates in the 2014/15 budget do not envisage many new tax proposals but are underpinned by several on-going as well some new measures to be implemented by the Rwanda Revenue Authority as outlined below :

- ***Revenue Administration Measures***
- Increase excise on airtime from 8 percent to 10 percent.
- Continuation of the roll out of Electronic Billing Machines
- Increase the tax base;
- Taxpayers education;
- Investment in IT facilities to ease the services to the taxpayers.

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

82. Following recent consultations of Ministers of Finance of the EAC member states, the following changes in the common external tariff (CET) for Rwanda were agreed:

a) Road Tractors for Semi Trailers---CET of 0 percent instead of 10 percent for 1 year.
b) Motor Vehicles for transport with weight exceeding 5 tons but not exceeding 20 tons—CET of 10 percent instead of 25 percent.
c) Motor vehicles for transport of goods with gross weight exceeding 20tons—CET of 0 percent.
d) Sugar - CET
e) Buses for transportation of more than 25 persons—CET of 10 percent for 25 persons but below 50 persons and for more than 50 persons CET of 0 percent.
f) Wheat (Wheat grain)—CET of 0 percent instead of 35 percent.
g) Rice in the husk, Husked (brown) rice, semi milled or wholly milled rice, broken rice—CET of 45 percent instead of 75 percent or USD 200/MT;
h) Telecommunication Equipment—CET of 0 percent;
i) Other Portland cement —CET of 25 percent from 35 percent;
j) Papers—CET of 10 percent from 25 percent

ii. Non tax Revenue Projections

83. For fiscal year 2014/15 non tax revenue collections have been projected at RWF 79.3 billion as against a performance of RWF 91.3 billion in 2013/14. This trend shows a decline of RWF7.7 billion. Improved collections from driving license fees, visa and passport fees as well as other administrative fees and charges will allow the estimated amount to be achieved.

iii. External Grants and Loans.

84. Total grants to be disbursed by donors for the 2014/15 budget have been estimated at RWF 544.8 billion as against RWF 463 billion in 2013/14. There will therefore be an increase of RWF 81.8 billion mainly resulting from increased disbursements from the Global fund.

85. In the case of project loans, we have projected an amount of RWF 122.8 billion almost the same as the RWF 123.1 billion achieved in 2013/14. Large shares of this amount will come from the World Bank, the AfDB and the Arab funds and will be used mainly for infrastructure projects in the energy and road sectors.

iv. EXPENDITURE POLICIES AND PROJECTIONS.

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

I now turn my attention to our expenditure policies and projections for fiscal year 2014/15.

86. Recurrent expenditure in 2014/15 has been projected at RWF 864.5 billion. This level of spending takes into account the expenditure prioritization policy as well as providing more resources for the running of public institution and the provision of essential services.

87. Total capital spending in 2014/15 has been estimated at RWF 784.1 billion. The increase in capital expenditure is in line with EDPRS priorities of focussing on strategic investments to boost economic growth. Foreign financed capital expenditure is projected at RWF 339.2.

88. In the case of net lending, the expenditure component in 2014/15 has been projected at RWF104.7 billion. As was in 2013/14, a large amount of this allocation amounting to RWF 54.1 billion is earmarked for completing the on-going work of the KCC project in fiscal year 2014/15. The estimate for net lending also includes the accrual of RWF 4 billion privatization receipts from the divestiture of some public assets. The receipts will offset a portion of expenditures.

89. The total allocation for principal debt payments in fiscal year 2014/15 has been estimated at RWF 41.2 billion. This amount is RWF 4 billion higher than the RWF 37.2 used in fiscal year 2013/14. Out of the RWF 41.2 billion, an amount of RWF 15.2 billion has been set aside for external principal debt repayment whilst RWF 26 billion will be used for domestic debt. In the case of external debt, a large

share of the payments will be made to the multilateral agencies and some Arab creditors. Concerning domestic debt the payment to RSSB is the most important item.

v. The Budget deficit and Financing

90. The budget for fiscal year 2014/15 is projected to close with an overall cash deficit of RWF 177.2 billion which is lower than the revised 2013/14 budget of RWF 271.2 billion by RWF 94 billion. The 2014/15 deficit will be financed with net foreign loan receipts of RWF 107.6 billion net receipts from the domestic financial sector of RWF 69.6 billion. Of this amount, RWF 54.1 billion represents draw-down of the remaining unused EURO bonds for the completion of the KCC project as mentioned above under net lending. Net new domestic borrowing will amount to RWF15.6 billion and will be funded with a combination of the use of the overdraft at BNR and/or sales of Treasury bills to both the commercial banks and non- bank financial institutions.

VII. DETAILED RESOURCE ALLOCATION TO EDPRS 2 CLUSTERS

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

91. In EDPRS II, emerging priorities are grouped under the four thematic areas of Economic transformation for rapid growth, Rural Development, Productivity and youth employment creation as well as Accountable Governance. Foundational Issues reflect long-term priorities where, in most cases, significant progress has already been made during EDPRS I. Health and basic education, macroeconomic stability and public finance management (PFM), justice, peace and stability, food security and nutrition, and decentralization are prominent amongst these strategic areas that constitute the platform of Rwanda's sustainable development over the long term. The Support Functions cut across all the emerging priorities and foundational issues to ensure proper delivery of the EDPRS II.

92. Furthermore, to strengthen the linkage between institutional plans and budgets and ensure their alignment with the priorities highlighted in EDPRS II, planning consultations were organized and successfully concluded in February 2014. The planning consultations came up with seven key priority areas that are closely linked to EDPRS II to be funded in 2014/15 budget. They are namely; Energy, Agriculture, Exports promotion, Urbanization & Rural settlement, Employment Programme & Skills Development including TVET, Social Protection & Graduation and Promotion of Green Economy.

93. Expenditure projections have therefore been based on the priority areas of the EDPRS 2 and the identified sector priorities. The EDPRS II therefore informs the process of prioritizing budget allocations towards specific programmes and projects and away from areas of non-priority spending. The inclusion of a programme or project in the budget depended on the availability of funds and the relative priority given to the various initiatives set out in EDPRS II.

94. In line with this, the thematic areas have been allocated 52 percent of the total budget. The foundational issues have been allocated 35.7 percent while the support functions have been allocated the remaining 12.3 percent.

95. Within the thematic areas, the economic transformation thematic area has been allocated 25 percent of the total budget, the rural development 14.3 percent which is equal to the allocation for productivity and youth employment of 9.7percent. The remaining 3 percent has been allocated to accountable governance.

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

Allow me now to talk about key priorities funded under each thematic area, foundational issues and support functions.

a) Economic Transformation

96. The main objective of the Economic Transformation thematic area is to propose an ambitious, prioritized and coherent cross-sectoral strategy to sustain rapid growth and facilitate Rwanda's process of economic transformation to meet

Vision 2020 revised targets. The key projects and programmes under this thematic area that have been allocated resources in the 2014/15 financial year are:

- Construction of National Wide Transmission Line: RWF 25.7 Billion
- Electricity Roll Out Program (Electricity Access Scale Up/WB & OFID): RWF 21.9 Billion
- Rukomo-Base (Lot 2:51.5Km): RWF 19.5 Billion
- Geothermal Resource Development: RWF 17.7 Billion
- Electrification of 6 Districts in Eastern Province with STEG: RWF 12.4 Billion
- Renewable Energy, R&D and Climate Resilient Technologies (Fonerwa): RWF 10.8 Billion
- Construction of 145 Mw Ruzizi Ii Hydropower Plant: RWF 10 Billion
- ICT Private Sector Development: RWF 8.2 Billion
- Construction of Nyabarongo Hydro Power Stations (27 Mw): RWF 8.1 Billion
- Bugesera International Airport: RWF 7.7 Billion
- Construction of 90 Mw Rusumo Falls Hydropower Project: RWF 7.5 Billion
- Roads Infrastructures Project: RWF 7.4 Billion
- Cyangugu-Ntendezi-Mwityazo Road (50Km) Lot3: RWF 7.2 Billion
- Relocation of Gikondo Industrial Park: RWF 6.2 Billion
- Rehabilitation of 3 Hydro Power Stations: Mukungwa 1, Gihira et Gisenyi (BADEA/OPEC): RWF 5.9 Billion
- Regional Communication Infrastructure Programme: RWF 5.4 Billion
- Project ForRural Income through Exports (Price): RWF 5.3 Billion
- Development of PEAT to Power Plant: RWF 5.1 Billion

- Construction of 50Mw Diesel (Hfo) Power Plant: RWF 4.2 Billion
- Tea Expansion: RWF 4 Billion
- Construction of 4 Provincial Industrial Parks: RWF 3.8 Billion
- E-Government: RWF 3.7 Billion
- Regional ICT Center for Excellence: RWF 2.8 Billion
- Street Lighting: RWF 2.6 Billion
- Feasibility Study and Construction Of New MHPS: RWF 2.6 Billion
- Diversification of Tourism Products and Product Development: RWF 2.5 Billion
- Gako Beef Farm: RWF 2.5 Billion
- Rehabilitation and Extension of Kamembe and Rubavu Airport Runways: RWF 2.5 Billion
- Land Tenure Regularization Support Project: RWF 2.4 Billion
- Lake Kivu Monitoring and Management Project: RWF 2.2 Billion
- Reducing Vulnerability to Climate Change in North West Rwanda through Community Based Adaptation: RWF 2.0 Billion
- Kigali International Airport: RWF 2 Billion
- KIVU WATT: RWF 2 Billion
- East Africa Trade & Transport Facilitation Project (EATTFP): RWF 1.9 Billion
- Site Development of 1,200 Affordable Houses in City of Kigali: RWF 1.9 Billion
- Installation of 15Mw of Rental Plant (CIMERWA): RWF 1.8 Billion
- SP Access Road (Petroleum Facilities): RWF 1.8 Billion
- Gahanga Stadium Access Road: RWF 1.8 Billion

- Huye-Kitabi Road Rehabilitation (53Km): RWF 1.8 Billion
- Kigali Convention Center Access Road (10Km): RWF 1.8 Billion
- Strengthening Institutional Capacity of the Ministry of Natural Resources in Rwanda: RWF 1.6 Billion
- Strengthening Institutional Capacity of the Ministry of Natural Resources in Rwanda: RWF 1.5 Billion
- Manufacturing Growth Project: RWF 1.3 Billion
- Lake Victoria Environment & NR Management Project (Lvemp Ii): RWF 1.3 Billion
- Feasibility Study for Multipurpose Development Project Nyabarongo Ii: RWF 1.3 Billion
- Detailed Exploration: Geology, Geophysical and Geochemical Samplings in 4PTAS: RWF 1.2 Billion
- CIMERWA - Bugarama (10 Km) Road Upgrading: RWF 1.2 Billion
- Wildlife Protection and Conservation of National Parks: RWF 1.2 Billion
- Rusumo Bridge & OSBP: RWF 1.1 Billion
- Rwamagana Industrial Park Access Road: RWF 1.0 Billion
- Market Oriented Infrastructures Project: RWF 1.0 Billion

b) Rural Development

97. The objective of rural development is to improve the quality of life and economic wellbeing of people living in rural areas by reducing rural poverty, which in Rwanda remains wide spread even though it has reduced significantly over the past decade. The key projects and programmes that have been allocated resources in the 2014/15 financial year to finance rural development are:

- Gishwati Land and Water Management (GLWM): RWF 15 Billion
- Priority Crops Intensification (Including Fertilizer Imports): RWF 10 Billion

- Lake Victoria Water Supply and Sanitation Project Phase Ii (LVWATSAN Ii): RWF 8.5 Billion
- Rural Sector Support Project (Phase Ii): RWF 7.7 Billion
- Immediate Action Irrigation Project (GFI): RWF 7.2 Billion
- Kirehe Watershed Management Project: RWF 6.3 Billion
- Projet d'Appui Aux Infrastructures Rurales de la Region Naturelle de Bugesera: RWF 5.8 Billion
- Urban Road Developement for Secondary Cities: RWF 4.4 Billion
- National Rural Water Supply and Sanitation Programme (PNEAR): RWF 3.1 Billion
- Priority Crops Intensification RWF 2.9 Billion
- Support to Strategic Plan for Agriculture Transformation Ii (SPAT Ii): RWF 2.4 Billion
- Livestock Infrastructure Support Program (LISP): RWF 2.3 Billion
- Social Protection Project: RWF 2.3 Billion
- Road Safety: RWF 2.2 Billion
- Rural Water Supply and Sanitation Ii (PRSC-PEAMER): RWF 2.2 Billion
- One Cup of Milk per Child: RWF 2 Billion
- Post Harvest and Agribusiness Support Project (PASP): RWF 1.8 Billion
- Improve Biomass Use Efficiency: RWF 1.8 Billion
- Nutrition Support to Malnourished Children is Ensured: RWF 1.8 Billion
- Water Supply in Butare 2eme Phase: RWF 1.7 Billion
- Improvement of Urban Water Supply: RWF 1.7 Billion
- Rwanda Sustainable Woodland Management and Natural Forest Restoration: RWF 1.5 Billion

- Rulindo Challenge Programme: RWF 1.4 Billion
- One Cow per Family: RWF 1.1 Billion
- Livestock Intensification Project: RWF 1.1 Billion
- Lake Kivu Transport: RWF 1.1 Billion

c) Productivity and Youth Employment

98. The objective of this thematic area is to move Rwanda from an agriculture-based economy to an industry and services-based economy. Vision 2020 aims for half of the Rwandese workforce to be working off-farm by 2020. Reaching this goal will require creating an additional 200,000 non-farm jobs per year. The focus for 2014/15 will be on skills development through TVET and streamlining National Employment Programme that encompasses 19 previous initiatives like Hanga Umurimo, YEGO and Kuremera now coordinated under one programme.

99. The key projects and programs that have been allocated resources in the 2014/15 financial year are:

- Skills Development Project: RWF 13.8 Billion
- TVET Schools Infrastructure Development and Equipment Project: RWF 10.5 Billion
- Expansion and Development of the Integrated Polytechnic Regional Center Project-IPRC Kicukiro: RWF 7.5Billion
- One Laptop per Child Project: RWF 5.2 Billion
- National Employment Programme: RWF 3 Billion
- Acquisition of Hostels at College of Arts: RWF 2.4 Billion
- KOICA Training of Trainers Project: RWF 2.4 Billion
- Rukara Infrastructure Development Project: RWF 1.7 Billion
- Rwanda Integrated Trade Logistics Project: RWF 1.5 Billion

- University Of Rwanda-Infrastructure Development: RWF 1.5 Billion
- Support to Skills Development In Science And Technology: RWF 1.4 Billion
- Implementation of Iwawa Master Plan: RWF 1.3 Billion
- Hands-On Skills among Youth outside Regular Education System: RWF 1.2 Billion

d) Accountable Governance

100. Under accountable governance, we aim at enhancing accountable governance by promoting citizen participation and mobilization. The major focus areas for 2014/15 are improving service delivery in both public (including Districts) and private sector and ensuring more effective sectoral decentralization.

101. The key projects and programs that have been allocated resources in the 2014/15financial year for the accountable governance thematic area are:

- National Cyber Security: RWF 3.1 Billion
- Embassy Infrastructure: RWF 2.8 Billion
- E-GATES: RWF 1.2 Billion

VIII. POSSIBLE DOWNSIDE RISKS TO ECONOMIC PERFORMANCE AND BUDGET IMPLEMENTATION

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

I wish now to discuss some few downside risks that we see in the coming fiscal year.

102. Government recognises that the 2014/15 macro-economic program and the budget have been formulated against the backdrop of several challenges both domestic and external. On the external front, risks to global growth and

implications for resource flows to the developing countries including our country Rwanda in the form of aid and investment still persist. Uncertainties concerning commodity prices could worsen the terms of trade for Rwanda and reduce the flow of resources still further.

103. Regarding the domestic front, adverse weather conditions could negatively affect agricultural production with the potential risk to growth and food security. Lower economic growth could also reduce domestic revenue collection and further constraint public spending. In addition, capacity and other structural constraints continue to delay implementation of some strategic investment projects. I have already elaborated on these constraints and the efforts we are and will be making to alleviate the situation. We will continue to monitor these risks closely with a view to taking corrective actions where required.

104. The measures that we will take could include frontloading and/or increasing public spending to inject some liquidity into the economy to promote growth. Such additional spending will be financed with domestic financial resources. However Government will ensure that such action does not crowd out the private sector.

IX. CONCLUSION

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

105. I have now come to the end of the budget and economic policy statement and will now conclude by stating that the budget framework for 2014/2015 fiscal year and the medium term reflect the current economic situation in Rwanda, the region and global outlook. It is also in line with EDPRS 2 priorities and with the proposed expenditure allocations we expect that progress will be made towards attaining most of the targets outlined in the EDPRS 2 policy document.

106. The medium term projections are built on conservative assumptions regarding budget support and aims to sustain the domestic revenue mobilization efforts. Given the continued uncertainty regarding long term donor engagement and the Government's commitment to reducing its reliance on donor financing, accelerating our export of goods and services and domestic revenue mobilization remain key priorities. However, public expenditure levels alone will not be sufficient to generate the required growth expected in EDPRS 2.

107. The Government recognizes the role of private sector towards the achievements of EDPRS 2 targets and much effort will be invested in various programmes and projects aimed at harnessing the private sector potential for an accelerated growth. Thus public expenditure will be supported by contribution from a dynamic private sector.

I thank you