

Budget Framework Paper

2006-2008



**Ministry of Finance
And Economic Planning**

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Part 1: Introduction

The main objective of the Budget Framework Paper (BFP) is to set out the affordable resource envelope over the medium term (2006-2008) and clarify the costs of strategic policy options.

The Budget Framework (2006-8) is prepared in the context of the ongoing negotiations with the International Monetary Fund (IMF) and other development partners. The main focus of the discussions is to promote higher economic growth in the medium to long term without falling into an unsustainable debt especially after reaching HIPC completion point and benefiting from debt relief/cancellation of USD 1.4 billion in nominal terms. In line with this focus and given the substantial expected investment in agriculture, export promotion, energy and road infrastructure, modest targets for real economic growth, as well as other financial and social developments have been set. Annual real economic growth (at least 6%), inflation (6% for end 2005 and 4% thereafter), gross international reserves to cover 5 months of imports and the budget deficit before grants to be no more than 16.1% of GDP.

Part 2 of this paper examines the performance of both the domestic and international economy in the first 6 months of 2005. Nationally, we expect a real growth of 6 percent compared to 4% in 2004, reflecting mainly recovery in agricultural production (climatic conditions for harvest B have been favourable so far) and buoyant construction. However, as a result of the poor harvest in season A particularly for some food items, food and energy prices pushed headline inflation to 11.1 percent at end-Jun, but inflation excluding food and energy items remained stable at around 5 percent, so that the end-year program target of 6 percent remains achievable. Other macroeconomic policies and structural reforms are on track. Also discussed in Part 2 is the budget execution during the first six months of 2005. Overall recurrent expenditure execution rates were high at more than 90%. In addition, external resources were disbursed as planned in the first six month of 2005.

Part 3 outlines the medium term macroeconomic and budget framework. Economic growth is projected to rise to 6%-6.5%, and inflation to fall to 4%. The current account deficit is also forecast to fall from 22% of GDP in 2005 to 18% in 2008. Debt sustainability is also projected to improve as export receipts grow with the implementation of the Export Promotion Strategy and the government continues to restrict its financing through external loans.

Fiscal projections show the total expenditure envelope to be RWF 386.3 billion in 2006 compared to RWF 374.3 billion for 2005. The increase in expenditure attempts to utilize the gains from the debt relief/cancellation granted after reaching completion point of the

enhanced HIPC initiative of 1.7% GDP annually for increased spending in identified priority areas. This presents the government with the challenge of continuing to finance a program of expenditures that will promote economic growth and poverty reduction, whilst maintaining a manageable fiscal position without falling into an unsustainable debt situation. A number of important programmes and projects; most notably in the areas of education, health, civil service reform, municipal elections, water and energy supply, agriculture, export promotion have been identified to benefit from increased allocations. Therefore, due to the restricted resource envelope a reallocation of resources must be made within the budget so that the government can fund these vital expenditures. Part 4 explains in detail how this is planned to be achieved.

Preparation of this year's BFP has once again benefited from consultations between the Ministry of Finance and other Ministries on the "Strategic Issues Papers" outlining key budgetary constraints for the medium term.

The recommended projections for expenditure by sector constitute preliminary proposed ceilings for the 2005 Budget. Detailed budgets for 2006 will be prepared through the normal process of consultation between Ministries/Provinces and MINECOFIN and within the ceilings approved by Cabinet.

Part 2: Economic Performance 2005

2.1 International Economy

Global growth began to slow in late 2004 and is expected to grow by 4.3% in 2005, compared to 5.1% in 2004. This slowdown was largely due to the adverse effect of higher oil prices on industrial output and world trade. There are signs that growth will strengthen in the later half of 2005, although oil prices still present a considerable risk.

Performance is not uniform across the world, as can be seen in the table below. Growth remains strongest in emerging and developing countries in response to a mix of high commodity prices, structural reforms, sound economic policies and improving external confidence. China's economic momentum remains very strong as exports continue to rise despite the tightening measures of the authorities. In the US performance has been better than expected and is driven by robust domestic demand, while growth is disappointing in Japan and Europe due to weak exports and domestic demand.

Table 1: **World Output (annual % change)**

	2003	2004	2005
World Output	4.0	5.1	4.3
US	3.0	4.4	3.6
EU	1.2	2.5	2.1
Japan	1.4	2.6	0.8
Emerging and Developing Countries	6.4	7.2	6.3
Sub-Saharan Africa	4.2	5.1	5.2
Central and Eastern Europe	4.6	6.1	4.5
Commonwealth of Independent States	7.9	8.2	6.5
Developing Asia	8.1	8.2	7.4
China	9.3	9.5	8.5
Middle East	5.8	5.5	5.0
South America	2.2	5.7	4.1

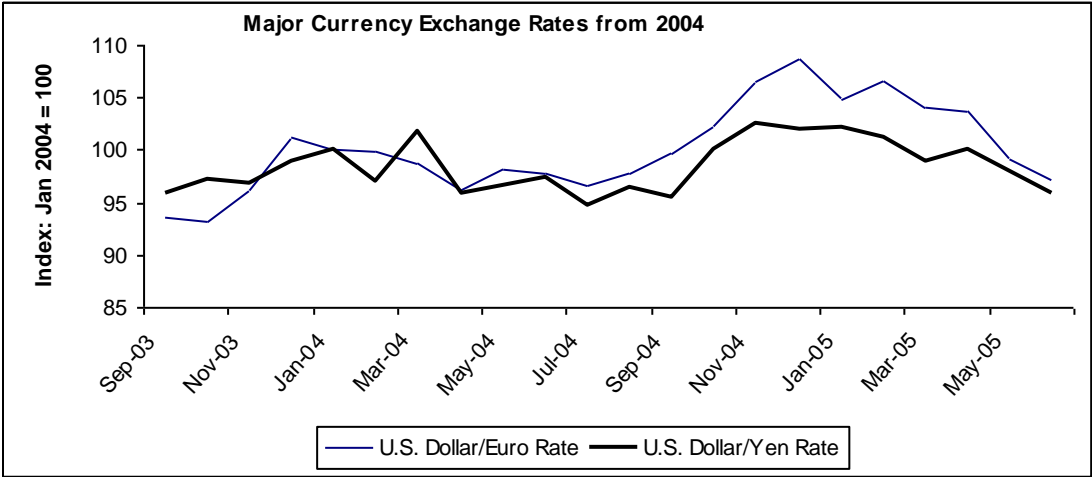
Source: *Economic Outlook (IMF), April 2005*

Strong demand in the US has caused the current account deficit to reach a record high of 5.7% of GDP¹. With such a large deficit there is pressure on the dollar to continue depreciating, but in 2005 it has begun to appreciate, partly in response to rising interest rates. The graph below shows that the exchange rate of the dollar to

¹ IMF Economic Outlook, April 2005

the yen and the euro has almost returned to its early 2004 levels, following last years dramatic appreciation.

Table 2: Major Currency Exchange Rates from 2004

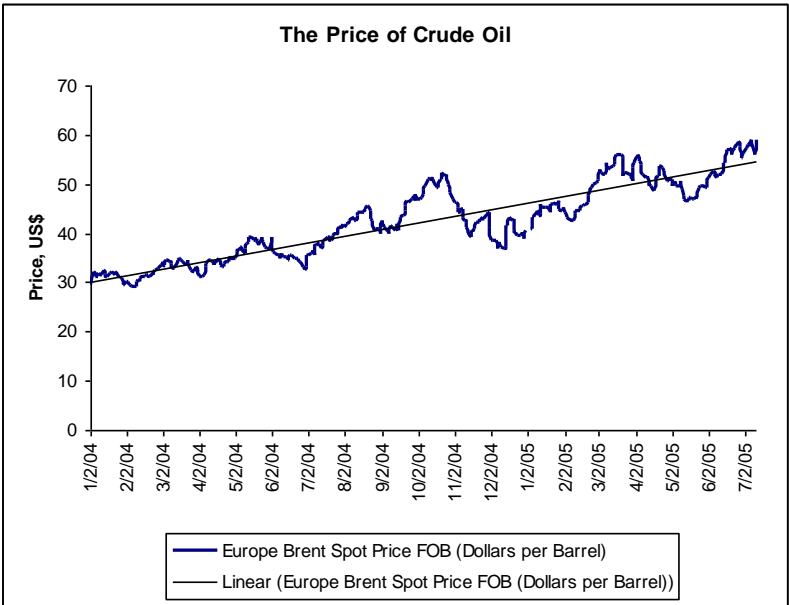


Source: Bank of America

Commodity Prices

In the later part of 2004 oil prices appeared to be falling back sharply, but in 2005 rebounded and reached new highs, as is shown in the graph below. This is driven by continued strong demand, uncertainties about OPEC production plans, falling non-OPEC supply and an overall shortage of excess capacity.

Table 3: Changes in the price of Crude Oil

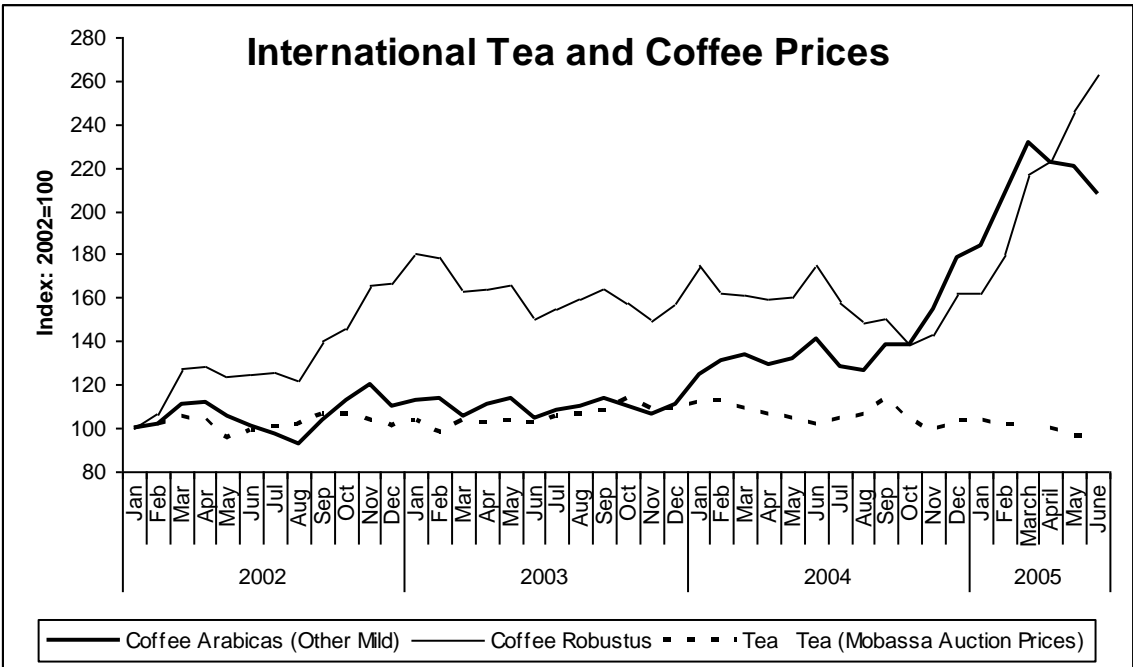


Despite such high oil prices, global inflationary pressures remain fairly subdued with inflation in advanced countries expected to remain constant at 2% in 2005, and to

decline in emerging market and developing countries from 5.7% in 2004 to 5.5% in 2005²

Rwanda’s two key export commodities are tea and coffee and an index of their prices is presented in the graph below. Coffee saw its price begin to climb in 2004 and this has continued for the most part in 2005 in response to strong demand. During the second quarter there has been a slight correction in the price of Arabica following activities of investment funds attracted by the commodity market. Robusta coffee has so far managed to resist this adjustment in prices due to a drought which is diminishing supply from Vietnam. Tea prices have seen a slight downward trend due to unfavorable market fundamentals – weakening global demand coupled with rising production.

Table 4: Coffee and Tea Prices 2002-2005



² IMF Economic Outlook, April 2005

2.2 Domestic Economy

The economy is expected to perform well overall in 2005. Real GDP growth is projected to be 6% and to be driven by a healthy season B harvest and a return to normal levels of electricity supply. Inflation remained above 10% during the first six months, but is forecast to fall to 6% by the end of the year as food prices drop in response to the bumper harvest. This reduction will also depend on developments in the monetary sector with regard to money supply, which witnessed an increase of 8% during the first half of the year as a result of increased net foreign reserves and private sector credit. With regard to trade, while commodity prices have been favourable and have helped to boost exports of goods by 14%, the growth in imports has been 66% and thus overall the balance of trade has worsened in 2005. This situation is not helped by the real exchange rate which has appreciated since March 2004, making exports less competitive and imports more so. On the fiscal side the GoR ended the first six months with a cash surplus of Rwf 8bn due to strong revenue collections and restrained expenditures as efforts were made to slow down growth in reserve money.

2.2.1 Real sector performance

Economic growth is expected to strengthen to 6% in 2005. The main drivers of this growth are a favorable rainfall for the season B harvest and a return to normal levels of electricity supply.

Table 5: Real GDP Estimates

Rwf billion	Real Value			Growth Rate	
	2003	2004	2005	2004	2005
Agriculture	286.93	289.36	307.08	1%	6%
Food Crop	244.39	241.79	259.43	-1%	7%
Industry	120.47	128.80	137.16	7%	6%
Mining	1.21	1.88	2.11	55%	12%
Manufacturing	52.09	55.32	59.63	6%	8%
Construction	65.13	70.02	73.52	8%	5%
Services	234.67	253.24	269.53	8%	6%
Wholesale and Retail	48.30	48.77	50.39	1%	3%
Transport & Communication	46.39	52.00	55.91	12%	8%
Finance	17.31	20.90	21.95	21%	5%
Adjustments	-0.70	-3.06	-3.92	336%	28%
GDP	641.36	668.35	709.85	4%	6%

Source: MINECOFIN

The agricultural sector is expected to grow at 6% mainly because of a 7% growth in the food crop, which accounts for 85% of the sector. While season A saw a disappointing growth of less than 1% in volume terms, owing mainly to poor rains, the outlook for season B is much improved. Crop forecasts for season B from the Ministry of Agriculture (MINAGRI), expect there to be a 16% growth in food volumes.

The outstanding growth in the season B food crop is explained principally by the rains which were well distributed during the planting season, and caused the crop growing conditions to be described by FEWS Net³ as “generally excellent”. The healthy harvest is also partly a result of increased organisation among farming communities, which has in turn helped increase fertilizer application. Indeed, imports of fertilizer climbed from \$0.6m in the first six months of 2004 to \$2.08m in the same period of 2005.

After suffering in 2004 from the hike in fuel prices and the domestic shortage of electricity, the manufacturing industry appears to be rebounding in 2005 and is expected to reach a growth of 8%. While fuel prices remain high, domestic production of electricity is returning to 2003 levels and is projected to exceed them in the second half of the year. There has also been a 62% increase in the value of industrial intermediate inputs imported during the first six months of the year – pointing to growing domestic production. The largest industry is that of soft drinks and beer, and in the first quarter alone, production grew by 28% and 16% respectively.

³ Famine Early Warning Systems: www.fews.net

Although overall the news is of recovery, there remain pressures on certain industries. Domestic cement production, for example, was down 4% during the first six months due to a shortage of fuel oil to power generators, and the chemicals industry reports suffering from “cut throat” competition from COMESA and other areas, and an inability to reduce prices further to gain market share due to high production costs.

Growth in the construction sector is expected to slow from 8% to 5% in 2005. This should not be seen as signaling the end of the construction boom, but rather a reflection of the unusually high number of large projects that came to, or close to, an end in 2004 such as some Caisse Sociale housing, hotel projects, and the city centre banks. Activity in 2005 remains strong as is evidenced by the 227% increase in the value of construction inputs imported, and includes several retail projects in Kigali, continued housing construction and several major road projects including; the 12km Kigali road, Kigali – Kayonza road and the Kigali – Butare – Akanyaru road.

Growth in the services sector is currently projected to be 6% and will continue to be driven by the ICT, finance and tourism sectors.

Developments in the ICT sector continue at a remarkable pace. In the internet sector connectivity is expanding across Rwanda and connection speeds improving with the laying of fiber optic cables. Penetration in the mobile phone market also shows no signs of slowing, and MTN reports a growth of approximately 13% in its number of revenue generating subscribers in Rwanda between January and July 2005.

With regards to tourism, data from the ORTPN (National Tourism Promotion Office) shows that while the number of visitors to national parks has fallen overall this year, the number of international visitors has grown by 6%. This is encouraging news for Rwanda’s tourist promotion policy, since it is this group of visitors that must pay the most to visit the national parks, and that are most likely to use the hotel and local travel and tours services. There is also encouraging news for the domestic airline Rwandair, who saw passenger numbers grow by 25% during the first five months of 2005 compared with the same period in 2004. This growth is due to the airlines increased service offering, and expanding market share, since the market as a whole declined 3% in the five months to May.

Following significant restructuring and the recent privatisation of three major retail banks, the financial sector is projected to experience healthy growth of 5% in 2005. The 29%⁴ growth in private sector credit, between June 2004 and June 2005 is an indication of the financial deepening that is taking place.

2.2.2 Inflation

Inflationary pressures during the first six months of 2005 were strong and the Consumer Price Index (CPI) peaked at 13.6% in March but has since been declining and reached 11.1% in June. The increase in prices came from rising food prices, higher electricity and fuel costs, and the lagged effects of monetary expansion. Food prices were high as a result of a poor season A harvest. The doubling of electricity prices at the end of 2004 to cover the increased investments needed in the electricity network and the importation of generators also contributed to the increase in inflation during this period.

Inflation for the rest of the year looks set to continue declining, primarily because of a strong season B harvest. There does, however, remain a risk of upwards pressure from further adjustments to electricity and oil prices, and monetary developments including exchange rate movements.

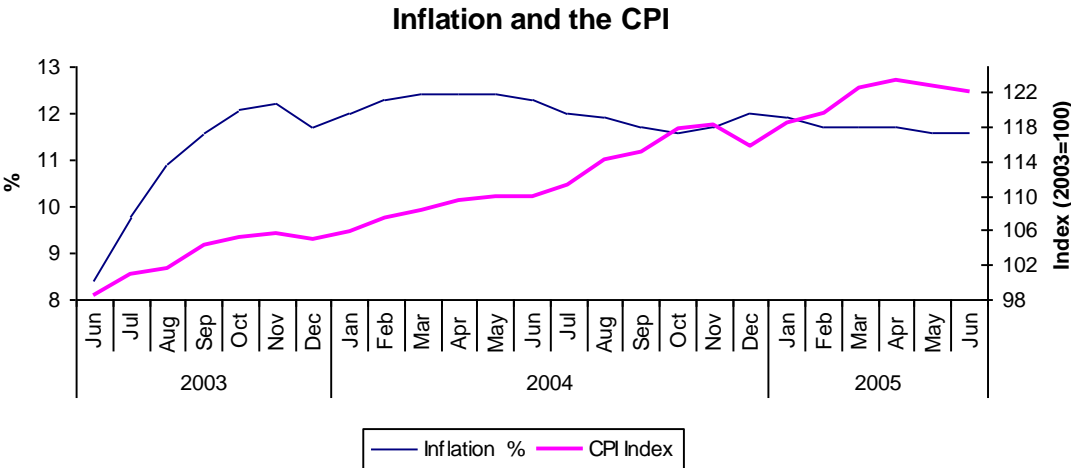
The table below shows the components of the CPI from March through to June, and the graph shows the trend of the CPI and inflation rate since 2003.

⁴ 29% is including UBPR, and excluding UBPR is 26%

Table 6:CPI by category (annual rate of change)

	March	April	May	Jun
Food and drinks	20.5%	20.1%	16.2%	14.6%
Vegetables	33.1%	33.3%	19.0%	19.6%
Bread and cereals	12.5%	10.9%	10.7%	12.8%
Clothing	5.5%	6.9%	5.3%	5.3%
Alcohol and tobacco	2.3%	1.1%	1.7%	2.3%
Utility costs	16.6%	16.5%	16.6%	18.1%
Household Furnishings	9.3%	8.5%	7.9%	7.2%
Health	2.1%	1.8%	2.1%	3.2%
Communication	7.9%	7.8%	7.9%	7.9%
Education	5.6%	5.8%	5.6%	5.4%
Transport	4.0%	4.1%	7.1%	5.5%
CPI	13.6%	12.8%	11.5%	11.1%

Inflation and CPI trend 2003-2005



Source: MINECOFIN

Note: The inflation data in the chart measures the average of the index over the last 12 months, compared to the average of the index over the previous 12 months

2.2.3 External sector

External Trade

The deficit on the balance of trade worsened in the first half of 2005 to \$110m compared with \$51m at the same period in 2004. The driver of this increase was a growth in imports of goods of over 66% coupled with a more modest growth in exports of only 14%.

Table 7 : Balance of Trade

	Value US\$ Million			Growth Rate	
	2003	2004	2005	2004	2005
Exports	33.31	46.59	53.12	39.9%	14.0%
Imports (cif)	124.11	130.47	216.91	5.1%	66.3%
Imports (fob)	93.08	97.85	162.69	5.1%	66.3%
Balance of Trade	-59.77	-51.26	-109.56	-14.2%	113.7%

Source: BNR

On the exports side coffee and tea remain the principal earners, accounting for 50% of all foreign exchange with cassiterite and coltan now accounting for 33%, following a continued period of rapid growth. The performance trends for these major exports are detailed in the table below.

Table 8: key export commodities

Key export commodities: Jan-Jun

	2003	Jan-Jun		% change	
		2004	2005	2004	2005
Coffee					
Value \$m	6.89	16.21	14.89	135.3%	-8.2%
Volume (tonnes)	7.23	13.96	6.75	93.0%	-51.7%
Price \$/kg	0.95	1.16	2.21	21.9%	90.0%
Tea					
Value \$m	12.89	12.95	11.46	0.5%	-11.5%
Volume (tonnes)	8.42	7.81	7.13	-7.3%	-8.6%
Price \$/kg	1.53	1.66	1.61	8.5%	-3.1%
Cassiterite tin					
Value \$m	1.54	5.29	8.56	244.3%	61.8%
Volume (tonnes)	0.62	1.16	2.09	88.0%	80.3%
Price \$/kg	2.49	4.57	4.10	83.1%	-10.3%
Coltan					
Value \$m	3.69	5.15	8.64	39.5%	67.9%
Volume (tonnes)	0.41	0.44	0.51	6.3%	17.8%
Price \$/kg	9.00	11.82	16.84	31.2%	42.5%
Hides and skins					
Value \$m	2.10	1.31	2.18	-37.7%	66.2%
Volume (tonnes)	1.61	0.88	1.36	-45.2%	54.1%
Price \$/kg	1.31	1.49	1.60	13.8%	7.9%
Other exports	6.20	5.68	7.39	-8.4%	30.1%
Total Exports	33.31	46.59	53.12	39.9%	14.0%

Source: BNR

Coffee volumes fell by 52% during the first six months, as farmers left trees to regenerate following last year's bumper harvest. Overall, however, a surge in international coffee prices prevented total export values from plummeting and the average price received for Rwandan coffee climbed 90% from \$/kg 1.16 in the first half of 2004 to \$/kg 2.21 in 2005.

With regard to exports of tea, there has been a 3% fall in price and a 9% reduction in volumes during the first six months which have led to a total value for exports of \$11.5m compared with \$13.0m in 2004. The relatively poor productivity in the sector

is likely to be reversed as the privatisation process completes and brings increased investment to the sector later this year and in 2006.

Cassiterite tin and coltan exports continue to rise with growth of 62% and 68% respectively during the first half of 2005. Cassiterite volumes grew at 80%, despite a slight 10% fall in prices to give a total value of \$8.6m compared with \$5.3m in 2004. Although having fallen slightly, prices remain high due to continued strong demand for tin from the Asian electronics sector. In response to this demand, market intelligence states that the world's major tin producers are investing to increase supply. Favourable market conditions have also led to an increase in the value of coltan exports from \$5.2m in 2004 to \$8.6m in 2005, as volumes grew 18% in response to a 43% rise in price. This strong performance in the mineral sector has triggered work to begin on evaluating the full potential of the Rwandan mining sector.

While the Rwandan economy remains highly dependent on the exports of these four goods, efforts have been made to diversify the export base into sectors such as hides and skins, horticulture and artisans. Evidence of the success of this policy is shown by the 30% increase in the value of "other exports" and growth is expected to continue strengthening as the actions detailed in the Export Promotion Strategy and the Integrated Trade Framework continue to be implemented.

Imports

All categories of imports grew in value terms during the first six months of 2005 when compared with the same period in 2004.

Table 9: Imports of Goods

(\$ million and tonnes)	Jan-Jun 2003		Jan-Jun 2004		Jan-Jun 2005		% change 2004		% change 2005	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume
Capital goods	21.46	2.90	21.06	3.88	51.10	9.10	-1.9%	33.8%	142.6%	134.4%
Energy and lubricants	18.74	44.48	30.33	55.52	41.10	71.69	61.8%	24.8%	35.5%	29.1%
Intermediate goods	23.25	31.85	18.19	25.87	37.70	54.80	-21.8%	-18.8%	107.3%	111.8%
Construction materials	3.66	10.29	4.17	9.70	13.64	29.99	13.9%	-5.8%	227.2%	209.3%
Industrial goods	15.15	18.02	11.09	12.93	17.98	18.00	-26.8%	-28.3%	62.1%	39.2%
Fertilizer	0.61	1.76	0.59	1.63	2.08	5.36	-3.6%	-7.3%	252.1%	228.7%
Other intermediate goods	3.83	1.78	2.34	1.62	4.01	1.45	-38.9%	-8.9%	71.1%	-10.6%
Final Consumption Goods	60.65	73.32	60.89	66.92	87.01	82.91	0.4%	-8.7%	42.9%	23.9%
Food	13.38	36.69	17.80	41.58	21.82	50.20	33.0%	13.3%	22.6%	20.7%
Other consumption goods	47.28	36.64	43.10	25.35	65.19	32.71	-8.8%	-30.8%	51.3%	29.1%
Total	124.11	152.56	130.47	152.20	216.91	218.49	5.1%	-0.2%	66.3%	43.6%

Source: BNR

Imports of capital goods grew from \$21m to \$51m as equipment was imported for road building projects, and generators and ICT imports increased in response to new tax exemptions for businesses. It must be noted that a large share of these capital goods will be re-exported once the road contractors complete their work. The value of fuel imports also increased as the international price continued to rise and demand grew as additional fuel was needed to power the generators⁵.

In response to the construction and road building boom and a domestic shortage of cement, due to a lack of fuel oil to power generators, intermediate construction material imports tripled in value terms. Industrial goods imports also grew signifying a recovery within domestic industry. Within industrial goods, the category to see the single largest growth was food products which grew 300% in value terms to reach \$3.6m and 500% in volumes terms, as Bralirwa took advantage of a special offer on malt. Although there is still much growth to be sought, policies to increase fertilizer application appear now to be succeeding, since imports grew from only \$0.6m in the first half of 2004 to \$2m.

In terms of final consumption goods, food imports continued to climb following another consecutive poor harvest in season A. Initial projections for season B are good and we therefore expect these imports to fall back in the second half of the year. Imports of final consumption goods grew by 51% in value terms, giving evidence of a healthy retail sector. Also included in this category are pharmaceutical products which grew from \$7.9m to \$23.8m as the flow of Anti-retroviral treatments into the country accelerated.

2.2.4 Monetary Developments

The tables below show the monetary aggregates. Net foreign exchange reserves of the banking sector rose only slightly by 7% from RWF 168.5 billion at end December 2004 to RWF 180.5 billion at end June 2005. Gross official reserves of the central bank after increasing by RWF 54 billion in 2004, mainly on account of the disbursement of official budget support funds in 2004 rose only by RWF 6.5 billion during the first half of 2005. Official reserves therefore stood at the equivalent of about 5 months of imports at end June 2005.

⁵ The value of fuel imports is currently estimated, and is likely to be revised.

Table 10: Rwanda Monetary survey
Monetary Authorities
(in billions RWF)

	mars-04	déc-04	janv-05	févr-05	mars-05	June 05
Net Foreign assets	67,0	122,6	120,4	122,6	131,9	137,0
Foreign Assets	124,9	178,3	173,5	176,1	182,7	184,8
Liabilities	-57,9	-55,7	-53,1	-53,5	-50,8	-47,8
Net Domestic assets	-15,6	-65,4	-57,3	-60,6	-72,5	-76,5
Doestic credit	9,7	-38,8	-33,7	-38,2	-51,2	-56,5
Other items net	-25,3	-26,6	-23,6	-22,4	-21,3	-20,0
Reserve Money	51,3	57,2	63,1	62,0	59,4	60,5
Currency	35,4	41,8	41,6	41,1	42,2	47,3
Currency in circulation	31,9	38,9	36,9	36,6	36,8	44,4
Currency held in banks	3,5	2,9	4,7	4,5	5,4	2,9
Commercial bank deposits (CER included)_	11,9	12,4	17,2	16,8	13,4	10,9
Other non-bank deposits	4,0	3,0	4,3	4,1	3,8	2,3

Monetary Survey Consolidated

	Mar-04	Dec-04	Jan-05	Feb-05	Mar-05	June 05
Net Foreign Assets	104.0	168.5	168.5	168.8	174.0	180.5
Net Domestic Assets	59.0	14.9	19.3	21.3	16.9	21.7
Domestic credit	109.4	80.6	84.9	80.1	78.8	84.5
Central government (net)	8.4	-30.9	-26.6	-31.1	-32.9	-41.0
Autonomous agencies	-1.1	-0.8	-0.8	-0.7	-0.6	-0.6
Public enterprises	4.2	4.7	4.7	4.4	3.4	2.9
Private sector	97.9	107.6	107.6	107.5	108.9	123.2
Other items net (Assets: +)	-50.4	-65.7	-65.6	-58.8	-61.9	-62.8
Broad Money	162.5	187.4	187.6	190.0	190.8	202.0
Currency in circulation	31.9	38.9	36.9	36.6	36.8	44.4
Deposits	130.6	148.5	150.7	153.4	154.0	157.6
of which: demand deposits	57.1	63.3	68.0	74.1	75.4	76.7
time deposits	31.3	33.9	32.9	30.7	31.3	34.2
foreign currency deposi	42.2	51.2	49.7	48.5	47.3	46.8

Domestic credit declined by RWF 37.9 billion (32%) from RWF 118.5 billion at end December 2003 to RWF 80.6 billion at end 2004. This was mainly due to the retirement of Government banking debt of about RWF 47.9 billion in 2004. Disbursement of official Government budget support funds allowed this retirement to take place. In the first half of 2005, domestic credit rose slightly by RWF 3.9 billion from RWF 80.6 billion to RWF 84.5 billion. An increase in private sector credit was offset by a net retirement of debt by Government of RWF 10.1 billion

during this period and therefore accounted for the slight increase in domestic credit.

In 2004, private sector credit by commercial banks increased by about RWF 10 billion (10.7%) from RWF 97.2 billion at end December 2003 to RWF 107.6 billion at end December 2004. Given the inflation rate of 10.2% in 2004 there was therefore no increase in real terms. During the first quarter of 2005, private sector credit remained flat amounting to only RWF 108.9 billion at end March from RWF 107.6 billion at end December 2004. Whilst this development reflects prudent lending by the commercial banks, it also shows that the difficulties experienced by the private sector last year (especially high energy costs) may not have been solved during the first quarter of 2005. There are signs however, of an increase in private sector credit during the second quarter as a result of increase in demand for cash to purchase coffee and other production inputs. Private sector credit therefore rose by about RWF 15.2 billion during the second quarter and reached RWF 123.2 billion as against RWF 107.6 billion at end December 2004 and shows a 14.5% increase since end December 2004.

The small increase in net foreign reserves and the rise in domestic credit from the private sector (7.6%) resulted in an increase in money supply (M2) of RWF 14.7 billion in the first half of 2005. This level is about RWF 7.6 billion higher than the projected level of RWF 194.5 billion envisaged for end June. This is a source of concern if inflation is to decline and remain within the projected level of 6% by end year.

2.2.5 i) Impact of Non-Bank Financial Sector on Monetary Developments

In the last few years the activities of the non-bank financial sector especially UBPR have been restructured, recapitalized and formalized. As a result, the sector is now playing an important role in the growth of monetary aggregates in the country. In 2004, lending to the private sector by UBPR amounted to RWF 11 billion and overtook the commercial banks lending of only RWF 10 billion. In the first quarter of 2005, UBPR has increased its lending by a further RWF 2 billion. As a result of the increased lending by UBPR and other non-bank financial institutions, broad money, including contributions from the non-bank financial institutions, increased significantly from RWF 178 billion at end 2003 to RWF

206.4 billion at end 2004 and to RWF 210.3 billion at end March 2005 and to RWF 224.6 billion at end June. The major concern regarding the increase in lending by the non-bank financial institutions is the impact on overall liquidity through expansion in currency in circulation and demand deposits.

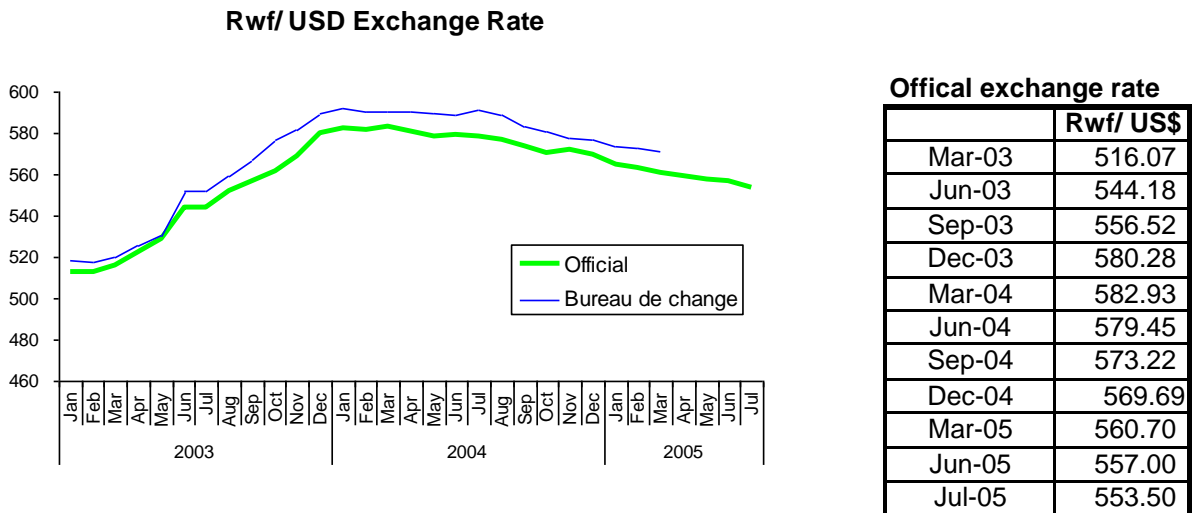
Regarding currency in circulation, this rose by about RWF 7 billion from RWF 33.8 billion at end December 2003 to RWF 40.3 billion at end December 2004. It however declined by about RWF 5 billion to RWF 35.5 billion at end March 2005. Since end March, it has been rising reaching RWF 37 billion by end April and rose further to RWF 43 billion at end June 2005.

Demand deposits increased by about RWF 22 billion during 2004 from RWF 144.4 billion at end 2003 to RWF 166.1 billion at end 2004. At end March 2005, this increased further to RWF 174.8 billion and reached RWF 181.7 billion at end June 2005. Given the increased lending by the commercial banks to the formal private sector, the expanded activities of the non-bank financial institutions has led to a substantial increase in liquidity and this continues to pose a potential threat for further inflation during the year.

2.2.6 Exchange rate development

As a result of continued strong export earnings and large donor disbursements, the nominal exchange rate maintained its trend of appreciation during the first half of 2005. The exchange rate began appreciating in 2004 after peaking in March 2004 at RWF 583=1 US\$. Since that date there has been an overall appreciation of 5%. The rate of appreciation has also increased – since in the first 6 months of 2005 alone, there has been an appreciation of 2.8% with the official exchange rate now standing at RWF 553.5= 1 US\$.

The graph below shows the trend in the official and bureau de change exchange rate since 2003 and the table shows the official average exchange rate by quarter since March 2003.



Source: BNR

Given the relatively high rate of domestic inflation, the appreciation in the real exchange rate is even more severe. This is making it harder for exporters to maintain competitiveness and imports are becoming more attractive on the domestic market.

2.2.7 Fiscal performance

In the implementation of the budget during the first six months, Government restrained spending in order to slow down the growth in reserve money and reduce the surge in inflation. Improvements in domestic tax revenue collections that have been observed in the last few years continued during the first half of the year. This reflects the observed recovery in the formal sector of the economy, particularly beer and soft drinks production, retail trade, improvements in tax administration and widening of the tax net. The table below shows the projections and provisional actual for the first half year.

Table 12: PROVISIONAL FISCAL OUTTURN FOR Jan-June, 2005
(in millions RWF)
(Payment Order Basis)

	Jan-June proj	Jan-June actual	% change
Revenue and grants	123 000,0	117 769,2	-4,3
Total revenue	79 300,0	87 268,4	10,0
Tax revenue	73 300,0	77 851,8	6,2
Direct taxes	20 200,0	24 259,5	20,1
Taxes on goods and services	38 400,0	39 922,0	4,0
Taxes on international trade	14 700,0	13 429,0	-8,6
Taxes on Electrogaz fuel imports	0,0	241,3	
Non-tax revenue	6 000,0	9 416,6	56,9
Budgetary grants	43 700,0	30 500,8	-30,2
of which HIPC	7 500,0	6 186,7	-17,5
Total expenditure and net lending	116 300,0	103 888,5	-10,7
Current expenditure	99 700,0	89 369,9	-10,4
Wages and salaries	27 500,0	24 115,7	-12,3
Purchases of goods and services	30 000,0	29 401,1	-2,0
Interest payments	7 600,0	5 014,8	-34,0
Transfers	22 100,0	21 113,2	-4,5
Exceptional social expenditure	12 500,0	9 725,1	-22,2
Capital expenditure	13 200,0	10 818,3	-18,0
Domestic	13 200,0	10 818,3	-18,0
Net lending	3 400,0	3 700,0	8,8
Domestic Fiscal Balance	-32 800,0	-13 326,1	-59,4
Change in arrears (net reduction-)	-5 900,0	-5 874,7	-0,4
Domestic	-5 900,0	-5 874,7	-0,4
Payments (old) +float	-6 900,0	-6 877,1	-0,3
New accumulation/	1 000,0	1 002,4	0,2
Deficit (cash basis)	800,0	7 622,0	852,8

2.2.8 A. Revenue

a) Tax Revenue

Collections of RWF 77.9 billion exceeded projections of RWF 73.2 by about RWF 4.7 billion. This was mainly due to good performances from direct taxes and taxes on domestic goods and services. Regarding direct taxes, collections under pay-as-you-earn (PAYE) continued to increase, benefiting from the improved auditing and widening of the tax net. In the case of taxes on domestic goods and services, the recovery in beer and soft drinks production as well as in retail trade boosted excise duties and VAT collections. On the other hand, taxes on international trade suffered from appreciation of the Rwandan franc against the US dollar by about 5% since April 2004, despite the increase in imports in the first half of 2005.

b) Non-tax revenue

Non-tax revenue collections exceeded the projections to end June by about RWF 3.4 billion. This is due to the accrual of proceeds from the sale of Government cars, the police plot and a portion of the petroleum strategic stocks.

2.2.9 B. Expenditure

Total Government spending (excluding foreign financed projects) during the first half year was RWF 103.9 billion; about RWF 12.4 billion lower than projected. The under-spending reflects Government policy to slow down the increase in reserve money and inflation during the first half of the year. In the case of expenditure on demobilization and reintegration, the under spending was due to the slowdown in the repatriation of the insurgents from the DRC. Spending under net lending however exceeded the projection due to the partial replenishment of the petroleum strategic stocks sold during the first half of the year.

The implementation of the development budget in 2004 achieved a performance rate of 93%, which shows an improvement over 2003, which was around 68%. However this picture is not realistic for some projects that under performed because of poor project design, bureaucratic procurement procedures, capacity

problems in project management and weak supervision in line ministries. The poor performing projects financed by external resources include RSSP, PADEBL, PDRCU, STABEX and PREPAF. Poor project performance is not limited to donor-funded projects only, internally funded projects are also affected because they are included in the budget without adequate studies and consequently concrete action plans. Examples include projects relating to biomass and mini hydro power plants, agricultural productivity and export promotion.

Performance by sector in 2004 is shown in the table below.

Table 13: Performance evaluation 2004 by sector, in millions of Rwf

SECTOR	BUDGET 2004	EXP 2004	%
Agriculture	11,408.94	7,773.29	68.13
Energy	3,697.16	231.97	6.27
Defence	688.25	290.38	42.19
Water and Sanitation	5,160.65	3,137.85	60.80
Education	8,851.71	4,233.62	47.83
Industry & Commerce	3,180.79	3,880.50	122.00
Youth, Culture & Sports	1,884.48	506.68	26.89
Justice, Ordre & Security	4,974.39	3,447.83	69.31
Environnement Protection	1,538.24	90.26	5.87
Social Protection	3,208.47	1,437.52	44.80
Health	7,472.61	6,546.33	87.60
General Services and Public Administration	7,500.93	21,005.73	280.04
Land, Habitat & Infrastructures	15,534.07	8,339.99	53.69
Transport & Communication	12,099.30	20,505.17	169.47
TOTAL	87,200.00	81,427.13	93.38

Performance evaluation of the development budget for the first six months of 2005 is ongoing but the indications are that performance is more or less like that of 2004 except for the above mentioned projects with chronic problems.

2.2.10 C. Domestic Cash Deficit

As a result of the under-spending on one hand and the improvement in domestic revenue collections on the other hand, the budget closed the first half with a cash surplus of about RWF 8 billion as against a surplus of RWF 800 million projected.

2.2.11 D Financing of Government Operations

The table below shows external budgetary support during the first half of 2005. During the first half year, Government received external budget support of US\$ 85.7 million compared to US\$ 96.2 million projected. This amount together with the domestic revenue collections of RWF 87.3 billion allowed Government to finance its operations during the half year as well as pay domestic debt of about RWF 20.6 billion. Of the RWF 20.6 billion paid, RWF 6.5 billion was used to retire maturing Government treasury bills to non-bank financial institutions, corporate bodies and individuals. RWF 10.1 billion was used to retire domestic banking debt and RWF 4 billion spent to repay a portion of other domestic non-bank debt.

Table 14: EXTERNAL BUDGETARY SUPPORT
Q1, 2005
(in millions RWF)

	Projections	Actuals
EU	20,08	19,05
UK	33,90	40,72
Multi-donor Trust Fund (incl UK & Germany for Demob)	7,20	0,97
World Bank (Demob) loan	0,00	7,05
Sweden	0,00	5,66
HIPC grants	13,22	11,00
AfDB	19,04	0,00
UN/AU Peace Keeping	2,76	1,25
Total	96,20	85,70

2.3 Poverty Reduction Priority Programmes

In line with Government policy to increase spending on “pro poor” programmes and projects to reduce poverty, some select expenditures have been classified as priority expenditures. These items are chosen based on the broad priority areas identified in the PRSP. In terms of funding they receive a real and above average increase in budget allocations per year. In addition, they are protected from cuts and are expected to be allocated funds in full and in a timely fashion over the year.

The target for priority spending during the first six months of 2005 was set at Rwf 44.4 billion for recurrent expenditure and RWF 11.2 billion for capital expenditure. Spending on recurrent priority programmes at end June was in line with the target. For capital spending however, there was a shortfall of about RWF 6 billion. This was due to the delay in the take off of the

biomass and micro energy projects. In terms of the total budget for priority programs in 2005, 41% was executed during the first six months.

Part 3: Medium Term Macroeconomic Framework 2006-2008

This section will outline the projected macroeconomic framework for the medium term 2005-2008 (see table below).

Table 15: MEDIUM TERM MACROECONOMIC FRAMEWORK 2005-2008

MEDIUM TERM MACROECONOMIC FRAMEWORK 2005-2008				
(In billions RWF)				
	2005	2006	2007	2008
<u>Real GDP</u>				
Growth rates (%)	5.0	6.0	6.5	6.5
CPI National (%)	6.0	4.0	4.0	4.0
Nominal GDP (in billions RWF)	1,166.2	1,285.6	1,424.0	1,577.2
<u>Average exchange rate (RWF)</u>				
Average	566.9	589.6	613.2	637.7
<u>Fiscal projections</u>				
Total Revenue	169.6	180.0	199.0	221.0
as a % of GDP	14.5	14.0	14.0	14.0
Total Expenditure and Net Lending	338.5	386.3	399.8	434.2
as a % of GDP	29.0	30.0	28.1	27.5
Recurrent Expenditure	220.2	242.7	247.7	266.9
as a % of GDP	18.9	18.9	17.4	16.9
Capital Expenditure + Net Lending	118.3	128.5	152.1	167.3
as a % of GDP	10.1	11.2	10.7	10.6
Primary Deficit				
Excluding Exceptional expenditure	-38.0	-59.0	-59.3	-65.3
as a % of GDP	-3.3	-4.6	-4.2	-4.1
Including Exceptional expenditure	-66.9	-92.1	-80.4	-82.2
as a % of GDP	-5.7	-7.2	-5.6	-5.2
Overall Balance				
Including grants	-15.9	-67.9	-81.4	-93.2
as a % of GDP	-1.4	-5.3	-5.7	-5.9
Excluding grants	-168.9	-206.7	-200.8	-213.2
as a % of GDP	-14.5	-16.1	-14.1	-13.5
Domestic Fiscal Balance				
as a % of GDP	-83.2	-115.3	-95.6	-92.4
	-7.1	-9.0	-6.7	-5.9

Financing gap	-	44.9	50.6	75.4
as a % of GDP	-	3.5	3.6	4.8
Priority Expenditure	119.3	151.4	179.5	220.2
as a % of GDP	10.2	11.8	12.6	14.0
Wages and Salaries	73.1	79.8	84.6	89.6
Civil service	55	60.6	64.3	68.1
Transfers	18.1	19.2	20.3	21.5
as a % of GDP	6.3	6.2	5.9	5.7
as a % of domestic revenue	43.1	44.3	42.5	40.5

Having reached the completion point under the enhanced HIPC Initiative, Rwanda's medium-term policy aims at prudent external borrowing so as to maintain viable debt sustainability as well as macroeconomic stability while also raising growth rates. To strengthen growth over the medium term, Government will implement productivity-enhancing sectoral policies with a particular emphasis on agriculture and infrastructure, while continuing to enhance regional integration. To finance MDGs, Government will continue to rely mostly on grants and limit new borrowing to the minimum possible to prevent a renewed worsening of our external debt situation. To reduce the country's long-term dependence on external financing, the domestic revenue base will be further developed.

The medium term macroeconomic framework is based on a projected real growth rate of 6-6.5% per annum from 2006-2008. Inflation is expected to fall to 6% by the end of 2005 and then to decline and remain around the 4% level for the medium term. This target is justifiable on the grounds that both imported and domestic food price inflation should decline since the exchange rate has stopped depreciating and looks set to stabilise, and there are policies being implemented to improve agricultural productivity.

In terms of the government's fiscal accounts, revenues are forecast to stabilise as a share of GDP at around 14% as the government has now exhausted all gains from improved administrative capacity in the revenue authority. Additional increases in revenue collection in the medium term will be expected to come from real GDP growth as well increasing monetisation of the economy to broaden the revenue base. On the expenditure side, the Government remains strongly committed to promoting increased economic growth and reducing poverty in line with the strategies laid out in the PRS (Poverty Reduction Strategy). The budget for 2006 includes a substantial increase, of Rwf 32 billion overall, in resources directed to several key priority sectors for development – the agriculture, education, health, energy, water and road building sectors. Taken together, overall expenditure is programmed to increase from 29% of GDP in 2005 to 30% in 2006 and decline to 28% in 2007 and 27.5% in 2008. These expenditure plans when measured against the revenue forecasts will yield a fiscal deficit (before grants) of 16% in 2006, declining to 13.5% in 2008. The fiscal deficit

(after grants) is projected, however, to be at –5.3% in 2006, and then to fluctuate between –5.7% and 5.9% in 2007 and 2008 respectively. As the government moves away from loan financing and more towards grants, it would expect the fiscal deficit to decline.

The current account deficit (excluding official transfers)⁶ is projected to sit at 22% of GDP by the end of 2005 and to decline steadily to reach 18% of GDP by end of 2008. This decline will be driven by a growth in exports, expected to be over 10% per annum, and be harnessed through the Government's Export Promotion Strategy. The strategy will seek to increase the export of value added varieties of tea and coffee, to further develop the tourism market, a key market for the generation of foreign exchange, and to promote the general diversification of the export base.

The financing projections laid out in the Government's medium term plans are currently consistent with targets to improve debt sustainability. The attainment of these projections does, however, depend on the satisfactory completion of negotiations with some development partners over financing for the 2006 budget, the timely disbursement of donor funds in general.

3.1.1 Resource Mobilisation Projections

Domestic Revenue Projections

Domestic revenue is projected to level out at 14% of GDP in the medium term. The Rwandan Revenue Authority has now exhausted almost all opportunities to increase revenue through efficiency gains and must consider changes to the structure of the tax system itself, in order to further increase this ratio. Such changes would require either a widening of the tax base or an increase in actual taxation rates.

⁶ Official transfers are excluded since they do not reflect trade policy per se. Official transfers for both direct budget support and the capital budget in 2004 are \$215m compared to \$101m 2003.

Table 16: Medium Term Domestic Revenue Projections (Rwf billion)

	2005	2006	2007	2008
Total domestic revenue	169.6	179.6	199.0	231.9
As % GDP	14.5	14.0	14.0	14.7
Tax Revenue	146.4	161.4	179.8	210.7
Direct taxes	38.8	42.8	48.4	65.2
Taxes on goods and services	80.0	88.2	97.7	108.2
Taxes on international trade	27.6	30.4	33.7	37.3
Non-tax revenue	19.1	9.8	9.9	10.9

Source: RRA, MINECOFIN

Assuming such changes are not made and the tax system remains as is for the medium term, then all taxation revenue streams are projected to see growth, as the economy grows, of close to 10% or more per annum. Total tax and non tax revenue is projected to rise from Rwf 169.6 billion in 2005 to Rwf 232 billion in 2008.

External Disbursement Projections 2005-2007

The table shows current external donor commitments for 2006 and 2007. To date, there are no commitments for 2008. Total external budget support is projected to fall from \$223.6m in 2005 to \$148.78m in 2006 and to \$89.3 m in 2007. For 2006 and 2007, these amounts represent known commitments. As the government seeks to improve the country's debt sustainability, it would like in the medium term to see the ratio of loans to grants decrease. Therefore the government will continue to press the case for grant financing to our development partners.

Table 17: **EXTERNAL BUDGETARY SUPPORT ASSUMPTIONS**
(in millions US\$)

	2005	2006	2007
Grants	198,32	134,80	83,36
UK	68,20	55,00	0,00
EU	28,75	21,60	18,36
Sweden	17,00	11,00	0,00
IDA PRSC	35,00	30,00	65,00
African Union (peace k	9,20	17,20	0,00
IDA Demob	0,97	0,00	0,00
MTF Demob	7,40	0,00	0,00
HIPC Grants	31,80	0,00	0,00
Loans	25,28	13,98	5,92
AfDB	19,04	8,06	0,00
IDA PRSC	0,00	0,00	0,00
IDA Demob	6,24	5,92	5,92
OPEC Fund	0,00	0,00	0,00
Others	0,00	0,00	0,00
Total Budget Support	223,60	148,78	89,28

3.1.2 Medium Term Expenditure Forecasts

Wages and Salaries

Wages and salaries are projected to increase from RWF 55 billion in 2005 to RWF 60.6 billion in 2006, to RWF 64.3 billion in 2007 and to RWF 68.1 billion in 2008. This rise is due to expected implementation of the new salary policy reform in preparation and a policy to recruit more teachers and health personnel to meet the projected increase in school participation rates as well as extension in health service delivery.

Goods and Services

Expenditure on goods and services is projected to rise from Rwf 64.8 billion in 2005 to Rwf 75 billion in 2006, to Rwf 84.7 billion in 2007 and to Rwf 95.6 billion. This is line with the government policy to transfer funds to priority programs in line with “pro poor” spending in order to reduce poverty and meet the MDGs.

Exceptional Expenditure

Exceptional expenditure is projected to decline in the medium term from Rwf 28.9 billion in 2005 to RWF 16.9 billion by 2008. Within this budget, FARG is the largest expenditure item and has projections set at 5% of domestic revenue as required by law and its projected budgetary allocation expected to be around 9 billion in 2006 .Due to delays in demobilisation and reintegration programmes during 2004 and 2005, the programme is being allocated around RWF 4.2 billion in 2006 before coming to a close in 2007. A reduction in support from the International Committee of the Red Cross (ICRC) has led to a rise in expenditures by government on prisoner feeding. Starting from 2004 the prisoners feeding expenditures have been rising from Rwf 2.4 billion to Rwf 3.4 billion in 2005 and are expected to decline to Rwf 3 billion in 2006 due to decreasing numbers of inmates. The Electoral Commission is also projected to see an increase from 0.9 billion in 2005 to 4.4 billion in 2006 as it will organize the 2006 Municipal Elections.

Transfers and Subsidies

Transfers are also forecast to rise in 2006 to RWF 63.5 billion from RWF 55.9 billion in 2005. This is driven by the new salary policy and an increase in district transfers, as per the government’s decentralisation strategy.

Capital Expenditure

The Capital Budget will amount to RWF 128 billion in 2006, representing an increase of 16.9% from RWF 110 billion in 2005. Given the good implementation rates for the development budget recently, allocations have been increased for the medium term budget for development expenditure. The detailed allocation will be put in the final BFP after discussions with sectors.

The current projections for the development budget show that the share of the budget financed by internal resources rises from 29% in 2005 to 31% in 2006 but then falls to 29.5% in 2007.

Net Lending

Net lending refers to gross payments by Government to public enterprises for recapitalization, working capital and other restructuring requirements minus receipts from them by way of loan repayments and sale proceeds. In the medium term, it is expected to increase from RWF 8.4 billion in 2005 to RWF 15.1 billion in 2006. The increase is primarily due to the expected loan of RWF 10.4 billion to the Methane Gas producing company that is starting operations later this year. The expenditure declines to RWF 6.9 billion in 2007 to accommodate Prime Holdings Limited (PHL) debt payments as well as an additional payment of RWF 2.2 billion to the Methane Gas Company. It declines further to RWF 1.7 billion from 2008.

Domestic Arrears

The final data for arrears claims was reached at the end of July 2004. The Auditor General is now processing all claims and the government is budgeting Rwf 7 billion to be spent per annum in the medium term on clearing qualified claims.

Debt Payments

External Debt

After reaching completion point of the enhanced HIPC initiative and benefiting from debt relief/ cancellation of USD 1.4 billion in nominal terms, the policy now is to make prudent borrowing so as not to fall into an unsustainable debt situation. In this regard, Government has initiated discussions with its development partners with a view to keeping new concessional borrowing at the limit of USD 20 million per annum. This limit is consistent with the enhanced HIPC threshold i.e. achieving an NPV of debt-to- export ratio of 150% by year 2020.

This situation therefore calls for substantial additional grant financing from the development partners if the economic growth and macroeconomic stability is to be achieved.

On the basis of this assumption and given the existing debt stock after reaching the enhanced HIPC completion point and benefiting from the debt relief/cancellation annual average external debt service is expected at USD 12.2 million in the medium term compared to USD 61 million per annum before debt relief. The annex table 1 shows the profile of debt service before debt relief/cancellation and after.

Note is to be taken of the fact the annual debt service will drop further, if the recent decision of the G8 member countries to cancel the remaining debt of some 18 countries including Rwanda to the Multilateral Financial Institutions is implemented. This could reduce the annual debt service from USD 12 million to USD 4 million.

Domestic Debt

Having achieved a reduction in external debt through debt cancellation, Government's attention has now turned to the management of the domestic debt. The main policy objective is to continue the ongoing restructuring of the debt stock to ensure reasonable amortization. New debt is to be kept within manageable limits.

In the medium term, total debt service is projected at about RWF17.2 billion per annum of which RWF 8.1 billion represents interest and RWF 9.6 billion principal. The annex table 2 shows the medium term details of domestic debt payments. The largest component is the payment to CSR which averages RWF 5 billion per annum. This payment was based on a partial solution in the restructuring exercise. It is expected that a final solution to the debt situation regarding CSR will be found soon.

To enable the Central Bank to implement consistent monetary operations without a burden on its profit and loss situation, an amount of RWF 2.5 billion per annum has been projected. Discussions are ongoing with the Central Bank to determine the adequacy of this amount and the mode of transfer.

3.2 Planned Reforms 2005-2008

As part of the Government's commitment to encouraging economic growth and providing an enabling environment for the private sector to flourish many major economic and institutional reforms are planned for the medium term. Many of these reforms build on reforms already made. The table below shows key reforms in the medium term.

Table 18: Planned Reforms

Area	Measure
Civil Service Reform	Civil Service Reform – New Salary Policy to be implemented in 2006
Public Financial Management	<ul style="list-style-type: none"> - Organic Budget Law to be applied to the 2006 budget - Full implementation of the SIBET accounting system - Systematic reconciliation of government accounts - Preparation of the consolidated 2005 accounts -Implementation of the Treasury single account(STA)
Decentralization Administrative Reforms	<ul style="list-style-type: none"> -Reducing the number of provinces from 12 to 4 and Kigali City -Reducing the number of districts from 106 to 30
Decentralization of health service delivery	-Contractualization of health service delivery by linking resource allocation to outputs
Privatisation	Privatisation to continue according to Action Plan – Tea estate, Rwandex, Prime Holding and Rwandair to be privatised in 2006
Export Promotion	<ul style="list-style-type: none"> - Export Promotion Commission to be strengthen - Export Processing Zone to be established - Quarterly implementation report of the export promotion plan
Trade Liberalization	- Rwanda to enter negotiations to join the European Partnership Agreement, SADC, and the EAC
Financial and Banking Sector Reform	<ul style="list-style-type: none"> - Micro-finance sector developed - Housing finance institution strengthened - Saving Fund to be created - Stocks Exchange to be put in place
Land Law	Implementation of the Land Law
Demobilisation	Continued programme of demobilisation and reintegration

Part 4: The 2006 economic strategy implemented through the budget

4.1 Overview

This chapter will analyse the Budget Strategy for the Government for 2006 and review the budgetary implications. As has been indicated above, the maximum envelope of funds that can be spent in 2006 is Rwf 386.3 billion. This presents the government with the problem of how to fund a program of expenditures that will put Rwanda on course for achieving the Millennium Development Goals of poverty reduction, whilst maintaining a manageable fiscal position.

In 2006 a number of expenditures, most notably in the areas of agriculture, education, health, water, energy, public sector reform and municipal elections have been identified as priority items requiring increased expenditures. Therefore a reallocation of funds must be made from other areas of the budget in order to pay for these vital expenditures.

4.2. 2006 BUDGET PROPOSALS

A) INTRODUCTION

The 2006 budget proposals and the medium term expenditure framework reflect the on going discussions with Development Partners regarding the structure of Rwanda's financial requirements given the attainment of the HIPC completion point and benefiting from debt cancellation equivalent to US\$ 1.4 billion in nominal terms.

B) BUDGET STRATEGY

The budget proposals seek to focus on promoting growth with financial stability as well as the maintenance of low inflation and a stable exchange rate. It will also seek to use the resources amounting to about 1.7% of GDP per annum for additional spending on identified priority expenditure items (pro-poor expenditure programs). The major issues to be addressed in the 2006 budget proposals are as follows:

- i) The salary reform : Government started implementing the civil service reform policy with the restructuring of the central Government and reinforcement of local Governments. This has so far led to the retrenchment of over 1000 civil servants. The next phase of the reform is the salary reform to harmonize salary scales, and to increase salary levels (particularly for junior professional). The civil service salary review is a critical element of Government policy to improve incentives among public employees (the scheme will be extended to all public servant including teachers). The study is still ongoing but the key issue to be discussed is the medium-term fiscal implication of the new salary reform, the presentation of options for making the reform fiscally neutral and/or in line with sustainable fiscal finance over the medium-term;
- ii) Local Governments administrative reforms: Government intends to undertake fundamental reforms by reducing the number of administrative entities and deepening decentralization. In this regard, the provinces will be reduced from the 12 to 4 and the City of Kigali while districts will come down from 106 to 30 while sectors will be reduced from 1500 to 500. The objective of this reform is to link planning process and service delivery, which in the process empowers the people to participate more actively in the actions that have an impact on their livelihood while enhancing accountability at all levels of government. In addition, additional resources will be available for the districts as the executing entities benefiting from resources previously allocated to provinces. This will also allow sectors to be functional entities

- iii) Tackling food security and agricultural productivity issues through allocation of resources for distribution of improved seeds and other extension services, cultivation of rice and other staple crops, marshland development, irrigation and terracing programmes to check soil erosion and improve productivity. A key part of Rwanda's growth strategy in the short to medium-term is agricultural transformation;
- iv) Improving Service Delivery for the Poor : Education, Health, Water, Energy and Transport :
- a. Improving existing water and sanitation infrastructure. Investment in production of potable drinking water to reduce losses; rehabilitation of sanitation infrastructure to improve hygiene, supports a shift toward the efficient management of water supply systems through private operators. The decentralization process transfers responsibilities and ownership of rural water supply systems to districts. This will require a transfer of resources to the districts;
 - b. Repair and maintenance of classrooms as well as construction of additional classrooms to improve access to permanent structures and reduce class sizes. In addition, funds for provision of adequate teaching material and access to ICT knowledge will be made available. For the Education sector, priority will be given to the 9 years Basic Education program, Sciences and Technology and Girl's education. The budget for primary education will increase mainly for the capitation grant;
 - c. Increasing resources to expand basic packages of health services such as mutuelle membership, vaccinations and malaria treatment to the poorest in society. These funds will be allocated as a results-based allocation so that the budget that the District Health Centres and District hospitals will receive is entirely dependant on how successful they are providing these services to the population. In addition to these programmes, family and community health programmes and activities aimed at providing care and antiretroviral drugs for HIV/AIDS treatment will receive increased allocations; Ministry of Health is focusing on implementing four contractual schemes through the transfer of conditional grants from the center to the administrative districts or province;
 - d. Rehabilitation of the main and feeder road network will receive increased allocation as the taxes collected on petroleum products under the road fund

tax are not enough. This will improve access to markets and reduce food and other prices;

- e. To address the energy shortage permanently, Government is developing the Lake Kivu gas reserves for electricity generation. To this effect, an independent power producer (IPP) Dane Associates Ltd is forming a joint venture company with Government as a minority shareholder. In addition to the contribution of 30% of share capital, Government is expected to provide a loan of RWF 10.4 billion as well as letters of credit (LCs) and treasury bills as guarantee on its obligation under the power purchasing agreement. These resources are provided in the 2006 budget proposals. Over the medium term, investments in the sector would be supported by a World Bank financed Urgent Electricity Rehabilitation Project (works on the transmission and distribution system). The Government has also launched the reforestation program to address the severe deforestation brought on by dependency on wood fuels. Government will also finance key studies on construction of micro-hydro power plants and peat exploitation and utilization as well as key investments in Pipeline for distribution network in Gisenyi and in biomass substitution program;

- v) Acceleration of the export and tourism promotion projects and programmes continue to be Government priority. In this regard, increased budgetary funds are allocated in the budget proposals;

- vi) Organization of communal and district elections in mid-2006 will also required increase allocation to Electoral Commission from 0.9 billion to RWF 4.4 billion.

C. SUMMARY OF THE 2006 BUDGET PROPOSALS

Annex 3 shows the medium term fiscal path that underpins the 2006 budget proposals. Total domestic revenue collections are expected to rise from RWF 169.6 billion (14.5 % of GDP) in 2005 to RWF 180 billion (14% of GDP) in 2006. Total expenditure and net lending is projected at RWF 386.3 billion (30% of GDP) as against RWF 338.5 billion (29% of GDP) in 2005. The overall deficit (including grants) is expected to rise from RWF15.9 billion (1.4% of GDP) in 2005 to RWF 67.9 billion (5.3% of GDP) in 2006. The 2006 budget proposals show a financing gap of RWF 44.9 billion (3.5 % of GDP) the development partners will be expected to provide more grants to fill this gap in order to maintain fiscal and monetary discipline.

REVENUE

Tax Revenue

Tax revenue receipts are expected to rise from RWF 150.5 billion in 2005 to RWF 169.8 billion in 2006. Continued improvements in RRA administration and audit of tax payers as well as improvements in economic performance associated with the expected real GDP growth are expected to support the projected increases.

Non-tax Revenue

In 2005, non-tax revenue receipts were boosted by some 'one off' collections. These included receipts from Government assets such as the sale of the fleet of cars, sale of the police plot of land and petroleum strategic stocks. For 2006, an amount of RWF 9.8 billion has been projected compared to RWF 19.1 billion collected in 2005. Collection of administrative fees and charges is the largest component.

EXPENDITURE

Total expenditure and net lending has been projected at RWF 386.3 billion compared to RWF 374.3 billion in the revised 2005 budget. Recurrent expenditure amounts to RWF 242.7 billion as against RWF 220.2 billion in 2005. Capital expenditure and net lending have been estimated at RWF 128.5 billion compared to RWF 109.9 billion in 2005.

Recurrent Expenditure

The allocations under recurrent expenditure reflect the budget strategy outlined above which seeks to provide additional resources emanating from the debt relief/cancellation to identified priority sectors. The sectors that are affected are education, health, agriculture, water and sanitation, energy, road repairs and maintenance, export promotion, decentralization program and communal election. Annex 1 provides details of the recurrent expenditure ceilings by institution.

Wages and Salaries

The wage bill is still a substantial part of Government expenditure. 33% of recurrent expenditure (excluding net lending and arrears) is spent on the wage bill. It is proposed to increase allocation from RWF 55 billion (4.7% of GDP) to RWF 60.6 billion (4.7 % of GDP) in 2006. Various scenarios on public service salary reforms are now being developed by MIFOTRA in collaboration with some interested development partners. It is hoped that this reform process will take place within the proposed ceiling for 2006 i.e. maintain the share of expenditure at 4.7% of GDP in 2006, the same as in 2005.

Goods and Services

It is proposed to raise the allocation for goods and services from RWF 64.8 billion by RWF 10.2 billion to RWF 75 billion in 2006. Education, health, agriculture, water and sanitation, energy, export promotion, road repair and maintenance expenditure amount for the largest share of the increase.

Regarding education, an increase of RWF 3.2 billion has been proposed to the primary education. Items that are expected to benefit from the increased allocation are mainly linked to an increase of the capitation grant from Rwf 1000 to Frw 2500 per child being allocated directly to primary schools. Table below sets out the additional expenditure requirements for the education sector (according to Poverty Reduction Support Credit discussions).

Table 19: Education Sector key expenditure needs and their budgetary implications

million of FrW	Minimum Scenario		Base Scenario		
	2005	2006	2006	2007	2008
Primary Education	19,504	22,504	24,404	29500	34000
capitation grants	2,000	5,000	5,000	6000	7000
Public Exp. Review	0	30	30	30	30
Variation sur base 2005		3,030	4,930		

For health, an increase of RWF 1.4 billion⁷ is provided to expand the programmes that will contract local health institutions to provide basic packages of health services such as mutuelle membership or vaccinations to more poor people in society. The funds will be provided on results-based allocation so that the budget that the health districts health centres and district hospitals will receive is entirely dependant on how successful the are in providing these service. In addition to these programmes, family and community health programmes as well as HIV/AIDS case will receive additional funding.

In that sector, priority will be given to the extension of the contractual approach/ Incentives for Human Resources for health centers and the expansion of the approach to district health teams and districts hospitals. The community schemes for districts, the immunization program and the mutuelles will also receive an increased allocation. The table below sets out the budgetary implications of these programs. However, funding for specialized treatment abroad is expected to decline as King Faisal Hospital takes on that role with funding already secured from Saudi Fund to buy essential clinical equipment.

⁷ Compare to the minimum required of Rwf 2.6 billion in the PRSC (and a maximum of Rwf 3.6 billion).

Table 20: Health Sector key expenditure needs

millions de Fr Rw					
Base Scenario					
	2005	2006	2006	2007	2008
Approche Contractuelle/Ressources humaines					
Centres de sante	429	1300	1716	2831.4	3114.5
Districts de sante	0	240	240	264	290.4
Hopitaux de districts	0	300	416	457.6	503.4
Schema Communautaires	899	989	988.9	1087.79	1196.6
Mutuelles de sante					
soutien institutionnel	123	300	300	300	300
subvention des indigents	0	300	300	600	900
Renforcement de la planification					
Revue Des Depenses Publiques	0	35	35	40	40
Comptes Nationaux de la Sante	0	40	40	40	40
Labor market survey	0	78	78		
Maladies transmissibles					
Vaccination	500	800	800	900	1000
Paludisme	25	50	225	300	500
ICT					
Telemedecine	40	100	100	150	200
HIMS	0	15	15	20	25
Formation troisieme cycle	0	70	373	300	250
	2016	4617	5626.9		3610.9
increase 2005-2006		Minimum 2601	Base 3610.9		

In the area of water and sanitation, an increase of RWF 1.9 billion is proposed to support a shift toward the efficient management of water supply systems through private operators. The decentralization process transfers responsibilities and ownership of rural water supply systems to districts. Ministry of Lands intends to develop a more efficient management of existing water supply systems, by promoting in all districts, best management practices (based on the experience of the Byumba province), involving local operators contracted by districts authorities and by supporting the implementation of private management contracts, in order to achieve the target of at least 10 percent of rural water supply systems being managed in 2007 by local private operators. This will require a transfer of resources to the districts of an additional Frw 1.5 billion for 2006 minimum or Rwf 2.6 billion maximum (see table below):

Table 22: Exceptional Expenditure (billion Rwf)

	2005	2006	2007	2008
FARG	7.9	9.0	9.0	11.0
Demobilization	8.7	4.2	4.2	0.0
Electoral commission	0.9	4.4	1.6	0.0
Gacaca	1.9	1.2	0.6	0.6
Feeding of prisoners	3.4	3	2.5	1.5
Reinsertion of displaced groups	0.3	0.2	0.1	0.1
TIG	0.3	0.5	1	1.5
HIMO	0.3	0.5	1.2	2.2
Peacekeeping	5.2	10.1	0	0

Capital Expenditure

In line with the growth objectives, Government capital expenditure is expected to rise from RWF 109.9 billion in 2005 to RWF 128.5 billion in 2006, showing an increase of RWF 18.6 billion (14.4%). The externally financed portion is projected at RWF 89 billion compared to RWF 78.1 billion in 2005. The domestically financed portion similarly is estimated at RWF 39.5 billion from RWF 31.9 billion in 2005.

Regarding the domestically financed capital expenditure, increased allocation to the priority sectors including, health, education, water and sanitation, agriculture, export promotion and the CDF account for the higher projections. The table on priority expenditure projections shows the allocation to the different sectors.

New projects to be implemented in 2006 represent an amount of RWF 25.7 billion allocated by sector as follows :

Table 23: 2006 new projects in the DB by sector

SECTOR	2006 DB	%
Transport & Communication	9,146.25	35.61
Energy	7,908.37	30.79
Agriculture	2,366.50	9.21
Justice, Order & Security	2,279.59	8.87
Education	1,242.16	4.84
Health	955.00	3.72
Youth, Culture & Sports	838.00	3.26
Water & Sanitation	751.68	2.93
General Services in Public Administrations	199.24	0.78
TOTAL	25,686.80	100.00

Net lending

The table below shows the projects for the 2005-2008 period. In 2006, an amount of RWF 15.1 billion has been projected compared to RWF 8.4 billion in 2005. The largest source of the increase is the projected loan of RWF 10.4 billion to the Methane Gas Company once it starts its operations.

At the beginning of the year, agreement was reached with the IMF to restructure the loan that PHL took from the domestic financial institutions for the building of the hotel into a medium term debt. For 2006, an amount of RWF 3.6 billion is to be paid in line with the debt restructuring.

Table 24: Net Lending Assumptions

<u>NET LENDING ASSUMPTIONS</u>			
<u>(in millions RWF)</u>			
	2006	2007	2008
PHL (Debt)			
BCR	891.2	891.2	222.0
BK	1,015.8	1,015.1	-
BCDI	1,000.0	1,000.0	-
CSR	808.0	730.0	452.0
Total	3,715.0	3,636.3	674.0
Other	1,000.0	1,000.0	1,000.0
Methane Gas Company (Lake Kivu)	10,428.0	2,228.0	-
Total	15,143.0	6,864.3	1,674.0

Priority Expenditure Projections

Annex 5 shows priority expenditure projections for the period 2005-2008. For 2006, an amount of RWF 151.4 billion has been programmed compared to RWF 119.3 billion in 2005. The increase is about 1.7% of GDP and represents the savings from the debt cancellation/relief granted after the HIPC completion point. The sectoral budget allocations therefore reflect these projections.

5. Financing of the 2006 budget

The total budget for 2006 is equal to 407 billion Rwf of which domestic resources contribute to Rwf 179.6 billion (44.2 %). However, this budget has a financing gap of Rwf 45.6 billion caused by key new government programs whose funding is not yet secured. Those programs are the following:

- Methane Gas Project (government equity and soft loan) Rwf 10.4 billion
- Municipal and district elections Rwf 4.4 billion
- Debt repayment to CSR,Rwf 5 billion
- New internally financed development projects,Rwf 10.8 billion
- Export promotion programs,Rwf 7 billion
- Domestic arrears payment,Rwf 7 billion
- Counterpart funding for the demobilization and reintegration programs, Rwf 1 billion.

In addition a new power generation arrangement of 10 Mw has been recently signed and its budgetary implication is still being analyzed and will be added to the financing gap.

Negotiations are still ongoing with donors for possible financing of total or part of these new programs. Even if funding is secured, agreement has to be reached with the IMF on the size of the deficit.

6. Recommendations to Cabinet

- (i) Cabinet is requested to examine the resource envelope for 2006 as well as the expenditure proposals and the attached Ministerial ceilings and approve of these levels
- (ii) Approve budget ceilings subject to review if negotiations with donors are not fruitful for some of the above listed expenditures without funding

Annex 1 Recurrent Budget Ceilings by Ministry and Province (Rwf million)

	2005	2006	2007	2008
	Budget (revised)	BFP	BFP	BFP
PARLEMENT	4,438	4,643	4,850	5,079
PRESIREP	7,093	7,266	7,454	7,667
PRIMATURE	2,275	2,377	2,459	2,551
SUPREME COURT	2,479	2,664	2,882	3,130
MINADEF	32,370	38,727	29,803	31,105
MININTER	7,750	8,524	8,908	9,287
MINAFFET	4,808	5,371	5,659	5,987
MINAGRI	4,708	6,988	7,841	8,863
MINICOM	4,330	4,865	5,454	6,189
MINECOFIN (1)	24,021	21,520	20,985	20,583
MINIJUST	4,457	4,100	4,193	4,802
MINEDUC	25,985	31,954	37,182	41,112
MIJESPOC	1,554	1,623	1,693	1,772
MINISANTE	10,536	13,362	16,996	22,938
MININFRA	13,130	13,056	13,753	14,945
MIGEPROFE	0,828	0,831	0,840	0,853
MIFOTRA	2,722	2,787	2,848	2,916
MINITERE	3,104	5,008	5,415	6,007
MINALOC	13,491	19,680	18,910	19,753
Sous-Total	170,080	195,345	198,124	215,538
Region EST	5,838	6,140	6,350	6,495
Region NORD	7,798	8,410	8,839	9,272
Region OUEST	8,295	8,942	9,373	9,786
Region SUD	9,835	10,385	10,730	10,932
MVK	2,865	2,988	3,134	3,326
Sous-Total	34,631	36,865	38,426	39,811
TOTAL	204,711	232,210	236,550	255,349

(1) Ceilings for Minecofin exclude payment of interest, net lending, debt and arrears

	2005	2006	2007	2008
debt	28,787	13,622	14,422	15,007
interest	15,522	10,489	11,127	11,551
net lending	8,362	15,144	6,864	1,674
arrears	7,000	7,000	7,000	7,000
	59,671	46,255	39,413	35,232
Total rec.	264,381	278,465	275,962	290,581
Domestic	31,855	39,490	42,886	47,889
<i>of which: CDF</i>	3,500	8,000	9,000	9,000
<i>Export Promotion</i>	1,074	10,050	15,280	15,280
Project Loans	25,948	29,639	34,085	39,197
Project Grants	52,140	59,371	68,277	78,520
Total cap.	109,943	128,500	145,248	165,606
TOTAL BUDGET	374,324	406,965	421,210	456,187

Annex 2: Budget 2006 equilibrium

	Original Budget 2005	Revised Budget 2005	Budget 2006
Resources	368 283,9	374 324,0	361 373,7
1 Rax Revenues	142 483,1	150 504,1	169 844,0
2 Non Tax Revenues	12 900,0	19 117,9	9 800,0
3 Budgetary grants	103 570,5	100 795,0	79 478,0
4 Capital Grants	52 140,1	52 140,0	59 371,0
5 Budgetary loans	28 647,4	14 203,1	8 242,0
6 Capital loans	25 947,5	25 947,5	29 638,7
7 Domestic financing		11 616,4	5 000,0
Non-bank sector		11 616,4	5 000,0
Treasury Bills	2 595,3	9 616,4	5 000,0
Bonds for CHR		2 000,0	
Expenditures	368 283,9	374 324,0	406 965
1 Salaries	55 042,6	55 042,6	60 631,0
2 Goods and services	60 449,9	64 849,9	75 007,7
3 Transfers	49 625,0	55 894,1	63 523,6
4 Exceptional Expenditures	27 078,9	28 924,0	33 049,5
5 Interest payments	15 522,4	15 522,4	10 488,7
External	7 855,8	7 855,8	2 347,0
Internal	7 666,6	7 666,6	8 141,7
6 Debt Amortization	28 786,6	28 786,6	13 621,8
External	19 131,8	19 131,8	4 021,0
Internal	9 654,8	9 654,8	9 600,8
7 Net lending	18 958,0	8 361,8	15 143,0
8 Arrears	7 000,0	7 000,0	7 000,0
9 Capital Expenditure	105 820,5	109 942,6	128 500,0
Balance	0,0	0,0	-45 591,6

Annex 3: Projected External Debt Service for period 2004-2010

(in millions USD)

	2004	2005	2006	2007	2008
Before Debt Cancellation					
1. Total debt service including new borrowing	47,9	54,7	63,0	66,8	67,0
2. Total debt service on outstanding debt	47,1	53,4	60,9	64,1	63,9
3. Multilateral	43,9	50,2	57,8	60,9	60,7
of which IDA	20,6	21,9	23,7	24,5	26,1
of which IMF	5,8	10,3	15,9	18,7	17,1
of which AfDB group	7,4	7,5	7,1	7,4	8,0
4. Official bilateral and commercial	3,1	3,1	3,2	3,2	3,2
Paris Club	2,1	2,1	2,1	2,2	2,2
Other official bilateral and commercial	1,0	1,0	1,0	1,0	1,0
After Debt Cancellation-HIPC completion point					
1. Total debt service including new borrowing	18,5	10,4	10,8	12,2	12,8
2. Total debt service on outstanding debt	17,7	9,1	8,8	9,4	9,7
3. Multilateral	15,4	8,4	7,9	8,6	8,9
of which IDA	5,0	3,2	2,5	2,5	2,7
of which IMF	1,0	0,4	2,9	3,4	3,4
of which AfDB group	2,5	2,1	2,0	2,0	2,1
4. Official bilateral and commercial	2,3	0,6	0,8	0,8	0,8
Paris Club	1,1	0,2	0,0	0,0	0,0
Other official bilateral and commercial	1,2	0,4	0,8	0,8	0,8

Annex 4: MEDIUM-TERM FISCAL PROJECTIONS FOR 2005-2008

(in millions RWF)

	2005 Rev Bud	2006 Proj	2007 Proj	2008 Proj
REVENUE AND GRANTS	322,557.0	318,493.0	318,422.0	351,935.0
Total Revenue	169,622.0	179,644.0	199,029.0	231,964.0
Tax Revenue	150,504.1	165,908.0	179,776.0	210,673.0
Direct taxes	38,813.0	42,773.0	48,408.0	65,150.0
Taxes on goods and services	80,018.0	88,191.0	97,695.0	108,197.0
Taxes on International trade	27,585.0	30,425.0	33,673.0	37,326.0
Taxes on Electrogaz fuel imports for generators	4,088.1	4,519.0	-	-
Non-tax revenue	19,117.9	9,800.0	9,900.0	10,939.0
Of which Asset sales (Houses)	3,200.0	0.0	0.0	0.0
(Cars)	3,179.0	0.0	0.0	0.0
(Police plot)	1,445.1	0.0	0.0	0.0
Petroleum Strategic stocks	1,593.8	0.0	0.0	0.0
income from sports lottery	500.0	800.0	900.0	1,000.0
Revenue Measures	0.0	3,936.0	9,353.0	10,352.0
Budgetary grants	152,935.0	138,849.0	119,393.0	119,971.0
Current grants	100,795.0	79,478.0	51,116.0	41,451.0
UK	33,517.4	32,428.0	0.0	0.0
MTF (incl. UK Demob)+ Germany (Demob)	4,188.2	0.0	0.0	0.0
EU	16,270.0	12,735.0	11,258.0	0.0
Others (incl Sweden)	3,167.0	6,486.0	0.0	0.0
IDA PRSC	19,841.6	17,688.0	39,858.0	41,451.0
IDA grant (Demob)	548.3	0.0	0.0	0.0
Grants (Elections)	0.0	0.0	0.0	0.0
Grants (Peace Keeping Operations)	5,235.1	10,141.0	0.0	0.0
HIPC grants	18,027.4	0.0	0.0	0.0
Capital grants	52,140.0	59,371.0	68,277.0	78,520.0
TOTAL EXPENDITURE AND NET LENDING	338,537.4	386,345.0	399,789.3	434,180.0
Recurrent Expenditure	220,233.0	242,702.0	247,677.0	266,900.0
Wages and Salaries	55,042.6	60,631.0	64,268.0	68,125.0
Civil	38,295.4	0.0	0.0	0.0
Teachers	18,101.9	0.0	0.0	0.0
Health	3,312.7	0.0	0.0	0.0
Police	4,300.0	0.0	0.0	0.0
Others (Politicians, Diplomats, Justice)	7,240.8	0.0	0.0	0.0
Core Administration	5,340.0	0.0	0.0	0.0
Defence	16,747.2	0.0	0.0	0.0
Wages	12,042.0	0.0	0.0	0.0
Rations	4,705.2	0.0	0.0	0.0
Goods and Services	64,849.9	75,008.0	84,736.0	95,622.0
Civil	37,029.4	0.0	0.0	0.0
of water and electricity	2,200.0	0.0	0.0	0.0
Fond Routier	5,873.0	6,873.0	7,560.0	8,354.0
Defence	9,362.5	10,282.0	11,120.0	11,958.0
Education Fee Free Basic Education	3,252.0	0.0	0.0	0.0
HIV/AIDS Treatment	1,959.0	0.0	0.0	0.0
Other (Hospital Equipment)	0.0	0.0	0.0	0.0
Senate + Parliament+Other Const. Agencies	553.0	0.0	0.0	0.0
New items	6,821.0	0.0	0.0	0.0
Education (PRSC)	1,600.0	0.0	0.0	0.0
Health (PRSC)	1,821.0	0.0	0.0	0.0
Water (PRSC)	1,000.0	0.0	0.0	0.0

Education (provinces)	500.0	0.0	0.0	0.0
Water (purchase of additional inputs)	500.0	0.0	0.0	0.0
Agricultural inputs purchase	800.0	0.0	0.0	0.0
Government car rentals	600.0	0.0	0.0	0.0
Interest Payments	15,522.4	10,489.0	11,127.0	11,551.0
Domestic Int (due)	7,855.8	8,142.0	8,313.0	8,484.0
External Int (due)	7,666.6	2,347.0	2,814.0	3,067.0
Transfers and Subsidies	55,894.1	63,524.0	66,396.0	74,662.0
Districts	4,084.0	5,399.0	5,980.0	6,624.0
Operations	3,584.0	0.0	0.0	0.0
Agriculture Productivity	500.0	0.0	0.0	0.0
Wages and Salaries	18,057.1	19,152.0	20,300.0	21,517.0
Goods and Services	19,851.0	0.0	0.0	0.0
CSS	1,000.0	1,030.0	1,060.0	1,090.0
New Items	12,902.0	12,031.0	9,275.0	11,350.0
Additional Research Subvention to ISAR	100.0	150.0	200.0	250.0
Electrogaz (Transfer for payment of taxes on fuel imports)	4,000.0	4,385.0	0.0	0.0
Sports Lotto Agency (Transfer for start up of operations)	500.0	536.0	575.0	600.0
Export Promotion Expenditure(Coffee, Tea, Tourism, Agriculture, Non Traditional) + ICT)	5,723.0	6,960.0	8,500.0	10,500.0
Transfer for vehicle purchases	2,579.0	0.0	0.0	0.0
Exceptional Expenditure	28,924.0	33,050.0	21,150.0	16,940.0
FARG	7,859.7	8,999.0	9,968.0	11,040.0
Demobilisation/Reintegration	8,742.0	4,188.0	4,188.0	0.0
Constitutional Commission	0.0	0.0	0.0	0.0
Electoral Commission (Elections and Referendum)	900.0	4,422.0	1,594.0	0.0
GACACA	1,850.7	1,200.0	600.0	600.0
Feeding of Prisoners	3,436.5	3,000.0	2,500.0	1,500.0
Good Governance Commissions	0.0	0.0	0.0	0.0
Educational Institutions (KIST, KIE, KHI)	0.0	0.0	0.0	0.0
Reinsertion of Displaced groups (Gishwati)	300.0	200.0	100.0	100.0
Support to local initiatives (Education)	0.0	0.0	0.0	0.0
Other expenditure	0.0	0.0	0.0	0.0
Health Special expenditure	0.0	0.0	0.0	0.0
Transfer to Roi Faycal	0.0	0.0	0.0	0.0
Salaries	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Special Road Works	0.0	0.0	0.0	0.0
Travaux d'Interet General (TIG)	300.0	450.0	1,000.0	1,500.0
Haute Intensite de Main d'Oeuvre (HIMO)	300.0	450.0	1,200.0	2,200.0
Export Promotion (Coffee, Tea, Tourism, Agriculture, Non-Traditional) + ICT)	0.0	0.0	0.0	0.0
New Item				
Peace Keeping Operations	5,235.1	10,141.0	0.0	0.0

Capital Expenditure	109,942.6	128,500.0	145,248.0	165,606.0
Domestic	31,855.1	39,490.0	42,886.0	47,889.0
Other	10,398.7	0.0	0.0	0.0
CDF	3,500.0	0.0	0.0	0.0
Export Promotion (Coffee, Tea, Tourism, Agriculture, Non-Traditionals) + ICT	1,074.0	0.0	0.0	0.0
Agricultural Guarantee Fund	255.0	0.0	0.0	0.0
Infrastructure Support Unit and studies on projects	210.0	0.0	0.0	0.0
New Items		0.0	0.0	0.0
Health equipment (Roi faycal + regional hospitals)	2,000.0	0.0	0.0	0.0
Education (PRSC)	400.0	0.0	0.0	0.0
Health (PRSC)	775.0	0.0	0.0	0.0
Water (PRSC)	1,000.0	0.0	0.0	0.0
Study of the Manufacturing sector	100.0	0.0	0.0	0.0
Staff Development projec(Expart Salaries for ter.ins.)	2,091.3	2,154.0	2,218.0	2,306.0
Emergency Electricity Generators + other energy priority investments	6,929.0	0.0	0.0	0.0
Agricultural inputs	1,677.0	0.0	0.0	0.0
Police Building	1,445.1	0.0	0.0	0.0
External	78,087.5	89,010.0	102,362.0	117,717.0
Strategic Petroleum Stock	0.0	0.0	0.0	0.0
Net lending	8,361.8	15,143.0	6,864.3	1,674.0
BCR	0.0	0.0	0.0	0.0
Other (including Strategic Stocks)	2,593.8	1,000.0	1,000.0	1,000.0
CHR	1,200.0	0.0	0.0	0.0
BRD Restructuring	1,620.0	0.0	0.0	0.0
PHL (Debt Repayment)	2,948.0	3,715.0	3,636.3	674.0
PHL (Working capital)	0.0	0.0	0.0	0.0
ELECTROGAZ (Purchase of generators and oil)	0.0	0.0	0.0	0.0
Rwandair	0.0	0.0	0.0	0.0
Methane Gas Company	0.0	10,428.0	2,228.0	0.0
Primary deficit (incl. exceptional)	-66,943.7	-92,059.0	-80,407.0	-71,274.0
Primary deficit (excl. exceptional)	-38,019.7	-59,009.0	-59,257.0	-54,334.0
Domestic Fiscal Balance	-83,161.3	-115,344.0	-95,584.3	-81,432.0
Overall Deficit (payment order)				
Including grants	-15,980.4	-67,852.0	-81,367.3	-82,245.0
Excluding grants	168,915.4	-206,701.0	-200,760.3	-202,216.0
Change in arrears (net reduction-Domestic)	-7,000.0	-7,000.0	-7,000.0	-7,000.0
Gross Payments	-9,000.0	-9,000.0	-9,000.0	-9,000.0
New Accumulation	2,000.0	2,000.0	2,000.0	2,000.0
Deficit Cash basis	-22,980.4	-74,852.0	-88,367.3	-89,245.0
Financing	22,980.4	74,852.0	88,367.3	89,245.0
Foreign Financing (net)	21,018.8	33,859.7	33,048.6	34,102.0
Drawings	40,150.6	37,880.7	37,714.6	39,197.0
Budgetary loans (IDA-IRC/PRS)	14,203.1	8,242.0	3,630.0	0.0
IDA Demobilisation	3,409.3	3,490.0	3,630.0	0.0
AfDB (loan)	10,793.8	4,752.0	0.0	0.0
OPEC fund loan (HIPC)	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Project loans	25,947.5	29,638.7	34,084.6	39,197.0
Amortisation (due)	-19,131.8	-4,021.0	-4,666.0	-5,095.0
Exceptional financing	0.0	0.0	0.0	0.0
Domestic Financing (net)	1,961.6	40,992.3	55,318.7	55,143.0
Banking System (monetary survey)	-983.6	44,993.2	50,560.5	64,454.8
Non-Bank Sector (net)	2,945.2	-4,000.9	4,758.2	-9,311.8
Bons de development/BCR government guarantee bond	-729.0	-736.1	-742.0	-749.0

CSR	-1,852.0	-1,991.0	-2,140.0	-2,289.0
OCIR The+CSS	-3,158.0	-3,158.0	-3,158.0	-3,158.0
Bons de developement/ (Old arrears)	-1,300.0	-1,300.0	-1,300.0	-1,300.0
UPBR	0.0	0.0	0.0	0.0
BACAR (Privatisation Public Ent. Debt)	-174.9	-174.9	-174.9	-174.9
Restructuring Bonds for BACAR and BCR	-1,640.9	-1,640.9	-1,640.9	-1,640.9
Repayment to Petroleum companies	-200.0	0.0	0.0	0.0
Treasury Bills (New)	10,000.0	5,000.0	5,000.0	0.0
Bonds for CHR	2,000.0	0.0	0.0	0.0
T/Bills Methane Gas	0.0	0.0	8,914.0	0.0

Annex 5: **2005-2008 Priority Expenditures – Projections****(in millions RWF)**

	2005 Revised	2006 Proj	2007 Proj	2008 Proj
<u>1. Recurrent</u>				
Internal Affairs	7,558.0	8,314.0	9,208.0	10,199.0
Police				
Prisons				
Agriculture	3,628.0	4,535.0	5,669.0	7,086.0
Commerce	1,435.0	1,579.0	3,500.0	6,500.0
Education	25,484.0	29,455.0	33,673.0	38,567.0
Youth & Sport	298.0	328.0	363.0	402.0
Health	10,536.0	13,640.0	15,127.0	16,874.0
Transport and Communications	7,551.0	8,722.0	10,560.3	13,854.0
Road repair and maintenance (FER)	5,873.0	6,873.0	7,560.3	8,354.0
Other	1,678.0	1,849.0	3,000.0	5,500.0
Gender	277.0	305.0	337.0	373.0
Public Service	2,176.0	1,176.0	2,000.0	3,500.0
Lands & Natural Resources (including water and sanitation)	1,109.0	3,000.0	5,500.0	8,500.0
Local Government	4,321.0	6,213.0	6,880.0	7,618.0
Districts	3,584.0	5,399.0	5,980.0	6,624.0
Others	737.0	814.0	900.0	994.0
Provinces	31,604.0	36,319.0	41,269.0	46,495.0
TIG (MINIJUST)	300.0	450.0	1,000.0	1,500.0
HIMO (MINALOC)	300.0	450.0	1,200.0	2,200.0
Export Promotion	5,723.0	6,960.0	8,500.0	10,500.0
Sub-Total	102,300.0	121,446.0	144,786.3	174,168.0
<u>2. Net Lending</u>	0.0	10,428.0	2,228.0	0.0
<u>3. Development</u>				
CDF	3,500.0	4,500.0	6,500.0	8,500.0
Emergency Generators (Lake Kivu gas project)	6,929.0	0.0	0.0	0.0
Education	450.0	2,500.0	5,000.0	7,000.0
Health (Equipment and other capital exp)	2,000.0	3,500.0	5,500.0	7,500.0
Water and sanitation	1,000.0	2,000.0	5,000.0	8,000.0
Study of Manufacturing Sector	100.0	0.0	0.0	0.0
Export Promotion (Capital)	1,074.0	4,000.0	6,000.0	9,000.0
Agricultural Guarantee Fund	300.0	0.0	0.0	0.0
Agricultural capital inputs and projects	1,677.0	3,000.0	4,500.0	6,000.0
Sub-Total	17,030.0	19,500.0	32,500.0	46,000.0
TOTAL	119,330.0	151,374.0	179,514.3	220,168.0

Annex 6: New projects in 2006 Development Budget

	Name of project	2006 DB
1	AEP dans les petits centres de Gikongoro-Kibuye	310.65
2	Aménagement des marais et protection des bassins versants	669.00
3	Appui au processus gacaca	330.03
4	Assistance technique au MININFRA	319.20
5	Biogaz installation in Butare prison	76.26
6	Biogaz installation in Kibungo prison	61.30
7	Biogaz installation in Miyove prison	61.00
8	Biomasse : Projet de substitution du bois-énergie et charbon de bois	2,454.00
9	Construction Centre de documentation sur le génocide	250.00
10	Construction Centre National d'Information à Ruhengeri	40.00
11	Construction du Bâtiment de la TVR et Acquisition d'équipement numérique	770.00
12	Construction et Equipement Bibliothèque Publique	178.00
13	Construction of police head office	1,000.00
14	Construction route Gitarama-Ngororero-Mukamira	2,547.00
15	Construction Route Kibuye-Ruganda	1,343.00
16	Education IV : Education sector stragic plan support project	1,242.16
17	Energies nouvelles : EF électrification solaire écoles et centres de santé	11.00
18	Equipement Centre Ingando de Nkumba	67.00
19	Etude aménagement du village olympique de Nyanza	250.00
20	Etude Chemin de Fer Isaka- Kigali	640.00
21	Etude Construction Aéroport de Bugesera	300.00
22	Etude construction des stades régionaux	60.00
23	Etude construction prison de Butamwa	20.00
24	Etude construction prison de Gisenyi-Ruhengeri	20.00
25	Etude de faisabilité et d'architecture d'un centre d'entrainement en haute altitude	20.00
26	Etude de faisabilité et d'architecture d'une piscine olympique	20.00
27	Etude du terminal rail à Isaka	24.00
28	Etude Electrification Districts de Gasiza,Bukonya,Mbazi,Cyungo et Gatara	50.00
29	Etude sur la situation de l'intégration socio-économique des jeunes au Rwanda	60.00
30	Extension de la prison de Butare	387.00
31	Fonds d'Etudes	132.24
32	Hydrocarbures : Etude Pipeline pétrolier Kampala Kigali	22.00
33	Hydrocarbures : Etude réhabilitation entrepôts de Ruhengeri	11.70
34	Installation des Radios Communautaires Nyagatare et Ruhengeri	57.00
35	Ligne électrique MT 30 kV Kilinda Gikongoro & Mata Nshili	1,235.30
36	Micro-centrales : Construction des Micro-Centrales	2,339.00
37	Micro-centrales : Etude faisabilité 30 micro centrales hydro	22.70
38	PDST : Projet de Développement du Secteur des Transports	333.00
39	Projet de réduction des pertes d'eau	17.43
40	Projet Développement Rural de Bugesera	1,433.79
41	PSTA: Projet d'Appui au Plan Stratégique de Transformation de l'Agriculture	263.71
42	Réforme du cadre juridique et Loi sur le secteur Energie	43.58
43	Réhabilitation 1200 raccordements AEP Butare	4.65
44	Réhabilitation 4000 raccordements AEP Kigali	28.70
45	Réhabilitation centrales hydro Mukungwa, Gihira et Gisenyi	1,719.10
46	Réhabilitation et extension hôpital Roi Faycal	955.00
47	Réhabilitation of Ntsinda prison	324.00
48	Réhabilitation route Ruhengeri-Gisenyi	2,773.05
49	Renforcement AEP Kigali	173.07
50	Renforcement AEP Kigali à partir sources souterraines Nyabarongo	95.87
51	Rénovation et Extension AEP Butare Phase II	23.24
52	Rénovation et Extension AEP Gisenyi et Cyangugu	29.05
53	Rénovation et Extension AEP Gitarama, Nyanza et Rwamagana	51.60
54	Rénovation et Extension AEP Ruhengeri, Kibungo, Gikongoro,Byumba,Nyagatare et Kibuye	17.43
	TOTAL	25,686.80

Additional Annexes to the BFP:

- 1) Government shares in 20 public and private companies
- 2) Tax Expenditures (Exemptions) in 2004
- 3) Budget 2006 for Public Enterprises
- 4) Contribution to International Organizations in arrears
- 5) Extra budgetary resources from public institutions for 2004 and 2005
- 6) Number of students studying abroad until 2009