

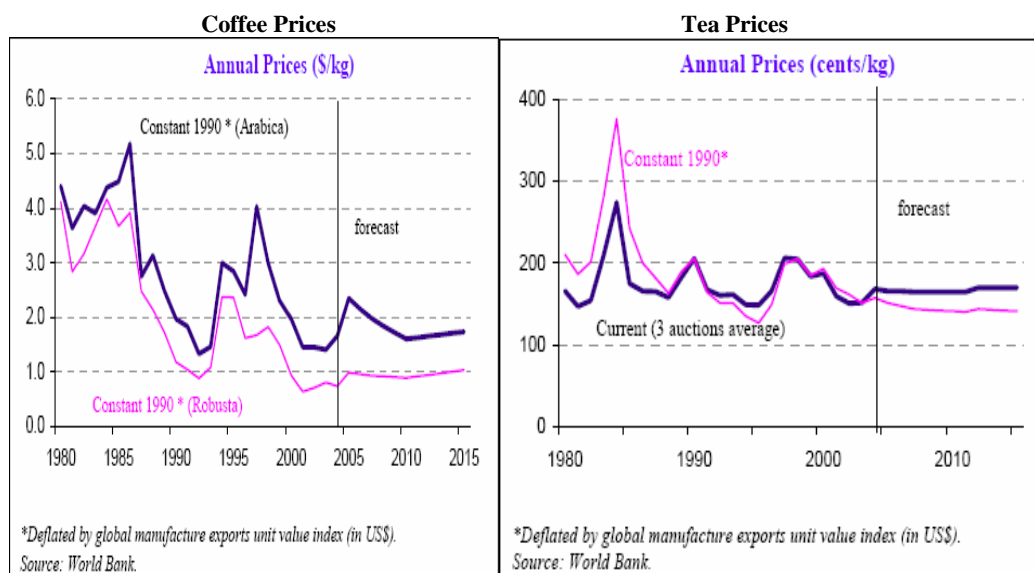
MACROECONOMIC FRAMEWORK FOR THE BUDGET 2007

Table of Content

1. World Economy	2
2. Domestic Economy	3
2.1 Real Sector	3
2.2 External Trade.....	4
2.3 Fiscal Performance.....	5
2.4 Monetary and Financial Developments	5
3. Macroeconomic Outlook	7

1. World Economy

The world GDP growth exceeded the expectations despite higher and volatile oil prices and natural disasters. It reached 4.8% in 2005 compared to 3.8% in 2004. The volumes growth of world trade slowed to 6.2% in 2005, from 10.2% in 2004. However, much of the slow down came from exports of developed countries. Demand for primary products was high, and most commodity prices were increasing in 2005. Coffee prices remain volatile, and the World Bank expects limited further price increase for coffee. Price volatility remains a constraint for the tea sector performance, as export supplies continue to increase and the demand declines.



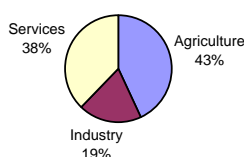
According to the IMF projections in the World Economic Outlook, the world output is expected to increase by 4.9% and 4.7% in 2006 and 2007, respectively.

2. Domestic Economy

2.1 Real Sector

As in 2005, the economy registered a strong real growth of 5.8% in the half of 2006. This growth was driven by a strong performance of services, which grew by 12.2% in the first half of 2006. The industry sector also recorded a strong performance with a real growth of 6.9% in the first half of 2006. MINAGRI reports a modest recovery of food crops, which registered a real growth rate of 1.3%, due to the unexpected good performance of sorghum. Agricultural performance, however, remains weak with a real growth of 0.5% in the first half of 2006.

Real GDP (1995 prices)					
	2004	2005	2006	2005	2006
Agriculture	289.36	306.25	307.65	5.8%	0.5%
Industry	128.80	143.07	152.89	11.1%	6.9%
Services	253.24	266.80	299.32	5.4%	12.2%
GDP	668.35	710.62	752.00	6.3%	5.8%



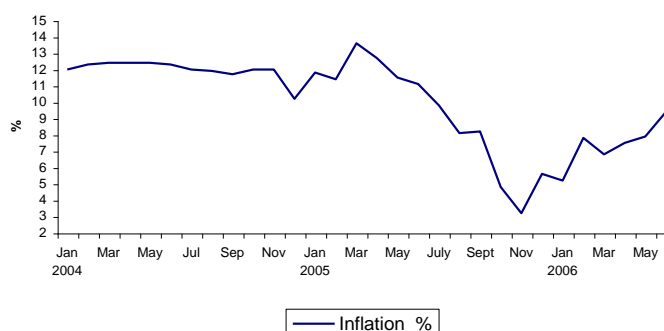
However, the higher electricity and fuel costs affected the CPI change and inflation peaked from 5.6% at the end of 2005 to 9.4% in June 2006. However, the underlying inflation is about 3.4% during the first half of 2006.

Inflation in June 2006

	Jun-06
Food and Drinks	10.8
Vegetables	17.8
Bread and cereals	8.4
Clothing	-0.9
Alcohol and tobacco	3.7
Utility costs	20.7
Household furnishing	1.2
Health	0.2
Communication	0.8
Education	21.2
Transport	3.9

CPI % **9.4**

Inflation Trend 2004 - 2006



2.2 External Trade

Exports in US\$ million

Products	Jan-June 05	Jan-June 06	% Change
Café	19.7	18.9	4.1
Thé	12.7	17	35.4
Cassitérite	8.5	6	-28.5
Coltan	8.6	5	-38.3
Wolfram	0.4	4	911
Peaux	2.1	1	-50.7
Pyrèthre		1	
Autres	1.8	1	-14
Réexportations	6.5	4.9	-24.7
Total	59.8	61.6	2.8

Imports in US\$ million

	Jan-June 05	Jan-June 06	% change
BIENS DE CONSOMMATION	69	72.6	5.2
Produit alimentaires	16	20	18.7
AUTRES BIENS	52	52.6	0.5
Boissons et tabacs	1	2	36.7
Habillement	8	10	23.5
Santé et hygiène	24.7	19.7	-20.1
Biens à usage domestique	4.5	8	79.5
Transport non utilitaire	2.5	2	-6.2
Papiers et cartons	4	4.9	21.2
Autres marchandises	6	5	-22
BIENS D'EQUIPEMENT	51.7	61	18.2
Matériels de transport	11	11.7	6.9
Machines, appareils et outils	29.6	38.9	31.6
Autres biens d'équipemnt	11	10	-6.3
BIENS D'APPROVISIONNEMENT	71.8	54	32
Materiaux de construction	15.6	25.6	64
Engrais	2.1	1.3	-35
ENERGIE ET LUBRIFIANT	28	24	16.6
TOTAL	199	233.8	17.3

The trade balance continues to deteriorate as imports largely exceed exports. In the first half of 2006, exports receipts dropped to 2.8% compared to 29% at the end of 2005, while imports grew at a rate of 17.3%. In real terms, exports receipts amounted US\$ 61.6 million in June 2006 against US\$ 59.8 billion in June 2005. Imports increased from US\$ 199 million in June 2005 to US\$ 233 million in June 2006.

2.3 Fiscal Performance

Domestic revenue collection, both taxes and non-taxes, has been performing well. In 2005, tax revenue collection increased from RwF 139.6 billion in 2004 to RwF 184.2 billion in 2005. Total revenue as a share of domestic product substantially rose from (14.2) in 2004 to (15.1) during 2005. During the first half of 2006, they exceeded the collection target of RwF 83.3 billion by RwF 8.5 billion to reach about RwF 91.8 billion.

During the first half of 2006, priority expenditures were targeted at RwF 70.5 billion, but actual spending amounted to RwF 68.7 billion due to the deceleration in spending on Lake Kivu project.

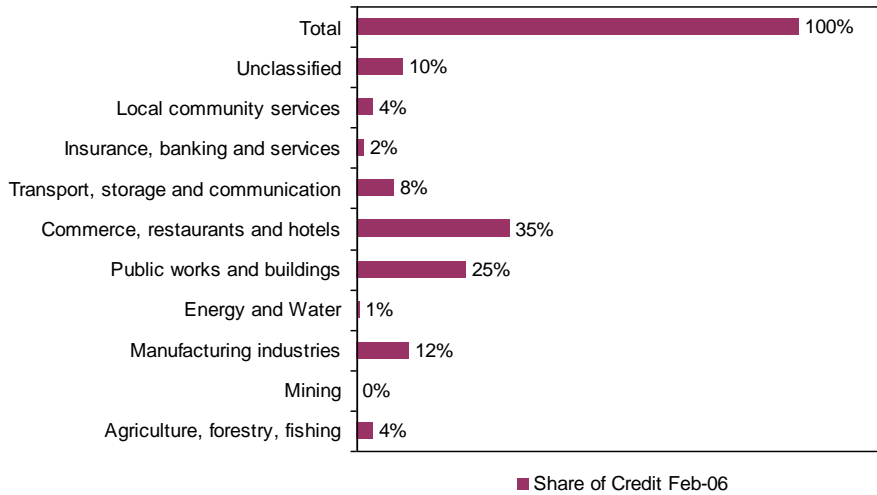
2.4 Monetary and Financial Developments

The monetary sector has remained healthy since June 2005 to June 2006 with all the IMF targets met for March and June 2006. Net foreign assets of the entire banking system stood at 279.7bn RwF in June 2006 compared to 180.5bn RwF same period 2005, an increase of 54.98%. This accounts to the donor disbursements made during this period.

Domestic credit dropped from 70 billion in December 2005 to RwF 29.2 billion in March 2006 due to the US\$37 billion for the multilateral Debt relief of March 28th 2006. We also notice a big slump of 41% in total domestic credit from June 2005 to June 2006 compared to 22.4% in the same period 2004. This has also been due to the debt cancellation from the IMF and World Bank support of US \$1.4 bn in debt Service Relief for Rwanda in April last year.

Total credit to the private sector has also been increasing since June last year following the aggressive credit distribution by the newly recapitalized commercial banks, particularly BCR. The agricultural sector continues to indicate the smallest percentage of 4% to the share of credit yet it constitutes a bigger percentage of the economy. Commerce, Restaurants and Hotels continue to dominate a bigger percentage of 35% to the economy followed by public works and buildings with a share of 25%.

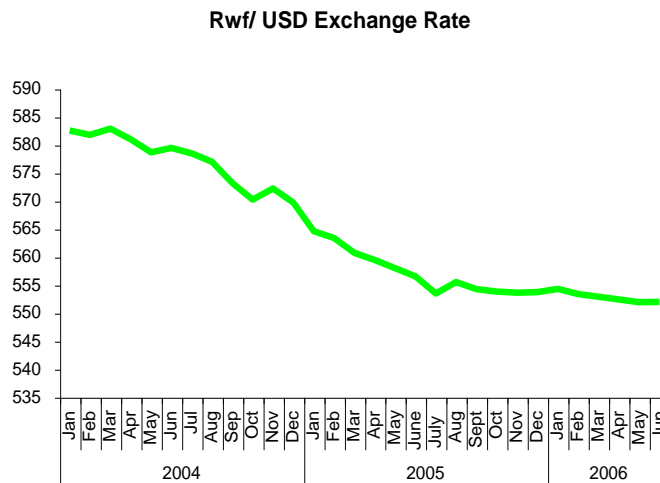
Sectoral Credit to the Economy



The exchange rate has been appreciating since last year 2005 till June 2006; this is because there has been a lot of foreign currency flowing into the country. The high rate of inflation rate of 9.4% at end June, also means that in real terms there has been a larger appreciation of the exchange rate.

Official Exchange Rate Trend

2005	Jan	564.62
	Feb	563.40
	Mar	560.73
	Apr	559.49
	May	558.00
	June	556.55
	July	553.50
	Aug	555.52
	Sept	554.29
	Oct	553.85
	Nov	553.62
	Dec	553.72
2006	Jan	554.33
	Feb	553.39
	Mar	552.89
	Apr	552.41
	May	551.93
	Jun	552.00



BNR intervened on the foreign exchange market and sold US \$ 62.1m of foreign currency in the first semester 2006 compared to US \$ 49.6m in the same period 2005.

3. Macroeconomic Outlook

Given the stronger than expected performance for 2006, prospects for 2007 are based on the following macroeconomic assumptions:

- GDP is expected to grow at a rate of 6.4% in 2007.
- Tax revenues are expected to reach RwF 191.7 billion in 2007 against RwF 176.6 billion in 2006.
- Non-tax revenues are expected to reach RwF 12.1 billion in 2007 against RwF 11.8 billion in 2006.
- Budget support grants are expected to increase to RwF 81.6 billion in 2007 against RwF 71.1 billion in 2006. Capital grants are expected to increase to RwF 57.6 billion in 2007 against RwF 62.0 billion in 2006; this excludes MDRI.
- Domestic financing would amount to RwF 39.9 billion.

As summarized in the table below, these macroeconomic assumptions imply total expected resource envelop of RwF 446.3 billions for 2007, including domestic financing.

	2006 Est.	2007 base	2007 Proj.
Domestic revenue	188.4	203.8	203.8
Tax revenue	176.6	191.7	191.7
Non-tax revenue	11.8	12.1	12.1
Domestic financing	41.7		31.9
MDRI-IMF			11.0
MDRI-refund			3.1
Other			17.8
Grants	133.0	139.2	139.2
Budget support grants	71.1	81.6	81.6
Capital grants	62.0	57.6	57.6
Loans	32.9	71.4	71.4
Budget loans	3.3	40.2	40.2
Project loans	29.5	31.2	31.2
Total resources	396.0	414.3	446.3
Increase in percent			12.7