Ministry of Finance and Economic Planning

Budget Framework Paper 2015/2016-2017/2018

April 2015

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I. INTRODUCTION

The Budget Framework Paper (BFP) for the period 2015/16 to 2017/18 outlines the Government’s macroeconomic and fiscal policy stance for this three year period. This document reflects and supports the country’s commitments as defined in the Government’s Economic Development and Poverty Reduction Strategy 2 (EDPRS 2) and the VISION 2020. Consistent with this objective, the BFP also articulates our continued medium term commitments to achieve fiscal consolidation through increased efforts towards domestic revenue mobilisation with new tax measures and expenditure rationalisation / prioritisation, including improving quality at entry of public investment projects as reliance on external donor financial assistance reduces.

As such the BFP reflects and takes into account current economic situation and probable developments over the medium term. The situation is characterized by good performance on the domestic economy side while significant downside risks persist. As such the medium term projections are based on conservative assumptions. Main external risks are related to weaker than initially projected global growth and demand as well as uncertainties on the combined effects of contradictory monetary policies in USA and Europe. Persisting low commodities prices are likely to impact negatively on Rwanda exports.

While our fiscal policy continues to aim at fiscal consolidation, it also recognizes that the public sector alone will not be sufficient to achieve EDPRS 2 targets; as such, our expenditure allocation over the medium is in line with other policies of reducing the cost of doing business to allow private sector flourish and contribute to EDPRS2.

The BFP is organised as follows: Section one provides introductory remarks and outlines of the document, section two gives a summary of economic performance both global and domestic. The domestic portion reviews performance in the real, external, fiscal and monetary sectors. The global portion will include an outlook for 2015 and 2016. Section three presents a brief description of the medium term macroeconomic frame-work. This portion also includes the medium term fiscal frame-work. Section four deals with the details of the budget for fiscal year 2015/16, particularly economic classification allocations. The fifth section will highlight the functional allocations focussing on the priorities to be funded under the EDPRS2 thematic areas. Policy issues arising from the 2015/16 budget formulation are discussed in section six, while some possible risks to economic performance in general and budget implementation in particular are highlighted in section seven. The BFP will close with concluding remarks in section eight and finally various annexes providing additional details and numbers for the budget will be attached as section nine.

II. RECENT ECONOMIC PERFORMANCE IN 2014-15 AND OUTLOOK

II.1. Global Economic Performance and Outlook

a) Output Growth

According to the latest (April 2015) updates on World Economic Outlook (WEO) of the IMF, the world output grew by 3.4 percent in 2014 which is as the same as the previous year of 2013. Global growth in 2015–16 is projected at 3.5 and 3.8 percent. Relative to last year, the outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries. Global growth will receive a boost from lower oil prices, which reflect to an important extent higher supply. But this boost is projected to be more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies. The main upside risk is a greater boost from lower oil prices, although there is uncertainty about the persistence of the oil supply shock. Downside risks relate to shifts in sentiment and volatility in global financial markets, especially in emerging market economies, where lower oil prices have introduced external and balance sheet vulnerabilities in oil exporters. Stagnation and low inflation are still concerns in the euro area and in Japan.

Among major advanced economies, growth in the United States rebounded ahead of expectations after the contraction in the first quarter of 2014, and unemployment declined further, while inflation pressure stayed more muted, also reflecting the dollar appreciation and the decline in oil prices. Growth is projected to exceed 3 percent in 2015–16, with domestic demand supported by lower oil prices, more moderate fiscal adjustment, and continued support from an accommodative monetary policy stance, despite the projected gradual rise in interest rates. But the recent dollar appreciation is projected to reduce net exports.

In the euro area, growth in the third quarter of 2014 was modestly weaker than expected, largely on account of weak investment, and inflation expectations continued to decline. Activity is projected to be supported by lower oil prices, further monetary policy easing, a more neutral fiscal policy stance, and the recent euro depreciation. But these factors will be offset by weaker investment prospects, partly reflecting the impact of weaker growth in emerging market economies on the export sector, and the recovery is projected to be somewhat slower than first foreseen, with annual growth projected at 1.5 percent in 2015 and 1.6 percent in 2016.

In emerging market and developing economies, growth is projected to remain broadly stable at 4.3 percent in 2015 and to increase to 4.7 percent in 2016. Three main factors explain the downshift: Lower growth in China and its implications for emerging Asia, a much weaker outlook in Russia and Downward revisions to potential growth in commodity exporters

In sub-Saharan Africa, economic activity remained dynamic with a growth of 5.0 percent in 2014 but lower than the previous year of 2013 where the growth rate was 5.2 percent. In 2015 and 2016 growth will continue at a strong pace and is expected to increase to 4.5 percent in 2015 and to 5.1 percent in 2016. Continued implementation of sound policies together with capital and commodity related projects are expected to support the higher growth.

b) The impact of lower oil prices on global economy

Oil prices in U.S. dollars had declined by about 55 percent since September 2014 till January 2015. The decline is partly due to expected demand weakness in some major economies, in particular, emerging market economies—also reflected in declines in industrial metal prices. But the much larger decline in oil prices suggests an important contribution of oil supply factors, including the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States. Oil prices forecasts point to a partial recovery in oil prices in coming years, consistent with the expected negative impact of lower oil prices on investment and future capacity growth in the oil sector. Lower oil prices due to supply shifts boost global growth, although with important differences between oil importers and exporters. The global economic impact depends crucially on how large and persistent the oil supply shifts are expected to be. The more persistent they are, the more consumers and firms will adjust consumption and production. These global effects of lower oil prices mask asymmetric effects across countries. Oil importers will benefit from higher real incomes of consumers and lower costs in the production of final goods. Among importers, the oil intensity in consumption and production varies, but the simulations used in the scenario analysis suggest GDP increases between 0.4 and 0.7 percent in 2015 in the case of China and between 0.2 and 0.5 percent in the United States. For many importers, the boost from lower oil prices—while sizable—is somewhat muted by the recent currency depreciation against the U.S. dollar, which implies a smaller oil price decline in domestic currency. In oil exporters, real incomes and profits generally decrease. Much will depend, however, on whether governments, which typically accrue most of the net oil revenue, will adjust spending. In countries with buffers, spending adjustment can be gradual, which would limit the negative impact on incomes and activity. But recent developments in Russia illustrate the potential for a greater impact in oil exporters where macroeconomic policies cannot afford to mitigate the negative growth impact.

c) Domestic Economic Performance

The table below shows details of sectoral performance up to 2014.

Gross Domestic product by Kind of Activity
at constant 2011 prices
(in billion Rwf)

Activity description	2008	2009	2010	2011	2012	2013	2014
GROSS DOMESTIC PRODUCT (GDP)	**3,127**	**3,323**	**3,566**	**3,846**	**4,184**	**4,380**	**4,685**
AGRICULTURE, FORESTRY & FISHING	**1,051**	**1,132**	**1,188**	**1,244**	**1,324**	**1,368**	**1,440**
Food crops	701	767	805	845	905	938	996
Export crops	79	67	76	78	85	81	79
Livestock & livestock products	109	113	118	122	129	138	149
Forestry	171	175	180	185	191	197	202
Fishing	13	13	13	14	14	14	15
INDUSTRY	**428**	**434**	**471**	**554**	**601**	**657**	**695**
Mining & quarrying	67	55	49	74	68	82	91
TOTAL MANUFACTURING	168	172	189	204	216	226	228
Manufacturing of food	41	44	48	50	50	54	54
Manufacturing of beverages & tobacco	86	90	92	99	103	107	102
Manufacturing of textiles, clothing & leather goods	8	8	8	8	9	9	10
Manufacturing of wood & paper; printing	13	14	15	14	16	17	18
Manufacturing of chemicals, rubber & plastic products	7	7	8	9	9	9	9
Manufacturing of non-metallic mineral products	7	7	7	9	10	11	12
Manufacturing of metal products, machinery & equipment	5	5	7	9	11	9	12
Furniture & other manufacturing	4	4	6	8	8	9	10
Electricity	8	9	10	11	13	14	16
Water & waste management	9	10	12	14	15	15	16
Construction	184	187	203	251	288	319	345
SERVICES	**1,428**	**1,518**	**1,657**	**1,790**	**1,997**	**2,102**	**2,290**
TRADE &TRANSPORT	**482**	**508**	**554**	**592**	**680**	**719**	**784**
Maintenance and repair of motor vehicles	15	16	17	19	20	21	22
Wholesale & retail trade	381	396	432	466	532	562	615
Transport services	86	94	102	107	127	136	147
OTHER SERVICES	**944**	**1,008**	**1,102**	**1,198**	**1,317**	**1,382**	**1,505**
Hotels & restaurants	94	89	96	100	106	109	113
Information & communication	75	82	89	93	123	123	144
Financial services	76	72	89	108	121	133	140
Real estate activities	262	283	286	286	285	287	311
Professional, scientific and technical activities	89	97	98	97	103	107	110
Administrative and support service activities	93	101	102	102	109	112	119
Public administration and defence; compulsory social security	82	88	100	115	140	153	164
Education	83	96	104	122	131	137	147
Human health and social work activities	28	33	38	39	48	50	55
Cultural, domestic & other services	136	129	138	137	152	170	203
Taxes less subsidies on products	**221**	**242**	**254**	**258**	**262**	**254**	**260**

Source: National Institute of Statistics of Rwanda

Gross Domestic product by Kind of Activity
Growth rates at constant 2011 prices
(percentage change from previous year)

Activity description	2008	2009	2010	2011	2012	2013	2014
GROSS DOMESTIC PRODUCT (GDP)	**11%**	**6%**	**7%**	**8%**	**9%**	**5%**	**7%**
AGRICULTURE, FORESTRY & FISHING	**6%**	**8%**	**5%**	**5%**	**6%**	**3%**	**5%**
Food crops	6%	9%	5%	5%	7%	4%	6%
Export crops	29%	-15%	14%	3%	9%	-5%	-2%
Livestock & livestock products	3%	3%	5%	3%	6%	7%	8%
Forestry	4%	2%	3%	3%	4%	3%	2%
Fishing	3%	3%	3%	3%	-2%	5%	3%
INDUSTRY	**15%**	**1%**	**8%**	**18%**	**8%**	**9%**	**6%**
Mining & quarrying	-16%	-18%	-11%	50%	-7%	20%	11%
TOTAL MANUFACTURING	6%	3%	9%	8%	6%	5%	1%
Manufacturing of food	8%	6%	9%	4%	1%	8%	-1%
Manufacturing of beverages & tobacco	3%	4%	2%	7%	4%	4%	-5%
Manufacturing of textiles, clothing & leather goods	-1%	-2%	2%	-1%	8%	3%	15%
Manufacturing of wood & paper; printing	8%	8%	5%	-11%	15%	12%	5%
Manufacturing of chemicals, rubber & plastic products	3%	0%	5%	14%	2%	-3%	-3%
Manufacturing of non-metallic mineral products	5%	-6%	11%	18%	14%	7%	13%
Manufacturing of metal products, machinery & equipment	11%	-5%	44%	33%	26%	-14%	26%
Furniture & other manufacturing	11%	-5%	44%	33%	10%	12%	9%
Electricity	18%	15%	15%	15%	17%	8%	9%
Water & waste management	18%	15%	15%	15%	8%	5%	3%
Construction	28%	1%	9%	24%	15%	11%	8%
SERVICES	**14%**	**6%**	**9%**	**8%**	**12%**	**5%**	**9%**
TRADE &TRANSPORT	**21%**	**5%**	**9%**	**7%**	**15%**	**6%**	**9%**
Maintenance and repair of motor vehicles	19%	4%	9%	8%	8%	6%	3%
Wholesale & retail trade	19%	4%	9%	8%	14%	6%	9%
Transport services	24%	9%	9%	4%	19%	7%	8%
OTHER SERVICES	**10%**	**7%**	**9%**	**9%**	**10%**	**5%**	**9%**
Hotels & restaurants	6%	-6%	8%	4%	6%	3%	4%
Information & communication	23%	9%	9%	4%	33%	0%	17%
Financial services	2%	-4%	24%	20%	13%	10%	5%
Real estate activities	15%	8%	1%	0%	0%	1%	8%
Professional, scientific and technical activities	15%	8%	1%	0%	6%	4%	3%
Administrative and support service activities	15%	8%	1%	0%	6%	4%	6%
Public administration and defence; compulsory social security	5%	7%	14%	15%	22%	9%	7%
Education	7%	15%	9%	18%	7%	4%	8%
Human health and social work activities	12%	15%	16%	2%	23%	6%	9%
Cultural, domestic & other services	2%	-5%	7%	-1%	11%	12%	19%
Taxes less subsidies on products	**11%**	**10%**	**5%**	**2%**	**2%**	**-3%**	**3%**

Source: National Institute of Statistics of Rwanda

i. Real GDP growth

The Rwandan economy grew by 7 percent in 2014, in line with average growth over the last five years, and well above 2013 growth of 4.7 percent. The recent improvement in performance was especially notable in services, which grew by 9 percent compared to 5 percent in 2013. Agricultural expansion of 5 percent supported this. Positive developments in agriculture were reflected in the low inflation environment experienced throughout the year. Food represents about a third of the typical consumption basket and given adequate supply this year, along with favourable energy prices, average inflation was 1.8 percent in 2014. Domestic demand made a very strong recovery during the year while external demand acted as a brake on growth due to the weak performance of exports.

Growth was evenly spread throughout the year. The vast majority of service sub-sectors recorded higher growth than in 2013 with wholesale and retail trade being the largest contributor to overall GDP growth (1.2 percentage points). Both government-led and private-led services performed reasonably similarly, a positive change from previous years when government-led services expanded more quickly. Construction grew by 8 percent and added over a half percentage point to GDP growth. These sectoral trends reflected a strengthening private sector. However, manufacturing recorded mediocre annual growth of 1 percent due to the impact of unilateral tariffs in the DRC market during the year. From the demand-side, final consumption and investment grew by 7 percent and 10 percent respectively, close to their five-year averages. Investment was boosted by ongoing projects in ICT, such as Korea Telecom’s 4G LTE and online services projects, and the completion of Gigawatt and Nyabarongo I hydropower plant. This is reflected in accelerating imports compared to 2013 and growth in the ICT sector of 17 percent.

ii. Inflation

Inflation was 2.1 percent by end December 2014. This is explained by moderate price growth in food and energy and typically high food prices in the second half of last year (when the weak Rwandan harvest was aggravated further by a weak harvest in Uganda). Food and energy are the most volatile and the most heavily-weighted elements of the CPI. Core inflation, which excludes these two items, was 2.9 per cent in December. This means that price pressures are evident in certain sectors (e.g. prices for education/ restaurants/clothing) but not for the key items that make up Rwandese consumption (i.e. food and energy). Annual average inflation for 2014 was 1.8 percent.

iii. External Sector Performance

The table below shows the performance of the external sector

External Sector Performance

	2010	2011	2012	2013	2014
USD Millions					
Trade balance	**-786.7**	**-1,101.6**	**-1,268.3**	**-1,148.4**	**-1,277.0**
Exports, f.o.b	297.3	464.2	590.8	703.0	723.1
Coffee	56.1	74.6	60.9	54.9	59.7
Tea	55.7	63.9	65.7	55.5	51.8
Imports, f.o.b	-1,084.0	-1,565.8	-1,859.0	-1,851.5	-2,000.1
Services and incomes (net)	**-297.5**	**-244.2**	**-188.8**	**-256.8**	**-234.0**
services (net)	-246.2	-187.0	-93.2	-121.5	-77.3
Incomes (net)	-51.3	-57.2	-95.6	-135.3	-156.6
Current transfers (net)	**657.4**	**880.5**	**722.5**	**847.8**	**578.0**
Private	90.7	133.3	183.0	181.4	179.9
Public	566.7	747.2	539.5	666.4	398.1
Current account balance	**-426.8**	**-465.3**	**-734.6**	**-557.5**	**-932.9**
Capital and financial account balance	**564.8**	**729.9**	**568.6**	**895.8**	**966.0**
Capital transfers	285.6	196.7	171.2	234.5	337.1
Long term debt	43.7	278.2	108.0	407.9	346.6
Foreign direct investment	258.0	206.7	260.9	259.3	269.4
Overall balance	**72.1**	**234.5**	**-212.4**	**228.5**	**-90.4**
Change in net foreign assets of NBR (increase -	**-72.1**	**-234.5**	**212.4**	**-228.5**	**90.4**
change in gross reserves (increase -)	-69.1	-251.8	206.3	-226.9	84.3

Source: BNR

The external trade balance in merchandise deteriorated by 11% compared to the improvement made in 2013. An acceleration of imported capital and intermediate goods, reflecting faster implementation of public investment projects in the first half of 2014 and a rebounding private sector, combined with weak export growth of 3 percent, resulted in a trade deficit of $1.3 billion in 2014, or 16 percent of GDP. Within exports, traditional tea and mineral exports were adversely affected by weaker prices (although coffee's performance benefited from increasing prices caused by a global supply shortage). International commodity prices for Rwanda main export commodities declined by -13.5% for tea, -16.6% and -11.4% for tantalum and tungsten respectively.

Re-exports continued their recent trend of strong growth and non-traditional exports posted a strong year, particularly for milling products (its rapid expansion of 46 percent contributed 1.4 percentage points to total export growth). Non-traditional exports are composed by other exports, hides & skins and pyrethrum. The big component (other exports) has increased sharply by 26.5% due to the expansion of milling companies and exported more in neighbouring countries. However, Pyrethrum exports were US$1.8miliion in 2014 down from US$3.9 million or 54% drop over 2013. The drop in pyrethrum export was due to the loss of its major buyer since July 2013. Sopyrwa has been stockpiling pyrethrum since July 2013 following the buyout of the major buyer by a competitor, and the company is still in the process of negotiating a contract with a new buyer.

Informal export growth was constrained in 2014 due to the imposition of non-tariff barriers by DRC. However, these were removed by late 2014 through negotiations in the CEPGL regional bloc. Total imports (CIF) grew by 7 percent compared to 2 percent in 2013. Reserve cover remained very similar to 2013, at about 5 months of imports at end-2014, reflecting both the weaker current account outturn and the delayed use of the Eurobond proceeds for the Kigali Convention Centre.

iv. Fiscal developments

- The table below shows performance from July to December 2014 compared to projections in the budget 2014/15:

Provisional Budget Execution: July – December 2014

(billion Rwf)	Jul-Dec 2014 Provisional	Projection
RESOURCES		
Domestic revenue	447.3	460.5
Tax revenue	406.3	416.1
Direct taxes	166.3	166.9
Taxes on goods and services	211.2	218.9
Taxes on international trade	28.8	30.2
Non-tax revenue	41.0	44.4
Domestic financing	59.7	47.0
Sale of Securities, net (non-bank T-Bills and Bonds)	18.0	10.0
Use of BNR deposit	0.0	37.0
Accumulation of arrears	41.7	0.0
Grants	240.9	248.5
Budget Support	115.4	123.0
Project Support	125.5	125.5
Loans	110.2	105.1
Budgetary Loans	56.7	58.9
Project loans	53.5	46.2
Net Lending (repayments)	2.0	0.0
TOTAL RESOURCES	**860.2**	**861.1**
EXPENDITURES		
Recurrent Budget	443.7	449.9
Wages and salaries	101.9	105.7
Purchases of goods and services	101.6	90.8
Interest payments	21.8	21.4
Domestic	8.2	7.9
External	13.6	13.5
Amortization	17.2	21.7
Domestic (non bank)	10.4	15.0
External	6.8	6.7
Transfers	140.3	149.7
Exceptional expenditure	60.9	60.6
Development Budget	307.6	339.0
Domestically financed	128.6	167.4
Externally financed	179.0	171.7
Net Lending (lending)	26.8	62.8
Arrears Payment	0.0	9.3
Accumulation of Deposit	12.9	0.0
Other Payments (errors and ommissions)	69.2	0.0
TOTAL EXPENDITURES	**860.2**	**861.1**

II.2. Fiscal Performance in the July-December 2014 Period

The allocation of resources and corresponding spending in the July-December 2014 period reflected the revised budget estimates. Implementation of the 2014/15 revised budget in the July-December 2014 period was affected by delayed donor disbursements and lower domestic revenue flows as well as slow implementation of projects. As a result of these developments, total spending was lower than projected.

a) Performance of resources

The revised budget projected total resources comprising domestic revenue, total grants and external loan disbursements at FRW 814.1 billion for the July-December 2014. This amount comprised FRW 460.5 billion of domestic revenue, FRW 248.5 billion of grants and FRW 105.1 billion of external loans.

i. Performance of Domestic Resources

The table below shows the details of performance compared to projections.

Table. Domestic Revenue

	July - December 2014	
(billion Rwf)	**Proj.**	**Prov.**
Total revenue	460.5	447.3
Tax revenue	416.1	406.3
Direct taxes	166.9	166.3
Taxes on goods and services	218.9	211.2
Taxes on international trade	30.2	28.8
Non-tax revenue	44.4	41.0
of which PKO (incl. CAR&Juba)	31.5	29.8
of which Other (including LG fees)	12.9	11.2
Source: MINECOFIN		

Tax Revenue Collections

In the area of domestic tax revenue collections, provisional data is reporting the accrual of tax revenue amounting to FRW 406.3 billion as against FRW 416.1 billion projected for the period. There was therefore a shortfall in tax revenue collections of FRW 9.8 billion. Whilst collections from direct taxes were on track, taxes on goods and services and taxes on international trade accounted for the shortfall.

In the case of taxes on goods and services, collections of FRW 211.2 billion registered a shortfall of FRW 7.8 billion as against FRW 218.9 billion estimated for the period. Both excise taxes and VAT collections contributed to the shortfall. The shortfall from excise taxes was due to lower sales of the local beer as well as lower excise taxes from imports on account of lower import of petroleum products and wine and liquors. The shortfall from VAT collections was mainly due to lower than expected accrual of receipts from the implementation of the electronic machines (EBM) as well as lower than expected imports mentioned above resulting in lower collections from import VAT.

With respect to taxes on international trade, collections of FRW 28.8 billion were FRW 1.4billion lower than the FRW 30.2 billion projected for the period. The shortfall was due to lower than expected imports in 2014 especially of taxable consumer goods. Import of consumer goods in 2014 rose only marginally by 5.2% compared to an increase of 22.6% projected for the year. Major contributors to the shortfall were rice, edible oils and fats, furniture and other construction accessories including tubes and pipes.

Non-Tax Revenue Collections

Non Tax revenue collections in the July-December 2014 period amounted to FRW 41 billion as against FRW 44.4 billion projected for the period. There was therefore a shortfall of FRW 3.4 billion. Both reimbursements from the UN for PKO and collections of some administrative fees and charges contributed FRW1.7 billion each to the shortfall. In the case of PKO reimbursements the shortfall was due a delay in the accrual of funds whilst the small shortfall in administrative fees and charges was due to lower than expected collections of passport and driving license fees.

ii. Performance of External Resources

The table 2 below shows the details of projected and actual receipts of external resources in the July-December 2014 period.

Table. External Resources

	July - December 2014	
(billion Rwf)	**Proj.**	**Prov.**
Total Grants	248.5	240.9
Budgetary grants	123.0	115.4
of which other grants (incl. HIPC grants)	84.5	63.0
of Which Global Fund	38.6	52.4
Capital grants	125.5	125.5
Projects	125.5	125.5
Global Fund	0.0	0.0
Total Loans	105.1	110.2
Budgetary loan	58.9	56.7
Project loans	46.2	53.5
Source: MINECOFIN		

In the July-December 2014 period total external resources projected for the budget amounted to FRW 353.6 billion. This amount was made up of FRW 248.5 billion of grants comprising FRW 123 billion of budgetary grants and FRW 125.5 billion of capital grants and FRW 105.1 billion of loans comprising FRW 58.9 billion of budgetary loans and FRW 46.2 billion of project loans.

At end December 2014 total external resources that accrued to the budget reached FRW 351.1 billion registering a total shortfall of FRW 2.5 billion. The excess disbursements of loans partly offset the shortfall in grants.

In the case of grants the total amount of FRW 240.9 billion recorded was FRW 7.6 billion lower than the FRW 248.5 billion projected. This shortfall in grants was due to the delayed disbursement of some DFID funds. Originally disbursements were programmed for end December 2014 but the funds accrued in January and February 2015.

Regarding the loans, the total amount of FRW 110.2 billion disbursed is FRW 5.2 billion higher than the projected figure of FRW 105.1 billion. Whilst the amount of budget support loans disbursed was FRW 56.7 billion and fell short of the projected amount of FRW 58.9 billion by FRW 2.2 billion on account of exchange rate differentials, the disbursement of FRW 53.5 billion of project loans exceeded the estimated amount of FRW 46.2 billion by FRW 7.3 billion. This excess amount was due to the front-loading of funds for IDA supported electricity access projects as well as by EXIM BANK (China) for the Kivu belt regional road project.

b) Performance of outlays

The table below shows the details of projected outlays and performance in the July-December 2014 period.

Table: Expenditures in the July-December 2014 Period

	July - December 2014	
(billion Rwf)	**Proj.**	**Prov.**
Total expenditure and net lending	830.1	758.9
Current expenditure	428.2	426.5
Wages and salaries	105.7	101.9
Purchases of goods and services	90.8	101.6
Interest payments	21.4	21.8
Domestic Int (paid)	7.9	8.2
External Int (due)	13.5	13.6
Transfers	149.7	140.3
Exceptional social expenditure	60.6	60.9
Capital expenditure	339.0	307.6
Domestic	167.4	128.6
Foreign	171.7	179.0
Net lending	62.8	24.8

Source: MINECOFIN

With regards to total spending, the resource shortfall mentioned above together with delayed implementation of projects led to lower spending both on commitment and payment basis than projected for the July- December 2014 period. Accordingly total expenditure and net lending of FRW 758.9 billion was FRW 71.2 billion lower than the

FRW 830.1 billion estimated for the period. Capital spending and expenditures under net lending contributed to this lower overall spending.

i. Recurrent Expenditure

Total recurrent spending at FRW 426.5 billion was only FRW 1.7 billion lower than the FRW 428.2 billion projected for the period. Excess spending under goods and services was more than offset by lower spending under wages and salaries and transfers resulting in the overall lower expenditure.

Wages and Salaries

Expenditure for wages and salaries amounted to FRW 101.9 billion and was FRW 3.8 billion lower than the FRW 105.7 billion estimated for the period. Delayed recruitment of some staff for some Ministries and Departments accounted for the lower spending. During the July-December 2014 period, the amount spent allowed salaries of Teachers in pre-primary, primary and secondary schools amounting to FRW 36.9 billion as well as salaries of health staff in districts of FRW 12.9 billion to be paid.

Goods and Services

Spending under goods and services of FRW 101.6 billion was FRW 10.8 billion higher than the FRW 90.8 billion estimated for the period. Front-loading of some spending on drugs, vaccines and other medical supplies, ICT equipment and software, consultancy services as well as repairs and maintenance of official buildings and equipment accounted for the excess spending during this period.

Debt Payments (Interest and Principal)

A total amount of FRW 39 billion was spent on debt payments (both interest and principal) during the July-December 2014 period. This figure was FRW 4.1 billion lower than the FRW 43.1 billion estimated for the period. Delayed payment of some domestic principal debt accounted for the lower spending. This debt was paid in January 2015. In the case of domestic interest payments, there was a small excess of FRW 0.3 billion. This was due to a larger than expected sales of Government securities for the financing of the budget than estimated. The larger sales were in turn due to delays in donor budget support disbursements mentioned above.

Transfers and Subsidies

The expenditure of FRW 140.3 billion in the July-December 2014 period was FRW 9.3 billion lower than the FRW 149.7 billion projected for this period. Delayed payments of some international subscriptions amounting to FRW 4.2 billion as well as transfers to some institutions during the last days of the year accounted for the lower expenditure. Since beginning of the year the delayed payments have been made.

The amount spent under Transfers and Subsidies in the July-December 2014 period allowed the transfer of FRW 38.9 billion to the districts for their administrative operations. FRW 16.9 billion was also given to the district administrations as capitation grants for schools whilst FRW 7.4 billion went into school feeding in the districts. The Rwanda Education Board (REB) received FRW 11.8 billion for its operations including scholarships, whilst FRW 12.4 billion went to the Government tertiary institutions. EWSA received subsidies of FRW 31.3 billion for its operations whilst the Rwanda Agricultural Board (RAB) and the Workforce Development Agency (WDA) received FRW 3.2 billion and FRW 4.8 billion respectively for their activities.

Exceptional Expenditure

Spending under exceptional expenditure amounted to FRW 60.9 billion as against FRW 60.6 billion projected for the period. Within this total spending, expenditure on PK Operations amounted to FRW 47.4 billion whilst assistance to victims of genocide (FARG) took an amount of FRW 11.3 billion. Expenditure on demobilization and reintegration accounted for the remaining FRW 2.2 billion.

ii. Capital Expenditure

Total capital expenditure of FRW 307.6 billion in the July-December period was FRW 31.4 billion lower than the FRW 339 billion projected for the period. Whilst there was a small excess spending under foreign financed capital expenditure, the lower outlays under domestically financed portion accounted for the shortfall.

In the case of the foreign financed portion, expenditure of FRW 179 billion was FRW 7.3 billion higher than the FRW 171.7 billion estimated for the period. The excess spending was due to the “front-loading” of some draw-downs by IDA for the energy access projects and EXIM BANK (China) for the Kivu belt regional roads project.

Regarding the domestically financed part, expenditure of FRW 128.6 billion was FRW 38.7 billion lower than the FRW 167.4 billion estimated for the period. The shortfall was mainly due to delays in implementing several infrastructure projects notably in the energy sector. In many cases administrative bottlenecks caused the delays. Since the beginning of 2015, there has been an acceleration of spending as many of the bottlenecks have been removed.

Details of projects implemented during the July-December 2014 period are highlighted in the sectoral performance section of this report.

iii. Net Lending

Outlays under net lending amounted to FRW 24.8 billion in the July-December 2014 period. This amount was FRW 38.1 billion lower than the FRW 62.8 billion estimated for the period. The lower spending was due to delays in continuation of work on the KCC project as well as implementation of some strategic investment projects notably in the export sector.

c) Deficit and financing

The table below shows the details of the deficit and financing in the July-December 2014 period.

Table. Financing

(billion Rwf)	July - December 2014 Proj.	Prov.
Financing	130.4	29.1
Foreign financing (net)	98.4	103.5
Drawings	105.1	110.2
Budgetary loan	58.9	56.7
Project loans	46.2	53.5
Amortization (due)	-6.7	-6.8
Domestic financing	32.0	-74.4
Banking system (Monetary Survey)	37.0	-12.9
Non bank (Net)	-5.0	7.6
Gvnt Securities (Net)	10.0	18.0
Non Bank Sector Debt Repayment	-15.0	-10.4
Adjustment-Deposit drawdown (including Agaciro)	0.0	-69.2
Source: MINECOFIN		

As mentioned above, the delayed budget support disbursements together with the revenue shortfall led to lower than expected spending by Government during the July-December 2014 period. Furthermore the fact that a large amount of donor resources was disbursed during the last days of December and therefore could not be used for the payment of outstanding bills, meant that a ‘float’ of delayed payments of FRW 41.7 billion had to be carried over to 2015 thereby reducing the fiscal deficit. As a result of these developments, the Government’s fiscal operations closed the year with a smaller overall deficit of FRW 29.1 billion which was FRW 101.4 billion lower than the FRW 130.4 billion initially projected for the period.

The table below shows the details of projects and loans disbursements in the July-December 2014 period.

Table. Financing

Creditor	July - December 2014	
	Proj.	Prov.
Project Loans	**67.1**	**77.7**
Arab Bank for Economic Development in Africa (BADEA)	1.5	1.8
EXIM - China (EXIMCHINA)	8.5	23.1
EXIM - India (EXIMINDIA)	6.2	1.9
African Development Fund (ADF)	5.5	0.1
International Fund for Agriculture Development (FIDA)	3.6	5.5
Koweti Fund for Arab Economic Development (KFAED)	4.2	2.5
Saudi Fund for Development (SFD)	1.8	0.0
International Development Association (IDA)	29.3	37.3
Organization of the Petroleum Exporting Countries (OPEC)	6.4	5.5
Budget Loans	**85.5**	**81.7**
African Development Fund (ADF)	25.5	24.7
International Development Association (IDA)	60.0	57.0
Total	**152.6**	**159.4**

Source: MINECOFIN

With the accrual of net foreign loan disbursements of FRW 103.5 billion including the disbursement of IDA and AfDB budgetary loans of FRW 56.7 billion at end December 2014, the Government was able to finance the deficit and at the same time accumulate net resources of FRW 74 billion in the domestic financial system. This amount included a build- up of unused deposits amounting to FRW 12.9 billion with BNR. Additional build-up of deposits not reflected in monetary accounts in relations to higher than projected disbursements of Global Fund partly explain the remainder of domestic financing in July-December 2014. All these accumulated resources have since been used in the beginning of 2015 to clear the ‘float’ carried over from 2014.

In the revised budget, the overall deficit of FRW 130.4 billion was expected to be financed with net foreign loan disbursements of FRW 98.4 billion and net domestic borrowing of FRW 32 billion.

II.3. Monetary Developments

The table below shows monetary developments in the period 2013 to 2014.

Table. Monetary Statistics

	2013	2014				Change (%)			
	Dec	Mar	Jun	Sep	Dec	Dec-13/ Sep-13	Dec-14/ Sep-14	Dec-13/ Dec-12	Dec-14/ Dec-13
Net foreign assets	**744.0**	**669.6**	**733.0**	**659.0**	**702.5**	**8.9**	**6.6**	**33.9**	**-5.6**
Net domestic assets	284.7	377.0	490.9	549.7	516.2	-2.6	-6.1	-14.8	81.3
Domestic credit	567.1	679.2	801.8	913.8	876.0	4.9	-4.1	4.2	54.5
Central government (net)	-187.3	-105.1	-13.3	54.0	-31.4	-2.5	-158.1	36.8	83.3
Private sector	758.0	788.3	817.8	858.7	906.3	2.9	5.5	11.1	19.6
Other items net (Assets: +)	-282.5	-302.2	-310.8	-364.0	-359.8	13.7	-1.2	34.5	27.4
Broad money M3	**1028.7**	**1046.6**	**1224.0**	**1208.7**	**1218.7**	**5.4**	**0.8**	**15.6**	**18.5**
Currency in circulation	116.6	109.4	119.4	105.6	118.5	9.5	12.2	9.0	1.7
Deposits	912.1	937.2	1104.5	1103.1	1100.2	4.9	-0.3	16.5	20.6
o/w: Transferable deposits	378.7	386.0	445.0	442.7	451.1	-1.8	1.9	18.9	19.1
Other deposits	339.2	348.9	392.0	410.5	407.3	5.2	-0.8	13.0	20.1
Foreign currency deposits	194.2	202.2	267.6	249.8	241.8	20.5	-3.2	17.9	24.5

In 2014, inflationary pressures remained subdued and as such the National Bank of Rwanda continued to implement an accommodative monetary policy to support the economic recovery. The NBR has continued to focus on limiting the risks from monetary inflation and anchoring inflationary expectations, while containing pressures on the exchange rate. The key policy rate was reduced by 50 basis points to 6.5 percent in June 2014.

a) Exchange Rate Developments

The exchange rate remained fundamentally market driven and the Rwandan Franc depreciated by 3.6 percent in 2014, compared to 6.1 percent for 2013. In 2014, the banking system recorded an increase of 10 percent in foreign resources and 8 percent in expenditures compared to 2013, leading to excess liquidity of USD 12.7 million in commercial banks. These developments contributed to the stability of FRW in commercial banks and forex bureaux and this created a room for BNR to reduce its foreign exchange sales to banks.

With regards to the East African region, the FRw appreciated against all regional currencies, except the Burundi franc. It appreciated by 2.8% against the Kenyan shilling, 6.7% versus the Ugandan shilling, and by 7.0% against the Tanzanian shilling but depreciated by 1.0% versus the Burundian franc. The appreciation of FRW against shilling was due to the weakened regional currencies against USD.

b) Interest Rates Developments

Following the accommodative monetary policy conducted by BNR, money market rates (repo, T-bills and interbank rates) declined and stood at 2.8%, 4.9% and 4.7% at end December 2014 from 4.0%, 5.6% and 5.6% respectively at the corresponding period of 2013.

The deposit interest rate on average, reduced to 8.2% in 2014 from 9.9% recorded in 2013, while lending rate also slightly reduced to 17.2% in 2014 from 17.3% in 2013 on average. The weak responsiveness of the lending rate to the change in key repo rate is due to, among other factors, high operating costs in the banking sector and high provisions for bad loans despite declining in NPL ratio. In addition, behaviour of borrowers such as lack of information on loans conditions and culture of not bargaining with banks has contributed to the rigidities in lending rate charged by banks.

	2013						**2014**						
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
BNR Policy Rates													
Key Repo Rate	7.0	7.0	7.0	7.0	7.0	7.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Discount Rate	11.0	11.0	11.0	11.0	11.0	11.0	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Money Market and interbank Rates													
Interbank Rate	5.6	5.59	5.8	5.8	5.7	5.7	5.7	5.5	5.5	5.6	5.7	5.7	4.7
Repo rate	4.0	4.3	3.7	3.3	3.1	3.6	3.7	3.9	4.4	4.2	3.9	3.2	2.8
T-Bills Rate	5.6	6.36	6.1	6.0	6.0	5.9	5.6	5.5	5.2	5.5	5.3	5.1	4.9
Commercial Banks Rates													
Deposit Rate	8.6	8.9	8.0	8.3	8.1	9.3	8.6	8.4	8.8	7.3	7.3	8.2	7.8
Lending Rate	16.9	17.45	17.1	16.8	17.4	17.2	17.5	17.2	17.4	17.1	17.5	16.7	17.7
Real deposit rate	5.0	6.5	4.6	4.9	5.3	7.4	7.2	6.5	7.9	7.1	6.8	6.9	5.7
Real lending rate	13.3	15.1	13.7	13.4	14.7	15.3	16.1	15.3	16.5	16.9	17.0	16.0	15.6

c) Financial Sector Development

Rwanda's financial system continues to grow in terms of size and structural composition of the financial sector and functioning of financial markets. Rwanda's financial sector remains dominated by commercial banks which account for 66.6% of the total assets of the sector followed by pensions (17.7%), insurance (9.8%) and micro finance institutions (5.9%). However, the share of commercial banks in total assets of the financial sector has been declining over the last five years, from 72.6% in 2010 to 66.6% in 2014 showing structural changes in the composition of the sector.

For the year ended December 2014, the banking sector was composed of ten commercial banks; four microfinance banks; one development bank and one cooperative bank. The entry of new banks in the banking sector in Rwanda and the extension of the banking network have contributed to increase the competition in the industry.

In terms of bank balance sheet, the banking sector's balance sheets remained healthy as total assets increased by 19.3% end December 2014 amounting FRW 1.80 trillion from FRW 1.51 trillion realized in December 2013. For the year 2014, total assets of the banking sector were dominated by loans to the private sector accounting for 56.1% and by investment in financial securities (13.5%). On the other hand, total liabilities of banks were dominated by deposits accounting for 81.2% of the total liabilities.

In the case of non- performing loans of the commercial banks, the asset quality of the industry improved with non-performing loan ratio (NPLs ratio) declining to 6.0% end December 2014 compared to 6.9% recorded end December 2013. The banking sector continued to register good profitability. The net profit after tax for the industry rose by 54.3% from FRW 22.64 billion end December 2013 to FRW 34.94 billion December 2014. Return on assets (ROA) and return on equity (ROE) stood at 1.9% and 10.8% respectively.

The microfinance sector comprises 493 entities including 13 limited companies; 64 non-UMURENGE SACCOs and 416 UMURENGE SACCOs. The sector's asset grew by 23.8% from FRW 128.7 billion in December 2013 to FRW 159.3 December 2014 largely drive by loans as rose by 22.4%. On the liability side, deposits increased by 23.9% from FRW 69.5 billion in December 2013 to FRW 86.1 December 2014.

Umurenge SACCOs which represent 45.3% and 52.9% of the total MFIs assets and deposits respectively continued to demonstrate their financial independence. By end December 2014, 382 out of 416 U-SACCOs (which represent 91.8%) had break-evened- able to manage their own expenses without any external support compared to 356 SACCOs (85.5%) recorded end December 2013.

III. OBJECTIVES AND POLICIES FOR THE MEDIUM TERM 2015/16- 2017/18

III.1. Overview of 2015/16 policies and medium term macro-economic framework

The next FY 2015/16 will be one of consolidation and GDP growth is projected at a conservative 6.5% in 2015 and 2016 before returning to higher growth path over the medium term.

a) Real sector projections

The tables below show the sectoral projections for 2015 and 2016.

Price constants 2011 (in billion Rfw)

	2014	2015 proj	2016 proj
GROSS DOMESTIC PRODUCT (GDP)	**4,685**	**4,988**	**5,309**
AGRICULTURE, FORESTRY & FISHING	**1,441**	**1,516**	**1,597**
Food crops	996	1,046	1,102
Export crops	79	88	95
Livestock & livestock products	149	159	171
Forestry	202	207	213
Fishing	15	15	15
INDUSTRY	**696**	**754**	**814**
Mining & quarrying	91	106	123
Manufacturing	228	237	255
Electricity	16	19	23
Water & waste management	16	18	20
Construction	**345**	**374**	**392**
SERVICES	**2,290**	**2,454**	**2,633**
TRADE &TRANSPORT	**784**	**842**	**897**
Maintenance and repair of motor vehicles	22	23	25
Wholesale & retail trade	615	660	702
Transport services	147	158	171
OTHER SERVICES	**1,506**	**1,613**	**1,736**
Hotels & restaurants	113	121	130
Information & communication	144	156	176
Financial services	140	151	160
Real estate activities	311	325	346
Professional, scientific and technical activities	110	114	117
Administrative and support service activities	119	124	131
Public administration and defence; compulsory social security	164	179	188
Education	147	157	163
Human health and social work activities	55	59	66
Cultural, domestic & other services	203	227	258
Taxes less subsidies on products	**260**	**263**	**265**

Annual change	2014	2015 proj	2016 proj
GROSS DOMESTIC PRODUCT (GDP)	**7.0%**	**6.5%**	**6.5%**
AGRICULTURE, FORESTRY & FISHING	**5.3%**	**5.2%**	**5.3%**
Food crops	6%	5%	5%
Export crops	-2%	12%	8%
Livestock & livestock products	8%	7%	7%
Forestry	3%	3%	3%
Fishing	7%	2%	2%
INDUSTRY	**6.1%**	**8.4%**	**7.9%**
Mining & quarrying	11%	16%	17%
TOTAL MANUFACTURING	1%	4%	8%
Electricity	14%	22%	21%
Water & waste management	7%	13%	10%
Construction	8%	8%	5%
SERVICES	**9.0%**	**7.2%**	**7.3%**
TRADE &TRANSPORT	**9.0%**	**7.4%**	**6.6%**
Maintenance and repair of motor vehicles	7%	6%	6%
Wholesale & retail trade	9%	7%	6%
Transport services	8%	8%	8%
OTHER SERVICES	**9.1%**	**7.1%**	**7.6%**
Hotels & restaurants	4%	7%	8%
Information & communication	17%	9%	13%
Financial services	5%	8%	6%
Real estate activities	8%	5%	6%
Professional, scientific and technical activities	3%	3%	3%
Administrative and support service activities	6%	5%	5%
Public administration and defence; compulsory social security	7%	9%	5%
Education	7%	7%	4%
Human health and social work activities	10%	8%	11%
Cultural, domestic & other services	19%	12%	14%
Taxes less subsidies on products	**2.4%**	**1.2%**	**0.9%**

Rwandan economy is expected to growth by 6.5 per cent respectively for 2015 and 2016. Agriculture is expected to growth by 5.2 per cent, industry by 8.4 per cent and services by 7.2 per cent.

In the medium term, it is expected that the agriculture sector will continue to benefit from the implementation of the ongoing program (increase areas under irrigation for both marshland and hillside and involvement of the private sector in operation, management and maintenance of large scale irrigation schemes through land lease contracts). The export crops is optimistic based on efforts invested in recent years majority of coffee and tea plantation will enter in their full production in addition to efforts invested in productivity improvement.

Industry sector is expected to be boosted by manufacturing, construction and electricity. Manufacturing growth will benefit from the recovery of Bralirwa, increased capacity of CIMERWA and other small companies involved in food production. Construction will benefit from large projects on going such as Kagitumba - Kayonza - Rusumo road project, urban roads project and development of Real Estates in pipeline. Electricity growth is mainly based on the completion of Nyabarongo in the last quarter of 2014. Water Supply will benefit from the completion of the water systems in Nyirambuga and Musenge (Rulindo Disctrict) constructed by the Water and Sanitation Corporation. Nyirambuga will supply 46 000 people of Tumba, Base, Bushoki and Buyoga sectors while the Musenge project will ease water problems for about 6, 000 people of Mbogo sector. I addition, the new water treatment plant near the old Nzove plant is expected to be completed in July 2015 (Capacity 25000 m3/day)

The service sector is expected to see a lot of activity in the medium term, helping to keep the high performance. The growth in services is expected to come from trade, transport, real estate, financial services, hotel and restaurant and communication. Trade will be boosted by local production (agriculture and industry) and imports, transport will benefit from the good harvest in agriculture and the impact of the big number of new buses imported recently and the new plane for Rwandair expected in 2015. Hotel and restaurant will be boosted by international meetings and conferences which are increasingly attracted to the country and it is hoped the completion of Convention Centre and Marriott hotel will contribute to attract more visitors.

b) Inflation

Inflation declined from 2.1 per cent at end December 2014 to 0.8 per cent at end March 2015. With good agriculture production expected on the domestic side and declining commodity prices globally, Government expects inflation to remain low and not exceed 3.5 percent by end 2015. In the medium term it is expected to be contained at below 5 percent.

c) External Sector Projections

The table below shows the details of the medium term balance of payments.

Table. External sector projections

	2010	2011	2012	2013	2014	2015	2016
USD Millions							
Trade balance	**-786.7**	**-1101.6**	**-1268.3**	**-1148.4**	**-1277.0**	**-1375.2**	**1253.3**
Exports, f.o.b	297.3	464.2	590.8	703.0	723.1	764.4	846.5
Coffee	56.1	74.6	60.9	54.9	59.7	64.1	62.9
Tea	55.7	63.9	65.7	55.5	51.8	62.0	68.9
Imports, f.o.b	-1084.0	-1565.8	-1859.0	-1851.5	-2000.1	-2139.6	-2099.8
Services and incomes (net)	**-288.7**	**-238.7**	**-159.1**	**-236.8**	**-234.0**	**224.7**	**-201.8**
services (net)	-246.2	-186.9	-85.2	-122.4	-77.3	-51.1	-10.2
Incomes (net)	-42.5	-51.8	-73.8	-114.4	-156.6	-173.5	-191.5
Current transfers (net)	**657.4**	**880.5**	**722.5**	**847.8**	**578.0**	**571.9**	**584.9**
Private	90.7	133.3	183.0	181.4	179.9	201.3	210.4
Public	566.7	747.2	539.5	666.4	398.1	370.6	374.5
Current account balance	**-426.8**	**-465.3**	**-734.6**	**-557.5**	**-932.9**	**-1028.0**	**-870.2**
Capital and financial account	**564.8**	**729.9**	**568.6**	**895.8**	**966.0**	**954.3**	**895.7**
Capital transfers	285.6	196.7	171.2	234.5	337.1	300.1	202.4
Long term debt	85.0	149.9	148.4	168.4	137.9	214.9	183.7
Foreign direct investment	258.0	206.7	260.9	259.3	269.4	283.1	298.6
Overall balance	**72.1**	**234.5**	**-212.4**	**228.5**	**-90.4**	**-106.4**	**41.1**
Change in net foreign assets of NBR	**-72.1**	**-234.5**	**212.4**	**-228.5**	**90.4**	**106.4**	**-41.1**
change in gross reserves	-69.1	-251.8	206.3	-226.9	84.3	106.4	-41.1

Decreases in global commodity prices for Rwanda's main commodity exports are expected to unfavourably affect exports. Exports in 2015 are expected to grow in value terms by 6% percent rising from US$ 723.1 million in 2014 to US$ 764.4 million in 2015. Coffee and tea are projected to yield US$ 64.1 million from US$ 59.7 million in 2014 and US$62 million from US$ 51.8 million in 2014, respectively. This performance is the result of an increase in volume by 10.8 % and 12.7%, and a decline in international prices of about 3.1% for coffee and a slight increase of 6.3% for tea. For 2016, coffee will decline in term of value especially due to the expected decline in volume (previous years trend was taken into consideration). Tea is expected to increase by 11% especially due to the volume increase of 10%. In general, minerals will increase by 12% and 17% in terms of value due to the expected increase in volume of 16.4% in 2015 and 16.6% in 2016. On prices side, all 3T (Tin, tantalum and tungsten) will decline due to the low demand of electronic companies especially in Asia, which is the largest market of Rwanda's minerals. Other products will decline in 2015 due to the oil price decrease and the big contributor is the re- exports of oil and machinery within the neighbouring countries especially in DRC and Burundi.

New measures are considered under the IDEC (Investment, Development and Exports council) framework where flagship projects have been highlighted for boosting exports, such as garment Chinese company which is expected to start operating in 2015, Gishari flower park project, and Stevia life Ltd. The purpose is support some specific industries to double the number of one million dollar exporters, with a potential to double the exports growth already projected.

Basing on the ongoing economic activities, especially in construction sector, imports value (fob basis) are projected to increase by 7% in 2015 and decline by 2% in 2016. Capital and intermediate goods imports (infrastructure related) will contribute a large share in 2015 for the implementation of delayed projects, and this will impact negatively the trade balance deficit, as well as current account balance. This will result in an overall balance of payments deficit of US$ 106.4 million which will be partly financed with the unused EURO bonds receipts allocated to the Kigali Convention Centre. Therefore, foreign exchange reserves at the end of 2014 will cover 4.5 months of imports. Energy imports also will decline due to drop in oil price at about 25% in 2015. However, imports value will decline by 2% in 2016, especially due to the drop of 14% in consumer goods because of the expansion of domestics companies. Addition to that, implementation of some big projects will done, which cause the increase of capital and intermediate goods in 2015. With these projections both the trade balance and current account deficits are expected to decline by 9% and 15% respectively. Reserves at end 2015 are also projected to cover 4 months of imports.

d) External Debt Policy

External debt was US$ 1,761 million at the end of 2014, or 22.3 per cent of GDP excluding debt guaranteed by the government worth US$ 75 million or 1 per cent of GDP. This represents an increase of 2.3 per cent of GDP compared to the stock of end December 2013 as a result of additional IDA, AfDB, and Exim China loan which were invested in energy, roads, and the agriculture sector.

The higher borrowing was due to the improvement in the risk of external debt distress from “moderate” to “low” which implied a change in the composition of IDA/AfDB assistance from a grant & credit mix, to credit only.

Going forward, the low risk status will enable the GoR to access a larger financing envelope at highly concessional terms from, not only multilateral creditors, but also bilateral creditors like Japan with the “Yen Loans”.

The latest Debt sustainability analysis revealed that Rwanda is still at low risk of debt distress, mainly attributed to the fact that the composition of external debt is dominated by concessional debt, while the growth of exports of goods and services was projected at a conservative level of 6 per cent over the medium term, hence keeping all the risk indicators well below their indicative thresholds.

Regarding non-concessional borrowing, the analysis includes US$ 160 million from PTA Bank for the purchase of two wide-body aircrafts as per Rwandair fleet plan for FY 2015/16 and FY 2016/17. Going forward, the GoR may envisage more non-concessional debt if other cheaper funding options are exhausted.

II.2. Medium term Fiscal Framework

Fiscal consolidation through increased revenue mobilization and expenditure prioritisation to reflect reduced reliance on donor funds remain the key objective of Government in the medium term. This is supported by the fact that total donor support grants amounted to 9.2 percent of GDP in 2013/14 then declined to 7.3 percent of GDP in 2014/15 and is now projected to further decline to 5.7 percent of GDP in 2015/16 and 4.6 and 4.7 percent of GDP respectively in 2016/17 and 2017/18.

Recent performance in revenue collection has shown that yields from revenue measures do not materialize within the expected timeframe and take longer than anticipated. The medium term revenue forecasts take into account this fact and are based on more gradual increases in revenue collections than previously assumed. While collections relative to GDP in 2015/16 are assumed to remain at about 15.4 percent of GDP, they are expected to rise annually by 0.3 percent of GDP on average in following years.

In the case of outlays, the major focus in the medium term is to implement a prioritization policy that will allocate adequate resources for the completion of on-going strategic investment and social protection projects and programs and also take on board new expenditures that are necessary to achieve the EDPRS 2 objectives. Accordingly, total expenditure and net lending which amounted to 29.9 percent of GDP in 2014/15 is projected to decline to 27.5 percent of GDP in 2015/16, and stabilize at about 26.3 percent of GDP in 2016/17 and 2017/18.

Reflecting these lower ratio of outlays on GDP, the overall deficit (on cash basis) which stands at 5.2 percent of GDP in 2014/15 is projected to decline to 4.6 percent of GDP in 2015/16, and stabilize at around 4.1 percent of GDP in 2016/17 and 2017/18. Domestic finance of the budget at 1.7 percent of GDP in 2014/15 is projected at 1.2 percent of GDP in 2015/16 and reduce by half relative to GDP each year to reach 0.3 percent of GDP in 2017/18.

a) The Budget for Fiscal Year 2015/16

The table below shows a summary of the budget for fiscal year 2015/16 to 2017/18.

Fiscal projections (2015-16 – 2017 /18, billion FRw)

(billion RwF)	2014/15 Revised Budget	2015/16 Budget	2016/17 Budget	2017/18 Budget
RESOURCES				
Domestic revenue	**997.4**	**1,038.1**	**1,176.3**	**1,273.8**
Tax revenue	894.6	938.6	1,072.1	1,173.6
Direct taxes	364.0	387.6	442.7	509.0
Taxes on goods and services	461.5	486.4	554.9	637.1
Taxes on international trade	69.1	64.6	74.5	27.5
Non-tax revenue	102.9	99.5	104.2	100.2
Domestic financing	**131.2**	**134.6**	**104.1**	**69.3**
Sale of Securities, net (Bank & non-bank T-Bills and Bonds)	54.8	30.0	34.0	36.0
Use of BNR deposit	76.4	104.6	70.1	33.3
Accumulation of arrears	0.0	0.0	0.0	0.0
Grants	**417.1**	**358.4**	**327.1**	**350.7**
Budget Support	176.1	189.9	183.6	102.9
Project Support	241.0	168.4	143.5	247.8
Loans	**212.6**	**233.2**	**271.7**	**340.4**
Budgetary Loans	107.1	121.4	95.0	170.2
Project loans	105.5	111.8	176.7	170.2
Net Lending (repayments)	**4.0**	**4.0**	**2.5**	**2.5**
Other Receipts (errors and ommissions)	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL RESOURCES	**1,762.3**	**1,768.2**	**1,881.7**	**2,036.7**
EXPENDITURES				
Recurrent Budget	**842.6**	**858.1**	**937.3**	**979.0**
Wages and salaries	207.0	222.0	248.1	279.5
Purchases of goods and services	151.2	159.8	170.1	191.6
Interest payments	42.9	54.3	60.7	70.0
Domestic	15.6	24.6	28.3	30.1
External	27.3	29.7	32.4	39.9
Amortization	48.2	48.0	54.1	58.0
Domestic (non bank)	33.0	30.0	34.0	36.0
External	15.2	18.0	20.1	22.0
Transfers	301.0	273.2	298.0	270.0
Exceptional expenditure	92.3	100.8	106.3	109.9
Development Budget	787.0	747.3	828.5	957.8
Domestically financed	440.4	467.1	508.3	539.8
Externally financed	346.6	280.2	320.2	418.0
Net Lending (lending)	122.8	132.3	84.2	86.2
Arrears Payment	10.0	11.4	13.0	13.2
Accumulation of Deposit	0.0	0.0	0.0	0.0
Other Payments	0.0	19.1	18.8	0.5
TOTAL EXPENDITURES	**1,762.3**	**1,768.2**	**1,881.7**	**2,036.7**

The budget for fiscal year 2015/16 is consistent with the medium term fiscal framework. It broadly continues the policy started in 2014/15. Tax revenue collections are projected at FRw 938.6 billion and include measures expected to yield 0.5 percent of GDP receipts or FRw 29.5 billion. These measures are the increase in fuel levies for FER and the Strategic reserves expected to generate FRw 13.9 billion; an infrastructure levy expected to generate FRw 10.6 billion and a revision of tobacco taxation expected to yield FRw 5 billion. Budgetary support will reflect the shift already observed in 2014/15 from budget grants to budget loans as Rwanda's risk of debt distress abates.

The total budget for fiscal year 2015/16 is projected at FRW 1,768.2 billion, compared to the 2014/15 revised budget of FRW 1762.3 billion. There is therefore an increase of FRW 6.0 billion in nominal terms despite the lower ratio to GDP.

Total domestic revenue collections are estimated at FRW 1,038.1 billion (17.5 percent of GDP). Of this amount FRW 938.6 billion is expected to come from tax revenue whilst FRW 99.5 billion will accrue from non-tax revenue including PKO reimbursements. Gross Domestic financing is projected at FRW 134.6 billion. This amount excludes local government taxes and non-tax revenues which are expected to increase from FRW 28.7 billion in 2014/15 revised budget to FRW 55.5 billion in 2015/16.

Total grants are projected at FRW 358.4 billion (5.7 percent of GDP) as against FRW 417.1 billion (7.3 percent of GDP) in 2014/15, showing a reduction of FRW 58.8 billion. Budget support grants are FRW 189.9 billion (including Global Fund disbursement of FRW 70.1 billion) whilst capital grants are estimated at FRW 168.4 billion. Total loans are projected at FRW 233.2 billion, or FRW 20.6 billion higher than the FRW 212.6 billion in the revised 2014/15.

On the outlays side, recurrent spending is estimated at FRW 877.3 billion, up from FRW 842.6 billion in 2014/15. Capital outlays are projected at FRW 747.3 billion as against FRW 787 billion in 2014/15. There is therefore a decrease in total capital spending of FRW 39.7 billion due mostly to expected lower project grants disbursements.

Domestically financed capital spending nevertheless increase by FRW 26.7 billion compared to 2014/15.

The 2015/16 budget is expected to close the fiscal year with an overall cash deficit of 290 billion (4.6 percent of GDP) as against FRW 295.6 billion (5.2 percent of GDP) in 2014/15. With net foreign financing of FRW 215.2 billion, domestic financing of the 2015/16 budget will amount to FRW 74.9 billion. Of this amount FRW 59.3 billion will represent the remaining unused EURO bonds for KCC that was not spent in 2014/15. New bank borrowing will amount to FRW 29.9 billion.

i. Estimation of Revenue and Grants

The table below shows details of resources comprising total revenue and grants.

Table. Total revenue and grants

	2014/15	2015/16	2016/17	2017/18
(billion RwF)	Revised Budget	Budget	Budget	Budget
RESOURCES	**1762.3**	**1768.2**	**1881.7**	**2036.7**
Domestic revenue	**997.4**	**1,038.1**	**1,176.3**	**1,273.8**
Tax revenue	894.6	938.6	1,072.1	1,173.6
Direct taxes	364.0	387.6	442.7	509.0
Taxes on goods and services	461.5	486.4	554.9	637.1
Taxes on international trade	69.1	64.6	74.5	27.5
Non-tax revenue	102.9	99.5	104.2	100.2
Domestic financing	**131.2**	**134.6**	**104.1**	**69.3**
Sale of Securities, net (Bank & non-bank T-Bills and Bonds)	54.8	30.0	34.0	36.0
Use of BNR deposit	76.4	104.6	70.1	33.3
Accumulation of arrears	0.0	0.0	0.0	0.0
Grants	**417.1**	**358.4**	**327.1**	**350.7**
Budget Support	176.1	189.9	183.6	102.9
Project Support	241.0	168.4	143.5	247.8
Loans	**212.6**	**233.2**	**271.7**	**340.4**
Budgetary Loans	107.1	121.4	95.0	170.2
Project loans	105.5	111.8	176.7	170.2
Net Lending (repayments)	**4.0**	**4.0**	**2.5**	**2.5**
Other Receipts (errors and ommissions)	**0.0**	**0.0**	**0.0**	**0.0**

Domestic Revenue Projections

Tax Revenue Projections

In fiscal year 2015/16, total tax revenue collections have been projected at FRW 938.6 billion (15.4 percent of GDP) as against a revised 2014/15 target of FRW 894.6 billion (15.7 percent of GDP). There is therefore a nominal increase of FRW 44.0 billion in tax efforts despite the lower ratio. The continued good economic performance as well as implementation of on-going and new reform measures will allow RRA to meet this tax revenue target.

In the area of direct taxes an increase from FRW 364 billion in 2014/15 to FRW 387.6 billion is projected showing a rise of FRW 23.6 billion. This excludes a total amount of FRW 26.1 billion from decentralized taxes collected by RRA on behalf of the Local Governments. This is consistent with the policy to broaden the tax base to increase revenue collection of the state.

Taxes on goods and services are rising from FRW 461.5 billion in 2014/15 to FRW 486.4 billion showing an increase of FRW 24.9 billion. These include collections of FRW 5.3 billion levied on fuel consumption for road maintenance, and FRW 8.6 billion for strategic reserves. The estimate for taxes on international trade is FRW 64.6 billion compared to FRW 69.1 billion in 2014/15 showing a marginal decrease of FRW 4.5 billion. Projected collections on taxes on international trade take into account receipts from the infrastructure levy on imports of FRW 10.6 billion and tobacco imports of FRW 5 billion.

New tax measures:

The following measures are to be effective in FY2015/16 with their related revenue impact:

- *Increased levy on fuel for Road Maintenance Fund: FRW5.2 billion*
- *Introduction of a levy on fuel for Strategic Oil Reserves: FRW8.6 billion*

- *Changing the excise tax for Tobacco: FRW5 billion*
- *Introduction of the infrastructure levy on imports: FRW10.6 billion*

Moreover, RRA will continue to enforce compliance, in particular with regard to VAT, including the proper use of EBMs as well as a program on voluntary disclosure. The latter is also expected to help widening the tax base. These administrative measures are estimated to yield an additional FRW 11.5 billion.

With regard to local government tax revenues, the property tax law is being revised to reflect an increase of the taxation rate, especially for urban land, with the objective of making it progressive. The increased rate is better aligned to our urbanization policy for improved land management purposes. This will further support the expected increase in the collection of LGTR from 13.5 billion in FY2014/15 to FRW 26.1 billion in FY 2015/16.

Non tax Revenue Projections

For fiscal year 2015/16 non tax revenue collections have been projected at FRW 99.5 billion as against projections of FRW 102.9 billion in 2014/14, showing a decrease of FRW 3.4 Billion. The estimate for PKO receipts in 2015/16 is FRW 70.8 billion which is FRW 8.5 billion higher compared to 2014/15 on account of increased troops deployment. Projected non-tax revenues exclude local government non-tax revenues of FRW 29.2 that will be collected by RRA on behalf of the Local Governments.

External Resources

External resources for the budget comprise budgetary and capital grants as well as project loans.

Grants

Total grants to be disbursed for the 2015/16 budget have been estimated at FRW 358.4 billion as against FRW 417.1 billion in 2014/15 reflecting a decrease of FRW 58.8 billion.

Budgetary Grants

Budgetary grants for 2015/16 will amount to FRW 189.9 billion (US$ 267.8 million) compared to FRW 176.1 billion (US$ 255.6 million) in fiscal year 2014/15. There is therefore an increase of FRW 13.9 billion equivalent to US$ 19.5 million.

Capital Grants

The estimate of FRW 168.4 billion in 2015/16 is FRW 72.6 billion lower than the FRW 241 billion in 2014/15. As mentioned above under budgetary grants this reduction is due to the reclassification of a large share of Global fund grants from capital to budgetary grants.

Loans

Total loans to be disbursed 2015/16 budget have been estimated at FRW 233.2 billion as against FRW 212.6 billion in 2014/15 reflecting an increase of FRW 20.6 billion.

Budget loans

Budgetary loans for 2015/16 will amount to FRW 121.4 billion (US$ 171.2 million) compared to FRW 107.1 billion (US$ 155.5 million) in fiscal year 2014/15. There is therefore an increase of FRW 14.3 billion equivalent to US$ 20.2 million. It is expected that IDA will disburse US$ 70 million under the Program for Results (P4R) for Agriculture and PFM, and another US$ 80 million for the Social Protection program. The African Development Bank will disburse US$ 21.2 million for the SEEP program.

Capital Loans

In fiscal year 2015/16 project loan draw-downs have been estimated at FRW 111.8 billion (US$ 157.5 million) slightly higher than the FRW 105.5 billion (US$ 153.2 million) disbursed in 2014/15. Large shares of this amount will come from the World Bank, the AfDB and the Arab funds and will be used mainly for infrastructure projects in the energy and road sectors.

ii. Projection of outlays

The table below shows the details of outlays for 2014/15 and projections for 2015/16.

Outlays projections

(billion RwF)	2014/15 Revised Budget	2015/16 Budget	2016/17 Budget	2017/18 Budget
EXPENDITURES	**1,762.3**	**1,768.2**	**1,881.7**	**2,036.7**
Recurrent Budget	**842.6**	**858.1**	**937.3**	**979.0**
Wages and salaries	207.0	222.0	248.1	279.5
Purchases of goods and services	151.2	159.8	170.1	191.6
Interest payments	42.9	54.3	60.7	70.0
Domestic	15.6	24.6	28.3	30.1
External	27.3	29.7	32.4	39.9
Amortization	48.2	48.0	54.1	58.0
Domestic (non bank)	33.0	30.0	34.0	36.0
External	15.2	18.0	20.1	22.0
Transfers	301.0	273.2	298.0	270.0
Exceptional expenditure	92.3	100.8	106.3	109.9
Development Budget	787.0	747.3	828.5	957.8
Domestically financed	440.4	467.1	508.3	539.8
Externally financed	346.6	280.2	320.2	418.0
Net Lending (lending)	122.8	132.3	84.2	86.2
Arrears Payment	10.0	11.4	13.0	13.2
Accumulation of Deposit	0.0	0.0	0.0	0.0
Other Payments	0.0	19.1	18.8	0.5

i. Recurrent Expenditure

Recurrent expenditure in 2015/16 has been projected at FRW 877.3 billion showing an increase of FRW 34.7 billion compared to the revised budget estimate of FRW 842.6 billion in 2014/15. This level of spending takes into account the expenditure prioritisation policy.

Wages and Salaries

The allocation of FRW 222 billion in 2015/16 is FRW 15 billion higher compared to the revised fiscal year 2014/15 budget of FRW 207 billion. A large share of the increase will be spent on staff costs associated with structural changes in some ministries/agencies [budget to complete with details of sources of increase].

Goods and Services

Spending on goods and services has been projected at FRW 159.8 billion which is only FRW 8.6 billion higher than the allocation of FRW 151.2 billion in the revised 2014/15 budget. The marginal increase ensures business continuity in the running of public administration and reflects allocation to activities such as [budget to complete with details of sources of increase].

Interest Expenditure

An amount of FRW 54.3 billion has been set aside for interest expenditure in 2015/16. This amount is FRW 11.3 billion higher than the FRW 42.9 billion projected in the revised 2014/15 budget. FRW 24.6 billion is allocated for interest payment on domestic debt while FRW 29.7 billion is allocated for interest payment on external debt including FRW 18.8 billion for the Eurobond.

Transfers and Subsidies

Outlays for transfers and subsidies in 2015/16 have been projected at FRW 273.2 billion which is FRW 27.9 billion slightly lower than the allocation of FRW 301 billion in 2014/15 fiscal year. This increase provides adequate resources for the operations of the various development boards as well as for the funding of the various tertiary institutions in the country.

Exceptional Expenditure

An allocation of FRW 100.8 billion is being made for exceptional expenditure in 2015/16 as against FRW 92.3 billion in 2014/15. This allocation is FRW 8.5 billion higher compared to 2014/15. The increase is solely due to increased allocation for PKO spending owing to increased troops deployment both from the army and police.

Capital Expenditure

Total capital spending in 2015/16 has been estimated at FRW 747.3 billion which is FRW 39.7 billion lower than the FRW 787 billion in fiscal year 2014/15. This decline is mostly due to a net decline in external capital flows of FRW 66.4 billion reflecting a decrease in capital grants of FRW 72.6 billion and an increase in capital loans of FRW 6.2 billion compared to the revised 2014/15 budget. Domestically financed capital spending at FRW 467.1 billion is FRW 26.7 billion higher than the FRW 440.4 billion in the revised 2014/15 budget. .

Net Lending

The expenditure component under net lending in 2015/16 has been projected at FRW 132.3 billion compared to FRW 122.8 billion in 2014/15. The unspent amount as of end June 2015 on the Eurobond for KCC (FRW 59.3 billion) is included in the 2015/16 projections for the completion of the Kigali Convention Centre. Transfers to Rwandair in fiscal year 2015/16 have been projected at FRW 33.6 billion while an allocation of FRW 29.4 billion is also included to finance strategic investment for export promotion.

Debt Repayment

In fiscal year 2015/16 an amount of FRW 18 billion has been projected for external principal debt repayment whilst FRW 30 billion has been set aside for domestic debt. Total principal debt repayment will therefore not be very different from that in 2014/15, only decreasing by FRW 0.1 billion. In the case of external debt, a large share of the payments will be made to the multilateral agencies and some Arab creditors. Concerning domestic debt the payment to RSSB, and the maturing Treasury bond are the most important items.

iii. The Budget deficit and Financing

The table below shows the details of the financing of the 2014/15 and projections for the 2015/16 budget.

Table. Financing

(billion Rwanda Francs)	2014/15 Revised Budget	2015/16 Budget	2016/17 Budget	2017/18 Budget
Financing	295.6	290.0	291.6	338.5
Foreign financing (net)	197.5	215.2	251.6	318.4
Drawings	212.6	233.2	271.7	340.4
Budgetary loan	107.1	121.4	95.0	170.2
Project loans	105.5	111.8	176.7	170.2
Amortization (due)	-15.2	-18.0	-20.1	-22.0
Domestic financing	98.2	74.9	40.0	20.1
Banking system (Monetary Survey)	101.2	94.0	58.8	20.6
of which Additional bank borrowing	50.1	29.9	0.0	0.0
of which Sovereign Bonds proceeds/KCC	54.1	59.3	0.0	0.0
of which Strategic reserves	0.0	-8.6	-9.8	-11.3
of which levy on imports	-3.0	-10.6	-11.3	-12.7
Non bank (Net)	-3.0	0.0	0.0	0.0
Gvnt Securities (Net)	30.0	30.0	34.0	36.0
Non Bank Sector Debt Repayment	-33.0	-30.0	-34.0	-36.0

The budget for fiscal year 2015/16 is projected to close with an overall cash deficit of FRW 290 billion, slightly lower than the revised 2014/15 budget of FRW 295.6 billion by FRW 5.6 billion. The 2015/16 deficit will be financed with net foreign loan receipts of FRW 215.2 billion whilst the domestic financial sector will contribute FRW 74.9 billion. Of this amount, FRW 59.3 billion represents draw-down of the remaining unused EURO bonds for the completion of the KCC project as mentioned above under net lending. New borrowing will amount to FRW 59.9 billion and will be funded with sales of Treasury bills and Treasury bonds to both the commercial banks and non- bank financial institutions. Receipts from fuel levy for the strategic reserve and the infrastructure levy on imports amounting both to FRW 19.2 billion will accumulate to the government bank deposits while repayments of FRW 30 billion of non-bank debt is also projected.

b) Monetary and Exchange Rate Policies

BNR will continue to carefully assess developments and adapt the stance to the changing circumstances with the aim of maintaining inflation within its target. BNR will also sustain its efforts aimed at strengthening the monetary policy framework. BNR will

continue to work on strengthening its monetary policy framework and improving the transmission mechanism. The Monetary transmission mechanism is gradually improving as interbank market interest rates are becoming responsive to BNR's monetary policy stance. Interest rates on government securities have also followed the policy rate but lending rates have responded more slowly and remaining relatively sticky downwards, in part reflecting high overhead costs and provisioning for nonperforming loans.
In addition, in a bid to promote capital market development and support the transmission mechanism, BNR in collaboration with MINECOFIN, is committed to continue issuing on quarterly basis Treasury Bonds and extend the maturity. The regular issuance of T-bonds and the use of T-bills for monetary purposes are expected to reduce the short term banking liquidity and make more active the secondary market of government securities. This will progressively improve the interest rate pass-through in Rwanda, foundation for the use of price-based monetary policy.

In a bid to develop the local Bond market, the Ministry of Finance and Economic Planning in collaboration with the Central Bank have taken a firm commitment to plan regular issuance and extend the yield curve to longer maturities. Therefore, a 10 year Bond is scheduled in May 2015 while a 15 year Bond will come in the course of fiscal year 2016/2017. The benchmark rates for longer maturities will contribute to promote the Corporate Bonds. In addition, in a bid of boosting the trading on secondly market; NBR is planning to introduce a structure of market makes for Government Debt Securities. The primary role of those market makers will be to price on daily basis the outstanding Bonds; to actively participle on primary market and sell on secondly market. Besides, widening the investor base by increasing the participation of institutional and foreign investors will continue to support the activities on Bond market will be a focus.

The exchange rate will remain market driven and BNR will continue to allow greater exchange rate flexibility to maintain the spread within normal levels and ensure reserve levels remain comfortable (at a minimum level of 4 months of prospective imports (CIF)). However, the main challenge is expected to come from the external sector, if commodity prices of Rwanda's main export will continue to decrease in 2015. This may exert more pressures on FRW exchange rate, leading to FRW depreciation and increase the exchange rate pass through to domestic prices.

c) Financial sector policies

Financial sector policies will remain geared toward fostering financial inclusion and sustaining financial stability. Ongoing efforts to increase financial inclusion and deepening would also be sustained, particularly through the implementation of the Financial Sector Development Plan (FSDP2). Non-performing loans have continued to decline following the increase during the crisis and commercial banks are complying with the new NPL guidelines. BNR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision and capacity building efforts for bank supervisors will be sustained. Additionally, given the increasing importance of cross-border banks, BNR will increase its participation in supervisory colleges to conduct joint on-site inspection of cross-border banks. BNR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision and capacity building efforts for bank supervisors will be sustained. Additionally, given the increasing importance of cross-border banks, the NBR will increase its participation in supervisory colleges to conduct joint on-site inspection of cross-border banks.

IV. DETAILED RESOURCE ALLOCATION TO EDPRS 2 CLUSTERS

Since the introduction of EDPRS 2, that distinguishes between thematic areas, foundational issues and support functions, much effort is being put on key priority areas under that form the basis for the expected economic growth. In line with this, Emerging priorities are grouped under the four thematic areas of Economic transformation for rapid growth, Rural Development, Productivity and youth employment creation as well as Accountable Governance. Alongside the allocation to the thematic areas, suitable resources have been allocated to Foundational Issues that reflect long-term priorities where, in most cases, significant progress has already been made during EDPRS 1 to ensure their sustainability and firm foundation of EDPRS 2. Finally, the Support Functions that cut across all the emerging priorities and foundational issues to ensure proper delivery of the EDPRS 2, were not left behind.

Moreover, planning consultations were held to ensure this is achieved and allocation of the scarce resources to identified priorities across sectors which continue to strengthen the linkage between institutional plans and budgets. Some of key priorities for 2015/16 agreed upon include: To accelerate growth in exports, Agriculture reforms to improve productivity, Accelerating transport projects, increase water access for productive centers, Affordable housing, Urbanization, Rural Resettlement as well as plot servicing and green economy.

Expenditure projections have therefore been based on the priority areas of the EDPRS 2 and the identified sector priorities. The EDPRS 2 therefore informs the process of prioritizing budget allocations towards specific programmes and projects and away from areas of non-priority spending while maintaining appropriate allocation to enhance service delivery across sector. The inclusion of a programme or project in the budget depends on the availability of funds and the relative priority given to the various initiatives set out in EDPRS 2. Table 14 bellow shows the resource allocation by EDPRS 2 Clusters.

Table 14: Resource Allocation to EDPRS Clusters 2015/16 – 2017/118 (Bn RWF)

BUDGET PROJECTIONS BY EDPRS 2 INITIATIVES	REVISED 2014/2015		2015/2016		2016/2017		2017/2018	
	RWF	%	RWF	%	RWF	%	RWF	%
I. Thematic Areas	**878.0**	**50%**	**882.5**	**50%**	**1041.4**	**55%**	**1087.9**	**53%**
1. Economic Transformation	411.8	**23%**	413.6	**23%**	475.3	**25%**	500.2	**25%**
2. Rural Development	260.1	**15%**	227.9	**13%**	307.2	**16%**	302.2	**15%**
3.Productivity and Youth Employment	153.6	**9%**	152.0	**9%**	166.1	**9%**	181.9	**9%**

4. Accountable Governance	52.5	**3%**	89.0	**5%**	92.9	**5%**	103.5	**5%**
II. Foundational Sectors	**665.0**	**38%**	**645.6**	**37%**	**593.0**	**32%**	**677.9**	**33%**
1. Foundational Issues	665.0	**38%**	645.6	**37%**	593.0	**32%**	677.9	**33%**
III. Support Function	**219.4**	**12%**	**240.1**	**14%**	**247.3**	**13%**	**270.9**	**13%**
1. Support Function	219.4	**12%**	240.1	**14%**	247.3	**13%**	270.9	**13%**
TOTAL BUDGET	**1762.4**	**100%**	**1768.2**	**100%**	**1881.8**	**100%**	**2,036.7**	**100%**

Source: MINECOFIN

IV.1. Allocations of resources to EDPRS Thematic Areas

The Second Budget Call Circular, issued on 6th February, 2015 was informed by the preceding planning consultations and provided indicative budget ceilings for the financial year 2015/2016 as well as guidance to ministries and budget agencies to finalize their 2015/2016 – 2017/2018 Medium-term Expenditure Framework. The primary focus of the 2015/2016 budget and the medium term strategy remains to allocate available resources to the priorities in the four thematic areas of EDPRS 2, whilst maintaining the allocations to the foundational programmes and Support functions to sustain gains made under EDPRS 1 and ensure service delivery. The overall macro framework for 2015/16 - 2017/2018 is characterized by reduction in recurrent expenditures. To reflect this, resources allocated to non-priority programmes and projects were re-evaluated and reallocated where appropriate. In line with this, the Public Investment Committee (PIC) scrutinized areas of duplications and non performing projects were also identified and measures for improvement taken or budget reallocated to other priorities in some cases.

Under EDPRS 2, each thematic area is made up by interventions in different sectors. The following sub-section gives more detailed resource allocation in each thematic area as well as the key projects and programmes allocated funds in the budget for 2015/16 financial year.

a) Economic Transformation

The main objective of the Economic Transformation thematic area is to propose an ambitious, prioritized and coherent cross-sectoral strategy to sustain rapid growth and facilitate Rwanda's process of economic transformation to meet Vision 2020 revised targets. Outcomes under economic transformation aim at sustaining rapid economic growth and facilitate the process of economic transformation by increasing the internal and external connectivity of the Rwandan economy.

Key Priorities for 2015/16 under this area include:

- Accelerating growth in exports
- Timely Completion of ongoing energy Projects
- Accelerating transport projects to meet targets and ensure roads connect productive uses
- ICT focus on security and increasing countrywide access

In line with the priorities, some of the targets set include increasing exports by 11% in 2016 compared to the target of 2015. To achieve this, the following interventions will be implemented:

Supporting the private sector,

Export infrastructure, such as Kigali Logistics Platform, Advanced Factory Units and horticulture infrastructure,

Exploring the feasibility of an Export Growth Fund to lower cost of finance for exporters and linked it with performance targets for beneficiary firms,

Through expansion program, coffee export values are projected to increase by 39% in 2015 and 55% in 2016, while tea exports are forecast to increase by 32% and 46% in 2015 and 2016 compared to 2013.

The mining sector is projected to register an increase of 16.7% in value and 16.5% in volume from 2014. The projected increase requires focusing on building capacity for artisanal mining, scaling up advocacy on conflict free certification, initiating Model Mines, and supporting the expansion of Rutongo Mine.

Tourism revenues are expected to increase from USD 293 million in 2013 to USD 550 million in 2015/16. The focus will be on diversification of tourism products, completion and operationalization of the Kigali Convention Center and Rwanda Convention Bureau (RCB) as well as beginning the implementation of Kivu belt and Heritage corridor tourism plans.

The focus in the Energy sector will be to complete ongoing projects on time and to ensure that electricity is allocated to the highest value activities at the lowest cost. Some of the interventions will include:
Implementation of energy saving measures to reduce technical losses;
Prioritization of productive users for connection through the electricity roll out program, while private-sector led off-grid will respond to household demand

The allocation of resources to the thematic area as well as contribution from each EDPRS 2 sector is shown in the table below:

Table 16: Economic Transformation Resource Allocation (RWF)

THEMATIC AREA	EDPRS SECTORS	2015/2016	2016/2017	2017/2018
Economic Transformation *(Objective: Sustain rapid economic growth and facilitate the process of economic*	Education	3,306,824,110	6,761,815,431	7,250,571,037
	JRLOS	4,468,839,817	3,359,642,354	3,638,015,347
	Environment and Natural Resources	15,222,395,912	14,333,832,383	15,302,891,441
	Urbanization	9,100,104,831	10,127,178,312	11,058,134,871
	Decentralisation	175,016,186	138,613,137	153,747,363
	Youth	1,029,537,815	1,052,580,149	1,137,038,201
	PFM	4,176,819,344	4,621,035,097	5,123,705,330

transformation by increasing the internal and external connectivity of the Rwandan economy)	Financial	1,810,461,278	2,861,557,888	3,268,265,438
	Support Function	1,707,207,112	1,254,311,792	1,317,396,761
	Agriculture	27,757,647,410	21,668,415,588	3,107,638,533
	Health	4,615,026,063	4,573,146,438	4,754,943,357
	Transport	131,063,770,964	178,080,167,929	189,166,473,287
	Water and Sanitation	2,605,997,614	3,838,558,240	2,768,399,207
	Energy	132,257,724,606	166,698,247,937	190,985,700,066
	Social Protection	3,313,806,536	5,565,761,093	4,178,278,798
	PSD	59,778,083,246	37,243,651,563	42,544,465,648
	ICT	11,168,361,882	13,083,878,453	14,856,672,470
TOTAL		**413,557,624,726**	**475,262,393,784**	**500,612,337,155**

Source: MINECOFIN

The key projects and programmes under the economic transformation thematic area that have been allocated resources in the 2015/16 financial year include those in Agriculture, Energy, Transport, ICT, Urbanization, Private Sector Development and Environment and natural resources:

- *Electricity Roll Out Program (Electricity Access Scale up)*
- *Roads Infrastructures Project*
- *Export Promotion Project*
- *Construction of National Wide transmission Line*
- *Kivu-Belt (66 Km) Lot 4 &5 Rehabilition- Mwityazo -Karongi Road*
- *Kivu-Belt (50 Km) Lot 7 Rehabilition Rubavu-Gisiza Road*
- *Huye-Kitabi Road Rehabilitation (53Km)*

- *Development of Peat to Power Plant*
- *Project for Rural Income through Exports (Price)*
- *Base - Butaro - Kidaho Road Upgrading Project (63 Km)*
- *Multinational-Interconnection of Electrical Grids of Nile Equatorial Lakes Countries (Construction Of 220Kv Electric Kibuye-Gisenyi-Goma-Shango-Birembo And Associated Substations)*
- *Rukomo-Base (Lot 2:51.5Km)*
- *Relocation of Gikondo Industrial Park*
- *East Africa Trade & Transport Facilitation Project (EATTFP)*
- *Feeder Roads Development Project*
- *Tea Expansion Project*
- *Kivu-Belt (24.5 Km) Lot 6 Rehabilition-Rubengera-Gisiza Road*
- *Tax Expenditures for Transport Projects*
- *Ict Private Sector Development*
- *Electricity Roll Out Program /Fsd*
- *Rehabilitation and Extension of Kamembe and Rubavu Airport Runways*
- *Detailed Study of New Planned Roads*
- *Upgrading Of Rubavu Urban Road*
- *Electricity Access Rollout Program/Opec*
- *Energy Projects Implementation Support*
- *Multinational-Interconnection of Electrical Grids Of Nile Equatorial Lakes Countries (Construction Of 220Kv Electric Line Mirama (Uganda)-Shango (Rwanda))*

- *Rubavu One Stop Border Post (Osbp)*
- *Land Tenure Regularisation Support Project*
- *Reducing Vulnerability to Climate Change in North West Rwanda through Community Based Adaptation*
- *Diversification of Tourism Products and Product Development*
- *E-Government*
- *Kigali Urban Roads*
- *Cyangugu-Ntendezi-Mwityazo Road (50Km) Lot3*
- *Lake Kivu Monitoring and Management Project*
- *Street Lighting*
- *Rehabilitation of 3 Hydro Power Stations: Mukungwa 1, Gihira Et Gisenyi (Badea/Opec)*
- *Strengthning Law Enforcement & Capacity Building of National Parks Projects*
- *Kitabi- Crete Congo/Nil (30Km)*
- *Electricity Loss Reduction Project*
- *Regional ICT Center for Excellence*
- *Lake Victoria Environment & Nr Management Project (Lvemp Ii)*
- *Kigali Convention Center Access Road (10Km)*
- *Kigali International Airport*
- *Inclusive Cross Border Trade Capacity Development (Eif Tier 2 Project)*
- *Kigali-Gatuna Road (80Km) Rehabilitation*
- *Construction of 4 Provincial Industrial Parks*

- *Improving Coffee Production, Productivity and Quality*
- *Wildlife Protection and Conservation of National Parks*
- *Gako Beef Farm*
- *Rehabilitation of Minaloc/Mifotra/Mininter Building*
- *Manufacturing Growth Project*
- *Site Development of 1,200 Affordable Houses in City Of Kigali*
- *Market Oriented Infrastructures Project*
- *Ngoma 22(JICA Funded Project)*
- *Multinational-Interconnection of Electrical Grids of Nile Equatorial Lakes Countries (Construction of Rusumo-Kigali Airport-Shango and Associations)*
- *Cimerwa - Bugarama (10 Km) Road Upgrading*

b) Rural Development Thematic Area

The objective of rural development is to improve the quality of life and economic wellbeing of people living in rural areas. The primary objective of rural development is to reduce rural poverty, which in Rwanda remains wide spread even though it has reduced significantly over the past decade.

Given the prevalence of poverty and the range of socio-economic factors that affect rural areas, rural poverty reduction requires comprehensive policy interventions. For growth to be sustainable and its benefits to be equitably distributed, it should be broad-based, multi-sectoral and inclusive of the Rwandan rural labour force, which is currently primarily engaged in agriculture.

In line with this, the focus in 2015/16 will be on implementing agricultural reforms to increase productivity by increasing access to inputs, increasing the number of priority crops, and funding one-off investments to enable a shift towards private-sector leadership in high-value sub-sectors. In addition to agriculture sector, the focus will also be in water and sanitation where the ongoing Rural Water Supply and Sanitation project will be reinforced with special attention to districts with less than 70% of access to clean water. Furthermore, affordable housing, Rural Resettlement as well as plot servicing will be the focus of the Urbanization.

Table 17: Rural Development Resource Allocation (RWF)

THEMATIC AREA	EDPRS SECTORS	2015/2016	2016/2017	2017/2018
Rural Development *(Objective: Sustainable poverty reduction is achieved through broad-based growth across sectors in rural areas by improving land use, increasing productivity of agriculture, enabling graduation from extreme poverty and connecting rural communities to economic opportunity through improved infrastructure)*	Education	16,113,478,806	25,693,525,978	29,641,799,348
	Environment and Natural Resources	2,233,878,178	2,758,708,112	3,606,135,920
	Urbanization	11,553,007,013	12,180,322,992	13,563,518,496
	Decentralisation	273,166,299	273,166,299	273,166,299
	Youth	95,100,000	112,970,280	112,970,280
	PFM	159,485,762	200,000,000	350,000,000
	Financial	71,000,000	140,000,000	190,000,000
	Support Function	1,426,483,581	1,426,483,581	1,426,483,581
	Agriculture	77,647,302,523	93,850,188,540	104,051,186,106
	Health	37,868,184,021	38,747,667,770	43,286,031,965
	Transport	32,116,221,588	37,239,869,018	43,266,228,578
	Water and Sanitation	9,655,030,760	8,662,224,601	9,564,832,324
	Energy	6,021,930,277	7,095,822,137	5,905,866,208
	Social Protection	30,595,468,140	76,069,290,240	44,523,750,406
	PSD	2,078,406,479	2,683,600,723	2,395,071,670
	ICT	21,320,399	60,000,000	90,000,000
TOTAL		**227,929,463,826**	**307,193,840,271**	**302,247,041,181**

Source: MINECOFIN

The key projects and programmes that have been allocated resources in the 2015/16 financial year to finance rural development are:

- *Land Husbandry Hillside Irrigation and Water Harvesting*
- *Priority Crops Intensification (Including Fertilizer Imports)*
- *Rural Sector Support Project (Phase Ii)*
- *Rural Water Supply and Sanitation II (PRSC-PEAMER)*
- *Improvement of Urban Water Supply*
- *Project: Immediate Action Irrigation Project (GFI)*
- *Livestock Infrastructure Support Program (LISP)*
- *Projet D'Appui Aux Infrastructures Rurales De La Region Naturelle De Bugesera*
- *Export Targeted Modern Irrigated Agriculture Project (ETI)*
- *Lake Victoria Water Supply and Sanitation Project Phase II (LVWATSAN II)*
- *Promotion of the Use of Lime to Increase Agricultural Productivity in Acidic Soils of Congo-Nile Divide Ridge Region*
- *Urban Road Development for Secondary Cities*
- *Rulindo Challenge Programme*
- *Post-Harvest and Agribusiness Support Project (PASP)*
- *Improvement of Sanitation in Urban Areas*
- *One Cup of Milk per Child*
- *Kwamp: Kirehe Watershed Management Project*
- *Livestock Intensification Project*
- *Project: One Cow per Family*

- *Water Sanitation and Hygiene*
- *Urban and Rural Settlement Project*
- *Support to Strategic Plan for Agriculture Transformation II (Spat Ii)*
- *Small Scale Irrigation Technology (SSIT)*

In addition to this Hands-on support will be increased for farmers (nearly 15,000 abajyanama b'ubuhinzi will be trained at umudugudu level (from 1,629); and the number of Farmer Field School facilitators will be doubled to 6,000). These will be supported by reforms in coordination and preparation for agriculture seasons led by MINAGRI and supported by key ministries.

c) Productivity and Youth Thematic Area

This thematic area is focused on ensuring that growth and rural development are underpinned by appropriate skills and productive employment especially for the growing young population. To have 50% of Rwandese workforce working off-farm by 2020 as started in vision 2020, requires creating additional 200,000 non-farm jobs per year. This can only be achieved by skills development including technical and vocational training, private sector development to be the center of employment through Rapid Response Training for new investors.

The productivity and youth employment creation thematic area therefore prioritizes the issues of education, skills development, and job creation. Technical and Vocational Training and Tertiary Education take the lion's share of the costs under this area.

In 2015/16, special focus will be on streamlining National Employment Program interventions that are expected to contribute to creation of 136, 370 jobs in 2015/16 by focusing more on addressing private sector needs. The area will register greater private sector participation through Rapid Response Training for new investors, Industrial Based Training and Business Process Outsourcing training for emerging sectors. Efforts have been mobilized to continue fast tracking activities such as full operationalization of

Kora Wigire Centers and staffing of Business Development and Employment (BDE) Units in Districts.

To support the accomplishment of these priorities, the thematic area is attributed 9.0 percent of the total budget envelope for the 2015/2016 financial year compared to 8.7 percent that was allocated in the 2014/2015 revised budget financial year. The table below shows details of resource allocation to Productivity and Youth Employment

Table 19: Productivity and Youth Employment Resource Allocation (RWF)

THEMATIC AREA	EDPRS SECTORS	2014/2015	2015/2016	2016/2017
Productivity and Youth Employment *(Objective: Move Rwanda from an agriculture-based economy to an industry in services-based economy)*	Education	130,209,317,695	145,678,380,751	160,002,281,506
	Environment and Natural Resources	194,092,748	203,797,386	213,987,254
	Urbanization	7,512,237,370	7,654,659,315	8,613,274,678
	Youth	4,097,504,173	3,408,691,017	3,784,153,952
	Agriculture	168,103,003	502,125,268	206,832,310
	Social Protection	3,872,390,808	4,091,428,912	4,325,368,913
	PSD	5,986,458,244	4,554,733,267	4,797,713,733
TOTAL		**152,040,104,041**	**166,093,815,916**	**181,943,612,346**

Source: MINECOFIN

The key projects and programmes that have been allocated resources in the 2015/16 financial year are:

- *TVET Schools Infrastructure Development and Equipment Project*
- *Stadiums Construction Project*
- *One Laptop per Child Project*

- *Sustainable Economic Development & Employment Project*
- *Skills Development Project*
- *KOICA Training of Trainers Project*
- *Rwanda Integrated Trade Logistics Project*
- *Acquisition of Hostels at College Of Arts*
- *Support to Skills Development in Science and Technology*
- *Technical Assistance Pool Fund for TVET System Capacity Building Project*
- *Implementation of IWAWA Master Plan*

d) Accountable Governance Thematic Area

The first pillar of Vision 2020 is good governance and a capable state. The Accountable Governance strategy in EDPRS 2 lays great emphasis on citizens' participation, strengthened public accountability, and quality service delivery. A key component of this is promoting accountability through decentralized institutions, and use of ICT to promote participation.

The major focus for 2015/16 remain on improving service delivery in both public (including Districts) and private sector, ensuring more effective sectoral decentralization and citizens participation in policy and program implementation through increased mobilization . In line with these priorities, the accountable governance thematic area will receive an allocation of 5.0 per cent of total budget for the 2015/16 financial year compared to 2.9 per cent in the revised budget for 2014/15. The allocation of resources to this thematic area and its sectors is shown in the table below:

Table 20: ***Accountable Governance Thematic Area Resource Allocation (RWF)***

THEMATIC AREA	EDPRS SECTORS	2015/2016	2016/2017	2017/2018
Accountable Governance *(Objective: Enhance accountable governance by promoting citizen participation and mobilisation)*	Education	5,515,442	0	100,000
	JRLOS	22,376,594,556	21,389,940,949	23,174,648,790
	Decentralisation	13,406,959,710	13,924,198,585	16,149,147,541
	PFM	37,084,868,950	40,932,619,307	45,240,328,948
	Support Function	12,819,019,831	13,209,832,426	15,229,759,149
	Agriculture	12,500,000	15,100,000	17,500,000
	Social Protection	489,234,239	443,801,417	448,911,429
	ICT	2,819,475,240	2,960,449,003	3,256,493,903
TOTAL		**89,014,167,968**	**92,875,941,687**	**103,516,889,760**

Source: MINECOFIN

The key projects and programmes that have been allocated resources in the 2015/16 financial year for the governance and sovereignty cluster are:

- *E-Gates Project*
- *National Cyber Security*
- *Construction of RNP General HQS & P/Station Kimihurura*
- *Construction of One Block, Administrative Building and Installation of Biogas and Electricity at Mageragere Prison*
- *Embassy Infrastructure*
- *NSDS Basket Fund*

IV.2. Allocations of resources to Foundational Sectors

Foundational issues reflect long-term ongoing priorities where, in many cases, significant progress has already been made during EDPRS 1 and we need to build on the achievements made to achieve the targets set in EDPRS 2. Health and education, public finance management (PFM) and justice, peace and stability are prominent amongst the latter. As mentioned in the previous paragraphs, the focus in resource allocation for 2015/16 fiscal year is to give priority to emerging priorities under thematic areas while maintaining reasonable allocation to foundational sectors and support functions. This will allow us to sustain achievements registered and foster service delivery that will shape the foundation of achieving targets set. Resource allocation to this cluster is shown in the table below:

Table 21: Foundational Issues Resource Allocation (RWF)

II. Foundational Sector	**EDPRS SECTORS**	**2015/2016**	**2016/2017**	**2017/2018**
Foundational Sector *(Objective: The pursuit of long-term priorities in health and basic education, macroeconomic stability and public finance management, justice, peace and stability, food security and nutrition and decentralization that constitute the platform of*	Education	69,420,740,332	73,814,755,837	79,835,592,433
	JRLOS	60,101,651,279	58,860,375,958	62,782,827,528
	Environment and Natural Resources	5,348,063,576	5,576,767,582	6,773,801,051
	Urbanization	1,783,992,000	815,601,478	756,159,810
	Decentralisation	1,826,572,381	1,383,403,216	1,398,152,627
	PFM	324,948,766,712	244,459,174,888	292,669,557,324
	Financial	1,245,416,528	1,379,012,786	1,380,062,786
	Support Function	27,354,254,380	28,333,654,484	29,609,560,659
	Agriculture	22,000,000	22,000,000	22,000,000
	Health	128,310,173,385	155,393,844,048	175,701,892,426
	Transport	30,000,000	33,056,100	34,708,905
	Water and Sanitation	952,153,647	978,253,647	1,016,588,647
	Energy	238,118,958	186,053,335	125,746,461
	Social Protection	23,045,868,487	21,054,346,057	25,060,527,176

Rwanda's sustainable development)	PSD	246,649,175	41,789,743	44,976,064
	ICT	700,000,000	700,000,000	700,000,000
TOTAL		**645,574,420,840**	**593,032,089,159**	**677,912,153,897**

Source: MINECOFIN

Health, Education and PFM that form building block for the development of society and the economy account for a significant percentage of the total foundational costs. The allocation under health reflects costs related to recent upgrade of four district hospitals into provincial hospitals and other two into referral hospitals. The foundational issues have been allocated 37 per cent of the projected budget for 2015/2016.

IV.3. Allocations of resources Support Functions

The support functions cut across all sectors and aim at ensuring that an environment conducive to the achievement of the thematic areas is created. Such support functions provide the necessary back-office functioning to make the implementation of the EDPRS 2 priorities possible. Support functions is projected at 14 percent for 2015/2016 financial year compared to 14 per cent in 2014/15 revised budget. Resource allocation to this cluster is shown in the table below:

Table 22: Support Functions Resource Allocation (RWF)

III. Support Function	EDPRS SECTORS	2015/2016	2016/2017	2017/2018
Support Function *(Objective Support the implementation and realization of*	Education	2,516,950,278	2,669,840,542	2,969,902,818
	JRLOS	1,665,413,963	2,820,325,077	1,563,785,336
	Environment and Natural Resources	5,152,192,974	12,106,891,491	15,322,957,419
	Decentralisation	4,084,651,542	4,802,611,859	5,483,566,332

EDPRS II and becoming a middle-income country through the provision of economical, efficient and effective support services)	Youth	1,164,229,627	1,399,532,229	1,668,617,908
	PFM	19,756,326,494	15,061,306,300	19,073,880,329
	Financial	25,000,000	25,000,000	25,000,000
	Support Function	174,898,327,763	177,755,494,222	191,991,139,682
	Health	13,761,377,318	17,333,658,810	18,945,498,733
	Social Protection	14,020,377,103	13,295,812,300	13,824,263,750
	PSD	23,000,000	32,579,188	23,035,179
	ICT	3,000,000,000	0	0
TOTAL		**240,067,847,062**	**247,303,052,018**	**270,891,647,486**

Source: MINECOFIN

V. POLICY ISSUES FOR CONSIDERATION

Much effort has been put in linking the budget with sector priorities, institutional plans and national wide priorities. In line with this, Ministerial budget consultations for 2015/16 fiscal year that were held during the month of March 2015 and was fully informed by preceding planning consultations where broad priorities were agreed. The exercise was led and coordinated by MINECOFIN supported by MINALOC, MINICAAF and MIFOTRA. Budget requests by sector ministries and affiliated agencies were thoroughly scrutinized for compliance with the priorities agreed upon and where appropriate additional resources were granted to cover for unfunded or underfunded priorities. Sector Ministries were also advised to reprioritize the unfunded priorities and where possible sequence them in the medium term. However, there were a number of policy related issues that emerged from discussions and these are summarized below for Parliament consideration:

i. **Imihigo preparation Framework;**

From the past, the preparation of imihigo was not aligned with the national planning and budgeting process. This was caused by the planning of Imihigo when the implementation of the budget has already begun. This created mismatch between priorities agreed on during planning and resource allocation as well as expectations from Imihigo. From 2015/16 imihigo will be more integrated into the planning and budgeting process and will be completed before the end of the fiscal year 2014/15. The 2015/16 imihigo drafting process has therefore already been initiated based on the priorities identified in the planning and budgeting process.

ii. **Budgeting for Maintenance Costs;**

The government is increasing its budget allocation to development every fiscal year. In the past much of these funds have been allocated to either completing on-going capital projects or starting new ones during the fiscal year. It has been noted that investments completed in past few years such as; public buildings, schools, health facilities, roads, energy and water utilities, and others have faced maintenance challenges.

It is therefore insufficient for Ministries and other Budget Agencies to only plan and budget for capital expenditure regarding new infrastructure and assets while neglecting the entire life-cycle of infrastructure or assets which are expected to be catered for through maintenance. The Ministry of Infrastructure was requested to provide guidelines/formula on how maintenance cost will be calculated for budget purposes based on the available resource envelope for each sector.

iii. **Budgeting for tax expenditure;**

Ministries and other budget agencies have not been properly providing for tax expenses while costing some of their capital projects. This has negatively affected implementation of such projects, led to requests for either tax exemption or additional funding for such projects during the course of the fiscal year. It is therefore important to prioritize tax liabilities of each capital project within the allocated resources envelope since it's a legal obligation for everyone to pay tax.

iv. **Improving local government tax collections through Rwanda Revenue Authority;**

Rwanda Revenue Authority together with Districts agreed to an interim agreement where the later started to collect taxes on behalf of districts. This was aimed at taking advantage of RRA's system and personnel capacity in collecting taxes and find ways of improving tax collection at district level. It is thought that efficiency and improved coverage will lead improved tax collection for each district going forward. Based on the 2014/15 revenue performance per district, we request that such a reform change be supported in the medium term. A review will be done after a year to assess progress and advice if this will lead to more increased revenue collection at district level.

v. **Setting up of new export promotion initiatives;**

New measures are considered under IDEC (Investment, Development and Exports Council) framework where flagship projects have been highlighted for boosting exports, such as garment Chinese Company, Gishari Flower Park, and Stevia Life Ltd. In view of this, we have established an Export Growth Fund to support sectors like horticulture, agro processing and manufacturing. There is need therefore to increase support of initiatives through a mix of government and donor support funds. All ministries concerned are requested to continue monitoring them if we are to increase exports in line with EDPRS 2.

vi. **The role of Public Investment Committee (PIC) in screening ongoing projects:**

The public investment committee has supported increased prioritization within a limited fiscal space in the 2015/16 budget; it has also led to better preparedness of projects entering the budget. The public investment committee has this year been extended to cover all government projects by providing a quality assurance function for local government projects. To increase effectiveness of the PIC going forward, all budget agencies will have to work in line with the agreed framework of project entry, appraisal and selection.

VI. POSSIBLE DOWNSIDE RISKS TO ECONOMIC PERFORMANCE AND BUDGET IMPLEMENTATION

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Government recognises that the 2015/16 macro-economic program and the budget have been formulated against the backdrop of several challenges both domestic and external. On the external front, risks to global growth and implications for resource flows to the developing countries including Rwanda in the form of aid and investment still persist. Uncertainties concerning commodity prices and the expected low performance of mining sector could worsen further the terms of trade for Rwanda and reduce the flow of foreign exchange resources further.

Regarding the domestic front, adverse weather conditions could negatively affect agricultural production with the potential risk to growth and food security. Lower economic growth could also reduce domestic revenue collection. In addition, capacity and other structural constraints continue to delay implementation of some strategic investment projects especially in the infrastructure portfolio. Government will continue to monitor these risk closely with a view to taking corrective actions where required.

Corrective policy actions are likely to include (among others), a mild fiscal stimulus through frontloading and/or increasing public spending to inject some liquidity into the economy to promote growth. Such additional spending will be financed by resorting domestic borrowing; this will have implications on our debt stock and the exchange rate. However Government will ensure that such action does not crowd out the private sector. These corrective policy adjustments have been discussed at length with the International Monetary Fund and have been included in the current review of the PSI.

VII. CONCLUSION

The budget framework for 2015/2016 fiscal year and the medium term reflects the current economic situation in Rwanda, opportunities and threats in the region and global outlook. The resource allocation is line with EDPRS 2 priorities, it is expected that this will contribute towards attaining EDPRS 2 targets.

The past three fiscal years have been marked by continuous deduction in donor financing. The medium term projections are built on conservative assumptions regarding budget support and aims to sustain the domestic revenue mobilization efforts. In line with this, accelerating domestic revenue mobilization through implementation of various measures aiming at broadening the tax base and increasing efficiency in tax collection remains a key priority.

However, public expenditure levels alone will not be sufficient to generate the required growth expected in EDPRS 2. The Government recognizes the role of private sector towards the achievements of EDPRS 2 targets and much effort will be invested in various programmes and projects aimed at harnessing the private sector potential for an accelerated growth. Thus public expenditure will then be supported by contribution from a dynamic private sector.

Parliament is requested to consider the macro-economic framework for the medium term and the budget estimates for fiscal year 2015/2016.

VIII. ANNEXES TO THE BFP

1. Annex I: Explanatory Note to the BFP 2015/16-2017/18
2. Annex II: Basic Macro Indicators 2008-2015
3. Annex III: Fiscal Projections for 2015/16-2017/18
4. Annex IV: EDPRS Sector Shares 2015/16-2017/18
5. Annex V: Budget execution tables for 2014/15
6. Annex VI: External borrowing and loan servicing projections
7. Annex VII: Domestic borrowing and loan servicing projections
8. Annex VIII: Medium Term Debt Strategy
9. Annex IX: Summarized CG Transfers to Districts for 2015/16-2017/18
10. Annex X: Consolidated Districts Revenues and Expenditures for 2015/16-2017/18
11. Annex XI: Block grant allocation table for 2015/16
12. Annex XII: Earmarked Transfers Guidelines for 2015/16 fiscal year
13. Annex XIII: Consolidated Gender Budget Statements