Ministry of Finance and Economic Planning

Budget Framework Paper 2018/2019-2020/2021

April 2018

TABLE OF CONTENT

I. INTRODUCTION

As stipulated in article32 of the Organic Law on State Finances and Property, the medium term budget framework and annual budget estimates shall be approved by cabinet to provide orientation for formulating the detailed draft finance law. This Budget Framework Paper (BFP) is therefore prepared in fulfilment of the legal provision and outlines the Government statement of the economic context, global and domestic, in which the forthcoming Budget will be presented, along with the fiscal policy objectives for the next three-year period of 2018/19–2020/21. It supports the delivery of the National Strategy for Transformation (NST1), which is the implementation instrument for the remaining period of the Country’s Vision 2020 and the first four years of the journey under Vision 2050.

The BFP also articulates the medium term commitments to achieve fiscal consolidation through accelerated domestic revenue mobilisation, expenditure rationalisation and prudent borrowing in order to keep debt and external balances sustainable.

The BFP has been prepared against the background of prospects and challenges on both external and domestic fronts. Regarding the external front, the global economic activity continues to firm up reflecting increased global growth momentum and the expected impact of the recently approved US tax policy changes, while international commodity prices and aggregate demand are foreseen to remain broadly subdued. On the domestic scene, growth is expected to strengthen due to the good foreseen agriculture performance, the rise of industry sector led by construction and mining as well as the increase in production capacity from expected increase in electricity. However, the main risk to the outlook remains as weather conditions that may affect the trend of food prices.

This BFP is organised as follows: section one is the introduction, followed by section two which gives a summary of economic performance both global and domestic. The global portion includes an outlook for 2018 and 2019 and the domestic portion reviews performance in the real, external, fiscal and monetary sectors. Section three presents a brief description of macroeconomic framework and policy objectives for the medium term. Section four deals with the details of the budget for fiscal year 2018/19 with key policies underlying the budget preparation including the functional allocations focussing on the priorities to be funded under the NST1 priority areas. Policy issues arising from the 2018/19 budget formulation are discussed in section five. The BFP closes with concluding remarks in section six and finally several annexes providing additional details and numbers for the budget are attached as section seven.

II. RECENT ECONOMIC PERFORMANCE IN 2017-18 AND OUTLOOK

a) Global Economic Performance and Outlook

i. Output Growth

The World Economic Outlook, published by the International Monetary Fund in April 2018, shows that global economic activity continues to firm up. Global output growth for 2017 is estimated to be at 3.8 %, which is 0.2 % faster than projected and 0.6% higher than growth in 2016. The global growth was driven by investment recovery in advanced economies, continued growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth forecasts for 2018 and 2019 have been revised upward to 3.9% and will be supported by string momentum, favorable market sentiment, accommodative financial conditions and the domestic and international repercussions of expansionary fiscal policy in US.

The broad-based slowdown in sub-Saharan Africa is easing, but the underlying situation remains difficult. According to World Economic Outlook for sub-Saharan Africa, published by the IMF in April 2018, growth is expected to pick up from 1.4 % in 2016 to 2.8% in 2017. This uptick in growth reflects several one-off factors – in particular, the rebound in Nigeria's oil and agricultural production and the easing of drought conditions that impacted much of eastern and southern African in 2016 and early 2017 – as well as a more supportive regional environment. 15 out of 45 countries continue to show growth rates at 5 % or higher. However, growth in the region as a whole will barely surpass the rate of population growth, and income per capita is expected to decline for 12 sub-Saharan countries in 2017.

Growth is expected to rise further to 3.4 % in 2018, but momentum is weak, and growth in 2019 is likely to remain well below past trends. Ongoing policy uncertainty continues to restrain growth in Nigeria and South Africa. Excluding these two economies, the average growth rate in the region is expected to be 4.4 % in 2017, and is projected to rise to 5.1 % in 2018-2019. However, even where growth remains strong, it often relies on public sector spending, at the cost of increasing debt and crowding out of the private sector.

Key downside risks to the region's growth outlook can be attributed to elevated political uncertainty in the larger economies, which could delay needed policy adjustments and dampen investor and consumer confidence. Some progress has been made to address policy inertia in the Central African Economic and Monetary Community (CEMAC), as most hard-hit oil exporters have embarked on adjustment programs to facilitate economic recovery, and discussions with the remaining two CEMAC members are underway.

Table 1: GDP and Inflation on Selected Regions/Countries

Region/Country	GDP projections[1]			CPI projections		
%age	2017	2018	2019	2017	2018	2019
World	**3.8**	**3.9**	**3.9**	--	--	--
Advanced Economies	**2.3**	**2.5**	**2.2**	**1.7**	**2.0**	**2.0**
United States	2.3	2.9	2.7	2.1	2.6	2.3
Euro area	2.3	2.4	2.0	1.4	1.6	1.8
United Kingdom	1.8	1.6	1.5	3.0	2.7	2.0
Japan	1.8	1.2	0.9	0.6	0.8	2.1
Emerging markets and developing countries	**4.8**	**4.9**	**5.1**	**4.0**	**4.6**	**4.3**
China	6.9	6.6	6.4	1.8	2.8	2.6
Russia	1.5	1.7	1.5	2.5	3.5	4.0
India	6.7	7.4	7.8	4.7	5.2	4.9
Brazil	1.0	2.3	2.5	2.9	3.9	4.3
Sub-Saharan Africa	**2.8**	**3.4**	**3.7**	**10.3**	**9.6**	**9.3**
Nigeria	0.8	2.1	1.9	15.4	14.5	16.6
South Africa	1.3	1.5	1.0	4.7	5.6	5.3

[1] GDP projections from World Economic Outlook, April 2018

ii. World Commodity Prices and inflation

Regarding commodity prices, crude oil prices have been supported by an improving global growth outlook, weather events in the United States, the extension of the OPEC+ agreement to limit oil production, and geopolitical tensions in the Middle East. Crude oil prices have risen by about 20 % between August 2017 and mid-December 2017 to over $60 per barrel, with some additional increase as of early January 2018. These prices are expected to decline gradually over the next 4-5 years. As of mid-December, medium-term price futures stood at about $54 per barrel, modestly higher than in August. Headline inflation in advanced economies rose due to increased fuel prices, though wage and core-price inflation remain weak. In recent months, headline and core inflation in emerging market economies have increased slightly after declining earlier in 2017.

b) Domestic Economic Performance

i. Growth Performance

The economy recorded a good performance in 2017, the growth was at 6.1% over the year, 0.9% higher than the 5.2% initially projected. The good performance was driven mainly by agriculture sector which grew by 7%, much higher than its 5 years ‘average and accounted for 31% of the total GDP. Growth in agriculture was boosted particularly by crops production while export crops recorded only a growth of 2%. The construction sector, which faced five consecutive quarters of declines and a cumulative drop of 15%, weighed down on the recovery of the industrial sector, allowing industrial growth to reach only 4%. The recovery in mining and good performance recorded by textile in comparison to 2016 contributed to the positive growth of industry despite the poor performance of construction. Services grew by 8% in 2017, which was slightly higher than 7% achieved in 2016. The strongest contribution of subsectors was from administrative and Professional activities, transport and cultural growing at 26%, 17%, 11% and 9% respectively but as these are currently relatively small sub-sectors, the bad performance of wholesale and retail trade, which contributed 0.0% points, affected negatively the overall growth of services.

The table below shows details of growth performance in 2017 in various sectors:

Table 2: GDP by sectors at 2014 Constant Prices (in billion Frw)

Activity description	2013	2014	2015	2016	2017
GROSS DOMESTIC PRODUCT (GDP)	**5,079**	**5,466**	**5,951**	**6,307**	**6,692**
AGRICULTURE, FORESTRY & FISHING	**1,474**	**1,572**	**1,650**	**1,714**	**1,827**
Food crops	859	934	968	998	1071
Export crops	109	107	122	125	128
Livestock & livestock products	160	174	189	208	231
Forestry	326	337	350	362	374
Fishing	19	20	21	21	22
INDUSTRY	**846**	**939**	**1023**	**1092**	**1138**
Mining & quarrying	118	147	140	154	186
MANUFACTURING	**299**	**322**	**349**	**372**	**396**
Of which: Food	96	101	102	110	126
Beverages & tobacco	*89*	*95*	*101*	*104*	*96*
Textiles, clothing & leather goods	*19*	*20*	*21*	*23*	*28*
Wood & paper; printing	*12*	*14*	*15*	*17*	*16*
Electricity	43	47	51	58	62
Water & waste management	30	31	31	33	33
Construction	357	392	453	475	460
SERVICES	**2,410**	**2,578**	**2,847**	**3,052**	**3,296**
Maintenance and repair of motor vehicles	22	23	24	26	27
Wholesale & retail trade	378	410	462	491	491
Transport services	199	207	227	245	272
Hotels & restaurants	85	96	105	116	128
Information & communication	75	80	94	102	115
Financial services	154	159	179	185	198
Real estate activities	428	452	472	501	526
Professional, scientific and technical activities	156	144	165	175	205
Administrative and support service activities	176	202	235	258	325
Public administration and defense; compulsory social sec	244	260	275	306	319
Education	149	154	157	163	169
Human health and social work activities	123	133	146	155	165
Cultural, domestic & other services	221	257	306	328	356
TAXES LESS SUBSIDIES ON PRODUCTS	**349**	**377**	**430**	**449**	**431**

Source: *National Institute of Statistics of Rwanda*

The table below shows details of GDP growth in 2017:

Table 3: GDP Growth by Type of Activity at 2014 Constant Prices (% Change from previous year)

Activity description	2013	2014	2015	2016	2017
GROSS DOMESTIC PRODUCT (GDP)	**4.70%**	**7.60%**	**8.90%**	**6.00%**	**6.10%**
AGRICULTURE, FORESTRY & FISHING	**3%**	**7%**	**5%**	**4%**	**7%**
Food crops	4%	9%	4%	3%	7%
Export crops	-5%	-2%	14%	2%	2%
Livestock & livestock products	7%	8%	9%	10%	11%
Forestry	3%	3%	4%	4%	3%
Fishing	5%	4%	3%	3%	5%
INDUSTRY	**9%**	**11%**	**9%**	**7%**	**4%**
Mining & quarrying	20%	25%	-5%	10%	21%
MANUFACTURING	**5%**	**8%**	**8%**	**7%**	**6%**
Of which: Food	*8%*	*6%*	*1%*	*8%*	*14%*
Beverages & tobacco	*4%*	*7%*	*6%*	*3%*	*-8%*
Textiles, clothing & leather goods	*3%*	*7%*	*3%*	*10%*	*22%*
Wood & paper; printing	*12%*	*10%*	*11%*	*11%*	*-4%*
Electricity	8%	9%	8%	14%	8%
Water & waste management	5%	3%	1%	5%	2%
Construction	11%	10%	15%	5%	-3%
SERVICES	**5%**	**7%**	**10%**	**7%**	**8%**
Maintenance and repair of motor vehicles	6%	4%	5%	7%	4%
Wholesale & retail trade	6%	8%	13%	6%	0%
Transport services	7%	4%	10%	8%	11%
Hotels & restaurants	3%	12%	9%	11%	10%
Information & communication	0%	7%	18%	9%	12%
Financial services	10%	4%	12%	3%	7%
Real estate activities	1%	6%	5%	6%	5%
Professional, scientific and technical activities	4%	-8%	14%	6%	17%
Administrative and support service activities	4%	15%	16%	10%	26%
Public administration and defense; compulsory social secur	9%	7%	5%	12%	4%
Education	4%	3%	2%	4%	4%
Human health and social work activities	6%	8%	10%	6%	6%
Cultural, domestic & other services	12%	16%	19%	7%	9%
TAXES LESS SUBSIDIES ON PRODUCTS	**-3%**	**8%**	**14%**	**4%**	**-4%**

Source: *National Institute of Statistics of Rwanda*

ii. Inflation

Overall, headline inflation declined to 4.9% in 2017 from 5.7% in 2016 mainly in line with the ease in exchange rate pressures and the significant fall in food inflation, especially during the second half of the year, leading to a 0.7% in 2017 end of period headline inflation. Food inflation dropped to 9.8% from 10.7% and vegetables inflation declined to 9.5% from 20.1% during the same period following the improved performance of the agriculture sector. Imported inflation increased from 4.7% in 2016 to 6.0% in 2017 due to lagged effect of high FRW depreciation against the US$ in 2016. Core inflation, that excludes energy and fresh products, eased to 3.9% in 2017 from 4.1% in 2016 mainly in line with the still low level of aggregate demand. Domestic inflation also dropped to 4.5% in 2017 from 6.1% in 2016 in line with the aforementioned decline in food prices.

iii. External Sector Performance

The overall balance of payment has improved with the build-up of reserves of US$92.6 million in 2017 from a drawdown of US$10 million in the previous year 2016. This was due to the current account recovery accompanied by the financial account performance.

The trade deficit has improved substantially to US$-871.5 million from US$-1,309.6 million in the previous 2016 (means -9.5% from -15.4%). This performance was driven by the high increase of export goods while imports of goods declined. The reduction in imports was related to the phase out of big projects in 2016, including the construction of KCC and the purchase of two Airbuses. The decline in some categories of imports especially articles of clothing and construction materials such as cements, reflect import substitution policies like the expansion of CIMERWA. In addition to this, the import of consumer goods under non- food component, mainly comprised of articles of clothing has declined following the imposition of high taxes on second hand clothes to promote made in Rwanda strategy. On the other hand, the good performance in export of goods was driven by the realised increase in all categories of export especially other ordinary exports due to the increase of commodity prices at international market (effect of price taker). The table below shows key performance indicators of external sector:

Table 4: Key external sector performance Indicators: in million US$

	2012	2013	2014	2015	2016	2017
A. Current Account	**-733.1**	**-556.7**	**-932.2**	**-1,201.3**	**-1,335.8**	**-621.6**
Balance on goods and services	***-1,262.5***	***-1,165.8***	***-1,335.1***	***-1,509.3***	***-1,563.7***	***-901.3***
Goods (Trade Balance)	**-1,273.7**	**-1,150.8**	**-1,268.6**	**-1,236.6**	**-1,309.6**	**-871.5**
Exports f.o.b.	590.8	703.0	723.1	682.0	726.5	1,050.2
Of which: coffee	60.9	54.9	59.7	62.0	58.5	64.1
tea	65.7	55.5	51.8	72.5	63.4	84.3
minerals (3Ts)	136.1	225.7	203.3	117.8	86.4	125.0
Imports f.o.b.	1,864.4	1,853.8	1,991.7	1,918.7	2,036.2	1,921.7
Imports fob excl Rwandair, KCC and Bugesera	1,815.1	1,853.8	1,973.5	1,918.7	1,852.2	1,921.7
Services (net)	**11.2**	**-15.1**	**-66.5**	**-272.7**	**-254.1**	**-29.8**
Services: credit	516.5	578.4	589.3	818.0	834.5	998.2
o/w tourism	281.8	293.6	303.7	367.7	389.8	438.1
o/w PKO	90.4	106.8	105.3	159.3	170.8	175.1
Services: debit	505.3	593.5	655.8	1,090.7	1,088.6	1,028.0
Primary income (net)	**-102.7**	**-131.8**	**-175.1**	**-228.4**	**-296.3**	**-316.7**
Secondary income (net)	**632.1**	**741.0**	**578.0**	**536.4**	**524.2**	**596.4**
Secondary income: credit	710.6	817.4	662.2	614.9	612.4	695.1
o/w workers' remittances	175.3	161.8	174.9	153.2	167.3	207.6
o/w total official transfers	463.4	581.6	420.2	391.8	365.7	409.5
Secondary income: debit	78.5	76.4	84.2	78.5	88.2	98.7
B. Capital Account	**171.2**	**234.5**	**337.1**	**299.9**	**190.0**	**189.7**
Net lending(+)/ net borrowing (-) (balance from current and capital accounts)	***-561.9***	***-322.1***	***-595.1***	***-901.4***	***-1,145.8***	***-431.9***
C. Financial Account: Net lending(+)/ net borrowing (-)	**-397.3**	**-661.3**	**-648.8**	**-689.8**	**-966.5**	**-555.6**
Direct investment	-255.0	-257.6	-311.0	-219.9	-218.5	-245.1
Direct investment: assets	0.0	0.0	3.8	3.5	47.8	48.3
Direct investment: liabilities (i.e. FDI)	255.0	257.6	314.7	223.3	266.3	293.4
Other investment	**-136.4**	**-401.9**	**-336.8**	**-462.2**	**-744.4**	**-382.3**
Other investment: assets	-5.1	17.2	-0.2	-73.0	17.7	-36.8
Other investment: liabilities	131.4	419.1	336.6	389.2	762.1	345.5
o/w public sector budget loans	13.4	14.2	154.4	232.1	214.8	216.1
o/w public sector project loans	96.9	523.6	153.5	140.0	172.0	153.1
o/w private sector loans	148.4	168.4	133.2	138.5	532.5	162.2
D. Overall Balance	**-212.4**	**228.5**	**-90.4**	**-28.5**	**-10.0**	**92.6**

With the above developments, the current account deficit as percentage of GDP, has improved to 6.8% from 15.7%, which happened in 2016. The financial account also performed well by 6.1% of GDP from 11.4% realised in 2016.

As a result, the external sector performance has impacted positively the overall balance with the build-up of reserves and then by consequence, the BNR gross official reserves increased to US$1,163.3 million in 2017 compared to US$1,001.5 million at end 2016; which represented the imports of goods and services coverage of 4.0 months by the following year 2017.

iv. Public Debt Management Developments

Rwanda’s external debt stock remains among the lowest in the region as a result of prudent macroeconomic, and debt management. The risk of debt distress remains low across the EAC, excluding Burundi and South Sudan (IMF-World Bank Debt Sustainability Analysis, 2017). Yet across EAC countries, public debt has been increasing faster since 2012.

The majority of Rwanda’s external debt portfolio is composed of concessional loans provided by multilateral institutions (70%, projected as at End-June 2018 for FY 2017/18). Domestic debt is mainly composed of government securities especially Treasury bills together with Treasury bonds which represent more than 80% of total public domestic debt at end FY 2017/18).

Although concessional loans still constitute the majority of public debt (70.8% at June 2018), non-concessional loans are showing a significant increase. This includes guarantees provided by the GoR to UCL for the completion of the Kigali Convention Centre (KCC), and loans and leases contracted by RWANDAIR for the acquisition of new aircrafts in anticipation of new service routes. The table below shows the Public Debt Stock in 2017:

v. Fiscal Developments

In June 2017, the Parliament approved a budget for the fiscal year 2017/18 amounting to FRW 2,094.9 billion. In economic classification terms, total revenue and grants were estimated at FRW 1,771.3 billion and total expenditure and net lending at FRW 2,069.2 billion. The budget was estimated to close with a deficit of FRW 322.2 billion, which was to be financed with net external borrowing of FRW 336.9 billion to allow the build -up of net domestic deposits of FRW 14.8 billion.

In January 2018, the Parliament approved a revised budget for the fiscal year 2017/2018 of FRW 2,115.3 billion. In economic classification terms, total revenue and grants were re estimated at FRW 1,766.5 billion whilst total expenditure and net lending was projected at FRW 2,105.3 billion. The revised budget was projected to end with an increased deficit of FRW 362.9 billion compared with FRW 322.2 billion in the original budget. This new deficit was to be financed with net external borrowing of FRW 324.6 billion and net domestic financing of FRW 38.3 billion.

Implementation of the budget during the period ending December 2017 was generally satisfactory, which was impacted by general economic performance and donor budget support flows. The table below shows a summary of the budget performance in July-December 2017 period:

Table 5: Budget Performance in July – December 2017 Period

	2017/18	
	Jul-Dec 2017	Jul-Dec 2017
	Proj.	Prov.Act
Revenue and grants	831.8	885.5
Total revenue	662.9	690.7
Tax revenue	568.6	584.4
Direct taxes	228.1	236.7
Taxes on goods and services	286.6	299.3
Taxes on international trade	53.9	48.4
Non-tax revenue	94.3	106.3
Total Grants	168.8	194.8
Budgetary grants	83.7	109.6
Capital grants	85.2	85.2
Total expenditure and net lending	1033.8	1052.9
Current expenditure	594.1	595.9
Capital expenditure	341.2	364.4
Domestic	190.3	212.0
Foreign	150.9	152.4
Net lending	98.6	92.6
Overall Deficit (cash basis)		
Including grants	-208.5	-132.5
Excluding grants	-377.4	-327.3
Financing	208.5	132.5
Foreign financing (net)	245.5	208.9
Drawings	257.5	221.5
Amortization (due)	-12.1	-12.5
Domestic financing	-36.9	-76.4

(a) Performance of Resources

Total revenue and grants projected in the July- December 2017 period amounted to FRW 831.8 billion comprising of FRW 662.9 billion of domestic resources and FRW 168.8 billion of grants. At the end December 2017, an amount of FRW 885.5 billion had accrued to the Treasury. This amount was FRW 53.7 billion higher than the estimated figure of FRW 831.8 billion. Both domestic tax and non -tax collections as well as external grants contributed to this good performance.

In the area of domestic revenue collections, tax revenue collections of FRW 690.6 billion exceeded the projected amount of FRW 662.9 billion by FRW 27.7 billion. This good performance was mainly due to strong collections of corporate income taxes and VAT including a ‘one off’ arrears collections from a local telecom company. These collections mitigated some shortfalls on excise taxes and taxes on international trade. The shortfalls on excise taxes were due to lower consumption of beer, soft drinks and cigarettes as well as lower usage of mobile phone airtime. In the case of non - tax revenue, collections of FRW 106.2 billion were FRW 11.9 billion higher than the FRW 94.3 billion estimated

for the period. Frontloading of local Government fees of FRW 18.5 billion was responsible for this performance. A large amount of these fees were originally expected in the first half of 2018.
Total grants that accrued to the budget of FRW 194.8 billion were FRW 26 billion higher than the FRW 168.8 billion projected for the period. Front loading of disbursements by a major donor accounted to this good performance.

(b) Performance of Outlays

Total expenditure and net lending projected for the July-December 2017 period amounted to FRW 1,033.8 billion comprising FRW 594.1 billion of recurrent spending, FRW 341.2 billion of capital expenditure and net lending outlays of FRW 98.6 billion. At end December 2017 total Government spending amounted to FRW 1,052.9 billion, which exceeded the projected amount by FRW 19.1 billion. Whilst recurrent spending of FRW 595.9 billion was close to the FRW 594.1 billion estimated for the period, capital spending of FRW 364.4 billion exceeded the estimated amount of FRW 341.2 billion by FRW 23.2 billion, which was responsible for the excess spending registered during this period. Front loading of funds for the construction of the strategic petroleum reserve storage facilities as well as accelerated spending on Global fund projects in the health sector accounted for this excess spending. The funds for these expenditures came from the accrued deposits of the strategic petroleum reserve levy introduced fiscal year 2015/16 and accumulated deposits from Global Fund disbursements.

(c) Deficit and Financing

As a result of the better performance of revenue and grants, the fiscal operations of the Government in the July-December 2017 period ended with a smaller cash deficit of FRW 132.5 billion compared to FRW 208.5 billion estimated for the same period. Even though the net external loans borrowing of FRW 208.9 billion during the July-December 2017 period was lower than the FRW 245.5 billion envisaged on account of the delayed disbursement of the AFDB skills development program loan, the lower deficit mentioned above allowed a lower than expected net domestic financing of Government operations in the July-December 2017 period.

(d) Outlook for remainder of the fiscal year 2017/18

The budget for fiscal year 2017/18 has been revised slightly to allow the spending of excess tax revenue collections. Accordingly, total tax revenue projection is being raised by approximately FRW 25 billion which represents 0.3% of GDP. The excess collection under company income taxes and VAT, including the ‘one off ‘VAT payment by a telecom company as well as arrears from import taxes by the electricity and water companies account for this increase. As a result, total revenue and grants are now projected at FRW 1,820.6 billion (22.8%of GDP) compared to FRW 1766.5 billion (22% of GDP) in the revised budget.

Consistent with this increase in revenue and grants, total expenditure and net lending are being revised upwards from a revised budget estimate of FRW 2,105.3 billion (26.2 % of GDP) to FRW 2,125.2 billion (26.6 % of GDP). This will allow the expenditure of FRW 19.9 billion (0.2 % of GDP) to cater for the construction of schools and other infrastructure projects of the University of Rwanda, provision of health insurance for some citizens and insecticides spraying operations to reduce the spread of malaria, construction of irrigation systems to improve agricultural production and pre financing of some Peace Keeping Operations of the UN.

The overall deficit is now projected to decline to FRW 328.8 billion (4.1% of GDP) compared to FRW 362.9 billion (4.5 % of GDP) in the revised budget. Reflecting the decline in overall deficit, the net domestic finance also declines.

vi. External Debt Policy

Rwanda’s risk of debt distress remains low. However, the level of public debt has been growing steadily to fuel public investment projects. The Debt Sustainability Analysis conducted in April 2018 revealed that the risk rating status remain low. Rwanda’s PV of debt-to-export stood at 120.2% (compared to the level of 112.7% in December 2015). The PV of debt service-to-exports stands at 7.2% in 2017, but increases sharply to 17.3% in 2023, the year of Rwanda’s Euro bond repayment.

The main reason for this deterioration is an increase in the level of non-concessional borrowing (as highly concessional multilateral lending sources are restricted), and leases incurred for Rwandair fleet expansion plan, debt service and repayment associated with the Kigali Convention Center in 2019-2020, and the pressure of the Eurobond rollover in 2023. At the same time, GDP growth is projected to rise; in order to ensure continued debt sustainability, borrowing must generate an economic rate of return recaptured by the Government, and economic growth must be translated into increased domestic revenues, enhanced export performance, and reserves.

Going forward, high return in exports receipts are expected from diversification in non-traditional products like horticulture and floriculture, as well as the reduction of the import bill through substitution, including the ‘’Made in Rwanda” initiative. But to do so, public investments should themselves be export enhancing. This combined with a prudent medium-term debt management strategy and a careful assessment of future projects’ financing will remain critical to prevent public debt levels from becoming unsustainable.

vii. Monetary Policy and Exchange Rate Developments

The table below shows key metrics of the monetary sector development:

Table 6: Key Monetary Statistics in 2017

Monetary Statistics	2015 Dec	2016 Dec	2017 Dec	% change 2017/2016
Net foreign assets	643	739	803	8.6%
Domestic credit	1,222	1,341	1,569	17.0%
Central government (net)	40	12	58	378.4%
Private sector	1,178	1,285	1,464	13.9%
Broad money M3	1,482	1,595	1,792	12.4%
Currency in circulation	143	146	163	11.6%
Deposits	1,339	1,449	1,629	12.4%

The National Bank of Rwanda continued to implement the prudent monetary policy. The Monetary Policy Committee (MPC) decided to reduce the Key Repo Rate-KRR to 5.5% from 6% in line with current and expected developments in macroeconomic fundamentals, especially the ease in inflationary pressures, stability of the FRW exchange rate and still weak aggregate demand.

Broad money grew by 12.4% from 7.6% December 2016 mainly driven by increase in Net Foreign Assets at 8.6%. The credit to private sector increased by 13.9% compared to 7.8% in the previous year of 2016. The Banking sector as a whole remained well capitalized in 2017 with high degrees of liquidity at 43.7% as opposed to a minimum of 20% and capital as a proportion of risk weighted assets at 21.4% as opposed to a minimum of 15%t.

viii. Financial Sector Development

The financial sector legal and regulatory regime in Rwanda has evolved over the years to meet the changing structure of the Rwandan financial sector as well as related market developments. These prudential regulations relating to banking, microfinance institutions, non-banking financial businesses and financial infrastructure aim at achieving a sound and efficient financial sector in the interest of depositors, stakeholders and other customers of financial institutions and the economy as a whole.

In terms of the financial sector stability, the pick of Non-Performing Loans (NPLs) in the first half of the year 2017 reflects the subdued economic performance that affected the loan servicing capacity of borrowers. Domestic demand was subdued in the first half and agriculture performance was weak, which led to the Increase in NPLs. In line with improved economic performance in the second half of 2017, NPLs dropped to 7.6% from 8.2% recorded in June 2017.

III. OBJECTIVES AND POLICIES FOR THE MEDIUM TERM 2018/19- 2020/21

III.1. Overview of 2018/19 policies and medium term macro-economic framework

The policies and strategies over the medium term are built on Government's aspiration to take Rwanda to high living standards by the middle of the 21^{st} century and high quality standards. This is reflected in the blue print of the Vision 2050 under development. The National Strategy for Transformation (NST1), which has been developed as implementation instrument of the remainder of Vision 2020 and for the first four years of the Vision 2050, provides the direction of the policy objectives over the medium term.

The government continues also to implement a set of measures to promote import substitution and diversified exports that aim at reducing the exposure to external shocks and imbalances over the medium term. The ***Made in Rwanda*** campaign and policy being implemented will continue to play a key role in narrowing the current account deficit overtime in the short to long run and help to consolidate private sector domestic activities, create jobs and boost economic growth.

III.1.1. Real Sector Projections for the period 2018 – 2020

The economy grew by 6.1% in 2017 from 5.9% recorded in the corresponding period of the previous year, driven by the service sector (+8.0%), agriculture sector (+7.0%) and industry sector (+4.0%). The economy is projected to grow by 7.2% in 2018 and 7.8% in 2019, from 6.1% in 2017. Agriculture sector is expected to get good performance in food and export crops due to continuing investments to improve seeds and extend irrigation on small scale. However, the expected growth rate will moderate at 5.6% in 2018 and 4.5% in 2019 due to the progressive low performance in forestry and weather conditions in some areas of the country. Industry is expected to grow at 8.3% in 2018 and 13.1% in 2019 from 4% in 2017 boosted by mining and construction. The ongoing improvement in international mineral prices will support domestic production and construction sector, which is set to slightly register good performance in 2018 at 5.2% and pick up to 10.1% in 2019 due to the construction of Bugesera Airport and other projects from private sector. Services sector is likely to sustain the good performance for both 2018 and 2019 at 7.6 and 7.8% respectively. The following table highlights the GDP projections over the medium term:

Table 7: GDP Growth Projections for the period 2018 – 2020

GDP Growth (constant prices 2014)	2016	2017	2018 Proj	2019 Proj	2020 Proj
GDP	**6.0%**	**6.1%**	**7.2%**	**7.8%**	**8.0%**
AGRICULTURE	**4%**	**7%**	**5.6%**	**4.5%**	**4.3%**
Food crops	3%	7%	7.1%	5.1%	5.1%
Export crops	2%	2%	4.3%	8.3%	3.8%
Livestock & livestock products	10%	11%	11.0%	9.2%	8.6%
Forestry	4%	3%	-1.2%	-1.8%	-1.6%
Fishing	3%	5%	3.7%	3.9%	4.2%
INDUSTRY	**7%**	**4%**	**8.3%**	**13.1%**	**13.9%**
Mining & quarrying	**10%**	**21%**	**20.1%**	**31.5%**	**32.9%**
TOTAL MANUFACTURING	**7%**	**6%**	**6.1%**	**7.6%**	**8.5%**
Manufacturing of food	8%	14%	5.6%	6.0%	10.1%
Manufacturing of beverages & tobacco	3%	-8%	-0.9%	0.5%	0.2%
Manufacturing of textiles, clothing & leather goods	10%	22%	11.6%	14.5%	16.1%
Manufacturing of wood & paper; printing	11%	-4%	6.9%	6.2%	5.0%
Manufacturing of chemicals, rubber & plastic products	5%	21%	9.4%	12.2%	11.9%
Manufacturing of non-metallic mineral products	21%	9%	14.7%	16.2%	16.1%
Manufacturing of metal products, machinery & equipment	16%	-1%	7.5%	15.2%	9.4%
Furniture & other manufacturing	-10.0%	10.0%	7.4%	6.0%	3.3%
Electricity	**14%**	**8%**	**11.9%**	**11.9%**	**11.9%**
Water & waste management	**5%**	**2%**	**6.6%**	**6.6%**	**6.6%**
Construction	**5%**	**-3%**	**5.2%**	**10.1%**	**8.7%**
SERVICES	**7%**	**8%**	**7.6%**	**7.8%**	**7.8%**
Trade and Transport	**7%**	**4%**	6.1%	**6.8%**	**7.1%**
Maintenance & repair of motor vehicles	7%	4%	5.5%	4.8%	5.1%
Wholesale & retail trade	6%	0%	4.2%	6.2%	6.4%
Transport services	8%	11%	9.5%	8.0%	8.5%
Other services	**7.0%**	**9.0%**	**8.1%**	**8.1%**	**8.0%**
Hotels & restaurants	11%	10%	14.4%	14.3%	13.2%
Information & communication	9%	12%	10.5%	10.3%	10.5%
Financial services	3%	7%	6.9%	6.8%	7.4%
Real estate activities	6%	5%	5.2%	5.4%	5.2%
Professional, scientific and technical activities	6%	17%	7.4%	8.2%	9.6%
Administrative and support service activities	10%	26%	12.8%	12.2%	13.2%
Public administration and defence; compulsory social securit	12.0%	4.0%	6.0%	6.0%	4.0%
Education	4%	4%	6.2%	5.8%	5.5%
Human health and social work activities	6%	6%	6.0%	4.9%	4.9%
Cultural, domestic & other services	7.0%	9.0%	9.7%	9.7%	9.4%
Taxes less subsidies on products	**4%**	**-4%**	**7.7%**	**8.0%**	**8.5%**

III.1.2. Inflation

Looking ahead, Inflation in the region is expected to remain relatively stable because, the key factors of oil prices and forex markets have stabilised a little. No significant risks on inflation unless there are spikes in oil prices. For 2018, inflation is therefore projected to increase at 5% reflecting mainly the first round pass-through effect of rising fuel and low food prices as agriculture season A 2018 production was good and season B 2018 should be better than last year 2017. The inflation development from January until March 2018 shows a low inflation, which reached 0.9 by end March 2018.

III.1.3. External Sector Projections

The table below shows projections on External Sector performance

Table 8: Key External Sector Projections

	2017	2018	2019	2020
A. Current Account	**-621.6**	**-825.6**	**-951.4**	**-959.7**
Balance on goods and services	***-901.3***	***-1,101.3***	***-1,140.0***	***-1,157.8***
Goods (Trade Balance)	**-871.5**	**-961.9**	**-1,012.3**	**-1,035.4**
Exports f.o.b.	1,050.2	1,207.2	1,396.1	1,562.0
Of which: coffee	64.1	61.6	76.4	83.7
tea	84.3	85.7	90.8	96.3
minerals	125.0	166.0	197.3	244.7
Imports f.o.b.	1,921.7	2,169.1	2,408.5	2,597.3
Imports fob excl Rwandair, KCC and Bugesera	1,921.7	2,152.6	2,304.3	2,502.0
Services (net)	**-29.8**	**-139.4**	**-127.6**	**-122.4**
Services: credit	998.2	1,026.2	1,144.4	1,239.3
Services: debit	1,028.0	1,165.6	1,272.0	1,361.7
Primary income (net)	**-316.7**	**-344.8**	**-380.9**	**-424.7**
Secondary income (net)	**596.4**	**620.5**	**569.4**	**622.8**
Secondary income: credit	695.1	725.4	683.3	748.1
Secondary income: debit	98.7	104.9	113.9	125.3
B. Capital Account	**189.7**	**218.9**	**234.1**	**235.2**
Net lending(+)/ net borrowing (-)	***-431.9***	***-606.7***	***-717.3***	***-724.6***
C. Financial Account: Net lending(+)/ net borrowing (-)	**-555.6**	**-658.5**	**-810.1**	**-876.1**
Direct investment	-245.1	-261.6	-333.8	-363.9
Direct investment: assets	48.3	50.7	53.5	56.4
Direct investment: liabilities (i.e. FDI)	293.4	312.3	387.3	420.3
Other investment	**-382.3**	**-394.0**	**-473.3**	**-509.1**
Other investment: assets	-36.8	5.2	0.0	0.0
Other investment: liabilities	345.5	399.2	473.3	509.1
o/w public sector budget loans	216.1	298.5	216.1	215.0
o/w public sector project loans	153.1	162.8	218.8	270.4
o/w private sector loans	162.2	141.5	256.2	332.2
D. Overall Balance	**92.6**	**51.8**	**92.8**	**151.6**

In medium term 2018 and 2019, the current account deficit is expected to slightly deteriorate to US$825.6 and US$951.4 million respectively due to expected higher imports for Bugesera International Airport. However, exports of goods are expected to continue increasing especially due to the assumption of commodity prices performance at international market (World Economic Outlook). Addition to this, imports excluding Bugesera airport are expected to increase moderately, as import substitution measures take effect (Made in Rwanda strategy).
The foreign direct investment is expected to continue increasing in medium term especially in 2019 and 2020 due to high investment of Bugesera Airport and part of them will be external loans (USD81.8 million in 2019 and the same amount in 2020) to finance import of goods and services for Bugesera.

The expected increase in foreign direct investment and debt flows in medium term will boost the overall external position to reserve build-up of US$51.8; US$92.8 and US$151.6 million in three years ahead 2018, 2019 and 2020 respectively. The expected high level reserves will cover 4.0 months of imports of goods and services in 2018, against 4.2 months recorded in 2017. Again, with the expected increase of reserves, it is expected to cover 4.0 and 4.1 months of imports in 2019 and 2020 respectively.

III.1.4. External Debt Policy

The medium term debt policy will continue to ensure that the financing needs and settling of obligations meet the medium term objective of low borrowing costs, prudent risk exposure and promotes an active domestic debt market. This will be achieved through a combination of strategies, including the development of our capital market which offers the more long term domestic financing in replacement of short term notes (though for cash flow financing purposes the issuance of treasury bills may be used).

Rwanda’s PV of debt-to-export which stands at 7.2%, is expected to increase sharply to 17.3% in 2023, the year of Rwanda’s Euro bond repayment. The main reason for this deterioration is an increase in the level of non-concessional borrowing (as highly concessional multilateral lending sources are restricted), and leases incurred for Rwandair fleet expansion plan, debt service and repayment associated with the Kigali Convention Center in 2019-2020, and the pressure of the Eurobond rollover in 2023. At the same time, GDP growth is projected to rise; in order to ensure continued debt sustainability, borrowing must generate an economic rate of return recaptured by the Government, and economic growth must be translated into increased domestic revenues, enhanced export performance, and reserves.

III.1.5. Monetary Sector Projections

In 2018, the monetary policy stance is expected to remain accommodative, on account of subdued inflationary and exchange rate pressures, coupled with improving aggregate demand.

In 2018, monetary aggregates will grow at a higher rate than the previous year. Credit to Private sector will increase by 14.6% from 13.9% in 2017. Broad money and reserve money will grow by respectively 16.4% and 12.2% compared to 12.4% and 8.8% in 2017. However, the growing instability of the money multiplier has exacerbated the disconnection between reserve money and broad money, posing challenges to the monetary targeting framework under which the NBR conducts its monetary policy. In this regard, the NBR is organizing to shift to a price-based monetary policy framework to further improve the effectiveness of monetary policy.

In Rwanda, price-based monetary policy implementation would make money market rates more stable and predictable, a condition conducive to developing financial markets further and strengthening the monetary transmission mechanism. The NBR undertook steps to implement preconditions to move to interest-based monetary policy framework, especially those related to management of liquidity and policymaking processes.

Exchange rate policies will focus on a market driven exchange rate, which enables to adjust freely the shocks of external trade balance deficit. In 2018, exchange rate pressures will be moderate considering the Balance of Payments forecast. This will reduce inflationary pressures and allow BNR to continue to support the market.

III.1.6. Financial Sector Development Strategy

The strategy for the financial sector development will focus on the following key strategic interventions:

a) **Automation and Consolidation of Umurenge SACCOs into a Cooperative Bank,** which is expected to be completed in 2019. The process will be done in two phases including consolidation of U-SACCOs into District SACCOs and establishment of Cooperative Bank. Implementation of the Long Term Savings Scheme (LTSS) to cover the portion of the population currently not served by RSSB pension scheme (which currently covers 10% of Rwanda’s workforce) by focusing largely on public and private sector salaried employees.

b) **Implementation of the 5-year National Payment System,** which seeks to build a world-class payment eco-system that is secure, reliable, efficient, scalable, cashless, and promotes financial inclusion.

c) **Operationalization of Affordable housing financing scheme** following Cabinet approval of the scheme worth US$250 million. The World Bank has already committed US$150 million and negotiations are ongoing. The Government will continue to engage other stakeholders to mobilize the remaining funds.

d) **Developing Agriculture de-risking financing facility** aimed at developing the agriculture value chain ecosystem (for priority crops and livestock) and create partnerships/relationships between players in order to reduce the risks and barriers along the ecosystem thus making agriculture attractive to financiers

e) **Capital market Master Plan**, focusing on implementation of the 10-year master plan which is expected to advance a strategic agenda for deepening debt markets, expanding listings on the Rwanda Stock Exchange, developing an ecosystem of financial sector intermediaries, and further integrating Rwanda's capital markets with those of its East African neighbours. This will result in the formation of new capital markets products like; Asset backed securities, REITS as well as creation of Investment clinic that will pave the way for SMEs to tap capital through capital markets.

f) **Creation of Kigali International Financial Center** which seeks to attract non-resident investors who will invest in business opportunities in Rwanda as additional direct foreign investments and those who will invest in other jurisdiction from Rwanda (export of financial services);

III.1.7. Fiscal Policy Projections for 2018/19 and the medium term

Fiscal policy of the Government in 2018/19 and the medium term continue to aim at a) fiscal consolidation and prudent borrowing to keep debt sustainable with progress toward EAC macro-economic convergence criteria; b) reducing external current account deficit and the reliance on external financing; c) improving prioritization and efficiency of public expenditure in support of growth, poverty reduction and structural current account improvement. Consistent with these objectives, the overall fiscal deficit (on cash basis), which is projected to reach 4.9% of GDP in fiscal year 2018/19 is projected to decline to 4.6% of GDP in fiscal year 2019/20 and fall further to 4.4% of GDP in 2020/21.

In the case of tax collections, these are projected to increase on average by 0.3% of GDP per year from 15.6% of GDP in 2018/19 to 15.9%vof GDP in 2019/20 and further to 16.2% of GDP by 2020/21. Increased yields from on-going tax policy and administrative measures including those to be implemented in 2018/19 and the medium term are expected to boost revenue collections in the medium term.

Regarding expenditures, implementation of expenditure prioritization measures are expected to allow expenditures to decline from 27% of GDP in 2018/19 to 26.3% of GDP in 2019/20 and to 26.2% of GDP in 2020/21. The prioritization strategy will mostly affect recurrent spending which is projected at 14.8% of GDP in 2018/19 with a decline to 14.2%of GDP in 2019/20 and to 13.9% of GDP by 2020/21. Spending on investment projects will however remain robust in the medium term as capital expenditure, which is projected at 10.1% of GDP in 2018/19 will reach 10.4% of GDP by 2020/21.

The reliance on concessional loans notably from the multinational financial institutions will boost the implementation of investment projects for growth and poverty reduction. The declining deficits in the medium term will also be expected to result in declining domestic financing of the budget. This is projected to reach 1% of GDP in 2018/19, decline to 0.9% of GDP in 2019/20 and to 0.6% of GDP by 2020/21. The decline in domestic financing of the budget in the medium term will allow higher private sector allocation and will therefore support a more robust economic growth.

The table below shows key fiscal projections for 2018/19 – 2020/21 period:

Table 9: Fiscal projections for the medium term covering 2017/18 to 2020/21

Operations of Central Government (Billion FRW)	**Jul-Jun 2017/18**	**Jul-Jun 2017/18**	**Jul-Jun 2018/19**	**Jul-Jun 2018/19**	**Jul-Jun 2019/20**	**Jul-Jun 2019/20**	**Jul-Jun 2020/21**	**Jul-Jun 2020/21**
(Incl.LG collections,Strategic reserves levy and Infrastructure Levy)	**Revised Budget**	**% GDP**	**Proj.**	**% GDP**	**Proj.**	**% GDP**	**Proj**	**% GDP**
Revenue and grants	**1,766.5**	**22.0**	**1,997.5**	**22.4**	**2,241.6**	**22.1**	**2,589.7**	**22.1**
Total revenue	**1,413.7**	**17.6**	**1,601.2**	**17.9**	**1,836.9**	**18.1**	**2,153.8**	**18.4**
Tax revenue	**1,229.6**	**15.3**	**1,395.0**	**15.6**	**1,612.9**	**15.9**	**1,895.8**	**16.2**
Direct taxes	518.4	6.5	597.5	6.7	691.0	6.8	803.3	6.9
Taxes on goods and services	602.9	7.5	680.7	7.6	794.6	7.8	928.7	7.9
Taxes on international trade	108.4	1.3	116.7	1.3	127.3	1.3	163.8	1.4
Non-tax revenue	**184.1**	**2.3**	**206.3**	**2.3**	**224.1**	**2.2**	**258.0**	**2.2**
Total Grants	**352.9**	**4.4**	**396.3**	**4.4**	**404.7**	**4.0**	**436.0**	**3.7**
Budgetary grants	184.2	2.3	163.1	1.8	181.9	1.8	187.0	1.6
Capital grants	168.7	2.1	233.1	2.6	222.8	2.2	248.9	2.1
Total expenditure and net lending	**2,105.3**	**26.2**	**2,407.0**	**26.9**	**2,677.1**	**26.3**	**3,067.7**	**26.2**
Current expenditure	**1,144.8**	**14.3**	**1,319.9**	**14.8**	**1,445.6**	**14.2**	**1,625.4**	**13.9**
Wages and salaries	302.1	3.8	365.7	4.1	415.0	4.1	477.9	4.1
Purchases of goods and services	222.0	2.8	253.8	2.8	281.5	2.8	324.2	2.8
Interest payments	94.2	1.2	94.7	1.1	94.4	0.9	97.6	0.8
Domestic Int (paid)	52.7	0.7	49.8	0.6	43.6	0.4	40.7	0.3
External Int (due)	41.5	0.5	44.9	0.5	50.8	0.5	56.9	0.5
Transfers	402.7	5.0	431.9	4.8	483.3	4.8	551.9	4.7
Exceptional social expenditure	123.9	1.5	173.8	1.9	171.3	1.7	173.8	1.5
Capital expenditure	**782.5**	**9.7**	**897.1**	**10.0**	**1,021.8**	**10.1**	**1,213.4**	**10.4**
Domestic	481.3	6.0	510.2	5.7	565.7	5.6	658.9	5.6
Foreign	301.1	3.8	386.9	4.3	456.1	4.5	554.4	4.7
Net lending	**178.0**	**2.2**	**190.0**	**2.1**	**209.8**	**2.1**	**229.0**	**2.0**
Overall deficit (payment order)								
Including grants	-338.7	**-4.2**	**-409.6**	**-4.6**	**-435.5**	**-4.3**	**-478.0**	**-4.1**
Excluding grants	-691.6	**-8.6**	**-805.8**	**-9.0**	**-840.2**	**-8.3**	**-914.0**	**-7.8**
Change in arrears (net reduction-)	**-24.2**	**-0.3**	**-27.2**	**-0.3**	-30.6	**-0.3**	**-35.2**	**-0.3**
Overall Deficit (cash basis)								
Including grants	-362.9	-4.5	-436.8	-4.9	-466.1	-4.6	-513.2	-4.4
Excluding grants	-715.8	-8.9	-833.0	-9.3	-870.8	-8.6	-949.2	-8.1
Financing	**362.9**	**4.5**	**436.8**	**4.9**	**466.1**	**4.6**	**513.2**	**4.4**
Foreign financing (net)	**324.6**	**4.0**	**372.4**	**4.2**	**376.6**	**3.7**	**438.0**	**3.7**
Drawings	349.7	4.4	400.9	4.5	408.8	4.0	495.9	4.2
Budgetary loan	217.2	2.7	247.1	2.8	175.5	1.7	190.4	1.6
Project loans	132.4	1.6	153.8	1.7	233.3	2.3	305.5	2.6
Amortization (due)	-25.1	-0.3	-28.5	-0.3	-32.2	-0.3	-57.8	-0.5
Domestic financing	**38.3**	**0.5**	**64.4**	**0.7**	**89.5**	**0.9**	**75.2**	**0.6**

IV. THE BUDGET FOR FISCAL YEAR 2018/19 AND THE MEDIUM TERM

The 2018/19 budget will continue to reflect the medium term policies of fiscal consolidation and prudent borrowing to keep debt and external balances sustainable. Accordingly, the total budget (excluding Local Government revenue and expenditure) has been estimated at FRW 2,443.5 billion, which is FRW 328.2 billion higher than the revised budget total of FRW 2,115.3 billion. In economic classification terms, total revenue and grants (excluding local Government revenue) have been projected at FRW 1,904.9 billion and total expenditure and net lending (excluding local Government expenditure at FRW 2,314.4 billion. The fiscal deficit (on cash basis) is projected to rise from FRW 328.8 billion in 2017/18 to FRW 441.1 billion in 2018/19.

IV.1. Projection of Resources and Expenditures in 2018/19 and the medium term

Table 10: Resources and Expenditures over the medium term

Resources and Outlays (Billion Frw)	2017/18 Revised Budget	2018/19 Budget	2019/20 Proj.	2020/21 Proj.
RESOURCES	**2,115.3**	**2,443.5**	**2,685.6**	**3,098.3**
Domestic revenue	**1,338.5**	**1,508.7**	**1,732.8**	**2,033.9**
Tax revenue	1,200.3	1,353.0	1,565.7	1,841.4
Direct taxes	489.1	555.6	643.8	748.9
Taxes on goods and services	602.9	680.7	794.6	928.7
Taxes on international trade	108.4	116.7	127.3	163.8
Non-tax revenue	138.2	155.7	167.2	192.5
Domestic financing	**74.3**	**137.7**	**139.3**	**132.6**
Sale of new Securities to Banks	25.4	79.4	89.5	75.2
Drawdown	12.9	8.6	0.0	0.0
Sales to Securities to non Banks	36.0	49.8	49.8	57.3
Grants	**352.9**	**396.3**	**404.7**	**436.0**
Budget Support	184.2	163.1	181.9	187.0
Project Support	168.7	233.1	222.8	248.9
Loans	**349.7**	**400.9**	**408.8**	**495.9**
Budgetary Loans	217.2	247.1	175.5	190.4
Project loans	132.4	153.8	233.3	305.5
EXPENDITURES	**2,115.3**	**2,443.5**	**2,685.6**	**3,098.3**
Recurrent Budget	**1,130.7**	**1,305.7**	**1,423.5**	**1,620.7**
Wages and salaries	409.2	438.0	487.0	507.9
Recurrent non wage	721.5	867.7	936.5	1,112.8
Development Budget	**782.5**	**897.1**	**1,021.8**	**1,213.4**
Domestically financed	**481.3**	**510.2**	**565.7**	**658.9**
Of which Global Fund	61.1	53.6	55.8	56.1
Externally financed	**301.1**	**386.9**	**456.1**	**554.4**
Net Lending (lending)	**178.0**	**190.0**	**209.8**	**229.0**
Arrears Payment	**24.2**	**27.2**	**30.6**	**35.2**
Accumlation of Deposits	**0.0**	**23.5**	**0.0**	**0.0**

IV.1.1. Projection of Resources

Total resources projected for the fiscal year 2018/19 (excluding local Government revenue) will amount to FRW 2,305.8 billion. These are made up of FRW 1,508.6 billion of domestic tax and non-tax revenue, FRW 396.3 billion of total external grants and FRW 400.9 billion of external loans.

a) Domestic Revenue Collections

✓ **Tax Revenue Collections**

Tax revenue collections for fiscal year 2017/18 (excluding local Government taxes) are expected to reach FRW 1,237.9 billion. These collections will be FRW 25 billion higher than the FY 2017/2018 revised budget estimate of FRW 1212.9 billion. The projected excess in 2017/18 was mainly due to 'one off 'VAT arrears payment by a telecom company as well as arrears from import taxes by EWSA and REG. In 2018/19, total tax revenue collections (excluding local Government taxes) have been projected at FRW 1,353 billion showing a nominal increase of FRW115.1 billion. Tax policy changes involving the 'EBM for all' which aims at rolling out the EBMs to selected non-VAT registered tax payers, enactment of the law amending excise duties on beer, wines and liquors as well as mobile data and amendments to taxes on income involving capping of management fees to 2 percent, excluding liberal professionals from lump-sum/flat regime and the implementation of the transfer pricing guidelines which will help the Rwanda Revenue Authority conduct proper audits of multinational companies (banks, telecoms, insurance and mining companies) are expected to boost revenue collections in 2018/19 and help achieve the revenue target.

✓ **Non-Tax Revenue Collections**

Non tax revenue collections for 2018/19 (excluding local Government revenue) have been projected at FRW 155.7 billion which will be FRW 4.4 billion lower than the FRW 160.1 billion for 2017/18. Out of the FRW 155.7 billion for 2018/19, FRW 117.9 billion will come from reimbursements from the UN for Peace Keeping Operations, which amount is made up of reimbursements for the cost of peace keeping operations as well as emoluments for the troops. The estimate of FRW 155.7 billion also includes collections of administrative fees and charges including travelling and other documents totalling to FRW 21.8 billion. The projected non tax revenue figure also includes for the first time internally generated non- tax revenue collections of the Rwanda National Police and the Rwanda Development Board of FRW 6.2 billion and FRW 9.8 billion respectively. These two institutions will be allowed to spend these collections through the corresponding expenditure allocations under Goods and Services and Transfers respectively.

b) External resource Projection

✓ External grants projection

Total external grants for the fiscal 2018/19 have been estimated at FRW 396.3 billion, comprising of budgetary grants of FRW 163.1 billion and capital grants of FRW 233.1 billion. The 2018/19 amount of FRW 396.3 billion is FRW 48.9 higher than the FRW 347.4 billion registered in 2017/18.
Regarding budgetary grants of FRW 163.1 billion, the amount includes FRW 53.6 billion from the Global Fund and FRW 2.6 billion from the Sweden Government for the National Employment (NEP) project. While, capital grants of FRW 233.1 billion comprises of FRW 22.6 billion from the Netherlands and Germany for LODA with a balance from DFID for the social protection/VUP projects.

✓ External Loans Projection

A total amount of FRW 400.9 billion comprising budgetary loans of FRW 247.1 billion and project loans of FRW 153.8 billion has been projected for the fiscal year 2018/19. The projected amount for 2018/19 of FRW 400.9 billion is FRW 49.1 billion higher than the total drawdown amount of FRW 351.8 billion in 2017/18.
Regarding the budgetary loan amount of FRW 247.1 billion for 2018/19, FRW 57.5 billion will come from the AFDB and represents the SBDP loan, whilst FRW 189.6 billion will come from the World Bank. In the case of the project loan amount of FRW 153.8 billion, large portions are for energy and roads projects.

IV.1.2. Projection of Expenditures

Total Expenditure and net lending in 2018/19 (excluding local Government spending) are projected at FRW 2,314.1 billion which is FRW 264.1 billion higher than the figure of FRW 2,050 in 2017/18. The 2018/19 figure is made up of recurrent spending (excluding local Government spending) of FRW 1227.3 billion, capital expenditure of FRW 897.1 billion and net lending outlays of FRW 190 billion.

a) Recurrent Expenditures

The estimate of FRW 1,227.3 billion (excluding local Government spending) projected for fiscal 2018/19 is FRW 143.1 billion higher than the outturn of FRW 1,084.2billion in fiscal year 2017/18. The increase is mainly driven by an increase in wages and wage related items arising from the on-going restructuring exercises as well as creation of new structures for several public servants especially the security agencies, social sectors as well as in new Government agencies. The other source of increase in total spending is from non-wage expenditure mainly for the purchases of goods and services for the running of the various Government institutions and agencies including road maintenance activities. Spending on Peace Keeping Operations is also catered for in the envelope and an amount of FRW 94.7 billion has been allocated for interest payments both domestic and external.

b) Capital Expenditure

An amount of FRW 897.1 billion has been allocated for capital expenditure in fiscal year 2018/19. This amount is made up of FRW 510.2 billion of domestically financed portion and FRW 386.9 billion of foreign financed portion. The allocated amount for capital spending in 2018/19 is FRW 109.3 billion higher than the FRW 787.8 billion spent in fiscal 2017/18. In allocations for the fiscal year 2018/19, priority is being given to allocate adequate funding for the completion of various on-going investment projects.

Regarding the domestically financed portion, the estimate of FRW 510.2 billion in 2018/19 is FRW 23.6 billion higher than the expenditure amount of FRW 486.6 billion in the fiscal year 2017/18. The 2018/19 figure of FRW 510.2 billion includes an amount of FRW 53.6 billion spending on Global fund projects in the health sector. FRW 8.6 billion will also be spent on the construction of strategic petroleum reserve storage facilities. The funding for these storage facilities will come from the draw-down of the accrued deposits of the strategic petroleum reserve levy introduced in the fiscal year 2015/16 in BNR.

In the case of the foreign financed portion, the allocated amount of FRW 386.9 billion is FRW 85.8 billion higher than the FRW 301.1 billion of expenditure in 2017/18. A large portion of the increase in spending is due to an increase in capital grants disbursement reflecting improved performance partly attributable to the uptake in the e-procurement system.

c) Net lending

Expenditure under net lending in fiscal year 2018/19 has been projected at FRW 190 billion, which is FRW 12 billion higher than in the fiscal year 2017/18. Out of the allocated amount of FRW 190 billion, FRW 107 has been allocated to Rwandair as a subsidy for its operations whilst FRW 49.7 billion has been set aside to fund various export promotional activities.

V. 2018/19 DETAILED RESOURCE ALLOCATION TO NST1 PILLARS

The National Strategy for Transformation (NST1) has been developed as implementation instrument for the remainder of Vision 2020 and for the first four years of the Vision 2050. It also integrates far sighted, long-range global and regional commitments by embracing the Sustainable Development Goals (SDGs), the Africa Union Agenda 2063 and its First 10-Year Implementation Plan 2014-2023 as well as the East African Community (EAC) Vision 2050.
Allocation of resources in the budget for 2018/19 fiscal year and the medium term is therefore guided by interventions in NST1 as follows:

Table 11: 2018-19 Resource allocation per NST1 Pillars

NST1 Pillars	2018/19 Allocation		2019/20 Allocation		2010/21 Allocation	
	Billion Frw	%	Billion Frw	%	Billion Frw	%
Economic Transformation	1,389,549,781,473	57%	1,516,391,120,528	56%	1,802,294,712,614	58%
Social Transformation	655,588,345,621	27%	729,357,710,448	27%	798,696,892,348	26%
Transformational Governance	398,397,677,291	16%	439,877,024,177	16%	497,289,884,360	16%
TOTAL	**2,443,535,804,386**	**100%**	**2,685,625,855,153**	**100%**	**3,098,281,489,322**	**100%**

V.1. Allocation on Economic Transformation Pillar

The overarching objective of the Economic Transformation pillar is to accelerate inclusive economic growth and development founded on the Private Sector, knowledge and Rwanda's Natural Resources. This will be achieved by focusing on the following strategic objectives

1. Create decent jobs for economic development and poverty reduction
2. Accelerate Urbanization to facilitate economic growth
3. Promote industrial development, export promotion and expansion of trade related infrastructure
4. Develop and promote a service-led and knowledge-based economy
5. Increase agriculture and livestock quality, productivity and production
6. Sustainably exploit natural resources and protect the environment

The table below shows allocation of resources on Economic Transformation Pillar for 2018/19 and the medium term:

Table 12: 2018/19 and Medium Term Allocation on Economic Transformation Pillar

NST Pillars	NST Sectors	2018/19 Budget		2019/2020 Proj.		2020/2021 Proj.	
Economic Transformation Pillar	**TOTAL ALLOCATION**	**1,389,549,781,473**	**57%**	**1,516,391,120,528**	**56%**	**1,802,294,712,614**	**58%**
	Agriculture	124,028,426,820		152,366,791,414		161,039,320,581	
	Private sector Development & Youth Employment	121,836,561,312		145,546,365,370		168,095,737,133	
	Transport	231,193,833,371		270,201,997,199		314,303,143,734	
	Energy	144,425,005,974		159,440,703,479		211,730,001,353	
	Urbanization and Rural Settlement	28,544,467,432		31,089,904,274		34,952,066,203	
	Information Communication Technology (ICT)	4,138,547,773		6,528,006,663		7,733,312,001	
	Environment and Natural Resources	39,627,631,333		37,773,099,575		41,650,384,421	
	Financial Sector Development	7,477,312,893		15,645,655,205		19,507,750,175	
	Public Finance Management (PFM)	688,277,994,566		697,798,597,349		843,282,997,013	

To achieve the above strategic objectives, the 2018/19 budget has prioritized the following:

V.1.1. Job Creation

A total of 216,717 Off-farm Jobs including the 47,850 which are targeted to be created through National Employment Programme (NEP) Financed Interventions in 2018/19;
To achieve the above target, the following strategic interventions have been planned by respective institutions;

- ✓ Coordination of Implementation of NEP Interventions in various sectors with focus on youth and women including;
- ✓ Hands-on skills development through TVET and accessing start up toolkits
- ✓ Skills upgrading for craftsmen and facilitation for acquisition of modern equipment and technology
- ✓ strategic partnerships with the private sector in workplace based learning (industrial based training, apprenticeship and rapid response training)
- ✓ Promoting entrepreneurship and access to finance
- ✓ Standards and compliance capacity development program for SMEs
- ✓ Operationalization of other big private investments like Volkswagen, Pharmaceuticals, etc.

V.1.2. Urbanization

Urbanization will further be promoted to enhance economic transformation through establishing pull factors as well as providing basic infrastructure, facilities and policies. The following strategic interventions/ projects will be undertaken;

- ✓ Review and update of City of Kigali & Secondary City Master Plans

- ✓ Development of detailed physical plans in urban areas
- ✓ Improve rural and urban transportation services;
    - Implementing additional 50km of scheduled bus routes to reach 10,245km
    - 6km dedicated bus lanes in CoK
    - 81.2km of urban roads constructed (Remera-Rugende Road, Kanombe Murrum and Asphalt Road, Nyabugogo – Jabana- Nyacyonga-Mukoto Road,)
    - Restructuring public transport in CoK
- ✓ Street lighting along major roads
- ✓ Upgrading AMAHORO Multipurpose Indoor Arena;
- ✓ Construction of District Stadia (Bugesera, Ngoma & Nyagatare)
- ✓ Asbestos removal from buildings

V.1.3. Promoting Competitive Knowledge-based Economy

In 2018/19, resources allocation will focus on the following major transformational interventions and projects:

- ✓ Operationalize the Rwanda Innovation fund
- ✓ Continuing construction of Kigali innovation City (KIC) basic infrastructure
- ✓ Construction of Rwanda Drone Operation Centre
- ✓ Support Centers of Excellence including: International Center for Theoretical Physics (ICTP); AIMS, CMU, etc.
- ✓ Conduct feasibility study for the BPO Park to develop in partnership with private sector
- ✓ Connecting 5,312 public institutions to internet

V.1.4. Industrialization and Export promotion

Key strategic interventions will aim to promote 'Made in Rwanda', identify and develop priority value chains, promote tourism and develop a vibrant aviation sector among others. Overall exports are target to grow by 17% annually. Resource allocation will focus on the following key interventions and projects:

i) Support to industrialization and trade facilitation

- ✓ Develop basic infrastructure in industrial parks:
    - Completion of basic infrastructure Bugesera industrial park (phase 1 of 100ha)
    - Expropriation of Musanze Industrial Park (164 ha)
    - Basic infrastructure of Rwamagana industrial park
    - Relocation of Gikondo Industrial Park
- ✓ Kigali Logistic Platform (phase 1) completed at 100%, Rubavu Bonded warehouse at 80%, Nyamasheke CBM at 80% and Kigali Special Economic Zone (Phase 1&2) fully booked.
- ✓ Construct 4 ports in Lake Kivu
- ✓ Continuing construction of Bugesera Airport Phase I
- ✓ Expansion and support to RwandAir Operations

ii) Export promotion and diversification

- ✓ Promoting MICE tourism by attracting 142 international events and conferences
- ✓ Diversification of tourism:
  - o Construction of Kigali Cultural Village Project;
  - o Rwanda Cycle Tourism Development Project;
  - o Expropriation for Kivu Belt tourism project
- ✓ 2 textile & leather industries established and 5 ha of land secured targeting to save USD 30 Million of imports in this sector
- ✓ 10 exporters facilitated to access Libreville, and Lagos Multiservice Centers;
- ✓ Improving Coffee Production and Productivity with the aim of exporting USD 75 Million; and increasing volume by 32% (from 18,502 tons in 2016/2017 to 25,500 tons in 2018/2019).
- ✓ Implementing Tea Expansion Project to generate USD 82.7 Million in exports and increase volumes by 20% from 25,129 tons in 2016/2017 to 30,240 tons in 2018/2019).
- ✓ Increase the quantity of horticulture exported by 34% (25,145 tons in 2016/2017 to 33,600 tons in 2018/2019).
- ✓ Continuing the development of basic infrastructure and implementing the business plan for Gako Integrated Beef Farm
- ✓ Expansion of flower park by 20ha
- ✓ Kigali Wholesale Market Project
- ✓ Scale up of Export Growth Facility to support financing of exporters
- ✓ Continuing Oil and Gas Exploration
- ✓ Exploration of Mineral Potential Targeted Areas Country wide
- ✓ Research and Technology/Innovation for value chains to meet industrial requirements for growth and sustainability

iii) Major roads:

- ✓ Rehabilitation and Widening of Kagitumba –Kayonza-Rusumo Raod Project (Lot1: 60 Km)
- ✓ Rehabilitation and Widening of Kagitumba –Kayonza-Rusumo Raod Project (Lot2: 56 Km)
- ✓ Ngoma – Nyanza Road Upgrading Project (Lot2: 66.5 km)
- ✓ Construction of Rubagabaga – Satinsyi Bridge
- ✓ Kivu Belt (24.5 Km) Lot 6 Rehabilitation – Rubengera-Gisiza Road
- ✓ Huye-Kitabi Road Rehabilitation
- ✓ Rukomo – Base (Lot2: 51.5 Km)
- ✓ 534km of Feeder Roads

iv) Major energy interventions:

- ✓ Connecting productive use facilities 307 Productive Use Areas
- ✓ 7.6 MW of electricity generation capacity added to the grid
- ✓ Network strengthening, transmission and construction of distribution lines
  - o Gasogi-KSEZ transmission line and sub-stations
  - o Rulindo-Gabiro-Musha Transmission line

- Electricity Loss Reduction (110kv line Jabana-Mont Kigali-Gahanga)

V.1.5. Domestic savings promotion

The following key interventions and projects have been prioritized to promote domestic savings:

- ✓ Kigali International Business and Financial Services Center established;
- ✓ 445,000 people subscribed to Long Term Saving Scheme;
- ✓ Implementation of the 10-Year Capital Market Master Plan: 2 corporate bonds, 2 Equity IPOs and 4 new treasury bonds issued;
- ✓ Develop and implement IFMIS Fixed Asset module in 504 Health Centers
- ✓ U-SACCOs Automation and Consolidation Towards Cooperative Bank Project
- ✓ Operationalization of the World-Class Payment Eco-system to promote Rwanda into a cashless Economy
- ✓ Establishing Agriculture financing and insurance scheme

V.1.6. Increasing Agriculture and livestock production and productivity

Specific interventions to modernize and increase the productivity of agriculture and livestock include the following key interventions and projects:

- ✓ Operationalizing Smart Nkunganire System to register farmers electronically and better manage subsidies for inputs
- ✓ Decentralization of inputs distribution system to improve service delivery
- ✓ Promotion of Local seed multiplication for priority crops to increase self-reliance and reduce seeds importation by 50%
- ✓ Post-Harvest: 15,000 MT of grains stored at national level and 191,528MT at decentralized level
- ✓ As a results, area under irrigation will increase from 48,500 ha (June 2017) to 59,829 ha by June 2019 by developing additional 11,329 ha
- ✓ Livestock intensification programme: Supporting vaccination (1.5 million animals) and artificial insemination (100,854 cows)
- ✓ Increase quantity of fertilizer used by 27% from 38,000 MT to 48,200MT
- ✓ Milk production is expected to increase by 13% (from 760,000 tons in 2016/2017 to 860,000 tons in 2018/2019);
- ✓ Meat production is targeted to increase by 17% (from 120,000 tons in 2016/2017 to 140,000 tons in 2018/2019);
- ✓ Eggs production is targeted to increase by 13% (from 4,000 in 2016/2017 to 4,500 Tons in 2018/2019).
- ✓ Supporting Agriculture Mechanization
- ✓ 800 ha of radical terraces developed

V.1.7. Sustainable Management of Natural Resources and Environment

Key strategic interventions and projects that have been allocated resources include:

- ✓ Promoting use of clean cooking technologies to achieve at least 10% of usage
- ✓ Revising National Land Use Development Master Plan at 50%
- ✓ Increasing resources mobilized from USD 86.3 to 126.5 million for Green Economy
- ✓ Continuing operationalization of Maranyundo weather radar
- ✓ Planting of 8,032ha woodlots; 153,197ha agroforestry; 60,000ha fruits and 30,000ha of bamboo as well as rehabilitation of 484ha of forests
- ✓ Engaging private sector in public forest management from 25% (17,000ha) up to 35%(23,800 ha)
- ✓ Continuing to raise awareness on adoption of LPG, gas, improved cook stoves & biogas
- ✓ Conducting a detailed feasibility study to manage water flows from Volcano area
- ✓ Finalizing expropriation of Muvumba Multipurpose Dam

V.2. Allocation on Social Transformation Pillar

The overarching goal for the Social Transformation Pillar is to develop Rwandans into a capable and skilled people with quality standards of living and a stable and secure society.
This will be achieved by focusing on the following strategic objectives;

1. Move towards a Poverty Free Rwanda.
2. Ensure a Quality Healthy Population
3. Develop a Competitive and Capable Rwandan Population
4. Ensure Quality of education for all aiming at building a knowledge-based economy
5. Transition to a Modern Rwandan Household in urban and rural areas

The table below shows allocation of resources on Social Transformation Pillar for 2018/19 and the medium term:

Table 13: 2018/19 and Medium Term Allocation on Social Transformation Pillar

NST Pillars	NST Sectors	2018/19 Budget		2019/2020 Proj.		2020/2021 Proj.	
Social Transformation Pillar	**TOTAL ALLOCATION**	**655,588,345,621**	**27%**	**729,357,710,448**	**27%**	**798,696,892,348**	**26%**
	Water and Sanitation	47,259,866,684		46,136,176,800		51,228,443,609	
	Urbanization and Rural Settlement	9,528,188,287		22,340,000,000		29,800,740,716	
	Social Protection	101,710,289,313		108,795,741,730		124,803,389,207	
	Health	207,180,108,639		234,831,167,754		253,997,290,952	
	Education	268,743,636,608		297,817,913,069		316,275,757,052	
	Sports and Culture	21,166,256,091		19,436,711,096		22,591,270,812	

To achieve the above strategic objectives, the 2018/19 budget has prioritized the following:

V.2.1. Social protection and poverty eradication

Planned interventions and projects are aimed at supporting graduation from poverty and building resilience against shocks. Resource allocation will focus on the following key interventions and projects:

- ✓ Distribute 40,000 cows under GIRINKA One Cow Per Poor Family Programme to reach a total 350,000 since the programme started
- ✓ Provide support to 31,511 beneficiaries of Direct support (DS) for vulnerable people for genocide survivors and demobilized soldiers
- ✓ Construction of Nyamagabe Rehabilitation Center, upgrading of Gitagata (phase 1) with the and construction of 20 classrooms at Iwawa;
- ✓ VUP DS from 96,078 to 107,000 households (416 sectors); Classic Public Works (PW) from 128,656 (244) to 142,137 hhs (270 sectors) & expanded PW (for people with disabilities, elders and lactating mothers) from 2,757 (80 sectors) to 30,000 hhs(150 sectors)
- ✓ VUP- Financial services scale up: 25,108 loans provided from 37,170 to 43,245 beneficiaries.
- ✓ Minimum Package for Graduation from 30 sectors (6,669 hhs) to 150 sectors (20,161 hhs)
- ✓ 14,837 from 11,816 community projects implemented at Village level through Ubudehe

V.2.2. Eradicating Malnutrition

In 2018/19 budget, emphasis will be put on strengthening and improving cross sectoral interventions through the ECD secretariat. Key strategic interventions and projects that have been allocated resources include;

- ✓ Stunting Reduction and Prevention Project

- ✓ Nutrition Support Services Project (Milk Distribution to Malnourished Children under 5 years) to 50,998 in 235 sectors
- ✓ One Cup of Milk Per Child distributed for 86,980 children at school
- ✓ Distribution of Fortified Blended Food (FBF) to 15,022 pregnant women and 75,202 Children
- ✓ Sensitization campaigns in most affected districts

V.2.3. Increasing accessibility to quality Health for all

The 2018/19 FY budget has prioritized the following interventions and projects to contribute to the scale up of access to quality health for all:

- ✓ Increase the number and quality of human resources for health including: general practitioners, specialists, nurses and qualified administrators
- ✓ Sustaining the universal access to TB, Malaria, HIV treatment for all;
- ✓ Increasing Access to Paediatric HIV Treatment in Rwanda
- ✓ Construction of a Research and Training Institute against Digestive Cancer (IRCAD) center
- ✓ Operationalization of the new CBHI Financial Sustainability Model
- ✓ Construction of hospitals and health facilities (Gatonde, Munini, Nyabikenke, Byumba, Gatunda, Nyagatare)
- ✓ 5 HCs constructed in the remaining sectors without Health Centers
- ✓ Operationalization of Rwanda Food and Drugs Agency
- ✓ Increase HCs capacity to provide comprehensive NCDs services

V.2.4. Improved access to quality education

Resources have been allocated to undertake the following key interventions and projects:

- ✓ Training teachers on new Competency-Based curriculum (CBC) and ICT Competency Framework
- ✓ Classrooms construction and rehabilitation
- ✓ Phasing out of double shifting in primary schools
- ✓ Scale up of Smart Classrooms
- ✓ Promotion of STEM in primary and secondary: construction of laboratories
- ✓ Implementation of new reform and structure of WDA and Rwanda Polytechnic (RP)
- ✓ Construction and equipment of TVET schools and incubation centers
- ✓ Support to University of Global Health (UGGHE) Project
- ✓ Implementation of the new UR Financing Model
- ✓ Acquisition of Hostels at UR- College of Arts
- ✓ Support to operationalization of centers of excellence e.g. African Institute for Mathematics and Science – AIMS

V.2.5. Modernizing Rwandan household

To further improve the wellbeing of Rwandan households as envisaged in the NST 1, the following interventions and projects have been planned:

- ✓ Scale up access to electricity to 52% (on and off-grid)
- ✓ Scale up access to water to 89% through key investments; rehabilitation of non-functional water supply systems, 227,120 m3 cubic meters of water produced daily from 182,120m3 cubic meters / day
- ✓ Scaling up access to sanitation to 89%
- ✓ Operationalize the affordable housing fund
- ✓ Access Roads to IDP Model Villages Project
- ✓ Housing Projects: Batsinda phase II and Kinyinya phase I
- ✓ 3,905 HHs relocated from High Risk Zones and 32,424 HHs relocated from Scattered Settlements
- ✓ Train at least 60,000 youth in digital literacy through digital ambassadors programme

V.3. Allocation on Transformational Governance Pillar

The overarching goal for the Transformational Governance Pillar is to consolidate Good Governance and Justice as, building blocks for equitable and sustainable National Development: This will be achieved through the following strategic objectives;

1. Consolidate values and unity of Rwandans, committed to a self-reliant and peaceful Rwanda
2. Strengthen partnerships between Government, private sector, citizen, NGOs and FBOs to fast track national development and people centered prosperity
3. Strengthen capable and responsible public institutions committed to citizens advancement and efficient service delivery
4. Establish legal frameworks that spur economic development and instill fairness, transparency and accountability across institutions and individuals,
5. Strengthen foreign policy that is driven by economic diplomacy, regional cooperation/Integration and Pan Africanism,
6. Strengthen capacity of security institutions/organs to preserve national security and protect Rwandans, as well as actively participate in socio economic development of the Nation.

The table below shows allocation of resources on Transformational Governance Pillar for 2018/19 and the medium term:

Table 14: 2018/19 and Medium Term Allocation on Transformational Governance Pillar

NST Pillars	NST Sectors	2018/19 Budget		2019/2020 Proj.		2020/2021 Proj.	
Transformational Governance Pillar	**TOTAL ALLOCATION**	**398,397,677,291**	**16%**	**439,877,024,177**	**16%**	**497,289,884,360**	**16%**
	Information Communication Technology (ICT)	23,083,168,683		16,815,299,517		18,905,080,593	
	Governance and Decentralization	145,658,510,250		169,393,623,850		190,588,359,828	
	Justice, Reconciliation, Law and Order (JRLO)	229,655,998,358		253,668,100,810		287,796,443,939	

To achieve the above strategic objectives, the 2018/19 budget has prioritized the following:

V.3.1. Reinforcing Rwandan culture and values

This will be achieved through the following planned interventions and projects:

- ✓ Organize various Itorero Activities (Impamyabigwi, Urugero Ruciye Ingando, Indangamirwa and others)
- ✓ Continuing Ndi Umunyarwanda programme
- ✓ Extension and upgrading the National Ubutore Development Center
- ✓ Supporting Tubarere Mu Muryango Programme
- ✓ Fighting Gender based Violence
- ✓ Advancing and Sustaining Gender Equality Gains

V.3.2. Safety and Security of citizens and property

Resources allocation has prioritized the following interventions and projects:

- ✓ Operationalization of Rwanda Investigation Bureau
- ✓ Acquisition of Fire Fighting Trucks
- ✓ Construction of the National Intelligence Academy
- ✓ Rehabilitation of Police Stations
- ✓ Construction of Automated Driving License Testing Center
- ✓ Canine Brigade Construction Phase II

V.3.3. Strengthening diplomatic and international cooperation

This will be promoted through the following planned key interventions:

- ✓ Construction, Rehabilitation and Renovation of various Embassy Infrastructures
- ✓ Providing the necessary equipment to Peace Keeping Operations Missions
- ✓ Electronic travel documents

- ✓ Contributions to international and regional organizations

V.3.4. Strengthening Justice, Law and Order

The following key interventions have been prioritized by the sector;

- ✓ Continuing implementation of Judicial reforms to reduce backlogs: Court of Appeal and restructuring of Primary Courts
- ✓ Provide support to MAJ Services
- ✓ Providing Support and training to ABUNZI
- ✓ Roll out of Integrated Electronic Case Management System (IECMS)
- ✓ Continuing modernization of laws
- ✓ Construction of Phase II of ILPD Building
- ✓ Indexation of Gacaca Records
- ✓ Rehabilitation of Bisesero and Nyarushishi Memorial sites
- ✓ Construction of prisons (Rubavu Phase III, Construction of Mageragere women's block, Huye and Nyamagabe)
- ✓ Construction of RCS Training Center
- ✓ Reinforcing the National Forensic Laboratory and National Police
- ✓ Operationalization of Rwanda Investigation Bureau (RIB)

V.3.5. Strengthening Capacity, Service delivery and Accountability of public Institutions

This objective will be achieved through the following key interventions and projects:

- ✓ Roll out of government services online by developing back end systems
- ✓ 10 districts covered by Zero-Trip, Zero-Paper Program
- ✓ Operationalization of e-citizen complaints management system
- ✓ Strengthening Public Finance Management Reforms
- ✓ Strengthening PFM Capacities of Non Budget Agencies (NBAs) in Districts
- ✓ Construction of the Modern Institute of Statistics Training Center
- ✓ E-Procurement
- ✓ Implementing Various LED Projects to attract private Investment in rural areas

V.3.6. Citizens' participation, engagement and partnerships in development

Citizens' participation and engagement will be promoted through the following key strategic interventions:

- ✓ Home Grown Solutions Documentation and Promotion
- ✓ Media and civil society engagement

VI. CONCLUSION

The budget framework for 2018/2019 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 in line with NST1, which is expected to contribute towards attaining NST1 objectives.

The medium term projections are built on conservative assumptions regarding 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 transformation expected in NST1. The Government recognizes the role of private sector towards the achievements of NST1 targets and much effort will be invested in various programmes and projects aimed at harnessing the private sector potential for an accelerated growth, "*Made in Rwanda*" being one of them. Thus public expenditure will then be supported by contribution from a dynamic private sector.

VII. BFP ANNEXES

1. Annex I: Explanatory Note to the BFP 2018/19-2020/21
2. Annex II: Basic Macro Indicators 2010-2021
3. Annex III: Fiscal Projections for 2018/19-2020/21
4. Annex IV: NST1 Sector Shares 2018/19-2020/21
5. Annex V: Budget execution tables for 2017/18
6. Annex VI: External borrowing and loan servicing projections
7. Annex VII: Domestic borrowing and loan servicing projections
8. Annex VIII: Public Enterprises Revenues and Expenditure Projections
9. Annex IX: Summarized CG Transfers to Districts for 2018/19-2020/21
10. Annex X: Consolidated Districts Revenues and Expenditures for 2018/19-2020/21
11. Annex XI: Block grant allocation table for 2018/19
12. Annex XII: Earmarked Transfers Guidelines for 2018/19 fiscal year
13. Annex XIII: Consolidated Gender Budget Statements
14. Annex XIV: Medium Term Debt Strategy