Budget Brief

Rwanda 2018

June 2018

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Economic overview

Rwanda's 2018/19 budget theme is 'industrialization for job creation and shared prosperity'. The theme which was shared across East Africa, underscores the countries' common desire for economic growth.

The theme also highlights Rwanda's commitment to create decent jobs in line with the priorities outlined in the first seven-year plan of the National Strategy Transformation 1 (NST1).

Domestic growth

Rwanda experienced reduced growth in the first half of 2017 mainly attributable to low growth of industry and services. However, the GDP growth rate registered a faster pace in the second half to close at 6.1% against the projected growth of 5.2%.

Like her counterparts across East Africa, Rwanda's main growth contributor was the agricultural sector boosted by crops production. Services continued to register significant growth closing at 8% in 2017 as compared to 7% achieved in 2016.

Mining and textile sectors also contributed to the GDP growth.

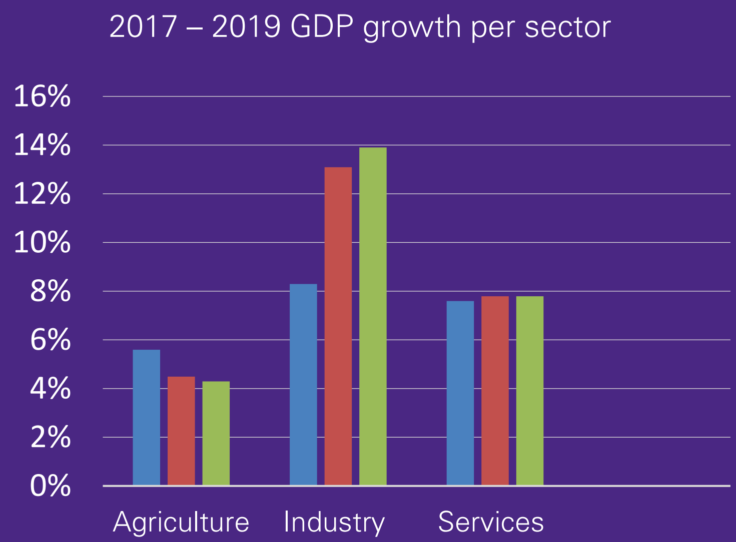
On the downside, the construction, wholesale and retail sectors continued to register poor performance, negatively affecting GDP growth.

The economy is projected to grow by 7.2% in 2018 and 7.8% in 2019, bucking the recent trend.

The growth rate in the agricultural sector will slow down to 5.6% in 2018 and 4.5% in 2019 due to the progressive low performance in forestry and poor 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 services sector is likely to sustain the good performance for both 2018 and 2019 at 7.6 and 7.8%, respectively.

The chart below details GDP growth per sector:



Inflation

Inflation declined to 4.8% in 2017 from 5.7% in 2016. This was mainly attributable to favourable weather conditions in 2017 resulting to improved food production.

The decline in inflation could also be attributed to ease in exchange rate pressures as a result of improvements in export receipts and a decline in imports.

In 2018, inflation is projected to remain below 5% mainly due to subdued exchange rate pressures. Global inflation, international commodity prices and aggregate demand are also expected to remain subdued.

External sector performance

The trade balance improved significantly in 2017. This was driven by high growth in exports closing at 44.5% and a corresponding decline in imports at 5.6%.

There is also an expected reduction of imports in specific areas for example clothing due to imposition of high taxes on second hand clothes

The current account deficit is expected to deteriorate slightly due to expected higher imports for Bugesera International Airport. However, despite the projected current account deterioration, expected higher financial flows in foreign direct investment and debt flows in 2018 and 2019 will boost the overall external position to support a modest build-up in reserves in 2018 and the medium term at around 4 months of import cover.

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External debt developments

Rwanda's external debt stock remains among the lowest in the region as a result of prudent macroeconomic and debt management.

This is largely attributed to majority of Rwanda's external debt portfolio being concessional loans provided by multilateral institutions (70.8% in June 2018).

Currently, Rwanda's present value of debt service-to-export stands at 7.2% and is expected to increase sharply to 17.3% in 2023 due to increase in the level of non-concessional loans and leases incurred for Rwanda Air's fleet expansion.

Rwanda projects to receive high returns in export receipts from non-traditional products like horticulture and floriculture. The government also targets a reduction of the import bill through substitution, including the 'made in Rwanda' initiative.

Monetary sector projections

Rwanda's key monetary aggregates registered positive results compared to 2016.

Broad money grew by 13.0% at the end of April 2018 compared to 11.9% growth at the same period in 2016, boosted by private sector credit growth of 8% by end April 2018.

The FRW depreciation against the US dollar averaged 3.5% at the end of May 2018 compared to 6.4% in the same period in 2017.

BNR will continue to boost liquidity within the banking sector with broad money supply expected to grow by 16.5% in 2018 and 18.8% in 2019.

This growth is expected to support private sector credit growth of 15.1% in 2018 and 15.2% in 2019.

Financial sector performance

Tax revenue collections recorded as at March 2018 amounted to FRW 901.6 billion with total non-tax revenue collections standing at FRW 150.4 billion.

On the expenditure, total spending between July and March 2018 amounted to FRW 1,631.9 billion with the government expecting to fully implement the fiscal budget for the year 2017/18 by end of June 2018.

Exchange rate policy

Rwanda exchange rate policy in 2018 is set to focus on maintaining a more market driven exchange rate that allows the market to adjust freely to shocks in external trade and other economic fundamentals.

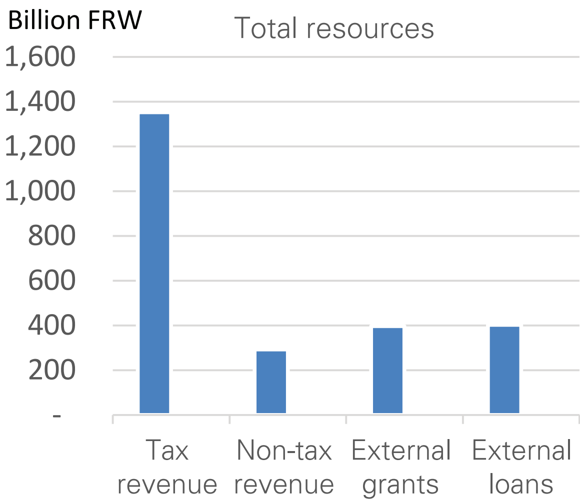
The exchange rate pressures are expected to reduce due to expected increase in export receipts and moderate increase in imports.

This position will ultimately reduce inflationary pressures, allowing BNR to continue supporting the foreign exchange market.

Budget for fiscal year 2018/2019

Total resources projected for the fiscal year 2018/19 (excluding local government revenue) will amount to FRW 2,443 .5 billion.

This is made up of FRW 1,645 billion of domestic tax and non-tax revenue, FRW 396.3 billion of external grants and FRW 402.2 billion in external loans, as demonstrated below:



Expenditure projection

Total expenditure and net lending in 2018/19 (excluding local government spending) are projected at FRW 2,392.7 billion.

The 2018/19 amount will be allocated as follows;

– recurrent spending (excluding local government spending) of FRW 1,266.1 billion;

– capital expenditure of FRW 936.6 billion; and

– net lending outlays of FRW 190 billion.

The budget for fiscal year 2018/19 is expected to close with an overall deficit of FRW 436.8 billion which will be funded with foreign net borrowings of FRW 372. billion and net domestic debt of FRW 64.4 billion.

Rwanda's overall deficit is projected at 4.9% of GDP for the FY 2018/19, and is projected to decline to 4.6% of GDP by 2020/21.

Budget key priority areas

The NST1, which has been developed as implementation instrument, forms the basis of allocating the resources in the 2018/19 budget. The pillars which inform the NST1 are:

Economic transformation pillar

The 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 pillar was allocated 1,373.8 billion accounting for 57% of the total budget for 2018/19.

Social transformation pillar

Social Transformation pillar aims to develop Rwandans into a capable and skilled people with quality standards of living and a stable and secure society.

This pillar was allocated FRW 668.2 billion which is equal to 27% of the total budget for 2018/2019.

Transformational governance pillar

Transformational Governance Pillar seeks to consolidate good governance and justice as building blocks for equitable and sustainable national development. This pillar has been allocated FRW 401.5 billion which is 16% of the total budget for 2018/19.

Domestic tax measures

The Rwanda government has remained consistent in its objective of reducing aid dependency and financing the national budget entirely from internal resources.

The budget has set a revenue target of FRW 1,353 billion for the fiscal year 2018/19, for Rwanda Revenue Authority.

The tax revenue target corresponds to 55% of the projected budget.

– some of the key domestic tax measures that may help RRA achieve this target include amendment of the law on tax procedures involving the 'EBM for all' which aims at rolling out the EBMs to selected non-VAT registered taxpayers, addressing loopholes in the existing law and improving some taxpayers' compliance procedures;

– enactment of the law amending excise duties on beer, wines and liquors as well as mobile data;

– amendments to taxes on income involving capping of management fees, excluding liberal professionals from the lump-sum/flat regime and the implementation of the transfer pricing guidelines which will help the RRA conduct proper audits of multinational companies; and

- revision of the property tax law.

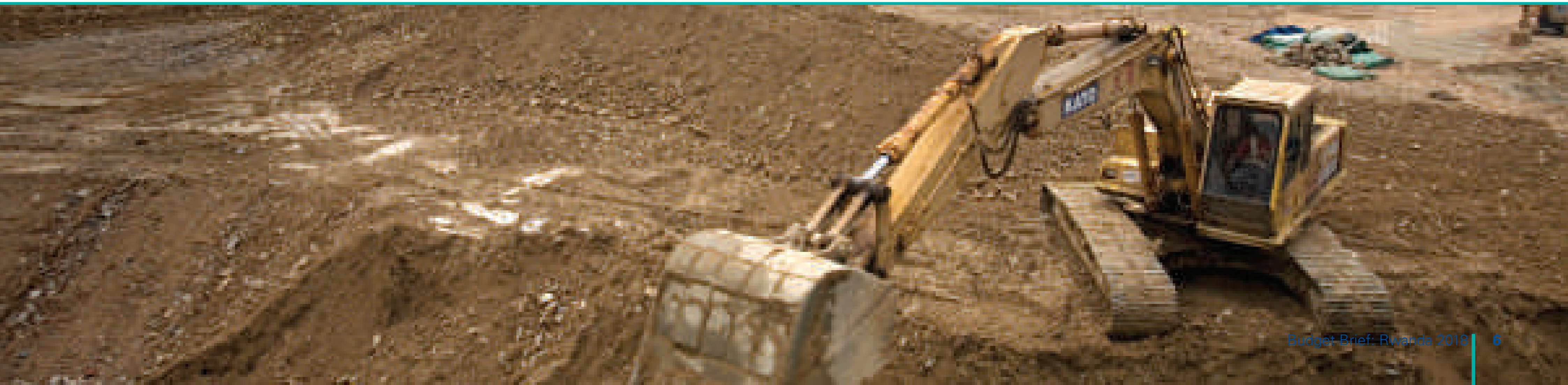
However, it is worth noting that some of these proposals may not be effective immediately.

EAC tax measures

Rwanda has agreed a number of tax incentives at the EAC level to allow growth in certain strategic sectors including transport services, manufacturing to promote 'Made in Rwanda' and a cashless economy.

This also includes access to basic needs for the population and supporting sports activities:

- rice will continue attracting import duty at a rate of 45% or USD 345/MT instead of 75% or USD 345/MT;
- sugar will continue attracting import duty at a rate of 25% instead of 100% or USD 460/MT whichever is higher;
- goods imported for the use by armed forces shop (afos) will continue attracting import duty at a rate of 0% instead of 25%;
- road tractors for semi trailers will continue attracting import duty at a rate of 0% instead of 10%;
- motor vehicles for transport of goods with gross weight exceeding 5 tons but not exceeding 20 tons will continue attracting import duty at a rate of 10% instead of 25%;
- motor vehicles for transport of goods with gross weight exceeding 20 tons will continue attracting import duty at a rate of 0% instead of 25%;
- buses for transportation of more than 25 persons will continue attracting import duty at rate of 10% instead of 25%;
- buses for transportation of 50 persons and above will continue attracting import duty at a rate of 0% instead of 25%;
- all capital machinery and raw materials used in textile and leather industry will continue attracting import duty at a rate of 0% instead of 25%;
- telecommunication equipment will continue attracting import duty at a rate of 0% instead of 25%;
- bicycles for racing or rally, will be exempted from import duty of 25%;
- list of raw materials used in industries will continue attracting import duty at a rate of 0% instead of 10% or 25%;
- electronic transaction devices (all smart cards, atm cards, point of sale cards and their operating machines) will continue attracting import duty at a rate of 0% instead of 25%; and
- second hand clothes will continue attracting import duty at a rate of USD 4/KG instead of USD 2.5/35%/KG, whichever is higher, while the second hand shoes will pay USD 5/KG instead of USD 0.4/35%, whichever is higher.



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