EXPLANATORY NOTE TO THE 2019/20 BUDGET REVISION PROPOSALS

1. The Revised Budget for fiscal year 2019/20.

Article 41 of the Organic Law No 12/2013/OL of 12/09/2013 on State finances and property states that the Government may submit a revised draft budget to the Chamber of Deputies for discussion and approval on the basis of performance and needs identified during the first six months of budget implementation. The revised budget proposals herewith presented are therefore consistent with this legal requirement.

2. Background to the Budget Revision.

The proposed revisions to the 2019/20 budget reflect changes in the resource envelope as well as the corresponding adjustments on expenditures. As a result of the proposed changes, the total budget is projected to rise from **FRW 2,876.9** billion to **FRW 3,017.1** billion showing an increase of **FRW 140.1** billion.

The following are the key changes being proposed:

On resources:

- Increase of domestic revenues arising from additional taxes expected following a good economic performance, improvements in tax administration and non-tax revenues;
- Decline in external grants due to change in disbursement plan;
- Increase in external loans to finance the economy.

On expenditures:

- Increase in recurrent spending to cater for operationalization of new Embassies (Doha, Rabat and Accra), as well as for debt service, Community-Based Health Insurance, and additional milk support to NECD program, and support to planned sport competitions. to allow increased allocations for interest payments on account of increased domestic borrowings;
- Increase in capital expenditure, mainly from additional allocation from Global Fund, as well as net lending to State Owned Enterprises.

3. Recent Macro-economic Performance and Projections

3.1. Global Economic Environment

According to the IMF's October 2019 WEO estimates, global growth is projected to slow down from 3.6 percent in 2018 to 3.0 percent in 2019. Growth in advanced economies is projected to soften to 1.7 percent. In emerging markets and developing economies, growth is expected to slow down to 3.9 percent in 2019, before improving to 4.6 percent in 2020 while for Sub-Saharan Africa, growth is projected to remain at 3.2 percent in 2019 as in 2018, and rise to 3.6 percent in 2020.

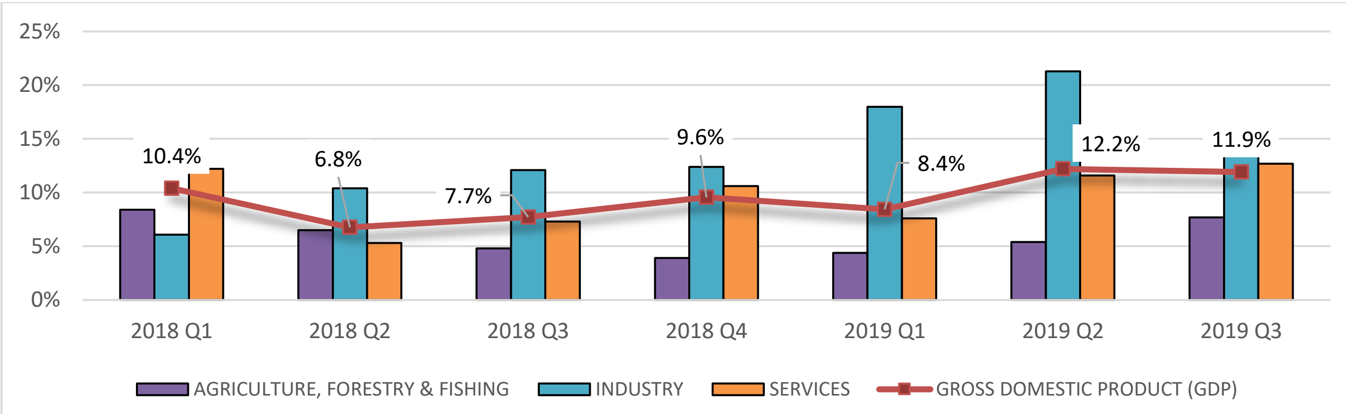
In line with falling commodity prices and softening global demand, world annual average inflation is projected to slow down to 3.4 percent in 2019, from 3.6 percent in 2018, and to later pick up to 3.6 percent in 2020. According to the October 2019 Commodity Markets Outlook report, all major commodity price indices fell in the third quarter of 2019. In the first ten months of 2019, global energy prices declined by 14.6 percent while non-energy commodity prices decreased by 5.3 percent, following a decline in prices of agricultural commodities (-5.4 percent) and metals & minerals (-6.0 percent).

3.2. National Economy

3.2.1. GDP

Overall over the first nine months of the year 2019, GDP growth has averaged 10.9 percent compared to a growth of 8.3 percent in the same period of 2018. Rwanda's Gross Domestic Product (GDP) continued in its noteworthy 2019 growth proceedings with an increase of 11.9 percent in the third quarter after 12.2 percent recorded in 2019 Q2; a significant increase from a growth of 7.7 percent in 2018 Q3. The 2019 Q3 performance was brought about by the 14 percent increase in the industrial sector, 13 percent growth in the services sector and 8 percent growth in the agricultural sector. This high growth was mainly driven by an upsurge in construction and services sector.

Graph 1: GDP Growth by Sector



GDP projection has been revised upwards from 7.8 percent to 8.5 percent.

3.2.2. Inflation

Annual inflation rate rose in November to 6.9 percent from 4.4 percent in the previous month, but the annual average inflation is at 2.1 percent in November, 2019 and remained within the BNR's target of 2.3 percent by end of 2019. November's inflation was driven by an increase in prices of food (16.2 percent vs 9.9 percent in October) in particular vegetables (31.1 percent vs 14 percent in October) and alcoholic beverages & tobacco (17.2 percent vs 6.9 percent) mainly due to liquor and tobacco leaves.
Inflation is expected to ease in the first semester of 2020 as food prices are projected to deflate as a result of season A harvest. The Central Bank is projecting inflation at 5 percent by end 2020.

3.2.3. Monetary sector

Table 1: Monetary indicators as of end November 2019

Monetary Statistics	End Nov 2018	End Dec 2018	End Nov 2019	% Change Nov 19-Nov 18	% Change Nov 19-Dec 18
Net foreign assets	798.5	1068.7	934.8	17.1%	-12.5%
Central government (net)	223.1	-2.9	165.8	-25.7%	5760.8%
Private sector Credit	1566.6	1622.1	1824.8	16.5%	12.5%
Broad money M3	2034.8	2071.7	2300.8	13.1%	11.1%

Compared to December 2018, Broad Money (M3) grew by 11.1 percent in November 2019. Net Foreign Assets (NFA) decreased by 12.5 percent. Credit to Private Sector (CPS) grew by 12.5 percent between December 2018 and November 2019, in comparison the target for the end year is 12 percent. With reference to December 2018, the Rwandan Franc (FRW) depreciated by 4.9 percent against the USD (as of December 31). Pressures on exchange rate remained moderate due to the good developments in the external sector.

3.2.4. External Sector

Table 2: Trade balance as of end November 2019

Trade	Jan – November 2018		Jan – November 2019		% change	
	Value mln USD	Volume Tons	Value mln USD	Volume Tons	Value	Volume
Exports	**916.8**	**682,247**	**984.3**	**987,994**	▲**7.4%**	▲**44.8%**
Coffee	63.1	19,161	62.7	21,229	▼-0.7%	▲10.8%
Tea	84.8	28,884	81.1	29,309	▼-4.4%	▲1.5%
Minerals (3Ts)	132.1	7,663	92.2	6,555	▼-30.2%	▼-14.5%
Other Exports	327.5	286,353	370.5	494,658	▲13.1%	▲72.7%
o/w Other minerals	186.1	1,222	116.3	253.5663	▼-37.5%	▼-79.3%
o/w re-export	299.5	334,706	368.3	432,206	▲23.0%	▲29.1%
Imports	**2,207.9**	**2,137,603**	**2,453.2**	**2,152,574**	▲**11.1%**	▲**0.7%**
Consumer goods	695.8	783,699	717.0	643,833	▲3.1%	▼-17.8%
Capital goods	622.1	72,455	735.5	83,336	▲18.2%	▲15.0%
Intermediate goods	611.3	946,171	710.2	1,057,603	▲16.2%	▲11.8%
Energy and lubricants	278.7	335,278	290.4	367,802	▲4.2%	▲9.7%
Trade deficit	**1,291.1**	**1,455,356**	**1,468.9**	**1,164,580**	▲**13.8%**	▼**-20.0%**

In January – November 2019, formal trade deficit widened by 13.8 percent compared to the same period last year. This was due to an increase in formal import of 11.1 percent, which outweighed the increase in formal export of 7.4 percent. While formal export revenue increase is not as expected, the volume greatly increased by 44.8 percent compared to the same period in 2018. This is despite a decline in export revenue and volume of our traditional export (-15.3 percent) and (-0.1) respectively, where Coffee, Tea and 3Ts minerals decreased by 0.7 percent, 4.4 percent and 30.2 percent respectively due to a drop in international commodity prices (Coffee: -10.4 percent, tea: -5.8 percent, Coltan: -24.1 percent, Wolfram: -18.3 percent and Cassiterite: -6.7percent). This drop in international prices affected the volume of minerals where volume of 3Ts and other minerals reduced by 14.5 percent and 79.3 percent respectively.

It is interesting to note that while formal import in January-November 2019 increased by 11.1 percent in value, the corresponding volume increase is only 0.7 percent. This growth in value is mainly attributed to the value increase in import of capital goods (+18.2 percent) and intermediate goods (+16.2 percent) reflecting ongoing construction activities in the country. Import of consumer goods rose moderately by 3.1 percent in value, even decreasing in volume by 17.8 percent, partly reflecting increased domestic supply following good agriculture production in 2019.

3.2.5. Fiscal Performance July-September 2019

Table 3: Fiscal Performance July-September 2019

In billion FRW	**Jul-Sept 2019 Proj.**	**Jul-Sept 2019 Prov. Act**
Total Resources	**574.8**	**603.2**
Domestic Resources	**419.8**	**430.7**
Tax revenue	356.8	365.4
Direct taxes	147.5	151
Taxes on goods and Services	180.1	183
Taxes on international trade	29.2	31.3
Non-tax revenue	63	65.3
Total external flows	**155**	**172.5**
Total grants	84.3	93.2
Total Loans	70.7	79.3
Total expenditure and net lending	**679.6**	**673**
Current expenditure	356.8	345.9
Capital expenditure	277.4	281.9
Net lending	45.4	45.2

In Economic classification terms, total resources were projected at FRW 574.8 billion for the July-September 2019 period. From the preliminary numbers as of end September, total resources that had accrued to the Treasury at end September 2019 amounted to FRW 603.2 billion and registered an excess of FRW 28.4 billion. Excess in domestic resources, both tax and non-tax collections as well as excess disbursement of external flows accounted for the excess in resource accumulation.

Domestic resources for July-September 2019 exceeded projections by FRW 10.9 billion. Non-tax revenue collections in the July-September 2019 period exceeded slightly the projected figure for the period. The main contributors to this good performance were reimbursements from the UN for Peace keeping operations. Other non -tax revenue collections mainly from the various administrative fees and charges including Rwanda National Police and RDB non-tax collections boosted these collections.

On the external flows front, the first quarter of the 2019/20 fiscal year registered an amount of FRW 172.5 billion comprising FRW 93.2 total grants and FRW 79.3 billion total loans. At the end of September 2019, there was an excess of FRW 17.5 billion. Disbursement of the delayed grants from the fiscal year 2018/19 by some Development Partners as well as an increase in the draw-down of budgetary and project loans were responsible for this excess.

On the spending side; provisional data at end September 2019 indicates that the Government had spent a total amount of FRW 673.0 billion which was only FRW 6.6 billion lower than the estimated amount 679.6 of billion FRW. While spending under capital expenditure registered a small excess, outlays under recurrent expenditure, were lower and caused the small shortfall in total spending during the July-September 2019 period. On the other hand, spending under net lending was on track

4. The Revised 2019/20 budget proposals.

The budget revision process has been informed by the economic and budget performance for the first quarter of 2019/20 including an assessment of implementation status of agreed expenditure category in line with NST1 priorities.

Hence, this explanatory note highlights the details of the proposed changes that are being made to the 2019/20 fiscal year budget for consideration and reflects the following changes:

a) Resources

Total resources are being increased from FRW 2,876.9 Billion in the original budget to FRW 3,017.1 Billion, showing a net increase of FRW 140.1 Billion. The following are key changes proposed:

- ✓ **Tax Revenue**

Tax revenues are projected to increase by FRW 33.3 Billion, from FRW 1,535.8 billion in the original budget to FRW 1,569.0 Billion. This increment will come from both direct and indirect taxes as a result of good economic performance as well as improved collection of taxes.

- ✓ **Non-tax Revenue**

In the original budget, the total amount of FRW 190.4 billion was projected as non-tax revenue receipts. This figure is being revised upwards to FRW 232.9 billion, showing a net increment of FRW 42.4 billion. This increase is expected to come from PKO reimbursements from new commitments as well as other non-tax revenue collections mainly from administrative fees and charges.

- ✓ **Total Grants**

The original budget amount of FRW 409.8 billion is being reduced to FRW 403.0 billion showing a decrease of FRW 6.8 billion.

b) Expenditure

Total expenditure is being raised from FRW 2,876.9 billion to FRW 3,017.1 billion showing a net increase of FRW 140.1 billion. The expenditure envelope has been revised to reflect the changes for some items under recurrent spending, capital expenditure and net lending outlays as follows:

- ✓ **Recurrent Expenditure**

The original budget estimate of **FRW 1,424.5** billion is being raised to **FRW 1,548.6** billion showing a net increase of **FRW 124.1** billion. The changes affected some recurrent non- wage expenditure items as follows:

i) Operationalization of the new Embassies (Doha, Rabat and Accra) as well as covering the gap in operations and salaries for existing Embassies**: FRW 1.9 Billion;**

ii) Additional allocation on debt service: **FRW 50.6 Billion**;

iii) Additional allocation on Net lending: **FRW 13 Billion**;

iv) Additional allocation to the community-based health insurance scheme subsidies following the Prime Minister's order n° 078/03 of 25/07/2019: **FRW 2.0 Billion**;
v) Additional allocation for the Milk support Program under NECDP: **FRW 2.0 Billion**;
vi) Additional allocation to cater for sports activities (African Championship of Nations (CHAN), Basketball Africa League (BAL)): **FRW 800 Million**.
vii) Additional allocation to operationalize the newly established Ministry (MININTER): **FRW 5 Billion**
viii) Reallocations to cater for disaster recovery and prevention interventions
ix) Re-allocation to cater for new recruitment for Health staff, and other critical recurrent expenses
x) Reallocation to cater for relocation costs of relocated public entities.

✓ **Capital Expenditure and Net lending**

The original budget amount **of FRW 1,152.1 billion** is being raised by a net amount of **FRW 4.0 billion** to **FRW 1,156.2 billion**. The net increase under Capital expenditures is a result of necessary changes including:

i) Additional allocation on Global Fund Supported programs in health sector (HIV, Malaria and TB): **FRW 8 Billion**;
ii) Reallocation to provide for the extension of Rwanda Military Hospital with an additional wing **in preparation for the upcoming Common Wealth Meeting; FRW 2.6 Billion**
iii) Reallocation to provide for rain water drainage at Gatunda Hospital: **FRW 300**

Net lending increased by FRW 13 billion from original FRW 244.1 billion to FRW 257.2 billion.

5. Conclusion

The revised budget for 2019/20 is part of the revised medium term macro-economic framework that aims to continue the implementation of NST1. The Government will continue to monitor closely all components of the economic performance that may affect the smooth implementation of the revised 2019/20 budget, and will take any necessary corrective measures to ensure full implementation of the budget and at the same time maintain macro-economic stability.