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Preface

This document has been prepared by the staff of the Macroeconomic Policy Unit of the Ministry of Finance and Economic Planning. The objective of this document is to inform the people of Rwanda, foreign investors, our development partners and all other interested persons and institutions, about the economic developments that took place in 2004, and to provide a brief outlook for the medium term.

For any queries regarding this publication, please contact the Macroeconomic Policy Unit of MINECOFIN.

Chapter 1: Executive Summary

Rwanda's economic performance strengthened in 2004, with real growth reaching nearly 4%. This growth came despite dismal performance in the agriculture sector and was instead driven by construction and services. In order to support and booster economic growth in the future, 2004 also saw many structural reforms, including a strengthening of the financial sector, streamlining of the tax system, and reforms to bring in increased transparency and accountability to the public financial system.

Both the trade balance and the current account balance improved as a percentage of Gross Domestic Product (GDP) in 2004, driven by a 55% increase in export receipts and a 43% increase in tourism receipts. Although the food crop performed badly overall due to adverse climatic conditions, the coffee crop was strong and exports doubled in value terms.

Although high, at an annual average of 12%, inflation was driven primarily by high energy and food prices, and was not therefore driven by expansionary monetary policy. Monetary policy remained responsible, with interest rates stable throughout the year and more modest growth in the money supply than seen in previous years. Over the year the Rwandan franc also appreciated in real terms against other major currencies.

In terms of public financial management, revenue performed strongly and reached 14.2% of GDP and expenditure was prudently managed to remain within its budgeted amount. These two factors meant that despite delays in some donor disbursements towards the end of the year, the budget ended in surplus and allowed the government to repay part of its domestic banking sector debt and improve its balances with the National Bank.

Rwanda joined the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area in January 2004, and is in the final stages of ratifying the development of greater trade links with our regional partners, as well as allowing the freer movement of people and helping reduce costly customs procedures. On a different note, the Rwandan Ambassador in Geneva was elected to be the Chairman of the African Group in World Trade Organisation (WTO) negotiations ongoing there.

Rwanda's growth is particularly impressive when seen in the light of the unfavourable international economic environment (the price of crude oil reached a high of over 50 US\$ per barrel in 2004) and given the poor rains experienced in

Rwanda. However, Rwanda did benefit greatly from growth in the price of its chief exports over 2004.

All in all, despite the stagnation of agricultural output, 2004 saw a strong performance from the Rwandan economy. The outlook for 2005 and beyond is bright. To overcome the obstacles faced by the economy in 2004, the government is investing considerably in the agricultural, export and energy sectors. The financing policies currently being implemented aim to give farmers and exporters the resources to invest in production techniques that will reduce their vulnerability to volatile commodity prices and adverse weather conditions. All in all, the foundations are being set for sustained growth and poverty reduction in the future.

Chapter 2: World Economy

2.1 Introduction

In today's globalized economy, with which Rwanda is increasingly engaged, it is important for us to be informed about developments in the global economy. The price of oil, for example, as well as the prices of our major exports, will inevitably impact our economy. This chapter provides information on the key developments, in the world economy and the major regions, in 2004.

2.2 GDP Growth Performance¹

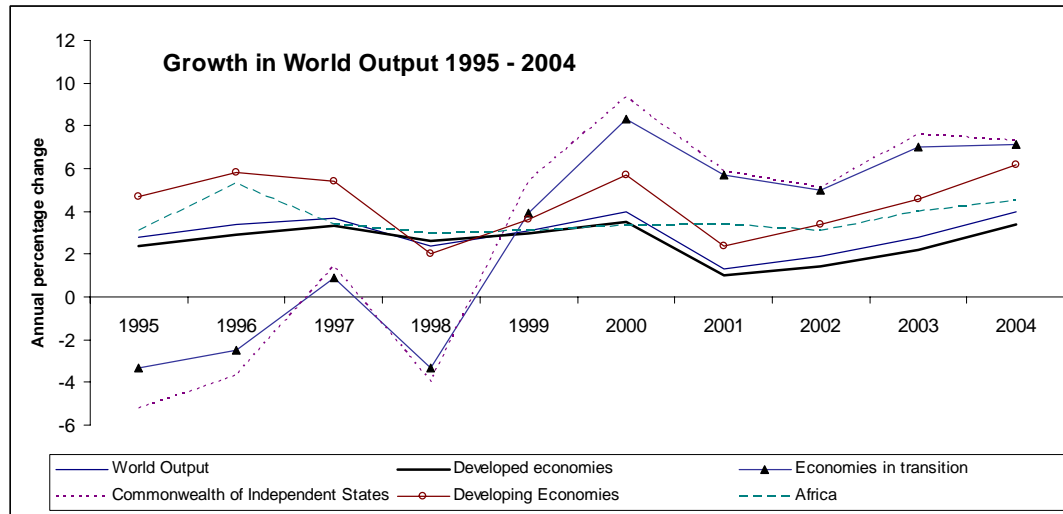
2.2.1 Global Overview

The global recovery became increasingly well established in 2004. Global growth averaged 4 percent over the year, with robust growth registered particularly in industrial countries and emerging markets. Characteristically, the solid worldwide growth performance seen in 2004 was accompanied by a strong upturn in industrial production and trade flows; markedly high private consumption growth arising from favourable labour conditions; and strong investment growth.

Growth in developing economies was, on average, strong in 2004. The countries of sub-Saharan Africa as a whole attained growth of 4.5% - the highest figure for over a decade. The large economies of India and China led growth in the South and East Asia regions to impressive growth, of 6.3% and 8.75% respectively.

¹ Note that all end 2004 figures are based on estimates made by the UN, World Bank and IMF and may therefore be subject to revision

Figure 1 – Growth in World Output 1995 - 2004



Source: World Economic Situation and Prospects 2005, United Nations

2.2.2 Regional Perspectives

In the United States, growth of over 4%, was in large measure underpinned by strong growth in labour productivity and in investment, despite the declining impact of the fiscal and monetary stimulus of 2003. The prognosis for the impact of adjustment of the USA’s twin (current account and fiscal) deficits will hinge on the balance between factors favouring a smooth adjustment - such as strong US productivity growth - and negative factors, such as the low level of U.S. exports relative to the trade deficit, which, at USD650mm, reached 5% of U.S. GDP in 2004. Given the USA’s role as a key driver of worldwide economic growth, this imbalance remains a key risk to the global economy.

Growth in Japan reached 3.6% over 2004 as a whole, led by robust exports and business investment early in the year, as well as improved consumption growth building on increased consumer confidence. Potential constraints on the Japanese economy include the risks of a weakening of the U.S. or Chinese economies, and the risk of a continued upwards trend in the price of oil.

In Western Europe, GDP growth remained subdued throughout 2004, reaching only 2.3% over the year as whole. 2004 saw a reversal in the previously export-led recovery; with net exports contributing negatively to growth by year-end, a weak performance associated with the appreciation of the Euro and other Western European currencies. Growth was primarily fuelled by inventory and fixed investment rather than by household consumption, which was dampened by

ongoing uncertainty in the labour market. From Rwanda's perspective this is disappointing, as Europe accounts for roughly 25 percent of Rwandan exports. However, employment growth in Western Europe is set for a more robust performance in 2005.

With GDP growth of 8.75%, East Asia remained the most rapidly growing region in 2004. Strong investment and credit growth in China supported growth of 9.2% in that country, which drove an increase in trade throughout the region. Overall, 2004 saw strong domestic demand growth and current account surpluses in the East and South Asia regions, as well as continuing significant capital inflows for some areas.

Despite poor weather, 2004 GDP growth is estimated to have been 6.3% for South Asia. This strong performance was underpinned by healthy growth in exports of manufactures from Pakistan, Bangladesh and India, where supportive monetary conditions reinforced growth in the region.

Although the devastating human cost of the Indian Ocean tsunami of December 26th is becoming all too clear, the full economic costs and implications are yet to be calculated in detail. Estimates suggest, however, that for affected countries other than Sri Lanka and Thailand, where tourism is a key export, the economic impact of the tsunami will largely be offset by increased government spending and international aid for reconstruction activities.

Latin American countries experienced a strong recovery, with GDP growth reaching 5.4% in 2004. This was supported by rising commodity prices along with robust domestic and global demand – Chinese demand for raw materials played a particularly important role for this region. Most of the countries in the Latin American region had also favourable financing conditions, enabling reduction of public debt, although the region remains vulnerable to adverse external conditions, such as the risk of continued oil price increases and the risk of interest rate rises in the USA.

In the Middle East, the elevated price and increased export volume of oil led to GDP growth of 5.5% in 2004, despite the challenging security situation. Growth in the oil-importing countries of the region was also strengthened by spill over effects related to the oil revenue windfalls in the region.

Average growth in the Commonwealth of Independent States was over 7% in 2004; the oil-exporting countries of the CIS also benefited from increased oil prices and production. While their oil-importing neighbours experienced increased prices for their exports (other commodities such as cotton and aluminium) they also began to struggle with widening current account deficits.

In sub-Saharan Africa (SSA), GDP growth in 2004 increased to 4.5%. This sound growth performance was supported by improved macroeconomic stability, increased oil production, an improved political climate and a recovery in agricultural production, as well as expanding industrial output and tourism revenues over the region as a whole. Notwithstanding the disturbing humanitarian developments in areas such as Western Sudan, for much of the SSA region economic conditions and the pace of economic reforms seem to have improved significantly and ushered in solid economic performance, better than that achieved for several decades.

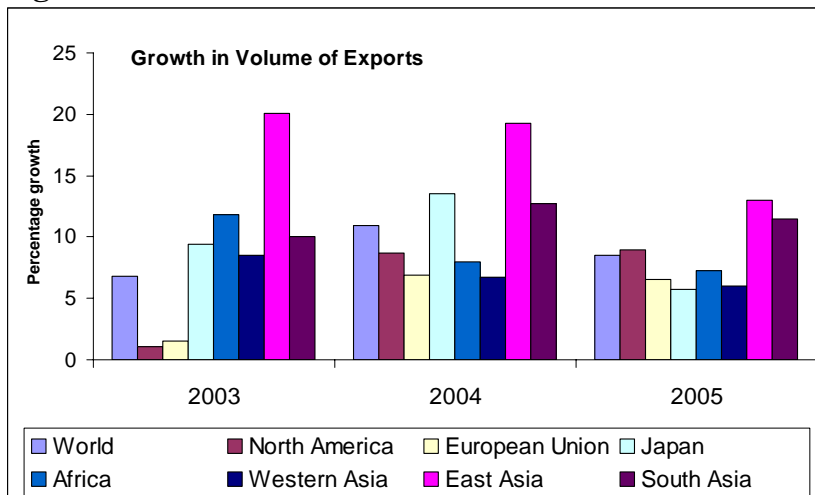
2.3 International Trade and Commodity Prices

2.3.1 *Growth in Trade*

The volume of international trade in merchandise is estimated to have grown at 10.5% over 2004, with increases in the prices of both commodities and manufactures. Measured in terms of value in dollars, international trade grew by 19.1% in 2004, reaching a total value of USD8.6 trillion. International trade was driven primarily by the continued recovery of Japan and North America as well as by the sustained high growth rates in China, which was responsible for about 20% of the increase in world trade and made a significant contribution to world demand for oil and raw materials.

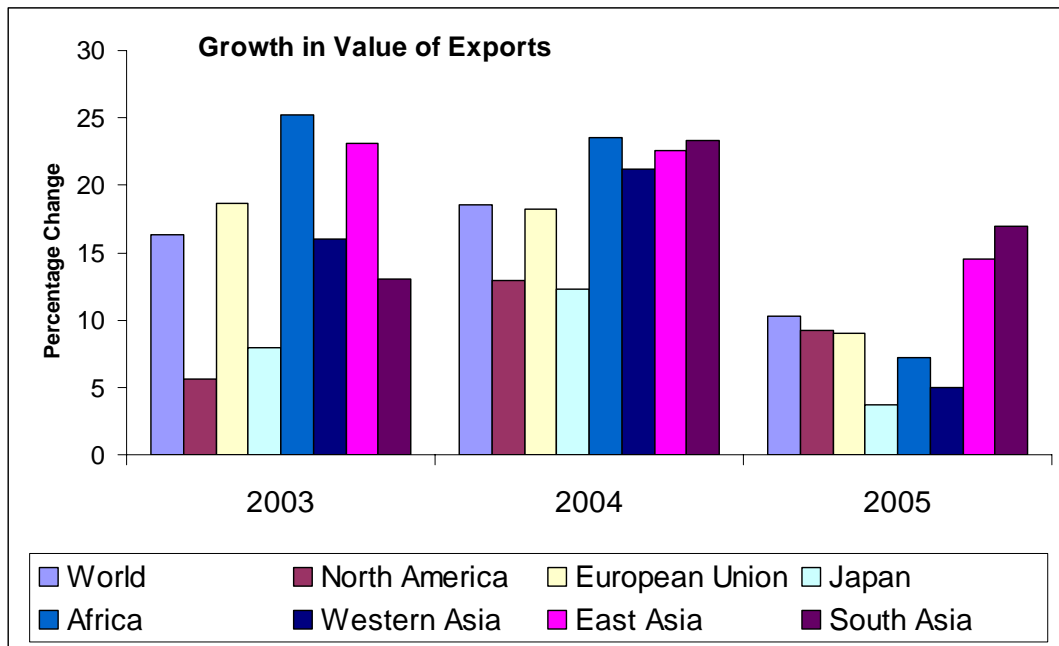
From figure 2 below it is apparent the African exports are performing strongly in value terms, while in volume terms performance is more modest. This indicates that export growth on the continent, as in Rwanda, is being driven by high commodity prices.

Figure 2 – Growth in the Volume of World Trade 2003 – 2005



Source: World Economic Situation and Prospects 2005, United Nations

Figure 3 – Growth in the Value of World Trade 2003 – 2005



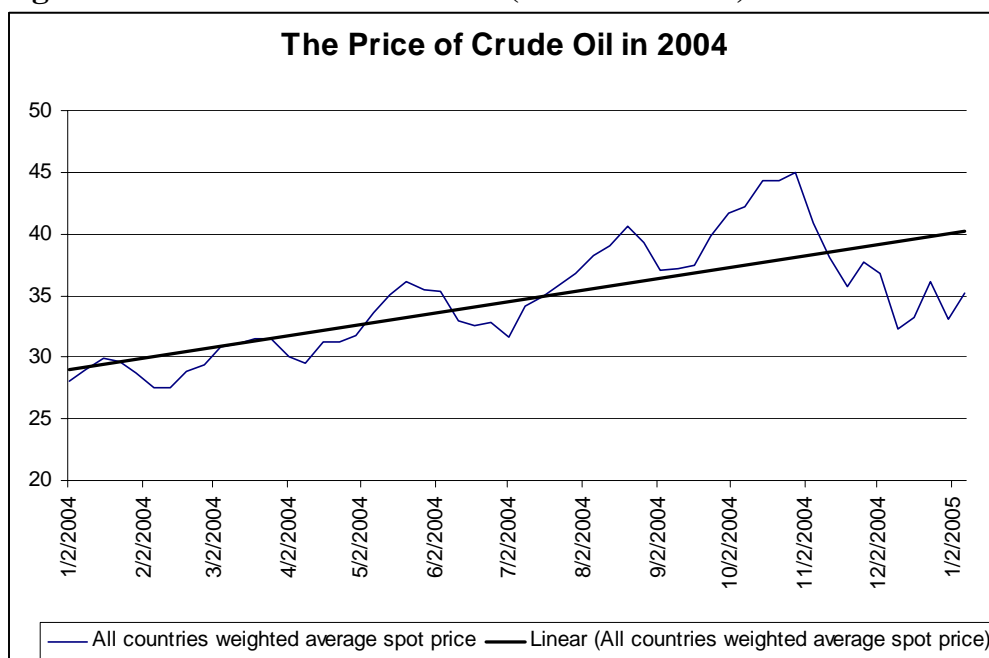
Source: *World Economic Situation and Prospects 2005*, United Nations

2.3.2 Oil Prices

Oil prices were both volatile and on a generally upward trend over the year, peaking in late October in the wake of Hurricane Ivan, which destroyed oil production sites in the Gulf of Mexico. The increase in the price of oil was, however, related more to an expansion of demand than to any contraction in supply, despite the security situation in the Middle East. Demand has increased both from developed economies and from newly industrialised economies – for example, over the past decade China has doubled its oil consumption and its demand for oil has increased by above 10% each year for the past two years. Supply has been a factor too, with slow growth in non-OPEC production coupled with an April OPEC announcement of quota reductions. Concerns about low production capacity, which means that supplies would be highly vulnerable to unanticipated shocks, have also added upward pressure to price expectations.

These high prices have had a negative impact on growth elsewhere in the globe – for example, estimates suggest that oil prices reduced Western European growth by 0.3 percentage points in 2004. The evidence is that the impact of the high prices has been highest in the Euro zone and in emerging Asian economies, as well as in the poorest oil-importing countries in Africa and the CIS.

Figure 4 – The Price of Crude Oil (with trend line)



Source: United States of America Energy Information Agency

Note: This is a weighted average of the spot price in all countries. In parts of the US the price of crude oil did exceed \$50 a barrel.

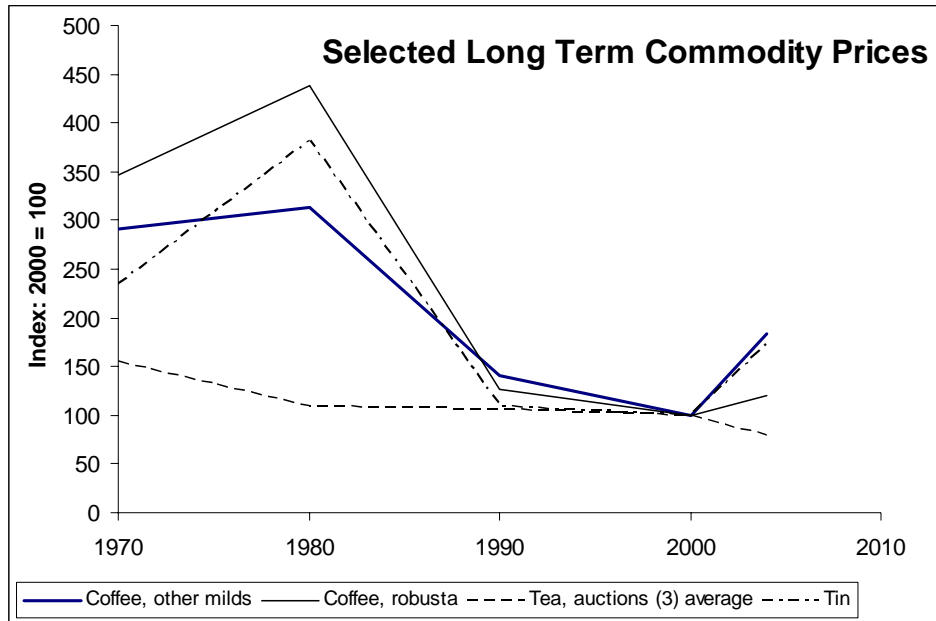
2.3.3 Non-oil Commodity Prices

The dollar price of non-oil commodities increased on average by over 10%, driven largely by increases in demand from the rapidly expanding manufacturing sectors in Asia and in particular in China.

Despite the non-oil commodity price increases, the terms of trade faced by some exporters of these commodities have still deteriorated in 2004 due to increases in the prices of both oil and of manufactures, key imports for many of these countries.

In historical terms, moreover, commodity prices remain rather low - as the price of non-oil commodities declined by around 40% between 1980 and 2000, recent increases go only a short way in regaining previous value. This is particularly the case for some groups of commodities – for example, the end-2004 price index for food products was nearly 20% less than the 1995 figure. Figure 5 below depicts both the volatility and the longer term downward trends in the price of three of Rwanda’s key exports: coffee, tea and tin.

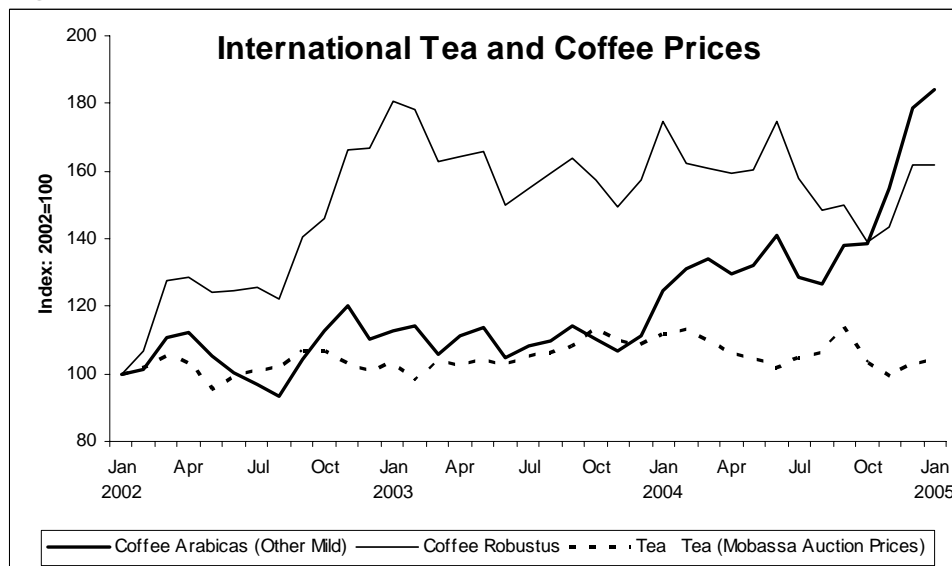
Figure 5 Longer term price trends in coffee, tea and tin



Source: World Bank

Of Rwanda's key commodity exports, coffee, cassiterite tin and coltan have exhibited robust price growth in 2004. Although the price of tea fell by around 7% between January and December, there was some recovery of price in the final quarter, as shown in Figure 6 below, which illustrates the upward path taken by these prices in the recent past. Given a past history of volatility, this recent rise in prices should not be relied upon as a prediction of future trends. Further details of movements in the prices of Rwanda's key exports can be found in section 3.4.1.

Figure 6: International Tea and Coffee Prices



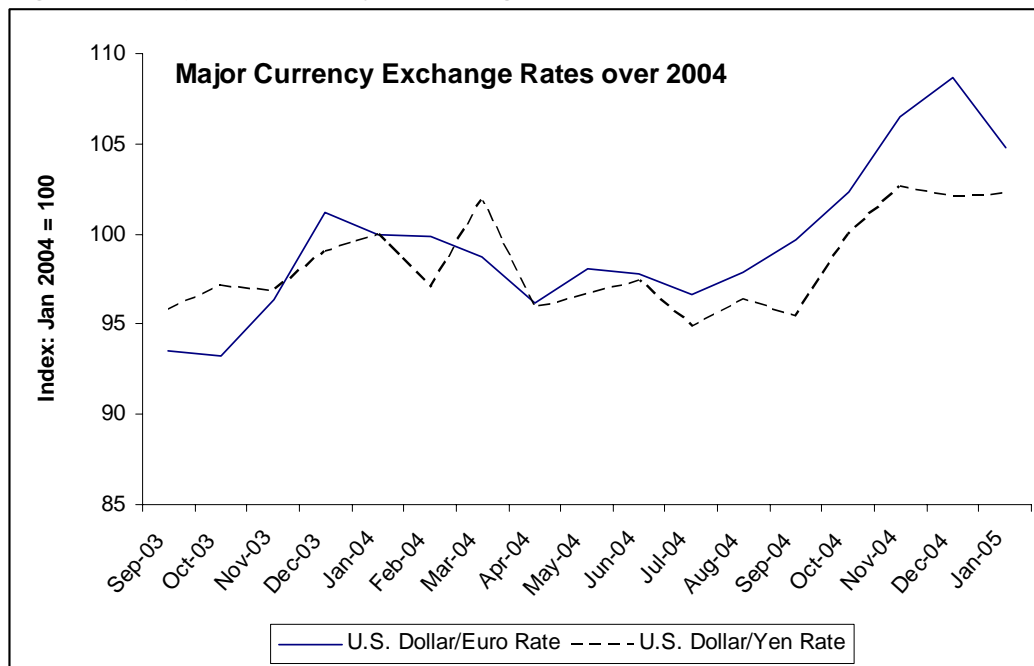
Source: World Bank, ICO, FAO.

2.4 Exchange rates

The major development in 2004 was the sustained depreciation in the dollar throughout the year. This depreciation may be seen as a reaction to the twin deficits of the USA, in its current account and in its fiscal budget; the reduction in value of the US currency may reduce the USA's imports and increase its exports, thus restoring balance – although given the large size of the current account deficit, even a large further depreciation is unlikely to be sufficient for this.

For countries that export to the USA, such as Rwanda, the depreciation of the dollar means that their goods will be more expensive for US consumers, which may dampen demand. Conversely, the greater buying power of non-dollar currencies against the dollar may result in demand-boosting wealth effects elsewhere on the globe. The net effect – and how far the dollar has left to depreciate – remains to be seen.

Figure 7 Major Currency Exchange Rates over 2004



Source: Bank of Japan

2.5 Capital Flows to Developing Countries

2004 saw a decline in net private financial flows to developing countries and in total net flows to developing countries from all sources, in the main due to scheduled repayments of debt. However, for Sub-Saharan Africa and the HIPC's net capital inflows remained positive.

Foreign Direct Investment, the main component of net private financial flows, increased by 6% for the globe as a whole between 2003 and 2004, reaching USD612billion. FDI to Africa increased for a second consecutive year, reaching USD20billion in 2004. This total, however, remains only a small proportion - around 3%- of total FDI.

Table 1 Net Capital Flows to Developing Countries (USD billions)

	2000	2001	2002	2003	2004
Developing economies	-167.5	-142.4	-196.4	-268.5	-312.7
Africa	-24.4	-12.2	-4.6	-19.3	-33.3
Sub-Saharan Africa (1)	3	8.2	5.4	6	2.7
East and South Asia	-109.1	-108.9	-140.2	-151.6	-138.2
Western Asia	-34.1	-26.4	-20.2	-40	-74.3
Latin America	0	5.2	-31.4	-57.6	-66.9
Economies in transition	-49.3	-30.1	-26.6	-35.4	-35.4
Heavily indebted poor countries	6.2	7.4	7.2	7.2	8.5

Source: World Economic Situation and Prospects 2005, United Nations

(1) Excluding Nigeria and South Africa

Chapter 3: Domestic Economy

3.1 Introduction

Overall 2004 saw an improvement in the performance of the Rwandan economy. GDP growth increased, exports strengthened, and fiscal and monetary policy was well managed. The economy was, however, under pressure from, first, another year of bad rains which manifested themselves in a poor harvest, rising food prices and high food imports and, second, from the impacts of the domestic electricity shortage and rising fuel costs, which drove up the cost of doing business in Rwanda.

3.2 The Real Sector (Production)

Rwanda's economic performance strengthened in 2004 despite the effects of the electricity shortage, the rising cost of oil and the bad rains. In 2003 growth in real GDP was 0.9% while in 2004 current estimates suggest that growth came close to 4%.

Agriculture saw no growth in 2004, and the food crop actually declined for the second year. This has severe implications for poverty reduction in Rwanda since close to 90% of the population depend on the land for their livelihoods. Overall growth was driven instead by construction activity and rapidly developing tourism, travel and communications sectors.

Table 2: Real GDP

GDP Rwf billion	2001	2002	2003		2004	
			est	growth	proj	growth
Agriculture	260.06	299.09	286.93	-4.1%	287.05	0.0%
Of which: Food crop	218.19	255.90	244.39	-4.5%	241.79	-1.1%
Export Crop	7.82	8.15	6.49	-20.4%	8.96	38.1%
Livestock	23.94	24.66	25.40	3.0%	25.70	1.2%
Fisheries	1.96	1.98	2.00	1.0%	2.00	0.0%
Forestry	8.15	8.40	8.65	3.1%	8.60	-0.6%
Industry	106.24	112.53	120.47	7.1%	128.80	6.9%
Mining and quarrying	1.41	1.33	1.21	-8.6%	1.88	54.6%
Manufacturing	50.18	53.11	52.09	-1.9%	55.32	6.2%
Of which: Food, beverages, & tobacco	41.08	43.30	41.01	-5.3%	43.29	5.6%
Textiles and clothing	0.83	0.75	0.69	-8.4%	0.63	-9.4%
Wood product & furniture	1.40	1.48	1.55	5.3%	1.81	16.3%
Paper and printing	0.60	0.61	0.65	7.1%	0.69	6.4%
Chemicals	1.31	1.60	2.34	45.8%	2.53	8.1%
Non metals	3.66	4.02	4.40	9.5%	4.53	3.1%
Metals	1.15	1.20	1.28	7.0%	1.65	28.2%
Others	0.14	0.15	0.16	7.0%	0.20	25.8%
Electricity, gas, & water	1.62	1.75	2.03	15.9%	1.59	-22.0%
Construction	53.04	56.34	65.13	15.6%	70.02	7.5%
Services	215.00	224.06	234.67	4.7%	253.24	7.9%
Wholesale & retail trade, rest. & hotels	47.60	48.15	48.30	0.3%	48.77	1.0%
Of which: Wholesale & retail trade	44.31	44.81	44.89	0.2%	44.80	-0.2%
Restaurants & hotels	3.29	3.35	3.41	1.8%	3.97	16.5%
Transport, storage, communication	42.45	45.34	46.39	2.3%	52.00	12.1%
Finance, insurance, real estate, business	15.18	15.68	17.31	10.4%	20.90	20.8%
Public administration	44.55	45.17	48.03	6.3%	52.16	8.6%
Non-profit organizations	5.11	5.36	5.63	5.0%	6.19	10.0%
Others	60.11	64.35	14.49	-77.5%	16.25	12.1%
Less: Imputed bank service charge	10.87	11.25	12.49	11.0%	15.08	20.8%
Plus: Import duties	9.72	11.17	11.79	5.5%	12.02	2.0%
GDP	580.16	635.60	641.36	0.9%	666.04	3.8%

Source: MINECOFIN

Note: 2004 data are estimates while we await the formal end year GDP figures published after March by the Statistics Department

3.2.1 Agriculture

Rwandan agriculture continues to suffer from a lack of irrigation and water storage systems and as such remains highly vulnerable to the pattern of rain. Indeed, rains have been so bad recently that food crop production has declined for two consecutive years (table 3).

The seasonal timeline for Rwandan agriculture is illustrated below:

Table 3: The seasonal timeline for Rwandan agriculture

Season B (long rains)						Season A (short rains)					
Planting			Harvesting			Planting			Harvesting		
Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
					Planting	Harvesting					
Season C (marshlands)											

Source: FEWS (Famine Emergency Warning Systems)

During season A 2003/2004 the majority of the country suffered from erratic rains that were insufficient and came late, and in areas where rainfall was sufficient, it was too heavy and led to severe erosion and flooding. In Season B production was good in the northwest highland region but the rest of the country was badly affected by the abrupt end to the rains in April.

The immediate effects of the decline in the food crop would have been felt by the 87% of the population who depend on agriculture for their livelihoods. The 17% decline in bean production would have been especially acute, since for many households beans are the major protein source. There were also other effects felt across the economy. Imports of food items grew by over 50% in 2004, and in October, food prices were climbing at their fastest rate of 28.4% - being driven by vegetables (41.6%) and bread and cereals (26.9%).

The export section 3.4.1 does show, however, that the coffee crop performed strongly in 2004 and this will have helped to bolster farmers' incomes to some extent.

Table 4: Food crop production 2002-2004 (Season A and B)

Crop	2002	2003		2004	
	(tonnes)	(tonnes)	% change	(tonnes)	% change
Cereals (céréales)	304,447	294,106	-3.4%	314,944	7.1%
Sorgho (Sorghum)	184,351	170,093	-7.7%	163,772	-3.7%
Maïs (Maize)	91,686	80,517	-12.2%	88,209	9.6%
Blé (Wheat)	7,434	15,305	105.9%	16,772	9.6%
Riz (Rice)	20,976	28,191	34.4%	46,190	63.8%
Pulses (légumineuses)	290,543	287,759	-1.0%	244,019	-15.2%
Haricot (Beans)	246,827	239,679	-2.9%	198,225	-17.3%
Arachide Groundnuts)	10,411	10,287	-1.2%	10,785	4.8%
Soja (Soya)	17,278	19,947	15.4%	18,251	-8.5%
Petit pois (Peas)	16,028	17,846	11.3%	16,758	-6.1%
Roots & tubers	3,484,547	3,111,483	-10.7%	3,029,545	-2.6%
Pomme de terre (Potatoes)	1,038,858	1,100,107	5.9%	1,072,771	-2.5%
Patate douce (Sweet potatoes)	1,291,768	864,793	-33.1%	908,306	5.0%
Colocase & igname (Taro)	122,844	138,919	13.1%	136,359	-1.8%
Manioc (Cassava)	1,031,078	1,007,664	-2.3%	912,108	-9.5%
Banane (Bananas)	2,784,869	2,410,537	-13.4%	2,469,741	2.5%
Fruits and Vegetables	233,581	713,884	205.6%	693,066	-2.9%
Total	7,097,987	6,817,770	-3.9%	6,751,315	-1.0%

Source: MINAGRI

Improving farmers' productivity is something that the government is currently investing heavily in. There are ranges of initiatives, such as those to provide financing through the BRD for farmers to allow them to increase the application of fertilizer and to introduce new improved seed varieties. The 64% increase in rice production in 2004 can be partly attributed to the promotion rice schemes have

received after having been chosen as a priority crop by the Government (please see box 1 below)

Box 1: Rice – A government Priority Crop

Rice has been selected as a priority crop for several reasons:

- Well suited to marshlands and has a high yield potential
- Eaten widely, easy to cook and nutritious
- High demand on internal and external markets
- East to store and package
- Reduce the amount of foreign exchange used on imports of rice

Rice is currently grown on 6,000 ha but with swamp reclamation it is hoped that this area grows to 10,000 ha in 2005. Productivity is also expected to almost double with the introduction of higher yielding varieties.

Source: FEWS (Famine Emergency Warning System)

The initial projections for Season A 2005 (table 4) show a slight increase in the food crop of 0.7%. Again, the rains are the primary reason for the small improvement – they arrived late which delayed planting and by the 20th November, cumulative rains were only 66% of the seasonal average. Towards the end of Season A the rain improved and it is hoped that harvests late in the season will be stronger as a result.

Table 5: Season A 2005

Crop	Season A (tonnes)			% change	
	2003	2004	2005	2004	2005
Cereals (céréales)	96,625	115,614	121,504	19.7%	5.1%
Sorgho (Sorghum)	15,190	12,823	14,878	-15.6%	16.0%
Maïs (Maize)	60,623	69,264	72,643	14.3%	4.9%
Blé (Wheat)	8,294	8,873	8,730	7.0%	-1.6%
Riz (Rice)	12,519	24,653	25,253	96.9%	2.4%
Pulses (légumineuses)	183,404	165,915	170,839	-9.5%	3.0%
Haricot (Beans)	154,742	135,725	139,210	-12.3%	2.6%
Arachide Groundnuts)	6,280	6,846	6,425	9.0%	-6.1%
Soja (Soya)	10,179	11,631	13,773	14.3%	18.4%
Petit pois (Peas)	12,203	11,713	11,431	-4.0%	-2.4%
Roots & tubers	1,748,622	1,572,508	1,591,438	-10.1%	1.2%
Pomme de terre (Potatoes)	637,737	682,598	750,256	7.0%	9.9%
Patate douce (Sweet potatoes)	398,814	327,921	319,446	-17.8%	-2.6%
Colocase & igname (Taro)	86,716	81,795	79,491	-5.7%	-2.8%
Manioc (Cassava)	625,355	480,193	442,246	-23.2%	-7.9%
Banane (Bananas)	1,228,653	1,208,372	1,203,988	-1.7%	-0.4%
Fruits and Vegetables	249,759	407,511	407,208	63.2%	-0.1%
Total	3,507,063	3,469,920	3,494,977	-1.1%	0.7%

Source: MINAGRI

3.2.2 Livestock

Data from MINAGRI shows that livestock numbers increased on the whole in 2004 (table 6). This is explained by improved animal management techniques being employed by farmers. Even for cattle, which suffered from outbreaks of foot and mouth in Umutara, Butare and Kigali rural province, the total stock of animals increased. Most cattle in infected areas were quarantined and vaccinated while some had to be slaughtered although the numbers were small in relation to total cattle stock (approx 412). The quarantine had the effect of causing temporary increases in milk prices in Kigali.

Table 6: Livestock numbers

	2001	2002	2003	2004	% change	
					2003	2004
Cattle	814,124	960,450	991,697	1,003,721	3.3%	1.2%
Goats	916,753	919,785	1,270,903	1,263,962	38.2%	-0.5%
Sheep	266,539	600,300	371,766	469,979	-38.1%	26.4%
Pigs	197,081	207,783	211,918	326,652	2.0%	54.1%
Fowl	1,055,644	2,432,449	2,482,124	2,841,399	2.0%	14.5%
Rabbit	495,290	488,629	498,401	520,057	2.0%	4.3%

Source: MINAGRI

Livestock are primarily valuable for what they produce. Table 7 below shows that production of all animal related foods increased in 2004, except for fish which saw a small decline. This was perhaps in response to stricter fishing quotas imposed on Lake Kivu in an attempt to conserve fish stocks.

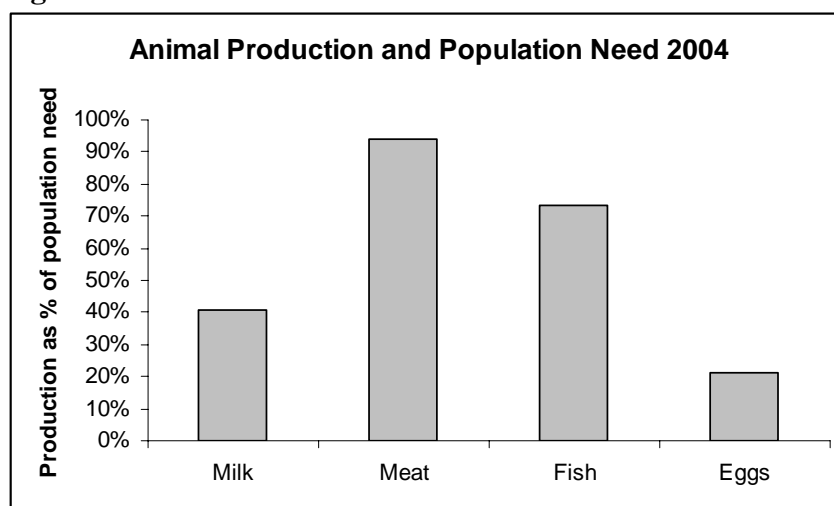
Table 7: Animal Product Production (tonnes)

	2001	2002	2003	2004	% change	
					2003	2004
Milk	63,484	97,981	112,463	121,417	14.8%	8.0%
Meat	35,748	39,126	41,937	48,681	7.2%	16.1%
Fish	7,308	7,612	8,144	8,126	7.0%	-0.2%
Eggs	1,015	2,432	3,402	3,452	39.9%	1.5%
Honey	760	819	908	1,029	10.9%	13.3%

Source: MINAGRI

While noting that production increased in 2004, MINAGRI also caution that production remains significantly below the country's needs. This is shown in figure 8 – where production in 2004 is compared against an estimation by MINAGRI of what the needs of the Rwandan population are. It is clear that the largest deficit is in the production of milk and eggs.

Figure 8



Source: MINAGRI

3.2.3 Industry

The industrial sector as a whole is estimated to have grown by almost 7% in 2004. This growth came despite the negative effects of the double energy crisis (rising fuel costs and electricity shortage) and new competitive pressures from entering into the COMESA free trade area in Jan 2004.

Growth was led by the construction sector and its supporting industries, such as furniture and chemical manufacturers. Private dwellings accounted for a large proportion of total construction, together with road building and rehabilitation projects such as the 12km Kigali road, the Kigali – Kayonza road and the Kigali –

Butare – Akanyaru road. 2004 also saw the completion of many large construction projects such as the BDCI building, and the 3 new hotels (Intercontinental, Kivu Sun, and Akagera Game Lodge).

Table 8 and figure 9 below show clearly the mixed performance of some of Rwanda’s largest industries in 2004. Kabuye Sugar performed the most strongly with a 53% increase in volumes produced and a 143% increase in turnover declared. This strong performance will have been partly due to the degree of protection offered to the company from the Sugar Surcharge, which allows them to produce and sell sugar at a higher price than foreign competitors. The company is also allocated large areas of land for the growing of sugar cane, but still claims to be operating below capacity.

Bralirwa and Sulfo also performed well, each reporting a 20% increase in turnover. This is encouraging since both are prime targets for COMESA competition and will have seen their costs of doing business rise during the energy crisis

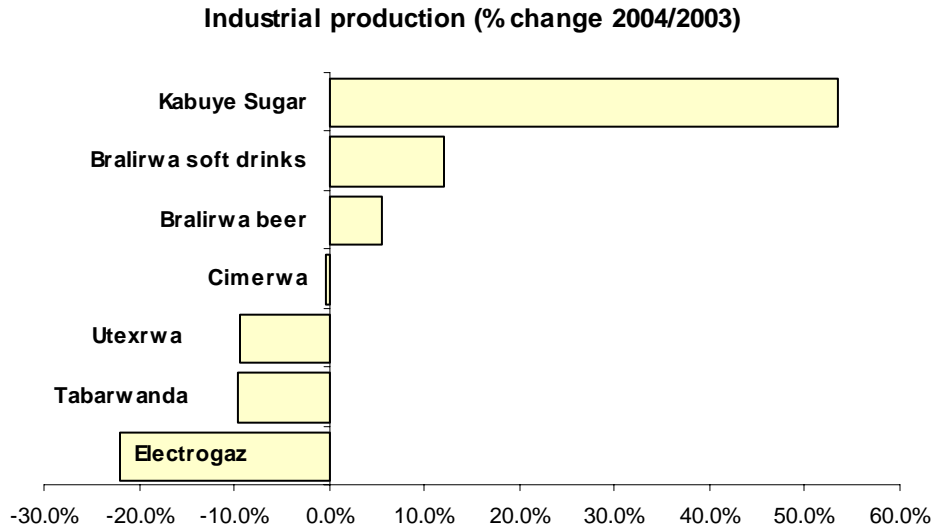
The scale of the electricity shortage is clearly seen from the 22% fall in domestic energy production at Electrogaz. Utexrwa was particularly affected, especially during the first half of the year when production was 25% below that for the first half of 2003. Utexerwa also suffered from rising costs as many of their inputs use oil in their production process, and oil prices almost doubled. Cimerwa also suffered, especially in the first half of 2004, but this is not thought to have constrained the construction industry since the balance of payments shows that imports of cement grew by 23% in value terms and 7% in volume terms.

Table 8: Rwandan Industrial Performance: 2003-2004

	Production (volumes)			Turnover (Rwf bn)		
	2003	2004	% change	2003	2004	% change
Kabuye Sugar Works (MT)	5,048	7,748	53.5%	1.21	2.91	141.3%
Sulfo	na	na	na	4.25	5.19	22.1%
Bralirwa soft drinks (hl)	193.88	217.30	12.1%	24.11	29.18	21.0%
Bralirwa beer (hl)	418.88	442.16	5.6%			
Cimerwa (tonnes)	104,613	104,205	-0.4%	9.10	6.06	-33.4%
Utexrwa (yards million)	4.37	3.96	-9.4%	2.47	2.88	16.6%
Tabarwanda (sticks million)	404.71	365.71	-9.6%	4.34	4.12	-5.0%
Electrogaz (GWh)	116,079	90,537	-22.0%	9.15	8.63	-5.7%

Source: Rwandan Industry

Figure 9



Source: Rwandan Industry

Box 2: Electricity

2004 witnessed a severe electricity crisis which took the form of regular and long lasting power cuts across the country. The crisis resulted simply from the network not being able to supply enough electricity to meet demand. This problem arose due to two main reasons, first, – years of under-investment in the network infrastructure and, second, due to low rains reducing the water level in the lakes and hence the productivity of the hydro power plants.

The Government has worked closely with its development partners and Electrogaz to find a solution. During 2005 Electrogaz imported and began operating several generators to boost domestic supply and by the end of the year the number of power cuts had been significantly reduced. The Budget for 2005 has also made provisions for network rehabilitation amounting to Rwf 14 billion.

Electrogaz has seen its operational costs increase since it has had to import generators and increasingly more expensive fuel to power them. Therefore the decision was made towards the end of 2004 to increase the cost of electricity to all users, be they residential or business.

Tariffs rose at the end of 2004 from 42 Rwf/KwH to 81.6 Rwf/Kwh and Electrogaz expects they will have to rise yet again.

3.2.4 Services

The services sector is expected to have seen the strongest real growth in 2004 of almost 8%. When a range of indicators is considered, it seems that growth is especially strong in the tourism, transport and communications sectors. As a gauge for how the service sector as a whole is performing we can also look at turnover declared at the RRA. Table 10 shows that declared turnover has in fact increased for all service sector groups².

In terms of tourism, statistics from the ORTPN show that total visitors to national parks increased by 63% in 2004 with Rwandan visitors growing from 5,880 to 12,601 and foreign visitors (both resident and non-resident) climbing from 10,658 to 14,397. These figures are encouraging and suggest that the Rwandan efforts at tourist promotion are bearing fruit. Indeed, statistics from the Balance of Payments support this by showing revenue from tourism increasing by 45%.

This growth in tourism will have been part of the reason, together with increased business travellers, for the 13.6% increase in total passengers passing through Kanombe airport. These passengers are increasingly choosing to fly Rwandair, which has recently increased the number of routes it serves and has managed to grow its passenger numbers by 77% in 2004. Rwandair is the largest player in the Rwandan transport sector and will have contributed significantly to the 13% rise in turnover declared at the RRA by that sector for 2004.

Table 9 Tourism Indicators

	2003	2004	% change
Visitors to national parks			
Foreign	10,658	14,397	35.1%
Rwandan	5,880	12,601	114.3%
Total	16,538	26,998	63.2%
Air passengers			
Rwandair	27,360	48,484	77.2%
revenue	3.72	4.38	17.7%
All airlines	116,638	132,504	13.6%
Tourist receipts			
USD m	30.1	43.5	44.5%

Source: ORTPN, Rwandair, RRA and BNR

In the communications sector there has been significant growth in mobile phone penetration and on the extension of internet services. MTN saw the number of

² Note that declared revenue can increase for a number of reasons: increased business, higher inflation, and the addition of new firms to the formal economy (tax register)

revenue generating customers increase by 34% from 105,252 in March 2004 to 141,044 by end January 2005.

Table 10: Revenue Declared at the RRA by the Service Sector

Rwf billion	2003	2004	% change
Banking and Insurance	22.03	25.39	15.3%
Clearing Agency	1.10	1.43	29.2%
Consultancy and Advocate	2.01	2.08	3.7%
Electronic Service	3.08	3.49	13.1%
Garage	1.99	2.39	20.0%
General Commerce	93.43	105.62	13.0%
Hotel and Snack Bar	8.06	8.60	6.7%
Other Services	11.33	13.39	18.2%
Pharmacy	3.64	4.84	33.2%
Post and Telecoms	21.81	26.00	19.2%
Premises Renting	0.58	0.73	26.5%
Printary, Stationary and Book Shop	3.82	4.17	9.2%
Transport	6.46	7.31	13.1%
Total	179.33	205.43	13.1%

Source: RRA

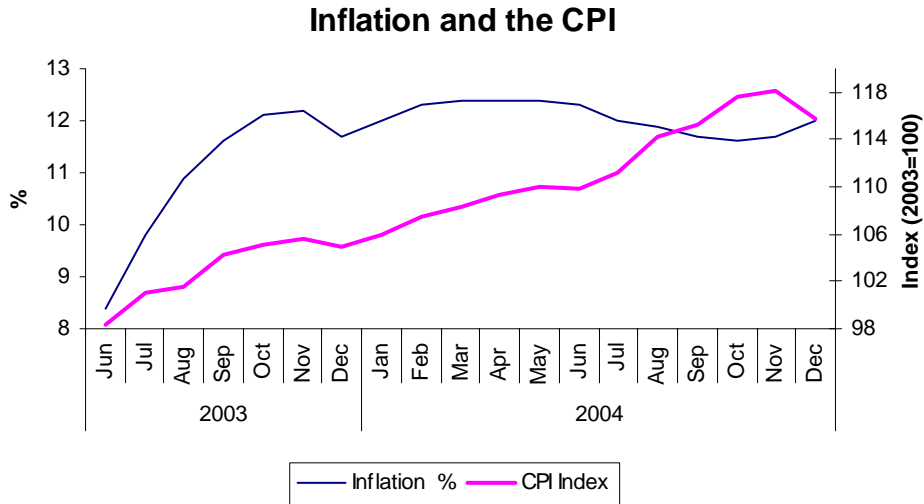
3.3 Inflation

Consumer price inflation (see box 3) in 2004, remained above 10% for the entire year. This was driven mainly by rapidly rising food prices following bad harvests and the climb in international oil prices, which fed through to increase the cost of getting goods to market. The lagged effect of monetary expansion in 2003 also played a part. In the last 2 months of the year the Consumer Price Index (CPI) began to decline with the start of the harvest and if the harvest is good enough prices could continue to fall. However, in the short term it is likely that other cost-push inflationary pressures will come into play, as producers, for example, adjust prices to maintain margins following the rise in electricity prices.

Figure 10 shows how inflation³ and the CPI progressed over the year and table 11 shows how the CPI ended the year.

³ Inflation in this case should be read as the average of the index over the last 12 months compared with the average of the index over the previous 12 months

Figure 10:



Source: Statistics, MINECOFIN

Table 11: End Year Inflation

Change in parts of CPI index over 12 months (Dec)

Food and drinks	16.4%
Vegetables	15.2%
Bread and cereals	26.3%
Clothing	4.8%
Alcohol and tobacco	5.5%
Utility costs	18.2%
Household Furnishings	13.4%
Health	3.5%
Communication	8.8%
Education	9.6%
Transport	3.5%
CPI	10.2%

Source: Statistics, MINECOFIN

Box 3: Consumer Price Inflation

Consumer price inflation is the rate at which consumer prices are changing. In Rwanda this is calculated from a new Consumer Price Index (CPI) that was launched in 2004.

The CPI is a Laspeyres index that covers household consumption where the reference population is all households living in Rwandan urban areas.

- The basket of goods includes 438 products
- Prices are observed in markets and shops in the administrative centres of all Rwandan provinces
- More than 25,000 prices are collected every month by enumerators of the Department of Statistics and the National Bank.
- The CPI base year is 2003
- The weights attributed to goods and services were taken from the Household Living Conditions survey (EICV) conducted in 2000-2001 with a sample of 6,450 households
- To approximate comparisons with the old index one must divide the old index by the “splicing coefficient” which is 3.889

Please note that the monthly CPI is published on the MINECOFIN website by the 15th of each month: www.minecofin.gov.rw

3.4 External Sector

Both the trade balance and the current account balance improved as a percentage of GDP in 2004. This improvement was due to strong growth in exports and tourism receipts⁴ as well as improved donor disbursement of grants.

⁴ Tourism receipts sit under non factor services and climbed from \$30m in 2003 to \$43.5m in 2004

Table 12: The Balance of Payments: 2001-2004

	2001	2002	2003		2004	
	USD M	USD M	USD M	change	USD M	change
Current Account						
Exports, f.o.b.	93.6	67.4	63.0	-6.5%	97.9	55.3%
<i>Of which: coffee</i>	19.4	14.6	15.0	2.4%	32.2	114.8%
<i>tea</i>	22.7	22.0	22.5	2.2%	21.6	-4.2%
Imports, f.o.b.	225.0	204.1	217.7	6.7%	257.9	18.5%
Trade balance	-131.5	-136.8	-154.7	13.1%	-160.1	3.4%
as % GDP	-7.6%	-7.8%	-9.2%		-8.8%	
Non Factor Services (net)	-135.5	-140.6	-124.6	-11.4%	-132.8	6.6%
Credit	48.2	46.1	76.5	66.0%	102.7	34.2%
Debit	183.7	186.7	201.1	7.7%	235.4	17.1%
Factor Services Income (net)	-22.50	-19.10	-30.50	59.7%	-33.65	10.3%
Goods and Services Balance	-289.43	-296.53	-309.81	4.5%	-326.47	
Current transfers (net)	192.6	195.3	226.3	15.9%	313.9	38.7%
Private	21.7	24.5	31.3	27.8%	35.1	11.8%
Public	170.9	170.8	195.0	14.2%	278.9	43.0%
Current account balance (inc. official transfers)	-96.8	-101.2	-83.5	-17.5%	-12.5	-85.0%
as % GDP	-5.6%	-5.7%	-5.0%		-0.7%	
Current account balance (ex. official transfers)	-267.7	-272.0	-278.5	2.4%	-291.4	4.6%
as % GDP	-15.5%	-15.5%	-16.5%		-16.0%	
Capital Account and Financial Operation	146.7	115.7	76.4	-34.0%	145.2	90.1%
Capital Account	68.7	41.7	41.1	-1.4%	60.6	47.4%
Financial Operations	78.0	74.0	35.3	-52.3%	84.6	139.7%
<i>Of which: Foreign Direct Investment</i>	3.8	2.6	4.7	80.8%	7.7	63.8%
Errors and Omissions	-36.7	-1.7	-28.7	1588.2%	-24.7	-13.9%
Global Balance	13.2	12.8	-35.8	-379.7%	108.0	-401.8%
Financing	-13.2	-12.8	35.8	-379.7%	-108.0	-401.8%
Memorandum Items						
<i>GDP RWf Billion</i>	766.3	838.5	905.3	8.0%	1,047.7	
<i>GDP USD m</i>	1,730.6	1,760.4	1,683.0	-4.4%	1,823.3	

Source: BNR/ MINECOFIN

3.4.1 Exports

Exports of goods performed exceptionally in 2004, climbing from \$63m in 2003 to \$98m in 2004. Table 13 shows that this strong growth was driven by coffee, cassiterite tin and coltan. Exports of coffee doubled in value terms thanks mainly to an 82% increase in the volumes, which was due to good weather conditions for coffee and the harvesting of new trees planted several years ago. Exports of fully washed coffee, which attract a price premium, also grew from 270 tonnes in 2003

to 700 tonnes thanks largely to a doubling (from 10 to 20) in the number of operational washing stations. Exports of cassiterite tin grew as volumes more than doubled in response to a 45% increase in price. A surge in Chinese demand for tin, an expanding consumer electronics sector and an EU ban on lead solders in electronic devices is pushing the tin price upwards. Like tin, coltan also saw prices rise and volumes increase in response. Exports of tea remained almost flat in 2004 in all provinces, except in Byumba where a decline was registered due to very cold weather damaging the tea crop.

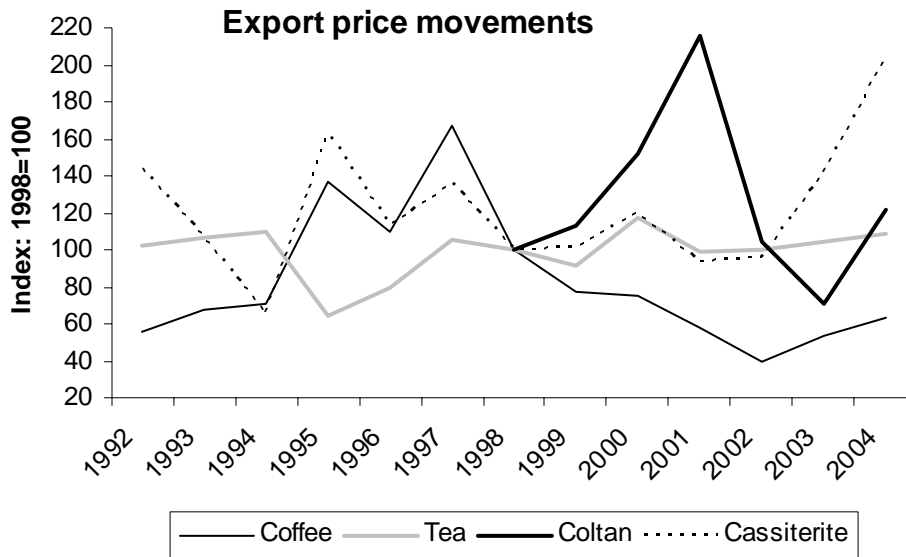
Table 13: Exports of Goods

	Jan-Dec		% change
	2003	2004	
Coffee			
Value \$m	15.00	32.20	114.7%
Volume (tonnes)	14.85	27.09	82.4%
Price \$/kg	1.01	1.19	17.7%
Tea			
Value \$m	22.50	21.56	-4.2%
Volume (tonnes)	14.33	13.06	-8.9%
Price \$/kg	1.57	1.65	5.1%
Cassiterite tin			
Value \$m	4.49	15.88	253.7%
Volume (tonnes)	1,458	3,553	143.7%
Price \$/kg	3.08	4.47	45.1%
Coltan			
Value \$m	6.36	12.99	104.2%
Volume (tonnes)	732	861	17.6%
Price \$/kg	8.69	15.09	73.6%
Hides and skins			
Value \$m	3.79	3.39	-10.6%
Volume (tonnes)	2,728	2,150	-21.2%
Price \$/kg	1.39	1.58	13.5%
Other exports	10.88	11.85	8.9%
Total Exports	63.02	97.87	55.3%

Source: BNR

This strong growth is encouraging but is focused on four key commodities whose prices have historically been very volatile. Future export performance of these commodities therefore remains highly vulnerable to exogenous price shocks, price movements that Rwanda, as a small economy, is unable to influence.

Figure 11



Source: BNR

Note: These are the average prices that Rwandan exports were sold for

For the above reasons it is critical that Rwanda continue with its efforts at export promotion. Exports are important for Rwanda since the foreign exchange they earn can be used to purchase imports and service our debt. The HIPC process also measures Rwanda's debt sustainability in terms of the net present value of the debt divided by export revenue. The Export Promotion policy is detailed in Box 4 below.

Box 4: Export Promotion in Rwanda

The Export Promotion Policy seeks to reinforce existing export sectors such as tea, coffee, and tourism but also to encourage development of new sectors such as horticulture and handicrafts. In all areas focus is placed on producing high value added, innovative products and services.

The initial successes of the push for exports can be seen in 2004 with, for example, the increase in the volume of fully washed coffee exports and the first exports of cut flowers.

The Export Promotion Strategy and Action Plans for the different sectors will be coordinated and monitored by RIEPA. For the existing sectors, agencies such as ORTPN, OCIR Café and OCIR Thé will be responsible for the implementation of strategies with their main activities including product development and the coordination of marketing and promotion. All public investment into the exporting sectors will be coordinated by the recently restructured BRD.

Key Steps in the Sector Specific Plans

Coffee

- Continued construction and operation of washing stations
- Purchase of fertilizer for plantations associated with washing stations
- Rehabilitation of coffee plantations to improve quality

Tea

- Maximize volume through production of high quality tea and new varieties
- Rehabilitate and privatise tea factories
- Undertake tea branding exercise

Tourism

- Continual development of key tourist destinations and the provision of high-end services
- On going marketing activities (website, attendance at tourism exhibitions...)

Export Diversification

- Export Diversification Division in BRD to specialize in financing new business ventures with a heavy export focus
- Export Promotion Officers in RIEPA to act as small business consultants to assist entrepreneurs and existing businesses to grow

3.4.2 Imports

With regard to imports (table 14), capital goods and energy imports grew in response to the electricity shortage which necessitated the import of generators and fuel and also in response to the rapid increase in oil prices. The strength of the construction sector is evidenced by the 32% growth in imports of construction material while other intermediate goods imports fell in response to a weak manufacturing sector and a lack of finance in the agricultural sector. Food imports grew by 53% in value terms as food was imported to compensate for the bad harvests although these imports were not sufficient to prevent high food price inflation.

Table 14: Imports

(\$ million and tonnes)	Jan-Dec 2003		Jan-Dec 2004		% change	
	Value	Volume	Value	Volume	Value	Volume
Capital goods	40.73	8.54	52.20	9.05	28.2%	6.0%
Energy and lubricants	40.53	102.86	68.64	120.14	69.4%	16.8%
Intermediate goods	43.85	60.61	39.54	58.82	-9.8%	-2.9%
Construction materials	7.73	23.06	10.18	26.56	31.7%	15.2%
Industrial goods	27.32	30.79	23.38	25.89	-14.4%	-15.9%
Fertilizer	1.49	4.17	1.37	3.58	-7.7%	-14.3%
Other intermediate goods	7.31	2.59	4.61	2.80	-36.9%	8.2%
Final Consumption Goods	134.18	144.02	147.16	149.10	9.7%	3.5%
Food	28.33	75.48	43.36	92.14	53.0%	22.1%
Other consumption goods	105.85	68.54	103.80	56.96	-1.9%	-16.9%
Other adjustments	30.98		36.23		16.9%	
Electricity	8.65		10		15.6%	
Total	290.26	316.02	343.77	337.11	18.4%	6.7%

Source: BNR

3.4.3 Capital Account and Financial Operations

The balance of these accounts increased in 2004 largely due to increased loan financing for both the development budget and the recurrent budget, which included a large loan from the World Bank to assist with implementing the Poverty Reduction Strategy.

Within the Financial Operations account we see that foreign direct investment grew from \$4.66m in 2003 to \$7.66. This growth was due to privatization of the two banks, BCR and BACAR, with receipts amounting to \$6m with the remaining money coming from the reinvestment by shareholders of company dividends.

3.5 Public Finance

3.5.1 Summary

A review of public finances in 2004 shows that performance overall was strong. The ratio of domestic revenue to GDP increased while expenditure was lower than programmed. As a result the overall deficit before grants was also lower than programmed.

A detailed analysis of revenue, expenditure and financing is given in the sections below.

Table 15: Public Finances 2001-2004 (Rwf billion)

	2001	2002	2003	2004	% change	
					2003	2004
Revenue and grants	148.19	160.26	195.40	274.86	21.9%	40.7%
Tax Revenue	79.50	94.60	114.60	134.56	21.1%	17.4%
Non Tax Revenue	6.69	6.56	7.70	14.73	17.4%	91.3%
Grants	62.00	59.10	73.10	125.57	23.7%	71.8%
Budget Support	33.90	39.30	51.00	90.77	29.8%	78.0%
Project grants	28.10	19.80	22.10	34.80	11.6%	57.5%
Total Expenditure and net lending	158.02	164.93	217.86	275.36	32.1%	26.4%
Current Expenditure	107.40	123.66	162.76	164.06	31.6%	0.8%
Wages and Salaries	38.93	40.60	44.01	48.54	8.4%	10.3%
Goods and Services	29.40	35.17	45.80	47.59	30.2%	3.9%
Transfers	15.13	20.44	22.18	37.51	8.5%	69.1%
Exceptionals	17.70	19.20	40.27	18.25	109.8%	-54.7%
Interest	6.24	8.24	10.50	12.17	27.4%	15.9%
Capital Expenditure	50.00	40.70	51.10	89.70	25.6%	75.5%
Domestic	3.50	6.90	13.20	27.40	91.3%	107.6%
of which CDF	-	1.00	3.00	2.75	200.0%	-8.3%
Externally Financed	46.50	33.80	37.90	62.30	12.1%	64.4%
Net Lending	0.63	0.57	4.00	21.60	598.1%	440.1%
Overall Deficit (inc grants)	(9.83)	(4.67)	(22.46)	(0.50)	380.8%	-98%
Overall Deficit (ex grants)	(71.83)	(63.77)	(95.56)	(126.07)	49.9%	31.9%
Change in arrears	(31.75)	(1.70)	(13.20)	(17.07)	676.5%	29.3%
Deficit	(41.58)	(6.37)	(35.66)	(17.57)	459.7%	-50.7%
Financing	41.58	6.37	35.66	17.57	459.7%	-50.7%
Foreign net financing	40.90	30.50	21.90	50.10	-28.2%	128.8%
Domestic net financing	1.70	0.40	5.20	(44.31)	1200.0%	-952.0%
Errors and Omissions	(1.02)	(24.53)	8.56	11.78	-134.9%	37.5%
Key ratios: % GDP						
Domestic revenue	11.2%	12.1%	13.5%	14.2%		
Tax Revenue	10.4%	11.3%	12.7%	12.8%		
Total Expenditure and net lending	20.6%	19.7%	24.1%	26.3%		
Current Expenditure	14.0%	14.7%	18.0%	15.7%		
GDP	766.32	838.52	905.30	1,047.70		

Source: MINECOFIN

3.5.2 Fiscal Revenue

Domestic tax and non-tax revenue grew from 13.5% of GDP in 2003 to 14.2% of GDP in 2004 due to both increases in tax revenue of Rwf 20bn and an increase of Rwf 7bn in non-tax revenue

3.5.2.1 Tax Revenue

At the time of the revised budget in June 2004, projected tax revenue for the year as a whole was revised upwards from Rwf124.5bn to Rwf 126.7bn. This revision was justified by the strong performance of direct taxes following an improvement in PAYE collections due to an intensification of the payroll audit and a widening of the tax net to bring in more tax payers including NGO workers and nations working for international organisations.

Tax revenue continued to perform strongly for the rest of the year and overshot its revised target by 6.2%. VAT collections were especially strong for a second year, growing by 22%. This growth is partly attributable to the higher inflation in 2004 as producers have to raise prices to maintain margins following the rising cost of agricultural goods, oil and transport costs. There was also a change in the composition of imports towards more finished goods. As these are taxed at a higher rate than other imports, this led to a rise in total collections of import duties and VAT on imports.

Table 16: Tax Revenue (Rwf billion)

	2001	2002	2003	2004	% change	
					2003	2004
Total	79.50	94.60	114.60	134.56	21.1%	17.4%
Direct Taxes	24.51	30.50	35.10	37.40	15.1%	6.6%
Tax on goods and Services	41.00	47.36	57.50	71.52	21.4%	24.4%
Taxes on International Trade	14.00	16.70	22.10	25.65	32.3%	16.1%

Source: RRA, MINECOFIN

The strong revenue data is a clear sign that the reforms at the RRA, which are detailed in the Resource Mobilisation Section in Table 31, are indeed proving fruitful.

3.5.2.2 Non-tax revenue

Non tax revenue almost doubled in 2004, climbing from Rwf7.7bn in 2003 to Rwf 14.7bn in 2004. A large part of this increase was due to revenue from the sale of government houses, the strategic petroleum stocks and National Bank dividends and demonetisation of some Rwandan francs.

Table 17 below shows that revenue from government fees and charges performed well in all categories. Revenue from the issuance of passports performed most strongly after the government introduced a new type of passport, which all travellers were required to purchase.

Table 17: Government charges and fees (Rwf bn)

	2003	2004	% change
Confiscated Property	0.24	0.44	83.8%
Public Property Revenue	0.48	0.51	6.6%
Administrative Fees	1.48	2.30	54.7%
Passports	0.22	1.14	419.5%
Total	2.20	3.24	47.4%

Source: RRA

3.5.3 Budget Support and Project Grants

Budget support grants funded 49% of recurrent spending in 2004 compared with 31% in 2003, while project grants funded 39% of capital expenditure compared with 43% in 2003.

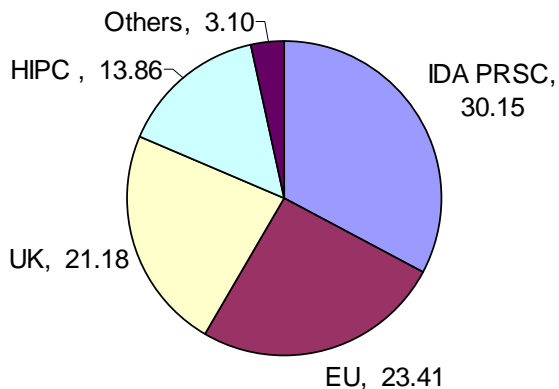
Table 18 details the disbursements of different development partners and figure 12 illustrates clearly that the 3 largest budget support development partners were the EU, the UK and IDA through its PRSC grant.

Table 18: Budget Support and Project Grants (Rwf billion)

	2003	2004 planned	2004 actual	2004 % change	Actual % of planned
Budget support grants	47.91	99.44	90.77	107.6%	91.3%
EU	12.0	26.1	23.4	117.6%	89.6%
UK	18.3	26.8	21.2	46.7%	79.0%
Sweden	3.3	3.7	-	10.5%	0.0%
HIPC Grants	12.3	15.9	13.9	29.9%	87.0%
IDA			8.8		
AfDB			3.3		
IMF			1.8		
IDA PRSC	-	14.7	30.2		205.8%
IDA (Demob)	-	5.4			0.0%
MTF (Demob)	2.0	6.8	1.1	239.1%	16.2%
EU/EIB Savings			1.1		
Election grants	4.59			-100.0%	
Project Grants	22.10	34.80	34.80	57.5%	100.0%
Total	74.60	134.24	125.57	79.9%	93.5%

Source: MINECOFIN

Figure 12: Budget Support Grants (actual) 2004: Rwf Billion



Source: MINECOFIN

3.5.4 Expenditure

Government expenditure was 26% higher in 2004 than in 2003 as is shown in table 15 and amounted to Rwf 275.36billion. Within the recurrent budget transfers

saw the most dramatic increase of 69.1% while exceptional expenditures declined by 54.7%. This is explained by the fact that several expenditure items were moved from Exceptional and reclassified under Transfers. These included expenditures on the Good Governance Commissions, the Human Rights Commission and the Tertiary Education Institutions as well as MINALOC subsidies to vulnerable groups such as orphans and street children. In addition to these changes, transfers also saw a boost as the fiscal decentralization law was introduced and districts received an increased allocation.

With regard to the domestically financed capital budget, allocations increased by Rwf 14.2billion. Part of this increase was to fund agricultural productivity programmes and also to pay for work being done on the Ministry of Defence, Rwanda Revenue Authority, and Office of Auditor General buildings. In addition spending by the Government of Rwanda on emergency energy items increased expenditure in this category.

In terms of execution, table 19 below shows that with regard to the revised budget presented in June, actual expenditure fell short by Rwf 11.05bn. This was primarily due to delays in the demobilization programme, in particular the demobilization of armed groups in Eastern DRC which caused the exceptional expenditure category to fall short of that planned by Rwf 11.55bn.

Table 19: Expenditure 2004 (Rwf billion)

	Planned (revised budget)	Actual (prov)	Actual % of Planned
Total Expenditure and net lending	286.41	275.36	-3.9%
Current Expenditure	179.41	164.06	-8.6%
Wages and Salaries	48.00	48.54	1.1%
Goods and Services	49.90	47.59	-4.6%
Transfers	36.90	37.51	1.7%
Exceptional	29.80	18.25	-38.8%
Interest	14.81	12.17	-17.8%
Capital Expenditure	87.20	89.70	2.9%
of which foreign	62.30	62.30	0.0%
of which CDF	5.50	2.75	-50.0%
Net Lending	19.80	21.60	9.1%
Arrears	(17.00)	(17.07)	0.4%

Source: MINECOFIN.

Net lending was considerably higher in 2004 than in 2003 as the government sought to repay the external loans of a public enterprise, to transfer to CHR the

proceeds from the sale of government houses, to recapitalize the Rwandan Development Bank and to provide Electrogaz with the means to import generators to help ease the electricity crisis.

Arrear payments were almost as projected and included Rwf 11 billion of arrears carried over from 2003. With regard to arrears accumulated from before 1994, July saw the closing date for all claims on government to be made. The Office of the Auditor General is now processing all claims to arrive at a total for domestic debt.

3.5.5 Development Budget

The development budget for 2004 was set at Rwf 87.2 billion and initial projections suggest that actual implementation was closer to Rwf 90 billion. Detailed implementation data is not yet available, but it is almost certain that the 67% implementation rate achieved in 2003 was exceeded.

The improved execution is driven by a number of previously delayed major civil works and road building schemes that commenced in 2004. At the same time, there are a number of other projects that continued to suffer from problems of absorption, delays in the procurement process, difficulty with counterpart funding from the government and the fact that they may have been included in the development budget before all of the necessary feasibility studies had been conducted. The Ministry of Finance and Economic Planning is working closely with development partners to find solutions to these problems.

Table 20: Development Budget (Rwf billion)

Sector	Budget 2004
Transport & Communication	12,603
Education	9,655
Health	7,674
Industry & Commerce	8,901
Agriculture	5,830
Community dev, Land, Housing	6,527
Justice, Order & Public Security	4,994
Water sanitation	5,436
Transfers to districts (CDF)	5,500
Gen. Public Administr. Services	7,009
Social	5,066
Environment	1,697
Defence	1,289
Youth, Culture & Sports	1,424
Energy	3,595
Total	87,200

Source: MINECOFIN

3.5.6 Financing

Foreign loan financing increased in 2004 from Rwf21.2bn in 2003 to Rwf62.8bn in 2004. This loan financing came despite the fact that the overall deficit amounted to Rwf 0.5 billion and therefore allowed the government to pay back part of its domestic banking sector debt.

Table 21: Foreign Financing (Rwf billion)

	2003	2004
Foreign Financing (net)	21.90	50.10
Drawings	21.20	62.80
Budget Loans	5.50	35.30
Project Loans	15.70	27.50
Amortization	(15.00)	(17.00)
Exceptional financing	15.70	4.30

Source: MINECOFIN

3.6 Monetary Sector, Exchange Rate and Financial Sector Developments⁵

3.6.1 Introduction

High inflation in 2004 was essentially due to external shocks (high energy prices, owing to the international conditions, and increased food prices, due to poor harvests brought about by poor weather and consequently low harvests), as opposed to expansionary monetary policy. Key government targets in the monetary sector were met. Reserve money growth was below the ceiling at each of the quarterly test dates, while net credit to government stayed well below target throughout the year. The net foreign assets of BNR were also consistently above the target, in this case a floor, at each quarterly test point. Monetary policy remained responsible and consistent with its objectives; overall the outlook for 2005 is positive.

3.6.2 Overview of Monetary Developments

As can be seen in Table 22, below, in the year between December 2003 and December 2004, Broad Money grew by 10.4%. This relatively modest growth in 2004, compared with the 16.4% growth in Broad Money over the preceding year, is largely due to a decline in government borrowing from the banking system. Furthermore, credit to the economy (counting government enterprises and the private sector) grew at 10.0%, a lower rate than the 15.3% growth in the previous year.

⁵ Please note that definitions of all technical terms used in this section can be found in Annex 1. As labels may not always be intuitive, readers are cautioned to familiarize themselves with these terms.

Table 22. The Evolution of Money Supply and its Counterparts (RwF Billions)

	Dec 01	Dec 02	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	% change over 2004
Money supply (broad)	130.7	144.3	167.5	162.5	161.4	167.4	185.0	10.4%
Money Narrow	69.0	75.4	87.2	89.0	89.5	95.8	99.9	14.6%
Currency in circulation	25.8	28.0	34.1	31.9	37.5	37.4	36.5	7.0%
Demand Deposits	43.2	47.4	53.1	57.1	52.0	58.4	63.3	19.2%
Quasi money	61.6	68.9	80.4	73.5	71.9	71.6	84.6	5.2%
Time Deposits in domestic currency	33.6	39.5	38.3	31.3	26.6	30.1	33.9	-11.5%
Foreign Currency deposits	28.0	29.4	42.1	42.2	45.2	41.6	51.2	21.6%
Net Foreign assets	81	103.7	104.2	104.0	109.2	111.8	172.8	65.8%
Net Domestic assets	49.7	40.6	62.8	59.0	52.3	55.7	12.6	-79.9%
Net Credit to Govt	18.7	1.1	17.0	8.4	2.5	-0.6	-33.2	-295.3%
Credit to the Economy	77.5	89.0	102.1	102.1	102.9	107.4	112.3	10.0%
Credit to Private Sector	76.5	85.5	97.2	97.9	97.7	102.4	107.6	10.7%
Credit to public enterprises	1.0	3.5	4.9	4.2	5.2	5.0	4.7	-4.1%

Source: BNR

The large negative net credit to government⁶ in December 2004, seen in Table 22, is striking. This is due to the increases in government deposits at BNR in the last quarter of 2004 because of the disbursements of development partner funds.

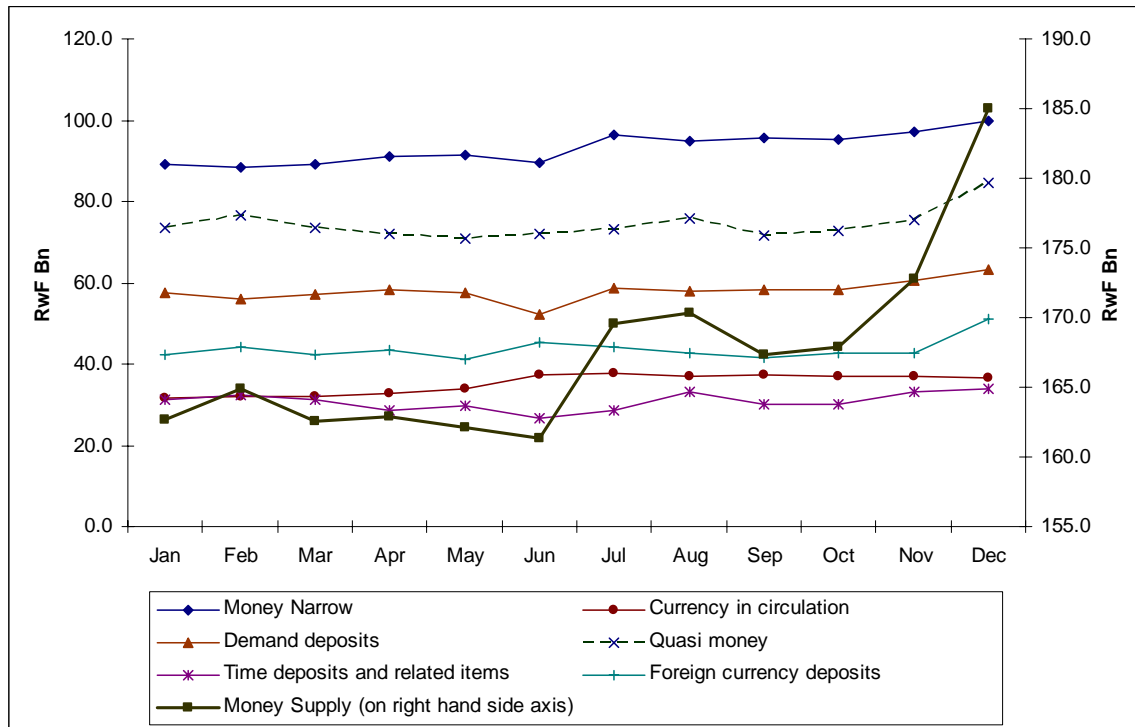
Quasi money, made up of time deposits (in domestic currency) and foreign currency deposits, increased by 5.2% during 2004 compared to 16% in 2003. While time deposits increased only slightly over the year as a whole, deposits denominated in foreign currency rose by 21.6% during 2004. However, most of this increase is accounted for by a 20% increase in time deposits in foreign currency between November and December 2004. This, along with the increase in broad money supply (both are clearly visible on Figure 13 below in the last two

⁶ Note that net credit to government is defined as claims on the government minus the deposits held by government, and does not refer simply to loans made to the government

months of the year) is again attributable to the receipt of end of year disbursements from development partners, and to the government deposits at BCDI in support of Electrogaz.

Through most of 2004, deposits in foreign currency remained a near-constant proportion of total time deposits, at around 56% of total deposits in November, compared with 57% at the start of the year. This stalls the trend seen in 2003 for an increasing proportion of deposits to be held in foreign currency, perhaps signalling an increase in confidence in the Rwandan Franc. This is as would be expected following improvements to the regulation of the market for foreign exchange over 2004.

Figure 13. The Evolution of Monetary Aggregates in 2004⁷



Source: BNR

2004 saw an increase in the amount of liquidity that BNR mopped up from the banking system through the use of a short-term investment available to commercial banks in the form of a deposit facility, called “Deposit Auctions”. Table 23 below shows that there was over a 20% increase between the end of 2003 and the end of 2004:

⁷ Please note that the money supply is plotted against the right hand axis; all others use the left hand axis.

Table 23 – Value of Deposit Auctions in 2003 and 2004 (millions of Frw)

	2003	2004
Total Value of Deposit Auctions	133,300	161,560
Percentage Change 2003-2004	21.2%	

Source: BNR

3.6.3 Foreign Assets

Table 24. The Evolution of Foreign Assets (billions of Frw)

	2000	2001	2002	2003	2004	03 – 04 change
Net Foreign Assets of BNR	37.4	51.3	72.6	65.5	122.5	87.0%
Foreign Assets of BNR	82.1	97.1	124.7	124.3	178.3	43.4%
Foreign Liabilities of BNR (adjusted)	44.7	45.8	52.1	58.8	55.8	-5.1%
Net Foreign Assets of Commercial Banks	29.5	29.7	31.2	38.7	51.9	34.1%
Foreign Commercial Bank Assets	32.9	34.3	39.1	49.8	62.3	25.1%
Foreign Commercial Bank Liabilities	3.4	4.6	8	11.1	10.5	-5.4%
Net Foreign Assets (BNR and Commercial banks)	66.9	81	103.7	104.2	174.4	67.4%

Source: BNR

The net foreign assets of the entire banking system showed a very big increase from 104.2 billion Rwandan francs in December 2003 to 174.3 Rwandan francs by December 2004. This constitutes an increase of 67.4% and is due to both strong export receipts and an increase in budget support.

The level of net foreign assets of the commercial banks also significantly improved over the year, rising from Rwf 38.7 billion at end 2003, to Rwf 51.9 billion at end 2004, an increase of 34%.

3.6.4 Domestic Credit

Table 25. Developments in Domestic Credit

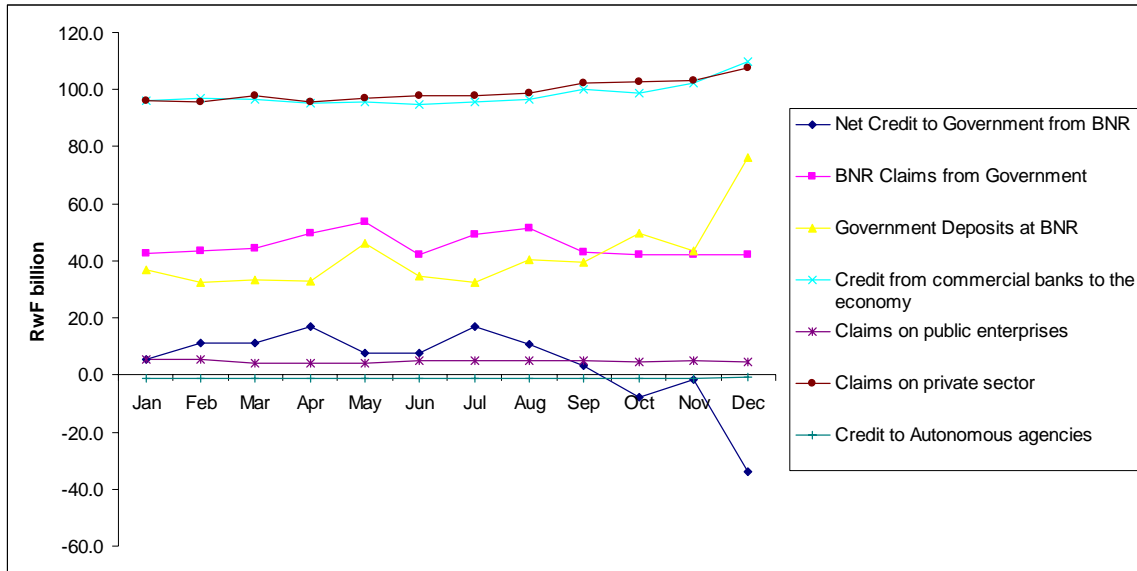
	Dec 2001	Dec 2002	Dec 2003	Mar	Jun	Sep	Dec 2004	03-04 change
Net Credit to Government from BNR	16.3	-5.2	12.4	11.2	7.48	3.36	-33.9	-373%
Net Credit to Government from commercial banks	2.4	6.3	4.7	-2.7	-5	-4	0.7	-85%
BNR Claims from Government	43.5	43.1	43.9	44.4	42.1	42.9	42.1	-4%
Government Deposits at BNR	27.2	48.2	31.5	33.3	34.6	39.6	76.1	142%
Total credit from commercial banks	78.9	93.0	104.8	96.6	94.7	100.1	109.7	4.7%
Claims on public enterprises	0.8	3.4	4.8	4.17	5.19	5.05	4.7	-2%
Claims on private sector	75.7	83.3	95.4	97.9	97.7	102	108	13%
Credit to Autonomous agencies	-1.3	-0.9	-0.6	-1.13	-1.17	-1.16	-0.8	33%
Total domestic credit	94.9	89.2	119.1	109.3	104.2	105.7	78.3	-34

Source: BNR

Total credit from commercial banks to the private sector increased by 13% over the year 2004, which is a slight reduction on the 16% increase experienced over 2003. Domestic credit decreased by 34%; however this was driven to a large degree by the large deposits made by the Government at BNR in the final quarter of the year, due to the disbursements of development partner funds. Considering the change from December 2003 to November 2004, when domestic credit stood at 103.3 billion francs, we see a decline of only 14%.

Growth in credit to the private sector was slow for much of the year (as shown on Figure 13, below). This may be attributed to the continued cautious approach to credit on the part of the commercial banks, and also to the restructuring plans currently in place for BACAR and BCR that may be holding back growth in their granting of credit.

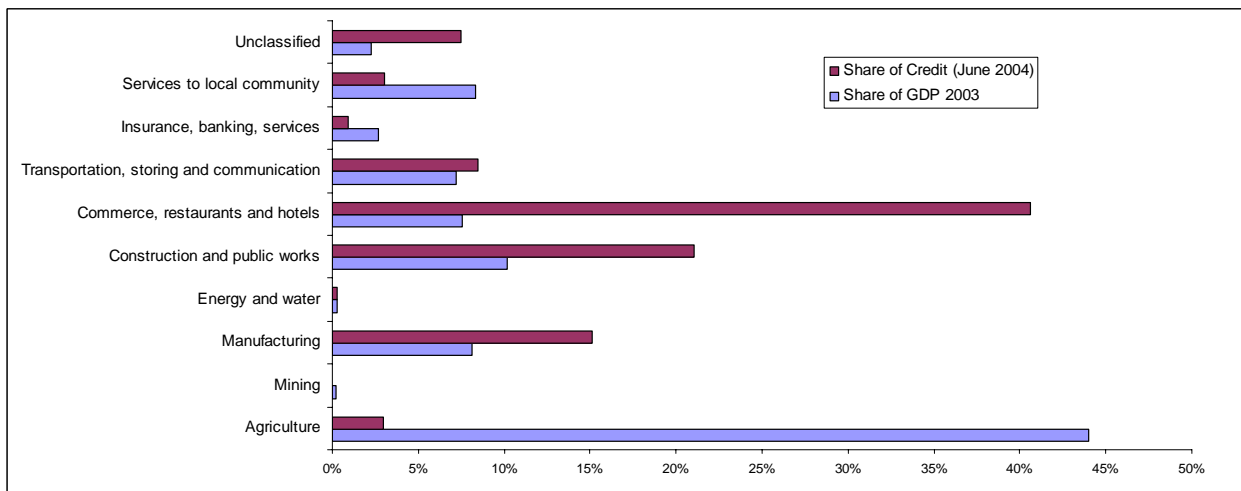
Figure 13. Developments in Domestic Credit



Source: BNR

As shown on Figure 14 below, the pattern of sectoral distribution of credit showed a familiar story, with little change from previous years. A key problem remains that agriculture still receives only a very small share of credit, whilst constituting the largest single sector of the economy. As in 2003, commerce, restaurants and hotels received a large proportion of credit; this was almost 41% in 2004, compared with around 43% in 2003. Construction and public works also remained a major end-user of credit, accounting for 21% of credit in 2004, similar to the 20% it received in 2003.

Figure 14. The Sectoral Share of Credit to the Economy

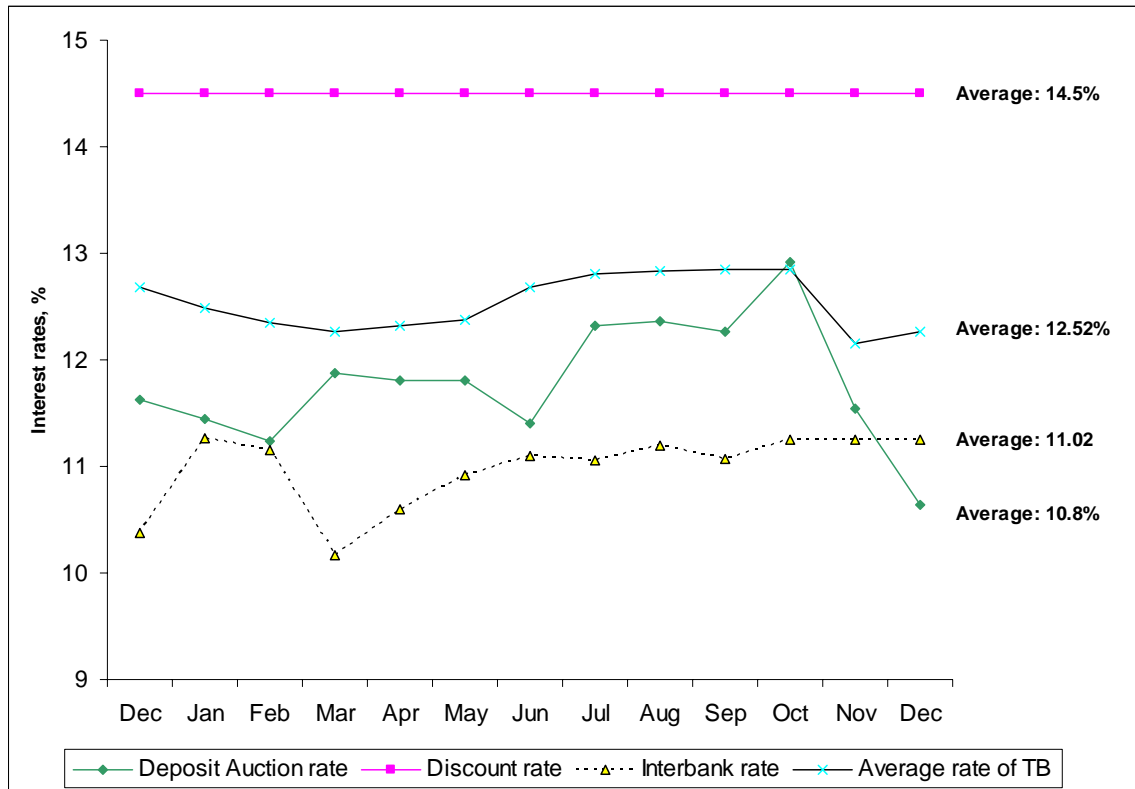


Source: BNR

3.6.5 Evolution of Interest Rates

2004 saw stability in interest rates, as can be seen from Figure 5, below. The discount rate remained constant at 14.5% throughout the year, while the rate of return on treasury bills fluctuated between 12.2 and 12.9%.

Figure 15 – The Evolution of Interest Rates



Source: BNR

While only limited information on the deposit and lending rate is available, the impression from the available data is of a similar picture to that seen in 2003 – that is, there is a large spread between deposit and lending rates, which is likely, as last year, to be associated with a lack of competition among banks and reluctance upon the part of banks to lend as much as borrowers are seeking, owing to ongoing problems of non-performing loans. This results in a high lending rate, meaning that credit is very costly for business.

Table 26 – The Evolution of Interest Rates

	2001 Dec	2002 Dec	2003 Dec	2004 Mar	Jun	Sep	2004 Dec
Deposit Rate	10.11	9.02				9.4	
Lending Rate	17.29			16.3			
Deposit Auction rate		10.5	11.6	11.9	11.4	12.3	10.6
Discount Rate		13.0	14.5	14.5	14.5	14.5	14.5
Interbank rate	11.14	9.9	10.4	10.2	11.1	11.1	11.3
Average rate of TB	9.25	10.5	12.7	12.3	12.7	12.9	12.3

Source: BNR

As noted above, the rate of interest on TBs remained reasonably constant through 2004. We can see from Table 5 below, that the rate of return on TBs peaked at 12.85% in September and reached a low of 12.15 in October.

Table 27 – Treasury Bills: interest rate and outstandings

Month	Rate of interest on TBs (%)	Outstanding TBs (millions of RwF)
Jan	12,48	10 154,3
Feb	12,35	13 200,4
Mar	12,26	15 845,2
April	12,32	14 652,3
May	12,38	16 655,10
Jun	12,68	21 404,2
Jul	12,81	19 847,4
Aug	12,83	20 212,3
Sept	12,85	18 906,10
Oct	12,15	22 561,50
Nov	12,45	22 557,9
Dec	12,26	33 813,9

Source: BNR

BNR issues treasury bills both to finance the budget deficit and as an instrument of

monetary policy, with a treasury committee meeting on a weekly basis to decide the issuing programme. Table 28, below, summarises the split between bills issued for monetary policy purposes and bills issued for budget financing reasons, as well as illustrating which institutions purchased the bills:

Table 28– Treasury Bills: reasons for issue⁸

	December 2003		December 2004	
	Budget	Monetary	Budget	Monetary
Banks	8550.0	0.0	8747.8	4000.0
Non-bank (public)	7060.0	0.0	20079.1	987.0
Total	15610.0	0.0	28826.9	4987.0

Source: BNR

The major increase in purchases of treasury bills by non-bank institutions between December 2003 and December 2004 is in large part attributable to a change in the legislation, made in November 2003, which allows non-bank financial institutions to purchase bills on an equal basis with banks. Previously, non-bank institutions were not permitted to make competitive offers for bills; now the category of institution is not considered in the sale of bills, but only the amount purchased is taken into consideration.

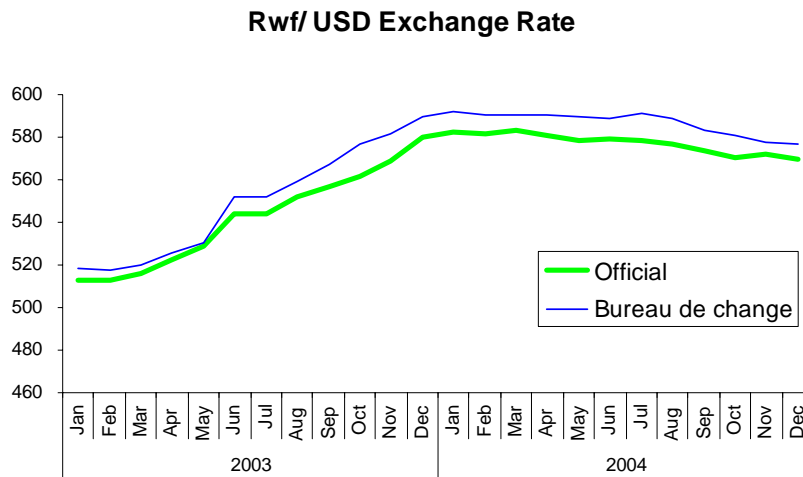
During 2004, NBR continued with preparation towards activating a secondary market for TBs, with activities such as legislative preparation and seminars for potential market players, such as the commercial banks.

3.6.6 Exchange Rates and the Foreign Exchange Markets

Thanks to stronger export earnings, a decline in the money supply during the first half of 2004, and a weak dollar, the Rwandan franc reversed its depreciation and began to appreciate slightly against the dollar in 2004, appreciating by about 3% over the year as a whole. This is illustrated clearly in figure 16.

⁸ Non-bank (public) includes the public, corporations and non-bank financial institutions.

Figure 16:



Source: BNR

With regard to other currencies, after some initial appreciation, the Rwandan franc depreciated slightly over the year as shown in table 29. If inflation is taken into account, then the Rwandan franc is likely to have appreciated in real terms against these currencies and to have appreciated more strongly against the dollar. This translates into a worsening of Rwanda’s price competitiveness internationally, making life harder for exporters.

Table 29 – Trends of the Rwandan Franc Rate against Selected Currencies

	2000 Dec	2001 Dec	2002 Dec	2003 Dec	2004 Mar	Jun	Sep	2004 Dec
US\$	430.49	443.74	487.43	580.3	582.9	579.5	573.2	566.7
GBP	659.1	816.7	758.09	1002.9	1067.5	1060.1	1031.2	1094.0
JPY	3.76	3.64	3.98	5.33	5.36	5.29	5.23	5.50
ECU/Euro	399.66	396.08	476.7	703.9	715.5	706.7	702.0	759.2
SDR				849.1	850.7	832.4	841.9	873.5

Source: BNR

BNR continued to intervene on the interbank exchange market, with the level of transactions in 2004 very similar to that in 2003; there was a 1% increase in the total sales in the first 11 months of the year.

Table 30 – BNR Interventions on the interbank exchange market

BNR Interventions on the interbank exchange market		
Sales, US\$ million		
Month	2003	2004
Jan	8.75	5.2
Feb	4.2	2.9
Mar	4.5	3.3
Apr	8.8	6.55
May	1.7	2.5
Jun	2	4.95
Jul	7.5	3.85
Aug	7	11.1
Sep	4	6.95
Oct	9	9.55
Nov	5.5	6.8
Dec	11.4	9.6
Total 2003 Jan to Dec		74.35
Total 2004 Jan to Dec		74.25
Percentage growth		-0.002%

Source: BNR

3.7 Performance in the PRGF Programme

The Poverty Reduction and Growth Facility is a low interest lending facility run by the IMF for low income countries. As one of 78 beneficiaries of this facility, Rwanda has been working closely with the IMF to design and follow a programme aimed at bringing pro-poor economic growth within a stable macroeconomic environment. Within this remit there is a large emphasis placed on strengthening economic governance through structural reforms in public resource management, reforms to improve accountability and transparency and steps to give more attention to the poverty and social impacts of macroeconomic policies.

To monitor progress with the PRGF programme there are key fiscal and monetary targets that are set, together with structural benchmarks for each year. The following two sections analyse Rwanda's performance against these in 2004

Please see tables 15 and 22 for details of fiscal and monetary performance in 2004.

3.7.1 Performance against monetary and fiscal targets

There were three monetary sector targets set in the Memorandum of Understanding between the Government of Rwanda and the International

Monetary Fund of May 2004. These quantitative performance criteria were set for (i) the net foreign assets of BNR (a floor on this stock variable) (ii) reserve money (a ceiling on this stock variable) and (iii) net credit to the government from the banking system (a ceiling on this stock variable).

On the fiscal side, six quantitative performance criteria were set. Targets covered were (i) the domestic fiscal balance (a floor on the cumulative flow over the calendar year) (ii) recurrent priority spending (again, a floor on the cumulative flow over the year) (iii) new non-concessional external debt (a ceiling on this flow variable) (iv) short-term external debt (a ceiling on this stock variable) (v) the stock of outstanding non-reschedulable external arrears (a ceiling on this stock variable) and (vi) the net accumulation of domestic arrears (a ceiling on cumulative net accumulation over the year).

In negotiations at the end of 2004 and at the start of 2005 it was agreed between that IMF and the Government that all the quantitative targets had been satisfactorily met.

3.7.2 Qualitative Measures: Structural Benchmarks

Table 31 below outlines the major structural reforms that took place in 2004. Given benchmarks set out in the PRGF programme, performance can be considered highly satisfactory.

Table: 31 Structural Reforms

Area	Measure
Public Financial Management Legislation	<ul style="list-style-type: none"> - Organic Budget Law and Financial Instructions submitted to Parliament - New Income Tax Law, Customs Law and Procurement Code completed and submitted to Parliament - New Investment Code adopted by Cabinet and submitted to Parliament
Public Financial Management System	<ul style="list-style-type: none"> - New chart of Government accounts for all units of government completed - Computerised fiscal system extended to cover all provinces - TA provided and work started towards creation of single treasury account and monthly reconcillation statements (Cash Management Unit) - World Bank Financial Accountability Assessment completed and joint WB/IMF HIPC Assessment completed - Monthly reporting mechanism established for districts
Resource Mobilisation	<ul style="list-style-type: none"> - RRA given sole responsibility for collection of all domestic tax and non tax revenue - Large Tax Payers department created - System of tax numbers improved - Penalties for tax fraud included in revised income tax procedures manual
Expenditure Management	<ul style="list-style-type: none"> - Pilot joint monitoring system introduced - Strategic Planning and Poverty Management Department launched to monitor poverty outcomes and ensure coherence between budget and Poverty Reduction Strategy - Submission of Auditor General's 2002 and 2003 Report to Parliament
Civil Service reform	<ul style="list-style-type: none"> - New organisational structures agreed by Cabinet - Salary policy in preparation
Privatisation	<ul style="list-style-type: none"> - 1 tea factory, 2 livestock centres, 2 hotels, Electrogaz management contracts and 2 banks (BCR and BACAR) and final stage of liquidation for Air Rwanda
Financial Sector Reform	<ul style="list-style-type: none"> - Financial sector study finalised - UBPR Recapitalized - Leasing Law in Parliament - Actions plans drafted for bringing banks in line with prudential regulations - Micro-Finance Policy drafted - Feasibility study for Rwandan stock exchange in preparation - CHR Housing Bank created
Gender	<ul style="list-style-type: none"> - Gender Policy adopted by Cabinet
Trade Liberalization/ Export Promotion	<ul style="list-style-type: none"> - Rwanda entered COMESA Free Trade area - Steps taken to further exploit AGOA Agreement - Rwanda's trade policy adopted by WTO - Integrated Trade Framework in preparation - Export promotion action plan adopted by Cabinet
Demobilization	<ul style="list-style-type: none"> - 33,915 soldiers from the RDF, Ex-Far and armed groups demobilised to date
Land Law	<ul style="list-style-type: none"> - The land law has been submitted to Parliament
HIMO	<ul style="list-style-type: none"> - Labour intensive public works project operational
Judicial Reform	<ul style="list-style-type: none"> - New Law adopted by Parliament
Agriculture	<ul style="list-style-type: none"> - Agriculture strategy prepared and BRD's role as credit provider strengthened
Housing	<ul style="list-style-type: none"> - Sale of government houses
Procurement	<ul style="list-style-type: none"> - Strengthened procedures for procurement entrusted with a National Tender Board
Water and Energy	<ul style="list-style-type: none"> - Water and Sanitation: Law and policy framework prepared - Near completion of discussions with private sector investors for development of methane Gaz project
Private Sector Development	<ul style="list-style-type: none"> - Key supporting institutions established or strengthened: Rwanda Import and Export Promotion Agency, Rwanda Information Technology Agency, Centre for Assistance to Small and Medium Enterprises (CAPMER) and The Private Sector Federation

3.8 Regional and International Economic Integration⁹

3.8.1 Introduction

Owing to the limited size of Rwanda's domestic market and the fact that it is landlocked, Rwanda can particularly benefit from the increased market size available from economic integration and improved transport and communication links. 2004 saw a number of steps taken to further Rwanda's integration into the regional and global economies.

At the regional level, Rwanda became a full member of the Community of East and Southern Africa (COMESA) Free Trade Area in January 2004, and is in the process of ratifying agreements on the movement of natural persons and on customs bills. Rwanda was also amongst the first countries to accede to the New Economic Partnership for Africa's Development's African Peer Review Mechanism in 2004.

At the international level, Rwanda is involved in the ACP-EU negotiations (between the European Union, and the countries of Africa, the Caribbean and the Pacific), in particular the Economic Partnership Agreements that started in September 2002. Along with the adoption of the Kigali Consensus, Rwanda's chairmanship of the Africa Group participating in the World Trade Organisation negotiations ongoing in Geneva is also helping to strengthen the regional position in these negotiations.

3.8.2 Community of East and Southern Africa (COMESA)

Rwanda's membership of the COMESA Free Trade Area (FTA), which started in January 2004, allows Rwanda's industries the opportunity to compete with those from the ten other COMESA countries that have joined the FTA. It gives Rwandan companies access to a market of over 100 million people, free from customs tariffs or quotas. The FTA will also increase competition within Rwanda and push Rwanda firms to become more efficient. From table 32 we can see that COMESA countries account for 23% of Rwandan exports and 41% of imports in value terms.

The next stage for COMESA is to consolidate the FTA. All COMESA countries are to have ratified the FTA by the end of 2005. In addition, steps will be taken to reduce non-tariff barriers to trade, which may come in the form of customs

⁹ Sources of further information on each regional body and set of trade negotiations can be found in Annex 3.

procedures or competition policies. This process is seen as essential before moving towards the creation of a COMESA Customs Union, originally scheduled for December 2004. The issues around this are to be discussed at the COMESA Heads of State Summit in May 2005, which will be hosted by Rwanda.

Along with other member states, Rwanda is in the process of agreeing on the ratification of an agreement on the free movement of natural persons. This agreement, currently awaiting final ratification in Parliament, will enable Rwandese do business and gain employment across the COMESA area without limitations.

Rwanda is also in the final stage of ratifying the COMESA Customs Bond Guarantee Scheme (CBGS). After Ethiopia, Malawi, Uganda, Sudan and Zimbabwe, Rwanda will be the sixth country to ratify this scheme. Under COMESA rules, once six countries have ratified the agreement, the implementation can take place. An additional four countries are in the stages of ratification. This scheme, adopted by the Cabinet and currently under consideration in Parliament, has the objective of facilitating intra-COMESA trade and transport by reducing the cumbersome, time-consuming and costly procedures of raising customs bonds in each country of transit.

Table 32: Trade with COMESA Countries 2004
Imports from COMESA

	Wieght (Kg)	Value USD 000s
BURUNDI	1,677.08	974.53
DJIBOUTI	1,712.39	11,830.18
EGYPTE	4,053.54	6,978.87
ERYTHREE	3.48	40.61
ETHIOPIE	3.55	12.95
KENYA	170,513.41	85,358.98
MADAGASCAR	5.92	18.80
ILES MAURICE	1,991.64	845.18
MALAWI	271.37	1,074.81
MOZAMBIQUE	598.14	221.52
OUGANDA	56,017.95	31,109.22
SOUDAN	27.08	19.92
ZAMBIE	967.28	418.65
RDC CONGO	478.77	934.57
ZIMBABWE	174.44	212.87
COMESA Total	238,496.03	140,051.65
COMESA share of total	71%	41%
Total imports	337,105.00	343,770.00

Exports to COMESA US\$ 000s

	Exports	Rexports	Total
Burundi	609.16	2,179.99	2,789.14
Djibouti	0.87	24.57	25.44
Egypt	3.70	243.20	246.90
Ethiopia	-	153.16	153.16
Eritrea	0.22	-	0.22
Kenya	15,226.04	847.27	16,073.31
Madagascar	-	7.13	7.13
Malawi	-	0.17	0.17
Mozambique	595.49	10.95	606.44
Namibia	-	49.20	49.20
Sudan	-	11.99	11.99
Uganda	4,450.41	1,028.17	5,478.58
Zambia	-	17.72	17.72
Congo DRC	88.84	1,697.49	1,786.33
Zimbabwe	-	57.42	57.42
COMESA total	20,974.73	6,328.43	27,303.16
COMESA share of total	23.1%	90.5%	27.9%
Total Exports	90,820.00	6,990.00	97,810.00

Source: National Bank of Rwanda

In 2002, Rwanda began the process of eliminating its tariffs; in that year, tariffs were reduced by 80%, in 2003, by 90% and from January 2004 tariffs were completely eliminated for other COMESA FTA countries. By 2004, COMESA tariff reduction had led to cumulative revenue losses of about 13.9 billion Francs, impacting heavily on an already resource-constrained national budget. This can be seen from Table 33 and Figure 17 below.

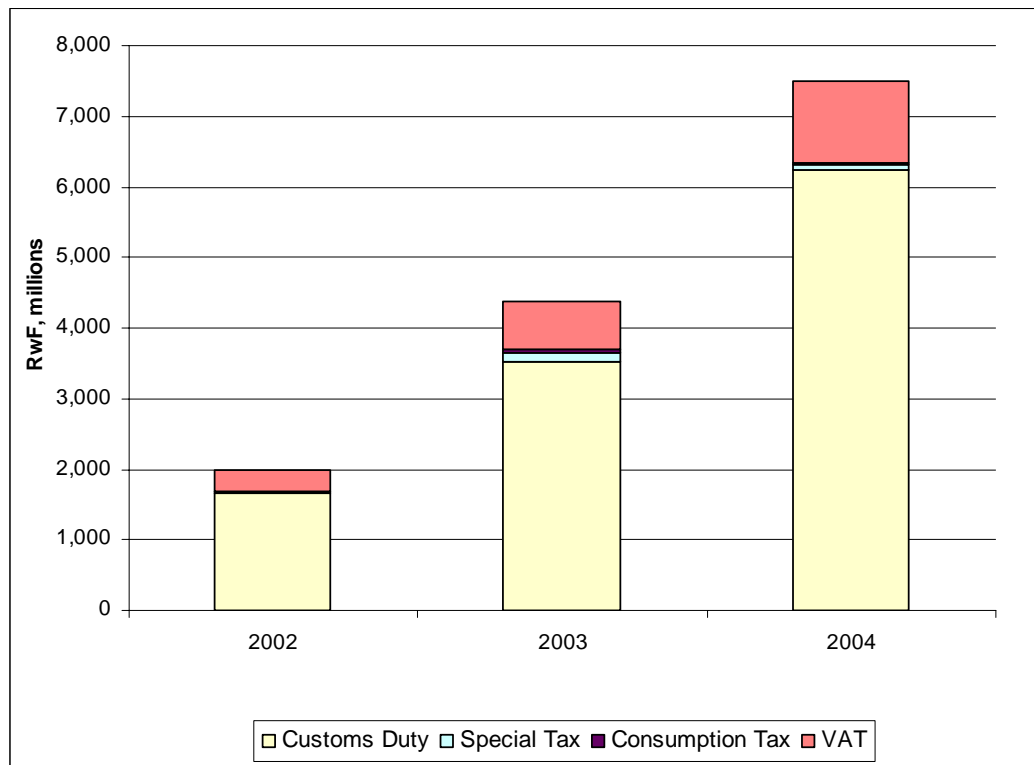
Table 33: Revenue Loss from COMESA Tariff Reductions

Year	CIF Value	Loss of Revenue (RwF, millions)				
		Customs Duty	Special Tax	Consumption Tax	VAT	All Taxes
2002	11,763	1,660	0	20	309	1,989
2003	16,495	3,521	119	58	671	4,369
2004	27,045	6,229	93	30	1,146	7,498
Total	55,302	11,410	212	108	2,126	13,856

Source: Rwanda Revenue Authority

However, COMESA is in the process of developing an arrangement to provide some compensation, for example in the form of infrastructure development assistance, for member countries that are facing the problem of revenue loss. Of twelve member countries, three have already ratified the compensation protocol; Rwanda is currently in the process of ratifying.

Figure 17: Revenue Loss from COMESA Tariff Reductions



3.8.3 East African Community (EAC)

Rwanda is in the process of becoming a member of the East African Community (EAC), along with Kenya, Uganda and Tanzania. This process was awaiting the completion of the existing EAC countries' Customs Union – this came into being on 1st January 2005. Now that this stage has taken place, progress with Rwanda's membership process is expected. The next EAC summit of the heads of state is due to take place in 2005; this will review the way forward. In addition, an evaluation mission from EAC is expected to visit Rwanda in the first quarter of 2005. Rwanda hopes to be a full member of the EAC by the end of 2005. However, before entering, Rwanda should undertake a full analysis of the costs and benefits of EAC membership, and of the activities required to come into compliance with EAC rules.

3.8.4 New Economic Partnership for Africa's Development (NEPAD)

A National NEPAD Secretariat was started in September of 2003 in the Office of the President. This was followed by establishment of a National Steering Committee as a semi-governing council with representation from the government, the national assembly, private sector and the civil society. The Personal Representative of the President on NEPAD Continental Steering Committee chairs this committee. Members of the committee act as NEPAD desk persons in their respective institutions.

In 2004, Rwanda became one of the first 16 countries on the continent to accede to the African Peer Review Mechanism (APRM) of the New Partnership for Africa's Development. The main objectives of APRM are to foster the adoption of appropriate laws, policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub regional and continental economic integration through sharing of experiences and reinforcement of successful best practices.

The process of APRM implementation began in February 2004, when Rwanda hosted the first African Peer Review Forum. Our country endorsed the APRM principles by signing the APRM memorandum of understanding on 9th March 2004. Alongside Ghana, Kenya and Mauritius, Rwanda is among the first countries ready to undergo the Peer Review process. The APRM National Commission was officially inaugurated in June 2004.

Other ongoing NEPAD projects include the trans-boundary Agro-Ecosystem Management Programme for the Akagera River Basin, projects to further implementation of U.N. Conventions on biological diversity, climate change and against desertification, as well as projects in the transport and energy sectors.

Various sensitisation seminars and meetings were held to raise awareness among the different stakeholders on NEPAD and APRM programmes and activities over 2004, including sensitization meetings with RPF secretariat staff, with district mayors, with staff of the Development Bank of Rwanda, with development partners, and with members of parliament. The parliamentary briefing was historic because it was the first of its kind to deliberate on how Rwanda's legislators can contribute to the implementation of NEPAD.

3.8.5 Other Regional Communities

Rwanda is a member of the Economic Community of Central African States (ECCAS) and in 2004 received a delegation to exchange information and views on the progress of ECCAS.

Rwanda also remains a member of the Economic Community of the Great Lakes Countries (CEPGL).

3.8.6 African, Caribbean and Pacific Countries – European Union (ACP-EU) Negotiations

Rwanda has agreed to negotiate jointly an Economic Partnership Agreement (EPA) with the EU, along with other countries of East and Southern Africa (ESA). An EPA involves the gradual achievement of a free trade area between Rwanda, other ESA states and the EU. The COMESA Secretariat have begun and are leading on the negotiations, but Rwanda is currently developing its own position on these issues by consulting domestic stakeholder and will seek to ensure that its goals are reflected in the ESA group negotiations. Rwanda will be taking a lead role in the negotiations, so has a good opportunity to press strongly for those issues of relevance.

These negotiations are, however, highly controversial. First, other countries from the ESA negotiating bloc such as Mauritius and Kenya do not currently have duty and quota free access to the EU market, and so stand to gain much more than Rwanda does. Second, Rwanda will lose a large amount of revenue from trade taxes, equivalent to 5% of total tax revenue, only some of which may be seen in welfare gains to consumers due to lower prices. Rwanda hopes to gain a real boost to inward investment, greater competitiveness and more development support from the EU in exchange for opening its markets; to ensure this, Rwanda must adopt a very strong, but measured, negotiating position. To this end, negotiations continued in 2004.

3.8.7 African Growth and Opportunities Act (AGOA)

There are currently three companies exporting to the USA under the USA's African Growth and Opportunities Act of May 2000. These companies, Modis International, Gahaya Link and AVEGA Gahoza, export handicraft products to the USA.

With sponsorship from USAID, 2004 saw the development of a National AGOA Strategy for Rwanda, which has the aim of promoting exports under the AGOA

framework. The strategy includes empowering national institutions for AGOA, product development and building a culture of entrepreneurship.

In addition, the ratification of AGOA 2, which would increase the range of eligible products, is currently in progress in Rwanda.

3.8.8 World Trade Organisation (WTO) Negotiations and Trade Policy Review

In May 2004, the African Union Trade Ministers Conference took place in Rwanda, prepared and organized by the Ministry of Commerce. The Conference adopted the Kigali Consensus on the Doha Development Agenda to help African countries have a common position on issues that were being negotiated. In August 2004 Rwanda was instrumental in achieving the breakthrough at the WTO negotiations that agreed a framework for future talks on reforming trade in agriculture, manufactured goods, and services; as well as on streamlining customs procedures. This agreement only sets out a framework, however, and leaves all of the detailed negotiations to the meetings later this year.

In September, Rwanda had a Trade Policy Review. At these important events, which take place once every two years or so, countries must defend their trade policies at the WTO in Geneva. Rwanda made a strong defence, but there are a number of areas on which we must improve, notably tariff reductions - 300 tariff lines were higher than the bound rates established in our agreement with the WTO. Also technical assistance needs were highlighted including requirements for the implementation of the WTO Agreements, particularly in the areas of customs valuation, sanitary and phytosanitary measures, technical barriers to trade, and TRIPS; capacity building in the trade negotiations area; formulation of trade policies; supply constraints; and the integration of trade policy into the development strategy.

In addition, Rwanda's ambassador in Geneva was elected as Chairman of the Africa Group in the Geneva Negotiations, and the Government of Rwanda nominated a commercial attaché to strengthen national capacity on trade issues.

3.8.9 The Integrated Framework – Diagnostic Trade Integration Strategy

The Integrated Framework (IF) process was first launched in 1997 at a WTO meeting; to support least developed governments in trade capacity building. It aims to integrate trade issues into overall national strategies, such as the poverty reduction strategy and to facilitate dialogue between governments and their development partners on removing barriers to trade.

After the preparatory stage and upon acceptance of the IF the following four phases are initiated.

1. Raising awareness on the issue
2. Diagnostic Trade Integration Study to identify major constraints to trade, sectors of exports potential and draw up a plan of action for resolving the constraints and reaching export potential
3. Integrating the plan of Action into the poverty Reduction Strategy Process (PRSP)
4. Implementing the Plan of Action with support from development partners

In 2004, Rwanda was implementing the second phase – the Diagnostic Trade Integration Study, while simultaneously carrying on with the awareness campaign.

This study, led by the World Bank and conducted by a team of international and national consultants, will assess the overall competitiveness of our country's economy and identify barriers to trade within a wide range of sectors: macro-economy; export promotion; transport; energy; business environment; customs; standards; trade policy; finance; coffee; tea; tourism; handicrafts; and horticulture. It will analyse the barriers to more effective trade both internally and externally and will provide an analytical foundation for policy recommendation and trade related technical assistance and capacity building. The Study represents a powerful tool for linking trade strategies and priorities to the overall national development framework.

A draft of the Study is due in March 2005, which will be followed by a validation workshop in May. This workshop will agree on an action matrix, and the timetable for action will follow.

3.8.10 The Establishment of the National Trade Policy Forum

The National Trade Policy Forum (NTPF) was established in 2004 in preparation for regional integration with the aim of being the national forum to consider all trade-related issues.

It is currently engaged in carrying out an inventory of measures that affect Rwanda's trade in services, in order to come up with regional strategy to harmonize our laws. The NDTPF is also engaged in research on the impact of the EPA negotiations and on analysing Rwanda's regional integration options. In the future, training of its members will take place in order to better prepare our national position on issues to be negotiated at regional negotiating forums

Chapter 4: Medium Term Outlook for 2005 - 2007

Initial indicators suggest that Rwanda can expect good performance over the next three years. The Ministry of Finance and Economic Planning is projecting that real growth will exceed 5% in 2005 and then reach 6% and that inflation will fall by the end of 2005 to 6% and then even further to 4%. Table 34 details the main economic projections for 2005-2007.

Table 34: Medium Term Projections (Rwf billion)

	2003	2004	2005	2006	2007
Nominal GDP (Rwf bn)	905.30	1,047.70	1,159.97	1,264.37	1,380.89
Nominal GDP (US\$)	1,683.00	1,823.25	2,018.64	2,200.31	2,403.10
Real GDP	0.9%	3.8%	5.2%	6.0%	6.0%
Agriculture	-4.1%	0.0%	2.5%	6.6%	3.9%
Industry	7.1%	6.9%	6.7%	5.1%	7.2%
Services	4.7%	7.9%	7.8%	5.9%	7.9%
Inflation	7.4%	12.0%	6.0%	4.0%	4.0%
Exchange rate	537.91	574.63	574.63	574.63	574.63
Balance of Payments US\$ m					
Exports (GNFS)	139.49	200.54	218.99	233.19	253.05
Imports (GNFS)	418.80	493.34	567.11	544.41	594.94
Current Account Balance	(278.51)	(291.40)	(338.50)	(299.28)	(327.54)
% GDP	16.5%	16.0%	16.7%	-13.6%	-13.6%
The Budget					
Domestic Revenue	121.94	149.32	155.38	170.78	183.16
% GDP	13.5%	14.3%	13.4%	13.5%	13.3%
Tax Revenue	114.94	134.59	142.48	156.40	168.19
Non Tax Revenue	7.00	14.73	12.90	9.80	9.90
<i>Revenue measures</i>				4.58	5.08
Grants	52.50	90.77	155.71	157.37	175.13
Total Expenditure and net lending	174.39	212.60	331.86	334.62	364.49
% GDP	19.3%	20.3%	28.6%	26.5%	26.4%
Recurrent Budget	161.72	163.79	210.23	211.52	219.66
Development Budget	10.37	27.20	102.67	122.10	143.82
Deficit (after grants)	0.05	27.50	(20.76)	(6.46)	(6.20)
% GDP	0.0%	2.6%	-1.8%	-0.5%	-0.4%
Deficit (before grants)	(52.45)	(63.27)	(176.47)	(163.83)	(181.32)
% GDP	-5.8%	-6.0%	-15.2%	-13.0%	-13.1%

Source: MINECOFIN

Note :GNFS = Goods and Non Factor Services

2005

The first harvest of the year, while relatively weak, has improved on 2004 and forecasts for rain in the early part of the second agricultural season look promising. In terms of industrial developments, construction and its supporting

manufacturing industries look set to continue booming as road development continues along side private dwellings and larger public buildings such as the developments in Kigali centre. Growth in services will be strong as the telecommunications sector continues to develop and sees the privatization of Rwandatel. The tourism market will strengthen as tourists' numbers continue to increase and they begin spending longer in the country, visiting sites other than just the gorillas. The financial sector will also perform well following the privatization of two major banks since 2004 and the ongoing reforms in the sector.

With regard to inflation, it is hoped that a stronger harvest and a levelling out of oil prices will mean that the cost-push pressures on inflation are removed. If this is the case, and if the government and the National Bank practice sound fiscal and monetary policy, then Rwanda should meet the end year inflation target of 6%.

With regard to trade, exports are expected to remain strong in 2005 but to see slower growth as the high commodity prices of 2004 are maintained but do not continue to climb. On the imports side there will be high growth from imports of capital goods as the government injects money into reviving the electricity and water networks. The net effect will be to cause a slight worsening of the current account deficit to around 16.7% of GDP.

The 2005 budget was passed by Parliament in December 2004 and is explained in detail in the Background to the Budget Paper that can be obtained from the Ministry of Finance and Economic Planning. The key sectors of focus in 2005, where significant additional resources are to be channelled, are electricity, water, agriculture, export promotion and private sector development and HIV/AIDS. There are no new tax raising measures to be introduced but tax revenue itself is expected to grow as the tax net widens. There are reforms that will be introduced to the tax system that seek to streamline tax policy and at the same time encourage private investment for production – these are outlined in Annex 2.

In the first half of 2005, Rwanda is expected to reach HIPC completion point. This will give Rwanda access to substantial debt relief through the cancellation of outstanding debt stock amounting to US\$ 1 billion.

2006-2007

Growth in the medium term is projected to reach 6% on the back of government policies targeted directly at harnessing private sector development. With improvements in agriculture and an increased food supply together with sound monetary and fiscal policies, inflation is projected to fall to 4% in 2006.

In terms of production the agricultural sector will benefit for example from the increased finance available via the Rwandan Development Bank and from the effective implementation of projects such as the Rural Sector Support Project. The establishment of an export-processing zone should attract investors, both domestic and foreign, and they will boost export revenues and local industry and especially the freight transport sector. Exporters are also expected to grow as they learn how to fully exploit trading opportunities created from agreements such as AGOA. In addition businesses will benefit from assistance offered by institutions such as RIEPA, CAPMER and the Private Sector Federation. Electricity provision will also improve as the network is rejuvenated in 2005 and additional supply is provided from the start of methane gas exploitation in 2007.

The current account deficit is expected to improve as the export promotion strategy is implemented. This will lead to increased receipts from our major export commodities, together with newer products such as horticulture, handicrafts and processed pyrethrum, and increased tourist receipts. Imports will fall in 2005 following the boost to capital goods in 2005 from the increased investments of Electrogaz.

The medium term budget framework has been set with the objective of meeting the targets laid out in the Poverty Reduction Strategy, but within the constraint set by domestic revenue collections and support from development partners. While Rwanda's long-term vision is to reduce dependency on external support, in the medium term the resources from development partners will remain critical to the budget's implementation and thus the economy's growth and ability to reduce poverty.

Annex 1 – Terms Used in Monetary Sector Chapter of Annual Report

Term	Definition	Source of Definition
Broad Money	The sum of currency in circulation, deposits in commercial banks and nonblank deposits at NBR. The monetary base is adjusted downwards by an amount corresponding to the sum of import deposits in RwF and dormant accounts	IMF/ MINECOFIN
Narrow Money	The sum of currency in circulation and demand deposits	BNR
Currency in Circulation	The sum of notes and coins that have been issued by BNR	IMF/ MINECOFIN
Demand Deposits	Bank deposits that can be withdrawn upon demand	MINECOFIN
Quasi Money	The sum of foreign-currency denominated and domestic-currency denominated time deposits.	BNR
Time deposits and related items	Banks deposits that require notice before withdrawals can be made	MINECOFIN
Reserve Money	Currency in Circulation, deposits in commercial bank, deposits of public enterprises and agencies, deposits of non-bank financial institutions, and private sector deposits	IMF/ MINECOFIN
Net foreign assets of BNR	External Assets readily available to, or controlled by, NBR, net of NBR's external liabilities.	IMF/ MINECOFIN
Foreign liabilities of BNR (adjusted and unadjusted)	BNR's foreign liabilities (adjustment is made with respect to the reserve money realised by BNR, in terms of net foreign assets and import deposits on foreign liabilities)	BNR
Net foreign assets	The sum of foreign assets at BNR and in commercial banks minus the sum of foreign liabilities in both	Rwanda Development Indicators 2003
Domestic assets	Claims on central government, on non-financial public enterprise and on other financial institutions	Rwanda Development Indicators 2003
Net credit to government	Credit to government from the banking system, plus treasury bills and other papers issued to the non-bank sector, net of total government (including central, provincial, district governments, as well as project accounts and counterpart funds) deposits within the banking system	IMF/ MINECOFIN
Credit to the private sector	Claims on the private sector from BNR and commercial banks	MINECOFIN
Claims on public enterprises	Claims on public enterprises from BNR and commercial banks	MINECOFIN
Government Deposits at	Government Deposits at BNR	MINECOFIN

BNR		
Deposit Rate	The interest rate offered by commercial banks on three-month deposits	Rwanda Development Indicators 2003
Lending Rate	The rate charged by commercial banks on ordinary unsecured overdrafts	Rwanda Development Indicators 2003
Discount Rate	The lending rate offered by BNR to commercial banks	Rwanda Development Indicators 2003
Deposit Auction Rate	The rate offered to commercial banks from BNR for short term investments (ponction de liquidité)	BNR
Interbank rate	The lending rate between banks for less than one week	Rwanda Development Indicators 2003

Annex 2 – Revenue Measures

Revenue Measures intended for 2005

Recently, Government has submitted to parliament, the following four new laws:

i. Income Tax Law and Procedures

The new income tax law which cabinet has recently submitted to Parliament seeks to provide a law that is stable and predictable, clear, simple, user friendly and equitable. This seeks to reduce income tax rates (corporate and personal) from 35% to 30% to be in line with the rates in the region. The main structural changes are to; (i) incorporate tax and customs incentives into the relevant law (income law and customs law, respectively) (ii) introduce transfer pricing rule to prevent tax avoidance through manipulation of prices between two related companies; (iii) thin capitalization rules so that interest paid on foreign denominated loans should not exceed LIBOR (London Interbank Offer Rate) , plus 1%, with the excess being taxable, (to prevent tax avoidance and capital flight); (iv) improve the foreign tax credit to prevent double-taxation; (v) introduce the qualified private pension fund to encourage long-term saving and improve the welfare of the population; (vi) introduce the principle of taxing all income in cash and kind; (vii) increase investment allowances in order to help investor to accelerate the depreciation period, and; (viii) reduction of corporate and personal income tax rates.

Corporate tax rates: With respect to corporate tax rates, the effective application will take effect from June 2006. This is likely to result in a revenue loss of RWF 1.5 billion in 2006. This measure, however, is expected to lead to an improved investment climate resulting in increased investment by the private sector. It is hoped that this will subsequently lead to an increase in economic activity and improve tax collections to offset the expected revenue loss from the reduced rate in 2006 and in subsequent years.

Personal Income tax: With a view to creating more social justice and equity, changes in the income tax rates are been proposed to remove poor people earning less than RWF 30,000 from the tax net, i.e. doubling the tax free threshold from the current RWF 15,000. It is expected that the adoption of the proposed new brackets and rates will be revenue neutral. This is due to expected increases in countrywide personal emoluments as well as expected widening of the tax net and improvement in collections in year 2005.

Tables: 3 Existing and proposed income tax brackets and rates.

Income Brands	Rates
Existing	
0-15,000	0%
15,001-30,000	15%
30,00- 50000	25%
50,001-80,000	30%
>80,000	35%
New Proposals	
0-30,000	0%
30,001-100,000	25%
>100,000	30%

Sources: MINECOFIN

PAYE Reform

Analysis made on the PAYE reform indicates a loss of take-home income for political appointees ranging from to RWF 25,344 to RWF 73.971. In central administration, there is a gain on take-home income up to the level of Director General, while the other levels of advisor and secretary general have an insignificant reduction on their take-home pay of up to RWF 7000.

The impact will be felt hard in autonomous and semi-autonomous agencies where the loss ranges from Rwf 14 534 to RWF 55 871 per month. Here it is proposed to insert an amendment in the draft income tax law that gives the Minister of Finance and Economic Planning the power to slowly phase-in the implementation of the new tax rate structure in the semi-autonomous agencies until the new salary policy is finalised for implementation.

ii. Revised Customs law

The revised draft customs legislation has updated the 1968 act, incorporating the basic principles set in the international conventions (Kyoto convention 1981) and eliminating existing loopholes, taking into account the regional and international framework as well as the needs of today’s business. Key changes include: (i) the introduction of factors on the basis of which duties are charged, such as the principles of rules of origin and the GATT valuation principles; (ii) the allowance of the Export Processing Zone, and; (iii) the introduction of electronic declaration.

iii. New Investment Code.

The new draft investment code, submitted to Parliament, seeks to consolidate all investment incentives under the income tax law or customs law, as appropriate.

This provides transparency and a level playing field. In addition to this, it has proposed to reduce import duties on raw materials for industries from the current level of 5% to 0%. The objective of this measure is to boost manufacturing production. This proposal is expected to affect the VAT collected on such raw materials. The overall loss of this proposal on revenue collections is expected to be RWF 1.6 billions.

iv. Proposed new excise duties on cigarettes from ad valorem to specific in 2005:

Whereas previously all cigarette products have been taxed at the ad valorem rate of 60%, the table below shows the proposed new specific rates:

Table 4: Measures on New Cigarette excises and duties, 2005

Category	Description	Proposed Excise rate per thousand
1	Cigarettes of more than 70 mm packed in hard cardboard boxes (hinge)	Rwf 5300 per thousand
2	Cigarettes of more than 70mm packed in papers labels (soft cup)	Rwf 3800 per thousand
3	Cigarettes 70mm of less whether filtered or not	Rwf 3800 per thousand

Source: MINECOFIN

The movement away from a single ad valorem tax has been taken up after petition from the industry and will aid administrative and monitoring by RRA and halt the influx of low quality brands. The new system is easy to administer and enforce, which will create higher net excise tax, and is in line with East African Community practices. Due to higher import volumes of cigarette products, it is expected that the new tariffs will yield an increase in revenues of Rwf 300m in 2005. For the time being it is not proposed to extended to other areas; notably beer and soft drinks, as the matter requires further research.