

1. The Revised Budget for fiscal year 2022/23.

Article 45 of the Organic Law N° 002/2022.O.L of 12/12/2022 on public finance management states that the Minister or the chairperson of the Executive Committee of a decentralized entity may submit a revised draft budget, proposals for policy revision of revenue and expenditure and related estimates to the Chamber of Deputies or to the Council of the decentralized entity. The revised budget proposals herewith presented are therefore consistent with this legal requirement.

2. Background to the Budget Revision.

The proposed revisions to the 2022/23 budget reflect changes in the resource envelope as well as the corresponding adjustments on expenditures. As a result of the proposed changes, the total budget is projected to rise from FRW 4,658.4 Billion to FRW 4,764.8 Billion showing a net increase of FRW 106.4 billion.

The following are the key changes being proposed:

On resources side:

- Increase of domestic revenues arising mainly from additional taxes and other revenues expected, following the continued recovery of economic activities.

On expenditures:

- Increase in Expense (recurrent spending) to reflect the changes for some spending categories;
- Decline in capital spending, mainly due to change in externally financed projects arising from projects loans and adjustment on domestically financed projects.

3. Recent Macro-Economic Performance and Projections

The Rwandan economy has been staging robust growth despite the unfavorable global environment. Real GDP growth is projected at 6.8 percent in 2022. Elevated global commodity prices and subdued domestic food production have pushed up inflation to 21.7 percent in November 2022, prompting the central bank to raise the policy rate by 50 bps to 6.5 percent. Effective health and economic measures against the COVID-19 pandemic led a way into its easing and enabling recovery in hardest hit sectors such as services of which in 2022, good performance in services sector is mainly driving growth.

3.1. National Economy

3.1.1. GDP

The Rwandan economy has been resilient despite unfavorable global environment; Q3 2022 GDP increased by 10.0 percent year-on-year, following 7.5 percent growth in Q2 2022. Continued good performance in the services sector is observed (11 percent in Q1, 12 percent in Q2 and 17 percent in Q3) driven mainly by trade, hospitality and social subsectors.

Table GDP Q3 2022

<i>Activity description</i>	2022 Q1	2022 Q2	2022 Q3	2022 Q1	2022 Q2	2022 Q3
	Growth	Growth	Growth	Contrib	Contrib	Contrib
GROSS DOMESTIC PRODUCT (GDP)	7.9%	7.5%	10.0%	7.9	7.5	10.0
Agriculture, Forestry & Fishing	1%	2%	1%	0.2	0.5	0.3
Food crops	-1%	-1%	-1%	-0.2	-0.2	-0.1
Export crops	-14%	17%	-1%	-0.2	0.2	0.0
Forestry	5%	5%	4%	0.3	0.2	0.2
Fishing	3%	3%	4%	0.0	0.0	0.0
Industry	10%	6%	-1%	1.9	1.2	-0.2
Mining & quarrying	16%	9%	5%	0.2	0.1	0.1
Manufacturing	11%	10%	9%	0.9	0.8	0.8
Construction	6%	0%	-17%	0.5	0.0	-1.3
Services	11%	12%	17%	5.0	5.6	7.9
Trade and Transport	11%	19%	21%	1.4	2.6	2.9
Wholesale & retail trade	7%	17%	20%	0.6	1.5	1.8
Transport	19%	27%	26%	0.8	1.1	1.1
Other Services	11%	9%	15%	3.6	3.0	4.9
Hotels & restaurants	80%	193%	90%	0.9	1.6	1.1
Information & communication	17%	8%	34%	0.4	0.2	0.9
Financial services	13%	10%	8%	0.3	0.3	0.2
Professional, scientific & technical activities	5%	2%	0%	0.1	0.0	0.0
Administrative & support service activities	5%	2%	3%	0.2	0.0	0.1
Public administration & defense; compulsory social security	6%	-1%	21%	0.4	0.0	1.2
Human health & social work activities	22%	4%	13%	0.4	0.1	0.2

Source: NISR

Recovery is expected to continue as reflected by the real composite index of economic activity (CIEA) which continue to increase in October and November 2022, meaning the projection of 6.8 percent for 2022 will be achieved.

Table 2 HFIs 2021 Jan-November 2022

% Change	Jan-Nov 2021	Q3 2022	Oct-22	Nov-22	Jan-Nov 2022
Real CIEA	16.6%	17.25%	6.84%	9.45%	12.88%
Total turnovers (Real)	22.20%	19.76%	11.44%	9.04%	16.66%
Industry	17.91%	12.28%	3.74%	2.65%	10.10%
Services	23.91%	22.66%	14.64%	11.19%	19.14%
Total turnovers (Nominal)	24.33%	37.24%	31.38%	29.88%	31.62%
Industry	23.84%	27.30%	21.66%	20.41%	24.99%
Services	24.54%	41.51%	35.83%	33.40%	34.37%

Source: BNR, RRA

3.1.2. Inflation

Annual inflation rate increased by 21.7 percent in November 2022 from 20.1 percent in the previous month driven mainly by an increase in food and non-alcoholic beverages, Alcoholic beverages and Tobacco, as well as housing, water, electricity, gas and other fuels. Annual average inflation (Dec 2021-Nov 2022) increased to 12.2 percent in November 2022 from 10.5 percent in the previous month.

3.1.3. Monetary sector

Compared to November 2021, Net Foreign Assets (NFA), Central Government credit, Private Sector Credit and Broad money grew by 2.1, 26.3, 14.1, and 18.9 percent respectively at the end of November 2022 and exchange rate depreciated by 4.8 percent as of end November 2022 Vis end December 2021.

Table 3: Monetary indicators as of end November 2022

Monetary Statistics	End Nov 2021	End Dec 2021	End Nov 2022	% Change Nov 22-Nov 21	% Change Nov 22-Dec 21
Net foreign assets	1359.1	1457.8	1388.7	2.18%	-4.73%
Central government Credit	825.5	857.7	1043.1	26.36%	21.62%
Private sector Credit	2753.1	2787.1	3141.1	14.09%	12.70%
Broad money M3	3185.3	3263.2	3787.4	18.90%	16.06%

Source: BNR

3.1.4. External Sector

The Rwandan formal trade deficit has deteriorated by 19.9 percent during the period of January – November 2022 compared to the same period in year 2021. This deficit was mainly coming from the increase of imports compared to exports where except capital goods all other imports components: consumer, intermediate goods and energy and lubricants contributed to the increase in imports. The increase is related to domestic demand of domestic and hotel articles in imports of goods as social events (weddings, meetings including CHOGM), Fertilizers value increase explains the intermediate goods and it was resulted from increase in prices of fertilizers following the Russia and Ukraine crisis while countries were big global supplies, energy and lubricants also can be justified by the resume of travels and movements all against the situation in 2021.

Table 4: Formal Trade Jan-November 2022

Trade	2021 (Jan-Nov)		2022 (Jan-Nov)		% Change	
	Value mln USD	Volume Tons	Value mln USD	Volume Tons	Value	Volume
Exports	1,264.8	926,404	1,762.7	1,103,730	39.4% ▲	19.1% ▲
Export (Excl. Gold)	950.4	926,399	1,273.8	1,103,722	34.0% ▲	19.1% ▲
Coffee	58.3	13,369	69.4	11,326	19.0% ▲	-15.3% ▼
Tea	88.4	32,630	98.2	33,593	11.1% ▲	3.0% ▲
Minerals (3Ts)	131.0	6,235	186.3	7,844	42.2% ▲	25.8% ▲
Other Exports	244.2	409,411	314.5	547,570	28.8% ▲	33.7% ▲
o/w other minerals	3.0	2,666	7.9	6,910	160.3% ▲	159.2% ▲
Re-export	424.1	461,969	597.8	500,719	41.0% ▲	8.4% ▲
Gold	314.5	6	488.9	8	55.5% ▲	51.3% ▲
Imports	3,199.7	2,960,470	4,082.9	3,383,576	27.6% ▲	14.3% ▲
Imports (Excl. Gold)	2,880.0	2,960,465	3,595.5	3,383,568	24.8% ▲	14.3% ▲
Consumer goods	778.5	716,992	968.9	843,602	24.4% ▲	17.7% ▲
Capital goods	670.2	96,875	651.6	80,144	-2.8% ▼	-17.3% ▼
Intermediate goods	804.2	1,240,628	954.2	1,379,132	18.7% ▲	11.2% ▲
Energy and lubricants	353.6	619,182	677.8	768,755	91.7% ▲	24.2% ▲
Non-Fuel Re-Exports	273.4	286,787	343.0	311,934	25.4% ▲	8.8% ▲
Gold	319.7	6	487.4	8	52.4% ▲	52.8% ▲
Trade deficit (Excl. Gold)	(1,930)	(2,034,066)	(2,322)	(2,279,846)	20.3% ▲	12.1% ▲
Trade deficit	(1,935)	(2,034,066)	(2,320)	(2,279,846)	19.9% ▲	12.1% ▲

Source: BNR & MINECOFIN

Total exports recorded an increase of 39.4 percent in January to November 2022 compared to the same period in 2021, as a result of price increase for both tea and coffee by 7.9 percent and 40.4 percent respectively, coupled with an increase in exports of gold by 55.5%.

The volume of exported coffee decreased by 15.3 percent (despite the growth of 40.4 percent in unit price) while the volume for tea increased by 3 percent (responding to an increase of its unit price of 7.9 percent);

Other items excluding gold, recorded an increase of 33.7 percent, mainly from other minerals (160.3%) as a component of other exports which grew by 28.8 percent, minerals (3Ts) grew by 42.2%, followed by re-exports with 41 percent.

The positive growth observed in the export of gold is consistent with the increase of imported and re-exported volumes of gold, following increase in its price on the international market by 2.8 percent.

On the side of imports; total imports during January to November 2022 grew by 27.6 percent in value and 14.3 percent in volume. the increase was mainly from imports of energy and lubricants by 91.7 percent in value and 24.2 percent in volume, it was followed by Gold with 52.4 percent, non-Fuel re-exports with 25.4 percent, consumer goods (24.4 percent), intermediate goods (18.7 percent) while capital goods fell by 2.8 percent in value reflecting the base effect from massive imports made in 2021 compared to 2022 while the fall in volume of 17.3 percent. All these performances are explained by reasons stated above.

Table 5: Fiscal Performance July-September 2022

Statement of Government Operations (in billion RwF)	FY2022/23	
	July-Sept Proj	July-Sept Prov Act
REVENUE	749.2	736.2
Taxes	526.0	529.8
Grants	140.0	121.8
From foreign governments	44.4	44.4
From international organizations	95.5	77.4
From other general government units	0.0	0.0
Other revenue	83.2	84.6
EXPENSE	743.0	757.0
Compensation of employees	96.7	96.8
Use of goods and services	221.6	227.2
Consumption of fixed capital	0.0	0.0
Interest	61.5	60.9
Subsidies	76.5	88.6
Grants	211.3	209.0
Social benefits	12.4	12.0
Other expense	63.0	62.6
NET OPERATING BALANCE		
including grants	6.2	-20.8
excluding grants	-133.8	-142.6
Net Investment in nonfinancial assets	418.9	416.9
Foreign financed	194.0	194.0
Domestically financed	224.9	222.9
NET LENDING (+) / BORROWING (-)		
including grants	-412.8	-437.7
excluding grants	-552.7	-559.6
Net acquisition of financial assets	-102.6	-134.5
Domestic	-102.6	-134.5
Foreign	0.0	0.0
Net incurrence of liabilities	310.2	283.0
Domestic	195.9	193.4
Foreign	114.3	89.6

Total revenue accrued to the Treasury in the July-September 2022 period amounted to 736.2 billion FRW and fell short of the projected figure for that period of 749.2 billion FRW by 13.0 billion FRW majorly due to underperforming of external grants.

Tax collection registered a good performance by exceeding the estimated amount of FRW 526.0 billion by FRW 3.8 billion, making FRW 529.8 billion. This good performance was observed in all components of taxes mainly explained by the higher than expected inflation which affected positively the consumption

(VAT and excise duty) taxes, increase in teachers' salaries, NISR census data collector payments and other institutions including RRA bonus payments contributed to PAYE performance.

On the external grants side, FWR 121.8 billion was disbursed with a shortfall of FRW 18.2 billion. This shortfall is explained by the delayed disbursement from KfW/Germany budgetary grants for Social Protection Program.

Other revenue (non-tax) performance exceeded the estimated amount FRW 83.2 billion by FRW 1.4 billion with a good performance under administrative fees.

The total expenditure realised during the period July-September 2022 amounted to FRW 1,173.9 billion, higher by FRW 12.0 billion from the FRW 1,161.9 billion estimated. The excess mainly coming from use of goods and services and subsidies, where the component of export promotion was the main contributor to the excess.

Grants expense category showed a shortfall of FRW 2.3 billion compared to FRW 211.3 billion estimated for the period. Social expense and other expense both slightly fell short to the estimated amount by FRW 0.4 billion compared to the estimated FRW 12.4 billion and FRW 63.0 billion respectively.

Net investment in nonfinancial assets recorded a shortfall of FWR 2.0 billion compared to FRW 418 billion estimated for the category. Domestically financed component was responsible for the shortfall as FRW 224.9 billion estimated instead marked to FRW 222.9 billion. For the component of externally financed capital, the amount spent was equal to what was estimated for the period.

During the July-September 2022, the budget closed with a net borrowing (Deficit) of FRW 437.7 billion which was FRW 25.0 billion higher than the FRW 412.8 billion estimated. This leads to the incurrence of liabilities amounting to FRW 283.0 billion,

The disbursement of external loans was FRW 5.7 billion with a shortfall of FRW 26.8 billion as a result of delayed World Bank disbursement of USD 30 million under the priority skills for growth program.

As regards to net incurrence of domestic liabilities, the July-September 2022 amount of 193.4 billion was raised, which is slightly less than the projected amount of FRW 195.9 billion.

4. The Revised 2022/23 budget proposals.

The budget revision process has been informed by the economic and budget performance for the first quarter of 2022/23 including an assessment of the crisis by providing necessary support to vulnerable

households and businesses. Hence, this explanatory note highlights the details of the proposed changes that are being made to the 2022/23 fiscal year budget for consideration and reflects the following changes:

BUDGET REVISION CHANGES RESEOURCES AND EXPENDITURES			
(Billion FRw)	2022/23	2022/23	
	Original budget	Revised Budget	Variance
Resources	4,658.4	4,764.8	106.4
Revenue	2,372.4	2,487.6	115.2
Taxes	2,067.7	2,180.9	113.2
Taxes on income, profits, and capital gains	903.4	952.7	49.2
Tax on Property	12.7	14.6	1.8
Taxes on goods and services	972.3	1,025.0	52.7
Taxes on international trade and transactions	179.3	188.7	9.4
Other revenue	304.6	306.7	2.0
Acquisition of financial assets(Domestic excl.Et	390.4	121.7	(268.7)
Domestic Financing	282.6	322.0	39.4
External Grants Support	906.9	728.2	(178.6)
Current	498.8	326.9	(171.8)
Capital	408.1	401.3	(6.8)
Foreign Incurrence of liabilities	1,096.7	1,105.3	8.7
Monetary gold & SDR	68.3	68.3	-
Debt securities	216.8	159.9	(56.9)
Current	330.6	424.2	93.6
Capital	399.0	372.3	(26.7)
ERF Loan	82.0	80.6	-1.4
Total Spending	4,658.4	4,764.8	106.4
Expenses	2,543.2	2,705.5	162.3
Compensation of employees (BCG)	758.7	843.4	84.7
Use of goods and services	1,784.5	1,862.1	77.6
<i>Of which Public debt servicing</i>	624.0	623.3	-0.7
Capital Spending	1,847.3	1,780.8	-66.5
Foreign financed	807.1	773.6	-33.5
Other Domestically financed (BCG)	1,034.5	1,001.5	-33.0
Inventories (strategic stock fuel purchase dom	5.7	5.7	0.0
Equity and investment fund shares(BRD & BI	44.4	45.8	1.4
Policy Lending	117.9	117.2	-0.7
Other accounts payable	40.0	78.2	38.2
Increase in Deposits (Infr Levy Dev and Strat	29.5	37.3	7.8
Other Spending	36.2	0.0	-36.2

a) Resources

Total resources are being increased from FRW 4,658.4 Billion in the original budget to FRW 4,764.8 Billion in the revised budget, showing a net increase of FRW 106.4 Billion.

The following are key changes proposed:

As part of the new resources, there is a net increase in revenues both tax revenues and other revenue (Non-tax) equivalent to FRW 115.2 billion, while domestic financing increased by FRW 39.4 billion.

✓ Tax Revenue

Tax revenues are projected to increase by FRW 113.2 Billion, from FRW 2,067.7 billion in the original budget to FRW 2,180.9 Billion. This increase will come mainly from all tax categories: taxes on Income profits and capital gain, taxes on good and services and tax on international trade and transactions. This is expected from a combination of factors of which: new PAYE brackets implementation, Manufacturing Build to Recover Program (MBRP) as a gain from unexpected less participation of beneficiaries in the program, delay in implementation of AfCFTA and the continued recovery in economic activities.

✓ Other revenue

In the original budget, the total amount of FRW 304.6 billion projected as other revenue receipt is being revised upwards to FRW 306.7 billion, showing a net increment of FRW 2.0 billion.,

✓ Total Grants

The original budget of FRW 906.9 billion as grants which is revised down to FRW 728.2 billion as a result of change in disbursement plan.

b) Expenditure

Total expenditure is being raised from FRW 4,658.4 billion to FRW 4,764.8 billion showing a net increase of FRW 106.4 billion. The expenditure envelope has been revised to reflect the changes for some items under recurrent spending, capital expenditure and net lending outlays as follows:

✓ Recurrent Expenditure

The original budget estimate of **FRW 2,543.2 billion** is being raised to **FRW 2,705.5 billion** showing a net increase of **FRW 162.3 billion**. The changes affected some recurrent non- wage expenditure items among which include:

- i) Additional allocation to Districts to cover teachers' salaries **FRW 76.5 Billion**;
- ii) Additional allocation under different agencies due to revised lump sum allowance; **FRW 1.997 Billion**;
- iii) Additional allocation to MINISPORT for participation and hosting of international sport Events; **FRW 2.5 Billion**;
- iv) Additional allocation of **2.5 billion** to Rwanda Polytechnic (RP & IPRCs) to cover the gap that resulted from planned additional staff;
- v) Additional allocation to cover Embassy Salaries; **FRW 1.6 Billion**;
- vi) Additional allocation to other agencies to cover the gap in salaries; **8.4 Billion**;

✓ **Capital expenditures and Policy lending**

The original budget amount of **FRW 1,847.3 billion** is being decreased by a net amount of **FRW 66.5 billion** to **FRW 1,780.8 billion**. This change affects both foreign and domestically financed capital expenditures allocated under different sectors. Inventories didn't change and remained at FRW 5.7 billion as in the original budget, Equity and investment fund shares slightly increased by FRW 1.4 billion from FRW 44.4 billion in the original budget to FRW 45.8 billion, while Policy Lending slightly decreased by FRW 0.7 from original budget of FRW 117.9 billion to FRW 117.2 billion.

Assessment of spending status under the different sectors was made to ensure appropriate allocation especially within the budget agencies of the same sector. This led to a slight reduction of most of agencies' budget under recurrent and domestic budget, with the same changes allocated under other different agencies to cater for highly priority interventions.

5. Conclusion

The revised budget for 2022/23 fiscal year is part of the revised medium term macro-economic framework aims that the Government will continue to monitor closely all components of the economic performance that may affect the smooth implementation of the revised 2022/23 budget, and will take any necessary action and measures to ensure full implementation of the budget and at the same time maintain macro-economic stability.