Budget brief

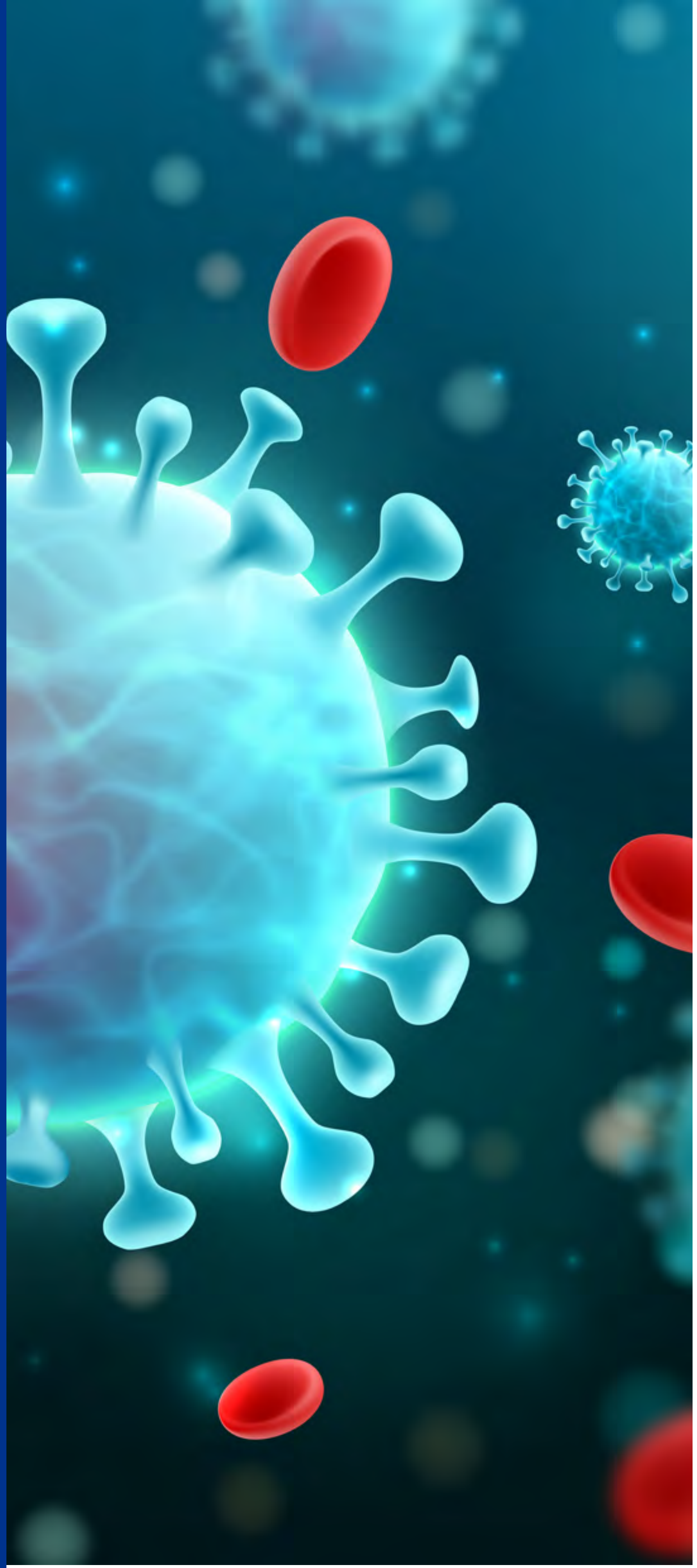
Rwanda 2020

June 2020

kpmg.com/eastafrica

Economic Overview

The country recorded a GDP growth of 9.4% in the fiscal year 2018/2019, 0.9 % higher than the 8.5 % initially projected.



Prior to COVID–19 pandemic, Rwanda was experiencing an unprecedented economic boom driven mostly by large public investments for implementation of the National Strategy of Transformation. Based on these investments, a similar upward trajectory was expected to continue in 2020.

The country recorded a GDP growth of 9.4% in the fiscal year 2018/2019, 0.9 % higher than the 8.5 % initially projected.

Since 18 March 2020, the Government of Rwanda took strict measures in its attempts to contain the COVID-19 pandemic. These measures included putting the country in total lock-down.

As a country that heavily relies on exports, tourism and a destination for international conferences, the COVID-19 pandemic has negatively affected the Rwandan economy. As a result, the economy is projected to grow by 2% in the mid- term of 2020.

Despite the negative economic effects occasioned by COVID-19, the growth is projected to go back to its recent growth trajectory by 2022.

For the fiscal year 2020/21, the average inflation is projected at 6.9% and it is expected to be contained at 1% in 2021 and at 5% in the medium term.

It is due to the above reasons that the government of Rwanda is focusing on the economic recovery with a set of economic priorities.

The Budget: Government resources

Overall, the revenue expected to be collected from domestic sources as well as external loans amount to 84.6% of the total budget for the fiscal year 2020/21.

"

The budget for the fiscal year 2020/21 amounts to FRW 3,245.7 Billion. This represents an increase of 7.5% from the previous fiscal year's budget.

The recurrent budget was allocated FRW 1,583 Billion, Development budget FRW 1,298.5 Billion and Net lending of FRW 306.5 Billion, which shall account for 48.8%, 40% and 9.4% of the total budget respectively.

Tax revenue and non-tax is expected to constitute 60.7% of the budget, with the remaining portion of 39.3% being expected to be financed from external sources comprising of grants (15.2%) as well as external loans (24.1%).

The projected tax revenues are projected at FRW 1,605.7 Billion for the financial year 2020/21, which translated to a 10% decline. This decline in tax revenues is primarily driven by the negative economic impact of the COVID-19 pandemic on the economy and this is the first time since 1998 that the Rwandan government is projecting a decline in tax revenue.

Overall, the revenue expected to be collected from domestic sources as well as external loans amount to 84.8% of the total budget for the fiscal year 2020/21.

In order to bridge the revenue gap, the government is expected to rely on considerable external revenue in the form of grants and foreign loans which will increase by 30.7% compared to the 2018/19 fiscal year.

Spending priorities amidst a global pandemic

The Government of Rwanda has devised numerous measures designed to cushion the economy against the economic backlash occasioned by the Covid-19 pandemic.

To this effect, the Government of Rwanda has placed more emphasis on the country's economic recovery by allocating more resources to essential sectors, which contribute the most to the nation's economic growth and thus expects to achieve quick economic recovery.

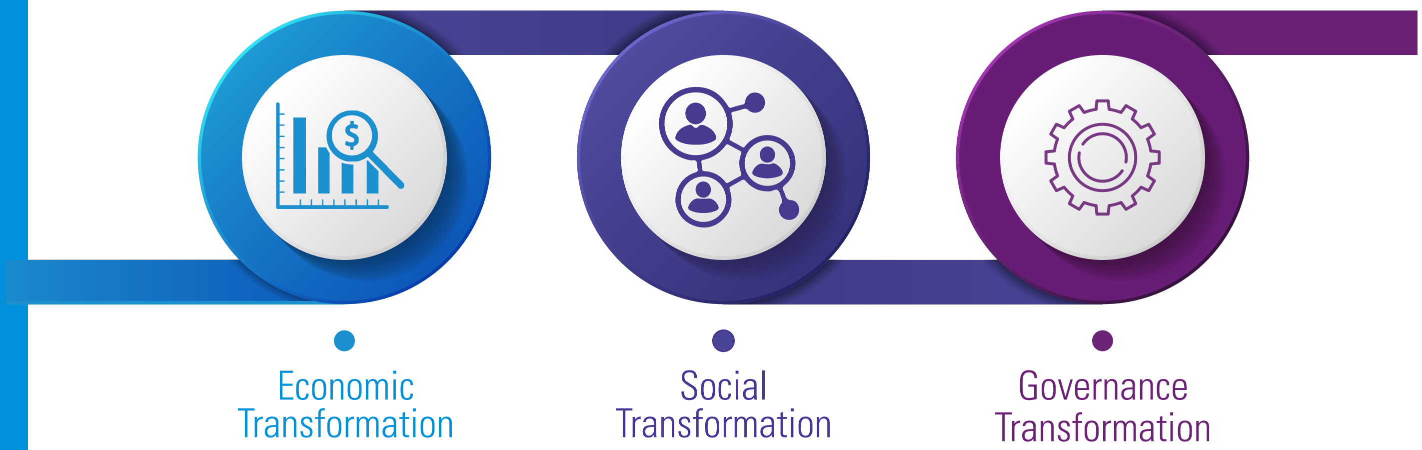
Recurrent expenditure has been increased by FRW 34.4 Billion, higher than that which was used in the previous fiscal year. This is driven an increased allocation for both wage and non-wage related items arising from on-going restructuring exercises including creation of governance structures in the public sector, implementation of projects meant to increase access to electricity, water and sanitation, education, agriculture as well as health services.

The net lending outlays are estimated to reach FRW 306.5 Billion. This estimate is FRW 49.3 Billion higher than the projected amount in the previous fiscal year of 2019/20.

Under the theme of "*Stimulating the economy to safeguard livelihoods,jobs, businesses and industrial recovery*" the Budget for the fiscal year for 2020/21 is planned to mainly focus on health-related spending, among other areas.

The expenditures will also be aligned to The National Strategy for Transformation (NST1) pillars: economic, social and governance transformation.

The NST1 is the government's seven year strategy developed as an implementation instrument for the national agenda towards sustainable development and is to be implemented through a number of interventions planned in the FY2020/21 and the Medium Term Expenditure Framework (MTEF).



Economic transformation: the booster of the economy

The country's economic transformation has been allocated FRW 1,802.8 Billion, being 55.5% of the total budget. The initiatives targeted by the above allocation include:

- Promoting employment through job creation as well as investment in public infrastructure;
- Supporting businesses affected by COVID-19 to recover through the Economic recovery fund;
- Continuing to support Made in Rwanda policy to reduce trade deficit and build economic resilience; and
- Promoting digital infrastructure and technologies to improve service delivery.

In a nutshell, the government's resolve to allocate more than half of the budget to the economic transformation is a clear indication of the government's aggressive and fast response towards ensuring economic recovery and returning to the country's economic growth upward trajectory, which had been consistent for the past 20 years.

Social transformation: the wellbeing for every Rwandan

The social transformation has been allocated FRW 960.4 Billion, being a third of the National budget.

The priority sectors under this pillar that will benefit from the Government support are mainly the energy and sanitation, health, social protection activities and the education sector.

Transformational governance; the support to good governance

The government has allocated 14.90% of the budget being FRW 482.6 Billion to support governance and decentralization, including key activities to maintain the justice, reconciliation, law and order in the Rwandan society.

Caesar's clemency

At the wake of the Covid-19 pandemic in Rwanda, the Government was quick to put in place strict measures designed to curb the spread of the epidemic in the country. Such measures included a lock-down of all movements, suspension of activities and business operations which are deemed to be non-essential, which have had a negative economic impact.

The measures put in place to contain the spread of COVID-19 have had a positive effect. As a result, the lock-down measures have been relaxed and businesses have been opened.

In as much as the businesses are open, they are yet to return to optimal financial performance.

Hence, the government has put in place measures meant to support taxpayers as businesses return to the normal. Some of these measures that are still being implemented include:

- The Pay As You Earn for employees working in most affected sectors (tourism, hotels, education etc.) was revised to increase the minimum non-taxable salary from FRW 30,000 to FRW 150,000;
- Extension of filing the certified financial statement for 3 months, from 31 March to 30 June 2020.
- Revision of the corporate income tax pre-payment computation from a prior year basis to a current year basis;
- Increased emphasis of online procurement of various government services. Examples of these services that are available online include domestic taxes declaration and payment, Electronic Billing Machine (EBM) installation, technical and user training support,Submission of appeal to the Commissioner General among others.

Conclusion

The 2020/21 budget framework has demonstrated that the government plans to encourage the participation of the private sector by investing in various programs and projects aimed at harnessing the private sector's potential for an accelerated growth and job creation.

One such initiative is "Made in Rwanda" which seeks to encourage the local production and purchase of locally produced goods.

Despite the above, there are other threats that may affect the projected economic recovery. These include: risk of bad weather conditions that may affect the agriculture sector performance and the decline in international commodity prices that continues to affect exports.

Contacts

Stephen Ineget
Partner, KPMG Rwanda
E: sineget@kpmg.com

Andrew Nekuse
Director ,KPMG Rwanda
E: anekuse@kpmg.com

Angello Musinguzi
Senior Manager
Tax & Regulatory services
E: amusinguzi@kpmg.com