Rwanda 2023/24 budget brief

Theme: Strengthening the health system; increasing agriculture and livestock productivity; scaling up social protection coverage; and improving the quality of education.

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Economic Performance

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Rwanda is a small but growing market, with a population of nearly 13 million people and a GDP of $10.354 billion, according to the World Bank.

Before the COVID-19 pandemic, Rwanda enjoyed strong economic growth, averaging over 7% GDP growth annually over the last two decades.

As the rest of the world, Rwanda's economy faces a constrained global and unfavourable domestic environment such as the war in Ukraine, high inflation and financial tightening coupled with undone Covid-19 pandemic and other climate change effects.

The real GDP increased by 8.2% in 2022 down from a strong post Covid-19 recovery of 10.9 percent reached in 2021. Following the ease on travel restrictions around the Globe, a high performance in services sector specifically in tourism, hospitality including high activities in meetings and events was recorded in 2022 while unfavourable weather conditions suppressed agricultural production leading to higher food inflation. Industry sector activities such as construction slowed down while manufacturing showed improvement.

The increases noted in the international commodity prices, mainly food and energy, coupled with lower domestic agricultural supply led to a rise in inflation at 13.9% from 0.8 % recorded in 2021.

At the end of March 2023, Inflation stood at 19.3 percent y/y, against 20.8 percent y/y the previous month, driven mostly by continued rising food prices due to weak agriculture performance.

Rwanda's external debt has been driven by the investment for the National Strategy for Transformation (NST1) which runs from 2017 to 2024 with the aim to transform Rwanda into a middle-income country by 2035. As such, the government has been investing heavily in infrastructure development, including roads, energy and ICT.

The effects of the COVID-19 pandemic together with Russia-Ukraine war has also had a significant impact on Rwanda's external debt, as the government has had to increase borrowing to finance its response to the crisis. This has included investments in health infrastructure, social protection programs, and economic recovery measures. In addition, these crises have caused a decline in government revenue, which has further increased the need for external financing.

Despite the global macroeconomic challenges, Rwanda has been successful in managing its debt levels and reducing its debt burden, with the stock of debt to GDP at 67.5% by end December 2022 compared to 73.3% in December 2021.

This can be attributed in part to the country's strong economic growth and sound fiscal management.

The increase in the tax revenue collection is due to the current economic performance with the effect of the continued recovery in economic activities after the pandemic and implementation of the Medium Term Revenue Strategy (MTRS).

Based on the prevailing economic conditions, the Monetary Policy Council increased the Central Bank Rate to 7%, this was to continue the fight against inflationary pressures affecting consumers' purchasing power and to support the economic recovery. The Rwandan currency depreciated by 6.05% against the USD as of December 2022 from depreciation of 3.8% in 2021. This faster depreciation resulted from high international commodity prices, increasing the import bill.

The Budget

The budget for the year 2023/24 amounts to Frw 5,030.1 billion. This represents an increase of Frw 265.3 billion, 6% from the previous revised fiscal's year's budget.

This amount is made up of domestic revenues (Tax revenue and non-tax revenue) of FRW 2,956.1 billion which represents 59% of the total budget. External grants are FRW 652.1 billion, which is 13% of the total budget whilst external loans are FRW 1,225.1 billion which is 24% of the total budget, with Domestic borrowing and financial assets drawdown are FRW 196.7 billion which is 4% of the total budget.

The recurrent budget was allocated FRW 2,909.2 billion, capital expenditure FRW 1,886.8 billion, Equity investment shares spending of FRW 25.5 billion, and Policy lending FRW 105.7 billion which make up 57.8%, 35.5%, 0.5%, and 2.1% of the total budget respectively.

Detailed Resource Allocation

The budget for 23/24 fiscal year prioritizes spending aimed to reach the first National Strategy for Transformation (NST-1) goals, to support macroeconomic stability, keep debt at sustainable levels, strengthen fiscal framework, and preserve the needed fiscal space.

The country 's economic transformation has been allocated FRW 1,802.8 Billion, being 55.5% of the total budget. The supreme objective of the Economic Transformation pillar is to Accelerate inclusive economic growth and development founded on the Private Sector, knowledge, and Rwanda's Natural Resources.

The above objective will be achieved by promoting the following priorities among others:

- Increasing agriculture productivity and postharvest handling facilities to ensure national food and nutrition security, Export crops promotion.
- scaling up social protection coverage;
- improving the quality of education
- strengthening the health system
- creating of employment opportunities through investment in public works and support to micro, small, medium and large enterprises affected by COVID-19 through the economic recovery fund
- Manufacturing.

The main goal of the Social Transformation Pillar is to develop Rwandans into capable and skilled people with quality standards of living and a stable and secure society.

The government of Rwanda has come up with different measures designed to mitigate the economic hardships caused by the Russian- Ukraine war and post-covid effects.

Due to this, the government has subsidized the fuel pump price to cushion high volatility in prices that had affected the production capacity of the economy and the purchasing power of many Rwandans.

The recurrent expenditure has been increased by FRW 203.7 Billion, compared to the previous fiscal year. This is comprised of civil servants' wages & salaries, Peace Keeping Operations and interest payments.

Rwanda launched the Green Investment Fund in November of 2022 at the United Nations Climate Change Conference. The fund is to finance project preparation and provide concessional credit facility loans and guarantees to support small and medium enterprise investment in green projects.

The Government has continued to merge public finances, aiming to decrease fiscal deficits and stabilize debt levels, all the while addressing the lingering effects of COVID-19 and global shocks which are impeding economic recovery and impacting household income and expenditure.

Threats to the Economy

The economy of Rwanda, along with the global economy, has been impacted by various factors. These factors include global inflation pressures and supply chain congestion, which have had spillover effects. The risks associated with these factors include the potential for higher-than-projected interest rates and inflation rates, which could significantly affect fiscal projections. However, the government is actively monitoring the situation, and the Central Bank is prepared to implement appropriate measures to mitigate the adverse impact of these external shocks.

Tax Reforms

Tax Reforms

The tax reforms will reduce tax rates, broaden the tax base, improve tax compliance, and curb tax evasion while ensuring that tax revenues increase by 1% of GDP by FY 2025/26. Key tax changes are focused on Corporation tax, value added tax and Excise Duty.

Income Tax:

- Revision of the law establishing taxes on income and Tax procedure law.
- Reduction of the CIT rate from 30 to 28% with an eventual target of 20% in the medium term.

Implication: This will improve Rwanda's competitiveness and position the country as a preferred African investment destination.

Value Added Tax

- Introduction of exemption from VAT on imported and locally produced rice and maize flour

Implication: This supports food security by making essential food items more affordable, especially for low-income households, in addition, it helps control inflationary pressures on the consumers and the school feeding program. It will increase domestic production, which in turn enhances food self-sufficiency and reduces dependence on imports.

- Exemption from VAT on the transfer of assets between related parties in the context of a group reorganization.
- Zero-rating of VAT on electric vehicles.

Implication: To encourage the transition to Electric Vehicles and reduce greenhouse gas emissions from vehicle transportation, incentives for Electric & Hybrid vehicles.

Excise Duty

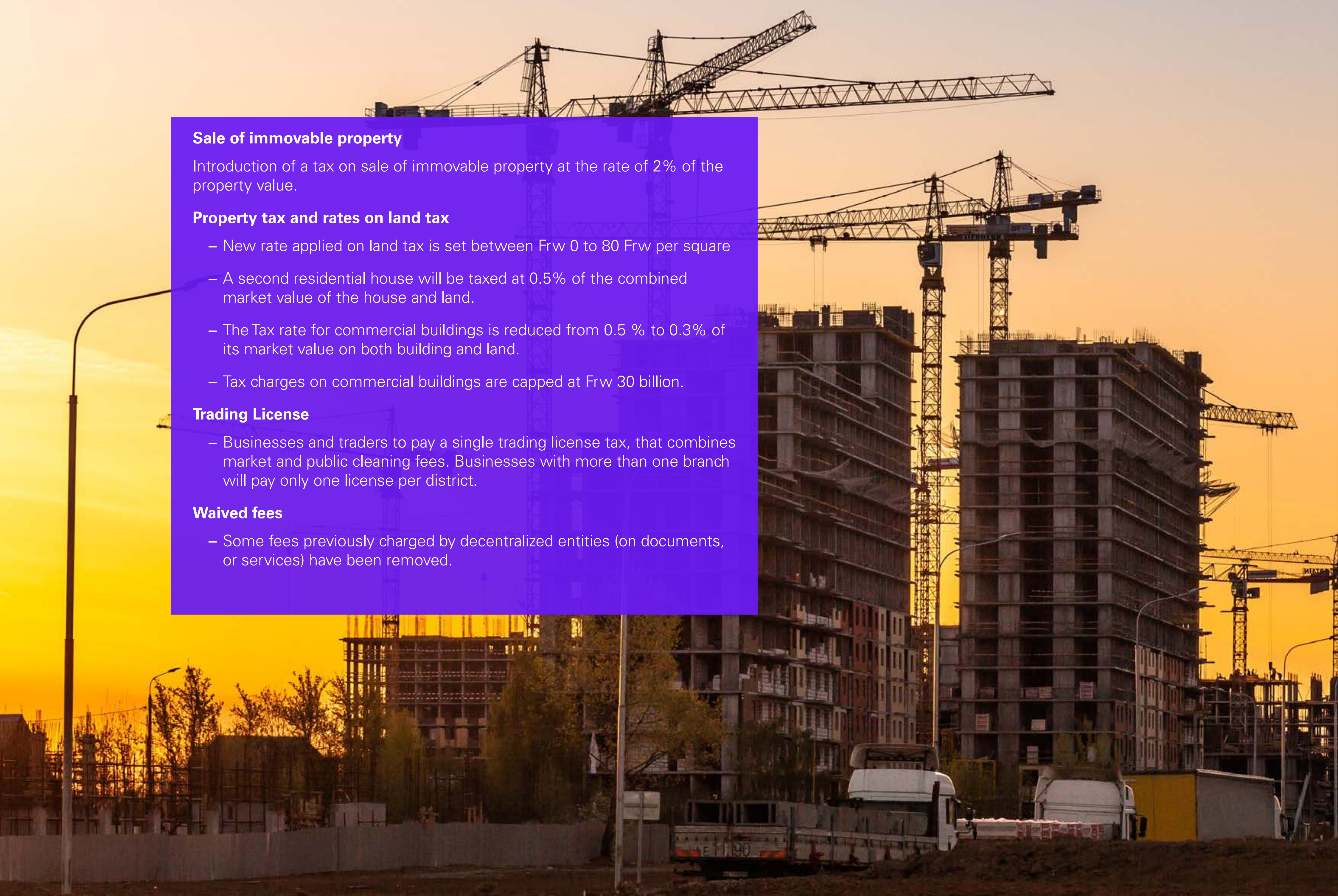
- Introduction of a cap on excise duty on high-end products especially wines and liquors.
- Exemption from excise duty on electric vehicles.
- A review has also been conducted of the existing taxes and fees collected by decentralized entities.

Import duty

To protect local producers, some products will pay a 35% import duty rate instead of 25%, these are:

- Doors, windows, and their frames
- Steel tubes
- Wheelbarrows
- Handbags with outer surface of sheeting of plastics or of textile material.

Tax incentives for some strategic items	Implication
– Rice will pay an import duty rate of 45% or USD 345/MT instead of 75% or USD 345/MT. – Sugar will pay an import duty rate of 25% for 70,000 MT, instead of 100% or 460 USD/MT whichever is higher. – Goods imported for use by Armed Forces Shop (AFOS) will pay 0% instead of 25%. – Road Tractors for Semi Trailers will pay a duty rate of 0% instead of 10%. – Motor Vehicles for the Transport of Goods with a gross weight exceeding 5 Tons but not Exceeding 20 Tons will pay an Import Duty Rate of 10% instead of 25%. – Motor Vehicles for the transport of goods with a gross weight exceeding 20 tons will pay an import duty rate of 0% instead of 25%. – Motor Vehicles for the transport of goods with a gross weight exceeding 20 tons will pay an import duty rate of 0% instead of 25%. – Buses for transportation of more than 25 persons will pay an import duty rate of 10% instead of 25%; – Capital machinery and raw materials used in the manufacturing of textile garments and footwear will pay an import duty of 0% instead of 10% or 25%; – Telecommunication equipment will pay an import duty rate of 0% instead of 25%; – A list of raw materials used in industries will pay 0% instead of 10% or 25%; – Electronic Transaction devices (smart cards, point of sale, cash registers, and cashless machines) will pay 0% instead of 25%. – Cooking oil will pay 25% instead of 35% – Second-hand clothes will pay 2.5 USD/Kg instead of 35% or 0.4 USD/Kg whichever is higher, while second-hand shoes will pay 5 USD/Kg instead of 0.4 USD or 35% whichever is higher. – A review has also been conducted of the existing taxes and fees collected by decentralized entities.	The government of Rwanda is encouraging the growth of domestic industries. When imported goods are replaced by locally produced alternatives, it stimulates domestic production and creates employment opportunities. This can contribute to economic diversification, enhance competitiveness of local industries, and promote sustainable economic development. Furthermore, it creates market opportunities for local producers, to encourage entrepreneurship, innovation, and the development of new industries. Local producers can expand their operations to meet the demand previously fulfilled by imports, leading to increased economic activity and business growth.



Sale of immovable property

Introduction of a tax on sale of immovable property at the rate of 2% of the property value.

Property tax and rates on land tax

- New rate applied on land tax is set between Frw 0 to 80 Frw per square
- A second residential house will be taxed at 0.5% of the combined market value of the house and land.
- The Tax rate for commercial buildings is reduced from 0.5 % to 0.3% of its market value on both building and land.
- Tax charges on commercial buildings are capped at Frw 30 billion.

Trading License

- Businesses and traders to pay a single trading license tax, that combines market and public cleaning fees. Businesses with more than one branch will pay only one license per district.

Waived fees

- Some fees previously charged by decentralized entities (on documents, or services) have been removed.

Proposed VAT tax bill

Proposed VAT tax bill

Exemption expansion

- The number of goods and services that must not be subject to increase, if the bill passed:
- Aircraft, their spare parts, and maintenance tools appearing on the list established by the Minister in charge of transport and approved by the Minister, were added to the list of VAT-exempted goods under the bill.

Implication: This is to strengthen and promote investment in Rwanda's aviation sector.

- Also, for affordability, health, and sanitation purposes, sanitary pads and the service of transportation of household solid waste were added to the list of goods exempted from VAT, this is to make sanitary pads more affordable to women and curb period poverty.
- Goods sold in customs – before entering Rwanda – for which no taxes have been paid, are exempted from VAT.
- Construction materials under Manufacture and Build to Recover Program (MBRP).
- Equipment for the conservation of human remains of victims of the Genocide against the Tutsi and its related evidence were added to the list of goods exempted from VAT. The list of such equipment is established by the Ministry in charge of genocide memory and approved by the Ministry.

VAT-free services

- The bill has proposed that the list of exempted financial and insurance services list will be established by an order of the Minister in charge of finance.

Authorization for import of services not available locally

- Taxpayers who wants to acquire a service not available in Rwanda will have to request for authorization from the Minister of Finance and Economic Planning. An Order from the Minister to provide modalities to apply for such authorization will be provided by the bill.

VAT reward to consumers

- A new article was introduced in the bill to enable a reward to be given to the final consumer who requests for, and is given, an electronic invoice – or receipts issued by an electronic billing machine (EBM).
- The bill provides that a Ministerial Order will determine the value of the reward and the conditions for granting such a reward.

Input VAT claimable

- The period to claim input VAT refund from the date of invoice issuance, has been reduced from two years to one year.

Big Catch for Startups

- The Government is to allow newly registered companies to claim the input tax paid while organizing themselves to start the production and distribution even before they start declaring the output tax.

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