

REPUBLIC OF RWANDA



Ministry of Finance and Economic Planning

BUDGET SPEECH

FINANCIAL YEAR 2013/14

THEME: 'STRIVING FOR SELF RELIANCE AND DIGNITY'.

**TO BE PRESENTED TO BOTH CHAMBERS OF THE PARLIAMENT OF THE
REPUBLIC OF RWANDA ON JUNE 13, 2013**

BY

**AMBASSADOR CLAVER GATETE
MINISTER OF FINANCE AND ECONOMIC PLANING**

Honourable President of Senate
Honourable Speaker of Chamber of Deputies
Honourable Vice Presidents
Honourable Members of Parliament,

1. As provided under article 79 of the Rwanda constitution of 2003 as amended to date as well as articles 36 and 42 of the Organic Law on State Finances and Property as amended to date, I have the honour to present to you on behalf of the Government, the Budget and Economic Policy of the fiscal year 2013/2014.
2. In the last ten years, our nation has experienced one of the most exciting and fastest period of economic growth and socio-economic progress in its history. Rwanda has been recognized as the tenth fastest growing economy in the world during the last decade from 2000. Our achievements during this period include growing the economy at an average real GDP of 8.2 percent, the lifting of more than one million of our compatriots out of poverty from 2006 to 2011 among others.
3. However current world developments including a weaker global economy and a prolonged crisis in the euro zone which could reduce our commodity export earnings, donor aid flows, migrant remittances and foreign direct investment flows will be expected to impact negatively on our domestic economic performance.
4. It is in the light of these global developments that we have chosen the theme **"Striving for self-reliance and dignity"** for the budget and economic policy statement for this fiscal year 2013/14. We have chosen this theme because as I have just mentioned generous resource flows from the OECD countries are declining. This is happening at a time when we need more resources to fulfil our economic and social objectives of becoming a middle income nation. This situation calls for redoubling our efforts to earn more foreign exchange from our exports of goods and services as well as increasing our domestic resource mobilization to generate the required resources for our development. The policies in the 2013/14 budget are designed to achieve these objectives.

The Budget and economic policy statement for fiscal year 2013/14 is therefore organized as follows:

- a) First, I will provide a brief summary of the global economic performance for 2012 and the projections for 2013 and 2014. This summary will also include the performance and outlook for sub-Saharan countries including the EAC countries.
- b) Second, I will briefly summarize our recent economic performance with special emphasis on 2012/13. This summary will include fiscal performance and results of public spending.
- c) In the third portion of my delivery, I will present the Government's medium term macro-economic framework. However, I will not go into details as we discussed much of this in the Budget Framework Paper last month.
- d) In the fourth section, I will focus on the Government's budget and economic policy for the fiscal year 2013/14. In this section, I will also spell out the detailed allocation of resources consistent with our EDPRS2 priorities and expected outcomes for fiscal year 2013/14.
- e) In the fifth and final portion of my delivery, I will briefly highlight some expected public finance management reforms, and then end with some concluding remarks

Honourable President of Senate

Honourable Speaker of Chamber of Deputies

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- 5. According to the recent World Economic Outlook (WEO), global economic activity in 2012 was mixed. Real GDP growth decelerated to 3.2 percent, down from 3.9 percent in 2011. Global GDP growth is expected to pick up slightly in 2013 and 2014, to 3.3 percent and 4.0 percent respectively.

6. GDP growth for sub-Saharan Africa which was robust at 5.3 percent in 2012 is projected to pick up to 5.6 percent in 2013 and continue to reach 6.1 percent in 2014. This growth path confirms sub-Saharan Africa's economic dynamism as the economies continue to respond positively to improved economic policies coupled with large infrastructure developments.
7. GDP growth in the East African Community (EAC) member states averaged 6 percent in 2012, higher than the Sub-Saharan African average of 5.3 percent. The region is expected to sustain average growth rate of 6.7 percent between 2013 and 2014.
8. Regarding commodity prices, the high increases in 2011 were not repeated in 2012. In the case of oil, the sharp rise of about 31.6 percent in 2011 declined sharply to only 1 percent in 2012. Projections for 2013 and 2014 show further declines of 2.3 percent and 4.9 percent respectively. With regard to non fuel primary commodity prices, these also rose sharply by 17.8 percent in 2011 but declined by about 10 percent in 2012. Projections for 2013 and 2014 also show further declines of about 1 percent and 4.3 percent in 2013 and 2014 respectively. These projected price developments will affect our external sector performance over the medium term.
9. In the EAC countries, inflation accelerated sharply to 14.6 percent in 2011 on account of the high oil prices which increased by 31.6 per cent, high food prices which also rose by 17.8 percent due to the drought in the horn of Africa. In 2012 the trend was reversed as inflation declined to about 11.6 percent reflecting the decline in both oil and food prices as well as the tightening of monetary policies in the EAC countries. A further fall in inflation to 6.9 percent in 2013 is projected.

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10. Despite a modest slowdown in domestic economic activity during the second half of 2012 due in large part to the delay in donor disbursements, real GDP growth in 2012 at 8 percent was higher than the projected GDP of 7.7.

11. The strong performance was largely driven by the expansion of the service sector by 12.2 percent, particularly communication and transport activities that expanded by about 19.5 percent. In industry sector growth increased by 7.3 percent particularly due to robust growth in construction that increased to 15.2 percent. Agricultural production mainly of food crops grew by 3 percent.
12. Rwanda continued to achieve moderate inflation, with annual headline inflation falling from 8.3 percent in December 2011 to 3.9 percent in December 2012 and to 3.3 percent in March 2013. The moderate inflation rate is explained by higher than expected food production as well as a rapid deceleration in inflation across the region, most notably in Kenya and Uganda.
13. Exports in value terms grew by 27 percent in 2012; import growth was 26 percent, leading to a widening trade deficit. This was largely due to the response of our policy to increase investment, capital and intermediate goods to boost future domestic production for both the local and export markets.
14. Rwanda's total external public and publicly guaranteed debt in 2012 amounted to US\$1.2 billion. This represents 16.5 percent of GDP as of end December 2012 compared to 14.6 percent in 2011. The total domestic debt at end December 2012 was at RWF 303.7 billion (US\$481 Mn) up from RWF 174.9 billion at end December 2011. This brings the total debt stock at end December 2012 to about RWF 899.4 billion.
15. The increase in debt stock was largely due to higher external financing, comprising the International Development Association (IDA) project loans, as well as higher commercial borrowing for the Kigali Convention Centre (KCC) project and Rwanda Air.

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16. The shortfall in aid inflows has hampered the ability of the Central Bank to continue meeting market demand for foreign exchange, leading to a depreciation of 4.5 percent over the year 2012 against 1.6 percent recorded in the previous year. The external reserves declined by 18.1 percent as the Central Bank attempted to meet market demand for foreign exchange.

17. The banking sector, which dominates the Rwandan financial sector, demonstrated an increase in the balance sheet of 15.1 percent. The Capital Adequacy Ratio (CAR) stood at 23.9 percent as of end year 2012, far above the 15 percent minimum regulatory requirement. The non-performing loans (NPL) stood at 6.1 percent in 2012 down from 8 percent in 2011.
18. On the resources side, as of end May, total resources that accrued to the budget amounted to RWF 1,447.8 billion representing 91.5 percent of projected resources. Regarding expenditures, the shortfall in donor support funds mentioned above led to lower spending of about RWF 70.5 billion in the July-December 2013 period. As at end May however, about RWF 1,440 billion of total outlays had been spent showing a performance of 91 percent. On this trend we expect expenditure outturn to closely match the projections.

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19. After giving the highlights of our general budget implementation, I will now mention some key programmes and projects implemented in 2012/13 fiscal year.
20. **In the Education Sector**, the following achievements were registered:
 - i. The number of pre-primary schools increased from 1,471 in 2011/12 to 1,870 in the 2012/13 fiscal year. The increased number of pre-primary schools is at least partially responsible for an increase in the number of enrolments of pre-primary pupils from 111,875 in 2011/12 to 130,403 in the 2012/13 fiscal year.
 - ii. In primary education, the number of enrolled over-age pupils is gradually decreasing and for the 2012/13 fiscal year, the percentage of these pupils had decreased from 127.3% to 123.2%. This implies that the number of students enrolled at the appropriate age increased from 95.9% in the 2011/12 fiscal year to 96.5% in 2012/13.

- iii. Due to the Government initiative of school feeding, the numbers of drop-outs in primary education have also decreased from 11.4% in the 2011/12 financial year to 10.9% in 2012/13.
- iv. Due to the success of the 12YBE programme, the number of pupils graduating primary school and joining secondary school also increased from 84,675 in the 2011/12 to 99,525 in the 2012/13 fiscal year which is an increase of approximately 18%.
- v. 930 new teachers were hired in secondary schools to reduce the pupil teacher ratio but also to help improve how English as a language of instructions is administered at this level.
- vi. In an effort to promote science and technology in secondary schools, 37 new laboratories were constructed, 1000 computers were distributed, and 30 secondary schools were given science kits and 500 GIS books.
- vii. The number of pupils that completed Lower secondary school increased from 341,742 pupils in 2011/12 to 352,796 pupils in the 2012/13 fiscal year. Of these, the percentage number of boys and girls was 46.5% and 53.4% respectively.

21. **In the Health Sector**, the following achievements were registered:

- i. Efforts to increase universal access to health care have been aided by the construction of 3 Hospitals namely, Bushenge, Kinihira and Ntongwe, and construction works at Kibuye and the Kirehe Hospitals is also underway.
- ii. New health centers were constructed notably Mukura Health center in Rulindo District as well as the health center in Huye District. Government has also undertaken the construction of maternity sections in a number of Health Centers in Mubuga, Kicukiro, Ruhengeri and Jarama.
- iii. Government is continuing its fight against diseases. Government distributed 2.5 million bed nets and treatment of Malaria continues to be subsidized. 110,000 Individuals are currently under treatment for HIV and ART coverage is at 93% of adults and children.

- iv. The Government policy of “Mutuelles de santé” to increase financial accessibility of health services and the financing of the health insurance scheme has been strengthened to better address the increasing health care risks facing the citizens of Rwanda. To this end the average coverage rate of “Mutuelles de sante” increased in 2012/13 to 81%.

22. In the **Agriculture Sector**, the following achievements were registered:

- i. Intensive efforts by Government to protect soil against soil erosion has seen advances from 40% in 2006 to 75.7% in 2012/13, resulting in significant increases in agricultural productivity and production through the crop intensification programme and increases in the production of key food security crops.
- ii. Efforts in land terracing have also seen a total of 54,200 hectares terraced to date, with 7,993 hectares terraced this year alone.
- iii. Marshlands development for agricultural use has successfully increased agricultural production from 11,000 hectares in 2006 to 23,000 hectares for the 2012/13 fiscal year, thereby contributing towards addressing shortages of land and increasing farmers’ incomes.
- iv. Strengthening of post-harvest storage programme is a critical component of Government’s strategy to ensure food security. Efforts were therefore focussed on the construction of several strategic grain reserve facilities in various parts of the country during the course of 2012/13. This has led to storage capacity by both the Government of Rwanda and the private sector being increased to 142,000 tonnes from 100,000 tonnes last year.
- v. Livestock development has been enhanced through the GIRINKA Programme and about 15,000 cows were distributed during the 2012/13 financial year. This represents a significant increase from the 3,300 cows which were distributed in the 2011/12
- vi. Fish production has also increased from 17,000 tonnes in the 2011/12 to 19,400 tonnes in the 2012/13 fiscal year.

- vii. The “One cup of milk” programme has seen the increase of litres of milk distributed to children from 633,958 litres to 1,841,893 litres distributed in 2012/13 fiscal year. The number of children who benefited from this Government programme has increased from 74,728 in 2011/12 to 80,884 in 2012/13.

23. In **Trade and Industry Sector**, the following achievements were registered:

- i. Data from the 2012 industrial survey indicate that during the 2012 period, the turnover of industries increased by 33.9% compared to 2011. About 17 medium to large industries have been construction 2012 and most of them located in the Kigali Special Economic Zone.
- ii. The Hanga Umurimo programme was launched with over 16,000 business ideas received and 50 selected from each district for development of business plans in 2011/12. Of these a total of 216 projects to the value of RWF 3,539,900,602 have been approved to date and a total of 4,982 jobs have been created.

24. In the **Financial Sector**, the following achievements were registered:

- i. To enhance efforts and mechanisms for resource mobilization, Government is proud of the sale of the first International Bond (Eurobond) to the value of \$400 million, which was over-subscribed more than eight times, due to the confidence investors had to our country’s economy.
- ii. The Agaciro Development Fund (sovereign wealth fund) was established to improve the present and future financial autonomy of Rwanda. The current total pledges to the fund are equivalent to RWF 26.4 billion and the total amount recovered to-date is RWF 17.5 billion. We are thankful to every one that contributed to this fund.

25. In the **Information Communication Technology Sector**, the following achievements were registered:

- i. International bandwidth capacity was acquired which increased the total bandwidth capacity in the country. As result, the cost of bandwidth was reduced from between US\$500 and US\$700 USD to about 125 USD per Mb/s.
- ii. Over 592 ICT professionals from public and private sector were trained in critical ICT professional courses and over 4,325 members of the business community and rural areas trained in basic ICT.
- iii. 60 Service Access Points were fully operationalized in addition to the already established 30 centers.

26. **In the Transport Sector**, the following achievements were registered:

- i. Rehabilitation of the Butare - Kitabi - Ntendezi Road, specifically the 30km Crête Congo/Nil- Ntendezi section.
- ii. Rehabilitation and upgrading of the 80km paved road network for Kigali-Gatuna road which is now at 40% completion.
- iii. The rehabilitation of 51km of the Rusizi – Ntendezi – Mwityazo road is proceeding well and the work is 98% complete.
- iv. About 50km of roads in urban areas have been successfully paved or fully rehabilitated.

27. **In the Energy Sector**, the following achievements were registered:

- i. A number of electricity generation projects were pursued during the implementation of EDPRS1 including the 2012/13 fiscal year. The installed capacity for electricity generation has increased from 45 Mega Watt (MW) in 2006 to 110.4 MW in 2012/13.

28. **In the Social Protection Sector**, the following achievements were registered:

- i. The VUP as the core social protection program has been scaled-up in 180 sectors for direct support and 150 sectors for public works and financial services components.

- ii. Policy guidelines have been developed to guide targeting, exit and graduation from VUP support. This will help to expedite poverty reduction strategies.
 - iii. 16,858 people have been relocated from high risk zone and settled in “Imidugudu” (organized settlements) and 570 people have been trained to use brick making machines with the purpose of availing low cost construction materials.
29. **In the Environment and Natural Resources Sector**, the following achievements were registered:
- i. The governance structure for the Fund for Environment and Climate Change (FONERWA) was put in place. Currently US\$ 700,000 domestic capitalization and approximately US\$ 36 Million has been mobilized to fund projects aimed at pursuing a green Rwandan economy.
 - ii. As part of Government’s process of land tenure regularization, 7.7 million land titles were issued and 4.6 million have been collected by owners.
 - iii. The total output of the mining sector increased from 5,802 tonnes in 2010/2011 to 7,397 tonnes in the 2011/12 fiscal year.

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- 30. The total budgeted resources for the 2013/14 fiscal year are RWF 1,653 billion, which is RWF 103 billion higher than the 2012/13 revised budget.
- 31. The total domestic revenues for the period are estimated at RWF 994.9 billion which is 60.2% of the total budget. External resources account for only 39.8% of the total budget or RWF 658.6 billion.

32. Total recurrent expenditures are projected at RWF 735.7 billion or 44.5% while development projects account for RWF 802.7 billion equivalent to 48.5% of the total budget.

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33. The revenue projections for the 2013/14 fiscal year do not envisage any substantial changes in the tax regime. However they are underpinned by several on-going as well as new measures to be implemented by the Rwanda Revenue Authority (RRA) as outlined below:

34. **The Revenue Administration Measures for 2013/14 include:**

- a. E-filing and E-payment: Its introduction and implementation will reduce compliance costs for both tax administration and taxpayers.*
- b. Electronic Single Window: It was launched and rolled out to different bonded warehouses. In addition other agencies involved in import/export clearing were fully connected.*
- c. Electronic cargo tracking equipment: Its introduction will help to ensure the protection of cargo from source to destination.*
- d. Introduction of mobile technology in payment and filing of taxes. This is a platform to file and pay taxes through mobile technology.*
- e. Introduction of Gold Card Scheme to facilitate compliant taxpayers.*
- f. Revision of investment code to adapt to the prevailing business environment.*
- g. Introduction of a royalty tax on minerals: A royalty tax will be introduced on different types of minerals in Rwanda and the rates to be applied are as follows: 4 percent of the value of extracted minerals on basic metals and 6 percent on both precious metals and precious stones.*

- h. The revision of the Double Taxation Avoidance Agreement (DTAA) between the Rwanda and Mauritius.*
- i. Introduction of Electronic Billing Machines: The new VAT law requires registered taxpayers to use Electronic Billing Machines (EBM).*

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35. Following recent consultations of Ministers of Finance of the EAC member states, the following changes in the common external tariff (CET) for Rwanda were agreed:
- a) Rice in the husk, husked (brown) rice, semi milled or wholly milled as well as broken rice—CET of 30% instead of 75% or USD 200/MT;*
 - b) Road tractors for semi trailers—CET of 0% instead of 10%;*
 - c) Wheat (grain)—CET of 0% instead of 35%;*
 - d) Wheat Flour—CET of 35% instead of 60%;*
 - e) Buses for transportation of more than 25 persons—CET of 10% instead of 25%;*
 - f) Buses for transportation of 50 persons and above—CET of 5% instead of 25%;*
 - g) Other motor vehicles for transport of goods, with compression-ignition internal combustion piston engines (diesel or semi-diesel) g.v.w exceeding 5 tonnes but not exceeding 20 tonnes—CET of 10% instead of 25%;*
 - h) Other motor vehicles for transport of goods, with compression-ignition internal combustion piston engine (diesel or semi diesel) g.v.w exceeding 20 tonnes—CET of 0% instead of 25%.*
36. Furthermore, in the spirit of gradually moving from staying of applications of EAC CET and encouraging firms to be more efficient and competitive, it was proposed that Rwanda apply official EAC CET on the following:

a) Construction materials: CET of 25% instead of 0% for local investors with a minimum capital of US\$ 100,000 in hotels and 10% for projects worth US\$ 1.8 million and above;

b) Importation of telecommunication equipment: CET of 25% instead of 0%;

37. In addition, Rwanda submitted an additional list of raw materials and industrial inputs of 17 companies for the EAC exemption regime. EAC officials have already visited these companies and the approved list will be gazetted for 5 years exemption.

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38. The allocation of resources in the 2013/14 fiscal year has been done taking into account the EDPRS2 priorities. The thematic areas have been allocated 50 percent of the total budget. The foundational issues have been allocated 37 percent while the support functions have been allocated the remaining 13 percent.
39. The thematic areas which is the core component of the EDPRS2, comprises of four areas listed below:
- a) The economic transformation thematic area has been allocated RWF 459 billion equivalent to 28 percent of the total budget.
 - b) The rural development has been allocated RWF 164 billion equivalent to 10 percent of the total budget.
 - c) Productivity and youth employment has been allocated RWF 163 billion equivalent to 10 percent of the total budget.
 - d) The remaining RWF 41billion which is equivalent to 2 percent of the total budget has been allocated to accountable governance.

40. The key projects of the economic transformation thematic area that have been allocated resources are:

- *Construction of Nyabarongo Hydro Power Stations (27 mw): RWF 26.7 Billion.*
- *construction of 145 MW on Rusizi III Hydropower power plant: RWF 18.4 billion.*
- *Electricity Roll out Programme: RWF 30.9 Billion.*
- *Kivu-belt (66 km) lot 4 &5 Rehabilitation- Mwityazo -Karongi road: RWF 30.1 Billion.*
- *Kivu Belt (50km) Lot 7 Rubavu-Gisiza Road: RWF 19.3 Billion.*
- *Kigali-Gatuna Road (80km) Rehabilitation: RWF 13.9 Billion.*
- *Development of peat to Power Plant: RWF 6.1 Billion.*
- *Feasibility Study and Construction of MHPS: RWF 17.3 Billion.*
- *Electrification of 6 districts in Eastern Province: RWF 9.8 Billion.*
- *Geothermal resource development: RWF 8.1 Billion.*
- *Construction of 4 Provincial Industrial Parks and Relocation of Gikondo Industrial Park: RWF 9.5 Billion.*
- *Development Regional ICT Center for Excellence and ICT Private Sector Development: RWF 12.8 Billion.*

41. The key projects that have been allocated resources under the Rural Development thematic area:

- *Land Husbandry, Hillside Irrigation and Water Harvesting including streaming of Gishwati landuse: RWF 28.4 Billion.*
- *Rural sector support project (Phase III): RWF 7.8 Billion.*
- *Kirehe watershed management project: RWF 10.1 Billion.*
- *National Strategic Food Reserve Project: RWF 2.2 Billion.*

- *Priority crops intensification: RWF 9.2 Billion.*
- *Water sanitation and hygiene: RWF 4.6 Billion.*
- *Lake Victoria Water Supply and Sanitation Project PHASE II: RWF 4.1 Billion.*
- *Support to establishment of Livestock Infrastructure: RWF 4.1 Billion.*
- *National Rural Supply and Sanitation Programme (PNEAR) RWF 5.5 Billion.*

42. The key projects that have been allocated resources under Productivity and Youth Employment thematic area are:

- *TVET schools infrastructure development and equipment project: RWF 13.9 Billion.*
- *Expansion and development of the integrated Polytechnic Regional Centre project – IPRC Kicukiro: RWF 10.4 Billion.*
- *School construction project: RWF 11.4 Billion.*
- *Skills Development project: RWF 22.5 Billion.*
- *One Laptop per Child RWF 6.9 Billion.*
- *Rukara Infrastructure Development Project RWF 2.7 Billion.*
- *SFB Infrastructure Development and Installation of equipments Project RWF 2.1 Billion.*
- *Umutara Polytechnic Equipment and Infrastructure Project RWF 1.1 Billion.*

43. The key projects that have been allocated resources under Accountable Governance thematic area are:

- *National cyber security: RWF 5.7 Billion.*
- *Statistical Surveys: RWF 10.3 Billion.*
- *Inclusive participation in governance: RWF 947 Million.*

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44. Various structural reforms have been on-going in various areas. Most of these reforms are aimed at improving conditions that are conducive for private sector growth. I will now mention a few of them in the areas of public financial management and financial sector:

- i. Some government entities will be given responsibility to manage public funds through delegation of powers, thus making it possible to streamline the way they engage in public procurement activities. Some of those agencies are sectors, primary and secondary schools, district hospitals and health centers.
- ii. Special guidelines will be issued for procurement in Rwandan Embassies abroad and Government business enterprises which have been experiencing problems in using the public procurement law.
- iii. Procurement for items that are required frequently during the year will be simplified through the use of procurement contracts in line with the revised procurement law. Such contracts will extend over a period of three years.
- iv. Provide clarity on administrative sanctions in public procurement as well as the cases that will be handled under the penal code in relation to public procurement.
- v. Administer the implementation of the new Organic Law on State Finances and Property to advance public financial management to the next level.
- vi. Review the existing regulatory framework specifically, the Central Bank Law, the banking law as well as put in place a Deposit Insurance Law.
- vii. Strengthening the SACCOs by consolidating them into a Cooperative Bank.
- viii. Put in place measures to increase the range of products available in the Rwandan capital market. These will include Asset Backed Securities (ABS), Commercial Papers (CPs), Real Estate Investment Trusts (REITs), and Municipal bonds.

- ix. Undertake comprehensive reforms in domestic revenue mobilization to expand the tax revenue base and foster compliance. Measures to increase tax compliance will be pursued including those that target government entities.

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45. The proposed public expenditure levels in the 2013/14 budget will be augmented by private sector investment to ensure that the high growth the economy requires to reduce poverty is realised. The Government is fully committed to realizing these growth objectives whilst maintaining macro-economic stability.
46. I hereby recommend to you the Government's budget and economic policy for fiscal year 2013/14 and the accompanying draft law to consider and consequently approve in the framework and timeframe prescribed by the law.

I thank you.