July 2011
IMF Country Report No. 11/164

Rwanda: Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Staff Report; Staff Supplement; Press Release

In the context of the second review under the Policy Support Instrument and request for modification of assessment criteria, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria, prepared by a staff team of the IMF, following discussions that ended on March 31, 2011, with the officials of Rwanda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 7, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of June 7, 2011 on the Joint Debt Sustainability Analysis.

- A Press Release summarizing the views of the Executive Board.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Rwanda*
Memorandum of Economic and Financial Policies by the authorities of Rwanda*
Poverty Reduction Strategy Paper--Progress Report
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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RWANDA

Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria

Prepared by the African Department
(in consultation with other departments)

Approved by Saul Lizondo and Christian Mumssen

June 7, 2011

Fund relations. The first review of the PSI-supported program was completed by the Executive Board on December 20, 2010.

Discussions. Discussions were held in Kigali during March 17–31. The team included Ms. McAuliffe (head), Messrs. Davoodi, Opoku-Afari, and Yabara (all AFR), Mr. Geiregat (SPR), and was assisted by Mr. Gershenson, resident representative. The team met with Minister of Finance and Economic Planning Rwangombwa, Governor of the National Bank of Rwanda Kanimba, Deputy Governor Gatete, and heads of key government agencies, other officials, and representatives of the private sector, commercial banks, and development partners. The mission was joined by Messrs. Bertuch-Samuels and Bartholomew (MCM) to discuss the key recommendations of the 2011 FSAP Update.

Review. Staff recommend completion of the second review under the PSI, modification of end-June 2011 assessment criteria, setting of end-December 2011 assessment criteria, and approval of structural benchmarks for FY2011/12. All end-December 2010 and continuous quantitative assessment criteria and structural benchmarks were met, with the exception of one structural benchmark.

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EXECUTIVE SUMMARY

Rwanda's economic recovery in 2010 has been strong and appears to be leveling off. Inflation declined to very low levels by end 2010 mainly driven by benign external environment and good food harvest. However, rising global fuel and food prices are expected to put upward pressure on prices and slow the recovery in 2011.

Performance under the PSI-supported program has been satisfactory. All end-December 2010 and continuous quantitative assessment criteria and structural benchmarks were met, except for one structural measure—submitting to cabinet draft legislation to transfer the collection and audit of social security and health insurance premium contributions to the Rwanda Revenue Authority (RRA). While the RRA has already started to collect the social security contributions, the draft legislation to formalize the functions of the RRA has been reset to September 2011. One structural benchmark for end-January 2011 was met with a delay and another was reset to later in 2011.

The rising global food and fuel prices have begun to elevate inflationary pressures. The authorities plan to reduce fuel taxes in 2011/12 to help cushion the impact on the poor, while at the same time accelerating revenue enhancing measures, in order to preserve the fiscal consolidation. Meanwhile, the NBR is committed to regularly review inflationary developments and tighten monetary policy if needed to anchor inflation expectations.

The expected fiscal consolidation process would further anchor macroeconomic stability and support growth. To this end, the authorities are streamlining expenditures and introducing further reforms in revenue administration and public financial management (PFM).

Further structural reforms are being introduced. Staff welcome reforms in the financial sector and monetary policy implementation, Public Financial Management (PFM) system, revenue administration, compilation of national accounts statistics and efforts to enhance policy coordination and capacity building**.**

Increasing access to finance through Savings and Credit Cooperatives (SACCOs) is welcome, but the risks of the large roll-out of the SACCOs need to be addressed adequately. The additional hiring and training of inspectors mitigates such risks somewhat, but the early adoption of a sustainable institutional structure for SACOOs, as underscored by the 2011 FSAP Update, should be top priority.

Staff recommend completion of the second review under the PSI program and modification of end-June 2011 assessment criteria, setting of end-December 2011 assessment criteria and approval of structural benchmarks for FY2011/12.

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **Rwanda's growth performance in 2010 was strong. Real GDP growth** strengthened to an estimated 7.5 percent, up from 4.1 percent in 2009 (Table 1 and Figures 1 and 2). Economic activity was boosted by government spending, strong growth in services mainly telecom, improvements in financial services and some recovery in tourism (Box 1).

2. **The strong growth in 2010 was also supported by a favorable external environment**. Higher commodity prices (coffee, tea, and minerals), large public transfers and delays in implementation of key strategic investments helped to narrow the current account deficit to 6 percent of GDP, while large private external borrowing contributed to a balance of payments surplus and comfortable international reserves coverage of 5.2 months of imports.

3. **Inflation was very low, under one percent year-on-year in December 2010.** This is mainly a result of unexpectedly low domestic food prices—which accounts for about 60 percent of the decline in inflation and a general benign external environment. Inflation picked up since December to 4.1 percent in March 2011 reflecting rising global food and fuel prices.

4. **The new exchange rate management framework also enhanced monetary policy implementation.** However, interbank activities remained low and continued to challenge the smooth operation of the exchange rate corridor framework. The National Bank of Rwanda (NBR) removed the average reference rate (ARR) in December 2010 and replaced it with a market-based exchange rate (following a TA recommendation from MCM) as the official exchange rate.[1] The Rwandan franc remained relatively stable, depreciating by about 4.1 percent against the US dollar during 2010.

5. **Execution of the budget for the first half of FY 2010/11 (July-December 2010) was on track.**[2] Despite revenue over performance and spending shortfalls, the authorities had to resort to issuing additional domestic debt in order to cover shortfalls in programmed external grants that were larger than domestic budgetary savings.

MEFP ¶6-7

6. **For FY2010/11 as a whole, the overall fiscal deficit (incl. grants) is programmed to be higher than projected (Country Report No. 11/19) by about ½ percent of GDP on account of higher foreign financed spending**. With an unchanged revenue outlook, overall spending is expected to accelerate in the second half of fiscal year—as sizeable health-related external grants from the Global Fund that came in late 2010 are expected to be spent in the

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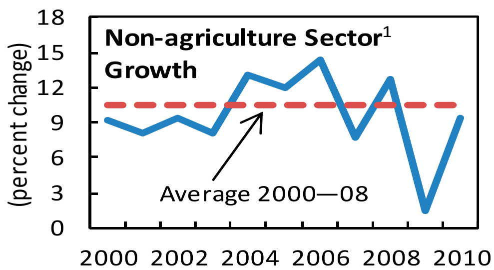
[1] Calculated daily as a weighted average of foreign exchange interbank rates and intervention transactions rate of the NBR.

[2] Fiscal year runs from July to June.

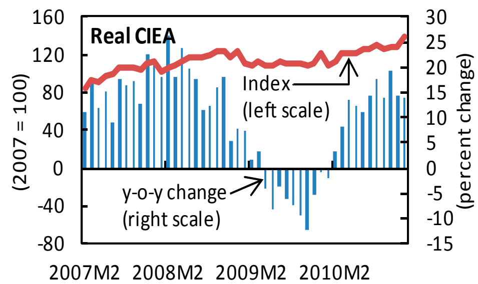
remainder of FY2010/11. At the same time, the government revised down its domestic spending in FY2010/11 so as not to crowd out the private sector. As a result, the end-June 2011 assessment criteria for net domestic financing—the main fiscal target under the program—was revised down by 0.2 percent of GDP for FY2010/11.

Box 1. Economic Recovery in 2010

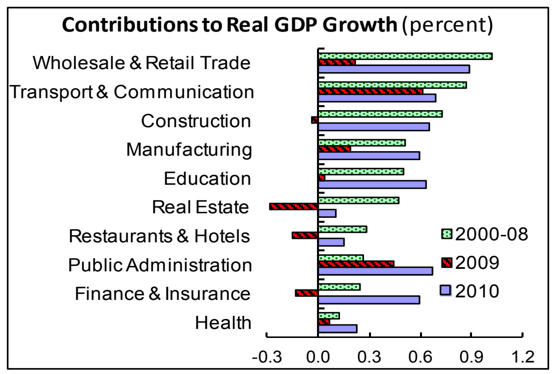
Output growth in 2010 was strong. Real GDP growth in the non-agriculture sector returned close to pre-crisis levels. High frequency indicators (CIEA) also point to strong growth in 2010.



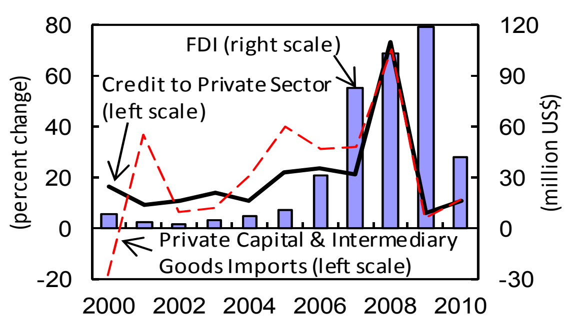
[1] Excluding agriculture and adjustments.



The recovery has been supported by government activities. Construction, public administration, education, finance and insurance, and health all recovered beyond their pre-crisis levels—driven mainly by a large fiscal stimulus and an accommodative monetary policy. Other sectors, including trade, transport, and communication also recovered strongly but not yet to their pre-crisis levels.



The private sector is yet to rebound fully. Private sector credit flows and investments are still below pre-crisis levels. Despite strong performance in the banking sector, credit to the private sector only grew by 11 percent in 2010, far below the projected 20 percent in the original program (Country Report No. 10/200). Imports of capital and intermediate goods grew by 11.2 percent, far below average growth for 2004—2008, and FDI declined from US$118.7 million in 2009 to US$42.3 million in 2010.



7. **The NBR loosened monetary policy in 2010 to support the rebound in economic activity as inflation dropped sharply.** Reserve money, the key monetary policy instrument, grew higher than the planned expansion for the year, due in part to weaknesses in liquidity forecasting in the last quarter of the year. Structural shifts in cash-in-vault of commercial banks in the last quarter of the year—from a rapid expansion of bank branches—were not taken into account in liquidity forecasts. Consistent with the loosening, the NBR also cut its policy rate by cumulative 300 basis points in 2010, but credit growth has been slow to return to pre-crisis levels.

MEFP ¶11-14

8. **Performance under the PSI program has been satisfactory.** All end-December 2010 and continuous quantitative assessment criteria and structural benchmarks were met, except for one structural measure—submission to cabinet for approval a draft legislation to transfer the collection and audit of social security and health insurance premium contributions to the Rwanda Revenue Authority (RRA) (MEFP Table 1). While the RRA has already started collecting the social security contributions, the legislation to formalize the functions of the RRA has been reset to September 2011. Two end-January 2011 structural benchmarks were missed. The draft export diversification strategy was approved by cabinet in April 2011. Although the authorities drafted a medium term debt strategy (MTDS), as planned for January 2011, they have requested Fund and World Bank TA to help strengthen the strategy before submitting it to cabinet for approval in October 2011.

9. **Rwanda has also maintained a good track record in implementing the Economic Development and Poverty Reduction Strategy (EDPRS).**[3] About 80 percent of programmed targets have been met across the different clusters since implementation of the strategy in 2008. However, lack of capacity and data; limited coordination among relevant agencies; and insufficient financing, have hampered effective implementation and monitoring of the EDPRS strategy. The ongoing household survey should help in evaluating how the strategy has impacted on poverty since its introduction.

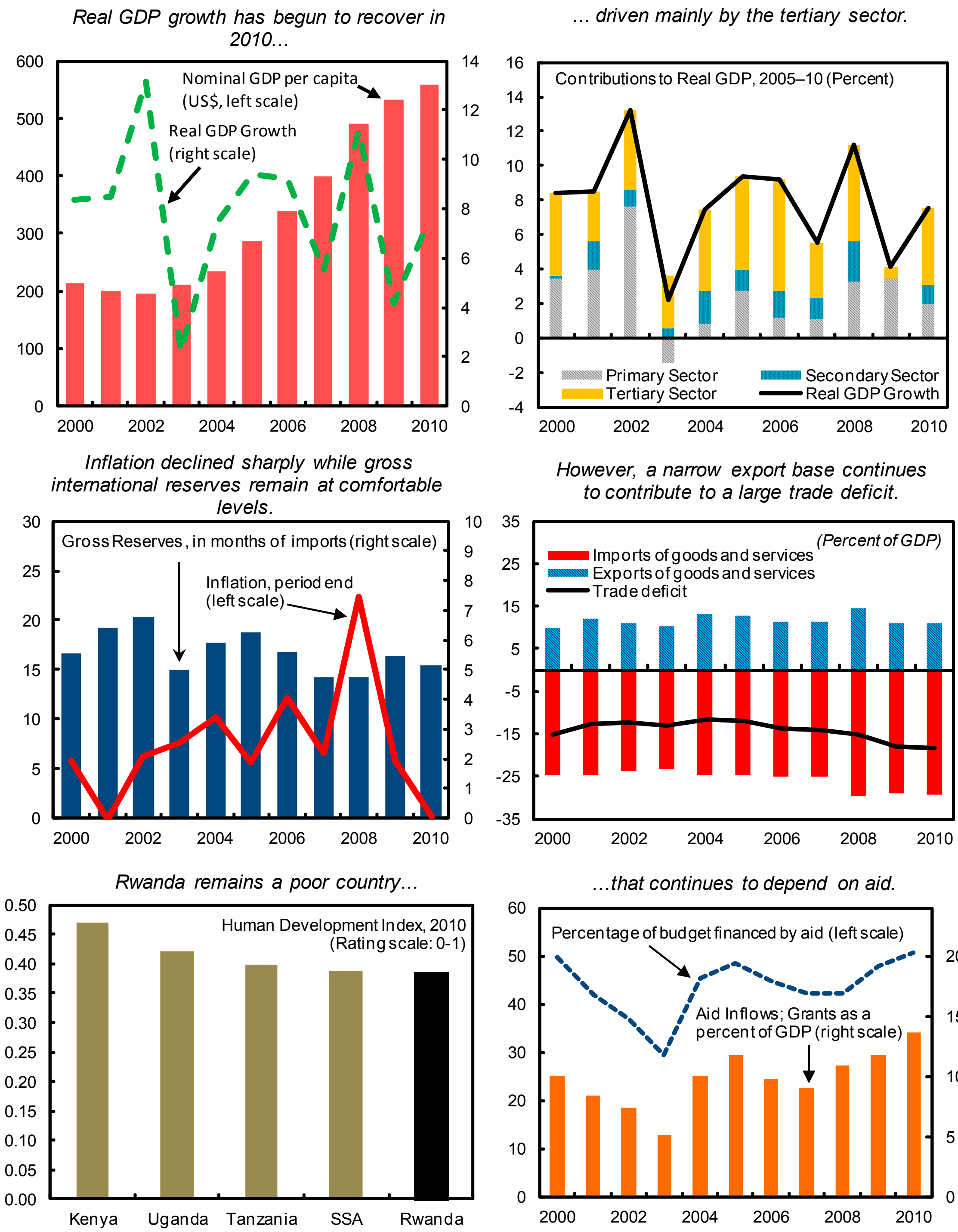
[3] A progress report on the implementation of the EDPRS has been issued to the Board together with this staff report.

Text Table 1. Rwanda: Structural Benchmarks for 2010-11 [1]

Policy Measure	Target Date	Macroeconomic rationale	Status
PFM			
1. Strengthen the MTEF by completing PERs for two more sectors (ICT and transportation).	End March 2011	To improve multi-year fiscal planning.	Met
2. Begin pilot of core modules of Smartgov (a component of IFMIS) in Ministries and Agencies. [3]	End July 2010	To help budget preparation, reporting and execution.	Met
3. Submit to Cabinet for approval a revised public debt policy and MTDS.	End January 2011	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.	Not met; a draft was availble by end-January but quality was not at the stage that could be submitted to cabinet. Fund staff advised authorities to request MTDS TA.
Fiscal Performance			
4. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially the quarterly budget execution reports will exclude foreign-financed projects. [2]	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Progress to be reviewed
Revenue Administration			
5. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to RRA.	End December 2010	To improve compliance and widen the tax base.	Not met. Draft legislation not yet ready.
6. Improve risk-based assessment of ASYCUDA++ by electronic submission of supporting customs documents. [3]	End June 2010	To modernize customs collection and properly assess liabilities.	Met
Financial Sector			
7. NBR to conduct minimum of 6 on-site bank inspections with NBR staff.	End December 2010	To keep up with both on and off site prudential oversight of banks consistent with risk-based supervision framework.	Met
Monetary Policy			
8. NBR to publish (and put on its website) the underlying economic assessments supporting MPC decisions within one month after every quarterly MPC meeting. [3]	Start date - End June 2010	To improve communication and shape expectations of market and general public and enhance effectiveness of the monetary policy framework.	Met
Exchange Rate			
9. Announce the introduction of interbank exchange rate corridor framework. [3]	End June 2010	To improve foreign exchange market efficiency and allow exchange rates to move in line with fundamentals.	Met
10. Remove NBR's Average Reference Rate (ARR) and establish new NBR customer buying and selling exchange rates. [2]	End January 2011	Unifying official and customer exchange rate.	Met
Export sector			
11. Submit to cabinet for approval the draft export diversification strategy and action plan.	End January 2011	To broaden the export base.	Met with delay.
Statistics			
12. Finalize design of living standards measurement questionnaire (EICV).	End September 2010	To improve measurement of GDP growth.	Met
13. Revise methodology for conducting ex-ante and ex-post agricultural crop assessment.	End December 2010	To improve measurement of GDP growth.	Met
14. Conduct ex-post crop assessment of 2011 season A. [2]	End January 2011	To improve measurement of GDP growth.	Met

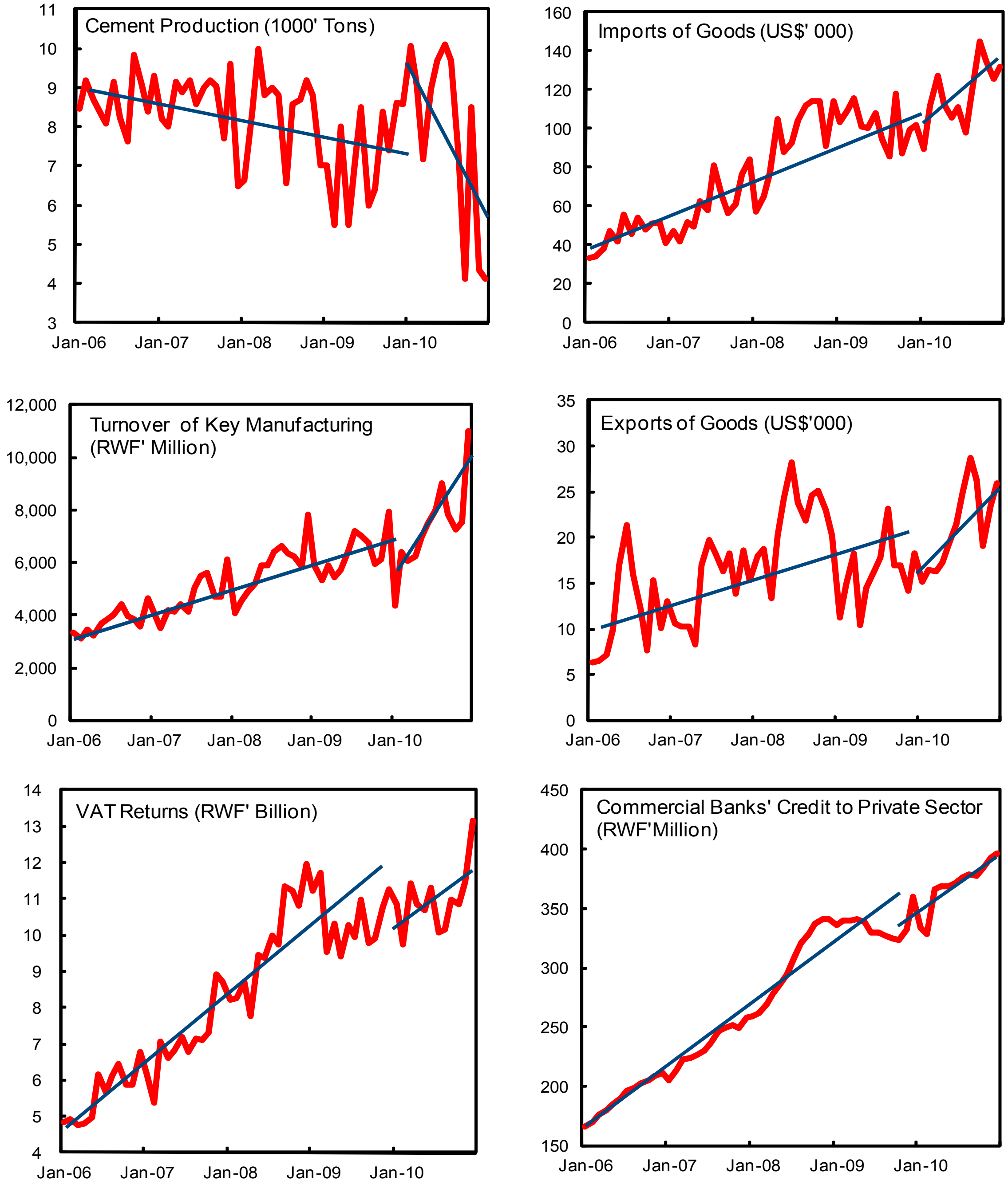
[1] Source: MEFP Country Report No. 11/19 and staff assessment.
[2] New measures introduced at the time of the first review of the PSI.
[3] Structural benchmarks for the first review.

Figure 1. Rwanda: Recent Performance, Achievements, and Challenges



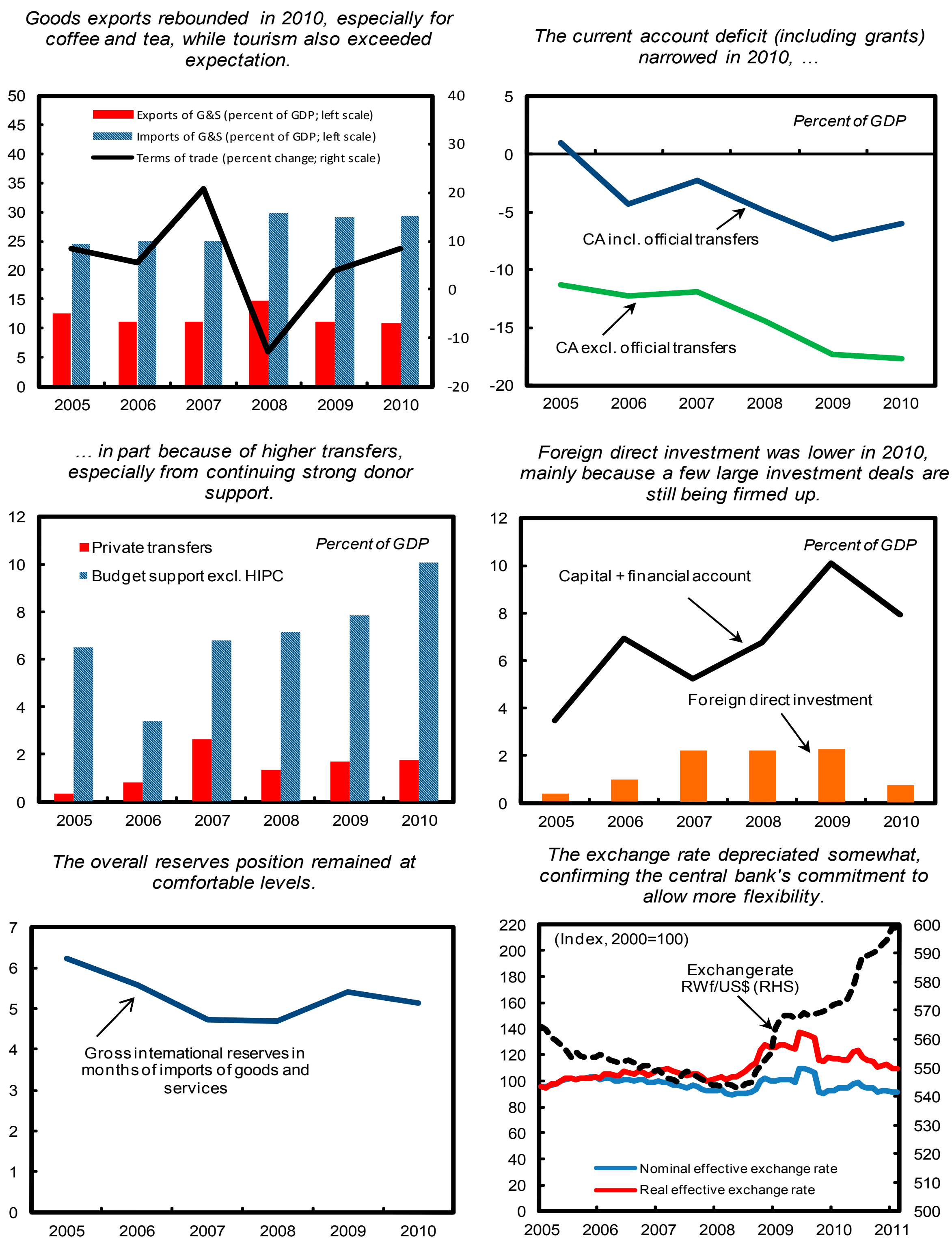
Sources: Rwandan authorities, IMF staff estimates, World Economic Outlook, AFR's Regional Economic Outlook, and UNDP Human Development and Poverty Indicators.

Figure 2. Rwanda: Selected High Frequency Indicators of Economic Activity, Jan 2006–Dec 2010



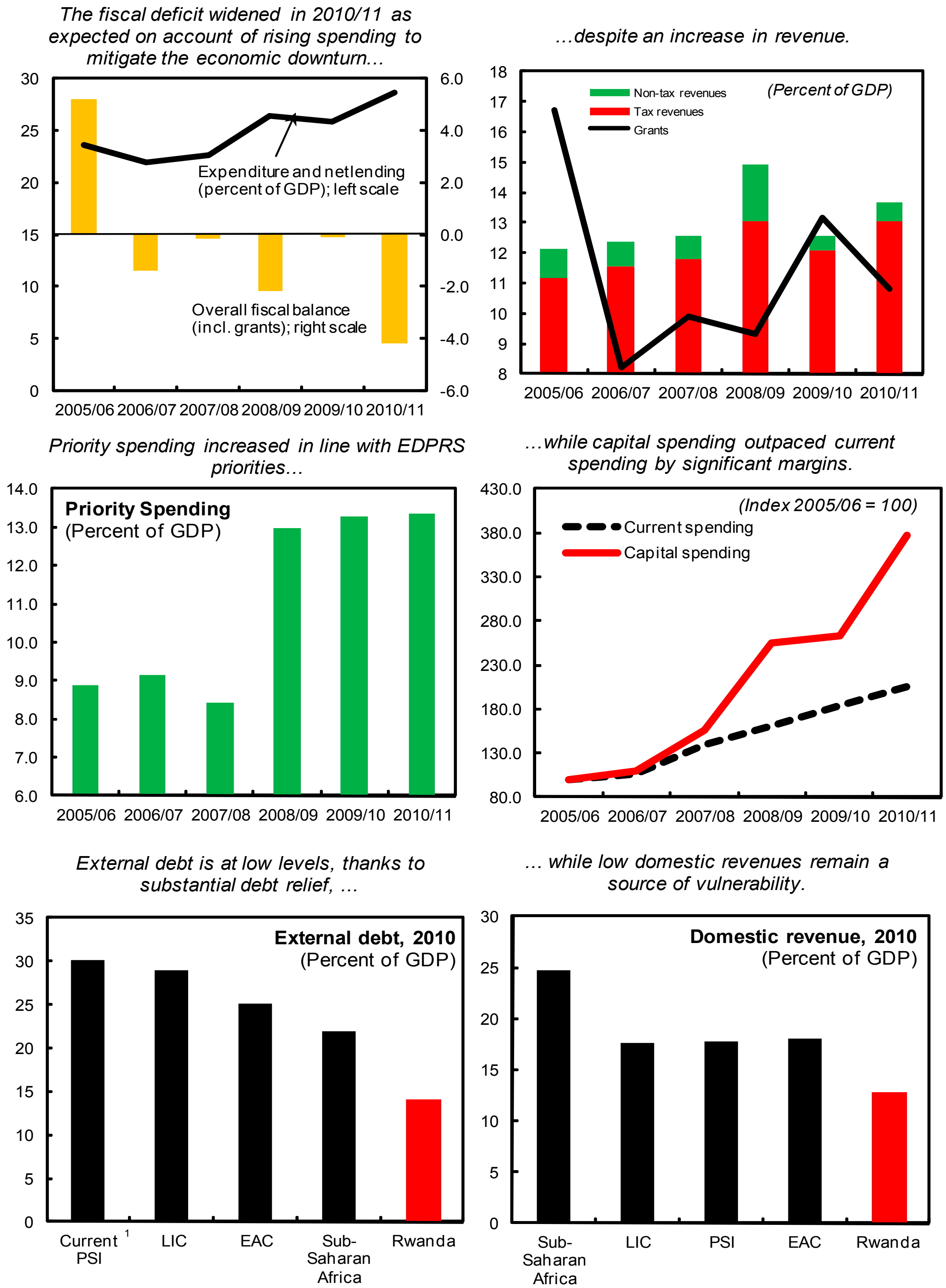
Sources: IMF staff and Rwandan authorities estimates.

Figure 3. Rwanda: External Developments, 2005–10



Sources: IMF staff and Rwandan authorities estimates.

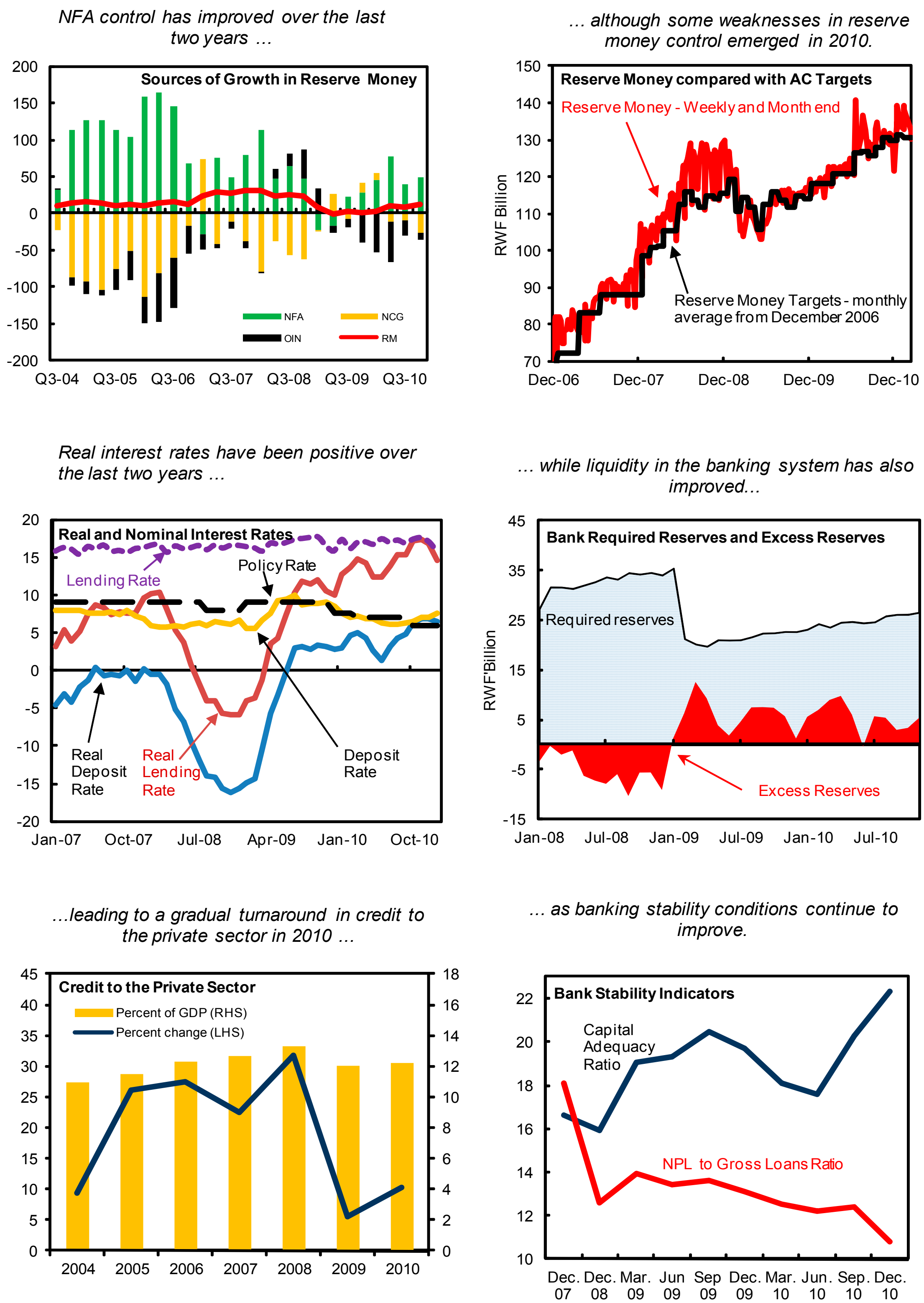
Figure 4. Rwanda: Fiscal Developments, 2005/06–2010/11



[1] Current PSI countries are: Cape Verde, Mozambique, Senegal, Tanzania, and Uganda.

Sources: IMF staff and Rwandan authorities estimates.

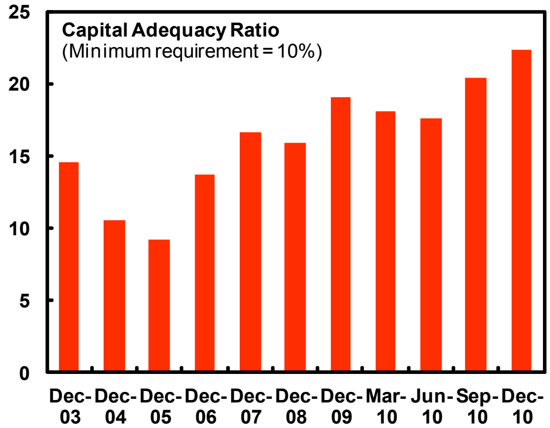
Figure 5. Rwanda: Monetary and Financial Developments



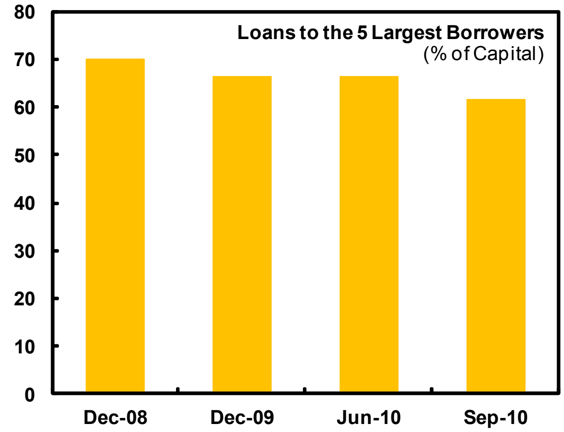
Sources: Rwandan authorities and IMF staff estimates.

Figure 6. Rwanda: Developments in the Financial Sector, 2003–10

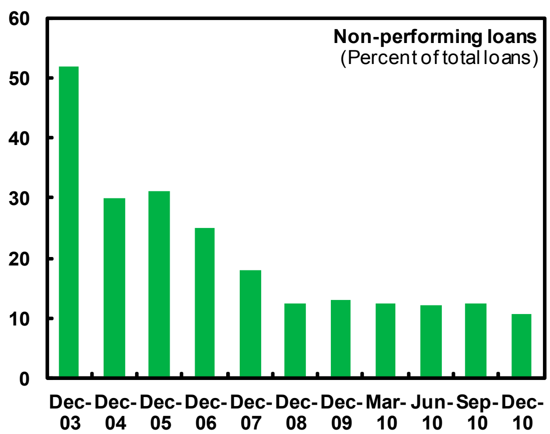
The banking system remains well capitalized...



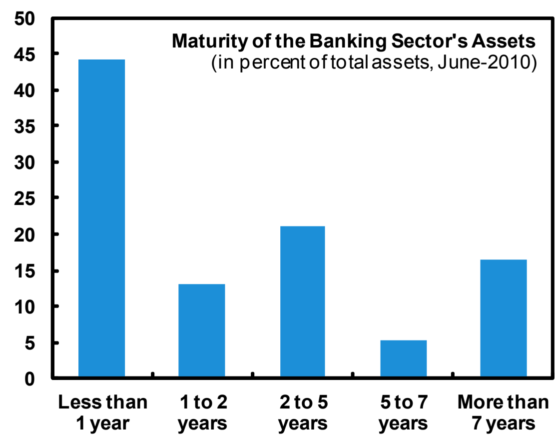
...and banks' loans remain highly concentrated.



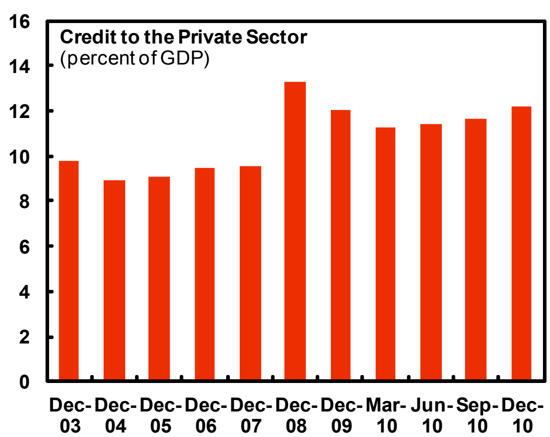
Non-performing loans have remained sticky downwards...



...and asset maturity has remained relatively short.



The pace of financial deepening has begun to slow down.



Despite improvements in some areas, access to credit is still a challenge.

Access to Credit

	Rwanda	Sub-Saharan Africa	OECD Average
Rank (out of 183)	32	…	…
Strength of legal rights index (0-10)	8	4.6	6.9
Depth of credit information index (0-6)	4	1.7	4.7
Public registry coverage (% of adults)	0.7	2.7	8
Private bureau coverage (% of adults)	0	4.9	61

Sources: Rwandan authorities, World Bank Doing Business (2011), and IMF staff estimates.

II. Policy Discussions

A. Overview

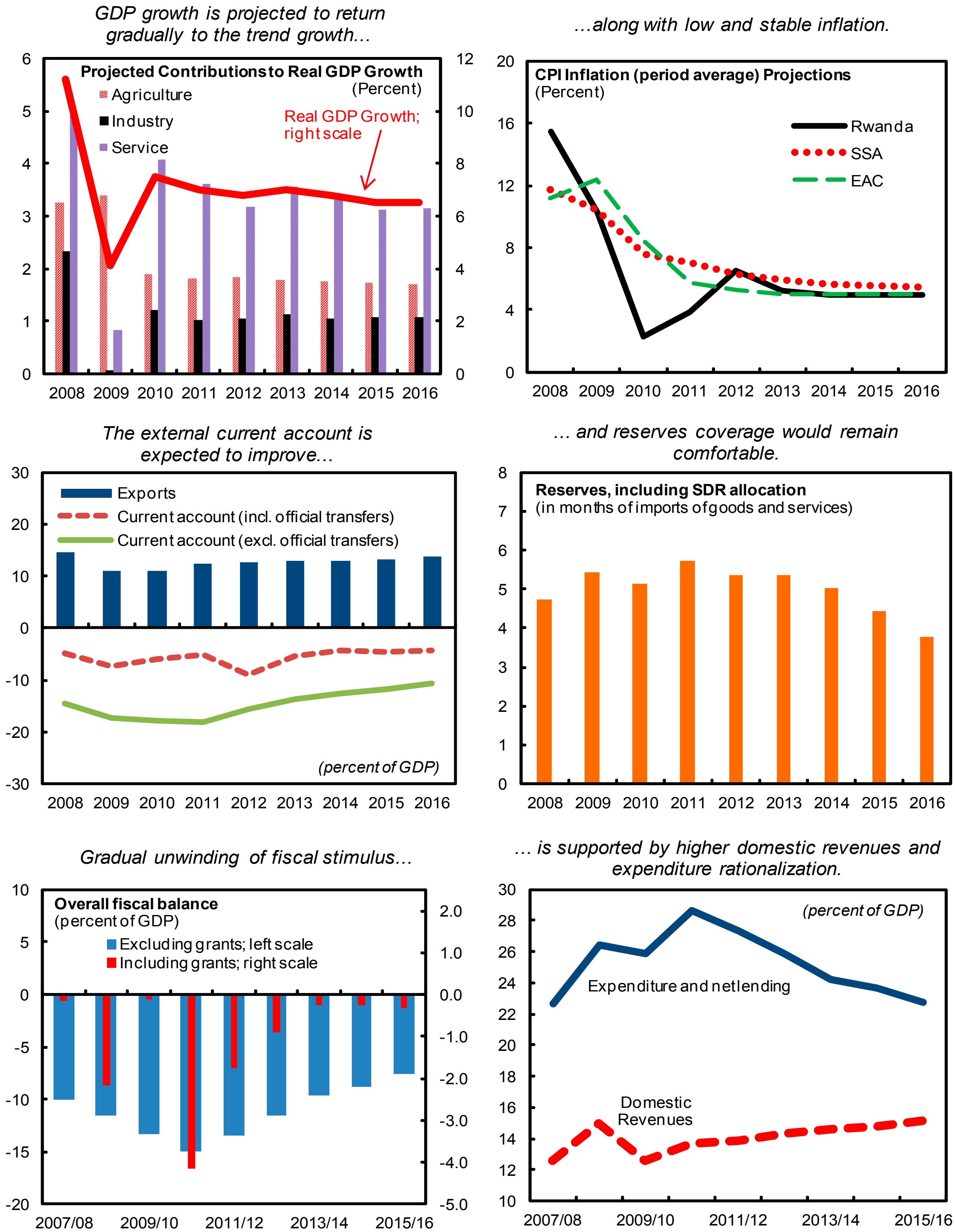
10. **The medium term outlook remains positive**. Output growth is projected to decline slightly to 7 percent in 2011—reflecting withdrawal of the fiscal stimulus and uncertainties in the external environment—and stabilize thereafter around trend growth of 6.5 percent. Sustaining the growth momentum would depend on securing financing for the key growth catalytic investments, a favorable external environment, and a strong recovery in credit to the private sector. Inflation is projected to increase sharply from 0.2 percent in 2010 (year-on-year) to 7.5 percent in 2011, driven mainly by rising global food and fuel prices. The trade and current accounts are also expected to worsen in the near term. International reserves are expected to decline gradually to about 3.5 months of imports by 2016.

Text Table 2. Rwanda: Medium-Term Framework, 2007–16

	2007	2008	2009	2010 EBS/10/230	2010 rev.	2011 prog.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
	(Annual percent changes)										
Real GDP	5.5	11.2	4.1	6.5	7.5	7.0	6.8	7.0	6.8	6.5	6.5
Consumer prices (end of period)	6.6	22.3	5.7	4.6	0.2	7.5	5.5	5.0	5.0	5.0	5.0
	(In percent of GDP, unless otherwise indicated)										
Revenues[1]	12.4	12.6	14.9	12.5	12.6	13.7	13.9	14.3	14.6	14.8	15.2
Grants[1]	8.2	9.9	9.3	13.1	13.2	10.8	11.7	10.7	9.3	8.5	7.2
Government expenditure and net lending[1]	22.0	22.6	26.4	25.8	25.9	28.7	27.4	25.9	24.2	23.6	22.8
Overall fiscal balance (incl. grants)[1]	-1.4	-0.2	-2.2	-0.1	-0.1	-4.2	-1.8	-0.9	-0.3	-0.3	-0.3
Overall fiscal balance (excl. grants)	-9.6	-10.0	-11.5	-13.2	-13.3	-15.0	-13.5	-11.6	-9.6	-8.8	-7.6
Current account balance (incl. official transfers)	-2.2	-4.9	-7.3	-6.7	-6.0	-5.2	-9.1	-5.5	-4.4	-4.5	-4.2
Gross official reserves (months of imports of G&S)	4.7	4.7	5.4	4.6	5.2	5.7	5.3	5.4	4.8	4.2	3.5

[1] On a fiscal year basis (July-June). For example, the column ending in 2011 refer to FY2010/11 fiscal data. Other data are on a calendar year basis.
Sources: Rwandan authorities and IMF staff estimates and projections.

Figure 7. Rwanda: Medium-Term Outlook, 2008–16



Sources: IMF staff and Rwandan authorities estimates.

B. Starting the Fiscal Consolidation Process

11. **Following sizable fiscal expansion of the past two years—and rebound in economic activities—the FY2011/12 budget starts rebuilding fiscal buffers.**[4] The overall deficit (incl. grants) is expected to narrow from 4.2 percent of GDP in FY 2010/11 to 1.8 percent of GDP in FY2011/12, thus allowing the net domestic financing to decline from about 2 percent of GDP to less than ½ percent of GDP, given the available external financing. Over the same period, the domestic deficit is set to decline from 8.1 percent of GDP to 6.7 percent of GDP.

12. **The fiscal consolidation strategy is backed up by lower spending and further strengthening of tax administration and PFM systems.** Spending is programmed to decline by 1.3 percent of GDP, bringing spending below the 2009/10 level when a large fiscal stimulus was undertaken to mitigate the economic slowdown.[5] The authorities aim for higher revenues in 2011/12 (0.2 percent of GDP increase)—the cornerstone of the fiscal strategy under the PSI program. This is supported by a series of tax administration measures—designed to broaden the tax base and increase VAT productivity (two structural benchmarks). The updated PEFA report finalized in November 2010 upgraded Rwanda's score in a number of areas, but found weaknesses persist in the areas of multi-year fiscal planning and assessment of fiscal risks of other public sector entities.

MEFP ¶25-30

13. **The authorities recently informed staff of planned policy responses to the rising global food and fuel prices.** In line with a recent review of fuel policy, the authorities intend to reduce fuel taxes—which are the highest in the EAC—in order to help cushion the impact of high oil prices on the population, aid tax harmonization policies with the rest of the EAC, and reduce inflationary pressures. The measure, while benefiting primarily consumers, could also indirectly help lower-income segments of the population by limiting cost pressures for public transport, and food and cargo transportation. The reduction in fuel taxes is expected to be implemented in two phases (July 2011 and January 2012), with the second reduction contingent on oil price developments during the year. The authorities already have in place a successful on-going crop intensification program which was introduced in 2008 as a supply response to global food price increases. Where needed, the authorities may introduce some changes in the composition of spending to enhance the existing social safety net.

14. **The 2011/12 fiscal program remains unchanged, but further revenue efforts may be needed over the medium run.** The first phase of the planned fuel tax measure is

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[4] FY2011/12 budget is to be presented to Parliament by mid-June 2011.

[5] The comparison excludes spending from Global Funds in 2011/12 as there was none in 2009/10.

expected to result in a revenue loss of 0.2 percent of GDP for 2011/12, offset by additional revenue-enhancing measures planned by the authorities, of which 0.1 percent of GDP have already been identified.[6] If the second phase of the fuel tax measure is implemented, the authorities may need to take further revenue measures—including those informed by a forthcoming TA mission from the IMF's Fiscal Affairs Department—to maintain the medium-term path of fiscal consolidation as planned in the program.[7] Given uncertainties in the timing of the fuel tax measure, as well as the timing of additional revenue measures and financing, the fiscal program will be reviewed—and revised slightly if needed—in the forthcoming third PSI review.

C. Tightening Monetary Policy

15. **The authorities are committed to tighten monetary policy in 2011 if needed to contain any second round effects of higher global food and fuel prices on inflation.** Reserve money has been programmed to grow by 16 percent in 2011 in line with the projected growth in economic activity and a structural shift in cash-in-vault of banks due to rapid expansion of bank branches. Private sector credit growth is expected to rebound to 19.2 percent as a result of much slower growth of credit to the government. In the event that underlying inflation, measured by the core inflation, begins to rise persistently, the authorities are prepared to use all available instruments—including open market operations, repo operations, reserve requirements, and foreign exchange operations–to contain these pressures in order to achieve the inflation objective.

MEFP ¶35-38

16. **Liquidity forecasting will be further enhanced.** The NBR is committed to reviewing the existing liquidity forecasting framework to minimize forecasting errors and improve reserve money control.

[6] The measures identified so far for FY 2011/12 include implementation of the electronic sales register for VAT collection (MEFP ¶25) in July 2011 rather than January 2012 as originally planned and introduction of a gambling tax.

[7] There are also plans to borrow concessionally from AfDB (0.5 percent of GDP), which could help temporarily close the revenue shortfall that could arise from the full implementation of the fuel tax reduction. In the event that the additional AfDB loan is disbursed, the program targets on net domestic financing, domestic debt and net foreign assets will be adjusted accordingly in line with the program adjustors in the TMU, which have been updated to include budget support loans from donors.

17. **Developing the money and foreign exchange interbank markets is a priority**. Lack of interbank activities remains a challenge to liquidity management and the efficient functioning of the exchange rate corridor framework. The NBR, with MCM TA, will put together a comprehensive action plan to encourage interbank trading to develop the markets.

MEFP ¶39

18. **Meanwhile, the NBR has put together a comprehensive program to strengthen its analytical capacity to support the monetary policy committee (MPC) process**. Development partners, including the IMF (MCM), are supporting the capacity building program of the NBR through joint research and training programs.

MEFP ¶40

D. Improving Access to Financial Services while Safeguarding Financial Stability

19. **The banking system is well capitalized and profitable, but nonperforming loans remain high**. The NBR increased the number of on-site supervisions and began to institute measures to improve supervisory capacity. Further capacity building at NBR is planned for FY2011/12—with enhanced staff compensation and professional development expected to attract and retain highly skilled professionals. In the meantime, the NBR is recruiting additional five staff, by end-June 2011, to reinforce the banking supervision team (structural benchmark).

20. **The financial system has been modernized since the 2005 FSAP, but the 2011 FSAP Update concluded that some risks and challenges remain while new reform priorities have emerged (Box 2)**[8]. The authorities are in broad agreement with the findings and recommendations of the FSAP Update, and are seeking assistance from the IMF, World Bank, and FIRST Initiative to come up with an action plan that forms the basis of the second generation of Rwanda's Financial Sector Development Plan (FSDP).

[8] Additional information is provided in the Financial System Stability Assessment (FSSA) report.

21. **The authorities are proceeding with the roll-out of 416 Umurenge (district-level) SACCOs.**[9] These are in addition to some 74 nation-wide SACCOs that are already existing and supervised by NBR. The authorities intend to put in place a formal supervisory structure for SACCOs, informed in part by the forthcoming results of a donor-funded study on their sustainability and the FSDP action plan. In the meantime, the NBR's contingency plan is to hire and train as soon as possible 60 additional inspectors to supervise SACCOs (structural benchmark), with donor financing, and reinforce licensing requirements to ensure that SACCOs that are granted full licenses to lend have key management and directors with expertise.

MEFP ¶42-44

Box 2. Rwanda: 2011 FSAP Update

The FSAP Update mission in February 2011 found that Rwanda has successfully implemented many of the recommendations of the 2005 FSAP. The framework for monitoring and mitigating risks has improved and there have been major legal, regulatory, and institutional developments, particularly in banking but also in other sectors.

While the core banking system has been stabilized and strengthened, risks and challenges remain. The Update found that progress in access to finance and deepening of interbank money and foreign exchange markets has been limited. Only 14 percent of Rwandans have access to formal banking products, and access to formal finance is particularly limited for the rural population. The high turnover of experienced staff has weakened the supervisory capacity of the NBR, while low skills and skill absorption present ongoing challenges. Also the roll-out of over 400 SACCOs poses additional challenges to regulation and supervision as the authorities seek to find new institutional structures for oversight of SACCOs.

The banking system, the dominant source of finance, is in a period of transition and recovery following significant bank restructuring and merger/acquisition activity in 2007 and 2008. It is highly concentrated and yet is competitive in many markets. It is also relatively efficient, albeit performance indicators have been affected by banks addressing problem loans restructuring coupled with continuing expansion efforts.

Going forward, the FSAP Update highlighted priorities for reform. These include: (i) developing a sustainable and effective model for the monitoring and supervision of SACCOs; (ii) development of contingency plans for government support of financial sector at times of crisis; (iii) deepening of the interbank money market; (iv) addressing limited supervision capacity; (v) strengthening provisioning requirements for banks; and (vi) improving access to finance.

[9] Of the 416 new Umurenge SACCOs, so far four have full licenses.

E. Securing Financing for Large Strategic Investment Projects to Sustain Growth

22. **The government's agenda to accelerate growth is underpinned by key strategic investments already identified**. However, efforts at securing financing are slow. To date, the authorities have made use of only a small part of the nonconcessional external borrowing space (US$240 million) under the PSI-supported program. Among the projects tied to this external borrowing, two new aircrafts are expected to be delivered to Rwandair in 2011, while construction of the Kigali Convention Complex is proceeding with financing from domestic sources, including privatization receipts.

23. **A DSA confirms that Rwanda remains at moderate risk of external debt distress**. The limit of US$240 million on nonconcessional external borrowing during the PSI-supported program is still considered appropriate to ensure debt sustainability; and consistent with current policy mix to maintain macroeconomic stability. The main vulnerability to debt sustainability continues to stem from the narrow export base.

24. **Meanwhile, the authorities continue to request exclusion from the debt limit for a state-owned bank, the Banque Rwandaise de Developpement (BRD).** The BRD was not excluded during the first PSI review (Country Report No. 11/19), on the grounds that it posed fiscal risks, including because it lacked a sufficiently independent management board and regularly received budgetary transfers and tax exemptions. Additional information provided by the authorities demonstrates a solid track record of BRD's borrowing from external sources—including on non concessional terms[10]—and its record of repayment without recourse to government support. However, other measures that would reduce the bank's fiscal risk have not yet been finalized. These include nullifying the statute establishing the bank as a public institution and registering the bank under the Rwanda Companies Law, and appointing a new independent Board. Once completed, the request for exclusion could be considered in a future review.

F. Building Institutional Capacity to Support Policy Objectives

25. **The quality of national accounts statistics has improved significantly even though weaknesses still remain**. The authorities have introduced ex-post crop assessment surveys since the end of 2010 to enhance the quality of food production statistics, and the National Institute of Statistics Rwanda (NISR) is reviewing the use of population indicators in estimating GDP in line with international best practice (structural benchmark). The NISR is also in the process of recruiting new staff to support the ambitious work plan including rebasing the GDP estimates in 2013.

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[10] This was consistent with the PRGF-supported program at the time, under which the coverage of public sector entities subject to the nonconcessional borrowing ceiling was narrower than under the subsequent PSI.

26. **Further progress in PFM reforms is also planned.** The authorities are reassessing their PFM strategy in order to address weaknesses as identified in the latest PEFA report—particularly to improve IFMIS and broaden the coverage of the Treasury Single Account (TSA) to include project grants (two structural benchmarks). Moreover, the authorities are improving their capacity to conduct their own DSA (structural benchmark) to better inform the budget process, starting with the FY2012/13 budget.

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III. Risks to the Program

27. **Risks to the program have heightened following sharp rises in global food and fuel prices in recent months.** Pressures to further lower the fuel tax, the possible need to review spending composition to strengthen social safety nets, and higher and persistent inflationary pressures, could put at risk achieving some of the program objectives. Other risks to the program include delays in securing financing for implementation of key strategic investments which could slow down growth acceleration efforts.

IV. Program issues

28. **New quantitative assessment criteria, indicative targets, and structural measures proposed for FY2011/12 are presented in the authorities' MEFP (Attachment I to the letter of Intent)**. Some quantitative assessment criteria for end-June 2011 and end-December 2011 established at the time of the first review (Country Report No. 11/19) have been proposed to be adjusted to reflect changes in economic conditions (Tables 3 and 4 of the MEFP). Specifically, revisions are proposed to: (i) NFA of the central bank to reflect higher than programmed donor inflows; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor flow disbursements and spending reductions.

29. **The TMU has also been updated to accommodate some changes and modifications to the assessment criteria for end-June 2011 relative to the last staff report (Country Report No. 11/19).** The updated changes are as follows:

- The adjuster to the NDF has been amended to account for Global Fund resources controlled by the central government in determining applicable government deposits.
- Program exchange rates have been revised.
- The adjustors to NDF, NFA and domestic debt have been amended to include budget support loans from donors.

V. Staff Appraisal

30. **The economic recovery in Rwanda has been stronger than projected and appears to be leveling off.** Sustaining the strong performance over the medium term depends on the authorities' ability to entice foreign financing for the key investment projects essential for growth; the external environment; and recovery in credit to the private sector.

31. **However, heightened uncertainties due to rising global food and fuel prices pose threats to the recovery.** This could dampen the growth momentum, resurrect inflationary pressures, and affect the pace of fiscal consolidation. Staff welcome the policy to reduce fuel taxes in 2011/12 to help cushion the impact of high oil prices on the population—including lower-income segments of the population—while also accelerating revenue enhancing measures to preserve the fiscal consolidation. Some changes in the composition of spending may be warranted, including strengthening existing social safety nets—improving the food distribution system to support the ongoing crop intensification program. The authorities are prepared to tighten monetary policy if needed to contain inflationary pressures.

32. **It is appropriate to start withdrawing the fiscal stimulus now that the recovery seems to have leveled off**. Staff welcome the authorities' commitment to streamline expenditure and introduce further reforms in revenue administration and tax policy—supported by a forthcoming TA mission from the IMF's Fiscal Affairs Department—to boost domestic revenue over the medium term in line with anticipated declines in donor inflows and help realignment of Rwanda's tax policy with other EAC countries. The new debt policy and strategy document (MTDS) and PFM reforms should create the platform to ensure a sustainable investment program to underpin growth.

33. **Reforms in monetary policy implementation are beginning to enhance monetary policy effectiveness, although weaknesses remain.** A further re-tooling of the operations of the interbank money and foreign exchange markets to encourage interbank trading should improve liquidity and exchange rate management and enhance effectiveness of monetary policy. The central bank also needs to continue building analytical capacity to support monetary policy coordination, particularly in the areas of liquidity and inflation forecasting.

34. **Increasing access to financial services is welcome, but the risks of the large roll-out of SACCOs need to be addressed.** The roll-out of over 400 SACCOs may not be sustainable given that appropriate institutional structures for managing these SACCOs are not yet in place, and the central bank does not have the capacity to supervise these SACCOs. Staff welcome the authorities' decision to hire and train 60 new inspectors, but the training and staff hiring should be aligned with the size of the roll-out. The early adoption of a sustainable institutional structure for SACCOs, as underscored by the 2011 FSAP Update, should be top priority.

35. **Progress in improving the quality of national accounts statistics is welcome.** The authorities are committed to follow the road map (with TA from AFRITAC East) to further

improve the source data and methodology of the national account statistics toward the rebasing of GDP estimates in 2013.

36. **Staff recommend completion of the second review, modification of the assessment criteria for end-June 2011, setting of end-December 2011 assessment criteria, and approval of structural benchmarks for FY 2011/12 under the PSI program based on Rwanda's performance and the strength of the program going forward.**

Table 1. Rwanda: Selected Economic and Financial Indicators, 2007–16

	2007	2008	2009	Country Report No. 11/19 2010	Est. 2010	2011	2012	2013	2014	2015	2016
	(In percent changes; unless otherwise indicated)										
Output and prices											
Real GDP growth	5.5	11.2	4.1	6.5	7.5	7.0	6.8	7.0	6.8	6.5	6.5
Real GDP (per capita)	3.3	8.9	2.0	4.3	5.3	4.8	4.6	4.8	4.6	4.3	4.3
GDP deflator	13.2	12.6	11.0	3.8	2.1	4.7	6.1	5.3	5.2	4.9	4.9
Consumer prices (period average)	9.1	15.4	10.3	3.2	2.3	3.9	6.5	5.3	5.0	5.0	5.0
Consumer prices (end of period)	6.6	22.3	5.7	4.6	0.2	7.5	5.5	5.0	5.0	5.0	5.0
External sector											
Export of goods, f.o.b (in U.S. dollars)	19.9	51.4	-12.2	48.1	26.5	26.3	9.5	5.9	7.9	5.7	9.1
Imports of goods, f.o.b (in U.S. dollars)	30.2	51.5	13.5	11.9	8.5	29.2	-4.5	0.2	6.2	6.5	6.9
Export volume	-0.2	21.8	-20.0	16.5	11.6	5.6	12.9	9.4	13.1	10.0	10.0
Import volume	31.0	6.4	7.4	8.8	3.8	14.6	0.4	1.7	6.8	6.5	5.7
Terms of trade (deterioration = -)	20.9	-12.8	3.8	23.6	8.5	6.1	2.0	-1.7	-4.1	-3.9	-1.9
Money and credit[1]											
Net domestic assets[2]	7.6	10.3	4.9	11.8	2.2	7.0	19.1	10.0	15.7	15.5	14.8
Domestic credit[2]	12.0	20.5	3.8	16.2	9.4	4.7	23.1	5.4	16.2	16.0	14.8
Government[2]	0.2	-18.1	0.2	8.6	2.4	-7.9	16.2	0.0	0.0	0.0	0.0
Economy[2]	11.9	38.6	3.6	7.6	7.0	12.6	6.9	5.4	16.2	16.0	14.8
Broad money (M2)	30.8	24.2	13.1	12.9	16.9	16.0	15.3	13.7	13.3	12.8	12.8
Reserve money[3]	30.7	23.5	0.3	11.7	12.5	16.0	15.3	13.7	13.3	12.8	12.8
Velocity (GDP/M2; end of period)	5.5	5.5	5.6	5.5	5.3	5.1	5.0	5.0	4.9	4.9	4.8
	(Percent of GDP)										
National income accounts											
National savings	8.3	9.1	5.1	6.1	4.2	7.0	7.7	7.9	8.2	9.2	10.0
Gross investment	20.2	23.5	22.4	23.4	21.9	25.1	23.3	21.8	20.9	20.9	20.7
Of which: private (including public enterprises)	12.4	13.1	12.4	12.6	10.9	11.1	11.4	11.9	12.2	12.5	12.8
Government finance[4]											
Total revenue (excl. grants)	12.4	12.6	14.9	12.5	12.6	13.7	13.9	14.3	14.6	14.8	15.2
Total expenditure and net lending	22.0	22.6	26.4	25.8	25.9	28.7	27.4	25.9	24.2	23.6	22.8
Capital expenditure	7.0	8.2	11.1	10.1	10.2	13.1	13.0	11.0	8.8	8.5	8.2
Current expenditure	14.2	15.1	14.5	14.7	14.8	14.9	14.4	14.4	14.8	14.6	14.5
Primary fiscal balance[5]	-1.6	-3.3	-2.2	-5.2	-5.2	-5.2	-4.6	-3.6	-4.1	-3.8	-3.1
Domestic fiscal balance[6]	-4.6	-5.6	-5.3	-8.0	-8.1	-8.1	-6.7	-5.8	-6.2	-5.8	-4.8
Overall fiscal balance (payment order)											
After grants	-1.4	-0.2	-2.2	-0.1	-0.1	-4.2	-1.8	-0.9	-0.3	-0.3	-0.3
Before grants	-9.6	-10.0	-11.5	-13.2	-13.3	-15.0	-13.5	-11.6	-9.6	-8.8	-7.6
External sector											
External current account balance											
Including official transfers	-2.2	-4.9	-7.3	-6.7	-6.0	-5.2	-9.1	-5.5	-4.4	-4.5	-4.2
Excluding official transfers	-11.9	-14.4	-17.3	-17.3	-17.7	-18.1	-15.7	-13.8	-12.6	-11.7	-10.7
External debt (end of period)	15.2	14.8	14.8	14.9	14.9	17.7	19.2	19.0	17.7	16.5	15.2
Net present value of external debt											
(percent of exports of goods and services)	…	…	…	…	99.7	98.1	108.7	110.7	100.3	91.1	80.9
Scheduled debt service ratio											
(percent of exports of goods and services)	3.5	2.1	2.6	3.6	3.4	5.7	5.0	6.1	7.5	7.8	7.1
Gross reserves (in months of imports of goods and services)[7]	4.7	4.7	5.4	4.6	5.2	5.7	5.3	5.4	4.8	4.2	3.5
	(Millions of U.S. Dollars)										
Gross reserves	552.4	596.4	742.2	737.2	814.2	899.2	847.6	897.2	856.8	804.7	761.5
Memorandum item:											
Nominal GDP (billions of Rwanda francs)	2,049	2,565	2,964	3,278	3,253	3,643	4,128	4,652	5,224	5,839	6,526

Sources: Rwandan authorities; and IMF staff estimates and projections.

[1] Projections are based on the program exchange rate of RwF per US dollar of RWF571.24 for 2010 and RWF594.45 thereafter.

[2] As a percent of the beginning-of-period stock of broad money.

[3] Increase in 2007 reflects rebasing of the monetary program; reserve money growth was limited to 13 percent after correcting for the rebasing at end-2006.

[4] On a fiscal year basis (July-June).For example, the column ending in 2011 refer to FY2010/11.

[5] Revenue excluding grants minus current expenditure except interest due and exceptional expenditure (AU peacekeeping expenditures and spending on demobilizing and integrating militia g

[6] Revenue excluding grants minus current expenditure (excluding external interest) minus domestically financed capital expenditure and net lending.

[7] Data from 2009 onwards includes SDR Allocation

Table 2. Rwanda: Balance of Payments, 2007–16
(Millions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009	2010		2011		2012	2013	2014	2015	2016
		Est.	Est.	Country Report No. 11/19	Est.	Country Report No. 11/19	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1] *of which:*	176.8	267.7	235.0	285.5	297.3	284.4	375.6	411.4	435.7	470.1	497.0	542.2
Coffee and tea	67.2	92.0	85.6	121.3	111.8	108.4	138.9	150.1	146.3	151.6	146.2	159.7
Minerals	70.6	91.7	55.4	56.1	67.9	61.1	102.2	117.8	136.3	155.3	175.2	193.0
Imports (f.o.b.), *of which:*	581.2	880.7	999.2	1,146.6	1,084.0	1,371.0	1,400.5	1,336.9	1,339.5	1,422.8	1,515.0	1,619.8
Capital goods	152.7	275.5	283.9	278.6	268.2	443.7	408.7	369.7	342.2	379.5	417.9	461.0
Energy goods	87.2	121.1	135.7	233.2	158.2	254.5	231.8	248.1	257.5	271.8	289.8	310.3
Trade balance	-404.4	-613.0	-764.2	-861.1	-786.7	-1,086.7	-1,024.9	-925.6	-903.7	-952.7	-1,017.9	-1,077.6
Services (net)[2]	-123.2	-100.6	-181.6	-179.6	-246.2	-191.4	-135.0	-134.1	-95.0	-51.9	-12.9	34.5
Of which: tourism receipts	151.6	186.0	174.5	186.0	201.6	213.9	233.9	269.0	309.3	355.8	409.1	470.5
Income	-17.2	-35.1	-36.8	-35.8	-45.9	-54.5	-60.3	-78.1	-89.0	-92.6	-85.5	-79.7
Of which: interest on public debt[3]	-6.2	-6.9	-7.3	-11.4	-9.6	-11.1	-11.6	-15.4	-23.4	-28.6	-26.8	-24.4
Current transfers (net)[4]	461.3	518.6	600.0	695.7	745.4	777.4	911.8	549.6	702.3	755.6	739.9	739.0
Private	98.8	72.6	79.7	96.0	90.7	95.0	141.2	123.9	110.7	122.3	136.5	151.8
Of which: remittance inflows	98.5	63.3	88.1	98.8	98.2	95.5	103.1	111.4	120.3	129.9	140.3	151.5
Public	362.5	446.0	520.3	599.7	654.7	682.4	770.6	425.7	591.5	633.3	603.4	587.3
Of which: HIPC grants	4.5	5.6	5.2	4.8	4.5	4.2	4.5	4.9	5.2	5.4	5.4	5.3
Current account balance (incl. official transfers)	-83.4	-230.1	-382.7	-380.8	-333.5	-555.1	-308.5	-588.2	-385.4	-341.5	-376.4	-383.7
Current account balance (excl. official transfers)	-445.9	-676.1	-902.9	-980.5	-988.1	-1,237.5	-1,079.0	-1,013.9	-976.9	-974.8	-979.8	-971.0
Capital account	92.0	210.1	200.0	207.5	197.6	181.8	99.5	225.2	229.0	180.8	175.5	170.4
Project grants	92.0	210.1	200.0	207.5	197.6	181.8	99.5	225.2	229.0	180.8	175.5	170.4
Financial account	104.7	106.1	327.5	163.9	246.3	404.0	294.6	312.5	207.8	122.8	151.7	172.5
Direct investment	82.3	103.4	118.7	66.4	42.3	111.7	88.1	66.2	79.5	99.7	124.4	155.2
Public sector capital	80.4	104.8	182.1	81.7	99.0	227.0	181.7	195.9	112.4	25.7	18.4	7.4
Long-term borrowing[5]	88.7	112.2	88.8	96.4	110.1	259.0	212.5	222.2	143.5	73.4	80.0	70.1
Scheduled amortization[6]	-8.3	-7.5	-7.5	-14.7	-11.1	-32.1	-30.8	-26.3	-31.1	-47.7	-61.7	-62.7
SDR allocation			100.7									
Other capital[7]	-58.0	-102.0	26.8	15.8	104.9	65.3	24.7	50.4	15.9	-2.6	8.9	9.9
Capital and financial account balance	196.7	316.1	527.5	371.4	443.9	585.8	394.1	537.7	436.8	303.6	327.2	342.9
Errors and omissions	-5.4	-21.3	0.0	0.0	-38.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	107.9	64.7	144.8	-9.4	72.0	30.7	85.6	-50.5	51.4	-37.9	-49.2	-40.8
Financing	-107.9	-64.7	-144.8	9.4	-72.0	-30.7	-85.6	50.5	-51.4	37.9	49.2	40.8
Change in net foreign assets of NBR (increase -)	-107.9	-64.7	-144.8	9.4	-72.0	-30.7	-85.6	50.5	-51.4	37.9	49.2	40.8
Net credit from the Fund	3.5	3.6	3.6	-0.1	-0.1	-0.6	-0.6	-1.1	-1.8	-2.5	-2.9	-2.4
Disbursements/purchases	3.5	3.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	0.0	0.0	0.0	-0.1	-0.1	-0.6	-0.6	-1.1	-1.8	-2.5	-2.9	-2.4
Change in other gross official reserves (increase -)	-112.7	-44.1	-145.8	5.0	-71.9	-30.1	-85.0	51.5	-49.6	40.4	52.1	43.2
Change in other foreign liabilities (increase +)	1.4	-24.2	-2.6	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (decrease -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Current account deficit (percent of GDP)												
Excluding official transfers	-11.9	-14.4	-17.3	-17.3	-17.7	-20.2	-18.1	-15.7	-13.8	-12.6	-11.7	-10.7
Including official transfers	-2.2	-4.9	-7.3	-6.7	-6.0	-9.0	-5.2	-9.1	-5.5	-4.4	-4.5	-4.2
Gross official reserves (including SDR allocation)	552.4	596.4	742.2	737.2	814.2	767.3	899.2	847.6	897.2	856.8	804.7	761.5
Gross official reserves (months of prospective imports of G&NFS)	4.7	4.7	5.4	4.6	5.2	5.2	5.7	5.3	5.4	4.8	4.2	3.5
Overall balance (percent of GDP)	2.9	1.4	2.8	-0.2	1.3	0.5	1.4	-0.8	0.7	-0.5	-0.6	-0.5

Sources: Rwandan authorities; and IMF staff estimates and projections.

[1] From 2010 onwards includes the results of the informal cross-border trade survey.

[2] Revision of methodology resulted in sharp increase of tourism revenues from 2008, thus increasing export of services.

[3] Including interest due to the Fund.

[4] Current transfers include disbursed budgetary and HIPC grants and humanitarian and technical assistance.

[5] Includes project and budgetary loans.

[6] Excluding payments to the Fund.

[7] Other capital includes long-term private capital, commercial credit, change in the net foreign assets of commercial banks, and unrecorded imports.

Table 3. Rwanda: Operations of the Central Government, Fiscal Year Basis[1], 2006/07–15/16

	2006/07	2007/08	2008/09	2009/10	2010/11 Country Report No. 11/19	2010/11 Prog.	2011/12 Prog.	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.
	(Billions of Rwandan francs)										
Revenue and grants	388.0	518.2	670.7	800.7	825.4	844.2	993.9	1,097.3	1,181.1	1,293.0	1,387.5
Total revenue	233.2	290.3	413.0	391.4	471.1	471.7	538.4	627.8	720.9	820.2	939.6
Tax revenue	217.6	272.4	361.4	376.4	449.1	449.1	510.4	596.0	686.3	781.3	894.9
Direct taxes	73.6	103.3	130.1	148.8	175.8	175.8	199.9	235.1	271.3	308.9	357.7
Taxes on goods and services	109.8	135.0	179.3	195.0	234.3	234.3	270.5	312.6	359.8	411.6	472.3
Taxes on international trade	34.2	34.2	52.0	32.6	39.0	39.0	40.0	48.3	55.2	60.9	64.9
Nontax revenue	15.7	17.8	51.7	15.0	22.1	22.6	28.0	31.8	34.6	38.9	44.7
Grants	154.8	227.9	257.7	409.3	354.3	372.5	455.5	469.5	460.3	472.8	447.9
Budgetary grants	101.4	168.1	167.0	283.0	237.5	208.5	271.2	286.1	336.6	351.4	325.3
Capital grants	53.4	59.8	90.7	126.3	116.8	164.0	184.4	183.4	123.7	121.4	122.6
of which: Global Fund	...	...	...	...	0	47.2	70.7	65.9	4.3	0.0	0.0
Total expenditure and net lending	414.2	521.8	731.2	804.2	949.2	988.2	1,062.8	1,137.2	1,194.1	1,307.2	1,407.4
Current expenditure	266.5	349.0	401.7	459.2	514.2	514.9	557.9	633.7	733.0	809.6	893.7
Of which: priority	139.7	151.7	232.2	280.4	297.6	297.6	323.6	...	...	...	...
Wages and salaries	71.5	76.3	90.8	106.9	120.5	120.5	126.5	140.5	163.0	182.6	201.6
Civil	48.5	55.5	66.1	77.5	85.8	90.9	95.3	101.0	118.5	132.8	145.9
Defense	22.9	20.8	24.7	29.4	34.7	29.7	31.2	39.5	44.4	49.8	55.7
Purchases of goods and services	66.4	81.6	103.2	106.3	120.0	119.2	131.2	153.7	197.5	221.3	242.4
Civil	57.5	70.4	82.9	94.3	101.0	106.3	116.2	136.1	172.8	188.1	209.8
Defense	8.9	11.2	20.2	12.0	16.0	12.8	15.0	17.6	24.7	33.2	32.6
Interest payments	12.8	13.6	11.4	14.7	13.5	15.2	16.0	19.1	17.0	18.6	19.6
Domestic debt	8.7	11.1	7.4	10.1	9.0	10.6	10.1	8.8	9.9	11.1	12.5
External debt	4.1	2.4	4.0	4.6	4.5	4.6	5.9	10.3	7.2	7.5	7.1
Transfers	82.4	121.8	141.6	179.6	193.2	193.2	216.2	254.6	286.4	315.3	346.8
Exceptional expenditure	33.5	55.7	54.7	51.6	67.0	66.9	68.1	65.9	69.1	71.9	83.4
Capital expenditure	131.8	188.2	306.6	316.7	402.8	452.9	503.3	481.6	436.4	469.9	503.9
of which: priority	28.0	38.9	124.4	129.2	158.9	158.9	170.7	...	...	...	...
Domestic	42.5	87.6	139.7	159.3	223.1	219.4	243.6	237.1	276.5	309.8	338.5
Foreign	89.3	100.6	167.0	157.4	179.7	233.5	259.8	244.5	159.9	160.1	165.4
of which: Global Fund	...	...	...	...	0.0	47.2	70.7	65.9	4.3	0.0	0.0
Net lending and privatization receipts	15.9	-15.4	22.9	28.2	32.3	20.3	1.6	22.0	24.7	27.7	9.7
of which:											
Priority spending	4.8	3.9	2.1	2.9	3.6	3.6	...	...	...	...	0.0
Kigali Convention Center	0.0	0.0	0.0	18.0	0.0	9.2	0.0	0.0	0.0	0.0	0.0
RwandAir	0.0	0.0	0.0	4.5	25.0	25.0	17.0	17.6	19.8	22.1	0.0
IPO Bralirwa	...	...	...	...	0.0	-17.2	0.0	0.0	0.0	0.0	0.0
Sales of shares Blairwa (Heineken)	...	...	...	...	0.0	-4.6	0.0	0.0	0.0	0.0	0.0
IPO BK&MTN	...	...	...	...	0.0	0.0	-25.0	0.0	0.0	0.0	0.0
Primary balance[2]	-29.5	-77.1	-62.2	-160.8	-185.6	-180.5	-179.0	-158.0	-202.6	-208.7	-189.5
Domestic fiscal balance[3]	-87.5	-128.5	-147.2	-250.7	-293.9	-278.4	-258.8	-254.6	-306.2	-319.4	-295.1
Excluding demobilization and peacekeeping expenditures	-76.6	-112.0	-121.8	-224.3	-250.6	-235.1	-220.0	-225.4	-279.5	-291.9	-295.1
Overall deficit (payment order)											
After grants	-26.1	-3.6	-60.5	-3.5	-123.8	-143.9	-69.0	-39.9	-13.0	-14.2	-19.8
Before grants	-180.9	-231.6	-318.1	-412.8	-478.1	-516.4	-524.5	-509.4	-473.3	-487.0	-467.7
Change in arrears[4]	-7.0	-8.6	-9.0	-11.2	-11.0	-11.2	-8.0	-8.0	-8.0	-7.0	-7.0
Overall deficit (incl. grants, cash basis)	-33.1	-12.2	-69.4	-14.7	-134.8	-155.1	-77.0	-47.9	-21.0	-21.2	-26.8
Financing	41.2	11.3	69.4	14.7	134.8	155.1	77.0	47.9	21.0	21.2	26.8
Foreign financing (net)	39.2	42.8	72.5	26.1	54.8	81.8	64.5	47.9	21.0	21.2	26.8
Drawings	44.7	47.9	77.0	31.1	62.9	89.9	75.4	61.1	36.2	38.7	42.9
Budgetary loans	8.8	5.2	0.7	0.0	0.0	20.4	0.0	0.0	0.0	0.0	0.0
Project loans	36.0	42.7	76.3	31.1	62.9	69.5	75.4	61.1	36.2	38.7	42.9
Amortization	-5.6	-5.1	-4.4	-5.0	-8.1	-8.1	-10.9	-13.2	-15.1	-17.5	-16.1
Net domestic financing	2.1	-31.5	-3.1	-11.4	80.1	73.3	12.5	0.0	0.0	0.0	0.0
Net credit from banking system	-7.2	-13.4	18.0	8.4	64.3	59.3	2.5	0.0	0.0	0.0	0.0
Nonbank sector	9.3	-18.1	-21.2	-18.1	18.1	5.6	10.0	0.0	0.0	0.0	0.0
Errors and omissions[5]	8.1	-0.9	0.0	-1.7	0.0	8.4	0.0	0.0	0.0	0.0	0.0
Memo:											
Priority spending	172.5	194.5	358.7	412.5	460.1	460.1	494.4	...	...	...	

Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.
[2] Total revenue minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital investment.
[3] Total revenue minus current expenditure (excluding interest ion external debt) , domestically financed capital expenditure, and net lending.
[4] A negative sign indicates a reduction.
[5] A negative number implies an underestimate of financing.

Table 3. Rwanda: Operations of the Central Government, Fiscal Year Basis[1], 2006/07–15/16 (concluded)

	2006/07	2007/08	2008/09	2009/10	2010/11 Country Report No. 11/19	2010/11 Prog.	2011/12 Prog.	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.
					(In percent of fiscal year GDP)						
Revenue and grants	20.6	22.5	24.3	25.8	23.8	24.5	25.6	25.0	23.9	23.4	22.4
Total revenue	12.4	12.6	14.9	12.6	13.6	13.7	13.9	14.3	14.6	14.8	15.2
Tax revenue	11.6	11.8	13.1	12.1	12.9	13.0	13.1	13.6	13.9	14.1	14.5
Direct taxes	3.9	4.5	4.7	4.8	5.1	5.1	5.1	5.4	5.5	5.6	5.8
Taxes on goods and services	5.8	5.8	6.5	6.3	6.7	6.8	7.0	7.1	7.3	7.4	7.6
Taxes on international trade	1.8	1.5	1.9	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.0
Nontax revenue	0.8	0.8	1.9	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Grants	8.2	9.9	9.3	13.2	10.2	10.8	11.7	10.7	9.3	8.5	7.2
Budgetary grants	5.4	7.3	6.0	9.1	6.8	6.0	7.0	6.5	6.8	6.4	5.3
Of which: HIPC Initiative assistance	0.4	0.1	0.1	0.0	0.1	0.1	…	…	…	…	…
Capital grants	2.8	2.6	3.3	4.1	3.4	4.8	4.7	4.2	2.5	2.2	2.0
of which: Global Fund	…	…	…	…	0.0	1.4	1.8	1.5	0.1	0.0	0.0
Total expenditure and net lending	22.0	22.6	26.4	25.9	27.3	28.7	27.4	25.9	24.2	23.6	22.8
Current expenditure	14.2	15.1	14.5	14.8	14.8	14.9	14.4	14.4	14.8	14.6	14.5
Of which: priority	7.4	6.6	8.4	9.0	8.6	8.6	8.3	…	…	…	…
Wages and salaries	3.8	3.3	3.3	3.4	3.5	3.5	3.3	3.2	3.3	3.3	3.3
Civil	2.6	2.4	2.4	2.5	2.5	2.6	2.5	2.3	2.4	2.4	2.4
Defense	1.2	0.9	0.9	0.9	1.0	0.9	0.8	0.9	0.9	0.9	0.9
Purchases of goods and services	3.5	3.5	3.7	3.4	3.5	3.5	3.4	3.5	4.0	4.0	3.9
Civil	3.1	3.0	3.0	3.0	2.9	3.1	3.0	3.1	3.5	3.4	3.4
Defense	0.5	0.5	0.7	0.4	0.5	0.4	0.4	0.4	0.5	0.6	0.5
Interest payments	0.7	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Domestic debt	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
External debt	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Transfers	4.4	5.3	5.1	5.8	5.6	5.6	5.6	5.8	5.8	5.7	5.6
Exceptional expenditure	1.8	2.4	2.0	1.7	1.9	1.9	1.8	1.5	1.4	1.3	1.3
Capital expenditure	7.0	8.2	11.1	10.2	11.6	13.1	13.0	11.0	8.8	8.5	8.2
Of which: priority	1.5	1.7	4.5	4.2	4.6	4.6	4.4	…	…	…	…
Domestic	2.3	3.8	5.1	5.1	6.4	6.4	6.3	5.4	5.6	5.6	5.5
Foreign	4.7	4.4	6.0	5.1	5.2	6.8	6.7	5.6	3.2	2.9	2.7
of which: Global Fund	…	…	…	…	0.0	1.4	1.8	1.5	0.1	0.0	0.0
Net lending and privatization receipts	0.8	-0.7	0.8	0.9	0.9	0.6	0.0	0.5	0.5	0.5	0.2
of which:											
Priority spending	0.3	0.2	0.1	0.1	0.1	0.1	…	…	…	…	…
Kigali Convention Center	0.0	0.0	0.0	0.6	0.0	0.3	0.0	0.0	0.0	0.0	0.0
RwandAir	0.0	0.0	0.0	0.1	0.7	0.7	0.4	0.4	0.4	0.4	0.0
IPO Bralirwa	….	….	…	…	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Sales of shares Blairwa (Heineken)	….	….	…	…	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
IPO BK&MTN	….	….	…	…	0.0	0.0	-0.6	0.0	0.0	0.0	0.0
Primary balance[2]	-1.6	-3.3	-2.2	-5.2	-5.3	-5.2	-4.6	-3.6	-4.1	-3.8	-3.1
Domestic fiscal balance[3]	-4.6	-5.6	-5.3	-8.1	-8.5	-8.1	-6.7	-5.8	-6.2	-5.8	-4.8
Excluding demobilization and peacekeeping expenditures	-4.1	-4.9	-4.4	-7.2	-7.2	-6.8	-5.7	-5.1	-5.7	-5.3	-4.8
Overall deficit (payment order)											
After grants	-1.4	-0.2	-2.2	-0.1	-3.6	-4.2	-1.8	-0.9	-0.3	-0.3	-0.3
Before grants	-9.6	-10.0	-11.5	-13.3	-13.8	-15.0	-13.5	-11.6	-9.6	-8.8	-7.6
Change in arrears[4]	-0.4	-0.4	-0.3	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1
Overall deficit (incl. grants, cash basis)	-1.8	-0.5	-2.5	-0.5	-3.9	-4.5	-2.0	-1.1	-0.4	-0.4	-0.4
Financing	2.2	0.5	2.5	0.5	3.9	4.5	2.0	1.1	0.4	0.4	0.4
Foreign financing (net)	2.1	1.9	2.6	0.8	1.6	2.4	1.7	1.1	0.4	0.4	0.4
Drawings	2.4	2.1	2.8	1.0	1.8	2.6	1.9	1.4	0.7	0.7	0.7
Budgetary loans	0.5	0.2	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Project loans	1.9	1.9	2.8	1.0	1.8	2.0	1.9	1.4	0.7	0.7	0.7
Amortization	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing	0.1	-1.4	-0.1	-0.4	2.3	2.1	0.3	0.0	0.0	0.0	0.0
Net credit from banking system	-0.4	-0.6	0.7	0.3	1.9	1.7	0.1	0.0	0.0	0.0	0.0
Nonbank sector	0.5	-0.8	-0.8	-0.6	0.5	0.2	0.3	0.0	0.0	0.0	0.0
Errors and omissions[5]	0.4	0.0	0.0	-0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Memo:											
Priority spending	9.2	8.4	13.0	13.3	13.2	13.3	12.7	…	…	…	…
GDP (Billions of RwF), FY basis	1,883	2,307	2,765	3,108	3,475	3,448	3,886	4,390	4,938	5,532	6,183

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital investment.

[3] Total revenue minus current expenditure (excluding interest on external debt) , domestically financed capital expenditure, and net lending.

[4] A negative sign indicates a reduction.

[5] A negative number implies an underestimate of financing.

Table 4. Rwanda: Monetary Survey[1], 2006–13

	2006	2007	2008	2009	2010 March Est	2010 June Est	2010 June Country Report No. 10/200	2010 Sep Est	2010 Dec Est	2010 Dec. Country Report No. 11/19	2011 March Prog	2011 June Prog	2011 Sept Prog	2011 Dec Prog	2012 March Prog	2012 June Prog	2012 Sept Prog	2012 Dec Proj	2013 Dec Proj
										(Billions of Rwanda francs)									
Monetary authorities																			
Net Foreign Assets[2]	225.0	281.8	325.6	358.0	322.6	384.7	369.3	390.5	414.9	352.6	357.7	391.2	409.5	463.2	416.5	388.5	388.5	436.2	466.8
Foreign assets	241.2	300.6	333.4	424.0	386.9	447.2	437.9	458.3	483.5	421.1	428.7	462.5	480.8	534.5	487.8	459.8	459.8	503.9	533.4
Foreign liabilities[3]	16.3	18.8	7.8	66.0	64.2	62.5	68.5	67.8	68.6	68.5	71.0	71.3	71.3	71.3	71.3	71.3	71.3	67.6	66.6
Net domestic assets	-153.1	-187.9	-209.6	-241.6	-206.1	-277.5	-248.7	-265.5	-283.9	-222.6	-227.0	-249.8	-262.9	-311.3	-258.7	-222.5	-218.1	-261.1	-267.7
Domestic credit	-119.4	-152.6	-168.7	-201.5	-157.3	-211.9	-208.0	-211.4	-231.2	-170.3	-167.5	-186.0	-199.1	-247.5	-194.9	-158.7	-154.3	-197.3	-203.9
Government (net)	-71.6	-98.8	-158.5	-143.5	-110.2	-143.2	-149.0	-157.7	-176.3	-124.8	-132.2	-113.2	-162.5	-181.0	-124.0	-83.2	-89.9	-69.6	-69.6
Claims	41.8	41.2	39.7	50.2	60.9	39.3	38.5	39.3	57.9	68.3	71.9	69.3	39.3	39.3	69.3	69.3	54.3	71.3	71.3
Deposits (excluding autonomous bodies)[3]	113.4	140.0	198.3	193.7	171.1	182.5	187.5	197.0	234.2	193.1	204.1	182.5	201.8	220.3	193.3	152.5	144.2	140.9	140.9
Public nongovernment deposits (-)	-2.0	-1.3	-0.5	-1.9	-1.9	-4.3	-1.9	-4.3	-0.8	-1.9	-0.6	-1.9	-1.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Nongovernment credit	-45.8	-52.5	-9.7	-56.6	-45.2	-64.4	-57.1	-49.4	-54.1	-43.6	-34.7	-70.9	-34.7	-65.7	-70.1	-74.7	-63.6	-126.9	-133.5
Private sector	3.5	4.8	5.4	7.9	5.3	5.4	8.0	5.7	4.8	9.0	6.9	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Public enterprises	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Commercial banks	-49.3	-57.3	-15.1	-64.0	-52.9	-71.7	-65.1	-56.9	-60.6	-52.6	-41.6	-77.4	-41.2	-72.2	-76.6	-81.2	-70.1	-133.4	-140.0
Discount window	1.2	1.3	1.5	9.5	11.2	10.7	9.5	11.8	8.0	8.0	6.3	5.0	5.0	5.0	3.0	3.0	3.0	3.0	3.0
Money market (- = absorption)	-50.5	-58.6	-16.6	-73.5	-64.9	-85.3	-74.6	69.4	69.3	-60.6	-47.9	-82.4	-46.2	-77.2	-79.6	-84.2	-73.1	-136.4	-143.0
Other items (net; asset +)	-33.8	-35.4	-41.0	-40.2	-48.8	-65.5	-40.7	-54.3	-52.7	-52.3	-59.5	-63.8	-63.8	-63.8	-63.8	-63.8	-63.8	-63.8	-63.8
Reserve money [4.]	71.8	93.9	116.0	116.4	116.6	118.9	122.5	124.9	130.9	130.0	130.7	141.4	146.5	151.9	157.8	166.0	170.4	175.1	199.1
Currency in circulation	54.6	67.3	80.9	77.0	77.0	77.0	85.3	94.1	104.1	92.9	82.0	105.2	109.4	113.3	117.2	125.1	128.3	127.5	127.4
Commercial bank reserves	15.1	24.0	32.7	24.1	30.9	24.2	30.2	29.3	24.7	36.4	47.7	35.8	36.7	58.2	40.3	40.5	41.7	47.2	71.3
Nonbank deposits	2.1	2.6	2.3	6.1	2.4	0.7	5.1	1.6	2.1	0.7	1.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Of which: autonomous public agencies	0.4	0.1	--	--	--	--	--	--	--	-1.0	--	--	--	--	--	--	--	1.0	2.0
Commercial banks																			
Net foreign assets	60.1	69.6	78.2	83.7	85.1	78.1	83.7	94.4	104.0	95.0	104.1	88.0	121.2	111.2	111.2	111.2	111.2	111.2	111.2
Foreign assets	70.9	86.8	96.8	107.5	107.8	98.9	107.5	114.1	146.8	121.7	146.8	120.0	145.0	135.0	135.0	135.0	135.0	135.0	135.0
Foreign liabilities	10.8	17.2	18.6	23.8	22.7	20.9	23.8	19.8	42.7	26.7	42.7	32.0	23.8	23.8	23.8	23.8	23.8	23.8	23.8
Reserves	15.1	24.0	32.7	33.7	45.6	34.8	40.7	41.6	38.3	45.3	63.8	52.8	54.7	58.2	59.3	62.0	63.7	67.2	91.3
NBR deposits	11.3	18.6	25.1	24.1	32.8	24.2	30.2	29.3	24.7	33.0	47.7	35.8	36.7	38.2	40.3	40.5	41.7	47.2	71.3
Required reserves	18.8	24.4	34.2	22.8	23.7	24.6	26.6	26.3	26.7	28.4	31.4	31.8	32.9	34.3	34.4	37.3	38.6	39.0	43.7
Excess reserves	-7.5	-5.8	-9.1	1.3	9.1	-0.3	3.7	3.0	-2.0	4.6	16.3	4.0	3.8	3.9	5.9	3.3	3.0	8.2	27.6
Cash in vault	3.8	5.4	7.6	9.5	12.8	10.6	10.5	12.3	13.7	12.3	16.1	17.0	18.0	20.0	19.0	21.5	22.0	20.0	20.0
Net credit from NBR (rediscount; liability -)	49.3	57.3	15.1	64.0	52.9	71.7	65.1	56.9	60.6	52.6	41.6	77.4	41.2	72.2	76.6	81.2	70.1	133.4	140.0
Domestic credit	158.7	218.5	352.9	354.6	351.3	383.2	373.0	398.5	438.8	420.0	458.2	466.8	498.7	470.8	481.1	531.2	575.6	524.2	568.8
Government (net)	-2.3	25.4	16.2	-0.4	-9.7	16.4	28.6	25.2	45.0	28.6	45.0	46.7	47.7	1.2	11.9	19.1	25.8	5.6	5.6
Credit	25.6	40.6	29.3	31.6	31.6	58.5	60.4	61.6	86.1	60.4	86.0	87.8	88.7	42.2	52.9	60.2	66.9	46.7	46.7
Deposits	27.9	15.2	13.1	32.0	41.3	41.1	31.8	36.3	41.0	31.8	41.0	41.1	41.0	41.0	41.0	41.1	41.1	41.1	41.1
Public enterprises	2.4	1.7	1.6	3.0	2.8	2.9	3.0	2.8	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Private sector	158.7	191.3	335.0	352.0	358.2	363.9	341.4	370.5	390.6	388.4	410.2	417.1	448.0	466.7	466.2	509.1	546.8	515.6	560.2
Other items (net; asset +)	-53.1	-64.1	-96.0	-92.0	-103.0	-96.9	-87.0	-103.6	-118.5	-102.5	-122.7	-122.7	-122.7	-91.7	-105.0	-105.2	-112.9	-120.2	-102.5
Deposits	230.2	305.3	382.9	444.0	431.8	470.8	475.5	487.7	523.3	510.4	545.0	562.3	593.2	620.8	623.1	680.4	707.7	715.8	808.8
Private	185.8	246.9	326.0	383.2	368.8	400.3	415.9	419.1	453.9	450.8	485.0	492.4	528.6	549.7	552.1	609.4	636.7	644.8	737.8
Public (nongovernment)	44.4	58.4	56.9	60.8	63.0	70.5	59.6	68.6	69.4	59.6	60.0	69.9	64.6	71.1	71.0	71.0	71.0	71.0	71.0

Table 4. Rwanda: Monetary Survey, 2006–13 (concluded)

	2006	2007	2008	2009	2010						2011				2012				2013
					March	June	June	Sep	Dec	Dec.	March	June	Sept	Dec	March	June	Sept	Dec	Dec
					Est	Est	Country Report No. 10/200	Est	Est	Country Report No. 11/19	Prog	Prog	Prog	Prog	Prog	Prog	Prog	Proj	Proj
(Billions of Rwanda francs)																			
Net Foreign Assets[2]	285.1	351.5	403.8	441.8	407.8	474.5	453.0	484.9	519.0	447.6	461.8	479.2	530.7	574.4	527.7	499.7	499.7	547.4	578.0
Net domestic assets	1.9	23.8	62.3	85.3	96.6	82.1	112.9	87.7	96.9	147.5	166.2	173.7	154.3	140.1	213.0	271.3	298.6	276.3	358.6
Domestic credit	88.7	123.2	199.3	217.1	246.8	243.0	230.1	244.0	268.2	302.3	332.3	358.2	340.8	295.6	362.8	453.7	491.4	460.3	504.9
Government (net)	-73.9	-73.4	-142.3	-143.9	-119.9	-125.8	-120.4	-132.5	-131.3	-96.2	-87.2	-66.5	-114.8	-179.8	-112.1	-64.1	-64.1	-64.0	-64.0
Public nongovernment deposits (-)	-2.0	-1.3	-0.5	-1.9	-1.9	-4.3	-1.9	-4.3	-0.8	-1.9	-0.6	-1.9	-1.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Public enterprises	2.4	1.8	1.6	3.0	2.8	2.9	3.0	2.8	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Private sector	162.2	196.2	340.5	357.3	365.9	371.2	349.4	378.0	397.1	397.4	417.1	423.6	454.5	473.2	472.7	515.6	553.3	522.1	566.7
Other items (net; asset +)	-86.8	-99.4	-137.0	-132.2	-150.2	-160.8	-117.2	-156.3	-169.5	-154.8	-166.1	-184.5	-186.5	-155.5	-149.8	-182.4	-192.8	-184.0	-166.3
Broad money[5]	287.0	375.2	466.1	527.1	504.4	556.5	565.9	571.0	615.9	595.1	628.0	652.9	685.0	714.4	740.7	771.0	798.3	823.8	936.6
Currency in circulation	54.6	67.3	80.9	77.0	68.4	83.5	85.3	81.8	90.5	84.0	82.0	90.2	91.4	93.3	117.2	90.2	90.2	107.5	127.4
Deposits	232.3	307.9	385.2	450.1	436.0	473.1	480.6	489.3	525.4	511.1	546.0	562.7	593.6	621.2	623.5	680.8	708.1	716.2	809.2
Of which: foreign currency deposits	52.5	62.7	74.7	-83.5	--	92.9	85.4	104.3	99.2	93.3	--	1.0	2.0	111.5	0.0	0.0	0.0	126.5	140.5
(Annual changes in percent of beginning-of-period broad money)																			
Net foreign assets	28.7	23.1	13.9	9.7	-6.5	6.2	24.1	32.0	30.2	14.6	3.8	30.7	32.9	24.9	7.5	0.2	-7.7	-3.8	3.7
Net domestic assets	2.6	7.6	10.3	23.4	2.1	-0.6	6.9	2.4	9.8	2.2	15.4	22.6	22.9	-1.3	10.4	17.9	24.2	19.1	10.0
Domestic credit	8.2	12.0	20.5	28.4	5.6	4.9	2.1	6.5	14.0	9.7	21.9	33.3	30.5	-1.1	4.9	14.6	22.0	23.1	5.4
Government (net)	-5.6	0.2	-18.1	-0.3	4.5	3.4	-0.2	-1.9	0.9	2.4	10.8	13.5	4.7	-15.3	-4.0	0.4	7.4	16.2	--
Economy	13.8	11.9	38.6	28.0	1.6	2.2	2.1	8.5	13.0	7.8	11.6	19.8	25.8	12.9	8.8	14.3	14.6	6.9	5.4
Other items (net; asset +)	-5.6	-4.4	-10.2	-5.0	-3.4	-5.4	4.7	-4.1	-3.8	-7.1	-6.4	-10.7	-7.6	-0.1	5.6	3.3	2.2	-4.0	2.1
Broad money	31.3	30.8	24.2	33.2	-4.3	5.6	30.7	33.9	40.3	16.8	19.1	53.1	56.1	20.1	17.9	18.1	16.5	15.3	13.7
(Annual percent changes)																			
Net foreign assets	28.2	23.3	14.9	9.4	16.9	21.8	29.9	14.3	17.5	1.3	13.2	1.0	9.5	10.7	14.3	4.3	-5.8	-4.7	5.6
Net domestic assets	-150.0	1,164	162.1	36.9	16.1	80.6	35.7	112.0	13.6	72.9	72.1	111.6	76.0	44.5	28.2	56.1	93.5	97.3	29.8
Domestic credit	25.2	38.9	62.8	8.9	11.8	28.4	4.2	33.7	23.5	39.3	34.6	47.4	39.7	10.2	9.2	26.6	44.2	55.7	9.7
Government (net)	20.0	-0.7	91.7	1.1	0.4	-9.7	0.8	-5.9	-8.7	-33.1	-27.3	-47.1	-13.3	36.9	28.6	-3.6	-44.2	-64.4	--
Economy	22.8	20.9	73.7	44.7	7.5	11.9	2.7	15.7	11.5	11.2	14.4	14.9	21.0	19.0	13.2	21.9	21.9	10.3	8.5
Credit to the Private Sector	23.7	21.0	73.6	4.9	7.8	12.7	6.1	16.2	11.1	11.2	14.0	14.1	20.3	19.2	13.3	21.7	21.7	10.4	8.5
Other items (net; asset +)	16.3	14.5	38.9	6.8	9.1	11.9	-14.9	10.7	28.2	17.1	10.6	14.7	19.3	-8.3	-9.8	-1.2	3.4	18.3	-9.6
(In percent, unless otherwise indicated)																			
Memorandum items:																			
Currency/broad money ratio	19.0	17.9	17.4	14.6	13.6	15.0	15.1	14.3	14.7	14.1	13.1	13.8	13.3	13.1	15.8	11.7	11.3	13.1	13.6
Reserve money annual growth	11.9	30.7	23.5	0.3	4.0	8.4	6.1	8.6	12.5	11.7	12.1	18.9	17.3	16.0	20.7	17.4	16.3	15.3	13.7
Broad money annual growth	31.3	30.8	24.2	13.1	16.5	27.4	29.6	22.2	16.8	12.9	24.5	17.3	20.0	16.0	17.9	18.1	16.5	15.3	13.7
Reserves/deposits	31.2	30.8	30.3	26.2	27.0	25.3	25.4	25.6	25.0	25.5	24.0	25.2	24.7	24.5	25.3	24.4	24.1	24.5	24.6
Money multiplier	4.0	4.0	4.0	4.5	4.3	4.7	4.7	4.6	4.7	4.6	4.8	4.6	4.7	4.7	4.7	4.6	4.7	4.7	4.7
Velocity of broad money (end of period)	6.0	5.5	5.5	5.6	6.4	5.8	5.7	5.7	5.3	5.5	5.8	5.6	5.3	5.1	5.6	5.4	5.2	5.0	5.0
Velocity of broad money (average of period)	6.8	6.2	5.5	6.0	6.3	6.0	6.5	6.5	6.2	6.1	6.3	6.8	6.5	5.1	5.0	5.0	5.0	5.0	5.0
Net open position of the NBR (RF billion)	219.1	275.6	317.9	351.3	322.6	396.4	365.1	390.5	414.9	348.5	353.6	387.1	405.4	459.1	416.5	388.5	388.5	432.1	462.6
Net open position of commercial banks (RF billion)	13.5	13.2	11.2	6.8	85.1	78.1	--	94.4	104.0	17.0	--	--	--	--	--	1.0	2.0	--	--
Extended broad money (RF billion)[6]	333.8	438.2	473.7	493.1	402.6	538.1	525.6	443.5	492.3	552.7	583.2	606.3	636.2	765.1	0.0	0.0	0.0	255.0	256.0
Nominal GDP (RF billion)	1,716.3	2,049.3	2,565.3	2,964.0	3,252.9	3,252.9	3,252.9	3,252.9	3,252.9	3,252.9	3,643.3	3,643.3	3,643.3	3,643.3	4,127.9	4,127.9	4,127.9	4,127.9	4,652.1

Source: National Bank of Rwanda (NBR) and IMF staff estimates and projections.

[1] Reflects the operations of the Union Banques Populaires du Rwanda (UBPR)—a large microfinance network— which was transformed into a commercial bank in Febuary 2008.

[2] For program purposes NFA from 2010 onwards are at program exchange rates.

[3] The IMF's MDRI reduced foreign liabilities at the NBR by RF 42.4 million with a counter entry in government deposits (in January 2006).

[4] Reserve money as an Assessment Criteria is measured as the average of the months in the quarter. The actual reserve money is measured as the daily average of all the three months in the quarter.

[5] End-2006 broad money includes RF5 billion temporary build up of local government deposits, which were unwound by February 2007.

[6] Broad money plus deposits in the *Union de Banques Populaires de Rwanda* (UBPR) through December 2008 and Rwanda Development Bank (BRD).

Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2006–10

	2006 Dec	2007 Dec	2008 Mar	2008 June	2008 Dec	2009 Mar	2009 June	2009 Sep	2009 Dec	2010 Mar	2010 June	2010 Sep	2010 Dec
						(in percent)							
Capital adequacy													
Solvency ratio	13.7	16.6	15.1	18.0	15.9	19.1	19.3	20.5	19.0	18.1	17.6	20.3	22.3
Off balance sheet items/Total qualifying capital	334.8	305.6	221.7	205.9	210.2	182.5	160.7	164.0	184.1	197.6	224.4	203.1	190.2
Insider loans/Core capital	45.2	57.9	20.1	9.3	16.7	9.2	17.0	7.3	19.7	15.7	13.5	8.7	6.7
Large exposure/core capital	131.6	127.7	77.9	67.5	103.1	92.7	82.8	72.9	65.1	93.9	103.0	80.0	56.3
Asset quality													
NPLs / Gross Loans	25.0	18.1	12.2	12.0	12.6	13.8	13.4	13.6	13.1	12.5	12.2	12.4	10.8
NPLS net/Gross loans	12.5	14.3	9.6	8.0	10.5	11.0	11.1	11.7	11.4	11.0	10.4	10.7	9.3
Provisions / NPLs	83.5	67.0	78.1	75.5	66.3	67.6	70.9	65.9	55.2	57.2	56.8	57.0	36.8
Earning Assets / Total Asset	85.3	59.6	80.1	80.9	81.3	78.4	77.3	77.1	81.7	78.2	81.1	77.6	79.5
Large Exposures / Gross Loans	20.2	21.2	12.6	13.0	17.4	18.4	17.5	16.9	13.9	18.5	20.4	17.4	13.1
Profitability and earnings													
Return on Average Assets	2.4	1.5	4.9	2.7	2.4	1.6	0.9	1.0	0.7	-0.2	1.3	1.6	1.8
Return on Average Equity	27.0	15.5	10.8	21.9	18.5	11.4	6.4	7.0	5.0	-1.4	10.3	12.2	10.2
Net Interest Margin	8.0	5.2	10.1	8.9	9.5	10.3	10.2	9.9	9.1	9.6	8.8	8.8	9.3
Cost of Deposits	2.6	2.6	1.8	1.9	1.8	1.7	2.1	2.3	2.4	2.8	2.7	2.6	2.7
Cost to Income	76.7	80.2	64.1	74.1	77.5	83.7	89.8	89.8	91.0	98.6	89.3	86.2	83.9
Overhead to income	46.2	44.2	41.6	46.7	48.6	52.2	53.4	55.5	54.9	57.5	54.0	53.8	54.4
Liquidity													
Short term Gap	34.2	21.5	13.6	25.5	21.3	17.2	20.1	20.1	20.0	16.8	21.2	17.4	16.2
Liquid Assets / Total Deposits	64.7	76.4	54.0	60.4	61.1	65.4	59.3	61.7	65.3	51.7	58.4	47.9	58.2
Interbank Borrowings / Total Deposits	11.3	10.3	6.6	5.7	8.1	9.3	9.1	8.2	9.8	7.3	10.3	9.0	
BNR Borrowings / Total Deposits	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.4	0.8	0.8	0.0	0.0	
Gross loans/Total deposits	71.1	63.3	81.0	76.2	87.8	88.6	82.8	76.1	73.9	74.0	71.6	78.9	73.5
Market sensitivity													
Forex Exposure / Core Capital [1]	9.0	8.7	2.6	-5.2	-4.6	0.6	5.9	0.8	1.9	4.9	1.5	2.4	5.0
Forex Loans / Forex Deposits	0.8	1.0	1.2	0.5	0.5	0.4	0.6	0.5	2.8	2.6	4.2	2.1	0.4
Forex Assets / Forex Liabilities	104.4	112.0	115.6	105.5	102.6	93.5	107.7	102.8	103.6	105.8	101.0	103.9	103.4

Source: National Bank of Rwanda

[1]Data from 2007 and 2008 have been revised.

LETTER OF INTENT

May 25, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. Lipsky,

1. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on December 20th, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan government intends to implement for the fiscal year 2011/12 and the medium term. The PSI is set to expire on June 29, 2013.

2. We continue to make progress with our economic program. All quantitative assessment criteria for end-December and all continuous assessment criteria have all been met. Structural benchmarks under the PSI program for end-December 2010 were met with the exception of one. The structural benchmark of submitting to cabinet draft legislation to transfer the collection and audit of social security and health insurance premium contributions to the Rwanda Revenue Authority (RRA) has been delayed since December 2010, although the RRA has already started collecting both types of contributions. Two end-January 2011 structural benchmarks were missed. The draft export diversification strategy—delayed from August 2010—and the Medium-Term Debt Strategy (MTDS). The export strategy has since been approved in April 2011. For the Medium-term Debt Strategy, we deemed important to seek contributions from the IMF- MCM department before adoption by the Cabinet. The Government has requested TA from the MCM department and both policy and strategy will be ready for adoption by October 2011.

3. Structural reforms are broadly on track. The National Bank of Rwanda (NBR) replaced the average reference rate with a market–based exchange rate in December 2010 in line with the MCM recommendation of November 2010, continues to maintain a flexible exchange rate regime and strengthen interbank activity in the new exchange rate corridor framework. Progress in improving the quality of statistics including national accounts is also described in the attached Memorandum.

4. In light of the satisfactory program implementation and performance outlined in the attached MEFP, the government requests completion of the second review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-June 2011 with respect to (i) NFA of the central bank to reflect higher than programmed donor inflows; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor inflow disbursements and spending reductions. The government also requests approval of end-December 2011 assessment criteria and structural benchmarks for FY2011/12.

5. The Government believes that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The Government will consult with the IMF - at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

6. The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the third review will take place before end-December 2011, and the fourth review before end-June 2012.

7. The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by the Fund staff.

Sincerely yours,

/s/	/s/
John Rwangombwa	**Claver Gatete**
Minister of Finance and Economic Planning	Governor, National Bank of Rwanda

Attachment I. Rwanda: Memorandum of Economic and Financial Policies

May 25, 2011

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), **the Government of Rwanda remains committed to achieving sustained economic growth and poverty reduction**. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12[1] and Rwanda's Vision 2020. To this end, the Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support macroeconomic policies and structural reforms that underlie strategies in the EDPRS.

2. This MEFP reviews performance during 2010—and the status of targets set for end-December 2010—and describes policies and targets for 2011/12 fiscal year and the medium term. Specific targets and benchmarks for June and December 2011 are in the attached table.

I. Performance under the PSI

3. All end-December 2010 and continuous quantitative assessment criteria were met and structural benchmarks were met, with the exception of one structural benchmark **(Tables 1 and 2)**. One of the structural benchmarks—submission to cabinet draft legislation to transfer the collection and audit of social security and health insurance premium contributions to the Rwanda Revenue Authority (RRA)—has been delayed since December 2010 due to a new government policy to merge the Social Security Fund (CSR) with Rwanda Health Insurance Agency (RAMA). Nevertheless, the RRA commenced collection of CSR effective July 1, 2010 after signing a MoU with CSR to this effect. The draft legislation will be prepared and submitted to cabinet by end September 2011 after the merger is completed. Two end-January 2011 structural benchmarks were missed. The draft export diversification strategy—delayed from August 2010—was approved by the Cabinet in April 2011. The Medium-Term Debt Strategy (MTDS) will be submitted to Cabinet later this year, following IMF-World Bank technical assistance (see paragraph 27).

[1] Rwanda's latest EDPRS (Country Report No. 08/90) and Joint Staff Advisory Note (Country Report No. 08/91) were issued to the Executive Board on February 14, 2008. A progress report is being issued to the IMF's Executive Board along with the Staff Report for the second PSI review.

Growth

4. **Output growth for 2010 strengthened to an estimated 7.5 percent,** higher than the projected 6.5 percent. This stronger-than-expected recovery is led by services, reflecting the ongoing improvements in financial services—finance and insurance—and the on-going investments in communication as well as the recovery in tourism and trade. The tertiary sector grew by 5 percent in 2010 as a result of growth in food crops which continue to benefit from the large investments in fertilizer, improved seeds and extension services under our Crops Intensification Program. Growth in the industrial sector was led by construction and manufacturing especially food processing. The recovery in construction was mainly due to the resumption of credit to this sub sector as well as completion of some public projects.

Inflation

5. Inflation in Rwanda remained low in 2010. Year-on-year inflation fell to 0.2 percent in December 2010 from 5.7 percent in December 2009, well below the target of 7 percent for 2010. Low inflation in 2010 was driven by continuous low foreign inflation leading to low import prices, good domestic food harvest that kept food inflation very low, relatively stable nominal exchange rate against the major currencies, and modest increase in money supply.

Fiscal Performance

6. Execution of the budget for the first half of FY 2010/11 (July-December) was on track. The overall fiscal deficit (excluding grants) was slightly better than expected (by 0.45 percent of GDP) owing to a reduction of total expenditure of 0.25 percent of GDP as well as the accrual of privatization receipts of about 0.13 percent of GDP.

7. Total expenditures and net lending were in line with programmed amounts, supported partly by privatization receipts from an IPO of Bralirwa (a Brewery Company)[2]—which was not programmed. There were shortfalls in external grants (by 0.54 percent of GDP), reflecting delays in donor disbursements, and the government had to resort to issuing domestic debt, including the use of its overdraft facility with the central bank which has increased significantly in the past year. The additional domestic debt is expected to be reduced during July-December 2011 when donor disbursements accrue.

[2] Government completely divested its 30 percent shares.

EDPRS implementation[3]

8. We are currently in the fourth financial year of EDPRS implementation. At the end of fiscal year 2009/10, 86% of EDPRS targets were fully achieved and 11% partially achieved. Notably, significant efforts have been made towards improving the business environment and reducing the cost of doing business, including through investment in infrastructure. In addition, 53.8% of classified national roads are now in good condition from a baseline of 11% in 2006. Over the same period, electricity generation capacity has increased from 45MW to 84MW allowing an increase of 75% in the number of connections. The Information and Communication Technology (ICT) composite coverage network is now at 92% and cost of telecommunications services have reduced with increased competition.

9. Rwanda has registered renewed growth in agriculture over the last three years and new emphasis is given to post-harvest handling and marketing as well as reducing vulnerability of agricultural produce to weather conditions. The country is now on track to achieve access to water, health and education-related Millennium Development Goals (MDGs). It has already achieved MDGs related to gender equality. The Vision 2020 Umurenge flagship program of the EDPRS focused on eradicating extreme poverty currently covers 90 sectors of the country. In the area of governance, by end-2009/10, all Central Government entities and districts were audited by the Office of Auditor General (OAG) and all procurements above a threshold had either been tendered competitively or justified.

External Sector

10. The overall balance of payments ended the year in surplus thanks to strong export recovery and substantial increases in official and private capital inflows which offset structurally high imports. As a result, reserve coverage remained at comfortable levels at over five months of imports at end-2010. The export sector, benefiting from higher international prices, grew by 27 percent in value on the back of traditional exports (coffee, tea and minerals) as well as new products and re-exports. Tourism receipts also rebounded sharply from the trough observed in 2009. Economic recovery in 2010 has been associated with higher domestic demand for imports, though increasing less than expected due to delays in implementation of some large strategic investment projects, resulting in a smaller-than-projected trade deficit in 2010. Turning to the financial account, foreign direct investment did not perform as well as expected since negotiations on some large projects are still being finalized, while long-term private capital flows were boosted by some large investments, including in the telecommunications sector.

[3] See the EDPRS progress report submitted to the Executive Board.

Monetary and Exchange rate Developments

11. Monetary policy in 2010 was accommodative in response to the sharp drop in inflation and underlying inflationary pressures. This monetary policy stance was designed to support the gradual recovery in economic activity after the slowdown since 2009.

12. The Monetary Policy Committee (MPC) therefore decided to position the policy rate at a level to ensure positive real interest rates to stimulate domestic savings and support financial sector deepening. Thus, the policy rate (which also serves as the Key Repo Rate-KRR) was reduced cumulatively by 300 basis points from 9 percent in December 2009 to 6 percent in November 2010.

13. Broad money growth was strong—growing at 17 percent in 2010 compared to 13.1 percent in 2009—driven mainly by increases in net foreign assets which accounted for about 85 percent of the increase in total liquidity in the system. Thus, the banking system liquidity has been significantly improving, hence giving more confidence to banks in treasury management, while continuing to invest in short term instruments. However, growth in credit to the private sector was marginal in 2010—at 11.1 percent far lower than the original program target of 20 percent.

14. Although the National Bank of Rwanda (NBR) achieved June and December 2010 reserve money targets under the PSI program, controlling reserve money especially in the last quarter of 2010 was particularly challenging due to underestimation of the huge increase in monetization during the year as a result of rapid roll out of bank branches outside the capital city. This resulted in a significant structural increase in cash in vault of commercial banks driving reserve money persistently high during the last quarter of the year.

15. The NBR continued to maintain a flexible exchange rate regime in 2010—only intervening at the margins of the market to smooth out temporary volatility in the exchange market. For the year as a whole, the Rwanda franc was relatively stable, depreciating by 4.1 percent against the US dollar. However, interbank activity in the new exchange rate corridor framework has remained very low. This continues to remain a challenge to the implementation of the exchange rate corridor framework.

16. The NBR removed the average reference rate in December 2010 in line with the MCM recommendation of November 2010. This was replaced with a market-based exchange rate calculated as a weighted average of foreign exchange interbank rates and intervention transactions rate by the NBR.

Financial sector

17. In general, banks remained well capitalized, with strong solvency, liquidity and improving asset quality in 2010. This has increased public confidence in the banking

sector. The capital adequacy ratio of the banking system stood at 22.3 percent at end-December 2010, well above the regulatory capital of 10 percent for Tier 1 capital and 15 percent for total capital. Asset quality also improved during the year as non performing loans (NPLs) decreased from 13.1 percent in December 2009 to 10.8 percent in December 2010, leading to an increase in banks' profitability (return on equity and return on assets increased respectively to 10.2 percent and 1.8 percent from 5 percent and 0.7 percent at end 2009).

18. The NBR increased its supervisory activities in 2010. Following the risk based supervision approach, 7 on-site inspections of banks were conducted, against the target of 6 inspections (end-December 2010 structural benchmark). In addition, the NBR also adopted a number of regulatory and institutional reforms to further strengthen the supervision of microfinance (MFIs) and non-bank financial institutions (NBFI's). Six out of seven regulations approved in 2009 were translated and published in the official gazette in 2010[4], and eight new regulations were approved by the Board[5], along with a regulatory framework for ZIGAMA Credit and Savings Society (ZIGAMA-CSS) under the banking law.

19. For the purpose of strengthening staff motivation and increasing staff retention, a salary survey has been conducted by an external consultant who recommended an action plan to improve NBR's compensation scheme and professional development. The action plan was approved by the NBR Board in March 2011. In addition, the NBR provided training to the examiners in order to improve the quality of banking supervision.

Statistical Issues

20. Efforts to improve the quality of statistics including national accounts are continuing. In particular, the methodology and timing of the crop assessment survey have

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[4] Regulation N° 03/2008 on licensing conditions of banks (Official Gazette nº 51 bis of 20/12/2010)
Regulation N° 11/2009 on capital adequacy requirements (Official Gazette nº 51 bis of 20/12/2010)
Regulation N° 04/2008 on insider lending of banks (Official Gazette n° 02 of 10/01/2011)
Regulation n° 05/2008 on credit concentration and large exposure(Official Gazette n° 02 of 10/01/2011)
Regulation n° 06/2008 on corporate governance(Official Gazette n° 02 of 10/01/2011)
Regulation n° 10/2009 on Liquidity ratio (Official Gazette n° 02 of 10/01/2011)
Regulation n° 04/2011 on Business Continuity Management n°04 of 04/04/2011

[5] Regulation on merger and acquisition (n°05 of 04/04/2011)
Regulation on credit classification and provisioning (n°02 of 04/04/2011)
Regulation on banking placement (n°06 of 04/04/2011)
Regulation on pecuniary sanctions applicable to banks (n°03 of 04/04/2011)
Regulation on foreign exchange exposures limit (n°07 of 04/04/2011)
Regulation on Shareholding
Regulation on Major investment
Regulation on Opening or closure of a new place of business

been improved (end-December 2010 structural benchmark). The survey is currently done in two phases (ex-ante and ex-post) measuring actual amount of harvests since 2011 season A (end-January 2011 structural benchmark). The National Institute of Statistics for Rwanda (NISR) has been conducting the 2010-2011 household budget survey (EICV3) since November 2010 and data collection will take until end October 2011. The NISR has recently completed the data collection for the 2010 National Demographic Health Survey and the survey data should help in improving gross value added (GVA) estimates for the non-government health industry. The NISR has completed data collection for the 2011 Establishment Census results of which will be available by end-August 2011 (structural benchmark) and be used to develop the sampling frame for the planned 2011 Business Survey and Non Profit Institutions Survey. The data from these benchmark surveys, combined with other source data, will be used to develop detailed input-output (I-O) and supply-use tables (SUT) and to rebase the GDP estimates in 2011 constant prices.

21. To support these ambitious work targets, the NISR is strengthening its human capacity. NISR has recruited new staff including economists and strengthened the Economic Statistics department, which has now a director, and three Principal Statisticians in charge of National Accounts, Prices and Agricultural/Industrial Statistics. The NISR is planning to hire additional 25 staff members by the end of June 2011.

II. Objectives and Policies Looking Forward

22. The outlook for the 2011/12 fiscal year is in line with our medium term macroeconomic framework and program objectives set out in our initial MEFP. In 2011, output growth is projected at 7 percent, showing slight slow-down from 2010 due to withdrawal of the fiscal stimulus and adverse impact of rising global food and fuel prices. The rising food and fuel prices are also expected to push up domestic prices and inflation is now projected to reach 7.5 percent at the end of 2011.

23. Fiscal consolidation and domestic revenue mobilization remain the key components of our fiscal strategy. Accordingly, fiscal deficit (incl. grants) is projected to decline from 1.8 percent of GDP in 2011/12 to 0.3 percent of GDP by 2014/15. Over the same period, domestic revenues are projected to increase from 13.9 percent of GDP to 14.8 percent of GDP. Domestic revenue projections are underpinned by revenue administration measures. However, we expect to complement these measures by future reforms of our tax policy, with assistance from the IMF's Fiscal Affairs Department, in order to reduce our dependency on donor aid flows which are expected to decline from 11.7 percent of GDP to 8.5 percent of GDP though the outer years are subject to large uncertainty.

24. We are taking steps to broaden the coverage of project grants in the fiscal table which can affect the future path of grants. Starting with the 2011/12 budget, we are including grants related to the Global Fund spending by central Government, which have

become sizable (1.8 percent of GDP). We have started a process of creating a project Treasury Single Account (TSA). This will greatly improve our treasury management. Pilot phase will be completed by end-December 2011 (structural benchmark). Piloting will involve a review of the number of existing project bank accounts, their size, duration and closing dormant accounts.

A. Fiscal Policy

25. The budget for fiscal year 2011/2012 is to improve fiscal consolidation as envisaged in the PSI. This will involve increase in revenue mobilization and prioritize expenditures with a view to reduce the fiscal deficit and the domestic financing.

In this regard:

- Revenue/GDP: domestic resource mobilization will increase by about 0.2 percent of GDP from 13.7 percent to 13.9 percent.

- Total expenditure and net lending (excluding the expenditures funded by the Global Fund) will reduce by about 1.7 percent of GDP from 27.3 percent of GDP to 25.6 percent of GDP.

- The overall budget deficit (including grants) will decline from 4.2 percent of GDP in 2010/11 to 1.8 percent of GDP in 2011/2012.

- Net domestic financing will also decline from 2.1 percent of GDP in 2010/2011 to 0.3 percent of GDP in 2011/2012.

- We will use privatization receipts currently projected at Rwf 25 billion (0.64 percent of GDP) and included under net lending for financing of some priority investment projects. If privatization receipts turn out to be higher than budgeted, it will be saved, reducing the government's net domestic financing (NDF) requirement. If the receipts are lower than projected, spending will be adjusted, leaving NDF unchanged.

- **Revenue administration measures for 2011/12**

- Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers. (structural benchmark for end-January 2012).

- Conduct a study to identify potential areas to widen the tax base and estimate the tax gap (structural benchmark for end-December 2011).

- Introduce e-filing and payment to improve on time spent, reduce burden to taxpayers and service delivery.

- Conduct customer satisfaction survey to inform our next areas of focus for strategic planning purpose.

- Introduce new tax compliance risk assessment system at the Domestic Tax Department (DTD) that will orient audit function to highly risk taxpayers.

- Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point.

- Establish a One-Stop-Border concept at Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade.

- Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination.

- Fully automate collection of pension funds and RAMA and bring those out of the Pay-As-You-Earn (PAYE) net into the system.

- **Tax policy measures**

- Introduce gambling and royalty (on mining) taxes in 2011/12.

26. The government plans to improve its communication strategy by preparing quarterly budget execution reports, and publishing these on its website, within 45 days from the end of each quarter. This will start from mid-May 2011 (structural benchmark).

Public Financial Management

27. The government fully agrees with the contents of the report on Public Expenditure and Financial Accountability (PEFA) assessment. The areas of unsatisfactory rating in PEFA, and in particular those where performance has remained largely unchanged over the years will be subjected to close scrutiny in the ongoing Public Financial Management (PFM) Reform mid-term review, with a view to identify the factors that contribute to this situation and feasible remedial measures to be taken. In particular, the review will pay special attention to areas which had limited improvements and remained weak. These include:

- Composition of expenditure out-turn compared to original approved budget (D)
- Extent of unreported government operations (D+)
- Oversight of aggregate fiscal risk from other public sector entities (C)
- Effectiveness of internal audit (C)

- Quality and timeliness of annual financial statements (D+)
- Financial information provided by donors for budgeting and reporting on project and program aid (D+)
- Multi-year perspective in fiscal planning, expenditure policy and budgeting (C+)
- Effectiveness in collection of tax payments (D+)
- Availability of information on resources received by service delivery units (D)
- Quality and timeliness of in-year budget reports (D+)
- Legislative scrutiny of the annual budget law (C+)
- Proportion of aid that is managed by use of national procedures (D)
- Effectiveness of internal audit (C), and quality and timeliness of annual financial statements (D+).

Medium Term Debt Strategy

28. We have revised our debt policy and the Medium Term Debt Strategy (MTDS) in January 2011. However, we deemed important to seek contributions from the IMF- MCM department before adoption by the Cabinet. The Government has requested TA from the MCM department and both policy and strategy will be ready for adoption by end-October 2011 (structural benchmark). The MTDS would be used in designing fiscal policy in 2012/13 and beyond.

29. The Smart Financial Management Information System (SmartFMIS) has been subject to two external reviews by an international "Quality Assurance Group" (QAG), the most recent in May 2010. In its report of that mission, the QAG recommended that the Government prepare an "IFMIS Blueprint" to ensure that government undertake a thorough review of its business needs and how best to meet them and map this to the future direction for the Government's financial systems.

30. The work on the IFMIS Blueprint has now started with a view to having it adopted by end-December 2011 (structural benchmark). The approved blueprint will determine whether the Government IFMIS system will remain in-house or Commercial Off-the-Shelf (COTS) or a mix. Currently the system is being enhanced to integrate the new GOR Chart of accounts, which is expected to improve the consolidation coverage and transactions recording in line with the structure of General Government Sector.

B. External Sector Policies

31. The balance of payments in 2011 is expected to continue to record a surplus, further boosting reserves coverage. Tea exports would be supported by additional investments in the sector although mining exports remain uncertain because of some specific international certification requirements. The Government is taking measures to address this issue. Imports for capital goods would increase sharply along with the investments in strategic

projects and energy imports would be affected by the rise in international oil prices. As a result, the current account (excluding official transfers) would deteriorate, though it is expected to improve rapidly over the medium term as the large investment projects come on line. Several private investment deals, including in the services sector, would support a boost in foreign direct investment.

32. The National Export Strategy (NES) has been adopted by the Cabinet. Rwanda Development Board (RDB) will coordinate and monitor its implementation on an ongoing basis and provide periodic reports to the NES Technical Advisory Committee[6], which would oversee the coordination and the implementation efforts of the NES.

33. In the area of external debt, we will explore all avenues for concessional financing. However given the large requirement of resources for the financing of our development agenda, some non concessional financing will be necessary. We have already agreed to a ceiling of US$240 million of non concessional borrowing during the PSI period for RwandAir and the Kigali Conference Center (KCC). The authorities will conduct their own debt sustainability analyses (DSAs) using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper, starting end-March 2012 (structural benchmark).

34. We continue to request exclusion from the debt ceiling for the Banque Rwandaise de Developpement (BRD). The BRD is holding discussions with the African Development Bank (AfDB) and the Agence Française de Developpement (AFD) for non-concessional lines of credit amounting to about US$15 million. These funds, when secured, would be used for on-lending to Small and Medium Enterprises (SMEs) and others for long-term financing. The BRD**,** a state-owned bank, was not excluded during the first PSI review (Country Report No. 11/19), on the grounds that it posed fiscal risks, including because it lacked a sufficiently independent management board and regularly received budgetary transfers and tax exemptions. We are in the process of taking measures, which, when completed, would reduce the bank's fiscal risk. These include nullifying the statute establishing the bank as a public institution and registering the bank under the Rwanda Companies Law, and appointing a new independent Board. We have also provided additional information that demonstrates a solid track record of BRD's borrowing from external sources—including on non concessional terms—and its record of repayment without recourse to government support. The appointment of the new independent Board members and the promulgation of the law registering the Bank under companies' law will be done before the next PSI review.

[6] Consisting of representatives from key institutions in these areas include MINICOM, MINECOFIN, MINAGRI, MININFRA, private sector players and development partners, as well as departments of the RDD itself.

C. Monetary and Exchange Rate Policies

35. The rising global fuel and food prices as well as lower than expected domestic food harvest for 2011 poses significant threat to inflation in 2011. End-year-inflation is therefore projected to increase in 2011 to about 7.5 percent from the 0.2 percent in 2010, reflecting mainly the first round pass-through of the rising fuel and food prices. The underlying pressures are already beginning to show in 2011 with inflation rising to 5 percent in April.

36. The NBR will however closely review the monetary policy stance in line with both domestic and external developments, and steer monetary policy to ensure underlying inflationary pressures are well anchored. It will also continue to ensure that real interest rates remain positive to continue to support the financial deepening required for growth.

37. To this effect, the NBR is committed to improve liquidity forecasting to minimize forecasting errors to improve reserve money control which will remain the main monetary policy tool. This would however, be supported by frequent reviews in the key policy rate to re-enforce liquidity control.

38. To further build and shape market expectations, the NBR will continue to enhance its communication strategy by creating an interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community. In addition, the communication will focus on educating the public about the ongoing financial deepening reforms such as credit reporting bureau activities, the Umurenge Savings and Credit Co-operatives (SACCO) program, capital market development and payment systems modernization.

39. The NBR, with MCM TA will put together a coherent action plan to develop the interbank markets (both money and foreign exchange markets) which at the moment remain a challenge in the operation of liquidity management and the exchange rate corridor framework.

40. The NBR has put together a capacity building program to strengthen the analytical skills of its staff to support the monetary policy committee process. The NBR has entered into partnership agreements with the Center for Central Baking Studies of the Bank of England and the Reserve Bank of South Africa to organize joint training programs for key NBR staff as well as technical attachment programs. This would be supported by a collaborated research program with the International Growth Center.

D. Financial Sector Reforms

41. Further capacity building at NBR is planned for 2011/12, implementing the recently adopted action plan to improve the compensation scheme and professional development.

The NBR plans to recruit 5 staff to reinforce the banking supervision team and the process has already obtained approval (structural benchmark for end-June 2011). Capacity building efforts for examiners will be maintained in 2011 through various training courses, attachments and workshops. The capacity building and staff motivation initiatives will enable NBR to achieve the PSI objective of being able to conduct on-site inspections for each bank at least once in every 24 month cycle. For 2011, the NBR is planning to conduct 9 on-site inspections (6 full scope inspections and 3 targeted scope inspections).

42. NBR is committed to ensure an orderly roll-out of the Umurenge SACCOs program to protect the stability of the financial system. To this effect, the NBR is committed to follow through carefully the requirements in Regulation on the Organization of Microfinance Activity (No. 02/2009), and ensure that key managers and directors of all MFIs (including SACCOs) that are granted licenses to lend, possess the minimum training and experience needed to identify, measure, control and oversee the risks associated with the operations of SACCOs.

43. The NBR, with funding and technical assistance from DFID, will undertake a SACCO Sustainability Study to inform the creation of the appropriate structures to support the SACCO program. The first draft of the study is expected by end-September 2011.

44. Furthermore, NBR is planning to hire and train 60 inspectors to supervise Umurenge SACCOs at the district level (end-September 2011 structural benchmark)—the supervisors will be hired by July 2011 and trained by September 2011. The 60 hired inspectors will be financed by the NBR and part by development partners. All inspectors will be trained by the NBR staff mainly on the microfinance legal and regulatory framework, on how the supervision of MFIs is organized in Rwanda and on the expected outcomes of the hired inspectors in the monitoring and supervision of SACCOs.

45. It is expected that the FSAP final report will become available by June 2011. TA will be sought to put in place an action plan to implement the FSAP key recommendations by end December 2011.

46. The NBR also plans to submit a draft law on pension to Cabinet by end-June 2011 and to issue implementing regulations as soon as the pension law is enacted. Thereafter, investment guidelines on pension will be developed and approved by CSR/RAMA Board of Directors by end-June 2012 (structural benchmark).

47. The NBR will request a mission from IMF to assess progress and check compliance with the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework by end-March 2012.

E. Statistics

48. The NISR will continue to improve the quality of its economic statistics in general and the national accounts in accordance with the improvement action plan of the national accounts. The NISR also intends to update the metadata for the General Data Dissemination Standards (GDDS) as soon as possible. Revised 2010 GDP estimates will be released around October 2011, after introducing work-in-progress (WIP) crops estimation and limiting the share of GDP estimated by population growth rate to no more than 12 percent (end-October 2011 structural benchmark). The NISR is currently preparing for hiring a consultant to review agricultural statistics including sampling methodology. The final report and recommendations are to be complete and published by end-March 2012 (structural benchmark). NISR will also publish the results of its recent establishment survey (structural benchmark end-August 2011).

F. Policy Coordination

49. The NBR and MINECOFIN are committed to continue improving collaboration at both the technical and policy levels to enhance the development of the macroeconomic framework.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010/11 and 2011/12[1]
(Billions of Rwandan francs, unless otherwise indicated)

	2010								2011				2012	
	June				Dec				Mar	June	Sep	Dec	Mar	June
	Prog	Adjusted Prog	Est	Status	Prog	Adj. Prog	Est	Status	Prog	Prog	Prog	Prog	Est.	Est.
Assessment Criteria [2]														
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	369.3	368.1	384.7	*met*	352.6	338.9	398.7	*met*	357.7	391.2	409.5	463.2	416.5	388.5
Reserve money (ceiling on stock) [5]	122.5	122.5	121.7	*met*	129.9	129.9	129.4	*met*	130.8	137.5	146.8	149.6	155.3	161.4
Net domestic financing (ceiling on flow)[4, 6]	-7.5	-6.3	-11.2	*met*	22.7	36.5	35.2	*met*	57.2	74.0	28.0	-34.2	70.2	120.7
New nonconcessional and government guaranteed external debt (US$ Millions) (ceiling on stock) [7, 8]	240.0	240.0	0.0	*met*	240.0	240.0	0.0	*met*	240.0	240.0	240.0	240.0	240.0	240.0
External payment arrears (US$ Millions) (ceiling on stock) [8]	0.0	0.0	0.0	*met*	0.0	0.0	0.0	*met*	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets														
Domestic revenue collection (floor on flow) [6]	197.9	197.9	204.3	*met*	424.0	424.0	430.9	*met*	123.7	245.2	379.8	514.4	134.6	269.2
Net accumulation of domestic arrears (ceiling on flow) [6]	-3.0	-3.0	-6.1	*met*	-13.1	-13.1	-13.3	*met*	-2.0	-4.0	-6.0	-8.0	-2.0	-4.0
Consolidated domestic debt of public sector (ceiling on stock, eop) [4,9]	211.1	212.3	264.8	*not met*	219.0	232.7	218.9	*met*	296.5	291.7	264.9	221.2	264.4	274.2
Total priority spending (floor on flow) [6]	212.0	212.0	228.7	*met*	458.7	458.7	472.4	*met*	115.0	230.1	352.6	477.2	123.6	247.2
Memorandum items:														
General budget grants (US$ Millions) [6,10]	218.2	218.2	216.1		418.0	418.0	394.0		171.3	203.1	393.0	586.0	47.3	93.8

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the attached Technical Memorandum of Understanding (TMU).

[2] Test dates for assessment criteria are for end-June and end-December, otherwise indicative targets.

[3] All Numbers for 2010 are at program exchange rate of RWF 571.24 per US dollar; and numbers for 2011 and 2012 are at program exchange rate of RWF 594.45 per US dollar.

[4] Subject to adjustors. See TMU for details.

[5] Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. See TMU for details.

[6] Numbers for 2010 are cumulative from December 31, 2009; numbers for 2011 are cumulative from December 31, 2010; and numbers for 2012 are cumulative from December 31, 2011.

[7] Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI and is tied to two projects as specified in the MEFP. It excludes the IFC SWAP agreement of US$50 million as well as US$13.1 million for purchase of two small airplanes both of which were contracted in 2009 and external borrowing by the Bank of Kigali.

[8] This is a continuous assessment criterion.

[9] Excluding NBR's debt issued for monetary policy purposes, starting on September 2010. See TMU for details.

[10] Including Global Funds, but excluding demobilization and AU peace keeping operations, HIPC grant and COMESA compensation grant.

Table 2. Rwanda: Structural Benchmarks for 2011-12[1]

Policy Measure	Target Date	Macroeconomic rationale
PFM		
1. Submit to Cabinet for approval a revised public debt policy and MTDS.	End-October 2011	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.
2. Complete pilot project for integrating donor project accounts into TSA	End December 2011	To improve coverage of central government fiscal operations and fiscal management.
3. To develop and adopt a blueprint for the future development of the IFMIS	End December 2011	To improve budget preparation, implementation and reporting
Fiscal Performance		
4. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially the quarterly budget execution reports will exclude foreign-financed projects.[2]	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.
Revenue Administration		
5. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to RRA.	End September 2011	To improve compliance and widen the tax base.
6. Complete study on widening tax base and estimate the potential revenue gap	End-December 2011	To improve revenue performance.
7. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers	End January 2012	To improve VAT buoyancy.
Financial Sector		
8. NBR to hire 5 bank supervisors to reinforce the banking supervision department	End-June 2011	To keep up with both on and off site prudential oversight of banks consistent with risk-based supervision framework.
9. NBR to hire and train 60 inspectors (1 per district) to supervise Umerenge SACCOs at district level	End-September 2011	To expedite supervision of growing Umergenge SACOOs with licenses to lend and take deposits.
Export sector		
10. Approval of investment guidelines by the board of CSR/RAMA	End - June 2012	To improve the corporate governance of CSR/RAMA and contain potential fiscal liabilities.
External sector		
11. Conduct own DSA using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper	Continuous from End-March 2012	To enhance ability to monitor debt sustainability on an ongoing manner.
Statistics		
12. Publish results of Establishment Survey	End-August 2011	To improve measurement of GDP growth.
13. Limit the share of GDP estimated by population growth rate to no more than 12 percent	End-October 2011	To improve measurement of GDP.
14. Complete and publish review of agricultural statistics including sampling methodology	End-March 2012	To improve measurement of GDP growth.

[1] Source: MEFP Country Report No. 11/19 and staff assessment.

[2] New measures introduced at the time of the first review of the PSI.

[3] Structural benchmarks for the first review.

Attachment II. Technical Memorandum of Understanding

May 25, 2011

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–June 30, 2013 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 11/19.

I. Quantitative Program Targets

2. The quantitative program will be assessed through assessment criteria (AC) and indicative targets (IT) for the duration of the program.

3. AC will apply to the following indicators for end-June and end-December (the test dates) throughout the program period; other dates are IT:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector; and
- Ceiling on stock of external payment arrears of the public sector.

4. IT targets apply to the following indicators throughout the program period:

- Floor on flow domestic revenue collection of the central government;
- Ceiling on flow net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow priority spending.

5. Assessment criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2010 rates, apply for 2011 and 2012:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2011/12
Rwanda Franc (per US$)	594.45
Euro	1.3219
British Pound	1.5621
Japanese Yen (per US$)	83.4255
SDR	1.5356

A. Institutional Coverage of the Fiscal Sector

7. The **central government** fiscal operation table comprises the treasury and line ministries, hereafter referred to as the government unless specified otherwise.

B. Targets related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. A ceiling applies to NDF, which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. NDF for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and NDF for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets

9. **Definition**. NDF of the government is defined as *change* in the sum of (i) net banking sector credit to the government and (ii) non-bank holdings of the government domestic debt.

10. Net banking sector credit to the government is defined as

- credit to the government from the banking system (as recorded in the monetary survey), including credit to the government, provinces and districts, outstanding consolidated government debt held by the banking system,[1] government debt to the NBR incurred as a result of the 1995 devaluation (Rwf 9 billion), the overdraft to the

[1] Consisting of bank holdings of treasury bills, bonds (domestic), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

prewar government (Rwf 2 billion)[2], and overdraft with the NBR. Credit to the government will exclude treasury bills issued for monetary policy purposes by the NBR, and the proceeds of which are sterilized in deposits held as other NBR liabilities.

- minus total government deposits with the banking system (as recorded in the monetary survey), including the main treasury account, line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, privatization account, and any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, Global Funds money meant for private sector, counterpart funds and *fonds publics affectés*).

11. Non-bank holdings of the government domestic debt consists of non-bank holdings of treasury bills, bonds (domestic and nonresident), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

12. Grants extended by the Global Fund that are under the control of the central government are programmed at US$113 million for FY2011/12, corresponding to RWF 70.7 billion as shown in the Fiscal table for the central government under capital grants.[3] Total Global Fund deposits (those that are under the control of the central government and under the control of the private sector) stood RWF 62.8 billion at end-December 2010.

Adjusters to the NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[4] (defined in Table 1 of

[2] The authorities will inform Fund staff of any substantive changes in government accounts with the banking system, which may affect the calculation of net bank claims.

[3] Quarterly distributions of $113 million are as follows: $21.9 (July-Sep 2011), $19.6 million (Oct-Dec 2011), $47.3 (Jan-March 2012), and $24.2 million (Apr-June 2012). For the January-June 2011 period, Global Funds of RWF 47.2 billion have been programmed that have already been received and recorded in the monetary survey for end-December 2010.

[4] Budgetary grants exclude COMESA grants, HIPC grants, and peacekeeping operations, but include Global Funds. There is an expected budgetary loan of RWF20.8 billion (equivalent of US$ 31.8 million) being discussed with AfDB and currently not programmed; out of RWF 20.8 billion, RWF 10 billion will be used to compensate for a removal of the RWF 10 billion programmed contingent grant, with the net impact of RWF 10.8 billion.

Quantitative AC and IT), up to a maximum adjustment of US$80 million, evaluated in Rwanda francs at the program exchange rate. The ceiling will be adjusted *downward* by the amount of any excess of actual over programmed budgetary loans and grants above US$24 million, evaluated in Rwanda francs at the program exchange rate.

- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

13. **Reporting requirement**. Data on NDF (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits), each type of debt to be shown by debt holder, and its adjusters will be transmitted on a monthly basis within five weeks from the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies and agencies that the government does not have any direct control over.

Floor on flow of domestic revenues

14. A floor applies to domestic revenue, which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. Domestic revenue for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and that for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets.

15. **Definition**. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, and privatization receipts.

16. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

Floor on priority expenditure

17. The floor applies to priority spending of the government which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. Priority spending for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and that for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets.

18. **Definition.** Priority spending is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the EDPRS. Priority expenditures are monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

19. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government

20. A ceiling applies to net accumulation of domestic arrears of the government[5] which is measured cumulatively from December 31, 2009 for June 30, 2010 and December 31, 2010. Domestic arrears for June 30, 2011 and December 31, 2011 are measured cumulatively from December 31, 2010, and that for June 30, 2012 is measured cumulatively from December 2011. Other dates are indicative targets.

21. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of float during the review year and the repayment of older arrears).

22. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous-year stock of arrears will be transmitted on a monthly basis within five weeks of the end of each month.

C. Limits on External Debt

Limit on New Nonconcessional External Debt of the Public Sector

23. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1 of the MEFP which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC and US$13.1 million for purchase of two air planes in 2009. The ceiling also excludes non concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

24. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake— owning more than

[5] A negative target thus represents a floor on net repayment.

50 percent of the shares or the ability to determine general corporate policy.[6] This definition of public sector excludes the Bank of Kigali.

25. For program purposes, the guarantee of a debt arises from any *explicit* legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any *implicit* legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

26. **Definition of concessionality** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[7] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

27. **The definition of debt,** for the purposes of the limit in the AC, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency)

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[6] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

[7] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears

28. A continuous assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the public sector. External payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, but shall exclude arrears on obligations that are subject to rescheduling.

Consolidated Domestic Debt of the Public Sector (DD)

29. For program purposes, DD excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 12), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 12.

- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency.

30. **Reporting requirement.** Data on domestic debt of the public sector, including treasury bills issued by the NBR for monetary policy purposes, will be transmitted on a monthly basis within five weeks of the end of each month.

D. Targets for Monetary Aggregates

Net foreign assets of the National Bank of Rwanda (NFA)

31. A floor applies to the NFA of the NBR for December 31, 2010, June 30, 2011 and December 31, 2011 targets.

32. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standard (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) are to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate. Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/ECF disbursements).

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants (per paragraph 12). This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate. In the case of excess of actual over programmed budgetary loans and grants, the floor of the NFA remains unchanged for the first US$24 million. Subsequently, the floor will be adjusted upwards by any amount in excess of US$24 million, evaluated in RWF at the program exchange rate.

- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency.

33. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week. This transmission will include daily and weekly data on the NBR's foreign exchange liabilities to commercial banks (including required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money

34. A ceiling applies to the stock of reserve money for the December 31, 2010, June 30, 2011 and December 31, 2011 targets.

35. The stock of reserve money target for a given quarter will be calculated as the arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. Daily average of all the three months in the quarter will constitute the actual reserve money to be compared with the target.

36. **Reserve money** is defined as the sum of currency in circulation, commercial banks' reserves, and other nonbank deposits at the NBR.

Adjuster:

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjustor will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

37. **Reporting requirement.** Data on reserve money will be transmitted on a weekly basis within seven days of the end of each week. This transmission will include a daily and a weekly balance sheet of the NBR which will show all items listed above in the definitions of reserve money.

II. Other Data Reporting Requirements

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.

39. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed

by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to the Fund (email: afrrwa@imf.org).

Table 1. Summary of Reporting Requirements

	Frequency of Data[10]	Frequency of Reporting[10]	Frequency of Publication[10]
Exchange Rates[1]	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[3]	M	M	M
Volume of transactions in the interbank money market and foreign exchange markets and sales of foreign currencies by NBR to commercial banks	D	W	W
Liquidity Forecast Report[4]	W	W	-W-
Consumer Price Index[5]	M	M	M
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6] – General Government[7]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6]– Central Government	M	M	M
Comprehensive list of tax and non tax revenues[8]	M	M	M
Comprehensive list of domestic arrears of the government	M	M	M
The ten (10) largest components of transfers in the fiscal table	M	M	M
Social security contributions (RAMA and CSR)	M	M	M
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR[9]	A	A	A
Privatization receipts	M	M	M
External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

[1] Includes the official rate; Forex Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the NBR.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.
[4] One-week ahead forecasts of liquidity submitted on weekly basis. For example, in reporting data as of the last week of April, liquidity forecasts for the first week of May should be reported. The forecasted liquidity should be classified by net foreign assets, net credit to government, nongovernment credit, reserve money, currency in circulation, net credit to commercial banks broken down into discount window and money market (absorption or injection), and other item net.
[5] Includes General Index; Local Goods Index; Imported Goods Index; Fresh Products Index; Energy Index; General Index excluding Fresh Products and Energy; and their breakdowns as published by the NISR.
[6] Foreign, domestic bank, and domestic nonbank financing.
[7] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[8] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[9] Includes debts of the Bank of Kigali. Also Includes currency and maturity composition.
[10] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

INTERNATIONAL MONETARY FUND

RWANDA

Second Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Informational Annex

Prepared by the African Department
(In collaboration with other Departments)

Approved by Saul Lizondo and Christian Mumssen

June 7, 2011

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system.

- **Joint World Bank–IMF Work Program.** Outlines the Joint Management Action Plan through December 2011.

Contents Page

ANNEX I. RWANDA: RELATIONS WITH THE FUND

(As of April 30, 2011)

I. Membership Status: Joined: September 30, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve Tranche Position	0.00	0.00

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	76.82	100.00
Holdings	83.36	108.51

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements[1]	9.55	11.92

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	June 12, 2006	August 07, 2009[2]	8.01	8.01
PRGF	August 12, 2002	June 11, 2006	4.00	4.00
PRGF	June 24, 1998	April 30, 2002	71.40	61.88

VI. Projected Payments to Fund[3]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.29	0.68	1.14	1.60	1.89
Charges/Interest		0.02	0.02	0.02	0.01
Total	0.29	0.71	1.16	1.61	1.90

[1] Now known as Extended Credit Facility (ECF).

[2] On June 4, the PRGF was extended from June 11, 2009 to August 14, 2009, to allow time for the completion of the sixth and final review, and for making the final disbursement under the PRGT arrangement.

[3] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:	Enhanced framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (US$ million) [4]	695.50
Of which: IMF assistance (US$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	Apr 2005
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed	46.79
Interim assistance	14.45
Completion point balance	32.34
Additional disbursement of interest income[5]	3.77
Total disbursements	50.56

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 4 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

[4] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[5] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

I. MDRI -eligible debt (SDR Million)[6]	52.74
Financed by: MDRI Trust	20.19
Remaining HIPC resources	32.55

II. Debt Relief by Facility (SDR million)

Delivery Date	GRA	PRGT	Total
January 2006	N/A	52.74	52.74

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Safeguards Assessments:

The 2007 safeguards update assessment noted that since 2003, the National Bank of Rwanda (NBR) strengthened its own safeguards: External audits were completed on time, the Committee of Auditors became operational, and the Internal Audit Department helped in the strengthening of controls over monetary program data. The update assessment's priority recommendations concerned timely publication of the audited financial statements, further improving external audit arrangements, and full implementation of IFRS. Safeguards policy does not require an update safeguards assessment in the case of the non-financial arrangement with the Fund. However, such assessment may be voluntary requested by the country, and the NBR has made a formal request for the update assessment.

XI. Exchange System:

The currency of Rwanda is the Rwandan franc. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF and maintains a system free of restrictions on the making of payments and transfers for current international transactions. As of April 30, 2011, the official exchange rate was RWF 601.74 per U.S. dollar. Since January 2010, the Rwanda franc has gradually depreciated against the dollar in a 2 percent band. Under the revised classification of the exchange rate arrangements, effective January 4, 2010, the *de facto* exchange rate arrangement has been reclassified to a crawl-like arrangement from a stabilized arrangement. The *de jure* exchange rate arrangement is classified as floating. With effect from December 27, 2010, the official exchange rate is the weighted average computed from a previous foreign exchange interbank market transaction

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[6] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

and an intervention transaction by the National Bank of Rwanda (NBR). The Average Reference Rate, formerly used for the official exchange rate, was eliminated. The NBR applies a margin of +/-0.8 percent to the official rate to derive a customer rate. With a view to introducing more flexibility in its exchange rate policy, since March 24, 2010, NBR introduced an exchange rate corridor framework.

XII. Article IV Consultation:

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2010 Article IV consultation (IMF Country Report No. 11/19) on December 20, 2010.

XIII. FSAP Participation, ROSCs, and OFC Assessments:

A Report on Observance of Standards and Codes on Fiscal Transparency (ROSC) was issued in July 2003. A Financial Sector Assessment Program (FSAP) took place in February 2005, and a FSAP update mission was conducted in February 2011. Rwanda has not had an Offshore Financial Center (OFC) assessment.

XIV. Policy Support Instrument (PSI):

A three-year PSI program was approved on June 16, 2010, with an effective date of June 30, 2010. The first review under the PSI, along with the 2010 Article IV consultation, was completed on December 20, 2010.

XV. Technical Assistance and Future Priorities:

List of Technical Assistance Missions

2004 AFRITAC East expert on financial regulations.
2004 AFRITAC East mission on treasury reforms.
2004 AFRITAC East expert on implementing cash flow planning and banking arrangements.
2004 FAD tax administration expert on strengthening of revenue administration.
2004 FAD mission on revenue administration.
2004 MFD/LEG mission on Anti-Money Laundering and Combating the Financing of Terrorism.
2004 MFD expert on banking supervision and regulation.
2004 MFD expert on monetary policy, monetary operations, and money markets.
2004 MFD missions on on-site banking supervision.
2005 AFRITAC East expert follow up on cash management.
2005 MFD/LEG mission on Anti-Money Laundering and Combating the Financing of Terrorism.
2005 MFD mission on financial statements of specific bank.
2005 MFD-WB joint FSAP mission.
2005 LEG mission on customs legislation.
2005 STA mission on Balance of Payments statistics.
2005 LEG mission on tax legislation.
2005 FAD mission on public accounting: decentralized accounting for central government.
2005 FAD expert on tax administration.

2005 MFD resident expert on monetary operations, monetary policy, money markets.
2005 MFD expert on banking supervision.
2005 LEG mission on drafting an amendment to the banking law.
2005 MFD mission on banking supervision and bank restructuring.
2006 AFRITAC East experts on establishing intergovernmental fiscal unit in the MOF.
2006 FAD advisor trade facilitation.
2006 MFD FSAP-follow up advisory mission on monetary and foreign exchange operations and NBR internal audit.
2006 LEG mission to strengthen legal and regulatory framework for bank supervision.
2006 AFRITAC East advisors on finalization of OBL and financial regulations
2007 AFRITAC East advisors on workshops for implementation of OBL and financial regulations.
2007 MCM expert on bank restructuring.
2007 MCM expert on foreign exchange operations.
2008 LEG mission to assist the Ministry of Finance in modernizing the tax system.
2008 LEG mission on banking legislation.
2008 LEG review of Article VIII obligations.
2008 MCM expert on foreign exchange operations.
2008 MCM mission to assist in building up internal audit in the central bank.
2008 FAD expert on revenue administration.
2008 AFRITAC East advisors on (i) improving the budget preparation process and budget accounting, and (ii) changing to the *GFS2001*- based economic classification (jointly with STA).
2008 MCM mission on monetary policy operations, foreign exchange operations, and assessment of the financial health of banks.
2008 AFRITAC East advisors on enhancement of national accounts estimation.
2009 MCM mission on liquidity management.
2009 MCM mission on bank supervision.
2009 STA mission on rebasing consumer and producer price indices.
2009 FAD/AFRITAC East mission to review progress and set the program for TA in budget reform and PFM.
2009 FAD/AFRITAC East mission on customs risk management and valuation.
2009 AFRITAC East advisors on (i) enhancing comprehensiveness and transparency of the fiscal budget and (ii) reform strategy for introduction of program budgeting.
2009 AFRITAC East advisors on quarterly GDP compilation.
2009 AFRITAC East workshop on national accounts.
2009 AFRITAC East advisors on (i) developing a framework for adopting a capital charge for market risk, (ii) enhancements to offsite surveillance system, and (iii) payment system modernization.
2009 AFRITAC East advisors on operational policy development and compliance management in revenue administration.
2009 AFRITAC East workshop on strengthening tax audit and collection enforcement.
2009 FAD/AFRITAC East mission on strengthening fiscal management.
2009 FAD technical assistance evaluation mission.

2009 FAD mission on tax Administration.
2009 FAD/AFRITAC East training in financial programming & macro-fiscal analysis.
2009 FAD/AFRITAC East mission on bringing external funds on budget.
2009 FAD/AFRITAC East mission on improving budgeting of external funds and expenditure to local government.
2009 FAD/AFRITAC East mission to install expert on revenue administration.
2009 FAD mission on customs business strategy.
2009 FAD mission on customs post-clearance audit training and compliance.
2009 FAD training on tax audit.
2009 FAD mission on customs information technology.
2009 LEG mission on payments and settlements systems law.
2009 MCM mission on internal audit.
2009 MCM /AFRITAC mission on non bank PSs, stakeholder issues and NPs strategy implementations.
2009 MCM mission on financial stability.
2009 MCM mission on banking supervision.
2009 MCM/AFRITAC East training in basic bank supervision skills.
2009 MCM/AFRITAC East mission to assist the NBR to assess the current status of Rwanda's banking system.
2009 MCM mission on monetary policy and FOREX.
2009 STA/AFRITAC East mission on improving the PPI.
2009 STA AFRITAC East mission on consumer price statistics.
2009 STA/AFRITAC East mission to assist in launching and facilitating discussions on Rwanda's national accounts compilation.
2009 STA/AFRITAC East mission on quarterly national accounts compilation.
2009 STA/AFRITAC East mission on monetary policy and FOREX.
2010 STA/AFRITAC East mission on national accounts statistics.
2010 LEG mission on payment & settlement systems.
2010 MCM/AFRITAC East mission to develop examination procedures.
2010 STA mission to review data reporting systems.
2010 FAD/AFRITAC East mission on the development of a central bank database.
2010 MCM mission on foreign exchange policies and operations.
2010 STA/AFRITAC East mission on national accounts statistics.
2010 MCM mission on supervision of Non-bank financial institutions.
2010 FAD mission on safeguards and fiscal investment
2010 MCM mission on bank supervision.
2010 MCM mission on foreign exchange policy.
2010 MCM mission on bank supervision.
2010 FAD mission on central bank database.
2010 MCM mission on consolidated supervision.
2010 FAD/EAST AFRITAC on PFM.
2010 FAD/EAST AFRITAC on Revenue administration.
2010 MCM mission on pension fund supervision and regulation.

2011 STA/AFRITAC East mission on national accounts statistics.
2011 MCM mission on payment systems oversight.
2011 STA mission on improving quality of fiscal data.

Future priorities

The priorities for the Fund's technical assistance will remain in the area of monetary and exchange rate management, supervision of bank and nonbank financial institutions, public finance management, tax policy and administration, and compilation of national account statistics.

XVI. Resident Representative:

Mr. Dmitry Gershenson assumed his duties as Resident Representative in February 2009.

XVII. Management Visit:

The Deputy Managing Director, Mr. Portugal, visited Rwanda during May 3–5, 2007.

ANNEX II. RWANDA: JOINT BANK-FUND WORK PROGRAM
DECEMBER 2010–DECEMBER 2011

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	I. Mutual Information on Relevant Work Program		
Bank Work Program	A. Strategy and Analytical Work		
	Rwanda Capacity Filter – Sector Analysis		May 2011
	Multi-Year Education Policy Analysis		June 2011
	Financial Sector Assessment Program Update		June 2011
	Technical Assistance for Poverty Monitoring		June 2011
	Employment and Growth Policy Note		July 2011
	Social Risk Management of Climate		October 2011
	Technical Assistance for Public Expenditure Management		June 2012
	B. Ongoing and New Projects		
	Transport Sector Development Project (Additional Financing)		June 2011
	Economic Empowerment of Young Women		May 2011
	Third Community Living Standards Credit		Ongoing
	Skills Development Project		Ongoing
	Poverty Reduction Support Facility -VII		Ongoing
	Public Sector Capacity Building Project		Ongoing
	Second Rural Sector Support Project		Ongoing
	Second Emergency Demobilization and Reintegration Project		Ongoing
	Land Husbandry, Water harvesting and Hillside Irrigation		Ongoing
	Rwanda Electricity Access Scale-up and Sector-wide approach Project		Ongoing
	Sustainable Energy Development Project (GEF)		Ongoing
	Integrated Management of Critical Ecosystem Project (GEF)		Ongoing
	Transport Sector Development Project		Ongoing
	Competitiveness and Enterprise Project		Ongoing
	L.Victoria Environment Management Project (Ph. 2)		June 2011

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	EAC Financial Sector Development and Regionalization Project		Ongoing
	East Africa Public Health Laboratories Networking Project		Ongoing
	Regional Communications Infrastructure Project		Ongoing
	East Africa Trade and Transport Facilitation Project		Ongoing
IMF Work Program	A. Missions		
	Financial Sector Assessment Program Update	February 2011	June 2011
	Second Review Under the Policy Support Instrument	March 2011	June 2011
	B. Analytical Work		
	Prudential regulations on liquidity risk in developing countries: A case study of Rwanda		August 2011
	Understanding the Exchange Rate Pass-Through to Domestic Prices in the EAC Region: Implications for Prospects of Monetary Integration		August 2011
	Estimating the behavioral Equilibrium Exchange Rate for the EAC Countries		August 2011
	Monetary Policy Transmission in EAC Countries		August 2011
	C. Technical Assistance		
	Fiscal: Tax policies; tax and customs administration; revenue forecasting and PFM, strengthen PPP Unit in MINECOFIN		Ongoing
	Monetary: Monetary policy operations; bank liquidity; interbank markets in local currency and foreign exchange		Ongoing
	Financial: Bank supervision		Ongoing
	Statistics: National accounts and balance of payments		Ongoing

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	II. Request for Work Program Inputs		
Bank Request to Fund	Impact of the global economic crisis on key macro indicators and growth in Rwanda		Ongoing
	Sharing macro-framework updates		As needed
Fund Request to Bank	Assessment of key infrastructure projects undertaken by the government.		As needed
	Assessment of the PFM and public service reform program.		As needed
	III. Agreement on Joint Products		
Joint products	Public and External Debt Sustainability Analysis.		Update completed
	Collaborate together with other development partners on the annual review of general budget support.		Ongoing
	Collaborate on PFM reform program.		Ongoing
	Collaborate on financial sector reform program.		Ongoing

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

RWANDA

Joint World Bank/IMF Debt Sustainability Analysis

Prepared by staffs of the International Development Association and
International Monetary Fund

Approved by Marcelo Giugale and Jeffrey Lewis (IDA)
and Saul Lizondo and Christian Mumssen (IMF)

June 7, 2011

Rwanda continues to be assessed as a moderate risk of external debt distress—unchanged from the previous Debt Sustainability Analysis (DSA).[30,31] *Like in previous assessments, the moderate risk rating is due to the vulnerability of Rwanda's external debt indicators to an adverse shock to exports—underscoring the need to implement policies aimed at lifting the country's low export base, such as those included in the recently adopted export development strategy. The results confirm that Rwanda has some room for nonconcessional borrowing without unduly affecting debt sustainability. Careful vetting, prioritization, and sequencing of projects remain essential to maintain debt sustainability over the near and medium term. Adopting a debt management strategy and embedding the DSA in the authorities' macroeconomic framework will be useful steps in building expertise and help inform the decision making process.*

[30] Based on the joint Low-Income Country Debt Sustainability Framework prepared by the IMF and World Bank staff in consultation with the authorities. This DSA replaces the one prepared at the time of the PSI request (see IMF Country Report No. 10/200, July 2010). The fiscal year for Rwanda is July–June; however, the DSA is on a calendar year basis.

[31] The DSA has been discussed with the Rwandan authorities. There was broad agreement with the findings.

VI. BACKGROUND

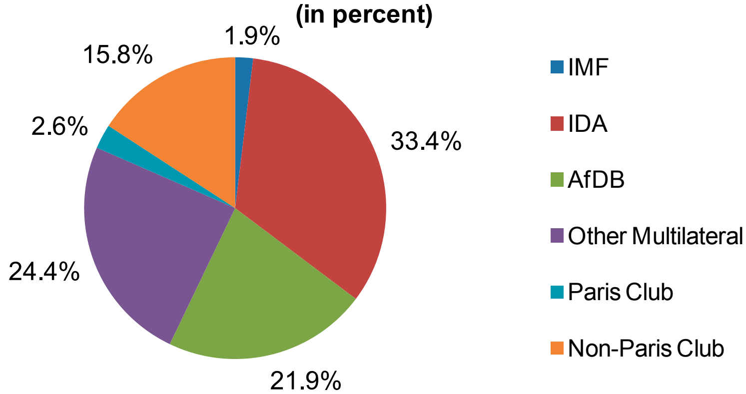
37. Rwanda's external debt of the central government at the end of 2010 was US$799 million (14.6 percent of GDP), including a small fraction which is guaranteed by the central government (0.4 percent of GDP).[32] Multilateral creditors hold more than 80 percent of all central government external debt, with the lion's share held by IDA and AfDB for a combined 55 percent (Figure 1). Domestic public debt (including the central government and the central bank) was RWf 288 billion (8.9 percent of GDP) at the end of 2010, of which nearly half (4.3 percent of GDP) were short-term maturities.

Table 1. Rwanda: Composition of Public Debt, end 2010

	Millions of US$	Percent of Total	Percent of GDP
Total (External + Domestic)	**1,284**	**100**	**23.4**
External Debt	**799**	**62**	**14.6**
Central Government	776	60	14.2
Multilateral	633	49	11.5
IMF	15	1	0.3
IDA	259	20	4.7
African Development Bank Group	170	13	3.1
Other Multilateral	189	15	3.5
Official Bilateral	143	11	2.6
Paris Club	20	2	0.4
Non-Paris Club	123	10	2.2
Guaranteed by the Central Government	23	2	0.4
Domestic Debt	**486**	**38**	**8.9**
In RWf billions	288	38	8.9
Of which: Short-term government and central bank	139	18	4.3

Source: Rwandan authorities, IMF and World Bank staff calculations.

Figure 1. Rwanda: Composition of External Debt of the Central Government, end 2010 (in percent)



Sources: Rwandan authorities, IMF and World Bank staff calculations.

[32] Before Rwanda reached the HIPC Completion Point in April 2005 and received further relief through the Multilateral Debt Relief Initiative in early 2006, debt ratios had been around 85 percent of GDP.

VII. UNDERLYING DSA ASSUMPTIONS

38. **Real GDP** growth is projected to be 7 percent in 2011—slowing from the rebound of 7.5 percent in 2010 as Rwanda came out of the 2008–09 global crises—and gradually settle at 6.5 percent over the long term (Table 2). Over the medium-term, growth is supported by infrastructure investments, the improving business environment, and a positive stimulus from regional integration. Projected growth is somewhat slower than Rwanda's observed growth rates over the past decade (though above the average for Sub-Saharan Africa), as the post-conflict growth acceleration tapers out.[33] **Growth in the GDP deflator** would gradually approach 5 percent over the long term, in line with inflation.

39. The **primary fiscal balance (excluding grants)** is projected to steadily improve partly on account of stronger revenue collection, capturing gains from the broadening tax base and increasing efficiency of tax administration. **Revenue** would increase by over 2 percentage points of GDP over 2010–16, to 15.4 percent of GDP, and continue to improve modestly thereafter. The improvements in revenue mobilization over the medium term are premised primarily on higher collection of income and VAT taxes, backed up by continued improvement in tax administration, reduction in the size of the informal sector and modest tax reforms aimed at simplifying the burden of taxation and broadening the tax base. **Primary expenditure** would gradually be reduced over the long term mainly because of the unwinding over the medium term of scaled-up spending on large infrastructure projects. **External grants** are projected to gradually decline to normalcy in the medium term and would continue to fall over the longer term as Rwanda reduces its aid dependency. External grants have been scaled up in the past few years to help Rwanda cope with the effects of adverse external shocks (such as the food and fuel crises). They peaked in 2010 at 13.6 percent of GDP.

40. Turning to the financing side of the fiscal sector, the baseline assumes the government's policy of no new **net domestic financing** in the medium term, except in 2012 to cover a shortfall in external financing. Over the longer term, modest domestic financing is included in the baseline, reflecting progress with developing and deepening of local and regional financial markets. Maturing domestic debt is projected to be rolled over at an interest rate of 8 percent. Baseline new **external borrowing** during 2011–13 takes into account the expected disbursement profile of loans that have already been signed, as well as new nonconcessional guarantees to finance large investment projects.[34] The relatively low

[33] Average annual real GDP growth was 8.3 percent in 2000–08.

[34] Projected nonconcessional external borrowing from the Bank of Kigali (BK) is included in the external DSA. Consistent with the authorities' program supported by the PSI, (nonconcessional) external borrowing from the Bank of Kigali is excluded from *public and publicly guaranteed* external debt on the grounds that such debt does not carry a government guarantee and the institution's operations pose a limited fiscal risk to the government.

grant element of new external borrowing in the medium-term projections stems largely from the disbursement profile of these nonconcessional borrowing amounts. After 2013, new external borrowing is expected to come largely on concessional terms, but is projected to be gradually reduced over the longer term. Initially about 70 percent of central government external borrowing would be on terms similar to those from IDA, another 5 percent from Paris Club bilateral creditors, 15 percent from non-Paris Club bilateral creditors, and the rest on less favorable terms. Over time the average terms of the external financing mix are expected to become less favorable, resulting in a falling grant element from external borrowing from about 40 percent in 2015 to some 25 percent over the longer term.

Table 2. Rwanda: DSA Update: Key Variables

	2009	2010	2011	2012	2013	2014	2015	2016	2020	2025	2030
					(In percent of GDP, unless otherwise indicated)						
Nominal GDP (RWf billions)	2,964	3,253	3,643	4,128	4,652	5,224	5,839	6,526	10,205	17,844	31,203
Real GDP (percentage change)	4.1	7.5	7.0	6.8	7.0	6.8	6.5	6.5	6.5	6.5	6.5
GDP Deflator (percentage change)	11.0	2.1	4.7	6.1	5.3	5.2	4.9	4.9	5.0	5.0	5.0
Fiscal (central government)											
External Grants (incl. HIPC Relief)	11.7	13.6	13.1	8.5	10.0	8.9	7.7	6.8	4.7	4.2	4.0
Revenue (excl. External Grants)	12.8	13.2	14.1	14.1	14.5	14.7	15.1	15.4	15.9	16.6	17.2
Revenue (incl. external grants)	24.6	26.9	27.2	22.6	24.5	23.7	22.8	22.2	20.7	20.8	21.2
Primary Expenditures	25.1	26.8	27.2	25.9	24.7	23.6	22.8	22.1	22.6	22.6	22.6
Primary Current Expenditures	13.9	15.0	14.2	14.0	14.3	14.4	14.3	14.0	14.5	14.5	14.5
Capital Expenditure and Net Lending	11.1	11.8	13.0	11.9	10.4	9.2	8.5	8.1	8.1	8.1	8.1
Primary Balance, incl. External Grants	-0.5	0.0	0.0	-3.3	-0.2	0.1	0.0	0.1	-1.9	-1.8	-1.4
Primary Balance, excl. External Grants	-12.2	-13.6	-13.1	-11.8	-10.2	-8.8	-7.7	-6.7	-6.7	-6.0	-5.4
Net Domestic Financing	-0.8	0.1	-0.9	2.9	0.0	0.0	0.0	0.0	0.3	0.3	0.3
Interest Rate (percent)		8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
New External Borrowing[1]		0.0	3.0	3.4	2.0	0.9	1.0	0.8	2.3	2.6	2.4
Grant Element of New External Borrowing (percent)			30.5	14.9	11.8	42.3	39.8	37.4	31.1	28.5	25.9
Balance of Payments											
Exports of Goods and Services	11.0	10.9	12.3	12.7	12.8	13.0	13.2	13.6	14.8	16.3	17.8
Imports of Goods and Services	29.2	29.4	31.8	29.1	26.9	26.1	25.5	25.1	24.9	24.7	24.4
Current Account, incl. Official Transfers	-7.3	-6.0	-5.2	-9.1	-5.5	-4.4	-4.5	-4.2	-4.8	-3.1	-1.1
Foreign Direct Investment	2.3	0.8	1.5	1.0	1.1	1.3	1.5	1.7	2.1	2.1	2.1
Gross Official Reserves (months of imports of G&S)	5.4	5.2	5.7	5.3	5.4	4.8	4.2	3.5	3.5	3.5	3.5

Source: Rwandan authorities, IMF, and World Bank.

[1] Includes publicly guaranteed external borrowing.

41. Rwanda is expected to become more open as regional integration continues, the business climate improves, and export sectors develop, supported by policies to develop Rwanda's export potential—the government approved in April 2011 a multi-year export strategy.[35] **Exports of goods and services** are projected to increase by about 2.5 percentage points of GDP in 2010–16, and to nearly 18 percent of GDP over the longer term. Export performance would benefit from investments in the tea sectors and from higher prices for coffee and minerals—in the short term, this assumes that mineral exporters meet new mineral

[35] Rwanda's export sector is largely confined to a limited number of export items, including coffee, tea, minerals, and tourism (especially gorilla tourism). The authorities are pursuing policies to increase the quality of export products and diversify into other high value exports (examples are horticulture, chili, and other forms of tourism such as business convention travelers). Key elements of the national export strategy are described in the previous DSA; see Box 1 in IMF Country Report No. 10/200, July 2010.

certification requirements (export volumes of mineral products in baseline projections are unchanged from 2010). **Imports** are expected to settle around 25 percent of GDP in the longer term; imports are expected to be higher (and lumpy) in the near term because of the implementation of large infrastructure investment projects and also because of higher costs for energy and food imports.[36] The **current account deficit** is projected to peak in 2012 as work begins on large infrastructure projects, but narrow gradually afterwards. It is expected to be financed by foreign direct investment, which would reach about 2.1 percent of GDP over the longer term. Reserves coverage would be comfortably above 4 months of (prospective) imports through 2016, and settle at 3.5 months over the longer term.

42. The baseline DSA includes US$240 million in new external loan guarantees for the *Kigali Convention Complex* (US$180 million) and *RwandAir* (US$60 million). Two new aircraft are expected to be delivered to *RwandAir* in 2011. The government is seeking international participation to secure full funding of the *Kigali Convention Complex*, which may require government guarantees for external borrowing.[37] The government believes these loan guarantees may be critical to crowd in foreign investors, given the shallow domestic capital market, limited availability of concessional financing, and the need to avoid crowding out the private sector. The government is also considering options to build a new airport in Bugesera and participate in the development of railroad infrastructure in EAC. Given the high uncertainty surrounding these projects—in terms of investment cost, timeline, and financing, which would likely involve public-private partnerships—the DSA does not yet include the possible implications of these projects for debt sustainability.

VIII. External DSA

A. Policy-Dependent Indicative Thresholds

43. The Debt Sustainability Framework defines policy-dependent indicative thresholds against which the external debt sustainability indicators are measured. These are based on a country's score on the World Bank's Country Policy and Institutional Assessment (CPIA). Rwanda's CPIA score was 3.77 in 2009 and 3.70 on average over 2007–09, putting it in the "Medium" performance category (the category that corresponds to a three-year average

[36] Food imports are expected to be nearly 50 percent larger in 2011 compared to 2009, while imports for energy products are expected to increase by 47 percent in 2011 alone and by nearly 75 percent when compared to 2009. World prices for food and fuel are expected to stay high in 2011 (in contrast to the 2008 episode when they fell quickly and substantially after peaking in the summer), necessitating additional vigilance in monitoring external developments.

[37] For details on the projected financing terms and the rates of returns of those projects, see footnotes 2 and 3 of the DSA prepared at the time of the PSI request (IMF Country Report No. 10/200, July 2010).

CPIA score between 3.25 and 3.75). For a "Medium" performer like Rwanda the policy-dependent indicative thresholds are those in Table 3.[38]

Table 3. Rwanda: Indicative External Debt Thresholds[1]

Present Value of Debt in Percent of:			Debt Service in Percent of:	
Exports	GDP	Revenue	Exports	Revenue
150	40	250	20	30

[1] Applies to countries with a "medium" CPIA performance rating.

B. Results of the External DSA

44. The results of the external DSA confirm that Rwanda's debt dynamics are sustainable. The stress tests confirm that Rwanda continues to have vulnerabilities owing to its low export base—an assessment that is unchanged from the previous DSA. The main difference from the previous DSA lies in the rephasing of the execution of large infrastructure projects as the government is still working on closing the financing deals (see Table 4 and Figure 2)[39]. The findings also confirm that Rwanda's debt indicators are not unduly burdened by the US$240 million in nonconcessional borrowing through 2013 which has been built into the PSI program and baseline assumptions of the external DSA.[40]

- **Baseline scenario.** Under the baseline scenario, all indicators of public and publicly-guaranteed external debt stay below their respective thresholds (Appendix Table 1, Appendix Figure 1).
- **Alternative and stress test scenarios.** The indicative threshold for the ratio of present value (PV) of debt to exports is breached when the standard bounds test for exports is

[38] The thresholds used to assess Rwanda's (external) debt sustainability are those without explicitly taking into account the role of remittances. The observed surge in gross remittance inflows over the past few years, possibly because of better recording of remittances data, makes it hard to judge whether these flows are a stable source of foreign exchange inflows.

[39] For a description of the large infrastructure projects, see Box 2 in IMF Country Report No. 10/200, July 2010.

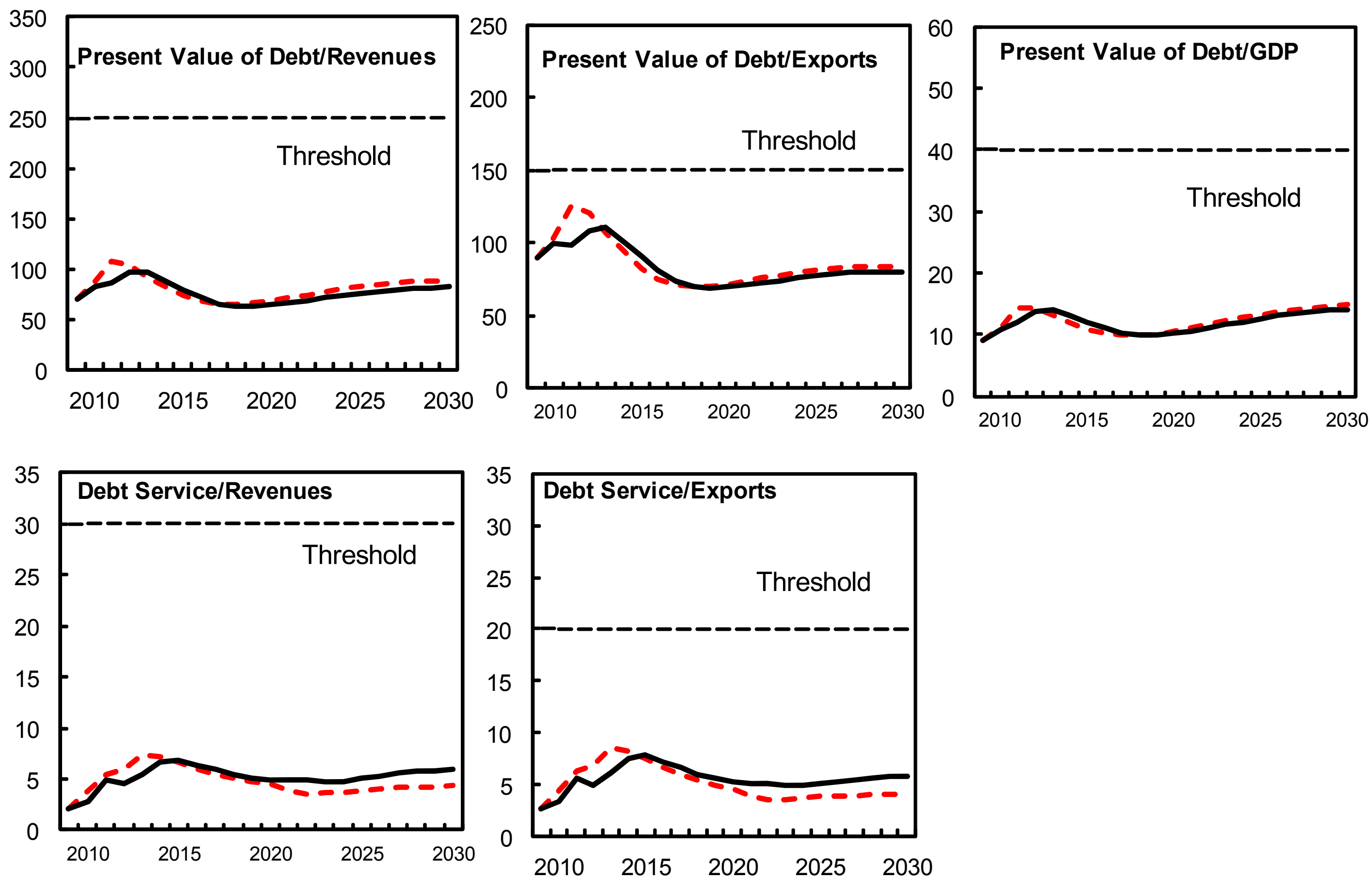
[40] In a separate scenario staff assessed the effect of additional nonconcessional external borrowing beyond the program period (2014–16). The results of such a scenario obviously depend on the amount and terms of the additional nonconcessional borrowing. Under reasonable assumptions for the amounts and terms of additional nonconcessional borrowing, the results suggest that the "moderate" debt rating would be maintained. However, the projections for the ratio of the PV of debt to exports come close to its respective thresholds in the baseline and the thresholds would be breached through 2026 under stress testing. In addition, the ratio of debt service to exports would risk breaching its respective threshold under stress testing.

applied (test B2 in Appendix Table 2).[41] Under this bounds test the ratio would peak in 2013 at 215 percent and take until 2017 to be back below its threshold of 150 percent. This result confirms that Rwanda's export base continues to be a source of vulnerability. The authorities are working to mitigate those vulnerabilities over the longer term, including through policies aimed at improving the business climate, build basic infrastructure, and lift the export base (such as the recently adopted export development strategy).

[41] The bounds test for exports (B2) assumes a temporarily slower growth rate for exports (specifically: exports grow at historical average minus one standard deviation in 2012–13).

Figure 2. External Debt Sustainability Indicators, 2010–30
(In percent)

Striped: Baseline DSA results from PSI Request.[1] **Solid:** DSA update.



Source: Rwandan authorities, and IMF-World Bank staff estimates and projections.

[1] IMF Country Report No. 10/200, July 2010.

Table 4. Rwanda: Baseline External DSA Compared to Previous DSA Update, 2010–12

	Previous DSA Update[1]			DSA Update		
	2010 Est.	2011 Proj.	2012 Proj.	2010 Est.	2011 Proj.	2012 Proj.
Stock of Public and Publicly-Guaranteed (PPG) External Debt						
In millions of U.S. dollars	913	1,158	1,254	814	1,031	1,221
In percent of GDP	16.4	19.3	19.1	14.9	17.7	19.2
Present Value (PV) of PPG External Debt						
In millions of U.S. dollars	623	861	936	595	703	880
In percent of GDP	11.2	14.3	14.3	10.9	12.1	13.8
PV of PPG External Debt to Revenues (percent)	87.7	108.0	103.8	82.0	85.7	97.8
PV of PPG External Debt to Exports (percent)	102.8	125.2	120.6	99.7	98.1	108.7
PPG External Debt Service to Revenues (percent)	3.8	5.4	5.9	2.8	5.0	4.5
PPG External Debt Service to Exports (percent)	4.4	6.3	6.9	3.4	5.7	5.0
Discount rate (percent)	4.0	4.0	4.0	4.0	4.0	4.0
	(In percent of GDP, unless indicated otherwise)					
Nominal GDP (RWf billions)	3,333	3,746	4,210	3,253	3,643	4,128
Real GDP (percentage change)	5.4	5.9	6.4	7.5	7.0	6.8
GDP Deflator (percentage change)	6.7	6.1	5.6	2.1	4.7	6.1
Fiscal						
External Grants (incl. HIPC Relief)	13.5	11.3	10.7	13.6	13.1	8.5
Revenue (excl. External Grants)	12.8	13.3	13.8	13.2	14.1	14.1
Primary Expenditures	26.9	25.7	25.1	26.8	27.2	25.9
Primary Balance, incl. External Grants	-0.6	-1.1	-0.6	0.0	0.0	-3.3
Primary Balance, excl. External Grants	-14.1	-12.4	-11.3	-13.6	-13.1	-11.8
Grant Element of New External Borrowing (percent)[2]	12.3	6.8	23.5	…	30.5	14.9
Balance of Payments						
Exports of Goods and Services	10.9	11.4	11.8	10.9	12.3	12.7
In millions of U.S. dollars	621	701	787	608	736	823
Imports of Goods and Services	30.6	30.2	26.7	29.4	31.8	29.1
In millions of U.S. dollars	1,742	1,850	1,777	1,641	1,896	1,883
Current Account, incl. Official Transfers	-7.9	-8.8	-5.4	-6.0	-5.2	-9.1

Source: Rwandan authorities, IMF, and World Bank.

[1] Conducted at the time of the PSI Request; see IMF Country Report No. 10/200, July 2010.

[2] Includes publicly-guaranteed external borrowing.

IX. Public Sector DSA

45. The baseline results of the public DSA confirm the findings of those of the external DSA. As was the case in previous DSAs, the public-sector DSA indicators are expected to gradually converge to those of the external DSA because of the assumption that there would be no net domestic borrowing in the near term (except for 2012) and moderate amounts afterwards.

46. The alternative scenarios and stress tests confirm that public debt indicators appear sustainable. Only the most extreme stress test to the PV of debt-to-GDP ratio—a permanently lower GDP growth (stress test (A3))—would cause that ratio to rise continually over the long term. Under the low-growth stress scenario, annual real growth would be 5.8 percent compared with 6.5 percent in the baseline and, as such, this stress test confirms the importance of continuing to generate substantial growth over the near- and long-term. Risks

from this low-growth scenario appear contained given that the baseline annual growth rate is already substantially more conservative than the growth observed over the preceding decade.

47. The results of a *separate* scenario to assess the impact of higher domestic borrowing (replacing external borrowing) suggest that a financing mix tilted somewhat more towards domestic borrowing would not substantially change the results of the public DSA (see Appendix Table 5). Intuitively the results do not change much because the main difference with the baseline scenario lies in the somewhat higher interest cost from domestic borrowing compared to external borrowing. The separate scenario assumes new net domestic borrowing that is equal to 0.5 percent of GDP per year from 2013 onwards, in contrast to the baseline scenario which assumed zero net domestic borrowing in 2013–16 and 0.25 percent of GDP afterwards). This moderate increase in domestic borrowing takes into account Rwanda's relatively underdeveloped financial market. Like in the baseline, the interest rate on domestic borrowing is assumed to be 8 percent over the projection period.

X. Debt Management

48. The authorities are revising their Debt Policy and Medium-Term Debt Strategy (MTDS) and have requested technical assistance from the IMF before its adoption by the Cabinet, which is expected by fall 2011. The MTDS would be used in designing fiscal policy in 2012/13 and beyond. The authorities believe that building the capacity in performing debt sustainability analyses is crucial in assessing and monitoring debt sustainability, especially when large infrastructure projects with different financing options are being considered. To that end, they plan to strengthen the capacity in the macro unit at the Ministry of Economics and Finance (in close cooperation with the central bank) to conduct their own DSAs using the Bank-Fund DSA template. That DSA will be part of the unit's macroeconomic framework and used to assess policy options.

XI. Debt Distress Classification and Conclusions

It is the staffs' view that Rwanda should be considered at moderate risk of debt distress based on external debt burden indicators. The near-term increase in external debt indicators is temporary—due to infrastructure projects which are expected to be financed in part by (publicly-guaranteed) nonconcessional borrowing—and indictors rapidly return to low levels over the medium term. Under standard stress tests the ratio of PV of external debt to exports breaches the relevant threshold in the near term but returns below it by 2017. The public sector DSA suggest that Rwanda's overall public sector debt dynamics are sustainable in light of the current size and evolution of the domestic debt stock, and a separate scenario assuming some additional domestic borrowing suggests that this would not have a substantial impact on public debt indicators. The "moderate" rather than "low" rating of risk of debt distress is motivated by the vulnerabilities stemming from Rwanda's low export base. In that respect, the achievements to improve the business climate, and efforts to build basic infrastructure and lift the export base—including through implementation of the recently adopted export development strategy—are timely and would help mitigate those vulnerabilities over the longer term. Over the next year, the authorities plan to adopt a medium-term debt management strategy and integrate the Bank-Fund DSA template into their macroeconomic framework. Once in place, these tools will be of great value in the decision-making process and will further help manage risks to debt sustainability.

Appendix Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2008–31 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	Standard 0 Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**15.0**	**14.8**	**18.0**			**21.4**	**22.7**	**22.3**	**20.6**	**19.1**	**17.6**		**16.5**	**21.9**	
o/w public and publicly guaranteed (PPG)	15.0	14.8	14.9			17.7	19.2	19.0	17.7	16.5	15.2		15.1	19.9	
Change in external debt	-0.5	-0.2	3.2			3.4	1.3	-0.4	-1.8	-1.5	-1.5		0.5	0.3	
Identified net debt-creating flows	-0.4	3.6	4.3			2.5	6.7	2.9	1.8	1.8	1.4		1.4	-2.7	
Non-interest current account deficit	**4.8**	**7.2**	**5.8**	**2.4**	**3.1**	**4.8**	**8.7**	**5.0**	**3.9**	**4.0**	**3.8**		**4.1**	**0.3**	2.9
Deficit in balance of goods and services	15.2	18.1	18.5			19.4	16.4	14.1	13.0	12.3	11.5		9.7	6.2	
Exports	14.6	11.0	10.9			12.3	12.7	12.8	13.0	13.2	13.6		15.1	18.1	
Imports	29.9	29.2	29.4			31.8	29.1	26.9	26.1	25.5	25.1		24.9	24.4	
Net current transfers (negative = inflow)	-11.0	-11.5	-13.4	-12.3	1.4	-15.3	-8.5	-9.9	-9.8	-8.8	-8.1		-6.1	-6.5	-6.3
o/w official	-9.5	-10.0	-11.7			-12.9	-6.6	-8.4	-8.2	-7.2	-6.5		-4.4	-4.8	
Other current account flows (negative = net inflow)	0.6	0.6	0.6			0.7	0.8	0.8	0.7	0.6	0.5		0.5	0.5	
Net FDI (negative = inflow)	**-2.2**	**-2.3**	**-0.8**	**-1.0**	**0.9**	**-1.5**	**-1.0**	**-1.1**	**-1.3**	**-1.5**	**-1.7**		**-2.1**	**-2.1**	-2.1
Endogenous debt dynamics 2/	**-3.0**	**-1.4**	**-0.7**			**-0.8**	**-0.9**	**-1.0**	**-0.9**	**-0.8**	**-0.7**		**-0.7**	**-0.8**	
Contribution from nominal interest rate	0.1	0.1	0.2			0.3	0.4	0.5	0.5	0.5	0.4		0.3	0.5	
Contribution from real GDP growth	-1.4	-0.6	-1.0			-1.2	-1.3	-1.5	-1.4	-1.2	-1.1		-1.0	-1.3	
Contribution from price and exchange rate changes	-1.7	-0.9	0.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**0.0**	**-3.8**	**-1.1**			**0.9**	**-5.4**	**-3.2**	**-3.5**	**-3.3**	**-2.9**		**-0.9**	**3.0**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.0			15.7	17.3	17.4	15.9	14.7	13.4		12.1	16.3	
In percent of exports	...	...	128.2			127.6	136.2	136.4	122.2	110.9	98.5		79.8	89.8	
PV of PPG external debt	**...**	**...**	**10.9**			**12.1**	**13.8**	**14.2**	**13.1**	**12.1**	**11.1**		**10.7**	**14.3**	
In percent of exports	**...**	**...**	**99.7**			**98.1**	**108.7**	**110.7**	**100.3**	**91.3**	**81.2**		**70.8**	**78.7**	
In percent of government revenues	**...**	**...**	**82.0**			**85.7**	**97.8**	**97.7**	**88.7**	**79.6**	**71.7**		**66.7**	**83.1**	
Debt service-to-exports ratio (in percent)	**2.1**	**2.6**	**5.2**			**8.3**	**9.5**	**10.4**	**11.7**	**11.3**	**10.2**		**6.1**	**6.5**	
PPG debt service-to-exports ratio (in percent)	**2.1**	**2.6**	**3.4**			**5.7**	**5.0**	**6.1**	**7.5**	**7.8**	**7.2**		**5.1**	**5.8**	
PPG debt service-to-revenue ratio (in percent)	**2.1**	**2.2**	**2.8**			**5.0**	**4.5**	**5.4**	**6.6**	**6.8**	**6.3**		**4.8**	**6.2**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.3	0.3			0.3	0.6	0.4	0.3	0.4	0.3		0.5	0.2	
Non-interest current account deficit that stabilizes debt ratio	5.2	7.4	2.6			1.4	7.4	5.3	5.7	5.5	5.3		3.6	0.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	11.2	4.1	7.5	7.8	3.3	7.0	6.8	7.0	6.8	6.5	6.5	6.8	6.5	6.5	6.5
GDP deflator in US dollar terms (change in percent)	12.7	6.7	-0.5	4.8	9.3	0.0	1.5	2.0	2.1	1.9	1.9	1.6	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.2	1.1	1.6	1.1	0.2	2.1	2.1	2.4	2.6	2.5	2.4	2.4	2.0	2.4	2.2
Growth of exports of G&S (US dollar terms, in percent)	64.7	-16.2	5.5	15.7	23.9	21.1	11.8	9.9	11.1	10.0	11.9	12.6	10.8	10.5	10.7
Growth of imports of G&S (US dollar terms, in percent)	48.3	8.6	7.8	15.3	15.4	15.6	-0.7	1.1	5.6	6.3	6.7	5.8	8.4	8.4	8.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.5	14.9	11.8	42.3	39.8	37.4	29.4	30.6	25.9	29.5
Government revenues (excluding grants, in percent of GDP)	14.9	12.8	13.2			14.1	14.1	14.5	14.7	15.1	15.4		16.1	17.2	16.4
Aid flows (in Billions of US dollars) 7/	0.6	0.7	0.8			0.9	0.6	0.7	0.7	0.7	0.7		0.8	1.6	
o/w Grants	0.5	0.6	0.8			0.8	0.5	0.7	0.7	0.6	0.6		0.6	1.2	
o/w Concessional loans	0.1	0.1	0.1			0.1	0.1	0.0	0.1	0.1	0.0		0.2	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			13.9	8.9	10.2	9.3	8.0	7.0		5.3	4.6	5.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			87.0	75.3	85.0	94.4	93.3	93.5		76.9	71.8	76.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.7	5.2	5.6			6.0	6.5	7.1	7.7	8.4	9.1		13.7	31.4	
Nominal dollar GDP growth	25.3	11.1	7.0			7.0	8.5	9.2	9.0	8.5	8.5	8.4	8.6	8.6	8.6
PV of PPG external debt (in Billions of US dollars)			0.6			0.7	0.9	1.0	1.0	1.0	1.0		1.4	4.4	
(PVt-PVt-1)/GDPt-1 (in percent)						1.9	2.9	1.6	0.1	0.0	-0.1	1.1	1.3	1.4	1.2
Gross workers' remittances (Billions of US dollars)	0.1	0.1	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.6			11.7	13.5	13.8	12.8	11.8	10.8		10.5	14.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	81.7			78.2	89.7	93.6	85.3	77.8	69.6		61.5	70.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.8			4.5	4.1	5.1	6.3	6.7	6.1		4.5	5.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Appendix Table 2. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	12	14	14	13	12	11	**11**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	12	8	6	5	3	2	**0**	18
A2. New public sector loans on less favorable terms in 2011-2031 2	12	14	15	15	14	13	**15**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	12	14	15	13	12	11	**11**	14
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	12	15	19	18	16	15	**13**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	12	14	16	15	13	12	**12**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	12	12	13	12	11	10	**10**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	14	13	12	11	**11**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	12	19	20	18	17	15	**15**	20
PV of debt-to-exports ratio								
Baseline	98	109	111	100	91	81	**71**	79
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	98	63	50	35	22	12	**-1**	101
A2. New public sector loans on less favorable terms in 2011-2031 2	98	111	118	111	104	95	**99**	131
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	98	107	109	99	90	80	**69**	76
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	98	147	215	196	180	162	**130**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	98	107	109	99	90	80	**69**	76
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	98	97	100	91	82	73	**65**	75
B5. Combination of B1-B4 using one-half standard deviation shocks	98	105	121	110	100	89	**78**	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	98	107	109	99	90	80	**69**	76
PV of debt-to-revenue ratio								
Baseline	86	98	98	89	80	72	**67**	83
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	86	57	45	31	19	11	**-1**	107
A2. New public sector loans on less favorable terms in 2011-2031 2	86	100	104	98	91	84	**93**	138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	86	98	100	91	82	74	**68**	84
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	86	109	130	119	108	98	**84**	86
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	86	102	109	99	89	80	**74**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	86	88	89	80	72	64	**61**	79
B5. Combination of B1-B4 using one-half standard deviation shocks	86	89	98	89	80	72	**67**	84
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	86	136	136	124	111	100	**93**	114

Appendix Table 2. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31 (continued)

(In percent)

Debt service-to-exports ratio								
Baseline	6	5	6	7	8	7	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	6	5	5	5	5	5	**1**	4
A2. New public sector loans on less favorable terms in 2011-2031 2	6	5	5	6	6	5	**5**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	6	5	6	7	8	7	**5**	6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	6	6	9	12	13	12	**10**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	6	5	6	7	8	7	**5**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	6	5	6	7	8	7	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	6	5	7	8	9	8	**6**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	6	5	6	7	8	7	**5**	6
Debt service-to-revenue ratio								
Baseline	5	4	5	7	7	6	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	5	4	4	5	5	4	**1**	4
A2. New public sector loans on less favorable terms in 2011-2031 2	5	4	5	5	5	5	**5**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	5	5	6	7	7	7	**5**	6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	5	4	6	8	8	7	**6**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	5	5	6	7	8	7	**5**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	5	4	5	6	7	6	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	7	7	7	**5**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	5	6	8	9	10	9	**7**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	19	19	19	19	19	19	**19**	19

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

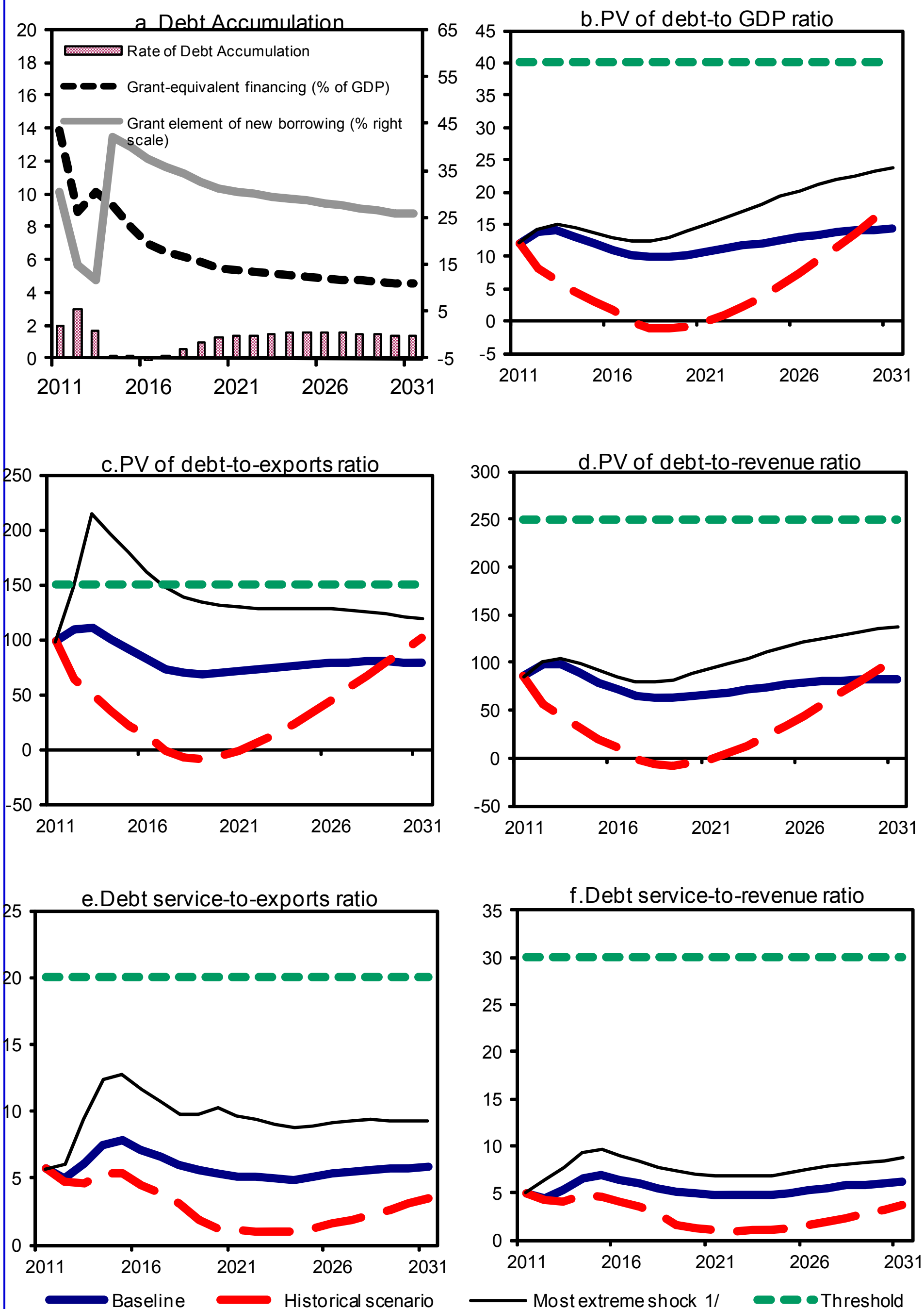
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitl an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix Figure 1. Rwanda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011–31 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Terms shock; in c. to a Exports shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Appendix Table 3. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–31
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	21.6	23.3	23.7			24.5	27.6	26.7	24.0	21.1	19.4		18.5	22.6	
o/w foreign-currency denominated	15.0	14.8	14.9			17.7	19.2	19.0	17.7	16.5	15.2		15.1	19.9	
Change in public sector debt	-5.5	1.7	0.4			0.8	3.1	-1.0	-2.7	-2.9	-1.7		0.5	0.1	
Identified debt-creating flows	-5.2	-1.4	-0.7			-2.1	1.3	-1.9	-1.8	-1.5	-1.3		0.7	0.1	
Primary deficit	-0.8	0.6	-0.1	0.2	0.6	0.0	3.3	0.1	-0.2	-0.2	-0.2	0.5	1.9	1.5	1.6
Revenue and grants	25.6	24.4	26.9			27.1	22.5	24.4	23.6	22.8	22.1		20.7	21.1	
of which: grants	10.8	11.6	13.6			13.0	8.4	9.9	8.9	7.6	6.7		4.6	4.0	
Primary (noninterest) expenditure	24.8	25.1	26.8			27.1	25.8	24.5	23.4	22.6	21.9		22.6	22.6	
Automatic debt dynamics	-4.6	-2.2	-1.1			-1.3	-1.9	-2.1	-1.7	-1.3	-1.1		-1.1	-1.3	
Contribution from interest rate/growth differential	-3.7	-1.2	-1.4			-1.6	-1.7	-1.9	-1.6	-1.3	-1.1		-1.1	-1.3	
of which: contribution from average real interest rate	-1.0	-0.4	0.2			-0.1	-0.1	-0.1	0.1	0.1	0.2		0.0	0.0	
of which: contribution from real GDP growth	-2.7	-0.9	-1.6			-1.6	-1.6	-1.8	-1.7	-1.5	-1.3		-1.1	-1.4	
Contribution from real exchange rate depreciation	-0.9	-1.0	0.4			0.3	-0.2	-0.2	-0.1	0.0	0.0		...	...	
Other identified debt-creating flows	0.2	0.3	0.4			-0.8	-0.2	0.1	0.1	0.1	0.1		0.0	0.0	
Privatization receipts (negative)	...	...	0.0			-0.9	-0.3	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.1	-0.1	0.0			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.3	0.4	0.4			0.2	0.2	0.2	0.1	0.1	0.1		0.0	0.0	
Residual, including asset changes	-0.3	3.1	1.1			2.9	1.8	0.9	-0.9	-1.4	-0.4		-0.3	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	19.7			18.9	22.3	21.8	19.4	16.7	15.2		14.1	17.0	
o/w foreign-currency denominated	...	...	10.9			12.1	13.8	14.2	13.1	12.1	11.1		10.7	14.3	
o/w external	...	...	10.9			12.1	13.8	14.2	13.1	12.1	11.1		10.7	14.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-0.1	1.1	3.5			4.8	6.8	5.8	5.6	4.9	3.7		5.2	4.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	73.4			69.7	98.9	89.2	82.0	73.3	68.7		68.2	80.3	
PV of public sector debt-to-revenue ratio (in percent)	…	…	148.9			133.9	157.6	150.3	131.2	110.2	98.5		87.7	98.8	
o/w external 3/	…	…	82.0			85.7	97.8	97.7	88.7	79.6	71.7		66.7	83.1	
Debt service-to-revenue and grants ratio (in percent) 4/	2.5	2.2	2.5			3.6	3.8	4.0	5.7	6.1	6.0		4.6	5.8	
Debt service-to-revenue ratio (in percent) 4/	4.4	4.1	5.1			7.0	6.1	6.8	9.1	9.2	8.6		5.9	7.2	
Primary deficit that stabilizes the debt-to-GDP ratio	4.7	-1.1	-0.5			-0.8	0.2	1.1	2.5	2.7	1.5		1.4	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	11.2	4.1	7.5	7.8	3.3	7.0	6.8	7.0	6.8	6.5	6.5	6.8	6.5	6.5	6.5
Average nominal interest rate on forex debt (in percent)	1.2	1.1	1.2	1.0	0.2	1.5	1.5	1.9	2.2	2.1	2.0	1.9	1.7	1.9	1.8
Average real interest rate on domestic debt (in percent)	-7.9	-6.0	1.8	-4.7	3.9	-1.1	-2.2	-2.5	0.2	1.4	3.5	-0.1	0.5	2.2	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.8	-7.0	2.8	-2.3	9.6	2.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.6	11.0	2.1	8.8	7.6	4.7	6.1	5.3	5.2	4.9	4.9	5.2	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	30.5	14.9	11.8	42.3	39.8	37.4	29.4	30.6	25.9	...

Sources: Country authorities; and staff estimates and projections.

1/ Covers public and publicly-guaranteed debt of the central government and the central bank.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Appendix Table 4. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt 2011–31

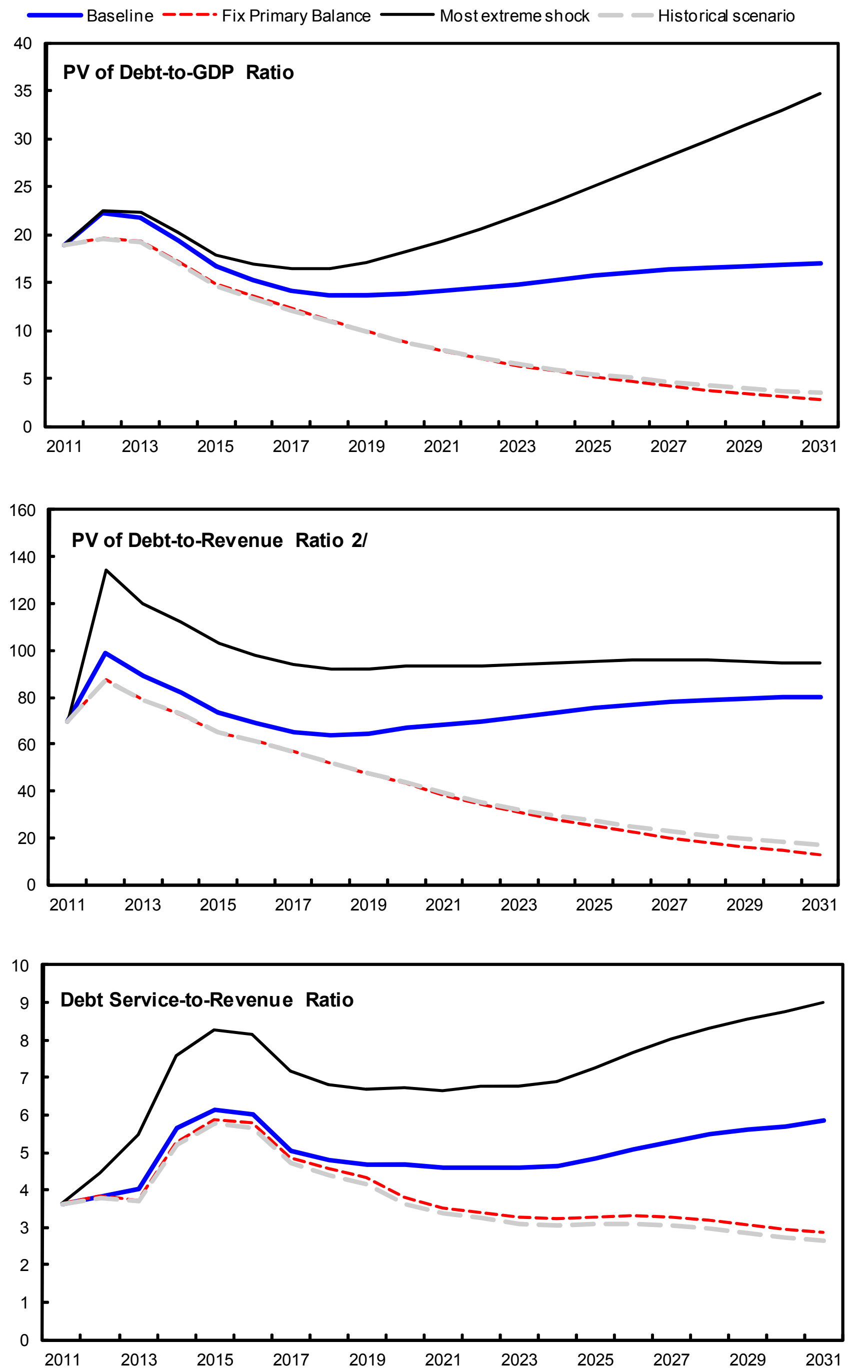
	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	19	22	22	19	17	15	14	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	20	19	17	15	13	8	3
A2. Primary balance is unchanged from 2011	19	20	19	17	15	14	8	3
A3. Permanently lower GDP growth 1/	19	22	22	20	18	17	19	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	19	23	24	21	19	18	19	25
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	19	20	20	18	15	14	13	16
B3. Combination of B1-B2 using one half standard deviation shocks	19	20	20	18	16	14	14	19
B4. One-time 30 percent real depreciation in 2012	19	27	27	24	21	19	17	19
B5. 10 percent of GDP increase in other debt-creating flows in 2012	19	30	29	26	23	22	19	20
PV of Debt-to-Revenue Ratio 2/								
Baseline	70	99	89	82	73	69	68	80
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	70	87	79	73	65	61	39	17
A2. Primary balance is unchanged from 2011	70	87	79	73	65	61	38	13
A3. Permanently lower GDP growth 1/	70	100	91	85	78	75	92	160
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	70	101	95	89	83	81	91	118
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	70	90	84	77	68	63	64	78
B3. Combination of B1-B2 using one half standard deviation shocks	70	89	82	76	68	64	68	88
B4. One-time 30 percent real depreciation in 2012	70	121	109	101	92	86	81	89
B5. 10 percent of GDP increase in other debt-creating flows in 2012	70	134	120	112	103	98	93	94
Debt Service-to-Revenue Ratio 2/								
Baseline	4	4	4	6	6	6	5	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	4	5	6	6	3	3
A2. Primary balance is unchanged from 2011	4	4	4	5	6	6	4	3
A3. Permanently lower GDP growth 1/	4	4	4	6	6	6	5	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	4	4	4	6	6	6	5	8
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	4	4	4	5	6	6	4	6
B3. Combination of B1-B2 using one half standard deviation shocks	4	4	4	5	6	6	4	6
B4. One-time 30 percent real depreciation in 2012	4	4	5	8	8	8	7	9
B5. 10 percent of GDP increase in other debt-creating flows in 2012	4	4	5	7	7	7	6	7

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Appendix Figure 2. Rwanda: Indicators of Public Debt Under Alternative Scenarios, 2011–31 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In the top panel this corresponds to permanent lower growth (A3); in the middle panel to a 10 percent of GDP increse in other debt-creating flows in 2012 (B5); and in the bottom panel to a one-time 30 percent real depreciation in 2012 (B4).

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
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IMF Executive Board Completes Second Review Under Policy Support Instrument for Rwanda

The Executive Board of the International Monetary Fund (IMF) has completed the second review under a three-year Policy Support Instrument (PSI) for Rwanda.[1] The Executive Board's decision was taken on a lapse of time basis.[2]

Rwanda's macroeconomic performance has been strong overall, and its economic program supported under the PSI remains on track. Real GDP growth is estimated at 7.5 percent for 2010, up from 4.1 percent in 2009, driven by a favorable external environment and the PSI-supported fiscal stimulus. However, rising global food and fuel prices, slower pick-up in credit to the private sector, and raising financing to implement the government's investment plan to close the infrastructure gap continue to pose policy challenges. All quantitative assessment criteria for December 2010 were observed, and structural reforms are advancing at a good pace.

The start of fiscal consolidation in FY 2011/12 would further anchor macroeconomic stability and support growth. To this end, the authorities are streamlining expenditures—while protecting priority spending—and introducing further reforms in revenue administration and public financial management (PFM). The authorities are committed to tighten monetary policy in 2011 if needed to contain any second round effects of higher global food and fuel prices on inflation. Structural reforms will continue to focus on improving access to financial services while safeguarding financial stability, further improving monetary policy implementation, further strengthening the Public Financial Management (PFM) system, enhancing revenue administration, improving the quality of national accounts statistics and enhancing policy coordination and capacity building. Stepped up efforts will be needed to ensure that the risks of the large roll-out of Savings and Credit Cooperatives (SACCOs) is addressed adequately through hiring and training of inspectors and the early adoption of a

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[1] The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. A country's performance under a PSI is reviewed bi-annually.

[2] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

sustainable institutional structure for SACCOs. Over the medium term, sustaining the growth momentum would depend on securing financing for the key growth catalytic investments, a favorable external environment, and a strong recovery in credit to the private sector.

The Executive Board approved a three-year PSI for Rwanda on June 16, 2010 (see Press Release No. 10/247).