INTERNATIONAL MONETARY FUND

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RWANDA

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT AND CANCELLATION OF CURRENT POLICY SUPPORT INSTRUMENT

December 2013

In the context of the Seventh Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument, the following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 2, 2013, following discussions that ended on October 2, 2013, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on November 14, 2013.
- A **Press Release** including a statement by the Chair of the Executive Board.
- **Statement by the Executive Director** for Rwanda.

The documents listed below have been 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*
Technical Memorandum of Understanding*
Poverty Reduction Strategy Paper
Poverty Reduction Strategy Paper—Joint Staff Advisory Note

*Also included in the Staff Report

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

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November 14, 2013

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT AND CANCELLATION OF CURRENT POLICY SUPPORT INSTRUMENT

CONTEXT

Rwanda has enjoyed strong economic performance over the last decade, supported by significant external aid and close engagement with the Fund, including under a PSI since 2010. The authorities have requested a new three-year PSI in support of their new poverty reduction strategy (EDPRS 2).

KEY CHALLENGES

Rwanda faces two main economic challenges:

- In the near term, to maintain macroeconomic stability under uncertain prospects for donor aid and the global environment.
- Over the medium term, to sustain strong and inclusive growth and poverty reduction while gradually reducing reliance on aid.

MAIN POLICY RECOMMENDATIONS

- Continue to focus on inclusive growth and policies, while aligning spending priorities with available financing.
- Strengthen domestic resource mobilization by broadening the tax base, introducing comprehensive tax regimes for agriculture and mining, and strengthening property taxation, and further enhancing revenue administration.
- Further improve public financial management through strengthened information management systems and capacity building.
- Modernize the monetary policy framework by injecting greater flexibility and improving institutional arrangements.
- Ensure exchange rate flexibility to preserve reserve buffers and enhance competitiveness.
- Further develop financial markets and expand access to financial services.

Approved By
Roger Nord (AFR) and Dan Ghura (SPR)

Discussions were held in Kigali from September 18-October 2, 2013. The mission comprised Messrs. Drummond (head), Arnason, Thakoor (all AFR), and Raman (SPR). Ms. Farahbaksh, resident representative, participated in the discussions and assisted the mission. The mission met with Minister of Finance and Economic Planning Gatete; National Bank of Rwanda Governor Rwangombwa; other senior officials; and representatives of the private sector, civil society, and development partners.

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THE CONTEXT

1. Strong policies have helped Rwanda become an economic success story. Prudent fiscal and monetary policies geared towards maintaining macroeconomic stability, coupled with a strong emphasis on building institutional capacity, promoting good governance, and creating a business-friendly environment, contributed to low inflation and average annual economic growth in excess of 8 percent over the last decade. Moreover, a strong focus on homegrown policies and initiatives contributed to a significant decline in both poverty and inequality. Public debt remained modest and reserve buffers kept the economy resilient to shocks. Significant inflows of foreign aid were effectively used in support of economic development. From a regional perspective, Rwanda's macroeconomic performance has generally outperformed its peers (Figure 1).

2. The authorities' new economic development and poverty reduction strategy (EDPRS 2) aims to sustain high, inclusive growth.[1] The key priorities under the EDPRS 2 are: (i) economic transformation to sustain rapid growth; (ii) rural development; (iii) productivity and youth employment; and (iv) accountable governance, supported by continued emphasis on macroeconomic stability and improved public financial management. The authorities' development strategy also places significant emphasis on regional integration through the EAC.

3. Sustaining strong economic performance will require addressing key vulnerabilities. These vulnerabilities include Rwanda's high dependence on donor aid, low government revenue, narrow export base, and weak infrastructure, with resulting high costs of doing business that arise from relatively high energy and transport costs. As an illustration of these vulnerabilities, recent economic developments have been strongly influenced by the suspension and delays of aid flows last year, and their eventual resumption this year.[2]

4. In support of their policies, the authorities have requested a successor PSI. They consider that the expiring PSI has served Rwanda well (Box 1). In the absence of a present or prospective balance of payments need, a new PSI would provide an appropriate framework for maintaining the close policy dialogue of recent years and signaling the strength of economic policies to donors and investors.

[1] A JSAN on the EDPRS 2 has been issued along with this staff report.

[2] See Staff Report for the Sixth Review (IMF Country Report No. 13/177)

Box 1. Experiences and Lessons from the Expiring PSI

Among the key lessons from the expiring PSI, the authorities point to the importance of ownership and an adequate institutional and legal framework for reforms. Specifically:

- Implementation of macroeconomic policies was generally strong. The policy response to the global economic crisis, as well as the aid shock during FY2012/13 was appropriate.
- Prioritizing reforms is important. Significant progress was made on public financial management, particularly strengthening transparency and budget execution reporting. Fiscal efforts on revenue mobilization were hampered by low compliance and a narrow tax base.
- The pace of reforms must be calibrated to implementation capacity. On the monetary side, efforts targeted at improving the effectiveness of the monetary framework and promoting greater exchange rate flexibility are increasingly benefitting from capacity building at the National Bank of Rwanda. Efforts in the financial sector are increasingly focused on enhancing access to financial services and building supervisory capacity.

BACKGROUND

A. Economic Developments

5. Economic growth slowed and inflationary pressures eased in the wake of suspension and delays in aid inflows last year. Real GDP growth began slowing in the second half of last year, following the suspension of aid flows, and eased to 5.9 percent year-on-year in the first half of 2013 (Figures 2 and 3 and Table 1). The slowdown reflects a deceleration in construction and services activity largely as a result of adjustment cuts in government spending. At the same time, inflationary pressures remained subdued through the first half of the year on the back of low import prices for food and fuel. The twelve-month headline inflation rate stood at 5.1 percent in September, while the core rate (excluding fresh foods and fuels) was 3.3 percent (Figure 5).

6. Balance of payments developments have been positive, reflecting favorable terms-of-trade, rising exports, and the resumption of aid. Since the peace accord signed by 11 African countries from the Great Lakes region and southern Africa in February 2013, donors generally resumed bilateral and multilateral aid disbursements.[3] The export volumes for major mineral exports (tin ore, coltan, and wolfram) have risen following substantial investment in the sector and favorable price developments, especially of coltan. In particular, seven new mines, including foreign-owned and operated, started up in 2013, contributing to an increase in the productive capacity of the

[3] Donors had suspended aid flows in the second half of 2012 following a UN report regarding Rwanda's alleged involvement in eastern DRC.

sector. These near-term positive developments, together with ongoing initiatives to improve productivity in traditional export crops (coffee and tea), and efforts to boost

non-traditional exports are expected to provide a platform for further growth in exports. At the same time, import developments were broadly in line with projections. As a result, and reflecting also the resumption of aid inflows in the first half of 2013, foreign exchange reserves stabilized at about 3.5 months of prospective imports.

7. **The fiscal deficit during FY2012/13 was smaller than envisaged at the time of the sixth review** (Text Table 1, Figure 4, and Table 3). Grants were 1.5 percent of GDP lower-than-expected, partly offset by lower capital spending and net lending operations. Domestic revenue exceeded projections by 0.9 percent of GDP, about evenly divided between tax and non-tax revenue, contributing to a lower-than-expected overall fiscal deficit and domestic financing. Importantly, the accumulation of arrears during the first half of the fiscal year was fully reversed in the second half.

Text Table 1. Rwanda: Fiscal Outturn for FY2012/13

	Proj.	Est.	Diff.
		(percent of GDP)	
Revenue and grants	24.6	23.9	-0.7
Revenue	15.1	16.0	0.9
Grants	9.4	7.9	-1.5
Total expenditure and net lending	30.5	29.0	-1.5
Current expenditure	13.6	13.8	0.2
Capital expenditure	13.4	12.3	-1.1
Net lending	3.5	3.0	-0.6
Change in arrears	-0.2	-0.2	0.0
Overall deficit (cash basis)	-6.1	-5.3	0.8

Source: Rwandan authorities

8. **Monetary conditions tightened in 2013.** Broad money growth decelerated to 17 percent (year-on-year) at end-August 2013, and private sector credit growth slowed markedly (from 35 percent at end-2012 to about 13 percent at end-August 2013 (Figure 6 and Table 4)). The slowdown in private sector credit growth partly reflected a combination of higher real rates, the soft patch the economy experienced due to the aid shock, and the prudent behavior of banks after a period of brisk credit expansion. With the resumption of budget support inflows and a continuing moderate pace of depreciation of the Rwandan franc (4 percent through September 2013), pressures in the foreign exchange market eased from earlier this year.

B. Program Performance

LOI ¶13

9. **Progress under the PSI has continued to be satisfactory.** Except for the ceiling on non-concessional borrowing (NCB), all quantitative assessment criteria (QACs) were met (see Table 1 of MEFP). All indicative targets and structural benchmarks (SBs) were also met (see Table 2 of MEFP). The non-observance of the NCB ceiling came about when the authorities allowed Rwandair to contract a new US$50.7 million external loan in July. Rwandair used the proceeds of the loan to repay debt to the government. While the amount of the loan was relatively small, it implied a non-observance of the NCB ceiling. The authorities noted that procedures were in place that required public entities to obtain approval from the Ministry of Finance and Economic Planning before contracting any foreign loans. They committed to reinforcing these procedures and to strictly adhering to the consultation clause in the LOI in regard to the contracting of any non-concessional loans in future. Staff recommends a waiver on the basis of the authorities' commitment to prevent any reoccurrence.

C. Near-Term Outlook and Risks

MEFP ¶19

10. **The near-term macroeconomic outlook has weakened somewhat since the sixth review.** Reflecting the slowdown in the first half of the year, projected growth for 2013 has been revised down to 6.6 percent. This assumes a pick-up in the construction and services sectors in the second half of 2013 as government spending normalizes following the resumption of aid inflows. For 2014, growth of 7.5 percent is projected, supported by a recovery in agriculture and a pick-up in services. Headline inflation is projected to rise to 6.5 percent by end-2013, reflecting rising food prices because of relatively poor second harvest; before declining gradually to 6 percent in 2014. The current account deficit (including grants) estimate for 2013 has been revised down by about 1 percentage point of GDP, reflecting the favorable balance of payment developments thus far this year, giving a reserve cover of prospective imports of 3.8 months by end-2013.

11. **The near-term outlook is subject to downside risks. Principal among these is a lower level of donor inflows relative to GDP than currently assumed.** This could stem from donor concerns about DRC or budgetary pressures in donor countries. If such a risk were to materialize it would adversely affect public investment and growth relative to the baseline. Moreover, continued global weakness could hamper efforts to expand and diversify the export base.

POLICY DISCUSSIONS

MEFP ¶14-15

12. **The discussions on the new PSI focused on the authorities' objectives of maintaining macroeconomic stability and sustaining rapid and inclusive growth in the medium term, and the key policy priorities in support of these goals:**

- maintaining a sustainable fiscal position, while creating fiscal space by enhancing domestic revenue mobilization and pursuing further PFM reforms;

- modernizing the monetary policy framework to ensure low and stable inflation;
- enhancing access to credit and deepening the financial sector, while reducing financial sector vulnerabilities by strengthening banking supervision; and,
- preserving external stability, including debt-sustainability.

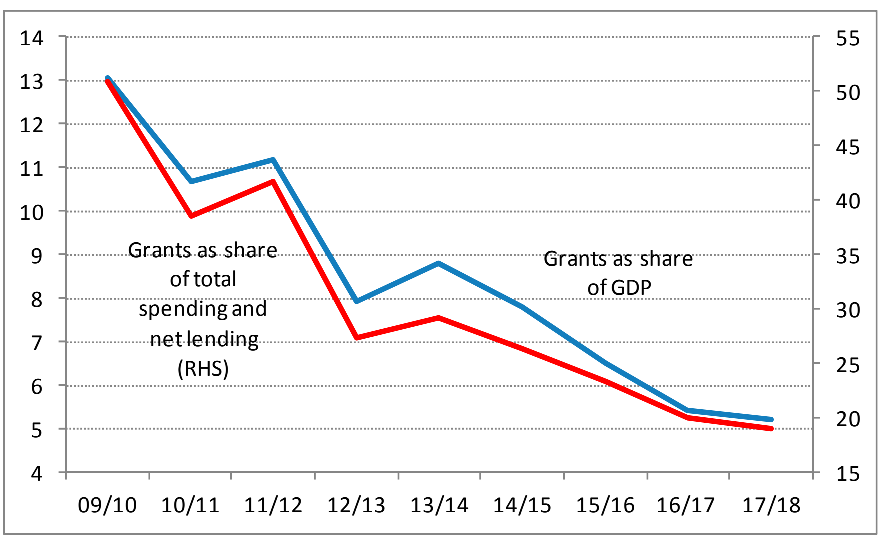
MEFP ¶16

A. The Macroeconomic Framework

13. The medium-term framework agreed with the authorities assumes prudent growth. The government objectives, articulated in its Vision 2020 and the EDPRS 2, envisages Rwanda becoming a middle-income country by 2020, and the poverty rate falling below 30 percent by 2017/18. The government, however, recognizes that these are ambitious goals and agreed, for policy design purposes, on still ambitious, but realistic real GDP growth projections that average 7.5 percent annually during the program period; annual headline inflation that converges to the NBR's medium-term target of 5 percent; and foreign reserves that rise gradually to 4.1 months of prospective imports by the end of the PSI (Figure 7).

14. These projections assume a soft landing in aid flows. Aid is assumed to recover in FY2013/14 from the depressed levels in FY2012/13, and thereafter decline gradually relative to GDP and as a share of spending over the medium term (Text Figure 1). The decline in grant inflows is expected to be partially offset by an increased uptake of concessional project loans that should allow public investment to continue at a high level (Box 2).

Text Figure 1. Rwanda's Reliance on Aid



Box 2. A Soft Landing on Aid

Rwanda has in recent years relied heavily on foreign aid, with grants averaging more than 11 percent of GDP per annum and covering more than 40 percent of total spending during the first years of the current decade.

While grant disbursements have resumed following delays and suspensions in FY2012/13, there is some uncertainty about future inflows, partly because the funding of the next IDA, AfDF, and EU cycles has not been completed. In the meantime, the authorities have based their assumptions for the medium term on preliminary indications about the future aid envelope from the main donors (box table). In broad terms, after the down year of FY2012/13, budget and capital grants are expected to recover in FY2013/14 but then be broadly stable in nominal terms but on a declining trend relative to GDP for the duration of the new PSI. On the other hand, the authorities plan to increase their take up of project loans, which in the past was relatively limited, so that total financial assistance—grants and loans—is expected to recover in nominal terms from the low levels of FY2012/13 in the next couple of years, before declining toward the end of the PSI period.

Rwanda: Financial Assistance, FY2012/13–FY2015/16

	FY12/13	FY13/14	FY14/15	FY15/16
	(percent of GDP)			
Grants	**7.9**	**8.8**	**7.8**	**6.5**
Budget support grants	4.1	3.8	3.7	4.0
Capital grants	3.8	5.0	4.1	2.5
Loans	**2.1**	**2.3**	**3.6**	**3.4**
Budget support loans	0.4	0.0	0.0	0.0
Project loans 1/	1.8	2.3	3.6	3.4
Total financial assistance	**10.1**	**11.1**	**11.4**	**9.9**

[1] Excludes euro bond of US$400 million in April 2013.

MEFP ¶22

B. Sustaining Growth and Poverty Reduction

15. Sustaining high growth will depend on Rwanda's ability to transition from domestic demand-driven, public sector-led, aid-financed growth towards growth that is increasingly driven by net exports, the private sector, and the government's own resources. Growth over the last decade has been driven by high levels of public sector investment supported by significant aid. For the foreseeable future, Rwanda is expected to continue to attract significant, albeit declining aid in relative terms. The authorities recognize that Rwanda's ability to sustain high growth will increasingly depend on their ability to mobilize more domestic resources and spur private sector-led growth. Thus, the EDPRS 2 explicitly assumes that growth will increasingly become private sector-driven (Box 3). Export performance is also expected to improve, reflecting rising productivity in traditional export sectors, diversification into new export activities, and greater access to existing markets, as well as trading in new markets. The authorities recognize that less-than-full implementation of planned reforms, including the plans to enhance revenue mobilization (see below), or faltering regional integration efforts would pose downside risks to growth.

Box 3. Private Sector Development

The government strategy aims to have the private sector as the engine of growth and employment. The strategy appropriately focuses on further strengthening the business environment by reducing the costs of doing business, improving infrastructure, increasing access to finance, and supporting skills development. Specific measures to alleviate impediments to private sector development include: (i) investment in infrastructure, including on energy and connectivity to the rest of the EAC; (ii) investment promotion activities to attract FDI; (iii) entrepreneurship development; (iv) credit expansion through credit guarantee schemes and lowering the cost of securing bank loans; (v) capacity development; (vi) improving the regulatory framework, including the tax system, insolvency laws, and mining concessions; and (vii) facilitating market access by reducing barriers to trade.

Export promotion is a key component of the strategy and the government plans to:

- overhaul the mining sector by revising the Mining Law to allow for longer-term concessions and the merging of prospecting and exploration licenses; increase investment in mining, and facilitate small mining production.
- increase tea and coffee production through a large-scale tea expansion program, land consolidation, establishing new tea factories, and improving productivity in coffee production.
- target export-oriented investment in new and emerging sectors through public-private partnerships, including in horticulture, milling industry, and cement factory.
- establish an integrated logistic system through PPPs, building off-dock container depots; finalize one-stop border posts at all border posts to facilitate trade, and tackle non-tariff barriers.

16. Staff underscored that the government needs to carefully prioritize its investment program. In view of the resource constraints, only those infrastructure projects with a high economic return should be undertaken. The authorities acknowledged the need to proceed cautiously and seek financing on the most favorable terms available. They agreed to undertake feasibility studies for all new major investment projects, including for a regional oil pipeline and railway, as well as a new international airport. The bulk of the financing for these projects, however, is yet to be secured and the authorities have to undertake cost-benefit analysis and will consider various funding mechanisms, including public private partnerships (PPPs). In addition, the implementation of these projects will likely extend beyond the program period.

MEFP ¶23

Box 4. Rwanda and EAC Integration

The East African Community (EAC) provides a unique growth opportunity for Rwanda to tap into a much bigger market. The EAC has a population of 140 million and a combined GDP of about $100 billion.[1] The union was formed in 1999 to forge economic and financial integration amongst its member states with the aim of an eventual political federation. The growth opportunities offered by greater integration include trade, initially through a customs union, followed by a common market, regional infrastructure projects, and eventually, monetary union.

Customs union: Set up in 2005 with the aim of establishing a common external tariff (three bands of 0 percent, 10 percent, and 25 percent, depending on the type of good), and rules of origin and standards. The union seeks to promote trade by gradually eliminating internal tariffs and non-tariff barriers, and harmonizing customs documentation.

Common market: Established in 2010 envisaging the free movement of goods, labor, services, and capital across border. Some specific areas include the adoption of common travel documents, work permits, and fees for education and tourism; harmonization of transport facilitating instruments; elimination of restrictions on the free movement of capital; promotion of investment in capital markets, eventually leading to an integrated financial system. Preparations are advancing for the establishment of a single customs territory between Kenya, Rwanda, and Uganda, which would harmonize the customs systems to allow for taxes to be paid at the port of entry (Mombasa), thereby reducing transportation costs for trade.

Regional infrastructure initiatives: Kenya, Rwanda, and Uganda have agreed on several regional infrastructure initiatives to increase trade and reduce the cost of doing business. Each country has agreed to take the lead for coordinating a specific project: Kenya for the development of a network of oil pipelines and a regional power transmission line; Uganda for the railway; and Rwanda for the customs union, single visa, and EAC e-identity card. Feasibility studies for the railway and oil pipeline remain to be completed, and financing is yet to be secured. However, work on the construction of a regional hydroelectric power project located on the border between Rwanda and Tanzania (supported by the World Bank) is slated to start in 2014 that would supply 80 megawatts of electricity to be equally shared by Burundi, Rwanda, and Tanzania.

Monetary union: Envisages a process of convergence in the coming decade and gradual build up of common monetary institutions, generally modeled on the experience of the euro area.

[1] Other countries include Burundi, Kenya, Tanzania, and Uganda. The EAC Secretariat is headquartered in Arusha, Tanzania.

17. In support of its growth objectives, Rwanda needs to be prepared to take advantage of opportunities provided by regional integration, particularly through the EAC (Box 4). Rwanda is heavily engaged in the EAC integration process and sees potential significant benefits arising from it. Its trading relations have been increasingly oriented toward its EAC partners following the launch of the customs union in 2005 and the common market in 2010. Non-tariff barriers, nevertheless, remain an obstacle and contribute to high cross-border trading costs.

MEFP ¶42

18. Staff supported the range of initiatives in the EDPRS 2 aimed at achieving inclusive growth. Efforts to deepen the inclusiveness of growth cut across all the thematic areas of the EDPRS 2, but not least rural development. In this area the emphasis will be on an integrated approach to land use and human settlements and increased productivity of agriculture to foster the graduation from extreme poverty. In addition, the government strategy calls for a scaling up of home-grown social protection programs, originally designed for EDPRS 1 (the Vision Umurenge Program[4]) and connecting rural communities to economic opportunity through improved infrastructure.

MEFP ¶17–18

C. Maintaining a Sustainable Fiscal Position and Creating Fiscal Space

19. The authorities' medium-term fiscal framework (Text Table 2) aims to increase revenue mobilization, adjust spending to available resources while protecting priority spending, including on capital projects, and minimize domestic financing to leave scope for private sector credit growth. The authorities see increased revenue mobilization as necessary to create fiscal space and an essential component of their growth strategy.

Text Table 2. Rwanda: Fiscal Framework, 2012/13–2016/17

	2012/13 Est.	2013/14 Budget	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.
			(percent of GDP)		
Revenue and grants	23.9	25.2	25.3	25.4	24.8
Revenue	16.0	16.4	17.6	18.9	19.4
Tax revenue	14.2	15.1	16.2	17.7	18.2
Non-tax revenue	1.8	1.3	1.3	1.2	1.2
Grants	7.9	8.8	7.8	6.5	5.4
Of which: Budget support	4.1	3.8	3.7	4.0	3.8
Total expenditure and net lending	29.0	30.0	29.6	27.9	27.1
Current expenditure	13.8	14.1	14.3	14.4	14.2
Capital expenditure	12.3	13.7	14.5	12.7	12.1
Overall deficit (cash basis)	-5.3	-5.1	-4.5	-2.6	-2.5

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

- **The authorities and staff engaged in a wide-ranging discussion of options for enhancing domestic revenue mobilization** based on technical assistance provided by the IMF (Box 5). The agreed strategy aims to gradually increase the headline tax revenue-to-GDP ratio by about 3.5 percentage points in the course of the PSI. However, the net revenue mobilization effort is somewhat smaller, or about 2.4 percentage points of GDP, because the headline figure includes collection of revenue by the Rwandan Revenue Authority for local governments, as well as the cessation of tax exemptions for projects which will entail a commensurate increase in project spending as the government

MEFP ¶24–29

[4] The *Vision Umurenge* Program is Rwanda's flagship social protection programs developed for EDPRS1. It provides vulnerable persons with a mix of cash transfers, employment in public works, and access to credit.

increases its contributions to projects to offset the impact of the loss of the tax exemptions. The initial steps in this strategy will be implemented through the supplementary budget in December.

Box 5. Revenue Mobilization Strategy

To increase the fiscal space for investment, the authorities are committed to a strong effort to mobilize additional revenue through a range of revenue administration and tax policy measures. The new PSI assumes that the headline tax revenue-to-GDP ratio will rise from 14.2 percent in FY2012/13 to 17.7 percent in FY2015/16 (box table). However, about a third of the increase is broadly neutral as it will entail additional spending on transfers to local governments and capital projects. The revenue effort will begin in the current fiscal year and continue through FY2015/16.

On revenue administration, the RRA is implementing a plan to strengthen tax compliance, including a full rollout of electronic billing machines, as well as a more comprehensive use of information technology.

Rwanda: Tax Revenue in New PSI

	FY2012/13	FY2013/14	FY2014/15	FY2015/16
		(percent of GDP)		
Tax revenue	14.2	15.1	16.2	17.7
Direct taxes	6.1	6.4	6.8	7.5
Taxes on goods and services	6.8	7.5	8.3	9.1
Taxes on international trade	1.2	1.1	1.1	1.1
		Annual change		
Tax revenue		0.9	1.1	1.5
Direct taxes		0.3	0.4	0.7
Of which : local government taxes		0.3	0.3	0.3
Taxes on goods and services		0.7	0.8	0.8
Of which : taxes on project spending		0.3	--	-0.1
Taxes on international trade		-0.1	--	--
Of which: taxes on project spending		0.2	--	--
		Net Annual Tax Revenue Effort in New PSI [1]		
Tax revenue		0.2	0.9	1.3
Direct taxes		0.1	0.1	0.4
Taxes on goods and services		0.4	0.8	0.9
Taxes on international trade		-0.3	--	--

[1] Net of local government taxes and taxes on project spending.

On tax policy:

- Initial measures to be included in the supplementary budget in December include raising the excise tax on mobile airtime and introducing a royalty tax on mining.
- In FY2014/15, the emphasis will be on broadening the base for VAT through a revision of the schedules for exemptions and zero-ratings; and preparing a review of tax expenditures to be submitted jointly with the budget.
- In FY2015/16, the authorities plan to introduce comprehensive tax regimes for agriculture and mining and improve property taxation. They have accordingly requested technical assistance from the Fund.

- On the **spending side**, the authorities are committed to controlling current spending, to leave sufficient room for much needed capital projects. Capital expenditure is expected to peak as a share of GDP in 2014/15, reflecting the completion of strategic investment projects (including in the energy sector) critical to sustaining growth. Spending will also be targeted on social programs essential to support poverty reduction and employment generation through education and training. With the coming on line of new electricity generation capacity, transfers to the electricity supply company are expected to gradually decline, as the generation cost converges toward the electricity tariffs.

MEFP ¶30–32

20. Public financial management (PFM) reforms under the PSI will build on progress achieved to date. The government adopted a comprehensive five-year PFM plan with the objective of ensuring efficient, effective, and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. The plan encompasses a range of activities including planning and budgeting, budget execution and expenditure control, reporting and accountability, and audit and legislative oversight arrangements. In addition to sustaining the achievements of recent years, three priority areas for the next five years have been identified as (i) strengthening controls by scaling up the implementation of the integrated financial management information system (IFMIS), (ii) strengthening PFM systems at the sub-national level, and (iii) enhancing training, professionalization, and capacity building across all PFM disciplines.

D. Modernizing the Monetary Policy Framework

MEFP ¶33–35

21. Monetary policy aims at achieving a 5 percent inflation target over the medium term. Reserve money will continue to be the anchor of monetary policy even though changes in the velocity of circulation brought about by ongoing financial deepening at times pose a challenge. The shift to a quarterly average for reserve money, within a band, has injected greater flexibility and provided the authorities greater latitude in the conduct of their monetary policy operations. In support of the work of the Monetary Policy Committee (MPC), forecasting models are being developed to better understand the transmission channels and high frequency indicators are being improved to provide the MPC with the most up-to-date information.

22. The authorities acknowledged the imperatives of preserving foreign reserves, and they are committed to allowing market developments to be fully reflected in the official exchange rate. Staff encouraged the NBR to continue allowing the exchange rate corridor to operate more fully so as to better reflect economic fundamentals. While the authorities value exchange rate stability, they have allowed the exchange rate to be increasingly driven by market factors. The NBR, however, remains the main player in the foreign exchange market, and the interbank market for foreign exchange remains very thin. In these circumstances, greater transparency regarding the frequency and magnitude of NBR interventions would inject greater predictability in the market. More broadly, a flexible exchange rate would help rebuild reserve buffers while also supporting the authorities' objectives of preserving competitiveness.

Box 6. Strengthening the Monetary Policy Framework

To activate the interbank market, develop new investment instruments, and improve the transmission mechanism, the NBR will implement a series of measures:

Managing liquidity.

- Issue treasury bills as a monetary policy instrument for absorbing longer-term and more permanent liquidity (in consultation with the Treasury).
- Develop a bond issuance program.
- Provide instruments with longer maturities by extending the maturity period of repos.
- Develop a secondary market.

Facilitating interbank transactions.

- Activate the transfer of collateral across banks and promote horizontal repos to facilitate transactions between banks.
- Define an intervention mechanism whereby banks are not left with daily surplus or deficit positions.

Improving modeling and forecasting capacity.

- Develop and refine the inflation forecasting and macroeconomic models to better understand the transmission mechanism.
- Expand the pool of staff currently trained to use these models.

Building capacity.

- Inform commercial banks about the new changes and their operational implications.
- Continue to support the newly created Treasurers' Association through training.

Furthering communication and transparency.

- Publish a quarterly inflation report to improve the formation of expectations.

Improving the foreign exchange market.

- Allow the official exchange rate to move more flexibly within the corridor to better reflect economic fundamentals.
- Improve communication regarding foreign exchange transactions by clearly articulating the intervention procedures to market participants.

23. **The NBR will strengthen its liquidity management framework and implement other measures that should help improve the transmission mechanism** (Box 6). Staff and the authorities agreed that a weak transmission mechanism hinders the implementation of monetary policy. The core of the problem resides in the excess liquidity that has characterized the banking system in recent years. With banks flush with liquidity and the slowdown in credit growth, the need for interbank transactions has been limited and in turn the intended price discovery has not materialized. At the same time, the instruments for mopping up liquidity were mostly short term and this resulted in the longer term excess liquidity remaining in the system. As part of the measures that should help strengthen the transmission mechanism, the NBR will issue treasury bills as a monetary policy instrument for absorbing longer-term and more permanent liquidity, in consultation with the Treasury.

E. Enhancing Access to Credit and Reducing Financial Sector Vulnerabilities

MEFP ¶36–41

24. The banking system remains strong, notwithstanding a recent increase in non-performing loans (NPLs). While most solvency, liquidity, and profitability indicators are in line, or exceed prudential norms, the aid shock and the accompanying economic slowdown have contributed to an increase in NPLs and a decline in provisioning (Table 5). The NBR has requested that commercial banks with NPLs above 5 percent submit recovery plans and set up dedicated units to deal with them, while improving the quality of collateral and strengthening credit underwriting.

25. Efforts are ongoing to bolster the financial sector regulatory framework and supervisory capacity. The planned consolidation of the savings and credit cooperatives (SACCOs) will take place in 2015, allowing the authorities adequate time to prepare for its implementation. The financial regulatory framework will be strengthened through a new banking law that introduces general provisioning for normal loans, and covers the areas of mobile and agent banking; a new deposit insurance law; amendments to the insurance law to incorporate the micro-insurance sector; and a new law to liberalize private pensions. To continue strengthening supervisory capacity, the NBR has introduced a program to promote the training of bank supervisors, while retention efforts are being continued. On-site and off-site supervision are expected to be integrated in the next fiscal year. As a first step to enhance cross-border banking supervision, the NBR is now participating in supervisory colleges to conduct joint on-site inspections of cross-border banks. The authorities were also encouraged to implement the recommendations following the completion of the on-going assessment of Rwanda's Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) system.

26. A vibrant financial sector is one of the pillars of the authorities' strategy. Despite efforts to increase financial inclusion and deepening over the recent years, Rwanda's financial markets remain shallow. Credit as a ratio to GDP is the lowest in the EAC. The newly adopted second Financial Sector Development Plan (FSDP 2) aims to tackle the impediments to financial intermediation in Rwanda and increase saving and investment opportunities. Initiatives to promote consumer protection and increase financial literacy will be continued. The NBR plans to put in place a bond issuance program and to issue longer term treasuries to expand the range of investment instruments and support the development of a yield curve and the secondary market. On the stock market, the authorities expect three companies to list by the end of the fiscal year (only two companies are listed now). In a bid to benefit from the larger markets in the region, the authorities are considering increasing cross-listing with the Nairobi Stock Exchange.

F. Preserving Debt Sustainability

27. The latest joint IMF-World Bank debt sustainability analysis (DSA) shows that Rwanda's debt profile has improved significantly and the risk of debt distress is now judged to be "low" (see Appendix II). The Country Policy and Institutional Assessment (CPIA) assesses the quality of a country's present policy and institutional framework, and has classified Rwanda as a strong performer. This has resulted in the thresholds used to assess debt sustainability to be raised since the last DSA was conducted.[5] Moreover, the strong export performance in 2013 has enlarged Rwanda's export base and positively affected the country's debt sustainability outlook. Moreover, the discount rate has been revised to 5 percent in line with the recent Board paper.[6] As a result, all indicators used to assess debt sustainability remain below their assessment thresholds under all scenarios examined. In particular, the present value of external debt-to-exports, which had previously been the sole indicator flagging risks, now remains below the threshold even in the event of an extreme shock. This suggests that an upgrade in the assessment of the risk of debt distress is warranted. The DSA further suggests that, while Rwanda continues to have borrowing space, this space is modest. Therefore, it is imperative that the authorities continue with their prudent policy with regard to the accumulation of debt both in their choice of projects and how these investments are to be funded.

G. Technical Assistance

28. The new PSI will ensure that TA provision remains aligned with the authorities' and program objectives. It is expected that the IMF will be involved in providing TA, supported by AFRITAC East. A medium-term program is in place centered on customs administration and PFM. The authorities have requested additional TA to broaden the tax base and to improve capacity building in the central bank and to develop their financial markets. Collaboration is also ongoing in regard to improving the national accounts and developing high frequency economic indicators.

PROGRAM ISSUES

29. Performance under the new three-year PSI will be monitored on the basis of quantitative assessment criteria and indicative targets similar to those for the expiring program (see Table 1 in MEFP). A parsimonious set of structural benchmarks (see Table 2 in MEFP) focus on fostering revenue mobilization through both tax policy and revenue administration measures, furthering PFM reforms, ensuring greater monetary and exchange rate flexibility, deepening financial sector development, and strengthening statistics. The first test date is December 31, 2013, with the first review mission scheduled for spring 2014.

STAFF APPRAISAL

30. Rwanda's economic performance in recent years is laudable. Prudent macroeconomic policies, good governance, and effective use of aid have underpinned rapid economic growth in the context of a stable macroeconomic environment. The substantial reduction in poverty and income

[5] IMF Country Report no. 12/152.

[6] See Board paper "Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries," (http://www.imf.org/external/pp/longres.aspx?id=4824).

inequality bears witness to the effectiveness of Rwanda's inclusive poverty reduction strategy, including homegrown initiatives.

31. Rwanda's new poverty reduction strategy (EDPRS 2) articulates a strategy for continued rapid and inclusive growth. The strategy appropriately envisages an increasing role for the private sector in driving economic and employment growth. Regional integration at the level of the EAC is also a key component of the EDPRS 2. It is important that the government do what it can to facilitate the development of the private sector, including through the creation of a business-friendly environment and the provision of adequate infrastructure. In this regard, the strong emphasis on raising agricultural productivity and improving education and training is welcome. The expansion of social protection schemes should also ensure that growth remains inclusive.

32. The authorities are also to be commended for Rwanda's continued satisfactory performance under the expiring PSI. The delays and cutbacks in budget support in FY2012/13 represented a significant challenge, to which the authorities responded appropriately by trimming and delaying spending while simultaneously drawing on reserve buffers to support economic activity.

33. However, Rwanda remains vulnerable to shocks and policy buffers need to be rebuilt. Key challenges are to expand and diversify the export base and ensure that reserves are sufficiently large to allow a response to unforeseen external shocks. Greater exchange rate flexibility would be crucial in this regard.

34. The new DSA classifies Rwanda at low risk of debt distress. Rwanda's favorable debt sustainability outlook is underpinned by prospects for continued high growth and improved outlook for exports. The government is encouraged to use its debt management strategy to continuously monitor Rwanda's debt sustainability prospects.

35. The new PSI represents a continuation of the authorities' prudent approach to economic policy. The fiscal framework aims to increase revenue mobilization, adjust spending to available resources, while protecting priority spending, and minimize domestic financing to leave ample scope for private sector credit growth. On the monetary side, the NBR remains committed to low inflation and financial sector stability and is building its capacity to achieve these objectives.

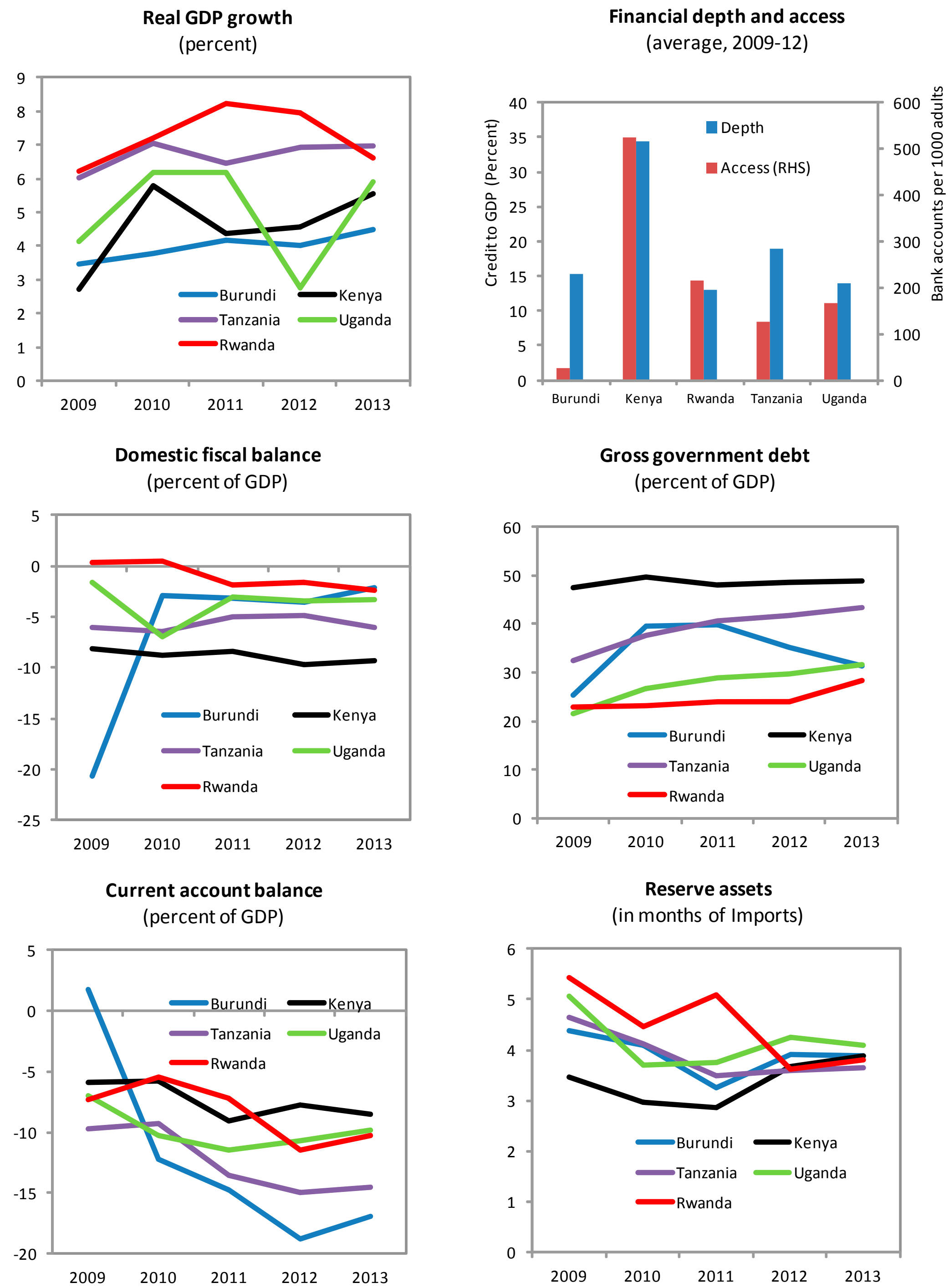
36. The revenue mobilization strategy underpinning the new PSI is ambitious but achievable. Over the next three years, the government intends to raise the tax revenue-to-GDP ratio by more than 2 percentage points of GDP in net terms through continued revenue administration reform and by broadening tax bases, particularly for VAT, and introducing comprehensive tax regimes for agriculture and mining, and strengthening the tax regime for property. The government's growth and poverty reduction strategy is dependent on the successful implementation of the revenue mobilization strategy. It is, therefore, crucial that it be supported by timely technical assistance.

37. The monetary policy framework, based on reserve money targeting has served Rwanda well, but would benefit from more flexibility. The monetary transmission mechanism needs to be made more effective through the activation and development of new monetary policy instruments and financial markets. A more effective monetary transmission mechanism would create scope for lessening the role of the exchange rate in containing inflationary pressures and, therefore, support much desired exchange rate flexibility. Greater transparency regarding the frequency and magnitude of NBR interventions would also inject greater predictability in the market.

38. Structural reforms under the PSI build on progress to date. In the public financial management area, the emphasis will be on scaling up information management systems to further enhance transparency and accountability in the use of public resources, while in the financial sector the focus will continue to be on developing financial markets and expanding financial access.

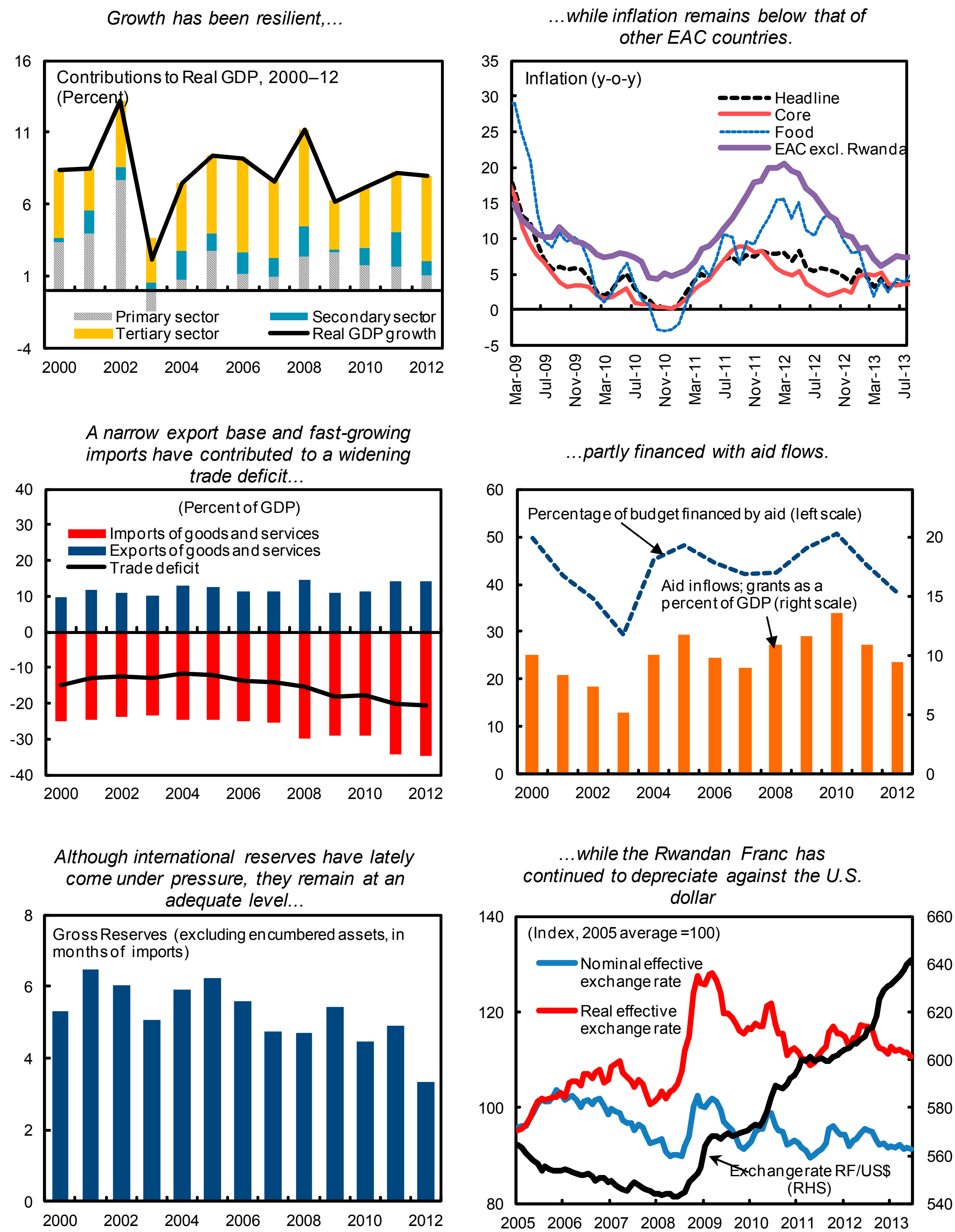
39. Staff recommends the completion of the seventh and final review under the expiring PSI and the approval of a new three-year PSI. Staff supports a waiver for the non-observance of the continuous QAC on the contracting of non-concessional borrowing. The authorities are committed to ensure that all public entities abide by the requirement that they seek approval from the Ministry of Finance and Economic Development before contracting any external loan, and to strictly adhere to the consultation clause in their Letter of Intent in the future.

Figure 1. EAC Economic Indicators



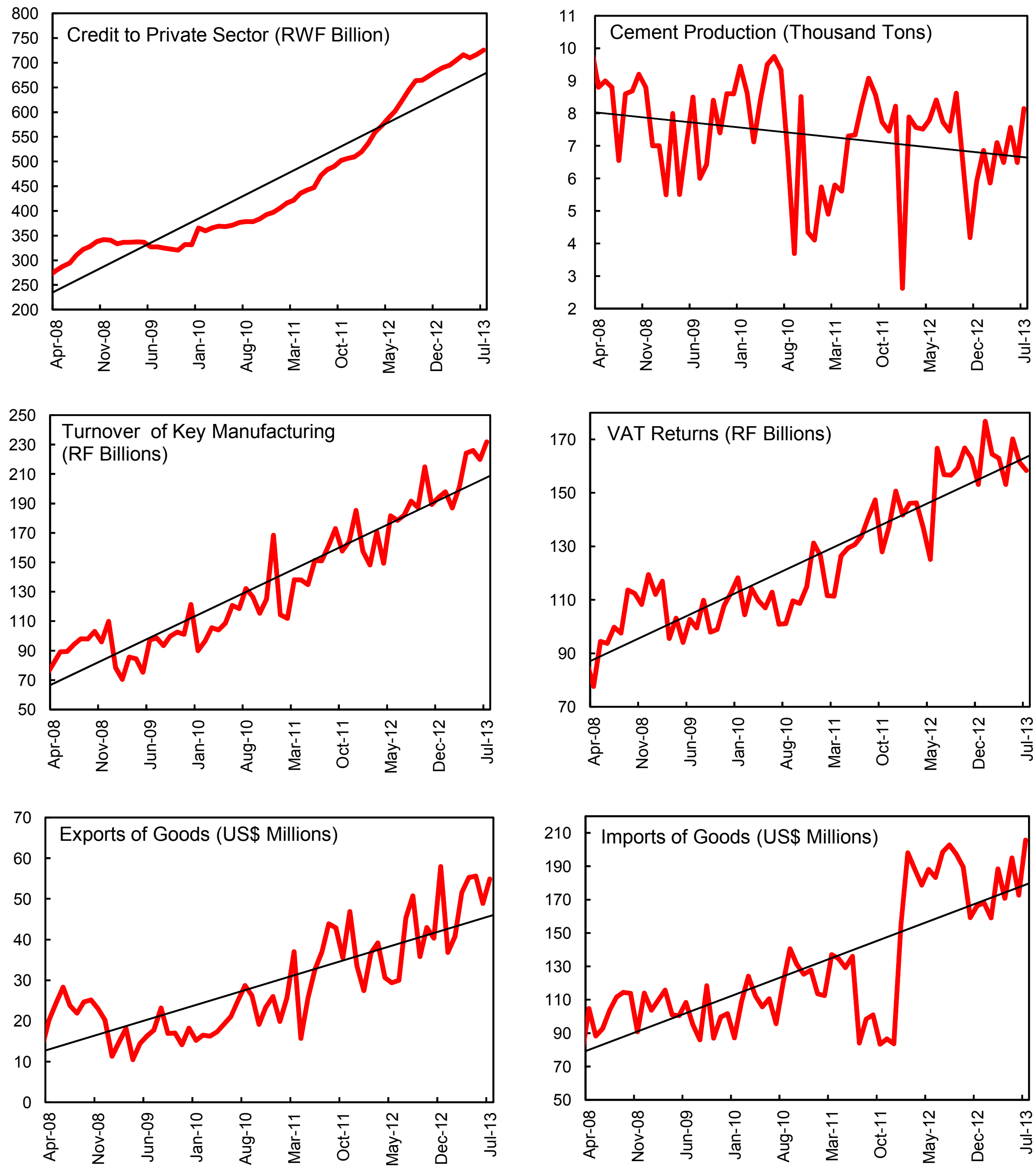
Source: IMF staff estimates.

Figure 2. Rwanda: Recent Performance



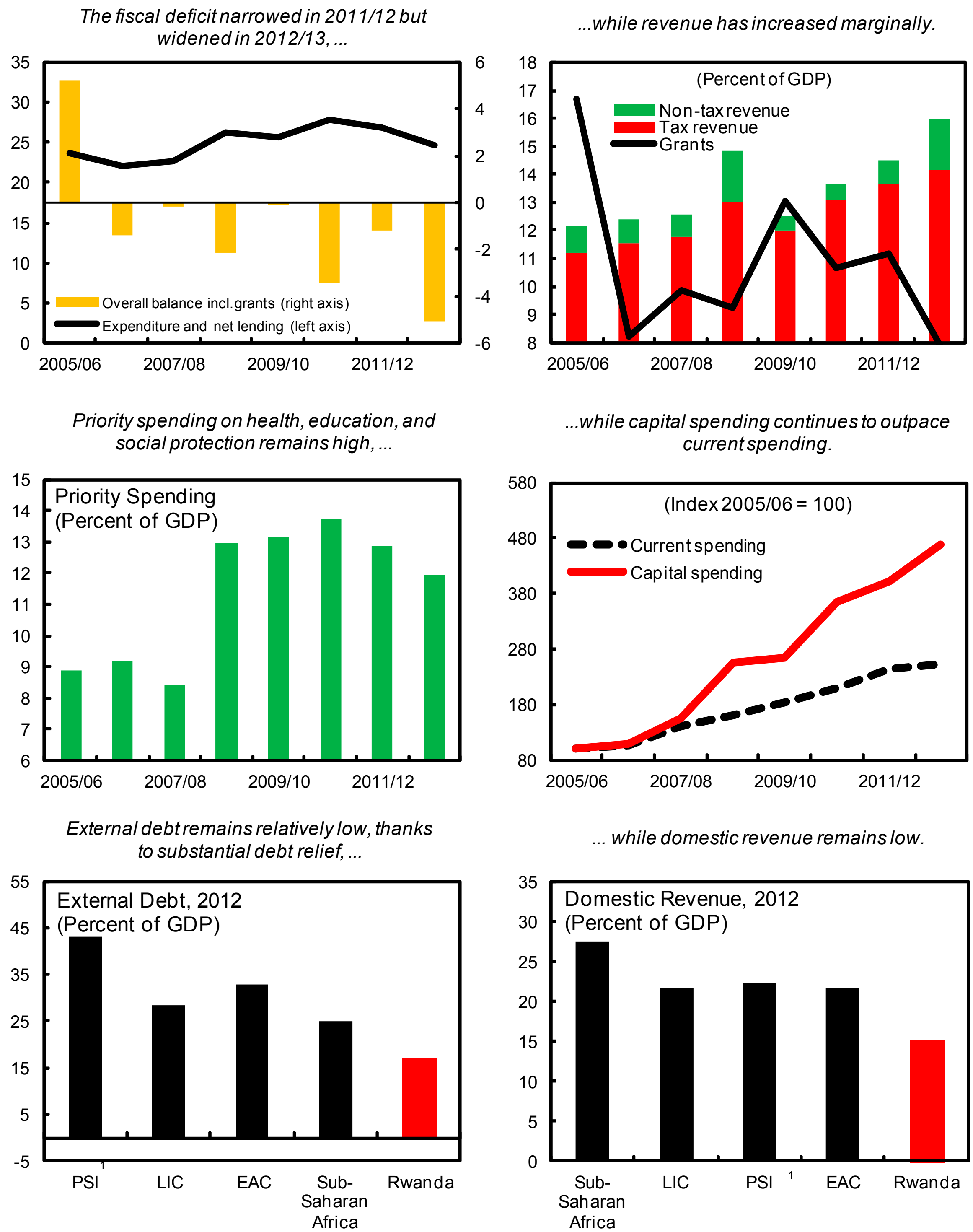
Sources: Rwandan authorities, IMF staff estimates, the IMF *World Economic Outlook*, and the African Department's *Regional Economic Outlook*.

Figure 3. Rwanda: Selected High-Frequency Indicators of Economic Activity



Sources: IMF staff and Rwandan authorities' estimates.

Figure 4. Rwanda: Fiscal Developments



[1] PSI countries are Mozambique, Senegal, Tanzania, and Uganda.

Sources: IMF staff and Rwandan authorities' estimates.

Figure 5a. Rwanda: Inflation Developments

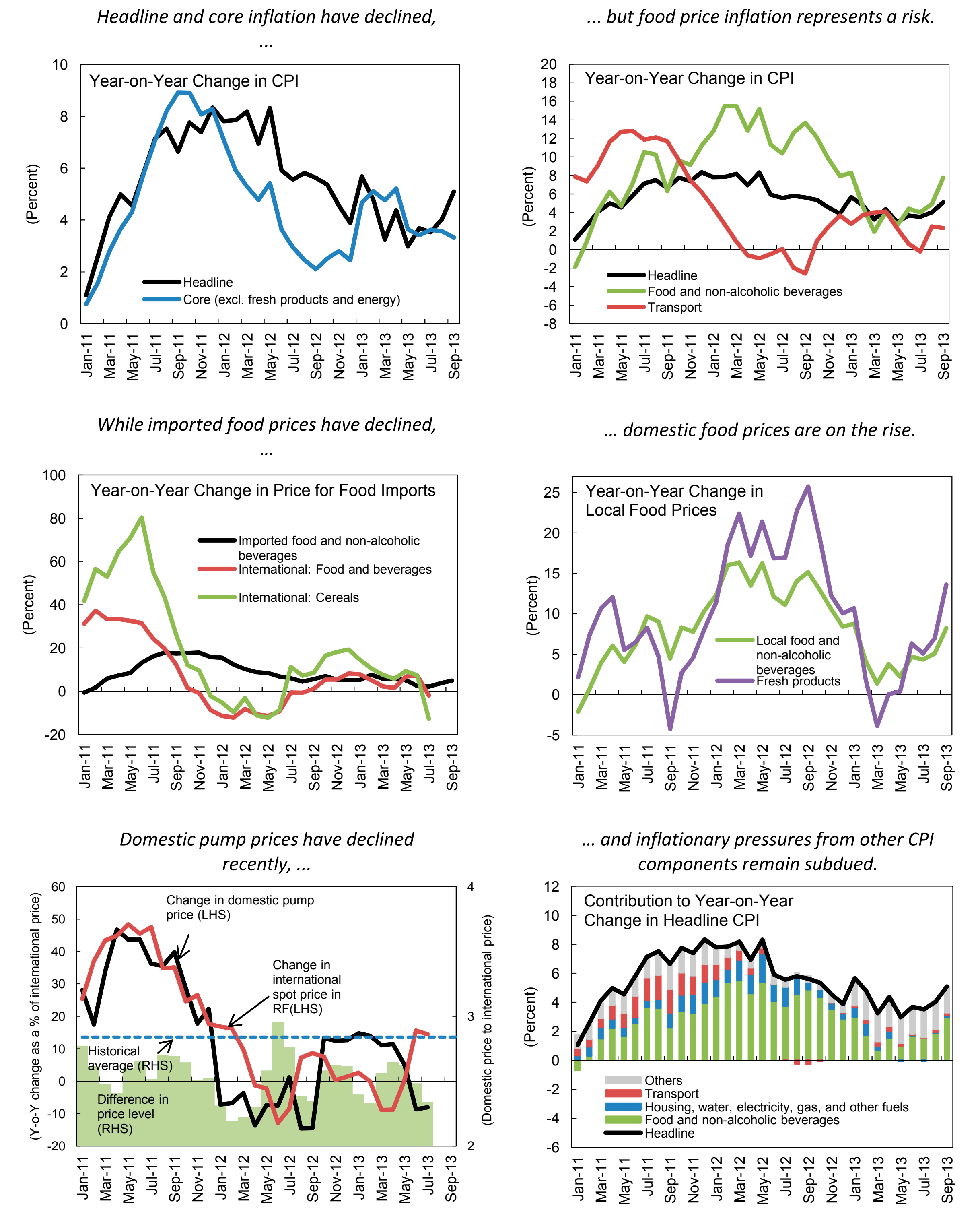
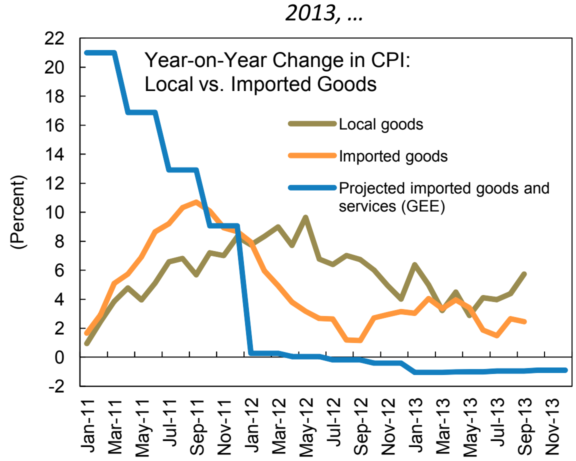
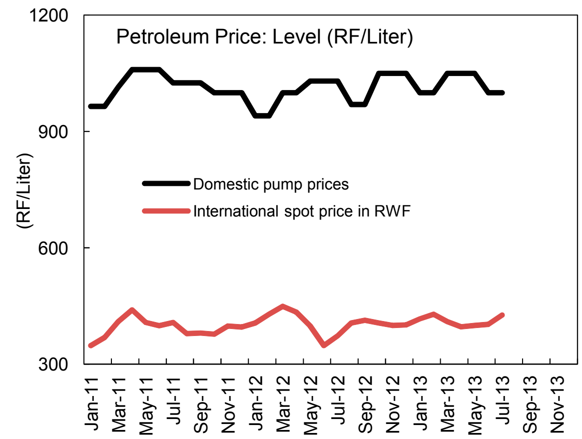


Figure 5b. Rwanda: Inflation Outlook

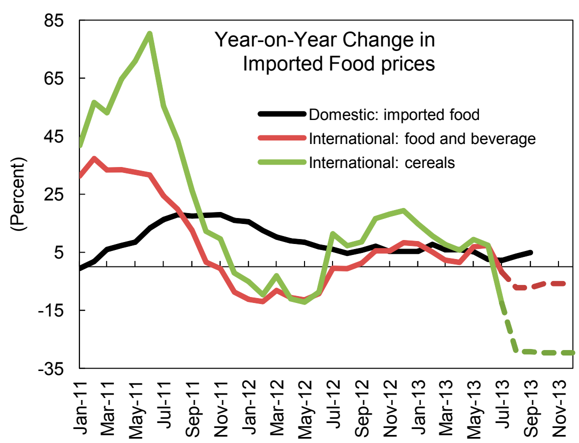
Import prices are expected to moderate in 2013, …



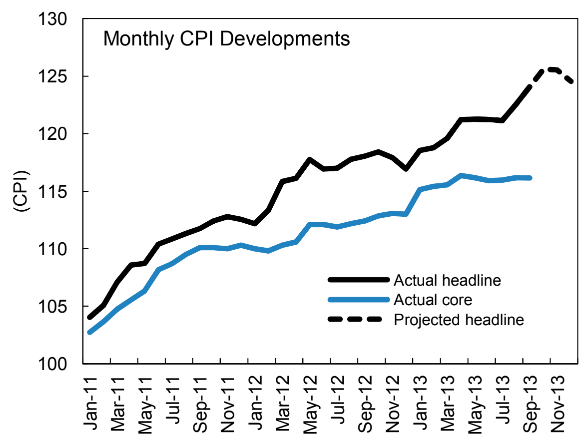
… reflecting stable international oil prices, …



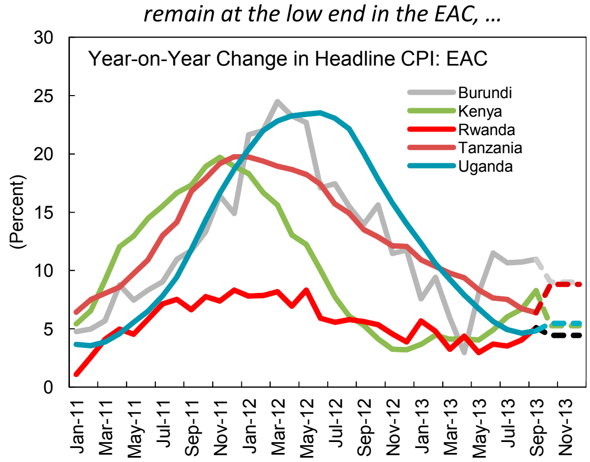
…and more moderate global food prices.



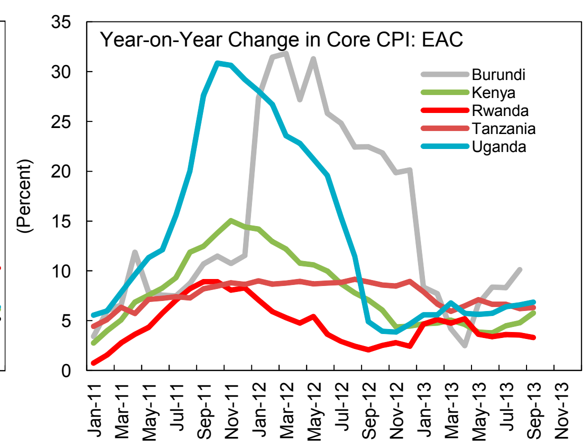
The headline CPI has increased but core CPI remains stable.



Headline inflation in Rwanda is expected to remain at the low end in the EAC, …



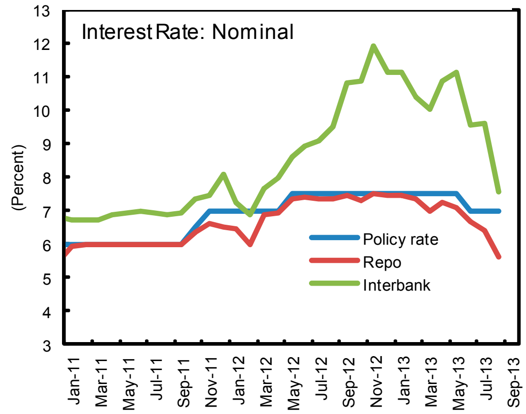
… and so is core inflation.



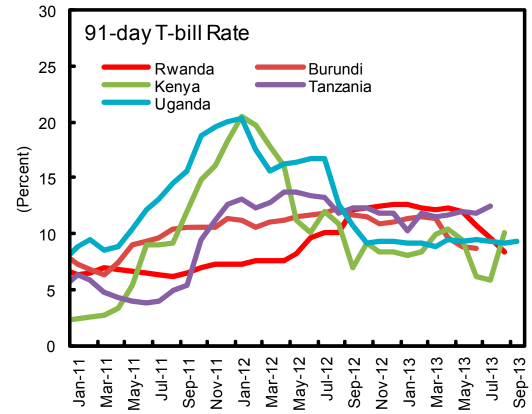
Sources: IMF staff and Rwandan authorities' estimates.

Figure 6. Rwanda: Monetary Developments

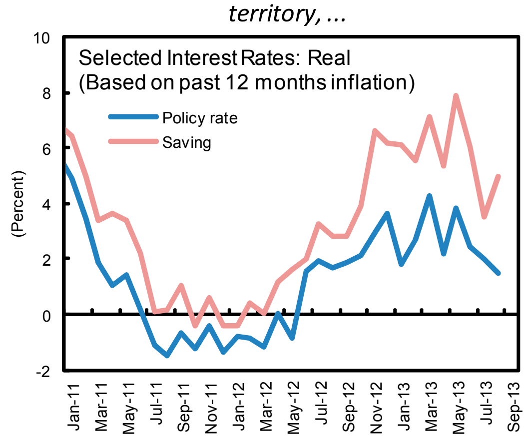
In response to moderating inflationary pressures, the NBR cut the policy rate in June 2013, ...



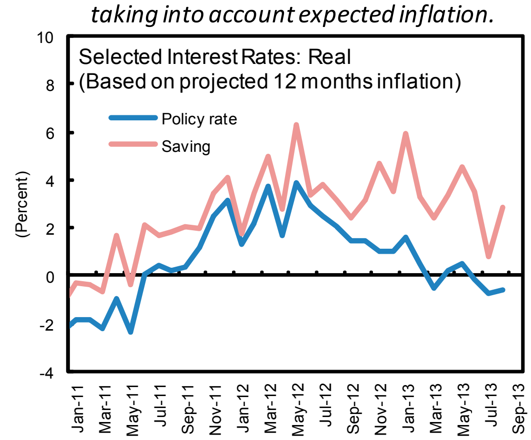
...T-bill rates have decreased subsequently.



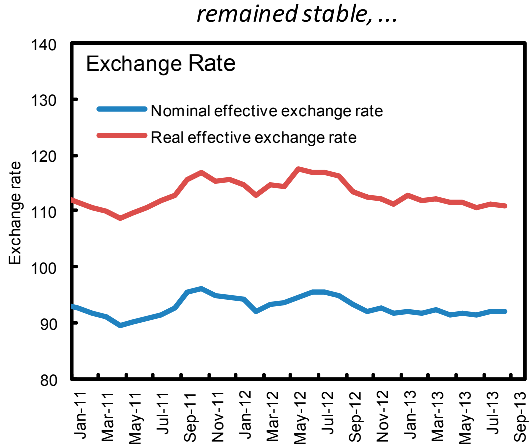
Real interest rates remain in positive territory, ...



... and remain mostly positive even taking into account expected inflation.



The effective exchange rate has remained stable, ...



... particularly when compared against neighboring countries.

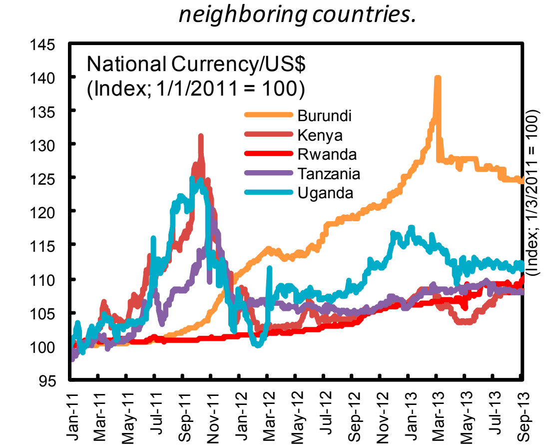
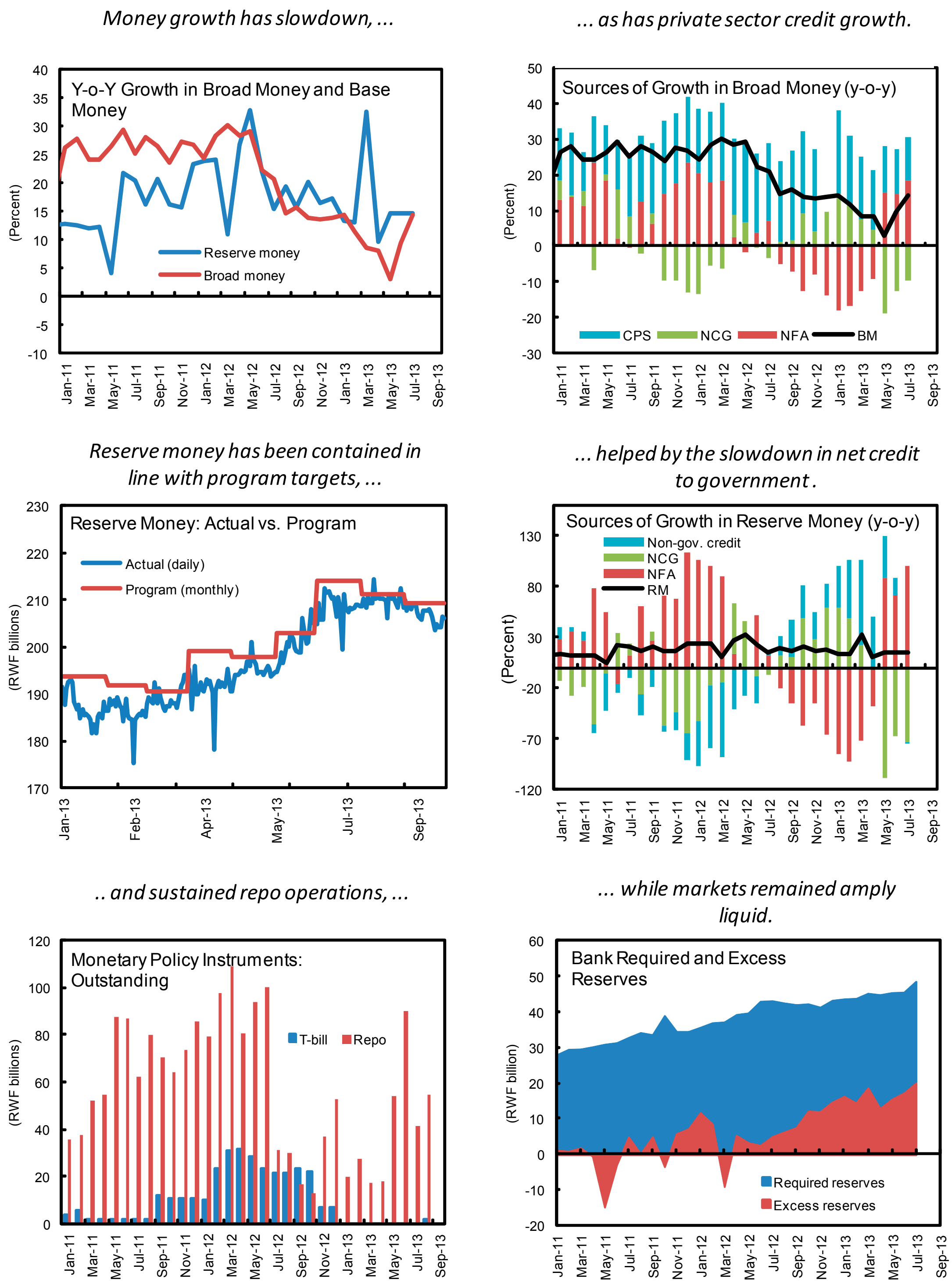
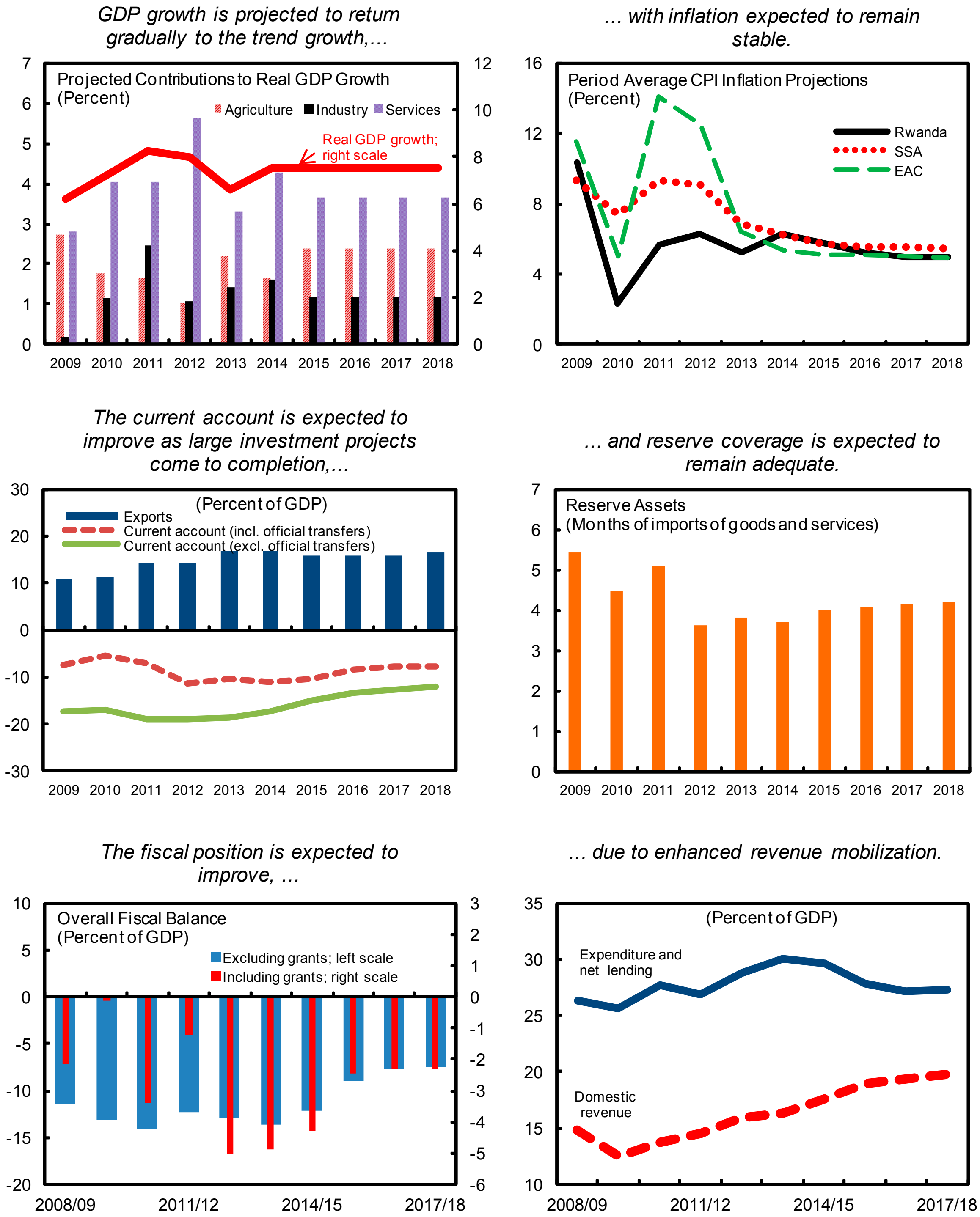


Figure 6. Rwanda: Monetary Developments (concluded)



Sources: IMF staff and Rwandan authorities' estimates.

Figure 7. Rwanda: Medium-Term Outlook



Sources: IMF staff and Rwandan authorities' estimates.

Table 1. Rwanda: Selected Economic and Financial Indicators, 2009–18

	2009	2010	2011	Est. 2012	Country Report 13/177 2013	2013	Country Report 13/177 2014	2014	2015	2016	2017	2018
	(Percent changes; unless otherwise indicated)											
Output and prices												
Real GDP growth	6.2	7.2	8.2	8.0	7.5	6.6	7.5	7.5	7.5	7.5	7.5	7.5
Real GDP (per capita)	4.0	5.0	6.0	5.7	5.3	4.4	5.3	5.3	5.3	5.3	5.3	5.3
GDP deflator	9.1	2.5	7.4	5.9	6.5	5.9	7.7	6.1	5.2	6.4	6.3	5.7
Consumer prices (period average)	10.3	2.3	5.7	6.3	5.7	5.2	6.8	6.3	5.8	5.3	5.0	5.0
Consumer prices (end of period)	5.7	0.2	8.3	3.9	7.5	6.5	6.0	6.0	5.5	5.0	5.0	5.0
External sector												
Export of goods, f.o.b. (U.S. dollars)	-12.2	37.2	44.0	27.3	10.1	38.9	13.6	13.1	-0.1	9.9	9.4	10.3
Imports of goods, f.o.b (U.S. dollars)	13.5	8.5	44.5	25.6	8.9	11.8	6.2	5.2	-2.2	5.9	4.4	8.4
Export volume	-20.0	11.6	18.5	21.1	13.0	22.7	8.9	7.7	3.7	9.8	6.4	7.0
Import volume	17.2	2.4	18.6	13.1	14.4	11.0	4.6	7.2	4.4	5.1	4.2	6.4
Terms of trade (deterioration = -)	13.3	16.1	-0.3	-5.4	2.4	12.4	2.8	7.1	2.9	-0.5	2.6	1.2
Money and credit[1, 2]												
Net domestic assets	36.9	13.7	20.3	186.3	33.3	24.4	43.6	48.0	13.8	17.0	19.2	16.8
Domestic claims	8.9	23.5	11.6	82.2	20.2	18.4	29.6	30.8	10.1	12.8	15.0	13.6
Of which: Private sector	4.9	11.1	28.4	33.9	14.3	12.6	11.2	13.9	12.1	12.2	14.3	13.1
Broad money (M2)	13.1	16.9	26.8	14.0	15.5	13.9	15.5	15.1	14.1	15.4	15.3	13.6
Reserve money	0.3	12.5	23.4	17.2	14.5	12.9	14.5	14.1	13.1	15.0	15.3	14.9
Velocity (GDP/M2; end of period)	5.6	5.3	4.9	4.9	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.6
	(Percent of GDP)											
National income accounts												
National savings	5.1	4.6	3.2	3.2	4.7	4.8	7.1	7.5	9.8	10.6	11.2	12.2
Gross investment	22.3	21.7	22.2	22.2	24.2	23.6	25.0	24.9	24.7	23.8	24.0	24.4
Of which: private (including public enterprises)	12.4	10.8	9.9	10.2	10.5	10.5	10.8	10.8	11.1	11.4	11.7	11.9
Government finance[3]												
Total revenue and grants	24.1	25.6	24.3	25.7	24.6	23.7	23.9	25.2	25.3	25.4	24.8	25.0
Revenue	14.9	12.5	13.7	14.5	15.1	15.9	15.2	16.4	17.6	18.9	19.4	19.8
Grants	9.3	13.1	10.7	11.2	9.5	7.9	8.7	8.8	7.8	6.5	5.4	5.2
Total expenditure and net lending	26.3	25.7	27.7	26.9	30.5	28.8	29.2	30.0	29.6	27.9	27.1	27.3
Capital expenditure	11.0	10.1	12.4	11.8	13.4	12.2	13.8	13.7	14.5	12.7	12.1	14.1
Current expenditure	14.4	14.7	14.9	15.0	13.6	13.6	13.2	14.1	14.3	14.4	14.2	15.9
Primary fiscal balance[4]	0.8	0.4	-3.0	-0.7	--	-4.4	--	-4.2	-3.6	-1.8	-1.6	-1.8
Overall fiscal balance (payment order)												
After grants	-2.2	-0.1	-3.4	-1.2	-5.9	-5.0	-5.4	-4.9	-4.3	-2.4	-2.3	-2.6
Before grants	-11.4	-13.2	-14.1	-12.4	-15.3	-12.9	-14.1	-13.7	-12.1	-9.0	-7.7	-8.5
Public debt	26.0	27.5	33.5	25.5	--	28.7	--	27.7	27.0	27.1	27.0	28.4
External sector												
External current account balance												
Including official transfers	-7.3	-5.4	-7.2	-11.4	-11.3	-10.3	-11.3	-10.9	-10.3	-8.4	-7.9	-7.6
Excluding official transfers	-17.2	-17.1	-19.0	-19.0	-19.5	-18.8	-18.0	-17.4	-14.9	-13.3	-12.8	-12.2
External debt (end of period)	14.4	14.5	18.0	17.1	17.3	20.8	19.4	21.4	23.1	23.4	22.7	22.4
Net present value of external debt												
(Percent of exports of goods and services)	…	…	86.9	76.7	102.0	91.5	109.3	90.0	100.6	101.2	96.6	91.6
Scheduled debt service ratio												
(Percent of exports of goods and services)	1.3	3.0	2.6	2.9	20.3	15.7	4.0	5.4	5.8	5.5	5.4	5.1
Gross reserves (months of imports of goods and services)[5]	5.4	4.5	5.1	3.6	3.8	3.8	4.0	3.7	4.0	4.1	4.2	4.2
	(Millions of U.S. dollars)											
Gross reserves	742.2	813.3	1050.0	843.5	925.5	935.5	934.1	895.5	1007.7	1140.6	1260.8	1380.9
Memorandum item:												
Nominal GDP (billions of Rwanda francs)	2,985	3,280	3,814	4,363	4,995	4,926	5,784	5,618	6,354	7,267	8,304	9,353

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Projections are based on the program exchange rate of RWF 604.14 per U.S. dollar.

[2] Figures for net domestic assets, domestic claims, domestic credit and private sector in Country Report 13/77 were in percent of broad money.

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

[4] Revenue excluding grants minus current expenditure except interest due and exceptional expenditure (AU peacekeeping expenditure and spending on demobilizing and integrating militia groups) minus domestically financed capital expenditure.

[5] Data from 2009 onward includes SDR allocation.

Table 2. Rwanda: Balance of Payments, 2009–18
(Millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013		2014		2015	2016	2017	2018
	Est.	Est.	Est.	Est.	PSI 6th Rev.	Proj.	PSI 6th Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1]	235.0	322.4	464.2	590.8	650.7	820.7	739.3	928.6	927.4	1,019.5	1,115.0	1,230.4
Of which: coffee and tea	85.6	111.8	138.5	126.6	159.3	133.2	175.1	138.6	148.0	154.4	165.9	181.0
Minerals	55.4	67.9	151.4	136.1	139.3	263.1	135.8	275.4	257.1	278.5	300.8	334.9
Imports (f.o.b.)	999.2	1,084.0	1,565.8	1,967.0	2,142.1	2,198.3	2,274.2	2,312.9	2,261.0	2,394.0	2,499.1	2,708.8
Of which: capital goods	256.3	268.2	349.1	471.4	671.1	614.8	676.5	682.7	689.8	713.4	718.1	782.6
Energy goods	122.5	158.2	259.2	289.1	272.2	306.5	284.4	313.5	304.0	334.5	348.9	382.5
Trade balance	-764.2	-761.5	-1,101.6	-1,376.2	-1,491.5	-1,377.7	-1,534.9	-1,384.4	-1,333.6	-1,374.5	-1,384.1	-1,478.4
Services (net)	-181.6	-246.2	-187.0	-85.2	-110.9	-135.5	-90.4	-134.7	-95.5	-29.7	-138.5	-126.3
Of which: tourism receipts	174.5	201.6	251.8	281.8	317.0	312.8	365.0	350.3	392.4	439.5	527.4	622.3
Income	-36.9	-42.5	-51.8	-73.8	-93.7	-99.6	-127.3	-123.4	-132.1	-149.1	-135.4	-137.4
Of which: interest on public debt[2]	-7.3	-7.8	-8.1	-9.2	-27.7	-25.8	-56.4	-40.9	-44.8	-48.3	-56.5	-66.6
Current transfers (net)[3]	600.0	745.3	880.5	722.5	822.3	826.2	794.1	730.0	611.8	698.5	766.7	797.0
Private	79.7	90.7	133.3	183.0	191.3	180.4	223.4	183.5	189.2	195.3	206.6	229.3
Of which: remittance inflows	88.1	98.2	166.2	175.3	184.9	175.3	205.4	181.9	189.9	198.7	209.4	230.7
Public	520.3	654.6	747.2	539.5	631.1	645.9	570.7	546.6	422.5	503.2	560.1	567.6
Of which: HIPC grants	5.2	4.5	4.5	4.8	5.0	4.8	5.2	5.3	5.3	5.3	5.3	5.2
Current account balance (incl. official transfers)	-382.7	-305.0	-459.8	-812.8	-873.7	-786.6	-958.4	-912.5	-949.4	-854.8	-891.3	-945.1
Current account balance (excl. official transfers)	-903.0	-959.6	-1,207.0	-1,352.3	-1,504.8	-1,432.4	-1,529.1	-1,459.0	-1,372.0	-1,358.0	-1,451.4	-1,512.7
Capital account	200.0	197.6	196.7	171.2	262.7	262.7	332.8	332.8	240.4	91.7	183.4	201.2
Project grants	200.0	197.6	196.7	171.2	262.7	262.7	332.8	332.8	240.4	91.7	183.4	201.2
Financial account	327.5	213.7	485.8	411.2	694.7	516.2	636.6	542.1	824.1	898.4	830.0	865.3
Direct investment	118.7	42.3	106.2	159.8	165.4	165.4	172.2	278.9	291.3	420.8	504.2	584.4
Public sector capital	182.1	62.1	311.8	110.4	398.8	344.9	271.9	213.6	284.6	235.6	152.0	206.6
Long-term borrowing[4]	88.8	73.2	341.4	199.8	626.3	666.8	303.6	252.4	347.6	297.3	215.2	247.2
Scheduled amortization[5]	-7.5	-11.1	-29.6	-89.4	-227.5	-321.9	-31.7	-38.8	-63.0	-61.6	-63.2	-40.5
SDR allocation	100.7											
Other capital[6]	26.8	109.3	67.9	141.0	130.5	5.9	192.5	49.6	248.2	241.9	173.7	74.2
Capital and financial account balance	527.5	411.4	682.5	582.5	957.4	778.9	969.4	874.9	1,064.5	990.1	1,013.4	1,066.5
Errors and omissions	0.0	-35.2	14.7	24.8	0.0	101.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	144.8	71.2	237.4	-205.5	83.8	93.7	11.0	-37.5	115.0	135.4	122.0	121.4
Financing	-144.8	-71.2	-237.4	205.5	-83.8	-93.7	-11.0	37.5	-115.0	-135.4	-122.0	-121.4
Change in net foreign assets of NBR (increase -)	-144.8	-71.2	-237.4	205.5	-83.8	-93.7	-11.0	37.5	-115.0	-135.4	-122.0	-121.4
Net credit from the IMF	3.6	-0.1	-0.6	-1.0	-1.7	-1.7	-2.4	-2.4	-2.9	-2.4	-1.9	-1.2
Disbursements/purchases	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	0.0	-0.1	-0.6	-1.0	-1.7	-1.7	-2.4	-2.4	-2.9	-2.4	-1.9	-1.2
Change in other gross official reserves (increase -)	-145.8	-71.0	-236.7	206.6	-82.1	-92.0	-8.6	40.0	-112.2	-133.0	-120.1	-120.1
Change in other foreign liabilities (increase +)	-2.6	-0.1	0.0	0.0	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	-17.2	-17.1	-19.0	-19.0	-19.5	-18.8	-18.0	-17.4	-14.9	-13.3	-12.8	-12.2
Including official transfers	-7.3	-5.4	-7.2	-11.4	-11.3	-10.3	-11.3	-10.9	-10.3	-8.4	-7.9	-7.6
Gross official reserves (including SDR allocation)	742.2	813.3	1,050.0	843.5	925.5	935.5	934.1	895.5	1,007.7	1,140.6	1,260.8	1,380.9
Gross official reserves (months of prospective imports of G&S)	5.4	4.5	5.1	3.6	3.8	3.8	4.0	3.7	4.0	4.1	4.2	4.2
Using imports of goods c.i.f. less adjustments (authorities' definition)[7]	6.4	5.2	5.7	4.1	4.2	4.3	4.7	4.1	4.3	4.7	4.8	4.8
Overall balance (percent of GDP)	2.8	1.3	3.7	-2.9	1.1	1.2	0.1	-0.4	1.2	1.3	1.1	1.0
Grants (US$ million)[8]	511.8	611.3	691.2	669.3		641.2		693.9	659.6	608.8	602.5	636.1
Of which: budgetary grants	339.7	411.1	395.0	370.9		303.0		313.3	355.8	399.7	419.1	434.9

Sources: Rwandan authorities and IMF staff estimates and projections.

1 From 2010 onward includes the results of the informal cross-border trade survey.

2 Including interest due to the IMF.

3 Current transfers include disbursed budgetary and HIPC grants and humanitarian and technical assistance.

4 Includes project and budgetary loans.

5 Excluding payments to the IMF.

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

7 The BNR measures reserve adequacy using imports of goods c.i.f. excluding imports incurred from informal cross-border trade and other items not captured in the customs data.

8 Official transfers to the government and comprises budgetary grants and capital grants. The official transfers in the BOP includes grants and non-grant elements (e.g., transfers to the private sector and humanitarian assistance).

Table 3. Rwanda: Operations of the Central Government, Fiscal-Year Basis,[1] 2009/10–17/18

	2009/10	2010/11	2011/12	2012/13	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18
				Country Report 13/177	Prel.	Country Report 13/177	Proj.	Proj.	Proj.	Proj.	Proj.
				(Billions of Rwanda francs)							
Revenue and grants	800.7	863.4	1,049.1	1,149.5	1,101.3	1,287.3	1,326.3	1,517.2	1,732.3	1,933.7	2,210.4
Total revenue	391.4	484.4	591.8	707.7	736.4	816.6	863.2	1,050.7	1,288.7	1,512.2	1,750.1
Tax revenue	376.4	463.8	557.0	641.2	651.9	749.1	795.7	971.9	1,205.5	1,417.0	1,642.2
Direct taxes	148.8	180.9	228.5	260.0	282.0	301.5	339.4	407.0	510.9	599.7	688.8
Of which: local government taxes	…	…	…	…	…	…	13.3	30.3	55.5	79.0	107.3
Taxes on goods and services	195.0	245.1	282.6	340.1	315.1	399.9	397.7	496.8	619.9	732.1	856.6
Of which: taxes on project spending	…	…	…	…	…	…	16.7	19.0	18.1	20.7	23.5
Taxes on international trade	32.6	37.8	45.9	41.1	54.8	47.7	58.7	68.0	74.6	85.3	96.7
Of which: taxes on project spending	…	…	…	…	…	…	10.2	11.7	11.2	12.8	14.5
Non-tax revenue	15.0	20.6	34.7	66.5	84.5	67.5	67.5	78.8	83.2	95.2	107.9
Of which: payments for peacekeeping operations	…	…	…	44.6	61.9	44.4	44.4	45.7	47.1	53.9	61.1
Of which: Agaciro Development Fund	…	…	…	2.0	0.0	--	12.8	--	--	--	--
Grants	409.3	379.0	457.3	441.8	364.9	470.7	463.0	466.4	443.6	421.5	460.3
Budgetary grants	283.0	215.0	265.7	197.9	190.0	170.7	201.2	218.5	272.3	295.7	317.7
Capital grants	126.3	164.0	191.7	243.9	174.9	300.0	261.8	247.9	171.3	125.8	142.7
Of which: Global Fund	…	0.0	78.0	96.2	64.3	87.9	49.7	43.4	44.7	51.1	57.9
Total expenditure and net lending	804.2	984.3	1,098.0	1,425.1	1,335.6	1,575.8	1,584.0	1,774.4	1,898.9	2,113.1	2,411.9
Current expenditure	459.2	527.0	614.1	634.6	633.9	710.4	742.6	854.6	980.3	1,104.5	1,241.7
Of which: priority	280.4	310.8	350.8	367.4	367.4	367.4	392.7	…	…	…	…
Wages and salaries	106.9	122.0	144.8	178.2	168.9	204.8	211.0	239.4	270.5	293.1	321.7
Civil	77.5	91.4	110.3	140.2	128.6	161.3	160.6	182.3	206.0	223.2	244.9
Defense	29.4	30.6	34.6	38.0	40.3	43.5	50.4	57.1	64.6	70.0	76.8
Purchases of goods and services	106.3	124.1	149.5	117.4	123.1	131.1	133.3	151.6	187.3	214.1	242.8
Civil	94.3	109.5	133.6	103.3	110.0	114.6	119.1	135.5	167.4	191.3	217.0
Defense	12.0	14.6	15.9	14.1	13.1	16.5	14.2	16.1	19.9	22.8	25.8
Interest payments	14.7	15.6	18.4	28.4	30.7	39.8	36.8	41.5	46.9	53.6	60.8
Domestic debt	10.1	10.9	13.2	10.5	15.7	10.5	10.5	12.1	13.8	15.8	17.9
External debt	4.6	4.7	5.2	17.9	15.0	29.3	26.3	29.4	33.1	37.8	42.9
Of which: sovereign bond	…	…	…	7.9	5.0	18.7	18.7	19.3	19.9	22.7	25.8
Transfers	179.6	197.2	225.6	238.2	230.8	262.3	289.2	344.2	391.7	447.8	507.8
Of which: transfers of local government taxes	…	…	…	…	…	…	13.3	30.3	34.7	39.7	45.0
Exceptional expenditure	51.6	68.1	75.8	72.4	80.4	72.4	72.3	77.8	83.8	95.8	108.6
Capital expenditure	316.7	438.6	482.9	625.0	564.5	744.5	723.7	865.5	863.8	945.9	1,099.0
Of which: priority	129.2	176.6	175.7	183.3	183.3	195.9	195.9	…	…	…	…
Domestic	159.3	218.9	231.6	254.8	239.4	256.6	305.3	351.8	402.4	483.3	574.6
Of which: Agaciro Development Fund	…	…	…	2.0	0.0	--	12.8	--	--	--	--
Of which: Counterpart funds for project taxes	…	…	…	…	…	…	26.9	30.7	20.8	23.8	27.0
Foreign	157.4	219.7	251.3	370.2	325.1	487.9	418.4	513.7	461.4	462.5	524.5
Of which: Global Fund	…	47.8	47.8	96.2	82.6	87.9	49.7	43.4	44.7	51.1	57.9
Net lending and privatization receipts	28.2	18.7	1.1	165.5	137.2	120.9	117.7	54.2	54.9	62.7	71.1
Of which: Kigali Convention Center	18.0	…	…	90.8	63.1	84.3	96.3	--	--	--	--
Of which: RwandAir	4.5	25.2	34.5	51.9	51.2	--	-32.5	--	--	--	--
Of which: Privatization receipts	…	-17.2	-28.0	-5.1	-5.1	--	--	--	--	--	--
Of which: Export promotion	…	…	…	…	…	…	23.4	10.3	--	--	--
Primary balance[2]	11.3	-105.3	-30.5	-80.9	-203.6	-38.2	-220.9	-215.7	-119.7	-125.7	-140.7
Domestic fiscal balance[3]	-250.7	-275.5	-249.7	-329.3	-259.1	-242.0	-276.0	-180.5	-115.7	-100.5	-94.5
Overall deficit (payment order)											
After grants	-3.5	-120.9	-48.9	-275.6	-234.3	-288.5	-257.7	-257.2	-166.7	-179.4	-201.5
Before grants	-412.8	-499.9	-506.3	-717.4	-599.2	-759.2	-720.7	-723.6	-610.2	-600.9	-661.8
Change in arrears[4]	-11.2	-11.9	-13.7	-8.0	-9.1	-9.2	-9.2	-10.4	-11.8	-13.5	-15.3
Overall deficit (incl. grants, cash basis)	-14.7	-132.8	-62.6	-283.6	-243.4	-297.7	-266.9	-267.6	-178.4	-192.9	-216.8
Financing	14.7	132.8	56.8	283.6	218.5	297.7	266.9	267.6	178.4	192.9	216.8
Foreign financing (net)	26.1	68.6	95.1	355.5	338.6	136.9	109.5	247.6	268.8	192.9	216.8
Drawings	31.1	76.5	104.7	370.8	354.1	154.5	123.1	265.8	290.2	217.2	244.4
Budgetary loans	0.0	21.4	53.5	17.4	16.2	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	31.1	55.1	51.3	353.4	337.9	154.5	123.1	265.8	290.2	217.2	244.4
Of which: sovereign bond	…	…	…	259.4	255.6	--	--	--	--	--	--
Amortization	-5.0	-7.9	-9.7	-15.3	-15.5	-17.6	-13.7	-18.2	-21.3	-24.4	-27.6
Net domestic financing	-11.4	64.2	-38.2	-71.9	-120.1	160.8	157.4	20.0	-90.4	0.0	0.0
Net credit from banking system	8.4	77.8	-15.4	-84.4	-144.3	160.8	169.4	30.0	-80.4	-91.9	-104.2
Of which: sovereign bond	…	…	…	-84.3	-141.3	117.7	129.7	--	--	--	--
Of which: Rwandair loan	…	…	…	…	…	…	-32.5	--	--	--	--
Nonbank sector	-18.1	-19.6	-22.8	12.5	24.2	--	--	-10.0	-10.0	-11.4	-13.0
Errors and omissions[5]	-1.7	0.0	-5.8	0.0	-24.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Priority spending	412.5	487.4	526.5	550.7	550.7	…	588.6				

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest expenditure.

[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 3. Rwanda: Operations of the Central Government, Fiscal-Year Basis,[1] 2009/10–17/18 (concluded)

	2009/10	2010/11	2011/12	2012/13 Country Report 13/177	2012/13 Prel.	2013/14 Country Report 13/177	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.	2017/18 Proj.
	(Percent of fiscal year GDP)										
Revenue and grants	25.6	24.3	25.7	24.6	23.9	23.9	25.2	25.3	25.4	24.8	25.0
Total revenue	12.5	13.7	14.5	15.1	16.0	15.2	16.4	17.6	18.9	19.4	19.8
Tax revenue	12.0	13.1	13.6	13.7	14.2	13.9	15.1	16.2	17.7	18.2	18.6
Direct taxes	4.8	5.1	5.6	5.6	6.1	5.6	6.4	6.8	7.5	7.7	7.8
Of which: local government taxes	…	…	…	…	…	…	0.3	0.5	0.8	1.0	1.2
Taxes on goods and services	6.2	6.9	6.9	7.3	6.8	7.4	7.5	8.3	9.1	9.4	9.7
Of which: taxes on project spending	…	…	…	…	…	…	0.3	0.3	0.3	0.3	0.3
Taxes on international trade	1.0	1.1	1.1	0.9	1.2	0.9	1.1	1.1	1.1	1.1	1.1
Of which: taxes on project spending	…	…	…	…	…	…	0.2	0.2	0.2	0.2	0.2
Nontax revenue	0.5	0.6	0.8	1.4	1.8	1.3	1.3	1.3	1.2	1.2	1.2
Of which: payments for peacekeeping operations	…	…	…	1.0	1.3	0.8	0.8	0.8	0.7	0.7	0.7
Of which: Agaciro Development Fund	…	…	…	--	0.0	--	0.2	--	--	--	--
Grants	13.1	10.7	11.2	9.4	7.9	8.7	8.8	7.8	6.5	5.4	5.2
Budgetary grants	9.0	6.1	6.5	4.2	4.1	3.2	3.8	3.7	4.0	3.8	3.6
Capital grants	4.0	4.6	4.7	5.2	3.8	5.6	5.0	4.1	2.5	1.6	1.6
Of which: Global Fund	…	0.0	1.9	2.1	1.4	1.6	0.9	0.7	0.7	0.7	0.7
Total expenditure and net lending	25.7	27.7	26.9	30.5	29.0	29.2	30.0	29.6	27.9	27.1	27.3
Current expenditure	14.7	14.9	15.0	13.6	13.8	13.2	14.1	14.3	14.4	14.2	14.1
Of which: priority	9.0	8.8	8.6	7.9	8.0	…	…	…	…	…	…
Wages and salaries	3.4	3.4	3.5	3.8	3.7	3.8	4.0	4.0	4.0	3.8	3.6
Civil	2.5	2.6	2.7	3.0	2.8	3.0	3.0	3.0	3.0	2.9	2.8
Defense	0.9	0.9	0.8	0.8	0.9	0.8	1.0	1.0	0.9	0.9	0.9
Purchases of goods and services	3.4	3.5	3.7	2.5	2.7	2.4	2.5	2.5	2.8	2.8	2.8
Civil	3.0	3.1	3.3	2.2	2.4	2.1	2.3	2.3	2.5	2.5	2.5
Defense	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest payments	0.5	0.4	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Domestic debt	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
External debt	0.1	0.1	0.1	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Of which: sovereign bond	…	…	…	0.2	0.1	0.3	0.4	0.3	0.3	0.3	0.3
Transfers	5.7	5.6	5.5	5.1	5.0	4.9	5.5	5.8	5.8	5.8	5.8
Of which: transfers of local government taxes	…	…	…	…	…	…	0.3	0.5	0.5	0.5	0.5
Exceptional expenditure	1.6	1.9	1.9	1.5	1.7	1.3	1.4	1.3	1.2	1.2	1.2
Capital expenditure	10.1	12.4	11.8	13.4	12.3	13.8	13.7	14.5	12.7	12.1	12.4
Of which: priority	4.1	5.0	4.3	3.9	4.0	…	…	…	…	…	…
Domestic	5.1	6.2	5.7	5.4	5.2	4.8	5.8	5.9	5.9	6.2	6.5
Of which: Agaciro Development Fund	…	…	…	0.0	--	--	0.2	--	--	--	--
Of which: Counterpart funds for project taxes							0.5	0.5	0.3	0.3	0.3
Foreign	5.0	6.2	6.1	7.9	7.1	9.1	7.9	8.6	6.8	5.9	5.9
Of which: Global Fund	…	1.3	1.2	2.1	1.8	1.6	0.9	0.7	0.7	0.7	0.7
Net lending and privatization receipts	0.9	0.5	0.0	3.5	3.0	2.2	2.2	0.9	--	0.8	0.8
Of which: Kigali Convention Center	0.6	…	…	1.9	1.4	1.6	1.8	--	--	--	--
Of which: RwandAir	0.1	0.7	0.8	1.1	1.1	--	-0.6	--	--	--	--
Of which: Privatization receipts	…	-0.5	-0.7	-0.1	-0.1	--	--	--	--	--	--
Of which: Export promotion	…	…	…	…	…	…	0.4	0.2	0.0	0.0	0.0
Primary balance[2]	0.4	-3.0	-0.7		-4.4		-4.2	-3.6	-1.8	-1.6	-1.6
Domestic fiscal balance[3]	-8.0	-7.8	-6.1	-7.0	-5.6	-4.5	-5.2	-3.0	-1.7	-1.3	-1.1
Overall deficit (payment order)											
After grants	-0.1	-3.4	-1.2	-5.9	-5.1	-5.4	-4.9	-4.3	-2.4	-2.3	-2.3
Before grants	-13.2	-14.1	-12.4	-15.3	-13.0	-14.1	-13.7	-12.1	-9.0	-7.7	-7.5
Change in arrears[4]	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall deficit (incl. grants, cash basis)	-0.5	-3.7	-1.5	-6.1	-5.3	-5.5	-5.1	-4.5	-2.6	-2.5	-2.5
Financing	0.5	3.7	1.4	6.1	4.7	5.5	5.1	4.5	2.6	2.5	2.5
Foreign financing (net)	0.8	1.9	2.3	7.6	7.4	2.5	2.1	4.1	3.9	2.5	2.5
Drawings	1.0	2.2	2.6	7.9	7.7	2.9	2.3	4.4	4.3	2.8	2.8
Budgetary loans	0.0	0.6	1.3	0.4	0.4	0.0	0.0	0.0	--	--	--
Project loans	1.0	1.6	1.3	7.6	7.3	2.9	2.3	4.4	4.3	2.8	2.8
Of which: sovereign bond	…	…	…	5.5	5.5	--	--	--	--	--	--
Amortization	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing	-0.4	1.8	-0.9	-1.5	-2.6	3.0	3.0	0.3	-1.3	--	--
Net credit from banking system	0.3	2.2	-0.4	-1.8	-3.1	3.0	3.2	--	--	--	--
Of which: sovereign bond	…	…	…	-1.8	-3.1	2.2	2.5	--	--	--	--
Of which: Rwandair loan	…	…	…	…	…	…	-0.6	0.0	0.0	0.0	0.0
Nonbank sector	-0.6	-0.6	-0.6	--	--	--	--	--	--	--	--
Errors and omissions[5]	-0.1	0.0	-0.1	--	-0.5	--	--	--	--	--	--
Memorandum items:											
Priority spending	13.2	13.7	12.9	11.8	12.0	…	11.2	…	…	…	…
GDP (Billions of RwF), FY basis	3,132	3,547	4,089	4,679	4,606	5,390	5,272	5,986	6,810	7,786	8,829

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest expenditure.

[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, 2010–14

	2010	2011	2012	2013				2014	
	Dec	Dec	Dec	June		Dec		June	Dec
				Proj		Proj	Revised		
	Est	Est	Est	13/177	Est	13/177	Proj	Proj	Proj
Monetary authorities									
Net Foreign Assets[1]	414.8	563.8	457.1	542.7	575.6	483.6	511.7	459.0	489.7
Foreign assets	483.5	634.4	535.5	618.2	653.0	559.1	590.7	534.8	565.4
Of which: encumbered assets		24.2	44.2	--	--	--	--	--	
Foreign liabilities	68.6	70.5	78.4	75.5	77.4	75.5	78.9	75.8	75.8
Net domestic assets	-283.9	-402.3	-267.8	-339.7	-374.5	-266.8	-297.9	-227.8	-245.6
Domestic credit	-231.2	-350.2	-218.7	-290.6	-319.4	-217.7	-242.9	-172.9	-190.6
Government (net)	-176.3	-261.6	-165.4	-186.4	-234.6	-138.9	-219.5	-146.5	-121.9
Claims	57.9	38.7	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Deposits (excluding autonomous bodies)2	234.2	300.4	204.0	225.0	273.2	177.5	258.0	185.1	160.5
Public nongovernment deposits (-)	-0.8	-1.0	-2.3	-1.0	-3.0	-1.0	-1.0	-1.0	-1.0
Nongovernment credit	-54.1	-87.5	-51.0	-103.2	-81.8	-77.8	-22.4	-28.4	-67.7
Private sector	4.8	5.6	5.9	7.5	6.8	7.5	7.5	7.5	9.0
Public enterprises	--	--	--	--	--	--	--	--	--
Commercial banks	-60.6	-94.9	-58.5	-110.7	-89.9	-85.3	-29.9	-35.9	-76.7
Other items (net; asset +)	-52.7	-52.3	-49.1	-49.1	-55.0	-49.1	-55.0	-55.0	-55.0
Reserve money[2]	131.0	161.6	189.3	203.0	202.5	216.8	213.8	231.1	244.1
Currency in circulation	104.1	117.9	129.3	144.8	137.7	158.0	148.1	158.7	169.2
Commercial bank reserves	24.7	41.9	58.2	57.7	63.2	58.5	64.0	70.8	74.5
Nonbank deposits	2.2	1.7	1.8	0.5	1.7	0.4	1.7	1.7	0.4
Commercial banks									244.1
Net foreign assets	104.0	100.0	98.8	80.5	67.1	98.7	86.4	65.0	62.0
Foreign assets	146.8	148.2	149.9	131.7	146.1	149.9	165.4	125.0	115.0
Foreign liabilities	42.7	48.2	51.2	51.2	79.0	51.2	79.0	60.0	53.0
Reserves	38.3	57.1	80.5	85.7	84.5	91.2	89.4	98.0	103.6
NBR deposits	24.7	41.9	58.2	57.7	63.2	58.5	64.0	70.8	74.5
Required reserves	26.7	34.7	43.4	46.5	45.8	49.5	49.6	52.0	55.6
Excess reserves	-2.0	7.2	14.8	11.3	17.4	9.0	14.4	18.8	18.8
Cash in vault	13.7	15.2	22.3	28.0	21.4	32.7	25.4	27.2	29.1
Net credit from NBR (rediscount; liability -)	60.6	94.9	58.5	110.7	89.9	85.3	29.9	35.9	76.7
Domestic credit	438.8	554.7	705.8	727.5	780.6	789.3	860.0	929.0	960.6
Government (net)	45.0	49.5	28.2	16.5	70.6	16.5	99.6	119.3	94.8
Credit	86.1	85.9	67.9	53.2	111.7	53.2	123.6	147.8	127.8
Deposits	41.0	36.4	39.7	36.7	41.1	36.7	24.0	28.5	33.0
Public enterprises	3.2	2.8	2.5	2.2	1.0	2.2	0.8	0.8	0.8
Private sector	390.6	502.4	675.1	708.8	709.0	770.6	759.6	808.9	865.0
Other items (net; asset +)	-118.5	-130.4	-162.4	-162.4	-176.1	-162.4	-176.6	-176.6	-176.6
Deposits	523.3	676.3	781.1	842.0	845.4	902.1	889.2	951.3	1,026.2
Private	453.9	576.2	670.8	720.7	723.4	768.6	755.7	817.9	892.8
Public (nongovernment)	69.4	100.1	110.3	121.3	122.1	133.5	133.5	133.5	133.5

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

[1] For program purposes NFA from December 2011 onward are at program exchange rates.

[2] 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 the three months in the quarter.

Table 4. Rwanda: Monetary Survey, 2010–14 (concluded)

	2010	2011	2012	2013				2014	
	Dec	Dec	Dec	June			Dec	Jun	Dec
	Est	Est	Est	Proj 13/177	Est	Proj 13/177	Proj	Proj	Proj
Monetary survey									
Net foreign assets[1]	518.9	663.8	555.8	623.2	642.8	582.3	598.1	524.0	551.7
Net domestic assets	97.0	116.7	332.3	336.1	320.7	445.4	415.5	557.4	615.1
Domestic credit	268.2	299.4	543.8	547.6	551.8	656.9	647.1	789.0	846.7
Government (net)	-131.3	-212.1	-137.2	-169.9	-164.0	-122.4	-119.9	-27.2	-27.1
Public nongovernment deposits (-)	-0.8	-1.0	-2.3	-1.0	-3.0	-1.0	-1.0	-1.0	-1.0
Public enterprises	3.2	2.8	2.5	2.2	1.0	2.2	0.8	0.8	0.8
Private sector	397.1	509.8	681.0	716.3	715.8	778.1	767.1	816.4	874.0
Other items (net; asset +)	-171.2	-182.7	-211.5	-211.5	-231.1	-211.5	-231.6	-231.6	-231.6
Broad money	615.9	780.7	889.9	959.3	963.5	1,027.7	1,013.6	1,084.5	1,166.7
Currency in circulation	90.5	102.8	107.0	116.8	116.3	125.2	122.7	131.4	140.1
Deposits	525.5	678.0	782.9	842.5	847.2	902.5	890.9	953.0	1,026.6
Of which: foreign currency deposits	99.2	135.6	164.6	163.4	160.6	175.0	172.8	182.2	196.0
Contribution to broad money growth									
Net foreign assets	14.6	23.5	-13.8	12.5	14.7	3.0	4.8	-10.1	-4.6
Net domestic assets	2.2	3.2	27.8	-3.3	-5.3	12.5	9.1	23.6	19.7
Domestic credit	9.7	5.1	31.5	-0.1	-0.3	12.7	11.4	23.6	19.7
Government (net)	2.4	-13.1	9.6	-13.4	-12.7	1.6	1.9	13.7	9.1
Economy	7.8	18.2	21.9	13.3	12.4	11.0	9.6	9.7	10.5
Other items (net; asset +)	-7.4	-1.9	-3.7	-3.0	-5.0	--	-2.3	--	--
Broad money	16.9	26.8	14.0	9.2	9.5	15.5	13.9	13.9	15.1
Annual growth									
Net foreign assets	17.4	27.9	-16.3	21.3	25.1	4.8	7.6	-15.5	-7.8
Net domestic assets	13.7	20.3	186.3	-7.9	-12.8	33.3	24.4	67.7	48.0
Domestic credit	23.5	11.6	82.2	-0.2	-0.6	20.8	18.6	39.9	30.8
Government (net)	-8.7	61.5	-35.3	224.6	213.9	-10.8	-12.6	-82.7	-77.4
Economy	11.5	28.0	33.5	19.4	17.9	14.4	12.3	13.2	13.9
Credit to the private sector	11.1	28.4	33.9	19.3	18.3	14.3	12.6	13.2	13.9
Other items (net; asset +)	29.5	6.7	15.7	14.2	23.3	--	9.5	--	--
Memorandum items:									
Currency/broad money ratio	14.7	13.2	12.0	12.2	12.1	12.2	12.1	12.1	12.0
Reserve money annual growth	12.5	23.4	17.2	14.9	14.6	14.5	12.9	14.9	14.1
Broad money annual growth	16.9	26.8	14.0	9.2	9.5	15.5	13.9	13.9	15.1
Reserves/deposits	25.0	23.9	24.2	24.1	24.0	24.0	24.0	24.3	23.8
Money multiplier	4.7	4.8	4.7	4.7	4.8	4.7	4.7	4.7	4.8
Velocity of broad money (end of period)	5.3	4.9	4.9	5.2	5.1	4.9	4.9	5.2	4.8
Velocity of broad money (average of period)	6.2	5.5	5.2	5.4	5.3	5.2	5.2	5.5	5.2
Net open position of the NBR (RWF billions)	408.8	563.8	457.1	536.2	575.6	483.6	511.7	452.1	489.7
Net open position of commercial banks (RWF billions)	10.8	-25.0	-45.4	-42.9	-88.9	98.7	86.4	-66.5	62.0
Nominal GDP (RWF billions)	3,280	3,814	4,363	4,995.5	4,926	4,995	4,926	5,618	5,618.2

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

[1] For program purposes NFA from December 2011 onward are at program exchange rates.

[2] 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 the three months in the quarter.

Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2009–13

	2009	2010	2011	2012	2013	
	Dec	Dec	Dec	Dec	Mar	Jun
	(Percent)					
Capital adequacy						
Regulatory capital to risk-weighted assets	19.0	21.6	23.8	21.4	22.2	20.8
Capital to assets	13.0	11.4	14.5	23.9	24.6	23.1
Off balance sheet items/total qualifying capital	184.1	206.1	216.9	233.3	244.5	314.7
Insider loans/core capital	19.7	5.9	3.2	3.6	6.8	4.1
Large exposure/core capital	65.1	72.5	42.3	41	37.5	35.1
Asset quality						
NPLs/gross Loans	13.1	11.3	8.2	6	6.7	6.9
NPLs net/gross loans	11.4	9.7	7.4	5.4	5.9	3.2
Provisions/NPLs	55.2	53.1	49.0	53.7	49	54.8
Earning assets/total asset	81.7	78.1	75.9	79.9	80.6	80.8
Large exposures/gross loans	13.9	15.1	11.2	9.1	8.4	8
Profitability and earnings						
Return on average assets	0.7	1.9	1.9	2.2	2.5	2.1
Return on average equity	5.0	13.7	10.8	10.4	11.9	9.9
Net interest margin	9.1	8.7	9.5	9.7	10	10
Cost of deposits	2.4	2.5	2.2	2.9	3.5	3.5
Cost to income	91.0	83.2	82.8	81	78.3	81.6
Overhead to income	54.9	55.2	55.5	54.7	51.2	51.8
Liquidity						
Short term gap	20.0	18.5	22.5	12.1	11.3	13.3
Liquid assets/total deposits	65.3	57.8	46.3	41.2	40.5	46.2
Interbank borrowings/total deposits	9.8	8.5	6.4	9.2	9.9	10.1
BNR borrowings/total deposits	0.8	0.0	0.1	0.1	0.1	0.1
Gross loans/total deposits	73.9	67.0	67.6	91.9	92.5	87.4
Market sensitivity						
Forex exposure/core capital[1]	1.9	6.8	6.9	-0.6	-1.1	-2.8
Forex loans/Forex deposits	2.8	0.4	5.3	4.4	5.1	5.3
Forex assets/Forex liabilities	103.6	106.0	114.8	78.9	93.2	77.7

Source: National Bank of Rwanda.

Table 6. Rwanda: Millennium Development Goals

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*88*	87	85	84	85
Employment to population ratio, ages 15-24, total (%)	*80*	79	75	73	73
Income share held by lowest 20%	-	-	5	-	-
Malnutrition prevalence, weight for age (% of children under 5)	-	*24*	20	18	12
Poverty gap at $1.25 a day (PPP) (%)	-	-	37	-	-
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	-	-	75	-	-
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	-	-	77	-	78
Literacy rate, youth male (% of males ages 15-24)	-	-	79	-	77
Primary completion rate, total (% of relevant age group)	45	-	23	*40*	70
Total enrollment, primary (% net)	-	-	*78*	*80*	99
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	17	-	26	49	56
Ratio of female to male primary enrollment (%)	98	-	97	103	102
Ratio of female to male secondary enrollment (%)	81	-	95	88	102
Ratio of female to male tertiary enrollment (%)	23	-	-	-	77
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	83	84	74	89	95
Mortality rate, infant (per 1,000 live births)	95	139	109	68	42
Mortality rate, under-5 (per 1,000)	156	275	183	108	60
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	-	-	31	39	69
Contraceptive prevalence (% of women ages 15-49)	-	*14*	13	17	52
Maternal mortality ratio (modeled estimate, per 100,000 live births)	910	1000	840	550	340
Pregnant women receiving prenatal care (%)	-	-	92	94	98
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	-	-	13	12	11
Incidence of tuberculosis (per 100,000 people)	291	514	326	181	106
Prevalence of HIV, total (% of population ages 15-49)	6	5	4	3	3
Tuberculosis case detection rate (%, all forms)	31	11	23	43	60
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	13	-	14	16	18
Improved sanitation facilities (% of population with access)	32	39	47	54	60
Improved water source (% of population with access)	62	64	66	68	69
Terrestrial protected areas (% of total surface area)	10	10	10	10	10
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	40	123	38	61	95
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	11	20	25	4	3
Internet users (per 100 people)	0	*0*	0	1	8
Mobile cellular subscriptions (per 100 people)	0	0	0	2	33
Other					
Fertility rate, total (births per woman)	7	6	6	5	5
GNI per capita, Atlas method (current US$)	350	220	230	260	510
GNI, Atlas method (current billion US$)	3	1	2	2	6
Life expectancy at birth, total (years)	33	30	47	52	55
Literacy rate, adult total (% of people ages 15 and above)	-	-	65	-	71
Trade (% of GDP)	20	31	31	37	41

Source: World Development Indicators.

[1] Figures in italics refer to periods other than those specified.

APPENDIX I. LETTER OF INTENT

Kigali, Rwanda November 12, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Ms. Lagarde,

1. The attached memorandum of economic and financial policies (MEFP) sets out the macroeconomic policies of the Government of Rwanda for the remainder of fiscal year 2013/14 and the medium term. The Government requests that these policies, which aim to maintain macroeconomic stability, sustain high rates of economic growth, further reduce poverty and income inequality, and continue public financial management and financial sector reforms, be supported by the IMF under a new policy support instrument (PSI). In this context, the Government also requests the approval of quantitative targets for end-December 2013 and end-June 2014 and structural benchmarks for this period, as set out in the attached MEFP.

2. A new PSI is, in the Government's view, the appropriate vehicle at the present time to maintain a close policy dialogue with the IMF and signal its commitment to sound policies to the international community. In the Government's view, support under a financing arrangement would not be appropriate as Rwanda currently has no IMF financing needs. Rwanda also has a long record of macroeconomic stability that the Government aims to safeguard through the implementation of the policies set out in the attached MEFP. The Government is determined to adhere to the timelines for implementation of the program, as laid out in the MEFP, and comply with the semi-annual review schedule under the new PSI.

3. Performance under the expiring PSI has remained satisfactory. As described in the MEFP, all but one quantitative assessment criteria (QAC) for the seventh review were met; the continuous QAC on non-concessional borrowing was not observed when Rwandair took advantage of an attractive financing opportunity to reduce its indebtedness to the Government. The Government is committed to enforcing and reinforcing the procedures that require all public entities to consult early with and seek approval from the Ministry of Finance and Economic Planning for the

contracting of any external loans. All quantitative indicative targets were met, as were the three structural benchmarks.

4. In light of this satisfactory performance and its continued commitment to sound policies, the Government requests the completion of the seventh review under the PSI. The Government also requests a waiver for the non-observance of the QAC on non-concessional borrowing. The Government also requests that the existing PSI arrangement be cancelled and that the new PSI become effective immediately.

5. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF on the adoption of these measures and prior to revisions to the policies contained in the MEFP in accordance with the IMF's policies on such consultation. In particular, the Government will consult with the IMF in advance of contracting any external loan on non-concessional terms.

6. The Government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

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

Sincerely yours,

/s/

Claver Gatete

Minister of Finance and Economic Planning

/s/

John Rwangombwa

Governor, National Bank of Rwanda

Attachment I. Memorandum of Economic and Financial Policies

November 12, 2013

I. INTRODUCTION

1. The Government of Rwanda remains committed to maintaining macroeconomic stability and sustaining economic growth and poverty reduction. The strategies to achieve these goals are set out in the second Economic Development and Poverty Reduction Strategy (EDPRS 2) for 2013-18. The Government and the IMF are cooperating on a three-year PSI comprising prudent macroeconomic policies and structural reforms in support of the strategies that underpin EDPRS 2 and Vision 2020. This MEFP reviews economic developments and program performance thus far in 2013 and describes policies and targets through June 2014 and the medium term.

2. The current PSI program expires in January 2014, this Memorandum of Economic and Financial Policies lays out the Government's objectives for the next three years.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth and inflation

3. Growth slowed in the first half of 2013, mainly because of cuts and delays in public spending as a result of delays and in some cases suspension of budget support disbursements and a shortfall in project grants. Even though government spending has normalized, growth for the year has been revised downward to 6.6 percent. Inflation has been subdued through September and is expected to be around 6.5 percent at end-year.

External Sector

4. Export performance during the first half of the year was strong, with exports of coffee and minerals particularly robust (export of goods grew by 51.4 percent in value terms) because of an increase in both volume and prices, while imports, especially of capital goods, were flat. There has been a pick-up of imports in the second half of 2013 due to capital goods imports for public investment projects. Services also performed strongly with receipts from tourism expected to increase by 11 percent in 2013. Overall, the current account deficit is projected to be slightly lower than originally estimated. However, attainment of the targeted cover of reserves of 4 months of

prospective imports of goods (3.8 months of goods and services) at end-2013 is within reach due in part to accumulation of unused proceeds from the euro bond.

Fiscal developments

5. Implementation of the FY2012/13 budget was challenging due to the delay and suspension of budget support funds. These developments led to postponements and cuts in non-priority expenditures. The Government revised the FY2012/13 budget in December to reflect the expected shortfall in official donor resources as well as the use of the proceeds from the euro bond planned for early 2013. For the fiscal year as a whole, domestic revenue collection exceeded the original budget target by 1.5 percent of GDP, with non-tax revenue, notably from peace-keeping operations, accounting for most of this over-performance but tax revenue also exceeded the originally targeted amount by 0.2 percent of GDP. Total grants disbursements were 3.8 percent of GDP short of target, with two-thirds of this amount the result of the shortfall in budget support. On the spending side, current outlays were 1 percent of GDP below the originally budgeted amount while capital outlays were 1.8 percent of GDP lower than originally budgeted. The lower spending under current expenditure was, by and large, due to the stoppage of new civil service recruitments including teachers and health personnel and reflected the cut in aid. The overall deficit (cash basis), excluding transactions related to the euro bond, was 0.3 percent of GDP lower than budgeted. The use of the proceeds of the euro bond was broadly in line with plans, although lower amounts were needed to repay unfavorable loans as was the provision of working capital to the Kigali Convention Center. Domestic finance was therefore 2.3 percent of GDP lower than projected.

Monetary and exchange rate developments

6. The National Bank of Rwanda (NBR) kept its policy rate unchanged from mid-2012 until June 2013 and the monetary stance tightened. The NBR lowered the key policy rate by 50 basis points in mid-June to ease monetary conditions and stimulate the credit to the economy amid low inflation outlook and slower-than-expected economic growth. The credit to private sector has so far moderately expanded by 7.6 percent between end-December 2012 and end-August 2013 compared to 14.3 percent initially projected for the whole year. Slowing credit growth was explained by low domestic demand associated with lower Government spending in the first half of 2013. This development has led to slower-than-expected increase in imports, attributed mainly to capital goods which have declined on annual basis by 21.3 percent in volume in the first eight months of 2013.

7. The exchange rate was fundamentally market driven. The spread between official and forex bureau rates peaked in early 2013 due to higher demand for imports and the shortfall in donor

funding. However, this spread has narrowed since May 2013 following improved foreign aid inflows and the successful issuance of the debut Rwanda euro bond.

Program performance

8. Notwithstanding the challenging environment, program performance has remained strong. Through June 2013, all quantitative targets were met and progress was made on the structural benchmarks (Table 1). However, in July, the QAC on non-concessional external borrowing was not observed when Rwandair availed itself of an attractive financing opportunity in order to lower its indebtedness to the government by US$50.7 million. The three structural benchmarks for the seventh review have been implemented (Table 2).

III. MACROECONOMIC OUTLOOK AND POLICY FOR 2013 AND FY 2013/14

Growth and inflation outlook

9. Even though government spending has normalized, growth for the year as a whole has been revised downwards by 0.9 percentage points to 6.6 percent. Growth is expected to be driven by construction sector and a recovery of the services sector in the second half of the year in line with foreseen high public spending and credit to the private sector. Inflation in September 2013 reached 5.1 percent and is projected at end-year to be around 6.5 percent. Over the medium term, the NBR will aim to achieve an annual average inflation of 5 percent.

2013/14 revised budget

10. The fiscal framework for 2013/2014 has been revised to take into account some policy changes. On the resource side, the revision has included the accrual of higher tax revenues arising from doing away with tax exemptions of projects as well as the accrual of some receipts arising from allowing the Revenue Authority to collect some taxes that are currently being collected by local government administrations. In addition, the revision also allowed the inclusion of the recent loan repayment of Rwandair to Government under net lending. On the expenditure side, the revised budget also includes expenditures for export promotion activities aimed at increasing non-traditional exports. As a result of these changes, total revenue and grants are now projected at 25.2 percent of GDP, 0.8 percent of GDP higher than in the original budget. Domestic tax collections are now projected to rise by 0.9 percent of GDP, from 14.2 percent of GDP in FY2012/2013 to 15.1 percent of GDP. The inclusion of the local government taxes is yielding 0.3 percent of GDP whilst 0.4 percent will accrue from on-going measures as well as new ones to be implemented from January 2014. The important new measures are:

a) Removal of incentives granting VAT exemptions on imports for investment certificate holders;

b) Removal of the article granting employment discount expected to yield about RWF 1.1 billion, or 0.02 percent of GDP in FY2013/14;

c) Increase of excise duties on airtime from 8 percent to 10 percent expected to yield about RWF 0.98 billion in FY2013/14 and RWF 1.97 billion or 0.04 percent of GDP a year thereafter;

d) Implementation of the renegotiated double taxation agreement (DTA) with Mauritius—putting tax rate of 10 percent for dividends and interest and 12 percent for management fees yielding about RWF 1.96 billion, or 0.04 percent of GDP, in FY2013/14;

e) Royalty tax on mining—implementing the recently adopted law that introduces two rates of 4 percent and 6 percent tax on basic metals and precious metals/stones respectively yielding RWF 1.67 billion or 0.03 percent of GDP in FY2013/14 and growing to RWF 3.35 billion, or 0.06 percent of GDP in FY2014/15.

11. On the outlays side, total expenditure and net lending at RWF 1584 billion is RWF 18.1 billion (0.3 percent of GDP) lower than the original estimate of RWF 1602.1 billion. Higher recurrent spending is offset by lower capital expenditure and accounts for the lower level of total spending. On the recurrent side, a rise from RWF 710.4 billion (13.2 percent of GDP) to RWF 742.6 billion (14.1 percent of GDP) is mainly on account of new recruitment of additional essential public servants, including teachers, health personnel, and other technical staff. Last year, all new recruitments were suspended due to the delays and in some cases suspension of donor disbursements. The lower capital spending is due to lower disbursements of capital grants, including from Global Fund as well as project loans. The revision also includes new expenditures of RWF 23.4 billion (0.4 percent of GDP) to finance export promotion activities aimed at increasing non-traditional exports. The overall cash deficit at 5.1 percent of GDP is slightly lower than the 5.5 percent of GDP in the original budget.

IFMIS Implementation

12. The Government has been undertaking a number of public financial management (PFM) reforms with the IFMIS implementation being one of the major undertakings under the Government PFM reform strategy (2008–12). To-date the IFMIS has been successfully implemented in over 200[1]

[1] This includes 60 central government entities, 31 districts & Kigali City, 18 embassies, 30 district pharmacies, 30 district mutuelle de santes, 14 sites for the lower prosecution general offices, 15 sites for the Rwanda Correctional Services and 14 sites for the lower & intermediate courts.

government entities. With this effort, the integrated financial management information system (IFMIS) now forms the centre piece of the government financial management processes for budget preparation, budget execution, accounting and financial reporting. The current IFMIS has involved the implementation of core functionalities (budget preparation, accounts payable; accounts receivable and general ledger) and currently the government is in the process of building on the success realized so far by extending the system to the remaining government entities and this is considered a key component of the PFM strategy for 2013-18. The greatest impact of the system so far has been the provision of quality financial management information to support policy and decision making in government. Online budget preparation is possible and faster for the entities that are online. Online control over budget ceilings is also possible. Quality of budget reports has significantly improved. Production of financial reports by the Budget Directorate, Accountant General's Office and the budget agencies is now performed with ease, speed and accuracy. Sectors and entities that are online are able to make faster and informed expenditure decisions. The Ministry of Finance and Economic Planning (MINECOFIN) is able to upload the budget execution module with the approved budget figures automatically from the budget preparation module (Budget Master), which has not only improved operational efficiency in MINECOFIN, but has facilitated the enforcement of commitment controls as well as increasing fiscal discipline. Donor confidence in the financial and fiscal system of the Government has also increased. However, the Government recognizes that the full extent of benefits that an IFMIS is capable of delivering are yet to be achieved. Accordingly, the Government plans to expand the IFMIS activities further by extending the IFMIS to the independent projects with a plan to cover at least twenty of the projects by the end of December 2014 (structural benchmark).

Monetary and exchange rate policies

13. The NBR will maintain a prudent stance of monetary policy in the course of the fourth quarter of 2013 and in 2014. The reserve money program targets have been adjusted accordingly and annual credit growth is projected to be limited at 12.4 percent and 13.7 percent end-2013 and end-2014, respectively. The exchange rate will remain market driven and the NBR will continue using the exchange rate corridor system while determining the official exchange rate. The NBR aims to maintain the spread between the official and market exchange rates at the normal transaction levels prevailing before mid-2012 and to keep official reserves around a minimum level of 4 months of prospective imports of goods.

IV. OBJECTIVES FOR THE THREE-YEAR PSI PERIOD

NEW THREE-YEAR PSI

14. The Government recently launched its EDPRS 2 which is to be implemented over the next five years to bring Rwanda to the brink of the Vision 2020 objective of achieving middle income status. The EDPRS 2 sets ambitious targets in terms of economic development and poverty reduction. The policies in this PSI program aim at ensuring consolidation and sustainability of development gains achieved over past years, and setting the stage for the high and sustainable growth that translates into significant reduction of poverty, to below 30 percent from the current level of 45 percent.[2]

15. Hence, the objectives of this PSI program center around four key pillars:

- Private sector development: Strong private sector development is an important pillar of the Government's economic transformation strategy during the EDPRS 2 period. In this regard, the Government intends to continue its investment program in strategic infrastructure to reduce the cost of doing business while at the same time deepening its reforms to continue improving the business environment.

- Exports promotion: The Government recently adopted an export strategy aimed at increasing export earnings through broadening of the export base. The strategy focuses on a limited number of products with a view to diversify into non-traditional exports that are particularly agro-based while taking advantage of traditional exports to extend production and add value.

- Fiscal consolidation: In view of the important investment spending that the Government will need to undertake, creation of fiscal space through accelerated domestic resource mobilization and rationalization of spending remains a priority under this program. This pillar and the one on exports are aligned to the Government ambitions of reducing dependence on external aid.

- Financial sector development: Financial sector development is the fourth pillar of the program as deepening financial inclusion is seen as a means to further ensure connection of the population to the market while increasing monetization of the economy. The financial

[2] Latest EICV data are dated 2011.

sector development program (under the second financial sector development program—FSDP2) will also include a financial literacy campaign that emphasizes increased saving. Finally, deepening financial reforms and strengthening capital markets is expected to allow mobilization of cheaper resources for private sector investment to flourish.

16. **The medium-term macroeconomic framework** incorporates the Government's macroeconomic policies for FY2013/14 and the medium term. It reflects and supports the Government's commitments laid out in the EDPRS 2 and Vision 2020. Real GDP growth is projected to average about 7.5 percent per year and represents our baseline assumption on the basis of existing resource estimates. We will continue to look for and mobilize additional resources and when successful will revisit our medium-term growth projections.

17. Implementation of sound fiscal policy remains the main objective of the Government and is also the primary instrument to achieve growth, economic development, and prosperity. The major objective of fiscal policy in FY2013/2014 and the medium term is to accelerate domestic resource mobilization and improve expenditure prioritization to reduce reliance on external donor financial assistance. In this regard, total revenue and grants are projected to rise only marginally from 25.2 percent of GDP in FY2013/2014 to 25.4 percent of GDP by FY2015/2016. However, consistent with the policy to reduce the reliance on external financing, total grants are projected to decline from about 8.8 percent of GDP in FY2013/2014 to 6.5 percent of GDP by FY2015/2016. A large share of resources for Government spending during this period will therefore come from domestic sources. Total tax revenue is therefore projected to rise from 15.1 percent of GDP in FY2013/2014 to 17.7 percent of GDP by FY2015/2016, showing a rise of 2.6 percent of GDP during this period.

18. On the spending side, total expenditure and net lending is projected to decline from 30.1 percent of GDP in the revised budget of FY2013/2014 to 27.9 percent of GDP by FY2015/2016, reflecting the increasing prioritization of public expenditures. Consistent with the projected decline in public spending, and in line with gradual fiscal consolidation, the overall cash deficit is also projected to decline from 5.1 percent of GDP in FY2013/2014 to 2.6 percent of GDP by FY2015/2016. The projected fiscal stance is in line with Rwanda's medium-term debt strategy (MTDS) which aims to ensure the country's debt is maintained at a sustainable level over the medium term.

External sector development

19. On the external front, public investment complemented with appropriate private sector finance, including foreign direct investment and private investment in the non-traditional commodities areas, are expected to contribute to robust increase in export earnings in the period

2013–2016. The growth in commodities will be complemented by a robust growth in services, particularly in tourism. However, as a result of the strong growth in imports, particularly of capital and intermediate goods to support both public and private sector investment, the current account deficit is projected to remain above 10 percent until 2015, before declining to 8.4 percent of GDP in 2016. In order to mitigate possible temporary external shocks, official reserves will be maintained at not less than 4 months of prospective imports of goods in the medium term.

Monetary policy

20. Monetary policy will aim to simultaneously ensure adequate liquidity to promote sustainable growth and achieve the headline inflation rate target of 5 percent over the medium term. Efforts will also continue to enhance the flexibility of the monetary policy framework, particularly the management of the exchange rate. Implementation of the second financial sector development plan (FSDP 2) will focus on developing financial markets and further expand access to financial services. Policy formulation in all areas will take account of the East Africa Community (EAC) integration process.

21. The Government recognizes the vulnerabilities of the Rwandan economy and the risks to the medium-term outlook. The main vulnerabilities are the small and narrow export base and heavy reliance on external aid. Policies aimed at promoting export expansion and diversification and increased domestic resource mobilization are intended to address these vulnerabilities but it will take time to significantly reduce these vulnerabilities. There is also uncertainty about aid inflows over the medium term, not least because Rwanda's multilateral donors are yet to complete the funding of their next financing cycles. Rwanda's prospects are also subject to risks from the global economic environment.

V. MACROECONOMIC AND STRUCTURAL REFORM POLICIES FOR THE MEDIUM TERM

Sustaining growth and poverty reduction

22. The new PSI is aligned to the Government's recently launched second Economic Development and Poverty Reduction Strategy (EDPRS 2). The dual objective of the EDPRS 2 is to achieve sustained economic growth to bring Rwanda to the brink of middle income country status while ensuring fast poverty reduction. While Rwanda has made substantial reforms towards improving the business environment, the new program will focus on reducing the cost of doing business through increased investment in infrastructure to ensure both internal and external

connectivity while conducting further reforms towards removing remaining barriers to private sector investment, including through establishing regular public-private dialogue forums to address emerging issues. The strategy encompasses facilitated access to public goods (including land, access roads, etc) for investors in priority exports sectors, as increasing exports is a key focus of the program going forward. The government also envisages further facilitating private sector activities in the exports sector by facilitating access to financing through various interventions that include enhancing the working of the capital market, encouraging lines of credit to small and medium-sized enterprises through banks and micro-finance institutions, and facilitating joint ventures to crowd-in private investment in those exports sectors. The Government remains committed, under the program, to ensure that growth is inclusive; as such increased agricultural productivity, that has been an important factor for poverty reduction in the recent past, will be sustained. This will be done through scaled up investments in irrigation to reduce dependency on good weather, while strengthening involvement of private investment in agriculture through a reform of farming models and encouraging provision of private extension services. Efforts to connect rural communities and the poor to the market are also part of the agenda through building of rural infrastructure (rural roads, energy, post-harvest infrastructure, etc.) and deepening access to financial services in rural areas. The program further ensures that growth will translate into job creation as we emphasize skills development for rural and urban communities to boost the average productivity of our population.

Financing strategic investments

23. Consistent with the EDPRS 2 objectives of increasing growth, the Government is committed to implement several strategic investment projects to boost economic performance in the medium to long term. Some of the important projects are the Bugesera International Airport, the regional railway project, the bulk petroleum storage facility, and an oil pipeline. The Government recognizes that implementing these projects is an essential step toward higher broad based growth in line with both EDPRS 2 and Vision 2020. Nevertheless, it also recognizes the constraint associated with raising financing for such large projects and is cognizant of the macroeconomic impact of overly onerous borrowing for the financing of the projects. It is therefore committed to persistently pursue all available financing options but will ensure that these will not jeopardize the country’s debt sustainability and adequately balances the costs and risks associated with the financing. Cost-benefit analysis and feasibility studies are being conducted on all the projects to ensure their viability so that they do not become a burden on the balance sheet of the public sector.

Revenue mobilization

24. The Government has embarked on a comprehensive tax reform strategy aimed at increasing domestic resource mobilization through strengthening tax administration and broadening the tax base. A medium-term tax reform plan has been developed and identifies tax policies and administrative measures aimed at improving taxpayers' compliance, reducing exemptions, strengthening risk management and broadening the tax base.

25. Regarding revenue administration, efforts will focus on furthering gains achieved on existing measures and introducing a number of other measures. Reforms will include, but not be limited to:

- Expand usage of electronic billing machines, fully enforce and monitor their usage and conducting more sensitization workshops to the taxpayers and to the general public.
- Increase the take-up rate for e-filing and payment for domestic taxes and pension and medical contributions through sensitization and training.
- Introduce mobile phone technology for payment and filing of taxes.
- Introduce a new system to facilitate e-payment of non-tax revenues collected by RRA.
- Automate revenue reconciliation and accounting system to ensure quick and accurate reporting of revenue collections.
- Develop RRA data warehouse system.
- Operate electronic cargo tracking system (ECTS) to ensure the protection of cargo from source to destination.
- Implement gold card scheme in customs.
- Implement clearance of goods at the port of Mombasa under the Single Customs Territory arrangement between Kenya, Uganda and Rwanda.
- Follow up the construction of one-stop-border concept at Rusumo and Kagitumba border posts with 24 hour service to facilitate cross border trade.

26. Starting with the FY2013/14, two specific measures have been included in the fiscal framework one on local government (decentralized entities) taxes and the other on externally financed projects taxes.

- As part of the fiscal decentralization process, collection of three types of taxes had been devolved to decentralized entities. These were: the business licence tax, the property tax, and the rental income tax. While the potential yield from the three taxes is significant, collections over the last few years have been minimal, owing primarily to efficiency issues in the collection but also to incomplete and inaccurate cadastre information. A decision was therefore taken to mandate the RRA to collect the taxes on behalf of the decentralized entities. With RRA's comparatively better efficiency in tax collection and the now completed land registration and land titles issuance rendering cadastre information complete and accurate, it is expected that tax revenue yields from the three categories of taxes will improve. Local government taxes are expected to yield a cumulative 1.6 percent of GDP between FY2013/14 and FY2015/16.

- Agreements between development partners and the Government for the financing of development projects usually include clauses stipulating that development partners' funds are not meant to be used to pay domestic taxes. Externally financed projects have therefore in the past been exempted from payment of taxes. A decision was taken to lift the exemption and have externally financed projects also pay taxes. Collections are expected to yield a cumulative 1.5 percent of GDP between FY2013/14 and FY2015/16.

27. Regarding the medium term beyond FY2013/2014, the Government will not only accelerate on-going measures aimed at increasing tax revenue, but will also implement other additional measures to boost revenue collections. These include, but are not limited to:

- Undertake a comprehensive review of the mining taxation regime and taxation of the agricultural sector, with the support of IMF technical assistance.

- Review the VAT law to broaden the base and remove unnecessary exemptions and zero ratings to particular sectors.

28. These tax measures will translate into a net tax effort of 2.4 percent of GDP between FY2013/14 and FY2015/16 that coincide with the period of the new PSI program.

29. Starting next year, the Ministry of Finance and Economic Planning will prepare tax expenditure covering tax revenue foregone (structural benchmark) as one of the annexes of the Budget Framework Paper (BFP) to be submitted to Cabinet and Parliament.

Public Financial Management

30. The government will continue to pursue PFM reforms to strengthen the effectiveness, transparency, and accountability of the use of public resources. Improving PFM in subsidiary entities will therefore constitute a cornerstone of PFM reforms going forward. In order to support service delivery, service delivery units such as district hospitals, district pharmacies, health centers, *mutuelle de santé*, primary and secondary schools are defined as subsidiary entities. These agencies receive funds from various sources including: (i) direct transfers from Ministry of Finance and Economic Planning for teachers, hospital and *mutuelle* employee salaries which are provided for in the district budget; (ii) other sector-specific transfers from line ministries (inter-entity transfers) to implement particular program (e.g. health performance based grants); (iii) earmarked transfers from district budgets; iv) direct contributions from development partners; and v) own revenue sources. The subsidiary entities at the district level are reliant on their respective districts to request disbursements of earmarked grants on their behalf – they have no direct relationship with MINECOFIN, even though some transfers are paid directly to their bank accounts. The practice of direct transfers to subsidiary entities evolved because of the delays that were experienced in transferring funds. Sectors are also subsidiary entities that collect revenues on behalf of districts. The sectors receive funds from districts including: (i) 50 percent of fees from the civil registration services rendered by the sector; (ii) 50 percent of fees from fines received at the sector level; (iii) funds allocated by the district; and (iv) grants and bequests.

31. Various studies and reviews including the recently conducted field visits to some of the subsidiary entities have shown a wide range of problems affecting the accounting and financing reporting of these entities to which MINECOFIN is pursuing measures to address the problems and improve financing reporting of the subsidiary entities.

32. The first step in improving financial reporting of the subsidiary entities will be the development of an Easy-to-Use Application for accounting and reporting. The overall objective of the development and implementation of an Easy-to-Use Application for the subsidiary entities will be to achieve accountability of the subsidiary entities through the submission of appropriate reports. It is planned that this will be undertaken in three phases over three successive financial years starting with a pilot implementation during the current FY2013/14.

- Phase 1**:** Will involve the development and pilot implementation of the system for production use by a few selected subsidiary entities across all districts. This phase is to be achieved during FY2013/14.

- Phase 2**:** Will involve an initial rollout of the system to a number of entities across all the districts. During this phase, it is also planned that the accounts of the subsidiary entities using the system will be consolidated in the accounts of the respective districts and consequently included in the preparation of the consolidated Government accounts; and

- Phase 3: Is to cover the remaining subsidiary entities in a further rollout of the system (structural benchmark) as well as develop an automatic interface between the subsidiary entities' accounting system and the IFMIS to accommodate the automatic financial reporting by the subsidiary entities in the preparation of the government consolidated accounts**.**

Monetary and exchange rate policy

33. In order to progressively move towards the use of interest rate as the operational target for monetary policy, the NBR intends to put in place arrangements to improve the monetary transmission mechanism. To this effect, the NBR is committed to stimulating the development of the interbank and secondary markets for debt securities. Furthermore, the NBR will continue to take the lead in the reorganization of the primary market by broadening the investor base and ensuring a regular issuance calendar for both ordinary and benchmark bonds. In addition, the NBR will transform the short-term monetary policy instruments into medium to long term maturities to improve liquidity management.

34. With regard to improving communication strategy, the NBR is planning to begin to produce inflation reports on quarterly basis in the first quarter of 2014.

35. In addition to IMF and International Growth Center (IGC) capacity building partnerships, the NBR has initiated the process of having partnership agreements with the University of Witwatersrand of South Africa to support the NBR in training their staff of research and monetary policy and economic analysis departments at PhD level through its program of research. This would be supported by training on econometric tools, co-organization and participation in international conferences and seminars, exchanging views on macro-economic developments and policies, and joint publications.

Financial sector development

36. Following the Cabinet approval of the FSDP 2, the NBR will embark on looking for financing of the key projects (identified under four programs) and at the same time building in-house capacity to ensure smooth implementation. Some actions are already being implemented, such as reviewing the NBR law, banking law, drafting the deposit insurance law, and consumer protection assessment.

FSDP 2 will aim to expand outreach, efficiency, innovation and development of institutions and markets. The following are the top four prioritized programs: (i) action plan for financial inclusion, (ii) developing institutions, markets and supporting infrastructure, (iii) investments and savings to transform the economy, and (iv) protecting consumers and maintaining financial stability. Already, some initiatives aimed at promoting financial inclusion, such as the credit information awareness campaign, customer service delivery for financial institutions and designing the booklet for frequently asked questions in the financial sector have been undertaken.

37. **Ensuring financial sector soundness and stability**: the Banking law has been drafted internally and reviewed by an external expert with the facilitation of the IMF through AFRITAC East. It is expected that the draft will be discussed and approved by the NBR's Board in December 2013 and subsequently lead to the development of new regulations such as on general provisioning. Similarly, the Board-approved Deposit Insurance Law will continue to be tracked for finalization and thereafter the development of its implementing regulations. The project of legal and regulatory reform is also intended to cater for Basel II/III project implementation. Changes to legal and regulatory frameworks include: Banking Law amendments and its implementing regulations (especially regulation on general provisioning), completion of the draft new Deposit Insurance Law, amendment of the Insurance Law and its regulations and completion of the legal and regulatory framework for pensions.

38. **Strategies have been put in place to contain the rising trend of non-performing loans (NPLs)**. Following a period of rapid credit expansion, NPLs have risen in the wake of the slowdown in economic activity caused by the disruption of aid inflows. Measures to deal with NPLs include close monitoring and enforcement of strategies committed by banks to contain NPL, cleaning of books (writing off unrecoverable loans), strengthening the banks' risk management functions, capacity building for banks' staff in charge of credit analysis and administration and the conduct of regular onsite inspections.

39. **Expanding financial market access and deepening.** As indicated in the FSDP 2, financial inclusion is the core program going forward, for the country to attain the set target of above 80 percent of the population having access to finance. Priority activities include: consolidation and automation of savings and credit cooperatives (SACCOs), complete micro-insurance diagnostic study and infrastructure, consumer protection and financial literacy, and develop framework for mobile money agent banking.

40. **Concerning financial inclusion**, the NBR will continue to conduct financial awareness campaign as a means of widening financial access. The capacity of SACCO/MFI inspectors will also

be strengthened. Consumer protection and financial literacy diagnostic review has been conducted and will be discussed with stakeholders in early November 2013 prior to its finalization. Thereafter, an action plan to implement recommended actions will be developed. UMURENGE SACCOs will be consolidated to form a cooperative bank at national level by end-December 2015. The program aims at enhancing institutional capacity of SACCOs, including the automation of their operations which will be undertaken during the consolidation. Mobile money and agent banking is also another channel of distributing financial services. RSwitch and VISA are present in the Rwandan retail payment market and competition and market forces are now capable of guiding developments. The NBR will continue to require ATMs and POS machines to be interoperable (i.e. usable by cards from both systems) by putting in place a policy guideline on interoperability. Further measures will be undertaken to move high-value payments to the RTGS, where settlement is faster and risks are better managed. This will be achieved by introducing a value cap on checks and EFTs. The NBR will introduce check capping by January 2014. In addition, mobile network operators (MNO) are moving into the cross border market. The NBR is supportive and mainly requires operators to address operational and foreign exchange risk issues prior to authorization. Annual data on cross-border remittance flows are published in the balance of payments statistics. Data will also be published on a more regular basis as part of payments system reporting.

41. **Capacity building and technical assistance:** Capacity building is a key pillar for the successful implementation of FSDP 2. Capacity building initiatives especially for new inspectors have been carried out. Currently, the Bank Supervision Department team is made up of 17 staff and six more inspectors will be recruited. The capacity building for bank examiners is a continuous process. Training pursued includes in house training, seminars, and workshop out of the country as well as the online training offered by the Institute of Financial Stability (FSI Connect) and professional courses. Building capacity and professionalism in the financial sector (i.e. banking, insurance, microfinance, pension and their services providers) is a critical success factor to FSDP 2. Therefore, continuous capacity building from the supervisory and market players is necessary. Core training curriculum will have to be further developed and delivered to NBR supervision staff as well as for market players.

EAC integration

42. EAC countries are at the final step of adopting an East African Community Monetary Union Protocol which will set, among others, macroeconomic convergence criteria as a precondition for ascending the single currency area. It will also establish a transition period towards the single currency area during which countries will have to align their economies to set criteria and adjust their policies accordingly. The Government is looking to implementing this protocol as greater

benefits from regional integration are being seen, particularly after entering the common market in 2009.

Program monitoring

43. Table 1 contains new end-December 2013 and end-June 2014 QACs for the first and second reviews under the new PSI and new quantitative indicative targets for end-December2013 and end-June 2014 consistent with the macroeconomic framework described herein and agreed with IMF staff. It is expected that the first review will be completed by end-June 2014 and the second review by end-December 2014. Table 2 contains the structural benchmarks under the new PSI for the next 12–18 months.

Table 1. Quantitative Assessment Criteria and Indicative Targets[1]

(Billions of Rwandan francs, unless otherwise indicated)

	June 2013 Prog	June 2013 Adj. prog	June 2013 Actual	Difference	Status	Dec. 2013 Prog	June 2014 Prog
Assessment criteria [2]							
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	542.7	529.4	541.1	11.7	Met	511.7	459.0
Reserve money (ceiling on stock) (upper bound) [5]	203.9	203.9	199.6	-4.3	Met	218.0	231.1
Reserve money (ceiling on stock) [5]	199.9		195.7			213.7	226.5
Reserve money (ceiling on stock) (lower bound) [5]	195.9		191.8			209.5	222.0
Net domestic financing (ceiling on flow)[4, 6]	-58.4	-45.1	-48.5	-3.4	Met	22.2	86.7
New nonconcessional external debt contracted or guaranteed by the public sector (US$ millions) (ceiling on stock) [9]	655.0	655.0	705.7	50.7	Not Met	0.0	0.0
External payment arrears (US$ millions) (ceiling on stock)	0.0	0.0	0.0	0.0	Met	0.0	0.0
Indicative targets							
Domestic revenue collection (floor on flow) [6]	361.5	361.5	390.3	28.8	Met	787.1	466.4
Net accumulation of domestic arrears (ceiling on flow) [6]	-42.4	-42.4	-43.5	-1.1	Met	-50.8	-1.9
Consolidated domestic debt of public sector (ceiling on stock, eop) [4, 7]	313.8	327.1	307.6	-19.5	Met	337.3	337.6
Total priority spending (floor on flow) [6]	280.9	280.9	298.8	17.9	Met	587.1	357.1
Memorandum items:							
Total budget support (US$ millions) [6, 8]	260.3		199.3	-61.0		487.8	100.2
Budget support grants (US$ millions)	246.8		185.1	-61.8		473.6	100.2
General budget grants (US$ millions)	146.8		147.9	1.1		362.1	100.2
Grants from Global Fund (US$ millions)	100.0		37.2	-62.8		111.6	0.0
Budget support (loans, US$ millions)	13.5		14.2	0.7		14.2	0.0
Euro bond (US$ millions)	400.0		400.0	0.0		400.0	400.0
Unused euro bond proceeds (US$ millions)	180.0		219.0	39.0		121.2	--

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).
[2] Assessment criteria for NFA, RM, NDF are for end-December 2013 and end-June 2014 but are continuous for NCB and EA.
[3] June 2013 numbers are at the program exchange rate of RWF 604.14 per U.S. dollar. Dec 2013 and June 2014 numbers are at the new program exchange rate of RWF631.41per U.S. 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. Assessment criterion applies to upper bound only. See TMU for details.
[6] Numbers for 2013 are cumulative from 12/31/2012, and those for 2014 are cumulative from 12/31/2013.
[7] Excluding NBR's debt issued for monetary policy purposes. See TMU for details.
[8] Excluding demobilization and African Union peace keeping operations, HIPC grant, and COMESA compensation grant.
[9] For end-December 2013 and end-June 2014, cumulative since end-June 2013.

Table 2. Structural Benchmarks

Policy Measure	Target Date	Macroeconomic rationale	Status
For 7th Review			
Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System	End-September 2013	To improve budget preparation, implementation and reporting	Met
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.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Met
MINECOFIN/RRA to prepare a medium term revenue mobilization plan	End-June 2013	To increase tax revenue mobilization.	Met
For New PSI			
Revenue Mobilization			
Prepare tax expenditure budget covering main tax expenditures.	Annually, starting end-June 2014	To enhance revenue mobilization.	
Revise exemption and zero-rating schedules under the VAT-code.	End-June 2014	To enhance revenue mobilization.	
Implement plan for better enforcement of tax payer compliance.	End-June 2014	To enhance revenue mobilization.	
Revise legislation on the taxation of property.	End-Dec 2014	To enhance revenue mobilization.	
Prepare legislative proposal for new tax regime for agriculture.	End-Dec 2014	To enhance revenue mobilization.	
Prepare legislative proposal for new tax regime for mining.	End-Dec 2014	To enhance revenue mobilization.	
Public Financial Management			
Pilot the extension of IFMIS to 20 development projects	End-June 2014	To strengthen budget execution and controls.	
Review the block grant formula on the basis of the Local Government Revenue Potential Study	End-June 2014	To enhance collection of districts own revenues.	
Sub-national entities (416) to produce monthly, quarterly, and annual financial reports using a uniform template.	End-Dec. 2015	To improve comprehensiveness and transparency of intergovernmental transfers.	
Monetary and Exchange Rate Policy			
Prepare plan, based on MCM TA recommendations and NBR assessment, for strengthening monetary and exchange rate operations.	End-March 2014	To strengthen monetary and exchange rate operations and foster greater exchange rate	
Use Treasury bills (or other tradable securities) as the underlying collateral in liquidity absorbing repos.	End-June 2014	To develop money market instruments.	
Issue Treasury bills with maturities of six months and longer as a monetary policy instrument to absorb longer-term liquidity.	End-Dec 2013	To develop money market instruments.	
Start publishing money market rates (interbank, repo, and T-bill)for different maturities bi-weekly.	End-Dec 2013	To develop money market instruments.	
Start publishing quarterly inflation reports.	End-March 2014	To improve transparency of monetary policy.	
Financial Sector Development			
Design a deposit guarantee scheme.	End-June 2014	To increase confidence in banking system.	
Statistics			
NBR to gather high frequency data and undertake economic sentiment surveys.	End-Dec 2013	To improve quality and timeliness of economic data.	

Attachment II. Technical Memorandum of Understanding

As of November 12, 2013

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period December 2, 2013–November 30, 2016 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) guides the new PSI.

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 December 31, 2013 and June 30, 2014 (the test dates) throughout the program period:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow of net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new non-concessional 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 of domestic revenue collection of the central government;
- Ceiling on flow of net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow of priority spending.

5. Assessment criteria on contracting or guaranteeing of new non-concessional 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 2012 rates, apply for 2013:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2013
Rwanda Franc (per US$)	631.41
Euro	1.3194
British Pound	1.6144
Japanese Yen (per US$)	83.5778
SDR	1.5386

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 (AC)

8. **A ceiling applies to NDF**. The ceiling for December 31, 2013 is cumulatively measured from December 31, 2012, and for June 30, 2014 cumulatively from December 31, 2013.

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

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

- Consolidated credit to the government from the banking system (NBR and commercial banks, as recorded in the monetary survey), including credit to the government, provinces and districts. The outstanding consolidated government debt held by the banking system,[1] includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the pre-war government and the 1995 devaluation [2], as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

- less total government deposits with the banking system (as recorded in the monetary survey), including in the main treasury account, the accounts of line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, the privatization account, and the accounts of 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 Fund money meant for the private sector, counterpart funds, and *fonds publics affectés*).

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

Adjusters to NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[3] (defined in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP), up to a maximum of US$80 million, evaluated in Rwandan francs at the program exchange rate.

- The ceiling on NDF will be adjusted *downward* by the extent to which in Rwandan francs at the program exchange rate the unused proceeds of the US$400 million euro bond issued in April 2013 exceed US$121.2 million by end-December 2013.

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[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 receivable.

[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] Budgetary grants exclude COMESA and HIPC grants, but include Global Fund.

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

12. **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, 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 (IT)

13. A floor applies to domestic revenue. The floor for December 31, 2013 is cumulatively measured from December 31, 2012, and for June 30, 2014 cumulatively from December 31, 2013.

14. **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.

15. **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 (IT)

16. The floor applies to priority spending of the government. The floor for December 31, 2013 is cumulatively measured from December 31, 2012 and for June 30, 2014 cumulatively from December 31, 2013.

17. **Definition.** Priority expenditure 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 EDPRS2. Priority expenditure is monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

18. **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 (IT)

19. A ceiling applies to net accumulation of domestic arrears of the government.[4] The ceiling for December 31, 2013 is cumulatively measured from December 31, 2012, and for June 30, 2014 cumulatively from December 31, 2013.

20. **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).

21. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous year's 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 non-concessional external debt of the public sector (AC)

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with non-residents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP which applies continuously from December 2, 2013 to October 31, 2016. 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.

23. **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 50 percent of the shares or

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

the ability to determine general corporate policy).[5] This definition of public sector excludes the Bank of Kigali.

24. 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.

25. **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.[6] The discount rates used for this purpose is 5 percent.

26. **Definition of debt** for the purposes of the limit in the QAC table 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) 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:

[5] 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.

[6] 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.

(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 (AC)

27. 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 (IT)

28. For program purposes, domestic debt (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 11), 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 11.

- The ceiling on DD will be adjusted *downward* by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US$400 million euro bond issued in April 2013 exceed US$121.2 million by end-December 2013.

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

29. **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 (AC)

30. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2013 and for June 30, 2014.

31. **Definition.** NFA of the NBR in Rwandan francs is 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 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 Rwandan 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 Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate.

- The floor on NFA will be adjusted *downward* (*upward*) by the extent to which actual encumbered reserve assets are lower (higher) than programmed encumbered reserve assets, evaluated in Rwandan francs at the program exchange rate.[7]

- The floor on NFA will be adjusted *upward* by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US$400 million euro bond issued in April 2013 exceed US$121.2 million by end-December 2013.

- The floor on NFA will be adjusted *downward* by the amount of expenditure for food imports in the case of a food emergency, evaluated in Rwanda francs at the program exchange rate.

32. **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, including breakdown of assets that are pledged or encumbered. 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 (AC)

34. A ceiling applies to the stock of reserve money for December 31, 2013 and June 30, 2014 as indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. The ceiling is the upper bound of a reserve money band (set at+/- 2 percent) around a central reserve money target).

35. The stock of reserve money 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.

[7] The programmed amount of encumbered reserve assets stands at zero at December 31, 2013 and June 30, 2014.

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 TMU 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 non-concessional 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 TMU Table 1. The information should be mailed electronically to the Fund. (email: afrrwa@imf.org).

TMU 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).

Appendix II. Joint Bank-Fund Staff Debt Sustainability Analysis Update

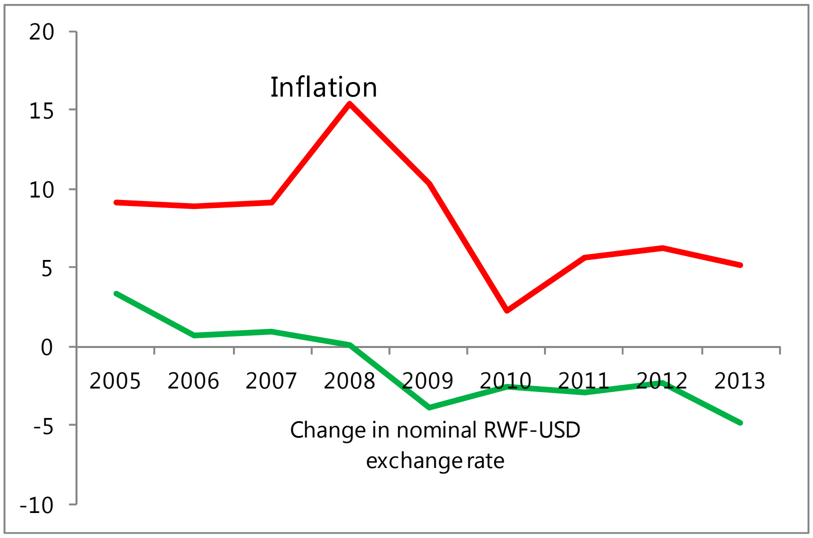
In the period since the last debt sustainability analysis (DSA) update in 2012, Rwanda has maintained its prudent policy with regards to the accumulation of public debt. The estimated external debt of the public sector is expected to remain low at about 21 percent of GDP by end-2013 and primarily consists of concessional borrowing, while domestic debt has declined to be about 8 percent. Rwanda was able to take advantage of positive market sentiment and successfully issue a US$400 million Eurobond in April 2013, the proceeds of which have been used to pay down more expensive debt and to complete large investment projects. Rwanda's debt profile also continues to improve. In particular, Rwanda's export performance in 2013 improved significantly on the back of new investments, including by foreign investors, in the mining sector. Further, the Country Policy and Institutional Assessment (CPIA) which assesses the quality of a country's present policy and institutional framework has classified Rwanda as a strong performer, leading to higher thresholds for assessing debt sustainability. As a result, Rwanda's external debt is assessed to remain below the indicative thresholds under all scenarios examined. Therefore, Rwanda's risk of debt distress is judged to have improved from "moderate risk" to "low risk".

I. Background and Recent Economic Developments

40. Rwanda has enjoyed buoyant growth in recent years, contributing to impressive gains on many fronts. Since 2008, growth has averaged 8.2 percent per annum, driven by strong public and private investment. Rwanda's impressive growth performance has been matched by strong gains in poverty reduction and other development indicators. For instance, the proportion of the population living below the national poverty line has fallen from 57 percent in 2006 to 45 percent in 2011, the latest year for which data is available. Other indicators such as access to schooling and healthcare facilities have also improved significantly.

41. Reflecting strong economic management, Rwanda has maintained a high level of macroeconomic stability. Inflation has remained low by regional standards, averaging 6 percent for the 5-year period from 2009 (Figure 1), due to both effective implementation of monetary policy and reforms on the supply side, particularly in food production.

Figure 1. Rwanda: Inflation and Exchange Rate Developments (percent change)



Sources: Rwandan authorities' data, IMF staff estimates.

42. **Underpinning these strong headline numbers has been a strong focus on the economic reform agenda.** The first Economic Development and Poverty Reduction Strategy (EDPRS 1) document set out the authorities' development agenda, focusing on improving the business environment while ensuring that the gains from growth were shared widely. In particular, the authorities have laid great emphasis on improving the business climate in Rwanda, including investments in infrastructure and streamlining regulations. As a result, Rwanda now ranks as the second best country to do business in sub-Saharan Africa (behind Mauritius) and 32nd best performer globally according to the World Bank's latest Doing Business survey.[1]

43. **Donors have provided significant support for Rwanda's economic development program, which has been bolstered by careful use of non-concessional borrowing.** The donor community, comprising of multilateral donors, including the Bank, and bilateral donors, have provided significant financial assistance to Rwanda in recent years (Tables 1 and 2). A large part of this support has been in the form of grants, either general budget support, or more recently, through sectoral budget support and project grants. Additionally, Rwanda has tapped significant amounts of concessional borrowing, mainly from multilateral donors. In recent years, Rwanda has exploited opportunities to tap non-concessional sources of finance to fund investments in

[1] The Doing Business Report for Rwanda can be found at http://www.doingbusiness.org/data/exploreeconomies/rwanda/

infrastructure, chief among these being in the tourism, transportation and energy sectors (Section III).

Table 1. Rwanda: Composition of Public Debt, end-2012

	Millions of US$	Percent of Total	Percent of GDP	Fraction of external
Total (external + domestic)	**1,763**	**100**	**25.5**	
External debt	**1,178**	**67**	**17.1**	
Central government	1,027	58	14.9	100.0%
Multilateral	873	50	12.6	85.0%
IMF	13	1	0.2	1.3%
IDA	430	24	6.2	41.9%
AfDB	229	13	3.3	22.3%
Other multilateral	201	11	2.9	19.5%
Official bilateral	154	9	2.2	15.0%
Paris Club	17	1	0.2	1.6%
Non-Paris Club	137	8	2.0	13.4%
Guaranteed by the central government	151	9	2.2	
Domestic debt	**585**	**33**	**8.5**	
Billion RF	369	33	8.5	
Of which: Short-term government and central bank	0	0	0.0	0.0%

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

Table 2. Rwanda: Fiscal Developments, 2009-13

	2009	2010	2011	2012	2013
	Percent of nominal GDP				
Primary fiscal balance (including grants)	-0.5	0.0	-0.5	-2.7	-4.4
(excluding grants)	-12.1	-13.5	-11.4	-12.1	-12.8
Grants	11.6	13.5	10.9	9.4	8.4
Domestic revenue	12.7	13.1	13.9	15.2	16.2
Tax revenue	12.2	12.6	13.2	13.9	14.7
Primary expenditure	24.9	26.6	25.3	27.3	29.0
Current primary expenditure	13.8	14.9	14.0	13.8	13.3
Capital expenditure	9.9	10.9	12.3	12.0	13.1
Net lending	1.2	0.9	-0.9	1.6	2.6
Public sector debt	26.0	27.5	33.5	25.5	28.7
Domestic	11.6	13.0	15.6	8.5	8.0
External	14.4	14.5	18.0	17.1	20.8

Sources: Rwandan authorities and IMF staff estimates.

44. The nature of donor support shifted in 2012 in light of developments in the Eastern part of the Democratic Republic of the Congo. The resumption of hostilities in the Eastern DR Congo in 2012, and Rwanda's alleged role therein, caused some donors to pull back their support. This pullback resulted in a significant aid shock (IMF Country Report no. 13/77) of around 3 percent of GDP during the year and introduced considerable uncertainty going forward. However, recent developments have been more positive. Donors generally resumed bilateral and multilateral aid disbursements following a peace accord signed by 11 African countries in the Great Lakes region and Southern Africa in February 2013. The main change has been a repurposing of general budget support to sectoral assistance and project support. The resumption of aid flows has alleviated short-term uncertainty, giving rise to improved sentiments in Rwanda. However, uncertainties over the medium-term prospects remain (Section V).

II. Underlying DSA Assumptions

45. Since the last DSA update, staff have raised expectations of near-term growth and exports, but higher investment is likely to sustain strong demand for imports. GDP growth is expected to recover after the aid shock in 2012 to 7.5 percent over the medium term, while inflation is expected to remain low and stable (Table 3). However, the revised macroeconomic framework suggests that the high investment spending would continue to drive import demand, and thus result in the current account deficit declining more gradually than earlier expected. With regard to aid flows, the framework has a more conservative assumption of a more rapid reduction in aid than earlier envisaged.

46. The assumptions used in this DSA are in line with the medium-term framework underpinning the proposed Policy Support Instrument (PSI).[2] The overall objectives of the second EDPRS (EDPRS 2) are to accelerate growth and further reduce poverty, including extreme poverty. It seeks to do so while reducing aid-dependency and thus increasing self-reliance. However, to achieve middle-income status by 2020, the framework targets average annual real GDP growth of 11.5 percent between 2012 and 2020, which represents a significant acceleration from the high growth levels in the last decade. Two key challenges to attain the target are (i) the funding and implementation of public and private investment in view of prospects for a gradual reduction of official external financing, at least relative to GDP; and (ii) the sustainability of planned policies in light of the compression of public and private consumption that would be consistent with a

[2] See the Joint IDA-IMF Staff Advisory Note (JSAN) on the second Economic Development and Poverty Reduction Strategy.

re-allocation of public and private resources into investment. Thus, staff of the IMF and World Bank have advised the authorities that more cautious macroeconomic assumptions than those embodied in the EDPRS 2 should be used for the purposes of medium-term policy formulation. In this context, the authorities agree that more prudent assumptions would be an appropriate basis for policy formulation and the new PSI. Therefore, both the authorities' the budget framework paper for 2013/14-2015/16 and the PSI assume annual real GDP growth of 7–7.5 percent in the medium-term, consistent with the assumptions used in this DSA. The highlights are discussed in Box 1 and Table 4.

Table 3. Baseline External DSA Compared to Previous DSA Update, 2013-15

	Previous DSA[1]			Current DSA		
	2013 Proj.	2014 Proj.	2015 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Stock of public and publicly-guaranteed (PPG) external debt						
Millions of U.S. dollars	1,443	1,588	1,756	1,779	2,108	2,388
Percent of GDP	19.1	19.1	19.3	20.8	21.5	23.2
Present value (PV) of PPG external debt						
Millions of U.S. dollars	1,088	1,223	1,367	1,140	1,275	1,473
Percent of GDP	14.4	14.7	15.0	15.3	15.4	16.2
PV of PPG external debt to revenues (percent)	102.0	101.5	102.3	94.4	90.6	88.4
PV of PPG external debt to exports (percent)	114.8	117.0	121.0	91.5	90.8	101.5
PPG external debt service to revenues (percent)	11.6	8.4	7.4	16.7	5.6	5.1
PPG external debt service to exports (percent)	13.1	9.6	8.7	16.2	5.6	5.9
Discount rate (percent)	4.0	4.0	4.0	5.0	5.0	5.0
	(Percent of GDP, unless indicated otherwise)					
Nominal GDP (RF billions)	5,109	5,828	6,567	4,926	5,618	6,354
Real GDP (percentage change)	7.5	7.2	7.0	6.6	7.5	7.5
GDP Deflator (percentage change)	7.8	6.4	5.3	5.9	6.1	5.2
Fiscal						
External grants (incl. HIPC relief)	10.2	8.2	8.1	8.4	8.3	7.2
Revenue (excl. external grants)	14.2	14.5	14.7	16.2	17.0	18.4
Primary expenditures	27.6	25.8	23.8	29.0	29.3	28.4
Primary balance, incl. external grants	-3.2	-3.1	-1.0	-4.4	-4.0	-2.8
Primary balance, excl. external grants	-13.4	-11.3	-9.1	-12.8	-12.2	-9.9
Grant element of new external borrowing (percent)[2]	3.4	14.9	37.4	1.5	41.0	40.1
Balance of payments						
Exports of goods and services	12.6	12.5	12.4	16.7	17.0	16.0
Millions of U.S. dollars	975	1,061	1,146	1,273	1,425	1,473
Imports of goods and services	32.2	30.8	26.3	36.5	35.1	31.5
Millions of U.S. dollars	2,501	2,603	2,434	2,786	2,944	2,902
Current account, incl. official transfers	-9.7	-10.4	-7.2	-10.3	-10.9	-10.3

Sources: Rwandan authorities, IMF and World Bank staff.

[1] Conducted at the time of the fourth review of the PSI request; see IMF Country Report No. 12/164, May 2012.

[2] Includes publicly-guaranteed external borrowing.

Table 4. Key Assumptions

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023	2028	2033
	(Percent of GDP, unless otherwise indicated)												
Nominal GDP (RF billions)	2,985	3,280	3,814	4,363	4,926	5,618	6,354	7,267	8,304	9,353	27,819	50,971	57,534
Real GDP (percentage change)	6.2	7.2	8.2	8.0	6.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
GDP deflator (percentage change)	9.1	2.5	7.4	5.9	5.9	6.1	5.2	6.4	6.3	5.7	5.0	5.0	5.0
Fiscal (central government)													
External grants (incl. HIPC relief)	11.6	13.5	10.9	9.4	8.4	8.3	7.2	6.0	5.3	4.8	3.3	2.2	1.8
Revenue (excl. external grants)	12.7	13.1	13.9	15.2	16.2	17.0	18.4	19.3	19.6	20.1	21.5	22.1	22.2
Revenue (incl. external grants)	24.4	26.6	24.8	24.6	24.6	25.3	25.6	25.2	25.0	24.9	24.9	24.4	24.0
Primary expenditures	24.9	26.6	25.3	27.3	29.0	29.3	28.4	27.1	26.8	27.0	26.0	25.4	25.2
Primary current expenditures	13.8	14.9	14.0	13.8	13.3	13.6	13.9	13.8	13.7	13.7	15.2	14.9	14.9
Capital expenditure and net lending	11.1	11.7	11.4	13.6	15.7	15.7	14.5	13.3	13.1	13.3	10.8	10.5	10.4
Primary balance, incl. external grants	-0.5	0.0	-0.5	-2.7	-4.4	-4.0	-2.8	-1.9	-1.9	-2.2	-1.1	-1.0	-1.2
Primary balance, excl. external grants	-12.1	-13.5	-11.4	-12.1	-12.8	-12.2	-9.9	-7.8	-7.2	-6.9	-4.5	-3.2	-3.0
Net domestic financing	-0.7	-0.8	0.3	-1.9	0.3	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0
Interest rate (percent)		8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
New external borrowing[1]		1.1	3.3	2.6	1.8	3.1	4.0	3.1	1.9	2.4	1.8	2.0	1.2
Grant element of new external borrowing (percent)					1.5	41.0	40.1	41.7	38.8	52.5	34.2	14.2	25.2
Balance of payments													
Exports of goods and services	11.0	11.3	14.1	14.3	16.7	17.0	16.0	15.8	16.0	16.4	18.5	19.1	19.2
Imports of goods and services	29.0	29.2	34.4	34.8	36.5	35.1	31.5	29.6	29.4	29.3	29.0	29.0	29.0
Current account, incl. official transfers	-7.3	-5.4	-7.2	-11.4	-10.3	-10.9	-10.3	-8.4	-7.9	-7.5	-5.9	-6.1	-6.1
Foreign Direct Investment	2.3	0.8	1.7	2.2	2.2	3.3	3.2	4.1	4.4	4.7	4.9	4.9	4.9
Gross official reserves (months of imports of G&S)	5.4	4.5	5.1	3.6	3.8	3.7	4.0	4.1	4.2	4.2	4.5	4.5	4.5

Sources: Rwandan authorities, IMF and World Bank staff.

[1] Includes publicly guaranteed external borrowing.

47. Accordingly, a number of key investment projects being considered by the authorities which are still at an early stage of planning have not been included in this DSA. In the EDPRS 2, the authorities have identified three projects—the Bugusera International Airport, the regional railway project, and a bulk petroleum storage facility and pipeline—as important spurs to boost development and foster greater regional integration. Notwithstanding the importance attached to these projects, they remain at an early stage of planning. Regional agreements on their eventual scope are also not final. Therefore, it was agreed that this DSA would not incorporate these projects until further details on their feasibility were available, and funding for their completion was in place. At such time as these details become available, the implications of these projects on debt sustainability could be properly assessed. But for the purpose of this DSA we have added a scenario that shows the implications of higher non-concessional borrowing (paragraph 16).

Box 1. Macroeconomic Framework for the DSA

The medium-term framework underpinning the DSA assumes that Rwanda continues to enjoy rapid growth, and low and stable inflation. Key highlights:

- **Growth:** Long-run growth is projected at 7.5 percent. However, the composition of growth is expected to shift toward greater export orientation as policies designed to enlarge and deepen the export base take effect.

- **External sector:** Exports of goods and services are expected to gradually rise from 14.3 percent of GDP in 2012 to 19.1 percent by 2033. However, import needs are expected to remain high, amounting to 29.3 percent of GDP in 2033, reflecting continued high investment needs in the economy. As a result, Rwanda's external current account is forecast to remain in deficit throughout the period under consideration, though the gap is expected to narrow to 6 percent of GDP by 2033 (2012: 11.4 percent).

- **Inflation:** Inflation is expected to remain contained. After rising at the end of 2013 to 6.5 percent, the rate is expected to decline gradually to the authorities' medium-term target of 5 percent. This convergence reflects the stated medium term inflation target of the National Bank of Rwanda. Improvements in agricultural productivity through improved access to irrigation, fertilizers and more modern cultivation techniques should see food prices decline over the long run, addressing a key driver of inflation in Rwanda.

- **Reserves:** Reserve buffers are expected to be rebuilt after 2014, with the expectation that Rwanda will achieve coverage of 4.5 months of prospective imports by 2023, which would facilitate monetary integration among East African Community members.

- **Fiscal outlook:** The key fiscal assumption is that there would be a gradual and consistent effort to raise domestic revenues (excluding grants) from 15.2 percent of GDP in 2012 to 22.2 percent by 2033. This reflects a recognition that Rwanda's revenue efforts currently lag those of other countries in the region and the authorities' commitment to address this issue. Primary expenditures are forecast to remain high at 25 percent of GDP, reflecting the need for pressing capital and current spending.

- **Grants** The DSA assumes a gradual tapering of external assistance, reflecting greater capacity to mobilize and use domestic revenue. As a result, grants (including HPIC relief) are forecast to decline from 9.4 percent of GDP in 2012 to 1.8 percent by 2033.

- **Domestic borrowing:** The framework assumes that domestic borrowing will continue to decline until 2016 (the new PSI period) as the authorities continue to anchor fiscal policy on a goal of no new net domestic financing. From 2017, the framework allows for a modest recourse to domestic borrowing (1 percent of GDP), which sees domestic debt rise gradually to 15.6 percent of GDP by 2033 or nearly half of public debt outstanding by that period.

- **Domestic interest rates:** New domestic borrowing is expected to carry a nominal interest rate of 8 percent or a real rate of 3 percent.

48. The DSA assumes the authorities maintain their prudent debt management strategy. The assumptions for additional external borrowing vary over the assessment period. From 2013-17, the framework is based only on disbursements of external debt already contracted by the central government as of June 2013. While these disbursements are primarily from concessional sources of financing, there are also modest amounts from non-concessional sources. [3] From 2018 onward, the framework assumes that any external financing need of the central government will be financed by new external debt. Specifically, the concessional aid envelope is expected to remain constant in real terms, with any remaining gap filled by non-concessional borrowing as needed.[4] In the alternative scenarios considered in this DSA, the impact of the additional use of non-concessional debt is examined. Any new non-concessional debt is assumed to have a 10-year tenure and an interest rate of 8 percent, with a grace period of 1 year. The baseline also does not evaluate the impact of a change in the composition of donor support should Rwanda's debt distress rating change, which is discussed in as an alternative scenario (Section III). Terms on concessional debt vary according to the development partners. In particular, the key multilateral partners – IDA and the African Development Bank – who are assumed to account for the largest segment of new borrowing, are assumed to provide financing on highly concessional terms (40 year tenure, 10-year grace period, 0.8 percent commitment fee). Finally, the DSA assumes a modest recourse to domestic borrowing after 2017, reflecting efforts to tap domestic savings and the authorities' efforts to develop financial markets through the provision of a wider variety of instruments denominated in Rwandan francs. This debt is assumed to carry a nominal interest rate of 8 percent (3 percent real rate).

III. Sustainability of Publicly-Guaranteed External Debt

A. External Debt Developments

49. External debt of the public sector (including publicly-guaranteed debt) in Rwanda remained low at 17 percent of GDP at end-2012. Having successfully reached the HIPC completion point in 2005, the Rwandan authorities have been cautious in accumulating external debt. The bulk of the borrowings has been from concessional sources (85 percent of total debt at the end of 2012), primarily from multilateral development institutions (Figure 2). The current Policy Support Instrument (PSI) with the Fund has been used to reinforce this: a key conditionality in the

[3] The Minister of Finance has publicly stated that Rwanda was not planning to return to debt markets (Reuters news report, 6/14/2013). The latest budget (fiscal year 2013/14) does not incorporate any further new non-concessional borrowing.

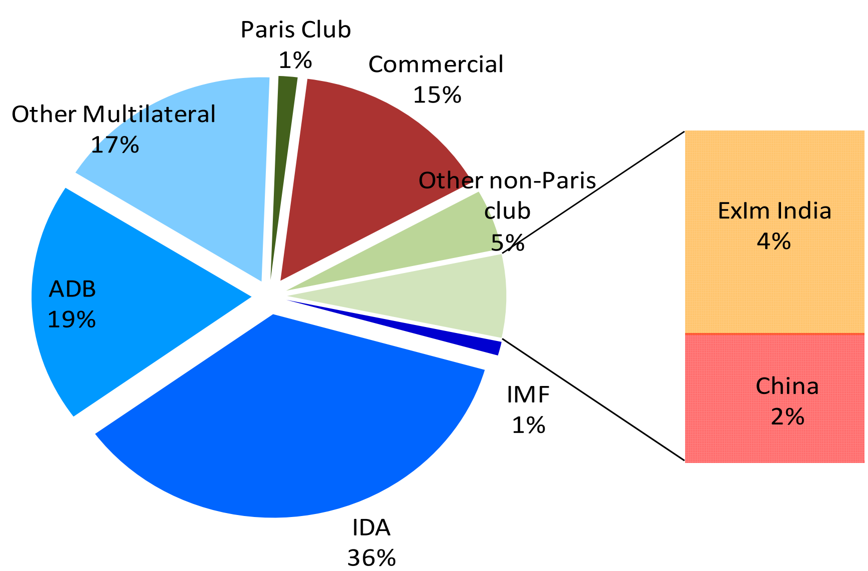
[4] With a variable external financing need this assumption implies that both the grant element of new borrowing and the amount of new non-concessional borrowing become more variable also.

program was a limit on the contracting of new non-concessional external debt. In general, the authorities used the limits to signal their commitment to strong debt management policies. As a result, the limit was adjusted to provide greater flexibility, first by untying the ceiling from specific projects (see IMF Country Report No. 12/152) and later to raise it to provide the authorities with greater flexibility (see IMF Country Reports No. 13/77 and 13/177).

Figure 2. Rwanda: Stock of Public and Publicly-Guaranteed External Debt at end-2012

External debt remains low, and mainly consists of concessional borrowing

External debt outstanding at end-2012: US$1.2 billion (17 percent of GDP)



Source: Rwandan authorities.

50. Taking advantage of positive market sentiment, Rwanda successfully placed a 10-year, US$400 million Eurobond issue in April 2013. The issue was priced to yield 6.875 percent, at the low end of analysts' expectations, and was nine times oversubscribed, reflecting a recent demand for issuances from frontier markets[5]. The proceeds of the sovereign bond are being used to both retire government guaranteed borrowings incurred by the Kigali Convention Center (KCC) and RwandAir, and to complete two strategically important projects: the KCC and the Nyaborongo hydro-power plant (IMF Country Report No. 13/177). As noted in earlier reports, the net increase in debt due to this issuance was limited: a large part of the proceeds have been used to retire existing debt. The

[5] The secondary market rate has recently been around 8.7 percent.

KCC has been evaluated by independent consultants,[6] who believe it is in a position to generate positive returns justifying the use of additional borrowing. In the case of RwandAir, the authorities have substituted the provision of a guarantee on older loans by borrowing abroad and on-lending the proceeds to RwandAir, thereby reducing the cost of borrowing. Once completed, the Nyaborongo plant will substantially increase Rwanda's installed generation capacity (28MW, in addition to the 100 MW installed currently) and bring down average generation costs. With this issuance and the associated repayments made by the authorities, external debt outstanding has risen, but the level remains low (end-2013 projection: 20.8 percent of GDP).

51. The authorities have made progress on enhancing their debt management capacity. A major development was the preparation and presentation by the authorities of their own DSA in October 2012, a structural benchmark in the current PSI (IMF Country Report no. 13/77). The DSA has underpinned the formulation of their medium-term debt strategy. Further, there has been improved coordination between the Ministry of Finance and the central bank, in particular to ensure regular reconciliation of debt data). Finally, there is now greater coordination between debt management and fiscal policy through the annual budget framework paper. One key area for improvement would be to ensure that contracting of non-concessional debt by state-owned enterprises is more closely integrated into the debt management framework, including in the context of meeting program conditionality. The failure to inform the Fund of one such case led to a breach of the non-concessional borrowing ceiling during the 7th Review period and should be avoided in the future.

B. The Framework used for the Debt Sustainability Assessment

52. The DSA is based on the latest debt sustainability analysis template for low-income countries (LIC-DSA).[7] The analysis examines debt performance over a 20-year period until 2033, taking as a starting point the debt outstanding at end-2012, and all debt contracted on that date, except for the proceeds of the Eurobond issued in April 2013 (see Section II). The analysis also incorporates the recent decision by the Boards of the Fund and the World Bank to unify the various discount rates used in the analysis of external debt for low-income countries.[8] Specifically, the

[6] The results of the feasibility study on the KCC discussed in IMF Country Report no. 10/200. The report concluded that the KCC had a return on investment of 13.2 percent. The authorities consider that the results of the feasibility study remain valid.

[7] The template can be downloaded from http://www.imf.org/external/pubs/ft/dsa/templ/dsatemp.xls.

[8] See Board Paper *"Unification of Discount Rates Used in Normal External Debt Analysis for Low-Income Countries,"* (http://www.imf.org/external/pp/longres.aspx?id=4824).

decision sets the discount rate used to compute the present value (PV) of external debt at 5 percent, an increase from the previously used value of 3 percent. This change results in a lowering of the PV of Rwanda's external debt.

53. The thresholds for assessing debt sustainability are based on an assessment of institutional quality. The LIC-DSA exercise incorporates a key empirical insight, namely that a low-income country with better policies and institutions is able to manage a higher level of external debt. The debt sustainability framework therefore suggests different thresholds for assessing debt sustainability, which are dependent on an assessment of institutional quality. Under this framework, countries are judged to be strong, medium or weak performers, which is based the 3-year moving average of the World Bank's Country Policy and Institutional Assessment (CPIA) index. The policy performance category determines the thresholds used (Table 5). For 2010-12, Rwanda's average CPIA score was 3.83, and hence policy performance has been assessed as "strong". The thresholds used to ascertain debt sustainability are highlighted in Table 5.

Table 5. Policy Performance and Debt Sustainability Thresholds

CPIA score	Policy performance	Debt burden thresholds				
		Present value of debt in percent of			Debt service in percent of	
		GDP	Exports	Revenue	Exports	Revenue
CPIA ≤ 3.25	Weak	30	100	200	15	18
3.25 < CPIA ≤ 3.75	Medium	40	150	250	20	20
CPIA > 3.75	Strong	50	200	300	25	22

Source: World Bank.

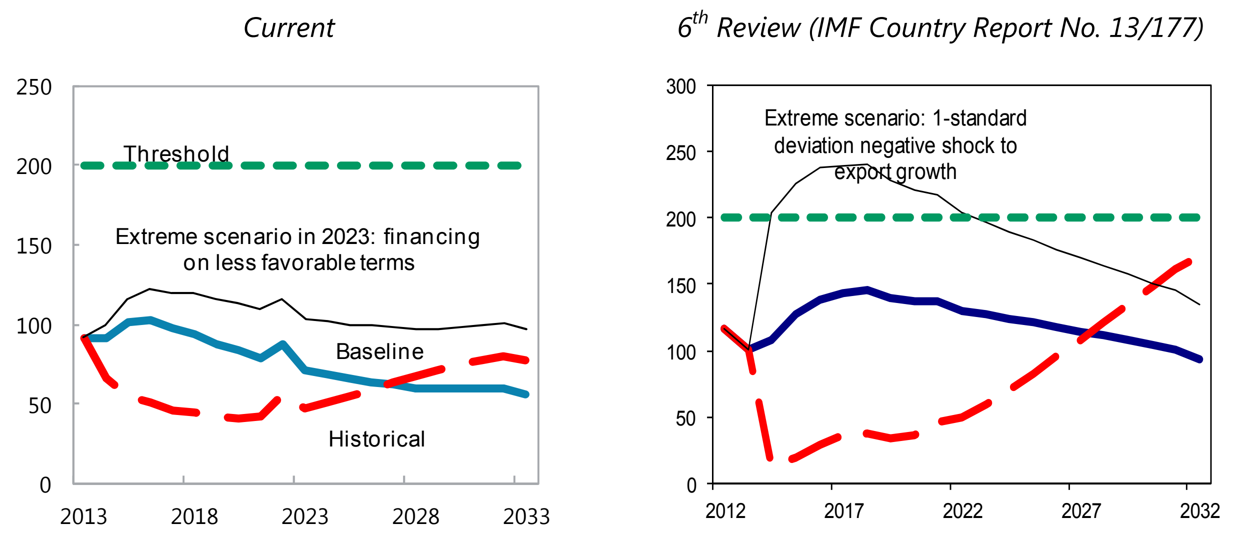
C. Results and Assessment of External Debt

54. Based on the assumptions outlined earlier, Rwanda's debt is sustainable under all scenarios (Appendix Figure 1a). Common to previous DSAs, the various indicators of debt sustainability do not breach the thresholds in the baseline scenario.[9] However, in contrast to previous exercises, Rwanda's debt profile has shown significant improvement, with all indicators remaining below the thresholds even in the event of an extreme shock. In particular, the indicator that had raised concerns previously—the PV of debt-to-exports—no longer breaches the threshold in the event of an extreme shock. This is primarily due to the expansion of Rwanda's export base in this DSA. In particular, latest data for 2013 shows a significant expansion in mineral exports,

[9] Under the previous DSA update Rwanda's policy performance was assessed as "medium", despite an increase in its CPIA score. The debt thresholds used in that analysis were those consistent with a "medium" rating (IMF Country Report No.12/152).

reflecting new investments in the mining sector. Seven new mines producing cassiterite (tin ore) and coltan began operations in 2013, financed in part by foreign direct investment. Going forward, it is expected that further improvements in mining would be more incremental, reflecting continuing investments and a gradual adoption of more modern mining techniques. Additionally, the framework also builds in gradual improvement in non-traditional exports such as horticulture and tourism.

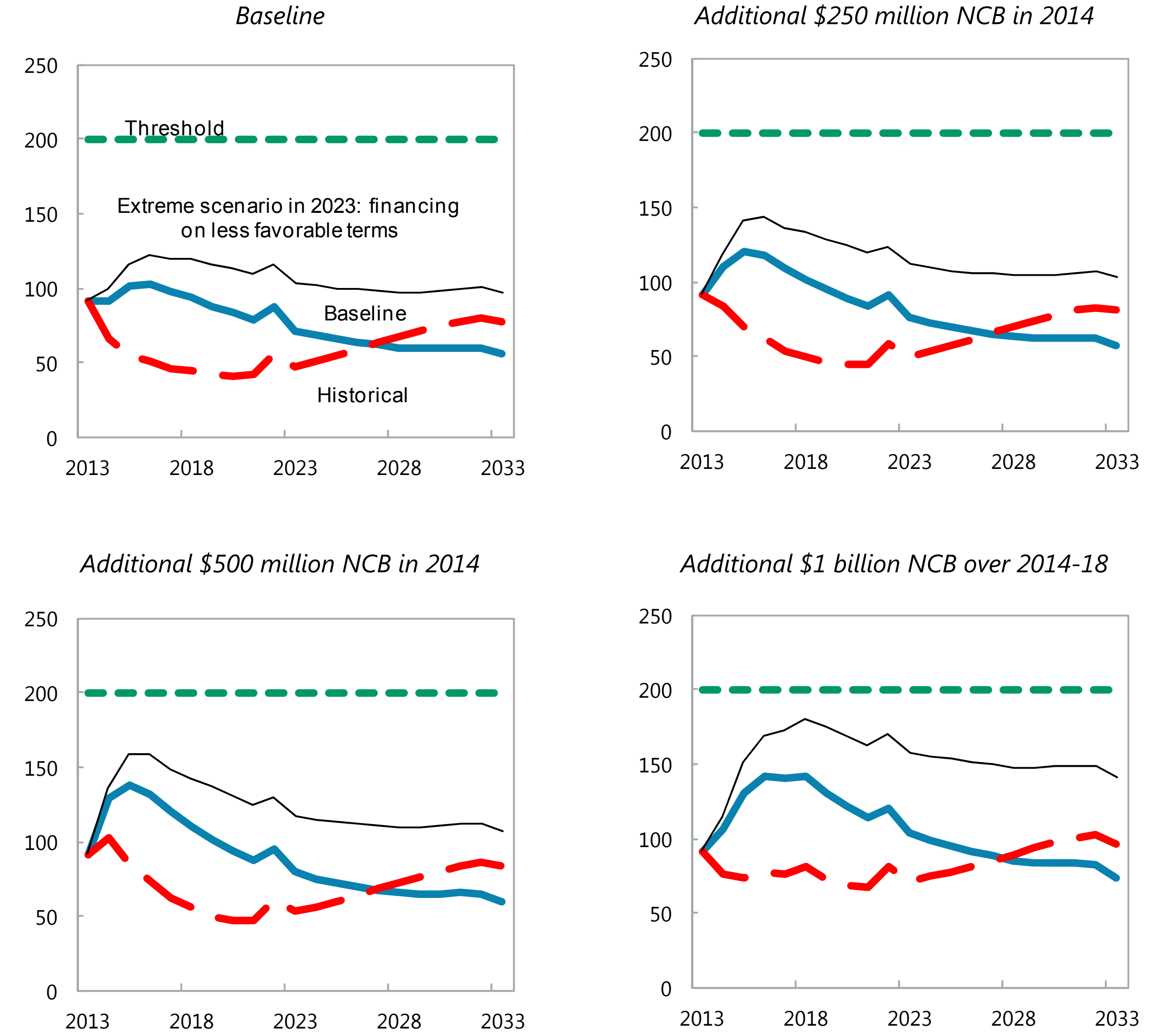
Figure 3. PV of debt-to-exports ratio: Comparison with 6th Review



Sources: Rwandan authorities, IMF staff estimates.

55. The DSA shows some recourse to new non-concessional external borrowing would not increase the risks to debt sustainability. Scenarios with additional non-concessional borrowing were examined to establish the robustness of Rwanda's debt profile. In particular, three scenarios were considered: a modest recourse to new non-concessional borrowing (US$250 million in 2014 or 3 percent of 2014 GDP); a higher recourse (US$500 million or 6 percent of GDP); and a phased borrowing program (US$1 billion spread out equally over 2014-18). Similar to the conclusions of the base case, none of the indicative thresholds were breached in any of the scenarios examined (Figure 4). This suggests that Rwanda has some space to further tap commercial sources of credit without losing its "low risk" rating.

Figure 4. PV of debt-to-exports Ratio: Impact of Higher Non-concessional Borrowing



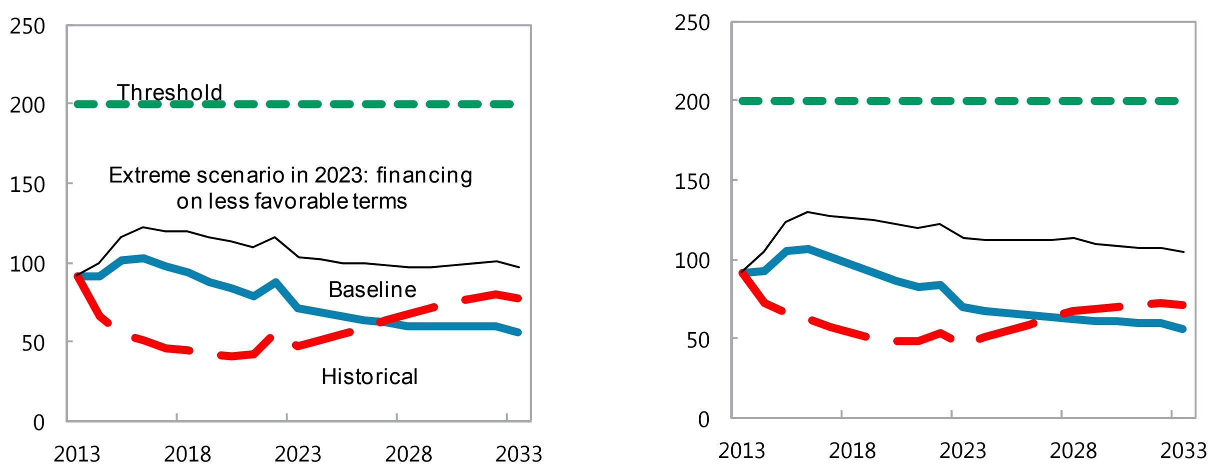
Sources: Rwandan authorities, IMF staff estimates.

56. The improvement in Rwanda's debt distress risk rating makes additional sources of concessional financing available to the authorities. In particular, multilateral donors are in a position to enlarge Rwanda's financing envelope on highly concessional terms. For instance, IDA credits have extremely long tenures (up to 40 years, including a grace period of up to 10 years) and are provided at zero interest rates. Currently, the envelope for IDA credit is also larger than for countries that only receive grants, or, like Rwanda, receive a mix of grants and IDA credit. In addition, there are indications from bilateral donors that they would be in a position to mobilize greater resources to support Rwanda with a low debt distress rating.

57. A "low risk" rating also has implications for the aid scenario. The current mix of IDA assistance (a combination of grants and credit) will shift to a credit-only composition, thus raising Rwanda's debt levels. Assessing the impact of this shift presents challenges: as the current IDA period is now coming to an end and fund-raising efforts for IDA17 are ongoing, the total financing envelope for all IDA-eligible countries, including Rwanda, has not been finalized. For the purposes of this alternative scenario, it is assumed that the grants from IDA are converted into credit terms from 2014, with a somewhat larger financing envelope. On the basis of these assumptions, the debt continues to be sustainable in all scenarios examined (Figure 5).

Figure 5. Impact of a shift to all-credit IDA engagement on PV of debt-to-exports

Baseline: No change in aid composition and envelope | *IDA financing on all-credit terms and an expansion of the envelope*



Sources: Rwandan authorities, IMF staff estimates.

IV. Sustainability of the Debt of the Public Sector

58. Domestic public debt remains low, reflecting both adherence to the program anchor of avoiding accumulation of domestic arrears and improvements in revenue collection. Domestic public debt in 2013 is expected to decline to 8 percent of GDP, and this trend is forecast to continue to 2016, reflecting an active policy of avoiding increasing net domestic financing. However, as noted in Section II, the DSA allows for a modest recourse to domestic financing after 2017 (1 percent of GDP annually). As a result, domestic debt is forecast to rise gradually but would remain contained at very low levels until the end of the assessment window of this DSA. By 2033, total domestic public debt outstanding would only amount to 15.6 percent of GDP. Total public sector debt (domestic plus external) is expected to be stable at 31.5 percent of GDP (2013: 28.7 percent). The other major factor that contains public debt is an expectation that domestic revenue collection would gradually improve as a result of the intensification of the authorities' efforts in this area (see Section II for a discussion of the fiscal assumptions).

59. The DSA suggests that public debt remains stable in the baseline. Based on the 3 indicators examined – PV of domestic debt-to-GDP, PV of debt-to-revenue and DS of domestic debt-to-revenue – the long-term path of debt is projected to be stable in the baseline (Appendix Figure 1b). The PV of debt-to-GDP gradually rises to 26.9 percent in 2032 and stabilizes around that level (23.2 percent in 2013). The PV of debt-to-revenue is projected to increase slightly from 94.6 percent in 2013 to 109.7 percent in 2033. However, there is a spike in DS-to-revenue in 2023 by 8.5 percentage points of revenue from the year before, reflecting the principal payment for the Eurobond that falls due in that year. Nevertheless, while the increase appears large, it still remains low at 12.7 percent of revenue. By the end of the assessment period, this ratio is 7.3 percent. Looking at alternative scenarios in the DSA, the indicators remain stable except in the case where the primary balance is fixed at the level in 2013. It should be noted that 2013 is an unusual year as Rwanda was still adjusting to the aid shock that first experienced in 2012. Nevertheless, Rwanda's recent experience demonstrates the importance of building resilience in fiscal management. In this context, improved revenue performance, coupled with the strong controls on expenditure already in place, should yield substantial benefits in terms of debt sustainability.

V. Risks and Policy Implications

60. Rwanda's risk of debt distress is judged to have improved sufficiently to warrant an upgrade. Under these assumptions, Rwanda's debt is low and its sustainability is robust under all scenarios. Public debt is low and primarily consists of concessional borrowing. Rwanda's debt profile also continues to improve. The stronger export performance in 2013 on the back of new investments in the mining setor, including by foreign investors, should provide a platform for further improvements going forward. Further, the assessment of Rwanda's institutional and capacity has been raised to "strong", leading to higher thresholds for assessing debt sustainability.

61. The main risk to Rwanda's debt sustainability remains the narrow export base. Previous vintages of the DSA have flagged risks emanating from its narrow export base. This has been ameliorated by the strong improvement in export performance experienced in 2013, and this DSA assumes that the gains recorded are durable. As noted earlier, recent substantial investment in mining in recent years, coupled with a gradual increase in the contribution of non-traditional exports, are expected to support the assumed trend, which would be robust in the event of temporary shocks to exports. However, should these gains prove less durable on a permanent basis, resulting significantly lower than expected export volumes, there could be risks to debt sustainability over the longer term.

62. **In addition, Rwanda remains highly dependent on foreign aid.** While the underlying macroeconomic framework assumes a gradual decline in aid flows over the longer term, a much sharper correction cannot be ruled out. The developments in 2012 demonstrated the still-high reliance on external assistance, which will be difficult to address in the short run. Over the medium term, as the authorities are better able to reduce their reliance on aid, the risks from an aid shortfall would decline.

63. **Related to this, the low domestic revenue base reduces the capacity to substitute for shortfalls in foreign aid.** The framework builds in an improvement in domestic revenue collection. As noted in Section II, it is assumed that Rwanda's revenue collection efforts converge to the average for the region. Further, the authorities are committed to improving performance in this area, a key goal in their fiscal management program over the medium term. However, in the event that the envisaged gains are not realized, there would be implications on either debt sustainability as additional borrowing is used to finance the authorities' economic development program, or there would have to be a scaling down in expenditure, and hence growth, as plans would need to be adjusted to the prevailing financing envelope. In either case, the envisaged improvement in Rwanda's debt profile would be harder to achieve.

64. **The DSA suggests that Rwanda does have some flexibility to use a variety of financing options, but this space is modest.** The sustainability of the debt under different assumptions discussed in Section III clearly suggests some increase in non-concessional borrowing would not unduly affect Rwanda's debt profile. However, it should be noted that this space is modest: contracting high levels of new non-concessional borrowing would likely see risks rise significantly. Therefore, it is imperative that the authorities continue to exercise caution going forward. In particular, care should be taken on both the selection of projects that they wish to move forward on and the modalities of financing these investments. Projects need to be prioritized and sequenced, and supported by strong, independent cost-benefit analyses to ensure the economic benefits are commensurate with the opportunity costs of utilizing Rwanda's limited debt space. In terms of the choice of financing options, Rwanda should continue to avail itself of concessional financing to the extent possible. The shift to low risk should open up new sources of financing, which should be prioritized over commercial borrowing. These could be combined: strong and credible feasibility

studies, together with early engagement with donors, could be helpful in inducing development partners to support key projects. In this respect, the key policy messages of this DSA are consistent with the conclusions of past exercises.

65. The authorities are in broad agreement with the results of this DSA. They concur with the assessment that the main risk to debt vulnerability still remains the narrow export base. But at the same time, they also anticipate that the on-going investments in the mining and non-traditional exports sectors will make the expansion in the export base sufficiently durable to curtail this risk. Further, the authorities agree that it is imperative to maintain a prudent medium-term debt management strategy and in this regard, careful consideration will be given to the choice of future projects and their financing to avoid jeopardizing debt sustainability.

Appendix Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2010–2033[1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6] Average	Standard [6] Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019–2033 Average
External debt (nominal)[1]	**17.6**	**21.5**	**21.7**			**25.4**	**25.6**	**26.7**	**26.7**	**25.4**	**25.1**		**22.1**	**18.3**	
of which: public and publicly guaranteed (PPG)	14.5	18.0	17.1			20.8	21.5	23.2	23.7	22.9	22.9		20.5	15.9	
Change in external debt	2.0	4.0	0.2			3.7	0.2	1.2	-0.1	-1.3	-0.3		-2.6	-0.9	
Identified net debt-creating flows	3.6	3.6	6.9			6.8	5.8	5.4	2.4	1.7	1.1		0.0	-0.1	
Non-interest current account deficit	**5.1**	**6.9**	**11.0**	**3.8**	**4.3**	**9.6**	**10.1**	**9.6**	**7.7**	**7.3**	**7.0**		**6.2**	**5.6**	6.0
Deficit in balance of goods and services	17.9	20.3	20.6			19.8	18.1	15.5	13.7	13.4	12.9		11.3	9.8	
Exports	11.3	14.1	14.3			16.7	17.0	16.0	15.8	16.0	16.4		17.7	19.2	
Imports	29.2	34.4	34.8			36.5	35.1	31.5	29.6	29.4	29.3		29.0	29.0	
Net current transfers (negative = inflow)	-13.3	-13.9	-10.2	-12.4	1.6	-10.8	-8.7	-6.6	-6.8	-6.8	-6.4		-5.7	-4.6	-5.4
of which: official	-11.6	-11.4	-7.6			-8.5	-6.5	-4.6	-4.9	-4.9	-4.6		-3.9	-2.8	
Other current account flows (negative = net inflow)	0.4	0.5	0.6			0.6	0.7	0.8	0.8	0.6	0.5		0.5	0.4	
Net FDI (negative = inflow)	**-0.8**	**-1.7**	**-2.2**	**-1.3**	**0.9**	**-2.2**	**-3.3**	**-3.2**	**-4.1**	**-4.4**	**-4.7**		**-4.9**	**-4.9**	-4.9
Endogenous debt dynamics[2]	**-0.7**	**-1.7**	**-1.8**			**-0.7**	**-1.0**	**-1.1**	**-1.2**	**-1.2**	**-1.2**		**-1.3**	**-0.8**	
Contribution from nominal interest rate	0.3	0.4	0.4			0.7	0.7	0.7	0.6	0.6	0.6		0.4	0.6	
Contribution from real GDP growth	-1.0	-1.3	-1.5			-1.3	-1.7	-1.7	-1.8	-1.8	-1.7		-1.7	-1.3	
Contribution from price and exchange rate changes	0.0	-0.7	-0.7			...	...	...	...	...	...		...	...	
Residual (3–4)[3]	**-1.6**	**0.4**	**-6.7**			**-3.1**	**-5.7**	**-4.3**	**-2.5**	**-2.9**	**-1.4**		**-2.6**	**-0.8**	
of which: 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 debt4	...	...	15.6			19.9	19.5	19.7	19.3	18.2	17.5		14.2	13.1	
In percent of exports	...	...	109.4			119.4	114.8	123.5	121.6	113.8	106.3		80.3	68.5	
PV of PPG external debt	**...**	**...**	**10.9**			**15.3**	**15.4**	**16.2**	**16.3**	**15.7**	**15.3**		**12.6**	**10.7**	
In percent of exports	**...**	**...**	**76.7**			**91.5**	**90.8**	**101.5**	**102.9**	**98.1**	**93.2**		**71.4**	**55.7**	
In percent of government revenues	**...**	**...**	**72.2**			**94.4**	**90.6**	**88.4**	**84.7**	**80.1**	**76.3**		**60.5**	**48.2**	
Debt service-to-exports ratio (in percent)	**4.5**	**5.9**	**6.9**			**19.1**	**8.6**	**9.2**	**9.0**	**9.0**	**8.8**		**20.4**	**16.0**	
PPG debt service-to-exports ratio (in percent)	**4.1**	**3.6**	**4.1**			**16.2**	**5.6**	**5.9**	**5.6**	**5.6**	**5.3**		**15.9**	**6.2**	
PPG debt service-to-revenue ratio (in percent)	**3.5**	**3.7**	**3.8**			**16.7**	**5.6**	**5.1**	**4.6**	**4.5**	**4.3**		**13.5**	**5.4**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.4	0.7			0.8	0.7	0.8	0.6	0.5	0.5		1.1	2.7	
Non-interest current account deficit that stabilizes debt ratio	3.1	2.9	10.8			6.0	10.0	8.5	7.8	8.5	7.3		8.8	6.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.2	8.2	8.0	7.7	2.4	6.6	7.5	7.5	7.5	7.5	7.5	7.4	7.5	7.5	7.5
GDP deflator in US dollar terms (change in percent)	-0.1	4.4	3.5	7.4	4.5	0.8	2.3	2.1	3.3	3.2	1.7	2.2	2.0	2.0	2.0
Effective interest rate (percent)[5]	2.2	2.3	2.3	1.6	1.2	3.4	3.2	2.9	2.7	2.6	2.5	2.9	1.8	3.2	2.1
Growth of exports of G&S (US dollar terms, in percent)	9.9	41.5	13.2	22.5	24.0	25.6	12.0	3.3	9.9	12.2	12.4	12.6	11.2	10.2	10.8
Growth of imports of G&S (US dollar terms, in percent)	7.8	33.1	13.3	21.9	12.7	12.6	5.7	-1.4	4.2	10.4	8.9	6.7	9.6	9.6	9.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	1.5	41.0	40.1	41.7	38.8	52.5	35.9	46.2	25.2	34.3
Government revenues (excluding grants, in percent of GDP)	13.1	13.9	15.2			16.2	17.0	18.4	19.2	19.6	20.1		20.9	22.2	21.3
Aid flows (in Billions of US dollars)[7]	0.9	0.7	1.1			0.7	0.8	0.9	0.8	0.7	0.8		1.0	1.1	
of which: Grants	0.8	0.7	0.7			0.6	0.7	0.7	0.6	0.6	0.6		0.8	0.9	
of which: Concessional loans	0.1	0.0	0.4			0.1	0.2	0.2	0.2	0.1	0.2		0.3	0.2	
Grant-equivalent financing (in percent of GDP)[8]	...	...	...			8.5	9.6	8.8	7.3	6.1	6.0		4.8	2.1	4.0
Grant-equivalent financing (in percent of external financing)[8]	...	...	...			50.8	83.8	78.5	80.0	83.8	84.2		82.5	70.4	74.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.6	6.4	7.1			7.6	8.4	9.2	10.2	11.3	12.4		19.7	49.4	
Nominal dollar GDP growth	7.1	13.0	11.8			7.4	10.0	9.8	11.0	10.9	9.3	9.8	9.6	9.6	9.6
PV of PPG external debt (in Billions of US dollars)			0.8			1.1	1.3	1.5	1.6	1.8	1.9		2.4	5.2	
(PVt-PVt-1)/GDPt-1 (in percent)						5.4	1.8	2.4	1.8	1.1	1.1	2.3	-1.3	0.3	0.9
Gross workers' remittances (Billions of US dollars)	0.1	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.4	1.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.7			14.9	15.1	15.9	16.0	15.4	15.1		12.4	10.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	65.4			80.4	80.5	89.9	91.6	88.0	83.8		64.4	50.4	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	3.5			14.2	5.0	5.2	5.0	5.0	4.8		14.4	5.6	

Sources: Rwandan authorities; and IMF 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

[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).

Table 1b.Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033[3]

(In Percent)

		Projections						
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	15	15	16	16	16	15	**13**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033[1]	15	11	9	8	7	7	**8**	15
A2. New public sector loans on less favorable terms in 2013–2033[2]	15	17	19	19	19	20	**18**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	15	16	17	17	16	16	**13**	11
B2. Export value growth at historical average minus one standard deviation in 2014–2015[3]	15	17	19	19	18	18	**14**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	15	15	16	16	15	15	**12**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015[4]	15	16	15	16	15	15	**12**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	15	15	12	12	12	12	**10**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	15	21	23	23	22	21	**18**	15
PV of debt-to-exports ratio								
Baseline	92	91	102	103	98	93	**71**	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033[1]	92	66	55	51	46	44	**48**	78
A2. New public sector loans on less favorable terms in 2013–2033[2]	92	99	116	122	119	119	**103**	97
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	92	89	100	101	97	92	**70**	55
B2. Export value growth at historical average minus one standard deviation in 2014–20153	92	112	144	144	137	130	**97**	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	92	89	100	101	97	92	**70**	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015[4]	92	93	97	98	94	89	**68**	54
B5. Combination of B1-B4 using one-half standard deviation shocks	92	89	75	77	74	71	**56**	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	92	89	100	101	97	92	**70**	55
PV of debt-to-revenue ratio								
Baseline	94	91	88	85	80	76	**60**	48
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033[1]	94	66	48	42	38	36	**40**	67
A2. New public sector loans on less favorable terms in 2013–2033[2]	94	99	101	101	97	97	**88**	84
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	94	91	91	87	82	78	**62**	49
B2. Export value growth at historical average minus one standard deviation in 2014–2015[3]	94	98	105	100	94	89	**69**	50
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	94	89	86	82	78	74	**59**	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–201[54]	94	93	84	81	77	73	**58**	47
B5. Combination of B1-B4 using one-half standard deviation shocks	94	86	66	65	62	59	**48**	43
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	94	126	123	118	112	106	**84**	67

Table 1b.Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033[3] (Continued)

(In Percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Debt service-to-exports ratio								
Baseline	16	6	6	6	6	5	**16**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033[1]	16	5	5	4	4	3	**9**	4
A2. New public sector loans on less favorable terms in 2013–2033[2]	16	5	5	5	5	5	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	16	5	6	6	6	5	**16**	6
B2. Export value growth at historical average minus one standard deviation in 2014–20153	16	6	7	8	7	7	**21**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	16	5	6	6	6	5	**16**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015[4]	16	5	6	6	5	5	**16**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	16	5	5	5	5	5	**15**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	16	5	6	6	6	5	**16**	6
Debt service-to-revenue ratio								
Baseline	17	6	5	5	5	4	**14**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033[1]	17	5	4	3	3	3	**8**	4
A2. New public sector loans on less favorable terms in 2013–2033[2]	17	5	4	4	4	4	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	17	5	5	5	5	5	**14**	5
B2. Export value growth at historical average minus one standard deviation in 2014–2015[3]	17	5	5	5	5	5	**15**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014–2015	17	5	5	5	4	4	**14**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015[4]	17	5	5	5	4	4	**14**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	17	5	5	4	4	4	**12**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014[5]	17	8	7	7	6	6	**19**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline)[6]	26	26	26	26	26	26	**26**	26

Sources: Rwandan authorities; and IMF 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 th

[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 (implicitly assuming 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.

Table 2a.Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033[3]
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate				Projections					
	2010	2011	2012	Average [#]	Standard Deviation [5]	2013	2014	2015	2016	2017	2018	2013–18 Average	2023	2033	2019–33 Average
Public sector debt[1]	27.5	33.5	25.5			28.7	27.7	27.0	27.1	27.0	28.7		31.7	31.5	
of which: foreign-currency denominated	14.5	18.0	17.1			20.8	21.5	23.2	23.7	22.9	22.9		20.5	15.9	
Change in public sector debt	1.5	6.0	-8.0			3.2	-1.1	-0.7	0.1	-0.1	1.7		-1.8	-0.8	
Identified debt-creating flows	-1.0	-3.5	0.0			3.1	2.0	1.1	0.0	0.0	0.6		-0.7	-1.1	
Primary deficit	-0.2	0.4	2.6	0.2	1.4	4.4	4.0	2.9	1.9	1.9	2.1	2.9	1.7	1.1	1.5
Revenue and grants	26.6	24.8	24.6			24.6	25.3	25.5	25.2	24.9	24.9		24.8	24.0	
of which: grants	13.5	10.9	9.4			8.4	8.3	7.2	6.0	5.3	4.8		3.9	1.8	
Primary (noninterest) expenditure	26.5	25.2	27.2			29.0	29.4	28.4	27.1	26.8	27.0		26.5	25.1	
Automatic debt dynamics	-1.2	-3.1	-2.9			-1.5	-2.3	-1.9	-2.1	-2.0	-1.7		-2.5	-2.2	
Contribution from interest rate/growth differential	-1.6	-2.6	-2.8			-1.4	-1.9	-1.7	-1.7	-1.8	-1.7		-2.5	-2.2	
of which: contribution from average real interest rate	0.1	-0.5	-0.3			0.2	0.1	0.2	0.2	0.1	0.1		-0.2	0.0	
of which: contribution from real GDP growth	-1.7	-2.1	-2.5			-1.6	-2.0	-1.9	-1.9	-1.9	-1.9		-2.3	-2.3	
Contribution from real exchange rate depreciation	0.4	-0.5	-0.1			-0.1	-0.4	-0.2	-0.4	-0.3	0.1		...	...	
Other identified debt-creating flows	0.4	-0.9	0.3			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.0	
Privatization receipts (negative)	0.0	-1.2	0.0			0.0	0.0	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)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.4	0.3	0.3			0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.0	
Residual, including asset changes	2.5	9.6	-8.0			0.1	-3.0	-1.8	0.1	-0.1	1.1		-1.1	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	19.4			23.2	21.6	20.0	19.7	19.8	21.1		23.8	26.3	
of which: foreign-currency denominated	...	...	10.9			15.3	15.4	16.2	16.3	15.7	15.3		12.6	10.7	
of which: external	...	...	10.9			15.3	15.4	16.2	16.3	15.7	15.3		12.6	10.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need[2]	3.4	4.8	8.7			9.8	7.6	5.8	3.9	3.9	4.2		8.9	9.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	78.9			94.6	85.3	78.5	78.3	79.6	84.9		95.8	109.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	128.0			143.7	126.7	109.1	102.6	101.2	105.0		113.8	118.6	
of which: external[3]	...	...	72.2			94.4	90.6	88.4	84.7	80.1	76.3		60.5	48.2	
Debt service-to-revenue and grants ratio (in percent)[4]	2.9	3.3	3.7			12.1	4.5	4.4	4.3	4.4	4.5		12.7	7.3	
Debt service-to-revenue ratio (in percent)[4]	5.8	5.9	6.0			18.4	6.6	6.2	5.6	5.6	5.6		15.1	7.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.7	-5.7	10.6			1.2	5.1	3.5	1.8	2.0	0.4		3.5	1.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.2	8.2	8.0	7.7	2.4	6.6	7.5	7.5	7.5	7.5	7.5	7.4	7.5	7.5	7.5
Average nominal interest rate on forex debt (in percent)	6.5	7.0	4.8	4.1	2.8	3.1	3.0	2.7	2.4	2.4	2.3	2.6	1.6	2.8	1.8
Average real interest rate on domestic debt (in percent)	-5.2	-9.4	-6.6	-10.1	3.6	-2.2	-3.4	-1.6	-0.3	0.7	2.2	-0.8	-1.2	-0.8	-1.2
Real exchange rate depreciation (in percent, + indicates depreciation	3.0	-3.4	-0.4	-7.1	7.2	-0.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.5	7.4	5.9	12.8	12.6	5.9	6.1	5.2	6.4	6.3	4.8	5.8	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percer	0.1	0.0	0.2	1.2	3.7	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	1.5	41.0	40.1	41.7	38.8	52.5	35.9	46.2	25.2	...

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

[1] [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

[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.

Table 2b.Rwanda: Sensitivity Analysis for Key Indicators of Public Debt 2013–2033

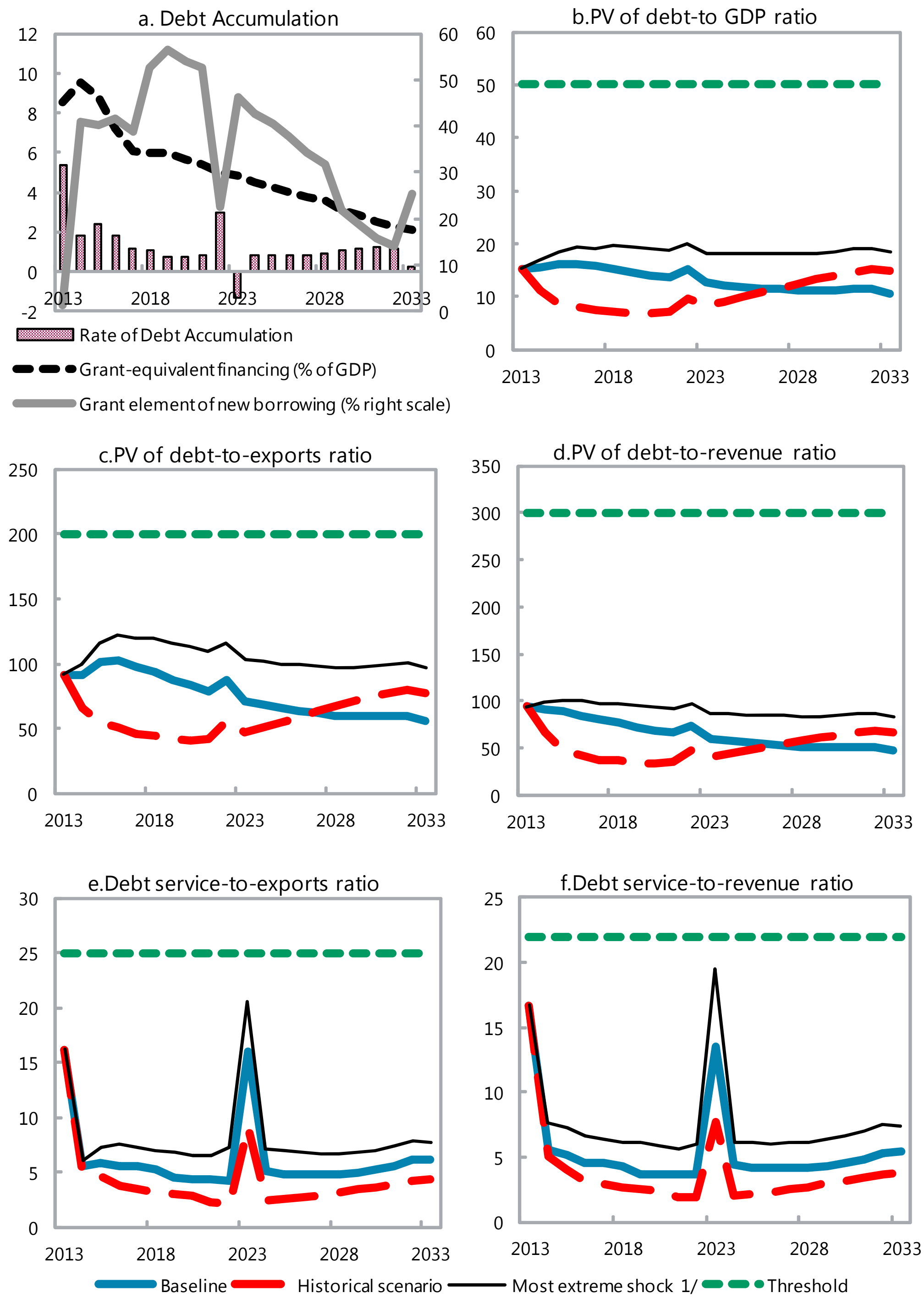
		Projections						
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	23	22	20	20	20	21	24	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	19	15	14	13	14	13	14
A2. Primary balance is unchanged from 2013	23	22	21	23	25	27	37	52
A3. Permanently lower GDP growth[1]	23	22	20	20	21	23	28	41
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	23	22	22	22	23	24	29	35
B2. Primary balance is at historical average minus one standard deviations in 2014-201	23	20	17	17	18	19	22	25
B3. Combination of B1-B2 using one half standard deviation shocks	23	20	17	17	18	19	24	29
B4. One-time 30 percent real depreciation in 2014	23	28	25	24	24	24	25	28
B5. 10 percent of GDP increase in other debt-creating flows in 2014	23	29	27	26	26	27	28	29
PV of Debt-to-Revenue Ratio[2]								
Baseline	95	85	78	78	80	85	96	110
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	95	74	61	57	54	55	52	59
A2. Primary balance is unchanged from 2013	95	86	84	91	99	110	149	215
A3. Permanently lower GDP growth[1]	95	86	80	81	83	90	113	170
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	95	87	84	86	90	97	118	146
B2. Primary balance is at historical average minus one standard deviations in 2014-201	95	78	69	69	71	76	89	106
B3. Combination of B1-B2 using one half standard deviation shocks	95	77	65	67	70	77	96	121
B4. One-time 30 percent real depreciation in 2014	95	109	98	95	95	98	102	117
B5. 10 percent of GDP increase in other debt-creating flows in 2014	95	114	105	103	103	107	113	120
Debt Service-to-Revenue Ratio[2]								
Baseline	12	4	4	4	4	5	13	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	4	4	4	4	4	11	4
A2. Primary balance is unchanged from 2013	12	4	4	4	5	5	15	12
A3. Permanently lower GDP growth[1]	12	4	4	4	5	5	14	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	12	5	5	5	5	5	14	9
B2. Primary balance is at historical average minus one standard deviations in 2014-201	12	4	4	4	4	4	12	7
B3. Combination of B1-B2 using one half standard deviation shocks	12	4	4	4	4	4	12	8
B4. One-time 30 percent real depreciation in 2014	12	5	6	6	6	6	18	10
B5. 10 percent of GDP increase in other debt-creating flows in 2014	12	4	5	6	5	5	14	8

Sources: Rwandan authorities; and IMF 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.

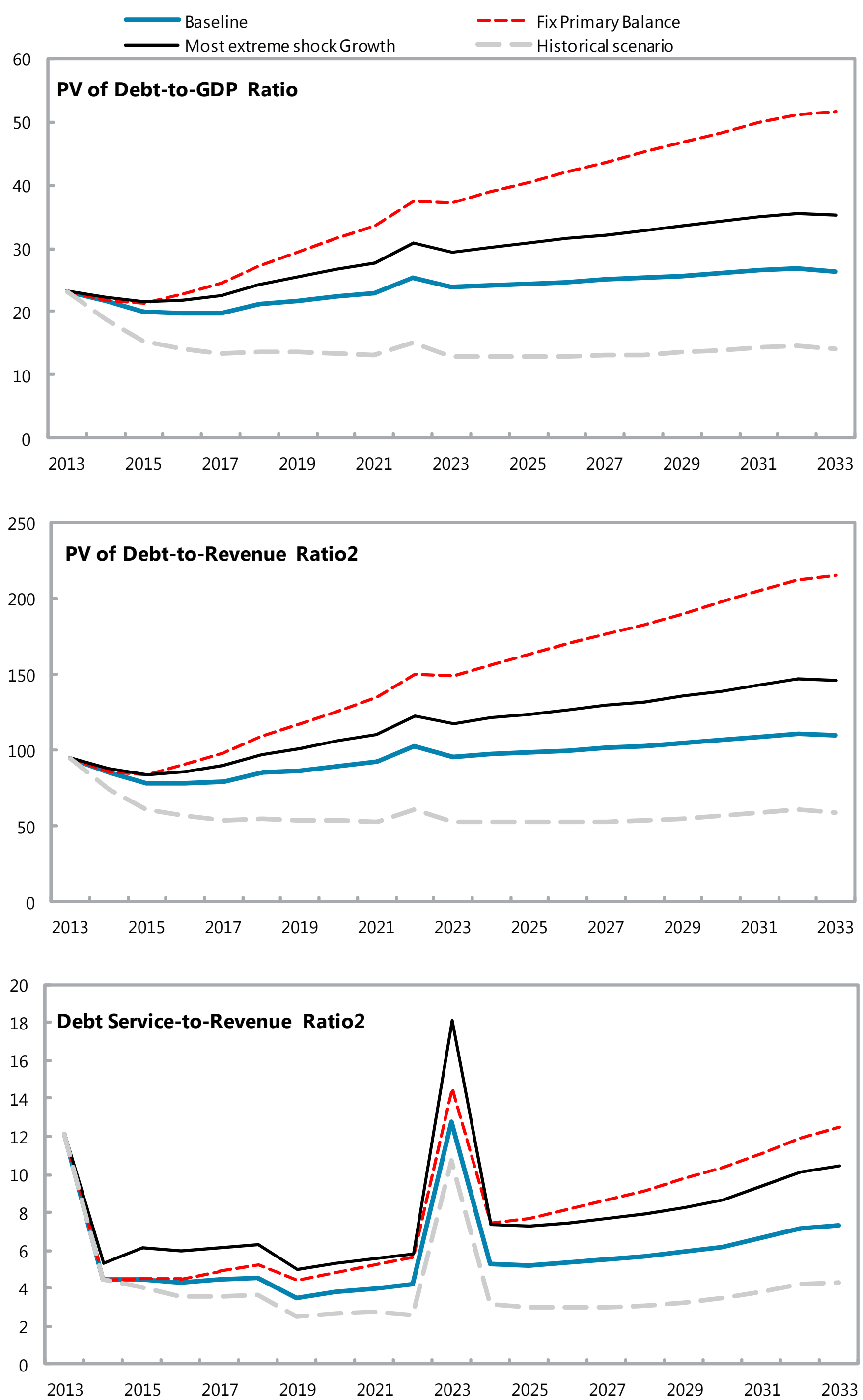
Figure 1a. Rwanda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033[1]



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

[1] The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 1b. Rwanda: Indicators of Public Debt Under Alternative Scenarios, 2013–2033[1]



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

[1] The most extreme stress test is the test that yields the highest ratio in 2023.

[2] Revenues are defined inclusive of grants.

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FOR IMMEDIATE RELEASE
December 2, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh and Final Review Under the Policy Support Instrument with Rwanda Approves New Three-Year PSI

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and final review under Rwanda's Policy Support Instrument (PSI) and approved a new three-year PSI. In completing the review, the Board approved the authorities' request for a waiver for non-observance of the continuous assessment criteria related to the ceiling on contracting nonconcessional borrowing (NCB).

The Executive Board took note of Rwanda's cancellation of the current PSI, which was scheduled to expire in January 2014. The IMF's framework for PSIs is designed for low-income countries that may not need financial assistance, but still seek IMF advice, monitoring, and endorsement of their policy frameworks. Members' programs under PSIs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners (see Public Information Notice No. 05/145).

The authorities' program aims to lay the foundations for strong and inclusive growth, with a strong emphasis on economic transformation; rural development; productivity and youth employment; and accountable governance, supported by macroeconomic stability and improved public financial management. Rwanda's program will build on the progress made under the previous PSI-supported program and is aligned with the objectives of the new economic development and poverty reduction strategy.

The Executive Board approved a three-year PSI for Rwanda on June 16, 2010 (see Press Release No. 10/247). On June 17, 2013, the Executive Board completed the sixth review and approved an extension of the PSI by seven months to end-January 2014 (see Press Release No. 13/217).

Following the Executive Board's discussion of Rwanda, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The Rwandan authorities are to be commended for the strong implementation of their economic program under the Policy Support Instrument. Prudent and inclusive policies, good governance, and support from development partners have contributed to sustained economic growth and poverty reduction.

"Going forward, fiscal policy will need to focus on domestic revenue mobilization to finance the authorities' ambitious development goals. Aligning spending with available resources and judicious selection and financing of investment projects will minimize risks to the budget. It will also be important to strengthen debt management capacity and follow a prudent approach to new borrowing to entrench long-term fiscal and debt sustainability. The central bank will need to closely monitor rising inflationary pressures and adjust the policy stance as needed while maintaining exchange rate flexibility. Efforts to increase financial inclusion and bolster the regulatory and supervisory frameworks should also be accelerated.

"The authorities' new poverty reduction strategy aims to sustain high and inclusive growth. The authorities should maintain their commitment to prudent policies and pursue their broad reform agenda to tackle structural impediments. In particular, further reducing the costs of doing business and addressing infrastructure deficiencies would support economic diversification, foster private sector development, and broaden the export base. The renewed focus on integration at the East African Community level should help in this regard. Finally, continued emphasis on policies that will further assist poverty reduction efforts is welcome."

ANNEX

Recent Economic Developments

Rwanda's economic performance over the last decade has been an economic success story. Its macroeconomic performance has generally outperformed its peers in the region. Prudent fiscal and monetary policies geared toward maintaining macroeconomic stability, coupled with a strong emphasis on building institutional capacity, promoting good governance, and creating a business friendly environment, contributed to low inflation and average annual economic growth in excess of 8 percent over the last decade. Public debt remained modest and reserve buffers kept the economy resilient to shocks.

However, Rwanda faces some key vulnerabilities, including its high dependence on donor aid, low government revenue, narrow export base, and weak infrastructure, with resulting high costs of doing business that arise from relatively high energy and transport costs. For example, recent economic developments have been strongly influenced by the suspension and delays of aid flows last year, and their eventual resumption this year.

Reflecting the slowdown in the first half of the year, growth for 2013 is projected to be 6.6 percent. For 2014, growth of 7.5 percent is projected, supported by a recovery in agriculture and a pick-up in services. Headline inflation is projected to rise to 6.5 percent by end-2013, reflecting rising food prices because of a relatively poor second harvest.

Program Summary

The objectives of the new PSI program are centered around four key pillars:

Private sector development: Strong private sector development is an important pillar of the authorities' economic transformation strategy. In this regard, the government intends to continue its investment program in strategic infrastructure to reduce the cost of doing business while deepening its reforms to continue improving the business environment.

Exports promotion: The new export strategy is aimed at increasing export earnings through broadening of the export base. The strategy focuses on a limited number of products with a view to diversify into non-traditional exports that are particularly agro-based while taking advantage of traditional exports to extend production and add value.

Domestic resource mobilization: In view of the important investment spending that is needed, one of the main priorities will remain creation of fiscal space through accelerated domestic resource mobilization and rationalization of spending.

Financial sector development: Financial sector development is the fourth pillar of the program. Financial inclusion is seen as a means to further ensure connection of the population to the market while increasing monetization of the economy. The financial reforms and the strengthening of capital markets are expected to allow mobilization of cheaper resources and support private sector investment.

Statement by Mr. Assimaidou, Executive Director for Rwanda
December 2, 2013

On behalf of my Rwandan authorities, I would like to thank the Board and Management for their continued support. My authorities appreciate the depth of the policy dialogue with staff as demonstrated again during their last visit to Kigali in the context of the 7th review under the PSI and negotiation of a successor PSI arrangement. They broadly share the thrust of the staff report as a fair reflection of the discussions.

Rwanda was ranked among the 8 nonresource-rich fastest-growing economies in sub-Saharan Africa since 1995 in the October 2013 Regional Economic Outlook. This performance over almost two decades is the result of my authorities' sound policymaking and their unyielding commitment to engineer economic development and reduce poverty as planned under their *Vision 2020*. The government's efforts towards achieving these goals have been organized in the framework of the successive Economic Development and Poverty Reduction Strategies (EDPRS) with Fund-supported programs serving as appropriate anchors. The move from ECF-backed arrangements to the current PSI arrangement has been instrumental in its signaling effect. The government thus successfully issued a debut Eurobond of US $ 400 million, which was highly oversubscribed, showing the country's attractiveness to investors on the international bond market.

In the midst of a continued weak global environment, my authorities have strived to keep up with the momentum of high growth and economic transformation. Performance under the expiring PSI has remained strong. Going forward, my authorities believe that a successor PSI is the appropriate vehicle to maintain a close policy dialogue with the Fund, enhance the hard-earned macroeconomic stability and foster the structural transformation of the economy as envisaged under EDPRS 2. They would appreciate the Board's support in concluding the seventh review under the PSI and for their request for a three-year PSI and Cancellation of the current PSI.

Recent Developments and Performance Under the PSI

Program performance has remained strong notwithstanding the challenging context of domestic constraints, delayed donor aid and morose global environment. All end-June quantitative assessment criteria were comfortably met, except for the ceiling on nonconcessional borrowing (NCB), which was missed for a loan contracted by Rwandair, a public airline company. My authorities have agreed with staff that a better communication and enforcement of the procedures on the contracting of foreign loans by public entities should help prevent breaching the NCB in the future. All structural benchmarks and indicative targets were also met.

As regards the macroeconomic framework, growth continues to be strong, though it has been revised downward to reflect the recent unfavorable developments. It is now projected at 6.6 percent in 2013 against 7.5 percent before and 8.0 percent in 2012. With the resumption of cooperation with key donors and subsequent aid inflows, my authorities are committed to endeavor towards restoring the high growth momentum, starting in 2014 where it is projected to stand at 7.5 percent. The expected drivers are construction and services, underpinned by higher public spending and credit to the private sector.

Inflation was slightly pushed upward and is projected to stand at 6.5 percent at year-end, as a result of food price hikes stemming from a poor harvest. Still, it is kept under check and is expected to decline gradually - as food prices settle by 2014 - towards the NBR's target of 5 percent in the medium term. The external position exhibits a benign situation, which should be further enhanced as the government implements its strategy to diversify the export base.

Overall, the PSI framework has served Rwanda well. It has provided the vehicle to make significant dents in the process of building a broad-based economy and reducing poverty. Furthermore, it has strengthened my authorities' toolkit to address the external shocks and to dampen their effects on the economy. On the ground on lessons learned, the government and staff have agreed on a set of policies for the successor PSI and the medium term.

Policies for the New PSI and the Medium Term

The policy priorities of the new PSI arrangement evolve around the four areas of maintaining a sustainable fiscal position, modernizing the monetary policy framework, enhancing access to credit and deepening the financial sector and preserving external stability, including debt-sustainability. Achieving the objectives of the program should help make inroads towards the goals of the 5-year EDPRS 2, which are: (i) economic transformation to sustain rapid growth; (ii) rural development; (iii) increased productivity and youth employment; and (iv) accountable governance, supported by continued emphasis on macroeconomic stability and improved public financial management. My authorities believe that significant progress in implementing these comprehensive agendas will serve their ambitious goals of posting high and sustainable growth well above the 7.5 percent projected in the medium term under the baseline scenario; and which translates into reducing poverty from 45 percent to below 30 percent by 207/18 and achieving middle income status by 2020.

Maintaining a sustainable fiscal position. Increasing domestic revenue as a share of GDP remains a key priority for my Rwandan authorities. They view it as the main prerequisite to maintain a sustainable fiscal position and gradually reduce the country's reliance on foreign aid. Thus, the government has elaborated a comprehensive reform package aimed at broadening the tax base and strengthening the tax administration. It is expected that the headline tax revenue-to-GDP ratio will increase by about 3.5 percentage points in the course of the PSI as a result of this reform. Measures to be taken include raising the excise tax on mobile airtime and introducing a royalty tax on mining (end-2013), broadening the base for VAT, introducing comprehensive tax regimes for agriculture and mining and improving property taxation (FY2015/16). On the expenditure side, my authorities are committed to adjust spending to available resource, with priority given to capital outlays, including strategic investments.

Modernizing the monetary policy framework and deepening the financial sector. My authorities will implement a set of reforms aimed at enhancing the conduct of monetary policy and achieving the 5 percent inflation target over the medium term. In this regard, liquidity will be better managed including through issuance of treasury bills and the development of a secondary market, interbank transactions will be facilitated, and the Monetary Policy Committee will be further strengthened with improved modeling and forecasting capacity. Actions will also be taken to enhance access to credit and deepen the financial sector. The banking branch remains strong despite some temporary increase in NPLs due to the economic slowdown. The authorities have adopted the second Financial Sector Development Plan (FSDP 2) which aims at increasing financial inclusion including through the savings and credit cooperatives, developing institutions, markets and supporting infrastructure, boosting investments and savings to transform the economy, and protecting consumers and maintaining financial stability.

Fostering structural transformation and export promotion. My authorities continue to strongly believe that creating a thriving broad-based economy away from agriculture towards manufacturing and services, which would grow at sustained double-digit rates over the medium term, is the ultimate way to generate employment opportunities and to lift more people out of poverty. To this end, they will step up the structural transformation of the economy and the broadening of the export base, including towards manufactured goods and services. Infrastructure programs will be enhanced to reduce the cost of doing business after the impressive milestones reached by Rwanda in improving the business environment. This includes regional projects aimed at enhancing trade and regional integration through the East African Community. An emphasis is also put on increasing FDI and the Rwanda Development Board is overhauling its strategy in this regard. The completion of strategic investments such as the Kigali Convention Center should also help the country leverage its secure and stable political stance and position itself as a high-end tourist destination and an important regional provider of services in the international events market.

Preserving external stability, including debt sustainability. My Rwandan authorities have continuously made the case for the need to instill greater flexibility in the IMF policy on debt limit to give to low-income member countries more room for maneuver in seeking loans, in particular in an environment of declining concessional financing. They expect staff to maintain an open mind on the issue of debt and to take into consideration the productivity of the investment, its addition to future economic growth as well as the potential for generating additional foreign exchange. However, it is worth emphasizing that my Rwandan authorities remain committed to strengthening debt management practices and they make it a priority to preserve the hard-earned debt sustainability, while pursuing their development agenda. They therefore appreciate the conclusion of the latest joint IMF-World Bank debt sustainability analysis that shows a significant improvement in the debt profile and assesses the risk of debt distress as "low".

Conclusion

Amidst a constrained environment of drying aid inflows and weak global outlook, my Rwandan authorities have posted strong performance under the PSI, thus keeping pace with the country's positive momentum of the last decades. Growth is still strong in a stable macroeconomic framework and structural reforms are well on track. The authorities continue to steadily fine-tune the policy mix with the view to achieve a higher and sustained growth capable of significantly reducing poverty.

My authorities are cognizant of the challenges still facing the economy and believe that the bold agenda set in the EDPRS 2 will help the country make further steps towards achieving its development goals of the *Vision 2020*. To this end, maintaining a close policy dialogue with the Fund will be instrumental to continue to garner the assistance of the international financial community. The new PSI agreed upon with staff identifies the key policy areas that are warranted to lay the ground for building a broad-based economy and achieve sustained and inclusive growth and poverty reduction. I would appreciate Board’s support for my Rwandan authorities’ efforts in this regard.