



# RWANDA

June 2016

## FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND REQUEST FOR AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Fifth Review Under the Policy Support Instrument and Request for Extension, and Request for an Arrangement Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 8, 2016, following discussions that ended on April 5, 2016, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangement under the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 25, 2016.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Rwanda.

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

Letter of Intent sent to the IMF by the authorities of Rwanda\*  
Memorandum of Economic and Financial Policies by the authorities of Rwanda\*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**  
**Washington, D.C.**



Press Release No. 16/270  
FOR IMMEDIATE RELEASE  
June 8, 2016

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Washington, D. C. 20431 USA

## **IMF Executive Board Approves US\$204 Million Stand-by Credit Facility for Rwanda and Completes Fifth PSI Review**

On June 8, 2016, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Rwanda's economic performance under the program supported by the Policy Support Instrument (PSI)<sup>1</sup> and approved an 18-month arrangement under the Standby Credit Facility (SCF)<sup>2</sup> for SDR 144.18 million (about US\$204 million or 90 percent of Rwanda's quota). In completing the review, the Board granted a waiver for a minor and temporary nonobservance of an assessment criteria on the non-accumulation of external arrears. The Board also approved the extension of the current PSI up to the end of 2017.

The SCF will complement the authorities' efforts to address growing external imbalances, by boosting reserves, with a first SDR 72.09 million disbursement (about US\$102 million) available immediately. Both near and medium term adjustment policies to position Rwanda's external position on a sustainable basis will form part of an overall strategy to support growth, support poverty reduction and improve the country's resilience to future uncertainties in the global economy.

The Executive Board approved the PSI for Rwanda on December 2, 2013 (see [Press Release No.13/483](#)).

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

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<sup>1</sup> The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Rwanda's current PSI are available at [www.imf.org/rwanda](http://www.imf.org/rwanda).

<sup>2</sup> The SCF provides financing to low-income countries on concessional terms. For more details, see <http://www.imf.org/external/np/exr/facts/scf.htm>.

“Rwanda’s continued strong performance under the Policy Support Instrument has created a platform for high growth and steady poverty reduction. Growth in 2015 was buoyed by strong construction and services activity, while inflation remained contained.

“Nevertheless, the situation has grown more challenging in recent months due to external shocks related to commodity prices and tighter conditions for private inflows. Combined with the appreciation of the U.S. dollar, these have reduced export receipts and put downward pressure on the exchange rate and official reserves.

“Accordingly, the authorities are taking decisive steps to address external imbalances; first and foremost, through using continued exchange rate flexibility as the principal adjustment tool. This will be supported by tighter fiscal and monetary policies to help curb demand for imports. Implementation of these policies should maintain GDP growth of around 6 percent in both 2016 and 2017, while IMF financing under the Standby Credit Facility will help bolster reserves. The authorities are also accelerating policies to diversify and promote higher value exports, which should help strengthen the country’s medium-term growth prospects and its resilience to future shocks.

“Downside risks to growth and the program remain: for example, should further shocks to commodity prices or regional and weather-related developments materialize, additional adjustment policies would need to be put in place rapidly.”

## **Annex**

### **Recent economic developments**

Despite the drop in global commodity prices, Rwanda’s growth remained strong in 2015, with a GDP rate of 6.9 percent. Mining exports dropped by almost half in 2015, leading to a significant loss in foreign exchange earnings. As such, the current account deficit has also worsened, from a deficit of 16.4 percent in 2014 to a deficit of 18.1 percent in 2015. The growth outlook for 2016–17 has also become more uncertain.

Consumer price inflation remained contained, averaging 2.5 percent for the year, though it increased in the second half of 2015 due to higher food prices and administrative increases in utility prices. Monetary policy remained largely accommodative through end-2015 but was tightened in the first quarter of 2016.

Despite these developments, macroeconomic policy performance through December 2015 remained in line with the PSI program objectives. Most targets were met and were also supported by structural reforms, notably changes to boost domestic revenue collection, reduce liquidity overhangs, strengthen financial market supervision and functioning, and improve

domestic revenue collection. Planned measures to revise the property tax law and improve the timeliness of public reporting on budget execution are taking longer than anticipated.

### **Program summary**

The existing PSI and new SCF arrangement will support the country's efforts to address growing external imbalances, thereby supporting continued strong growth and durable poverty reduction. The SCF arrangement adds a financing component to the existing PSI-supported program, which aims to promote private-sector led growth through safeguarding macroeconomic stability, including through external sustainability, fiscal sustainability based on continued improvements in domestic resource collection, low and stable inflation, and enhancing access to credit and deepening the financial sector.

## Rwanda: Selected Economic Indicators, 2014 – 2018

	2014	2015	2016	2017	2018
	Act.	Est.	Proj.	Proj.	Proj.
<b>Output, prices, and exchange rate</b>					
Real GDP	7.0	6.9	6.0	6.0	7.0
GDP deflator	3.7	1.2	4.4	4.6	4.8
CPI (period average)	1.8	2.5	4.6	4.9	5.0
CPI (end of period)	2.1	4.5	4.7	5.0	5.0
Core inflation (end of period) <sup>1</sup>	2.9	...	...	...	...
Terms of trade (deterioration, -)	1.9	2.2	-1.1	-0.9	-0.7
<b>Money and credit</b>					
Broad money (M3)	19.0	21.1	15.4	15.6	15.1
Credit to non-government sector	19.6	26.8	16.0	16.0	19.5
Policy Rate (end of period)	6.5	6.5	...	...	...
M3/GDP (percent)	22.7	25.4	26.5	27.6	28.3
NPLs (percent of total loans)	6.0	...	...	...	...
<b>General government budget</b>					
Revenue and grants	24.0	25.0	23.8	23.3	23.5
<i>of which: tax revenue</i>	15.0	15.9	16.0	16.1	16.3
<i>of which: grants</i>	7.4	6.4	5.6	5.2	5.2
Expenditure	27.6	28.1	26.8	25.0	25.0
Current	15.0	14.8	14.3	14.8	14.1
Capital	12.6	13.3	12.5	10.2	10.9
Primary balance	-4.2	-4.1	-3.8	-2.4	-2.0
Overall balance	-4.9	-5.0	-4.7	-3.3	-3.0
<b>Public debt</b>					
Total public debt	29.3	35.4	44.5	48.5	49.4
<i>of which: external public debt</i>	23.6	28.5	37.5	41.4	44.4
<b>Investment and savings</b>					
Investment	25.2	25.7	28.9	25.4	25.6
Public	12.6	13.3	12.5	10.2	10.9
Private	12.6	12.4	16.4	15.2	14.7
Savings <sup>2</sup>	8.9	7.6	7.7	9.2	11.5
<b>External sector</b>					
Exports (goods and services)	16.9	17.3	16.7	17.6	18.4
Imports (goods and services) <sup>3</sup>	33.5	34.9	37.3	33.3	32.2
Current account balance (including grants)	-10.5	-13.5	-16.5	-12.0	-10.2
Current account balance (excluding grants)	-16.4	-18.1	-21.2	-16.1	-14.1
Gross international reserves					
In billions of US\$	1.0	0.9	0.8	0.6	0.7
In months of next year's imports	4.2	3.6	3.2	2.5	2.9
<b>Memorandum items:</b>					
GDP at current market prices					
Rwanda francs (billion)	5,394	5,837	6,459	7,164	8,031
US\$ (billion)	7.9	8.1	...	...	...
GDP per capita (US\$)	719	718	...	...	...
Population (million)	11.0	11.3	11.5	11.8	12.1

Sources: Rwandan authorities and IMF staff estimates.

<sup>1</sup> Defined as excluding food and fuel.

<sup>2</sup> The savings rate excludes grants.

<sup>3</sup> Imports for 2016 reflect purchases of two aircrafts.



# RWANDA

May 25, 2016

## FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND REQUEST FOR AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

### KEY ISSUES

**Despite an unfolding external shock, growth remained strong in 2015.** Real GDP grew by an estimated 6.9 percent, buoyed by strong construction and services activity. Inflation picked up, driven by utility and food prices, the latter affected by increased demand from Burundian refugees and cross-border trade.

**Despite exchange rate depreciation, the external position remained under pressure.** Mining exports dropped by almost half in 2015, leading to a significant loss in foreign exchange earnings. Although lower fuel prices offset about 2/3 of the losses, they were exacerbated by lower private remittances and capital inflows and still-strong import demand. Combined with US\$ appreciation, this led to a 7.5 percent depreciation of the Rwandan franc in 2015, and a sharp drawdown of banking system reserves. Accelerated depreciation in 2016 has not yet reversed the trends, despite initial signs of muted import demand.

**To complement the authorities' medium-term policies, policy discussions focused on near-term adjustment.** The authorities have reinforced policies to promote export diversification and import substitution, but these will take time. Thus, it was agreed that additional policy adjustment is warranted in the near term. The principal tool for responding to the shock will continue to be exchange rate adjustment, complemented by fiscal and monetary tightening. Combined policy adjustment is forecast to reduce imports by roughly 15 percent over 2016-2017, thus averting a more precipitous decline in reserves. These policies are expected to reduce growth modestly, to 6.0 percent in 2016 and 2017, with risks on the downside.

**The authorities are requesting an eighteen month arrangement under the Stand-by Credit Facility to support adjustment efforts, with extension of the PSI-supported program for about 13 months.** To bolster reserve levels while the adjustment effort is underway, the authorities are requesting access of 90 percent of quota (SDR 144.18 million) under an 18-month SCF arrangement. This temporary balance of payments support notwithstanding, they wish to maintain their medium-term engagement with the Fund through the PSI, which has served them well in terms of supporting and signaling their medium-term macroeconomic and growth objectives.

Approved By  
**Roger Nord (AFR) and  
 Catherine Pattillo (SPR)**

Discussions were held in Kigali during March 22-April 5. The mission comprised Laure Redifer (head), Tobias Roy, Samson Kwalingana, and Fan Yang (all AFR), and Myrvin Anthony (SPR). Alun Thomas, resident representative, assisted the mission. The mission met with Minister of Finance and Economic Planning Gatete; National Bank of Rwanda Governor Rwangombwa; Minister of Trade and Industry Kanimba; EAC Minister Rugwabiza and other senior officials; and representatives of the private sector and development partners.

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## RECENT DEVELOPMENTS

1. **Despite an unfolding external shock, growth remained strong in 2015** (Figures 1 and 2, Table 1). Real GDP grew by an estimated 6.9 percent in 2015, buoyed by strong construction and services activity, and leading indicators suggest continued robust growth in Q1 2016. Inflation began to pick up over the second half of the year, due to pressure from food prices and administrative increases in utility prices. Food prices were affected by increased demand from Burundian refugees in Rwanda (around 75,000) and more informal cross-border trade with DRC and Uganda due to lackluster harvests in those areas. Headline inflation (y/y) rose to 4.5 percent by end-December, where it remained through Q1 2016. The significant exchange rate depreciation that took place mostly in the second half of 2015 did not have any obvious effect on inflation in Q1 2016.
2. **Rising domestically-financed public investment spending was financed by higher tax revenues and frontloaded budget support** (Figure 3, Tables 2a and 2b). Tax revenue at end-December came in slightly stronger than expected for the first half of the FY, reflecting mainly a higher value of imports in local currency terms. This, and frontloaded budget support explained in the 4<sup>th</sup> review, allowed domestically-financed public investment spending to remain elevated (7.9 percent of GDP), in line with expectations. Current expenditure has been contained at 14.6 percent of GDP. The overall deficit amounted to 5.4 percent of (revised) GDP, in line with expectations.
3. **Monetary policy remained accommodative through end-2015, but was tightened in Q1 2016** (Figure 4, Table 3). Despite reserve money targets being met, broad money and private sector credit grew more than expected in 2015, the latter by 26.8 percent (compared to 19.6 percent in 2014), largely driven by lending for hotels. In Q1 2016, reserve money growth decelerated as programmed, with private sector credit growth slowing to 17.8 percent y/y in March.
4. **Adverse external shocks in 2015 were partly offset by a positive fuel price shock, but required significant use of banking system reserves and frontloaded budget support.** Mineral exports, which accounted for 28 percent of total exports in 2014, dropped by 40 percent in 2015. The losses were offset by about 2/3 by the positive shock to fuel imports from lower prices. At the same time, the services deficit increased sharply due to a rise in business-related services (linked mainly to the Kigali Convention Center and Rwandair aircraft lease) and spiking freight and insurance costs associated with container theft in foreign ports. The transfers balance also suffered due to a 10 percent decline in foreign remittances. These combined factors worsened the current account balance, from a deficit of 16.4 percent in 2014 to 18.1 percent in 2015. These shortfalls were financed by frontloaded borrowing from the World Bank, external commercial financing, a sharp drawdown of commercial banks' NFA, and central bank reserves.
5. **The Rwandan franc depreciated 7.5 percent against the US\$ in 2015.** Due to growing imbalances, foreign exchange shortages intensified in the summer of 2015, which led to more rapid depreciation of the currency. Depreciation in 2015 already began to curb imports: after correcting for the positive fuel price shock, imports dropped almost 1 percentage point as a share of GDP. Although the exchange rate depreciated at an accelerated pace in the first quarter of 2016,

continued reserve use was needed. Official reserves at end-March were US\$817 million, or 3.4 months of imports, and commercial banks' reserves dropped another US\$46 million since the beginning of the year.

## PSI PROGRAM PERFORMANCE

6. **All but one quantitative target was met, and most structural benchmarks were met** (Tables 6 and 7). The indicative ceiling on net domestic financing was breached by a minor amount, reflecting a slightly larger reduction than planned in domestic arrears. Of three structural benchmarks to be implemented through end-May 2016, two were met. The benchmark for the quarterly report on budget execution for end-December was not met, but it was produced and published one month later, on April 1, 2016. All structural measures for end-June 2016 are on track to be met. The forthcoming structural measure for a study on a new tax regime for agriculture (due end-November) has been reprogrammed to allow for more time, since despite continued best efforts by the authorities and IMF staff, a technical expert still has not been identified.

## GROWTH AND EXTERNAL OUTLOOK

7. **In the absence of policy adjustment already underway, growth would remain at its potential, but the balance of payment situation would be unsustainable.** The authorities and staff have been assessing external developments as events have evolved, and have discussed the appropriate policy response over both the 4<sup>th</sup> and 5<sup>th</sup> PSI reviews. In recognizing that reserves had been declining over two years and that there were various elements affecting external balances, staff constructed a stylized baseline projection scenario and compared it to a pre-shock macroeconomic framework (proxied by the 3<sup>rd</sup> PSI review)<sup>1</sup>, in order to better understand the magnitude of the shock and to estimate how much short-term policy adjustment may be required (Box 1). This stylized baseline analysis suggests that – in the absence of short-term policy adjustment already underway – reserves would have become perilously low by next year.

<sup>1</sup> At the time of the 3<sup>rd</sup> PSI review, mineral price shocks were foreseen, but the volume shocks were not. As of the 4<sup>th</sup> PSI review, both larger price shocks and volume shocks were unfolding, and partial policy adjustment was underway, so the projections reflected these to a greater extent.

### Box 1. Stylized “No Adjustment” Baseline Outlook for the Balance of Payments

Rwanda’s balance of payments outlook has deteriorated, due mainly to projections for mining exports and private capital and remittances inflows. Although mining exports have a marginal impact on growth and fiscal revenues, they are the second largest foreign exchange earner, behind tourism. Commodity price drops have adversely affected several SSA countries, however, for Rwanda – where mineral production is concentrated in tin, tantalite and tungsten almost exclusively – this problem is compounded. As a result of Dodd-Frank legislation in the US, all mining in countries bordering DRC are now effectively required to have origin tagging. Adding associated audit costs, tagging has increased production costs by around 20 percent. When combined with lower international prices, this has resulted in lower production as some mining activity became unprofitable. At the same time, foreign remittances have slowed down significantly, while the outlook for other private capital inflows has darkened considerably.

#### Estimating the size of the shock

	2015		2016		2017		2015-2017 Difference to est. size of shock
	No shock <sup>1</sup>	Estimated	No shock	Shock w/no adjustment	No shock	Shock w/no adjustment	
Real GDP growth, %	6.5	6.9	7.0	7.0	7.5	7.5	
	(US\$ millions)						
Current account balance	-947	-1,096	-957	-1,459	-1,324	-1,248	-574
Trade balance	-1,290	-1,232	-1,324	-1,599	-1,513	-1,500	-205
Exports of goods	742	683	830	668	924	713	-431
of which: Minerals	211	118	248	95	281	101	-426
Imports of goods <sup>3</sup>	2,031	1,916	2,154	2,267	2,437	2,213	-226
of which: energy imports <sup>4</sup>	256	226	309	201	353	237	-255
of which: Rwandair	0	0	0	188	188	0	0
Services (net)	-45	-193	0	-203	-152	-75	-275
of which: KCC and Rwandair	0	-112	0	-139	0	0	-250
Private transfers	194	152	186	168	204	178	-86
Capital/Financial balance	808	1,094	1,229	1,202	1,323	873	-191
of which: KCC-and Rwandair	68	134	28	272	0	0	310
of which: Other private inflows	-115	98	321	35	243	110	-206
Overall balance <sup>2</sup>	-139	-61	272	-257	-1	-376	-824
Gross official reserves (US\$)	880	920	1,149	661	1,146	283	-863
In months of imports	3.7	3.6	4.0	2.6	4.1	1.1	

<sup>1</sup>Proxied by 3rd PSI review

<sup>2</sup>The difference of roughly US\$40 million in summing to the overall balance, above and below the line, are due to 2015 errors and omissions.

<sup>3</sup>US\$200 million in imports were moved from 2017 into 2016 for Rwandair purchases.

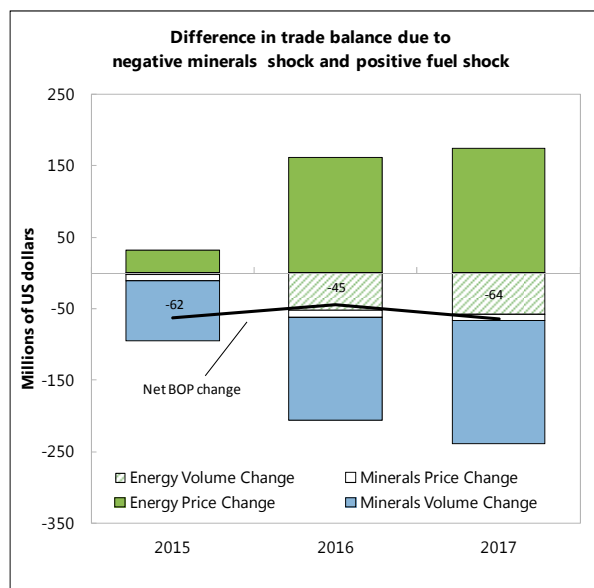
<sup>4</sup>Petroleum accounts for approximately 95% of energy imports

Using April 2016 WEO projections, staff constructed a “shock no-adjustment” baseline scenario, maintaining growth and imports at recent historical levels. This was compared to a “no-shock” scenario to better under the size of the shock and the level of policy adjustment required.

- The “positive shock” of fuel prices, which offset about 2/3 of the shock in 2015, is expected to offset about the same amount in 2016-17.

### Box 1. Stylized “No Adjustment” Baseline Outlook for the Balance of Payments (concluded)

- Private remittances are expected to grow more in line with growth forecasts in source countries.
- Private capital projects are reduced substantially, reflecting recent historical trends as well as global and regional developments. The 2015 outcome reflects a large drawdown of commercial bank forex reserves in the face of growing shortages.
- Rwandair and KCC imports and related financing have been added into the baseline, with no negative net effect on the BOP.
- Under this hypothetical scenario, higher growth and imports are assumed to be financed by use of official foreign reserves, nearly depleting stocks by end-2017.



## POLICY DISCUSSIONS

8. **Recognizing the severity of the situation, the authorities introduced and/or accelerated measures to address growing external imbalances** (Box 2). The authorities accelerated export promotion programs already underway and introduced new measures fostering import substitution. Staff agreed that these policies should have an impact, but pointed out that they would take time to have an effect. Over the course of the 4<sup>th</sup> and 5<sup>th</sup> PSI review discussions, staff underscored that additional short-term policy adjustment would also be needed to mute import demand more rapidly. Staff acknowledged that demand management policies would come at some expense to growth in the short-term, but that fine-tuning now could help avoid potentially larger adjustment efforts later. The authorities agreed, and felt that temporary balance of payments support would provide an important buffer during the adjustment period.

### Box 2. Medium-term Measures to Address External Imbalances

**The government has developed strategic and ambitious objectives to help stimulate exports and substitute domestic production for imports.** To expand the still-small export base, the government is intervening in selected segments with high growth potential. The government is also reducing the costs of accessing identified strategic markets for exports through improved transportation networks. Firm capacity is being upgraded through offering export advisors on various projects, a trade information center, and an Export Growth Facility (EGF). The EGF provides: (1) an investment catalyst fund to encourage export-focused investments; 2) a matching grant fund for medium-sized exporters to meet specific requirements in target markets; and 3) a short-term export guarantee facility.

**These initiatives will help support the government's current focus on services exports, value addition in commodities, and some agricultural processed products and textiles.** On services, the MICE (meetings, incentives, conferences, events) strategy is on track with a large increase in planned conferences in Kigali in 2016 (e.g. World Economic Forum, African Union Summit) and up to 2,800 new executive level hotel rooms in the city are poised to open this year. Value addition is taking place in the coffee sector with a 10 percent increase (to 50 percent) in the share of pre-washed coffee bean exports. There is also a drive to export more meat and processed foods.

**The government also recognizes the need to reduce imports over the medium-term, including through a policy of domestic substitution.** Promising categories include rice, sugar, cement and clothing, which account for more than 10 percent of the current import bill. For rice, the government is expanding acreage by 8,000 hectares with the objective of making the country self sufficient by 2018. For cement, plans are in place to increase the national cement company production six-fold to displace almost all imports. For sugar, the government is looking for a new investor to take charge of sugar production and is offering land for sugar cane plantations. For clothing, the government has just introduced (in concert with the EAC) a ban on used clothing imports, with the objective of using companies in the Special Economic Zone to supply the domestic market.

**The government is also engaged in active negotiations with EAC neighboring countries to reduce the cost of trade,** through the ongoing Northern Corridor initiative (described in CR 16/24), but also in recently-invigorated discussions of the Central Corridor with the new Tanzanian government.

9. **Exchange rate flexibility will serve as the principal adjustment tool, supported by tightened fiscal and monetary policy.** The authorities stressed that the exchange rate will continue to serve as the main adjustment lever. Indeed, the pace of depreciation has accelerated so far in 2016, with the franc dropping 3.4 percent against the US\$ through end-April 2016 (11 percent on an annual basis). However, as indicated in Figure 5, the nominal effective exchange rate remains slightly appreciated relative to other EAC countries, although less so in real terms. Staff's updated external sector analysis (Annex I) indicates – in contrast the previous assessment in 2014 – that as of end-2015, the

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exchange rate was likely modestly overvalued. In any case, additional exchange rate adjustment will be warranted as long as balance of payments pressures persist.

## A. Fiscal Policy

10. **Relative to the 4<sup>th</sup> PSI review, the fiscal deficit target has been reduced in FY16/17 and FY 17/18.** Adjustment had already been planned relative to the FY15/16, but the agreed program includes additional adjustment of 0.6 and 1.1 percentage points of (revised) GDP in FY16/17 and FY17/18, respectively (text table). This is based on broadly unchanged revenues, higher grants and largely unchanged overall spending. Total revenue has been reduced by the projected reduction in non-tax revenues received for peacekeeping operations and demobilization (PKO), which are

outside the authorities' control (with linked spending adjusted commensurately). Tax revenue projections are broadly unchanged, since recently-implemented tax policy measures and administrative measures currently (Box 3) are assumed to be offset by lower import revenues. Incoming grant projections have been increased by 0.5 percent of GDP, each year, based on updated projections from development partners.

	2015/16		2016/17		2017/18	
	4th PSI Rev.	Proj.	4th PSI Rev.	Proj.	4th PSI Rev.	Proj.
<b>Tax and non-tax revenue</b>	<b>1,104</b>	<b>1,104</b>	<b>1,271</b>	<b>1,237</b>	<b>1,435</b>	<b>1,374</b>
% GDP	18.0	18.0	18.7	18.2	18.9	18.7
Of which: PKO	71	71	119	80	129	86
% GDP	1.2	1.2	1.7	1.2	1.7	1.1
<b>Grants</b>	<b>375</b>	<b>375</b>	<b>328</b>	<b>365</b>	<b>333</b>	<b>371</b>
% GDP	6.1	6.1	4.8	5.4	4.4	4.9
<b>Total exp. and net lending</b>	<b>1,785</b>	<b>1,785</b>	<b>1,888</b>	<b>1,849</b>	<b>2,084</b>	<b>1,983</b>
% GDP	29.0	29.0	27.7	27.1	27.4	26.1
<b>Current expenditure</b>	<b>900</b>	<b>900</b>	<b>1,009</b>	<b>990</b>	<b>1,122</b>	<b>1,069</b>
% GDP	14.6	14.6	14.8	14.5	14.8	14.1
of which: goods & services	180	180	187	201	212	215
% GDP	2.9	2.9	2.7	3.0	2.8	2.8
of which: PKO	101	101	151	111	177	112
% GDP	1.6	1.6	2.2	1.6	2.3	1.5
<b>Capital expenditure</b>	<b>776</b>	<b>776</b>	<b>768</b>	<b>751</b>	<b>835</b>	<b>796</b>
% GDP	12.6	12.6	11.3	11.0	11.0	10.5
<b>Overall deficit (incl. grants)</b>	<b>-306</b>	<b>-306</b>	<b>-289</b>	<b>-247</b>	<b>-316</b>	<b>-238</b>
% GDP	-5.0	-5.0	-4.2	-3.6	-4.2	-3.1
<b>Memo: "pure" dom. spending<sup>1</sup></b>	<b>1,327</b>	<b>1,327</b>	<b>1,371</b>	<b>1,333</b>	<b>1,516</b>	<b>1,462</b>
% GDP	21.6	21.6	20.1	19.6	20.0	19.2
<b>GDP</b>	<b>6,148</b>	<b>6,148</b>	<b>6,811</b>	<b>6,811</b>	<b>7,597</b>	<b>7,597</b>

<sup>1</sup>Excludes PKO, "global fund" grants tied across categories, and ext.-fin. cap. exp.

11. **Overall spending is largely unchanged, reflecting more spending linked to higher external grants and financing, and less spending elsewhere.**

In addition to PKO and externally-financed investment spending, spending of grants from the Gates Global Fund is tied to specific programs that are integrated across spending categories. For example, the "one-laptop-per child" program is classified as purchases of goods and services, and the incoming grants are forfeited if not spent. Global Fund grants are higher than projected at the 4<sup>th</sup> PSI review, and so are the associated spending categories. Spending adjustment is planned for the other categories that are not linked to external grants and financing, notably domestically-financed investment, with "pure" domestic spending adjustment of 2 percentage points of GDP planned for FY16/17 relative to FY15/16.

MEFP ¶16

12. **The fiscal deficit will be reduced close to 3 percent of GDP, the convergence target for the EAC.** This brings the deficit in line with the EAC convergence criterion, which stipulates bringing the deficit 3.0 percent of GDP by 2021. In order to continue to scale up public investment nonetheless, the authorities are increasingly relying on public-private partnerships, in particular in the areas of energy generation, IT infrastructure, and transportation. Starting with PPPs, and to safeguard against potential fiscal risks in general, the authorities plan to develop a broad-based strategy to including more fiscal risk analysis in the public investment planning process.

13. **These targets will be supported by additional commitments to strengthen public financial management and revenue collection (MEFP, Table 2).**

MEFP ¶16, 21, 34

In addition to existing measures, the authorities will: establish a timeframe to move fiscal reporting to the GFS14 framework, which should resolve some problems with timely production of consolidated fiscal reports; share a planned detailed report on FY15/16 calculated tax expenditures; begin a pilot system of tracking donor project spending and financing; and submit revised Fixed Assets Tax legislation—incorporating current work on optimal valuation methodologies – to parliament. These measures should support program objectives and adjustment primarily through improving fiscal transparency, which should in turn continue to increase spending efficiency, which expenditure reviews have judged to be quite good already.

### Box 3. Revenue Measures

The authorities have implemented various measures, contributing to an increase in tax revenue from 11.8 percent in FY09/10 to a projected 15.9 percent of GDP in FY15/16, with additional gains expected in the coming years. After these substantial gains and while awaiting a major tax policy measure in the pipeline (revising the property tax scheme), the focus is on improving tax administration, informed by recent technical assistance from FAD and a recent TADAT diagnostic. Given the uncertainty of measuring the impact on collections and the probable decline in trade taxes as imports are reduced, the framework assumes that tax revenues stay roughly constant through FY17/18.

**New tax policy measures:** In December 2013, an excise tax on mobile airtime was increased and a royalty tax on mining introduced. The budget in FY2015/16 included a road fund levy, an excise tax on petroleum, higher excise tax on tobacco, an import tax on non-EAC products, and increased local government fees.

**New tax administration measures:** To improve VAT collection, electronic billing machines were introduced and their use will be expanded in 2016. A revised investment code replaced blanket tax exemptions with more targeted exemptions for priority sectors and the schedules for exemptions and zero-VAT rating were revised. Collection of tax arrears is also being reinforced. A variety of other tax administration measures are also being implemented.

**Measures underway:** Most significant change will be changing real estate tax collection from a general “Land-Lease Fee” to a Fixed Asset Tax based on underlying property values. However, due to more refinement of the valuation methodologies, its passage is delayed and this policy change is unlikely to yield revenues before late in FY 17/18.



## B. Monetary Policy

14. **Tighter reserve money targets were adopted for 2016 and 2017 relative to the 4<sup>th</sup> review.** Using more realistic assumptions for velocity and the money multiplier than in the past, this should bring private sector credit growth down from close to 27 percent in 2015 to 16 percent in 2016, with a significant impact on private sector import demand. The authorities are also planning to issue new central bank bonds to mop up excess reserves to strengthen the link between key policy and money market rates, which should in turn affect lending rates and volumes. While a move to more indirect monetary policy tools is in line with existing EAC convergence plans, reducing liquidity overhangs should also make the existing monetary policy framework more effective. MEFP ¶ 13, 22-25

15. **Efforts to develop the interbank and secondary markets have been imbedded into the program framework.** In addition to measures to extend the yield curve and strengthen secondary markets for government securities, the NBR also wants to: define and target an optimal range of excess reserves and introduce repurchasing operations between banks to help develop the interbank market; and identify a policy interest rate consistent with the excess reserves range.

16. **Financial sector indicators deteriorated slightly in the second half of 2015.** Staff again asked about possible overheating indicated by the pace of credit growth, particularly in the construction and hotel sectors. The NBR provided more detailed financial soundness indicators by sector, which suggested that the financial system remains broadly sound. Meanwhile, the NBR is pressing forward with laws to improve central bank oversight over both banks and non-banks, as is a law to allow establishment of private pensions. A project to implement Basel II and III regulatory framework for banks is also underway, and a revised deposit insurance law will extend protection to smaller depositors. To address financial stability issues associated with a surge in microfinance activity, the central bank is reviewing the sector's legal, regulatory and supervisory framework, with support from the World Bank, MEFP ¶ 10, 26-29

## C. External Outlook after Adjustment Policies

17. **Combined adjustment policies are expected to reduce import demand significantly, which will have a modest impact on the growth outlook.** Projected adjustment is expected to reduce import demand by a cumulative US\$330 million in 2016-2017, after an estimated US\$60 million in 2015. These policies should slow growth from its potential level of 7.0-7.5 percent to about 6.0 percent over the two years, with risks on the downside.

18. **With policy adjustment, external balances are expected to stabilize in 2017 and improve in 2018.** The current account balance is projected to worsen in 2016 to 16.5 percent of GDP and then improve to 12 percent and 10 percent in 2017 and 2018, respectively. This should mitigate the pressure on foreign reserves, thus preserving gross reserves at roughly 2.5 months of (reduced) prospective imports as of end-2017.

19. **The authorities are increasing their capacity to monitor changes in external trends.**

They have moved to reporting on a BPM6 basis and hope to move to quarterly BOP reporting. They have instituted a system of informal surveys to better anticipate ex-ante periodic forex needs of the private sector, and they intend to include assessment of ongoing foreign exchange needs when considering priority investment projects and PPPs.

Policy Adjustment						
	2015	2016		2017		2015-17
	Estimated	Shock w/no adjustment	Proj	Shock w/no adjustment	Proj	Cumulative Adjustment
Real GDP growth, %	6.9	7.0	6.0	7.5	6.0	...
Adjustment to G&S imports (US\$ millions)	-60	0.0	-91	0.0	-235	-386
Imports of goods & services (US\$ millions)	2829	3191	3100	3079	2844	
Current Account balance (US\$ millions)	-1096	-1459	-1368	-1248	-1024	-315
Overall BOP balance (US\$ millions) <sup>1</sup>	-61	-257	-159	-376	-151	-323
Gross official reserves (US\$ millions)	920	661	759	283	606	323
In months of imports	3.6	2.6	3.2	1.1	2.5	...

<sup>1/</sup> For "proj," the overall BOP balance includes the financing gap shown separately in Table 4.

## D. Technical Assistance

20. **Rwanda has a good track record for use of IMF technical assistance.** Technical assistance (TA) has been provided from functional departments and AFRITAC East, with a focus on revenue mobilization, public financial management, financial market development, national accounts statistics, fiscal statistics, and monetary and exchange rate management. The authorities are careful to request that TA be delivered with proper pacing and sequencing so that TA recommendations can be fully absorbed and implemented, and to ensure effective capacity building. Looking forward, identified priority areas for TA include: improving the coverage, comprehensiveness and timeliness of fiscal data reporting; enhancing capacity in financial programming; deepening monetary markets (both for forex and domestic currency); reconciling supply-side and expenditure side national accounts data and including household survey results; and carrying out revenue administration reforms, including those identified in the TADAT.

## REQUEST FOR AN SCF ARRANGEMENT

21. **The authorities are requesting access of 90 percent of quota (SDR 144.18 million) under an eighteen month SCF arrangement.**

Combined with adjustment policies and other potential financing already identified but not yet approved, this would bring reserves to about 3.8 months of imports in 2016 and 2017 (text table), in line with estimated adequate levels.<sup>2</sup> In terms

<sup>2</sup> Staff's updated external assessment (Annex 1), using the IMF's new diagnostic tool for "Assessing Reserve Adequacy in Credit Constrained Countries," indicates that optimal reserve coverage would be 4-5 months of imports, higher than the standard minimum of 3 months of imports, based on its large share of mineral exports over the last decade and its historical propensity for external shocks.

of the overall package of adjustment and new (gross) financing, the IMF would contribute slightly less than one-third. In terms of overall external financing over 2016-17, the IMF's share would comprise 14 percent. This case meets eligibility criteria for use of the SCF: the length of the BOP need is short-term, assuming the success of adjustment measures; it is not caused by a withdrawal of donor support; and Rwanda is already implementing – and committed to implementing further – policies to resolve external imbalances.

Burden-sharing				
	2015	2016	2017	2015-2017 Cumulative
	(US\$ millions, unless otherwise indicated)			
Adjustment policies	60	91	235	386
Gross reserves with adjustment policies	920	759	606	
<i>In months of imports</i>	3.6	3.2	2.5	
<b>Proposed IMF BOP support</b>	...	<b>100</b>	<b>100</b>	<b>200</b>
<i>in percent of quota</i>		45	45	
Additional other potential financing <sup>1</sup>	...	35	74	109
Gross reserves with IMF & other potential fin.	920	894	915	
<i>in months of imports</i>	3.6	3.8	3.8	
Total potential new financing + adjustment	60	226	409	695
<i>Share adjustment policies (%)</i>	100	40	57	51
<i>Share other (%)</i>	...	16	18	16
<i>Share IMF (%)</i>	...	44	24	29
Memo item:				
Total ext. prog. fin. + adj. + prop. BOP support		714	733	1,447
<i>of which: IMF % of total</i>		14%	14%	14%

<sup>1</sup>Not including new budget support loans and grants already included in the fiscal tables.

22. **The proposed SCF arrangement would be combined with the program architecture of the existing PSI.** Performance criteria would be the same as quantitative assessment criteria and structural benchmarks under the PSI. Independent aspects of the SCF architecture would be:

- **Duration.** The duration of the SCF arrangement is expected to mirror the program period which would be June 8, 2016-December 8, 2017, or 18 months.
- **Disbursements.** The four disbursements under the SCF arrangement are phased as follows: 45 percent of quota would be made available upon Board approval of the SCF arrangement (SDR72.09 million) and 22.5 percent of quota made available at completion of the 1<sup>st</sup> review (SDR36.05 million), with the remainder split between the 2<sup>nd</sup> and 3<sup>rd</sup> SCF reviews. The reviews would be expected to take place in December 2016, June 2017 and November 2017, respectively (Table 8). The phasing of disbursements is designed to cushion reserve levels, which are projected to drop mid-year in both 2016 and 2017.
- **DSA.** An updated joint IMF-World Bank DSA analysis has been prepared, reflecting additional proposed BOP support and potential other financing. The analysis suggests that Rwanda's current debt risk rating of "low" would be maintained (Annex 2).<sup>3</sup>
- **Capacity to repay the Fund.** Rwanda's obligations to the Fund stood at SDR 3.27 million as of end-March 2016 (2.0 percent of quota), with ample capacity to meet debt service payments (Table 9). The authorities' program is fully financed for the first 12 months, with good financing prospects for the remainder of the program period.

<sup>3</sup> Rwanda owes a small amount of pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities make best efforts to resolve the arrears.

- **Safeguards.** A safeguards assessment mission is tentatively scheduled for July 2016, with an update to be completed prior to the 1<sup>st</sup> review of the SCF arrangement.

## PROGRAM RISKS

23. **Downside risks to growth and the program remain.** In addition to the potential for a deeper shock to commodity prices and private foreign financing flows and/or higher oil prices, risks from political and weather developments have increased. The security crisis in Burundi, if it intensifies, could increase the number of refugees Rwanda is hosting, spending needs associated with refugees and/or security and could potentially threaten tourism receipts. At the same time, drought in the region is causing shortfalls in hydropower generation and poses risks to continued food price inflation. Refugees add to pressure on food and import demand and inflation. Finally, there is a more fundamental risk that the authorities' new plans to promote more export diversification and value added and import substitution will be less successful than expected in moderating external trends.

## PROGRAM MODALITIES

24. **The authorities are requesting to extend the current PSI-supported program.** The authorities believe the PSI framework has served well in anchoring their medium and long-term growth and reform agenda, and signaling policy intentions and performance to investors and development partners. They underscored the importance of retaining the PSI as the medium-term vehicle in their partnership with the Fund, despite temporary reliance on balance of payments support. The current PSI is scheduled to expire in November 2016; they are requesting to extend it to end-December 2017. This would enable combining additional PSI reviews with those of the SCF arrangement through June 2017, with scope for potential successor PSI negotiations in fall 2017.

25. **Program conditionality incorporates design changes.** In light of implementation of the new debt limits policy during the 4<sup>th</sup> PSI review, it is proposed to eliminate the indicative ceiling on public-sector domestic debt, which is largely redundant with the new ceiling on the fiscal deficit and retained ceilings on net domestic financing and external borrowing by public enterprises. Staff also proposes to modify the definition for the indicative target on domestic arrears accrual to make it more effective, in line with similar targets in other PSI-supported programs. Finally, it is proposed to streamline program adjusters with a view to retaining only the most relevant. These changes will enhance transparency, thus strengthening the program monitoring framework. It is proposed that these changes would apply for the upcoming June 2016 test date.

26. **Very minor revisions to end-June quantitative program targets for reserve money are proposed.** All other quantitative targets remain unchanged, with updated underlying assumptions for the program exchange rate and budget support disbursements.

## STAFF APPRAISAL

27. **Rwanda's strong policy performance has been sustained.** Program performance through end-December remained strong, despite the unfolding shock. Policy implementation so far in 2016 has been consistent with the program framework, with the country on track to meet end-June targets set at the time of the 4<sup>th</sup> review of the PSI program. Forward-looking policies comprise both a rich medium-term policy agenda and short-term adjustment measures to address growing external imbalances.

28. **The authorities have intensified their policy response as the extent of external shocks has become evident.** In 2015, the authorities relied primarily on the exchange rate as the sole adjustment tool. As it became clear that the situation warranted more, the authorities took the initiative to consider measures to promote export diversification and import substitution. Despite concerns about protecting growth, the authorities recognized that tightening the fiscal and monetary stances were important policy complements for reducing import demand in the short term and preserving foreign exchange reserves.

29. **The authorities' agreed policies balance short-term adjustment and medium-term growth and development objectives.** The authorities appropriately initiated adjustment policies early to ensure external sustainability without unduly harming growth. However, the authorities recognize that there are trade-offs and that somewhat slower growth in the short term is unavoidable for protecting longer-term objectives. They also recognize that acting sooner will forestall the imperative for potentially more disruptive adjustment later.

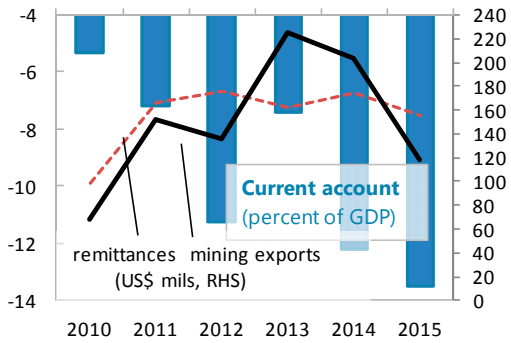
30. **The policy mix should be successful at mitigating the recent trends and improving the country's future resilience to shocks.** The requested financing under the SCF arrangement will provide an appropriate reserve buffer that should help bolster confidence while policy implementation is underway.

31. **However, risks remain on the downside.** The exchange rate will remain the main adjustment tool, but the authorities should stand ready to tighten fiscal and monetary policy further, if needed. They will also need to monitor external developments carefully and more frequently to assess whether medium-term policies are indeed successful at fundamentally shifting the balance of trade.

32. **Staff recommends approval of the authorities' request for a new SCF arrangement, a modification of the QAC establishing a ceiling for reserve money for end-June 2016, approval of the authorities' request for an extension of the PSI, and completion of the fifth PSI review.**

**Figure 1. Rwanda: Recent Economic Developments**

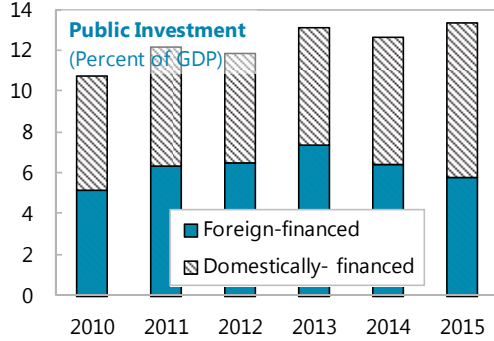
*Despite unfolding external shocks in 2015...*



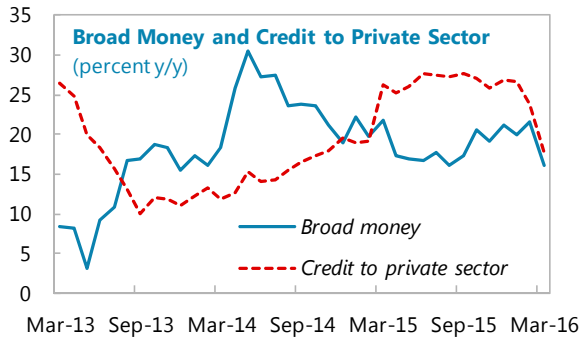
*...growth remained robust throughout the year..*



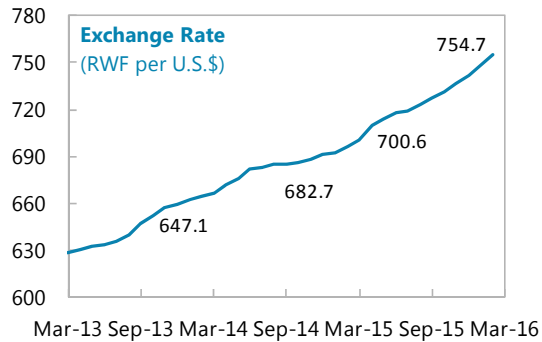
*...supported by still strong public investment...*



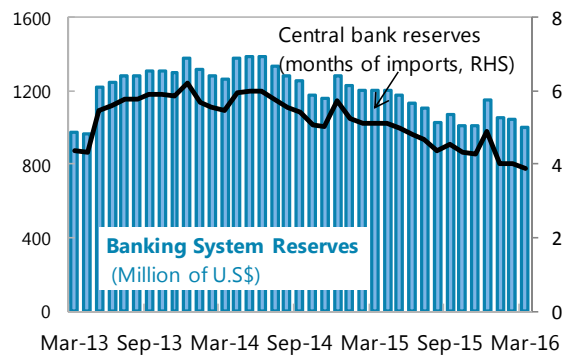
*... and an accomodative monetary policy environment.*



*Meanwhile, the external environment put pressure on the exchange rate...*

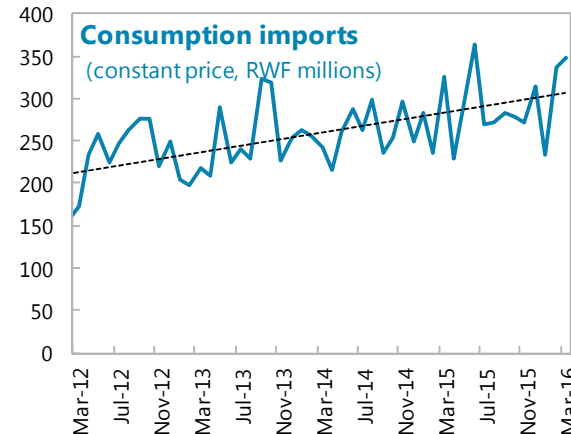
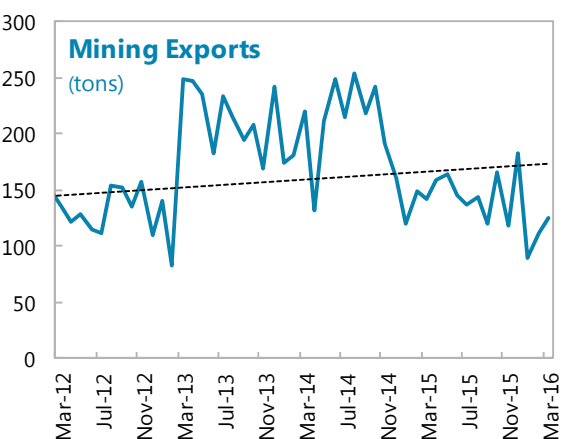
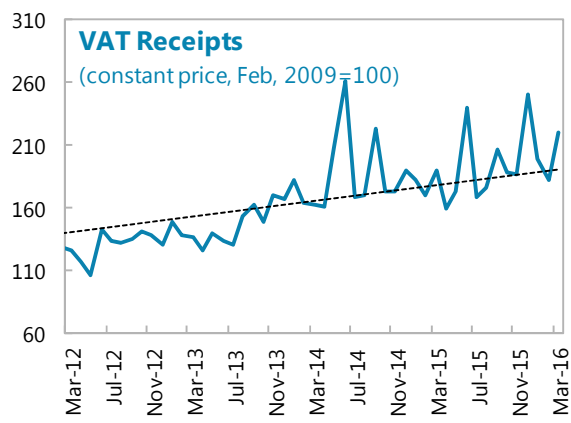
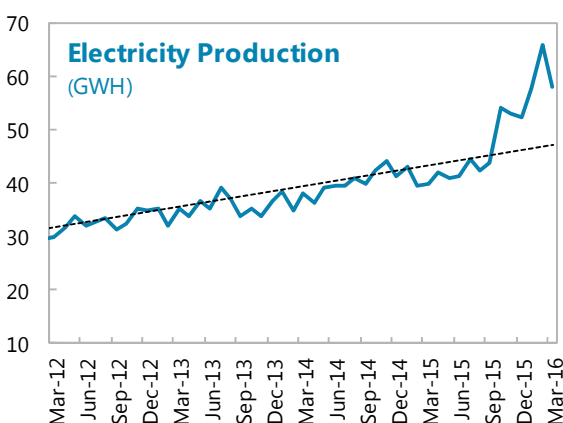
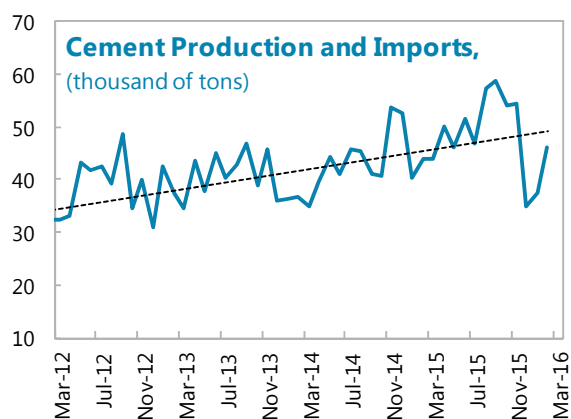
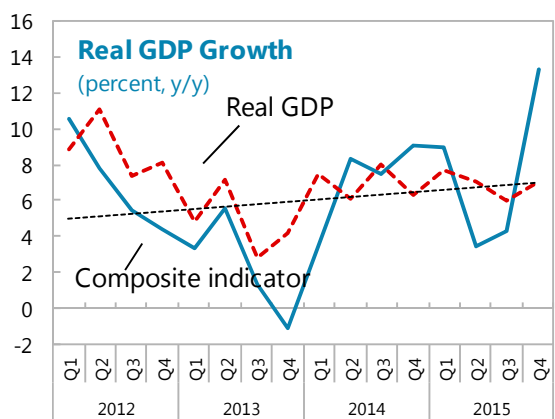


*...and international reserves of the banking system*



Sources: Rwandan authorities and IMF staff calculations.

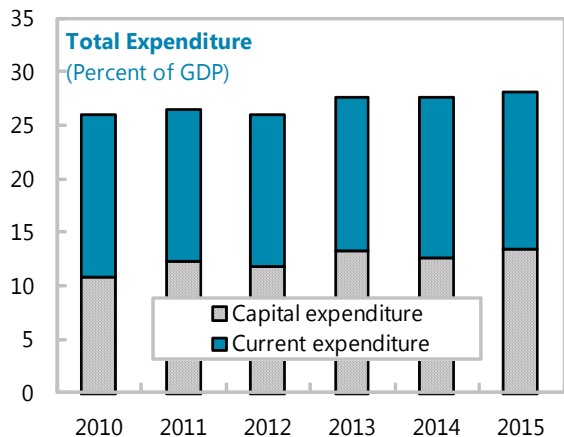
**Figure 2. Selected High Frequency Indicators**



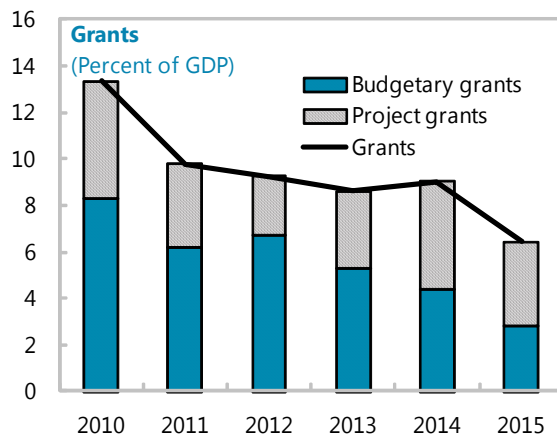
Source: Rwandan authorities' estimates.

**Figure 3. Rwanda: Fiscal Sector Developments**

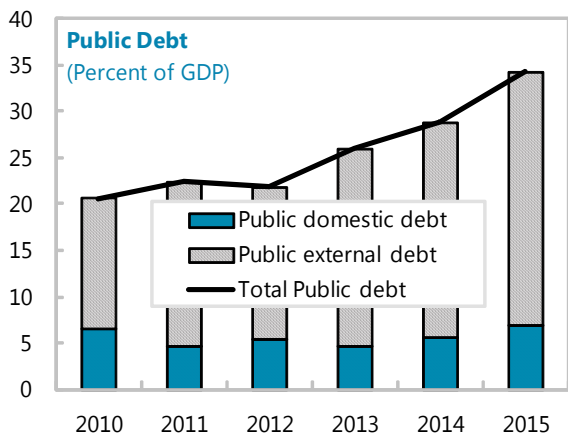
*Public expenditure has remained strong, including a large share of public investment...*



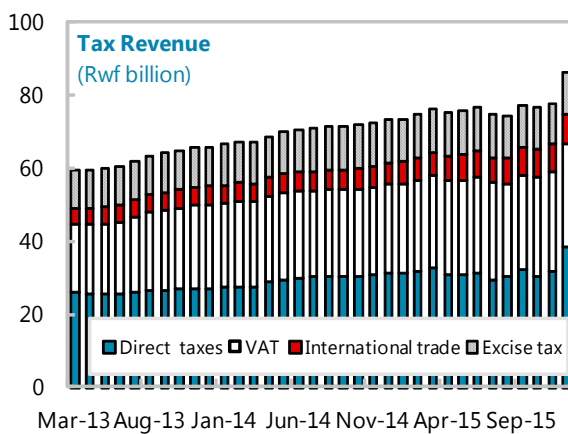
*...financed by a changing composition of fewer external grants...*



*...and more external borrowing...*



*...as well as significant improvements in domestic revenue collection.*

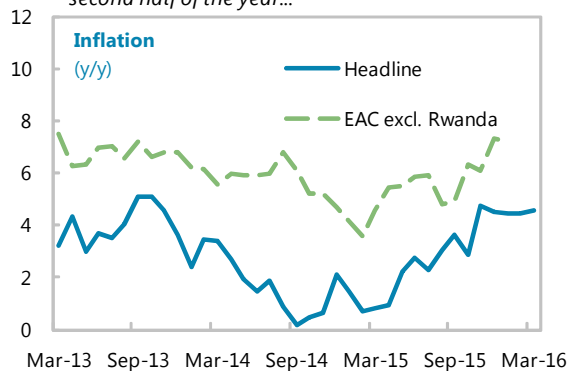


Sources: Rwandan authorities and IMF staff calculations.

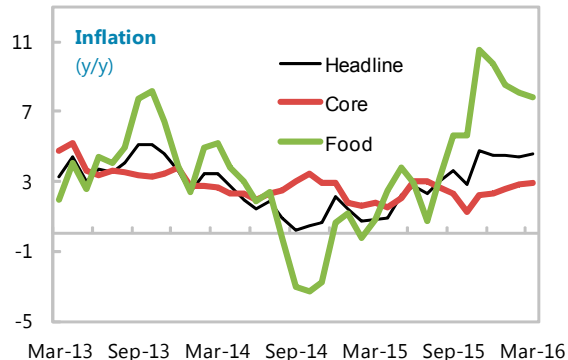


**Figure 4. Rwanda: Inflation and Monetary Developments**

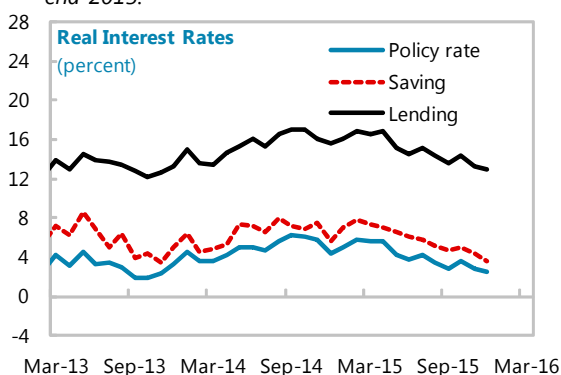
*Inflationary pressures began building up in the second half of the year...*



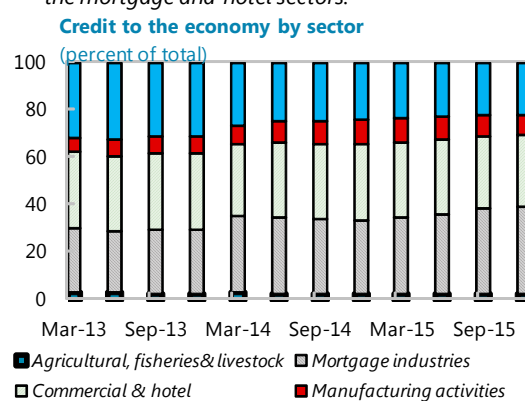
*...as the refugees and cross-border trade added to pressure on food prices, and utilities prices were hiked.*



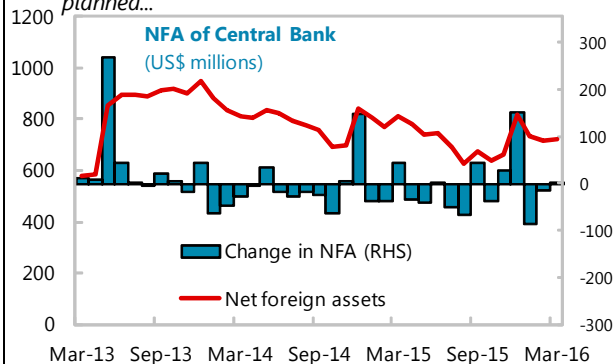
*Monetary policy remained accommodative through end-2015.*



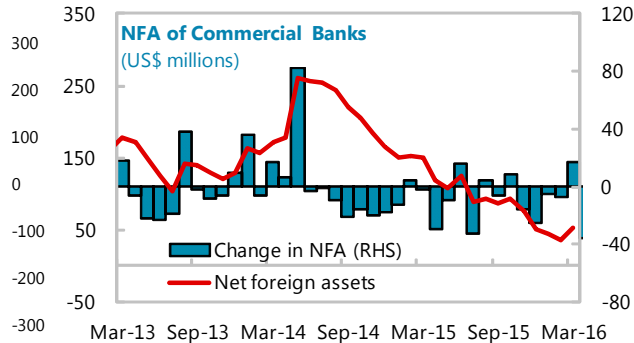
*... fuelling, private sector credit growth, especially in the mortgage and hotel sectors.*



*The central bank NFA continued to decline as planned...*



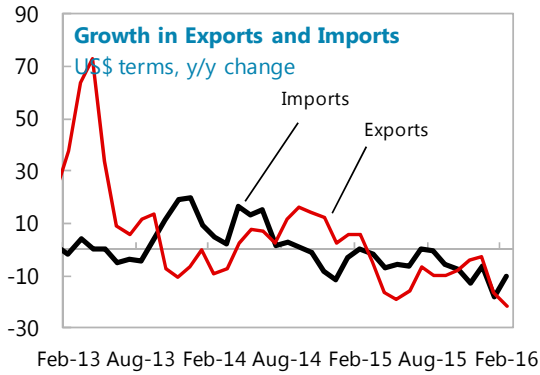
*...with deeper declines in commercial banks' NFA.*



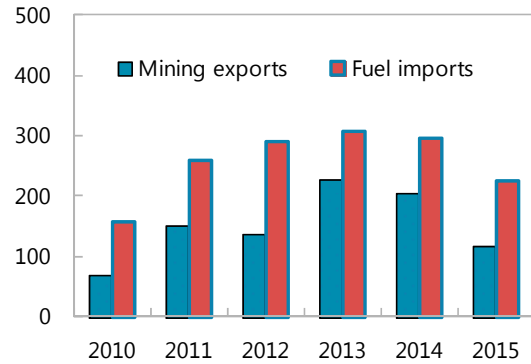
Source: Rwandan authorities and IMF staff estimates.

**Figure 5. Rwanda: External Sector Developments**

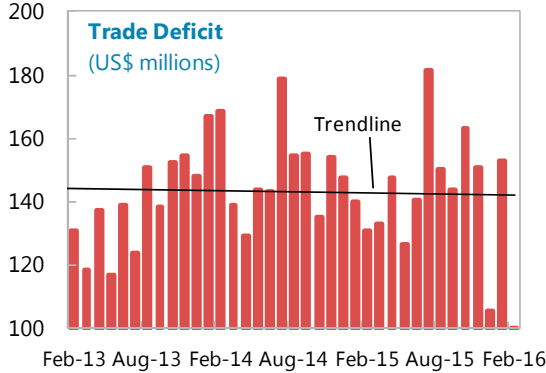
*Exports of goods and services declined in 2015*



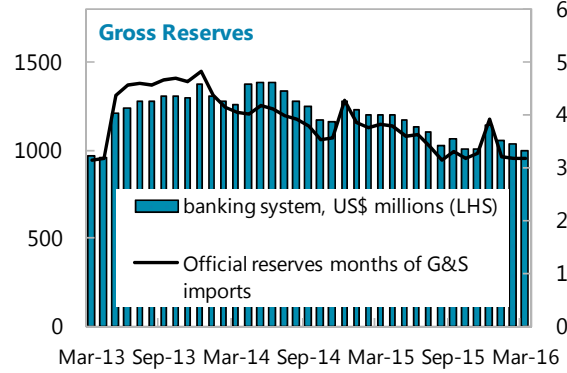
*...mirroring the fall in mineral exports, which overshadowed lower fuel imports...*



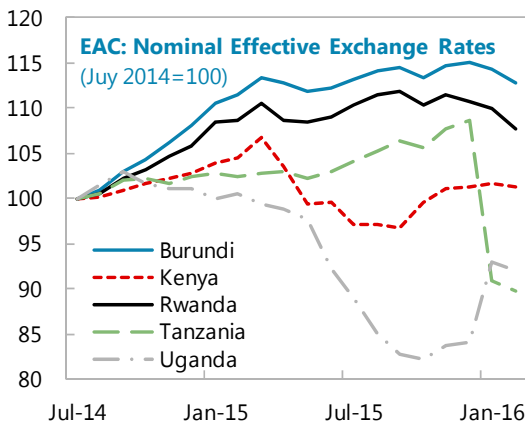
*...resulting in a deterioration in the trade balance.*



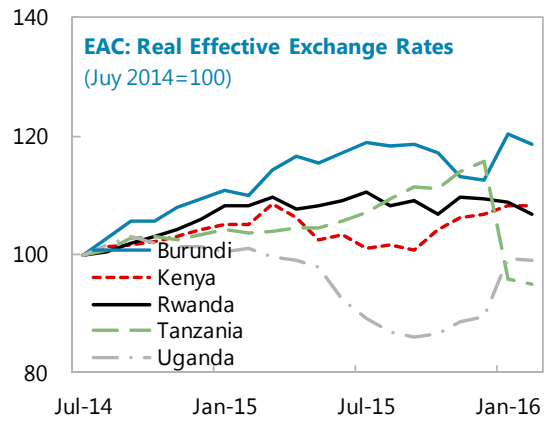
*... and a drawdown of banking system reserves...*



*...and depreciation of both the nominal effective exchange rate...*



*...and the real effective exchange rate.*



Sources: Rwandan authorities and IMF staff estimates.

**Table 1. Rwanda: Selected Economic and Financial Indicators, 2014–18**

	2014		2015		2016		2017		2018	
	Act.	Est.	3rd PSI Rev.	4th PSI Rev.	Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.	Proj.	
(Annual percentage change, unless otherwise indicated)										
<b>Output, prices, and exchange rate</b>										
Real GDP	7.0	6.9	7.0	6.3	6.0	7.5	6.7	6.0	7.0	
GDP deflator	3.7	1.2	4.8	4.1	4.4	4.8	5.1	4.6	4.8	
CPI (period average)	1.8	2.5	4.3	4.5	4.6	5.0	5.0	4.9	5.0	
CPI (end of period)	2.1	4.5	5.0	5.0	4.7	5.0	5.0	5.0	5.0	
Core inflation (end of period) <sup>1</sup>	2.9	...	...	...	...	...	...	...	...	
Terms of trade (deterioration, -)	1.9	2.2	2.5	-2.7	-1.1	1.6	8.9	-0.9	-0.7	
<b>Money and credit</b>										
Broad money (M3)	19.0	21.1	13.1	14.7	15.4	13.7	16.1	15.6	15.1	
Credit to non-government sector	19.6	26.8	14.0	14.9	16.0	22.4	15.0	16.0	19.5	
Policy Rate (end of period)	6.5	6.5	...	...	...	...	...	...	...	
M3/GDP (percent)	22.7	25.4	23.9	24.7	26.5	24.2	25.5	27.6	28.3	
NPLs (percent of total loans)	6.0	...	...	...	...	...	...	...	...	
(Percent of GDP, unless otherwise indicated)										
<b>General government budget</b>										
Revenue and grants	24.0	25.0	21.0	24.1	23.8	22.2	22.0	23.3	23.5	
<i>of which</i> : tax revenue	15.0	15.9	...	16.0	16.0	...	15.7	16.1	16.3	
<i>of which</i> : grants	7.4	6.4	5.7	5.4	5.6	4.2	3.7	5.2	5.2	
Expenditure	27.6	28.1	24.0	27.2	26.8	25.1	24.9	25.0	25.0	
Current	15.0	14.8	12.9	14.6	14.3	13.3	14.3	14.8	14.1	
Capital	12.6	13.3	11.2	12.7	12.5	11.8	10.6	10.2	10.9	
Primary balance	-4.2	-4.1	-3.9	-3.9	-3.8	-3.1	-3.6	-2.4	-2.0	
Overall balance	-4.9	-5.0	-4.6	-4.8	-4.7	-4.0	-4.6	-3.3	-3.0	
<b>Public debt</b>										
Total public debt	29.3	35.4	35.0	41.9	44.5	37.8	43.6	48.5	49.4	
<i>of which</i> : external public debt	23.6	28.5	27.7	36.0	37.5	30.8	37.6	41.4	44.4	
<b>Investment and savings</b>										
Investment	25.2	25.7	25.4	24.7	28.9	27.6	25.1	25.4	25.6	
Public	12.6	13.3	...	12.7	12.5	...	10.6	10.2	10.9	
Private	12.6	12.4	...	12.0	16.4	...	14.5	15.2	14.7	
Savings <sup>2</sup>	8.9	7.6	11.0	4.7	7.7	11.4	8.4	9.2	11.5	
<b>External sector</b>										
Exports (goods and services)	16.9	17.3	16.9	16.8	16.7	16.7	17.1	17.6	18.4	
Imports (goods and services) <sup>3</sup>	33.5	34.9	31.2	36.2	37.3	33.2	33.6	33.3	32.2	
Current account balance (including grants)	-10.5	-13.5	-10.4	-15.4	-16.5	-13.1	-14.0	-12.0	-10.2	
Current account balance (excluding grants)	-16.4	-18.1	-14.4	-20.0	-21.2	-16.2	-16.7	-16.1	-14.1	
Gross international reserves										
In billions of US\$	1.0	0.9	1.2	0.8	0.8	1.1	0.8	0.6	0.7	
In months of next year's imports	4.2	3.6	4.0	3.1	3.2	4.1	3.0	2.5	2.9	
<b>Memorandum items:</b>										
GDP at current market prices										
Rwanda francs (billion)	5,394	5,837	6,697	6,589	6,459	7,547	7,389	7,164	8,031	
US\$ (billion)	7.9	8.1	...	...	...	...	...	...	...	
GDP per capita (US\$)	719	718	...	...	...	...	...	...	...	
Population (million)	11.0	11.3	...	11.7	11.5	...	12.0	11.8	12.1	

Sources: Rwandan authorities and IMF staff estimates.

<sup>1</sup> Defined as excluding food and fuel.<sup>2</sup> The savings rate excludes grants.<sup>3</sup> Imports for 2016 reflect purchases of two aircrafts.

**Table 2a. Rwanda: Operations of the Central Government, Fiscal-Year Basis,<sup>1</sup> 2014/15–2017/18**

	2014/15	2015/16			2016/17			2017/18		
		3rd PSI Rev.	4th PSI Rev.	Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.
(Billions of Rwanda francs)										
<b>Revenue and grants</b>	<b>1,418.8</b>	<b>1,462.5</b>	<b>1,478.9</b>	<b>1,479.0</b>	<b>1,578.3</b>	<b>1,598.9</b>	<b>1,601.9</b>	<b>1,774.4</b>	<b>1,767.9</b>	<b>1,745.1</b>
Total revenue	1,002.9	1,104.2	1,104.1	1,104.2	1,271.4	1,271.0	1,236.6	1,444.9	1,434.9	1,374.4
Tax revenue	871.7	975.3	975.3	975.3	1,133.0	1,086.5	1,091.6	1,288.5	1,234.6	1,217.8
Direct taxes	375.8	413.7	413.7	413.7	490.0	469.6	470.0	557.8	526.9	516.9
Taxes on goods and services	432.4	486.4	486.4	486.4	555.0	539.8	542.0	631.3	621.3	610.5
Taxes on international trade	63.5	75.2	75.2	75.2	88.0	77.1	79.6	99.5	86.5	90.3
Non-tax revenue	131.2	128.9	128.9	128.8	138.4	184.5	145.0	156.4	200.3	156.6
Of which: PKO	89.0	70.8	70.8	70.8	72.9	119.0	79.5	82.4	129.3	85.7
Grants	415.9	358.3	374.7	374.8	306.9	327.9	365.3	329.5	332.9	370.7
Budget grants	174.9	189.9	205.8	205.8	162.0	184.4	219.3	165.7	166.0	194.9
Of which: Global Fund	86.6	70.1	69.6	69.6	59.3	61.9	94.4	59.3	31.1	64.7
Project grants	241.0	168.4	168.9	168.9	144.9	143.5	146.0	163.8	166.9	175.8
<b>Total expenditure and net lending</b>	<b>1,720.1</b>	<b>1,741.1</b>	<b>1,784.9</b>	<b>1,784.9</b>	<b>1,856.9</b>	<b>1,887.7</b>	<b>1,848.8</b>	<b>2,099.7</b>	<b>2,083.6</b>	<b>1,983.4</b>
Current expenditure	834.1	865.5	899.9	899.9	946.7	1,009.0	989.7	1,058.2	1,121.8	1,069.4
Wages and salaries	203.9	222.0	226.3	226.3	248.1	248.1	252.1	279.5	275.2	280.5
Purchases of goods and services	159.5	159.8	179.8	179.9	170.1	187.3	201.0	191.6	212.3	215.0
Interest payments	45.6	54.3	56.1	56.1	60.7	65.1	65.5	70.0	71.1	71.6
Domestic debt	18.0	24.6	26.4	26.4	28.3	28.6	28.6	30.1	31.5	31.4
External debt	27.6	29.7	29.7	29.7	32.4	36.5	36.8	39.9	39.7	40.3
Transfers	304.0	328.7	336.9	336.9	361.5	357.9	360.3	407.2	386.1	390.0
PKO and demobilization <sup>2</sup>	121.1	100.8	100.8	100.8	106.3	150.7	110.8	109.9	177.1	112.2
Capital expenditure	769.8	747.3	776.3	776.3	828.5	767.7	750.6	957.8	834.7	796.0
Domestic	388.5	467.1	488.5	488.5	508.3	432.1	409.2	539.8	427.8	424.7
Domestic without Global Fund	324.2	397.0	418.9	417.0	449.0	370.2	314.8	480.5	396.7	360.0
Foreign	381.3	280.2	287.8	287.8	320.2	335.6	341.4	418.0	406.8	371.3
Net lending and privatization receipts	93.2	128.3	108.8	108.7	81.7	111.0	108.5	83.7	127.1	118.0
<b>Overall deficit (including grants)</b>	<b>-301.3</b>	<b>-278.7</b>	<b>-306.1</b>	<b>-306.0</b>	<b>-278.6</b>	<b>-288.8</b>	<b>-246.8</b>	<b>-325.3</b>	<b>-315.7</b>	<b>-238.3</b>
Change in float/arrears <sup>3</sup>	5.0	-11.4	-26.4	-26.4	-13.0	-20.0	-20.0	-13.2	-13.2	-13.2
<b>Overall deficit (incl. grants, cash basis)</b>	<b>-296.3</b>	<b>-290.1</b>	<b>-332.5</b>	<b>-332.4</b>	<b>-291.6</b>	<b>-308.8</b>	<b>-266.8</b>	<b>-338.5</b>	<b>-328.9</b>	<b>-251.4</b>
<b>Financing</b>	<b>296.3</b>	<b>290.1</b>	<b>332.5</b>	<b>332.4</b>	<b>291.6</b>	<b>308.8</b>	<b>266.8</b>	<b>338.5</b>	<b>328.9</b>	<b>251.4</b>
Foreign financing (net)	188.2	215.2	239.7	239.7	251.6	315.0	317.1	318.4	275.2	228.8
Drawings	202.8	233.2	258.7	258.7	271.7	337.3	341.0	340.4	299.9	255.5
Budgetary loans	103.6	121.4	139.8	139.8	95.0	145.2	145.5	170.2	59.9	60.0
Project loans	99.2	111.8	118.9	118.9	176.7	192.1	195.4	170.2	239.9	195.5
Amortization	-14.6	-18.0	-19.0	-19.0	-20.1	-22.3	-23.9	-22.0	-24.7	-26.6
Net domestic financing	147.1	74.9	92.8	123.6	40.0	-6.2	-50.3	20.1	53.7	22.6
Net credit from banking system	137.8	94.0	92.8	123.6	61.1	-6.2	-50.3	44.1	53.7	22.6
Of which: Import levy/strat. reserve	...	-19.2	-19.2	-19.3	-21.1	-21.1	-18.8	-24.0	-24.0	-20.8
Nonbank sector	9.3	--	--	--	--	--	--	--	--	--
Errors and omissions <sup>4</sup>	-39.0	--	--	-30.9	--	--	--	--	--	--

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.<sup>2</sup> Includes peacekeeping operations, spending on demobilisation/reintegration, and genocide relief.<sup>3</sup> A negative sign indicates a reduction.<sup>4</sup> A negative number implies an overestimate of financing. The non-zero errors and omissions in 2015/16 is due to realized outcomes from H1.

**Table 2b. Rwanda: Operations of the Central Government, Fiscal-Year Basis,<sup>1</sup> 2014/15–2017/18**

	2014/15	2015/16			2016/17			2017/18		
		3rd PSI Rev.	4th PSI Rev.	Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.
(Percent of GDP)										
<b>Revenue and grants</b>	<b>25.3</b>	<b>23.1</b>	<b>23.6</b>	<b>24.1</b>	<b>22.2</b>	<b>22.9</b>	<b>23.5</b>	<b>22.0</b>	<b>22.6</b>	<b>23.0</b>
Total revenue	17.9	17.4	17.6	18.0	17.9	18.2	18.2	18.0	18.3	18.1
Tax revenue	15.5	15.4	15.5	15.9	15.9	15.5	16.0	16.0	15.8	16.0
Direct taxes	6.7	6.5	6.6	6.7	6.9	6.7	6.9	6.9	6.7	6.8
Taxes on goods and services	7.7	7.7	7.8	7.9	7.8	7.7	8.0	7.8	7.9	8.0
Taxes on international trade	1.1	1.2	1.2	1.2	1.2	1.1	1.2	1.2	1.1	1.2
Nontax revenue	2.3	2.0	2.1	2.1	1.9	2.6	2.1	1.9	2.6	2.1
Of which: PKO	1.6	0.5	1.1	1.2	1.0	1.7	1.2	1.0	1.6	1.1
Grants	7.4	5.7	6.0	6.1	4.3	4.7	5.4	4.1	4.2	4.9
Budget grants	3.1	3.0	3.3	3.3	2.3	2.6	3.2	2.1	2.1	2.6
Project grants	4.3	2.7	2.7	2.7	2.0	2.1	2.1	2.0	2.1	2.3
<b>Total expenditure and net lending</b>	<b>30.6</b>	<b>27.5</b>	<b>28.5</b>	<b>29.0</b>	<b>26.1</b>	<b>27.0</b>	<b>27.1</b>	<b>26.1</b>	<b>26.6</b>	<b>26.1</b>
Current expenditure	14.9	13.7	14.3	14.6	13.3	14.4	14.5	13.1	14.3	14.1
Wages and salaries	3.6	3.5	3.6	3.7	3.5	3.5	3.7	3.5	3.5	3.7
Purchases of goods and services	2.8	2.5	2.9	2.9	2.4	2.7	3.0	2.4	2.7	2.8
Interest payments	0.8	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9
Domestic debt	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
External debt	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	5.4	5.2	5.4	5.5	5.1	5.1	5.3	5.1	4.9	5.1
PKO and demobilization <sup>2</sup>	2.2	1.6	1.6	1.6	1.5	2.2	1.6	1.4	2.3	1.5
Capital expenditure	13.7	11.8	12.4	12.6	11.6	11.0	11.0	11.9	10.6	10.5
Domestic	6.9	7.4	7.8	7.9	7.1	6.2	6.0	6.7	5.5	5.6
Foreign	6.8	4.4	4.6	4.7	4.5	4.8	5.0	5.2	5.2	4.9
Net lending and privatization receipts	1.7	2.0	1.7	1.8	1.1	1.6	1.6	1.0	1.6	1.6
<b>Overall deficit (including grants)</b>	<b>-5.4</b>	<b>-4.4</b>	<b>-4.9</b>	<b>-5.0</b>	<b>-3.9</b>	<b>-4.1</b>	<b>-3.6</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-3.1</b>
Change in float/arrears <sup>3</sup>	0.1	-0.2	-0.4	-0.4	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2
<b>Overall deficit (incl. grants, cash basis)</b>	<b>-5.3</b>	<b>-4.6</b>	<b>-5.3</b>	<b>-5.4</b>	<b>-4.1</b>	<b>-4.4</b>	<b>-3.9</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-3.3</b>
<b>Financing</b>	<b>5.3</b>	<b>4.6</b>	<b>5.3</b>	<b>5.4</b>	<b>4.1</b>	<b>4.4</b>	<b>3.9</b>	<b>4.2</b>	<b>4.2</b>	<b>3.3</b>
Foreign financing (net)	3.4	3.4	3.8	3.9	3.5	4.5	4.7	4.0	3.5	3.0
Drawings	3.6	3.7	4.1	4.2	3.8	4.8	5.0	4.2	3.8	3.4
Budgetary loans	1.8	1.9	2.2	2.3	1.3	2.1	2.1	2.1	0.8	0.8
Project loans	1.8	1.8	1.9	1.9	2.5	2.7	2.9	2.1	3.1	2.6
Amortization	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.4
Net domestic financing	2.6	1.2	1.5	2.0	0.6	-0.1	-0.7	0.2	0.7	0.3
Net credit from banking system	2.5	1.5	1.5	2.0	0.9	-0.1	-0.7	0.5	0.7	0.3
Of which: Import levy/strat. reserve			-0.3	-0.3		-0.3	-0.3		-0.3	-0.3
and spending on demobilisation/reintegrati	0.2	--	--	--	--	--	--	--	--	--
Errors and omissions <sup>4</sup>	-0.7	--	--	-0.5	--	--	--	--	--	--
<b>Memorandum items:</b>										
GDP (Billions of RwF), FY basis	5,616	6,336	6,272	6,148	7,122	6,989	6,811	8,049	7,838	7,597

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.<sup>2</sup> Includes peacekeeping operations, spending on demobilisation/reintegration, and genocide relief<sup>3</sup> A negative sign indicates a reduction.<sup>4</sup> A negative number implies an overestimate of financing.

**Table 3. Rwanda: Monetary Survey, 2014–18**

	2014	2015	2016		2017		2018	
		Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.	4th PSI Rev.	Proj.	
(Billions of Rwandan Francs)								
<b>Monetary authorities</b>								
Net Foreign Assets <sup>1</sup>	585.7	606.5	722.5	503.9	520.0	522.3	429.5	577.0
Net domestic assets	-338.9	-319.6	-394.3	-176.2	-194.4	-141.7	-60.1	-159.7
Domestic credit	-223.1	-218.6	-276.2	-69.5	-93.3	-35.0	41.0	-58.6
Other items (net; asset +)	-115.8	-101.1	-118.2	-106.7	-101.1	-106.7	-101.1	-101.1
Reserve money <sup>2</sup>	246.9	286.9	328.2	327.7	325.6	380.6	369.4	417.3
<b>Commercial banks</b>								
Net foreign assets	104.6	33.5	100.3	44.6	33.5	34.6	33.5	33.5
Reserves	127.6	139.5	162.8	169.4	157.4	191.8	174.2	192.6
Net credit from BNR	66.2	38.8	282.8	42.2	46.2	73.2	6.8	35.4
Domestic credit	1,047.8	1,401.6	1,260.1	1,475.1	1,505.2	1,669.6	1,678.2	1,949.0
Government (net)	145.6	260.7	11.9	184.0	180.7	184.0	140.7	110.7
Private sector	896.4	1,136.5	1,242.4	1,285.3	1,320.1	1,479.8	1,533.1	1,834.0
Other items (net; asset +)	-241.6	-278.7	-363.8	-257.4	-196.2	-257.4	-101.4	-144.7
Deposits	1,104.6	1,334.8	1,442.2	1,473.8	1,546.2	1,711.9	1,791.4	2,065.9
<b>Monetary survey</b>								
Net foreign assets	690.4	640.0	822.8	548.5	553.5	556.9	463.0	610.5
Net domestic assets	533.5	842.1	777.7	1,076.4	1,156.2	1,330.3	1,513.7	1,664.6
Domestic credit	889.6	1,221.4	1,265.5	1,447.3	1,457.7	1,707.4	1,725.5	1,925.4
Government	-21.2	69.5	8.0	146.0	122.2	211.6	177.0	76.1
Public enterprises	5.8	4.3	5.8	5.8	4.3	5.8	4.3	4.3
Private sector	905.0	1,147.6	1,256.4	1,295.4	1,331.2	1,490.0	1,544.2	1,845.0
Other items (net; asset +)	-357.4	-379.8	-482.0	-364.1	-297.3	-364.1	-202.5	-245.8
Broad money	1223.9	1482.1	1600.6	1624.9	1709.7	1887.2	1976.7	2275.1
<b>Year on Year Growth</b> (Percent)								
Broad money	19.0	21.1	13.1	14.7	15.4	16.1	15.6	15.1
Net foreign assets	-7.2	-7.3	31.8	-13.7	-13.5	1.5	-16.3	31.9
Credit to the private sector	19.6	26.8	16.4	14.9	16.0	15.0	16.0	19.5
<b>Memorandum items:</b>								
Velocity (eop)	4.4	3.9	4.2	4.1	3.8	3.9	3.6	3.5
Money multiplier	5.0	5.2	4.9	5.0	5.3	5.0	5.4	5.5

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

<sup>1</sup> For program purposes NFA are shown at program exchange rates.

<sup>2</sup> 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: Balance of Payments, 2014–18

	2015	2016			2017			2018
	Est.	3rd PSI Rev.	4th PSI Rev.	Proj.	3rd PSI Rev.	4th PSI Rev.	Proj.	Proj.
(Millions of U.S. dollars, unless otherwise indicated)								
Exports (f.o.b.)	683.5	829.8	695.3	668.2	923.7	759.6	712.6	767.9
<i>Of which:</i> coffee and tea	134.5	129.8	139.4	116.2	144.3	157.1	125.0	136.4
Minerals	117.8	248.1	98.9	95.3	281.4	109.7	100.8	107.5
Imports (f.o.b.)	1,915.7	2,154.2	2,227.0	2,244.1	2,436.8	2,210.1	2,030.6	2,050.2
<i>Of which:</i> capital goods	520.5	586.3	550.3	608.7	630.2	578.6	484.8	500.0
Energy goods	225.6	309.2	241.6	203.5	353.0	277.5	231.1	268.6
<b>Trade balance</b>	<b>-1,232.3</b>	<b>-1,324.4</b>	<b>-1,531.7</b>	<b>-1,575.9</b>	<b>-1,513.1</b>	<b>-1,450.5</b>	<b>-1,318.0</b>	<b>-1,282.3</b>
Services (net)	-193.1	-0.1	-117.4	-135.9	-152.1	-47.2	-22.4	52.2
<i>Of which:</i> tourism receipts	317.8	347.8	334.1	365.5	417.4	400.9	420.3	483.3
<i>Of which:</i> KCC and RwandAir	-111.5	0.0	-123.5	-138.7	0.0	0.0	0.0	0.0
Income	-192.5	-193.3	-220.2	-220.2	-178.9	-192.0	-199.4	-214.1
<i>Of which:</i> interest on public debt <sup>1</sup>	-47.7	-52.8	-62.0	-62.0	-87.7	-87.8	-93.1	-101.5
Current transfers (net)	522.3	560.8	560.9	563.8	520.2	417.1	515.7	536.2
Private	152.2	186.4	168.3	168.3	204.1	171.0	164.7	185.8
<i>Of which:</i> remittance inflows	155.4	193.8	171.9	171.9	201.4	174.1	167.7	184.4
Public	370.1	374.5	392.6	395.5	316.0	246.1	351.0	350.3
<b>Current account balance (incl. off. trans.)</b>	<b>-1,095.6</b>	<b>-957.1</b>	<b>-1,308.4</b>	<b>-1,368.2</b>	<b>-1,323.9</b>	<b>-1,272.5</b>	<b>-1,024.1</b>	<b>-908.0</b>
Capital account	295.0	202.4	202.5	186.5	206.4	190.6	191.4	203.9
Financial account	798.6	1,026.2	1,045.0	1,015.6	1,116.7	1,076.0	681.2	830.0
Direct investment	319.8	297.0	348.1	320.4	350.9	371.2	341.7	377.7
Public sector capital	381.2	408.0	559.4	659.8	522.8	520.2	229.5	383.4
Long-term borrowing <sup>2</sup>	417.1	448.0	679.9	780.3	588.1	583.9	269.5	426.3
Scheduled amortization, excl IMF	-35.9	-40.0	-120.5	-120.5	-65.3	-63.7	-39.9	-43.0
Other capital <sup>3</sup>	97.7	321.2	137.5	35.4	242.9	184.6	109.9	68.9
<i>Of which:</i> commercial banks NFA (increase -)	109.4	12.9	33.9	0.0	5.3	13.7	3.1	2.5
<b>Capital and financial account balance</b>	<b>1,093.7</b>	<b>1,228.6</b>	<b>1,247.5</b>	<b>1,202.1</b>	<b>1,323.1</b>	<b>1,266.6</b>	<b>872.6</b>	<b>1,033.9</b>
Errors and omissions	-58.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>-60.6</b>	<b>271.5</b>	<b>-60.8</b>	<b>-166.2</b>	<b>-0.9</b>	<b>-6.0</b>	<b>-151.5</b>	<b>125.9</b>
<b>Financing</b>	<b>60.6</b>	<b>-271.5</b>	<b>60.8</b>	<b>166.2</b>	<b>0.9</b>	<b>6.0</b>	<b>151.5</b>	<b>-125.9</b>
Reserve assets (increase -)	65.4	269.3	-63.0	25.8	-2.7	-7.8	-20.8	-144.8
Net credit from the IMF	-2.6	-2.2	-2.2	-2.2	-1.8	-1.8	-1.8	-1.1
Change in other liabilities (increase +)	-2.1	0.0	0.0	7.6	0.0	0.0	0.0	0.0
<b>Prospective financing</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>135.0</b>	<b>0.0</b>	<b>0.0</b>	<b>174.0</b>	<b>20.0</b>
o/w IMF	0.0	0.0	0.0	100.0	0.0	0.0	100.0	0.0
o/w other	0.0	0.0	0.0	35.0	0.0	0.0	74.0	20.0
<b>Memorandum items:</b>								
Current account deficit (percent of GDP)								
Excluding official transfers	-18.1	-14.4	-20.0	-21.2	-16.2	-16.7	-16.1	-14.1
Including official transfers	-13.5	-10.4	-15.4	-16.5	-13.1	-14.0	-12.0	-10.2
<b>Gross official reserves (w/out prosp. financing)</b>	<b>919.9</b>	<b>1,149.0</b>	<b>790.0</b>	<b>759.2</b>	<b>1,146.3</b>	<b>782.2</b>	<b>605.9</b>	<b>730.7</b>
in months of prospective imports of G&S	3.6	4.0	3.1	3.2	4.1	3.0	2.5	2.9
<b>Gross official reserves (incl. prospective financing)</b>	<b>919.9</b>	...	...	<b>894.2</b>	...	...	<b>914.9</b>	<b>1,059.7</b>
in months of prospective imports of G&S	3.6	...	...	3.8	...	...	3.8	4.2
Overall balance (percent of GDP)	-0.7	2.9	-0.7	-2.0	0.0	-0.1	-1.8	1.4
Total Public Transfers (US\$ million)	665.1	576.9	595.1	581.9	522.4	436.6	542.4	554.2
<i>Of which:</i> budgetary grants	225.6	245.2	277.8	279.3	242.2	147.0	251.9	258.3
Budgetary loans (US\$ million)	235.6	155.9	133.4	209.4	177.3	125.1	71.4	185.4
Total public transfers (percent of GDP)	8.2	6.3	7.0	7.0	5.2	4.8	6.4	6.2

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Including interest due to the IMF.<sup>2</sup> Includes central government project and budget loans, and borrowing by Rwandair and KCC.<sup>3</sup> Other capital includes long-term private capital, commercial credit, change in NFA of commercial banks, and unrecorded imports.

**Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2014–15**

	2014				2015			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	(Percent)							
<b>Capital adequacy</b>								
Regulatory capital to risk-weighted	20.5	21.2	21.7	21.4	23.3	21.6	21.3	19.9
Capital to assets	22.6	23.6	24.0	24.2	25.9	24.3	24.2	22.5
Off-balance items/qualifying capital	395.1	379.4	361.3	327.5	282.6	352.5	290.8	302.8
Insider loans/core capital	4.1	4.3	3.6	3.4	2.1	2.8	3.0	4.0
Large exposure/core capital	70.1	74.6	69.0	83.6	82.3	107.2	98.6	112.6
<b>Asset quality</b>								
NPLs/gross Loans	6.7	6.6	6.3	6.0	6.3	5.9	6.3	6.2
NPLs net/gross loans	5.6	5.5	5.5	5.1	4.9	4.9	5.1	5.2
Provisions/NPLs	56.4	50.0	55.3	56.8	52.3	51.5	48.3	46.2
Earning assets/total asset	82.1	80.6	83.0	93.1	79.3	81.8	83.1	83.1
Large exposures/gross loans	15.1	15.8	14.8	17.7	19.3	22.5	20.9	23.4
<b>Profitability and earnings</b>								
Return on average assets	2.3	2.1	1.9	1.9	2.7	2.4	2.3	2.1
Return on average equity	11.9	12.1	10.9	10.8	14.1	13.1	12.7	11.2
Net interest margin	9.2	8.7	8.2	7.9	8.7	8.9	8.7	8.5
Cost of deposits	4.1	3.4	3.2	3.4	3.1	3.1	3.1	3.2
Cost to income	80.7	81.5	82.2	82.1	79.4	78.6	80.5	81.1
Overhead to income	49.2	48.8	49.3	49.4	43.6	46.0	46.2	46.8
<b>Liquidity</b>								
Short term gap	13.8	11.0	9.8	5.3	9.9	11.6	6.0	8.1
Liquid assets/total deposits	46.3	54.2	54.0	51.7	46.0	49.5	46.8	45.4
Interbank borrowings/total deposits	16.2	15.1	14.2	11.6	13.7	15.9	16.4	18.0
BNR borrowings/total deposits	--	--	--	6.1	--	--	0.0	0.0
Gross loans/total deposits	86.1	76.4	79.7	90.4	86.6	84.2	87.0	89.0
<b>Market sensitivity</b>								
Forex exposure/core capital <sup>1</sup>	-12.6	-1.5	-4.8	-2.2	-5.5	-7.1	-7.9	-5.7
Forex loans/Forex deposits	11.0	12.7	16.2	29.5	27.1	32.6	38.7	37.2
Forex assets/Forex liabilities	79.4	84.8	82.6	84.7	83.2	82.1	86.1	81.7

Source: National Bank of Rwanda.



**Table 6. Rwanda: Quantitative Assessment Criteria and Indicative Targets as of end-December 2015<sup>1</sup>**

	Dec 2015			Status
	4th PSI review	Adjusted	Actual	
(Billions of Rwandan francs, unless otherwise indicated)				
<b>Assessment/Performance criteria</b>				
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	291	313	292	Met
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	571	533	606	Met
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	291		270	Met
Reserve money (ceiling on stock) <sup>4</sup>	285			
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	279			
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0		0	Met
<b>Indicative targets</b>				
Net domestic financing (ceiling on flow) <sup>2,3</sup>	37	81	95	Not met
Domestic revenue collection (floor on flow) <sup>2,6</sup>	967		967	Met
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-12		-22	Met
Total priority spending (floor on flow) <sup>2</sup>	721		722	Met
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500		102	Met
Consolidated domestic debt of public sector (ceiling on stock, eop)	523		505	Met
<b>Memorandum items:</b>				
Total budget support (US\$ millions) <sup>2,6</sup>	501		442	
Budget support grants (US\$ millions)	248		209	
Budget support loans (US\$ millions)	253		232	
RWF/US\$ program exchange rate	746.5		746.5	

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup> Numbers for June 2016 are cumulative from 12/31/2015; numbers for December 2016 and June 2017 are cumulative from 6/30/2016.

<sup>3</sup> Subject to adjusters. See TMU for details.

<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.

<sup>5</sup> Ceilings on external arrears and external borrowing are continuous.

<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

**Table 7. Rwanda: Status of Structural Benchmarks for 5<sup>th</sup> PSI Review**

<b>Policy Measure</b>	<b>Target Date</b>	<b>Status</b>
<b>Public Financial Management</b>		
Sub-national entities (416) to produce monthly, quarterly, and annual financial reports using a uniform template.	Continuous, starting Q4 2015	Met
MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 60 days of end of each quarter.	Continuous, starting Q4 2015	Not met (implemented with delay)
Issue a 15-year government T-bond	end-May 2016	Met

**Table 8. Rwanda: Proposed Schedule of Disbursements Under the SCF Arrangement**

Date available	Disbursement		Percent of quota 1/	Conditions 2/
	Million SDR	Million US\$		
June 8, 2016	72.0900	101.51	45.00	Board approval of the SCF arrangement
December 1, 2016	36.0450	50.76	22.50	Board completion of the first SCF review based on compliance with end-June 2016 conditionality
June 9, 2017	18.0225	25.38	11.25	Board completion of the second SCF review based on compliance with end-December 2016 conditionality
November 15, 2017	18.0225	25.38	11.25	Board completion of the third SCF review based on compliance with end-June 2017 conditionality
<b>Total</b>	<b>144.1800</b>	<b>203.03</b>	<b>90.00</b>	

1/ Rwanda's quota is SDR 160.2 million.

2/ The Board approval and subsequent reviews of the SCF are expected to be done concurrently with the fifth, six, seventh and eighth reviews of the PSI, respectively.

Table 9. Rwanda: Indicators of Fund Credit, 2015–25

(In millions of SDRs)											
	2015	2016	2017	2018	2019	Projections					
						2020	2021	2022	2023	2024	2025
<b>Fund obligations based on existing credit</b>											
<b>(In millions of SDRs)</b>											
Total	1.5	0.9	1.3	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Principal	1.5	0.9	1.3	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Obligations to the Fund from existing and prospective credit <sup>1</sup></b>											
<b>(In millions of SDRs)</b>											
Principal	1.5	0.9	1.6	1.2	1.1	20.7	30.6	32.5	32.3	24.1	6.0
ECF Arrangements	1.5	0.9	1.3	0.8	0.4	20.0	30.0	32.0	32.0	24.0	6.0
SCF Arrangements	1.5	0.9	1.3	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	20.0	30.0	32.0	32.0	24.0	6.0
PRGT Interest	0.0	0.0	0.3	0.4	0.7	0.7	0.6	0.4	0.3	0.1	0.0
SDR Assessments	0.0	0.0	0.3	0.4	0.7	0.7	0.6	0.4	0.3	0.1	0.0
<b>Obligations to the Fund from existing and prospective credit</b>											
In millions of U.S. dollars	2.1	1.2	2.2	1.6	1.5	29.4	43.4	46.0	45.8	34.2	8.5
In percent of gross international reserves	0.2	0.2	0.4	0.2	0.2	3.5	4.1	3.2	2.6	1.8	0.4
In percent of exports of goods and services	0.2	0.1	0.1	0.1	0.1	1.5	2.0	1.9	1.8	1.2	0.3
In percent of debt service	2.6	0.7	1.7	1.2	1.3	19.4	25.0	25.0	4.8	28.7	9.2
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.3	0.4	0.4	0.3	0.2	0.1
In percent of quota	0.9	0.5	1.0	0.7	0.7	12.9	19.1	20.3	20.2	15.1	3.8
<b>Outstanding Fund credit based on existing drawings</b>											
<b>(end-of-period, all PRGT)</b>											
In millions of SDRs	4.0	2.4	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	2.5	1.5	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Outstanding Fund credit based on existing and prospective drawings (end-of-period) <sup>1</sup></b>											
In millions of SDRs	4.0	110.6	145.3	144.5	144.2	124.2	94.1	62.1	30.0	6.0	0.0
In millions of U.S. dollars	5.6	156.7	206.0	204.9	204.4	176.0	133.4	88.0	42.6	8.5	0.0
In percent of gross international reserves	0.6	20.6	34.0	28.0	24.8	20.8	12.5	6.1	2.4	0.5	0.0
In percent of exports of goods and services	0.4	11.3	13.7	12.5	11.4	8.9	6.1	3.7	1.7	0.3	0.0
In percent of GDP	0.1	1.9	2.4	2.3	2.1	1.7	1.2	0.7	0.3	0.1	0.0
In percent of quota	2.5	69.0	90.7	90.2	90.0	77.5	58.8	38.8	18.8	3.8	0.0
<b>Memorandum items:</b>											
Nominal GDP (in billions of U.S. dollars)	8.1	8.3	8.5	8.9	9.5	10.4	11.4	12.2	13.3	14.6	16.0
Exports of goods and services (in billions of U.S. dollars)	1.4	1.4	1.5	1.6	1.8	2.0	2.2	2.4	2.6	2.8	3.1
Gross international reserves (in billions of U.S. dollars)	0.9	0.8	0.6	0.7	0.8	0.8	1.1	1.4	1.7	1.9	2.0
Quota (in millions of SDRs)	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2
SDR per USD (as of May 6, 2016)	0.7055	0.7055	0.7055	0.7055	0.7055	0.7055	0.7055	0.7055	0.7055	0.7055	0.7055

Sources: Fund staff estimates; and projections.

<sup>1</sup> Assumes access of 90 percent of quota over 2016–17 and semi-annual disbursements.

## Annex I: External Sector Assessment

	Rwanda	Overall Assessment
<b>Foreign asset and liability position and trajectory</b>	<p><b>Background.</b> Gross public and publicly guaranteed external debt increased to 28.5 percent of GDP in 2015 from 23.6 percent in 2014. About 75 percent of external debt is comprised of concessional multilateral and bilateral debt. Total gross external liabilities amounted to [45] percent of GDP at end-2015, of which about [16] percent were direct investments.</p> <p><b>Assessment.</b> Despite the rising public and publicly guaranteed external debt, Rwanda continues to be assessed as having a low risk of external debt distress. However, the risks to public external debt sustainability have risen and the scope for expanding public external debt is limited.</p>	<p><b>Overall Assessment:</b>  <i>The external position of Rwanda in 2015 was weaker than the level consistent with medium-term fundamentals and desirable policy settings.</i></p> <p>The recent sharp decline in mineral prices has highlighted Rwanda's susceptibility to external shocks given its narrow export base. And the strain on foreign reserves has further underscored the economy's external vulnerabilities. The immediate risks to the external position are high and medium-term vulnerabilities persist and will need to be addressed.</p> <p><b>Potential policy responses:</b>                      In the short-term, tighter fiscal and monetary policies, along with greater exchange rate flexibility, are required to dampen external imbalances and ease the strain on foreign reserves. The effective implementation of measures to diversify and expand exports remains critical to mitigate risks arising from the narrow export base and volatility of commodity prices. Further lowering of the costs of doing business and removal of other</p>
<b>Current account</b>	<p><b>Background.</b> The current account (CA) deficit deteriorated to 13.5 percent of GDP in 2015, from 12.2 percent in 2014. The sharp fall in mineral prices and production lowered mineral export receipts substantially, but as a net oil importer, Rwanda benefited from lower oil prices, and though this effect was partly offset by the increase in the volume of fuel imports, the goods trade balance still improved modestly. The deterioration in the services and primary income balances respectively, contributed to the weakening of the CA balance.</p> <p><b>Assessment.</b> The External Balance Assessment (EBA)-lite estimates a CA norm of -6.1 percent of GDP and a gap of -7.4 percent of GDP for 2015, largely explained by the regression residuals. The CA deficit is expected to deteriorate further in 2016 on account of a large one-off purchase of aircraft for RwandAir, weaker mineral exports and services balance, keeping the external position weaker than fundamentals and desired policies. Staff's assessment, after accounting for temporary and structural factors not captured in the regression model, is that the CA balance is 2-4% weaker than the level implied by medium-term fundamentals and desirable policies.</p>	
<b>Real exchange rate</b>	<p><b>Background.</b> After depreciating by about 8 percent over the period 2010-2014 the CPI-based real effective exchange rate (REER) index appreciated by about 8.4 percent between 2014 and 2015, recovering the value lost in the preceding years. So far in 2016, the REER has been broadly stable.</p> <p><b>Assessment.</b> The EBA-lite REER regression (which uses the CPI-based REER) points to an undervaluation of the Rwandan Franc of about 23 percent in 2015. In contrast, the CA regression estimates a large overvaluation, in contrast to the previous analysis done in 2014 where the Rwandan Franc was judged to be broadly in line with fundamentals.<sup>1/</sup> Based on these various models and a current account balance which is now assessed to be weaker than medium-term fundamentals and desirable policies staff's assessment is that the REER is likely now modestly overvalued.</p>	

	Rwanda	Overall Assessment
<b>Capital and financial accounts: flows and policy measures</b>	<p><b>Background.</b> In 2015, net multilateral and bilateral borrowings, net foreign direct investment (FDI) flows, capital grants and drawdown of commercial banks' net foreign assets (and official reserves) were the main sources of financing for the current account deficit.</p> <p><b>Assessment.</b> In the near-term concessional financing and grants will continue to play an important role in external financing in Rwanda. While the low risk of external debt distress rating has expanded the envelope of available concessional borrowing, the scope for increasing public external borrowing further is limited if the current external debt risk rating is to be maintained. Implementation of ongoing structural reforms in the private sector, improvement in energy efficiency and continued ease of doing business in Rwanda are anticipated to attract larger FDI flows over the medium-term.</p>	structural impediments to private sector's growth are crucial to improving Rwanda's external competitiveness, attracting larger FDI flows and lowering reliance on aid flows. The authorities should aim to rebuild their foreign reserve buffers to more comfortable levels, supported by IMF financing under the Standby Credit Facility.
<b>FX intervention and reserves level</b>	<p><b>Background.</b> Gross reserves fell to 3.6 months of prospective imports of goods and services in 2015, from 4.2 months of imports in 2014, and below the average (5 months of imports) over the last decade. With the drop in mineral exports receipts, there was a drawdown of central bank (and commercial bank) reserves.</p> <p><b>Assessment.</b> Staff's assessment is that official reserves in 2015 were below the level deemed optimal for Rwanda, given its low export base and vulnerability to commodity price shocks. Staff views an optimal level of reserves for Rwanda to lie within the range of 4-5 months of prospective imports, higher than the traditional metric of 3 months of imports cover.<sup>2/</sup> Without policy interventions, more flexibility in the exchange rate, and additional financial support to cushion the blow from the mineral price shock, staff assesses that in 2016 and 2017 reserves will fall further below the 4-5 months of imports cover deemed adequate.</p>	
<b>Technical Background Notes</b>	<p>1/. The EBA-lite REER index estimates a REER undervaluation of 23 percent. In contrast, the CA balance regression points to overvaluation of the Rwandan Franc in 2015 of 87 percent, based on EBA current account gap estimate and a long-run elasticity of -0.09. However staff's view is that the wide disparity in the REER under/overvaluation estimates from these regression models highlights the difficulties and uncertainties surrounding the models' ability to fully explain developments in the Rwandan Franc, as both the REER index and CA gaps are largely explained by the models' residuals. This suggests that other fundamental factors which may be important for assessing REER and CA balance developments in the Rwandan economy are not captured in these models. Moreover, the long-run elasticity estimate used in the CA balance regression model is subject to great uncertainty. Weighing all of these factors leads staff to conclude that, while the Rwandan Franc probably remains modestly overvalued, this is far overstated by the CA balance model.</p> <p>2/. The reserve adequacy assessment was done using the IMF's new approach for low-income countries "Assessing Reserve Adequacy in Credit-Constraint-Economies (ARA-CCC)". In the assessment, Rwanda is classified as a resource-rich country, as the share of mineral exports (as a percent of total exports of goods) has been 29 percent on average over the last decade. Staff also assumed that a higher than average unconditional probability of external shock (0.75) is warranted for Rwanda, and that the cost of holding reserves was 4 percent, the IMF Executive Board's recommended level.</p>	

## Appendix I. Letter of Intent

May 25, 2016

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

Dear Ms. Lagarde,

In 2015 although growth was resilient, falling just shy of projections to 6.9 percent, an unanticipated external shock to Rwanda's main commodity export began to unfold in the latter half of the year 2015, that has continued into 2016. A sharp drop in mineral prices and in global demand for those products has resulted in an unexpected significant loss of export receipts and this has posed a serious issue for international reserves of the banking system. Reserve assets fell for the second successive year in 2015, reaching only an estimated 3.6 months in next year's import and this is projected to fall to a low of 2.5 in 2017. In the face of these serious challenges, growth is expected to slow down to 6 percent in 2016 and 2017. Inflation is projected to stay well contained as the Government of Rwanda puts in place a series of policies to cope with these shocks, including monetary and fiscal tightening starting in the forthcoming fiscal year, as well as reforms to bolster the external position of the country in the medium-term. The combination of these strategies should mean that there is far less external strain on the Rwandan economy in the medium term.

To assist in this effort the Government of Rwanda requests an eighteen month arrangement under the Standby Credit Facility (SCF) with total access of 90 percent of Rwanda's IMF quota (SDR 144.18 million) which would work in conjunction with the Policy Support Instrument (PSI) to augment the reserves of the National Bank of Rwanda (BNR). This will enable the Government of Rwanda to continue to ensure macro-economic stability and thereby focus on its goals for sustainable growth and poverty reduction.

The Government of Rwanda requests the completion of the fifth review under the PSI program and the approval of the SCF arrangement. We also request extension of the current PSI program ending in November of this year to December 2017, so that potentially a successor PSI program could be negotiated after expiration of the SCF arrangement in December 2017. We also request minor changes to modify program conditionality to strengthen program monitoring.

Program performance under the new PSI has been strong. All end-December 2015 quantitative assessment criteria (QAC) and all but one end-December 2015 indicative targets (IT) were met. However, regarding the structural benchmarks (SB), all have been met but the publication of the quarterly report on budget execution was delayed. We reiterate our commitment to start publishing it

within 60 days after the end of the quarter.

The government believes that the policies and measures set forth in the attached MEFP will deliver the objectives of the PSI and SCF-supported programs but we will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF - at its own initiative or whenever the Managing Director of the IMF requests such a consultation - before the adoption of any such measures or changes to the main policies described in the attached MEFP.

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 programs. The sixth review of the PSI and the first review of the SCF will take place before end-December 2016, and the seventh review of the PSI (second review of the SCF) is expected before end-June 2017.

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

Sincerely,

/s/

**Claver Gatete**  
Minister of Finance and Economic Planning

/s/

**John Rwangombwa**  
Governor, National Bank of Rwanda



# Memorandum of Economic and Financial Policies

May 25, 2016

## I. Introduction

This MEFP reviews performance under the PSI-supported program through end-December 2015 and discusses the macroeconomic outlook and policies of the Government as part of the request for an eighteen-month arrangement under the Standby Credit Facility (SCF). It also lays out proposed modified quantitative targets for end-June 2016, new targets for end-December 2016 and end-June 2017, and structural benchmarks through end-September 2017.

## II. Recent Economic Developments and Performance Under the PSI through end-2015

### Growth and Inflation

1. **GDP in 2015 grew by 6.9 percent**, propelled by manufacturing, construction, and services, which grew by 7.5, 9.9, and 7 percent respectively. In the agricultural sector, export crops performed strongly, while food crops stagnated, possibly as a result of last year's El Niño. The mining sector faced four consecutive quarters of decline and experienced a cumulative drop by 8.8 percent. On the expenditure side, final consumption increased by 6.7 percent.

2. **Inflation** continues to remain contained and has now been below the medium-term target of 5 percent for more than two years, averaging 2.5 percent for 2015. In recent months, inflation has increased, reaching a peak of 4.8 percent in November (y-o-y) before moderating to 4.6 percent in March. This mostly reflects higher food prices, particularly vegetables, where inflation reached 10.5 and 22.5 percent in November respectively. Though the exchange rate pass through is low in Rwanda, recent pressure on the FRW/US\$ exchange rate has led to a small increase in imported inflation, rising from 1 percent in November 2015 to 2.3 percent in February 2016.

### Budget execution

3. Tax revenue exceeded the end-December target by RWF 20.4 billion largely due to import taxes on account of higher imports from non-EAC countries and exchange rate depreciation against these countries. Higher domestic consumption of excisable products, notably beer and soft drinks, and improved VAT collections through increased use of the electronic billing machines also contributed to this good performance as well as some 'one-off' collections from arrears in excise taxes.

4. Concerning external financing, both budgetary loans and grants registered small shortfalls due to delayed disbursement of EU and AfDB budget support. Total expenditure and net lending in the first half of the 2015/16 Fiscal Year amounted to RWF 828.0 billion (14.2 percent of GDP), exceeding the target by 1.1 percent. This was due to the hiring of additional teachers for primary and secondary schools, new and vocational training staff as well as doctors and nurses for the health

sector. Expenditure on transfers was lower than expected due to lower outlays on local government which have been shifted into the first half of 2016. Exceptional expenditure of RWF 77 billion exceeded the target of RWF 34.1 billion as a result of front loading of spending on Peace Keeping Operations which was fully financed with reimbursements from the UN. Domestically financed projects recorded an amount of RWF 438.4 billion (7.5 percent of GDP), marginally higher than projected. Net lending was substantially lower due to slower project execution, but is expected to increase in the second half of the fiscal year. The overall fiscal deficit in the first half of the fiscal year was therefore slightly higher than projected, and net domestic financing was also slightly higher than envisaged.

### **Debt developments**

5. Rwanda's total Public and Publicly Guaranteed debt stood at 35.2 per cent of GDP as of end 2015. Despite the adverse effect of the US dollar appreciation on debt to GDP ratios, Rwanda's external debt remains sustainable and its risk status remains low. External debt (both concessional and non-concessional) accounts for the largest share of debt at 26.2 per cent of GDP while domestic debt (including domestic guarantees) accounts for 8.7 per cent of GDP. The increase in external debt is mainly driven by budgetary loans (IDA and AfDB) and debt owed by RwandAir and Rwanda Energy Group.

### **External developments**

6. The current account of the balance of payments deteriorated substantially from a deficit of USD 945.4 million in 2014 to USD 1,098.7 million in 2015 as the balances for services and income all worsened. The decline in minerals exports was partly offset by other export categories, in particular coffee and tea, and the decline of the international fuel price, which reduced import values for energy and lubricants. Capital grants declined, leading to a deterioration in the capital account balance by more than USD 100 million in 2015, while the financial account balance recorded a net borrowing of USD 719.7 due to higher external borrowing for both public and private projects as well as increasing in foreign direct investment.

7. Since 2012, the foreign exchange market has been under increased pressure from higher imports supporting high economic growth. In addition, the global strengthening of the US dollar and contagion from high depreciation of regional currencies has raised the annual depreciation in Rwanda to 7.6 percent, the highest level in the last 10 years. Pressures from the worsening current account balance have also led to a drop of international reserves for a second year in a row. By the end of 2015 reserves in months of imports of goods and services was down to 3.6 months from 4.8 months at the end of 2013. There was also substantial pressure on commercial banks who saw their net foreign assets decrease by 70.5 percent to 30.9 RWF billion at end December 2015.

## Monetary and financial sector developments

8. Throughout 2015, the Monetary Policy Committee (MPC) kept the policy rate at 6.5 percent to support the financing of the private sector by the banking system and ensure positive real interest rates. Broad money grew by 20.9 percent at end-December 2015, compared to 19.0 percent during 2014, driven mainly by increases in credit to government and the private sector, with an offset from net foreign assets. The accommodative monetary policy and ample liquidity in the banking system helped credit to private sector to grow by 26.7 percent in 2015.

9. The BNR continues its efforts to strengthen the channel of transmission whereby policy interest rates influence market interest rates and inflation. While significant progress has been achieved, there is still room for improvement, particularly as regard development of an interbank market and a secondary market for government securities. The flexibility introduced in the reserve money program (use of a reserve money band) in 2012 has contributed to improving liquidity management in the banking system and to the development of the interbank market. It has also created more flexibility in money market rates, which have started to move closer to the central bank rate (KRR) over the past year. This development is important and will need to be sustained as BNR is planning to move from reserve money to a more price based monetary policy by 2018, in line with EAC requirements.

## Developments in financial sector soundness and stability indicators

10. Rwandan financial soundness indicators suggest a banking system in sound health at end December 2015.

- a. Banks are well capitalized and liquid, and asset quality continues to improve, with CARs significantly above the prudential level of 15 percent. The ratio of liquid assets to total deposits stood at 45.9 percent as at December 2015, far above the regulatory minimum of 20 percent. The non-performing loan ratio (NPLs) of the banking industry, while increasing slightly in December 2015, remains on a downward trend, having declined from 8 percent in 2011 to 6 percent in 2015. Profits of the financial sector continued to grow in 2015 as reflected in the table below.
- b. The BNR adopted more financial stability analytical tools in 2015. The CIHAK stress-testing framework was adopted in mid-March 2015. The results of this framework were discussed in the financial stability committee of March 2016. Other financial stability analytical tools include the composite financial stability index and identification of systemically important banks—using the Basel framework.
- c. Between September and December 2015, the BNR board approved the regulation implementing the deposit guarantee fund and two pension regulations. BNR has also reviewed the insurance law as to focus on a risk based capital model. The implementing regulations are being worked on. Banks and MFIs are also being required to disclose key information on loans. In line with the Basel II/III implementation, a dedicated directive

was issued in October 2015 and parallel use of the two systems started in November 2015.

<b>Performance Indicators for the Banking System and Microfinance Sector</b>		
	<u>Dec-14</u>	<u>Dec-15</u>
<b>Banks</b>		
Capital / Risk Weighted Assets ( <i>Min 15%</i> )	24%	22.5%
Liquid assets to total deposits ( <i>Min 20%</i> )	48.7%	45.9%
Non-Performing Loans (NPLs)	6%	6.2%
ROA	1.9%	2.1%
ROE	10.5%	11.2%
<b>Microfinance</b>		
Capital / Risk Weighted Assets (Min 15%)	33.2 %	31.1 %
Quick liquidity ratio (liquid assets/current liabilities: with min 30%)	87%	89.6%
Non-Performing Loans (NPLs)	7%	7.9%
ROA	3.1%	3.3%
ROE	9.5%	10.5%

### Program Performance

11. Performance against end-December 2015 quantitative targets under the PSI, Program performance under the new PSI has been strong. All end-December 2015 quantitative assessment criteria (QAC) and indicative targets (IT) were met, with exception of the indicative ceiling on net domestic financing, which was exceeded slightly due to higher than expected repayment of arrears. All structural benchmarks (SB) were met on time, except the publication of the quarterly report on budget execution which was met with a delay. We reiterate our commitment to start publishing it within 60 days after the end of the quarter.

### III. Macroeconomic Outlook and Policies for 2016 and the Medium Term

12. Whilst economic growth in the medium term is expected to remain relatively stable, imbalances in the external sector are expected to be a drag on growth in the shorter term. The source of the external sector imbalance is a shock to the global prices of minerals, which accounted for 34 percent of Rwanda's exports in 2014. This shock, combined with increasing demand for imports are placing pressure on Rwanda's reserves position. As such Rwanda is requesting financing under the IMF's Standby-Credit Facility to ensure that reserves stay above the critical level of three months of imports. The external financing need is expected to only be temporary as Rwanda's exports transform from predominantly raw commodities to more manufacturing, processed commodities and meetings, incentives, conferences and events (MICE) tourism.

13. Rwanda is committed to make policy adjustments to mitigate the effects of external pressures:
- a. The principal adjustment mechanism is expected to be the exchange rate which will be allowed to continue to depreciate in the coming years. In conjunction with the expected depreciation BNR will implement a more prudent monetary policy to address pressures on exchange rate;
  - b. BNR will continue improving the management of liquidity within the current monetary framework to ensure that money market rates are more aligned to the key policy rate (KRR) and the interbank market continues to be developed. These policies are key steps in preparation for the use of the interest rate as the operational tool for monetary policy planned for by end 2018;
  - c. Fiscal policy is also withdrawing stimulus substantially from the beginning of fiscal year 2016/17. The overall deficit is projected to decline by half a percentage point of GDP compared to the 4<sup>th</sup> PSI review to stand at 3.9 percent of GDP in 2016/17 and 3.3 percent of GDP in FY2017/18, 1 percentage point of GDP lower than projected in the 4<sup>th</sup> review. Since much of the government's spending has already been committed through contracts with international organisations, this is a significant fiscal adjustment;
  - d. The government is also implementing extensive medium term measures to address external imbalances as laid out in the latest national export strategy. These will focus on transforming and expanding tourism in Rwanda, broadening the manufacturing base and ensuring that more commodities exported from Rwanda are processed domestically.

### Real sector

14. The Government expects the Rwandan economy to slow to 6 percent growth in 2016 and 2017, from 6.9 percent in 2015. The temporary moderation in growth reflects lower growth in agriculture (especially export crops), a small drop in the terms of trade, and the adjustment measures being undertaken to address external imbalances. Growth in 2018-19 is expected to return to 7 percent. Growth in construction, manufacturing industry, and services is projected to be in the 6½ -7 percent range, with utilities well above that. Construction remains buoyant due to private sector investment and new road construction. Manufacturing and utilities are boosted by recent investments (including in industrial zones and new utility operations). Services continue to be led by real estate activities, financial services, and ICT, while transport services are boosted by the expansion of the Rwanda Air fleet. Mining output will continue to drop in 2016 because of depressed international prices. Agricultural growth is projected at just 4.3 percent in 2016, as the increase in food crops is not enough to offset the decline in export crops in 2016. A pick-up in export crops should bring agricultural growth back to 5 percent in 2017.

## Inflation

15. The monetary authorities intend to contain inflation (end-period CPI) at 4.7 percent in 2016 and at or below 5 percent for the next three years. The projected drop in import prices in foreign currency in 2016 should help mitigate inflation this year. But in later years, a pick-up in import prices combined with exchange rate flexibility should lead to somewhat higher CPI inflation, despite the NBR's very cautious monetary policy stance.

## Fiscal policy

16. Total expenditure and net lending of RWF 1,785 billion (29 percent of GDP) in the revised budget for fiscal year 2015/16 was slightly higher than in fiscal year 2014/15. Similarly, total revenue and grants were also higher at RWF 1,478.9 billion (24.1 percent of GDP) than in fiscal year 2014/15. The revision of the fiscal year 2015/16 budget responded to the front loading of some donor budget support funds which increased available resources. Since implementation of the revised budget is far advanced, it is very difficult to change the fiscal policy stance before the end of this fiscal year. The overall deficit (on cash basis) of the revised 2015/16 budget of RWF 332.6 billion (5.4 percent of GDP) is only 0.1 percent of GDP higher than the deficit registered in fiscal year 2014/15.

- a. Fiscal policy in 2016/17 and 2017/18 is guided by the need to address the external shocks hitting the Rwandan economy. The policy stance is based on reducing the foreign exchange component of the budget and thereby compressing imports and relieving the pressure on external reserves. The Government expects to achieve this objective through greater domestic revenue mobilization and prioritizing expenditures.
- b. The limited revenue adjustment reflects the effects of lower economic growth in response to the external shocks. Tax revenue collections are projected to rise only modestly in 2016/17 to 16 percent of GDP from 15.9 percent in fiscal year 2015/16. Increased yield from the fuel levy is contributing to the projected improvement since the revenue from other sources, notably from taxes on international trade, is only projected to rise marginally as policies are put in place to reduce imports. The lower than previously projected tax to GDP ratio also reflects the delay in implementing the property tax reform as a study was commissioned to assess the merits of a 1 percent property value tax. We are incorporating recommendations from the study and expect to resubmit the draft law on property tax to cabinet for approval by end June 2016.
- c. Total expenditure and net lending for 2016/17 is projected at RWF 27.1 percent of GDP compared to 29 percent of GDP in 2015/16. This amount is RWF 38.9 billion (equivalent to 0.6 percent of GDP) lower than projected in the 4<sup>th</sup> PSI review, reflecting prioritization of spending in response to the external shock.
- d. The adjustment is achieved by compressing spending in areas where there are no prior commitments. With the exception of some priority projects in line with EDPRS 2, no new projects are being undertaken in this fiscal year. Regarding domestic capital expenditure,

compression of spending excludes projects and programs being funded with Global Fund grants in the health sector (HIV Aids, Tuberculosis and Malaria). Spending under domestic capital (excluding Global Funds projects) declines sharply in 2016/17 showing a compression of RWF 102.1 billion equivalent to 1.5 percent of GDP.

- e. The overall deficit, including grants and on a cash basis, is projected at 3.9 percent of GDP in 2016/17. This is down by 0.5 percentage points compared to the 4<sup>th</sup> PSI review projections and 1.5 percentage points compared to 2015/16 budget. This tighter fiscal policy stance is expected to reduce the import bill and reduce the pressure on external balances.

17. The Fiscal policy stance for FY 17/18 is expected to remain prudent. Total revenue and grants are projected at 23 percent of GDP, of which 4.9 percent of GDP) comprise grants. Tax revenue is projected to rise by RWF 126.2 billion compared to 2016/17. While the amount in RWF is lower by RWF 16.8 billion than in the 4<sup>th</sup> review, GDP is also lower due to the impact of adjustment policies, and the tax to GDP ratio, at 16.0 percent, is actually higher than projected in the 4<sup>th</sup> review.

18. Total expenditure and net lending for fiscal year 2017/18 is projected at 26.1 percent of GDP which in nominal terms is RWF 100.2 billion lower than the amount projected in the 4<sup>th</sup> review (26.6 percent of GDP). The projections for fiscal year 2017/18 will result in an overall cash deficit (including grants) of 3.3 percent of GDP compared to 4.2 percent of GDP projected in the 4<sup>th</sup> review.

19. Fiscal policy over the medium term will continue to aim at fiscal consolidation through revenue mobilization and expenditure prioritization to reduce the fiscal gap and reliance on external funds. Prudent management of the fiscal gap will also ensure prudent borrowing such that the total debt in the medium to long term continues to be sustainable.

### **Debt dynamic in the medium term**

20. Although Rwanda's Public and publicly guaranteed debt remain at low risk of debt distress, lower exports and private inflows combined with still high public investment imports are leading to growing pressure on the balance of payments and foreign exchange reserves. To address the external imbalances and maintain a low risk status, the government is putting in place quick measures to promote export diversification and import substitution, in the near term. Meanwhile, debt policy going forward will maximize the contracting of concessional and semi-concessional loans. In addition, the government will ensure that it borrows prudently and with advantageous terms, while continuing to promote the domestic debt market, thereby reducing its forex risk exposure.

<b>Summary Table on New External Borrowing Program for 2016</b>	
<b>PPG external debt contracted or guaranteed</b>	Volume of new debt, US\$ million 1/
<b>Sources of debt financing</b>	<b><u>303</u></b>
Commercial terms 2/	303
<b>Uses of debt financing</b>	<b><u>303</u></b>
RwandAir and KCC	303
<p>1/ Contracting and guaranteeing of new debt in nominal terms. All multilateral and bilateral debt in the central government's budget for 2016 related to disbursements of previous contracted loans.</p> <p>2/ All commercial debt is central government guaranteed debt related to RwandAir and the Kigali Convention Center (KCC).</p>	

### Structural reforms

21. New structural measures proposed to support attainment of quantitative targets and improvement in the fiscal reporting include:
- a. We are in the process of putting in place concrete monitoring systems to ensure periodic accurate reporting on project grants disbursements and utilization of proceeds from the project accounts. This will enable more timely fiscal reporting with reduced discrepancies between the fiscal and the monetary numbers. We will set up a framework for recording donor project support disbursement and use of funds in one sector (health or education), as an initial step. We will broaden the scope later to include all projects;
  - b. In line with the East African Monetary Union (EAMU) Protocol requirement to adopt the GFS2014 framework, we will establish a timeline, by end-September 2016, for the transition to the GFS14 framework;
  - c. We will also design a strategy to incorporate fiscal risks and foreign exchange needs into project planning assessments, starting with PPPs by end-June 2017; and
  - d. We will produce a detailed report on tax expenditures for FY15/167 and resubmit to parliament revised legislation on Fixed Asset Taxes, incorporating current discussions on refining underlying valuation methodologies.

### Monetary and financial sector policies

22. The National Bank of Rwanda is finalizing the regulatory framework to shift from the simple interbank operations to a true Horizontal REPO. Moreover, efforts are underway to identify and



tackle factors that lead to high and rigid bank lending rates, as part of BNR's effort to improve the monetary policy transmission mechanism.

23. BNR and the government are also continuing efforts to deepen shallow financial markets. A fifteen-year bond will be issued in May 2016, to complement the 3, 5, 7 and 10-year bonds already in circulation. In addition, BNR and MINECOFIN's awareness campaigns have contributed to raising the share of participation of retail investors in government bonds from 1.0 percent in February 2014 to 10 percent in February 2016.

24. BNR is planning to move from reserve money targeting to a more price-based monetary policy framework. In addition to the progress in improving policy communication and liquidity management via having more flexible reserve money target ranges, BNR will conduct studies to define a relatively narrow range of excess reserves that will promote interbank market development and the proper use of Key Repo Rate as well as identify a policy interest rate range that is consistent with the identified range of excess reserves (SB).

25. To enhance the interbank market, BNR is also planning to introduce the true REPOs including transfer of collateral across banks (SB).

#### **Developments in financial sector soundness and stability indicators**

26. The BNR plans to issue a regulation on new capital requirements on Basel II/III by end of 2016. The new capital requirements will include minimum capital ratios plus a conservation buffer of 2.5 percent. The BNR plans to finalize a revised credit information sharing (CIS) law by June 2016, which will close gaps identified in the current law. With the support of the World Bank, the review process began in January 2016.

27. The BNR has benefited from the regional training programs (MEFMI and EAC) on banking supervision and risk management, and plans to implement new training programs as well. In addition to the new capital requirements, the following regulations are slated for review: loan classification & provisions; provisions for development banks; financial disclosure; publication of the financial statement. A review of the Banking law is also being fast tracked. To reduce NPLs of micro finance institutions (MFIs), BNR is intensifying the on-site inspection of all UMURENGE SACCOS, with greater focus on credit risk, and is training their staff on quality management of the loan portfolio.

28. To address external pressures and relieve pressure on foreign exchange reserves, BNR will implement a more cautious monetary policy in 2016 and continue to allow the exchange rate to adjust as necessary in line with the fundamentals of the economy. In addition, BNR will ensure that implementation of monetary policy will continue to contribute to maintain the stability of the financial sector. Thus, credit to the private sector is expected to grow by 16 percent, lower than the 26.7 percent achieved in 2015.

29. BNR is working to build technical capacity among foreign exchange dealers, with the objective of introducing a code of conduct. The objective is to facilitate an interbank foreign

exchange market that can provide better signals for adjusting official rates, as has been agreed at EAC level for the purposes of harmonizing market practises and methodology.

### Exchange rate and external policies

30. The current account is projected to deteriorate in 2016 but improve in 2017, by about US\$350 million or 4.4 percentage points of GDP. The decline in 2016 is the combination of an expected decline in exports as a result of continued depressed international mineral prices and lower projected private remittances linked to lower growth in source countries, coupled with a projected increase in imports mainly driven by RwandAir (new external borrowing to purchase two airbuses) and Kigali Convention Centre (KCC) imports.

31. Excluding RwandAir and Kigali Conventional Centre (KCC) imports which are fully financed in the financial account of the balance of payments, imports will be reduced as a share of GDP over the period 2015-2017. Even as import demand is reduced, continued reserve use will be necessary: the BNR is expected to draw down reserves to finance the balance of payments, bringing coverage in terms of months of imports (goods and services) from 3.6 in 2015 to 3.2 months in 2016.

32. **Medium term policies to reduce external imbalances:** addressing Rwanda's growing balance of payments pressures has been identified as one of the highest priority initiatives for the government in the coming fiscal year. To this effect, key priority projects should be focused on fostering economic activity and to either increase export revenues or to reduce import volumes. The identified key sectors for fostering economic activity are:

- Textiles, garments and leather industry
- Agriculture export crops
- Agri-business
- Construction
- Livestock
- Wood industry
- Minerals
- Tourism
- ICT
- Trade and investment facilitation

33. These policies include:

- **Import substitution efforts.** These are based on choosing a few key sectors (cement, sugar, rice and clothing) where local production can displace current imports. Regarding sugar, the government is looking for a new investor to take charge of sugar production and is offering land for sugar cane plantations; in the case of rice, the government is expanding acreage by 8,000 hectares with the objective of making the country self-sufficient in rice by 2018; with regard to cement, plans are in place to raise the production of the national cement company six fold to 600,000 tonnes per year;

- **Export promotion efforts.** These efforts are ongoing and supported by an export promotion fund. Targeted areas include processed food, and the development of textiles, garments and leather industry where an anchor firm has already started exporting. We envisage starting exports of flowers soon and will expand acreage to 85hectares; and there are plans to export laptops assembled in Rwanda; With a view to increasing the value of existing exports, we expect the proportion of fully washed coffee which increased to 50 percent in 2015 from 21 percent in 2010 to rise gradually and reach about 80 percent over the next two years).
- **MICE (Meetings, Incentives, Conferences, and Events) and tourism;** tourism is proving to be one of Rwanda's highest potential export-oriented service sector, generating about a third of the total export of goods and services earnings. It is a sector in which Rwanda's strengths are the safety, comfort and stability of the country. The government has adopted a MICE strategy aimed at making Kigali a hub for major regional and international conferences. The opening of the Kigali Convention Centre is scheduled for June 2016 and together with new upscale hotels being built, will provide high quality rooms for up to 6000 guests by end year. With their new routes to India and China, Rwandair is also part of these plans in bringing guests from afar as well as stimulating trade. Revenues from MICE tourism were US\$39 million in 2015 and projected to increase significantly in 2016/2017 as more than 20 international events are expected to be hosted in Rwanda.

### Revenue mobilization

34. Over the past three years, the Government has embarked on comprehensive tax reforms. A medium-term tax reform plan was developed and identified policies and administrative measures aimed at improving taxpayers' compliance, reducing exemptions, strengthening risk management, and broadening the tax base. Going forward, the strategy focuses on implementation and monitoring the anticipated outcomes. Relatedly, the RRA underwent the Tax Administration Diagnostic Assessment (TADAT) from the IMF Fiscal Affairs Department, which offered insights on reform priorities going forward. Actions to respond to the identified weaknesses will be incorporated into the RRA Three-year Strategic Plan and consequent annual action plans. RRA is also revising the Tax procedure Law which will, among other things:

- Improve use of the Electronic Billing Machines (EBMs). Some sectors will be made liable for VAT payments regardless of turnover levels, i.e. evolution to more sector-based rather than threshold-based approach;
- Allow taxpayers who never declared taxes but later declare voluntarily to be considered as voluntarily disclosure;
- Require tax litigation cases to pass through an administrative review by the Commissioner General prior to going to court, in order to reduce the number of cases that go to court; and
- Provide more comprehensive rules for handling false declarations or incomplete returns submitted to the tax administration.

#### **IV. Request for SCF Arrangement, Extension of the PSI-supported Program, and Program Modifications**

35. To assist in this effort the Government of Rwanda requests an eighteen month arrangement under the Standby Credit Facility (SCF) with total access of 90 percent of Rwanda's IMF quota (SDR 144.18 million) which would work in conjunction with the Policy Support Instrument (PSI) to augment the reserves of the National Bank of Rwanda (BNR).

36. The Government of Rwanda requests the completion of the fifth review under the PSI and the approval of the SCF arrangement. We also request extension of the current PSI program ending in November of this year to December 2017, and addition of two additional semi-annual reviews (7<sup>th</sup> and 8<sup>th</sup> reviews). The 6<sup>th</sup> review of the PSI-supported program is expected to take place in December 2016, based on end-June 2016 quantitative targets and structural measures implemented through end-September 2016. The 7<sup>th</sup> review is expected to take place in May-June 2017, based on end-December 2016 quantitative targets and structural measures through end-March 2017.

37. Program conditionality incorporates design changes. In light of implementation of the new debt limits policy during the 4th PSI review, we request to eliminate the indicative ceiling on public-sector domestic debt, which is largely redundant with the new ceiling on the fiscal deficit and retained ceilings on net domestic financing and external borrowing by public enterprises. We also request to modify the definition for the indicative target on domestic arrears accrual, and streamline program adjustors. Finally, we request minor revisions to end-June quantitative program targets for reserve money.

**MEFP Table 1. Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets<sup>1</sup>**

	June 2016		December 2016	June 2017
	Prog. (4th PSI review)	Proposed program	Proposed program	Proposed program
(Billions of Rwandan francs, unless otherwise indicated)				
<b>Assessment/Performance criteria</b>				
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	206.8	206.8	100.8	246.8
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	465.0	465.0	520.0	471.8
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	315.3	305.7	320.8	347.9
Reserve money (ceiling on stock) <sup>4</sup>	309.1	299.1	313.9	340.4
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	302.9	292.5	307.0	332.9
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0.0	0.0	0.0	0.0
<b>Indicative targets</b>				
Net domestic financing (ceiling on flow) <sup>2,3</sup>	203.0	203.0	-123.6	-50.3
Domestic revenue collection (floor on flow) <sup>2,6</sup>	562.0	562.4	539.0	1157.1
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-5.6	-5.6	-10.0	-20.0
Total priority spending (floor on flow) <sup>2</sup>	366.2	366.2	338.8	707.5
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500.0	500.0	500.0	500.0
Consolidated domestic debt of public sector (ceiling on stock, eop) <sup>7</sup>	522.9	...	...	...
<b>Memorandum items:</b>				
Total budget support (US\$ millions) <sup>2,6</sup>	97.5	151.5	309.0	439.1
Budget support grants (US\$ millions)	97.5	130.3	131.0	261.1
Budget support loans (US\$ millions)	0.0	21.1	178.0	178.0
RWF/US\$ program exchange rate	746.5	807.2	807.2	807.2

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup> Numbers for June 2016 are cumulative from 12/31/2015; numbers for December 2016 and June 2017 are cumulative from 6/30/2016.

<sup>3</sup> Subject to adjusters. See TMU for details.

<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.

<sup>5</sup> Ceilings on external arrears and external borrowing are continuous.

<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

<sup>7</sup> Eliminated under the new proposed conditionality.

**MEFP Table 2. Proposed New Structural Benchmarks Under the PSI-Supported Program and Proposed SCF Arrangement**

Policy Measure	Target Date
<b>Monetary</b>	
Issue 15-year government Treasury bond	End-May 2016
Establish the road map for secondary market development of Government debt securities. In addition, develop the capacity building plan for banks' treasurers on domestic securities.	End-September 2016
Define and target a range of excess reserves conducive to developing the interbank market.	End- December 2016
Introduce the real horizontal REPOs including transfer of collateral across banks in order to facilitate transactions between banks and boost the trading of debt securities.	End-March 2017
Develop a methodology to identify policy interest rate consistent with the identified range of excess reserves.	End- June 2017
<b>Public Financial Management</b>	
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter.	Each quarter
Develop and implement IPSAS roadmap which includes government accounting policy for fixed assets.	End-June 2016
Submit revised National Investment Policy to Cabinet.	End-June 2016
Establish a timeline for the transition of fiscal reporting into the GFS14 framework.	End-September 2016
Operationalize IFMIS and E-procurement interface protocols.	End-December 2016
Design a strategy to incorporate fiscal risks and foreign exchange needs into project planning assessments, starting with PPPs.	End-June 2017
Set up framework for recording donor project support in one sector (e.g. health, education, infrastructure), as an initial step to establishing it more broadly.	End-December 2016
<b>Fiscal Revenues</b>	
Submit revised Law on Tax Procedures to Cabinet.	End-June 2016
Share draft study on new tax regime for agriculture.	End-September 2017
Produce detailed report on tax expenditures for FY15/16.	End December 2016
Submit to Parliament revised legislation on fixed asset tax.	End-March 2017

# Technical Memorandum of Understanding

May 25, 2016

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period January 1, 2016–December 31, 2017 supported by the IMF Policy Support Instrument (PSI) and the Standby Credit Facility (SCF), and sets out the data reporting requirements. This TMU updates the one of December, 2015.

## I. Quantitative Program Targets

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

3. AC and PC will apply to the following indicators for June 30, 2016 and December 31, 2016 (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 the overall deficit, including grants as measured on a commitment basis<sup>1</sup>; and
- Ceiling on stock of external payment arrears of the public sector (assessed on a continuous basis).

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

- Ceiling on flow of net domestic financing (NDF) of the central government;
- 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 contracting or guaranteeing of new non-concessional external debt of nonfinancial public enterprises (assessed on a continuous basis); and
- Floor on flow of priority spending.

5. **Program exchange rates.** For accounting purposes, the program exchange rates in Table 1 will apply.

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<sup>2</sup> 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.

<b>TABLE 1. PROGRAM EXCHANGE RATES</b>	
<b>(US\$ per currency unit, unless indicated otherwise)</b>	
	<b>from January 1, 2016</b>
Rwanda Franc (per US\$)	807.2
Euro	1.12
British Pound	1.44
Japanese Yen (per US\$)	113.6
SDR	1.40

## II. Institutional Coverage of the Fiscal Sector

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

## III. Targets Related to the Execution of the Fiscal Program

### Ceiling on net domestic financing of the government (IT)

7. **A ceiling applies to NDF.** The ceiling for June 30, 2016 is measured from December 31, 2015, and the ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

8. **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 domestically issued debt.

9. 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,<sup>2</sup>

<sup>2</sup> 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.



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<sup>3</sup>, 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* as well as the portion of funds for Peace-keeping Operations (PKO) reserved for the payment of wages and other allowances to peace-keeping troops and police.)

10. Non-bank holdings of government domestically issued 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 grants and loans (as defined in Table 1 of the MEFP), up to a maximum of RWF 65 billion. In the event that actual budgetary grants exceed programmed levels, the ceiling on NDF will not be adjusted. In the event that actual budgetary loans exceed programmed levels, the ceiling on NDF will be adjusted *downward*.
- The ceiling on NDF will be adjusted *upward* up to a maximum of RWF65 billion representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.
- The ceiling on NDF will be adjusted *upward*, up to a maximum of RWF65 billion, representing the amount of expenditure arising from pre-financing of Peace Keeping Operations.

<sup>3</sup> 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.

### Overall Fiscal Deficit Including Grants (QAC/PC)

11. **A ceiling applies to the overall fiscal deficit including grants.** The ceiling for June 30, 2016, is measured from December 31, 2015, and the ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

12. **Definition.** For the program, the overall deficit including grants is valued on a commitment basis. That is, the overall fiscal balance is the difference between the government's total revenue and grants and total expenditure and net lending (costs and acquisition net of nonfinancial assets). The definition of revenues and expenditures is consistent with that in the 2001 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

#### Adjusters to the overall fiscal deficit including grants:

- The ceiling on the overall deficit will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1 of the MEFP), up to a maximum of RWF 65 billion.
- The ceiling on the overall deficit will be adjusted *upward* up to a maximum of RWF65 billion representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.
- The ceiling on the overall deficit will be adjusted *upward* up to a maximum of RWF65 billion, representing the amount of expenditure arising from pre-financing of Peace Keeping Operations.

#### Floor on flow of domestic revenues (IT)

13. The floor for June 30, 2016, is measured from December 31, 2015, and the floors for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

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, peace keeping operations, and privatization receipts.

#### Floor on priority expenditure

15. The floor applies to priority spending of the government. The floor for June 30, 2016, is measured from December 31, 2015, and the floors for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

16. **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 Integrated Financial

Management Information System (IFMIS) which tracks priority spending of the annual budget at the program level.

### **Net accumulation of domestic expenditure arrears of the government (IT)**

17. A ceiling applies to net accumulation of domestic expenditure arrears of the government.<sup>4</sup> The ceiling for June 30, 2016, is measured from December 31, 2015, and the ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

18. **Definition.** Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 90 days. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears of more than 90 days is calculated as a cumulative change in the stock of expenditure arrears of more than 90 days at each test date from the stock at the end of the previous fiscal year (June 30). Arrears related to claims preceding 1994 will not be counted in the calculation.

## **IV. Limits on Debt**

### **Limit on new external debt of nonfinancial public enterprises (IT)**

19. **A ceiling applies to the contracting and guaranteeing by nonfinancial public enterprises of new external borrowing with non-residents (see below for the definition of debt guarantee and debt).** The ceiling excludes external borrowing by two state-owned banks, the Bank of Kigali and Rwanda Development Bank (BRD), which are 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. The ceiling will exclude external borrowing which is for the sole purpose of refinancing existing public sector debt and which helps to improve the profile of public sector debt.

20. Nonfinancial public enterprises are entities in which the government holds a controlling stake (owning more than 50 percent of shares), but which are not consolidated in the budget. This definition of the public sector excludes the Bank of Kigali and Rwanda Development Bank (BRD). 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).

21. **The definition of debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

<sup>4</sup> A negative target thus represents a floor on net repayment.

(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:

(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 this paragraph, 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**

22. 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.

## V. Targets for Monetary Aggregates

### Net foreign assets of the National Bank of Rwanda (QAC/PC)

23. A floor applies to the net foreign assets (NFA) of the NBR for June 30, 2016 and December 31, 2016.

24. **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.

#### 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 of the MEFP. This adjustment will be capped at the equivalent of US\$85 million, evaluated in Rwanda francs at the program exchange rate.

### Reserve money (QAC, PC)

25. A ceiling applies to the stock of reserve money for June 30, 2016, and December 31, 2016 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 +/- 2.2 percent) around a central reserve money target).

26. 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.

27. **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 adjuster 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.

## VI. Data Reporting Requirements

28. For the purposes of program monitoring, the Government of Rwanda will provide the data listed below and in Table 1. Unless specified otherwise, weekly data will be provided within seven days of the end of each week; monthly data within five weeks of the end of each month; quarterly data within eight weeks of the end of each quarter; annual data as available.
29. 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. 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.
30. Detailed data on **domestic revenues** will be transmitted on a monthly basis. Data on **priority expenditure** will be transmitted on a quarterly basis. Data on accumulation and repayment of **domestic arrears** and the remaining previous year's stock of arrears will be transmitted on a quarterly basis.
31. Data on **foreign assets and foreign liabilities of the NBR** will be transmitted on a weekly basis, 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.
32. Data on **reserve money** will be transmitted on a weekly basis. 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
33. The authorities will inform the IMF staff in writing 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, wage policy, and financial support to public and private enterprises. The authorities will inform the IMF staff of changes affecting respect of continuous QACs and ITs. The authorities will furnish a description of program performance according to QACs and ITs as well as structural benchmarks within 8 weeks of a test date. The authorities engage to submit information to IMF staff with the frequency and submission time lag indicated in TMU Table 1. The information should be mailed electronically to the Fund. (email: [afrrwa@imf.org](mailto:afrrwa@imf.org)).

TMU Table 1. Summary of Reporting Requirements

	Frequency of Data <sup>9</sup>	Frequency of Reporting <sup>9</sup>	Frequency of Publication <sup>9</sup>
Exchange Rates <sup>1</sup>	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	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 <sup>3</sup>	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
Consumer Price Index <sup>4</sup>	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 <sup>5</sup> – General Government <sup>6</sup>	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>5</sup> – Central Government	Q	Q	Q
Comprehensive list of tax and non tax revenues <sup>7</sup>	M	M	M
Comprehensive list of domestic arrears of the government	SA	SA	SA
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR <sup>8</sup>	Q	Q	Q
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

<sup>1</sup> 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.

<sup>2</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>3</sup> Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.

<sup>4</sup> 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.

<sup>5</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>6</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>7</sup> Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.

<sup>8</sup> Includes debts of the Bank of Kigali. Also includes currency and maturity composition.

<sup>9</sup> Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).



# RWANDA

May 25, 2016

## FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND REQUEST FOR AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By  
**Roger Nord and Cathy Pattillo (IMF) and John Panzer (IDA)**

The Debt Sustainability Analysis (DSA) was prepared jointly by IMF and World Bank staff, in consultation with the authorities.

*The results of the debt sustainability analysis indicate that Rwanda continues to face a low risk of external debt distress, similar to the analysis prepared for the 4<sup>th</sup> Review under the PSI.<sup>1,2</sup> Under the baseline scenario all external debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show temporary breaches of the debt service-to-exports and debt service-to-revenue ratios in 2023 when the Eurobond issued in 2013 matures. As these breaches are temporary, and it is assumed that Rwanda will be able to refinance the maturing Eurobond, the final assessment of a low risk of external debt distress is maintained. The ratio of the present value of public sector debt-to-GDP ratio remains below the policy dependent benchmark both under the baseline and standard stress tests. Until exports expand and are diversified further, Rwanda needs to remain prudent about the terms and amount of external debt it contracts/guarantees.*

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<sup>1</sup> This debt sustainability analysis updates the DSA analysis contained in IMF Country Report No. 16/24 (January 2016). The fiscal year for Rwanda is from July–June; however, this DSA is prepared on a calendar year basis. The results of this DSA were discussed with the authorities and they are in broad agreement with its conclusions.

<sup>2</sup> 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, with an average CPIA score of 3.92 over the last three years.



## BACKGROUND

**1. The Rwandan economy grew strongly in 2015, but recent weak mineral exports have highlighted external vulnerabilities.** Real GDP grew by 6.9 percent in 2015. But while output has remained strong, the decline in mineral prices has resulted in a near halving of mining exports compared to the previous year. Along with weaker services balance, the current account deficit deteriorated to 13.5 percent of GDP in 2015, increasing strain on the foreign reserves, which now cover 3.6 months of prospective imports. Weak mineral prices are projected to lower mineral exports further in 2016, and this will dampen the growth in overall export receipts. Combined with aircraft purchases by RwandAir, the current account balance will deteriorate further to 16.5 percent of GDP, intensifying pressure on the foreign reserves. Real GDP growth is projected to be modestly lower at 6 percent in 2016 and 2017, as the fiscal and monetary stances are tightened, along with exchange rate adjustment, to slow the pace of import growth and address external imbalances. Requested IMF financing under the Standby Credit Facility would provide more buffer for foreign reserves.

**2. Rwanda's public sector debt remains low, but it is increasing.** At end-2015, total public sector debt was 35.4 percent of GDP—with the external debt of the public sector at 28.5 percent of GDP and mainly comprised of multilateral and commercial debt, and domestic debt at 6.9 percent of GDP. These debt ratios compare favorably with those of other countries in the region. The public debt-to-GDP ratio has increased steadily over the last three years, reflecting new borrowing, in particular large disbursements under multilateral concessional loans as Rwanda's low-risk rating of debt distress has shifted donor support towards more concessional lending rather than grants. Public external guaranteed debt has been rising mainly due to the expansion of RwandAir's fleet of aircraft.

**Table 1. Rwanda: External Public Debt**

	2013		2014		2015	
	Billions US\$	Share	Billions US\$	Share	Billions US\$	Share
<b>Multilateral creditors</b>	0.9	58.6	1.1	60.6	1.4	61.5
<b>Bilateral creditors</b>	0.2	13.5	0.3	13.8	0.3	13.2
<b>Commercial creditors</b>	0.4	25.0	0.4	21.9	0.4	18.0
<b>Total (excluding guarantees)</b>	1.6	97.1	1.8	96.3	2.1	92.7
<b>Publicly guaranteed debt</b>	0.0	2.9	0.1	3.7	0.2	7.3
<b>Total (including guarantees)</b>	1.6	100.0	1.8	100.0	2.2	100.0

Source: Rwandan authorities and IMF staff.

## UNDERLYING ASSUMPTIONS

**3. The medium and long-term macroeconomic framework underlying the DSA is consistent with the baseline scenario presented in the Staff Report for 5<sup>th</sup> review of the PSI-supported program.** The main assumptions and projections for key macroeconomic variables are summarized in Box 1 and Table 2. The main differences between the current assumptions and those underlying the last DSA update are: (i) GDP growth is lower in 2016 and 2017; (ii) additional IMF financing in 2016 and 2017 under the Standby Credit Facility and other additional potential financing is included; and (iii) an improved fiscal position and consequently lower net domestic financing over the long term. Table 3 shows the near-term differences in the underlying baseline assumptions between the current and previous DSAs.

**Table 2. Key Assumptions**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026	2027	2031	2036
	(Percent of GDP, unless otherwise indicated)												
Nominal GDP (RF billions)	4,864	5,394	5,837	6,459	7,164	8,031	9,041	10,180	11,460	20,424	23,055	37,426	68,511
Real GDP (percentage change)	4.7	7.0	6.9	6.0	6.0	7.0	7.2	7.5	7.5	7.5	7.5	7.5	7.5
GDP deflator (percentage change)	4.7	3.7	1.2	4.4	4.6	4.8	5.0	4.7	4.7	5.0	5.0	5.0	5.0
<b>Fiscal (central government)</b>													
External grants (incl. HIPC relief)	8.6	7.4	6.4	5.6	5.2	5.2	3.2	3.0	2.9	1.6	1.4	0.9	0.5
Revenue (excl. external grants)	16.5	16.7	18.6	18.2	18.1	18.3	18.9	19.2	19.5	20.6	20.8	21.5	22.5
Revenue (incl. external grants)	25.1	24.0	25.0	23.8	23.3	23.5	22.1	22.2	22.3	22.2	22.2	22.4	22.9
Primary expenditures	28.8	28.2	29.1	27.6	25.7	25.5	25.1	24.9	24.8	24.1	24.0	23.6	23.4
Primary current expenditures	13.8	14.3	14.0	13.4	13.8	13.2	12.7	12.7	12.7	12.5	12.5	12.3	12.2
Capital expenditure and net lending	15.0	13.9	15.1	14.2	11.9	12.4	12.3	12.2	12.1	11.7	11.6	11.3	11.1
Primary balance, incl. external grants	-3.7	-4.2	-4.1	-3.8	-2.4	-2.0	-3.0	-2.7	-2.4	-1.9	-1.8	-1.2	-0.1
Primary balance, excl. external grants	-12.4	-11.5	-10.5	-9.4	-7.6	-7.2	-6.2	-5.7	-5.3	-3.5	-3.2	-2.1	-0.6
Net domestic financing	0.0	3.2	1.6	0.8	0.8	-1.3	0.2	0.9	0.6	0.5	0.5	0.5	0.5
Interest rate (percent)				8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
New external borrowing <sup>1</sup>	1.9	3.2	2.6	4.6	3.2	5.3	4.8	3.6	3.3	2.6	2.6	2.2	0.4
Grant element of new external borrowing (percent)				29.5	48.5	52.9	47.2	47.5	51.9	38.3	35.8	24.4	17.8
<b>Balance of payments</b>													
Exports of goods and services	15.6	16.9	17.3	16.7	17.6	18.4	18.7	18.9	20.4	20.4	20.4	20.4	20.4
Imports of goods and services	32.5	33.5	34.9	37.3	33.3	32.2	31.9	32.1	32.3	32.3	32.3	32.3	32.3
Current account, incl. official transfers	-7.4	-10.5	-13.5	-16.5	-12.0	-10.2	-11.1	-11.1	-11.0	-9.3	-9.0	-9.3	-9.5
Foreign Direct Investment	3.4	3.4	3.9	3.9	4.0	4.2	4.5	4.8	5.1	4.5	4.5	4.5	4.5

Source: Rwandan authorities, IMF and World Bank staff.

<sup>1</sup> Includes publicly guaranteed external borrowing.

**Table 3. Baseline External DSA Compared to the Previous DSA Update, 2016-18**

	Previous DSA <sup>1</sup>			Current DSA		
	2016 Proj.	2017 Proj.	2018 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
<b>Stock of public and publicly-guaranteed (PPG) external debt</b>						
Millions of U.S. dollars	2,956	3,363	3,716	3,027	3,431	3,851
Percent of GDP	36.0	37.6	38.2	37.8	41.7	44.7
<b>Present value (PV) of PPG external debt</b>						
Millions of U.S. dollars	1,936	2,114	2,293	1,980	2,196	2,393
Percent of GDP	23.6	23.7	23.6	24.8	26.7	27.8
PV of PPG external debt to revenues (percent)	109.0	120.6	113.7	116.1	128.3	132.3
PV of PPG external debt to exports (percent)	140.1	138.7	134.1	148.1	151.6	151.0
PPG external debt service to revenues (percent)	6.1	8.0	8.6	3.5	5.7	7.8
PPG external debt service to exports (percent)	7.9	9.2	10.2	4.5	6.7	8.9
Discount rate (percent)	5.0	5.0	5.0	5.0	5.0	5.0
(Percent of GDP, unless indicated otherwise)						
Nominal GDP (RF billions)	6,589	7,389	8,287	6,459	7,164	8,031
Real GDP (percentage change)	6.3	6.7	6.8	6.0	6.0	7.0
GDP Deflator (percentage change)	4.1	5.1	5.0	4.4	4.6	4.8
<b>Fiscal</b>						
External grants (incl. HIPC relief)	5.4	3.7	4.3	5.6	5.2	5.2
Revenue (excl. external grants)	18.6	18.2	18.7	18.2	18.1	18.3
Primary expenditures	28.1	25.6	26.0	27.6	25.7	25.5
Primary balance, incl. external grants	-3.9	-3.6	-2.9	-3.8	-2.4	-2.0
Primary balance, excl. external grants	-9.5	-7.4	-7.2	-9.4	-7.6	-7.2
Grant element of new external borrowing (percent) <sup>2</sup>	34.2	54.6	47.2	29.5	48.5	52.9
<b>Balance of payments</b>						
Exports of goods and services	16.8	17.1	17.6	16.7	17.6	18.4
Millions of U.S. dollars	1,431	1,547	1,735	1,389	1,504	1,638
Imports of goods and services	36.2	33.6	32.1	37.3	33.3	32.2
Millions of U.S. dollars	3,081	3,045	3,167	3,100	2,844	2,868
Current account, incl. official transfers	-15.4	-14.0	-11.5	-16.5	-12.0	-10.2

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

<sup>1</sup> See IMF Country Report No. 16/24, January 2016.<sup>2</sup> Includes publicly-guaranteed external borrowing.

### Box 1. Macroeconomic Framework for the DSA

Despite near-term weakness in the mining sector, the medium-term and long-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 unchanged, projected at 7.5 percent. The composition of growth is anticipated to shift toward the private sector and net exports as measures designed to expand and diversify the export base and promote import substitution are assumed fruitful.
- **External sector:** Near-term weakness in mineral exports will be partially offset by buoyancy in exports of coffee and tea, non-traditional exports and tourism. Exports of goods and services (as a percent of GDP) are expected to gradually rise over the projection horizon; and import needs are expected to remain high, reflecting continued high investment needs in the economy. Consequently, Rwanda's external current account is projected to remain in deficit throughout the period under consideration, though the gap is expected to narrow.
- **Inflation:** Inflation is expected to remain contained. At the end of 2015 inflation was 4.5 percent and is expected to rise and be maintained at the authorities' medium-term target of 5 percent.
- **Reserves:** Reserve buffers are expected to recover from their current level and attain coverage of 4.5 months of prospective imports by 2023, consistent with the monetary integration process among East African Community members.
- **Fiscal outlook.** The key fiscal assumption is that there would be a gradual and consistent rise in domestic revenues (excluding grants) from 2018 to 2036. This reflects the authorities' commitment to raise Rwanda's revenue collection efforts to comparable level observed in other countries in the region. Primary expenditures are forecast to remain high, reflecting the need for ongoing significant capital and current spending.
- **Grants.** The DSA assumes a tapering of external donor assistance, reflecting reduced access to grants, given Rwanda's improved debt distress risk rating, and greater capacity to mobilize and use domestic revenue
- **External borrowing.** The assumptions for new external borrowing vary over the assessment period. From 2016-2021, the framework assumes central government external borrowing needs are met mainly by disbursements of contracted external multilateral and bilateral debt, and financing under the IMF Standby Credit Facility; while public guaranteed external borrowing associated with RwandAir's expansion and the completion of the Kigali Convention Center is done via commercial debt. From 2022 onward, the framework assumes that the external financing needs of the central government will be financed by new external debt, with a progressively increasing share from commercial debt, including bonds issued in the international capital market.
- **Domestic borrowing.** The framework assumes that over the long-term net domestic borrowing will be 0.5 percent of GDP. Over time, the composition of domestic borrowing is also expected to shift towards medium- and long-term debt as the authorities intensify efforts to develop the local government bond market.
- **Domestic interest rates.** New domestic borrowing is expected to be contracted at a nominal interest rate of 8 percent.

## DEBT SUSTAINABILITY ANALYSIS

### A. External DSA

**4. Based on the assumptions outlined above, Rwanda’s debt is assessed to be sustainable with low risk of debt distress (Figure 1 and Tables 4 and 5).** Similar to the last DSA update, Rwanda is classified as a “strong” performer, based on the quality of the country’s policies and institutions as measured by the 3-year average of the ratings under the World Bank’s Country Policy and Institutional Assessment (CPIA). This is reflected in higher debt sustainability thresholds compared to countries operating in a weak policy environment.<sup>3</sup> Under the baseline scenario all debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show in 2023 (when the Eurobond issued in 2013 is set to mature) temporary breaches of the debt service-to-revenue ratio, and the debt service-to-exports ratio thresholds. These findings highlight the vulnerability of the Rwandan economy to external shocks and liquidity pressures at the time the Eurobond matures. However, as the breaches of these debt service ratios are temporary, and taking into account the relatively low level of external debt and strengthening indicators of repayment capacity (the expansion of Rwanda’s export base and tax revenues), and that Rwanda is assumed to refinance the maturing Eurobond, the final assessment for Rwanda’s external public and public guaranteed debt is a low risk of debt distress.

### B. Public DSA

**5. Adding domestic public debt to external debt does not change the results of the analysis (see Figure 2 and Tables 6 and 7).** The evolution of the total public debt indicators broadly follows that of external debt under the baseline. The DSA suggests that public debt remains stable under the baseline. Based on the 3 indicators examined—PV of public debt-to-GDP, PV of public debt-to-revenue and debt service of public debt-to-revenue—the long-term path of total public debt is projected to be broadly stable in the baseline (Figure 6). PV of public debt-to-GDP remains comfortably below the indicative benchmark throughout the assessment period. The sharp increase in the PV of debt-to-revenue indicator when the primary balance is assumed fixed at 2016 level highlights the importance of securing the revenue gains assumed under the baseline.

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<sup>3</sup> The thresholds for strong performers are 200, 50 and 300 percent for the PV of debt to exports, GDP and government revenue, respectively. Debt service thresholds are 25 and 22 percent of exports and revenue, respectively.

## AUTHORITIES' VIEW

**6. The Rwandan authorities broadly agree with the results of this DSA and the overall conclusion of a low risk of external debt distress.** They agree with the assessment that the main risk to public debt vulnerability is still the narrow export base. But, at the same time, they also expect that the on-going investments and the implementation of measures to expand and diversify the traditional and non-traditional exports and tourism sectors will contribute to limit this risk. Further, the authorities agree that having in place a prudent medium-term debt management strategy, and carefully prioritizing future projects and their financing are necessary to contain public debt vulnerabilities.

## CONCLUSION

**7. Rwanda continues to face a low risk of debt distress but remains subject to external vulnerabilities.** Under the current set of baseline assumptions, Rwanda's debt burden indicators remain below the policy-related thresholds under baseline scenario, with temporary breaches of the respective thresholds of the debt service-to-revenue and the debt service-to-exports ratios in 2023 under standard stress tests. These breaches of the two liquidity ratios underscore Rwanda's susceptibility to external shocks and the potential risk of liquidity pressures in the future. However, it is judged that the risk arising from these breaches can be mitigated by the ability of the authorities to refinance non-concessional debt falling due in 2023, provided that sound macroeconomic and fiscal policies are maintained. Public debt, though increasing, remains comparatively low and the profile of Rwanda's external debt burden is also expected to improve over time, given the expected strong growth, expansion in exports and improvement in revenues.

**8. The main risk to Rwanda's debt sustainability remains the narrow export base.** While it is assumed that this risk will be mitigated by export expansion and diversification over the assessment period, the current weakness in mineral exports is a poignant reminder of the vulnerability that arises from a narrow export base heavily affected by fluctuating commodity prices and output. Moreover, should the anticipated medium-to long-term expansion in exports fail to materialize, resulting in lower than expected export receipts, the risks to debt sustainability over the longer term would rise.

**Table 4. External Debt Sustainability Framework, Baseline Scenario, 2013-2036<sup>1</sup>**

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2013	2014	2015			2016-2021					2022-2036				
						Average	2026	2036	Average						
<b>External debt (nominal) 1/</b>	<b>26.6</b>	<b>28.0</b>	<b>32.8</b>			<b>41.5</b>	<b>45.1</b>	<b>47.7</b>	<b>47.7</b>	<b>46.5</b>	<b>45.0</b>	<b>36.7</b>	<b>24.3</b>		
<i>of which: public and publicly guaranteed (PPG)</i>	22.1	23.6	28.5			37.8	41.7	44.7	45.0	44.1	42.7	34.1	21.1		
Change in external debt	5.5	1.4	4.8			8.7	3.6	2.6	-0.1	-1.2	-1.5	-1.0	-2.7		
Identified net debt-creating flows	4.5	5.9	8.9			10.7	5.6	3.0	3.4	3.1	2.8	2.3	3.2		
<b>Non-interest current account deficit</b>	<b>7.0</b>	<b>9.9</b>	<b>12.7</b>	<b>6.8</b>	<b>3.6</b>	<b>15.7</b>	<b>11.1</b>	<b>9.2</b>	<b>10.0</b>	<b>10.1</b>	<b>10.1</b>	<b>8.6</b>	<b>8.7</b>	8.7	
Deficit in balance of goods and services	16.9	16.7	17.6			20.6	15.7	13.8	13.1	13.2	11.9	11.9	11.9		
Exports	15.6	16.9	17.3			16.7	17.6	18.4	18.7	18.9	20.4	20.4	20.4		
Imports	32.5	33.5	34.9			37.3	33.3	32.2	31.9	32.1	32.3	32.3	32.3		
Net current transfers (negative = inflow)	-11.3	-8.1	-6.4	-10.7	2.2	-6.8	-6.0	-6.0	-4.0	-3.9	-3.7	-3.7	-2.8	-3.4	
<i>of which: official</i>	-7.2	-8.4	-4.0			-4.4	-4.4	-2.5	-2.2	-2.0	-1.8	-1.3	-0.6		
Other current account flows (negative = net inflow)	1.3	1.3	1.6			1.9	1.5	1.4	0.8	0.8	1.9	0.5	-0.4		
<b>Net FDI (negative = inflow)</b>	<b>-2.1</b>	<b>-3.4</b>	<b>-3.9</b>	<b>-1.8</b>	<b>1.1</b>	<b>-3.9</b>	<b>-4.0</b>	<b>-4.2</b>	<b>-4.5</b>	<b>-4.8</b>	<b>-5.1</b>	<b>-4.5</b>	<b>-4.5</b>	-4.5	
<b>Endogenous debt dynamics 2/</b>	<b>-0.4</b>	<b>-0.6</b>	<b>0.1</b>			<b>-1.2</b>	<b>-1.5</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-1.9</b>	<b>-1.1</b>		
Contribution from nominal interest rate	0.5	0.7	0.8			0.8	0.9	1.0	1.2	1.0	0.9	0.7	0.8		
Contribution from real GDP growth	-1.0	-1.8	-1.9			-1.9	-2.4	-3.0	-3.2	-3.3	-3.2	-2.6	-1.8		
Contribution from price and exchange rate changes	0.1	0.5	1.2			...	...	...	...	...	...	...	...		
<b>Residual (3-4) 3/</b>	<b>1.0</b>	<b>-4.5</b>	<b>-4.1</b>			<b>-2.0</b>	<b>-2.0</b>	<b>-0.3</b>	<b>-3.5</b>	<b>-4.3</b>	<b>-4.3</b>	<b>-3.4</b>	<b>-5.9</b>		
<i>of which: exceptional financing</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PV of external debt 4/	...	...	22.2			28.4	30.0	30.8	30.4	29.5	28.2	23.5	18.4		
In percent of exports	...	...	128.3			170.0	170.5	167.3	162.1	155.9	138.4	115.1	90.2		
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>17.9</b>			<b>24.8</b>	<b>26.7</b>	<b>27.8</b>	<b>27.7</b>	<b>27.1</b>	<b>26.0</b>	<b>21.0</b>	<b>15.2</b>		
<b>In percent of exports</b>	<b>...</b>	<b>...</b>	<b>103.4</b>			<b>148.1</b>	<b>151.6</b>	<b>151.0</b>	<b>147.9</b>	<b>143.2</b>	<b>127.2</b>	<b>102.8</b>	<b>74.4</b>		
<b>In percent of government revenues</b>	<b>...</b>	<b>...</b>	<b>85.2</b>			<b>116.1</b>	<b>128.3</b>	<b>132.3</b>	<b>145.5</b>	<b>135.9</b>	<b>128.6</b>	<b>99.8</b>	<b>67.2</b>		
<b>Debt service-to-exports ratio (in percent)</b>	<b>6.4</b>	<b>8.0</b>	<b>9.0</b>			<b>8.4</b>	<b>10.8</b>	<b>13.2</b>	<b>14.0</b>	<b>13.3</b>	<b>13.5</b>	<b>13.4</b>	<b>19.2</b>		
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>3.5</b>	<b>4.8</b>	<b>5.5</b>			<b>4.5</b>	<b>6.7</b>	<b>8.9</b>	<b>9.4</b>	<b>8.5</b>	<b>8.7</b>	<b>6.1</b>	<b>6.8</b>		
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>2.6</b>	<b>4.2</b>	<b>4.5</b>			<b>3.5</b>	<b>5.7</b>	<b>7.8</b>	<b>9.3</b>	<b>8.0</b>	<b>8.8</b>	<b>5.9</b>	<b>6.2</b>		
Total gross financing need (Billions of U.S. dollars)	0.5	0.6	0.9			1.1	0.8	0.7	0.8	0.9	1.0	1.5	4.9		
Non-interest current account deficit that stabilizes debt ratio	1.4	8.4	8.0			7.1	7.5	6.6	10.0	11.3	11.6	9.7	11.5		
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	4.7	7.0	6.9	7.5	1.9	6.0	6.0	7.0	7.2	7.5	7.5	6.9	7.5	7.5	7.5
GDP deflator in US dollar terms (change in percent)	-0.5	-1.8	-4.0	2.5	5.7	-3.4	-3.1	-2.5	0.1	1.7	1.7	-0.9	2.0	2.0	1.8
Effective interest rate (percent) 5/	2.4	2.7	2.8	2.5	0.8	2.4	2.2	2.4	2.7	2.4	2.2	2.4	2.0	3.1	2.3
Growth of exports of G&S (US dollar terms, in percent)	15.5	14.1	5.2	17.4	21.9	-1.1	8.3	8.9	9.2	10.3	18.0	8.9	9.7	9.6	9.4
Growth of imports of G&S (US dollar terms, in percent)	-1.4	8.6	6.7	16.8	14.8	9.6	-8.3	0.8	6.1	10.0	9.9	4.7	9.7	9.6	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.5	48.5	52.9	47.2	47.5	51.9	46.2	38.3	17.8	29.4
Government revenues (excluding grants, in percent of GDP)	21.4	19.1	21.0			21.3	20.8	21.0	19.0	19.9	20.2	21.0	22.6	21.7	
Aid flows (in Billions of US dollars) 7/	0.6	0.5	0.7			0.6	0.6	0.7	0.5	0.5	0.5	0.5	0.2		
<i>of which: Grants</i>	0.3	0.4	0.3			0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
<i>of which: Concessional loans</i>	0.4	0.1	0.3			0.4	0.3	0.5	0.3	0.2	0.3	0.3	0.1		
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.4	5.0	5.4	4.7	4.0	3.9	2.2	0.4	1.7	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			43.9	65.2	67.6	65.0	68.1	71.0	57.9	55.2	49.2	
<b>Memorandum items:</b>															
Nominal GDP (Billions of US dollars)	7.5	7.9	8.1			8.3	8.5	8.9	9.5	10.4	11.4	17.6	44.2		
Nominal dollar GDP growth	4.1	5.1	2.6			2.4	2.7	4.3	7.3	9.3	9.3	5.9	9.7	9.6	9.4
PV of PPG external debt (in Billions of US dollars)	...	...	1.4			2.0	2.2	2.4	2.6	2.8	2.9	3.6	6.6		
(PVt-PVt-1)/GDPT-1 (in percent)	...	...	...			7.2	2.6	2.3	2.4	1.8	1.3	2.9	1.6	-0.1	1.1
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.6		
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.6			24.2	26.2	27.2	27.1	26.5	25.4	20.5	15.0		
PV of PPG external debt (in percent of exports + remittances)	...	...	93.1			131.8	136.4	135.8	132.6	128.3	114.7	92.1	69.7		
Debt service of PPG external debt (in percent of exports + remittances)	...	...	5.0			4.0	6.1	8.0	8.4	7.6	7.8	5.5	6.4		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

**Table 5. Rwanda: Sensitivity Analysis of Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036<sup>1/</sup>**

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	25	27	28	28	27	26	<b>21</b>	15
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	25	23	23	23	22	21	<b>17</b>	18
A2. New public sector loans on less favorable terms in 2016-2036 2/	25	27	30	31	32	31	<b>29</b>	25
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	25	26	27	28	27	26	<b>21</b>	15
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	25	27	30	30	29	28	<b>22</b>	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	25	26	27	27	27	26	<b>21</b>	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	25	26	28	28	28	27	<b>21</b>	15
B5. Combination of B1-B4 using one-half standard deviation shocks	25	24	24	24	24	23	<b>18</b>	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	25	37	39	39	39	37	<b>30</b>	22
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	148	152	151	148	143	127	<b>103</b>	74
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	148	133	127	120	115	102	<b>82</b>	91
A2. New public sector loans on less favorable terms in 2016-2036 2/	148	153	162	168	167	154	<b>143</b>	122
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	148	146	146	145	141	125	<b>101</b>	73
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	148	164	192	190	184	163	<b>130</b>	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	148	146	146	145	141	125	<b>101</b>	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	148	149	153	152	147	131	<b>105</b>	74
B5. Combination of B1-B4 using one-half standard deviation shocks	148	140	136	136	132	117	<b>95</b>	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	148	146	146	145	141	125	<b>101</b>	73
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	116	128	132	146	136	129	<b>100</b>	67
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2016-2036 1/	116	113	111	119	109	103	<b>80</b>	82
A2. New public sector loans on less favorable terms in 2016-2036 2/	116	129	142	165	159	155	<b>139</b>	110
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	116	124	130	145	136	128	<b>100</b>	67
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	116	128	142	158	147	139	<b>107</b>	68
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	116	123	129	144	134	127	<b>99</b>	66
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	116	126	134	150	140	132	<b>102</b>	67
B5. Combination of B1-B4 using one-half standard deviation shocks	116	115	113	127	119	112	<b>88</b>	61
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	116	179	185	207	193	183	<b>142</b>	95



**Table 5. Rwanda: Sensitivity Analysis of Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 <sup>1/</sup> (Concluded)**

(In percent)

<b>Debt service-to-exports ratio</b>									
<b>Baseline</b>	4	7	9	9	8	9	6	7	
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2016-2036 1/	4	7	8	7	6	7	4	6	
A2. New public sector loans on less favorable terms in 2016-2036 2/	4	7	6	6	6	6	6	9	
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	4	7	9	8	8	8	5	6	
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	4	8	11	10	9	10	7	8	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	4	7	9	8	8	8	5	6	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	4	7	9	8	8	8	6	6	
B5. Combination of B1-B4 using one-half standard deviation shocks	4	7	9	8	7	8	5	6	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	4	7	9	8	8	8	5	6	
<b>Debt service-to-revenue ratio</b>									
<b>Baseline</b>	3	6	8	9	8	9	6	6	
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2016-2036 1/	3	6	7	7	6	7	4	5	
A2. New public sector loans on less favorable terms in 2016-2036 2/	3	6	5	6	6	6	6	8	
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	3	6	8	8	7	8	5	6	
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	3	6	8	9	8	8	6	6	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	3	6	8	8	7	8	5	6	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	3	6	8	8	7	8	6	6	
B5. Combination of B1-B4 using one-half standard deviation shocks	3	6	7	7	7	7	5	5	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	3	9	11	12	10	12	8	8	
<i>Memorandum item:</i>									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	29	29	29	29	29	29	29	29	

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (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 6. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013-2036<sup>1/</sup>**  
(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate					Projections			
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average		2022-36 Average
<b>Public sector debt 1/</b>	26.8	29.3	35.4			44.8	48.8	49.8	49.7	49.1	47.8		38.1	25.4
<i>of which: foreign-currency denominated</i>	22.1	23.6	28.5			37.8	41.7	44.7	45.0	44.1	42.7		34.1	21.1
Change in public sector debt	10.1	2.4	6.1			9.4	4.0	1.0	-0.1	-0.5	-1.3		-1.1	-2.4
Identified debt-creating flows	-2.1	-0.5	1.7			0.7	-1.0	-2.2	0.0	-1.5	-2.0		-1.6	-1.9
Primary deficit	3.6	4.1	3.9	1.3	2.2	3.7	2.3	1.9	3.3	2.5	2.2	2.7	1.8	0.0
Revenue and grants	25.0	24.0	25.0			23.8	23.3	23.5	21.5	22.2	22.3		22.2	22.9
<i>of which: grants</i>	3.6	4.9	4.0			2.5	2.5	2.5	2.4	2.3	2.2		1.2	0.4
Primary (noninterest) expenditure	28.7	28.2	28.9			27.5	25.6	25.4	24.8	24.7	24.6		24.0	22.9
Automatic debt dynamics	-0.2	-1.2	0.5			-0.3	-0.4	-1.2	-3.0	-3.2	-3.3		-2.8	-1.7
Contribution from interest rate/growth differential	-0.7	-1.5	-1.1			-1.6	-2.3	-2.9	-3.0	-3.3	-3.4		-2.8	-1.7
<i>of which: contribution from average real interest rate</i>	0.0	0.2	0.8			0.4	0.3	0.3	0.4	0.2	0.0		-0.1	0.2
<i>of which: contribution from real GDP growth</i>	-0.8	-1.7	-1.9			-2.0	-2.5	-3.2	-3.3	-3.5	-3.4		-2.7	-1.9
Contribution from real exchange rate depreciation	0.5	0.4	1.7			1.3	1.8	1.7	0.0	0.1	0.1		...	...
Other identified debt-creating flows	-5.5	-3.5	-2.7			-2.7	-2.9	-2.9	-0.3	-0.8	-1.0		-0.5	-0.2
Privatization receipts (negative)	-5.7	-3.0	-3.1			-3.5	-3.1	-3.1	-0.5	-1.0	-1.0		-0.5	-0.2
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)	0.2	-0.5	0.4			0.8	0.2	0.2	0.2	0.2	0.0		0.0	0.0
Residual, including asset changes 6/	12.1	2.9	4.4			8.7	5.0	3.2	-0.1	1.0	0.7		0.5	-0.5
<b>Other Sustainability Indicators</b>														
<b>PV of public sector debt</b>	...	...	24.8			31.7	33.8	32.8	32.4	32.1	31.1		24.9	19.4
<i>of which: foreign-currency denominated</i>	...	...	17.9			24.8	26.7	27.8	27.7	27.1	26.0		21.0	15.2
<i>of which: external</i>	...	...	17.9			24.8	26.7	27.8	27.7	27.1	26.0		21.0	15.2
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	4.5	8.3	9.3			10.6	9.5	9.8	9.5	8.0	7.4		5.6	5.1
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	99.2			133.1	144.8	139.6	150.9	144.7	139.1		112.1	84.7
PV of public sector debt-to-revenue ratio (in percent)	...	...	117.9			148.8	162.2	156.3	170.1	161.4	154.1		118.6	86.1
<i>of which: external 3/</i>	...	...	85.2			116.1	128.3	132.3	145.5	135.9	128.6		99.8	67.2
Debt service-to-revenue and grants ratio (in percent) 4/	3.5	4.5	5.8			5.1	7.3	9.3	9.9	8.5	8.8		6.4	7.2
Debt service-to-revenue ratio (in percent) 4/	4.0	5.6	6.9			5.7	8.2	10.4	11.2	9.4	9.8		6.8	7.3
Primary deficit that stabilizes the debt-to-GDP ratio	-6.4	1.7	-2.2			-5.7	-1.7	0.9	3.4	3.0	3.6		2.8	2.4
<b>Key macroeconomic and fiscal assumptions</b>														
Real GDP growth (in percent)	4.7	7.0	6.9	7.5	1.9	6.0	6.0	7.0	7.2	7.5	7.5	6.9	7.5	7.5
Average nominal interest rate on forex debt (in percent)	1.8	2.4	2.6	2.3	0.9	2.1	2.0	2.2	2.5	2.2	2.1	2.2	1.8	2.8
Average real interest rate on domestic debt (in percent)	...	2.4	8.1	0.3	5.2	3.1	3.5	3.8	3.0	1.8	-0.2	2.5	0.2	1.8
Real exchange rate depreciation (in percent, + indicates depreciation)	2.9	1.8	7.4	-0.2	5.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.7	3.7	1.2	6.0	4.1	4.4	4.6	4.8	5.0	4.7	4.7	4.7	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	12.3	5.1	9.7	3.5	5.0	1.0	-1.3	6.2	4.4	7.1	7.1	4.1	6.6	6.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	29.5	48.5	52.9	47.2	47.5	51.9	46.2	38.3	17.8

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector.

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.

6/ Residuals in 2016 and 2017 arise mainly because guaranteed non-concessional loans are excluded from the fiscal accounts and additional IMF financing is used to increase reserves buffer.

**Table 7. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt 2016–2036**

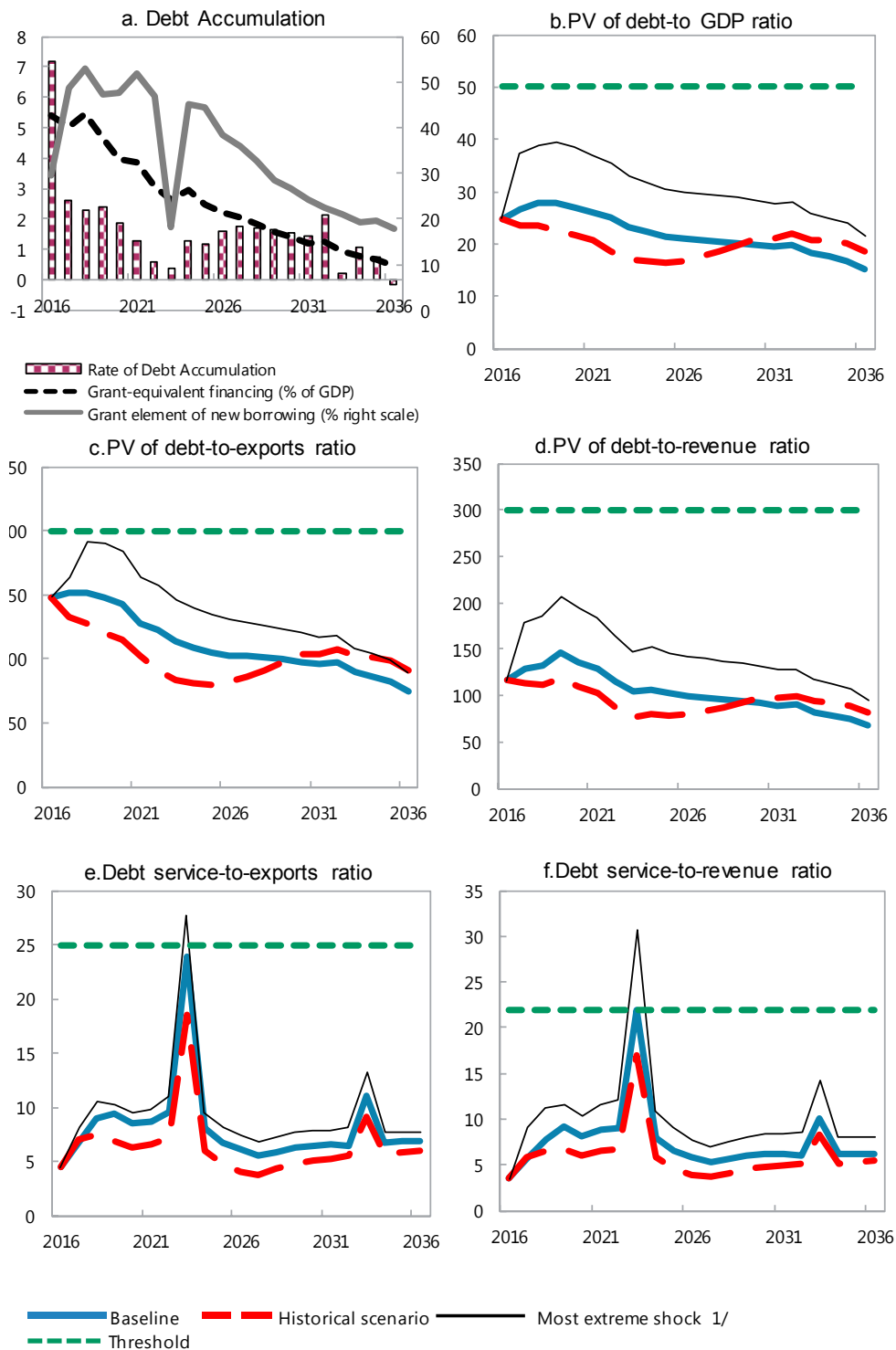
	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	32	34	33	32	32	31	25	19
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	32	33	31	29	28	27	21	20
A2. Primary balance is unchanged from 2016	32	35	35	35	35	35	36	41
A3. Permanently lower GDP growth 1/	32	34	33	33	33	32	29	31
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	32	34	34	33	33	33	27	23
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	32	35	35	34	34	33	26	20
B3. Combination of B1-B2 using one half standard deviation shocks	32	34	33	33	32	31	25	19
B4. One-time 30 percent real depreciation in 2017	32	45	42	41	40	38	30	25
B5. 10 percent of GDP increase in other debt-creating flows in 2017	32	41	40	39	38	37	30	22
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	133	145	140	151	145	139	112	85
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	133	140	132	136	127	120	95	86
A2. Primary balance is unchanged from 2016	133	149	149	162	159	157	160	180
A3. Permanently lower GDP growth 1/	133	146	141	154	149	145	129	133
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	133	146	143	156	150	145	122	100
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	133	148	147	159	152	146	118	87
B3. Combination of B1-B2 using one half standard deviation shocks	133	144	141	152	146	140	113	84
B4. One-time 30 percent real depreciation in 2017	133	192	180	190	178	169	134	108
B5. 10 percent of GDP increase in other debt-creating flows in 2017	133	175	169	181	173	166	134	96
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	5	7	9	10	8	9	6	7
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	5	7	9	9	8	8	6	7
A2. Primary balance is unchanged from 2016	5	7	9	10	9	9	8	12
A3. Permanently lower GDP growth 1/	5	7	9	10	9	9	7	10
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	5	7	9	10	9	9	7	8
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	5	7	9	10	9	9	7	7
B3. Combination of B1-B2 using one half standard deviation shocks	5	7	9	10	9	9	6	7
B4. One-time 30 percent real depreciation in 2017	5	9	13	14	12	13	10	12
B5. 10 percent of GDP increase in other debt-creating flows in 2017	5	7	11	12	10	10	8	8

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

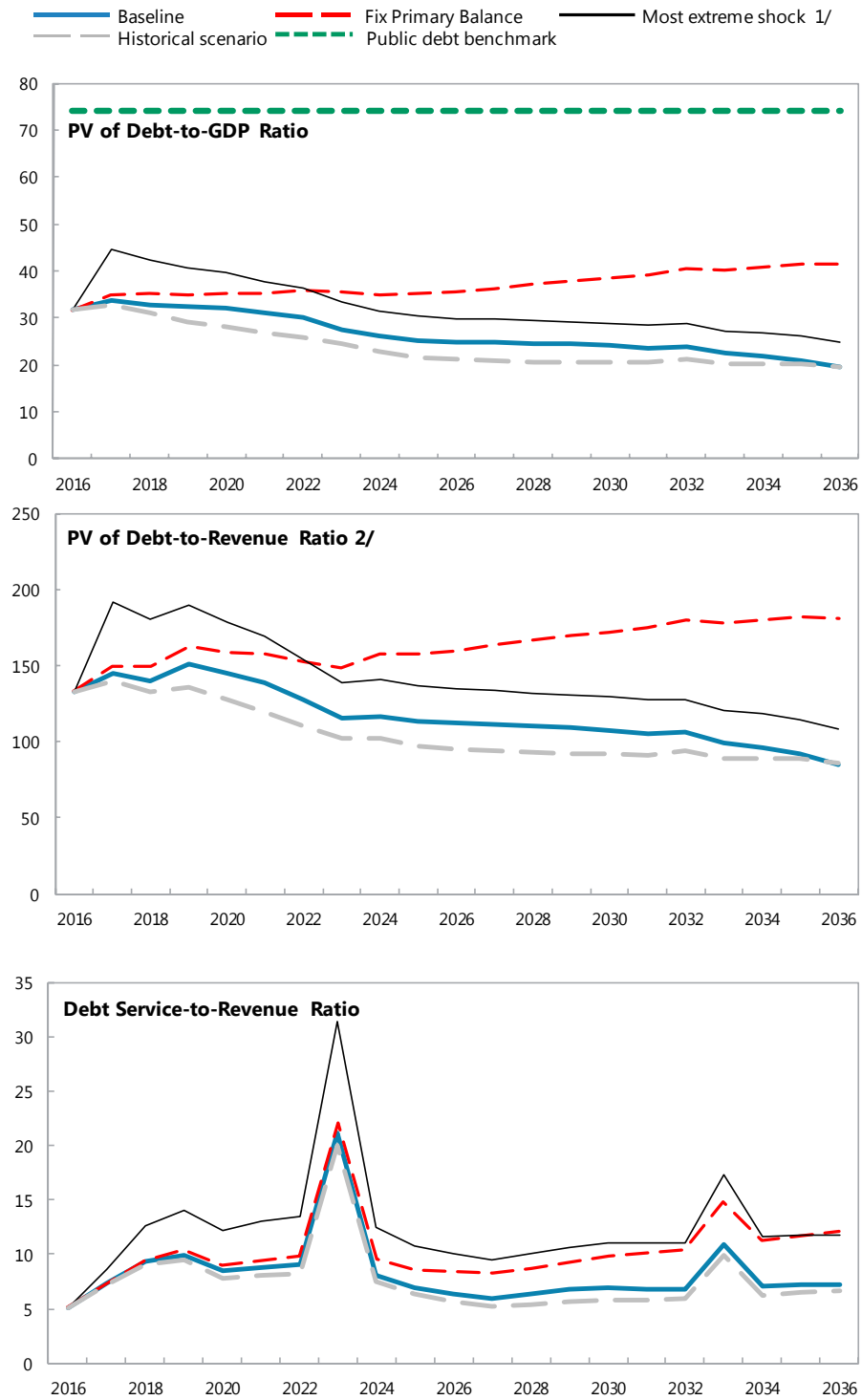
**Figure 1. Rwanda: Indicators of Public and Public Guaranteed External Debt under Alternative Scenarios, 2016-2036 <sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

<sup>1/</sup> The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

**Figure 2. Rwanda: Indicators of Public Debt under Alternative Scenarios, 2016-2036<sup>1/</sup>**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.



# RWANDA

June 8, 2016

## FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR EXTENSION, AND REQUEST FOR AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY – SUPPLEMENTARY INFORMATION

Approved By

Roger Nord (AFR) and Catherine Pattillo (SPR)

**This supplement updates staff’s assessment of the continuous assessment criterion on external payment arrears of the public sector, taking into account additional information that has been brought to staff’s attention since the Staff Report was circulated to the Executive Board. It does not alter the thrust of the staff appraisal.**

### Recent Developments and Staff’s Assessment

- Following the issuance of the staff report, in late May staff was made aware of overdue payments of US\$3.0 million from Rwandair to Canada’s export credit agency based on information that had been raised by Canada at Paris Club meetings. The Rwandan authorities responded quickly and have: (1) acknowledged the overdue obligations from five missed payments between February-May 2016; (2) proposed a revised repayment schedule to clear the arrears in early July 2016; and (3) outlined improvements to its reporting systems to avoid such a situation to re-occur in the future. Thereafter, the Canadian authorities have confirmed that they are satisfied with the revised payment schedule. While acknowledging the overdue payments, the Rwandan authorities stated that they do not consider the missed payments as constituting arrears at the present time since they had agreed to pay them in July.
- These overdue obligations give rise to a non-observance of the continuous Quantitative Assessment Criteria (AC) establishing a zero ceiling on the non-accumulation of external arrears by the public sector.<sup>1</sup> On the basis of the authorities’ immediate commitment to

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<sup>1</sup> The Technical Memorandum of Understanding states “*The public sector comprises the general government (central government, NBR, local governments) and nonfinancial public enterprises. Nonfinancial public enterprises are entities in which the government holds a controlling stake (owning more than 50 percent of shares), but which are not consolidated in the budget. This definition of the public sector excludes*

(continued)

reschedule the payments and strengthen reporting systems and the minor and temporary nature of the deviation, staff recommends a waiver of nonobservance of the AC on the grounds that the authorities have taken corrective action.

Accordingly, attached hereto is an amendment to Table 6 of the Staff Report concerning performance under the continuous AC on external arrears.

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*the Bank of Kigali and Rwanda Development Bank (BRD). 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).”*

Revised Table 6. Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets<sup>1</sup>

	Dec 2015		Status	
	4th PSI review	Adjusted		Actual
(Billions of Rwandan francs, unless otherwise indicated)				
<b>Assessment/Performance criteria</b>				
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	291	313	292	Met
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	571	533	606	Met
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	291		270	Met
Reserve money (ceiling on stock) <sup>4</sup>	285			
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	279			
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0		3	Not Met
<b>Indicative targets</b>				
Net domestic financing (ceiling on flow) <sup>2,3</sup>	37	81	95	Not met
Domestic revenue collection (floor on flow) <sup>2,6</sup>	967		967	Met
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-12		-22	Met
Total priority spending (floor on flow) <sup>2</sup>	721		722	Met
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500		102	Met
Consolidated domestic debt of public sector (ceiling on stock, eop)	523		505	Met
<b>Memorandum items:</b>				
Total budget support (US\$ millions) <sup>2,6</sup>	501		442	
Budget support grants (US\$ millions)	248		209	
Budget support loans (US\$ millions)	253		232	
RWF/US\$ program exchange rate	746.5		746.5	
Sources: Rwandan authorities and IMF staff estimates and projections.				
<sup>1</sup> All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).				
<sup>2</sup> Numbers for June 2016 are cumulative from 12/31/2015; numbers for December 2016 and June 2017 are cumulative from 6/30/2016.				
<sup>3</sup> Subject to adjusters. See TMU for details.				
<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.				
<sup>5</sup> Ceilings on external arrears and external borrowing are continuous. The non-observance of the QAC on external payment arrears occurred between Feb.-May 2016, and the amount of overdue obligations reflected is cumulative as of end-May.				
<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.				



**Statement by Mr. Yambaye, Executive Director for Rwanda  
and  
Ms. Loy, Advisor to the Executive Director for Rwanda  
June 8, 2016**

**INTRODUCTION**

On behalf of our Rwandan authorities, we would like to thank the Board, Management and Staff for their continued support. Fund assistance has been valuable to Rwanda in helping to achieve macroeconomic stability and thereby focus on its goals for sustainable growth and poverty reduction. Staff's recent visit to Kigali offered another opportunity to deepen the understanding of the challenges facing the economy and discuss policies aimed at furthering the country's development efforts. The authorities broadly share the thrust of the staff report.

The Rwandan economy grew strongly in 2015, at 6.9 percent. However, the decline in mineral prices has resulted in a near halving of mining exports which, along with weaker services balance, led to a deterioration of the current account deficit to 13.5 percent of GDP. This has put pressures on the foreign reserves, which nevertheless covers 3.6 months of prospective imports.

Looking forward, it is expected that still lower mineral exports in 2016 and exchange rate depreciation will dampen the growth in overall export receipts and further impact the current account balance. Real GDP growth is projected to lower modestly at 6 percent in 2016 and 2017, with tightening fiscal and monetary policy stance, exchange rate adjustment, and efforts to address external imbalances. Requested IMF financing under the Standby Credit Facility would provide more buffer for foreign reserves.

Against this backdrop, our Rwandan authorities are requesting for an 18-months arrangement under the Stand-by Credit Facility (SCF) to support adjustment efforts while bolstering foreign reserves. They also request an extension of the PSI-supported program to End-December 2017 in order to maintain their medium-term macroeconomic and growth signaling engagement with the Fund.

**RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE**

Performance under the PSI continues to be strong. All the assessment criteria were met and all but one indicative targets were observed. The implementation of structural benchmarks was also satisfactory. Favorable developments over the recent period led to a revision in growth projections for 2015 from 6.5 percent to 7 percent. This performance has been underpinned by buoyant activity whose main drivers are agriculture, construction and services. Headline inflation was kept low, standing at 2.9 percent y-o-y in October. Owing to enhanced revenue collection, the fiscal deficit was slightly lower than programmed, at 5.2 percent of GDP against 5.3 percent. Strong construction activity and the ensued strong capital goods imports have added up to the large in trade deficit. Facing this imbalance, the authorities are closely monitoring developments

on the external front, including the depreciation of the Franc, and will take the appropriate adjustment measures as needed.

## **OUTLOOK AND MEDIUM-TERM POLICIES**

The decline in the mining sector and related consequences remain the main risk to the outlook. Nonetheless, the authorities have agreed with staff to gather more data on the unfolding shock and not to significantly modify the program's quantitative objectives at this stage. This approach should help strike the right balance between addressing the external shock and preserving the track of policies for long-term development goals. To this end, policy priorities for the period ahead should evolve around four building blocks: (i) boosting domestic revenue for development financing; (ii) enhancing monetary policy and financial deepening; (iii) strengthening debt management; and (iv) diversifying the economy. The authorities are confident that their efforts in those areas will help them mitigate the impact of the adverse external environment, while enhancing the long-term resilience of the economy.

- ***Boosting domestic revenue Pursuing a fiscal policy mobilization***

coherent with their development objectives is paramount to our authorities' strategy. In this regard, they attach a particular importance to reforms needed to boost domestic revenue collection and improve public financial management, with the view to increase the domestic share of their development financing. The EDPRS 2 has identified critical projects for which a blend of domestic and foreign financing is needed. For FY15/16 for instance, priority projects include the hiring of more teachers for training programs, power projects, and the extension of the one-cow-per-family program which has proved very effective in poverty reduction.

Moreover, an array of tax policy and tax administration measures has been identified to boost revenue, including the rollout of a new road fund levy, an excise tax for strategic reserve, higher taxes on tobacco, and changes to the mining tax regime. Measures to enhance e-tax are also being implemented to improve compliance and streamline tax payment. The authorities also continue to explore new avenues to broaden the tax base, including the potential of agriculture taxation for which a benchmarking study should help develop an agricultural income taxation model for Rwanda.

Our authorities' fiscal policy should also be reinforced by a set of measures meant to improve public financial management, notably in the areas of state-owned enterprises and public investment. The recent separation of the water and electricity company into two entities and the tariff raise should help cover production costs and minimize fiscal risks. Likewise, the establishment of the Public Investment Committee aimed at helping in prioritization, planning, monitoring, and evaluation of investment projects should help improve value-for-money in public investment.

- ***Enhancing monetary policy and financial deepening***

Monetary policy has supported the authorities' overarching goal of enhancing growth while balancing its specific objective of price stability. In the face of the unfolding shock and the drawdown on reserves, the authorities stand ready to adjust monetary policy stance if required. They also remain committed to further enhance transmission mechanisms, with the view to ease the conduct of monetary policy and bolster financial deepening. The financial sector is sound and non-performing loans (NPLs) are declining owing to strong economic activity. The authorities have embarked on a set of reforms to enhance the supervisory framework, including through draft laws to improve the central bank oversight on non-bank financial institutions. The reform of the SACCOs is also proceeding well with the aim of fostering financial inclusion. The establishment of new institutions such as private pensions and the revision of the deposit insurance law should help broaden the financial architecture and serve a larger share of the population with financial services.

- ***Strengthening debt management***

Our authorities welcome the conclusion of the staff's debt sustainability analysis (DSA) that Rwanda continues to face a low risk of external debt distress. Although the downturn in the mining sector has somewhat highlighted external vulnerabilities, the authorities are confident that the economy will enhance its resilience going forward as diversification efforts bear fruits. As regards the slight increase in public sector debt pointed out by staff in their report--29.9 percent of GDP at end-2014, of which 23.7 percent for the external debt and 6 percent for domestic debt--it is worth noting that the related borrowing aimed at financing critical investment projects, including RwandAir and the Kigali Convention Center (KCC). As evidenced by the current dynamism and growing activity of RwandAir and the projection of 20 international events expected to be hosted at the KCC in 2016/2017, those investments are expected to yield returns above costs. Going forward, the authorities attach a high importance to preserving the hard-won debt sustainability as they strengthen their Debt Management Unit.

- ***Diversifying the economy through structural reforms***

Economic diversification has been at the center of the authorities' development strategy as highlighted in their successive EDPRS. They are convinced that a broad export base underpinned by a dynamic and diversified private sector is the ultimate driver of growth and the engine of economic resilience. Although fiscal and monetary policies can provide buffers against external vulnerabilities in the short run, the authorities are of the view that diversifying away from

traditional commodity exports will yield more sustainable buffers. This rationale has been driving the authorities' economic transformation agenda and export diversification strategy.

The Rwanda Development Board (RDB) has been set as the implementation body of this strategy, with the view to promote Rwanda as a high spot for doing business. Projects like KCC and the overhauling of RwandAir fall under the business tourism aspect of this strategy. The development of the ICT sector has started to bear fruits around emerging young entrepreneurs whose innovations have recently attracted global investors. These strategies and operations are being complemented with other initiatives to further ease the doing of business, including the development of Special Economic Zones, the strengthening of ties with neighboring countries, and the speeding up of the integration within the East African Community (EAC).

The authorities' medium-term plans are to boost growth-enhancing public investment within the limits of debt sustainability, and to support private investment. They will continue efforts to reduce reliance on donors and increase domestic revenue collection by broadening the tax base, enhancing tax administration, and improving tax compliance as highlighted above. Priority will also be given to improving public spending efficiency, including through better investment planning, more transparent budget execution, and improved public financial accounting.

## **CONCLUSION**

The PSI remains an important instrument in helping Rwanda to continue its economic progress, and the authorities remain fully committed to the policies and measures therein and, therefore, request an extension of the PSI through December 2017 along with two additional semi-annual reviews. The authorities are confident that the combination of an extended PSI and for the granting of an SCF arrangement will appropriately support and signal their medium-term macroeconomic and growth priorities while bolstering reserves coverage and strengthening the country's external position. Accordingly, we will appreciate the Board support for the conclusion of the 5th review under the PSI, their request for extension of the PSI, and their request for an arrangement under the SCF. We call on the Board to respond favorably to these requests.