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**Rwanda:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 12, 2008

The following item is a Letter of Intent of the government of Rwanda, which describes the policies that Rwanda intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Rwanda, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

## RWANDA: LETTER OF INTENT

Kigali, February 12, 2008

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Strauss-Kahn:

1. The second review of our financial and economic program supported under the Fund's Poverty Reduction and Growth Facility (PRGF) was completed on June 25, 2007. In the attached Memorandum of Economic and Financial Policies (MEFP), we review recent economic developments and progress in the implementation of our program through the third quarter of 2007; and set out policies the Government intends to pursue in 2008.
2. Program implementation under the PRGF arrangement has been broadly on track. All quantitative and structural performance criteria for the completion of the third review were met with the exception of the performance criterion (PC) on the issuance of the first consolidated report of local governments showing transfers and budget execution per major line items per district and per province for the period January to April, 2007. The delay was due to misinterpretation of the PC by the Government of Rwanda.<sup>1</sup> As the nonobservance was temporary, we are requesting a waiver for the nonobservance of the structural PC on the issuance of the consolidated report of local governments.
3. In support of our policies described in the MEFP, the Government of Rwanda requests the completion of the third review under the PRGF arrangement and the disbursement of the fourth loan of SDR 1.14 million.
4. The Government of Rwanda believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government of Rwanda will consult with

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<sup>1</sup> Provinces are considered by the Government of Rwanda as part of the Central Government whereas the PC referred to them as Local Government. Consequently, while information on both provinces and districts was available, the latter alone was published by the target date.

the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

5. The Government of Rwanda authorizes the publication and distribution of this letter, MEFP and TMU together with the related staff report.

Sincerely yours,

/ s /

François Kanimba  
Governor  
National Bank of Rwanda

/ s /

James Musoni  
Minister of Finance  
Ministry of Finance and Economic  
Planning

Attachments: Memorandum of Economic and Financial Policies  
Technical Memorandum of Understanding

**Memorandum of Economic And Financial Policies (MEFP)  
of the Government of Rwanda**

February 12, 2008

1. Rwanda's medium-term economic program is supported by an arrangement under the Poverty Reduction and Growth Facility over 2006-2009. We are committed to reducing poverty through preserving macroeconomic stability, boosting economic growth, and implementing policies targeted at improving the livelihood of the poor. This memorandum is consistent with the goals established in the new Economic Development and Poverty Reduction Strategy (EDPRS), which was launched in November 2007. The memorandum reviews the recent performance under the program through the third quarter of 2007 and describes the policies for 2008.

**I. RECENT ECONOMIC DEVELOPMENTS**

2. **Growth remains strong and inflation has abated.** GDP growth is expected to reach about 6 percent in 2007, owing to buoyant activity in the construction and services sectors, despite a fall in agricultural production. The stabilization in food prices has reduced inflation, which declined to 8 percent in October from a peak of 12 percent at end-2006.

3. **The fiscal program has remained broadly on track through September 2007.**

- *Fiscal policy in the first half of 2007 was tighter than programmed because of higher revenues and spending shortfalls.* Revenues overperformed reflecting mostly an increase in collections from income and consumption taxes. With the exception of wages and salaries, spending on all programs was restrained because of delays in finalizing contract documents and procurement processes. Nevertheless, the target on priority spending was achieved. The tighter fiscal stance allowed domestic debt to remain within targeted levels.
- *Spending accelerated in the third quarter of the year and the revenue overperformance continued.* Spending through September was higher than programmed reflecting additional outlays for wages of health and education workers, purchase of seed and fertilizer, and maintenance of the road network. As a result, the target on priority spending was met by a wide margin. However, the end-September indicative targets on domestic fiscal balance, net credit to the government and net accumulation of domestic arrears were missed because of delays in disbursements from the AfDB and the Fast Track Education Initiative. These disbursements were received in the fourth quarter.
- Domestic petroleum prices were adjusted periodically in response to world oil market developments. We remain committed to generating positive revenues from petroleum taxes.

4. **The reserve money targets for end-June and end-September 2007 were met.**

However, monetary management during the third quarter of 2007 was rendered difficult because of the delayed coffee harvest and the back loading of fiscal spending to the second half of the year. The National Bank of Rwanda (NBR) kept sales of foreign exchange in line with program targets and resorted to sterilization using domestic instruments to keep reserve money within the program limits. Broad money accelerated beyond the target.

5. **The Rwandan franc moderately appreciated against the U.S. dollar.** The central bank abolished the foreign exchange (forex) auctions in June and began selling foreign exchange directly to banks at a predetermined reference price (based on price data from the forex interbank market, foreign exchange retail prices, and the previous day's reference price). This triggered an unintended depreciation in July and the central bank subsequently added an adjustment to the pricing formula in August, aiming to gradually appreciate the franc. The move to on-tap sale has enabled NBR to sell more foreign exchange in the second half of the year.

6. **The external current account is expected to improve relative to the program in 2007.** During January-September, exports grew at a faster rate than anticipated, and the overall increase in receipts of mineral exports is projected to more than offset the decline in volumes of coffee exports for the whole year. Imports are projected to remain in line with the program; strong growth was recorded during January-September, particularly in the importation of capital and consumer goods.

7. **Progress was made on the structural front.**

- *Our efforts in public financial management reforms are beginning to show results, and we will continue to accelerate the pace of reforms as we address capacity constraints.* The progress report on financial reporting by budgetary agencies (June 15 benchmark) was published in September. Part of the consolidated execution report of local governments showing transfers and budget execution for districts over the period January to April 2007, was published in July (July 31 performance criterion). The remaining part of the report covering provinces was published in October after the Government of Rwanda received clarification on the PC requirements from the IMF staff. The study on project accounts (end-September performance criterion) and the progress report on the implementation of the Organic Budget Law (end-September benchmark) were published on time in September. The 2008 Financial Bill (annual budget) was prepared in line with the new chart of accounts and revised sector and economic classifications.
- To develop and strengthen the nonbank financial sector, the microfinance bill providing the legal and regulatory framework for *microfinance institutions* was submitted to the Parliament in June (end-June benchmark). An insurance bill was submitted to the Cabinet and we have established a unit in the NBR to supervise non-bank financial institutions. The targeted microfinancial institutions and most banks have complied with the new capital requirements, which are geared at increasing the safety of the financial system, ahead of the January 2008 implementation date. The amendments to the Banking Law were approved by the Parliament in October and we are preparing the related regulations. The lower chamber of Parliament approved the

Anti Money Laundering/Combating the Financing of Terrorism Bill and submitted it to the upper chamber for review.

- The restructuring and reorganization process for the transformation of the Union Banques Populaires du Rwanda (UBPR)—a large microfinance network—into a commercial bank has commenced. We anticipate that the process will be completed in the first quarter of 2008. With the conversion of UBPR into a commercial bank, it will be included in the program definition of reserve money. We are therefore including an adjuster on reserve money in the TMU.
- RwandaTel was sold to Lap Green Networks, a Libyan firm, for a total of US\$100 million (\$50 million down payment was received in November). In line with the program, the proceeds are saved through end-2007 and will be used in the future for investment in information and communications technology, and other priority sectors.
- A number of measures to reduce the cost of doing business were introduced, including through the implementation of the Commercial Justice, Business, and Land Registration Program. The investment climate project, which will assist in implementing the Rwanda Commercial Registration Services Agency, was established in July 2007. Eight business development centers were set up at the district level. The legislation establishing specialized procedures for the commercial courts was approved by the Parliament. This will enable fair and speedy resolution of commercial disputes. A draft Ministerial Decree on land use that provides for procedures regarding land application, allocation and registration will be submitted to Cabinet. The number of procedures required from land application to issuance of a building permit was reduced from 17 to 7. Additionally, we have reduced the number of documents required for exports from 14 to 9 and imports from 19 to 9 in 2007.
- Two structural benchmarks—a comprehensive review of the wage structure of the public sector, and the poverty profile of provinces, districts and communities—were not completed on time. A draft of the former was prepared by October and finalized by year-end. The poverty profile was only produced for the province level because expected external financing to support the other levels did not fully materialize.

## II. MEDIUM-TERM STRATEGY

8. **Our medium-term policy agenda will focus on reducing poverty by improving food security and creating social protection schemes, removing impediments to growth, and preserving macroeconomic stability. The policies are based on the Vision 2020 development plan and are further formulated in the new EDPRS.** The main elements include:

- *Enhancing agricultural development and trade* as vehicles to empower the poor by having them participate in economic activity.

- *Removing obstacles to private sector development* to make it the engine of growth. To this end, we will continue building human capital through better health and education, and address skill shortages.
- *Addressing severe infrastructure bottlenecks*, including the insufficient and expensive energy supply, poor road network, our shallow financial system, and the high costs of doing business.
- *Improving the delivery of public services* through better expenditure management, and better analyses and monitoring of the links between policies, growth and poverty reduction. Through better monitoring we will identify worthy programs and projects that can be scaled up.
- *Relying on sustainable financing sources* with an emphasis on grant financing and raising the revenue ratio in the long run.
- Developing on a pilot basis the *grassroots “Umurenge” scheme*. For small villages, Umurenge will consolidate existing social protection schemes toward income generation for food security and build savings for village investments.

While our medium-term macroeconomic framework is based on prudent projections for growth and external assistance, we believe that steadfast implementation of our reform agenda is likely to lead to substantially higher-than-projected growth and we hope that it could facilitate higher levels of external assistance. Moreover, to further improve the policy dialogue with stakeholders and development partners, we will maintain a rolling medium-term expenditure and macroeconomic framework.

### Box 1. Alleviating Poverty over the Medium Term

Recent socioeconomic surveys have found that high growth rates have not substantially reduced poverty and that poverty varies noticeably by location.

To address this shortcoming, the EDPRS promotes three main pillars which will serve to (a) prioritize actions, (b) mobilize resources for development, and (c) improve policy implementation through more co-ordinated interventions across sectors:

- *Sustainable growth for employment and exports*; reducing the operational costs of business (including through infrastructure investment), increasing the skills of the labor force, and developing the financial sector.
- *Pro-poor components of the national growth agenda*; improving the productive capacity of the poor in rural areas through a combination of public investment and works, credit packages and direct support.
- *Governance*; empowering citizens through legal and public sector reforms, which will enhance human rights and transparency and accountability in fiscal and regulatory matters.

We are developing a Common Performance Assessment Framework (CPAF) in cooperation with donors to monitor the implementation of the poverty reduction strategy. There will be two types of indicators: (a) indirect process/action indicators, monitoring the progress of reform implementation, and (b) output/performance indicators that are directly linked to the final output. Donors are expected to begin using a subset of these indicators as triggers for their disbursements in 2009.

### III. The Program for 2008

9. **Our policies in 2008 will focus on poverty reduction initiatives, lay the base for stronger medium-term growth and continue to safeguard macroeconomic stability.** We expect real growth of 5.5 – 6.5 percent, and possibly 7 percent.<sup>1</sup> We intend to maintain inflation within single digits, and a level of international reserves of about 4½ months of imports. Macroeconomic and structural policies will focus on improving public financial management, developing the financial sector, and growth-enhancing investments and reforms.

10. **The macroeconomic framework for the 2008 program was designed before the recent political crisis in Kenya.** The recent crisis, if prolonged, could have adverse macroeconomic implications for the region, including Rwanda. We will assess the economic implications at the time of the fourth review.

<sup>1</sup> The macroeconomic program is rebased using the new national accounts data prepared by the National Institute of Statistics (NIS). The national accounts have been rebased from 1995 to 2001 and reflect information from the 2005 household survey and an improved statistical methodology that is consistent with international standards.

## A. Macroeconomic Program

11. **Managing the domestic demand impact of fiscal policies will lie at the heart of our macroeconomic policies.** Financed by higher aid flows, the domestic deficit (excluding spending on demobilization and peacekeeping) is projected to increase by about 1.7 percent of GDP compared with 2007. Thus, pressures for a real exchange rate appreciation are expected to continue and could be exacerbated by off budget project spending. If grants exceed program projections, we will release the so-called contingent spending (see paragraph 14) only after a careful assessment of macroeconomic conditions in the context of the fourth review under the PRGF.

### Fiscal Policy

12. **The objective of our fiscal program is to further improve the living standards of our population and boost productivity.** The 2008 budget allows for an increase in investment spending financed by a scaling up of aid flows. Prudent management of aid must be consistent with the single-digit inflation objective, and must focus on preventing a crowding out of the private sector and building up costly domestic debt. Should the domestic debt target be exceeded, this would signal that the spending increase was too rapid, forcing the NBR to resort to sterilization of the liquidity impact from the additional spending through domestic asset sales. In this case, the Ministry of Finance would adopt a more gradual approach in releasing the domestic component of the budget in the following month. The fiscal program will be reviewed at the time of the fourth review under the PRGF, in light of developments in key macroeconomic indicators in 2007.

13. **On the revenue front, we will increase the revenue-to-GDP ratio by 0.2 percentage points to 13.7 percent of GDP.** Should unanticipated revenue losses arise, we will implement offsetting measures—including increasing fees and charges—so that the 2008 revenue target can be attained. Our measures aimed at widening the tax base are described in paragraph 16. To support the revenue target, no further tax exemptions will be granted and the existing ones will be carefully managed.

14. **Spending will increase by about 2 percent of GDP, with a larger share targeted at priority spending.**<sup>2</sup> We will dedicate more resources to public infrastructure—to strengthen private sector led growth, especially in the rural areas—and to agriculture, education, health, electricity, and water. We have ensured that expenditures are not underbudgeted in the 2008 budget, and we will execute the fiscal spending in line with the budget. Should additional grants materialize, we will assess, in the context of the fourth PRGF review, whether it is possible to release contingent spending of about 0.5 percent of GDP for priorities and nonpriorities. Below we outline the main issues regarding key spending areas:

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<sup>2</sup> Spending measured as total expenditure and net lending excluding Rwandatel privatization proceeds.

- *Food security.* Given uncertainties related to weather conditions, the program continues to include an adjuster allowing an increase in the deficit and a commensurate reduction in net foreign assets for food imports related to a food emergency.
- *Priority spending.* Priority spending, excluding the contingency, will increase by about 2 percent of GDP. Priority spending will focus in particular on agriculture, health, education, export promotion, infrastructure and energy.
- Spending in *education* will increase by about 0.6 percent of GDP. Most of this will go toward improving delivery of primary education through the capitation grant and purchase of education materials. Special emphasis is also placed on training and skills development; allocations have been made to establish three vocational training centers.
- To address the issue of *limited and insufficient energy*, we are in the process of constructing eight micro hydro dams, have begun the construction of the Rukarara hydro dam and are considering another at Nyaborongo. We are also rehabilitating the infrastructure to improve efficiency in the transmission and distribution of electricity, and are expanding the electricity grid system. Due to unforeseen circumstances, the heavy fuel generator will become operational during the first quarter of 2009 and not at end-2007 as envisaged earlier. Consequently, we will continue to subsidize Electrogaz (0.5 percent of GDP) for costs related to the rental of generators and fuel costs.
- With the help of donors, we are focusing on providing *adequate health services*. To avoid a repeat of the underbudgeting that occurred in 2007, the budget accommodates an increase of 0.6 percent of GDP in health spending. This will finance programs to improve primary health care by hiring qualified staff, financing of the ‘mutuelle scheme’ and purchase of drugs. In the first quarter of 2008 we will undertake a comprehensive review of the health sector to identify priorities and to better understand the financing requirements of the sector.
- The budget includes an allocation of about 0.3 percent of GDP to finance *parliamentary elections* in 2008.

**Text table 2. Priority spending  
(In percent of GDP)**

	2007	2008
	w/o cont.	w/o cont.
<b>Priority</b>	<b>11.4</b>	<b>13.4</b>
<i>Of which:</i>		
Agriculture, land, and water	1.3	1.3
Health	1.4	2.0
Education	4.1	4.6
Infrastructure and energy	2.0	2.4
Export and investment promotion	0.3	0.3
Internal security	0.5	0.7
Decentralization	1.0	0.8
Other	0.9	1.2

Sources: Rwandese authorities and IMF staff

### *Other Spending*

- *AU peace keeping in Darfur.* We will continue to monitor the costs associated with our peace keeping activities. The Auditor General will publish by end-May 2008 an audit of the spending in 2007.
- *Military spending* will remain at about 2 percent of GDP.

15. **We are placing special emphasis on infrastructure investment that should help alleviate bottlenecks to private sector growth.** We are focusing on the priority sectors outlined in the EDPRS. We will explore different sources of financing, including donor support, our own privatization receipts, and external borrowing. We will develop these plans in the context of sector development strategies in close consultation with our development partners. To avoid reaccumulating unsustainable levels of debt, we will prepare and implement a debt management strategy (see paragraph 17).

- *Energy.* We are considering the Nyaborongo hydro dam, which would increase our current electricity production by over 50 percent from the current level of 50MWh. The construction and transportation cost of this 4-year project is expected to be \$106 million.<sup>3</sup> The World Bank is conducting an assessment of the economic and financial viability of the project. The project could begin in 2008, once total financing has been identified, provided that the viability assessment is favorable. We will institute measures to ensure that construction conforms with our laws governing social and environmental impact issues. We have identified US\$80 million in financing from

<sup>3</sup> There is an additional US\$14 million in costs associated with project supervision and environmental protection.

the Exim Bank of India on terms that are less concessional (41 percent) than the 50 percent required under the program. We have explored various financing options, but have been unable to secure more concessional financing. If we decide to proceed with the project, taking into account its importance for reducing energy shortages—one of the main bottlenecks to private sector growth—we intend to request a modification of the program to accommodate this borrowing at the time of the fourth review.

- *Information and communication technologies (ICT).* We envisage investing a portion of the proceeds from privatization of RwandaTel in the ICT sector. The objective of the project is to provide a robust nationwide broadband backbone using fiber optics to (i) strengthen the delivery of social services in rural areas, especially in health and education, (ii) improve efficiency in the way local government operates, including through strengthening information sharing and coordination between local and central governments, particularly in public financial management and M&E; and (iii) provide infrastructure for the Electrogaz modern network management system. Over time it is expected that the availability of this ICT backbone will also provide a platform to induce new economic activity, especially in previously underserved rural areas. The 2008 budget includes US\$15 million for extension of the network of fiber optic cables to districts. The project will be completed in 2009.
- *Agriculture.* We are in the process of preparing a 3-year investment project in agriculture that focuses on land-husbandry, water harvesting and hillside-irrigation. The World Bank will assess the economic and financial feasibility of the project, and we will consider proceeding with the project only if this assessment is favorable. The preliminary cost estimate of the project is US\$100 million. We will explore all possible sources of financing, including grants and concessional borrowing from our development partners. To mitigate the future debt burden, we also intend to use some of the receipts from the privatization of RwandaTel for the partial financing of this project.

### ***Fiscal structural reforms***

16. **We plan to improve the efficiency of tax administration to widen the tax base and raise the tax-to-GDP ratio over the medium term.** The measures that we will introduce are in line with the recommendations made by the technical assistance mission on tax administration from the IMF's Fiscal Affairs Department, and the study by Deloitte & Touche. These efforts will focus on two broad areas:

- *Widening the domestic tax base.* The revenue authority is developing a comprehensive compliance program designed to identify risks of noncompliance. Execution of the program includes enhancing the SIGTAS computer system to strengthen information analysis and, undertaking risk based audits. We will develop by June 30, 2008, a comprehensive program for the medium-sized taxpayers (benchmark), expanding the segment to include all taxpayers above the RF20 million VAT threshold. This is expected to increase the number of taxpayers in this segment from 200 to 900. We will

also improve service delivery to our taxpayers, for example, by refunding VAT claims promptly and enforcing tax regulations consistently.

- *Facilitating trade.* Our objective is to provide an efficient service to the private sector. As an important step, we will implement by June 30, 2008 an expedited clearance scheme (super green/gold card) for compliant importers contributing between 40 and 60 percent of import value (benchmark).

17. **The government is in the process of designing a new medium-term action plan for public financial management (PFM) reform for 2008-2010.** We expect the action plan to be finalized and approved by June, 30, 2008 (performance criterion), and it will be based on assessments in the public expenditure and financial accountability (PEFA) review that was completed recently. The PFM Action Plan should include the following elements:

(a) identification of the weaknesses of the current system, (b) a medium-term strategy to address these weaknesses, (c) the details of each specific component (description of activities, outputs, indicators, and responsibilities), (d) the expected outcomes at the end of the reform period, (e) the perceived risks and obstacles and how these will be addressed, (f) institutional implications, (g) interaction with other reforms (decentralization, civil service reform), (h) program management, funding, oversight, reporting, auditing, and review. Recognizing that a strong PFM system is important for the monitoring of financial resources provided through budget support, we will elaborate the plan in close consultation with development partners. Actions in 2008 will support human and institutional capacity building, the implementation of an integrated financial management information system, the reinforcement of the medium-term expenditure framework, and the completion of a debt management strategy. The action plan for 2008 will include measures in the following areas:

- **Public accounts and budget execution.** We will produce the execution reports of central government's transfers to local governments per program per district for July-December 2007 by March 31, 2008 and for the period January-June 2008 by September 30, 2008. We will prepare the consolidated fiscal report for 2007, including the central government, local governments, autonomous agencies, and extra-budgetary funds by June 2008.
- **Budget Preparation.** We will produce an operational manual for the medium-term expenditure framework by June 30, 2008 (performance criterion). The MTEF operational manual should explain the principles of priority setting and describe the main agents and the key steps in the budget preparation process, including the links connecting the macroeconomic framework, the macro-budgetary framework, and sectoral strategies.
- **Debt Management.** We will develop and publish a debt management strategy with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law by November 30, 2008 (benchmark). We will produce a draft to be submitted to the IMF for joint quality review.
- **Internal audit.** We will publish internal audit manuals by June 30, 2008.

- **Information and Communication Technology.** To facilitate the implementation of an integrated financial management information system (IFMIS), we will complete an IFMIS strategy by November 2008.
- **Public Procurement.** We will complete a strategic plan for procurement, capacity building, and retention by October 2008.

### Monetary and Exchange Rate Policy

18. **To prevent the scaling up of spending from fueling inflation, the NBR will maintain a tight monetary policy.** It will continue to monitor inflation, government spending and private sector credit and will stand ready to tighten the monetary stance, if needed.
19. **The NBR will continue to use reserve money as the operational target to control inflation.** To reduce average inflation to about 7 percent, it will limit year-end reserve money growth to 14 percent, which would create sufficient room for an expansion of credit to the private sector. The NBR will continue to follow closely inflationary developments and mop up excess liquidity, in particular through sales of foreign exchange.
20. **We will allow more flexibility in the exchange rate.** Acknowledging that an increase in spending from higher aid flows in 2008 is likely to result in further pressures for a real exchange rate appreciation, we will forcefully implement our intervention strategy. We will allow nominal appreciation by raising foreign exchange sales while smoothing short-term market fluctuations. This will ensure that the execution of the 2008 budget does not rekindle inflation or crowd out private investment. We will be guided by the recommendations of a forthcoming technical assistance mission from the IMF's Monetary and Capital Markets Department in our efforts to revitalize the foreign exchange market. This should enable us to step up foreign exchange sales.
21. **The NBR will improve liquidity management.** We recognize the limitations of overnight and 7-day instruments for money market operations. In this regard, we will reintroduce 4-week instruments and establish repurchase agreement operations ranging from 1 to 90 days in 2008. We will aim to restore interest rates for these instruments to positive levels in real terms. These changes will be done gradually and will be communicated to the financial sector in a timely manner so as to avoid disruptions in the financial markets arising from asymmetric information.
22. **We commit to formalizing the existing Treasury Management Committee (TMC).** The TMC has been holding informal weekly meetings between the MoF and NBR to coordinate fiscal and monetary policy. It has provided an analytical platform to both institutions to refine policy implementation and forecasts.

### External Sector

23. **Owing to the increase in fiscal spending, we expect the external current account deficit (excluding official transfers) to widen to about 20 percent of GDP (about**

**4 percent of GDP greater than 2007).** Export receipts are projected to grow by at least 12 percent, driven mainly by increased volumes of traditional exports (particularly coffee) and continued growth in the tourism industry. The expected increase in imports by about 30 percent stems from an expansion in the fiscal deficit, the withdrawal of projects accounts, the commencement of the new energy project, and buoyant private sector activity.

24. **The implementation of debt relief under the enhanced HIPC Initiative is at an advanced stage.** In addition to IMF, IDA and AfDB, completion point and topping up assistance has been provided by BADEA and the OPEC Fund. IFAD, the Kuwait Fund, Fund, the Saudi Fund and the EU have already provided completion point assistance. Bilateral agreements have been signed with all Paris Club creditors. Regarding non-Paris Club creditors, China has cancelled all outstanding loans totaling about US\$32m, while Saudi Arabia and Kuwait indicated the possibility of future debt relief. Debt owed to Libya and the Abu Dhabi Fund continues to be in technical arrears.

25. **Preparations for joining the EAC Customs Union intensified.** Rwanda became a member of the East African Community on July 1, 2007. The necessary provisions for entrance into the custom union will be completed by June 2009. Laws requiring amendments have been identified. The list of sensitive products and raw materials as exemptions to the common external tariff has been compiled, while a study to determine the anticipated revenue loss is being undertaken. Rwanda has signed an interim agreement with the European Union to continue negotiations on an EPA. This interim agreement is in line with the EAC common position.

## **B. Structural Policies**

26. **The focus on the structural side will remain on enhancing the productivity of the agricultural and export sectors and improving the conditions for the private sector.**

### **Export promotion**

27. **Our export promotion strategy will continue to focus on enhancing the productivity in the traditional sectors and diversifying our export base.**

- **Coffee.** To improve yields, use will be made of industrial fertilizers and pesticides, for which training will be provided to farmers. To increase value added, the number of washing stations will be further increased, while existing stations are being made more efficient through increased training, improved water supply and upgrade of feeder roads. A Coffee Marketing Alliance will be established to improve marketing.
- **Tea.** To increase export volume and quality, efforts aimed at improving harvesting methods and expanding nursery beds and tea plantations will be intensified. To increase value added, a blending industry will be established, while efforts at direct marketing will be intensified to improve market prices.
- **Tourism.** A tourism master plan will be developed with the assistance of the World Tourism organization. Commencing in 2008, substantial inflows of FDI are expected in tourism related activities. This includes construction of a convention centre

financed mainly by LAP Libya, and a golf hotel and executive suites financed by Dubai World.

- **Export Processing Zone (EPZ).** Rwanda's Free Zone Company Ltd. was established to fast track implementation of the EPZ. Expropriation of the land is now complete and technical studies are expected to be completed in early 2008.

### Financial sector

28. **The agenda for medium-term financial sector reform is based on our Financial Sector Development Plan, which was discussed with donors in early 2007.** Our plans for 2008 include the following:

- **Modernizing the national payments system.** The draft decree for the establishment of the National Payments Council has been submitted to Cabinet for approval and will be constituted by June 30, 2008. It will be tasked with the responsibility for developing and implementing a National Payment Systems strategy to develop basic payments services targeted at the community at large, based primarily on electronic transfers. The NBR, in consultation with the East AFRITAC, has initiated the exercise and expects completion of the strategy by September 30, 2008 (benchmark).
- **Developing long-term finance and capital markets.** The Capital Market Advisory Council will operate as a self-regulatory organization and oversee an over-the-counter debt and equities market. We will pursue a number of initiatives to establish a robust legal, regulatory, and market infrastructure for securities over the medium term. We plan to inaugurate a government bond market by the first quarter of 2008 to establish a yield curve using one, two, three, five and seven year treasury bonds. Other operations for 2008 include the establishment of a corporate bond market.
- **Contractual savings and investments.** We plan to enact a Private Pension and Mutual Fund law to further strengthen the legal and regulatory framework to support the development of a market for (a) the contractual savings industry and (b) long-term saving and investment instruments.

### Cost of doing business

29. **We will make further efforts toward improving the business climate and removing obstacles to business development.** The Rwanda Commercial and Registry Services will be made operational. The agency will provide a comprehensive registration system aimed at improving business registration, securitization of assets, and registration of intellectual property rights. The office of the Registrar of Land Titles will become operational in 2008, thereby simplifying the land registration process.

## IV. Program Monitoring

30. **Conditionality and program reviews.** The fourth review under the PRGF arrangement, scheduled for completion by June 2008, will review quantitative performance as of end-December 2007, and structural conditionality through end-December 2007. The third

year of the PRGF-supported program will be monitored through quantitative performance criteria for end-June and end-December 2008 and indicative targets for end-March and end-September 2008, as well as quarterly quantitative indicators. We have also set structural conditionality in tax administration, public expenditure management, and financial sector reforms (Table 4). The fifth and sixth program reviews will be completed no later than end-November 2008 and end-May 2009 respectively.

31. **Technical memorandum of understanding (TMU).** The attached TMU lays out the details of the program design and terminology. We have maintained the broad design of the program for 2007, but have added an adjustor to reserve money with respect to inclusion of UBPR as a commercial bank and have simplified the adjusters relating to aid shortfalls, to help insulate the budget in the event of minor deviations in aid flows.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks for 2007  
(RF billions, unless otherwise indicated)  
(Quantitative benchmarks\* and performance criteria on test dates\*\*)

	Mar.*	Jun.**	Sep.*	Dec.**
<b>Benchmarks and performance criteria</b>				
Net foreign assets of the NBR (floor on stock) <sup>1</sup>				
Actual (program exchange rate)	289.3	268.2	294.7	...
Adjusted program	238.2	234.7	196.5	...
Program	208.1	244.3	206.8	179.3
Reserve money (ceiling on stock) <sup>2</sup>				
Actual	78.4	81.8	87.4	...
Program	72.4	83.0	88.1	87.9
Net credit to the government (ceiling on flow) <sup>3</sup>				
Actual	22.1	-45.4	-9.5	...
Adjusted program	-11.5	-28.1	-19.4	...
Program	-11.5	-37.7	-25.7	4.7
Domestic fiscal balance (floor on flow) <sup>3,4</sup>				
Actual	-21.5	-35.2	-79.6	...
Adjusted program	-21.1	-53.9	-65.7	...
Program	-21.1	-64.9	-70.6	-98.7
Total priority spending (floor on flow) <sup>3,4</sup>				
Actual	41.6	87.7	152.3	...
Adjusted program	33.1	81.2	123.6	...
Program	38.6	86.7	132.4	181.1
New nonconcessional external debt <sup>5</sup>				
Actual	0.0	0.0	0.0	...
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock) <sup>5,6</sup>				
Actual	0.0	0.0	0.0	...
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) <sup>7</sup>				
Actual	0.0	0.0	0.0	...
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow) <sup>3</sup>				
Actual	-1.6	-3.9	3.6	--
Program	-1.6	-3.9	-5.4	-7.0
<b>Indicative targets</b>				
Broad money (ceiling on stock) <sup>1</sup>				
Actual	277.3	306.1	331.8	...
Program	254.5	297.7	305.3	312.4
Extended broad money (ceiling on stock) <sup>1</sup>				
Actual	324.7	356.7	388.7	...
Program	290.9	346.2	355.0	363.3
Net Present Value of the Stock of Outstanding Debt (Millions of US\$) <sup>8</sup>				
End-December 2007--Actual		194.0		194.0
End-December 2008--Actual		...		...
End-December 2009--Actual		...		...
End-December 2007--Program		200.4		200.4
End-December 2008--Program		239.8		239.8
End-December 2009--Program		279.0		279.0
Ceiling on stock of domestic debt <sup>9</sup>				
Actual		165.3	180.0	--
Adjusted program		184.8	188.5	--
Program		175.2	187.1	185.1
<b>Memorandum items:</b>				
General budget support (Millions of US\$) <sup>4,10</sup>				
Received	5.8	159.5	177.7	--
Expected	65.2	186.5	193.0	196.6
Of which: budget support grants (received)	5.8	159.0	175.4	--
Of which: budget support grants (expected)	65.2	186.5	193.0	196.6
Budgetary "baseline grants" (TMU, para. 9) <sup>10</sup>	60.2	176.5	178.0	176.6
<b>Revised domestic fiscal balance (excluding AU, demob and food)<sup>11</sup></b>		<b>-43.3</b>	<b>-65.1</b>	<b>-93.2</b>

Sources: Rwandese authorities and IMF staff estimates and projections.

<sup>1</sup> At the program exchange rate of RF 549.9/US\$ for 2007.

<sup>2</sup> Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter. Program projections are done quarterly. To derive the monthly figures, seasonality factors and a trend are applied to the quarterly projections. The seasonality factors are derived by applying the X11 filter to currency in circulation over 2002-06 (the factors were robust with respect to different time periods). The seasonality factors were 0.93 for April, 0.96 for May, 1.01 for June, 1.0 for July, 0.98 for August, 0.96 for September, 0.94 for October, 0.94 for November and 1.0 for December.

<sup>3</sup> Numbers are cumulative from December 31, 2006.

<sup>4</sup> The domestic fiscal balance targets will be adjusted by the amount of grants exceeding or below programmed grants with the adjusters as specified in the TMU of January 10, 2007, and paragraph 3 of the TMU of June 7, 2007. Also the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.

<sup>5</sup> This is a continuous performance criterion.

<sup>6</sup> Excludes arrears on obligations that are subject to rescheduling.

<sup>7</sup> Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.

<sup>8</sup> Figures indicate the NPV projections based on debt contracted at the test date.

<sup>9</sup> Numbers show end of period stocks, at the end of 2006 the stock stood at RF 189.6 billion.

<sup>10</sup> Excluding external donor financing for demobilization and peacekeeping.

<sup>11</sup> Used for the calculation of the adjuster on the indicative limits on domestic debt.

Table 2. Rwanda: Quantitative Performance Criteria and Benchmarks for 2008  
(RF billions, unless otherwise indicated)  
(Quantitative benchmarks\* and performance criteria on test dates\*\*)

	2008			
	Mar.*	Jun.**	Sep.*	Dec.**
<b>Benchmarks and performance criteria</b>				
Net foreign assets of the NBR (floor on stock) <sup>1</sup>				
Actual (program exchange rate)				
Adjusted program				
Program	257.5	321.8	314.8	275.7
Reserve money (ceiling on stock) <sup>2</sup>				
Actual	...	...	...	...
Adjusted program				
Program	98.0	100.8	105.2	105.1
Net credit to the government (ceiling on flow) <sup>3</sup>				
Actual				
Adjusted program				
Program	47.5	-27.1	-25.1	9.7
Domestic fiscal balance (floor on flow) <sup>3, 4</sup>				
Actual	...			
Adjusted program				
Program	-42.4	-62.0	-102.4	-146.9
Total priority spending (floor on flow) <sup>3, 4</sup>				
Actual				
Adjusted program				
Program	57.3	128.4	201.7	275.1
New nonconcessional external debt <sup>5</sup>				
Actual				
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock) <sup>5, 6</sup>				
Actual				
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) <sup>7</sup>				
Actual				
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow) <sup>3</sup>				
Actual				
Program	-3.0	-4.0	-5.5	-7.0
<b>Indicative targets</b>				
Broad money (ceiling on stock) <sup>1</sup>				
Actual				
Program	365.9	382.0	383.2	416.5
Extended broad money (ceiling on stock) <sup>1</sup>				
Actual	--	--	--	--
Program	425.5	444.1	445.6	484.3
Net Present Value of the Stock of Outstanding Debt (Millions of US\$) <sup>8</sup>				
End-December 2007--Actual		194.0		194.0
End-December 2008--Actual				
End-December 2009--Actual				
End-December 2007--Program		200.4		200.4
End-December 2008--Program		229.0		229.0
End-December 2009--Program		300.0		300.0
Ceiling on stock of domestic debt <sup>9</sup>				
Actual				
Adjusted program				
Program	208.6	196.4	193.7	198.6
<b>Memorandum items:</b>				
General budget support (Millions of US\$) <sup>4, 10</sup>				
Received				
Expected	1.7	175.1	246.7	277.2
Of which: budget support grants (received)				
Of which: budget support grants (expected)	1.7	175.1	246.7	277.2
<b>Baseline privatization receipts (RF billion)</b>	...	3.5	3.5	3.5

Sources: Rwandese authorities and IMF staff estimates and projections.

<sup>1</sup> At the program exchange rate of RF545/US\$ for 2008.

<sup>2</sup> Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter. Program projections are done quarterly.

<sup>3</sup> Numbers are cumulative from December 31, 2006.

<sup>4</sup> The domestic fiscal balance targets will be adjusted by the amount of grants exceeding or below programmed grants with the adjusters as specified in the TMU of January 10, 2007, and paragraph 3 of the TMU of June 7, 2007. Also the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.

<sup>5</sup> This is a continuous performance criterion.

<sup>6</sup> Excludes arrears on obligations that are subject to rescheduling.

<sup>7</sup> Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.

<sup>8</sup> Figures indicate the NPV projections based on debt contracted at the test date.

<sup>9</sup> Numbers show end of period stocks, at the end of 2006 the stock stood at RF 189.6 billion.

<sup>10</sup> Excluding external donor financing for demobilization and peacekeeping.

Table 3. Rwanda: Structural Conditionality, 2007

<b>Public expenditure management</b>			
Issue draft accounting instructions, forms, and procedures for budget users.	December 31, 2006	Benchmark	Not met. Implemented in May 2007.
Complete progress report on financial reporting by budgetary agencies (line ministries, provinces, autonomous agencies). Agencies are expected to produce the following monthly financial reports: (i) bank reconciliation statement; (ii) budget execution reports, and (iii) statements of revenue and expenditure.	June 15, 2007	Benchmark	Not met. Completed in September 2007.
Publish on the Ministry of Finance's website the first consolidated execution report of local governments showing transfers and budget execution per major line items per district and per province for the period January-April.	July 31, 2007	Performance Criterion— for the completion of the third review	Not met. Report covering districts only published on July 31, 2007. Report on provinces published in October 2007.
Complete and publish on the Ministry of Finance's website a study on project accounts (for projects listed in paragraph 46 of the TMU) at the NBR (1) showing annual budgets with donor disbursements and spending for 2004-2006 as well as quarterly projections (including a breakdown into imports and the domestic component) for July 2007-June 2008; and (2) providing an analysis of the causes for the large accumulation of the specific project accounts since January 1, 2004.	September 30, 2007	Performance Criterion— for the completion of the third review	Met.
Publish on the Ministry of Finance's website the progress report on the implementation of the Organic Budget Law.	September 30, 2007	Benchmark	Met.
<b>Civil service reform</b>			
Undertake a comprehensive review of the wage structure of the public sector, including fringe benefits and wages included in transfers to local governments.	September 30, 2007	Benchmark	Not met. Completed in October 2007
<b>Private sector development</b>			
Make operational the Office of the Registrar of Land Titles.	October 31, 2007	Benchmark	Met.
<b>Poverty reduction</b>			
Produce a poverty profile of provinces, districts, and communities of Rwanda using the results of the census and the household living conditions survey.	September 30, 2007	Benchmark	Not met. Report was produced for provinces only.
<b>Financial sector</b>			
Submit to Parliament a micro finance law to bring the legal framework for microfinance broadly in line with the Guiding Principles on Regulation and Supervision of Microfinance Institutions as published by the Consultative Group to Assist the Poorest.	June 30, 2007	Benchmark	Met.
<b>Agricultural sector</b>			
Adopt and publish a national fertilizer distribution strategy.	February 28, 2007	Benchmark	Not met. Implemented in April 2007.

Table 4. Rwanda: Structural Conditionality, 2008

<b>Public Expenditure Management</b>	Target date	Type of condition	Macro Rationale
Complete and publish on MINECOFIN website a revised PFM reform action plan for 2008-2010, as specified in paragraph 17 of the MEFP.	June 30, 2008	Performance criterion	To provide a structured, prioritized and sequenced framework for strengthening PFM and hence fiscal control. The plan would facilitate mobilization of TA and other resources in support of the reforms.
Produce and publish on the MINECOFIN website the MTEF operational manual, as specified in paragraph 17 of the MEFP.	June 30, 2008	Performance criterion	To reinforce the MTEF process and facilitate and harmonize the preparation of the MTEF by sectoral ministries, thereby improving the coordination and management of the budget over the medium term.
Develop and publish on the MINECOFIN website a debt management strategy (DMF) with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law.	November 30, 2008	Benchmark	To provide guidance for future borrowing decisions and prevent the reaccumulation of unsustainable debt.
<b>Tax Administration</b>			
Develop and publish on the RRA website a comprehensive compliance program which identifies key compliance risks associated with the large, medium, and small taxpayer segments, together with a description of the planned RRA initiatives to address the identified risks based on risk analysis.	June 30, 2008	Benchmark	To raise efficiency of tax collection, improve overall tax compliance, and widen the tax base, thereby reinforcing fiscal sustainability over the medium term.
Implement an expedited clearance scheme (super green/gold card) for <i>compliant</i> importers contributing a cumulative 60 percent of import taxes.	June 30, 2008	Benchmark	To reduce customs clearance time, improve the level of trade facilitation, and reduce inventory costs, thereby facilitating private sector development.
<b>Financial Sector</b>			
Publish on the NBR's website a national payments strategy to improve the payments infrastructure and address the development of basic payment services in Rwanda.	September 30, 2008	Benchmark	To promote the development of a stable financial system by reducing high transaction costs for businesses, and financial risks in payment clearance and settlements.

**RWANDA—TECHNICAL MEMORANDUM OF UNDERSTANDING**

February 12, 2008

1. This technical memorandum sets out the definitions for quantitative targets under which Rwanda's performance will be assessed and provides specifics on areas of structural conditionality. Monitoring procedures and reporting requirements as well as other program definitions are also specified.

**I. Quantitative Program Targets**

2. Performance criteria for June 30, 2008 and December 31, 2008 as well as indicative targets for March 31, 2008, and September 30, 2008 are proposed to be established with respect to:

- floors on the domestic fiscal balance of the central government (DFB);
- ceilings on the net credit to the central government (NCG);
- floors on priority spending;
- ceilings on the net accumulation of domestic arrears of the central government;
- floors on the Net Foreign Assets (NFA) of the National Bank of Rwanda (NBR);
- ceilings on reserve money; and
- ceilings on the outstanding stock of external debt with original maturities of one year or less owed or guaranteed by the public sector.

3. Performance criteria that are applicable on a continuous basis are proposed to be established with respect to the ceilings on new external payment arrears of the public sector and new nonconcessional debt of the public sector.

4. Indicative targets are proposed to be established

- for end-March 2008, end-June 2008 end-September 2008, and end-December 2008, for ceilings on broad money and extended broad money;
- for end-June 2008, and end-December 2008, for ceilings on the contracting or guaranteeing of concessional external debt.

- for end-March 2008, end-June 2008 end-September 2008, and end-December 2008 for ceilings on the consolidated domestic debt of the public sector.

### A. Institutional Definitions

5. The **central government** comprises the treasury and line ministries.
6. The **public sector** comprises the central government, local governments, public enterprises (including Electrogaz, Ocircafé, Ocirthé, Prime Holdings, and ONP), and the NBR.

### B. Targets related to the Execution of the Fiscal Program

#### Domestic Fiscal Balance of the Central Government (DFB)

7. A floor applies to the DFB, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June, 2008, end-September 2008 and end-December 2008 targets.
8. **Definition.** The domestic fiscal balance (Table 2 of the MEFP) is defined as domestic revenue (excluding grants) minus domestic spending. Domestic spending is defined as current expenditure (excluding external interest due, spending related to Rwandese troops involved in the UN peace-keeping efforts, and spending related to the World Bank-led demobilization and reintegration program) plus domestically-financed capital expenditure on a payment order basis, plus net lending.
9. **Adjusters.**
  - The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) in the context of a review with Fund staff, by the amount of the cumulative positive difference between actual and programmed budgetary grants (defined in Table 2 of the MEFP), up to a maximum of RF 11 billion, **IF** this review establishes that a further fiscal expansion would not lead to a rekindling of inflation or an undue increase in domestic debt. The increase in the deficit would be used for contingent spending, a list of which is provided in Table 1. Budgetary grants include HIPC Initiative-related grants,<sup>1</sup> but exclude grants related to AU peace keeping activities and for the demobilization program as well as capital grants related to the development budget. Quarterly programmed budgetary grants are also provided in Table 2 of the MEFP.

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<sup>1</sup> HIPC grants exclude debt relief from IDA and the AfDB.

- The floor on the DFB will be *adjusted upward* (that is, the deficit target will be reduced) by the amount of any shortfall between actual and programmed budgetary grants (defined in Table 2 of the MEFP) which exceeds the equivalent of US\$24 million, evaluated in Rwanda francs at the program exchange rate.
  - The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure deemed integral to a specific privatization operation (to be recorded under net lending) IF the difference between privatization revenue and this expenditure is positive (see also paragraph 13).
  - The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure for food imports in the case of a food emergency (see also paragraphs 13 and 24).
10. **Reporting requirement.** Data on the DFB and its adjusters will be transmitted, with detailed explanations, on a monthly basis within four weeks of the end of each month.

#### **Net Credit to the Central Government (NCG)**

11. A ceiling applies to the NCG, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

12. **Definition.** For program monitoring purposes, the NCG will be calculated as the change from end-December 2007 of net credit from the banking system and the change of holdings of treasury bills and other government securities by the nonbank sector. Net credit from the banking system is defined as the difference between:

- credit to government from the banking system, including credit to central government, provinces and districts, outstanding consolidated central government debt instruments; including government debt to the NBR incurred as a result of the 1995 devaluation (Rf 9 billion) and the overdraft to the prewar government (Rf 2 billion); and
- total government deposits with the banking system of the central government, including the main treasury account, line ministries, the fund for assistance to genocide survivors, Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, the privatization account, and any other of the 15 autonomous agencies. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, counterpart funds and *fonds publics affectés*).<sup>2</sup> In particular, NCG is not

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<sup>2</sup> The target excludes any transfers from the deposits over which the government has limited control into other government deposits.

affected by credit to or deposits of public enterprises and autonomous public agencies.

13. **Adjusters.**

- The ceiling on NCG will be *adjusted upward* by the amount of any shortfall between actual and programmed budgetary grants (defined in Table 2 of the MEFP). This adjustment will be capped at the equivalent of US\$24 million, evaluated in Rwanda francs at the program exchange rate.
- The ceiling on the NCG will be *adjusted downward* by the amount of privatization revenue in excess of programmed amounts, as defined in Table 2 of the MEFP, less any expenditure deemed integral to the privatization operation, provided that the excess revenue is positive net of such expenditure.
- The ceiling on the NCG will be *adjusted upward* by the amount of expenditure for food imports in case of a food emergency (see also paragraph 9 and 24).

14. **Reporting requirement.** Data on the NCG (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits) and its adjusters will be transmitted on a monthly basis within three weeks of the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies.

**Priority Expenditure**

15. A floor applies to priority spending of the central government, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

16. **Definition.** Central government priority spending is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the PRSP process. The definition of priority expenditures is based on the program classification of the annual budget. Table 2 provides a summary of the SIBET output<sup>3</sup> and a list of the main programs.

17. **Adjuster.** The floor will be adjusted (*upward or downward*) by an amount equal to half of any adjustment in the DFB floor as specified in paragraph 9.

18. **Reporting requirement.** Data on priority expenditure, at the same level of detail as in Table 2, will be transmitted on a monthly basis within three weeks of the end of each month.

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<sup>3</sup> The computerized SIBET expenditure management system tracks priority spending at the program level.

### Net Accumulation of Domestic Arrears of the Central Government

19. A ceiling applies to the net accumulation of domestic arrears of the central government, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.<sup>4</sup>

20. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding on December 31, 2007 (including repayment of float in 2007 and the repayment of older arrears).

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

### Domestic debt of the central government and the National Bank of Rwanda (DD)

22. A ceiling applies to the DD for the end-June 2008, end-September 2008, and end-December 2008 targets.

23. **Definition.** Domestic debt of the central government and the National Bank of Rwanda includes the stock of treasury bills for government financing at coupon value, plus government borrowing from public enterprises (FinaBank formerly Bank Continentale Africaine du Rwanda, Bank Commerciale du Rwanda, Bons de Developpement, Credit Savings Scheme, Caisse Social du Rwanda, OCIR-Thé; and rescheduling of old arrears) plus the stock of treasury bills issued for monetary policy, plus any one-day or one-week deposits of commercial banks at the central bank excluding excess and required reserves.<sup>5</sup>

### 24. Adjusters

- To allow for sterilization of a grant-financed reduction in the domestic fiscal balance (increase in the deficit), the ceiling on domestic debt will be adjusted *upward* by one-third of any reduction in the floor on DFB provided for in paragraph 9.
- In the case of a shortfall in grants, for which an automatic adjuster would increase the limit on net credit to government, the ceiling on domestic debt will be adjusted *upward* by the same amount as the increase in the ceiling on net credit to government.

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

<sup>5</sup> T-bill holdings of the NBR are excluded because this is the consolidated debt of the central government and the NBR.

25. **Reporting requirement.** Data on domestic debt will be transmitted on a monthly basis within four weeks of the end of each month.

### C. Targets for Monetary Aggregates

#### Net Foreign Assets of the National Bank of Rwanda (NFA)

26. A floor applies to the NFA of the NBR for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

27. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets are to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate.<sup>6</sup> Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

#### 28. Adjusters

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary grants. This adjustment will be capped at the equivalent of US\$24 million, evaluated in Rwanda francs at the program exchange rate.
- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency (see also paragraphs 9 and 13).

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

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<sup>6</sup> The program exchange rate for the 2008 program is set at Rf545 = US\$1.

## Reserve Money

30. A ceiling applies to the stock of reserve money for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets. The stock of reserve money for the quarter will be calculated as the arithmetic average (mean) of the stock of reserve money at the last day of each calendar month comprising the quarter.

31. **Definition.** Reserve money for the monetary program is defined as currency in circulation, reserves of deposit money banks (excluding NBR borrowing from deposit money banks on the money market<sup>7</sup> but including cash in vault held by commercial banks), and deposits of public enterprises (including Caisse Sociale du Rwanda (CSR) and other autonomous public agencies (*dépôts des établissements publics assimilés à l'état*), deposits of nonbank financial institutions, and deposits of the private sector (*autres sommes dues à la clientèle* are included in reserve money). Reserve money excludes the deposits of the Caisse d'Épargne du Rwanda (C.E.R.) with the NBR up to Rf 1 billion, the dormant accounts up to Rf 1.4 billion, and import deposits placed at the NBR (*cautions à l'importation*) up to a maximum amount of Rf 150 million.

## 32. Adjuster

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks by the amount of (new reserve ratio - program baseline reserve ratio) multiplied by the reservable deposit liabilities in commercial banks.
- The ceiling on the stock of reserve money will be adjusted upwards to include the incorporation of the Union de Bank Populaires du Rwanda (UBPR) as a commercial bank. The magnitude of the upward adjustments will include the sum of (a) the stock of the arithmetic average (mean) of the stock of required reserves of the UBPR at the last day of each calendar month comprising the quarter and (b) the amount of Rf 0.4 billion required for prudential clearings. The adjustment will be made effective from the day of the UBPR incorporation.

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

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<sup>7</sup> Borrowing by the NBR from the commercial banks on the money market is included under the net domestic assets of the NBR (netted out from commercial bank borrowing from the NBR).

## **Broad Money**

34. A ceiling applies to the stock of broad money and extended broad money for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

35. **Definition.** Broad money is defined as the sum of currency in circulation, deposits in commercial banks, and nonbank deposits in the NBR. Extended broad money is defined as broad money plus deposits in credit unions and credit cooperatives (mainly UBPR).

36. **Reporting requirement.** The balance sheets of the commercial banks and other banking institutions, both for the individual institutions and for the respective sector in aggregate, and the monetary survey, will be transmitted monthly within five weeks of the end of each month. The monthly transmission will also include a monthly balance sheet for the NBR, showing all items as in NBR's weekly balance sheet.

## **D. Limits on External Debt**

### **Limit on short-term external debt of the public sector**

37. A zero ceiling applies to the outstanding stock of external debt with original maturities of one year or less owned or guaranteed by the public sector or other agencies on behalf of the central government. The ceiling is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

38. **Definition.** The definition of "debt", for the purpose of the limit, is set out in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000) and also commitments for which value has not been received. Excluded from this performance criterion are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities.

39. **Valuation.** The amount of debt will be evaluated at the corresponding quarterly exchange rates published in the IMF's International Financial Statistics.

40. **Reporting requirement:** Data on debt and guarantees will be transmitted, with detailed explanations, on a monthly basis within five weeks of the end of each month.

### **Contracting or Guaranteeing of new nonconcessional external debt of the public sector**

41. The public sector or other agencies on behalf of the central government will not contract or guarantee new nonconcessional external debt<sup>8</sup> (as specified in paragraphs 39 and 40) with original maturity of more than one year. This is a continuous performance criterion.

42. **Valuation.** The amount of debt will be evaluated at the corresponding quarterly exchange rates published in the IMF's International Financial Statistics.

43. **Definition.** This performance criterion applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000) and also to commitments contracted or guaranteed for which value has not been received. The use of Fund resources are excluded from the criterion. Included are leases and other instruments giving rise to external liabilities, contingent or otherwise.

44. For program purposes, a debt is **concessional** if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt (i.e., the grant element is equal to the nominal value minus NPV divided by the nominal value). The NPV of debt at the time of its disbursement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRRs), as published by the OECD. For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. To both the 10-year and the 6-month averages, the following margins for differing repayment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

45. **Reporting requirement.** Data on all new external debt, including government guarantees, will be provided on a monthly basis within five weeks of the end of each month.

### **Contracting or guaranteeing of concessional external debt**

46. A ceiling applies to the contracting or guaranteeing of concessional (see paragraph 40) external debt of the public sector or other agencies on behalf of the central government for the end-June 2008, and end-December 2008 targets. The ceiling on the contracted debt becomes binding through a disbursement profile over 2007-09.

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<sup>8</sup> As the performance criterion refers to “new” debt, rescheduling or restructuring of existing debt is excluded.

47. **Definition and valuation.** The ceiling on the contracting or guaranteeing of new concessional external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted. Disbursed debt will be converted to U.S dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with IMF staff. The Net Present Value of debt is calculated by discounting the future stream of payments of debt service due, based on a uniform discount rate of 5 percent.

48. **Reporting requirement.** Data on the NPV of the stock of outstanding debt will be provided on a semi-annual basis within five weeks of the end of each month.

#### **Limit on new external payment arrears**

49. A continuous performance criterion applies to the nonaccumulation of new external 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.

## **II. Other Data requirements for Program Monitoring**

50. Other data will be reported on a regular basis for surveillance purposes (see Table 3).

**Table 1. Contingent spending, 2008 (in billion of Rwandese franc)**


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<b>Priority spending</b>	<b>5.20</b>
Common development fund	1.00
Export Free Zone	0.20
Road Fund HER	3.00
Export promotion	1.00
<b>Nonpriority spending</b>	<b>5.80</b>
Construction of various offices	0.40
Youth and Culture	0.90
Feasibility studies	1.00
Across the board cuts in goods and services	2.00
Across the board cuts in transfers	1.50
<b>Total</b>	<b>11.00</b>

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Source: Rwandese authorities

Table 2. Priority Spending Excluding Contingency, 2008 (In million of Rwanda Francs)

	<b>BUDGET 2008</b>
<b>1. EMPLOYEE COST</b>	<b>45526.23</b>
04 PRIMATURE	105.34
07 MININTER	132.44
0701 NATIONAL POLICE	6801.93
09 MINAGRI	165.37
10 MINICOM	269.98
11 MINISTR	150.60
1102 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION	63.20
14 MINEDUC	579.47
140- DECENTRALISE EDUCATION	22559.75
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER CNDP	205.16
1402 GENERAL INSPECTION OF EDUCATION (IGE)	163.16
1403 RWANDA NATIONAL COMMISSION FOR UNESCO CNRU	52.31
1404 NATIONAL TEACHER COMMISSION TSC	94.39
1405 NATIONAL EXAMINATION COUNCIL	378.29
1433 TUMBA COLLEGE OF TECHNOLOGY	222.00
1434 NYANZA COLLEGE OF TECHNOLOGY	120.00
1435 KICUKIRO COLLEGE OF TECHNOLOGY	222.00
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	218.84
1437 KAVUMU NATIONAL COLLEGE OF EDUCATION	218.84
15 MIJESPOC	84.81
16 MINISANTE	637.59
160- DECENTRALISE SANTE	10621.00
18 MININFRA	63.45
20 MIFOTRA	579.50
2200 MINITERE	203.84
23 MINALOC	253.82
230- DECENTRALISE MINALOC	359.15
<b>2. GOODS AND SERVICES</b>	<b>42913.78</b>
04 PRIMATURE	267.84
07 MININTER	211.15
0701 NATIONAL POLICE	3245.33
0702 NATIONAL PRISON SERVICE	139.30
09 MINAGRI	384.19
090- DECENTRALISE AGRICULTURE	57.50
10 MINICOM	1201.61
100- DECENTRALISE COMMERCE	112.00
11 MINISTR	627.70
1102 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION	50.40
14 MINEDUC	9497.71
140- DECENTRALISE EDUCATION	136.31
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER CNDP	5795.00
1402 GENERAL INSPECTION OF EDUCATION (IGE)	77.70
1408 UNR (NATIONAL UNIVERSITY OF RWANDA)	47.04
1409 KIST (KIGALI INSTITUTE OF SCIENCE AND TECHNOLOGY)	19.92
1410 KIE (KIGALI INSTITUTE OF EDUCATION)	88.40
1412 ISAE (HIGHER INSTITUTE OF AGRICULTURE)	39.84
1433 TUMBA COLLEGE OF TECHNOLOGY	331.00
1434 NYANZA COLLEGE OF TECHNOLOGY	330.00
1435 KICUKIRO COLLEGE OF TECHNOLOGY	518.00
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	553.00
1437 KAVUMU NATIONAL COLLEGE OF EDUCATION	452.00
15 MIJESPOC	266.70
150- DECENTRALISE MIJESPOC	78.00
16 MINISANTE	3882.75
160- DECENTRALISE SANTE	1801.73
1603 KING FAYCAL HOSPITAL (HRF)	350.00
18 MININFRA	6543.45
180- DECENTRALISE MININFRA	99.90
20 MIFOTRA	510.25
220- DECENTRALISE MINITERRE	1455.30
2200 MINITERE	1179.59
23 MINALOC	1916.99
230- DECENTRALISE MINALOC	439.87
56 NGOMA	13.02
57 BUGESERA	11.17

**Priority Spending, 2008 (continued)**  
(In million of Rwanda Francs)

	2008
<b>2. GOODS AND SERVICES (continued)</b>	
58 GATSIBO	6.75
59 KAYONZA	3.10
60 KIREHE	4.25
61 NYAGATARE	4.25
62 RWAMAGANA	4.25
63 HUYE	6.40
64 NYAMAGABE	6.56
65 GISAGARA	4.25
66 MUHANGA	10.89
67 KAMONYI	5.60
68 NYANZA	7.50
69 NYARUGURU	4.25
70 RUSIZI	14.25
71 NYABIHU	3.10
72 RUBAVU	16.96
73 KARONGI	8.80
74 NGORORERO	5.41
75 NYAMASHEKE	3.10
76 RUTSIRO	3.10
77 BURERA	6.56
78 GICUMBI	11.17
79 MUSANZE	5.41
80 RULINDO	5.05
81 GAKENKE	3.10
82 RUHANGO	3.10
83 NYARUGENGE	12.56
84 KICUKIRO	9.30
85 GASABO	3.10
<b>3. TRANSFER AND SUBSIDIES</b>	<b>99744.20</b>
04 PRIMATURE	17.31
070- DECENTRALISE PRISON	1318.76
0701 NATIONAL POLICE	70.00
0702 NATIONAL PRISON SERVICE	2116.02
090- DECENTRALISE AGRICULTURE	955.50
0901 OFFICE RWANDAIS DE DEVELOPPEMENT DES RESSOURCES ANIMALES ( RARDA )	905.21
0902 INSTITUT DES SCIENCES AGRONOMIQUES DU RWANDA (ISAR)	1693.72
0903 OFFICE RWANDAIS DE DEVELOPPEMENT DE L AGRICULTURE (RADA)	937.32
0904 OFFICE RWANDAIS DE DEVELOPPEMENT DE L'HORTICULTURE (RHODA)	477.99
10 MINICOM	1044.42
100- DECENTRALISE COMMERCE	168.00
1002 RWANDA BUREAU OF STANDARDS	1062.24
1003 RWANDA INVESTMENT AND EXPORT PROMOTION AGENCY	2142.00
11 MINISTR	10.00
1101 RWANDA INFORMATION TECHNOLOGY AUTHORITY (RITA)	2497.90
1103 IRST (INSTITUTE OF SCIENTIFIC AND TECHNOLOGICAL RESEARCH)	1136.19
14 MINEDUC	934.57
140- DECENTRALISE EDUCATION	18436.39
1403 RWANDA NATIONAL COMMISSION FOR UNESCO CNRU	96.01
1404 NATIONAL TEACHER COMMISSION TSC	253.61
1405 NATIONAL EXAMINATION COUNCIL	15.27
1406 NATIONAL COUNCIL FOR HIGHER EDUCATION (NCHE)	199.50
1407 SFAR (STUDENT FINANCING AGENCY OF RWANDA)	13310.06
1408 UNR (NATIONAL UNIVERSITY OF RWANDA)	1749.49
1409 KIST (KIGALI INSTITUTE OF SCIENCE AND TECHNOLOGY)	960.08
1410 KIE (KIGALI INSTITUTE OF EDUCATION)	594.96
1411 KHI (KIGALI HEALTH INSTITUTE)	476.75
1412 ISAE (HIGHER INSTITUTE OF AGRICULTURE)	464.91
1413 SFB (SCHOOL OF FINANCE AND BANKING)	354.62
1433 TUMBA COLLEGE OF TECHNOLOGY	40.00
15 MIJESPOC	4.70
1501 NATIONAL COMMISSION FOR THE FIGHT AGAINST GENOCIDE	322.58
1503 RWANDA NATIONAL MUSEUM	594.11
1504 PAN AFRICAN ORGANISATION OF YOUTH AGAINST AIDS	24.40

**Priority Spending, 2008 (continued)**  
(In million of Rwanda Francs)

	<b>2008</b>
<b>3. TRANSFER AND SUBSIDIES (continued)</b>	
16 MINISANTE	5129.67
160- DECENTRALISE SANTE	12200.00
1601 CENTRAL UNIVERSITY HOSPITAL OF KIGALI (CHUK)	790.78
1602 CENTRAL UNIVERSITY HOSPITAL OF BUTARE (CHUB)	649.55
1603 KING FAYCAL HOSPITAL (HRF)	1737.37
1604 NEURO PSYCHIATRIC HOSPITAL OF NDERA (HNN)	330.14
1605 PSYCHOSOCIAL CONSULTATION SERVICE (SCPS)	125.58
1606 RESEARCH CENTER FOR AIDS, MALARIA AND TUBERCULOSIS TREATMENT (TRAC)	371.52
1607 NATIONAL REFERAL LABORATORY(LNR)	227.92
1611 NATIONAL BLOOD TRANSFUSION PROGRAMME (PNTS)	203.72
1612 NATIONAL COMMISSION FOR THE FIGHT AGAINST AIDS (CNLS)	278.63
1613 RWANDA PHARMACEUTICAL LABORATORY (LABOPHAR)	182.70
18 MININFRA	13813.50
180- DECENTRALISE MININFRA	3500.00
20 MIFOTRA	95.71
2001 RWANDA INSTITUTE OF ADMINISTRATION AND MANAGEMENT (RIAM)	70.00
2009 CIVIL SERVICE COMMISSION	80.00
2012 PROFESSIONAL TRAINING CENTER OF KAVUMU	97.00
2200 MINITERE	244.91
2217 NATIONAL LAND OFFICE	632.99
2218 NATIONAL FOREST OFFICE	415.76
2219 NATIONAL MINING AND GEOLOGY OFFICE	448.88
2232 NATIONAL WATER AGENCY	256.28
23 MINALOC	898.16
230- DECENTRALISE MINALOC	1015.52
2302 POLITICAL CONSULTATIVE FORUM	563.32
<b>7.1 DEVELOPMENT BUDGET</b>	<b>79289.67</b>
04 PRIMATURE	100.00
07 MININTER	1212.00
09 MINAGRI	5635.09
10 MINICOM	1834.00
11 MINISTR	9848.50
12 MINECOFIN	1570.00
14 MINEDUC	14325.00
15 MIJESPOC	370.00
16 MINISANTE	1267.28
18 MININFRA	21622.00
20 MIFOTRA	496.30
22 MINITERE	11617.70
23 MINALOC	9391.80
<b>7.2 NET LENDING</b>	<b>2800.00</b>
12 GAZ METHANE	2800.00
<b>9. EXCEPTIONAL EXPENDITURE</b>	<b>4816.29</b>
2301 ELECTORAL COMMISSION	4816.29
<b>Total :</b>	<b>275090.17</b>

**Table 3. Reporting Requirements for Surveillance**

	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange Rates	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</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>2</sup>	M	M	M
Consumer Price Index	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	A	A	A
External Current Account Balance	A	SA	A
Exports and Imports of Goods and Services	A	A	A
GDP/GNP	A	SA	A
Gross External Debt			

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I); Not Available