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

May 24, 2013

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 a policy support instrument 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.

Letter of Intent

Kigali, Rwanda

May 24, 2013

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

Dear Ms. Lagarde,

The attached memorandum of economic and financial policies (MEFP) is an update of the previous MEFP and sets out the macroeconomic policies of the Rwandan government for the remainder of fiscal year 2012/13 and fiscal year 2013/14.

Despite challenging circumstances caused by a reduction and delays in budget support economic and program performance have remained satisfactory. In 2012, GDP growth was 8 percent while inflation was subdued.

As described in the MEFP, all but two quantitative assessment criteria (QAC) for the sixth review were met; the target on net foreign assets (NFA) was missed by a small margin because of the strong market demand for foreign exchange and reduced aid inflows. The continuous QAC on non-concessional borrowing was breached following the issuance of the augmented euro bond in April 2013. Two indicative targets (on domestic arrears and consolidated government debt) were also missed because of the government's constrained cash position. All but one of structural benchmarks have been met, the exception being the one on the design of the integrated financial management information system (IFMIS), which has proven more complex than anticipated.

The government is committed to taking measures to correct the underlying problems that led to the slippages and protect the objectives of the program, including reversing the domestic arrears that were accrued during the second half of 2012, allowing greater exchange rate flexibility with a view to bringing the spread between the official and market exchange rates to the levels prevailing before mid-2012, and preserving an adequate level of international reserves.

As part of its proactive debt management strategy and in order to complete a strategic investment project, the government issued a US\$400 million euro bond in April. The proceeds of the bond are earmarked for the retirement of two expensive government-guaranteed loans, and fund the completion of the Kigali Convention Center and an important hydro-power project.

In light of satisfactory performance and commitment to sound policies, the government requests

the completion of the sixth review under the PSI. The government, therefore, requests waivers for the non-observance for the missed QACs on NFA at end-December and non-concessional borrowing. The government also requests an extension of the PSI by seven months to enable it to further develop policies that can underpin another medium-term program that could be supported by the IMF and approval of quantitative targets for end-June and end-December 2013 and structural benchmarks for this period, as set out in the attached MEFP.

The government is confident that the policies and measures set forth in the MEFP will deliver the objectives of the PSI-supported program 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 policies described in the attached memorandum.

The government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the next review will take place before end-December 2013.

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

Sincerely yours,

/s/

Claver Gatete

Minister of Finance and Economic Planning

/s/

John Rwangombwa

Governor, National Bank of Rwanda

Attachment I. Rwanda: Memorandum of Economic and Financial Policies

May 24, 2013

Update

1. This MEFP update reviews performance under the PSI-supported program through end-December 2012 and discusses the macroeconomic outlook and policies for 2013 and FY2013/14, and describes quantitative and structural targets for end-June and end-December 2013.

Recent Economic and Policy Performance

2. **Introduction.** Fiscal and monetary policy implementation in the July-December 2012 period was complicated by the suspension of aid by some donors and delays in the approval of disbursements by others. Moreover, the issuance of the euro bond that had been planned for December had to be delayed in face of the uncertainty about donor support. As a result, substantially lower resources flowed into the budget and the international reserves than expected with adverse effects on budget execution and foreign exchange operations. However, the National Bank of Rwanda (NBR) was able to draw on its healthy reserve buffer accumulated by end2011 to partially shield the economy from the adverse shocks to aid inflows.

3. **Growth, inflation, and the external balance.** Despite a modest slowdown in the second half of the year, real GDP growth in 2012 was 8 percent, largely driven by the expansion of the service sector, particularly communication and transport activities, which expanded by 19 percent. In industry, construction recorded a robust growth of 15 percent. The robust growth in the services and industry sectors benefitted from an expansion in private sector credit amounting to 34 percent. Agricultural production, mainly of food crops, grew by 3 percent largely due to on-going investment under the Crops Intensification Program (CIP). However, the production of export crops (tea and coffee) declined by 9 percent on account of adverse cyclical weather conditions. Inflation, both headline and core, also slowed sharply in the second half of the 2012 with the former standing at 3.9 percent year-on-year in December and the latter at 2.5 percent. In March 2013, headline inflation was 3.3 percent and core inflation 4.8 percent. The impact of the depreciation of the Rwandan franc of more than 5 percent since the beginning of 2012 has partly been offset by the rapid deceleration in inflation in the region, notably in Kenya and Uganda. On the external front, import growth slowed in the last quarter of 2012 but the suspension and delays in aid disbursements together with strong import growth at the beginning of the year led to deterioration in the overall balance of payments and a loss of reserves, equivalent to about 1.1 months of prospective imports.

4. **Fiscal developments.** Fiscal policy implementation, which is guided by the need to limit domestic financing to allow for adequate private sector credit growth, has been complicated by the suspension and delays in the delivery of budget support funds. Domestic revenue collections in the

July-December 2012 period, at RWF 346.2 billion, were marginally higher than projected in October. A small shortfall in tax collections, particularly of consumption taxes (VAT and excise taxes) in December, was offset by an over-performance of non-tax revenue collections, mainly of administrative fees and charges. Grant disbursements in this period were RWF 44.4 billion (0.9 percent of GDP) lower than the October assumption, with expected budget support grants from DFID and the Netherlands amounting to RWF 25.3 billion and project grants of RWF 19.2 billion not disbursed. The shortfall in project grants was mainly the result of delays in some energy sector projects. Excluding the net lending operations planned in connection with the euro bond, total expenditure and net lending, at RWF 596.8 billion, exceeded the October target by RWF 13 billion despite expenditure restraint across most current spending items and a shortfall in mostly foreign-financed capital spending. The reason for this is that transfers to public institutions and local governments exceeded the target by RWF 31.3 billion, mainly on account of a front-loading of subsidies to the Energy, Water and Sanitation Authority (EWSA) for the purchase of fuel and other related expenditures. As a result of the budget support shortfall and the overspending on transfers, the government had to draw on its central bank overdraft facility, was unable to retire the amount of short-term treasury bills issued for cash-flow purposes in order to reduce the outstanding stocks to the planned level, and was forced to delay the payment of some bills, which resulted in the recording of arrears (defined as the difference between commitments and payments, or essentially a float) of RWF 34.4 billion (0.7 percent of GDP) at end-2012. This represents the first time in many years that arrears have accrued. Net domestic financing was nevertheless negative by RWF 46.8 billion, which reflected the accumulation of deposits in various project accounts, including for the Global Fund. The use of the overdraft and the rollover of treasury bills caused the consolidated domestic debt of the government to marginally exceed target.

5. **Monetary and exchange rate developments.** The NBR continues to orient its monetary policy toward limiting the risk of monetary inflation. In the context of uncertainty about donor support, as well as about global and regional developments, the NBR has tightened its policy stance. While the key repo rate has been kept unchanged at 7.5 percent since May 2012, the slowdown in inflation has caused real rates to become significantly positive. The government's need for Treasury bill issuance in the second half of 2012 also exerted upward pressure on market rates, particularly the interbank and deposit rates, while the impact on lending rates has been more muted. The shortfall in aid inflows has hampered the ability of the NBR to continue meeting market demand for foreign exchange, leading to a depreciation of 4.5 percent over 2012, compared with 1.6 percent recorded the previous year. Moreover, lower aid inflows and reduced NBR sales of foreign exchange caused the emergence of a spread of about 5 percent between the official exchange rate and that of the foreign exchange bureaus. In terms of monetary aggregates, while reserve money growth was in line with target, broad money growth, at 14 percent to end-December 2012, was well below the projection of 16.5 percent consistent with the observed slow-down in economic activity on account of the suspension/delays in aid disbursements. The composition of broad money growth also differed from projections, with net domestic assets expanding sharply, reflecting private sector credit growth of 33.8 percent in 2012, while net foreign assets declined by 17.2 percent as the NBR attempted to meet market demand for foreign exchange.

6. **The implementation of the reserve money program has been improved since November 2012 with the more flexible framework of a reserve money band.** The end-December 2012 reserve money target was achieved without any challenge, underscoring the effectiveness of the new framework.

7. **Program performance.** All but one of the quantitative assessment criteria (QAC) for end-December 2012 (Table 1) were met. The QAC on net foreign assets was missed by a small margin (about 6 percent of the stock of net foreign assets) because of the shortfall in aid and the pressures in the foreign exchange market discussed above. The continuous QAC on non-concessional borrowing was also breached with the issuance of US\$ 50 million larger euro-bond in April than previously agreed. All but two of the quantitative indicative targets were met. The targets for consolidated government debt and domestic arrears were missed for the reasons discussed above. All the structural benchmarks associated with the review (Table 2) were met, except the one on the determination of the technical specifications for the IFMIS which has turned out to be more complex than anticipated. The target date for this structural benchmark has been reset for end-September 2013.

Macroeconomic Outlook and Policy for 2013 and FY2013/14

8. **Outlook.** With prospects for donor support in the January-June 2013 period greatly improved and declining uncertainty about such support for FY2013/14, albeit at a lower level than previously expected, the government expects real GDP growth to ease only moderately in 2013, to 7.5 percent. The impact of tighter fiscal and monetary policies on the service sector is expected to be partly offset by the strong performance of agriculture, for which the first harvest of the year was good, as well as from the industry sector, particularly electricity and gas and construction on account of expected public investment in these areas. With less support from decelerating inflation in the region, headline inflation is projected to gradually rise to 7.5 percent by end-2013.

9. **Regarding the external sector, despite the strong growth in imports, especially of capital and intermediate goods to support public investment, the current account deficit is projected to decline slightly from 11.4 percent of GDP in 2012 to 11.3 percent in 2013.** In the face of uncertainties regarding the flow of budgetary grants, the increase in imports will be financed with capital grants and loans including the receipts from the sovereign bonds. The overall balance of payments is expected to improve relative to 2012, with nominal reserves at end-2013 a little higher than at end-2012.

10. **Relative to the original budget, disbursements of budget support (including loans) for FY2012/13 are now expected to be RWF 54.2 billion (1.2 percent of GDP) lower.** To meet this resource gap, the government has in its revised budget cut current spending allocations across line ministries and public institutions to preserve the overall fiscal deficit target of the original budget (excluding net lending and capital spending operations related to the euro bond). With the World Bank, AfDB, and DFID resuming sector budget support disbursements, most of the contingent spending identified in the revised budget will be implemented. Moreover, the arrears recorded at

end-2012, already reduced by two-thirds by end-March 2013, will be eliminated by the end of the fiscal year. The proceeds from the euro bond issued in late April, amounting to RWF 259.4 billion (US\$ 400 million), will be used as previously agreed with the Fund to retire expensive government-guaranteed loans for Rwandair and the Kigali Conference Centre, fund the completion of the Kigali Convention Centre, as well as fund on-going work in the energy sector (Nyabarongo hydro-power project) to generate 28 megawatts of electric power by end-June 2014. These expenditures have been included in the fiscal framework for fiscal year 2013/2014.

11. The fiscal framework for FY2013/14 takes into account the lower budget support than previously expected through adjustments in previously indicated spending targets. In the face of declining aid, the government is determined to increase over time domestic revenue mobilization in support of its development agenda. To this end, it is committed to preparing a comprehensive revenue mobilization plan by end-June 2013 (new structural benchmark). For FY2013/2014, tax revenue collections are projected to rise by 0.2 percent of GDP, from RWF 641.2 billion (13.7 percent of GDP) to RWF 749.1 billion (13.9 percent of GDP). The Government will implement the following revenue measures to achieve its resource mobilization objective:

- Review of Investment Code—removal of exemptions regarding duties on importation of construction materials and employment tax discounts;
- Introduce a royalty tax on mining;
- Renegotiate the double taxation avoidance agreement with Mauritius;
- Enhance VAT collection with implementation of electronic billing machines.

These measures are expected to yield revenue amounting 1 percent of GDP in 2013/2014. On the expenditure side, total expenditure and net lending at 29.2 percent of GDP is 1.3 percentage points of GDP lower than the 30.4 percent of GDP in 2012/2013. Whilst capital spending at RWF 744.5 billion (13.8 percent of GDP) is higher than the RWF 625 billion (13.4 percent of GDP) in 2012/2013 on account of higher project loans and grants disbursements to support the projected growth, reprioritization of spending under recurrent expenditure accounts for the decline in total spending. This not only reflects the fiscal consolidation policy of the Government but also takes into account the decline in external budget support funds. The overall deficit (including grants), which amounted to 5.9 percent of GDP in 2012/2013, is projected to decline slightly, to 5.4 percent of GDP in 2013/2014. New domestic cash finance of the 2013/2014 budget will amount to RWF 30.3 billion (0.6 percent) of GDP.

12. Monetary and Exchange Rate Policies. The NBR will maintain a prudent stance of monetary policy in the course of 2013 that will restrain the growth of credit and the demand for foreign exchange. The reserve money program targets have been set accordingly, with private sector credit growth in 2013 projected to be less than half of that in 2012. The exchange rate will remain market driven and NBR will allow greater exchange rate flexibility by strengthening the

implementation of the exchange rate corridor system. This will contribute to bringing the spread between the official and market exchange rates to below 2 percent, the level prevailing before mid-2012 and enable NBR to keep official reserves above a minimum level of 4 months of prospective imports (CIF).

13. **Monetary Policy Framework.** To improve the monetary policy transmission mechanism, the NBR will continue implementing the flexible monetary targeting framework of a reserve money band of +/- 2 percent around a central reserve money target. In this framework, the NBR will continue targeting the center of the reserve money band, while the PSI quantitative assessment criterion on reserve money will remain the upper limit of the band.

14. **Key financial sector measures that are in the pipeline include:**

The NBR will;

- Review the existing regulatory framework: NBR Law and banking law and prepare a deposit insurance law. Thereafter, update related regulations and guidance as well as developing new regulations and other supervisory tools to implement the concerned laws. In addition, the NBR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision. In this regard, quarterly prudential meetings will continuously be held with banks and ten (10) on-site inspections are planned for the year 2013. Capacity building for bank examiners will be strengthened through various actions including recruitment of new staff and trainings;
- Strengthen SACCOs by consolidating them into a cooperative bank. The implementation action plan was elaborated in two phases. Step 1: SACCOs will be consolidated at district level by end December 2013. Step 2: All SACCOs will be consolidated to form a cooperative bank at national level by end December 2014. The consolidation roadmap, which is an NBR top priority in 2013/2014, includes the program of enhancing the institutional capacity of SACCOs and their management information systems (MIS), specifically the automation of their operations.

15. **Program issues.** Table 1 contains new end-June 2013 QACs for a seventh review under the extended PSI and new indicative targets for end-June and end-December 2013 consistent with the macroeconomic framework described herein and agreed with IMF staff. Table 2 includes the new structural benchmark discussed above.

16. **EDPRS2.** The Government just finalized the development of the Second Economic Development and Poverty Reduction Strategy (EDPRS2) which will guide Rwanda's medium-term development aspirations over the next five years beginning in July 2013 and ending in June 2018. Its key ambitions include accelerating poverty reduction from its current level of 44.9 percent to less than 30 percent of the population, and generating rapid, sustainable and inclusive growth. To achieve these targets, the EDPRS 2 targets four thematic areas: Economic Transformation, Rural Development, Productivity and Youth Employment and Accountable Governance. EDPRS 2

emphasises that the emergence of a vibrant export oriented private sector will be the driver of development over the next five years.

Table 1. Quantitative Assessment Criteria and Indicative Targets¹
(Billions of Rwandan francs, unless otherwise indicated)

	Dec. 2012 Targets	Dec. 2012 Adj. targets	Dec. 2012 Actual	Difference	Status	June 2013 Targets	Dec. 2013 Targets
Assessment criteria²							
Net foreign assets of the NBR at program exchange rate (floor on stock) ^{3,4}	618.8	418.4	396.1	-22.3	Not met	542.7	483.6
Reserve money (ceiling on stock) (upper bound) ⁵	188.4	188.4	179.4	-9.0	Met	203.9	218.0
Reserve money (ceiling on stock) ⁵	184.7					199.9	213.7
Reserve money (ceiling on stock) (lower bound) ⁵	181.0					195.9	209.5
Net domestic financing (ceiling on flow) ^{4,6}	-60.0	98.0	91.6	-6.4	Met	-58.4	-10.9
New nonconcessional and government guaranteed external debt (US\$ millions) (ceiling on stock) ⁷	605.0	255.0	239.5	-15.5	Not met	655.0	655.0
External payment arrears (US\$ millions) (ceiling on stock) ⁷	0.0	0.0	0.0	0.0	Met	0.0	0.0
Indicative targets							
Domestic revenue collection (floor on flow) ⁶	653.5	653.5	653.8	0.3	Met	361.5	769.8
Net accumulation of domestic arrears (ceiling on flow) ⁶	-9.8	-9.8	28.6	38.4	Not met	-42.4	-47.0
Consolidated domestic debt of public sector (ceiling on stock, eop) ^{4,8}	189.3	208.4	244.9	36.5	Not met	313.8	260.8
Total priority spending (floor on flow) ⁶	497.0	497.0	572.7	75.7	Met	280.9	569.3
Memorandum items:							
Total budget support (US\$ millions) ^{6,9}	422.9		391.4	-31.5		260.3	460.9
Budget support grants (US\$ millions)	409.5		377.9	-31.6		246.8	447.4
General budget grants (US\$ millions) ¹⁰	279.5		231.0	-48.5		146.8	311.1
Grants from Global Fund (US\$ millions)	130.0		146.9	16.9		100.0	136.3
Budget support (loans, US\$ millions)	13.4		13.4	0.0		13.5	13.5
Euro bond (US\$ millions)	350.0		0.0			400.0	400.0
Unused euro bond proceeds (US\$ millions)						180.0	70.0
Encumbered reserve assets (US\$ millions)	0.0		70.2	70.2		0.0	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

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

² Assessment criteria are for December 2012 and June 2013, otherwise indicative targets.

³ All numbers are at the program exchange rate of RWF 604.14 per U.S. dollar.

⁴ Subject to adjusters. See TMU for details.

⁵ Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. Assessment criterion applies to upper bound only. See TMU for details.

⁶ Numbers for 2012 are cumulative from 12/31/2011, and those for 2013 are cumulative from 12/31/2012.

⁷ This continuous assessment criterion was met at end-December 2012 but was breached by the issuance of a US\$400 million euro bond in April 2013.

⁸ Excluding NBR's debt issued for monetary policy purposes, starting on September 2010. See TMU for details.

⁹ Excluding demobilization and African Union peace keeping operations, HIPC grant, and COMESA compensation grant (except as noted in footnote 10).

¹⁰ Includes payments for peace keeping and demobilization for the first half of 2012.

Table 2. Structural Benchmarks

Policy Measure	Target Date	Macroeconomic rationale	Status
PFM			
1. Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System.	End-April 2013	To improve budget preparation, implementation and reporting	Not met. Re-phased to end-September 2013
Fiscal Performance			
2. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially the quarterly budget execution reports will exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Met
3. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers.	End-January 2013	To improve VAT buoyancy.	Met
4. Submit to cabinet revised investment code with a view to streamlining exemptions	End-November 2012	To improve revenue performance.	Met
Financial sector			
5. Complete the rating of SACCOs and selection of those that qualify for consolidation at district level.	End-December 2012	To expedite supervision of the Umurenge SACCOs	Met
External sector			
6. Submit to the Industrial Development and Export Council a financing plan for the National Export Strategy.	End-December 2012	To widen the export base of Rwanda	Met
New structural benchmark for seventh review			
7. MINECOFIN/RRA to prepare a medium-term revenue mobilization plan.	End-June 2013	To increase tax revenue mobilization.	

Attachment II. Technical Memorandum of Understanding

May 24, 2013

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–January 31, 2014 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 13/77.

I. Quantitative Program Targets

2. The quantitative program will be assessed through assessment criteria (AC) and indicative targets (IT) for the duration of the program.
3. AC will apply to the following indicators for June 30, 2013 (the test date) throughout the program period; other dates are IT:
 - Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
 - Ceiling on stock of reserve money;
 - Ceiling on flow of net domestic financing (NDF) of the central government;
 - Ceiling on contracting or guaranteeing of new non-concessional external debt by the public sector; and
 - Ceiling on stock of external payment arrears of the public sector.
4. IT targets apply to the following indicators throughout the program period:
 - Floor on flow of domestic revenue collection of the central government;
 - Ceiling on flow of net accumulation of domestic arrears of the central government;
 - Ceiling on stock of consolidated domestic debt of the public sector; and
 - Floor on flow of priority spending.
5. Assessment criteria on contracting or guaranteeing of new non-concessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates.** For accounting purposes, the following program exchange rates, which are end-December 2011 rates, apply for 2013:

Program Exchange Rates (US\$ per currency unit, unless indicated otherwise)	
	2013
Rwanda Franc (per US\$)	604.1410
Euro	1.2866
British Pound	1.5371
Japanese Yen (per US\$)	77.7899
SDR	1.5348

A. Institutional Coverage of the Fiscal Sector

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

B. Targets Related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. **A ceiling applies to NDF.** The ceiling for June30, 2013 is cumulatively measured from December 31, 2012 is indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP.

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

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

- Consolidated credit to the government from the banking system (NBR and commercial banks, as recorded in the monetary survey), including credit to the government, provinces and districts. The outstanding consolidated government debt held by the banking system,¹ includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the prewar government and the 1995 devaluation², as well as the current

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

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

overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

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

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

Adjusters to NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants³ (defined in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP), up to a maximum of US\$80 million, evaluated in Rwandan francs at the program exchange rate.
- The ceiling on NDF will be adjusted downward by the extent to which in Rwandan francs at the program exchange rate the unused proceeds of the US\$400 million euro bond issued in April 2013 exceed US\$180 million by end-June 2013 and by US\$70 million by end-December 2013.
- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

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

³ Budgetary grants exclude COMESA and HIPC grants, but include Global Fund.

Floor on flow of domestic revenues

13. A floor applies to domestic revenue. The floor for June 30, 2013 and December 31, 2013 is cumulatively measured from December 31, 2012.
14. **Definition.** The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, and privatization receipts.
15. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

Floor on priority expenditure

16. The floor applies to priority spending of the government. The floor for June 30, 2013 and December 31, 2013 is cumulatively measured from December 31, 2012. Other dates are indicative targets.
17. **Definition.** Priority expenditure is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the EDPRS. Priority expenditure is monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.
18. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government

19. A ceiling applies to net accumulation of domestic arrears of the government.⁴ The ceiling for June 30, 2013 and December 31, 2013 is cumulatively measured from December 31, 2012.
20. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of float during the review year and the repayment of older arrears).
21. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous year's stock of arrears will be transmitted on a monthly basis within five weeks of the end of each month.

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

C. Limits on External Debt

Limit on new non-concessional external debt of the public sector

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP which applies continuously from end-June 2010 to end-January 2014; it excludes the swap agreement of US\$50 million signed in November 2009 between the NBR and the IFC, a loan of US\$13.1 million for the purchase of two air planes in 2009, and euro 8 million for loan contracted by the BRD from the European Investment Bank in September 2011. The ceiling also excludes non-concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

23. **Definition of the public sector.** The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake—owning more than 50 percent of the shares or the ability to determine general corporate policy.⁵ This definition of public sector excludes the Bank of Kigali.

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

25. **Definition of concessionality.** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.⁶ The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published

⁵ Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

⁶ The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

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

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a

contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears

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

Consolidated Domestic Debt of the Public Sector (DD)

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

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 11), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 11.
- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency.

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

D. Targets for Monetary Aggregates

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

30. A floor applies to the NFA of the NBR for June 30, 2013 and December 31, 2013.

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

resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/ECF disbursements).

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants per Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. This adjustment will be capped at the equivalent of US\$80 million, evaluated in Rwanda francs at the program exchange rate.
- The floor on NFA will be adjusted downward (upward) by the extent to which actual encumbered reserve assets are lower (higher) than programmed encumbered reserve assets, evaluated in Rwandan francs at the program exchange rate.⁷
- The floor on NFA will be adjusted upward by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US\$400 million euro bond issued in April 2013 exceed US\$180 million by end-June 2013 and by US\$70 million by end-December 2013.
- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency, evaluated in Rwanda francs at the program exchange rate.

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

Reserve money

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

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

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

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

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

II. Other Data Reporting Requirements

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in TMU Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.
39. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any non-concessional external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in TMU Table 1. The information should be mailed electronically to the Fund. (email: afrwa@imf.org).

TMU Table 1. Summary of Reporting Requirements

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

External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

¹ Includes the official rate; Forex Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the NBR.

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

⁴ One-week ahead forecasts of liquidity submitted on weekly basis. For example, in reporting data as of the last week of April, liquidity forecasts for the first week of May should be reported. The forecasted liquidity should be classified by net foreign assets, net credit to government, nongovernment credit, reserve money, currency in circulation, net credit to commercial banks broken down into discount window and money market (absorption or injection), and other item net.

⁵ Includes General Index; Local Goods Index; Imported Goods Index; Fresh Products Index; Energy Index; General Index excluding Fresh Products and Energy; and their breakdowns as published by the NISR.

⁶ Foreign, domestic bank, and domestic nonbank financing.

⁷ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁸ Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.

⁹ Includes debts of the Bank of Kigali. Also includes currency and maturity composition.

¹⁰ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).