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Press Release:
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December 2, 2013

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

November 12, 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 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.

LETTER OF INTENT

Kigali, Rwanda November 12, 2013

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

Dear Ms. Lagarde,

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

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

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

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

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

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

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

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

Sincerely yours,

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

Attachment I. Memorandum of Economic and Financial Policies

November 12, 2013

I. INTRODUCTION

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

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

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth and inflation

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

External Sector

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

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

Fiscal developments

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

Monetary and exchange rate developments

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

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

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

Program performance

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

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

Growth and inflation outlook

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

2013/14 revised budget

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

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

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

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

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

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

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

IFMIS Implementation

12. The Government has been undertaking a number of public financial management (PFM) reforms with the IFMIS implementation being one of the major undertakings under the Government

PFM reform strategy (2008–12). To-date the IFMIS has been successfully implemented in over 200[1] government entities. With this effort, the integrated financial management information system (IFMIS) now forms the centre piece of the government financial management processes for budget preparation, budget execution, accounting and financial reporting. The current IFMIS has involved the implementation of core functionalities (budget preparation, accounts payable; accounts receivable and general ledger) and currently the government is in the process of building on the success realized so far by extending the system to the remaining government entities and this is considered a key component of the PFM strategy for 2013-18. The greatest impact of the system so far has been the provision of quality financial management information to support policy and decision making in government. Online budget preparation is possible and faster for the entities that are online. Online control over budget ceilings is also possible. Quality of budget reports has significantly improved. Production of financial reports by the Budget Directorate, Accountant General's Office and the budget agencies is now performed with ease, speed and accuracy. Sectors and entities that are online are able to make faster and informed expenditure decisions. The Ministry of Finance and Economic Planning (MINECOFIN) is able to upload the budget execution module with the approved budget figures automatically from the budget preparation module (Budget Master), which has not only improved operational efficiency in MINECOFIN, but has facilitated the enforcement of commitment controls as well as increasing fiscal discipline. Donor confidence in the financial and fiscal system of the Government has also increased. However, the Government recognizes that the full extent of benefits that an IFMIS is capable of delivering are yet to be achieved. Accordingly, the Government plans to expand the IFMIS activities further by extending the IFMIS to the independent projects with a plan to cover at least twenty of the projects by the end of December 2014 (structural benchmark).

Monetary and exchange rate policies

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

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

prevailing before mid-2012 and to keep official reserves around a minimum level of 4 months of prospective imports of goods.

IV. Objectives for the Three-Year PSI Period

V. New Three-Year PSI

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

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

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

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

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

[2] Latest EICV data are dated 2011.

- Financial sector development: Financial sector development is the fourth pillar of the program as deepening financial inclusion is seen as a means to further ensure connection of the population to the market while increasing monetization of the economy. The financial sector development program (under the second financial sector development program—FSDP2) will also include a financial literacy campaign that emphasizes increased saving. Finally, deepening financial reforms and strengthening capital markets is expected to allow mobilization of cheaper resources for private sector investment to flourish.

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

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

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

External sector development

19. On the external front, public investment complemented with appropriate private sector finance, including foreign direct investment and private investment in the non-traditional commodities areas, are expected to contribute to robust increase in export earnings in the period 2013–2016. The growth in commodities will be complemented by a robust growth in services, particularly in tourism. However, as a result of the strong growth in imports, particularly of capital and intermediate goods to support both public and private sector investment, the current account deficit is projected to remain above 10 percent until 2015, before declining to 8.4 percent of GDP in 2016. In order to mitigate possible temporary external shocks, official reserves will be maintained at not less than 4 months of prospective imports of goods in the medium term.

Monetary policy

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

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

VI. Macroeconomic and Structural Reform Policies for the Medium term

Sustaining growth and poverty reduction

22. The new PSI is aligned to the Government's recently launched second Economic Development and Poverty Reduction Strategy (EDPRS 2). The dual objective of the EDPRS 2 is to achieve sustained economic growth to bring Rwanda to the brink of middle income country status

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

Financing strategic investments

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

Revenue mobilization

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

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

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

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

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

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

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

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

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

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

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

Public Financial Management

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

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

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

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

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

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

Monetary and exchange rate policy

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

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

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

Financial sector development

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

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

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

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

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

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

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

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

EAC integration

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

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

Program monitoring

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

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

(Billions of Rwandan francs, unless otherwise indicated)

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

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Assessment criteria for NFA, RM, NDF are for end-December 2013 and end-June 2014 but are continuous for NCB and EA.

[3] June 2013 numbers are at the program exchange rate of RWF 604.14 per U.S. dollar. Dec 2013 and June 2014 numbers are at the new program exchange rate of RWF631.41per U.S. dollar.

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

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

[6] Numbers for 2013 are cumulative from 12/31/2012, and those for 2014 are cumulative from 12/31/2013.

[7] Excluding NBR's debt issued for monetary policy purposes. See TMU for details.

[8] Excluding demobilization and African Union peace keeping operations, HIPC grant, and COMESA compensation grant.

[9] For end-December 2013 and end-June 2014, cumulative since end-June 2013.

Table 2. Structural Benchmarks

Policy Measure	Target Date	Macroeconomic rationale	Status
For 7th Review			
Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System	End-September 2013	To improve budget preparation, implementation and reporting	Met
MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Met
MINECOFIN/RRA to prepare a medium term revenue mobilization plan	End-June 2013	To increase tax revenue mobilization.	Met
For New PSI			
Revenue Mobilization			
Prepare tax expenditure budget covering main tax expenditures.	Annually, starting end-June 2014	To enhance revenue mobilization.	
Revise exemption and zero-rating schedules under the VAT-code.	End-June 2014	To enhance revenue mobilization.	
Implement plan for better enforcement of tax payer compliance.	End-June 2014	To enhance revenue mobilization.	
Revise legislation on the taxation of property.	End-Dec 2014	To enhance revenue mobilization.	
Prepare legislative proposal for new tax regime for agriculture.	End-Dec 2014	To enhance revenue mobilization.	
Prepare legislative proposal for new tax regime for mining.	End-Dec 2014	To enhance revenue mobilization.	
Public Financial Management			
Pilot the extension of IFMIS to 20 development projects	End-June 2014	To strengthen budget execution and controls.	
Review the block grant formula on the basis of the Local Government Revenue Potential Study	End-June 2014	To enhance collection of districts own revenues.	
Sub-national entities (416) to produce monthly, quarterly, and annual financial reports using a uniform template.	End-Dec. 2015	To improve comprehensiveness and transparency of intergovernmental transfers.	
Monetary and Exchange Rate Policy			
Prepare plan, based on MCM TA recommendations and NBR assessment, for strengthening monetary and exchange rate operations.	End-March 2014	To strengthen monetary and exchange rate operations and foster greater exchange rate	
Use Treasury bills (or other tradable securities) as the underlying collateral in liquidity absorbing repos.	End-June 2014	To develop money market instruments.	
Issue Treasury bills with maturities of six months and longer as a monetary policy instrument to absorb longer-term liquidity.	End-Dec 2013	To develop money market instruments.	
Start publishing money market rates (interbank, repo, and T-bill)for different maturities bi-weekly.	End-Dec 2013	To develop money market instruments.	
Start publishing quarterly inflation reports.	End-March 2014	To improve transparency of monetary policy.	
Financial Sector Development			
Design a deposit guarantee scheme.	End-June 2014	To increase confidence in banking system.	
Statistics			
NBR to gather high frequency data and undertake economic sentiment surveys.	End-Dec 2013	To improve quality and timeliness of economic data.	

Attachment II. Technical Memorandum of Understanding

As of November 12, 2013

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

I. QUANTITATIVE PROGRAM TARGETS

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

3. AC will apply to the following indicators for December 31, 2013 and June 30, 2014 (the test dates) throughout the program period:

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

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

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

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

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2012 rates, apply for 2013:

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

A. Institutional Coverage of the Fiscal Sector

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

B. Targets Related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government (AC)

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

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

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

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

[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.

overdraft to the pre-war government and the 1995 devaluation [2], as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

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

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

Adjusters to NDF:

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

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

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

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

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

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

Floor on flow of domestic revenues (IT)

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

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

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

Floor on priority expenditure (IT)

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

17. **Definition.** Priority expenditure is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the EDPRS2. Priority expenditure is monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

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

Net accumulation of domestic arrears of the government (IT)

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

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

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

C. Limits on External Debt

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

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with non-residents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP which applies continuously from December 2, 2013 to October 31, 2016. The ceiling also excludes non-concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

23. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake (owning more than 50 percent of the shares or

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

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

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

25. **Definition of concessionality**. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[6] The discount rates used for this purpose is 5 percent.

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

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

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

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

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

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

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

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

Limit on the stock of external payment arrears (AC)

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

Consolidated Domestic Debt of the Public Sector (IT)

28. For program purposes, domestic debt (DD) excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have

been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 11), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 11.
- The ceiling on DD will be adjusted *downward* by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US$400 million euro bond issued in April 2013 exceed US$121.2 million by end-December 2013.
- The ceiling on the DD will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

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

D. Targets for Monetary Aggregates

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

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

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

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants per Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate.

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

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

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

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

Reserve money (AC)

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

35. The stock of reserve money for a given quarter will be calculated as the arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. Daily average of all

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

the three months in the quarter will constitute the actual reserve money to be compared with the target.

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

Adjuster:

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

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

II. OTHER DATA REPORTING REQUIREMENTS

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

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

TMU Table 1. Summary of Reporting Requirements

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

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

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