

**Rwanda: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF), Requests for Waivers of Nonobservance of Performance Criteria, and Request for a New Three-Year Arrangement Under the PRGF—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Rwanda**

In the context of the sixth review under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), requests for waiver of nonobservance of performance criteria and for a new three-year arrangement under the PRGF, the following documents have been released and are included in this package:

- the staff report for the Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF), Requests for Waivers of Nonobservance of Performance Criteria, and Request for a New Three-Year Arrangement Under the PRGF, prepared by a staff team of the IMF, following discussions that ended on April 11, 2006, with the officials of Rwanda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 19, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of May 31, 2006 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its June 5, 2006 discussion of the staff report that completed the request and review.
- a statement by the Executive Director for Rwanda.

Documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Rwanda\*

Memorandum of Economic and Financial Policies by the authorities of Rwanda\*

Technical Memorandum of Understanding\*

\*Also included in the Staff Report.

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

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RWANDA

**Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF), Requests for Waivers of Nonobservance of Performance Criteria, and Request for a New Three-Year Arrangement Under the PRGF**

Prepared by the African Department  
(In collaboration with other departments)

Approved by Sharmini Coorey and Matthew Fisher

May 19, 2006

- **Mission.** Discussions took place in Kigali during September 7–13, October 26–November 8, February 22–March 8, and April 10–11. The team headed by Ms. Kostial consisted of Messrs. Bledowski, Darius and Jacoby, and Ms. Kaendera (all AFR), and was assisted by Mr. Engstrom the resident representative.
- **PRGF/HIPC Completion Point/Ex Post Assessment (EPA).** A Poverty Reduction and Growth Facility (PRGF) arrangement with access of 5 percent of quota was approved by the Executive Board on August 12, 2002, and extended through June 11, 2006. Rwanda reached the completion point under the enhanced HIPC Initiative in April 2005 and completed the fifth review under the PRGF in August 2005. It also qualified for the Multilateral Debt Relief Initiative (MDRI) in January 2006. At the EPA Board meeting, Directors noted that, despite HIPC and MDRI relief, debt sustainability remained fragile and emphasized the need to raise exports. While Rwanda would have to rely on grants, this should be complemented by efforts to mobilize revenue. Directors also stressed the need for an acceleration of structural reforms and emphasized that excessive conditionality be avoided and capacity constraints be addressed.
- **Fund relations.** Outstanding Fund credit was SDR 1.14 million (1.43 percent of quota) at end-April 2006. Completion of the sixth review would allow the disbursement of SDR 0.571 million and the approval of a new PRGF the disbursement of SDR 1.14 million. The letter of intent, memorandum of economic and financial policies, and the technical memorandum of understanding are in Appendix I, and relations with the Fund and the World Bank Group in Appendices II and III. Appendix IV discusses statistical issues, Appendix V progress in reaching the Millennium Development Goals (MDGs), and Appendix VI presents a debt sustainability analysis.

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## EXECUTIVE SUMMARY

### Overview and recent developments

- **Macroeconomic performance strengthened in 2005.** Driven by a recovery in agriculture, real growth accelerated to 6 percent and inflation moderated to below 6 percent. Macroeconomic policy implementation was broadly satisfactory when temporary slippages in the third quarter of 2005 were reversed in the last quarter of the year. However, structural reforms lagged, partly due to capacity constraints. In particular, reforms in expenditure management remain pending.
- **All but two performance criteria for the sixth review were met.** The deviations were temporary in both instances and staff recommends waivers.

### The medium term

- **Rwanda's main challenge is to achieve sustained high growth rates to advance toward the Millennium Development Goals (MDGs) while maintaining debt sustainability.** To this end, policies will aim at fostering private sector development, including through productivity-enhancing strategies and trade facilitation. Moreover, policies will have to be geared to marshalling aid flows to their most efficient use while preserving macroeconomic stability. In this regard, more emphasis will have to be placed on public expenditure management and capacity building.

### Policy discussions and the program for 2006

- **Poor weather conditions are clouding the prospects for economic activity in 2006.** To prepare for a possible food crisis due to drought, the program sets aside ½ percent of GDP for food imports and includes an adjuster allowing a reserve drawdown if needed.
- **Policies will aim at preserving macroeconomic stability.** Pressures for a real appreciation of the exchange rate are expected to continue, with a further widening of the fiscal deficit (mostly reflecting one-off revenue in 2005) and the likely drawdown of project account balances. Policy discussions thus focused on managing the domestic demand impact of fiscal policies and preventing a crowding out of private investment.
- **The structural agenda will aim at removing constraints to growth.** In addition to reforms in the financial sector and the business environment, as well as productivity-enhancing strategies in the agriculture and export sectors, structural policies will focus on expenditure and debt management, and civil service reform.

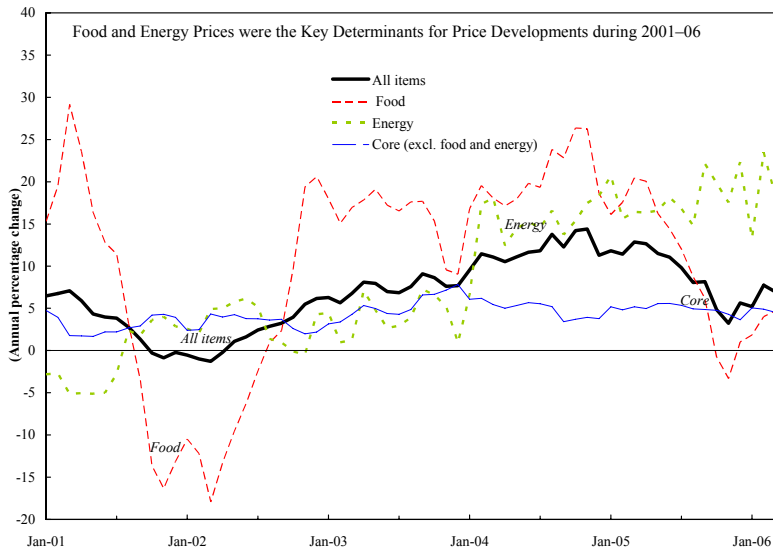
## I. OVERVIEW

1. **Rwanda should seize the opportunity to graduate as a mature stabilizer from the proposed new PRGF arrangement.** The EPA noted that the Fund's engagement had supported the country's emergence from a post conflict situation. However, Rwanda remained vulnerable to external shocks and dependent on external aid, with its structural reform agenda still incomplete. The objective of the new PRGF arrangement is to help set the stage for stronger growth and faster poverty alleviation, including through an acceleration of key structural reforms.

2. **The Great Lakes region remains unstable, although violence has decreased.** While the main rebel group in the East Democratic Republic of Congo (DRC) declared in March 2005 that it would disarm and return to Rwanda, only few combatants have handed in their weapons. To accelerate demobilization, the DRC army has sporadically attacked smaller groups with logistical support from UN troops.

## II. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

3. **Macroeconomic performance was strong in 2005, despite temporary slippages in policy implementation.** Real growth accelerated to 6 percent, reflecting an expansion in the manufacturing, financial, and communication sectors, as well as a good harvest after two years of largely stagnant agricultural output. Owing to increased food supplies, inflation declined as programmed to slightly below 6 percent at end-2005. Overall, tighter fiscal policies combined with buoyant exports resulted in a lower-than-programmed current account deficit. However, the program went temporarily off track in the third quarter, mostly owing to difficulties in managing the backloaded fiscal program.

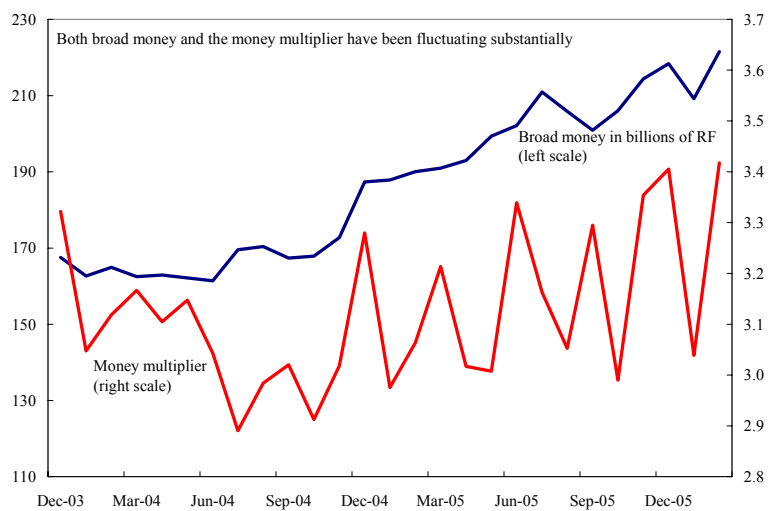


4. **The fiscal stance was tighter than projected, but mainly in the first half of the year.** Buoyed by higher growth and efficiency gains in tax administration, the domestic deficit was below the target for the year as a whole.<sup>1</sup> Until mid-year, spending was

<sup>1</sup> Including the release of the contingency of 1½ percent of GDP.

restrained, which, together with temporary absorptive constraints, caused priority spending to fall short of the end-June performance criterion (by 0.6 percent of GDP). When spending was accelerated in the third quarter, the program temporarily went off track as domestic arrears were accumulated as the central bank was reluctant to mop up the excess liquidity stemming from the additional spending. Moreover, the end-September target on priority spending was not met owing to continuing capacity constraints, and the authorities incurred new nonconcessional debt related to the electricity crisis.<sup>2</sup> These slippages were corrected in the last quarter and the December targets were met as the arrears were cleared and absorptive constraints for priority spending removed by progress with the decentralization process.

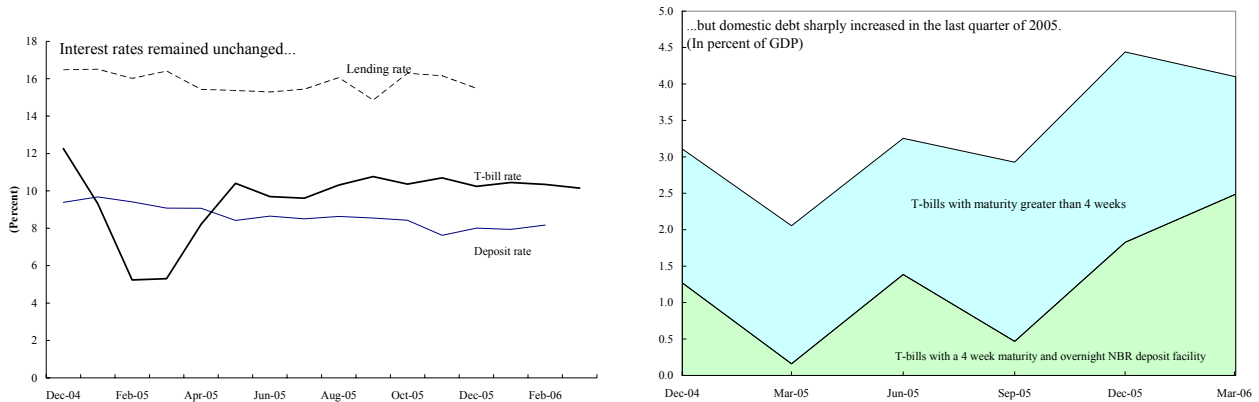
**5. The reserve money program mostly stayed on track.** Broad money at end-2005 was substantially higher than programmed, allowing a sizable expansion in private sector credit. This reflected higher money demand and real growth, but also strong seasonality toward end-year. As a result of large fluctuations in the money multiplier,<sup>3</sup> all end-quarter reserve money targets were met. While



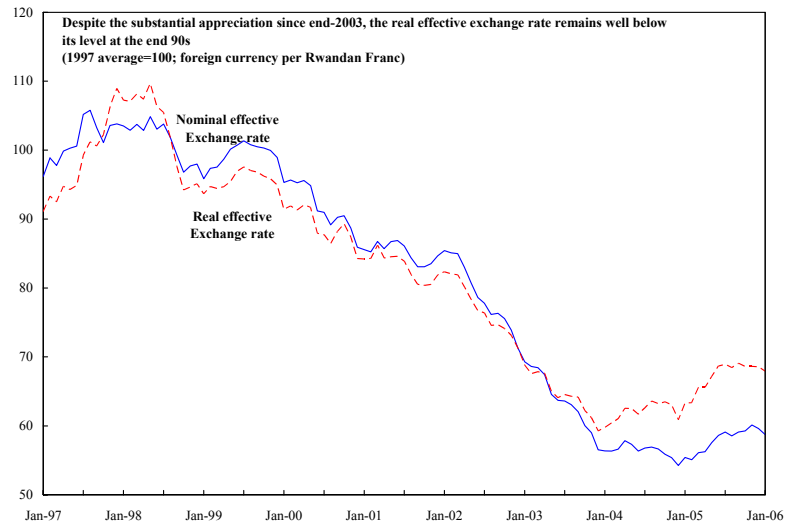
overall the tighter fiscal stance helped to keep reserve money on track, the National Bank of Rwanda (NBR) resorted to issuing short-term domestic debt to mop up the liquidity from the accelerated fiscal spending in the last quarter rather than selling foreign exchange.

<sup>2</sup> The latter due to government guarantee related to the lease of generators to address electricity shortages until the Lake Kivu gas project becomes operational.

<sup>3</sup> Owing to variations in the composition of broad money, but at times also substantial changes in commercial banks' excess reserves (the latter reflecting weaknesses in commercial banks' treasury management, but also moral suasion by the NBR to meet the quarterly targets).



6. **The current account deficit was lower than programmed.** Exports were substantially above program projections, reflecting a supply response to a sharp increase in mineral prices, but also the move into high-value niche coffee markets. While imports for construction materials and medical supplies grew substantially, the tighter fiscal stance restrained the growth of other imports. This, combined with higher-than-projected project disbursements and heavier reliance on domestic sterilization, led to net foreign assets of the NBR exceeding the program target.<sup>4</sup> In line with these developments, the nominal and real effective exchange rates appreciated by 9 percent and 13 percent, respectively.



7. **Overall progress on the structural side was mixed, but adherence to conditionality was poor** (Memorandum of Economic and Financial Policies (MEFP), para. 6). While the performance criterion (PC) on implementing zero-balance accounts for ministries and autonomous agencies was met ahead of schedule, the end-September PC on the publication of Prime Holdings' audit was not met (but implemented in December).<sup>5</sup> Moreover, out of five end-2005 benchmarks, three related to expenditure management were

<sup>4</sup> Net foreign assets stood at 6.2 months of imports at end-2005.

<sup>5</sup> As the audit found serious shortcomings, the contract with the management of both hotels under Prime Holdings was terminated.



not observed, mostly due to the restructuring of administrative zones<sup>6</sup> and delays in parliamentary approval of the Organic Budget Law (OBL); the implementation of these benchmarks is pending. The end-2005 benchmark on export promotion also was not met as two involved agencies signed the required memoranda of understanding only in April 2006. On the positive side, three tea estates were recently privatized. Moreover, banking supervision has been strengthened as evidenced by the submission of draft amendments to the banking law to stakeholders at end-2005 (benchmark) and an agreement on a restructuring plan with a problem bank. In the energy sector, the Lake Kivu methane gas project is advancing as scheduled.

8. **Despite temporary slippages, performance under the PRGF program was broadly satisfactory.** All but two performance criteria (on priority spending and the Prime Holdings' audit) for the sixth review were observed. While difficulties in managing the fiscal program led to slippages in the third quarter, these were subsequently rectified and all quantitative end-2005 targets were met.

### III. POLICY DISCUSSIONS

9. **Discussions centered on medium-term challenges, to ensure that policies in 2006 were designed to enhance Rwanda's prospects for the future.** There was strong agreement that, in order to make inroads in poverty reduction, it was necessary to identify the growth-critical issues and remove the constraints to private investment and productivity growth.

#### A. Medium-Term Challenges

10. **Poverty remains widespread.** Substantial progress has been made toward some MDGs, particularly in education and gender issues. However, Rwanda is lagging behind in health care indicators and poverty remains substantially higher than before the genocide.

11. **To improve Rwanda's prospects, the EPA highlighted three challenges** (MEFP, paras. 9–14):<sup>7</sup>

- increasing growth rates and making the economy resilient to shocks;
- financing the development effort without jeopardizing debt sustainability; and
- marshalling aid flows to their most productive use while preserving macroeconomic stability.

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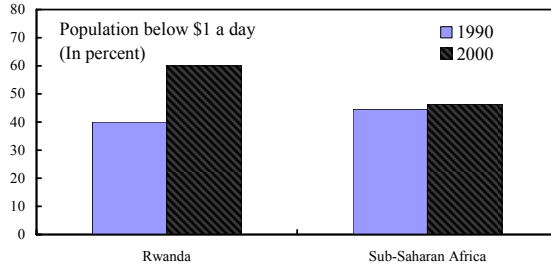
<sup>6</sup> The number of provinces and districts was reduced to facilitate decentralization.

<sup>7</sup> These issues will also be discussed in the PRSP update, scheduled for March 2007.

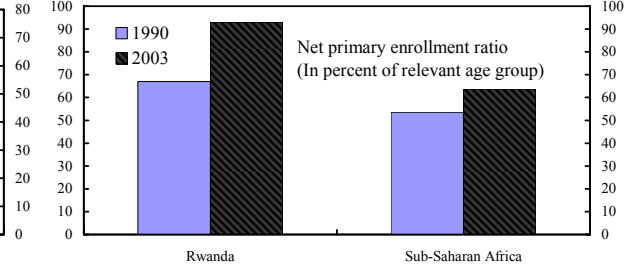
The new PRGF focuses on reforms that are key to meeting these challenges as outlined below. The program also places particular emphasis on capacity building in designing and monitoring policies in order to set the stage for a graduation from PRGF resources.

Rwanda: Selected Millennium Development Goals for 2015 1/

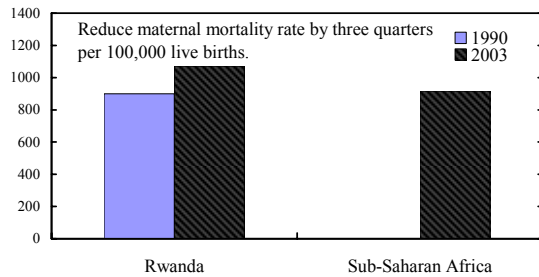
Poverty in Rwanda is still higher than before the genocide and than in other Sub-Saharan African (SSA) countries.



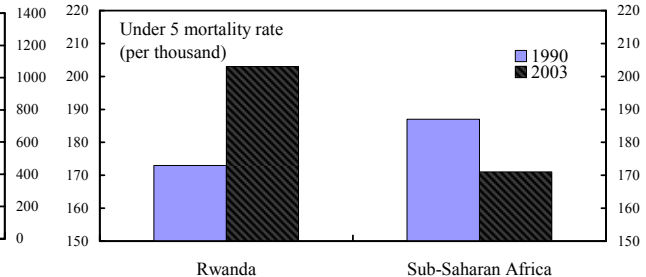
While there have been substantial achievements in education,



Rwanda lags behind on health indicators, particularly on maternal and ...



... child mortality.

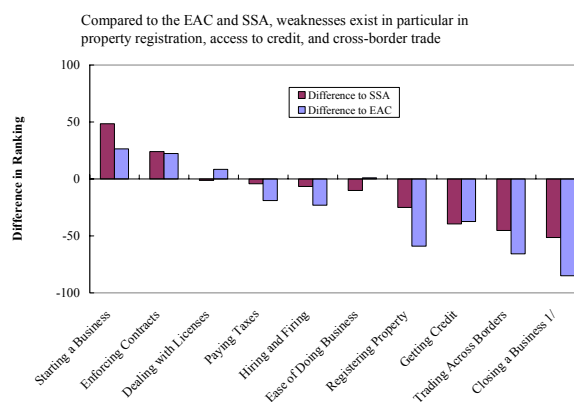
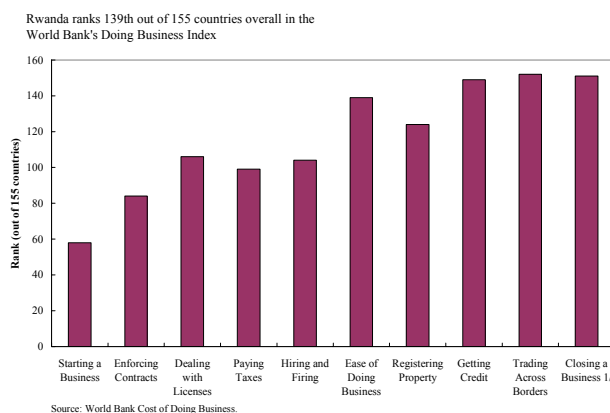


Sources: World Bank; *World Development Report*.

1/ When data were not available for the specific year, the figures use data from the closest available year.

## Increasing growth and coping with shocks

12. **To boost Rwanda's growth rates, improvements in the business climate are needed.** With the catch-up effect after the genocide waning and population growth at about 3 percent, only sustained high growth rates can make a marked dent in poverty. There was consensus that factors critical to this were financial sector and legal reforms, investment in infrastructure, and actions to facilitate trade. Moreover, staff urged the authorities to focus on reducing the cost of doing business, particularly with respect to obstacles to cross-border trade, property registration, and access to credit—areas where Rwanda is lagging in comparison with SSA countries.



13. **Increasing agricultural yields is particularly important for reducing rural poverty.** The authorities felt that raising the productivity of the agricultural sector<sup>8</sup> was essential for breaking the vicious cycle of poverty, with food security freeing people to seek better education and also employment in other sectors. While sector-specific bottlenecks are addressed in the Strategy Plan for Agricultural Transformation (MEFP, para. 36),<sup>9</sup> the sector should also benefit from improvements in the overall business climate.

14. **High growth rates may not be sustainable without reducing the cost and increasing the supply of energy.** Owing to a combination of rising energy demand and declining production of hydropower, Rwanda had to start in 2004 to rely increasingly on higher-cost thermal power. To cover the additional costs, electricity tariffs were increased by almost 200 percent in 2005 and are now substantially higher than in neighboring countries. The Lake Kivu methane gas project,<sup>10</sup> as well as the restoration of reservoir levels of the hydropower plants, is expected to replace the expensive thermal power and mitigate pressures on the current account from oil imports. However, the authorities underscored the need to increase supply to allow the use of competitive technologies in the economy and conserve limited wood fuel. To this end, staff urged the authorities to liaise with the World Bank to estimate and cost Rwanda's medium-term energy needs.

<sup>8</sup> Agriculture accounts for more than one-third of GDP and two-thirds of exports.

<sup>9</sup> The World Bank's Rural Sector Support Credit, approved in 2001, faced substantial implementation problems; it was amended at end-2005 to incorporate this Plan.

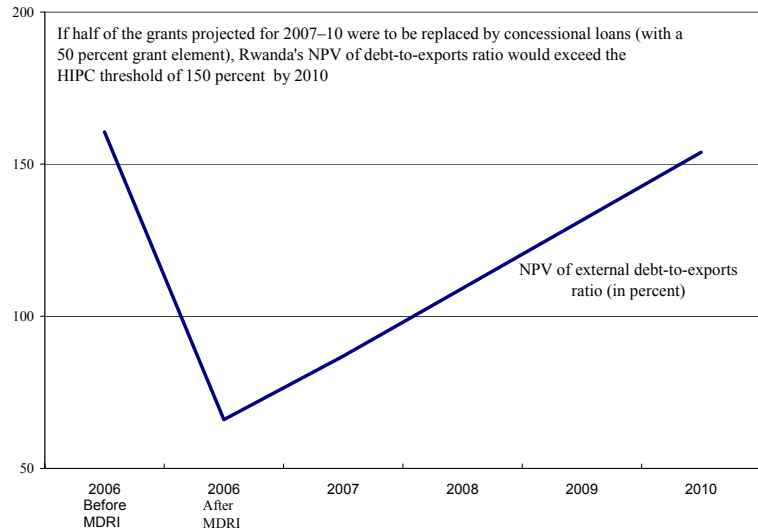
<sup>10</sup> The government's financial involvement is now projected to be ½ percent of GDP lower than originally envisaged (MEFP, para. 31).

## Financing development

### 15. **Despite debt relief under the Enhanced HIPC and MDRI Initiatives, development efforts will have to be financed mostly by grants.**<sup>11</sup> Staff

projections point to a substantial reduction in the NPV of debt-to-export ratio to about 59 percent at end-2005 to a substantial reduction in the NPV of debt-to-export ratio to about 59 percent at end-2005 from the debt relief. While the relief provides some room for additional borrowing toward achieving the MDGs, high and sustained levels of grants are still required,

given the low export base. Moreover, with Rwanda's continued vulnerability to exogenous shocks and the eventual onset of external borrowing by the private sector, staff cautioned the authorities to keep the debt level below the LIC debt sustainability thresholds. The program thus maintains a zero limit on nonconcessional borrowing and requires a grant element of at least 50 percent for new borrowing.



16. **At the same time, domestic revenue will have to be mobilized to prepare for an eventual reduction in donor funding.** The authorities agreed, but emphasized that the revenue ratio relative to monetized GDP was high and that bringing the nonmonetized sector into the tax net would take time. Staff concurred that it was not prudent to squeeze the existing tax base, but urged the authorities to broaden the tax net. Moreover, collection of minor local taxes could be simplified or integrated into the tax system.

## Managing the development process

17. **The authorities should prioritize development needs more clearly, while managing the likely pressures for a real exchange rate appreciation.** Discussions focused on the macroeconomic impact of aid flows, in particular with respect to increased demand for nontradables. While some officials expressed a preference to spend an increase in aid on capital goods imports to avoid a real appreciation, there was broad consensus that social spending should not be neglected, despite its larger domestic component. Moreover, there

<sup>11</sup> See also Appendix VI.

was consensus that any persistent pressure for a real appreciation in line with fundamentals be accommodated through a nominal appreciation to maintain low inflation while raising absorption. Although the main elements of the development strategy appear to have been identified, staff urged the authorities to carefully consider the sequencing of reforms, ensure the productivity of spending, and to strengthen the linkages between policies and achieving the MDGs.

18. **A further strengthening of expenditure management is warranted to assure development partners that resources are leveraged to their most productive use.** The authorities expressed regret about the missed end-2005 structural conditionality. They stressed that this did not reflect a lack of attention, but rather the decision to first streamline administration toward more decentralization before improving the current system. Staff emphasized that strengthening expenditure management was even more important with the devolution of responsibilities to local governments, given their weak administrative capacity.

19. **Improving the delivery of public services is a prerequisite for successful program implementation.** There was agreement that more emphasis had to be placed on the training and retention of civil servants since limitations in administrative capacity had weakened program implementation in the past. In this context, staff urged the authorities to accelerate the training for the macroeconomic unit in the Ministry of Finance (MEFP, para. 37).

#### **Macroeconomic framework**

20. **The medium-term framework assumes a gradual improvement in macroeconomic conditions, broadly in line with the projections presented at the completion point.** The authorities maintained that public investment could generate significant returns within a short time period, especially in agriculture. However, acknowledging the pitfalls of overoptimistic projections, they agreed to base macroeconomic policies on conservative estimates. The framework is based on a real growth rate of 5 percent to 7 percent,<sup>12</sup> continued low inflation and a narrowing of the current account deficit. Fiscal policies would support preserving macroeconomic stability while increasing the revenue ratio and allowing an increase in spending priorities.

#### **B. Program for 2006**

21. **Late rains are clouding the outlook for economic activity in 2006** (MEFP, para. 21). A January Crop and Food Assessment Survey projected a food deficit of about ½ percent of GDP (US\$8.5 million) for the first half of 2006. Moreover, the mid-year harvest could be smaller than normal. To prepare for possible food shortages, the program sets aside US\$8 million for food imports and includes an adjuster allowing a reserve drawdown should additional imports be needed.

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<sup>12</sup> The projections are based on the lower end.

22. **The principal objective of the program is to advance the medium-term agenda, while preserving macroeconomic stability.** The program envisages a real growth rate of 3 percent to 5 percent, inflation of 5 percent, and a level of international reserves of at least 4 months of imports. Macroeconomic and structural policies will aim at laying the foundations for moving Rwanda onto a higher growth trajectory.

Rwanda: Medium-Term Framework, 2003–09

	2003	2004	2005	2006	2007	2008	2009
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
<b>Economic growth and inflation (percentage change)</b>							
Real GDP (percentage change)	0.9	4.0	6.0	3.0	4.3	4.5	4.9
Real GDP (per capita)	-1.9	1.2	3.2	0.2	1.5	1.6	2.0
Consumer price index (eop)	7.7	10.2	5.6	5.0	5.0	5.0	5.0
<b>Central government budget (percent of GDP)</b>							
Revenue	13.5	13.9	15.1	14.1	14.3	14.5	14.7
Grants	8.1	11.9	14.1	13.2	9.8	8.9	8.8
Government expenditure and net lending	23.9	26.1	28.5	28.1	27.5	27.5	27.6
Current expenditure	17.8	15.9	17.9	18.8	17.9	17.8	18.0
Capital expenditure	5.6	8.5	10.1	8.6	8.8	9.0	9.0
Domestic fiscal balance (excl. demobilization spending)	-4.7	-5.2	-4.3	-6.1	-6.1	-5.9	-5.8
Overall balance (payment order)							
After grants	-2.3	-0.2	0.7	-0.7	-3.6	-4.1	-4.2
Before grants	-10.3	-12.1	-13.4	-13.9	-13.3	-13.0	-12.9
<b>National accounts (percent of GDP)</b>							
Gross domestic investment	18.4	20.5	22.3	21.9	21.9	22.4	22.5
<i>Of which</i> : private	12.8	12.0	12.2	13.4	13.1	13.2	13.3
Gross domestic savings	-0.8	2.2	1.8	-0.9	1.3	2.7	3.9
Current account bal. (excl. grants)	-19.2	-18.2	-19.4	-21.3	-19.2	-18.1	-16.7
<b>Balance of payments (in millions of U.S. dollars)</b>							
Exports of goods and services	139.5	189.7	227.9	248.2	271.9	295.8	313.1
Imports of goods and services	463.9	524.1	666.1	786.8	784.8	816.6	828.7
Current account bal. (incl. grants)	-131.1	-55.5	-66.5	-254.3	-256.4	-286.4	-280.9
Overall balance	-33.6	90.2	111.2	-16.1	-16.2	-1.8	9.5
Gross official reserves (in months of imports of G&S)	5.0	5.7	6.2	4.9	4.8	4.7	4.6

Sources: Rwandan authorities; and staff estimates and projections.

## Macroeconomic policies

23. **Macroeconomic policies will continue to be geared toward managing the domestic demand impact of fiscal spending.** Pressures for a real appreciation are expected to continue, with a widening of the fiscal deficit and the likely drawdown of project account

balances.<sup>13</sup> Moreover, the authorities intend to repay some of the domestic debt issued in the last quarter of 2005. Thus, safeguards have been put in place to ensure that fiscal policy is not crowding out investment.

- To protect the monetary program, spending of about one percent of GDP (equally split between priorities and nonpriorities) has been made contingent on grants coming in as programmed and the monetary program remaining on track. The program also contains an explicit understanding on the central bank's foreign exchange intervention strategy (para. 30).
- To facilitate monetary management, a monitoring system for large project accounts will be set up (August 2006 PC on issuing the first report).
- To evenly distribute the domestic component of fiscal policies, the quarterly path of expenditure has been smoothed.

### *Fiscal policy*

24. **The program allows an expansion in the domestic fiscal deficit<sup>14</sup> by more than one percent of GDP, mostly stemming from a loss in revenue** (MEFP, para. 17). Revenue is expected to drop by one percent of GDP, reflecting one-off revenue in 2005<sup>15</sup>, as well as losses in import-related taxes, which are partly offset by measures to strengthen the revenue base. Expenditure will increase slightly with a strong shift toward priorities, financed by savings from the car fleet reform, the draw down of PRSC II disbursed at end-2005, and MDRI flow relief in 2006 (Box 1).

#### **Box 1. MDRI Relief**

**MDRI relief is being gradually incorporated into the program.** Food imports<sup>1/</sup> and Lake Kivu related spending broadly correspond to the resources freed-up by the MDRI relief in 2006 (0.6 percent of GDP). Depending on absorptive constraints and the domestic demand impact of fiscal policies, further priority spending could be accommodated in the context of the first PRGF review. Over the next three years, annual MDRI flow relief amounts to about ½ percent of GDP.

1/ If not needed for food, this could be used for other poverty-reducing spending.

<sup>13</sup> Project account deposits of about 5 percent of GDP were accumulated by end-2005, most of which at the NBR.

<sup>14</sup> Excluding grant-financed AU peace-keeping and demobilization spending.

<sup>15</sup> Mostly from the sale of government assets.

25. **Measures have been implemented to stabilize the revenue ratio at its 2005 level (excluding one-off revenue)** (MEFP, para. 18). Staff welcomed the increase in revenue from fees and charges as well as the small increase in the petroleum excise (the reduction in the latter had resulted in revenue losses of about 2 percent of GDP in 2005).<sup>16</sup> Further increases might be warranted should there be additional revenue shortfalls, but be accompanied by targeted measures to mitigate the impact on the poor and taking into account the prices in neighboring countries.<sup>17</sup> While acknowledging the substantial improvement in the revenue ratio (particularly considering the losses from the petroleum excise), staff encouraged the authorities to explore other measures. Moreover, preparatory work for an eventual accession into the East African Community (EAC) (expected at end-2006) should be started.

26. **The increase in priority spending reflects the authorities' medium-term agenda.** (MEFP, para. 19; text table). Particularly noteworthy is the elimination of school fees for the first three years of secondary education. While budgetary health spending does not increase substantially, health indicators are expected to improve from Rwanda being a major beneficiary of the Global Fund. Staff also welcomed the initiative to start monitoring a narrower definition of priority spending to complement the current aggregate as a first step to establish a more direct link between fiscal spending and poverty reduction.

	Priority Spending, 2005–06 (In percent of GDP)	
	2005	2006
Total	10.1	11.1
<i>Of which:</i>		
Education	3.9	4.4
Infrastructure and energy	1.7	1.5
Agriculture and land	0.5	0.7
Health	1.3	1.4
Export and investment promotion	0.6	0.7
Decentralization	0.5	0.7

Sources: Rwandese authorities; and IMF staff estimates.

27. **Efforts in reducing nonpriority spending are ongoing.** The authorities noted that “nonpriority spending” was a misnomer since it included many spending categories that were vital for running the government or ensuring social cohesion. As reclassifying such spending as priority would break the comparability of the time series, understandings were reached that any increases in specific nonpriority categories, if justifiable, would be clearly indicated (MEFP, para. 19, text table). With respect to specific categories, staff welcomed in particular the savings from the car fleet scheme, but suggested a continued monitoring of these accounts. It also noted the authorities' proactive efforts to publish an audit report of 2005 and account for future peace-keeping activities as a clear signal that such activities did not imply a back-door increase in military spending (MEFP, para. 20).

<sup>16</sup> The increase in oil prices was not passed through to the consumers by lowering the excises.

<sup>17</sup> Rwanda's pump prices are roughly in line with those in neighboring countries.



### *Monetary and exchange rate policies*

28. **The reserve money program has served Rwanda well.** Given the instability in the money multiplier, the authorities indicated their preference for a more flexible program design. Staff responded that moving to a NDA/NIR design would be premature as a nominal anchor was needed to prevent a rekindling of inflation, especially if aid inflows remained strong. If warranted, reserve money targets could be adjusted in the context of reviews.

29. **While last year's increase in private sector credit as such is welcome, the NBR concurred that a close monitoring of developments was needed** (MEFP, para. 24). The NBR is stepping up its supervision, complemented by commercial banks' efforts to tighten credit extension criteria, as well as loan classification and provisioning with a view to complying with the forthcoming banking law amendments. Staff urged the authorities to also make longer-term domestic papers more attractive relative to highly liquid instruments, which were closer substitutes for money and hence less effective as sterilization instruments.

30. **It is crucial for the program's success that the NBR follows through with its foreign exchange intervention policy** (MEFP, para. 25). Since the private sector lists high interest rates as one of the main obstacles to growth,<sup>18</sup> there was a broad agreement that sterilization through domestic debt was not an option as it would further drive up rates, negatively impact investment, and increase the losses of the NBR. However, some officials felt that any nominal exchange rate appreciation should be gradual in order to prevent exchange rate overshooting given the volatility of aid inflows. They also expressed a preference for a higher reserve coverage in the long run for the same reasons, while others noted that, given developments needs, increasing the reserve coverage would not seem appropriate. Staff concurred with a gradual approach for exchange rate adjustment, but emphasized that this would require close coordination with fiscal policies, including the smoothing of spending. Regarding reserve coverage, staff considered an import cover of four months as sufficient. To address the governor's concern about the NBR's revaluation losses from exchange rate appreciation, the treasury transferred 0.3 percent of GDP in March 2006 to cover the 2005 losses. The authorities also intend to revamp the foreign exchange auction system and revive the interbank market.

### *External sector*

31. **The current account is expected to widen in 2006** (MEFP, para. 26). Exports are projected to further increase with higher coffee receipts more than offsetting a decline in minerals receipts. Imports would surge, reflecting an increase in the oil bill,<sup>19</sup> Lake Kivu

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<sup>18</sup> Rwanda's real interest rates are in line with EAC countries. The level of the rates reflects sizeable nonperforming loans, the oligopolistic market structure, as well as high administrative cost and risks.

<sup>19</sup> Due to additional Elektrogaz generators, which became operational at end-2005.

project-related capital imports, as well as a drawdown of project accounts. With these import pressures expected to abate, the current account is projected to narrow starting in 2007.

### **Structural reforms**

32. **Structural policies will aim at moving forward the medium-term agenda** (Box 2).

#### **Box 2. Structural Conditionality**

**Under the PRGF arrangement**, structural conditionality (MEFP, Table 3) will focus on:

- Monitoring project accounts to enhance the coordination of macroeconomic policies (para. 23).
- Strengthening expenditure and debt management (paras. 33–34).
- Undertaking a review of the wage structure (para. 35) as an interim step to making the civil service more efficient.
- Improving the business climate for the private sector through financial sector and legal reforms (paras. 36–38).
- Raising productivity in the agricultural sector (para. 39).

**Under World Bank lending**, structural conditionality is reflected in the Poverty Reduction Strategy Credit II, which focuses on: (i) the investment climate; (ii) improving public service delivery; and (iii) expenditure management and governance.

### ***Public expenditure and debt management***

33. **The program envisages a renewed focus on expenditure management, following parliament's approval of the OBL in March 2006** (MEFP, para. 23). To provide assurances that reforms have been put back on track, the authorities implemented two prior actions as interim steps toward reconciliation and a treasury single account (TSA) (both missed end-2005 benchmarks). They also noted that the implementation of the zero-balance accounts had achieved almost all of the advantages of a TSA. However, the preparation of consolidated fiscal reports (the third of the missed end-2005 benchmarks) had to be substantially delayed, pending the formation of new administration units and the training of accountants.

34. **The authorities are following up on the implementation of the HIPC Initiative and are also cleaning up their debt databases** (MEFP, paras. 27–28). The ongoing reconciliation of debt data, including the confirmation of debt payments to BADEA, is welcome in providing assurances that there will be no recurrence of external arrears.

### ***Civil service reform***

35. **Continued civil service reform will assist in addressing capacity constraints** (MEFP, para. 22). Staff welcomed the streamlining of the core civil service and underscored

that the review of the entire civil service wage structure was important to inform decisions for future salary adjustments.

### *Financial sector*

36. **The authorities' fast pace in strengthening banking supervision is encouraging** (MEFP, para. 33). The amendments to the banking law (to be submitted to parliament by September 2006) will strengthen the NBR's supervisory independence, and the NBR's decisive actions with respect to a particular problem bank are expected to foster the adoption of best practices in commercial banks. The authorities also intend to design by end-2006 an action plan to address remaining banking supervision issues.

37. **Capacity constraints permitting, headway should be made in defining the medium-term financial sector agenda** (MEFP, para. 34). Staff encouraged the authorities to move forward in developing financial markets. Nevertheless, it underscored that establishing a stock market was costly and premature as described in the Financial Sector Stability Assessment (IMF Country Report No. 05/309).

### *Business environment*

38. **The business climate is being improved on various fronts** (MEFP, para. 35). Staff highlighted the need to facilitate trade by reducing registration requirements. Moreover, as Rwanda was landlocked, regional solutions should be sought to reduce transportation cost. Staff also noted that, while legal reforms were an appropriate first step, they needed to be complemented by building legal capacity to ensure effective implementation.

### *Agricultural and export sectors*

39. **Productivity-enhancing reforms in two key sectors will have a major bearing on the success of the program.**

- Since the EPA had observed that stronger policies in the **agricultural sector** could have fostered poverty alleviation, the program includes conditionality to enhance productivity in the sector (MEFP, para. 36). In this context, staff reiterated the need for coordination with the export promotion strategy to avoid an adverse impact on domestic food security.
- Recognizing the need to boost **export** earnings for maintaining debt sustainability, the authorities continue to pursue sectoral productivity-enhancing strategies, which will also assist in offsetting the adverse impact from a real exchange appreciation (MEFP, para. 30).

#### IV. RISKS TO THE PROGRAM, CAPACITY TO REPAY THE FUND, AND PROGRAM MONITORING

40. **Risks to the program other than from a food emergency appear limited and have been addressed to the extent possible.** The main risk pertains to the management of the domestic demand impact of fiscal policies as the monetary program could go off track if NBR were to resist a nominal exchange rate appreciation. Moreover, weak administrative capacity could delay the reform agenda.

41. **Despite these risks, Rwanda is expected to be able to repay the Fund** (Tables 8 and 9). Access for the new PRGF arrangement was set at 10 percent of quota, which is the standard Fund access when balance of payments needs are limited. Debt service to the Fund appears manageable, given Rwanda's good record in servicing its debt and current level of indebtedness.

42. **Program monitoring arrangements are described in the MEFP (paras. 38–39) and the technical memorandum of understanding.** Following the recommendations of the EPA, the design of the quantitative program was maintained while excessive structural conditionality was avoided by focusing on a few key measures in macro-relevant areas. Under the Fund's safeguards assessment policy, an assessment is required with respect to the proposed PRGF arrangement, and staff has initiated procedures with the NBR.

#### V. STAFF APPRAISAL

43. **Policy implementation has improved since the completion point.** Macroeconomic policies have stayed broadly on track, as policy slippages in the third-quarter of 2005 were largely reversed in the last quarter of the year. While the quick action to bring the program back on track is welcome, staff urges the authorities to swiftly rebuild capacity in the macroeconomic unit to ensure consistent program implementation.

44. **Notwithstanding the progress made, Rwanda faces daunting challenges.** Recent economic performance has been encouraging, but sustaining it at levels sufficient to make headway toward the MDGs will require an acceleration of reforms. In particular, the continued vulnerability to climatic shocks should be addressed to the extent possible, and improvements to the business climate are needed to facilitate diversification and make the private sector the engine of growth.

45. **Rwanda's medium-term program aligned with the PRSP priorities provides an appropriate framework, but further refinements are needed.** Staff encourages the authorities to make more explicit linkages between their growth strategy and poverty reduction. This will not only assist in marshalling resources to their most efficient use, but also in determining the appropriate sequencing of reforms. With respect to the financing of the development efforts, staff underscores that Rwanda will have to continue relying mostly on grants, but that there also is a need to raise the revenue ratio.

46. **The main macroeconomic challenge is managing the domestic demand impact of fiscal policies.** Staff urges the authorities to step up the sale of foreign exchange, should pressures for real appreciation persist. This will not only help increase the absorption of aid flows, but also ensure that the reserve money program remains on track without costly domestic sterilization and the crowding out of investment. In this context, staff also welcomes the closer monitoring of project accounts to facilitate monetary management.

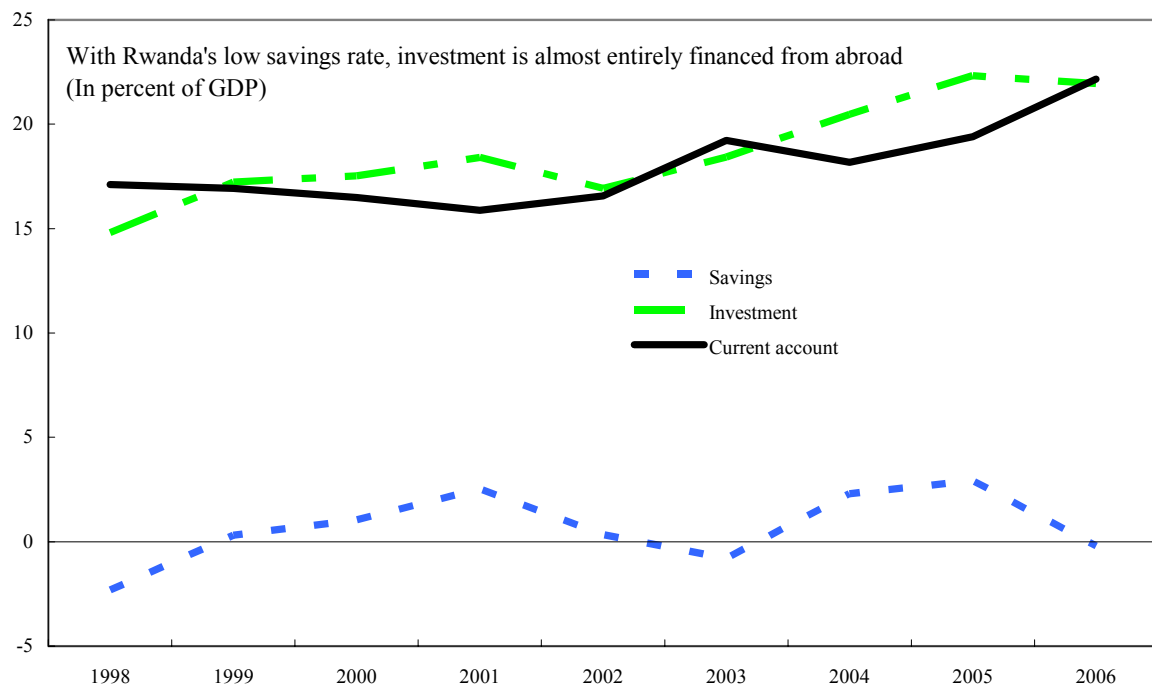
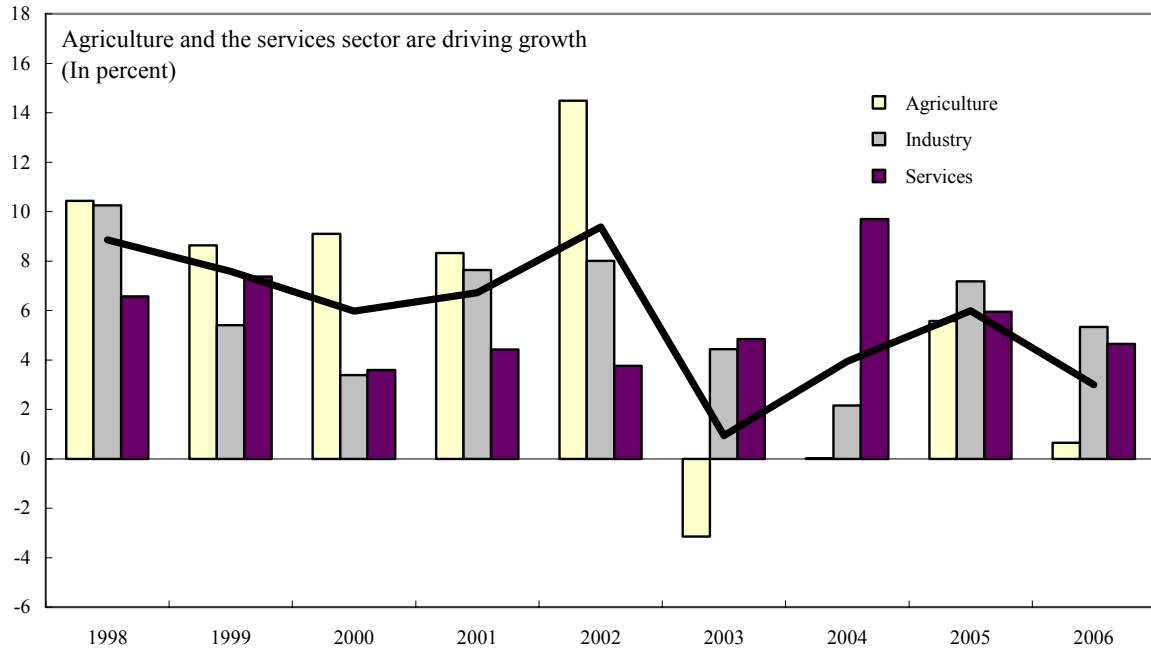
47. **The focus of fiscal policies on the quality of spending and the efficiency of public services is appropriate.** While the increase in priority spending in 2006 and the planned monitoring of a narrower definition of priority spending are encouraging, further work is needed to establish a more direct link between fiscal spending and poverty reduction.

48. **Staff endorses the NBR's close surveillance of monetary developments, but urges the authorities to encourage a shift of liquidity into longer-maturity securities.**

49. **Staff welcomes the scope of structural reforms aimed at private sector development, improving public service delivery and productivity-enhancing strategies in key sectors.** However, to ensure the success of the reforms, a continued focus on building capacity is needed, particularly in expenditure and debt management as well as the financial and legal sectors. With respect to specific areas, staff urges the authorities to use the opportunity provided by the passage of the OBL to revive the focus on expenditure management, and also work at reducing the cost of doing business, particularly with respect to trade facilitation. While encouraged by reforms in agriculture, staff notes the need for close coordination with the export promotion strategy to improve domestic food security.

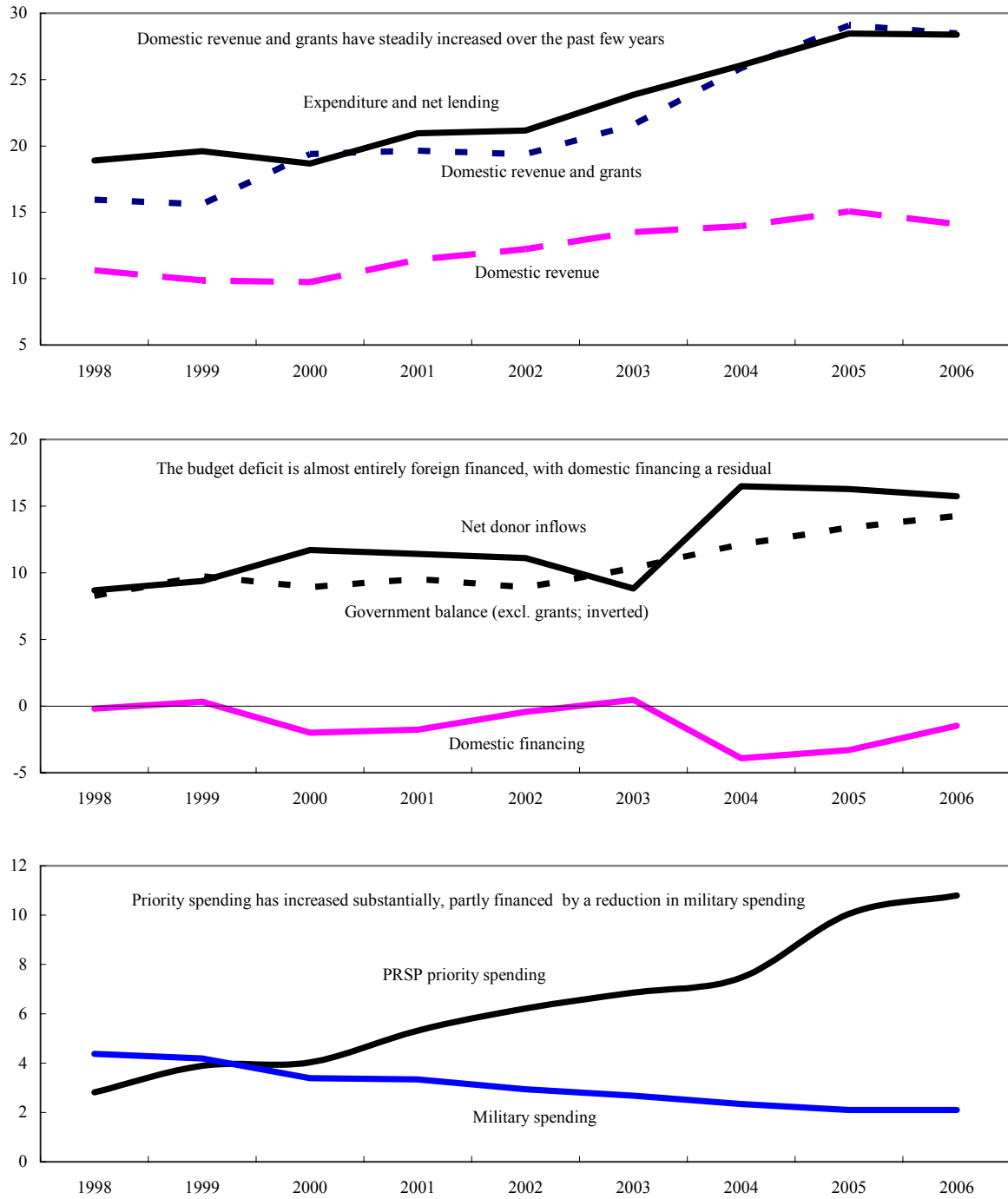
50. Based on the assessment above, staff recommends that the requested waivers for the nonobservance of the performance criteria on priority spending and the publication of a financial audit and business plan of Prime Holdings be granted as the nonobservance was temporary, that the sixth review under the PRGF arrangement be completed, and that a new PRGF arrangement be approved.

Figure 1. Rwanda: Real Sector Indicators, 1998–2006



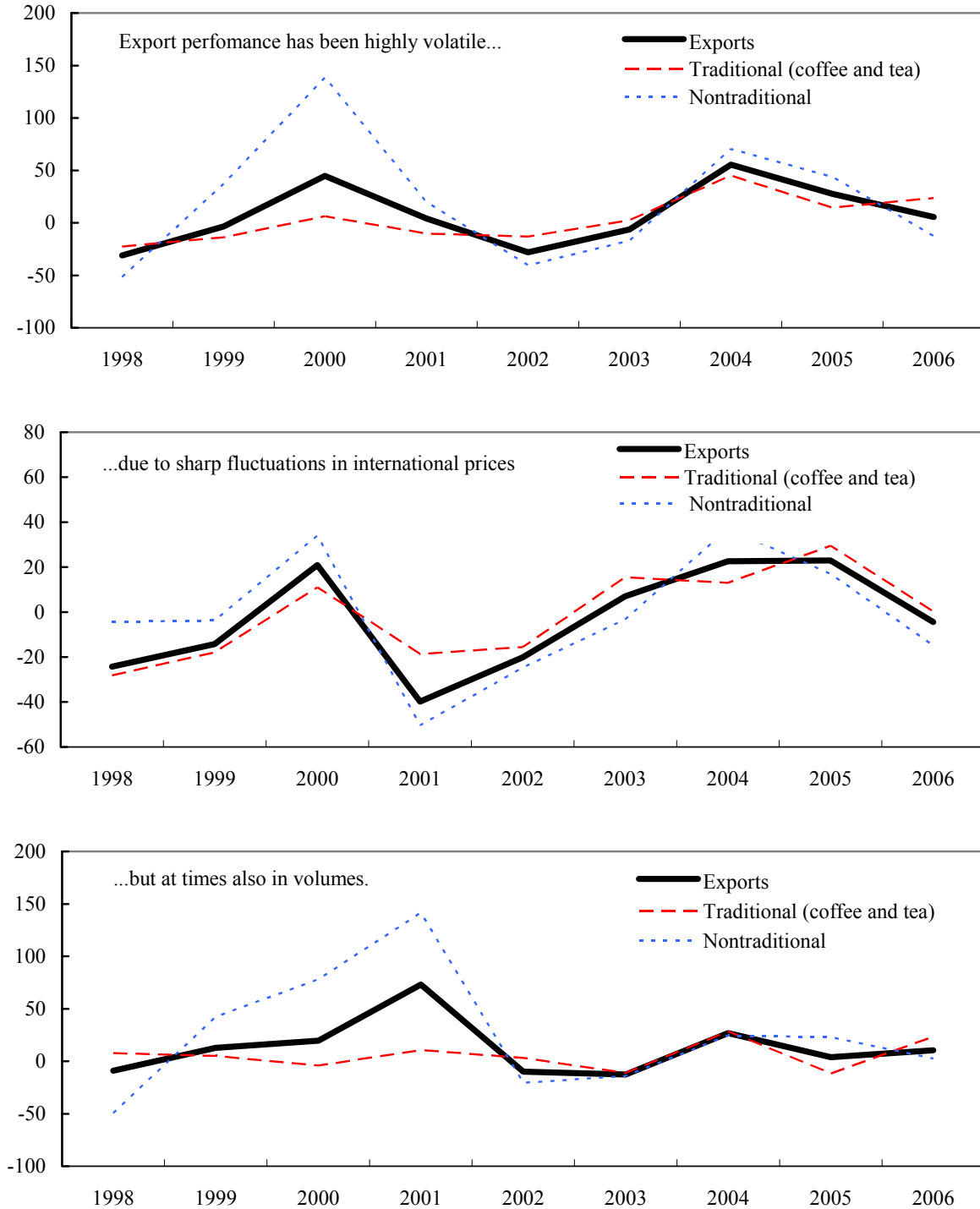
Sources: Rwandese authorities; and IMF staff estimates.

Figure 2. Rwanda: Fiscal Indicators, 1998-2006  
(In percent of GDP)



Sources: Rwandese authorities; and IMF staff estimates.

Figure 3. Rwanda: Export Performance, 1998–2006  
(Annual percentage change)



Sources: Rwandese authorities; and IMF staff estimates.



Table 1: Rwanda: Selected Economic and Financial Indicators, 2002–08

	2002	2003	2004	2005		2006		2007 Proj.	2008 Proj.
				IMF Country Report No. 05/333	Est.	IMF Country Report No. 05/333	Proj.		
(Annual percentage changes, unless otherwise indicated)									
Output and prices									
Real GDP growth	9.4	0.9	4.0	4.0	6.0	4.3	3.0	4.3	4.5
GDP deflator	0.0	8.7	12.0	6.4	7.1	4.0	5.5	5.0	5.0
Consumer prices (period average)	2.0	7.4	12.0	7.0	9.2	4.0	5.5	5.0	5.0
Consumer prices (end of period)	6.2	7.7	10.2	6.0	5.6	4.0	5.0	5.0	5.0
External sector									
Export, f.o.b (in U.S. dollars)	-28.1	-6.3	55.4	2.1	27.6	3.6	5.5	3.8	5.8
Imports, f.o.b (in U.S. dollars)	-1.3	4.0	13.1	33.3	35.6	6.4	26.6	-1.1	2.4
Export volume	-10.0	-12.5	26.8	-6.8	3.8	6.3	10.4	3.4	5.1
Import volume	-6.5	0.5	10.2	24.8	24.2	5.7	24.1	-5.2	3.3
Terms of trade (deterioration -)	-24.3	3.5	19.5	2.6	12.6	-3.1	-6.3	-3.7	1.5
Government finance									
Revenue	16.9	21.4	20.2	15.7	22.6	5.2	1.8	11.3	11.3
Total expenditure and net lending	10.5	23.7	27.2	14.4	24.0	11.3	7.1	7.3	10.0
Current expenditure	14.0	31.4	4.4	21.1	27.9	5.3	13.6	4.6	9.1
Money and credit 1/									
Net domestic assets 2/	-6.1	14.8	-28.9	17.5	-12.1	5.9	14.6	...	...
Domestic credit 2/	-4.0	19.7	-22.7	12.8	-5.3	5.9	14.0	...	...
Government 2/	-12.4	10.7	-28.9	6.7	-16.4	-0.5	4.6	...	...
Economy 2/	8.5	9.0	6.2	6.1	11.2	6.4	9.4	...	...
Broad money (M2)	11.4	15.2	12.1	5.3	17.2	10.4	10.7	...	...
Reserve money	11.9	12.2	13.4	12.2	12.3	10.4	12.8	...	...
Velocity (GDP/M2; end of period)	5.7	5.4	5.6	5.9	5.5	5.8	5.4	...	...
(In percent of GDP)									
National income accounts									
National savings (excluding official transfers)	0.3	-0.8	2.3	-0.9	2.9	1.5	0.6	1.9	3.4
Of which: private (including public enterprises)	4.3	3.9	5.9	2.4	6.2	4.9	6.0	4.9	6.0
Gross investment	16.9	18.4	20.5	21.1	22.3	22.3	21.9	21.9	22.4
Of which: private (including public enterprises)	12.0	12.8	12.0	12.1	12.2	12.2	13.4	13.1	13.2
Government finance									
Total revenue (excluding grants)	12.2	13.5	13.9	14.6	15.1	14.1	14.1	14.3	14.5
Total expenditure and net lending	21.2	23.9	26.1	27.0	28.5	27.7	28.1	27.5	27.5
Capital expenditure	4.9	5.6	8.5	9.0	10.1	10.2	8.6	8.8	9.0
Current expenditure	14.8	17.8	15.9	17.5	17.9	17.0	18.8	17.9	17.8
Primary fiscal balance 3/	-1.6	-0.3	-1.7	-1.7	-2.0	-3.6	-3.5	-3.9	-4.0
Domestic fiscal balance 4/	-4.2	-5.5	-5.5	-5.0	-5.6	-6.3	-7.4	-6.9	-6.6
Overall balance (payment order)									
After grants	-1.7	-2.3	-0.2	-0.5	0.7	-1.4	-0.7	-3.6	-4.1
Before grants	-8.9	-10.3	-12.1	-12.4	-13.4	-13.5	-13.9	-13.3	-13.0
External sector									
External current account balance									
Including official transfers	-6.7	-7.8	-3.0	-9.0	-3.1	-7.4	-10.8	-10.0	-10.5
Excluding official transfers	-16.6	-19.2	-18.2	-22.0	-19.4	-20.8	-21.4	-19.2	-18.2
External debt (end of period) 5/	85.3	93.4	91.9	73.7	70.7	70.8	15.0	18.7	22.1
Net present value of external debt									
(in percent of exports of goods and services) 6/	...	285.6	239.4	317.3	149.8	304.1	65.6	82.9	97.7
Scheduled debt-service ratio after HIPC Initiative debt relief									
(in percent of exports of goods and services)	12.0	11.1	9.6	7.4	7.2	8.2	5.0	5.0	4.8
Gross reserves (in months of imports of goods and services)	6.3	5.0	5.7	4.9	6.2	4.6	4.9	4.8	4.7
(In millions of U.S. dollars)									
External debt (end of period) 5/	1,476.8	1,572.4	1,685.3	1,523.1	1,510.0	1,564.1	354.0	478.4	600.7
Gross official reserves	243.6	217.6	314.5	398.4	405.8	276.9	317.3	323.9	327.3
Memorandum item:									
Nominal GDP (in billions of Rwanda francs)	825.0	905.3	1,054.3	1,184.7	1,197.2	1,264.8	1,300.8	1,425.3	1,564.2

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Data up to 2005 based on current exchange rates, for 2006 based on program exchange rate of RF 553.7/US\$.

2/ As a percent of the beginning-of-period stock of broad money.

3/ Revenue excluding grants; minus current expenditure except interest due and exceptional expenditure; minus domestically financed capital expenditure.

4/ Revenue excluding grants; minus current expenditure (excluding external interest), minus domestically financed capital expenditure and net lending.

5/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2006–08).

6/ Based on assumptions about expected new borrowing.



Table 2. Rwanda: Operations of the Central Government, 2004-08 (concluded)

	2004			2005			2006			2007			2008		
	June			Dec.			June			Sept.			Dec.		
	IMF Country Report No. 05/333	Proj.	Prel.	IMF Country Report No. 05/333	Proj.	Prel.	IMF Country Report No. 05/333	Proj.	Prel.	IMF Country Report No. 05/333	Proj.	Prel.	IMF Country Report No. 05/333	Proj.	Prel.
	(In billions of Rwanda francs)														
Financing	23.4	3.0	-13.4	15.8	-5.4	-17.8	-28.6	-4.3	24.4	16.5	57.9	63.6			
Foreign financing (net)	47.6	15.2	5.4	26.8	27.1	6.0	12.9	19.8	39.9	26.5	65.2	66.0			
Drawings	62.8	20.6	13.3	36.7	46.7	7.3	15.2	23.2	53.8	32.9	71.4	72.0			
Budgetary loans	35.3	10.8	3.5	10.8	17.8	0.2	1.0	1.8	24.6	3.3	40.2	47.7			
Project loans	27.5	9.8	9.8	25.9	28.8	7.1	14.1	21.4	29.2	29.5	31.2	24.3			
Amortization	-21.4	-7.9	-8.0	-21.7	-19.6	-1.3	-2.3	-3.4	-19.6	-6.4	-6.2	-6.0			
Exceptional financing	6.2	2.5	0.1	11.7	0.0	0.0	0.0	0.0	7.6	0.0	0.0	0.0			
Domestic financing	-24.2	-12.2	-18.8	-11.0	-32.5	-23.8	-41.5	-24.1	-15.5	-10.0	-7.3	-2.5			
Banking system treasury operations (monetary survey) 6/	-30.1	-7.7	-10.1	-0.4	-16.8	-21.5	-37.0	-17.4	-3.9	-1.0	-13.0	6.5			
Nonbank sector (including CSR repayment) 7/	5.9	-4.5	-8.7	-10.6	-15.7	-2.3	-4.5	-6.8	-11.5	-9.0	-9.0	-9.0			
Errors and omissions 8/	4.8	0.0	-0.6	0.0	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Financing gap (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Memorandum items:	(In percent of GDP, unless otherwise indicated)														
Revenue and grants	25.9	14.1	14.0	26.5	29.2	8.2	16.4	21.7	26.3	27.3	24.1	23.5			
Revenue, excluding grants	13.9	7.2	7.3	14.6	15.1	3.3	6.8	10.4	14.1	14.1	14.3	14.5			
Revenue, excluding grants (percent of monetized sector GDP)	27.0	14.0	14.3	28.2	29.5	6.4	13.2	20.2	27.4	27.4	27.8	28.3			
Total expenditure and net lending of which:	26.1	13.3	13.0	27.0	28.5	6.7	14.0	21.0	27.7	28.1	27.5	27.5			
Total priority expenditures 9/	8.5	4.8	4.1	9.4	10.0	2.5	5.4	8.2	10.7	11.1	11.3	11.5			
Current expenditure	15.9	8.5	8.3	17.5	17.9	4.6	9.4	14.0	17.0	18.8	17.9	17.8			
Of which: wage bill	4.6	2.4	2.0	4.7	4.3	1.2	2.4	3.6	4.6	4.7	4.8	4.8			
goods and services	4.5	2.6	2.5	4.8	5.4	1.2	2.6	4.0	4.8	5.4	5.4	5.7			
Of which: defense/security	2.3	1.1	1.0	2.2	2.1	0.5	1.0	1.5	2.2	2.1	2.1	2.1			
exceptional expenditure	1.7	1.1	0.8	2.2	3.0	0.6	1.2	1.9	1.7	2.5	1.7	1.4			
Capital expenditure	8.5	4.5	4.4	9.0	10.1	2.1	4.1	6.3	10.2	8.6	8.8	9.0			
Domestic fiscal balance	-5.5	-2.4	-1.1	-5.0	-5.6	-1.8	-4.0	-5.7	-6.3	-7.4	-6.9	-6.6			
Excluding demobilization and peacekeeping expenditures 4/	-5.2	-2.0	-0.9	-4.3	-4.3	-1.5	-3.2	-4.7	-5.8	-6.1	-6.1	-5.9			
Of which: domestic expenditure	19.1	9.2	8.2	18.9	19.3	4.8	10.1	15.1	19.9	20.2	20.5	20.5			
Primary balance 2/	-1.7	-0.7	0.2	-1.7	-2.0	-1.1	-2.1	-2.8	-3.6	-3.5	-3.9	-4.0			
Overall deficit (payment order)	-0.2	0.3	1.6	-0.5	0.7	1.5	2.5	0.7	-1.4	-0.7	-3.6	-4.1			
After grants	-12.1	-6.6	-5.1	-12.4	-13.4	-3.4	-7.1	-10.6	-13.5	-13.9	-13.3	-13.0			
Before grants	-12.5	-12.8	-14.0	-23.9	-26.2	-6.7	-13.8	-20.5	-26.2	-27.0	-25.9	-25.2			
Before grants (percent of monetized sector GDP)	1,054.3	1,166.2	1,197.2	1,166.2	1,197.2	1,300.8	1,300.8	1,300.8	1,264.8	1,300.8	1,425.3	1,564.2			
Nominal GDP (in billions of Rwanda francs)	-48.1	-0.9	-17.5	12.6	-21.9	-22.7	-35.0	-12.4	-3.9	10.0	6.9	6.5			
Net credit to government (in billions of Rwanda Francs) 6/	-30.1	-7.7	-10.1	-0.4	-16.8	-21.5	-37.0	-17.4	-3.9	-1.0	-13.0	6.5			
Of which: treasury operations	-16.3	6.5	-7.4	12.4	-5.1	-1.2	2.0	5.0	0.0	11.0	1.2	0.0			
non-treasury operations of central government	-1.7	0.3	0.0	0.6	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
other government	...	...	...	...	...	...	...	...	...	...	...	...			
MDRI debt service savings (flow relief from IDA, IMF, AIDF)	...	...	...	...	...	...	...	...	...	...	...	...			

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ The transactions related to the privatization of BCR and BACAR totaling RF 4.3 bn in the fourth quarter of 2004 did not impact the fiscal balance as privatization receipts (recorded as negative net lending) were offset by a transfer of the same amount (80 percent as a required transfers for recapitalization of the banks and 20 percent as an unrequited capital transfers for the government purchasing a minority stake of 20 percent in the banks). Net lending in the fourth quarter of 2005 incorporates RF2.9 billion in receipts from the privatization of Rwandatel.

2/ Definition excludes exceptional expenditures, defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital expenditure.

3/ Revenue excluding grants; minus current expenditure, domestically financed capital expenditure and net lending, including external interest.

4/ Actual data for 2005 exclude RF8.5 billion expenditures for peacekeeping operations, which were not covered by grants.

5/ For 2006, peacekeeping activities not covered by grants is estimated at RF 2.3 billion and the domestic fiscal deficit excluding grant-financed peace keeping activities is estimated at 6.3 percent of GDP.

6/ A negative sign indicates a reduction. Arrears are shown here in a fiscal accounting sense which may deviate from the definition of the TMU used for benchmarks and performance criteria.

7/ The net credit to government at end-2004 has been corrected by the part of the PRSC disbursement that remained in the non-treasury accounts of the central government.

8/ CSR = Caisse Sociale du Rwanda.

9/ A negative number implies a discrepancy that is consistent with underestimation of financing.

10/ Although energy was identified as a priority sector in the 2002 PRSP, spending on this sector was not included in priority expenditure until 2005. These expenditures amounted to RF11.4 bn and RF6.9 bn in 2004 and 2005, respectively.

Table 3. Rwanda: Monetary Survey, 2004–06

	2004		2005			2006				
	Act 1/ Report No. 05/333	Jun	Dec		Mar Proj. 2/	Jun Proj. 2/	Sep Proj. 2/	Dec		Proj. 2/ Report No. 05/333
		IMF Country Act 1/ Report No. 05/333	Act 1/ IMF Country Report No. 05/333	Act 1/ IMF Country Report No. 05/333				IMF Country Proj. 2/ Report No. 05/333	Proj. 2/	
(In billions of Rwanda francs)										
<b>Monetary authorities</b>										
Net foreign assets	122.5	129.4	139.0	111.4	185.6	212.9	221.3	203.7	111.0	172.4
Foreign assets	178.3	179.3	187.5	157.8	230.0	213.9	223.6	206.0	156.9	175.7
Foreign liabilities	55.7	49.9	48.5	46.4	44.4	0.9	2.3	2.3	45.9	3.3
Net domestic assets	-65.3	-67.3	-78.5	-47.2	-121.4	-146.4	-151.3	-132.3	-40.1	-100.0
Domestic credit	-38.7	-45.3	-57.4	-26.7	-96.7	-117.5	-122.4	-103.4	-19.6	-71.1
Government (net)	-31.4	-34.3	-47.9	-22.7	-60.5	-85.3	-99.6	-79.1	-23.7	-51.1
Claims	42.1	42.1	42.1	42.1	42.1	42.1	42.1	42.1	38.0	42.1
Of which: overdraft	--	--	--	--	--	--	--	--	--	--
Deposits (excluding autonomous bodies)	73.5	76.5	90.0	64.8	102.6	127.4	141.8	121.2	61.7	93.2
Public nongovernment deposits (-)	-1.0	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Nongovernment credit	-6.3	-10.1	-8.8	-3.2	-35.3	-31.5	-21.9	-23.5	4.9	-19.2
Private sector	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.3	3.4
Public enterprises	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Commercial banks	-9.8	-13.5	-12.1	-6.6	-38.9	-34.9	-25.4	-27.0	1.5	-22.7
Discount window	1.6	1.3	1.5	1.0	1.4	1.4	1.4	1.4	1.0	1.4
Money market (= absorption)	-11.3	-14.8	-13.6	-7.6	-40.2	-36.3	-26.8	-28.4	0.5	-24.1
Other items (net; asset +)	-26.6	-22.0	-21.1	-20.5	-24.7	-28.9	-28.9	-28.9	-20.5	-28.9
Reserve money 3/	57.2	62.1	60.5	64.2	64.2	66.5	70.0	71.4	70.9	72.4
Currency in circulation	38.9	43.2	44.5	44.9	48.3	47.1	50.6	51.0	51.0	52.7
Commercial bank reserves	15.3	16.0	13.8	16.3	13.7	17.2	17.2	18.2	16.9	17.5
Nonbank deposits	3.0	3.0	2.3	3.0	2.2	2.2	2.2	2.2	3.0	2.2
Of which: autonomous public agencies	0.6	--	0.4	--	--	--	--	--	--	--
<b>Commercial banks</b>										
Net foreign assets	50.2	37.6	44.1	42.6	42.1	35.0	37.0	37.0	48.8	46.8
Foreign assets	60.7	48.3	55.1	53.3	53.8	45.0	47.0	47.0	59.5	56.8
Foreign liabilities	10.5	10.7	11.0	10.7	11.7	10.0	10.0	10.0	10.7	10.0
Reserves	15.3	15.9	13.8	16.3	13.7	17.2	17.2	18.2	16.9	17.5
NBR deposits	12.4	13.2	10.9	13.8	10.9	11.2	15.8	16.4	13.9	14.5
Required reserves	12.4	12.9	13.8	13.0	14.9	15.2	15.1	15.9	14.2	16.8
Excess reserves	--	0.3	-2.9	0.7	-4.0	-4.0	0.7	0.5	-0.3	-2.3
Cash in vault	2.9	2.7	2.9	2.5	2.8	2.8	2.8	2.8	3.0	3.0
Net credit from NBR (rediscount; liability -)	9.8	13.5	12.1	6.6	38.9	34.9	25.4	27.0	-1.5	22.7
Domestic credit	109.7	120.2	129.0	124.8	128.7	136.0	143.1	150.5	140.7	149.9
Government (net)	0.7	2.6	6.2	4.5	-1.1	1.0	3.0	5.1	4.5	-0.5
Credit	17.2	17.2	26.1	17.2	21.1	21.1	21.1	21.1	17.2	21.1
Deposits	16.5	14.6	19.9	12.7	22.2	20.2	18.1	16.1	12.7	21.6
Public enterprises	4.6	3.3	2.6	3.3	2.1	2.1	2.1	2.1	1.0	2.1
Private sector	104.3	114.2	120.1	117.0	127.6	132.9	138.0	143.3	135.2	148.2
Other items (net; asset +)	-39.5	-40.0	-44.4	-40.0	-54.3	-52.9	-51.5	-50.2	-40.0	-48.8
Deposits	145.5	147.3	154.6	150.3	169.1	170.2	171.2	182.5	164.9	188.1
Private	113.1	117.7	125.4	125.7	136.8	137.9	138.9	150.2	140.3	155.8
Public (nongovernment)	32.4	29.6	29.2	24.6	32.2	32.2	32.2	32.2	24.6	32.2

Table 3. Rwanda: Monetary Survey, 2004–06 (concluded)

	2004		2005			2006				
	Act 1/ IMF Country Report No. 05/333	Jun	Act 1/ IMF Country Report No. 05/333	Dec	Act 1/ IMF Country Report No. 05/333	Mar	Jun	Sep	Dec	Proj. 2/ IMF Country Report No. 05/333
		Proj. 2/ IMF Country Report No. 05/333		Proj. 2/ IMF Country Report No. 05/333		Proj. 2/ IMF Country Report No. 05/333	Proj. 2/ IMF Country Report No. 05/333			
(In billions of Rwanda francs)										
Monetary survey										
Net foreign assets	172.8	167.0	183.1	154.0	227.7	247.9	258.3	240.7	159.8	219.2
Net domestic assets	14.6	26.4	18.2	44.2	-8.2	-28.4	-34.3	-5.0	59.1	23.8
Domestic credit	80.7	88.4	83.7	104.7	70.9	53.4	46.2	74.0	119.6	101.5
Government (net)	-30.8	-31.7	-41.6	-18.2	-61.6	-84.3	-96.6	-74.0	-19.2	-51.6
Public nongovernment deposits (-)	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Public enterprises	4.7	3.4	2.7	3.4	2.2	2.2	2.2	2.2	1.1	2.2
Private sector	107.6	117.5	123.4	120.3	131.1	136.3	141.4	146.7	138.5	151.7
Other items (net; asset +)	-66.1	-62.0	-65.5	-60.5	-79.0	-81.8	-80.5	-79.0	-60.5	-77.7
Broad money 4/	187.3	193.4	201.3	198.3	219.6	219.5	224.0	235.7	218.9	243.1
Currency in circulation	38.9	43.2	44.5	44.9	48.3	47.1	50.6	51.0	51.0	52.7
Deposits	148.4	150.3	156.8	153.3	171.3	172.4	173.4	184.7	167.9	190.3
Of which: foreign currency deposits	37.4	37.6	36.1	42.6	39.4	35.0	37.0	37.0	48.8	42.0
(Annual changes in percent of beginning-of-year of broad money)										
Net foreign assets	41.0	37.6	47.6	-12.1	29.3	39.8	39.6	33.4	2.9	-3.9
Net domestic assets	-28.9	-17.0	-22.1	17.5	-12.1	-24.6	-27.9	-15.5	7.5	14.6
Domestic credit	-22.7	-9.9	-12.8	12.8	-5.3	-12.9	-18.7	-8.6	7.5	14.0
Government (net)	-28.9	-21.2	-27.4	6.7	-16.4	-26.5	-27.4	-19.0	-0.5	4.6
Economy	6.2	11.3	14.6	6.1	11.2	13.6	8.7	10.3	8.0	9.4
Other items (net; asset +)	-6.2	-7.2	-9.4	4.7	-6.9	-11.7	-9.1	-6.8	0.0	0.6
Broad money	12.1	20.5	25.5	5.3	17.2	15.2	11.7	17.9	10.4	10.7
(Annual percent changes)										
Net foreign assets	65.8	56.5	71.6	-12.9	31.8	44.1	44.4	38.3	3.7	-3.7
Net domestic assets	-76.8	-49.3	-65.1	289.1	-156.0	-286.7	-288.6	-122.1	33.6	-392.1
Domestic credit	-31.9	-15.2	-19.7	29.8	-12.2	-31.5	-44.8	-18.9	14.2	43.3
Government (net)	-276.3	-1,500.2	-1,937.7	-41.0	100.0	149.5	132.1	105.0	5.6	-16.3
Economy	10.3	17.8	23.0	10.2	18.8	23.3	13.9	16.2	12.9	15.6
Other items (net; asset +)	18.7	22.8	29.8	-12.8	19.5	37.6	29.5	20.9	0.0	-1.7
(In percent, unless otherwise indicated)										
Memorandum items:										
Currency/broad money ratio	20.8	22.3	22.1	22.7	22.0	21.5	22.6	21.6	23.3	21.7
Reserve money annual growth	13.4	17.1	14.1	12.2	12.3	12.1	15.6	17.4	10.4	12.8
Reserves/deposits	39.3	42.2	39.2	42.7	38.0	39.1	40.9	39.1	43.0	38.5
Money multiplier	3.3	3.1	3.3	3.1	3.4	3.3	3.2	3.3	3.1	3.4
Reserve/Deposits	11.1	11.3	8.7	10.9	8.0	8.1	11.4	10.9	9.9	9.3
Currency/Deposits	34.9	36.7	35.5	35.7	35.3	34.1	36.4	33.9	36.4	33.8
Velocity of broad money (end of period)	5.6	...	5.5	5.9	5.5	...	...	...	5.8	5.4
Velocity of broad money (average of period)	8.0	...	7.5	7.3	7.5	...	...	...	7.7	7.9
Net open position of the NBR (in RF billion)	118.5	126.4	135.1	108.0	181.2	209.7	218.0	200.4	107.1	169.0
Net open position of commercial banks (in RF billion)	16.9	...	12.0	...	7.2	...	4.8	5.0	0.0	4.8
Extended broad money (in RF billion) 5/	208.8	216.8	229.5	222.2	250.9	250.8	256.0	269.3	246.5	277.8
Nominal GDP (in RF billion)	1,054.3	...	...	1,166.2	1,197.2	...	...	...	1,264.8	1,300.8

Source: National Bank of Rwanda (NBR); and Fund staff estimates and projections.

1/ Converted at the actual exchange rate.

2/ Converted at the program exchange rate of RF 553.7/US\$ in 2006.

3/ The definition of reserve money as performance criterion or structural benchmark differs from the definition in the monetary program in that it excludes the deposits of a defunct savings bank, import deposits, and dormant accounts. Excess reserves were negative at end-2005.

4/ From end-2005 onward, includes Caisse Hypothecaire du Rwanda (BHR) deposits (RF 1 billion at end-2005).

Table 4. Rwanda: Balance of Payments, 2002-08  
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005		2006		2007	2008
				IMF Country Report No. 05/333	Est.	IMF Country Report No. 05/333	Proj.		
Exports, f.o.b.	67.3	63.0	97.9	99.3	125.0	102.9	131.9	136.9	144.8
<i>Of which:</i> coffee	14.6	15.0	31.0	30.9	38.1	33.3	49.9	53.7	58.4
tea	22.0	22.5	23.4	23.5	24.1	25.5	27.2	28.3	31.2
Imports, f.o.b.	234.7	244.0	275.9	364.1	374.1	387.5	473.5	468.3	479.7
Trade balance	-167.4	-181.0	-178.0	-264.8	-249.1	-284.6	-341.6	-331.4	-334.9
Services (net)	-125.1	-143.4	-156.5	-198.7	-189.1	-189.8	-196.9	-200.9	-204.9
Income	-19.1	-30.5	-34.1	-27.8	-25.0	-27.6	-17.6	-16.2	-16.2
<i>Of which: interest on public debt 1/</i>	-10.9	-10.7	-13.9	-13.8	-11.0	-13.9	-4.5	-4.9	-5.1
Current transfers (net) 2/	194.8	223.8	313.1	306.5	396.8	338.2	301.8	292.1	269.6
Private	24.5	31.3	35.1	38.3	48.3	41.7	52.5	57.0	61.8
Public 2/	170.3	192.5	278.0	268.2	348.5	296.5	249.3	235.1	207.7
<i>Of which: HIPC grants</i>	25.6	23.0	27.4	33.8	30.6	36.1	9.3	8.6	7.6
Current account balance (including official transfers)	-116.7	-131.1	-55.5	-184.7	-66.5	-163.9	-254.3	-256.4	-286.4
Current account balance (excluding official transfers)	-287.0	-323.6	-333.5	-452.9	-414.9	-460.4	-503.6	-491.4	-494.2
Capital account	41.6	41.1	60.6	92.0	103.2	94.2	1323.4	103.2	125.8
Capital transfers	41.6	41.1	60.6	92.0	103.2	94.2	173.5	103.2	125.8
IMF-MDRI relief							76.6		
Debt forgiveness (IDA/AfDF-MDRI Relief)							1150.0		
Financial account	65.1	20.6	59.3	48.3	74.3	68.0	-1085.5	137.1	158.8
Direct investment	2.6	4.7	3.6	10.6	10.6	7.0	25.0	13.0	16.1
Public sector capital	53.0	7.7	72.0	26.6	48.3	56.4	48.0	116.8	114.9
Long-term borrowing 3/	83.9	39.9	109.3	64.8	83.3	94.0	59.5	127.9	125.3
Principal not yet due rescheduled	0.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization 4/	30.8	32.2	37.3	38.2	35.0	37.7	11.6	11.1	10.4
Principal not yet due	0.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital 5/	9.5	8.3	-16.2	11.1	15.3	4.6	-1158.5	7.3	6.6
IDA/AfDF-relief							-1150.0		
Capital and financial account balance	106.7	61.8	119.9	140.2	177.5	162.2	237.9	240.2	284.6
Errors and omissions	28.3	35.7	25.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	18.2	-33.6	90.2	-44.5	111.2	-1.7	-16.1	-16.2	-1.8
Financing	-18.2	33.6	-90.2	22.8	-111.3	-11.6	16.1	16.2	1.8
Change in net foreign assets of NBR (increase -)	-29.7	27.1	-101.4	29.4	-111.3	-11.6	16.1	16.2	1.8
Net credit from the Fund	-6.0	-0.9	-3.6	-8.3	-8.2	-14.9	-72.5	3.3	3.3
Disbursements/purchases	0.7	0.8	1.7	1.7	1.7	0.9	4.1	3.3	3.3
Repayments/repurchases	-6.7	-1.7	-5.3	-10.1	-9.8	-15.8	-76.6	0.0	0.0
Change in other gross official reserves (increase -)	-31.6	26.0	-96.9	36.0	-91.3	1.6	88.5	-6.6	-3.4
Change in other foreign liabilities (increase +)	7.9	1.9	-0.9	1.7	-11.9	1.8	0.1	19.6	2.0
Change in arrears (decrease -)	4.6	-22.6	1.3	-6.6	0.0	0.0	0.0	0.0	0.0
Accumulation	5.6	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Reduction	1.0	23.8	0.0	6.6	0.0	0.0	0.0	0.0	0.0
Exceptional financing 6/	6.9	29.1	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation	0.6	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current debt service	0.6	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling	6.3	28.5	9.4	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears	0.0	23.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current debt service	6.3	5.5	9.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing need	0.0	0.0	0.0	21.7	0.0	13.3	0.0	0.0	0.0
Exceptional financing (assumed) 7/	0.0	0.0	0.0	21.7	0.0	13.3	0.0	0.0	0.0
Financing gap 8/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Current account deficit (in percent of GDP)									
Excluding official transfers	-16.6	-19.2	-18.2	-22.0	-19.4	-20.8	-21.4	-19.2	-18.2
Including official transfers	-6.7	-7.8	-3.0	-9.0	-3.1	-7.4	-10.8	-10.0	-10.5
Gross official reserves	243.6	217.6	314.5	278.5	405.8	276.9	317.3	323.9	327.3
Gross official reserves (in months of imports of G&S)	6.3	5.0	6.3	4.9	6.2	4.6	4.8	4.8	4.7
Overall balance (in percent of GDP)	1.1	-2.0	4.9	-2.2	5.2	-0.1	-0.7	-0.6	-0.1
Total external debt 9/	1476.8	1572.4	1685.3	1515.9	1510.0	1,564.1	354.0	478.4	600.7
Total external debt (in percent of GDP)	85.3	93.4	91.9	73.7	70.7	70.8	15.0	18.7	22.1
Debt service ratio after HIPC and MDRI debt relief 10/	12.0	11.1	9.6	7.4	7.2	8.2	5.0	5.0	4.8

Sources: Rwandese authorities; and staff estimates and projections.

1/ Including interest due to the Fund.

2/ Current transfers include disbursed budgetary and HIPC grants, and humanitarian and technical assistance.

3/ Includes project loans and budgetary loans.

4/ Excluding Fund.

5/ Other capital includes long-term private capital, commercial credit, the change in the net foreign assets of commercial banks, and unrecorded imports. For 2004, the net outflow is caused by the amortization of a short-term commercial loan contracted in 2003 and linked to a hotel project.

6/ Signed rescheduling and cancellations.

7/ Expected delivery of debt relief under the Enhanced HIPC Initiative by non-Paris Club creditors (People's Republic of China, Saudi Arabia, Kuwait Fund). Debt to Abu Dhabi Fund Libya is considered passive.

8/ The financing gap refers to the difference between the overall balance and the identified financing (actual and expected).

9/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2006-08).

10/ In percent of exports of goods and services.

Table 5. Rwanda: External Financing Requirement and Sources, 2002–08  
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008
Resource balance	-292.5	-324.4	-334.4	-438.3	-538.5	-512.9	-520.8
Exports goods and nonfactor services	132.7	139.5	189.7	227.9	248.2	271.9	295.8
Imports goods and nonfactor services	425.2	463.9	524.1	666.1	786.8	784.8	816.6
Noninterest current account (excluding official transfers) 1/	-276.2	-312.9	-319.8	-403.9	-499.1	-486.5	-489.1
Scheduled interest	-10.9	-10.7	-13.7	-11.0	-3.6	-4.0	-4.1
Capital and financial account 2/	9.5	9.8	-24.1	-8.9	80.8	8.2	32.6
Scheduled amortization	-30.8	-32.2	-37.3	-35.0	-10.4	-9.9	-9.2
Other capital	40.4	42.0	13.2	26.2	91.2	18.1	41.8
<i>Of which:</i> IMF-MDRI					76.6		
Increase in net official reserves (excluding IMF -)	-23.7	27.9	-97.8	-103.1	88.7	12.9	-1.5
IMF repurchases/repayments	-6.7	-1.7	-5.3	-9.8	-76.6	...	...
Changes in arrears (decrease = -)	4.6	-22.6	1.3	...	...	...	...
<b>External financing requirements</b>	<b>-303.4</b>	<b>-310.2</b>	<b>-459.5</b>	<b>-536.8</b>	<b>-409.7</b>	<b>-469.4</b>	<b>-462.1</b>
Disbursements-Existing	296.5	274.4	449.6	536.7	266.2	251.3	262.4
Grants (project and nonproject)	211.9	233.6	338.6	451.7	208.5	192.2	216.9
Project (Public Investment Program)	41.6	41.1	60.6	103.2	96.9	103.2	125.8
Nonproject 3/	170.3	192.5	278.0	348.5	111.7	89.0	91.1
Central government	82.9	95.8	108.5	25.4	...	...	...
Other	...	...	...	...	...	...	...
Loans (project and nonproject)	83.9	39.9	109.3	83.3	53.5	55.9	42.2
IDA	77.1	25.4	93.3	66.2	41.7	37.3	28.2
Project	26.5	20.7	31.9	34.3	35.7	37.3	28.2
Nonproject 4/	50.6	4.7	61.4	31.9	6.0	...	...
Other multilateral banks	6.8	14.5	15.9	17.1	11.8	18.6	14.1
Project	2.8	8.7	15.9	17.1	17.8	18.6	14.1
Nonproject	4.0	5.8	...	...	-6.0	...	...
Purchases from IMF	0.7	0.8	1.7	1.7	4.1	3.3	3.3
Exceptional financing (signed)	6.9	29.1	10.0	...	...	...	...
Principal not yet due rescheduled 5/	...	6.7	...	...	...	...	...
Disbursements-expected	...	...	...	...	143.6	218.1	199.7
Grants	...	...	...	...	137.6	146.1	116.7
Project (public investment program) 6/	...	...	...	...	...	...	...
Budgetary assistance (central government)	...	...	...	...	...	146.1	116.7
Loans	...	...	...	...	6.0	72.0	83.0
IDA	...	...	...	...	6.0	...	...
Project (public investment program) 6/	...	...	...	...	...	...	...
Nonproject	...	...	...	...	6.0	...	...
Other multilateral banks (excluding IMF)	...	...	...	...	...	72.0	83.0
Project	...	...	...	...	...	...	...
Nonproject	...	...	...	...	...	72.0	83.0
Disbursements from IMF 7/	...	...	...	...	...	...	...
Exceptional financing (assumed)	...	...	...	...	...	...	...
<b>Available financing</b>	<b>303.4</b>	<b>310.2</b>	<b>459.5</b>	<b>536.7</b>	<b>409.8</b>	<b>469.4</b>	<b>462.1</b>
Residual financing gap 8/	...	...	...	...	...	...	...

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Excludes budgetary and HIPC Initiative grants, and humanitarian and technical assistance.

2/ Includes errors and omissions for the past years.

3/ Includes disbursed budgetary grants to the central government (including HIPC Initiative grants), as well as grants in the form of humanitarian and technical assistance. Budgetary grants (including HIPC Initiative grants) not yet disbursed are listed under the expected financial support. Amounts are shown net of outflowing public transfers.

4/ Budgetary loans not yet disbursed are listed under the expected financial support.

5/ In 2003, reflects the debt rescheduling agreement with the OPEC Fund.

6/ All project grants and loans are not programmed financing and are therefore recorded under existing commitments.

7/ Includes expected Fund disbursements under the current PRGF arrangement.

8/ A negative sign implies a financing gap.

Table 6. Rwanda: External Public Debt and Debt Service, 2002–08 1/  
(In millions of U.S. dollars, unless otherwise indicated; end of period)

	2002	2003	2004	2005 Est.	2006 Proj.	2007 Proj.	2008 Proj.
Total external debt outstanding 2/	1,476.8	1,572.4	1,685.3	1,510.0	354.0	478.4	600.7
Multilateral	1,334.7	1,388.6	1,493.1	1,478.1	340.7	465.9	591.3
<i>Of which:</i> IDA	833.9	912.9	1,018.7	983.0	186.6	314.5	439.7
IMF	83.7	91.9	92.2	77.2	5.8	9.1	12.3
Bilateral 3/	142.2	183.7	189.5	31.8	13.3	12.5	11.6
Paris Club	74.7	89.0	94.9	0.0	0.0	0.0	0.0
Non-Paris Club	67.4	94.8	94.5	31.8	13.3	12.5	11.6
Debt service due 4/	48.4	44.6	56.5	56.0	61.4	69.9	70.2
Principal	37.6	33.9	42.6	45.0	48.7	55.7	55.5
Interest	10.9	10.7	13.9	11.0	12.7	14.2	14.7
Total debt relief 5/	32.5	29.1	38.2	30.6	9.3	8.6	7.6
Multilateral	25.6	23.0	28.2	30.6	9.3	8.6	7.6
Bilateral 5/	6.9	6.1	10.0	0.0	0.0	0.0	0.0
Debt Service after HIPC Initiative and Fund -MDRI	15.9	15.5	18.3	16.8	3.9	4.9	5.8
Principal	12.7	12.3	10.6	11.0	3.9	4.5	4.8
Interest	3.2	3.3	7.7	5.8	2.7	2.8	2.8
Memorandum items:							
Total debt stock (in percent of GDP)	85.3	93.4	91.9	70.7	15.0	18.7	22.1
Debt service due (in percent of)							
Exports of goods and services	36.5	32.0	29.8	24.6	24.7	25.7	23.7
Government revenue 6/	22.9	19.6	22.1	17.4	18.5	19.1	17.7
Government current expenditure and net lending	13.2	11.1	11.8	9.2	9.3	10.0	9.4
Debt service after HIPC Initiative (in percent of							
exports of goods and services	12.0	11.1	9.6	7.2	5.0	5.0	4.8
Government revenue 6/	7.5	6.8	7.2	5.2	1.2	1.3	1.5
Government current expenditure and net lending	4.3	3.9	3.8	2.8	0.6	0.7	0.8
Net present value (NPV) of debt (in US\$ million) 7/	...	398.4	452.3	283.1	162.7	225.3	288.9
NPV of debt-to-exports ratio 7/	...	285.6	239.4	149.8	65.6	82.9	97.7

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Based on WEO exchange rate projections for 2006-08.

2/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2006-08).

3/ All Paris Club debt is pre-cut-off date debt. Assuming full delivery of assistance under the Enhanced HIPC Initiative by all creditors.

4/ Including Fund, before debt relief and MDRI.

5/ Reflects traditional debt relief for bilateral creditors as well as enhanced HIPC Initiative assistance for both multilateral and bilateral creditors. Also includes additional bilateral debt relief delivered at the completion point.

6/ Excluding grants.

7/ Based on completion point LIC DSA in 2003-04, 2005 and 2006 onward is based on current DSA with topping up and MDRI, respectively.



Table 7. Rwanda: Structural Conditionality for 2005

<b>Public Expenditure Management</b>		
Convert 80 percent of bank accounts of line ministries (except for the bank accounts for donor-financed projects) into zero-balance accounts (i.e., at the end of each day, remaining balances are transferred back to the main treasury account)	End-May 2005	Benchmark (Met)
Convert all bank accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies into zero-balance accounts (i.e., at the end of each day, remaining balances are transferred back to the main treasury account)	End-September 2005	Performance criterion (Met)
Integrate the bank accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies in a Single Treasury Account	End-December 2005	Benchmark (Not met)
Publish November reconciliation statements by (i) the Treasury for the main treasury account at the NBR; (ii) the RRA for its revenue collection and transit accounts; (iii) line ministries for their bank accounts for cash-based operations; (iv) provinces, autonomous agencies, and extra-budgetary funds for their accounts. For the future, monthly statements are expected to be published on a regular basis with no more than one month lag.	End-December 2005	Benchmark (Not met)
Prepare a consolidated general government (central government including project accounts, provinces, at least 70 percent of the districts, autonomous agencies and extra-budgetary funds) fiscal report on a quarterly basis (for the benchmark: data at end-September).	End-December 2005	Benchmark (Not met)
<b>Revenue administration</b>		
Complete 25 risk-based comprehensive audits (i.e., including all taxes) of large businesses by the LTD for January-April 2005	End- April 2005	Benchmark (Met)
<b>Export promotion strategy</b>		
Submit the progress report to the Cabinet and the Export Promotion Commission on the execution of action plans in the key sectors covered by the Export Promotion Strategy, covering progress through end-June	End-July 2005	Benchmark (Met)
Sign memoranda of understandings to delineate responsibilities among the various institutions with OCIR-Café, OCIR-Thé, the Centre d'Appui aux Petites et Moyennes Entreprises du Rwanda (CAPMER), the National Bureau of Standards (NBS), the Rwandan Office for Tourism and National Parks (ORTPN), the Rwanda Wildlife Agency, the Banque de Rwanda de Development (BRD), and the Rwanda Private Sector Federation (RPSF)	End-December 2005	Benchmark (Not met, but partially implemented; fully met in April 2006)
<b>Governance</b>		
Publish a financial audit and business plan of Prime Holdings prepared by a foreign-based international audit firm.	End-September 2005	Performance criterion (Not Met; implemented in December 2005)
<b>Financial sector</b>		
Submit to all market stakeholders for their review an amendment of the banking law by December 2005 to strengthen the framework for corrective action, with a view to providing the NBR with more effective tools in dealing with problem or delinquent banks	End-December 2005	Benchmark (Met)

Table 8. Rwanda: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2006–09

Date	Conditions necessary for disbursement	Amount	
		(In millions of SDRs)	(In percent of quota)
June 12, 2006	Implementation of prior actions, and Executive Board approval of three year arrangement	1.14	1.42
November 30, 2006	Observance of performance criteria for June 30, 2006, completion of the first review under the arrangement	1.14	1.42
May 15, 2007	Observance of performance criteria for December 31, 2006, completion of the second review under the arrangement	1.14	1.42
October 15, 2007	Observance of performance criteria for June 30, 2007, completion of the third review under the arrangement	1.14	1.42
April 15, 2008	Observance of performance criteria for December 31, 2007, completion of the fourth review under the arrangement	1.14	1.42
October 15, 2008	Observance of performance criteria for June 30, 2008, completion of the fifth review under the arrangement	1.14	1.42
April 15, 2009	Observance of performance criteria for December 31, 2008, completion of the sixth review under the arrangement	1.17	1.46
	Total	8.01	10.0

Table 9. Rwanda: Indicators of Capacity to Repay the Fund, 2003–10 1/  
(In millions of SDRs, unless otherwise indicated)

	2003	2004	2005	2006	2007	Projections				
						2008	2009	2010		
Fund credit outstanding (end of period) 1/										
In millions of SDRs	61.8	59.4	53.9	4.0	6.3	8.5	9.7	9.6		
In millions of U.S. dollars	90.7	91.5	79.6	5.8	9.1	12.3	13.9	13.8		
In percent of quota	77.2	74.2	67.3	5.0	7.8	10.7	12.1	12.0		
Fund obligations	1.5	3.9	7.0	0.3	0.2	0.2	0.1	0.1		
Fund total charges and interests	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1		
Existing drawings	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.0		
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Fund total repayments/repurchases	1.2	3.6	6.7	0.0	0.0	0.0	0.0	0.1		
Existing drawings	1.2	3.6	6.7	0.0	0.0	0.0	0.0	0.1		
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Fund credit outstanding in percent of:										
Exports of goods and nonfactor services	65.1	48.3	34.9	2.3	3.3	4.1	4.4	4.0		
Total external debt	5.8	5.3	5.2	1.4	0.6	0.8	0.9	0.9		
Gross official reserves	41.7	29.1	19.6	1.8	2.8	5.7	6.3	6.1		
Fund obligations in percent of:										
Exports of goods and nonfactor services	1.6	3.2	4.5	0.2	0.1	0.1	0.1	0.0		
External debt service	5.1	12.1	18.4	0.6	0.5	0.4	0.3	0.3		
Gross international reserves	1.0	1.9	2.5	0.1	0.1	0.1	0.1	0.1		
Memorandum items:										
Exports of goods and nonfactor services (in millions of U.S. dollars)	139.5	189.7	227.9	248.2	271.9	295.8	313.1	344.7		
Gross official reserves (in months of imports)	5.0	5.7	6.2	4.9	4.8	4.7	4.6	4.5		

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Includes the prospective disbursements under the new three-year PRGF arrangement of SDR 8.01 million (10 percent of quota). From 2006, data is reported after MDRI relief.

Kigali, May 18, 2006

Mr. Rodrigo de Rato y Figaredo  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. de Rato:

1. Supported by debt relief under the Enhanced HIPC and the Multilateral Debt Reduction Initiatives, the Government of Rwanda is well placed to accelerate its reform agenda aimed at enhancing economic growth and reducing poverty. As noted in the recent Ex Post Assessment, Rwanda successfully recovered from the devastating 1994 genocide by reestablishing macroeconomic stability, liberalizing the economy and rebuilding institutions. Based on our poverty reduction strategy paper (PRSP) of 2002 and three annual progress reports, we intend to focus now on a new wave of reforms to raise productivity, particularly in the agriculture and export sectors, as this will be essential for making inroads in reducing poverty. Cognizant of the importance of regional stability for our economic development, the Government of Rwanda will also continue its peace keeping efforts, in cooperation with regional partners, the African Union, and the United Nations Organization.
2. Our program under the PRGF arrangement remained broadly on track in 2005. All quantitative performance criteria and indicative targets for end-June were met, with the exception of the Performance Criterion (PC) on priority spending. The latter was affected by absorptive constraints and a temporary spending restraint to contain reserve money growth. While priority spending also fell short of the end-September benchmark, it reached its programmed level by end-2005. On the structural front, the publication of the audit of Prime Holdings, a performance criterion for end-September 2005, was delayed to December 2005. As the nonobservance of both performance criteria was of a temporary nature, we are requesting waivers for the nonobservance of the quantitative PC on priority spending for end-June 2005 and of the structural PC on the publication of the Prime Holdings' audit.
3. In support of our policies described in the attached Memorandum of Economic and Financial Policies (MEFP), the Government of Rwanda requests the completion of the sixth and last review under the current PRGF arrangement and the disbursement of the seventh loan in an amount equivalent to SDR 0.571 million. It also requests a new three-year arrangement under the PRGF in an amount equivalent to SDR 8.01 million (or 10 percent of quota) and the disbursement of the first loan in an amount equivalent to SDR 1.14 million (1.43 percent of quota) under this facility.

4. The Government of Rwanda believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but we stand ready to take any further measures that may become appropriate for this purpose. Rwanda will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. The first review under the new PRGF arrangement is expected to be completed no later than end-November 2006, and the second review by mid-May 2007.

5. To facilitate a wide dissemination of the memorandum of economic and financial policies, the Government of Rwanda authorizes the Fund to publish it together with the related staff report, including on the IMF website.

Sincerely yours,

/ s /  
François Kanimba  
Governor  
National Bank of Rwanda

/ s /  
James Musoni  
Minister of Finance and  
Economic Planning

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

## Memorandum of Economic and Financial Policies of the Government of Rwanda

May 18, 2006

1. **This memorandum sets out the medium-term economic program of the government of Rwanda.** Our main objective is to advance in key reforms, as well as in building the capacity to design and monitor growth-enhancing and poverty-reducing policies. Upon expiration of the new PRGF arrangement, we hope that Rwanda would graduate from the use of Fund resources. This memorandum is consistent with the poverty reduction strategy paper (PRSP) of May 2002, and three annual progress reports, whose main objective is Rwanda's progress toward the Millennium Development Goals (MDGs) and reaching middle-income status by 2020.

### I. RECENT ECONOMIC DEVELOPMENTS

#### Program for 2005

2. **Macroeconomic performance strengthened in 2005 with policy implementation broadly on track.** A recovery in agricultural production coupled with strong activity in manufacturing, financial services and communication have been accelerating real growth to about 6 percent. Driven by increased food supplies, inflation declined as programmed to slightly below 6 percent at end-2005. However, difficulties in managing the considerably backloaded fiscal program led to temporary slippages in the third quarter of 2005, which were subsequently remedied. The current account deficit was lower than programmed, reflecting buoyant exports and domestic sterilization of the liquidity impact from the release of the fiscal contingency.<sup>1</sup>

3. **Despite a substantial acceleration in spending in the second half of the year, the end-2005 fiscal targets were met.** For the year as a whole, domestic spending (excluding demobilization and grant-financed peace keeping)<sup>2</sup> was more than 1½ percent of GDP higher than projected. This reflected the release of the contingency, but also unremunerated outlays on the peace-keeping efforts in Darfur, local elections and Gacaca trials, which were partly offset by lower wage and interest bills. Nevertheless, the end-2005 target on the domestic fiscal balance was met as tax revenue overperformed by ½ percent of GDP. However, spending was distributed unevenly over the year. We restrained spending in the first half of 2005 and, as a result, priority spending was 0.6 percent of GDP below the end-June performance criterion. While spending was accelerated starting in the third quarter, it was partly financed through the accumulation of domestic arrears of about one percent of GDP at end-September. Moreover, with continuing absorptive constraints, priority spending also fell

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<sup>1</sup> The 2005 program allowed a widening of the fiscal deficit by up to about 1½ percent of GDP from the release of specified contingent spending.

<sup>2</sup> Domestic spending is defined as expenditure and net lending excluding external interest and foreign-financed capital spending.

short of the September benchmark by 0.2 percent of GDP.<sup>3</sup> In the fourth quarter, however, the fiscal program was brought back on track as evidenced by the attainment of all fiscal benchmarks, including on domestic arrears clearance and priority spending.

4. **Monetary management was rendered difficult by large fluctuations in broad money and the backloaded fiscal program.** While all quarterly targets on reserve money were met, broad money fluctuated considerably and ended the year substantially higher than programmed, reflecting higher real growth, several large new projects and also new banking products. These fluctuations together with unusually strong seasonality in currency in circulation translated into instabilities in the money multiplier. Moreover, to ensure that increasing spending pressures in the last quarter of 2005 from the release of the fiscal contingency would not rekindle inflation, the National Bank of Rwanda (NBR) mopped up the liquidity impact through short-term instruments, resulting in an increase in domestic debt of 1½ percent of GDP in that quarter.

5. **Driven by strong exports, the current account deficit was lower than programmed.** Export receipts exceeded projections by 25 percent, owing to a large extent to an increase in coltan exports and also a move into higher-priced coffee markets, which more than offset a fall in coffee volumes. At the same time, a surge in foreign-financed imports mostly for construction and medication was offset by lower-than-programmed imports related to the utilization of project deposits.<sup>4</sup> As a result of these developments, and also due to the increased use of domestic sterilization instruments, net foreign assets substantially exceeded the end-year target and the reserve coverage increased to over 6 months of imports. Correspondingly, the gradual appreciation of the nominal and real exchange rate continued, by 9 percent and 13 percent, respectively, in 2005.

6. **While some structural reforms have not moved forward at the anticipated pace, substantial progress has been made in other areas:**

- To strengthen *public expenditure management* and as an intermediate step to a treasury single account (TSA), the government converted all bank accounts of line ministries and autonomous agencies into zero-balance accounts at the NBR ahead of the target date of September (performance criterion). We have also restructured administrative zones to make the delivery of decentralized services more efficient.<sup>5</sup> However, this restructuring delayed the passage of the Organic Budget Law (OBL)—the key legislation for further reforms in public expenditure management—to March

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<sup>3</sup> Also the end-September benchmark on new nonconcessional external debt was missed when the government guaranteed Electrogaz' expenses related to the lease of generators to address electricity shortages. The lease is for two years to cover the period until the Lake Kivu gas project becomes operational.

<sup>4</sup> Project deposits were at 5 percent of GDP at end-2005, 1.2 percent of GDP higher than in 2004.

<sup>5</sup> A Presidential decree (with agreement of Parliament) in December 2005 reduced the number of provinces from 8 to 5 and districts from 106 to 30.

2006. Moreover, we continued to face severe capacity constraints in both the accounting and auditing offices, partly due to delays in the reform of the core civil service which prevented us from hiring new staff. As a result, the three end-2005 benchmarks on moving to a TSA, the publication of reconciliation statements for most public entities,<sup>6</sup> and the preparation of a consolidated general government fiscal report were not met.

- On the *financial sector*, draft amendments to the banking law to strengthen the role of the NBR were submitted to stakeholders in December (benchmark). Moreover, the NBR reached an agreement on a restructuring plan for a problem bank, including a possible capital injection by shareholders.
- On *export promotion*, memoranda of understanding have been signed in December to clarify the roles of the most important agencies (the associated benchmark was not met, however, as two agencies signed only later in April) and the NBR has published a review of existing exporter financing schemes. We also expect tea exports to benefit from the recent privatization of three factories.
- With a view to enhancing transparency related to *Prime Holdings' two hotels*, we have published a financial audit and business plan of Prime Holdings in December 2005 (missed end-September performance criterion). As the auditors concluded that “it was not possible to determine if proper books of account were kept by the hotels”, we have canceled the contract with the management company and are in negotiations with the Intercontinental group to take on the management of the hotels.

**7. While all but two performance criteria for the sixth review and all quantitative end-2005 benchmarks were met, there were slippages in September.**

- Among the quantitative targets, the end-June 2005 performance criterion on priority spending was not observed. Moreover, three end-September benchmarks on the accumulation of domestic arrears, priority spending and nonconcessional external debt were missed.
- On the structural front, the end-September performance criterion on the publication of Prime Holdings' audit was not observed as were three end-December 2005

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<sup>6</sup> The treasury, the Rwanda Revenue Authority, line ministries, provinces, autonomous agencies, and extrabudgetary funds.



- benchmarks related to public expenditure management and the end-December 2005 benchmark on signing memoranda of understanding related to export promotion.

### **Outlook for 2006**

8. **Poor rains in past months are clouding the outlook for economic activity and food security in 2006.** A January Crop and Food Assessment Survey conducted by the Agriculture Ministry in conjunction with the USAID's Famine Early Warning System network projects a food deficit<sup>1</sup> of about ½ percent of GDP (US\$8.5 million) in the first half of 2006. Moreover, late rains so far this year could lead to a less-than-normal midyear harvest.

## **II. MEDIUM-TERM STRATEGY**

9. **Our medium-term strategy aims at promoting growth to reduce poverty and attain the MDGs.** Accordingly, the government is intensifying its efforts to remove obstacles to private sector development and improving the delivery of public services. Since poverty remains concentrated in rural areas, agricultural development will receive a high priority, as will improvements to infrastructure and energy supply. We are currently reviewing our development strategy in the context of the PRSP update, which we intend to complete in mid-2007.

10. **The medium-term macroeconomic framework is based on prudent projections for growth and external assistance.** This reflects Rwanda's continuing vulnerability to exogenous shocks and reduces the risk of policy errors. Moreover, some reforms, particularly in building human capacity, will take time to translate into higher growth rates. Nonetheless, we believe that there is a high possibility that steadfast implementation of our reform agenda will lead to substantially higher-than-projected growth and we hope that it could also facilitate higher levels of external assistance.

11. **Our key medium-term macroeconomic objectives are as follows:** (i) increasing real GDP growth gradually to 5 to 7 percent by 2009 and further beyond; (ii) maintaining inflation at around 5 percent; (iii) keeping an import cover of reserves of at least 4 months, facilitated by an increase in export receipts and a moderation in import growth when electricity generated by the Lake Kivu project is expected to replace diesel-generated electricity, which will substantially reduce fuel imports from 2007 onward (see paragraph 31); and (iv) increasing the revenue-to-GDP ratio to over 14½ percent of GDP by 2009 while allowing an increase in capital spending and a further reorientation of spending toward priorities.

12. **Agriculture, trade, and private sector-driven initiatives are expected to be the main sources of growth.** Increasing productivity in the agricultural sector will raise rural

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<sup>1</sup> Defined as the difference between the food requirement minus domestic production and projected imports.

incomes and, by ensuring food security, help in diversifying the economy. In trade, we aim at reducing transportation, energy and other transaction costs, strengthening trade-supporting institutions, and intensifying our regional cooperation. More generally, continuing macroeconomic stability, improving the delivery of public services and infrastructure, building human capital through better health and education services, and removing obstacles to private sector development should support private investment and an increase in total factor productivity. This is being supported by our efforts in securing lasting peace in the region, which could also facilitate access to larger markets.

13. **Resolving the energy crisis will be key in supporting higher growth.** The Lake Kivu project will reduce our dependence on expensive fuel-generated electricity and lower energy costs. In parallel, we are pursuing hydro-power projects to ensure that energy supply is not becoming a bottleneck to growth. While biomass will for the foreseeable future remain the main energy source, there is a need to conserve wood fuel through efficient conversion and also end-use technologies as well as addressing environmental degradation and health hazards primarily affecting women and children. Both extending electricity to rural areas and improving the management of biomass are expected to play a major role in developing rural areas, where poverty remains concentrated.

14. Managing the development process will be a challenge on various fronts:

- **Sustainable financing sources are needed.** Given the small export base, Rwanda will have to continue to rely on substantial grants in order to maintain external debt sustainability achieved through debt relief under the Enhanced HIPC and MDRI Initiatives. In parallel, the government is committed to further raising the revenue-to-GDP ratio.
- **Large investments in infrastructure and the social sectors could lead to pressures for an appreciation of the real exchange rate.** We will accommodate any such pressures through a nominal appreciation of the exchange rate to avoid a rekindling of inflation as well as a crowding out of private investment, both of which would be detrimental to our development strategy. To offset the adverse impact of a real appreciation on exports, we will continue to enhance the productivity of the sector.
- **To enhance accountability for the use of funds** both with respect to PRSP stakeholders and donors, we will continue advancing in public expenditure management reforms. This will strengthen domestic ownership and reassure our development partners that funds are used efficiently and as intended.
- **We are attaching a high priority to developing human resources and capacity building.** Retaining and motivating scarce technical and managerial experts is a particular challenge. The ongoing civil service reform is expected to address these issues and make our administration more efficient. We also expect that higher

spending on education and health will result in an overall better qualified work force in the long run.

### III. THE PROGRAM FOR 2006

15. **The 2006 program seeks to maintain macroeconomic stability while setting the stage for stronger medium-term growth.** It is based on a real growth rate of 3–5 percent, a further reduction in inflation to 5 percent,<sup>2</sup> and a level of international reserves of at least four months of imports. Fiscal policies will focus on improving the composition of expenditure toward priorities, while structural policies will aim at enhancing conditions for the private sector and managing the development process.

#### A. Macroeconomic Program

16. **Prudent management of the domestic demand impact of fiscal policies will be the first priority in the execution of the 2006 budget.** The domestic deficit (excluding spending on demobilization and peace keeping) is projected to increase by about one percent of GDP compared with 2005. Moreover, pressures for a real exchange rate appreciation are expected to continue from a likely drawdown of project accounts. To smooth the domestic demand impact of fiscal policies, we have distributed the quarterly path of expenditure as evenly as possible over the year. Moreover, to safeguard the monetary program and ensure that fiscal policy is not crowding out investment, we will

- make one percent of GDP in spending contingent on (i) grants coming in as programmed; and (ii) monetary developments being in line with projections. Prior to making a decision on the quarterly release of the contingency, we will reconfirm with our development partners the agreed timing of the budgetary grants, review monetary performance through the preceding months, and, in close consultation with Fund staff, ensure the consistency of the additional spending with the monetary targets.
- set up a monitoring system for in- and outflows for project accounts on a monthly basis, covering more than 70 percent of all project accounts at the NBR.<sup>3</sup> In particular, we will prepare rolling 12-month spending plans for these project accounts on a quarterly basis, broken down into foreign exchange and domestic spending. Issuing the first report (with specifics provided in Table 3) will be a performance criterion for end-August 2006.

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<sup>2</sup> The projections assume that the mid-year harvest will be normal and contain inflationary pressures, which reemerged in February due to food shortages (12-month inflation in March was about 7 percent). Macroeconomic policies are based on the lower end of the projection.

<sup>3</sup> See paragraph 42 of the technical memorandum of understanding for a list of accounts.

## B. Fiscal Policy

17. Fiscal policies have been designed with two main objectives:
- On the *revenue front*, we aim to at least maintain the current revenue-to-GDP ratio of 14.1 percent of GDP (excluding one-off nontax and tax revenue of 1 percent of GDP in 2005). Revenue losses amounting to about 0.3 percent of GDP are expected in taxes from imports, arising from some nominal appreciation of the exchange rate, but also the reduction in import duties on agricultural inputs. To offset these losses, we have put in place measures, which we describe in paragraph 18.
  - The focus on *expenditure* lies in improving the quality of spending both by allocating more funds to PRSP priority spending as well as by improving the delivery of public services. However, should further food shortages emerge, we stand ready to reallocate funds, if needed, to ensure food security.

### 2006 Budget

18. We have implemented the following measures to prevent a decline in the domestic revenue ratio:
- We have increased in December 2005 and again in February 2006 the reference prices for petroleum products with an estimated revenue gain of 0.1 percent of GDP. This will reduce the implicit subsidy, which we have provided by lowering the petroleum excise tax to cushion the recent oil price increase.<sup>1</sup> If the fall in import-related taxes due to the appreciation of the exchange rate is higher than expected, we will further reduce the petroleum subsidy. Moreover, we will undertake a review of the subsidy (to be completed by June 2006) with respect to its sustainability and the impact on the poor. We have also increased fees and charges, including for permits and visas, and reduced exemptions from their payment, resulting in additional revenue of about 0.2 percent of GDP.
  - Our recent review of tax incentives highlights revenue losses of about 3 percent of GDP, but also indicates that most incentives can either not be repealed or, if so, would yield a minimal revenue gain relative to the administrative effort. While the new income tax laws implemented in January 2006 provide additional incentives in support of PRSP priorities, we will review applications carefully to prevent abuse. Moreover, all exporters are now being managed by the large taxpayer department to ensure close scrutiny.

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<sup>1</sup> The subsidy amounted to about 2 percent of GDP in 2005.

19. **The composition of spending will be further oriented toward PRSP priorities, envisaging an increase in priority spending by 0.9 percent of GDP, while nonpriority spending is expected to fall (see text table).**

**Priority and Nonpriority Spending, 2005-06**  
(in percent of GDP)

	2005	2006
Domestic spending excl. grant-financed AU peace keeping and demobilization	20.1	20.2
Priority	10.1	11.0
Nonpriority	10.0	9.2
One-off spending	3.1	3.0
Peace-keeping	0.7	0.2
FARG--genocide survivors	0.6	0.7
Gacaca	0.4	0.1
Elections	0.2	0.3
Net Lending	0.6	0.4
Domestic interest	0.4	0.6
Police plot	0.1	0.0
Elektro gaz tax subsidy	0.1	0.3
Transfer to central bank to cover 2005 losses	0.0	0.3
Other Nonpriority	6.9	6.2

- *Priority spending* will focus both on the social sectors and productivity-enhancing strategies. Spending in education and health will increase by 0.6 percent of GDP, reflecting the elimination of school fees for the first three years of secondary education and programs in health, which have been agreed in the context of the PRSC II. We have also increased the allocations for the decentralization process by 0.2 percent of GDP to improve public service delivery. As poverty remains widespread and higher than before the genocide, we will start monitoring priority spending more directly targeted to alleviate poverty, defined in close coordination with donors. With respect to productivity-enhancing strategies, we are maintaining the allocation for agriculture, while there is a slight reduction in infrastructure and energy spending as outlays related to the Lake Kivu project are lower than in 2005
- *Nonpriority spending* will decline, reflecting mostly substantial savings from our new vehicle fleet policy. While there are some increases in one-off spending items (such as the domestic interest bill, the Elektrogaz fuel subsidy,<sup>2</sup> and for the FARG fund), they are offset by a decline in other one-off items.

<sup>2</sup> The retail electricity tariff was increased by almost 40 percent in November 2005 to take into account the costs of additional diesel generators. A revised tariff, including some cross-subsidization of the poor, will be operational by September 2006.

20. **On specific spending items:**

- *AU and UN peace keeping in Darfur.* The Auditor General has published an audit of our peace keeping activities in 2005 (prior action), noting that all funds have been used for their intended purpose. While part of the peacekeeping costs in 2006 (estimated at 0.2 percent of GDP) will require budgetary resources, we expect the operation will be cost neutral over the medium term, as shown in Table 1 of the TMU, presenting a medium-term revenue/cost statement for the peace keeping efforts in line with our understandings with the UN and AU. We also expect a reimbursement for part of our expenses in 2005 (0.2 percent of GDP) later in 2006. Moreover, we will maintain a separate monthly ongoing accounting.
- *Sterilization costs and NBR losses.* As in 2005, the budget will take over the sterilization cost of monetary operations. Moreover, in March we have transferred 0.3 percent of GDP from the government's deposits to the NBR to cover valuation losses due to the exchange rate appreciation in 2005 and ensure that NBR's balance sheet remains sound.

21. **We are prepared to react swiftly in the case of a food emergency, including by using the MDRI relief.** We are closely monitoring the situation together with our development partners to ensure that, in the case of an emergency, there is sufficient time for procurement. Moreover, the government has set aside the resources freed-up by the Fund's MDRI flow relief in 2006 (US\$8 million) to cover food shortages remaining after donors' support.<sup>3</sup> In case further budgetary resources are needed, the program would be adjusted by allowing an increase in the deficit and a commensurate reduction in net foreign assets.

**Fiscal structural reforms**

22. **The reform of the core civil service is advancing and we will design a medium-term reform program for the entire civil service with World Bank assistance.** The core civil service has been substantially streamlined to allow the implementation of a new pay structure, which will better motivate civil servants, improve the retention of qualified staff and be cost neutral over the medium term. Further reforms will aim at restructuring public institutions according to the ongoing territorial reorganization and a review of the legal framework, including the performance appraisal and a code of conduct. Moreover, in the context of a medium-term needs assessment particularly in the social areas, we will review with the World Bank the wage structure of the entire civil service, including fringe benefits and wages included in transfers to local governments (end-December 2006 benchmark).

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<sup>3</sup> If this contingency is not needed, we will use the resources freed-up by the Fund's MDRI relief of US\$8 million for poverty-related spending (paragraph 13). The World Bank's and the African Development Fund's flow MDRI relief in 2006 will be used for Lake Kivu. The further use of MDRI relief will be discussed at the first review and implemented through a supplementary budget.

23. **The passage of the OBL and legislative changes related to the restructuring of local governments are expected to revive the momentum in public expenditure management reforms.** Specifically, we intend to implement the following measures:

- **OBL regulations.** To prepare for the effective implementation of the OBL, we plan to issue the financial regulations for the OBL by end-September 2006.
- **Reporting practices and auditing of accounts.** As the accounting and auditing functions have been severely constrained by the lack of qualified staff, we have started in May 2006 the three-year training of about 250 accountants who will work in parallel in the civil service after their initial 6 month training. We have also hired a consulting firm to prepare consolidated government accounts for 2006 by March 2007. Moreover, we are developing draft accounting instructions, forms and procedures for budget users, which we intend to finalize and issue by end-2006 (benchmark).
- **Systematic reconciliation.** We have extended the accounts reconciliation exercise from the treasury and RRA to line ministries, autonomous agencies, and extra-budgetary funds, but compliance has been weak. To enforce this requirement, we have issued a circular to line ministries, provinces, autonomous agencies and extra-budgetary funds, setting a deadline for the reconciliation process, prescribing a reporting mechanism, and setting penalties for noncompliance (prior action). The government will also issue guidelines on doing bank reconciliations and accounting for these entities by end-October 2006 (benchmark) and, where required, provide additional training during 2006. Finally, we are exploring possibilities to also reconcile project accounts and hope to start doing so in the first half of 2007 with World Bank accounts as the pilot case.
- **TSA.** Moving to a TSA has been delayed as it is linked to the approval of the OBL, but the conversion of all government bank accounts to zero-balance accounts has achieved almost all of the advantages of a TSA with the exception of donor-funded project bank accounts. Moving to a TSA is also dependent on the implementation of the payments system reforms. Nonetheless, in moving toward a TSA, we have prepared an analysis of government bank accounts with the NBR, identifying which of them should be closed (mainly dormant project accounts), brought under the TSA, or kept separately for operational purposes (such as those of self-financing agencies) (prior action). We will do the same exercise for government accounts with commercial banks by end-September 2006. We have also started the training of cash flow managers and, after a test phase, we plan to extend the use of 3-month rolling cash flow plans to agencies by end-2006, as is already practice with line ministries.
- **Publication of Accounts.** To enhance fiscal transparency in the interim, we will start publishing budget execution reports on a monthly basis (with a lag of no more than 6 weeks to the end of the month) in May, and data on priority spending on a quarterly basis (with a lag of no more than 2 months) starting in June 2006.

### C. Monetary Policy

24. **We are monitoring developments in the money multiplier to ensure that money is serving as a nominal anchor.** Monetary policy aims at further reducing inflation to 5 percent by end-2006 by limiting reserve money growth to 13 percent, while allowing a sizable increase in private sector credit. To minimize the risk that the recent increase in broad money reflects a lowering of lending standards, the NBR has stepped up the supervision of banks with rapid credit growth. Moreover, the NBR will start encouraging a shift into longer-dated sterilization instruments to reverse the shortening of maturities during 2005, which could jeopardize the program's inflation objective. Should new inflationary pressures emerge, the NBR stands ready to tighten its policy, including through increasing interest rates.

25. **The NBR's intervention policy will be key to managing the domestic demand impact of fiscal policies.** In particular, we will mop up the liquidity impact of domestic spending predominantly through the sale of foreign exchange to ensure that execution of the 2006 budget neither rekindles inflation nor requires costly domestic sterilization and an increase in domestic debt, which crowds out private investment by raising interest rates. The NBR's intervention strategy thus will aim to accommodate upward pressures on the real exchange rate through a nominal appreciation (i.e., by raising foreign exchange sales) while smoothening short-term market fluctuations. Moreover, the NBR has requested technical assistance from the IMF to make the current foreign exchange operations system better suited to large donor inflows<sup>4</sup> and also to develop and deepen the interbank foreign exchange market.

### D. External Sector

26. **Due to temporary import increases, we expect the current account deficit (excluding current official transfers) to widen by more than 2 percent of GDP compared with 2005.** Exports receipts are expected to grow by at least 6 percent, mostly reflecting an increase in the volume and quality of coffee. In imports, a temporary surge is expected due to a high demand for capital goods stemming from the Lake Kivu project and an expected drawdown of project accounts. Moreover, higher diesel imports to fuel new generators leased by Elektrogaz (and in 2007 to be replaced by the Lake Kivu project) are expected to temporarily increase the oil bill.

27. **The implementation of debt relief under the enhanced HIPC Initiative is advancing.** Most multilateral creditors have provided financing assurances for HIPC completion point assistance and, except for the EU, OPEC Fund, and IFAD, agreed to provide topping up assistance. Among Paris Club creditors, bilateral agreements are in place with Austria, Japan, France, and the USA, and those with Canada and the Netherlands should

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<sup>4</sup> The existing foreign exchange system was designed at a time of scarcity of foreign exchange reserves.



follow shortly. Regarding non-Paris Club creditors, China has indicated willingness to cancel all its claims whereas Saudi Arabia and Kuwait stated they were not prepared to deliver further debt relief. Debt owed to Libya and the Abu Dhabi Fund continues to be passive.

28. **Public debt management is being upgraded, aided by Debt Relief International.** The Sous-Comité de la Dette (charged with coordinating debt management) has been made operational and has formulated an action plan for 2006, which will be monitored through quarterly meetings. As part of this plan, we will reconcile by end-September 2006 the debt databases maintained by the Ministry of Finance and the NBR as of end-June 2006 (benchmark) and publish the first reconciliation statement as well as our general public debt management policies by end-2006. Finally, to ensure timely and full payment of debt service to BADEA, the draft debt rescheduling agreement includes a schedule for principal payments and envisages the forgiveness of interest payments, which in the past have led to misunderstandings.

### E. Structural Policies

29. **Structural policies will aim at enhancing the prospects for private-sector led growth.** To this end, we will focus on export promotion, the energy sector, financial sector reform, the business climate, and the agricultural sector.

#### Export promotion

30. **With clear responsibilities established for all agencies involved in export promotion and RIEPA's monitoring system in place, our export promotion strategy is now focused on specific sectoral measures:**

- **Coffee.** The role of OCIR-Café has been strengthened to focus on regulation and extension services along with facilitating the provision of critical inputs. OCIR-Café will also seek to support research and the development of growers associations. In parallel, RIEPA is promoting our coffee in the specialty market through fairs and exhibitions.
- **Tea.** The pricing structure was last revised in July 2005 and a comprehensive review of the pricing study will be finalized by end-2006. With respect to the remaining state-owned farms, efforts will be geared toward improving quality and developing specialty markets.
- **Mining.** Privatization Secretariat along with the Ministry of Mining has completed negotiations with three strategic investors, including a joint venture with a South African investor, for the exploitation of existing mines commencing in April 2006. Moreover, a study on Rwanda's mineral potential and the modernization of the legal framework is expected to be completed in May 2006.

- **Tourism.** We are seeking to attract investors to construct two new hotels in the national parks. In addition, the Rwanda Tourism and Hospitality College has commenced operation in April 2006 to train staff for the hospitality industry.
- **Export Processing Zone (EPZ).** RIEPA has developed the terms of reference for the development of an EPZ, which is expected to become operational in the second half of 2007.
- **Hides and skins.** A strategy paper for the sector will be completed by June 2006, including the possibility of establishing a leather development center. Moreover, we have repealed the ban on raw hides and skins, which we had temporarily imposed to encourage increasing the value-added in Rwanda.
- **New export products.** An export diversification study is currently being conducted, including on horticulture, fruits, handicrafts, and the ICT sector.

### **Electricity sector**

31. **The Lake Kivu methane gas project is advancing as scheduled.** The project is expected to generate 35 MW of electricity (about the size of current generation) and result in a substantial reduction in power purchase tariffs to about one quarter of the current level. As planned, the costs for the government will not exceed 2 percent of 2005 GDP, consisting of (1) the government's equity share (Euro 3.96 million for a 30 percent stake in the project company); (2) a government soft loan (Euro 5 million) to the project company; (3) a government contribution to sponsor support for cost overruns (up to Euro 10 million); (4) a letter of credit (Euro 2.7 million) for offtake payments; and (5) an offtake guarantee of Elektrogaz's payment obligation to the company for power purchase in the form of bonds (Euro 10.7 million). As an additional enhancement for the project company, the government has requested the World Bank to provide a guarantee to backstop its political risk associated with the offtake arrangements (expected to be about Euro 12.5 million). For 2005, our costs amounted to the equity stake. For 2006, we have included in the program spending of Euro 5.6 million linked to the government soft loan. Senior loans will be provided by PTA Bank, Emerging Africa Infrastructure Fund (EAIF), the IFC, The Netherlands Development Finance Company (FMO), and Finnfund. The project sponsors have signed a mandate letter with the IFC and EAIF, who are jointly undertaking the due diligence and coordination with other financiers.

32. **We are also developing other energy sources.** Studies in cooperation with donors are undertaken on the viability of two hydropower projects. We are also focusing on several rural energy projects, which are scheduled to commence before year-end. These include a biomass project, which is expected to result in a more efficient production of charcoal and also involves an improvement of stoves to make them more economical and environment friendly. Moreover, there are projects on biogas, solar energy, and micro dams.

## **Financial sector**

33. **NBR's supervisory powers continue to be strengthened.** We are incorporating comments on the amendments to the banking law from stakeholders and cabinet with a view to submitting them to parliament by end-September 2006 (performance criterion). Moreover, in cooperation with technical assistance from the Fund, the NBR will devise an action plan by end-2006 to enhance commercial banks' foreign exchange risk management, to set up the monitoring of new financial products such as leasing, and, jointly with the National Payments Council, address weaknesses in the SIMTEL payments system.

34. **We are in the process of developing an agenda for medium-term financial sector reform.** As reported in our memorandum of August 2005, the agenda will aim at (1) enhancing the legal and regulatory framework; (2) fostering the development of financial markets; and (3) broadening access to credit. While we encourage capital market development, we do not intend to provide any budgetary resources for the establishment of a stock exchange or a cooperatives bank. As we have focused on the implementation of the short-term FSAP recommendations in 2005, the donors meeting on the medium-term agenda has been delayed, possibly to December 2006.

## **Business environment**

35. **Addressing the obstacles to trade identified in the Diagnostic Trade Integration Study (DTIS) will substantially improve the business climate and also reduce poverty.** In this regard, we will prioritize the DTIS' main recommendations and set up a system to monitor their implementation in the context of the Economic Development and Poverty Reduction Strategy (EDPRS). Moreover, we will develop an action plan to reduce the number of documents and signatures required for importation and exportation, thereby reducing the number of days taken for cross border trade.

- **To improve our road network,** we will establish a Road Agency charged with developing a medium-term agenda for road construction, rehabilitation and maintenance and also road-related policies, procurement for contracts and supervision of road works.
- **To remove the barriers to participation in commercial activities and trade,** the Private Sector Federation has started to establish Business Development Services, which are offering a range of services for small enterprises, including information dissemination, training, access to financing, networking and consulting. Moreover, in preparation for accession into the EAC, we will strengthen the customs department and review the customs code.
- **To improve the climate for investment,** we have undertaken a review of our business laws and designed a road map to improve existing institutional structures, followed by legal reforms to update or put in place business relevant legislation. To

this end, Cabinet will approve by October 2006 draft laws on establishing a commercial registration agency and on intellectual property (benchmark).

### **Agricultural sector**

36. **Increasing agricultural productivity and raising rural incomes will be essential to fighting poverty and enhancing growth.** Our agricultural strategy is based on four pillars. The first pillar focuses on improving irrigation. To this end, we have implemented pilot projects and will finalize by end-February 2007 a Master Plan to expand the successful pilots. Second, we will intensify our efforts to control soil erosion to increase the share of arable land under erosion protection to more than 50 percent by end-2006 from below 40 percent at end-2005. Third, to increase productivity, we are easing supply constraints on the use of fertilizer and also work at improving seed quality with a view to adopt and publish a national fertilizer distribution strategy by end-February 2007 (benchmark). The fourth pillar consists of integrating livestock development into land farming, including by strengthening veterinary services. The agricultural strategy is being supplemented by the gradual implementation of the recently adopted land law. To implement the law, we have started pilot projects on land registry and dispute resolution and will develop, with the assistance of DFID, a road map on rolling out these programs by end-2007.

### **F. Program Monitoring**

37. **Macroeconomic unit at the Ministry of Finance.** We have hired new staff for the unit and we are developing a training program to strengthen macroeconomic management (including the coordination between fiscal and monetary policies) and the monitoring of the program.

38. **Conditionality and program reviews.** The first year of the proposed PRGF-supported program would be monitored through quantitative performance criteria for end-June and end-December 2006 and indicative targets for end-September 2006, as well as quarterly quantitative indicators. We have also set structural conditionality in the areas of public expenditure management, governance, and reforms in the financial sector, civil service, and agriculture. The first review under the PRGF arrangement, scheduled for completion by November 30, 2006, will review quantitative performance as of end-June 2006 and structural conditionality through end-September 2006. It will focus on public expenditure management, the energy sector, and private sector development.

39. **Technical memorandum of understanding (TMU).** The attached technical memorandum of understanding lays out the details of the program design and terminology. We have maintained the broad design of the PRGF arrangement during 2002-06.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks 2005  
(In billions of Rwanda francs, unless otherwise indicated)  
(Quantitative benchmarks\*, and performance criteria on test dates\*\*)

	2005 1/			
	Mar.*	Jun.**	Sep.*	Dec.*
<b>Benchmarks and performance criteria</b>				
Net foreign assets of the NBR (floor on stock) 2/				
Actual (program exchange rate)	133.5	139.0	137.9	185.6
Adjusted program	108.1	103.0	98.8	115.5
Program	109.5	108.3	103.5	101.6
Reserve money (ceiling on stock)				
Actual	58.0	59.2	59.2	62.6
Program	58.8	60.6	61.8	63.0
Net credit to the government (ceiling) 3/ 4/				
Actual	-8.0	-18.8	-21.4	-32.5
Adjusted program	3.3	-0.8	-0.5	-20.6
Program	1.9	-6.1	-5.2	-6.6
Domestic fiscal balance (floor on cumulative flow since Dec. 31, 2004)				
Actual	-1.1	-13.0	-43.7	-67.6
Adjusted program	-11.2	-30.6	-50.0	-83.6
Program	-12.4	-32.8	-48.4	-61.8
Total priority spending (floor on cumulative flow since Dec. 31, 2004)				
Actual	4.4	48.7	81.1	120.3
Adjusted program	23.8	55.6	85.3	119.4
Program	23.8	55.6	81.8	109.2
New nonconcessional external debt (ceiling on flow) 5/				
Actual (in million of US\$)	0.0	0.0	7.2	0.0
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 6/				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
Stock of outstanding nonreschedulable external arrears (ceiling on stock) 7/				
Actual	0.00	0.06	0.0	0.0
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on cumulative net accumulation since Dec. 31, 2004)				
Actual	-3.4	-5.9	5.9	-7.0
Adjusted program	-3.3	-5.9	-17.3	-6.5
Program	-3.3	-5.9	-6.2	-6.5
<b>Indicative targets</b>				
Broad money (ceiling on stock) 2/				
Actual	191.3	201.3	200.8	219.6
Program	190.0	192.5	195.4	198.3
Extended Broad money (ceiling on stock) 2/				
Actual	214.8	229.5	229.5	250.9
Program	213.9	216.7	232.9	223.2
<b>Memo items:</b>				
Demobilization and reintegration expenditure				
Actual	1.0	2.2	4.7	7.5
Expected	2.2	4.4	6.6	8.8
Gross accumulated bills payable				
Actual	0.5	0.9	12.6	1.2
Expected	0.5	1.0	1.5	2.0
General budget support (in US\$ million)				
Received	30.3	86.9	121.4	229.6
Expected	32.7	96.2	129.7	169.7
Of which: budget support grants (received)	29.9	80.6	113.7	197.7
Of which: budget support grants (expected)	32.7	77.2	110.7	150.7

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Approved on April 11, 2005.

2/ Evaluated at the following program exchange rates of Rf 566.9/US\$ for 2005.

3/ From June 2005 onward, program monitors total net credit to government instead of net credit from the banking system.

4/ Numbers are cumulative from end-December 2004.

5/ The end-September benchmark was not met when the government guaranteed Elektrogaz' expenses related to the lease of generators.

6/ Ceiling on outstanding stock of external debt (excluding normal import-related credits) owed or guaranteed by the central government, local government, or the NBR with original maturity of up to, and including, one year. Figures in millions of U.S. dollars.

7/ Figures are in US\$ dollars. Arrears of US\$60 (sixty) were accumulated with BADEA in May 2005; they were repaid in July 2005. The Board granted a waiver for the nonobservance in August, 26, 2005. This is a continuous performance criterion, implying that the stock of outstanding nonreschedulable external arrears is expected to be constantly kept at zero throughout the program period.

Table 2. Rwanda: Quantitative Performance Criteria and Benchmarks 2006  
(In billions of Rwanda francs, unless otherwise indicated)  
(Quantitative benchmarks\*; and performance criteria on test dates\*\*)

	2006			
	Mar.	Jun.**	Sep.*	Dec.**
<b>Benchmarks and performance criteria</b>				
Net foreign assets of the NBR (floor on stock) 1/				
Actual (program exchange rate)	...	...	...	...
Adjusted program	...	...	...	...
Program	212.9	221.3	203.7	172.4
Reserve money (ceiling on stock)				
Actual	...	...	...	...
Program	64.9	68.4	69.8	70.8
Net credit to the government (ceiling on flow) 2/				
Actual	...	...	...	...
Adjusted program	...	...	...	...
Program	-23.8	-41.5	-24.1	-10.0
Domestic fiscal balance (floor on flow) 2/				
Actual	...	...	...	...
Adjusted program	...	...	...	...
Program	-19.2	-42.2	-61.1	-79.4
Total priority spending (floor on flow) 2/				
Actual	...	...	...	...
Adjusted program	...	...	...	...
Program	32.1	70.5	107.1	144.0
New nonconcessional external debt 3/				
Actual	...	...	...	...
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock) 3/ 4/				
Actual	...	...	...	...
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 5/				
Actual	...	...	...	...
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow) 2/				
Actual	...	...	...	...
Program	-1.8	-3.5	-5.3	-7.0
<b>Indicative targets</b>				
Broad money (ceiling on stock) 1/				
Actual	...	...	...	...
Program	219.5	224.0	235.7	243.1
Extended Broad money (ceiling on stock) 1/				
Actual	...	...	...	...
Program	250.8	256.0	269.3	277.8
Memo items:				
General budget support (in US\$ million) 6/				
Received	...	...	...	...
Expected	16.0	102.5	117.1	123.1
<i>Of which:</i> budget support grants (received)	...	...	...	...
<i>Of which:</i> budget support grants (expected)	16.0	102.5	117.1	123.1
Budgetary "baseline grants" (TMU, para. 8) 6/	16.0	95.5	103.1	103.1

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

1/ At the program exchange rate of Rf 553.7/US\$ for 2006.

2/ Numbers are cumulative from December 31, 2005.

3/ This is a continuous performance criterion.

4/ Excludes arrears on obligations that are subject to rescheduling.

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

6/ Excluding external donor financing for demobilization and peacekeeping.

Table 3. Rwanda: Structural Conditionality

Publication of an audit report by the Auditor General of the 2005 UN peace keeping activities in Darfur.		Prior Action for the new PRGF
Issue a circular on bank reconciliations to line ministries, provinces, autonomous agencies and extra-budgetary funds, setting a deadline for the reconciliation process, prescribing a reporting mechanism, and setting penalties for noncompliance.		Prior Action for the completion of the sixth review
Prepare an analysis of government bank accounts with the NBR, identifying which of them should be closed (mainly dormant project accounts), brought under the TSA, or kept separately for operational purposes.		Prior Action for the completion of the sixth review
<b>Public expenditure management</b>		
Issue draft accounting instructions, forms and procedures for budget users.	December 31, 2006	Benchmark
Issue guidelines on doing bank reconciliations and accounting for line ministries, provinces, autonomous agencies, and extra-budgetary funds.	October 31, 2006	Benchmark
Issuing the first report of a monitoring system of project accounts. The report will show (1) the in- and outflows (the latter broken down into foreign exchange and domestic spending) on a quarterly basis of project accounts at the NBR listed in paragraph 42 of the TMU for January-March 2006 and April-June 2006; and (2) rolling spending plans for the accounts on a quarterly basis, broken down into foreign exchange and domestic spending for July 2006-June 2007.	August 31, 2006	Performance Criterion
<b>Governance</b>		
Reconcile the data bases maintained by the Ministry of Finance and the National Bank of Rwanda of the debt service payments as of end-June 2006.	September 30, 2006	Benchmark
Cabinet to approve draft laws on establishing a commercial registration agency and on intellectual property.	October 31, 2006	Benchmark
<b>Financial sector</b>		
Submit to Parliament amendments to the banking law to bring the legal framework for banking supervision more in line with international best practice (Basel Core Principles). The amendments to the banking law shall, as a minimum, and consistent with the Aide-Memoire entitled " <i>Revision of Legal Framework for Banking Supervision – Amendments to Central Bank and Banking Law</i> " dated December 2005: (i) provide limits on large exposures and connected lending, i.e., by eliminating carve-outs for mortgage collateral, and prudential safeguards against connected lending; (ii) grant NBR power to approve and refuse the acquisitions of significant ownership holdings and powers to enforce refusal decisions in cases of non-compliance; (iii) provide NBR with powers to regulate banks' corporate governance; (iv) provide NBR with a set of specific corrective measures against unsound banking practices; and (v) provide a framework for NBR to impose reorganization and liquidation measures on banks, whereby the role of the special commissioner is strengthened.	September 30, 2006	Performance Criterion
<b>Civil service reform</b>		
Undertake a comprehensive review of the wage structure of the public sector, including fringe benefits and wages included in transfers to local governments.	December 31, 2006	Benchmark
<b>Agricultural sector</b>		
Adopt and publish a national fertilizer distribution strategy.	February 28, 2007	Benchmark

## Rwanda—Technical Memorandum of Understanding

May 18, 2006

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

### I. QUANTITATIVE PROGRAM TARGETS

2. Performance criteria for June 30, 2006, and December 31, 2006 as well as indicative targets for September 30, 2006 are proposed to be established with respect to:

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

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

4. Indicative targets are proposed to be established for end-June 2006, end-September 2006, and end-December 2006 for ceilings on broad money and extended broad money.

### A. Institutional Definitions

5. The **central government** comprises the treasury and line ministries.

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



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

### Domestic fiscal balance of the Central Government (DFB)

7. A floor applies to the DFB, which is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006 and end-December 2006 targets.

8. **Definition.** The domestic fiscal balance is defined as domestic revenue (excluding grants, in particular the capital grant in connection with the IMF's MDRI debt relief) minus domestic spending. Domestic spending is defined as current expenditure (excluding external interest due, spending related to Rwandese troops involved in the UN peace-keeping efforts (Table 1), and spending related to the World Bank-led demobilization and reintegration program) plus domestically-financed capital expenditure on a payment order basis, plus net lending.

### 9. Adjusters.

- The floor on the DFB will be *adjusted upward* (that is, the deficit target will be reduced) by the amount of contingent spending, which is not undertaken. Contingent spending is US\$20 million (about one percent of GDP). It will be released in equal portions for priorities and nonpriorities in the amount that actual budgetary grants exceed "baseline grants" (see below) IF the monetary program is on track as evidenced by meeting the quarterly targets on reserve money. Budgetary grants include HIPC Initiative-related grants, but exclude grants related to AU peace keeping activities and for the demobilization program as well as capital grants related to the development budget. Quarterly programmed budgetary grants and quarterly "baseline grants" are also provided in Table 2 of the MEFP.
- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure deemed integral to a specific privatization operation (to be recorded under net lending) IF the difference between privatization revenue and this expenditure is positive (see also paragraph 12).
- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure for food imports (in addition to US\$8 million included in the program) (see also paragraphs 12 and 23).

10. **Reporting requirement.** Data on the DFB and its adjusters will be transmitted, with detailed explanations, on a monthly basis within four weeks of the end of each month.

### Net credit to the Central Government (NCG)

11. A ceiling applies to the NCG, which is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006 and end-December 2006 targets.

12. **Definition.** For program monitoring purposes, the NCG will be calculated as the change from end-December 2005 of net credit from the banking system and the change of holdings of treasury bills and other government securities by the nonbank sector. Net credit from the banking system is defined as the difference between:

- credit to government from the banking system, including credit to central government, provinces and districts, outstanding central government debt instruments; government debt to the NBR incurred as a result of the 1995 devaluation (RF 9 billion) and the overdraft to the prewar government (RF 2 billion); and
- total government deposits with the banking system of the central government, including the main treasury account, line ministries, the fund for assistance to genocide survivors, Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, and any other of the 15 autonomous agencies. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for provinces and districts, project accounts, counterpart funds, *fonds publics affectés*, and privatization proceeds with the NBR).<sup>1</sup> In particular, NCG is not affected by credit to or deposits of public enterprises and autonomous public agencies.

13. **Adjusters.**

- The ceiling on NCG will be *adjusted upward* by the amount of any negative difference between actual and “baseline grants” up to a maximum adjustor of US\$30 million, evaluated in Rwanda francs at the program exchange rate.
- The ceiling on NCG will be *adjusted downward* by any positive difference between actual and programmed budgetary external grants and loans.
- The ceiling on the NCG will be *adjusted downward* by the amount of privatization revenue IF the difference between this revenue and any expenditure deemed integral to the privatization operation is positive (see also paragraph 8).
- The ceiling on the NCG will be *adjusted upward* by the amount of expenditure for food imports (in addition to US\$8 million included in the program) in the case of a food emergency (see also paragraph 8 and 23).

14. **Reporting requirement.** Data on the NCG (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits) and its adjusters will be transmitted on a monthly basis within three weeks of the end of each

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<sup>1</sup> The target excludes any transfers from the deposits over which the government has limited control into other government deposits.

month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies.

### **Priority expenditure**

15. A floor applies to priority spending of the central government, which is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006 and end-December 2006 targets.

16. **Definition.** Central government priority spending is defined as the sum of those recurrent expenditures and domestically-financed capital expenditures that the government has identified as priority in line with the PRSP process. The definition of priority expenditures is based on the program classification of the annual budget. Table 2 provides a summary of the SIBET output<sup>2</sup> and a list of the main programs. It includes US\$8 million of priority spending, which has been set aside as a contingency in the case of a food deficit. If the food situation at end-April does not require government intervention, it will be used for other priority spending.

17. **Adjuster.**

- The floor will be *adjusted downward* by contingent priority spending, which is not undertaken (see paragraph 8).

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

### **Net accumulation of domestic arrears of the Central Government**

19. A ceiling applies to the net accumulation of domestic arrears of the central government, which is measured cumulatively from December 31, 2005 for the end-June, end-September and end-December 2006 targets.<sup>3</sup>

20. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding on December 31, 2005 (including repayment of float in 2005 and the repayment of older arrears).

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<sup>2</sup> The computerized SIBET expenditure management system tracks priority spending at the program and sub-program levels.

<sup>3</sup> A negative target thus represents a floor on net repayment.

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

### C. Targets for Monetary Aggregates

#### 22. **Net foreign assets of the National Bank of Rwanda (NFA)**

A floor applies to the NFA of the NBR for the end-June 2006, end-September 2006 and end-December 2006 targets.

23. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets are to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate.<sup>4</sup> Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

24. **Adjusters** (see paragraph 12 for symmetric adjusters to the NCG, including definitions)

- The floor on NFA will be *adjusted downward* by the amount of any negative difference between actual and “baseline grants” up to a maximum adjuster of US\$30 million, evaluated at the program exchange rate.
- The floor on NFA will be *adjusted upward* by any positive difference between actual and programmed budgetary external grants and loans.
- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports (in addition to US\$8 million included in the program) in the case of a food emergency (see also paragraph 8 and 12).

25. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week. Data on the

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<sup>4</sup> The program exchange rate for the 2006 program is set at RF 553.7 = US\$1 (actual exchange rate of October 21, 2005).

NBR's foreign exchange liabilities to commercial banks (held as required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

### **Reserve money**

26. A ceiling applies to the stock of reserve money for the end-June 2006, end-September 2006 and end-December 2006 targets.

27. **Definition.** Reserve money for the monetary program is defined as currency in circulation, reserves of deposit money banks (excluding NBR borrowing from deposit money banks on the money market<sup>5</sup> but including cash in vault held by commercial banks), and deposits of public enterprises (including Caisse Sociale du Rwanda (CSR) and other autonomous public agencies (*dépôts des établissements publics assimilés à l'état*), deposits of nonbank financial institutions, and deposits of the private sector (*autres sommes dues à la clientèle* are included in reserve money). Reserve money excludes the deposits of the Caisse d'Épargne du Rwanda (C.E.R.) with the NBR up to RF 1 billion, the dormant accounts up to RF 1.4 billion, and import deposits placed at the NBR (*cautions à l'importation*) up to a maximum amount of RF 150 million.

28. **Adjuster.**

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks by the amount of (new reserve ratio - program baseline reserve ratio) multiplied by the reservable deposit liabilities in commercial banks.

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

### **Broad money**

30. A ceiling applies to the stock of broad money and extended broad money for the end-June 2006, end-September 2006 and end-December 2006 targets.

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

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<sup>5</sup> Borrowing by the NBR from the commercial banks on the money market is included under the net domestic assets of the NBR (netted out from commercial bank borrowing from the NBR).

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

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

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

33. A zero ceiling applies to the outstanding stock of external debt with original maturities of one year or less owned or guaranteed by the public sector or other agencies on behalf of the central government. The ceiling is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006, and end-December 2006 targets.

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

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

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

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

37. The public sector or other agencies on behalf of the central government will not contract or guarantee new nonconcessional external debt (as specified in paragraph 38) with original maturity of more than one year. This is a continuous performance criterion.

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

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

Included are leases and other instruments giving rise to external liabilities, contingent or otherwise.

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

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

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

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

### **E. STRUCTURAL CONDITIONALITY**

43. The following project accounts will be monitored on a quarterly basis (see performance criterion on the monitoring of project accounts in paragraph 16 of the memorandum of economic and financial policies): project developpement districts et villes; CDF/programme de decentralisation; Minecofin—CEDP-SME Investment Fund; PDDC/MINALOC/H094 RW; Minisante Global Alliance for Vaccination; Projet Vct Integre; Global Fund Controlling Tuberculosis; Global Fund 3 HIV/AIDs; Global Fund 3 Control Malaria; The Nonproject Grant Aid Assistance; MIGEPROFE PRPAF Fonction. Cellule; MINECOFIN-CEDP-SME Investment Fund; RDRP/Multi-Donor Trust Fund; Basket Fund Health Human Resources; Global Fund 5 Assuring Access; and MINALOC-CDF-Financement Suisse.

**F. OTHER DATA REQUIREMENTS FOR PROGRAM MONITORING**

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

Table 1. Reimbursements and Cost for Peacekeeping Efforts, 2005–09 1/  
(In U.S. dollars)

	2005 2/	2006	2007	2008	2009	2005–09
<b>UN disbursements</b>	<b>8,917,136</b>	<b>11,316,532</b>	<b>24,672,000</b>	<b>24,672,000</b>	<b>24,672,000</b>	<b>94,249,668</b>
AMIS Darfur	7,412,144	8,309,476	21,662,016	21,662,016	21,662,016	80,707,668
UNAMIS - Kharthoum	1,504,992	3,007,056	3,009,984	3,009,984	3,009,984	13,542,000
<b>Costs</b>	<b>16,215,724</b>	<b>18,525,192</b>	<b>20,293,889</b>	<b>18,202,737</b>	<b>18,169,947</b>	<b>91,407,489</b>
Uniform	5,827,444	7,936,561	6,581,169	6,930,807	7,578,000	29,026,538
Equipments	5,307,600	5,563,486	9,361,842	5,657,895	3,645,000	24,228,223
Training & Operation Funds	5,080,680	4,446,197	3,771,930	5,035,088	6,368,000	19,621,215
EASBRIG & CEEAC	0	578,947	578,947	578,947	578,947	2,315,789

1/ Based on the assumption that the UN will take over the financing of the mission with effect from Sept. 2006 so that UN rates are applied for all troops.

2/ Payments were outstanding as of March 31, 2006. A repayment of US\$ 3.1 million is expected for 2006.



**Table 2. Rwanda: Priority Expenditure 2005-06**  
(In millions of Rwanda francs)

	<b>2005</b>	<b>2006</b>
	Actual	Budget
<b>Wages</b>	<b>26,156</b>	<b>31,086</b>
Internal affairs	4,319	4,929
Agriculture	299	257
Education	17,098	20,957
Youth and sport	15	131
Health	2,490	3,396
Decentralization	217	238
Other	1,717	1,178
<b>Goods and services</b>	<b>35,499</b>	<b>45,486</b>
Internal affairs	3,830	3,648
Agriculture	1,592	1,354
Education	12,495	15,528
Youth and sport	396	153
Health	5,504	7,533
Infrastructure	7,323	9,354
Decentralization	1,174	2,256
Other	3,185	5,659
<b>Transfers and exceptional</b>	<b>38,372</b>	<b>49,607</b>
Internal affairs	18	531
Agriculture	1,970	4,400
Export promotion	6,234	6,093
Education	16,120	19,354
Youth and sport	178	316
Health	5,087	5,889
Infrastructure	2,867	1,111
Decentralization	4,358	6,647
Other	1,540	5,267
<b>Capital</b>	<b>20,828</b>	<b>17,867</b>
Internal affairs	0	0
Agriculture	2,003	691
Export promotion	1,041	700
Education	474	1,416
Youth and sport	0	0
Health	2,476	855
Infrastructure	10,347	4,802
Decentralization	0	0
Energy	0	3,700
Other	4,486	5,702
<b>Total</b>	<b>120,855</b>	<b>144,046</b>
Internal affairs	8,168	9,108
Agriculture	5,864	6,702
Export promotion	7,276	6,793
Education	46,187	57,255
Youth and sport	590	600
Health	15,558	17,674
Infrastructure	20,537	15,267
Decentralization	5,748	9,140
Energy	0	3,700
Other	10,928	17,806

Source: Rwandese authorities.

Table 3. Reporting Requirements for Surveillance

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

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

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

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

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

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

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

**Rwanda: Relations with the Fund**

(As of April 30, 2006)

**I. Membership Status:** Joined: September 30, 1963 Article VIII

<b>II. General Resources Account:</b>	<u>SDR million</u>	<u>percent Quota</u>
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve position in Fund	0.00	0.00

<b>III. SDR Department:</b>	<u>SDR million</u>	<u>percent Allocation</u>
Net cumulative allocation	13.70	100.00
Holdings	15.16	110.70

<b>IV. Outstanding Purchases and Loans:</b>	<u>SDR million</u>	<u>percent Quota</u>
PRGF arrangements	1.14	1.43

**V. Latest Financial Arrangements:**

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	Aug 12, 2002	Jun 11, 2006	4.00	3.43
PRGF	Jun 24, 1998	Apr 30, 2002	71.40	61.88
SAF	Apr 24, 1991	Apr 23, 1994	30.66	8.76

**VI. Projected Payments to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>2006</u>	<u>2007</u>	Forthcoming <u>2008</u>	<u>2009</u>	<u>2010</u>
Principal					0.06
Charges/Interest	0.01	0.01	0.01	0.01	0.01
<b>Total</b>	0.01	0.01	0.01	0.01	0.06

<b>VII. Implementation of HIPC Initiative:</b>	Enhanced framework		
I Commitment of HIPC assistance			
Decision point date	Dec 2000		
Assistance committed by all creditors (US\$ million) <sup>1</sup>	695.50		
<i>Of which:</i> IMF assistance (US\$ million)	63.40		
(SDR equivalent in millions)	46.79		
Completion point date	Apr 2005		
II Delivery of IMF assistance (SDR million)			
Amount disbursed	46.79		
Interim assistance	14.45		
Completion point	32.34		
Additional disbursement of interest income <sup>2</sup>	3.77		
<b>Total disbursements</b>	<b>50.56</b>		
<b>VIII Implementation of MDRI Assistance</b>			
I Total Debt Relief (SDR Million) <sup>3</sup>	52.74		
<i>Of which:</i> MDRI	20.19		
HIPIC	32.55		
II Debt Relief by Facility (SDR million)			
	<b>Delivery Date</b>	<b>GRA</b>	<b>PRGF Total</b>
	January 2006	NA	52.74 52.74

<sup>1</sup>Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

<sup>2</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

<sup>3</sup> The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

**Decision Point**—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

**Interim assistance**—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

**Completion point**—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 3 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

#### **IX. Safeguards Assessments:**

Under the Fund's Safeguards Assessment policy, the Banque Nationale du Rwanda (BNR) is subject to a safeguards assessment under the PRGF arrangement. A Safeguards Assessment was completed on April 14, 2003, and the proposed recommendations have largely been implemented.

#### **X. Exchange System:**

On March 6, 1995, Rwanda adopted a market-determined exchange rate system. Before then, the Rwanda franc was pegged to the SDR. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF, and, according to the latest information available, it maintains an exchange system free of restrictions. In 2001, a foreign exchange auction system was put in place with technical assistance from MFD. Since February 7, 2001, auctions have been taking place on a weekly basis. The exchange rate regime is currently classified as a managed float, and the foreign exchange auctions impose a limit of +/- RF 5 to the margin by which the exchange rate can vary from the previous day.

#### **XI. Article IV Consultation:**

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2004 Article IV consultation (IMF Country Report No. 04/382).

#### **XII. FSAP Participation, ROSCs, and OFC Assessments:**

A Report on Observance of Standards and Codes on Fiscal Transparency (ROSC) was issued in July 2003. A Financial Sector Assessment Program (FSAP) has taken place in February 2005. Rwanda has not had an Offshore Financial Center (OFC) assessment.

**XIII. Technical Assistance:**

- 1999 FAD long-term experts, on tax policy, on budget preparation, and on treasury management.
- 1999 MFD long-term general advisor to governor of NBR.
- 1999 MFD experts on banking supervision and foreign exchange market operations.
- 2000 FAD experts on budget execution and on tax policy.
- 2000 MFD experts on foreign exchange market operations, and banking supervision.
- 2000 STA mission on money and banking statistics.
- 2000 STA mission on balance of payments statistics.
- 2001 FAD experts on expenditure management and on tax policy.
- 2001 FAD mission on tax policy.
- 2001 MFD mission on foreign exchange policy, monetary policy, and banking supervision.
- 2001 MFD expert on monetary policy implementation.
- 2001 FAD mission on assessment of tracking of poverty reducing expenditure, and the fiscal ROSC.
- 2001 MFD expert on banking supervision.
- 2001 FAD experts on expenditure management, and on tax policy (until mid-year).
- 2002 MFD expert on banking supervision (until November).
- 2002 MFD expert on monetary and foreign exchange rate policy.
- 2002 AFRITAC East work plan mission.
- 2003 AFRITAC East mission on statistical issues.
- 2003 FAD mission on fiscal ROSC and budget management system.
- 2003 AFRITAC East mission on developing the market for government treasury bills.
- 2003 FAD mission on reform of investment incentives and tax reform.
- 2003 MFD expert on monetary and foreign exchange rate policy.
- 2003 MFD expert on banking supervision and regulation.
- 2003 MFD missions on banking supervision.
- 2003 MFD mission on foreign reserves management.
- 2003 STA multi-sector statistics mission.
- 2003 FAD mission on Decentralization.
- 2003 FAD mission on revenue administration.
- 2004 FAD tax administration expert on strengthening of revenue administration.
- 2004 FAD mission on revenue administration
- 2004 MFD expert on banking supervision and regulation.
- 2004 MFD expert on monetary policy, monetary operations, and money markets.
- 2004 MFD missions on on-site banking supervision.
- 2005 MFD mission on financial statements of specific bank
- 2005 MFD-WB joint FSAP mission
- 2005 LEG mission on customs legislation
- 2005 STA mission on Balance of Payments statistics
- 2005 LEG mission on tax legislation
- 2005 FAD mission on public accounting: decentralized accounting for central government.
- 2005 FAD expert on tax administration

- 2005 MFD resident expert on monetary operations, monetary policy, money markets
- 2005 MFD expert on banking supervision
- 2005 LEG mission on drafting an amendment to the banking law
- 2005 MFD mission on banking supervision and bank restructuring

**XIV. Resident Representative:**

Mr. Lars Holger Engström assumed his duties as Resident Representative in February 2005.

## **Rwanda: Relations with the World Bank** (As of March 2006)

### **Partnership for Rwanda's development strategy**

Donor agencies have been key players in Rwanda since the genocide. With the support from the international community, Rwanda has made notable progress along an ambitious path of reconstruction, national reconciliation, and economic reform. In recent years, the Government has made some ambitious efforts, based on its Poverty Reduction Strategy Paper (PRSP), to reduce poverty and improve living conditions of the poor. The PRSP was completed in June 2002. This strategy was supported and discussed by the Boards of the IDA and the IMF on August 12, 2002. The PRSP targeted the halving of poverty by 2015 through a private sector and rural sector strategy. The strategy mainly focuses on six priority areas: (1) rural development and agricultural transformation; (2) human development; (3) economic infrastructure; (4) good governance; (5) private sector development; and (6) institutional capacity building—as the focus for public actions on poverty reduction. Civil society, government agencies and ministries, and donors have all been actively involved in the PRSP process and monitoring. The first PRSP progress report was issued in July 2003 and a Bank-Fund JSA produced in May 2004. The second PRSP progress report was issued in December 2004 and a Bank-Fund JSA was produced in March 2005.

### **World Bank Group Program and Portfolio**

The last Country Assistance Strategy for Rwanda was discussed by the World Bank Board in December 2002. The CAS sets out an assistance program consistent with the country's PRSP and emphasizes the need to move progressively from project-based approaches to budget support. In line with this approach, a Poverty Reduction Strategy Credit (PRSC) went to the Board in October 2004. This credit would help strengthen GoR capacity to (i) plan and budget results-oriented public sector actions supporting the implementation of the Poverty Reduction Strategy; (ii) develop incentive frameworks through performance-based payments and contracting; (iii) establish strong accountability mechanisms enhancing the capacity of Rwandan citizens to monitor and provide feedback to service providers—both public and private; and (iv) implement a sound fiduciary framework, as well as a monitoring and evaluation system to facilitate transparency and accountability in service delivery for the sectors of focus (i.e., health, education, water, energy). A second PRSC is under preparation and would focus mainly on (i) creating a favorable private sector investment climate that would promote sustained economic growth; (ii) improving quality, coverage, and equity of basic service delivery; (iii) improving public expenditure management and governance. This credit is expected to go to the Board in September/October 2005.

**International Development Agency (IDA) Program: International Development Agency (IDA) Program:** Since 1970, Rwanda has received 66 IDA credits and grants totaling US\$1,448.6 million. As of end-February 2006, the active portfolio comprised eleven operations with a total commitment value of US\$292 million, of which \$192 million remains undisbursed.



Overall, IDA has financed projects in (i) infrastructure, particularly road construction and maintenance, electricity and water supply, and sanitation infrastructures; (ii) agriculture, rural development, and forestry; (iii) social infrastructure, including health and population, and education and training; (iv) private sector development, public enterprise reform, financial development, and technical assistance; and (v) two policy-based quick-disbursing operations (IRC and PRSC1). During the immediate post-genocide period, IDA financed two emergency budget support operations and a social fund-type project, and restructured its prewar portfolio of investment projects to meet the high-priority needs associated with the emergency and the transition from conflict to development.

**International Finance Corporation (IFC) Program:** The IFC has made some investments in Rwanda, in various industries. Investments have been made in the Rwandan match factory (SORWAL). In FY1998, IFC approved a US\$0.53 million investment in Highland Flowers and in FY2000, a US\$6.0 million in RWANDACELL. In December 2000, an investment of US\$0.8 million was approved for an apartment hotel in Kigali. As of today, these investments with the exception of SORWAL have been cancelled. The IFC has provided some technical assistance support to Rwanda focusing on privatization, SMEs, the financial and industrial sectors.

**Multilateral Investment Guarantee Agency (MIGA) Program:** Rwanda signed and ratified the MIGA Convention on October 27, 1989. On September 27, 2002, it became a full member of MIGA with the completion of its membership requirements, including payment of the usable currency and the local currency portions of its initial subscription, and deposit of the promissory note. The membership was followed by Rwanda's election to MIGA's Board of Directors during the World Bank/IMF annual meetings held in Washington. As one of its cooperative initiatives, MIGA seconded a senior underwriter for more than a year to COMESA (of which Rwanda is a member) to work on the creation of the Africa Trade Insurance Agency, which was officially launched in Uganda in July 2001. Rwanda is a founding member of ATI, along with seven other COMESA countries. Headquartered in Nairobi, Kenya, ATI provides political risk insurance for trade credits in African countries. All African countries are eligible to participate.

### **World Bank staff**

Questions may be referred to Pedro Alba (Tel. 202-458-2246) and Kene Ezemenari (Tel. 202-458-5559).

Table 1: Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Bank	Fund
Macroeconomic stability and development.	Development agenda in poverty reduction goals.	Complement IMF's macroeconomic policy with various broad structural and sectoral work through lending and capacity building especially in the areas such as budget management, energy, infrastructure, banking, telecommunications sectors.	IMF leads the policy dialogue and macroeconomic policies including fiscal and monetary policies. IMF has supporting Rwanda through several arrangements under ESAF/PRGF.
	Collaboration in the areas of growth oriented reforms of the government.	Technical assistance in macro framework and related issues.	Technical assistance for improving tax administration
Public finance management and governance.	A joint Bank and Fund assessment of the government's capacity to track poverty expenditures in July 2004, which highlighted the key areas for improvement.	The Bank has been providing assistance to the government to improve the capacity and quality of the budget process through a series of public expenditure reviews. Recently the Bank completed Financial Accountability Review and Action Plan (FARAP) and expected to support further through a Country Financial Accountability Assessment (CFAA).	IMF TA missions have been fielded in the areas of financial management, fiscal decentralization, and revenue management. Technical assistance provided in revenue management and modernization.
	Strengthening capacities in the areas of financial accountability and budget monitoring.	Financing and provision of technical assistance in expenditure tracking surveys and procurement reform. The Bank supports reform through the public sector capacity building project.	
Structural and policy reforms and financial sector.	Collaboration in key institutional and structural reforms including an MTEF approach to budget planning, legal and judicial reform in establishing commercial courts and other regulatory reforms.	The Bank has provided support in the restructuring of the banking sector, and addressing the problem of non-performing loans. The Bank is also helping in the areas of micro-financing and controlling money laundering.	The Fund has been providing TA in banking supervision and prudential regulation. IMF is also providing assistance to the Central Bank in monetary policy analysis, banking supervision, and internal audit.
Infrastructure and private sector development	Collaboration in business friendly policies especially in the areas of taxation, budget, and legal and institutional development.  Collaboration in reforming financial sector..	The Bank has been supporting this area through many infrastructure projects in transport, water/sanitation, energy. The competitiveness and enterprise development project (CEDP) is supporting reforms in telecommunications, privatization of the current telephone monopoly and tea factories. Banking sector reforms and the privatization process have supported by the CEDP and the Institutional Reform Credit (IRC).	Fund has been complementing the Bank work through fiscal and monetary policies.
Agriculture and rural development.	Collaboration in recent budgetary policies, which support productivity enhancing measures in agriculture such as fertilizer and seed policies and fully washed coffee promotion of the government.	World Bank is supporting this sector through Rural Sector Support Project (RSSP), which aims to raise productivity and incomes among rural population.	
Social sector and community development.	Development agenda in poverty reduction and social sectors.	The Bank has supported Rwanda to improve its social infrastructure after the genocide especially in the areas of health, education and HIV/AIDS. Current poverty reduction strategy credits (PRSCs) have been supporting the social sector. The decentralization and community development project is supporting service delivery and ownership at the local level.	

Project	US\$ mil.	Objective	Approval/ Effectiveness	Disbursed April '06	Ratings	
					DO	IP
Rural Water Supply and Sanitation	21.67	To increasing the availability and sustainability of water supply and sanitation (WSS) services in rural areas; strengthening the capacity of communities and agencies, and mobilize community support.	June 2000/ January 2001	12.32	S	S
Human Resources Development	37.14	To build up Rwanda's human resources and institutional capacity to deliver education services.	June 2000/ January 2001	23.92	U	U
Rural Sector Support	55.87	To build capacity in the management of farmed marshland and hillside areas; access to credit and competitiveness in agricultural export; and small-scale rural infrastructure.	March 2001/ October 2001	26.01	S	S
Regional Trade Facilitation	7.93	To improve access to financing for productive transactions and cross-border trade.	April 2001/ April 2002	1.98	MS	MS
Competitiveness and Enterprise Development Project	46.15	To establish an enabling environment for private sector-led economic growth and poverty reduction in Rwanda.	April 2001/ December 2001	32.53	S	HS
Rwanda Demobilization and Reintegration Project	43.13	To help consolidate peace in the Great Lakes region and foster reconciliation within Rwanda.	April 2002/ September 2002	26.70	MS	S
Multi-Sectoral HIV/AIDS	32.46	To strengthen prevention measures in order to slow down the spread of HIV/AIDS; and expand support and care for those infected or affected by HIV/AIDS.	March 2003/ August 2003	20.86	S	S
Decentralization and Community Development	20.53	To boost the emergence of a dynamic local economy, through communities who are empowered to lead their own development process under an effective local government.	June 2004/ December 2004	2.47	S	S
Public Sector Capacity Building	19.67	To ensure that public sector entities have the capacity for more efficient, effective, transparent and accountable performance in their redefined roles and functions and for achievement of their strategic objectives contributing to the implementation of the PRSP	July 2004/	1.92	S	MS
Urgent Electricity Rehabilitation	24.13	To alleviate power shortages, and enhance the capabilities of energy sector institutions.	January 2005/	2.0	S	S
Urban Infrastructure and City Management	21.61	To increase access to priority urban infrastructure in Kigali and two secondary cities (Ruhengeri and Butare)	November 2005/ March 2006	1.58	S	
East Africa Trade and Transport Facilitation	199.53	To improve trade environment through the effective elimination of tariff barriers in the EAC Customs Union area; enhance logistics services efficiency along key corridors by reducing non tariff barriers and uncertainty of transit time; and improve railway services in Kenya and Uganda.	January 2006/	0		

### **B. Statement of IFC Investments in Rwanda**

The IFC's pending commitments in Rwanda comprise those in Rwandacell, AEF Dreamland, and AEF Highland, amounting to US\$5.326 million.

### **Rwanda: Statistical Issues**

1. Although economic data are overall adequate for surveillance, weaknesses hamper economic analysis. Since the end of the civil war of 1994, Rwanda has received considerable technical assistance in rebuilding its statistical database, and there has been some progress in the compilation and dissemination of economic and financial statistics. However, national accounts and price statistics, government finance, and balance of payments statistics continue to suffer from significant weaknesses. Monetary statistics are adequate for surveillance and program monitoring, but their quality (including timeliness) should also be further improved. There is also scope for improving the data relevant for banking supervision. The authorities are fully cooperative in providing data to the Fund.
2. Rwanda participates in the IMF General Data Dissemination System and its metadata have been posted on the IMF website since October 2003. In August 2005, following the passage of the new Statistics Law, the National Institute of Statistics (NIS) was established in Rwanda.

#### **National accounts and price statistics**

3. The national accounts are compiled and disseminated by NIS, formerly Statistics Directorate of the Ministry of Finance and Economic Planning (MINECOFIN). The definitions and concepts are those stated in the United Nations system of National Accounts of 1968. After the 1994 war, the authorities compiled national accounts data starting from 1990. Nevertheless, the quality of these data is weak, reflecting shortages of human and material resources. While considerable effort was made to improve the reliability of GDP estimates using the production approach, significant weaknesses in data collection on expenditures, and income remain. These weaknesses are reflected in uncertainties regarding the composition of GDP; in particular, they complicate an adequate assessment of developments in savings and investment. The reliability of national accounts estimates are further hampered by weak external sector statistics.
4. In 2003, an East AFRITAC mission visited Kigali to advise the authorities on real sector statistics issues, especially in the area of secondary sector statistics. East AFRITAC assistance is focused on capacity building to enable the construction of short-term indicators on the formal sector, starting with a monthly PPI for the manufacturing sector. This is a joint project with the central bank (BNR). The results have not yet been integrated in the national accounts. A DFID project is also supporting the NIS with a component on national accounts. The objective is to establish a program of economic surveys and to develop leading economic indicators that will provide the basic data to feed into the compilation of GDP. In February 2004 the EREBS group (Equilibre ressources-emploi des biens et services) assisted the MINECOFIN in developing new benchmarking GDP estimates (2001). The new GDP estimates show an increase of about 7 percent as compared to previous ones. Work has also advanced in the implementation of the *1993 SNA*.

5. The authorities have set up an improved consumer price index (CPI). The index addresses problems regarding regional and consumption basket coverage and covers 438 goods, for which a total sample of more than 25,000 is observed in Kigali (weighted 77 percent) and in eleven provincial towns. The index is based on a survey of 6,450 households in 2000–01 (the last survey had been done in 1989) and on average 2003 prices. Local goods amount to 70 percent and imported goods to 30 percent, while food and drinks amount to 37 percent, and housing and energy amount to 16 percent. Shortcomings remain, however: the index aggregates infrequently purchased products in groups with all products in the respective group assigned the same weight; and the index of underlying inflation is too narrow as it excludes 53 percent of the goods as seasonal or exchange-rate-determined.
6. Data on employment and wages are not collected, except for the central government and for daily informal work.
7. Real sector data are reported regularly for publication in *International Finance Statistics (IFS)*, although with some lags, particularly for GDP estimates.

#### **Government finance statistics**

8. The authorities report to the African Department detailed monthly data on revenue and expenditure with a lag of three to four weeks. These data are compiled by a flash-reporting unit which was established in the MINECOFIN, with the assistance of the Fund, in 1996. A functional classification of government expenditure has been designed and was presented with the 2003 budget. Within the economic classification, expenditures on PRSP designated “priority areas” are clearly identifiable. The fiscal data do not consistently capture capital expenditure because capital projects (almost entirely foreign financed) are mainly carried out by line ministries outside the regular budget process. Compilation of data on external budgetary assistance as well as on external debt would benefit from strengthened coordination between the finance ministry and the central bank. Efforts are underway to integrate the development budget into the normal budgetary procedures. Fiscal data have often shown a discrepancy between the deficits as derived from above the line with that derived from below the line (i.e., its financing). Together with the Fund staff, the authorities have made adjustments for changes in the balance of non-core government accounts, for changes in cash in vault at the revenue authority, for accounting errors, and for other factors.
9. Selected aggregates on annual central government operations through 2003 have been reported to the Statistics Department (STA) and are published in *IFS*. These data are subject to large statistical discrepancies, mainly due to the timing of recording of expenditures. No sub-annual data are reported to STA and government finance statistics (GFS) have been reported for publication in the *GFS Yearbook* only through 1993.

### **Monetary statistics**

10. The balance sheet of the NBR and detailed data on money market transactions are transmitted to the African Department on a weekly basis with a lag of one week, and the monetary survey and the consolidated balance sheet of the country's commercial banks are transmitted on a monthly basis with a lag of about five weeks. Detailed data on interbank money market transactions are also provided upon request to mission staff. Monetary data are reported separately to STA on a timely basis and published in *IFS*. The NBR established a working group to implement the recommendations of STA missions in the area of collection, compilation and dissemination of monetary and financial statistics. As a result, the NBR (1) adopted in June 2002 an improved classification of the central bank balance sheet accounts, specifically those related to transactions with the government; (2) adapted in early 2004 the reporting format for the banking sector closer to the methodology proposed in the *Monetary and Financial Statistics Manual*; and (3) is expanding the institutional coverage of the broad money survey to include credit and savings unions and microfinance institutions. Despite these efforts, there remain inconsistencies in the banking sector data provided to AFR and STA.

11. The NBR is persevering in the process of submitting monetary statistics through the Standardized Report Forms (SRFs), a new format proposed by STA. The provisional submissions by the NBR of SRFs covering 12 months of monetary statistics (January through December 2004) signals its commitment to adopt the *MSMF* methodology. However, all current reporting continues to be on the previous basis.

### **External sector statistics**

12. The quality of balance of payments statistics suffers from various weaknesses in the collection of data sources (treatment of customs data and bank settlement reports, questionnaires), and from the lack of well trained staff for balance of payments compilation.

13. A multisector statistics mission to Kigali (June 2003) identified the following areas for improvement in the short run: (1) reorganizing data entry and production of external trade statistics, using ASYCUDA and Eurotrace softwares; (2) adapting survey forms sent to companies to the *BPM5* methodology; and (3) collaborating with CEPEX to obtain exhaustive data on international and bilateral aid. Consequently, a technical assistance project in balance of payments statistics was started, and two missions visited Kigali in January 2004, and in June 2005

14. Some improvements have been noted. In particular, the collection of data through direct surveys to economic agents seems to be now well in place, with a satisfactory rate of response, except for surveys to embassies. Also, with the assistance of the mission, the BNR has started compiling BOP/IIP statistics in conformity with international standards.

15. However some weak points remain, in particular the compilation of trade data, which rely too much on estimates because of delays in the processing of customs declarations. The

treatment of bank settlement reports is not effective, because the complete automation of the collection of declarations has not been achieved. And, finally, there is still no appropriate treatment of data on foreign official aid, for which no distinction is made between grants and loans."

16. Annual balance of payments and quarterly import and export data are reported to STA, and published in IFS and the BOPSY annually through 2004. Notes on the methodology of compilation of balance of payments statistics are included in Part 3 of the 2005 Balance of Payments Statistics Yearbook (BOPSY).

17. Databases on external public debt are maintained by both MINECOFIN and the BNR. The authorities have established a committee, composed of staffs from the Ministries of Finance and Economic Planning and Foreign Affairs and the BNR, to collect, harmonize, and monitor information on external public debt.

<b>RWANDA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE AS OF MAY 2, 2006</b>					
	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange Rates	Current	Current	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Current	Current	W	W	M
Reserve/Base Money	3/31/06	4/06/06	W	W	M
Broad Money	2/28/06	4/05/06	M	M	M
Central Bank Balance Sheet	3/31/06	1/06/06	W	W	M
Consolidated Balance Sheet of the Banking System	2/28/06	3/15/06	M	M	M
Interest Rates <sup>2</sup>	2/28/06	3/15/06	M	M	M
Consumer Price Index	2/28/06	3/20/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>					
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	12/31/05	2/22/06	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	12/31/05	2/22/06	A	A	A
External Current Account Balance	2005	2/22/06	A	SA	A
Exports and Imports of Goods and Services	2005	2/22/06	A	A	A
GDP/GNP	2005	2/22/06	A	SA	A
Gross External Debt					

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

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

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

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

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

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



Rwanda: Millennium Development Goals							
	1990	1995	2000	2001	2002	2003	2004
<b>Goal 1: Eradicate extreme poverty and hunger</b>							
Percentage share of income or consumption held by poorest 20%	..	..	..	..	..	..	..
Population below \$1 a day (%)	..	..	51.7	..	..	..	..
Population below minimum level of dietary energy consumption (%)	..	..	..	..	37	37	..
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	..	..	20	..	..	..	..
Poverty headcount, national (% of population)	..	..	60.3	..	..	..	..
Prevalence of underweight in children (under five years of age)	..	..	24.3	..	..	..	..
<b>Goal 2: Achieve universal primary education</b>							
Net primary enrollment ratio (% of relevant age group)	67.4	..	84	84.0	86.7	86.7	..
Primary completion rate, total (% of relevant age group)	44	..	22	28	37	37	..
Proportion of pupils starting grade 1 who reach grade 5	59.9	..	40	46.6	..	..	..
Youth literacy rate (% ages 15-24)	72.7	78.6	83.4	84.2	84.9	..	..
<b>Goal 3: Promote gender equality and empower women</b>							
Proportion of seats held by women in national parliament (%)	17	..	17	26	26	26	49
Ratio of girls to boys in primary and secondary education (%)	96.4	..	92.5	93.9	94.8	94.8	..
Ratio of young literate females to males (% ages 15-24)	86.4	91.8	95.8	96.3	96.9	..	..
Share of women employed in the nonagricultural sector (%)	16.7	..	..	..	..	..	..
<b>Goal 4: Reduce child mortality</b>							
Immunization, measles (% of children ages 12-23 months)	83	84	74	69	69	90	90
Infant mortality rate (per 1,000 live births)	103	124	118	..	..	118	118
Under 5 mortality rate (per 1,000)	173	209	203	..	..	203	203
<b>Goal 5: Improve maternal health</b>							
Births attended by skilled health staff (% of total)	..	..	31.3	..	..	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1400	..	..	..	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>							
Contraceptive prevalence rate (% of women ages 15-49)	..	..	13.2	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	129.7	234.6	324.1	340.7	357.3	373.8	373.8
Number of children orphaned by HIV/AIDS	..	..	160000	160000	..	160000	160000
Prevalence of HIV, total (% of population aged 15-49)	..	..	5.1	..	..	5.1	5.1
Tuberculosis cases detected under DOTS (%)	..	35.5	34.2	27.5	31.1	27.5	27.5
<b>Goal 7: Ensure environmental sustainability</b>							
Access to an improved water source (% of population)	58	..	..	..	73	73	..
Access to improved sanitation (% of population)	37	..	..	..	41	41	..
Access to secure tenure (% of population)	..	..	..	..	..	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..	..	..	..
Forest area (% of total land area)	18.5	..	12.4	..	..	..	..
GDP per unit of energy use (2000 PPP \$ per kg oil equivalent)	..	..	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	..	6.2	6.2
<b>Goal 8: Develop a global partnership for development</b>							
Aid per capita (current US\$)	41.9	123.3	41.8	37.6	43.5	39.5	39.5
Debt service (% of exports)	..	..	..	..	..	10	10
Fixed line and mobile phone subscribers (per 1,000 people)	1.7	1.3	7.3	10.9	16.4	16.4	..
Internet users (per 1,000 people)	..	..	0.6	2.5	3.1	3.1	..
Personal computers (per 1,000 people)	..	..	..	..	..	..	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..	..
<b>Other</b>							
Fertility rate, total (births per woman)	7.1	..	..	..	..	5.7	5.7
GNI per capita, Atlas method (current US\$)	370	220	260	240	230	210	220
GNI, Atlas method (current US\$) (billions)	2.5	1.3	2.0	1.9	1.9	1.8	1.9
Gross capital formation (% of GDP)	14.6	13.4	17.5	18.4	19.0	18.4	20.8
Life expectancy at birth, total (years)	40.2	..	40	..	39.8	39.8	39.8
Literacy rate, adult total (% of people ages 15 and above)	53.3	60.2	66.8	68.0	69.2	..	..
Population, total (millions)	6.9	5.7	7.7	7.9	8.2	8.4	8.4
Trade (% of GDP)	19.7	31.0	32.6	34.3	33.1	36.2	36.2

Source: World Development Indicators Database, April 2005

Data in italics are estimates

### **Rwanda: Joint Fund-World Bank Debt Sustainability Analysis**

1. In context of the recently finalized Multilateral Debt Relief Initiative (MDRI) an assessment was undertaken for Rwanda to ascertain the country's eligibility for the debt relief. Rwanda has qualified for MDRI debt relief because of its overall satisfactory recent macroeconomic performance, progress in poverty reduction, and improvements in public expenditure management. Economic growth in 2005 accelerated and inflation declined. Implementation of Rwanda's poverty reduction strategy has been particularly successful in the social sectors, for example, the primary school net enrolment ratio is now at 91 percent<sup>1</sup> and vaccine coverage varies between 80 and 95 percent in most provinces. In public expenditure management, an organic budget law was approved by parliament. Performance in these areas provided assurance that resources made available under the MDRI will be used effectively.

2. **This joint DSA concludes that, while the MDRI substantially improves Rwanda's debt indicators, the country will have to rely mostly on grants to maintain its debt at sustainable levels.** Rwanda's net present value (NPV) of debt-to exports ratio stood at 58.5 percent at end-2005 and, barring any exogenous shocks or policy reversals, debt-service payments remain manageable at below 8 per cent of exports over the projection period until 2026. However, the NPV of debt-exports ratio would breach the policy-dependent threshold of 150 percent by 2014, indicating that the country is at a high risk of debt distress beyond the projection period.

3. **This joint DSA was prepared using the Fund-World Bank debt sustainability framework for low-income countries (LICs).** The debt data underlying this DSA were updated jointly by the IMF and the World Bank along with information provided by the Rwandese authorities.<sup>2</sup> The medium-term macroeconomic framework was broadly agreed with the authorities in the context of the new PRGF arrangement, which is being considered by the IMF Board at the same time as this DSA.<sup>3</sup>

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<sup>1</sup> The completion point trigger was set at 73 percent to be reached in 2001.

<sup>2</sup> Bilateral debt was adjusted to account for the effects of debt cancellation agreements signed with most Paris Club countries; bilateral agreements are in place with Austria, Japan, France, and the United States, and those with Canada and the Netherlands are expected to be signed shortly. Regarding non-Paris Club creditors, China has indicated willingness to cancel all its claims whereas Saudi Arabia and Kuwait stated they were not prepared to deliver further debt relief. Debt owed to Libya and the Abu Dhabi Fund continues to be passive. With respect to multilaterals, IDA, the IMF, the AfDF, IFAD and the EIB have provided updates.

<sup>3</sup> In the case of the Bank, this DSA update will be considered jointly with the Interim Strategy Note.

## I. Rwanda's External Debt Since the Completion Point<sup>4</sup> LIC DSA

4. **Rwanda's debt situation is now more favorable than estimated at the completion point.** The completion point LIC DSA (including debt relief provided at the decision point, and the topping up under the HIPC Initiative) projected that the NPV of debt-to-exports ratio would increase to 140.5 percent at end-2005.<sup>5</sup> The current DSA, however, estimates the NPV of debt-to-exports ratio at 58.5 percent in 2005, an improvement of over 80 percentage points.

5. **The improvement in the debt ratio after the topping up under the HIPC Initiative reflects the full implementation of the MDRI<sup>6</sup> and favorable export developments** (Text Table 1). The MDRI contributed 76 percentage points to the reduction, while higher exports led to a further improvement of 12 percentage points. On the latter, actual merchandise and services exports in 2005 exceeded completion point projections by 20 percent, largely due to strong export performance in coffee, tea and minerals. While the volume of new borrowing in 2004-05 was higher than anticipated, it had higher concessionality, so that its overall impact was neutral.

Table 1. Projected Versus Actual NPV of External Debt-to-Exports Ratio at End-2005  
(In percent)

NPV of debt-to -exports in 2005 as projected at completion point (after topping up)	140.4
Actual NPV of debt-to exports in 2005 after MDRI relief	58.5
Factors contributing to changes:	
MDRI relief	76.3
New borrowing	0.3
Different concessionality 1/	7.6
Different volume	(7.3)
Exports (higher than anticipated)	12.0
Residual 2/	(6.7)

Source: Staff estimates.

1/ Difference between projected and actual concessionality of new borrowing in 2004-05. The completion point document assumed a grant element of 53 percent of new borrowing while the actual grant element was higher at 61 percent.

2/ Including exchange rate changes, which amounted to 5.2 percentage points for multilateral debts.

<sup>4</sup> Rwanda reached the completion point in April 2005.

<sup>5</sup> Appendix II in IMF Country Report No. 05/173.

<sup>6</sup> The baseline scenario includes MDRI relief from the IMF, IDA and AfDF. For the IMF, the cutoff and implementation dates are, respectively, end-2004 and January 5, 2006; for IDA, the cutoff and implementation dates are, respectively, end-2003 and July 1, 2006; for the AfDF, anticipated cutoff and implementation dates are end-2004 and January 1, 2006 (retroactively). The implementation modalities of MDRI relief for the AfDF are based on staffs' assumptions consistent with IDA terms.

## II. External Debt Sustainability Analysis<sup>7</sup>

6. **The medium-term macroeconomic framework is broadly in line with the one presented at the completion point** (Box 1). Most notably, it is based on prudent projections<sup>8</sup> for growth and external assistance to highlight Rwanda's vulnerability to exogenous shocks and reduce the risks of policy errors. However, the proportion of the fiscal financing gap funded through debt flows was revised upward to 33 percent (corresponding to the historical average) compared with 17 percent assumed at the completion point.

7. **Under the baseline scenario with full implementation of the MDRI, one critical debt burden indicator would exceed the policy-dependent thresholds** (Text Table 2). Rwanda's NPV of debt-to-exports ratio is projected to rise above 150 percent by 2014 and remain above the policy-dependent threshold up to 2026. However, with the likely higher share of IDA loans the baseline would breach the thresholds even earlier. At the same time, however, the NPV of debt-to-GDP ratio remains well below the threshold throughout the forecast period, while debt service payments continue to be manageable at below 8 percent of exports. The impact of the HIPC and MDRI Initiatives is apparent with the debt service-to-exports ratio falling from 10.5 percent as at end-2004 to 2.6 percent by end-2006.

Table 2: Policy-Based External Debt Burden Indicators

	Thresholds 1/	Rwanda's ratios	
		2005	2006-26 2/
NPV of debt in percent of:			
Exports	150	59	153
GDP	40	6	18
Debt service in percent of			
Exports	20	6	4

1/ Policy indicative thresholds as used in the joint IMF-World Bank LIC DSA framework for a medium policy performance. The quality of policies and institutions are measured by the World Bank's CPIA index.

2/ Simple average.

<sup>7</sup> The LIC DSA methodology differs from the HIPC methodology in a number of aspects, notably (i) the current year exports are used as denominators for estimating the debt-to-exports ratio rather than the backward looking three-year moving average of exports; (ii) the use of the WEO exchange rate projections instead of exchange rates at the end of the base year; and (iii) a 5 percent discount rate instead of currency specific discount rates.

<sup>8</sup> Real GDP growth was on average 7 percent during the past nine years, reflecting mostly the catch up effect after the genocide. The medium-term growth rates assumed in this DSA reflect higher investment financed from aid inflows and are consistent with an average ICOR of 4. Greater efficiency reflected in an increase in total factor productivity (with a corresponding decrease in the ICOR) could lead to higher long-term growth rates.

### Box 1. Macroeconomic Assumptions

The macroeconomic assumptions are as follows:

**Real GDP growth** is projected at 5.5 percent from 2011 onward (increasing gradually from 3 percent in 2006 <sup>1/</sup>) as growth-enhancing sectoral strategies take effect and investment in human capital (health and education sectors) starts to pay off. Specifically, growth is expected to be generated by boosting productivity in the agriculture and export sectors (mostly tea and coffee) by improving water management, controlling soil erosion, intensifying the use of fertilizer, integrating livestock development into land farming, and enhancing extension services. In addition, measures to facilitate trade and reduce transaction costs would contribute to export growth. Over the long term, investments in infrastructure and human capital are expected to boost growth in the services sector.

**Per capita GDP** is projected to increase gradually from 3.2 percent in 2005 to reach 2.7 percent by 2021 as the population is expected to grow by 2.7 percent on average between 2004–26.

**Inflation** is projected to fall to 5 percent in 2006 and stay at that level from then onward.

**Exports** of goods and services would grow at a nominal rate of about 9 percent until 2013 in U.S. dollar terms as the export promotion strategy takes effect and stabilize thereafter at about 8 percent. **Imports** of goods and services would increase by 6 percent on average over the period 2005–26, mostly due to growing demand for capital good imports from the private sector.

The **primary fiscal deficit** would range from 2 to 4 percent of GDP. **Central government tax revenue** would increase from 14.1 percent of GDP in 2005 (excluding one-off revenue) to 18.4 percent of GDP by 2026, mostly on account of a widening of the tax net to the non-monetized sector. **Non-interest expenditure** would remain relatively stable at about 26 percent of GDP throughout the projection period.

The **current account deficit** (including grants) is projected to gradually tighten from about 11 percent of GDP in 2006 to 3 percent of GDP in 2026. Excluding grants, it is projected to gradually improve from 21 percent of GDP in 2006 to about 6 percent of GDP in 2026.

**Gross borrowing and official grants** are projected to decrease gradually with gross borrowing on average slightly below 4 percent of GDP and official grants on average above 7 percent of GDP. Thus, *in line with the historical average*, two-thirds of external financing will be in the form of grants.

<sup>1/</sup> The growth rate in 2006 reflects poor rains, which are expected to depress agricultural production.

8. **Shocks to the small export base<sup>9</sup> would substantially worsen Rwanda's NPV of debt-to-exports ratio.** If exports were to grow by less than one standard deviation in 2007, Rwanda's NPV of debt-to-exports ratio would increase to above 200 percent in 2008 peaking at over 300 percent in 2018, while staying above the threshold throughout the projection period. Given the substantial fluctuations<sup>10</sup> in Rwanda's export prices in the last few years, this scenario is comparable to recent history. This is also reflected in the "historical" scenario.<sup>11</sup> If the key macroeconomic variables remained at historical values, Rwanda would experience a sharp increase in the risk of debt distress with projected external debt-to-export

<sup>9</sup> Exports of goods and services were about 11 percent of GDP in 2005.

<sup>10</sup> In the last ten years, export prices fell sharply in some years (for instance, by more than 20 percent in 1998 and 2001) and increased strongly in others (for instance, by more than 20 percent in 1997 and 2000). The overall export prices index fell by about 30 percent since 1995.

<sup>11</sup> The "historical" scenario is calculated on the basis of performance during 1997 to 2004.

ratios following an explosive upward path (Chart 1) as the average historical export growth was only 3½ percent.<sup>12</sup>

9. **Rwanda's debt dynamics would also deteriorate considerably if external financing is delivered on less favorable terms.** A 2 percentage point increase in interest rates on all new borrowing (reflecting borrowing at less concessional terms) starting in 2006 would increase Rwanda's NPV of debt to export ratio steadily, breaching the threshold by 2010 and remaining above 250 percent from 2017 onward.<sup>13</sup> This indicates that Rwanda will have to depend to a large extent on grants to finance its development efforts.

### III. Public Debt Sustainability Analysis

10. A public debt sustainability analysis was not undertaken since it would not provide any significant additional insights, given that the consolidated domestic debt of the treasury and the National Bank of Rwanda (NBR) is minor (less than 5 percent of GDP at end-2005). Preventing an increase in domestic debt and thus a crowding out of private investment is a key objective of the new PRGF arrangement. To this end, there is an agreement that any pressures for a real appreciation of the exchange rate from a scaling up of external aid will be accommodated through a nominal exchange rate appreciation. This will maintain low inflation while raising absorption and thus avoid an increase in domestic debt.<sup>14</sup>

### IV. Conclusion

11. **Although the MDRI lowers Rwanda's immediate risk of debt distress, Rwanda's debt situation could quickly become unsustainable without a high and sustained level of grant financing and strong export growth.** As shown in the DSA, even with a substantial share of grants in gross government financing Rwanda's external debt situation becomes unsustainable in the medium term. Given Rwanda's relatively small export base, a terms of trade shock or the failure to increase exports could result in an unsustainable deterioration in the debt indicators. Thus overall Rwanda is considered to be at a high risk of debt distress.

12. **The analysis suggests that structural reforms should focus on better protecting Rwanda against shocks.** The government is using the recently completed Diagnostic Trade Integration Study (DTIS) along with an export promotion action plan to design reforms and measures to improve trade facilitation. Specifically, there will be an increased focus on nontraditional and high value exports such as horticulture and washed coffee. The Agriculture Sector Strategy has also identified areas of investment to support improved

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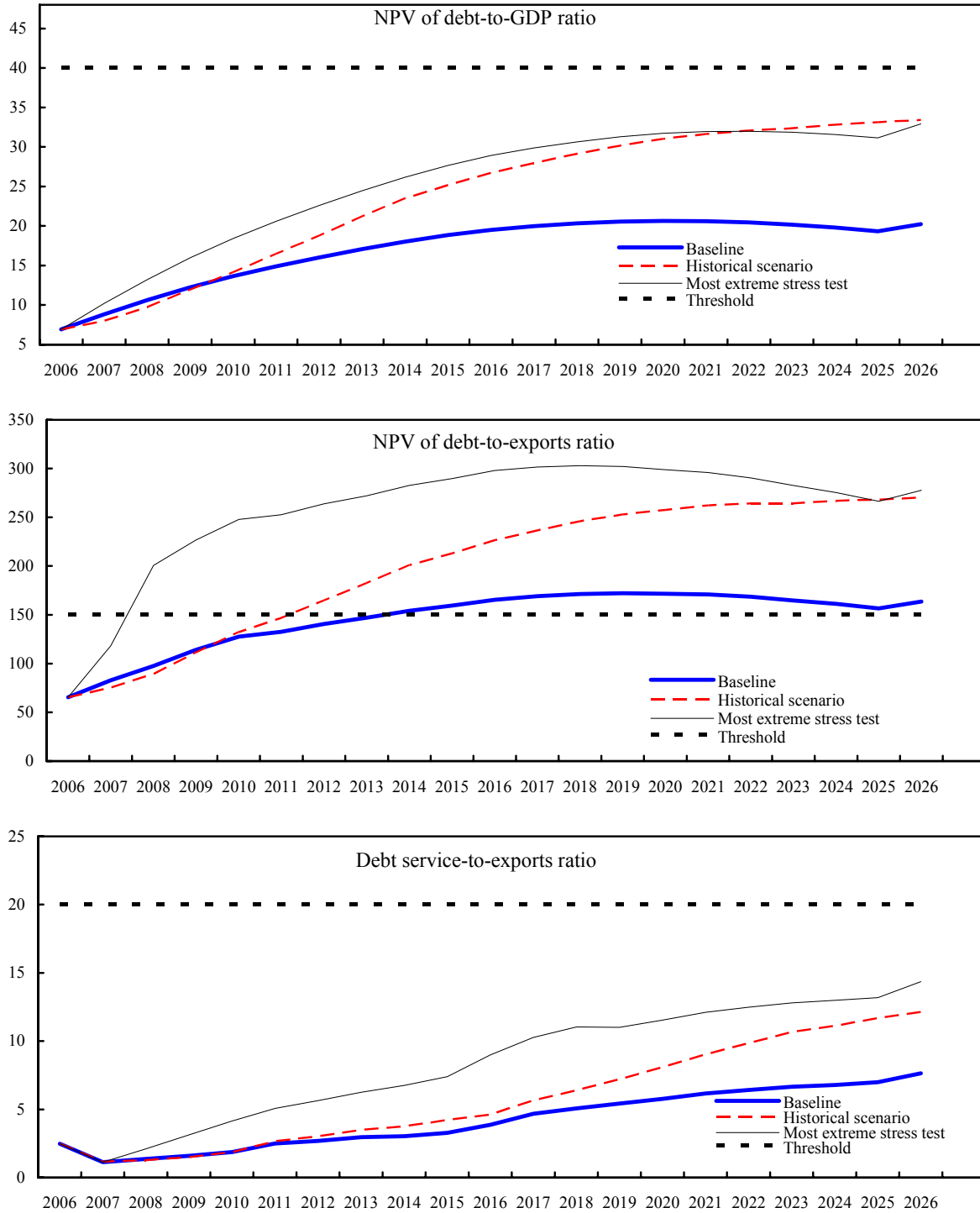
<sup>12</sup> Historical real growth rates were actually higher than the projected growth rates owing to the catch up effect after the genocide.

<sup>13</sup> This 2 percent increase in interest rates would be equivalent to lowering the grant element to below 35 percent from 2009 onward (which is below the grant element of 50 percent required under the new PRGF).

<sup>14</sup> The 2006 program envisages a reduction in consolidated domestic debt.

production and extension for farmers. Moreover, with support from both the EU and the World Bank, investments in road construction should help reduce the costs of transport as should regional projects through the Nile Basin Initiative, and a recently approved regional Bank project on transport. In addition, Rwanda recently joined COMESA, and is expected to join the Eastern Africa Community later this year. These investments and reforms are expected to assist in increasing real growth, while strengthening and diversifying the export base. The implementation of prudent debt management and the efficient allocation of donor funds will also play a critical role in ensuring that debt remains sustainable in the long term.

Figure 1. Rwanda: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006–26  
(In percent)



Source: IMF Staff projections and simulations.



Table 3a. Country: External Debt Sustainability Framework, Baseline Scenario, 2006-26 1/  
(In percent of GDP, unless otherwise indicated)

	Projections																		
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2021	2022	2023	2024	2025	2026
<b>External debt (nominal) 1/</b>	93.2	72.9	15.0	18.7	22.1	25.0	27.5	29.7	31.6	33.3	34.8	36.0	38.1	37.8	37.2	36.5	35.6	34.6	36.0
<i>Of which: public and publicly guaranteed (PPG)</i>	93.2	72.9	15.0	18.7	22.1	25.0	27.5	29.7	31.6	33.3	34.8	36.0	38.1	37.8	37.2	36.5	35.6	34.6	36.0
Change in external debt	-0.2	-20.3	-57.9	3.7	3.3	2.9	2.5	2.2	1.9	1.7	1.5	1.2	-0.1	-0.3	-0.5	-0.7	-1.0	-1.0	1.4
Identified net debt-creating flows	-6.9	-13.7	0.8	3.8	1.8	0.2	-0.3	-1.1	-1.3	-1.9	-1.9	-0.9	-0.9	-0.8	-0.8	-0.8	-1.4	-1.5	0.3
<b>Noninterest current account deficit</b>	4.1	4.7	11.6	8.9	8.0	7.1	6.9	6.4	6.3	6.1	6.2	5.9	5.4	5.3	5.1	4.7	3.6	3.3	3.3
Deficit in balance of goods and services	18.2	20.5	22.8	20.4	19.5	18.1	18.1	17.3	17.2	16.7	16.3	16.3	13.8	13.2	12.5	11.8	11.2	10.7	10.7
Exports	10.3	10.7	10.5	10.7	10.9	10.7	10.7	11.2	11.4	11.6	11.7	11.8	12.0	12.1	12.1	12.2	12.3	12.4	12.4
Imports	28.6	31.2	33.4	31.1	30.3	28.8	28.8	28.5	28.6	28.3	28.0	28.1	25.8	25.2	24.7	24.1	23.4	23.1	23.1
Net current transfers (negative = inflow)	-15.6	-16.9	-12.3	-12.9	-12.7	-12.1	-11.3	-11.0	-10.5	-10.1	-9.6	-9.3	-7.2	-6.9	-6.5	-6.3	-6.8	-6.5	-6.5
Other current account flows (negative = net inflow)	1.4	1.1	1.1	1.4	1.2	1.1	0.2	0.1	-0.3	-0.4	-0.5	-1.1	-1.1	-1.0	-0.9	-0.8	-0.8	-0.9	-0.9
<b>Net FDI (negative = inflow)</b>	-3.8	-5.5	-9.0	-4.6	-5.5	-5.9	-6.2	-6.2	-6.3	-6.6	-6.6	-6.6	-5.2	-4.7	-4.5	-4.3	-3.4	-3.2	-3.2
<b>Endogenous debt dynamics 2/</b>	-7.3	-12.9	-1.9	-0.6	-0.7	-0.9	-1.1	-1.2	-1.3	-1.4	-1.5	-1.5	-1.7	-1.7	-1.6	-1.6	-1.6	-1.5	0.3
Contribution from nominal interest rate	0.4	0.2	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Contribution from real GDP growth	-3.4	-4.8	-2.0	-0.6	-0.8	-1.0	-1.2	-1.4	-1.5	-1.6	-1.7	-1.8	-2.0	-1.9	-1.9	-1.9	-1.9	-1.8	0.0
Contribution from price and exchange rate changes	-4.3	-8.4	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
<b>Residual (3-4) 3/</b>	6.7	-6.5	-58.7	0.0	1.6	2.7	2.8	3.2	3.2	3.6	3.4	2.1	0.8	0.5	0.3	0.1	0.4	0.5	1.1
<i>Of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPV of external debt 4/	...	6.2	6.9	8.8	10.6	12.2	13.7	14.9	16.0	17.1	18.0	18.8	20.7	20.6	20.5	20.2	19.8	19.4	20.2
In percent of exports	...	58.5	65.6	82.9	97.7	114.2	127.8	132.6	140.6	146.9	154.1	159.4	171.6	170.9	168.6	164.8	161.2	156.5	163.7
<b>NPV of PPG external debt</b>	...	6.2	6.9	8.8	10.6	12.2	13.7	14.9	16.0	17.1	18.0	18.8	20.7	20.6	20.5	20.2	19.8	19.4	20.2
In percent of exports	...	58.5	65.6	82.9	97.7	114.2	127.8	132.6	140.6	146.9	154.1	159.4	171.6	170.9	168.6	164.8	161.2	156.5	163.7
Debt service-to-exports ratio (in percent)	10.5	6.3	2.5	1.1	1.4	1.6	1.9	2.5	2.7	3.0	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
<b>PPG debt service-to-exports ratio (in percent)</b>	10.5	6.3	2.5	1.1	1.4	1.6	1.9	2.5	2.7	3.0	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Total gross financing need (billions of U.S. dollars)	26.0	-2.3	69.6	113.1	71.6	37.2	28.8	14.8	12.0	-4.0	-2.1	47.7	93.1	112.9	120.7	128.0	88.3	85.5	92.1
Noninterest current account deficit that stabilizes debt ratio	4.3	25.0	69.5	5.2	4.7	4.1	4.5	4.2	4.4	4.4	4.7	4.7	5.5	5.7	5.6	5.4	4.5	4.3	1.9
<b>Key macroeconomic assumptions</b>																			
Real GDP growth (in percent)	4.0	6.0	3.0	4.3	4.5	4.9	5.2	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
GDP deflator in U.S. dollar terms (change in percent)	4.8	9.9	7.1	3.8	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate (percent) 5/	0.5	0.3	0.1	0.3	0.4	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Growth of exports of G&S (U.S. dollar terms, in percent)	36.0	20.2	8.9	9.5	8.8	5.5	6.9	12.9	9.2	9.6	8.2	8.8	8.5	7.8	8.2	8.6	8.0	8.2	0.0
Growth of imports of G&S (U.S. dollar terms, in percent)	13.0	27.1	18.1	0.9	4.0	1.5	7.1	6.7	7.7	6.5	6.5	8.0	5.4	5.1	5.2	4.8	4.8	5.7	0.0
Grant element of new public sector borrowing (in percent)	...	...	54.9	56.2	56.1	56.5	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9
Memorandum item:																			
Nominal GDP (billions of U.S. dollars)	1834.7	2136.8	2357.1	2553.2	2720.4	2908.5	3120.3	3355.8	3609.2	3881.6	4174.6	4489.7	6460.2	6947.8	7472.3	8036.3	8642.9	9295.3	9295.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.  
 2/ Derived as  $(1 - g - \rho)(1 + r - \rho) / (1 + r - \rho - g)$  times previous period debt ratio, with  $r$  = nominal interest rate,  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.  
 3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets, and valuation adjustments. For projections also includes contribution from price and exchange rate changes.  
 4/ Assumes that NPV of private sector debt is equivalent to its face value.  
 5/ Current-year interest payments divided by previous period debt stock.  
 6/ Historical averages and standard deviations are generally derived over the past 10 years.

Table 3b. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-26  
(In percent)

	Projections														
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	2030	2035	
<b>NPV of debt-to-GDP ratio</b>	7	9	9	11	12	14	15	16	17	18	19	21	21	19	20
<b>A. Alternative Scenarios</b>															
A1. Key variables at their historical averages in 2007-26 1/	7	8	10	12	14	16	18	19	21	23	25	31	31	33	33
A2. New public sector loans on less favorable terms in 2007-26 2/	7	10	13	16	18	21	23	24	26	26	28	32	32	31	33
<b>B. Bound Tests</b>															
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	7	9	11	12	14	15	16	17	17	18	19	21	21	20	20
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	7	10	13	15	16	18	19	20	20	20	21	22	22	20	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	7	10	14	17	18	20	22	23	24	24	26	28	28	26	27
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007-08 4/	7	11	15	17	18	19	20	21	22	23	23	23	23	21	22
B5. Combination of B1-B4 using one-half standard deviation shocks	7	12	18	20	21	23	24	25	26	27	27	27	27	25	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	7	12	15	17	19	21	23	24	25	25	27	29	29	27	28
<b>NPV of debt-to-exports ratio</b>	66	83	98	114	128	133	141	147	154	159	172	172	157	157	164
<b>A. Alternative Scenarios</b>															
A1. Key variables at their historical averages in 2007-26 1/	66	75	89	111	132	147	165	182	201	213	258	268	270	270	266
A2. New public sector loans on less favorable terms in 2007-26 2/	66	96	121	149	172	183	198	211	224	234	264	252	266	266	266
<b>B. Bound Tests</b>															
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	66	83	98	114	128	133	141	147	154	159	172	172	157	157	164
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	66	118	201	227	248	253	264	272	283	290	299	266	278	278	278
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	66	83	98	114	128	133	141	147	154	159	172	157	164	164	164
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007-08 4/	66	104	141	157	169	171	177	182	188	191	193	169	176	176	176
B5. Combination of B1-B4 using one-half standard deviation shocks	66	110	163	182	197	199	207	212	219	224	226	200	208	208	208
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	66	83	98	114	128	133	141	147	154	159	172	157	157	164	164
<b>Debt service ratio</b>	2	1	1	2	2	2	3	3	3	3	3	6	7	7	8
<b>A. Alternative Scenarios</b>															
A1. Key variables at their historical averages in 2007-26 1/	2	1	1	1	2	3	3	4	4	4	8	12	12	12	12
A2. New public sector loans on less favorable terms in 2007-26 2/	2	1	2	3	4	5	6	6	7	7	12	13	14	14	14
<b>B. Bound Tests</b>															
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	2	1	1	2	2	2	3	3	3	3	3	6	7	7	8
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	2	1	2	3	4	5	5	5	5	5	6	11	12	13	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	2	1	1	2	2	2	3	3	3	3	3	6	7	8	8
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007-08 4/	2	1	2	2	3	3	3	3	3	3	4	7	8	9	9
B5. Combination of B1-B4 using one-half standard deviation shocks	2	1	2	3	3	3	4	4	4	4	4	8	9	10	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	2	1	1	2	2	2	3	3	3	3	3	6	7	7	8
Memorandum item:	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56
Grant element assumed on residual financing (i.e., financing required above baseline) 6/															

Source: Staff projections and simulations.

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

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

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Statement by the IMF Staff Representative**  
**June 5, 2006**

1. The following information has become available since the issuance of the staff report.<sup>1</sup> **The thrust of the staff appraisal remains unchanged.**
  
2. **Macroeconomic policy implementation appears to have remained on track in the first quarter of 2006.** Both the end-March targets on reserve money and net foreign assets were met. International reserves were higher than programmed, reflecting higher project disbursements, but also lower-than-expected use of foreign exchange by the government, possibly indicating a tighter-than-programmed fiscal stance.
  
3. **Consumer price inflation picked up slightly** to 7.5 percent (year-on-year; end of period) in April from 7 percent in March, driven mainly by an increase in petroleum prices.

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<sup>1</sup> All prior actions were implemented before the issuance of the staff report.



Press Release No. 06/121  
FOR IMMEDIATE RELEASE  
June 8, 2006

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes the Sixth Review of Rwanda's PRGF Arrangement and Approves a New Three-Year PRGF Arrangement**

The Executive Board of the International Monetary Fund (IMF) has completed the sixth and final review of Rwanda's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement, which enables the release of SDR 571,000 (about US\$850,000) under the arrangement. This will bring total disbursements under the arrangement approved on August 12, 2002 (see [Press Release No. 02/36](#)) to SDR 4 million (about US\$6 million).

In completing the review, the Board granted waivers for the non-observance of the end-June 2005 quantitative performance criterion on priority spending, and the end-September 2005 structural performance criterion on publishing a financial audit and a business plan of Prime Holdings.

The Executive Board also approved Rwanda's request for a new three-year PRGF arrangement amounting to SDR 8.01 million (about US\$12 million). The new PRGF arrangement will become effective on June 12, 2006, after which Rwanda may request an initial drawing of SDR 1.14 million (about US\$1.7 million).

The principal objective of the new PRGF-supported program is to advance Rwanda's medium-term economic agenda, while preserving macroeconomic stability. The program envisages a real annual growth rate of 3 percent to 5 percent, annual inflation of 5 percent, and a level of international reserves of at least four months of imports. Macroeconomic and structural policies will aim to lay the foundation for moving Rwanda onto a higher growth trajectory.

Following the conclusion of the Executive Board's discussion of Rwanda's current and upcoming economic program on June 5, 2006, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, said:

“Rwanda's economic performance strengthened in 2005. Driven by a recovery in agriculture, growth rebounded to 6 percent and inflation fell. Macroeconomic policy implementation was broadly on track. On the structural side, progress was mixed, partly due to capacity constraints. In particular, reforms in public expenditure management remain pending.

“Looking ahead, steadfast commitment to reform will be critical. The authorities' medium-term framework aims at addressing the impediments to growth and making further progress in poverty

reduction. Most importantly, this will require improving the business climate to foster private sector growth. In addition, the authorities will implement productivity-enhancing strategies, particularly in the agricultural and export sectors, which are also expected to make the economy more resilient to shocks.

“Managing aid inflows lies at the heart of Rwanda’s medium-term strategy. Policies will be geared toward marshalling aid flows to their most efficient use while preserving macroeconomic and debt sustainability. To finance the development effort, the authorities’ intention to seek external financing mostly in the form of grants is appropriate and should be complemented by measures to strengthen the domestic revenue base.

“The 2006 fiscal program takes a step in the right direction by improving the quality and efficiency of fiscal spending. The increase in priority spending, particularly in education, is encouraging. In this context, the use of resources freed-up by the MDRI relief for food imports (related to a possible food crisis due to drought) and the Lake Kivu methane gas project to generate electricity is welcome. To better target spending to alleviating poverty, efforts should also be made to strengthen the link between fiscal spending and poverty reduction. Of particular importance is the authorities’ intention to reinvigorate reforms in public expenditure management as it will provide assurances to development partners that resources are leveraged to their most productive use.

“The authorities’ structural reform agenda appropriately aims at tackling obstacles to growth. In general, a continued focus on building capacity of both the civil service and the private sector is needed. More specifically, reducing the cost of doing business will be key to stimulating private sector development. To this end, the authorities should be commended for their fast pace in strengthening banking supervision and headway should now be made in designing medium-term financial sector reforms,” Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies that are adopted in a participatory process involving civil society and development partners and articulated in the Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

## ANNEX

### **Background**

Macroeconomic performance strengthened in Rwanda in 2005. A recovery in agriculture helped real growth to accelerate to 6 percent and inflation to moderate to below 6 percent.

Macroeconomic policy implementation was broadly satisfactory when temporary slippages in the third quarter of 2005 were reversed in the last quarter of the year. However, structural reforms lagged, partly due to capacity constraints. In particular, reforms in expenditure management remain pending.

The main challenge for the country is to achieve sustained high growth rates to advance toward the Millennium Development Goals (MDGs) while maintaining debt sustainability. To this end, policies will aim at fostering private sector development, including through productivity-enhancing strategies and trade facilitation. Moreover, policies will have to be geared to marshalling aid flows to their most efficient use while preserving macroeconomic stability. In this regard, more emphasis will have to be placed on public expenditure management and capacity building.

### **Program Summary**

Poor weather conditions are clouding prospects for economic activity in 2006. To prepare for a possible food crisis due to drought, the program sets aside ½ percent of GDP for food imports and includes an adjuster allowing a reserve drawdown if needed.

The principal objective of the program is to advance the medium-term agenda while preserving macroeconomic stability. The program envisages a real growth rate of 3 percent to 5 percent, inflation of 5 percent, and a level of international reserves of at least 4 months of imports. Macroeconomic and structural policies will aim at laying the foundations for moving Rwanda onto a higher growth trajectory.

Under the new IMF-supported economic program, policies will aim at preserving macroeconomic stability. Pressures for a real appreciation of the exchange rate are expected to continue, with a further widening of the fiscal deficit (mostly reflecting one-off revenue in 2005) and the likely drawdown of project account balances. Policy discussions thus focused on managing the domestic demand impact of fiscal policies and preventing a crowding-out of private investment.

The structural agenda will seek to remove constraints to growth. In addition to reforms in the financial sector and the business environment, as well as productivity-enhancing strategies in the agriculture and export sectors, structural policies will focus on expenditure and debt management, and civil service reform.

## Rwanda: Selected Economic and Financial Indicators, 2002-2008

Table 1: Rwanda: Selected Economic and Financial Indicators, 2002-08

	2002	2003	2004	2005		2006		2007 Proj.	2008 Proj.
				IMF Country Report No. 05/3339	Est.	IMF Country Report No. 05/3339	Proj.		
(Annual percentage changes, unless otherwise indicated)									
Output and prices									
Real GDP growth	9.4	0.9	4.0	4.0	6.0	4.3	3.0	4.3	4.5
GDP deflator	0.0	8.7	12.0	6.4	7.1	4.0	5.5	5.0	5.0
Consumer prices (period average)	2.0	7.4	12.0	7.0	9.2	4.0	5.5	5.0	5.0
Consumer prices (end of period)	6.2	7.7	10.2	6.0	5.6	4.0	5.0	5.0	5.0
External sector									
Export, f.o.b (in U.S. dollars)	-28.1	-6.3	55.4	2.1	27.6	3.6	5.5	3.8	5.8
Imports, f.o.b (in U.S. dollars)	-1.3	4.0	13.1	33.3	35.6	6.4	26.6	-1.1	2.4
Export volume	-10.0	-12.5	26.8	-6.8	3.8	6.3	10.4	3.4	5.1
Import volume	-6.5	0.5	10.2	24.8	24.2	5.7	24.1	-5.2	3.3
Terms of trade (deterioration -)	-24.3	3.5	19.5	2.6	12.6	-3.1	-6.3	-3.7	1.5
Government finance									
Revenue	16.9	21.4	20.2	15.7	22.6	5.2	1.8	11.3	11.3
Total expenditure and net lending	10.5	23.7	27.2	14.4	24.0	11.3	7.1	7.3	10.0
Current expenditure	14.0	31.4	4.4	21.1	27.9	5.3	13.6	4.6	9.1
Money and credit 1/									
Net domestic assets 2/	-6.1	14.8	-28.9	17.5	-12.1	5.9	14.6	...	...
Domestic credit 2/	-4.0	19.7	-22.7	12.8	-5.3	5.9	14.0	...	...
Government 2/	-12.4	10.7	-28.9	6.7	-16.4	-0.5	4.6	...	...
Economy 2/	8.5	9.0	6.2	6.1	11.2	6.4	9.4	...	...
Broad money (M2)	11.4	15.2	12.1	5.3	17.2	10.4	10.7	...	...
Reserve money	11.9	12.2	13.4	12.2	12.3	10.4	12.8	...	...
Velocity (GDP/M2; end of period)	5.7	5.4	5.6	5.9	5.5	5.8	5.4	...	...
(In percent of GDP)									
National income accounts									
National savings (excluding official transfers)	0.3	-0.8	2.3	-0.9	2.9	1.5	0.6	1.9	3.4
<i>Of which:</i> private (including public enterprises)	4.3	3.9	5.9	2.4	6.2	4.9	6.0	4.9	6.0
Gross investment	16.9	18.4	20.5	21.1	22.3	22.3	21.9	21.9	22.4
<i>Of which:</i> private (including public enterprises)	12.0	12.8	12.0	12.1	12.2	12.2	13.4	13.1	13.2
Government finance									
Total revenue (excluding grants)	12.2	13.5	13.9	14.6	15.1	14.1	14.1	14.3	14.5
Total expenditure and net lending	21.2	23.9	26.1	27.0	28.5	27.7	28.1	27.5	27.5
Capital expenditure	4.9	5.6	8.5	9.0	10.1	10.2	8.6	8.8	9.0

Table 1: Rwanda: Selected Economic and Financial Indicators, 2002–08

	2002	2003	2004	2005		2006		2007 Proj.	2008 Proj.
				IMF Country Report No. 05/3339	Est.	IMF Country Report No. 05/3339	Proj.		
Current expenditure	14.8	17.8	15.9	17.5	17.9	17.0	18.8	17.9	17.8
Primary fiscal balance 3/	-1.6	-0.3	-1.7	-1.7	-2.0	-3.6	-3.5	-3.9	-4.0
Domestic fiscal balance 4/	-4.2	-5.5	-5.5	-5.0	-5.6	-6.3	-7.4	-6.9	-6.6
Overall balance (payment order)									
After grants	-1.7	-2.3	-0.2	-0.5	0.7	-1.4	-0.7	-3.6	-4.1
Before grants	-8.9	-10.3	-12.1	-12.4	-13.4	-13.5	-13.9	-13.3	-13.0
External sector									
External current account balance									
Including official transfers	-6.7	-7.8	-3.0	-9.0	-3.1	-7.4	-10.8	-10.0	-10.5
Excluding official transfers	-16.6	-19.2	-18.2	-22.0	-19.4	-20.8	-21.4	-19.2	-18.2
External debt (end of period) 5/	85.3	93.4	91.9	73.7	70.7	70.8	15.0	18.7	22.1
Net present value of external debt (in percent of exports of goods and services) 6/	...	285.6	239.4	317.3	149.8	304.1	65.6	82.9	97.7
Scheduled debt-service ratio after HIPC Initiative debt relief (in percent of exports of goods and services)	12.0	11.1	9.6	7.4	7.2	8.2	5.0	5.0	4.8
Gross reserves (in months of imports of goods and services)	6.3	5.0	5.7	4.9	6.2	4.6	4.9	4.8	4.7
				(In millions of U.S. dollars)					
External debt (end of period) 5/	1,476.8	1,572.4	1,685.3	1,523.1	1,510.0	1,564.1	354.0	478.4	600.7
Gross official reserves	243.6	217.6	314.5	398.4	405.8	276.9	317.3	323.9	327.3
Memorandum item:									
Nominal GDP (in billions of Rwanda francs)	825.0	905.3	1,054.3	1,184.7	1,197.2	1,264.8	1,300.8	1,425.3	1,564.2

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

1/ Data up to 2005 based on current exchange rates, for 2006 based on program exchange rate of RF 553.7/US\$.

2/ As a percent of the beginning-of-period stock of broad money.

3/ Revenue excluding grants; minus current expenditure except interest due and exceptional expenditure; minus domestically financed capital expenditure.

4/ Revenue excluding grants; minus current expenditure (excluding external interest), minus domestically financed capital expenditure and net lending.

5/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2006–08).

6/ Based on assumptions about expected new borrowing.



**Statement by Damian Ondo Mañe, Executive Director for Rwanda  
and Laurean Rutayisire, Alternate Executive Director  
June 5, 2006**

**Introduction**

Our Rwandese authorities would like to express their appreciation to staff for a well-balanced report on Rwanda's recent economic developments and performances under the PRGF. Our authorities are also appreciative to staff for their policy advice as well as to Management and Directors for their continued support in strengthening the relations between Rwanda and the Fund.

Over the past years, the economic and financial performance of Rwanda has continued to register significant improvement. In addition to their commitment to uphold the performance achieved in macroeconomic stability, our authorities are also fully committed to intensify their efforts in removing the obstacles to private sector development, promoting exports and improving energy supply as well as strengthening expenditure management. In order to improve the investment and private sector development, the authorities have undertaken a review of business laws. In the energy sector, efforts to harness electricity from the Lake Kivu methane gas project are at advanced stages and the authorities expect the project to be operational in mid-2007. Regarding export promotion, clear responsibilities of all agencies involved have been established and progress is being made in producing high value added in coffee and tea. While our authorities are making these strides however Rwanda being thousands of miles away with no railway link and limited all weather roads connection to sea ports, remain a severe constraints on broadening growth opportunity and on dramatically increasing competitiveness. Our authorities are continuing to approach donors with a view to address these constraints. They will appreciate Fund's advice on this important issue.

Under the PRGF-supported program, all but two performance criteria for the sixth review and all quantitative end-2005 benchmarks were observed. Furthermore all prior actions related to the sixth review were successfully implemented. The missed criteria, included priority spending and publication of the audit on Prime Holdings in addition to benchmarks on the accumulation of domestic arrears and nonconcessional external debt. As rightly indicated capacity constraints explain these slippages in the third quarter of 2005 but they were all corrected soone after. Accordingly, our Rwandese authorities are requesting waivers for the nonobservance of these performance criteria.

Our authorities also request the completion of the sixth and last review under the current PRGF arrangement as well as a new three-year PRGF arrangement in order to complete their unfinished structural reforms agenda which would help them establish a path for accelerated growth and sustained poverty reduction. After a successful implementation of the new PRGF program, Rwanda intends to graduate from the use of Fund resources.

## **Program Implementation and Economic Developments in 2005**

The macroeconomic policy implementation further improved in 2005, as real GDP grew significantly and inflation was subdued, as projected. Foreign assets stood at 6.2 months of imports cover compared to the program objective of 4.9 months. Moreover the current account deficit as well as the fiscal deficit was lower than programmed.

**In the real sector**, a real GDP growth rate of 6 percent compared to 4 percent in 2004 was recorded. This higher real GDP growth rate is attributed to increases in agricultural production, after the adverse effects of drought experienced for two consecutive years, strong growth of value added in the manufacturing sector and increased value added in the financial and communication sectors. Moreover, inflation declined to below to 5.6 percent at the end of 2005 against a target of 6 percent.

**As regards the fiscal sector**, tighter policies continued to be implemented, in spite of temporary increases in expenditure during the third quarter. As a result, the end-2005 fiscal targets were subsequently met, including domestic arrears clearance and priority spending. Although domestic spending was high mainly due to outlays on peace-keeping efforts, local elections and Gacaca trials, a combination of lower wages and interest rate bills with an over performance in tax revenue collection stemming from increased tax efforts enabled our authorities to maintain the program target on domestic fiscal deficit.

**In the monetary area**, actions undertaken by the authorities involving the issuance of short-term domestic debt to mop up excess liquidity helped the attainment of all end-quarter reserve money targets. However there was a broad agreement that sterilization through domestic debt was not an option as it would drive up interest rates, negatively impact investment and increase the losses of the central bank. Hence staff urged the authorities to use the sale of foreign exchange instead. Our authorities are of the view that such approach should be gradual and that proper coordination with policies should also be made.

**On the external front**, the current account deficit narrowed compared to the program target. This was due to strong exports, notably from higher coffee receipts, and lower overall imports' growth. Following the debt relief under the enhanced HIPC Initiative and MDRI, for which our authorities are grateful to the international community, the NPV of debt-to export ratio was projected to about 59 percent at end-2005. In order to keep the debt level below the LIC debt sustainability thresholds our authorities are committed to further enhance public debt management.

**With regard to structural reforms**, some delays were recorded in the adoption of the Organic Budget Law (OBL) as it became necessary in the first instance to complete civil service reform and the restructuring of local administrative districts. As a result of these reforms substantial progress was made in public expenditure management and efficient

public spending. The Organic Budget Law has already been passed. Further progress in structural reforms has involved the privatization of three tea estates and banking supervision by the central bank has been strengthened with amendments to the banking law. Moreover the NBR reached an agreement on a restructuring plan for a problem bank. On export promotion, stakeholders in the ongoing strategy have signed a memorandum of understanding clarifying their roles in addition to the publication by the NBR of a review of existing exporter financing schemes. To boost transparency, the authorities have published the financial audit and business plan of Prime Holdings in December 2005 and are in negotiations with new investors to take on the management of the hotels. In addition, the audit of Rwanda's peace-keeping activities in Darfur was published which indicated that all funds have been used according to their intended purpose.

**As regards PRSP's implementation,** the participatory approach was strengthened and the third report was completed. Not only did it provide a wide review but it also highlighted progress made towards poverty alleviation.

### **Macroeconomic Outlook and Medium-term Economic Program**

Our Rwandese authorities would like to continue their constructive cooperation with the Fund with a view to strengthening macroeconomic stability, while implementing policies designed to promote growth, reduce poverty and achieve the MDGs as well as reaching middle-income status by 2020. To this end, the Rwandese authorities request a new PRGF arrangement to advance key reforms and they reiterate their full commitment to growth-enhancing and poverty reducing policies. The key macroeconomic objectives set out for the medium-term are: (i) increasing real GDP growth to 7 percent by 2009; (ii) maintaining inflation at around 5 percent; (iii) maintaining official reserves at levels to cover at least 4 months of imports and (iv) increasing the revenue-to-GDP ratio to over 14.5 percent of GDP by 2009 along with an increase in capital spending and a further reorientation of expenditure toward priority outlays.

On the other hand, our authorities are cognizant of the importance of stability in the region for the economic development of all member countries. In this context, they will continue to work closely with the international community and neighboring countries to further contribute to the efforts aimed at building lasting peace in the region.

### **Sources of Growth**

Over the medium-term, the authorities will step up their efforts to remove obstacles to private sector and improve the delivery of public services including assigning high priority to agricultural development and improvement in infrastructure and energy supply. In the same vein, the authorities will continue their efforts to build human capital through better health and education services. In order to lower energy costs and reduce the country's dependence

on expensive fuel-generated electricity, the hydro-power projects will be pursued together with the methane gas plant in the Lake Kivu.

### **Fiscal policy**

The authorities will continue to implement sound policies designed to achieve fiscal sustainability. In 2006, a review of the subsidy in the petroleum sector will be undertaken to determine its sustainability and the impact on the poor. Already the reference prices were increased in December 2005 and February 2006 to reduce the implicit subsidy. Furthermore our authorities will review the new income tax laws to ensure that the additional incentives provided in the laws are not abused. On the expenditure front, the quality of spending will be further improved through allocating more funds to PRSP priorities and improving the public services delivery. Given the poor weather conditions in 2006, the authorities are prepared to react swiftly in the case of a food emergency including by using the MDRI relief. In fact an amount of US\$ 8 million has been set aside under the Fund's MDRI flow relief to cover food shortages remaining after donors' support.

The reform of the core civil service is advancing and a medium-term reform program will be designed for the entire civil service with the assistance of the World Bank. Further reforms will aim at restructuring public institutions according to the ongoing territorial reorganization and a review of the legal framework. The passage of the organic budget law and legislative changes related to the restructuring of local governments will further strengthen public expenditure management. Reporting practices and auditing accounts will be strengthened with the three-year training of accountants and the finalization by end-2006 of the accounting instructions, forms and procedures for budget users. To enhance fiscal transparency the authorities will start publishing budget execution reports on a monthly basis and data on priority spending on a quarterly basis. As for the accounts reconciliation exercise, guidelines will be issued and already training program for accountants is underway.

### **Monetary and financial policies**

Monetary policy will aim at further reducing inflation by limiting reserve money growth, while allowing increases in private sector credit. Moreover the authorities will start encouraging a shift into longer-dated sterilization instruments to reverse the shortening of maturities during 2005 and achieve the program's inflation target. In the event of emergence of inflationary pressures, the authorities stand ready to tighten monetary policy including through the increase of interest rates. In order to further develop and deepen the interbank foreign exchange market, the authorities have requested technical assistance from the Fund. The central bank will also continue its efforts to strengthen the supervision of banks in the context of rapid credit growth.

**External sector**

Due to temporary import increases stemming mainly from the Lake Kivu project, the current account deficit, excluding official transfers, is expected to widen compared to 2005. Exports will grow by at least 6 percent, reflecting a significant increase in coffee, tea and minerals receipts. Regarding the external debt, the implementation of debt relief under the enhanced HIPC Initiative is advancing, as evidenced by various agreements reached with most multilateral and bilateral creditors. Under the assistance of Debt Relief International, the public debt management is being upgraded.

**Structural reforms**

In order to achieve sustained growth, poverty reduction and attain the MDGs, the authorities will intensify their efforts aimed at improving the business climate boosting the agricultural sector, increasing energy supply and promoting export and developing the financial sector. In the context of the Economic Development and Poverty Reduction Strategy, a system to monitor the implementation of the main recommendations of the DTIS will be established in addition to implementing the financial sector reform over the medium-term. As for the energy sector, not only the Lake Kivu methane gas project is underway but the authorities are also developing other sources of energy such as biogas, solar energy as well as hydropower projects in cooperation with donors. The export promotion strategy will be more focused on new export products including mining, tourism and the development of export processing zones.

The authorities are mindful that increasing agricultural productivity and raising rural incomes are essential to reducing poverty and enhancing growth. In this regard, they will implement the recently adopted agricultural sector strategy based on water management, control soil erosion; increase productivity and livestock development. Needless to mention, our authorities have already promulgated the new Land Law which will enable farmers to use land as collateral for bank credit. Laws on establishing a commercial registration and on intellectual property are scheduled to be approved by end- 2006.

**PRSP implementation**

Significant progress has been made in implementing Rwanda's PRSP since its launching in 2002. Three progress reports were published and remain important milestones in the country's strategy to fight poverty. With a view to pursue their efforts designed to meet the MDGs and upgrade the country as a middle income one, the authorities have started the preparation process of the second PRSP which will be more results-oriented and carried out with strong partnership from all stakeholders.

**Conclusion**

Given the overall significant macroeconomic achievements made under the current PRGF Fund-supported program, our Rwandese authorities request waivers for the nonobservance of the missed performance criteria. They also request the completion of the sixth review under the PRGF arrangement, as well as a new three year arrangement supported by the PRGF. Our Rwandese authorities fully recognize that important challenges remain and progress made thus far has to be consolidated. They are thankful to the Fund and the international community for their policy advice, technical and financial support in their reforms and macroeconomic stabilization program. They remain fully committed to implement sound policies conducive towards growth promotion and poverty alleviation.