Rwanda and the IMF

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IMF Executive Board Completes Second PSI Review for Rwanda and Concludes 2014 Article IV Consultation
December 10, 2014

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

November 11, 2014

Letter of Intent

Kigali, Rwanda
November 11, 2014

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

Dear Ms. Lagarde,

The attached memorandum of economic and financial policies (MEFP) is an update of the April 2014 MEFP and sets out the macroeconomic policies of the Rwandan government for the remainder of fiscal year 2014/15 and the medium term.

Rwanda's performance under the PSI has remained strong. As described in the MEFP, all end-June 2014 quantitative assessment criteria (QAC) were met. All indicative targets, but one, have been met. The slight breach of the floor on domestic revenue collection was due to the offsetting effect of investment allowances for certain companies and delays in the accrual of revenue from implementation of some measures. Reflecting our strong commitment to the PSI objectives six out of seven structural benchmarks due as of end-June were met. The quarterly budget execution report (continuous benchmark) was published with a delay due to a glitch arising from a technological upgrade at the BNR. In light of this satisfactory performance and its continued commitment to sound policies, the government requests the completion of the second review under the PSI. Based on the revised macroeconomic framework, the government also requests modification of the assessment criteria for end-December 2014.

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

The government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the third review will take place before end-June 2015.

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

Sincerely yours,

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

Attachment I. Memorandum of Economic and Financial Policies—Update

November 11, 2014

1. This MEFP update reviews performance under the PSI-supported program through end-June 2014 and discusses the macroeconomic outlook and policies for the remainder of FY2014/15. It also describes quantitative and structural targets for end-December 2014 and end-June 2015. As in the April 2014 MEFP, policy formulation in all areas will take into account Rwanda's commitments to the East African Community.

RECENT ECONOMIC AND POLICY PERFORMANCE

2. **Introduction.** After the slowdown associated with the suspension of aid by some donors and delays in the approval of disbursements by others and a weaker than anticipated agricultural output in 2013, economic growth returned to a healthy 6.8 percent in the first half of 2014. Inflation continues to remain well contained.

3. **Growth.** The pickup in growth in the first half of 2014 confirmed the initial observations that the slowdown in 2013 was temporary in nature. The recovery was broad based, with most of the sectors affected by the slowdown in 2013 registering robust performances in the first half of 2014, particularly services (+8.4 %) and construction (+5.8 %). This reflected normalization of economic activities and acceleration in the implementation of previously delayed government projects.

4. **Inflation**. Inflation, both headline and core, was firmly contained with the former standing at 0.5 percent year-on-year in October and the latter at 3.5 percent. This reflected a combination of lower imported inflation from the region, stable fuel prices, benign commodity prices and a decline in domestic food prices.

5. **External balance.** The external balance deteriorated somewhat in the first half of 2014, reflecting the pick-up in economic activity, which resulted in acceleration in the imports of capital goods as the implementation of investment projects resumed. Formal exported goods increased only marginally by 1.3 percent in value but declined by 1.7 percent in volume, as a result of weaker prices and lower volumes for traditional exports. Reserve cover is expected to decline from 5 months of imports at end-2013 to stand at 4.1 months of imports at end-2014, reflecting both the weaker current account outturn and only partial use of the Eurobond proceeds for the Kigali Convention Center.

6. **Fiscal developments.** The implementation of the revised FY2013/14 budget was broadly on target except for a slight reduction in capital expenditures associated with lower than expected foreign financing. On the revenue side, tax revenues were comparable to the PSI target and non-tax revenue surged on account of an increase in receipts from peace keeping operations. Global Fund disbursements were also much larger than expected but budgetary grants were lower. In sum, total revenues and grants were slightly higher than projected by about 0.5 percent of GDP (to stand at 26.2 percent of GDP). Recurrent expenditures were on target while capital expenditures faltered somewhat on account of lower foreign financing. Slight delays in the construction of the Kigali Convention Centre (KCC) and other infrastructure projects led to lower than expected outlays under net lending and foreign financed capital expenditure. The combined effects resulted in the fiscal accounts recording a slightly lower deficit than initially projected for FY 2013/14 of 4 percent of GDP compared to 4.4 percent of GDP initially projected for FY 2013/14.

7. Progress in the implementation of Public Finance Management (PFM) reforms throughout FY2013/14 was impressive. Key achievements registered during the year include:

i. Rwanda Revenue Authority (RRA) started the implementation of electronic billing machines (EBM) and currently 6183 EBMs belonging to 4860 tax payers have been installed and are in use. 7 service providers to distribute EBMs have been certified to supply machines and software while 6 are undergoing the certification process;

ii. The number of unqualified audit reports increased from 9 percent to 32 percent;

iii. The audit coverage is now covering 79 percent of all government expenditure compared to 75 percent from the previous year;

iv. The draft policy document entitled "Accounting Policy for Fixed Assets" was submitted to Cabinet for approval. After its adoption, it is envisaged that fixed assets registers will be established in MDAs and Sub-National governments;

v. A feasibility study on E-procurement system was carried out and the final report is available. An e-procurement system roadmap is currently under elaboration;

vi. The government Integrated Financial Management Information System (IFMIS) now covers more than 140 budget agencies with a total of 275 sites/cost centers. To ensure its continuous operationalization and usage over 1,700 users have been trained. The system is now stable and supports various financial management functions as recognized by all users, auditors and the systems internal and external reviewers;

vii. The implementation of the easy to use accounting system and financial reporting system commenced with the training and go live; all sectors from 2 districts (Gasabo and Nyarugenge) have been connected to the Subsidiary Entities Accounting and Reporting System (SEAS). Plans are underway to roll out the system to 5 more districts.

8. Monetary and exchange rate developments. The NBR has continued to focus on limiting the risks from monetary inflation and anchoring inflationary expectations, while containing pressures on the exchange rate. The key policy rate was reduced by 50 basis points to 6.5 percent in June 2014. Within the flexibility of the monetary policy framework, the interbank market has improved and transactions increased to RWF 116.1 billion in the Jan-June 2014 period compared to RWF 71.85 billion the same period in 2013. Credit to the private sector has picked up in the first half of 2014, reflecting the broader increase in economic activities. Compared to December 2013, credit to the private sector increased by 7.3 percent, against an initial projection of 6.1 percent at end-June 2014. The exchange rate remained fundamentally market driven and the Rwandan Franc has depreciated by 3 percent as of end-October, compared to 6.1 percent for the calendar year 2013. NBR sales of forex in the January-June 2014 period amounted to USD 128 million compared to USD 152 million projected. Regarding the monetary aggregates, broad money increased by 19 percent as of end-June 2014, compared to an initial projection of 5.5 percent. Net foreign assets at end-June 2014 stood at USD 821.43 million, exceeding the USD 775.52 million projected, reflecting disbursements from the AfDB, EU, and Global Fund.

9. Program performance. Program performance under the new PSI has been strong. All end-June 2014 quantitative assessment criteria (QAC) were met. All but one indicative targets were met. The slight breach of the floor on domestic revenue collection was due to the offsetting effect of investment allowances for certain companies and delays in the accrual of revenue from some measures as well as shortfall in non-tax revenue mainly administrative fees and charges. These are temporary factors and the revenue shortfall is projected to be made up this year. Reflecting our strong commitment to the PSI objectives, six out of seven structural benchmarks due as of end-June were met. The quarterly budget execution report (continuous benchmark) was published with a delay due to a glitch arising from a technological upgrade at the BNR.

MACROECONOMIC OUTLOOK AND POLICY FOR FY2014/15 AND THE MEDIUM TERM

10. Economic growth is likely to meet the projection for 2014 and inflation will remain contained. Following the uptick in economic activities in the first half of 2014, the outlook for the remainder of the year is broadly stable, with the main risks arising from a weaker than expected second agricultural season and potential delays in donor disbursements. The government expects growth to meet the 6 percent target for 2014. All the main sectors are expected to contribute to this broad based growth: agriculture (+4 percent) led by an increase in the production of food crops arising from the increase in the area under cultivation as well as the application of fertilizer and improved seeds; industry(+7 percent), particularly the electricity and gas sub-sector (+10 percent) due to the addition of new power plants to the grid; construction (+6 percent); and services (+7 percent) due to the upturn in government consumption and private sector credit growth as well as higher growth of agriculture impacting on trade in services. Inflation will remain contained and is projected at 3.2 percent at end-December, slightly lower than the NBR's target. This reflects both a combination of subdued inflationary pressures and the monetary policy stance.

11. Growth is projected at 6.0 per cent in 2015. The government expects the accumulated effects of public investment in the recent past to begin to reap economic benefits, particularly its infrastructure investment. A conservative estimate of the increase in the electricity grid between today (124 MW) and mid-2015 is 35.0 per cent, as new hydro, methane, solar and peat plants come online. The government expects these structural changes to the supply-side of the economy to partially offset the potential vulnerabilities that can arise from unpredictable agricultural harvests and the current account deficit. Other public investment in the transport network and private investment in the communications network also support this view that Rwanda's total recent investment will increase the productive capacity of the economy–particularly the private sector–through its higher infrastructure capital stock.

12. The fiscal framework for 2014/2015 has been revised to take into account some policy changes as well as structural changes in donor budget support disbursement profiles. On the resource side, total donor budget support has declined slightly, partly due to an over estimate of commitments earlier this year and a shift in donor flows from budgetary grants to budgetary loans. Reflecting the structural change in donor funding, budgetary loans are now included in the revised fiscal framework. Tax revenue collections are expected to rise by 1 per cent to almost 16 per cent of GDP. In addition, the growth projection for 2015 of 6 per cent is lower than the 6.7 per cent originally estimated and the effect of this change has been reflected in the framework. As a result of these changes, total revenues and grants are now projected to be lower than initially projected at RWF 1,394.7 but comparable in terms of GDP. Implementation of several on-going measures including improved tax compliance from the introduction of the electronic billing machines as well as the collection of local government taxes by Rwanda Revenue Authority are expected to allow the tax revenue target to be achieved. Total grants of RWF 397.3 billion (7 per cent of GDP) are now RWF 147.5 billion (2.4 per cent of GDP) lower than the original estimate of RWF 544.8 billion. The decline is due to a compositional change as IDA and AFDB now provide budgetary loans instead of grants. Reflecting the slight decline in total resources, total expenditure and net lending are projected to decline from RWF 1,698.1 billion to RWF 1,680.4 billion. The overall cash deficit reflects the compositional change in donor budget support funds as some grants are converted into budgetary loans. As a result, and despite the reduction in expenditures, the overall deficit increased to RWF 295.6 billion (5.2 per cent of GDP) from RWF 177.7 billion (3.1 per cent of GDP). This higher deficit is financed with increased foreign net loans financing of RWF 197.5 billion and domestic net financing of RWF 98.2 billion. In the original budget both foreign net financing at RWF 107.6 billion and net domestic finance of RWF 70.1 billion were lower.

13. Given the uncertainties concerning donor budget support disbursements and the risk associated with the growth prospects, the tax revenue total of RWF 894.6 billion includes RWF 28 billion (0.5 per cent) as contingent revenue. To ensure that the domestic financing target is protected, an equal amount of expenditures has also been identified as contingent expenditure that can only be spent when the contingent revenue accrue. The contingent expenditures are distributed under goods and services, transfers, and domestic capital expenditure.

14. Regarding the external sector, the current account deficit is projected to deteriorate in 2014. This is due to the slow growth in exports of only 1.1 percent and the increase in imports by 13 percent reflecting the expected pickup in economic activity in general and improvement in implementation of delayed infrastructure projects. Capital and intermediate goods imports will largely contribute to the rebound in imports. The increase in imports will be financed primarily by the improvement in the capital account due partly to a compositional change in some donor funds accrual with more loans instead of grants and the unused Eurobond proceeds allocated to the Kigali

Convention Center and the Nyaborongo hydro project. Foreign reserves coverage will be around 4 months of imports.

15. Over the medium term, the current account deficit is projected to reduce to about 8 percent of GDP by 2018. Exported goods and services will experience steady growth, albeit lower than was projected previously, while the growth in imports will slow as certain large investment projects have reached or are near completion. Current transfers as a percentage of GDP will decline in the medium term as the projected decline in official transfers will, only be partially offset by the modest increase in private transfers. FDI will also steadily increase as a percentage of GDP.

16. Structural measures aimed at supporting the domestic revenue mobilization strategy will be accelerated. Total grants are expected to be around 7 percent of GDP in FY2014/15 but decline to an average of 4.2 percent of GDP in FY2015/2016 and FY2016/2017. Given the continued uncertainty regarding long-term donor engagement and the government's commitment to reducing its reliance on donor financing, accelerating domestic revenue mobilization remains a key priority. The overall aim of the ongoing reforms is to reach approximately 17 percent of GDP in FY 2015/16.

Based on an IMF technical assistance study, the *Medium Term Tax Reforms Plan 2013-2016* has been revised to incorporate the recommendations and broadly the following are being done:

- *Agriculture taxation*: the key to successful implementation of the IMF recommendations on agriculture taxation lies in their feasibility. Therefore, MINECOFIN is hiring experts to conduct a benchmarking study and develop an agricultural income taxation model for Rwanda. Hence, the delay in implementation. The experts will also develop a data base on Land-use mapping as well as crop productivity profitability per hectare (using information from MINAGRI and Land Centre). We will share the benchmark study with the IMF by end-June 2015 and will revise agriculture legislation by end-December 2015.

- *Mining tax regime*: most of the recommendations are being considered under the income tax law revision, and the draft mining law that will be submitted for Cabinet approval by January 2015 as against December 2014 in the first review.

- *Improving tax collection from immovable property*: the revision of the *'law establishing the sources of revenue and property of decentralized entities and governing their management'* is underway to cater for the transfer of collection of decentralized taxes and fees by RRA and adjust property tax legislation with initial steps involving the migration from a land lease fee to a fixed asset tax in Kigali. The law will be submitted to Cabinet by end-June 2015. By end-2015, one district in Kigali will have fully migrated to the fixed asset tax as a step toward full implementation. All local governments will be required to provide financial reporting by end-December 2015.

The following measures are to be implemented on the tax administration side over the FY 2014/15 and in the medium term:

- Acquire and use new software for local government revenue management;
- Develop a revenue forecasting model for RRA;
- Build a taxpayer database for local government taxes;
- Expand usage of electronic domestic tax filing and payment;
- E-tax enhancement: further development of the system by incorporating other modules i.e. audit, enforcement, objection and appeals management, Tax account and refund management plus motor vehicles management;
- Implement Single Customs Territory under roll out phase;
- Expand usage of electronic billing machines (EBM) by increasing the number of users and ensuring strict compliance with their requirements;
- Integrate e-payment with mobile money system and visa card service operator;
- Introduce the electronic certificate of origin;
- Rollout the Electronic Single Window System to all remaining Agencies/Ministries involved in international trade;
- Implement mobile declaration for small cross border traders;
- Implement One Stop Border Posts at Rusumo and Kagitumba;
- Extend working hours at Rusumo and Kagitumba borders.
- Integrate temporary entry/exit motor vehicles management with e-payment;
- Develop on line application for the renewal of temporary importation;
- Implement the Authorized Economic Operator program;
- Upon availability of related legal instruments, design and use a single unified declaration form for PAYE tax, pension and medical contributions;
- Upgrade RRA call centre software to become more customized and user-friendly;
- Establish and use the RRA Data Warehouse System;
- Rollout and monitor the Electronic Cargo Tracking System.

17. A number of measures are being introduced to further strengthen public financial management. These include:

- ***Development projects budgeting and reporting***: In order to closely monitor and integrate development projects in the government reporting and budgeting cycle, a Project and Evaluation Framework will be developed, which should help further promote the use of country systems in development projects;

- ***PFM legislations***: key PFM legislations such as the State Law on Finance and Property and the Public Procurement Law were promulgated in early 2014, but their implementation texts that include regulations and manuals among others are yet to be approved by cabinet or other relevant organs. So all these are set to be approved and published in 2014 to assist in the smooth implementation of the organic laws;

- ***Financial reporting of sub-national entities***: The rollout of the Subsidiary Entities Accounting and Reporting System that commenced last year will be further rolled out to other remaining sectors as part of the first phase of covering all sectors in the country;

- ***Fiscal statistics*** - The authorities are committed to the full introduction of the Government Finance Statistics 2014 system (GFS 2014). So far, various different systems of government accounting have been harmonized and migrated to GFS 2014 and there is a medium-term implementation plan in place to ensure fuller statistical coverage of government economic and financial activity in future.

- ***Debt Management***: Cabinet approved the creation of a new Debt Management Unit in the Ministry of Finance and Economic Planning in the middle of 2014. Its main function is to ensure that Rwanda's public debt stock is well managed and remains on a sustainable trajectory. The creation of a dedicated unit ensures greater focus on debt policy in future. So far, the Unit has engaged senior management at MINECOFIN on a number of key procedural issues such as increasing the formalisation of the loan guarantee procedure and has familiarised management with the key risks in Rwanda's debt management. It has also engaged the IMF on the scope and definition of debt across different Fund documentation and will continue this conversation in the future. Importantly, the Unit completed a Debt Sustainability Analysis (DSA) and a Medium-Term Debt Strategy (MTDS) in the middle of 2014, which were presented to the Ministry's Debt Management Committee. It is now in the process of updating these analyses, given updated macroeconomic information and a clearer sense of the country's medium-term investment needs. Non-concessional debt will only be used for high return projects that are recognized as critical to the achievement of high and sustained growth.

18. The implementation of key infrastructure projects, particularly in transportation, water, and energy are critical towards meeting the objectives of the EDPRS2. Some of these projects are at the very core of the economic transformation envisaged under the EDPRS2. In particular, the new airport and the expansion of Rwandair are critical to connect landlocked Rwanda to the rest of the world. Similarly, regional projects such as the railway will contribute towards reducing the cost of doing business. While the financing of these projects is yet to be finalized, they are most likely to involve a hybrid of public and private financing, which the new Debt Management Unit will be well placed to advise on.

19. Public Investment Program Implementation: the Rwandan economy is at a critical stage in its transition from aid-dependency to private-sector driven growth. The Public Investment Program, currently redeveloping into a National Investment Program, recognizes this and will identify both key areas of the economy where public and private investment are required, and the means (both procedural and financial) by which the government can facilitate this. The government is committed to facilitating these large investment projects and funding them when private investment is not possible, but further emphasizes that phasing of investment projects will be critical in ensuring the public sector has the implementation capacity and financial resources to achieve this economic transition. Important selection criteria for phasing will be to reduce the cost of doing business and to remove impediments to private sector development. It will also be essential to ensure that public debt sustainability is not compromised whilst achieving the desired economic objective of sustainable, private-sector driven growth.

20. With regard to implementation capacity, a number of reforms have been initiated in 2014 covering project planning, implementation and monitoring. All projects estimated above USD 1 million in cost are required to undergo a feasibility study and cost-benefit analysis. A public investment committee at the level of Permanent Secretaries has been set up to scrutinize and approve all projects; rigorous monitoring of projects is undertaken quarterly and monitoring reports sent to Cabinet. This is reinforced by Cabinet appointment of a Minister of State in charge of Economic Planning that will further strengthen the focus on planning and implementation of priority projects. The overall planning system has been improved by the introduction of planning consultations ahead of budgetary consultations to streamline coordination. Private sector participation has also been given prominence with the planning and budgeting call circular requiring both central and local government to engage the private sector and demonstrate responsiveness of their annual plans and budget proposals to the private sector. At a more upstream level, quarterly reports are prepared for the Economic Cluster of Ministers to ensure further monitoring of both the general planning process and specific project implementation.

21. The NBR will maintain its prudent monetary policy stance in a bid to anchor inflationary expectations while supporting growth and containing pressures on the currency. Private sector credit is expected to pick up in 2014 as the economy reverts to its potential, growing by 16.1 per cent between December 2013 and December 2014. The exchange rate will remain market driven and the NBR will continue to allow greater exchange rate flexibility and ensure reserve levels remain comfortable (at a minimum level of 4 months of prospective imports (CIF)).

22. The NBR will also sustain its efforts aimed at strengthening the monetary policy framework. NBR is committed to promoting the interbank FOREX market by organizing the Dealer's Association through signing the code of conduct. This will contribute to having the daily two ways quote on the foreign exchange market and the commitment on minimum amount to be sold. In addition, in a bid to promote capital market development and support the transmission mechanisms, the NBR in collaboration with MINECOFIN, is committed to issuing on quarterly basis Treasury Bonds and extend the maturity to seven and ten years in FY2014-15.

23. Monetary policy will continue to play a supportive role to overall economic developments while strengthening the liquidity management framework. The NBR will further sustain its efforts to implement monetary policy in a way that could promote market development and lay the foundation for an effective interest rate transmission channel. The current liquidity management framework continues to leave room for a flexible implementation of the reserve money program where changes in liquidity supply and demand can be accommodated in the short run. As a consequence, incentives to banks for managing their liquidity and make use of the interbank market will be improved. The NBR will continue improving its communication strategy and publishing the inflation report (started in April 2014). The report will aim to improve the communication of the central bank with market participants as regards the formulation of monetary policy.

24. Financial sector policies will remain geared toward fostering financial inclusion and sustaining financial stability, particularly through the implementation of the Financial Sector Development Plan (FSDP2). An action plan on how to achieve 80 percent inclusion in the next two years has been drafted and it forms part of the financial inclusion strategic plan spearheaded by the Financial Sector Secretariat in MINECOFIN. Also, the NBR Board of Directors approved in June 2014 the Oversight Policy Framework for Financial Market Infrastructures in Rwanda. Non-performing loans (NPLs) have continued to decline and commercial banks are complying with the new NPL guidelines. The NBR Board of Directors approved in September 2014 the plan to contain the NPLs in microfinance sector. The NBR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision, and capacity building efforts for bank supervisors will be sustained. Additionally, given the increasing importance of cross-border banks, the NBR will increase its participation in supervisory colleges to conduct joint on-site inspection of cross-border banks.

25. The legal and regulatory framework will continue to be bolstered. New NBR and banking laws have been drafted and are at their final review stage for Cabinet approval. These are expected to be implemented in 2015. Regarding the development of regulations related to New Banking law, gaps have been identified in the existing regulations and the reviews will be considered after the publication of the new banking law. The deposit insurance law was approved by the Cabinet and it is under discussion in the standing committee of the Chamber of Deputies. The NBR has put in place a dedicated team to draft a Basel II/III framework. The team has received training on Basel II/III and technical support. The draft framework will be validated by the Steering Committee[1] in December 2014. A new insurance law is being drafted, and is expected to be approved by the BNR Board in the December 2014 meeting. The pension law was adopted by the Chamber of Deputies and is under the Senate, while their implementing regulations are being prepared by NBR.

26. Program issues. Table 1 contains new end-December 2014 and end-June 2015 QACs for the third and fourth reviews under the PSI and new indicative targets for end-December 2014 and end-June 2015. These QACs are consistent with the understandings reached with the IMF staff on the macroeconomic framework. The assessment of the end-December 2014 targets is expected to be completed by end-June 2015, at the time of the third review, and the end-June 2015 targets by end-December 2015 (fourth review). Table 2 includes the structural benchmarks under the PSI.

[1] The Steering Committee is chaired by NBR and members are from Bankers' Association

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

	June 2014 Program	June 2014 Adj. Program	June 2014 Actual	Status	Dec 2014 IMF SR 14/185	Dec 2014 Program	June 2015 Program
Assessment criteria [2]							
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	519.7	534.3	550.4	Met	516.3	508.9	440.7
Reserve money (ceiling on stock) (upper bound) [5]	229.3		226.0	Met	242.7	243.9	273.8
Reserve money (ceiling on stock) [5]	224.8		221.6		238.0	239.1	268.4
Reserve money (ceiling on stock) (lower bound) [5]	220.3		217.6		233.2	234.3	263.0
Net domestic financing (ceiling on flow) [4, 6]	162.8	160.6	148.7	Met	152.9	180.8	66.1
New nonconcessional external debt contracted or guaranteed by the public sector (US$ millions) (ceiling on stock) [9]	250.0		20.0	Met	250.0	250.0	250.0
External payment arrears (US$ millions) (ceiling on stock)	0.0		0.0	Met	0.0	0.0	0.0
Indicative targets							
Domestic revenue collection (floor on flow) [6]	415.4		410.8	Not met	882.0	839.9	506.1
Net accumulation of domestic arrears (ceiling on flow) [6]	-1.3		-7.7	Met	-6.3	-17.0	-0.7
Consolidated domestic debt of public sector (ceiling on stock, eop) [4, 7]	371.8	369.6	369.5	Met	363.5	402.5	436.5
Total priority spending (floor on flow) [6]	349.1		352.2	Met	683.5	659.9	431.4
Memorandum items:							
Total budget support (US$ millions) [6, 8]	164.6		183.2		486.2	447.3	117.8
Budget support grants (US$ millions)	164.6		110.5		486.2	289.1	47.8
Budget support loans (US$ millions)	0.0		72.7		0.0	158.2	70.0
Euro bond (US$ millions)	400.0		400.0		400.0	400.0	400.0
Unused euro bond proceeds (US$ millions)	107.3		110.6		0.0	76.7	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

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

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

[3] Numbers are at the program exchange rate of RWF670.1 per US dollar.

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

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

[6] Numbers for 2014 are cumulative from 12/31/2013, and those for 2015 are cumulative from 12/31/2014. The figure excludes revenues associated with demobilization and AU peace keeping operations.

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

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

[9] All QAC target dates are cumulative from end-Dec 2013.

Table 2. Status of Structural Benchmarks for PSI

Policy Measure	Target Date	Macroeconomic rationale	Status
Revenue Mobilization			
Prepare tax expenditure budget covering main tax expenditures.	Annually, starting end-June 2014	To enhance revenue mobilization.	Met
Revise exemption and zero-rating schedules under the VAT-code.	End-June 2014	To enhance revenue mobilization.	Met
Implement plan for better enforcement of tax payer compliance.	End-June 2014	To enhance revenue mobilization.	Met
Revise legislation on the taxation of property.	End-Dec 2014	To enhance revenue mobilization.	Replaced with the following two measures
Revise law on Decentralized Local government taxes to enable the migration from Land Lease Fees to Fixed Asset Tax	End-June 2015		New - Proposed
Fully migrate one district in Kigali from Land Lease Fee to Fixed Asset Tax	End-Dec 2015	To enhance revenue mobilization.	New - Proposed
Prepare legislative proposal for new tax regime for agriculture.	End-Dec 2015	To enhance revenue mobilization.	Date changed
Prepare legislative proposal for new tax regime for mining.	End-Jan 2015	To enhance revenue mobilization.	Date changed
Public Financial Management			
Pilot the extension of IFMIS to 20 development projects.	End-June 2014	To strengthen budget execution and controls.	Met
Review the block grant formula on the basis of the Local Government Revenue Potential	End-Sep 2014	To enhance collection of districts own revenues.	Met
Sub-national entities (416) to produce monthly, quarterly, and annual financial reports using a uniform template.	End-Dec. 2015	To improve comprehensiveness and transparency of intergovernmental fiscal transfers.	
MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter.	Continuous, starting mid-May 2014	To improve fiscal transparency.	Not met, report published with delay
Monetary and Exchange Rate Policy			
Use Treasury bills (or other tradable securities) as the underlying collateral in liquidity absorbing repos.	End- June 2014	To develop money market instruments.	Met
Start issuing government bonds with maturities of 7 and 10 years	End-June 2015	To develop money market instruments.	New - Proposed
Financial Sector Development			
Design a deposit guarantee scheme.	End-June 2014	To increase confidence in banking system.	Met

Attachment II. Technical Memorandum of Understanding

November 11, 2014

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period December 2, 2013–November 30, 2016 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 14/185.

I. QUANTITATIVE PROGRAM TARGETS

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

3. AC will apply to the following indicators for December 31, 2014 and June 30, 2015 (the test dates) throughout the program period:

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

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

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

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

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2013 rates, apply for 2014:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2014
Rwanda Franc (per US$)	670.1
Euro	1.3791
British Pound	1.6375
Japanese Yen (per US$)	103.4116
SDR	1.5383

A. Institutional Coverage of the Fiscal Sector

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

B. Targets Related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government (AC)

8. **A ceiling applies to NDF**. The ceiling for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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

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

- Consolidated credit to the government from the banking system (NBR and commercial banks, as recorded in the monetary survey), including credit to the government, provinces and districts. The outstanding consolidated government debt held by the banking system,[1] includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the pre-war government and the 1995 devaluation [2], as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the

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

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

NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

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

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

Adjusters to NDF:

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

- The ceiling on NDF will be adjusted upward/*downward* by the extent to which in Rwandan francs at the program exchange rate the unused proceeds of the US$400 million euro bond issued in April 2013 is lower than/exceed US$76.7 million by end-December 2014.

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

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

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

Floor on flow of domestic revenues (IT)

13. A floor applies to domestic revenue. The floor for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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

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

Floor on priority expenditure (IT)

16. The floor applies to priority spending of the government. The floor for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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

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

Net accumulation of domestic arrears of the government (IT)

19. A ceiling applies to net accumulation of domestic arrears of the government.[4] The ceiling for December 31, 2014 is cumulatively measured from December 31, 2013, and for June 30, 2015 cumulatively from December 31, 2014.

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

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

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

C. Limits on External Debt

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

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with non-residents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP which applies continuously from December 2, 2013 to end-June 2015. The ceiling also excludes non-concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

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

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

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

26. Definition of debt for the purposes of the limit in the QAC table is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt, effective December 1, 2009. It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of

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

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

debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

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

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

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

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

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

Limit on the stock of external payment arrears (AC)

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

Consolidated Domestic Debt of the Public Sector (IT)

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

Adjusters:

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

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

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

D. Targets for Monetary Aggregates

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

30. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2014 and for June 30, 2015.

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

Adjusters:

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

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

- The floor on NFA will be adjusted *upward/downward* by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US$400 million euro bond issued in April 2013 exceeds/is lower than US$76.7 million by end-December 2014.

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

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

Reserve money (AC)

33. A ceiling applies to the stock of reserve money for December 31, 2014 and June 30, 2015 as indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. The ceiling is the upper bound of a reserve money band (set at+/- 2 percent) around a central reserve money target).

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

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

Adjuster:

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjustor will be calculated as (new reserve

[7] The programmed amount of encumbered reserve assets stands at zero at December 31, 2014 and June 30, 2015.

ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

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

II. OTHER DATA REPORTING REQUIREMENTS

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

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

TMU Table 1. Summary of Reporting Requirements

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

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

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