



July 2017

# RWANDA

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, AND SECOND REVIEW UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Staff Report for the 2017 Article IV Consultation, Seventh Review under the Policy Support Instrument, and Second Review under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** for the 2017 Article IV Consultation, prepared by a staff team of the IMF for the Executive Board's consideration on July 12, 2017, following discussions that ended on May 16, 2017, 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 June 27, 2017.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Rwanda.

The documents listed below have been or will be 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 Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 17/274  
FOR IMMEDIATE RELEASE  
July 12, 2017

International Monetary Fund  
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Washington, D. C. 20431 USA

### **IMF Executive Board Completes Seventh PSI Review, Second Review Under the Standby Credit Facility, and Concludes 2017 Article IV Consultation with Rwanda**

- Program implementation has been strong, with almost all targets met. Rwanda's adjustment policies are making notable progress in reversing external imbalances.
- Growth slowed in 2016, with recovery expected in 2017-18 due to strong harvests and domestic production.
- To achieve the country's goal of upper middle income status, it will be important to boost the role for the private sector to serve increasingly as the main engine for growth and investment.

The Executive Board of the International Monetary Fund (IMF) today completed the seventh review of Rwanda's performance under the Policy Support Instrument (PSI)<sup>1</sup> and the second review of the arrangement under the Standby Credit Facility (SCF)<sup>2</sup>. Completion of the second SCF review enables the disbursement of US\$25.06 million (SDR 18.0225 million), bringing total disbursements under the arrangement to SDR 126.16 million, with the remainder being tied to the next and final review.

Requests for an 18-month SCF arrangement with access of about US\$200.49 million (SDR 144.18 million) or 90 percent of Rwanda's quota and to extend Rwanda's PSI-supported program through end-2017 (see [Press Release No. 16/270](#)), were approved by the Board on June 8, 2016. Rwanda's PSI-supported program was originally approved on December 2, 2013 (see [Press Release No.13/483](#)).

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

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<sup>1</sup> The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Rwanda's current PSI are available at [www.imf.org/rwanda](http://www.imf.org/rwanda).

<sup>2</sup> The SCF provides financing to low-income countries on concessional terms. For more details, see <http://www.imf.org/external/np/exr/facts/scf.htm>.

“Rwanda has made notable progress in the past two decades, anchored by its carefully-considered development strategy. This includes steady progress on structural transformation, high and inclusive growth, reduced poverty and gender inequality and attractive business environment. This has been reinforced by strong macroeconomic policy management, characterized by strategic public investment in growth-enhancing infrastructure, maintenance of low inflation, and measures to bolster domestic revenue mobilization.

“Responding to adverse global conditions, the authorities took decisive steps to address external imbalances, thereby safeguarding macroeconomic stability and growth over the longer term. Exchange rate flexibility has been the central tool of policy adjustment, with structural reforms to bolster domestic production. These policies have already made progress in reducing the deficit in goods and services trade, and should place external balances on a more sustainable path over the medium term. Performance under the SCF arrangement and PSI-supported program has been strong, with almost all program targets and structural measures set through end-March achieved.

“Growth slowed in 2016, due to an extended drought, completion of large investment projects, and adjustment policies. It is expected to recover over 2017-18, with balanced risks to the outlook. Inflation spiked in early 2017 due to a food supply shock, but is now abating.

“Despite the notable achievements, the Rwandan economy remains vulnerable to external shocks. It will be important to rebuild foreign exchange reserve buffers to enhance the country’s resilience. Similarly, to support continued growth-enhancing public investment, the government should ensure that recently-introduced tax incentives to boost domestic production are well-targeted and do not unduly weaken the tax base. To reach the goal of upper middle income status, it will be important to boost the role for the private sector to serve increasingly as the main engine for growth and investment in Rwanda.”

The Executive Board also completed the 2017 Article IV Consultation<sup>3</sup> with Rwanda.

Rwanda has demonstrated strong macroeconomic policy management and implemented an ambitious development strategy that has resulted in high and inclusive growth, lower poverty and more gender equality, and improved living standards. Growth in 2016 was 5.9 percent, down from 2015, but comparing favorably to growth in the subcontinent. A recovery of growth is expected in 2017-18, owing to good rains and expanding domestic production.

A spike in consumer price inflation in early 2017 was driven by food prices: inflation has decelerated as food supply constraints have receded. Rwanda’s external trade deficit was lower than anticipated in 2016, following a strong pick up in goods and services exports, combined with reduced demand for imports.

Building on its successful ‘Vision 2020’ development strategy, the government is drafting a new ‘Vision 2050’ development strategy aimed at reaching upper middle-income status by 2035.

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<sup>3</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Reforms should build on progress achieved, including: continuing to reorient the economy toward higher value-added economic activity; further bolstering gender equality through greater economic inclusion; increasing access to affordable financial services; and fostering the development of domestic securities markets. Main risks to economic growth continue to be weather shocks affecting agriculture, regional security issues, and unexpected shifts in external development assistance.

### **Executive Board Assessment<sup>4</sup>**

Executive Directors commended Rwanda for its achievements over the past decades, anchored by an ambitious development strategy. They welcomed the steady progress on structural transformation, high and inclusive growth, reduced poverty and gender inequality, and attractive business environment.

Directors welcomed the decisive steps to address external imbalances. They highlighted that exchange rate flexibility should continue to be the main adjustment tool, and welcomed the reforms to bolster domestic production, which should place external balances on a more sustainable path over the medium term. Directors emphasized that rebuilding reserve buffers will be important to enhance Rwanda's resilience to external shocks.

Directors welcomed improved domestic revenue mobilization in recent years which will help secure future growth-enhancing public investment and reduce donor dependency. However, they encouraged the authorities to balance carefully the benefits to domestic production from recently-introduced tax incentives with potentially adverse effects on domestic revenue mobilization. Against this backdrop, they supported planned tax expenditure analysis to ensure that tax incentives are well-targeted and do not unduly weaken the tax base.

Directors supported the authorities' plan to move to an interest-rate based monetary policy framework. They encouraged the authorities to put in place the preconditions to allow indirect policy instruments to operate, including deepening interbank and domestic debt markets. Directors encouraged measures to provide clear signals about the priorities and directions of monetary policy under the current policy regime to help anchor inflation expectations.

Directors welcomed the steps being taken to advance Rwanda's development strategy. They underscored the importance of boosting the role of the private sector to serve increasingly as the main engine for growth and investment. Directors commended the progress made in improving the business environment and encouraged continued efforts in this regard. They also emphasized the importance of investment in education and vocational training targeted at building skills to meet rapidly evolving labor needs.

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<sup>4</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

**Table 1. Rwanda: Selected Economic Indicators, 2015 - 2019<sup>1</sup>**

	2015	2016	2017	2018	2019
<b>Output and prices</b>					
Real GDP	8.9	5.9	6.2	6.8	7.3
GDP deflator	0.1	4.9	7.4	5.5	4.6
CPI (period average)	2.5	5.7	7.1	6.0	5.0
CPI (end of period)	4.5	7.3	7.0	5.0	5.0
Core inflation (period average) <sup>2</sup>	2.1	4.1	...	...	...
Terms of trade (deterioration, -)	5.3	6.3	6.1	-4.1	3.6
<b>Money and credit</b>					
Broad money	21.1	7.6	13.0	13.2	...
Reserve money	16.2	5.5	10.9	11.1	...
Credit to non-government sector	30.1	7.8	17.9	14.2	...
M3/GDP (percent)	24.9	24.1	23.9	24.0	...
NPLs (percent of total gross loans)	6.2	7.5	...	...	...
<b>General government budget</b>					
Total revenue and grants	24.7	23.7	22.1	21.9	21.7
Expenditure	29.3	27.4	26.2	25.8	25.6
Primary balance	-0.3	-2.8	-2.9	-2.7	-2.7
Overall balance	-4.6	-3.8	-4.1	-3.9	-3.9
Net domestic borrowing	1.1	0.8	0.0	0.2	0.5
<b>Public debt</b>					
Total public debt incl. guarantees	36.4	44.5	45.7	47.1	48.7
<i>Of which:</i> external public debt	27.9	35.8	38.1	40.2	42.1
<b>Investment and savings</b>					
Investment	25.9	25.6	24.0	24.6	22.6
Government	12.6	10.6	9.4	9.9	9.5
Nongovernment	13.3	15.0	14.6	14.7	13.1
Savings	8.0	7.1	10.2	9.9	9.3
Government	3.5	3.1	3.0	3.5	3.2
Nongovernment	4.5	3.9	7.3	6.4	6.1
<b>External sector</b>					
Exports (goods and services)	18.4	19.0	20.3	20.6	21.9
Imports (goods and services) <sup>3</sup>	35.6	37.0	33.1	34.3	34.2
Current account balance (incl. grants)	-13.4	-14.4	-10.2	-11.2	-9.9
Current account balance (excl. grants)	-17.8	-18.5	-13.8	-14.6	-13.3
Current account balance (excl. large projects)	-9.9	-9.9	-10.2	-10.5	-10.3
Gross international reserves					
in billions of U.S.\$	0.9	1.0	1.0	1.0	1.2
in months of next year's imports	3.6	4.1	3.9	3.7	3.9
<b>Memorandum items:</b>					
GDP at current market prices					
Rwanda francs (billion)	5,956	6,618	7,548	8,505	9,544
US\$ (billion)	8.3	8.4	...	...	...
GDP per capita (US\$)	732	729	...	...	...
Population	11.3	11.5	11.8	12.1	12.8

Sources: Rwandan authorities and IMF staff estimates.

<sup>1</sup>All figures are based on the rebased GDP.

<sup>2</sup> Defined as excluding fresh products and energy

<sup>3</sup> imports for 2016 reflect purchases of two aircrafts.



June 27, 2017

# RWANDA

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, AND SECOND REVIEW UNDER THE STANDBY CREDIT FACILITY

### KEY ISSUES

**Article IV context.** Rwanda has demonstrated strong macroeconomic policy management and implemented an ambitious development strategy that has resulted in high and inclusive growth, lower poverty, and better living standards. The government is drafting a new long-term development strategy aimed at reaching upper middle-income status by 2035. Reforms should build on progress achieved, including: continuing to reorient the economy toward higher value-added activities; further bolstering gender equality through greater inclusion in structural transformation; advancing the use of technology to increase access to financial institutions; and fostering the development of securities markets. Main risks to economic growth continue to be shocks affecting agriculture, regional security issues, and external changes to development assistance.

**Program context.** Rwanda's adjustment program, centered on exchange rate flexibility, continues to yield fruit in addressing external imbalances and stemming reserve losses. Program performance remains strong, with all quantitative performance and assessment criteria and most indicative targets met for end-December 2016 and most structural benchmarks observed through end-March 2017.

**Key policy recommendations.** These include: (i) maintaining exchange rate flexibility and rebuilding official foreign exchange reserve buffers for a sustainable and resilient external position; (ii) building on progress in boosting revenue collection, to provide space for strategic public investment and reduce aid dependence, while ensuring tax incentives to promote domestic production are well-targeted, consistent with overall fiscal objectives; (iii) maintaining the already-agreed fiscal and monetary stance, while reconsidering monetary stance in the second half of 2017 based on developments in inflation and growth projections; and (iv) in the transition to an interest-based monetary policy framework, placing priority on a flexible exchange rate regime, functioning money market tools, and providing clear signals about the policy stance to guide inflation expectations.

**Staff supports the conclusions of the second review under the SCF and seventh review under the PSI.**

Approved By  
**Roger Nord (AFR)**  
**and Yan Sun (SPR)**

Discussions were held in Kigali during May 2–16, 2017. The mission comprised L. Redifer (head), E. Alper, S. Kwalingana, M. Newiak, and C. Ntumwa (all AFR) and N. Meads (SPR), assisted by A. Thomas (Resident Representative). F. Nyankiye and J. Ogaja (AFR) contributed to this report.

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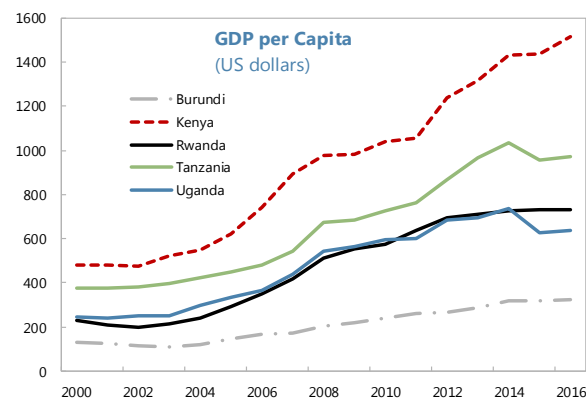
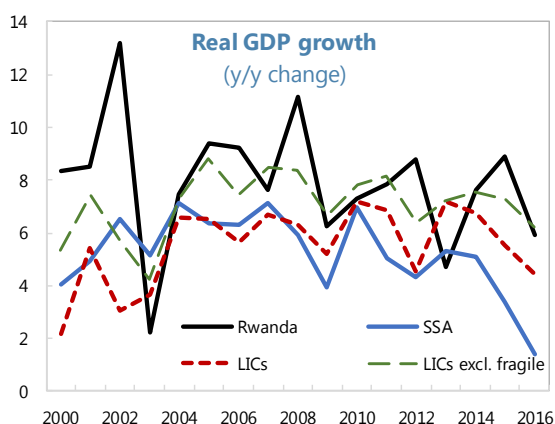
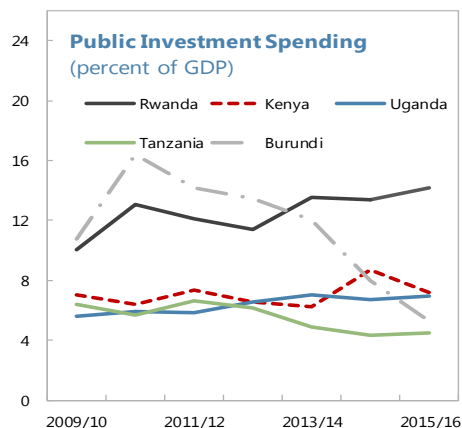
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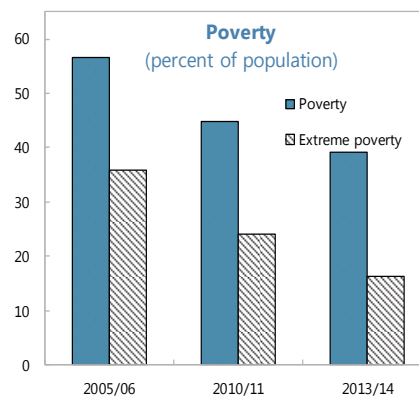
## CONTEXT

### 1. Rwanda has implemented an ambitious development program over the past two

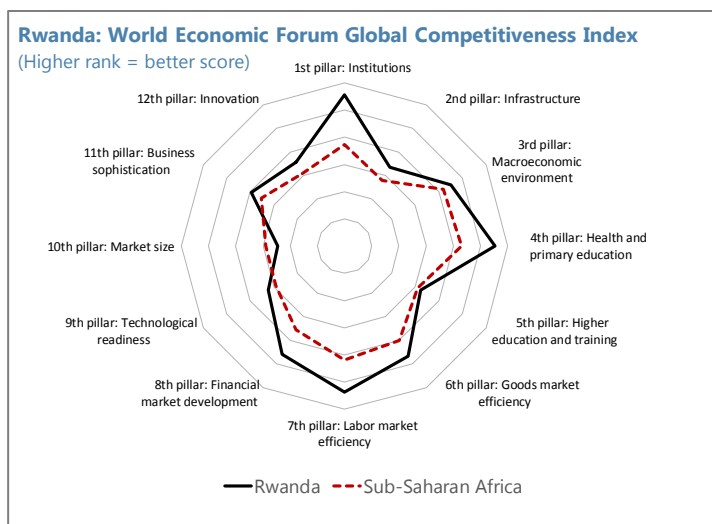
**decades** (text charts, Figure 1). Its policies have resulted in high and inclusive growth, poverty reduction, improved living standards, and sharpened competitiveness. These policies were implemented in the context of a 20-year “Vision 2020” strategy that envisages the country moving to middle-income status by 2020. This has been implemented through 5-year policies under successive “Economic Development and Poverty Reduction Strategies” (Box 1). Under these strategies, the government has channeled significant public investment into programs to improve social outcomes, increase agricultural productivity and transform the economy to higher value added activities, improve gender equality, and foster financial inclusion, among other things.



**2. High and inclusive growth has increased incomes and reduced poverty.** In the past decade, the sustained focus on high and inclusive growth, combined with maintenance of macroeconomic stability, has achieved tangible results: growth rates have averaged around 7½ percent per year, close to doubling per capita income. At the same time, concerted policies have reduced gender inequality to the lowest level in Sub-Saharan Africa (SSA), reduced poverty from around 60 percent to under 40 percent, and lowered income inequality, with the Gini coefficient dropping from 0.52 in 2005 to 0.45 in 2014.



3. **At the same time, policies have been implemented to improve the business environment and competitiveness.** The 2017 World Bank's Doing Business survey ranks Rwanda ranks 56 out of 190 countries, #2 in Africa after Mauritius. For example, online business registration has reduced the time to start a new business down to 4 days, and an electronic case management system for judges and lawyers helped reduce the time for contract enforcement to 230 days, shorter than many more advanced economies. For competitiveness and productivity, the 2016/17 World Economic Forum's Global Competitiveness Index ranks Rwanda as the fourth most improved country in Africa compared to two years earlier, garnering the highest scores for improving its institutional quality and labor market efficiency while diversifying the economy. Rwanda is currently ranked at 52 out of 138 countries, outperforming SSA averages in all pillars except for market size.



4. **Rwanda has boosted domestic revenues to reduce donor reliance.** Rwanda's past achievements have relied substantially on official development assistance. However, faced with declining aid flows to finance its investment strategy, Rwanda has taken numerous tax policy and revenue administrative measures to boost domestic revenues, which increased some 6 percentage points of GDP from 2010 to 2016 (Box 2).

5. **Policy recommendations from the 2014 Article IV were implemented** (Annex I). Growth-enhancing infrastructure investment has continued, with projects carefully chosen to maintain Rwanda's low debt risk rating, while domestic revenues and external financing have increased and domestic financing was limited. Supervisory frameworks have been strengthened, and exchange rate flexibility has been the centerpiece of adjustment policies to address external imbalances.

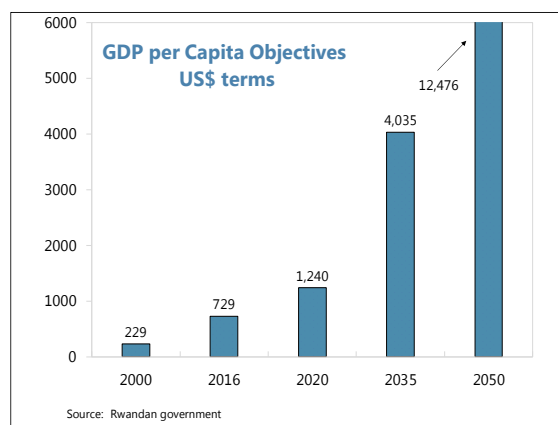
### Box 1. Rwanda: Development Strategies

**Vision 2020.** Issued in 2000 and revised in 2012, Rwanda’s Vision 2020 seeks to transform Rwanda to middle-income status (per capita income US\$1240) by the year 2020 (from US\$229 in 2000). By 2020, it also seeks to reduce poverty below 20 percent (around 60 percent in 2005), and increase life expectancy to 66 years (from 49 years in 2000). This vision was based on 6 pillars: good governance; improved labor skills; private sector-led growth; infrastructure development; improved agricultural productivity; and regional integration. Inter-woven among the pillars are gender equality, environmental protection, and use of science and technology.

**EDPRS I and II.** The 20 year “Vision” has been supplemented by shorter five-year “Economic Development and Poverty Reduction Strategies (EDPRS).” Rwanda is currently implementing EDPRS II which extends through 2018 and has 4 thematic areas: (1) *Economic Transformation*, to boost growth through reorienting the economy to higher value-added industry and services, notable business tourism; (2) *Rural Development*, aimed at further reducing poverty; (3) *Productivity and Youth Employment*, to create 200,000 jobs per annum by targeting skills of youth; (4) *Accountable Governance*, to improve overall service delivery. Within these areas, community-based “*Umurenge*” programs provide direct social protection to the poorest households, with a national program to provide cows. School feeding programs help reduce drop-out rates, and children are provided free laptops. A “Crop Intensification Program,” aims to boost agricultural productivity through distribution of seeds and fertilizer, land consolidation, and improved extension and storage services. Policies and laws are communicated via monthly community meetings, following short obligatory community service (*Umuganda*).

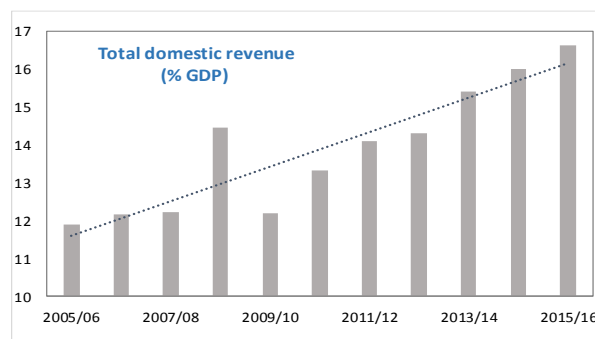
**Achievements:** These programs, abetted by strong political will, community-inclusion, and supporting legal frameworks and institutions, have helped Rwanda nearly to double per capita income to US\$729 (2016), reduce poverty to 39 percent (2014) and increase life expectancy to 64 years (2014) in the past decade.

Follow up strategies **Vision 2050 and EDPRS III** are already under development with the objective of reaching upper middle income status by 2035 and high income status by 2050. EDPRS III is being extended to align with the new 7-year presidential term that starts this year. Policy makers have studied growth drivers in Malaysia, Botswana, and China, and innovation in Singapore and Finland. Using these cross-country comparisons and the identification of current gaps in Rwanda, priorities for the new strategy will focus on export diversification; energy distribution and supply to broaden access and reduce costs; consolidated land use and irrigation to improve agricultural productivity and food security; educational and vocational training matched to labor skill needs; national schemes to boost private savings; and further improving public project planning and monitoring.

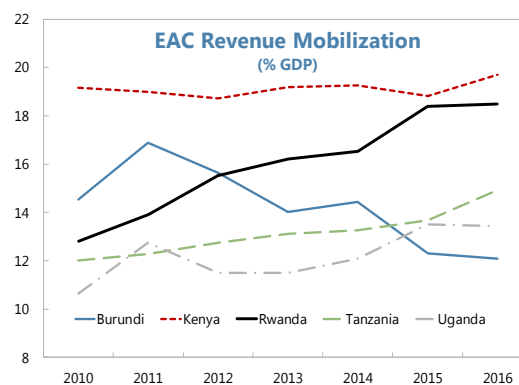


### Box 2. Rwanda: Domestic Revenue Collection

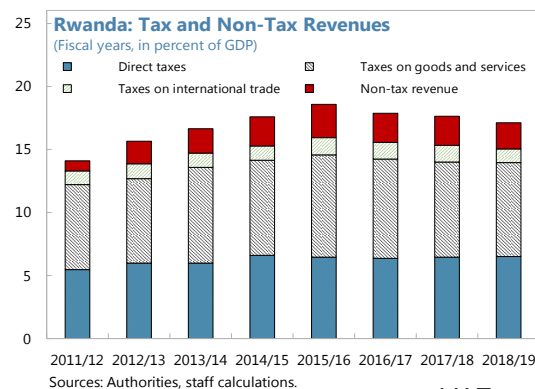
Rwanda has made significant strides in raising tax revenues through better administration and tax policy measures. In the past decade, domestic revenue collection has grown by more than 6 percentage points of GDP. Increasing domestic revenues has been a key feature of the current PSI-supported program.



Gains in recent years have been primarily a result of improvements in revenue administration, including the collection of local taxes at the central level, improvements in auditing procedures, and closer scrutiny of large taxpayers. Tax policy measures have included VAT on mobile airtime, royalty taxes on mining, and taxes for special petroleum and infrastructure funds. Following the use of a Tax Administration Diagnostic Assessment Tool (TADAT) in 2015, the Rwandan Revenue Authority (RRA) is implementing a work program focused on strengthening taxpayer registries and electronic filing, and reducing outstanding stock of arrears more efficiently.



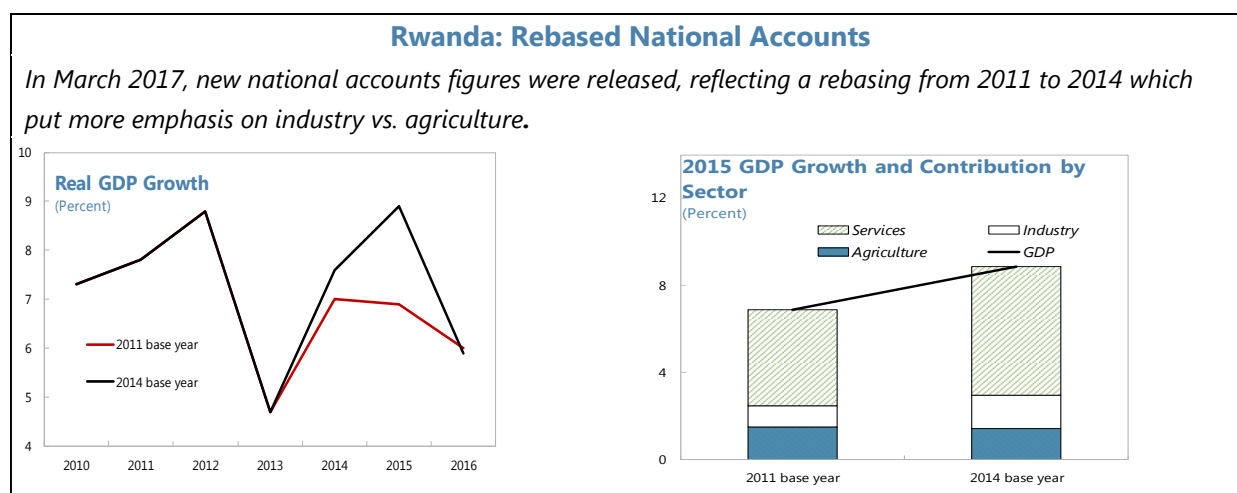
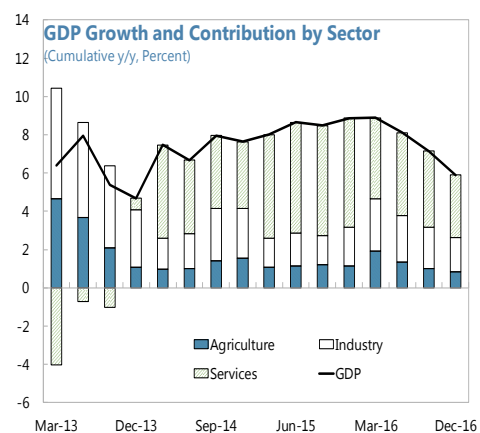
In recent years IMF technical assistance (TA) has focused mining and property taxation and analyzing the VAT gap. The authorities have used this advice to formulate royalty taxes and the long-awaited revised Fixed Asset Tax legislation, which provides for new rates and a property valuation system based on market prices. Both taxes provide an upside risk to revenue projections over the medium term. On amendments have been associated with narrowing various incentive schemes to strategic sectors e.g. exports, manufacturing, energy, ICT, financial services, construction, and agriculture.



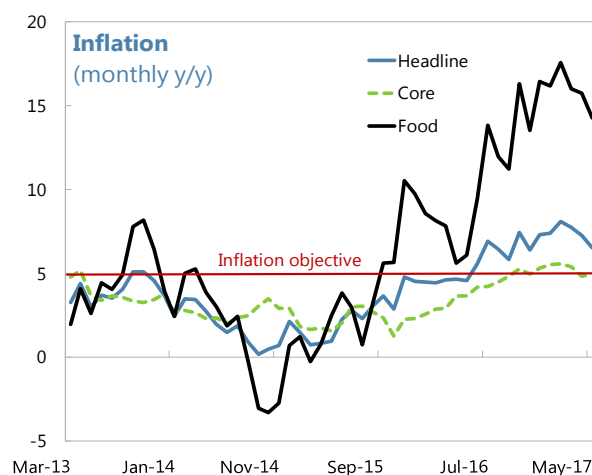
VAT,

## RECENT ECONOMIC DEVELOPMENTS

6. **Growth decelerated sharply in 2016** (Figure 2, Table 1). Cumulative quarterly y/y growth slowed from 8.9 to 5.9 percent over the course of 2016, reflecting the effect of an extensive drought on agricultural production, completion of large public investment projects for tourism, and adjustment policies, aimed at tempering import demand to address external imbalances. Indeed, adjustment policies were more extensive than envisaged under the original program, with 9.7 percent depreciation, higher than projected under the program, a lower fiscal deficit for FY15/16 (3.4 vs. 5.0 percent of GDP), and a tighter monetary stance contributing to a sharp decline in private sector credit growth (7.8 vs. 15.7 percent envisaged for end-2016).



7. **The rise in headline inflation reflected mainly food prices.** Food price inflation peaked at 17.6 percent y/y in February 2017 and headline inflation at 8.1 percent. May food inflation dropped to 14.3 percent (headline 6.5 percent). With the resumption of normal rainfall patterns, food inflation is expected to abate by mid-2017. Core inflation has risen and stood at 4.9 percent in May, reflecting the first-round effects of exchange rate pass-through on prices.



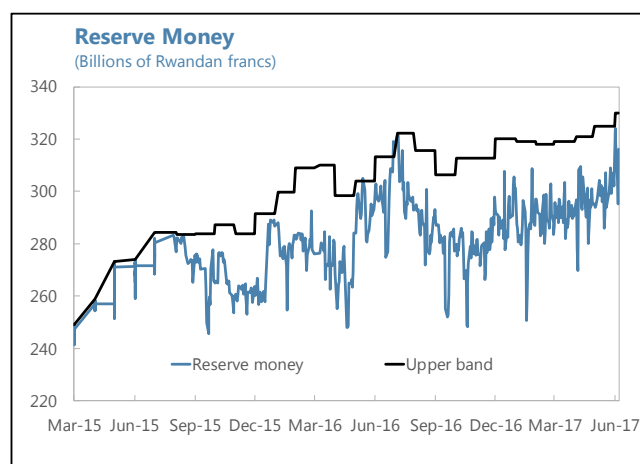
8. **Fiscal outcomes in the first three quarters of 2016/17 were consistent with program targets** (Figure 3, Table 2).

- Revenue and grants were on target, with slight shortfall in taxes on goods and services and international taxes, due to lower imports of used clothes and cement. This was partly offset by overperformance in direct taxes.
- Expenditures were also in line with expectations. Higher current expenditures in the first three quarters of the fiscal year (including higher spending for peacekeeping in Central African Republic and South Sudan, court-mandated salary increases for teachers, and higher transfers to districts) reflects spending that was programmed for the whole year and should not alter full-year spending levels. Lower investment spending in the first three quarters was due to delays in externally-financed project disbursements compared to projections, and delays in the procurement and invoicing processes.

<b>Rwanda: Operations of Central Government</b>			
<i>(in percent of 2016/17Q1-Q3 GDP)</i>	<b>2016/17Q1-Q3</b>		
	<b>Proj.</b>	<b>Prov.</b>	<b>Diff.</b>
<b>Revenue and grants</b>	<b>31.3</b>	<b>32.2</b>	<b>0.8</b>
<b>Total revenue</b>	24.9	25.9	1.0
Tax revenue	21.7	21.8	0.1
Non-tax revenue	3.2	4.1	0.8
<b>Total Grants</b>	6.4	6.3	-0.1
<b>Total expenditure and net lending</b>	<b>36.9</b>	<b>37.8</b>	<b>0.9</b>
<b>Current expenditure</b>	20.3	22.1	1.8
Wages and salaries	5.6	5.9	0.4
Purchases of goods and services	4.1	4.1	0.0
Interest payments	1.5	1.4	-0.1
Transfers	5.8	6.9	1.1
Exceptional social expenditure	3.3	3.8	0.5
<b>Capital expenditure</b>	<b>14.4</b>	<b>13.5</b>	<b>-0.9</b>
Domestic	7.8	7.6	-0.1
Foreign	6.7	5.9	-0.8
<b>Net lending</b>	<b>2.2</b>	<b>2.2</b>	<b>0.0</b>
<b>Overall Deficit (cash basis, incl. grants)</b>	<b>-6.0</b>	<b>-5.2</b>	<b>0.7</b>
<b>Financing</b>	<b>6.0</b>	<b>5.8</b>	<b>-0.2</b>
Foreign financing (net)	<b>7.6</b>	<b>6.8</b>	<b>-0.8</b>
Project loans	3.7	2.9	-0.8
Domestic financing	<b>-1.6</b>	<b>-1.0</b>	<b>0.6</b>
Banking system (Net)	-2.6	-1.9	0.7
Non-banks (Net)	1.1	0.9	-0.2
Errors and omissions	0.0	0.5	0.5

9. **The monetary policy stance has been tighter than programmed in an environment of weak demand** (Figure 4, Table 3). Consistent with its strategy to remove excess liquidity to

strengthen the short term interbank market, the BNR (Banque Nationale du Rwanda) had been mopping up liquidity from the system. Liquidity withdrawals have succeeded in increasing interbank market activity among a few banks, although the majority continues to hold large precautionary balances reflecting their perception of uncertainty in money market liquidity conditions. Despite the tight stance, the key policy rate was reduced by 25 basis points in late December, reflecting BNR's concerns over weak demand, as evidenced by rapid deceleration of private sector credit growth.



10. **Significant exchange rate depreciation continued in 2016, but moderated in early 2017.** The Rwandan franc depreciated by 9.7 percent against the US\$, higher than projected under the program, and has depreciated by 14.5 percent in the 11 months since mid-2015. Depreciation thus far in 2017 was one percent as of end-May, reflecting reduced foreign exchange pressures.

11. **The current account balance deteriorated less than expected** (Figure 5, Table 4). Preliminary data indicate the current account deficit was 14.4 percent of GDP, compared to 16.9 percent projected. This reflects not only the growth slowdown from drought and the completion of several large construction projects, but also larger-than-expected depreciation of the exchange rate and some initial impact of the authorities' "Made in Rwanda" program for import substitution and export promotion. Import volumes contracted by 2 percent (July 2016–April 2017 compared to the same period the previous year) with significant declines in imports of clothing (86 percent) and construction materials (25 percent). At the same time, export volumes grew robustly at 27 percent, thanks to strong non-traditional export performance, including horticulture and despite continued weakness of traditional exports including tea, coffee and minerals.

<b>Rwanda: Trade Balance and Program Adjustment (July 2016 –April 2017)</b>					
(% change over previous period)					
<b>Exports</b>		<b>Imports</b>		<b>Trade deficit</b>	
Volume (kgs)	Value (US\$)	Volume (kgs)	Value (US\$)	Value (US\$)	
26.8	22.6	-1.8	-9.3	-19.0	

Source: National Bank of Rwanda

12. **End-2016 central bank reserves were higher than expected.** Gross central bank reserves were roughly US\$75 million higher than programmed, bolstered by donor disbursements late in the year, delayed local government spending, and modestly lower-than-programmed foreign exchange sales by the central bank. However, this was an end of year spike: by end-April 2017, foreign exchange reserve levels were only modestly higher than programmed.

## PROGRAM PERFORMANCE

MEFP, 114

13. **The program remains well on track** (Table 6 and MEFP Table 2). All end-December structural benchmarks and quantitative assessment/performance criteria were met, as were most indicative targets. The adjusted indicative targets on NDF and domestic revenues were both narrowly missed, by some 0.1 percent of GDP each. The former was due to higher non-bank financing offsetting the shortfall in project loans, and the latter was due to a larger-than-expected impact on revenues of the authorities' tariff increase for used clothes. For structural benchmarks, a revised National Investment Policy went to Cabinet in April, a slight delay from end-March.

**14. Two end-March structural benchmarks have not yet been met.**

First, legislation on fixed asset taxes was still under discussion in Cabinet, but is expected to be submitted to Parliament for the summer session so has been rephased to the next review. A framework for recording donor project support in one sector was not met. This is subsumed by an accelerated timeline to incorporate GFSM 2014, thus, this measure has been reformulated to require GFSM 2014 in the Q1 FY17/18 quarterly budget execution report, and rephased to the next review (MEFP, Table 2).

MEFP, ¶14, 24-25

## ECONOMIC OUTLOOK AND RISKS

**15. Growth projections reflect a gradual recovery.** Growth is expected to pick up in the latter half of 2017, with good rains during the first quarter of 2017 promising better mid-year harvests. Growth in 2018–2019 is projected to come closer to historical averages. Large public investment in business tourism is expected to boost service exports in the medium term, contributing to diversified exports and higher growth. Inflation is trending down, but will take time, resulting in higher average rates in 2017.

**16. External adjustment continues.** The current account deficit is expected to narrow further in 2017 to 10.1 percent of GDP as improvements in the trade balance continue. The macroeconomic framework reflects the authorities' plans to begin construction of a new airport during the second half of 2017 at the Bugesera site outside Kigali. The authorities are engaging in a public-private partnership with a diversified set of investors, such that airport construction should not adversely affect debt sustainability nor the overall BOP. However, because of the higher import base, the framework does show a higher current account deficit in 2018 and—in terms of imports only—lower reserve coverage (text table, Box 3).

	2015		2016		2017		2018	
	Act.	Prog.	Act.	Prog.	Prog.	Proj.	Prog.	Proj.
Real GDP growth (percent)	8.9	6.0	5.9	6.2	6.2	6.6	6.8	
CPI inflation, average (percent)	2.5	5.6	5.7	5.5	7.1	5.0	6.0	
CPI inflation, eop (percent)	4.5	6.0	7.3	5.0	7.0	5.0	5.0	
Current account balance (percent of GDP)	-13.4	-16.9	-14.4	-11.7	-10.1	-10.5	-11.3	
Overall fiscal balance (percent of GDP)	-4.6	-3.9	-3.8	-4.1	-4.1	-4.1	-3.9	
Gross international reserves (in billions of US\$)	0.9	0.9	1.0	0.9	1.0	1.1	1.0	
Total public debt incl. guarantees (percent of GDP)	36.2	45.0	43.4	48.4	47.4	50.8	50.8	
<b>Memorandum items:</b>								
	2014/15		2015/16		2016/17		2017/18	
	Act.	Prog.	Act.	Prog.	Prog.	Proj.	Prog.	Proj.
Overall fiscal balance (percent of GDP, FY)	-4.2	-3.5	-3.4	-4.7	-3.6	-3.7	-3.7	

Sources: Rwandan authorities and IMF staff estimates and projections.



### Box 3. Rwanda: Construction of Bugesera Airport

To support Rwanda's business tourism strategy and to increase cargo trade, the authorities plan to construct a new international airport outside of Kigali (in Bugesera), capable of handling more and larger aircraft. The authorities plan to finance the project with a public-private partnership, taking a minority stake of just under 16 percent. A large private investor is taking another 16 percent, and a consortium of investors (including MDBs) will take about 70 percent.

The first phase of the project is estimated at US\$ 400 million, financed 40 percent through equity and 60 percent through debt. The authorities' equity stake of US\$25 million will be financed over two years, within existing budget envelopes, helped by privatization receipts. The debt share of US\$37 million will be contracted over three years and repayable over 15 years. The government's share of external debt servicing associated with the project will peak in 2020 at less than 0.1 percent of GDP. Non-disclosure agreements signaling interest of investors—who offered three times more financing than needed—have been signed. Final contracts are expected to be signed in summer, with construction commencing later in 2017.

The project has been included in the macroeconomic framework and the DSA. Construction of the airport is assumed to increase imports of goods and services by around US\$316 million over 3 years, with the most import-intensive phases in 2018–2019. While this will increase the headline current account deficit and the base of imports for reserve coverage, it will not affect the overall BOP or the actual level of foreign exchange reserves.

<b>Bugesera Airport</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>
Assoc. imports of goods and services (US\$ mil.)	38	144	134
Current Account deficit (% GDP)			
w/airport	10.2	11.2	9.9
w/o airport	9.7	9.7	8.6
Reserves in months of prospective imports			
w/airport	3.9	3.7	3.9
w/o airport	4.0	3.8	3.8

17. **Risks to the outlook are balanced** (Annex II). The authorities' planned policies to reduce external imbalances will support higher and inclusive growth, and should also improve the country's resilience to external shocks. Good rains in Q1 2017 should alleviate food supply problems and the airport construction scheduled to begin in the latter half of 2017 represent upside risks to growth in 2017. Expanded and diverse exports also pose upside risks to the medium-term outlook. On the downside, political conditions in Burundi and Democratic Republic of Congo are deteriorating, weather patterns are growing more unpredictable, and global economic conditions remain difficult.

The authorities have discussed contingency planning for multilateral financing to address potential risks to off-budget support from one donor in the health sector.

## POLICY DISCUSSIONS

18. **Discussions focused on key areas for sustaining high and inclusive growth, while maintaining macroeconomic stability and advancing EAC integration.** Staff also prepared analytical work on structural transformation (Box 4), gender inclusion (Box 5), and macro-financial stability and development (Box 6). Discussions included: redoubling efforts on revenue mobilization; improving fiscal transparency; and setting the path toward a price-based monetary policy framework, supported by a flexible exchange rate regime and vibrant interbank markets and central bank instruments. Informed by an updated external assessment and debt sustainability analysis, the authorities and staff also discussed fiscal and monetary policy stances for the remainder of 2017, within the context of various challenges to the ever-important agriculture sector (Box 7). The authorities explained their “Made in Rwanda” campaign, originally intended to address external imbalances, but now expanded to promote more domestic production through strengthened supply chains and higher productivity (Box 8). Finally, authorities and development partners worked together on preparation for Rwanda’s participation as one of the first five countries in the G-20 Compact with Africa (Box 9).

### Box 4. Rwanda: Structural Transformation

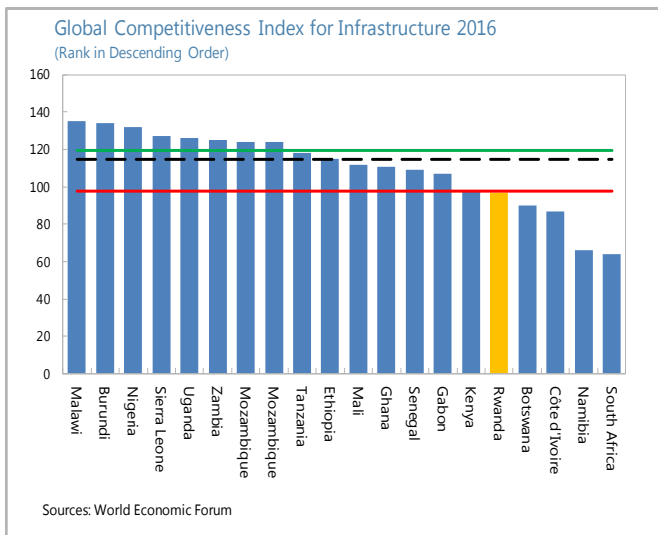
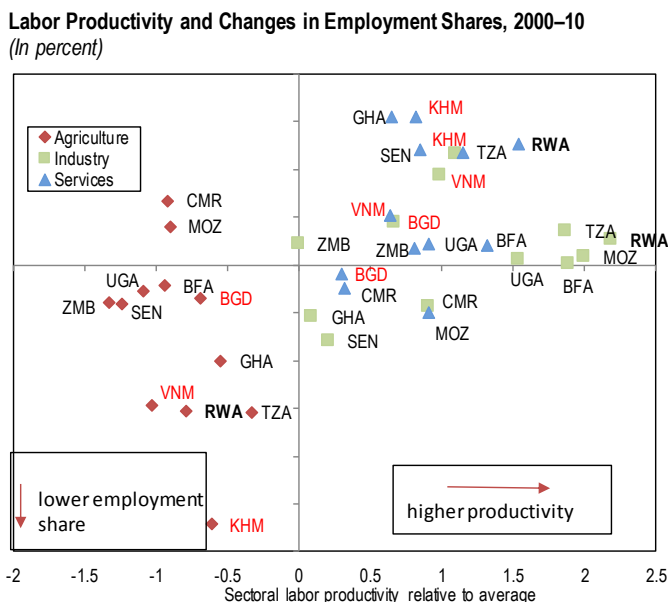
Rwanda’s pace of structural transformation has been faster than most SSA peers, due to high levels of efficient investment. This has helped a rapid move out of agriculture mainly into services.

The World Economic Forum Global Competitiveness index ranks Rwanda’s quality of infrastructure among the best in SSA and this is linked to both available funding and quality public investment management.

Some important bottlenecks remain, including proper use of agriculture investments (seed availability, distribution of fertilizers, irrigation use); quality of service sector labor skills; cost of transporting goods; and high costs of electricity. In agriculture, although improvements have been made in raising yields, they remain below SSA peers for most of the staples (maize, sorghum, and cassava).

The surge in investment in Rwanda has been led by the public sector so far, but as public debt levels rise, the private sector needs also to play its part. The small scale and landlocked status of Rwanda represent inherent barriers for boosting private investment. Moreover, education levels remain low and an urgent need exists to better match education with labor market demands, especially with the demographic boom ahead.

The government is making serious efforts in these areas by trying to eliminate non-tariff barriers in transportation and developing new universities that specialize in science, ICT and statistics and enhancing Technical and Vocational Education and Training (TVET) programs—but this takes time. In the interim, the country has allowed the free flow of labor from the EAC to help relieve skill bottlenecks (see Selected Issues Paper No. I).



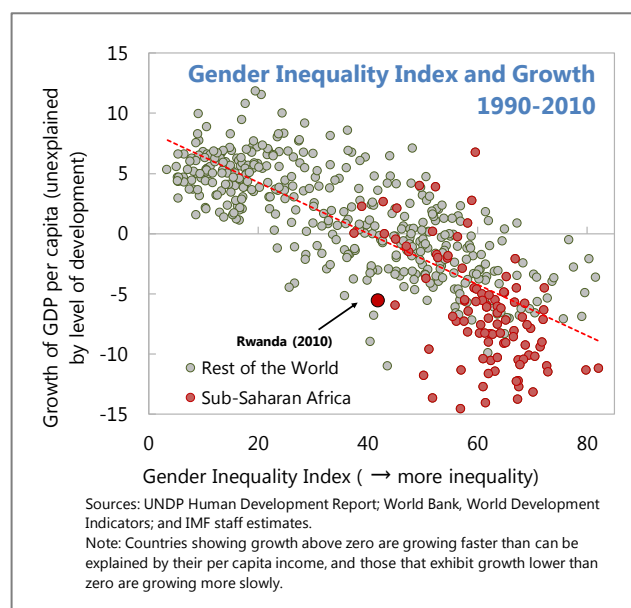
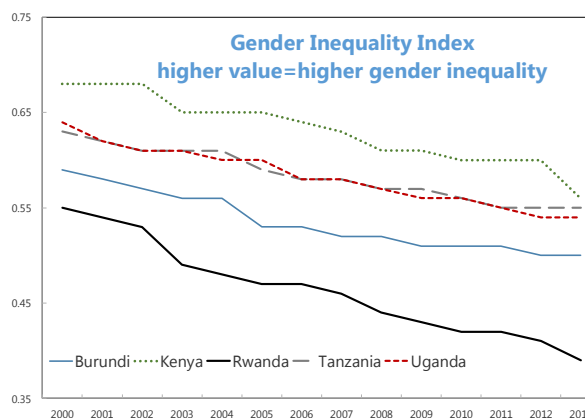
### Box 5. Rwanda: Gender Inclusion

#### Improvements in gender-related outcomes over the past decade have built on a strong political will and leadership, and other supporting factors.

Advances in gender equality emerged, in part, as a necessary component of the rebuilding and development strategy starting in the mid-1990s, with women taking on new roles as major actors in society and heads of households. Since the genocide, Rwanda has progressively recognized and operationalized gender equality as an integral component of its development agenda—with advocacy at the highest level, constant engagement in programs to enhance economic opportunities for women, home-grown solutions to address gender inequality, an enabling legal framework and supporting institutions including the Ministry of Gender and Family Promotion, the Gender Monitoring Office, the National Women Council, and the Forum for Women Parliamentarians.

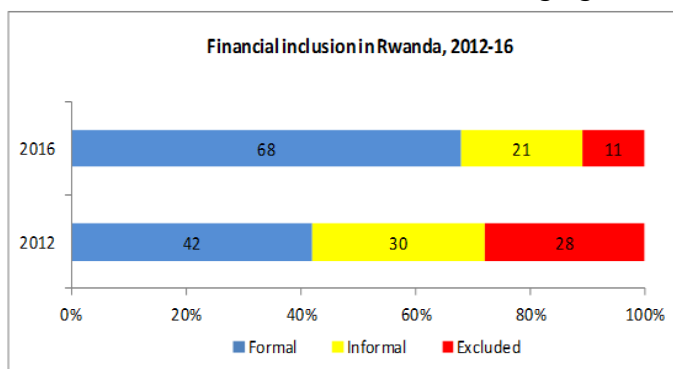
Indicators of gender equality have improved significantly, and the World Economic Forum's 2016 Gender Gap Index ranks Rwanda number 1 among all low-and-middle-income countries in closing the gender gap, and number 5 worldwide. Progress in various socio-economic outcomes has been significant, including achieving gender parity in school attendance and reduced risk of maternal mortality.

Further reducing gender inequality could boost per capita GDP growth by ½ percentage points (see Selected Issues Paper No. II). Specifically, increasing access to quality health and education services, and higher financial inclusion could boost female labor force participation beyond agriculture.

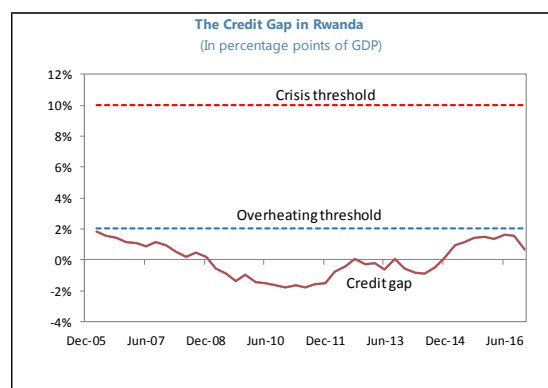


### Box 6. Rwanda: Macro-Financial Developments

**Rwanda's has experienced rapid financial inclusion in recent years, partly due to technology advances.** Total assets of the financial sector grew from 31 to 54 percent of GDP in the past 8 years. Commercial banks continue to dominate in terms of assets, but high growth of micro-finance and mobile banking has increased financial access from 48 to 89 percent of the adult population over the past 8 years. From 2011 to 2014 alone, the share of adults with financial accounts increased by 10 percentage points, per the World Bank's Findex.



**Rwanda's financial system has remained resilient.** Despite substantial credit growth in recent years, private sector credit gaps have stayed below risk thresholds for credit booms. Even in the buoyant recent two years (2013–15), the credit gap remained below the 2 percent threshold that commonly triggers concerns about a developing financial bubble, and has since returned to long-term structural trends. Banking sector vulnerabilities are assessed as medium, mainly because of a recent rise in NPLs, which nonetheless have remained below 10 percent of credit, lower than regional peers (see Selected Issues Paper No. III).



**The overall level of financial development has improved in recent years, but has potential to deepen further.** Indicators suggest that Rwanda's financial development over the past decade has been driven by financial institutions. In contrast, securities markets remain largely undeveloped, partly reflecting inherent limitations due to market size. More developed markets will be important to provide access to larger-scale finance at lower costs.

**The growing importance of the financial sector has substantial effects on the monetary transmission mechanism, financial stability, and consumer welfare.** The central bank is adapting the legal, regulatory and supervisory frameworks to this changing environment.

## A. Fiscal Policy—Balancing Incentives and Domestic Revenue Collection

19. **End-June FY16/17 fiscal deficit will likely be lower than previously projected.** Although the intended fiscal policy stance remains unchanged, it is likely that continued under execution of investment spending will lead to overperformance on the fiscal deficit, for a second year in a row. Current projections indicate the deficit could be almost 1 percent of GDP lower than the agreed targeted ceiling. Modest revenue shortfalls observed in the first half should be offset by acceleration of large taxpayer audits and expiration of financial sector tax exemptions.

MEFP, ¶19

20. **The FY 17/18 draft budget remains within already-agreed program parameters.** The deficit target will be maintained at 3.7 percent of GDP (4 percent on a cash basis). Following recent modest shortfalls associated with the implementation of the new investment code and Made in Rwanda campaign, revenue projections were not increased fully in line with revised GDP (rebasings resulted in a higher base), leading to a 0.6 percent of GDP reduction in revenues compared with earlier projections. This is met by commensurate spending adjustment in real terms. Within the spending envelope, there is some additional re-composition toward current spending, reflecting lower projections for external-financed investment spending. Still, Rwanda's level of investment spending remains high compared to peers, and its wage bill low. Staff discussed with the authorities whether additional spending would be needed for replenishing food security stocks, expanding irrigation, and combating new pests (Box 7). For now, the authorities plan to handle these challenges within existing budget parameters. Staff inquired about election expenditures, which are less than 0.1 percent of GDP and fully financed.

MEFP, ¶20-22

21. **Over the medium term, the EAC deficit objective is 3 percent of GDP.** Medium-term projections show the deficit trending in that direction. However, the authorities' effective fiscal anchor is maintaining a low risk of debt distress under the DSA, since this encompasses both the central government deficit and contingent liabilities for the larger public sector (e.g. KCC, Rwandair, Bugesera). Considering a projected gradual tapering of budget support and a shift away from grants, maintaining debt sustainability will require a renewed focus on domestic revenue collection.

22. **Structural fiscal measures should be focused on further revenue mobilization and fiscal transparency.** The authorities have recently offered tax incentives through eliminating VAT on inputs to stimulate domestic production of imported goods (textiles and leather products, cement, computers and other office accessories) in the context of the Made in Rwanda campaign. Staff noted the adverse impact of such incentives on domestic revenue mobilization and underscored the importance of continued revenue mobilization. A benchmark was reformulated in the program to provide an assessment of the revenue loss associated with these new measures by the next review with a follow-up analysis of the associated benefits. The authorities explained that they are also exploring new tax policy measures on excise taxes, and expect to achieve revenue

MEFP, ¶24

gains from the new property tax law with higher rates, assessed against market-based valuations. Since these latter policies are not included in the current macroeconomic forecast there is upside potential to the revenue forecast.

### Box 7. Food Security in Rwanda

**Drought in 2016.** Agriculture output grew by an annual average 5.2 percent between 2011 and 2015. In 2016, this growth slowed to 3.9 percent due to a drought from September 2015 through December 2016, which accounted for one-third to one-half the growth deceleration in 2016. This caused food supplies to drop and prices to skyrocket, leaving some 59,000 Rwandan households affected. The government used strategic food stocks to meet the most severe needs, and is in the process of replenishing the stocks. USAID estimates near-normal harvests this year after relatively normal rainfall, and food price inflation began coming down since February. This trend is expected to continue, mitigating food security concerns of Rwandan households. However, 54,000 Burundian refugees in Rwanda, who are entirely dependent on humanitarian assistance from the World Food Program, could face food insecurity due to insufficient financing of the WFP's program.

**Fall Army Worms in 2017.** More recently, "fall army worms (FAW)" invaded Rwanda starting in February 2017, affecting a large swath of grain fields. To meet the invading army, the government deployed pesticides, training, and the military to work with local communities to treat affected areas. Within 6 weeks, 95 percent had been treated, with 60–80 percent recovery rates.

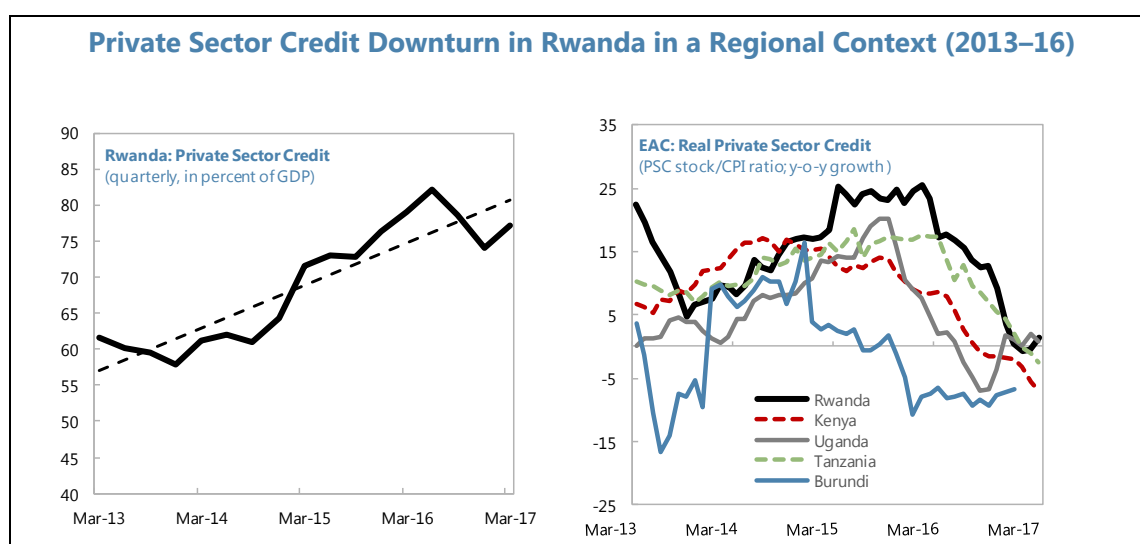
**Public investment to improve agricultural resilience.** The government recognizes that changing weather patterns and other threats to agriculture pose the greatest risk to Rwanda's sustained growth. In addition to existing programs to enhance agricultural productivity and diversity, the authorities are allocating an additional 0.3 percent of GDP to replenish food security stocks and expand irrigation by 20 percent per year, among other things. For pests, the government has assembled a task force to identify and manage new outbreaks, develop less labor-intensive methods for treatment, and research more resistant grain varieties.

23. **Improvements are being made in fiscal transparency but more remains to be done.** The authorities have been publishing quarterly budget execution reports, but reconciliation of consolidated fiscal accounts remains a challenge due to difficulties measuring the use of (particularly, in-kind) project grants. Rwanda is transitioning to present central government fiscal operations in GFSM 2014 format, consistent with the EAC requirements. Backward-looking annual tables have been made available (Tables 2c-d), and staff and the authorities agreed that projected publication of quarterly fiscal execution tables will begin in the fall, which will help to better monitor project grant flows and produce fiscal projections per the new methodology. The government has committed to develop a strategy to assess foreign exchange needs of companies that are investing in Rwanda under PPP arrangements (structural benchmark) through continuous monitoring and by building them into future project appraisals.

## B. Monetary Policy—Strengthening the Operational Framework

24. **Sharp deceleration of private credit growth was attributable to multiple factors.** Private sector credit growth declined sharply from 30 percent in 2015 to 7.8 percent in 2016, but seems to have troughed in February 2017. Authorities argued the main factor behind the sharp deceleration of private credit growth was weak demand, stemming from growth deceleration. Staff and authorities agreed that the same pattern in private credit growth can be seen across the EAC, raising questions about common factors and linkages within the region. One potential explanation is the region-wide drought impact on broader economic activity: staff and the authorities are exploring potential linkages.

MEFP, ¶128



25. **The NBR and the staff agreed that the monetary policy stance in the second half of 2017 would consider developments in inflation and growth projections.** The authorities argued and staff concurred that inflationary impulses in 2016 and early 2017 stemmed almost exclusively from supply-side factors and first-round effects of exchange rate pass-through on prices, with little second round effect on inflation. Going forward, if inflation expectations remain consistent with the medium-term objective (5 percent) and growth indicators suggest continued deceleration, then policy tightening agreed a year ago could be partially reversed through slowing liquidity withdrawals.

MEFP, ¶128

26. **The authorities are taking steps to move toward inflation targeting.** The monetary policy regime has historically been characterized by multiple objectives. However, in a break with the past, the authorities have allowed greater exchange rate flexibility as the centerpiece of adjustment. Consistent with EAC objectives, the authorities wish to move toward a forward-looking interest rate-based monetary framework by end-2018. In the interim period, they intend to deepen the interbank and domestic debt markets; reducing structural excess liquidity; and creating a functioning role for



the policy rate. Staff emphasized the importance of exchange rate flexibility for establishing an effective policy framework. The BNR is also developing its forecasting capacity using the Forecasting and Policy Analysis System (FPAS), and has prepared an action plan to incorporate this into the monetary policy formulation process.

27. **Despite some recent weakening, financial soundness indicators remain well within comfortable limits.** The banking system remains well capitalized. However, consistent with regional trends, non-performing loan ratios have risen through March 2017, owing to lower credit growth and tighter provisioning requirements. Against this backdrop the authorities are strengthening their regulatory and supervisory frameworks to manage financial stability risks from rapid financial innovation without hindering financial sector development.

MEFP, ¶129-31

### C. External Sector—Rebuilding Reserve Buffers.

28. **External imbalances remain, but are falling.** The deterioration of the current account deficit and reserve buffers since 2012 reflected temporary factors affecting the trade balance—including the commodity price shock and large investment projects—as well as a structural reduction in official development assistance. Adjustment policies undertaken since have begun to reverse external imbalances and stem the loss of official reserves. The pace of Rwandan franc depreciation has slowed in 2017, suggesting that the external position is more in line with fundamentals, as indicated by various external analysis metrics (Annex III). Accumulation of official reserves through end-2017 is expected to be slightly less than earlier projected, however, this is based on the authorities' revised projections for foreign direct investment which reflect recent information on 2015 outcomes. Staff expressed the view that the authorities' projections for FDI may be conservative: Foreign direct investment outturns in 2015 may have been depressed by temporary factors including the commodity price decline, and various initiatives are underway to stimulate private investment.

MEFP, ¶132-34

29. **The authorities have gone beyond macroeconomic adjustment policies to address external imbalances.** The “Made in Rwanda” campaign, launched in 2016, originally focused on strategic interventions for import substitution. However, the campaign has been expanded to promote domestic production more generally (Box 8). While acknowledging the initiative, staff emphasized that continued exchange rate flexibility will be important both for sustainable external balances and for the transition to inflation-targeting.

### Box 8. “Made in Rwanda” Campaign

To reduce structural trade deficits and stimulate growth, the government formulated a “Made in Rwanda” (MIR) initiative over the course of 2016. Initially the policy was intended to identify promising sectors for import substitution, e.g. cement, light manufacturing (garments), agriculture (sugar, rice). Targeted interventions already underway include investment in the publicly-owned cement company to expand production potential. The policy has since been expanded to provide incentives to deepen domestic supply chains and product quality, including through:

- A communication campaign to encourage purchase of domestically-produced goods;
- Public procurement laws which give preference to domestically-produced goods;
- Certification changes to increase quality of domestically-produced goods;
- New VAT exemptions on inputs for strategic sectors to reduce the cost of production;
- Sector-specific action plans for strategic sectors to strengthen domestic supply chains to boost the domestic content of products, including meat, sugar, steel, detergents, and pharmaceuticals.

As of July 1, 2016, the government also implemented an EAC policy to hike import tariffs on used clothing/shoes, primarily to stimulate domestic clothing production. From July 2016-March 2017, imports of used clothes/shoes declined by 86 percent, and domestic production has picked up sharply. Over the same period, inflation related to clothing/shoes has remained lower than other categories, suggesting there has not been an adverse welfare effect.

With the larger MIR initiative in its nascent stages, it is too early to assess its broader impact on domestic production, external balances, and consumer welfare.

30. **Rebuilding reserve buffers remains important.** Staff assess that, given the risks Rwanda faces, official foreign exchange reserves covering 4–5 months of prospective imports would be optimal. This is also in line with the need to reach and maintain reserve coverage ratio of at least 4.5 months of imports to meet the EAC convergence criteria. The current account position is expected to gradually improve as the trade deficit narrows because of adjustment policies, commodity price stabilization, and returns from public investment in tourism, which should also allow an opportunity to rebuild reserves over the medium term, but projections for FDI in 2017 have been revised downward based on a new survey for 2015. This implies that, despite faster-than-expected improvement in the current account balance, reserve levels will be rebuilt somewhat more gradually than foreseen in the original program. A sustainable external position and ample reserves are important considering the unique risks Rwanda faces, particularly, continued dependence on relatively large official development assistance, a still-narrow export base, large import needs, and expensive overland access to ports.

31. **DSA results suggest that the risk of debt distress remains low** (Annex IV). Except for a minor and temporary breach associated with Eurobond rollover, baseline indicators remain well below thresholds. Financing assumptions on the planned airport are incorporated, and under currently-proposed financing modalities, with risk diversified among numerous investors, DSA results are unchanged. The authorities reiterated their commitment to maximize external concessional funding to avoid unsustainable debt levels, while developing the domestic capital market and reorienting the mix of domestic financing toward issuance of more treasury bonds vs. bills to increase the maturity length of the portfolio. Through participation in the G-20 Compact with Africa (Box 9), the authorities hope to attract more private sector investment in strategic areas, including through accessing new and existing guarantee instruments from bilateral and multilateral development partners, thereby limiting the need for government liabilities for growth-enhancing investment.

MEFP, ¶126-27

#### Box 9. Rwanda: G-20 Compact with Africa

The G-20, under German leadership established a “Compact with Africa (CWA)” in February 2017. The basic idea of the CWA is that progress can be achieved in fostering private investment in Africa by identifying specific obstacles and/or market failures in host and potential investor countries. The Compact focuses on: the macro environment and supporting public infrastructure; the business environment and the government’s capacity to handle public-private partnerships; and the financing environment, including the availability of risk mitigation instruments provided by multilateral and bilateral development partners, access to domestic debt instruments, and potential support from institutional investors in advanced markets.

Based on its strong track record of performance, the authorities expressed hope that the Compact could have good potential to leverage existing work to attract and increase private investment in strategic sectors of the economy. The Rwandan government has identified strategic areas for private investment, including agriculture, light manufacturing in industrial parks, affordable housing, information technology, and infrastructure. Working together with development partners, the government articulated the advantages of working in Rwanda, incentive schemes for investors, and potential obstacles to investment. The “Compact” will be presented to the G-20 and potential private investors at various high-level events in 2017.

## PROGRAM MODALITIES

32. **End-June 2017 quantitative assessment/performance criteria have been maintained while it is proposed that two structural benchmarks be modified and rephased.** Proposed quantitative targets for end-June 2017 (the last test date under the current programs) remain largely unchanged from the 6th review (MEFP Table 1). In addition to the end-March structural benchmark

that was reformulated and rephased, one forward-looking benchmark was also reformulated. In this case, a draft study on agriculture taxation, long delayed due to difficulty finding the necessary expertise and scheduled for the next review, has been replaced by a more macro-relevant measure for a detailed analysis of the costs and benefits of recent tax incentives (MEFP Table 2).

33. **An updated safeguards assessment in 2016 concluded that the central bank had strengthened safeguards since the last assessment.** An updated assessment was completed in November 2016, finding the central bank had undertaken an organizational restructuring, aligned its financial reporting and auditing practices with international standards, and modernized IT systems. Recommendations were made to further enhance the framework, including aspects of external audit arrangements.

## STAFF APPRAISAL

34. **Rwanda continues to have very strong macroeconomic and program performance, anchored by carefully considered development strategies.** The government's strong performance has been demonstrated over the past two decades by high and inclusive growth, reduced poverty, higher living standards, and a favorable business environment. More recently, this was evidenced by the authorities' decisive steps to address growing external imbalances, which were a function of structural and cyclical factors. Macroeconomic adjustment policies and import substitution policies are making tangible progress in reducing the deficit of trade in goods and services, and agreed near-term supportive fiscal and monetary policy remains appropriate.

35. **Exchange rate flexibility has been the central adjustment tool, and will be important for maintaining external stability going forward.** Nominal depreciation of the RWF has brought the real exchange rate closer in line with fundamentals. While staff's assessment is that the real exchange rate remains broadly aligned with fundamentals, going forward, exchange rate flexibility would remain an important tool to address potential external imbalances, should they arise. Against other measures of competitiveness and in terms of fostering a strong business environment, Rwanda outperforms peer countries.

36. **Rebuilding reserve buffers will be important to enhance resilience to external shocks.** Weighing Rwanda's specific vulnerabilities to external shocks against the opportunity cost of holding reserves, staff estimate optimal reserve levels to be 4–5 months of prospective goods and services imports. If external adjustment policies continue to outperform expectations, the government should take the opportunity to rebuild reserve buffers more quickly than projected in the current macroeconomic framework, especially with the projections for lower foreign direct investment in 2017.

37. **It will be important to balance tax incentives to bolster domestic production and domestic revenue objectives, to meet EAC objectives and lessen dependency on official development assistance.** Recent tax incentives under the revised Investment Code and the "Made in Rwanda" campaign could undermine the significant gains in domestic revenue collection realized

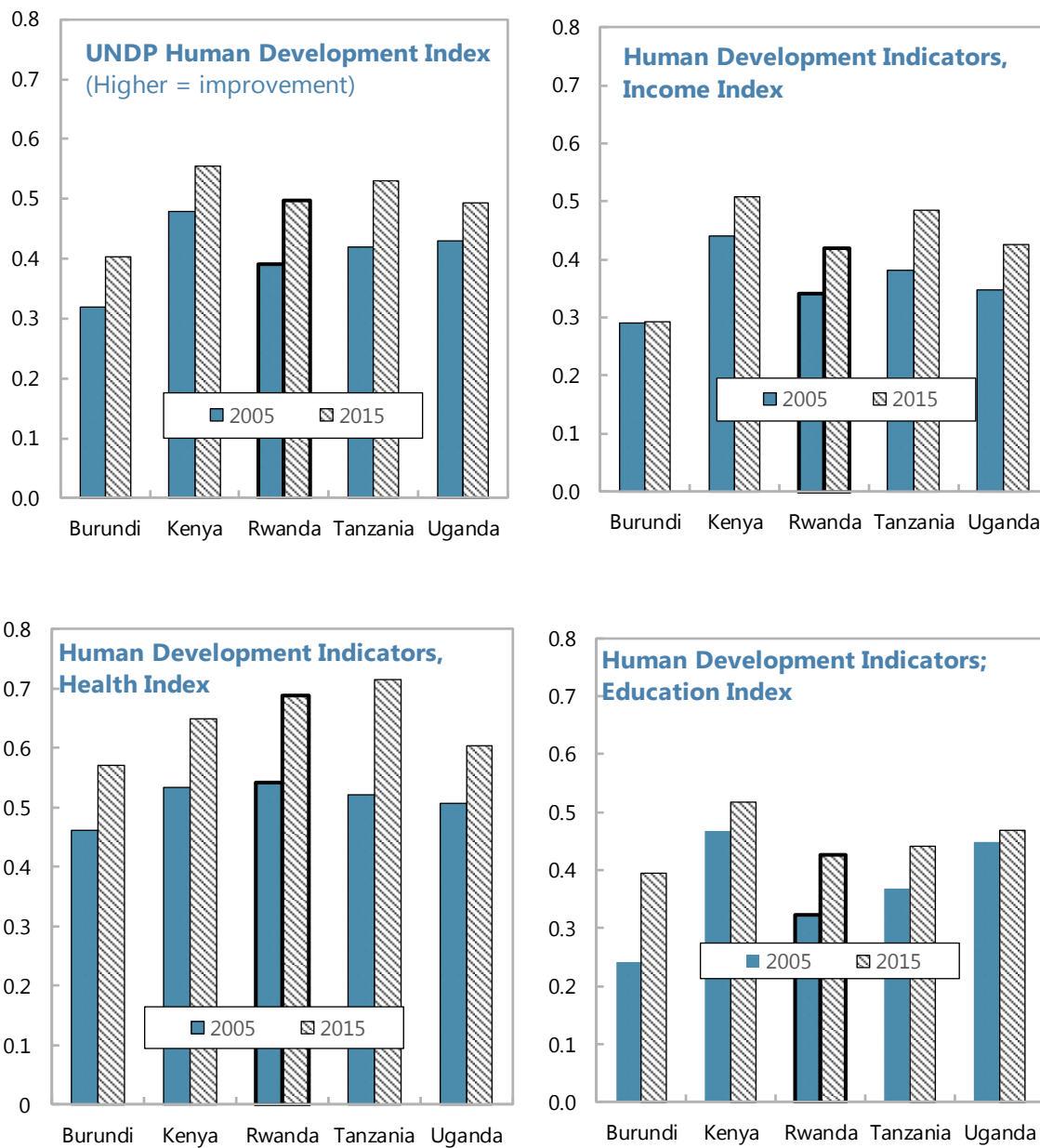
in recent years. It will be important to analyze tax incentives carefully to ensure they are properly targeted and do not unduly dilute the tax base. Moving forward with long-awaited improvements to fixed asset tax legislation would offset projected foregone domestic revenues. Recent ODA trends underscore the criticality of domestic resources for protecting strategic public investment.

38. **The transition to an interest-based monetary policy framework requires a flexible exchange rate regime, functioning money markets, and clear policy signals.** Staff welcomes the authorities' commitment to a more flexible exchange rate regime and recent steps to reduce excess system liquidity, ensure that its liquidity tools function properly, and improve its capacity for growth and inflation forecasting. Clear signaling about the monetary policy stance and the reasons behind it will also begin to anchor inflation expectations going forward.

39. **Staff commends the authorities' work on an updated development vision and strategy.** Going forward, sustaining the high and inclusive growth needed to reach middle-income status will require continued efforts to transition Rwanda's economy to more productive economic activities, with the private sector gradually taking the lead as the engine for growth and investment in the country. The Compact with Africa can help address obstacles that impede greater private investment, and match investor interest to strategically-important investment opportunities. Similarly, the government has made extraordinary progress in promoting gender equality and financial inclusion—going forward, the challenge will be ensuring gender inclusion in higher value-added economic activity. Finally, while taking steps to advance use of technology to increase financial access, it will be important to focus on deepening financial markets to provide access to larger-scale financing at lower costs.

40. **Staff supports the completion of the second review under the SCF and the seventh review under the PSI.** Program performance has remained strong, with all-end December, 2016 quantitative assessment/performance criteria and most indicative targets met, as well as most structural benchmarks through end-March 2017. It is expected that the next Article IV consultation with Rwanda will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

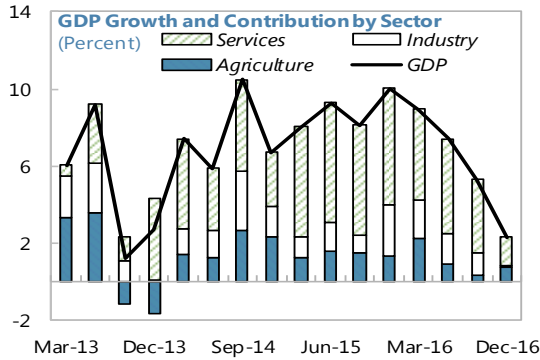
**Figure 1. Rwanda: Human Development Indicators**



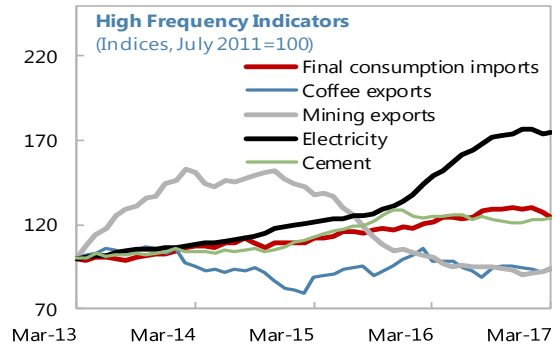
Source: UNDP, *Human Development Report, 2016*.

**Figure 2. Rwanda: Overview of Recent Economic Developments**

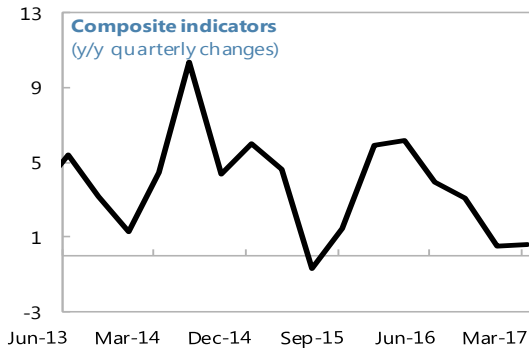
*Growth slowed down sharply in 2016, due to drought, completion of large projects, and adjustment policies.*



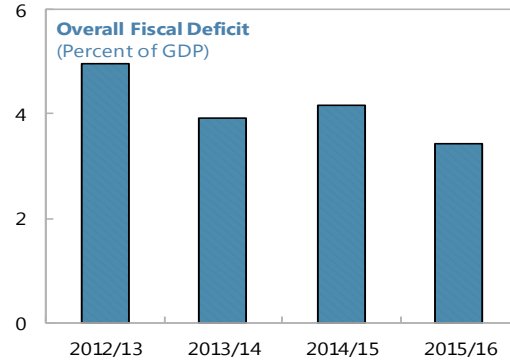
*High frequency indicators point to pockets of resilience...*



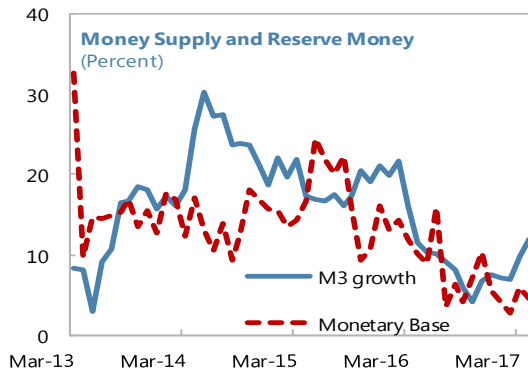
*...despite recent lower growth registered in the Composite Indicator of Economic Activity.*



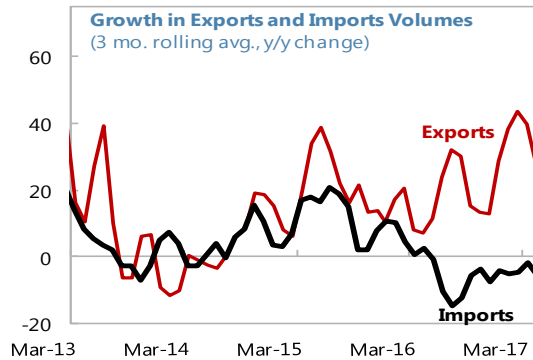
*The overall fiscal deficit narrowed...*



*...liquidity conditions tightened...*



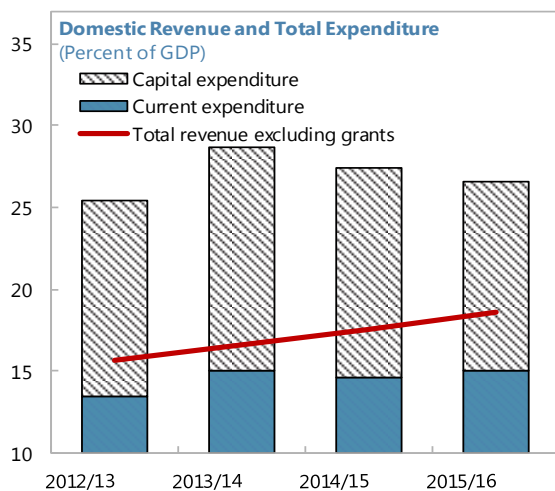
*...and import volumes contracted, consistent with the adjustment program.*



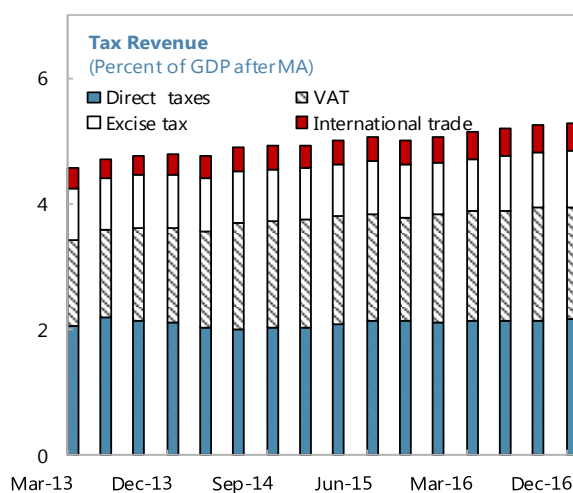
Sources: Rwandan authorities, and IMF staff estimates.

**Figure 3. Rwanda: Fiscal Developments**

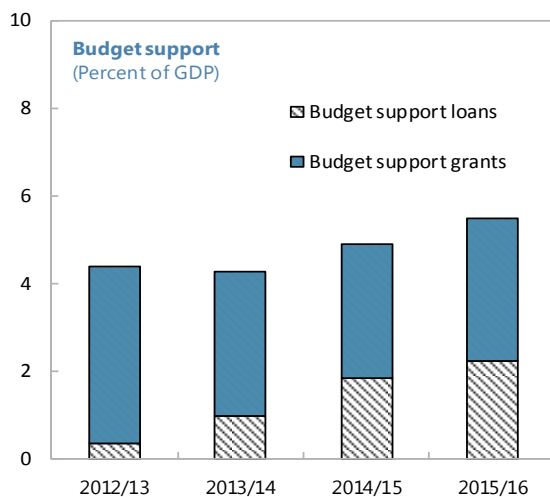
*A lower FY15/16 deficit reflected an increase in revenues and lower capital spending...*



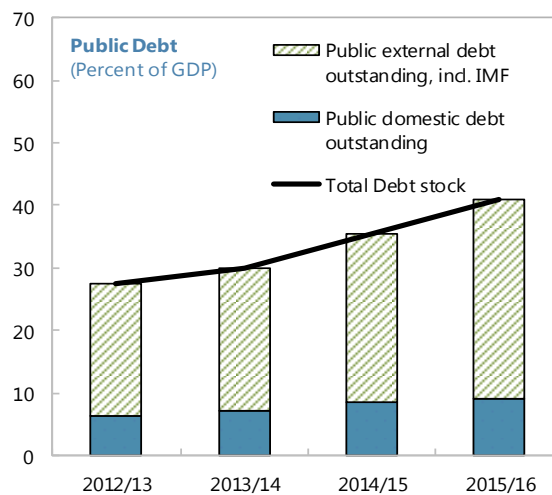
*...with higher direct taxes and VAT accounting for the rise in domestic tax revenue...*



*...accompanied by a small increase in budget support.*



*Public debt continues to rise, reflecting large public infrastructure investment.*

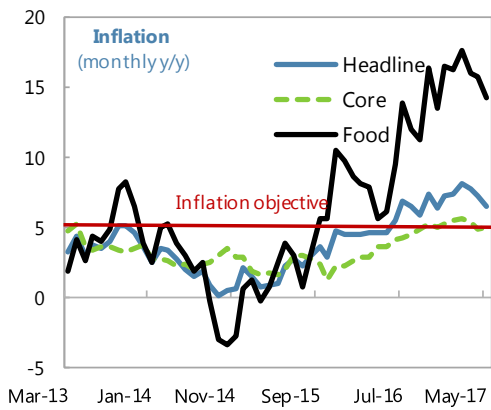


Sources: Rwandan authorities, and IMF staff estimates.

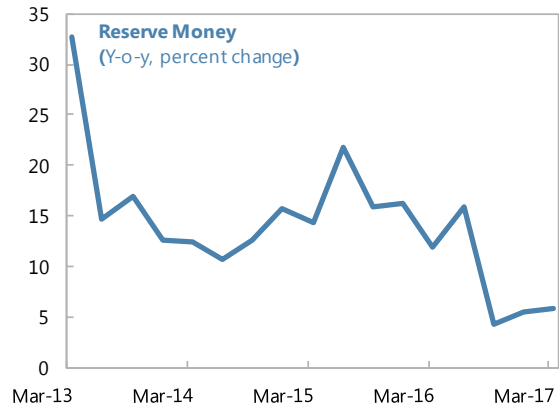


**Figure 4. Rwanda: Monetary Developments**

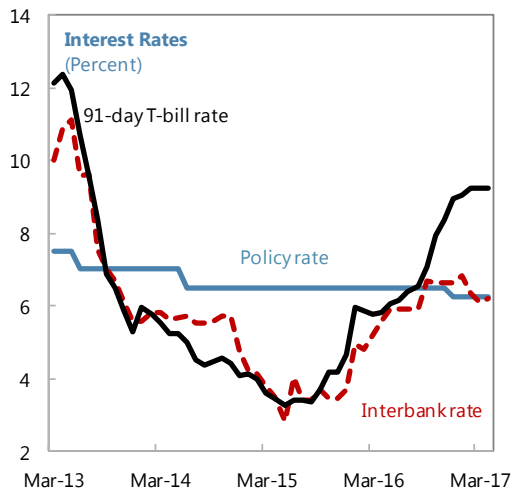
*An extended drought in 2016 drove up food prices...*



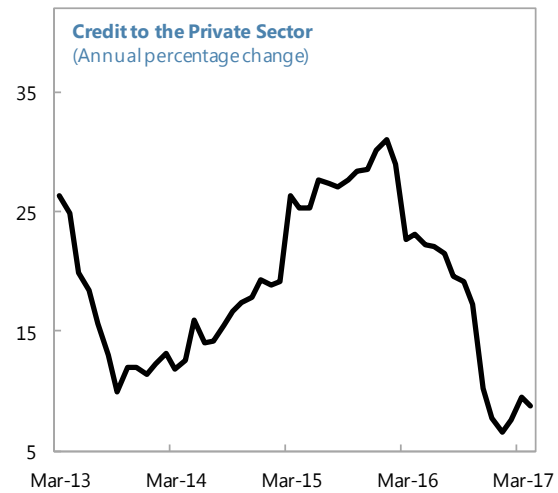
*...while liquidity conditions were tightened...*



*...increasing the interbank and the T-bill rates...*



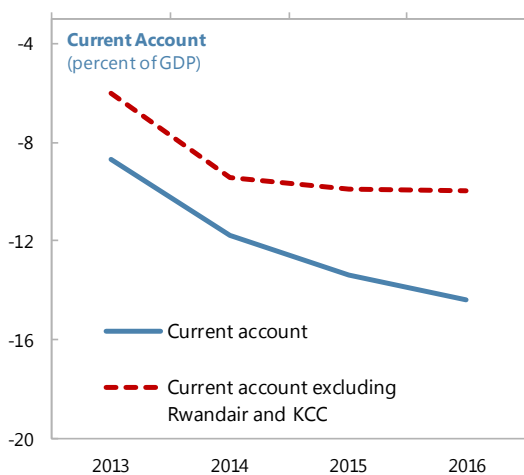
*... and private sector credit growth continued to decline.*



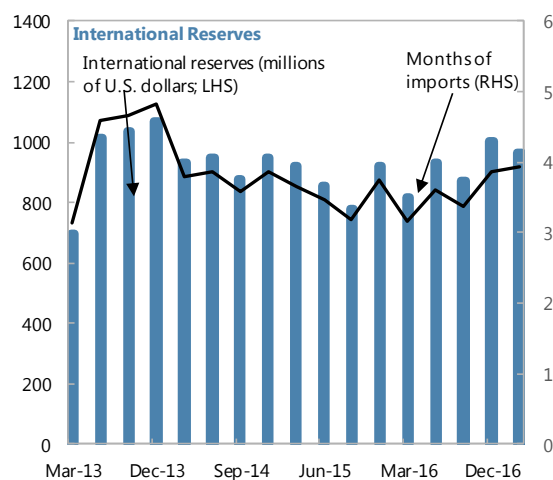
Sources: Rwandan authorities; and IMF staff estimates.

**Figure 5. Rwanda: External Developments**

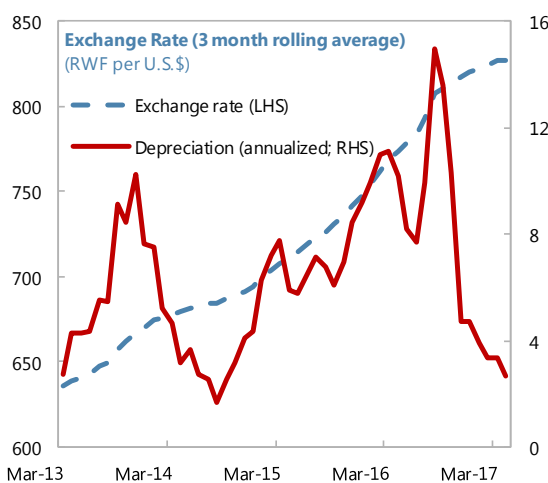
*The current account deficit widened in 2016...*



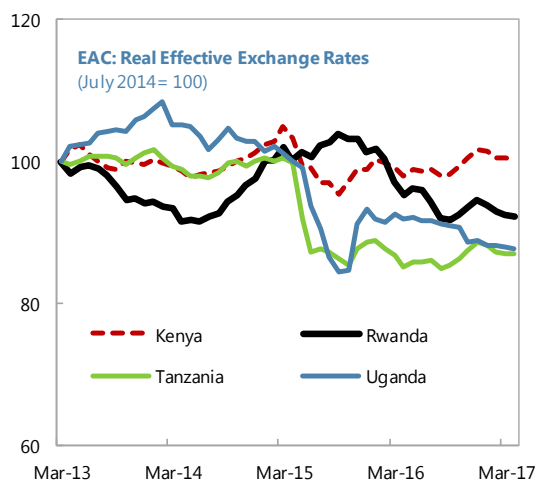
*...but official reserves stabilized.*



*The Rwandan franc has depreciated significantly in nominal terms...*



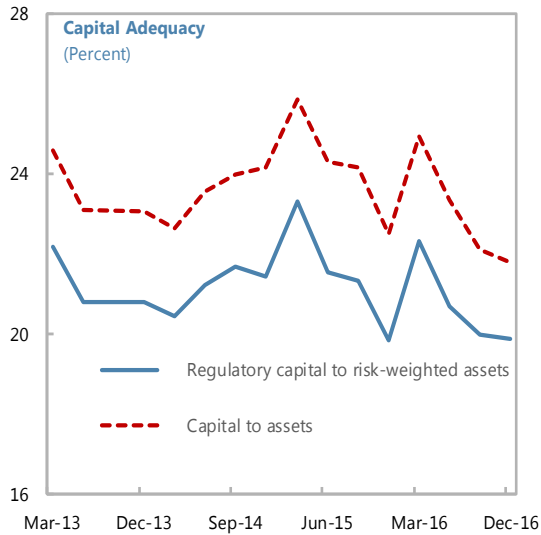
*...bringing the real exchange rate closer in line with fundamentals.*



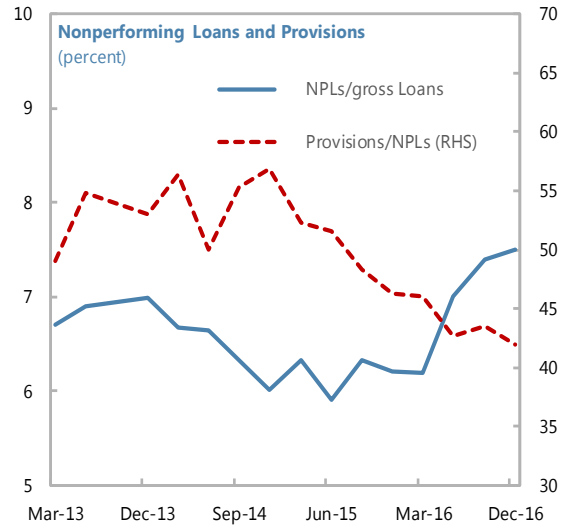
Sources: Rwandan authorities, and IMF staff estimates.

**Figure 6. Rwanda: Comparative Indicators of Banking System Soundness**

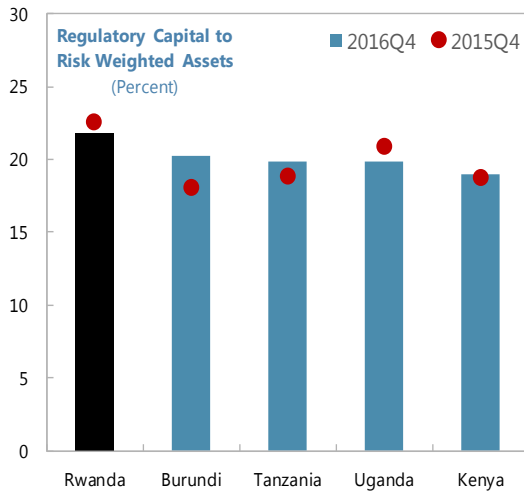
*Deceleration of private credit growth adversely affected capital adequacy...*



*...as well as asset quality in 2016.*



*Nevertheless, Rwanda's banking system compares favorably in the region in terms of capital adequacy...*



*...as well as asset quality, with the lowest NPLs in the region.*

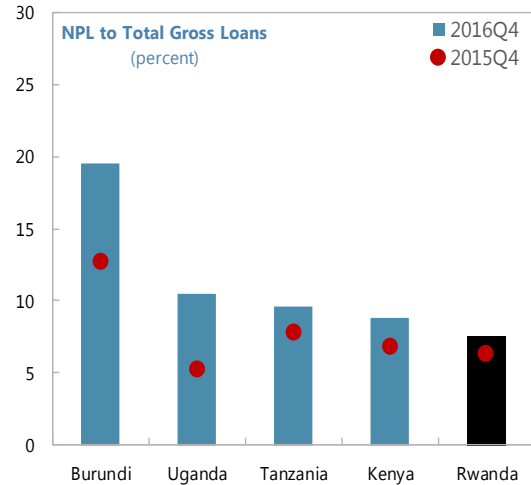


Table 1. Rwanda: Selected Economic Indicators, 2015–2019<sup>1</sup>

	2015		2016		2017		2018		2019
	6th PSI Review		6th PSI Review	Prel.	6th PSI Review	Proj.	6th PSI Review	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)									
<b>Output and prices</b>									
Real GDP	6.9	8.9	6.0	5.9	6.2	6.2	6.6	6.8	7.3
GDP deflator	1.2	0.1	4.5	4.9	5.3	7.4	4.8	5.5	4.6
CPI (period average)	2.5	2.5	5.6	5.7	5.5	7.1	5.0	6.0	5.0
CPI (end period)	4.5	4.5	6.0	7.3	5.0	7.0	5.0	5.0	5.0
Core inflation (period average) <sup>2</sup>	...	2.1	...	4.1	...	...	...	...	...
Terms of trade (deterioration, -)	-1.7	5.3	-10.3	6.3	3.9	6.1	1.3	-4.1	3.6
<b>Money and credit</b>									
Broad money (M3)	21.1	21.1	10.7	7.6	11.5	13.0	17.8	13.2	...
Reserve money	...	16.2	8.9	5.5	10.4	10.9	16.7	11.1	...
Credit to non-government sector	30.1	30.1	15.7	7.8	16.3	17.9	13.2	14.2	...
M3/GDP (percent)	25.4	24.9	25.4	24.1	25.3	23.9	26.6	24.0	...
NPLs (percent of total gross loans)	6.2	6.2	...	7.5	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)									
<b>General government budget</b>									
Total revenue and grants	25.2	24.7	24.1	23.7	23.0	22.1	23.0	21.9	21.7
<i>of which</i> : tax revenue	15.9	15.6	16.2	15.8	16.3	15.4	15.9	15.2	15.4
<i>of which</i> : grants	6.4	6.3	5.1	5.1	4.9	4.5	4.9	4.3	4.3
Expenditure	30.3	29.3	28.0	27.4	27.2	26.2	27.1	25.8	25.6
Current	15.2	14.9	14.8	15.4	15.2	14.6	14.2	14.1	14.2
Capital	13.3	12.6	11.6	10.6	10.0	9.4	10.9	9.9	9.5
Primary balance	-4.2	-0.3	-2.9	-2.8	-3.1	-2.9	-3.1	-2.7	-2.7
Overall balance	-5.1	-4.6	-3.9	-3.8	-4.1	-4.1	-4.1	-3.9	-3.9
excluding grants	...	-10.9	-9.0	-8.9	-9.0	-8.6	-9.1	-8.2	-8.2
Net domestic borrowing	...	1.1	...	0.8	...	0.0	...	0.2	0.5
<b>Public debt</b>									
Total public debt incl. guarantees	35.4	36.4	45.0	44.5	48.4	45.7	50.8	47.1	48.7
<i>of which</i> : external public debt	28.5	27.9	38.0	35.8	42.0	38.1	45.1	40.2	42.1
<b>Investment and savings</b>									
Investment	25.7	25.9	28.9	25.6	25.3	24.0	25.4	24.6	22.6
Government	13.3	12.6	11.6	10.6	10.0	9.4	10.9	9.9	9.5
Nongovernment	12.4	13.3	17.3	15.0	15.3	14.6	14.6	14.7	13.1
Savings <sup>2</sup>	12.6	8.0	7.3	7.1	8.9	10.2	10.8	9.9	9.3
Government	8.2	3.5	4.2	3.1	3.0	3.0	3.7	3.5	3.2
Nongovernment	4.4	4.5	3.1	3.9	6.0	7.3	7.1	6.4	6.1
<b>External sector</b>									
Exports (goods and services)	18.5	18.4	18.4	19.0	19.6	20.3	20.1	20.6	21.9
Imports (goods and services) <sup>3</sup>	36.1	35.6	39.5	37.0	35.3	33.1	34.2	34.3	34.2
Current account balance (incl grants)	-13.7	-13.4	-16.9	-14.4	-11.7	-10.2	-10.5	-11.2	-9.9
Current account balance (excl grants)	-18.3	-17.8	-21.6	-18.5	-16.3	-13.8	-14.6	-14.6	-13.3
Current account balance (excl. large projects)	-11.6	-9.9	-14.4	-9.9	-11.5	-10.2	-9.6	-10.5	-10.3
Gross international reserves									
In billions of US\$	0.9	0.9	0.9	1.0	0.9	1.0	1.1	1.0	1.2
In months of next year's imports	3.4	3.6	3.7	4.1	3.9	3.9	4.0	3.7	3.9
<b>Memorandum items:</b>									
GDP at current market prices									
Rwanda francs (billion)	5,837	5,956	6,466	6,618	7,237	7,548	8,089	8,505	9,544
US\$ (billion)	8.1	8.3	...	8.4	...	...	...	...	...
GDP per capita (US\$)	718	732	...	729	...	...	...	...	...
Population (million)	11.3	11.3	11.5	11.5	11.8	11.8	12.1	12.1	12.4

Sources: Rwandan authorities and IMF staff estimates.

<sup>1</sup> All figures are based on the rebased GDP, except 6th PSI review figures.<sup>2</sup> Defined as excluding fresh products and energy<sup>3</sup> Imports for 2016 reflect purchases of two aircrafts.

**Table 2a. Rwanda: Central Government Flows, FY 2015/16–19/20<sup>1</sup>**

(Billions of Rwandan Francs)

	2015/16	2016/17		2017/18		2018/19		2019/20
	Act.	6th PSI Review	Proj.	6th PSI Review	Proj.	6th PSI Review	Proj.	Proj.
<b>Revenue and grants</b>	<b>1,541.7</b>	<b>1,567.1</b>	<b>1,598.6</b>	<b>1,742.0</b>	<b>1,771.3</b>	<b>1,852.2</b>	<b>1,929.2</b>	<b>2,227.9</b>
Total revenue	1,167.9	1,240.5	1,265.4	1,401.7	1,414.6	1,518.3	1,543.0	1,796.6
Tax revenue	1,000.3	1,101.4	1,101.4	1,227.8	1,229.6	1,343.7	1,356.3	1,593.3
Direct taxes	406.2	448.6	448.6	516.9	518.4	546.5	587.1	669.8
Taxes on goods and services	510.3	560.3	560.3	618.5	602.9	684.0	672.1	801.7
Taxes on international trade	83.9	92.5	92.5	92.3	108.4	113.2	97.1	121.8
Non-tax revenue	167.6	139.1	164.0	173.9	184.9	174.6	186.7	203.4
Of which: PKO	122.9	84.9	109.8	105.4	116.4	98.2	110.4	117.5
Grants	373.8	326.6	333.2	340.3	356.7	333.9	386.2	431.3
Budget grants	204.8	180.6	187.2	164.5	180.9	141.7	194.0	215.1
Of which: Global Fund	70.3	49.1	49.1	33.3	63.6	--	65.5	69.7
Project grants	168.9	146.0	146.0	175.8	175.8	192.2	192.2	216.2
<b>Total expenditure and net lending</b>	<b>1,757.7</b>	<b>1,891.3</b>	<b>1,854.7</b>	<b>2,026.8</b>	<b>2,069.2</b>	<b>2,294.9</b>	<b>2,281.3</b>	<b>2,601.7</b>
Current expenditure	947.5	1,023.6	1,063.7	1,089.6	1,136.2	1,212.1	1,276.3	1,435.3
Wages and salaries	242.3	258.3	258.3	289.1	301.1	323.4	341.4	384.0
Purchases of goods and services	180.6	201.0	207.4	215.0	218.0	240.7	240.7	270.7
Interest payments	56.7	68.6	78.6	81.4	93.0	88.2	105.3	118.5
Domestic debt	25.4	30.6	40.6	40.2	50.2	43.7	56.9	64.0
External debt	31.3	38.0	38.0	41.2	42.8	44.5	48.5	54.5
Transfers	308.7	360.3	360.3	390.0	400.2	436.6	436.6	491.0
PKO and demobilization <sup>2</sup>	159.2	135.4	159.1	114.2	123.9	123.2	152.3	171.3
Capital expenditure	721.7	741.9	675.2	799.3	774.0	905.6	835.2	981.5
Domestic	446.9	398.0	398.0	424.7	461.5	452.4	455.8	522.7
Foreign	274.8	343.9	277.2	374.6	312.5	453.2	379.4	458.8
Net lending and privatization receipts	88.4	125.8	115.8	138.0	159.1	177.2	169.8	184.9
<b>Overall deficit (including grants)</b>	<b>-216.0</b>	<b>-324.3</b>	<b>-256.1</b>	<b>-284.8</b>	<b>-298.0</b>	<b>-442.7</b>	<b>-352.1</b>	<b>-373.8</b>
Change in float/arrears <sup>3</sup>	-27.6	-20.0	-20.0	-24.2	-24.2	-37.5	-37.5	-42.1
<b>Overall deficit (incl. grants, cash basis)</b>	<b>-243.6</b>	<b>-344.3</b>	<b>-276.1</b>	<b>-308.9</b>	<b>-322.2</b>	<b>-480.2</b>	<b>-389.6</b>	<b>-416.0</b>
<b>Financing</b>	<b>243.6</b>	<b>344.3</b>	<b>276.1</b>	<b>308.9</b>	<b>322.2</b>	<b>480.2</b>	<b>389.6</b>	<b>416.0</b>
Foreign financing (net)	227.4	350.4	292.2	333.3	336.9	408.6	344.0	383.6
Drawings	244.5	375.1	314.6	360.6	362.8	438.5	374.4	425.3
Budgetary loans	138.7	177.1	183.4	161.8	226.1	177.5	187.2	182.7
Project loans	105.9	197.9	131.2	198.8	136.7	261.0	187.2	242.6
Amortization	-17.1	-24.6	-22.4	-27.3	-25.9	-29.9	-30.5	-42.7
Net domestic financing	43.6	-6.1	-16.1	-24.4	-14.8	71.6	45.6	32.3
Net credit from banking system	-0.6	-6.1	-16.1	-24.4	-14.8	71.6	45.6	32.3
Nonbank sector	44.2	0.0	--	0.0	--	0.0	--	--
Errors and omissions <sup>4</sup>	-27.4	0.0	--	0.0	--	0.0	--	--

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.<sup>2</sup> Includes peacekeeping operations, spending on demobilisation/reintegration, and genocide relief.<sup>3</sup> A negative sign indicates a reduction.<sup>4</sup> A negative number implies an overestimate of financing. The non-zero errors and omissions in 15/16 is due to H1 outcomes.

**Table 2b. Rwanda: Central Government Flows, FY 2015/16–19/20<sup>1</sup>**

(Percent of GDP)

	2015/16	2016/17		2017/18		2018/19		2019/20
	Prov.	6th PSI Review	Proj.	6th PSI Review	Proj.	6th PSI Review	Proj.	Proj.
<b>Revenue and grants</b>	<b>24.5</b>	<b>22.9</b>	<b>22.6</b>	<b>22.7</b>	<b>22.1</b>	<b>21.6</b>	<b>21.4</b>	<b>21.9</b>
Total revenue	18.6	18.1	17.9	18.3	17.6	17.7	17.1	17.7
Tax revenue	15.9	16.1	15.6	16.0	15.3	15.6	15.0	15.7
Direct taxes	6.5	6.5	6.3	6.7	6.5	6.4	6.5	6.6
Taxes on goods and services	8.1	8.2	7.9	8.1	7.5	8.0	7.4	7.9
Taxes on international trade	1.3	1.4	1.3	1.2	1.4	1.3	1.1	1.2
Nontax revenue	2.7	2.0	2.3	2.3	2.3	2.0	2.1	2.0
Of which: PKO	2.0	1.2	1.5	1.4	1.4	1.1	1.2	1.2
Grants	5.9	4.8	4.7	4.4	4.4	3.9	4.3	4.2
Budget grants	3.3	2.6	2.6	2.1	2.3	1.6	2.1	2.1
Project grants	2.7	2.1	2.1	2.3	2.2	2.2	2.1	2.1
<b>Total expenditure and net lending</b>	<b>28.0</b>	<b>27.6</b>	<b>26.2</b>	<b>26.4</b>	<b>25.8</b>	<b>26.7</b>	<b>25.3</b>	<b>25.6</b>
Current expenditure	15.1	14.9	15.0	14.2	14.2	14.1	14.1	14.1
Wages and salaries	3.9	3.8	3.6	3.8	3.8	3.8	3.8	3.8
Purchases of goods and services	2.9	2.9	2.9	2.8	2.7	2.8	2.7	2.7
Interest payments	0.9	1.0	1.1	1.1	1.2	1.0	1.2	1.2
Domestic debt	0.4	0.4	0.6	0.5	0.6	0.5	0.6	0.6
External debt	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	4.9	5.3	5.1	5.1	5.0	5.1	4.8	4.8
PKO and demobilization <sup>2</sup>	2.5	2.0	2.2	1.5	1.5	1.4	1.7	1.7
Capital expenditure	11.5	10.8	9.5	10.4	9.6	10.5	9.3	9.7
Domestic	7.1	5.8	5.6	5.5	5.8	5.3	5.1	5.1
Foreign	4.4	5.0	3.9	4.9	3.9	5.3	4.2	4.5
Net lending and privatization receipts	1.4	1.8	1.6	1.8	2.0	2.1	1.9	1.8
<b>Overall deficit (including grants)</b>	<b>-3.4</b>	<b>-4.7</b>	<b>-3.6</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-5.2</b>	<b>-3.9</b>	<b>-3.7</b>
Change in float/arrears <sup>3</sup>	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
<b>Overall deficit (incl. grants, cash basis)</b>	<b>-3.9</b>	<b>-5.0</b>	<b>-3.9</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-5.6</b>	<b>-4.3</b>	<b>-4.1</b>
<b>Financing</b>	<b>3.9</b>	<b>5.0</b>	<b>3.9</b>	<b>4.0</b>	<b>4.0</b>	<b>5.6</b>	<b>4.3</b>	<b>4.1</b>
Foreign financing (net)	3.6	5.1	4.1	4.4	4.2	4.8	3.8	3.8
Drawings	3.9	5.5	4.4	4.7	4.5	5.1	4.1	4.2
Budgetary loans	2.2	2.6	2.6	2.1	2.8	2.1	2.1	1.8
Project loans	1.7	2.9	1.9	2.6	1.7	3.0	2.1	2.4
Amortization	-0.3	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3	-0.4
Net domestic financing	0.7	-0.1	-0.2	-0.3	-0.2	0.8	0.5	0.3
Net credit from banking system	0.0	-0.1	-0.2	-0.3	-0.2	0.8	0.5	0.3
Nonbank sector	0.7	0.0	0.0	--	0.0	0.0	0.0	0.0
Errors and omissions <sup>4</sup>	-0.4	0.0	0.0	--	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>								
GDP (Billions of RwF), FY basis	6,287	6,851	7,083	7,663	8,026	8,586	9,024	10,160

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.<sup>2</sup> Includes peacekeeping operations, spending on demobilisation/reintegration, and genocide relief<sup>3</sup> A negative sign indicates a reduction.<sup>4</sup> A negative number implies an overestimate of financing. The non-zero errors and omissions in 15/16 is due to H1 outcomes.

**Table 2c. Rwanda: Financial Operations of the Central Government, GFSM 2014 Presentation<sup>1</sup>**

(Billions of Rwandan Francs)

	2013/14	2014/15	2015/16	2016/17
	Act	Act	Act	Rev. Budget
<b>Revenue</b>	<b>1,338.8</b>	<b>1,406.1</b>	<b>1,501.4</b>	<b>1,512.9</b>
Taxes	728.0	817.6	986.8	1,081.4
Taxes on income, profits, and capital gains	287.9	334.6	393.5	424.4
Taxes on payroll and workforce	0.0	0.0	0.0	0.0
Taxes on property	1.0	0.7	0.8	4.2
Taxes on goods and services	382.9	418.0	516.8	560.3
Taxes on international trade and transactions	56.2	64.3	75.8	92.5
Other taxes	0.0	0.0	0.0	0.0
Social contributions	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Grants	474.3	415.9	373.7	326.6
From international organizations	474.3	415.9	373.7	326.6
Current	171.1	174.9	204.8	180.6
Capital	303.3	241.0	168.9	146.0
Other revenue	136.5	172.5	140.8	104.9
Property income	6.8	9.7	4.9	3.2
Sales of goods and services	101.6	128.2	130.3	93.5
Fines, penalties, and forfeits	23.8	29.5	0.0	7.3
Miscellaneous and unidentified revenue	4.2	5.1	5.6	0.9
<b>Expense</b>	<b>906.7</b>	<b>974.6</b>	<b>1,106.7</b>	<b>952.2</b>
Compensation of employees	177.3	187.5	214.8	373.1
Use of goods and services	278.6	257.0	329.8	354.3
Consumption of fixed capital	0.0	0.0	0.0	0.0
Interest	43.6	45.9	56.8	68.5
To nonresidents	25.5	27.6	31.3	30.5
To residents other than general government	18.0	18.3	25.5	38.0
Subsidies	63.0	70.7	84.4	24.4
of which Rwandair				
Grants	289.1	323.3	324.9	22.2
Social benefits	22.9	22.6	24.6	36.6
Other expense	32.2	67.7	71.4	73.2
<b>Net Operating Balance</b>				
including grants	<b>432.1</b>	<b>431.5</b>	<b>394.7</b>	<b>560.7</b>
excluding grants	-42.3	15.6	21.0	234.1
Net acquisition of nonfinancial assets	639.7	677.1	617.4	789.4
Foreign financed	370.0	381.3	271.8	343.9
Domestically financed	269.7	295.9	345.7	445.5
Fixed assets	265.9	290.1	332.7	445.5
Inventories	2.1	1.7	2.2	0.0
Nonproduced assets	1.8	4.1	10.8	0.0
<b>Net lending (+) / borrowing (-)</b>				
including grants	<b>-207.6</b>	<b>-245.6</b>	<b>-222.7</b>	<b>-228.8</b>
excluding grants	-682.0	-661.5	-596.4	-555.3
<b>Net acquisition of financial assets</b>	<b>-62.9</b>	<b>18.3</b>	<b>79.4</b>	<b>89.2</b>
Domestic	-62.9	18.3	79.4	89.2
Currency and deposits	-88.9	-45.4	29.0	20.0
Securities other than shares	0.0	0.0	0.0	34.0
Loans	26.0	63.7	50.3	35.2
Foreign	0.0	0.0	0.0	0.0
<b>Net incurrence of liabilities</b>	<b>129.8</b>	<b>280.5</b>	<b>319.2</b>	<b>318.0</b>
Domestic	24.7	92.3	94.8	-34.0
Currency and deposits	0.0	0.0	0.0	0.0
Securities other than shares	35.4	111.0	91.7	0.0
Held by Banks	47.0	80.1	32.4	0.0
T-bills	42.9	57.5	10.5	0.0
T-bonds	4.1	22.6	22.6	0.0
Held by Non-Banks	-11.7	30.9	59.3	0.0
T-bills	-32.5	-1.5	29.6	0.0
T-bonds	20.9	32.4	29.6	0.0
Loans	-11.7	-28.9	-15.0	-34.0
Other accounts payable	1.0	10.1	18.2	0.0
Foreign	105.2	188.2	224.4	352.0
Loans	105.2	188.2	224.4	352.0
Disbursements	116.2	202.8	241.5	375.1
Current	49.5	103.6	138.7	177.1
Capital	66.7	99.2	102.9	198.0
Reimbursements	11.0	14.6	17.1	23.0
Statistical discrepancy	-15.0	16.6	17.2	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.

**Table 2d. Rwanda: Financial Operations of the Central Government, GFSM 2014 Presentation<sup>1</sup>**  
(Percent of GDP)

	2013/14	2014/15	2015/16	2016/17
	Act	Act	Act	Rev. Budget
<b>Revenue</b>	<b>25.8</b>	<b>24.6</b>	<b>23.9</b>	<b>21.4</b>
Taxes	14.0	14.3	15.7	15.3
Taxes on income, profits, and capital gains	5.5	5.9	6.3	6.0
Taxes on payroll and workforce	0.0	0.0	0.0	0.0
Taxes on property	0.0	0.0	0.0	0.1
Taxes on goods and services	7.4	7.3	8.2	7.9
Taxes on international trade and transactions	1.1	1.1	1.2	1.3
Other taxes	0.0	0.0	0.0	0.0
Social contributions	0.0	0.0	0.0	0.0
Grants	9.1	7.3	5.9	4.6
From international organizations	9.1	7.3	5.9	4.6
Current	3.3	3.1	3.3	2.5
Capital	5.8	4.2	2.7	2.1
Other revenue	2.6	3.0	2.2	1.5
Property income	0.1	0.2	0.1	0.0
Sales of goods and services	2.0	2.2	2.1	1.3
Fines, penalties, and forfeits	0.5	0.5	0.0	0.1
Voluntary transfers other than grants	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.1	0.1	0.1	0.0
<b>Expense</b>	<b>17.4</b>	<b>17.1</b>	<b>17.6</b>	<b>13.4</b>
Compensation of employees	3.4	3.3	3.4	5.3
Use of goods and services	5.4	4.5	5.2	5.0
Consumption of fixed capital	0.0	0.0	0.0	0.0
Interest	0.8	0.8	0.9	1.0
To nonresidents	0.5	0.5	0.5	0.4
To residents other than general government	0.3	0.3	0.4	0.5
Subsidies	1.2	1.2	1.3	0.3
of which Rwandair				
Grants	5.6	5.7	5.2	0.3
Social benefits	0.4	0.4	0.4	0.5
Other expense	0.6	1.2	1.1	1.0
<b>Net Operating Balance</b>				
including grants	<b>8.3</b>	<b>7.6</b>	<b>6.3</b>	<b>7.9</b>
excluding grants	-0.8	0.3	0.3	3.3
Net acquisition of nonfinancial assets	12.3	11.9	9.8	11.1
Foreign financed	7.1	6.7	4.3	4.9
Domestically financed	5.2	5.2	5.5	6.3
Fixed assets	5.1	5.1	5.3	6.3
Inventories	2.1	1.7	2.2	0.0
Nonproduced assets	1.8	4.1	10.8	0.0
<b>Net lending (+) / borrowing (-)</b>				
including grants	<b>-4.0</b>	<b>-4.3</b>	<b>-3.5</b>	<b>-3.2</b>
excluding grants	-13.1	-11.6	-9.5	-7.8
<b>Net acquisition of financial assets</b>	<b>-1.2</b>	<b>0.3</b>	<b>1.3</b>	<b>1.3</b>
Domestic	-1.2	0.3	1.3	1.3
Currency and deposits	-1.7	-0.8	0.5	0.3
Securities other than shares	0.0	0.0	0.0	0.5
Loans	0.5	1.1	0.8	0.5
Foreign	0.0	0.0	0.0	0.0
<b>Net incurrence of liabilities</b>	<b>2.5</b>	<b>4.9</b>	<b>5.1</b>	<b>4.5</b>
Domestic	0.5	1.6	1.5	-0.5
Currency and deposits	0.0	0.0	0.0	0.0
Securities other than shares	0.7	1.9	1.5	0.0
Held by Banks	0.9	1.4	0.5	0.0
T-bills	0.8	1.0	0.2	0.0
T-bonds	0.1	0.4	0.4	0.0
Held by Non-Banks	-0.2	0.5	0.9	0.0
T-bills	-0.6	0.0	0.5	0.0
T-bonds	0.4	0.6	0.5	0.0
Loans	-0.2	-0.5	-0.2	-0.5
Other accounts payable	0.0	0.2	0.3	0.0
Foreign	2.0	3.3	3.6	5.0
Loans	2.0	3.3	3.6	5.0
Disbursements	2.2	3.6	3.8	5.3
Current	1.0	1.8	2.2	2.5
Capital	1.3	1.7	1.6	2.8
Reimbursements	0.2	0.3	0.3	0.3
Statistical discrepancy	-0.3	0.3	0.3	0.0
<b>Memorandum items:</b>				
GDP (Billions of RwF), FY basis	5,197.5	5,711.0	6,287.0	7,082.9

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.



**Table 3. Rwanda: Monetary Survey, 2015–19**

(Billions of Rwandan Francs)

	2015	2016			2017			2018			2019
		June		Dec.	June		Dec.	Dec.			
		Act.	6th PSI Review	Prel.	6th PSI Review	Proj.	6th PSI Review	Proj.	6th PSI Review	Proj.	
<b>Monetary authorities</b>											
Net Foreign Assets <sup>1</sup>	609	571	580	660	474	522	537	609	636	579	668
Net domestic assets	-322	-255	-267	-357	-146	-205	-192	-273	-229	-206	-243
Domestic credit	-219	-148	-121	-234	1	-75	-45	-150	-83	-80	-133
Other items (net; asset +)	-104	-107	-147	-123	-147	-130	-147	-123.2	-147	-126	-110
Reserve money <sup>2</sup>	287	316	312	303	329	316	345	336	407	373	424
<b>Commercial banks</b>											
Net foreign assets	33	-3	66	80	66	82	66	80	66	80	80
Reserves	140	162	165	154	178	161	178	167	203	183	204
Net credit from BNR	39	34	-37	33	-103	-30	-81	2.9	-61	-88	-25
Domestic credit	1,403	1,550	1,544	1,527	1,684	1,678	1,748	1,734	1,999	2,030	2,226
Government (net)	231	250	193	225	233	225	175	207	185	245	283
Private sector	1,167	1,260	1,351	1,258	1,451	1,409	1,573	1,483	1,814	1,741	1,899
Other items (net; asset +)	-280	-325	-272	-347	-272	-347	-272	-347	-272	-347	-347
Deposits	1,335	1,419	1,489	1,446	1,577	1,544	1,662	1,636	1,958	1,856	2,137
<b>Monetary survey</b>											
Net foreign assets	643	568	646	739	541	604	603	688	702	659	747
Net domestic assets	839	1,005	995	856	1,195	1,094	1,227	1,113	1,453	1,380	1,598
Domestic credit	1,223	1,436	1,409	1,325	1,605	1,572	1,644	1,587	1,878	1,861	2,067
Government	39	124	23	12	118	108	36	48	29	64	113
Public enterprises	6	40	23	44	23	44	23	44	23	44	44
Private sector	1,178	1,271	1,363	1,269	1,463	1,420	1,585	1,495	1,826	1,753	1,911
Other items (net; asset +)	-384	-431	-418	-470	-418	-477	-418	-471	-418	-474	-458
Broad money	1,482	1,572	1,641	1,595	1,735	1,698	1,830	1,801	2,155	2,040	2,345
<b>Year on Year Growth</b> (Percent)											
Broad money	21.1	10.1	10.7	7.6	10.4	8.0	11.5	13.0	17.8	13.2	15.0
Reserve money	16.2	15.8	8.9	5.5	4.0	0.1	10.4	10.9	17.8	11.1	13.7
Net foreign assets	-6.9	-5.3	1.7	15.0	-4.7	6.4	-6.6	-6.9	16.4	-4.2	13.4
Credit to the private sector	30.1	22.0	15.7	7.8	15.1	11.7	16.3	17.8	15.2	17.3	9.0
<b>Memorandum items:</b>											
Velocity (eop)	4.02		3.94	4.15	3.94	4.19	3.94	4.19	3.75	4.17	4.07
Money multiplier	5.17		5.25	5.27	5.28	5.37	5.30	5.37	5.30	5.47	5.53

Sources: National Bank of Rwanda (NBR) and IMF staff estimates and projections.

<sup>1</sup> For program purposes NFA are shown at program exchange rates.<sup>2</sup> Reserve money as an assessment criteria is measured as the average of the months in the quarter. The actual reserve money is measured as the daily average of the three months in the quarter.

**Table 4. Rwanda: Balance of Payments, 2015–19**

(Millions of U.S. Dollars, unless otherwise indicated)

	2015	2016		2017		2018		2019
		6th PSI Rev.	Prel.	6th PSI Rev.	Proj.	6th PSI Rev.	Proj.	
(Millions of U.S. dollars, unless otherwise indicated)								
<b>Current account balance (incl. official transfers)</b>	<b>-1,106.4</b>	<b>-1,392.2</b>	<b>-1,211.0</b>	<b>-987.9</b>	<b>-905.5</b>	<b>-924.6</b>	<b>-1,058.4</b>	<b>-979.4</b>
Trade balance	-1,235.0	-1,445.1	-1,300.1	-1,217.1	-1,075.9	-1,200.1	-1,211.3	-1,184.6
Exports (f.o.b.)	683.7	728.0	745.0	831.5	907.3	884.4	972.8	1,095.8
<i>Of which: coffee and tea</i>	134.5	117.4	121.9	140.3	151.1	147.1	162.1	180.7
<i>Of which: minerals</i>	117.8	89.0	86.4	97.5	106.6	102.7	109.4	110.8
Imports (f.o.b.)	1,918.7	2,173.1	2,045.1	2,048.6	1,983.1	2,084.5	2,184.2	2,280.3
<i>Of which: capital goods</i>	521.9	619.4	570.2	494.5	579.1	515.0	612.2	648.3
<i>Of which: Energy goods</i>	225.6	223.0	190.1	266.2	260.0	286.8	270.2	284.8
Services (net)	-192.5	-285.8	-211.1	-107.7	-68.9	-40.0	-78.1	-26.8
Credit	838.0		850.5		899.8		963.2	1,067.4
<i>Of which: tourism receipts</i>	367.7	355.0	389.8	388.8	438.1	427.6	499.7	574.7
Debit	1,030.5		1,061.6		968.7		1,041.3	1,094.2
<i>Of which: KCC, RwandAir, and Bugesera</i>	-111.5	-165.4	-170.3	0.0	-12.6	0.0	-32.0	-29.8
Income	-214.9	-210.4	-224.1	-231.7	-261.7	-239.0	-275.4	-300.2
<i>Of which: interest on public debt<sup>1</sup></i>	-40.1	-44.5	-43.5	-93.1	-47.0	-101.8	-50.2	-53.5
Current transfers (net)	536.0	549.0	524.3	568.6	501.0	554.4	506.4	532.2
Private	165.9	161.2	180.4	173.7	179.3	194.2	187.7	198.6
Public	370.1	387.8	343.9	394.9	321.7	360.2	318.7	333.6
<b>Capital and financial account balance</b>	<b>951.6</b>	<b>1,302.5</b>	<b>1,148.6</b>	<b>932.2</b>	<b>843.5</b>	<b>1,046.9</b>	<b>1,071.6</b>	<b>1,088.8</b>
Capital account	299.9	202.5	190.0	195.9	189.9	213.0	204.2	211.2
Financial account	651.7	1,100.0	958.6	736.3	653.6	833.9	867.4	877.6
Direct investment	219.9	353.9	246.9	386.9	290.5	404.4	398.3	436.0
Public sector capital	314.6	728.7	679.1	303.9	289.7	372.1	390.7	365.8
Long-term borrowing <sup>2</sup>	351.1	849.7	728.0	382.1	360.3	453.8	466.1	438.5
Scheduled amortization, excl IMF	-36.5	-121.0	-48.9	-78.2	-70.6	-81.6	-75.5	-72.7
Other capital <sup>3</sup>	117.2	17.3	32.7	45.5	73.4	57.4	78.4	75.8
<i>Of which: commercial banks NFA (increase -)</i>	105.9	-35.8	-52.3	6.0	0.0	4.9	0.0	0.0
<b>Net errors and omissions</b>	<b>128.2</b>	<b>-1.3</b>	<b>51.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Overall balance</b>	<b>-26.6</b>	<b>-91.1</b>	<b>-10.5</b>	<b>-55.8</b>	<b>-62.1</b>	<b>122.3</b>	<b>13.1</b>	<b>109.4</b>
<b>Financing</b>	<b>26.6</b>	<b>91.1</b>	<b>10.5</b>	<b>55.8</b>	<b>62.1</b>	<b>-122.3</b>	<b>-13.1</b>	<b>-109.4</b>
Reserve assets (increase -)	28.5	-3.3	-79.2	-42.5	-35.1	-121.2	-11.1	-108.9
Net credit from the IMF <sup>4</sup>	-2.6	99.5	98.2	-1.7	47.2	-1.1	-1.1	-0.5
Change in other foreign liabilities (increase +)	0.7	-5.1	-8.6	0.0	1.2	0.0	-1.0	0.0
Prospective financing o/w IMF	0.0	0.0	0.0	100.0	48.7	0.0	0.0	0.0
<b>Memorandum items:</b>								
Current account deficit (percent of GDP) <sup>5</sup>	-13.4	-16.9	-14.4	-11.7	-10.2	-10.5	-11.2	-9.9
Excl. Bugesera	-13.4	-16.9	-14.4	-11.7	-9.7	-10.5	-9.7	-8.6
<b>Gross official reserves (with prosp. financing)</b>	<b>922</b>	<b>926</b>	<b>1,001</b>	<b>968</b>	<b>1,037</b>	<b>1,089</b>	<b>1,048</b>	<b>1,157</b>
in months of prospective imports of G&S	3.6	3.7	4.1	3.9	3.9	4.0	3.7	3.9
Excl. Bugesera	3.6	3.7	4.1	3.9	4.0	4.0	3.8	3.8
Overall balance (percent of GDP)	-0.3	-1.1	-0.1	-0.7	-0.7	1.4	0.1	1.1
Total Public Transfers (US\$ million)	670.0	590.3	533.9	590.8	511.6	573.2	522.9	544.8
<i>Of which: budgetary grants</i>	225.6	238.9	246.9	223.5	210.6	234.1	200.9	210.0
Budgetary Loans (US\$ million)	235.6	225.3	220.9	187.7	266.3	191.3	236.3	188.9
Total Public Transfers (percent of GDP)	8.1	7.2	6.4	7.0	5.7	6.5	5.6	5.5

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Including interest due to the IMF.<sup>2</sup> Includes central government project and budget loans, and borrowing by Rwandair and KCC.<sup>3</sup> Other capital includes long-term private capital, commercial credit, change in NFA of commercial banks, and unrecorded imports.<sup>4</sup> Reflecting December 2016 ECF disbursed in January 2017.<sup>5</sup> Including official transfers.

Table 5. Rwanda: Financial Soundness Indicators: March 2015–March 2017

	2015				2016				2017
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar.
	(Percent)								
<b>Capital adequacy</b>									
Regulatory capital to risk-weighted assets	23.3	21.6	21.3	19.9	22.3	20.7	20.4	19.9	19.6
Capital to assets	25.9	24.3	24.2	22.5	24.9	23.3	22.2	23.1	22.4
Off balance sheet items/total qualifying capital	282.6	352.5	289.4	302.8	263.8	262.5	260.1	291.9	292.3
Insider loans/core capital	2.1	2.8	3.0	4.0	3.1	3.5	3.6	2.3	4.4
Large exposure/core capital	86.0	107.2	98.6	112.6	99.2	122.7	141.0	154.2	166.8
<b>Asset quality</b>									
NPLs/gross Loans	6.3	5.9	6.3	6.2	6.2	7.0	7.4	7.6	8.1
NPLs net/gross loans	4.8	4.9	5.1	5.2	5.2	5.9	6.0	5.6	6.2
Provisions/NPLs	52.3	51.5	48.3	46.2	46.0	42.7	43.4	42.7	44.5
Earning assets/total asset	79.3	81.8	83.1	83.1	82.9	81.9	82.6	81.1	80.2
Large exposures/gross loans	20.1	22.5	20.9	23.4	22.6	26.5	29.9	31.7	33.1
<b>Profitability and earnings</b>									
Return on average assets	2.6	2.4	2.3	2.1	1.9	1.7	1.9	1.7	1.8
Return on average equity	14.1	13.1	12.7	11.2	9.8	9.2	10.1	8.8	10.0
Net interest margin	8.7	8.9	8.7	8.5	9.3	9.2	9.4	9.3	9.1
Cost of deposits	3.1	3.1	3.1	3.2	3.7	3.6	3.7	3.6	3.7
Cost to income	79.4	78.6	80.5	81.1	80.9	82.0	81.1	83.1	80.8
Overhead to income	43.7	46.0	46.2	46.8	49.1	49.9	48.9	49.9	49.0
<b>Liquidity</b>									
Short term gap	9.9	11.6	2.3	8.1	9.1	10.4	3.6	2.8	5.9
Liquid assets/total deposits	41.8	49.5	46.8	45.4	43.9	42.8	42.3	41.7	42.6
Interbank borrowings/total deposits	13.7	15.9	16.4	18.0	17.0	17.6	20.9	20.4	19.1
BNR borrowings/total deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross loans/total deposits	86.6	84.2	87.0	89.0	92.2	90.9	100.5	95.2	97.0
<b>Market sensitivity</b>									
Forex exposure/core capital <sup>1</sup>	-4.0	-7.1	-7.0	-5.7	-6.7	-1.8	-6.3	-3.5	-4.4
Forex loans/Forex deposits	27.1	32.6	38.7	37.2	51.0	55.7	46.1	41.3	46.3
Forex assets/Forex liabilities	83.2	82.1	86.1	81.7	81.1	82.3	81.6	81.5	82.5

Source: National Bank of Rwanda.

**Table 6. Rwanda: Quantitative Program Targets as of end December, 2016<sup>1</sup>**

	December 2016			
	1st SCF/6th PSI Review	Adjusted	Actual	Status
(Billions of Rwandan francs, unless otherwise indicated)				
<b>Assessment/Performance criteria</b>				
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	139.5	164.1	138.3	Met
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	555.0	555.0	650.2	Met
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	320.8	320.8		
Reserve money (ceiling on stock) <sup>4</sup>	313.9	313.9	282.5	Met
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	307.0	307.0		
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0.0		0.0	Met
<b>Indicative targets</b>				
Net domestic financing (ceiling on flow) <sup>2,3</sup>	-101.4	-76.8	-72.7	Not met
Domestic revenue collection (floor on flow) <sup>2,6</sup>	539.0		532.1	Not met
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-10.0		-12.2	Met
Total priority spending (floor on flow) <sup>2</sup>	338.8		340.3	Met
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500.0		418.0	Met
<b>Memorandum items:</b>				
Total budget support (US\$ millions) <sup>2,6</sup>	302.8		417.4	
Budget support grants (US\$ millions)	105.5		223.7	
Budget support loans (US\$ millions)	197.3		193.7	
RWF/US\$ program exchange rate	807.2		807.2	
Sources: Rwandan authorities and IMF staff estimates and projections.				
<sup>1</sup> All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).				
<sup>2</sup> Numbers for December 2016 are cumulative from June 30, 2016.				
<sup>3</sup> Subject to adjusters. See TMU for details.				
<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.				
<sup>5</sup> Ceilings on external arrears and external borrowing are continuous; latest outturn is reflected.				
<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.				

**Table 7. Rwanda: Structural Benchmarks through end-March 2017**

Policy Measure	Target Date	Status
<b>Monetary</b>		
Define and target a range of excess reserves conducive to developing the interbank market.	End- December 2016	Met
Introduce the real horizontal REPOs including transfer of collateral across banks in order to facilitate transactions between banks and boost the trading of debt securities.	End-March 2017	Met
<b>Public Financial Management</b>		
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each	Each quarter	Met
Submit revised National Investment Policy to Cabinet.	End-March 2017	Not met. Completed in April 2017.
Operationalize IFMIS and E-procurement interface protocols.	End-December 2016	Met
Set up framework for recording donor project support in one sector (e.g. health, education, infrastructure), as an initial step to establishing it more broadly.	End-March 2017	Not met.
Produce an inventory of project accounts at the central bank, for the purposes of improving accounting for inflows and outflows.	End-March 2017	Met
<b>Fiscal Revenues</b>		
Produce detailed report on tax expenditures for FY15/16.	End-December 2016	Met
Submit to Parliament revised legislation on fixed asset tax.	End-March 2017	Not met.

**Table 8. Rwanda: Proposed Schedule of Disbursements Under the SCF Arrangement**

Date available	Disbursement			Conditions 2/
	Million SDR	Million US\$	Percent of quota 1/	
June 8, 2016	72.0900	109.23	45.00	Disbursed on June 16, 2016
December 1, 2016	36.0450	61.88	22.50	Disbursed on January 17, 2017
June 9, 2017	18.0225	30.94	11.25	Board completion of the second SCF review based on compliance with end-December 2016 conditionality
November 15, 2017	18.0225	30.94	11.25	Board completion of the third SCF review based on compliance with end-June 2017 conditionality
<b>Total</b>	<b>144.1800</b>	<b>232.98</b>	<b>90.00</b>	

1/ Rwanda's quota is SDR 160.2 million.

2/ The Board approval and subsequent reviews of the SCF are expected to be done concurrently with the seventh and eighth reviews of the PSI, respectively.

**Table 9. Rwanda: Indicators of Fund Credit, 2016–26**

	Est.	Projections									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Fund obligations based on existing credit</b>											
(In millions of SDRs)											
Total	1.4	1.2	0.9	0.5	16.1	24.3	24.3	24.2	16.2	4.1	0.1
Principal	1.4	1.1	0.8	0.4	16.0	24.0	24.0	24.0	16.0	4.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.1	0.1	0.1
<b>Obligations to the Fund from existing and prospective credit <sup>1</sup></b>											
(In millions of SDRs)											
Principal	1.4	1.1	0.8	0.4	16.0	30.3	32.3	32.2	24.1	10.0	0.0
ECF Arrangements	1.4	1.1	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SCF Arrangements	0.0	0.0	0.0	0.0	16.0	30.0	32.0	32.0	24.0	10.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.1	0.1	0.0	0.0
PRGT Interest	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.1	0.1	0.0	0.0
SDR Assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Obligations to the Fund from existing and prospective credit</b>											
In millions of U.S. dollars											
In percent of gross international reserves	0.2	0.2	0.1	0.0	1.7	3.0	2.8	2.5	1.6	0.6	0.0
In percent of exports of goods and services	0.1	0.1	0.1	0.0	1.0	1.6	1.5	1.4	0.9	0.3	0.0
In percent of debt service	1.7	0.9	0.6	0.2	8.1	11.9	14.9	6.3	10.4	4.3	0.0
In percent of GDP	0.0	0.0	0.0	0.0	0.2	0.4	0.4	0.3	0.2	0.1	0.0
In percent of quota	0.9	0.7	0.5	0.2	10.0	18.9	20.1	20.1	15.0	6.3	0.0
<b>Outstanding Fund credit based on existing drawings</b>											
(end-of-period, all PRGT)											
In millions of SDRs	74.4	109.3	108.5	108.1	92.1	68.1	44.1	20.0	4.0	0.0	0.0
In percent of quota	46.4	68.2	67.7	67.5	57.5	42.5	27.5	12.5	2.5	0.0	0.0
<b>Outstanding Fund credit based on existing and prospective drawings (end-of-period) <sup>1</sup></b>											
In millions of SDRs	74.4	145.3	144.5	144.2	128.2	98.1	66.1	34.0	10.0	0.0	0.0
In millions of U.S. dollars	100.0	201.2	200.1	199.6	177.4	135.8	91.5	47.1	13.9	0.0	0.0
In percent of gross international reserves	10.0	19.4	19.1	17.3	13.8	9.6	5.7	2.6	0.7	0.0	0.0
In percent of exports of goods and services	6.3	11.1	10.3	9.2	7.7	5.3	3.2	1.4	0.4	0.0	0.0
In percent of GDP	1.2	2.3	2.1	2.0	1.7	1.2	0.7	0.3	0.1	0.0	0.0
In percent of quota	46.4	90.7	90.2	90.0	80.0	61.2	41.2	21.2	6.2	0.0	0.0
<b>Memorandum items:</b>											
Nominal GDP (in billions of U.S. dollars)	8.4	8.9	9.4	9.9	10.6	11.6	12.8	14.0	15.3	16.8	18.4
Exports of goods and services (in billions of U.S. dollars)	1.6	1.8	1.9	2.2	2.3	2.6	2.9	3.3	3.7	4.2	4.7
Gross international reserves (in billions of U.S. dollars)	1.0	1.0	1.0	1.2	1.3	1.4	1.6	1.8	2.1	2.4	2.7
Quota (in millions of SDRs)	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2
SDR per USD (as of May 31, 2017)	0.7439	0.7224	0.7224	0.7224	0.7224	0.7224	0.7224	0.7224	0.7224	0.7224	0.7224

Sources: Fund staff estimates; and projections.

<sup>1</sup> Assumes access of 90 percent of quota over 2016–17 and semi-annual disbursements.

## Annex I. Implementation of Key policy recommendations from the 2014 Article IV consultation

**Growth and trade:** *Prioritize investments to reduce the infrastructure deficit, increase energy generation, and diversify trade, thus facilitating private sector engagement and growth.*

**Status:** The government is focusing infrastructure on developing niche tourism and business conferences through its MICE (meetings, incentives, conferences, events) strategy, reducing dependence on imports and diversifying exports. It has finalized The Kigali Convention Center, several new international hotels were completed in 2016 and the national airline, Rwandair, has scaled up operations by purchasing three small and two large planes. A new airport in Bugesera is planned to handle the resultant growing business tourism and cargo trade. Rwanda is looking to diversify exports and reduce imports through its Special Economic Zones with low cost energy a key component.

**Fiscal Policy:** *Reduce the overall budget over time considering reduced grant financing and protecting priority spending.*

**Status:** 5.1 percent deficit in 2014 down to 4.6 percent in 2016 notwithstanding airport. Rwanda has consistently met the indicative targets on minimum priority spending on energy, roads, agriculture, health and education, as defined by the EDPRS2 although service gaps remain because of the low education base.

**Revenue Mobilization:** *Continue to broaden the tax base and strengthen revenue administration.*

**Status:** The tax revenue to GDP ratio has kept close to initial estimates made two years ago at almost 16 percent of GDP in 16/17, following improvements tax administration measures including expanded utilization of the electronic billing machines, E-Tax enhancements, roll out of the single customs territory, one-stop-border posts and electronic cargo tracking systems. Pending tax policy measures include revisions to property taxes, which should further enhance tax revenues.

**Debt Sustainability:** *Make judicious use of available debt space and recourse to non-concessional financing, while fully exploring concessional financing options and private sector participation.*

**Status:** Rwanda has made considerable progress in improving its public investment oversight and is regarded as a peer leader in this area. For example, it has managed to identify private sector and concessional financing for its new airport which will allow it to maintain its low-risk assessment for debt distress.

**Monetary and financial access policy:** *Continue efforts aimed at strengthening the monetary and supervisory frameworks and improve access to finance.*

**Status:** BNR is laying the ground work for implementing a more forward-looking monetary policy framework by 2018. With a view to deepening its financial markets, longer tenured bonds were issued. The BNR has also developed a five-year road map to give prominence to its policy rate by promoting a secondary market for public securities, lengthening the yield curve, reducing excess reserves in the banking system, and introducing an electronic platform for retail investors. On financial access, the development of mobile platforms has helped raise access to finance by 15 ppt between 2012 and 2016.

## Annex II. Risk Assessment Matrix<sup>1</sup>

Source of Risks	Time Horizon	Likelihood/Expected Impact on Economy	Policy Response
<b>Potential Domestic Shocks</b>			
<b>Accelerated slowdown in private credit growth.</b>	<b>Short - Medium Term</b>	<b>High.</b> Accelerated slowdown in the private credit growth could not only adversely affect the economic growth, but also banks' asset quality.	<ul style="list-style-type: none"> <li>- Consider monetary accommodation through improving liquidity conditions while maintaining fiscal discipline.</li> <li>- Develop contingency planning if financial soundness deteriorates.</li> </ul>
<b>Persistence of adverse weather conditions.</b>	<b>Medium-Long Term</b>	<b>Medium.</b> Agricultural production could decline, putting pressure on prices, food supplies, and exports.	<ul style="list-style-type: none"> <li>- Replenish food security stocks.</li> <li>- Invest in expanded irrigation.</li> <li>- Invest in boosting agricultural productivity and diversity.</li> </ul>
<b>Low growth pay-off of public investment</b>	<b>Long term</b>	<b>Medium.</b> Could limit prospects to boost growth and living standards, and affect debt sustainability.	<ul style="list-style-type: none"> <li>- Invest in higher quality education that teaches problem-solving and matches labor demand.</li> <li>- In the meantime, continue to allow free movement of skilled labor from the region</li> </ul>
<b>Potential External Shocks</b>			
<p><b>Policy and geopolitical uncertainties:</b></p> <p>Intensification of security risks in the region.</p>	<b>Medium-long term</b>	<b>Medium.</b> An increase number of refugees from Burundi and Dem. Rep. of Congo would increase the need for additional spending on food outlays. It will also adversely impact the current account of the balance of payments by reducing tourism and exports.	<ul style="list-style-type: none"> <li>- Reprioritize fiscal spending to accommodate food security outlays.</li> <li>- Allow for higher exchange rate flexibility;</li> <li>- Accelerate reforms to improve resilience to external shocks.</li> </ul>
<ul style="list-style-type: none"> <li>• Financial conditions:</li> <li>• Significant further strengthening of the US dollar and/or higher rates.</li> <li>• Weaker European banks</li> </ul>	<p><b>Short-medium term</b></p> <p><b>Medium-long term</b></p>	<p><b>Medium.</b> Adverse effects on the BOP and reserves.</p> <p><b>Low.</b> Could affect donor support</p>	<ul style="list-style-type: none"> <li>- Maintain flexible exchange rate regime.</li> <li>- Continue efforts to reduce donor dependence</li> </ul>



## Annex II. Risk Assessment Matrix<sup>1</sup> (concluded)

<p><b>Weaker-than-expected global growth:</b></p> <ul style="list-style-type: none"> <li>• Significant China slowdown and its spillovers.</li> <li>• Significant slowdown in other large EMs/frontier economies.</li> <li>• Structurally weak growth in key advanced and emerging economies.</li> </ul>	<p style="text-align: center;"><b>Short to Medium Term</b></p> <p style="text-align: center;"><b>Short Term</b></p> <p style="text-align: center;"><b>Medium Term</b></p>	<p><b>Medium.</b> It will adversely impact (i) the current account of the balance of payments by reducing tourism and exports; and (ii) the financial account of the balance of payments by reducing foreign direct investment and portfolio inflows.</p>	<ul style="list-style-type: none"> <li>- Maintain exchange rate flexibility;</li> <li>- Accelerate reforms to address structural weakness affecting competitiveness.</li> </ul>
<ul style="list-style-type: none"> <li>• Lower energy prices.</li> </ul>	<p style="text-align: center;"><b>Short to Medium Term</b></p>	<p><b>Low.</b> Low energy prices are positive shock for Rwanda in the near term.</p>	

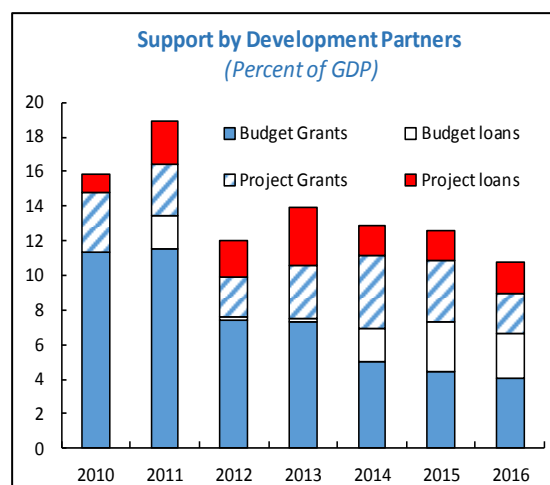
<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

## Annex III. External Stability Assessment

Based on various analytical metrics, the external position of Rwanda is broadly in line with fundamentals and desirable policy settings. Short-term adjustment policies have helped reduce Rwanda's external imbalances, and the Rwandan Franc continued to depreciate in 2016. Previous downward trends in international reserve coverage have been gradually reversed, but analysis of optimal coverage suggests that buffers should be slightly increased further. Measures of non-price competitiveness indicate a relatively strong business environment, but with some gaps, including in workforce education.

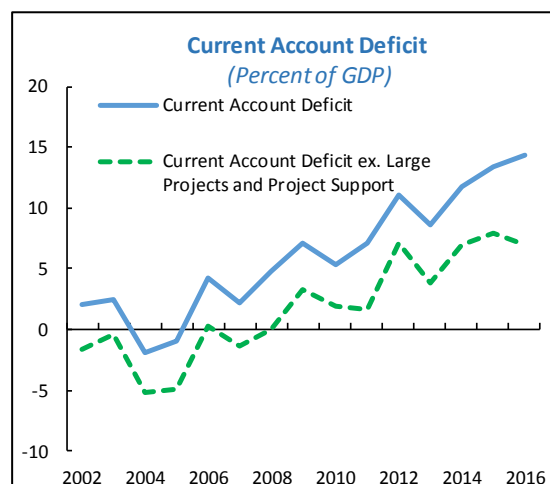
### Context

1. **Rwanda's high growth has been supported by imports financed by official development assistance (ODA).** ODA has been comparatively high in Rwanda. After 2012 when development partners retracted ODA suddenly, the country made it an explicit priority to become less donor dependent. This has coincided with a period when development partners are changing the size and composition of ODA envelopes. To protect its growth model, Rwanda is being forced to rethink its financing model.



2. **In recent years, Rwanda's current account deficit has deteriorated on the back of structural and temporary factors.**

- The steady deterioration—the current account deficit reaching 14.4 percent of GDP in 2016 — reflects, in part, structural factors. The goods and services trade deficit has been historically financed by ODA. Not only has the overall envelope of support been reduced, but the composition has also been reoriented away from budget grants (including in the current account), toward loans and projects grants (included in the capital and financial accounts, respectively). With growth-fueled import consumption unchanged, this has caused an ever-increasing current account deficit that has been harder to finance, due to the overall decline in ODA.



- Temporary factors have also played a role: commodity price shocks suppressed export receipts for minerals, which nearly halved in 2015 after accounting for about one-third of exports in

2014. At the same time, several large public and private investment projects (e.g. Rwandair, Kigali Convention Center, Marriott, Radisson) increased the demand for imports. This caused a large jump in the in the current account deficit in 2015-2016.

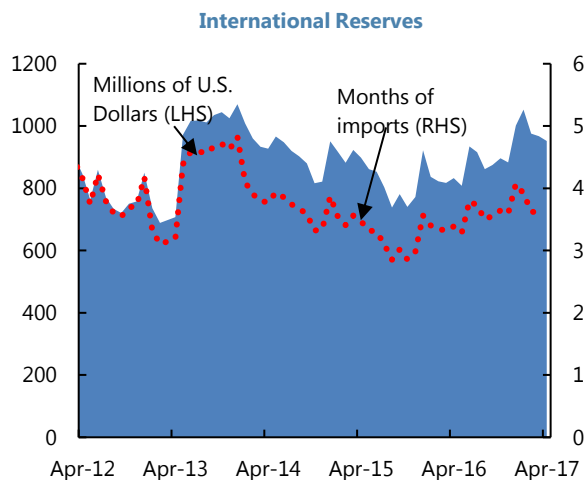
- To estimate a “structural” current account deficit, it is important to take out these large projects (which have tied financing), as well as imports associated with tied financing in the form of official project grants and loans. This would result in a current account deficit of 7 percent of GDP, assuming a 75% import content for project financing.

3. **As this “structural” current account deficit has grown, it has been increasingly necessary to finance it using official foreign exchange reserves.** This caused reserves to drop from US\$ 1050 million at the end of 2011 to US\$ 738 million by mid-2015. In terms of months of prospective import coverage, reserves dropped from 5.1 to 2.9 months over the same period.

4. **The government began implementing adjustment policies in mid-2015, notably a more flexible exchange rate (¶10).** Since mid-2015, the Rwandan Franc (RwF) has depreciated

by 5.5 percent in real terms. This represents a significant break from the past, where RwF depreciation was far more moderated, averaging 3.1 percent per year between 2006–2015 against the US\$ and appreciating by 1.8 percent per year in REER terms. Although exchange rate depreciation was the main pillar of adjustment, it was supported by prudent fiscal and monetary policy stances. The authorities supplemented this with incentive systems to promote exports and import substitution through the “Made in Rwanda” initiative.

5. **Adjustment policies have shown nascent progress in reducing the current account deficit (¶11).** The current account deficit in 2016 was lower than projected, and improvements continued into Q1 2017. For instance, import volumes have been contracting, with a significant decline observed for imports for consumer goods (as well as construction goods related to the one-off factors). At the same time, export volumes have been growing robustly, thanks to strong non-traditional export performance supplementing that of traditional tea and coffee exports. These trends are expected to continue over the medium term.



**Rwanda: Trade Balance and Program Adjustment (July 2016 –April 2017)**  
(% change over previous period)

Exports		Imports		Trade deficit
Volume (kgs)	Value (US\$)	Volume (kgs)	Value (US\$)	Value (US\$)
26.8	22.6	-1.8	-9.3	-19.0

Source: National Bank of Rwanda

## Exchange Rate Assessment

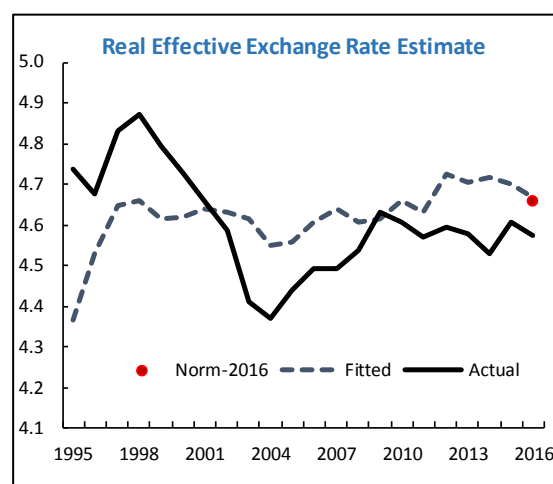
6. **The assessment of the REER builds on both the External Balance Assessment for developing and emerging economies (EBA-lite) and complementary information.** The EBA-lite methodology includes two approaches: the current account model (CA) and the real exchange rate model (REER). The approaches are based on panel regressions and provide estimated current account and exchange rate “norms” consistent with fundamentals and actual and desired policies.

The EBA-lite methodology includes two approaches: the current account model (CA) and the real exchange rate model (REER). The approaches are based on panel regressions and provide estimated current account and exchange rate “norms” consistent with fundamentals and actual and desired policies.

7. **The REER approach suggests that the real effective exchange rate is undervalued, since it is moderately weaker than fundamentals<sup>1</sup>.** Based on the REER model, comparing the REER to a level implied by the country’s macroeconomic

fundamentals and policy settings, the RWF is estimated to be moderately undervalued—by around 8 percent.

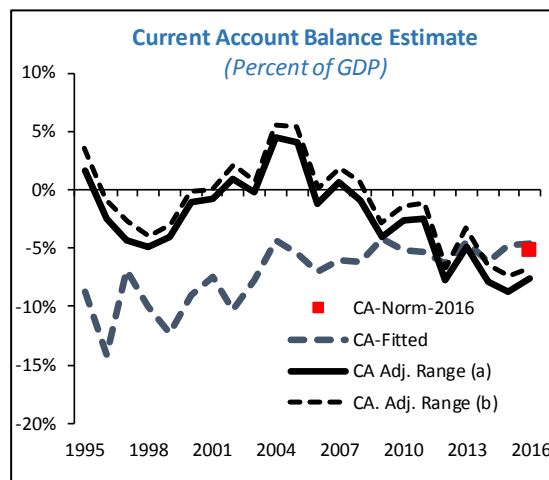
8. **By contrast, the current account approach suggests some moderate overvaluation of the real effective exchange rate.<sup>2</sup>** The current account model estimates a fitted 2016 value for the current account deficit of 5.2 percent of GDP (text chart). Comparing this to the adjusted “structural”



<sup>1</sup> The REER model is a panel regression model that includes fundamental and policy variables that would affect the REER directly or indirectly through changes to the current account balance. The methodology is outlined in [Methodological Note on EBA-Lite](#), February 2016.

<sup>2</sup> The CA panel regression model compares Rwanda’s current account balance with a level implied by the country’s macroeconomic fundamentals adjusted for a policy gap—the current account norm. The methodology is outlined in [Methodological Note on EBA-Lite](#), February 2016.

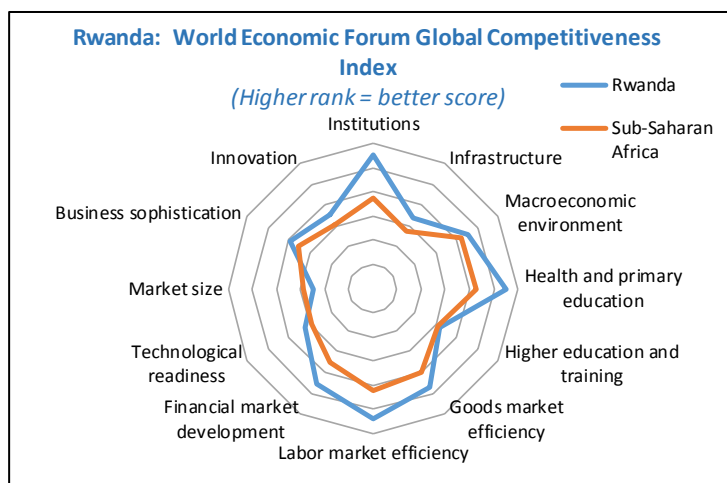
current account deficit—with a range of 6.6–7.6 percent of GDP based on differing assumptions for import content—the difference between the “structural” CA deficit and the estimated 2016 value would give a range of 1.4 and 2.4 percentage points. Based on an estimated elasticity of the trade balance to the REER across EBA-Lite countries of -0.19 (that is, for every 1 percent reduction in the REER, the trade balance improves by 0.19 percent of GDP), the RwF would have to adjust by between 8 and 13 percent further to eliminate the gap. A higher trade elasticity (that is, greater responsiveness of trade to changes in the REER) would imply a smaller adjustment to close the current account gap. Research by the BNR, suggests that the trade elasticity may, indeed, be higher, at -0.25, indicating that RwF adjustment of 6-10 percent would be needed to close the gap.<sup>3</sup>



9. **Despite uncertainties, on balance, staff assesses the real effective exchange rate to be broadly in line with fundamentals.** While the two approaches produce contradicting results, the gaps in either direction is relatively small and broadly equal in magnitude. Anecdotal evidence suggests that the foreign exchange market pressures of 2015-mid-2016 have largely subsided. In addition, the depreciation of the real effective exchange rate (Figure 5) and the improvement in trade balance since mid-2016 support this assessment. While staff’s assessment is that the real exchange rate remains broadly aligned with fundamentals, going forward, given the variance of outcomes from different approaches, following potential shocks, exchange rate flexibility would remain an important tool to facilitate adjustment and, thereby, address future external imbalances.

### Survey-based indicators of competitiveness

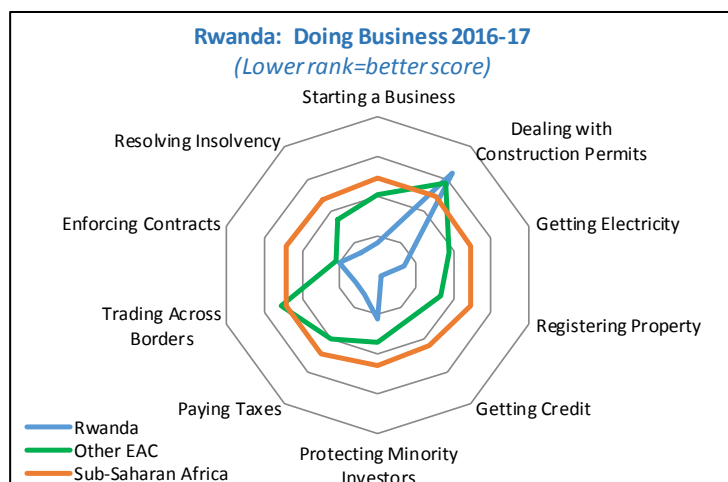
10. **Beyond the exchange rate, broad indicators of Rwanda’s competitiveness remain strong.** For instance, in the World Economic Forum’s Global Competitiveness Index (CGI), Rwanda’s overall rank for 2016–17 was 52 out of 138 economies and third best for a Sub-Saharan African country (after Mauritius and South Africa). This represents an improvement of 18 places over the past 5-years, with improvements in



<sup>3</sup> See BNR Economic Review, 2016, “Exchange rate and external sector competitiveness in Rwanda.”

several areas including institutions, health and primary education and innovation.

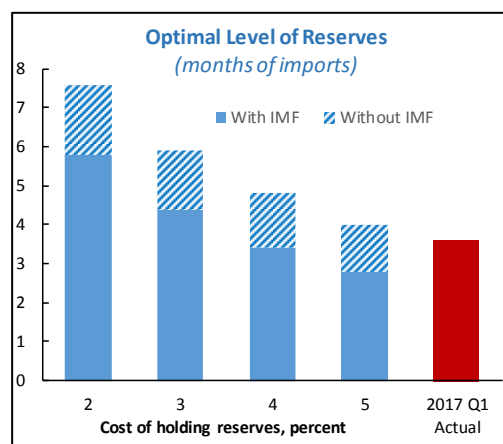
11. **In the World Bank's 2017 Doing Business Report, Rwanda ranks 56 out of 190 countries, the second-best overall ranking for a Sub-Saharan African country.** These rankings have been supported by the authorities' efforts—Rwanda is one of only 10 economies that have implemented reforms in all the Doing Business indicators and every year since 2006. Recent improvements include to registering property and enforcing contracts as well as efforts to reinforce existing export promotion programs by promoting easier access to financial services.



12. **Such surveys point to both structural strengths and weaknesses.** While Rwanda compares favorably on most Doing Business indicators relative to the EAC and Sub-Saharan Africa, its indicators of dealing with construction permits are inferior to its regional peers. Meanwhile, GCI respondents saw access to financing and workforce education levels as the key impediments to doing business in Rwanda. This suggests that important structural competitiveness challenges remain, as elaborated in the selected issues paper on structural transformation.

## Adequacy of International Reserves

13. **Rwanda has been gradually rebuilding international reserves.** At end-2017 Q1, reserves stood at 3.6 months of prospective imports and is projected to be 3.9 months by the end of the year. Such reserve coverage appears adequate against traditional rules of thumb—for instance, being above the standard threshold of 3-months of imports coverage and well above the 20 percent of broad money threshold. But, such simple rules of thumb do not capture the full range of benefits and costs of holding reserves in Rwanda, a small open economy that is landlocked. Historically, the IMF has recommended optimal reserve levels of 4–5 months of imports for Rwanda, and the central bank has sought to maintain reserves at a minimum of 4 months of prospective goods and services imports. In the medium-to-long-term, Rwanda will need to reach and maintain reserve coverage ratios of at least 4.5 months of imports to meet the EAC convergence criteria.



14. **Assessing reserve adequacy using a cost-benefit approach suggests a range of “optimal” reserves.** The range indicated by the Fund’s approach to Assessing Reserve Adequacy in Credit Constrained Economies (ARA-CC) depends, among other factors, on the cost of holding reserves and access to an IMF-supported program.<sup>4</sup> In the case of Rwanda, the model’s optimal range is also lowered by being classified as having a flexible rather than fixed exchange rate—maintaining new new-found exchange rate flexibility will, therefore, be crucial. With a flexible exchange rate classification, current reserve levels would only just be “optimal” if the annual opportunity cost of holding reserves (the forgone gain of investing elsewhere) is around 4 percent per year. And, without access to an IMF-supported program, reserve needs at the same opportunity cost would be closer to 5 months of imports. If the opportunity cost of holding reserves were lower at 3 percent, the range would increase to between 4.4 and 5.9 months of imports.

15. **The ARA-CC approach may not fully capture all developments and risks affecting Rwanda.** Rwanda’s economy remains vulnerable to external shocks given its narrow export base and still significant dependence on external financing by international partners. Volatility in commodity prices could also suggest that reserve buffers should be higher than suggested by the ARA-CC approach. Looking forward, increasing recourse to international capital markets, in the context of declining aid trends, will increase Rwanda’s exposure to shifts in market sentiment and require a higher level of reserves. For instance, if donor support for healthcare were to be lost and replaced with higher domestic spending (without adjustments in other fiscal parameters), a balance of payments loss equivalent to around ½ months of imports would result.

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<sup>4</sup> For more details on the ARA-CC approach see IMF Policy Paper, 2014, “Assessing Reserve Adequacy—Specific Proposals.”

## Appendix I. Letter of Intent

June 26, 2017

**Ms. Christine Lagarde**

Managing Director

International Monetary Fund

700 19th Street, N.W.

Washington, D.C., 20431

Dear Ms. Lagarde,

1. In the attached update of the Memorandum of Economic and Financial Policies (MEFP), we outline progress and policies toward meeting the objectives of the economic program of the Rwandan government that is supported by an arrangement under the SCF and PSI.
2. We have made significant progress in achieving the PSI and the SCF arrangement objectives. Output growth and monetary aggregates growths at end 2016 decelerated in line with the program policies, and the fiscal outturn for the first three quarters of FY2016/17 suggest that the deficit target will not be exceeded. 2016 end of period inflation was above the target due to high food prices as a result of the drought and some pass-through from the high depreciation of 9.7 percent observed in 2016 but it expected to decline slightly on account of a better agriculture performance as the drought eased. The external position at end 2016 was better than projected, suggesting that the adjustment measures are yielding results towards strengthening external buffers, we saw official reserves risen to 4.1 months of prospective imports of goods and services compared to 3.6 months in 2015. The Banking sector has remained sound and stable. We met all end-2016 and continuous quantitative assessment/performance criteria under the program, and most structural benchmarks were met. There was been a slight delay in sending the National Investment Policy to cabinet (April) and the revised legislation on fixed asset tax is expected to be sent to Parliament by end September. The benchmark on setting up a framework for recording donor support in one sector has been modified to make it more effective by applying better procedures for tracking such spending context of introducing GFS14 reporting, as of the Q1 FY17/18 budget execution report.
3. Through our commitment and discipline, we will safeguard the progress made to sustain long-term economic growth. GDP growth is expected to improve slightly this year and thus far economic indicators are suggesting so; credit to the private and broad money growths started to pick up, the franc has so far in 2017 slowed its rate of depreciation substantially (0.99 percent at end May 2017), inflation is reducing and the trade balance narrowed during the first quarter of 2017 as exports increased substantially and imports decreased compared to the same period of 2016. Raising fiscal revenues is an important component of our consolidation strategy, we will continue to make progress in broadening the tax base, enhancing collection, and strengthening the capacity in using big data and data analytics to improve tax compliance.



4. In view of this performance under the PSI program, our Government requests that the Executive Board of the IMF complete the seventh review under the PSI and second review under the SCF program and approve the third disbursement under the SCF arrangement.
5. We consent to the publication of this letter, and its attachments as well as the related staff report and we will maintain a close policy dialogue with the IMF and stand ready to take any further measures that may become appropriate for the achievement of our economic program. We will consult with the Fund on the adoption of any such actions and in advance of revisions to the policies contained in the Memorandum, in accordance with the Fund's policies on such consultations.

Sincerely yours,

/s/

**Claver Gatete**

Minister of Finance and Economic Planning

/s/

**John Rwangombwa**

Governor, National Bank of Rwanda

Attachments:

1. Memorandum of Economic and Financial Policies.
2. Technical Memorandum of Understanding.

# Attachment I. Memorandum of Economic and Financial Policies

June 26, 2017

## A. Introduction

1. This MEFP reviews performance under the SCF- and PSI-supported program through end-December 2016 and discusses the macroeconomic outlook and policies of the Government for the remainder of 2017 and beyond. It also lays out proposed new structural benchmarks through end-November 2017.

## B. Macroeconomic Developments and Program Performance through Q1 2017

### Growth and inflation

2. In 2016, growth in Rwanda was recorded at 5.9 percent, close to forecasts made in the previous PSI review, but below the five-year growth average of 7.6 percent. This deceleration in growth was mainly attributable to the combination of a drought and the completion of several large infrastructure projects, as well as the impact of the adjustment policies on growth. The drought affected the whole region in 2016 and led to both food and export crops growing at their slowest rate this decade. Construction slowed down after the completion of several large infrastructure projects, such as the Marriott & Kigali Convention Centre, which meant it also grew at its slowest rate this decade. The latest release of GDP figures included rebasing of GDP to 2014. The cumulative effect was a rise in nominal GDP by 2.1 percent. This was mainly due to an increase in the weight of the industrial sector, and a reduction in agriculture.

3. Inflation remains high, having been above the medium-term target of 5 percent since June 2016. However, this is mostly due to high food price inflation associated with the drought, and high imported inflation linked to the record high depreciation of almost 10 percent seen in 2016. Underlying inflation is more modest at 5 percent year on year.

### Fiscal performance and financing

4. Budget execution in the first three quarters of the fiscal year 2016/17 has been generally on track. Tax revenue slightly exceeded the target by 0.1 percent of GDP due to strong collection of corporate income taxes, particularly from the financial and insurance sectors on account of higher profits, as well as from personal income taxes reflecting increased employment in the construction, financial and other services sectors. This mitigated small shortfalls from taxes on goods and services on account of lower consumption taxes and lower taxes on international trade, both reflecting lower imports of used clothes, cement, some types of vehicles and computer accessories as a result of policy incentives to reduce imports (the “Made in Rwanda” campaign).

5. External disbursements registered small shortfalls in the first three quarters of the fiscal year. In the case of grants, the shortfall was due to delays in disbursements by some donors while project implementation delays, notably in the energy and roads sectors, reduced loan

draw-downs. Efforts are on-going to remove bottlenecks causing implementation delays, including the introduction of an e-procurement procedure which is ultimately intended to speed up the tendering process.

6. On the expenditure side, total expenditure and net lending in the first nine months' period of fiscal year 2016/17 was about 0.5 percent of GDP higher than projected. Whilst recurrent spending was slightly higher than projected, it was partly offset by lower capital expenditure. Delayed implementation of mainly foreign financed infrastructure projects in the roads and energy sectors accounted for the lower capital expenditure.

7. The overall fiscal deficit (on cash basis) of 2.7 percent of GDP registered during the period was slightly smaller than expected, resulting in lower net domestic financing.

### **Monetary policy and exchange rate developments**

8. In 2016, both credit to the private sector and reserve money growth dropped substantially to 7.8 percent and 7.6 percent respectively. Since a large expansion took place in 2015, some mean reversion was to be expected, accounting for some of the change. There was also a fall in the demand for loans, partly associated with the completion of large projects and a tightening of liquidity. In the first quarter of 2017, credit to the private sector and broad money growth have picked up, growing at 9 and 10 percent respectively through end March (y-o-y).

9. In 2016, the Rwandan Franc remained under pressure, due to the mismatch between a high import bill and low export revenues, as well as high demand for dollars from different companies and governments projects under the Public Private Partnership (PPP) framework. Consequently, relative to December 2015, the FRW depreciated by 9.7 percent end December 2016.

10. BNR undertook steps to implement preconditions to move to IT especially those related to management of domestic liquidity. The Central Bank made progress and put in place a "Financial Market Operations Committee" in charge of daily financial market analysis, liquidity management and forecasting. BNR also initiated regular discussions with commercial banks' treasurers about market developments, including money market operations.

### **External position**

11. The formal trade balance in merchandise improved in late 2016 and early 2017 driven by good performance in formal exports while formal imports declined. The good performance in exports was driven by performance in other ordinary exports especially other minerals as well as resurgence in mineral prices. Formal exports grew by 35.3 percent year on year in value in 2017Q1 while imports declined by 11.9 percent leading to a 24.4 percent improvement in trade balance.

12. Imports have fallen in all import categories except energy and lubricants whose prices have increased on the international market. The deceleration in consumer goods and

intermediate goods reflect partly exchange rate movements and partly import substitution policies.

### **Financial sector stability**

13. There have been a number of reforms to the financial sector recently, including:
- The new Banking Law was approved by the Cabinet;
  - BNR approved two regulations on Banks' capital and liquidity requirements;
  - BNR also reviewed the regulation on credit classification and introduced a general provisions requirement;
  - BNR adopted a regulation on transaction of related parties and management of concentration risk;
  - BNR adopted a regulation on accreditation of external auditors. The regulation specifies a list of requirements required from external auditors and their obligations;
  - The regulation on inactive and dormant accounts was gazetted in December 2016;
  - BNR also approved the regulation on FOREX business which will assist to effectively monitor the operations of forex bureaus;

### **Program Performance**

14. All end-December and continuous quantitative assessment/performance criteria were met in the period under review and most structural benchmarks were met. There was been a slight delay in sending the National Investment Policy to cabinet (April) and the revised legislation on fixed asset tax is expected to be sent to Parliament by end September. The benchmark on setting up a framework for recording donor support in one sector has been modified to make it more effective by applying better procedures for tracking such spending context of introducing GFS14 reporting, as of the Q1 FY17/18 budget execution report

## **C. Macroeconomic Outlook**

### **Growth and Inflation**

15. Growth is expected to increase in the medium term as the supply-side factors which drove the slowdown are expected to reverse and fiscal and monetary adjustment policies are eased. Growth is projected at 6.2 percent in 2017, rising to 6.8 percent in 2018 and 7.3 percent in 2019. These increases are expected to be mainly led by industry growth, averaging 9.2 percent over this period, as Rwanda's manufacturing sector becomes more competitive and mining recovers after the price collapse in 2015.

16. The drought that affected some parts of the country has eased, supporting agriculture performance this year and helping to bring down food price inflation. Although slowing, inflation is expected to remain above target in 2017. The upside risks to the inflation outlook are: continued high food prices; pass-through from additional exchange rate depreciation; tariff increases for some products; and a possible rise in local pump prices in line with the increase in international oil prices.

### **External Position**

17. External imbalances are expected to improve in the medium term. In 2017 the current account deficit is expected to be reduced to 10.1 percent of GDP in 2017 associated with lower import demand, a rebound in mineral prices, strong growth in tea and coffee and an improvement in services exports associated with the completion of the large public investment projects. In 2018, the current account deficit is expected to deteriorate slightly due to imports for the construction of Bugesera airport (which are fully financed, so do not affect the overall BOP). By 2019, the current account deficit is expected to improve to 9.9 percent of GDP with a tailing off of Bugesera construction. Exports are expected to improve in the medium term while imports (excluding Bugesera) are expected to decline as import substitution measures under the Made In Rwanda campaign take effect. Financial flows emanating from an expected increase in foreign direct investment and other private debt should boost the overall external position in the medium term.

### **Risks to the outlook**

18. Agriculture's performance in Rwanda remains unpredictable. The current projections have growth returning to normal in the medium term, but more difficulties associated with climate change could adversely impact growth. As seen previously, Rwanda is also sensitive to changes in mineral prices. The forecast incorporates conservative assumptions on grants and official financing, pending firm commitments from some development partners. The cost of servicing Rwanda's debt has been increasing recently, both in local and foreign currency terms and more careful treasury management will be needed to ensure that resources are available when needed.

## **D. Program Policies for 2017 and the Medium Term**

### **Fiscal Policy**

#### **Fiscal Policy for the remainder of FY16/17**

19. Fiscal performance for the rest of the year is expected to be within the parameters of the revised 2016/17 fiscal budget. Total tax revenue collections are forecast to be 15.6 percent of GDP, with higher income tax collections offsetting shortfalls in consumption and import taxes. On the expenditure side, total expenditure and net lending is projected to be also in line with projections although nine months of budget implementation is pointing to lower than initial

assumptions with higher recurrent spending more than offset by lower projected execution of foreign-financed capital spending. If the current trend of budget execution continues, fiscal deficit will be lower than projected and the short-fall in project loans will reduce net foreign borrowing.

### **Fiscal policy for FY 17/18**

20. The 2017/18 budget reflects continued fiscal consolidation and prudent borrowing policy to keep debt and external balances sustainable. It is projected that the fiscal deficit in FY2017/18 will stand at 3.7 percent of GDP.

21. On the revenue front, total tax revenue as a percent of GDP is projected to decline by 0.3 percentage points to 15.3 percent in fiscal year 2017/18. This reduction is mainly attributable to lower tax take for domestic goods and services and import taxes, resulting from the impact of some policy changes supporting the 'Made in Rwanda' (MIR) policy. Following a tariff hike that affected supplies, import duties on used clothing have vanished, and VAT exemptions on inputs of manufactured items such as textiles and leather products, cement, computers and other office accessories have reduced revenue considerably. These tax exemptions started in December 2016 and are projected to affect revenue collections for FY2017/18 and FY2018/19 to an even greater extent. However, this should be partly offset by the effect of the MIR policy on production and other domestic taxes. To better assess the costs of the MIR policy, RRA and MINECOFIN will produce an updated tax expenditure report to measure MIR tax incentives by end-November 2017. A subsequent report looking at the growth-enhancing aspects of these incentives will be produced by June 2018, after a full year of experience under the new policy.

22. Total expenditure and net lending are budgeted to be reduced to 25.8 percent of GDP in FY17/18, 0.4 percentage point of GDP lower than FY16/17. The sectoral allocation of resources reflects that FY17/18 is the final year of EDPRS II implementation, with priority given to key intervention areas to help achieving EDPRS II targets. Recurrent spending will be reduced by 0.8 percentage points of GDP, because of reduced allocations for Peace Keeping Operations under the exceptional expenditure envelope. Reduced spending for transfers and subsidies reflects lower restructuring costs of some public institutions. In capital spending, priority is being given to the completion of on-going projects to help ensure the envisaged contribution to growth. Foreign-financed investment spending projections have been lowered to take into account slightly lower execution rates [following more decentralized implementation and the uptake of the e-procurement system).

23. The overall deficit of 3.7 percent of GDP in 2017/18 will be maintained through 2019/20 which should allow to meet the EAC convergence criterion which calls for the attainment of an overall deficit of 3 percent of GDP by 2022. Over the 2017/18–2019/20 period, net domestic financing is projected to be close to zero, thus allowing maximum room for private sector credit and investment. Total domestic public debt is expected to remain at around 10 percent of GDP, while external public debt is projected to grow from 29.8 percent of GDP at end-2016 to 38 percent of GDP at end-2020. However, with most external borrowing highly concessional, the NPV of total public debt is projected to grow from 24 percent to 26.9 percent of GDP between 2016 and 2020, well within the EAC convergence criterion of 50 percent.

24. To help reverse the current stagnant trend of domestic revenues to GDP, the government will implement several forward-looking tax revenue policy and administrative measures, the impact of which is not yet included in projections. These measures include:

- a long-awaited revision in property taxes which should be sent to parliament in summer 2017;
- an expansion of the use of electronic billing machines beyond VAT to allow it to track total sales and inform income tax collection;
- forthcoming increases in some excises duties;
- an introduction of using big data and data analytics to improve tax compliance, to identify tax fraud, improve risk scoring process and increase tax revenues. Through introducing more automation into the core business functions of the Rwanda Revenue Authority (RRA), manual data operations can be reduced, thus avoiding costly reconciliation reporting discrepancies and reducing the number of cumbersome audits for the taxpayer. This will enable RRA to focus on tasks such as strategic forecasting and better tax planning.

25. To improve fiscal transparency and public financial management, MINECOFIN is in the process of replacing GFSM 1986 with the GFSM 2014 reporting framework. Preliminary compilation of consolidated general government finance statistics for FY 2013/14 and 2015/16 using GFSM2014 methodology has been done and a roadmap has been developed to migrate fully by 2018/19. To ensure a smooth migration, FY2017/18 is going to be a transition year where the central government fiscal projections and reporting will be presented using both GFSM 1986 and GFSM 2014 classifications. The migration will also help to improve the recording of donor project implementation and projections (SB by end-November 2017)

### **Debt Management**

26. Rwanda's level of public and publicly guaranteed debt remains rated at a low risk of debt distress. Concessional loans still constitute the largest share of debt at 58.1 percent of total debt, while guarantees and non-concessional debt of public enterprises constitute 20.8 per cent share of the total debt. Domestic debt is mainly composed of government securities, especially treasury bills (21 per cent of total debt).

27. Going forward, as the government continues to implement fiscal and external adjustment policies, its debt management strategy will be to maximize external concessional funding in order to avoid unsustainable debt levels, while developing the domestic capital market. The mix of domestic financing will be reoriented toward issuance of more treasury bonds vs. bills, therefore increasing the maturity length of the portfolio.

## Monetary Policy

28. BNR will maintain its prudent monetary policy stance in 2017, consistent with economic developments, and ensuring that inflation remains low and stable. The uptick in inflation in 2016 was predominantly due to supply-side shocks, while the slower private sector credit growth was largely due to weak demand. BNR's monetary policy stance will continue to target a medium-term inflation objective of 5 percent. Meanwhile, the central bank stands ready to ease monetary policy should the inflation pressures ease further and credit demand conditions remain weak. Monetary operations will also be consistent with the medium-term objective to develop efficient money markets.

### Plan to transition to a price-based monetary policy regime

29. As BNR transits toward a price based monetary policy framework, more weight has been put on liquidity management with the aim to enhance the monetary policy transmission mechanism. A strengthened interest rate channel from better control of systemic liquidity is expected to provide a clearer signal of the monetary policy stance than base money.

30. BNR has also put in place a forecasting and policy analysis system (FPAS), thanks to ongoing IMF technical assistance to support forward-looking policy formulation. BNR forecasting will become increasingly important as the BNR shifts from the current base money targeting framework to inflation targeting, a move planned for 2018. Measures planned for 2017-18 to achieve the objective are;

- **Elimination of excess reserves and improvement of monetary transmission mechanism.** Persistent and volatile bank excess reserves also pose a challenge to monetary policy transmission mechanism and financial stability. Excess liquidity leads to disintermediation as it reduces banks' profitability and discourages deposit taking. It also encourages excessive risk taking, lowers credit quality, compromises monetary policy transmission mechanism, and possibly destabilizes the foreign exchange market.
- **Interbank market development** A well-functioning interbank market not only facilitates liquidity management by banks, but it is also the cornerstone of financial market development. Similarly, the BNR can, through active and consistent management of system liquidity, influence the determination of interest rate in the interbank money market.
- **Communication.** When central banks make the transition from quantitative to a market based monetary policy, interest rates communicate information from the market to the central bank.
- **Capacity development.** BNR will need to develop in-house capacity during the transition period and create a path where each block reinforces each other. There will be therefore need to build in parallel the different blocks of an IT scheme along different stages.

31. The BNR will seek to phase the FPAS into the monetary policy decision making process. Available forecasting models shall be placed in the context of a well-designed forecast process to allow the Quarterly Projections model to integrate all available information, data, inputs from



other models, and judgment, to produce a consistent macroeconomic forecast. To operationalize the FPAS, BNR shall ensure the: (i) setting up of a formal unified forecasting team with well-defined individual roles; (ii) redesigning of the forecast process to increase interactions with decision makers; and, (iii) restructuring of publications to become more compatible with forward looking communication, in particular creating a more forward looking inflation report.

### **Financial Sector**

32. To adapt to the changing financial landscape, BNR continues to strengthen its regulatory and supervisory frameworks for both banks and non-banks. For banks, implementation of Basel II and III capital requirements, and a review of the Banking law and bank supervisory regulations are ongoing. The BNR has also made progress on strengthening legal and regulatory framework for financial institutions and establishing a legal framework for consumer financial protection. A financial consumer protection law (FCPL) has been adopted by the BNR Board of Directors, with accompanying disclosure requirements. In addition, a Deposit Guarantee Fund (DGF) has been operational since November 2016, with the first premiums collected in April 2017.

33. For non-bank financial institutions, a review of the regulatory and supervisory framework is ongoing. A revised draft microfinance law was approved by the BNR Board of directors on 30th March 2017 and should be adopted shortly. Other regulatory reform plans include issuance of new regulations on micro-insurance, provisions on the licensing of re-insurance and health insurance companies, and a review of the pension law. On the supervisory front, BNR is planning to conduct a parallel run for the risk-based capital solvency regime for insurance companies alongside the current one and a directive to this effect has already been drafted. Similarly, corporate governance regulations to accommodate the risk-based capital approach were also drafted, and should be gazette during the year.

34. A national financial inclusion strategy is at final stages of approval. The strategy envisages financial inclusion for the entire population (11 percent remain excluded), and to deepen usage of financial services for those already included. The strategy is expected to be adopted and launched in the second half of 2017. The BNR is also establishing a financial literacy program that aims at improving knowledge of the financial sector and markets as well as rights and obligations regarding financial transactions. This program should be finalized by December 2017.

## **Medium Term Policy Objectives**

### **Rwanda-G-20 Compact**

35. In March 2017, Rwanda was one the first African countries to join the G20 “Compact with Africa (CWA)” initiative to stimulate private investment in Africa. This is envisaged through a holistic approach and better coordination between the various actors (Government of Rwanda, Development Partners (both bilateral and multilateral). Under the Compact for Rwanda, commitment to macroeconomic stability and a more conducive environment for private investment are pre-conditions for enhancing private investment through mobilizing investors

from G20 and other developed countries. Rwanda is also using the initiative to address other challenges to private investment, including the cost of doing business: the infrastructure gap; and the cost of financing for investors in Rwanda.

### **Vision 2050 and EDPRS III**

36. The Government adopted Vision 2020 and the second Economic Development and Poverty Reduction Strategy (EDPRS 2) with primary objectives of transforming Rwanda into a middle-income country by the year 2020 and transforming Rwanda into a knowledge-based economy with poverty below 20 percent. Building on the experience learned from the implementation of Vision 2020, Rwanda is preparing “Vision 2050.” This strategy will set new goals, including the aspiration to reach upper middle income country status by 2035, and high-income status by 2050. Achieving these targets will require a high level of commitment from government to put strategically in place economic policies to promote both public and private sector activity with the intention of supporting sustained economic growth, income generation and the creation of jobs. Nearer term objectives will be articulated in a follow-up EDPRS III, which is also under development. Vision 2050 and EDPRS III emphasize six main areas:

- |   |  |
|---|--|
| • Quality of life                           | • Transformation for prosperity (high values jobs) |
| • Modern infrastructure and livelihoods     | • Values for Vision 2050                           |
| • International cooperation and positioning | • Social Protection                                |

37. These will be supported through various initiatives being developed by the government. One is a proposal for a Kigali International Business and Financial Services Centre (KIB/FSC), an initiative to create an international business and financial services centre which will form part of the broader endeavour to develop Rwanda’s domestic financial services industry, and provide an impetus for diversifying the economy, and fuelling economic activity.

38. The Government has developed a 10-year plan to develop capital markets. Capital Market Authority’s policy strategy for deepening debt markets, expanding listings on the Rwanda Stock Exchange, developing an ecosystem of financial sector intermediaries, and further integrating Rwanda’s capital markets with those of its East African neighbours. The master plan was finalized and adopted by stakeholders, and is awaiting cabinet approval

39. The Rwanda Social Security Board pension scheme currently covers only 10% of Rwanda’s workforce, focusing largely on public and private sector salaried employees. A long-term savings scheme is being developed to offer pension and savings for the other 90% of the workforce, including in the informal sector. A long-term savings policy proposal has been developed to expand social security coverage by introducing pre-retirement benefits. The major benefits expected from the implementation of the long-term savings scheme ought to be: (i) raising national savings levels, (ii) providing adequate resources for long term productive investments, (iii) providing a pension product for the informal sector (currently not provided for by RSSB), (iv) ensuring adequate housing and tertiary education for all. The proposed expanded

scheme will cater for three population segments: (i) public sector salaried employees, (ii) private sector salaried and self-employed business owners and (iii) people involved in the informal sectors (earning irregular and low income). The policy has been approved by Cabinet.

**MEFP Table 1. Quantitative Assessment Criteria, Performance Criteria and Indicative Targets<sup>1</sup>**

	December 2016			June 2017	
	1st SCF/6th PSI Review	Adjusted	Actual	SCF/6th PSI Review	Proposed program
(Billions of Rwandan francs, unless otherwise indicated)					
<b>Assessment/Performance criteria</b>					
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	139.5	164.1	138.3	324	324
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	555.0	555.0	650.2	474	474
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	320.8	320.8		330	330
Reserve money (ceiling on stock) <sup>4</sup>	313.9	313.9	282.5	323	323
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	307.0	307.0		316	316
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0.0		0.0	0	0
<b>Indicative targets</b>					
Net domestic financing (ceiling on flow) <sup>2,3</sup>	-101.4	-76.8	-72.7	-6	0
Domestic revenue collection (floor on flow) <sup>2,6</sup>	539.0		532.1	1157	1145
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-10.0		-12.2	-10	-20
Total priority spending (floor on flow) <sup>2</sup>	338.8		340.3	716	716
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500.0		418.0	500	500
<b>Memorandum items:</b>					
Total budget support (US\$ millions) <sup>2,6</sup>	302.8		417.4	439	452
Budget support grants (US\$ millions)	105.5		223.7	222	228
Budget support loans (US\$ millions)	197.3		193.7	217	224
RWF/US\$ program exchange rate	807.2		807.2	807	820

Sources: Rwandan authorities and IMF staff estimates and projections.

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

<sup>2</sup> Numbers are cumulative from June 30, 2016.

<sup>3</sup> Subject to adjusters. See TMU for details.

<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.

<sup>5</sup> Ceilings on external arrears and external borrowing are continuous; latest outturn is reflected. The ceiling on new external borrowing from April 2017 will exclude on-lending agreement between Government of Rwanda and public sector enterprises.

<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

MEFP Table 2: Proposed Structural Benchmarks

Policy Measure	Target Date
<p><b>Monetary</b> Develop a methodology to identify policy interest rate consistent with the identified range of excess reserves.</p>	3rd SCF/8th PSI Review
<p><b>Public Financial Management</b> Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter. Design a strategy to incorporate fiscal risks and foreign exchange needs into project planning assessments, starting with PPPs. <i>Rephased from end-June 2017.</i> Start the transition of fiscal reporting into the GFS14 framework to allow recording of donor project implementation.</p>	<p>Each quarter</p> <p>3rd SCF/8th PSI Review</p> <p>3rd SCF/8th PSI Review</p>
<p><b>Fiscal Revenues</b> Produce a tax expenditure report on measures associated with the Investment Tax Policy and Made In Rwanda campaign with the objective of designing a cost/benefits framework to monitor the impact of these incentives. <i>Replaced the draft study on new tax regime for agriculture.</i> Submit to Parliament revised legislation on fixed asset tax. <i>Rephased from end-March 2017.</i> Approve new risk management plan for FY17/18 to improve tax compliance. Issue report on "clean up" of tax registry. Initiate the rollout of "EBM for all" pilot, with the intent of reaching 10,000 taxpayers within one year.</p>	<p>3rd SCF/8th PSI Review</p> <p>3rd SCF/8th PSI Review</p> <p>3rd SCF/8th PSI Review</p> <p>3rd SCF/8th PSI Review</p> <p>3rd SCF/8th PSI Review</p>

## Attachment II. Technical Memorandum of Understanding

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period July 1, 2016–June 30, 2018 supported by the IMF Policy Support Instrument (PSI) and the Standby Credit Facility (SCF), and sets out the data reporting requirements. This TMU updates the one of December 16, 2016.

### I. Quantitative Program Targets

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

3. AC and PC will apply to the following indicators for June 30, 2017 (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 the overall deficit, including grants as measured on a commitment basis; and
- Ceiling on stock of external payment arrears of the public sector (assessed on a cont. basis).

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

- Ceiling on flow of net domestic financing (NDF) of the central government;
- 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 contracting or guaranteeing of new non-concessional external debt of nonfinancial public enterprises (assessed on a continuous basis); and
- Floor on flow of priority spending.

5. **Program exchange rates.** For accounting purposes, the program exchange rates in Text Table 1 will apply.

<b>Text Table 1. Program Exchange Rates from December 30, 2016</b> (US\$ per currency unit, unless indicated otherwise)	
Rwanda Franc (per US\$)	819.79
Euro	1.05
British Pound	1.23
Japanese Yen (per US\$)	116.55
SDR	1.35

## II. Institutional Coverage of the Fiscal Sector

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

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

### Ceiling on net domestic financing of the government (IT)

7. **A ceiling applies to NDF.** The ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

8. **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 domestically issued debt.

9. 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,<sup>1</sup> 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<sup>2</sup>, as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.
- Less total government deposits with the banking system (as recorded in the monetary survey), including in the main treasury account, the accounts of line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, *fonds routier*, the privatization account, and the accounts of any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. Thus, this definition excludes any government deposits over which the central government does not have any direct control (i.e., for project accounts, Global Fund money meant for the private sector, counterpart funds, and *fonds publics affectés* as well as the portion of funds for Peace-keeping Operations (PKO) reserved for the payment of wages and other allowances to peace-keeping troops and police.)

10. Non-bank holdings of government domestically issued debt consist of non-bank holdings of treasury bills, bonds (domestic and non-resident), old development bonds (pre-1994 debt), new

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<sup>1</sup> 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.

<sup>2</sup> 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.

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 grants and loans (as defined in Table 1 of the MEFP), up to a maximum of RWF 69billion. In the event that actual budgetary grants exceed programmed levels, the ceiling on NDF will not be adjusted. In the event that actual budgetary loans exceed programmed levels, the ceiling on NDF will be adjusted *downward*.
- The ceiling on NDF will be adjusted *upward* up to a maximum of RWF69 billion representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.
- The ceiling on NDF will be adjusted *upward* by the amount of unexpected public expenditures on food imports in the case of a food emergency.
- The ceiling on NDF will be adjusted *upward (downward)* up to a maximum of RWF69 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

### **Overall Fiscal Deficit Including Grants (QAC/PC)**

11. **A ceiling applies to the overall fiscal deficit including grants.** The ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

12. **Definition.** For the program, the overall deficit including grants is valued on a commitment basis. That is, the overall fiscal balance is the difference between the government's total revenue and grants and total expenditure and net lending (costs and acquisition net of nonfinancial assets). The definition of revenues and expenditures is consistent with that in the 2001 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

### **Adjusters to the overall fiscal deficit including grants:**

- The ceiling on the overall deficit will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1 of the MEFP), up to a maximum of RWF 69billion.
- The ceiling on the overall deficit will be adjusted *upward*, up to a maximum of RWF69 billion, representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.

- The ceiling on the overall deficit will be adjusted *upward* by the amount of unexpected public expenditures on food imports in the case of a food emergency.
- The ceiling on the overall deficit will be adjusted *upward (downward)*, up to a maximum of RWF69 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

### **Floor on flow of domestic revenues (IT)**

13. The floors for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

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.

### **Floor on priority expenditure**

15. The floor applies to priority spending of the government. The floors for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

16. **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 Integrated Financial Management Information System (IFMIS) which tracks priority spending of the annual budget at the program level.

### **Net accumulation of domestic expenditure arrears of the government (IT)**

17. A ceiling applies to net accumulation of domestic expenditure arrears of the government.<sup>3</sup> The ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

18. **Definition.** Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 90 days. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears of more than 90 days is calculated as a cumulative change in the stock of expenditure arrears of more than 90 days at each test date from the stock at the end of the previous fiscal year (June 30). Arrears related to claims preceding 1994 will not be counted in the calculation.

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



## IV. Limits on Debt

### Limit on new external debt of nonfinancial public enterprises (IT)

19. **A ceiling applies to the contracting and guaranteeing by nonfinancial public enterprises of new external borrowing with non-residents (see below for the definition of debt guarantee and debt).** The ceiling excludes external borrowing by two state-owned bank, the Bank of Kigali and Rwanda Development Bank (BRD), which are 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. The ceiling will exclude external borrowing which is for the sole purpose of refinancing existing public sector debt and which helps to improve the profile of public sector debt. The ceiling will also exclude on-lending agreement between Government of Rwanda and public sector enterprises.

20. Public sector includes the government, entities that are part of the budgetary process and nonfinancial public enterprises which are entities in which the government holds a controlling stake (owning more than 50 percent of shares), but which are not consolidated in the budget. This definition of the public sector excludes and Rwanda Development Bank (BRD). 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).

21. **The definition of debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(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 this paragraph, 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**

22. A continuous performance/assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the government and entities that form part of the budgetary process. 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. For the purpose of monitoring compliance with the PC on the non-accumulation of external arrears, external arrears are obligations that have not been paid on the due date (taking into account the contractual grace periods, if any). External payments arrears on external debt service obligations by nonfinancial public enterprises that the government holds a controlling stake (owning more than 50 percent of shares) but do not form part of the budgetary process and public private partnership projects (which are defined as (i) infrastructure projects which involve the (ii) granting of a government guarantee and the (iii) participation of a public enterprise) are not included in the coverage of this external arrears PC/AC, unless these external payment arrears are overdue (under the terms of the contracts including any grace periods) by more than 30 days.

## **V. Targets for Monetary Aggregates**

### **Net foreign assets of the National Bank of Rwanda (QAC/PC)**

23. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2016 and June 30, 2016.

24. **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. Reserves assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA for program purposes. 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.

#### **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 of the MEFP, capped at RWF 69 billion.
- The floor on NFA will be adjusted *downward (upward)* by the surplus (shortfall) of cash external debt service payments compared to originally-scheduled payments.
- The floor on NFA will be adjusted *downward* by the amount of unexpected public expenditures on food imports in the case of a food emergency.

#### **Reserve money (QAC, PC)**

25. A ceiling applies to the stock of reserve money for June 30, 2016, and December 31, 2016 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 +/- 2.2 percent) around a central reserve money target).

26. 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.

27. **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 adjuster will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

## **VI. Data Reporting Requirements**

28. For the purposes of program monitoring, the Government of Rwanda will provide the data listed below and in Table 1. Unless specified otherwise, weekly data will be provided within seven

days of the end of each week; monthly data within five weeks of the end of each month; quarterly data within eight weeks of the end of each quarter; annual data as available.

29. 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. 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.

30. Detailed data on **domestic revenues** will be transmitted on a monthly basis. Data on **priority expenditure** will be transmitted on a quarterly basis. Data on accumulation and repayment of **domestic arrears** and the remaining previous year's stock of arrears will be transmitted on a quarterly basis.

31. Data on **foreign assets and foreign liabilities of the NBR** will be transmitted on a weekly basis, 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.

32. Data on **reserve money** will be transmitted on a weekly basis. 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

33. The authorities will inform the IMF staff in writing 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, wage policy, and financial support to public and private enterprises. The authorities will inform the IMF staff of changes affecting respect of continuous QACs and ITs. The authorities will furnish a description of program performance according to QACs and ITs as well as structural benchmarks within 8 weeks of a test date. The authorities engage to submit information to IMF staff with the frequency and submission time lag indicated in TMU Table 1. The information should be mailed electronically to the Fund. (email: [afrwa@imf.org](mailto:afrwa@imf.org)).

TMU Table 1. Summary of Reporting Requirements

	Frequency of Data <sup>9</sup>	Frequency of Reporting <sup>9</sup>	Frequency of Publication <sup>9</sup>
Exchange Rates <sup>1</sup>	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</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>3</sup>	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
Consumer Price Index <sup>4</sup>	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 <sup>5</sup> – General Government <sup>6</sup>	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>5</sup> – Central Government	Q	Q	Q
Comprehensive list of tax and non-tax revenues <sup>7</sup>	M	M	M
Comprehensive list of domestic arrears of the government	SA	SA	SA
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR <sup>8</sup>	Q	Q	Q
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

<sup>1</sup> Includes the official rate; Foreign Exchange Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the NBR.

<sup>2</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

<sup>4</sup> 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.

<sup>5</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>6</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>7</sup> Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.

<sup>8</sup> Includes debts of the Bank of Kigali. Also includes currency and maturity composition.

<sup>9</sup> Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).



# RWANDA

June 27, 2017

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, AND SECOND REVIEW UNDER THE STANDBY CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS UPDATE

<b>Risk of external debt distress:</b>	<b>Low</b>
<b>Augmented by significant risks stemming from domestic public and/or private external debt?</b>	<b>No</b>

Approved By  
**Roger Nord (IMF) and  
Paloma Anos-Casero  
(IDA)**

The Debt Sustainability Analysis (DSA) was prepared jointly by IMF and World Bank staff, in consultation with the authorities.

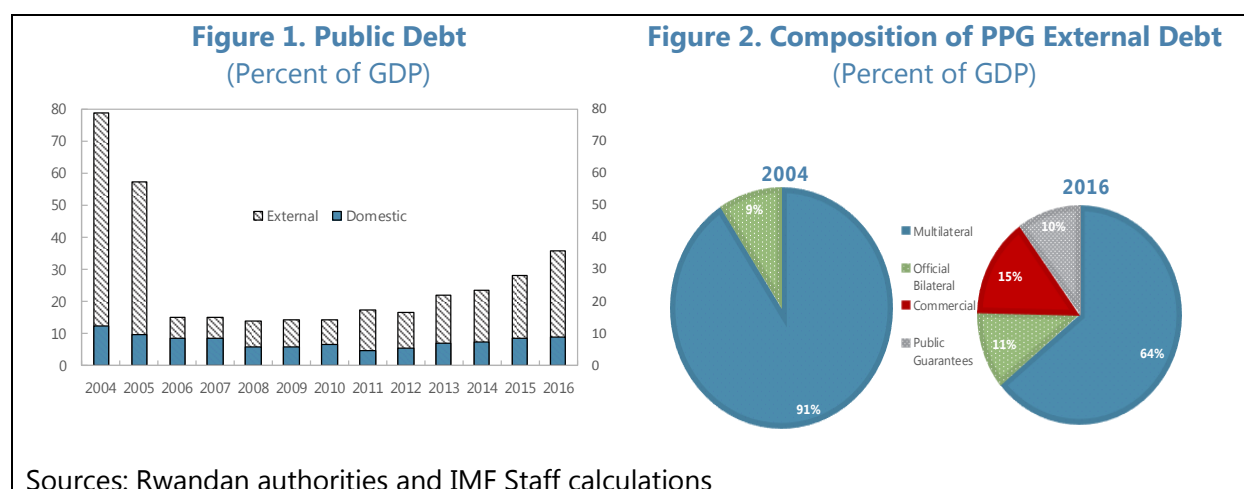
*Bank/Fund assessment of Rwanda's debt sustainability analysis indicates continuation of low risk of debt distress.<sup>1</sup> External debt burden indicators remain below "risk" thresholds, except for a small and temporary breach in the baseline of the debt service-to-revenue ratio, and the stress test for debt service-to-exports in 2023, when the Eurobond issued in 2013 matures. Recognizing Rwanda's investment needs on the one hand and its narrow export base and import-dependent growth on the other, the authorities are closely focused on carefully choosing the highest return projects, financed under the most favorable terms. In the context of the Compact with Africa, the authorities hope to encourage more private investment, leveraging guarantee schemes from multilateral and bilateral development partners and minimizing the government's exposure to additional liabilities.<sup>2</sup>*

<sup>1</sup> This debt sustainability analysis (DSA) updates the DSA analysis contained in IMF Country Report No. 16/153 (June 2016). The fiscal year for Rwanda runs from July–June; however, this DSA is prepared on a calendar year basis. The results of this DSA were discussed with the authorities and they are in broad agreement with its conclusions.

<sup>2</sup> Rwanda's policies and institutions are classified as "strong" under the World Bank's Country Policy and Institutional Assessment (CPIA) Index (average score in 2013–15: 3.99). The relevant indicative thresholds for this category are: 50 percent for the NPV of debt-to-GDP ratio, 200 percent for the NPV of debt-to-exports ratio, 300 percent for the NPV of debt-to-revenue ratio, 25 percent for the debt service-to-exports ratio, and 22 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt.

## BACKGROUND

1. **Growth in the Rwandan economy decelerated in 2016.** Real GDP grew by 5.9 percent in 2016, compared to 8.9 percent in 2015, mainly due to the impact of drought on agricultural production, and to a lesser extent the completion of large investment projects in the second half of the year, and adjustment policies intended to address external imbalances. Lower commodity prices put a drag on mining exports. Despite the growth slowdown, imports increased in the first half of the year due to large public and private investment projects, causing an increase in the current account deficit. However, adjustment policies—notably sizeable exchange rate adjustment—lowered demand for imports and boosted export competitiveness in the second half of the year, such that the deterioration of the current account balance was less than forecast. In 2017, continued suppression of import demand, a levelling off in commodity prices, and robust export volume growth are projected to lead to a reduction of the current account deficit from 14.4 percent of GDP in 2016 to 10.2 percent. Real GDP growth is also projected to recover gradually, reaching 6.8 percent by 2018.



2. **Rwanda's public sector debt has increased with an investment push in recent years, but remains comfortable in absolute terms.** At end-2016, the external debt of the public sector stood at 35.8 percent of GDP (Table 1). That ratio has increased by 14 percentage points since 2013 reflecting a sustained public investment push, including by external guaranteed debt associated with large investment projects including expansion of RwandAir and completion of the Kigali Convention Center (KCC) (Figures 1 and 2).<sup>3</sup> Rwanda's debt portfolio has been further affected by a shift in the composition of official development assistance away from grants toward concessional borrowing. Looking forward, a new international airport capable of handling more and larger aircraft is under construction, with the government taking a minority share in a public-private partnership. The

<sup>3</sup> In 2016, new debt associated with the KCC totaled US\$160 million, 80 percent of which was external debt. RwandAir's continued expansion included US\$171 million in loans for two new aircraft and leases for two other aircraft which, together with associated debt servicing, are included within the public sector in this analysis.

project, for which the government is expected to take on around US\$37 million in external debt over 2017–19, is included in the DSA<sup>4</sup>.

**Table 1. Rwanda: External Public Debt**

	2014		2015		2016			
	Billions US\$	Share	Billions US\$	Share	Billions US\$	Share	% GDP	
Multilateral creditors	0.9	1.1	60.6	1.4	61.5	1.7	60.3	21.6
Bilateral creditors	0.2	0.3	13.8	0.3	13.2	0.3	10.7	3.8
Commercial creditors	0.4	0.4	21.9	0.4	18.0	0.4	13.8	5.0
Total (excluding guarantees)	1.6	1.8	96.3	2.1	92.7	2.5	84.8	30.4
Publicly guaranteed debt	0.1	0.1	3.7	0.2	7.3	0.4	15.2	5.5
Total (including guarantees)	1.6	1.8	100.0	2.2	100.0	2.9	100.0	35.8

Source: Rwandan authorities and IMF staff.

3. **Rwanda’s domestic public debt has also increased to develop a broader domestic market in recent years, but also remains low in absolute terms.** Domestic public debt was 8.6 percent of GDP at end-2016 (Table 2) close to 2 percent higher than in 2013. The increase has been driven by both short-term debt and the issuance of medium-term treasury-bonds for capital market development purposes.

## UNDERLYING ASSUMPTIONS

4. **The medium and long-term macroeconomic framework underlying the DSA is consistent with the baseline scenario presented in the Staff Report for the 7th review of the PSI-supported program.** The main assumptions and projections for key macroeconomic variables are summarized in Box 1 and Table 3. The main differences between the current assumptions and those underlying the last DSA in 2015 are: i) GDP growth projections has been revised slightly down in 2018–19; ii) a slightly higher fiscal deficit is assumed due to lower projected revenues serving to increase debt and debt service measured against revenue, and iii) an improvement in the current account balance throughout the projection period, due to short and longer term adjustment policies. The reduction in external imbalances reflects, in large part, a reassessment of trade growth given stronger than expected adjustment to date—at 14.4 percent of GDP, the trade deficit was significantly lower than previously forecast in 2016, and improvements continued into Q1 2017 with contracting import volumes—particularly for consumer goods and construction goods—and robust non-traditional export volume growth, reflecting implementation of policies to encourage import substitution and promote export diversification.<sup>5</sup>

<sup>4</sup> Domestic bridge financing by the government is also included in the DSA totaling US\$75 million.

<sup>5</sup> For instance, the authorities have launched a “Made in Rwanda” policy, to address barriers to international competitiveness with the aim of supporting domestic production (and lower imports) in key sectors including



**Table 2. Rwanda: Domestic Public Debt**

	2014		2015		2016		
	Billions RWF	Share	Billions RWF	Share	Billions RWF	Share	% GDP
<b>Medium and Long-term borrowing</b>	178	46	182	36	261	46	3.9
off which T-bonds	64		115		168		
Short-term borrowing	212	54	323	64	310	54	4.7
<b>Total</b>	<b>390</b>	<b>100</b>	<b>505</b>	<b>100</b>	<b>571</b>	<b>100</b>	<b>8.6</b>

Source: Rwandan authorities and IMF staff.

**Table 3. Selected Macroeconomic Indicators, Current vs. Previous DSA**

		2016	2017	2018	2019	2020
<b>Real GDP growth (percent)</b>	<b>Current DSA</b>	5.9	6.2	6.8	7.3	7.5
	<b>Previous DSA</b>	6.0	6.0	7.0	7.2	7.5
<b>Inflation (average)</b>	<b>Current DSA</b>	4.9	7.4	5.5	4.6	5.0
	<b>Previous DSA</b>	4.4	4.6	4.8	5.0	5.0
<b>Primary balance (% of GDP)</b>	<b>Current DSA</b>	-2.8	-2.8	-2.7	-2.7	-1.8
	<b>Previous DSA</b>	-3.7	-2.3	-1.9	-3.3	-2.5
<b>Current account (% of GDP)</b>	<b>Current DSA</b>	-14.4	-10.2	-11.2	-9.9	-8.7
	<b>Previous DSA</b>	-16.5	-12.0	-10.2	-11.1	-11.1
<b>FDI (% of GDP)</b>	<b>Current DSA</b>	2.9	3.3	4.2	4.4	4.4
	<b>Previous DSA</b>	3.9	4.0	4.2	4.5	4.8

Source: Rwandan authorities, IMF and World Bank staff.

construction materials, light manufacturing and agro-processing with the aim to achieve forex savings of roughly US\$450 million per year.

### Box 1. Macroeconomic Framework for the DSA

The medium-term and long-term framework underpinning the DSA assumes that Rwanda continues to enjoy rapid growth, with low and stable inflation.

#### Key highlights:

**Growth:** Projected long-run growth stands at 7.5 percent, unchanged from previous analysis and close to historical growth rates, and thus conservatively does not reflect a growth dividend from significant public investment in recent years. The composition of growth is anticipated to shift toward the private sector and net exports as measures designed to expand and diversify the export base and promote import substitution are assumed to be fruitful.

**External Sector:** Exports of goods and services (as a percent of GDP) are expected to grow consistent with historical rates reflecting, in part, strategic public investments and export promotion. Import needs are expected to remain high, although import growth rates are anticipated to be slightly below historical averages, as domestic production of certain items—such as concrete—supports import substitution. Consequently, while Rwanda’s current account is projected to remain in deficit, it is expected to narrow over the period under consideration.

**Inflation:** Inflation is expected to remain contained. Although inflation had risen to 7.3 percent by the end of 2016, it is expected to decline to and be maintained at the authorities’ medium-term target of 5 percent.

**Reserves:** Reserve buffers are expected to gradually increase toward 4.5 months of prospective imports, consistent with the monetary integration process among East African Community members.

**Fiscal Outlook.** There is assumed to be a gradual and consistent rise in domestic revenues reflecting the authorities’ commitment to raise Rwanda’s revenue collection efforts to a comparable level observed in other countries in the region. Primary expenditures are forecast to remain high, however, reflecting the ongoing need for significant capital and current spending.

**Grants.** The DSA assumes a tapering of external assistance from development partners in real terms over the projection period, reflecting reduced access to grants and greater capacity to mobilize and use domestic revenue.

**External borrowing.** The assumptions for new external borrowing vary over the assessment period. With the development of local bond markets and improvement in the current account position, external borrowing is expected to decline from close to 5 percent of GDP on average over the last 5 years to under 2 percent of GDP. Compositionally, from 2016-2021, the framework assumes central government external borrowing needs are met mainly by disbursements of already contracted external multilateral and bilateral debt.<sup>1</sup> From 2022 onward, the framework assumes that such needs will be financed with a progressively increasing share of commercial debt, including bonds issued in the international capital markets.

**Domestic borrowing.** The framework assumes that, over the long-term, net domestic borrowing will increase gradually from 1.4 percent of GDP on average in the last 5 years to 2.6 percent by 2037, reflecting efforts to both deepen and strengthen the domestic debt markets. Over time, the composition of that borrowing is expected to shift towards medium and long-term debt as the authorities intensify efforts to develop local government bond markets.

**Domestic interest rates.** New domestic borrowing is expected to be contracted at a nominal interest rate of 8 per cent—slightly below current short-term T-bill rates.

<sup>1</sup> Over this period, committed-but-undisbursed debt is equivalent to around 90 percent of estimated external financing needs.

## DEBT SUSTAINABILITY ANALYSIS

### A. External DSA

5. **Based on the assumptions outlined above, Rwanda’s debt is assessed to be sustainable with low risk of debt distress (Figure 3 and Tables 4 and 5).** Like the last DSA update, Rwanda is classified as a “strong” performer, based on the quality of the country’s policies and institutions as measured by the 3-year average of the ratings under the World Bank’s Country Policy and Institutional Assessment (CPIA). This is reflected in higher (more accommodative) debt sustainability thresholds compared to countries operating in a weak policy environment.

6. **Under the baseline scenario, all but one debt burden indicator are projected to remain below the policy-dependent thresholds.** The only breach occurs in 2023 when the PV of debt service-to-revenue ratio just exceeds its threshold, although that breach is temporary in nature (lasting one year) and relates to when the 2013 Eurobond is set to mature. The PV of debt service-to-exports ratio also peaks in 2023, although with a small breach of the indicative threshold under the largest stress scenario—a shock to export growth. Other indicators remain well below their thresholds even under the most extreme stress scenarios. Using the probability approach, based on country-specific CPIA and historical growth information to focus on the evolution of the probability of debt distress over time, all baseline indicators remain well below their thresholds.

7. **Aside from some potential liquidity pressures when the 2013 Eurobond is set to mature, the risks to the forecast are low.** While medium term GDP assumptions are high compared to other countries, they are lower than Rwanda’s historical averages: in any case, the low risk rating is robust even with somewhat lower assumptions. As the debt-service breach from the Eurobond is temporary, and considering the relatively low level of external debt, strengthening indicators of repayment capacity (the expansion of the export base and tax revenues), and that Rwanda is assumed to refinance the maturing Eurobond, also given the relatively strong capacity to develop a medium-term debt management strategy, the final assessment for Rwanda’s external public and public guaranteed debt remains low risk of debt distress. However, risks have increased in recent years in line with large public investment projects. A projected continued gradual tapering of budget support and shift away from grants requires a focus on domestic revenue collection.

### B. Public DSA

8. **The results of the analysis are not altered by adding domestic public debt to external debt** (see Figure 4 and Tables 6 and 7). The evolution of total public debt indicators broadly follows that of external debt under the baseline—peaking in 2019 before receding as the primary deficit begins to decline. In PV terms, debt remains significantly below the LIC DSA public debt benchmark of 74 percent for those countries with strong policies and institutions.

9. **The alternative scenarios and bounds tests indicate that the projected path for public debt indicators remain within relevant benchmarks.** Under a standard scenario that keeps the primary

balance unchanged from its 2016 level, the PV of debt-to-revenue drifts upward, highlighting the importance of securing revenue gains assumed under the baseline.

## AUTHORITIES VIEWS

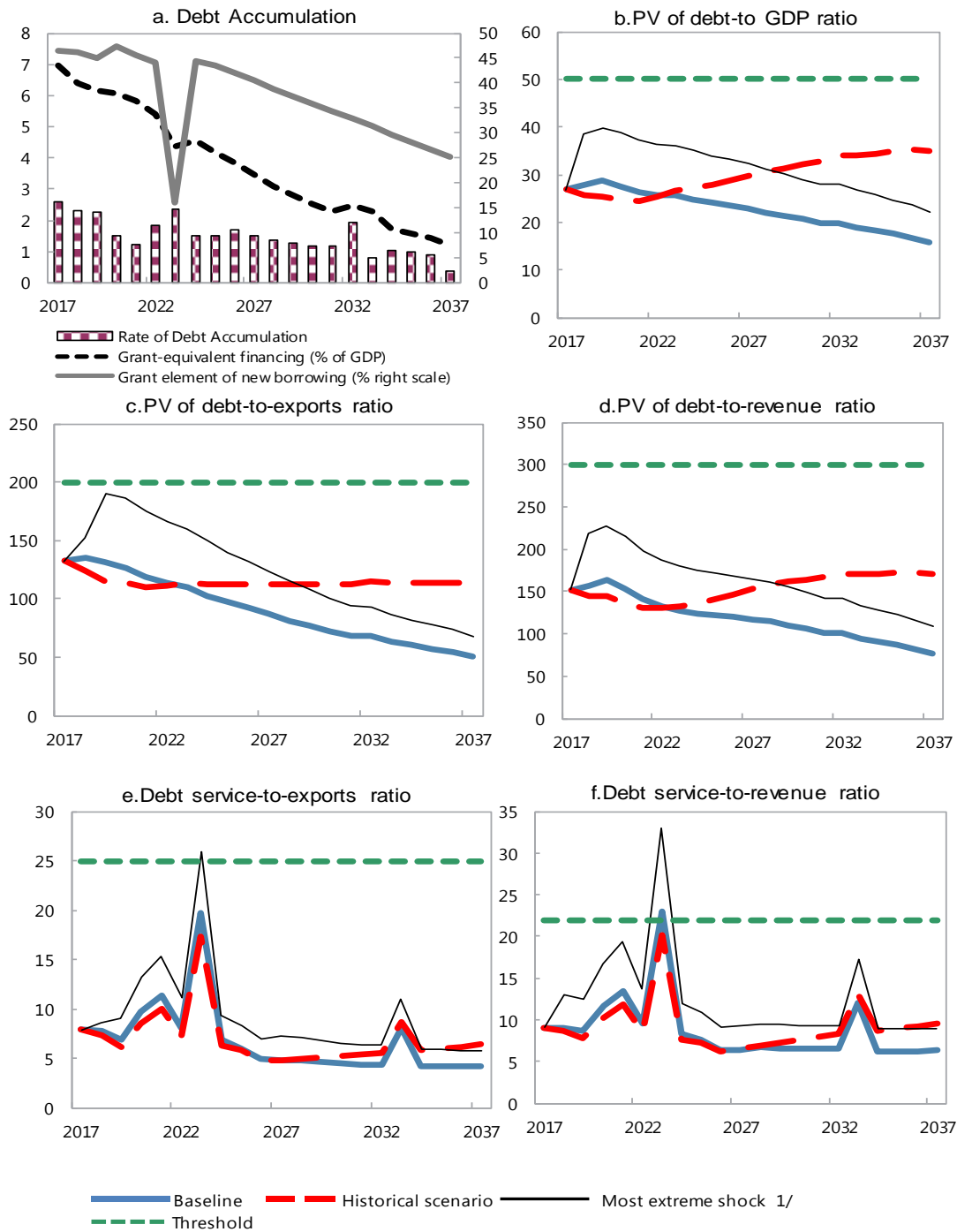
10. **The Rwandan authorities broadly agree with the results of this DSA and the overall conclusion of a low risk of external debt distress.** The authorities pay very close attention to debt sustainability, and regularly carry out their own analysis. They reiterated the commitment that their debt management strategy will be to maximize external concessional funding to avoid unsustainable debt levels, while developing the domestic capital market. The mix of domestic financing will be reoriented toward issuance of more treasury bonds vs. bills, therefore increasing the maturity length of the portfolio. They highlighted that recent and on-going investments and the implementation of measures to expand and diversify the traditional and non-traditional exports and tourism sectors should help improve resilience. The authorities also noted potential liquidity pressures when the 2013 Eurobond is set to mature, and agreed that having in place a prudent medium-term debt management strategy, and carefully prioritizing future projects and their financing are necessary to contain public debt vulnerabilities.

## CONCLUSION

11. **Rwanda continues to face a low risk of debt distress.** External debt burden indicators remain below “risk” thresholds, except for a small and temporary baseline breach, in the debt service-to-revenue ratio and stress test breach of the debt service-to-exports ratio. Those breaches underscore Rwanda’s susceptibility to external shocks and the potential risk of liquidity pressures in the future. However, it is judged that the risk arising from these breaches can be mitigated by the ability of the authorities to refinance non-concessional debt falling due in 2023, if sound macroeconomic and fiscal policies are maintained. Public debt, though increasing, remains comparatively low and the profile of Rwanda’s external debt burden is also expected to improve over time, given expected strong growth, expansion in exports and improvement in revenues.

12. **The main risk to Rwanda’s debt sustainability remains the narrow export base.** While it is assumed that this risk will be mitigated by export expansion and diversification over the assessment period, recent weakness in exports such as minerals, highlights the vulnerability that arises from a narrow export base heavily affected by fluctuating commodity prices and output. Moreover, should the anticipated medium-to longer-term expansion in exports fail to materialize, resulting in lower than expected export receipts, the risks to debt sustainability over the longer term would rise. And, more generally, while the high growth rates are expected to be sustained, policy vigilance is warranted should growth disappoint.

**Figure 3. Rwanda: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–2037 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

**Table 4. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2014–2037 1/**

(In percent of GDP, unless otherwise indicated)

	Actual			Historical <sup>6/</sup> Standard <sup>6/</sup>		Projections						2017–2022		2023–2037	
	2014	2015	2016	Average	Deviation	2017	2018	2019	2020	2021	2022	Average	2027	2037	Average
<b>External debt (nominal) 1/</b>	<b>27.1</b>	<b>31.1</b>	<b>39.0</b>			<b>41.3</b>	<b>43.3</b>	<b>45.2</b>	<b>44.6</b>	<b>43.7</b>	<b>43.3</b>		<b>39.2</b>	<b>29.4</b>	
<i>of which: public and publicly guaranteed (PPG)</i>	23.2	27.9	35.8			38.1	40.2	42.1	41.3	40.4	39.9		34.9	22.6	
Change in external debt	1.1	4.0	7.9			2.2	2.0	2.0	-0.6	-0.9	-0.4		-1.0	-1.5	
Identified net debt-creating flows	6.6	9.8	11.0			4.7	4.4	2.5	1.2	0.8	0.6		-0.2	-0.4	
<b>Non-interest current account deficit</b>	<b>11.1</b>	<b>12.7</b>	<b>13.7</b>	<b>8.2</b>	<b>3.8</b>	<b>9.2</b>	<b>10.3</b>	<b>9.0</b>	<b>7.8</b>	<b>7.5</b>	<b>7.2</b>		<b>6.2</b>	<b>5.6</b>	6.1
Deficit in balance of goods and services	16.8	17.2	18.0			12.8	13.7	12.3	11.5	10.9	10.4		8.7	6.9	
Exports	16.4	18.4	19.0			20.3	20.6	21.9	21.7	22.2	22.7		26.4	30.8	
Imports	33.2	35.6	37.0			33.1	34.3	34.2	33.3	33.2	33.2		35.1	37.7	
Net current transfers (negative = inflow)	-7.2	-6.5	-6.2	-10.0	2.6	-5.6	-5.4	-5.4	-5.2	-4.9	-4.6		-3.5	-2.0	-3.1
<i>of which: official</i>	-9.5	-8.4	-6.6			-6.0	-5.8	-5.7	-5.4	-5.0	-4.5		-2.9	-1.0	
Net current account flows (negative = net inflow)	1.5	2.0	2.0			2.0	2.0	2.1	1.5	1.4	1.4		1.0	0.8	
<b>Net FDI (negative = inflow)</b>	<b>-3.9</b>	<b>-2.7</b>	<b>-2.9</b>	<b>-2.5</b>	<b>0.9</b>	<b>-3.3</b>	<b>-4.2</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.4</b>		<b>-4.4</b>	<b>-4.6</b>	-4.5
<b>Endogenous debt dynamics 2/</b>	<b>-0.6</b>	<b>-0.2</b>	<b>0.2</b>			<b>-1.3</b>	<b>-1.7</b>	<b>-2.0</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-2.2</b>		<b>-2.0</b>	<b>-1.4</b>	
Contribution from nominal interest rate	0.7	0.7	0.7			1.0	1.0	1.0	0.9	0.8	0.8		0.7	0.7	
Contribution from real GDP growth	-1.9	-2.3	-1.8			-2.3	-2.7	-3.0	-3.2	-3.0	-3.0		-2.7	-2.1	
Contribution from price and exchange rate changes	0.6	1.5	1.3			...	...	...	...	...	...		...	...	
<b>Residual (3-4) 3/</b>	<b>-5.5</b>	<b>-5.9</b>	<b>-3.1</b>			<b>-2.4</b>	<b>-2.4</b>	<b>-0.6</b>	<b>-1.8</b>	<b>-1.7</b>	<b>-0.9</b>		<b>-0.8</b>	<b>-1.2</b>	-0.7
<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	
PV of external debt 4/	...	...	29.2			29.9	30.8	31.8	30.8	29.7	29.2		27.1	22.5	
In percent of exports	...	...	153.8			147.6	149.6	145.1	141.8	133.5	128.5		102.7	73.2	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>26.0</b>			<b>26.8</b>	<b>27.7</b>	<b>28.6</b>	<b>27.6</b>	<b>26.3</b>	<b>25.7</b>		<b>22.8</b>	<b>15.7</b>	
In percent of exports	...	...	136.9			132.2	134.7	130.7	126.9	118.5	113.2		86.6	51.0	
In percent of government revenues	...	...	140.3			152.1	157.1	164.3	152.8	140.6	132.7		117.2	77.0	
Debt service-to-exports ratio (in percent)	7.8	6.8	7.0			10.3	10.2	9.4	11.8	13.3	9.9		6.0	5.2	
PPG debt service-to-exports ratio (in percent)	4.5	4.0	4.5			7.9	7.7	6.9	9.7	11.4	8.1		4.8	4.2	
PPG debt service-to-revenue ratio (in percent)	4.5	4.0	4.6			9.1	9.0	8.7	11.7	13.5	9.5		6.5	6.3	
Total gross financing need (Billions of U.S. dollars)	0.7	1.0	1.1			0.8	0.8	0.7	0.7	0.8	0.7		0.8	1.8	
Non-interest current account deficit that stabilizes debt ratio	10.0	8.8	5.8			7.0	8.3	7.0	8.5	8.4	7.6		7.2	7.2	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	7.6	8.9	5.9	7.6	1.8	6.2	6.8	7.3	7.5	7.5	7.5	7.1	7.5	7.5	7.5
GDP deflator in US dollar terms (change in percent)	-2.4	-5.1	-4.1	2.7	6.6	-0.1	-1.2	-2.2	0.1	2.0	2.0	0.1	2.0	2.0	2.0
Effective interest rate (percent) 5/	2.7	2.5	2.2	1.6	0.9	2.7	2.5	2.4	2.2	2.1	2.0	2.3	2.0	2.4	2.2
Growth of exports of G&S (US dollar terms, in percent)	12.4	15.7	4.9	18.1	21.6	13.3	7.1	11.7	6.7	12.0	12.2	10.5	12.9	9.6	11.8
Growth of imports of G&S (US dollar terms, in percent)	8.9	10.9	5.3	15.6	14.8	-5.0	9.3	4.6	4.7	9.2	9.6	5.4	11.0	9.6	10.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	46.6	46.1	45.0	47.4	45.5	44.0	45.8	40.5	25.2	33.8
Government revenues (excluding grants, in percent of GDP)	16.5	18.4	18.5			17.6	17.6	17.4	18.0	18.7	19.4		19.5	20.4	19.9
Aid flows (in Billions of US dollars) 7/	0.9	0.9	0.8			0.7	0.7	0.7	0.7	0.7	0.7		0.8	0.6	
<i>of which: Grants</i>	0.6	0.5	0.4			0.4	0.4	0.4	0.4	0.4	0.5		0.5	0.5	
<i>of which: Concessional loans</i>	0.3	0.4	0.3			0.3	0.2	0.2	0.3	0.3	0.3		0.3	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.0	6.4	6.2	6.1	5.8	5.4		3.5	1.2	2.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.0	72.5	72.7	73.1	70.7	69.7		68.4	58.8	60.4
<i>Memorandum items:</i>															
Nominal GDP (Billions of US dollars)	8.0	8.3	8.4			8.9	9.4	9.9	10.6	11.6	12.8		20.2	50.4	
Nominal dollar GDP growth	5.1	3.3	1.6			6.1	5.6	4.8	7.6	9.6	9.6	7.2	9.6	9.6	9.6
PV of PPG external debt (in Billions of US dollars)	...	...	2.1			2.3	2.5	2.7	2.9	3.0	3.2		4.5	7.8	
(Pvt-Pvt-1)/GDPT-1 (in percent)	...	...	...			2.6	2.3	2.3	1.5	1.2	1.9	2.0	1.5	0.4	1.3
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.5	1.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	25.5			26.3	27.2	28.1	27.1	25.8	25.2		22.3	15.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	123.9			120.9	123.3	120.3	116.6	109.0	104.4		79.7	46.6	
Debt service of PPG external debt (in percent of exports + remittance)	...	...	4.1			7.2	7.1	6.3	8.9	10.5	7.5		4.4	3.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g\rho)$  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 PV 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, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

**Table 5. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–2037**  
(In percent)

	Projections											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2037
<b>PV of debt-to-GDP ratio</b>												
<b>Baseline</b>	27	28	29	28	26	26	26	25	24	23	<b>23</b>	16
<b>A. Alternative Scenarios</b>												
A1. Key variables at their historical averages in 2017-2037 1/	27	26	25	25	25	25	26	27	28	29	<b>30</b>	35
A2. New public sector loans on less favorable terms in 2017-2037 2	27	28	30	30	30	30	32	32	32	31	<b>31</b>	26
<b>B. Bound Tests</b>												
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	27	27	28	28	26	26	26	25	24	24	<b>23</b>	16
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	27	28	32	32	30	29	29	28	27	26	<b>25</b>	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	27	28	29	28	27	26	26	25	25	24	<b>23</b>	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	27	27	29	28	27	26	26	25	24	24	<b>23</b>	16
B5. Combination of B1-B4 using one-half standard deviation shocks	27	26	26	26	25	24	24	23	23	22	<b>21</b>	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	27	38	40	39	37	36	36	35	34	33	<b>32</b>	22
<b>PV of debt-to-exports ratio</b>												
<b>Baseline</b>	132	135	131	127	118	113	110	103	97	92	<b>87</b>	51
<b>A. Alternative Scenarios</b>												
A1. Key variables at their historical averages in 2017-2037 1/	132	124	115	113	110	111	113	113	112	113	<b>113</b>	113
A2. New public sector loans on less favorable terms in 2017-2037 2	132	136	137	140	136	134	137	132	127	123	<b>118</b>	84
<b>B. Bound Tests</b>												
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	132	130	126	125	116	111	108	101	95	90	<b>85</b>	50
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	132	152	189	187	174	166	160	149	140	132	<b>124</b>	68
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	132	130	126	125	116	111	108	101	95	90	<b>85</b>	50
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	132	132	131	129	121	115	111	104	98	93	<b>87</b>	51
B5. Combination of B1-B4 using one-half standard deviation shocks	132	126	127	125	117	112	109	102	96	91	<b>86</b>	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	132	130	126	125	116	111	108	101	95	90	<b>85</b>	50
<b>PV of debt-to-revenue ratio</b>												
<b>Baseline</b>	152	157	164	153	141	133	128	124	121	120	<b>117</b>	77
<b>A. Alternative Scenarios</b>												
A1. Key variables at their historical averages in 2017-2037 1/	152	145	145	137	131	130	132	136	141	147	<b>152</b>	171
A2. New public sector loans on less favorable terms in 2017-2037 2	152	159	172	169	161	157	160	159	159	160	<b>160</b>	126
<b>B. Bound Tests</b>												
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	152	153	162	154	141	133	128	125	122	120	<b>118</b>	77
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	152	160	185	175	161	151	144	140	137	134	<b>130</b>	80
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	152	156	166	157	145	136	131	128	125	123	<b>120</b>	79
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	152	154	165	156	143	135	130	126	123	121	<b>118</b>	76
B5. Combination of B1-B4 using one-half standard deviation shocks	152	147	151	143	131	124	120	116	114	112	<b>110</b>	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	152	218	228	216	198	187	180	175	171	169	<b>165</b>	108

**Table 5. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–2037 (Concluded)**  
(In percent)

Debt service-to-exports ratio												
<b>Baseline</b>	8	8	7	10	11	8	20	7	6	5	<b>5</b>	4
<b>A. Alternative Scenarios</b>												
A1. Key variables at their historical averages in 2017-2037 1/	8	7	6	8	10	7	17	6	6	5	<b>5</b>	6
A2. New public sector loans on less favorable terms in 2017-2037 2	8	8	7	10	12	8	20	7	7	7	<b>6</b>	6
<b>B. Bound Tests</b>												
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	8	8	7	10	11	8	20	7	6	5	<b>5</b>	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	8	9	9	13	15	11	26	9	8	7	<b>7</b>	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	8	8	7	10	11	8	20	7	6	5	<b>5</b>	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	8	8	7	10	11	8	20	7	6	5	<b>5</b>	4
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	7	10	12	8	20	7	6	5	<b>5</b>	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	8	8	7	10	11	8	20	7	6	5	<b>5</b>	4
Debt service-to-revenue ratio												
<b>Baseline</b>	9	9	9	12	13	10	23	8	8	6	<b>6</b>	6
<b>A. Alternative Scenarios</b>												
A1. Key variables at their historical averages in 2017-2037 1/	9	9	8	10	12	8	20	8	7	6	<b>6</b>	10
A2. New public sector loans on less favorable terms in 2017-2037 2	9	9	9	12	14	10	23	9	9	8	<b>9</b>	9
<b>B. Bound Tests</b>												
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	9	9	9	12	14	10	23	8	8	6	<b>7</b>	6
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	9	9	9	12	14	10	23	9	8	7	<b>8</b>	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	9	9	9	12	14	10	24	9	8	7	<b>7</b>	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	9	9	9	12	14	10	23	8	8	7	<b>7</b>	6
B5. Combination of B1-B4 using one-half standard deviation shocks	9	9	8	11	13	9	22	8	7	6	<b>6</b>	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	9	13	12	17	19	14	33	12	11	9	<b>9</b>	9
<i>Memorandum item:</i>												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	33	33	33	33	<b>33</b>	33

Sources: Country authorities; and staff estimates and projections.

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).

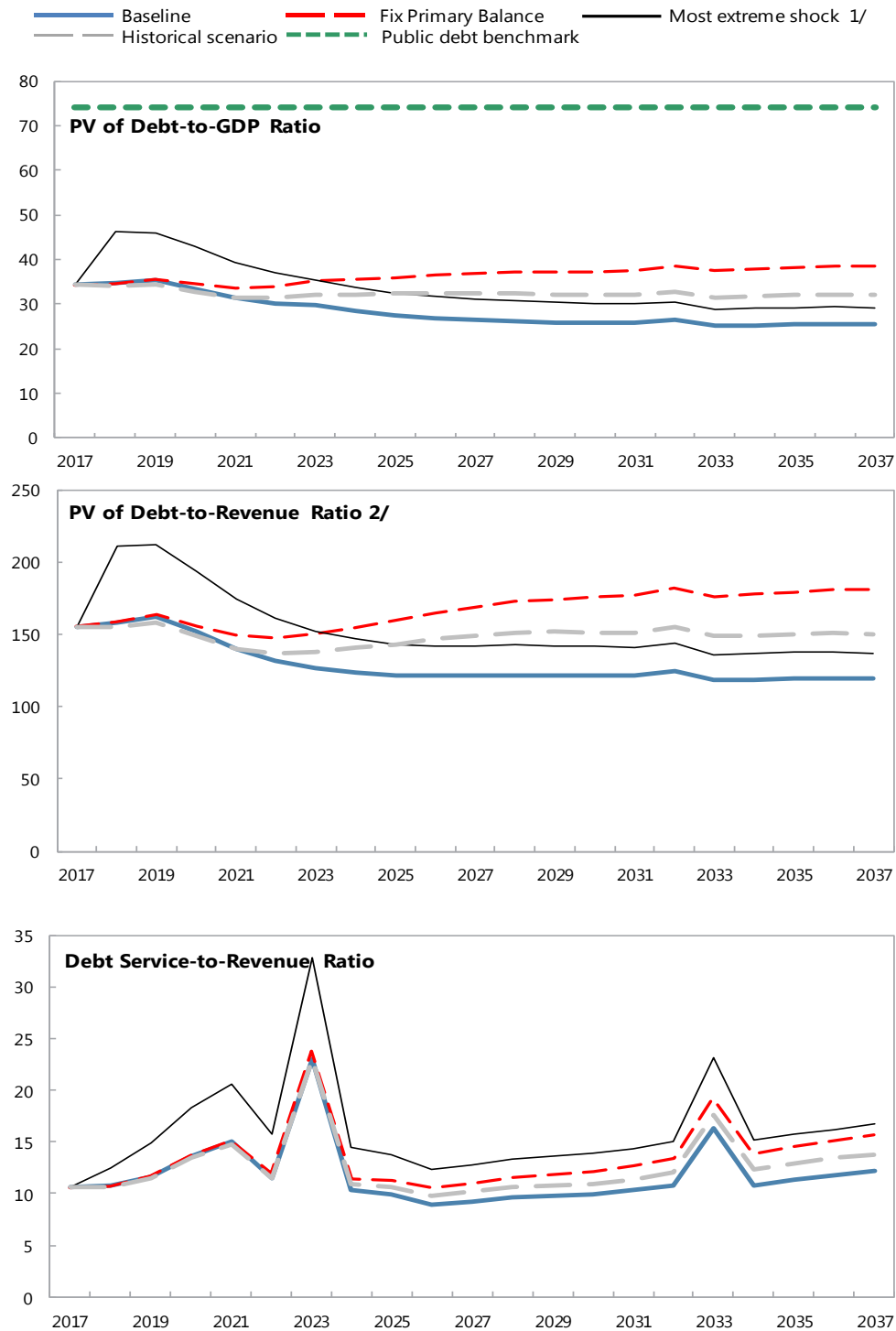
4/ Includes official and private transfers and FDI.

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.



**Figure 4. Rwanda: Indicators of Public Debt Under Alternative Scenarios, 2017–2037 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

**Table 6. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–2037**

(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	Estimate						Projections		
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037
<b>Public sector debt 1/</b>	30.4	36.4	44.5			45.7	47.1	48.7	47.3	45.5	44.3		38.6	32.2
<i>of which: foreign-currency denominated</i>	23.2	27.9	35.8			38.1	40.2	42.1	41.3	40.4	39.9		34.9	22.6
Change in public sector debt	1.7	6.0	8.0			1.2	1.4	1.6	-1.4	-1.8	-1.1		-0.9	-0.9
Identified debt-creating flows	4.3	3.4	1.7			0.5	0.7	0.9	-1.9	-2.2	-2.6		-1.6	-0.4
Primary deficit	4.9	3.7	2.7	1.9	1.8	2.6	2.4	2.4	1.5	0.7	0.2	1.7	0.7	1.2
Revenue and grants	24.2	24.7	23.7			22.1	21.9	21.7	22.1	22.5	22.9		21.9	21.3
<i>of which: grants</i>	7.7	6.3	5.1			4.5	4.3	4.3	4.1	3.8	3.6		2.4	0.9
Primary (noninterest) expenditure	29.2	28.4	26.4			24.7	24.4	24.1	23.6	23.3	23.2		22.6	22.5
Automatic debt dynamics	-1.3	0.0	-0.2			-2.0	-1.3	-1.1	-3.0	-2.9	-2.8		-2.3	-1.6
Contribution from interest rate/growth differential	-2.1	-2.2	-1.8			-2.3	-2.5	-2.7	-3.0	-2.9	-2.8		-2.3	-1.2
<i>of which: contribution from average real interest rate</i>	0.0	0.3	0.2			0.2	0.4	0.5	0.4	0.4	0.4		0.5	1.1
<i>of which: contribution from real GDP growth</i>	-2.0	-2.5	-2.0			-2.6	-2.9	-3.2	-3.4	-3.3	-3.2		-2.8	-2.3
Contribution from real exchange rate depreciation	0.8	2.2	1.7			0.3	1.2	1.6	0.0	0.0	0.0		...	...
Other identified debt-creating flows	0.6	-0.4	-0.8			-0.2	-0.4	-0.4	-0.4	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.6	-0.4	-0.8			-0.2	-0.4	-0.4	-0.4	0.0	0.0		0.0	0.0
KCC and Rwandair related						0.0								
Residual, including asset changes	-2.6	2.7	6.3			0.7	0.7	0.7	0.5	0.4	1.5		0.7	-0.4
														0.5
<b>Other Sustainability Indicators</b>														
<b>PV of public sector debt</b>	...	...	34.6			34.3	34.6	35.3	33.5	31.4	30.2		26.5	25.4
<i>of which: foreign-currency denominated</i>	...	...	26.0			26.8	27.7	28.6	27.6	26.3	25.7		22.8	15.7
<i>of which: external</i>	...	...	26.0			26.8	27.7	28.6	27.6	26.3	25.7		22.8	15.7
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	9.8	8.6	9.1			9.1	8.5	8.6	8.5	7.9	6.3		5.2	8.6
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	146.4			155.2	157.6	162.5	151.5	139.4	131.5		121.4	119.0
PV of public sector debt-to-revenue ratio (in percent)	...	...	186.9			194.8	196.1	202.3	185.6	167.9	155.7		136.2	124.5
<i>of which: external 3/</i>	...	...	140.3			152.1	157.1	164.3	152.8	140.6	132.7		117.2	77.0
Debt service-to-revenue and grants ratio (in percent) 4/	4.8	5.2	6.2			10.6	10.7	11.6	13.7	15.0	11.5		9.2	12.2
Debt service-to-revenue ratio (in percent) 4/	7.1	7.0	7.9			13.3	13.3	14.5	16.8	18.1	13.7		10.3	12.7
Primary deficit that stabilizes the debt-to-GDP ratio	3.2	-2.3	-5.3			1.4	1.1	0.8	3.0	2.5	1.4		1.6	2.1
<b>Key macroeconomic and fiscal assumptions</b>														
Real GDP growth (in percent)	7.6	8.9	5.9	7.6	1.8	6.2	6.8	7.3	7.5	7.5	7.5	7.1	7.5	7.5
Average nominal interest rate on forex debt (in percent)	2.4	2.2	2.0	2.6	3.3	2.5	2.3	2.2	2.1	1.9	1.8	2.1	1.8	1.9
Average real interest rate on domestic debt (in percent)	1.8	5.6	1.3	1.3	2.8	0.6	3.8	5.5	5.5	6.8	8.8	5.2	15.8	8.4
Real exchange rate depreciation (in percent, + indicates depreciation)	3.7	10.3	6.2	0.5	6.5	1.0	3.3	4.3	-0.1	-0.1	-0.1	...	...	...
Inflation rate (GDP deflator, in percent)	3.0	0.1	4.9	6.3	4.3	7.4	5.5	4.6	5.0	5.0	5.0	5.4	5.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	9.1	6.0	-1.6	1.4	3.3	-0.5	5.3	6.2	5.3	5.7	7.0	4.8	7.3	7.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	46.6	46.1	45.0	47.4	45.5	44.0	45.8	40.5	25.2

Sources: Country authorities; and staff estimates and projections.

1/ Refers to gross debt of the central government.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table 7. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt 2017–2037**

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	34	35	35	33	31	30	27	25
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	34	34	34	33	31	31	32	32
A2. Primary balance is unchanged from 2017	34	35	36	34	34	34	37	39
A3. Permanently lower GDP growth 1/	34	35	36	34	32	31	30	35
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20:	34	35	36	35	33	32	29	30
B2. Primary balance is at historical average minus one standard deviations in 2018-201	34	35	37	35	33	32	28	26
B3. Combination of B1-B2 using one half standard deviation shocks	34	35	36	34	32	31	28	27
B4. One-time 30 percent real depreciation in 2018	34	46	46	43	39	37	31	29
B5. 10 percent of GDP increase in other debt-creating flows in 2018	34	41	42	40	38	36	31	27
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	155	158	163	152	139	132	121	119
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	155	155	158	148	140	137	149	150
A2. Primary balance is unchanged from 2017	155	158	164	156	149	148	169	181
A3. Permanently lower GDP growth 1/	155	158	164	154	143	136	136	164
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	155	159	167	157	146	139	134	139
B2. Primary balance is at historical average minus one standard deviations in 2018-201	155	162	170	159	146	138	126	122
B3. Combination of B1-B2 using one half standard deviation shocks	155	159	166	155	143	135	126	125
B4. One-time 30 percent real depreciation in 2018	155	211	212	194	175	161	142	137
B5. 10 percent of GDP increase in other debt-creating flows in 2018	155	189	194	181	167	156	141	129
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	11	11	12	14	15	12	9	12
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	11	11	11	13	15	11	10	14
A2. Primary balance is unchanged from 2017	11	11	12	14	15	12	11	16
A3. Permanently lower GDP growth 1/	11	11	12	14	15	12	10	15
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20:	11	11	12	14	15	12	10	13
B2. Primary balance is at historical average minus one standard deviations in 2018-201	11	11	12	14	15	12	9	12
B3. Combination of B1-B2 using one half standard deviation shocks	11	11	12	14	15	12	9	13
B4. One-time 30 percent real depreciation in 2018	11	12	15	18	21	16	13	17
B5. 10 percent of GDP increase in other debt-creating flows in 2018	11	11	13	15	16	13	11	13

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.



June 27, 2017

# RWANDA

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, AND SECOND REVIEW UNDER THE STANDBY CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department  
(In Consultation with other departments)

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## RELATIONS WITH THE FUND

(As of May 31, 2017)

**Membership Status:** Joined: September 30, 1963;

Article VIII

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	160.2	100.00
Fund holdings of currency	140.19	87.51
Reserve Tranche Position	20.03	12.50

<b>SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	76.82	100.00
Holdings	55.53	72.28

<b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
SCF Arrangements	108.14	67.50
ECF Arrangements	1.73	1.08

### Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SCF	June 8, 2016	Dec. 7, 2017	144.18	108.14
ECF <sup>1/</sup>	June 12, 2006	Aug. 07, 2009	8.01	8.01
ECF <sup>1/</sup>	Aug. 12, 2002	June 11, 2006	4.00	4.00

### Projected Payments to Fund<sup>2/</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Principal	0.57	0.80	0.35	16.02	24.03
Charges/Interest	<u>0.07</u>	<u>0.12</u>	<u>0.12</u>	<u>0.12</u>	<u>0.32</u>
<b>Total</b>	<u>0.64</u>	<u>0.92</u>	<u>0.47</u>	<u>16.14</u>	<u>24.35</u>

<sup>1/</sup> Formerly PRGF.

<sup>2/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:**

Enhanced Framework

## I. Commitment of HIPC assistance

Decision point date	December 2000
Assistance committed by all creditors (US\$ Million) <sup>3/</sup>	695.50
<i>Of which:</i> IMF assistance (US\$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	April 2005

## II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed	46.79
Interim assistance	14.45
Completion point balance	32.34
Additional disbursement of interest income <sup>4/</sup>	3.77
<b>Total disbursements</b>	<b>50.56</b>

**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 4 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

<sup>3/</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>4/</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.

**Implementation of Multilateral Debt Relief Initiative (MDRI)**

I. MDRI -eligible debt (SDR Million) <sup>5/</sup>	52.74
Financed by: MDRI Trust	20.19
Remaining HIPC resources	32.55

## II. Debt Relief by Facility (SDR million)

<b>Delivery Date</b>	<b>GRA</b>	<b>PRGT</b>	<b>Total</b>
January 2006	N/A	52.74	52.74

**Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable****Safeguards Assessments:**

An update safeguards assessment of the Banque Nationale du Rwanda (BNR) was finalized in November 2016. Previous assessment was completed in 2007. The 2016 assessment found that the Banque Nationale du Rwanda (BNR) had strengthened its safeguards framework. The bank has undertaken an organizational restructuring, adjusted its financial reporting and auditing practices with international standards, and modernized its IT systems. Progress has been notable with many initiatives still underway, including increasing bank-wide staff capacity, resolving IT implementation issues, subjecting the internal audit function to an external assessment, and enhancing Board and audit committee composition. Recommendations were made to enhance the safeguards framework, including aspects of external audit arrangements.

**Exchange Rate Arrangement:**

The currency of Rwanda is the Rwandan franc. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF and maintains a system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. As of June 15, 2017, the exchange rate against the US dollar was RWF 821. Since end-July 2015, the exchange rate has depreciated 14.5 percent against the US dollar, 9.9 percent in NEER terms, and 4.4 percent in REER terms. The de facto exchange rate regime has been reclassified retroactively to a "crawl-like" arrangement from "other managed," effective March 4, 2015, because daily fluctuation of the Rwandan franc remained within +/- 2 percent against the US dollar relative to a trend over a six-month period. The de jure exchange rate regime is classified as floating.

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<sup>5/</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).

**Article IV Consultation:**

Rwanda is on the 24-month consultation cycle. The Executive Board discussed the staff report for the 2014 Article IV consultation (IMF Country Report No. 14/343) on December 8, 2014.

**Technical Assistance and Future Priorities:****List of Technical Assistance Missions (2014–2017)****Year of Delivery****FAD:**

Public investment management	2016
Improving the collection and management of tax arrears	2016
Developing a framework & guidelines for monitoring & managing compliance in telecom	2016
Revenue administration	2016
Tax compliance	2015
Fiscal decentralization	2014
Corporate risk management	2014
Taxation on agriculture, mining and immovable properties	2014
Revenue forecasting	2014

**MCM:**

Risk based solvency	2017
Modernization of the monetary policy framework and FX operations	2016
Supervisory framework for foreign exchange bureau	2016
Stress testing	2016
Implementation of Basel II/III	2014–15
Bond markets developments	2015
FX market operations	2014
Consolidated supervision	2015
Capital and liquidity framework	2014

**STA:**

National accounts and price statistics	2015–17
Government finance statistics	2015–16
Balance of payments	2014–16
Monetary and financial statistics	2016

**LEG:**

Banking law	2015
AML/CFT Supervisory Tools and Practices	2015

**RES/ICD:**

Building a Forecasting and Policy Analysis System	2014–2017
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**Resident Representative:**

Mr. Alun Thomas. assumed his duties as Resident Representative in August 2015.



# JOINT WORLD BANK–FUND WORK PROGRAM, 2017

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
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## I. Mutual Information on Relevant Work Program

### Bank Work Program

#### A. Strategy and Analytical Work

#### Completed After January 2014

TA	Rwanda Strength. Fin. Stability-Part1	January 2014
TA	Rwanda Open Data and Transform Africa	January 2014
TA	Review of RW Energy Generation Investment	April 2014
	Country Assistance Strategy	June 2014

#### Ongoing

EW	Economic Geography and Urbanization
TA	Rwanda Report on the Observance of Standards and Codes
TA	Great Lakes Trade Facilitation Project
EW	Agriculture Policy Note, Rwanda Land Sector Study
EW	Strengthening Financial Stability

#### B. Ongoing and New Projects

PFM operation	FY2019
Urbanization phase 2	FY2018
Social protection Project	FY2018
Energy DPO	FY2018
Transformation of Agriculture Sector Program Phase 3	FY 2017
Economic Landscape Approach to Forest Restoration and Conservation 2014	August
Transformation of Agriculture Sector Program Phase 3	October 2014
Public Sector Governance Program for Results	December 2014

<b>Title</b>	<b>Products/Activity</b>	<b>Timing of mission (if relevant)</b>	<b>Expected delivery date</b>
	Electricity Access (Additional Financing)		February 2013
	Second Support to Social Protection Systems		March 2013
	Third Support to Social Protection Systems		March 2014
	Feeder Roads Development Project		March 2014
	Third Rural Sector Support Project (Additional Financing)		March 2014
	Decentralized Service Delivery		May 2013
	Statistics for Results Project		March 2012
	Governance and Competitiveness TA Project		January 2012
	Economic Empowerment of Young Women		May 2011
	Skills Development Project		March 2011
	Second Emergency Demobilization and Reintegration Project (Additional Financing)		April 2014
	Land Husbandry, Water Harvesting, and Hillside Irrigation		December 2013
	Rwanda Electricity Access Scale-up and Sector-wide approach Project		October 2009
	Transport Sector Development Project		August 2007
	Regional Rusumo Hydroelectricity Project		August 2013
	L. Victoria Environment Management Project (Ph. 2)		June 2011
	East Africa Public Health Laboratories Networking Project		May 2010
	Regional Communications Infrastructure Project II		September 2008
	East Africa Trade and Transport Facilitation Project		January 2006
<b>IMF Work Program</b>		<u>A. Missions</u>	
	Eighth PSI Review and Third SCB Review	October 2017	January 2018
	Tenth PSI Review	March 2018	July 2018
		<u>B. Analytical Work</u>	
	Investment strategy to foster structural transformation in Rwanda		June 2017

<b>Title</b>	<b>Products/Activity</b>	<b>Timing of mission (if relevant)</b>	<b>Expected delivery date</b>
	Staying the reole model: advancing gender equality in Rwanda		June 2017
	Macrofinancial dimensions in Rwanda: Stability, inclusion and development		June 2017

## **II. Request for Work Program Inputs**

<b>Bank Request to Fund</b>	Sharing macro-framework updates		As needed
<b>Fund Request to Bank</b>	Assessment of key infrastructure projects undertaken by the government.		As needed

## **III. Agreement on Joint Products**

<b>Joint products</b>	Debt Sustainability Analysis		Ongoing
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## STATISTICAL ISSUES

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has some shortcomings; but is broadly adequate for surveillance (case B). The quality of national accounts, government finance and monetary statistics is high in Rwanda and the country makes good use of technical assistance support from the IMF. The country has one of the most frequent base year updates among SSA countries and coordinates the base year update with a new household survey to get a better sense of home production and the informal sector. The government released its latest five-year plan in the fall of 2013 advocating the need for greater resources to improve capacity and help monitor the yardsticks embedded in the government's latest Economic Development and Poverty Reduction Strategy.

**National Accounts and Price Statistics:** Annual and quarterly GDP estimates in current and 2014 constant prices are compiled and disseminated by NISR, based on the 2008 System of National Accounts concepts. Commendable efforts have been made to improve the GDP estimates, with technical assistance being provided by the East AFRITAC and DFID. NISR has been disseminating quarterly GDP estimates from 2010 and released the latest estimates consistent with the 2014 base year revision in March 2017.

Annual agricultural surveys have recently been introduced making use of GPS territory data and this should help improve agricultural production estimates over time.

The absence of a comprehensive economy-wide business survey precludes a reliable benchmark of economic activities in the private sector. Proxy indicators such as monthly VAT turnover data cover the formal sector and financial data reported by a limited number of large companies are used to estimate the production.

Economic activities in the informal sector are estimated in the household surveys released every three years, the latest household survey was published in 2014.

On the expenditure side, estimates of government consumption, gross capital formation, and trade in goods and services are compiled from data sources including government budget reports and balance of payment estimates, but private consumption and changes in inventories are estimated as the gap between the sum of these components and a total GDP estimate from the production approach.

**Government Finance Statistics:** Rwanda is transitioning to GFSM 2014 to meet EAC requirements. The authorities' nearly complete efforts to automate IFMS to produce annual and high-frequency GFSM 2014-compliant data for all budgetary central government (BCG), most extrabudgetary units (EBUs), and all local governments (LGs) on a timely basis. However, efforts should continue to add remaining EBUs, social security funds (SSFs), and development projects to IFMS, and to finalize bridging from a GFSM 1986 to a GMFS 2014 framework.

### I. Assessment of Data Adequacy for Surveillance (concluded)

**Monetary Statistics:** The balance sheet of the NBR and detailed data on money market transactions are transmitted to AFR on a weekly basis with a lag of one week, while the monetary survey and the consolidated balance sheet of commercial banks are transmitted on a monthly basis with a lag of about five weeks.

**Balance of Payments:** The BNR has made important improvements to the balance of payments compilation, adopting the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* presentation and also expanding data coverage by implementing the results of the Foreign Private Capital Survey (FPC) and launching various new services surveys. The FPC is used to collect flows, positions, and income data in an integrated survey instrument for both financial assets and liabilities. Direct investment liabilities are to be well measured, in part because they are sourced from the Rwanda Development Board (RDB).

On remittances, data are available for formal transfers through banks and Money Transfer Operators (MTOs) but informal estimates are less reliable and are being cross-checked with the 2011 Integrated Living Costs Survey.

The coverage of external aid remains a cause of concern. Data produced by the CEPEX does not include offshore payments, direct payments to contractors, and technical assistants, nor does it capture aid from important UN agencies and from certain countries. Only the external aid registered in the Government budget is fully covered. Concerning the NGO sector, the data should result from the survey of NGOs, but its coverage is insufficient.

Databases on external public debt are maintained by both MINECOFIN and the NBR.

A committee, composed of staffs from the ministries of finance and economic planning, foreign affairs, and the NBR, is responsible for collecting, harmonizing, and monitoring the data

### II. Data Standards and Quality

Rwanda has subscribed to the GDDS since 2009 but the dissemination of the sector pages has been spotty. As part of a current review the authorities have indicated that they will update the pages on national accounts statistics, CPI and producer price index and submit to the IMF by end November 2014. The pages for External Trade and Balance of Payments are also being updated.

The quality of the national accounts data in Rwanda is one of the highest in Sub-Saharan Africa with annual agricultural surveys now well integrated into the calculation of output. The updating of base years is also done on a frequent basis and household survey releases are now more frequent than any other country in Sub-Saharan Africa.

Table of Common Indicators Required for Surveillance

	Date of latest observation (all dates in table use mm/dd/yy format)	Date received	Frequency of Data <sup>7/</sup>	Frequency of Reporting <sup>7/</sup>	Frequency of Publication <sup>7</sup>	Memo Items: <sup>8/</sup>	
						Data Quality – Methodological soundness <sup>9/</sup>	Data Quality – Accuracy and reliability <sup>10/</sup>
Exchange rate	06/14/17	06/14/17	D,M	D,M	D,M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1/</sup>	06/07/17	06/12/17	D,M	D,M	M		
Reserve/Base Money	06/07/17	06/12/17	D,M	D,M	M	LO, LO, LO, LO	LO, O, O, O, LO
Broad Money	04/30/17	06/07/17	M	M	M		
Central Bank Balance Sheet	04/30/17	06/07/17	D	D	D		
Consolidated Balance Sheet of the Banking System	04/30/17	06/07/17	M	M	M		
Interest Rates <sup>2/</sup>	04/30/17	07/06/17	M	M	M		
Consumer Price Index	31/05/17	06/12/17	M	M	M	O, LO, O, LO	LNO, LNO, LNO, O, O
Revenue, Expenditure, Balance and Composition of Financing <sup>3/</sup> – General Government <sup>4/</sup>	03/31/17	05/02/17	Q	Q	Q	LNO, LNO, LNO, LO	LO, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing <sup>3/</sup> – Central Government	03/31/17	05/02/17	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5/</sup>	03/31/17	05/02/17	Q	Q	Q		
External Current Account Balance	12/31/16	05/02/17	A	A	A	LO, LO, LO, LO	LO, LNO, O, LNO, LNO
Exports and Imports of Goods and Services	12/31/16	05/02/17	M	M	M		

**Table of Common Indicators Required for Surveillance** (concluded)

GDP/GNP	12/31/16 (A) 12/31/16 (Q)	03/25/17 03/25/17	Q,A	Q,A	Q,A	LO, LO, LO, LO	LNO, LNO, O, LO, LO
Gross External Debt	12/31/16	03/25/17	M	M	M		
International Investment Position <sup>6/</sup>	NA	NA	NA	NA	NA		

<sup>1/</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<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> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7/</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

<sup>8/</sup> These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

<sup>9/</sup> This reflects the assessment provided in the data ROSC or the Substantive Update (published on March 12, 2004 and based on the findings of the mission that took place during October 8–22, 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

<sup>10/</sup> Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

## **Statement by**

**Mr. Daouda Sembene, Executive Director for Rwanda**

**Mr. Marcellin Koffi Alle, Senior Advisor to the Executive Director  
and**

**Ms. Loy Nankunda, Advisor to the Executive Director**

**July 12, 2017**

The Rwandan authorities appreciate the instrumental role that the PSI and SCF arrangements have played in supporting their macroeconomic policies and contributing to the impressive achievements made by Rwanda toward economic transformation and poverty reduction over the past several years.

Rwanda has maintained its momentum of high growth and far-reaching reforms underpinned by strong country ownership of IMF-supported programs and political commitment. The PSI and the SCF-supported programs have served as appropriate anchors for policies aimed at addressing the external imbalances and adjusting to exogenous shocks such as inclement weather conditions. Sustained implementation of a sound reform and policy agenda translated into a broadly satisfactory program performance, thus helping make strides towards the country's ambitious development goals set in the authorities' Vision 2020. Going forward, the Rwandan authorities are committed to maintaining macroeconomic stability, while advancing bold reforms conducive to private sector development, economic transformation, job creation and further poverty reduction.

The authorities are thankful to IMF staff for the constructive policy discussions held in Kigali in the context of the 2017 Article IV Consultation, the seventh review under the Policy Support Instrument Program (PSI), and the second review under the Standby Credit Facility (SCF). We also welcome the informative Selected Issues paper which addresses issues of great interest for the authorities.

### **Recent Economic Developments and Program Performance**

The authorities' reform efforts and sound policymaking have contributed to economic outcomes despite the adverse impact of a severe drought on agricultural production and other unfavorable domestic and external developments. GDP grew by 5.9 percent in 2016, broadly in line with projections but tempered notably by the impact of the drought on agricultural production, maturing of large infrastructure projects and a tightening of the policy stance. After rising to about 8 percent in February, headline inflation has begun easing in the second quarter, largely reflecting improved food availability. Core inflation hovered around 4.9 percent in May. The external position improved because of an improvement in the trade balance.

Program performance remained strong under the PSI and SCF arrangements. All end-December 2016 quantitative performance and assessment criteria and most indicative targets



were met. Similarly, most structural benchmarks (SB) through end- March 2017 were observed. One SB related to the submission of the National Investment Policy to Cabinet for approval was observed with a slight delay. The submission to Parliament of a revised legislation on fixed asset is now expected to be completed by the next review along with the transition of fiscal reporting into the GFS14 framework with a view to facilitating recording of donor project implementation.

### **Outlook and Medium-Term Policies**

The Rwandan authorities remain optimistic about the economic outlook, given the favorable weather conditions and the expected impact of their medium-term policies. Growth in 2017 is expected to pick up to 6.2 percent and will remain strong over the medium term, supported by a rebound in agriculture production and a strong service sector driven by buoyant activity in business tourism. Inflation is also expected to meet the medium-term target of 5 percent, as food price inflation abates.

The authorities are aware of the downside risks to the outlook and they remain committed to taking necessary actions to enhance economic resilience and maintain the strong growth momentum. Their medium-term policies are designed accordingly and are geared toward enhancing domestic revenue mobilization, maintaining a prudent monetary policy, fostering financial deepening and inclusion, and spurring private sector development and economic transformation.

### **Fiscal policy**

The authorities are committed to the programmed fiscal deficit of 3.7 percent of GDP. To this end, their strategy for the period ahead is aimed at increasing fiscal revenue through appropriate measures to broaden the tax base and enhance tax collection. Thus, far, revenue mobilization has slightly exceeded the target by 0.1 percent of GDP for FY 2016/17 due to strong collection of corporate income taxes. The large taxpayer audits and the phasing out of financial sector tax exemptions have also contributed to this performance. In addition, several measures were implemented to enhance revenue administration, including expanding the use of electronic domestic tax filing and billing, building a taxpayer database, and ensuring strict tax compliance, while integrating e-payment with the mobile money system and using the visa card service operators.

Going forward, the authorities will implement new and forward-looking revenue and administrative measures, including a new property tax law to be sent to Parliament this summer, increases on excise taxes, a revenue-enhancing expansion of the use of electronic billing machines, and the introduction of using big data and data analytics to improve tax compliance, combat fraud and increase tax revenue. These efforts will contribute to further increasing the tax-to-GDP ratio and offset revenue shortfalls stemming from the tax incentives granted as part of the “Made in Rwanda” campaign. Though this campaign is expected to affect revenue in the short run, the authorities strongly believe that its yields in the medium-to-long term will outstrip costs, as the goal is to enhance private sector output and hence broaden the tax base. In this regard, the authorities intend to produce a report

assessing the growth-enhancing aspects of these incentives after a full year of implementation.

On the expenditure side, the authorities are committed to sustaining their focus on investment spending, while maintaining current spending such as the wage bill in check. Furthermore, they will move towards the EAC medium-term deficit objective of 3 percent of GDP, notably with a view to preserving fiscal and debt sustainability. The authorities are also in the process of transitioning to a new fiscal statistics framework with the aim of improving fiscal transparency and public financial management.

### **Monetary policy and financial sector development**

The authorities have continued to pursue a prudent monetary policy, consistent with the dual objective of maintaining low and stable inflation and supporting growth. Inflationary pressures observed during last year and early 2017 are largely driven by the drought-caused high food prices and the exchange rate pass-through to domestic prices. As pressures were easing in 2017 thanks to stronger agricultural performance, the BNR lowered its policy rate by 25 basis points to 6.0 percent in June 2017, with the aim to support private sector credit growth and economic growth. Going forward, the authorities are committed to the medium-term inflation target. They will monitor private sector credit growth, inflation developments and economic activity, and stand ready to adjust the policy stance if needed. Furthermore, they will continue to make steps towards improving the monetary policy transmission mechanisms to pave the way for a smooth transition to inflation targeting.

The financial sector remains sound, notably with banks being well capitalized. For the period, ahead, the authorities will make further strides in financial deepening, while paying attention to the need to safeguard financial stability and the effectiveness of monetary policy. In this vein, efforts will be stepped up to develop the interbank market and capacities strengthened in the overall system. The BNR will also continue to strengthen its regulatory and supervisory frameworks for banks. In particular, NPLs which have slightly increased since last year partly due to the slowdown in growth and strict supervisory requirements by BNR will be kept in check.

Financial inclusion has significantly improved in recent years owing to increased access to financial services, promotion of the use of technology, and the strength of financial institutions. The authorities have put in place various measures to support innovation in this regard, while limiting risks to stability, including through the implementation of Basel II and III supervisory frameworks and enacting new or revising legal and regulatory frameworks for both banks and non-banks.

### **External sustainability**

Securing external sustainability was one of the main endeavors under the SCF arrangement. Adjustment policies implemented thus far have helped to stem the loss of reserves and further improve the external position. The authorities will continue to maintain this momentum, including by relying on exchange rate flexibility, stimulating foreign investment,

and implementing export promotion strategies. In addition, import substitution will be promoted, including through the *Made in Rwanda* Initiative which aims to encourage domestic production of certain goods currently imported and promote export diversification, with a view to strengthening external stability and fostering growth in the medium term.

### **Debt management**

The authorities welcome staff assessment that Rwanda's DSA indicates continuation of low risk of debt distress. They are committed to keeping pace with prudent debt management, prioritizing high-yield public investments, and mobilizing financing with the most favorable terms. The authorities are also working to develop domestic debt markets.

### **Structural reforms, private sector development and economic transformation**

Our authorities have embarked on structural reforms in other sectors to contribute to the overall objective of creating broad-based growth and advance economic transformation, as set forth in their Vision 2020. It is their strong belief that sustaining the important achievements in terms of poverty reduction and reduced reliance on aid dependency will hinge on developing a vibrant private sector, and making it a key provider of job opportunities, especially for the youth. To this end, they continue to improve the business environment with the aim of attracting more private sector investment. In this regard, they welcomed the G20 "Compact with Africa" initiative and expect their participation in it to help stimulate both domestic and foreign investment in Rwanda. As part of the Compact for Rwanda, they are working to lift bottlenecks to private investment, including by reducing the cost of doing business and addressing the infrastructure gap. As well, the authorities will pursue their efforts with their counterparts to step up integration within the EAC.

### **Conclusion**

The Rwandan authorities have made great strides in maintaining macroeconomic stability, supporting strong and inclusive growth, and reducing poverty. Fund arrangements over the past years have supported the country's overall development goals identified in their successive EDPRS and Vision 2020. Along these lines, the current PSI and SCF have been instrumental in improving the external position and anchoring inflationary pressures, while paving the way for sustaining strong growth.

Cognizant of the challenges still lying ahead, the authorities are committed to keeping pace with their reform momentum with a view to enhancing private sector development and economic transformation. In this ambitious endeavor, the Fund engagement will continue to be valuable, particularly in the context of the formulation and implementation of Vision 2050 and EDPRS III.

Considering the above, we would appreciate Directors' support for the conclusion of the second review under the SCF and seventh review under the PSI.