INTERNATIONAL MONETARY FUND

RWANDA

May 23, 2018

NINTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

KEY ISSUES

Growth in 2017 was better than expected, supported in all areas except construction. Particularly notable was export performance, with goods exports rising by 58 percent, based on strong performance of both traditional and non-traditional exports. Inflation has remained below the central bank's 5 percent medium term target. External balances and reserve buffers have continued to improve faster than expected. Program performance is on track, with all continuous and end-December 2017 quantitative targets met as were all structural benchmarks, except the indicative target on contracting of new external debt by public enterprises.

Discussions focused on macroeconomic policies in the near term and the emphasis, mode and timing of successor program engagement:

- *Fiscal policy objectives should remain broadly unchanged,* balancing support for growth and SDG achievement against medium-term debt and external sustainability. These should be supported by increased focus on domestic revenue mobilization, fiscal transparency and fiscal risks.
- *Monetary policy should remain neutral,* in the context of low inflation expectations and uncertain domestic demand recovery. The transition to an interest rate-based monetary policy framework is advancing.
- *The authorities are interested in successor program engagement with the IMF*, following the expiry of the current program on December 1, 2018.

Staff supports the completion of the Ninth Review under the Policy Support Instrument (PSI)-supported program.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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June 11, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes Ninth PSI Review for Rwanda

The Executive Board of the International Monetary Fund (IMF) today completed the ninth review of Rwanda's performance under the Policy Support Instrument (PSI).[1]

The PSI for Rwanda was approved on December 2, 2013 (see Press Release No.13/483), and extended on January 12, 2018, to December 1, 2018 (see Press Release No.18/02).

Rwanda's strong implementation of its macroeconomic program has helped it weather external shocks and maintain macroeconomic stability. With deliberate adjustment policies underpinned by exchange rate flexibility, combined with structural reforms to bolster domestic production, Rwanda's external position has improved markedly while maintaining comfortable rates of growth. Budget execution remains in line with expectations, while monetary policy continues to focus on low and stable prices. Performance under the PSI-supported program remains very satisfactory.

Growth rebound in 2017 was stronger than expected while inflation was contained. Growth was robust in most areas, except construction, with pronounced pick-ups in non-traditional exports and services. Consumer price inflation remained very low, with ample food supplies and as the exchange rate has reached equilibrium values. Over the medium term, investment in public infrastructure and interventions to promote structural transformation and diversified exports, underpinned by strong domestic revenue mobilization efforts and PFM reforms, should sustain growth in line with or above historical averages over the medium term. Inflation is expected to remain around the authorities' targeted 5 percent over the medium-term.

Looking forward, the authorities' "Vision 2050" to reach middle income status by 2035 will require continued reform efforts to create higher value added economic activity, with the private sector serving as the main engine of growth. In addition, renewed momentum in domestic revenue mobilization will be necessary to support development spending. The Vision will be

[1] 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.

effected through a series of 7-year National Strategies for Transformation (NST), underpinned by detailed sectoral strategies that are aimed toward achievement of the SDGs."

Recent economic developments

At 6.1 percent, growth in 2017 was high relative to the region, supported by agriculture, industry and services. A growth recovery that began in Q2 2017 strengthened through Q4. The current account deficit was more than halved, from 14.9 percent of GDP in 2016 to 6.8 percent in 2016, largely driven by a narrowed trade deficit, reflecting the impact of exchange rate adjustment and structural policies on exports and imports. As a result, the central bank accumulated foreign exchange reserves faster than anticipated, with reserves in their optimal range of over 4 months of imports at end-2017.

Consumer price inflation declined in 2017 through early 2018, with year-on-year inflation at 1.7 percent in April 2018, reflecting improving food supply conditions and exchange rate stabilization. Inflation is expected to remain below the central bank's medium-term target of 5 percent in 2018, but should pick up toward the target over the medium-term. Despite lower inflation expectations and tapering off of exchange rate pressures, the central bank has maintained a relatively neutral monetary policy stance over the near term, since the pace of recovery of domestic demand is still uncertain, with still low private sector credit growth. The fiscal stance policy for the remainder of FY2017/18 and for FY2018/19 remain unchanged, thus maintaining the path toward medium term objectives.

Performance under the PSI-supported program remains strong. All but one quantitative targets and structural reform benchmarks were met. An indicative target on contracting new external debt by public enterprises was breached due to accelerated signing of a lease by Rwandair. Rwanda's risk of debt distress remains low.

Program summary

The existing PSI arrangement has supported Rwanda's efforts to address external imbalances, thereby supporting sustained growth and poverty reduction. The program aims to promote private-sector led growth through safeguarding macroeconomic stability, including through external sustainability, fiscal sustainability based on continued improvements in domestic resource collection, low and stable inflation, and enhancing access to credit and deepening the financial sector.

Table 1. Rwanda: Selected Economic Indicators, 2017-2020

	2017	2018	2019	2020
Output and prices				
Real GDP	6.1	7.2	7.8	8.0
GDP deflator	7.3	3.0	4.9	5.8
CPI (period average)	4.8	2.8	5.0	5.0
CPI (end of period)	0.7	5.0	5.0	5.0
Terms of trade (deterioration, -)	1.8	-1.1	0.3	0.9
Money and credit				
Broad money (M3)	12.3	16.5	18.8	...
Reserve money	8.8	12.3	14.1	...
Credit to non-government sector	13.9	15.1	15.2	...
M3/GDP (percent)	23.6	24.9	26.1	...
NPLs (percent of total gross loans)[1]	7.6	...	...	...
General government budget				
Total revenue and grants	22.9	23.4	22.0	22.1
of which: tax revenue	15.5	15.8	15.8	16.0
of which: grants	4.7	4.9	4.0	3.9
Expenditure	27.6	27.5	26.2	25.6
Current	14.7	14.9	14.1	13.8
Capital	10.7	10.5	10.0	9.8
Primary balance	-3.6	-3.0	-3.2	-2.5
Overall balance	-4.7	-4.1	-4.2	-3.4
excluding grants	-9.4	-9.0	-8.2	-7.3
Net domestic borrowing	0.2	0.8	0.6	0.0
Public debt				
Total public debt incl. guarantees	48.3	49.0	49.0	47.3
Of which: external public debt	37.5	39.2	39.7	38.6
Investment and savings				
Investment	23.4	25.0	25.9	25.9
Government	10.7	10.5	10.0	9.8
Nongovernment	12.7	14.6	16.0	16.1
Savings	12.5	12.4	13.8	14.6
Government	3.4	3.6	3.9	4.5
Nongovernment	9.3	8.8	10.0	10.1
External sector				
Exports (goods and services)	22.4	23.0	24.1	24.2
Imports (goods and services)[2]	32.3	34.4	34.9	34.2
Current account balance (incl. grants)	-6.8	-8.8	-9.0	-8.3
Current account balance (excl. grants)	-10.9	-12.6	-12.1	-11.4
Current account balance (excl. large projects)	-6.4	-8.6	-7.8	-7.2
Gross international reserves				
in millions of U.S.$	1,163	1,240	1,332	1,460
in months of next year's imports	4.2	4.0	4.0	4.1
Memorandum items:				
GDP at current market prices				
Rwanda francs (billion)	7597	8388	9486	10839
US$ (million)	9137	...	...	...
GDP per capita (US$)	772	...	...	...
Population (million)	11.8	12.1	12.4	12.7

Sources: Rwandan authorities and IMF staff estimates.

[1] NPLs to total gross loans for 2017 is at June 2017.

[2] imports for 2016 reflect purchases of two aircrafts.

Approved By
Michael Atingi-Ego (AFR) and Yan Sun (SPR)

Discussions were held in Kigali during March 14–23, 2018. The mission comprised L. Redifer (head), E. Alper, and S. Kwalingana (all AFR), N. Meads, (SPR) J. Bougha-Hagbe (WHD) and D. Prady (FAD), assisted by A. Thomas (Resident Representative).
M. Atingi-Ego (AFR) joined the mission for two days and held discussions with senior policymakers. L. Nankunda (OED) also attended the mission's meetings with the authorities. T. Gursoy and F. Morán Arce (AFR) contributed to this report.

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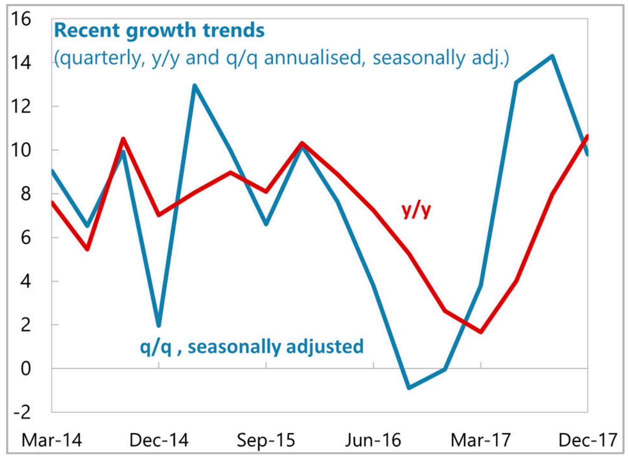
RECENT ECONOMIC DEVELOPMENTS

1. **Growth continues to pick up, while inflation remains subdued (Figure 1, Table 1).** The rebound that started in early 2017 picked up steam in the second half of 2017, rising to 10.5 percent y/y in Q4. Growth for the year was higher than anticipated, at 6.1 percent. The outturn was based on a broad-based pick up in activity, with the exception of construction following a boom in 2016. Annual inflation remains low, reflecting ample food supplies and stabilization of the exchange rate with headline and core inflation at 1.7 and 2.1 percent (y/y), respectively, in April. Inflation has remained below the authorities' medium-term target of 5 percent since May 2017.



2. **Fiscal performance respected program targets (Figure 2, Tables 2a-b and 3a-b).** In the first half of the fiscal year (June-December 2017), the deficit was about 0.4 percent of GDP lower than projected, due to higher revenues and grants, partly offset by larger than expected investment expenditures. Tax revenues gains reflected a large one-off tax arrears payment and improved compliance measures. Non-tax revenue inflows for UN peacekeeping operations (PKO) were higher than expected and some budget grants disbursements were disbursed earlier than expected. On the spending side, earmarked funds from the Strategic Fuel Levy were drawn down to finance construction of a petroleum reserve depot in Kigali, and there was higher spending associated with Global Fund disbursements. Government deposits at end-2017 were higher than anticipated because EU grants were disbursed very late in 2017 rather than in 2018 as projected. At the same time, the "float" (payment commitments not yet settled), increased at the end of the year, but these were settled in January.

Rwanda: Operations of Central Government

(billion RwF unless otherwise noted)	2017/18H1 8th PSI	Prelim.	Diff.	Diff. (in % 2017 GDP)
Revenue and grants	**832**	**885**	**54**	**0.7**
Total revenue	663	691	28	0.3
Tax revenue	569	584	16	0.2
Total Grants	169	195	26	0.3
Total expenditure and net lending	**1,034**	**1,053**	**19**	**0.2**
Current expenditure	594	596	2	0.0
Capital expenditure	341	364	23	0.3
Net lending	99	93	-6	-0.1
Overall balance (comm. basis)	**-202**	**-167**	**35**	**0.4**
Pending payment (float, net reduction-)	-7	35	42	0.5
Overall balance (cash basis, incl. grants)	**-209**	**-132**	**76**	**1.0**
Financing	**209**	**132**	**-76**	**-1.0**
Foreign financing (net)	245	209	-37	-0.5
Domestic financing (net)	-37	-109	-72	-0.9
Errors and omissions	0	32	32	0.4

3. **After a reduction in December 2017, the policy interest rate was kept unchanged in the first quarter of 2018 (Figure 3, Table 4).** Consistent with staff's advice, the Monetary Policy

Committee lowered the policy rate by 50 basis points in December 2017, bringing it to 5.5 percent, for a cumulative reduction of 100 basis points since last quarter 2016. In March of this year, the MPC kept the key repo rate unchanged, noting, inter alia, a stronger growth outlook, external sector performance, sufficient banking sector liquidity, and a healthy financial sector. At the same time, it noted that inflation expectations are below target, and a gradual recovery of private credit growth. The latter stood at 7.7 percent y/y in March 2018, low for Rwanda, reflecting that construction activity – which has a large share in private credit - lagged other sectors in the recovery.

4. The external sector continues to improve (Figure 4, Table 5). The current account deficit narrowed sharply, from 15.8 percent of GDP in 2016 to 6.8 percent in 2017, supported, among other things, by exchange rate adjustment and other adjustment policies agreed under the recent Stand-by arrangement. Formal goods exports increased sharply by 58 percent (text table, Box 1), with the trend continuing in the first two months of 2018.[1] Meanwhile import values declined slightly in 2017, but have risen in 2018 with increasing international fuel prices. The increase in import volumes in a stronger growth environment has been muted by declines in a few key sectors, including capital goods, construction materials and cement and clothing, partly reflecting efforts to raise domestic production in key sectors. The strength of trade adjustment has contributed to a faster build-up in gross foreign exchange reserves than had been anticipated—reaching 4.2 months of next year's projected imports by end-2017.

Rwanda: Trade Balance adjustment
(% change over previous period)

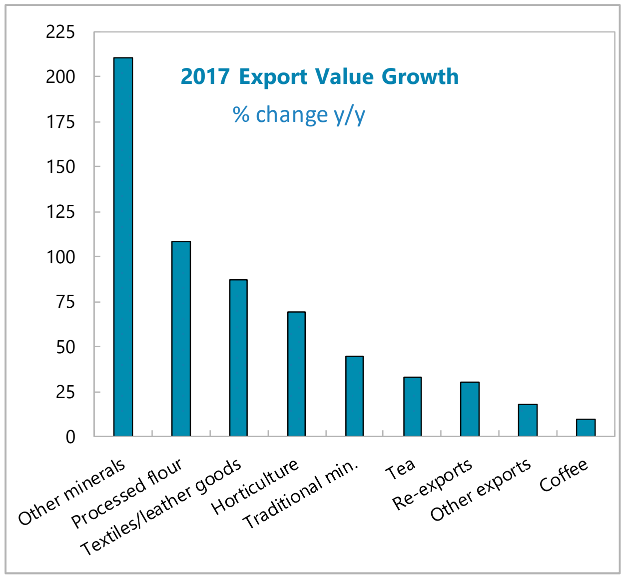
	Jan 2017-Dec 2017	March 2017-Feb 2018
Formal Exports		
Vols (kgs)	36.2	30.7
Vals (US$)	57.6	65.4
Formal Imports		
Vols (kgs)	6.5	11.1
Vals (US$)	-1.5	2.5
Formal Trade Def. (US$)	-22.9	-22.7

5. The banking sector remains well capitalized (Table 6). Average banking sector capital adequacy ratios remain well above regulatory minimums (21.4 percent vs. a threshold of 17 percent), following small capital injections for two small banks in 2017. Nonperforming loans (NPLs), net of provisioning, remained broadly steady at 6.6 percent. Commercial banks' profitability, however, has declined to its lowest in 3 years, with return on assets at 1.1 percent (1.6 percent average over the past three years), reflecting in part higher provisioning and loan write-offs.

[1] The macro framework (Table 4) includes an estimate of informal exports which reduces the overall growth rate to 45 percent.

Box 1. Rwanda's Export Performance in 2017

Rwanda experienced sharp growth in exports in 2017, a function of planning and favorable external conditions.



- Part of the increase was due to favorable price movements in traditional exports of coffee, tea, and existing (tagged) minerals (tin, tungsten, tantalite).
- Export growth was also promoted by policies to increase the value-added of existing exports, and efforts for Rwanda to become a regional distribution hub for petroleum and other related products. This caused large increases in re-exports, flour and other areas.
- The largest increase was an increasing market share for new exports, such as gemstones, textiles/leather goods (e.g. high-end purses), horticulture (e.g. roses, haricots verts), and processed foods (e.g. high nutrition infant food). These higher value-added products have benefitted from strategic policy intervention, including land provisioning, IFC support, and promotion for the exploration and extraction of gemstones by the government over the last two years. The latter can be seen by a large increase in the value of 'other' mineral exports, driven mainly by a mix of precious (Sapphires and Rubies) and semi-precious (Tourmaline and Amethyst) gemstones, which displaced very heavy but low value exports of iron ore.

Increase in Non-Traditional Mineral Exports in 2017

	2016		2017		
	Vol (kgs)	**Val (US$mn)**	**Vol (kgs)**	**Val (US$mn)**	**Diff (US$mn)**
Gemstones [1/]	1.5	0.2	327.2	157.8	157.6
Gold	2.1	79.5	2.4	90.5	11
Iron Ore	6568.8	0.4	413.4	0	-0.4
Total	6572.4	80.1	743	248.3	168.2

[1/] Sapphires, Rubies, Tourmaline, Amethyst, Garnets and 'Other'

PROGRAM PERFORMANCE

MEFP, ¶16

6. **Program performance remained on track (Tables 7 and 8).** All end-December quantitative assessment criteria and indicative targets were met. Continuous targets were met except, for the indicative ceiling on new external debt contracted by public enterprises. The US$500 million ceiling was exceeded by US$87 million (1 percent of GDP) in early 2018, due to a lease signed by Rwandair earlier than expected to obtain planned aircraft on more favorable terms.

The authorities propose to raise the indicative ceiling to US$800 million to accommodate this and potential other leases to replace existing aircraft. All structural benchmarks have also been met.

ECONOMIC OUTLOOK AND RISKS

7. **Growth has been revised up.** The continued upward trend in growth recorded for 2017Q4 (10.5 percent y/y) brought growth for the year to 6.1 percent, in contrast to 8th review projection of 5.2 percent. Given the extent to which observed 2017 growth was linked to public investments made in tourism, export diversification, domestic production, mining, and irrigation—and considering spending patterns for the remainder of FY2017/18––growth projections for 2018 were revised up to 7.2 percent. Over the medium-term, growth rates were boosted further, based on these trends plus construction of the airport, to 7.8 percent in 2019 and 8 percent in 2020. Over longer term, growth projections underlying the DSA remain at 7.5 percent which is in line with the historical average of the past decade (the 10-year historical average is 7.5 percent).

Rwanda: Revised Macroeconomic Framework

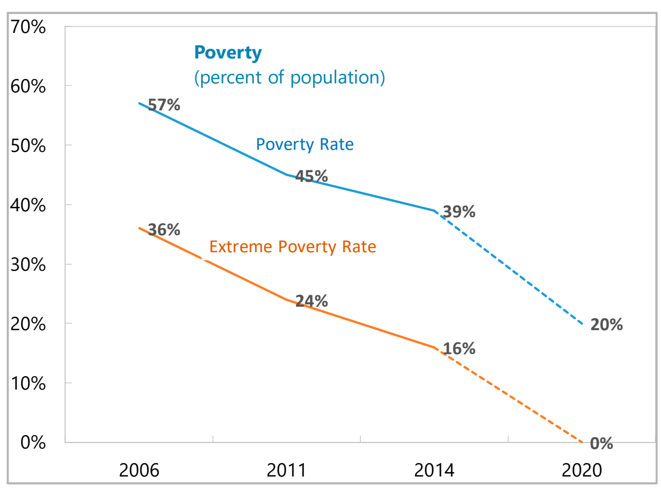
	2016	2017		2018	
	Act.	Prog.	Proj.	Prog.	Proj.
Real GDP growth (percent)	6.0	5.2	6.1	6.5	7.2
CPI inflation, average (percent)	5.7	5.3	4.8	4.5	2.8
CPI inflation, eop (percent)	7.3	4.0	0.7	5.0	5.0
Current account balance (percent of GDP)	-15.8	-8.8	-6.8	-10.0	-8.8
Overall fiscal balance (commitment basis, percent of GDP)	-3.7	-5.3	-4.7	-4.5	-4.1
Overall fiscal balance (excl. PKO, percent of GDP)	-3.4	-5.8	-4.8	-4.6	-4.6
Gross international reserves (in millions of US$)	1001.5	1082.8	1163.3	1128.3	1240.2
Gross international reserves (months of imports)	4.1	4.1	4.2	4.0	4.0
Memorandum items:					
	2016/17	2017/18		2018/19	
	Prel.	Prog.	Proj.	Prog.	Proj.
Overall fiscal balance (commitment basis, percent of GDP, FY)	-4.6	-4.2	-3.8	-4.4	-4.6
Overall fiscal balance (excl. PKO, percent of GDP, FY)	-4.2	-4.1	-3.9	-3.9	-4.0

Sources: Rwandan authorities and IMF staff estimates and projections.

8. **Risks to the 2019–20 forecast are slightly to the downside.** There are numerous factors driving the agreed upward revision in growth from 2018–20, which mainly reflect a pay-off from public investments already showing a nascent return in the second half of 2017, as well as private investments in mining in the pipeline, new export markets, and large construction projections (Box 2). Availability of de-risking facilities associated with G-20 Compact with Africa (CWA) could further strengthen growth. However, Rwanda's export and production base remain small, and it is still highly vulnerable to shocks. Downside risks continue to be adverse regional political developments, pests affecting harvests, and perennial unpredictable weather. However, public investment in pest control and irrigation should provide more resilience in the agriculture sector in the coming years.

Box 2. Drivers of Rwanda's Medium-Term Growth and Vision 2050

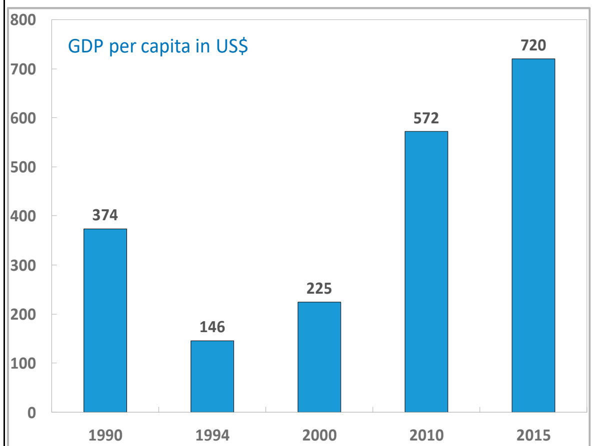
- **Growth drivers in the near-medium term will be broad based.** Staff's projections partly take account of nascent signs of growth dividends from a public investment strategy that has been aimed at increasing productivity, including in agriculture, tourism and trade:
- Growth in **agricultural** activity is projected to average about 5–6 percent over the next two years. After an increase of over 20 percent in cultivated land under irrigation per year over the past four years, the agricultural sectoral strategic plan envisages a 110 percent increase in the next 6 years, which should continue to help improve resilience to weather conditions. The government is investing in domestic seed production and mapping input needs for individual farmers/cooperatives. Exports from horticulture and agro-processing are projected to expand significantly, with increased land under cultivation and raising value-added in key sectors (specialty teas, flowers, increased share of washed coffee, processed infant food). Rwandan coffee has found niche markets in the U.S. and Europe, including a large retail chain in the U.S. More efficient use of seeds and fertilizers and increasing value-chain integration, including cooperatives to facilitate linkages to markets and services, are underway to advance agricultural productivity. Livestock products, including dairy exports, are seeking to meet international packaging standards, already experiencing more advanced economy demand than can currently be met. The government is exploring insurance for agriculture and livestock against weather vagaries. Agricultural activity is also being linked to tourism, via raising standards of domestic products to those needed by high-end tourism hotels in Rwanda.
- **Industry** performance is projected to provide a greater boost to growth than in the past, increasing to 13 percent per year as of 2019. The major drivers of this improvement are: mining, reflecting activity in the pipeline, construction, the latter supported by NST sectoral strategies to construct critical infrastructure, e.g. schools, health centers, water access, roads, in addition to the large airport construction project in Bugesera. To complement the two existing SEZs, additional SEZs are under construction and a new electric car assembly plant by VW will begin operations soon. Textile and leather goods production is also expanding rapidly.
- Growth in **services** is projected to maintain its recent momentum of 8 percent growth, with multiple conference bookings at the KCC, expanded tourism and more high-end services. For the latter, the government is focused on IT services, with establishment of an "Innovation City" and an innovation fund of US$100 million, 30 percent financed by the government and 70 percent by international private investors.

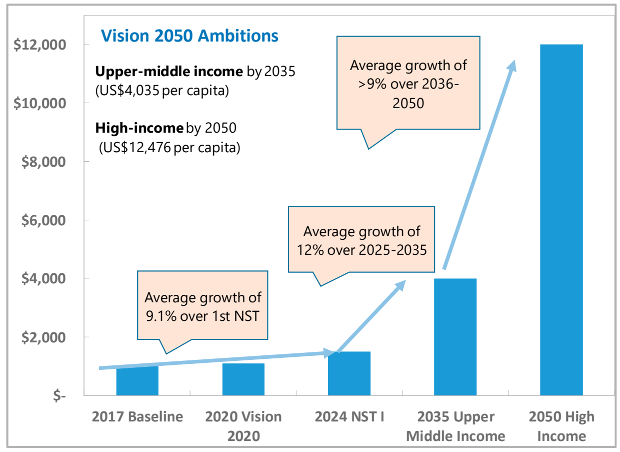


Vision 2050 (Rwanda's new long-term development strategy) aims to place the country in upper middle-income status by 2035. The strategy will be based on a series of seven-year NSTs (IMF Country Report No. 18/13, ¶19), and draws from lessons of the EDPRS I and II and a series of forthcoming analytical papers on drivers of growth prepared by the World Bank. The first NST runs from 2017–24 and is set around three main pillars with specific targets: economic transformation, social transformation, and transformative governance. Sectoral strategies underpinning the NST are well aligned to ensure that Rwanda meets the Sustainable Development Goals before 2030.

Box 2. Drivers of Rwanda's Medium-Term Growth and Vision 2050 (concluded)

The growth rates needed to achieve these targets are very ambitious, but might be possible: GDP growth is targeted at an annual average of 9 percent during 2019–24, while the gross national savings rate is expected to double to nearly 23 percent by 2024.





POLICY DISCUSSIONS

9. **Discussions focused on macro policies and underpinning structural reforms in the near term, and the mode, timing and focus of successor program engagement**. The focus of structural reforms is on identifying and mitigating fiscal risks and improving fiscal transparency, maintaining the momentum for improving domestic revenue collection, and transitioning to an interest-rate based monetary framework. Staff is engaging in outreach with stakeholders on the focus of a successor program that does not entail use of Fund resources, and the authorities are considering options for the timing and modality of the successor arrangement.

A. Fiscal Policy—Maintaining the Course of Adjustment

MEFP, ¶23, 29-35

10. **The fiscal path is broadly unchanged, and the authorities reiterated their commitment to maintain a prudent fiscal stance consistent with their agreement with the Fund.** Compared to the 8th PSI review, the budget deficit for the remainder of FY17/18 is slightly lower (0.4 percent of GDP), with revenue overperformance offsetting higher capital spending financed by the strategy fuel reserve draw-down. Taking into account expected changes in peacekeeping operations, the fiscal stance in FY18/19 remains broadly unchanged, with a small uptick in spending for education, health, and the fuel reserve depot. The revised fiscal stance continues to deliver a medium-term path consistent with attaining the EAC goal of an overall deficit target of 3 percent of GDP over the medium term (a 3 percent deficit could be reached in 2021 with modest adjustment of 0.4 percentage points of GDP under current growth assumptions).

MEFP ¶27-28

11. Actions are underway to improve fiscal transparency, contain government balance sheet exposure, and systematically identify fiscal risks. Consistent with its NST and Vision 2050, the Rwandan government is making numerous strategic interventions in the economy, including to catalyze private investment. In this context, the government is seeking to delineate clearly its own role, and leveraging its exposure through "de-risking" funds to attract private sector capital.[2] While the authorities are very conscientious about debt sustainability, staff encouraged greater attention to taking stock of risks that could arise from potential contingent liabilities. In the context of EAC agreements, an FAD-led Fiscal Transparency Evaluation is scheduled for the latter half of 2018. However, in the meantime, the authorities agreed with staff and initiated work to systematically analyze insurance and hotel sectors where limited issues have arisen (structural benchmark). Over the longer term, the World Bank is working with the authorities on contingency planning to mitigate fiscal costs if ambitious plans to expand the energy supply through a series of PPPs should outpace demand projections. The authorities continue to make headway towards coverage, quality, and timeliness of fiscal reporting via a transition to fiscal reporting according to the *Government Finance Statistics Manual 2014* (*GFSM 2014*). Though taking longer than originally foreseen due to the complexity, the GFSM 2014 transition is well underway, with authorities and staff working closely to finalize implementation.

MEFP, ¶32

12. Efforts are underway to regain momentum for domestic revenue collection. The authorities continue to implement a broad and ambitious reform plan for tax administration, with emphasis on risk-based auditing, pre-emptory "advisory visits" in risky sectors, introducing a "National Invoicing System" via smartphones, and bolstering IT capacity. On tax policy, new Income Tax Law has been passed by parliament, which addresses some gaps in transfer pricing (caps management fees), but the government's proposed turnover tax for immoveable property was removed. Relatedly, a long-delayed Fixed Asset (property) Law has moved forward in parliament, but with reduced rates and weakened methodology for determining property values. Meanwhile, the authorities are pursuing technical assistance on tax expenditure analysis to ensure that current tax incentives are well-targeted. Given the uncertainty of timing regarding their tax policy proposals, the authorities preferred a cautious approach not to include estimates in the macroeconomic framework projections, thus leaving a strong upside risk to revenue projections.

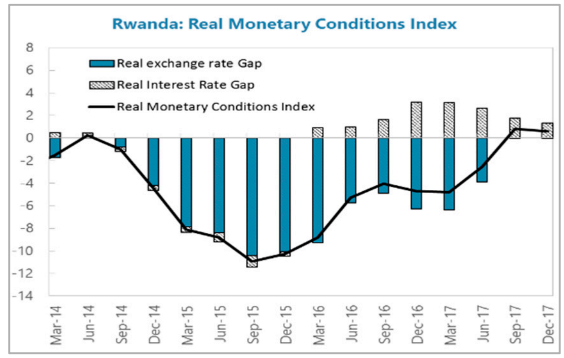
B. Monetary Policy: Transitioning to Interest Rate-Based Framework

MEFP, ¶36

13. The central bank left interest rates unchanged in early 2018. Although inflation and credit growth remain muted, the pick-up in growth warrants a cautious approach. At the same

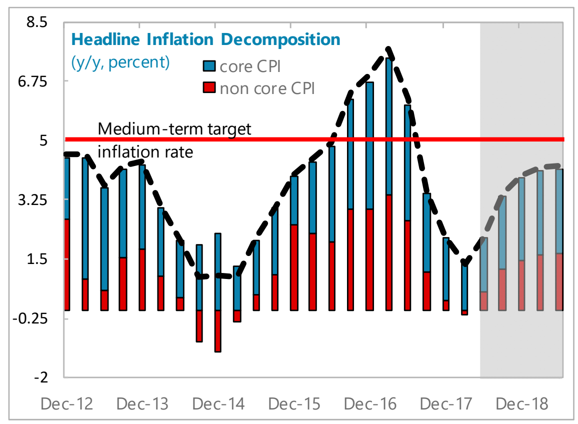
[2] One example is the government provided a small share of seed capital to draw private investment for "African Improved Foods," which produces full-nutrient infant food for the domestic market to reduce stunting and exports for the World Food Program. A second example is a government minority share to draw a "niche" tea producer.

time, staff analysis indicates that current monetary conditions are broadly neutral. Currently, the monetary policy framework is transitioning from targeting monetary aggregates to interest rates. While the plan remains to move to an interest-rate based framework by end-2018, the central bank will maintain monetary targets until key pre-conditions are met to ensure that price-based monetary policy tools are effective. For now, the BNR will maintain what it terms as an "accommodative" stance, while monitoring conditions closely into the second half of 2018.



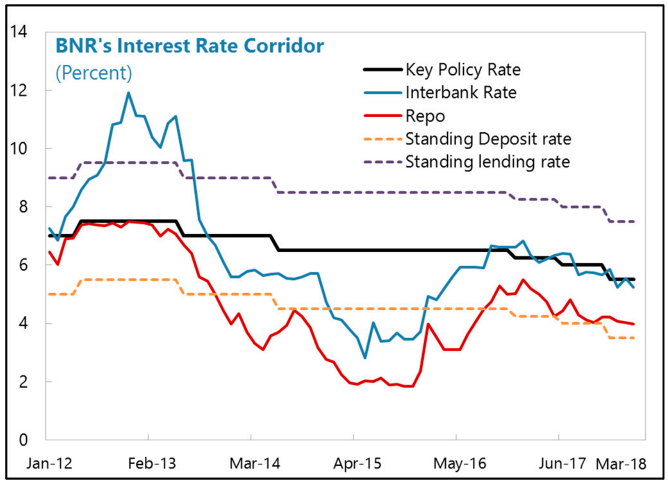
14. The central bank is ramping up communications to help the transition to an interest rate-based policy framework. The recent MPC statement included short-term inflation projections with explicit references to the medium-term desired level of inflation. The BNR has also made progress in integrating a forward-looking analytical and forecasting framework into the monetary policy formulation process (Box 3). Staff encouraged the authorities to avoid revising pre-announced quarterly fiscal borrowing plans in order to reduce uncertainty for banks' cash management plans and market liquidity. Staff and the authorities revisited their agreement to continue setting and monitoring reserve money targets until the new monetary policy framework is fully in place. Currently, there is nascent evidence of correlation between short-term market rates, but transmission to lending rates is not yet evident, but is expected to improve as the monetary policy framework is consistently implemented (Box 3). Staff again underscored the importance of maintaining exchange rate flexibility as a primary tool for adjustment in the transition to the new monetary policy regime.

MEFP, ¶37-38

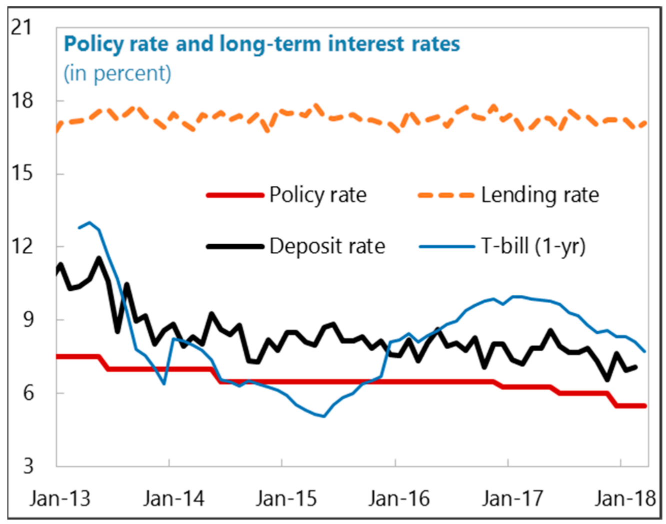


Box 3. Overview of the Transition to an Interest Rate-Based Operating Target

The BNR introduced a policy rate (the key repo rate, KRR) in 2008, as a signaling tool for monetary policy stance, while retaining reserve money as the operating target. In 2012, to reduce undue interest rate volatility characteristic of money targeting, the BNR introduced reserve money averaging for reserve requirements, and an interest rate operating corridor, bounded by a symmetric 200 basis points on standing lending and deposit rates from the KRR.



Operations in the interest rate corridor have gradually improved. The spread between the policy rate and the interbank rate has declined since mid-2016. However, the repurchase rate remains volatile and consistently below the policy rate, and transmission to the long end of the yield curve remains weak, in part reflecting structural constraints in the banking system, e.g. high operational costs.



Other challenges include shallow interbank and capital markets, and a perceived stigma for the use of the interbank market and central bank facilities. The authorities are implementing a five-year strategy (2017–22) to deepen secondary and capital markets. Reforms currently underway include further developing the interbank market infrastructure by introducing an electronic interbank trading platform by the end of the year; and deepening money and capital markets, including by developing the horizontal repurchasing markets, reopening existing bonds to activate secondary markets, and lengthening the maturity structure of government securities. Monetary policy transmission to lending rates is expected to be supported by these reforms to remove structural rigidities.

15. **Capacity development will support the authorities' ongoing structural reform agenda (Annex I).** Staff and the authorities agreed that the capacity development strategy will focus on domestic revenue mobilization, transition to the interest rate-based monetary policy operational framework, improving the coverage, timeliness and transparency of fiscal reporting, improving fiscal risk statements, harmonizing BOP and national account price statistics, and strengthening financial sector supervision.

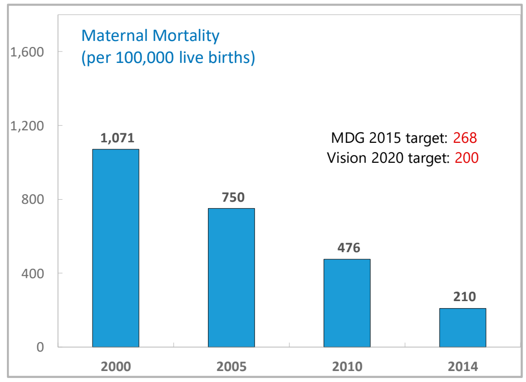
C. Supporting Initiatives: Compact with Africa and Costing the SDGs

16. Rwanda's participation in G-20 Compact with Africa is ongoing. As one of the original signatories, Rwanda has undertaken several commitments under the G-20 Compact with Africa, with the hopes of igniting a private investment push from outside investors, both in terms of FDI and portfolio flows. In particular, the government hopes that bilateral and multilateral development partners will establish more and easier to access "de-risking" financing vehicles to attract private capital without further burdening the government's balance sheet with guarantees. Despite the government's own concerted efforts to attract FDI, it remains below 3 percent of GDP. The government is aware that the model of public sector-led growth over the past several years will need to be balanced with greater private sector involvement to maintain growth momentum and public debt sustainability. In this respect, Rwanda has been a strong proponent of the Continental Free Trade Area, which has the potential to create access to much larger markets that are more attractive to private investors.

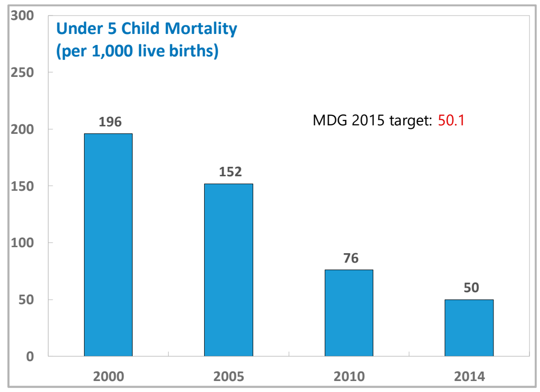
17. Staff is drawing from Rwanda's NST sectoral strategies for a cross-country exercise in estimating the costs of SDG achievement. Rwanda's sectoral strategies were developed with the aim of reaching the relevant SDGs by 2030 or even before (Box 4). Costing estimates of these sectoral strategies were developed by the authorities working with development partners. This costing, however, necessarily reflects budget constraints and subjectivity in terms of the quality metric of SDGs that will be achieved. Working closely with development partners, especially the UN and World Bank, IMF staff are building on Rwanda and a few other countries costing estimates to consider what resources would be needed to achieve the SDGs—with rough cross-country consistency—in three key areas: health, education and infrastructure.

Box 4. SDG Achievement

Rwanda has delivered impressive outcomes in many areas covered by the SDGs, although in some areas falls behind regional peers. Infant and maternal mortality rates have been decreased dramatically, for example, and these achievements place Rwanda on par or better than other LICs. However, results lag in some areas, such as school completion rates and access to reliable energy.

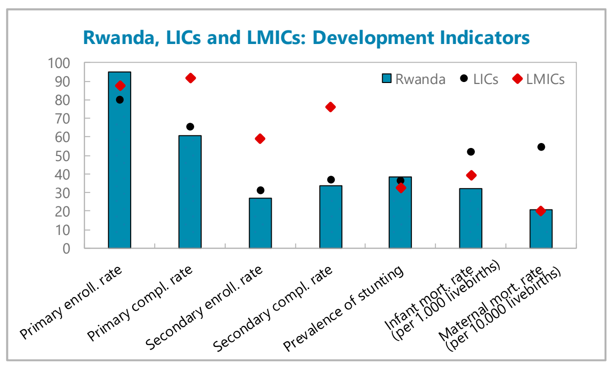


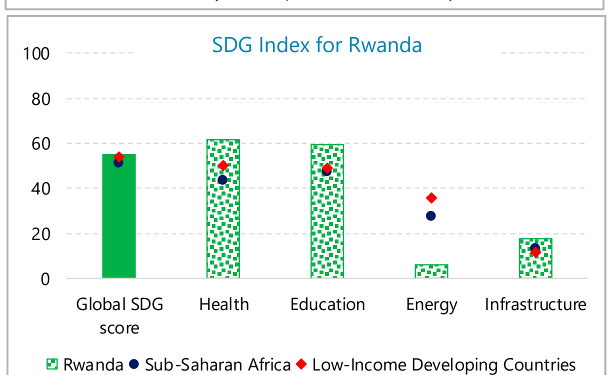
The Rwandan authorities are strongly committed to meeting the SDGs. In collaboration with the development partners, line ministries have started interpreting ("domesticating") global targets for achieving the SDGs to make them relevant in the Rwanda context, consistent with Rwanda's national implementation strategy. Country-relevant indicators have been selected and data is being gathered to assess where the country stands with respect to each (i.e., baseline data). Detailed sector strategic plans have been drawn up based on the SDG targets and these are embedded in the latest seven-year NST over 2018–24.



Government line ministries have estimated the associated spending needs. To this end, the authorities have been collaborating with development partners to produce preliminary estimates:

- In education, the authorities have been working closely with UNICEF and UKDFID to cost their strategy (i.e., they have developed a common costing template);
- In health, the authorities have hired a consultant to tailor the WHO costing tool "OneHealth" to the Rwandan context;
- In infrastructure, the authorities have liaised with UNICEF (water) and the World Bank and MIT (electricity) to produce cost estimates of universal access.





Source: SDG Index and Dashboard Report 2017

IMF staff are working with the authorities and development partners to update estimated spending needs, under various assumptions. Building on the baseline estimates of the sector strategic plans, staff will work with the authorities and development partners to update the estimates, and use alternative assumptions, including to imbed some cross-country quality objectives. Thereafter, costing estimates would ideally be matched with medium-term financing strategies to determine trade-offs.

PROGRAM MODALITIES

18. The existing PSI-supported program will expire on December 1, 2018. The authorities are currently considering different modes of successor engagement, although staff and the authorities do not foresee a balance of payments needs or vulnerabilities that would point to the need for the use of Fund resources. The authorities have drafted a Letter of Intent and a Memorandum of Economic and Financial Policies containing policy intentions throughout 2018, with structural benchmarks aligned with forward looking policy priorities. End-June quantitative targets for reserve accumulation, domestic revenues, and priority spending are proposed to be more ambitious in light of performance to date.

19. An updated DSA suggests that the risk of debt distress remains low. Changes in the end-2017 debt stock and the macroeconomic framework do not significantly change the DSA profile in the past year (Annex II). The framework reflects additional near-term spending for SDG achievement and an improved external outlook, and maintains that long-term growth will be in line with historical averages. Except for temporary breaches of debt service thresholds due to expiration of Rwanda's one outstanding Eurobond in 2023 (which will be rolled over), all baseline indicators and stress tests remain well below stock and flow risk thresholds. The authorities have reiterated their commitment to maximize external concessional funding, when available, to avoid unsustainable debt levels, while developing domestic capital markets.

STAFF APPRAISAL

20. Rwanda has stayed the course of adjustment policies with good results. Rwanda's external balances have improved more rapidly than anticipated and reserve buffers have strengthened, in response to Rwanda's adjustment program, the central tenet of which was exchange rate adjustment, supported by public spending restraint and prudent monetary policy. Strategic public investment in various sectors indicate a payoff in a strong growth surge, particularly due to diversified exports, already witnessed in the second half of 2017.

21. Growth projections have been revised upward, in line with historical averages. The government has implemented a broad-based growth strategy, including key sectors of comparative advantage where government investments in minority stakes are being used to attract private investment. In addition to diversifying the productive base and pushing for faster structural transformation, public investments in agriculture to mitigate weather risks should help reduce growth volatility. Staff appreciate the authorities' explicit strategy to promote private sector activity to serve increasingly as the main engine of growth in Rwanda.

22. The government has made numerous strategic investments to promote high and inclusive growth, but these require accompanying improvements in fiscal transparency and accountability. The government's investment strategy has been multi-faceted, and it is inevitable that some projects will succeed and some may not. It is important, therefore, to identify risks to the public purse and establish an ex-ante Plan B should risks materialize. In this respect, staff encourages the authorities' ongoing efforts to improve fiscal transparency, including through implementing GFS-2014, as well as their commitment to identify fiscal risks, including through a Fiscal Transparency Evaluation, and establish plans for their mitigation.

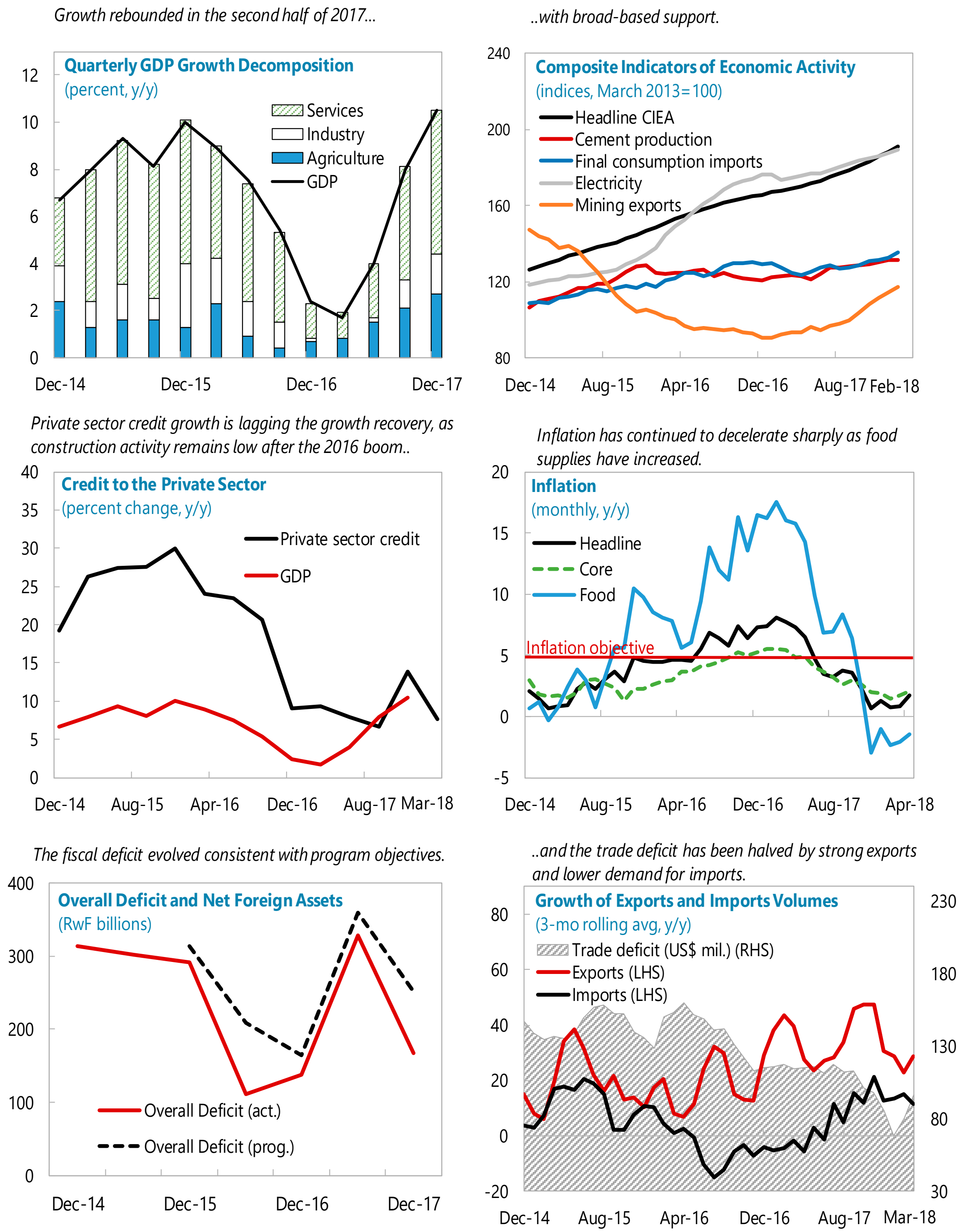
23. The government's efforts to bolster domestic revenues through administrative improvements notwithstanding, Parliamentary support for various tax policy initiatives has been a challenge. Various tax policy initiatives put forth by the government have been weakened or delayed during parliamentary deliberation, for example, the rates and coverage of real estate taxes and the introduction of transaction taxes on property sales. Absent meaningful momentum in domestic revenue mobilization, it will be difficult for the country to garner the necessary resources to achieve its ambitious goal of becoming a middle-income country.

24. The authorities' diversified approach to financing their NST is notable, including use of the Compact with Africa to encourage de-risking for blended finance. Rwanda has a strong track record for delivering on development goals, underpinned by a country-owned strategy and a country-driven donor coordination framework. However, this will require resources beyond what the country itself can generate and traditional official aid has been on a structural decline. The authorities are hopeful that the G-20 Compact with Africa can assist in efforts to attract FDI, as well as more use of existing multilateral and bilateral financing vehicles to alter risk perceptions for global private capital.

25. Transitioning to an interest rate based monetary policy operational framework is picking up speed. Staff notes the BNR's recent efforts to communicate policy intentions and inflation objectives more clearly, and progress in aligning money market rates with the policy rate. These efforts, alongside those to deepen the interbank money market, should support the establishment of the interbank rate as the operational target and strengthen the monetary transmission mechanism. Enhanced coordination between the government and the central bank on financing needs and liquidity forecasting should also help reduce uncertainty and support the new operational framework. Staff welcomes the authorities' commitment to maintain a flexible exchange rate regime, as a primary tool for adjustment and to support the transition to a new monetary policy operational framework

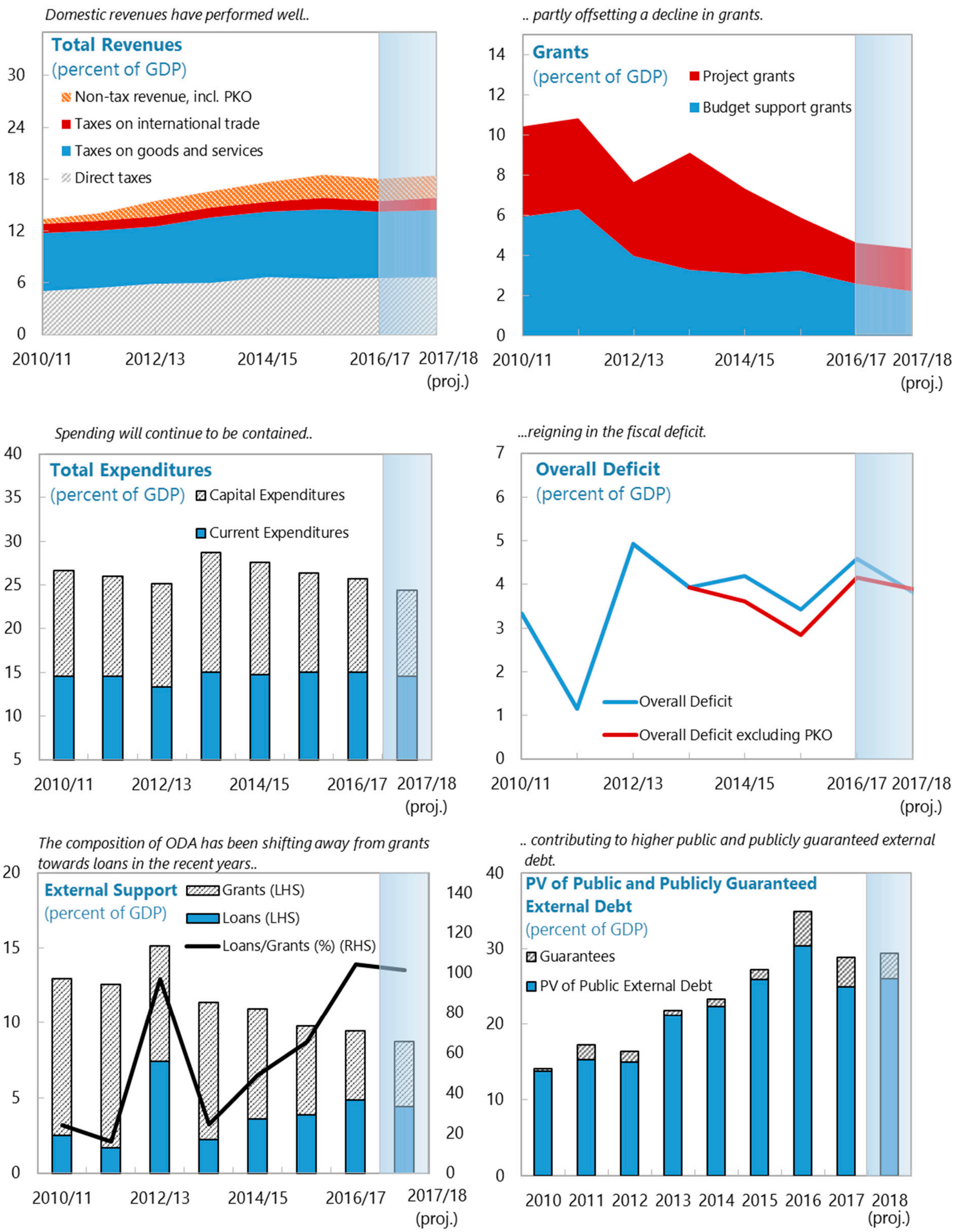
26. Based on the government's performance under the PSI-supported program and its well-articulated forward-looking macroeconomic strategy, **staff recommends completion of the ninth review of the PSI-supported program.**

Figure 1. Rwanda: Overview of Recent Economic Developments



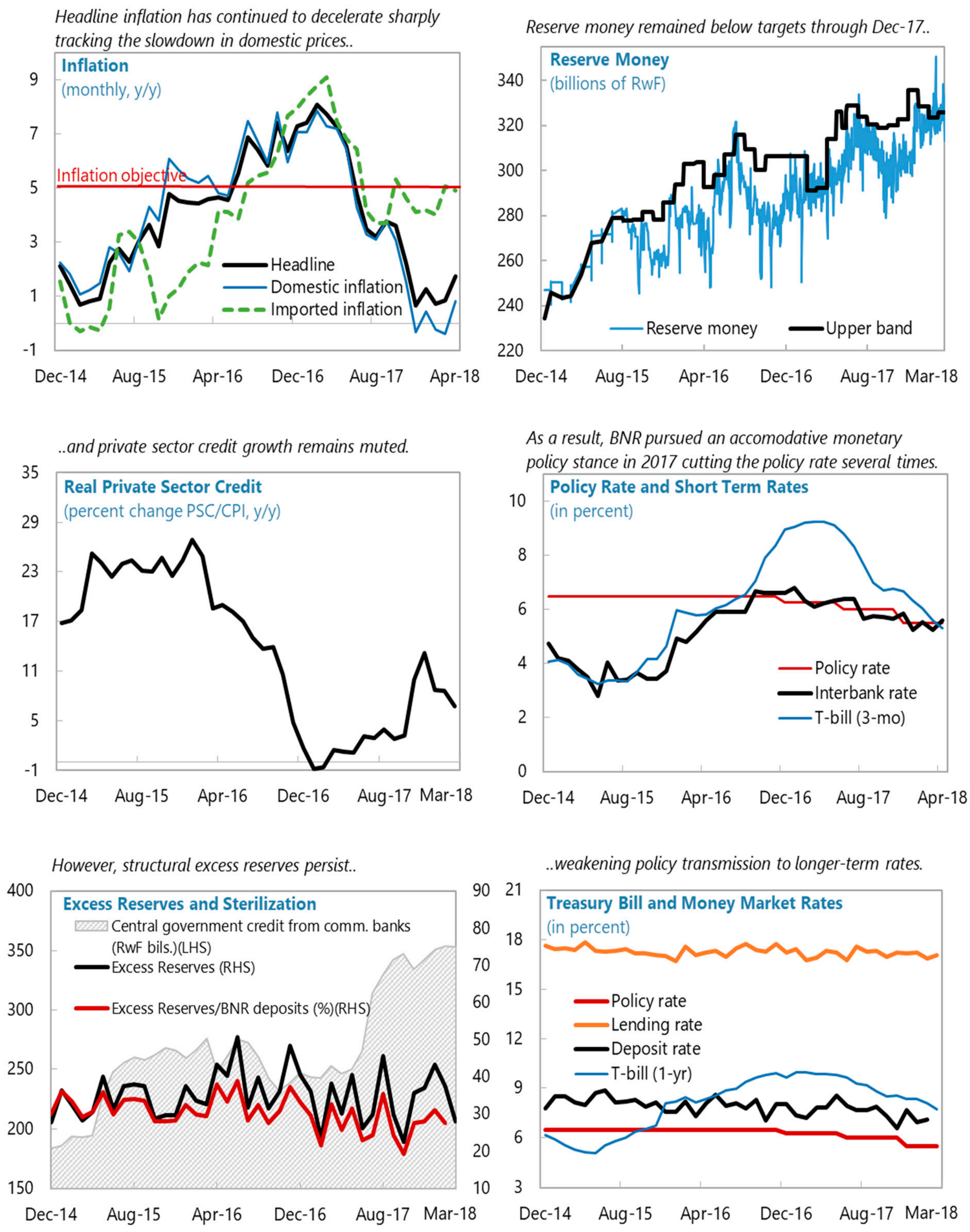
Source: Rwandan authorities, and IMF staff estimates.

Figure 2. Rwanda: Fiscal Developments



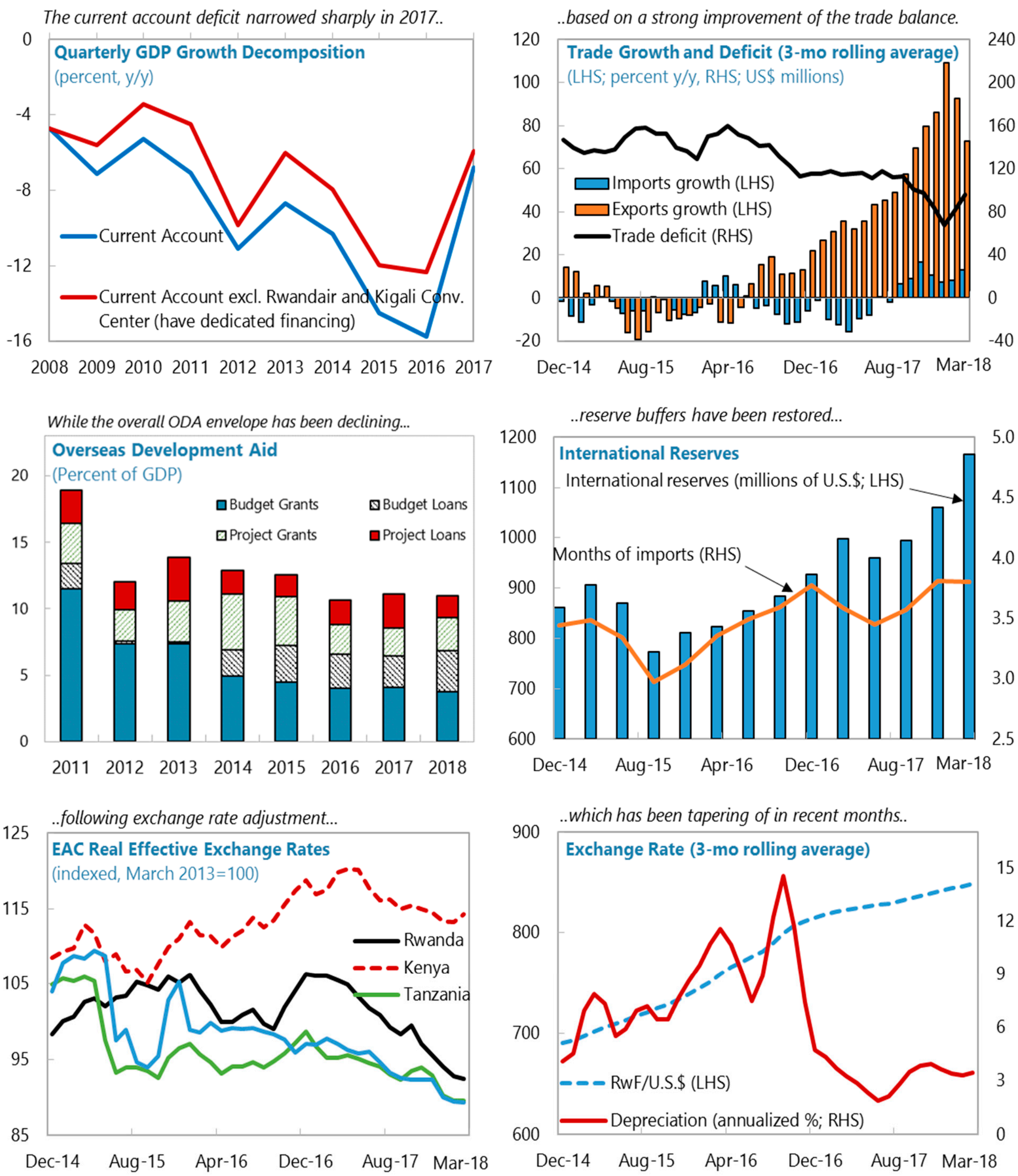
Source: Rwandan authorities, and IMF staff estimates.

Figure 3. Rwanda: Monetary Sector Developments



Source: Rwandan authorities, and IMF staff estimates.

Figure 4. Rwanda: External Developments



Source: Rwandan authorities, and IMF staff estimates.

Table 1. Rwanda: Selected Economic Indicators, 2016–20

	2016	2017		2018		2019	2020
	Act.	8th PSI Review	Est.	8th PSI Review	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
Output and prices							
Real GDP	6.0	5.2	6.1	6.5	7.2	7.8	8.0
GDP deflator	5.5	6.4	7.3	4.2	3.0	4.9	5.8
CPI (period average)	5.7	5.3	4.8	4.5	2.8	5.0	5.0
CPI (end period)	7.3	4.0	0.7	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	6.2	4.6	1.8	-4.7	-1.1	0.3	0.9
Money and credit							
Broad money (M3)	7.6	14.7	12.3	14.4	16.5	18.8	...
Reserve money	5.5	12.6	8.8	11.7	12.3	14.1	...
Credit to non-government sector	9.1	11.0	13.9	12.9	15.1	15.2	...
M3/GDP (percent)	23.9	24.7	23.6	25.5	24.9	26.1	...
NPLs (percent of total gross loans)	7.6	..	7.6	...	...	...	...
	(Percent of GDP, unless otherwise indicated)						
General government budget							
Total revenue and grants	23.5	22.7	22.9	22.6	23.4	22.0	22.1
of which : tax revenue	15.7	15.7	15.5	15.7	15.8	15.8	16.0
of which : grants	5.1	4.5	4.7	4.4	4.9	4.0	3.9
Expenditure	27.2	28.0	27.6	27.1	27.5	26.2	25.6
Current	15.3	15.0	14.7	14.6	14.9	14.1	13.8
Capital	10.5	10.7	10.7	10.4	10.5	10.0	9.8
Primary balance	-2.7	-4.2	-3.6	-3.3	-3.0	-3.2	-2.5
Overall balance	-3.7	-5.3	-4.7	-4.5	-4.1	-4.2	-3.4
excluding grants	-8.8	-9.8	-9.4	-8.9	-9.0	-8.2	-7.3
Net domestic borrowing	0.8	1.2	0.2	0.8	0.8	0.6	0.0
Public debt							
Total public debt incl. guarantees	47.2	47.6	48.3	49.2	49.0	49.0	47.3
of which : external public debt	34.9	37.6	37.5	39.4	39.2	39.7	38.6
Investment and savings							
Investment	25.9	25.0	23.4	26.0	25.0	25.9	25.9
Government	10.5	10.7	10.7	10.4	10.5	10.0	9.8
Nongovernment	15.4	14.3	12.7	15.6	14.6	16.0	16.1
Savings	6.1	12.5	12.5	12.6	12.4	13.8	14.6
Government	3.1	3.2	3.4	3.6	3.6	3.9	4.5
Nongovernment	3.0	9.3	9.0	9.0	8.8	10.0	10.1
External sector							
Exports (goods and services)	18.4	21.1	22.4	21.5	23.0	24.1	24.2
Imports (goods and services)[1]	36.9	31.8	32.3	33.1	34.4	34.9	34.2
Current account balance (incl grants)	-15.8	-8.8	-6.8	-10.0	-8.8	-9.0	-8.3
Current account balance (excl grants)	-19.8	-12.5	-10.9	-13.4	-12.6	-12.1	-11.4
Current account balance (excl. large projects)	-12.3	-8.1	-6.4	-7.3	-8.6	-7.8	-7.2
Gross international reserves							
In millions of US$	1001	1083	1163	1128	1240	1332	1460
In months of next year's imports	4.1	4.1	4.2	4.0	4.0	4.0	4.1
Memorandum items:							
GDP at current market prices							
Rwanda francs (billion)	6672	7,406	7597	8,220	8388	9486	10839
US$ (million)	8475	...	9137	...	...	...	...
GDP per capita (US$)	734	...	772	...	...	...	...
Population (million)	11.6	11.8	11.8	12.1	12.1	12.4	12.7

Sources: Rwandan authorities and IMF staff estimates.

[1] Imports for 2016 reflect purchases of two aircrafts.

Table 2a. Rwanda: Budgetary Central Government Flows, FY 2016/17–19/20[1]

(Billions of Rwandan francs)

	2016/17	2017/18		2018/19		2019/20
	Act.	8th PSI Review	Proj.	8th PSI Review	Proj.	Proj.
Revenue and grants	**1,615.8**	**1,766.5**	**1,820.6**	**1,929.1**	**1,997.5**	**2,241.6**
Total revenue	1,285.6	1,413.7	1,473.2	1,554.0	1,601.2	1,836.9
Tax revenue	1,104.1	1,229.6	1,267.2	1,373.6	1,395.0	1,612.9
Direct taxes	468.4	518.4	534.2	596.6	597.5	691.0
Taxes on goods and services	544.6	602.9	617.4	672.7	680.7	794.6
Taxes on international trade	91.2	108.4	115.6	104.3	116.7	127.3
Non-tax revenue	181.4	184.1	206.0	180.4	206.3	224.1
Of which : PKO	128.5	115.5	137.4	104.0	117.9	124.9
Grants	330.2	352.9	347.4	375.1	396.3	404.7
Budget grants	184.2	182.6	178.7	182.9	163.1	181.9
Of which: Global Fund	54.1	61.1	57.5	61.7	53.6	55.8
Project grants	146.0	170.3	168.7	192.2	233.1	222.8
Total expenditure and net lending	**1,942.9**	**2,092.4**	**2,125.2**	**2,314.7**	**2,407.1**	**2,687.0**
Current expenditure	1,069.6	1,144.8	1,159.4	1,274.0	1,319.9	1,445.6
Wages and salaries	263.7	302.1	325.0	342.4	365.7	415.0
Purchases of goods and services	207.4	222.0	222.0	243.2	253.8	281.5
Interest payments	72.2	94.2	92.2	104.1	94.7	94.4
Domestic debt	35.3	52.7	50.7	58.4	49.8	43.6
External debt	36.9	41.5	41.5	45.7	44.9	50.8
Transfers	366.9	402.7	389.2	438.1	431.9	483.3
PKO and demobilization[2]	159.4	123.9	131.1	146.3	173.8	171.3
Capital expenditure	759.5	769.6	787.8	852.0	897.1	1,031.7
Domestic	418.2	466.8	486.6	483.2	510.2	575.6
Foreign[3]	341.3	302.7	301.1	368.7	386.9	456.1
Net lending and privatization receipts	113.8	178.0	178.0	188.7	190.0	209.8
Overall balance (incl. grants, commitment basis)	**-327.1**	**-325.8**	**-304.6**	**-385.5**	**-409.6**	**-445.4**
Overall balance (incl. grants, excl. PKO, commitment basis)	**-296.3**	**-317.4**	**-310.8**	**-343.3**	**-353.6**	**-399.0**
Change in float/arrears[4]	-20.1	-24.2	-24.2	-27.2	-27.2	-30.6
Overall balance (incl. grants, cash basis)	**-347.2**	**-350.0**	**-328.8**	**-412.8**	**-436.8**	**-476.0**
Financing	**347.2**	**350.0**	**328.8**	**412.8**	**436.8**	**476.0**
Foreign financing (net)	322.7	324.6	326.7	324.3	372.4	377.6
Drawings	344.6	349.7	351.8	353.0	400.9	408.8
Budgetary loans	183.8	217.2	219.4	176.5	247.1	175.5
Project loans	160.7	132.4	132.4	176.5	153.8	233.3
Amortization	-21.9	-25.1	-25.1	-28.7	-28.5	-32.2
Net domestic financing[3]	48.9	25.4	2.0	88.5	64.4	98.4
Net credit from banking system	16.6	25.4	2.6	88.5	64.4	98.4
Nonbank sector	32.3	0.0	-0.6	0.0	--	--
Errors and omissions[5]	-24.3	0.0	--	0.0	--	--

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes peacekeeping operations, spending on demobilisaton/reintegration, and genocide relief.

[3] 2016/17 foreign-financed capital spending included RwF34.5bn deposit drawdown, accumulated in previous years.

[4] A negative sign indicates a reduction.

[5] A negative number implies an overerestimate of financing.

Table 2b. Rwanda: Budgetary Central Government Flows, FY 2016/17–19/20[1]

(Percent of GDP)

	2016/17	2017/18		2018/19		2019/20
	Act.	8th PSI Review	Proj.	8th PSI Review	Proj.	Proj.
Revenue and grants	**22.7**	**22.6**	**22.8**	**22.0**	**22.4**	**22.1**
Total revenue	18.0	18.1	18.4	17.8	17.9	18.1
Tax revenue	15.5	15.7	15.9	15.7	15.6	15.9
Direct taxes	6.6	6.6	6.7	6.8	6.7	6.8
Taxes on goods and services	7.6	7.7	7.7	7.7	7.6	7.8
Taxes on international trade	1.3	1.4	1.4	1.2	1.3	1.3
Nontax revenue	2.5	2.4	2.6	2.1	2.3	2.2
Of which : PKO	1.8	1.5	1.7	1.2	1.3	1.2
Grants	4.6	4.5	4.3	4.3	4.4	4.0
Budget grants	2.6	2.3	2.2	2.1	1.8	1.8
Project grants	2.0	2.2	2.1	2.2	2.6	2.2
Total expenditure and net lending	**27.3**	**26.8**	**26.6**	**26.5**	**26.9**	**26.4**
Current expenditure	15.0	14.7	14.5	14.6	14.8	14.2
Wages and salaries	3.7	3.9	4.1	3.9	4.1	4.1
Purchases of goods and services	2.9	2.8	2.8	2.8	2.8	2.8
Interest payments	1.0	1.2	1.2	1.2	1.1	0.9
Domestic debt	0.5	0.7	0.6	0.7	0.6	0.4
External debt	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	5.2	5.2	4.9	5.0	4.8	4.8
PKO and demobilization[2]	2.2	1.6	1.6	1.7	1.9	1.7
Capital expenditure	10.7	9.8	9.9	9.7	10.0	10.2
Domestic	5.9	6.0	6.1	5.5	5.7	5.7
Foreign[3]	4.8	3.9	3.8	4.2	4.3	4.5
Net lending and privatization receipts	1.6	2.3	2.2	2.2	2.1	2.1
Overall balance (incl. grants, commitment basis)	**-4.6**	**-4.2**	**-3.8**	**-4.4**	**-4.6**	**-4.4**
Overall balance (incl. grants, excl. PKO, commitment basis)	**-4.2**	-4.1	**-3.9**	**-3.9**	**-4.0**	**-3.9**
Change in float/arrears[4]	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance (incl. grants, cash basis)	**-4.9**	-4.5	**-4.1**	**-4.7**	**-4.9**	**-4.7**
Financing	**4.9**	4.5	**4.1**	**4.7**	**4.9**	**4.7**
Foreign financing (net)	4.5	4.2	4.1	3.7	4.2	3.7
Drawings	4.8	4.5	4.4	4.0	4.5	4.0
Budgetary loans	2.6	2.8	2.7	2.0	2.8	1.7
Project loans	2.3	1.7	1.7	2.0	1.7	2.3
Amortization	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing[3]	0.7	0.3	--	1.0	0.7	1.0
Net credit from banking system	0.2	0.3	--	1.0	0.7	1.0
Nonbank sector	0.5	--	0.0	0.0	0.0	0.0
Errors and omissions[5]	-0.3	--	0.0	0.0	0.0	0.0
Memorandum items:						
GDP (Billions of RwF), FY basis	7,125	7,813	7,993	8,750	8,937	10,162

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Includes peacekeeping operations, spending on demobilisaton/reintegration, and genocide relief.

[3] 2016/17 foreign-financed capital spending included RwF34.5bn deposit drawdown, accumulated in previous years.

[4] A negative sign indicates a reduction.

[5] A negative number implies an overerestimate of financing.

Table 3a. Rwanda: Financial Operations of the Budgetary Central Government, GFSM 2014[1]

(Billions of Rwandan francs)

	2016/17		2017/18		2018/19		2019/20	
	8th PSI Review	Prel.	8th PSI Review	Proj.	8th PSI Review	Proj.	8th PSI Review	Proj.
Revenue	1,599.2	**1,567.9**	1,691.3	**1,745.4**	1,836.7	**1,904.9**	2,092.7	**2,137.5**
Taxes	1,001.4	1,001.4	1,134.6	1,170.3	1,257.8	1,278.6	1,451.9	1,478.6
Taxes on income, profits, and capital gains	403.7	403.7	461.4	476.3	523.3	524.1	612.7	606.9
Taxes on property	0.6	0.6	--	0.0	--	0.0	--	0.0
Taxes on goods and services	516.5	516.5	564.8	578.5	630.2	637.7	725.0	744.5
Taxes on international trade and transactions	80.7	80.7	108.4	115.6	104.3	116.7	114.2	127.3
Social contributions	--	**0.0**	--	**0.0**	--	**0.0**	--	**0.0**
Grants	330.2	330.2	352.9	347.4	375.1	396.3	416.9	404.7
Current	184.2	184.2	182.6	178.7	182.9	163.1	200.7	181.9
Capital	146.0	146.0	170.3	168.7	192.2	233.1	216.2	222.8
Other revenue	267.6	236.3	203.9	227.6	203.8	230.1	223.9	254.2
Property income	4.3	4.3	11.2	12.5	11.2	12.6	12.3	13.9
Sales of goods and services	228.2	196.9	181.2	202.3	181.1	204.5	199.0	225.9
Fines, penalties, and forfeits	35.1	35.1	9.7	10.8	9.7	11.0	10.7	12.1
Voluntary transfers other than grants	--	0.0	--	0.0	--	0.0	--	0.0
Miscellaneous and unidentified revenue	--	0.0	1.8	2.0	1.8	2.1	2.0	2.3
Expense	1,278.8	**1,278.8**	1,382.2	**1,396.8**	1,524.4	**1,574.8**	1,702.6	**1,723.5**
Compensation of employees	237.0	237.0	211.9	234.8	228.8	241.3	257.6	261.5
Use of goods and services	427.2	427.2	373.3	367.0	418.1	453.1	506.7	492.1
Interest	72.2	72.2	94.2	92.2	104.1	94.7	110.1	94.4
To nonresidents	36.9	36.9	41.5	41.5	45.7	44.9	45.7	50.8
To residents other than general government	35.3	35.3	52.7	50.7	58.4	49.8	64.5	43.6
Subsidies	86.2	86.2	179.4	179.4	200.6	203.9	183.5	222.3
Grants	345.0	345.0	413.3	413.3	449.6	458.7	505.5	513.3
To EBUs	45.5	45.5	47.4	47.4	50.7	51.7	58.7	59.6
To Local Government	299.4	299.4	365.8	365.8	398.9	407.0	446.8	453.7
Social benefits	23.7	23.7	25.9	25.9	29.0	28.9	32.7	32.9
Other expense	87.5	87.5	84.2	84.2	94.3	94.1	106.5	107.0
Net Operating Balance								
including grants	320.4	**289.1**	309.2	**348.6**	312.2	**330.2**	390.1	**414.0**
excluding grants	-9.8	-41.1	-43.7	1.2	-62.9	-66.08	-26.8	9.3
Net acquisition of nonfinancial assets	632.6	641.4	615.5	633.7	697.8	739.8	802.7	859.38
Foreign financed	--	--	302.7	301.1	368.7	386.9	439.9	456.1
Domestically financed	--	--	312.7	332.5	329.1	352.8	362.9	403.3
Net lending (+) / borrowing (-)								
including grants	-312.2	**-352.3**	-306.3	**-285.0**	-385.5	**-409.6**	-412.7	**-445.4**
excluding grants	-642.4	-682.5	-659.1	-632.4	-760.6	-805.8	-829.5	-850.1
Net acquisition of financial assets	35.3	**35.3**	-5.9	**16.9**	-88.5	**-64.4**	-90.5	**-98.4**
Currency and deposits	8.8	8.8	-25.4	-2.6	-88.5	-64.4	-90.5	-98.4
Equity and investment fund shares	--	0.0	9.6	9.6	--	0.0	--	0.0
Loans	26.4	26.4	9.9	9.9	--	0.0	--	0.0
Net incurrence of liabilities	362.0	**362.0**	300.4	**301.9**	297.1	**345.2**	322.1	**347.0**
Currency and deposits	--	0.0	--	0.0	--	0.0	--	0.0
Debt securities	56.1	56.1	36.0	35.4	43.8	49.8	43.8	49.8
Loans	296.3	296.3	288.6	290.8	280.5	322.6	309.0	327.8
Other accounts payable	9.6	9.6	-24.2	-24.2	-27.2	-27.2	-30.6	-30.6
Statistical discrepancy	-14.5	25.6	--	0.0	--	0.0	--	0.0
Memorandum items:								
Domestic revenue (incl. Local government)	1,316.9	1,285.6	1,413.7	1,473.2	1,554.1	1,601.2	1,779.9	1,836.9
Wage bill	413.0	413.0	417.3	440.2	466.9	484.2	535.2	543.4
Overall fiscal balance (incl. grants, commitment basis)	-338.6	-378.7	-325.8	-304.6	-385.5	-409.6	-412.7	-445.4
Net domestic financing (excl. policy lending and OAP)	--	--	-25.4	-2.0	-88.5	-64.4	-90.5	-98.4

Sources: Rwandan authorities and IMF staff estimates and projec

[1] Fiscal year runs from July to June.

Table 3b. Rwanda: Financial Operations of the Budgetary Central Government, GFSM 2014[1]

(Percent of GDP)

	2016/17		2017/18		2018/19		2019/20	
	8th PSI Review	Prel.	8th PSI Review	Proj.	8th PSI Review	Proj.	8th PSI Review	Proj.
Revenue	22.4	**22.0**	21.6	**21.8**	21.0	**21.3**	21.2	**21.0**
Taxes	14.1	14.1	14.5	14.6	14.4	14.3	14.7	14.5
Taxes on income, profits, and capital gains	5.7	5.7	5.9	6.0	6.0	5.9	6.2	6.0
Taxes on property	--	0.0	--	0.0	--	0.0	--	0.0
Taxes on goods and services	7.2	7.2	7.2	7.2	7.2	7.1	7.3	7.3
Taxes on international trade and transactions	1.1	1.1	1.4	1.4	1.2	1.3	1.2	1.3
Social contributions	--	**0.0**	--	**0.0**	--	**0.0**	--	**0.0**
Grants	4.6	4.6	4.5	4.3	4.3	4.4	4.2	4.0
Current	2.6	2.6	2.3	2.2	2.1	1.8	2.0	1.8
Capital	2.0	2.0	2.2	2.1	2.2	2.6	2.2	2.2
Other revenue	3.8	3.3	2.6	2.8	2.3	2.6	2.3	2.5
Expense	17.9	**17.9**	17.7	**17.5**	17.4	**17.6**	17.2	**17.0**
Compensation of employees	3.3	3.3	2.7	2.9	2.6	2.7	2.6	2.6
Use of goods and services	6.0	6.0	4.8	4.6	4.8	5.1	5.1	4.8
Interest	1.0	1.0	1.2	1.2	1.2	1.1	1.1	0.9
To nonresidents	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
To residents other than general government	0.5	0.5	0.7	0.6	0.7	0.6	0.7	0.4
Subsidies	1.2	1.2	2.3	2.2	2.3	2.3	1.9	2.2
Grants	4.8	4.8	5.3	5.2	5.1	5.1	5.1	5.1
To EBUs	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
To Local Government	4.2	4.2	4.7	4.6	4.6	4.6	4.5	4.5
Social benefits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Net Operating Balance								
including grants	4.5	**4.1**	4.0	**4.4**	3.6	**3.7**	3.9	**4.1**
excluding grants	-0.1	-0.6	-0.6	0.0	-0.7	-0.7	-0.3	0.1
Net acquisition of nonfinancial assets	8.9	**9.0**	7.9	**7.9**	8.0	**8.3**	8.1	**8.5**
Foreign financed	--	--	3.9	3.8	4.2	4.3	4.5	4.5
Domestically financed	--	--	4.0	4.2	3.8	3.9	3.7	4.0
Net lending (+) / borrowing (-)								
including grants	-4.4	**-4.9**	-3.9	**-3.6**	-4.4	**-4.6**	-4.2	**-4.4**
excluding grants	-9.0	-9.6	-8.4	-7.9	-8.7	-9.0	-8.4	-8.4
Net acquisition of financial assets	0.5	**0.5**	-0.1	**0.2**	-1.0	**-0.7**	-0.9	**-1.0**
Currency and deposits	0.1	0.1	-0.3	0.0	-1.0	-0.7	-0.9	-1.0
Equity and investment fund shares	--	0.0	0.1	0.1	--	0.0	--	0.0
Loans	0.4	0.4	0.1	0.1	--	0.0	--	0.0
Net incurrence of liabilities	5.1	**5.1**	3.8	**3.8**	3.4	**3.9**	3.3	**3.4**
Currency and deposits	--	0.0	--	0.0	--	0.0	--	0.0
Debt securities	0.8	0.8	0.5	0.4	0.5	0.6	0.4	0.5
Loans	4.2	4.2	3.7	3.6	3.2	3.6	3.1	3.2
Other accounts payable	0.1	0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Statistical discrepancy	-0.2	0.4	--	0.0	--	0.0	--	0.0
Memorandum items:								
Domestic revenue (incl. Local government)	18.5	18.0	18.1	18.4	17.8	17.9	18.0	18.1
Wage bill	5.8	5.8	5.3	5.5	5.3	5.4	5.4	5.3
Overall fiscal balance (commitment basis)	-4.8	-5.3	-4.2	-3.8	-4.4	-4.6	-4.2	-4.4
Net domestic financing (excl. policy lending)	--	--	-0.3	0.0	-1.0	-0.7	-0.9	-1.0
GDP (Billions of RwF), FY basis	7,125.0	7,125.0	7,813.1	7,992.7	8,749.6	8,937.0	9,878.5	10,162.2

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 4. Rwanda: Monetary Survey, 2016–19
(Billions of Rwandan francs, unless otherwise indicated)

	2016	2017	2018				2019
	Dec.	Dec.	Jun.		Dec.		Dec.
	Act.	Act.	8th PSI Review	Proj.	8th PSI Review	Proj.	Proj.
Monetary authorities							
Net Foreign Assets[1]	660	749	629	642	734	820	939
Net domestic assets	-357	-420	-273	-299	-353	-450	-517
Domestic credit	-220	-249	-101	-112	-166	-244	-277
Other items (net; asset +)	-137	-171	-172	-186	-187	-205	-240
Reserve money[2]	303	329	357	344	381	370	422
Commercial banks							
Net foreign assets	80	54	80	55	80	56	58
Reserves	154	165	179	162	186	181	203
Net credit from BNR	34	36	50	-108	122	19	44
Domestic credit	1,527	1,782	1,786	2,060	1,867	2,057	2,377
Government (net)	225	297	245	376	245	338	406
Public enterprises	44	46	0	46	44	46	41
Private sector	1,258	1,439	1,541	1,638	1,578	1,673	1,930
Other items (net; asset +)	-348	-410	-348	-411	-348	-413	-415
Deposits	1,446	1,626	1,790	1,758	1,906	1,901	2,267
Monetary survey							
Net foreign assets	739	803	709	697	813	876	997
Net domestic assets	855	988	1,251	1,241	1,279	1,210	1,480
Domestic credit	1,341	1,569	1,779	1,840	1,822	1,832	2,144
Government	12	58	166	144	173	101	162
Public enterprises	44	46	44	46	44	46	41
Private sector	1,285	1,464	1,569	1,650	1,605	1,684	1,941
Other items (net; asset +)	-486	-581	-535	-599	-535	-618	-655
Broad money	1,595	1,791	1,961	1,938	2,092	2,086	2,477
Year on Year Growth				(Percent)			
Broad money	7.6	12.3	14.5	9.4	14.4	16.5	18.8
Reserve money	5.5	8.8	11.8	11.8	11.7	12.3	14.1
Net foreign assets	15.1	8.6	32.2	30.0	6.3	9.0	13.9
Credit to the private sector	9.1	13.9	13.7	18.7	12.7	15.1	15.2
Memorandum items:							
Velocity (eop)	4.2	4.2	3.9	4.0	3.9	4.0	3.8
Money multiplier	5.3	5.4	5.5	5.6	5.5	5.6	5.9

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

[1] For program purposes NFA are shown at program exchange rates.

[2] 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 5. Rwanda: Balance of Payments, 2016–20
(Millions of U.S. Dollars, unless otherwise indicated)

	2016	2017		2018			2019	2020
	Act.	8th PSI Rev.	Prel.	8th PSI Rev.	Proj.	8th PSI Rev.	Proj.	Proj.
	(Millions of U.S. dollars, unless otherwise indicated)							
Current account balance (incl. official transfers)	**-1,335.8**	**-783.3**	**-621.7**	**-951.4**	**-857.4**	**-912.9**	**-951.4**	**-959.7**
Current account balance ex. Bugesera	-1,332.0	-747.0	-583.9	-807.7	-836.3	-779.1	-817.5	-837.1
Trade balance	-1,309.6	-928.3	-871.6	-1,015.5	-961.9	-959.8	-1,012.3	-1,035.4
Exports (f.o.b.)	726.5	994.6	1,050.1	1,128.8	1,207.2	1,326.8	1,396.1	1,562.0
Of which: coffee and tea	121.9	144.1	148.4	156.0	147.3	179.3	167.2	180.0
Of which: minerals	86.4	102.9	125.0	118.0	166.0	158.4	197.3	244.7
Imports (f.o.b.)	2,036.2	1,923.0	1,922	2,144.3	2,169.1	2,286.6	2,408.5	2,597.3
Of which: capital goods	566.1	494.3	495.9	545.1	545.3	598.0	585.3	654.0
Of which : Energy goods	181.0	198.0	201.7	209.3	255.1	225.1	257.1	265.4
Services (net)	-254.1	-27.4	-29.8	-95.0	-145.8	-92.0	-127.6	-122.4
Credit	834.5	882.5	998.2	913.6	1,026.2	1,003.3	1,144.4	1,239.3
Of which: tourism receipts	389.8	438.1	438.1	496.8	492.4	571.4	566.3	651.3
Debit	1,088.6	909.8	1,028.0	1,008.6	1,172.0	1,095.3	1,272.0	1,361.7
Of which: KCC, RwandAir, and Bugesera	-170.3	-12.6	-12.6	-32.0	-4.7	-29.8	-29.8	-27.3
Income	-296.3	-331.8	-316.7	-351.1	-344.8	-389.0	-380.9	-424.7
Of which: interest on public debt[1]	-43.5	-47.0	-46.6	-50.2	-50.2	-53.5	-53.5	-57.4
Current transfers (net)	524.2	504.1	596.4	510.1	595.0	527.9	569.4	622.8
Private	180.3	179.1	220.8	186.6	230.8	194.8	247.7	268.1
Public	343.9	325.0	375.7	323.5	364.2	333.1	321.8	354.7
Capital and financial account balance	**1,156.5**	**783.3**	**745.3**	**970.1**	**909.3**	**1,060.0**	**1,044.2**	**1,111.3**
Capital account	190.0	189.9	189.7	204.2	244.4	211.2	234.1	235.2
Financial account	966.5	593.4	555.6	765.9	664.9	848.8	810.1	876.1
Direct investment	218.5	245.1	245.1	323.0	261.6	343.1	333.8	363.9
Public sector capital	719.1	299.0	298.6	364.2	385.9	429.5	444.0	473.4
Long-term borrowing[2]	768.0	369.5	369.2	439.7	461.4	502.2	516.7	567.1
Scheduled amortization, excl IMF	-48.9	-70.6	-70.6	-75.5	-75.5	-72.7	-72.7	-93.8
Other capital[3]	28.9	49.3	11.8	78.8	17.3	76.2	32.3	38.8
Of which: commercial banks NFA (increase -)	-50.6	0.0	36.8	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**169.2**	**0.0**	**-31.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-10.1**	**0.0**	**92.6**	**18.7**	**51.8**	**147.0**	**92.8**	**151.6**
Financing	**10.1**	**0.0**	**-92.6**	**-18.7**	**-51.8**	**-147.0**	**-92.8**	**-151.6**
Reserve assets (increase -)	-79.2	-81.3	-161.9	-45.5	-76.9	-146.9	-92.2	-127.3
Net credit from the IMF	98.2	74.6	75.0	-1.1	23.3	-0.5	-0.5	-21.6
Change in other foreign liabilities (increase +)	-9.0	6.7	-5.7	2.5	1.8	0.3	-0.1	-2.6
Prospective financing	**0.0**	**0.0**	**0.0**	**25.4**	**0.0**	**0.0**	**0.0**	**0.0**
o/w IMF	0.0	0.0	0.0	25.4	0.0	0.0	0.0	0.0
Memorandum items:								
Current account deficit (percent of GDP)[4]	-15.8	-8.8	-6.8	-10.0	-8.8	-8.9	-9.0	-8.3
Excl. Bugesera	-15.7	-8.4	-6.4	-8.5	-8.6	-7.6	-7.8	-7.2
Gross official reserves (with prosp. financing)	**1,001**	**1,083**	**1,163**	**1,128**	**1,240**	**1,275**	**1,332**	**1,460**
in months of prospective imports of G&S	4.1	4.1	4.2	4.0	4.0	4.3	4.0	4.1
Excl. Bugesera	4.1	4.5	4.3	4.2	4.2	4.3	4.2	4.2
Overall balance (percent of GDP)	-0.1	0.0	1.0	0.2	0.5	1.4	0.9	1.3
Total Public Transfers (US$ million)	533.9	514.9	565.4	527.7	608.6	544.3	555.8	589.9
Of which : budgetary grants	246.9	210.8	253.3	206.3	236.3	211.7	187.8	215.1
Budgetary Loans (US$ million)	220.9	220.2	216.1	233.9	298.5	187.1	216.1	215.0

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Including interest due to the IMF.

[2] Includes central government project and budget loans, and borrowing by Rwandair, KCC, and Bugesera.

[3] Other capital includes long-term private capital, commercial credit, change in NFA of commercial banks, and unrecorded imports.

[4] Including official transfers.

Table 6. Rwanda: Financial Soundness Indicators, March 2015 – December 2017

	2015		2016				2017			
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	(Percent)									
Capital adequacy										
Regulatory capital to risk-weighted assets	21.3	19.9	22.3	20.7	20.4	19.9	19.6	19.1	20.4	20.0
Capital to assets	24.2	22.5	24.9	23.3	22.1	23.1	22.4	20.7	22.2	21.4
Off balance sheet items/total qualifying capital	290.8	302.8	263.8	262.5	260.2	307.2	309.8	307.6	293.7	298.7
Insider loans/core capital	3.0	4.0	3.1	3.5	3.6	2.4	4.4	5.1	5.2	6.0
Large exposure/core capital	98.6	112.6	99.2	122.7	141.0	154.2	167.1	179.7	160.2	169.6
Asset quality										
NPLs/gross Loans	6.3	6.2	6.2	7.0	7.5	7.6	8.1	8.2	7.7	7.7
NPLs net/gross loans	5.1	5.2	5.2	5.9	6.0	5.6	6.3	6.2	6.5	6.6
Provisions/NPLs	48.3	46.2	46.0	42.7	43.4	42.7	44.4	44.9	43.9	46.7
Earning assets/total asset	83.1	83.1	82.9	81.9	82.6	81.1	80.2	80.7	80.4	63.4
Large exposures/gross loans	20.9	23.4	22.6	25.6	29.9	31.7	33.1	34.6	32.7	33.7
Profitability and earnings										
Return on average assets	2.3	2.1	1.9	1.7	1.9	1.7	1.8	1.7	1.6	1.1
Return on average equity	12.7	11.2	9.8	9.2	10.1	8.8	10.1	9.6	8.9	6.2
Net interest margin	8.7	8.5	9.3	9.2	9.4	9.3	10.3	10.0	9.6	10.0
Cost of deposits	3.1	3.2	3.7	3.6	3.6	3.7	3.6	3.5	3.3	3.4
Cost to income	80.5	81.1	80.9	82.0	81.1	83.1	80.7	81.1	81.5	85.1
Overhead to income	46.2	46.8	49.1	49.9	48.9	49.9	49.0	48.2	48.5	48.4
Liquidity										
Short term gap	6.0	8.1	9.1	10.4	3.6	2.8	5.9	7.1	5.8	5.9
Liquid assets/total deposits	46.8	45.4	43.9	42.8	42.3	41.7	42.6	43.0	42.9	43.7
Interbank borrowings/total deposits	16.4	18.0	17.0	17.6	20.9	20.4	19.1	20.0	23.0	23.0
BNR borrowings/total deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross loans/total deposits	87.0	89.0	92.2	90.9	100.5	95.5	110.8	108.4	108.7	108.7
Market sensitivity										
Forex exposure/core capital1	-7.9	-5.7	-6.7	-1.8	-6.3	-3.5	-4.4	-3.3	-4.3	-7.8
Forex loans/Forex deposits	38.7	37.2	51.0	55.7	46.1	41.3	46.3	45.4	47.2	46.7
Forex assets/Forex liabilities	86.1	81.7	81.1	82.3	81.6	81.5	82.5	82.9	79.9	80.4

Source: National Bank of Rwanda.

Table 7. Rwanda: Quantitative Program Targets as of End-December 2017[1]

	December 2017				June 2018
	Program	Adjusted	Actual	Status	Proposed Program
(Billions of Rwandan francs, unless otherwise indicated)					
Assessment criteria					
Ceiling on the overall fiscal deficit, including grants[2, 3]	241	251	168	**Met**	325
Net foreign assets of the NBR at program exchange rate (floor on stock)[3]	657	657	736	**Met**	530
Reserve money (ceiling on stock) (upper bound)[4]	348	348	313		365
Reserve money (stock)[4]	341	341		**Met**	357
Reserve money (ceiling on stock) (lower bound)[4]	333	333			349
External payment arrears (US$ millions) (ceiling on stock)[5]	0		0	**Met**	0
Indicative targets					
Net domestic financing (ceiling on flow)[2, 3]	-35	-11	-76	**Met**	7
Domestic revenue collection (floor on flow)[2, 6]	556		613	**Met**	1300
Net accumulation of domestic arrears (ceiling on flow)[2]	0		-4	**Met**	0
Total priority spending (floor on flow)[2]	346		349	**Met**	745
New external debt contracted or guaranteed by nonfinancial public enterprises (US$ millions) (ceiling on stock)[5]	500		634	**Not met**	800
Memorandum items:					
Total budget support (US$ millions) [2, 6]	331		314		475
Budget support grants (US$ millions)	101		129		216
Budget support loans (US$ millions)	230		185		258
RWF/US$ program exchange rate	830		830		845

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).
[2] Numbers for December 2017 and June 2018 are cummulative from 6/30/2017.
[3] Subject to adjustors. See TMU for details.
[4] 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.
[5] Ceilings on external arrears and external borrowing are continuous. The ceiling will exclude onlending agreement between Government of Rwanda and public sector enterprises.
[6] Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

Table 8. Rwanda: Structural Benchmarks through PSI 10th Review

Policy Measure	Target Date	Status
Monetary		
Establish an optimal level of headline or core inflation target range for monetary policy.	10th PSI Review	Ongoing
Develop and adopt a communication strategy on the objectives and operations of the monetary policy framework to enhance BNR transparency and accountability.	10th PSI Review	Ongoing
Financial Markets		
Introduce Government bond reopening mechanisms with objective to develop benchmark bonds and promote depth and liquidity in the government bond market.	9th PSI Review	Met
Establish an electronic interbank trading platform intended to improve banks' counterparty visibility and price formation in the market.	10th PSI Review	Ongoing
Public Financial Management		
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter	Quarterly	Met
Begin publishing in GFS 2014 format for the quarter ending September 2018.	10th PSI Review	Ongoing
Initiate a fiscal risk analysis of hotel and insurance sectors to assess potential contingent liabilities.	9th PSI Review	Met
Fiscal Revenues		
Initiate the rollout of "EBM version 2" pilot, with the intent of reaching 1,000 new EBM users	10th PSI Review	Ongoing

Annex I. Capacity Development Strategy for FY 2019

Forward-looking policy priorities will focus on domestic revenue collection, interest rate-based monetary policy framework, improving fiscal transparency, improving and harmonizing statistical reporting; and promoting private investment.

1. Assessment: Rwanda is a high-intensity technical assistance (TA) recipient with a good track record for use of IMF technical assistance. The authorities' proven commitment/ownership mitigates risks, and future success will require continued close coordination between the authorities, TA providers, and the AFR team. In the final quarter of FY16/17, TA was provided for:

- Financial sector supervision and regulation: The central bank received training on risk-based supervision and internal capital adequacy assessment for banks.
- Macro fiscal analysis: Officials from the Ministry of Finance, the Revenue Authority, and BNR were trained in financial programming and policies.
- Public Financial Management: The existing chart of accounts was reviewed and updated to support the move to accrual accounting in the medium term; and
- Real sector statistics: NISR was supported to develop national accounts statistics that conform to the East African Community (EAC) requirements.

Forward-looking TA agenda	
Priorities	**Objectives**
Revenue policy and administration reforms: domestic tax expenditure analysis; updating and improving the revenue forecasting tool; improving the integrity of the tax payer register	Increase tax revenue to GDP ratio
GFSM 2014 adoption for fiscal reporting	Improve the coverage, timeliness, and transparency of fiscal reporting
Development of the interbank money market	Strengthen the monetary transmission mechanism for an interest rate targeting operational framework
Data quality and statistics	Harmonization of trade statistics between National Accounts and the Balance of Payments
Fiscal Transparency Evaluation	Determine fiscal transparency strengths and reform priorities to mitigate fiscal risks
Strengthening risk-based supervision	Implement the work plan on Basel II.

2. Authorities' views: The Rwandan authorities are in broad agreement with this capacity development strategy. They have requested that technical assistance be carefully sequenced and phased to allow for maximum absorption of recommendations and ensure that staff being trained can devote their time fully to these activities. They also emphasized peer learning opportunities where TA is provided by regional ministry and central bank staff.

Appendix I. Letter of Intent

Kigali, Rwanda,
May 23, 2018

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) and the Technical Memorandum of Understanding (TMU), we outline progress and policies toward meeting the objectives of the economic program of the Rwandan government that is supported by the PSI.

2. Following an adjustment program to deal with external shocks experienced in 2015 and a weather shock, growth slowed in 2016 and early 2017. However, because of dividends from our public investment strategies, increasing domestic production from our Made in Rwanda program, a more competitive real exchange rate, and favorable movements in international commodity prices, growth picked up in the second half of 2017, registering 6.1 percent for the year. The recovery was across most sectors of the economy, with a pronounced rebound in exports, reflecting strong performance in traditional exports combined with growing demand for new exports. Construction activity remained slack, however, following a boom in 2016 and possibly reflecting a lag in the response of domestic demand.

3. Fiscal policy has been in line with program objectives, and the debt situation remains at a low risk of distress. Monetary policy, following a period of modest easing in 2017, has been kept in a relatively neutral stance, as we transition toward implementation of an interest rate-based operating framework, in the context of a flexible exchange rate regime. All end-December 2017 and continuous quantitative assessment criteria under the program and structural benchmarks were met. The indicative US$500 million ceiling on new external debt contracted by public enterprises was exceeded by US$87 million, due to a lease signed by Rwandair. To accommodate this as well as other leases in the pipeline, we propose to raise the indicative ceiling to US$800 million.

4. Looking forward, we will continue to safeguard the progress made to sustain long-term economic growth, through keeping fiscal and external balances sustainable while implementing our new National Strategy for Transformation. Supporting reforms to our macroeconomic policies will

aim to improve domestic revenue mobilization, increase fiscal transparency, identify and mitigate potential fiscal risks.

5. In view of this performance, our Government requests that the Executive Board of the IMF approve the ninth review under the PSI-supported program. Proposed program targets for end-June 2018, which will gauge performance under the tenth and final review of the program, have been adjusted slightly to reflect more ambitious targets for accumulation of reserves, domestic revenues, and priority spending.

6. We are confident that the policies described in the attached MEFP will serve to achieve our program's objectives and, if necessary, our Government stands ready to take any additional measures that may be required. We will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

7. We consent to the publication of this letter, and its attachments as well as the related staff report.

Sincerely yours,

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

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Kigali, Rwanda, May 23, 2018

I. INTRODUCTION

1. This MEFP reviews performance under the PSI-supported program through end-December 2017 and discusses the macroeconomic outlook and policies of the Government for 2018 and beyond. It also lays out proposed quantitative targets for end-June 2018 and structural benchmarks through December 1, 2018.

II. MACROECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE THROUGH Q4 2017

Growth and Inflation.

2. In 2017, Rwanda rebounded from a slowdown in the first half of the year. The growth rate for the whole of 2017 was 6.1 percent against a projected 5.2 percent growth rate.

Main drivers of 2017 growth:

- Agriculture growth was 7 percent, thanks to a 7 percent growth in food crops, up from a 3 percent growth in 2016., Growth in industry was 4 percent compared to 7 percent in 2016, attributable to a decline in construction, which recorded growth of -3 percent in 2017. Mining sector growth boomed (21 percent) with the recovery in international prices and production of new minerals and gemstones while manufacturing growth remained at 6 percent, supported by food manufacturing and the growing textile sector. At 8 percent, the services sector also showed steady growth, with continued growth in tourism receipts as reflected in strong turnover growth in hotels and restaurants.
- Average annual headline inflation declined to 4.9 percent in 2017 from 5.7 percent in 2016. It eased to 2.8 percent in the second half of 2017 (2017H2) from 7.0 percent recorded in the first half of 2017 (2017H1). On a year-over-year basis, headline inflation continued to fall in March 2018 to 0.9 percent year on year, mainly due to negative food inflation. The evolution of food prices is largely explained by supplies; production was negatively affected in early 2017 by the 2016 drought but then improved over the course of 2017. To a lesser extent, inflationary pressure has also eased due to the stabilization of the RWF and the fading effects of a 2016 tariff increase,

Fiscal Performance and Financing

3. Budget execution in the first half of FY 2017/18 was broadly in line with expectations. Tax revenue collections marginally exceeded the target by 0.2 percent of GDP associated with improvements in corporate income taxes and VAT, and a large “one off” arrears collection. This over performance mitigated some shortfalls on excise taxes and taxes on international trade with

shortfalls on excise taxes explained by still-muted aggregate demand for highly-elastic consumer goods (beer, soft drinks, and cigarettes and mobile phone airtime). External disbursements of grants exceeded the projected amount by 0.3 percent of GDP due to the front loading of grants by a major donor.

4. On the spending side, total expenditure and net lending in the first half year of FY 2017/18 was about 0.2 percent of GDP higher than projected. With recurrent spending on track, the excess expenditure was caused by slightly higher capital expenditure resulting from accelerated construction of strategic petroleum reserve storage facilities and Global fund projects in health These expenditures were financed by drawdowns from accrued deposits of the strategic petroleum reserve levy introduced in fiscal year 2015/16 and accumulated deposits from Global Fund disbursements. The overall deficit (on a commitment basis) was 0.4 percent of GDP lower than expected.

Debt Management

5. Rwanda's risk of debt distress remains low. Rwanda has been able to maintain a low risk of debt distress through careful debt management and strong domestic revenue collection, combined with an improved macroeconomic environment. The Made in Rwanda policy strategy to stimulate domestic production, and the improvement in the country's trade balance have been key features in maintaining the low risk rating. Rwanda's debt sustainability analysis indicates a temporary breach of the debt service indicator thresholds, due to the 10-year Eurobond maturing in 2023.

6. Rwanda's debt stock stood at 47.1 percent of GDP at end-2017, a slight increase over 2016 attributable to budget support directed to for specific sectors (roads, energy and transport). Rwanda's external debt portfolio represented 78.6 percent of total public debt; 60 percent of the external debt portfolio consisted of concessional loans, which will continue to be the main source of funding for public projects. Domestic debt stood at 10.2 percent of GDP at end-2017. The government is extending the domestic debt maturity profile through more issuance of long-term bonds, as well the issuance of benchmark bonds (Bond re-opening) as an alternative to treasury bills. This will develop the bond market, reduce the number of outstanding series, and enhance liquidity in the market. In the first quarter of 2018, Rwandair contracted a lease for additional aircrafts for the expansion of its fleet, which breached the indicative target on the US$500 million ceiling on external debt by public enterprises US$87 million. The rationale behind fleet and route expansion is to operate deeper into Africa by adding new routes, and creating longer haul connections to Europe, America, and Asia. Although the initial plan was to acquire two aircraft next fiscal year, an opportunity arose to acquire new aircraft following the folding of a European airline company, so Rwandair management quickly engaged the lease contracts. The aircraft will only start generating debt service payments in 2019. Going forward, leases for 3 additional aircraft are likely to be signed in 2018, including to replace two aging aircraft. Hence, the government requests an increase in the indicative limit to US$800 million to accommodate these leases.

7. Going forward, Rwanda's debt management strategy will continue to focus on careful prioritization in project implementation. Appropriate financing models will be applied to avoid the

use of limited space for government borrowing in projects where the private sector could invest. The medium- term debt strategy will continue to focus on maximizing external concessional funding while promoting the domestic capital market.

Monetary Policy and Exchange Rate Developments.

8. The NBR's monetary policy stance remains broadly neutral. On 28th December 2017 the NBR's monetary policy committee (MPC) reduced the policy rate (KRR) from 6 percent to 5.5 percent based on current and expected developments in macroeconomic fundamentals, especially low inflation expectations, the relative stability of the RWF, and signs of still-weak aggregate demand.

9. The ease in exchange rate pressures in 2017 resulted from the improvement in Rwanda's export receipts in line with a continued recovery in international commodity prices, diversification of exports, and a decline in the import bill. The y/y RWF depreciation against the US$ moderated to 3.1 percent in 2017 from 9.7 percent in 2016.

10. Growth in monetary aggregates remains below historical trends on account of weak credit demand, but is rising associated with the improvement of activity in 2017: Private sector credit grew by 13.9 percent in 2017 compared to 9.1 percent in 2016

External Position

11. In 2017, the trade balance in merchandise improved substantially, driven by a strong 44.5 percent growth in exports and a 5.6 percent decline in imports. The strong performance in exports was driven by performance in all export categories, especially principal exports following the increase in international commodity prices, but also by exports in non-traditional categories such as other minerals and to a lesser extent horticulture. Other minerals include gemstones, tourmalines and amethyst and increased from 80 million USD in 2016 to 248 in 2017 while horticulture exports increased by 61 percent to 18.5 million USD.

12. Imports declined in 2017 partly due to the completion of some large construction projects such as the Kigali Convention Center and Marriot Hotel in the previous year which required the importation of big machines. The deceleration in some import subcategories, especially articles of clothing and construction materials, reflect investment policies to promote domestic production.

Financial Sector Stability

13. The pick-up of NPLs in the first half of the year 2017 reflects the subdued economic performance that affected the loan servicing capacity of borrowers. In line with the improved economic performance in the second half of 2017, NPLs dropped to 7.6 percent by end year from 8.2 percent recorded at mid-year.

14. *Banque Rwandaise de Developement* (*BRD*), a non-deposit taking development bank, was the only bank that did not comply with the minimum capital adequacy ratio of 15 percent at end December 2017. The bank is currently working at restructuring its balance sheet through a

conversion of Government special funds into capital in addition to a capital injection of RWF 15 billion already received from other shareholders. This restructuring is expected to bring the bank into compliance by year end.

15. The financial sector's legal and regulatory regime has evolved over the years to meet the changing structure of the Rwandan financial sector as well as related market developments. These prudential regulations relating to banking, microfinance institutions, non-banking financial businesses, and financial infrastructure aim to achieve a sound and efficient financial sector, benefitting depositors, stakeholders and other customers of financial institutions and the economy as a whole. The revised banking law gazetted in October 2017 offers the foundation for the financial sector to develop, comply with international best standards and, remain stable. The BNR is now in process of reviewing the banking regulations.

Program Performance.

16. All quantitative assessment criteria were met in the period under review, except the indicative ceiling on external borrowing for public enterprises, due to the aforementioned Rwandair leases. All structural benchmarks for the ninth review were met on time.

III. MACROECONOMIC OUTLOOK

Growth and Inflation.

17. In 2018, the overall GDP is projected to be 7.2 percent with an average in medium term of 7.7 percent, generally driven by agriculture and industry. Agricultural activity is projected to grow by 6 percent, due to projections for a strong main harvest. Industry is predicted to be the biggest contributor to overall GDP at 8.3 percent growth in 2018. This growth is expected to be led by a pick-up in construction activity, to 5.2 percent in 2018, following a contraction in 2017.

18. Mining sector growth is projected at 20.1 percent, and electricity is expected to grow at 11.9 percent due an increase in production capacity. Services growth is projected at 7.6 percent driven by trade and transport and supported by the good performance in agriculture and manufacturing.

19. Looking ahead, headline inflation is expected to remain around the 5.0 percent objective in 2018, as exchange rate pressures, global inflation, international commodity prices, and aggregate demand are foreseen to remain broadly subdued.

20. The main risk to the outlook remains weather conditions, which may affect the trend of food prices.

External Position

21. In 2018 and 2019, the current account is expected to deteriorate slightly to USD 867.2 and 1,026.9 million respectively due to higher imports from the construction of Bugesera airport. Exports

are expected improve in the medium term, while imports excluding Bugesera are expected to record a moderate increase as import substitution measures take effect. Despite the projected current account deterioration, higher financial flows in foreign direct investment and debt flows in 2018 and 2019 will boost the overall external position in the medium term, supporting a reserve build-up of 51.8 and 79.0 million in 2018 and 2019 respectively.

IV. PROGRAM POLICIES FOR 2018–19 AND THE MEDIUM TERM

22. Rwanda is developing its new long-term Vision 2050. The Vision 2050 emphasizes aspirations of high-quality livelihoods, and modern living standards for all Rwandan citizens. This prosperity will be achieved through increased incomes that require a long-term transformation of the economy with modern infrastructure and a sustainable environment at its core. The Rwandan Government recognizes that the country will need to transition from a foreign aid- and public investment -led growth model to one in which the private sector is in the lead role. In the longer run, the country needs to make decisive investments in future endowments: strengthening human capabilities, developing strong innovation capacity, and efficient forms of urbanization, and maintain effective and accountable institutions of governance. The Vision 2050 stipulates as pre-requisites, strong and sustainable macroeconomic fundamentals, including the need to sustain high private investment induced by domestic savings and capital inflows, high government investment, improved human capital through education and high productivity gains. The first years of Vision 2050 will be key to putting Rwanda on the trajectory for transformation. As such the first seven-year plan, the NST1, focuses on key priorities: creation of decent jobs, accelerating urbanization, establishing Rwanda as a knowledge based economy, shifting the exports base towards high value goods and services, increasing domestic savings and developing the financial services to promote private investment and increasing the productivity of agriculture. Rwanda will further invest in social protection and ensuring graduation from extreme poverty, in eradicating malnutrition and ensuring quality of education and health. Finally, social transformation is at the heart of national development and the Government will also emphasize capable and accountable institutions and ensuring continued citizens' participation and engagement in development, international development cooperation, security and safety, as well as justice, law and order.

A. Fiscal policy

Anticipated Outcomes for FY17/18.

23. The budget for fiscal year 2017/18 has been revised slightly to allow partial spending of higher than expected tax revenue collections. Accordingly, total tax revenue projection is being raised by around RWF 25 billion which represents 0.3 percent of GDP. Grants are expected to decline by 0.2 percent of GDP due to less RWF depreciation than originally forecast. As a result, total revenue and grants are now projected at 22.8 percent of GDP compared to 22.6 percent of GDP in PSI 8th review.

24. Consistent with the increase in revenue and grants, total expenditure and net lending were revised from PSI 8th review estimate but fell to 26.6 percent of GDP. This will allow the expenditure

of 0.2 percent of GDP to provide for the construction of schools and other infrastructure projects of the University of Rwanda, provision of health insurance for some citizens, insecticide spraying operations to reduce the spread of malaria, construction of irrigation systems to improve agricultural production, and pre- financing of some Peace Keeping Operations of the UN. The overall deficit is projected to decline to 3.8 percent of GDP compared to 4.2 percent of GDP in the revised budget. Reflecting the decline in overall deficit, the net domestic finance is also expected to decline.

Fiscal Policy Stance for the Medium-Term

25. Fiscal policy in the medium term will continue to reflect the policies of fiscal consolidation and prudent borrowing to keep debt and external balances sustainable. Consistent with these objectives, the overall deficit, is projected to decline to 4.2 percent of GDP in 2020/21. Tax revenue collections are projected to rise by 0.3 percent of GDP from FY2018/2019 to 16.2 percent in 2020/21. Increased yields from on-going tax policy and administrative measures mentioned above are expected to boost revenue collections in the medium term.

26. Implementation of expenditure prioritisation measures are expected to allow expenditures to decline from 26.9 percent of GDP in 2018/19 to 26.3 percent of GDP in 2020/21. The prioritisation strategy will mostly affect recurrent spending, which is projected to decline from 14.8 percent of GDP in 2018/19 to 13.9 percent in 2020/21.

27. Structural reforms for the coming year will focus on identifying fiscal risks and improving fiscal transparency (a FAD Fiscal Transparency Evaluation is expected to take place in H2 2018), maintaining the momentum for improving domestic revenue collection. At the same time, we are also making headway towards enhancing format, coverage, and timeliness of fiscal reporting via a transition to fiscal reporting according to the Government Finance Statistics Manual 2014 (GFSM 2014) and accrual accounting.

28. On public financial management, a fiscal risk analysis of hotel and insurance sectors to assess potential contingent liabilities has been initiated (structural benchmark). The objective of the analysis was to safeguard fiscal and financial sustainability. The assessment shows that, on a sample of 22 facilities representing 92 percent of total hotel NPLs, most hotel NPLs are in low and middle categories and only one in the upper risk category but it is not considered as ‘too big to fail’ and therefore does not pose any fiscal risks. The assessment of the insurance sector indicated an expectation of continued performance improvement for private insurers driven mainly by the recent review of tariffs for the motor business that was previously loss making as well as better conduct of business following the issuance of the Directive of Conduct of Insurance Business by the BNR. This directive is expected to curb previous malpractices such as price undercutting, issuing insurance on credit as well as fraud in claims settlement. Solvency of private insurers improved from 78 percent in December 2016 to 193 percent in December 2017 and is expected to close 2018 above the minimum 100 percent. NBR will continue to monitor these two sectors closely to mitigate any potential costs to the budget or debt implication.

29. **Key Policy objectives in 2018/19 and over the medium term** are guided by NST1 interventions in the area of; (i) *Jobs creation* through NEP Interventions in various sectors with focus on youth and women including and Hands-on skills development through TVET and accessing start up toolkits; (ii) *Urbanization*; with the implementation of City of Kigali & Secondary City Master Plans and improvement of rural and urban transportation services; (iii) *Competitive Knowledge-Based Economy*; Operationalization of the Rwanda Innovation fund and the support to centres of Excellence; (iv) *Industrialization and Export Promotion*; Development of industrial parks, Kigali Logistic Platform, and Bonded warehouse at the borders and Exploration of Mineral Potentials. We will also continue to implement our strategy for Tourism diversification; continuing construction of Bugesera Airport, support to Rwandair expansion, development of new tourism products, etc.); (v) *Increasing Agriculture & Livestock Production and Productivity and Establishing Agriculture financing and insurance scheme*; (vi) *Sustainable Management of Natural Resources and Environment*; (vi) *Domestic Savings Promotion* through subscription to Long Term Saving Scheme, implementation of the 10-Year Capital Market Master Plan, Operationalization of the World-Class Payment Eco-system to promote Rwanda into a cashless Economy etc.

30. The 2018/19 budget will continue to reflect the policies of prudent spending and borrowing to keep debt and external balances sustainable. The fiscal deficit, excluding peacekeeping operations, is expected to rise slightly from 2.5 percent of GDP in 2017/18 to 3.1 percent of GDP in 2018/19 and thereafter remain at this level in 2019/20 and 2020/21. (Including peacekeeping operations, due to mismatches between spending and repayment, the deficit is projected to rise slightly from 3.8 percent of GDP in 2017/18 to 4.6 percent of GDP in 2018/19.)

31. Correcting for one-off arrears collection in FY17/18, tax revenue collections are projected to remain flat, at 15.6 percent of GDP. in 2018/19.

32. **Tax policy changes** involving the 'EBM for all' which aims at rolling out the EBMs to selected non-VAT registered tax payers, enactment of the law amending excise duties on beer, wines and liquors as well as mobile data and amendments to taxes on income involving capping of management fees to 2 percent, excluding liberal professionals from the lump-sum/flat regime and the implementation of the transfer pricing guidelines which will help the Rwanda Revenue Authority conduct proper audits of multilateral companies (banks, telecoms, insurance and mining companies etc.) are expected to boost revenue collections in 2018/19 and help achieve the tax revenue target for FY2019/20 as some of the policy changes will take effect with a lag.

33. Total expenditure and net lending in 2018/19 are projected to rise marginally to 26.8 percent of GDP from 26.6 percent of GDP in 2017/18. Recurrent spending is being increased by 0.3 percent of GDP to account for the on-going restructuring of Government machinery, inclusion of expenditures to be funded with internally generated funds of some public institutions, and increased spending on Peacekeeping Operations.

34. In the case of capital spending, priority for funding allocation goes to the completion of on-going projects that promote growth. Foreign investment spending is increased by 0.3 percent of

GDP as a result of increased capital grants disbursement, reflecting improved performance partly attributable to the uptake of the e-procurement system.

35. The overall deficit in 2018/19 is projected at 4. 6 percent of GDP as against 3.8 percent of GDP in 2017/18. Net domestic finance will amount to 0.6 percent of GDP in 2018/19.

B. Monetary Policy

36. In the context of subdued inflation and exchange rate pressures, monetary policy will remain supportive to help bolster improving, but still below potential, aggregate demand. The growing instability of the money multiplier has exacerbated the disconnection between reserve money and broad money, posing challenges to the monetary targeting framework under which the NBR conducts its monetary policy. In this regard, the NBR is shifting to a price-based monetary policy framework to further improve the effectiveness of monetary policy.

37. In Rwanda, price-based monetary policy implementation would make money market rates more stable and predictable, a condition conducive to developing financial markets further and strengthening the monetary transmission mechanism. The NBR undertook steps to implement preconditions to move to an interest-based monetary policy framework, especially those related to management of liquidity and policymaking processes.

- **Interbank market development**. A well-functioning interbank market not only facilitates liquidity management by banks, but also serves as the cornerstone of financial market development. Similarly, through active and consistent management of system liquidity, the NBR can influence the determination of interest rate in the interbank money market. In this context, the NBR will soon launch an electronic interbank trading platform to enhance information sharing among market participants and improve price discovery (structural benchmark).
- **Communication**. When central banks make the transition from quantitative to market based monetary policy, effective communication is imperative. In this regard, the NBR is developing a strong communication strategy that will enhance its transparency and accountability. It will aim to effectively communicate its policy decisions, economic developments and outlook, and strengthen the communications content of the inflation report to better anchor price expectations. This will be important for markets and the public to understand the nature of shocks and NBR's policy responses. In this respect, the program contains structural benchmarks about establishing optimal inflation ranges and developing a strategy for improving communications.
- **Capacity development**. The NBR is seeking technical assistance to help build in-house capacity and identify constraints in the transition.
- **Forecasting and policy analysis system (FPAS).** The NBR has developed a forecasting and policy analysis system (FPAS), with the help of technical assistance by the IMF. Publications have been restructured to become more compatible with forward-looking communication, in particular, creating a more forward-looking inflation report. The NBR will continue to

operationalize the FPAS, by formalizing the forecasting team and process and integrating it further into monetary policy decision-making.

- **Determine the optimal level of inflation range**. Having committed to move towards a price-based monetary policy framework, the NBR is conducting a study which will recommend an optimal band for headline or core inflation.
- **Reduce the level of excess reserves.** Rwanda's banking system faces persistent and volatile excess in bank reserves, which pose a challenge to monetary policy transmission. In this regard, the NBR made progress and the "Financial Market Operations Committee" in charge of daily financial market analysis, liquidity management and forecasting continued to be strengthened. The NBR continued regular discussions initiated in 2017 with commercial bank treasurers about market developments and analysis. As result, the interbank market activity has continued to grow in both depth and width, and the NBR has succeeded in keeping the interbank market rate close to the Key Repo Rate for almost two consecutive years. These good developments are expected to continue in 2018 and beyond.

38. NBR is also taking steps to deepen the government securities market and enhance the yield curve. These include establishing a re-opening mechanism for long-term bonds (reissuing the same bond on different occasions), which would gradually build their outstanding volumes to the desired levels to qualify them as benchmark bonds. During the fiscal year 2017-2018, NBR (on behalf of Government of Rwanda) issued a 5-year bond in August 2017 and February 2018; a 7-year bond in November 2017 and is planning to issue a 10-year bond at end May 2018. On 28th March 2018, NBR issued a directive related to the regulatory framework for Government Bonds which included a discussion of the Reopening mechanism (Structural benchmark). The mechanism will be implemented by end June 2018 with a planned reopening of a 7-year bond issued in 2016.

Table 1. Status of Structural Benchmarks under the PSI-Supported Program

Policy Measure	Target Date
Monetary	
Establish an optimal level of headline or core inflation target range for monetary policy	10th PSI Review
Develop and adopt a communication strategy on the objectives and operations of the monetary policy framework to enhance BNR transparency and accountability	10th PSI Review
Financial Market	
Introduce Government bond reopening mechanisms with objective to develop benchmark bonds and promote depth and liquidity in the government bond market.	Met
Establish an electronic interbank trading platform intended to improve banks' counterparty visibility and price formation in the market.	10th PSI Review
Public Financial Management	
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter.	Met
Begin publishing in GFS 2014 format for the quarter ending September 2018.	10th PSI Review
Initiate a fiscal risk analysis of hotel and insurance sectors to assess potential contingent liabilities.	Met
Fiscal Revenues	
Initiate the rollout of "EBM version 2" pilot, with the intent of reaching 1,000 new EBM users.	10th PSI Review

Table 2. Quantitative Assessment Criteria and Indicative Targets

	December 2017				June 2018
	Program	Adjusted	Actual	Status	Proposed Program
(Billions of Rwandan francs, unless otherwise indicated)					
Assessment criteria					
Ceiling on the overall fiscal deficit, including grants[2, 3]	241	251	168	Met	325
Net foreign assets of the NBR at program exchange rate (floor on stock)[3]	657		736	Met	628
Reserve money (ceiling on stock) (upper bound)[4]	348		313		365
Reserve money (stock)[4]	341			Met	357
Reserve money (ceiling on stock) (lower bound)[4]	333				349
External payment arrears (US$ millions) (ceiling on stock)[5]	0			Met	0
Indicative targets					
Net domestic financing (ceiling on flow)[2, 3]	-35	-11	-76	Met	7
Domestic revenue collection (floor on flow)[2, 6]	556		613	Met	1300
Net accumulation of domestic arrears (ceiling on flow)[2]	0		-4	Met	0
Total priority spending (floor on flow)[2]	346		349	Met	745
New external debt contracted or guaranteed by nonfinancial public enterprises (US$ millions) (ceiling on stock)[5]	500		634	Not met	800
Memorandum items:					
Total budget support (US$ millions) [2, 6]	331		314		161
Budget support grants (US$ millions)	101		129		87
Budget support loans (US$ millions)	230		185		73
RWF/US$ program exchange rate	830		830		845

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).
[2] Numbers for December 2017 and June 2018 are cummulative from 6/30/2017.
[3] Subject to adjustors. See TMU for details.
[4] 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.
[5] Ceilings on external arrears and external borrowing are continuous. The ceiling will exclude onlending agreement between Government of Rwanda and public sector enterprises.
[6] Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

Attachment II. Technical Memorandum of Understanding

Kigali, Rwanda, May 23, 2018

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period July 1**,** 2017–December 1, 2018 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This TMU updates the one of July 12, 2017.

I. QUANTITATIVE PROGRAM TARGETS

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

3. QACs will apply for the following indicators for December 31, 2017 and June 30, 2018 (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 fiscal deficit, including grants as measured on a commitment basis; and
- Ceiling on stock of external payment arrears of the public sector (assessed on a continuous basis throughout the program period).

4. IT will apply to the following indicators for December 31, 2017 and June 30, 2018 (the test dates) throughout the program period:

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

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

Text Table 1. Program Exchange Rates from January 1, 2018 (US$ per currency unit, unless indicated otherwise)	
Rwanda Franc (per US$)	845.00
Euro	1.20
British Pound	1.35
Japanese Yen (per US$)	112.90
SDR	1.42

II. INSTITUTIONAL COVERAGE OF THE FISCAL SECTOR

6. The budgetary 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, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

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). The outstanding consolidated government debt held by the banking system,1 includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the pre-war government and the 1995 devaluation2, 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 budgetary central government does not have any direct control (i.e., for project

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

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

accounts, Global Fund money meant for the private sector, counterpart funds, and fonds publics affectés.)

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 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 78billion. 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 RWF 78 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 RWF 78 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

Overall Fiscal Deficit Including Grants (QAC)

11. **A ceiling applies to the overall fiscal deficit including grants**. The ceilings for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

12. **Definition.** For the program, the overall fiscal 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). 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 deficit 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 78 billion.
- The ceiling on the overall deficit will be adjusted upward, up to a maximum of RWF78 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 RWF78 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

Floor on Flow of Domestic Revenues (IT)

13. The floors for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

14. Definition. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the budgetary central government statement of operations table, but including: (a) local government taxes (comprised of business licenses, property tax, and rental income tax); and (b) local government fees; and excluding and receipts from Peace Keeping Operations.

Floor on Priority Expenditure

15. The floor applies to priority spending of the government. The floors for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

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/NTS. Priority expenditure is monitored through the Integrated Financial Management System (IFMS) 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.[3] The ceilings for December 31, 2017, and June 30, 2018, are cumulatively measured from June 30, 2017.

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.

[3] 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 banks, 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)

23. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2017 and June 30, 2018.

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 78 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)

25. A ceiling applies to the stock of reserve money for December 31, 2017 and June 30, 2018 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 adjustor will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

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 budgetary 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: afrrwa@imf.org).

TMU Table 1. Summary of Reporting Requirements

	Frequency of Data[9]	Frequency of Reporting[9]	Frequency of Publication[9]
Exchange Rates[1]	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[3]	M	M	M
Volume of transactions in the interbank money market and foreign exchange markets and sales of foreign currencies by NBR to commercial banks	D	W	W
Consumer Price Index[4]	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[5] – General Government[6]	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[5]– Budgetary Central Government	Q	Q	Q
Financial balance sheet – Budgetary Central Government	A	A	A
Comprehensive list of tax and other revenues[7]	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[8]	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

[1] 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.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.
[4] 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.
[5] Foreign, domestic bank, and domestic nonbank financing.
[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[7] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[8] Includes debts of the Bank of Kigali. Also includes currency and maturity composition.
[9] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

INTERNATIONAL MONETARY FUND

RWANDA

NINTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

May 22, 2018

Approved By
Michael Atingi-Ego and Yan Sun (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.

A Bank/Fund assessment of Rwanda's debt sustainability analysis indicates continuation of low risk of debt distress.[1] *External debt burden indicators remain below risk thresholds, except for temporary breaches of one debt service indicator in 2023, when the Eurobond issued in 2013 matures. Recognizing Rwanda's investment needs on the one hand and its still narrow export base and import-dependent growth on the other, the authorities are focused on carefully choosing the highest return projects, financed under the most favorable terms. In the context of the Compact with Africa, the authorities aim to encourage more private investment, leveraging guarantee schemes from multilateral and bilateral development partners and minimizing the government's exposure to additional liabilities.*[2] *In this context, prudent monitoring and management of fiscal risks will be important for safeguarding debt sustainability.*

[1] This debt sustainability analysis (DSA) updates the DSA analysis contained in IMF Country Report No. 17/217 (July 2017). The fiscal year for Rwanda is 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.

[2] Rwanda's policies and institutions are classified as "strong" under the World Bank's Country Policy and Institutional Assessment (CPIA) Index (average score in 2014–16: 4.03). 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. Rwanda's public-sector debt has increased in recent years, mainly due to large planned investment projects. The increase reflects a long-planned comprehensive public investment strategy, including three large projects to support increased tourism and trade (Figures 1 and 2). The large projects include: the construction of the Kigali Convention Center (KCC), completed in 2016; the expansion of the national airlines Rwandair, which is underway (Box 1); and construction of a new airport to handle cargo and increased passenger loads, which has commenced. These projects, which are being completed through a series of PPPs and external guarantees, have contributed to an increase in external public debt to 37.5 percent of GDP in 2017 from 16.4 percent in 2012.[3]

Figure 1. Public Debt
(Percent of GDP)

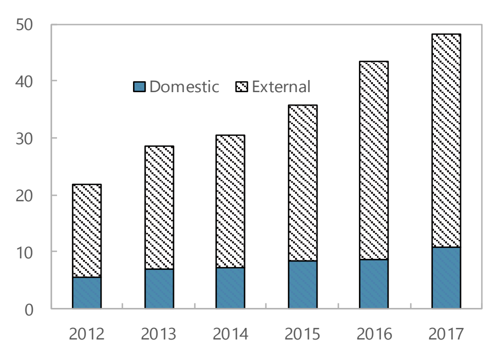
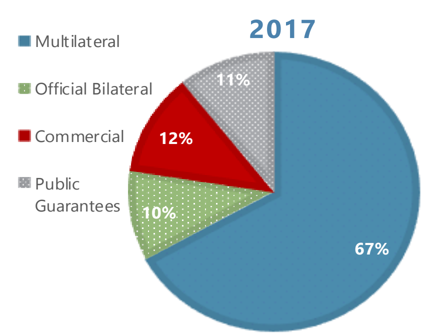


Figure 2. Composition of PPG External Debt
(Percent of Total)



Sources: Rwandan authorities and IMF Staff calculations. Public Debt in Figure 1 includes publicly guaranteed debt.

2. Growth in the Rwandan economy was stronger than expected in 2017. A strong pick-up in services helped quarterly growth to reach 10.5 percent y/y in Q4. This helped offset some of the growth disappointment in Q1, with real GDP increasing by 6.1 percent in 2017 overall. The external sector continued to improve markedly, with broad-based strength in traditional (mining and tea) and new (horticulture, and gemstones) exports. By contrast, import growth was more muted, in part due to adjustment policies and the sizeable exchange rate depreciation observed since 2015, but also due to government interventions to reinvigorate domestic manufacturing and reduce structural trade deficits. As a result, the current account deficit declined to 6.8 percent of GDP in 2017. Higher oil prices and robust real GDP growth are expected to contribute to a slight increase in the current account deficit in 2018, while activity associated with the construction of a new international airport (Bugesera) is expected to bolster growth further, while also increasing demand for imports in 2019/20.

3. In 2017, the external debt stock stabilized, with a modest increase in domestic debt. Construction of Bugesera airport has been carefully financed to minimize the burden on the public balance sheet: the government is taking a minority stake in the project, which will add around 0.3 percent of GDP to external debt over 2019–20. Domestic bridge financing by the government in the equivalent of

[3] Public and Publicly Guaranteed (PPG) Debt includes formal guarantees and external debt of SOEs.

US$75 million has been included in the 2017 numbers. In 2017, Rwanda's domestic public debt increased slightly due to modest debt guarantees (1.1 percent of GDP) to provide temporary assistance in the insurance and hotel sectors.

Box 1. RwandAir Expansion[1/]

RwandAir's fleet increased from 5 to 12 planes in recent years to service new intra-African routes, as well as long-haul routes to Europe (London and Brussels) and Asia (Mumbai). Outstanding external loans contribute around 2.5 percent of GDP to PPG external debt stocks and, despite operating revenues covering an increasing proportion of costs, operational budgetary transfers have averaged 0.7 percent of GDP over the past 5 years.[2/] Rwandair recently signed leases for two new aircraft, to be delivered in 2019 to service new planned intercontinental routes.

While adding to the fiscal burden, Rwandair's expansion has also facilitated trade and tourism. Rwandair's cargo revenues more than quadrupled between 2013 and 2017, supporting many of the new export products to Europe and regionally. Similarly, its passenger count is estimated to have tripled between FY13/14 and FY 17/18, currently reaching 1.1 million in 2017/18 and accounting for around 65 percent of incoming passenger traffic through Kigali International Airport. Increased capacity has also contributed to a doubling of Rwandair's cargo revenues between 2013 and 2017—with further increases expected in 2018.

[1]/ Rwandair is 99 percent state owned.
[2]/ Leases for aircraft also add to the debt servicing burden.

UNDERLYING ASSUMPTIONS

Table 1. Selected Macroeconomic Indicators, Current versus Previous DSA

		2017	2018	2019	2020	2021
Real GDP growth (percent)	**Current DSA**	6.1	7.2	7.8	8.0	7.5
	Previous DSA	6.2	6.8	7.3	7.5	7.5
Inflation (average)	**Current DSA**	7.3	3.0	4.9	5.8	5.0
	Previous DSA	7.4	5.5	4.6	5.0	5.0
Primary balance (% of GDP)	**Current DSA**	-3.5	-3.0	-3.1	-2.4	-1.8
	Previous DSA	-2.8	-2.7	-2.7	-1.8	-1.0
Current account (% of GDP)	**Current DSA**	-8.8	-9.0	-8.3	-7.4	-6.9
	Previous DSA	-10.2	-11.2	-9.9	-8.7	-8.3
FDI (% of GDP)	**Current DSA**	2.7	3.2	3.1	3.1	3.1
	Previous DSA	3.3	4.2	4.4	4.4	4.4

Source: Rwandan authorities, IMF and World Bank staff.

4. **The medium and long-term macroeconomic framework underlying the DSA assumes a resumption of growth to historical levels.** The main assumptions and projections for key macroeconomic variables are summarized in Box 2 and Table 1. The main differences between the current assumptions and those underlying the last DSA in 2017 are: i) GDP growth projections have been revised up somewhat in the near-term; ii) a slightly higher fiscal deficit is assumed, reflecting more spending on health and education for Sustainable Development Goal achievement; and iii) an accelerated improvement

in the current account balance, due to more rapid adjustment observed to date than had previously been projected. By contrast, with lower observed FDI outturns than previously projected, the DSA now projects a more gradual increase in FDI over the projection horizon. Table 1 shows the near-term differences in the underlying baseline assumptions between the current and previous DSAs.

Box 2. Macroeconomic Framework for the DSA

While the medium-term and long-term framework underpinning the DSA assumes that Rwanda continues to enjoy robust growth, with low and stable inflation, there is limited growth dividend implied from broad public investment in infrastructure to support greater export diversification, and to improve agricultural productivity and resilience. Key highlights include:

Growth: The near-term growth outlook is continuing to strengthen, while projected long-term growth, at 7.5 percent, is unchanged from previous analysis and slightly below historical growth rates.

External Sector: Exports of goods and services are expected to grow strongly (13 percent on average), albeit by less than historical rates and recent very rapid growth. Continued strong growth reflects, in part, strategic public investments and export promotion, and development plans. Import needs are expected to remain high, although import growth rates are anticipated to be slightly below historical averages (at least in the near-term) as increased domestic production of certain items displaces imports. Consequently, while Rwanda's current account is projected to remain in deficit, it is expected to narrow.

Inflation: Inflation is expected to remain contained. Although inflation had declined to 0.7 percent by end-2017, it is expected to increase as growth picks-up, and be maintained at the authorities' medium-term target of 5 percent.

Reserves: Reserve buffers are expected to continue to gradually increase, reaching 4.8 months of prospective imports, consistent with estimates of optimal reserves and EAC convergence criteria.

Domestic Revenue Mobilization. There is assumed to be a gradual and consistent rise in domestic revenues reflecting the authorities' commitment to raise Rwanda's revenue collection efforts.

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.

Public Spending and Deficit: The government will continue to pursue partnerships with the private sector and look for new opportunities to use official development assistance for de-risking private sector participation. But, despite primary expenditure restraint supporting near-term fiscal consolidation, public expenditures are likely to remain high over the DSA horizon, reflecting the ongoing need for significant capital and current spending, including to finance the National Transformation Strategy and achieve SDG goals.

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, reliance on external borrowing is expected to decline. Compositionally, from 2018-2022, the framework assumes central government external borrowing needs are met mainly by disbursements of already contracted external multilateral and bilateral debt. 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 with a gradual lengthening of maturities, as the authorities intensify efforts to develop the sovereign bond market. New domestic borrowing is expected to be contracted at an average nominal interest rate of 8 percent.

Foreign Direct Investment. The framework assumes a gradual increase in FDI. However, via the NST, the Compact with Africa and other efforts to provide incentives to attract foreign direct investment, the risks are again on the upside.

EXTERNAL AND PUBLIC DSA

5. Rwanda's debt is assessed to be sustainable, with a continued low risk of debt distress. Debt burden indicators remain under their respective thresholds in baseline scenarios. The servicing spike in debt service in 2023 causes breaches of the debt-service-to-revenue indicator, but is temporary in nature (lasting one year), relating to the maturation of the 2013 Eurobond.[4] Other indicators remain below their thresholds even under the most extreme stress scenarios. Risks to the forecast remain low: the low-risk rating is robust even with somewhat lower growth assumptions. While future external financing conditions might change, given indicators of capacity to repay and its debt management strategy capacity, Rwanda is expected to roll over the maturing Eurobond[5]. A continued gradual tapering of budget support, and shift away from grants, together with ambitious development plans, will require a focus on sources of financing that do not burden the public balance sheet, including domestic revenue mobilization.

6. Debt remains significantly below the LIC DSA public debt benchmark of 74 percent (in PV terms) for countries with strong policies and institutions. Under the medium-term macroeconomic framework, the results of the analysis are not altered by adding domestic public debt to external debt. 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 declines. In PV terms, Nevertheless, the upward drift of the PV of debt-to-revenue ratio when the primary balance is fixed highlights the need to secure assumed revenue gains.

AUTHORITIES VIEWS

7. 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 regularly carry out their own debt sustainability analyses, and pay very close attention to maintaining a low risk of debt distress. They remain committed to a debt management strategy that seeks to maximize external concessional funding to avoid unsustainable debt levels, while developing the domestic capital markets. The authorities agree on the importance of a prudent medium-term debt management strategy, and that carefully prioritizing future projects is necessary to contain public debt vulnerabilities, including potential liquidity pressures when the 2013 Eurobond is set to mature. To complement this analysis, they have agreed to a Fiscal Transparency Evaluation in Fall 2018 to help better identify areas of potential fiscal risks.

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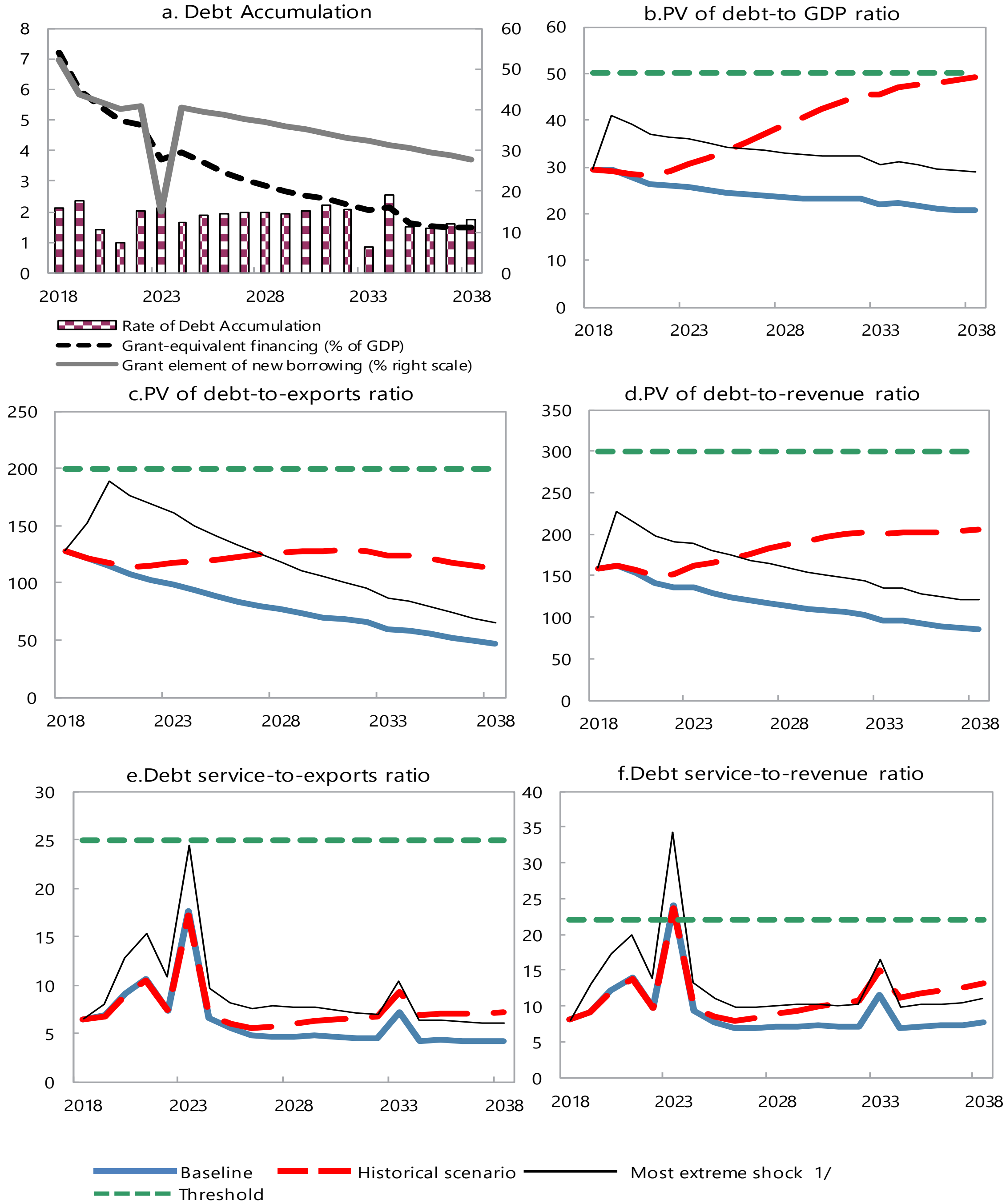
[4] The DSA focuses on gross debt flows. With expectations that the Eurobond will be rolled over, there is a spike down in the grant element of new borrowing in 2023, and no anticipated net effect on the debt stock.

[5] 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 liabilities for the wider public sector. As such, the authorities regularly run their own DSA and produce periodic medium-term debt strategy documents monitoring market conditions and debt strategy options.

CONCLUSION

8. **Continued implementation of prudent policy is needed to maintain Rwanda's low risk of debt distress.** External debt burden indicators remain below "risk" thresholds, except for a temporary breach in the debt service-to-revenue ratio under the baseline scenario. That breach highlights risks around the refinancing of the Eurobond coming due in 2023 and the need for the authorities to maintain sound macro and fiscal policies of the last two decades. Public debt, though increasing, remains comparatively low. The profile of Rwanda's external debt burden is expected to improve over time, given expected strong growth, measures to expand and diversify traditional and non-traditional exports and tourism, and domestic revenue mobilization efforts. Main risks to this outlook are external shocks to growth and/or exports, realization of potential contingent liabilities from PPPs, and the evolution of official development assistance. Prudent monitoring and management of fiscal risks will be important for safeguarding debt sustainability.

Figure 3. Rwanda: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018–38 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 2028. 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 2. Rwanda: External Debt Sustainability Framework: Baseline Scenario, 2015–38 1/

(in percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**30.3**	**38.1**	**40.6**			**42.2**	**42.6**	**41.5**	**40.1**	**40.0**	**39.2**		**37.4**	**34.4**	
of which: public and publicly guaranteed (PPG)	27.2	34.9	37.5			39.2	39.7	38.5	37.0	36.8	35.9		33.3	28.5	
Change in external debt	3.1	7.8	2.5			1.6	0.4	-1.1	-1.4	-0.1	-0.8		-0.2	-0.2	
Identified net debt-creating flows	10.9	12.6	1.4			3.0	2.8	2.1	1.3	1.0	0.3		-0.7	-0.7	
Non-interest current account deficit	**13.8**	**15.0**	**5.9**	**7.9**	**3.9**	**7.5**	**8.1**	**7.4**	**6.5**	**6.1**	**5.4**		**4.4**	**4.4**	4.5
Deficit in balance of goods and services	18.2	18.5	9.9			11.1	10.8	10.0	8.9	8.3	7.6		5.7	4.4	
Exports	18.1	18.4	22.4			22.5	24.1	24.2	24.7	25.3	25.9		30.9	43.7	
Imports	36.3	36.9	32.3			33.5	34.9	34.2	33.6	33.5	33.5		36.6	48.1	
Net current transfers (negative = inflow)	-6.5	-6.2	-6.5	-9.4	2.7	-6.2	-5.4	-5.4	-5.0	-4.7	-4.5		-3.5	-2.2	-3.1
of which: official	-8.3	-6.6	-6.6			-6.5	-5.6	-5.5	-5.1	-4.6	-4.2		-2.6	-1.0	
Other current account flows (negative = net inflow)	2.1	2.8	2.5			2.7	2.7	2.8	2.6	2.6	2.4		2.2	2.2	
Net FDI (negative = inflow)	**-2.7**	**-2.6**	**-2.7**	**-2.6**	**0.9**	**-2.6**	**-3.2**	**-3.1**	**-3.1**	**-3.1**	**-3.1**		**-3.2**	**-3.5**	-3.4
Endogenous debt dynamics 2/	**-0.3**	**0.1**	**-1.8**			**-1.9**	**-2.2**	**-2.2**	**-2.0**	**-2.0**	**-2.0**		**-1.8**	**-1.6**	
Contribution from nominal interest rate	0.7	0.7	1.0			0.8	0.9	0.9	0.8	0.8	0.8		0.7	0.8	
Contribution from real GDP growth	-2.3	-1.8	-2.2			-2.7	-3.1	-3.1	-2.9	-2.7	-2.7		-2.6	-2.4	
Contribution from price and exchange rate changes	1.4	1.1	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-7.8**	**-4.8**	**1.1**			**-1.4**	**-2.4**	**-3.2**	**-2.7**	**-1.1**	**-1.1**		**0.5**	**0.5**	0.3
of which: exceptional financing	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/	...	...	32.0			32.4	32.1	30.9	29.5	29.1	28.9		27.4	26.0	
In percent of exports	...	...	142.9			144.1	133.2	127.7	119.3	115.4	111.4		88.7	59.4	
PV of PPG external debt	**...**	**...**	**28.9**			**29.4**	**29.3**	**27.9**	**26.4**	**25.9**	**25.6**		**23.4**	**20.1**	
In percent of exports	**...**	**...**	**129.0**			**130.9**	**121.3**	**115.4**	**106.7**	**102.6**	**98.5**		**75.7**	**45.9**	
In percent of government revenues	**...**	**...**	**159.5**			**159.0**	**162.6**	**153.1**	**140.9**	**135.7**	**134.8**		**112.4**	**84.0**	
Debt service-to-exports ratio (in percent)	**9.7**	**11.0**	**10.7**			**9.9**	**10.1**	**12.4**	**13.9**	**10.6**	**20.9**		**7.9**	**7.2**	
PPG debt service-to-exports ratio (in percent)	**4.1**	**6.4**	**7.1**			**6.4**	**6.8**	**9.2**	**10.6**	**7.4**	**17.6**		**4.7**	**4.1**	
PPG debt service-to-revenue ratio (in percent)	**4.0**	**6.4**	**8.7**			**7.8**	**9.2**	**12.2**	**14.0**	**9.8**	**24.1**		**6.9**	**7.5**	
Total gross financing need (Billions of U.S. dollars)	1.1	1.3	0.5			0.7	0.8	0.9	0.9	0.8	1.2		1.0	2.8	
Non-interest current account deficit that stabilizes debt ratio	10.7	7.2	3.4			5.9	7.7	8.5	7.9	6.2	6.2		4.6	4.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.9	6.0	6.1	7.5	1.9	7.2	7.8	8.0	7.5	7.5	7.5	7.6	7.5	7.5	7.5
GDP deflator in US dollar terms (change in percent)	-4.9	-3.6	1.6	1.7	5.5	1.5	-1.8	1.7	1.5	2.0	2.0	1.2	2.0	2.0	2.0
Effective interest rate (percent) 5/	2.5	2.5	2.7	2.0	0.7	2.2	2.4	2.3	2.2	2.1	2.1	2.2	2.2	2.5	2.3
Growth of exports of G&S (US dollar terms, in percent)	5.8	4.1	31.2	19.1	22.4	9.0	13.7	10.3	11.4	12.0	12.6	11.5	13.5	13.5	13.5
Growth of imports of G&S (US dollar terms, in percent)	13.7	3.8	-5.6	13.0	16.2	13.1	10.4	7.6	7.2	9.3	9.6	9.5	12.2	13.0	12.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	52.3	43.7	41.8	40.2	40.9	14.8	38.9	36.9	27.9	34.2
Government revenues (excluding grants, in percent of GDP)	18.4	18.4	18.1			18.5	18.0	18.2	18.7	19.1	19.0		20.8	23.9	21.9
Aid flows (in Billions of US dollars) 7/	0.9	0.8	0.8			0.9	0.7	0.7	0.6	0.7	0.6		0.7	1.0	
of which: Grants	0.5	0.4	0.4			0.5	0.4	0.4	0.4	0.4	0.4		0.4	0.3	
of which: Concessional loans	0.4	0.3	0.4			0.4	0.3	0.2	0.2	0.3	0.2		0.4	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.1	6.0	5.4	5.0	4.8	3.7		2.8	1.4	2.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			77.6	70.5	71.3	68.9	65.9	41.0		57.0	37.6	51.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	8.3	8.5	9.1			9.9	10.5	11.6	12.6	13.8	15.2		24.0	60.1	
Nominal dollar GDP growth	3.5	2.2	7.8			8.8	5.9	9.9	9.1	9.6	9.6	8.8	9.6	9.6	9.6
PV of PPG external debt (in Billions of US dollars)			2.6			2.8	3.0	3.2	3.3	3.5	3.8		5.5	11.9	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	2.3	1.4	1.0	2.0	2.1	1.8	1.9	1.7	1.8
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.3	0.3	0.3	0.3		0.5	1.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	28.3			28.8	28.6	27.3	25.8	25.4	25.0		22.9	19.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	117.1			119.3	111.0	105.7	98.0	94.4	90.9		70.8	44.2	
Debt service of PPG external debt (in percent of exports + remittance	...	...	6.4			5.9	6.3	8.4	9.8	6.8	16.2		4.4	4.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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 3. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38

(in percent)

(in percent)

	Projections											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	**2028**	2038
PV of debt-to GDP ratio												
Baseline	29	29	28	26	26	26	25	24	24	24	**24**	21
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2018-2038 1/	29	29	29	28	29	31	32	34	35	37	**39**	49
A2. New public sector loans on less favorable terms in 2018-2038 2	29	30	30	29	30	31	31	31	31	31	**32**	34
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	29	29	29	27	27	26	26	25	25	24	**24**	21
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	29	31	34	32	32	31	30	29	29	28	**27**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	29	30	30	29	28	28	27	26	26	26	**26**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	29	29	28	26	26	26	25	24	24	24	**23**	20
B5. Combination of B1-B4 using one-half standard deviation shocks	29	29	29	28	27	27	26	26	25	25	**25**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	29	41	39	37	36	36	35	34	34	33	**33**	29
PV of debt-to-exports ratio												
Baseline	128	121	115	107	103	99	93	88	84	80	**76**	47
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2018-2038 1/	128	121	118	114	115	118	119	121	123	125	**126**	112
A2. New public sector loans on less favorable terms in 2018-2038 2	128	124	122	118	117	118	114	111	108	105	**103**	77
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	128	119	113	105	101	97	91	87	82	79	**75**	46
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	128	152	189	176	168	160	150	141	133	125	**118**	65
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	128	119	113	105	101	97	91	87	82	79	**75**	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	128	120	114	106	102	98	92	87	83	79	**76**	46
B5. Combination of B1-B4 using one-half standard deviation shocks	128	125	124	115	111	106	100	94	90	86	**82**	50
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	128	119	113	105	101	97	91	87	82	79	**75**	46
PV of debt-to-revenue ratio												
Baseline	159	163	153	141	136	135	129	124	120	117	**114**	86
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2018-2038 1/	159	162	156	150	152	161	165	170	176	182	**187**	206
A2. New public sector loans on less favorable terms in 2018-2038 2	159	167	162	156	155	162	159	157	155	154	**152**	140
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	159	163	157	145	140	139	133	128	124	120	**116**	88
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	159	173	187	173	166	164	155	149	143	136	**130**	89
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	159	166	165	153	147	146	140	135	130	126	**123**	93
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	159	160	152	140	135	134	128	123	119	116	**112**	85
B5. Combination of B1-B4 using one-half standard deviation shocks	159	163	161	149	144	143	136	131	127	123	**119**	90
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	159	227	214	198	191	190	181	174	169	164	**159**	120

Table 3. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38 (concluded)

(in percent)

(in percent)

Debt service-to-exports ratio												
Baseline	6	7	9	11	7	18	7	5	5	5	**5**	4
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2018-2038 1/	6	7	9	10	7	17	7	6	6	6	**6**	7
A2. New public sector loans on less favorable terms in 2018-2038 2	6	7	9	11	8	17	7	7	6	6	**6**	6
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	6	7	9	11	7	18	7	5	5	5	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	6	8	13	15	11	24	10	8	8	8	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	6	7	9	11	7	18	7	5	5	5	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	6	7	9	11	7	18	7	6	5	5	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	10	12	8	19	7	6	5	5	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	6	7	9	11	7	18	7	5	5	5	**5**	4
Debt service-to-revenue ratio												
Baseline	8	9	12	14	10	24	9	8	7	7	**7**	8
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2018-2038 1/	8	9	12	14	10	24	10	8	8	8	**9**	13
A2. New public sector loans on less favorable terms in 2018-2038 2	8	9	12	14	10	24	10	10	9	9	**9**	10
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	8	9	13	15	10	25	10	8	7	7	**7**	8
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	8	9	13	15	11	25	10	8	8	9	**9**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	8	10	13	15	11	26	10	9	8	7	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	8	9	12	14	10	24	9	8	7	7	**7**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	8	9	13	15	10	26	10	8	7	7	**7**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	8	13	17	20	14	34	13	11	10	10	**10**	11
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	30	30	30	30	30	30	30	30	30	30	**30**	30

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.

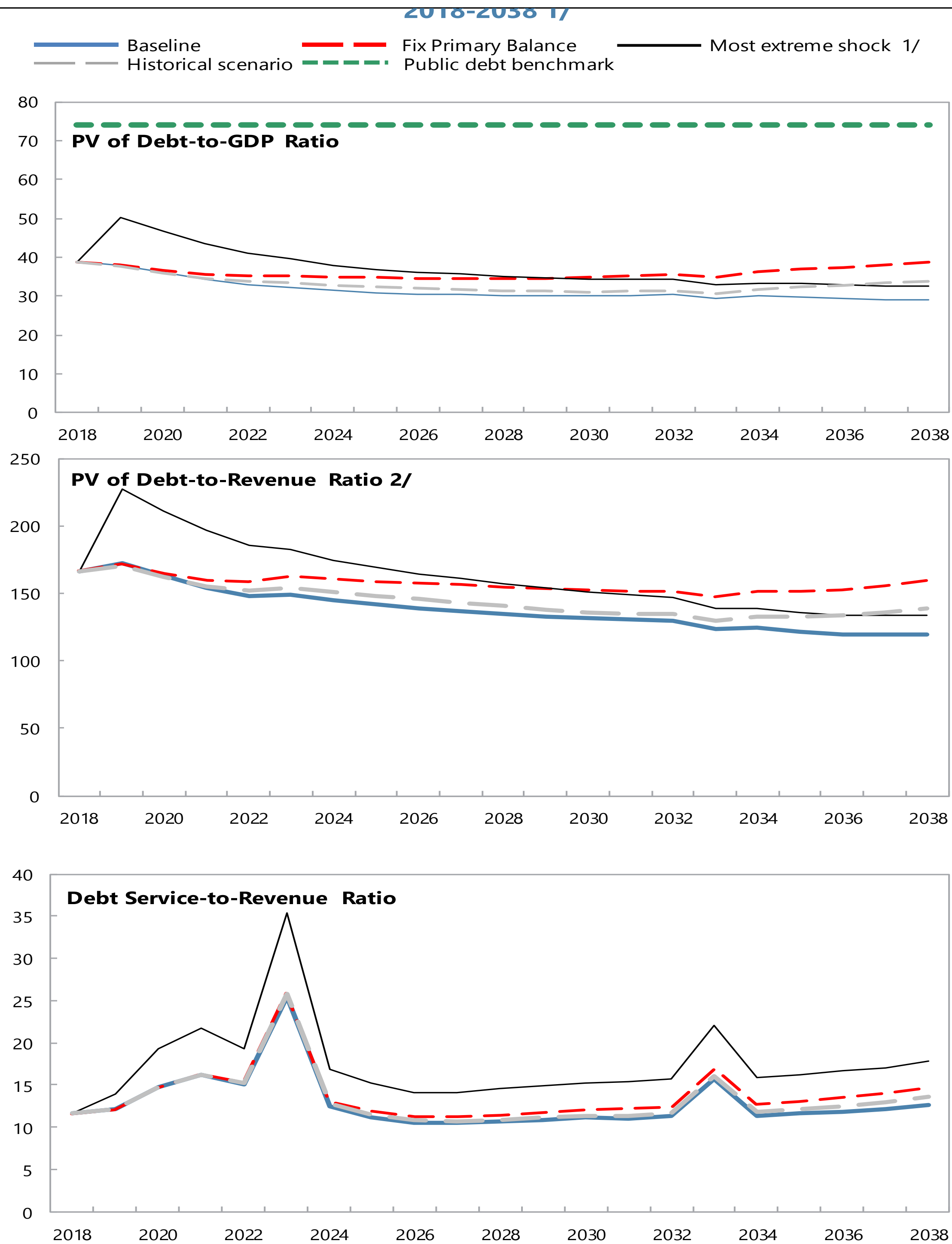
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

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, 2018–38 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 2028.
2/ Revenues are defined inclusive of grants.

Table 4. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	35.6	43.5	48.3			48.7	48.4	46.6	44.8	43.8	42.8		40.3	37.7	
of which: foreign-currency denominated	27.2	34.9	37.5			39.2	39.7	38.5	37.1	36.9	36.1		33.7	29.2	
Change in public sector debt	5.2	7.9	4.8			0.4	-0.3	-1.7	-1.8	-1.0	-1.1		-0.3	-0.2	
Identified debt-creating flows	3.3	1.5	0.7			0.3	-0.4	-1.5	-1.6	-1.6	-1.3		-0.4	-1.4	
Primary deficit	3.7	2.7	3.3	2.1	1.9	2.7	2.8	2.1	1.5	1.4	1.5	2.0	2.2	0.9	1.6
Revenue and grants	24.6	23.5	22.9			23.4	22.0	22.1	22.2	22.2	21.7		22.4	24.4	
of which: grants	6.3	5.1	4.7			4.9	4.0	3.9	3.5	3.1	2.8		1.6	0.5	
Primary (noninterest) expenditure	28.3	26.1	26.2			26.1	24.8	24.2	23.6	23.6	23.3		24.5	25.3	
Automatic debt dynamics	-0.1	-0.3	-2.9			-1.6	-2.9	-3.3	-3.0	-3.0	-2.8		-2.6	-2.3	
Contribution from interest rate/growth differential	-1.9	-1.7	-2.2			-3.0	-3.4	-3.4	-3.0	-2.9	-2.8		-2.6	-2.3	
of which: contribution from average real interest rate	0.6	0.3	0.3			0.3	0.1	0.2	0.2	0.2	0.3		0.3	0.4	
of which: contribution from real GDP growth	-2.5	-2.0	-2.5			-3.2	-3.5	-3.6	-3.3	-3.1	-3.1		-2.8	-2.6	
Contribution from real exchange rate depreciation	1.8	1.4	-0.7			1.4	0.6	0.1	0.0	-0.1	0.0		...	...	
Other identified debt-creating flows	-0.4	-0.8	0.4			-0.9	-0.3	-0.3	0.0	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)	-0.4	-0.8	0.4			-0.9	-0.3	-0.3	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.9	6.3	4.1			0.1	0.1	-0.2	-0.3	0.6	0.2		0.2	1.2	0.6
Other Sustainability Indicators															
PV of public sector debt	...	...	39.7			38.9	37.9	36.1	34.2	32.9	32.4		30.2	29.1	
of which: foreign-currency denominated	...	...	28.9			29.4	29.3	28.0	26.4	26.0	25.7		23.6	20.6	
of which: external	...	...	28.9			29.4	29.3	28.0	26.4	26.0	25.7		23.6	20.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.8	9.6	10.1			10.1	9.9	9.4	8.9	8.4	10.4		7.6	7.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	173.6			166.4	172.3	163.0	154.1	148.3	148.9		135.0	119.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	219.0			210.3	210.9	197.6	182.6	172.3	170.7		145.3	121.6	
of which: external 3/	...	...	159.5			159.0	162.6	153.2	141.2	136.2	135.4		113.5	86.0	
Debt service-to-revenue and grants ratio (in percent) 4/	6.3	8.7	11.8			11.6	12.1	14.7	16.2	15.1	25.4		10.7	12.7	
Debt service-to-revenue ratio (in percent) 4/	8.5	11.2	14.9			14.7	14.9	17.8	19.2	17.6	29.1		11.5	13.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.5	-5.2	-1.5			2.3	3.1	3.8	3.3	2.4	2.6		2.4	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.9	6.0	6.1	7.5	1.9	7.2	7.8	8.0	7.5	7.5	7.5	7.6	7.5	7.5	7.5
Average nominal interest rate on forex debt (in percent)	2.2	2.3	2.6	2.7	3.0	2.0	2.2	2.2	2.0	1.9	1.9	2.0	1.9	2.1	2.0
Average real interest rate on domestic debt (in percent)	5.4	0.7	0.6	1.7	2.2	4.7	2.0	1.7	2.7	2.4	3.6	2.8	3.9	4.0	4.0
Real exchange rate depreciation (in percent, + indicates depreciation	8.5	5.3	-2.2	0.3	5.1	4.1	1.6	0.3	0.0	-0.1	-0.1	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.3	5.5	7.3	5.9	3.8	3.0	4.9	5.8	5.0	5.0	5.0	4.8	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percer	5.8	-2.3	6.2	1.0	2.7	6.9	2.4	5.3	5.2	7.1	6.3	5.5	8.6	7.5	8.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	52.3	43.7	41.8	40.2	40.9	15.0	39.0	36.9	27.9	...

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 5. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt, 2018–38

	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	39	38	36	34	33	32	30	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	39	38	36	35	34	34	31	34
A2. Primary balance is unchanged from 2018	39	38	37	35	35	35	35	39
A3. Permanently lower GDP growth 1/	39	38	36	35	34	34	34	41
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20:	39	39	38	37	36	36	36	38
B2. Primary balance is at historical average minus one standard deviations in 2019-202	39	39	38	36	35	34	32	30
B3. Combination of B1-B2 using one half standard deviation shocks	39	39	38	36	35	35	34	35
B4. One-time 30 percent real depreciation in 2019	39	50	47	44	41	40	35	33
B5. 10 percent of GDP increase in other debt-creating flows in 2019	39	45	43	41	39	38	34	31
PV of Debt-to-Revenue Ratio 2/								
Baseline	166	172	163	154	148	149	135	119
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	166	171	162	155	152	154	140	139
A2. Primary balance is unchanged from 2018	166	172	165	160	158	162	155	159
A3. Permanently lower GDP growth 1/	166	173	165	157	152	155	151	167
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20:	166	176	173	166	162	165	161	157
B2. Primary balance is at historical average minus one standard deviations in 2019-202	166	176	173	163	157	157	141	122
B3. Combination of B1-B2 using one half standard deviation shocks	166	175	170	162	158	160	151	142
B4. One-time 30 percent real depreciation in 2019	166	227	211	196	185	182	157	133
B5. 10 percent of GDP increase in other debt-creating flows in 2019	166	205	194	183	175	175	154	128
Debt Service-to-Revenue Ratio 2/								
Baseline	12	12	15	16	15	25	11	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	12	15	16	15	26	11	14
A2. Primary balance is unchanged from 2018	12	12	15	16	15	26	11	15
A3. Permanently lower GDP growth 1/	12	12	15	16	15	26	11	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20:	12	12	15	17	16	27	12	15
B2. Primary balance is at historical average minus one standard deviations in 2019-202	12	12	15	17	16	26	11	13
B3. Combination of B1-B2 using one half standard deviation shocks	12	12	15	17	16	26	12	14
B4. One-time 30 percent real depreciation in 2019	12	14	19	22	19	35	15	18
B5. 10 percent of GDP increase in other debt-creating flows in 2019	12	12	16	18	16	27	12	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.