IMF Country Report No. 22/7

RWANDA

2021 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT—PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the 2021 Article IV Consultation and Fifth Review Under the Policy Coordination Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 10, 2022, following discussions that ended on November 15, 2021 with the officials of Rwanda on economic developments and policies underpinning the IMF arrangements under the Article IV Consultation and the Policy Coordination Instrument. Based on information available at the time of these discussions, the Staff Report was completed on December 20, 2021.
- **Debt Sustainability Analysis,** prepared by the World Bank/IDA and IMF staffs;
- **Informational Annex,** prepared by IMF staff.
- A **Statement by the Executive Director** for Rwanda.

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

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PRESS RELEASE

PR22/05

IMF Executive Board Completes the 2021 Article IV Consultation and Fifth Review of the Policy Coordination Instrument for Rwanda

FOR IMMEDIATE RELEASE

- *Rwanda's economy has rebounded strongly in 2021, and the recovery is expected to continue in 2022, supported by strengthened vaccination efforts, a pickup in external demand, and accommodative macroeconomic policies.*
- *Nevertheless, with a high portion of the population still unvaccinated, risks about the path of the COVID-19 pandemic remain significant and accelerating structural and economic reforms are needed to mitigate pandemic scars and ensure more inclusive and sustainable growth over the medium term.*
- *The Policy Coordination Instrument (PCI) continues to support the authorities' efforts in the macroeconomic and structural reform agenda and ongoing economic recovery, while also ensuring policies are in place to reduce debt vulnerabilities and maintain macroeconomic and financial stability.*

Washington, DC – January 11, 2022: On January 10, 2022, the Executive Board of the International Monetary Fund (IMF) completed the 2021 Article IV Consultation[1] and the fifth review of the Policy Coordination Instrument (PCI). The PCI was approved on June 28, 2019 (Press Release No.19/258) to facilitate macroeconomic and financial stability, while advancing an ambitious reform agenda under Rwanda's National Strategy for Transformation (NST). Program performance remains broadly satisfactory overall.

Real GDP growth is projected at 10.2 percent in 2021 on the back of a recently accelerated vaccination campaign targeting high-infection areas, the pickup in external demand, continued government support, and base effects from the 3.4 growth contraction observed in 2020. While Rwanda's medium-term outlook is positive, pandemic scars owing to school disruptions, learning losses, protracted unemployment, and rising poverty, especially among women, if not addressed, risk reversing hard-won economic and social gains over the last two decades.

Monetary and fiscal policies remain accommodative. Urgent temporary needs to boost social protection, address COVID-19 related health concerns, and undertake repairs from a recent volcanic eruption near the border with the Democratic Republic of the Congo are being accommodated and financed through the use of nearly 70 percent of the Special Drawing Rights allocation (1.9 percent of GDP) in FY 21/22. Over the medium term, growth is projected

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

to gradually converge to the pre-pandemic trend of 7.5 percent supported by strong Foreign Direct Investment (FDI), continued high public investment, and recovery in trading partner countries. Inflation is projected to move towards the benchmark level and be within the upper bound of the central bank's tolerance level in 2022, driven by the pickup in domestic activity, global demand, and rising commodity prices. The current account deficit is projected at about 11 percent of GDP in 2021 and expected to narrow over the medium term financed by FDI and concessional loans. A credible fiscal consolidation post-COVID, exchange rate flexibility, and reforms to strengthen Rwanda's external competitiveness are expected to cement macroeconomic and financial stability.

However, high uncertainty surrounds prospects for sustaining the recovery. The future course of the pandemic in Rwanda and globally remains highly uncertain. New waves of infections and new variants of the virus continue to undermine confidence and present a clear downside risk to the growth outlook and could lead to higher fiscal and external financing needs. On the other hand, building on the ongoing growth momentum, a stronger-than-expected impact of the fast vaccine rollout in the country and globally could provide an upside risk that would boost confidence and economic activity.

Policies under the PCI continue supporting the recovery from the pandemic, maintaining macroeconomic stability, and anchoring the medium-term fiscal policy framework and debt sustainability, while pushing ahead with macroeconomic policies and reforms, such as financial inclusion, digitization, and green public financial management (PFM) to deliver a more inclusive and sustainable growth.

Following the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, issued the following statement:

"The COVID-19 pandemic has raised unemployment and poverty in Rwanda, which risks reversing hard-won gains from the past decades. With the acceleration of vaccinations and the resumption of economic activities, a strong economic rebound is underway, although risks remain titled to the downside given the still low vaccination rate and the prospect of repeated COVID-19 waves. Program performance has been satisfactory, and the authorities' continued commitment to their economic program under the Policy Coordination Instrument to achieve a sustainable and inclusive recovery is noteworthy in these challenging circumstances.

"Additional fiscal spending is expected in FY21/22 for urgent social needs and to support the recovery. The general allocation of Special Drawing Rights to Rwanda, equivalent to US$219 million, and the August Eurobond issuance, equivalent to US$620 million, will help reduce near-term liquidity pressures and support the country in coping with the impact of the pandemic.

"At the same time, it is critical that the authorities continue advancing growth-friendly policies and reforms that will underpin the credibility of the multi-year fiscal consolidation plan that is essential to safeguard debt and external sustainability. These efforts need to be complemented by measures to strengthen the management of fiscal risks from state-owned enterprises and public-private partnerships and by enhancing fiscal transparency.

“Monetary policy has been appropriately accommodative to support economic activity amid subdued inflation. Going forward, it will be important to closely monitor price developments and maintain a data-dependent monetary policy. Closely monitoring and containing credit risks is key to safeguard financial stability, including by deploying targeted and time-bound interventions, as needed, without relaxing regulatory and supervisory requirements. Continued efforts to enhance the AML/CFT framework are also recommended.

“Keeping up the momentum on structural reforms, including progress on the Sustainable Development Goals and investing in human capital, is needed to limit pandemic scars and pave the way for a sustainable and inclusive recovery. The progress made in climate change adaptation readiness and the steps being taken to embed climate considerations into policy planning are welcome. Rwanda will need to rely heavily on concessional financing and private sector support to meet these goals.”

Table 1. Rwanda: Selected Economic Indicators, 2019–26

	2019	2020	2021		2022		2023		2024		2025		2026	
	Act.	Act.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.
					(Annual percentage change, unless otherwise indicated)									
Output and prices														
Real GDP	9.5	-3.4	5.1	10.2	7.0	7.2	8.1	7.9	7.5	7.5	7.5	7.5	6.1	6.1
GDP deflator	2.5	8.3	1.9	2.3	5.4	5.3	5.8	7.1	5.0	5.5	5.0	5.3	5.0	5.0
CPI (period average)	2.4	7.7	2.4	0.7	4.9	5.7	5.8	6.8	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-0.9	2.6	0.1	0.2	1.9	1.6	-0.5	-0.6	-0.8	1.7	-0.5	2.3	-0.8
Money and credit														
Broad money (M3)	15.4	18.0	10.1	14.2	13.1	15.1	17.3	18.2	14.7	15.7	12.7	13.2	11.4	11.3
Reserve money	16.0	21.7	10.6	14.7	13.1	15.1	15.2	16.1	14.7	15.7	12.7	13.2	11.4	11.3
Credit to non-government sector	12.6	21.8	10.0	15.8	12.7	16.1	14.6	14.8	13.3	18.0	13.5	12.3	12.7	7.6
M3/GDP (percent)	25.7	28.9	29.8	29.3	29.9	29.9	30.6	30.6	31.1	31.2	31.1	31.2	31.1	31.3
					(Percent of GDP, unless otherwise indicated)									
Budgetary central government, FY basis [1]														
Revenue	23.1	23.3	25.0	25.0	24.2	24.6	24.4	24.4	24.6	24.8	24.8	24.3	25.1	24.5
Taxes	16.0	15.7	15.8	15.8	15.9	15.4	16.4	16.0	16.8	16.4	17.0	16.7	17.5	17.0
Grants	3.0	4.5	5.7	5.5	5.5	5.5	5.4	5.8	5.2	5.9	5.2	5.1	4.9	5.0
Other revenue	3.0	3.1	3.6	3.7	2.8	3.7	2.7	2.5	2.7	2.5	2.7	2.5	2.7	2.5
Expense	19.6	20.2	20.4	20.3	20.4	20.6	19.8	18.8	18.2	18.0	17.9	17.8	17.6	17.1
Net acquisition of nonfin. assets	11.2	11.0	12.6	12.2	10.8	12.0	10.9	11.8	10.5	10.5	10.9	10.5	10.5	10.5
Net lending (+) / borrowing (-) (NLB)	-7.7	-7.9	-7.9	-7.5	-7.0	-8.0	-6.2	-6.2	-4.1	-3.7	-4.0	-4.0	-3.0	-3.0
excluding grants	-10.7	-12.4	-13.6	-13.0	-12.5	-13.5	-11.6	-12.0	-9.3	-9.6	-9.2	-9.0	-7.8	-8.0
Net acquisition of financial assets	0.8	4.5	3.0	1.5	-2.4	1.1	0.0	1.0	0.4	1.7	0.0	0.3	0.2	0.3
Net incurrence of liabilities	6.4	12.3	11.0	8.9	4.6	9.2	6.2	7.3	4.5	5.3	4.0	4.3	3.2	3.3
Domestic	1.2	2.2	1.0	2.5	-0.4	-0.2	-0.3	1.6	-0.3	0.9	-0.2	0.8	-0.2	0.2
Foreign	5.1	10.1	10.0	6.4	5.0	9.4	6.5	5.7	4.8	4.4	4.2	3.4	3.4	3.2
Overall fiscal balance (incl. grants, policy lending) [2]	-6.3	-9.1	-9.2	-8.6	-8.6	-9.1	-7.5	-7.5	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
Debt-creating overall balance (excl. PKO) [3]	-5.5	-7.7	-9.2	-8.2	-8.6	-9.1	-7.5	-7.4	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
Public debt														
Total public debt incl. guarantees	56.8	71.3	79.1	74.6	81.3	77.2	81.1	77.9	79.5	75.7	76.5	73.1	74.0	71.1
of which : external public debt	44.3	55.6	63.0	58.6	66.8	62.4	68.7	63.9	68.7	64.7	67.9	63.5	65.9	62.2
Total public debt excluding guarantees	53.0	68.3	77.2	73.7	79.3	75.4	78.6	74.5	75.6	72.2	73.1	69.9	70.9	68.2
External public debt incl. guarantees; PV	29.7	33.6	38.4	36.1	41.0	39.2	42.9	40.9	44.0	40.9	43.0	40.4	41.8	38.8
Gross Domestic Debt	12.4	15.7	16.1	16.1	14.5	14.8	12.5	14.0	9.7	10.8	9.0	9.9	8.2	9.4
PV of total public debt incl. guarantees	42.9	50.3	55.7	52.9	56.7	55.3	56.5	56.1	55.5	53.5	53.4	51.4	51.9	50.0
Investment and savings														
Investment	25.3	24.5	24.2	21.0	26.8	26.9	28.8	29.2	28.7	29.8	29.0	30.1	26.9	27.3
Government	12.9	14.0	13.8	13.3	12.1	13.4	12.1	12.3	12.0	11.8	12.2	12.3	10.2	10.2
Nongovernment	12.4	10.6	10.4	7.7	14.7	13.6	16.7	16.9	16.7	17.9	16.7	17.7	16.7	17.1
Savings (excl. grants)	10.8	9.8	6.5	5.8	10.3	11.3	13.8	15.5	15.3	16.3	17.5	18.0	17.4	17.7
Government	3.7	-0.5	-0.1	-1.6	0.4	1.4	1.9	1.8	2.8	2.6	3.7	3.5	3.3	1.8
Nongovernment	7.1	10.3	6.5	7.4	9.9	9.9	11.8	13.7	12.5	13.7	13.8	14.5	14.1	16.0
External sector														
Exports (goods and services)	21.8	18.7	22.3	18.9	25.7	24.4	27.7	26.7	29.5	27.7	31.0	31.5	30.8	33.3
Imports (goods and services)	36.1	34.6	41.2	35.6	43.4	40.9	43.9	41.2	44.3	41.7	43.7	44.0	41.7	43.5
Current account balance (incl grants)	-11.9	-11.9	-13.4	-11.0	-12.2	-11.5	-11.2	-10.3	-9.6	-9.0	-7.5	-8.0	-6.8	-5.7
Current account balance (excl grants)	-14.5	-14.7	-17.8	-15.2	-16.5	-15.5	-15.0	-13.7	-13.5	-13.5	-11.5	-12.0	-9.6	-9.6
Current account balance (excl. large proj.)	-10.6	-11.5	-10.7	-10.0	-9.5	-9.3	-8.6	-7.9	-7.6	-7.0	-6.3	-6.7	-6.8	-5.7
Gross international reserves														
In millions of US$	1,440	1,722	1,709	1,829	1,682	1,775	1,653	1,783	1,800	2,021	1,899	2,130	1,995	2,253
In months of next year's imports [4]	5.9	5.8	5.1	5.2	4.5	4.6	4.0	4.3	4.1	4.3	4.2	4.4	4.0	4.4
Memorandum items:														
GDP at current market prices														
Rwanda francs (billion), CY basis	9,315	9,746	10,438	10,986	11,772	12,395	13,463	14,311	15,207	16,232	17,163	18,378	19,119	20,460
Rwanda francs (billion), FY basis [1]	8718	9,402	10,092	10,278	11,105	11,691	12,617	13,353	14,335	15,272	16,185	17,305	18,141	19,419
Population (million)	12.4	12.7	13.0	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.2	14.2

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 25/26 (2026). Fiscal year runs from July to June. FY19/20 and FY20/21 are actuals

[2] For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring

[3] Overall deficit excl. spending on materialized contigent liabilties and other items already incl. in the DSA.

[4] Based on prospective import of goods (excluding gold) and services. SDR allocation included in 2021.

INTERNATIONAL MONETARY FUND

RWANDA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

December 20, 2021

EXECUTIVE SUMMARY

Context. Rwanda's medium-term outlook is positive, supported by the authorities' large policy package to respond to the evolving COVID-19 pandemic and their continued commitment to the PCI in a challenging environment. Economic recovery is underway with easing of restrictions supported by faster vaccination rates since July. GDP growth is projected at 10.2 percent in 2021 and inflation remained subdued. But Rwanda's remarkable economic and social progress over the last two decades faces a significant setback, with poverty, unemployment, and gender inequalities on the rise. These pandemic scars, if not addressed, risk reversing hard-won economic and social gains. With a large share of the population still unvaccinated and the emergence of new variants, risks to the outlook remain elevated.

Program implementation. Program performance remains satisfactory with all end-June 2021 quantitative targets met and inflation remaining within the inner band set in the monetary policy consultation clause. However, two reform targets through end-November 2021 were not met due to delays in the procurement process to hire experts needed for their completion. A third reform target on automation of the risk-based verification of VAT refunds was completed with a one-month delay.

Policy recommendations.

- The fiscal relaxation in FY21/22 supported by the partial use of the SDR allocation will help underpin the recovery and support targeted social spending needs and policies to support the recovery.
- The near-term agenda should remain focused on fast-tracking efforts to strengthen fiscal risk management, including of state-owned enterprises. Closely monitoring credit risks to safeguard financial stability and deploying targeted and time-bound interventions, as needed, to contain their materialization without relaxing regulatory and supervisory requirements will be critical.
- As the recovery takes hold, it will be important to start rebuilding policy buffers to reduce debt vulnerabilities to bring debt down timely to its anchor. The envisaged fiscal consolidation coupled with exchange rate flexibility within a forward-looking

monetary policy framework and reforms to strengthen Rwanda's external competitiveness will safeguard external sustainability.

- To lay the foundations for a more inclusive and resilient growth, policies to mitigate the pandemic scars, particularly on human capital, reforms to attract private financing to help meet the Sustainable Development Goals, and continued efforts to advance the climate change agenda will be important.

Approved By
Catherine A. Pattillo (AFR) and Delia Velculescu (SPR)

The mission comprised H. Teferra (head), V. Duarte Lledo, S. Choi, C. Aoyagi (all AFR), A. Ceber (FAD), S. Mulema (MCM), and I. Halikias (SPR). L. Nankunda (OEDAF) also attended mission meetings. The mission was facilitated by P. Rutabuzwa and J. Kayemba (staff of the resident representative's office in Kigali). E. Chueca Montuenga and F. Morán Arce (AFR) assisted in the preparation of this report. Discussions were held remotely from Washington, D.C. with Kigali during October 18–November 15, 2021. The team met with the Minister of Finance and Economic Planning, Dr. Uzziel Ndagijimana, Governor of the National Bank of Rwanda, John Rwangombwa, as well as Ministers of Environment, Infrastructure, Agriculture, Local Government, Gender, Trade, and Industry, and the Permanent Secretary for the Ministry of Health. Staff also had productive discussions with members of the Parliament Budget Committee, Rwanda's development partners, heads of commercial banks, and representatives of the private sector and civil society.

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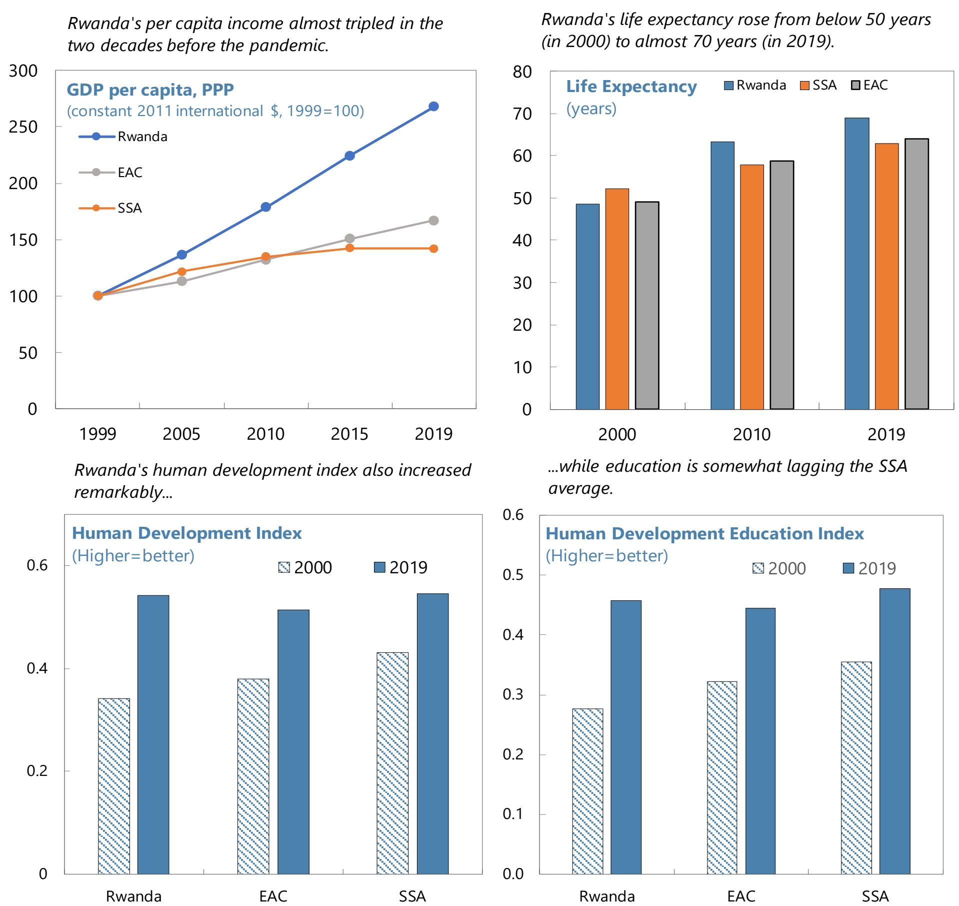
CONTEXT

1. **Rwanda made remarkable economic and social progress in the two decades before the onset of the COVID-19 pandemic (Figure 1).** As a result of rapid growth and decisive reforms during the last two decades, life expectancy in Rwanda increased substantially and per capita income almost tripled. Growth averaged 7.2 percent over 2010–19.

2. **The strong economic growth was largely attributed to the accumulation of physical capital, while human capital lagged (Figure 2).** Rwanda's investment in physical capital was about 25 percent of GDP higher than its peers in the East African Community (EAC) or sub-Saharan Africa (SSA) during 2015–19. While this high investment, mainly by the public sector, helped propel growth, contributions from human capital accumulation and total factor productivity (TFP) growth are estimated to have only marginally increased and remained relatively low.

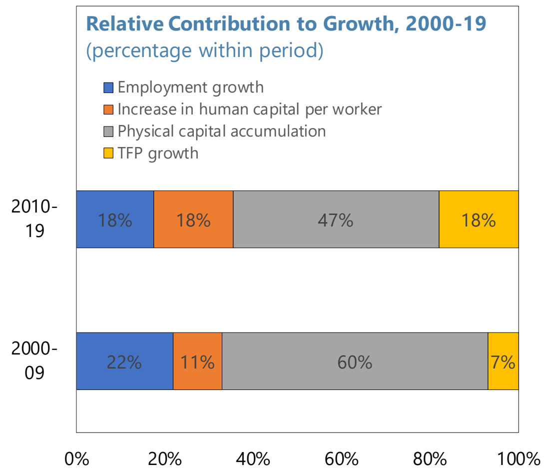
Figure 1. Rwanda: Pre-Pandemic Social Progress



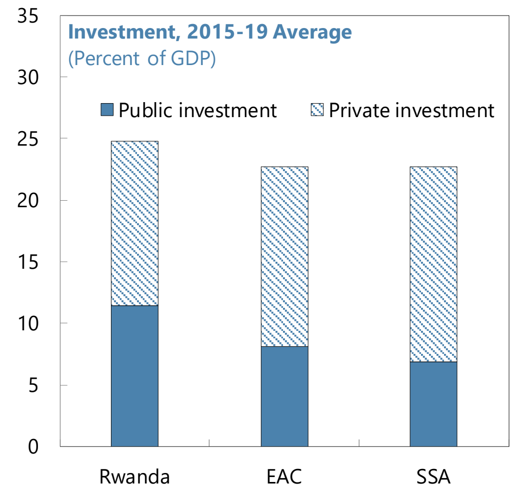
Sources: UNDP *Human Development Report;* World Bank *World Development Indicators;* IMF *World Economic Outlook;* and IMF staff calculations.
Note: "SSA" and "EAC" are simple averages in sub-Saharan Africa and in the East African Community, respectively. The Human Development Index reflects life expectancy, education, and GNI per capita. The Human Development Education Index reflects actual years of schooling (of adults) and expected years of schooling (of children).

Figure 2. Rwanda: Pre-Pandemic Drivers of Growth

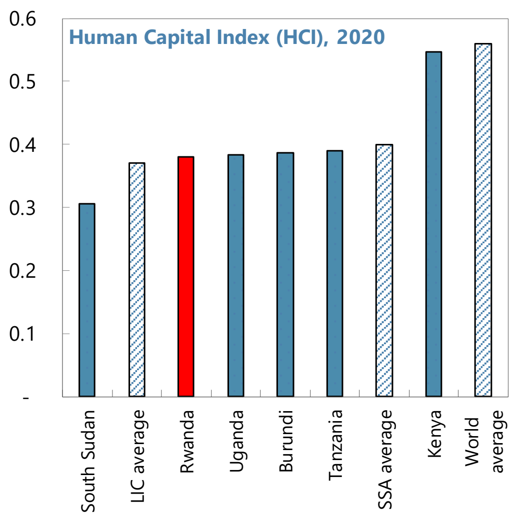
The contribution from physical capital accumulation was large, at around one half of Rwanda's growth.



Physical capital accumulation was largely driven by the public sector.



Human capital accumulation marginally accelerated, but its stock lags behind regional peers...



... particularly, in years of schooling, harmonized test scores, and fraction of children not stunted.

Components of HCI 2020

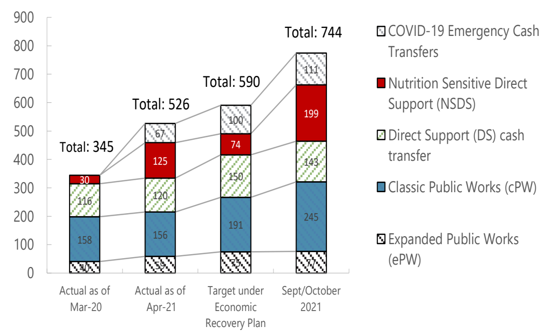
	Rwanda	SSA	EAC	LIC
Probability of survival to age 5	0.96	0.93	0.94	0.93
Expected years of school	6.9	8.3	7.5	7.6
Harmonized test scores	358	374	393	356
Learning-adjusted years of schooling	3.9	5.0	4.8	4.3
Adult survival rate	0.81	0.74	0.75	0.75
Fraction of children under 5 not stunted	0.62	0.69	0.65	0.65

Sources: IMF World Economic Outlook Indicators; World Bank Human Capital Index 2020 Update; Penn World Table 10.0; and IMF staff calculations.
Note: Contributions to GDP growth are estimated based on Penn World Table 10.0 data. The Human Capital Index (HCI) takes the value 1 if a child born today can expect to achieve full health (defined as no stunting and survival up to at least age 60) and achieve her formal education potential (defined as 14 years of high-quality schooling by age 18). The 2020 update of the HCI incorporates the data available as of March 2020 thus can serve as a benchmark immediately before the onset of the COVID-19 pandemic.

3. The COVID-19 pandemic risks reversing the hard-won social gains and reducing Rwanda's growth potential.

- **The authorities' sizeable policy support package includes accelerating the vaccination efforts to attenuate the impact of the pandemic and continued support to vulnerable families and firms (Figure 3).[1]** The vaccination efforts, initially held back by lack of supply, accelerated in the second half of 2021, and are targeting high infection areas, especially in the capital, Kigali.[2] This has supported a gradual lifting of restrictions. Rwanda has achieved its COVID-19 vaccination target of covering 30 percent of the total population with two doses in December 2021. As of December 16, 34.7 percent of the population was fully vaccinated, including 99 percent of eligible residents in Kigali. Rwanda's vaccination campaign aims at raising this ratio to 70 percent by end-December 2022. The authorities also continued to expand social safety nets to cushion households under the Economic Recovery Plan (ERP), and deployed financial support to hard-hit firms under a revamped ERF (ERF-2).

Rwanda: Expansion of Social Protection Programs
(thousands of beneficiary households)



Source: Rwandan authorities, World Bank, and IMF staff calculations.

Note : NSDS is a cash transfer scheme conditional on the take-up of essential health and nutrition services by pregnant women and children. DS cash transfers target individuals with disabilities and unable to work. cPW and ePW are public work program providing, respectively, short-term employment to households able to work and part-time employment to households with caring responsibilities.

- **The pandemic is exacting a severe impact on employment and human capital formation, especially among women (Figure 4).** Unemployment remains high, especially among women, potentially setting back the progress made in promoting gender equity. The poverty rate is now projected to increase with more than 600,000 additional people falling below the poverty in 2020–21, reversing recent poverty-reduction gains.[3] School closures led to learning losses, premature youth employment, and an estimated 6 percent reduction of expected years of schooling, which, if not reversed, may reduce Rwanda's earnings, productivity, and ultimately, potential growth (Annex I).

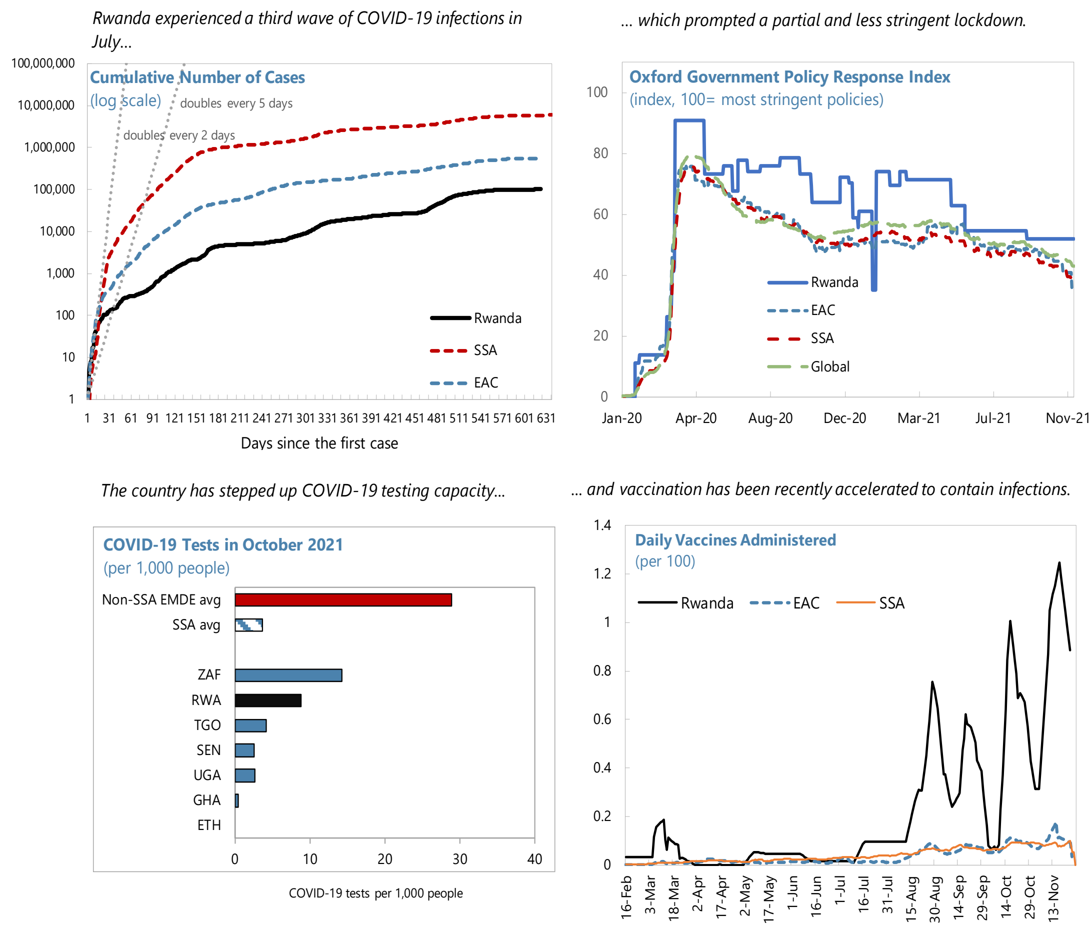
- **Despite the challenging environment, the authorities have been advancing their reform program, including following up on recommendations of the 2019 Article IV consultation (Annex II).** The Policy Coordination Instrument (PCI) is helping advance the reform agenda by supporting fiscal sustainability, fiscal transparency and risk management, bolstering domestic revenue mobilization (DRM), and modernizing the monetary policy framework.

[1] For the discussions on the policy package deployed to respond to the pandemic, see the IMF Country Reports, Nos. 21/1 and 21/164.

[2] For the discussion on the vaccination financing and strategy, see IMF Country Report No. 21/164

[3] World Bank Rwanda Poverty Outlook, October 2021.

Figure 3. Rwanda: Pandemic Overview



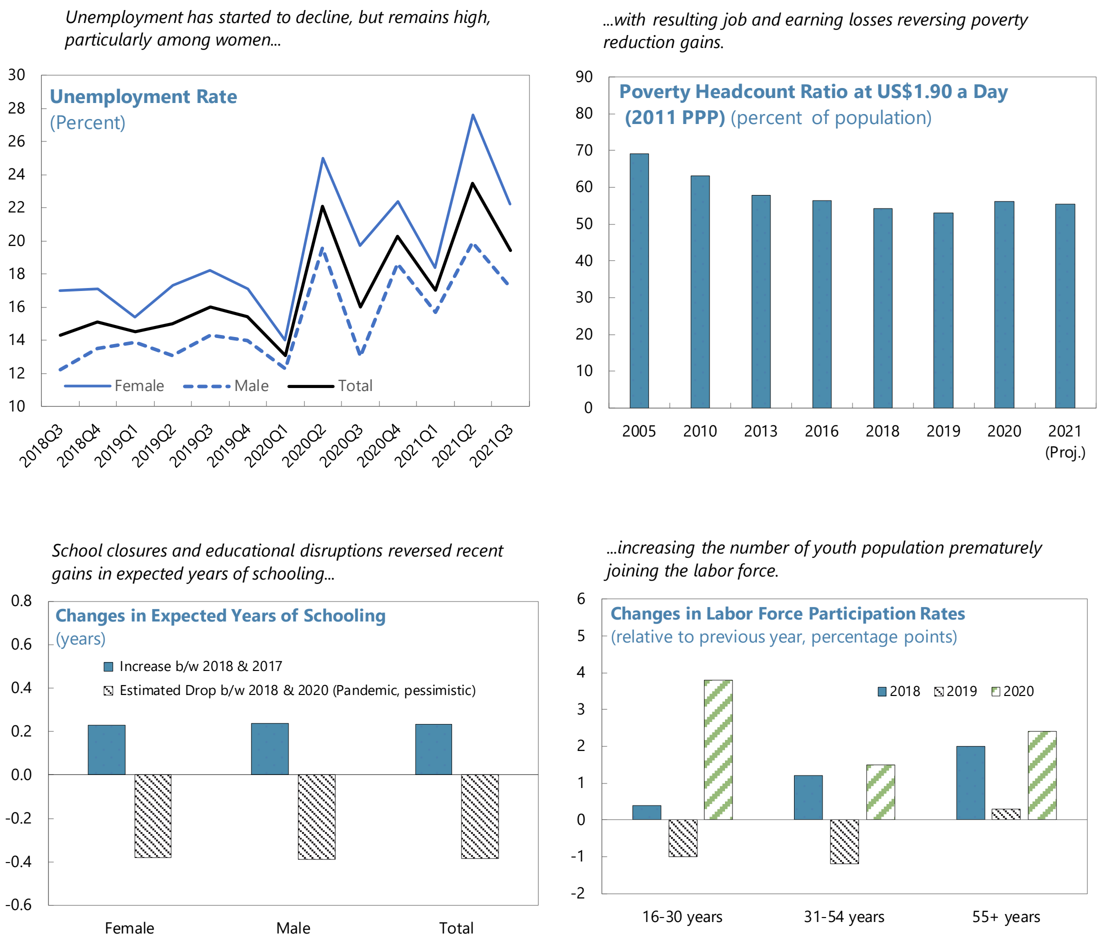
Sources: National Institute of Statistics Rwanda (NISR), Johns Hopkins CSSE, Our World in Data (OWiD), and IMF staff calculations.
Note: South Africa is leading the SSA region in COVID-19 testing, with close to 14.2 new tests per 1,000 people performed in October.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

PS ¶ 2–4, 6

4. Rwanda's economy is staging a recovery with growth accelerating and inflation subdued (Figure 5, Table 1). Real GDP grew by 11.6 percent y/y in 2021H1, primarily driven by base effects from recovering activities in the industry and service sectors. High frequency indicators continued to show a strong recovery in 2021H2. Headline inflation increased by 1 percent in November on the back of rising education fees. Inflation was in negative territory during May–September, reflecting the impact of the good harvest on food prices, the base effect from the pandemic-related transport price hike in 2020, and the limited pass-through of international oil price increases following the reduction in the fuel levy in May. The National Bank of Rwanda (BNR) kept the policy rate unchanged in November.

Figure 4. Rwanda: Pandemic Social Scars



Sources: World Bank Macro Poverty Outlook, October 2021; World Development Indicators; World Bank staff estimates as of July 2021; and Rwanda Labor Force Survey

Note: The World Bank estimates expected years of schooling under three pandemic scenarios: optimistic, intermediate, and pessimistic. In all scenarios, it is assumed schools are closed for 70 percent of the school year. Scenarios vary by the degree of mitigation and remediation effort by the government. The pessimistic scenario assumes that approximately 7 percent of the school loss while schools are closed will be fully mitigated and no remediation policies that might be implemented when schools reopen are incorporated. Poverty rates for 2005-16 are from World Development Indicators database (data accessed on December 6) and value for 2018-21 is from the World Bank Macro Poverty Outlook, October 2021.

5. The current account improved modestly, mainly reflecting strong income flows (Figure 6, Table 5). The current account deficit improved to 11 percent of GDP in 2021H1, largely due to higher grants and remittances. The domestic demand-driven increase in imports outpaced the improvement in exports of metals and manufacturing, leading to a small deterioration of the trade balance in USD terms (but a slight improvement as a share of GDP). The Rwandan franc depreciated against the dollar by 4.1 percent y/y at end-October, with foreign exchange reserves, including the recent Special Drawing Rights (SDR) allocation, remaining adequate at around 5.5 months of import cover at end-October. PS ¶ 8

Rwanda: Trade Balance (January–September 2021)
(percent change over the same period of the previous year)

	Exports			Imports		Trade deficit (US$ millions)	
	Value	Volume		Value	Volume	Jan-Sep 2021	Jan-Sep 2020
Total	**-3.5**		**Total**	**3.1**		**-1,362.6**	**-1,253.8**
Total excl. gold and reexports	**41.3**		**Total excl. gold and imports for reexports**	**12.8**		**-1,438.5**	**-1,348.5**
Tea & coffee	12.4	7.1	Consumer goods	12.5	-0.9		
Trad. mining	77.8	35.0	Capital goods	15.6	40.3		
Other exports	49.6	45.0	Intermediate goods	16.9	-2.9		
Reexports	52.4	35.6	Energy and lubricants	-1.0	-5.8		
Gold	-52.8	-53.8	Gold	-42.4	-47.9		

Sources: National Bank of Rwanda, National Institute of Statistics of Rwanda and IMF staff calculations

PS ¶ 5

6. The FY20/21 budget execution overperformed the target (Figure 7, Tables 2a–b). Higher-than-expected interest payments and lower grants were offset by overperforming revenues, reflecting the buoyant recovery, the impact of the one-off bonus on income tax collection, and a weaker execution of capital expenditure. The FY20/21 debt-creating overall balance was–8.2 percent of GDP, well below the –9.2 percent of GDP target. Despite the lower deficit, domestic financing and accounts payable were higher due to lower than expected external financing. External grants and loans amounting to US$87.4 million (0.9 percent of GDP) did not materialize. Of that shortfall in external financing, US$12 million was disbursed in FY21/22, while the remainder was not disbursed due to delays in meeting performance benchmarks. Data for Q1 FY21/22 indicates that revenues were negatively impacted by the July lockdown, VAT exemptions on construction material imports, and the reduction in the fuel levy in May, while expenditure was in line with expectations.

Rwanda: Operations of the Central Government, FY 20/21, GFSM 2014[1]
(percent GDP)

	2020/21	
	4th Rev.	**Prelim.**
Revenue	25.0	25.0
Taxes	15.8	15.8
Taxes on income, profits, and capital gains	6.7	6.8
Taxes on property	0.2	0.2
Taxes on goods and services	7.6	7.5
Taxes on international trade and transactions	1.2	1.2
Grants	5.7	5.5
Other revenue	3.6	3.7
Expense	20.4	20.3
o/w Interest	1.6	1.8
Net acquisition of nonfin. assets	12.6	12.2
Net lending (+) / borrowing (-)	**-7.9**	**-7.5**
Net acquisition of financial assets	3.0	1.5
Net incurrence of liabilities	11.0	8.9
Domestic	1.0	2.5
o/w Accounts payable (arrears)[2]	-0.3	0.2
Foreign	10.0	6.4
Total Covid-19 spending	3.7	3.7
Overall balance (GFSM 1986)	**-9.2**	**-8.6**
Debt-creating overall balance (excl. PKO, GFSM 1986)[3]	**-9.2**	**-8.2**

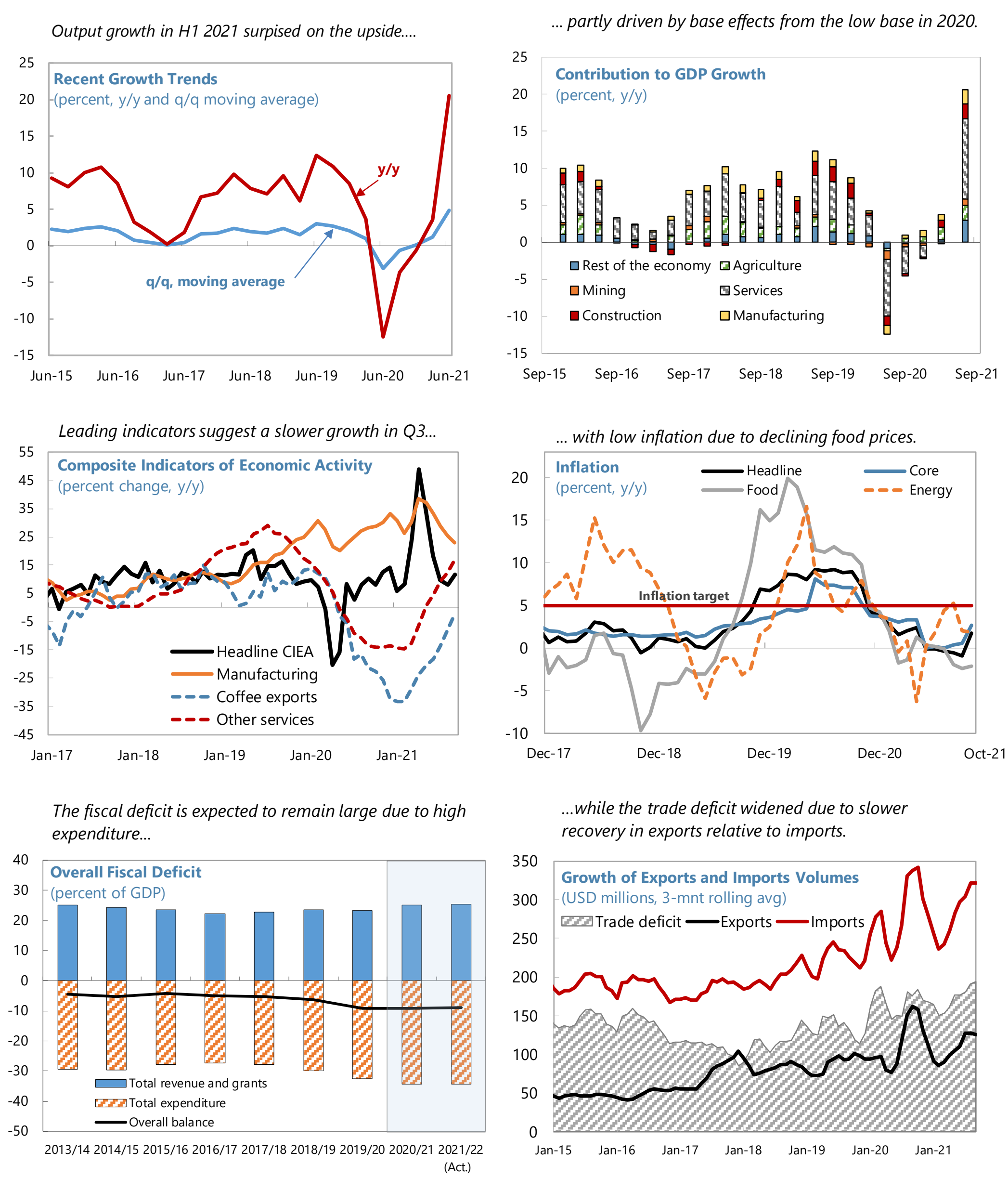
Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.
[2] Positive sign indicates an increase in liabilities (or arrears)
[3] Overall balance excluding PKO operations and spending on materialized contigent liabilities in the DSA.

PS ¶ 7

7. The financial sector remains resilient amid elevated vulnerabilities (Figure 8, Table 4). The financial sector continues to be profitable, well-capitalized, and liquid as of end-September 2021. The capital adequacy ratio of banks and microfinance institutions (MFIs) stood at 22.2 and 36.0 percent, respectively, above the prudential requirements of 12.5 and 15.0 percent, while key liquidity indicators also remained above the minimum prudential requirements. However, credit risks remain elevated, with the nonperforming loans (NPLs) ratio for banks and MFIs falling from 6.6 and

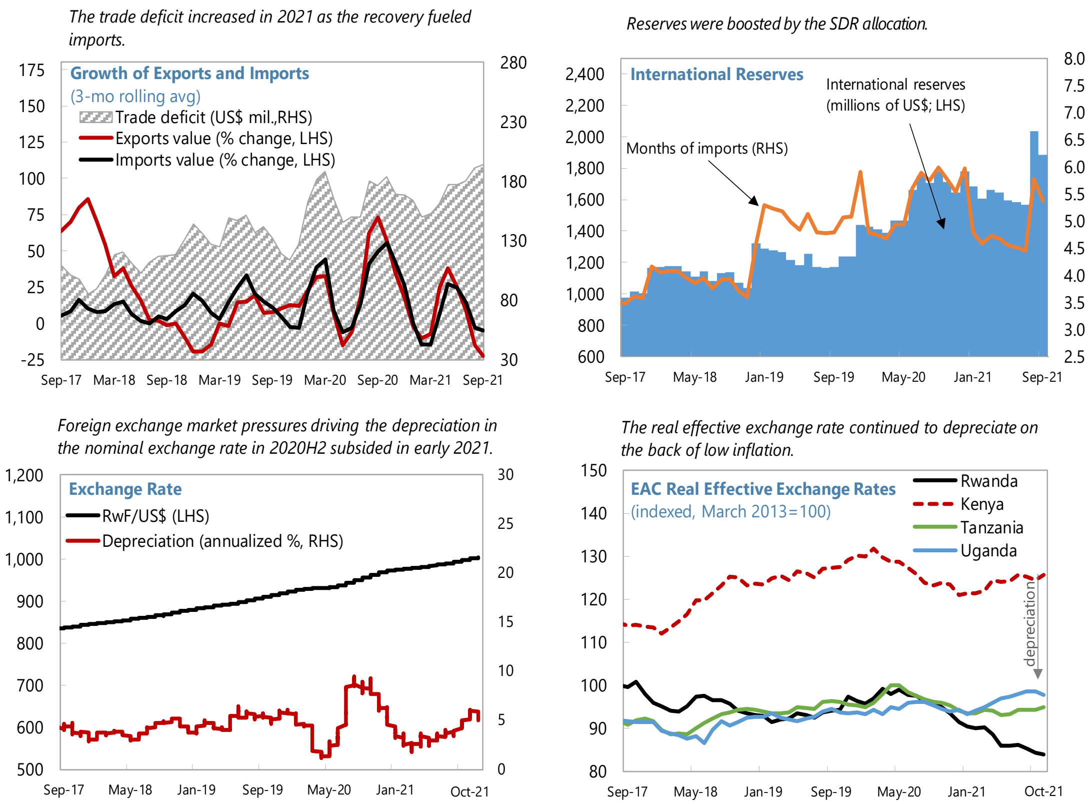
7.7 percent at end-March 2021, respectively, to 5.1 and 6.4 percent at end-September 2021, mainly due to growth in gross loans. The performance of loans that were restructured due to the pandemic has steadily improved as the economy reopened with close to 2/3 of COVID-related restructured loans servicing their obligations as of end-September 2021. About 5.3 percent of gross loans are still in moratorium, including those to hotels that benefited from partial refinancing through the ERF. Banks have increased their provisioning levels since March 2021 in recognition of the higher credit risk. Recent stress tests confirmed the resilience of the bank sub-sector prompting BNR to remove restrictions on the payment of dividends.

Figure 5. Rwanda: Overview of Recent Economic Developments



Sources: Rwandan authorities, and IMF staff estimates.

Figure 6. Rwanda: External Developments



Sources: Rwandan authorities, and IMF staff estimates.

8. **Program performance has been satisfactory (Tables 6 and 7).** All end-June 2021 quantitative targets (QTs) and continuous targets were met. Inflation remained within the inner band set in the monetary policy consultation clause (MPCC). However, three reform targets (RTs) through end-November 2021 faced delays. The selection of an advisory firm to review the Rwanda Social Security Board (RSSB) asset allocation (end-June RT) and the hiring of a consultant to conduct a legal assessment of the regulatory framework that would inform the Global Master Repurchase Agreement (GMRA) rollout (end-November RT) faced delays due to the procurement process. These are proposed to be reset. The automation of the risk-based verification of VAT refunds was completed in November 2021 with a one-month delay.

OUTLOOK AND RISKS

9. **Rwanda's economic outlook is positive with the recovery expected to continue in 2022 (Tables 1–5).**

- **Growth is projected to rebound to 10.2 percent in 2021.** The projected rebound reflects base effects, strong performance in 2021H1, strong activity captured by 2021Q3 high frequency indicators, the temporary and limited impact of mobility restrictions reinstituted in July, stronger momentum in the vaccination rollout, recovery in external demand, and accommodative macroeconomic policies. Growth is expected to return to its pre-pandemic trend by 2023 once the services sector fully recovers.

- **Headline inflation is projected to increase from very low levels in the near term.** However, the 12-month average is expected to be below the lower bound of BNR's tolerance band in 2021, reflecting the subdued inflation during most of the year. Inflation is projected to move towards the benchmark level and be within the upper bound of BNR's tolerance level in 2022, driven by the pickup in domestic activity, global demand, and rising commodity prices.
- **The fiscal stance is expected to remain accommodative in FY21/22.** The near-term fiscal position is projected to worsen by 0.5 percent of GDP relative to the 4th PCI review to accommodate increases in social spending to support the recovery (see ¶12). Overall and debt-creating fiscal balances are projected to gradually improve as COVID-19 fiscal support is phased out and fiscal consolidation measures are implemented after the crisis abates.
- **The external position is expected to gradually improve.** The current account deficit is projected to widen temporarily in 2022 as the pickup in capital and intermediate goods imports associated with the resumption of domestic economic activity and high oil prices outweigh the recovery in the external demand for Rwanda's exports, particularly in tourism. Gross official reserves are expected to decline mainly due to higher capital and intermediate goods imports, while remaining adequate at marginally above 4 months of prospective imports. Over the medium term, the external position is expected to improve through increases in domestic savings, particularly those stemming from the envisaged fiscal consolidation, and productivity growth supported by ongoing structural reforms.

Rwanda: Macroeconomic Framework, 2019–26

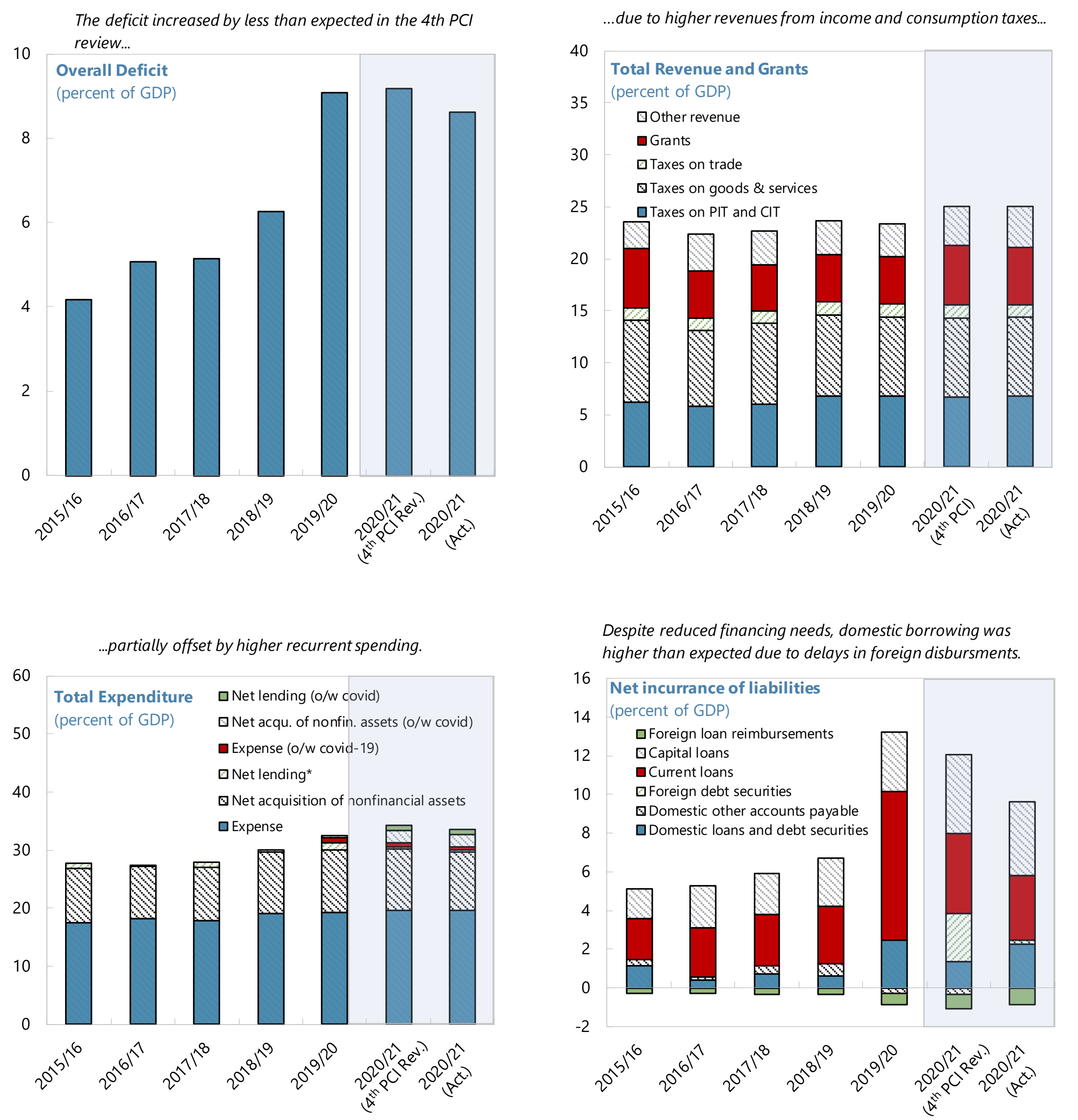
	2019	2020	2021		2022		2023		2024		2025		2026	
	Act.	Act.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.
Real GDP growth (percent)	9.5	-3.4	5.1	10.2	7.0	7.2	8.1	7.9	7.5	7.5	7.5	7.5	6.1	6.1
CPI inflation, average (percent)	2.4	7.7	2.4	0.7	4.9	5.7	5.8	6.8	5.0	5.0	5.0	5.0	5.0	5.0
CPI inflation, eop (percent)	6.7	3.7	3.5	0.9	5.2	8.1	6.0	6.8	5.0	5.0	5.0	5.0	5.0	5.0
Overall fiscal balance (% of GDP), FY Basis[1]	-6.3	-9.1	-9.2	-8.6	-8.6	-9.1	-7.5	-7.5	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
Total public debt incl. guarantees	56.8	71.3	79.1	74.6	81.3	77.2	81.1	77.9	79.5	75.7	76.5	73.1	74.0	71.1
Current account balance (% of GDP)	-11.9	-11.9	-13.4	-11.0	-12.2	-11.5	-11.2	-10.3	-9.6	-9.0	-7.5	-8.0	-6.8	-5.7
Gross international reserves (months of imports)	5.9	5.8	5.1	5.2	4.5	4.6	4.0	4.3	4.1	4.3	4.2	4.4	4.0	4.4

Sources: Rwandan authorities and IMF staff estimates.

[1] For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring

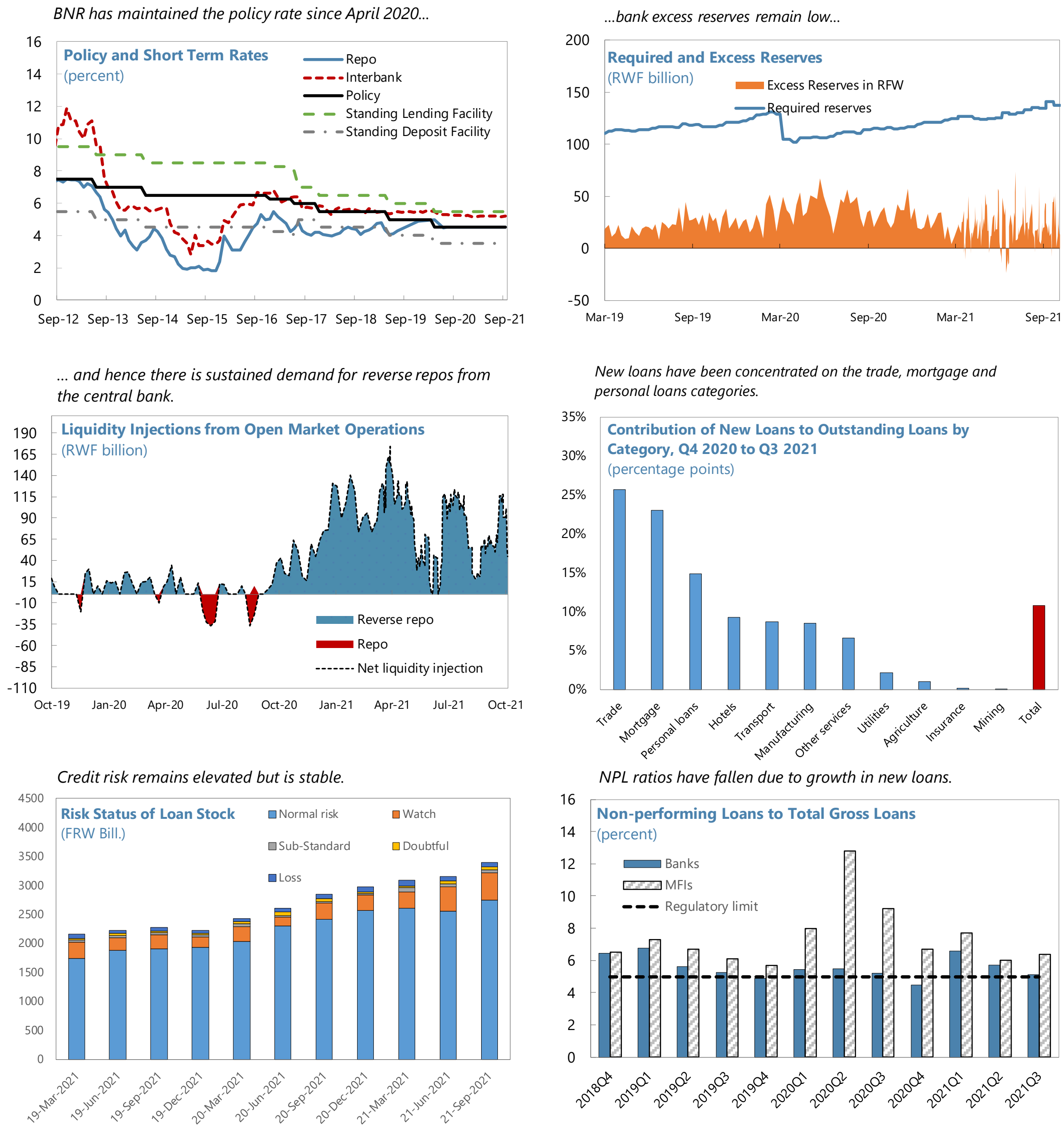
10. The outlook remains uncertain and subject to elevated risks (Annexes I and III). With a large share of the population still unvaccinated, Rwanda faces the prospect of repeated COVID-19 waves that will continue to undermine confidence, the economic recovery, and growth. New variants, pandemic scars, higher oil prices, subdued external demand—especially in tourism—and climate-related shocks present downside risks to the growth outlook. If realized, a more protracted recovery would lead to difficult trade-offs, stressing external positions, heightening the likelihood that financial sector risks and contingent liabilities materialize, delaying the fiscal adjustment, and worsening the debt outlook. A faster containment of the pandemic following a speedier rollout of vaccines domestically and globally is an upside risk that would boost confidence and economic activity. The SDR allocation also provides some needed policy space.

Figure 7. Rwanda: Fiscal Developments



Sources: Rwandan Authorities, WEO July 2021 and IMF staff estimates.
*Net lending is presented in the overall balance in accordance with the PCI definition.

Figure 8. Rwanda: Monetary and Financial Sector Developments



Sources: Rwandan authorities, and IMF staff estimates.

POLICY DISCUSSIONS

Policy discussions for the near term under the PCI and for the medium term in the context of the Article IV consultation focused on: (i) assessing near-term policy responses to end the pandemic and support the recovery, including the vaccination strategy; (ii) the identification of credible growth-friendly fiscal consolidation measures to reduce debt vulnerabilities and promote external stability, while preserving policy space to meet development needs; (iii) modernizing the monetary policy *framework and safeguarding financial stability; and (iv) supporting policies to foster inclusive, sustainable, and resilient growth*[4] *(Letter of Intent (LOI) and Program Statement (PS); Tables 1–2).*

A. Fiscal Policy: Managing Difficult Trade-Offs

Meeting spending needs, while safeguarding fiscal sustainability and containing debt vulnerabilities, will require stepping up efforts to ensure spending is well-targeted and cost-effective, secure concessional financing, and implement measures to mobilize domestic revenues.

Fiscal Stance

PS ¶ 15

11. Staff and the authorities agreed to relax the FY 21/22 fiscal deficit by 0.5 percentage points to accommodate urgent spending needs. To respond to the pandemic-induced increase in unemployment, return civil servants to in-person work safely, implement delayed social projects, and repair damages from a recent volcanic eruption near the border with the Democratic Republic of the Congo, the FY 21/22 fiscal deficit would be relaxed by 0.5 percentage points of GDP. This additional one-off spending will be financed by about 70 percent (1.3 percent of GDP) of the SDR allocation (SDR 153.5 million), while the remaining 30 percent (0.5 percent of GDP) will be saved as reserves and be used to retire the remaining 2013 Eurobond at its maturity in 2023.[5] Partially offsetting these urgent spending needs are i) increased non-tax revenue from administrative fees associated with the economy reopening (such as fees associated with passport and driver license processing); (ii) a slower ERF-2 rollout (COVID-19-related spending); and (iii) lower wages and salaries, reflecting the slowdown in hiring and promotions under the new civil service employment framework. Revenue losses due to the adoption of temporary tax incentives under the Manufacture and Build to Recover Program (MBRP) to fast-track investments to support the recovery and the temporary reduction in the fuel levy to cushion the increase in fuel prices (see ¶17) will add to the pressure on the budget.

Rwanda: Budgetary Use of SDR Allocation

	2021/22		2022/23		Total Use	
	RFW billion	percent of GDP	RFW billion	percent of GDP	RFW billion	percent of GDP 1/
Use of goods and services	103.1	0.9	0.0	0	103.1	0.9
Net acquisition of financial assets	51.0	0.4	0.0	0	51.0	0.4
Redemption of old Eurobond 2/	0.0	0.0	68.4	0.5	68.4	0.6
Total	**154.1**	**1.3**	**68.4**	**0.5**	222.5	1.9

1/ Using 2021/22 GDP.
2/ The Eurobond redemption is anticipated to be 65.1 billion RFW, any remainder will be used for budgetary financing.

[4] The four pillars of the PCI program remain as follows: (i) a fiscal stance that is supportive of the National Strategy for Transformation (NST), while safeguarding debt sustainability; (ii) DRM; (iii) fiscal transparency, including containing fiscal risks; and (iv) support to the new interest rate-based monetary policy framework.

[5] A provision in the Finance Law to amend the FY 21/22 budget expected to be approved in early 2022 will establish the Ministry of Finance and Economic Planning (MINECOFIN) as the owner and beneficiary of the 2021 SDR allocation thus allowing their use for budget financing. Additionally, a Memorandum of Understanding (MoU) specifying the institutional arrangement governing the use and treatment of the SDR allocation is expected to be signed between the National Bank of Rwanda (BNR) and MINECOFIN. This will not apply to the treatment of previous SDR allocations. The use of SDRs will be reported in quarterly and annual budget execution reports and will be subject to independent audit as any other public spending.

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12. The fiscal consolidation strategy remains as agreed at the time of the 4th PCI review with some revisions in the composition over the medium-term. Tax revenues are slightly lower than previously estimated, as the authorities provided an updated assessment of the projected yields under the medium-term revenue strategy (MTRS) and given the temporary tax exemptions to support the recovery (see ¶17). Compared to the 4th PCI review, wages and salaries are projected to be lower due to a revised assessment of hiring under the new civil service employment framework. Subsidies are slightly less than assumed at the 4th PCI review, as ongoing reforms are anticipated to reduce reliance on government support. On the financing side, the remainder of the SDR allocation will be used to retire external debt in FY22/23. External financing is still anticipated to remain a significant source for financing the deficit in the near term (Tables 2a–b).

Rwanda: Overall Balance[1]— Deviations from 4th PCI Review

Percent of GDP (GFSM 2014)

	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue and grants	**0.4**	**-0.1**	**0.2**	**-0.5**	**-0.6**
Taxes	-0.4	-0.4	-0.4	-0.2	-0.6
of which exemptions introduced in FY22	-0.4	0.1	0.1	0.0	0.0
Grants	-0.1	0.5	0.7	-0.2	0.1
Other revenue	0.9	-0.1	-0.1	-0.1	-0.2
Expense	**0.2**	**-1.0**	**-0.2**	**-0.1**	**-0.5**
Compensation of employees	-0.5	-0.6	-0.5	-0.5	-0.5
Use of goods & services	0.7	0.3	0.6	0.4	0.2
of which SDR earmarked	0.4	0.0	0.0	0.0	0.0
Subsides	0.0	0.1	-0.1	0.0	-0.1
Grants	0.0	-0.7	-0.1	0.0	0.0
Other	0.0	-0.1	0.0	0.0	0.0
Net acquisition of nonfinancial assets	1.2	0.9	-0.1	-0.4	-0.1
of which SDR earmarked	0.9	0.0	0.0	0.0	0.0
Policy lending (financial assets equity, loans)	-0.6	-0.1	0.4	0.0	0.0
of which covid-19 spending (ERF)	-0.6	0.0	0.0	0.0	0.0
Overall balance[1]	**-0.5**	**0.1**	**0.1**	**0.0**	**-0.1**
Net domestic financing[2]	**-3.3**	**0.2**	**0.4**	**0.8**	**0.3**
Net foreign financing	**3.8**	**-0.3**	**-0.4**	**-0.8**	**-0.2**
of which SDR financing	1.3	0.5	0.0	0.0	0.0
of which eurobond	2.4	-0.5	0.0	0.0	0.0

[1] GFSM 2014 financial assets loans and equity included for comparision to PCI definition (GFSM 1986)

[2] Financial assets currency and deposits minus domestic liaiblities

13. The consolidation strategy will see the debt anchor of 65 percent of GDP reached in 2028, earlier than previously expected.[6] This is driven by more favorable automatic debt dynamics (stronger growth and lower real interest rates; see Supplement I on DSA).[7] The cumulative reduction in the overall headline deficit is 6.1 percentage points of GDP during FY 22/23–FY 25/26. The consolidation commences one year later due to the temporary relaxation of the FY21/22 deficit to support the economic recovery. It is projected to be growth-friendly, as it is expected to be driven mainly by domestic revenue mobilization following the launch of the MRTS and reductions in recurrent spending with capital spending declining slightly

PS ¶ 17–18

[6] For discussions on the debt anchor, see IMF Country Report No. 2021/001.

[7] Debt will fall below the East African Monetary Union Protocol's present value (PV) of debt convergence criterion of 50 percent by 2027.

but remaining high, and social spending broadly protected. The following factors are driving the consolidation from FY22/23 onwards:

i. The phase-off of COVID-19 and SDR-financed spending are expected to contribute 2.1 and 1.3 percentage points of GDP, respectively, toward the consolidation. These expenditures are budgeted to be time-bound and are expected to expire once complete, supporting the credibility of this aspect of the consolidation.

ii. Domestic resource mobilization is expected to add 1.5 percentage points of GDP from MTRS measures, the unwinding of temporary exemptions, and cyclical factors (see ¶17). Authorities should monitor the impact of tax exemptions on MTRS yields and consider accelerating their withdrawal if the revenue losses are larger than anticipated.[8]

iii. The authorities were also able to identify potential consolidation measures on the expenditure side, including on subsidies, goods and services, and grants that will be subject to further assessment (see ¶15). Goods and services expenses are expected to temporarily increase in FY22/23 while beyond this period, they are expected to decline based on efficiency gains and greater digitalization in the delivery of goods and services. Slower wage growth at the local government level is expected to see a decline in the pace of grants transferred from the central government, while reforms to specific state-owned enterprises (SOEs) are anticipated to limit subsidies over the medium-term.

iv. Capital expenditures are expected to decline slightly over the medium-term as spending on Eurobond-linked projects are completed, and efficiency gains identified with the support of the World Bank Public Expenditure Review (PER) and the IMF Public Investment Management Assessment (PIMA).

v. Any savings from greater targeting and cost-effectiveness in social spending, especially on health and education identified under the PER could be allocated to protect and sustain human capital investments in health and education to address pre-pandemic gaps and reverse pandemic scars during the fiscal consolidation period.

PS ¶ 18–19

14. The authorities plan to start legislating and finalizing these fiscal consolidation measures as part of their FY22/23 budget. Domestic revenue mobilization (DRM) measures have started to be legislated as part of the MTRS and are expected to be approved by Cabinet by end-January 2022 (see ¶17). The PER, though delayed, is underway, while the authorities' need to prioritize the implementation of pandemic measures has delayed the PIMA to January 2022. Recommendations from both these exercises are expected early in 2022 and will feed into the FY 22/23 budgetary process. The authorities reiterated their commitment to start announcing, legislating, and implementing revenue and expenditures measures in this strategy before the PCI expires. Ongoing PFM reforms on the migration to accrual accounting, the roll-out of the Integrated Financial Management Information System (IFMIS), and performance-based budgeting will support the implementation of these measures.

[8] There may be downside risks to this expected yield as tax exemptions could weaken tax compliance and the revenue mobilization potential of some MTRS measures (see also footnote 10).

Text Table. Rwanda: Fiscal Consolidation Path
(percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Fourth PCI Review Baseline[1]											
Overall deficit[2]	-9.2	-8.6	-7.5	-5.1	-4.0	-3.0	n/a	n/a	n/a	n/a	n/a
Public debt[3]	79.1	81.3	81.1	79.5	76.5	74.0	71.4	68.5	65.7	64.4	63.2
5th PCI Fiscal Path											
Overall deficit	**-8.6**	**-9.1**	**-7.5**	**-5.0**	**-4.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.5**	**-4.0**
Annual adjust. (+ = consolidation)	**0.5**	**-0.5**	**1.7**	**2.4**	**1.1**	**0.9**	**0.0**	**0.0**	**0.0**	**-0.5**	**-0.5**
1. One off spending		**0.2**	**2.1**	**0.4**	**1.0**	--	--	--	--	--	--
Covid-19 spending phase-off (incl. ERF)		1.5	0.7	0.4	1.0	--	--	--	--	--	--
SDR use and phase off		-1.3	1.3	--	--	--	--	--	--	--	--
2. Total revenue and grants		**-0.4**	**-0.2**	**0.5**	**-0.5**	**0.2**	--	--	--	--	--
Total tax (incl. Exemptions (unwinding) and MTRS impementation)		-0.4	0.6	0.4	0.4	0.2	--	--	--	--	--
Bouyancy		*0.04*	*0.04*	*0.04*	*0.04*	*0.03*	--	--	--	--	--
Tax policy and administration (incl. MTRS)[4]		*0.1*	*0.4*	*0.2*	*0.3*	*0.2*	--	--	--	--	--
Exemptions (incl. AcFTA)		*-0.5*	*0.2*	*0.1*	*0.0*	*0.0*	--	--	--	--	--
Other revenue and grants		0.0	-0.8	0.1	-0.8	0.0	--	--	--	--	--
3. Total expense (excl. SDR/covid)		**0.5**	**0.4**	**0.8**	**0.2**	**0.7**	**--**	**--**	**--**	**--**	**--**
Compensation of employees (excl. Covid)		0.0	-0.1	0.0	-0.1	0.0	--	--	--	--	--
Goods and services (ex. Covid, ex SDR)		1.8	-1.1	0.3	0.1	0.2	--	--	--	--	--
Interest		-0.4	-0.1	0.1	0.2	0.2	--	--	--	--	--
Subsidies (excl. Covid)		-0.8	0.8	0.4	0.1	0.3	--	--	--	--	--
Grants (to LG/EBU)		-0.2	0.9	0.0	0.0	0.1	--	--	--	--	--
Other expense		0.2	0.0	0.0	0.0	0.0	--	--	--	--	--
4. Capital expenditure and policy lending (Excl. Covid and SDR)		**-0.8**	**-0.6**	**0.8**	**0.4**	**0.0**	**--**	**--**	**--**	**--**	**--**
Other spending/unidentified		0.0	0.0	0.0	0.0	0.0	--	--	--	-0.5	-0.5
Public Debt	**74.6**	**77.2**	**77.9**	**75.7**	**73.1**	**71.1**	**68.2**	**65.0**	**62.1**	**60.5**	**59.1**

1 At the fourth review the fiscal framework was not set up for FY medium-term projections
2 For purposes of the PCI the overall balance (GFSM 1986 definition, incl. policy lending) is used for monitoring.
3 Public debt produced from DSA is on CY basis while fiscal year runs from July-June.
4 Projected MTRS yields net of temporary negative COVID-19 impact.

15. Rwanda's debt remains sustainable with a moderate risk of debt distress (Supplement I). A joint Debt Sustainability Analysis (DSA) from Bank and Fund staffs indicates a moderate risk of debt distress, with limited space to absorb shocks. Stress tests show that solvency risks are elevated. The US$620 million Eurobond issuance in August, mostly used to buyback 85 percent of the outstanding US$400 million Eurobond maturing in 2023 and to retire existing expensive commercial debt, and the SDR allocation to repay the Eurobond maturing in 2023 will help reduce near-term liquidity risks.[9] The timely return to a credible fiscal consolidation path after the COVID-19 crisis abates, containment of fiscal risks, and reliance on concessional resources remain critical in limiting the debt service burden and reducing debt-related risks.

PS ¶ 23

Domestic Revenue Mobilization

16. The government has introduced new pandemic tax relief measures and reduced tariffs, while starting to implement a revenue mobilization strategy.

PS ¶ 18

- ***Pandemic tax relief measures and tariff reductions.*** Tax exemptions introduced in January 2021 under the MBRP over FY21/22 and FY22/23 are projected to cost RWF

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[9] The remaining US$147.5 million proceeds from the Eurobond would be used to finance investment in projects the authorities deem to be key to supporting economic recovery in agriculture, such as export promotion, climate change mitigation, and health. Fiscal balance quantitative targets under the program will be adjusted upwards (downwards) if such projects are under- (over-) executed mitigating any risks for program performance associated with the pace of execution of these projects (see Appendix I, Technical Memorandum of Understanding).

40 billion (0.3 percent of GDP) in forgone revenues. The introduction of temporary fuel subsidies through a reduction in the fuel levy will cost RWF 16 billion (0.1 percent of GDP) this fiscal year before being phased out at the beginning of July 2022. As part of the African Continental Free Trade Agreement, the government has implemented permanent tariff reductions that are expected to reduce revenue by 0.2 percent of GDP per year once they are fully implemented.

- ***MTRS.*** The MTRS spanning FY 21/22-FY23/24 is expected to be approved by Cabinet in January 2022 (new RT) with the goal of permanently increasing the revenue-to-GDP ratio by 1 percentage point through a mixture of tax policy and administration reform once the temporary impact of COVID-19 related exemptions is unwound.[10] Its implementation will be supported by a recently created Tax Policy Directorate. Draft laws revising the personal and corporate income taxes and VAT are awaiting Parliament and Cabinet approval, respectively. The authorities intend to re-assess the cost-effectiveness of existing tax incentives under their new Investment Code to ensure they remain transparent, targeted, and appropriate. On the administration side, all measures envisaged for this year have been incorporated in Rwanda's Revenue Authority (RRA) FY 21/22 action plan. A first review of the MTRS implementation is due by end-December 2022 (new RT) and prior to the MTRS expiration.

Fiscal Risks, Transparency, and Governance

PS ¶ 20

17. The management of fiscal risks continues to be strengthened, especially for SOEs. Efforts have been directed to upgrade both the analytical and legal frameworks.

- **Analytical framework.** Informed by their first SOE health-check assessment, the authorities expect to finalize stress tests for some high-risk SOEs by end-March 2022. They plan to conduct SOE "health-checks" quarterly including some SOE subsidiaries. Based on these diagnoses, they will refine and expand existing mitigation measures to be included in the FY 22/23 budget and fiscal risk statement. With Fund TA support, the authorities are working to expand next year's fiscal risk statement with a summary of public-private partnership (PPP) fiscal risks and mitigation measures informed by the Public Fiscal Risk Assessment Model (PFRAM) (end-April 2022 RT).[11]

- **Legal framework.** The new Organic Budget Law (OBL) is now expected to be approved by Parliament in 2022Q1 after some delays, institutionalizing existing fiscal risk management practices by clarifying the role of the Fiscal Risk Committee (FRC), empowering the Minister of Finance and Economic Planning to appoint their members, and mandating the publication of an annual fiscal risk statement as part of the budget. Together with the OBL, a Presidential Order, which is expected to be issued by June 2022, will help strengthen the monitoring and oversight of SOEs and their subsidiaries, harmonize financial reporting for all public

[10] Tax exemptions under the MBRP are expected to negatively impact MTRS measures aimed to increase tax compliance over and beyond their direct DRM impact.

[11] IMF TA on the PFRAM is expected in March 2022. The IMF PIMA will review existing public investment practices to minimize government exposure to risky projects.

institutions, including SOEs, to fiscal year, and establish deadlines for the publication of financial statements and sanctions for non-compliance. Authorities preferred to rely on these legal instruments, which they consider providing a stronger legal foundation, than on the publication of a SOE Ownership Policy, which they no longer plan to pursue.

18. Reforms to increase transparency in fiscal reporting and RSSB finances are broadly on track. Plans to expand the coverage of published fiscal data, including the publication of the historical series of consolidated government finance statistics for the non-financial public sector (NFPS) (end-December 2021) are on track. The selection of an advisory firm to conduct a review of Rwanda Social Security Board (RSSB)'s asset allocation (end-June 2021 RT) has yet to take place due to delays in arriving at a short-list of firms with the expertise and capability to meet RSSB expectations and lengthier procurement process rather than RSSB internal procurement rules, as initially envisaged. The short list has now been approved by Rwanda's Public Procurement Agency on October 2021 and the final selection is now expected by end-January 2022 (reset RT). As a result, the review of RSSB asset allocation, which was expected to be conducted before the end of the year (end-December 2021 RT), has been delayed to end-June 2022 (reset RT).

PS ¶ 21

19. Authorities are working to strengthen transparency in public procurement contracts, including on transparency of beneficial ownership. Contract management under E-Procurement has been enhanced through the integration of electronic information on invoices and deliveries with government's IFMIS to reduce offline and physical contacts thus lowering inefficiencies and corruption risks. To support the establishment of the Kigali Financial Centre, the Office of the Registrar General and the Rwanda Public Procurement Authority are preparing a proposal to advance the disclosure on beneficial ownership for all public contracts in the procurement process and system. Staff welcomed this effort and advised the authorities to use this opportunity to amend the beneficial ownership-related provisions in the newly enacted Law Governing Companies to make it compliant with the standards set by the Financial Action Task Force (FATF) and to publish beneficial ownership information, consistent with this definition on the E-Procurement platform, including amendments to the procurement legal framework to allow such publication. Staff also noted the availability of IMF TA should the authorities need it.

PS ¶ 22

Authorities' Views

The authorities argued that the near-term fiscal strategy should remain geared towards containing the spread of COVID-19 and ensuring that fiscal policy supports the recovery given the uncertainty surrounding the future path of the pandemic. To this effect, they welcomed the opportunity to use part of the recent SDR allocation to help finance urgent spending needs, while reaffirming their commitment over the medium-term to the previously agreed fiscal consolidation path. The authorities believe their existing budgetary mechanisms of identifying savings and priorities for expenditure combined with their firm commitment to domestic revenue mobilization will ensure the credibility of the consolidation. The authorities also believe that reforms to their underlying accounting, budgetary and legal frameworks will further bolster their ability to implement fiscal policy while mitigating risks.

B. Monetary and Financial Sector Policies: Modernization with Vigilance

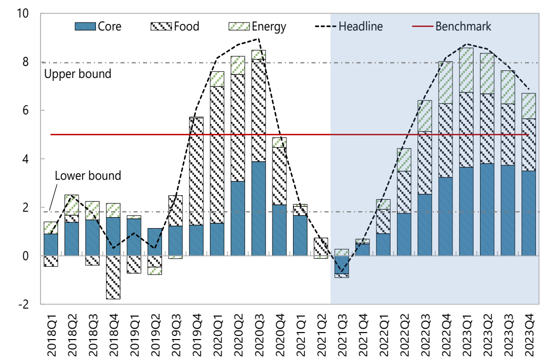
Policies should continue to support the economic recovery, but close monitoring of risks in the financial sector remains crucial. Enhancing monetary policy operations and deepening financial markets, as well as preserving a flexible exchange rate, remain key to the modernization of the monetary policy framework.

Monetary Policy

PS ¶ 24

20. The current accommodative monetary policy stance has been appropriate and should remain data dependent going forward. Headline inflation has been subdued, although it is projected to turn positive and overshoot the benchmark in 2022 and the 12-month average to be within the upper bound of BNR's tolerance level at 5.7 percent by year end, reflecting upside inflation risks from global environment, increased commodity prices, and the closure of the negative output gap in 2022Q1. BNR decision to keep the policy rate unchanged in the November Monetary Policy Committee (MPC) meeting is appropriate, given that inflation, although rising, is expected to remain within the upper band of BNR's tolerance level, while there is a need to continue to support the economic recovery to take root. Looking forward, the authorities agreed on the need to continue closely monitoring price developments and to keep monetary policy data-dependent.

Rwanda: Quarterly Projection Model for Inflation
(y/y, percent)



Sources: IMF staff estimates.

PS ¶ 25–26

21. Efforts to implement the interest rate-based monetary policy framework continue, while reforms to deepen money markets are facing delays (Annex IV). Recent TA on Forecasting Policy and Analysis System (FPAS) assisted BNR's forecasting team with developing inflation projections incorporating the impact of COVID-19, improving nowcasting, and informing MPC committee members. Further progress in interbank liquidIty and government securities trading, which will support the interest rate-based monetary policy framework, is expected when banks sign the Global Master Repurchase Agreement (GMRA). This process has faced delays from procuring the firm to perform the diagnostic on the required changes to laws and regulations, pushing back subsequent GMRA milestones and leading to a six-month delay in the GMRA operationalization, now expected by end-December 2022. Interbank market activity increased in 2021 due to higher demand for liquidity from faster credit growth and BNR continues to use reverse repos to meet bank's liquidity demands.

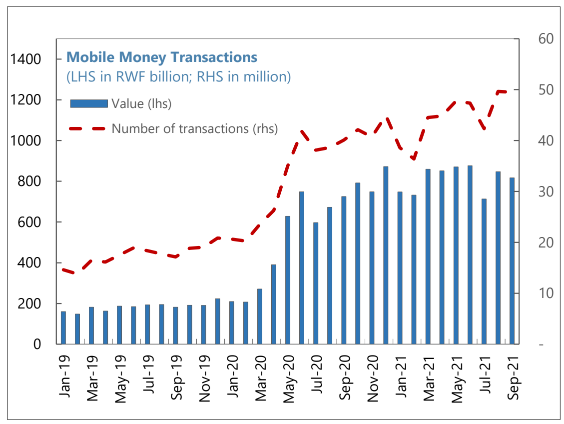
Financial Stability and Inclusion

PS ¶ 28–29

22. The authorities have maintained intensive supervisory oversight and have been gradually unwinding pandemic relief measures. Measures of regulatory forbearance introduced in 2020 for banks in response to the pandemic expired at the end of September 2021. Loan classification and provisioning have returned to pre-pandemic regulatory standards. With IMF TA support, BNR is improving their review expertise on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP). These measures should inform decisions to provide targeted support, if required, as well as any recapitalization needs. Staff advised BNR to (i) ensure that the regulations governing credit classification and provisioning are not misused by banks to mask issues related to asset quality, including the recognition of low performing/quality assets; (ii) deploy targeted and time-bound interventions to hard-hit sectors to contain any imminent materialization of credit risks; and (iii) maintain regulatory limits and prudential standards as well as supervisory and reporting efforts.

PS ¶ 30

23. The authorities are staying the course in advancing the financial inclusion and digitalization agenda. The higher growth in mobile payments that was triggered by the pandemic has been sustained. Retail e-payments as a share of GDP increased by 17.3 percent y/y in June 2021 to reach 95.5 percent with the increase from mobile payments and internet banking services by 64 percent and 26 percent, respectively. Other activities aimed at scaling up digital financial services include the upgrade of the payment systems with access to MFIs and Savings and Credit Cooperatives (SACCOs), as well as the interoperability of instant payments for 2022, education and onboarding of merchants, strengthening regulations of security and BCP, and digitalization of complaints handling. BNR indicated that the study on consumer payment behavior and the pricing of digital payment services is on track (end-December 2021 RT). This should inform policy measures to encourage cashless payments.



24. The authorities continue working to address weaknesses in the AML/CFT framework and improve technical compliance with the FATF standards. In response to the shortcomings identified in Rwanda's first 2014 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) mutual evaluation and subsequent progress reports, the authorities have initiated targeted measures and passed several laws and regulations. The Financial Intelligence Center (FIC) became operational in December 2020, with the principal mission of conducting financial intelligence to counter money laundering, the financing of terrorism, and the financing of proliferation of weapons of mass destruction and related crimes. The authorities should continue to focus on further aligning the legal framework with FATF standards, ensuring the effective implementation of targeted financial sanctions and AML/CFT measures by designated non-financial businesses and professions (DNFBPs), and strengthening FIC's capacities (including staffing and training). They are also preparing for the second mutual evaluation round planned for October 2022, which will assess Rwanda's progress on technical compliance and the effectiveness of the AML/CFT regime.

Authorities' Views

The authorities noted that they will closely monitor price developments and reiterated their commitment to supporting monetary policy formulation under a price-based framework and promoting financial deepening and inclusion. They expressed their appreciation for IMF technical assistance on FPAS. On financial sector risks, they agreed that their supervisory priority would be to mitigate credit risks following the unwinding of relief measures. They also reaffirmed their commitment to address gaps in the AML/CFT framework and to improve technical compliance with the FATF standards.

C. External Sustainability: Improving the External Position and Promoting Exchange Rate Flexibility

Preserving external sustainability hinges on maintaining exchange rate flexibility, the timely implementation of the post-pandemic fiscal consolidation, and advancing structural reforms to improve the business climate and boost competitiveness.

25. Rwanda's external position in 2021 was substantially weaker than implied by fundamentals and desirable policy setting while international reserves were above adequate levels (Annex V). International reserves at end-2021 are projected at 5.2 months of prospective imports (4.5 months of prospective imports, excluding the 2021 SDR allocation), above the recommended range for the Fund's reserve adequacy metric for credit-constrained economies. Staff's analysis highlights the importance of exchange rate flexibility and steadfast implementation of the post-pandemic fiscal consolidation and structural reforms to further improve the business climate and boost competitiveness to bring the external position into balance and reserves towards the higher end of the reserve adequacy metrics.

PS ¶ 27

26. Greater exchange rate flexibility remains key to ensuring external sustainability and for an effective interest rate-based monetary policy framework. While exchange rate pressures have been relatively subdued given the economic slowdown, the demand for foreign exchange is expected to increase in 2022, reflecting a stronger pickup in imports, as the economy recovers. Recognizing that the exchange rate is the first line of defense against external shocks, BNR reiterated its commitment to limiting foreign exchange market interventions to minimizing excessive exchange rate volatility and maintaining adequate reserve levels.

Authorities' Views

The authorities expressed their commitment to exchange rate flexibility in line with the monetary policy framework and shared the view that policies under the program would support safeguarding external sustainability.

D. Structural Policies: Ensuring An Inclusive and Resilient Recovery

Fostering inclusive growth would entail mitigating the pandemic scars, particularly on human capital, with policies that are cost-effective in improving social outcomes and attracting private financing to help meet the Sustainable Development Goals (SDGs). Stronger climate policies will be important to lay the foundations for more resilient growth.

PS ¶ 31–32

27. Ensuring high and inclusive post-pandemic growth demands decisive policies to mitigate pandemic scars. Policies should aim at reversing the learning and earning losses caused by the pandemic, especially for children and women under the ERP, and stepping up pre-pandemic efforts to accelerate human capital accumulation and its growth contribution. Greater emphasis should be placed on improving health, education, and early childhood development services; boosting female employment and entrepreneurship; and narrowing the digital gap. Social policies under the ERP go in this direction notably by (i) expanding programs to support poor pregnant and lactating women and reduce child stunting and malnutrition; (ii) improving the quality and retention of primary and secondary schooling through the fast-tracking of the construction of new and less remote schools, stronger teacher training, and the adoption of digital technologies; and (iii) providing training and facilitating access to finance to female entrepreneurs under the ERF-2. The PER, with its focus on increasing the targeting and cost-effectiveness of social spending, especially in health and education sectors, will help ensure human capital investments is sustained and human development priorities under Rwanda's National Strategy for Transformation (NST) remain on track while also supporting the fiscal consolidation.

PS ¶ 33

28. Authorities' ambitious climate action agenda will lay the foundations for more resilient growth (Annex VI, Box 1). Rwanda's reliance on rainfed agriculture, rapid urbanization, and depletion of forest and water resources make it highly vulnerable to climate change. Reducing this exposure will lead to more resilient growth by reducing output volatility and lowering infrastructure and property damage, as well as through the adoption of climate-resistant technologies. Rwanda' National Determined Contribution (NDC) goals are ambitious and costly, amounting to US$10 billion by 2030. The government is undertaking innovative approaches to mobilize financing by setting up the Rwanda Green Fund and prioritizing and implementing climate-resilient initiatives under the budget through an Environment and Climate Change Monitoring Statement.

Box 1. Green Public Financial Management Initiatives

Rwanda has taken steps to adopt the IMF's Green Public Financial Management (PFM) approach. This approach ensures climate objectives are integrated into PFM practices.[1] Green PFM does not require a whole new set of systems, but rather an adoption of existing tools and systems. Climate should be integrated into the following PFM systems: budget preparation (medium-term budget frameworks, budget circulars), budget execution (tagging of climate expenditures), public investment management, control and audit, and legal frameworks.

The government is committed to ensure climate change features prominently in the national development planning. Rwanda has made impressive progress in the past decade and stands ahead of regional peers in climate change adaptation readiness.[2] Rwanda's NST from 2017–24 has natural resource and environment management as one of its priorities. Enacting the National Environment and Climate Change Policy (adopted in 2019), updating NDC goals (introduced in 2020), and currently revising the Green Growth and Climate Resilience Strategy are critical steps to achieving climate resilience. Given the high spending needs of both development and climate, having a harmonized approach to project and investment selection is critical to ensure that trade-offs across competing development goals are assessed in a consistent way.

Rwanda plans to release an Environment and Climate Change (ECC) Monitoring Statement in the FY 22/23 budget. Rwanda's NST-1 already lists natural resource and environment as one of its core priorities. The new statement will identify spending related to climate and environmental issues and will assist with the implementation and monitoring of NDCs. In addition, Rwanda is looking to introduce a climate budget tagging system that plans to attach a tag or a code to budget lines to better identify climate or environmental spending.

Rwanda is planning a PIMA in January 2022 and is currently conducting a comprehensive climate diagnostic with the World Bank. While Rwanda has made progress integrating climate into PFM systems, further progress is expected in 2022. In early 2022, Rwanda will undertake an IMF-led PIMA which will provide an opportunity to better integrate climate issues into public investment systems.[3] The authorities and the World Bank are currently conducting a joint Climate Change Diagnostic Report (CCDR). The CCDR will further integrate climate and development, refine, and update existing NDCs, and explore public sector and private sector financing solutions.

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[1] See IMF Staff Climate Note 2021, Climate Sensitive Management of Public Finances.

[2] Rwandan moved to above the global average in 2019 from among the lowest in the world two decades ago. See: Notre Dame Global Adaptation Initiative.

[3] While the mission will not conduct the newly developed PIMA Climate module; it will discuss the potential of conducting this during a subsequent mission.

29. **Achieving the Sustainable Development Goals (SDGs) while fostering inclusive and resilient growth would demand more cost-effective interventions to attract private financing (Annex VI).** Financing Rwanda's development priorities before the pandemic was already challenging and attracting private financing has become a key strategy to achieving NST and SDG goals. Fiscal incentives and large public infrastructure projects have become central to this strategy to compensate for Rwanda's high input costs due to its mountainous and landlocked nature. Higher spending needs due to the pandemic, including those to mitigate its scars, while also addressing emerging climate-change vulnerabilities, are putting pressures on public finances. Rwanda would

need additional resources of about 21¼ percent of GDP per year to meet its SDGs by 2030, against 15.7 percent of GDP per year pre-pandemic.[12] The more limited fiscal space and rising fiscal risks in the pandemic aftermath call for recalibrating this strategy by (i) enhancing the cost-effectiveness of fiscal incentives; (ii) sharing the associated fiscal risks of such incentives with the private sector and development partners; and (iii) maintaining greater prioritization and value-for-money of public investment projects. Stepping up efforts to promote regional integration will also address the challenges of Rwanda's small market size which has been identified as a key hindrance to attracting private investment.

Authorities' Views

The authorities agreed on the urgent need to mitigate the pandemic scars, particularly on human capital, to improve social outcomes, to attract private financing, and to strengthen climate-related policies to achieve inclusive and resilient growth.

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

30. Quantitative and reform targets. The program will continue to be monitored on a semi-annual basis through QTs, RTs, standard continuous targets, and an MPCC (PS Tables 1 and 2). Policy implementation will be evaluated through review-based monitoring, considering evolving circumstances and policy needs.

31. Program adjustors have been introduced to accommodate uncertainties related to the timing in execution of projects financed by proceeds from the recent Eurobond issuance and SDR allocation. Uncertainty surrounding the timing for execution of projects financed by the recent Eurobond issuance and SDR allocation merits temporary adjustors on program QTs (debt-creating overall fiscal balance) to flexibly accommodate any delays in project execution and associated spending (TMU ¶4). Staff and the authorities agreed to reassess the adjustors during the 6th PCI review. With the COVID-19 vaccination campaign still on-going and financing for booster shots yet to be determined, staff and the authorities agreed to maintain program adjustors to accommodate the vaccine rollout and reassess their need during the 6th PCI review.

32. Program conditionality is updated reflecting the macroeconomic framework and the authorities' commitments to reforms (PS Tables 1a–2):

- The end-December 2021 QTs are proposed to be modified and new end-June 2022 QTs have been set in line with the updated macroeconomic framework.
- The floor on net foreign assets is proposed to be modified to exclude swaps with resident institutions with original maturity of one year or less, and with nonresident institutions (TMU, ¶4).

[12] See Duarte Lledo and Perrelli (2021). NDC costs are not explicitly factored in but are expected to be partially included given the overlaps and complementarities of climate change and SDG spending in other areas.

- To sustain domestic revenue mobilization efforts, two new RTs on publishing the MTRS approved by the Cabinet and conducting the first review of the MTRS implementation and impact are proposed for end-January 2022 and end-December 2022, respectively.
- The missed end-June 2021 RT on the selection of an advisory firm to conduct the review of RSSB's asset allocation is proposed to be reset to end-January 2022 to accommodate RSSB's need to abide by government's procurement rules to hire the selected firm. By implication, the end-December 2021 RT on the review of RSSB asset allocation cannot be achieved and has been proposed to be reset to end-June 2022 to account for the time required by the selected firm to produce this review.
- The end-November 2021 RT on the legal assessment for GMRA rollout is proposed to be reset once again to end-March 2022 to accommodate delays from procuring the firm to perform the diagnostic on the required changes to laws and regulations. Given the cascading effects in the other two GMRA RTs, they are proposed to be reset to end-June 2022 and end-December 2022, respectively.

33. Program financing and risks. Rwanda is not seeking financial assistance from the Fund and the program is fully financed, with firm commitments of financing in place over the next 12 months and good financing prospects for the remainder of the program. While uncertainty and risks to program implementation remain high, they are mitigated by the authorities' robust public health response, steadfast implementation of the ERP, commitment to targeted and transparent pandemic-related aid and expenditures, contingency planning, oversight, and strong track record in implementing Fund-supported programs.

34. Safeguards Assessment. The latest safeguards assessment was conducted remotely in October 2021. The assessment found that BNR has maintained a relatively strong safeguards framework and that BNR autonomy is supported by a legal framework that sets sound governance arrangements and aligns audit and reporting practices with international standards. Recommendations included amending the reserves management policy to discontinue inclusion of domestic issuers' instruments as foreign reserves, and periodic reviews of the program monetary data for consistency with definitions under the PCI technical memorandum of understanding. The previous safeguards assessment took place in 2016, with all recommendations implemented.

35. Capacity Development (CD). CD activities remain closely linked to program priorities (Annex VIII). Recent CD included TA to support the authorities' efforts to strengthen FPAS, improve government finance statistics, design the MTRS, strengthen fiscal risk management, strengthen implementation of Basel core principles and the International Financial Reporting Standards (IFRS) for MFIs, and strengthen internal procedures for the review of banks' information technology risk. Going forward, CD activities are expected to focus, inter alia, on conducting a PIMA, a PFRAM, a MTRS follow-up, an IPSAS rollout, performance-based budgeting, and FSSR recommendations.

36. The authorities are committed to improving the quality and transparency of national statistics. They have implemented the e-GDDS since 2017 and have expressed interest in subscribing to the SDDS in 2022. The current focus is to improve the quality, coverage, and frequency of monetary, external, and fiscal data, and to expand the coverage of public sector debt statistics.

STAFF APPRAISAL

37. The economy is showing signs of recovery but the pandemic risks reversing Rwanda's hard-won social gains. While the spread of the disease and fatality rates remained low and the outlook is positive, the pandemic has significantly raised unemployment and poverty, especially among women. Learning losses from school closures, if not reversed, may permanently reduce Rwanda's earnings, productivity, and ultimately, potential growth.

38. The authorities' sustained health, fiscal, monetary, and financial sector policy measures implemented in response to the pandemic are contributing to attenuating the impact of the pandemic. With increased vaccine availability, vaccination rollout is accelerating which is facilitating the lifting of restrictions, setting the stage for economic recovery. Albeit exposed to many risks, the recovery now appears to be strengthening. Inflation is low and the banking system is stable and liquid. Despite a significant fiscal deficit, borrowing remains predominantly on concessional terms and public debt is sustainable at a moderate risk of debt distress with limited buffers.

39. With pandemic risks still on the horizon, the outlook remains uncertain. Uncertainties on the pace of vaccinations across the region, emerging new variants and prospect of repeated COVID-19 waves could undermine confidence and the economic recovery.

40. Program performance remains satisfactory despite the difficult environment. While all quantitative targets have been met, some reform targets are facing delays. Staff supports the authorities' decision to relax the FY21/22 budget to accommodate additional pandemic resilience spending and given the uncertainties surrounding the recovery underway. Their commitment to safeguard debt sustainability by adopting a gradual and growth-friendly fiscal consolidation over the medium term remains central to achieving the program objectives.

41. The authorities should take additional measures for a credible fiscal consolidation and contain fiscal and financial sector risks. It is critical to legislate and adopt the revenue and spending efficiency measures beyond the annual budget process before the end of the program to support the credibility of the fiscal consolidation strategy. Fiscal risks from SOEs and PPPs need to be closely monitored and mitigating measures put in place. Closely monitoring credit risks to safeguard financial stability would also be critical, including deploying targeted and time-bound interventions, as needed, to contain their materialization without relaxing regulatory and supervisory requirements.

42. Monetary policy should remain data dependent. Inflation remains subdued, but the rising inflation outlook for 2022 and the need to continue to support the recovery would require BNR to closely monitor price developments and keep monetary policy data-dependent.

43. Rwanda's external position in 2021 was substantially weaker than implied by fundamentals and desirable policy. Authorities' commitment to safeguard external sustainability through a flexible exchange rate, credible fiscal consolidation post-COVID, and reforms to strengthen Rwanda's external competitiveness are central to improving the external position.

44. Decisive actions should be taken to advance macro-critical reforms. The authorities' timely actions to limit pandemic scars, strengthen fiscal transparency, domestic revenue mobilization, and the interest rate-based monetary framework remain critical to help pave the way for a stronger and fiscally sustainable post-crisis recovery. Concrete steps to publish information on beneficial ownership of companies awarded government procurement contracts would further strengthen governance. The opportunity to build a greener economy should not be missed, building on the renewed focus, both domestically and abroad, to mitigate and adapt from climate-related risks, which can support near-term and resilient growth.

45. Staff supports the completion of the fifth review. Staff also recommends that the next Article IV consultation be held on the 24-month consultation cycle in accordance the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 1. Rwanda: Selected Economic Indicators, 2019–26

	2019	2020	2021		2022		2023		2024		2025		2026	
	Act.	Act.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.
			(Annual percentage change, unless otherwise indicated)											
Output and prices														
Real GDP	9.5	-3.4	5.1	10.2	7.0	7.2	8.1	7.9	7.5	7.5	7.5	7.5	6.1	6.1
GDP deflator	2.5	8.3	1.9	2.3	5.4	5.3	5.8	7.1	5.0	5.5	5.0	5.3	5.0	5.0
CPI (period average)	2.4	7.7	2.4	0.7	4.9	5.7	5.8	6.8	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-0.9	2.6	0.1	0.2	1.9	1.6	-0.5	-0.6	-0.8	1.7	-0.5	2.3	-0.8
Money and credit														
Broad money (M3)	15.4	18.0	10.1	14.2	13.1	15.1	17.3	18.2	14.7	15.7	12.7	13.2	11.4	11.3
Reserve money	16.0	21.7	10.6	14.7	13.1	15.1	15.2	16.1	14.7	15.7	12.7	13.2	11.4	11.3
Credit to non-government sector	12.6	21.8	10.0	15.8	12.7	16.1	14.6	14.8	13.3	18.0	13.5	12.3	12.7	7.6
M3/GDP (percent)	25.7	28.9	29.8	29.3	29.9	29.9	30.6	30.6	31.1	31.2	31.1	31.2	31.1	31.3
			(Percent of GDP, unless otherwise indicated)											
Budgetary central government, FY basis [1]														
Revenue	23.1	23.3	25.0	25.0	24.2	24.6	24.4	24.4	24.6	24.8	24.8	24.3	25.1	24.5
Taxes	16.0	15.7	15.8	15.8	15.9	15.4	16.4	16.0	16.8	16.4	17.0	16.7	17.5	17.0
Grants	3.0	4.5	5.7	5.5	5.5	5.5	5.4	5.8	5.2	5.9	5.2	5.1	4.9	5.0
Other revenue	3.0	3.1	3.6	3.7	2.8	3.7	2.7	2.5	2.7	2.5	2.7	2.5	2.7	2.5
Expense	19.6	20.2	20.4	20.3	20.4	20.6	19.8	18.8	18.2	18.0	17.9	17.8	17.6	17.1
Net acquisition of nonfin. assets	11.2	11.0	12.6	12.2	10.8	12.0	10.9	11.8	10.5	10.5	10.9	10.5	10.5	10.5
Net lending (+) / borrowing (-) (NLB)	-7.7	-7.9	-7.9	-7.5	-7.0	-8.0	-6.2	-6.2	-4.1	-3.7	-4.0	-4.0	-3.0	-3.0
excluding grants	-10.7	-12.4	-13.6	-13.0	-12.5	-13.5	-11.6	-12.0	-9.3	-9.6	-9.2	-9.0	-7.8	-8.0
Net acquisition of financial assets	0.8	4.5	3.0	1.5	-2.4	1.1	0.0	1.0	0.4	1.7	0.0	0.3	0.2	0.3
Net incurrence of liabilities	6.4	12.3	11.0	8.9	4.6	9.2	6.2	7.3	4.5	5.3	4.0	4.3	3.2	3.3
Domestic	1.2	2.2	1.0	2.5	-0.4	-0.2	-0.3	1.6	-0.3	0.9	-0.2	0.8	-0.2	0.2
Foreign	5.1	10.1	10.0	6.4	5.0	9.4	6.5	5.7	4.8	4.4	4.2	3.4	3.4	3.2
Overall fiscal balance (incl. grants, policy lending) [2]	-6.3	-9.1	-9.2	-8.6	-8.6	-9.1	-7.5	-7.5	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
Debt-creating overall balance (excl. PKO) [3]	-5.5	-7.7	-9.2	-8.2	-8.6	-9.1	-7.5	-7.4	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
Public debt														
Total public debt incl. guarantees	56.8	71.3	79.1	74.6	81.3	77.2	81.1	77.9	79.5	75.7	76.5	73.1	74.0	71.1
of which: external public debt	44.3	55.6	63.0	58.6	66.8	62.4	68.7	63.9	68.7	64.7	67.9	63.5	65.9	62.2
Total public debt excluding guarantees	53.0	68.3	77.2	73.7	79.3	75.4	78.6	74.5	75.6	72.2	73.1	69.9	70.9	68.2
External public debt incl. guarantees, PV	29.7	33.6	38.4	36.1	41.0	39.2	42.9	40.9	44.0	40.9	43.0	40.4	41.8	38.8
Gross domestic debt	12.4	15.7	16.1	16.1	14.5	14.8	12.5	14.0	9.7	10.8	9.0	9.9	8.2	9.4
Total public debt incl. guarantees, PV	42.9	50.3	55.7	52.9	56.7	55.3	56.5	56.1	55.5	53.5	53.4	51.4	51.9	50.0
Investment and savings														
Investment	25.3	24.5	24.2	21.0	26.8	26.9	28.8	29.2	28.7	29.8	29.0	30.1	26.9	27.3
Government	12.9	14.0	13.8	13.3	12.1	13.4	12.1	12.3	12.0	11.8	12.2	12.3	10.2	10.2
Nongovernment	12.4	10.6	10.4	7.7	14.7	13.6	16.7	16.9	16.7	17.9	16.7	17.7	16.7	17.1
Savings (excl. grants)	10.8	9.8	6.5	5.8	10.3	11.3	13.8	15.5	15.3	16.3	17.5	18.0	17.4	17.7
Government	3.7	-0.5	-0.1	-1.6	0.4	1.4	1.9	1.8	2.8	2.6	3.7	3.5	3.3	1.8
Nongovernment	7.1	10.3	6.5	7.4	9.9	9.9	11.8	13.7	12.5	13.7	13.8	14.5	14.1	16.0
External sector														
Exports (goods and services)	21.8	18.7	22.3	18.9	25.7	24.4	27.7	26.7	29.5	27.7	31.0	31.5	30.8	33.3
Imports (goods and services)	36.1	34.6	41.2	35.6	43.4	40.9	43.9	41.2	44.3	41.7	43.7	44.0	41.7	43.5
Current account balance (incl grants)	-11.9	-11.9	-13.4	-11.0	-12.2	-11.5	-11.2	-10.3	-9.6	-9.0	-7.5	-8.0	-6.8	-5.7
Current account balance (excl grants)	-14.5	-14.7	-17.8	-15.2	-16.5	-15.5	-15.0	-13.7	-13.5	-13.5	-11.5	-12.0	-9.6	-9.6
Current account balance (excl. large proj.)	-10.6	-11.5	-10.7	-10.0	-9.5	-9.3	-8.6	-7.9	-7.6	-7.0	-6.3	-6.7	-6.8	-5.7
Gross international reserves														
In millions of US$	1,440	1,722	1,709	1,829	1,682	1,775	1,653	1,783	1,800	2,021	1,899	2,130	1,995	2,253
In months of next year's imports [4]	5.9	5.8	5.1	5.2	4.5	4.6	4.0	4.3	4.1	4.3	4.2	4.4	4.0	4.4
Memorandum items:														
GDP at current market prices														
Rwanda francs (billion), CY basis	9,315	9,746	10,438	10,986	11,772	12,395	13,463	14,311	15,207	16,232	17,163	18,378	19,119	20,460
Rwanda francs (billion), FY basis [1]	8718	9,402	10,092	10,278	11,105	11,691	12,617	13,353	14,335	15,272	16,185	17,305	18,141	19,419
Population (million)	12.4	12.7	13.0	13.0	13.3	13.3	13.6	13.6	13.9	13.9	14.2	14.2	14.2	14.2

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 25/26 (2026). Fiscal year runs from July to June. FY19/20 and FY20/21 are actuals

[2] For purposes of the PCI the overall balance (GFSM 1986, incl. policy lending) is used for monitoring

[3] Overall deficit excl. spending on materialized contigent liabilties and other items already incl. in the DSA.

[4] Based on prospective import of goods (excluding gold) and services. SDR allocation included in 2021.

Table 2a. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation, FY20/21–25/26[1]

(billions of Rwandan Francs)

	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26	
	4th Review	Prel.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.
Revenue	**2,525**	**2,568**	**2,688**	**2,873.6**	**3,081**	**3,252.1**	**3,533**	**3,788.3**	**4,021**	**4,209**	**4,555**	**4,763**
Taxes	1,594	1,622	1,760	1,803	2,066	2,138	2,406	2,501	2,744	2,896	3,179	3,295
Taxes on income, profits, and capital gains	678	703	740	807	843	929	966	1,073	1,099	1,231	1,256	1,396
Taxes on property	22	19	28	27	31	34	37	42	39	45	44	49
Taxes on goods and services	769	776	848	839	1,022	993	1,172	1,144	1,327	1,320	1,493	1,487
Taxes on international trade and transactions	125	124	145	129	171	182	231	242	279	300	387	363
Grants	572	561	612	638	677	777	748	903	847	876	883	974
Current	276	266	274	304	385	410	435	449	481	512	498	586
Capital	295	295	338	333	292	368	313	454	366	363	386	387
of which Vaccine	4	3	59	58	0	--	0	--	0	--	0	--
Other revenue	360	385	315	433	337	337	380	384	430	437	492	494
of which CCRT	28	35	9	32	0	--	0	--	0	--	0	--
Expense	**2,054**	**2,089**	**2,267**	**2,413.7**	**2,496**	**2,507**	**2,612**	**2,751**	**2,900**	**3,077**	**3,184**	**3,320**
Compensation of employees	302	302	354	313	425	366	474	423	542	494	609	555
Use of goods and services	621	624	532	644	620	690	622	750	713	840	813	906
of which: Covid-19 spending	29	28	119	120	0	--	0	--	0	--	0	--
of which: Covid-19 Vaccine	17	5	109	97	0	--	0	--	0	--	0	--
of which: SDR allocation (2021)				51								
Interest	163	181	257	253	299	301	322	333	332	346	339	356
To nonresidents	60	67	94	85	106	103	105	110	117	123	130	138
of which: SDR allocation (2021)	--	--	--	1.1	--	1.3	--	2.1	--	2.2	--	2.3
To residents other than general government	104	114	162	168	193	198	217	223	215	223	209	218
Subsidies	264	260	357	376	290	325	300	309	312	330	321	320
of which: Rwandair (working capital)	145	146	162	162	165	173	169	173	172	160	175	152
Grants	528	549	615	651.6	680	628	691	715	767	812	830	892
Social benefits	46	41	46	59	52	53	60	61	67	69	76	76
Other expense	130	132	107	117	130	144	143	159	167	186	196	215
Net acquisition of nonfin. assets	1,271	1,252	1,195	1,400.7	1,370	1,576	1,512	1,596	1,761	1,818	1,909	2,033
Foreign financed	708	682	574	667	660	919	711	888	865	904	915	1,069
of which: Covid-19 spending	90	95	30	0	0	--	0	--	0	--	0	--
Domestically financed	563	570	621	734	710	657	801	708	897	914	994	964
of which: Covid-19 spending	121	123	100	100	100	100	0	--	0	--	0	--
of which: projects financed by SDR allocation	--	--	--	103	--	--	--	--	--	--	--	--
Net lending (+) / borrowing (-)												
including grants	**-801**	**-773**	**-775**	**-941**	**-785**	**-831**	**-590**	**-559**	**-640**	**-686**	-538	**-589**
excluding grants	-1373	-1334	-1387	-1578	-1462	-1608	-1338	-1462	-1487	-1562	-1422	-1563
Net acquisition of financial assets	**307**	**157**	**-263**	**132**	**-5**	**138**	**61**	**257**	**8**	**52**	**41**	**58**
Currency and deposits	181	43	-447	-65	-170	40	-79	46	8	52	41	58
Loans	119	108	124	64	124	122	117	186	0	--	0	--
of which ERF	90	89	93	31	88	86	92	148	0	--	0	--
Equity and investment fund shares	7	6	60	64	42	44	23	25	0	--	0	--
Foreign	0	--	0	68	0	-68	0	--	0	--	**0**	--
Special Drawing Rights (SDRs)				68		-68						
Net incurrence of liabilities	**1,108**	**911**	**512**	**1,072**	**781**	**969**	**652**	**816**	**647**	**738**	580	**648**
Domestic	102	253	-40	-21	-40	207	-40	145	-40	144	-40	32
Foreign	1,006	657	552	1,093	821	762	692	671	688	594	620	615
Special Drawing Rights (SDRs)	--	--	--	222	--	--	--	--	--	--	--	--
Debt securities	253	--	--	286	--	-65	--	--	--	--	--	--
Disbursements	487	--	--	633	176	0	--	--	--	--	--	--
Redemptions	234	--	--	346	176	65	--	--	--	--	--	--
Loans	752	657	552	585	821	827	692	671	688	594	620	615
Memorandum items:												
Domestic revenue (incl. local government)	1,739	1,798	1,898	2,061	2,219	2,294	2,588	2,690	2,968	3,129	3,459	3,576
Wage bill	561	551	682	639	762	716	829	789	925	877	996	955
Total Covid-19 related spending	369.5	374	342	250	198	186	92	148	0	--	0	--
Overall fiscal balance (incl. grants, policy loans)[2]	-927	-887	-959	-1,069	-951	-997	-730	-770	-640	-686	-538	-589
Debt creating overall bal. (excl. PKO)[3]	-927	-847	-959	-1,069	-947	-994	-730	-770	-640	-686	-538	-589

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] For purposes of the PCI the overall balance (GFSM 1986 definition, incl. policy lending) is used for monitoring.

[3] Overall deficit excluding spending on materialized contigent liabilities and other items already included in the DSA.

Table 2b. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation, FY20/21–25/26[1]

(percent of GDP)

	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26	
	4th Review	Prel.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	Auth.	Proj.
Revenue	**25.0**	**25.0**	**24.2**	**24.6**	**24.4**	**24.4**	**24.6**	**24.8**	**24.8**	**24.3**	**25.1**	**24.5**
Taxes	15.8	15.8	15.9	15.4	16.4	16.0	16.8	16.4	17.0	16.7	17.5	17.0
Taxes on income, profits, and capital gains	6.7	6.8	6.7	6.9	6.7	7.0	6.7	7.0	6.8	7.1	6.9	7.2
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.2	0.3
Taxes on goods and services	7.6	7.5	7.6	7.2	8.1	7.4	8.2	7.5	8.2	7.6	8.2	7.7
Taxes on international trade and transactions	1.2	1.2	1.3	1.1	1.4	1.4	1.6	1.6	1.7	1.7	2.1	1.9
Grants	5.7	5.5	5.5	5.5	5.4	5.8	5.2	5.9	5.2	5.1	4.9	5.0
Current	2.7	2.6	2.5	2.6	3.1	3.1	3.0	2.9	3.0	3.0	2.7	3.0
Capital	2.9	2.9	3.0	2.9	2.3	2.8	2.2	3.0	2.3	2.1	2.1	2.0
of which Vaccine	0.0	--	0.5	0.5	0.0	--	0.0	--	0.0	--	0.0	--
Other revenue	3.6	3.7	2.8	3.7	2.7	2.5	2.7	2.5	2.7	2.5	2.7	2.5
of which CCRT	0	0.3	0	0.3	--	--	--	--	--	--	--	--
Expense	**20.4**	**20.3**	**20.4**	**20.6**	**19.8**	**18.8**	**18.2**	**18.0**	**17.9**	**17.8**	**17.6**	**17.1**
Compensation of employees	3.0	2.9	3.2	2.7	3.4	2.7	3.3	2.8	3.3	2.9	3.4	2.9
Use of goods and services	6.2	6.1	4.8	5.5	4.9	5.2	4.3	4.9	4.4	4.9	4.5	4.7
of which: Covid-19 spending	0.3	0.3	1.1	1.0	--	--	--	--	--	--	0.0	0.0
of which: Vaccine	0.2	0.0	1.0	0.8	--	--	--	--	--	--	0.0	0.0
of which: SDR allocation (2021)		--		0.4								
Interest	1.6	1.8	2.3	2.2	2.4	2.3	2.2	2.2	2.1	2.0	1.9	1.8
To nonresidents	0.6	0.7	0.8	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
of which: SDR allocation (2021)	--	0.0	--	0.0	--	0.0	--	0.0	--	0.0	--	0.0
To residents other than general government	1.0	1.1	1.5	1.4	1.5	1.5	1.5	1.5	1.3	1.3	1.2	1.1
Subsidies	2.6	2.5	3.2	3.2	2.3	2.4	2.1	2.0	1.9	1.9	1.8	1.6
of which: Rwandair (working capital)	1.4	1.4	1.5	1.4	1.3	1.3	1.2	1.1	1.1	0.9	1.0	0.8
Grants	5.2	5.3	5.5	5.6	5.4	4.7	4.8	4.7	4.7	4.7	4.6	4.6
Social benefits	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other expense	1.3	1.3	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.1
Net acquisition of nonfin. Assets	**12.6**	**12.2**	**10.8**	**12.0**	**10.9**	**11.8**	**10.5**	**10.5**	**10.9**	**10.5**	**10.5**	**10.5**
Foreign financed	7.0	6.6	5.2	5.7	5.2	6.9	5.0	5.8	5.3	5.2	5.0	5.5
of which: Covid-19 spending	0.9	0.9	0.3	0.0	0.0	--	0.0	--	0.0	--	0.0	--
Domestically financed	5.6	5.5	5.6	6.3	5.6	4.9	5.6	4.6	5.5	5.3	5.5	5.0
of which: Covid-19 spending	1.2	1.2	0.9	0.9	0.8	0.7	0.0	--	0.0	--	--	--
of which: projects financed by SDR allocation	--	--	--	0.9	--	--	--	--	--	--	--	--
Net lending (+) / borrowing (-)												
including grants	**-7.9**	**-7.5**	**-7.0**	**-8.0**	**-6.2**	**-6.2**	**-4.1**	**-3.7**	**-4.0**	**-4.0**	**-3.0**	**-3.0**
excluding grants	-13.6	-13.0	-12.5	-13.5	-11.6	-12.0	-9.3	-9.6	-9.2	-9.0	-7.8	-8.0
Net acquisition of financial assets	**3.0**	**1.5**	**-2.4**	**1.1**	**0.0**	**1.0**	**0.4**	**1.7**	**0.0**	0.3	**0.2**	**0.3**
Domestic	3.0	1.5	-2.4	0.5	0.0	1.5	0.4	1.7	0.0	0	0.2	0.3
Currency and deposits	1.8	0.4	-4.0	-0.6	-1.3	0.3	-0.5	0.3	0.0	0.3	0.2	0.3
Loans	1.2	1.0	1.1	0.5	1.0	0.9	0.8	1.2	0.0	--	0.0	--
of which ERF	0.9	0.9	0.8	0.3	0.7	0.6	0.6	1.0	0.0	--	0.0	--
Equity and investment fund shares	0.1	0.1	0.5	0.5	0.3	0.3	0.2	0.2	0.0	--	0.0	--
Foreign	0.0	0.0	0.0	0.6	0.0	-0.5	0.0	0.0	0.0	--	0.0	0.0
Special Drawing Rights (SDRs)	0.0	0.0	0.0	0.6	0.0	-0.5	0.0	0.0	0.0		0.0	0.0
Net incurrence of liabilities	**11.0**	**8.9**	**4.6**	**9.2**	**6.2**	**7.3**	**4.5**	**5.3**	**4.0**	**4.3**	**3.2**	**3.3**
Domestic	1.0	2.5	-0.4	-0.2	-0.3	1.6	-0.3	0.9	-0.2	0.8	-0.2	0.2
Foreign	10.0	6.4	5.0	9.4	6.5	5.7	4.8	4.4	4.2	3.4	3.4	3.2
Special Drawing Rights (SDRs)	--	--	--	1.9	--	--	--	--	--	--	--	--
Debt securities	2.5	0.0	0.0	2.4	0.0	-0.5	--	--	--	--	--	--
Disbursements	4.8	0.0	0.0	5.4	1.4	0.0	--	0.0	--	0.0	--	0.0
Redemptions	2.3	0.0	0.0	3.0	1.4	0.5	--	0.0	--	0.0	--	0.0
Loans	7.5	6.4	5.0	5.0	6.5	6.2	4.8	4.4	4.2	3.4	3.4	3.2
Memorandum items:												
Domestic revenue (incl. local government)	17.2	17.5	17.1	17.6	17.6	17.2	18.1	17.6	18.3	18.1	19.1	18.4
Wage bill	5.6	5.4	6.1	5.5	6.0	5.4	5.8	5.2	5.7	5.1	5.5	4.9
Total Covid-19 related spending	3.7	3.6	3.1	2.1	1.6	1.4	0.6	1.0	--	--	0.0	--
Overall fiscal balance (incl. grants, policy loans)[2]	-9.2	-8.6	-8.6	-9.1	-7.5	-7.5	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
Debt creating overall bal. (excl. PKO, comm.)[3]	-9.2	-8.2	-8.6	-9.1	-7.5	-7.4	-5.1	-5.0	-4.0	-4.0	-3.0	-3.0
GDP (Billions of RwF), FY basis	10,092	10,278	11,105	11,691	12,617	13,353	14,335	15,272	16,185	17,305	18,141	19,419

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal years runs from July to June.

[2] For purposes of the PCI the overall balance (GFSM 1986 definition, incl. policy lending) is used for monitoring.

[3] Overall deficit excluding spending on materialized contigent liabilities and other items already included in the DSA.

Table 3. Monetary Survey, 2020–26

(billions of Rwandan francs, unless otherwise indicated)

	2020		2021				2022			2023		2024		2025		2026	
	Jun.	Dec.	Jun.		Dec.		Jun.	Dec.		Dec		Dec		Dec		Dec	
	Act.	Act.	4th Review	Act.	4th Review	Proj.	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.
Monetary authorities survey[1]																	
Net Foreign Assets[2]	1,046	1,157	1,198	1,016	1,182	1,075	1,070	1,200	1,065	1,218	1,118	1,395	1,385	1,532	1,532	1,671	1,699
Of which: Foreign assets	1,558	1,675	1,697	1,510	1,662	1,780	1,753	1,636	1,726	1,608	1,735	1,750	1,970	1,847	2,077	1,940	2,198
Foreign liabilities	512	517	499	494	481	705	683	435	662	390	617	355	584	315	545	269	500
Net domestic assets	-554	-668	-654	-546	-579	-450	-375	-518	-345	-432	-282	-493	-419	-516	-437	-539	-480
Domestic credit	-288	-389	-341	-230	-254	-142	-57	-186	-17	-86	56	-137	-82	-170	-110	-223	-180
Other items (net; asset +)	-266	-280	-312	-317	-325	-308	-318	-332	-328	-346	-338	-356	-337	-347	-328	-316	-300
Reserve money	492	545	544	526	603	625	696	682	720	786	835	902	967	1,016	1,095	1,132	1,219
Commercial banks survey																	
Net foreign assets	49	97	97	107	97	107	107	97	107	97	107	97	107	97	107	97	107
Net domestic assets	2,343	2,471	2,490	2,730	2,731	2,828	3,148	3,103	3,273	3,666	3,896	4,221	4,527	4,770	5,140	5,326	5,736
Reserves	243	292	281	266	324	339	353	368	392	425	456	489	528	553	599	617	668
Net credit to BNR	32	-103	-184	-45	-125	-148	-60	-121	-94	29	-210	73	-121	72	-148	59	-78
Domestic credit	2,714	2,964	3,106	3,253	3,312	3,410	3,682	3,709	3,854	4,126	4,602	4,598	5,096	5,092	5,678	5,615	6,143
Government (net)	594	641	693	775	768	746	854	854	775	870	1,080	923	957	935	1,040	940	1,161
Public enterprises	143	140	140	130	140	130	130	140	130	140	130	140	130	140	130	140	130
Private sector	1,977	2,183	2,273	2,348	2,404	2,534	2,699	2,715	2,949	3,116	3,392	3,535	4,009	4,017	4,508	4,535	4,852
Other items (net; asset +)	-646	-682	-712	-744	-781	-773	-828	-852	-879	-914	-951	-939	-976	-947	-988	-964	-997
Deposits	2,391	2,568	2,588	2,837	2,828	2,936	3,255	3,200	3,380	3,763	4,003	4,318	4,634	4,867	5,248	5,423	5,843
Monetary survey																	
Net foreign assets	1,095	1,254	1,295	1,123	1,279	1,183	1,177	1,298	1,172	1,315	1,225	1,492	1,493	1,629	1,639	1,768	1,806
Net domestic assets	1,545	1,566	1,556	1,974	1,828	2,039	2,420	2,216	2,536	2,808	3,158	3,238	3,580	3,701	4,104	4,170	4,588
Domestic credit	2,457	2,529	2,581	3,035	2,934	3,120	3,565	3,401	3,742	4,069	4,447	4,534	4,893	4,995	5,420	5,450	5,885
Government	308	164	127	515	348	414	695	505	622	772	884	818	712	796	739	734	861
Public enterprises	143	140	140	130	140	130	130	140	130	140	130	140	130	140	130	140	130
Private sector	2,007	2,224	2,314	2,390	2,446	2,577	2,741	2,756	2,991	3,157	3,434	3,576	4,051	4,059	4,550	4,576	4,894
Other items (net; asset +)	-912	-962	-1,025	-1,061	-1,106	-1,081	-1,146	-1,184	-1,207	-1,261	-1,289	-1,296	-1,313	-1,294	-1,316	-1,281	-1,297
Broad money	2,640	2,821	2,851	3,098	3,106	3,222	3,597	3,514	3,708	4,124	4,383	4,730	5,073	5,330	5,743	5,938	6,394
Year on Year Growth									(Percent)								
Broad money	18.9	18.0	8.0	17.3	10.1	14.2	16.1	13.1	15.1	17.3	18.2	14.7	15.7	12.7	13.2	11.4	11.3
Reserve money	14.6	21.7	10.5	6.9	10.6	14.7	32.2	13.1	15.1	15.2	16.1	14.7	15.7	12.7	13.2	11.4	11.3
Net foreign assets	21.7	10.2	18.2	2.6	-2.4	-5.7	4.8	1.5	-0.9	1.3	4.5	13.4	21.9	9.2	9.8	8.5	10.2
Credit to the private sector	14.4	21.8	15.3	19.1	10.0	15.8	14.7	12.7	16.1	14.6	14.8	13.3	18.0	13.5	12.3	12.7	7.6
Memorandum items:																	
Velocity (eop)	3.6	3.4	3.5	3.3	3.4	3.4	3.3	3.4	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Money multiplier	5.4	5.2	5.2	5.9	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2

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

[1] The monetary table displays the monetary authorities accounts, and thus includes central banking functions (such as the holding of international reserves and the conducting of transactions with the IMF) performed by the central government.

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

Table 4. Rwanda: Financial Soundness Indicators of the Banking Sector (March 2018–21)

	2018				2019				2020				2021		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
							(Percent)								
Capital adequacy															
Core capital to risk-weighted assets	19.5	20.1	20.8	23.8	22.4	21.8	22.2	22.6	23.4	22.3	21.3	20.3	21.1	21.4	21.1
Regulatory capital to risk-weighted assets	21.1	21.9	22.6	25.5	24.1	23.3	23.7	24.1	24.9	23.6	22.6	21.5	22.3	22.5	22.2
Off balance sheet items/total qualifying capital	86.2	79.6	85.4	152.5	82.2	76.2	81.5	90.7	91.5	98.2	107.3	109.3	98.5	121.5	126.1
Insider loans/core capital	6.0	5.9	5.7	5.6	3.9	4.4	4.5	11.6	10.4	7.5	12.4	14.2	7.3	5.8	8.3
Large exposure/core capital	168.7	169.4	136.1	134.8	124.3	126.2	132.4	142.6	122.5	152.3	133.8	121.1	111.3	116.4	124.6
Asset quality															
NPLs/gross loans	6.8	6.9	7.2	6.4	6.3	5.6	5.3	4.9	5.5	5.5	5.2	4.5	6.6	5.7	5.1
NPLs net of suspended interest/gross loans	5.5	5.2	6.1	5.5	5.6	5.6	4.8	4.7	3.1	4.9	4.7	4.0	5.9	5.1	4.7
Provisions/NPLs	59.2	67.4	64.2	68.2	71.1	80.2	85.4	81.5	76.7	82.6	88.3	106.3	79.9	99.0	106.0
Earning assets/total asset	78.9	80.8	84.6	84.8	83.6	82.3	84.1	84.4	84.8	84.4	86.8	85.0	80.4	85.0	85.3
Large exposures/gross loans	34.2	34.5	29.6	32.0	28.5	28.1	29.7	33.5	28.6	32.9	27.2	24.7	23.4	25.2	26.2
Profitability and earnings															
Return on average assets	1.3	1.6	1.7	1.9	2.1	1.6	2.1	2.2	2.1	1.8	1.9	2.0	2.4	2.5	2.5
Return on average equity	7.5	9.5	10.2	11.2	12.0	9.3	11.7	12.5	11.8	9.9	11.0	11.8	14.5	14.4	14.8
Net interest margin	9.8	9.7	9.5	9.0	9.2	8.8	9.0	8.9	9.9	8.8	8.6	8.3	9.2	9.0	8.7
Cost of deposits	3.5	3.5	3.5	3.4	3.2	3.3	3.4	3.4	3.6	3.6	3.4	3.3	3.3	3.3	3.3
Cost to income	82.5	81.1	79.7	78.4	77.7	81.1	78.4	77.1	76.7	79.7	78.2	77.7	72.3	72.5	72.8
Overhead to income	45.3	45.6	45.6	45.0	42.5	42.9	41.7	41.2	42.6	40.6	39.2	39.5	35.2	34.5	36.5
Liquidity															
Liquidity coverage ratio	...	299.5	317.5	637.0	215.2	180.5	193.0	191.8	202.1	252.8	254.0	254.7	240.8	226.2	221.4
Net stable funding ratio	...	224.7	219.9	222.0	174.0	164.3	146.3	129.3	134.7	175.5	159.1	161.4	159.2	157.4	143.6
Short term gap	4.9	6.6	4.3	3.6	7.1	8.9	7.6	4.0	3.0	5.3	6.4	2.4	-0.7	2.8	0.6
Liquid assets/total deposits	49.4	32.7	33.5	35.3	35.4	36.3	33.7	35.4	37.9	36.4	34.1	39.5	35.9	38.1	38.3
Interbank borrowings/total deposits	23.6	21.9	22.3	21.5	20.3	21.3	20.7	20.4	24.5	23.6	24.7	26.7	25.0	25.1	25.6
BNR borrowings/total deposits	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.9	0.5	0.5
Gross loans/total deposits	92.3	94.0	92.9	95.2	93.9	96.9	99.0	95.2	94.1	202.1	111.8	112.4	107.9	111.4	114.4
Market sensitivity															
Forex exposure/core capital	-4.5	-6.1	-10.1	-5.6	-7.1	-8.6	-5.3	-4.8	-3.4	-6.6	-7.3	-4.4	-3.2	-4.7	-9.4
Forex loans/Forex deposits	49.4	45.4	38.4	39.5	41.0	46.5	51.3	45.2	43.6	46.8	44.3	41.8	37.0	37.7	42.3
Forex assets/Forex liabilities	76.5	82.0	88.1	91.2	91.0	91.0	83.6	81.8	84.4	83.0	83.2	88.5	87.8	85.3	87.2

Source: National Bank of Rwanda.

Table 5. Rwanda: Balance of Payments, 2020–26

(millions of U.S. dollars, unless otherwise indicated)

	2020	2021		2022		2023		2024		2025		2026	
	Act.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.	4th Review	Proj.
Current account balance (incl. official transfers)	**-1,234**	**-1,395**	**-1,212**	**-1,348**	**-1,359**	**-1,335**	**-1,334**	**-1,230**	**-1,247**	**-1,044**	**-1,201**	**-1,035**	**-908**
Trade balance	-1,650	-1,821	-1,736	-1,881	-1,929	-1,926	-1,876	-1,938	-1,967	-1,889	-1,972	-1,782	-1,812
Exports (f.o.b.)	1,408	1,728	1,485	2,028	2,092	2,347	2,472	2,664	2,794	2,994	3,376	3,190	3,871
Of which: gold	646	732	372	768	680	807	788	847	867	889	1,091	916	1,272
Exports (f.o.b.) excl. gold	762	996	1,112	1,260	1,412	1,540	1,684	1,817	1,927	2,104	2,285	2,274	2,599
Of which: coffee and tea	144	183	163	219	185	235	209	238	216	274	251	307	262
Of which: minerals	83	115	147	139	249	187	291	236	332	298	388	334	438
Imports (f.o.b.)	3,058	3,549	3,220	3,910	4,021	4,273	4,348	4,602	4,761	4,883	5,348	4,972	5,683
Of which: gold	627	702	361	730	625	759	725	789	853	821	1,004	846	1,170
Imports (f.o.b.) excl. gold	2,431	2,848	2,859	3,180	3,396	3,514	3,623	3,812	3,908	4,061	4,344	4,126	4,513
Imports (f.o.b.) excl. gold and non-fuel re-exports	2,228	2,642	2,580	2,933	3,070	3,230	3,258	3,543	3,503	3,747	3,921	3,760	4,071
Services (net)	2	-141	-114	-66	-24	-4	13	39	19	108	98	127	181
Credit	521	593	606	813	799	963	973	1,136	1,058	1,351	1,355	1,472	1,478
Of which: tourism receipts	120	124	126	335	228	435	341	523	407	627	602	690	679
Debit	520	734	720	878	823	967	960	1,096	1,040	1,243	1,257	1,344	1,297
Income	-207	-248	-247	-290	-271	-321	-313	-358	-371	-375	-410	-378	-424
Of which: interest on public debt[1,2]	-90	-94	-86	-102	-65	-102	-66	-109	-79	-122	-92	-136	-78
Of which: net SDR allocation *debt service*			0		0		-1		-1		-2		-2
Current transfers (net)	621	816	885	888	865	916	842	1,026	1,073	1,111	1,083	997	1,147
Private	332	365	421	419	385	458	415	523	447	544	482	583	520
Of which: remittance inflows	274	294	362	334	310	363	329	413	350	429	371	459	394
Public	289	452	464	469	480	459	427	503	625	567	601	414	627
Capital and financial account balance	**1,166**	**1,324**	**1,319**	**1,356**	**1,340**	**1,353**	**1,390**	**1,412**	**1,520**	**1,185**	**1,351**	**1,178**	**1,078**
Capital account	285	336	336	273	348	268	363	287	320	307	307	278	313
Financial account	881	988	983	1,083	991	1,084	1,026	1,125	1,200	879	1,044	900	765
Direct investment	100	402	241	418	376	417	457	404	503	440	535	388	439
Public sector capital[3]	618	605	713	747	580	644	471	696	651	599	463	466	216
Long-term borrowing[2]	767	1,239	1,266	863	717	929	677	860	835	840	724	741	515
Scheduled amortization, excl IMF	-149	-635	-773	-116	-137	-285	-206	-165	-184	-241	-260	-275	-299
SDR allocation			219										
Other capital[4]	163	-19	29	-82	35	24	98	25	46	-160	45	46	110
Of which: commercial banks NFA (increase -)	31	0	0	0	0	0	0	0	0	0	0	0	0
Net errors and omissions	**176**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**107**	**-71**	**107**	**8**	**-19**	**18**	**56**	**182**	**273**	**141**	**150**	**143**	**170**
Financing	**-107**	**71**	**-107**	**-8**	**19**	**-18**	**-56**	**-182**	**-273**	**-141**	**-150**	**-143**	**-170**
Reserve assets (increase -)	-328	71	-107	27	55	29	-9	-147	-238	-100	-109	-96	-123
Of which: SDR allocation *impact*[5]			-192		81		1		1		2		2
Net credit from the IMF	198	-38	-38	-47	-47	-47	-47	-35	-35	-41	-41	-47	-47
IMF disbursement (+)[6]	220	0	0	0	0	0	0	0.0	0	0.0	0	0.0	0
Repayments to IMF (-)	-23	-38	-38	-47	-47	-47	-47	-35	-35	-41	-41	-47	-47
Exceptional financing	23	38	38	12	12	0	0	0	0	0	0	0	0
Grant for debt relief under CCRT	23	38	38	12	12	0	0	0	0	0	0	0	0
Memorandum items:													
Current account balance (percent of GDP)[7]	-11.9	-13.4	-11.0	-12.2	-11.5	-11.2	-10.3	-9.6	-9.0	-7.5	-8.0	-6.8	-5.7
Trade balance (percent of GDP)	-16.0	-17.5	-15.7	-17.0	-16.3	-16.1	-14.6	-15.1	-14.2	-13.5	-13.1	-11.8	-11.3
Gross official reserves	**1,722**	**1,709**	**1,829**	**1,682**	**1,775**	**1,653**	**1,783**	**1,800**	**2,021**	**1,899**	**2,130**	**1,995**	**2,253**
in months of prospective imports of G&S[8]	5.8	5.1	5.2	4.5	4.6	4.0	4.3	4.1	4.3	4.2	4.4	4.0	4.4

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 KCC, RwandAir, and Bugesera.

3 Financial account excludes debt assumption for Marriott included in the fiscal sector.

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

5 SDR allocation minus imports impact and net SDR interest payments. Imports Impact etimated at US$ 107 million, including effects from investment projects and domestic spendings.

6 The amount in 2020 corresponds to the RCF disbursements that are transferred to the budget.

7 Including official transfers.

8 Based on the prospective imports of goods (excl. gold) and services in the next year.

Table 6. Rwanda: Quantitative Program Targets (June 2021)

	end-June 2021					
	Prog.	Rev. Prog.	Adjustors	Rev. Prog. Adjusted	Actual	Status
(Billions of Rwandan francs, unless otherwise indicated)						
Half-yearly Quantitative Targets[1]						
1. Ceiling on the debt-creating overall balance, including grants[2]	-884	-927	10	-937	-847	Met
2. Floor on stock of Net Foreign Assets	746	1,024	-53	971	1,181	Met
3. Ceiling on net accumulation of domestic arrears	0	0			-0.2	Met
Continuous Targets						
4. Ceiling on stock of external payment arrears (US$ million)	0	0			0	Met
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt (US$ million)[3]	485	1,149	0	1,149	449	Met
Monetary Policy Consultation Band[1,4]						
CPI Inflation target	5.0	5.0			4.2	Met
Inflation, upper inner-bound, percent	8.0	8.0				
Inflation, lower inner-bound, percent	2.0	2.0				
Inflation, upper bound, percent	9.0	9.0				
Inflation, lower bound, percent	1.0	1.0				
Memorandum items:						
Total priority spending[2]	970	970			1,067	Met
Floor on domestic revenue collection[2,5]	1,687	1,739			1,798	Met
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700	700			135	Met
Total budget support (US$ million) [2]	777	711			627	
Budget support grants (US$ million)	308	284			274	
Budget support loans (US$ million)	469	427			353	
PV of budget and project loans dedicated to COVID-19 vaccine interventions (US$ million)[2,6,7]	...	30			28	
Budget and project grants dedicated to COVID-19 vaccine interventions (US$ million)[2,6]	...	4			3	
Total spending dedicated to COVID-19 vaccine interventions[6]	...	17			5	
RWF/US$ program exchange rate	937	972			972	

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 are cumulative from June 30, 2020. Targets for priority spending were inadvertently not cumulative and were corrected to include priority spending until end-December 2020.

[3] Ceiling is cumulative from the beginning of calendar year 2021.

[4] When the end-of period year-on-year average inflation is above/below the outer band of the upper/lower bound, a formal consultation with the Executive Board would be triggered.

[5] Floor is adjusted to exclude UN peace keeping operations, in line with the TMU.

[6] COVID-19 vaccine interventions are measures associated with the COVID-19 vaccination campaign (e.g. vaccine procurement and distribution) as defined in the TMU.

[7] This includes USD 34 million of budget loan from AFD with a grant element of 33 percent and USD 15 million of project loan from the World Bank/IDA with a grant element of 53 percent.

Table 7. Rwanda: Reform Targets (June 2019 — November 2021)

Actions	Target Date	Status	Objective
Fiscal			
Produce annual tax expenditure report with updated methodology, and a description of broad categories of beneficiaries	end-Jun. 2019	Met	Improve DRM
Procure an IT system that will capture all RSSB processes	end-Jun. 2019	Met	Improve resource efficiency
Produce a report outlining detailed options for improving functioning of VAT, including measures that could be implemented in FY20/21.	end-Dec. 2019	Met	Improve DRM
Automating the risk-based verification process for refund claims.	end-Dec. 2019	Not Met	Improve DRM
Begin producing quarterly budget execution reports in GFS 2014 format.	end-Dec. 2019	Met	Improve fiscal transparency
Produce a comprehensive fiscal risk analysis statement.	end-Jun. 2020	Met	Mitigate fiscal risks
Contract a diagnostic study on optimal RSSB asset allocation.	end-Jun. 2020	Not Met	Improve resource efficiency
Expand coverage in fiscal reporting in GFS 2014 from budgetary central govt to central govt (i.e. including extrabudgetary entities) and local governments.	end-Dec. 2020	Met	Improve fiscal transparency/ PFM
Automating the risk-based verification process for refund claims.	end-Dec. 2020	Not Met	Improve DRM
Produce financial and management reports from the IT system for all schemes managed by RSSB.	end-Dec. 2020	Met	Improve fiscal transparency and strengthen management and sustainability of all schemes managed by RSSB
Conduct a "health-check" assessment of fiscal risks from SOEs using available data and submit the outcome and mitigation options to the fiscal risk committee.	end-May 2021	Met	Mitigate fiscal risks
Select advisory firm to conduct a review of RSSB asset allocation	end-Jun. 2021	Not Met	Improve resource efficiency
Automating the risk-based verification process for refund claims.	end-Oct. 2021	Not Met	Improve DRM
Monetary and Financial			
Improve communication for monetary policy by organizing quarterly outreach after each MPC meeting, including roundtable discussions with CEOs of commercial banks and other financial institutions, as well as other interested stakeholders.	end-Dec. 2019	Met	Support new monetary policy framework
Publish macro projections for MPC decision making in quarterly inflation reports, according to best practices established by other central banks.	end-Jun. 2020	Met	Support new monetary policy framework
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2020	Not Met	Deepen financial markets
Expand industrial and market expectation surveys that feed into macro forecasting, begin collecting data to construct a purchasing manager's index, and accelerate publication of foreign private capital survey.	end-Dec. 2020	Met	Support new monetary policy framework
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2021	Met	Deepen financial markets
Conduct a legal assessment to identify gaps in the regulatory framework for true repo ahead of Global Master Repurchase Agreement (GMRA) rollout.	end-Nov. 2021	Not Met	Support new monetary policy framework

Table 8. Rwanda: Review Schedule Under the Policy Coordination Instrument, 2019–23

Program Review	Test Date	Review Date
Board discussion of a PCI request		June 28, 2019
First Review	June 30, 2019	December 15, 2019
Second Review	December 31, 2019	June 15, 2020
Third Review	June 30, 2020	December 15, 2020
Fourth Review	December 31, 2020	June 15, 2021
Fifth Review	June 30, 2021	December 15, 2021
Sixth Review	December 31, 2021	June 15, 2022
Seventh Review	June 30, 2022	December 15, 2022
Eight Review	December 31, 2022	June 15, 2023

Source: IMF staff.

Annex I. Pandemic Scars: Impact and Mitigating Policies

1. **The pandemic may leave lasting wounds in Rwanda's economy.** Economic scarring may manifest itself in persistent increases in poverty and inequality and reductions in potential growth. Human capital could be an important channel for the latter. Learning losses due to school interruptions, lower returns to spending on education due to the lack or low quality of remote learning, and premature youth employment following school dropouts, may result in permanent losses in lifetime earnings and productivity, especially among children from poor households. Women and female-headed households have been hit particularly hard as they were already disproportionally poor, jobless, or employed in the informal sector, relative to men and male-headed households prior to the pandemic. The negative impact on potential growth could be accentuated by the additional human capital depreciation imposed by the pandemic through prolonged unemployment and deteriorating health conditions of productive individuals.

2. **An endogenous growth model is used to assess the impact of human capital scarring.**[1] The model assumes that human capital accumulation declines with depreciation δ^H and increases with previous period schooling (new human capital formation) S at a rate $\omega \in (0,1)$ at which students move into the labor force (human capital diffusion rate) (equation 1). Social spending in health and education (T) affects human capital through its impact on S (equation 2), where $\rho > 0$ is an efficiency parameter, ϕ is the elasticity of human capital to social spending, N is the share of school-age population in that economy, and ξ is the elasticity of new human capital formation to the size of the school-age (student) population.

$$H_{it} = \left(1 - \delta_{it}^{H}\right)H_{it-1} + \omega_{it}S_{it-1} \tag{1}$$

$$S_{it} = (1 - \omega_{it})S_{it-1} + (\rho_{it}T_{it-1})^{\phi}N_{it-1}^{\xi} \tag{2}$$

3. **Changes in four parameters capture the growth impact from economic scarring.** The model baseline was calibrated to replicate the macro-framework under the 4th PCI review. We conjectured that economic scarring accelerates the human capital diffusion rate and human capital depreciation and lowers the elasticity of new human capital formation to education spending and student population. The human capital diffusion rate is expected to increase as schooling interruption and economic hardship lead to a premature transition of students to the labor force. This parameter is constructed as an inverse of the years of schooling and was changed to reflect a decline in expected years of schooling of 6.6 percent relative to the pre-pandemic baseline.[2] In the absence of a specific range over which the other parameters may have varied because of previous shocks, we have looked at alternative scenarios assuming a 50 percent deterioration

[1] The model was developed in Benedek and others (2021) and initially applied to the case of Rwanda in Duarte Lledo and Perrelli (2021). Please refer to both papers for details.

[2] Expected years of schooling is estimated to decline between 0.2-0.5 years from the baseline of 6.9 years, that is between -2.2 to -6.6 percent relative to the baseline (World Bank, forthcoming). This Annex uses the most pessimistic scenario (-6.6 percent decline) in the years of schooling, but key results do not change when using the optimistic scenario

(increase/decrease depending on the parameter) relative to the baseline values assumed in Duarte Lledo and Perrelli (2021) (Table 1). Different scenarios were considered where those changes were either temporary (5 years) or permanent (until 2050) one parameter at a time or all parameters combined at the extreme.

Table 1. Rwanda: Changes in Human Capital Parameters

	Baseline	Scaring	
Human capital diffusion parameter	0.09	0.10	7 percent higher than the baseline
Human capital depreciation	0.05	0.08	50 percent higher than the baseline
Elasticity of new human capital formation w.r.t. social spending	0.54	0.27	50 percent lower than the baseline
Elasticity of new human capital formation w.r.t. student population	0.51	0.26	50 percent lower than the baseline

Source: IMF staff estimates

4. Human capital scarring could have a negative economic impact and widen Rwanda's SDG financing gaps. Except for increases in human capital diffusion (scenarios A-1) which would increase the workforce, the impact would negatively affect Rwanda's per capita income, growth, and debt level the longer and broader the impact of the pandemic on human capital.[3] But even in the more likely event that human capital scars last at most 5 years, their economic impact may still be felt until the end of this decade. In a scenario that combines all shocks temporarily (A-5), growth and public debt are still 0.3 percentage points below and 4 percentage points above their baseline in 2030, respectively. Rwanda's 2030 SDG financing gap would widen further as a result, with human capital scars leading to an increase in additional grant needs of about 1 percentage point relative to the baseline.[4]

Table 2. Rwanda: Dynamic Financing Framework Scenarios

Scenario	SDGs met by	Additional grants per year	Per capita income 2025	Per capita income 2030	Per capita income 2050	Real GDP growth rate 2025	Real GDP growth rate 2030	Real GDP growth rate 2050	Public debt 2025	Public debt 2030	Public debt 2050
A. Post-COVID baseline settings	2048	0	853	1037	3134	7.5	7.2	6.5	76.5	64.4	55.2
A-1. More workforce	2048	0	861	1049	3143	7.5	7.3	6.5	76.0	63.9	55.2
A-2. Spending Elasticity is Halved	2049	0	835	990	2927	6.6	6.8	6.5	78.0	66.7	55.7
A-3. Students Elasticity is Halved	2049	0	845	1017	3023	7.1	7.0	6.5	77.2	65.4	55.5
A-4. Higher Human Capital Depreciation for 2021-2025	2049	0	818	997	2946	6.6	7.2	6.5	79.1	66.0	55.7
A-5. All four shocks together	2049	0	804	953	2830	5.5	6.9	6.5	80.5	68.3	55.9
A-5'. All four shocks together (whole period)	>2050	0	805	877	1242	5.7	4.5	2.1	80.3	73.5	81.4
G. Post-COVID baseline settings with grants	2030	17.6	892	1154	3466	8.7	8.6	6.4	73.7	59.5	55.1
G-5. All four shocks together	2030	18.9	841	1061	3143	6.7	8.4	6.4	77.5	63.0	55.8
G'-5. All four shocks together (whole period)	2030	19.7	844	969	1351	6.9	5.6	2.0	77.2	68.1	80.8

(Note: More workforce scenario assumes years of schooling decline by 6.6%. shocks are applied in the first five years of pandemic (2020-2024) unless otherwise noted.)

[3] Scenarios "A" assess when Rwanda's 2030 SDG will be met if financing needs are not met, while scenarios "G" estimate additional financing needs to meet with grants the SDG by 2030.

[4] Duarte Lledo and Perrelli (2021) applied shocks to only two out of four parameters shocked in this study; but assumed larger reduction in TFP growth. As a result, their estimations of additional grants need under pandemic scarring scenarios are 1–1.5 percent of GDP, comparable to the estimation driven by this study.

5. Five government interventions are considered to reduce the SDG financing gaps widened through pandemic scars (Table 3). They are (i) additional domestic revenue mobilization; (ii) the reallocation of spending to SDG programs resulting from savings and spending efficiencies in non-SDG programs; (iii) a combination of the previous fiscal measures; (iv) policies capable of increasing private sector participation in SDG programs; and (v) a full combination of active policies, including both fiscal measures and policies to attract private financing. Assumptions for each of these scenarios are scaled-up versions of policy measures already envisaged under Rwanda's NST.

Table 3. Rwanda: Assumptions on Policy Measures to Reduce the SDG Financing Gap

	Assumptions
A. Domestic revenue mobilization	Tax revenue to be increased by 5% of GDP over the period between 2024-2029.
B. Spending reallocation to SDGs	While keeping the same level of overall spending as in the baseline, 1) reduce current primary spending on non-SDGs from 11.0% of GDP to 10.0-10.5 % of GDP in 2021-2030 and at 10.5 % after 2030, 2) reduce capital spending on non-SDGs from 4.0 % of GDP to 3.5 % of GDP, 3) Increase public investment efficiency parameter from 0.5 to 0.55-0.8 in 2021-2023 and at 0.8 after 2030, and 4) increase spending efficiency parameter for education and health from 0.3 to 0.33- 0.8 in 2021-2030 and at 0.8 after 2030.
C. Combined fiscal measures	A+B
D. Private sector participation	Private sector financing in infrastructure to be gradually increased from 0.1 % to 2.1% of GDP in 2030. Private sector financing on education and health to be gradually increased from 9.0 % to 9.8% of GDP in 2030.
E. Active policies	A+B+D

6. Government interventions can help mitigate pandemic scars but would not be sufficient to meet the SDGs by the envisaged timeline (Table 4). All policy scenarios would help increase GDP per capita and real GDP growth, partly or fully offsetting the negative impact of pandemic scars. Under the scenario with active policies, which is the combination of domestic revenue mobilization, spending reallocation to SDGs, and private sector participation, per capita income would be 8.1 percent higher and real GDP growth rate and public debt as a share of GDP, 1.9 points above and 4.2 points below the baseline scenario with pandemic scars, respectively. While this is a positive outcome, the simulation made it clear that even with active policies, Rwanda would be still unlikely to meet SDGs by the target year of 2030 as the pandemic poses additional challenges. This result suggests that additional concessional financing is crucial for Rwanda's successful implementation of social and economic reform to meet SDGs.

Table 4. Rwanda: Dynamic Financing Framework, Policy Scenarios

			Per capita income			Real GDP growth rate			Public debt		
Scenario	SDGs met by	Additional grants per year	2025	2030	2050	2025	2030	2050	2025	2030	2050
A-5. All four shocks together	2049	0	804	953	2830	5.5	6.9	6.5	80.5	68.3	55.9
B-5. Domestic revenue mobilization	2044	0	804	954	2876	5.5	7.0	6.6	80.5	68.3	55.8
C-5. Spending reallocation to SDGs	2045	0	810	1001	4217	5.8	8.2	8.3	79.9	65.6	48.9
D-5. Combined fiscal measures	2040	0	810	1004	4313	5.8	8.4	8.3	79.9	65.4	48.7
E-5. Private sector participation	2047	0	808	981	3176	5.9	7.4	7.1	80.1	66.7	54.0
F-5. Active policies	2039	0	815	1030	4900	6.1	8.8	10.0	79.5	64.1	46.1

Annex II. 2019 Article IV Consultation Key Policy Commitments and Implementation

A. Fiscal Policy

1. Adopt a fiscal policy stance that accommodates spending to support the implementation of the National Strategy for Transformation (NST), while maintaining low debt risks.

Status: The PCI approved at the time of the last Article IV introduced the program fiscal rule of a fiscal deficit within the 5-year rolling average ceiling of 5.5 percent of GDP. At the onset of the COVID-19 pandemic, debt started rising rapidly and the risk of debt distress shifted from low to moderate. To accommodate spending needs to mitigate the impact of COVID-19 and allow flexibility in addressing future shocks, the program fiscal rule was suspended in favor of a consolidation path for the fiscal deficit that converges to a debt anchor of 65 percent of GDP. Such level was deemed appropriate to maintain a moderate risk of debt distress. To comply with this fiscal path, authorities have committed to start adopting growth-friendly fiscal consolidation measures to preserve debt sustainability, while supporting the recovery and priorities under the NTS once the crisis abates

2. Bolster domestic revenues over the medium term.

Status: The authorities have made significant headway in costing tax incentives and improving tax compliance, supported by increased use of technology, notwithstanding delays in automating the risk-based verification process for value-added tax (VAT) refund claims. Going forward, domestic revenue mobilization is expected to benefit from the implementation of tax policy and administration measures under Rwanda's medium-term revenue strategy (MTRS) during FY21/22–FY23/24 and a further assessment of new measures for the next five-year NST.

3. Improve public financial management (PFM), notably fiscal risk management and transparency.

Status: Progress in fiscal risk management included the creation of a fiscal risk committee, the publication of fiscal risk statements, and the compilation of a fiscal risk registry. The authorities have also launched SOE health-check assessments, plan to stress-test high-risk SOEs, and are strengthening the legal framework and oversight. Contingent liabilities from public-private partnerships (PPPs) have also been identified and will be quantified, and mitigation measures elaborated. Fiscal transparency has advanced with the migration to GFSM 2014 for quarterly reporting, the expansion of the coverage of fiscal reporting to the central government and local governments, and the compilation of a financial balance sheet for SOEs and the Rwanda Social Security Board (RSSB). There has been progress in improving PFM practices at RSSB through information technology (IT) modernization, but the review of its asset allocation is still pending and is expected to be completed by June 2022.

B. Monetary Policy

4. Strengthen the monetary policy transmission mechanism, deepen financial and capital markets, and improve access to financial services.

Status. The modernization of Rwanda's monetary policy framework continues to benefit from progress in developing the Forecasting and Policy Analysis System (FPAS), including external communication. The transmission mechanism has improved, with short-term rates broadly tracking the policy rate and growing interbank market activity, but transmission to longer-term rates and liquidity forecasting remains a challenge. Steps to deepen money and bond markets include bond reopening, upgrades to the repo market infrastructure, the rollout of the Global Master Repurchase Agreement, and increasing use of reverse repos to meet banks' liquidity demand. Financial inclusion is advancing and is expected to benefit from the increased take-up of digital financial services during the pandemic.

Annex III. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Potential Domestic Risks			
Unexpected shift in the Covid-19 pandemic		High	• Accelerate targeted government fiscal and financial interventions to support domestic businesses (stimulus and safety nets) and the health response to pandemic in line with the Economic Recovery Plan (ERP) • Prioritize public infrastructure projects with high fiscal multipliers and value-for-money. • Strengthen coordination efforts at regional level, particularly at the land borders. • Continue mobilizing the international community to provide support.
***Downside**. The disease proves harder to eradicate requiring more containment efforts and impacting economic activity directly. Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability	High	• Collapse in Rwanda's tourism receipts and other key exports. • Slowdown in inflow of remittances largely due to a fall in the wages and employment of migrant workers abroad. • Key domestic businesses offering services in tourism and related industries, construction and manufacturing face solvency problems.	
***Upside**. Recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine	Low		
Higher frequency and severity of natural disasters related to climate change. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	Medium	Medium/High Reduced output in the agriculture sector, job loss, higher contingency spending to repair damages to infrastructure and higher social spending to mitigate impact on vulnerable.	Include contingency spending plans in fiscal framework and strengthen food security programs.
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship and exacerbate preexisting socioeconomic inequities.	Medium/Low	High Economic uncertainty would deepen and policymaking would be affected resulting in a negative impact on domestic growth, worsen poverty levels and pressure on external and fiscal balances.	• Increase access and benefits, improve targeting of existing social safety nets. • Bring forward measures to create jobs and promote vocational training. • Pursue tax reforms to broaden tax base.
External Risks			
Oversupply and volatility in the oil market. Lower demand keep energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	Low	Medium High production costs from higher oil prices will hurt domestic economic activity and corporate profits.	Ensure strategic fuel reserves are adequate.
Monetary policy normalization in AEs. Causes tightening of external financial conditions and higher risk premia.	Medium	Medium Faster rebound of external demand. Higher borrowing cost. Capital outflow.	• Strengthen data-driven monetary policy framework and MTRS. • Facilitate exports.
Intensified geopolitical tensions and security risks. Cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence.	Medium	High Adverse impact on international trade as demand for exports will fall, hurting domestic growth.	• Diversify the structure of the economy and export sources. • Strengthen regional security surveillance programs.
Cyber-attacks. On critical global infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium/Low	Medium/Low Financial services interruption, data theft or deletion, loss of sensitive data or intellectual property.	Ensure that finacial service providers frequently upgrade their IT systems.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. Please consult the G-RAM operational guidance on the SPR Risk Unit website.

Annex IV. Monetary Policy Framework Implementation

1. The National Bank of Rwanda (BNR) continues to implement its interest rate-based monetary policy framework adopted in January 2019. It consists of a medium-term headline inflation target of 5 percent, with an inflation target band of ±3 percentage points. The transition to a price-based framework aimed at developing a data-driven and forward-looking monetary policy. Despite challenges from high uncertainty and difficulty in timely data collection owing to COVID-19, the monetary policy framework continues to support BNR in assessing the monetary stance, including by informing a 50-basis-point cut in the policy rate at the onset of the pandemic.

2. Developing a Forecasting Policy and Analysis System (FPAS) to support monetary policy formulation has been a priority. Supported by IMF technical assistance (TA), BNR has put in place the key modeling and forecasting tools of the FPAS to improve its analytical capacity and support monetary policy decision-making.[1] BNR started conducting post-Monetary Policy Committee (MPC) meeting outreach in November 2019 and since 2020, its quarterly monetary policy reports include macroeconomic projections. While a fully functioning quarterly core model for forecasting inflation, output, the exchange rate, and the short-term interest rate has been established, further efforts are required to strengthen the nowcasting, the role of sectoral experts in the forecasting process, improve the design and implementation of alternative model scenarios, and refine external communication to better anchor expectations.

3. The modernization also hinges on enhancing monetary operations and deepening financial markets. The monetary policy transmission mechanism is improving, with short-term rates broadly tracking the policy rate. Since 2019, BNR has been using reverse repos to meet banks' liquidity demand. Progress in developing the interbank market include upgrades to the repo market infrastructure, with change of ownership during repo transactions allowed since November 2020, and steps to extend repos to non-bank financial institutions and roll out the Global Master Repurchase Agreement (GMRA), with World Bank TA support. Bond re-openings since 2018 and efforts to broaden the investor base should also contribute to developing the government securities market. However, further strengthening of the monetary policy transmission mechanism is constrained by excess liquidity in the banking system, incomplete transmission to lending rates, inefficient collateral pricing, and liquidity forecasting.[2]

4. To be effectively implemented, the framework requires exchange rate flexibility. Rwanda's exchange rate regime is de facto classified as "crawl-like" arrangement. A market-determined exchange rate and foreign exchange (FX) interventions limited to stemming excessive exchange rate volatility will be supportive of the framework. Going forward, IMF TA could support BNR in identifying steps to develop an open FX market, address FX supply shortages, and gradually reduce the role of BNR in intermediating FX.

[1] MCM/AFE December 2020 TA Report *"Rwanda: Developing A Forecasting and Policy Analysis System (FPAS) at the National Bank of Rwanda"*.

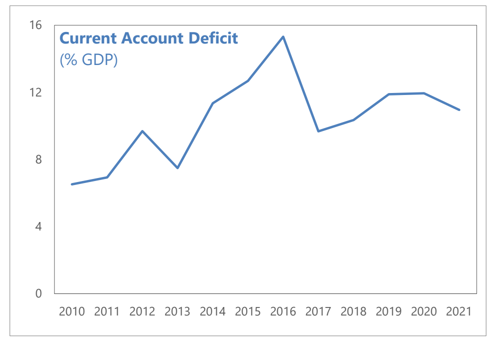
[2] MCM/AFE January 2020 TA Background Paper *"Rwanda Financial Stability Review: Government Debt and Money Markets and Monetary Policy Implementation"*.

Annex V. External Sustainability Assessment

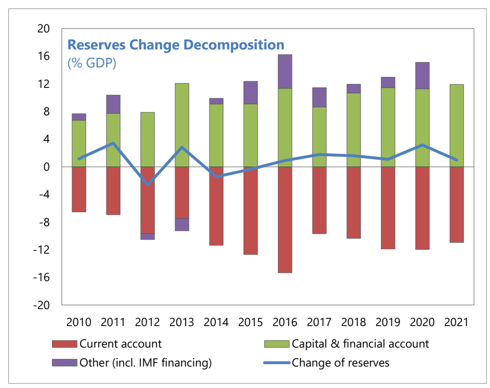
Rwanda's external position in 2021 is estimated to be substantially weaker than implied by fundamentals and desirable policy settings, while international reserves are assessed to be above the adequate level. Allowing more exchange rate flexibility within a forward-looking monetary policy framework remains crucial to absorb external shocks. Post-pandemic fiscal consolidation and structural reforms to further improve the business climate and boost competitiveness would help to bring the current account to a level consistent with fundamentals.

Context

1. The current account deficit in 2021 is estimated to end up at 11 percent of GDP, a small improvement relative to 2020. The trade deficit will remain close to its 2020 level, with the impact of the strong economic recovery on imports offset by a rebound in metals and manufacturing exports. The current account position has been further boosted by very strong remittance growth, as tourism receipts remained weak in the context of the pandemic.

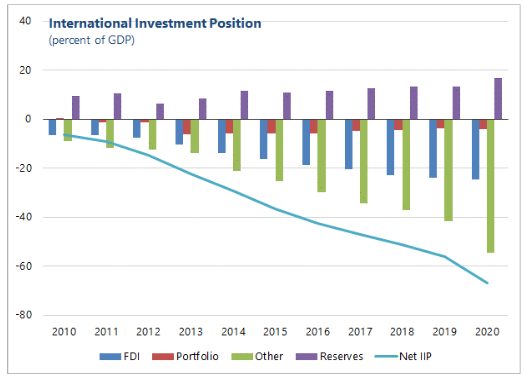


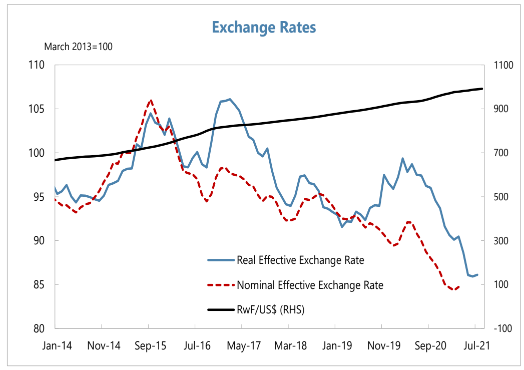
2. Despite the sizable current account deficit, international reserve assets are projected to increase further in 2021, in part reflecting the impact of the SDR allocation. A recovery in FDI and continued strong government external borrowing, along with BNR retaining a large part of the SDR allocation as part of its FX assets, should fully finance the current account deficit and allow a small further build-up of reserves by 2021, bringing them to more than US$1.8 billion by year-end, equivalent to 5.2 months of prospective imports.



3. Amid planned government spending and strong import demand, Rwanda's external position is expected to deteriorate next year, but thereafter it should steadily improve over the medium term. While goods export should remain strong and tourism should start to recover, the current account deficit is expected to widen in 2022, driven by an increase in imports stemming from strong public capital spending and large average y-o-y energy price increases, while the one-off Covid-related impact on remittances would start to wane. In this context, the recent build-up of international reserves would come to a pause, even as the resumption of construction projects and improved prospects for manufacturing attract higher FDI flows. Over the medium term, in the context of the planned fiscal consolidation, the current account deficit should narrow steadily, as export growth remains strong while import growth moderates; this should allow reserve coverage to remain above 4 moths of prospective imports.

External Position Assessment





4. The real effective exchange rate (REER) depreciated, starting in mid-2020 and continuing through 2021. This was supported by the continued steady depreciation of the nominal exchange rate against US dollar and low domestic inflation.

5. The assessment of the REER builds on both the External Balance Assessment for developing and emerging economies (EBA-Lite) and complementary information. The EBA-Lite methodology for Rwanda includes two approaches: the current account (CA) model and the real effective exchange rate (REER) model. Both approaches are based on panel regressions and provide estimated current account and exchange rate "norms" consistent with fundamentals and desired policy settings. Staff tends to view the more structural CA model as generally more reliable, given that the REER model rests on the assumption that the real effective exchange rate remains close to equilibrium on average – an assumption particularly tenuous in Rwanda's case given the shortness of the relevant time series.

6. Staff assesses that the external position in 2021 is substantially weaker than implied by fundamentals and desirable policy settings. The CA model estimates a 2021 (multilaterally consistent) norm for the current account deficit of 7.3 percent of GDP (text table).[1] Comparing this to the cyclically adjusted current account deficit of 12.1 percent of GDP points to a current account gap of -4.8 percentage points of GDP, which (given estimated trade elasticities) translates into an estimated real overvaluation of 23 percent. On the other hand, the REER model indicates that the real exchange rate is close to equilibrium, but as noted above this methodology is less reliable in Rwanda's case.[2]

Results from EBA-lite models, 2019
(in percent of GDP, unless otherwise indicated)

	CA model	REER model
CA-Actual	-11.0%	
Cyclical Contributions (from model)	0.3%	
Cyclically adjusted CA	**-12.1%**	
CA-Norm	-7.5%	
Cyclically adjusted CA Norm	**-7.9%**	
Multilaterally Consistent Cyclically adjusted CA Norm	-7.3%	
CA-Gap	**-4.8%**	
of/which Relative Policy Gap	-0.1%	
Elasticity	-0.21	
REER Gap	**23.0%**	**-3.7%**
CA-Fitted	-6.9%	
Residual	-4.1%	
Natural Disasters and Conflicts	0.7%	

7. Rwanda's International investment position continued to deteriorate through end-2020. By the end of last year, external liabilities, composed of FDI and, especially, debt, amounted to

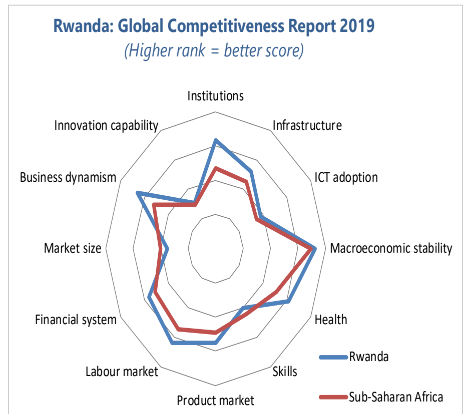
[1] The CA panel regression model compares Rwanda's current cyclically-adjusted account balance with a level implied by the country's macroeconomic fundamentals adjusted for a policy gap—the current account norm. The methodology is outlined in The Revised EBA-Lite Methodology, July 2019.

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

91 percent of GDP, exceeding reserve assets by 67 percentage points of GDP. While a negative IIP position is generally appropriate for a developing country, continuation of these trends over a prolonged period would be cause for concern. Indeed, BOP developments this year suggest that the IIP deterioration has continued, and it can be expected to persist into next year as well. Over the medium term, a narrowing of the current account deficit driven by fiscal consolidation should contribute to a stabilization of Rwanda's net IIP position, and the composition of its external liabilities should also improve as FDI becomes a more important source of external financing.

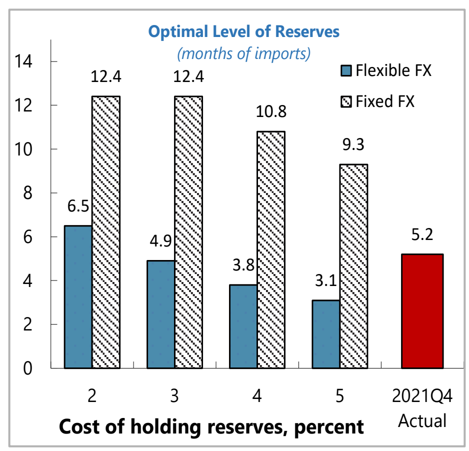
Indicators of Competitiveness

7. Broad indicators suggest Rwanda's competitiveness remains strong but can still improve. Rwanda compares favorably on many sub-indicators relative to its peers, which is also confirmed by the World Economic Forum's 2019 Global Competitiveness Index (GCI).[3] Based on GCI, Rwanda globally ranked 36th out of 141 countries in terms of institutional quality, and 46th in terms of business dynamism. The main area of weakness continues to be labor skills and innovation capability. Market size is an important geographical constraint, which Rwanda is trying to alleviate through an effort to increase regional trade.



Adequacy of International Reserves

9. At end-2021, international reserves are projected at 5.2 months of prospective imports, which is above the adequate level. The Fund's approach to Assessing Reserve Adequacy in Credit Constrained Economies (ARA-CC) indicates an optimal range of 3.8–4.9 months of imports with a flexible exchange rate classification (text chart).[4] Rwanda's economy remains vulnerable to external shocks such as the COVID-19 pandemic's resurgence and commodity price fluctuations given its narrow export base and still significant dependence on external financing by international partners. Maintaining exchange rate flexibility remains crucial to cushion the potential impacts of such external shocks. In sum, staff would continue to consider international reserves in the range of 4.0–5.0 months optimal.[5]



[3] Since the World Economic Forum's Global Competitiveness index is partly based on survey data, there is some uncertainty around point estimates.

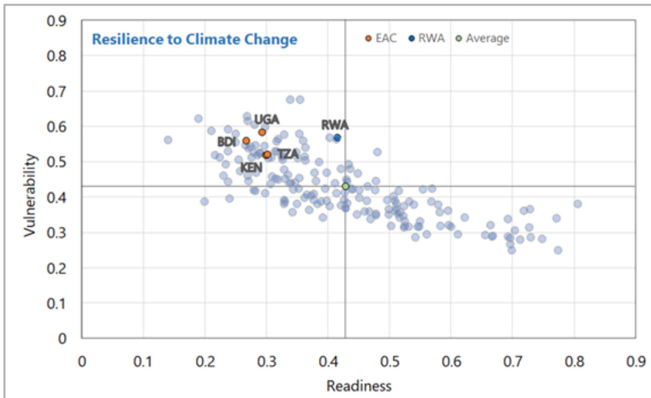
[4] For more details on the ARA-CC approach see IMF Policy Paper, 2014, "Assessing Reserve Adequacy—Specific Proposals." An opportunity cost of holding reserves is assumed to be in the range of 3–4 percent (proxied here by the real return on Rwanda's sovereign 10-year Eurobond).

[5] Given Rwanda's crawl-like exchange rate arrangement, the upper end of the range may be more relevant, with a view to the lower end appropriate as exchange rate flexibility increases.

Annex VI. Climate Change Goals and Financing in Rwanda

1. **Rwanda is highly vulnerable to climate change.** The country's reliance on rainfed agricultural and livestock production, makes it highly exposed to seasonal weather patterns and climate change. Rapid urbanization and depletion of forest and water resources in recent years led to increased vulnerability to flood risks, land degradation, and biodiversity loss.

2. **Climate change goals features prominently in the national development planning.** Rwanda's has committed to reduce Green House Gas emissions by 38 percent compared to its business-as-usual projection under the country's Updated Nationally Determined Contribution (NDC) goals. Rwanda has made impressive progress in the past decade and stands ahead of regional peers in climate change adaptation readiness (Text Chart). Rwanda's NST from 2017–24 has natural resource and environment management as one of the priorities. Enacting the National Environment and Climate Change Policy in 2019, updating NDC goals in 2020, and currently revising the Green Growth and Climate Resilience Strategy are critical steps to support achieving climate resilience.



Source: Notre Dame Global Adaptation Initiative (ND-GAIN).
Note: Scores are from 2019, lines show averages for all countries. Vulnerability measures a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change using six categories: food, water, health, ecosystem service, human habitat, and infrastructure. Readiness measures a country's ability to leverage investments and convert them to adaptation actions using three components: economic readiness, governance readiness, and social readiness.

3. **Rwanda investment needs are high.** Achieving Rwanda's NDC goals are estimated to cost US$11 billion through 2030 of which mitigation and adaptation costs are estimated at US$5.7 and US$5.3 billion, respectively. On the mitigation side planned measures range from: use of hydroelectric generation, use of energy efficient cooktops, proliferation of electric vehicles, greater use of solar, improved livestock feed, prevention of soil erosion and improved livestock management. Enhancing resilience to climate change effects through adaptation measures have been identified in the following priority sectors: water, agriculture, land, forestry, human settlement, transport, health, and mining. The costings associated with these measures while high in absolute terms should not be viewed in isolation from the rest of Rwanda's development agenda as they will have positive spillovers for overall development.[1] For each of the identified measures the SDG crosscutting areas have also been identified by the authorities. Internationally there is a wide range of estimates for adaptation spending due to overlaps with general development spending (IMF Staff Climate Note, forthcoming).

[1] Forthcoming IMF Staff Climate Note makes a further point that economic development itself provides resilience to climate change.

4. Mobilizing financing for these mitigation and adaptation needs will be challenging. To fully meet the NDC goals, financing costs will be more than 10 percent of GDP annually through 2030. Given the limited fiscal space, and other SDG financing challenges, Rwanda will need to draw upon a variety of financing sources and has classified mitigation and adaption measures according to those conditional on external support, and those that are unconditional and reliant on domestic resources with a split of 60 percent and 40 percent, respectively. The government has been active in trying to identify climate finance through public environmental expenditure reviews and its own costing exercises. Rwanda will need to rely heavily on international and private sector support to fully meet its NDC objectives**.** For conditional resources, Rwanda plans to rely on more bilateral and multilateral support, climate finance and other existing market mechanisms, including international cooperative approaches.[2]

5. The Rwanda Green Fund (FONERWA) was established with the role of providing climate finance to address climate and environmental concerns. FONERWA plays a coordinating role for climate change project financing and has to date funded over 45 projects across government. FONERWA is developing additional private sector financial instruments that will offer opportunities to invest in sectors, programs and specific transactions across the public-private spectrum through several bespoke instruments, mechanisms, and platforms, including hybrid funds (traditional grants, loans and credit lines), guarantee fund; leasing and securitization vehicles; green bonds which it plans to issue in 2022, and business incubator and accelerator programs.

[2] Under Article VI of the Paris Agreement, countries can sell the excess over their mitigation targets to others falling short.

Annex VII. Enhancing the Cost-Effectiveness of Fiscal Incentives

1. Fiscal incentives have been central to Rwanda's strategy to attract private investment.[1] Tax incentives and government guarantees, in particular, have been extensively deployed to attract private financing, mostly foreign direct investment (FDI), for private firms—some in Special Economic Zones (SEZs), state-owned enterprises (SOEs) and public-private partnerships (PPPs) in strategic sectors such as air transport, hospitality, infrastructure, and light manufacturing. Fiscal incentives have been advocated in Rwanda to correct for market failures such as under-developed financial markets and address the main hindrances to private investment such as high transport and energy costs, and low agricultural productivity given the country's small, land-locked, and mountainous geography. Their use has been reinforced by Rwanda's limited progress to attract FDI relative to peers, despite significant improvements in business environment. Fiscal incentives have gained greater prominence with the passage of a new Investment Code Law.[2]

Tax Incentives

2. Rwanda offers a wide variety of investment tax incentives under its Investment Code. They include preferential corporate income tax (CIT) rates, tax holidays, exemptions from capital gains tax and customs duties, value-added tax (VAT) refunds, accelerated depreciation allowances, and immigration incentives. Most incentives aim to reduce the tax burden on profits and the generosity of the incentives increase with the size of the project, with large projects more likely to be granted concessions on a discretionary basis. Tax expenditures—revenue forgone by these incentives—amounted to 3.2 percent of GDP in FY19/20, of which 0.4 percent of GDP comes from CIT incentives, a small but growing share.

Rwanda: Tax Expenditures

	(percent of total)			(percent of GDP)		
	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
VAT	60.7	51.5	46.4	1.5	1.5	1.5
Income tax	11.8	12.9	13.6	0.3	0.4	0.4
Import duties	27.5	35.5	40.1	0.7	1.1	1.3
Total	100.0	100.0	100.0	2.4	3.0	3.2
Memo						
Total (RWF billion)	194.3	258.8	304.2			
Total GDP (RWF billion)	8,016	8,718	9,402			

Source : Rwanda authorities.

3. Tax incentives have been further extended during the pandemic under the Manufacture and Build to Recover Program (MBRP). The MBRP was adopted in January 2021 to fast-track private sector investments in manufacturing and construction to support the economic recovery. Tax incentives aim at increasing the production of construction materials, agro-processing, and hygiene and sanitation products. They are temporary and are set to expire in June 2023. The list of incentives includes (i) VAT exemptions on imported construction materials not available in the East African Community and on constructions materials sourced domestically; (ii) tax credits on the 2021

[1] Fiscal incentives are broadly defined to include tax incentives, grants, subsidies, guarantees to attract private financing for private firms, public-private partnerships (PPPs), and state-owned enterprises (SOEs). This note will focus on tax incentives and guarantees.

[2] A new investment code was approved in February 2021 (Law N° 006/2021) replacing the previous one from 2015. The new law expands the list of incentives and eligible investors.

personal and corporate income taxes and on export revenues; and (iii) unspecified incentives for investments in agro-processing, factor construction, greenfield and brownfield projects above a given threshold. Tax expenses for FY 21/22 and FY 22/23 are estimated at 0.17 and 0.14 percent of GDP, respectively.

4. Cost-effective tax incentives are well-targeted, designed and transparent (IMF, 2015).[3] Tax incentives targeted at sectors producing for domestic markets or extractive industries generally have less impact than those geared toward export-oriented sectors subject to mobile capital. Tax incentives that lower the cost of investment (e.g., accelerated depreciation allowances, tax credits) are often to be preferred over those that are profit-based (e.g., tax holidays, exemptions, preferential rates). The former increase the number of profitable projects at the margin, thus generating investments that would not otherwise be made, while the latter may forgo revenue by making viable projects even more profitable. To be transparent, they should be granted based on established laws, vetted by the Ministry of Finance and Economic Planning, and their fiscal costs subject to annual tax-expenditure reviews.

5. Tax incentives in Rwanda have limited impact and to be cost-effective they should be better targeted and managed. Rwanda's redundancy ratio, the amount of investment that would have occurred without tax incentives, has been shown to be 98 percent.[4] A review of the 2015 Investment Code found that most tax incentives benefitted profitable firms that would have undertaken the investment anyway.[5] Several tax incentives target extractive industries and are profit-based, long-lasting, and their impact is not regularly assessed. On the other hand, their transparency has increased since 2019 through the publication of annual tax expense reports. They target mainly export-oriented firms, have clear sunset clauses, and aim at reducing the cost of capital. Under their medium-term revenue strategy (MTRS), the authorities are contemplating streamlining tax incentives as part of a comprehensive review of the CIT system aimed at enhancing Rwanda's international competitiveness. Reforms will consist in (i) reducing the CIT rate to 20 percent; (ii) full expensing for capital expenditure; (v) indefinite carry forward of losses; and (vi) the introduction of a minimum alternative tax. These reforms are currently envisaged as part of the MTRS.

Government Guarantees

6. Rwanda has a sizeable portfolio of loan guarantees extended to SOEs. They stand at about 4.1 percent of GDP broadly split between domestic and external loan guarantees to SOEs–(Rwanda Fiscal Risk Statement FY 20/21and FY21/22), in joint ventures with private companies in the infrastructure, hospitality, and air transportation sectors. They are sizeable relative to peers such as

[3] Tax incentives refer here to special tax provisions granted to investment projects or firms. They can take the form of tax holidays, exemptions, preferential tax rates or targeted allowances.

[4] Sebastian, J. 2014 "*Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications*", Investment Climate Advisory Services, The World Bank Group.

[5] Shepherd and Twun (2018).

Kenya, Uganda, and Tanzania, where government guarantees as of end-2020 stood at less than 1 percent of GDP.

7. Enhancing the cost-effectiveness of guarantees hinges on mitigating their fiscal risk. When extended to multiple beneficiaries, they will be less costly than subsidies, which are individually provided, as not all guarantees are likely to be called (Winpenny 2005). Minimizing the likelihood of guarantees being called will therefore be critical for their cost-effectiveness. Targeting only projects expected to generate positive returns and avoiding moral hazard by beneficiaries is key. To contain moral hazard, guarantees should be designed to cover risks the private sector cannot control, diversify away or insure against and require deductibles, collateral payments, or risk-based fees (Hemming 2006). Mitigating fiscal risks from guarantees also requires effective management. To manage guarantees effectively, governments need to have a complete understanding of their portfolio of guarantees and associated risks; develop tools and techniques for evaluating guarantee proposals; consider appropriate risk mitigation measures; and adopt suitable budgeting, accounting, and disclosure (IMF 2017).

8. Better risk assessment and limits would make guarantees more cost-effective in Rwanda. As the main beneficiaries of government guarantees, SOEs should be subject to periodic risk assessments. With support from IMF TA and toolkits (SOE health check and stress tests), such assessments started to be conducted in the last fiscal year and reported in annual fiscal risk statements submitted with the budget. As most SOEs are structured as holding companies with multiple subsidiaries that are often closely linked to private companies and SOE subsidiaries in other sectors, it will be critical to extend these exercises to SOE subsidiaries for better risk quantification and mitigation. The regular and timely publication of audited financial statements for these companies will be an important pre-requisite. Greater reliance on risk-sharing mechanisms such as deductibles could also defray some of the costs. Setting annual legal limits for the overall guarantee portfolio and regularly updating the fiscal risk registry and statement with the likelihood of newly contracted guarantees will help tighten the approval process of new guarantees and manage government exposure.[6]

PPPs

9. PPPs in Rwanda also benefit from tax incentives and guarantees.[7] To date, the government has signed 58 PPP agreements amounting to about more than US$1.8 billion (17.5 percent of GDP) of which 93 percent in the energy sector. Tax incentives target firms in

[6] The issuance of guarantees is governed by Rwanda's Organic Budget Law, which does not limit their total value.

[7] PPPs refer to long-term arrangements under which the private sector is responsible for project financing, design, implementation, and operation and can recover the investment by charging fees to customers or to the government or a combination. Fiscal incentives take the form of capital grants, equity, or debt injections (during project implementation) and shadow tolls or subsidies and tax incentives (during project operations) as well as loan, exchange rate, revenue guarantees.

transport, logistics, ICT, energy, and affordable housing.[8] PPPs to date have only been extended payment guarantees amounting to about RWF 176 billion (1.6 percent of GDP).[9]

De-Risking Mechanisms

10. Blending arrangements are increasingly used to reduce the costs of fiscal incentives (IMF 2021). They do so by shifting part of the costs and risks to a third party, which is usually a development finance institution. Under such arrangements, concessional financing from donors is used along with public commercial finance to catalyze private commercial finance. The blending paradigm features a more explicit recognition that some projects may be profitable for the private sector only if they receive some form of subsidy, which will result in outright "losses" for donors.

11. Rwanda is pursuing blending arrangements through the Compact with Africa Initiative (CwA). Blending arrangements have targeted mostly private investments in affordable housing and agriculture with support from development partners by enhancing access to affordable financing.

- ***Affordable Housing*.** Lack of access to mortgage financing by constraining demand has been identified as an obstacle to private investment in the affordable housing sector in Rwanda (IFC, 2019). With support from the World Bank (US$150 million), the government has set up an affordable housing scheme managed by the Rwanda Development Bank (BRD), whereby BRD on-lends funds at subsidized rates to participating financial institutions, to be channelled at affordable long-term rates.
- ***Agriculture*.** Agricultural finance is an area of special concern. Credit to agriculture is limited and the penetration of insurance is minimal. Bank aversion to lending to agriculture firms can be explained by their lack of collateral and their high exposure to climate events. To overcome these constraints, with support from the World Bank, USAID, and AfDB, the Rwanda Agriculture De-Risking and Financing Facility (RWADEFF) has been developed to strengthen the linkage between credit and agriculture insurance.

[8] See the RDB website for a complete list of incentives by sector.

[9] No loans or demand/revenue guarantees have been reported to be extended to PPPs to date

Annex VIII. Capacity Development Strategy

Rwanda is a high-intensity technical assistance (TA) user with relatively strong institutional capacity and a good track record of implementing TA recommendations. Capacity development (CD) efforts reflect the authorities' TA appetite and IMF policy engagement with Rwanda under the Policy Coordination Instrument (PCI). TA focuses on the main areas of public financial management (PFM), domestic revenue mobilization, financial sector supervision, and implementation of the forward-looking monetary policy framework.

1. Public Financial Management.

- ***Objectives.*** Improve fiscal transparency and accountability; enhance the coverage and quality of fiscal reporting; strengthen the identification, monitoring, and management of fiscal risks; develop performance-based budgeting (PBB), improve public investment management and PFM laws and institutions.
- ***Past TA.*** Support was provided on strengthening the analysis, reporting and management of fiscal risks from state-owned enterprises (SOEs), including through a follow-up Fiscal Transparency Evaluation (FTE) mission. Recent TA helped MINECOFIN model the macro-fiscal impact of COVID-19 by producing macro-fiscal scenarios aimed at supporting policymaking and fiscal risk management. Other CD activities focused on revamping the Organic Law on State Finances and Property and helping with its legal drafting; developing PBB;[1] refining the citizens' guide to the budget; and enhancing financial reporting through the implementation of IPSAS accrual standards.[2] There has also been progress in digitalizing PFM, including through the rollout of the IFMIS to local governments. To further fiscal transparency, TA missions provided assistance with improving the quality, coverage, and frequency of fiscal data, producing fiscal data in GFSM 2014, and expanding the coverage of public sector debt statistics. Rwanda also benefited from a Sustainable Development Goals (SDGs) costing mission and an in-depth analysis of SDG financing needs.
- ***Planned TA.*** TA will continue to support the authorities on strengthening the analysis and management of fiscal risks from SOEs and public-private partnerships (PPPs). Planned missions focus on expanding the scope of SOEs covered by the health check and stress tests, and introducing non-financial performance metrics for SOEs. The upcoming Public Investment Management Assessment (PIMA) mission will inform spending rationalization measures to support the post-pandemic consolidation. Additionaly, support will be provided to continue improving the quality, coverage, frequency, and timeliness of fiscal data and public sector debt statistics. TA will also continue to assist MINECOFIN on improving the macro-fiscal framework (including through building a Rwandan Financial Programing and Policies (FPP) training capacity); strengthening the medium-term budget framework and PBB; and implementing the IPSAS roadmap.

[1] Rwanda aims to publish the completed PBBs for all 16 sectors as an annex to the FY21/22 Finance Law.

[2] A six-year roadmap was developed for implementing IPSAS from FY19/20.

2. Tax Policy and Revenue Administration.

- ***Objectives***. Improve domestic revenue mobilization by strengthening core tax and customs administration functions and improving tax and non-tax revenue policy.
- ***Past TA.*** TA was provided to the Rwanda Revenue Authority (RRA) to undertake diagnostic reviews of tax and customs administration, with results informing the design of Rwanda's Medium-Term Revenue Strategy (MTRS). Dedicated tax policy and revenue administration TA missions, including support in updating the Value Added Tax (VAT) gap model, aimed at further developing and refining the MTRS. Training was also provided to improve post-clearance audit; strengthen revenue administrations' capacity to audit financial institutions; and develop capacity in data science and big data analytics in customs.
- ***Planned TA.*** Follow-up TA will assist the authorities with finalizing and implementing the MTRS to help support fiscal consolidation post-pandemic.[3] Training will continue to fine-tune the VAT gap model and VAT refund forecasting. Other CD activities will include TA on developing revenue administrations' capacity to audit the telecommunications and manufacturing sectors and implement risk-based enforcement; strengthening the control of special regimes and exemptions; improving tax compliance through a review of the compliance improvement plan and penalty regime; and developing mirror data analysis using trade statistics. IT systems functionality and capability will also be assessed to further the modernization of revenue administrations

3. Monetary Policy.

- ***Objectives***. Strengthen the capacity of BNR to implement monetary policy effectively, including through improved analytical and forecasting capabilities.
- ***Past TA.*** Support was provided to BNR on establishing a Forecasting Policy and Analysis System (FPAS), with training on implementing forecasting tools, preparing macroeconomic projections, and designing scenarios. Recent TA assisted the authorities with developing inflation projections incorporating the impact of COVID-19.
- ***Planned TA.*** BNR will continue to receive FPAS TA, with missions also focusing on external communication going forward. Additionally, TA is planned to strengthen BNR's capacity to implement FX operations effectively, consistent with the price-based monetary policy framework. To this effect, an AFE mission is currently planned for early 2022.

4. Financial Sector Supervision and Regulation.

- ***Objectives.*** Support the implementation of Basel II/III for banks; strengthen risk-based supervision, stress-testing, financial market infrastructure, and financial safety net and crisis preparedness and management.

[3] The mission will review progress on implementing the MTRS and hold preliminary discussions on the workplan for re-writing the Income tax Act for establishing a global income tax regime.

- ***Past TA.*** A Financial Sector Stability Review (FSSR) mission conducted a diagnostic review of key financial stability risks in Rwanda in January 2020. BNR also received TA on building operational and cybersecurity resilience in banks; strengthening risk-based supervision (RBS) and stress-testing processes (including to assess the impact of COVID-19); improving the liquidity and capital assessment framework for banks (ILAAP/ICAAP); and strengthening implementation of Basel core principles and the International Financial Reporting Standards (IFRS) for microfinance institutions.
- ***Planned TA.*** Support will be provided in continuity with past CD and consistent with the FSSR TA roadmap, with a focus on (i) improving financial sector analysis and stress-testing; and (ii) strengthening banking supervision and regulation, including through training on risk-based supervision (RBS) implementation, ICAAP review and validation, LTX covering bank supervision, and capacity building in operational resilience and cybersecurity. TA is also planned on developing the payment system and financial market infrastructure; and strenghtening the special resolution regime and crisis preparedness framework. Other CD activities are expected to focus on unwinding COVID-19 measures for banks; establishing an effective macroprudential policy framework; strengthening RBS for capital market firms, and buttressing the implementation of Simplified Solvency II approach to insurance supervision.

Appendix I. Letter of Intent

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Kigali, December 20, 2021

Dear Ms. Georgieva:

The COVID-19 pandemic continues to impact our economy, with a third wave of infections prompting a two-week lockdown in Kigali in July 2021. Economic activity is showing signs of recovery supported by a pickup in our vaccination rate and continued government support to hard-hit businesses and vulnerable households. We expect growth to reach 10.2 percent in 2021 compared to the 3.4 growth contraction observed in 2020. Rwanda has achieved its COVID-19 vaccination target of covering 30 percent of the total population with two doses in December 2021, however, with a significant portion of our population yet to be vaccinated and the emergence of a new variant of concern, the prospect of repeated COVID-19 waves remains high and continues to pose risks to the economic recovery.

In addition, rising commodity prices would weigh on the external and fiscal accounts. The fiscal and debt outlook remains challenging on the back of high spending needs to cushion the economic and social impact of the pandemic and the need to support the nascent economic recovery.

To support social sector projects that were delayed by the pandemic and to respond to the damage caused by the recent volcanic eruption near the border with the Democratic Republic of the Congo, we intend to use a significant portion of our recent SDR allocation to finance the related spending needs this fiscal year. Hence, we request to reset the end-December 2021 fiscal quantitative target to accommodate these spending needs.

We will ensure transparency and accountability in the use of the SDR allocation as part of our annual budget execution report and independent audit of public accounts by the Auditor General. A Memorandum of Understanding (MoU) specifying the institutional arrangement governing the use and treatment of the SDR allocation is expected to be signed between the National Bank of Rwanda (BNR) and the Ministry of Finance and Economic Planning (MINECOFIN), which will be backed by a provision in the Finance Law amending the FY 21/22 budget to be approved in early 2022 establishing MINECOFIN as the owner and beneficiary of the 2021 SDR allocation, thus allowing their use for budget financing.

We are committed to the policies and reforms to meet the objectives of the PCI, including identifying credible revenue and spending measures to support a growth-friendly fiscal consolidation once the crisis abates, while also advancing the reforms to remediate emerging fiscal risks. Despite the difficult environment, we met all end-June quantitative targets. However, we missed three reform targets through end-November 2021. The reform target related to the automation of the risk-based verification of VAT refunds was met with a one-month delay. The other two reform targets, namely, the recruitment of an advisory firm by the Rwanda Social Security Board (RSSB) to review its asset allocation and the legal assessment to identify gaps in the regulatory framework for true repo ahead of Global Master Repurchase Agreement, faced delays in the procurement process and have been reset. Consistent with our program pillars, we are committed to maintaining the reform momentum in mobilizing domestic revenue, enhancing fiscal transparency, and strengthening our monetary policy framework. This will lay the foundation for a sustained, inclusive, and resilient economic recovery and accelerate progress towards achieving our Sustainable Development Goals.

The Program Statement attached to this Letter of Intent describes recent performance and sets out the economic policies that the Government and the National Bank of Rwanda intend to implement under the PCI to meet the program's objectives, including policies to help us exit the crisis, minimize the scars from the pandemic, and put public finances on a sustainable footing through a fiscal consolidation strategy grounded in high-quality measures. The implementation of our program will continue to be monitored through quantitative, standard continuous, and reform targets, and a monetary policy consultation clause, as described in the attached Program Statement and Technical Memorandum of Understanding (TMU). The PCI reviews will continue to be completed on a semi-annual basis to assess program implementation progress and reach understandings on additional measures needed to achieve its objectives. We will consult with the IMF on the adoption of such measures and in advance of any revisions to policies included in this Program Statement in accordance with the IMF's policies on consultations. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the attached TMU, or at the IMF's request.

We agree to the publication of this Letter of Intent and its attachments, as well as the related Staff Report, on the IMF's website.

Sincerely yours,

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

Attachments (2)

I. Program Statement

II. Technical Memorandum of Understanding

Attachment I. Program Statement

Kigali, Rwanda, December 20, 2021

I. CONTEXT

1. This Program Statement describes the recent economic developments as well as the economic priorities and objectives of the Rwandan authorities in the context of the Policy Coordination Instrument (PCI). The program continues to aim at maintaining macroeconomic stability and advance our reform agenda. As the pandemic continues, the focus remains in supporting the economy through the crisis while preserving macroeconomic and financial stability, managing remaining risks, and protecting vulnerable groups.

II. RECENT DEVELOPMENTS

2. The COVID-19 pandemic continues to affect our population and livelihood. A third wave of infections led to the reinstitution of a two-week lockdown in July in the City of Kigali and in districts with high infection rates. While the lockdown has been lifted since then, some movement restrictions continue to apply. Public offices and transportation and private businesses continue to operate below full capacity and the size of gatherings is still limited as COVID-19 remains a serious concern. The pandemic is also a threat to the social and economic gains made over the last two decades, including our progress towards meeting the Sustainable Development Goals (SDGs), with adverse ramifications for poverty reduction, human capital accumulation, and potential growth. School closures led to educational disruptions, which, if not addressed, may lead to permanent declines in expected years of schooling and lifetime earnings and reduce the country's growth potential.

3. Economic activity is staging a recovery. After contracting by 3.4 percent y/y in 2020, real GDP recorded an increase of 11.6 percent y/y in 2021H1, with agriculture, industry, and services growing by 7.0, 19.0, and 10.8 percent y/y, respectively, albeit from a very low base. While manufacturing, construction, and trade and transport sectors grew by 15.2, 22.5, and 15.0 percent y/y, respectively, hotels and restaurants sector contracted by 16.4 percent y/y. Economic activity is resuming with the gradual lifting of restrictions, thanks to accelerated vaccination, government support, and the recovery in global demand. However, this growth could be adversely affected by developments in regions where the vaccination rate remains low.

4. We continued to take action to contain the COVID-19 pandemic, support the recovery, and minimize scarring.

- **Vaccination.** The vaccination strategy is prioritizing districts with high infection rates, including the capital, Kigali. Coupled with an accelerated vaccine rollout since July, this strategy has helped in keeping infections low. We have achieved our COVID-19 vaccination target of covering 30 percent of the total population with two doses in December 2021. As of December 16, 54.6 percent of the population has received at least one dose of COVID-19 vaccine, while 34.7 percent is fully vaccinated, which includes 99 percent of adult population in Kigali. Our overall vaccination strategy continues to target the inoculation of 70 percent of the population by December 2022, absent vaccine supply and access issues. Recently, the eligibility for vaccination has been expanded to children of 12 years and above and the Ministry of Health is working with parents and schools to ensure all are vaccinated. We continue to finance our vaccination campaign through grants and concessional loans. We are also engaging with private firms and development partners to become one of the regional hubs for the manufacturing COVID-19 vaccines.

- **Families.** We scaled up social programs, including emergency transfers, public works program, and direct support to protect the most vulnerable population. We also implemented remote learning programs to mitigate learning losses and door-to-door food distribution to children under two years of age, pregnant women, and lactating mothers from poorer families through the nutrition-sensitive direct support program to tackle food insecurity. To limit the impact of rising international oil prices on living standards already depressed by the COVID-19 outbreak, we have temporarily reduced the tax levy on fuels to stabilize pump prices. We are committed to end this subsidy by end-June 2022.
- **Firms.** We are about to launch the second phase of the Economic Recovery Fund (ERF-2) which introduces a new investment window focused on firms in agro-processing, construction, and light manufacturing and their supply chains, as well as scaled-up support to microbusinesses. This will inject US$250 million in fresh capital over the next three years. To accelerate the recovery and to fast-track investments in manufacturing and construction sectors where activity has started to pick up, we launched in January 2021, the Manufacture and Build to Recover Program (MBRP). MBRP provides tax incentives linked to key performance indicators and is set to expire in June 2023. So far, 56 companies applied and were approved under the program, of which 5 companies have started claiming tax exemptions upon new investments.
- **Financial Sector**. The guideline on treatment of IFRS 9 regulatory capital and relief measures issued in June 2020 to limit the impact of the COVID-19 pandemic expired in September 2021. Going forward, banks will be required to return to the regulatory requirements for classification of restructured loans (so that restructured loans in which principal and interest of more than 90 days will be treated as non-performing) as well as to the limit of renegotiating a loan twice during its lifetime. However, we will continue to closely assess the recovery of sectors and borrowers hardest hit by the pandemic and deploy appropriately targeted and time-bound support measures whenever deemed necessary to prevent large scale insolvencies, while at the same time, ensuring financial stability.

5. **The fiscal deficit was lower than projected in the second half of FY20/21.** Despite higher-than-expected interest payments due to increase in the interest rates on domestic securities, the fiscal balance improved on the back of revenue overperformance driven by income tax collection and the under-execution of capital spending, reflecting delayed disbursement of donor funds for some of these projects. Despite the lower deficit, domestic financing, and accounts payable increased owing to delayed budget support disbursements by donors.

6. Headline inflation increased by 1.0 percent y/y in November. Inflation was in negative territory between May–September owing to low food prices driven by good domestic agricultural production and the base effect from the pandemic-related transport price hike in 2020. The Government's support, through a reduction on fuel levies to temporarily stabilize the pump price, has helped to limit the pass-through from the ongoing increase in international oil prices. Headline inflation remained subdued but was back to positive territory at 0.6 percent y/y in October compared to –0.9 percent y/y in the previous month. Headline inflation in November was driven by education, hotels and restaurants, and transports, where prices increased by 19.2, 3.9, and 3.8 percent y/y, respectively.

7. The financial sector has been resilient, but vulnerabilities remain. The banking sector continues to be profitable and maintains sufficient capital and liquidity buffers above the minimum regulatory requirements. The stability of the banking sector is mainly anchored on fiscal, monetary, and regulatory policy measures instituted to mitigate the impact of the pandemic on the financial sector and the economy at large. Furthermore, the regulatory reforms and economic performance prior to the pandemic placed banks in a strong position to cope with adverse economic outcomes. As of end-September 2021, the Capital Adequacy Ratio (CAR) stood at 22.2 percent while the Liquidity Coverage Ratio (LCR) stood at 221.4 percent, well above the minimum prudential requirements of 15 and 100 percent, respectively. Similarly, the microfinance institutions (MFIs) sector's CAR stood at 36 percent against the 15 percent minimum requirement, while the liquidity ratio stood at 105.1 percent against the 30 percent minimum requirement. The insurance sector remained resilient, with the aggregate solvency ratio of private insurers standing at 107 percent (against 100 percent prudential minimum requirement). The non-performing loans (NPLs) ratio for banks declined from 6.6 percent in March 2021 to 5.7 percent in June 2021 and 5.1 percent in September 2021, mainly due to the growth in gross loans. In nominal terms, NPLs increased y/y by 14.5 percent to RWF 172 billion in September 2021 from RWF 142 billion in September 2020, largely in economic sectors that were most affected by the pandemic, including hotels and commercial real estate. There has been a steady improvement in the performance of loans restructured in response to the pandemic. As at end September 2021, COVID restructured loans represented 23.2 percent of gross loans and only 22.8 percent of these were still under moratorium down from 40.9 percent in March 2021.

8. The trade deficit widened in January–September 2021. Exports (excluding gold and re-exports) increased by 41.3 percent y/y in January–September 2021, mostly driven by receipts from mining and higher commodity prices. Imports (excluding gold and re-exports) rose by 10.5 percent y/y over the same period, driven by strong public capital spending, increased demand for capital and intermediate goods, and higher imported food prices. Foreign exchange reserves stood at 5.5 months of import cover as of end-September. The Rwandan franc depreciated against the US dollar by 2.6 percent as of end-September 2021 since the beginning of the year. Foreign exchange (FX) sales by the National Bank of Rwanda (BNR) to banks stood at US$165 million in 2021H1, thus recording a 32 percent y/y increase as import demand picked up with the economic recovery.

9. We successfully issued a new Eurobond in August 2021. We raised US$620 million through the issuance of a 10-year Eurobond to buy back 85 percent of an outstanding US$400 million Eurobond maturing in 2023, retiring expensive commercial debt, and financing priority investment projects to support the economic recovery and build climate resilience. The bond attracted strong investors' demand as it was oversubscribed by almost 3 times and priced at 5.5 percent, which is below the 2013 Eurobond rate of 6.6 percent.

10. We expect the recent SDR allocation to be used for budget financing. Rwanda received its SDR allocation share of US$219 million (1.9 percent of GDP) in August. A Memorandum of Understanding (MoU) specifying the institutional arrangement governing the use and treatment of the 2021 SDR allocation will be signed between the BNR and the Ministry of Finance and Economic Planning (MINECOFIN). The revision of the Finance Law for the revised FY 21/22 budget in early 2022 will establish the latter as the owner and beneficiary of the 2021 SDR allocation thus allowing their use for budget financing.

Program Performance

11. All quantitative targets through end-June 2021 were met but three reform targets through end-November 2021 faced delays. Quantitative targets (QTs) and standard continuous targets were met. The monetary policy consultation clause (MPCC) was also observed. As for reform targets (RTs), BNR successfully introduced the E-Sub platform for issuing government securities electronically on June 4, with transactions initially performed by BNR staff. The system was further deployed to other investors in August and is currently running. The Rwanda Social Security Board (RSSB) faced delays in the procurement process to recruit an advisory firm to review its asset allocation and such firm has yet to be selected. We expect this to be completed by end-January 2022. Delays in the recruitment of an external consultant also related to our procurement have prevented a legal assessment of the regulatory framework for true repo that would inform the Global Master Repurchase Agreement (GMRA) rollout. We expect the latter to be finalized by end-March 2022. The reform target on the automation of the risk-based verification of VAT refunds was completed with a one-month delay in November 2021.

III. OUTLOOK AND POLICIES

A. Outlook

12. The economic recovery is expected to continue. Real GDP growth is projected at 10.2 percent y/y in 2021 on the back of a strong performance in 2021H1, the recent acceleration of vaccination, the pickup in external demand, continued government support, and base effects. Growth will be driven by agriculture reflecting a good food crop performance, continued recovery in the industry sector, particularly in mining (due to rising commodity prices), and resumption of construction activities. The services sector has started to recover with the gradually declining intensity of pandemic restrictions and re-opening of almost all activities under the sector and is expected to reach the pre-covid level in 2022. However, downside risks to the outlook remain elevated due to uncertainties surrounding the duration of the pandemic and availability of vaccines.

13. Inflationary pressures should remain subdued this year and are projected to increase in 2022. Headline inflation y-o-y is projected to increase in the fourth quarter, but the 12-month average is expected to be below the lower bound of BNR's tolerance band in 2021 owing to low food prices driven by good domestic agricultural production, measures to stabilize pump prices, and the base effect from the pandemic-related transport price hike in 2020. In 2022, inflation is projected to pick up and reach the benchmark level, driven by the increase in domestic activity, global demand, and commodity prices. Pressures on core inflation are expected to come from domestic costs driven by increasing domestic economic activity, as well as imported costs in the first half of 2022 as global demand picks up. Food and energy inflation will be affected by increasing international food and oil prices, respectively.

14. The current account balance is expected to worsen temporarily in 2022 and 2023 and improve thereafter. The current account deficit (CAD) is projected to widen to 11.5 percent of GDP in 2022, up from the 11 in 2021 percent, despite the projected recovery in exports receipts from travel and tourism, driven by higher oil prices and increased imports of capital and intermediate goods as economic activity resumes. The CAD is projected to narrow in the medium term on the back of increased domestic savings from the envisaged fiscal consolidation, economic diversification, and productivity-enhancing structural reforms. This CAD will be financed mainly through foreign direct investment (FDI) and concessional loans to the government. FDI is projected to grow at faster pace and increase its share in the financial account balance. Reserves will cover 5.2 months of imports in 2021 and remain above 4 months of imports in the medium term.

B. Fiscal Policies

15. Our near-term fiscal strategy remains geared towards containing the spread of COVID-19 and mitigating its impact, further supported by the 2021 SDR allocation. Our budget framework continues to accommodate COVID-19-related spending, including the cost of the vaccine rollout, education, and health outlays to mitigate pandemic scars on human capital, and support to private investment under ERF-2 and to distressed state-owned enterprises (SOEs). We aim to use about 70 percent of the SDR allocation (1.9 percent of GDP) to supplement our efforts in FY21/22. About 25 percent of which (0.4 percent of GDP) will be used to temporarily increase recurrent spending on social protection and in retrofitting public offices to prevent the spread of the virus as civil servants return to in-person work. About 45 percent (0.9 percent of GDP) of the SDR allocation will be used in capital spending to execute delayed high-quality investment projects in targeted social sectors and to repair infrastructure damages by a recent volcanic eruption near the border with the Democratic Republic of the Congo. We will retain the remainder 30 percent of the allocation (0.6 percent of GDP) as reserves to be used in retiring the remaining 2013 Eurobond amount maturing in 2023.

16. We are committed to transparency and accountability in the use of the SDR allocation. We will disclose any relevant information and guarantee the sound management and reporting of the use of SDRs through quarterly and annual budget execution reports and in the audited financial reports of the auditor general. We are committed to making any SDR-financed spending temporary and well-timed.

17. While the additional spending to meet the urgent pandemic needs is expected to widen the fiscal deficit in FY21/22, the previously agreed fiscal consolidation path will be broadly maintained. The overall deficit in FY21/22 is projected to reach 9.1 percent of GDP (0.5 percentage points of GDP higher than that agreed under the 4th PCI review). Notwithstanding the stronger adjustment expected at the start of the projection horizon, we continue to project a fiscal consolidation path consistent with that agreed under the 4th PCI review given that the one-off nature of the additional spending in FY21/22 and the remaining COVID-19-related spending being gradually phased-off over the next three fiscal years (FY 21/22–FY 23/24). The debt-to-GDP ratio is expected to converge to the anchor of 65 percent by FY 27/28.

18. We continue to make progress in designing a credible and growth-friendly fiscal consolidation strategy. We are committed to announcing and legislating underlying measures before the expiration of the PCI to support the credibility of our fiscal consolidation strategy. To this effect, we plan to present, as part of the FY 22/23 budget, domestic revenue mobilization (DRM) measures drawing from our medium-term revenue strategy and spending rationalization identified during our forthcoming national planning and budget consultation process as follows.

- **DRM.** We completed consultations with key government and private sector stakeholders on the Medium-Term Revenue Strategy (MTRS) that will cover the period from FY 21/22 to FY 23/24. The strategy was submitted to Cabinet and is expected to be approved by end-January 2022 (proposed new RT). Our MTRS implementation will be supported by the newly created Tax Policy Directorate. Tax policy and administration measures under the MTRS are expected to yield 1 percent of GDP and to start to become effective with the FY2022/23 at the latest. A draft law proposing revisions in the personal and corporate income taxes is being discussed in Parliament and a draft law revising the current value-added tax is awaiting Cabinet approval. On the administration side, all measures envisaged for this year have been incorporated in Rwanda's Revenue Authority (RRA) FY 21/22 action plan. RRA has also hired a consultant to advise on how to align RRA's strategic plan with the MTRS. We plan to conduct a first review of the MTRS implementation by end-December 2022 (proposed new RT) and prior to the MTRS expiration – with support from the IMF and other development partners – to conduct a full evaluation of the strategy and to identify additional DRM measures to be implemented in the subsequent period.
- **Spending rationalization**. We will rely on our forthcoming national planning and budget consultation processes and public investment committee (PIC) to identify spending rationalization measures over broad economic categories. At the planning stage, MINECOFIN in collaboration with other line ministries will undertake an analysis of key priority and rationalization areas considering medium-term macroeconomic projections and sectoral strategies. The outcome from this analytical work will form the basis for an outlook paper to be finalized by end-2021, which will orient line ministries and other government agencies in their submission of priority and non-priority spending to MINECOFIN at the budget consultation stage. Priority spending will be protected at the budget execution stage should revenues or other source of finance fail to materialize. Spending rationalization measures in broad economic categories will be outlined at the end as part of our budget

framework paper with more specific measures to be announced as part of FY 22/23 budget law. Special attention will be given to the potential for achieving cost-savings and efficiency gains. This would entail (i) digitalization in the delivery of public goods and services, (ii) strengthening the oversight and governance of state-owned enterprises (SOEs) with a view to gradually reduce subsidies and budget support, and (iii) improvements in the selection and prioritization of public investments to achieve greater value-for-money and leverage private sector involvement. Our own analysis will be informed by the on-going World Bank Public Expenditure Review (PER) and by a forthcoming IMF Public Investment Management Assessment (PIMA) expected to take place in January 2022. Both exercises have been delayed: the PER to ensure all the appropriate information is collected, while the PIMA to first hold a workshop to build capacity within MINECOFIN on this assessment. The PER, with its focus on increasing the targeting and cost-effectiveness of social spending, especially in health and education sectors, will help ensure human capital investment is sustained and human development priorities under our NST remain on track while also supporting the fiscal consolidation. Both exercises are expected to be concluded by the time of the 6th PCI review.

C. Fiscal Structural Reforms

19. Sustaining our progress in strengthening our public financial and management (PFM) systems will be critical to support the implementation and credibility of our fiscal consolidation. Guided by our seven-year sector strategic plan (PFM SSP 2018–24), we have been successfully implementing a broad PFM reform agenda that includes (i) the migration to accrual accounting using the International Public Sector Accounting Standards (IPSAS); (ii) the roll-out of the Integrated Financial Management Information System (IFMIS), and (iii) the implementation of performance-based budgeting.

- **Migration to accrual accounting using IPSAS**. The main goal is to improve the quality and harmonization of financial reporting of flows and stocks across government entities, which would allow for the consolidation of public sector accounts and better control of spending rationalization measures beyond the central government. We expect this migration to be fully completed by FY 23/24.
- **IFMIS roll-out.** IFMIS is aimed at automating and integrating all PFM stages (planning, budget preparation, budget execution, revenue management, accounting, auditing, and reporting) across different government levels. Sustained progress in our reforms will be critical to ensure the credibility of our medium-term expenditure framework and budget and hence for the implementation of our fiscal consolidation. Significant progress has been achieved in automating most PFM stages. IFMIS already covers all central and local government budget agencies (such as ministries, agencies, districts, and embassies) and all non-budget agencies (such as district hospitals, sectors, and health centers) and is being rolled out in public schools.
- **Performance-based-budgeting (PBB).** We have developed our PBB systems to support the implementation of NST1 over the last two years. We published completed PBBs for all

16 sectors as an annex to the Finance Law for FY 21/22, with a monitoring and evaluation framework developed, and to be operationalized through IFMIS. The identification of key strategic programs and their contribution to the NST1 will strengthen expenditure prioritization techniques and analysis during the budget review process supporting our fiscal consolidation efforts. The identification of key cross-cutting areas such as gender and climate change will prevent programs in these areas from being excessively impacted during our fiscal consolidation. We will continue to request IMF support into 2022 to ensure that PBB plays a prominent role in our future budget processes.

20. We have been focused on strengthening the institutional and analytical framework to manage fiscal risks with special attention to SOEs.

- **Institutions.** Our new Organic Budget Law (OBL), which is expected to be approved by Cabinet by end-December 2021 and by Parliament in the first quarter of 2022, institutionalizes the management of fiscal risks by clarifying the role of the Fiscal Risk Committee (FRC), mandating the Minister of Finance and Economic Planning to appoint their members, and requiring the publication of an annual Fiscal Risk Statement (FRS) as part of the annual budget documents. With a view to reinforce the legal framework for the monitoring and oversight of SOEs, we are also working on a Presidential Order expected to be issued by June 2022 which, together with the new OBL, will harmonize financial reporting for all public institutions, including SOEs, to the fiscal year, and establish deadlines for the publication of financial statements and sanctions for non-compliance. These two instruments are part of a broader effort to strengthen the SOE governance and operational management, which includes the development of SOE guidelines for investment decisions, financial management, human resources, procurement, and capacity building.
- **Analysis.** We have also stayed the course on our analytical exercises to identify, quantify, and manage fiscal risks. Informed by our first SOE health-check assessment finalized in end-May 2021, we have started to conduct stress tests on high-risk SOEs, with a first set expected to be finalized by end-March 2022. We plan to automate and conduct SOE "health-checks" quarterly and gradually extend them starting this fiscal year to include some SOE subsidiaries. With the benefit of these exercises, we expect to refine the recommendations on how to contain and manage these fiscal risks and reduce their budgetary impact in time to be included in the FY 22/23 budget and fiscal risk statement. An IMF TA mission has been requested and is scheduled for March 2022 to help us expand next year's FRS with a summary of PPP fiscal risks and mitigation measures with support from the IMF's Public Fiscal Risk Assessment Model (PFRAM) by end-April 2022 (RT).

21. Transparency in fiscal reporting and of RSSB finances remains priorities under our PCI arrangement. Our plans are to (i) publish consolidated historical fiscal statistics for public corporations, the general government, and the non-financial public sector by end-December 2021 and (ii) expand the coverage of quarterly budget execution reports to include the whole general government by end-March 2023. The process of hiring an advisory firm to conduct the review of RSSB's asset allocation faced delays in the procurement process but is at the final stages. We expect the firm to be selected by end-January 2022 and the review allocation to be concluded by end-June 2022. We would therefore like to request these two reform targets to be reset from their previously agreed dates of end-June 2021 and end-December 2021, respectively, to these new deadlines.

22. We remain committed to a transparent use of public resources. Our procurement practices are carried out according to the Law Governing Public Procurement and our E-Procurement system. The E-Procurement system provides publicly available information on all awarded government contracts, including the names of companies that participated in the tender, each initial bid, the name and price of the winning bid, the total amount of the contract, and the delivery period. Contract management under E-Procurement has been enhanced through the integration of electronic information on invoices and deliveries with IFMIS to reduce offline and physical contacts to contain inefficiencies and corruption risks. The recent establishment of the Kigali Financial Centre underscored the importance of beneficial ownership (BO) transparency to combat corruption, stem illicit financial flows, and fight tax evasion. To this end, the Office of the Registrar General and the Rwanda Public Procurement Authority (RPPA) are making a proposal to advance on BO disclosure in the procurement process and system. Moreover, following our Organic Budget Law, the Office of the Auditor General, whose independence is enshrined in the Constitution and law, will audit all government expenditures and procurement tenders, including those linked to the pandemic.

23. Our risk of external and overall public debt distress continues to be rated as "moderate". We used part of the proceeds of the US$620 million Eurobond issued in August for debt management purposes, with a view to reducing near-term liquidity risks and preserving debt sustainability. We will continue to strengthen our debt management capacity, which should also benefit from steps to enhance fiscal risk monitoring and develop domestic bond markets. To contain the debt service burden and solvency risks, we will continue to prioritize concessional resources and adopt a growth-friendly fiscal consolidation path once the crisis abates.

D. Monetary and Exchange Rate Policies

24. We expect the monetary policy stance to be accommodative and continue supporting economic recovery. The Monetary Policy Committee (MPC) has kept the policy rate unchanged since the 50 basis-point cut implemented at the onset of the pandemic. Inflation is projected to increase to the benchmark level and the 12-month average is expected to be back within the MPCC band next year. Given this and considering possible upside risks to the inflation projections in Rwanda next year including from the global economic environment, the MPC decided to keep the policy rate unchanged at 4.5 percent in November. The MPC will continue to meet on a quarterly basis or as often as necessary to review economic developments and prospects and take appropriate monetary policy decisions.

25. We continue to build Forecasting and Policy Analysis System (FPAS) capacity to support monetary policy formulation under our price-based framework. We are making progress towards fully integrating FPAS into monetary policy decision-making with IMF support.

Recent TA assisted with developing new nowcasting tools for monthly analysis of inflation and helped prepare material to inform MPC members about the FPAS, including the transmission mechanism. Going forward, we will continue developing sectoral expertise and scenario design capacity. We also plan to complement our quarterly projection model (QPM) forecasts with labor market analysis, develop documentation for near-term forecasting tools, and strengthen external communication.

26. We are making progress towards financial market deepening. To accelerate the rollout of the Global Master Repurchase Agreement (GMRA), we signed a cooperation agreement with the World Bank/International Finance Corporation in June 2021 to perform a diagnostic of the money market and market-making framework for government debt securities. An assessment identifying the gaps in the regulatory framework for true repo and proposing associated recommendations on how to address them was not feasible as envisaged by end-November 2021 (RT). Unforeseen delays in the procurement process to hire a consultant to execute this project led this deadline to not be met. The consultant has since been hired and is working on the assessment, which is expected to be completed by end-March 2022. As a result, subsequent milestones of the GMRA rollout would be delayed. A study on the regulatory aspects and feasibility of extending the true repo to non-bank financial institutions ahead of the GMRA rollout originally envisaged for end-March 2022 is now expected by end-June 2022. Capacity building of market participants on all aspects of the GMRA terms and securing the signature of the GMRA by all banks, the final step in the operationalization of the GMRA, would also have to be delayed from end-June 2022 to end-December 2022. We propose to reset these RTs according to this new timeline.

27. We are committed to exchange rate flexibility in line with the monetary policy framework. We acknowledge that exchange rate is the first line of defense against external shocks and will only intervene on the foreign exchange (FX) market to minimize excessive exchange rate volatility. Exchange rate pressures have remained low due to higher-than-anticipated remittances, an improvement in the services balance, the Eurobond issuance, and the SDR allocation, with a depreciation at 2.6 percent only at end-September 2021 compared to end-December 2020. We expect slightly higher FX pressures in the remainder of 2021 as imports pick up during the festive season and in 2022 as the economy recovers, supported by the vaccine rollout. In line with the balance of payment projections, exchange rate pressures are expected to ease in the medium term and the reserve coverage will remain above the adequate level of 4 months of imports cover.

E. Financial Sector Policies

28. We are closely monitoring credit risk to preserve financial stability. We continue to scrutinize banks' assessment of borrowers' likeliness to pay and implementation of adequate loan classification and provisioning. We have stepped up supervisory and reporting requirements and continue to perform stress tests to monitor early signs of distress. Banks are expected to continue submitting their annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) which will be subject to the Supervisory Review and

Evaluation Process (SREP). These measures are aimed at ensuring that banks hold sufficient capital and liquidity buffers for loss absorption vis-a-vis their respective risk profile.

29. In the near term, our supervisory priority is to mitigate credit risks following the unwinding of relief measures. The 2020 regulatory relief measures to banks for treatment of exceptional restructuring of loans in response to the pandemic, as well as other relief measures, expired at the end of September 2021. We will continue to assess the impact of the economic activity reopening on the sectors and borrowers hardest hit by the pandemic, especially those with large exposures in the banking system. We will implement additional targeted and time-bound measures when and if deemed necessary to minimize the materialization of credit risks following the unwinding of relief measures to safeguard financial stability.

30. We are making headway towards financial inclusion. The 2020 FinScope survey indicated mobile financial services as a key driver of Rwanda's financial inclusion gains. The COVID-19 pandemic was an enabler for faster adoption of digital financial services. Active mobile payment subscribers increased by 25 percent to 6.1 million in June 2021. The number of mobile payment transactions increased by 42 percent to 424 million in 2021H1 while the value of transactions increased by 100 percent to RWF 5.2 trillion with a notable increase in the share of merchant payments in total value of mobile payments from 6 percent to 22 percent. Our target is to increase formal financial inclusion from 77 percent in 2020 to 90 percent by 2024.

F. Structural Policies

31. We are working tirelessly to bring Rwanda back to is pre-pandemic inclusive growth path. Our pre-pandemic National Strategy for Transformation (NST-1) aims at fostering inclusive and resilient growth supported by economic, social, and governance pillars that mirror the three dimensions of sustainable development. The macroeconomic framework for NST1 required an average growth rate of 9.1 percent for the country to remain on its path of economic transformation which was on course as evidenced in GDP growth rates of 8.6 percent and 9.5 percent in 2018 and 2019, respectively. The COVID-19 pandemic adversely affected this trend. Multi-sectorial interventions adopted in the Economic Recovery Plan (ERP) passed by the Cabinet in April 2020 and implemented with the support of our development partners helped fight the pandemic and limit the damage on people's lives and livelihoods by setting the stage for a strong recovery as registered in the first two quarters of this year with growth reaching 3.5 and 20.6 percent in Q1 and Q2, respectively. Looking ahead, growth is expected to converge back to the pre-pandemic trend by 2023. This positive development has also been accompanied by progress in other social indicators such as access to water and sanitation, which have increased by close to 90 percent. These milestones have also been key in confronting the COVID-19 pandemic as they would not have been achieved without the construction of adequate sanitation facilities. Bringing Rwanda back to its strong and inclusive pre-pandemic growth would demand strong policies to limit pandemic scars, allow much-needed infrastructure investments with support from the private sector to finance it, and embrace changes brought by the pandemic such as faster pace for technology adaption, new ways of organizing office work, production and distribution, the need to upgrade IT skills of households and firms, and an accelerated transition to greener technologies and climate change adaptation.

32. We will continue to take decisive steps to contain scarring from the pandemic with a strong focus on promoting gender equity. Our efforts to reduce pandemic scarring will aim at (i) strengthening health services, especially those aimed at reducing stunting and malnutrition, (ii) improving the quality and retention of primary and secondary schooling, and (iii) enhancing the coverage, benefit, targeting, and delivery of social protection. Promoting gender equity has been an important objective of our pandemic policy response. Our ERF-2 has been designed to support female entrepreneurs through targeted awareness raising campaigns, training, and business development support to address gender specific constraints in communications skills, negotiation, and leadership, among others, depending on the gaps identified. Training will be structured keeping in mind women-specific constraints that may include transport, childcare, and family responsibilities to ensure that women have equitable access. The Women's Guarantee Fund (WGF) under the Business Development Fund (one of the fund managers of ERF) will facilitate women entrepreneurs and SMEs without collateral to obtain loans in commercial banks and micro-finance institutions at affordable terms and conditions by providing up to 75 percent of credit guarantees and a grant of 15 percent of the total loan disbursed. We expect that the ERF-2 will have a lasting positive impact in deepening the Rwandan women-owned/led micro, small, and medium enterprises (MSME) markets.

33. We have announced an ambitious climate action agenda. We have committed to a 38 percent reduction of greenhouse gas emissions compared to business as usual by 2030, equivalent to an estimated mitigation of up to 4.6 million tons of carbon dioxide equivalent (tCO_2e). Reducing these emissions will come through improvements in energy production and use, industrial processes and product use, waste management, transport, and agriculture as well as new nature-based conservation initiatives through adaptation measures in priority sectors, namely water, agriculture, land and forestry, human settlement, health, transport, and mining. Taken together, the country's efforts to limit its contribution to climate change and adapt to the consequences over the next decade will require approximately US$11 billion, made up of US$5.7 billion for mitigation and US$5.3 billion for adaptation, expected to come from both domestic and external sources. The Government has already taken innovative steps to attract climate finance. The Ministry of Environment has been accredited to the Green Climate Fund and the Adaptation Fund, which will allow the Government to get funding for climate-related projects. The Rwanda Green Fund (FONERWA) has been set up to provide green investment funding and training to both the public and private sector. The FONERWA, in collaboration with the Rwanda Development Bank, is setting up a Green Investment Facility to meet the present and growing private sector needs for climate finance. Other climate actions already being taken by the Government include the promotion of e-mobility, a "Measure, Report, and Evaluate" framework to monitor climate change policies and reforms, green spending review of the budget, and inter-institutional capacity building to promote best green practices in public procurement and other areas.

IV. PROGRAM MONITORING

34. Progress in the implementation of the policies under this program will be monitored through QTs, including an MPCC, continuous targets, and RTs. These are detailed in Tables 1a–2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Rwanda: Quantitative Targets, December 2021 – June 2022

	end-Dec. 2021		end-Jun. 2022
	Prog.	Rev. Prog.	Prog.
(Billions of Rwandan francs, unless otherwise indicated)			
Half-yearly Quantitative Targets[1]			
1. Ceiling on the debt-creating overall balance, including grants[2]	-506	-648	-1,068
2. Floor on stock of Net Foreign Assets	835	802	838
3. Ceiling on flow of net accumulation of domestic arrears	0	0	0
Continuous Targets			
4. Ceiling on stock of external payment arrears (US$ million)	0	0	0
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt[3] (US$ million)	1,149	863	651
Monetary Policy Consultation Band[1,4]			
CPI Inflation target	5.0	5.0	5.0
Inflation, upper inner-bound, percent	8.0	8.0	8.0
Inflation, lower inner-bound, percent	2.0	2.0	2.0
Inflation, upper bound, percent	9.0	9.0	9.0
Inflation, lower bound, percent	1.0	1.0	1.0
Memorandum items:			
Total priority spending[2]	740	800	1560
Floor on domestic revenue collection[2,5]	914	964	2,061
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700	700	700
Total budget support (US$ million) [2]	370	414	554
Budget support grants (US$ million)	174	216	298
Budget support loans (US$ million)	196	198	256
PV of budget and project loans dedicated to COVID-19 vaccine interventions (US$ million)[2,6,7]	30	30	30
Budget and project grants dedicated to COVID-19 vaccine interventions (US$ million)[2,6]	42	41	56
Total spending dedicated to COVID-19 vaccine interventions[2,6]	65	54	97
Total spending on projects financed by the SDR allocation [2]	0	53.4	103.1
Total spending on Eurobond-financed projects [2]	0	33.4	64.5
RWF/US$ program exchange rate	972	987	987

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 are cumulative from June 30, 2021.

[3] End-December 2021 ceiling is cumulative from the beginning of calendar year 2021. End-June 2022 ceiling is cumulative from the beginning of calendar year 2022.

[4] When the end-of period year-on-year average inflation is above/below the outer band of the upper/lower bound, a formal consultation with the Executive Board would be triggered.

[5] Floor is adjusted to exclude UN peace keeping operations, in line with the TMU.

[6] COVID-19 vaccine interventions are measures associated with the COVID-19 vaccination campaign (e.g. vaccine procurement and distribution) as defined in the TMU.

[7] At end-December 2021, this includes USD 34 million of budget loan from AFD with a grant element of 33 percent and USD 15 million of project loan from the World Bank/IDA with a grant element of 53 percent.

Table 1b. Rwanda: Standard Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.
- Not to introduce or modify multiple currency practices.
- Not to conclude bilateral payment agreements which are inconsistent with Article VIII.
- Not to impose or intensify import restrictions for balance of payment reasons.

Table 2. Rwanda: Reform Targets, December 2021 – March 2023

Actions	Target Date	Objective	Comments
Fiscal			
Select adivsory firm to conduct a review of the RSSB asset allocation	end-Jan 2022	Improve resource efficiency	Reset from end-June 2021
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-Jun 2022	Improve resource efficiency	Reset from end-December 2021
Publish consolidated fiscal statistics for public corporations, the general government, and the non-financial public sector for FY 16/17 through FY 19/20	end-Dec 2021	Improve fiscal transparency/PFM	On track
Conduct a fiscal risk assessment of public-private partnerships and submit the outcome and mitigation options to the fiscal risk committee.	end-Apr 2022	Improve fiscal transparency/PFM	On track
Aproval of a Medium-Term Revenue Strategy for FY 21/22-23/24 by Cabinet	end-Jan 2022	Improve DRM	New RT
Conduct a review of the the Medium-Term Revenue Strategy for FY 21/22-23/24	end-Dec 2022	Improve DRM	New RT
Expand the coverage in quarterly fiscal reporting in GFS 2014 to include the whole general government (i.e. including RSSB).	end-Mar 2023	Improve fiscal transparency/PFM	On track
Monetary and Financial			
Produce a study on consumer and merchant payment behavior and the pricing of digital payment services leveraging micro-data.	end-Dec 2021	Deepen financial markets	On-track
Conduct a legal assessment to identify gaps in the regulatory framework for true repo ahead of the Global Master Repurchase Agreement (GMRA) rollout.	end-Mar 2022	Support new monetary policy framework	Reset from end-November 2021
Conduct a study on the regulatory aspects and feasibility of extending true repo to non-bank financial institutions ahead of the GMRA rollout.	end-Jun 2022	Support new monetary policy framework	Reset from end-March 2022
Provide capacity building on all aspects of the GMRA terms to market participants and secure the signing of the GMRA by all banks as a final step in the operationalization of the GMRA	end-Dec 2022	Support new monetary policy framework	Reset from end-June 2022

Table 3. Rwanda: Summary of the External Borrowing Program[1]

	July-December 2021		January-June 2022	
	Program		Program	
	Nominal	PV	Nominal	PV
(Millions of USD)				
By sources of debt financing	**639**	**416**	**1023**	**651**
Concessional debt, of which [2]	**316**	**147**	**319**	**155**
Multilateral debt	216	100	270	127
Bilateral debt	100	48	49	28
Other	0	0	0	0
Non-concessional debt, of which	**324**	**269**	**704**	**496**
Semi-concessional [3]	176	121	704	496
Commercial terms [4]	148	148	0	0
By Creditor Type	**639**	**416**	**1023**	**651**
Multilateral	316	166	750	462
Bilateral - Paris Club	94	56	92	61
Bilateral - Non-Paris Club	82	46	181	128
Other	148	148	0	0
Uses of debt financing	**639**	**416**	**1023**	**651**
Infrastructure	364	279	698	460
Social Spending	276	137	325	191
Budget Financing	0	0	0	0
Other	0	0	0	0

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying 5 percent program discount rate.

[2] Debt with a grant element that exceeds a minimum threashold of 35 percent.

[3] Debt with a positive grant element which does not meet the minimum grant element.

[4] Debt without a positive grant element.

Attachment II. Technical Memorandum of Understanding

Kigali, Rwanda, December 20, 2021

1. This memorandum defines the quantitative targets described in the Program Statement (PS) for the period: July 1, 2021 – June 30, 2022 supported by the IMF Policy Coordination Instrument (PCI), and sets out the data reporting requirements.

2. Program exchange rates. For program purposes, the exchange rates for end-June 2021 in the IMF's International Financial Statistics database will apply (see Table 1 for major currencies).

Table 1. Program Exchange Rates from June 30, 2021
(US$ per currency unit, unless indicated otherwise)

Rwanda Franc (per US$)	987.1
Euro	1,188
British Pound	1,386
Japanese Yen (per US$)	110.5
SDR	1,426

A. Quantitative Program Targets

Ceiling on Debt-Creating Overall Fiscal Balance

3. A ceiling applies to the debt-creating overall fiscal balance of the budgetary central government, excluding Peace-Keeping Operations and including grants. The ceiling for December 31, 2021 is cumulatively measured from June 30, 2021 and the ceiling for June 30, 2022 is cumulatively measured from June 30, 2021.

4. Definition. For the program, the debt-creating overall fiscal balance is defined by the overall fiscal balance, valued on a commitment basis including grants and excluding the following items: (i) any transaction in expense and/or financial assets added to the budgetary central government arising from debt assumption of called loan guarantees for which the corresponding guaranteed loan had already been included in the Debt Sustainability Analysis of the IMF and World Bank (DSA); and (ii) all expenses in UN peace-keeping operations (PKO) and disbursed PKO financing. The overall fiscal balance is defined according to the GFSM 2014 as net lending/net borrowing after transactions in assets and liabilities are adjusted for transactions deemed to be for public policy purposes (policy lending). Budgetary central government expenditure (i.e., expenses plus net acquisition of non-financial assets) is defined based on payment orders accepted by the Treasury, as well as those executed with external resources. This quantitative target is set as a ceiling on the debt-creating overall fiscal balance as of the beginning of the fiscal year.

Adjustors to the Debt-Creating Overall Fiscal Balance:

- The ceiling on the debt-creating overall balance will be adjusted upward by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1a of the PS) not related to COVID-19 vaccine interventions, up to a maximum of RWF 116 billion. COVID-19 vaccine interventions are measures associated with the COVID-19 vaccination campaign. These interventions pertain to securing human and material resources for vaccination and procuring and distributing vaccines.
- The ceiling on the debt-creating overall balance will be adjusted upward, up to a maximum of RWF 116 billion, representing the amount of *foreign financed net acquisition of non-financial assets* (*foreign financed capital expenditure*) financed with a drawdown of accumulated government deposits.
- The ceiling on the debt-creating overall balance will be adjusted upward by the amount of unexpected public expenditures (expenses, and/or *net acquisition of non-financial assets*) on food imports in the case of a food emergency.
- The ceiling on the debt-creating overall balance will be adjusted upward by the amount of any shortfall between actual and programmed grants dedicated to COVID-19 vaccine interventions or by the amount of unbudgeted spending directly related to the cost of COVID-19 vaccine interventions not financed by unbudgeted grants dedicated to COVID-19 vaccine interventions. The need for this adjustment will be assessed in the context of the 6th review of the PCI program.
- The ceiling on the debt-creating overall balance will be adjusted upward (downward) by the amount of any delays (acceleration) in spending relative to the programmed amount on projects that are identified as COVID-19-related and financed by the 2021 general allocation of Special Drawing Rights (SDRs), up to a maximum of RWF 103 billion. The need for this adjustment will be assessed in the context of the 6th review of the PCI program.
- The ceiling on the debt-creating overall balance will be adjusted upward (downward) by the amount of any delays (acceleration) in spending relative to the programmed amount on projects that are programmed to be financed by 2021 Eurobond proceeds amounting to RWF 83 billion. The need for this adjustment will be assessed in the context of the 6th review of the PCI program.

Floor on Net Foreign Assets of the National Bank of Rwanda (BNR)

5. A floor applies to the net foreign assets (NFA) of the BNR for December 31, 2021 and June 30, 2022.

6. Definition. NFA of the BNR in Rwandan francs is defined, consistent with the definition of the enhanced General Data Dissemination Standard (e-GDDS) template, as external assets readily available to, or controlled by, the BNR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps with resident institutions with original maturity of one year or less, and with non-resident institutions) are excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Reserve's assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA. Holdings of Eurobonds issued by the Government of Rwanda are excluded from the measurement of NFA. 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.

Adjustors:

- The floor on NFA will be adjusted downward by the amount of any shortfall between actual and programmed budgetary loans and grants per Table 1a of the PS, capped at RWF 116 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.

Ceiling on the Stock of External Payment Arrears

7. A continuous ceiling applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the budgetary central government and entities that form part of the budgetary process.

8. **Definition.** External payment arrears are defined as the amount of overdue external debt service obligations (principal and interest) arising in respect of obligations incurred directly or guaranteed by the budgetary central government and entities that form part of the budgetary process. A payment is overdue when it has not been paid in accordance with the contractual date (taking into account any contractual grace periods). Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

Ceiling on Net Accumulation of Domestic Expenditure Arrears of the Budgetary Central Government

9. A ceiling applies to the net accumulation of domestic expenditure arrears of the budgetary central government.[1] The ceiling for December 31, 2021 is cumulatively

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

measured from June 30, 2021 and the ceiling for June 30, 2022 is cumulatively measured from June 30, 2021.

10. Definition. Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 90 days. The accumulation of domestic expenditure arrears of more than 90 days is calculated as the 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.

Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government

11. Definition. For program purposes, 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) For the purpose of this guideline, 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 lessor retains the title to the property. For the purpose of the guideline, 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 are 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.

12. External debt is defined as debt contracted or serviced in a currency other than the Rwanda Franc.

13. A continuous ceiling is applied to the present value (PV) of all new external debt (concessional or non-concessional) contracted or guaranteed by the central government, including commitments contracted or guaranteed for which no value has been received. The ceiling for December 31, 2021 is cumulative from January 1, 2021 and the ceiling for June 30, 2022 are cumulative from January 1, 2022. This quantitative target does not apply to:

(a) Normal import-related commercial debts having a maturity of less than one year;

(b) Rescheduling agreements;

(c) External borrowing which is for the sole purpose of refinancing existing public sector external debt and which helps to improve the profile of the repayment schedule; and

(d) IMF disbursements.

14. For program monitoring purposes, a debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the Government of Rwanda.

15. For program purposes, the value in U.S. dollars of new external debt is calculated using the program exchange rates.

16. The PV of new external debt is calculated by discounting all future debt service payments (principal and interest) on the basis of a program discount rate of 5 percent and taking account of all loan conditions, including the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF model for this type of calculation[2] based on the amount of the loan. A debt is considered concessional if on the date on which it is contracted the ratio of its present value to its face value is less than 65 percent (equivalent to a grant element of at least 35 percent). In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

[2] http://www.imf.org/external/np/spr/2015/conc/index.htm

17. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 0.46 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -100 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -50 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -50 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -50 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. These rates will remain fixed and will not be revised until every Fall edition of the World Economic Outlook (WEO).

18. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

19. The ceiling on the PV of new external debt contracted or guaranteed by the central government will be adjusted upward for the full amount of any unbudgeted external loan financing dedicated to COVID-19 vaccine interventions. The authorities will consult with IMF staff on any planned external borrowing for this purpose and the conditions on such borrowing before the loans are either contracted or guaranteed by the government. The need for this adjustment will be reassessed in the context of the 6th review of the PCI program.

20. Reporting Requirement. The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government.

B. Monetary Policy Consultation Clause (MPCC)

21. Definition. MPCC headline inflation is defined as the year-on-year rate of change of monthly Consumer Price Index (CPI), averaged for the past 12-months, as measured by National Institute of Statistics of Rwanda (NISR).

- If the observed headline inflation falls outside the ±3 percentage point range around the mid-point of target band value for end-December 2021 and end-June 2022, the authorities will conduct discussions with the Fund staff.
- If the observed headline inflation falls outside the ±4 percentage point range around 5 percent for end-December 2021 and end-June 2022 test dates as

specified in Table 1a in the PS, the authorities will complete a consultation with the Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviation, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary.

C. Memorandum Items and Data Reporting Requirements

22. For the purposes of program monitoring, the Government of Rwanda will provide the data listed below and in Table 2. 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.

23. Data on **priority expenditure** will be transmitted on a quarterly basis. Priority expenditure is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and policy lending that the government has identified as priority in line with the NTS. Priority expenditure is monitored through the Integrated Financial Management System (IFMS) which tracks priority spending of the annual budget at the program level of the end of each quarter.

24. Detailed data on **domestic revenues** will be transmitted on a monthly basis. The domestic revenue is defined according to GFSM 2014 taxes and other 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.

25. Data on **the contracting and guaranteeing of new non-concessional external borrowing with non-residents** will be transmitted on test dates. The data excludes external borrowing by two state-owned banks, the Bank of Kigali and Rwanda Development Bank (RDB), which are assumed not to seek or be granted a government guarantee. The data also apply to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector, and which, therefore, constitute a contingent liability of the public sector. The data 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 data will also exclude on-lending agreement between Government of Rwanda and public-sector enterprises.

26. 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 QTs. The authorities will furnish a description of program performance according to QTs as well as reform targets 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 Table 2 of the TMU. The information should be mailed electronically to the Fund (email to the Resident Representative and the Mission Chief).

Table 2. Rwanda: Summary of Reporting Requirements

	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
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, repo operations, and foreign exchange markets, sales of foreign currencies by BNR to commercial banks and other foreign currency interventions by BNR.	D	W	W
Composite Index of Economic Activity (CIEA) and sub-components compiled by the BNR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] — General Government[5]	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4]— Budgetary Central Government	Q	Q	Q
Financial balance sheet – Budgetary Central Government	A	A	A
Comprehensive list of tax and other revenues[6]	M	M	M
Budget tables	Submitted to Parliament		
Revised budget tables	Submitted to Parliament		
Disposal of non-financial assets and policy lending[6]	Q	Q	Q
Comprehensive list of domestic arrears of the government	SA	SA	SA
Planned external borrowing and the conditions	SA	SA	SA
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and BNR[7]	SA	SA	SA
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

[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 BNR.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions. Balances for project accounts and swaps with original maturity less than one year should be indicated.
[3] Both market-based and officially determined, including discount rates, money market rates, key repo rate (KRR), rates for standing facilities, rates in repo transactions of the BNR with banks, interbank money market rate, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[7] Excludes debts of the Bank of Kigali and Rwanda Development Bank (BRD). Also includes currency and maturity composition.
[8] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

INTERNATIONAL MONETARY FUND

RWANDA

December 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments).

CONTENTS

FUND RELATIONS

Rwanda and the IMF: https://www.imf.org/en/Countries/RWA.

Rwanda's Financial Position in the Fund:
https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=820&date1key=2099-12-31.

Exchange Rate Arrangement: The currency of Rwanda is the Rwandan franc. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF and maintains a system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. As of September 17, 2021, the exchange rate against the US dollar was RWF 995.7. Based on the 2020 Annual Report on Exchange Arrangements and Exchange Restrictions, the de jure exchange rate arrangement is floating while the de facto exchange rate arrangement is classified as a crawl-like arrangement. The National Bank of Rwanda (BNR) has intervened directly to prevent undue fluctuations in the exchange rate. Since March 2015, the exchange rate has followed a depreciating trend within a 2 percent band against the US dollar. The BNR discloses data on its interventions on the same day when there is an intervention.

Safeguards Assessment: An update on safeguards assessment of the BNR is substantially completed. The mission found that the recommendations from the last 2016 assessment have been fully implemented and that the BNR has maintained a relatively strong safeguards framework. The size of the Board has increased to allow for additional expertise, which has also strengthened the Audit and Risk Committee in line with the previous recommendations. Many of the key functions continued to be modernized, with notable progress in risk management, compliance, and cybersecurity. Transparency and accountability mechanisms are aligned with international standards, and additional safeguards have been put in place for external audit quality. Overall, the legal framework supports the BNR's institutional autonomy and sets sound governance arrangements. The bank's autonomy is respected in practice; however, some areas of financial and personal autonomy, though established through institutional arrangements, are not enshrined in the Law. In addition, further improvement could be made in the financial statements disclosures, internal audit coverage, and reserves management policy. The assessment recommended a periodic review of the program monetary data for consistency with TMU definitions as a risk mitigating measure in light of improper inclusion of certain domestic issuer financial instruments.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

A. Rwanda and the World Bank:

http://www.worldbank.org/en/country/rwanda

B. World Bank Projects:

http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=RW

C. Rwanda and the African Development Bank:

https://www.afdb.org/en/countries/east-africa/rwanda/

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings; but is broadly adequate for surveillance. Rwanda makes good use of technical assistance support from the IMF. The country has one of the most frequent base year updates among SSA countries and coordinates the base year update with new household surveys to get a better sense of home production, the informal sector, and household final consumption expenditure.

National Accounts and Price Statistics: Annual and quarterly GDP estimates in current and 2017 constant prices are compiled and disseminated by National Institute of Statistics of Rwanda (NISR), based on the 2008 System of National Accounts concepts. Commendable efforts have been made to improve the GDP estimates, with technical assistance being provided by the East AFRITAC and DFID.

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

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

On the expenditure side, estimates of government consumption, gross capital formation, and trade in goods and services are compiled from data sources including government budget reports and balance of payment estimates, but private consumption and changes in inventories are estimated as the gap between the sum of these components and a total GDP estimate from the production approach. Recent East AFRITAC technical assistance (TA) has helped to broaden national accounts outputs by developing experimental institutional sector accounts for production and the generation of income.

The latest Integrated Household Living Conditions Survey (EICV 5) data from October 2016 to October 2017 were released in December 2018. These data should be used to update the weights used to compile the consumer price index (CPI). The current weights, which are based on EICV-4 survey (2013–14), are no longer reflective of current expenditure patterns.

Timelines of the Producer Price Index (PPI) needs improvement. The authorities also need to progress on the coverage and methodology of the industrial production index.

Government Finance Statistics: Rwanda has transitioned to GFSM 2014 to meet EAC requirements. The authorities have nearly complete efforts to automate IFMS to produce annual and high-frequency GFSM 2014-compliant data for all Budgetary Central Government (BCG), most Extra-Budgetary Units (EBUs), and all Local Governments (LGs) on a timely basis. The compilation was further extended to cover Social Security Funds (SSFs) and additional EBUs. However, efforts should continue to improve timeliness, add remaining EBUs and development projects to IFMS. IMF TA missions assisted to improve the quality, coverage, and frequency of fiscal data, produce fiscal data in GFSM 2014; and expand the coverage of public sector debt statistics to State-Owned Enterprises.

I. Assessment of Data Adequacy for Surveillance (Concluded)
Monetary and Financial Statistics: The balance sheet of the BNR and detailed data on money market transactions are transmitted to AFR on a weekly basis with a lag of one week, while the monetary survey and the consolidated balance sheet of commercial banks are transmitted on a monthly basis with a lag of about five weeks. The BNR reports to STA monthly monetary data, using Standardized Report Forms for the central bank and Other Depository Corporations (ODCs), which are published in the *International Financial Statistics*. Rwanda reports data on several key series and indicators of the Financial Access Survey (FAS), including mobile money and the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: The BNR reports quarterly Financial Soundness Indicators (FSIs) to STA for publication on the IMF's FSI webpage, including all core indicators and 8 encouraged indicators for deposit takers.
Balance of Payments: The BNR compiles quarterly balance of payments and international investment position (IIP) statistics based on the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* presentation. The Foreign Private Capital Census (FPCC) is used to collect flows, positions, and income data in an integrated survey instrument for both financial assets and liabilities. Given the slow and low response rate on the FPCC due to the COVID-19 pandemic, a November 2020 TA mission emphasized the need to establish alternate data sources and the strengthen the international transactions reporting system (ITRS). On remittances, data are available for formal transfers through banks and Money Transfer Operators (MTOs), but informal estimates are less reliable and are being cross-checked with the 2011 Integrated Living Costs Survey. There are differences in the databases on external debt statistics (EDS) maintained by the Ministry of Finance and Economic Planning and the BNR that could be reconciled. Data reported to the World Banks' Quarterly External Debt Statistics (QEDS) database are often delayed.

II. Data Standards and Quality	
Rwanda has participated in the IMF's General Data Dissemination System (GDDS) since October 2003. In September 2017, Rwanda implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by publishing critical data through the National Summary Data Page (NSDP) as opposed to only metadata. Rwanda has expressed interest in subscribing to the SDDS in 2022.	No Data ROSC is available.

Table of Common Indicators Required for Surveillance, December 9, 2021

	Date of Latest Observation	Date Received	Frequency of Data [7/]	Frequency of Reporting [7/]	Frequency of Publication [7/]
Exchange Rate	12/8/21	12/8/21	D, M	D, M	D, M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1/]	10/31/21	11/11/21	D, M	D, M	M
Reserve/Base Money	12/8/21	12/8/21	D, M	D, M	M
Broad Money	9/30/21	12/8/21	M	M	M
Central Bank Balance Sheet	12/8/21	12/8/21	D	D	D
Consolidated Balance Sheet of the Banking System	9/30/21	12/8/21	M	M	M
Interest Rates [2/]	10/31/21	11/5/21	M	M	M
Consumer Price Index	10/31/21	11/10/21	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [3/]—General Government[4/]	6/30/21	9/10/21	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing [3/]—Central Government	6/30/21	9/10/21	Q	Q	Q
Stocks of Central Government and Central Government—Guaranteed Debt [5/]	Q2-2021	11/5/21	Q	Q	Q
External Current Account Balance	Q2-2021	11/3/21	Q	Q	Q
Exports and Imports of Goods and Services	9/30/2021	11/3/21	M	M	M

Table of Common Indicators Required for Surveillance, December 9, 2021 (Concluded)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/
GDP/GNP	Q2-2021	9/22/21	Q, A	Q, A	Q, A
Gross External Debt	Q2-2021	11/4/21	Q	Q	Q
International Investment Position 6/	Q2-2021	11/3/21	Q	Q	Q

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

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

3/ Foreign, domestic bank, and domestic nonbank financing.

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

5/ Including currency and maturity composition.

6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

INTERNATIONAL MONETARY FUND

RWANDA

December 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Catherine Pattillo and Delia Velculescu (IMF), Marcello Estevão and Asad Alam (IDA)

The Debt Sustainability Analysis (DSA) was prepared jointly by the staffs of the International Monetary Fund and the International Development Association.

Rwanda: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate* [2]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	*No*

The updates to the Bank/Fund assessment of Rwanda's debt sustainability analysis indicate a moderate risk of external and overall public debt distress. The current debt-carrying capacity is consistent with a classification of 'strong'. The baseline scenario is based on the macroeconomic projections under the 5th PCI review, assuming a stronger growth rebound and larger fiscal deficit than was expected in the December 2020 DSA, followed by an ambitious post-pandemic medium-term fiscal consolidation path underpinned by policies under the PCI. Compared to the 4th PCI review (July 2021 update), the baseline incorporates the one-off use of a significant portion of the recent SDR allocation in FY2021/22 and Eurobond issuance in August 2021 to buyback an 85 percent of the 2013 Eurobonds with bullet payment in 2023, which help to smooth out the debt service profile. The debt indicators and stress tests suggest that while liquidity risks have been moderated, solvency risks remain elevated, with limited buffers to cushion external and growth shocks. The country remains susceptible to adverse market conditions, with the risk mitigated by adequate reserves and access to external official financing at concessional terms. The authorities are encouraged to further strengthen their debt management capacity to mitigate heightened risks in the context of the uncertainties surrounding the COVID-19 crisis and implement the fiscal consolidation strategy as envisaged under the PCI, supported by credible measures to bring debt to lower levels with sufficient buffers to absorb shocks. Strengthening the identification, assessment, and management of fiscal risks, also one of the pillars under the PCI, is essential to mitigate debt surprises.

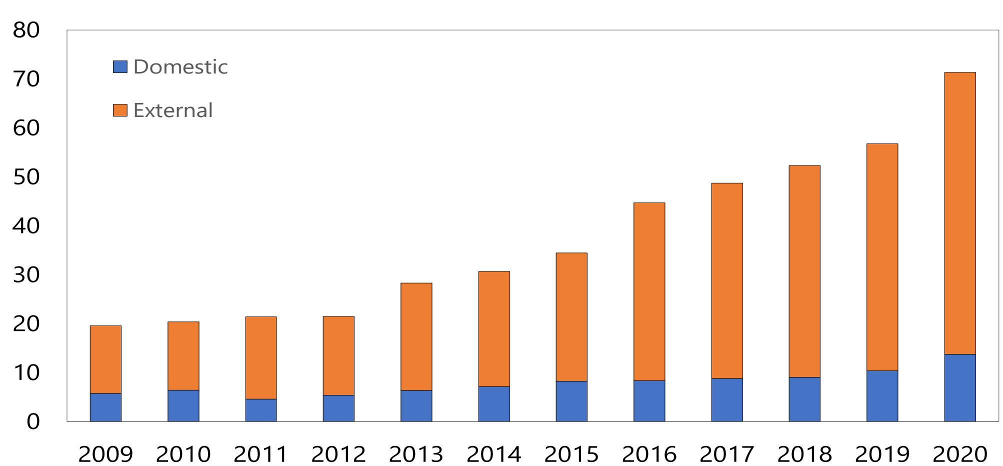
[1] This debt sustainability analysis was conducted using the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017. The fiscal year for Rwanda is from July to June; however, this DSA is prepared on a calendar year basis.

[2] Rwanda's debt-carrying capacity remains strong as its Composite Indicator is 3.19, which is based on the 2021 October WEO and the 2020 CPIA that was released in July 2021, remains above the upper threshold value of 3.05. Debt coverage includes the central government and state-owned enterprises (SOEs). There has been no change in debt coverage since the December 2020 DSA.

BACKGROUND

1. **Rwanda's public and publicly-guaranteed (PPG) external debt-to-GDP ratio increased by 33 percentage points of GDP over the last 6 years, driven by borrowing to meet the development needs envisaged in the National Strategy for Transformation (NST), but also from the robust COVID-19 response.** The development needs are supported by a long-planned comprehensive public investment strategy, including three large projects to support trade and tourism through a series of public-private partnerships (PPPs) and external guarantees outside the budgetary central government. The three large projects include the construction of the Kigali Convention Center (KCC), completed in 2016, the expansion of the national airline, RwandAir, that is now completed, and the construction of a new airport in the Bugesera district of eastern Rwanda. These developments contributed to PPG external debt to increase by 21.7 percentage point in the five years preceding the COVID crisis. At the same time, the increase in the fiscal deficit due to revenue shortfalls and a scaling up in spending to address the COVID-19 crisis led to sharp debt increase in 2020 by an additional 11.3 percentage point. As a result, external PPG debt has risen from 22.6 percent of GDP in 2014 to 55.6 percent in 2020 (Text Figure 1). It continues to be dominated by multilateral lending on concessional terms (Text Table 1, Text Figure 2), resulting in a present value (PV) of external PPG debt-to-GDP ratio of 33.6 percent in 2020. Total PPG debt stood at 71.3 percent of GDP in 2020, which is higher than the 2020 DSA projections (estimated at 65.9 percent of GDP) due to lower-than-expected GDP growth and a higher fiscal deficit stemming from pandemic-related spending. In August 2021, Rwanda took advantage of the favorable market conditions and issued US$620 million Eurobond at 5.5 percent yield, partly to buyback the 2013 Eurobonds maturing in 2023. Interest rates on domestic T-bills and T-bonds range from 6.7 percent (28 days) to 12.5 percent (15 years).

Text Figure 1. Total PPG Debt
(Percent of GDP)



Sources: Rwandan authorities and IMF Staff Calculations

Text Table 1. Rwanda: Decomposition of Public Debt and Debt Service by Creditor, 2020–22[1]

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$ mn)	(Percent total debt)	(Percent GDP)	(In US$ mn)			(Percent GDP)		
Total	7,149.8	100.0	71.3	498.2	1,141.2	432.0	5.1	10.4	3.5
External	5,571.8	77.9	55.6	219.3	722.4	181.8	2.1	6.5	1.5
Multilateral creditors[2]	4,190.5	58.6	41.8	62.4	95.8	117.3	0.6	0.9	1.0
IMF	415.3	5.8	4.1	22.3	37.6	46.7	0.2	0.3	0.4
World Bank	2,437.1	34.1	24.3	21.4	37.0	47.4	0.2	0.3	0.4
ADB/AfDB/IADB	1,017.2	14.2	10.1	11.2	13.5	15.5	0.1	0.1	0.1
Other Multilaterals	320.9	4.5	3.2	7.4	7.7	7.6	0.1	0.1	0.1
o/w: IFAD	162.0	2.3	1.6						
BADEA	76.0	1.1	0.8						
Bilateral Creditors	640.0	9.0	6.4	35.6	38.1	37.8	0.3	0.3	0.3
Paris Club	178.1	2.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0
o/w: JICA	113.1	1.6	1.1						
AFD	49.2	0.7	0.5						
Non-Paris Club	461.9	6.5	4.6	35.6	38.1	37.8	0.3	0.3	0.3
o/w: EXIM-CHINA	258.0	3.6	2.6						
SFD	74.0	1.0	0.7						
Bonds	428.6	6.0	4.3	26.5	363.0	4.0	0.3	3.3	0.0
Commercial creditors[3]	312.7	4.4	3.1	94.8	225.6	22.7	0.9	2.0	0.2
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1,578.0	22.1	15.7	278.9	418.8	250.2	2.7	3.8	2.1
Held by residents, total	1,578.0	22.1	15.7	278.9	418.8	250.2	2.7	3.8	2.1
Held by non-residents, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	461.4	6.5	4.6	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	708.8	9.9	7.1	256.1	388.0	214.0	2.5	3.5	1.8
Loans	407.8	5.7	4.1	22.8	30.8	36.2	0.2	0.3	0.3
Memo items:									
Collateralized debt[4]	N/A	N/A	N/A						
Contingent liabilities[5]	N/A	N/A	N/A						
Nominal GDP (US$ million)				10,022	10,831	11,475			

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
3/ A breakdown by creditor is currently not available. Information will be provided in the next DSA.
4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
5/Guaranteed debt is included within public sector perimeter for DSA purposes.

Sources: Rwandan authorities and IMF Staff Calculations

2. **The DSA covers the central government, guarantees, and state-owned enterprises (Text Table 2).** The Ministry of Finance and Economic Planning (MINECOFIN) publishes annual debt data, covering domestic and external debt of the central government, broken down by multilateral, bilateral and commercial debt, as well as information on both domestic and external guarantees and external debt held by all state-owned enterprises (SOEs). There is no debt stemming from extra budgetary funds, long term central bank financing of the government, nor the state-owned social security fund. The local government debt is not covered but the existing stock to date is marginal, and its contracting is subject to approval by MINECOFIN. External debt is defined on a currency basis. The contingent liabilities shock (7 percent of GDP) accounts for the realization of liabilities from corporations where the government has a minority stake and the possible incidence of a financial crisis.

Text Table 2. Rwanda: Coverage of Public and Publicly-Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central government plus social security and extra budgetary funds, central bank,		
		Default	Used for the analysis	Reasons for deviations from the default
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP 2/	35 percent of PPP stock	0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)	7.0		

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2/ When PPP stock is less than 3 percent of GDP, as reflected in the World Bank's database, then test is set to zero. Rwanda's PPP stock is shown as 2.6 percent of GDP.

UNDERLYING ASSUMPTIONS

3. **The macroeconomic assumptions underlying the baseline scenario reflect recent economic developments and policies, including the impact of the COVID-19 pandemic, consistent with the fifth PCI review macroeconomic framework.** The major differences between the current assumptions and those underlying the last full DSA in 2020 in the context of the Third Review of the PCI are as follows: (i) a larger economic contraction in 2020 followed by a stronger growth rebound in 2021, reflecting resilience in agricultural production and a strong rebound of the manufacturing and construction sectors; (ii) sizable fiscal support, followed by a more ambitious medium-term fiscal consolidation; and (iii) lower yet sizable current account deficit in 2020, followed by an improvement in 2021 and thereafter. Compared to the July 2021 DSA update during the fourth PCI review, henceforth the "July DSA update" the current projection takes into account the general SDR allocation and larger-than-expected Eurobond issuance in August 2021, which facilitated debt management. The main assumptions and projections are summarized in Text Table 3.

4. **With the pandemic's impact on Rwanda's economy larger than estimated in 2020 and the recovery underway in 2021, the rebound is expected to be stronger than envisaged in the December 2020 DSA.** After a 3.4 percent contraction in 2020, output is projected to grow by 10.2 percent in 2021. The projected rebound reflects base effects, stronger-than-anticipated performance in 2021H1 in industry and services; strong performance in 2021Q3 high frequency indicators for mining and manufacturing; the temporary and limited impact of mobility restrictions reinstituted in July; the acceleration in the vaccination rollout since July; recovery in external demand; and accommodative macroeconomic policies. Growth is expected to become more broad-based as the services sector recovers and returns to its pre-pandemic trend by 2023, subsequently converging to growth of 6.5 percent over the long term. The long-term growth (6.8 percent on average between 2026-41) under the baseline remains within the 10-year historical average of 7.1 percent once the large pandemic contraction in 2020 is excluded and is within the range of 6.5–7 percent

of where previous analyses have estimated Rwanda's potential GDP growth to be. Long-term growth in the baseline projections will continue to be driven by strong physical capital accumulation, but with investment shifting from public to private, reflecting NST policies to increase private sector participation, and followed by a gradual increase in human capital accumulation consistent with improvements in schooling and population growth. The negative growth in TFP is expected to be reversed and turn positive at around 1 percent. Given the strong deployment of support and policies to address potential scars from the pandemic and informed by recent analytical work, the growth impact of the pandemic scars is expected to be temporary with limited impact on long-term growth expected at this stage.[3]

5. The government's comprehensive package of policies to mitigate pandemic scars is expected to support growth in the medium to long term. The authorities expanded social safety nets to cushion households under the Economic Recovery Plan (ERP), reaching over 700 thousand households by September/October 2021. Social policies under the ERP are aimed at reversing human capital losses during the pandemic, notably by expanding programs to support poor pregnant and lactating women and reduce child stunting and malnutrition,; improving the quality and retention of primary and secondary schooling through the fast-tracking of the construction of new and less remote schools; expanding teacher training; and the adoption of digital technologies The authorities also deployed financial support to hard-hit firms under a revamped ERF (ERF-2), including through the new investment window that aims to support manufacturing and other strategic sectors to accelerate the recovery by creating jobs and improving Rwanda's external position. ERF-2 also seeks to reduce gender inequities exacerbated by the pandemic that constrain long-term growth by providing training and facilitating access to finance to female entrepreneurs.

6. The August 2021 Eurobond issuance will facilitate debt management and reduce liquidity risks in near term, while the general SDR allocation and a portion of the Eurobond proceeds are expected to finance a further increase in the fiscal deficit in FY2021/22. Part of the recently issued Eurobond proceeds amounting US$620 million was used to buy-back 85 percent of the Eurobond maturing in 2023 (US$374.5 million including associated fees and premium), alleviating liquidity risks, and to retire relatively expensive commercial loans (US$98 million), improving debt sustainability. The remaining Eurobond proceeds, amounting US$148 million, will be used to finance investment projects, which will add to the debt level. In addition, the authorities are planning to use a significant portion of the recent SDR allocation (about US$219 million) for budget financing. While the allocation per se does not affect debt sustainability, the baseline assumes that the authorities will spend 70 percent of their SDR resources (1.3 percent of GDP) in FY 2021/22 on a one-off basis for spending needs to respond to damage caused by a volcanic eruption near the border of the Democratic Republic of the Congo, to support social protection programs and social sector projects, which will add to the debt level.

7. Notwithstanding a larger fiscal deficit than envisaged at the December 2020 DSA to respond to the health, social, and economic fallout of the pandemic, debt is expected to gradually converge back to the anchor helped by the strong rebound in 2021 and a strong but growth-friendly fiscal consolidation. The COVID-19 induced fiscal support will contribute to higher near-term levels of public and publicly guaranteed (PPG) debt; however, the post-pandemic fiscal consolidation path, and the stronger than envisaged recovery underway in the first half of 2021 are projected to bring the total PPG debt back to the

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[3] See Staff Report for 2021 Article IV Consultation and 5th Review under the Policy Coordination Instrument, Annex I.

Text Table 3. Key Macroeconomic and Debt Assumptions—Comparison with Previous Debt Sustainability Analyses[1]

Calendar year	2020	2021	2026	2031	2036	2041	2026-41
			Projections				
Selected indicators from the macro-framework and debt data							
(Percent, unless otherwise indicated)							
			PV of PPG External Debt to GDP Ratio				
2020 DSA (3rd PCI Review)	34.1	35.2	38.9	36.6	30.9	...	33.7
2021 DSA (4th PCI Review)	33.9	38.4	42.8	36.6	31.9	25.3	34.4
2021 DSA (5th PCI Review)	33.6	36.1	40.4	31.9	27.4	22.1	30.4
			PV of Public Debt to GDP Ratio				
2020 DSA (3rd PCI Review)	45.5	48.8	47.7	44.8	47.1	...	46.4
2021 DSA (4th PCI Review)	51.0	55.8	52.1	45.0	45.0	46.2	46.1
2021 DSA (5th PCI Review)	50.3	52.9	50.0	43.0	42.4	42.0	43.6
			Grant Element of New External Borrowing				
2020 DSA (3rd PCI Review)	48.3	47.5	44.3	40.3	31.4	...	35.5
2021 DSA (4th PCI Review)	0.0	29.8	38.0	31.5	30.0	18.6	32.5
2021 DSA (5th PCI Review)	-	26.3	39.2	31.0	31.0	19.3	33.4
			Stock of New Commercial Loan (billions of U.S. dollars)				
2020 DSA (3rd PCI Review)	0.0	0.0	0.9	1.0	1.1	...	1.1
2021 DSA (4th PCI Review)	0.0	0.5	0.9	0.6	1.4	2.6	1.3
2021 DSA (5th PCI Review)	0.0	0.6	0.8	0.4	1.3	2.6	1.1
			Real GDP Growth (annual percent change)				
2020 DSA (3rd PCI Review)	-0.2	5.7	6.1	7.2	6.8	...	6.8
2021 DSA (4th PCI Review)	-3.4	5.1	6.1	7.2	6.8	6.5	6.8
2021 DSA (5th PCI Review)	-3.4	10.2	6.1	7.2	6.8	6.5	6.8
			Current Account Balance (percent of GDP)				
2020 DSA (3rd PCI Review)	-12.2	-12.5	-7.6	-8.0	-7.5	...	-7.5
2021 DSA (4th PCI Review)	-12.2	-13.4	-6.8	-8.0	-7.5	-6.5	-7.4
2021 DSA (5th PCI Review)	-11.9	-11.0	-5.7	-7.5	-6.2	-5.1	-6.5
			Exports of goods and services (percent of GDP)				
2020 DSA (3rd PCI Review)	18.2	22.7	28.5	30.3	32.2	...	31.2
2021 DSA (4th PCI Review)	18.7	22.3	30.8	29.6	28.3	27.5	29.0
2021 DSA (5th PCI Review)	18.7	18.9	33.3	33.5	30.9	29.7	32.0
			Fiscal balance[2] (percent of GDP)				
2020 DSA (3rd PCI Review)	-9.7	-7.9	-3.7	-5.2	-4.8	...	-4.8
2021 DSA (4th PCI Review)	-9.4	-8.9	-3.2	-4.0	-3.3	-3.2	-3.5
2021 DSA (5th PCI Review)	-10.3	-9.3	-3.5	-4.1	-3.4	-3.3	-3.6

1/ Previous full DSA completed in January 2021; Update publish in July 2021.
Sources: Rwandan authorities; IMF and World Bank staff estimates and projections.

debt anchor of 65 percent of GDP by 2028, earlier than projected in the July DSA update.[4] Given the large FY 2021/22 fiscal deficit, this requires a large cumulative reduction in the overall headline deficit amounting 6.1 percentage points of GDP between FY 2022/23 and FY 2025/26 driven by the phase-off of COVID-19 and SDR-financed spending, tax policy and administration measures under the government medium-term revenue strategy spanning FY 2021/22 to FY 2023/24 (MTRS), and spending savings based on efficiency gains, digitalization in the delivery of public goods and services, and greater rationalization of public investment projects guided by the on-going World Bank's Public Expenditure Review (PER) and an IMF Public

[4] For discussions on the fiscal anchor please see the Third Review under the PCI staff report (Country Report No. 2021/001).

Investment Management Assessment (PIMA) planned for early in 2022. Domestic revenue mobilization measures have started to be legislated as part of the MTRS and are expected to be approved by Cabinet by end-2021. Spending measures will start to be adopted in the FY 2022/23 budget.

8. The DSA assumes continued support from bilateral and multilateral development partners over the medium term. The current fiscal framework foresees continued support to the NST implementation, while maintaining macroeconomic stability. In the near-term, financing needs of the government are expected to be met by increased support from official bilateral and multilateral partners, preserving concessionality of a significant portion of the debt. As of December 7, 2021, the World Bank disbursed US$98.2 million in FY2021/22 in the form of concessional financing, including budget support and project financing. out of US$991.2 million IDA allocation over this and the next fiscal year. From 2028 onwards, the financing mix is assumed to: (i) shift gradually away from concessional financing to market-based financing as Rwanda's income level rises, and (ii) shift from external to domestic financing as the local bond markets develop. The grant component of new external financing is assumed to decline as Rwanda develops. As a result, grant-equivalent new net external financing is projected to decline from 66 percent in 2022 and 52 percent in 2031 to under 35percent by 2041.[5]

9. Past public debt dynamics have been strongly affected by the materialization of fiscal risks and shocks to output (Figure 3). Changes in total public debt over the past five years have been driven by higher-than-anticipated primary deficits, unanticipated developments of the debt outside the budgetary central government, and lower-than-expected GDP growth—all leading to a higher-than-expected debt accumulation of almost 25 percentage points of GDP—well in excess of the median, and the upper edge of the 25–75 percent interquartile range, of other low-income countries. Hence the management of risks to mitigate future unanticipated fiscal developments outside the central government, which is a key pillar of the PCI, would help mitigate the prospects for unexpected debt increases. Going forward, the evolution of public debt will be dominated by the path of the primary fiscal deficit and real GDP growth.

10. Realism tools indicate that the planned fiscal adjustment is ambitious (Figure 4). The loosening of the fiscal deficit during FY2021/22 has rendered the required adjustment over the next few years more demanding during the post-pandemic period. A 3-year fiscal consolidation in the primary balance is expected to reach more than 5 percentage points of GDP from 2022 to 2025. Such adjustment lies well into the top quartile of the distribution of past adjustments for a sample of LICs, signaling that the envisaged fiscal adjustment in the baseline scenario is ambitious based on past experiences in LICs. While a significant share of the adjustment relates to phasing-out of one-off COVID-19-related spending, the credibility of fiscal adjustment of this magnitude hinges on the authorities' commitment to implement reforms and policies under the PCI program on domestic revenue mobilization and improvements in spending efficiency.

11. Rwanda's debt-carrying capacity continues to be assessed as "strong" (Text Tables 4a and 4b). The composite index (CI) for Rwanda, which measures the debt-carrying capacity in the new LIC-DSF, stands at 3.19, above the cut-off value of 3.05 for strong capacity countries. The underlying inputs for the

[5] This includes grants provided directly to the government as well as the grant element of new borrowing (difference between the face value and the PV of new debt).

calculation of the CI were sourced from the IMF's October 2021 WEO, and an update of the World Bank Country Policy and Institutional Assessment (CPIA) to 2020 levels. The CI score is largely driven by Rwanda's high CPIA score and adequate reserve coverage.[6]

Text Table 4a. Rwanda: Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	4.08	1.57	49%
Real growth rate (in percent)	2.72	6.49	0.18	6%
Import coverage of reserves (in percent)	4.05	38.01	1.54	48%
Import coverage of reserves^2 (in percent)	-3.99	14.45	-0.58	-18%
Remittances (in percent)	2.02	2.53	0.05	2%
World economic growth (in percent)	13.52	3.15	0.43	13%
CI Score			3.19	100%
CI rating			Strong	

Text Table 4b. Rwanda: Applicable Thresholds and Benchmarks

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

DEBT SUSTAINABILITY ANALYSIS

External Debt

12. **The external debt indicators suggest continued moderate risk of debt distress, but the solvency risks are rising, which makes the country more susceptible to external shocks compared to the December 2020 DSA (Tables 1 and 3; Figures 1 and 3).**[7] Under the baseline scenario, the solvency indicators remain below their indicative thresholds. However, there are multiple breaches of the threshold under the most extreme shocks to exports, notably for the PV of external debt-to-exports ratio. This is mitigated by adequate international reserves and available external official financing. Similarly, the authorities' efforts to address climate related shocks, including through the 2019 National Environment and Climate Change Policy, Nationally Determined Contribution (NDC) goals, and the Green Growth and Climate Resilience Strategy, as well as their current efforts to mitigate pandemic scars to human capital are expected to mitigate shocks to growth going forward.

[6] This is based on the IMF's assessment of reserve adequacy.

[7] The LIC-DSF assesses the risk of debt distress by observing the evolution of selected indicators against predetermined thresholds that are set according to countries' debt-carrying capacities.

13. Liquidity indicators show that liquidity risks are muted, although significant gross financing needs make the country susceptible to adverse market conditions (Figures 1 and 6). The debt management strategy to smooth out the debt servicing profile helped to mitigate the liquidity risks, as the debt service-to-exports and debt service-to-revenue ratios, except for one-off breaches in 2021, remain below their thresholds throughout most of the period under all scenarios.[8] The breach in the external debt service indicator in 2021 reflects the Eurobond buyback operation, which took place in August this year and helped to smooth the debt service for the Eurobond bullet payments due in 2023; the country, however, will need to address the Eurobond rollover risks in 2031. At the same time, Rwanda may still face liquidity pressures due to adverse market conditions, as pointed out by a breach of the market-financing risk indicator for gross financing needs (Figure 6). Similar to the solvency indicators, these risks are expected to be partly mitigated by the adequate international reserves.

14. The PV of external debt-to-GDP ratio increases sharply under the historical scenario since the latter assumes the recurrence of several large external shocks and large external imbalances observed in the past (Table 3 and Figure 1). PV of debt-to-GDP ratio rises sharply under the historical scenario. This is primarily due to the large current account deficit and negative USD GDP deflator calibrated using historical averages, which covered a period including several large shocks (donor withdrawal, commodity prices, and drought) as well as large external imbalances, which were corrected over 2015–17, primarily through a large exchange rate adjustment, as envisaged under the 2016 PSI/SCF-supported program. The large current account deficit and the negative GDP deflator account for almost all of the divergence between the baseline and historical scenarios for the solvency indicators. Policy adjustment to ensure a steady narrowing of the current account deficit from its elevated 2020–21 levels, as envisaged under the baseline scenario (Text Table 2) is key to strengthen robustness of the debt dynamics.

Public Debt

15. Total PPG debt dynamics indicate that solvency risks have increased relative to the 2020 DSA and that buffers to cushion the impact of major shocks remain limited (Tables 2 and 4; Figures 2 and 3). Faster debt accumulation has resulted in less favorable near-term debt dynamics relative to the 2020 DSA, even as risks remain moderate. In the baseline scenario, the PV of PPG debt remains below the indicative benchmark of 70 percent: it is projected to peak at 56.1 percent of GDP in 2023 before reaching the East African Community Monetary Union Protocol for debt convergence criterion of PV of 50 percent in 2026. In addition, the PV of PPG debt does not cross the 70 percent threshold even under severe shocks. The nominal PPG debt-to-GDP ratio (including the use of the recent SDR allocation for budget financing) is projected to peak at 77.9 percent in 2023 and reach the nominal debt anchor of 65 percent in 2028 in the baseline scenario, conditional on successful implementation of policies to support the ambitious fiscal consolidation. On the other hand, similar to the external debt analysis, while liquidity risks are muted in the baseline, in part reflecting a smoother debt service path achieved by this year's Eurobond issuance, debt service costs would remain elevated under severe growth and other country-specific shocks and may also be sensitive to adverse market conditions.

[8] According to the LIC DSF guidance note, single short-lived breaches (1-year) are assumed not to affect the risk rating.

ASSESSMENT

16. Rwanda's debt is assessed to be sustainable with a moderate risk of external and overall public debt distress.[9] Furthermore, a granular assessment of the moderate risk rating shows that Rwanda has limited space to absorb shocks (Figure 5). Relative to the last full DSA in 2020, the risk assessment remained unchanged; however, solvency indicators deteriorated somewhat due to larger debt accumulation in the near term, while liquidity risks have been reduced. Given the moderate risk of debt distress assessment, the limit on the stock of new external PPG debt will continue to be monitored under the PCI.

17. However, updates with respect to the economic impact and policy response to the COVID-19 crisis are evolving and risks to the debt outlook and sustainability could deteriorate should the pandemic shock prolong further. The current macroeconomic framework which underpins this DSA reflects currently available information. The baseline scenario assumes Rwanda gradually reverts to its pre-pandemic growth trend and continues to achieve robust growth over the medium term, while concessional financing is expected to decline gradually in the long term. Main risks to this outlook are external shocks to growth and/or exports, and worse-than-expected external financing conditions, which can be aggravated by a prolonged pandemic and uneven recovery.

18. Rwanda's debt challenges require robust and credible plans to ensure long term fiscal sustainability without jeopardizing short term recovery efforts. Fiscal reforms proposed for the implementation of the World Bank's Sustainable Development Finance Policy (SDFP) in FY 2021/22 complement the government's fiscal consolidation efforts under the IMF PCI program, and are designed to follow a sequenced intervention logic: a near term focus on strengthening the foundations of fiscal risk management and transparency followed by a growth-friendly fiscal consolidation once the crisis abates. In particular,

- **Fiscal risk management and transparency.** Improved budgetary control is essential given Rwanda's past record of significant debt surprises, which made it an outlier compared to low-income country peers. Strengthening the identification, assessment, and management of fiscal risks, one of the pillars under the PCI, remains central to mitigating debt surprises. With technical assistance and support from IMF and the World Bank, the authorities have shown progress in these areas and have indicated their commitment to the required reforms going forward, including those to publish fiscal risk statements and strengthen the fiscal transparency, oversight, and management of SOEs and PPPs.[10] Sustaining on-going efforts to improving the functioning of the domestic bond market will also be important to address worse-than-expected external financing conditions.[11]

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[9] This assessment is in line with the streamlined DSA update under the fourth PCI review in 2021 (the July DSA update) (July 2021, IMF Country Report 21/164).

[10] With IMF TA support, a new Organic Budget Law expected to be approved in 2022Q1 will mandate the annual publication of fiscal risk statements. With World Bank support, authorities have committed to publish enhanced semi-annual debt statistics bulletins with expanded coverage of non-guaranteed outstanding SOE debt.

[11] Rwanda has a 10-year Capital Market Master Plan aimed at developing capital markets and benefits from ongoing TA from the World Bank and IFC through the capital market development program which aims, inter alia, at improving the framework for government securities market, strengthening liquidity in the secondary market, and developing the investor base through capacity building and support to regulators.

- **Fiscal consolidation.** Government's plans to adopt a credible fiscal consolidation as soon as the COVID-19 crisis abates are key to facilitating a steady decline in the debt ratio and restore fiscal buffers. This is even more important as realism tests raise stronger concerns (compared to the previous full DSA) about the credibility of the fiscal adjustments in the baseline, which must now be achieved over a shorter horizon as the budget deficit for the current fiscal year has been loosened. In this context, it would be important to ensure that COVID-support measures will be strictly one-off, and adequate structural revenue and expenditure measures should be promptly implemented to safeguard the credibility of the adjustment in reversing recent debt dynamics and addressing external imbalances. On the revenue side, this will require the timely implementation of the MTRS and the unwinding of temporary tax exemptions to support the post-pandemic recovery. On the spending side, measures should aim at rationalizing spending through efficiency gains, digitalization, and better prioritization of the existing pipeline of public projects through the adoption of a medium-term investment program.

Authorities' Views

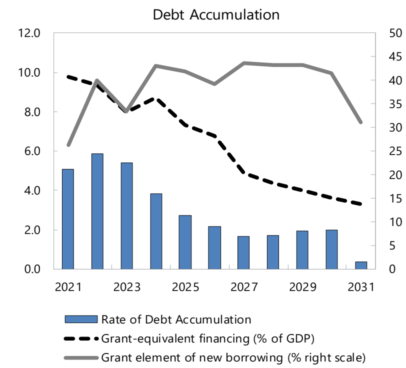
19. The authorities broadly agree with the results of the DSA and the overall assessment of a moderate risk of external and overall debt distress. They expect their current liability management strategy of converting short term external debt into long term domestic debt to shield the portfolio from refinancing risk stemming from external shocks. They also consider the recent Eurobond buyback of 85 percent of the existing US$400 million Eurobond with bullet payment in 2023 at favorable terms to significantly reduce the liquidity risks in the near term. Going forward, the authorities' debt management strategy will continue to be based on maximizing external concessional funding to avoid pressures on the debt repayment profile, while also implementing prudent spending and revenue measures agreed under the PCI to bring the debt level to the anchor of 65 percent debt-to-GDP, which they expect to build buffers to absorb shocks and reduce solvency risks.

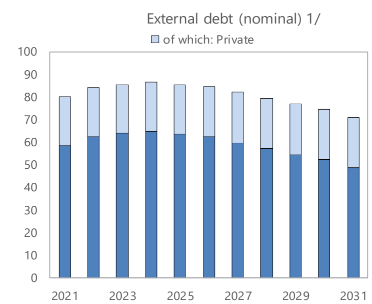
Table 1. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2020–41

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	76.6	79.9	84.1	85.6	86.6	85.5	84.7	70.8	52.5	42.6	80.9
of which: public and publicly guaranteed (PPG)	55.6	58.6	62.4	63.9	64.7	63.5	62.2	48.7	30.7	31.4	58.9
Change in external debt	13.6	3.3	4.1	1.5	1.0	-1.0	-0.9	-3.7	-1.7		
Identified net debt-creating flows	11.1	1.5	2.9	0.7	-0.6	-1.6	-1.9	-0.9	-3.5	6.5	-0.3
Non-interest current account deficit	9.8	8.7	9.1	7.9	6.4	5.4	3.1	5.2	2.9	9.5	5.9
Deficit in balance of goods and services	16.0	16.7	16.5	14.5	14.0	12.5	10.2	8.6	2.9	15.7	11.9
Exports	18.7	18.9	24.4	26.7	27.7	31.5	33.3	33.5	29.7		
Imports	34.6	35.6	40.9	41.2	41.7	44.0	43.5	42.1	32.6		
Net current transfers (negative = inflow)	-6.0	-8.0	-7.3	-6.5	-7.7	-7.2	-7.1	-4.1	-1.5	-7.4	-6.2
of which: official	-5.8	-7.4	-7.2	-6.3	-7.0	-6.2	-6.1	-2.6	-0.9		
Other current account flows (negative = net inflow)	-0.2	-0.1	0.0	0.0	0.1	0.2	0.1	0.6	1.6	1.2	0.2
Net FDI (negative = inflow)	-1.0	-2.2	-3.2	-3.5	-3.6	-3.6	-2.7	-3.5	-5.4	-2.6	-3.2
Endogenous debt dynamics 2/	2.3	-5.0	-3.0	-3.7	-3.4	-3.4	-2.3	-2.6	-1.0		
Contribution from nominal interest rate	2.2	2.3	2.3	2.4	2.6	2.6	2.6	2.3	2.2		
Contribution from real GDP growth	2.1	-7.3	-5.4	-6.1	-5.9	-6.0	-4.9	-4.9	-3.2		
Contribution from price and exchange rate changes	-2.0	...	...	...	...	...	...	...	...		
Residual 3/	2.5	1.8	1.2	0.7	1.6	0.6	1.0	-2.8	1.8	-0.5	-0.2
of which: exceptional financing	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	33.6	36.1	39.2	40.9	41.5	40.9	40.4	31.9	22.1		
PV of PPG external debt-to-exports ratio	179.7	190.9	160.5	153.3	149.9	130.0	121.1	95.1	74.5		
PPG debt service-to-exports ratio	10.6	34.5	7.8	9.0	8.2	8.5	8.3	12.8	9.6		
PPG debt service-to-revenue ratio	10.6	34.4	9.9	12.9	11.9	13.6	14.1	19.4	11.5		
Gross external financing need (Billion of U.S. dollars)	1.5	1.9	1.4	1.4	1.3	1.3	1.2	2.5	2.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-3.4	10.2	7.2	7.9	7.5	7.5	6.1	7.2	6.5	6.1	7.4
GDP deflator in US dollar terms (change in percent)	3.2	-2.9	-0.2	1.0	0.3	0.5	0.7	2.0	2.0	-0.6	0.8
Effective interest rate (percent) 4/	3.4	3.2	3.1	3.1	3.2	3.2	3.2	3.4	4.5	3.5	3.2
Growth of exports of G&S (US dollar terms, in percent)	-14.4	8.4	38.2	19.2	11.8	22.8	13.1	6.3	8.1	11.4	14.5
Growth of imports of G&S (US dollar terms, in percent)	-4.3	10.2	22.9	9.6	9.3	13.9	5.7	5.2	6.3	8.5	10.3
Grant element of new public sector borrowing (in percent)	...	26.3	39.8	33.4	43.0	41.8	39.2	31.0	19.3	...	38.7
Government revenues (excluding grants, in percent of GDP)	18.8	19.0	19.1	18.7	19.1	19.7	19.7	22.3	25.0	14.9	20.4
Aid flows (in Billion of US dollars) 5/	0.5	1.2	1.3	1.1	1.4	1.2	1.2	0.9	0.9		
Grant-equivalent financing (in percent of GDP) 6/	...	9.8	9.3	8.0	8.7	7.3	6.8	3.3	1.3	...	6.4
Grant-equivalent financing (in percent of external financing) 6/	...	50.9	65.9	59.1	69.4	69.6	70.3	52.1	34.5	...	63.7
Nominal GDP (Billion of US dollars)	10	11	12	13	14	15	16	25	58		
Nominal dollar GDP growth	-0.2	7.0	7.0	8.9	7.8	8.1	6.8	9.3	8.6	5.4	8.3
Memorandum items:											
PV of external debt 7/	54.6	57.5	60.9	62.6	63.4	63.0	62.8	54.0	44.0		
In percent of exports	292.4	303.9	249.4	234.4	228.8	199.9	188.3	160.9	148.1		
Total external debt service-to-exports ratio	31.2	55.9	24.5	24.3	23.1	21.7	21.0	25.3	23.5		
PV of PPG external debt (in Billion of US dollars)	3.5	4.0	4.6	5.3	5.8	6.1	6.5	7.9	12.8		
(PVt-PVt-1)/GDPt-1 (in percent)		5.1	5.9	5.4	3.8	2.7	2.2	0.4	0.9		
Non-interest current account deficit that stabilizes debt ratio	-3.8	5.4	5.0	6.5	5.4	6.4	4.0	8.9	4.6		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





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/ Current-year interest payments divided by previous period debt stock.

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

6/ 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).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

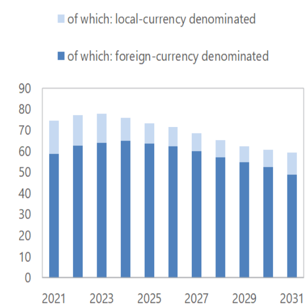
Table 2. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–41

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	71.3	74.6	77.2	77.9	75.7	73.1	71.1	59.1	50.1	40.7	69.5
of which: external debt	55.6	58.6	62.4	63.9	64.7	63.5	62.2	48.7	30.7	31.4	58.9
Change in public sector debt	14.6	3.3	2.6	0.7	-2.2	-2.6	-2.0	-1.4	-0.6		
Identified debt-creating flows	10.0	3.5	2.8	0.9	-2.0	-2.3	-1.7	-1.3	-0.6	2.0	-0.9
Primary deficit	8.7	7.3	5.5	6.0	2.2	2.0	1.7	2.6	1.7	3.1	3.1
Revenue and grants	23.6	25.4	25.3	23.9	24.9	24.8	24.7	24.2	25.7	21.3	24.6
of which: grants	4.8	6.4	6.1	5.2	5.8	5.0	4.9	1.9	0.7		
Primary (noninterest) expenditure	32.2	32.7	30.8	29.9	27.1	26.7	26.3	26.8	27.4	24.4	27.7
Automatic debt dynamics	1.4	-3.8	-2.8	-5.1	-4.1	-4.2	-3.2	-3.9	-2.3		
Contribution from interest rate/growth differential	1.7	-6.0	-4.4	-5.1	-5.1	-4.8	-3.8	-3.9	-2.3		
of which: contribution from average real interest rate	-0.2	0.6	0.6	0.6	0.3	0.5	0.4	0.1	0.8		
of which: contribution from real GDP growth	2.0	-6.6	-5.0	-5.6	-5.4	-5.3	-4.2	-4.0	-3.1		
Contribution from real exchange rate depreciation	-0.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-0.2	-0.1	-0.1	0.0	0.0	-0.1	-0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	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		
Other debt creating or reducing flow (use of earmarked fund)	0.0	0.0	0.0	0.0	-0.2	-0.1	-0.1	0.0	0.0		
Residual	4.5	2.0	1.4	-0.3	0.8	0.3	0.2	0.0	0.0	3.2	0.3
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	50.3	52.9	55.3	56.1	53.5	51.4	50.0	43.0	42.0		
PV of public debt-to-revenue and grants ratio	213.8	208.4	218.6	234.8	215.0	207.5	203.0	177.6	163.5		
Debt service-to-revenue and grants ratio 3/	40.8	55.7	35.7	39.1	36.3	31.6	31.2	37.7	38.7		
Gross financing need 4/	18.3	21.4	14.6	15.3	11.0	9.6	9.2	11.7	11.7		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-3.4	10.2	7.2	7.9	7.5	7.5	6.1	7.2	6.5	6.1	7.4
Average nominal interest rate on external debt (in percent)	1.5	1.4	1.4	1.5	1.6	1.6	1.6	1.5	2.1	2.0	1.5
Average real interest rate on domestic debt (in percent)	-0.7	7.5	5.5	3.8	5.2	6.0	6.2	4.6	4.3	1.3	5.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.8	...	...	...	...	...	...	...	...	2.4	...
Inflation rate (GDP deflator, in percent)	8.3	2.3	5.3	7.1	5.5	5.3	5.0	5.0	5.0	4.3	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	28.3	11.8	1.0	4.6	-2.5	5.9	4.6	7.2	7.3	11.1	5.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-5.9	4.0	3.0	5.3	4.4	4.6	3.6	4.0	2.3	-2.5	4.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

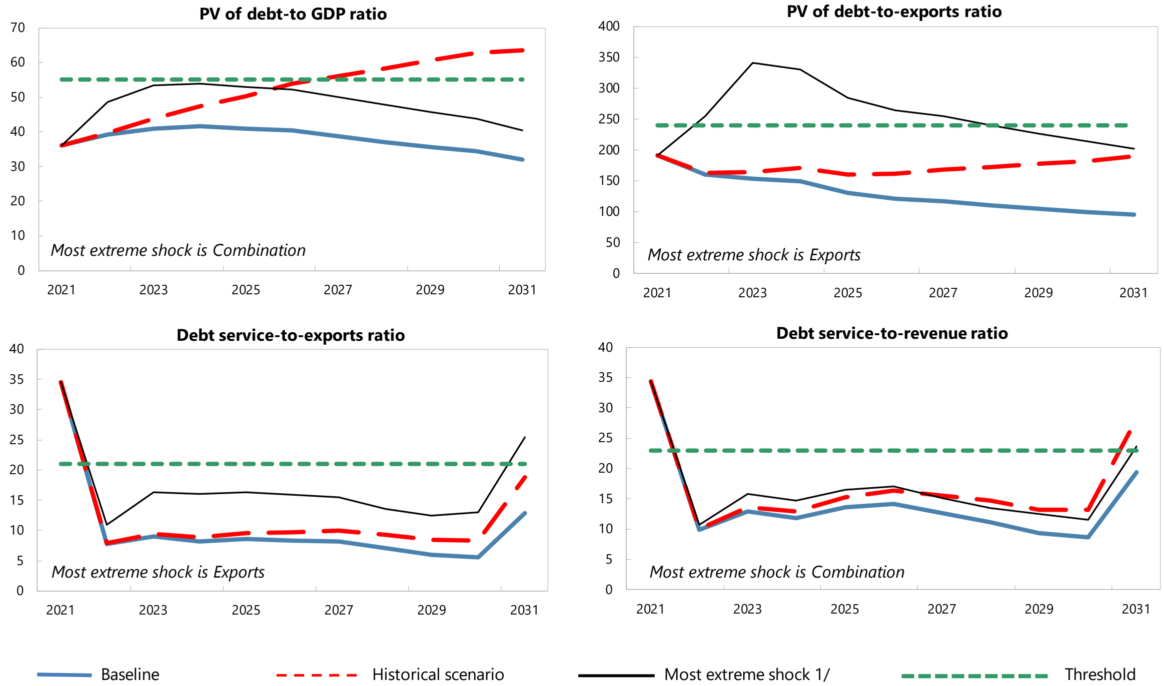
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Rwanda: Indicators of Public and Publicly-Guaranteed External Debt Under Alternative Scenarios, 2021–31 1/ 2/



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6

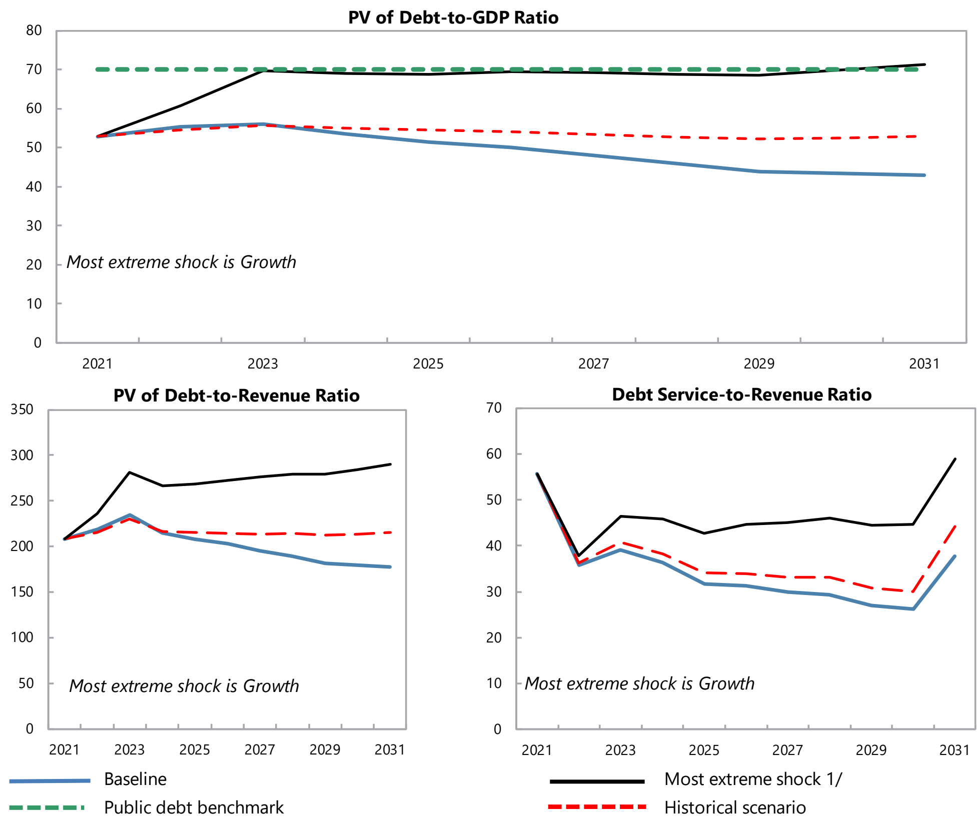
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Rwanda: Indicators of Public Debt Under Alternative Scenarios, 2021–31 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	52%	52%
Domestic medium and long-term	17%	17%
Domestic short-term	31%	31%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.4%	5.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	1%	1.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2021–31

(In percent)

	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	**36.1**	**39.2**	**40.9**	**41.5**	**40.9**	**40.4**	**38.8**	**37.1**	**35.7**	**34.5**	**31.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	36.1	39.8	43.8	47.3	50.3	53.9	56.0	58.3	60.6	62.8	63.5
B. Bound Tests											
B1. Real GDP growth	36.1	42.3	48.2	48.9	48.2	47.5	45.7	43.7	42.0	40.6	37.5
B2. Primary balance	36.1	40.0	44.0	44.7	44.2	43.8	42.1	40.4	38.8	37.4	34.7
B3. Exports	36.1	44.1	53.2	53.4	52.4	51.5	49.5	47.3	45.2	43.1	39.6
B4. Other flows 2/	36.1	41.4	45.6	46.0	45.2	44.6	42.8	40.9	39.2	37.7	34.8
B6. One-time 30 percent nominal depreciation	36.1	49.6	47.7	48.6	48.0	47.4	45.5	43.5	41.9	40.7	37.7
B6. Combination of B1-B5	36.1	48.5	53.3	53.8	52.9	52.1	50.0	47.9	45.7	43.8	40.4
C. Tailored Tests											
C1. Combined contingent liabilities	36.1	41.6	44.0	44.7	44.4	44.0	42.4	40.6	39.1	37.8	35.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	36.1	43.8	45.8	46.6	45.7	44.8	43.1	41.3	39.7	38.4	35.5
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**190.9**	**160.5**	**153.3**	**149.9**	**130.0**	**121.1**	**116.5**	**109.8**	**104.5**	**100.0**	**95.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	190.9	162.8	164.0	170.7	159.9	161.6	168.1	172.6	177.5	182.2	189.5
B. Bound Tests											
B1. Real GDP growth	190.9	160.5	153.3	149.9	130.0	121.1	116.5	109.8	104.5	100.0	95.1
B2. Primary balance	190.9	163.8	164.5	161.4	140.3	131.2	126.5	119.4	113.7	108.6	103.5
B3. Exports	190.9	254.4	341.2	330.0	284.8	264.6	254.5	239.8	226.9	213.9	202.4
B4. Other flows 2/	190.9	169.7	170.6	165.9	143.6	133.6	128.5	121.1	115.0	109.3	103.7
B6. One-time 30 percent nominal depreciation	190.9	160.5	141.1	138.5	120.3	112.2	107.9	101.8	97.0	93.2	88.9
B6. Combination of B1-B5	190.9	242.8	174.5	255.6	221.1	205.8	197.9	186.6	176.4	167.5	158.8
C. Tailored Tests											
C1. Combined contingent liabilities	190.9	170.3	164.6	161.4	141.0	131.9	127.3	120.3	114.6	109.7	104.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	190.9	160.5	153.4	150.4	129.8	120.3	115.7	109.4	104.2	99.7	94.8
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**34.5**	**7.8**	**9.0**	**8.2**	**8.5**	**8.3**	**8.1**	**7.1**	**6.0**	**5.5**	**12.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	34.5	7.9	9.5	8.8	9.6	9.7	10.0	9.3	8.4	8.4	18.7
B. Bound Tests											
B1. Real GDP growth	34.5	7.8	9.0	8.2	8.5	8.3	8.1	7.1	6.0	5.5	12.8
B2. Primary balance	34.5	7.8	9.3	8.7	9.0	8.8	8.6	7.5	6.4	6.0	13.4
B3. Exports	34.5	11.0	16.4	16.1	16.3	15.8	15.4	13.5	12.4	13.0	25.4
B4. Other flows 2/	34.5	7.8	9.2	8.6	8.9	8.7	8.5	7.4	6.5	6.3	13.6
B6. One-time 30 percent nominal depreciation	34.5	7.8	9.0	7.9	8.3	8.1	7.9	6.9	5.8	4.9	12.3
B6. Combination of B1-B5	34.5	10.3	14.5	13.3	13.6	13.2	12.9	11.3	10.5	9.7	20.7
C. Tailored Tests											
C1. Combined contingent liabilities	34.5	7.8	9.3	8.5	8.8	8.6	8.4	7.4	6.2	5.7	13.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	34.5	7.8	9.2	9.4	10.8	9.5	7.0	6.0	5.8	5.5	12.8
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**34.4**	**9.9**	**12.9**	**11.9**	**13.6**	**14.1**	**12.6**	**11.2**	**9.3**	**8.6**	**19.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	34.4	10.1	13.5	12.8	15.3	16.4	15.5	14.6	13.2	13.1	28.3
B. Bound Tests											
B1. Real GDP growth	34.4	10.7	15.2	14.0	16.0	16.6	14.9	13.2	11.0	10.1	22.8
B2. Primary balance	34.4	9.9	13.3	12.7	14.3	14.8	13.3	11.8	10.1	9.5	20.2
B3. Exports	34.4	10.0	13.7	13.6	15.2	15.6	14.0	12.4	11.4	11.9	22.4
B4. Other flows 2/	34.4	9.9	13.2	12.5	14.2	14.6	13.1	11.6	10.2	9.8	20.5
B6. One-time 30 percent nominal depreciation	34.4	12.6	16.4	14.5	16.7	17.3	15.5	13.7	11.5	9.8	23.5
B6. Combination of B1-B5	34.4	10.7	15.8	14.6	16.5	17.0	15.2	13.4	12.5	11.5	23.7
C. Tailored Tests											
C1. Combined contingent liabilities	34.4	9.9	13.3	12.3	14.0	14.5	13.0	11.6	9.7	9.0	19.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	34.4	9.9	13.1	13.6	17.2	16.1	10.9	9.5	9.2	8.6	19.3
Threshold	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**

Sources: Country authorities; and staff estimates and projections.

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

2/ Includes official and private transfers and FDI.

Table 4. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

(In percent)

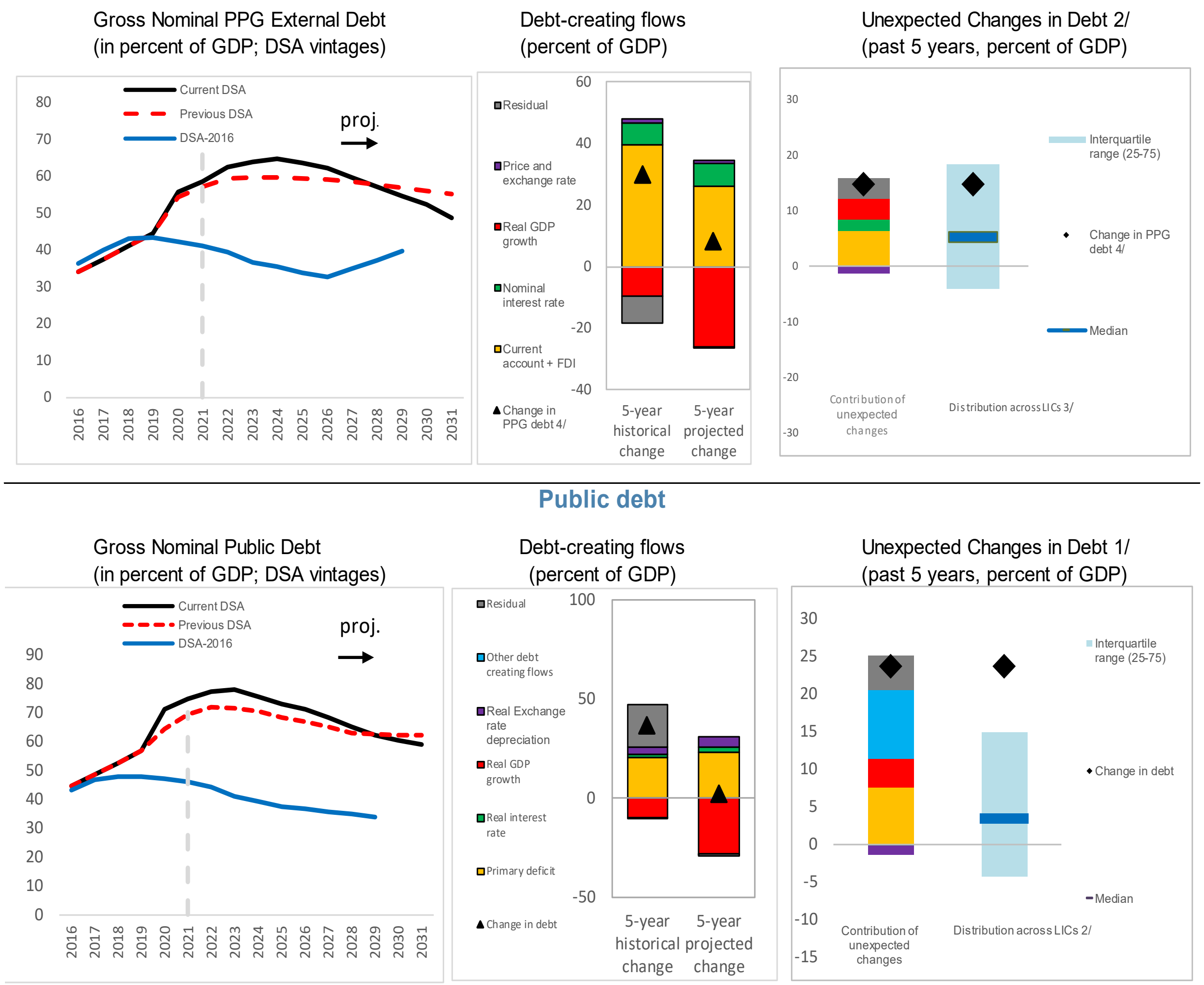
	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	**52.9**	**55.3**	**56.1**	**53.5**	**51.4**	**50.0**	**47.9**	**45.9**	**43.9**	**43.3**	**43.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	53	55	56	55	55	54	53	53	52	52	53
B. Bound Tests											
B1. Real GDP growth	53	61	70	69	69	69	69	69	69	70	71
B2. Primary balance	53	57	61	58	56	54	52	49	47	46	46
B3. Exports	53	60	68	65	63	61	59	56	53	52	51
B4. Other flows 2/	53	58	61	58	56	54	52	50	48	47	46
B6. One-time 30 percent nominal depreciation	53	61	59	55	51	49	45	42	39	38	36
B6. Combination of B1-B5	53	55	59	57	55	54	53	51	49	49	49
C. Tailored Tests											
C1. Combined contingent liabilities	53	61	61	58	56	54	52	50	47	47	46
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	53	55	56	54	51	50	48	46	44	43	43
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**208.4**	**218.6**	**234.8**	**215.0**	**207.5**	**203.0**	**195.3**	**189.4**	**181.6**	**179.4**	**177.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	208	215	230	216	215	215	214	214	213	214	215
B. Bound Tests											
B1. Real GDP growth	208	236	281	266	268	272	276	279	279	285	290
B2. Primary balance	208	226	255	233	225	219	211	204	195	192	190
B3. Exports	208	238	286	263	254	248	239	231	221	215	209
B4. Other flows 2/	208	228	255	233	225	220	212	205	197	193	190
B6. One-time 30 percent nominal depreciation	208	245	252	225	211	201	187	176	164	157	150
B6. Combination of B1-B5	208	220	247	228	222	219	214	209	203	201	201
C. Tailored Tests											
C1. Combined contingent liabilities	208	241	256	234	225	220	212	205	196	193	191
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	208	219	235	216	207	202	194	189	181	179	177
Debt Service-to-Revenue Ratio											
Baseline	**55.7**	**35.7**	**39.1**	**36.3**	**31.6**	**31.2**	**29.9**	**29.4**	**27.1**	**26.2**	**37.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	56	36	41	38	34	34	33	33	31	30	44
B. Bound Tests											
B1. Real GDP growth	56	38	46	46	43	45	45	46	45	45	59
B2. Primary balance	56	36	42	41	35	35	32	31	29	28	39
B3. Exports	56	36	40	38	33	32	31	30	29	29	40
B4. Other flows 2/	56	36	39	37	32	32	30	30	28	27	39
B6. One-time 30 percent nominal depreciation	56	35	40	36	33	32	31	30	27	26	40
B6. Combination of B1-B5	56	35	41	40	35	35	34	34	31	30	42
C. Tailored Tests											
C1. Combined contingent liabilities	56	36	49	40	37	35	32	31	29	27	39
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	56	36	39	38	35	33	28	28	27	26	38

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 3. Rwanda: Drivers of Debt Dynamics—Baseline Scenario[1/]



1/ Compared to 2016 DSA and the previous full DSA in 2020.

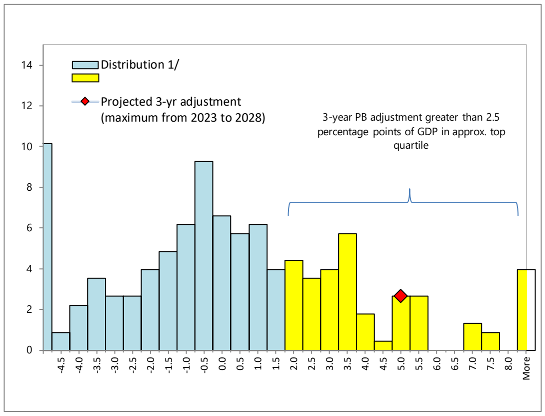
2/ Difference between anticipated and actual contributions on debt ratios.

3/ Distribution across LICs for which LIC DSAs were produced.

4/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

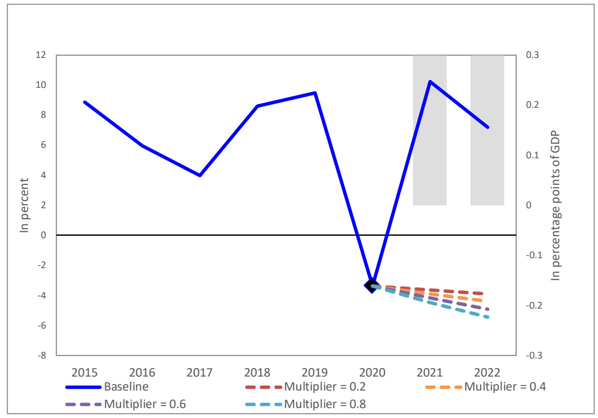
Figure 4. Rwanda: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



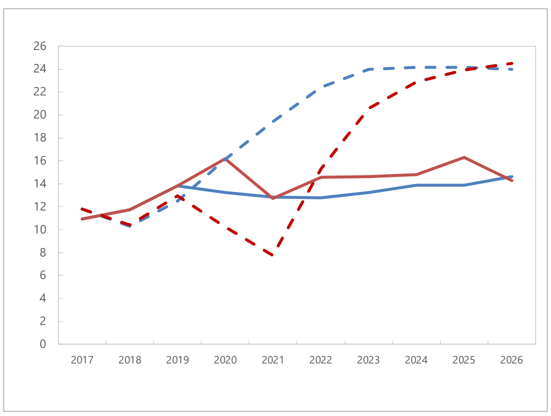
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates 1/
(% of GDP)



1/ Private investment includes the Bugesera airport project.

Contribution to Real GDP growth
(percent, 5-year average)

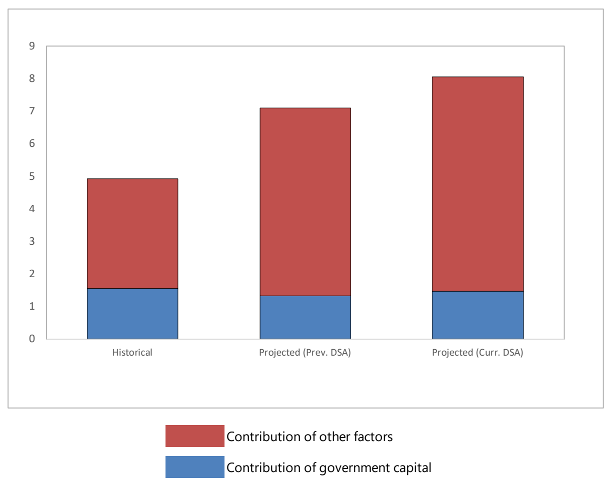
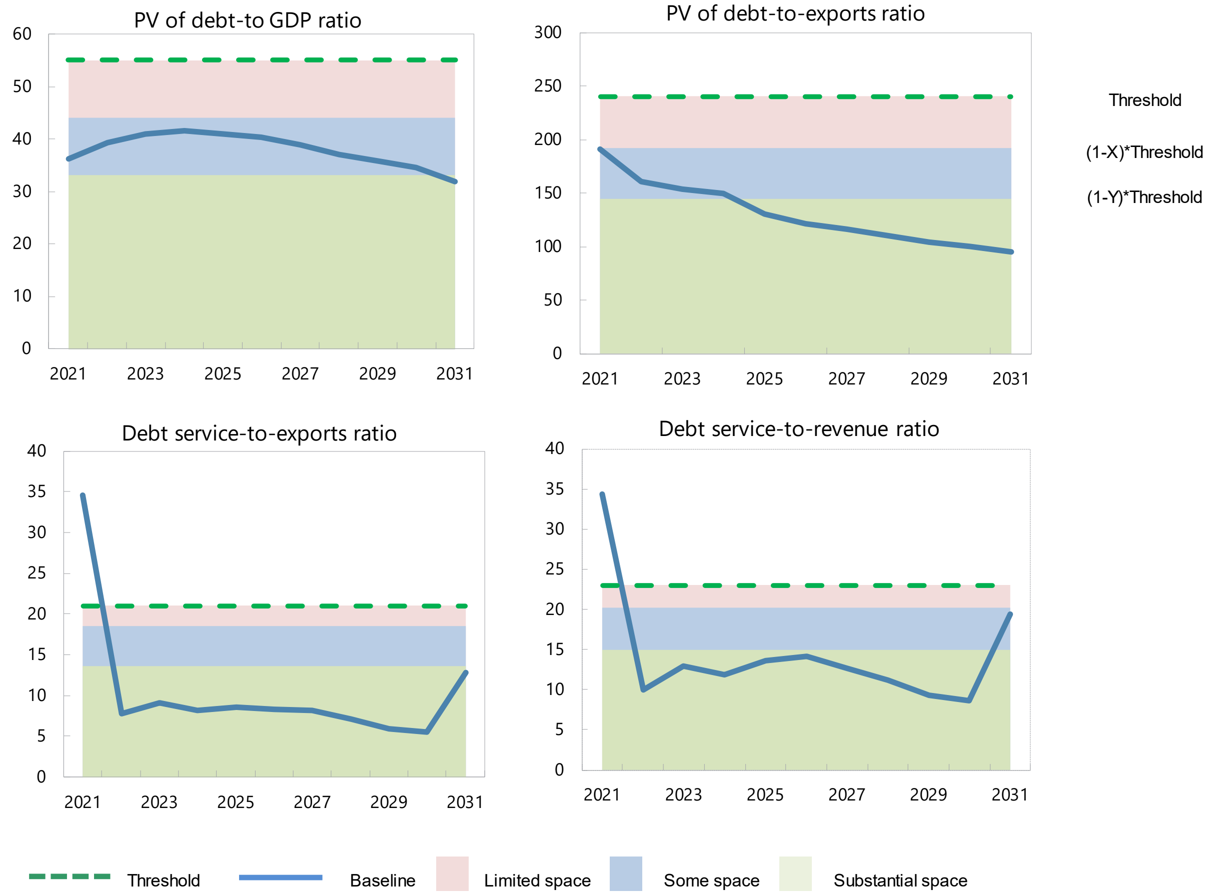


Figure 5. Rwanda: Qualification of the Moderate Category, 2020–31[1/]



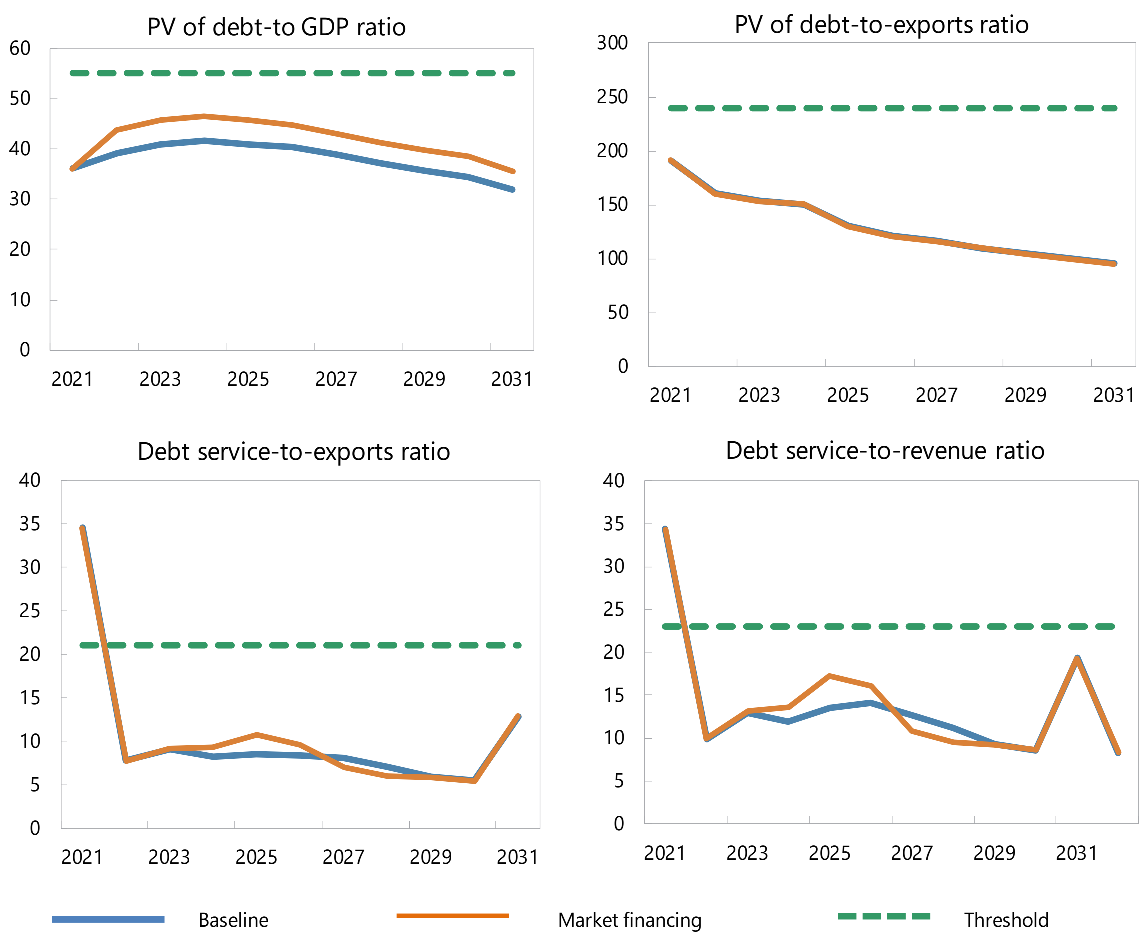
Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Rwanda: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	21	n.a.
Breach of benchmark	Yes	n.a.
Potential heightened liquidity needs	High	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Statement by the Executive Director, Mr. Aivo Andrianarivelo, by the Alternate Executive Director, Mr. Regis O. N'Sonde, and by the Advisor of the Executive Director, Ms. Loy Nankunda
January 10, 2022

I. Introduction.

1. Our Rwandan authorities thank IMF Executive Board, Management, and staff for the continued support to the country. The emergency assistance provided by the Fund under the Rapid Credit Facility (RCF1 and RCF2) in 2020 has helped Rwanda cope with the economic and social fallout of the Covid-19 pandemic. This, coupled with debt service relief under the Fund's Catastrophe Containment and Relief Trust (CCRT), has been instrumental in strengthening the country's external position while providing highly needed additional fiscal space. Furthermore, the historical 2021 SDR allocation contributed to increasing international reserves, reinforcing the recovery, and supporting targeted social spending needs while strengthening buffers. This support is highly appreciated by the Rwandan authorities.

2. Rwanda's economy has significantly rebounded in 2021, and the recovery is expected to continue in 2022, supported by stepped up vaccination efforts, a rise in external demand, and accommodative macroeconomic policies. However, the economy remains highly vulnerable to external shocks as well as subject to scarring effects of the COVID-19 pandemic and the new variants. Going forward, as the recovery strengthens, the authorities will pursue their macroeconomic objectives set forth under the Policy Coordination Instrument (PCI).

II. Recent Developments and Outlook

3. The authorities have continued to focus on their policy agenda while addressing the effects of the pandemic. They are cognizant of the need to redouble efforts on this front given the expected legacy of the COVID-19 crisis and related scars. Prompt actions taken to mitigate the economic and social impact of the pandemic include fiscal and monetary support to business activity, scaling up social safety nets through emergency cash transfers to vulnerable households and improving the coverage and targeting of social protection. The government will continue to closely monitor the evolution of the pandemic at home and abroad while investing in health, education, and other social sectors to ensure that disruptions and necessary mitigation measures do not have lasting negative effects on Rwanda's social and development indicators. Notwithstanding the government support, economic activity has suffered from the impact of the pandemic shock, with real GDP declining by more than 3 percent in 2020 in large part due to a near halt in tourism and decrease in domestic demand owing to containment measures. That said, following challenging 2020 and 2021H1, the economy is rebounding sharply.

4. The authorities have accelerated the vaccination rollout in the second half of 2021, which combined with containment measures, has helped keep infections relatively low. The Rwandan authorities have achieved their COVID-19 vaccination target of covering 30 percent of the total population with two doses by end-December 2021. As of January 3rd, 2022, 42.5 percent of the population has been fully vaccinated while 59.5 percent has received at least one dose of vaccine, of which 99 percent of adult population in the capital city Kigali. In addition, 201,113 booster doses have been administered.

5. Real GDP is estimated to have grown by 10.2 percent y/y in 2021, mainly driven by base effects from recovering activities in the industry and service sectors. Nonetheless, inflation remains subdued, with the 12-month average within below the outer lower band established in the monetary policy consultation clause.

6. The current account deficit is projected to remain large at 11.1 percent of GDP in 2021, driven by a strong rebound in imports as economic activities resume. While FDI inflows remained subdued in the past year and half as some large investment projects were delayed, gross international reserves stood at 5.2 months of prospective imports at the end of September 2021, bolstered by the recent SDR allocation. The external position is expected to improve further through increases in domestic savings, particularly stemming from the envisaged fiscal consolidation and productivity gains underpinned by structural reforms over the medium term.

7. Notwithstanding the strong recovery, the authorities acknowledge that significant downside risks remain—including those stemming from the new COVID-19 variants given the significant share of the population still unvaccinated, a protracted pandemic, higher oil prices and a more subdued external demand than expected. In addition, pandemic scars could hamper longer-term growth. The materialization of these risks could worsen the fiscal and debt outlook, strain the external position leave even greater scars through impact on human capital, and could lead to difficult policy trade-offs.

III. Program Performance Under the PCI

8. Program performance under the PCI remains satisfactory, despite challenging circumstances. For the period under review, all end-June 2021 quantitative targets have been met while inflation remains within the monetary policy consultation clause as underscored above. On the comprehensive reform agenda, most of the targets have been met, including those related to mitigating fiscal risks from SOEs, strengthening domestic revenue mobilization, and deepening financial markets. Regarding the issuance of public securities, a cell phone platform has been set up. Moreover, the risk-based verification process for VAT claims has been computerized.

9. Delays in the procurement process for the hiring of experts led to two reform targets through end-November 2021 not being met. The two missed reform targets—consisting of conducting the review of the Rwanda Social Security Board (RSSB)'s asset allocation and conducting a legal assessment for the Global Master Repurchase Agreement (GMRA) rollout—have been reset to end-January 2022 and end-March 2022 respectively, to accommodate the time needed to complete the selection processes.

IV. Macroeconomic Policies for 2022 and Beyond

10. The Rwandan authorities remain committed to the policies and reforms embedded in the PCI. They intend to identify credible revenue and spending measures to support a growth-friendly fiscal consolidation once the crisis abates. They will advance steadfastly their structural reform agenda while preserving policies to reduce debt vulnerabilities and maintain macroeconomic and financial stability.

Fiscal Policy and Debt Management

11. Fiscal policy this year will continue to support the nascent recovery. The authorities are keen to prioritize social and investment spending while safeguarding fiscal sustainability and containing debt vulnerabilities. They are putting their utmost efforts to ensure that expenditure is well-targeted and cost-effective, implement measures to mobilize more domestic revenues, and secure concessional financing. The authorities intend to start legislating and finalizing fiscal consolidation measures as part of their FY22/23 budget. The government has devised a medium-term revenue strategy, which is expected to be approved by the Cabinet by early-January 2022.

12. The fiscal deficit is projected to increase this fiscal year partly reflecting additional spending to withstand the COVID-19 shock and repair damages from a recent volcanic eruption near the border with the Democratic Republic of Congo. The government will use part of the 2021 SDR allocation to support these expenditures.

13. Rwanda’s debt remains sustainable with a moderate risk of debt distress. The medium-term fiscal consolidation efforts will end the recently introduced fiscal measures such as the reduction in fuel levy and tax exemptions and introduce credible domestic revenue mobilization and spending rationalization measures. At the same time, the authorities will monitor social programs and sustain human capital investments, to limit pandemic scars and foster an inclusive and resilient growth.

14. Fiscal risks arising from SOEs and PPPs are keenly monitored to mitigate them. Comprehensive reports on the performance of those entities will be pursued and remedial actions as recommended by the Fiscal Risk Committee will be adopted. Contingent measures will also be reinforced to prepare for any worsening of the pandemic.

Monetary and Financial Sector Policies

15. Monetary policy will remain data-dependent, anchored by inflation expectations, and broadly supportive of the economic recovery. The authorities will continue to closely monitor inflation developments to inform the need for adjustment of the policy rate and further entrench the interest-rate-based framework. They are committed to exchange rate flexibility in line with the monetary policy framework.

16. The Rwandan banking system remains stable, liquid, and well-capitalized while NPLs are declining. The authorities are determined to adopt international best practices to ensure financial system stability. They will continue to strongly monitor credit risks and pursue prudent loan classification and provisioning. They will also maintain intensive supervisory oversight. The authorities reaffirmed their commitment to addressing gaps in the AML/CFT framework and improving compliance with the FATF standards to reduce financial sector risks.

17. The authorities are dedicated to improving the quality and transparency of national statistics. In particular, while Rwanda has the required capacity to successfully compile monetary and balance-of-payments statistics, the authorities are eager to further strengthen their statistical

capacity in these areas. They request continued technical support from the IMF in domains identified for further improvements.

V. Structural Reform Agenda

18. The authorities are appreciative of the candid and productive discussions on structural reforms held with staff under the 2021 Article IV consultation. Sustaining the structural reform agenda is vital for minimizing the scars from the pandemic and fostering a more inclusive and resilient growth. They agree that further measures are needed to attract private financing, address post-pandemic development needs, and protect social programs.

19. ***On the fiscal front***, the authorities share the view that reforms to their underlying accounting, budgetary and legal frameworks will further bolster their ability to implement fiscal policy while mitigating risks to the budget.

20. ***Regarding the pandemic scars,*** reforms will be crucial to mitigate long-term individual earnings losses and reduce damages to aggregate productivity. The authorities will continue to put emphasis on promoting gender equity. They are also cognizant of the need to focus on measures to deepen financial markets, sustain the expansion of digital payments, and increase financial inclusion to help mobilize domestic savings.

21. ***On the climate agenda***, Rwanda has made impressive progress in the past decade and stands ahead of regional peers in climate change adaptation readiness. The 7-year Government's National Strategy for Transformation (NST1) Program spanning 2017–24 has natural resource and environment management as one of its priorities. Indorsing the National Environment and Climate Change Policy in 2019, updating National determined contribution (NDC) goals in 2020, efforts to reduce national emissions and adapt to climate change, and the current revision of the Green Growth and Climate Resilience Strategy are critical steps that the authorities have taken to achieve climate resilience.

22. ***Regarding the business environment,*** the authorities' strong actions have led to a substantially improved situation. Those efforts include reducing the cost of doing business and promoting competitiveness. The authorities are confident that their comprehensive policies in this regard will contribute to boosting private investment and supporting the development of the private sector. Improvements in the selection and prioritization of public investments to achieve greater value-for-money and leveraging private sector involvement are at the center of the authorities' agenda. In this context, the country is also pursuing blending arrangements through the Compact with Africa Initiative, mostly targeting private investments in affordable housing and agriculture with the support of development partners.

VI. Conclusion

23. The Rwandan authorities look forward to further engagement with the Fund to reinforce the macroeconomic gains achieved thus far in the implementation of the PCI, and to support their development agenda. In view of the authorities' strong commitment to reforms and to the program objectives, we would appreciate Executive Directors' support for the conclusion of the 2021 Article IV consultation and completion of the Fifth Review under the PCI.