IMF Country Report No. 23/422

RWANDA

December 2023

2023 ARTICLE IV CONSULTATION, SECOND REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUESTS FOR THE MODIFICATION OF END DECEMBER 2023 QUANTITATIVE TARGETS, REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the 2023 Article IV Consultation, Second Reviews Under the Policy Coordination Instrument and the Arrangement Under the Resilience and Sustainability Facility, Requests for the Modification of End December 2023 Quantitative Targets, Rephasing of Access Under the Resilience and Sustainability Facility, and Request for an Arrangement Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 14, 2023, consideration of the staff report that concluded the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 14, 2023, following discussions that ended on October 31, 2023, with the officials of Rwanda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 29. 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter update for the Resilience and Sustainability Facility**
- A **Statement by the Executive Director** for Rwanda.

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PRESS RELEASE

PR23/450

IMF Executive Board Completes the 2023 Article IV Consultation, Second Reviews Under the Policy Coordination Instrument and Resilience and Sustainability Facility Arrangement, and Approves US$268.05 million Arrangement Under the Stand-by Credit Facility for Rwanda

FOR IMMEDIATE RELEASE

- The IMF Executive Board today concluded the 2023 Article IV consultation, completed the second reviews of Rwanda's Policy Coordination Instrument and arrangement under the Resilience and Sustainability Facility, and approved a new 14-month Stand-by Credit Facility arrangement with total access of 125 percent of quota (SDR 200.25 million, or about US$ 268.05 million) to help mitigate the balance of payment pressures arising from climate-related shocks.
- The Rwandan economy registered strong post-pandemic growth but compounding shocks in recent years resulted in emerging internal and external imbalances, while the country's development needs remain large.
- Carefully calibrated fiscal consolidation, proactive and data-driven monetary policy, continued exchange rate flexibility, and sustained progress on development and climate-related reforms are necessary to rebuild buffers, curb inflation, improve debt sustainability, and enhance socioeconomic resilience.
- Progress on the climate agenda under the RSF remains strong. The agreed acceleration of RSF-supported climate reforms and the addition of new measures demonstrate Rwanda's dedication to the climate reform agenda.

Washington, DC – December 14, 2023: The Executive Board of the International Monetary Fund (IMF) today concluded the Article IV consultation, completed the second reviews of Rwanda's Policy Coordination Instrument (PCI) and arrangement under the Resilience and Sustainability Facility (RSF), and approved a new 14-month Stand-by Credit Facility (SCF) arrangement. The Board's decisions allow for an immediate disbursement of SDR 36.97 million (equivalent to about US$ 49.49 million) under the RSF and SDR 66.75 million (equivalent to about US$ 89.35 million) under the SCF. The PCI and RSF arrangement were approved on December 12, 2022, the latter with a total amount of SDR 240.3 million (about US$ 321.66 million or 150 percent of quota), and the first reviews were completed on May 24, 2023.

Rwanda's economic growth remained robust, but macroeconomic imbalances have intensified. Policy space to advance developmental objectives has been constrained by diminished policy buffers and repeated droughts and the severe floods in May 2023. Headwinds from the war in Ukraine, tightening of global financial conditions, consecutive weak agricultural seasons, and the structural decline of external concessional financing have put pressure on the level of international reserves. While the recalibrated policy mix is expected to rebuild external buffers, curb inflation, and improve debt sustainability, growth is likely to moderate from 8.2 percent in 2022 to 6.2 percent and 6.6 percent in 2023 and 2024, respectively, partly related to continued fiscal consolidation and tight monetary and exchange rate policies. The balance of risks to the outlook remains tilted to the downside, as further deepening of geopolitical fragmentation, another spike in global energy, food, and fertilizer prices, a steeper decline in trading partners growth, or a funding squeeze would weigh on the outlook.

Despite the challenging environment, macroeconomic policy performance remained broadly in line with program objectives under the PCI. Progress on the climate agenda under the RSF arrangement remains exceptionally strong. To demonstrate their unwavering commitment to the RSF-supported climate agenda and to fully capitalize on the catalytic effect of the RSF, the authorities decided to accelerate the implementation of the originally agreed reform measures and enhance the reform agenda by introducing new measures, including the implementation of an internationally recognized green taxonomy. The current PCI will remain the main policy framework to support the authorities' medium-term policy objectives. The SCF arrangement will focus on recalibration of the near-term policy mix.

Executive Board Assessment

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director, and Acting Chair, made the following statement:

"The Rwandan authorities are to be commended for their commitment to macroeconomic stability and strong performance under the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF) arrangement, despite compounding shocks including the floods in May 2023. While economic activity remained robust, macroeconomic imbalances have intensified, reducing the room for policy maneuver. Implementing an appropriate and carefully calibrated policy mix under the new Stand-by Credit Facility (SCF) is key to rebuilding buffers and safeguarding macroeconomic stability.

"A temporary fiscal relaxation will help cushion the effects of the recent floods, but a decisive and balanced fiscal consolidation remains necessary in the medium-term. Comprehensive tax reforms and spending rationalization remain essential to help achieve developmental and social objectives, deliver on the ambitious climate agenda, and maintain the debt trajectory on a sustainable footing. Continued efforts to strengthen public financial management and investment frameworks should also remain a priority.

"Proactive and data-driven monetary policy actions, and continued exchange rate flexibility are needed to contain inflationary pressures and preserve external stability. Maintaining an appropriately tight monetary policy stance would be necessary to durably bring inflation back to the target. Further policy tightening would be needed should internal or external pressures accelerate. Enhancing the FX intervention framework, strengthening communication, and implementing reforms to deepen financial and government securities markets will improve the effectiveness of the interest rate-based monetary policy framework.

“Rwanda’s commitment to building a resilient and greener economy is commendable and should be sustained. Enhancing social protection programs, improving human capital accumulation, and promoting private sector-led economic diversification will be critical to navigate challenging times and advance living standards. Maintaining the momentum on RSF-supported climate-related reforms—including green taxonomy—will help close adaptation gaps and increase resilience to climate-induced shocks. At the sidelines of the COP28 UN Climate Change Conference in Dubai, the Rwanda Climate Finance Partnership, consisting of various multilateral and bilateral donors convened by the RSF, has demonstrated its ability to catalyze additional climate finance and promote collaborations between the public and private sectors.”

Table 1. Rwanda: Selected Economic Indicators, 2022–28

	2022	2023	2024	2025	2026	2027	2028
	Act	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Output							
Real GDP growth (%)	8.2	6.2	6.6	7.0	7.3	7.3	7.3
Prices							
Inflation - average (%)	13.9	14.5	6.0	5.0	5.0	5.0	5.0
Central government finances (fiscal year)[1]							
Revenue (% GDP)[2]	25.9	22.2	21.8	22.7	23.8	23.9	24.2
Expense (% GDP)[2]	20.6	18.7	18.4	17.9	17.2	16.9	17.3
Fiscal balance (% GDP)[3]	-7.6	-7.3	-6.8	-5.3	-3.4	-3.0	-3.0
Public debt (% GDP)	68.0	71.6	78.0	77.2	74.8	72.3	69.5
External public debt (% GDP)	48.9	54.7	63.6	67.1	67.4	65.6	62.7
Money and credit							
Broad money (% change)	22.5	5.7	15.1	16.9	18.9	16.0	12.7
Credit to non-government sector (% change)	13.6	15.4	17.0	20.5	19.1	12.9	12.4
Policy Rate, end-of-period (%)	6.5	…	…	…	…	…	…
Balance of Payments							
Current account (% GDP)	-9.8	-11.5	-11.8	-10.2	-10.0	-9.1	-7.7
Reserves (in months of imports)	4.2	3.7	4.0	4.4	4.4	4.5	4.5
Exchange rate							
REER (% change)	8.1	…	…	…	…	…	…

Sources: Rwandan authorities and IMF staff estimates.

[1] Based on fiscal year (i.e. 2022 represents 2021/22).

[2] Revenue and expense use GFSM 2014 presentation.

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

INTERNATIONAL MONETARY FUND

RWANDA

November 29, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SECOND REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUESTS FOR THE MODIFICATION OF END-DECEMBER 2023 QUANTITATIVE TARGETS, REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The Rwandan economy is undergoing challenging times. Development needs remain large and compounded shocks in recent years resulted in emerging internal and external imbalances. Devastating floods from May 2023 amplified the underlying imbalances, and the reconstruction costs are projected to be substantial. Against this backdrop, the authorities requested a new Fund financing arrangement to safeguard macroeconomic and external stability in the near term. A 3-year Policy Coordination Instrument (PCI) and Resilience and Sustainability Facility (RSF) arrangements were approved in December 2022.

PCI/RSF performance. The strong performance observed during the first reviews continued, albeit with caveats. All but one end-June 2023 quantitative targets and standard continuous targets were met; the 3-month average headline inflation also fell marginally outside the outer bound value for end-June 2023, triggering the monetary policy consultation clause. The completion of the monetary policy consultation with the IMF Executive Board is requested. Two end-December 2023 quantitative targets and one continuous target are requested to be modified. Four PCI reform targets were met, and additional one implemented with a delay as a prior action. Two RSF reform measures were met, one of which was completed early. The authorities requested to change the availability dates and rephase four existing reform measures and proposed to add two new reform measures.

New Fund financing. The authorities request a 14-month Stand-by Credit Facility (SCF) arrangement to be implemented concurrently with the PCI with proposed access of 125 percent of quota (SDR 200.25 million). The SCF arrangement conditionality will focus

on the recalibration of the near-term policy mix. Four-fifths of each disbursement under the SCF arrangement would be disbursed as BOP support to cushion reserves, while one-fifth and the World Bank, and the EIB financing would provide financing support to accommodate the temporary fiscal relaxation in response to the recent natural disaster. The current PCI will remain the main policy framework to support the authorities' medium-term policy objectives.

Article IV. The Article IV consultation focused on (i) options and strategies for credible domestic revenue mobilization, (ii) monetary policy transmission mechanism; and (iii) opportunities and challenges of climate adaptation policies.

Policy recommendations. The policy setting will be guided by the need to preserve macroeconomic and financial stability, ensure fiscal sustainability, rebuild buffers as well as advance the socio-economic resilience agenda.

- *Fiscal Policy*. While a temporary fiscal relaxation in FY23/24 will help cushion the effects of the recent floods, the medium-term fiscal policy should be geared towards maintaining fiscal and external sustainability. Comprehensive tax reforms will be critical to help create fiscal space for much needed developmental spending, while expenditure rationalization and fiscal risk management efforts should continue to consolidate gains from fiscal reforms.
- *Monetary and exchange rate policies*. An appropriately tight, forward-looking, and data-driven monetary policy stance is needed. Further policy tightening would be necessary should second round inflation effects from supply shocks prove to be more pronounced, exchange rate depreciation result in stronger inflation passthrough, or external pressures accelerate. Greater exchange rate flexibility is key to absorb external shocks. Strengthening the FX intervention framework will help develop the FX market and improve the effectiveness of monetary policy transmission.
- *Socioeconomic Resilience*. Continuing efforts to foster socioeconomic resilience—including enhancing social protection programs, improving human capital accumulation, promoting private sector-led economic diversification—will be critical to navigate challenging times and advance living standards. Maintaining the momentum on RSF-supported climate-related reforms will help close significant adaptation gaps, increase resilience to climate-induced shocks, and catalyze much needed climate financing.

Approved By
Catherine Pattillo (AFR) and Martin Čihák (SPR)

The mission comprised Ruben Atoyan (Mission Chief), Chie Aoyagi, Irena Jankulov Suljagic, Sampawende Jules Tapsoba (all AFR), Andrew Ceber (FAD), Karim Foda (SPR), Tumer Kapan (MCM), Gabor Pula (Resident Representative in Kigali Office), and John Kayemba (local economist). Loy Nankunda (OEDAF) also attended mission meetings. The mission was facilitated by Patience Mugishakazi (staff of the resident representative's office in Kigali). E. Chueca Montuenga, Mireille Nsanzimana, Fernando Morán Arce (AFR) assisted in the preparation of this report. Discussions were held remotely during October 10–13, and in Kigali from October 17–31, 2023. 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 Infrastructure, Local Government, Trade, and Industry. Staff also had productive discussions with Rwanda's Parliament Budget Committee, development partners, heads of commercial banks, and representatives of the private sector and civil society.

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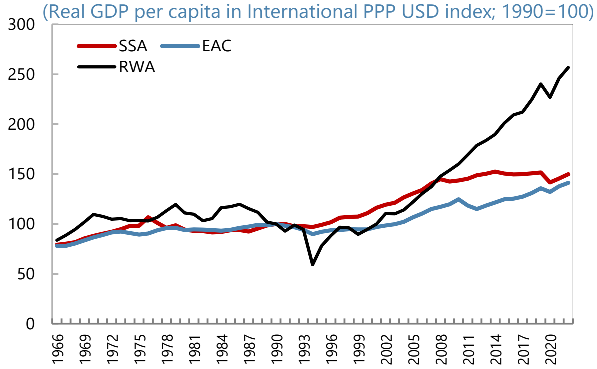
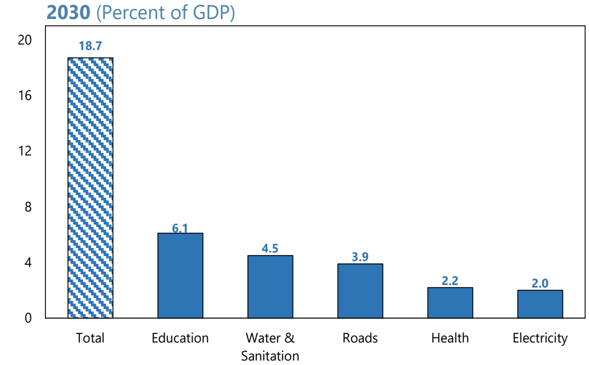
CONTEXT

1. **The Rwandan economy sustained remarkable socio-economic progress, but development needs remain large.** Thanks to reforms and continued donor support, growth accelerated in the late-1990s and stayed steady averaging 8.5 percent a year over the 1995–2022 period. Improvements in living standards were substantial. Despite these social achievements, poverty, inequality, and unemployment levels remain higher than regional peers. Advancing developmental goals and fostering inclusiveness is a key challenge.

Rwanda: Real GDP Index
(Real GDP per capita in International PPP USD index; 1990=100)



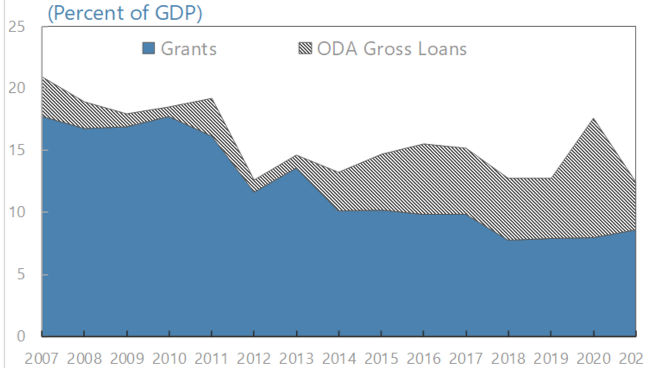
Rwanda: Estimates Financing Needs for SDGs Attainment by 2030 (Percent of GDP)



Source: Rwanda Authorities, World Bank and IMF staff

2. **However, Rwanda's policy space to advance developmental objectives, is constrained by overlapping shocks and eroded policy buffers.** Headwinds from the war in Ukraine, tightening of global financial conditions, consecutive weak agricultural seasons, and the structural decline of external concessional financing have put pressure on the level of international reserves. The May 2023 devastating floods amplified the underlying imbalances, while the reconstruction costs are projected to be substantial.[1] Based on the authorities' assessment conducted with the support of the World Bank, up to US$451 million (3 percent of GDP) over the next five years could be needed to address the emergency reconstruction spending and rebuild climate resilient infrastructures. Careful balancing of several competing objectives—alleviating the impact of the recent natural disaster, advancing developmental goals and the climate

Rwanda: ODA: Grants and Loans
(Percent of GDP)



Source: OECD, Rwanda authorities and IMF staff

[1] Based on IMF staff's estimates, the disaster, when adjusted for economic and population sizes, is assessed to be severe and resulted in 135 deaths and significant housing, transportation, and school infrastructures damaged.

agenda, and rebuilding policy buffers through appropriately phased adjustment—is the key policy challenge in the period ahead.

3. **Performance under the Policy Coordination Instrument (PCI) got off to a strong start, and with the Resilience and Sustainability Facility (RSF), Rwanda has positioned itself among champions of climate-related reforms in Sub-Saharan Africa.** A 3-year PCI and RSF[2] arrangement with of a total of SDR 240.3 million access (150 percent of quota or about US$319 million) was approved in December 2022 to support macroeconomic stability and build socio-economic and climate resilience. The PCI focuses on strengthening the fiscal and monetary frameworks and building socio-economic resilience, while the RSF aims at advancing reforms in green Public Financial Management (PFM), climate Public Investment Management (PIM), climate-related risk management for financial institutions, and disaster risk reduction and management. The first PCI and RSF reviews were completed in May 2023. The high priority Rwanda gives to implementing climate reforms resulted in delivering on the RSF-supported climate agenda faster than originally envisaged.

4. **Despite reform progress and economic recovery, external pressures—exacerbated by climate related shocks—put additional pressures on the Rwandan economy amid already diminished policy buffers.** While remaining fully committed to the ongoing PCI as the main policy framework, the authorities requested a new Fund financing arrangement to help safeguard macroeconomic and external stability. Existing balance of payments pressures—stemming from poor agricultural seasons, still high food and energy prices, and reduced availability of concessional financing—are expected to persist in the coming months amid costs from flood-related reconstruction and the need for large food imports.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

5. **Macroeconomic performance remains broadly strong, notwithstanding climate-related shocks, with inflation picking up in recent months.** Following a strong post-pandemic recovery, real GDP growth decelerated to 6.3 percent year-on-year in 2023Q2 from 9.2 percent in the previous quarter, following a broad-based moderation in the services and manufacturing sectors and unfavorable weather conditions negatively impacting the agriculture sector. Headline inflation decelerated to 11.2 percent in October 2023 from a 21.7 percent peak in November 2022, due to lower commodity prices, administrative price measures, and a tighter monetary policy stance. However, inflationary pressures temporarily resurfaced in August-September 2023 as consecutive climate-induced poor agricultural seasons affected food production and reversed the declining trend in food inflation. Core inflation stands high at 7.4 percent in October 2023 amid declining but still high supply costs.

[2] Rwanda belongs to interest group A for Resilience and Sustainability Trust interest computations.

6. The unemployment rate remains persistently high, with a widened post pandemic gender gap.[3] In August 2023, the unemployment rate remained high at 18 percent, lingering above pre-pandemic levels with especially high rates among the female and the young populations at 21.9 percent and 21 percent, respectively. The gap between male and female unemployment rates is partially explained by the fewer employment opportunities for women during the slow agricultural seasons. This is particularly problematic when the agricultural sector is affected by climate related shocks.

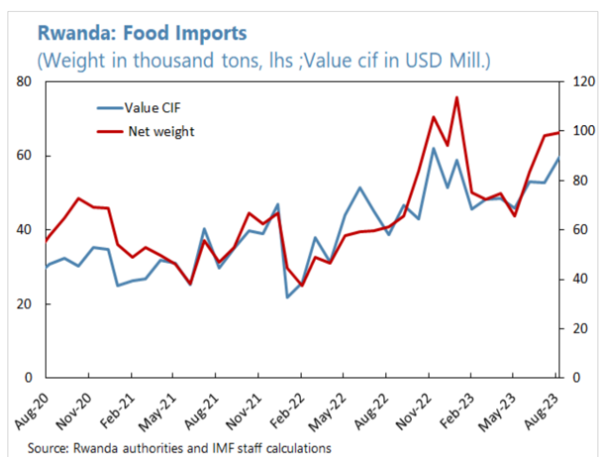
7. The fiscal deficit in FY22/23 was 7.3 percent of GDP, consistent with projections (Panel 5, Tables 2a–b). Total revenue were 0.5 percent of GDP lower than expected. The UK budgetary grant disbursement under the Migration and Economic Development Partnership (MEDP) agreement[4] was smaller than anticipated and resulted in a slight decline in grants, partially offset by higher non-tax revenues. The recurrent expenditure outturn was 0.4 percent of GDP lower than anticipated despite increased spending on goods and services related to the emergency response to floods (about 0.2 percent of GDP). Capital expenditure was higher than planned by 0.1 percent of GDP driven by domestically financed projects in roads and energy, while interest expenditure and net lending were lower than expected.

Rwanda: Operations of the Central Government, FY 22/23 GFSM 2014 (percent of GDP)

	FY 2022/23[1]	
	1st Rev PCI-RSF	**Act.**
Revenue	22.7	22.2
Taxes	15.2	15.0
Taxes on income, profits, and capital gains	6.6	6.7
Taxes on property	0.2	0.1
Taxes on goods and services	7.1	6.7
Taxes on international trade and transactions	1.3	1.4
Grants	5.0	4.7
Other revenue	2.5	2.6
Expense	19.1	18.7
o/w Interest	2.3	2.0
Net acquisition of nonfin. assets	9.8	9.9
Net lending (+) / borrowing (-)	**-6.2**	**-6.4**
Net acquisition of financial assets	-0.2	-0.5
Net incurrence of liabilities	7.4	6.2
Domestic	0.7	0.9
o/w Accounts payable[2]	-0.3	0.5
Foreign	5.6	5.3
Statistical discrepancy	-1.4	-0.3
Total flood spending	0.0	0.2
Overall balance (GFSM 1986)	**-7.3**	**-7.3**
Debt-creating overall balance (excl. PKO, GFSM 1986)[3]	**-7.3**	**-7.3**

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, includes unpaid obligations under 90 days.
[3] Overall balance excluding PKO operations and spending on materialized contingent liabilities in the DSA.

8. The external position, which was assessed to be weaker than the level implied by fundamentals and desirable policies at end-2022, has deteriorated further since the beginning of the year (see Annex 2). Over the first half of 2023, the trade deficit on goods grew by almost 20 percent, driven by a sharp increase in imports while the increase in exports was more modest. The larger imports were driven by the volume of food imports (+64.7 percent y/y) following two poor agricultural seasons and the associated drop in domestic food production. The nominal exchange rate depreciated by about 16.6 percent y/y in September 2023. Going forward, post-flood reconstruction imports are projected to further weigh on the balance of payments. Accordingly, reserve coverage, which was slightly above the bottom of the adequacy range of 4-5 months of



[3] Based on Rwanda's Labor Force Survey.
[4] Under the MEDP, US$124.2 million was disbursed in April, around US$32 million lower than was forecasted at the first review. Staff views the shortfall as manageable.

prospective imports at end-2022, is projected to drop to 3.4 months by end-2023 and 3.2 months by end-2024, absent new financing and additional policy adjustment.

9. Implementation under the PCI is broadly on track, while the RSF supported reforms continue to excel. The strong performance observed at the time of the first reviews continued, albeit with caveats.

- *Quantitative Targets (QTs)*. All continuous targets and standard continuous targets, the end-June 2023 floor on the stock of net foreign assets, and the ceiling on net accumulation of domestic arrears for the completion of the second PCI review were met (MEFP, Table 1a). As expected at the time of the first review, the 3-month average headline inflation at 15.2 percent fell marginally outside the outer bound value (15.0 percent) for end-June 2023, triggering the monetary policy consultation clause and requiring a consultation with the IMF Executive Board (MEFP, Attachment 3). The ceiling on the debt-creating overall balance, including grants, was missed by a negligible margin of RWF 4 billion due to RWF 23 billion (0.1 percent of GDP) flood related emergency expenditure in the last 5 weeks of the fiscal year.

Rwanda: Quantitative Targets, 2022-2023

	2022	2023
	December	June
Quantitative Targets		
Ceiling on the debt-creating overall balance, including grants	Met	Not Met
Floor on stock of Net Foreign Assets	Met	Met
Ceiling on net accumulation of domestic arrears	Met	Met
Continuous Targets		
Ceiling on stock of external payment arrears	Met	Met
Ceiling on PV of new public and publicly guaranteed external debt	Met	Met
Monetary Policy Consultation Band		
CPI inflation target	Met	Not Met
Memorandum items		
Total priority spending	Met	Met
Floor on domestic revenue collection	Met	Met
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises	Met	Met

Sources: Rwandan authorities; and IMF staff calculations.
Symbols: Met; Not Met.

- *PCI Reform Targets (RTs)* (MEFP, Table 2). A review of RSSB asset allocation (**end-October 2023 RT**), an outline of policies underlying the spending rationalization strategy in the FY24/25 Planning and Budget Outlook Paper (**end-November 2023 RT**), a diagnostic study of foreign exchange markets (**end-November 2023 RT**), and stress tests of two high-risk SOEs (**end-November 2023 RT**) were met as planned. However, building political consensus and approving the identified revenue generating and tax policy measures by Cabinet (**end-September 2023 RT**, reset from the first review) took longer, and was implemented as a prior action for this review.
- *RSF Reform Measures (RMs)* (MEFP, Table 3). The guidelines for the implementation of the climate budget tagging system (**second review RM4**) were produced in November 2023. The guidelines for climate-related risk management for financial institutions (**third review RM8**) were issued in November, ahead of the original RSF timeline.

OUTLOOK AND RISKS

10. The economic recovery is expected to moderate on account of continued fiscal consolidation and tight monetary and exchange rate policies.

- *Real GDP growth* is expected to soften in 2023-24, notwithstanding the acceleration of post-disaster reconstruction spending and recovery in the agricultural sector, amid envisaged policy measures to support external balance and price stability.
- While *inflation* is expected to continue easing due to tighter policy stance and gradual moderation in domestic food prices, average inflation in 2024, at 6 percent, will be higher than previously envisaged due to the continued exchange rate depreciation passthrough.
- *The current account* deficit is expected to widen to 11.5 percent of GDP and 11.8 percent of GDP in 2023 and 2024, respectively, due to high food imports, post-flood reconstruction efforts, and the large airport construction project. However, over the *medium-term*, a steady improvement in the current account is anticipated supported by higher domestic savings due to the policy adjustment. Boosted by additional IFI financing, reserves would rebound to US$2.0 billion, equivalent to 4.0 months of prospective imports, and stabilize around 4.4 months of imports from 2025 onward.

11. The balance of risks to the outlook remains tilted to the downside (Annex I). A further deepening of geopolitical fragmentation, another spike in global energy, food, and fertilizer prices, or a steeper decline in trading partners growth would weigh on the outlook. Global financial market developments, including tightening of financial conditions, could adversely affect the availability and affordability of external financing. As underscored by the recent poor seasons, Rwanda's dominantly rain-fed agriculture sector is highly exposed to climate variability. Fallout from the conflict with the Democratic Republic of Congo affecting regional trade and aid flows adds to downside risks.

Authorities' Views

12. The authorities agreed with staff's assessment of the outlook and risks. They pointed out uncertainties to the inflation forecast in 2024, including due to unpredictable climate shocks affecting agricultural harvests. The authorities anticipate pressures on concessional financing to continue.

POLICY DISCUSSIONS

Against the backdrop of compounding shocks and emerging imbalances, the policy discussions for the near-term under the PCI focused on preserving macroeconomic and financial stability, ensuring fiscal sustainability, and rebuilding buffers—including in the context of a new Stand-by Credit Facility arrangement—while pursuing the structural reform agenda to build climate resilience, as set out under the RSF (MEFP; Tables 1–4). A temporary fiscal relaxation will help cushion the effects of the recent floods, but a decisive and balanced fiscal consolidation remains necessary in the medium term to maintain the debt trajectory on a sustainable footing. Given the uncertainty around the outlook, a proactive, data-driven, and forward-looking monetary policy will be needed to keep inflation within the target band, while a more flexible exchange rate will absorb external shocks and facilitate needed adjustment. The Article IV consultation supported program objectives and focused on (i) examining strategies for domestic revenue mobilization (DRM) and highlighting the benefits of implementing comprehensive tax measures over selective reforms; (ii) discussing monetary policy transmission *channels to gauge Rwanda's progress towards an interest rate-based monetary policy framework; and (iii) illustrating macroeconomic impacts of planned climate-focused projects and reforms aimed at strengthening the country's climate adaptation capacity, and discussing sustainable financing strategies.*

A. Fiscal Policy: Managing Difficult Trade-Offs

Near-Term Stance and Fiscal Consolidation Strategy

13. A moderate loosening of the FY23/24 and FY24/25 fiscal deficit is warranted to allow for reconstruction from the floods. Given the urgent need for rebuilding, and the limited scope for reprioritization of expenditures in the short-turn, staff supports temporary relaxation of the deficit compared to the first review. Despite this relaxation, the fiscal impulse in FY23/24 remains sharply negative with the primary balance excluding grants contracting by 1.7 percent of GDP compared to FY22/23. Reconstruction spending is anticipated to be around 3 percent of GDP over the next five years (Text Table 1). By FY24/25, most flood expenditure (72.8 percent) will be accommodated by reprioritization within the existing expenditure envelope set at the first review. By FY25/26, all flood expenditure will fit within the existing expenditure envelope. Most rephased spending is anticipated to come from the capital expenditure envelope.[5] The high share of reprioritized spending limits the fiscal impulse and helps to preserve macroeconomic stability. Transparency on flood related expenditures, including reporting on projects to support the emergency response and reconstruction, will be critical.

Rwanda: Estimated Flood Expenditures

Sectors	Intervention Costs GDP Percent
Social Sectors:	
Housing and Human Settlements	0.48
Health	0.12
Education	0.03
Infrastructure sectors:	
Energy	0.03
Communications	0.02
Transport	1.99
Water and Sanitation	0.02
Water Resources & Environment	0.21
Productive sectors:	
Agriculture and Livestock	0.08
Trade and Industry	0.01
Cross-cutting themes:	
Disaster Risk Management	0.03
Gender	0.01
Social Protection	0.01
Grand Total	3.02

Source: Rwanda Authorities, World Bank and IMF staff calculations.
Note: Percentage of GDP calculated using FY23/24 GDP.

Text Table 1. Rwanda: Implied Reprioritization to Accommodate Flood Expenditure
(in percent of GDP)

	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28
Flood related expenditure profile by the authorities	0.2	0.5	1.3	0.2	0.2	0.2
Difference in expenditure compared to the 1st review	-0.5	0.3	0.3	-0.2	-0.5	-0.2
Total repriorization of expenitures after flood spending	0.7	0.2	0.9	0.5	0.7	0.4

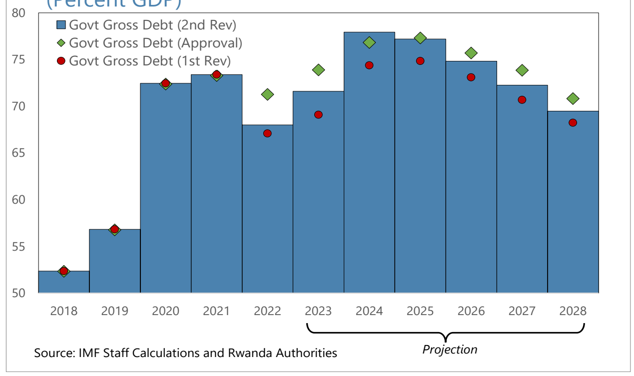
Source: Rwanda Authorities and IMF staff calculations.

14. The updated Debt Sustainability Analysis (DSA)—prepared jointly with the World Bank—confirms that Rwanda remains at moderate risk of debt distress (see DSA Annex). The analysis incorporates the IMF SCF financing, RSF rephasing, and changes in the fiscal consolidation path to accommodate reconstruction spending in the near term. Under this baseline, public debt

[5] Recurrent spending related to the floods is primarily to deal with the emergency response, while capital spending is for building back the infrastructure in more resilient manner.

would peak at 78 percent of GDP in 2024 before gradually improving over the medium term. The moderate improvement in the debt trajectory compared with the time of program approval is primarily driven by the significantly lower-than-forecasted level of public debt at end-2022 (4.2 percentage points less) and higher real GDP growth outcomes. The bulk of that improvement, however, is expected to be offset by the larger REER depreciation and looser fiscal stance over 2024–25. Overall, PPG debt is projected to return to the debt anchor of 65 percent of GDP by 2031 and its present value to achieve the East African Community debt convergence criterion of 50 percent by 2026.

Rwanda: General Goverment Debt
(Percent GDP)



Source: IMF Staff Calculations and Rwanda Authorities

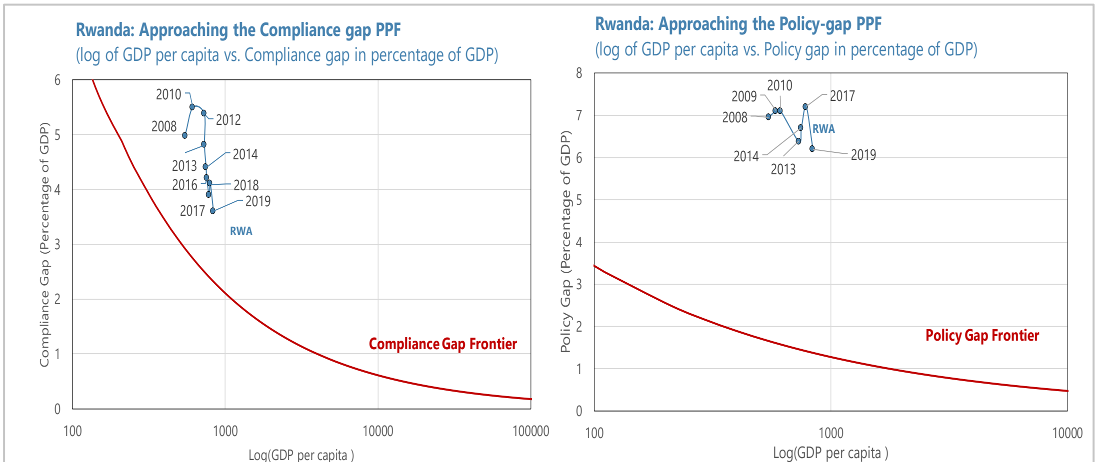
15. Safeguarding long-term fiscal sustainability is a priority due to the near-term loosening of fiscal stance. The revised fiscal deficit path preserves external stability and remains consistent with a gradual convergence to the fiscal anchor envisaged under the program. The adjustment burden is split between revenues and expenditures (text table 2). The expenditure adjustment under the program is significant, constraining the space for further cuts given the large developmental challenges. Rwanda needs to mobilize domestic revenues to support the large SDG and climate agenda (see SIP). The authorities will prepare contingency measures to meet their fiscal objectives, including through spending reprioritization given the limited fiscal space while protecting priority spending to avoid significant budget slippages and preserve debt sustainability. Specifically, these include limits on new staff recruitments, further cuts on non-essential and non-efficient non-wage recurrent expenditure, and the discontinuation of underperforming domestic projects.

16. Bolder domestic revenue mobilization (DRM) is key to achieving fiscal objectives under the program. Revenue administration reforms have continued with reforms to RRA's organizational structure, the continued digitization of the tax system, and improved compliance. Following delays in implementing the CIT package at the time of the first review, the Cabinet approved a package of revenue generating and predominantly tax policy measures, supported by IMF technical advice, that ensures achievement of the MTRS domestic revenue targets (**prior action**), amounting to about 1 percent of GDP through FY25/26. Measures are focused on the application of VAT to IT equipment and mobile phones, an increase in the fuel levy, increases in excises, and revenue administration. The authorities also agreed that the MTRS successor will be a comprehensive strategy to increase tax revenues by broadening the domestic tax base, eliminating tax holidays, and streamlining tax expenditures implemented concurrently with improving compliance and curbing tax evasion. Towards this objective, the Cabinet will approve a comprehensive package of measures consistent with the program's revenue targets by the fifth review (**proposed new end-January 2025 RT**).

17. Expenditure rationalization is also important due to the needed reprioritization to cater for flood-related expenditures. The authorities prepared an outline of the spending rationalization policies for the FY24/25 Planning and Budget Outlook Paper (**end-November 2023 RT**). The final spending rationalization strategy will include policy measures underpinning the medium-term projection of the fiscal consolidation path as part of the FY24/25 Budget Framework Paper (**end-May 2024 RT**). These should include measures for cost-savings and efficiency gains, including rationalization of subsidies, particularly those related to export promotion and digital delivery of public services, based on recommendations from the World Bank's Public Expenditure Review (PER) and the IMF's Public Investment Management Assessment (PIMA).

Text Table 2. Rwanda: Fiscal Consolidation Path

(Percent of GDP)



Source: DART database with IMF Staff Calculations

Note: The frontier charts allow the comparison of Rwanda's efforts in closing the policy gaps relative to the optimal frontier (countries with top performers in the database). The closer to the frontier, the more effective is the gap closure.

	2023/24	2024/25	2025/26	2026/27	2027/28
2nd Review PCI/SCF/RSF					
Overall balance[1]	**-6.8**	**-5.3**	**-3.4**	**-3.0**	**-3.0**
Annual adjust. (+ = consolidation)	**0.5**	**1.4**	**2.0**	**0.4**	**0.0**
Total tax revenue	0.3	0.6	1.0	1.0	0.5
Other revenue and grants	-0.7	0.2	0.2	-0.9	-0.2
Total expense	0.2	0.6	0.7	0.3	-0.4
Total capital expenditure and net lending	0.7	0.0	0.2	0.0	0.1
Public debt[2]	**78.0**	**77.2**	**74.8**	**72.3**	**69.5**

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

[2] Public debt produced from the DSA is on CY basis while fiscal year runs from July-June.

18. **Fostering PIM reforms and organic budget law (OBL) implementation will further uphold expenditure efficiency.** In line with recommendations of the 2022 PIMA, the authorities plan to start publishing a pipeline of appraised major projects and project selection criteria annually alongside budget documentation, redacting any commercially sensitive information (**proposed new end-June 2024 RT**). To support the implementation of the OBL, a Ministerial Order will be issued by end-2023 to improve the budget and medium-term expenditure framework, institutionalize the fiscal risk management practices and structures, and help adopt best practices in fiscal reporting.

Text Table 3. Rwanda: Cumulative Change in Tax-to-GDP Ratio

	2023/24	2024/25	2025/26	2026/27	2027/28
Tax-to-GDP ratio on unchanged policy	**15.0**	**15.0**	**15.0**	**15.0**	**15.0**
New measures approved by Cabinet (prior action)[1]	0.0	0.3	0.6	0.6	0.7
New administrative measures approved by Cabinet (prior action)[2]	0.2	0.3	0.4	0.4	0.4
Existing identified admin measures[3]	0.2	0.4	0.6	0.6	0.6
Other policy measures[4]	-0.1	-0.1	-0.1	-0.1	-0.1
Unidentified measures (to be closed by end-Janurary 2025 RT)	0.0	0.0	0.3	1.3	1.7
Tax-to-GDP ratio program	**15.3**	**15.9**	**16.9**	**17.8**	**18.3**

[1] Inclusive of VAT on mobile phones and telecommunication equipment, excise on air time, increased fuel levy and higher import duties for more polluting vehicles, gaming excises, mineral taxation, and taxes on cigarettes.

[2] New measures on: Customs controls for over valuation, introduction of custom scanners, and the integration of hospitality electronic invoicing systems with RRA.

[3] Measures currently being implemented by RRA under the MTRS.

[4] Includes tax positive measures, Local government property tax, trading license fees, phase out on some exemptions on telecommunications, VAT on some digital services as well as negative measures due to a reduction of income tax thresholds and the reduction in the CIT rate.

Managing Fiscal Risks and Enhancing Fiscal Transparency

19. Efforts to enhance fiscal risk management and fiscal transparency are ongoing. Following swift integration of the former Ministry of Public Investment and Privatization in the Ministry of Finance and Economic Planning (MINECOFIN), the authorities completed the stress tests of two high-risk SOEs (**end-November 2023 RT**). Going forward the authorities are committed to SOE health-checks in 2024 for all SOEs and the continuation of quarterly stress tests for at least two high-risk SOEs. Staff urged the authorities to conduct a follow-up Fiscal Transparency Evaluation (FTE) and publish the results along-side the original 2019 document that remains unpublished. The authorities continued to publish quarterly financial statistics in GFS 2014 covering all the general government following their first publication in April 2023. To further strengthen fiscal transparency, the Rwanda Social Security Board (RSSB) reviewed its asset allocation (**end-October 2023 RT**).

Medium-Term and Article IV Issues

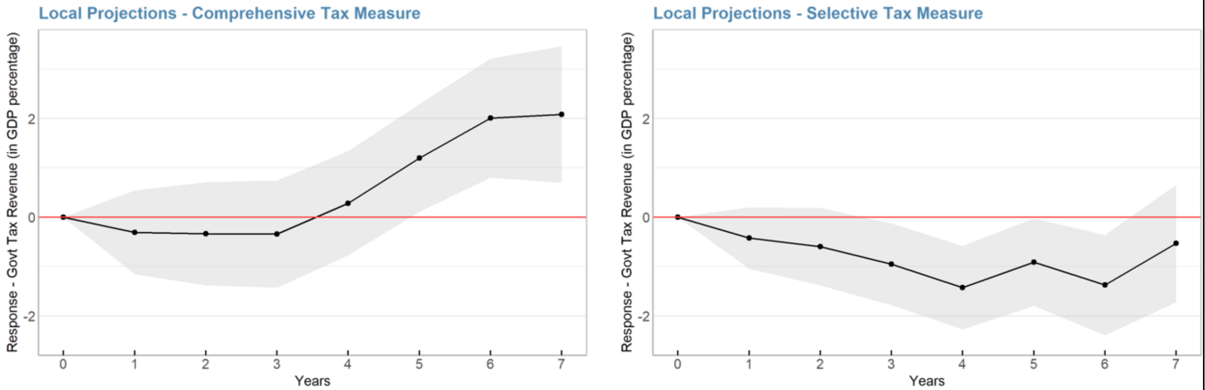
20. Comprehensive tax reforms will be key to advance the development agenda. The financing gap to achieve the Sustainable Development Goals by 2030 ranges between 18.7 and 21.3 percent of GDP (IMF SDNs 2019 and 2021). Given the structural decline in concessional financing and tightening of market conditions, bolder and sustained DRM is essential to meet the development agenda while building and preserving policy buffers. However, despite a sizeable potential, Rwanda's tax revenues have stagnated in recent years due to base erosion and exemptions and incomplete implementation of reforms (Box 1).

21. Comprehensive, as opposed to selective, medium-term tax reforms are likely to be more effective to achieve DRM objectives.[6] Staff's analysis suggests that a selective implementation of reforms tends to yield protracted loss of revenue, while reforms implemented as a package are revenue neutral in the near term and thereafter (beyond 3 years) lead to significant increases in revenue.[7]

[6] See SIP on *Tax Reforms in Rwanda: Comprehensiveness Over Selectivity*.

[7] Comprehensive reforms are generally designed to lead to net positive revenue gains when fully implemented. Revenue loss arises when parts of the package are deployed without accounting for the revenue losing aspects of the reforms.

Rwanda: Local Projections—Comprehensive and Selective Tax Measure



Source: EAC Tax reform database, WEO and IMF staff calculations.
Note: Chart shows the effect over time of having one or more tax measures of the type indicated in the title in revenue to GDP.

Authorities' Views

22. **The authorities concurred that the near-term fiscal strategy should support the recovery from the May 2023 floods, while ensuring that fiscal policy remains anchored to the previously agreed medium-term fiscal consolidation path.** The authorities believe their upcoming spending rationalization plan, combined with their firm commitment to DRM, will ensure the credibility of the consolidation and that continued reforms to their public financial management institutions will mitigate fiscal risks. The authorities agreed with the findings of the debt sustainability analysis. They also stressed the importance of building consensus among key stakeholders on tax policy reforms and measures to close compliance gaps.

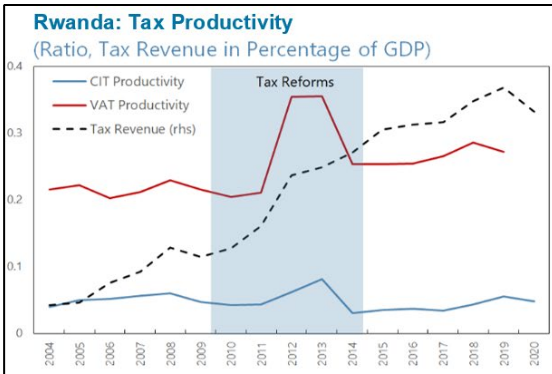
Box 1. Tax Reforms in Rwanda: Comprehensive with Gradual but Sustained Gains

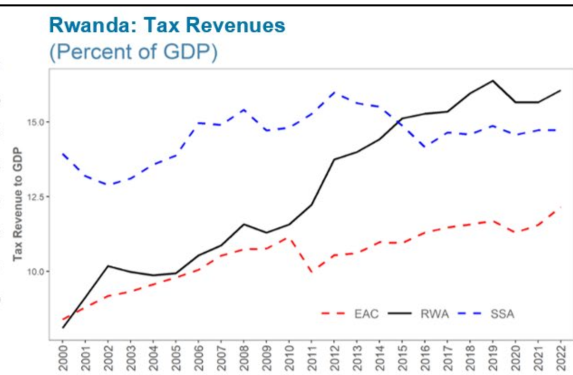
Rwanda achieved a steady and sustained increase in tax collection over the past three decades. As result of a larger public sector and governance and anti-corruption reforms, Rwanda's tax revenue ratio increased from just under 8 percent of GDP to over 16 percent of GDP between 1992 and 2020. Rwanda undertook tax administration reforms, with significant improvements in collection efforts, auditing procedures, and scrutiny of large taxpayers. Direct taxation contributed around 5 percent of GDP of this increase driven by personal income tax. Goods and services taxation added over 4.5 percent of GDP to the increase (through excise increases in the late 1990s and the introduction of a VAT in 2001). Trade taxes fell as a share of GDP. The period from 2010–15 saw revenues increase by 3¾ percent of GDP due to sustained reforms to improve DRM by widening the tax base through tax incentives rationalization, improving the progressivity of personal income taxes, and enforcing tax compliance.

Since 2019, revenue raising reforms have stopped with the introduction of exemptions. During the COVID-19 pandemic, several exemptions were introduced or expanded, including the introduction of the manufacturing build to recover program, and a greater use of zero rating. While now reversed, the authorities reduced tax rates on motor vehicle fuels that reduced revenues in 2021 and 2022. More recently, the implementation of revenue raising reforms as committed to under the MTRS faced delays.

Box 1. Tax Reforms in Rwanda: Comprehensive with Gradual but Sustained Gains (concluded)

To meet its developmental challenges, Rwanda will need to raise its revenue effort significantly. The existence of a large tax gap is an opportunity. A comprehensive strategy for increasing tax revenues by broadening the domestic tax base, improving tax compliance, and curbing tax evasion should be prioritized by the authorities. The strategy should increase progressivity of tax burden from low-income households to higher income wealth cohorts to advancing distributional fairness against growing inequality.

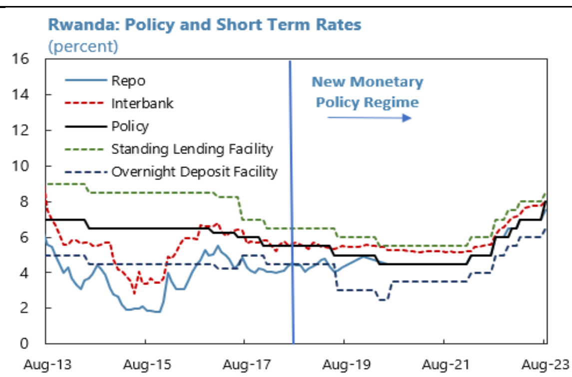




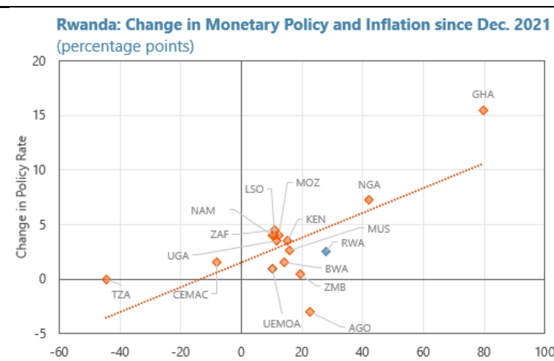
Source: Dart Database, WEO and IMF Staff Calculations
Note: The productivity ratio is the actually declared tax liability to GDP multiplied by the statutory rate as measured in the DART database.

B. Monetary, Exchange Rate, Financial Sector Policies: Modernization with Vigilance

23. Monetary policy should focus on bringing inflation down towards target. Inflationary pressures continue to linger above pre-pandemic levels driven by high domestic food inflation due to poor agricultural performance, and still elevated core inflation. The 300-bps cumulative hike since February 2022—including an appropriate 50 bps increase in August 2023—will help steer inflation towards the NBR inflation target. Further policy rate hikes would be necessary should second round inflation effects from the May 2023 floods and reconstruction spending prove to be more pronounced, exchange rate depreciation result in stronger-than-expected inflation passthrough, or external pressures accelerate. With core inflation remaining high, staff cautioned against premature



Source: Rwanda Authorities and IMF staff calculations.



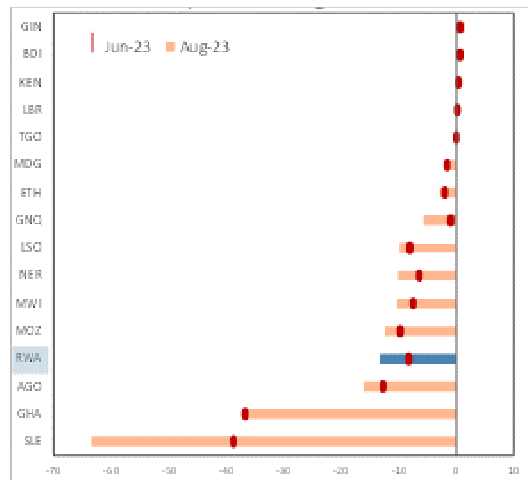
Source: IMF staff calculations and Haver Analytics
Note: Inflation and policy rate data updated as of end of July 2023.

easing and advised that the policy stance remains appropriately tight long enough to durably bring inflation back to the target.

24. Strengthening the implementation of the interest rate-based monetary policy framework and clear communications remain critical to ensuring price stability. Staff recommended (i) introducing judgement and additional information into the model (QPM); and (ii) fully incorporating the Forecasting Policy and Analysis System into the NBR's decision-making. Reforms to enhance the forward-looking nature of the monetary policy framework, a clear communication of data-driven policy decisions, and a greater exchange rate flexibility remain critical for long-term price and external stability. The full rollout of Global Master Repurchase Agreement (GMRA) is expected by end-2024 (**end-December 2024 RT**).

25. FX interventions should support rebuilding external buffers and facilitating external adjustment. The nominal exchange rate depreciated in line with program expectations, but more is needed to support external adjustment given the slower pace of fiscal consolidation in the near term and the limited effectiveness of monetary policy transmission. Moreover, the NBR should stand ready to accomodate deeper exchange rate adjustment—beyond what is assumed under the program baseline—should program reserve targets come under pressure. While the NBR recognizes the importance of exchange rate flexibility and financial market development, FX interbank market liquidity remains limited. The authorities' diagnostic assessment of the FX market (**end-November 2023 RT**), supported by IMF TA, will support their plans to establish a formal framework to guide FX intervention policy. As the first step, the NBR will revise its official exchange rate calculation methodology to allow for greater price discovery by better reflecting market conditions (**proposed new end-June 2024 RT**).

Rwanda: Exchange Rate
(versus USD, percent change since Jan. 1, 2023)



Source: IMF staff calculations.

26. The financial sector remains stable, and there were no immediate major disruptions in the financial sector arising from the recent floods. The credit to GDP ratio increased modestly in the first half of 2023. Credit to the private sector continued to grow robustly at about 11 percent on average. Banks continued to maintain strong capital and liquidity positions, while NPLs decreased from 4.3 percent in June-2022 to 3.6 percent in June-2023 and loans classified as "watch" categories dropped to 7.8 percent of total loans, relative to 10.6 over the same timeframe.

27. Credit is concentrated in the corporate sector, and banks' lending to households remains limited. Household loans consist of personal loans and mortgage loans are still rare. Most loans are collateralized lowering financial risks for banks, but also making access to finance more costly for small and individual borrowers, resulting in market segmentation. Due to the high market concentration in the corporate sector, banks have increasingly accumulated large exposures in their loan portfolios in recent years (Panel 4). State guarantees covering some of these large exposures contribute to the bank-sovereign nexus. Banks' large exposures have broad coverage across the sectors of the economy, with the largest contribution coming from construction, manufacturing, financial and insurance activities, transportation, and trade sectors. A significant downturn in these sectors have the potential to lead to sizeable losses for banks.

28. Financial stability risks need to be closely monitored, including through intensive supervision, regular stress tests, and quarterly Financial Stability Committee meetings. The NBR's stress testing capacity is being developed, albeit from a low base. Staff discussed the NBR's commitment to enhancing risk monitoring and stress testing capacity and recommended a more granular approach to data collection, risk monitoring and analysis, and developing models with longer term horizons. As large exposures of banks have been growing in the past few years, gathering more granular exposure data and conducting more detailed risks analysis should be a priority. Should risks from large exposures increase, tightening of the regulatory limits on large exposures would be warranted. To enhance the resilience of the financial sector and identify opportunities to further strengthen Rwanda's supervisory, regulatory, and crisis management frameworks, staff recommended conducting an IMF Financial Sector Assessment Program in the coming period.

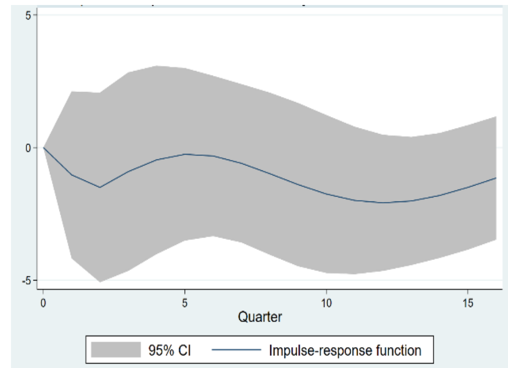
29. Rwanda is currently undergoing its second mutual evaluation assessment by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). In anticipation, Rwanda has enacted several AML/CFT laws and issued guidelines to improve technical compliance with the Financial Action Task Force (FATF) standards. These include more dissuasive sanctions for ML/TF and proliferation financing. Rwanda is also updating its national AML/CFT risk assessment with respect to virtual assets/virtual asset service providers and legal persons and arrangements. Companies have begun to submit beneficial owner (BO) information in compliance with the revised Company Law and Partnerships Law and the Rwanda Development Board (RDB)'s October 31, 2023´s deadline to submit BO information. Going forward, priority should be given to cross-checking of company information with the tax and revenue authorities, ensuring a consistent BO definition across all laws (including Public Procurement), and ensuring that competent authorities, including law enforcement, have direct and full access to BO information.

Medium-Term and Article IV Issues

30. Exchange rate flexibility and proactive use of the central bank rate as the main policy instrument are key for enhancing effectiveness of monetary policy. Like many other low-income countries, Rwanda faces frictions and impediments to effective monetary policy transmission mechanisms. While some of the challenges are structural, others can be addressed with appropriate policy initiatives and transparency to build credibility and increase exchange rate flexibility. Pursuing a data-driven, forward-looking, and clearly communicated monetary policy will be critical for strengthening the NBR's credibility and anchoring expectations.

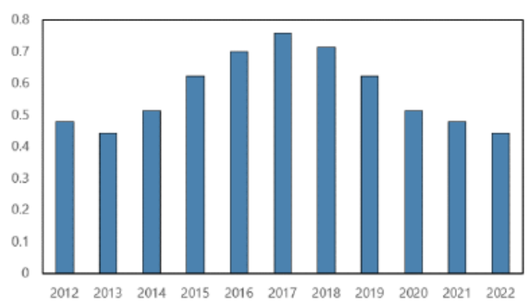
31. The NBR is determined to strengthen the credibility of its interest-rate based regime and improve the monetary transmission mechanism. Results from VAR analysis using quarterly data show that although statistically insignificant, inflation responds to monetary policy shocks in the expected direction (see SIP).[8] Staff analysis suggests that monetary transmission is impaired by a confluence of factors, including the consumption basket heavily dominated by food items, monetary policy inertia and less proactive use of the policy rate, underdeveloped financial markets, weak competition in the banking sector, structural FX shortages and the NBR's dominant footprint in the FX market, and limited exchange rate flexibility. At the same time, Rwanda's exchange rate passthrough to inflation, while still high, declined in recent years, likely signaling a notable improvement in the effectiveness of the NBR's monetary policy framework following the transition to the interest-rate based monetary policy regime in 2019.

Rwanda: Impulse-Response Function: Policy Rate Shock on Inflation



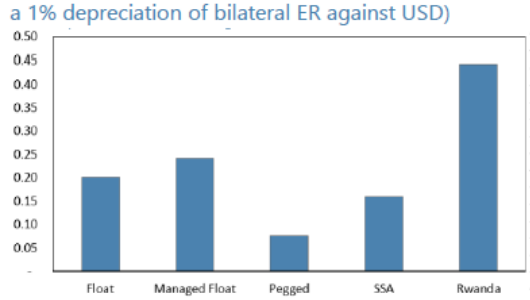
Note: Sample Period is from Q4 2010 to Q1 2023. Source: Authorities, Staff Calculations

Rwanda: Average Exchange Rate Pass-through
(in percent, cumulative response of CPI one year after a 1% depreciation of bilateral ER against USD)



Note: Estimates based on the rolling samples of 10 years, starting in 2012.
Source: Kemoe, et al. (Forthcoming)

Rwanda: Average Exchange Rate Pass-through by Exchange Rate Regime
(2022, in percent, cumulative response of CPI one year after a 1% depreciation of bilateral ER against USD)

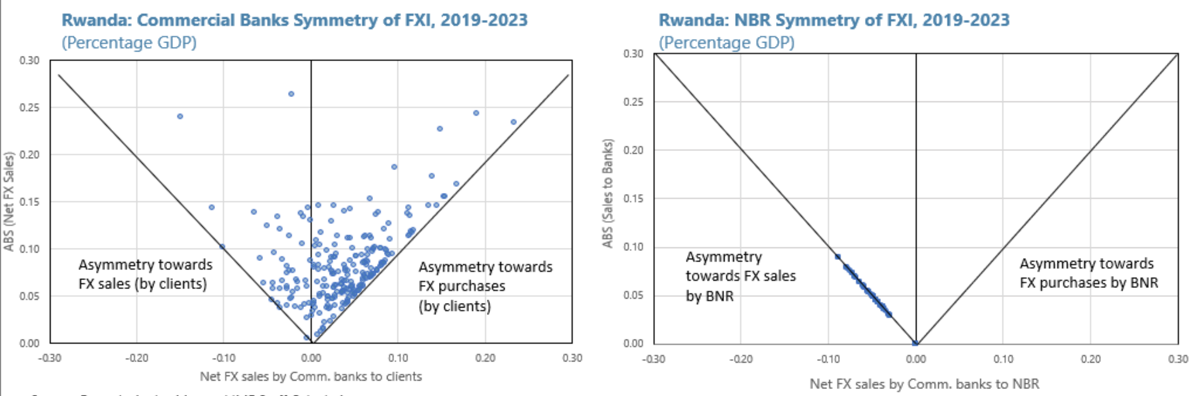


Source: Kemoe, et al. (Forthcoming)

32. The foreign exchange intervention framework needs to be strengthened. With protracted demand-supply imbalances and a structural FX backlog, the NBR has become a liquidity provider of first resort to the banking system (as witnessed by one-sided FXIs, see chart), as opposed to a more mature role of the market maker of last resort. While several enabling conditions for FX market development are in place, the NBR's FX market development strategy should gradually move from providing agile support to the market towards applying well-designed incentives. This requires focus on several FX market development building blocks and sequencing measures to address the existing gaps effectively. Steps include formulating the NBR's FX intervention strategy with interventions being guided by FX market conditions, switching to a

[8] For Rwanda, limited data and the change in the monetary policy framework in 2019 constraint the VAR analysis.

competitive auction and incentivizing the de-dollarization of deposits by raising the required reserves on FX deposits relative to reserves on RWF deposits. Staff confirmed that FX market development strategy remains consistent with Article VIII obligations.



Source: Rwanda Authorities and IMF Staff Calculations.

Authorities' Views

33. The authorities noted that they will closely monitor price developments and reiterated their commitment to take action to bring inflation within the NBR's target band of 2 to 8 percent. The authorities remarked that they remained committed to a flexible exchange rate to support their monetary policy framework and maintain external buffers. They expressed their commitment to limit interventions in the FX market to minimize excessive exchange rate volatility but argued that Rwanda's past experience with FX auctions was not very encouraging. The authorities also stated they closely monitor financial stability risks, including through intensive supervision, quarterly stress tests, and quarterly Financial Stability Committee meetings. They also reaffirmed their commitment to address gaps in the AML/CFT framework and to improve technical compliance with the FATF standards.

C. Structural Policies: Socioeconomic Resilience and Building Resilience to Climate Change

34. Fostering the socioeconomic resilience agenda is essential for navigating challenging times and continuing to improve living standards. Enhancing the coverage, targeting, and shock-adaptability of social safety nets, improving the access and quality of health and education among vulnerable groups, and promoting economic diversification remain key pillars for building socioeconomic resilience against future shocks. The authorities continued to make significant progress in enhancing social protection programs in the context of the Vision 2020 Umurenge Program (Box 2). Specifically, the roll-out of the dynamic social registry to improve targeting and efficiency of Rwanda social sector programs is on track (**end-May 2024 RT**).

35. Building resilience to climate change—including through RSF supported reforms—continues to be strong.

- *Monitoring and reporting of climate-related spending for decision making.* Supported by the IMF technical assistance, the authorities prepared the guidelines for the implementation of the climate budget tagging system (**second review RM4**), that can be promptly included in the Integrated Financial Management Information System (IFMIS). The guidelines also set out a roadmap with clear milestones for a gradual roll-out of the green budget tagging system supporting the work on publishing a climate budget statement using a budget tagging prototype on development expenditures only **(third review RM6)**. Once fully implemented, the budget tagging system should allow preparation and monitoring of climate-related activities at the budget preparation and execution phases, further improving transparency.
- *Progress on enhancing climate-related risk management for financial institutions.* The NBR published a guideline for climate-related risk management for financial institutions (**initially third review RM8**), including a timeline for its tiered implementation.

36. Enhancing the RSF-supported reforms demonstrates Rwanda's strong ownership of the climate agenda. The authorities expressed their commitment to significantly strengthen the RSF arrangement by bringing forward the availability dates of future RSF reform measures and adding to the reform matrix two additional reform measures (RMs) to further enhance the impact of the RSF (see ¶43) Strengthening climate reporting of SOEs and PPPs were recommendations from FAD's C-PIMA, while rolling out of a green taxonomy is advised by MCM climate experts. Moreover, as part of mitigation efforts to reduce CO2 emissions in line with their nationally determined contribution objectives, the authorities introduced new fuel taxation measures to achieve emission reduction goals (see ¶15). The new measures will increase the levy on diesel and petroleum from 115 RFW per liter to 150 RFW per liter in FY25/26. The proposed RSF enhancement will send a strong signal of Rwanda's unwavering commitment to the climate change agenda, thereby strengthening the catalytical role of the arrangement to scale up climate financing from development partners and private investors.

37. Increasing efficiency and transparency will help mobilizing additional climate funding and achieving Rwanda's ambitious climate agenda. The recently approved US$50 million budget support by *Agence Française de Développement (AFD)* has been directly linked to the implementation of reform measures under the RSF and is an example of the RSF's catalytic role in mobilizing additional public green financing. The recently launched private and public green investment facilities (Ireme and Intego) have progressed with the development of the pipeline of projects that will support Rwanda's climate goals. An initial set of private sector projects is being pursued by Ireme in the clean energy, sustainable cities, and e-mobility sectors. Intego has started to apply a programmatic approach to compile a public project pipeline organized around ambitious programs on landscape restoration, climate-smart agriculture, and sustainable urbanization. Following the February 2023 roundtable facilitated by the IMF Mobilizing Climate Finance Task Force, in June 2023 the Government and development partners announced a cooperative approach to climate finance that will mobilize EUR 300 million of investments to build climate resilience. Going forward, blending concessional and non-concessional resources, de-risking, and issuing a sustainability-linked bond will be used to scale up the newly established Ireme Invest.[9] To help catalyze further private climate financing, at COP28, the Government of Rwanda will announce the first phase of its green taxonomy and a carbon market regulatory framework, together with additional financial contributions from the Government of Rwanda and *Cassa Depositi e Prestiti*, the Italian development finance institution, to Ireme Invest which will boost its capacity to support private sector climate investments.

Box 2. Social Economic Resilience Under Vision Umurenge Program (VUP)

Rwanda has developed a comprehensive social protection system. Under the Vision 2020 Umurenge Program (VUP), a dynamic social registry will help improve the accuracy of targeting the poorest and most vulnerable. The assistance system is set up as a combination of direct transfers and public works. The system is organized into four blocks: social safety nets, graduation, shock response, and sensitization and public communications. The proximity advisory services and public communication are designed to strengthen the coordination of services and support the implementation of the VUP scheme.

The social safety net component encompasses the direct cash transfer and publics works. Direct Income Support intends to ensure that the extremely poor and labor constrained households can meet their most basic needs. There is also the nutrition sensitive direct support which provides support to vulnerable pregnant women, new mothers, and younger children. Classic Public Works provides support to extremely poor households with labor capacity to meet their basic needs from wages earned. Expanded Public Works is intended to support moderately labor constrained households to meet their basic needs from part-time multi-year-around employment.

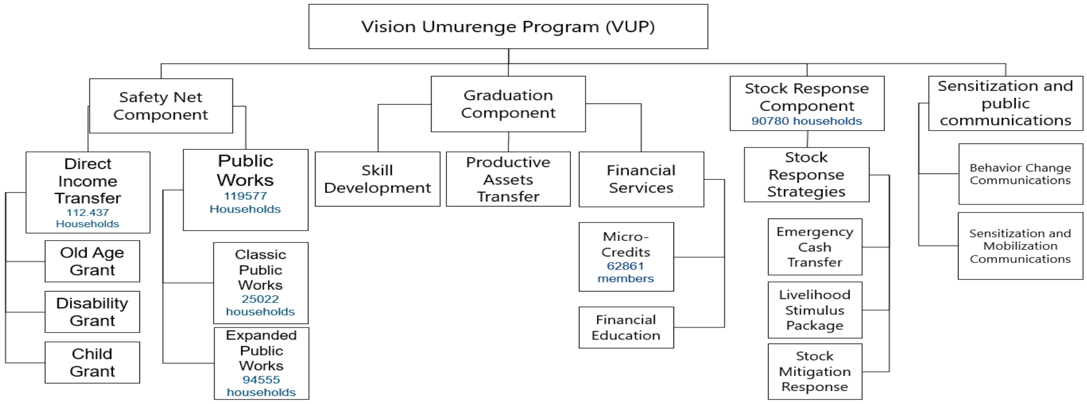
The graduation component includes skill development, productive assets transfers, and financial services. The skill development program intends to provide help to the vulnerable to build capacity and develop skills for the labor market. Productive asset transfer scheme is designed to provide assets to extremely poor households that have the potential to develop a sustainable livelihood. The microcredit scheme intends to provide to individuals in extremely poverty and vulnerable households small loans at low interest rates to generate sustainable income generating activities through combined with financial education.

The shock response component includes the shock-mitigation and response window and the emergency cash transfers. Shock mitigation and response window is meant to assist victims of disasters. Emergency cash transfers are designed for emergency shocks.

To mitigate the impact of rising prices on the most vulnerable households some adjustments have been adopted. The monthly cash transfer under the Nutrition Sensitive Direct Support was increased from RWF 7,500 to RWF 10,000. The cash transfer for the extended Public Works was increased from RWF 10,000 to RWF 15,000.

[9] In October 2023, the Development Bank of Rwanda (BRD) issued an innovative sustainability-linked bond (RWF 30 billion), which was partially credit-enhanced via a World Bank IDA-financing operation. The BRD used concessional funds to purchase government securities that were placed in an escrow account at the central bank. Pledged as collateral for principal, these securities accrued interest to provide coverage for investors in the event of default, thereby reducing the risk and the overall cost of BRD funding.

Box 2. Social Economic Resilience Under Vision Umurenge Program (VUP) (concluded)



Medium-Term and Article IV Issues

Socioeconomic Resilience

35. The authorities' commitment to structural reforms, including building socioeconomic resilience, is strong and should be sustained.

- *Improving human capital accumulation and pandemic preparedness.* Recent measures to subsidize school feeding programs have helped increase school attendance. To be sustainable, this program needs to be better targeted and domestically financed. With support from the World Bank and other development partners, the authorities have taken steps to strengthen remote learning to minimize present and future pandemic scars. Guided by the World Health Organization (WHO), efforts to improve pandemic preparedness have also continued.

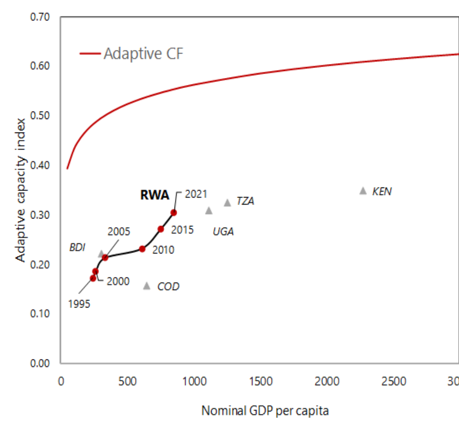
- *Digitalization and financial inclusion.* Expanding access to digital financial services remains instrumental to implement Rwanda's financial inclusion strategy. The authorities view financial inclusion as an important pillar supporting development and poverty reduction objectives, and target achieving 90 percent of formal financial inclusion by 2024. To this end, the NBR developed a new financial inclusion strategy that focuses on promotion measures through greater digitalization and gender balance in accessing financial services.

- *Promoting private sector-led economic diversification.* Efforts to promote private-sector-led economic diversification have been excessively focused on tax incentives. With support from the World Bank and development partners, the authorities are stepping up efforts to leverage the African Continental Free Trade Area (AfCFTA) preferential market access to secure opportunities of Rwandan firms by adjusting their legal framework to reduce tariff and non-tariff barriers. Greater emphasis should be placed on building a more skilled labor force that will support the private sector-led economic diversification.

Climate Resilience

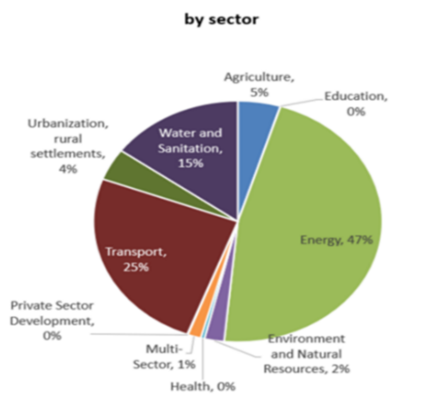
36. Rwanda's vulnerability to and cost of natural disasters is high. Although the country's adaptive capacity increased rapidly over the last few decades, a large gap remains exposing Rwanda's vulnerability to climate risks (see SIP on *Challenges and Policy Options to Financing Rwanda's Climate Agenda*). The authorities estimated the overall financing need for implementing their nationally determined contributions (NDCs) at US$ 5.1 and 5.9 billion for the 2020–25 and 2026–30 periods, respectively. However, these estimates likely incorporate other development spending and, as a result, could be inflated.[10]

Rwanda: Adaptative Capacity Frontier in EAC



Source: Notre Dame Global Adaptation Initiative, WEO, Staff calculations.
Note: Adaptive Capacity of Rwanda (1995-2021), EAC and Frontier (2021).

Rwanda: NDC Project Pipeline



Source: Rwanda NDC Implementation Framework 2021

Rwanda: NDC Financing Needs, by Type of Climate Action

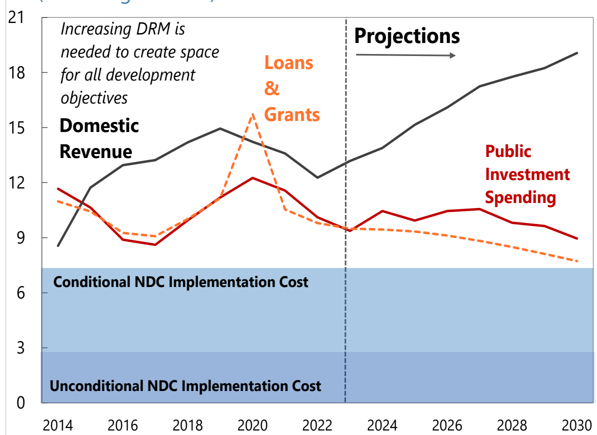
	Unconditional	*Conditional*	*Total*
Mitigation (USD million)			
2020-2025	1,057	1,754	2,811
2025-2030	953	1,912	2,865
Mitigation total	2,010	3,666	5,676
Adaptation (USD million)			
2020-2025	916	1,374	2,290
2025-2030	1,229	1,844	3,073
Adaptation total	2,145	3,218	5,363
Total	**4,155**	**6,884**	**11,039**

33. Rwanda has a comprehensive pipeline of projects that support its NDC implementation strategy. In 2021, the authorities identified a detailed pipeline of publicly and privately financed green projects in the value of US$ 4.5 billion to achieve the NDC goals for the 2020–25 period. Projects are evenly contributing to mitigation and adaptation objectives and concentrated in the energy, transport, and water and sanitation sectors. The pipeline is in the process of being updated, while some of the projects have been delayed due to lack of financing and limited absorption capacity during the recent crises. According to the authorities estimates, Rwanda's NDC implementation financing gap is currently at US$6.5 billion for the 2020–30 period.

[10] Although the two estimates are not directly comparable, Aligishev, Bellon and Masetti (2022) estimated adaptation investment needs in Rwanda up to 2030 to amount to about US$10 million per year compared to the authorities estimates of cca. US$500 million per year.

34. Full NDC implementation has sizeable fiscal costs and could crowd out other development spending. The cost of NDC implementation is estimated at 7 percent of GDP annually, which would require the bulk of public investment, or the projected available concessional financing. While Ireme is off to a good start, private climate financing is unlikely to be able to close the NDC financing gap in the near-term. Model simulations indicated that full NDC implementation (see SIP), if debt financed, would undermine debt sustainability. However, debt would remain sustainable by supplementing the financing gap with DRM and spending rationalization policies. Full implementation of RSF reforms would also improve macro-outcomes by increasing public investment efficiency and by catalyzing additional climate financing. Additionally, utilizing synergies between various development objectives (i.e., using the programmatic approach) would further enhance returns on climate investment and lower the pressure on other development spending.

Rwanda: NDC Implementation Cost
(Percentage of GDP)



Source: Rwanda Authorities and IMF Staff Calculations.

39. The prevalence of women working in the agriculture sector makes them more exposed to climate shocks. It is thus important to adopt gender-sensitive policy responses to climate shocks, with a focus on reducing women's vulnerability, promoting gender sensitive measures, and including women in climate change adaptation and mitigation decision-making processes. The authorities recognize that climate and gender issues are both cross-cutting, trans-sectional, and multi-dimensional and should be reflected in all stages of national strategies. To this end, Rwanda's national green fund, FONERWA, published Gender Mainstreaming Strategy and Gender Action Plan which addresses institutional gender mainstreaming, including in the FONERWA's project portfolio management. The authorities are also implementing various support measures to increase female employment in non-agricultural sectors.

Authorities' Views

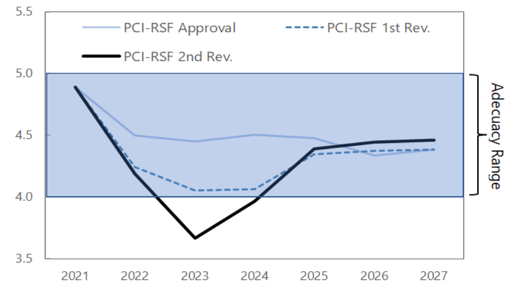
40. The authorities reiterated their strong commitment to the climate agenda. They agreed that the cost of implementing Rwanda's NDC objectives was sizeable but noted that a programmatic approach that aims to fully utilize synergies with other development goals should help limit implementation costs. They also stressed their efforts to accelerate the RSF that would help capitalize on the RSF's catalytic role to mobilize further private climate financing.

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

Rwanda: External and Fiscal Adjustment, 2023-25

	2023	2024	2025
External adjustment[1]			
PCI 1st review baseline	0.4	2.6	4.0
PCI 2nd review and SCF proposed stance[3]	0.5	2.9	4.3
Fiscal adjustment[2]			
PCI 1st review baseline	0.8	2.6	4.1
PCI 2nd review and SCF proposed stance[3]	0.5	2.0	4.0

[1] Cummulative change in CAD implied by the program REER path compared to the counterfactual of no REER change. "+": reduction of CA deficit.
[2] Culmulative change in fiscal deficit from FY22/23. "+": consolidation.
[3] Net adjustment, inclusive of the reprioritization within expenditure envelope to accommodate flood-related spending



Sources: Rwandan authorities, and IMF staff estimates

41. Access and duration. A 14-month Stand-by Credit Facility (SCF) arrangement with access of 125 percent of quota (SDR 200.25 million) will support the authorities' program, implemented concurrently with the PCI that remains the main policy framework.[1] The SCF will address the short-term BOP needs and guide the recalibration of the policy adjustment in response to the climate related shocks, while protecting priority spending (text table). This level of access is justified by the strength of the authorities' reform agenda, strong capacity to repay, and significant BOP financing gaps arising from a sharp climate-shock-induced increase in food and post-disaster reconstruction imports amplifying the pre-existing external pressures.

42. Phasing and catalyzing financing. Four-fifths of each disbursement under the SCF arrangement will be disbursed as BOP support to cushion reserves, with the remaining one-fifth of each disbursement going towards budget support. The World Bank committed to US$135 million, with money drawn from their crisis response window (US$60 million) and the remainder from existing projects that have been repurposed for the post-flood reconstruction. The EIB has also committed to US$150 million in new flood-related project support, with disbursements spread over a 10-year window. Financing under the SCF arrangement and the envisaged policy adjustment under the PCI/SCF should allow Rwanda to rebuild external buffers toward the middle of the 4–5-month adequacy range. The proposed burden sharing is skewed towards the Fund but is expected to improve from 2023 to 2025. Also, under the baseline, other development partners are already supporting Rwanda with significant budget and project financing.

[1] Staff assesses that Rwanda fully meets eligibility requirements for the SCF arrangement; (a) Rwanda does not have a protracted balance of payments problem and have an actual short-term BOP need that is expected to be resolved within two years; (b) Rwanda's balance of payments difficulties are not predominantly caused by a withdrawal of financial support by donors; and (c) Rwanda is implementing policies aimed at resolving the balance of payments difficulties it is encountering, and at achieving, maintaining or restoring a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction.

Rwanda: External Financing Sources
(USD Mill. unless otherwise indicated)

	2023	2024	2025	Cumulative	
	US$ mn	US$ mn	US$ mn	US$ mn	Percent of Total
Total financing in response to flood impact	**92.4**	**229.5**	**45.1**	**367.0**	**100.0**
IMF - SCF	89.4	179.0	0.0	268.4	73.1
World Bank	3.0	44.5	42.0	89.5	24.4
Crisis Response Window		27.0	33.0		
New project funds	3.0	14.0	8.0		
Re-purposed project funds		3.5	1.0		
European Investment Bank		6.1	3.1	9.2	2.5
Memo: Total External Financing					
World Bank	436.5	356.0	476.6	1269.1	
Other Multilateral (ex IMF, WB)	123.3	185.7	271.1	580.2	
Bilateral	168.2	154.9	230.3	553.3	
Commercial	181.1	401.0	186.1	768.2	

Source: Rwanda Authorities and IMF staff calculations.

Note: IMF-SCF financing for BOP and budget support.

43. Conditionality under the PCI/SCF arrangement. Implementation will continue to be monitored on a semi-annual basis. Common QTs/QPCs under the PCI/SCF arrangement have been set consistent with policies discussed above, reflecting required policy adjustment and recalibration of fiscal policy to accommodate post-floods spending (MEFP, Tables 1-4). The authorities have requested to modify PCI conditionality reflecting the economic developments, the recalibrated policy mix, and their reform commitments:

- The end-December 2023 QTs on the debt creating overall balance and stock of net foreign assets as well as the continuous target on the PV of new public and publicly guaranteed external debt are proposed to be modified, while new end-June 2024 and end-December 2024 QTs/QPCs have been set in line with the updated macroeconomic framework.
- Consistent with the projected decline in the average inflation and the NBR's medium-term inflation target, the MPCC midpoint is set to 5 percent for end-June and end-December 2024.
- The missed end-September 2023 RT on the revenue generating package of measures was set as a prior action to achieve revenue gains envisaged under the program.

44. RSF reform measures. Reflecting exceptional commitment to the climate reform agenda, the authorities requested to enhance and re-phase the RSF by bringing forward availability dates of three RMs for future reviews and introducing two additional RMs (Tables 9-10; MEFP Table 3).

- One existing RM8 (initially third review) on the guideline for climate-related financial risk management for financial institutions was implemented and the authorities request bringing the availability date forward to the current review.[2] In addition, all three RMs initially scheduled for the fifth review will be accelerated. First, RM11 on publishing comprehensive tagging results in the climate budget tagging statement and starting to publish a quarterly climate expenditure report that compares climate change expenditure execution with budget plans would be brought forward to the fourth review. Second, RM12 on issuing a guideline to financial institutions regarding the implementation of recommendations of the International Sustainability Standards Board would be brought forward to the fourth review. Third, RM13 on developing a financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy would be brought to the third review.

- The two new RMs are (i) publish individual risk analysis of SOEs and PPPs that are vulnerable to climate change risks and that have been submitted to fiscal risk committee (**new RM14, third review**), and (ii) MINECONFIN to adopt a green taxonomy adapted to Rwanda's NDCs covering seven sectors of the economy (agriculture, energy, construction, transportation, manufacturing, wastewater management, and ICT) (**new RM15, fourth review**).[3]
- The total access under the RSF will remain unchanged at 150 percent of quota with re-phasing starting from the third review by uniformly distributing the remaining RSF access between the remaining and new RM. This will keep total disbursements of future reviews below the maximum 50 percent of quota per review rule.
- The RSF disbursements will create fiscal space that, among other things, will support the authorities' climate adaptation and climate mitigation priorities. These priorities include supporting investments in areas of low-carbon transport networks, low carbon and climate-resilient infrastructure and energy access, resilient urban landscapes, and sustainable water systems, agriculture, forestry, and conservation.
- The RSF disbursements will also augment Rwanda's international reserves thus improving investor confidence and strengthening the country's ability to face future climate-change related shocks. Specifically, RSF disbursements are expected to help boost Rwanda's gross official reserves by an additional 0.7 month of imports starting from end-2024, after the BOP financing gaps arising from the climate-related shocks are closed by the SCF financing and the agreed policy adjustment (Tables 6–7).

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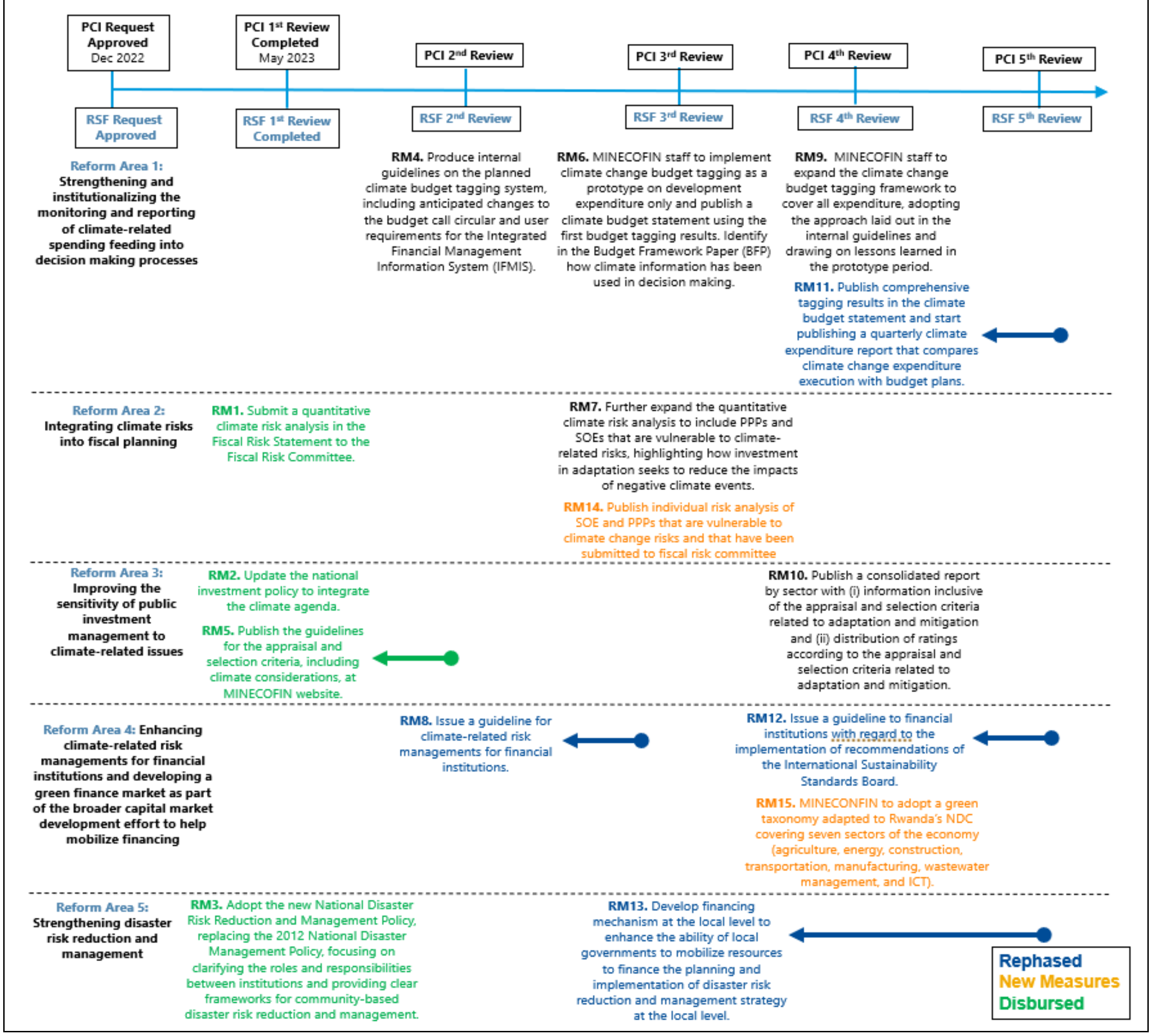
[2] Staff assess that the request to rephase RM8 to the current review is exceptional and well-justified by the early completion of the reform and the authorities' stepped-up engagement on the climate agenda. Additional financing made available through the earlier disbursement is not intended to cover financing gap under the PCI and SCF arrangements.

[3] The authorities started developing a green taxonomy supported by technical assistance from the German International Cooperation Agency.

Text Table 4. Rwanda: RSF Reform Measures Revised Timeline



45. **Rwanda's capacity to repay the Fund remains adequate.** Capacity to repay the Fund would remain manageable under the proposed SCF arrangement (Table 8a). Rwanda's outstanding credit stands at 169.91 percent of quota (as of November 9, 2023) and will peak to 383.75 percent of quota in 2024 once the RSF and SCF arrangement are fully disbursed. While Rwanda's peak for credit outstanding is high (39.3 percent of gross international reserves, or 6.0 percent GDP), part of it is very long-term (due to RSF financing), so the peak debt service to the Fund in 2028 would remain modest (4.3 percent of gross international reserves, or 3.1 percent of revenues excluding grants). Rwanda's capacity to repay would be supported by the downward debt trajectory in the medium term with moderate risks of external and public debt distress, and the authorities' track-record of reforms and sound macroeconomic management.

46. Safeguards assessment. The last safeguards assessment, concluded in January 2022 found a well-established governance and control framework with audit and reporting practices aligned with international standards. In May 2023, the MoU between the NBR and the government was signed to formalize the existing practice on credit to government, including enforcement mechanisms on limits. A new SCF related MoU between the NBR and the government will be signed shortly to clarify their respective responsibilities for servicing the related obligations to the Fund for the budget support portion of the disbursement. An update safeguards assessment is in progress and expected to be completed by the time of the first SCF review.

47. Financing assurances and risks to program implementation. While the outlook is subject to downside risks, the program is fully financed over the next 12 months with good prospects for financing thereafter. Financing assurances have been provided mostly in the form of concessional grants from the World Bank and bilateral development partners, and concessional loans from the World Bank, AfDB, and other multilateral and bilateral partners. The EIB has indicated strong prospects for additional financing over the medium-term. While uncertainty and risks to program implementation remain, these are mitigated by the authorities' strong ownership of reforms under the program.

48. Capacity development (CD) activities remain linked to program priorities (Annex 3). Recent CD included TA to support the authorities' efforts to strengthen the FPAS, conduct FX market diagnostics, strengthen DRM and the MTRS, strengthen fiscal risk management, and improve financial supervision and regulation. Going forward, CD activities are expected to focus, inter alia, on revenue administration, public financial management, financial supervision and regulation, and monetary and macroprudential policies.

49. 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 2024. 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

50. Rwanda withstood recent overlapping shocks well, but external and domestic imbalances have intensified. Economic growth remained robust, notwithstanding repeated droughts and the severe floods in May 2023. Headline inflation decelerated in the first half of the year, but inflationary pressures resurfaced in August 2023 due to increased food prices. Rwanda's policy space to advance developmental objectives is constrained by diminished policy buffers, tight global financing conditions, and the structural decline in external concessional financing. A worsening external environment and consecutive climate-related shocks have put further strains on international reserves and narrowed policy space. Balance of payments pressures are expected to persist in the coming months amid the high food import bill, while the post-flood reconstruction costs are projected at 3 percent of GDP over the next five years.

51. Despite the challenging environment, macroeconomic policy performance through end-June 2023 remained broadly in line with program objectives under the PCI. All but one end-June 2023 quantitative targets and standard continuous targets were met, while the 3-month average headline inflation also fell marginally outside the outer bound value for end-June 2023, triggering the monetary policy consultation clause. Reforms to boost domestic revenue mobilization, advance expenditure rationalization, enhance fiscal transparency, and strengthen foreign exchange market functioning are progressing well. Nevertheless, risks to the program are significant on account of worsening external environment and heightened uncertainty.

52. Going forward, increasing imbalances require further recalibration of policies to safeguard macroeconomic and external sustainability. Continued fiscal consolidation, proactive and data-driven monetary policy, and further exchange rate adjustment will help rebuild buffers, curb inflation, and improve debt sustainability. A slower pace of fiscal consolidation in the near term will be appropriate to support recovery from the recent floods, while a more credible policy effort is necessary to safeguard fiscal and external sustainability and help achieve developmental objectives. Timely implementation of the agreed reforms to broaden the domestic tax base and improve tax compliance are critical for achieving the authorities' revenue objectives. Expenditure rationalization will need to continue, with a focus on enhanced efficiency of public investments, better targeting of subsidies and transfers, and digital delivery of public services. The fiscal risk management framework can be further enhanced. An intensification of imbalances would call for moving forward even more decisively with these adjustment plans.

53. Monetary policy needs to remain appropriately tight, while the exchange rate should continue to be allowed to play its shock absorber role to mitigate external pressures. The recent tightening of the monetary policy stance is appropriate, but further policy adjustment would be necessary should second-round inflation effects from shocks to domestic food supply prove to be more pronounced, exchange rate depreciation result in stronger-than-expected inflation passthrough, or external pressures accelerate. Given the more accommodative fiscal stance in the near term, continued nominal exchange rate flexibility will be needed to support the external adjustment. Efforts to develop the foreign exchange market and strengthen the intervention framework are needed to improve monetary policy transmission.

54. Progress on the climate agenda under the RSF remains exceptionally strong. Rwanda's recently established green investment facilities will start lending operations before end-2024. Reforms under the RSF will improve the transparency and efficiency of allocation of climate-related public spending and create a conducive environment for attracting climate finance. Establishing guidelines for financial institutions on climate-related risk management and introducing sustainability disclosure standards for financial institutions will also support private green investment. With a view to further demonstrate their unwavering commitment to the RSF-supported climate agenda and to further capitalize on its catalytic effect, staff supports the authorities' request to change the availability dates and rephase four reform measures and enhance the reform agenda by introducing new measures, including the implementation of an internationally recognized green taxonomy.

55. Rwanda sustained remarkable socio-economic progress in the last two decades, but development and climate-related needs remain high. Structural reforms to enhance socioeconomic resilience should be fast-tracked to speed up access to health care and education, promote regional trade integration, and scale up and better target social protection.

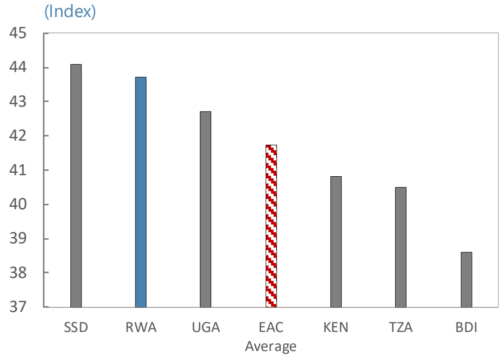
56. Staff supports the completion of the second PCI/RSF reviews and the authorities' request for a 14-months SCF arrangement, with total access of 125 percent of quota (SDR 200.25 million) to be implemented concurrently with the PCI. The PCI is expected to remain the main policy framework to support the authorities' policy objectives. Notwithstanding non-observance of one quantitative target under the PCI, staff expects that the program will be successfully implemented because of the minor nature of the nonobservance. Staff supports completion of the monetary policy consultation with the IMF Executive Board clause. Staff supports the modification of the end-December 2023 quantitative targets on the ceiling on the debt-creating overall balance and the floor on the stock of net foreign assets (NFA), as well as the continuous target on the PV of new public and publicly guaranteed external debt. Staff supports a disbursement totaling SDR 36.97 million under the RSF and SDR 66.75 million under the SCF.

57. Staff recommends the next Article IV consultation with Rwanda to be held on the 24-month cycle.

Figure 1a. Rwanda: Social Development and Selected Comparators

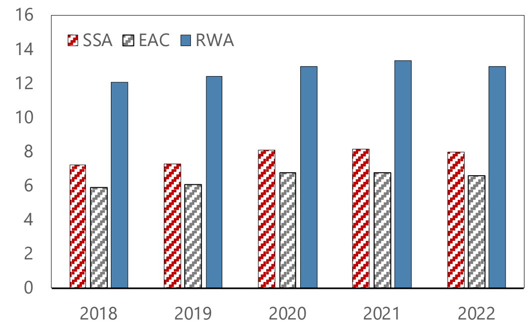
Inequality in Rwanda is high compared to peers.

Gini Index
(Index)



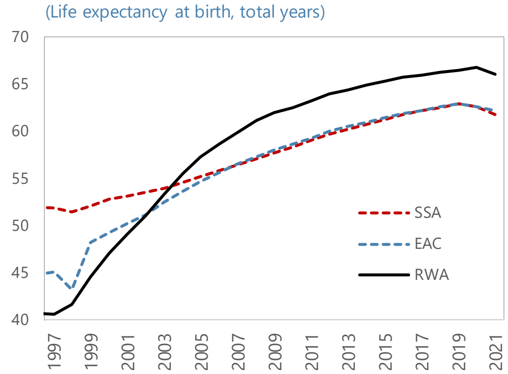
Unemployment remains high and persistent.

Unemployment Rate
(Percent, Modeled ILO estimate)



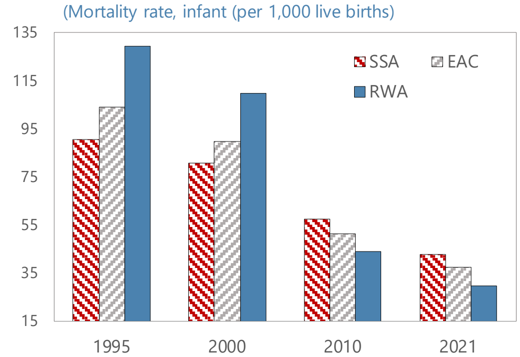
On the other hand, life expectancy has improved significantly supassing regional peers...

Life Expectancy
(Life expectancy at birth, total years)



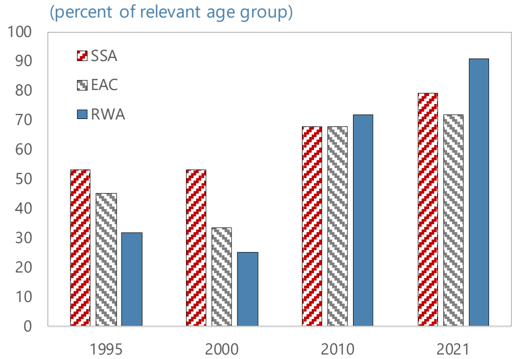
... and infant mortality declined bellow regional averages.

Infant Mortality
(Mortality rate, infant (per 1,000 live births)



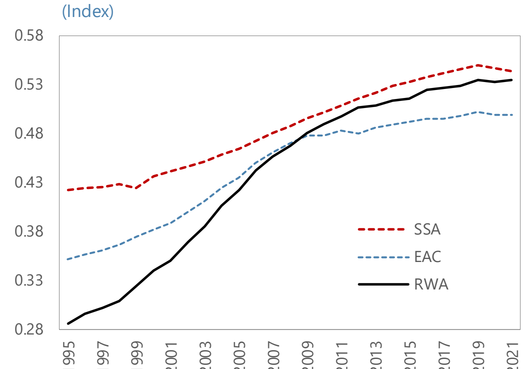
Primary education completion rate reached more than 90 percent...

Total Primary Completion Rate (Male and Female)
(percent of relevant age group)



... and data on human development index shows constant improvement and catching up with the SSA

Human Development Index
(Index)



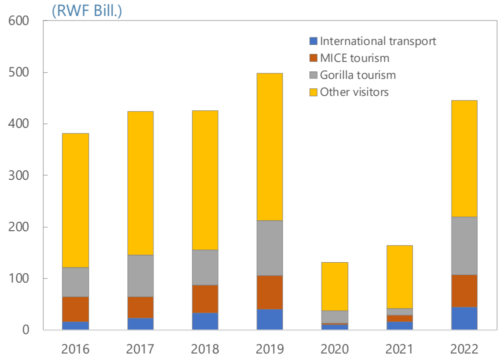
Source: OWID, WEO, UNDP, ILO, Rwanda Authorities and IMF Staff Calculations.

Figure 1b. Rwanda: Overview of Selected Developments

Rwanda Tourisim revenue after the COVID-19 pandemic has recovered stongly during 2022.

Annual Total Tourism Revenues

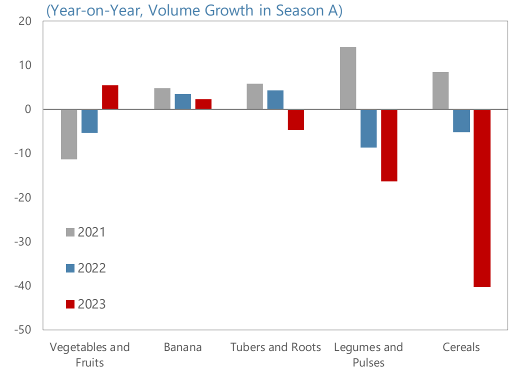
(RWF Bill.)



The agricultural sector suffered from low production of major crops in the first season of 2023 due to unfavorable weather conditions.

Agricultural Production

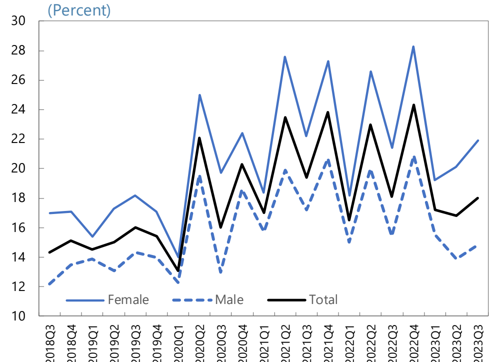
(Year-on-Year, Volume Growth in Season A)



Unemployment remains above pre-pandemic trend, and the gender gap increased in Q2 2023...

Unemployment Rate

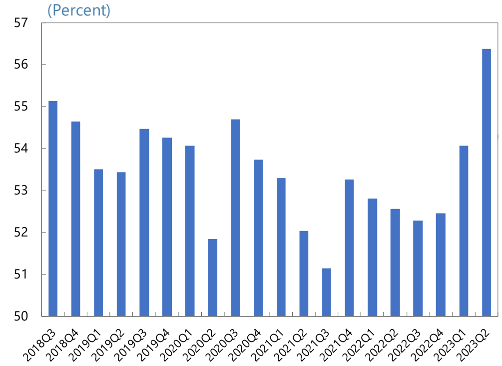
(Percent)



...while female share in the total agricultural employment went up to the highest in recent years.

Female Share in Agricultural Employment

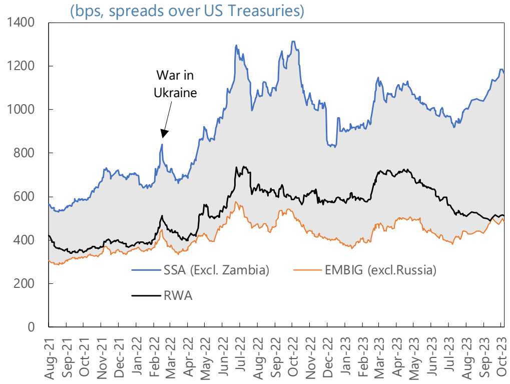
(Percent)



Sovereign spreads have continued the trend downwards and approached EMBIG spreads...

Sovereign Spreads

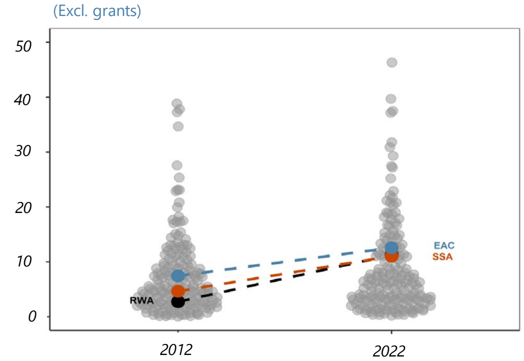
(bps, spreads over US Treasuries)



...while borrowing costs have significantly increased, with interest payments as a share of revenue doubling in the last decade.

Interest Payments to Revenue

(Excl. grants)

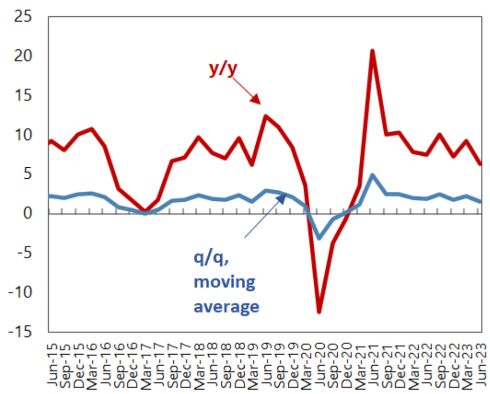


Sources: Rwandan authorities, National Institute of Statistics Rwanda (NISR), Haver (2023), and IMF staff calculations.

Figure 2. Rwanda: Overview of Recent Economic Developments

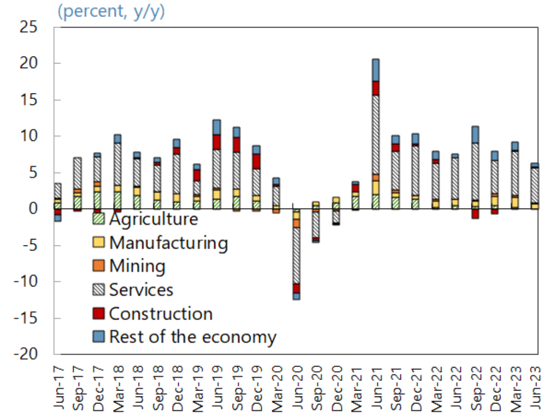
Economic activities remain strong in 2022...

Recent Growth Trends
(percent, y/y and q/q moving average)



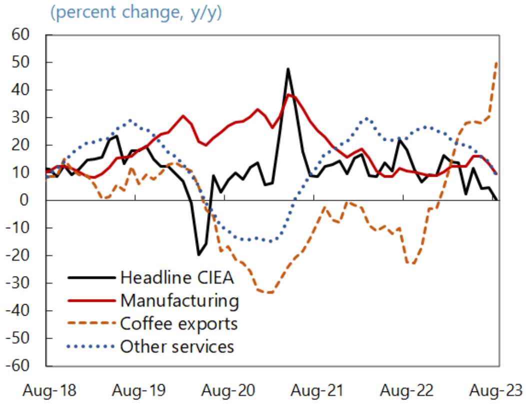
... as a sharp pickup in the services sector more than offset weak agricultural production.

Contribution to GDP Growth
(percent, y/y)



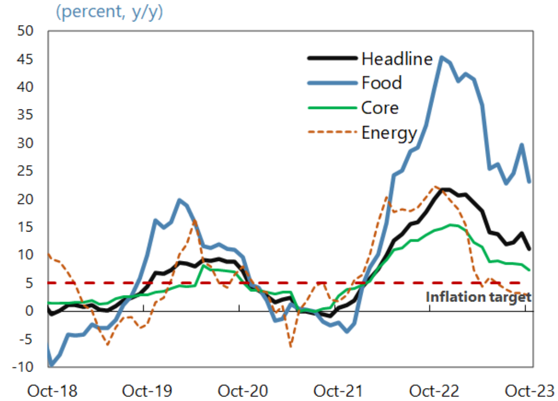
While leading indicators suggest strong economic activities continue in the beginning of 2023...

Composite Indicators of Economic Activity
(percent change, y/y)



...the inflation rate remained well above the NBR's inflation target although declining in recent months.

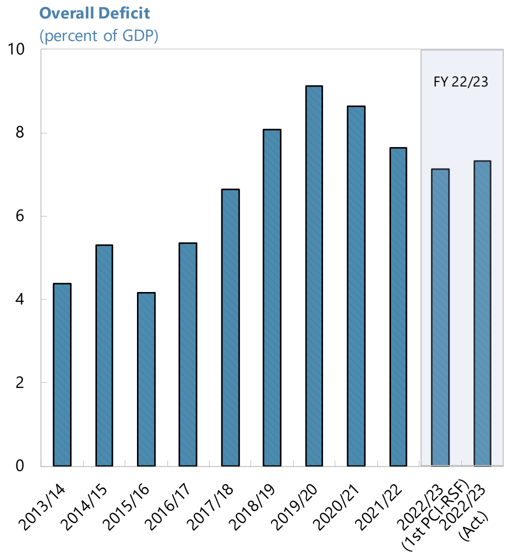
Inflation
(percent, y/y)



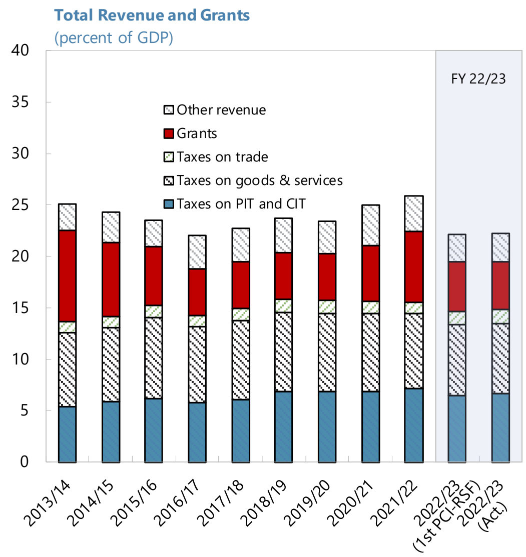
Sources: Rwandan authorities, and IMF staff estimates.

Figure 3. Rwanda: Fiscal Developments

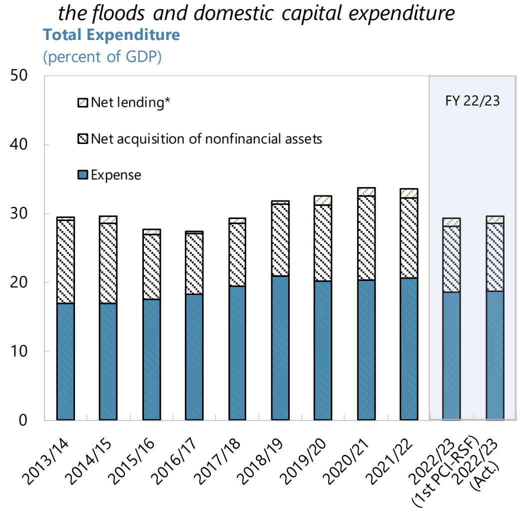
Deficit remained broadly stable



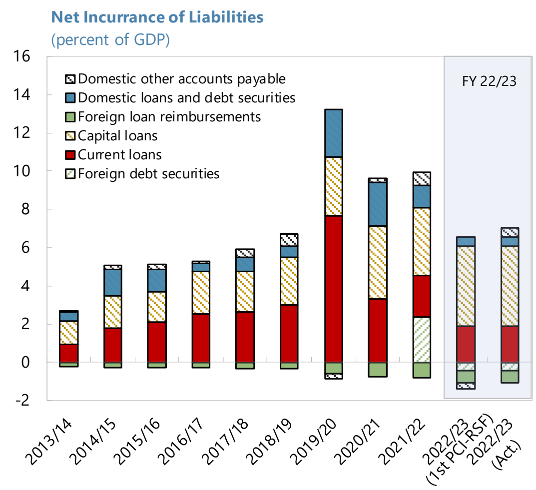
Revenues were slightly above expectations…



…while expenditure was higher due to spending on the floods and domestic capital expenditure



…. financing was in line with past projections

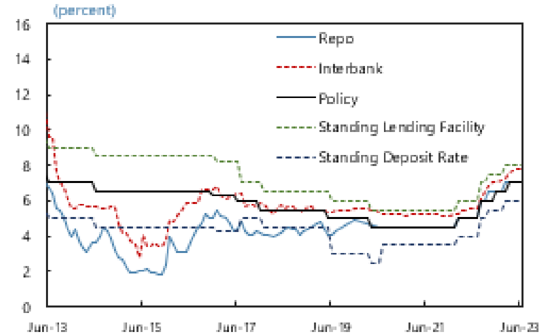


Sources: Rwandan Authorities and IMF staff estimates.
*Net lending is presented in the overall balance in accordance with the PCI definition.

Figure 4. Rwanda: Monetary and Financial Sector Developments

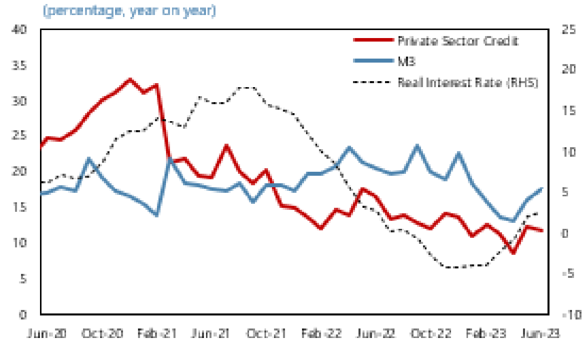
NBR started tightening in February 2022...

Policy and Short Term Rates
(percent)



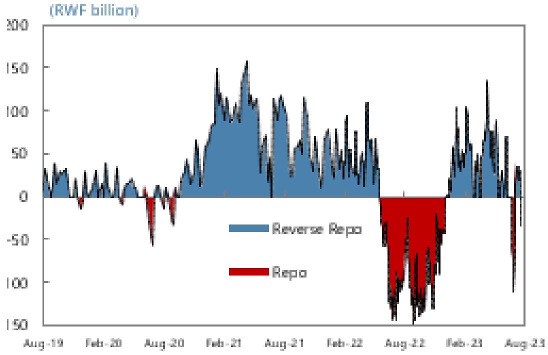
...yet real interest rates remain low, contributing to sector credit growth over the recent period.

Money and Credit Growth[1]
(percentage, year on year)



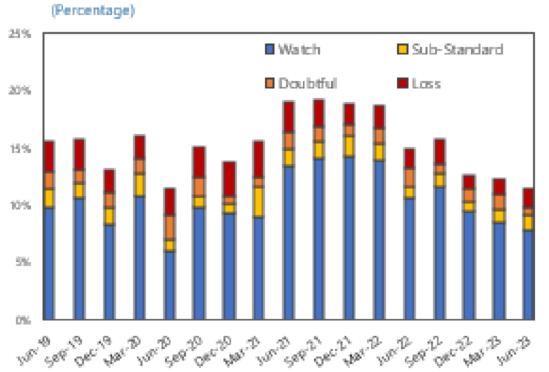
There is growing demand for reverse repos from the Central Bank.

Liquidity Management from Open Market Operations[2]
(RWF billion)



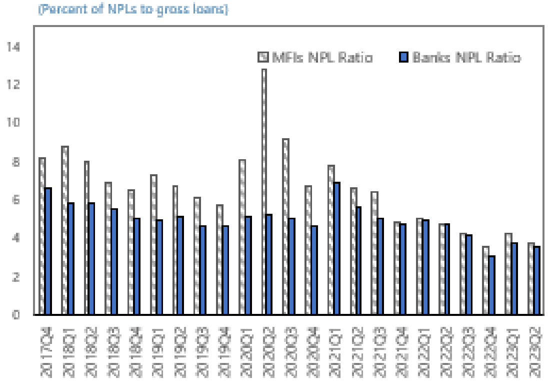
Loans under Watch category have continued to decline since the spike following COVID-19.

Risk Status of Loan Stock
(Percentage)



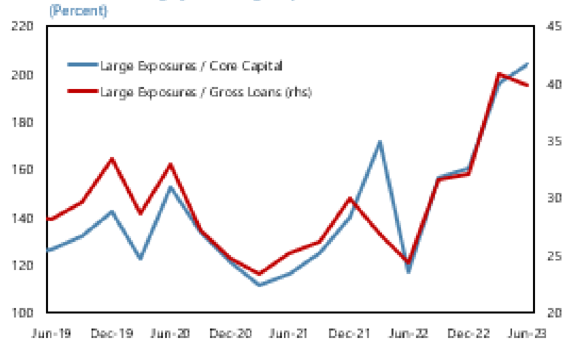
NPL ratios have fallen while the year-on-year credit growth has increased.

Rwanda Banking System - Non-performing Loans
(Percent of NPLs to gross loans)



But large exposures of banks have been growing in the past few years.

Rwanda Banking Sytem - Large Exposures
(Percent)

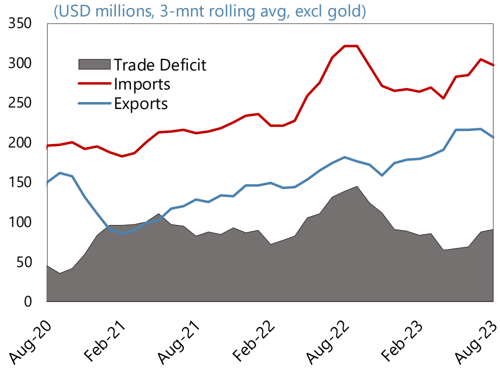


Sources: Rwandan authorities, and IMF staff estimates.
[1] Real interest rate is calculated from the average nominal lending rate and the year-on-year inflation rate.
[2] Positive sign means net injection and negative sign means net absorption of liquidity.

Figure 5. Rwanda: External Developments

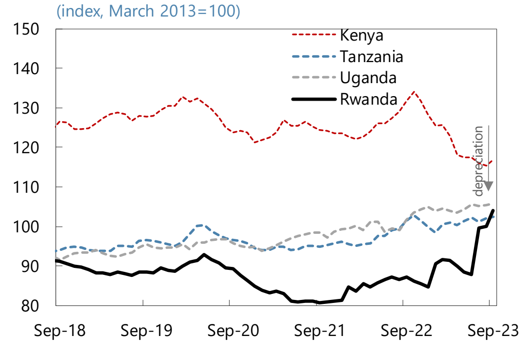
The trade deficit widened, reflecting high oil prices and strong demand for imports...

Growth of Exports and Imports Volumes
(USD millions, 3-mnt rolling avg, excl gold)



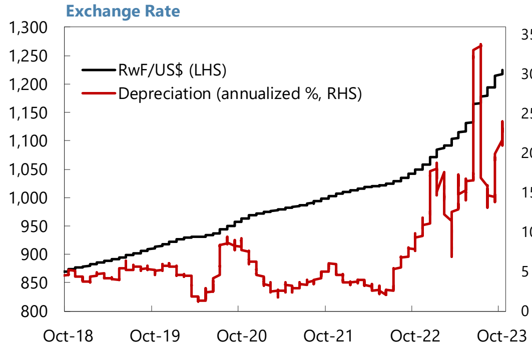
... as the real effective exchange rate appreciated on the back of rising inflation.

EAC Real Effective Exchange Rates
(index, March 2013=100)



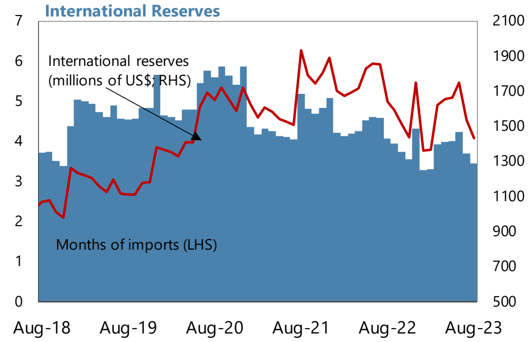
FX market pressures drove the nominal exchange rate depreciation in the second half of 2022...

Exchange Rate



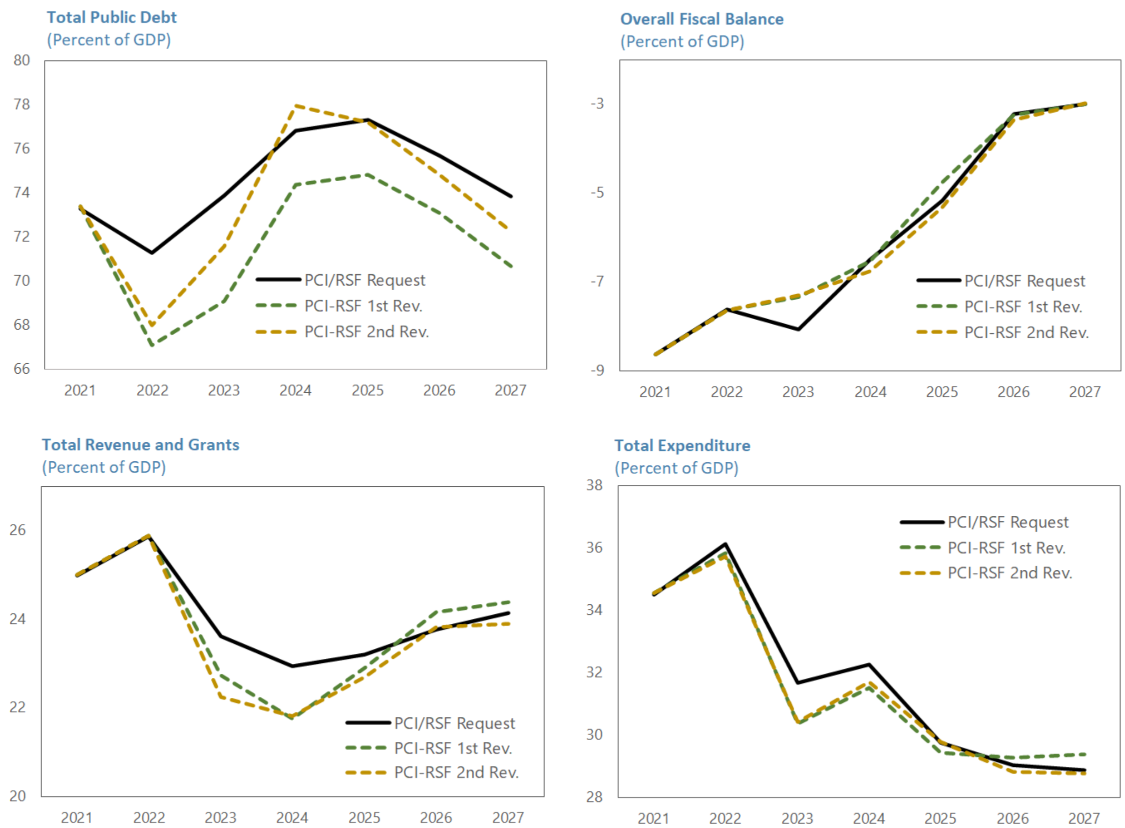
... while international reserves declined.

International Reserves



Sources: Rwandan authorities, and IMF staff estimates

Figure 6. Rwanda: Selected Program Indicators



Sources: Rwandan authorities, and IMF staff estimates
Note: Overall fiscal balance, total revenue and total expenditure are reported on a fiscal year basis. (e.g: 2022=FY21/22)

Table 1. Rwanda: Selected Economic Indicators, 2022–28

	2022	2023		2024		2025		2026		2027		2028	
	Act.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.
	(Annual percentage change, unless otherwise indicated)												
Output and prices													
Real GDP	8.2	6.2	6.2	6.7	6.6	7.0	7.0	7.3	7.3	7.3	7.3	7.3	7.3
GDP deflator	16.0	10.0	10.4	5.6	6.2	5.1	5.0	5.0	5.0	4.9	5.0	5.0	5.0
CPI (period average)	13.9	14.5	14.5	5.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI (end period)	21.6	7.8	9.0	5.0	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	3.0	-4.8	-1.9	-2.2	-3.3	-1.4	-2.0	-0.8	-1.0	-0.8	-0.6	-1.2	-0.5
Exchange rate (Rwanda franc/US$) (e.o.p.)	1,071	...	...	...	...	...	...	...	...	...	...	...	...
Rwanda franc y/y depreciation rate (e.o.p.)	6.1	...	...	...	...	...	...	...	...	...	...	...	...
Exchange rate (Rwanda franc/US$) (p. avg.)	1,031	...	...	...	...	...	...	...	...	...	...	...	...
Rwanda franc y/y depreciation rate (p. avg.)	4.2	...	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (depreciation, -)(p.avg.)	8.1	...	...	...	...	...	...	...	...	...	...	...	...
Money and credit													
Broad money (M3)	22.5	11.3	5.7	17.4	15.1	12.4	16.9	14.1	18.9	16.0	16.0	12.7	12.7
Reserve money	29.0	-7.8	-12.4	17.4	15.1	12.4	16.9	14.1	18.9	16.0	16.0	12.7	12.7
Credit to non-government sector	13.6	8.5	15.4	17.7	17.0	21.0	20.5	15.7	19.1	14.6	12.9	13.2	12.4
M3/GDP (percent)	29.2	27.8	26.3	28.9	26.7	28.9	27.8	29.3	29.3	30.2	30.2	30.2	30.2
	(Percent of GDP, unless otherwise indicated)												
Budgetary central government, FY basis [1]													
Revenue	25.9	22.7	22.2	21.8	21.8	22.9	22.7	24.2	23.8	24.4	23.9	24.4	24.2
Taxes	15.7	15.2	15.0	15.4	15.3	15.9	15.9	17.0	16.9	18.0	17.8	18.3	18.3
Grants	6.9	5.0	4.7	3.8	4.0	4.4	4.4	4.5	4.5	3.8	3.7	3.5	3.5
Other revenue	3.4	2.5	2.6	2.6	2.6	2.6	2.4	2.7	2.4	2.6	2.4	2.6	2.4
Expense	20.6	19.1	18.7	18.5	18.4	18.1	17.9	17.2	17.2	16.9	16.9	17.3	17.3
Net acquisition of nonfin. assets	11.6	9.8	9.9	9.0	9.5	9.4	9.5	10.2	9.4	10.5	9.5	10.1	9.5
Net lending (+) / borrowing (-) (NLB)	-6.3	-6.2	-6.4	-5.8	-6.1	-4.6	-4.7	-3.2	-2.8	-3.0	-2.5	-3.0	-2.6
excluding grants	-13.2	-11.2	-11.0	-9.6	-10.2	-9.0	-9.0	-7.8	-7.3	-6.8	-6.2	-6.5	-6.1
Net acquisition of financial assets	4.2	-0.2	-0.5	1.1	0.9	0.5	1.0	0.4	1.0	0.3	0.8	0.3	0.7
Currency and deposits	1.7	-0.8	-0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3
Loans	0.8	0.8	0.6	0.6	0.5	0.2	0.5	0.0	0.4	0.0	0.4	0.0	0.3
Equity and investment fund shares	0.5	0.3	0.3	0.1	0.2	0.0	0.2	0.0	0.2	0.0	0.1	0.0	0.1
Net incurrence of liabilities	10.5	6.3	6.2	6.8	7.1	5.1	5.6	3.6	3.8	3.3	3.3	3.3	3.3
Domestic	1.8	0.7	0.9	0.6	0.0	-0.6	0.1	0.3	0.2	0.0	0.4	-0.1	-0.3
Foreign	8.6	5.6	5.3	6.3	7.0	5.6	5.5	3.4	3.5	3.3	2.9	3.4	3.6
Overall fiscal balance (incl. grants, policy lending) [2]	-7.6	-7.3	-7.3	-6.5	-6.8	-4.8	-5.3	-3.2	-3.4	-3.0	-3.0	-3.0	-3.0
Debt-creating overall balance (excl. PKO) [3]	-7.4	-7.0	-7.3	-6.5	-6.8	-4.8	-5.3	-3.2	-3.4	-3.0	-3.0	-3.0	-3.0
Primary balance (excl grants)	-12.7	-10.6	-10.7	-8.6	-9.1	-6.4	-7.1	-4.5	-4.8	-4.0	-4.1	-3.7	-3.8
Public debt													
Total public debt incl. guarantees	68.0	69.1	71.6	74.4	78.0	74.9	77.2	73.1	74.8	70.7	72.3	68.2	69.5
of which : external public debt	48.9	54.1	54.7	60.9	63.6	64.8	67.1	64.2	67.4	61.9	65.6	58.8	62.7
Total public debt excluding guarantees	67.7	67.1	69.6	72.1	75.6	71.9	74.2	70.4	72.1	68.2	69.7	65.9	67.1
External public debt incl. guarantees, PV	28.4	33.2	31.2	38.8	37.9	42.2	41.4	41.4	41.9	40.1	40.5	38.1	39.2
Gross domestic debt	19.2	15.0	16.9	13.5	14.4	10.0	10.1	8.9	7.4	8.8	6.7	9.5	6.8
Total public debt incl. guarantees, PV	48.7	50.5	50.5	54.1	54.6	53.3	52.6	51.5	50.2	49.5	48.1	48.1	46.5
Investment and savings													
Investment	24.5	24.2	24.7	28.5	29.1	29.9	29.5	29.3	29.0	29.5	29.0	27.5	29.5
Government	12.1	10.5	11.4	11.4	12.0	11.1	10.6	11.8	10.8	12.0	10.9	10.0	11.7
Nongovernment	12.4	13.6	13.3	17.1	17.1	18.8	18.8	17.5	18.2	17.5	18.1	17.5	17.8
Savings (excl. grants)	10.7	10.4	11.0	14.2	14.9	15.8	15.4	15.8	15.6	17.9	17.5	17.5	19.5
Government	0.4	0.9	1.0	0.4	1.0	3.0	2.4	4.4	4.0	5.0	5.0	3.7	5.3
Nongovernment	10.3	9.5	10.0	13.8	13.9	12.8	13.1	11.4	11.6	12.8	12.5	13.7	14.3
External sector													
Exports (goods and services)	22.5	24.7	26.2	27.2	28.8	28.7	31.5	28.8	31.6	29.3	32.7	28.9	33.2
Imports (goods and services)	-37.4	-39.5	-41.2	-40.9	-43.4	-42.9	-46.0	-41.9	-44.8	-41.0	-44.0	-38.9	-43.2
Current account balance (incl grants)	-9.8	-11.3	-11.5	-10.5	-11.8	-10.1	-10.2	-9.5	-10.0	-9.0	-9.1	-7.5	-7.7
Foreign assets of monetary authorities													
In millions of US$	1,747	1,832	1,720	2,099	2,104	2,411	2,369	2,520	2,452	2,618	2,559	2,749	2,639
In months of next year's imports [4]	4.3	4.5	4.2	4.8	4.8	5.2	5.2	5.1	5.2	5.1	5.2	5.1	5.2
In millions of US$ (excl RSF)	1,747	1,707	1,572	1,850	1,782	2,087	2,047	2,197	2,130	2,294	2,237	2,425	2,317
In months of next year's imports [4] (excl RSF)	4.3	4.2	3.8	4.2	4.1	4.5	4.5	4.5	4.6	4.5	4.6	4.5	4.6
Gross official reserves													
In millions of US$	1,693	1,778	1,667	2,045	2,050	2,357	2,315	2,467	2,398	2,564	2,505	2,695	2,585
In months of next year's imports [4]	4.2	4.4	4.0	4.6	4.7	5.0	5.1	5.0	5.1	5.0	5.1	5.0	5.1
In millions of US$ (excl RSF)	1,693	1,653	1,518	1,796	1,728	2,033	1,993	2,143	2,076	2,240	2,183	2,372	2,263
In months of next year's imports [4] (excl RSF)	4.2	4.1	3.7	4.1	4.0	4.3	4.4	4.4	4.4	4.4	4.5	4.4	4.5
Memorandum items:													
GDP at current market prices													
Rwanda francs (billion), CY basis	13,716	16,025	16,086	18,058	18,222	20,290	20,475	22,856	23,065	25,730	25,969	28,991	29,256
nominal growth	25.5	16.8	17.3	12.7	13.3	12.4	12.4	12.6	12.7	12.6	12.6	12.7	12.7

Sources: Rwandan authorities and IMF staff estimates.

[1] From FY 19/20 (2020) to FY 27/28 (2028). 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 contingent liabilities and other items already incl. in the DSA.

[4] Based on prospective import of goods (excluding gold) and services.

Table 2. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation FY22/23–27/28[1]

(Billions of Rwandan francs)

	2022/23		2023/24		2024/25		2025/26		2026/27		2027/28	
	1st Review	Act	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.
Revenue	**3,382**	**3,400**	**3,708**	**3,743.9**	**4,392**	**4,391**	**5,214**	**5,186**	**5,924**	**5,862**	**6,670**	**6,677**
Taxes	2,266	2,287	2,616	2,616	3,041	3,076	3,660	3,669	4,362	4,365	5,001	5,049
Taxes on income, profits, and capital gains	984	1,023	1,122	1,210	1,292	1,307	1,550	1,553	1,884	1,885	2,160	2,180
Taxes on property	36	23	43	32	48	48	54	54	64	64	73	74
Taxes on goods and services	1,053	1,030	1,197	1,178	1,386	1,402	1,652	1,656	1,940	1,942	2,225	2,246
Taxes on international trade and transactions	193	212	253	197	315	319	404	405	475	475	544	549
Grants	743	711	652	690	844	843	979	988	924	908	958	965
Other revenue	373	401	440	438	507	473	576	529	638	589	711	663
of which PKO	187	146	208	200	228	194	243	197	255	206	0	206
Expense	**2,847**	**2,857**	**3,153**	**3,164**	**3,466**	**3,456**	**3,706**	**3,739**	**4,102**	**4,135**	**4,729**	**4,777**
Compensation of employees	366	368	468	468	550	550	636	636	735	735	848	828
Use of goods and services	720	743	750	789	793	785	826	860	920	958	1,067	1,077
Interest	339	304	468	420	511	478	542	519	571	542	629	607
To nonresidents	110	101	157	184	198	207	229	240	260	272	287	305
To residents other than general government	229	203	311	236	314	272	313	279	310	270	342	302
Subsidies	299	299	308	308	322	325	314	314	351	351	383	387
Grants	951	970	972	991	1,069	1,090	1,156	1,179	1,263	1,287	1,450	1,463
To Local Government	890	917	902	921	981	1,002	1,059	1,081	1,154	1,179	1,325	1,340
Current	692	671	695	710	756	772	816	833	885	904	1,017	1,028
of which compensation of employees	446	410	468	503	492	571	517	653	542	736	623	809
Capital	198	246	207	211	225	230	243	248	269	274	309	302
Social benefits	46	46	50	50	63	71	72	72	87	87	132	166
Other expense	126	128	139	139	156	156	159	159	176	176	219	249
Net acquisition of nonfin. assets	**1,461**	**1,518**	**1,538**	**1,632**	**1,802**	**1,838**	**2,207**	**2,051**	**2,550**	**2,337**	**2,763**	**2,623**
Foreign financed	793	771	962	1,012	912	1,022	1,207	1,289	1,322	1,389	1,477	1,574
of which: Flood spending	--	--	--	24	--	82	--	24	--	3	--	--
Domestically financed	668	747	576	619	890	816	1,000	762	1,228	947	1,286	1,049
of which: Flood spending	--	--	--	44	--	--	--	--	--	--	--	--
Net lending (+) / borrowing (-)												
including grants	**-926**	**-976**	**-982**	**-1051**	**-875**	**-903**	-699	**-604**	-728	**-609**	-822	**-723**
Net acquisition of financial assets	**-26**	**-73**	**182**	**160**	**96**	**186**	**88**	**215**	**73**	**195**	**82**	**193**
Domestic	42	-5	182	160	96	186	88	215	73	195	82	193
Currency and deposits	-122	-78	51	51	58	58	88	88	73	74	82	83
o/w RSF	--	--	--	--	--	--	--	--	--	--	--	--
Debt Securities	--	--	--	--	--	--	--	--	--	--	--	--
Loans	119	92	106	81	35	88	--	91	--	85	--	83
Equity and investment fund shares	46	49	25	27	4	40	--	36	--	36	--	28
Foreign	-68	-68	--	--	--	--	--	--	--	--	--	--
Net incurrence of liabilities	**936**	**951**	**1,165**	**1,211**	**971**	**1,089**	**786**	**819**	**801**	**804**	**904**	**916**
Domestic	111	142	99	5	-107	16	61	52	-9	88	-38	-84
Debt securities	297	295	225	148	37	168	227	226	101	223	72	26
Held by Banks	167	42	86	5	-99	23	81	72	11	108	52	6
Held by Non-Banks	129	252	139	143	137	145	146	154	90	115	20	20
Loans (debt securitites repayments)	-141	-222	-69	-73	-67	-75	-126	-134	-70	-95	-70	-70
Other accounts payable[3]	-45	70	-57	-70	-78	-78	-40	-40	-40	-40	-40	-40
Foreign	826	809	1,065	1,206	1,078	1,073	725	767	810	716	942	1,001
Debt securities	-66	-68	--	--	--	--	--	--	--	--	--	--
Loans	891	877	1,065	1,206	1,078	1,073	725	767	810	716	942	1,001
Disbursements	994	962	1,195	1,329	1,275	1,310	1,036	1,249	1,254	1,353	1,322	1,381
Current	530	535	652	772	697	584	270	365	398	400	420	324
o/w IMF RSF	107	106	120	158	166	135						
o/w IMF SCF	--	--		45		25						
Capital	464	426	543	557	578	727	766	884	856	953	902	950
Reimbursements	102	85	130	123	197	238	311	481	444	637	380	380
Statistical discrepancy	-37	-48	--	--	--	--	--	--	--	--	--	--
Memorandum items:												
Domestic revenue (incl. local government)	2,453	2,542	2,848	2,855	3,320	3,355	3,992	4,001	4,745	4,748	5,713	5,505
Wage bill (incl. local government)	845	805	970	1,005	1,077	1,155	1,187	1,324	1,316	1,509	1,515	1,682
Primary balance excl. grants	-1,495	-1,525	-1,298	-1,429	-1,247	-1,395	-1,135	-1,200	-1,082	-1,097	-1,150	-1,191
Domestic financing with RSF	68	147	-83	-154	-203	-170	-26	-163	-82	-107	-120	-277
Domestic financing without RSF	176	253	37	3	-37	-35	-26	-163	-82	-107	-120	-277
Overall fiscal balance (incl. grants, policy loans)[2]	-1,091	-1,117	-1,114	-1,159	-914	-1,030	-699	-731	-728	-731	-822	-834

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] Includes unpaid obligations under 90 days.

Table 3. Rwanda: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

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

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)* [5]	*(In US$ mn)*			*(Percent GDP)*		
Total	8,648.1	100.0	67.5	796.5	1,232.5	528.6	6.0	8.9	3.8
External	6,193.6	71.6	48.3	181.3	271.4	226.0	1.4	2.0	1.6
Multilateral creditors[2]	4,633.6	53.6	36.2	85.5	129.5	143.5	0.6	0.9	1.0
IMF	451.1	5.2	3.5	1.0	36.8	36.7	0.0	0.3	0.3
World Bank	2,698.1	31.2	21.1	49.8	58.1	70.4	0.4	0.4	0.5
ADB/AfDB/IADB	1,061.0	12.3	8.3	18.9	18.6	20.6	0.1	0.1	0.1
Other Multilaterals	423.4	4.9	3.3	15.8	16.0	15.8	0.1	0.1	0.1
o/w: IFAD	183.2	2.1	1.4	5.2	5.4	5.8	0.0	0.0	0.0
BADEA	80.7	0.9	0.6	0.1	0.1	0.1	0.0	0.0	0.0
Bilateral Creditors	836.4	9.7	6.5	36.2	31.5	37.1	0.3	0.2	0.3
Paris Club	287.8	3.3	2.2	0.3	0.1	0.1	0.0	0.0	0.0
o/w: JICA	142.3	1.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0
AFD	117.4	1.4	0.9	0.2	0.1	0.1	0.0	0.0	0.0
Non-Paris Club	548.6	6.3	4.3	36.0	31.4	37.1	0.3	0.2	0.3
o/w: EXIM-CHINA	334.0	3.9	2.6	16.9	16.2	21.3	0.1	0.1	0.2
SFD	76.0	0.9	0.6	4.3	4.1	4.3	0.0	0.0	0.0
Bonds	680.6	7.9	5.3	38.1	95.8	33.6	0.3	0.7	0.2
Commercial creditors	43.1	0.5	0.3	21.4	14.6	11.8	0.2	0.1	0.1
o/w: Trade Development Bank	39.6	0.5	0.3	14.1	12.3	11.7	0.1	0.1	0.1
o/w: EDC	2.2	0.0	0.0	9.1	2.2	0.0	0.1	0.0	0.0
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2,454.5	28.4	19.2	615.2	961.2	302.5	4.6	6.9	2.2
Held by residents, total	2,454.5	28.4	19.2	615.2	961.2	302.5	4.6	6.9	2.2
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	425.8	4.9	3.3	438.9	414.7	0.0	3.3	3.0	0.0
Bonds	1,219.8	14.1	9.5	99.4	214.9	206.4	0.7	1.6	1.5
Loans	808.8	9.4	6.3	76.9	331.6	96.1	0.6	2.4	0.7
Memo items:									
Collateralized debt[3]	0.0	0.0	0.0	…	…	…	…	…	…
Contingent liabilities[4]	0.0	0.0	0.0	…	…	…	…	…	…
Nominal GDP (US$ million)	…	…	…	13,309	13,846	13,657	…	…	…

[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]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.

[4]Guaranteed debt is included in public debt.

[5]Data is reported by the authorities based on calculations in national currency, deviates from U.S. dollar-based calculations due to the difference between end-of-period exchange rate (applied for nominator) and period-average exchange rate (applied for denominator).

Table 4. Rwanda: Monetary Survey, 2021–28

(Billions of Rwandan francs, unless otherwise indicated)

	2021		2022		2023				2024		2025		2026		2027		2028	
	Jun.	Dec.	Jun.	Dec.	Jun.		Dec		Dec		Dec		Dec		Dec		Dec	
	Act.	Act.	Act.	Act.	1st Review	Act	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.
Monetary authorities survey[1]																		
Net Foreign Assets[2]	1,008	1,191	1,221	1,183	1,197	1,179	1,199	800	1,386	879	1,681	1,242	1,847	1,389	1,997	1,575	2,183	1,778
Of which: Foreign assets	1,509	1,907	1,903	1,870	1,916	2,038	1,961	1,840	2,248	2,286	2,582	2,595	2,699	2,692	2,803	2,816	2,944	2,909
Foreign liabilities	502	716	681	687	719	860	762	1,040	861	1,407	901	1,353	852	1,303	806	1,241	760	1,131
Net domestic assets	-481	-478	-540	-263	-408	-320	-350	6	-390	49	-561	-157	-569	-100	-515	-80	-514	-94
Domestic credit	-165	-156	-209	73	-54	220	23	379	20	459	-114	290	-85	384	6	441	44	464
Other items (net; asset +)	-317	-323	-331	-336	-355	-540	-373	-373	-410	-410	-447	-447	-484	-484	-521	-521	-558	-558
Reserve money	526	713	682	920	788	859	848	806	996	928	1,120	1,084	1,278	1,289	1,482	1,495	1,669	1,685
Commercial banks survey																		
Net foreign assets	101	40	127	81	163	294	163	294	163	294	163	294	163	294	163	294	163	294
Net domestic assets	2,695	2,955	3,247	3,606	3,647	3,717	3,998	3,661	4,724	4,259	5,329	5,027	6,105	6,034	7,107	7,046	8,030	7,976
Reserves	274	443	384	606	442	553	559	533	657	614	739	718	843	854	979	991	1,104	1,116
Net credit to NBR	-45	-117	34	-75	-2	0	-77	-430	-128	-563	-66	-468	-175	-643	-344	-778	-382	-801
Domestic credit	3,474	3,721	4,016	4,420	4,582	4,595	4,923	4,965	5,665	5,678	6,189	6,308	7,031	7,417	8,128	8,490	9,026	9,379
Government (net)	781	858	927	1,149	1,092	1,056	1,384	1,163	1,516	1,255	1,191	1,008	1,263	1,132	1,535	1,412	1,576	1,440
Public enterprises	130	121	120	170	170	250	170	250	170	250	170	250	170	250	170	250	170	250
Private sector	2,564	2,743	2,969	3,101	3,320	3,290	3,370	3,552	3,979	4,173	4,828	5,050	5,598	6,035	6,423	6,827	7,281	7,689
Other items (net; asset +)	-1,008	-1,092	-1,186	-1,345	-1,376	-1,430	-1,407	-1,407	-1,469	-1,469	-1,532	-1,532	-1,594	-1,594	-1,656	-1,656	-1,718	-1,718
Deposits	2,796	2,995	3,374	3,687	3,810	4,012	4,161	3,956	4,887	4,553	5,493	5,321	6,268	6,329	7,271	7,341	8,193	8,270
Monetary survey																		
Net foreign assets	1,109	1,231	1,348	1,264	1,360	1,473	1,362	1,094	1,550	1,174	1,844	1,536	2,010	1,683	2,160	1,870	2,347	2,073
Net domestic assets	1,940	2,034	2,324	2,736	2,796	2,845	3,089	3,135	3,677	3,694	4,029	4,152	4,692	5,081	5,613	5,976	6,412	6,766
Domestic credit	3,265	3,448	3,841	4,417	4,527	4,770	4,870	4,915	5,557	5,573	6,008	6,130	6,770	7,158	7,790	8,153	8,688	9,042
Government	529	541	683	1,081	971	1,128	1,265	1,011	1,343	1,048	945	728	937	771	1,132	973	1,172	1,000
Public enterprises	130	121	120	170	170	250	170	250	170	250	170	250	170	250	170	250	170	250
Private sector	2,606	2,787	3,037	3,167	3,386	3,392	3,435	3,654	4,044	4,275	4,894	5,152	5,664	6,137	6,488	6,930	7,346	7,791
Other items (net; asset +)	-1,325	-1,415	-1,517	-1,681	-1,731	-1,970	-1,780	-1,780	-1,879	-1,879	-1,979	-1,979	-2,078	-2,078	-2,177	-2,177	-2,276	-2,276
Broad money	3,049	3,265	3,672	4,000	4,156	4,318	4,451	4,229	5,227	4,867	5,874	5,688	6,703	6,764	7,773	7,846	8,759	8,839
Year on Year Growth								(Percentage)										
Broad money	17.4	17.1	20.4	22.5	13.2	17.6	11.3	5.7	17.4	15.1	12.4	16.9	14.1	18.9	16.0	16.0	12.7	12.7
Reserve money	6.9	30.7	29.6	29.0	15.7	26.0	-7.8	-12.4	17.4	15.1	12.4	16.9	14.1	18.9	16.0	16.0	12.7	12.7
Net credit to Government	42.4	199.2	29.2	100.0	42.1	65.0	18.2	-6.5	6.2	3.7	-29.7	-30.5	-0.8	5.9	20.8	26.2	3.6	2.8
Net foreign assets	7.0	-0.5	21.6	2.7	0.9	9.3	6.8	-13.5	13.8	7.3	19.0	30.9	9.0	9.6	7.5	11.1	8.6	10.9
Credit to non-government sector	19.0	14.8	16.6	13.6	11.5	11.7	8.5	15.4	17.7	17.0	21.0	20.5	15.7	19.1	14.6	12.9	13.2	12.4
Memorandum items:																		
Velocity (eop)	3.4	3.3	3.4	3.4	3.6	3.5	3.6	3.8	3.5	3.7	3.5	3.6	3.4	3.4	3.3	3.3	3.3	3.3
Money multiplier	5.8	4.6	5.4	4.3	5.3	5.5	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

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

Table 5. Rwanda: Financial Soundness Indicators, March 2018–June 2023

(In percent, unless otherwise indicated)

	2018				2019				2020				2021				2022				2023	
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec	Mar.	Jun.
	(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	20.6	22.8	22.1	21.3	20.9	22.9	20.2
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	21.5	23.9	23.1	22.3	21.7	23.8	21.1
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	139.6	136.9	84.8	89.1	96.6	111.1	115.3
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	8.2	23.5	17.1	65.7	9.2	9.8	9.7
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	140.3	171.7	117.4	156.5	160.7	195.8	204.1
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	4.6	4.7	4.3	4.1	3.1	3.7	3.6
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	4.3	4.3	3.8	3.6	2.8	3.4	3.2
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	119.8	108.1	114.4	112.9	141.9	115.4	120.9
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	83.5	85.5	85.1	77.8	81.1	80.1	79.8
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	30.0	26.8	24.3	31.6	32.0	40.9	39.9
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	2.5	3.1	2.8	3.0	3.0	4.7	4.3
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	15.0	17.0	16.5	18.0	17.8	19.2	19.0
Net interest margin (percentage points)	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	8.5	9.3	9.1	8.8	8.7	9.2	9.5
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	3.2	3.2	3.3	5.0	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	72.7	67.0	69.7	67.1	66.7	66.5	67.7
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	36.7	36.8	37.5	37.0	37.8	37.3	38.7
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	268.9	365.4	224.7	250.5	215.9	227.5	274.1
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	147.1	154.6	130.9	154.8	136.8	154.5	129.8
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	41.7	40.7	40.7	40.7	42.3	43.4	41.0
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	25.0	25.9	26.9	26.8	30.0	26.9	28.1
NBR 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	0.7	0.5	0.5	0.6	0.6	1.0	1.9
Gross loans/total deposits	92.3	94.0	92.9	95.2	93.9	96.9	99.0	95.2	94.1	94.3	95.3	95.4	94.3	96.2	97.5	94.0	89.3	93.8	90.5	91.8	96.6	95.9
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	-5.3	-3.7	-1.8	-4.4	-4.4	-0.3	-4.5	-5.5
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	32.8	26.5	31.5	33.3	34.9	33.6	31.8
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	92.0	87.4	86.7	88.2	89.1	98.1	92.2

Source: National Bank of Rwanda.
Note: The FSIs cover the banking sector.

Table 6. Rwanda: Balance of Payments, 2021–28

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

	2021	2022	2023		2024		2025		2026		2027		2028	
	Act.	Act.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.	1st Review	Proj.
Current account balance	**-1,243**	**-1,306**	**-1,576**	**-1,597**	**-1,454**	**-1,616**	**-1,440**	**-1,440**	**-1,462**	**-1,519**	**-1,481**	**-1,480**	**-1,351**	**-1,367**
Current account balance ex. Bugesera		*-1,232*	*-1,289*	*-1,588*	*-1,346*	*-1,435*	*-1,163*	*-1,162*	*-1,254*	*-1,232*	*-1,374*	*-1,252*	*-1,351*	*-1,367*
Trade balance	-1,659	-1,990	-2,105	-2,135	-1,982	-2,033	-2,074	-2,125	-2,067	-2,143	-1,991	-2,056	-1,901	-1,992
Trade balance ex. Bugesera		*-1,932*	*-1,882*	*-2,128*	*-1,898*	*-1,892*	*-1,859*	*-1,908*	*-1,906*	*-1,919*	*-1,908*	*-1,878*	*-1,901*	*-1,992*
Exports (f.o.b.)	1,531	2,111	2,414	2,594	2,679	2,881	2,956	3,295	3,194	3,543	3,497	4,028	3,760	4,548
Of which: gold	363	556	746	882	807	991	864	1,289	857	1,379	869	1,617	869	1,848
Exports (f.o.b.) excl. gold	1,168	1,556	1,668	1,711	1,872	1,891	2,093	2,006	2,337	2,164	2,629	2,411	2,891	2,700
Imports (f.o.b.)	3,189	4,102	4,519	4,729	4,661	4,914	5,031	5,420	5,261	5,686	5,489	6,084	5,661	6,540
Of which: gold	368	510	716	851	776	958	831	1,254	822	1,339	832	1,573	831	1,800
Imports (f.o.b.) excl. gold	2,821	3,592	3,802	3,878	3,885	3,956	4,200	4,167	4,440	4,348	4,657	4,511	4,830	4,740
Services (net)	-122	5	48	68	85	37	50	74	62	135	84	210	106	216
Services ex. Bugesera	*-109*	*22*	*112*	*70*	*109*	*77*	*112*	*134*	*108*	*198*	*108*	*260*	*106*	*216*
Credit	579	883	1,032	1,039	1,093	1,052	1,154	1,137	1,234	1,232	1,305	1,307	1,408	1,345
Of which: tourism receipts	150	400	468	472	512	521	539	576	593	635	638	693	705	755
Debit	701	878	983	971	1,008	1,015	1,103	1,063	1,172	1,097	1,221	1,097	1,302	1,129
Income	-219	-302	-393	-411	-436	-466	-457	-495	-486	-547	-531	-609	-572	-665
Of which: interest on public debt[1,2]	-79	-112	-167	-164	-197	-200	-203	-205	-207	-215	-219	-228	-227	-232
Current transfers (net)	757	981	874	881	878	845	1,041	1,106	1,029	1,037	957	975	1,016	1,073
Private	413	489	498	516	526	547	553	579	582	611	611	643	647	678
Of which: remittance inflows	379	461	464	481	485	504	508	529	531	556	556	584	582	611
Public	343	492	376	366	353	298	488	528	447	427	346	332	368	395
Capital and financial account balance	**1,535**	**1,137**	**1,579**	**1,365**	**1,630**	**1,684**	**1,715**	**1,751**	**1,617**	**1,645**	**1,621**	**1,640**	**1,525**	**1,542**
Capital account	380	322	398	398	348	348	256	256	313	313	313	313	294	294
Financial account	1,155	816	1,182	968	1,282	1,336	1,459	1,495	1,304	1,332	1,308	1,327	1,231	1,248
Direct investment	233	399	518	418	361	526	584	636	642	690	655	729	663	663
FDIs ex. Bugesera	....	...	*325*	*408*	*361*	*411*	*407*	*450*	*455*	*494*	*539*	*563*	*663*	*663*
Public sector capital	769	418	777	654	953	922	917	966	557	619	463	509	373	453
Long-term borrowing[2]	1,170	531	945	851	1,090	1,018	1,099	1,165	831	970	786	883	805	791
o/w budget financing and commercial loans	...	...	416	434	495	430	488	485	231	251	194	194	254	238
o/w project loans	...	...	409	417	476	504	486	562	561	601	592	607	551	552
Scheduled amortization, excl IMF	-620	-113	-169	-197	-137	-96	-182	-199	-274	-351	-323	-375	-432	-338
SDR allocation	219	...	...	...	...	...	...	...	...	...	...	...	...	...
Other capital[3]	153	-1	-113	-105	-32	-111	-42	-108	106	23	190	89	195	132
Net errors and omissions	**-136**	**72**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**156**	**-97**	**4**	**-232**	**175**	**68**	**275**	**311**	**155**	**127**	**140**	**160**	**174**	**174**
Financing	**-156**	**97**	**-4**	**232**	**-175**	**-68**	**-275**	**-311**	**-155**	**-127**	**-140**	**-160**	**-174**	**-174**
Reserve assets (increase -)	-156	108	-85	26	-268	-383	-312	-265	-109	-83	-97	-106	-131	-80
of which: SCF impact			0	-89	0	-179	0		0		0		0	
Net credit from the IMF	-42	-21	81	206	92	315	37	-46	-46	-43	-43	-53	-43	-94
IMF disbursement (+)	0	0	124	238	125	352	75	0	0	0	0	0	0	0
of which: SCF impact				89		179								
of which: RSF impact	...	...	124	149	125	173	75		0.0	0	0.0	0	0.0	0
Repayments to IMF (-)	-42	-21	-43	-32	-32	-38	-38	-46	-46	-43	-43	-53	-43	-94
Memorandum items:														
Current account balance (percent of GDP)[4]	-11.2	-9.8	-11.3	-11.5	-10.5	-11.8	-10.1	-10.2	-9.5	-10.0	-9.0	-9.1	-7.5	-7.7
Current account excl. Bugesera (percent of GDP)	...	*-9.3*	*-9.3*	*-11.5*	*-9.7*	*-10.5*	*-8.1*	*-8.2*	*-8.2*	*-8.1*	*-8.4*	*-7.7*	*-7.5*	*-7.7*
Trade balance (percent of GDP)	-15.0	-15.0	-15.1	-15.4	-14.3	-14.9	-14.5	-15.1	-13.5	-14.2	-12.2	-12.6	-10.6	-11.2
Trade balance excl. Bugesera (percent of GDP)	...	*-14.5*	*-13.5*	*-15.4*	*-13.7*	*-13.9*	*-13.0*	*-13.5*	*-12.4*	*-12.7*	*-11.7*	*-11.5*	*-10.6*	*-11.2*
Foreign assets of monetary authorities	**1,889**	**1,747**	**1,832**	**1,720**	**2,099**	**2,104**	**2,411**	**2,369**	**2,520**	**2,452**	**2,618**	**2,559**	**2,749**	**2,639**
in months of prospective imports of G&S[5]	5.1	4.3	4.5	4.2	4.8	4.8	5.2	5.2	5.1	5.2	5.1	5.2	5.1	5.2
Of which: SCF				89		268	0.0	268	0.0	0	0.0		0.0	
Of which: RSF	...		124	149	249	322	324	322	324	322	324	322	324	322
Of which: excluding RSF	1,889	1,747	1,707	1,572	1,850	1,782	2,087	2,047	2,197	2,130	2,294	2,237	2,425	2,317
Of which: excluding RSF, in months of imports	5.1	4.3	4.2	3.8	4.2	4.1	4.5	4.5	4.5	4.6	4.5	4.6	4.5	4.6
Gross official reserves	**1,821**	**1,693**	**1,778**	**1,667**	**2,045**	**2,050**	**2,357**	**2,315**	**2,467**	**2,398**	**2,564**	**2,505**	**2,695**	**2,585**
in months of prospective imports of G&S[5]	4.9	4.2	4.4	4.0	4.6	4.7	5.0	5.1	5.0	5.1	5.0	5.1	5.0	5.1
Of which: SCF			0.0	89	0	268	0	268	0	268	0	268	0	268
Of which: excluding RSF	...	1,693	1,653	1,518	1,796	1,728	2,033	1,993	2,143	2,076	2,240	2,183	2,372	2,263
Of which: excluding RSF, in months of imports	...	4.2	4.1	3.7	4.1	4.0	4.3	4.4	4.4	4.4	4.4	4.5	4.4	4.5

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

[4] Including official transfers.

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

Table 7. Rwanda: Gross External Financing Needs and Sources

(USD Mill. unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Gross external financing needs	**1,906**	**1,440**	**1,827**	**1,749**	**1,684**	**1,913**	**1,908**	**1,799**
Current account deficit	1,243	1,306	1,597	1,616	1,440	1,519	1,480	1,367
of which: RSF reform costs	0	0	0	0	0	0	0	0
Public debt amortization (excl. IMF)	620	113	197	96	199	351	375	338
Repayments to IMF	42	21	32	38	46	43	53	94
External financing sources 1/	**2,042**	**1,369**	**1,737**	**1,570**	**1,684**	**1,913**	**1,908**	**1,799**
Capital transfers	380	322	398	348	256	313	313	294
Direct investment	233	399	418	526	636	690	729	663
Public sector borrowing	1,170	531	851	1,018	1,165	970	883	791
Other inflows 2/	414	10	-105	-111	-108	23	89	132
Reserve assets excl. RSF (increase -)	-156	108	175	-210	-265	-83	-106	-80
Net errors and omissions	**-136**	**72**	**0**	**0**	**0**	**0**	**0**	**0**
BoP gap	**0**	**0**	**-89**	**-179**	**0**	**0**	**0**	**0**
Prospective SCF financing	**0**	**0**	**89**	**179**	**0**	**0**	**0**	**0**
Residual Gap	0	0	0	0	0	0	0	0
RSF disbursements (not linked to RM costs)	0	0	149	173	0	0	0	0
Reserve assets, incl. RSF (increase -)	-156	108	26	-383	-265	-83	-106	-80

1/ Includes approved exceptional financing (CCRT debt relief).

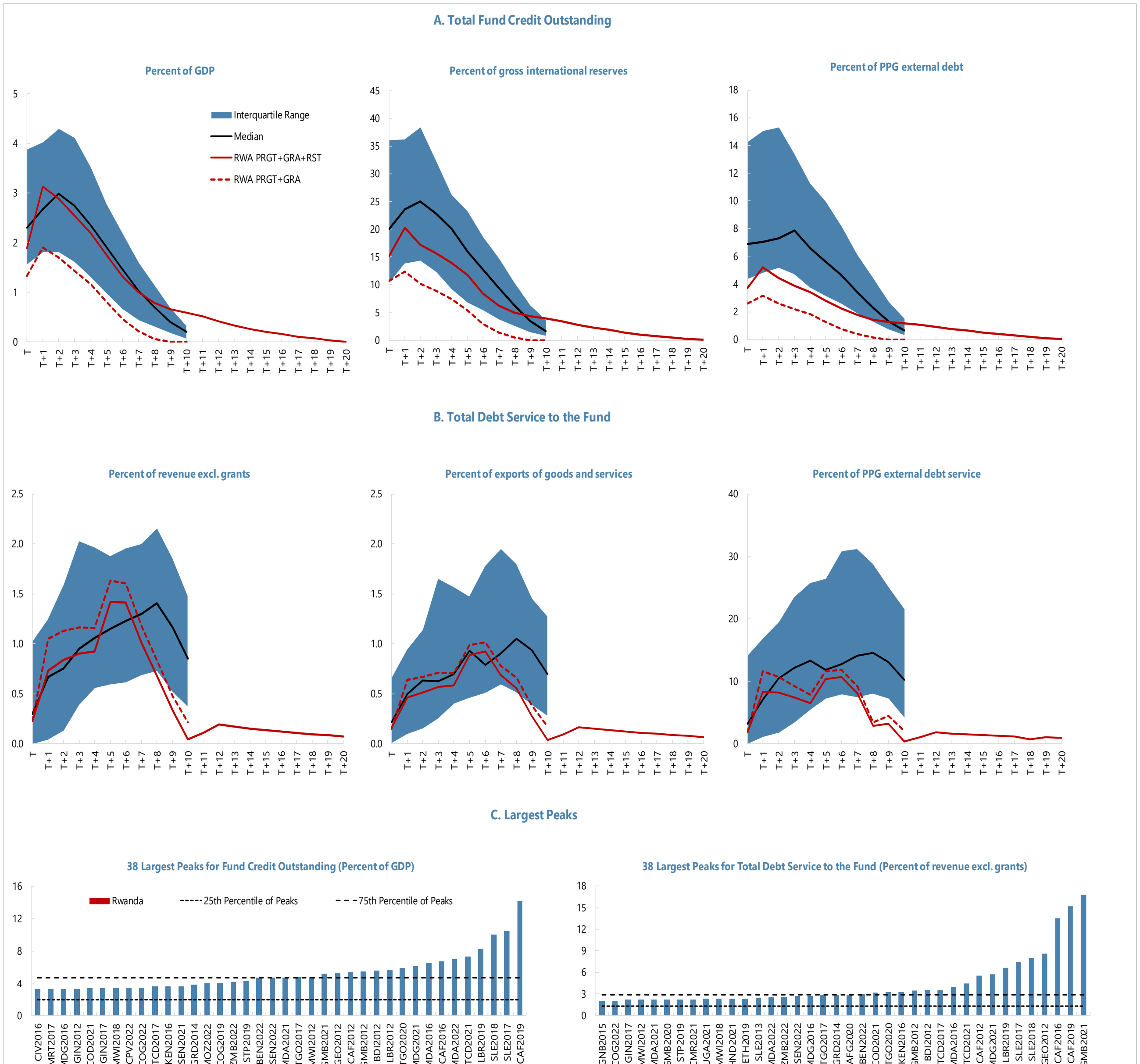
2/ Reflects private capital inflows, 2021 SDR allocation, and CCRT debt relief.

Table 8a. Rwanda: Indicators of Capacity to Repay the Fund, 2023–43

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
IMF debt service based on existing credit (SDR millions)																					
Principal	8.0	24.0	28.0	34.0	32.0	32.0	32.0	16.0	0.0	0.0	3.7	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	3.7
Charges and interest	0.0	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.8	10.6	10.5	10.3	10.1	10.0	9.8	9.6	9.5	9.3
IMF debt service based on existing and prospective credit (SDR millions)																					
Principal	8.0	24.0	28.0	34.0	39.5	69.1	76.5	60.5	44.5	22.3	3.7	14.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	20.3
Charges and interest	0.0	12.3	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.5	14.1	13.6	13.1	12.5	12.0	11.5	10.9	10.4	9.8
IMF debt service based on existing and prospective credit (SDR millions)																					
In millions of SDRs	8.0	36.3	42.7	48.7	54.1	83.8	91.2	75.2	59.2	36.9	18.4	28.5	38.2	37.6	37.1	36.6	36.0	35.5	34.9	34.4	30.2
In millions of U.S. dollars	10.7	48.7	57.5	65.9	73.3	114.0	124.2	102.4	80.6	50.3	25.0	38.8	52.0	51.3	50.5	49.8	49.1	48.3	47.6	46.8	41.1
In percent of GDP	0.1	0.4	0.4	0.4	0.4	0.6	0.6	0.5	0.3	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
In percent of exports of goods and services	0.3	1.2	1.3	1.4	1.4	1.9	2.0	1.5	1.1	0.7	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2
In percent of government revenue (excl. grants)	0.4	2.0	2.1	2.2	2.2	3.1	3.0	2.2	1.6	0.9	0.4	0.6	0.7	0.6	0.6	0.5	0.4	0.4	0.4	0.3	0.3
In percent of gross international reserves	0.6	2.3	2.4	2.7	2.9	4.3	4.1	3.0	2.2	1.3	0.6	0.9	1.1	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4
In percent of PPG external debt service	3.5	22.4	20.7	18.0	15.4	22.6	23.1	18.0	6.7	8.7	4.1	5.6	6.6	6.0	5.5	5.1	4.8	4.4	2.7	3.9	3.2
In percent of IMF quota	5.0	22.7	26.6	30.4	33.8	52.3	56.9	46.9	36.9	23.0	11.5	17.8	23.8	23.5	23.2	22.8	22.5	22.1	21.8	21.5	18.8
IMF credit outstanding (end-of-period)																					
In millions of SDRs	375.9	614.8	586.7	552.7	513.2	444.1	367.6	307.1	262.6	240.3	236.6	222.6	198.6	174.6	150.6	126.5	102.5	78.5	54.4	30.4	10.1
In millions of U.S. dollars	502.9	826.0	792.6	748.3	696.8	604.9	500.7	418.2	357.6	327.3	322.3	303.3	270.5	237.8	205.1	172.3	139.6	106.9	74.1	41.4	13.7
In percent of GDP	3.6	6.0	5.6	4.9	4.3	3.4	2.6	2.0	1.5	1.3	1.2	1.0	0.8	0.7	0.5	0.4	0.3	0.2	0.1	0.1	0.0
In percent of exports of goods and services	13.8	21.0	17.9	15.7	13.1	10.3	8.0	6.2	5.0	4.3	3.9	3.4	2.8	2.3	1.8	1.4	1.1	0.7	0.5	0.2	0.1
In percent of government revenue (excl. grants)	20.3	33.3	29.2	24.9	20.8	16.4	12.3	9.2	7.1	5.9	5.2	4.5	3.6	2.9	2.3	1.7	1.3	0.9	0.6	0.3	0.1
In percent of gross international reserves	29.2	39.3	33.5	30.5	27.2	22.9	16.4	12.3	9.6	8.3	7.8	6.7	5.5	4.5	3.6	2.7	2.1	1.4	0.9	0.5	0.1
In percent of PPG external debt	7.2	10.1	8.6	7.5	6.6	5.5	4.4	3.5	2.8	2.4	2.3	2.1	1.8	1.5	1.3	1.0	0.8	0.6	0.4	0.2	0.1
In percent of IMF quota	234.7	383.8	366.2	345.0	320.4	277.2	229.4	191.7	163.9	150.0	147.7	139.0	124.0	109.0	94.0	79.0	64.0	49.0	34.0	19.0	6.3
Net use of IMF credit (SDR millions)	169.7	238.9	-28.0	-34.0	-39.5	-69.1	-76.5	-60.5	-44.5	-22.3	-3.7	-14.0	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0	-24.0	-20.3
Disbursements	177.7	262.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	8.0	24.0	28.0	34.0	39.5	69.1	76.5	60.5	44.5	22.3	3.7	14.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	20.3
Memorandum items																					
Nominal GDP (USD millions)	13,846	13,657	14,090	15,132	16,322	17,745	19,416	21,219	23,187	25,318	27,625	30,148	32,864	35,797	38,948	42,337	45,977	49,931	54,224	58,887	63,950
Exports of goods and services (USD millions)	3,633	3,933	4,432	4,775	5,335	5,893	6,229	6,694	7,152	7,657	8,214	8,831	9,512	10,266	11,099	12,021	13,043	14,263	15,536	16,955	18,537
Government revenues excl. grants (USD millions)	2,479	2,480	2,714	3,002	3,352	3,691	4,077	4,562	5,043	5,569	6,147	6,786	7,482	8,244	9,074	9,978	10,962	12,043	13,231	14,536	15,971
Gross international reserves (USD millions)	1,720	2,104	2,369	2,452	2,559	2,639	3,052	3,404	3,718	3,924	4,151	4,527	4,906	5,270	5,731	6,322	6,801	7,460	8,149	8,944	9,759
PPG external debt (USD millions)	7,029	8,185	9,215	9,979	10,485	10,964	11,461	12,093	12,717	13,360	13,986	14,553	15,103	15,677	16,281	16,921	17,617	18,359	18,536	19,393	20,322
PPG external debt service (USD millions)	302.8	217.9	278.5	365.8	476.3	503.9	537.9	567.6	1,205.8	580.4	614.9	693.1	793.3	854.9	916.5	979.5	1,029.0	1,099.1	1,791.3	1,214.2	1,293.1
IMF quota (SDR millions)	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2

Table 8b. Rwanda: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In percent of the indicated variable)



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 9. Rwanda: Review Schedule Under the PCI and SCF Arrangement

Program Review	Test Date	Review Date
Board discussion of a PCI request		December 12, 2022
First PCI Review	December 31, 2022	By May 15, 2023
Second PCI Review / SCF Approval	June 30, 2023	By November 15, 2023
Third PCI Review / First SCF Review	December 31, 2023	By May 15, 2024
Fourth PCI Review / Second SCF Review	June 30, 2024	By November 15, 2024
Fifth PCI Review	December 31, 2024	By May 15, 2025
Sixth PCI Review	June 30, 2025	By November 15, 2025

Source: IMF staff.

Table 10. Rwanda: Proposed Revised Schedule of Disbursements Under the Resilience and Sustainability Facility Arrangement

Availability Date	Millions of SDR	Percent of Quota	Conditions
May 1, 2023	18.48708	11.54	RM1 implementation review
May 1, 2023	18.48708	11.54	RM2 implementation review
May 1, 2023	18.48708	11.54	RM3 implementation review
May 1, 2023	18.48708	11.54	RM5 implementation review
November 1, 2023	18.48708	11.54	RM4 implementation review
November 1, 2023	18.48708	11.54	RM8 implementation review[1]
May 1, 2024	14.37529	8.97	RM6 implementation review
May 1, 2024	14.37529	8.97	RM7 implementation review
May 1, 2024	14.37529	8.97	RM13 implementation review[1]
May 1, 2024	14.37529	8.97	New RM14 implementation review
November 1, 2024	14.37529	8.97	RM9 implementation review
November 1, 2024	14.37529	8.97	RM10 implementation review
November 1, 2024	14.37529	8.97	RM11 implementation review[1]
November 1, 2024	14.37529	8.97	RM12 implementation review[1]
November 1, 2024	14.37520	8.97	New RM15 implementation review
Total	240.30000	150.00	
Memorandum item:			
Quota	160.20000		

Source: IMF staff calculations.

[1] Proposed to be re-phased.

Table 11. Rwanda: Proposed Schedule of Disbursements Under the Stand-by Credit Facility Arrangement

Availability Date	Millions of SDR	Percent of Quota	Conditions
Date of approval of SCF arrangement	66.75000	41.67	Arrangement Approval
May 1, 2024	66.75000	41.67	Observance of end-December 2023 performance criteria and completion of the first review.
November 1, 2024	66.75000	41.67	Observance of end-June 2024 performance criteria and completion of the second review.
Total	200.25000	125.00	
Memorandum item:			
Quota	160.20000		

Source: IMF staff calculations.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Intensification of regional conflict(s) and commodity price volatility. Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	High • Higher and volatile commodity prices due to uncertainty. • External balance worsens with higher import prices and lower export demand. • Shortages of intermediate and final consumer goods. • High fertilizer costs affect domestic food production. • Refugees flow from the affected countries.	• Targeted support to protect vulnerable population from rising food prices. • Fuel subsidies should be a temporary solution as it is regressive and has adverse environmental effects. • Ensure strategic fuel and grain reserves are adequate.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium	High • Lower global demand. Higher borrowing cost. Capital outflow and currency depreciation.	• Strengthen data-driven monetary policy framework and MTRS. • Maintain exchange rate flexibility. • Facilitate exports. • Strengthen debt management.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	High • Bouts of price and real sector volatility. • Loss of export competitiveness. • Financial conditions become tighter with higher country risk premia.	• Monetary policy should strike a balance between maintaining price stability and growth, with exchange rate flexibility playing larger role against external shocks. • Strengthen data-driven monetary policy framework.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium	Medium • Financial conditions become tighter with higher country risk premia. • Capital outflow due to risk aversion. • Lesser financial market accesss.	• Continue monitoring the financial sector to ensure risks remain contained. • Take appropriate and timely micro and macroprudential interventions to ensure the stability. • Deepen financial markets.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	High • Adverse impact on international trade as the demand for exports falls, hurting domestic growth. • Concessional sources of financing temporarily diverted to attend geopolitical, rathern than economic, development objectives.	• Diversify the structure of the economy and export sources. • Strengthen regional security surveillance programs.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	Medium/Low	Medium/Low Financial services interruption, data theft or deletion, loss of sensitive data or intellectual property.	• Ensure that financial service providers frequently upgrade their IT systems.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Medium/High Reduced output in the agricultural 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. • Fast-track efforts to build resilience to climate shocks.

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.

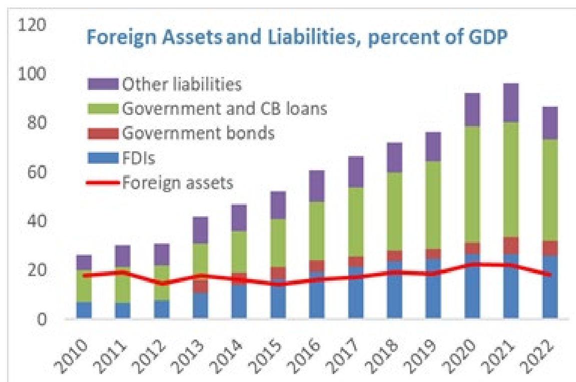
Annex II. External Sector Assessment

Overall Assessment: *The external position of Rwanda in 2022 was weaker than the level implied by fundamentals and desirable policies. The level of gross international reserves at end-2022 was assessed to be slightly above the lower bound of the adequacy range.*

Potential Policy Responses: *Allowing exchange rate flexibility within a forward-looking monetary policy framework remains critical to absorb external shocks and to reduce external imbalances. Accumulation of international reserves toward the higher end of the adequacy range would provide further cushion to the economy. Fiscal consolidation and structural reforms to improve the business climate and boost competitiveness remain essential to bring the current account balance to a level consistent with fundamentals.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Rwanda's net international investment position (NIIP) improved for the first time in a decade in 2022. However, at -68.6 percent of GDP at end-2022, the NIIP remains much weaker than 5 years ago (-49.3 percent in 2017). The deterioration was driven by the significant increase in foreign liabilities due to the financial account inflows, while the foreign assets remained broadly stable as a share of GDP. In 2023-2025, the NIIP is expected to deteriorate further before stabilizing and starting to improve because of the current account adjustment.



Assessment. The sustainability of the NIIP is not an immediate concern, given the dominant share of concessional loans and foreign direct investments in foreign liabilities. The accompanying debt sustainability analysis suggests that Rwanda faces a moderate risk of debt distress.

2022 (% GDP)	NIIP: -68.6	Gross Assets: 18.1	Debt Assets: 5.9	Gross Liab.: 86.7	Debt Liab.: 65.8

Current Account

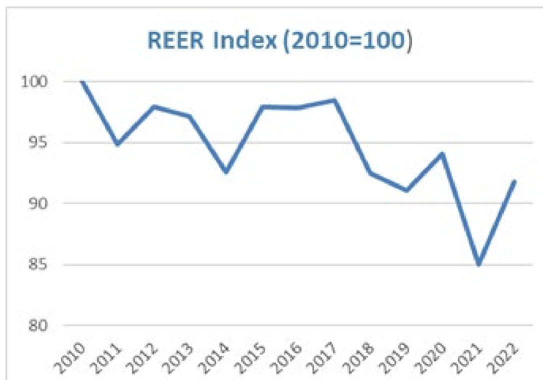
Background. Rwanda's current account (CA) deficit temporarily improved to 9.8 percent of GDP in 2022, from 11.2 percent GDP in 2021. This said, the CA deficit remained high over the last five years, driven by significant access to concessional loans by the government. From a saving-investment perspective, the CA deficit is driven by the public sector. In terms of the structure, the CA balance is dominated by the trade deficit, with budget grants and remittances providing and offsetting positive impact. In 2023, the CA deficit is projected to deteriorate to 12.7 percent due to an increase in imports weighing on the trade balance, as well as lower current transfers. Over the medium term, the fiscal balance adjustment is projected to drive the CA adjustment.

Assessment. The EBA-lite CA model estimates a CA gap of -2.1 percent of GDP in 2022, with a cyclically-adjusted CA balance of -10.4 percent of GDP and cyclically-adjusted CA norm of (-8.3) percent of GDP. Staff assesses the CA in 2022 to be weaker than the level implied by fundamentals and desirable policies.

Rwanda: EBA-lite Model Results, 2022		
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-9.8**	
Cyclical contributions (from model) (-)	0.5	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**-10.4**	
CA Norm (from model) 2/	**-8.3**	
Adjusted CA Norm	**-8.3**	
CA Gap	**-2.1**	**0.9**
o/w Relative policy gap	1.3	
Elasticity	-0.2	
REER Gap (in percent)	**12.4**	**-5.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate



Background. Rwandan franc real effective exchange rate (REER) appreciated by 8 percent in 2022. REER strengthening happened on the back of high inflation, contributing to the decline of international reserves and provoking accelerated nominal exchange rate depreciation at the end of 2022. The REER is projected to return to the depreciation trajectory in the next several years before stabilizing in the medium term.

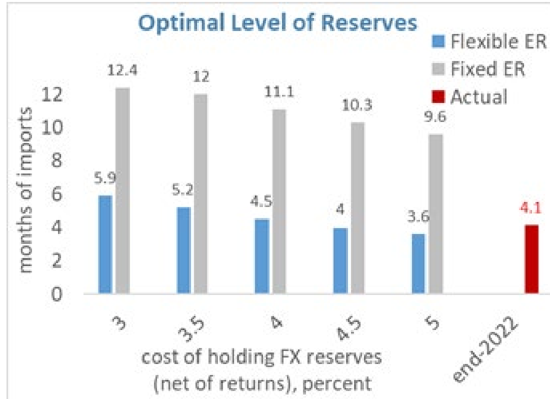
Assessment. The EBA-lite CA model implies a REER overvaluation of 12.4 percent in 2022. The projected large deterioration of the current account deficit in 2023 and the limited real exchange rate depreciation year-to-date suggest that the EBA-lite model is likely to yield a much larger REER overvaluation at end-2023. While the EBA-lite REER model suggests an undervaluation of 5.1 percent, it is inconsistent with the recently observed FX market pressure and decline in reserves. Staff considers the CA model as more reliable than REER model, given that the latter rests on the assumption of the REER remaining close to the equilibrium on average, which is unlikely to hold in Rwanda amid historically high level of external concessional financing.

Capital and Financial Accounts: Flows and Policy Measures

Background. In net terms, the CA deficit in 2022 was financed through public sector borrowing (4 percent of GDP) and FDI inflow (3 percent of GDP). In 2021, Rwanda took advantage of the favorable market conditions to issue new Eurobond and use part of the proceeds for the maturing Eurobond buyback; thus, most of the existing Eurobond repayment is due in 2031 and the associated rollover risk remains remote.

Assessment. As financial flows are dominated by external concessional financing and private capital flows are small, risks and vulnerabilities related to capital flows are related to prospects for donor financing.

FX Intervention and Reserves Level



Background. In 2022 Gross official reserves declined to 12.7 percent of GDP, or 4.1 months of prospective imports. The decline was driven by deterioration in the trade balance due to high energy prices and REER appreciation and was particularly marked in the second half of 2022 amid decline in external budget support. Facing an increase in demand, the National Bank of Rwanda continued sales on the shallow FX market while allowing for greater exchange rate flexibility. As a result, the pace of exchange rate depreciation against US dollar increased in the last quarter of the year.

Assessment. At end-2022, the level of international reserves is assessed to be slightly above the lower bound of the adequacy range. The Fund's approach to Assessing Reserve Adequacy in Credit-Constrained Economies (ARA-CC) indicates the optimal range of 4-5.2 months of imports under the flexible exchange rate classification. Thus, staff continues to consider international reserves in the 4–5 months range of imports to be the adequate level for Rwanda. Given limitations to exchange rate flexibility on the shallow FX market, the upper end of the range may be more relevant, so additional international reserve accumulation might be needed. Maintaining exchange rate flexibility remains crucial to cushion the economy against external shocks. While net sales of FX on the market amid strong inflow of external budget grants and loans remained an essential feature of the central bank's FX operations over the last years, the size of these operations should be better calibrated to the size of such inflows.

Annex III. Capacity Development Strategy for FY23/24

1. **Rwanda is a high-intensity technical assistance (TA) user with strong institutional capacity, Rwanda has a good track record of implementing TA recommendations.** Capacity development efforts reflect the Fund's policy engagement with Rwanda, namely, the support for implementation of the country's National Strategy for Transformation (NST-1), while also ensuring macro stability. TA focuses on the main areas of fiscal transparency, DRM, implementation of the new forward-looking monetary policy framework, and financial stability.

Table 1. Rwanda: Key Overall Capacity Development Priorities Going Forward

Priorities	Objectives
Public Financial Management	Assist the authorities with implementation recommendations of recent PIMA and C-PIMA and the spending rationalization strategy. Assist the authorities with green PFM, including climate budget tagging and the assessment of climate-related fiscal risks. Continue to improve fiscal transparency, including through an expanded fiscal risk statement encompassing risks from SOEs and PPPs, and support officials in the analysis of those fiscal risks. Assist the authorities with the ongoing implementation of the OBL and with a Fiscal Transparency Evaluation (FTE) and explore scope to strengthen fiscal transparency (with tentative timing for the first half of 2025).
Government Finance Statistics	Continue the transition to GFSM 2014 including expanding the coverage of the public sector and reduce the lag to publish general government statistics.
Tax Policy and Revenue Administration	Assist with the implementation of the MTRS announced by the authorities in May 2022, informed by the latest TADAT; development of the successor MTRS; VAT refund forecasting; develop compliance improvement plans (CIPs) and Dynamic Risk Management for Customs; assessment of tax expenditures; and an overall diagnostic of the policy and legislative framework.
Monetary Policy	Provide TA on FPAS to support the move to an interest rate-based monetary framework. Incorporate climate change risks into FPAS; and incorporate FPAS fully into policy making, including through alternative scenarios and expert judgement.
Financial Supervision and Regulation	Build on the FSSR to strengthen risk-based supervision and stress-testing. Strengthen regulation and supervisory frameworks in risk management and governance. Increase capacity in evaluating ICAAP reports to set different capital charges on top of the minimum requirements.
Financial Stability	Build on the FSSR to strengthen the financial safety net, crisis preparedness and management, resolution frameworks, financial market infrastructure, and government debt and money markets.

Annex IV. The 2021 Article IV Consultation Key Policy Commitments and Implementation

Key Recommendations	Status of Implementation
Fiscal Policy	
Domestic revenue mobilization: Approve medium-term revenue strategy (MTRS) with the goal of permanently increasing the revenue-to-GDP ratio by 1 percentage point through a mixture of tax policy and administration reform.	• The MTRS was approved by Cabinet in May 2022. • PIT, VAT, excise and CIT laws were legislated in FY22/23, but key revenue raising measures in CIT were not approved in the final version of the law. • A package of revenue generating and predominantly tax policy measures was approved by Cabinet in November 2023 to ensure that MTRS domestic revenue mobilization and other objectives are met. • Tax admin measures by RRA continued, including efforts to tax the shadow economy, improve voluntary compliance, introduction of comprehensive Compliance Improvement Plans; and launching the new operation model to strengthen RRA's capacity.
PFM: Improve the medium-term expenditure framework. Strengthen the monitoring and managing of fiscal risks. Increase the transparency of fiscal reporting.	• The Organic Budget Law, that was enacted in 2022, is a critical legislative framework that (i) improves the budget and medium-term expenditure framework (MTEF), (ii) institutionalizes the fiscal risk management practices and structures, and (iii) helps the adoption of best practices in fiscal reporting. • SOE health check and (more recently) stress test results and measures to manage fiscal risks are regularly reported in the fiscal risk statement. • The pension fund (RSSB) asset review has been completed in October 2023. • Started to publish quarterly budget execution reports under GFS 2014 for general government in April 2023. • C-PIMA, PER, PEFA conducted in 2022.
Beneficial Ownership: Strengthen transparency of beneficial ownership	• Companies have begun to submit beneficial owner (BO) information since April 2023.
Monetary and Exchange Rate Policy	
Strengthen the interest rate-based monetary policy framework and accelerate reforms to deepen money markets	• The NBR published its Monetary Policy Strategy in February 2023 that describes the central bank's primary and additional monetary policy targets, the process of monetary policy decision-making, and monetary policy communication strategy. • The NBR continued to develop the Forecasting Policy and Analysis System (FPAS), including steps to improve economic analysis, and forecasting capabilities at the NBR and better integrate it with monetary policy decision-making. • The NBR identified and analyzed the legal gaps in insolvency, payment system and banking laws and formulated a roadmap endorsed by all stakeholders to implement the Global Master Repurchase Agreement (GMRA).

Key Recommendations	Status of Implementation
Allow for more exchange rate flexibility and limit foreign exchange market interventions to minimizing excessive exchange rate volatility	• A diagnostic assessment of the FX market has been completed by November 2023.
Financial Sector Policies	
Close monitoring of risks in the financial sector	• Banks started submitting the first and second annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports in 2022. • The NBR conducts macro stress tests every quarter to assess the ability of banks to withstand credit and market risks as well as systemic and sector specific shocks. • The NBR issued "Guidelines for Stress Testing for Banks" in July 2023 to enhance the banking sector's capability to assess and monitor risks.
Structural Policies	
Need for 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	• Launch of school feeding program and increase of teachers' salaries is expected to improve education outcomes, although the efficiency of the measures needs to be monitored. • The authorities' progress with the climate agenda has been strong. Implementation of reform measures under the RSF are on track and expected to be completed ahead of the initially planned timelines. • Efforts to mobilize additional public and private climate finance are ongoing, the newly established Public and Private Green investment Facilities are to start lending operations by end-2023. The authorities are also experimenting with innovative financial instruments: in October 2023 (i) they have completed their first successful sustainability-linked bond issuance, (ii) finalized the carbon market regulatory framework and (iii) completed a preliminary green financial market taxonomy that covers five major carbon emitting sectors of the economy.

Appendix I. Letter of Intent

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

Kigali, November 29, 2023

Dear Ms. Georgieva:

Rwanda's policy space to advance important developmental objectives is constrained by eroded policy buffers due to overlapping shocks. Since 2015, public debt nearly doubled to 67 percent of GDP in 2022, on account of spending to support the development agenda and mitigating the impact of the pandemic. Headwinds from increasing geopolitical fragmentation, tightening of global financial conditions, and consecutive weak agricultural seasons have put pressure on the level of international reserves. The May 2023 devastating floods further amplified the underlying imbalances, while the reconstruction costs are projected to be substantial. Based on our assessment conducted with the support of the World Bank, the reconstruction cost to address the emergency outlays related to the reconstruction efforts and rebuild climate resilient infrastructure could go up to US$451 million (3 percent of GDP) over the next five years. Balance of payments pressures are expected to persist in the coming months amid costs from flood-related reconstruction and the need for large food imports.

To address short-term BOP needs and assist our reconstruction efforts, we request a fourteen-month arrangement under the Stand-by Credit Facility (SCF) with total access of 125 percent of quota (SDR 200.25 million) to be implemented concurrently with the current Policy Coordination Instrument (PCI). The PCI will remain the main policy framework to support our medium-term policy objectives. We request that four-fifths of the SCF financing would be disbursed as balance of payment support to cushion reserves, while the remainder would provide budget support to accommodate the temporary fiscal relaxation in response to the recent natural disaster. In parallel, the World Bank is committed to provide project financing for flood reconstruction efforts, with further support expected from the European Investment Bank.

We request the completion of the second review under the current Policy Coordination Instrument and the approval of the Stand-by Credit Facility arrangement. Program performance under the PCI continued to be strong. The end-June 2023 quantitative targets on the floor on the stock of net foreign assets and the ceiling on net accumulation of domestic arrears, all continuous targets, and all standard continuous targets were met. The ceiling on the debt-creating overall balance was breached by a small margin due to flood related emergency expenditure. The 3-month average headline inflation also marginally fell outside the outer bound at end-June 2023. Four out of five of the PCI reform targets were met on time, while the fifth reform target was implemented as a prior action for this review. To better reflect economic developments, we are proposing to modify the end-December 2023 QTs on the ceiling on the debt-creating overall balance and the floor on the stock of net foreign assets (NFA), as well as the continuous target on the PV of new public and publicly guaranteed external debt. The SCF reviews will also be on a semi-annual basis and coincide with PCI and RSF reviews.

Progress on the climate agenda under the Resilience and Sustainability Facility (RSF) remains very strong. The reform measure due at the second RSF review on the guidelines for the implementation of the climate budget tagging system was completed as planned. We have also implemented one reform measure under our RSF, originally due at the third reviews, namely the guidelines for climate-related risk management for financial institutions. We would, therefore, request approval to bring forward the completion date of this reform measure and the associated disbursement to the second review. The RSF-supported program reviews will be on a semi-annual basis and coincide with the SCF/PCI reviews. RSF disbursements will help increase medium-term policy space, including by building external buffers, which will enhance Rwanda's resilience against future climate-related risks and challenges.

To further demonstrate our unwavering commitment to the RSF-supported climate agenda, we propose to accelerate the implementation of the originally agreed reform measures and enhance the reform agenda by introducing new measures. Specifically, we request to change the availability dates and rephase two reform measures on climate budget tagging and the climate related risk management for financial institutions from the fifth to the fourth review; and one reform measure related to disaster risk reduction and management from the fifth to the third review. Building on progress under the original RSF-supported reform agenda, we also propose to introduce two new reform measures on publishing individual risk analysis on SOEs and PPPs that are vulnerable to climate change risks; and adopting a green taxonomy adapted to Rwanda's NDCs.

We remain fully committed to meeting the objectives and the targets of the programs. We will consult with the IMF on the adoption of new measures and in advance of any revisions to policies included in this letter and the attached Memorandum of Economic and Financial Policies. Timely information needed to monitor the economic situation and implementation of policies relevant to the programs will be provided, as agreed, under the attached Technical Memorandum of Understanding, or at the IMF's request. We will adhere to the existing Memorandum of Understanding and shortly finalize a new one between the NBR and MINECOFIN that clarifies the responsibilities for timely servicing of the financial obligations to the IMF under the RSF and SCF arrangements.

In line with our commitment to transparency, 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
Minister of Finance and Economic Planning

Rwangombwa, John
Governor, National Bank of Rwanda

Attachments (3):

I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding
III. Monetary Policy Consultation Statement with the IMF Executive Board

Attachment I. Memorandum of Economic and Financial Policies[1]

Kigali, Rwanda, November 29, 2023

I. CONTEXT

1. This Memorandum of Economic and Financial Policies describes recent economic developments and our policy objectives and priorities under the Policy Coordination Instrument (PCI), the Resilience and Sustainability Facility (RSF), and the newly requested Stand-By Credit Facility (SCF). The Rwandan economy is undergoing challenging times. Despite significant progress towards achieving our socio-economic objectives, development needs remain large. Overlapping shocks in recent years resulted in internal and external imbalances. The May 2023 devastating floods, which caused significant infrastructural and other damages, amplified the underlying imbalances, while the reconstruction costs are projected to be substantial. Against this backdrop, we requested an SCF arrangement to guide our efforts in facilitating adjustment and preserving macroeconomic and external sustainability in the near term. The 14-month SCF will be concurrent with the 3-year PCI and RSF arrangement that were approved in December 2022. The SCF arrangement will focus on recalibration of the near-term policy mix. The PCI and SCF will focus on strengthening the fiscal and monetary frameworks and building socio-economic resilience while the RSF aims at advancing reforms in green Public Financial Management (PFM), climate Public Investment Management (PIM), climate-related risk management for financial institutions, and disaster risk reduction and management.

II. RECENT DEVELOPMENTS

2. Post-pandemic growth momentum remains strong, notwithstanding the materialization of adverse risks induced by climate change and the challenging external environment. The 2023Q2 GDP growth decelerated to 6.3 percent year-on-year from 9.2 percent in the previous quarter. The slowdown was broad based across sectors. Agricultural output remained weak due to unfavorable weather conditions and crop diseases. Growth of the industry and the services sectors also moderated, largely due to external factors. The unemployment rate in August remained high at 18 percent, above pre-pandemic levels with especially high rates among the female and the young populations at 21.9 percent and 21 percent, respectively.[2] Our working age population continues to grow, and we are striving to ramp up our job creating opportunities and narrow gender gap.

3. Headline inflation decelerated since the beginning of the year, but the inflationary pressures on account of fresh food prices resurfaced in August 2023. Headline inflation was 13.9 percent in September down from the peak of 21.7 percent in November 2022, mainly driven by lower commodity prices, slowing food inflation, and a tighter monetary policy stance. However, due to continued poor agricultural seasons and effects of May floods on staple crop productions, food

[1] Letter of Intent and Memorandum of Economic and Financial Policies are the “Program Statement” under the PCI.

[2] Based on Rwanda Labor Force Survey.

inflation reversed its declining trend and increased to 29.6 percent in September from 24.6 percent in August. Core inflation stands at 8.3 percent, due to persistent high processed food prices. The Monetary Policy Committee (MPC) raised the policy interest rate by 50 basis points to 7.5 percent in August 2023.

4. **The FY22/23 fiscal deficit was 7.3 percent of GDP, in line with expectations.** Lower taxes and budget grants (as a ratio to GDP) were partially offset by higher non-tax revenues, with total revenue 0.5 percent of GDP lower than expected. The recurrent expenditure outturn was 0.4 percent of GDP lower than anticipated as nominal ceilings were kept within the approved budget, notwithstanding higher spending on goods and services related to the emergency response to floods (around 0.2 percent of GDP). Interest expenditure was lower than envisaged by 0.3 percent of GDP along with lower net policy lending (0.2 percent of GDP) reflecting lower-than-expected new borrowing. Capital expenditure, however, was higher than planned by 0.1 percent of GDP driven by domestically financed projects in priority areas, such as roads and energy.

5. **The financial sector remains sound and stable.** Despite challenges to financial stability stemming from a continued geopolitical fragmentation and tighter financial conditions, our financial system continued to demonstrate resilience. Credit to the private sector continued to grow robustly at about 11 percent on average. Banks continued to maintain strong capital and liquidity positions. NPLs decreased year on year from 4.3 percent in June-2022 to 3.6 percent in June-2023 and loans classified as “watch” categories dropped to 7.8 percent of total loans, relative to 10.6 percent over the same timeframe. The NBR continues to monitor shocks that could originate from global and domestic macro-financial uncertainties and stands ready to take appropriate measures to contain any risks that may arise.

6. **Our external position weakened further.** Over the first half of 2023, the trade deficit on goods widened by nearly 1 percent of GDP compared to the first half of 2022, driven by a sharp increase in imports while the increase in exports was more modest. The larger imports were mainly driven by the volume of food imports (64.7 percent year on year) following two bad agricultural seasons and the associated drop in domestic food production. The nominal exchange rate depreciated by about 16.6 percent year on year in September. Going forward, post-flood reconstruction imports are projected to further weigh on the balance of payments. Accordingly, reserve coverage, which was slightly above the bottom of the adequacy range of 4-5 months of prospective imports at end-2022, would drop to 3.4 months by end-2023 and 3.2 months by end- 2024, absent new financing and additional policy adjustment.

III. PERFORMANCE UNDER THE PCI/RSF ARRANGEMENTS

7. **Our program implementation under the PCI and RSF arrangements is broadly on track.**

- *PCI Quantitative Targets.* The end-June 2023 quantitative targets on the floor on the stock of net foreign assets and the ceiling on net accumulation of domestic arrears, all continuous targets, and all standard continuous targets were met. The ceiling on the debt-creating overall balance, including grants, was slightly breached by RWF 4 billion due to RWF

23 billion flood related emergency expenditure in the last months of the fiscal year. The 3-month average headline inflation of 15.2 percent also marginally fell outside the outer bound value (15.0 percent) at end-June 2023, triggering the monetary policy consultation clause and requiring a consultation with the IMF Executive Board (see Attachment).

- *PCI Reform Targets.* The **end-September 2023 RT** on Cabinet approval of a package of revenue generating and predominantly tax policy measures, supported by IMF technical advice, to ensure that the MTRS domestic revenue mobilization objectives not met and was implemented as a **prior action** for this review. RSSB finalized and submitted its asset allocation review and submitted it to its Board (**end-October 2023 RT**). We submitted to Cabinet an outline of the underlying policies behind the spending rationalization strategy in the FY24/25 (**end-November 2023 RT**). We conducted and submitted to the Fiscal Risk Committee a stress test of two high risk SOEs (Bella Flowers and King Faisal hospital) (**end-November 2023 RT**). Lastly, the NBR finalized the diagnostic study of foreign exchange markets (**end-November 2023 RT**).
- *RSF Reform Measures.* The guidelines for the implementation of the climate budget tagging system, including user requirements for the IFMIS, was published by end-November (**second review RM4**). We issued a guideline for climate-related risk management for financial institutions (**third review RM8**) and request to re-phase this reform measure and the associated disbursement to the second review.

IV. OUTLOOK AND POLICIES

A. Outlook

8. We foresee a temporary softening of economic growth driven by needed tighter fiscal and monetary policies. GDP growth is projected to decelerate from 8.2 percent in 2022 to 6.2 percent and 6.6 percent in 2023 and 2024, respectively. On the demand side, private consumption and investment are expected to be the main growth drivers in the medium term as fiscal consolidation ensues. Net exports will improve as a result of the real effective exchange rate depreciation. On the supply side, service sector will continue to expand robustly, coupled with a recovery in the agricultural sector.

9. We expect inflation to stay on a declining path. Headline inflation is projected to decline to 9 percent by end-2023, slightly above the upper limit of the NBR's 2-8 percent target band. Under a no-shock scenario and with a continuously tight monetary policy stance, inflation will fall within the band in 2024. This projection is conditional on food and energy prices gradually easing and the extent of the exchange rate depreciation passthrough.

10. Our external sector position is projected to worsen in 2023 due to climate-related shocks. The current account deficit is expected to widen to 11.5 percent of GDP in 2023, largely driven by trade deficit due to high food imports. Near-term disaster response and flood reconstruction efforts will add to imports in 2023-24, while the policy adjustment to moderate aggregate demand will reduce import growth. Meanwhile, the expected increase in merchandise exports and continued recovery of service exports will further relieve pressure on the trade balance in 2024. Over the medium term, the current account is expected to steadily improve with higher domestic savings supported by fiscal consolidation. Supported by additional IFI financing and policy adjustment, reserves would rebound to US$2.0 billion in 2024, equivalent to 4.0 months of prospective imports, and stabilize around 4.4 months of imports from 2025 onward. In the medium term, we expect concessional financing to decline, which will partially be offset by the increase in private flows, mainly FDI.

11. We see our outlook clouded by several downside risks. A further deepening of geopolitical fragmentation, another spike in global energy, food, and fertilizer prices, or a steeper decline in trading partners growth would weigh on the outlook. Global financial market developments, including tightening of financial conditions in advanced economies, could adversely affect the availability and affordability of external financing. As underscored by the recent poor seasons, Rwanda's dominantly rain-fed agriculture sector is highly exposed to climate variability.

B. Fiscal Policies and Fiscal Structural Reforms

12. Reconstruction efforts following the May 2023 floods will require a moderate loosening of the fiscal stance in both FY23/24 and FY24/25. Total reconstruction spending is anticipated to be around 3 percent of GDP over the next five years. To limit the fiscal impulse and preserve macroeconomic stability, we intend to meet two-third of flood related expenditure by reprioritizing spending within the existing fiscal envelope in FY24/25. At the same time, given the urgent need for rebuilding, and the limited scope for reprioritization of expenditures in the short-term, we will temporarily relax the deficit by 0.3 and 0.5 percent of GDP FY23/24 and FY24/25 respectively. Flood reconstruction spending will be financed predominantly by US$ 135 million in World Bank project financing supported by repurposing of unused project allocations, Crisis Response Window, and accelerating the disaster risk management component of the Volcano Community Project. The portion of the SCF funds allocated for budget support will also create fiscal space to support reconstruction efforts. A prospective US$150 million loan from the European Investment Bank would also add to medium-term financing of the disaster-resilient infrastructure investment. We will ensure transparency on flood related expenditures, including reporting on projects to support the emergency response and reconstruction in the Budget Execution Report.

13. We remain fully committed to preserving fiscal sustainability. To this end, we plan to continue the needed fiscal consolidation supported by the implementation of domestic revenue mobilization (DRM) measures under the Medium-Term Revenue Strategy (MTRS), and spending rationalization measures. In addition, we will proceed with reforms aimed at improving the transparency and the efficiency of our public financial management and investment practices and enhancing the management of fiscal risks.

14. We are committed to the objectives of the medium-term revenue strategy (MTRS), as approved by the Cabinet in May 2022. As MTRS reforms become effective, we expect to bring the tax-to-GDP ratio to 17 percent by the end of the first phase of the MTRS period in FY25/26. Through the support of our development partners, we will conduct a full evaluation of the MTRS implementation prior to its expiration. This will allow us to accelerate work on the MTRS successor reforms which will aim to raise the tax-to-GDP ratio by a further 1.3 percent by FY27/28.

- **Near-term measures**. To achieve revenue gains envisaged under the program, Cabinet approved a package of revenue generating and predominantly tax policy measures, supported by IMF technical advice, that ensures achievement of the MTRS domestic revenue targets (**prior action**). Specifically, these measures consist of a combination of tax policy reforms and improved tax administration. On the tax policy side measures include: (i) VAT on mobile phones and selected telecommunication equipment, (ii) increases in the fuel levy and registration fees for imported vehicles, (iii) gaming taxes, (iv) excise tax increases on beer, tobacco, and IT services, and (v) and increased mineral taxation. On the tax administration side measures include: (i) controls to stop customs over-valuation, (ii) introduction of custom scanners, and (iii) the integration of invoice systems of the hospitality sector with the RRA tax system.
- **MTRS successor.** To support a credible medium-term consolidation plan, we aim to implement a comprehensive strategy to raise tax revenues (projected to reach tax-to-GDP ratio of 18.3 percent by FY27/28) by broadening the domestic tax base, improving tax compliance, and curbing tax evasion. To achieve the MTRS-2 objective, that will be developed jointly with the IMF, Cabinet will approve a comprehensive package of measures predominantly relying on broadening the tax base by streamlining tax holidays and tax expenditures (**new end-January 2025 RT**). We will aim to legislate any required changes within the program period.
- **Manufacture and Build to Recovery Program (MBRP).** We remain committed to not extending the MBRP beyond the end of December 2024. The MBRP will continue to provide tax incentives (import duty and VAT) for increasing production in the agro-processing, construction materials, light manufacturing, and cross-cutting enablers such as paper packaging and plastic packaging. The program has attracted 130 projects with total investment of US$2.3 billion (52 projects in manufacturing; 43 projects in construction, including 46,000 housing units; and 35 projects in agro-processing) with the expected creation of over 42,000 jobs. 89 projects have already received tax incentives in the amount of RWF 21.9 billion. No new projects will be added to the scheme beyond 2024.
- **Revenue administration.** The Rwanda Revenue Authority (RRA) has continued to implement MTRS reforms including (i) the New Operating Model (NOM) from January 1, 2023, which entailed recruitments and matching staff skills and competencies to the job requirements to bring about efficiency; (ii) comprehensive Compliance Improvement Plans (CIPs) from 2022/23; (iii) digitalization of the tax system for enhanced controls to validate and ensure accurate reporting on both VAT and income tax; (iv) adoption of Common External Tariff (CET) version 2022 for customs, and introduction of dynamic risk management to include the use of modern technologies in assessing risk. The RRA will continue to rely on

the existing monitoring and enforcement framework to assess the implementation of these measures, while considering opportunities to further strengthen it.

15. We continue with our efforts to advance spending rationalization reforms. With the support of IMF, we submitted to Cabinet an outline of the underlying policies behind the spending rationalization strategy in the FY24/25 Planning and Budget Outlook Paper **(end-November 2023 RT).** The rationalization outline will define the broad categories for spending rationalization across spending categories. The final spending rationalization strategy will outline policy measures underlying the medium-term projection of the fiscal consolidation path as an annex to the FY24/25 Budget Framework Paper (**end-May 2024 RT**).

16. In line with our commitment under the RSF program to transition to a green economy, we will refrain from providing any subsidies on fuel prices going forward and, instead, will support poor and vulnerable households through other targeted measures as the need arises. We phased out a subsidy in April 2023 on diesel that was introduced in October 2022, and we have since allowed domestic prices to reflect the international market price of fuel. To recoup the losses from this temporary subsidy, we introduced a stabilization fee on petroleum prices. All losses from the previous policy have been recouped and the current prices are fully in line with market prices.

17. Our fiscal path ensures convergence to our debt anchor keeping our debt sustainable. We will broadly maintain the fiscal consolidation path discussed at the time of the PCI approval with convergence to our 65 percent of GDP debt anchor achieved by 2031, backed by a credible medium-term fiscal consolidation, including domestic revenue mobilization and spending rationalization measures. This consolidation path will ensure that Rwanda remains at moderate risk of debt distress with sufficient buffers to absorb shocks.

18. Our FY23/24 budget and medium-term fiscal framework has also identified a contingency plan, which specifies a number of recurrent and capital expenses whose execution will be put on hold in the event original measures cannot be timely implemented. These include limits on new staff recruitments (excluding statutory promotions, and vital sectors such as health, education and public administration), further cuts on non-essential and non-efficient non-wage recurrent expenditure, and the discontinuation of underperforming domestic projects.

19. Our fiscal consolidation will continue to be supported by a prudent debt management strategy that prioritizes concessional resources, including climate change related financing to support Rwanda's adaptation and mitigation efforts. We will continue to strengthen our debt management capacity, which should also benefit from our ongoing efforts to enhance fiscal risk monitoring, strengthen debt reporting, and develop domestic capital markets. To contain the debt service burden and solvency risks and prevent debt from deviating from the agreed debt path, should the opportunity to contract additional highly concessionally financed projects to finance our development priorities arise, this would be done by prioritizing the implementation of these projects over domestically or commercially financed projects.

Fiscal Structural Reforms

20. The implementation of our new Organic Budget Law (OBL) is on course. The Ministerial Order required for the full implementation of the OBL will be issued by end 2023. The implementation of the OBL improves the budget and medium-term expenditure framework (MTEF), institutionalizes the fiscal risk management practices and structures, and helps the adoption of best practices in fiscal reporting. In the area of fiscal reporting, reporting periods for all public sector entities are now aligned to the fiscal year from calendar years. Data are being received in a timely manner.

21. We continued to strengthen our public financial management system (PFM).

- *Medium Term Expenditure Framework.* To instill greater prioritization and top-down orientation to our budget process, we have developed MTEF user manuals, which are being adopted. Looking ahead, we plan to integrate the budget costing framework to IFMIS in subsequent years and continue to improve the process for the FY24/25 planning cycle.
- *Accrual Accounting Migration.* We continued to expand the coverage of accrual financial reporting in the public sector. We are on track to have the valuation and recognition of non-financial public assets and liabilities to be completed by end-FY23/24. The production of a consolidated annual financial statement for the entire public sector, including SOEs, contingent liabilities and PPPs, will be finalized by end-June 2025.
- *IFMIS Rollout.* The IFMIS rollout to primary and secondary schools continues. Through its subsidiary accounting systems named SDMS (Schools Data Management System), we have completed the rollout of financial modules to 1,836 secondary schools out of 1,924 schools and anticipate completing the rollout to all secondary schools in December 2023. For the primary schools, we plan to complete the rollout by 2025.

22. We continue our efforts to strengthen the institutional framework and technical capacity to oversee and manage fiscal risks from SOEs.

- The new Organic Budget Law institutionalized the oversight and management of fiscal risks by clarifying the role of the Fiscal Risk Committee (FRC), mandating the Minister of Finance and Economic Planning (MINECOFIN) to appoint their members, and requiring the publication of an annual Fiscal Risk Statement (FRS) as part of the annual budget documents. The new Public Procurement law was gazetted in November 2022 and relevant Ministerial Orders establishing regulations governing public procurement were gazetted in October 2023. Specific provisions to strengthen procurements in SOEs will be implemented by end-2023.
- The Ministry of Public Investment and Privatization (MININVEST), which was created in August 2022 with the aim to strengthen the oversight, management, and governance of SOEs was dissolved by Cabinet decree on August 22, 2023 and its mandate has been transferred back to MINECOFIN to a new department. Staffing of the Portfolio Monitoring team remained incomplete, and we will accelerate the hiring of technical staff at the

MINECOFIN's SOE Department to strengthen its capacity to perform its new functions. We plan to fully staff our Portfolio Monitoring team by June 2024, increasing the current staffing levels from 15 to 26 persons.

- We are committed to continue the review of the legal framework underpinning SOE governance, which encompasses the following instruments: (i) the National Investment Policy, (ii) the Privatization Law, and (iii) the Privatization Policy. We have already reviewed and incorporated all key ownership principles in the approved National Investment Policy. Other ownership principles will be captured in the draft Presidential Order, which is being reviewed in close collaboration with the World Bank. The Presidential Order shall be submitted to Cabinet by end-November 2023. The draft Privatization Law and Policy, supported by the World Bank, has been passed by parliament and will soon be enacted.
- SOE health-checks continue to identify high-risk SOEs. We submitted the stress tests of two previously identified high-risk SOEs (Bella Flowers and King Faisal Hospital) to the Fiscal Risk Committee (**end-November 2023 RT**). In 2024, we will continue conducting SOE health-checks for all SOEs and stress tests for at least two high-risk SOEs every quarter. MINECOFIN will develop mitigation measures to address key vulnerabilities identified in the stress tests to be published in Fiscal Risk Statements starting from FY24/25.

23. Strengthening transparency in fiscal reporting remains a key priority. To underscore the progress achieved since the 2019 Fiscal Transparency Evaluation (FTE), by the first half of 2025, we plan to conduct an FTE follow up mission. We remain committed to the expansion of the coverage of our fiscal reports in GFS 2014. In April 2023, we started publishing quarterly budget execution reports under GFS 2014 for the general government and have continued to do so 60 days after the end of each quarter. RSSB completed its asset allocation review and submitted the associated report to RSSB management (**end-October 2023 RT**).

24. We continue to enhance our public investment management practices. We have published the 2022 PIMA in August 2023 and will continue to implement recommendations from the assessment. We will publish a pipeline of appraised major projects (over RWF 15 billion, as defined in Section 4.3 of the National Investment Policy), and project selection criteria annually alongside budget documentation, while redacting any commercially sensitive information (**new end-October 2024 RT).** We are also committed to continue implementing other recommendations from the PIMA that support further transparency and value for money in project selection including: (i) improving reporting of contingent liabilities from public corporations, PPPs, and districts; (ii) making all project appraisal documents public; (iii) publishing multi-year project costs using existing data stored in the IFMIS.

25. We remain committed to ensuring beneficial ownership transparency. Companies have begun to submit beneficial owner (BO) information since April 2023. Since then, we require that new companies are not registered until BO information is provided and failure to provide BO information for existing companies will result in sanctions. We will continue conducting supervision to ensure compliance with the BO obligations and will implement enforcement measures to increase the compliance level. We will keep the good practice of cross-checking company information with the tax and revenue authorities and removing dormant companies from our register, together with conducting on-site inspections to verify the information companies submit as part of their self-assessment. We will amend the definition of BO in the Public Procurement law with the provisions of the AML/CFT law to have one harmonized understanding of BO. We will consider granting law enforcement direct and full access to BO information in the central register.

C. Monetary, Exchange Rate, and Financial Sector Policies

26. We will continue to strengthen the implementation of our forward-looking monetary policy framework and reforms to promote the development, stability, and inclusion of financial market. We will pursue these objectives by continuing to (i) increase the reliance on data, analysis, and forecasts in informing monetary policy formulation and communication and (ii) strengthen monetary policy and exchange rate operations and further develop money, domestic debt, and foreign exchange markets.

Monetary Policy

27. Containing inflationary pressures remains a priority for our monetary policy. Against the background of continued high uncertainty and emerging threat of second round effects, the National Bank of Rwanda (NBR) raised its policy interest rate by a cumulative 300 basis points since February 2022. Persistently high inflation was due to pressures from global commodity prices and weak domestic food production from unfavorable weather conditions. Additional food inflation pressures were observed in the last couple of months driven by disruption in staple crop supply related to the floods in May. The NBR is committed to ensuring that monetary policy remains data driven. To this effect, the MPC will monitor inflation developments and outlook to ensure that headline inflation returns to the NBR's target of 5 percent in the medium term. The NBR stands ready to adjust its policy stance should second round inflation effects from the natural disaster shock and reconstruction spending prove to be more pronounced, exchange rate depreciation result in stronger-than-expected inflation passthrough, or external pressures accelerate.

28. We remain committed to strengthen monetary policy formulation, and communications to ensure the implementation of the forward-looking interest-rate-based monetary policy framework.

- We have continued to develop the Forecasting Policy and Analysis System (FPAS), including steps to improve economic analysis, and forecasting capabilities at the NBR and better integrate it with monetary policy decision-making. Going forward, we will continue relying on the NBR's FPAS as the key input to guide monetary policy stance and steer inflation towards the NBR's inflation target.
- Additionally, we are developing a consumer price expectations survey to improve the quality of forecasts. Our plan is to launch this survey in 2024.

Monetary Policy Operations and Market Development

29. **We continue to focus on developing money, bond, and foreign-exchange markets to strengthen our monetary policy transmission mechanism.** With the assistance of the IFC, we have identified and analyzed the legal gaps in insolvency, payment system and banking laws and formulated a roadmap endorsed by all stakeholders to implement for Global Master Repurchase Agreement (GMRA). The NBR and Capital Market Authority (CMA) will be leading the legal review of relevant legislation. We envisage enacting the full GMRA rollout, including securing the signing of the GMRA by all banks, by end-December 2024 (**end-December 2024 RT**).

30. **We remain committed to a flexible exchange rate and more proactive liquidity management to support our monetary policy framework and maintain external buffers.** We consider the exchange rate our first line of defense against external shocks and will limit our interventions in the foreign exchange (FX) market to minimize excessive exchange rate volatility. We expect FX pressures to continue in 2023 and 2024 driven by the increased import bill related to food and reconstruction, and lower-than-expected external financing flows. We expect exchange rate pressures to subside over the medium term as the policy adjustment takes place and external demand recovers. The reserve coverage is expected to recover to above the minimum adequate level of 4 months of imports in 2024. We plan to regularly assess and align our foreign exchange market for consistency with our monetary policy framework. In particular:

- Supported by the IMF TA mission, we finalized and adopted a diagnostic study of foreign exchange markets (**end-November 2023 RT**) to further improve our FX market operations in line with the monetary policy framework.
- We will revise the NBR's official exchange rate calculation methodology to better reflect market conditions by including exchange rates from market transactions from the previous day (**new end-June 2024 RT**). A progressive implementation will start from July 2024.
- We are committed to strengthening the liquidity management component of the framework by exploring if a further excess liquidity reduction could improve transmission in implementing the interest rate based monetary policy.
- Based on IMF TA recommendations, we will also set up a framework for regular, formal and transparent consultation with FX market participants as part of a communication strategy to facilitate market functioning and development. In addition, our Research Department will be more involved in the analysis of high-frequency market data.

Financial Sector Policies

31. **We will continue to fine-tune our macroprudential analysis, standards, and processes to safeguard financial stability**. Considering recent global banking developments, safeguarding the resilience of banking sector to shocks remains a top supervisory priority of the NBR. Onsite examinations will continue to focus on credit risks, adequate loan classification and provisioning, and scrutinize banks' assessment of borrowers. This will be complemented by the continued offsite surveillance to ensure the above key risks are managed and track any emerging risks. Further, we

will continue to conduct credit surveys to the private sector to inform further policy measures to be taken. The NBR continues to conduct macro stress tests on a quarterly basis, and the banks have submitted the second annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) by the end of May 2023 for review. The ICAAP includes banks' risk appetite and projected capital positions for the year 2023/24, while ILAAP provides for the contingency plans on liquidity. The NBR will focus its policy actions to ensure that supervised institutions adequately manage risks and comply with regulatory requirements. The NBR will also continue to monitor closely the implication of the global financial conditions on the domestic financial institutions and take appropriate macroprudential policies to contain potential risks.

32. The NBR assessed that there are no immediate major disruptions in the financial sector arising from the recent floods. Credit growth remains at double digits, although still below nominal GDP growth. The credit to GDP ratio increased modestly in H1 2023. Credit is mainly concentrated in the corporate sector, and banks' lending to the HH sector remains limited. Most loans are collateralized, which lowers financial risks for banks, but also makes access to finance more costly for small/individual lenders.

- We are committed to monitoring financial stability risks, including through intensive supervision, quarterly stress tests, and quarterly Financial Stability Committee meetings. We continue monitoring supervised institutions with the view to ensure that risks are adequately managed and regulatory requirements are implemented.
- We are committed to enhancing the NBR's risk monitoring and stress testing capacity through more granular data collection, analysis, and developing stress test models with longer term horizons. We will explore the scope for greater use of macroprudential policies to contain emerging financial stability risks.
- We are committed to increase the intensity of our monitoring of large exposures of banks, which have been growing in the past few years. We plan to gather more granular data on banks' large exposures and carry out more detailed risks analysis for these exposures. If associated risks increase, we are committed to tightening the regulatory limits on large exposures.

33. Expanding access to digital financial services remains instrumental to implement our financial inclusion strategy. We consider financial inclusion as an integral enabler for achieving our development and poverty reduction objectives, and target achieving 90 percent of formal financial inclusion by 2024. To this end, the NBR prepared a draft of a new financial inclusion strategy that focuses on measures to promote financial inclusion through greater digitalization and gender balance in accessing financial services. The strategy is expected to be finalized by end-2023.

- *Leveraging data.* The NBR's financial inclusion data dashboard is operational and will enable the NBR to regularly monitor financial inclusion progress. Based on FinScope 2020 Survey, formal financial inclusion stands at 77 percent of adult population, with 74 percent for women, and 81 percent for men. The work has started on 2024 FinScope Survey and is expected to be launched in the first quarter of 2024.

- *Digital financial services.* Digital financial services are fast-growing especially, with mobile payments that are more than quadrupled since the pre-COVID levels. Digital payments efficiency has been enhanced by expanding interbank settlement service to 24/7 basis and to microfinance institutions (MFIs). Multilateral interoperability for retail digital payments is operational to mobile money services providers, banks and MFIs.
- *Consumer protection/market conduct platforms.* The complaints handling system (INTUMWA Chatbot) and comparator website (Gereranya) are operational, supporting financial service consumers to lodge complaints and compare financial services and products, respectively.
- *Female access to finance.* The NBR with support from the World Bank developed a guideline for women's financial inclusion for the financial sector to move the financial system from a gender aware system to a gender transformative system. This guideline was launched in September 2023 and provide guiding pillars for enhancing financial services delivery to women in Rwanda including (i) integrating female financial inclusion in institutions' strategic plans, (ii) customizing products for women and mainstreaming gender within existing products, (iii) leveraging digital financial technology, and (iv) building female financial capabilities.

D. Structural Policies

34. We continue our efforts to make our economy and society more resilient. We have improved the design and delivery of our social safety nets, improving the access and quality of health and education among vulnerable groups, and promoting economic diversification.

- To offset the impact of high fuel and food prices, we have increased monthly cash transfer from RWF 7,500 to RWF 10,000 and from RWF 10,000 to RWF 15,000 for Nutrition Sensitive Direct Support (NSDS) and Expanded Public Works (ePW) beneficiaries, respectively. We have also expanded the NSDS from eighteen districts to twenty districts, representing a total of 164,434 beneficiaries that included 28,929 pregnant women and 146,171 children under 2 years of age, as well as adjusting the level of transfer to household level.
- We continued our efforts to enhance the existing social protection programs regarding coverage, benefits, shock-adaptability and targeting through the dynamic social registry rollout. Programs under the Vision 2020 Umurenge Program (VUP) safety nets continue to perform well. Since July 2022, 123,015 households (HHs) that include 34,106 (27.7 percent) HHs headed by males and 88,909 (72.3 percent) headed by females have received direct support (DS); 109,217 HHs that include 49,046 female-headed HHs and 60,171 male-headed HHs were employed in the classic and expanded public work (cPW); and 100,136 eligible HHs that include 70,168 HHs headed by females & 30,068 HHs headed by males benefited from ePW. The number of supported beneficiaries under Nutrition Sensitive Direct Support program has reached 323,370 since it was started in 2019. About 51,741 microcredit loans were issued to 56,719 beneficiaries including 29,335 females and 27,384 male beneficiaries, in order to support the poor people with financial services aiming at accelerating the graduation, and the repayment rate stands at 75%. In addition, 100,000 households have benefited from emergency cash transfers. We have also undertaken

initiatives to reduce poverty and unemployment, targeting specific vulnerable groups. In the City of Kigali, unemployed women and single mothers, whose poor living conditions expose them and their children to many risks, are organized in the formal trading and provided with trainings/capacity building, financial education, and support through concessional micro loans.

- We are on track with finalizing the roll-out of a dynamic social registry to all beneficiaries of social protection schemes under the Vision 2020 Umurenge Program (VUP) and beneficiaries of subsidized enrollment in the Community Based Health Insurance (CBHI) (**end-May 2024 RT**). Roll out to all districts and the Community-Based Health Insurance (CBHI) is expected to start in January 2024 and be finalized within the envisaged timeline. We are improving our shock-adaptability by focusing on climate-sensitive projects (e.g., agricultural terracing) in areas more prone to disasters and increasing the coverage of emergency cash transfers.
- We have introduced assistance to mitigate climate-related shocks and over 90,780 households were supported with relief items to help them cope with the negative floods and landslide effects of May-2023. With the introduction of social protection instruments to vulnerable poor households, we have started providing agriculture inputs, insurance to agriculture products and livestock, and creating green jobs to address the issues of climate change. We have intensified sensitizing and mobilizing households to adopt a culture of savings to be able to withstand short-term shocks through a EjO HEZA saving scheme. To help mitigate food price pressures, we have stepped-up advocacy to increase cultivable land areas, including the areas previously under-utilized.
- We are also working to address learning losses accumulated during the COVID 19 pandemic. We introduced a subsidized national school feeding program which boosted school attendance. We will continue to improve its delivery and targeting system. We will increase access of the extremely poor households to complementary livelihoods enhancement services to strengthen their economic self-sufficiency. We have scaled up reducing stunting and promoting early childhood development through child sensitive Expanded Public Works and Nutrition Sensitive Direct Support co-responsibility cash transfer to boost human capital development.
- We continue to strengthen our economic resilience by adopting policies favorable to regional integration. As part of the ongoing trade integration policy reforms, we are reviewing the Industrial Policy, the National Trade Policy, and the National Export Strategy. We are also developing an e-Commerce Strategy. The new trade policy will seek to increase the contribution of manufactured value-added products and services, improve the domestic trade and investment environment, and strengthen the trade capacity of the private sector among other priorities. Similarly, the new industrial policy will target upgrading industrial capabilities in targeted subsectors, increase Made in Rwanda production and access to markets, and support environmental sustainability and green growth.
- The AfCFTA Implementation Strategy, adopted in June 2022, will fast-track the integration of competitive firms into commodity value chains, and prioritize support to competitive

services hubs serving the continental market such as those in tourism, financial services, ICT, and logistics and distribution.

- To implement our trade-logistics strategy and attract private investments in trade logistics and export-oriented activities, we are prioritizing major projects such as Kigali Logistic Platform (a large-scale inland container depot) and the Bugesera International Airport. With support from the World Bank and development partners, we are working to reduce tariff and non-tariff barriers and seize opportunities for Rwandan exporting firms stemming from the AfCFTA preferential market access. We are also stepping up our efforts on building more skilled labor force.
- We continue our efforts to strengthen our capacities for pandemic preparedness and response. On February 13, 2023, the Government of Rwanda and the World Health Organization (WHO) signed a collaboration agreement to implement three Emergency Preparedness and Response Flagship Initiatives, namely: (i) Strengthening and Utilizing Response Groups for Emergencies (SURGE), (ii) transforming African surveillance system (TASS), and (iii) Promoting Resilience of Systems for Emergencies (PROSE). The two-year project will strengthen epidemic intelligence, focusing on indicator-based, event-based, community-based, lab-based and One Health (OH) based surveillances. We remain on track with our initiative to construct the first African mRNA vaccine manufacturing facility to supply vaccines not only in Rwanda, but also in the region. Six mobile vaccine production units by German pharma company BioNTech arrived in Rwanda in April 2023.

E. Building Resilience to Climate Change

35. Our RSF-supported reforms have progressed significantly.

- *Progress on climate budget tagging:* We produced internal guidelines on the planned climate budget tagging system, including anticipated changes to the budget call circular and user requirements for the IFMIS (**second review RM4)** with the assistance of comprehensive CD support delivered by the IMF Fiscal Department (FAD) during 2023. The guidelines also include a roadmap with clear milestones for implementation. We are on track to fulfill the **third review RM6** to (i) implement climate change budget tagging as a prototype on development expenditure only and publish a climate budget statement using the first budget tagging results and (ii) identify in the Budget Framework Paper (BFP) how climate information has been used in decision. We will use our climate budget tagging prototype at the planning of the FY24/25 budget. We will expand the climate change budget tagging framework to cover all expenditure. Once fully implemented, the budget tagging system will allow for the monitoring of climate related activities at both the budget preparation and execution phases. This will improve transparency for the public and development partners looking to further support the climate agenda.
- *Progress on the enhancing climate-related risk management for financial institutions:* Following consultations with the financial market participants, we issued a guideline for climate-related financial risk management for financial institutions (**third review RM8**),

including a timeline for its implementation. Our implementation plan envisions a phase-in approach towards mandatory implementation, with tiered requirements for the systemic segments of the financial sector. At the early stages, the financial institutions will focus on assessing exposure to climate and environmental risks within their operations and activities and recognizing them in their governance, strategies, and risk management. This reform measure was originally due for the third review of the RSF arrangement, however, given our accelerated efforts to develop guidance for the financial sector, we achieved this reform measure ahead of the initial RSF reform timeline.

- *Enhancing climate agenda under the RSF*. To further demonstrate our unwavering commitment to the RSF-supported climate agenda, we propose to accelerate the implementation of two reform measures already defined under the RSF from the fifth to the fourth reviews and take up two additional reform measures. The measures are: (i) publish comprehensive tagging results in the climate budget tagging statement and start publishing a quarterly climate expenditure report that compares climate change expenditure execution with budget plans (**RM11, rescheduled from the fifth to the fourth review**); (ii) issue a guideline to financial institutions with regard to the implementation of recommendations of the International Sustainability Standards Board (ISSB) (**RM12, rescheduled from the fifth review to the fourth review**); and (iii) develop financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy at the local level (**RM13, rescheduled from the fifth review to the third review)**. In addition, we request to introduce two new reform measures under the RSF: (i) publish individual risk analysis of SOEs and PPPs that are vulnerable to climate change risks and that have been submitted to fiscal risk committee **(new RM14, third review)**; (ii) MINECONFIN to adopt a green taxonomy adapted to Rwanda's NDCs covering seven sectors of the economy (agriculture, energy, construction, transportation, manufacturing, wastewater management, and ICT) **(new RM15, fourth review)**.

36. We also enhanced our climate adaptation and mitigation efforts. Climate related investment projects included in the FY22/23 and FY23/24 budgets include (i) building resilience to climate change hazards in the Volcano Region of Rwanda, (ii) Green City Kigali Project, (iii) Rwanda - Nyandungu Urban Wetland Eco-Tourism Park project, (iv) reducing vulnerability to climate change through enhanced community-based biodiversity conservation in the Eastern Province of Rwanda, (v) restoration of Upper Nyabarongo Catchment in the Mbirurume Sub-catchment of Rwanda, (vi) Second Rwanda Urban Development Project (RUDPII), (vii) Nyabarongo II Hydro Power Plant, (viii) Rwanda Universal Energy Access Program, (ix) Rwanda Sustainable Water Supply and Sanitation Program. These projects aim to support investments in areas of low-carbon transport networks, low carbon and climate-resilient infrastructure and energy access, resilient urban landscapes, sustainable water systems, agriculture, forestry, and conservation. Also, as part of our efforts to reduce CO2 emission in line with NDC objectives, we introduced new tax policy measures that will encourage higher fuel-efficiency of our economy through increase in fuel levy, higher registration fees for high-emission vehicles. This will complement our existing policies to encourage e-mobility, including zero

VAT rating on all e-vehicles and parts. These measures will help to better reflect the externalities of fossil fuel consumption and help us achieve our emission reduction goals.

37. We have also started to actively explore options, including with international partners, to scale up climate financing. Our near-term focus is to scale up Rwanda's already established Green Investment Facility ("Ireme Invest"). The scaling up will occur via a combination of blending non-concessional and concessional resources, and de-risking. At COP28, we presented details of, and asked for support for, three ambitious programs on landscape restoration, climate-smart agriculture, and sustainable urbanization that we plan to roll out using our innovative programmatic approach. We also announced our plans to introduce green taxonomy to help catalyze private financing to green projects. We are also committed to ensure that any fiscal risks stemming from government's financial exposure through equity contributions or guarantees are well-identified, transparently reported, and mitigated. Finally, in September 2023, Cabinet approved a carbon market framework, developed with the support of the World Bank and the UNDP that establishes a regulatory framework for accessing the international carbon market. MINECOFIN created a new climate finance unit. The new reform measure on green taxonomy is also expected to help mobilize further private climate financing.

V. PROGRAM MONITORING UNDER THE PCI, RSF, AND SCF

38. Policy Coordination Instrument. Progress in the implementation of the policies under this instrument will be monitored through quantitative targets, including a monetary policy consultation clause, standard continuous targets, and reform targets. These are detailed in Tables 1a–2, with definitions provided in the attached Technical Memorandum of Understanding.

39. Resilience and Sustainability Facility. Progress in the implementation of the policies under this arrangement will be monitored through reform measures. These are detailed in Table 3.

40. Under the SCF, the program will be subject to semi-annual reviews coinciding with the PCI, and will be monitored through quantitative performance criteria, continuous performance criteria and structural benchmarks (common with PCI quantitative targets, standard continuous targets, and reform targets), as set out in Tables 1a-2, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Rwanda: PCI Quantitative Targets and SCF Performance Criteria (June 2023 - December 2024)

	2023							2024	
	June[6]					December[7]		June[7]	December[6]
	Prog. CR 23/198	Adjustors	Adj. Prog.	Prelim.	Status	Prog. CR 23/198	Rev. Prop. Prog.	Prop. Prog.	Prop. Prog.
(Billions of Rwandan francs, unless otherwise indicated)									
PCI Quantitative Targets / SCF Arrangement Performance Criteria[1]									
1. Ceiling on the debt-creating overall balance, including grants[2]	-1,090	-22	-1,113	-1,117	Not Met	-375	-456	-1,159	-698
2. Floor on stock of Net Foreign Assets	1,009	-124	885	1,063	Met	988	844	923	998
3. Ceiling on net accumulation of domestic arrears	0			0	Met	0	0	0	0
PCI Continuous Targets / SCF Arrangement Continuous Performance Criteria									
4. Ceiling on stock of external payment arrears (US$ million)	0			0	Met	0	0	0	0
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt (US$ million)[3]	188			37	Met	1,069	1,047	537	1,163
PCI / SCF Arrangement Monetary Policy Consultation Band[1, 4, 7]									
Inflation, upper bound, percent	15.0					10.0	10.0	9.0	9.0
Inflation, upper inner-bound, percent	14.0					9.0	9.0	8.0	8.0
CPI Inflation target	11.0			15.2	Not Met	6.0	6.0	5.0	5.0
Inflation, lower inner-bound, percent	8.0					3.0	3.0	2.0	2.0
Inflation, lower bound, percent	7.0					2.0	2.0	1.0	1.0
Memorandum items:									
Total priority spending[2]	1,600			1,610		800	800	1,700	850
Floor on domestic revenue collection[2, 5]	2,453			2,542		1,363	1,319	2,855	1,606
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700			39		700	28	23	17
Total budget support (US$ million) [2]	705			323		138	195	747	239
Budget support grants (US$ million)	310			289		85	94	161	157
Budget support loans (US$ million)	395			34		53	101	586	82
RSF Disbursements (US$ million)	75			99		25	50	77	96
RWF/US$ program exchange rate	1,071			1,071		1,071	1,071	1,165	1,165

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjustors are defined in the Technical Memorandum of Understanding (TMU) for the PCI and RSF approval.

[2] Numbers are cumulative from 1 July of the current year to 30 June of the following year.

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

[4] When the year-on-year inflation, averaged for the past 3-months, 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] Test date covers PCI.

[7] Test date covers PCI and SCF.

Table 1b. Rwanda: Standard Continuous Targets Under PCI and Performance Criteria Under SCF

- 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: Prior Actions, Reform Targets, and Structural Benchmarks Under the PCI/SCF (June 2023-January 2025)

Actions	Target Date	Status	Objective
Prior Action			
Approve by Cabinet a package of revenue generating and predominantly tax policy measures, supported by IMF technical advice, that ensures achievement of the MTRS domestic revenue targets.			Improve DRM
Reform Targets / Structural Benchmarks			
1) Fiscal Pillar			
Approve by Cabinet a package of revenue generating and predominantly tax policy measures, in consultation with staff, that ensures MTRS domestic revenue mobilization and other objectives are met.	end-September 2023	Not met, reset as prior action	Improve DRM
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-October 2023	Met	Improve fiscal transparency
Submit to Cabinet an outline the underlying policies behind the spending rationalization strategy in the FY 24/25 Planning and Budget Outlook Paper.	end-November 2023	Met	Improve credibility of fiscal consolidation
MININVEST to conduct stress-tests of at least two high-risk SOEs to be submitted to the Fiscal Risk Committee.	end-November 2023	Met	Contain fiscal risks
Submit to Cabinet a spending rationalization strategy outlining policy measures underlying the medium-term projection of the fiscal consolidation path as an annex to the FY 24/25 budget framework paper.	end-May 2024[1]		Improve credibility of fiscal consolidation
Publish a pipeline of appraised major projects (over RWF 15 billion, as defined in Section 4.3 of the National Investment Policy), and project selection criteria annually alongside budget documentation, while redacting any commercially sensitive information.	end-October 2024[1]	Proposed new RT/SB	Strengthen expenditure efficiency
To achieve the MTRS-2 objective, that will be developed jointly with the IMF, Cabinet will approve a comprehensive package of measures predominantly relaying on broadening the tax base by streamlining tax holidays and tax expenditures.	end-January 2025	Proposed new RT	Improve DRM
2) Monetary and Financial Pillar			
Finalize a diagnostic study of foreign exchange markets.	end-November 2023	Met	Strengthen monetary policy operations
Revise the NBR's official exchange rate calculation methodology to better reflect market conditions by including exchange rates from market transactions from the previous day.	end-June 2024[1]	Proposed new RT/SB	Strengthen monetary policy operations
Enact the full GMRA rollout, including the signing of the GMRA by all banks.	end-December 2024		Strengthen monetary policy operations
3) Resilience Pillar			
Finalize the roll-out of a dynamic social registry to all beneficiaries of social protection schemes under the Vision 2020 Umenge Program (VUP) and beneficiaries of subsidized enrollment in the Community Based Health Insurance (CBHI).	end-May 2024[1]		Build resilience through social safety nets

[1] Joint PCI reform target and SCF structural benchmark.

Table 3. Rwanda: Reform Measures Under RSF (April 2023–April 2025)

Reform measure (RMs)		Review	Status
Reform Area 1. Strengthening and institutionalizing the **monitoring and reporting of climate-related spending** feeding into decision making processes.			
RM4	Produce internal guidelines on the planned climate budget tagging system, including anticipated changes to the budget call circular and user requirements for the Integrated Financial Management Information System (IFMIS).	2nd Review	Met
RM6	MINECOFIN staff to implement climate change budget tagging as a prototype on development expenditure only and publish a climate budget statement using the first budget tagging results. Identify in the Budget Framework Paper (BFP) how climate information has been used in decision making.	3rd Review	
RM9	MINECOFIN staff to expand the climate change budget tagging framework to cover all expenditure, adopting the approach laid out in the internal guidelines and drawing on lessons learned in the prototype period.	4th Review	
RM11	Publish comprehensive tagging results in the climate budget statement and start publishing a quarterly climate expenditure report that compares climate change expenditure execution with budget plans.	4th Review	Proposed to be moved from the 5th Review
Reform Area 2. Integrating **climate risks** into fiscal planning.			
RM7	Further expand the quantitative climate risk analysis to include PPPs and SOEs that are vulnerable to climate-related risks, highlighting how investment in adaptation seeks to reduce the impacts of negative climate events.	3rd Review	
RM14	Publish individual risk analysis of SOEs and PPPs that are vulnerable to climate change risks and that have been submitted to fiscal risk committee.	3rd Review	Proposed new RM
Reform Area 3. Improving the sensitivity of **PIM** to climate-related issues.			
RM10	Publish a consolidated report on major projects in the pipeline by sector with information inclusive of (i) the appraisal and selection criteria related to adaptation and mitigation and (ii) the distribution of ratings according to the appraisal and selection criteria related to adaptation and mitigation.	4th Review	
Reform Area 4. Enhancing **climate-related risk managements for financial institutions** and developing a green finance market as part of the broader capital market development effort to help mobilize financing.			
RM8	Issue a guideline for climate-related risk management for financial institutions.	2nd Review	Proposed to be moved from the 3rd Review
RM12	Issue a guideline to financial institutions with regard to the implementation of recommendations of the International Sustainability Standards Board (ISSB).	4th Review	Proposed to be moved from the 5th Review
RM15	MINECONFIN to adopt a green taxonomy adapted to Rwanda's NDCs covering seven sectors of the economy (agriculture, energy, construction, transportation, manufacturing, waste water management, and ICT).	4th Review	Proposed new RM
Reform Area 5. Strengthening **disaster risk reduction and management**.			
RM13	Develop financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy at the local level.	3rd Review	Proposed to be moved from the 5th Review

Table 4. Rwanda: Summary of the External Borrowing Program[1]

	January-June 2023		January-December 2023		January-June 2024		January-December 2024	
	Actual		Program		Program		Program	
	Nominal	PV	Nominal	PV	Nominal	PV	Nominal	PV
(Millions of USD)								
By sources of debt financing	**71**	**37**	**1794**	**1047**	**1160**	**537**	**1651**	**1163**
Concessional debt, of which [2]	**71**	**37**	**1197**	**478**	**925**	**340**	**1163**	**445**
Multilateral debt	0	0	647	238	735	277	973	382
Bilateral debt	71	37	550	240	190	64	190	64
Other	0	0	0	0	0	0	0	0
Non-concessional debt, of which	**0**	**0**	**597**	**569**	**235**	**197**	**488**	**718**
Semi-concessional [3]	0	0	397	369	235	197	488	418
Commercial terms [4]	0	0	200	200	0	0	0	300
By Creditor Type	**71**	**37**	**1794**	**1047**	**1160**	**537**	**1651**	**1163**
Multilateral	0	0	1020	584	820	340	1311	666
Bilateral - Paris Club	71	37	458	194	340	197	340	197
Bilateral - Non-Paris Club	0	0	92	46	0	0	0	0
Other	0	0	225	223	0	0	0	300
Uses of debt financing	**71**	**37**	**1794**	**1047**	**1160**	**537**	**1651**	**1163**
Infrastructure	71	37	1152	631	825	381	1281	697
Social Spending	0	0	69	24	150	70	185	79
Budget Financing	0	0	548	369	185	86	185	386
Other	0	0	25	23	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 threshold 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, November 29, 2023

1. This memorandum defines the quantitative targets described in the Program Statement (PS) for the period: July 1, 2023—December 31, 2024, supported by the IMF Policy Coordination Instrument (PCI) and Stand-by Credit Facility (SCF) Arrangement, and sets out the data reporting requirements.

2. Program exchange rates. For program purposes, the exchange rates for end-June 2023 in the IMF's International Financial Statistics database will apply (see Table 1 for major currencies).

Table 1. Rwanda: Program Exchange Rates from June 30, 2023

(US$ per Currency Unit, Unless Indicated Otherwise)

Rwanda Franc (per US$)	1,164.6
Euro	1.087
Japanese Yen (per US$)	144.9
SDR	1.330

A. PCI Quantitative Program Targets / SCF Performance Criteria

Ceiling on Debt-Creating Overall Fiscal Deficit

3. A ceiling applies to the debt-creating overall fiscal deficit of the budgetary central government, excluding Peace-Keeping Operations and including grants. The ceilings for December 31, 2023, and June 30, 2024, are cumulatively measured from July 1, 2023, and the ceiling for December 31, 2024, is cumulatively measured from July 1, 2024.

4. Definition. For the program, the debt-creating overall fiscal deficit is defined by the overall fiscal deficit, 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 deficit 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 deficit as of the beginning of the fiscal year.

Adjustors to the Debt-Creating Overall Fiscal Deficit

- The ceiling on the debt-creating overall deficit will be adjusted upward:

   - by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1a of the PS).
   - by the amount of unexpected budgetary central government expenditure on cereals imports in the case of a food emergency and in spending relative to the programmed amount on fertilizer subsidy in the case of significant increases in fertilizer import price.

- The ceiling on the debt-creating overall deficit will be adjusted upward to a maximum of 137 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 from previously disbursed capital grants and loans.

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

5. A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2023, June 30, 2024, and December 31, 2024.

6. Definition. NFA of the NBR 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 NBR 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. RSF disbursements are excluded from both the foreign assets and the foreign liabilities side.

Adjustors

- The floor on NFA will be adjusted downward by the amount of any shortfall between actual and programmed budgetary loans (excluding RSF disbursements) and grants per Table 1a of the PS.
- The floor on NFA will be adjusted downward by the amount of unexpected public expenditures on cereal imports in the case of a food emergency and/or on fertilizer imports in the case of significant fertilizer import price increases.

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 (considering 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.[3]

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);

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

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 Rwandan 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, 2023, is cumulative from January 1, 2023. The ceiling for June 30, 2024, and December 31, 2024, are cumulative from January 1, 2024. This quantitative target does not apply to:

- Normal import-related commercial debts having a maturity of less than one year;
- Rescheduling agreements;
- 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
- 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) based on 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[4] 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

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

(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.

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 3.34 percent. The spread of six-month Euro LIBOR over six-month USD LIBOR is -150 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -350 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -250 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -150 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. The program reference rate and spreads will remain fixed for the duration of the program. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

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 quantitative target 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. 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.

Monetary Policy Consultation Clause (MPCC)

20. Definition. MPCC headline inflation is defined as the year-on-year rate of change in the monthly Consumer Price Index (CPI), averaged for the past 3-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 the target band value for end-December 2023, end-June 2024, and end-December 2024 as specified in Table 1a in the PS, the authorities will conduct discussions with the Fund staff.
- If the observed headline inflation falls outside the ±4 percentage point range around mid-point of the target band value for end-December 2023 , end-June 2024 and end-December 2024 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.

Memorandum Items and Data Reporting Requirements

21. 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.

22. 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 Rwanda's National Strategy for Transformation (NST-1). 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.

23. Detailed data on domestic revenues will be transmitted monthly. 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.

24. 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.

25. 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 with respect to continuous QTs. The authorities will furnish a description of program performance for the QTs as well as reform targets within 8 weeks of a test date. The authorities commit 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 and reverse repo operations, and foreign exchange markets, sales of foreign currencies by NBR to commercial banks and other foreign currency interventions by NBR.	D	W	W
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	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 NBR[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 NBR.
[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 NBR 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).

Attachment III. Monetary Policy Consultation Statement with the IMF Executive Board

1. To better achieve its primary objective of low and stable inflation (i.e., to maintain inflation within a benchmark band of 5±3 percent), the NBR adopted a forward-looking price-based monetary policy framework in January 2019, using the interest rate as an operating target. With the continued positive development in financial sector, the improvement in the NBR's liquidity forecasting and management, and the continued enhancement of analytical and research capacities, the monetary policy transmission mechanism has been improving, despite the challenges faced in recent years due to the COVID-19, the Russia-Ukraine war, and domestic supply shocks.

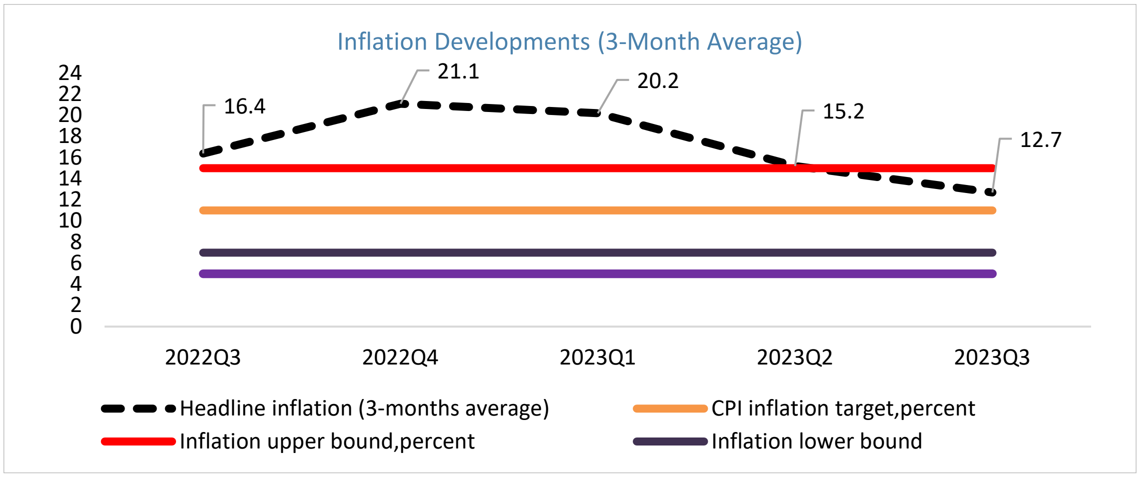
2. In line with the above shocks, the Monetary Policy Consultation Clause (MPCC) target was temporarily raised relative to the NBR's inflation target band of 5±3 percent. Under the MPCC, the CPI inflation target, measured as an average over the past three months, was set at 11.0 ±4 percent for end-June 2023 and 6.0 ±4 percent for end-December 2023, and not meeting the target would trigger formal consultation with the Executive Board.

3. In August and November 2022, NBR staff projected that headline inflation would decelerate from 2022Q4 and fall below the MPCC target band by end-June 2023. While the staff expected an increase in international commodity prices, food inflation was expected to decrease at the beginning of 2023 due to the anticipated normalization of agricultural production and contribute to bring down the headline inflation.

Table 1. Rwanda: Inflation Projections

	August 2022 MPC	November 2022 MPC	February 2023 MPC	May 2023 MPC
2022Q3	14.8			
2022Q4	16.0	19.1		
2023Q1	13.5	17.8	19.5	
2023Q2	8.8	14.1	15.6	15.7
2023Q3	6.6	11.1	12.2	12.1
2023Q4	4.6	7.8	7.1	7.1
2024Q1	3.2	4.9	4.9	4.5
2024Q2	2.5	2.9	3.3	3.8
2024Q3		1.7	2.3	3.4
2024Q4			1.9	3.2
2025Q1				3.1

Figure 1. Rwanda: Inflation Developments, Near-Term Projections, and MPCC/IMF Band



4. **The three-month average inflation in June 2023 stood at 15.2 percent, marginally above the MPCC upper bound.** The acceleration in the 3-month average CPI inflation above the MPCC upper bound (hence the breaching of the MPCC target) was a result of the unanticipated persistence of inflationary pressures in domestic and imported food prices. Domestic food inflation accelerated from 29.2 percent in July 2022 to 50.1 percent in December 2022. This large increase originated mainly from the weak performance of agricultural production as a result of unfavorable weather conditions. The May 2023 floods, which took away the lives of people, also affected the agriculture sector as it affected agricultural products that were at the stage of growing and harvesting. Hence pressures on food inflation materialized, leading to an increase in the 3-month average. In addition, imported food inflation picked up from 26.9 percent in July 2022 to 27.9 in December 2022, following the rising trend in international prices, mainly for cereals, sugar, and rice. The three-months-average CPI inflation rose from 16.4 percent in 2022Q3 to 21.1 percent in 2022Q4, before reducing to 15.2 percent in 2023Q2.

5. **The NBR has significantly tightened its monetary policy stance to curb supply-side inflationary pressures and contain second-round effects.** Specifically, the central bank rate (CBR) was raised to 6.0 percent in August 2022 from 5.0 percent, then to 6.5 percent in November 2022, 7.0 percent in February 2023, and 7.5 percent in August 2023. In addition, the NBR also increased the reserve requirement ratio from 4.0 percent to its pre-COVID level of 5.0 percent, effective since January 2023. This was expected to build on the positive effects of previous policy actions, especially the tightening of monetary policy since February 2022.

6. **Headline and core inflation have been progressively declining in recent months.** Structurally, headline inflation in Rwanda is driven by prices for fresh foodstuffs, dominated by vegetables. With the tightened monetary policy of NBR, measures taken by the Government to ensure timely distribution of agricultural inputs and actively looking for other alternative sources for the needed food imports, as well as favorable trends in international commodity prices; headline inflation declined from 21.7 percent in November 2022 to 13.7 percent in June 2023. Decreasing

core inflation since 2022Q3 reflects the effect of the NBR's monetary policy tightening, which helped contain second-round effects. It is also important to note that NBR's projections of core inflation have been quite accurate, while projections of food inflation have generally been less precise due to unexpected weather-related challenges.

Figure 2. Rwanda: Inflation Developments in FY 2022/23

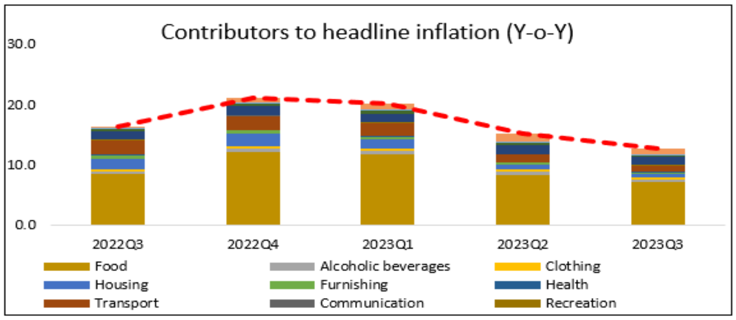


Figure 3. Rwanda: Correlation Between Food Crop Production, Food, Vegetables, and Headline Inflation

(Y-o-Y, Percent)

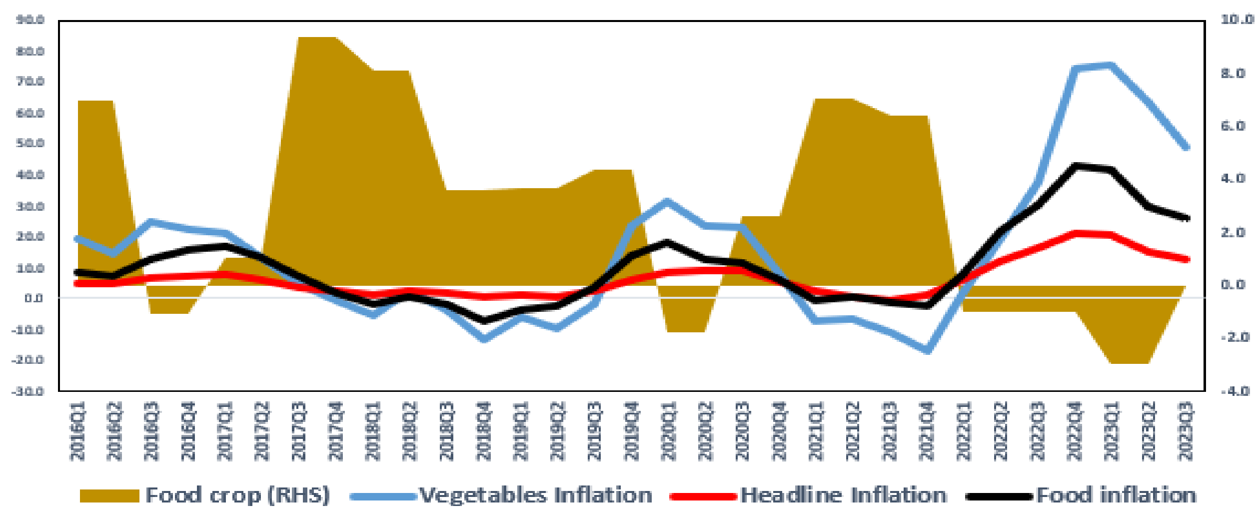
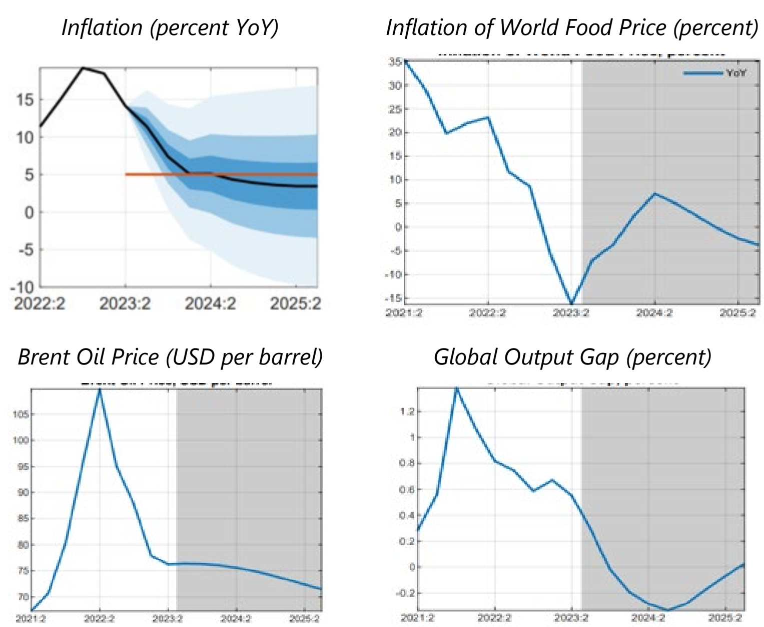


Table 2. Rwanda: Inflation Developments
(Percent, Y-o-Y)

Period	Headline Inflation	Core Inflation (excluding fresh food products and energy)	Food and Non-Alcoholic Beverages Inflation	Fresh Foods Inflation
2022Q3	16.4	12.9	30.3	29.7
2022Q4	21.1	14.9	43.1	48.1
2023Q1	20.2	13.9	41.6	48.9
2023Q2	15.2	9.7	29.3	40.4
2023Q3	12.7	8.4	25.7	31.6

7. **The NBR remains committed to take additional actions to steer inflation towards its target.** As a result of the cumulative tightening and other actions by the Government, current projections suggest that headline inflation is expected to continue its declining trend towards the NBR-targeted 5±3 percent band next year. However, the main risks to the inflation outlook remain, such as weather-related challenges, geopolitical tensions, and reduced oil supply by OPEC and Saudi Arabia. Thus, the NBR is committed to continue monitoring global and domestic economic developments and stands ready to take appropriate actions to ensure that inflation remains within the benchmark band.

Figure 4. Inflation Forecasts and Assumptions
(August 2023)



[1/] These projections are based on external assumptions that were prepared prior to recent oil price increase.

INTERNATIONAL MONETARY FUND

RWANDA

November 29, 2023

STAFF REPORT FOR THE SECOND REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-JUNE 2023 QUANTITATIVE TARGETS, AND REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR WAIVERS OF NON-OBSERVANCE OF QUANTIATIVE TARGETS, REQUEST FOR A STAND-BY CREDIT FACILITY ARRANGEMENT, AND THE 2023 ARTICLE IV CONSULTATION—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 end-October 2023, the exchange rate against the US dollar was RWF 1230. Based on the 2022 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.

Safeguards Assessment: The last safeguards assessment, concluded in January 2022 found a well-established governance and control framework with audit and reporting practices aligned with international standards. The NBR is making progress on the report's recommendation and has updated its investment policy to align with the definition of reserves as per e-GDDS,

thereby eliminating holdings of instruments issued by domestic issuers (i.e., Rwanda Eurobonds) as part of official foreign reserves. The NBR has further amended its credit policy to limit the amount of foreign currency denominated securities issued by domestic entities that can be held by the central bank. In May 2023, the Memorandum of Understanding (MoU) between the NBR and the government was signed to formalize the existing practice on credit to government, including enforcement mechanisms on limits. A new SCF related MoU between the NBR and the government will be signed shortly to clarify their respective responsibilities for servicing the related obligations to the Fund for the budget support portion of the disbursement. An update safeguards assessment is in progress and expected to be completed by the time of the first SCF review.

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 constant 2017 prices for both GDP by production and expenditure 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.

Data sources include selected volumes indicators, monthly VAT turnover, government expenditures. However, agriculture surveys to collect production volumes are not regularly conducted to supplement the data sources for agriculture activities.

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 (household and non-profit institutions serving households) 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.

Current CPI weights are based on expenditure data collected during the 2013-2014 Integrated Household Living Conditions Survey (EICV-4). These data are out of date and no longer representative of current expenditure patterns. There is urgent need to update CPI weights. The more recent EICV-5 was conducted from October 2016 to October 2017. These data have been available since December 2018 and should be used to update CPI as soon as possible.

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 completed automation of the Integrated Financial Management System (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 and internet banking, mobile money and the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs). Rwanda doesn't report gender-disaggregated data.

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, 8 encouraged indicators for deposit takers and 17 additional FSIs for other sectors.

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. However, the response rate needs to improve.

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

The inconsistencies between macroeconomic statistics datasets identified during the 2020 TA mission, have been resolved.

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 2024.	No Data ROSC is available.

Table of Common Indicators Required for Surveillance, [Month, Day], 2023

	Date of Latest Observation	Date Received	Frequency of Data [7/]	Frequency of Reporting [7/]	Frequency of Publication [7/]
Exchange Rate	9/23/23	10/23/23	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1/]	10/31/23	11/04/23	M	M	M
Reserve/Base Money	12/8/23	11/04/23	M	M	M
Broad Money	9/30/23	11/17/23	M	M	M
Central Bank Balance Sheet	10/31/2023	11/04/2023	M	M	M
Consolidated Balance Sheet of the Banking System	09/30/23	11/17/2023	M	M	M
Interest Rates [2/]	09/30/203	10/23/23	M	M	M
Consumer Price Index	10/31/2023	11/11/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [3/]—General Government[4/]	9/30/23	11/15/23	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing [3/]—Central Government	9/30/23	11/15/23	Q	Q	Q
Stocks of Central Government and Central Government—Guaranteed Debt [5/]	Q2-2023	11/15/23	Q	Q	Q

External Current Account Balance	Q2-2023	10/6/23	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	Q2-2023	10/12/23	Q, A	Q, A	Q, A
Gross External Debt	Q2-2021	11/4/21	Q	Q	Q
International Investment Position [6/]	Q2-2023	10/17/23	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

November 29, 2023

SECOND REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-DECEMBER 2023 QUANTITATIVE TARGETS, REQUEST FOR REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR A STAND-BY CREDIT FACILITY ARRANGEMENT, AND THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By

Catherine Pattillo and Martin Čihák (IMF), Manuela Francisco and Hassan Zaman (IDA)

The Debt Sustainability Analysis was prepared jointly by the staff of the International Monetary Fund and the International Development Association.

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

The updated Bank/Fund debt sustainability analysis (DSA) for Rwanda continues to indicate a moderate risk of external and overall public debt distress. The current debt-carrying capacity is consistent with a classification of 'strong'.[2] *The PV of external debt-to-GDP ratio and of external debt-to-export ratio remain below their indicative thresholds under the baseline scenario and several shock scenarios, though the PV of debt-to-GDP ratio breaches the threshold under the most extreme shock scenario and the historical scenario. The PV of overall PPG debt temporarily breaches the threshold under the most severe scenario. The baseline scenario is based on the macroeconomic projections presented in the accompanying staff report for the SCF request and PCI/RSF second review. Rwanda's financing strategy assumes continued support from bilateral and multilateral development partners over the medium term, with highly concessional loans for new external borrowing under IDA20 and an increasing share of domestic financing in the*

[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.

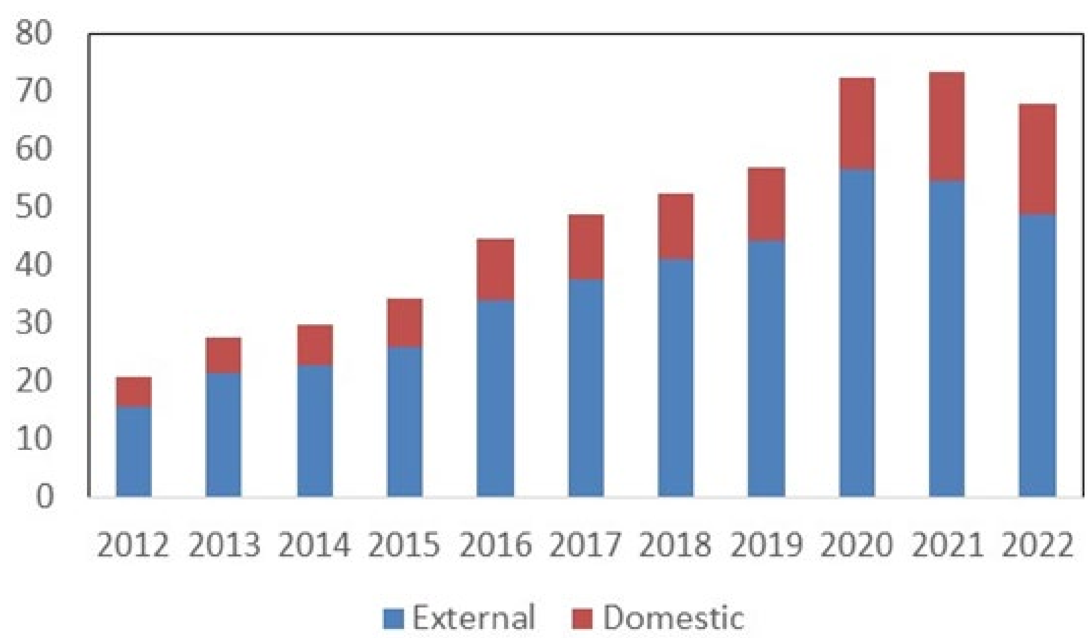
[2] Rwanda has a debt carrying capacity indicator score of 3.18. This implies a classification of strong debt carrying capacity, which is the same classification as under the previous DSA.

long term. Compared to the previous assessment, this DSA incorporates a 14-month SCF with an access level of 125 percent of quota (SDR 200.25 million),partners over the medium term, with highly concessional loans for new external borrowing under IDA20 and an increasing share of domestic financing in the long term. Compared to the previous assessment, this DSA incorporates a 14-month SCF with an access level of 125 percent of quota (SDR 200.25 million), emergency financing from the World Bank totaling US$ 85 million, and rephased RSF disbursements. Key risks include a decline in concessional financing, U.S. monetary policy tightening and U.S. dollar appreciation, and terms-of-trade shocks. Rwanda remains susceptible to adverse market conditions and climate shocks.

BACKGROUND

1. **Rwanda's public and publicly-guaranteed (PPG) external debt-to-GDP ratio increased by 33.1 percentage points over the last decade, driven by loans to meet the development needs envisaged in the National Strategy for Transformation (NST), but also to respond to the fallout from the COVID-19 pandemic.** The development needs are supported by a comprehensive public investment strategy, including three large projects to support trade and tourism through a series of public-private partnerships and external guarantees outside the budgetary central government (construction of the Kigali Convention Center completed in 2016, the expansion of the national airline RwandAir, and the ongoing construction of the Bugesera airport). These developments contributed to an increase in PPG external debt by 21.8 percentage points in the five years preceding the COVID-19 shock. 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 a sharp debt increase by an additional 12.1 percentage points in 2020, followed by 1.9 percentage points decline in 2021. As a result, external PPG debt has risen from 15.6 percent of GDP in 2012 to 48.9 percent in 2022 (Text Figure 1). Total PPG debt stood at 68 percent of GDP at end-2022, 5.4 percentage points (pp) lower than in 2021 on the back of favorable price and exchange rate dynamics. Interest rates on domestic T-bills and T-bonds currently range from 8.3 percent (28 days) to 13.2 percent (20 years).

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



Sources: Rwandan authorities and IMF Staff Calculations.

Text Table 1. Rwanda: Decomposition of Public and Publicly-Guaranteed Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ mn)	*(Percent total debt)*	*(Percent GDP)* [5]	*(In US$ mn)*			*(Percent GDP)*		
Total	8,648.1	100.0	67.5	796.5	1,232.5	528.6	6.0	8.9	3.8
External	6,193.6	71.6	48.3	181.3	271.4	226.0	1.4	2.0	1.6
Multilateral creditors[2]	4,633.6	53.6	36.2	85.5	129.5	143.5	0.6	0.9	1.0
IMF	451.1	5.2	3.5	1.0	36.8	36.7	0.0	0.3	0.3
World Bank	2,698.1	31.2	21.1	49.8	58.1	70.4	0.4	0.4	0.5
ADB/AfDB/IADB	1,061.0	12.3	8.3	18.9	18.6	20.6	0.1	0.1	0.1
Other Multilaterals	423.4	4.9	3.3	15.8	16.0	15.8	0.1	0.1	0.1
o/w: IFAD	183.2	2.1	1.4	5.2	5.4	5.8	0.0	0.0	0.0
BADEA	80.7	0.9	0.6	0.1	0.1	0.1	0.0	0.0	0.0
Bilateral Creditors	836.4	9.7	6.5	36.2	31.5	37.1	0.3	0.2	0.3
Paris Club	287.8	3.3	2.2	0.3	0.1	0.1	0.0	0.0	0.0
o/w: JICA	142.3	1.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0
AFD	117.4	1.4	0.9	0.2	0.1	0.1	0.0	0.0	0.0
Non-Paris Club	548.6	6.3	4.3	36.0	31.4	37.1	0.3	0.2	0.3
o/w: EXIM-CHINA	334.0	3.9	2.6	16.9	16.2	21.3	0.1	0.1	0.2
SFD	76.0	0.9	0.6	4.3	4.1	4.3	0.0	0.0	0.0
Bonds	680.6	7.9	5.3	38.1	95.8	33.6	0.3	0.7	0.2
Commercial creditors	43.1	0.5	0.3	21.4	14.6	11.8	0.2	0.1	0.1
o/w: Trade Development Bank	39.6	0.5	0.3	14.1	12.3	11.7	0.1	0.1	0.1
o/w: EDC	2.2	0.0	0.0	9.1	2.2	0.0	0.1	0.0	0.0
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2,454.5	28.4	19.2	615.2	961.2	302.5	4.6	6.9	2.2
Held by residents, total	2,454.5	28.4	19.2	615.2	961.2	302.5	4.6	6.9	2.2
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	425.8	4.9	3.3	438.9	414.7	0.0	3.3	3.0	0.0
Bonds	1,219.8	14.1	9.5	99.4	214.9	206.4	0.7	1.6	1.5
Loans	808.8	9.4	6.3	76.9	331.6	96.1	0.6	2.4	0.7
Memo items:									
Collateralized debt[3]	0.0	0.0	0.0	...	...	...	...	...	...
Contingent liabilities[4]	0.0	0.0	0.0	...	...	...	...	...	...
Nominal GDP (US$ million)	...	...	...	13,309	13,846	13,657	...	...	...

[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]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.

[4]Guaranteed debt is included in public debt.

[5]Data is reported by the authorities based on calculations in national currency, deviates from U.S. dollar-based calculations due to the difference between end-of-period exchange rate (applied for nominator) and period-average exchange rate (applied for denominator).

Sources: Rwandan authorities and IMF Staff Calculations.

Public Debt Coverage

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 domestic and

external debt held by all state-owned enterprises (SOEs).[3] 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 also covered but the existing stock to date is marginal,[4] and its contracting is subject to approval by MINECOFIN. The contingent liabilities shock (6.5 percent of GDP) accounts for potential fiscal costs associated with a theoretical banking crisis, as well as fiscal risks of existing public-private partnerships (PPPs). All SOE guaranteed and non-guaranteed debt is included in the baseline.

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, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
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	0	SOE debt is covered in PPG debt
4	PPP 2/	35 percent of PPP stock	1.5	default, i.e. 35 percent of PPP stock
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)		6.5	

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.
3/ Based on project value

UNDERLYING ASSUMPTIONS

3. The macroeconomic assumptions underlying the baseline scenario reflect recent economic developments and policies (Text Table 3). The recent devastating floods amplified the underlying imbalances, while the reconstruction costs are projected to be substantial. Based on the authorities' assessment conducted with the support of the World Bank, the reconstruction cost could go up to US$451 million (3 percent of GDP) over the next five years to address the emergency outlays and rebuild climate resilient infrastructures. Compared to the previous DSA, the outturn for 2022 growth was much better than anticipated (8.2 percent vs. 6.8 percent).

- *Growth:* Growth is expected to soften to 6.2 percent and 6.6 percent in 2023 and 2024,[5] respectively, remaining broadly unchanged relative to the first PCI/RSF review in May 2023 as the negative impact of the floods is expected to be offset by the activity boost from reconstruction. Over the medium term, growth projections remain unchanged and economic

[3] Operational leases on RwandAir (SOE) aircrafts and existing public-private partnerships (power purchase agreements, water purchase agreements, etc.) are not part of the PPG debt.

[4] Local government debt stood at RWF 2.4 bn or 0.02 percent GDP at end-2022.

[5] As 2023 and 2024 growth projections reflect potential second round effects of the recent floods, the estimate is different from GDP growth rate in the World Bank MPO (Oct 2023).

activity is expected to be buoyed by private sector-led economic diversification, the pickup in construction of the new airport and the subsequent boost to the services sector. Private consumption and investment are the main growth drivers in the medium term as fiscal consolidation proceeds. Although headline inflation is expected to decline to 6.0 percent in 2024, this forecast is higher than the first review and previous DSA forecast of 5.0 percent, reflecting easing food inflation but elevated core inflation due to continued exchange rate depreciation passthrough. Over the long term (Box 1), growth from the supply-side is expected to be supported by a dynamic service sector, gradual industrialization, and continued significant contributions from agriculture for some period. On the demand side, robust and steady private consumption and investment will support the rebalancing of the economy from public sector-led towards private sector-led growth.

- *Fiscal:* The fiscal consolidation path envisaged in the previous DSA is now more backloaded to accommodate for reconstruction spending in the near term. Given the urgent need for reconstruction from the floods and the limited scope for reprioritization of expenditures in the short-term, a moderate fiscal loosening is warranted to allow for reconstruction efforts. Despite this relaxation, the fiscal impulse in FY23/24 remains sharply negative compared to FY22/23. In the medium term, fiscal policy will be geared towards maintaining fiscal and external sustainability: further domestic revenue mobilization and spending rationalization efforts are expected. These include revenue measures focused on the application of VAT to IT equipment and mobile phones, an increase in the fuel levy, increases in excises and revenue administration through FY25/26, with more comprehensive revenue strategies expected thereafter. In parallel, the authorities' spending rationalization strategy underpinning the medium-term fiscal consolidation path is expected as part of the FY24/25 Budget Framework Paper. Further implementation of the Organic Budget Law, including institutionalizing fiscal risk management practices, as well as PIMA recommendations, including the annual publication of a pipeline of appraised major projects and project selection criteria, will further uphold expenditure efficiency.[6] Overall, the projections continue to assume strong fiscal policy consolidation to accelerate public debt convergence to the anchor.

- *External:* The current account improved in 2022, reflecting a temporary reduction in capital imports, tourism recovery, and strong remittances, but the deficit is projected to widen in 2023 due to the adverse impact of poor agricultural seasons on food imports and flood-related reconstruction efforts. The revised policy-mix underpinning the SCF assumes greater real effective exchange rate depreciation.[7] Over the medium term, the trade balance and current account deficit is projected to gradually improve and close the gap with the

[6] As part of the FY23/24 Policy Performance Actions (PPA) under IDA's sustainable Development Finance Policy (SDFP), the World Bank is supporting authorities with the publication of the pipeline of appraised projects, including project costs and selection criteria of new major projects. Under the same framework, the World Bank supported the approval of the organic law on public finance management, institutionalizing fiscal risk management practices in FY21/22 PPAs.

[7] Exchange rate depreciation is expected to have a greater net effect on import prices, contributing partially to a decline in USD GDP deflator over 2023-24. Higher overall price levels have pushed up deflator levels in both years.

current account norm (see External Sector Assessment), underpinned by further real effective exchange rate adjustment and higher domestic savings from fiscal consolidation efforts.

Text Table 3. Rwanda: Key Macroeconomic and Debt Assumptions—Comparison with the Previous Debt Sustainability Analysis

Calendar year	2022	2023	2028	2033	2038	2042	2029-42
	Actual			Projections			
Selected indicators from the macro-framework and debt data							
(Percent, unless otherwise indicated)							
	PV of PPG External Debt to GDP Ratio						
2022 DSA (PCI-RSF Request)	33.6	35.8	39.2	34.0	27.2	23.4	30.6
2023 DSA (current)	31.2	37.9	37.5	31.4	25.5	21.1	28.4
	PV of Public Debt to GDP Ratio						
2022 DSA (PCI-RSF Request)	52.7	55.0	49.2	47.0	49.8	52.8	48.7
2023 DSA (current)	50.5	54.6	45.3	44.4	46.0	47.8	45.4
	Grant Element of New External Borrowing						
2022 DSA (PCI-RSF Request)	47.9	30.6	39.9	37.0	34.7	32.8	34.4
2023 DSA (current)	39.6	32.8	41.6	36.9	35.3	33.6	35.9
	Real GDP Growth (annual percent change)						
2022 DSA (PCI-RSF Request)	6.8	6.2	7.3	7.0	6.6	6.5	6.8
2023 DSA (current)	8.2	6.2	7.3	7.0	6.6	6.5	6.8
	Current Account Balance (percent of GDP)						
2022 DSA (PCI-RSF Request)	-10.5	-12.4	-9.9	-10.0	-9.2	-8.6	-9.6
2023 DSA (current)	-9.8	-11.5	-7.7	-8.7	-7.9	-6.9	-8.0
	Exports of goods and services (percent of GDP)						
2022 DSA (PCI-RSF Request)	24.1	25.0	25.6	24.6	24.9	26.0	25.0
2023 DSA (current)	26.2	28.8	32.1	29.3	28.4	29.0	29.3
	Fiscal balance (percent of GDP)						
2022 DSA (PCI-RSF Request)	-8.0	-7.4	-2.9	-4.4	-3.8	-3.8	-3.7
2023 DSA (current)	-7.3	-6.2	-3.3	-4.0	-3.8	-3.8	-3.8
	CPI, period average (percent)						
2022 DSA (PCI-RSF Request)	12.6	7.9	5.0	5.0	5.0	5.0	5.0
2023 DSA (current)	13.9	14.5	5.0	5.0	5.0	5.0	5.0

1/ Previous full DSA was completed in November 2022.
Sources: Rwandan authorities; IMF and World Bank staff estimates and projections.

4. **Rwanda's financing strategy assumes continued support from bilateral and multilateral development partners over the medium term (Table 5).** Besides financing from the World Bank and the IMF, the projection assumes disbursements of external financing from the African Development Bank and several other multilateral and official bilateral partners. In the context of fiscal consolidation and negotiated new external resources, the share of domestic financing is projected to remain low until 2030 and pick up

thereafter.[8] The share of market-based external financing is also projected to increase starting 2030, although very slowly. Under the IDA20 financing terms, the volume of loans is projected to increase given the shift from 50-50 grant-loan financing under IDA19 to 100 percent loans, hence, the fiscal deficit and the nominal debt will increase as well, but given the higher concessional terms of IDA20 loans, the expected impact on the present value of debt is marginal.[9] IDA financing signed after 2024 is assumed to be in the form of 100 percent credit on regular IDA terms.

5. **The DSA also takes into account the proposal for a 14-month SCF-supported program with the access level of 125 percent of quota (SDR 200.25 million).[10]** The SCF-supported program will help the authorities maintain macroeconomic and external stability in the face of the recent agricultural and flood-related shock. Financial assistance under the SCF, coupled by a recalibration of the policy mix, is projected to support the rebuilding of external buffers. This additional provision of concessional external financing in place of more expensive domestic financing will also improve underlying public debt dynamics.

6. **Realism tools indicate that the planned fiscal adjustment is ambitious (Figure 4).** A 3-year fiscal consolidation in the primary balance is expected to peak at 4.3 percentage points of GDP from 2024 to 2027. Such adjustment lies in the top quartile of the distribution of past adjustments for a sample of low-income countries (LICs), signaling that the envisaged fiscal adjustment in the baseline scenario is ambitious based on past experiences in LICs. The adjustment reflects the domestic revenue mobilization and spending rationalization measures expected to be implemented during the period covered under the PCI approved in 2022 and the proposed SCF.

7. **In the past, PPG debt dynamics have been strongly affected by the materialization of fiscal risks (Figure 3).** Changes in total public debt over the past five years have been driven by higher-than-anticipated primary deficits due to the pandemic response and unanticipated developments of the debt outside the budgetary central government, leading to a higher-than-expected debt accumulation of about 20 percentage points of GDP—well in excess of the 75 percent quartile of other LICs. The ongoing efforts to mitigate unanticipated fiscal developments outside the central government, supported by IMF TA, remain a key pillar of the PCI. Going forward, the evolution of public debt will continue to be dominated by the path of the primary fiscal deficit, real GDP growth, real effective exchange rate adjustment, and the availability of concessional financing.

[8] The domestic market has increased in its capacity to provide financing, from about 60bn Rwf to 300bn Rwf annually in recent years, and with longer bond maturities. Main creditors are domestic banks and pension funds. Though the government still turns to domestic financing as a residual following lower-cost external financing, strategies to reduce the cost of domestic borrowing include re-openings of previously issued longer-term bonds with lower rates than prevailing market rates, while longer-term borrowing helps lower domestic portfolio re-financing risks. The recent successful launch of the Sustainability Linked Bond by the Development Bank of Rwanda, with support from the World Bank, will also contribute to capital market development.

[9] 50-year loans under IDA20 have grant element of about 74 percent, while 50-50 grant-loan financing that prevailed under IDA19 has grant element of about 77 percent. With 3 percentage points difference, if cumulative disbursements under IDA20 reach 3.2 percent GDP, the effect on PV of external debt would increase by about 0.1 percent GDP.

[10] The RSF loan has a 20-year maturity with 10 ½ year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate.

Box 1. Rwanda: Long-term macroeconomic assumptions 1/

Growth. According to World Bank analysis, long term growth projections of 6.5-7 percent are driven by four broad group of fundamentals: investment (public and private), human capital, total factor productivity (TFP) and demographics. The baseline assumptions for each growth driver are designed to capture a plausible path for the variable if present trends continue, taking into account both Rwanda's own history, as well as reasonable values among other peer countries. Given the government's strong historical record on implementing reforms, the baseline also includes "typical" levels of reforms that might be achieved by a typical country in Rwanda's situation. Thus, the baseline assumes that TFP growth in the long run is 1.8 percent, which is between the averages 2000-19 and 2000-14 averages. The productivity projection is based on assumption of continued increase in FDI and trade openness. The baseline also assumes the government will continue its reform efforts to improve human capital indicators. To calculate this human capital path, the analysis identifies 12 countries that in 1980 had the same years of schooling of 20-24 year olds as Rwanda in 2020 (6.5 years ± 0.5 years) – Rwanda's "schooling peers" – and then trace out the gains in education of the schooling peers over the next 10 years. In terms of investments, the baseline assumption is that investment continues at 28 percent of GDP for the whole projection period. While this represents a slowing of the increase in the 2000s, and a less optimistic assumption than in Rwanda's Vision 2050 document, sustaining investment at or above 30 percent of GDP is very difficult among peer countries or even among growth miracle economies. Finally, the population growth is projected to slow from around 2.3 percent currently to about 1.4 percent over the next 30 years, as Rwanda goes through a "demographic transition" with lower fertility rates. Other things equal, the around1ppt slowdown in population growth will slow GDP growth by around half a percentage point in the medium term but boost GDP per capita slightly.

Exports. There is potential for Rwandan exports to increase substantially in medium to long term. First, regional integration via AfCFTA presents an enormous opportunity to boost exports in coming years. To capture this benefit, Rwanda has been a leader driving negotiations of a series of protocols to the AfCFTA Treaty with clear, ambitious, and enforceable rules and disciplines, adopting legislative changes, and building implementation and enforcement capacity. Second, Rwanda has achieved considerable growth in exports of minerals and metals (minerals exports increased more than 10 times from 2010 to 2020), and further growth is expected with recent investments in the sector. Rwanda's low labor cost could help achieve further increases in exports of textiles and clothing, supported by investments made in recent years. The potential for increasing services exports also is significant. Rwanda has revealed comparative advantage indices of greater than one for government goods and services, construction, travel and transport services. Construction companies in Rwanda have the skills required to operate in other regional countries, for example in building and operating power plants. Rwanda's booming tourism sector have already recovered from the decline during the pandemic and is expected continue its expansion, as the country maintains a strong focus on the MICE strategy.

1/ Based on World Bank analysis from the ongoing Rwanda Country Economic Memorandum

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

8. **Rwanda's debt-carrying capacity continues to be assessed as "strong", unchanged from the previous DSA (Text Tables 4a and 4b).** The composite index (CI) for Rwanda, which measures the debt-carrying capacity in the new LIC-DSF, stands at 3.18, based on macroeconomic data from the October 2023 WEO and from the 2022 Country Policy and Institutional Assessment (CPIA) of the World Bank. This score is above the cut-off value of 3.05 for strong capacity countries.

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	4.06	1.56	49%
Real growth rate (in percent)	2.72	6.84	0.19	6%
Import coverage of reserves (in percent)	4.05	39.25	1.59	50%
Import coverage of reserves^2 (in percent)	-3.99	15.40	-0.61	-19%
Remittances (in percent)	2.02	3.14	0.06	2%
World economic growth (in percent)	13.52	2.89	0.39	12%
CI Score			3.18	100%
CI rating			Strong	

New framework	Cut-off values		
Weak	CI ≤	2.69	
Medium	2.69	< CI ≤	3.05
Strong	CI >	3.05	

Text Table 4b. Rwanda: Applicable Thresholds and Benchmarks

Reference: Thresholds by Classiciation

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

9. **Rwanda's gross financing needs remain significant, but liquidity risks should be manageable (Figure 5).** Market-financing stress tests were applied to Rwanda. Risk indicators from the stress test show that the country has significant gross financing needs (GFNs) and its spread has increased following the recent rise of sovereign spreads globally. However, both GFNs and spreads are below their relevant thresholds.

DEBT SUSTAINABILITY ANALYSIS

External Debt

10. **External debt indicators under the baseline remain below their respective thresholds but some breaches would occur under the most extreme shocks (Tables 1 and 3; Figure 1).** Solvency indicators, PV of external debt-to-GDP ratio and of external debt-to-export ratio, remain below their indicative thresholds under the baseline scenario and several shock scenarios. However, the PV of external

debt-to-GDP ratio would breach the threshold under the most extreme shock scenario in 2026, and in 2030 under the historical scenario. Liquidity indicators show that liquidity risks are remote, as the authorities' debt management strategy to smooth out the debt servicing profile helped to mitigate the liquidity risks. The debt service-to-exports and debt service-to-revenue ratios remain below their thresholds until 2030 under the baseline and all stress tests applied, but prudent debt management strategy would be needed to mitigate the risks associated with the repayment of the existing Eurobond in 2031.

11. The PV of external debt-to-GDP ratio increases steadily under the historical scenario since the latter assumes large external shock and imbalance reflecting averages of several large shocks and imbalances observed in the past (Table 3 and Figure 1). 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 (commodity prices and drought) and large external imbalances corrected over 2015–17. Thus, policy adjustment to ensure a steady narrowing of the current account deficit, as envisaged under the baseline scenario (Text Table 2), is key to strengthen robustness of the debt dynamics.

Public Debt

12. Under the baseline scenario, the PPG debt is expected to return to the program debt anchor under the PCI of 65 percent of GDP by 2031, supported by a large, but growth-friendly fiscal consolidation and strong economic activity (Table 2). The nominal PPG debt is projected to peak at 78 percent GDP in 2024 then gradually converge to the debt anchor of 65 percent GDP by 2031.[11] The present value (PV) of PPG debt is projected to decline and achieve the East African Community debt convergence criterion of 50 percent by 2026. These dynamics would require a cumulative reduction in the primary fiscal deficit by 4.3 percentage points of GDP between 2024 and 2026.

13. Contingent on the projected growth trajectory and ambitious fiscal consolidation, the PV of PPG debt stays well below the indicative benchmark of 70 percent of GDP but would nearly reach the benchmark under the growth shock scenario in 2033 and temporarily breach it under the extreme natural disaster shock scenario in 2024 (Tables 2 and 4; Figure 2). In the baseline scenario, the PV of PPG debt peaks at 54.6 percent in 2024 and declines to below 50 percent in 2027. The PV of PPG debt in the growth shock scenario would reach 69 percent in 2033, just below the 70 percent threshold. In the most severe scenario—the natural disaster shock—the PV of PPG debt crosses the 70 percent threshold briefly in 2024 before falling back below it the following year as it steadily declines. The authorities climate-related reform measures, including under the RSF, and priorities in climate-related investment should help reduce variability to climate shocks and strengthen resilience. While liquidity risks are muted in the baseline, reflecting a smooth debt service path achieved by the Eurobond issuance, debt service costs would remain elevated under the severe growth and extreme natural disaster shocks.[12]

[11] For discussion of the debt anchor see Country Report No. 2021/1 and the accompanying staff report for new PCI and RSF request (EBM/22).

[12] The natural disaster stress test was informed by the once-in-100-years flooding scenario discussed in the World Bank's (2022) Country Climate and Development Report and significantly more severe by recent flooding events in the second quarter of 2023. Damages are assumed to reach 11.2 percent of the physical capital, requiring

(continued)

ASSESSMENT

14. Rwanda's debt is assessed to be sustainable with a moderate risk of external and public debt distress. Mechanical ratings suggest a moderate risk of external debt distress with some space to absorb shocks, as well as a moderate risk of overall debt distress, as debt indicators breach some of their respective thresholds under the most extreme standard shock scenarios. Given this assessment of moderate risk of debt distress, the limit on the stock of new external PPG debt will continue to be monitored under the PCI and the new SCF.

15. Against a background of a volatile and challenging external environment, risks to the debt outlook and sustainability could elevate should the situation deteriorate further. The macroeconomic framework which underpins this DSA reflects currently available information. The baseline scenario assumes Rwanda continues to achieve robust growth over the medium term, while concessional financing is expected to decline only gradually in the long term. As the situation evolves, including with respect to the war in Ukraine, commodity prices, foreign inflation and growth, the debt risk assessment might change.

Authorities' Views

16. The authorities broadly agree with the results of the DSA and the overall assessment of a moderate risk of external and overall debt distress. The authorities' debt management strategy continues to be based on maximizing external concessional financing to minimize debt servicing pressures, remaining committed to revenue and spending measures agreed under the PCI and underpinning the medium-term fiscal consolidation path, and bringing debt to the anchor of 65 percent of GDP. Their extension of maturities in domestic borrowing and re-openings of longer-term bonds have helped lower domestic portfolio re-financing risks and reduce the cost of new domestic borrowing. They recognize potential fiscal risks stemming from PPAs and WPAs and continue to strengthen their capacity to manage such risks, including through coverage in the fiscal risk statement. The authorities also highlighted that the IMF-World Bank Debt Sustainability Framework for Low Income Countries would benefit from better incorporating new and evolving climate financing instruments and improved adaptation to climate chocks resulting from climate investments.

17.9 percent of GDP in external financing to be replaced (with capital-to-GDP estimation at 1.6 based on the perpetual inventory method). GDP and exports would each be expected to decline by 4.4 percent.

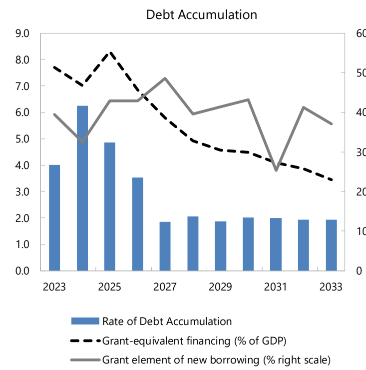
Table 1. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2022–43

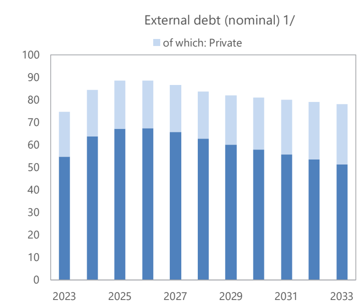
(In percent of GDP, Unless Otherwise Indicated)

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**68.1**	**74.5**	**84.2**	**88.4**	**88.5**	**86.6**	**83.6**	**78.1**	**69.3**	**53.2**	**82.3**
of which: public and publicly guaranteed (PPG)	**48.9**	**54.7**	**63.6**	**67.1**	**67.4**	**65.6**	**62.7**	**51.4**	**32.2**	**38.7**	**59.9**
Change in external debt	-8.5	6.5	9.7	4.1	0.2	-1.9	-3.0	-0.9	-1.4		
Identified net debt-creating flows	**-6.2**	**4.4**	**3.0**	**0.0**	**-0.5**	**-1.4**	**-1.8**	**-0.7**	**-2.4**	**5.4**	**-0.2**
Non-interest current account deficit	**8.8**	**10.2**	**10.1**	**8.2**	**7.9**	**7.0**	**5.7**	**6.8**	**4.4**	**10.0**	**7.4**
Deficit in balance of goods and services	14.9	14.9	14.6	14.6	13.3	11.3	10.0	9.4	6.2	**15.4**	**11.4**
Exports	22.5	26.2	28.8	31.5	31.6	32.7	33.2	29.7	29.0		
Imports	37.4	41.2	43.4	46.0	44.8	44.0	43.2	39.1	35.2		
Net current transfers (negative = inflow)	-7.4	-6.4	-6.2	-7.9	-6.9	-6.0	-6.0	-5.0	-3.6	**-6.8**	**-6.1**
of which: official	-6.3	-5.7	-4.9	-5.8	-5.1	-4.2	-4.1	-2.8	-1.6		
Other current account flows (negative = net inflow)	1.3	1.6	1.7	1.5	1.5	1.6	1.8	2.4	1.8	**1.4**	**2.1**
Net FDI (negative = inflow)	**-3.0**	**-3.0**	**-3.8**	**-4.5**	**-4.6**	**-4.5**	**-3.7**	**-4.4**	**-4.9**	**-2.7**	**-4.2**
Endogenous debt dynamics 2/	**-12.0**	**-2.8**	**-3.3**	**-3.7**	**-3.9**	**-3.9**	**-3.8**	**-3.1**	**-2.0**		
Contribution from nominal interest rate	1.0	1.3	1.8	2.0	2.1	2.1	2.0	1.9	2.3		
Contribution from real GDP growth	-5.2	-4.1	-5.0	-5.7	-6.0	-6.0	-5.8	-5.1	-4.2		
Contribution from price and exchange rate changes	-7.8	...	...	...	...	...	...	...	...		
Residual 3/	**-2.4**	**2.0**	**6.7**	**4.1**	**0.7**	**-0.6**	**-1.2**	**-0.2**	**1.0**	**-0.6**	**1.1**
of which: exceptional financing /9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**28.4**	**31.2**	**37.9**	**41.5**	**41.9**	**40.6**	**39.2**	**32.7**	**21.2**		
PV of PPG external debt-to-exports ratio	**126.4**	**118.8**	**131.8**	**131.9**	**132.9**	**124.2**	**118.1**	**110.1**	**73.0**		
PPG debt service-to-exports ratio	**7.3**	**8.3**	**5.5**	**6.3**	**7.7**	**8.9**	**8.6**	**7.5**	**7.0**		
PPG debt service-to-revenue ratio	**9.0**	**12.2**	**8.8**	**10.3**	**12.2**	**14.2**	**13.7**	**10.0**	**8.1**		
Gross external financing need (Billion of U.S. dollars)	1.3	1.7	1.5	1.2	1.3	1.4	1.4	2.5	5.7		
Key macroeconomic assumptions											
Real GDP growth (in percent)	8.2	6.2	6.6	7.0	7.3	7.3	7.3	7.0	6.5	**6.3**	**7.0**
GDP deflator in US dollar terms (change in percent)	11.3	-2.1	-7.5	-3.6	0.1	0.6	1.4	2.0	2.0	**-0.4**	**-0.1**
Effective interest rate (percent) 4/	1.5	2.0	2.3	2.5	2.6	2.5	2.5	2.7	3.5	**2.9**	**2.5**
Growth of exports of G&S (US dollar terms, in percent)	41.9	21.3	8.3	12.7	7.7	11.7	10.4	7.3	9.3	**11.2**	**9.7**
Growth of imports of G&S (US dollar terms, in percent)	28.0	14.5	4.0	9.4	4.6	5.9	6.8	6.8	8.2	**8.0**	**7.3**
Grant element of new public sector borrowing (in percent)	...	39.4	32.6	42.9	43.0	48.5	39.7	37.1	33.3	**...**	**39.5**
Government revenues (excluding grants, in percent of GDP)	18.1	17.9	18.2	19.3	19.8	20.5	20.8	22.3	25.0	**12.6**	**20.5**
Aid flows (in Billion of US dollars) 5/	0.8	1.3	1.0	1.4	1.2	1.1	1.0	1.1	1.7		
Grant-equivalent financing (in percent of GDP) 6/	...	7.7	7.0	8.3	6.9	5.8	4.9	3.5	2.2	**...**	**5.6**
Grant-equivalent financing (in percent of external financing) 6/	...	63.8	52.7	63.8	65.4	69.6	64.2	59.6	53.2	**...**	**61.0**
Nominal GDP (Billion of US dollars)	13	14	14	14	15	16	18	28	64		
Nominal dollar GDP growth	20.4	4.0	-1.4	3.2	7.4	7.9	8.7	9.1	8.6	**5.8**	**6.9**
Memorandum items:											
PV of external debt 7/	47.6	51.0	58.6	62.8	63.1	61.6	60.1	59.4	58.2		
In percent of exports	211.7	194.2	203.4	199.5	199.9	188.5	181.1	199.9	200.7		
Total external debt service-to-exports ratio	17.1	17.7	15.8	15.9	17.4	18.5	18.2	22.4	32.1		
PV of PPG external debt (in Billion of US dollars)	3.8	4.3	5.2	5.8	6.3	6.6	7.0	9.0	13.5		
(PVt-PVt-1)/GDPt-1 (in percent)		4.0	6.3	4.9	3.5	1.8	2.1	1.9	1.1		
Non-interest current account deficit that stabilizes debt ratio	17.4	3.8	0.4	4.1	7.8	8.9	8.7	7.7	5.8		

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.

9/ Grant for debt relief under CCRT

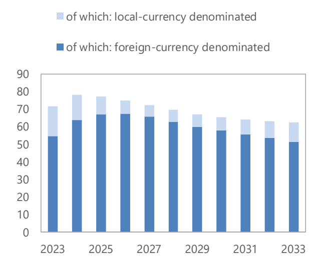
Table 2. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–43

(In percent of GDP, Unless Otherwise Indicated)

	Actual	Projections								Average 6/	
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2033**	**2043**	**Historical**	**Projections**
Public sector debt 1/	**68.0**	**71.6**	**78.0**	**77.2**	**74.8**	**72.3**	**69.5**	**62.4**	**58.7**	**50.8**	**69.6**
of which: external debt	**48.9**	**54.7**	**63.6**	**67.1**	**67.4**	**65.6**	**62.7**	**51.4**	**32.2**	**38.7**	**59.9**
Change in public sector debt	-5.4	3.6	6.4	-0.7	-2.4	-2.6	-2.8	-0.8	0.1		
Identified debt-creating flows	**-4.9**	**3.1**	**5.6**	**-1.2**	**-2.8**	**-2.9**	**-2.8**	**-0.8**	**0.1**	**0.4**	**-0.7**
Primary deficit	**5.4**	**3.9**	**5.3**	**1.7**	**1.0**	**1.0**	**1.9**	**3.0**	**2.3**	**2.4**	**2.6**
Revenue and grants	23.9	22.8	22.1	24.0	24.0	23.9	23.9	24.3	26.2	**18.1**	**23.7**
of which: grants	5.8	4.8	4.0	4.8	4.1	3.4	3.1	2.1	1.2		
Primary (noninterest) expenditure	29.4	26.7	27.4	25.8	25.0	25.0	25.8	27.3	28.5	**20.5**	**26.3**
Automatic debt dynamics	**-10.3**	**-0.8**	**0.5**	**-2.8**	**-3.7**	**-3.8**	**-4.6**	**-3.7**	**-2.2**		
Contribution from interest rate/growth differential	-6.9	-4.7	-3.7	-3.8	-4.8	-4.5	-4.5	-3.8	-2.2		
of which: contribution from average real interest rate	-1.3	-0.7	0.8	1.2	0.5	0.6	0.4	0.4	1.4		
of which: contribution from real GDP growth	-5.5	-4.0	-4.5	-5.1	-5.3	-5.1	-4.9	-4.1	-3.6		
Contribution from real exchange rate depreciation	-3.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**-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	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0		
Residual	**-0.5**	**4.3**	**5.0**	**1.5**	**1.5**	**1.0**	**-0.1**	**0.0**	**0.0**	**4.4**	**1.2**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**48.7**	**50.5**	**54.6**	**52.7**	**50.3**	**48.1**	**46.6**	**44.2**	**47.9**		
PV of public debt-to-revenue and grants ratio	**203.5**	**221.8**	**246.8**	**219.2**	**210.0**	**201.1**	**194.9**	**181.7**	**182.8**		
Debt service-to-revenue and grants ratio 3/	**38.6**	**40.1**	**35.7**	**31.3**	**23.7**	**21.1**	**22.4**	**31.9**	**46.4**		
Gross financing need 4/	14.7	13.0	13.0	9.1	6.5	6.0	7.1	10.7	14.5		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	8.2	6.2	6.6	7.0	7.3	7.3	7.3	7.0	6.5	**6.3**	**7.0**
Average nominal interest rate on external debt (in percent)	1.6	1.3	1.5	1.8	1.8	1.8	1.7	1.6	1.8	**2.1**	**1.6**
Average real interest rate on domestic debt (in percent)	-6.7	-0.9	5.9	7.7	7.7	7.8	7.5	6.3	6.1	**2.1**	**6.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.9	...	...	...	...	...	...	...	...	**2.3**	**...**
Inflation rate (GDP deflator, in percent)	16.0	10.4	6.2	5.0	5.0	5.0	5.0	5.0	5.0	**4.8**	**5.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	53.5	-3.5	9.7	0.6	3.9	7.3	10.7	7.6	7.0	**13.8**	**6.4**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	10.8	0.3	-1.1	2.5	3.4	3.6	4.7	3.8	2.2	**-0.1**	**3.1**
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.

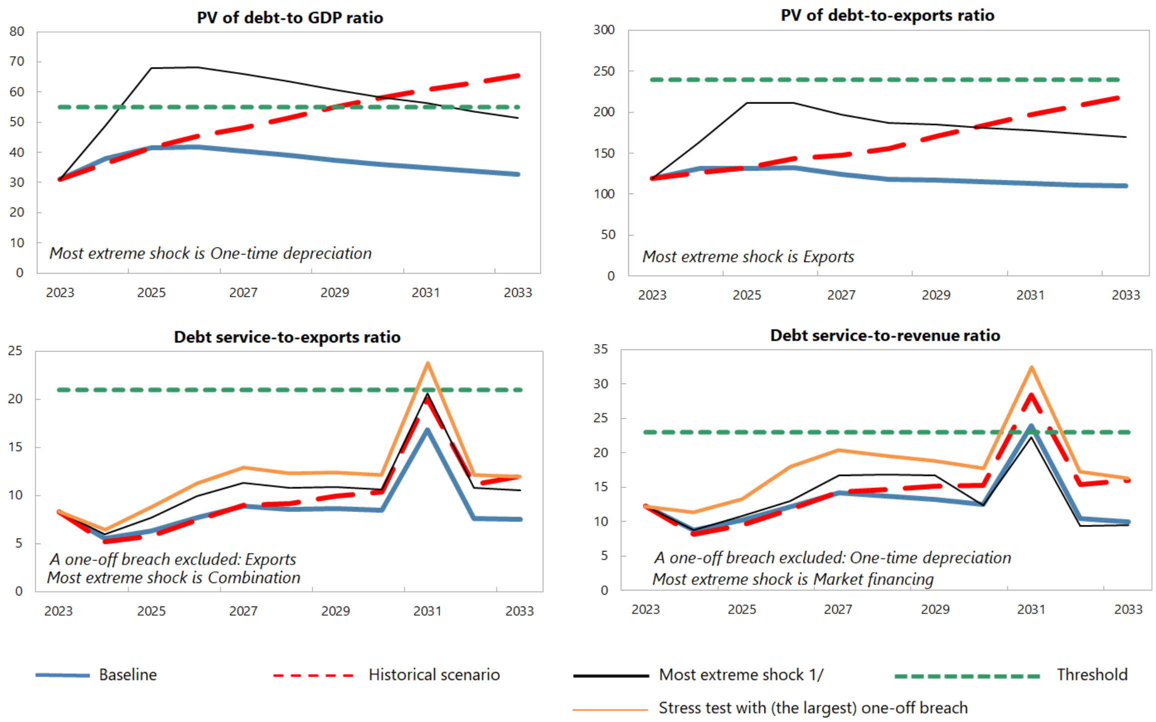
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2023–33 1/ 2/



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	Yes
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	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6

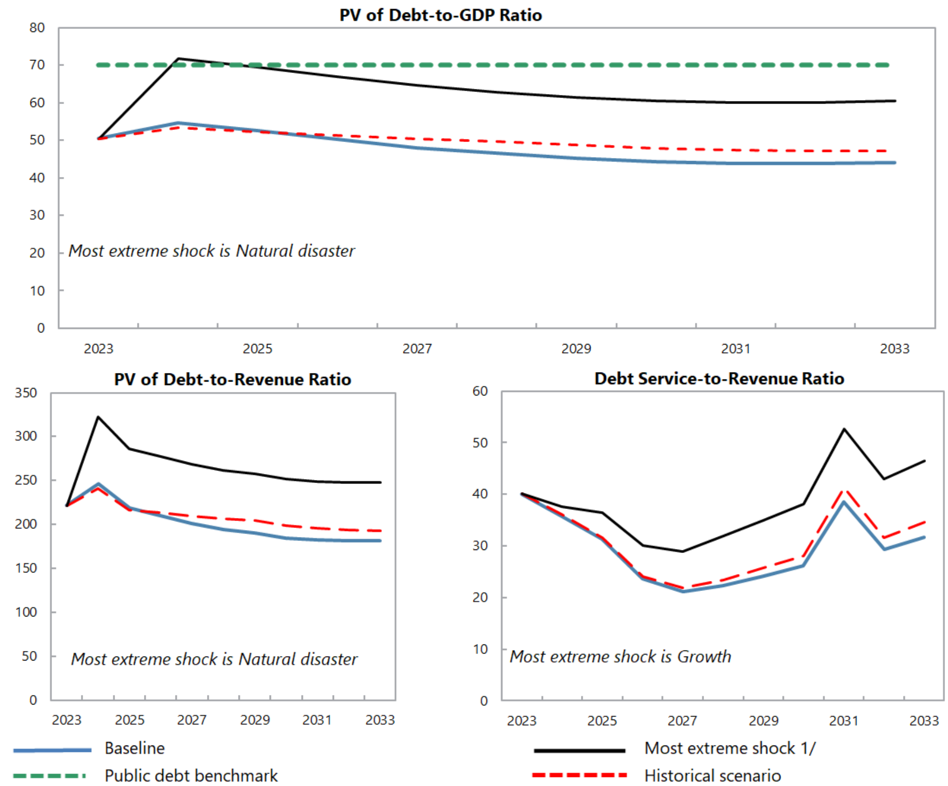
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2033. 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, 2023–33 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	63%	63%
Domestic medium and long-term	13%	13%
Domestic short-term	24%	24%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	8.5%	8.5%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	4%	4.0%

* 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 2033. 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, 2023–33

(In Percent)

	Projections										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	**31.2**	**37.9**	**41.4**	**41.9**	**40.5**	**39.2**	**37.5**	**36.1**	**34.9**	**33.7**	**32.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	31.2	36.4	41.5	45.4	48.2	51.5	54.9	58.0	60.7	63.0	65.3
B. Bound Tests											
B1. Real GDP growth	31.2	40.7	47.9	48.4	46.9	45.3	43.4	41.8	40.3	39.0	37.8
B2. Primary balance	31.2	38.6	43.9	44.4	43.1	41.8	40.0	38.6	37.2	36.0	34.8
B3. Exports	31.2	41.2	50.6	50.8	49.1	47.4	45.3	43.6	41.9	40.1	38.5
B4. Other flows 2/	31.2	40.0	46.1	46.4	44.9	43.3	41.4	39.9	38.4	36.9	35.5
B6. One-time 30 percent nominal depreciation	31.2	49.1	68.0	68.1	65.9	63.5	60.7	58.4	56.2	53.7	51.4
B6. Combination of B1-B5	31.2	42.8	55.4	55.6	53.8	51.9	49.7	47.8	45.9	43.9	42.1
C. Tailored Tests											
C1. Combined contingent liabilities	31.2	40.8	45.0	45.6	44.5	43.1	41.3	39.9	38.5	37.2	36.0
C2. Natural disaster	31.2	47.8	53.9	55.1	54.8	53.8	52.3	51.0	49.8	48.7	47.7
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	31.2	42.8	47.0	47.7	46.2	44.5	42.3	40.7	39.4	38.1	36.9
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**118.8**	**131.6**	**131.8**	**132.7**	**124.0**	**117.9**	**116.9**	**114.6**	**113.1**	**111.5**	**109.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	118.8	126.4	132.1	143.9	147.5	155.1	171.1	183.8	196.8	208.4	219.7
B. Bound Tests											
B1. Real GDP growth	118.8	131.6	131.8	132.7	124.0	117.9	116.9	114.6	113.1	111.5	109.9
B2. Primary balance	118.8	134.0	139.5	140.8	131.9	125.8	124.8	122.4	120.8	118.9	117.0
B3. Exports	118.8	163.6	210.9	211.0	197.1	187.1	185.2	181.3	178.1	173.9	169.8
B4. Other flows 2/	118.8	138.9	146.5	147.0	137.3	130.5	129.2	126.5	124.5	122.0	119.6
B6. One-time 30 percent nominal depreciation	118.8	131.6	167.0	166.8	155.7	147.8	146.3	143.1	140.9	137.2	133.5
B6. Combination of B1-B5	118.8	152.8	161.6	185.7	173.5	164.8	163.1	159.7	156.9	153.1	149.3
C. Tailored Tests											
C1. Combined contingent liabilities	118.8	141.6	143.1	144.4	136.0	129.8	128.8	126.4	124.8	123.0	121.1
C2. Natural disaster	118.8	165.8	171.2	174.4	167.5	162.0	162.8	161.6	161.4	160.9	160.2
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	118.8	131.9	132.5	134.0	125.2	118.7	116.9	114.4	113.1	111.7	110.1
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**8.3**	**5.5**	**6.3**	**7.7**	**8.9**	**8.6**	**8.6**	**8.5**	**16.9**	**7.6**	**7.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	8.3	5.2	5.8	7.4	9.0	9.2	9.9	10.4	20.0	11.2	12.0
B. Bound Tests											
B1. Real GDP growth	8.3	5.5	6.3	7.7	8.9	8.6	8.6	8.5	16.9	7.6	7.5
B2. Primary balance	8.3	5.5	6.5	8.1	9.3	8.9	9.0	8.8	17.3	8.1	8.0
B3. Exports	8.3	6.4	8.8	11.3	12.9	12.3	12.4	12.1	23.7	12.2	11.9
B4. Other flows 2/	8.3	5.5	6.5	8.1	9.3	8.9	9.0	8.8	17.5	8.4	8.3
B6. One-time 30 percent nominal depreciation	8.3	5.5	6.3	8.7	9.9	9.5	9.5	9.3	17.7	9.7	9.5
B6. Combination of B1-B5	8.3	5.9	7.7	9.9	11.3	10.8	10.9	10.6	20.7	10.8	10.6
C. Tailored Tests											
C1. Combined contingent liabilities	8.3	5.5	6.6	8.0	9.3	8.9	9.0	8.8	17.2	7.9	7.8
C2. Natural disaster	8.3	5.8	7.4	9.0	10.3	10.0	10.2	10.0	18.8	9.1	9.0
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	8.3	5.5	6.6	8.2	10.5	10.5	10.9	8.4	15.7	6.8	7.1
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**12.2**	**8.8**	**10.3**	**12.2**	**14.2**	**13.7**	**13.2**	**12.4**	**23.9**	**10.4**	**10.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	12.2	8.2	9.5	11.8	14.4	14.6	15.1	15.2	28.4	15.3	16.0
B. Bound Tests											
B1. Real GDP growth	12.2	9.4	11.9	14.1	16.4	15.8	15.3	14.4	27.6	12.0	11.6
B2. Primary balance	12.2	8.8	10.6	12.8	14.8	14.2	13.7	12.9	24.5	11.1	10.7
B3. Exports	12.2	8.9	10.9	13.7	15.6	15.0	14.4	13.6	25.7	12.8	12.1
B4. Other flows 2/	12.2	8.8	10.6	12.9	14.9	14.3	13.8	13.0	24.8	11.6	11.1
B6. One-time 30 percent nominal depreciation	12.2	11.4	13.3	18.0	20.4	19.5	18.8	17.7	32.4	17.2	16.3
B6. Combination of B1-B5	12.2	9.2	11.9	15.0	17.1	16.4	15.7	14.8	27.8	14.1	13.4
C. Tailored Tests											
C1. Combined contingent liabilities	12.2	8.8	10.7	12.7	14.7	14.2	13.7	12.9	24.4	10.9	10.4
C2. Natural disaster	12.2	8.8	11.6	13.7	15.8	15.3	14.9	14.1	25.5	12.0	11.6
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	12.2	8.8	10.9	13.0	16.7	16.8	16.7	12.4	22.3	9.3	9.5
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.

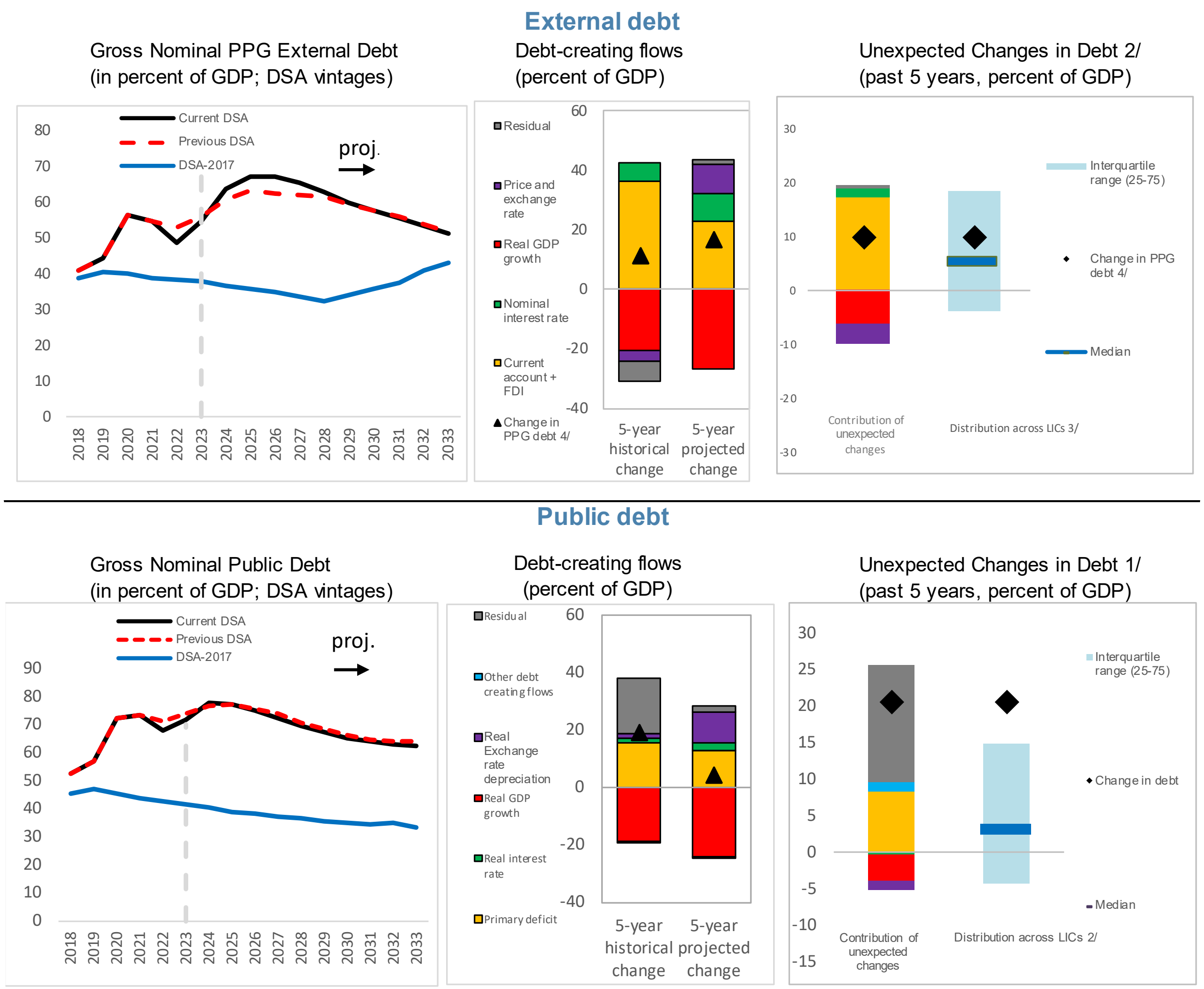
2/ Includes official and private transfers and FDI.

Table 4. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33
(In Percent)

	Projections										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	**50.5**	**54.6**	**52.6**	**50.2**	**48.1**	**46.5**	**45.3**	**44.2**	**43.9**	**43.8**	**44.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	50	53	52	51	50	50	49	48	47	47	47
B. Bound Tests											
B1. Real GDP growth	50	59	64	63	63	63	63	64	66	67	69
B2. Primary balance	50	56	56	53	51	49	48	47	46	46	46
B3. Exports	50	58	61	58	56	54	52	51	50	50	49
B4. Other flows 2/	50	57	57	55	53	51	49	48	47	47	47
B6. One-time 30 percent nominal depreciation	50	57	54	50	46	43	41	39	37	36	35
B6. Combination of B1-B5	50	54	54	52	50	49	48	47	47	47	48
C. Tailored Tests											
C1. Combined contingent liabilities	50	60	57	55	52	51	49	48	47	47	47
C2. Natural disaster	50	72	69	67	65	63	62	60	60	60	60
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	50	55	53	51	48	47	45	44	44	44	44
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**221.8**	**246.6**	**219.0**	**209.7**	**200.8**	**194.5**	**190.6**	**184.9**	**182.4**	**181.1**	**181.2**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	222	241	217	213	209	206	204	199	196	193	193
B. Bound Tests											
B1. Real GDP growth	222	265	258	257	257	258	263	264	269	274	281
B2. Primary balance	222	252	233	223	213	206	202	195	192	190	190
B3. Exports	222	260	254	244	234	226	221	213	209	205	203
B4. Other flows 2/	222	257	239	229	219	212	208	201	197	194	193
B6. One-time 30 percent nominal depreciation	222	263	227	210	195	183	174	163	155	149	146
B6. Combination of B1-B5	222	245	225	218	211	206	203	198	196	196	196
C. Tailored Tests											
C1. Combined contingent liabilities	222	270	239	229	219	212	207	200	197	195	194
C2. Natural disaster	222	322	286	277	268	261	258	252	249	247	248
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	222	247	220	211	202	196	191	185	182	181	181
Debt Service-to-Revenue Ratio											
Baseline	**40.1**	**35.7**	**31.3**	**23.6**	**21.1**	**22.4**	**24.2**	**26.2**	**38.6**	**29.3**	**31.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	40	36	32	24	22	23	26	28	41	32	35
B. Bound Tests											
B1. Real GDP growth	40	38	36	30	29	32	35	38	53	43	46
B2. Primary balance	40	36	33	26	23	24	26	27	40	30	33
B3. Exports	40	36	32	25	22	23	25	27	40	31	34
B4. Other flows 2/	40	36	32	24	22	23	25	27	39	30	33
B6. One-time 30 percent nominal depreciation	40	34	31	24	22	23	25	27	40	29	31
B6. Combination of B1-B5	40	35	32	26	24	25	27	30	42	32	35
C. Tailored Tests											
C1. Combined contingent liabilities	40	36	38	26	25	25	26	28	40	30	33
C2. Natural disaster	40	37	53	33	35	31	31	33	45	35	38
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	40	36	32	24	23	25	27	26	37	28	31

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 2017 DSA and the previous full DSA in 2022.

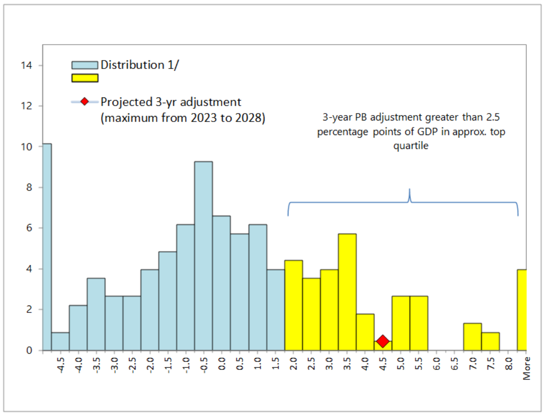
2/ Difference betw een anticipated and actual contributions on debt ratios.

3/ Distribution across LICs for w hich LIC DSAs w ere 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.

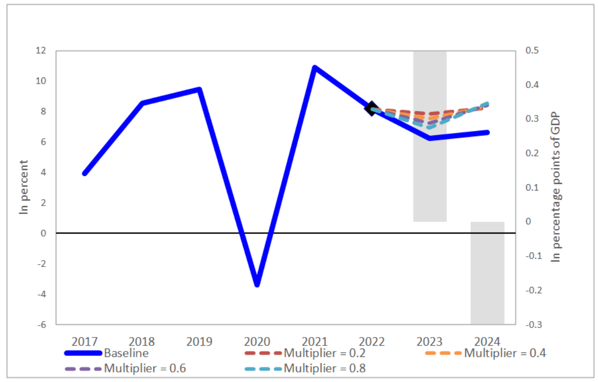
Figure 4. Rwanda: Realism Tools

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



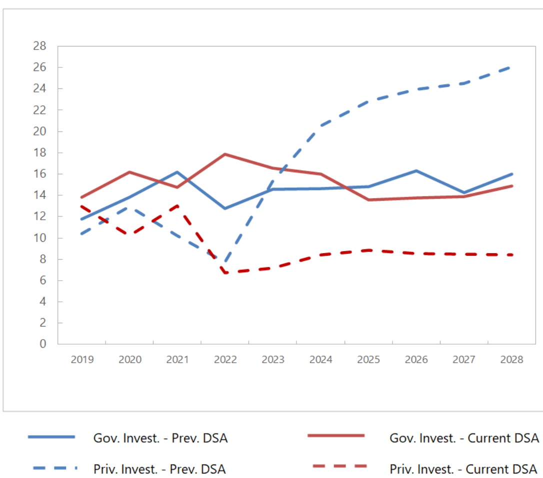
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

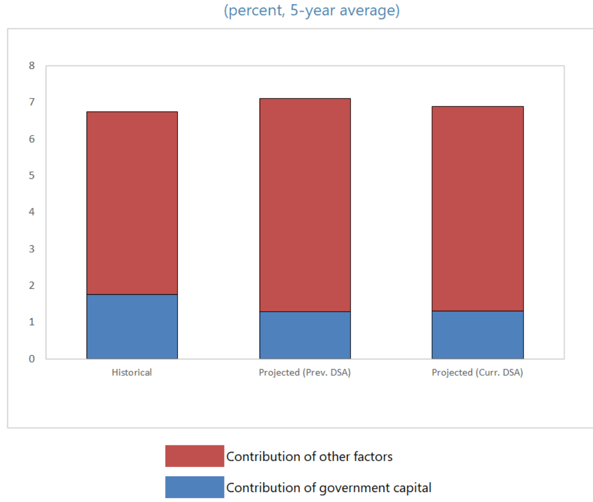


Figure 5. Rwanda: Qualification of the Moderate Category, 2023-33 [1/]

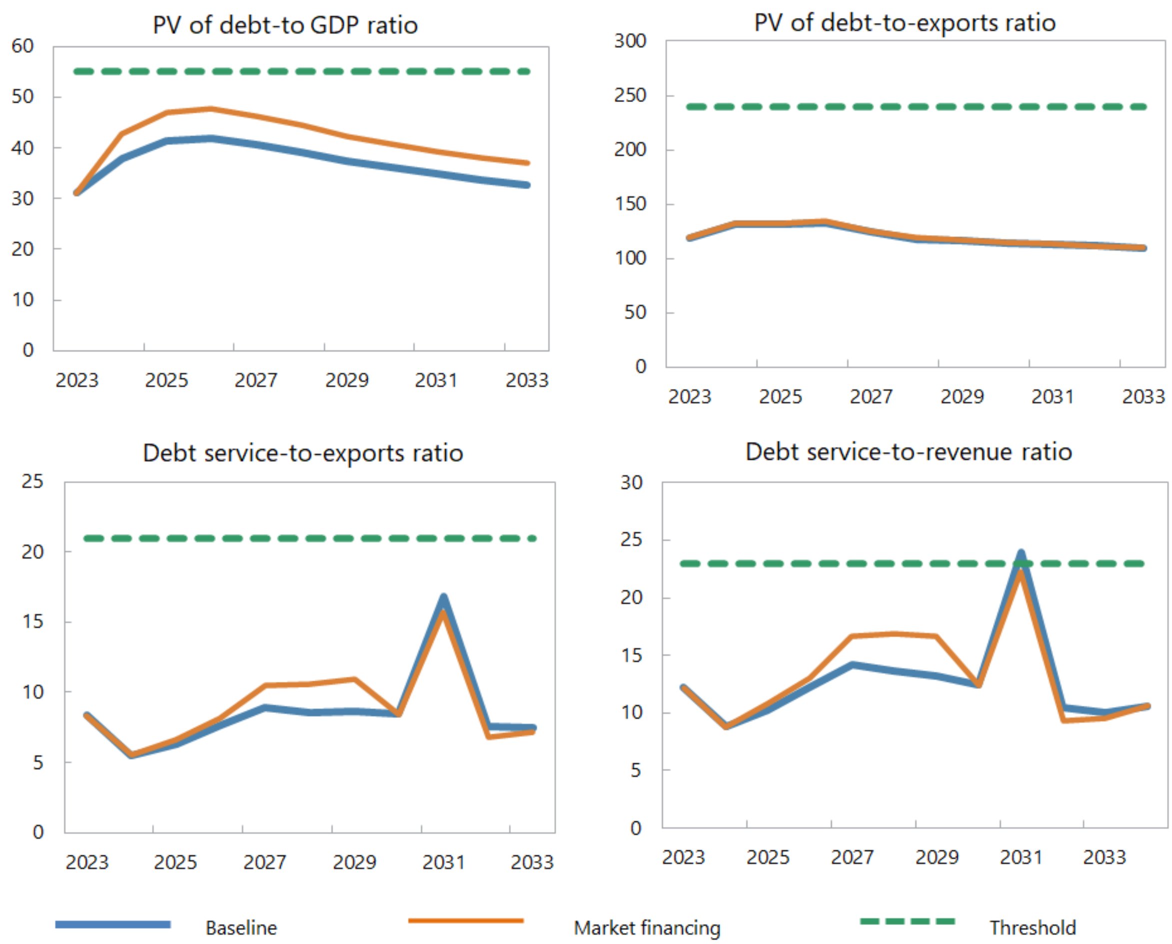
Sources: Country authorities; and staff estimates and projections.

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	13	509
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

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.

Table 5. Rwanda: Public Debt Decomposition, 2022–43

	Actual	Projections																				
Creditor profile	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Total, US$ mn	**8,174**	**9,194**	**10,034**	**10,605**	**11,080**	**11,556**	**12,151**	**12,844**	**13,671**	**14,651**	**15,745**	**16,959**	**18,285**	**19,711**	**21,275**	**22,952**	**24,779**	**26,738**	**28,896**	**31,254**	**33,962**	**36,926**
External, US$ mn	**5,720**	**7,029**	**8,185**	**9,215**	**9,979**	**10,485**	**10,964**	**11,461**	**12,093**	**12,717**	**13,360**	**13,986**	**14,553**	**15,103**	**15,677**	**16,281**	**16,921**	**17,617**	**18,359**	**18,536**	**19,393**	**20,322**
Multilateral creditors	*4,153*	*5,226*	*5,896*	*6,578*	*7,122*	*7,542*	*7,897*	*8,280*	*8,751*	*9,184*	*9,587*	*9,967*	*10,304*	*10,646*	*10,998*	*11,361*	*11,741*	*12,143*	*12,564*	*13,006*	*13,478*	*13,991*
IMF	306	514	831	790	748	697	605	522	440	379	349	344	326	298	265	232	199	167	134	101	68	41
World Bank	2,698	3,097	3,402	3,817	4,136	4,346	4,530	4,730	4,971	5,188	5,383	5,562	5,727	5,905	6,091	6,288	6,497	6,724	6,963	7,216	7,489	7,782
AfDB	1,061	1,145	1,243	1,381	1,506	1,616	1,715	1,823	1,959	2,088	2,210	2,326	2,430	2,540	2,652	2,765	2,881	2,999	3,122	3,249	3,383	3,532
Other Multilaterals	88	560	688	864	1,006	1,149	1,264	1,362	1,477	1,564	1,650	1,741	1,833	1,929	2,026	2,122	2,219	2,317	2,419	2,523	2,631	2,738
Bilateral Creditors	*836*	*982*	*1,109*	*1,308*	*1,463*	*1,662*	*1,795*	*1,931*	*2,097*	*2,248*	*2,389*	*2,524*	*2,651*	*2,785*	*2,922*	*3,067*	*3,216*	*3,378*	*3,546*	*3,726*	*3,918*	*4,120*
Paris Club	225	269	358	500	595	671	752	836	934	1,024	1,106	1,186	1,263	1,343	1,424	1,506	1,591	1,678	1,770	1,870	1,976	2,085
Non-Paris Club	611	714	751	808	868	991	1,043	1,094	1,162	1,224	1,282	1,339	1,388	1,442	1,499	1,562	1,626	1,700	1,776	1,856	1,942	2,035
Private Creditors	*731*	*821*	*1,180*	*1,328*	*1,394*	*1,281*	*1,272*	*1,250*	*1,244*	*1,286*	*1,384*	*1,495*	*1,599*	*1,673*	*1,757*	*1,852*	*1,963*	*2,096*	*2,249*	*1,803*	*1,997*	*2,212*
Bonds	681	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	620	0	0	0
Loans	50	201	560	708	774	661	652	630	624	666	764	875	979	1,053	1,137	1,232	1,343	1,476	1,629	1,803	1,997	2,212
Domestic, US$ mn	**2,454**	**2,164**	**1,849**	**1,390**	**1,101**	**1,071**	**1,187**	**1,384**	**1,578**	**1,934**	**2,385**	**2,973**	**3,732**	**4,608**	**5,598**	**6,671**	**7,858**	**9,121**	**10,537**	**12,718**	**14,568**	**16,604**
Memo items:																						
Collateralized debt (US$ million)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral and collateralized debt																						
Multilateral debt, US$ mn	**4,153**	**5,226**	**5,896**	**6,578**	**7,122**	**7,542**	**7,897**	**8,280**	**8,751**	**9,184**	**9,587**	**9,967**	**10,304**	**10,646**	**10,998**	**11,361**	**11,741**	**12,143**	**12,564**	**13,006**	**13,478**	**13,991**
percent of external debt	72.6	74.3	72.0	71.4	71.4	71.9	72.0	72.2	72.4	72.2	71.8	71.3	70.8	70.5	70.2	69.8	69.4	68.9	68.4	70.2	69.5	68.8
percent of GDP[1]	32.4	40.7	45.8	47.9	48.1	47.2	45.2	43.3	41.9	40.2	38.4	36.6	34.7	32.9	31.2	29.6	28.1	26.8	25.5	24.3	23.2	22.2
IMF and World Bank	*3,004*	*3,610*	*4,234*	*4,607*	*4,885*	*5,043*	*5,135*	*5,252*	*5,411*	*5,567*	*5,732*	*5,906*	*6,053*	*6,202*	*6,356*	*6,520*	*6,696*	*6,890*	*7,097*	*7,317*	*7,557*	*7,823*
percent of external debt	52.5	51.4	51.7	50.0	48.9	48.1	46.8	45.8	44.8	43.8	42.9	42.2	41.6	41.1	40.5	40.0	39.6	39.1	38.7	39.5	39.0	38.5
percent of GDP[1]	23.5	28.1	32.9	33.5	33.0	31.5	29.4	27.5	25.9	24.4	23.0	21.7	20.4	19.2	18.0	17.0	16.1	15.2	14.4	13.7	13.0	12.4
AfDB	*1,061*	*1,145*	*1,243*	*1,381*	*1,506*	*1,616*	*1,715*	*1,823*	*1,959*	*2,088*	*2,210*	*2,326*	*2,430*	*2,540*	*2,652*	*2,765*	*2,881*	*2,999*	*3,122*	*3,249*	*3,383*	*3,532*
percent of external debt	18.5	16.3	15.2	15.0	15.1	15.4	15.6	15.9	16.2	16.4	16.5	16.6	16.7	16.8	16.9	17.0	17.0	17.0	17.0	17.5	17.4	17.4
percent of GDP[1]	8.3	8.9	9.7	10.1	10.2	10.1	9.8	9.5	9.4	9.1	8.9	8.5	8.2	7.8	7.5	7.2	6.9	6.6	6.3	6.1	5.8	5.6
Other Multilateral	*88*	*560*	*688*	*864*	*1,006*	*1,149*	*1,264*	*1,362*	*1,477*	*1,564*	*1,650*	*1,741*	*1,833*	*1,929*	*2,026*	*2,122*	*2,219*	*2,317*	*2,419*	*2,523*	*2,631*	*2,738*
percent of external debt	1.5	8.0	8.4	9.4	10.1	11.0	11.5	11.9	12.2	12.3	12.4	12.4	12.6	12.8	12.9	13.0	13.1	13.2	13.2	13.6	13.6	13.5
percent of GDP[1]	0.7	4.4	5.3	6.3	6.8	7.2	7.2	7.1	7.1	6.8	6.6	6.4	6.2	6.0	5.7	5.5	5.3	5.1	4.9	4.7	4.5	4.3
Collateralized debt, US$ mn	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

1/ debt as percent of GDP is calculated by authorities based on debt and GDP values in RwF

RWANDA

November 29, 2023

SECOND REVIEWS UNDER THE POLICY COORDINATION INSTRUMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR THE MODIFICATION OF END-DECEMBER 2023 QUANTITATIVE TARGETS, REQUEST FOR REPHASING OF ACCESS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR A STAND-BY CREDIT FACILITY ARRANGEMENT, AND THE 2023 ARTICLE IV CONSULTATION —WORLD BANK ASSESSMENT LETTER UPDATE FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update to the RSF Assessment Letter—Rwanda (dated November 28, 2022) highlights relevant changes that have occurred since the RSF Assessment Letter issuance.

A. Country Vulnerability to Climate Change Including Human, Social, and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. **The importance of investing in measures to augment the resilience of Rwanda was recently underscored by the severe floods and landslides that were experienced in the Western, Northern and Southern Provinces of Rwanda on May 2 and 3, 2023.** The floods affected 10 of Rwanda's 30 districts, with 130 deaths reported, many more injured, 5,174 houses either destroyed or damaged, 2,510 houses needing to be evacuated, 8 national and 9 district road sections damaged by the landslides, and 26 bridges damaged by the floods. Early estimates have shown that total damage and loss is estimated to RWF 215.8 billion (US$187 million) while total recovery needs for the physical damages and economic losses are estimated at RWF 629.38 billion (US$547.29 million).

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

2. **The ongoing efforts related to government policies are relevant for climate change adaptation: The Parliament approved and gazetted the Law Governing National Parks and Reserves (Law No. 001/2023) in February 2023.** The law enables authorized private persons to manage national parks and nature reserves and convert private land to

nature reserves. This is a significant step for two reasons. First, it helps reduce the vulnerability of Rwanda's degraded landscapes to climate events, such as the flash floods in May 2023, as private sector engagement in management of parks and nature reserves will inject much needed financing and enhance capacity for landscape restoration and management. The second reason is the Law helps expand Rwanda's nature-based tourism offering, diversifying incomes in rural areas as a consequence of well managed landscapes, and building resilience in rural livelihoods.

3. **The government, under the leadership of MINECOFIN, has launched the process of developing an integrated Climate Finance Strategy designed to promote institutional coordination in scaling climate financing, as recommended by the CCDR, 2022.** The strategy will cover both private and public sector financing for climate actions and include an overview of roles and responsibilities, and a work plan. It will also define a climate finance taxonomy, a project selection process, an information system to track and monitor financing of climate and environmental protection sensitive projects, and a regulatory framework for climate-focused financial instruments, such as thematic bonds or Sustainability Linked Bonds (SBL). The objective is to align financing needs with financing instruments and mobilize private and public sector financing for adaptation and mitigation actions.

4. **Rwanda continues to be a leader in climate action, driving the regional and international agenda to promote climate change adaptation and mitigation.** In September 2023, the Rwanda delegation, led by the President, participated in the Africa Climate Summit in Nairobi, Kenya. Rwanda is one of the signatories of the Nairobi Declaration which calls for urgent action by developed nations to reduce GHG emissions and proposes a new financing mechanism to restructure Africa's debt and unlock climate finance. The declaration calls for investment to promote the sustainable use of Africa's natural assets for the continent's transition to low-carbon development and to contribute to global decarbonization.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

5. **The government of Rwanda has adopted, through a Cabinet Resolution, a National Carbon Market Framework to facilitate Rwanda's participation in carbon markets both within and outside Article 6 and in non-market approaches.** The goal is to provide a new vision and resource mobilization strategy to support a coordinated and expedited resource mobilization effort focused on the private sector. The Framework establishes a governance and institutional structure that will guide Rwanda's participation in the carbon markets. In addition, the Framework will guide the operationalization of key technical elements, such as determining specific procedures necessary to participate in carbon markets, including, among other criteria, the project cycle, requirements to ensure environmental integrity, and processes for reporting.

The Climate Finance Strategy and INTEGO (Rwanda's nationally determined contributions (NDC) Facility, for which a call for public sector proposals was issued in February 2023) will also support delivery of the government's mitigation commitments.

6. **However, limited fiscal space as well as the tightening of global financing conditions limit the government's capacity to respond to climate-related crisis.** While the country has engaged in ambitious fiscal consolidation to address the high level of public debt (projected at 74 percent of GDP in 2023), it has at the same time deployed fiscal policy measures to mitigate the effect of the ongoing cost-of-living crisis through increased subsidies allocated for fertilizers, public transportation, and school feeding programs. Another challenge to the government's ability to respond to the crisis is the tightening of global financing conditions. Along with higher commodities prices, the reduction in concessional resources led to a reduction in reserves, from 5.1 months of imports in 2021 to 4.2 months in 2022. Going forward, the effective implementation of the National Disaster Risk Reduction and Management Policy, a key recommendation from the Country Climate and Development Report (CCDR, 2022) adopted in early May, should strengthen institutional capacity to manage natural hazards. The Policy and the actions included cover fundamental disaster risk management system strengthening. The recommendations and the actions that the Policy identified to tackle mitigation and adaptation challenges are built on solid analytical underpinnings. They are in line with the Sendai Framework for Disaster Risk Reduction (SFDRR), which is a global framework for disaster risk management adopted by most countries and considered as good practice.

D. Any Other Challenges, Including Inter or Cross-Sectoral, Policy Reversals or Institutional Capacity Issues, to be Addressed to Make Progress in Tackling Climate Risks and Any Ownership/Policy Related Issues

7. **Mobilizing financing for the proposed investments in Rwanda's 2020 NDC, mentioned in the November 2022 Assessment Letter (Annex 1), remains an important challenge.** The most recent efforts to tackle this issue include, as mentioned above, the adoption by the cabinet in October 2023 of a National Carbon Market Framework and the preparation, under the World Bank Development Policy Financing operation, of a National Climate Finance Strategy. The ongoing efforts to systematically assess fiscal risks from climate change and mainstream the appraisal of climate change projects into the public investment management system, supported by the RST, are also likely to support meeting Rwanda's climate commitments.

E. WB Engagement in the Area of Climate Change

8. **The World Bank engagements mentioned in the November 2022 Assessment Letter are still ongoing.** Having supported the design and operationalization of Ireme Invest, technical assistance on climate finance continues with a focus on innovative financing instruments, which has expanded to dedicate greater attention to supporting Rwanda's ambitions in the carbon market. Through the Additional Finance–Access to Finance for Recovery and Resilience Project (AFIRR) (P179999), the World Bank and the Rwanda Development Bank (BRD) launched a Sustainability Linked Bond (SLB) to increase mobilization of private capital needed for climate and development priorities. BRD's first issuance was successfully completed in October 2023. With PROGREEN financing, the World Bank is providing technical assistance for REMA and related ministries, districts and other government agencies (MDAs) to deliver on the country's NDC commitment on landscape restoration. The Technical Assistance is supporting the formulation of a strategic government program focused on landscape management and natural

asset-based economic activities. In addition, important progress has been made in the new Private Sector Green Growth Development Policy Financing series that incorporates climate measures, through unlocking climate finance, and improved management of national parks, nature reserves and buffer zones, and the first operation is expected to be approved by the World Bank's Board in December 2023. In addition, World Bank approved financing (US$50 million IDA credit and US$12 Million Grant from the Global Partnership for Sustainable and Resilient Landscapes (PROGREEN)) for the Volcanoes Community Resilience (VCRP) Project in October 2023. The project development objective is to reduce the risk of flooding, strengthen watershed management and improve livelihoods of people in the project area. VCRP is set up to serve as a platform for the Government of Rwanda to mobilize financing for activities focused on reducing flood risks and improving livelihoods in the Volcanos region. The European Investment Bank has committed to providing US$110 million, and additional financing is expected from the Nordic Development Fund, the Climate Investment Fund, and the Global Environment Facility.

9. In addition, The World Bank approved, on November 28, the "Accelerating Sustainable and Clean Energy Access Transformation" (ASCENT) program. The program will boost access to sustainable and clean energy for 100 million people in up to 20 countries across Eastern and Southern Africa, including Rwanda, over the next seven years. The financing approved for Rwanda is US$100 million.

10. The World Bank has also continued its efforts to disseminate climate-related knowledge. In the forthcoming Country Economic Memorandum (CEM) several chapters reflect the importance of integrating climate considerations in the implementation of sector policies and investments. The CEM includes recommendations for policy reforms that can boost overall climate resilience (with a special attention to resilience of Rwanda's natural and urban landscapes) and advance the country's low-carbon transition.

Annex I. Resilience and Sustainability Facility—World Bank Assessment Letter on Rwanda

November 28, 2022

A. Country Vulnerability to Climate Change Including Human, Social, and Economic Costs

1. Rwanda is vulnerable to increasingly frequent climate-induced natural disasters as well as to rising temperatures and changing rainfall patterns. The University of Notre Dame Global Adaptation Initiative (ND-GAIN) Index, ranks Rwanda as 124th out of an 182 countries with respect to the country's vulnerability to climate change and other global challenges as well as its readiness to improve resilience.[1] Rwanda's vulnerability to climate change reflects the economy's dependence on climate sensitive sectors such as nature-based tourism, rainfed agriculture, extractives, and other weather-sensitive industries, which in 2021 accounted for an estimated 65 percent of employment, 45 percent of GDP, and 40 percent of exports.[2] The Rwanda Country Climate and Development Report (CCDR, 2022) estimates that Rwanda's annual GDP during 2022–50 could be between 0.6 and 2.6 percent lower on average, depending on the climate scenario, than in a baseline with no climate change, and that annual deviations could be 5.0-7.0 percent lower than the baseline in some years.[3] Droughts have historically had the widest reach among natural disasters, affecting as much as 12 percent of the population.[4] Rwanda, also faces floods, landslides, and rainstorms. For example, the 2018 floods caused damage to physical assets valued at Rwandan franc (RWF) 201 billion and economic losses of RWF 21 billion (2.4 percent and 0.3 percent of GDP, respectively).[5] Nearly 52 percent of the Rwandan population lives below the international poverty line. Poor households and communities have little capacity to manage climate risks, including the health risks that are likely to increase with climate change.

2. Rwanda contributes only 0.003 percent to global greenhouse gas emissions and emitted 5.34 $MtCO_2e$ in 2015. Rwanda's per capita emissions are about 0.5 tCO2e, which is around one-fifth of the regional average and just one-twelfth of the world average. Rwanda also has a relatively low emissions intensity—around 0.6 tCO2e per 1000 2015 US$ GDP. Emissions from livestock dominate the emissions profile of Rwanda. Livestock, agriculture, and land use together account for 74 percent of total emissions.

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[1] GoR. 2019c. Rwanda Rapid Post Disaster Needs Assessment (PDNA). Kigali: Republic of Rwanda as cited in World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank.

[2] World Bank Group, Rwanda Country Climate and Development Report, 2022. World Bank staff estimates using 2021 national accounts, employment, and balance of payments data from the Bank of Rwanda and the National Institute of Statistics Rwanda.

[3] World Bank Group, Rwanda Country Climate and Development Report: Technical Annex, 2022. Climate scenarios incorporate expected changes in rainfall and temperature associated with RCPs 2.6, 4.5, and 8.5 (ensemble averages) and with wetter, hotter, and drier variants of RCP8.5. Hot and dry conditions cause the largest losses.

[4] According to the data from the Emergency Events Database (EM-DAT), the 1996 drought affected 12 percent of the population.

[5] Republic of Rwanda, Ministry in Charge of Emergency Management (MINEMA), Rwanda Rapid Post Disaster Needs Assessment Final Report, January 2019.

Energy, waste sector, and industrial processes and product use (IPPU) accounts for 18 percent, 8 percent, and 1 percent of total emissions.[6]

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. **Rwanda is integrating its efforts to address climate change with development goals given its a growing rural population, high incidence of poverty, lack of universal access to basic services, and limited private sector engagement.** Food security in Rwanda lies well below the average for low-income countries, mainly due to challenges in food affordability and availability, and is further threatened by climate change. With nearly 40 percent of the population living in informal settlements, access to water and sanitation, health services, and energy is limited, and informal settlements are likely to expand as the country seeks to promote rapid urbanization. Rwanda needs to modernize agriculture, manage urbanization, promote competitive domestic enterprises, strengthen regional integration, and invest in human development.[7]

4. **Over several decades, Rwanda has progressively strengthened its climate commitments and put in place a legal, policy, and strategic framework to build resilience against climate change.** Rwanda's Vision 2050 and National Transformation Strategy 2017–24 provide the foundation by mainstreaming sustainability and resilience into productive sectors and government planning.[8] Rwanda's Nationally Determined Contributions (NDC) presents details regarding specific adaptation and mitigation actions, as well as goals and targets. The country's 2020 updated NDC presents the interventions in more detail, specifying the government institution that is responsible, the timeframe for implementation, and the estimated costs. The updated NDC includes 24 priority adaptation interventions in the water, agriculture, land and forestry, human settlements, health, transport, and mining sectors. Interventions in the agriculture sector are aimed, among others, at sustainable land-use management and climate-resilient crops, resilient livestock, and value addition facilities and technologies. Other interventions in the NDC will improve forest management, promote afforestation, and reforestation and, in the area of water management, restore wetlands, build water storage, increase efficiency of water use, and introduce conservation practices.

5. **The Ministry of Environment leads the development of climate change strategy and policies at the central government level.[9]** Local governments are responsible for the application of laws and regulations related to the protection of the environment within their jurisdiction. Rwanda's National Fund for Environment (FONERWA) has, with the Development Bank of Rwanda, mobilized significant funding for climate action, including through the Rwanda Green Investment Facility, which recently mobilized US$104 million to support the private sector in developing a climate-friendly economy.

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[6] World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank.

[7] *Ibid.*

[8] The Green Growth and Climate Resilience Strategy (2011, revised in 2021), Rwanda's Nationally Determined Contribution (NDC) (2016, updated in 2020), and the National Environment and Climate Change Policy (2019) are other core documents.

[9] Rwanda adopted in 2011 the Rwanda Green Growth and Climate resilient strategy (GGCRS).

C. Government Policies and Commitments for Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

6. Although the focus of Rwanda is on adaptation, the country is also committed to a low-carbon transition. Rwanda's 2020 NDC presents an estimated total emissions reduction potential of around 4.6 million tons of carbon dioxide equivalent ($MtCO_2e$) in 2030, or a 38 percent reduction against the projected business as usual (BAU) emissions in the same year of 12.1 $MtCO_2e$.[10] To achieve the emission reduction commitment, the government has prioritized measures in energy, industrial processes and product use, waste, and agriculture. Investments in soil conservation, composting, and animal husbandry would provide almost half of this reduction (2.2 $MtCO_2e$), as agriculture and land use are dominant sources of Rwanda's current GHG emissions.[11] In energy, the aim is to achieve 1.5 $MtCO_2e$ reduction through increased use of hydropower, efficient cook stoves, motor vehicle standards, and the use of solar power in irrigation and mini grids. In addition to these measures that reduce emissions of GHGs, Rwanda is committed to protecting forests, which remove and store carbon, further offsetting Rwanda's GHG emissions.

D. Other Challenges and Opportunities

7. Mobilizing financing for the proposed investments in Rwanda's 2020 NDC will be challenging. Although all actions in the NDC support achieving Vision 2050's development goals, the government estimates that these actions will cost approximately US$11.0 billion, of which US$4.16 billion will be unconditional (with 52 percent for adaptation and 48 percent for mitigation) and US$6.89 billion will be conditional (with 47 percent for adaptation and the rest for mitigation). To manage these costs, additional fiscal space is needed, through increased spending efficiencies (as also outlined in the forthcoming World Bank Public Expenditure Review) and spreading out of planned investments over a longer timeframe.[12] There is also a need for the private sector to share the burden of investing in climate resilience and the low-carbon transition, such as through public-private partnerships or joint management of protected areas.

8. Refinements to public investment management systems can support meeting Rwanda's climate commitments. Potential areas of action include assessing systematically fiscal risks from climate change; mainstreaming into the public investment management system the appraisal of projects' climate change and natural disaster vulnerabilities, as well as their potential contributions to reducing damages and losses from climate change; and introducing climate change-related rules into public procurement regulations.

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[10] This reduction potential includes an unconditional target of 1.9 $MtCO_2e$ plus an additional conditional reduction of 2.7 $MtCO_2e$, which would require new financing and assistance.

[11] The government estimates that agriculture accounted for 49 percent of GHG emissions in 2018, followed by energy (35 percent) and waste management (14 percent). Government of Rwanda, Rwanda's First Biennial Update Report Under the United Framework Convention on Climate Change, December 2021.

[12] World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank.

9. Developing a green finance market as part of the broader capital market development effort in Rwanda can also help mobilize financing. This will require actions by financial regulators and supervisors to implement environmental, social, and governance standards in operations of Rwanda's financial institutions as well as developing a pipeline of bankable and monitorable green projects. Introducing new financial products would also require new technical knowledge, e.g., to develop crop and livestock insurance products tailored to meet the needs of smallholders. [13]

E. World Bank Engagement

10. The World Bank has an active portfolio of financing and technical assistance that is helping Rwanda implement its climate commitments.

- ***Active operations:*** The Second Rwanda Urban Development Project (P165017) includes flood management. The Energy Access and Quality Improvement Project (P172594), Commercialization and De-Risking for Agricultural Transformation Project (P171462) contribute to addressing climate change through their focus on urban resilience, energy efficiency, and increased use of irrigation.
- ***Operations under preparation:*** The World Bank is preparing the Rwanda Urban Mobility Project (P176885), which aims to boost climate resilience in the transport sector. The Volcanoes Community Resilience Project (P178161) will reduce flood risks and improve land management through protected area expansion and landscape management. A planned new Development Policy Financing series is also expected to support policy reforms that boost climate resilience and advance the low-carbon transition.
- ***Analysis and technical assistance:*** The CCDR provides policy- and investment-related recommendations on climate change. The World Bank has been supporting the establishment of the Rwanda Green Investment Facility and will continue to support the government to mobilize climate and nature-based financing through targeted financing options (with a focus on private sector financing). The World Bank also continues to provide technical assistance on climate finance under the Green Growth and Climate Resilient Development Project (P169151).

[13] World Bank Group. 2022. Rwanda Country Climate and Development Report. International Bank for Reconstruction and Development/The World Bank.

Statement by the Executive Director, Mr. Facinet Sylla, the Alternate Executive Director, Mr. Regis O. N'Sonde, and by the Advisor of the Executive Director, Ms. Loy Nankunda

1. INTRODUCTION

Our Rwandan authorities would like to express their gratitude to the IMF Executive Board for the Fund's continued support, and to Staff for the productive discussions held in the context of the second reviews under the Policy Coordination Instrument (PCI) and the Resilience and Sustainability Facility (RSF). They are also appreciative of Management's constructive engagement and strong involvement in supporting the country's leadership on macroeconomic and climate issues. The recent Rwanda-IMF Panel held at the COP28 in Dubai helped mobilize additional resources from development partners to support the country's climate agenda. The authorities broadly share the thrust of the Staff report and welcome the insightful analyses on tax reforms, climate financing, and monetary policy in the Selected Issues Paper.

Performance has been strong under the PCI and RSF arrangements, helped by a buoyant economic rebound in 2023. Nonetheless, a series of overlapping shocks, including from the war in Ukraine, tightening of global financial conditions, destructive floods in May 2023, consecutive weak agricultural seasons, and the structural decline of external concessional financing have eroded policy buffers and adversely impacted the authorities' room for maneuver in advancing their development agenda. Looking ahead, the Rwandan authorities are committed to pursuing efforts to adjust their policy mix based on macroeconomic developments, address the external headwinds, and strengthen climate-related policies and pandemic preparedness. They will continue to build on their strong track record of reform implementation and achievements in economic transformation to further promote inclusive and resilient growth and make further inroads in poverty reduction.

In light of the additional financing needs arising from the shocks, most notably the devastating floods, the authorities request a 14-month Stand-by Credit Facility (SCF) arrangement whose resources will help finance reconstruction from the natural disaster while also strengthening reserves buffers. The PCI will continue to guide their medium-term policy action.

2. RECENT DEVELOPMENTS, PROGRAM PERFORMANCE, AND OUTLOOK

Despite climate change-related shocks, Rwanda's macroeconomic performance remained strong. Real GDP growth slowed from a robust 9.2 percent in 2023Q1 to 6.3 percent year-on-year in Q2, as a result of a general slowdown in manufacturing and services and the adverse weather shock that hurt the agriculture sector. Headline inflation dropped from a peak of 21.7 percent in November 2022 to 11.2 percent in October 2023 owing to tighter monetary policy, slowing food inflation and lower international commodity prices. However, because of two consecutive poor agricultural seasons that impacted food production and halted the downward trend in food inflation, inflationary pressures briefly reappeared in August and September of 2023. In October 2023, these pressures were muted as food inflation resumed its downward trend.

Against this backdrop, program performance remained strong both under the PCI and the RSF. The PCI Quantitative Targets for end- June 2023, including the ceiling on the net accumulation of domestic arrears and the floor on the stock of net foreign assets, were met. As for the Reform Targets, the emergency expenses related to the flood caused the missing by a negligible margin, of the debt-creating total balance. By the end of June 2023, the 3-month average headline inflation also barely slipped outside the outer bound. While the fifth PCI reform target was implemented as a prior action for this review, the other four reform targets were met on schedule. The RSF Reform Measures were also met; with the guidelines for climate-related risk management for financial institutions implemented ahead of the original timeline.

As regards the outlook, growth is expected to soften somewhat in 2023-24 on the back of continued broadly tight macroeconomic policies while inflation will continue to ease. While the current account deficit is anticipated to widen slightly in 2023 and 2024 on account of high food and reconstruction-related imports, it should subsequently lower on the back of increased domestic savings. The Rwandan authorities are committed to continuing their efforts to improve aggregates which are policy-dependent, including growth prospects, inflation developments and the current account deficit. They remain alert to take actions needed to minimize the effects of identified downside risks. Their good track record of policy implementation and adaptability is an important risk mitigating factor.

3. ECONOMIC POLICIES AND REFORMS FOR 2024 AND BEYOND

Amid the volatile external factors and the significant uncertainty related to the global geo-economic environment, the Rwandan authorities are determined to continue implementing sound policies, aided by the requested SCF, the PCI, and the RSF, to address the short- and medium-term challenges while advancing their homegrown development agenda. The 2023 Article IV consultation also helped reflect on robust fiscal and monetary policy frameworks needed to sustain economic resilience.

Fiscal Policy and Debt Management

The authorities' fiscal policy for FY 23/24 and FY 24/25 will accommodate the reconstruction from the floods, while reprioritizing spending within the existing expenditure envelope. They are committed to embarking later on tighter fiscal policy stance to preserve fiscal and debt sustainability. In this regard, they will implement ***domestic revenue mobilization*** (DRM) measures under the Medium-Term Revenue Strategy (MTRS), combined with spending rationalization measures. Key revenue administration reforms encompass continued improvements in the organizational structure of the Rwanda Revenue Authority, further strengthening the digitization of the tax system, and improving tax compliance. A successor MTRS will further emphasize increasing tax revenue, including by broadening the domestic tax base, eliminating tax holidays, streamlining tax expenditures, and curbing tax evasion. The authorities are also determined to implement reforms aimed at improving the transparency and the efficiency of public financial management and investment practices, while enhancing the management of fiscal risks.

On ***debt*,** the authorities welcome Staff Debt Sustainability Analysis' conclusion that Rwanda maintains a moderate risk of external and overall public debt distress. Going forward, they remain steadfast in implementing prudent debt management policies that prioritize concessional resources, including climate change-related financing to support Rwanda's adaptation and mitigation efforts. They will step up fiscal consolidation and debt management with the view to converging to the 65 percent debt-to-GDP anchor by 2031, backed by a credible medium-term strategy. The authorities' ultimate goal is to maintain the country at moderate risk of debt distress with sufficient buffers to absorb shocks.

Monetary and Financial Sector Policies

The National Bank of Rwanda (NBR) is committed to contain inflationary pressures. All ***monetary policy*** tools will be used to ensure that inflation returns to the NBR's target range in the medium term. Because of persistently high domestic food inflation brought on by subpar agricultural output, inflationary pressures are still above pre-pandemic levels. By the end of 2023, headline inflation is expected to drop to 9 percent, which is marginally higher than the NBR's target range of 2–8 percent. The NBR stands ready to adjust its policy stance should second round inflation effects from the natural disaster shocks and reconstruction spending prove to be more pronounced, or exchange rate depreciation result in stronger-than-expected inflation passthrough.

The ***financial sector*** soundness indicators have strengthened. The banking sector remained profitable, well capitalized, with improved credit quality and reduced NPLs in banks and microfinance institutions. However, the authorities will continue to closely monitor financial sector developments to ensure financial stability. NBR will step up its supervisory activities, including by strengthening macroprudential analysis, standards, and processes, combined with onsite inspections. The central bank will also continue to take steps to enhance financial inclusion, including through digitalization. In the same vein, the authorities are continuing their reforms regarding AML/CFT, including through the recent approval of the AML/CFT strategy to address regulatory gaps.

Structural Reforms

The Rwandan authorities are dedicated to implementing transformative reforms and policies to mitigate the pandemic scars--particularly on human capital–attract private financing to help meet the Sustainable Development Goals, and further advance their climate agenda. In line with their commitment under the RSF program to transition to a green economy, they will refrain from providing any subsidies on fuel prices going forward and, instead, will support poor and vulnerable households through other targeted measures as the need arises.

The country has sustained remarkable socio-economic progress, but development needs remain large. The country has launched a school feeding program and increased teachers' salaries in order to improve education outcomes. Implementation of reform measures under the RSF are on track and expected to be completed ahead of the initially planned timelines. The authorities will further deepen their climate-related reforms agenda.

The review of the legal framework underpinning the governance of State-Owned Enterprises (SOEs), notably the National Investment Policy, the Privatization Law, and the Privatization Policy will be pursued. Already, all key ownership principles have been reviewed and incorporated in the approved National Investment Policy.

The authorities' overall program for social economic resilience is set forth under their homegrown *Vision 2020 Umurenge* Program. The program includes a comprehensive social protection system, a social safety net of direct cash transfer, public works, skill development, productive assets transfers, financial services, and a shock-mitigation and response window with emergency cash transfers.

4. CLIMATE AGENDA AND RSF-RELATED REFORMS

Progress on the climate agenda remains very strong under the RSF as demonstrated by the implementation of all related measures, some of them completed ahead of time.

To further demonstrate their unwavering commitment to the RSF-supported climate strategy, the authorities intend to accelerate the implementation of the remaining and originally agreed measures and introduce new ones. Specifically, they request to change the availability dates and rephase two reform measures on climate budget tagging and the climate-related risk management for financial institutions from the fifth to the fourth review, and one reform measure related to disaster risk reduction and management from the fifth to the third review. Building on progress on the original RSF-supported reforms, they also propose to introduce two new reform measures on publishing individual risk analysis on SOEs and public-private partnerships (PPPs) that are vulnerable to climate change risks, and adopting a green taxonomy adapted to Rwanda's Nationally Determined Contributions (NDCs).

To facilitate a coordinated and quick financing effort centered on the private sector, a new vision and resource mobilization plan will be provided, creating the institutional framework for directing Rwanda's involvement in the carbon markets. The authorities believe that the framework will also guide the operationalization of important technical components, such as identifying the steps required to take part in carbon markets, the project cycle, environmental integrity requirements, and reporting protocols, among others.

5. CONCLUSION

The Rwandan authorities have posted a strong performance under the PCI and RSF programs amidst domestic challenges and external headwinds stemming notably from the geoeconomic fragmentation, high food and energy prices, and the financing squeeze. The post-pandemic recovery remains solid, and inflation, albeit still high, has been put on a downward path. Important progress has been made in advancing the climate agenda, thereby securing additional financing beyond the RSF's catalytic role.

Going forward, the authorities are committed to continuing their reform momentum with the view to maintaining macroeconomic stability, addressing the pandemic scars, enhancing resilience to climate change, and sustaining a strong and inclusive growth. They believe that an SCF arrangement would be the appropriate instrument at this juncture to strengthen the country's external buffers and contribute to finance the reconstruction from recent climate events.

In view of the authorities' achievements and strong commitment to the programs' objectives, we would appreciate Executive Directors' support for the completion of the second reviews under the PCI and the RSF, and for the approval of an SCF. The authorities would also welcome the completion of the 2023 Article IV consultation.