

Rwanda: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and for Extension of the Arrangement—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Rwanda

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of nonobservance of performance criteria and for extension of the arrangement with Rwanda, the following documents have been released and are included in this package:

- the staff report for the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of nonobservance of performance criteria and for extension of the arrangement, prepared by a staff team of the IMF, following discussions that ended on February 4, 2005, 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 March 25, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of April 11, 2005 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its April 11, 2005 discussion of the staff report that completed the review and requests.
- a statement by the Executive Director for Rwanda.

The documents listed below have been separately released.

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Completion Point Document
Letter of Intent sent to the IMF by the authorities of Rwanda*
Memorandum of Economic and Financial Policies by the authorities of Rwanda*
Poverty Reduction Strategy Paper Annual Progress Report
Poverty Reduction Strategy Paper Annual Progress Report—Joint Staff Advisory Note
Technical Memorandum of Understanding*
*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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RWANDA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and for Extension of the Arrangement

Prepared by the African Department
(In collaboration with other departments)

Approved by Sharmini Coorey and Mark Plant

March 25, 2005

- **Mission.** Discussions for the fourth review under the Poverty Reduction and Growth Facility (PRGF) and the HIPC completion point took place in Kigali during December 1–15, 2004, and at headquarters during January 24–February 4, 2005. The staff team headed by Ms. Kostial consisted of Messrs. Arslanalp, Bledowski, Christensen, Engström (designate resident representative) (all AFR), Calcoen (FAD), and Rother (PDR). Ms. Coorey (AFR) joined the mission on December 12–15; and Ms. Touré (PDR) on December 9–17 to prepare the debt sustainability analysis for the HIPC Completion Point document. Mr. Rutayisire (Alternate Executive Director) attended the meetings.
- **PRGF arrangement.** A three-year PRGF arrangement for SDR 4 million (5 percent of quota) was approved by the Executive Board on August 12, 2002. The second and third reviews were completed on June 9, 2004. In concluding these reviews (Country Report No. 04/270), Directors emphasized that stronger policy implementation would be essential for achieving the 2004 targets and establishing the basis for proceeding to the completion point. They also underlined the need to achieve fiscal and external debt sustainability and enhance domestic revenue mobilization. A number of Directors expressed concern regarding missed structural performance criteria and urged a more determined implementation of the reform agenda, especially in public expenditure management. During the 2004 Article IV consultation discussions on October 6, 2004, Directors emphasized the need to make progress with the implementation of the export promotion strategy. Upon completion of the fourth review, Rwanda will be eligible to draw an amount equivalent to SDR 0.571 million (0.7 percent of quota).
- **Fund relations.** Outstanding Fund credit is SDR 59.4 million (74.2 percent of quota). The Letter of Intent, Memorandum of Economic Policies, and the Technical Memorandum of Understanding are in Appendix I, and relations with the Fund and the World Bank Group in Appendices II and III, respectively. Appendix IV discusses statistical issues, and Appendix V presents progress in reaching the Millennium Development Goals (MDGs).

	Contents	Page
Executive Summary		4
I. Introduction.....		5
II. Recent Developments and Program Performance		6
III. Policy Discussions		9
A. Medium-Term Strategy for Poverty Reduction and Growth		9
B. The Program for 2005.....		12
Fiscal policy		12
Monetary policy		16
External sector		17
Structural reforms		17
C. Risks to the Program.....		19
D. Statistical Issues.....		19
E. Program Monitoring.....		20
F. Rephasing of Disbursements and Extension of Arrangement		20
IV. Staff Appraisal		20
Tables		
1. Selected Economic and Financial Indicators, 2002–27		23
2. Operations of the Central Government.....		24
3. Monetary Survey, 2003–05.....		26
4. Balance of Payments, 2002–07.....		28
5. External Financing Requirement and Sources, 2002–07		29
6. External Public Debt and Debt Service, 2002–07		30
7. Outstanding Structural Conditionality of the First, Second, and Third Reviews Under the PRGF-Supported Program		31
8. Structural Conditionality for the Fourth and Fifth Review of the PRGF-Supported Program, 2002–04.....		32
9. Proposed Phasing of Disbursements Under the PRGF Arrangement, 2002–05.....		33
Boxes		
1. Electricity Crisis.....		7
2. Medium-Term Growth Prospects		11
3. Expenditure Management Reforms		16
4. Structural Conditionality in 2005.....		18
Appendices		
I. Letter of Intent		34
Attachment I: Memorandum of Economic and Financial Policies		36
Attachment II: Technical Memorandum of Understanding.....		52

	Contents	Page
II.	Relations with the Fund	68
III.	Relations with the World Bank.....	72
IV.	Statistical Issues	76
V.	Millennium Development Goals.....	80

EXECUTIVE SUMMARY

Overview and recent developments

- **In the ten years after the genocide, Rwanda has made considerable progress.** Output recovered from a sharp decline, driven mainly by agriculture. Moreover, Rwanda has largely achieved macroeconomic stability and nation building has continued.
- **Looking ahead, Rwanda's main challenge is to achieve sustained high growth while maintaining debt sustainability so that significant progress can be made in reaching the Millennium Development Goals (MDGs).** With the catch-up effect following the genocide waning, a key task over the medium term is to increase growth through productivity-enhancing strategies. Moreover, policies will have to be geared toward managing donor inflows while strengthening the capacity to cope with exogenous shocks.
- **The implementation of policies improved considerably in 2004, although economic performance was adversely affected by exogenous shocks.** Strong activity in construction, transport, and communication raised growth to 4 percent, despite major electricity shortages. Macroeconomic policies remained on track and underlying inflation remained low, but rising food and energy prices pushed annual inflation to 10 percent at end-2004.
- **All performance criteria for the fourth review were met, except for two quantitative and one structural criterion.** The deviations were minor and temporary in all three instances and staff recommends waivers.

Program for 2005

- **While preserving macroeconomic stability, the 2005 program will lay the foundations for strong growth.** Macroeconomic and structural policies will aim at enhancing private sector development and accelerating productivity-enhancing strategies. The program is based on a growth rate of 4 percent and a reduction in inflation to 6 percent by end-2005.
- **Fiscal policies will focus on supporting macroeconomic stability and improving the quality of spending through a sizeable reallocation to priority areas.** The baseline program targets a domestic fiscal deficit (excluding demobilization) of 4½ percent of GDP, which is lower than the 2004 outcome by almost one percentage point of GDP. However, the deficit could widen by up to about 2 percent of GDP if budgetary financing (mostly grants) materializes as programmed and the monetary program remains on track. At the same time, to improve the quality of public spending and provide support to sectoral strategies, priority spending could increase by up to 1⅔ percent of GDP subject to obtaining budget support in line with program projections and the monetary program being on track.
- **The structural agenda will focus on advancing public sector reform and private sector development** with Fund conditionality on public expenditure management, tax administration, export promotion, and financial sector reform.

I. INTRODUCTION

In the ten years after the genocide, Rwanda has made considerable progress in overcoming the shock. Output recovered from a sharp decline during the genocide, driven mainly by agriculture. Moreover, Rwanda has largely achieved macroeconomic stability, as evidenced by relatively low inflation and a comfortable level of international reserves. At the same time, nation building has continued through the adoption of a new constitution in May 2003, followed by presidential elections and legislative polls in the same year. Nevertheless, capacity continues to be limited, the private sector remains small, and infrastructure needs—particularly in the energy and transport sectors—are substantial.

Rwanda: Selected Economic Indicators, 1994-2004											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP (percentage change)											
Real GDP	-50.2	35.2	12.7	13.8	8.9	7.6	6.0	6.7	9.4	0.9	4.0
Real per capita GDP	-25.5	37.9	-9.0	10.4	4.2	0.9	-1.4	2.1	7.1	-1.9	1.2
Consumer price index (percent)											
Average	47.3	48.2	13.4	11.7	6.8	-2.4	3.9	3.4	2.0	7.4	12.0
End period	64.4	38.4	8.7	16.6	-6.0	2.1	5.8	-0.2	6.2	7.7	10.2
Central Government budget (percent of GDP)											
Revenue	3.6	6.8	9.3	10.4	10.6	9.9	9.7	11.4	12.2	13.5	13.9
Expenditure and net lending	16.0	20.5	22.5	19.6	18.9	19.6	18.7	21.0	21.2	23.9	26.1
Domestic fiscal balance (excl. demobilization spending)	-8.4	-4.5	-2.9	-0.1	-1.1	-3.5	-2.3	-2.2	-3.8	-4.7	-5.3
Savings and Investment (percentage of GDP)											
Gross National Savings (excl. grants)	-24.1	-5.7	-4.9	-3.7	-2.3	0.3	1.0	2.5	0.3	-0.8	2.4
Gross Investment	10.0	13.4	14.4	13.8	14.8	17.2	17.5	18.4	16.9	18.4	20.5
Current account balance (excl. grants)	-34.1	-19.1	-19.3	-17.5	-17.1	-16.9	-16.5	-15.9	-16.6	-19.2	-18.1
External trade (percentage change)											
Export volume	-60.3	21.4	39.4	13.4	-8.9	12.7	19.7	73.2	-10.0	-12.5	26.8
Import volume	28.2	-49.8	5.1	38.1	3.7	-5.3	-14.6	2.3	-6.3	1.1	4.6
Terms of trade	11.8	22.7	-15.6	40.5	-14.9	-16.5	7.1	-37.9	-24.0	4.1	13.2
Balance of Payments (millions of US\$)											
Exports (goods and services)	47.5	66.6	83.5	144.0	111.0	113.1	149.6	157.1	132.7	139.5	188.9
Imports (goods and services)	488.3	334.0	362.5	474.0	461.7	442.9	441.1	426.8	425.2	463.9	522.3
Current account balance (excl. official transfers)	-401.8	-246.9	-266.7	-323.0	-338.9	-323.0	-295.8	-270.5	-287.0	-323.6	-332.4
Overall Balance	-44.1	51.2	-0.9	11.7	-22.8	-17.2	-3.8	22.9	18.2	-33.6	87.7
Official Reserves											
Months of imports of goods and services	1.8	3.3	2.7	4.0	4.6	4.7	5.4	6.0	6.3	5.0	5.8

Sources: Rwanda authorities and IMF estimates

1. Looking ahead, the key challenge for Rwanda is to achieve high and sustainable growth without compromising fiscal and debt sustainability.

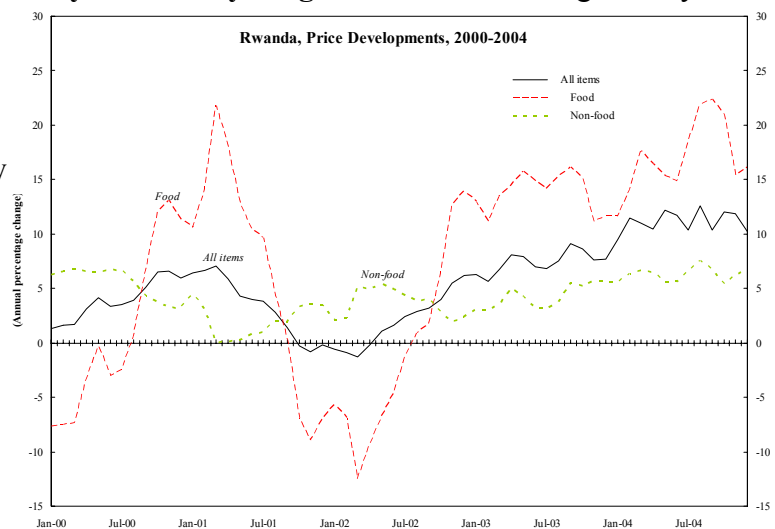
- Over the medium term, the underlying growth rate would need to be increased so that significant inroads can be made in reducing poverty and advancing toward the Millennium Development Goals (MDGs). This is particularly challenging given Rwanda's low-savings ratio and the fact that even after debt relief, Rwanda will continue to have a very high external debt burden. This dilemma can only be resolved by undertaking further structural reforms to enhance productivity and by reorienting fiscal spending toward poverty reduction and investment, strengthening the revenue take, and relying primarily on external grants for financing.
- In the short term, the challenge is threefold: (i) to put in place robust productivity-enhancing strategies, particularly in agriculture and exports, to enhance the country's growth potential; (ii) to manage large donor inflows while ensuring that the competitiveness of the tradables sector is enhanced; and (iii) to strengthen the economy's capacity to cope with unanticipated shocks, which in the past—given limited administrative capacity—have weakened program implementation.

2. **Tensions in the Great Lakes region have increased in recent months, but are being addressed through political channels.** Rwanda has made good progress on domestic reconciliation with an acceleration of the community-based hearings of the genocide accused. However, last November, tensions with the Democratic Republic of Congo (DRC) increased when President Kagame indicated that he would consider sending troops to disarm paramilitary groups based inside the DRC. Although the deployment of troops was never confirmed by the UN, the Security Council demanded in December that Rwanda pull out any military forces across the border. Tensions have recently eased with the establishment of a joint verification mechanism between Rwanda and the DRC to resolve border disputes. Moreover, the African Union is likely to send troops into the DRC to disarm paramilitary groups, and a summit of the heads of state of Rwanda, the DRC, and Uganda is scheduled for March.

II. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

3. **The implementation of policies improved considerably in 2004, although economic performance was adversely affected by exogenous shocks.** Strong activity in

construction, transport, and communication raised GDP growth to 4 percent, despite major electricity shortages (Box 1), reflecting, inter alia, low reservoir levels. With fiscal and monetary policies on track, inflation (excluding food and energy items) remained low, but rising food and energy prices pushed annual inflation to 10 percent at end-2004. The external current account was stronger than expected, mostly due to strong export growth.



4. **The tightening of fiscal policy in 2004 compared with the program target helped limit domestic demand, and, thereby, contained inflationary pressures.** Buoyed by one-off nontax revenue and efficiency gains in tax administration, the revenue-to-GDP ratio rose to almost 14 percent of GDP ($\frac{1}{2}$ percent of GDP higher than programmed). Higher revenue, coupled with expenditure restraint, resulted in a domestic fiscal deficit (excluding demobilization spending) of $5\frac{1}{2}$ percent of GDP, which was substantially lower than expected. However, priority spending fell short of targets because of delays in donor disbursements at end-June. While, on such short notice, the resulting financing gap could have been filled with central bank financing, the authorities chose to temporarily restrain spending (including on priorities) to maintain macroeconomic stability. As disbursements resumed, the shortfall in priority spending was made up in subsequent months. Later in

the year, the authorities channeled more funds to the electricity sector as shortages became acute.¹

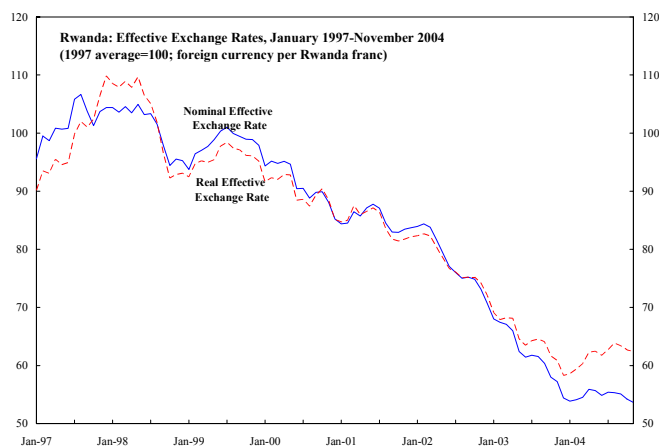
Box 1. Electricity Crisis

Growing electricity demand, combined with the rise in international oil prices, a lack of investment in the sector, and depleted water levels in hydroelectric dams, caused an electricity crisis in 2004. The crisis increased energy costs for the manufacturing and services sectors, as many firms began to rely on their own, fuel-based, and therefore expensive, electricity generation capacity.

The authorities are in the process of rehabilitating the electricity infrastructure, financed from budgetary resources (1½ percent of GDP), an emergency energy loan from the World Bank (1½ percent of GDP), and project financing from the African Development Bank and the Arab Bank for Economic Development in Africa (BADEA) (1 percent of GDP). New diesel-fueled generators purchased in late 2004 and 2005 are expected to address the acute shortage while the medium-term investment aims at: (i) rehabilitating Electrogaz's infrastructure to improve efficiency in the transmission and distribution of electricity; (ii) expanding the electricity grid to rural areas; and (iii) constructing micro-dams in remote villages. The government has also recently signed a contract with a foreign consortium for the exploration of methane gas dissolved in Lake Kivu (between Rwanda and DRC), involving fiscal costs of up to 2½ percent of GDP likely to be spent through 2008.

To cover the additional costs associated with the relatively expensive diesel-based generators, electricity tariffs were doubled on January 1, 2005, restoring, in real terms, the baseline tariff to its 1997 level. This increase is a stop-gap measure to limit fiscal costs before a comprehensive restructuring toward full cost-recovery; cross-subsidization will be worked out in cooperation with the World Bank. While the increase is large, its social impact is expected to remain limited as households with access to electricity are unlikely to be in the poorest segments of the population.

5. **The performance of the external sector was stronger than expected.** Reflecting a rebound in exports and a slowdown in intermediate and capital goods imports, the current account deficit narrowed compared with the program, despite higher oil imports. Moreover, owing to the World Bank's Poverty Reduction Support Credit (PRSC) disbursement in December, donor assistance was higher than programmed, resulting in a temporary increase in gross official reserves to 5.8 months of imports compared with



¹ Although energy spending was identified in the PRSP as a priority area, it was not formally defined as such in the program. If it had been included, the performance criterion on priority spending at end-2004 would have been met. In the 2005 program, the definition of priority spending has been expanded to include energy-related spending.

4.6 months under the program. Reflecting these developments, the nominal exchange rate appreciated slightly, and a real exchange rate appreciation of about 8 percent is estimated for end-2004.

6. **While the monetary program remained on track, the conduct of monetary policy was uneven.** The end-quarter targets on reserve money were met through 2004. However, reserve money exceeded the target during the quarters, following a seasonal increase in currency in circulation (triggered by coffee farmers receiving their payments starting mid-2004), which was more pronounced compared with previous years. Moreover, to meet the reserve money targets, the authorities issued a large amount of treasury bills to the nonbank sector, which kept interest rates high.

7. **The authorities have advanced considerably in their structural reform agenda** (Tables 7 and 8):

- **Financial sector.** To reduce government involvement in the banking sector, the authorities *sold the majority shares of two commercial banks* to foreign investors in December 2004. The soundness of the banking system was further strengthened by the National Bank of Rwanda (NBR) agreeing on *action plans* in June 2004 with five commercial banks to bring them into compliance with prudential regulations by end-2004, and a similar agreement with the remaining sixth bank in December 2004 (end-June benchmark for all banks). Following recommendations of the 2003 safeguards assessment, an external auditor completed the *audit of NBR's 2003 financial statements* in August, concluding that NBR's statements were providing a true and fair view of the state of its financial affairs (end-June benchmark).
- **Public expenditure management and revenue administration.** The authorities submitted the *organic budget law* to parliament in August and subsequently finalized supporting *financial regulations*, which are expected to significantly strengthen budget processes and expenditure control. Moreover, to improve cash management, the authorities created a cash management unit, as well as a treasury committee, and closed dormant bank accounts. At the same time, tax collection efficiency is expected to strengthen with the *creation of a large taxpayer unit* in 2004, as well as the new *investment code, income tax, and customs laws*, which are currently before parliament.
- **Export promotion.** To address weaknesses in the export sector, cabinet endorsed an *export promotion strategy* (end-September benchmark), which identified short-term measures for the coffee and tea sectors and created an inter-ministerial monitoring structure. In particular, the measures aim at improving access of growers to inputs and building an international marketing presence for Rwandese tea and coffee.

8. **In terms of program performance, all performance criteria for the fourth review were met, except for two quantitative and one structural criterion** (Table 8, and MEFP, Table 1).² At end-June 2004, the quantitative performance criterion on priority expenditures was missed by 0.2 percent of GDP as explained above (see para. 5). Moreover, the continuous performance criterion on external arrears was not observed and the relevant facts and the basis of the waiver are set out in the separate memorandum from the Managing Director on noncomplying purchases and disbursements.³ The structural performance criterion on the submission of a revised 2004 budget was missed (but implemented with a delay of one month). One end-June structural benchmark under the program (for the external audit of the NBR's 2003 financial statement) was met only in August, and the other (the finalization of action plans for commercial banks) was also met with a delay of seven months (see para. 8).

III. POLICY DISCUSSIONS

9. **Policy discussions focused on structural reforms to enhance growth and the macroeconomic management of large donor inflows, while achieving fiscal and external sustainability over the medium term.**

A. Medium-Term Strategy for Poverty Reduction and Growth

10. **The authorities and staff were in broad agreement on the main building blocks for a successful medium-term program** (MEFP, paras. 9–12):

- **Renewing efforts to implement productivity-enhancing sectoral programs.** Rwanda's Poverty Reduction Strategy Paper (PRSP) targets halving poverty by 2015 through policies focused on private sector development, particularly in rural areas. To achieve this, real GDP would need to grow annually by double digits over the medium term. While staff cautioned against overoptimistic growth projections, it emphasized that high growth rates would be possible only with sectoral strategies to raise productivity as the catch-up effect following the genocide appears to be waning (Box 2). Given budget constraints, the realization of such strategies would rest on a redirection of central government spending toward priority areas, as well as, in general, more spending efficiency. The authorities took the view that public investment could show significant returns within a short time period, especially in the

² Based on preliminary data for end-December 2004 (relevant for the fifth review), it appears that policy performance remained broadly on track. However, of the two structural benchmarks for October, one has not been met and the other only partially (see paragraph 17). An update will be provided in a Staff Statement.

³ See Managing Director's report, www.imf.org.

agricultural sector, which is expected to benefit from the resumption of the World Bank's rural support credit.⁴

- **Coping with the impact of a potential real appreciation of the currency from increased aid inflows, to achieve the export-oriented growth needed to strengthen debt sustainability.** As large external inflows could put pressure on the real exchange rate to appreciate penalizing net exports, it is essential to raise productivity in the export sector and increase the export ratio from its current low level (merchandise exports comprise about 4–5 percent of GDP). In this context, staff welcomed the authorities' rollout of the export promotion strategy, and review of structural bottlenecks (see para. 22).
- **Mobilizing domestic revenue to fund the ambitious development effort and reduce reliance on external assistance over the medium term.** Although the revenue ratio has improved considerably in recent years, it is still slightly lower than the average for HIPC decision point countries (see text table below). The lower ratio could reflect a possible overestimation of GDP, particularly of agricultural production, as well as substantial tax exemptions reflecting over reliance on tax incentives.⁵ In this light, staff encouraged the authorities to proceed with a comprehensive review of their agricultural statistics and reduce tax exemptions (MEFP, para. 17). It also highlighted the risks of introducing export-processing zones (MEFP, para. 27).

Country	1999	2000	2001	2002	2003
Rwanda	9.9	9.7	11.4	12.3	13.5
Burundi	16.2	19.2	20.0	20.3	21.1
Kenya	24.9	23.1	21.8	21.0	21.2
Tanzania	10.7	10.6	11.2	11.0	11.4
Uganda	10.6	10.1	10.5	10.6	10.8
HIPC decision point countries	13.8	14.2	14.6	14.8	15.4

Source: IMF International Financial Statistics

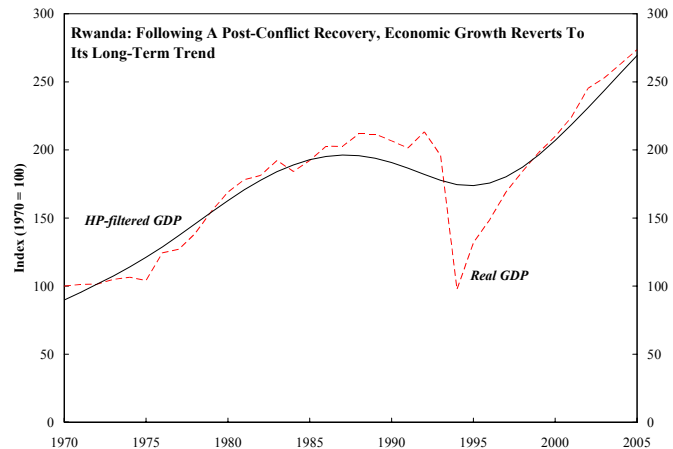
⁴ The World Bank is in the process of redesigning the project after weaknesses were identified at the midterm review.

⁵ See Country Report No. 04/383, Chapter 1.

Box 2. Medium-Term Growth Prospects

Following a decade of post-conflict recovery after the 1994 genocide, economic growth has started to ease to historical rates. The economy grew by about 8 percent on average between 1996 and 2004, but growth has declined to 5 percent on average during the last three years—somewhat above the historical growth rate of about 4 percent. This pattern has been observed in many other post-conflict countries, where, after a catch-up effect, growth started to taper off after about ten years.¹

Using the Hodrick-Prescott-filter, Rwanda's underlying growth trend is estimated at 4.1 percent in the two decades preceding the genocide (1970-1992). Without any further action, growth may be expected to revert to this trend. Indeed, given the loss of human capital from the genocide, there is a risk that productivity growth could be lower than in the pre-genocide decades. On the other hand, this effect may be offset by the fact that the average investment ratio has risen from 13.6 percent of GDP during 1970-90 to 16.9 percent of GDP during 1996-2003.



Two perspectives illustrate the challenge the authorities face in augmenting medium-term growth to their target rate of six percent:

- Based on the traditional growth accounting framework, **labor productivity growth** would have to increase to about 4 percent,² from the current 1.8 percent, to achieve an output growth of 6 percent. Increases in productivity are critical as the labor force itself will tend to grow only gradually, in line with population growth, at about 2 percent.
- An alternative approach is to look at the relationship between investment and output. Given Rwanda's long-term **incremental capital to output ratio (ICOR) of about 4**, the economy would grow by 4–5 percent at current investment levels.³ Augmenting average annual growth to 6 percent would imply, ceteris paribus, a change in the ICOR to 3, which means that any unit of additional investment would generate a marginal annual return of 33 percent.

In light of these challenges, the projected growth rates over the medium term have been revised downward from a constant 6 percent presented in the last Article IV report (Country Report No. 04/382) to a gradual increase from 4 percent in 2005 to 5½ percent from 2011 onward, reflecting higher investment financed by aid inflows (consistent with an average ICOR of 4). Greater efficiency reflected in an increase in total factor productivity (with a corresponding decrease in the ICOR) could lead to higher long-term growth rates.

¹ Collier, Paul and Anke Hoeffler, 2002, "Aid, Policy, and Growth in Post-Conflict Societies," World Bank Research Working Paper: 2902.

² As a comparison, average labor productivity growth during 1970-2003 was 2.5 percent in Uganda and one percent in both Tanzania and Kenya.

³ The long-term ICOR rate was estimated by taking the average ratio between the investment rate (as percent of GDP) and GDP growth for 1970-92.

- **Relying mostly on grants to finance public investment and spending to advance toward the MDGs.** Staff projections indicate that, given current debt levels and the narrow export base, the NPV of debt-to-exports ratio would remain above the 150 percent threshold over a 20-year horizon, even if full debt relief under the enhanced HIPC Initiative and additional bilateral assistance were delivered and no new borrowing took place.
- **Reaching a regional peace agreement for the Great Lakes region.** Staff noted that such an agreement would be essential for sustained strong growth not only by providing access to the large market of the Eastern DRC, but also by removing the detrimental effect of lingering security concerns on commercial activity and investment.

B. The Program for 2005

11. **While preserving macroeconomic stability and strengthening exports through structural reform, the 2005 program will lay the foundations for strong growth through increased spending in critical PRSP sectors.** The program is based on a real growth rate of 4 percent and a reduction in inflation to 6 percent by end-2005, taking into account the impulse from the electricity tariff increase of about 2 percent. Central bank reserves could decline to just over four months of imports (depending on whether contingent spending is released—see below), a level that staff regards as prudent. Macroeconomic and structural policies will aim at enhancing private sector development and accelerating productivity-enhancing strategies, particularly in exports.

Fiscal policy

12. **Fiscal policies will support maintaining macroeconomic stability.**⁶ The baseline program, which targets a domestic fiscal deficit (excluding demobilization) of 4½ percent of GDP, is tighter than in 2004 by almost one percent of GDP, reflecting lower nonpriority spending.⁷ However, the deficit would be allowed to widen further by up to about 2 percent of GDP from the release of contingent spending, if the additional spending is financed by external budgetary support and the monetary program is kept on track, which may require

⁶ The Minister of Finance issued a press statement on February 25 to highlight the changes to the 2005 budget implied by the program. In particular, the program envisages cuts in nonpriority spending compared with the budget (including a rescheduling of loan repayments related to the 2003 hotel project, the purchase of an airplane for Rwandair Express, and the recapitalization of a housing bank through a cash injection), which will be reallocated to priority areas; these changes will be formalized in the context of the June 2005 budget revision.

⁷ The program also accommodates the repayment of mostly genocide-related arrears of almost one percent of GDP, based on a medium-term repayment plan.

allowing a nominal appreciation of the exchange rate (see para. 25).⁸ The contingency (to be released in equal amounts for priority and nonpriority spending) will enable the authorities to review the impact of fiscal policy on domestic demand and closely coordinate with monetary and exchange rate policies.

Fiscal Program - Contingent Spending (in percent of GDP)			
	2004	2005	
		Excluding Contingency	Including Contingency
Revenue	13.9	14.0	14.0
Domestic expenditure	19.2	18.6	20.4
Priority spending (including electricity) 1/	8.5	9.4	10.3
Other spending 2/	10.7	9.2	10.1
Domestic fiscal deficit	-5.2	-4.5	-6.3
Memorandum item:			
Priority spending (excluding electricity)	7.5	8.8	9.7

Source: Rwandese authorities; and staff estimates and projections.

1/ Electricity was not included in the definition of priority spending in 2004.

2/ Includes domestic interest bill, defense, and nonpriority spending.

13. **No new revenue measures are programmed for 2005 as the authorities intend to consolidate the recent ambitious changes in tax laws and administration** (MEFP, para. 17).⁹ Staff commended the authorities for the exemplary progress in making the Large Taxpayer Department operational and welcomed plans to strengthen its audits. In light of limited administrative capacity, it agreed that appropriately applying and enforcing the new legislation and procedures would be critical. However, staff urged the authorities to develop new revenue measures in time for the 2006 budget, given the strategic importance of strengthened revenue mobilization for the country's medium-term fiscal sustainability;¹⁰ and, if possible, advance the timing of unifying the large taxpayer and internal revenue departments.

⁸ While the baseline program would be partly financed by drawing down government deposits, which were accumulated from the PRSC disbursement at end-2004, the contingent spending would be released only if budgetary support in 2005 remains in line with program projections.

⁹ The revenue ratio would increase only slightly as higher tax collections from petroleum imports related to the new generators and an adjustment in the petroleum reference price are expected to offset the loss from abolishing import duties on raw materials.

¹⁰ Revenue is expected to decline by ½ percent of GDP in 2006 as a result of lower nontax revenues (mostly one-off receipts from the sale of assets) and a reduction in the corporate tax rate. Moreover, there could be further revenue losses in trade taxes from regional integration. Revenue measures could include the broadening of the corporate tax base and elimination of exemptions.

14. **The quality of spending will further improve through a sizeable reallocation to priorities** (MEFP, para. 18).

- **Priority spending would increase by 1 $\frac{2}{3}$ percent of GDP if the contingency is spent (and by 0.9 percent of GDP otherwise).** In particular, as electricity spending crowded out other priority areas in 2004, the authorities will augment—through their contingency priority spending of about one percent of GDP—budgetary allocations in support of agriculture, export promotion, rural roads, and water. At the same time, social spending in health and education will increase by 0.3 percent of GDP.
- **Nonpriority spending is expected to fall by at least $\frac{1}{2}$ percent of GDP if the contingency is spent (and by 1 $\frac{1}{2}$ percent of GDP if not).**¹¹ The program accommodates new one-off items of about one percent of GDP mostly related to peace-keeping efforts in Darfur¹² and a temporary fuel subsidy to Electrogaz to allow for a more gradual increase in electricity tariffs.¹³ To achieve the targeted overall reduction, other nonpriority spending will have to be cut by 2 $\frac{1}{2}$ percent of GDP if the contingency is not released (and by 1 $\frac{1}{2}$ percent of GDP otherwise) through a reduction of budgetary allocations to nonpriority ministries and net lending—the latter partly from a reduction in the payment on government guarantees related to a large hotel projects.¹⁴
- **Looking beyond 2005, staff noted that further efforts should be made to restructure expenditure.** First, as most of the new nonessential spending is one-off, substantial funds are expected to become available in 2006 for priority spending, which should be channeled to further develop sectoral strategies. Staff urged the authorities also to explore the scope for additional cuts in nonessential spending, including through continued civil service reform and the realization of efficiency

¹¹ While staff was unable to obtain details on military spending, overall defense spending will rise in line with inflation.

¹² The cost per soldier is below that of similar operations (about US\$7,000 per soldier compared with United Nations Organization Mission in the DRC (MONUC's) cost of about US\$20,000); any savings should be used for general budgetary purposes. As envisaged in the MEFP, an audit of these expenditures will be published in 2006.

¹³ The subsidy is equivalent to the estimated tax payments on fuel imports for the electricity generators; while an increase in oil prices could raise the subsidy, there would be an offsetting entry in higher revenue.

¹⁴ The program accommodates loan payments of $\frac{1}{4}$ percent of GDP (compared with one percent of GDP in 2004) linked to the 2003 hotel projects. As indicated in the MEFP, to assess the reasons why Prime Holdings—the public entity that built and owns the hotels—is unable to repay the loan, the program envisages an audit of the company, which is also expected to facilitate the future privatization of the hotels.

gains.¹⁵ Moreover, it would be important to monitor pressures for a possible real appreciation of the exchange rate from the domestic demand impact of fiscal policies.

15. **The Lake Kivu gas project could be a major stepping stone in addressing the electricity crisis and the authorities are committed to ensure that the fiscal implications will be limited** (MEFP, para. 22). The World Bank is overall supportive of the project as it regards the development of Lake Kivu's gas as the best medium-term energy option for Rwanda and the region. Staff urged the authorities to seek support and technical assistance from the World Bank in moving ahead. It welcomed the authorities' commitment to limit the total fiscal costs to 2½ percent of GDP (0.4 percent of GDP of which will be in 2005) and to cover the medium-term fiscal implications at the next review.

16. **While the organic budget law (OBL) is expected to improve the efficiency and transparency of public expenditure management, its implementation will pose new challenges** (Box 3 and MEFP, para. 19). The OBL would strengthen the legal and regulatory framework governing the budget process and execution for all levels of government, and establish the powers and responsibilities of the Ministry of Finance to ensure appropriate oversight. However, significant capacity building in line ministries and local governments will be required and addressed in the program by measures to expand gradually their reporting responsibilities. In this regard, staff noted the need to address recent difficulties in the implementation of cash management and zero balance accounts, and also expressed disappointment that the two October benchmarks (for the fifth review under the PRGF arrangement) were either not met or only partially met. The authorities responded that these issues were being addressed and that the timing and scope of the benchmarks had been too ambitious. With respect to the benchmark on reconciliation statements, the authorities intend to roll them out more gradually.¹⁶ With respect to the benchmark on the documentation for the 2005 budget, the revised 2005 budget will include a statement of contingent liabilities, which would fulfill one of two outstanding commitments.¹⁷

¹⁵ The civil service reform launched in 2004 aims at streamlining the core civil service through a reduction in staff and a reallocation of ministerial staff to local governments. While donors agreed with the thrust of the reform, they were initially concerned about its social impact. Their concerns have now been addressed by the incorporation of retrenchment costs in the program.

¹⁶ Firstly for the Treasury and the Rwanda Revenue Authority in March and thereafter for line ministries and other public entities.

¹⁷ The end-October structural benchmark required the 2005 budget to include statements of tax expenditure, public enterprise budgets, government equity holdings, consolidated district budgets, assets and liabilities, and contingent liabilities, but the budget was presented without the two latter items. As conducting an assets and liabilities statement for the ministry of finance in 2004 proved difficult, pilot projects in other ministries and local governments will be undertaken in 2005 before involving the entire public sector.

Box 3. Expenditure Management Reforms

To effectively implement the PRSP, the government in close consultation with development partners developed in 2002 a time-bound and monitorable action plan (the Financial Accountability Review and Action Plan (FARAP)) to rebuild expenditure management after its unraveling in 1994.

Expenditure management reform has focused on implementing the FARAP. Most notably, the government introduced a medium-term expenditure framework as part of its budget preparation, adopted a computerized system for budget execution management, established an independent Auditor General, and restarted the preparation of annual accounts.

The OBL lays the basis for future reforms. The joint World Bank and IMF Assessment and Action Plan of the public expenditure management of 2004 stressed the need to improve reconciliation of fiscal and monetary accounts and public budgeting and accounting practices. These issues have been addressed in the OBL, which will be gradually implemented by:

- *Adopting a Treasury Single Account* by end-2005 for all government operations in order to facilitate regular reconciliation of government accounts and improve cash management and coordination with monetary policy.
- *Applying budgeting and accounting standards to local governments*, as the basis for the planned devolution of significant expenditure responsibilities to them.
- *Integrating the recurrent and development budgets* to provide a more transparent and comprehensive statement of government operations.

Monetary policy

17. **The monetary program aims at lowering inflation, while allowing an expansion in private sector credit** (Table 3).^{18, 19} The authorities noted that private sector credit in 2004 had been constrained, among other things, by high nominal interest rates. Staff observed that high interest rates had been necessitated by rising inflation and, in fact, ex-post real interest rates had declined. Looking forward, staff stressed that interest rates should not be lowered before a clear downward trend in inflation had been established. Moreover, if government domestic spending threatens to push reserve money growth above program limits, foreign exchange sales would need to be stepped up (“ex ante sterilization”) to keep reserve money growth on track and protect the inflation objective under the program. In this context, close coordination with the Ministry of Finance, as well as managers of large project

¹⁸ As in 2004, the program envisages a repayment of about one percent of GDP to nonbanks (including the repayment of arrears).

¹⁹ The surge in currency in circulation in 2004 could represent a structural increase in money demand, which should be accommodated by a one-off upward adjustment in the reserve money target (a preliminary assessment indicates that banks’ excess reserves were not unduly large). However, given the instability of the monetary parameters, it was agreed that it would be premature to loosen the monetary program at this point, but that this issue would be discussed at the time of next review.

accounts, would be critical for improving liquidity forecasting. Staff noted that continued reliance on sterilization through the sales of treasury bills rather than foreign exchange could, over time, crowd out private sector activity and prove costly for the central bank's profits.

18. **Given the program's money anchor, some nominal appreciation of the exchange rate would need to be allowed should there be pressures for a real appreciation.** To this end, staff noted that the NBR should allow greater price flexibility in the foreign exchange auction bidding process. The authorities noted that a sharp appreciation during the coffee season (March-September) would have an adverse impact on exporters' income and therefore their ability to repay their bank loans (which are denominated in Rwandan francs), potentially raising nonperforming loans. To address banks' concern about a nominal appreciation during the coffee season, the authorities agreed to explore options to allow lending in foreign exchange to exporters. Moreover, to increase the flexibility in the foreign exchange market, they will consider further changes to the foreign exchange auction's bidding process.

External sector

19. **Reflecting continuing large project-related import demand, the external current account deficit (excluding grants) would widen to 22 percent of GDP in 2005 and is expected to remain high over the medium term.** This trend reflects a strong increase in imports of diesel fuel and equipment related to the rehabilitation of the electricity sector rehabilitation and other priority projects, while export earnings are expected to decline slightly after the exceptionally strong performance in 2004 (MEFP, para. 26).²⁰ Staff noted that the planned expansion in diesel-generated electricity would be contributing to a significant structural increase in fuel imports in the medium term. The authorities agreed, but responded that increasing electricity supply was critical to developing the export sector and that alternative energy sources would be explored. The higher current account deficit in 2005 would be mostly financed from a drawdown of central bank reserves (of about 2½ percent of GDP), accumulated from disbursements received at end-2004, which had temporarily increased reserves to very high levels.

Structural reforms

20. **The structural agenda will focus on advancing the public sector reform and private sector development with a view to increasing productivity, particularly in exports** (Box 4). While sectoral policies will be spearheaded by the World Bank and other donors, Fund conditionality will continue to focus on tax administration, public expenditure management, governance—in particular related to a large hotel project undertaken in 2003 by the government-owned entity Prime Holdings—export promotion, and financial sector reform.

²⁰ Merchandise exports in 2004 benefited from high prices for cassiterite and coltan and a strong coffee harvest, owing to unusually favorable climatic conditions.

Box 4. Structural Conditionality in 2005

Under the PRGF arrangement, structural conditionality will continue to reflect areas of macroeconomic relevance (MEFP, Table 2):

- Strengthening tax administration by increasing the number of audits of large taxpayers.
- Improving public expenditure management (see Box 3).
- Enhancing governance in connection with the payment of a government guarantee related to the 2003 hotel project.
- Monitoring progress in implementing the export promotion strategy by a benchmark on the submission to cabinet of the first progress report of the Rwanda Investment and Export Promotion Agency.
- Possibly undertaking further measures to strengthen and develop the financial sector, after a comprehensive review.

Under World Bank lending, structural conditionality is reflected in the Poverty Reduction Strategy Credit (about US\$225 million over 3 years) and focuses mainly on: (i) creating a favorable private investment climate; (ii) improving quality, efficiency, and equity of public service delivery, particularly in the health, education, water, and energy sectors; and (iii) supporting improvement of public expenditure management and governance, with an emphasis on transparency and accountability.

Export promotion

21. **The authorities significantly strengthened their commitment to developing exports and tourism by adopting a two-pronged approach that addresses issues in specific sectors as well as across sectors** (MEFP, paras. 27–28). In particular, they will increase budgetary allocations for the tea, coffee, and tourism sectors to facilitate structural reform; strengthen the coordinating role of the Rwanda Investment and Export Promotion Agency (RIEPA); and take measures to diversify exports. At the same time, they intend to define specific actions to address problems that hamper all exports relating to, for instance, infrastructure, customs administration, and access to financing; these actions will be discussed at the fifth review under the PRGF arrangement. Staff welcomed the strengthened approach to export promotion, in particular with respect to providing the necessary specificity regarding policy actions and accelerating the privatization of the tea factories, and encouraged the authorities to forcefully pursue their strategy. With respect to other measures to stimulate trade, staff urged the authorities to assess the impact of Rwanda's membership in various regional trade agreements on both the export sector and import-competing firms.

Financial sector reform

22. **Financial sector reforms will continue building on the findings of the February 2005 Financial Sector Assessment Program (FSAP) mission** (MEFP, para. 30). The authorities noted that all banks but one had been in compliance with prudential regulations by end-2004. They agreed that any further recapitalization and hotel-related loan repayments would be undertaken only after assurances that the banks are sound or their weaknesses are being addressed. While welcoming progress, the recent FSAP mission emphasized that the supervisory authority would need to be given sufficient autonomy to strengthen its ability to enforce corrective measures—an issue that will be discussed in the context of the fifth review

under the PRGF arrangement. Moreover, staff urged the authorities to address the weaknesses of the commercial banks that had not been in compliance with prudential regulations at end-2004. It also expressed concern about a possible proliferation of government micro credit schemes, mostly for the agricultural sector. Although the magnitudes involved so far did not appear large, it urged the authorities to take a more systematic approach, including oversight procedures.

Private sector development

23. **To make the private sector the engine of growth, further progress needs to be made in creating an enabling environment** (MEFP, paras. 31-33). staff welcomed the new land law (currently with parliament), which, by improving the security of land tenure, could become a means to promote private sector credit without jeopardizing the quality of banks' lending. While public sector involvement in the economy remains large, staff observed that the recent overhaul of the legal framework and progress in the privatization agenda were positive steps.

C. Risks to the Program

24. **The risks to the program appear limited and have been, to the extent possible, addressed in the design of the program.**

- On the macroeconomic side, the main risk relates to the management of pressures for a real appreciation of the exchange rate from the domestic demand impact of fiscal policies. The monetary program might not stay on track if the central bank is not willing to allow a nominal appreciation of the exchange rate. The program limits this risk by making a large part of fiscal spending contingent on the monetary program staying on track.
- As experienced before, limited absorptive and administrative capacity could delay ambitious structural reforms. While this risk remains an issue for now, in the long run an increase in spending on education, including training, will mitigate it. Continuity in the authorities' commitment to reform efforts will be critical.
- Although it appears that an effort is under way to reestablish peace in the Great Lakes region, tensions may resurface, which could not only have an adverse impact on donor assistance and private sector investment, but also result in fiscal slippages if military spending were to pick up.

D. Statistical Issues

25. **Acknowledging weaknesses in their national accounts, the authorities expect to make operational a new statistical institute by end-2005.** The institute would compile and disseminate statistics currently collected by various government ministries and the NBR, and work to improve agricultural statistics.

E. Program Monitoring

26. **Understandings were reached on quantitative performance criteria for end-June 2005, indicative targets for end-March, end-September, and end-December 2005, as well as structural performance criteria and benchmarks.** The technical memorandum of understanding was modified to: (i) change the definition of the performance criterion on net credit to the government to include treasury bill holdings of nonbanks to better monitor domestic borrowing by the central government; (ii) extend the definition of priority spending to include spending on the electricity sector; and (iii) introduce an adjuster on contingent spending (if budgetary support is available and the monetary program remains on track) on net foreign assets, net credit to government, the domestic fiscal balance, and priority spending.

F. Rephasing of Disbursements and Extension of Arrangement

27. **The authorities have requested an extension of the current PRGF arrangement by six months to allow for the completion of the sixth review and disbursement of the seventh and final loan** (Appendix I and Table 9). Due to the delays in completing the second and third PRGF reviews, it will not be possible to conclude the sixth review prior to August 2005 when the current PRGF arrangement is scheduled to expire.

IV. STAFF APPRAISAL

28. **Rwanda has made great strides in the years since the genocide.** Led by agriculture, output has rebounded from the collapse a decade ago. Macroeconomic stability has largely been achieved with inflation averaging in the single digits for the last seven years and international reserves at comfortable levels.

29. **The implementation of policies strengthened considerably in 2004, with monetary and fiscal policy remaining broadly on track.** Output growth turned out somewhat lower than expected and inflation higher mainly because of exogenous shocks, particularly in energy. However, exports rebounded and the current account narrowed, allowing net international reserves to strengthen more than programmed. In terms of quantitative performance, the end-June performance criterion on priority spending was not met due to a delay in a donor disbursement, when the authorities chose to temporarily restrain spending (including on priorities) to maintain macroeconomic stability. As disbursements resumed, the shortfall in priority spending was made up in subsequent months. The continuous performance criterion on the nonaccumulation of external arrears was also not observed, but the payments were made in July 2004. With respect to structural performance, while the delays in meeting the end-June performance criterion on the submission of the budget and the two structural benchmarks (on the audit of the central bank and action plans with commercial banks) are regrettable, staff notes that the authorities have substantively met the structural reform commitments covered by this review.

30. **With regard to structural policies, staff welcomes the major progress in overhauling the legal framework underpinning the budget and tax administration.** The

organic budget law and the associated financial regulation—now with parliament—are key pieces of legislation that will become the basis for modern expenditure management and staff urges the authorities to implement them without delay. Moreover, the new income tax and customs laws, and investment code together with the improvements in tax administration are expected to broaden the tax base and increase efficiency.

31. **Looking ahead, Rwanda's main challenge is to achieve sustained high growth while maintaining fiscal and debt sustainability so that significant progress can be made in reducing poverty and reaching the MDGs.** With the catch-up effect following the genocide waning, a key task over the medium term is to increase productivity growth. In the short term, strong productivity-enhancing strategies will need to be implemented, particularly in agriculture and exports. Moreover, macroeconomic policies will have to be geared toward managing large donor inflows while strengthening the capacity to cope with exogenous shocks. In view of the uneven policy implementation in the past, the authorities will also need to ensure a sustained reform effort moving forward.

32. **A key feature of the 2005 program is the reallocation of fiscal resources to priority areas to improve the quality of public spending and to provide support to sectoral strategies.** Staff notes that further reallocations will be needed over time to support reforms in key areas such as agriculture, exports, transport, and energy. It welcomes the authorities' commitment to limit the cost of the Lake Kivu project and urges them to implement the project with the support and close advice from the World Bank. Moreover, every effort should be made to further reduce nonessential spending and to avoid directed lending as in the case of the 2003 hotel project. In this context, staff welcomes the external audit of Prime Holdings as a means of increasing transparency, assessing the company's capacity to service hotel-related debt obligations, as well as its medium-term profitability.

33. **With continued large external flows expected to widen the current account, managing the domestic demand impact of fiscal policies without rekindling inflation will be a key priority under the program.** The NBR will need to ensure that the program's reserve money targets are met by stepping up sales of foreign exchange as needed if government domestic spending threatens to push reserve money growth above program targets. This will require allowing greater exchange rate flexibility in the auction market, including accepting a nominal appreciation of the Rwandan franc. In this context, staff welcomes the contingent nature of the additional spending as a means of ensuring a measured fiscal expansion that would keep the monetary program on track, and protect the program's inflation objective.

34. **The authorities will need to continue their efforts to mobilize domestic revenue by building on the substantial progress made in tax policy and administration.** Staff urges the authorities to identify new tax measures, including reductions in tax exemptions, especially given the expected loss in direct tax and nontax revenue in 2006.

35. **Progress in public expenditure management remains critical for implementing the PRSP.** While the organic budget law would represent significant progress, the capacity

of line ministries and local governments must be improved in line with increased responsibilities. Staff urges the authorities to address recent difficulties in cash management, and zero-balance accounts; and ensure that the two October 2004 benchmarks (for the fifth review of the PRGF arrangement) related to public expenditure management are met, even if with a delay.

36. **Accelerating the export promotion strategy is critical for sustaining and enhancing growth prospects.** It will also aid external debt sustainability and enhance competitiveness of the export sector even if the real exchange rate were to appreciate. Staff welcomes the recent acceleration of the export promotion strategy and urges the authorities to move ahead forcefully in rolling out the strategy and addressing structural bottlenecks to trade and growth.

37. **Staff welcomes progress in the financial sector reform** and encourages the authorities to develop an action plan for further reforms, based on the FSAP recommendations. In particular, staff urges the authorities to address the weaknesses of the commercial banks that had not been in compliance with prudential regulations at end-2004. Staff welcomes the authorities' commitment that any further bank recapitalization and hotel-related repayments would be undertaken only after assurances that the banks are sound or their weaknesses are being addressed.

38. **Staff supports the authorities' intention to limit external borrowing and to rely mostly on grants.** By reaching the completion point under the enhanced HIPC Initiative, Rwanda's debt is being reduced to a sustainable level. To maintain external sustainability in the future, the authorities' commitment to seek external financing—including for spending to advance toward the MDGs—mostly in the form of grants is appropriate.

39. **Efforts to address weaknesses in the national accounts are welcome.** Staff urges the authorities to review, in particular, their agricultural statistics and encourages them to take full advantage of available technical assistance, including from the Fund.

40. **Based on the assessment above, staff recommends that the requested waivers for the nonobservance of the end-June 2004 performance criteria on the priority spending and the submission of the revised 2004 budget to parliament (as the nonobservances were temporary) be granted, and that the fourth review under the PRGF arrangement be completed.** Separately, the memorandum from the Managing Director to the Board recommends a waiver in connection with the continuous performance criterion on external arrears. Staff also recommends that an extension of the PRGF arrangement by six months be granted to allow for the disbursement of the rephased amounts.

Table 1: Rwanda: Selected Economic and Financial Indicators, 2002-07

	2002	2003	2004		2005		2006	2007
			CR No. 04/270	Est.	CR No. 04/270	Proj.		
(Annual percentage changes, unless otherwise indicated)								
Output and prices								
Real GDP growth	9.4	0.9	6.0	4.0	6.0	4.0	4.3	4.5
GDP deflator	0.0	8.7	5.0	12.0	4.0	6.4	4.0	4.0
Consumer prices (period average)	2.0	7.4	6.9	12.0	4.0	7.0	4.0	4.0
Consumer prices (end of period)	6.2	7.7	5.0	10.2	4.0	6.0	4.0	4.0
External sector								
Export, f.o.b (in U.S. dollars)	-28.1	-6.3	8.0	54.3	17.0	-8.3	7.1	7.1
Imports, f.o.b (in U.S. dollars)	-1.3	4.0	16.0	12.4	7.1	28.2	5.7	4.4
Export volume	-10.0	-12.5	2.6	26.8	12.3	-5.6	5.8	6.2
Import volume	-6.3	1.1	11.8	4.5	7.5	26.0	6.0	4.3
Terms of trade (deterioration -)	-24.0	4.1	1.4	13.2	4.6	-4.5	1.5	0.7
Government finance								
Revenue	16.9	21.4	10.8	20.2	9.9	11.1	8.8	10.5
Total expenditure and net lending	10.5	23.7	30.8	27.3	0.8	13.1	12.5	7.1
Current expenditure	14.0	31.4	9.9	4.5	1.4	19.2	7.0	7.3
Money and credit 1/								
Net domestic assets 2/	-6.1	14.8	11.0	-31.9	...	23.7	...	...
Domestic credit 2/	-4.0	19.7	9.7	-22.6	...	14.9	...	...
Government 2/	-12.4	10.7	3.2	-28.9	...	8.2	...	...
Economy 2/	8.5	9.0	6.5	6.2	...	6.7	...	...
Broad money (M2)	11.4	15.2	11.0	12.6	...	5.4	...	...
Reserve money	11.9	12.2	11.6	13.4	...	12.2	...	...
Velocity (GDP/M2; end of period)	5.7	5.4	5.4	5.6	...	5.9	...	...
National income accounts								
National savings (excluding official transfers)	0.3	-0.8	-0.1	2.4	1.5	-0.9	2.0	2.9
<i>Of which:</i> private (including public enterprises)	4.3	3.9	6.1	6.0	4.5	2.9	5.4	5.9
Gross investment	16.9	18.4	21.3	20.5	22.3	21.0	22.3	22.3
<i>Of which:</i> private (including public enterprises)	12.0	12.8	12.6	12.0	12.8	12.1	12.2	12.3
Government finance								
Total revenue (excluding grants)	12.2	13.5	13.5	13.9	13.5	14.0	14.1	14.3
Total expenditure and net lending	21.2	23.9	28.3	26.1	26.1	26.7	27.7	27.3
Capital expenditure	4.9	5.6	8.7	8.5	9.5	8.9	10.2	10.0
Current expenditure	14.8	17.8	17.8	15.9	16.5	17.2	17.0	16.7
Primary fiscal balance 3/	-1.6	-0.3	-2.6	-1.7	-2.6	-1.8	-3.7	-4.0
Domestic fiscal balance 4/	-4.2	-5.5	-7.8	-5.5	-5.2	-5.3	-6.4	-5.9
Overall balance (payment order)								
After grants	-1.7	-2.3	-2.2	-0.2	-0.7	-0.9	-1.5	-1.8
Before grants	-8.9	-10.3	-14.8	-12.1	-12.5	-12.7	-13.6	-13.0
External sector								
External current account balance								
Including official transfers	-6.7	-7.8	-6.9	-3.0	-8.2	-9.0	-7.0	-7.2
Excluding official transfers	-16.6	-19.2	-21.4	-18.1	-20.8	-21.9	-20.4	-19.4
External debt (end of period) 5/	85.3	93.4	86.6	93.3	85.7	73.7	70.8	68.4
Net present value of external debt								
(in percent of exports of goods and services) 6/	270.3	319.9	354.5	337.1	376.4	323.9	315.2	323.8
Scheduled debt-service ratio after HIPC Initiative debt relief								
(in percent of exports of goods and services)	12.0	11.1	9.6	9.7	12.7	7.9	8.6	10.2
Gross reserves (in months of imports of goods and services)	6.3	5.0	4.6	5.8	5.2	4.8	4.8	4.8
External debt (end of period) 5/	1,476.8	1,572.4	1,485.5	1,711.2	1,556.2	1,515.9	1,564.2	1,609.4
Gross official reserves	243.6	217.6	208.6	314.5	251.5	263.9	280.5	288.3
Memorandum item:								
Nominal GDP (in billions of Rwanda francs)	825.0	905.3	1,004.9	1,054.3	1,100.5	1,166.2	1,264.8	1,374.1

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Data up to 2004 based on current exchange rates, for 2005 based on program exchange rate of 566.9/US\$.

2/ As a percent of the beginning-of-period stock of broad money.

3/ Revenue excluding grants; minus current expenditure except interest due and exceptional expenditure; minus domestically financed capital expenditure.

4/ Revenue excluding grants; minus current expenditure (excluding external interest), minus domestically financed capital expenditure and net lending.

5/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2004-07).

6/ Based on assumptions about expected new borrowing. For illustrative purposes, the numbers are shown as if HIPC Initiative assistance had been delivered unconditionally as of 1999 (data available at the time of the decision point). The exports denominator is calculated using a three-year backward-looking average.

Table 2. Rwanda: Operations of the Central Government, 2002-07

	2002		2003		2004		2005		2006		2007				
					June		Sep.		Dec.		CR No.				
	CR No.	Act.	CR No.	Act.	CR No.	04/270	Act.	CR No.	04/270	Est.	Proj.	CR No.	04/270		
Revenue and grants	160.3	195.5	125.7	129.5	190.6	179.8	262.4	272.6	72.2	152.2	228.4	278.9	301.0	331.2	349.6
Total revenue	101.2	122.3	67.4	72.3	100.2	109.0	135.6	147.1	39.1	79.2	121.8	149.0	163.4	177.7	196.4
Tax revenue	94.6	114.6	61.1	64.7	92.5	98.1	126.3	134.7	36.2	73.2	110.8	139.7	150.1	163.9	175.6
Direct taxes	30.5	35.1	19.7	19.5	28.5	28.2	37.8	38.2	10.8	20.2	29.9	40.5	40.1	41.8	42.7
Taxes on goods and services	47.4	57.5	30.6	33.3	47.3	51.4	63.8	70.2	18.4	38.4	58.4	71.2	79.0	90.2	98.8
Taxes on international trade	16.7	22.1	10.8	11.8	16.8	18.4	24.7	26.3	7.0	14.7	22.5	28.1	31.0	32.0	34.1
Nontax revenue	6.6	7.7	6.3	7.6	7.7	11.0	9.3	12.4	2.9	6.0	11.0	9.3	13.3	9.8	9.8
Grants	59.1	73.1	58.3	57.2	90.4	70.8	126.9	125.6	33.1	73.0	106.6	129.9	137.6	153.5	153.2
Budgetary grants	39.3	51.0	40.9	37.0	64.3	40.5	92.1	90.8	18.5	43.7	62.8	83.4	85.4	99.6	95.4
<i>Of which: HIPC Initiative assistance</i>	12.2	11.5	7.2	7.6	10.9	11.1	15.9	14.8	3.4	7.5	11.0	19.3	18.0	20.7	20.8
Capital grants	19.8	22.1	17.4	20.2	26.1	30.3	34.8	34.8	14.6	29.2	43.8	46.5	52.1	53.9	57.7
Total expenditure and net lending	174.6	216.0	135.6	123.9	206.9	193.3	284.7	274.9	72.8	155.4	234.4	287.0	311.0	349.8	374.6
Current expenditure	122.4	160.9	81.8	74.3	127.2	117.0	178.8	168.1	47.0	99.7	148.9	181.3	200.4	214.4	230.0
<i>Of which: priority</i>	50.4	59.1	35.5	33.4	59.0	52.4	82.7	73.7	19.9	44.4	68.6	93.5	94.8	107.1	121.1
Wages and salaries	40.6	44.0	24.0	23.6	36.0	36.2	48.0	48.5	13.8	27.5	41.3	51.3	55.0	58.2	62.4
Civil	24.1	28.3	15.7	15.3	23.6	23.6	31.4	32.2	9.6	19.1	28.7	34.7	38.3	41.1	44.6
Defense	16.5	15.7	8.3	8.2	12.4	12.6	16.5	16.3	4.2	8.4	12.6	16.6	16.7	17.1	17.8
Purchases of goods and services	35.2	45.8	21.5	20.9	36.6	34.3	52.6	47.6	14.5	30.0	43.1	53.2	55.4	60.3	73.0
Civil	27.3	37.1	17.0	17.2	30.1	27.5	43.5	39.2	12.3	25.9	35.4	43.5	46.1	50.0	61.9
Defense	7.8	8.6	4.5	3.7	6.5	6.8	9.1	8.4	2.2	4.1	7.6	9.7	9.4	10.3	11.1
Interest payments	7.0	8.7	7.0	5.8	8.9	8.4	14.7	11.9	3.2	7.6	10.4	15.1	15.6	14.2	14.5
Domestic debt (due)	2.1	3.17	2.6	1.9	3.0	2.70	6.6	4.4	1.4	3.4	4.8	6.5	7.9	6.4	6.4
External debt (due)	4.9	5.53	4.5	3.9	5.9	5.70	8.1	7.5	1.8	4.2	5.6	8.7	7.7	7.8	8.1
Transfers 1/	20.4	22.2	16.3	16.7	26.1	26.8	36.2	41.8	9.9	22.1	35.6	40.1	48.6	60.2	67.2
Exceptional expenditure <i>of which</i>	19.2	40.2	13.0	7.3	19.6	11.3	27.3	18.2	5.7	12.5	18.5	21.5	25.7	21.6	13.0
FARG	4.8	5.9	3.3	2.8	4.7	4.5	6.7	6.7	2.0	3.9	5.9	7.3	7.8	8.4	9.2
Demobilization/reintegration/education	3.4	7.3	7.5	1.7	9.9	2.5	12.6	3.4	2.2	4.4	6.6	2.4	8.8	6.6	0.0
Referendum / elections / health	0.0	14.8	0.2	0.0	0.2	0.2	0.3	0.3	0.0	0.0	0.2	0.0	0.9	0.0	0.0
Capital expenditure	40.7	51.1	37.5	36.8	61.9	58.6	87.2	89.5	25.1	52.2	80.1	104.7	103.8	128.6	137.4
<i>Of which: priority</i>	1.0	3.0	2.0	1.0	3.5	1.2	5.5	5.0	3.9	11.2	13.2	7.0	14.4	28.0	31.5
Domestic	6.9	13.2	6.3	5.7	15.2	11.9	24.9	27.2	5.5	13.2	21.5	33.0	25.8	45.4	48.5
<i>Of which: Common Development Fund (CDF)</i>	1.0	3.0	2.0	1.0	3.5	1.2	5.5	5.0	3.9	11.2	13.2	7.0	14.4	28.0	31.5
Foreign	33.8	37.9	31.2	31.2	46.7	46.7	62.3	62.3	19.5	39.0	58.6	71.6	78.1	83.2	89.0
Net lending 1/	0.6	4.0	16.3	12.8	17.8	17.7	18.7	17.3	0.7	3.4	5.4	1.0	6.8	6.8	7.2
Primary balance 2/	-12.9	-2.8	-0.7	5.5	-13.6	-0.2	-26.1	-18.1	-4.6	-13.6	-19.7	-28.7	-21.5	-46.3	-54.6
Domestic fiscal balance 3/	-34.8	-50.2	-32.6	-16.6	-54.0	-31.9	-78.7	-58.1	-12.4	-32.8	-48.4	-57.7	-61.8	-81.1	-81.2
Excluding demobilization expenditures	-31.4	-42.9	-25.1	-14.9	-44.1	-29.4	-66.1	-54.7	-10.2	-28.4	-41.8	-55.3	-53.0	-74.5	-81.2
Overall deficit (payment order)	-14.4	-20.5	-9.9	5.5	-16.3	-13.5	-22.3	-2.2	-0.5	-3.1	-6.0	-8.1	-10.0	-18.5	-25.1
After grants	-73.5	-93.6	-68.2	-51.6	-106.6	-84.3	-149.2	-127.8	-33.7	-76.1	-112.6	-138.0	-147.6	-172.1	-178.2
Before grants	-1.7	-13.2	-13.0	-13.8	-14.7	-14.8	-20.1	-16.3	-7.1	-9.6	-9.9	-7.0	-10.2	-7.0	-7.0
Change in arrears 4/	-3.9	-1.0	-13.0	-13.8	-14.7	-14.8	-17.0	-17.1	-3.3	-5.9	-6.2	-7.0	-6.5	-7.0	-7.0
Domestic	2.2	-12.1	0.0	0.0	0.0	0.0	-3.1	0.7	-3.7	-3.7	-3.7	0.0	-3.7	0.0	0.0
External	-16.1	-33.7	-22.9	-8.3	-31.0	-28.3	-42.4	-18.6	-7.6	-12.8	-15.8	-15.1	-20.2	-25.5	-32.1
Deficit (-) (cash basis)															

(In billions of Rwanda francs)

Table 2. Rwanda: Operations of the Central Government, 2002-07 (concluded)

	2002		2003		2004		2005		2006		2007			
	CR No. 04/270	Act.	CR No. 04/270	Act.	CR No. 04/270	Proj.	CR No. 04/270	Proj.	CR No. 04/270	Proj.	CR No. 04/270	Proj.		
Financing	30.7	24.1	22.8	12.2	31.0	33.9	42.4	23.4	7.6	12.8	15.8	20.2	25.5	32.1
Foreign financing (net)	30.3	18.8	18.8	15.0	35.4	31.7	45.0	47.6	5.7	18.9	21.0	26.8	39.9	41.2
Drawings	41.7	21.3	25.5	23.9	44.2	42.2	54.1	62.8	4.9	20.6	25.5	36.7	53.8	56.4
Budgetary loans	27.7	5.5	11.7	13.0	23.6	25.8	26.6	35.3	0.0	10.8	10.8	10.8	24.6	25.1
Project loans	14.0	15.8	13.7	10.9	20.6	16.4	27.5	27.5	4.9	9.8	14.7	25.2	29.2	31.3
Amortization	-14.7	-17.3	-9.5	-11.7	-12.6	-15.6	-17.3	-21.4	-4.4	-7.9	-11.7	-21.7	-21.6	-21.9
Exceptional financing	3.3	14.9	2.8	2.8	3.7	5.0	8.3	6.2	5.2	6.2	7.2	5.0	11.7	7.6
Domestic financing	0.4	5.2	4.0	-2.8	-4.4	2.2	-2.6	-24.2	1.9	-1.6	-5.2	-37.6	-6.6	-14.3
Banking system treasury operations (monetary survey) 5/	2.8	5.3	7.5	-7.7	0.6	-5.8	5.3	-30.1	1.2	-1.6	2.1	-30.8	2.5	-3.9
Nonbank sector (including CSR repayment) 6/7/	-2.4	0.0	-3.5	4.9	-5.0	8.0	-8.0	5.9	0.7	-4.5	-7.3	-6.8	-9.0	-9.2
Errors and omissions 8/	14.6	-9.6	0.0	3.9	0.0	5.6	0.0	4.8	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (+)	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
Memorandum items:														
Revenue and grants	19.4	21.6	12.5	12.3	19.0	17.1	26.1	25.9	6.2	13.1	19.6	25.3	25.8	25.4
Revenue, excluding grants	12.2	13.5	6.7	6.9	10.0	10.3	13.5	13.9	3.4	6.8	10.4	13.5	14.0	14.3
Revenue, excluding grants (percent of monetized sector GDP)	23.0	25.4	12.6	13.3	18.8	20.0	25.4	27.0	6.5	13.1	20.2	25.6	27.1	27.2
Total expenditure and net lending <i>of which</i> :	21.2	23.9	13.5	11.8	20.6	18.3	28.3	26.1	6.2	13.3	20.1	26.1	26.7	27.3
Total priority expenditures 9/	6.2	6.9	3.7	3.3	6.2	5.1	8.8	7.5	1.8	4.2	6.4	9.1	8.8	11.1
Excluding energy	6.2	6.9	3.7	3.3	6.2	5.1	8.8	8.5	2.0	4.8	7.0	9.1	9.4	10.7
Including energy	14.8	17.8	8.1	7.0	12.7	11.1	17.8	15.9	4.0	8.5	12.8	16.5	17.2	17.0
Current expenditure	4.9	4.9	2.4	2.2	3.6	3.4	4.8	4.6	1.2	2.4	3.5	4.7	4.7	4.6
<i>Of which</i> : wage bill	4.3	5.1	2.1	2.0	3.6	3.3	5.2	4.3	1.2	2.6	3.7	4.8	4.8	5.3
goods and services	2.9	2.7	1.3	1.1	1.9	1.8	2.5	2.3	0.5	1.1	1.7	2.4	2.2	2.1
<i>Of which</i> : defense/security	2.3	4.4	1.3	0.7	2.0	1.1	2.7	1.7	0.5	1.1	1.6	2.0	2.2	1.7
exceptional expenditure	4.9	5.6	3.7	3.5	6.2	5.6	8.7	8.5	2.1	4.5	6.9	9.5	8.9	10.2
Capital expenditure	-4.2	-5.5	-3.2	-1.6	-5.4	-3.0	-7.8	-5.5	-1.1	-2.8	-4.2	-5.2	-5.3	-6.4
Domestic fiscal balance	-3.8	-4.7	-2.5	-1.4	-4.4	-2.8	-6.6	-5.2	-0.9	-2.4	-3.6	-5.0	-4.5	-5.9
Excluding demobilization expenditures	-1.6	-0.3	-0.1	0.5	-1.3	0.0	-2.6	-1.7	-0.4	-1.2	-1.7	-2.6	-1.8	-4.0
Overall deficit (payment order)	-1.7	-2.3	-1.0	0.5	-1.6	-1.3	-2.2	-0.2	0.0	-0.3	-0.5	-0.7	-0.9	-1.8
After grants	-8.9	-10.3	-6.8	-4.9	-10.6	-8.0	-14.8	-12.1	-2.9	-6.5	-9.7	-12.5	-13.6	-15.0
Before grants (percent of monetized sector GDP)	-16.8	-19.4	-12.8	-9.5	-20.0	-15.5	-27.9	-23.5	-5.6	-12.6	-18.7	-23.7	-24.5	-26.3
Nominal GDP (in billions of Rwanda francs)	825.0	905.3	1,004.9	1,054.3	1,004.9	1,054.3	1,004.9	1,054.3	1,166.2	1,166.2	1,166.2	1,166.2	1,264.8	1,374.1
Net credit to government (in billions of Rwanda Francs) 5/	-16.2	15.6	7.5	-15.2	0.6	-18.6	5.3	-48.1	4.7	5.0	11.9	-30.8	15.5	-3.9
<i>Of which</i> : treasury operations	2.8	5.3	7.5	-7.7	0.6	-5.8	5.3	-30.1	1.2	-1.6	2.1	-30.8	15.5	-3.9
non-treasury operations	-18.2	10.3	0.0	-7.2	0.0	-12.2	0.0	-16.3	3.3	6.3	9.3	0.0	12.4	0.0
other government	-0.8	0.0	0.0	-0.4	0.0	-0.6	0.0	-1.7	0.2	0.3	0.5	0.0	0.6	0.0

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ The transactions related to the privatization of BCR and BACAR totalling RF 4.3 bn in the fourth quarter of 2004 did not impact the fiscal balance as privatization receipts (recorded as negative net lending) were offset by a transfer of the same amount (80 percent as a required transfers for recapitalization of the banks and 20 percent as an unrequited capital transfers for the government purchasing a minority stake of 20 percent in the banks).

2/ Definition excludes exceptional expenditures; defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital expenditure.

3/ Revenue excluding grants; minus current expenditure, domestically financed capital expenditure and net lending, excluding external interest. In 2002, including the cost of the troop withdrawal. In addition, the program for 2005 includes 2 bn for recapitalization of a housing bank, which are included below the line under nonbank financing.

4/ A negative sign indicates a reduction. Arrears are shown here in a fiscal accounting sense which may deviate from the definition of the TMU used for benchmarks and performance criteria.

5/ The net credit to government has been corrected by the part of the PRSC disbursement that remained in the non-treasury accounts of the central government at end-2004. The program for 2005 includes RF 2 billion for the recapitalization of a housing bank, which are included below the line under nonbank financing.

6/ CSR = Caisse Sociale du Rwanda.

7/ Includes RF 8.8 billion in temporary credits from Union des Banques Populaires du Rwanda (UBPR) in June 2003.

8/ A negative number implies a discrepancy that is consistent with underestimation of financing.

9/ Although number was identified as a priority sector in the 2002 PRSP, spending on this sector was not included in priority expenditures until 2005. These expenditures amounted to RF11.4 billion and RF6.9 billion in 2004 and 2005, respectively.

Table 3. Rwanda: Monetary Survey, 2003-05

	2003		2004				2005				
	Act. 1/	Jun.		Dec.		Mar.	Jun.	Sep.	Dec.		
		CR No. 04/270 2/	Act 2/	Act. 1/	CR No. 04/270 2/					Est. 2/	Est. 1/
							Proj. 3/	Proj. 3/	Proj. 3/	Proj. 3/	
(In billions of Rwanda francs)											
Monetary authorities											
Net foreign assets	65.5	55.4	70.2	70.2	62.3	125.4	122.5	109.5	108.3	103.5	101.6
Foreign assets	124.3	114.2	126.9	126.8	121.0	182.5	178.3	162.1	159.1	154.3	149.6
Foreign liabilities	58.8	58.8	56.7	56.7	58.8	57.1	55.7	52.6	50.8	50.8	48.0
Net domestic assets	-15.1	-1.4	-17.2	-17.1	-4.8	-68.2	-65.3	-49.4	-46.5	-40.5	-37.4
Domestic credit	15.6	27.4	8.6	8.6	22.8	-38.7	-38.7	-20.6	-18.3	-12.9	-10.4
Government (net)	12.7	20.2	7.3	7.3	18.0	-31.4	-31.4	-27.7	-28.2	-22.3	-19.7
Claims	43.9	60.2	42.1	42.1	70.7	42.1	42.1	42.1	42.1	42.1	42.1
<i>Of which: overdraft</i>	1.5	--	--	--	--	--	--	--	--	--	--
Deposits (excluding autonomous bodies)	31.2	40.0	34.8	34.8	52.7	73.5	73.5	69.8	70.3	64.4	61.8
Public nongovernment deposits (-)	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Nongovernment credit	3.9	8.2	2.3	2.3	5.8	-6.3	-6.3	8.1	10.9	10.4	10.3
Private sector	2.4	2.4	3.0	3.0	2.4	3.3	3.3	3.3	3.3	3.3	3.3
Public enterprises	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Commercial banks	1.4	5.7	-0.9	-0.9	3.3	-9.8	-9.8	4.7	7.5	6.9	6.8
Discount window	1.4	1.0	1.5	1.5	1.4	1.6	1.6	1.4	1.3	1.1	1.0
Money market (= absorption)	--	4.7	-2.4	-2.4	1.9	-11.3	-11.3	3.2	6.2	5.8	5.8
Other items (net, asset +)	-30.7	-28.8	-25.7	-25.7	-27.6	-29.5	-26.6	-28.9	-28.3	-27.6	-27.0
Reserve money 4/	50.4	54.0	53.0	53.0	57.5	57.2	57.2	60.0	61.8	63.0	64.2
Currency in circulation	34.1	35.1	37.5	37.5	38.8	38.9	38.9	37.8	43.2	42.8	44.9
Commercial bank reserves	13.4	15.9	13.2	13.2	15.8	15.3	15.3	19.2	15.6	17.2	16.3
Nonbank deposits	3.0	3.0	2.4	2.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<i>Of which: autonomous public agencies</i>	0.7	--	0.2	0.2	--	0.6	0.6	--	--	--	--
Commercial banks											
Net foreign assets	38.7	44.5	39.1	39.0	41.9	53.1	51.9	50.1	47.6	45.1	42.6
Foreign assets 5/	49.8	55.6	51.9	51.9	53.0	63.8	62.4	60.8	58.3	55.8	53.3
Foreign liabilities	11.1	11.1	12.9	12.9	11.1	10.7	10.5	10.7	10.7	10.7	10.7
Reserves	13.4	16.0	13.2	13.2	15.8	15.3	15.3	19.3	15.7	17.3	16.3
NBR deposits	11.0	13.6	10.6	10.6	13.4	12.4	12.4	16.8	13.2	14.8	13.8
Required reserves	11.9	12.0	11.5	11.5	12.4	13.0	12.9	13.2	12.9	13.1	13.0
Excess reserves	-0.9	1.6	-0.9	-0.9	1.0	-0.6	-0.6	3.6	0.3	1.7	0.7
Cash in vault	2.4	2.4	2.6	2.6	2.4	2.9	2.9	2.5	2.5	2.5	2.5
Net credit from NBR (rediscount; liability -)	-1.4	-5.7	0.9	0.9	-3.3	9.8	9.8	-4.7	-7.5	-6.9	-6.8
Domestic credit	104.4	108.9	94.7	94.7	115.2	109.7	109.7	112.2	118.2	121.8	126.0
Government (net)	4.8	4.8	-5.0	-5.0	4.8	0.8	0.8	1.7	2.7	3.6	4.5
Credit	15.2	15.2	11.5	11.5	15.2	17.2	17.2	17.2	17.2	17.2	17.2
Deposits	10.4	10.4	16.5	16.5	10.4	16.4	16.4	15.5	14.6	13.6	12.7
Public enterprises	4.8	4.8	3.9	5.0	4.8	4.6	4.6	4.8	4.8	4.8	4.8
Private sector	94.8	99.4	94.8	94.8	105.7	104.3	104.3	105.6	110.8	113.4	116.7
Other items (net, asset +)	-25.0	-24.7	-26.5	-26.5	-24.7	-41.7	-41.7	-27.7	-27.7	-27.7	-27.7
Deposits 5/	130.0	139.0	121.4	121.4	144.9	146.2	145.0	149.2	146.3	149.6	150.3
Private	110.1	116.9	103.0	103.0	125.1	111.6	110.4	117.1	116.7	122.4	125.7
Public (nongovernment) 5/	19.9	22.1	18.4	18.4	19.9	34.6	34.6	32.1	29.6	27.1	24.6

Table 3. Rwanda: Monetary Survey, 2003-05 (concluded)

	2003		2004				2005				
	Act. 1/	Jun.		Act. 1/	Dec.		Mar.	Jun.		Sep.	Dec.
		CR No. 04/270 2/	Act. 2/		CR No. 04/270 2/	Est. 2/		Est. 1/	Proj. 3/		
(In billions of Rwanda francs)											
Monetary survey											
Net foreign assets	104.2	99.9	109.3	109.2	104.2	178.6	174.4	159.6	156.0	148.6	144.2
Net domestic assets	62.9	77.2	52.0	52.1	82.5	9.6	12.5	30.3	36.5	46.7	54.1
Domestic credit	118.6	130.7	104.2	104.2	134.7	80.8	80.8	86.9	92.5	102.0	108.8
Government (net)	17.5	25.0	2.3	2.3	22.8	-30.6	-30.6	-25.9	-25.6	-18.7	-15.2
Public nongovernment deposits (-)	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Public enterprises	4.9	4.9	5.1	5.1	4.9	4.7	4.7	4.9	4.9	4.9	4.9
Private sector	97.2	101.8	97.8	97.8	108.1	107.6	107.6	108.9	114.1	116.7	120.0
Other items (net; asset +)	-55.7	-53.5	-52.2	-52.1	-52.3	-71.2	-68.3	-56.6	-56.0	-55.3	-54.7
Broad money 5/	167.1	177.1	161.3	161.3	186.6	188.1	186.9	190.0	192.5	195.4	198.3
Currency in circulation	34.1	35.1	37.5	37.5	38.8	38.9	38.9	37.8	43.2	42.8	44.9
Deposits 5/	133.0	142.0	123.8	123.8	147.9	149.2	148.0	152.2	149.3	152.6	153.3
Of which: foreign currency deposits 5/	41.5	39.5	35.9	35.9	41.9	52.6	51.4	50.1	47.6	45.1	42.6
(Annual changes in percent of beginning-of-period broad money)											
Net foreign assets	0.3	-9.1	-2.9	3.7	0.0	44.5	42.0	35.4	30.7	21.9	-18.3
Net domestic assets	14.8	27.5	10.6	6.6	11.7	-31.9	-30.2	-18.1	-10.7	-5.6	23.7
Domestic credit	19.7	22.8	5.1	5.2	9.7	-22.6	-22.6	-13.8	-7.3	0.6	14.9
Government (net)	10.7	12.7	-2.5	-2.6	3.2	-28.8	-28.8	-21.1	-17.3	-10.5	8.2
Economy	9.0	10.1	7.6	7.8	6.5	6.1	6.1	7.3	10.0	11.1	6.7
Other items (net; asset +)	-4.9	4.7	5.5	1.3	0.0	-9.3	-7.5	-4.3	-3.4	-6.2	8.8
Broad money	15.2	18.3	7.8	10.2	6.5	12.6	11.9	17.2	20.0	16.3	5.4
(Annual percent changes)											
Net foreign assets	0.5	-12.0	-3.8	5.2	0.0	71.4	67.4	56.0	46.1	33.0	-19.2
Net domestic assets	52.1	73.2	16.8	22.6	31.2	-84.8	-80.2	-47.9	-29.8	-14.1	465.8
Domestic credit	31.8	35.3	7.9	7.9	13.6	-31.9	-31.9	-20.4	-11.3	1.0	34.6
Government (net)	810.6	313.9	-62.4	-62.4	30.3	-275.1	-275.1	-414.3	-1,228.0	1,625.8	-50.5
Economy	14.8	16.7	12.6	12.6	10.7	10.1	10.1	11.7	15.8	18.2	11.3
Other items (net; asset +)	14.6	-12.0	-14.1	-3.6	-6.2	27.8	22.6	14.3	10.9	23.4	-23.2
(In percent, unless otherwise indicated)											
Memorandum items:											
Currency/broad money ratio	20.4	19.8	23.2	23.2	20.8	20.7	20.8	19.9	22.4	21.9	22.7
Reserve money annual growth	12.2	16.2	14.1	14.1	14.0	13.4	13.4	17.0	16.5	13.7	12.2
Reserves/deposits	38.8	38.8	43.7	43.7	39.7	39.1	39.4	40.2	42.2	42.1	42.7
Money multiplier	3.3	3.3	3.0	3.0	3.2	3.3	3.3	3.2	3.1	3.1	3.1
Reserve/Deposits	10.0	11.6	...	...	10.7	11.1	...	14.3	11.3	12.1	14.3
Currency/Deposits	28.8	28.0	...	...	31.0	34.9	...	32.3	37.0	35.0	32.3
Velocity of broad money (end of period)	5.4	...	...	...	5.4	5.6	5.9	...	...	...	5.9
Velocity of broad money (average of period)	7.0	...	...	...	6.2	6.7	8.0	...	...	...	7.3
Net open position of the NBR (in RF billion)	61.4	52.2	66.0	66.0	58.9	121.2	118.4	105.5	104.5	99.9	98.2
Net open position of commercial banks (in RF billion)	1.3	5.0	7.3	7.3	--	0.5	0.5	--	--	--	--
Extended broad money (in FR billion) 6/	188.1	200.0	182.2	182.2	210.0	211.8	210.6	213.9	216.7	220.0	223.2
Nominal GDP (in RF billion)	905.3	...	...	...	1,004.9	1,054.3	1,054.3	...	...	...	1,166.2

Source: National Bank of Rwanda (NBR).

1/ Converted at the nominal exchange rate.

2/ Converted at the program exchange rate for 2004 (equal to end-year 2003 rate) of Rwanda franc (RF) 580.3/US\$

3/ Converted at the program exchange rate for 2005 (equal to the end-year rate 2004) of Rwanda franc (RF) 566.9/US\$.

4/ The definition of reserve money as performance criterion or structural benchmark differs from the definition in the monetary program in that it excludes the deposits of a defunct savings bank, import deposits, and dormant accounts. The PC and indicative targets for 2005 refer to the last day of the period.

5/ Figures include a foreign-currency deposit of RF8.4 billion that Electrogaz made in December 2004. This deposit is projected to be drawn down during the course of 2005.

6/ Broad money plus deposits in the Union de Banques Populaires de Rwanda (UBPR) and Rwanda Development Bank (BRD).

Table 4. Rwanda: Balance of Payments, 2002-07
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004		2005	2006	2007
			CR No. 04/270 2/	Est.			
Exports, f.o.b.	67.3	63.0	68.0	97.3	89.2	95.5	102.3
<i>Of which:</i> coffee	14.6	15.0	16.7	31.0	25.0	28.9	34.1
tea	22.0	22.5	24.6	22.7	21.9	24.4	26.7
cotton	14.0	6.4	5.5	12.7	10.5	9.3	8.0
Imports, f.o.b.	234.7	244.0	283.0	274.3	351.6	371.8	388.0
Trade balance	-167.4	-181.0	-214.9	-177.0	-262.4	-276.2	-285.7
Services (net)	-125.1	-143.4	-161.3	-156.2	-195.7	-185.8	-187.1
Income	-19.1	-30.5	-21.9	-34.1	-29.7	-30.0	-28.3
<i>Of which:</i> interest on public debt 1/	-10.9	-10.7	-14.3	-13.9	-13.8	-13.9	-14.1
Current transfers (net) 2/	194.8	223.8	280.5	313.1	302.5	336.3	331.6
Private	24.5	31.3	30.9	35.1	38.3	41.7	45.5
Public 2/ 3/	170.3	192.5	249.6	278.0	264.2	294.6	286.2
<i>Of which:</i> HIPC Initiative grants	25.6	23.0	27.2	27.4	31.8	36.1	35.7
Current account balance (including official transfers)	-116.7	-131.1	-117.7	-54.2	-185.3	-155.7	-169.6
Current account balance (excluding official transfers)	-287.0	-323.6	-367.3	-332.2	-449.5	-450.3	-455.7
Capital account	41.6	41.1	59.4	60.6	92.0	94.2	98.8
Capital transfers	41.6	41.1	59.4	60.6	92.0	94.2	98.8
Debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal not yet due forgiven	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	65.1	20.6	46.0	59.3	34.5	78.4	84.2
Direct investment	2.6	4.7	14.0	3.6	5.5	7.0	13.0
Public sector capital	53.0	7.7	62.4	72.0	26.6	56.4	59.0
Long-term borrowing 3/	83.9	39.9	91.9	109.3	64.8	94.0	96.5
Scheduled amortization 4/	30.8	32.2	29.5	37.3	38.2	37.7	37.5
Other capital 5/	9.5	8.3	-30.4	-16.2	2.4	15.0	12.2
Capital and financial account balance	106.7	61.8	105.4	119.9	126.5	172.6	183.1
Errors and omissions	28.3	35.7	0.0	22.0	0.0	0.0	0.0
Overall balance	18.2	-33.6	-12.3	87.7	-58.9	16.8	13.5
Financing	-18.2	33.6	0.9	-87.7	37.2	-30.1	-25.0
Change in net foreign assets of NBR (increase -)	-29.7	27.1	3.6	-98.9	43.8	-30.1	-25.0
Net credit from the Fund	-6.0	-0.9	-3.6	-3.6	-8.5	-15.3	-19.1
Disbursements/purchases	0.7	0.8	1.7	1.7	1.8	0.9	0.0
Repayments/repurchases	-6.7	-1.7	-5.3	-5.3	-10.3	-16.1	-19.1
Change in other gross official reserves (increase -)	-31.6	26.1	5.7	-96.9	50.6	-16.6	-7.8
Change in other foreign liabilities (increase +)	7.9	1.9	1.5	1.6	1.7	1.8	1.9
Change in arrears (decrease -) 6/	4.6	-22.6	-5.3	1.3	-6.6	0.0	0.0
Accumulation	5.6	1.3	0.0	1.3	0.0	0.0	0.0
Reduction	1.0	23.8	5.3	0.0	6.6	0.0	0.0
Exceptional financing 7/	6.9	29.1	2.7	10.0	0.0	0.0	0.0
Cancellation	0.6	0.6	0.3	0.6	0.0	0.0	0.0
Stock of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current debt service	0.6	0.6	0.3	0.6	0.0	0.0	0.0
Rescheduling	6.3	28.5	2.4	9.4	0.0	0.0	0.0
Stock of arrears	0.0	23.1	0.0	0.0	0.0	0.0	0.0
Current debt service	6.3	5.5	2.4	9.4	0.0	0.0	0.0
Financing need	0.0	0.0	11.4	0.0	21.7	13.3	11.6
Identified financing	0.0	0.0	11.4	0.0	21.7	13.3	11.6
<i>Of which:</i> exceptional financing (assumed) 8/	0.0	0.0	11.4	0.0	21.7	13.3	11.6
Financing gap 9/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Current account deficit (in percent of GDP)							
Excluding official transfers	-16.6	-19.2	-21.4	-18.1	-21.9	-20.4	-19.4
Including official transfers	-6.7	-7.8	-6.9	-3.0	-9.0	-7.0	-7.2
External budgetary assistance to central government (in percent of GDP)	7.9	6.3	11.7	12.2	8.3	9.8	8.8
Gross official reserves	243.6	217.6	208.6	314.5	263.9	280.5	288.3
Gross official reserves (in months of imports of goods and services)	6.3	5.0	4.6	5.8	4.8	4.8	4.8
Overall balance (in percent of GDP)	1.1	-2.0	-0.7	4.8	-2.9	0.8	0.6
Total external debt 10/	1,476.8	1,572.4	1,485.5	1,711.2	1,515.9	1,564.2	1,609.4
Total external debt (in percent of GDP)	85.3	93.4	86.6	93.3	73.7	70.8	68.4
Scheduled debt service ratio after HIPC Initiative debt relief 11/	12.0	11.1	9.6	9.7	7.9	8.6	10.2

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Including interest due to the Fund.

2/ Current transfers include budgetary and HIPC Initiative grants, and humanitarian and technical assistance.

3/ Includes project and budgetary loans.

4/ Excluding Fund.

5/ Other capital includes long-term private capital, commercial credit, the change in the net foreign assets of commercial banks, and unrecorded imports.

6/ The program assumes clearance of all outstanding arrears to non-Paris Club creditors in 2005.

7/ Signed rescheduling and cancellation, as well as reschedulings expected to be signed with Paris Club creditors.

8/ Includes assistance by multilateral and bilateral creditors under the enhanced HIPC Initiative (excluding multilateral HIPC grants). Further reflects impact of additional bilateral relief at the completion point, as well as of assumed debt relief by Rwanda's non-Paris Club creditors.

9/ The financing gap refers to the difference between the overall balance and the identified financing (actual and expected).

10/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2005-07).

Assumes a stock-of-debt operation at the HIPC Initiative's completion point in 2005.

11/ In percent of exports of goods and services. Includes impact of additional bilateral debt relief expected at the completion point as well as assumed debt relief by non-Paris Club creditors.

Table 5. Rwanda: External Financing Requirement and Sources, 2002-07
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007
Resource balance	-292.5	-324.4	-333.4	-458.2	-462.1	-472.9
Exports goods and nonfactor services	132.7	139.5	188.9	189.0	204.5	221.3
Imports goods and nonfactor services	425.2	463.9	522.3	647.2	666.6	694.2
Noninterest current account (excluding official transfers) 1/	-276.2	-312.9	-318.5	-435.8	-436.4	-441.7
Scheduled interest	-10.9	-10.7	-13.9	-13.8	-13.9	-14.1
Capital and financial account 2/	9.5	9.8	-27.7	-30.3	-15.7	-19.2
Scheduled amortization	-30.8	-32.2	-37.3	-38.2	-37.7	-37.5
Other capital	40.4	42.0	9.6	7.9	22.0	18.3
Increase in net official reserves (excluding IMF -)	-23.7	27.9	-95.3	52.3	-14.8	1.0
IMF repurchases/repayments	-6.7	-1.7	-5.3	-10.3	-16.1	-19.1
Changes in arrears (decrease = -)	4.6	-22.6	1.3	-6.6	...	...
External financing requirements	-303.4	-310.2	-459.5	-444.4	-496.9	-493.1
Disbursements-Existing	296.5	274.4	449.5	251.3	265.9	275.1
Grants (project and nonproject)	211.9	233.6	338.6	205.5	214.8	221.6
Project (Public Investment Program)	41.6	41.1	60.6	92.0	94.2	98.8
Nonproject 3/	170.3	192.5	278.0	113.5	120.6	122.7
Central government	81.0	93.9	106.6	...	...	...
Other	89.3	98.6	118.3	113.5	120.6	122.7
Loans (project and nonproject)	83.9	39.9	109.3	45.8	51.0	53.5
IDA	77.1	25.4	93.3	30.5	34.0	35.7
Project	26.5	20.7	31.9	30.5	34.0	35.7
Nonproject 4/	50.6	4.7	61.4	...	...	...
Other multilateral banks	6.8	14.5	15.9	15.2	17.0	17.8
Project	2.8	8.7	15.9	15.2	17.0	17.8
Nonproject	4.0	5.8	...	...	...	...
Purchases from IMF	0.7	0.8	1.7	...	...	...
Exceptional financing (signed)	6.9	29.1	10.0	...	...	...
Principal not yet due rescheduled 5/	...	6.7	...	...	...	...
Disbursements-Expected	...	...	...	171.5	217.8	206.4
Grants	...	...	...	150.7	173.9	163.4
Project (public investment program) 6/	...	...	...	...	...	...
Budgetary assistance (central government)	...	...	...	150.7	173.9	163.4
Loans	...	...	...	19.0	43.0	43.0
IDA	...	...	...	...	28.0	28.0
Project (public investment program) 6/	...	...	...	...	...	...
Nonproject	...	...	...	...	28.0	28.0
Other multilateral banks (excluding IMF)	...	...	...	19.0	15.0	15.0
Project	...	...	...	...	...	...
Nonproject	...	...	...	19.0	15.0	15.0
Disbursements from IMF 7/	...	...	...	1.8	0.9	...
Exceptional financing (assumed)	...	...	...	21.7	13.3	11.6
Available financing	303.4	310.2	459.5	444.4	497.0	493.1
Residual financing gap 8/	...	...	...	...	...	...

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Excludes budgetary and HIPC Initiative grants already disbursed, and humanitarian and technical assistance.

2/ Excludes project grants and loans and budgetary loans that have already been disbursed. Includes errors and omissions for past years.

3/ Includes disbursed budgetary grants to the central government (including HIPC Initiative grants), as well as grants in the form of humanitarian and technical assistance. Budgetary grants (including HIPC Initiative grants) not yet disbursed are listed under the expected financial support. Amounts are shown net of outflowing public transfers.

4/ Budgetary loans not yet disbursed are listed under the expected financial support.

5/ In 2003, it reflects the debt rescheduling agreement with the OPEC Fund.

6/ All project grants and loans are not programmed financing and are therefore recorded under existing commitment.

7/ Includes expected Fund disbursements under the current PRGF arrangement.

8/ A negative sign implies a financing gap.

Table 6. Rwanda: External Public Debt and Debt Service, 2002-07 1/
(In millions of U.S. dollars, unless otherwise indicated; end of period)

	2002	2003	2004	2005 Proj.	2006 Proj.	2007 Proj.
Total external debt outstanding 2/	1,476.8	1,572.4	1,711.2	1,515.9	1,564.2	1,609.4
Multilateral	1,334.7	1,388.6	1,521.8	1,484.1	1,534.1	1,581.1
<i>Of which:</i> IDA	833.9	912.9	1,045.7	1,045.1	1,124.1	1,203.8
IMF	83.7	91.9	92.2	78.9	64.6	46.5
Bilateral	142.2	183.7	189.5	31.8	30.1	28.3
Paris Club 3/	74.7	89.0	94.9	0.0	0.0	0.0
Non-Paris Club	67.4	94.8	94.5	31.8	30.1	28.3
Debt service due 4/	48.4	44.6	56.5	61.7	66.9	69.7
Principal	10.9	10.7	13.9	13.8	13.9	14.1
Interest	37.6	33.9	42.6	48.0	53.0	55.7
Total debt relief 5/	32.5	29.1	38.2	46.9	49.4	47.2
Multilateral	25.6	23.0	28.2	36.8	43.4	42.2
Bilateral 5/	6.9	6.1	10.0	10.1	6.1	5.0
Debt Service after HIPC Initiative assistance	15.9	15.5	18.3	14.8	17.5	22.5
Principal	12.7	12.3	10.6	8.7	11.8	16.3
Interest	3.2	3.3	7.7	6.2	5.7	6.2
Memorandum items:						
Total debt stock (in percent of GDP)	85.3	93.4	93.3	73.7	70.8	68.4
Debt service due (in percent of)						
Exports of goods and services	36.5	32.0	29.9	32.7	32.7	31.5
Government revenue 6/	22.9	19.6	22.2	21.4	21.6	20.7
Government current expenditure and net lending	13.2	11.1	11.8	11.3	11.0	10.9
Debt service after HIPC Initiative (in percent of)						
exports of goods and services	12.0	11.1	9.7	7.9	8.6	10.2
Government revenue 6/	7.5	6.8	7.2	5.1	5.6	6.7
Government current expenditure and net lending	4.3	3.9	3.8	2.7	2.9	3.5
Net present value (NPV) of debt (in US\$ million) 7/	395.933	457.742	518.104	558.646	611.921	663.723
NPV of debt-to-exports ratio 7/ 8/	270.3	319.9	337.1	323.9	315.2	323.8

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Based on WEO exchange rate projections for 2005-07.

2/ After rescheduling, including arrears and new debt (the latter includes assumed project and budgetary disbursements for the period 2005-07). Assumes a stock-of-debt operation at the HIPC Initiative's completion point in 2005.

3/ All Paris Club debt is pre-cut-off date debt.

4/ Including Fund, before debt relief.

5/ Reflects traditional debt relief for bilateral creditors as well as enhanced HIPC Initiative assistance for both multilateral and bilateral creditors. Also includes additional bilateral debt relief delivered at the completion point.

6/ Excluding grants.

7/ After unconditional delivery of HIPC Initiative assistance and additional bilateral debt relief.

8/ The exports denominator is calculated using a three-year backward-looking average.

Table 7. Rwanda: Outstanding Structural Conditionality of the First, Second, and Third Reviews Under the PRGF-Supported Program

(Had not been implemented at the time of the second and third reviews, 2002–04)

Action	Timing	Conditionality	Status
· Incorporate any extra budgetary and off-budget projects and transactions identified by the recent stocktaking exercise into the budget to the extent appropriate.	12/31/2002 First review	Benchmark	In progress. The government adopted a law in 2003 prohibiting the public administration from incurring any extra-budgetary expenditures. In addition, a large number of off-budget activities have been included such as national tender board and privatization secretariat.
· Develop and implement a mechanism to ensure that all borrowing by district governments is reported to the central government on a monthly basis.	12/31/2002 Second review	Benchmark	In progress. The computerized reporting system has now been extended to provincial levels. Districts will be connected in 2005.
· Issue the tender for the sale of Rwanda Commercial Bank (BCR)	6/30/2003 Second review	Benchmark	Met. BCR sold in December 2004.
· Establish written procedures to ensure that monetary data used for program monitoring purposes are in accordance with the TMU and can be reconciled to the accounting records. External audit firm to complete, subsequent to the completion of the audit of the NBR's 2002 financial statements, a review of the consistency between data reported to the IMF and the audited financial statements.	8/31/2003 Second review	Benchmark	Procedures established and audit of consistency completed in May 2004.
· Implement a monthly reporting mechanism for the financial operations of all districts	9/30/2003 Second review	Benchmark	In progress. See above.
· Submit Organic Budget Law to parliament	9/30/2003 Second review	Benchmark	Met. Submitted to parliament in June 2004.
· Submit revised investment code to parliament, repealing indirect and direct tax provisions of the code, excepting those of a purely administrative nature, and removing the discretionary authority of the Rwanda Investment Promotion Agency to issue tax incentives.	12/31/2003 Third review	Performance criterion	Met. Investment code submitted to parliament in September 2004.
· Issue financial instructions in order to promote effective expenditure control.	1/31/2004	Performance criterion	In progress. A draft version has been submitted to cabinet at end-September 2004.
· Incorporation of tax incentives into the structure of the income tax, applicable, in principle, to all taxpayers.	3/31/2004 Third review	Performance criterion	Met. Submitted to parliament at end-September 2004.

Table 8. Rwanda: Structural Conditionality for the Fourth and Fifth Review of the PRGF-Supported Program, 2002–04

Action	Timing	Conditionality	Status
· External audit firm to complete the audit of the NBR's 2003 financial statements	6/30/2004 Fourth review	Benchmark	Not met. Completed in August 2004.
· Submit revised 2004 budget to parliament	6/30/2004 Fourth review	Performance criterion	Waiver required. Submitted at end-July 2004.
· Finalization of action plans, including progressive penalties, for bringing commercial banks into full compliance with banking regulations by 12/31/04	6/30/2004 Fourth review	Benchmark	Partly met. While action plans were adopted as scheduled for five of the six banks by end-June, the action plan for the sixth bank was signed in December 2004. With the exception of the latter, all banks were in compliance with all the regulatory requirements at end-2004.
· Cabinet approval for export promotion action plan	9/30/2004 Fourth review	Benchmark	Met.
· Monthly reconciliation statements for government financial statements to be published on a quarterly basis, with no more than a one-month lag	10/31/2004 Fifth review	Benchmark	Not met. A December reconciliation statement of the Treasury and the Rwanda Revenue Authority accounts will be published as a prior action for circulating the staff report to the Board. Reconciliation statements including line ministries, provinces, autonomous agencies, and extra-budgetary funds will be published by end-2005 (benchmark).
· Statements, including tax expenditure, assets and liabilities, public enterprise finances, government equity holdings; consolidated district government budget; and list of government contingent liabilities to be included in the 2005 budget	10/31/2004 Fifth review	Benchmark	Partly met. The 2005 budget did not include statements of assets and liabilities and a list of government contingent liabilities. The 2005 supplementary budget and the 2006 budget, will include all the statements with the exception of an inventory of assets and liabilities. The inventory of assets and liabilities of at least two line ministries, one province, and two districts will be completed by end-2005 as a pilot.

Table 9. Rwanda: Proposed Phasing of Disbursements Under the PRGF Arrangement, 2002–05

Date	Description	Amount	
		(In millions of SDRs)	(In percent of quota)
August 12, 2002	Three-year arrangement approved		
August 16, 2002	First disbursement	0.574	0.7
June 13, 2003	First review completed		
June 23, 2003	Second disbursement	0.571	0.7
June 9, 2004	Second and third review completed		
June 16, 2004	Third and fourth disbursement	1.142	1.4
April 6, 2005	Fourth review completed		
April 6, 2005	Fifth disbursement	0.571	0.7
July 31, 2005	Fifth review completed		
July 31, 2005	Sixth disbursement	0.571	0.7
End-November, 2005	Sixth review completed		
End-November, 2005	Seventh disbursement	0.571	0.7
	Total	4.000	5.0

Kigali, March 25, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Rato:

After having successfully devoted our efforts to achieve a broad-based recovery from the devastating genocide in 1994, Rwanda is now focusing on the implementation of an ambitious agenda to enhance the growth potential of our economy and reduce poverty, with a view to achieving middle-income status by 2020. Based on our PRSP, which was adopted in 2002 after consultation with all stakeholders of society, and the two annual progress reports, we intend to pursue strong policies to raise productivity, particularly in the agriculture, infrastructure, and export sectors, which we believe will be key to raising the living standards of Rwandese.

Being aware of the importance of regional peace for the economic development of the Great Lakes region, the Government of Rwanda (GoR) is determined to continue contributing to peace building efforts in the region, in cooperation with regional partners, the African Union, and the United Nations Organization, as demonstrated in our participation in the Great Lakes Summit in Dar es Salaam and successive meetings of the African Union in Gabon and Abuja. Performance under the PRGF arrangement strengthened considerably in 2004. All quantitative performance criteria and indicative targets for end-June were met, with the exception of the performance criterion on priority spending. The latter was affected by a temporary spending restraint following a delay in external disbursements. But as the release of disbursements since then has allowed priority spending to reach the programmed level (excluding contingency spending, which we used to address the electricity crisis) and the nonobservance was of a temporary nature, we are requesting a waiver for the nonobservance of the quantitative PCs on priority spending for end-June 2004. Moreover, as the submission of the revised 2004 budget was delayed by two weeks, we are also requesting a waiver for the nonobservance of the related end-June structural performance criterion as the nonobservance was temporary.

In support of our policies described in the attached Memorandum of Economic and Financial Policies (MEFP), the GoR requests the completion of the fourth review under the PRGF arrangement and the disbursement of the fifth loan in an amount equivalent to SDR 0.571 million. It also requests an extension of the current PRGF arrangement to February 11, 2006 to allow for the disbursement of the rephased amounts.

With the completion of the fourth review under the PRGF arrangement, the GoR expects to reach the completion point under the Enhanced HIPC Initiative. Moreover, since there was a large deterioration in the NPV of external debt to exports ratio since the decision point due to a fundamental change in Rwanda's economic circumstances caused by exogenous factors, the GoR intends to request additional topping up from its creditors.

The GoR believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but we stand ready to take any further measures that may become appropriate for this purpose. Rwanda will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s /

François Kanimba
Governor
National Bank of Rwanda

/s/

Donald Kaberuka
Minister of Finance and
Economic Planning

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Rwanda

March 25, 2005

I. INTRODUCTION

1. **Rwanda's medium-term economic program is supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) covering the period 2002–05.** The implementation of its poverty reduction strategy is receiving broad-based support from the international community. Consistent with the goals established in the poverty reduction strategy paper (PRSP) and recommendations in two progress reports, this memorandum summarizes the broad economic objectives for the medium term and updates the macroeconomic framework and structural agenda for 2005. Subject to satisfactory performance, we hope that Rwanda will attain the completion point under the Enhanced HIPC Initiative by the beginning of April.

II. PROGRAM PERFORMANCE DURING 2004

2. **Economic performance improved in 2004, but was adversely affected by exogenous shocks.** Real GDP growth is estimated to have recovered to about 4 percent in 2004, driven by construction, transport, and communication. However, growth in the other parts of the formal sector is estimated to have been weak because of an electricity shortage and increasing energy prices. Moreover, despite an increase in export crops, agricultural production remained flat. Higher energy and food prices raised annual inflation to 10.2 percent at end-December, but underlying inflation remained stable.

3. **While the domestic fiscal balance in 2004 remained broadly at its 2003 level, fiscal policy shifted toward priority spending and capital investments.** The revenue ratio rose to 14 percent of GDP, as the adverse impact on direct taxes from corporate losses due to higher oil prices and electricity shortages was more than offset by an increase in indirect taxes and one-off nontax revenue. Priority spending (including investment in the electricity sector) and capital spending increased by 1.5 percent of GDP, and 2.9 percent of GDP, respectively. This was made possible by a large reduction in exceptional spending mostly related to the 2003 elections and demobilization spending. To address the electricity crisis, the government transferred to Electrogaz about one percent of GDP in December 2004 to purchase additional generators and accessories, and rehabilitate the network.

4. **The 2004 external current account deficit (excluding official transfers) narrowed to 18 percent of GDP.** A good coffee harvest and a strong pick-up in tin and coltan exports raised the value of merchandise exports by 54 percent. This was, however, offset by a 13 percent increase in the value of imports, because of strong demand for fuel as well as food and other consumption goods, including pharmaceuticals. Large donor inflows not only financed the current account deficit, but also allowed for a significant accumulation of international reserves of about US\$100 million, raising the reserve cover to 5.8 months of imports from 5.0 months at end-2003. Reflecting these developments, the Rwandan franc

appreciated slightly against the U.S. dollar, and the real exchange rate appreciated by about 8 percent for end-2004.

5. **The National Bank of Rwanda (NBR) kept reserve money growth close to agreed ceilings.** Total bank deposits grew by 11 percent in 2004, mainly because of deposits made by Electrogaz in December 2004. As a result, broad money growth was slightly higher than anticipated. At the same time, credit to the private sector is estimated to have grown by about 11 percent (or remained unchanged in real terms). Lending was restrained for several reasons, including continuing balance sheet weaknesses in some of the commercial banks and the restoration of reserve requirements by all but one bank. The NBR implemented a set of safeguards recommendations and extended the maximum weekly variation in the fixing of the exchange rate, as a step toward increased exchange rate flexibility.

6. **The pace of structural reforms accelerated:**

- In the financial sector, the five commercial banks, with which the NBR had agreed on action plans in June 2004 to bring them into compliance with prudential requirements, have met all requirements at end-2004; there is only one bank that is not complying with some requirements.¹ Foreign investors bought the majority shares in two commercial banks. Moreover, an external auditor completed the audit of the NBR's 2003 financial statements in August 2004.
- The streamlining of the tax system continued with the submission to the Parliament in September 2004 of a revised investment code, a new tax procedures code, and a draft income tax law. The latter eliminates ad hoc exemptions, lowers the tax rates, and provides for tax holidays in the exporting processing zone and free trade zones.²
- The Rwanda Revenue Authority (RRA) was reinforced. A Large Taxpayer Department (LTD) and an Internal Revenue Department (IRD) replaced the former VAT and income tax departments. There have also been efforts to modernize customs administration with the launch of the ASYCUDA++ IT system in the two main customs offices, the termination of Pre-Shipment Inspection (PSI) services and the submission of a new customs code to Parliament in September 2004.
- The improvement of public financial management continued. A major overhaul of the legal framework was undertaken with the submission to parliament of a procurement code and the organic budget law, and the approval by Cabinet of the financial regulations supporting the budget law in September 2004. Moreover, a Treasury Management Committee (TMC) was created to coordinate central government

¹ The bank is in breach of two regulations: (i) lending to parties related to the bank's owners; and (ii) the ratio of fixed immobile assets relative to equity capital.

² These three laws are expected to be adopted in early 2005.

financial operations in collaboration with the central bank and the RRA. At the same time, the Treasury Department created a cash management unit (CMU) to improve cashflow projections and the Budget Department established a fiscal unit to consolidate budgets for districts and autonomous agencies, and the collection of extrabudgetary fees and charges. To enhance transparency, the Auditor General published the report on 2002 government operations and transmitted the report on 2003 government operations to Parliament.

- In September, Cabinet approved an export promotion strategy and also created an Export Promotion Commission that reports to Cabinet. In addition, the Rwanda Investment Promotion Agency (RIPA) was restructured to become the Rwanda Investment and Export Promotion Agency (RIEPA), to serve as a focal point to coordinate the decentralized implementation of the strategy. Action plans for key sectors of the strategy, including coffee, tea, and tourism, are currently being designed.
- A reform strategy for the civil service has been implemented at the central government level, including: (i) Cabinet approval of a new administrative structure, designed to improve administrative efficiency and move toward decentralization; (ii) a new pay structure; and (iii) the identification of staff to be retrenched (504) or redeployed (150) in the central administration.

7. The government continued to limit the use of highly concessional loans to finance its development efforts and Rwanda's external debt stock increased to US\$1.7 billion at end-2004. However, due to higher US\$ GDP growth, the debt stock as a ratio of GDP is expected to remain broadly at the 2003 level of 93 percent. We have taken the following actions to improve our debt situation:

- In June 2004, the Government repaid in full guarantees for a nonconcessional foreign loan issued in August 2003 in connection with a major hotel project.
- The Government signed a new loan with the Arab Bank for African Development (BADEA), bringing a joint financing package from BADEA and the OPEC Fund above the—previously missed—concessional threshold of 50 percent, which is stipulated in the PRGF arrangement as a continuous performance criterion.
- Rwanda's Paris Club creditors offered an extension of the consolidation period on the basis of Cologne terms to June 30, 2005, and the Government continued its efforts to reach agreements on debt cancellations or reschedulings with the remaining Paris Club and non-Paris Club creditors.³

³ Paris Club creditors agreed to extend the deadline for reaching bilateral agreements through March 31, 2005. Regarding the group of non-Paris Club creditors, agreements are still outstanding with the Abu Dhabi Fund, and Libya. In addition, the government intends to secure additional debt relief from the Kuwait Fund, the People's Republic of China, and the Saudi Fund at the time of the completion point under the enhanced HIPC Initiative.

8. **In terms of the fourth review under the PRGF arrangement, all but three performance criteria were observed.** The quantitative performance criterion on priority expenditures was missed by 0.2 percent of GDP by end-June 2004, when spending was restrained in response to a temporary delay in donor disbursements. The continuous performance criterion on the nonaccumulation of external arrears was missed, but the payments have been made in July 2004. The revised 2004 budget was submitted a few weeks later than expected in July and as a result, the related structural performance criterion was missed. One structural benchmark relating to the Cabinet approval of the export promotion strategy was met. Implementation of two other structural benchmarks were delayed: the agreement with banks on action plans to bring them into compliance with regulatory provisions, and the completion of an audit of the 2003 NBR financial statements.

III. THE MEDIUM-TERM STRATEGY

9. **Rwanda aims at achieving a large increase in per capita income to make a sizable dent in poverty.** Despite significant progress during the last decade, about two thirds of Rwandans still live in poverty. In recognition of this challenge, the government has developed the Vision 2020 long-term strategy document, which targets middle-income status by 2020 as the key long-term economic policy objective for Rwanda. Our efforts to enhance growth will be accompanied by projects to support the attainment of the Millennium Development Goals (MDGs) and improve living conditions in the country, in particular for the poorest members of society.

10. **To strengthen real growth over the medium term, the government is determined to swiftly implement the sectoral policies outlined in the PRSP.** In close cooperation with our external partners, the government has formulated productivity-enhancing strategies in key sectors including agriculture, energy, water, health, and education. Given the early stage of strategy implementation in many sectors, a subdued growth performance in the 2003–04 period, as well as volatile commodity prices, the government acknowledges that macroeconomic policies for the 2005–07 period must be based on achievable but prudent growth estimates.

11. **Our policies will have to be geared toward managing the large inflows of external development aid.** Macroeconomic stability as evidenced, in particular, by a low and predictable rate of inflation and a prudent level of central bank international reserves, will remain a priority to provide the basis for sustainable high economic growth. Efforts to strengthen administrative capacity, particularly in the area of public expenditure management, will need to continue to ensure an efficient allocation of public resources in line with recommendations in the PRSP. To offset the potential negative impact of a real exchange rate appreciation on the profitability of the tradable goods sector, it will be crucial to implement productivity-enhancing policies that remove structural bottlenecks, improve infrastructure, and reduce rents in the production process.

12. **The impact of new, donor-financed spending programs on fiscal and external sustainability needs to be closely monitored.** In this regard, we are committed to

developing our domestic revenue base, with the aim of reducing, in the longer term, the country's dependence on external financing. To make the impact of current spending decisions on future fiscal sustainability more transparent and improve budget planning, we are in the process of developing a medium-term fiscal framework. We also acknowledge the need to develop our export base and strictly limit new borrowing, even on highly concessional terms, to the minimum possible to prevent a further worsening of our external debt situation. In this regard, we will continue our efforts to mobilize more grants from development partners.

13. **The cornerstone for Rwanda to improve external debt sustainability is to reach the Completion Point under the Enhanced HIPC Initiative in early 2005.** With a strong implementation of the current PRGF-supported macroeconomic program and all of the other floating completion point triggers being substantially met, the government is confident to reach this critical objective, which would trigger substantial debt relief from Rwanda's external creditors committed at the time of the decision point.⁴ To this aim, the country's creditors have been contacted to confirm their participation in the completion point debt operation, and an updated debt sustainability analysis was conducted in cooperation with Debt Relief International. Given that Rwanda's NPV of debt-to-exports ratio is projected to remain substantially above the HIPC Initiative's 150 percent threshold even after full delivery of the debt relief committed at the decision point, and that most of the change in the NPV of debt-to-exports ratio since end-2000 is likely to have been caused by a fundamental change in Rwanda's economic circumstances due to exogenous factors, the government intends to request additional topping up from its creditors.

IV. THE PROGRAM FOR 2005

14. **The 2005 program will preserve macroeconomic stability while advancing the medium-term agenda to foster strong and sustainable growth.** The policy framework is based on five pillars: (i) improving the quality of spending by increasing spending in priority areas to strengthen Rwanda's growth potential and reduce poverty; (ii) further improving the public finances by reinforcing expenditure management and tax administration as well as implementing civil service reform; (iii) raising Rwanda's export base by addressing vulnerabilities in the sector; (iv) supporting private sector growth by strengthening the financial sector and progressing in land reform; and (v) reducing the role of government in the economy by privatizing public enterprises.

15. **The government's macroeconomic objectives for 2005** are to sustain GDP growth at 4-5 percent; reduce end-year inflation to 6 percent, including an impulse of 2 percent from increased electricity tariffs; and maintain gross international reserves equivalent to at least 4.8 months of imports.

⁴ Rwanda's decision point document shows that, on the basis of end-1999 parameters, debt relief of about US\$452 million in NPV terms would be necessary to bring the end-1999 NPV of debt-to-exports ratio down to the HIPC Initiative's threshold of 150 percent.

A. Macroeconomic Policies

Fiscal policy

16. **The fiscal program aims to reprioritize spending to strengthen growth and reduce poverty.** While the program maintains the revenue-to-GDP ratio at its 2004 level, priority spending (including

	2004	2005
Revenue and grants	25.9	25.9
Revenue	13.9	14.0
Grants	12.0	11.9
Total Expenditure and net lending	26.1	26.7
Domestic fiscal balance (excluding contingency expenditures) 1/	-5.3	-4.5
Contingent expenditure	0.0	2.0
Domestic fiscal balance (including contingent expenditures) 1/	-5.3	-6.5

Source: Authorities' data and IMF estimates.

1/ The domestic fiscal balance excludes demobilization expenditures.

spending for the electricity sector) is expected to grow by at least about 1 percent of GDP, financed from external budgetary assistance and cuts in nonessential spending. The domestic fiscal deficit (excluding demobilization spending) is projected to fall to 4.5 percent of GDP from 5.3 percent of GDP in 2004. However, it would be adjusted upward by up to 2 percent of GDP to allow additional spending contingent on additional grant financing and reserve money growth remaining in line with program limits. The contingency would be released in equal amounts for priority and nonessential spending. The Minister of Finance has made a press statement on February 25 in line with these understandings, indicating that the changes to the budget would be done during the June Budget Revisions.

17. **The revenue ratio is expected to stay at 14 percent of GDP.** Revenue from oil related taxes is expected to increase from diesel imports for the new generators and the adjustment of the reference price used for oil taxation purposes to its 2003 level. This will offset the revenue loss from a reduction in direct taxes and duties on imported raw material. Reforms to strengthen revenue administration will continue, in particular with a view to widening the tax net and making it more equitable:

- Efforts to realize efficiency gains in tax administration will continue, centering on the new Large Taxpayers Department (LTD) responsible for about three quarters of domestic tax revenue. To this aim, clear criteria for the inclusion of taxpayers into the LTD have been defined; self-assessment will be introduced upon approval of the income tax law; the new SIGTAS computer system will be launched in March 2005; and 25 risk-based comprehensive audits (i.e., including all taxes) of large businesses will be completed in the LTD in January–April 2005 (structural benchmark). A feasibility study is being conducted with a view to integrate the LTD and IRD under a single responsibility and strengthen the links between tax and customs administration by establishing either a single operational policy unit serving both departments or separate units within the departments by end-March 2006.
- To broaden the tax base, an action plan to reduce tax incentives, including tax holidays, and exemptions will be submitted to Cabinet by end-September 2005. This plan will be based on a comprehensive review of such tax breaks, undertaken in 2004

with support of DFID, and supported by a new monitoring and monthly reporting system for tax incentives and exemptions introduced in September 2004.

18. **The expenditure program aims at increasing the share of priority spending within the overall expenditure envelope.** Even including the contingency, nonpriority spending will decline by 0.6 percent of GDP compared with 2004. A payment to honor a government guarantee linked to a large hotel project (1/3 percent of GDP),⁵ and outlays on peace keeping (0.3 percent of GDP),⁶ opening of embassies (0.1 percent of GDP), the recapitalization of a housing bank (0.1 percent of GDP), and a temporary fuel subsidy (0.4 percent of GDP; see para. 22) will be more than offset by cuts in net lending and goods and services spending for some ministries. At the same time, priority spending will increase by 0.8–1.7 percent of GDP, depending on whether the contingency can be released.⁷ Priority spending will focus in particular on education, health, electricity, and water. The budget for 2005 also includes 0.6 percent of GDP in arrears repayments to the private sector and the Caisse Sociale du Rwanda (CRS), as part of a medium-term repayment plan based on an audit by the Auditor General's office.

19. **The continued strengthening of public expenditure management remains a priority to ensure a transparent and efficient execution of the spending program.** At the core of the agenda is the implementation of the new organic budget law and the associated financial regulations. In particular, the focus in 2005 will be on actions to improve accounting and reporting of government operations, to be implemented with assistance from our development partners:

- **Domestic borrowing requirement.** In order to better monitor the full domestic borrowing requirement of the central government, the definition of net domestic financing of the government will be extended to include sales of Treasury bills to the nonbank sector, but to exclude project accounts, which are not under the control of the central government.
- **Improved accounting critically hinges on systematic reconciliation.** To this aim, a framework for the regular reconciliation between banking and accounting data will be

⁵ About 2/3 percent of GDP of the remaining government guarantees related to the hotel project have been rolled over into 2007 and 2008 through restructuring agreements signed in March 2005.

⁶ To monitor the costs associated with the peace keeping activities, the Auditor General will conduct an audit of these expenditures that will be published by end-March 2006.

⁷ While the PRSP had identified electricity as a priority sector, the definition of priority spending in 2004 had excluded spending in this sector. The definition of priority spending in 2005 has been revised to include such spending in line with our development priorities that call for major investment in power generation to overcome the current electricity crisis and provide a basis for strong output growth in Rwanda (see paragraph 21).

implemented,⁸ calling for the regular publication with no more than one month lag of monthly reconciliation statements by (i) the Treasury for the main treasury account at the NBR; (ii) the Rwanda Revenue Authority for its revenue collection accounts and transit accounts; (iii) line ministries for their bank accounts for cash-based operations; and (iv) provinces, autonomous agencies, and extra-budgetary funds for their accounts (end-December 2005 benchmark for the publication of the November reconciliation statement).

- **Reporting practices will be strengthened in line with the provisions in the new organic budget law.** The government will make the timely production of consolidated annual accounts for 2004, as well as their audit by the Auditor General by end-June 2005, a priority. In addition, we will (i) implement monthly reporting from line ministries on donor funded expenditure (in particular AfDB, EU, DFID, and the World Bank); (ii) establish an inventory of all extra-budgetary resources; (iii) report on a monthly basis financial operations by autonomous agencies and extra-budgetary funds; and (iv) consolidate district fiscal reports by the Ministry of Finance. In particular, a consolidated general government fiscal report (covering the central government, including project accounts, provinces, at least 70 percent of the districts, autonomous agencies and extra-budgetary funds) will be prepared on a quarterly basis starting in December 2005 (benchmark on the basis of September data). These improvements will be facilitated by the implementation of the SIBET II computer system in 2005.
- **Budget presentation.** Budget documentation for the 2005 supplementary budget and the 2006 budget, will include all the statements that were expected to be annexed to the 2005 budget with the exception of a comprehensive inventory of assets and liabilities. As a pilot, we will complete the inventory of physical assets of at least two line ministries, one province, and two districts by end-December 2005.
- **The cashflow planning exercise and the Treasury Single Account (TSA) will be introduced in 2005 to improve treasury operations.** As a first step, 80 percent of line ministries' accounts (except for the bank accounts for donor-financed projects) will be converted into zero-balance accounts by end-May 2005 (benchmark), followed by a conversion of all accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies into zero-balance accounts by end-September (performance criterion). These accounts will be integrated in the TSA by end-December 2005 (benchmark). This should be extended to semi-autonomous agencies and possibly to some externally-funded project accounts in 2006.

⁸ The Public Accounts Department has prepared instructions for routine reconciliation. In this regard, the Treasury and the Rwanda Revenue Authority has started publishing reconciliation statements for their accounts in March 2005.

- **Better integration of the recurrent and development budgets will be pursued** and the unit in charge of the development budget preparation in CEPEX will be integrated in the budget department of the Ministry of Finance by June 2005.

20. **Civil service reform will continue at the central government level, and be further rolled out to provinces and parastatals.** A new pay structure is expected to be implemented in 2005, which will simplify the old pay structure and integrate benefits into the base pay. The 2005 budget includes retrenchment costs of RF 0.5 billion and an additional RF 1 billion for the design of training courses, the funding of income-generating activities for redeployed public servants, and the provision of scholarships for staff in retraining.

21. **With a view to resolving the energy crisis, the government will provide funds for the installation of additional generator capacity and the rehabilitation of the electricity network.** The electricity sector is key for growth as it will have spillover effects to other sectors, particularly agriculture, export promotion, and private sector development. The increased electricity supply will allow farmers to employ more modern technologies, and improve the capacity of production in tea and coffee factories, but also facilitate an expansion of the manufacturing sector. Proposed actions for 2005–07 are (i) the rehabilitation of Electrogaz' infrastructure; (ii) acquisition of additional diesel-fueled generators; (iii) construction of micro-dams; and (iv) the implementation of programs generating alternative energy sources (e.g., biogas). Our efforts in this sector will be complemented by a World Bank emergency energy loan of US\$25 million, augmented by US\$6 million in grant financing from the Nordic Fund.

22. **In March 2005, we signed a contract with a foreign consortium to extract methane gas from Lake Kivu, and to convert the gas for electrical power generation.** For 2005, the project will involve costs of Euro 5.1 million (0.3 percent of GDP) for the purchase of an equity share of 30 percent in the company and about 0.1 percent of GDP for transmission lines. These costs have been included in priority spending in the electricity sector. Over 2006–08, the government will lend an additional Euro 14.6 million to the gas extraction company. Moreover, the government will finance a letter of credit of Euro 2.7 million and provide a guarantee to the company for a minimum commitment to purchase of Euro 10.7 million. Thus, the maximum government cost for the project (excluding transmission line spending in 2005) is limited to Euro 33.1 million (or 2½ percent of 2005 GDP). The contract does not involve any other costs to the government, including contingent liabilities. In particular, as the program sets limits on the contracting or guaranteeing of new public nonconcessional external debt, this project will not involve any such financing, including in the form of government guarantees. The medium-term fiscal implications will be covered by the next review in close cooperation with World Bank staff. Moreover, to improve the financing prospects of the project, we have requested a partial risk guarantee from the World Bank and are also seeking the participation of the International Finance Corporation. We will only go forward with this project after securing such a risk guarantee either by the World Bank or another development agency.

23. **To avoid quasi-fiscal losses, we have raised the electricity tariff to cover the additional costs associated with the relatively expensive petroleum-based production technology (including petroleum taxes).** The new tariff of RF 82 per kWh envisages quarterly adjustments to reflect changes in the cost of diesel purchases by Electrogaz. This adjustment mechanism is needed to take into account the effect of both changes in international oil prices and rising fuel demand for electricity generation on Electrogaz' operating costs. As the tariff does not cover Electrogaz' payments for taxes related to the fuel imports, a temporary fuel subsidy has been included in the budget. We will gradually increase the tariff further with a view to reaching full cost-recovery with the time table to be decided in cooperation with the World Bank at the time of the next review. The tariff will be restructured to allow some cross-subsidization of the poorer segments of the population.

Monetary policy

24. **The NBR will continue to use broad money as the nominal anchor to control inflation, with reserve money as the operational target.** To reduce headline inflation to 6 percent, it will limit year-end reserve money growth to 12 percent, slightly less than in 2004. Projections indicate that this would allow broad money and extended broad money to grow by 5½ percent and create room for an expansion of credit to the private sector by 12 percent.⁹ The NBR will monitor inflation developments carefully and stand ready to tighten the stance should new inflationary pressures emerge, while aiming at gross international reserves of at least US\$264 million by end-2005. At the same time, it will monitor developments in money demand to assess whether the unusual rise in currency in circulation observed in 2004 will persist in 2005. Starting in 2006, the NBR will target the extended broad money aggregate including deposits of the Union de Banques Populaires de Rwanda (UBPR) for its monetary program.

25. **Consistent with the use of reserve money as the operational target, the exchange rate of the Rwandan franc will remain market-determined.** With gross international reserves at a comfortable level, the NBR will step up market sales of foreign exchange as necessary. Sterilization of government spending through foreign exchange sales could result in some nominal exchange rate appreciation, which would help to keep the inflation objective under the program. To improve the operation of the foreign exchange auctions, we have increased the variation in the margin by which the exchange rate can vary from the previous day's exchange rate to +/-RF 5 and will finalize a study by end-March 2005 on ways to further increase flexibility.

External sector

26. **The external current account deficit, excluding current official transfers, is projected to widen to about 22 percent of GDP in 2005.** This partially reflects the

⁹ Broad money at end-2004 includes foreign currency deposits of RF10 billion of Electrogaz, which will be drawn down in the course of 2005.

expectation of slightly lower merchandise export earnings compared to 2004, caused by a decline in unit prices for minerals and a return to more normal coffee export volumes after the exceptional 2004 performance.¹⁰ However, the deficit is mainly a function of the substantially increased import bill. In particular, public capital goods imports are expected to increase to US\$119 million, from US\$52 million in 2004, reflecting investments in the electricity sector, delayed project spending for which we received grants in 2004, and other PRSP projects.

27. The government is determined to implement its export promotion strategy (EPS) with strong short-term action plans in the strategic export sectors. Being cognizant that the rollout of the EPS had been delayed in 2004, we will take steps to ensure the timely implementation of action plans, including in the coffee, tea, and tourism sectors. In particular, RIEPA will put into place a centralized mechanism to monitor the rollout of the EPS and prepare quarterly progress reports to the Cabinet and the Export Promotion Commission on the execution of action plans in key sectors covered by the EPS. The submission of the first report, covering progress through end-June is a structural benchmark for end-July 2005. An increased budget allocation for export promotion will allow for an acceleration of efforts at the sectoral level:

- In the coffee sector, OCIR-Café will reinforce training programs for coffee growers, introduce certification programs for organic and mountain coffee, and step up its marketing efforts to improve the presence of Rwandan coffee in high-priced niche markets. To ease the use of productivity-enhancing inputs, the Rwandan Development Bank (BRD) will increase funding for its working-capital facility aimed at cooperatives of coffee growers and washing station entrepreneurs.
- In the tea sector, the government will launch a second bidding round for the Mulindi tea factory and bring 4 of the remaining 7 tea estates to the point of sale, with a view to improve financing conditions in a sector that suffered from significant underinvestment in recent years.
- To further improve tourism services, the government will develop and enforce hotel standards and, in partnership with private operators, establish the Rwanda Tourism and Hospitality College for training. Moreover, private hotel projects aimed at increasing the number of accommodations are eligible for BRD financing facilities.
- Preparatory work (elaboration of a master plan and carrying out a feasibility study) for the establishment of the Export Processing Zone in Nyandungu is expected to be concluded by end-September 2005, with a view to start construction at end-2005.

¹⁰ Shortage of inputs and limited infrastructure are expected to keep exports of fully washed coffee relatively flat at about 1,100 tons.

- In the mining sector, the Government will undertake, starting April 2005, a study on the mineral potentials of the country and the modernization of the legal framework. At the same time, RIEPA is expected to complete negotiations with a potential strategic investor for the restructuring of REDEMI (Régie de Mines—a Government mining company) by June 2005.
- An export diversification study will be presented to Cabinet by end-September 2005. This plan will particularly focus on ways to capture market potential in mining, horticulture, fruits, handicrafts, and the ICT sector.
 - The government will establish a Horticulture Board by end-June 2005 in partnership with the private sector. The Board will give support to horticulture farmers in providing seeds, marketing products and building capacity. In addition, MAGERWA (the Rwanda Warehousing Company) will start the construction of a Cold Storage Room at Kigali International Airport (Kanombe) to facilitate the export of flowers and other fresh export crops such as fruits and vegetables. A study on the development of the cut flowers industry will be finalized by end-July. An additional study on the expansion of pyrethrum cultivation to other provinces (Gisenyi, Kibuye and Byumba) is expected to be submitted to Cabinet at end-July.
 - To further develop the export of handicrafts products, especially baskets aimed at the external market, we will continue to organize basket weavers into cooperatives around Handicraft Centers. In this regard, four centers will be developed in 2005 mainly for training and the collection of baskets and other handicrafts products. In addition, the government intends to introduce a trade mark label for the Rwandan basket in order to enhance its marketability. Finally, handicraft operators will be given support to enable them to participate in international trade fairs.

28. **In addition, the PRSP update will address cross-cutting issues impeding export performance as identified by the Diagnostic Trade Integration Study (DTIS).** The DTIS identified significant obstacles to trade in several areas, including transportation, customs administration, energy, water, infrastructure, and access to financing. We intend to use this analysis as an input to define, in cooperation with our development partners, specific actions to improve the business environment for exporters in Rwanda, which will be included in the action matrix of the PRSP update by mid 2005. The MEFP for the fifth review will provide an assessment of the progress made in this area, and, if possible, establish structural conditionality.

B. Structural Policies

29. **An important objective of the structural agenda for 2005 is to improve the climate for private sector activity.** In addition to the measures already described in the previous section, we will therefore continue our efforts to improve the health of the banking

sector, strengthen the legal framework for private business, and progress with our privatization program.

Financial sector reform

30. **Financial sector reform will help mobilize domestic resources for investment and growth.** One priority is to further strengthen prudential supervision of the banking sector and, increasingly important, nonbank institutions that provide rural areas with financial intermediation. In particular, we intend to put in place strong oversight procedures for the new financing facilities that are currently established at the Rwanda Development Bank (BRD). Using the findings of the recent FSAP mission, we intend to develop an action plan, which we will present in our MEFP for the fifth review. In particular, the recapitalization of the housing bank and the payment to banks of government guaranteed loans linked to the hotel project will happen only after assurances are in place that the banks' business plans are sound and/or action plans are in place to address their weaknesses.

Extending and enforcing reforms in the legal framework and institutions

31. **While substantial progress has been made in recent years, the Government continues to improve the environment for doing business in Rwanda.** In order to promote private/public sector partnership, the government has created the Permanent Private/Public Partnership Secretariat in the Ministry of Commerce (MINICOM). Within this framework, a national investment dialogue was held in February 2005 to develop an action plan to address obstacles to investment and an investment conference will be held in March 2005 to encourage joint ventures with foreign investors. Moreover, to develop an action plan for the manufacturing sector, the Government will, in consultation with the World Bank, conduct a study on the performance of the sector by September 2005.

32. **Land reform is critical to stimulate growth in rural areas and develop financial intermediation.** A new land law is being discussed in Parliament and is expected to be approved in 2005. With a land tenure system, farmers will be able to use their land as collateral and gain broader access to credit, including from micro-finance institutions and concessional lending facilities that are currently being established at the BRD. An important step of the reform will be the conduct of a national land survey to develop an accurate and complete database on land.

Privatization

33. **The role of the public sector in the economy will be further reduced by the privatization of several public enterprises.** In addition to the tea sector (see para. 26), we are currently evaluating the bids received for the privatization of Rwandatel, and intend to bring to the point of sale (i.e., invited interested parties to bid, evaluated bids, and started good faith negotiations) the parastatal before end-2005. Steps will also be intensified to prepare for the sale of Primeholdings' hotel projects. In particular, with a view to enhancing transparency about the hotels' profitability, a financial audit and business plan of Prime

Holdings prepared by a foreign-based international audit firm will be published by end-September 2005 (structural performance criterion).

V. PROGRAM MONITORING

34. **Prior actions.** The government will undertake a number of actions prior to the IMF Board meeting that considers the fourth review under the PRGF arrangement, in order to ensure a successful implementation of the economic program described in this memorandum. The prior actions are set out in Table 2 of the MEFP.

35. **Conditionality and program reviews.** Quantitative and structural performance criteria, indicative targets, and structural benchmarks through 2005 are set out in Tables 1 and 2. The fifth review under the PRGF arrangement will assess quantitative performance as of end-December 2004 and structural conditionality through end-March 2005. It will focus on financial sector reform, the medium-term implications of the Lake Kivu project, and structural conditionality related to progress with the export promotion strategy. The sixth review [scheduled for completion by December 15, 2005](#) will review quantitative performance as of end-June 2005 and structural conditionality through end-September 2005.

36. **Technical memorandum of understanding (TMU).** The attached technical memorandum of understanding lays out the details of the program design and terminology. The government will make available to Fund staff all data as specified in the TMU.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks 2004-05
(In billions of Rwanda francs, unless otherwise indicated)

	2004				2005 1/			
	Mar.	Jun.**	Sep.*	Dec.**	Mar.*	Jun.**	Sep.*	Dec.**
(Quantitative benchmarks*; and performance criteria on test dates**)								
Net foreign assets of the NBR (floor on stock) 2/								
Actual (program exchange rate)	67.6	70.2	76.0	125.4	...	...	...	...
Adjusted program	63.6	53.3	56.5	75.1	...	...	...	...
Program	65.0	55.4	64.5	62.3	109.5	108.3	103.5	101.6
Reserve money (ceiling on stock)								
Actual	50.2	51.7	54.1	56.0	...	...	...	...
Program	53.0	54.0	55.9	56.3	58.8	60.6	61.8	63.0
Net credit to the government by the banking system (ceiling on stock)								
Actual	8.3	2.3	-0.6	-30.7	...	...	...	...
Adjusted program	24.4	25.0	31.4	10.0	...	...	...	...
Program	24.4	25.0	18.1	22.8	...	...	...	...
Net credit to the government (ceiling) 3/								
Actual	...	...	...	...	...	...	...	...
Adjusted program	...	...	...	...	...	...	...	...
Program	...	...	...	...	1.9	-6.1	-5.2	-6.6
Domestic fiscal balance (floor on cumulative flow since Dec. 31)								
Actual	-2.1	-16.6	-31.9	-58.1	...	...	...	...
Adjusted program	-6.1	-26.4	-39.7	-69.0	...	...	...	...
Program	-9.8	-32.6	-54.0	-78.7	-12.4	-32.8	-48.4	-61.8
Total priority spending (floor on cumulative flow since Dec. 31)								
Actual	15.2	34.4	53.6	78.7	...	...	...	...
Program	14.9	37.5	62.5	88.2	23.8	55.6	81.8	109.2
New nonconcessional external debt (ceiling on flow) 4/								
Actual	3.0	0.0	0.0	0.0	...	...	...	...
Program	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 5/								
Actual	0.0	0.0	0.0	0.0	...	...	...	...
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of outstanding nonreschedulable external arrears (ceiling on stock) 6/								
Actual	25.1	25.1	0.0	0.0	...	...	...	...
Program	25.1	25.1	0.0	0.0	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on cumulative net accumulation since Dec. 31)								
Actual	-7.4	-13.8	-14.8	-17.1	...	...	...	...
Adjusted program	-14.8	-13.0	-14.7	-17.0	...	...	...	...
Program	-11.2	-13.0	-14.7	-17.0	-3.3	-5.9	-6.2	-6.5
Broad money (ceiling on stock) 2/								
Actual	162.9	161.3	167.7	188.1	...	...	...	...
Program	171.6	177.1	178.9	185.4	190.0	192.5	195.4	198.3
Extended Broad money (ceiling on stock) 2/								
Actual	182.1	182.2	190.1	211.8	...	...	...	...
Program	193.8	200.0	202.0	208.8	213.9	216.7	220.0	223.2
Demobilization and reintegration expenditure								
Actual	0.3	1.7	2.5	3.4	...	...	...	...
Expected	3.5	7.5	9.9	12.6	2.2	4.4	6.6	8.8
Gross accumulated bills payable								
Actual	4.4	1.0	1.5	...	...	...	...	...
Expected	0.8	1.0	1.5	2.0	0.5	1.0	1.5	2.0
General budget support (in US\$ million)								
Received	32.6	86.5	115.5	223.1	...	...	...	...
Expected	35.1	90.1	149.4	201.0	32.7	96.2	129.7	169.7
Of which: budget support grants (received)	32.4	64.2	70.8	161.7	...	...	...	...
Of which: budget support grants (expected)	35.1	70.1	109.4	156.0	32.7	77.2	110.7	150.7

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Proposed.

2/ Evaluated at the following program exchange rates: For 2004: RF 580.3/US\$; for 2005: RF 566.9/US\$.

3/ Numbers are cumulative from end-December 2004.

4/ Figures are in US\$ dollars. A US\$5 million OPEC Fund loan to cofinance, jointly with BADEA, the rehabilitation of three hydroelectric projects, with a grant element of less than 50 percent, was reduced to US\$3 million in March 2004.

5/ Ceiling on outstanding stock of external debt (excluding normal import-related credits) owed or guaranteed by the central government, local government, or the NBR with original maturity of up to, and including, one year. Figures in millions of U.S. dollars.

6/ Figures are in thousand US\$ dollars. Arrears were accumulated with BADEA in the fourth quarter of 2003; they were repaid in July 2004.

This is a continuous performance criterion, implying that the stock of outstanding nonreschedulable external arrears is expected to be constantly kept at zero throughout the program period.

Table 2. Rwanda: Structural Conditionality for 2005

Public Expenditure Management		
Issue draft instructions by the Public Accounts Department for routine reconciliation, and publish December reconciliation statement for the Treasury and the Rwanda Revenue Authority accounts		Prior action
Minister of Finance to give press statement on fiscal program, outlining the changes to the 2005 budget		Prior action
Complete restructuring agreements with all banks on Prime Holdings' government guaranteed loans		Prior action
Convert 80 percent of bank accounts of line ministries (except for the bank accounts for donor-financed projects) into zero-balance accounts (i.e., at the end of each day, remaining balances are transferred back to the main treasury account)	End-May 2005	Benchmark
Convert all bank accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies into zero-balance accounts (i.e., at the end of each day, remaining balances are transferred back to the main treasury account)	End-September 2005	Performance criterion
Integrate the bank accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies in a Single Treasury Account	End-December 2005	Benchmark
Publish November reconciliation statements by (i) the Treasury for the main treasury account at the NBR; (ii) the RRA for its revenue collection and transit accounts; (iii) line ministries for their bank accounts for cash-based operations; (iv) provinces, autonomous agencies, and extra-budgetary funds for their accounts. For the future, monthly statements are expected to be published on a regular basis with no more than one month lag.	End-December 2005	Benchmark
Prepare a consolidated general government (central government including project accounts, provinces, at least 70 percent of the districts, autonomous agencies and extra-budgetary funds) fiscal report on a quarterly basis (for the benchmark: data at end-September).	End-December 2005	Benchmark
Revenue administration		
Complete 25 risk-based comprehensive audits (i.e., including all taxes) of large businesses by the LTD for January-April 2005	End- April 2005	Benchmark
Export promotion strategy		
Submit the progress report to the Cabinet and the Export Promotion Commission on the execution of action plans in the key sectors covered by the Export Promotion Strategy, covering progress through end-June	End-July 2005	Benchmark
Governance		
Publish a financial audit and business plan of Prime Holdings prepared by a foreign-based international audit firm.	End-September 2005	Performance criterion

**Technical Memorandum of Understanding Between
the Government of Rwanda and the International Monetary Fund**

March 25, 2005

1. This memorandum outlines the understandings between the Rwandese authorities and the IMF mission with regard to the definitions of the quantitative and structural performance criteria and quantitative benchmarks and indicators for the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the modalities and data reporting requirements for monitoring the program.¹
2. Revisions to the definitions since the last version of the Technical Memorandum of Understanding (TMU) of May 20, 2004 have been made by (1) extending the performance criterion on net credit to the government from the banking system to include also treasury bills and other papers issued to the nonbank sector, but excluding project accounts; (2) extending the definition of priority spending to include spending on the electricity sector; (3) introducing an adjuster for contingent spending on net foreign assets, net credit to government, and the domestic fiscal balance; and (4) introducing an adjuster for contingent priority spending on priority spending.

VI. TARGET VARIABLES UNDER THE PROGRAM

A. External Budgetary Support

3. **Definition:** External budgetary support is defined as all official external grants and official external loans to the central government (including all expected or received HIPC Initiative-related grants), except for external grants and loans related to the development budget. In case a program is over financed (negative financing gap), programmed external budgetary support refers only to that level of external budget support needed to close the financing gap to exactly zero at the time of the agreement. For programming purposes, we establish the following *baseline budgetary support (excluding demobilization grants)*, which is lower than the programmed budgetary support by \$0 million for end-March 2005, \$0 million for end-June 2005, \$17 million for end-September 2005, and \$34 million for end-December 2005.
4. **Reporting requirement:** Data on external budgetary support, separately detailing grant and loan inflows, will be transmitted to the African Department of the IMF on a monthly basis within three weeks of the end of each month.

¹ A summary of reporting requirements is provided in Table 1.

B. Net Foreign Assets of the National Bank of Rwanda (NBR)

5. **Definition:** Net foreign assets of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to, or controlled by, the National Bank of Rwanda (NBR) net of external liabilities of the NBR. Pledged or otherwise encumbered reserve assets including, but not limited to, reserve assets used as collateral or guarantee for third party external liabilities, are to be excluded. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate.² Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

6. **Target and adjustments:** The program sets a floor on net foreign assets of the NBR (as a performance criterion or benchmark depending on the test date). In case of higher than programmed inflows of general external budgetary support, excess amounts are to be saved as reserves. The program floor on net foreign assets will thus be increased by any positive difference between actual and programmed general budgetary support. The NFA floor will be adjusted downward for contingent spending (see para. 28) up to the amount by which external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support (excluding demobilization grants)* of up to US\$0 million at end-March 2005, US\$0 million at end-June 2005, US\$17 million at end-September 2005, and US\$34 million end-December 2005. The program floor on net foreign assets will also be adjusted downward by the amount of any negative difference between actual and *baseline budgetary support (excluding demobilization grants)* up to a maximum adjustor of US\$30 million, evaluated at the program exchange rate.

7. **Reporting requirement:** Data on foreign assets and foreign liabilities of the NBR will be transmitted to the African Department of the IMF on a weekly basis within seven days of the end of each week; Data on the NBR's foreign exchange liabilities to commercial banks (held as required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

C. Net Credit to Government (NCG)

8. **Definition:** For program monitoring purposes, net credit to government will be calculated as the change from end-December 2004 of net credit from the banking system and the change of holdings of treasury bills and other government securities by the nonbank sector. Net credit from the banking system is defined as the difference between:

² The program exchange rate for the 2005 program is set at RF 566.9 = US\$1.

(a) credit to government from the banking system, including credit to central government, provinces and districts, outstanding central government debt instruments; government debt to the NBR incurred as a result of the 1995 devaluation (RF 9 billion) and the overdraft to the prewar government (RF 2 billion), and

(b) total government deposits with the banking system of the central government, including the fund for assistance to genocide survivors, Rwanda Revenue Authority, the electoral commission, the demobilization commission, *fonds routier*, line ministries, and the main treasury account. Thus, this definition excludes any government deposits, over which the central government does not have any control (i.e., for provinces and districts, project accounts, counterpart funds, *fonds publics affectés*, and privatization proceeds with the NBR).³ The central government comprises treasury and line ministries.

NCG is not affected by credit to or deposits of public enterprises and autonomous public agencies.

9. **Reclassifications:** The reclassification described in **Annex B** (Appendix I, www.imf.org)—for the reclassification of deposits with the NBR of the 15 newly identified autonomous public agencies—affects net credit to the government from the banking system.

10. **Target and adjustments:** The program sets a ceiling on NCG (as performance criterion or benchmark) at the test dates. In case of higher than programmed inflows of general external budgetary support, excess amounts are to be saved as government deposits. The program ceiling on NCG will thus be decreased by any positive difference between actual and programmed general budgetary support inflows. The program ceiling on net credit to government will be adjusted upward for contingent spending (in the Rwanda franc equivalent evaluated at the program exchange rate) up to the amount by which external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support* of up to US\$0 million at end-March 2005, US\$0 million at end-June 2005, US\$17 million at end-September 2005, and US\$34 million end-December 2005. The program ceiling on net credit to government will also be adjusted upward by the amount of any negative difference between actual and *baseline budgetary support (excluding demobilization grants)* up to a maximum adjustor of US\$30 million. The NCG adjustor for budgetary support will be evaluated in Rwanda francs at the program exchange rate.

11. **Reporting requirement:** Data on net credit to central government (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits) will be transmitted on a monthly basis within three weeks of the end of each month. Deposits of the government with the NBR and with the commercial

³ The target excludes any transfers from the deposits over which the government has no control into other government deposits.

banks will be separated from the deposits of the public enterprises and autonomous public agencies.

D. Reserve Money

12. **Definition:** Reserve money for the monetary program is defined as currency in circulation (including the FR 5,000 banknotes of 1998 issue and coins that ceased to be legal tender after December 31, 2004, but can still be exchanged at the NBR until end-2005), reserves of deposit money banks (excluding National Bank of Rwanda (NBR) borrowing from deposit money banks on the money market but including cash in vault held by commercial banks), deposits of public enterprises (including Caisse Sociale de Rwanda (CSR) and other autonomous public agencies (*dépôts des établissements publics assimilés à l'état*), deposits of nonbank financial institutions, and deposits of the private sector (*autres sommes dues à la clientèle* are included in reserve money).

13. **Corollary:** Borrowing by the NBR from the commercial banks on the money market is included under the net domestic assets of the NBR. More specifically, borrowing by the NBR from the commercial banks on the money market is netted out from commercial bank borrowing from the NBR. However, for balances with respect to deposit money banks, the money market balances of the NBR are excluded from reserve money supply when they are excluded from use in meeting reserve requirements.

14. **Definition:** The definition of reserve money as performance criterion or benchmark will exclude from the above definition the deposits of the Caisse d'Épargne du Rwanda (C.E.R.) with the NBR, the import deposits placed at the NBR (*cautions à l'importation*), and the dormant accounts. However, the import deposits are only excluded from this definition up to a maximum amount of FR 150 million, and the maximum amount for the deductible C.E.R. deposits is RF 1 billion.

15. **Target and adjustments:** The program sets a ceiling on reserve money (as performance criterion or benchmark) at the test dates. If the required reserve ratio of the NBR is lowered, the NBR will be expected to absorb the excess liquidity that this change creates. Therefore the reserve money target of the NBR will be adjusted by the absolute change in the ratio times the deposit base of the commercial banks.

16. **Reporting requirement:** Data on reserve money will be transmitted to the African Department of the IMF on a weekly basis within seven days of the end of each week. This transmission will include a weekly balance sheet of the NBR which will show all items listed above in the definitions of reserve money.

E. Broad Money

17. **Definition:** Broad money is defined as the sum of currency in circulation, deposits in commercial banks, and nonbank deposits in the NBR. In addition, extended broad money is defined as broad money plus deposits in credit unions and credit cooperatives (mainly UBPR).

18. **Target:** There is no performance criterion or benchmark on broad money or extended broad money but given its key influential role on inflation, they will be followed closely as indicative targets.

19. **Reporting requirement:** The balance sheet of the NBR will be transmitted on a weekly basis within seven days of the end of each week. The balance sheets of the commercial banks and of the other banking institutions, both for the individual institutions and for the respective sector in aggregate, and the monetary survey, will be transmitted monthly within five weeks of the end of each month. The monthly transmission will also include a monthly balance sheet for the NBR which will show all items shown also in the weekly balance sheet for the NBR.

F. Ceiling on Contracting or Guaranteeing by the Central Government, Local Governments, or the NBR of New Nonconcessional External Debt with Original Maturity of More Than One Year

20. **Definition:** This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the NBR of new nonconcessional external debt (as specified below) with original maturity of more than one year, including commitments contracted or guaranteed for which value has not been received. The term debt shall be understood as defined in the Executive Board decision No. 6230-(79/140) adopted August 3, 1979, as amended by Decision No. 11096-(95/100) of October 25, 1995 and Decision No. 12274-(00/85) adopted August 24, 2000. Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month averages, the following margins for differing repayment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources.

21. In addition, loans contracted with the Arab Bank for Economic Development in Africa (BADEA) and the OPEC Fund for energy rehabilitation financing, contracted in 2002 and 2003, and supplemental BADEA lending for this project in 2004 that is intended to improve the overall concessionality of financing for the project, will be evaluated using the reference interest rates prevailing in September 2002.

22. **Target:** The program sets a performance criterion on the ceiling of the contracting or guaranteeing by the central government, local governments, or the NBR of new nonconcessional external debt with original maturity of more than one year.

23. **Reporting requirement:** Details of all new external debt, including government guarantees, will be provided on a monthly basis within five weeks of the end of each month.

G. Ceiling on Change in Outstanding Stock of External Debt, Owed or Guaranteed by the Central Government, Local Governments, or the NBR with Original Maturity of Up To and Including One Year

24. **Definition:** The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with respect to Foreign Debt adopted on August 24, 2000. Excluded from this performance criterion are normal import-related credits. Normal import-related credits are liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion will contain pre-specified limits on the amounts involved and the times at which payments must be made. Normal import credits will not involve the issuance of securities. Funding provided by an enterprise other than the supplier for the purpose of purchasing goods or services will not benefit from the exclusion under this performance criterion."

25. **Target:** The program sets a continuous performance criterion on the ceiling on change in the outstanding stock of external debt, owed or guaranteed by central government, local governments, or the NBR with original maturity of up to and including one year.

26. **Reporting requirement:** Data on debt and guarantees by central government, local governments, or NBR will be transmitted, with detailed explanations, on a monthly basis within five weeks of the end of each month.

H. Domestic Fiscal Balance

27. **Definition:** The domestic fiscal balance is defined as domestic revenue (excluding grants and privatization proceeds) minus current expenditure (excluding external interest due) and domestically financed capital expenditure on a payment order basis, minus net lending.

28. **Target and adjustments:** The program sets a ceiling on the domestic fiscal deficit, i.e., a floor on the domestic fiscal balance (as performance criterion or benchmark). As an adjustment, any shortfall in grants linked to the World Bank led demobilization and reintegration program will be used to reduce the deficit target, i.e. will be added to the target for the domestic fiscal balance. The deficit ceiling will be revised upward for contingent spending (in the Rwanda franc equivalent evaluated at the program exchange rate) up to the amount by which external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support* of up to US\$0 million at end-March 2005, US\$0 million at end-June 2005, US\$17 million at end-September 2005, and US\$34 million end-December 2005. Contingent spending is as defined in the attached table (consisting roughly of both priority and nonpriority spending). It will be released (1) only if the monetary program is on track as

evidenced by meeting the quarterly targets on reserve money (which would be unaffected by foreign exchange spending as the NFA floor would be adjusted downward at the same time); and (2) in equal portions for priorities and nonpriorities for all amounts released. In addition, the deficit ceiling will be reduced by the amount of privatization revenue minus any expenditure deemed integral to the privatization operation (recorded under net lending).

29. **Reporting requirement:** Data on domestic revenue, current expenditure, domestically financed capital expenditure and net lending will be transmitted, with detailed explanations, on a monthly basis within four weeks of the end of each month.

I. Priority Expenditure (Table 2)

30. **Definition:** Central government priority spending is defined as the sum of those recurrent expenditures and domestically-financed capital expenditures that the government has identified as priority in line with the PRSP process. The definition of priority expenditures is based on the program classification of the annual budget. Table 2 provides the list of the programs included in this definition (including in particular spending on electricity). The computerized SIBET expenditure management system can track priority spending at the program and sub-program levels; the attached Table 2 provides a summary of the SIBET output.

31. **Targets and adjustment:** The program sets a floor on priority expenditure (as performance criterion or benchmark). The floor will be adjusted upward by contingent priority spending as defined in the attached table if external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support* of up to US\$0 million at end-March 2005, US\$0 million at end-June 2005, US\$17 million at end-September 2005, and US\$34 million end-December 2005.

32. **Reporting requirement:** Data on priority expenditure, at the same level of detail as in Table 2 will be transmitted on a monthly basis within three weeks of the end of each month.

J. Net Accumulation of Domestic Arrears

33. **Definitions:** Net accumulation of arrears for any given calendar year is defined as the difference between

gross accumulation of new domestic arrears within the calendar year of consideration, cumulative from January 1 to December 31, as measured as the difference between payment orders and actual payments related to payment orders issued during the year, and gross repayment during the calendar year of consideration of any arrears outstanding at 31 December of the preceding year, including repayment of the preceding year's float and repayment of older arrears in accordance with the government guidelines.

34. **Target and adjustments:** The program sets a ceiling on the net accumulation of domestic arrears, with a negative target thus representing a floor on net repayment (as performance criterion or indicative target). The ceiling will be reduced downward by the amount of gross accumulated bills payable in excess of RF 1 billion at end-March 2005, RF 1.5 billion at end-June 2005, RF 2 billion at end-September 2005 and RF 2 billion at end-December 2005.

35. **Reporting requirement:** Detailed data on repayment of domestic arrears and the remaining previous-year stock of arrears will be transmitted on a monthly basis within three weeks of the end of each month.

K. Stock of Outstanding Nonreschedulable External Arrears Owed by the Central Government or the NBR

36. **Definition:** Nonreschedulable external arrears are defined as the sum of arrears owed by the central government or the NBR to multilateral creditors and, if any, nonreschedulable arrears, to bilateral official and commercial creditors.

37. **Target:** The program sets a continuous performance criterion on the nonaccumulation of nonreschedulable external arrears.

38. **Reporting requirement:** Detailed information on repayment and/or refinancing (including the terms of refinancing) of arrears will be transmitted on a quarterly basis within three weeks of the end of each quarter. The Fund will be notified immediately in case of incurrence of any nonreschedulable external arrears.

VII. OTHER DATA REQUIREMENTS FOR PROGRAM MONITORING

A. Public Finance

39. **Reporting requirement:** Monthly data on external budgetary support with a breakdown of loans by creditor and grants by donor and domestic nonbank financing of the budget (including treasury bills and government bonds held by the nonbank public) will be transmitted on a monthly basis within three weeks of the end of each month; quarterly data on the implementation of the development budget with detailed information on the sources of financing will be transmitted on a quarterly basis within three weeks of the end of each quarter; public sector external and domestic scheduled debt service and payments will be transmitted on a monthly basis within three weeks of the end of each month. The Rwanda Revenue Authority will transmit any updated census results of small and medium enterprises (including the economic characteristics of these enterprises and their estimated annual sales).

B. Monetary Sector

40. **Reporting requirement:** The following data will be transmitted on a monthly basis within five weeks of the end of the month: the individual balance sheets and the consolidated balance sheet of deposit money banks; the individual and consolidated balance sheets of the

other bank institutions; the monetary survey (*situation monétaire intégrée*); disaggregated data on “other items net” of the NBR and deposit money banks; required reserves and excess reserves of individual commercial banks, showing separately foreign exchange held as required reserves with the NBR; development bond and treasury bill holdings of individual commercial banks; and nontreasury government deposits at individual commercial banks. The following data will be transmitted on a quarterly basis within five weeks of the end of the quarter: nonperforming loans of individual commercial banks; required and actual provisioning of impaired assets for individual banks; capital adequacy ratio for individual commercial banks a weighted average for all commercial banks; and sanctions issued to banks.⁴ Data on the opening and closing balances, and debits and credits of government treasury (OTR) accounts, as well as accounts of the demobilization commission, the Rwanda Revenue Authority (RRA), Fund for Genocide Survivors (FARG), the Road Fund, the Electoral Commission and the Gacaca Commission in the central bank and commercial banks will also be communicated on a quarterly basis.

C. Public Enterprises

41. **Definition:** The financial statements and bank deposits of the key public enterprises (including Rwandatel, Electrogaz, Ocircafé, Ocirthé, and ONP) will be monitored under the program.

42. **Reporting requirement:** The financial accounts (including profit and loss accounts, balance sheets, and annual reports when published) of key public enterprises (including Rwandatel, Electrogaz, Ocircafé, Ocirthé, and ONP) will be transmitted to the African Department of the Fund within four weeks on a semi-annual basis or as the accounts become available. The statement of these enterprises’ bank deposits (bank by bank) will be transmitted to the African Department of the Fund on a quarterly basis within four weeks of the end of each month.

D. External Sector

43. **Reporting requirement:** The following buying, selling, and average exchange rates will be transmitted on a **weekly basis within seven days of the end of each week**: (i) intervention exchange rates used in NBR's operations with the commercial banks; (ii) the exchange rates used in interbank transactions among the commercial banks; (iii) the average of (i) and (ii); (iv) the exchange rates for transaction in banknotes at the commercial banks; (v) the same for foreign exchange bureaus; and (vi) the parallel (black) market exchange rates. All these exchange rates will be calculated on the basis of daily buying and selling rates; the average exchange rates will be calculated on the basis of a simple average of the daily buying and selling rates. The NBR will report weekly on the difference between the

⁴ Detailed data account by account on central government (including ministries), other public agencies, and public enterprises accounts with the NBR and each commercial bank will be transmitted on a quarterly basis within for 4 weeks of the end of the quarter.

parallel market rate (buying and selling) and the weighted weekly average rates of NBR intervention in the interbank market for purchases and sales, respectively.

44. The following data will be provided on a monthly basis within four weeks of the end of each month:

- The amount of foreign exchange held by commercial banks with the NBR as required reserves
- net open foreign exchange position of each commercial bank and foreign exchange bureau, and the calculation method;
- foreign exchange intervention by the NBR on interbank market;
- imports, sales, and purchases of foreign exchange banknotes by commercial banks;
- sales and purchases of foreign exchange banknotes by foreign exchange bureaus.

Export and import data, including volumes and prices, will be transmitted on a monthly basis within four weeks of the end of each month; other balance of payments data including the data on services, official and private transfers, capital account transactions, and the repatriation of export receipts will be transmitted on a quarterly basis within four weeks of the end of each quarter.

E. Real Sector

45. **Reporting requirement:** Monthly disaggregated consumer price indices for a new national consumer price index will be transmitted on a monthly basis within four weeks of the end of each month.

F. Electronic Data Reporting

46. **Reporting requirement:** The following data will, where feasible, be made available through electronic format (Excel) and e-mailed to the African Department of the Fund:

- (i) Monetary data and exchange rates:

Monthly balance sheet of the NBR, summary balance sheet of the commercial banks, individual balance sheets of the commercial banks, details of public sector deposits with commercial banks, monthly data on foreign exchange operations of commercial banks and the NBR, and net open foreign exchange positions. These data will be transmitted within five weeks of the end of the month.

Quarterly reporting on details of commercial banks' loan provisioning and capital adequacy; opening and closing balances as well as debits and credits of OTR accounts of, the demobilization commission, RRA, FARG, the Road

Fund, the Electoral Commission and Gacaca Commission in the central bank and commercial banks.

Weekly balance sheet of the NBR will be transmitted within seven days of the end of each week.

Weekly data on NBR interventions on the money market (*appel d'offres*) both to inject and to absorb liquidity, including the maturity and the due date of the transactions, the amounts offered, demanded, and allocated (by bank, in millions of Rwanda francs), the maximum, minimum, marginal, and average interest rates offered, and the interest payments (by bank, in Rwanda francs). These data will be made available within seven days after the end of the week.

Weekly data on recourse to the discount window (*prise en pension*), including the period of borrowing, the discount rate, and the amount (by bank, in Rwanda francs). These data will be made available within seven days after the end of the week.

Weekly update of the monthly treasury plan (*plan de trésorerie*) for foreign exchange reserves at the NBR. These data will be made available within seven days after the end of the week.

Weekly data on exchange rates, including foreign exchange auctions by the NBR, the amount of foreign exchange offered, demanded, and allocated (by commercial bank, in U.S. dollars and Rwanda francs), and the minimum, maximum, marginal, and average exchange rate offered. These data will be made available within seven days after the end of the week.

Daily balance by commercial bank of amounts outstanding from money market interventions to absorb liquidity (*appel d'offres-ponction*), to inject liquidity (*appel d'offres-injection*), under the discount window (*prise en pension*) and any other credit facility of the NBR, respectively. These data will be made available within seven days of the reported date.

Weekly balance of the subaccount for HIPC Initiative assistance from the IMF at the NBR. The data will be provided within seven days of the end of the week.

- (ii) Fiscal “flash” report, including detailed lists of priority and exceptional expenditure. These data will be transmitted within four weeks of the end of the month.
- (iii) Detailed export and import data; and
- (iv) Detailed CPI data.

VIII. PROGRAM MONITORING COMMITTEE

47. **Definition:** The Interministerial Technical Committee, composed of senior officials of key ministries and the National Bank of Rwanda shall meet once a month and be

responsible for monitoring the performance under the program, informing the IMF staff regularly about progress on program implementation, and transmitting supporting information necessary for program monitoring.

48. **Reporting requirement:** The names of the Interministerial Technical Committee shall be communicated to the IMF no later than the date of submission of the authorities' request for support of the three-year PRGF-supported program to the Executive Board of the IMF or the start of a new annual arrangement. The Interministerial Technical Committee shall provide to the IMF staff a progress report on the program implementation on a monthly basis within four weeks of the end of each month.

ANNEX B. RECLASSIFICATIONS

The following reclassification of data has been made to the monetary survey:

Reclassification of the deposits of 15 additional autonomous public agencies: In tables presented by the IMF prior to November 5, 2000, deposits of the central government with the NBR included deposits of 15 autonomous agencies. As of November 6, 2000 these deposits will be itemized separately in a category called "public nongovernment deposits," but will still be included in the domestic credit of the NBR.

Table 1. Rwanda: Summary of Reporting Requirements

Status	Variable or Table	Reporting Frequency	Reporting Delay from End of Period Covered	Report Data Electronically
A. Monetary and Foreign Exchange				
PC	Net foreign assets National Bank of Rwanda (NBR)	Weekly	Seven days	Yes
PC	Reserve money	Weekly	Seven days	Yes
PC	Net credit to central government	Monthly	Three weeks	Yes
Table	Monthly balance sheet of the NBR	Monthly	Three weeks	Yes
Table	Summary balance sheet of the commercial banks	Monthly	Five weeks	Yes
Table	Individual balance sheets of the commercial banks	Monthly	Five weeks	Yes
Table	Details of public sector deposits with individual commercial banks	Quarterly	Five weeks	Yes
Table	Opening and closing balances as well as debits and credits for OTR accounts, the demobilization commission, Rwanda Revenue Authority (RRA), Victims of Genocide Fund (FARG), the Road Fund, and Gacaca in the central bank and commercial banks;	Quarterly	Five weeks	Yes
Table	Details of commercial banks' loan provisioning and capital adequacy	Quarterly	Five weeks	Yes
Table	Monthly data on foreign exchange operations of commercial banks, the NBR, and foreign exchange bureaus	Monthly	Five weeks	Yes
Table	Net open foreign exchange positions of commercial banks and foreign exchange bureaus	Monthly	Five weeks	Yes
Table	Exchange rates	Weekly	Seven days	Yes
B. Debt				
PC	New external government borrowing	Monthly	Three weeks	
PC	Stock of short-term external government debt	Monthly	Three weeks	
C. Fiscal				
PC	Domestic arrears (repayment of the end-of-year stock of arrears and accumulation of new arrears)	Monthly	Three weeks	Yes
PC	External arrears	... ¹	...	Yes
OV	External budgetary support with a break down between of loans by creditor and grants by donors.	Monthly	Three weeks	Yes
Table	Fiscal data (revenue, expenditure, ² priority expenditure, exceptional expenditure, wage bill)	Monthly	Three weeks	Yes
Table	Development budget implementation	Quarterly	Three weeks	Yes
Table	Scheduled debt service and payments	Quarterly	Four weeks	Yes

Table 1. Rwanda: Summary of Reporting Requirements

Status	Variable or Table	Reporting Frequency	Reporting Delay from End of Period Covered	Report Data Electronically
D. Public enterprises				
Table	Public enterprises financial statements	Semiannual	Four weeks	
Table	Public enterprises bank deposits	Quarterly	Four weeks	
Table	Estimated and actual tax payments of the public enterprises	Quarterly	Four weeks	
E. Civil service				
OV	Size of the civil service (core civil service and teachers)	Monthly	Three weeks	Yes
F. Balance of payments				
Table	Export and imports	Monthly	Four weeks	Yes
Table	Detailed Balance of Payments	Quarterly	Four weeks	
G. Prices				
OV	CPI Kigali	Monthly	Four weeks	Yes
<p>1/ The authorities will notify immediately the Fund in case of incurrence of any nonreschedulable external arrears.</p> <p>2/ On commitment basis (<i>engagement</i>) and on payment order basis (<i>ordonnancement</i>); the provision of fiscal data is based on the Aflash reporting (aggregate and by ministry).</p> <p>PC = performance criterion or quantitative benchmark.</p> <p>QI = quantitative indicator.</p> <p>OV= other variable.</p>				

Table 2. Rwanda: Priority Expenditure 2004-05
(in millions of Rwanda francs)

	2004	2005 proj.
Total	88,267	109,163
Recurrent	69,315	94,810
Internal Affairs	5,552	7,558
Agriculture	2,238	2,828
Commerce	803	1,435
Education	17,379	25,484
Youth and sport	439	298
Health	7,214	10,536
Transport and communication	3,625	5,551
Road fund	3,293	3,873
Other	332	1,678
Gender	299	277
Public service	524	2,176
Lands and natural resources	715	609
Local government	3,766	4,321
Districts	2,832	3,584
Other	934	784
Provinces	24,361	31,104
TIG (MINIJUST)	110	300
HIMO (MINALOC)	290	300
Export promotion	2,000	2,033
Development	18,952	14,353
CDF	2,750	3,500
Electricity	14,000	6,929
Education	...	450
Health (equipment)	...	1,000
Water	...	1,000
Study of manufacturing sector	...	100
Export promotion (capital)	2,002	1,074
Agriculture guarantee fund	200	300
Memorandum items:		
Social spending (as percent of GDP) 1/	5.0	5.3
Health	1.0	1.3
Education	4.0	4.0

Source: Rwandese authorities.

1/ Provinces undertake a large part of health and education spending.

Table 3. Rwanda: Contingency expenditures, 2005
(In billions of Rwandan franc)

	Q1	Q2	Q3	Q4	Total
Total	0.0	0.0	6.9	13.2	20.0
Nonpriority	0.0	0.0	4.2	5.6	9.9
Recurrent	0.0	0.0	3.6	3.8	7.4
Goods and Services	0.0	0.0	2.2	2.8	5.0
Transfers	0.0	0.0	0.7	0.3	1.0
Exceptional	0.0	0.0	0.7	0.7	1.4
Capital	0.0	0.0	0.6	1.3	2.0
Domestic arrears	0.0	0.0	0.0	0.5	0.5
Priority expenditures	0.0	0.0	2.7	7.5	10.2
Recurrent	0.0	0.0	2.7	4.8	7.5
Agriculture-extension services	0.0	0.0	0.4	0.4	0.8
Transport and communications-Roads fund	0.0	0.0	0.8	1.2	2.0
Land an natural resources-purchase of portable water	0.0	0.0	0.2	0.4	0.5
Provinces-education material	0.0	0.0	0.3	0.2	0.5
Export promotion	0.0	0.0	1.0	2.7	3.7
Capital	0.0	0.0	0.0	2.7	2.7
Health-primary health equipment	0.0	0.0	0.0	1.0	1.0
Agriculture-fertilizers.	0.0	0.0	0.0	1.7	1.7

Source: Rwandese authorities.

Rwanda: Relations With the Fund

(As of January 31, 2005)

I. Membership Status: Joined: 09/30/1963; Article VIII

II. General Resources Account:	<u>SDR million</u>	<u>percent Quota</u>
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve position in Fund	0.00	0.00

III SDR Department:	<u>SDR million</u>	<u>percent Allocation</u>
.		
Net cumulative allocation	13.70	100.00
Holdings	19.45	141.97

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>percent Quota</u>
PRGF arrangements	59.41	74.17

V. Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/12/2002	08/11/2005	4.00	2.29
ESAF/PRGF	06/24/1998	04/30/2002	71.40	61.88
SAF	04/24/1991	04/23/1994	30.66	8.76
Stand-by	10/31/1979	10/30/1980	5.00	0.00

VI. Projected Obligations to the Fund (SDR million; based on existing use of resources and present holdings of SDRs, without HIPC Assistance):

	Forthcoming				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	6.66	10.47	12.38	11.36	9.15
Charges/Interest	0.29	0.25	0.19	0.12	0.07
Total	6.95	10.72	12.56	11.48	9.22

VII. Implementation of HIPC Initiative:	Enhanced framework
Commitment of HIPC assistance	
Decision point date	12/22/2000
Assistance committed (end-1999 NPV terms) ¹	
Total assistance (US\$million)	452.00
<i>Of which:</i> Fund assistance (US\$million)	43.80
(SDR equivalent in millions)	33.81
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	14.45
Interim assistance	14.45
Completion point	...
Additional disbursement of interest income ²	...
Amount applied against member's obligations (cumulative)	14.45

VIII. Safeguards Assessments:

Under the Fund's Safeguards Assessment policy, the Banque Nationale du Rwanda (BNR) is subject to a safeguards assessment under the PRGF arrangement. A Safeguards Assessment was completed on April 14, 2003, and the proposed recommendations have largely been implemented.

IX. Exchange System:

On March 6, 1995, Rwanda adopted a market-determined exchange rate system. Before then, the Rwanda franc was pegged to the SDR. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF, requiring it to ensure that the exchange system is free of restrictions on the making of payments and transfers for current international transactions. In 2001, a foreign exchange auction system was put in place with technical assistance from MFD. Since February 7, 2001, auctions have been taking place on a weekly basis. The exchange rate regime is currently classified as a managed float, and the

¹ NPV terms at the decision point under the enhanced framework.

² Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

foreign exchange auctions impose a limit of +/- RF 5 to the margin by which the exchange rate can vary from the previous day.

X. Article IV Consultation:

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2004 Article IV consultation (Country Report No. 04/382) on October 6, 2004.

XI. FSAP Participation, ROSCs, and OFC Assessments:

A Report on Observance of Standards and Codes on Fiscal Transparency (ROSC) was issued in July 2003. A Financial Sector Assessment Program (FSAP) has taken place in February 2005. Rwanda has not had an Offshore Financial Center (OFC) assessment.

XII. Technical Assistance:

- 1999 FAD long-term experts, on tax policy, on budget preparation, and on treasury management.
- 1999 MFD long-term general advisor to governor of NBR.
- 1999 MFD experts on banking supervision and foreign exchange market operations.
- 2000 FAD experts on budget execution and on tax policy.
- 2000 MFD experts on foreign exchange market operations, and banking supervision.
- 2000 STA mission on money and banking statistics.
- 2000 STA mission on balance of payments statistics.
- 2001 FAD experts on expenditure management and on tax policy.
- 2001 FAD mission on tax policy.
- 2001 MFD mission on foreign exchange policy, monetary policy, and banking supervision.
- 2001 MFD expert on monetary policy implementation.
- 2001 FAD mission on assessment of tracking of poverty-reducing expenditure, and the fiscal ROSC.
- 2001 MFD expert on banking supervision.
- 2001 FAD experts on expenditure management, and on tax policy (until midyear).
- 2002 MFD expert on banking supervision (until November).
- 2002 MFD expert on monetary and foreign exchange rate policy.
- 2002 AFRITAC East work plan mission.
- 2003 AFRITAC East mission on statistical issues.
- 2003 FAD mission on fiscal ROSC and budget management system.
- 2003 AFRITAC East mission on developing the market for government treasury bills.
- 2003 FAD mission on reform of investment incentives and tax reform.
- 2003 MFD expert on monetary and foreign exchange rate policy.
- 2003 MFD expert on banking supervision and regulation.
- 2003 MFD missions on banking supervision.
- 2003 MFD mission on foreign reserves management.
- 2003 STA multi-sector statistics mission.

- 2003 FAD mission on decentralization.
- 2004 FAD tax administration expert on strengthening of revenue administration.
- 2004 MFD expert on banking supervision and regulation.
- 2004 MFD expert on monetary policy, monetary operations, and money markets.
- 2004 MFD missions on on-site banking supervision.
- 2005 MFD mission on financial statements of specific bank
- 2005 MFD-WB joint FSAP mission

XIII. Resident Representative:

Mr. Abdikarim Farah completed his posting as Resident Representative in Kigali on June 30, 2004. Mr. Lars Holger Engström assumed his duties as Resident Representative in February 2005.

Rwanda: IMF Relations with the World Bank (As of January 31, 2005)

Partnership for Rwanda's Development Strategy

Donor agencies have been key players in Rwanda since the genocide. With the support from the international community, Rwanda has made notable progress along an ambitious path of reconstruction, national reconciliation, and economic reform. In recent years, the Government has made some ambitious efforts, based on its Poverty Reduction Strategy Paper (PRSP), to reduce poverty and improve living conditions of the poor. The PRSP was completed in June 2002. This strategy was supported and discussed by the Boards of the IDA and the IMF on August 12, 2002. The PRSP targeted the halving of poverty by 2015 through a private sector and rural sector strategy. The strategy mainly focuses on six priority areas: (1) rural development and agricultural transformation; (2) human development; (3) economic infrastructure; (4) good governance; (5) private sector development; and (6) institutional capacity building—as the focus for public actions on poverty reduction. Civil society, government agencies and ministries, and donors have all been actively involved in the PRSP process and monitoring. The first PRSP progress report was issued in July 2003 and a Bank-Fund JSA produced in May 2004. The second PRSP progress report was issued in December 2004.

World Bank Group Program and Portfolio

The last Country Assistance Strategy for Rwanda was discussed by the World Bank Board in December 2002. The CAS sets out an assistance program consistent with the country's PRSP and emphasizes the need to move progressively from project-based approaches to budget support. In line with this approach, a Poverty Reduction Strategy Credit (PRSC) is currently under preparation. The proposed credit would help strengthen GoR capacity to (i) plan and budget results-oriented public sector actions supporting the implementation of the Poverty Reduction Strategy; (ii) develop incentive frameworks through performance-based payments and contracting; (iii) establish strong accountability mechanisms enhancing the capacity of Rwandan citizens to monitor and provide feedback to service providers—both public and private; and (iv) implement a sound fiduciary framework, as well as a monitoring and evaluation system to facilitate transparency and accountability in service delivery for the sectors of focus (i.e., health, education, water, energy). The credit went to the Board in October 2004.

International Development Agency (IDA) Program: Since 1970, Rwanda has received 60 IDA credits and grants totaling US\$1,333.6 million. As of end-January 2005, disbursements from IDA to Rwanda have totaled about US\$1026.7 million, with a total undisbursed balance of US\$221.9 million. Rwanda's current portfolio of ten operations represents, as of January 2005 a total commitment value of US\$221.3 million of credits and grant facilities of US\$30.5 million for an HIV/AIDS project and US\$20 million for a decentralization and community development project.

Overall, IDA has financed projects in (i) infrastructure, particularly road construction and maintenance, electricity and water supply, and sanitation infrastructures; (ii) agriculture, rural development, and forestry; (iii) social infrastructure, including health and population, and education and training; (iv) private sector development, public enterprise reform, financial development, and technical assistance; and (v) two policy-based quick-disbursing operations (IRC and PRSC1). During the immediate post-genocide period, IDA financed two emergency budget support operations and a social fund-type project, and restructured its prewar portfolio of investment projects to meet the high-priority needs associated with the emergency and the transition from conflict to development.

International Finance Corporation (IFC) Program: The IFC has made some investments in Rwanda, in various industries. Investments have been made in the Rwandan match factory (SORWAL). In FY1998, IFC approved a US\$0.53 million investment in Highland Flowers and in FY2000, a US\$6.0 million in RWANDACELL. In December 2000, an investment of US\$0.8 million was approved for an apartment hotel in Kigali. As of today, investments with the exception of SORWAL have been cancelled. The IFC has provided some technical assistance support to Rwanda focusing on privatization, SMEs, the financial and industrial sectors.

Multilateral Investment Guarantee Agency (MIGA) Program: Rwanda signed and ratified the MIGA Convention on October 27, 1989. On September 27, 2002, it became a full member of MIGA with the completion of its membership requirements, including payment of the usable currency and the local currency portions of its initial subscription, and deposit of the promissory note. The membership was followed by Rwanda's election to MIGA's Board of Directors during the World Bank/IMF annual meetings held in Washington. As one of its cooperative initiatives, MIGA seconded a senior underwriter for more than a year to COMESA (of which Rwanda is a member) to work on the creation of the Africa Trade Insurance Agency, which was officially launched in Uganda in July 2001. Rwanda is a founding member of ATI, along with seven other COMESA countries. Headquartered in Nairobi, Kenya, ATI provides political risk insurance for trade credits in African countries. All African countries are eligible to participate.

World Bank staff

Questions may be referred to Pedro Alba (Tel. 202-458-2246) and Kene Ezemenari (Tel. 202-458-5559).

Table 1: Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Bank	Fund
Macroeconomic stability and development.	Development agenda in poverty reduction goals. Collaboration in the areas of growth oriented reforms of the government.	Complement IMF's macroeconomic policy with various broad structural and sectoral work through lending and capacity building especially in the areas such as budget management, energy, infrastructure, banking, telecommunications sectors. Technical assistance in macro framework and related issues.	IMF leads the policy dialogue and macroeconomic policies including fiscal and monetary policies. IMF has supporting Rwanda through several arrangements under ESAF/PRGF. Technical assistance for improving tax administration
Public finance management and governance.	A joint Bank and Fund assessment of the government's capacity to track poverty expenditures in July 2004, which highlighted the key areas for improvement. Strengthening capacities in the areas of financial accountability and budget monitoring.	The Bank has been providing assistance to the government to improve the capacity and quality of the budget process through a series of public expenditure reviews. Recently the Bank completed Financial Accountability Review and Action Plan (FARAP) and expected to support further through a Country Financial Accountability Assessment (CFAA). Financing and provision of technical assistance in expenditure tracking surveys and procurement reform. The Bank supports reform through the public sector capacity building project.	IMF TA missions have been fielded in the areas of financial management, fiscal decentralization, and revenue management. Technical assistance provided in revenue management and modernization.
Structural and policy reforms and financial sector.	Collaboration in key institutional and structural reforms including an MTEF approach to budget planning, legal and judicial reform in establishing commercial courts and other regulatory reforms.	The Bank has provided support in the restructuring of the banking sector, and addressing the problem of non-performing loans. The Bank is also helping in the areas of micro-financing and controlling money laundering.	The Fund has been providing TA in banking supervision and prudential regulation. IMF is also providing assistance to the Central Bank in monetary policy analysis, banking supervision, and internal audit.
Infrastructure and private sector development	Collaboration in business friendly policies especially in the areas of taxation, budget, and legal and institutional development. Collaboration in reforming financial sector..	The Bank has been supporting this area through many infrastructure projects in transport, water/sanitation, energy. The competitiveness and enterprise development project (CEDP) is supporting reforms in telecommunications, privatization of the current telephone monopoly and tea factories. Banking sector reforms and the privatization process have supported by the CEDP and the Institutional Reform Credit (IRC).	Fund has been complementing the Bank work through fiscal and monetary policies.
Agriculture and rural development.	Collaboration in recent budgetary policies, which support productivity enhancing measures in agriculture such as fertilizer and seed policies and fully washed coffee promotion of the government.	World Bank is supporting this sector through Rural Sector Support Project (RSSP), which aims to raise productivity and incomes among rural population.	
Social sector and community development.	Development agenda in poverty reduction and social sectors.	The Bank has supported Rwanda to improve its social infrastructure after the genocide especially in the areas of health, education and HIV/AIDS. Current poverty reduction strategy credits (PRSCs) have been supporting the social sector. The decentralization and community development project is supporting service delivery and ownership at the local level.	

Table 2: Status of World Bank Group Operations in Rwanda
(As of January, 2005)

A. Statement of IDA Credits				
Status of Credit	Fiscal Year	Purpose	Original Credit Amount in US\$ Million (Less Cancellations)	Undisbursed
Closed credits: (50 credits closed)			955.16 ³⁷	0.0
Active credits:				
	2001	Competitiveness and Enterprise Dev	40.8	24.0
	2000	Rural Water Supply and Sanitation	20.0	18.3
	2001	Regional Trade Facility	7.5	5.9
	2000	Human Resource Development	35.0	21.5
	2001	Rural Sector Support Project	48.0	41.7
	2002	Demobilization & Reintegration	25.0	17.9
	2003	HIV/AIDS	30.5	25.1
	2004	Decentralization & Community Development	20.0	20.7
	2005	Public Sector Capacity Building	20.0	21.2
	2005	Urgent Electricity Rehabilitation	25.0	25.0
Total amount			271.8	221.9
Total approved amount ³⁸			1,333.6	
<i>Of which:</i> repaid			90.6	
Total held by the Bank and IDA			1,019.8	

B. Statement of IFC Investments in Rwanda

The IFC's pending commitments in Rwanda comprise those in Rwandacell, AEF Dreamland, and AEF Highland, amounting to US\$5.326 million.

³⁷ Includes two emergency recovery credits of US\$50 million each, approved in 1995 and 1997, respectively, and fully disbursed.

³⁸ Total approved amount, covering closed and active credits which also included cancellations.

Rwanda: Statistical Issues

1. The macroeconomic database of Rwanda is weak, in part due to the destruction caused by the 1994 war. Since the end of the war, Rwanda has received considerable technical assistance in rebuilding the country's statistical database, and there has been some progress in the compilation and dissemination of economic and financial statistics. The authorities are fully cooperative in providing data to the Fund. Rwanda has very few statistical publications, but the authorities initiated in 1998 a new annual publication covering most of the major economic and financial statistics. The publication includes historical data (or estimates based on partial, available data) dating back to 1990. National accounts and price statistics, government finance, and balance of payments statistics suffer from significant quality weaknesses. Monetary statistics are adequate for surveillance and program monitoring, but their quality and timeliness likewise need to be further improved. There is also scope for improving the data relevant for banking supervision.
2. Rwanda is participating to the IMF General Data Dissemination System and its metadata have been posted on the IMF website since October 2003. Significant technical assistance is being provided to Rwanda. A DFID project is supporting the establishment of the "Institut National des Statistiques de Rwanda" with a component on national accounts. The objective of this is to establish a program of economic surveys and to develop leading economic indicators which will provide the basic data to feed into the compilation of GDP.
3. East AFRITAC assistance is focused on capacity building to enable the construction of short-term indicators on the formal sector, starting with a monthly PPI for the manufacturing (formal) sector. This is a joint project with the central bank (BNR). DFID is providing financial support. PPI for the months of October 2003-June 2004 have been computed and are currently being analyzed. The publication of PPI was expected to begin in January 2005.

Real sector

4. The Statistics Directorate of the Ministry of Finance and Economic Planning (MINECOFIN) prepares data on national accounts. After the 1994 war, the authorities compiled national accounts data starting from 1990. Nevertheless, the quality of these data is weak, reflecting shortages of human and material resources. While considerable effort was made to improve the reliability of GDP estimates using the production approach, significant weaknesses in data collection on expenditures and income remain. These weaknesses are reflected in uncertainties regarding the composition of GDP and they complicate, in particular, an adequate assessment of developments in savings and investment. The reliability of national accounts estimates are further hampered by weak external sector statistics.
5. In 2003, an East AFRITAC mission visited Kigali to advise the authorities on real sector statistics issues, especially in the area of secondary sector statistics. In February 2004, the EREBS group (Equilibre ressources-emplois des biens et services) assisted the MINECOFIN to develop new benchmarking GDP estimates (2001) and the manufacturing PPI. The new GDP estimates show an increase by about 7 percent as compared to previous

ones, with greater differences in many of the component categories. Work was also advanced for the implementation of the **1993 SNA**.

6. The NBR has set up an improved consumer price index (CPI). The index addresses problems regarding regional and consumption basket coverage and covers 438 goods, for which a total sample of more than 25,000 is observed in Kigali (weighted 77 percent) and in eleven provincial towns. The index is based on a survey of 6,450 households in 2000/01 (the last survey had been done in 1989) and on average 2003 prices. Local goods amount to 70 percent and imported goods to 30 percent, while food and drinks amount to 37 percent, and housing and energy amount to 16 percent. Shortcomings remain, however: The index aggregates infrequently purchased products in groups with all products in the respective group assigned the same weight; and the index of underlying inflation is too narrow as it excludes 53 percent of the goods as seasonal or exchange-rate-determined. In 2003, the old and the new index developed closely in line, although the old index indicated higher inflation pressures during the period of monetary overhang during the last quarter of 2003 than the new index.

7. Data on employment and wages are not collected, except for the central government and for daily informal work.

8. Real sector data are reported regularly for publication in *International Finance Statistics (IFS)*, although with some lags, particularly for GDP estimates.

Government finance statistics

9. The authorities report to the African Development Bank detailed monthly data on revenue and expenditure with a lag of three–four weeks. These data are compiled by a flash-reporting unit which was established in the MINECOFIN, with the assistance of the Fund, in 1996. A functional classification of government expenditure has been designed and was presented with the 2003 budget. Within the economic classification, expenditures belonging to areas identified by the PRSP as “priority areas” are clearly identifiable. The fiscal data do not capture consistently capital expenditure data because capital projects (almost entirely foreign financed) are mainly carried out by line ministries outside the regular budget procedures. Efforts are under way to integrate the development budget into the normal budgetary procedures. Fiscal data have often shown a discrepancy between the deficit as derived from above the line with that derived from below the line (i.e., its financing). Together with the Fund staff, the authorities have made adjustments for changes in the balance of non-core government accounts, for changes in cash in vault at the revenue authority, for accounting errors, and for other factors.

10. Selected aggregates on annual central government operations through 2002 have been reported to the Statistics Department (STA) and are published in *IFS*. These data exhibit large statistical discrepancies, mainly due to the time of recording of expenditures. No sub-annual data are reported to STA and government finance statistics (GFS) have been reported for publication in the *GFS Yearbook* only through 1993.

Monetary statistics

11. The balance sheet of the NBR is transmitted to the African Department on a weekly basis with a lag of one week, and the monetary survey and the consolidated balance sheet of the country's commercial banks are transmitted on a monthly basis with a lag of about five weeks. Detailed data on interbank money market transactions are also provided upon request to mission staff. Monetary data are reported separately to the Statistics Department on a timely basis and published in *IFS*. The NBR established a working group to implement the recommendations of STA missions in the area of collection, compilation and dissemination of monetary and financial statistics, including, a money and banking statistics mission that visited Kigali in November 2000 and a multisector mission that visited Kigali in June-July 2003. As a result, the NBR (1) adopted in June 2002 an improved classification of the central bank balance sheet accounts, specifically those related to transactions with the government; (2) adapted in early 2004 the reporting format for the banking sector closer to the methodology proposed in the *Monetary and Financial Statistics Manual*; and (3) is expanding the institutional coverage of the broad money survey to include credit and savings unions, and microfinance institutions.

Balance of payments statistics

12. Foreign trade data are provided to Fund missions by the NBR. There are inconsistencies between data reported by the NBR and data recorded by customs. There is also significant unrecorded trade, and information on invisible transactions is scarce. There are indications of significant under recording of official external transfers, and data on the level and composition of private flows are poor. The lack of well-trained staff for balance-of-payments compilation is a major impediment for improvement of the quality of data. Trade in goods data are mostly collected by customs with the major exception of imports and exports of electricity, tea, and coffee. Customs is expected to take over responsibility for the reporting of the latter goods in the near future. The implementation of supplementary surveys to companies, recommended by a STA mission to Kigali in September 2000, is currently being implemented: the NBR launched a unit in charge of these surveys, which, however, still lacks adequate training.

13. The multisector statistics mission to Kigali (June 2003) identified the following areas of improvements in the short run: (1) reorganizing data entry and production of external trade statistics, using ASYCUDA and Eurotrace softwares; (2) adapting survey forms to companies to the *BPM5* methodology; and (3) work with CEPEX to obtain exhaustive data on international and bilateral aid. A follow-up mission visited Kigali in January 2004.

14. Annual balance of payments and quarterly import and export data are reported to STA, albeit with some lags, and are published in *IFS*. Rwanda sent methodology notes describing the compiling methods for balance of payments statistics which were included in Part 3 of the 2002 Balance of Payments Statistics Yearbook (BOPSY).

15. Databases on external public debt are maintained by both MINECOFIN and the NBR. The authorities have established a committee, composed of the staffs of the ministries of Finance and Economic Planning and Foreign Affairs and the NBR, to collect, harmonize, and monitor information on external public debt.

Rwanda: Table of Common Indicators Required for Surveillance
(As of February 25, 2005)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Current	Current	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Current	Current	W	W	M
Reserve/Base Money	12/31/04	1/15/05	W	W	M
Broad Money	12/31/04	2/15/05	M	M	M
Central Bank Balance Sheet	12/31/04	1/15/05	W	W	M
Consolidated Balance Sheet of the Banking System	12/31/04	2/15/05	M	M	M
Interest Rates ²	12/31/04	2/15/05	M	M	M
Consumer Price Index	12/31/04	1/15/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	12/31/04	2/15/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	12/31/04	2/15/05	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/31/03	12/31/04	A	A	A
External Current Account Balance	6/04	10/04	A	SA	A
Exports and Imports of Goods and Services	2002	06/03	A	A	A
GDP/GNP	2004	2/1/05	A	SA	A
Gross External Debt					

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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 Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I); Not Available (NA).

Rwanda: Millennium Development Goals

	1990	1995	2001	2002
Eradicate extreme poverty and hunger (2015 target = halve 1990 US\$1 a day poverty and malnutrition rates)				
Population below US\$1 a day (in percent)	...	...	...	...
Poverty gap at US\$1 a day (in percent)	...	...	...	...
Percentage share of income or consumption held by poorest 20 in percent	...	...	...	...
Prevalence of child malnutrition (percent of children under 5)	29.4	27.3	24	...
Population below minimum level of dietary energy consumption (in percent)	34	...	40	...
Achieve universal primary education (2015 target = net enrollment to 100)				
Net primary enrollment ratio (percent of relevant age group)	65.9	...	97.3	...
Percentage of cohort reaching grade 5 (in percent)	60	...	39.1	...
Youth literacy rate (in percent ages 15-24)	72.7	78.6	84.2	84.9
Promote gender equality (2005 target = education ratio to 100)				
Ratio of girls to boys in primary and secondary education (in percent)	97.6	...	97.1	...
Ratio of young literate females to males (in percent, ages 15-24)	86.4	91.8	96.3	96.9
Share of women employed in the nonagricultural sector (in percent)	...	...	...	...
Proportion of seats held by women in national parliament (in percent)	17	17	26	26
Reduce child mortality (2015 target = reduce 1990 under 5 mortality by two-thirds)				
Under 5 mortality rate (per 1,000)	178	210	183	191
Infant mortality rate (per 1,000 live births)	107	122	96	99
Immunization, measles (in percent of children under 12 months)	83	84	78	...
Improve maternal health (2015 target = reduce 1990 maternal mortality by three-fourths)				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	2,300	...	...
Births attended by skilled health staff (in percent of total)	25.8	...	30.8	...
Combat HIV/AIDS, malaria and other diseases (2015 target = halt, and begin to reverse, AIDS, etc.)				
Prevalence of HIV, female (in percent, ages 15-24)	...	...	11.2	...
Contraceptive prevalence rate (percent of women ages 15-49)	21	...	13.2	...
Number of children orphaned by HIV/AIDS	...	...	260,000	...
Incidence of tuberculosis (per 100,000 people)	...	...	404.7	...
Tuberculosis cases detected under DOTS (in percent)	...	32	29	...
Ensure environmental sustainability (2015 target = various)				
Forest area (in percent of total land area)	18.5	...	12.4	...
Nationally protected areas (in percent of total land area)	...	14.6	14.7	14.7
GDP per unit of energy use (PPP dollars per kg oil equivalent)	...	...	...	...
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	...
Access to an improved water source (percent of population)	...	...	41	...
Access to improved sanitation (percent of population)	...	...	8	...
Access to secure tenure (percent of population)	...	...	...	...
Develop a Global Partnership for Development (2015 target = various)				
Youth unemployment rate (in percent of total labor force ages 15-24)	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	...	...	10.9	...
Personal computers (per 1,000 people)	...	...	...	...

Source: World Bank.

Statement by the IMF Staff Representative
April 11, 2005

1. This statement provides information on recent developments with regard to the security situation in the region and economic performance, received since the issuance of the Board papers.¹ The authorities have already given their written consent to publish all documents, except for the Managing Director's report on noncomplying disbursements. The information in this statement does not alter the thrust of the staff appraisal or the Managing Director's recommendation on corrective action.
2. Both the UN and the African Union (AU) remain involved in addressing the tensions in the Great Lakes region. On March 15, 2005, the Secretary General, in his report on the United Nations mission (MONUC) in the Democratic Republic of Congo (DRC), reported that the situation in North and South Kivu remained tense. On March 30, 2005, the UN Security Council passed a resolution demanding, among other things, that Uganda, Rwanda, and the DRC halt the use of their respective territories to support violations of the arms embargo or of activities of armed groups. On the positive side, the main Hutu rebel group on April 1 accepted to voluntarily disarm, and return peacefully to Rwanda. Moreover, MONUC has been in consultation with Rwanda and the DRC to implement a strategy involving political, military, and judicial pressure to accelerate the demobilization of paramilitaries in the eastern DRC. It has also stepped up efforts to crack down on militias. To help disarm the militias, the AU announced in mid-March that it was planning to send peacekeepers.
3. As foreshadowed in the staff papers, based on final data, all but two performance criteria for the fifth review were met. The performance criterion on priority spending at end-December was missed by one percent of GDP, as the authorities needed to address the acute electricity crisis. However, had spending on the electricity sector been included in the definition of priority spending, the target would have been met.² Moreover, the continuous performance criterion on external arrears was not observed.³

¹ Staff report for the fourth review under the PRGF arrangement; completion point document under the enhanced HIPC Initiative; joint staff advisory note on the PRSP progress report; and the Managing Director's report on noncomplying disbursements.

² Although energy was identified as a priority in the PRSP, it was not formally defined as such in the 2004 program. For 2005, the definition of priority spending has been expanded to include energy-related spending.

³ The relevant facts were set out in a memorandum from the Managing Director on noncomplying purchases and disbursements (EBS/05/54, 3/28/05).

4. Macroeconomic performance in the first two months of 2005 appears to have been broadly on track, based on preliminary data:

- Recent weather forecasts and estimates for agricultural production indicate that, as programmed, agricultural output is likely to remain flat.
- The 12-month rate of consumer price inflation rose from 10 percent at end-2004 to 12 percent at end-January 2005, reflecting mainly the doubling of electricity tariffs. Twelve-month underlying inflation (excluding energy and food) remained unchanged at about 5 percent.
- International reserves at end-February 2005 increased to US\$238 million from US\$216 million at end-December 2004, mostly due to inflows for donor assistance. At the same time, the exchange rate appreciated slightly by about 1 percent to RF 561 per U.S. dollar in late March.



Press Release No. 05/85
FOR IMMEDIATE RELEASE
April 13, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fourth Review of Rwanda's PRGF Arrangement and Addresses Misreporting of Information

The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Rwanda's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. As a result, Rwanda will be eligible to draw an amount equivalent to SDR 0.57 million (about US \$0.86 million), bringing the total amount disbursed under the arrangement to SDR 2.86 million (about US \$4.3 million). Rwanda's PRGF arrangement was approved on August 12, 2002 (see [Press Release No. 02/36](#)), for SDR 4 million (about US\$6.0 million).

In completing the review, the Board granted a waiver for the nonobservance of performance criteria on priority expenditures. The Board also granted a six-month extension of the arrangement through February 11, 2006.

The Board also considered the issue of inaccurately reported information in connection with the continuous performance criterion on external arrears. This performance criterion was not observed as a result of the incurring arrears to the Arab Bank for Economic Development for Africa during the fourth quarter of 2003, which were not reported to the IMF at that time. Consequently, the disbursements following the completion of the second and third program reviews under the PRGF arrangement were rendered noncomplying and a similar conclusion pertained to the disbursement of interim assistance made under the enhanced HIPC Initiative at the time of the completion of the second program review. However, in view of the settlement of the arrears in the context of satisfactory program implementation, the Board decided not to take remedial action in relation to the misreporting.

In commenting on the Executive Board discussion on Rwanda, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

“The Rwandese authorities are to be commended for having largely achieved macroeconomic stability. Implementation of economic policies improved considerably in 2004 despite an electricity crisis and rising fuel prices.

“A key priority for Rwanda in the medium term will be to raise the economic growth rate, while maintaining macroeconomic stability and debt sustainability, in order to reduce poverty significantly and advance toward the Millennium Development Goals. Steadfast commitment to reform will be necessary for this purpose. Of particular importance will be productivity-enhancing strategies, especially in agriculture and exports; prudent management of large donor inflows so as to preserve export competitiveness; and strengthening the economy's capacity to cope with shocks, including through the

mobilization of domestic revenue and maintenance of adequate international reserves. The reallocation of resources to priority needs in line with the Poverty Reduction Strategy Paper, as envisaged in the 2005 budget, should also be pursued.

“The authorities are committed to reducing inflation while at the same time allowing an expansion in credit to the private sector.

“Important structural reforms were implemented recently, including an overhaul of the legal frameworks underlying the budget and the tax system, improvements in tax administration, and progress in financial sector reform. Further strengthening of public expenditure management will be critical for implementing the PRSP, including through capacity building in line ministries and local governments to allow implementation of the organic budget law. The authorities are also aware of the importance of stepping up efforts to mobilize domestic revenue and implement the recommendations of the ongoing Financial Sector Assessment Program.

“The authorities’ commitment to limit external borrowing and accelerate export promotion efforts will be key to maintaining debt sustainability. In line with this commitment, the authorities’ intention to seek external financing mostly in the form of grants is appropriate.

“The authorities are to be commended for completing— through a broad-based consultative process—the second annual progress report on implementation of their poverty reduction strategy. Considerable progress has been made in the health and education sectors. It will be important to build on this by increasing the emphasis on private sector-led development, particularly in agriculture and exports, and better orienting public service delivery toward poverty reduction.

“Rwanda has satisfied the conditions for reaching the completion point under the enhanced HIPC Initiative. This will result in debt relief to bring the debt to a sustainable level.” Mr. Carstens said.

On the issue of the noncomplying disbursement, Mr. Carstens said:

“The Executive Board regretted the authorities' failure to ensure the accuracy of information relating to the accumulation of external payments arrears, which led to a breach of the relevant performance criterion under the PRGF arrangement and to two noncomplying disbursements under the arrangement and disbursements of interim assistance under the Enhanced HIPC Initiative. There was a misunderstanding between the authorities and one creditor as to the due date of an interest payment, leading to the misreporting to the Fund. However, given that the deviation was minor, had been settled in the interim, and had not endangered achievement of the other objectives of the PRGF-supported program, the Executive Board decided to grant a waiver of nonobservance of the performance criterion.”

The PRGF is the most concessional facility for low-income countries. PRGF-supported programs is based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal.

**Statement by Damian Ondo Mañe, Executive Director for Rwanda
and Laurean W. Rutayisire, Alternate Executive Director
April 11, 2005**

Introduction

We would like to express our Rwandese authorities' appreciation to Management and Staff for their continued support to Rwanda in implementing its reform program to address the important economic and financial challenges facing the country. Our authorities have continued to implement sound macroeconomic policies and undertaken profound structural reforms under uniquely difficult circumstances characterized by the aftermath of 1994 genocide. These factors have been compounded by adverse exogenous shocks deriving among others from unfavorable export commodities prices, spikes in oil prices and drought. The drought in particular has affected agriculture production and also caused drying up of water sources for hydroelectric power generation leading to the severe electricity shortage.

However, the authorities' persistent determination to succeed their PRGF supported-program has, despite the difficult conditions, enabled them to meet all performance criteria for the fourth review with the exception of two quantitative criteria and one structural criterion. The two quantitative criteria were: priority spending which was less than targeted and was due to delays in donors' disbursements; non accumulation of external arrears which arose in connection with BADEA loans. The Rwandese authorities understanding of the loan repayment outstanding was similar to that of the BADEA that the amount due constituted "outstanding" current dues" and not "outstanding" arrears payments" under the arrangement for settlement of arrears concluded between the government of Rwanda and BADEA. Given the amount involved in the misreporting, the deviations from the continuous performance criteria were minor and have not endangered the objectives' achievement under the PRGF supported-program. Also the amount outstanding was settled after a short period in July 2004 and our authorities appreciate Managing Director's favorable recommendations. With regard to the structural criterion missed, there was a delay in submission of the revised 2004 Budget to Parliament in July instead of June due to capacity constraints. Moreover, the implementation of the program till December 2004 remains broadly on track. Considering the fact that these deviations were minor and beyond the control of the authorities and also the fact that they were corrected sooner after, our authorities request waivers for the performance criteria missed in order to allow the completion of the fourth review under the PRGF arrangement and its extension to February 11, 2006 as well as the related disbursements.

In addition to having established a good track record in their PRGF performance, our Rwandese authorities have implemented their full PRSP for a second year successively and have met all triggers for HIPC completion point as set out in the decision point document. The one remaining trigger which our authorities partially fulfilled and for which they request waiver is with respect to the tea sector. The partial fulfillment attributed to failure to receive acceptable bids for the sale of one tea factory. Our authorities are currently in the process of inviting new bids and are committed to the privatization of the remaining tea factories.

Given the evidenced strong performance in most policy areas under the PRGF and PRSP, our Rwandese authorities request Board approval of their attainment of the HIPC completion point. Owing to exogenous factors which have fundamentally affected their economy, resulting into worsening of debt sustainability, our authorities also request additional HIPC Initiative relief to reduce Rwanda's debt sustainability ratio to the HIPC Initiative threshold ratio.

Recent Developments and Performance under Program

In the real sector, Rwanda has over the past decade largely succeeded in macroeconomic stabilization. In spite of capacity constraint, policies implemented have significantly improved macroeconomic performance. In 2004, real GDP grew by 4 percent compared to 0.9 percent in 2003, thanks to strong activity in the construction, transport and, communication sectors despite the difficulties encountered in the provision of electricity. Due to higher energy and food prices annual inflation stood at 10.2 percent at end-December 2004 but underlying inflation remained stable at 6 percent. Growth in the formal and manufacturing sectors was negatively impacted by severe electricity shortage experienced in 2004. This shortage is the result of a combination of lack of investment in the sector, the drop in water levels in hydroelectric dams and the surge in oil prices. The rehabilitation of infrastructure has been undertaken and electricity tariffs were doubled in January 2005 with a view to cover the additional costs resulting from the rehabilitation investment.

In the fiscal sector, the prudent policies implemented has enabled maintenance of the domestic fiscal balance at its 2003 level. For 2004, higher revenue due largely to increases in indirect taxes and strengthening of tax administration, coupled with expenditure restraint resulted in a domestic fiscal deficit of 5.5 percent which is lower- than- the 7.8 percent programmed. The revenue-to-GDP ratio rose to 14 percent of GDP compared with 13.5 percent in 2003. In order to ensure achievement of the program's objectives after the delays in donors' disbursements at end-June 2004, the authorities decided to restrain temporarily the public expenditure including the priority sectors instead of using the central bank financing. Once the external disbursements resumed, the short fall in priority spending was made up.

In the monetary area, policies kept inflationary pressures under check and the end-quarter objectives on reserve money under the program were also met. In order to attain these objectives in the context of an increase of currency in circulation due to payment of coffee farmers in mid-year, the authorities issued a large amount of Treasury Bills, mainly to non bank sector. The gross official foreign reserves increased to 5.8 months of imports compared with an objective of 4.6 months, due mainly to the better performance of exports. As a result, the real exchange rate of the Rwanda franc appreciated slightly.

A joint Bank-Fund mission conducted last February the Financial Sector Assessment Program for Rwanda with a view to identify financial system strengths and weaknesses and design plan of actions to increase the system contribution to economic growth and poverty reduction. In the FSAP mission findings Rwanda's financial sector remains shallow and relatively underdeveloped. The size and structure of the economy pose significant challenges for building a deep, efficient and diversified financial sector. To correct the situation, the authorities have undertaken significant measures which include privatization of banks,

strengthening the banking sector regulation and supervision, creation of a regulatory framework for micro finance and a new independent regulator for insurance industry. Furthermore, the authorities agree with staff that the reform measures identified by the FSAP cannot all be implemented in the short-term. They require long-term commitment and planning. To this end, the authorities will establish a road map, identifying needs for capacity building and seek the necessary technical assistance.

With regard to the external sector, the current account deficit narrowed compared to the program target, due to strong export growth and slowdown in imports. To address weaknesses in the export sector, the authorities endorsed an export promotion strategy in September 2004 and created a inter-ministerial monitoring structure. The export promotion strategy identified short-term measures to be implemented with a view to improve access of coffee and tea farmers to inputs factors and strengthen Rwanda's presence in the international market. Regarding the external debt, the authorities continued to make use of highly concessional loans to finance the country's development efforts. In this regard, the authorities appreciate the assistance received from the international community and will continue their efforts to reach agreements on debts cancellations or rescheduling with the remaining Paris Club and non-Paris Club creditors.

In the structural area, our Rwandese authorities have continued their reform efforts. In this regard, an organic budget law and financial regulations meant to strengthen the budget process and expenditure control were submitted to Parliament in August 2004. Moreover, the authorities continued the streamlining of the tax system and submitted to the Parliament in September a new investment code, a new tax procedures, income tax and customs laws after the creation of a large tax payers unit. A Treasury Management Committee was established as well as a cash management unit and a fiscal unit to consolidate budgets for districts and autonomous agencies. In the banking sector, the majority shares of two commercial banks were sold to investors. An action plan was established to strengthen the soundness of the banking system and the audit of the National Bank of Rwanda's 2003 financial statements was completed. The delay to complete this action was due to the fact that the tendering of audit had to pass through the nation procurement and the procedure took time.

On the PRSP's implementation, the second annual progress report was completed and provided a candid review, while highlighting progress achieved. In addition, significant progress was made in political and administration governances. To enhance transparency and accountability, planning and budgeting processes have been improved and an action plan to modernize the public financial management system was also adopted.

Macroeconomic outlook and Policies for 2005

Our Rwandese authorities would like to continue their close relationship with the Fund in order to further enhance macroeconomic and structural policies aimed at fostering sustained growth, achieving sound fiscal and external sustainability over the medium-term. In this regard, they are fully determined to put into place strong macroeconomic and structural policies meant to reduce poverty through raising productivity in agriculture, infrastructure and exports sectors and achieve the MDGs as well as the middle-income status by 2020. The 2005 objectives indicated a growth rate of 4 percent and a reduction in inflation to

6 percent by end-year, while the domestic fiscal deficit, excluding demobilization will be 4.5 percent of GDP. These objectives are consistent with preservation of macroeconomic stability and advance the medium-term agenda towards the attainment of the MDGs.

In order to achieve higher growth rate, our authorities take strong note of the Fund advice on the need to substantially increase capital and labor productivity in addition to the need to increase spending in critical PRSP sectors and deepening the structural reforms meant to foster the private sector development. To this end, the authorities will continue to implement productivity enhancing strategies in key sectors including agriculture, energy, water, health and education. They will also continue to strengthen public finance management in order to ensure efficient allocation of resources and will intensify their steps towards privatizing remaining public enterprises.

In addition, our Rwandese authorities are fully aware of the importance of stability in the Great Lakes region for the economic development of the region. They welcome the signs of progress in the implementation of the peace accords and they will along with other parties involved continue to contribute to peace building efforts in the region.

Debt Sustainability

Our Rwandese authorities are committed to the sustainability of the country's external debt. To this end, they intend to strictly limit the external borrowing and rely mostly on grants. It is worth noting that in observing this prudence our authorities new borrowing during the interim period were kept at the level less than the cap set. By reaching the completion point and receiving additional HIPC debt relief, Rwanda's external debt will be substantially reduced. Our authorities take good note of the Staff's three scenarios analyzing Rwanda's debt sustainability and agree that a higher and sustained level of grant financing, strong export growth and a focus on further revenue mobilization will be key to improving Rwanda's debt situation.

Fiscal Policy

Fiscal policy will aim at supporting macroeconomic stability, reprioritizing and improving the quality of spending and mobilizing domestic revenue to fund the ambitious development efforts, while reducing reliance on external assistance over the medium term. In 2005, the authorities intend to consolidate the recent improvements introduced in tax laws and administration. New revenue measures will be developed for the 2006 budget, given the need to strengthen revenue mobilization for the medium-term fiscal sustainability. Efforts to realize efficiency gains in tax administration will continue and an action plan to reduce tax incentives, including tax holidays and exemptions will be submitted by end-September 2005.

The quality of spending will be improved and the authorities intend to increase through their contingency priority spending budgetary allocations in favor of agriculture, export promotion, rural roads and water. The non priority expenditure is expected to fall and the authorities agree with staff that efforts are to be made in order to restructure the public expenditure. The organic budget law submitted to Parliament will help improve the efficiency and transparency of public expenditure management and strengthen the legal and

regulatory framework governing the budget process and execution for all levels of government. In this regard, a single account for Treasury will be adopted as well as applying budgeting and accounting standards to local governments and integrating the recurrent and development budgets. Moreover, civil service reform will continue at the central government level and then expanded to provinces and parastatals. A new pay structure, simplifying the old one and integrating benefits will be introduced in 2005.

Monetary and Financial Policies

The monetary objectives set out for 2005 are to contain inflation at least at 6 percent and continue building up the international reserves. To this end, broad- money will be used as the nominal anchor to control inflation with reserve money as the operational target. The exchange rate of Rwandan franc will remain market determined and credit to the private sector is expected to expand while the central bank stands ready to tighten the monetary policy in the event of inflationary pressures emerge. To improve the operation of the foreign exchange auctions, the variation in the margin by which the exchange rate can vary has been increased and a study towards a further flexibility will be finalized by end-March 2005. Using the findings of the recent FSAP mission, the authorities will further strengthen the supervision of the banking sector in particular, the non bank institutions which provide rural areas with financial services. Strong oversight procedures will be put in place as well as an action plan to address weaknesses in the financial institutions, including the Housing Bank.

Structural reforms

In this area, the main objective set out by the authorities is to improve the business environment with a view to further spur the private sector activity. Therefore, efforts to strengthen the legal framework for private business and make significant progress in the privatization will be intensified. To promote private/public sector partnership, a permanent secretariat has been created and the authorities organized a national investment dialogue and an investment conference held respectively in February and March with a view to address obstacles to investment and encourage joint venture with foreign investors. Mindful of the need to broaden access to credit and stimulate growth in rural areas, the authorities have submitted a new land law to Parliament and the law is expected to be approved in 2005. Furthermore, the authorities are determined to further reduce the public sector in the economy through the privatization of several public enterprises. In this regard, steps will be intensified to finalize the privatization of the telecommunications company and prepare for the sale of Primeholdings' hotel projects.

PRSP Progress Report

Rwanda is making good progress in implementing its poverty reduction strategy. It is worth noting that the second annual progress report is an important milestone in the country's long vision to reduce the poverty line from 60 percent to 25 percent and raise per capita income from \$250 to above \$1000. The report presents a candid analysis of achievements to date and also constitutes a policy document as all stakeholders have fully participated in its preparation and identified weaknesses to be addressed.

The progress made are related to the reform of public finance management, human resource development including education and health. Our authorities are of the view that economic infrastructure development is an important requirement for a poverty reduction strategy based on sustained development of productive capacities, transport, energy , water and ICT. The private sector is regarded as the engine for economic growth and the authorities are committed to creating a conducive environment for its development. In their efforts to facilitate access to credit and establish a sound financial system a regulatory framework for micro-finance activities has been established but also and a policy to strengthen the banking supervision was developed. In order to address the weaknesses in institutional capacity facing the PRSP's implementation, a clear policy has been designed covering the needs, budget, management and assessment of capacity building programs.

The authorities have taken good note of the findings of the report, the views expressed by stakeholders as well as the assessment of the staff of the World Bank and the Fund. Based on these recommendations, they will further improve the implementation of the PRSP.

Conclusion

In view of the fact that Rwanda has satisfied broadly the conditions for reaching the completion point under the HIPC Initiative as well as the achievements made under the PRFG supported-program and the strong commitment of the authorities to pursue the reforms process, we would appreciate Directors' support for the proposed decisions. Rwandese' authorities fully recognize that important challenges remain and progress made has to be consolidated. They will pursue and strengthen their reform efforts and are hopeful that the international community will continue their strong support for these efforts.