IMF Country Report No. 14/185

RWANDA

July 2014

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—STAFF REPORT; AND PRESS RELEASE

In the context of the first review under the Policy Support Instrument, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on April 6, 2014, 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 May 13, 2014.
- A **Press Release**

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Rwanda*
Memorandum of Economic and Financial Policies by the authorities of Rwanda*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

©2014 International Monetary Fund

INTERNATIONAL MONETARY FUND

RWANDA

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

May 13, 2014

KEY ISSUES

Main challenges: Rwanda continues to face the challenge of sustaining high growth while reducing its reliance on aid and preventing the build-up of imbalances. After using foreign exchange reserves over the past few years to support the economy, the room for maneuver is more limited and it will be important to rebuild policy buffers.

Outlook and risks: Growth is projected to increase to 6 percent in 2014, while inflation is expected to remain well contained. Downside risks to the outlook center around delays in government financed projects and a weak second season for agriculture.

Policy discussions focused on the short and medium-term economic challenges:

- In the short term, the need to support growth and preserve the level of foreign reserves requires a cautious fiscal stance while maintaining priority spending and leaving scope for private sector credit expansion. In the absence of inflationary pressures, and faced with a binding balance of payments constraint, the monetary stance is appropriate to prevent a build-up of pressures in the foreign exchange market. Exchange rate flexibility would help preserve reserve buffers.

- In the medium term, the challenge will be the cost-effective financing of development projects, and implementation of the government's second Economic Development and Poverty Reduction Strategy (EDPRS2). Mobilizing domestic resources in support of the ambitious agenda embodied in the EDPRS2 will be crucial. The significant scaling up of investment also requires careful project selection and prioritization, with judicious recourse to non-concessional financing.

Approved By
Roger Nord (AFR) and Dan Ghura (SPR)

Discussions were held in Kigali during March 25-April 6, 2014. The mission comprised Messrs. Drummond (head), Thomas, Thakoor, Monyela (all AFR), and Anthony (SPR). Ms. Farahbaksh, resident representative, participated in the discussions and assisted the mission. The mission met with Minister of Finance and Economic Planning Gatete; National Bank of Rwanda Governor Rwangombwa; other senior officials; and representatives of the private sector, civil society, and development partners. The mission also gave a seminar on the new PSI.

CONTENTS

FIGURES

TABLES

APPENDIX

THE CONTEXT

1. **Rwanda continues to be affected by the reduction in budget support suffered during FY12/13 and the resulting spillovers on the government's investment program and the services sector.** Moreover, weak agricultural growth in the second half of 2013, resulted in the weakest growth rate in a decade. The shock to foreign aid in FY12/13 also required the government to use some of its foreign exchange reserves to cushion the impact on growth.

Outlook for Foreign Financing
(In percent of GDP)

	2012/13	2013/14	2014/15	2015/16
Grants	7.9	9.1	9.5	7.4
Project loans	7.7	2.4	2.1	3.6
Of which : sovereign bond	5.5			
Total	15.6	11.5	11.6	11.0
Excluding sovereign bond	10.1	11.5	11.6	11.0

2. **The outlook for foreign grants suggests a rebound from the trough of almost 8 percent in 2012/13 to 9½ percent of GDP by 2014/15.** Early indications by donors suggest that grant and loan commitments over the medium term will remain at around 11 percent of GDP.

3. **The authorities are aware of the need for private sector led capital investments and have identified some projects that are likely to require public support, either directly, or in the form of guarantees.** Having prioritized the projects and identified those that require non-concessional financing, the authorities are requesting an increase in their borrowing room in the coming fiscal year.

RECENT DEVELOPMENTS

A. Growth and Inflation

MEFP ¶ 3,4

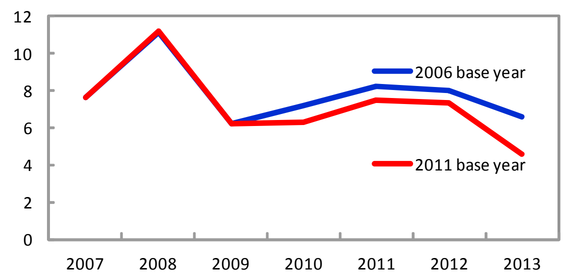
4. **The Rwandan economic activity slowed down significantly in 2013.** Real GDP grew by 4.6 percent amid poor performance in the agricultural sector as well as delays in the disbursement of budget support and the resulting spillovers on the government's investment program and the services sector (Table 1, and Figures 1 and 2). The latter accounts for about half of GDP. The real GDP series has recently been rebased to 2011, but the exercise had limited effect on the level of GDP which rose by 1 percent relative to earlier estimates (Box 1).

Box 1. The Effects of Rebasing Gross Domestic Product

The National Statistics Institute of Rwanda rebased national accounts figures from 2006 to 2011 base prices.[1] A number of improvements were made since the previous benchmark. These included the introduction of the intermediate consumption matrix, estimates of informal cross-border trade, the development of new estimates for the construction sector, estimates of crop production from the new Seasonal Agricultural Survey, including season C for the first time, and better estimates for the output of the livestock sector including increases in stocks (capital formation).

The restatement of gross domestic product figures in 2011 prices displayed very slight changes in the growth rates prior to 2010, but slower growth rates subsequently The slower growth rates were in part the result of the lower agricultural sector growth rates in 2011 base prices, as its share accounts for around a third of the total output. In terms of the level of output, the revisions raised nominal GDP by less than 1 percent, considerably less than in many other countries (see REO May 2013).

Real Gross Domestic Product: Percentage growth rates



The rebasing indicated that agricultural and industrial sectors' contributions to output for the period 2006 to 2012 were less than the 2006 price based GDP suggested. The share of the agricultural sector has also trended lower overtime, while the industrial sector displayed a slightly upward bias. As a share of total output, services accounted for an average of 46 percent in terms of the 2011 prices between 2006 and 2012 relative to 45 percent in 2006 prices over the same period. Trends in services were mainly driven by the value added in the wholesale and retail trade; and real estate and business services sub-sectors.

---

[1] Quarterly GDP data based on the updated prices will be released in June 2014

5. **Inflation declined along with the slowdown in economic growth.** The year-on-year headline inflation stood at 3.6 percent in 2013, as food, energy and import prices decelerated (Figure 2). Inflation in March 2014 continued to decline to reach 3.4 percent, partly reflecting that domestic demand was yet to recover, and inflationary pressures, both domestic and external, remained subdued.

B. BOP Developments

MEFP ¶ 5

6. **The current account improved considerably in 2013 and together with the Eurobond issuance helped to raise the import cover to above four months**. The improvement in the current account resulted from a combination of strong export growth, mainly in mining, and flat imports (Table 2). A number of foreign companies have recently invested in the mining sector and

contributed to the surge in mining exports. The flat imports reflected the adverse effects of delays in government-financed projects (especially the Kigali Convention Center) and weaknesses in private consumption due to the slowdown. The rebound in public sector external grants also helped to strengthen the current account.

MEFP ¶ 6

C. Fiscal Developments

7. **The fiscal position switched to a surplus in the second half of 2013.** This reflected lower wages and capital spending, and sharply lower net lending. Despite the slowdown in the economy, total revenues were close to the initial target due to the larger than expected disbursements for Rwanda's role in peace-keeping operations (Table 3). Moreover, grants were above initial expectations due to a sharp increase in Global Fund disbursements. Overall spending was lower than expected on account of delays in recruitments and in the implementation of capital projects, although capital spending has surged relative to current spending in recent years (Figure 4). In particular, net lending was sharply curtailed because of a slower pace in building the convention center.

D. Monetary Policy, the Exchange Rate, and the Financial Sector

MEFP ¶ 7

8. **The NBR has maintained its policy rate unchanged at 7.5 percent since June 2013**. The NBR noted that inflationary pressures remained subdued and explained its unchanged policy stance as driven primarily by a need to avoid pressures on the foreign exchange market that could result from too rapid an increase in credit to the private sector (Figure 5). While market rates, particularly at the level of interbank and government treasuries have been declining, lending rate rigidities in a context of declining inflation have contributed to an increase in real rates (Figure 6). Credit to the private sector slowed to 10.8 percent in 2013, after expanding by 34 percent in 2012. Reserve money was in line with the target. Reflecting its commitment to greater exchange rate flexibility, the NBR allowed the currency to be driven primarily by market conditions (Table 4). The Rwandan Franc depreciated by 6.1 percent last year, following a depreciation of 6 percent in 2012. Pressures in the foreign exchange market have subsided, and the spread between the official and market rates is now below 2 percent.

9. **The financial sector performance reflected the economic slowdown**. Non-performing loans (NPLs) peaked in the third quarter of 2013, reflecting the difficulty of businesses, particularly in the services sector, to service their loans given the slowdown in government implemented projects (Table 5). Additionally, the robust increase in credit in the previous two years had resulted in an easing of lending standards, which contributed to the increase in NPLs in some banks. Overall returns on assets and equity also declined in 2013. While the increase in NPLs was one factor, banks faced higher financing conditions due to the increase in Treasury bill rates in the first half of 2013. Banks had to increase their deposit rates in response and have now locked in these high rates until mid-2014. One bank had managerial problems that resulted in a need for recapitalization.

E. Program Performance

MEFP ¶ 8

10. **Compliance with the end-December quantitative criteria and structural benchmarks was satisfactory.** Except for the ceiling on non-concessional borrowing, all QAC were met (MEFP Table 1). Non-observance of the NCB ceiling came about when the authorities allowed Rwandair to contract a new foreign aircraft lease ($18.2 million) in February 2014. All indicative targets were met except for the domestic debt ceiling. The slight breach of the domestic debt ceiling was associated with delays in disbursing of donor financing. To avoid the recurrence of the non-observance of the NCB ceiling, staff urged the authorities to further strengthen communication of borrowing plans between parastatals and the Ministry of Finance, and between the government and the IMF to improve program design. The five structural benchmarks scheduled for the first review (issuing treasury bills with maturities of six months and above, publishing money market rates, gathering high frequency data, plan for strengthening monetary and exchange rate operations, and publication of quarterly inflation report) were all met (MEFP Table 2).

POLICY DISCUSSIONS

A. Outlook

MEFP ¶ 9

11. **The outlook is generally positive, but there is concern regarding the pace of the pick-up**. The growth weakness in 2013 is expected to be temporary because agricultural growth is expected to be stronger this year on account of a favorable first (season A) harvest and an assessed increase in agricultural acreage of about 5 percent. In addition, the expected catch up in implementation of government projects should help return economic activity to more normal levels. Moreover, private sector credit has recovered quite strongly (13 percent year-on-year in March). The authorities have recently developed a leading indicator of the economy based on various high frequency indicators and, although the indicator has picked up in the first three months of 2014, the magnitude of the turn-around is slow (Figure 3).[1] Staff projects growth this year to reach 6 percent. Inflation remains subdued and is expected to be around the central bank's target of 5 percent by the end of the year.

12. **Short-term growth risks are heavily weighted to the downside, while the medium-term outlook is more positive**. Short-term risks are concentrated on agricultural output developments and a slower than expected implementation of government financed projects. Over the medium term, rising private sector interest in investing in Rwanda, including in the areas of horticulture and food exports, could support export diversification, generate foreign exchange, and help relieve the balance of payments constraint. Moreover, the government is actively increasing arable land suitable for food crops and increasing the supply of improved seeds and fertilizer to support strong agricultural growth going forward. Moreover, as the new electricity projects and

[1] The leading indicator of real activity includes beer, electricity and cement consumption, real VAT receipts and imports, and export volume of commodities.

secondary roads come on stream, this will support the industrial sector. Under these conditions, the medium term growth rate of 7.5 percent is achievable, but there are clear risks in terms of private sector engagement, the speed of export diversification and faltering agricultural harvests.

B. Economic Policies

13. **The discussions focused on policies to support near-term growth, while preventing the buildup of imbalances, and strengthening resilience to shocks.** In light of the slowdown in economic growth, the authorities intend to speed up their investment program, while putting in place a prudent fiscal plan through the end of the year. On monetary policy, the NBR agreed on the need to maintain exchange rate flexibility and prevent a build-up of pressures in the foreign exchange market.

C. Fiscal Policy

MEFP ¶ 11-14

14. **Following the supplementary budget for FY2013/14, the estimate of the budget deficit for the whole fiscal year is lower by ½ percent of GDP to 4.5 percent of GDP.** The supplementary budget provided a slight expenditure boost in recurrent spending which was more than offset by delays in net lending. Following the weaker expenditure profile in the first half of the fiscal year associated with implementation delays, the supplementary budget confirmed a strong boost in the second half to maintain the budget close to the original plan. Relative to the PSI, current spending (excluding exceptional spending) is projected to increase by about 0.3 percent of GDP (subscriptions to international organizations, financial support for 20 year commemoration of the genocide, and hosting of AfDB meetings), while additional expenditure has been budgeted for the deployment of the peace keeping operation in CAR and additional troops for South Sudan (0.7 percent of GDP). These increases are covered by additional donor budget support and reimbursements for peace keeping operations. Delays in net lending reflect the postponement in expenditures on the convention center to the second half of 2014.

15. **The authorities argued that, on balance, they saw merit in having a cautious budget for FY2014/15.** Against the backdrop of the slowdown in growth relative to initial projections, the budget is based on available resources to prevent pressures in the market for foreign exchange through the high import content of public spending, and to limit the crowding out of credit to the private sector. Expenditures are kept at about 30 percent of GDP, notwithstanding an increase of 1 percent of GDP in net lending mainly to finance the completion of the Kigali Convention Center and export promotion activities. Expenditures are contained partly through the reversal in peace keeping operations (-0.6 percent of GDP) and transfers (-0.2 percent of GDP). With the surge in revenues associated with policy changes (see par 16), the budget deficit is projected to fall to slightly below 3 percent of GDP. The authorities reiterated that if growth failed to pick-up as expected during the year, they would revisit the fiscal stance at the time of the supplementary budget for 2014/15 early next year, and provide additional support to the economy, if necessary.

16. **One of the main building blocks of the PSI arrangement is the authorities' desire to raise the tax revenue ratio in relation to GDP**. Rwanda's tax ratio was 14.2 percent in 2012/13 and

under the PSI, the government has put in place a number of tax policy measures to raise the ratio over time. The authorities expect to reach the initial milestone of the PSI by the end of this fiscal year (a ratio of 14.9 percent of GDP compared to a target of 15.1 percent). The level of revenues is slightly lower on account of lower economic growth. Standard estimates indicate that the tax revenue ratio falls by 0.15 percent of GDP for each 1 percent of growth below potential and this effect essentially explains the shortfall in the tax ratio for 2013/14.

17. **The authorities indicated that gradual improvements are being made in tax collection.** The authorities expect to raise the tax revenue ratio by 0.9 percent of GDP in 2014/15 with 0.2 percent of GDP coming from the imposition of excise taxes on mobile airtime and the introduction of a royalty tax on mining. The net tax increase in the next fiscal year is also supported by the start of VAT collection from electronic billing machines just rolled out The main component of the increase (0.5 percent of GDP) is the introduction of local authority tax collection at the central government level because of earlier difficulties in collection at the local level. However, this tax collection has no net effect on the fiscal balance because the equivalent amount is returned to local authorities in transfers.

18. **The tax momentum is expected to be carried through 2015/16 with the expected introduction of a tax on agriculture and better yields from the property tax currently in place.** The projected yield of these measures is about 0.4 percent of GDP and, together with improvements in VAT collection and the expansion of electronic billing machines, the increase in net taxes could reach up to 1 percent of GDP in 2015/16. Staff has requested that the authorities produce a report on their own tax measures by end June 2014 based on the findings of a recent Fund TA mission (see Box 2).

D. Investment Plans and Debt Sustainability

MEFP ¶ 16-17

19. **The authorities have identified several investment projects in support of the EDPRS 2 objectives.** These are mainly in the energy, water, housing and transportation sectors. On energy, many businesses have identified lack of reliable electricity as a serious constraint to doing business. Electricity costs are also much higher in Rwanda than in neighboring countries and the authorities are determined to lower these costs by switching from expensive fuel to hydro and geothermal generation. Part of this plan will come to fruition this year with the development of the Nyaborongo hydro plant, but the authorities also intend to develop solar and methane energy. Power purchase agreements have already been signed with some companies. Another priority area for the government is the provision of affordable housing and this plan is being initiated in Kigali before spreading to the rest of the country. Plans for a new airport are still ongoing, and the authorities are in negotiations with interested parties while the larger regional projects such as the regional oil pipeline and railway are still in their infancy.

Box 2. Fund Recommendations on Taxing the Agricultural and Mining Sectors and Property

Despite recent weakness in economic activity, it is important to maintain the momentum on tax collection in the face of a possible decline in foreign aid over the medium term. The authorities have highlighted three areas of tax collection as having the potential for significant yields over the medium term. These include taxing the agricultural sector, amending the current royalty tax regime in mining, and expanding the fixed asset tax to cover all property in urban districts.

The agricultural sector comprises about a third of output in Rwanda and is not taxed. A recent Fund tax mission suggests that the authorities should develop and implement a presumptive tax on turnover in line with the existing 3 percent turnover tax and simplified graduated fee regime for micro enterprises. The turnover tax would apply to turnover estimates above Rwf 360,000 (comparable to current estimates for micro enterprises). Data verification of individual farmers' sales to respective agricultural producer cooperatives (more than 3,000) could facilitate this policy measure. FAD staff estimated that applying a 3 percent turnover tax to total agricultural turnover for farms with more than 2 hectares could yield over Rwf 7 billion (about 0.2 percent of GDP in FY2015/16).

On mining, the current royalty tax is appropriate but a number of amendments could be made to reduce the erosion of the corporate tax base. The tax discount for mining companies should be eliminated and avenues for erosion of corporate taxes such as transfer pricing, generous thin capitalization rules, and lack of ring fencing should also be reviewed. The monitoring and auditing of transactions between miners and traders should also be strengthened because it is an area with considerable undocumented activity and is resulting in a loss of revenue to the government.

Over the medium term, the area with the largest potential for collecting tax revenue with the least amount of economic distortions is property or land taxation. The fixed asset tax (FAT) currently in place includes land and buildings and is based on the self-declaration of value by owners. However, it is only assessed on properties with full title ownership and applies to only 3 percent of all parcels in the country. It should be a key objective to increase the number of properties assessed under the FAT and Fund staff recommend that all property within urban districts, in particular Kigali, become liable to the FAT. There is a lack of capacity at both district and sector levels to administer the FAT and therefore the administration could be centralized within a small Central Valuation Department inside the Lands and Mapping Department. In terms of yield, if the urban properties currently paying the land lease fee pay the FAT, the number of residents paying the FAT would increase by 135 percent, and the number of corporations would rise by almost 300 percent. The estimated yield from this change would be 0.2 percent of GDP in FY2015/16 with higher yields projected over the medium term.

20. **Staff acknowledged the large investment needs of the government, and, in line with Rwanda's low risk of debt distress, proposed a new cumulative non-concessional borrowing ceiling of $250 million for FY 2014/15**. This would cover projects identified in the areas of water and electricity and transport, while preserving space assuming new additional projects would come on stream. The limit would provide much needed flexibility to the authorities and help avoid

recurring small misses of the NCB limit. Moreover, it would still keep Rwanda at low risk of debt distress as shown in the updated DSA analysis (see table 7 and figure 8).[2] Staff also underscored the need for careful investment prioritization to contain fiscal risks (see also Box 3) and to maintain space for large projects down the road.

Box 3. Fiscal Risks in Rwanda

Fiscal risks refer to the possibility that fiscal outcomes differ from projections. Operational application of the concept thus encompasses the coverage of institutions, the frequency of reporting, the timeliness of annual accounts, the quality of external audit, fiscal forecasting and budgeting, and fiscal risk disclosure. Staff is enhancing its work on the potential sources of such risks in Rwanda, and further results are expected over the coming year.

Rwanda has a strong institutional set up for fiscal reporting and management. Rwanda's institutional coverage is at the general government level, the frequency of in-year reporting is on a quarterly basis, and the fiscal accounts are based on the GFSM 2001. On fiscal reporting, it uses gross budgeting, there is a regulated budget calendar with time for scrutiny and a supplementary budget is required before new spending is allowed. Rwanda also requires quarterly reports from sub-national governments and the authorization from the Minister of Finance for any borrowing by sub-national units.

The significant scaling up of investment, including through PPPs, as part of the EDPRS2 can be a source of budget pressure. While PPPs can reduce the initial amount of government outlays in a context of declining donor resources, they do not entirely eliminate fiscal risks, particularly as regard pricing and the materialization of contingent liabilities. At the same time, Rwanda is also considering investment projects, including at the regional level that may require government support, in the form of direct transfers or guarantees.

Fiscal risks also emanate from state owned enterprises. The main reasons for government transfers to state owned enterprises are their investment needs and high costs of doing business.

- **EWSA** provides electricity and water and because of high electricity generation costs (over 50 percent diesel), the company has been a source of fiscal pressure and risks for the budget. Going forward, however, the government expects cheaper sources of electricity generation to come on stream, reflecting the significant investment expansion into hydropower that is taking place as well as prospective cheaper hydro electricity import purchases from Ethiopia.
- **Rwandair**, the national airline, is trying to position itself as a regional carrier. Because of its small size and the high cost of fuel, Rwandair is also a source of fiscal pressures and risks since it relies on fiscal transfers, including to carry its investment plans, development strategy, and cash flow.

[2] The debt sustainability scenario in table 4 and figure 7 assumes that the full $250 million in external borrowing is used in FY2014/15. In addition the analysis also assumes a phased nonconcessional borrowing of $750 million spread out equally over 2016-18. This is consistent with the scenario of a phased borrowing program presented in the request for a new PSI (IMF Country Report No. 13/372, pages 80-82)

E. Monetary and Exchange Rate Policy

MEFP ¶ 18-19

21. **The authorities and staff agreed on the need to maintain the current monetary stance.** The monetary program for 2014 targets reserve and broad money growth at about 14.5 percent by year-end. Growth in credit to the private sector is projected to pick up from 13 percent at end-March 2014 to 16 percent at end-year. The authorities reiterated their commitment to greater exchange rate flexibility to preserve policy buffers.

22. **Measures aimed at improving functioning of the monetary framework and enhancing the transmission mechanism have progressed as planned**. The NBR has started the issuance of treasury bills with longer maturities to absorb the excess liquidity and a bond issuance calendar for 2014 has been put in place. Following the issuance of an over-subscribed 3-year bond in early 2014, three more quarterly issuances, with respective maturities of 5-, 7-, and 10- years are planned for 2014. Following a prolonged period of inactivity, trade on the secondary market restarted following the issuance of the bond. The NBR is currently working on putting in place the architecture to facilitate interbank transactions and build capacity among the staff of commercial banks based on MCM TA recommendations and consistent with the objectives of the PSI. The NBR also published its first quarterly inflation report in early-April. The report aims to improve the communication of the central bank with market participants as regard the formulation of monetary policy.

F. Financial Sector

MEFP ¶ 20-21

23. **Financial sector indicators reflected the impact of economic slowdown**. Rising non-performing loans as well as the resulting increase in banks' financing costs resulted in decreases in both returns to assets and equity. While the NPL situation has stabilized of late, there are significant differences across the portfolios of various banks. The NBR remains confident that the ongoing implementation of the guidelines issued to tackle NPLs late last year will have a positive impact in the sector.

24. **The legal and supervisory frameworks are being bolstered**. The revised central bank law will be submitted to parliament in the near future. It extends the supervisory reach of the central bank to pension funds and insurances. Corresponding changes are also being made to the banking law and the underlying regulations. The NBR now participates in cross-border bank supervisions. New laws in the pipeline relate to deposit insurance, insurance, and pensions.

25. **Efforts to foster financial inclusion and development are ongoing through the implementation of the financial sector development plan**. The capital markets authority is also working on attracting more investors in the sector, including from the region. Regarding the informal sector, plans to consolidate the SACCOs in one cooperative in 2015 remain on track.

G. Program Issues

26. **MEFP Table 1 contains new end-June QACs and indicative targets for the second review and indicative targets for end-December under the PSI.** These are consistent with the macroeconomic framework described in the report and with understandings reached with Fund

staff. There are two differences with respect to the first review. First, the domestic revenue target now excludes revenues from peace keeping operations because the timing of these reimbursements to the government is beyond the authorities' control. Second, the adjuster for domestic debt on unused proceeds from use of the Eurobond has been eliminated because these proceeds will be used to finance imports and therefore have a minimal bearing on domestic debt. In terms of structural benchmarks for the rest of the year, these have remained in place with the addition of a proposed benchmark on publishing quarterly reports of budget execution against annual fiscal objectives on MINECOFIN's website (MEFP Table 2).

STAFF APPRAISAL

27. **The authorities are to be commended for their satisfactory performance under the PSI despite weak economic growth**. Program performance remained strong in the face of delays in the disbursement of aid and the postponement of government financed projects. All but one QACs were met (the non-concessional borrowing target was missed because of a small aircraft lease) and performance on structural reforms was strong.

28. **Growth is expected to pick up in 2014, but risks remain on the downside.** Given reduced policy buffers, the authorities are appropriately cautious in limiting domestic financing and maintaining interest rates unchanged. Greater exchange rate flexibility has helped preserve import cover at over 4 months of imports.

29. **The framework for the FY2014/15 budget is in line with PSI objectives**. It maintains expenditures broadly flat in relation to GDP and mobilizes additional domestic revenues to support the objectives of the poverty reduction strategy (EDPRS2). The budget also supports efforts to complete delayed infrastructure projects. If economic growth falters, the authorities should consider how best to support the economy in the context of the supplementary budget for FY2014/15.

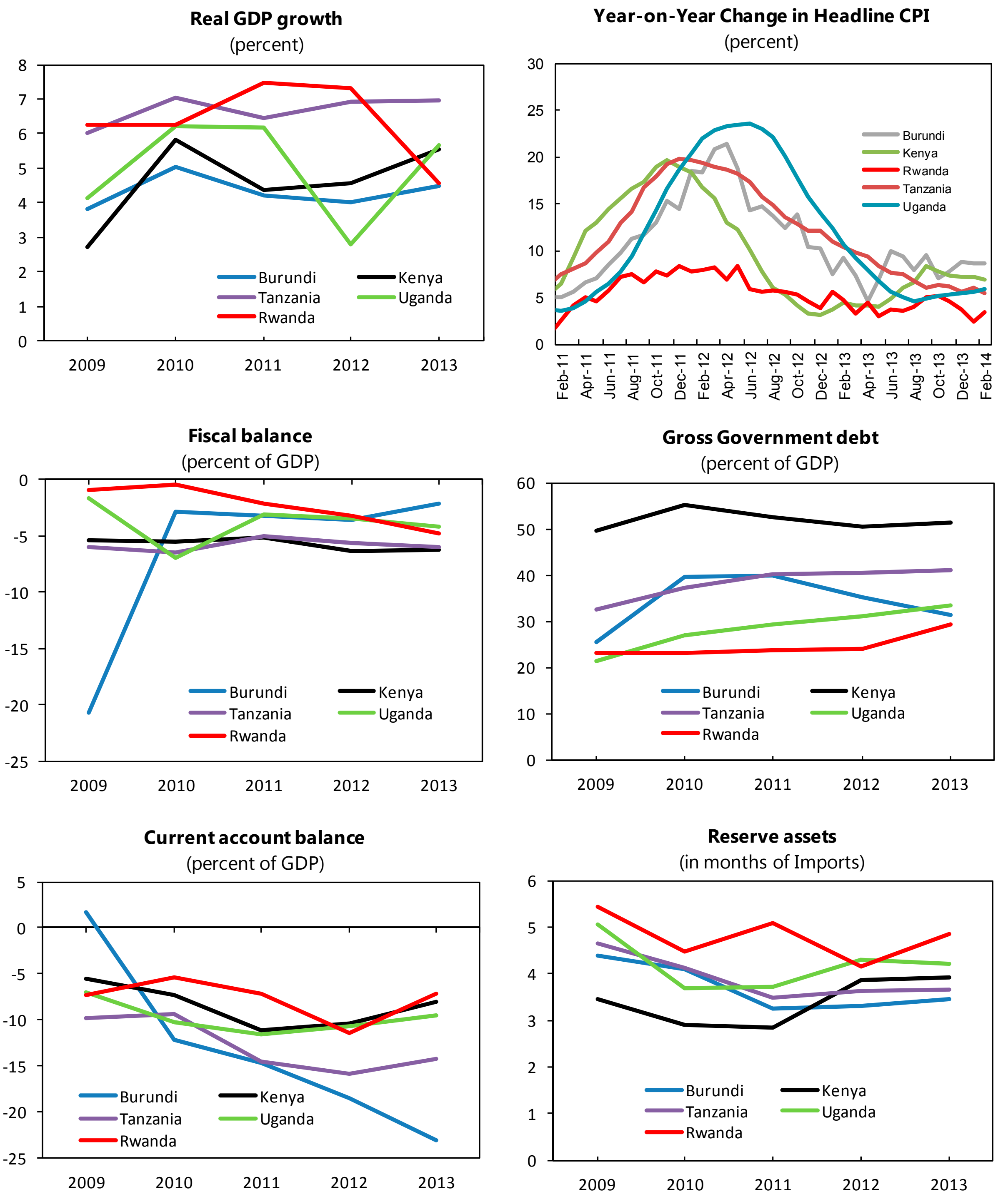
30. **The authorities are to be applauded for maintaining the plans for enhanced domestic revenue mobilization in the face of weaker economic growth**. Moreover, since the slowdown is projected to be temporary and the revenue ratio remains low in an EAC context, the authorities are encouraged to broaden the tax base over the next two years by adopting tax measures on agricultural and property taxation. Publication of the size and impact of tax expenditures would also support the revenue effort going forward.

31. **Staff considers the current stance of monetary policy as appropriate and efforts to bolster the legal and supervisory framework for banking are on the right track.** The current policy stance is consistent with the foreign exchange constraint and prospects for strong private sector credit growth. The revised central bank law and the new banking law expand the supervisory reach of the central bank and efforts aimed at reducing non performing loans are proceeding as planned.

32. **The current PSI supports the authorities' plans for increased infrastructure investments in the areas of energy, water, housing and transportation**. The understanding reached on the borrowing limit through the end of FY2014/15 takes account of the fact that Rwanda is currently at low risk of debt distress. Given the significant investment needs and limited availability of concessional financing, staff underscores the need to carefully select and prioritize investment projects to maintain space for the larger regional investments coming on stream at a later date.

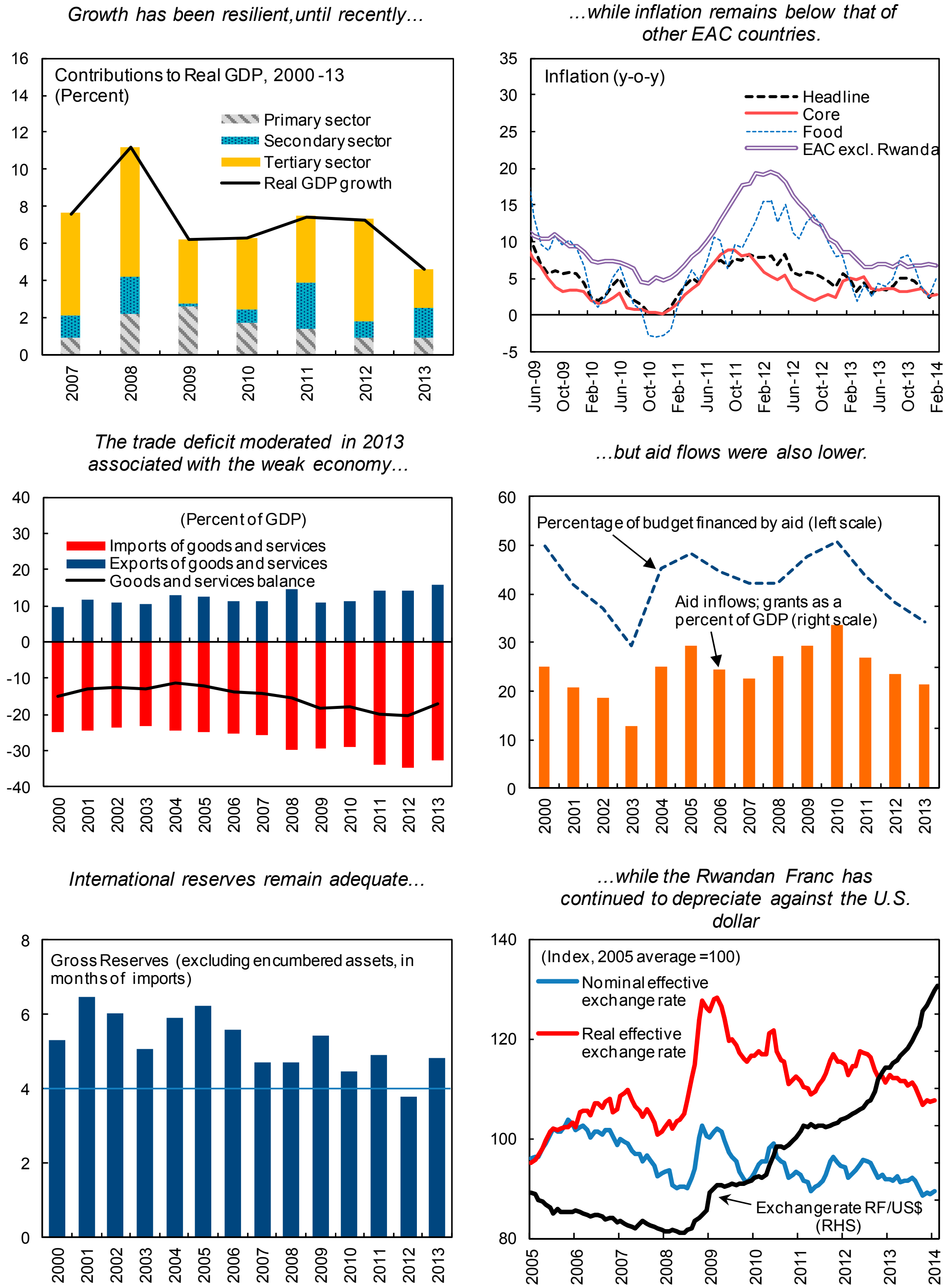
33. **Staff recommends the completion of the first review under the PSI**. Staff supports the waiver for the non-observance of the continuous QAC on non-concessional borrowing due to its small size and corrective action has been taken by the authorities in terms of coordinating investment plans between government agencies.

Figure 1. Economic Developments Across the EAC



Source: IMF staff estimates.

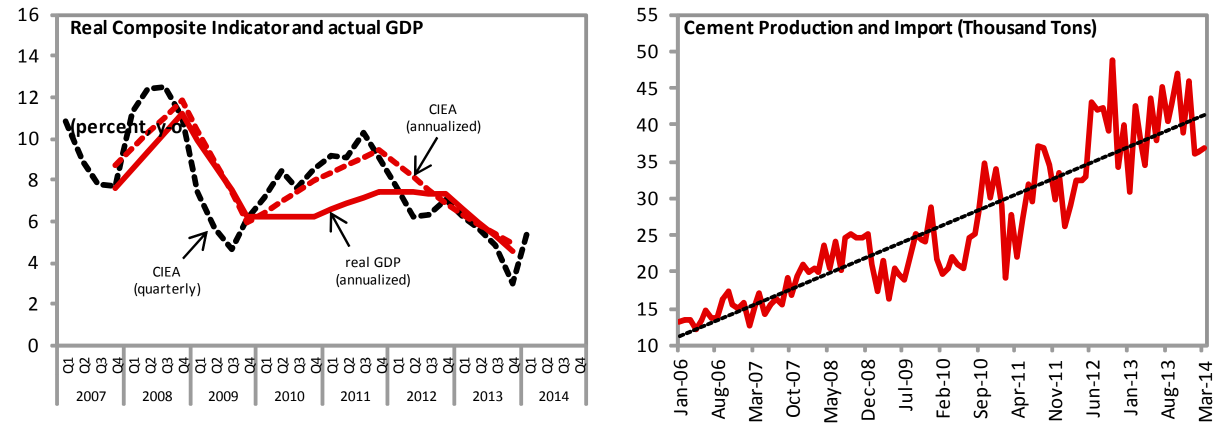
Figure 2. Recent Performance



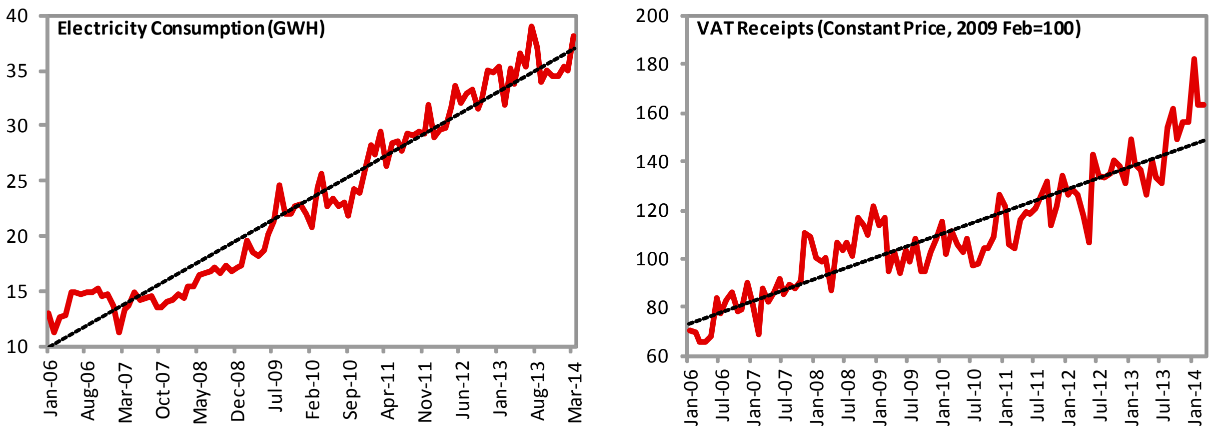
Sources: Rwandan authorities, IMF staff estimates, the IMF *World Economic Outlook*, and the African Department's *Regional Economic Outlook*.

Figure 3. Selected High Frequency Indicators of Economic Activity

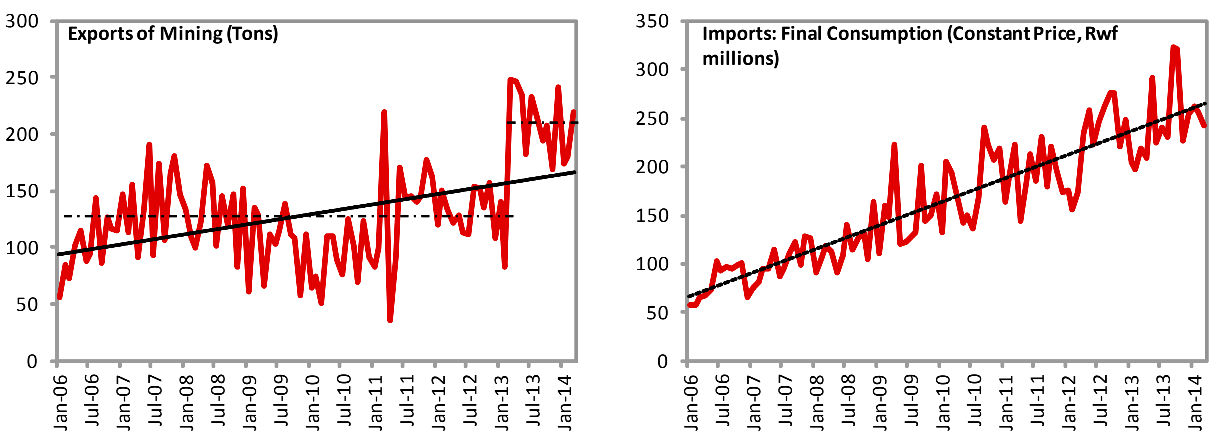
Growth is pulling up following the weakness in 2013, but cement production and imports are still flat.



Electricity consumption and VAT receipts have picked up, ...



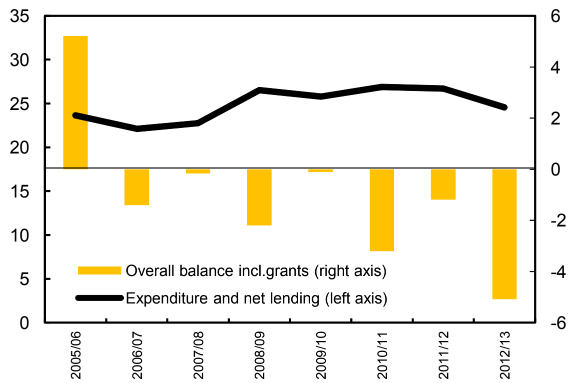
... as have mining exports as a result of strong investment.



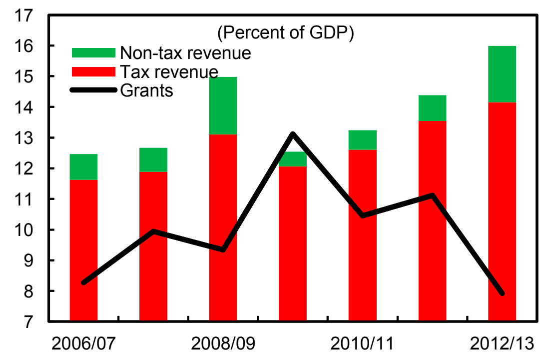
Source: Rwandan authorities' estimates.

Figure 4. Fiscal Developments

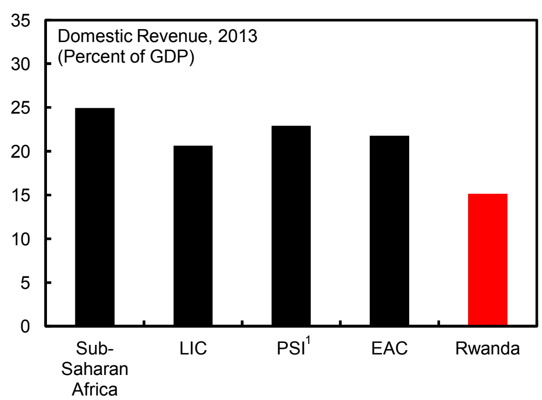
The fiscal deficit widened in 2012/13, ...



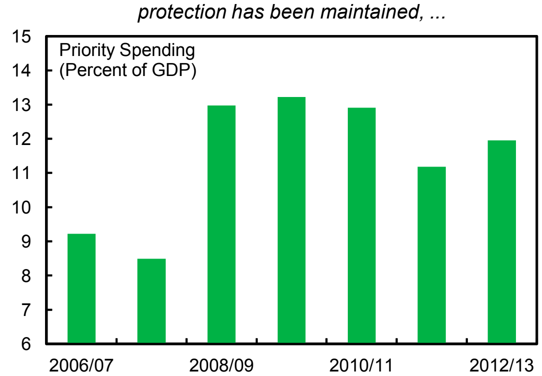
...reflecting low grants compensated by a moderate pickup in revenue.



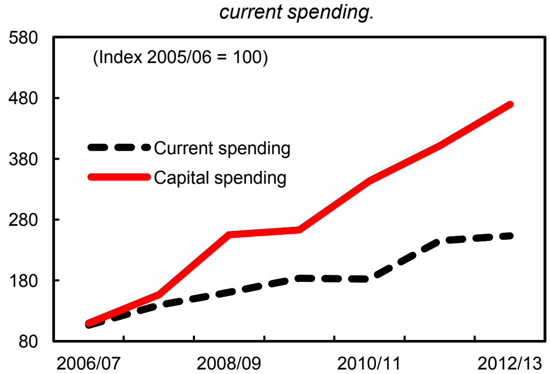
Domestic revenue remains low compared to other countries.



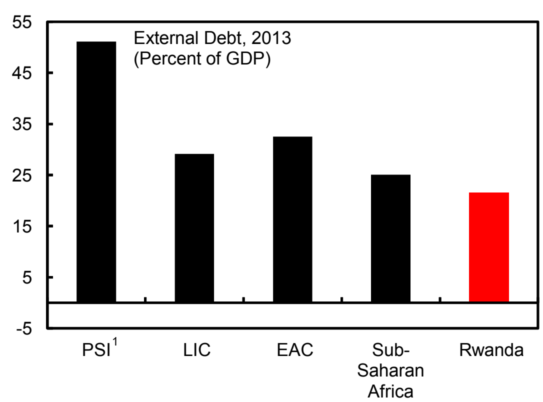
Priority spending on health, education, and social protection has been maintained, ...



...while capital spending continues to outpace current spending.



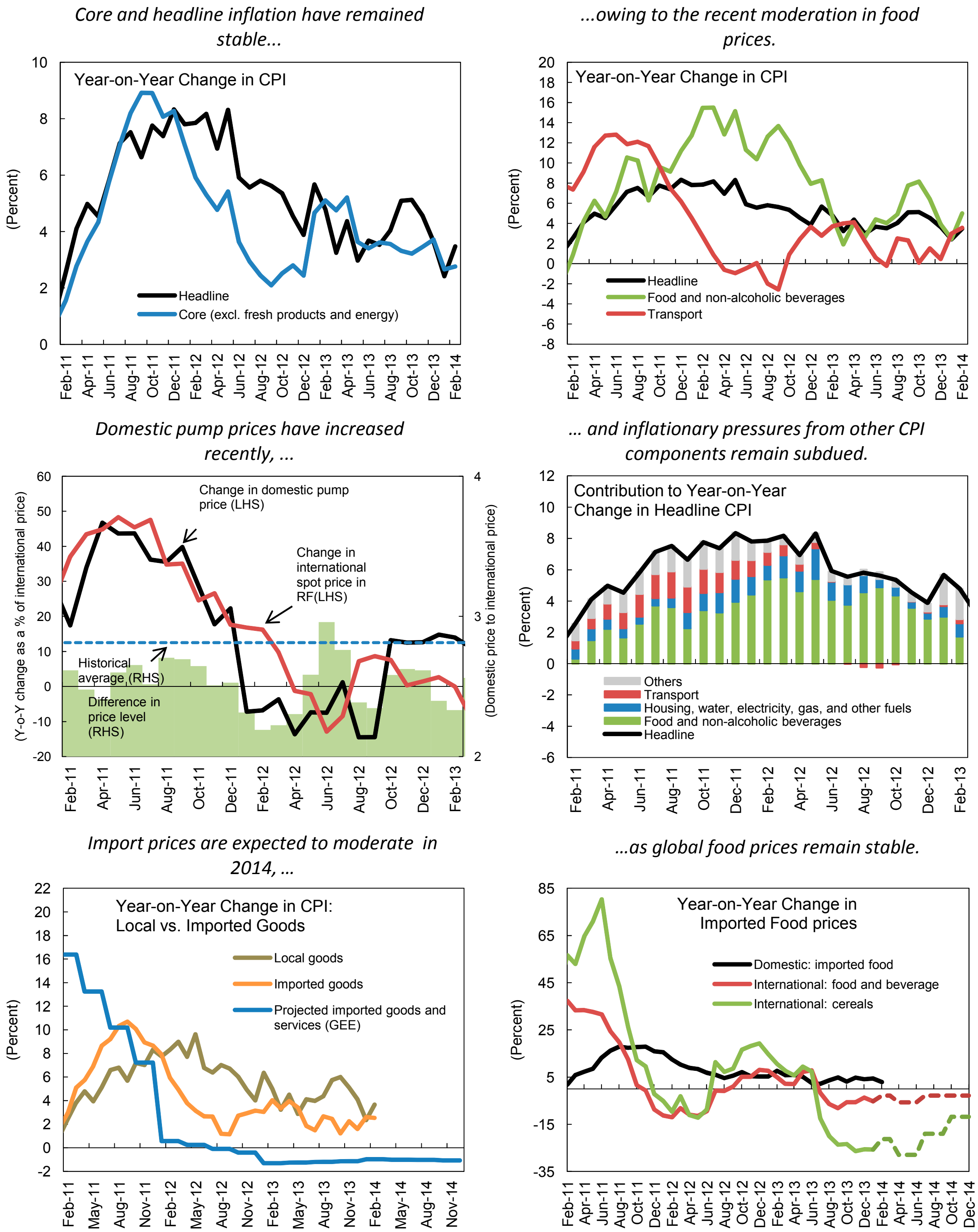
External debt remains relatively low.



[1] PSI countries are Mozambique, Senegal, Tanzania, and Uganda.

Sources: IMF staff and Rwandan authorities' estimates.

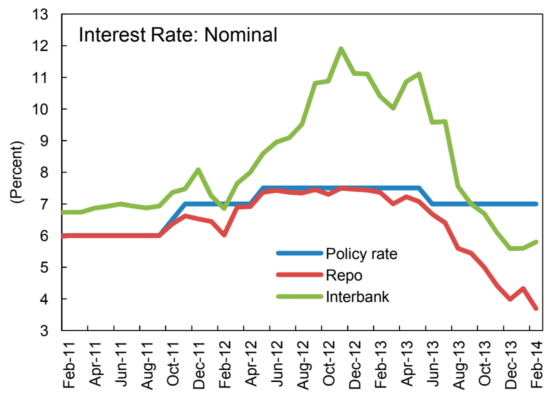
Figure 5. Inflation Developments



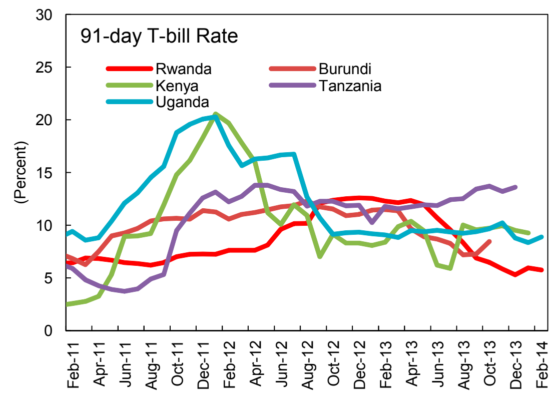
Sources: IMF staff and Rwandan authorities' estimates.

Figure 6. Monetary Developments

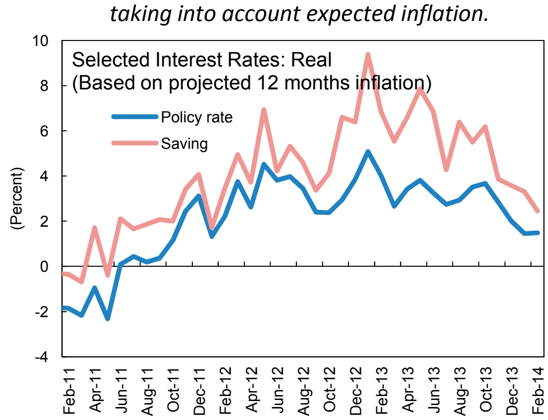
The NBR has kept the policy rate unchanged since June 2013, ...



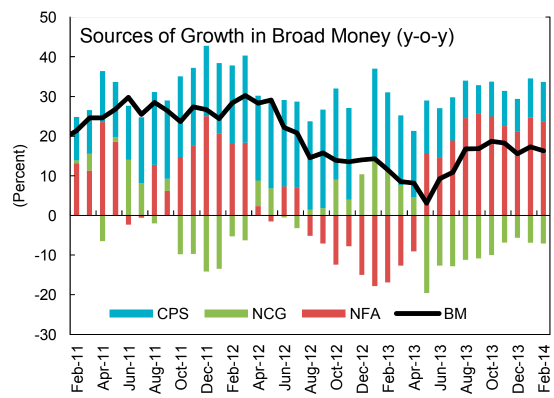
...T-bill rates have declined, reflecting reduced demand from government.



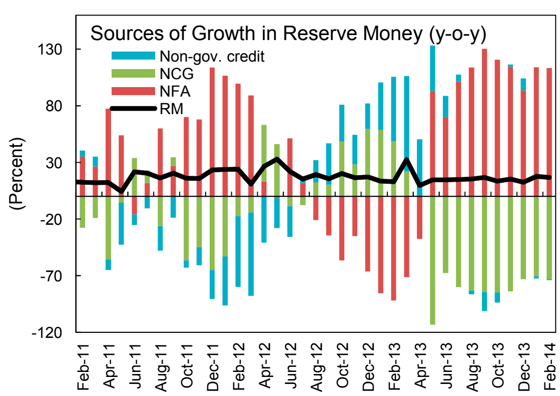
Real interest rates remain mostly positive even taking into account expected inflation.



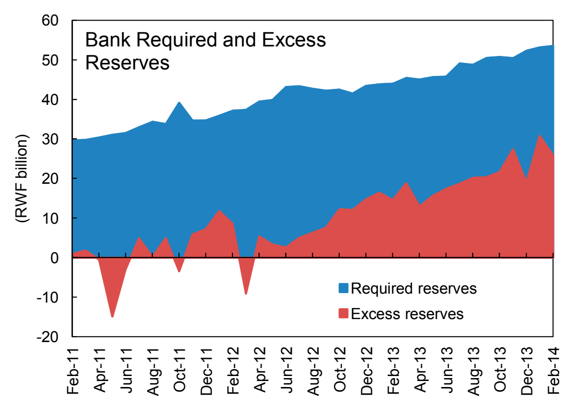
Broad money growth is flat.



Reserve money growth remains broadly stable.



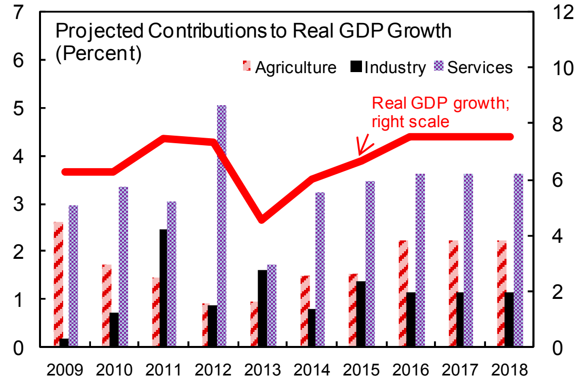
Markets have amply liquidity.



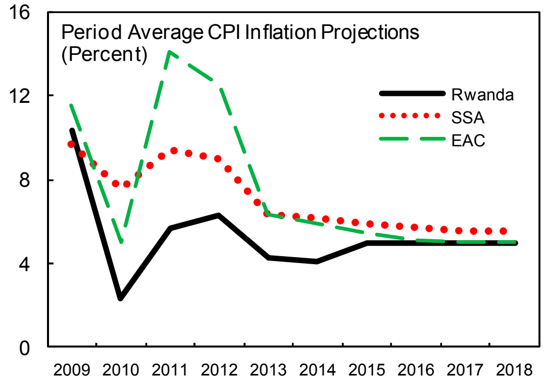
Sources: IMF staff and Rwandan authorities' estimates.

Figure 7. Medium-Term Outlook

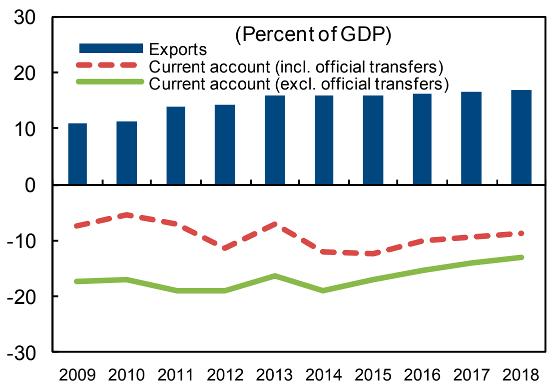
GDP growth is projected to return gradually to the trend growth,…



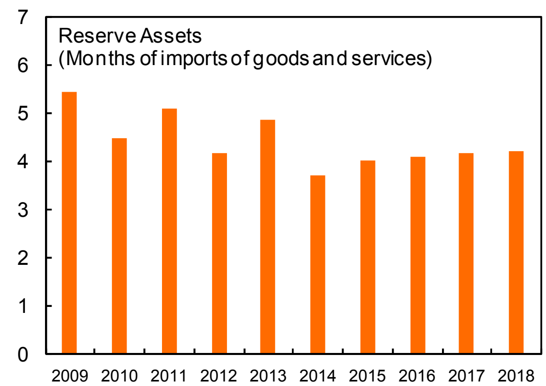
… with inflation expected to rise toward the authorities' target.



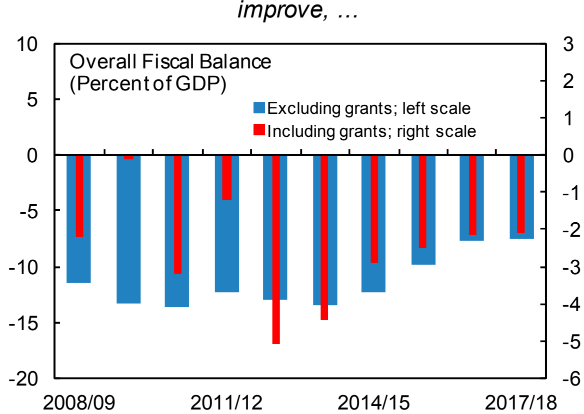
The current account is expected to improve as large investment projects are completed,…



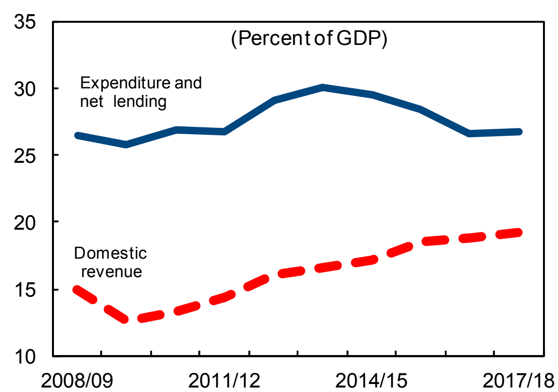
… and reserve coverage is expected to remain adequate.



The fiscal position is expected to improve, …



… due to enhanced revenue mobilization.



Sources: IMF staff and Rwandan authorities' estimates.

Table 1. Selected Economic and Financial Indicators, 2009–18

	2009	2010	2011	Est. 2012	Country Report 13/372 2013	Est. 2013	Country Report 13/372 2014	Proj. 2014	2015	2016	2017	2018
	(Percent changes; unless otherwise indicated)											
Output and prices												
Real GDP growth	6.2	6.3	7.5	7.3	6.6	4.6	7.5	6.0	6.7	7.5	7.5	7.5
Real GDP (per capita)	4.1	3.1	5.4	4.2	4.4	1.7	5.3	3.2	3.8	4.8	4.8	4.8
GDP deflator	9.8	4.2	9.1	6.2	5.9	5.2	6.1	6.1	5.2	6.4	6.3	5.6
Consumer prices (period average)	10.3	2.3	5.7	6.3	5.2	4.2	6.3	4.1	5.0	5.0	5.0	5.0
Consumer prices (end of period)	5.7	0.2	8.3	3.9	6.5	3.6	6.0	5.0	5.0	5.0	5.0	5.0
External sector												
Export of goods, f.o.b. (U.S. dollars)	-12.2	37.2	44.0	27.3	38.9	19.0	13.1	6.5	8.0	18.2	9.1	9.0
Imports of goods, f.o.b (U.S. dollars)	13.5	8.5	44.5	25.6	11.8	-5.9	5.2	16.0	3.6	7.4	2.7	6.9
Export volume	-20.0	11.6	18.5	21.1	22.7	9.6	7.7	7.4	5.7	12.4	6.1	6.6
Import volume	17.2	2.4	18.9	13.0	11.0	3.0	7.2	17.0	5.8	10.7	2.7	6.9
Terms of trade (deterioration = -)	13.3	16.1	0.0	-5.5	12.4	18.8	7.1	0.0	4.4	8.4	2.8	2.2
Money and credit[1, 2]												
Net domestic assets	36.9	13.7	10.5	211.7	24.4	-14.9	48.0	93.4	13.9	20.4	22.5	19.4
Domestic claims	8.9	23.5	8.0	87.8	18.4	4.3	30.8	46.8	9.2	14.1	16.3	14.8
Of which: Private sector	4.9	11.1	27.5	34.8	12.6	10.8	13.9	16.0	10.5	13.3	15.6	14.2
Broad money (M2)	13.1	16.9	26.7	14.0	13.9	15.5	15.1	14.3	14.7	14.9	15.3	13.6
Reserve money	0.3	12.5	23.4	17.2	12.9	12.6	14.1	14.3	14.7	14.9	15.3	13.6
Velocity (GDP/M2; end of period)	5.6	5.3	4.9	4.9	4.9	4.7	4.8	4.6	4.5	4.5	4.4	4.4
	(Percent of GDP)											
National income accounts												
National savings	5.9	5.7	4.0	5.4	4.8	8.2	7.5	8.4	10.2	11.5	12.5	13.9
Gross investment	23.2	22.7	22.9	24.4	23.6	24.4	24.9	27.2	27.3	26.7	26.4	26.8
Of which: private (including public enterprises)	13.3	11.8	10.7	12.4	10.5	11.0	10.8	13.3	13.6	13.9	14.2	14.4
Government finance[3]												
Total revenue and grants	24.3	25.7	23.7	25.5	23.7	23.9	25.2	25.7	26.6	25.9	24.4	24.6
Revenue	15.0	12.5	13.2	14.4	15.9	16.0	16.4	16.6	17.2	18.5	18.8	19.2
Grants	9.3	13.1	10.5	11.1	7.9	7.9	8.8	9.1	9.5	7.4	5.6	5.4
Total expenditure and net lending	26.5	25.8	26.9	26.7	28.8	29.0	30.0	30.1	29.5	28.4	26.6	26.7
Capital expenditure	11.1	10.2	12.7	11.7	12.2	12.3	13.7	14.2	13.6	13.6	12.0	14.0
Current expenditure	14.6	14.7	13.6	14.9	13.6	13.8	14.1	15.2	14.2	13.9	13.6	15.3
Primary fiscal balance[4]	0.8	0.4	-2.8	-0.7	-4.4	-4.4	-4.2	-3.7	-2.2	-1.8	-1.5	-1.6
Overall fiscal balance (payment order)												
After grants	-2.2	-0.1	-3.2	-1.2	-5.0	-5.1	-4.9	-4.4	-2.9	-2.5	-2.2	-2.4
Before grants	-11.5	-13.2	-13.7	-12.3	-12.9	-13.0	-13.7	-13.5	-12.4	-9.9	-7.8	-8.5
Public debt	26.2	27.5	33.3	25.4	28.7	29.7	27.7	29.1	28.3	28.4	28.2	28.9
External sector												
External current account balance												
Including official transfers	-7.3	-5.4	-7.2	-11.4	-10.3	-7.2	-10.9	-12.1	-12.4	-10.0	-9.3	-8.6
Excluding official transfers	-17.3	-17.1	-18.8	-19.0	-18.8	-16.2	-17.4	-18.8	-17.1	-15.2	-13.9	-12.9
External debt (end of period)	14.5	14.5	17.8	17.0	20.8	21.5	21.4	22.7	24.3	24.8	23.9	23.0
Net present value of external debt												
(Percent of exports of goods and services)	…	…	86.9	77.4	91.5	93.4	90.0	90.9	100.1	100.7	95.6	88.9
Scheduled debt service ratio												
(Percent of exports of goods and services)	3.3	4.1	3.6	4.1	15.7	16.2	5.4	5.8	6.1	5.7	5.6	5.1
Gross reserves (months of imports of goods and services)[5]	5.4	4.5	5.1	4.1	3.8	4.8	3.7	3.7	4.0	4.1	4.2	4.2
	(Millions of U.S. dollars)											
Gross reserves	742.2	813.3	1050.0	843.5	935.5	1135.5	895.5	895.5	1020.6	1126.1	1224.6	1318.3
Memorandum item:												
Nominal GDP (billions of Rwanda francs)	2,960	3,280	3,846	4,382	4,926	4,819	5,618	5,401	6,086	6,929	7,918	8,912

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Projections are based on the program exchange rate of RWF 670.1 per U.S. dollar.

[2] Figures for net domestic assets, domestic claims, domestic credit and private sector in Country Report 13/77 were in percent of broad money.

[3] On a fiscal-year basis (July–June). For example, the column ending in 2011 refers to FY2010/11.

[4] Revenue excluding grants minus current expenditure except interest due and exceptional expenditure (AU peacekeeping expenditure and spending on demobilizing and integrating militia groups) minus domestically financed capital expenditure.

[5] Data from 2009 onward includes SDR allocation.

Table 2. Balance of Payments, 2009–18

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Est.	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1]	235.0	322.4	464.2	590.8	703.0	748.7	808.9	955.8	1,042.7	1,136.4
Of which: coffee and tea	85.6	111.8	138.5	126.6	110.4	113.3	134.8	134.1	144.2	154.1
Minerals	55.4	67.9	151.4	136.1	225.7	235.1	246.2	305.4	329.8	360.2
Imports (f.o.b.)	999.2	1,084.0	1,565.8	1,967.0	1,851.5	2,147.4	2,225.0	2,389.1	2,454.0	2,624.3
Of which: capital goods	256.3	268.2	349.1	471.4	476.9	533.9	571.9	708.5	676.7	744.6
Energy goods	122.5	158.2	259.2	289.1	307.6	325.1	328.9	334.5	346.4	363.5
Trade balance	-764.2	-761.5	-1,101.6	-1,376.2	-1,148.4	-1,398.7	-1,416.1	-1,433.3	-1,411.2	-1,487.9
Services (net)	-181.6	-246.2	-187.0	-85.2	-122.4	-145.2	-116.4	-73.4	-141.3	-106.3
Of which: tourism receipts	174.5	201.6	251.8	281.8	293.6	333.8	367.2	439.5	527.4	622.3
Income	-36.9	-42.5	-51.8	-73.8	-114.4	-139.3	-154.2	-148.7	-132.1	-134.0
Of which: interest on public debt[2]	-7.3	-7.8	-8.1	-9.2	-32.3	-38.7	-41.2	-48.3	-56.6	-66.7
Current transfers (net)[3]	600.0	745.3	880.5	722.5	847.8	718.5	607.2	698.5	697.8	722.3
Private	79.7	90.7	133.3	183.0	181.4	187.0	200.7	195.3	206.6	228.9
Of which: remittance inflows	88.1	98.2	166.2	175.3	161.8	167.8	182.1	198.7	209.4	230.3
Public	520.3	654.6	747.2	539.5	666.4	531.5	406.5	503.2	491.2	493.4
Of which: HIPC grants	5.2	4.5	4.5	4.8	5.2	5.4	5.4	5.4	5.4	5.3
Current account balance (incl. official transfers)	-382.7	-305.0	-459.8	-812.8	-537.5	-964.7	-1,079.5	-956.9	-986.9	-1,006.0
Current account balance (excl. official transfers)	-903.0	-959.6	-1,207.0	-1,352.3	-1,203.9	-1,496.2	-1,486.0	-1,460.2	-1,478.1	-1,499.4
Capital account	200.0	197.6	196.7	171.2	234.5	306.9	236.9	266.7	233.1	255.6
Project grants	200.0	197.6	196.7	171.2	234.5	306.9	236.9	266.7	233.1	255.6
Financial account	327.5	213.7	485.8	411.2	538.7	420.2	970.5	798.2	854.2	845.4
Direct investment	118.7	42.3	106.2	159.8	150.0	200.0	313.4	420.8	504.2	584.1
Public sector capital	182.1	62.1	311.8	110.4	420.6	177.6	410.4	235.3	141.2	133.5
Long-term borrowing[4]	88.8	73.2	341.4	199.8	599.2	204.8	473.8	297.3	204.9	174.4
Scheduled amortization[5]	-7.5	-11.1	-29.6	-89.4	-178.7	-27.2	-63.4	-62.0	-63.6	-40.9
SDR allocation	100.7									
Other capital[6]	26.8	109.3	67.9	141.0	-31.9	42.6	246.7	142.1	208.7	127.8
Capital and financial account balance	527.5	411.4	682.5	582.5	773.2	727.1	1,207.4	1,064.9	1,087.3	1,101.0
Errors and omissions	0.0	-35.2	14.7	24.8	58.1	0.0	0.0	0.0	0.0	0.0
Overall balance	144.8	71.2	237.4	-205.5	293.8	-237.5	128.0	108.0	100.4	95.0
Financing	-144.8	-71.2	-237.4	205.5	-293.8	237.5	-128.0	-108.0	-100.4	-95.0
Change in net foreign assets of NBR (increase -)	-144.8	-71.2	-237.4	205.5	-293.8	237.5	-128.0	-108.0	-100.4	-95.0
Net credit from the IMF	3.6	-0.1	-0.6	-1.0	-1.7	-2.5	-2.9	-2.4	-2.0	-1.3
Disbursements/purchases	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	0.0	-0.1	-0.6	-1.0	-1.7	-2.5	-2.9	-2.4	-2.0	-1.3
Change in other gross official reserves (increase -)	-145.8	-71.0	-236.7	206.6	-292.1	240.0	-125.1	-105.5	-98.4	-93.7
Change in other foreign liabilities (increase +)	-2.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (decrease -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified financing	0.0	0.0	0.0	0.0	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
Memorandum items:										
Current account deficit (percent of GDP)										
Excluding official transfers	-17.3	-17.1	-18.8	-19.0	-16.2	-18.8	-17.1	-15.2	-13.9	-12.9
Including official transfers	-7.3	-5.4	-7.2	-11.4	-7.2	-12.1	-12.4	-10.0	-9.3	-8.6
Gross official reserves (including SDR allocation)	742.2	813.3	1,050.0	843.5	1,135.5	895.5	1,020.6	1,126.1	1,224.6	1,318.3
Gross official reserves (months of prospective imports of G&S)	5.4	4.5	5.1	4.1	4.8	3.7	4.0	4.1	4.2	4.2
Gross official reserves (excluding unspent Eurobond receipts)	5.4	4.5	5.1	4.1	4.0	3.7	4.0	3.9	4.0	4.2
Using imports of goods c.i.f. less adjustments (authorities' definition)[7]	6.4	5.2	5.7	4.5	5.3	4.0	4.4	4.7	4.8	4.8
Overall balance (percent of GDP)	2.8	1.3	3.7	-2.9	3.9	-3.0	1.5	1.1	0.9	0.8
Grants (US$ million)[8]	511.8	611.3	691.2	669.3	640.2	740.1	731.8	620.8	583.3	616.3
Of which: budgetary grants	339.7	411.1	395.0	370.9	302.5	337.2	368.7	354.1	350.2	360.7

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] From 2010 onward includes the results of the informal cross-border trade survey.

[2] Including interest due to the IMF.

[3] Current transfers include disbursed budgetary and HIPC grants and humanitarian and technical assistance.

[4] Includes project and budgetary loans.

[5] Excluding payments to the IMF.

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

[7] The BNR measures reserve adequacy using imports of goods c.i.f. excluding imports incurred from informal cross-border trade and other items not captured in custon

[8] Government official transfers comprises budgetary grants and capital grants. Official transfers in the BOP includes grants and non-grant elements (e.g., transfers to th sector and humanitarian assistance).

Table 3. Operations of the Central Government, Fiscal-Year Basis,[1] 2009/10–2017/18

	2009/10	2010/11	2011/12	2012/13	2013/14 Country Report 13/141	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.	2017/18 Proj.
	(Billions of Rwanda francs)									
Revenue and grants	800.7	844.2	1,049.1	1,101.3	1,326.1	1,312.1	1,529.7	1,686.3	1,811.5	2,070.4
Total revenue	391.4	471.7	591.7	736.4	863.2	849.0	986.0	1,204.7	1,397.3	1,617.6
Tax revenue	376.4	449.1	557.0	651.9	795.7	762.1	906.8	1,111.2	1,291.1	1,497.3
Direct taxes	148.8	175.8	228.5	282.0	339.4	311.8	379.2	475.7	560.6	643.9
Of which: local government taxes	…	…	…	…	13.3	0.0	28.7	55.5	63.5	88.8
Taxes on goods and services	195.0	234.3	282.6	315.1	397.7	390.2	461.5	558.4	643.0	754.2
Taxes on international trade	32.6	39.0	45.9	54.8	58.7	60.1	66.1	77.2	87.5	99.2
Non-tax revenue	15.0	22.6	34.7	84.5	67.5	87.0	79.3	93.4	106.2	120.4
Of which: payments for peacekeeping operations	…	…	…	61.9	44.4	63.9	53.4	63.9	73.1	82.9
Grants	409.3	372.5	457.4	364.9	462.9	463.0	543.7	481.6	414.2	452.8
Budgetary grants	283.0	208.5	265.7	190.0	201.1	201.2	257.5	259.1	251.8	268.7
Capital grants	126.3	164.0	191.7	174.9	261.8	261.8	286.1	222.5	162.4	184.1
Of which: Global Fund	...	...	78.0	64.3	49.7	49.7	81.6	95.8	87.7	99.4
Total expenditure and net lending	804.2	958.5	1,098.1	1,335.6	1,584.0	1,539.1	1,696.9	1,847.5	1,972.9	2,246.7
Current expenditure	459.2	485.3	614.1	633.9	742.6	775.2	814.0	905.0	1,013.1	1,133.4
Wages and salaries	106.9	90.9	144.8	168.9	211.0	211.0	227.4	253.6	285.8	309.0
Purchases of goods and services	106.3	119.2	149.5	123.1	133.3	133.3	144.3	160.9	181.4	205.6
Interest payments	14.7	15.2	18.4	30.7	36.8	36.8	41.4	46.6	52.6	59.6
Domestic debt	10.1	10.6	13.2	15.7	10.5	10.5	14.1	16.0	18.2	20.6
External debt	4.6	4.6	5.2	15.0	26.3	26.3	27.3	30.6	34.4	39.0
Of which: sovereign bond	…	…	…	5.0	18.7	18.7	18.3	18.8	19.4	22.0
Transfers	179.6	193.2	225.6	230.8	289.2	289.2	317.5	351.9	388.6	440.5
Exceptional expenditure	51.6	66.9	75.8	80.4		104.9	83.4	91.9	104.8	118.8
Capital expenditure	316.7	452.9	482.9	564.5	723.7	723.7	782.2	884.6	891.3	1,035.6
Domestic	159.3	219.4	231.6	239.4	305.3	305.3	373.3	426.7	486.4	576.7
Foreign	157.4	233.5	251.3	325.1	418.4	418.4	408.9	457.9	404.9	459.0
Of which: Global Fund	...	...	0.0	82.6	49.7	49.7	81.6	95.8	87.7	99.4
Net lending and privatization receipts	28.2	20.3	1.1	137.2	117.7	40.2	100.7	57.9	68.5	77.7
Priority spending	2.9	3.6	0.0	…		…	…	…	…	…
Of which: Kigali Convention Center	18.2	9.2	...	63.1	96.3	42.2	--	--	--	--
Of which: RwandAir	4.5	25.0	34.5	27.0		-2.6	--	--	--	--
Of which: Privatization receipts	...	-21.8	-28.0	-5.1		--	--	--	--	--
Primary balance[2]	11.3	-99.1	-30.6	-203.6	-147.8	-190.2	-125.8	-114.6	-108.8	-116.7
Domestic fiscal balance[3]	-250.7	-249.9	-249.9	-259.1	-254.1	-245.4	-274.6	-154.3	-136.3	-131.2
Overall deficit (payment order)										
After grants	-3.5	-114.3	-49.0	-234.3	-257.8	-227.0	-167.2	-161.2	-161.4	-176.3
Before grants	-412.8	-486.8	-506.4	-599.2	-729.9	-690.1	-710.9	-642.8	-575.6	-629.1
Change in arrears[4]	-11.2	-11.2	-13.7	-9.1	-9.2	-9.2	-10.0	-11.4	-13.0	-14.7
Overall deficit (incl. grants, cash basis)	-14.7	-125.5	-62.7	-243.4	-267.0	-236.2	-177.2	-172.6	-174.3	-191.0
Financing	16.3	125.5	56.8	218.6	267.0	236.2	177.2	172.6	174.3	191.0
Foreign financing (net)	26.1	81.8	95.0	338.6	109.5	109.5	107.6	216.5	221.5	191.0
Drawings	31.1	89.9	104.7	354.1	123.1	123.1	122.8	235.4	242.5	214.8
Project loans	31.1	69.5	51.3	337.9	123.1	123.1	122.8	235.4	242.5	214.8
Of which: sovereign bond	...	...	...	255.6		--	--	--	--	--
Amortization	-5.0	-8.1	-9.7	-15.5	-13.7	-13.7	-15.2	-18.9	-21.0	-23.8
Net domestic financing	-9.8	43.6	-38.2	-120.0	157.6	126.8	69.6	-43.9	-47.1	0.0
Net credit from banking system	8.4	59.3	-15.4	-144.3	169.6	126.8	69.6	-43.9	-47.1	-53.4
Of which: sovereign bond	...	...	...	-141.3	129.7	75.6	--	--	--	--
Of which: Rwandair loan	…	…	…	…	-32.5	-32.5	--	--	--	--
Nonbank sector	-18.2	5.6	-22.8	24.3	-12.0	--	--	--	--	--
Errors and omissions[5]	0.0	0.0	-5.9	-24.8	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Priority spending	412.5	460.1	526.5	550.7		626.5				

Sources: Rwandan authorities and IMF staff estimates and projections.

1 Fiscal year runs from July to June.

2 Total revenue minus noninterest expenditure.

3 Total revenue minus current expenditure (excluding interest on external debt), domestically financed capital expenditure, and net lending.

4 A negative sign indicates a reduction.

5 A negative number implies an underestimate of financing.

Table 3. Operations of the Central Government, Fiscal-Year Basis,[1] 2009/10–2017/18

(Concluded)

	2009/10	2010/11	2011/12	2012/13	2013/14		2014/15	2015/16	2016/17	2017/18
				Prel.	Country Report 13/141	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of fiscal year GDP)									
Revenue and grants	25.7	23.7	25.5	23.9	25.2	25.7	26.6	25.9	24.4	24.6
Total revenue	12.5	13.2	14.4	16.0	16.4	16.6	17.2	18.5	18.8	19.2
Tax revenue	12.1	12.6	13.5	14.2	15.1	14.9	15.8	17.1	17.4	17.8
Direct taxes	4.8	4.9	5.6	6.1	6.4	6.1	6.6	7.3	7.6	7.7
Of which: local government taxes	…	…	…	…	0.3	0.0	0.5	0.9	0.9	1.1
Taxes on goods and services	6.3	6.6	6.9	6.8	7.5	7.6	8.0	8.6	8.7	9.0
Taxes on international trade	1.0	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.2
Nontax revenue	0.5	0.6	0.8	1.8	1.3	1.7	1.4	1.4	1.4	1.4
Of which: payments for peacekeeping operations	…	…	…	1.3	0.8	1.2	0.9	1.0	1.0	1.0
Grants	13.1	10.5	11.1	7.9	8.8	9.1	9.5	7.4	5.6	5.4
Budgetary grants	9.1	5.9	6.5	4.1	3.8	3.9	4.5	4.0	3.4	3.2
Capital grants	4.0	4.6	4.7	3.8	5.0	5.1	5.0	3.4	2.2	2.2
Of which: Global Fund	...	...	1.9	1.4	0.9	1.0	1.4	1.5	1.2	1.2
Total expenditure and net lending	25.8	26.9	26.7	29.0	30.0	30.1	29.5	28.4	26.6	26.7
Current expenditure	14.7	13.6	14.9	13.8	14.1	15.2	14.2	13.9	13.6	13.5
Wages and salaries	3.4	2.6	3.5	3.7	4.0	4.1	4.0	3.9	3.8	3.7
Purchases of goods and services	3.4	3.3	3.6	2.7	2.5	2.6	2.5	2.5	2.4	2.4
Interest payments	0.5	0.4	0.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Domestic debt	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
External debt	0.1	0.1	0.1	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Of which: sovereign bond	…	…	…	0.1	0.4	0.4	0.3	0.3	0.3	0.3
Transfers	5.8	5.4	5.5	5.0	5.5	5.7	5.5	5.4	5.2	5.2
Exceptional expenditure	1.7	1.9	1.8	1.7		2.1	1.5	1.4	1.4	1.4
Capital expenditure	10.2	12.7	11.7	12.3	13.7	14.2	13.6	13.6	12.0	12.3
Domestic	5.1	6.2	5.6	5.2	5.8	6.0	6.5	6.6	6.6	6.9
Foreign	5.0	6.6	6.1	7.1	7.9	8.2	7.1	7.0	5.5	5.5
Of which: Global Fund	...	...	0.0	1.8	0.9	1.0	1.4	1.5	1.2	1.2
Net lending and privatization receipts	0.9	0.6	0.0	3.0	2.2	0.8	1.8	--	0.9	0.9
Of which: Kigali Convention Center	0.6	…	…	1.4	1.8	0.8	--	--	--	--
Of which: RwandAir	0.1	0.7	0.8	0.6		-0.1	--	--	--	--
Of which: Privatization receipts	…	-0.6	-0.7	-0.1		--	--	--	--	--
Primary balance[2]	0.4	-2.8	-0.7	-4.4	-2.8	-3.7	-2.2	-1.8	-1.5	-1.4
Domestic fiscal balance[3]	-8.0	-7.0	-6.1	-5.6	-4.8	-4.8	-4.8	-2.4	-1.8	-1.6
Overall deficit (payment order)										
After grants	-0.1	-3.2	-1.2	-5.1	-4.9	-4.4	-2.9	-2.5	-2.2	-2.1
Before grants	-13.2	-13.7	-12.3	-13.0	-13.8	-13.5	-12.4	-9.9	-7.8	-7.5
Overall deficit (incl. grants, cash basis)	-0.5	-3.5	-1.5	-5.3	-5.1	-4.6	-3.1	-2.7	-2.3	-2.3
Financing	0.5	3.5	1.4	4.7	5.1	4.6	3.1	2.7	2.3	2.3
Foreign financing (net)	0.8	2.3	2.3	7.4	2.1	2.1	1.9	3.3	3.0	2.3
Drawings	1.0	2.5	2.5	7.7	2.3	2.4	2.1	3.6	3.3	2.6
Project loans	1.0	2.0	1.2	7.3		2.4	2.1	3.6	3.3	2.6
Of which: sovereign bond	…	…	…	5.5		--	--	--	--	--
Amortization	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Net domestic financing	-0.3	1.2	-0.9	-2.6	3.0	2.5	1.2	-0.7	--	--
Nonbank sector	-0.6	0.2	-0.6	--	-0.2	0.0	--	--	--	--
Errors and omissions[5]	0.0	0.0	-0.1	-0.5	0.0	0.0	--	--	--	--
Memorandum items:										
Priority spending	13.2	12.9	12.8	12.0		12.3	...	...	...	...
GDP (Billions of RwF), FY basis	3,120	3,563	4,114	4,606	5,272	5,110	5,743	6,507	7,423	8,415

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest expenditure.

[3] Total revenue minus current expenditure (excluding interest on external debt) , domestically financed capital expenditure, and net lending.

[4] A negative sign indicates a reduction.

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

Table 4. Monetary Survey, 2010–14

	2010	2011	2012	2013	2014	
	Dec	Dec	Dec	Dec	June	Dec
				Revised		
	Est	Est	Est	Proj	Proj	Proj
Monetary authorities						
Net Foreign Assets[1]	414.8	563.8	457.1	634.4	519.7	516.3
Foreign assets	483.5	634.4	535.5	717.0	603.4	600.1
Of which: encumbered assets		24.2	44.2	--	--	
Foreign liabilities	68.6	70.5	78.4	82.6	83.8	83.8
Net domestic assets	-283.9	-402.3	-267.8	-421.1	-289.2	-272.6
Domestic credit	-231.2	-350.2	-218.7	-339.3	-207.4	-190.8
Government (net)	-176.3	-261.6	-165.4	-303.7	-166.1	-166.8
Claims	57.9	38.7	38.6	38.6	38.6	38.6
Deposits (excluding autonomous bodies)2	234.2	300.4	204.0	342.2	204.7	205.4
Public nongovernment deposits (-)	-0.8	-1.0	-2.3	-4.7	-1.0	-1.0
Nongovernment credit	-54.1	-87.5	-51.0	-30.9	-40.3	-23.0
Private sector	4.8	5.6	5.9	9.4	11.0	12.0
Public enterprises	--	--	--	--	--	--
Commercial banks	-60.6	-94.9	-58.5	-40.3	-51.3	-35.0
Other items (net; asset +)	-52.7	-52.3	-49.1	-81.8	-81.8	-81.8
Reserve money[2]	131.0	161.6	189.3	213.2	230.4	243.7
Currency in circulation	104.1	117.9	129.3	140.9	151.7	162.4
Commercial bank reserves	24.7	41.9	58.2	71.3	77.1	80.8
Nonbank deposits	2.2	1.7	1.8	1.0	1.7	0.4
Commercial banks						243.7
Net foreign assets	104.0	109.2	98.8	109.6	82.6	109.0
Foreign assets	146.8	157.3	149.9	206.1	177.6	204.0
Foreign liabilities	42.7	48.2	51.2	96.5	95.0	95.0
Reserves	38.3	57.1	80.5	95.6	103.8	110.0
NBR deposits	24.7	41.9	58.2	71.3	77.1	80.8
Required reserves	26.7	34.7	43.4	52.3	54.9	58.8
Excess reserves	-2.0	7.2	14.8	19.0	22.2	22.1
Cash in vault	13.7	15.2	22.3	24.3	26.7	29.2
Net credit from NBR (rediscount; liability -)	60.6	94.9	58.5	40.3	51.3	35.0
Domestic credit	438.8	545.0	704.3	866.3	927.2	988.7
Government (net)	45.0	43.4	28.2	116.3	128.4	119.3
Credit	86.1	80.1	67.9	155.2	167.3	158.2
Deposits	41.0	36.7	39.7	38.9	38.9	38.9
Public enterprises	3.2	2.8	1.0	1.3	0.8	0.8
Private sector	390.6	498.8	675.1	748.8	797.9	868.5
Other items (net; asset +)	-118.5	-130.3	-161.0	-201.4	-201.4	-201.4
Deposits	523.3	675.9	781.1	910.5	963.4	1,041.3
Private	453.9	576.1	670.8	751.0	830.4	908.3
Public (nongovernment)	69.4	99.8	110.3	159.5	133.0	133.0

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

[1] For program purposes NFA from December 2011 onward are at program exchange rates.

[2] Reserve money as an assessment criteria is measured as the average of the months in the quarter. The actual reserve money is measured as the daily average of the three months in the quarter.

Table 4. Monetary Survey, 2010–14

(Concluded)

	2010	2011	2012	2013	2014	
	Dec	Dec	Dec	Dec	Jun	Dec
	Est	Est	Est	Proj	Proj	Proj
Monetary survey						
Net foreign assets[1]	518.9	673.0	555.8	744.0	602.3	625.4
Net domestic assets	97.0	107.2	333.8	284.2	487.8	549.6
Domestic credit	268.2	289.8	543.8	567.3	771.0	832.8
Government (net)	-131.3	-218.3	-137.2	-187.4	-37.7	-47.5
Public nongovernment deposits (-)	-0.8	-1.0	-2.3	-4.7	-1.0	-1.0
Public enterprises	3.2	2.8	1.0	1.3	0.8	0.8
Private sector	397.1	506.3	681.0	758.2	808.9	880.5
Other items (net; asset +)	-171.2	-182.6	-210.1	-283.2	-283.2	-283.2
Broad money	615.9	780.4	889.9	1,028.1	1,090.1	1,175.0
Currency in circulation	90.5	102.8	107.0	116.6	124.9	133.3
Deposits	525.5	677.6	782.9	911.5	965.1	1,041.7
Of which: foreign currency deposits	99.2	135.6	164.6	194.2	184.7	199.0
Contribution to broad money growth						
Net foreign assets	14.6	25.0	-15.0	21.1	-4.2	-11.5
Net domestic assets	2.2	1.7	29.1	-5.6	17.4	25.8
Domestic credit	9.7	3.5	32.6	2.6	22.7	25.8
Government (net)	2.4	-14.1	10.4	-5.6	12.8	13.6
Economy	7.8	17.6	22.2	8.4	9.6	12.2
Other items (net; asset +)	-7.4	-1.8	-3.5	-8.2	-5.3	--
Broad money	16.9	26.7	14.0	15.5	13.4	14.3
Annual growth						
Net foreign assets	17.4	29.7	-17.4	33.9	-6.3	-15.9
Net domestic assets	13.7	10.5	211.7	-14.9	52.3	93.4
Domestic credit	23.5	8.0	87.8	4.3	39.5	46.8
Government (net)	-8.7	66.2	-37.1	36.6	-76.6	-74.7
Economy	11.5	27.2	34.1	10.8	13.3	16.6
Credit to the private sector	11.1	27.5	34.8	11.3	13.0	16.1
Other items (net; asset +)	29.5	6.7	15.0	34.8	21.8	--
Memorandum items:						
Currency/broad money ratio	14.7	13.2	12.0	11.3	11.5	11.3
Reserve money annual growth	12.5	23.4	17.2	12.6	13.8	14.3
Broad money annual growth	16.9	26.7	14.0	15.5	13.4	14.3
Reserves/deposits	25.0	23.9	24.2	23.4	23.9	23.4
Money multiplier	4.7	4.8	4.7	4.8	4.7	4.8
Velocity of broad money (end of period)	5.3	4.9	4.9	4.7	5.0	4.6
Velocity of broad money (average of period)	6.2	5.5	5.2	5.0	5.3	5.0
Net open position of the NBR (RWF billions)	414.8	563.8	457.1	625.8	512.4	516.3
Net open position of commercial banks (RWF billions)	5.6	-18.0	-48.2	-53.1	-54.8	109.0
Nominal GDP (RWF billions)	3,280	3,846	4,382	4,819	5,401	5,401

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

[1] For program purposes NFA from December 2011 onward are at program exchange rates.

[2] Reserve money as an assessment criteria is measured as the average of the months in the quarter. The actual reserve money is measured as the daily average of the three months in the quarter.

Table 5. Financial Soundness Indicators for Banking Sector, 2009–13

	2009	2010	2011	2012	2013			
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec
				(Percent)				
Capital adequacy								
Regulatory capital to risk-weighted assets	24.4	24.7	25.0	23.9	24.6	23.2	23.0	23.1
Capital to assets	17.4	15.0	17.0	17.2	17.6	16.4	15.8	15.1
Off balance sheet items/total qualifying capital	148.9	185.2	206.8	233.3	244.5	309.0	296.6	404.9
Insider loans/core capital	15.2	6.7	5.7	3.6	6.8	4.1	4.2	4.2
Large exposure/core capital	50.4	54.7	36.6	41.9	37.5	40.2	45.9	56.3
Asset quality								
NPLs/gross Loans	11.9	10.7	8.0	6.0	6.7	6.9	7.2	6.9
NPLs net/gross loans	10.0	9.2	6.2	5.4	5.9	3.2	6.5	6.0
Provisions/NPLs	58.7	50.7	50.8	53.6	49.0	54.8	50.3	53.0
Earning assets/total asset	76.3	79.5	77.2	79.9	80.6	80.6	81.0	78.6
Large exposures/gross loans	12.0	12.9	9.8	9.3	8.4	9.1	9.9	11.6
Profitability and earnings								
Return on average assets	1.0	1.9	2.2	2.2	2.5	2.1	1.7	1.5
Return on average equity	5.5	10.4	10.6	10.4	11.9	9.9	8.3	7.4
Net interest margin	9.5	9.4	9.7	9.6	10.0	10.0	9.5	9.4
Cost of deposits	2.3	2.6	2.3	2.9	3.5	3.5	3.8	3.8
Cost to income	89.3	83.8	80.8	81.0	78.3	81.7	84.0	85.2
Overhead to income	53.9	54.5	52.5	54.7	51.2	51.8	51.2	52.5
Liquidity								
Short term gap	18.2	16.0	19.6	12.1	11.3	13.3	15.9	14.8
Liquid assets/total deposits	66.1	56.9	44.3	41.2	40.5	46.2	49.4	49.6
Interbank borrowings/total deposits	12.3	11.0	8.4	9.2	9.9	10.1	11.8	11.3
BNR borrowings/total deposits	0.8	--	0.1	0.1	0.1	0.1	--	--
Gross loans/total deposits	82.1	78.0	79.5	91.9	92.5	87.4	88.3	86.4
Market sensitivity								
Forex exposure/core capital	0.9	4.9	6.6	-0.3	-1.1	-9.9	-3.0	-2.2
Forex loans/Forex deposits	2.8	0.4	5.3	4.4	5.1	6.9	8.0	8.3
Forex assets/Forex liabilities	99.0	103.4	111.0	78.7	93.2	79.0	88.9	87.3

Source: National Bank of Rwanda.

Table 6. Millennium Development Goals

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*88*	87	85	84	85
Employment to population ratio, ages 15-24, total (%)	*80*	79	75	73	73
Income share held by lowest 20%	-	-	5	-	-
Malnutrition prevalence, weight for age (% of children under 5)	-	*24*	20	18	12
Poverty gap at $1.25 a day (PPP) (%)	-	-	37	-	-
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	-	-	75	-	-
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	-	-	77	-	78
Literacy rate, youth male (% of males ages 15-24)	-	-	79	-	77
Primary completion rate, total (% of relevant age group)	45	-	23	*40*	70
Total enrollment, primary (% net)	-	-	*78*	*80*	99
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	17	-	26	49	56
Ratio of female to male primary enrollment (%)	98	-	97	103	102
Ratio of female to male secondary enrollment (%)	81	-	95	88	102
Ratio of female to male tertiary enrollment (%)	23	-	-	-	77
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	83	84	74	89	95
Mortality rate, infant (per 1,000 live births)	95	139	109	68	42
Mortality rate, under-5 (per 1,000)	156	275	183	108	60
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	-	-	31	39	69
Contraceptive prevalence (% of women ages 15-49)	-	*14*	13	17	52
Maternal mortality ratio (modeled estimate, per 100,000 live births)	910	1000	840	550	340
Pregnant women receiving prenatal care (%)	-	-	92	94	98
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	-	-	13	12	11
Incidence of tuberculosis (per 100,000 people)	291	514	326	181	106
Prevalence of HIV, total (% of population ages 15-49)	6	5	4	3	3
Tuberculosis case detection rate (%, all forms)	31	11	23	43	60
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	13	-	14	16	18
Improved sanitation facilities (% of population with access)	32	39	47	54	60
Improved water source (% of population with access)	62	64	66	68	69
Terrestrial protected areas (% of total surface area)	10	10	10	10	10
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	40	123	38	61	95
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	11	20	25	4	3
Internet users (per 100 people)	0	*0*	0	1	8
Mobile cellular subscriptions (per 100 people)	0	0	0	2	33
Other					
Fertility rate, total (births per woman)	7	6	6	5	5
GNI per capita, Atlas method (current US$)	350	220	230	260	510
GNI, Atlas method (current billion US$)	3	1	2	2	6
Life expectancy at birth, total (years)	33	30	47	52	55
Literacy rate, adult total (% of people ages 15 and above)	-	-	65	-	71
Trade (% of GDP)	20	31	31	37	41

Source: World Development Indicators.

Table 7. External Debt Sustainability Framework Baseline Scenario, 2011–34[1]

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**16.1**	**21.0**	**26.4**			**27.2**	**29.0**	**32.0**	**33.1**	**33.4**	**30.7**		**28.1**	**19.3**	
of which: public and publicly guaranteed (PPG)	12.6	16.4	21.6			22.9	25.3	28.8	30.4	31.2	28.7		26.5	16.7	
Change in external debt	-0.6	4.9	5.4			0.8	1.8	3.0	1.1	0.4	-2.8		-0.6	-1.6	
Identified net debt-creating flows	4.5	8.3	4.3			8.2	7.2	3.6	2.4	1.4	1.4		0.8	0.1	
Non-interest current account deficit	**6.8**	**11.0**	**6.5**	**4.2**	**4.3**	**11.5**	**11.7**	**9.3**	**8.6**	**8.0**	**8.1**		**7.5**	**6.3**	7.1
Deficit in balance of goods and services	20.1	20.5	17.1			19.4	17.6	15.7	14.6	13.7	13.4		11.9	10.5	
Exports	14.0	14.2	15.7			15.9	15.8	16.2	16.4	16.7	17.0		18.2	19.5	
Imports	34.1	34.7	32.8			35.4	33.4	31.9	30.9	30.4	30.3		30.1	30.0	
Net current transfers (negative = inflow)	-13.7	-10.1	-11.4	-12.3	1.6	-9.0	-7.0	-7.3	-6.5	-6.2	-5.5		-5.2	-4.7	-5.1
of which: official	-11.3	-7.6	-8.9			-6.7	-4.7	-5.2	-4.6	-4.2	-3.5		-3.2	-2.8	
Other current account flows (negative = net inflow)	0.5	0.6	0.8			1.1	1.1	0.9	0.6	0.5	0.2		0.6	0.4	
Net FDI (negative = inflow)	**-0.7**	**-1.5**	**-2.0**	**-1.2**	**0.8**	**-2.5**	**-3.6**	**-4.4**	**-4.7**	**-5.0**	**-5.1**		**-5.2**	**-5.2**	-5.2
Endogenous debt dynamics 2/	**-1.7**	**-1.2**	**-0.2**			**-0.8**	**-0.9**	**-1.3**	**-1.5**	**-1.6**	**-1.6**		**-1.4**	**-1.0**	
Contribution from nominal interest rate	0.4	0.4	0.7			0.7	0.7	0.7	0.6	0.6	0.7		0.5	0.4	
Contribution from real GDP growth	-1.1	-1.1	-0.9			-1.5	-1.7	-2.0	-2.2	-2.3	-2.3		-2.0	-1.4	
Contribution from price and exchange rate changes	-0.9	-0.6	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-5.1**	**-3.3**	**1.1**			**-7.3**	**-5.4**	**-0.7**	**-1.3**	**-1.0**	**-4.1**		**-1.4**	**-1.7**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.6			18.7	20.1	22.7	23.8	24.4	22.3		20.0	12.4	
In percent of exports	...	...	112.1			117.4	127.9	140.2	145.2	146.0	131.3		111.4	63.9	
PV of PPG external debt	**...**	**...**	**12.8**			**14.4**	**16.4**	**19.5**	**21.1**	**22.1**	**20.3**		**18.3**	**9.8**	
In percent of exports	**...**	**...**	**81.7**			**90.5**	**104.3**	**120.6**	**128.9**	**132.3**	**119.6**		**102.0**	**50.5**	
In percent of government revenues	**...**	**...**	**63.9**			**68.9**	**75.0**	**88.2**	**95.8**	**98.9**	**90.4**		**90.6**	**45.8**	
Debt service-to-exports ratio (in percent)	**3.7**	**6.1**	**8.2**			**8.2**	**8.9**	**9.5**	**10.0**	**10.2**	**10.4**		**12.5**	**15.5**	
PPG debt service-to-exports ratio (in percent)	**3.2**	**3.6**	**5.1**			**5.2**	**5.8**	**6.4**	**6.9**	**7.0**	**7.1**		**7.8**	**5.2**	
PPG debt service-to-revenue ratio (in percent)	**2.2**	**2.6**	**4.0**			**4.0**	**4.2**	**4.7**	**5.1**	**5.2**	**5.4**		**6.9**	**4.7**	
Total gross financing need (Billions of U.S. dollars)	0.4	0.8	0.5			0.8	0.9	0.7	0.6	0.6	0.7		1.0	2.8	
Non-interest current account deficit that stabilizes debt ratio	7.4	6.0	1.1			10.6	9.9	6.3	7.6	7.6	10.9		8.0	7.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.5	7.3	4.6	7.2	2.0	6.0	6.7	7.5	7.5	7.5	7.5	7.1	7.5	7.5	7.5
GDP deflator in US dollar terms (change in percent)	6.0	3.8	-0.1	5.8	4.8	0.6	2.5	2.8	3.2	1.7	1.7	2.1	2.0	2.0	2.0
Effective interest rate (percent) 5/	2.4	3.0	3.5	2.0	1.3	2.7	2.9	2.6	2.2	2.1	2.2	2.5	2.1	2.3	2.2
Growth of exports of G&S (US dollar terms, in percent)	41.5	13.2	15.5	21.8	22.8	8.1	8.1	13.6	12.1	11.7	11.0	10.8	10.9	9.9	10.7
Growth of imports of G&S (US dollar terms, in percent)	33.1	13.3	-1.4	19.6	14.0	15.1	3.2	5.5	7.6	7.4	9.1	8.0	9.7	9.4	9.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	11.3	22.5	18.2	17.4	12.8	20.7	17.2	31.5	42.1	41.1
Government revenues (excluding grants, in percent of GDP)	19.6	20.0	20.1			20.9	21.9	22.1	22.0	22.4	22.4		22.6	19.0	18.3
Aid flows (in Billions of US dollars) 7/	0.3	0.7	0.8			0.5	0.5	0.5	0.4	0.4	0.3		0.9	1.2	
of which: Grants	0.3	0.3	0.4			0.4	0.4	0.3	0.3	0.3	0.3		0.3	1.1	
of which: Concessional loans	0.0	0.4	0.4			0.1	0.1	0.2	0.2	0.1	0.0		0.2	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.9	5.5	4.2	3.3	2.9	2.5		4.9	2.6	4.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			59.9	60.6	44.7	44.5	45.8	78.9		72.6	89.6	76.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.4	7.1	7.5			7.9	8.7	9.6	10.7	11.6	12.7		20.2	50.7	
Nominal dollar GDP growth	13.9	11.3	4.5			6.6	9.4	10.5	10.9	9.3	9.4	9.3	9.7	9.7	9.7
PV of PPG external debt (in Billions of US dollars)			0.9			1.1	1.4	1.8	2.2	2.5	2.5		3.3	4.5	
(PVt-PVt-1)/GDPt-1 (in percent)						2.8	3.5	5.1	3.8	3.0	0.1	3.0	1.3	-0.2	0.8
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.4	0.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.6			14.1	16.1	19.1	20.7	21.7	19.9		18.0	9.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	71.8			79.9	92.0	107.0	115.1	118.3	107.2		91.8	46.7	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	4.5			4.6	5.1	5.7	6.1	6.3	6.4		7.0	4.8	

Sources: Rwandan authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

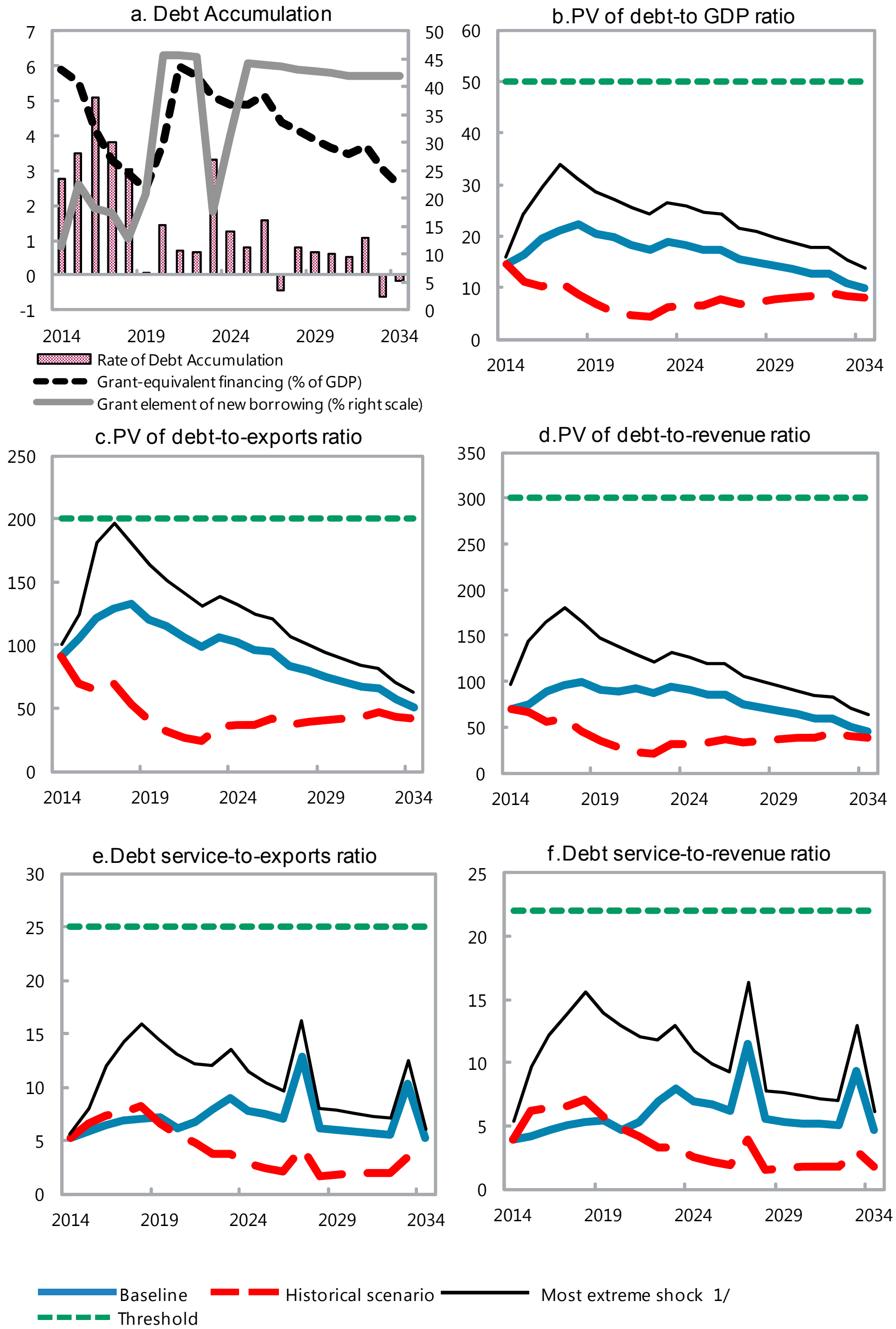
5/ Current-year interest payments divided by previous period debt stock.

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

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

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

Figure 8. Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014–34[1]



Sources: Rwandan authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Appendix I. Letter of Intent

Kigali, Rwanda

April 25, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Ms. Lagarde,

The attached memorandum of economic and financial policies (MEFP) is an update of the November 2013 MEFP and sets out the macroeconomic policies of the Rwandan government for the remainder of fiscal year 2013/14 and fiscal year 2014/15. Due to adverse weather conditions that affected agricultural production, spillovers associated with the aid shock and resulting delays in the implementation of some major government financed projects, growth in 2013 slowed down to 4.6 percent. Inflation remained well contained throughout the year.

As described in the MEFP, all but one end-December 2013 quantitative assessment criteria (QAC) were met; the continuous QAC on non-concessional borrowing was not observed when Rwandair financed the lease of an airplane. All indicative targets, but one, have been met. The slight breach of the domestic debt ceiling was the result of delays in disbursing donor financing deposited at the central bank. Reflecting our commitment to the PSI objectives, all five structural benchmarks were met.

In light of this satisfactory performance and its continued commitment to sound policies, the Government requests the completion of the first review under the PSI. The Government also requests a waiver for the non-observance of the QAC on non-concessional borrowing and reiterates its commitment to reinforcing procedures regarding non-concessional borrowing by public entities. These procedures require all public entities to consult early with and seek approval from the Ministry of Finance and Economic Planning for the contracting of any external loans.

The government believes that the policies and measures set forth in the MEFP will deliver the objectives of the PSI-supported program but we will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached MEFP.

The government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the second review will take place before end-December 2014.

The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by the IMF staff.

Sincerely yours,

/s/

Claver Gatete
Minister of Finance and Economic Planning

/s/

John Rwangombwa
Governor, National Bank of Rwanda

Attachment I. Memorandum of Economic and Financial Policies—Update

April 25, 2014

1. This MEFP update reviews performance under the PSI-supported program through end-December 2013 and discusses the macroeconomic outlook and policies for 2014 and FY2014/15. It also describes quantitative and structural targets for end-June and end-December 2014. As in the November 2013 MEFP, policy formulation in all areas will take Rwanda's commitments to the East African Community into account.

Recent Economic and Policy Performance

2. **Introduction.** Policy implementation in FY 2012/13 was complicated due to the suspension of aid by some donors and delays in the approval of disbursements by others. While relations with donors have since normalized, delays in budget support disbursements and a shortfall in project grants resulted in cuts and postponements in public spending, particularly some major government infrastructure projects. These developments together with adverse weather conditions which affected agricultural output slowed down economic growth to 4.6 percent in 2013. Inflation remained subdued throughout 2013 and further decelerated during the last quarter to 3.7 percent at end December .This deceleration has continued in 2014 and at end March 2014 stood at 3.4 percent..

3. **Growth.** The slowdown in 2013 reflected a combination of the aid shock and adverse weather conditions. Due to adverse weather, growth in the agriculture sector–at 3 percent–was the same as in 2012. The spillover effects from the aid shock affected mostly the services sector, which represents 45 percent of GDP. The sector registered growth of 4 percent, the lowest of the last decade due to the combination of: (i) a slowdown in growth of credit to the private sector, itself constrained by limited availability of foreign exchange, and (ii) contracted government spending in the first half of 2013, which negatively affected domestic demand–total consumption fell (-1 percent) and investment stagnated (1 percent). The industry sector recorded a solid growth of 11 percent led by construction activities and the beverage industry, while mining activities grew 41 percent.

4. **Inflation**. Inflation, both headline and core, was firmly contained with the former standing at 3.7 percent year-on-year in December and the latter at 3.8 percent. This reflected a combination of lower imported inflation from the region, the reduction in fuel prices, and benign commodity prices.

5. **External balance.** On the external front, imports weakened partly due to the general slowdown as well as delays in implementing some large investment projects that affected capital and intermediate goods imports. The low growth in other current receipts, including tourism receipts, was more than compensated by the doubling in mining sector exports. The favorable

current account developments, facilitated by lower than expected imports, coupled with the unused Eurobond proceeds helped to stabilize reserves at 4.8 months of imports.

6. **Fiscal developments.** Fiscal policy implementation was complicated by the delays in donor disbursements. On the revenue side, lower tax revenue associated with the economic slowdown was compensated by non-tax revenue due to one-off disbursements associated with a larger than expected role for Rwanda in regional peace keeping operations. Global Fund disbursements were also higher than projected resulting in total revenue and grants exceeding projections by about 1.5 percent of GDP. Domestic tax revenue collections, at 13.7 percent of GDP, were 0.6 percent of GDP lower than the program target. This lower performance was more than offset by larger non tax revenue collections. Reflecting the authorities' commitment to fiscal discipline, both recurrent and capital expenditure were adjusted following the aid shock to preserve the domestic finance target. The wage bill was lower than expected due to delayed recruitment and capital expenditures were also lower due to delays in the construction of the Kigali Convention Centre (KCC) and other infrastructure projects, notably in energy and roads. Net lending was sharply curtailed as only a small amount of the Eurobond proceeds was used for the KCC and Nyabarongo hydro-power project. Furthermore the repayment of RWF 32.5 billion by Rwandair to the government curtailed net lending. The combined effects resulted in the fiscal accounts recording a surplus for the first half of the FY 2013/14 of 0.4 percent of GDP, compared to an initial deficit estimate of 4.8 percent of GDP.

7. **Monetary and exchange rate developments**. The NBR has continued to focus on limiting the risks from monetary inflation and anchoring inflationary expectations, while containing pressures on the exchange rate. Following the end of the tightening cycle in June 2013, when the key policy rate was reduced by 50 basis points, the policy rate has been left unchanged as credit to the private sector increased in the second half of 2013, pushing up the demand for foreign exchange. Credit growth to the private sector increased by 10.8 percent (year-on-year) compared to an initial projection of 14.3 percent. The slowdown in credit growth reflected the broader deceleration in the economy and commercial banks tightening lending criteria following increases in non-performing loans, mostly in the services sector. The economic slowdown also contributed to a weakening of imports. The exchange rate remained fundamentally market driven. A depreciation of 6.1 percent in the Rwandan Franc contributed to reducing the spread that had arisen due to lower aid flows and reduced NBR sales of foreign exchange. Regarding the monetary aggregates, broad money growth increased by 15.5 percent in 2013. Net foreign assets were higher than targeted on account of favorable current account developments and unspent proceeds of the Eurobond.

8. **Program performance**. Program performance under the new PSI has been strong. All but one of the quantitative assessment criteria (QAC) for end-December 2013 (Table 1) were met. The continuous QAC on non-concessional borrowing was not observed when Rwandair financed the lease of an airplane. All the structural benchmarks associated with the review were met (Table 2).

Macroeconomic Outlook and Policy for 2014 and FY2014/15

9. **Economic growth will pick up in 2014 and inflation will remain contained.** The government considers the slowdown in growth in 2013 to be temporary. With the normalization in aid flows and resumption of government infrastructure projects, a stronger outlook for the first agricultural season, and the rebound in services sector momentum, the government expects growth to recover to 6 percent in 2014. A growth of 5 percent in agriculture, led by food crops and an increase in the area under cultivation, is expected to support the recovery. Regarding the industry sector, growth is projected at 6 percent, compared to 11 percent in 2013. This is mainly due to many private construction activities nearing completion. Nevertheless, construction will still have a positive impact on the overall sector. Furthermore, the electricity and gas sub-sector will see much stronger growth due to the addition of new power plants to the grid. Growth in the services sector is expected to recover from 4 percent in 2013 to 7 percent in 2014. This is due to an upturn in government consumption and credit growth as well as higher growth of agriculture impacting on trade in services. The performance will be led primarily by wholesale and retail trade as well as by real estate and business services sub sectors with growths of 8 percent and 4 percent in 2014. Inflation will remain contained at 5 percent, in line with the NBR's target. This reflects both a combination of subdued inflationary pressures and the monetary policy stance.

10. **Regarding the external sector, the current account deficit is projected to deteriorate from 7.2 percent of GDP in 2013 to 12.1 percent in 2014.** This is due to the expected pickup in economic activity resulting in an increase in infrastructure related imports that were postponed in 2013. Capital and intermediate goods imports will contribute to the rebound in imports thereby contributing to a deterioration of the current account despite a robust export performance. The increase in imports will be financed primarily by the unused Eurobond proceeds allocated to the Kigali Convention Center and the Nyaborongo hydro project. Foreign reserves coverage will be around 4 months of imports.

11. **Notwithstanding the strong fiscal performance in the first half of FY 2013/14, the full year fiscal position remains similar to that expected at the initiation of the PSI.** This profile assumes that revenues bounce back in the second half of the fiscal year, while grants remain at the same level as projected. The original revenue ratio target of 15.1 percent of GDP is unlikely to be fully met. This is partly because of delays in implementing some of the revenue measures, including the excise on airtime, and weaker than expected royalty taxes. On the expenditure side, both current and capital spending will rebound in the second half of the fiscal year, including from new hiring and the implementation of delayed government investment projects. Overall expenditure, at 31.2 percent of GDP, is projected to be very similar to the initial program objectives.

12. **The fiscal framework for FY2014/15 is built on conservative assumptions regarding budget support and aims to sustain the domestic revenue mobilization efforts.** Budget support is expected to be around 9.5 percent of GDP. Given the continued uncertainty regarding long-term donor engagement and the government's commitment to reducing its reliance on donor financing, accelerating domestic revenue mobilization remains a key priority. By end-June 2014, we will assess the proposed FAD recommendations on agriculture, mining, and property taxes and consider those

that can be implemented within a defined time frame. Currently, these regimes are projected to be introduced into the fiscal framework by FY2015/16. Combined with the taxes on agriculture, mining, and property, the government will also consider additional revenue measures to generate an extra 0.4 percent of GDP in FY 2015/16. This will take the tax revenue collections to over 17 percent of GDP.

13. **Expenditures will increase in the FY 2014/15, but the overall deficit (including grants) will decline.** The expenditure composition is a reflection of the government's policies aimed at supporting growth and reprioritizing expenditure in a context of donor uncertainty. Total expenditure and net lending is estimated at RWF 1696.9 billion (29.5 percent of GDP) compared to RWF 1593.2 billion (31.2 percent of GDP) in FY 2013/14. The increase in nominal terms is driven by increases in both recurrent and capital spending. Recurrent expenditure is estimated at RWF 814 billion showing an increase of RWF 38.8 billion compared to FY 2013/14. Spending on new recruitments and transfers to the local government entities to compensate them for the revenue collections surrendered to the central government account for the increase. Capital expenditure is RWF 58.5 billion higher at RWF 782.2 billion. This is due to increased outlays for on-going energy projects. The overall deficit (including grants) is expected to decline to 3.1 percent of GDP compared to 5.3 percent of GDP in FY13/14. Net domestic cash finance of the 2014/15 budget is expected to be around RWF 69.6 billion (1.2 percent of GDP). If the growth momentum weakens and the rebound in revenue mobilization in the second half of FY 2013/14 does not materialize, the government will finance the shortfall with additional domestic finance. However, it will ensure that the additional finance does not "crowd out" the private sector.

14. **Structural measures aimed at supporting the domestic revenue mobilization strategy would be accelerated**. The following measures are to be implemented on the revenue side over the next two years :

- ***The draft investment code approved in March 2014 by Cabinet has streamlined incentives and exemptions.*** These will come into effect in FY2014/15 and are expected to yield additional tax revenues starting FY2015/16. The main measures include:

(i) The Cabinet may no longer grant a blanket discretionary incentive package.

(ii) VAT exemption for investment certificates holders no longer apply.

(iii) All the incentives related to customs duties have been aligned with EAC regulations and procedures. Investors granted such incentives prior to Rwanda's accession to the EAC would also be subject to the new code.

(iv) Investment thresholds (100,000USD for local investors and 250,000USD for foreign investors) no longer apply. Instead, fiscal incentives are provided to specific sectors.

(v) The provision which grants to investors a tax discount depending on the number of employees has been removed.

(vi) The flat tax of 5 percent on building and finishing materials, in lieu of import duties and excise for construction projects worth of at least 1.8 M USD, has been aligned with EAC regulations such that the Common External Tariff now applies.

(vii) The tax on capital gains was scrapped. However, it was decided that the income from the sale of properties shall be incorporated in the taxable income of the company.

- ***A tax expenditure assessment will be undertaken as part of forthcoming budget.*** The review of tax expenditures will cover customs and budget tax expenditures initially. It will be submitted with the FY2014/15 budget.
- ***Tax payer compliance is being enforced***. This is being done through implementation of the various continuous administrative measures highlighted in the November 2013 MEFP. Most of the measures are on track.
- ***The VAT law is being amended to reduce exemptions***. A draft is being submitted to the IMF for further comments before its submission to Cabinet for approval. The main VAT exemption measure has been the removal of exemption of VAT for investment certificates holders.
- ***The government will divest from the Rwanda Development Bank and foster greater private sector participation***. Negotiations are on-going with a strategic investor and an MOU was recently signed. The divestiture will also increase the asset base of the bank and allow the bank to diversify and increase lending products.

15. **Turning to public financial management, a number of measures are being introduced.** These include:

- ***The extension of IFMIS to 20 development projects.***
- ***Reviewing the grant formula for local governments.*** The block grant formula was to be reviewed following the findings of the local government revenue potential study, which would have allowed for districts with higher revenue potential to receive lower transfers. The formula would have also included a component that would have fostered greater local revenue generation. The completion of the study was delayed and finalised in November instead of March 2013. Another element was to work with all districts on the implementation strategy after which the formulae was to be reviewed. However, given the time required for such a process and the budget calendar, it was not possible to review the formula. Consultations on the LGRPS implementation strategy are now planned for May 2014, after which a new block grant formula will be prepared and submitted to cabinet to inform the budget processes for FY 2015/16.
- ***Financial reporting of sub-national entities***. A template has been developed and issued to all sectors (the administrative level below districts) to compile data and report to districts. To ensure accuracy and completeness in the use of the template, all sectors accountants and executive secretary have been trained on basic elements of PFM and a Subsidiary Entities Accounting System (SEAS) has

also been developed. To date, this system has been implemented in 8 districts and 88 sectors are using it to make payments. They are also using it for accounting and reporting to their respective districts on a monthly, quarterly, and on an annual basis. The SEAS will be implemented in all sectors by August 2014.

16. **Given the uncertainties concerning the level of donor grants and concessional funding, the government will seek non concessional finance for the implementation of some strategic investment projects.** These projects are critical towards meeting the economic and social objectives under the EDPRS 2. Consistent with these objectives, a number of projects have been identified for implementation during the current PSI period. To avoid the current ceiling on non-concessional borrowing (NCB) being breached during the PSI period, an increase of US$ 250 million on the existing level is being requested for FY 2014/15. This will allow the government to finance and implement some of the investment projects envisaged.

17. **The government's public investment program gives the highest priority to projects for water, energy, and affordable housing.** The government will keep the Fund informed on the financing structure and implementation of these projects. In addition, the government views the expansion of the national airline Rwandair as critical to its medium-term plan to build a new international airport at Bugesera as well to increase revenue from services, particularly tourism. The financing structure for the airport project, along with other large medium-term infrastructure projects like the railway and the oil pipeline, will be a hybrid of public and private financing. Although these larger projects will be completed beyond the current PSI period, the government wishes to indicate that the current NCB ceiling may need to be renegotiated again as and when financing for these projects is finalized. As the level of non-concessional debt increases, the government is highly mindful of the need to monitor the debt sustainability.

18. **The NBR will maintain its prudent monetary policy stance during 2014 in a bid to anchor inflationary expectations while supporting growth and containing pressures on the currency**. Private sector credit is expected to pick up in 2014 as the economy reverts to its potential. The exchange rate will remain market driven and NBR will continue to allow greater exchange rate flexibility to maintain the spread between the official and market rate below 2 percent and ensure reserve levels remain comfortable (at a minimum level of 4 months of prospective imports (CIF)).

19. **The NBR will also sustain its efforts aimed at strengthening the monetary policy framework**. In this regard, it will continue implementation of policies aimed at tackling the structural excess liquidity. The NBR has started issuing instruments with longer-term maturities. It has also published a quarterly bond issuance calendar for bonds with longer terms maturities. Following the recent successful issuance of an oversubscribed bond, activities picked up on the secondary market. Additionally, policies aimed at improving the interbank market and building capacity at the level of commercial banks would also be accelerated. The NBR is also committed to boost the interbank market by supporting the dealer's association to establish a code of conduct governing the interbank operations in local and foreign currency. The NBR would also sustain capacity building and modeling efforts to better understand the transmissions mechanism and inform the decision making of the monetary policy committee. The NBR will also continue policies to

strengthen its communication process, including through dialogue with players in the foreign exchange market. The NBR recently published its first quarterly inflation report.

20. **Financial sector policies will remain geared toward sustaining financial stability**. Policies rolled out to tackle the increase in non-performing loans have proved effective so far and commercial banks will continue to comply with the new guidelines, including the implementation of the recovery plans. The NBR will continue to conduct off-site surveillance and on-site examinations under risk-based supervision and capacity building efforts for bank supervisors will be sustained. Additionally, given the increasing importance of cross-border banks, the NBR will increase its participation in supervisory colleges to conduct joint on-site inspection of cross-border banks. Ongoing efforts to increase financial inclusion and deepening would also be sustained, particularly through the implementation of the Financial Sector Development Plan (FSDP2).

21. **The legal and regulatory framework will continue to be bolstered**. The NBR law and the banking law are nearing the final stages and will be implemented in FY2014/15. The draft was approved by the NBR's Board in December 2013. The approved document is under translation for transmission to MINECOFIN for cabinet approval and before submission to Parliament for ratification. Subsequently, this will lead to the development of new regulations or updates of existing ones for implementation of the New Banking Law. The updated related regulations and guidance as well as new regulations and other supervisory tools to implement the new laws are also being finalized. Similarly, the NBR's Board approved the Deposit Insurance Law. The Deposit Insurance Law will continue to be tracked for finalization and as will the development of its implementing regulations. The project of legal and regulatory reform is also intended to cater for the Basel II/III project implementation. Other changes to the legal and regulatory frameworks include: (i) Banking Law amendments and its implementing regulations (especially regulation on general provisioning); (ii) completion of the draft new Deposit Insurance Law; (iii) amendment of the Insurance Law and its regulations; and (iv) completion of the legal and regulatory framework for pensions.

22. **Program issues**. Table 1 contains new end-June 2014 and end-December 2014 QACs for the second and third reviews under the PSI and new indicative targets for end-June and end-December 2014. These QACs have been amended to reflect changes to the adjusters and are consistent with the understandings reached with IMF staff on the macroeconomic framework. To avoid the recurrence of the non-observance of the NCB ceiling, the government will further strengthen communication of borrowing plans between parastatals and the Ministry of Finance, and between the government and the IMF to improve program design. The assessment of the end-December 2014 targets is expected to be completed by end-June 2015, at the time of the third review. Table 2 includes the structural benchmarks under the PSI. A new benchmark on publication of quarterly reports of budget execution against annual fiscal objectives is being proposed.

Table 1. Quantitative Assessment Criteria and Indicative Targets[1]

	Dec. 2013 Prog	Dec. 2013 Adj. Prog	Dec. 2013 Actual	Difference	Status	June 2014 IMF country report 13/372	June 2014 Modified Program	Dec 2014 Prog
Assessment criteria [2]								
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	511.7	541.0	597.7	56.7	Met	459.0	519.7	516.3
Reserve money (ceiling on stock) (upper bound) [5]	218.0	218.0	210.8	7.2	Met	231.1	229.3	242.7
Reserve money (ceiling on stock) [5]	213.7		206.7			226.5	224.8	238.0
Reserve money (ceiling on stock) (lower bound) [5]	209.5		202.6			222.0	220.3	233.2
Net domestic financing (ceiling on flow) [4, 6]	22.2	-7.1	-84.5	106.7	Met	86.7	162.8	152.9
New nonconcessional external debt contracted or guaranteed by the public sector (US$ millions) (ceiling on stock) [9]	0.0	0.0	18.2	18.2	Not Met	0.0	250.0	250.0
External payment arrears (US$ millions) (ceiling on stock)	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0
Indicative targets								
Domestic revenue collection (floor on flow) [6]	787.1	787.1	799.0	11.9	Met	466.4	415.4	882
Net accumulation of domestic arrears (ceiling on flow) [6]	-50.8	-50.8	-50.8	0.0	Met	-1.9	-1.3	-6.3
Consolidated domestic debt of public sector (ceiling on stock, eop) [4, 7]	337.3	308.0	312.2	4.2	Not Met	337.6	371.8	363.5
Total priority spending (floor on flow) [6]	587.1	587.1	595.3	8.2	Met	357.1	349.1	683.5
Memorandum items:								
Total budget support (US$ millions) [6, 8]	487.8		483.0	-4.8		100.2	164.6	486.2
Budget support grants (US$ millions)	473.6		468.8	-4.8		100.2	164.6	486.2
Budget support (loans, US$ millions)	*14.2*		14.2	0.0		0.0	0.0	0.0
Euro bond (US$ millions)	400.0		400.0	0.0		400.0	400.0	400.0
Unused euro bond proceeds (US$ millions)	121.2		172.4	51.2		0.0	107.3	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).
[2] Assessment criteria for NFA, RM, NDF are for end-June 2014 and end-Dec 2014 but are continuous for NCB and EA.
[3] Dec 2013 numbers are at the program exchange rate of RWF 631.41 per U.S. dollar. June 2014 and Dec 2014 numbers are at the new program exchange rate of RWF670.1 per U.S. dollar.
[4] Subject to adjustors. See TMU for details.
[5] Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. Assessment criterion applies to upper bound only. See TMU for details.
[6] Numbers for 2013 are cumulative from 12/31/2012, and those for 2014 are cumulative from 12/31/2013. The figure excludes revenues associated with peace keeping operations
[7] Excluding NBR's debt issued for monetary policy purposes. See TMU for details.
[8] Excluding demobilization and African Union peace keeping operations, HIPC grant, and COMESA compensation grant.
[9] For end-June 2014, cumulative since end-Dec 2013.

Table 2. Status of Structural Benchmarks for PSI (First Review)

Policy Measure	Target Date	Macroeconomic rationale	Status
Revenue Mobilization			
Prepare tax expenditure budget covering main tax expenditures.	Annually, starting end-June 2014	To enhance revenue mobilization.	
Revise exemption and zero-rating schedules under the VAT-law.	End-June 2014	To enhance revenue mobilization.	
Implement plan for better enforcement of tax payer compliance.	End-June 2014	To enhance revenue mobilization.	
Revise legislation on the taxation of property.	End-Dec 2014	To enhance revenue mobilization.	
Prepare legislative proposal for new tax regime for agriculture.	End-Dec 2014	To enhance revenue mobilization.	
Prepare legislative proposal for new tax regime for mining.	End-Dec 2014	To enhance revenue mobilization.	
Public Financial Management			
Pilot the extension of IFMIS to 20 development projects.	End-June 2014	To strengthen budget execution and controls.	
Review the block grant formula on the basis of the Local Government Revenue Potential Study	End-Sep 2014	To enhance collection of districts own revenues.	
Sub-national entities (416) to produce monthly, quarterly, and annual financial reports using a uniform template.	End-Dec. 2015	To improve comprehensiveness and transparency of intergovernmental fiscal transfers.	
MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter.	Continuous, starting mid-May 2014	To improve fiscal transparency.	New - Proposed
Monetary and Exchange Rate Policy			
Issue Treasury bills with maturities of six months and longer as a monetary policy instrument to absorb longer-term liquidity.	End- Dec 2013	To develop money market instruments.	Met
Start publishing money market rates (interbank, repo, and T-bill)for different maturities bi-weekly.	End- Dec 2013	To develop money market instruments.	Met
Prepare plan, based on MCM TA recommendations and NBR assessment, for strengthening monetary and exchange rate operations.	End- March 2014	To strengthen monetary and exchange rate operations and foster greater exchange rate flexibility.	Met
Start publishing quarterly inflation reports.	End- March 2014	To improve transparency of monetary policy.	Met
Use Treasury bills (or other tradable securities) as the underlying collateral in liquidity absorbing repos.	End- June 2014	To develop money market instruments.	
Financial Sector Development			
Design a deposit guarantee scheme.	End-June 2014	To increase confidence in banking system.	
Statistics			
NBR to gather high frequency data and undertake economic sentiment surveys.	End-2013	To improve quality and timeliness of economic data.	Met

Attachment II. Technical Memorandum of Understanding

April 25, 2014

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period December 2, 2013–November 30, 2016 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 13/372.

QUANTITATIVE PROGRAM TARGETS

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

3. AC will apply to the following indicators for June 30, 2014 and December 31, 2014 (the test dates) throughout the program period:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow of net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new non-concessional external debt by the public sector; and
- Ceiling on stock of external payment arrears of the public sector.

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

- Floor on flow of domestic revenue collection of the central government;
- Ceiling on flow of net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow of priority spending.

5. Assessment criteria on contracting or guaranteeing of new non-concessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2013 rates, apply for 2014:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2014
Rwanda Franc (per US$)	670.1
Euro	1.3791
British Pound	1.6375
Japanese Yen (per US$)	103.4116
SDR	1.5383

A. Institutional Coverage of the Fiscal Sector

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

B. Targets Related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government (AC)

8. **A ceiling applies to NDF**. The ceilings for June 30, 2014 and December 31, 2014 are cumulatively measured from December 31, 2013.

9. **Definition**. NDF of the government is defined as the change in the sum of (i) net banking sector credit to the government and (ii) non-bank holdings of government domestic debt.

10. Net banking sector credit to the government is defined as

- Consolidated credit to the government from the banking system (NBR and commercial banks, as recorded in the monetary survey), including credit to the government, provinces and districts. The outstanding consolidated government debt held by the banking system,[1] includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the pre-war government and the 1995 devaluation [2], as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

- less total government deposits with the banking system (as recorded in the monetary survey), including in the main treasury account, the accounts of line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, the privatization account, and the accounts of any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, Global Fund money meant for the private sector, counterpart funds, and *fonds publics affectés*).

11. Non-bank holdings of government domestic debt consist of non-bank holdings of treasury bills, bonds (domestic and non-resident), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivable.

Adjusters to NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[3] (defined in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP), up to a maximum of US$80 million, evaluated in Rwandan francs at the program exchange rate.

- The ceiling on NDF will be adjusted *upward/downward* by the extent to which in Rwandan francs at the program exchange rate the unused proceeds of the US$400 million euro bond

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

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

[3] Budgetary grants exclude COMESA and HIPC grants, but include Global Fund.

issued in April 2013 is lower than/exceed US$107.3 million by end-June 2014 and not zero by end December 2014.

- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

12. **Reporting requirement**. Data on NDF (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits), each type of debt to be shown by debt holder, will be transmitted on a monthly basis within five weeks from the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies and agencies that the government does not have any direct control over.

Floor on flow of domestic revenues (IT)

13. A floor applies to domestic revenue. The floors for June 30, 2014 and December 31, 2014 are cumulatively measured from December 31, 2013.

14. **Definition**. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, peace keeping operation, and privatization receipts.

15. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

Floor on priority expenditure (IT)

16. The floor applies to priority spending of the government. The floors for June 30, 2014 and December 31, 2014 are cumulatively measured from December 31, 2013.

17. **Definition.** Priority expenditure is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the EDPRS2. Priority expenditure is monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

18. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government (IT)

19. A ceiling applies to net accumulation of domestic arrears of the government.[4] The ceilings for June 30, 2014 and December 31, 2014 are cumulatively measured from December 31, 2013.

20. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of float during the review year and the repayment of older arrears).

21. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous year's stock of arrears will be transmitted on a monthly basis within five weeks of the end of each month.

C. Limits on External Debt

Limit on new non-concessional external debt of the public sector (AC)

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing with non-residents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP which applies continuously from December 2, 2013 to October 31, 2016. The ceiling also excludes non-concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

23. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake (owning more than 50 percent of the shares or

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

the ability to determine general corporate policy).[5] This definition of public sector excludes the Bank of Kigali.

24. For program purposes, the guarantee of a debt arises from any *explicit* legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any *implicit* legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

25. **Definition of concessionality**. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[6] The discount rate used for this purpose is 5 percent.

26. **Definition of debt** for the purposes of the limit in the QAC table is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt, effective December 1, 2009. It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

> (a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

---

[5] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

[6] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears (AC)

27. A continuous assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the public sector. External payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, but shall exclude arrears on obligations that are subject to rescheduling.

Consolidated Domestic Debt of the Public Sector (IT)

28. For program purposes, domestic debt (DD) excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have

been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 11), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 11.

- The ceiling on the DD will be adjus*ted upward* by the amount of expenditure for food imports in the case of a food emergency.

29. **Reporting requirement.** Data on domestic debt of the public sector, including treasury bills issued by the NBR for monetary policy purposes, will be tr*ansmitt*ed on a monthly basis within five weeks of the end of each month.

D. Targets for Monetary Aggregates

Net foreign assets of the National Bank of Rwanda (AC)

30. A floor applies to the net foreign assets (NFA) of the NBR for June 30, 2014 and for December 31, 2014.

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

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants per Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate.

- The floor on NFA will be adjusted *downward* (*upward*) by the extent to which actual encumbered reserve assets are lower (higher) than programmed encumbered reserve assets, evaluated in Rwandan francs at the program exchange rate.[7]

- The floor on NFA will be adjusted *upward/downward* by the extent to which in Rwandan francs at the program exchange rate unused proceeds of the US$400 million euro bond issued in April 2013 exceed/is lower than US$107.3 million by end-June 2014 and not zero by end December 2014..

- The floor on NFA will be adjusted *downward* by the amount of expenditure for food imports in the case of a food emergency, evaluated in Rwanda francs at the program exchange rate.

32. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week, including breakdown of assets that are pledged or encumbered. This transmission will include daily and weekly data on the NBR's foreign exchange liabilities to commercial banks (including required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money (AC)

34. A ceiling applies to the stock of reserve money for June 30, 2014 and December 31, 2014 as indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. The ceiling is the upper bound of a reserve money band (set at+/- 2 percent) around a central reserve money target).

35. The stock of reserve money for a given quarter will be calculated as the arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. Daily average of all the three months in the quarter will constitute the actual reserve money to be compared with the target.

[7] The programmed amount of encumbered reserve assets stands at zero at June 30, 2014 and December 31, 2014.

36. **Reserve money** is defined as the sum of currency in circulation, commercial banks' reserves, and other nonbank deposits at the NBR.

Adjuster:

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjustor will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

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

OTHER DATA REPORTING REQUIREMENTS

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in TMU Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.

39. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any non-concessional external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in TMU Table 1. The information should be mailed electronically to the Fund. (email: afrrwa@imf.org).

TMU Table 1. Summary of Reporting Requirements

	Frequency of Data[10]	Frequency of Reporting[10]	Frequency of Publication[10]
Exchange Rates[1]	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[3]	M	M	M
Volume of transactions in the interbank money market and foreign exchange markets and sales of foreign currencies by NBR to commercial banks	D	W	W
Liquidity Forecast Report[4]	W	W	W
Consumer Price Index[5]	M	M	M
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6] – General Government[7]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[6]– Central Government	M	M	M
Comprehensive list of tax and non tax revenues[8]	M	M	M
Comprehensive list of domestic arrears of the government	M	M	M
The ten (10) largest components of transfers in the fiscal table	M	M	M
Social security contributions (RAMA and CSR)	M	M	M
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR[9]	A	A	A
Privatization receipts	M	M	M

TMU Table 1. Summary of Reporting Requirements (concluded)

	Frequency of Data[10]	Frequency of Reporting[10]	Frequency of Publication[10]
External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

[1] Includes the official rate; Forex Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the NBR.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.
[4] One-week ahead forecasts of liquidity submitted on weekly basis. For example, in reporting data as of the last week of April, liquidity forecasts for the first week of May should be reported. The forecasted liquidity should be classified by net foreign assets, net credit to government, nongovernment credit, reserve money, currency in circulation, net credit to commercial banks broken down into discount window and money market (absorption or injection), and other item net.
[5] Includes General Index; Local Goods Index; Imported Goods Index; Fresh Products Index; Energy Index; General Index excluding Fresh Products and Energy; and their breakdowns as published by the NISR.
[6] Foreign, domestic bank, and domestic nonbank financing.
[7] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[8] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[9] Includes debts of the Bank of Kigali. Also includes currency and maturity composition.
[10] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

Press Release No. 14/253
FOR IMMEDIATE RELEASE
May 30, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Policy Support Instrument for Rwanda

The Executive Board of the International Monetary Fund (IMF) yesterday completed the first review under the policy support instrument (PSI) for Rwanda.[1] In completing the review, the Board approved a waiver for the non-observance of the continuous assessment criteria related to the ceiling on contracting new non-concessional external debt. The decision was taken without a formal Board meeting.[2]

The three-year PSI for Rwanda was approved on December 2, 2013 (see Press Release No.13/483). Performance under the PSI has been satisfactory and most assessment criteria and structural benchmarks were met.

Following a slowdown in 2013 characterized by a 4.6 percent growth rate, Rwanda's growth prospects are projected to improve to 6 percent in 2014, while inflation is expected to remain well contained. Downside risks to the outlook center around delays in government financed projects and a weak second season for agriculture.

The country continues to face the challenge of sustaining high inclusive growth while reducing its reliance on aid and preventing the build-up of imbalances. Moreover, after drawing down foreign exchange reserves over the past few years to support the economy, the room for maneuver is more limited and it will be important to rebuild policy buffers.

[1] The PSI is an instrument of the IMF designed for low-income countries that may not need balance of payments financial support but seek to maintain a close policy dialogue with the IMF through the IMF's endorsement and assessment of their economic and financial policies. The PSI, once approved by the IMF's Executive Board, signals to donors, multilateral development banks, and markets, the strength of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm). Details on Rwanda's current PSI are available at www.imf.org/rwanda.

[2] The Executive Board takes decisions without a meeting (based on lapse of time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.

In the short term, the need to support growth and preserve the level of foreign reserves requires a cautious fiscal stance through maintaining priority spending whilst also creating an enabling environment for private sector credit expansion. With inflationary pressures subdued, and faced with a binding balance of payments constraint, the National Bank of Rwanda's monetary stance of maintaining exchange rate flexibility and preventing a build-up of pressures in the foreign exchange market is appropriate.

Looking ahead, the challenge is the cost-effective financing and implementation of the ambitious agenda embodied in the government's second Economic Development and Poverty Reduction Strategy (EDPRS2). The authorities thus need to accelerate their domestic revenue mobilization efforts in support of the EDPRS2. Additionally, given the significant scaling up of investment, careful project selection and prioritization will be critical to contain fiscal risks and maintain debt sustainability.