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Rwanda and the IMF

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January 9, 2012

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Rwanda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 22, 2011

The following item is a Letter of Intent of the government of Rwanda, which describes the policies that Rwanda intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Rwanda, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

SUPPLEMENTARY LETTER OF INTENT

Kigali, Rwanda
December 22, 2011

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

Dear Ms. Lagarde,

1. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on June 16, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan government intends to implement for the fiscal year 2011/12 and the medium term. The PSI is set to expire on June 29, 2013.

2. We continue to make progress with our economic program. All quantitative assessment criteria for end-June 2011 were met and all but one end-June structural benchmarks were met. Further to our letter of November 23, we would like to inform you that the continuous quantitative assessment criterion on the contracting and guaranteeing by the public sector of new nonconcessional external debt was missed. On the structural benchmarks, the preparation of quarterly budget execution report was delayed. owing to technical difficulties shifting to the GFS 2001 fiscal reporting framework. The first quarterly budget execution report is now planned to be completed by end-November 2011, covering the first quarter of FY2011/12. The hiring of bank supervisors for the central bank, planned for end-June 2011, was met with a slight delay. We also met most structural benchmarks set for September and October 2011; one with delay and another has been postponed for March next year.

3. The nonconcessional loan was contracted by the Banque Rwandaise de Developpement (BRD), as part of the public sector, and aims at improving medium and long-term financing for businesses in Rwanda targeting crucial long-term investment by local companies, mainly SMEs, to support growth and job creation. Since the nonconcessional loan amounts to just 0.18 percent of GDP and Rwanda has been taking measures to upgrade its debt management capacity, the loan does not pose a risk to debt sustainability or the overall macroeconomic objectives of the program.

4. We regret the miscommunication that occurred and remain committed to regularly update the Fund on new developments for adequate monitoring of the program. As a remedy, the terms of the PSI have been communicated to all SOEs to ensure that they understand the consequences of such miscommunication. Also, to prevent this from occurring in the future, SOEs were asked to seek prior approval of the Ministry of Finance and Economic Planning before contracting any new nonconcessional external loan. In addition, over the medium term, the government will strengthen standardized reporting requirements for all SOEs.

5. In light of the satisfactory program implementation and performance outlined in the attached MEFP, and the corrective measures to strengthen communication within the government, the government requests a waiver of the nonobservance of the continuous assessment criterion on contracting and guaranteeing by the public sector of new nonconcessional external debt, and the completion of the third review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-December 2011 with respect to (i) NFA of the central bank to reflect the escrowing of part of foreign reserves; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor inflow disbursements. The government also requests approval of end-June 2012 assessment criteria and structural benchmarks for FY2011/12.

6. The Government believes that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to 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 Memorandum.

7. The Government will provide the Fund with such information as the Fund 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 fourth review will take place before end-June 2012, and the fifth review before end-December 2012.

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

Sincerely yours,

/s/ /s/

John Rwangombwa
Minister of Finance and Economic Planning

Claver Gatete
Governor, National Bank of Rwanda

LETTER OF INTENT

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2. We continue to make progress with our economic program. All quantitative assessment criteria and structural benchmarks for end-June 2011 were met, with the exception of one measure (preparation of quarterly budget execution report) which has been delayed owing to technical difficulties shifting to the GFS 2001 fiscal reporting framework. The first quarterly budget execution report is now planned to be completed by end-November 2011, covering the first quarter of FY2011/12. The hiring of bank supervisors for the central bank, planned for end-June 2011, was met with a slight delay. We also met most structural benchmarks set for September and October 2011; one with delay and another has been postponed for March next year.

3. In light of the satisfactory program implementation and performance outlined in the attached MEFP, the government requests completion of the third review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-December 2011 with respect to (i) NFA of the central bank to reflect the escrowing of part of foreign reserves; (ii) reserve money to account for structural increase in currency; and (iii) NDF to account for changes in timing of donor inflow disbursements. The government also requests approval of end-June 2012 assessment criteria and structural benchmarks for FY2011/12.

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Sincerely yours,

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John Rwangombwa	Claver Gatete
Minister of Finance and Economic Planning	Governor, National Bank of Rwanda

Attachment I. Memorandum of Economic and Financial Policies

November 23, 2011

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), the Government of Rwanda remains committed to achieving sustained broad based economic growth and making a dent on poverty. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12 and Rwanda's Vision 2020. To this end, the Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support macroeconomic policies and structural reforms that underlie strategies in the EDPRS. This MEFP reviews performance during January-June 2011—and the status of targets set for end-June 2011— and describes policies and targets for end-December-2011 and end-June 2012, and the medium term. Specific targets and benchmarks for December 2011 and June 2012 are in the attached table.

I. Performance under the PSI

2. At end June 2011, all quantitative assessment criteria have been met and the structural benchmarks were broadly met (Tables 1 and 2). One of the structural benchmarks—quarterly report on budget—has been delayed due to the introduction of a new Chart of Account (consistent with GFS 2001) that will provide a platform for integrating, planning, budgeting and accounting functions of government. The Medium-Term Debt Strategy (MTDS) is being finalized and will be submitted (with delay) to Cabinet by end-December 2011.

3. The structural benchmark on submitting to Cabinet draft legislation to transfer collection and audit functions of social security contributions (pension (CSR) and (medical insurance (RAMA)) to the Rwanda Revenue Authority (RRA), initially set for May 2011, has been delayed following two key factors: (i) the merger of CSR and RAMA which was not part of the initial MOU; (ii) compatibility and inter-operability of the IT systems of CSR and RAMA (now RSSB-Rwanda Social Security Board) and that of RRA. RRA is rolling out a new IT system (electronic filing). This has yet to be tested for compatibility with both CSR and RAMA IT systems, before a decision on finalizing the draft legislation is taken. The new deadline for finalizing the draft legislation is end-March 2012.

Growth

4. For the year 2011, economic growth was initially expected to decline marginally to 7 percent from 7.5percent achieved in 2010, reflecting expected adverse impact of rising fuel and food prices. However, according to current developments in key indicators of economic activities during the first 3 quarters of this year, the economic performance in 2011 is projected to 8.8 percent. This growth is mainly driven by better performance in agriculture and industry.

Inflation

5. Due to high international oil and food prices, inflation in Rwanda has been increasing in 2011 but maintained at relatively moderate levels considering high inflationary pressures in the EAC region. Whereas inflation has reached double digit in the other EAC countries, Rwanda's headline inflation increased from 0.2 percent in December 2010 to 6.6 percent in September 2011 and is projected to reach 8.7 percent in December 2011 against 7.5 percent initially projected. This upward trend is mainly due to imported goods of which prices increased on annual basis by 10.7 percent in September whereas during the same period, prices for locally produced goods increased by 5.6 percent. The annual average headline inflation was 3.7 percent in September compared to 2.3 percent in December of last year.

6. Rwanda has managed to limit inflationary pressures mainly due to a good agriculture sector performance that sustained the food supply, a stable RWF exchange rate which limited the pass through of imported inflation to domestic market, reduction in fuel taxes as well as well coordinated monetary and fiscal policies. Furthermore, in response to rising inflation and persistent uncertainties in short term perspectives in international and regional economic environment, the NBR Monetary Policy Committee (MPC) decided to increase the central bank policy rate (Key Repo Rate) to 6.5 percent on 7th October 2011 from 6 percent in force since November 2010.

Fiscal Performance

7. **Fiscal performance for the second half of FY 2010/11 (January-June) was strong.** Total revenue (excluding grants) exceeded program by 0.4 percent of GDP, driven mainly by higher direct taxes and taxes on goods and services. Non-tax revenues, however, fell short as a result of the waiving of dividends payment by Bank the Kigali in order to strengthen its balance sheet in preparation for the IPOs. The stronger revenue performance was offset by higher expenditure and net lending—exceeding targets by about 0.3 percent of GDP—leaving the overall fiscal deficit (excluding grants) in line with the program. Actual grants for the period also exceeded the program target (by 0.2 percent of GDP).

External Sector

8. Exports recovered significantly during the first half of 2011. In September 2011, exports value increased by 52.3 percent led by coffee and minerals. Imports also increased by 21.2 percent in value during the same period, dominated by capital goods, intermediate goods and energy. Capital inflows are expected to allow the overall balance of payments to close with a surplus for 2011.

Monetary and Exchange rate Developments

9. In 2011, NBR has implemented a proactive monetary policy to support financing the economy, as long as inflation does not pose a threat to the macroeconomic stability. NBR also continued to ensure that real interest rates remain positive to further support domestic savings mobilization and the financial deepening.

10. In line with the dynamics in economic activities, monetary aggregates have shown an upward trend over the year 2011. Between December 2010 and August 2011, the Broad Money had increased by 18 percent against 16 percent initially projected for the whole year. This development in money supply is attributed to a strong increase of 130 percent in domestic assets contributing 30.7 percent in total liquidity in the banking system by end August while the Net foreign assets which accounted for 69.3 percent declined by 2.7 percent following delays recorded in external budget support disbursements. Sustaining over-performing economic activities, the credit to the private sector increased by 21.5 percent by end August compared to 19.2 percent initial projected for the whole year.

11. With regard to 2011 Monetary Program implementation, end June Reserve Money target was achieved standing at RWF 137.3 billion on quarterly average against PSI assessment criterion of RWF 137.5 billion. This target was achieved with challenges due to over performance of the economy compared to initial projection and higher-than programmed currency in circulation which makes up for the bulk of reserve money. However, at end-September, reserve money stood at Rwf 150.9 billion, exceeding the indicative target of Rwf 146.8 billion. Given that it would be difficult to reduce reserve money in the last quarter of the year, end December Reserve Money target was revised upward from RWF 149.6 billion to RWF 156.3 billion.

12. End June NBR Net Foreign Assets was estimated at RWF 372.51 billion at program exchange rate, exceeding the adjusted PSI target[1] of RWF 343.64 billion from initial NFA Program of RWF 391.2 billion. The indicative NFA target at end September (Rwf 409.5 billion), however, was missed standing at RWF 404.2 billion (program exchange

[1] The adjustment is the external budget support from Global Fund of USD 67.36 million which was not disbursed while it was considered when setting the end June NFA target.

rate) as a result of escrowing reserves at Citibank as collateral for the loan to finance the Kigali Convention Center.[2] Taking into account recent developments in external budget support disbursements and the projected further escrowing of part of NBR's foreign reserves, end December NFA target was reviewed downward from RWF 463.2 billion to RWF 417.9 billion.

13. Concerning the exchange rate management, the NBR continued to maintain a flexible exchange rate regime in 2011, only intervening at the margins of the market to smoothen out temporary volatility in the exchange market. During the first three quarters of 2011, the Rwanda franc remained quite stable, depreciating by 0.9 percent against the US dollar.

14. Regarding the recommendations from the IMF Monetary and Capital Markets (MCM) technical assistance (July 2011), the Bank has maintained the corridor system and the commercial banks have continued to access foreign exchange resources without any barrier. Besides, a standing deposit facility (Intraday Liquidity Facility—ILF) has been introduced to facilitate interbank transactions. After the successful implementation of the Central Securities Depository (CSD), all treasurers and staff of commercial banks have been trained in securities trading.

15. The NBR has significantly strengthened the analytical skills of its staff to support the monetary policy committee process. The NBR has entered into partnership with the Center for Central Banking Studies of the Bank of England and the Reserve Bank of South Africa to organize joint training programs for NBR staff. In the same spirit, the NBR has agreed with the International Growth Center to carry out a joint research program on stability of money demand in Rwanda, transmission mechanism of monetary policy. This institution also agreed to assist NBR in developing a simple macroeconomic model to forecast key macroeconomic variables, in particular the inflation.

Financial sector

16. The banking system continues to be highly liquid and profitable with nonperforming loans declining from 10.8 percent at end 2010 to 9.2 percent at end-June 2011. The authorities are accelerating financial intermediation in rural areas with the roll-out of 416 Savings and Credit Cooperatives (SACCOs). The National Bank of Rwanda already hired 60 inspectors to supervise the SACCOs. They received training in May and August 2011 and were provided with necessary equipments to facilitate them in the monitoring and supervision of these SACCOs. So far, 381 SACCOs out of 416 are authorized to grant loans including the 17 fully licensed as at 10th October 2011.

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[2] For the purposes of the PSI program, the calculation of NFA excludes amounts of NBR's escrowed foreign reserves (see TMU).

17. During quarter 3 of 2011, BK launched its IPO and has opened 6 new places of business. The IPO which was launched on June 30th was closed on July 29th 2011. It was 274.7 percent subscribed despite the rather challenging global market environment. The total shares sold represent 45 percent of the total shares, out of which 20 percent were for the Government and 25 percent were new in order to increase its share capital. International investors took 40 percent of the sold total shares whereas 60 percent were taken by domestic and EAC investors. Since its listing at the Rwanda Stock Exchange, the price per share has been ranging between RWF 130 and 190 whereas the offer price was RWF 125. In addition, Equity Bank which was licensed to begin operations in Rwanda in March 2011 has completed preparation and effectively started in October 2011 with 5 branches.

18. Aiming to strengthen its capacity of supervision, the NBR has continued to enhance the use of electronic software system on both off-site and on-site surveillance for banks, insurance and microfinance.

19. In the third quarter of 2011, 5 regulations approved by the Board were published in the Official Gazette while one regulation was approved by the Board at end September 2011 and is currently under translation for publication. The above regulations are the following: regulation on consolidated supervision; regulation on opening and closing of a place of business; regulation on major investment in banks; regulation on Discount house activities; regulation on publications of conditions of banks and regulation on supervision of forex bureau (under translation). In addition, a guideline on agent banking was approved by the Board of Directors.

20. All components of the Rwanda Integrated Payments Processing System (RIPPS) have been implemented. These are the Automated Transfer System (ATS) which has been operational since February 2011 and the Central Securities Depository (CSD) that was launched in July 2011. In addition, payment cards increased from 41,377 in December 2010 to 126,654 by August 2011. The number of ATMs increased from 84 in December 2010 to 133 by August 2011 and 183 POS machines are now operational as compared to 99 ones in December 2010. Several banks and Telecoms are now offering mobile payments/banking services.

Statistical Issues

21. Efforts to improve the quality of statistics including national accounts are continuing. Revised 2010 GDP estimates have been released in the first week of October 2011, after incorporating livestock Work In Progress (WIP) estimates. For food crops, WIP estimates were developed for some of the main crops and similar estimates for the other major export and food crops are now being developed. The WIP estimates from the model will be used in the supply-use tables for the GDP rebase and for ongoing quarterly GDP compilation). The share of GDP estimated by population growth rates has been reduced from 19 percent to 7.4 percent. The metadata for the GDDS has been updated. NISR is conducting the

2010-2011 household budget survey (EICV3) since November 2010 and data collection and data processing are on track with 95 percent and 90 percent coverage respectively as of end September 2011. The NISR has recently completed the data collection for the 2010 National Demographic Health Survey and the survey data should help in improving gross value added (GVA) estimates for the non-government health industry. The NISR has completed data collection for the 2011 Establishment Census and results of the Establishment Census 2011 have been officially published on 24th August 2011 and the report is published on NISR website.

22. To support these ambitious work targets, the NISR is strengthening its human capacity. NISR has recruited new staff including economists and strengthened the Economic Statistics department, which has now a director, and three Principal Statisticians in charge of National Accounts, Prices and Agricultural/Industrial Statistics. NISR has completed the recruitment process for 21 permanent positions and, as of end August 2011; we have 90 permanent positions filled out of the 100 in NISR structure.

II. Objectives and Policies Looking Forward

23. The macro framework has been revised to reflect the better than expected domestic economic performance. Real GDP is now expected to reach 8.8 percent in 2011 and projected at 7.6 percent in 2012. These changes reflect strong growth in all sectors particularly in agriculture and Industry.

24. Inflation which declined from 7.5 percent in August to 6.6 percent in September 2011 is now projected to reach 8.7 percent at end December 2011, reflecting the continuing first round pass-through of rising fuel and international food prices. In 2012, inflation is expected to decline to 7.5 percent.

A. Fiscal Policy

25. The **2011/12 budget remains in line with the program.** Offsetting a reduction in fuel taxes which is expected to result in a permanent revenue loss of 0.4 percent of GDP—the Government reduced fuel tax rates in two installments during the fiscal year 2011/12 with a view to start the harmonization of the fuel tax rates in Rwanda with EAC levels and at the same time contain the impact of transport costs on inflation in 2011 and 2012—there are higher-than-expected gains from a newly-introduced gaming tax, improved VAT efficiency, and broadening of income tax base (together totaling 0.2 percent of GDP). The revised 2011/12 budget also includes a "one off' non-tax receipt (0.4 percent of GDP) from a new telecom license (Airtel) that was not previously programmed. As a result, total revenues in 2011/12 are expected to remain at about 14 percent of GDP. Total expenditure and net lending is projected to remain at 27.2 percent of GDP (including additional priority expenditures comprising allocations for education, energy and the fiber optic project), in line with the program, while the overall budget deficit (including grants) remains at 1.9 percent of GDP, in line with the program.

26. Reflecting previously unprogrammed external budgetary loans (amounting to 1.3 percent of GDP), net domestic financing now shows a retirement of debt (by 0.7 percent of GDP) rather than borrowing.

Progress towards revenue administration measures in 2011/12 approved budget

- Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers. (Structural benchmark for end-January 2012); the process is at the level of acquiring the devices to use and the consultant to help in the installation and training of users. Installation of the devices is projected for January 2012.

- Conduct a study to identify potential areas to widen the tax base and estimate the tax gap (structural benchmark for end-December 2011); the consultant has been identified and the study to identify potential areas to expand the tax base and consequently raise more revenues will be completed by end December 2011.

- Introduce e-filing and e-payment systems to reduce on the time spent in serving taxpayers, compliance costs incurred by the taxpayers and improve service delivery; tests are ongoing and launching is scheduled for November 2011.

- Conduct a customer satisfaction survey to inform our next areas of focus for strategic planning purposes; the study has been concluded and the first draft was presented to RRA's senior management and the final report is due mid-November 2011.

- Introduce new tax compliance risk assessment system in the Domestic Taxes Department (DTD) that will orient audit function to high risk taxpayers; a number of risk management tools were developed and are being used by the department in the data matching exercise that orients audit plans. Furthermore, a plan was laid down to put in place a data warehouse and acquire advanced risk management tools in order to improve analysis and data matching for audit planning.

- Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point; development has commenced and data is being migrated from ASYCUDA++ to ASYCUDA World and business process re-engineering is going at the same time staff are undergoing training.

- Establish a One-Stop-Border concept at Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade; feasibility studies have been concluded and construction will be embarked during the first half of 2012.

- Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination; the procurement process is at the tendering stage to acquire the equipment.

- Fully automate collection of pension funds and RAMA and bring those out of the PAYE net into the system; the full automation will be completely effective by July 2012 when both RSSB and RRA systems are interfaced and information in both databases is merged.

27. Fiscal policy in 2012/13 will continue to improve fiscal consolidation as agreed in the PSI. Consistent with this objective, additional tax revenue measures will be implemented to recoup the permanent loss resulting from the lowering of fuel taxes. Accordingly, total revenue collections for 2012/13 will remain at 14.2 percent of GDP, as initially envisaged in the PSI.

New 2012/13 tax policy measures

- Increase in tax rates, starting July 2012, for imported construction materials by 5 percent on average on import duties, VAT and excise duties. This increase would be expected to yield around RwF 12 billion (0.3 percent of GDP) during the 2012/13 fiscal year.

- Levy a VAT (18 percent) on rent paid by all occupants of RSSB buildings starting July 2012. The measure would yield around RwF 2 billion (0.05 percent of GDP) in the 2012/13 fiscal year.

- Revision of the investment code, by June 2012 (new structural benchmark) (Table 3)—to be included in the 2012/13 Budget Framework Paper presented to Parliament in June 2012—will be expected to yield additional RwF 8.9 billion (0.2 percent of GDP) for fiscal year 2012/13.

28. The Government plans to push forward the commitment to prepare and publish on its website quarterly budget execution reports within 45 days from the end of each quarter, to improve its communication strategy. Although expected to start since end May 2011 as a structural benchmark, there were difficulties, especially in reporting against program targets, as a new chart of accounts (following GFS 2001) was introduced and still in the process of being mapped to the program classification. A full year 2010/11 budget execution report has been finalized and put on the website in October 2011. Publication of the first quarter 2011/12 budget execution report experienced a delay as a result but has been completed and posted on the MINECOFIN website at end-November. Going forward, budget execution reports will be available 45 days after the end of each quarter.

Public Financial Management

29. After the 2010 PEFA, a midterm evaluation of the PFM Reforms strategy was conducted. The overall results of the GoR PFM Reform Strategy Mid-Term Review (PFMRS MTR) reinforced the conclusions of the PEFA 2010 assessment of improvements in the performance of the GoR's PFM systems since 2007. The PFMRS MTR concluded that the GoR PFM Reform Strategy (2008–2012) and its implementation modalities are sound. It however noted that there are still challenges which need to be mitigated if GoR is to achieve its desired goal of having an enhanced PFM system that is efficient, effective and one that provides for accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. The major areas of concern that were identified were:

- Constraint in recruitment and retention of technical and professional staff;
- Disconnect between strategic plans and budgets in MDAs;
- Addressing PFM capacity constraints in the sub-national government unit;
- Difficulties in ensuring reach to service delivery units;
- Securing adequate funding for the PFMRS implementation;
- Difficulties in automating all public financial management operations;

The government effort is currently concentrated around implementing the recommendations of the PFMRS MTR and the just concluded IFMIS Quality Assurance Mission and the PFM Annual Independent Review (PFM AIR).

30. The Smart Financial Management Information System (SmartFMIS) has been subject to three external reviews by an international "Quality Assurance Group" (QAG), the most recent in May 2010. In its report, the QAG recommended that the Government prepare an "IFMIS Blueprint" to ensure that government undertake a thorough review of its business needs and how best to meet them and map this to the future direction for the Government's financial systems.

31. Accordingly, the IFMIS Blue print has been prepared by reviewing the current system, providing financial management processes and reporting requirements and suggests a number of options forward. From the recently concluded Quality Assurance Group mission of August 2011 a further review of the IFMIS implementation was carried out including the consideration of the recommendation made by the blueprint exercise and three principal recommendations have been made by the QAG for the future of the IFMIS project as follows:

- The need to stabilize the current SmartFMS functionality (and performance) in the short term;

- In the medium term, deal with all the necessary prerequisites to any successful IFMIS implementation and;
- For the longer term design and choose the future IFMIS solution.

32. Both the IFMIS blueprint and the QAG August 2011 mission report are to be submitted for consideration and necessary approval at the next PFM steering committee meeting planned mid November 2011, upon which a roadmap shall be developed for the implementation of the agreed recommendations. The road map will be completed by March 2012 (new structural benchmark).

33. To date, the existing SmartFMS functionality has been reconfigured to integrate it with the new Government of Rwanda Chart of Accounts (CoA) (consistent with GFS 2001) and permit the budget preparation and execution, accounting and reporting for the new financial year 2011/12 in line with the requirements of the new CoA.

34. Consultations continue with donors to integrate donor project accounts into the single treasury accounts (TSA) and this will be done where possible.

B. External Sector Policies

35. Despite the high imports dominated by capital, (including goods for the strategic investment projects) intermediate goods and energy products, the overall balance of payments is expected to end 2011 with a surplus on account of substantial official and private capital inflows as well as higher export receipts. The value of exports increased by 36 percent led by coffee and minerals (export of stocks). Gross official reserves will be comfortable at about 4.6 months of imports at end 2011. Turning to 2012, the recovery in exports will continue even though the value will increase by only about 4 percent. Responding to the investment needs of the country imports are projected to rise in value terms by about 5 percent, led by capital and intermediate goods as well as energy products. As a result of lower expected official capital flows, the overall balance of payments will be expected to close with a deficit, resulting in a draw-down of reserves. Reserves coverage is projected to decline slightly to about 4 months of imports by end 2012.

36. Consistent with the growth objectives of the Government the value of exports is expected to grow on average by about 8 percent over the medium term led by coffee, tea and minerals as well as nontraditional products. The National Export Strategy approved by Cabinet recently is being updated with new investment outlays and production targets. These updates will be expected to result in further growths in exports beyond these baseline projected levels in the medium term. On the other hand imports in value terms are expected to decline slightly on average by about 3 percent per annum even though the share of capital goods in imports is expected to grow in line with the investment needs of the country. As a result, the current account deficit (excluding grants) will be expected to decline significantly in the medium term. To ensure that gross external reserves remain at comfortable levels

covering about 4 months of imports of goods and services, the Central Bank will continue to implement its market driven exchange rate policy.

37. In the area of external debt, we will explore all avenues for concessional financing. However given the large requirement of resources for the financing of our development agenda, some nonconcessional financing will be necessary. We have already agreed to a ceiling of US$240 million of non concessional borrowing during the PSI period for RwandAir and the Kigali Conference Center (KCC). So far, $180 million of the ceiling ($120 million for KCC and $60 million for Rwandair) has been used. For KCC, US$ 20 million was borrowed from PTA (December 2010) whilst the US$100 million is from Citibank (August 2011). Rwandair has borrowed US$ 60 million from PTA (June 2011).

38. The GOR is encouraged by the fact that Rwanda's capacity for macroeconomic and public financial management has been upgraded from low to high as assessed recently by the World Bank and IMF under their flexible debt policy. The upgrade would provide additional flexibility for debt management. However, the government has decided to stay within the existing NCB ceiling already approved under the PSI pending further consideration of the implications of the upgrade.

39. The NES clearly elaborates the priority sectors or clusters, developed with a view to improve export quantity, quality and increase export diversification. RDB has already started meeting the relevant stakeholders to ensure concrete actions are developed and implemented to achieve annual targets as per the NES while the Industrial Development and Export Council (IDEC), which was created in October 2011by Prime Minister's order[3] will provide oversight, coordination and guidance related to policies and strategies that quintessentially cut across multiple ministries and require public and private sectors to work towards a common goal.

Medium Term Debt Strategy

40. A revised MTDS is being re-drafted following recommendations of the IMF/WB mission held in August 2011 and is expected to be submitted for Cabinet's approval by end of December 2011 (before submission of IMF staff report to Board). With the MTDS in place, Government through the debt management committee (DMC) chaired by the Macroeconomic Policy unit will begin to conduct regular assessment of maturity and exchange rate risks and cash flow and roll-over risks of non concessional borrowing. The Committee meets at least once per quarter, and as often as deemed necessary, to discuss pertinent issues affecting public debt administration such as providing analysis and advice

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[3] Composed by Ministers of Commerce, Finance, Agriculture, Infrastructure, Education, Public Service and Labor; the Governor of the National Central Bank, the CEO of RDB and the chairperson of the Private sector Federation.

regarding loan agreements, contingent liabilities, borrowing ceilings and other areas related to public debt management. In line with the revision of the MTDS, a consultant has been hired to refine the debt management procedures manual by January 2012.

41. As part of furthering our debt capacity building, we plan to conduct our first full DSA in March 2012 and are receiving training to do so in January or February 2012 in Tunis. The Macroeconomic Policy unit at MINECOFIN will coordinate the work to prepare the DSA. The unit will set up the macroeconomic framework (and prepare the debt data) needed to integrate the DSA with internally consistent macroeconomic projections.

C. Monetary and Exchange Rate Policies

42. Considering the current developments and outlook in economic fundamentals, monetary policy will be tightened in 2012 to avoid any exacerbation of inflationary exogenous shocks. As the anchor of monetary policy, reserve money has been programmed to increase by 17 percent in 2012, compared to 19.6 percent in 2011, in line with nominal GDP growth and allowing for some moderate increase in monetization of the economy in line with rapidly changing structure of the financial sector. The NBR will also continue to use all available monetary policy instruments, including the policy rate, to ensure that real interest rates in the economy remain positive, including to further support domestic savings mobilization and the financial sector deepening.

43. The research team of the Bank will continue to regularly monitor the development in domestic, regional and international economic environment to advise the Monetary Policy Committee (MPC) on actions to be taken in due time to ensure underlying inflationary pressures are well anchored. The MPC also decided to meet anytime when it is necessary and not only on quarterly basis as it is the practice.

44. The NBR is committed to improve the implementation of the reserve money program since it remains the main monetary policy tool. With TA from MCM mission of November 2011, NBR will put in place, by end-February 2012, a consistent framework for forecasting domestic liquidity and extend the forecast horizon (new structural benchmark). Specifically, this will include:

- judgmental forecasts of currency in circulation;
- forecasting the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves); and
- identifying underlying factors causing changes in demand.

45. The framework will be used to generate reports, updated on a weekly basis, showing forecasts of these main components of domestic liquidity for 1–4 weeks ahead, as well as reports, updated monthly, showing forecasts for 3–6 months ahead. To inform the forecasts, Treasury will provide, on rolling basis, detailed weekly cash flow forecasts, and monthly aggregate cash flow forecasts. Once this framework is in place, the liquidity forecasting

analysis will inform the quarterlization of annual reserve money programs and will be the basis for any revisions to the reserve money targets. NBR will ensure the necessary additional resources are allocated to the implementation of the forecasting framework, as more in-depth analysis of underlying trends will be required to make the longer term forecasts and the procedures will be much more demanding than simply focusing on developments one week ahead. NBR has also developed a methodology to compute a Monetary Condition Index (MCI) in Rwanda to regularly assess the developments in the banking liquidity.

46. NBR will continue to support the development of the interbank markets (both money and foreign exchange markets) which will improve the liquidity management and the implementation of the reserve money program. To this end, NBR will finalize a detailed time-bound action plan to further develop the Interbank Money Market based on the MCM Technical assistance report of November 2011, findings from NBR research papers and ongoing discussion at EAC level on harmonization of monetary policy operations. Specifically, the action plan will specify measures to further enhance repo operations by selecting one point on the short-end yield curve corresponding to the Key Repo Rate (KRR) and allowing interest rates on other maturities to be fully market determined. The action plan should be elaborated by end-February 2012 with a view to immediate implementation (new structural benchmark).

47. In 2012, the Broad Money is projected to grow by 17.0 percent, driven by Net Domestic Assets by 113.4 percent while the Net Foreign Assets expected are projected to decline by 11.2 percent following a lower budget support expected in 2012. Boosted by new comers, namely Equity Bank, the biggest regional bank, Unguka and Agaseke, 2 big microfinance banks, the banking system will continue to supporting the economic growth by an increase of 16.6 percent in credit to the private sector but much lower than 30.8 percent projected for 2011.

48. To further build and shape market expectations, the NBR will continue to enhance its communication strategy by creating an interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community. In addition, the communication will focus on educating the public about the ongoing financial deepening reforms such as credit reporting bureau activities, the Umurenge SACCO program, capital market development and payment systems modernization. NBR will also start in near term to conduct a regular survey on market expectations of inflation.

49. Regarding the exchange rate policy orientation in short and medium term perspectives, the NBR remains committed to maintain a market driven exchange rate. The NBR will continue to intervene from time to time on forex market to smoothen the exchange rate volatility. The Bank will also continue to ensure that the exchange rate policy remains supportive of external sector competiveness and prospects for export diversification.

50. NBR will enforce the reserve requirements and penalize banks that do not meet their obligation. If a commercial bank or a group of commercial banks are allowed not to meet their prudential reserve requirements at any given time, the NBR will document this as a formal forbearance signed by the managements of the NBR and the respective commercial bank, providing detailed reasons for the allowance.

51. The reserve requirement maintenance period is currently one week. Discussions are underway at the EAC regional level to harmonize the reserve requirement maintenance period across the region. This is expected to be implemented by end 2012.

D. Financial Sector Reforms

52. Further capacity building at NBR is planned for 2011/12, implementing the recently adopted action plan to improve the compensation scheme and professional development.

53. With the aim of reinforcing the banking supervision team, the NBR recruited five staff in July 2011, a slight delay from the end-June 2011 structural benchmark. The newly recruited five Inspectors are pursuing training courses. In addition, two principal inspectors were appointed to reinforce the same team. Capacity building efforts for examiners will be maintained in 2011/2012 through various training courses, attachments and workshops. Inspectors also participated in various courses and 4 of them visited the regional Central Banks under attachments. The capacity building and staff motivation initiatives will enable NBR to achieve the PSI objective of being able to conduct on-site inspections for each bank at least once in every 24 month cycle. For 2011, the NBR is planning to conduct 9 on-site inspections (6 full scope inspections and 3 targeted scope). As at end September2011, five on-site inspections were conducted (4 full scope and 1 targeted).

54. NBR is committed to ensure an orderly roll-out of the Umurenge SACCOs program to protect the stability of the financial system. To this effect, the NBR is commited to follow through carefully the requirements in Regulation on the Organization of Microfinance Activity (No. 02/2009), and ensure that key managers and directors of all MFIs (including SACCOs) that are granted licenses to lend, possess the minimum training and experience needed to identify, measure, control and oversee the risks associated with the operations of SACCOs. The NBR in the analysis of any application for license ensures that managers and directors have the necessary qualifications and experience. Furthermore, NBR hired and trained 60 inspectors to supervise Umurenge SACCOs at the district level (end-September 2011 structural benchmark). The 60 Inspectors were hired and trained in May and August 2011.

55. The NBR, with the funding from DFID, undertook a SACCO Sustainability Study to inform the creation of the appropriate structures to support the SACCO program. The draft study was discussed at *t*he stakeholders’ workshop on 3 October 2011. By end November 2011 the consultant will submit the final report with clear recommendations on the appropriate structure and its supervision cost implications for policymakers to decide on the

SACCO structure. The Government plan for SACCOs is to strengthen their capacity in terms of governance, management and controls by the help of the Technical Control Unit (TCU). Thereafter, SACCOs will be consolidated at district level with the help of Access to Finance Forum (AFF) and eventually a consolidation at the national level is envisaged in the form of a cooperative bank. NBR will agree on an Action Plan to provide overall structure for SACCO organization by end-March 2012 (new structural benchmark). To closely monitor and coordinate the consolidation process of SACCOs in an overall structure, a High-level Steering Committee for SACCOs will be created by March 2012.

56. The FSAP final report became available in June 2011. The NBR has already sent a formal request to First Initiative to provide the TA to put in place an action plan to implement the FSAP key recommendations by end December 2011. The NBR has already started implementing some FSAP recommendations mainly pertaining to strengthening supervision and regulation of banks, MFIs and SACCOs. Financial literacy programme is also envisaged to address the issue of access to finance, NPLs as well as consumer rights.

57. The MINECOFIN also submitted a draft law on pension to Cabinet in May 2011 and will issue implementing regulations as soon as the pension law is enacted. The draft law on pension was approved by the Cabinet and submitted to Parliament for the legislative process. The Board of Directors for RSSB was put in place in November 2011. Thereafter, investment guidelines on pension will be developed and approved by the RSSB Board of Directors by June 2012 (Structural benchmark).

58. The NBR requested a mission from IMF to assess progress and check compliance with the AML/CFT framework and the Fund confirmed to carry out the onsite visit in June 2012.

59. To promote regional payment systems integration the Rwanda Integrated Payments Processing System RIPPS will be connected to EAPS (East African payment System) and REPPS (COMESA Regional Payment and Processing System); Cheque truncation system will be in implemented; foreign currency cheques will be cleared in RIPPS and the CSD will be linked to the Automated Trading System as well. In addition, efforts are being made so that during 2012 and 2013 payment cards use will continue to increase. Lastly, plans are underway to further encourage the usage of mobile payment services and interoperability within the mobile payments service providers as well.

60. In addition to the NBR's monetary policy and financial stability communication strategy, a Financial Literacy Program will be launched beginning next year. Areas to be covered include access to finance, insurance, pension, capital market—investment in stocks and bonds, card based payment systems and the functioning and benefits of the credit reference bureaus.

E. Statistics

61. The NISR will continue to improve the quality of its economic statistics in general and the national accounts in accordance with the improvement action plan of the national accounts. The NISR is currently preparing for hiring a consultant to review agricultural statistics including sampling methodology. The final report and recommendations are to be complete and published by end-March 2012 (structural benchmark). The results of the recently completed Establishment Census 2011 will be used to develop the sampling frame for the planned 2011 Business Survey and Non Profit Institutions Survey to be completed by end-October 2012 (new structural benchmark). The data from these benchmark surveys, combined with other source data, will be used to develop detailed input-output (I-O) and supply-use tables (SUT) and to rebase the GDP estimates in 2011 constant prices.

F. Policy Coordination

62. The NBR and MINECOFIN are committed to continue improving collaboration at both the technical and policy levels to enhance the development of the macroeconomic framework.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010/11 and 2011/12[1]
(Billions of Rwandan francs, unless otherwise indicated)

	2010						2011							2012	
	June			Dec			June			Sep		Dec		Mar	June
	Prog	Adj Prog	Est	Prog	Adj Prog	Est	Prog	Adj Prog	Est	Prog	Est	Prog	Rev Prog	Prog	Prog
Assessment Criteria [2]															
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	369.3	368.1	384.7	352.6	338.9	398.7	391.2	343.6	372.6	409.5	404.2	463.2	417.9	389.5	312.5
Reserve money (ceiling on stock) [5]	122.5	122.5	121.7	129.9	129.9	129.4	137.5	137.5	137.3	146.8	150.9	149.6	156.3	161.0	166.4
Net domestic financing (ceiling on flow)[4, 6]	-7.5	-6.3	-11.2	22.7	36.5	35.2	74.0	97.7	66.3	28.0	…	-34.2	-64.4	54.6	110.5
New nonconcessional and government guaranteed external debt (US$ Millions) (ceiling on stock) [7, 8]	240.0	240.0	0.0	240.0	240.0	20.0	240.0	240.0	80.0	240.0	180.0	240.0	240.0	240.0	240.0
External payment arrears (US$ Millions) (ceiling on stock) [8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets															
Domestic revenue collection (floor on flow) [6]	197.9	197.9	204.3	424.0	424.0	430.9	245.2	245.2	257.5	379.8	…	514.4	541.5	141.4	281.1
Net accumulation of domestic arrears (ceiling on flow) [6]	-3.0	-3.0	-6.1	-13.1	-13.1	-13.3	-4.0	-4.0	-4.7	-6.0	…	-8.0	-11.7	-2.0	-4.0
Consolidated domestic debt of public sector (ceiling on stock, eop) [4,9]	211.1	212.3	264.8	219.0	232.7	218.9	291.7	291.7	245.8	264.9	…	221.2	192.0	222.1	245.4
Total priority spending (floor on flow) [6]	212.0	212.0	228.7	458.7	458.7	472.4	230.1	230.1	259.2	352.6	392.2	477.2	517.5	135.6	274.0
Memorandum items:															
General budget grants (US$ Millions) [6,10]	218.2	218.2	216.1	418.0	418.0	394.0	203.1	123.7	83.9	393.0	…	586.0	463.5	95.5	135.5
Encumbered reserve assets (US$ Millions)										26.9	…	…	71.2	85.8	100.0

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

[2] Test dates for assessment criteria are for end-June and end-December, otherwise indicative targets.

[3] Numbers for 2010 are at program exchange rate of RWF 571.24 per US dollar; and numbers for 2011 and 2012 are at program exchange rate of RWF 594.45 per US 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. See TMU for details.

[6] Numbers for 2010 are cumulative from December 31, 2009; numbers for 2011 are cumulative from December 31, 2010; and numbers for 2012 are cumulative from December 31, 2011.

[7] Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI and is tied to two projects as specified in the MEFP. It excludes the IFC SWAP agreement of US$50 million as well as US$13.1 million for purchase of two small airplanes both of which were contracted in 2009 and external borrowing by the Bank of Kigali.

[8] This is a continuous assessment criterion.

[9] Excluding NBR's debt issued for monetary policy purposes, starting on September 2010. See TMU for details.

[10] Excluding demobilization and AU peace keeping operations, HIPC grant and COMESA compensation grant.

Table 2. Rwanda: Status of the Structural Benchmarks for 2011–12

Policy Measure	Target Date	Macroeconomic rationale	Status
PFM			
1. Submit to Cabinet for approval a revised public debt policy and MTDS	End-October 2011	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.	Not met. Expected to be completed by end-November.
2. Complete pilot project for integrating donor project accounts into the TSA	End-December 2011	To improve the coverage of fiscal operations and fiscal management of the central government.	Progress to be reviewed
3. Develop and adopt a blueprint for the future development of the IFMIS	End-December 2011	To improve budget preparation, implementation, and reporting.	Progress to be reviewed
Fiscal Performance			
4. 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. Initially, the quarterly budget execution reports may exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Not met. Expected to commence by end-November.
Revenue Administration			
5. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to RRA	End-September 2011	To improve compliance and widen the tax base.	Not met. Expected to be completed by end-March 2012.
6. Complete study on widening the tax base and estimate the potential revenue gap	End-December 2011	To improve revenue performance.	Progress to be reviewed
7. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers	End-January 2012	To improve VAT buoyancy.	Progress to be reviewed
Financial Sector			
8. NBR to hire 5 additional bank supervisors to reinforce the banking supervision department	End-June 2011	To keep up with both on- and off-site prudential oversight of banks, consistent with the risk-based supervision framework.	Met with a delay. Recruitment was completed in July 2011 and a resident advisor is in place to train new staff.
9. NBR to hire and train 60 inspectors (1 per district) to supervise Umerenge SACCOs at district level	End-September 2011	To expedite supervision of the Umergenge SACCOs with licenses to lend and take deposits.	Met
10. Approve investment guidelines by the board of CSR/RAMA	End-June 2012	To improve the corporate governance of CSR/RAMA and contain potential fiscal liabilities.	Progress to be reviewed
External sector			
11. Conduct own DSA using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper	Continuous from end-March 2012	To enhance ability to monitor debt sustainability.	Progress to be reviewed
Statistics			
12. Publish results of the Establishment Survey	End-August 2011	To improve measurement of GDP.	Met
13. Limit the share of GDP estimated by population growth rate to no more than 12 percent	End-October 2011	To improve measurement of GDP.	Met
14. Complete and publish review of agricultural statistics, including sampling methodology	End-March 2012	To improve measurement of GDP.	Progress to be reviewed

Table 3. Rwanda: Additional Structural Benchmarks for 2011–12

Policy Measure	Target Date	Macroeconomic Rationale
Public financial management (PFM)		
1. Complete the road map for implementation of the IFMIS for a full set of fiscal accounts	End-March 2012	To improve budget preparation, implementation, and reporting.
Revenue measures		
2. Submit to Cabinet revised investment code with a view to streamlining exemptions	End-June 2012	To improve revenue performance.
Monetary policy		
3. Put in place a consistent framework to forecast the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves) and extend the forecasting horizon to 2–4 weeks (to be updated weekly) and 3–6 months (to be updated monthly)	End-February 2012	To improve the implementation of monetary policy.
4. Finalize a detailed time-bound action plan to further develop the interbank money market, including enhancing repo operations and allowing fully market-determined interest rates	End-February 2012	To allow fully market-determined interest rates and strengthen the signaling role of the policy rate (Key Repo Rate).
Financial sector		
5. Agree on the action plan for overall structure of the SACCOs and their supervision	End-March 2012	To expedite supervision of the Umurenge SACCOs.
Statistics		
6. Complete the Enterprise Survey	End-October 2012	To improve measurement of GDP.

Attachment II. Technical Memorandum of Understanding

November 23, 2011

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–June 30, 2013 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. 11/164.

I. 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 end-June and end-December (the test dates) throughout the program period; other dates are IT:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new nonconcessional 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 domestic revenue collection of the central government;
- Ceiling on flow net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow priority spending.

5. Assessment criteria on contracting or guaranteeing of new nonconcessional 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 2010 rates, apply for 2011 and 2012:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2011/12
Rwanda Franc (per US$)	594.45
Euro	1.3219
British Pound	1.5621
Japanese Yen (per US$)	83.4255
SDR	1.5356

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

8. A ceiling applies to NDF. The ceiling for December 31, 2011 is cumulatively measured from December 31, 2010, and the ceiling for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

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

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

- credit to the government from the banking system (as recorded in the monetary survey), including credit to the government, provinces and districts, outstanding consolidated government debt held by the banking system,[1] government debt to the NBR incurred as a result of the 1995 devaluation (Rwf 9 billion), the overdraft to the

[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 receivables.

prewar government (Rwf 2 billion)[2], and overdraft with the NBR. Credit to the government will exclude treasury bills issued for monetary policy purposes by the NBR, and the proceeds of which are sterilized in deposits held as other NBR liabilities.

- minus total government deposits with the banking system (as recorded in the monetary survey), including the main treasury account, line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, privatization account, and 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 Funds money meant for private sector, counterpart funds and *fonds publics affectés*).

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

12. Grants extended by the Global Fund that are under the control of the central government are programmed at US$152 million for FY2011/12, corresponding to RWF 70.7 billion as shown in the Fiscal table for the central government under capital grants. [3]

Adjusters to the NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[4] (defined in Table 1 of Quantitative AC and IT), up to a maximum adjustment of US$80 million, evaluated in Rwanda francs at the program exchange rate. The ceiling will be adjusted *downward* by the amount of any excess of actual over programmed budgetary loans and grants above US$24 million, evaluated in Rwanda francs at the program exchange rate.

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

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[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] Quarterly distributions of US$152 million are as follows: US$0 (July–Sep 2011), US$85.2 million (Oct–Dec 2011), US$66.6 (Jan–March 2012), and US$0 million (Apr–June 2012).

[4] Budgetary grants exclude COMESA grants, HIPC grants, and peacekeeping operations, but include Global Fund.

13. **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, and its adjusters 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

14. A floor applies to domestic revenue. The floor for December 31, 2011 is cumulatively measured from December 31, 2010, and the floor for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

15. **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, and privatization receipts.

16. **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

17. The floor applies to priority spending of the government. The floor for December 31, 2011 is cumulatively measured from December 31, 2010, and the floor for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

18. **Definition.** Priority spending 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 EDPRS. Priority expenditures are monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

19. **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

20. A ceiling applies to net accumulation of domestic arrears of the government.[5] The ceiling for December 31, 2011 is cumulatively measured from December 31, 2010, and the ceiling for June 30, 2012 is cumulatively measured from December 31, 2011. Other dates are indicative targets.

21. **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).

22. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous-year 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 Nonconcessional External Debt of the Public Sector

23. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1 of the MEFP which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC and US$13.1 million for purchase of two air planes in 2009. 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.

24. **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 the ability to determine general corporate policy.[6] This definition of public sector excludes the Bank of Kigali.

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

[6] 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;

(continued)

25. 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.

26. **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.[7] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

27. **The definition of debt,** for the purposes of the limit in the AC, 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:
>
> > (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)

(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.

[7] 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.

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

28. 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 (DD)

29. For program purposes, 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 12), 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 12.

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

30. **Reporting requirement.** Data on domestic debt of the public sector, including treasury bills issued by the NBR for monetary policy purposes, will be transmitted 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 (NFA)

31. A floor applies to the NFA of the NBR for December 31, 2011, and June 30, 2012 targets.

32. **Definition.** NFA of the NBR in Rwanda francs are 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 to be 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 Rwanda 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 footnote 4). This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate. In the case of excess of actual over programmed budgetary loans and grants, the floor of the NFA remains unchanged for the first US$24 million. Subsequently, the floor will be adjusted upwards by any amount in excess of US$24 million, evaluated in RWF at the program exchange rate.

- The floor on NFA will also be *adjusted upward (downward)* by the amount of shortfall (excess) between actual and programmed encumbered reserve assets, evaluated in Rwanda francs at the program exchange rate.[8]

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[8] The programmed amounts of encumbered reserve assets, on a quarterly basis, stand at: US$26.9 million (September 2011); US$71.2 million (December 2011); US$85.8 million (March 2012); and US$100 million (June 2012).

- 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.

33. **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

34. A ceiling applies to the stock of reserve money for the December 31, 2011 and June 30, 2012 targets.

35. The stock of reserve money target 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.

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.

II. Other Data Reporting Requirements

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in 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 nonconcessional 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 Table 1. The information should be mailed electronically to the Fund (email: afrrwa@imf.org).

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
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).