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

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

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on March 18, 2008, 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 30, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of June 16, 2008 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 16, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Rwanda.

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

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RWANDA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criteria

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

Approved by Hugh Bredenkamp and Mark Plant

May 30, 2008

Program Review

- Staff recommends completion of the fourth review under the PRGF arrangement based on Rwanda's performance and understandings reached on the macroeconomic and structural program for 2008.

- All but one of the end-2007 quantitative performance criteria were met. Staff supports the authorities' request for a waiver of the nonobservance of the performance criterion on net credit to government, because the deviation was temporary.

- Staff supports the authorities' request for modification of the program to accommodate newly available donors' funds, new spending needs, and exogenous shocks. Staff also supports the authorities' request for a modification of the program to allow less concessional borrowing for a large infrastructure project.

Participants

- The mission team (March 5-18, 2008) headed by Ms. Murgasova comprised Mr. Mitchell, Mr. Gorbanyov and Ms. Kaendera (all AFR) and was assisted by Mr. Engström, the resident representative.

- The mission met with Minister of Finance and Economic Planning Musoni, Governor Kanimba of the National Bank of Rwanda, other government officials, and representatives of the private sector, civil society, and the international community.

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EXECUTIVE SUMMARY

Program performance was broadly satisfactory. Growth at 6 percent in 2007 exceeded initial expectations. Headline inflation declined to single digits largely due to a favorable harvest, while core inflation accelerated. Fiscal policy remained on track, though the December 2007 performance criterion on net credit to government (NCG) was missed by 0.2 percent of GDP because of delays in a disbursement from a donor and a reimbursement in relation to peacekeeping activities. These funds were received in the first quarter of 2008, and the overrun on the NCG was corrected. Furthermore, the domestic component of spending exceeded projections and injected extra liquidity into the economy, making the conduct of monetary policy exceedingly difficult.

The macroeconomic program for 2008 is revised in light of new developments. The fiscal program includes additional spending financed by new donor aid (for health outlays and energy investment) and outlays for earthquake rehabilitation and a large energy project. The monetary program accommodates the first round effects of rising prices of imported food and petroleum products.

Policy coordination needs to improve to preserve macroeconomic stability. Pressures for a real exchange rate appreciation are expected to continue in 2008 with further increases in aid-financed fiscal spending. Monetary and exchange rate policies therefore need to be geared toward managing the domestic demand impact of the fiscal expansion. Greater exchange rate flexibility will be needed to achieve sales of foreign exchange consistent with meeting the reserve money target and the limits on domestic debt. If the limits on domestic debt are exceeded or inflation is rekindled, the domestic component of fiscal spending should be released more gradually. A strengthened Treasury Management Committee should help facilitate the policy coordination process.

To finance a large energy project, the authorities plan to borrow at less-concessional terms than those allowed under the program. The project would help alleviate binding infrastructure bottlenecks to economic growth. The World Bank positively assessed the project's financial viability, and the impact on debt sustainability appears manageable. To prevent an excessive reaccumulation of debt, future borrowing will be guided by a debt management strategy.

On the structural side, the focus remains on advancing reforms in tax administration, public financial management (PFM), the financial sector and export promotion, as well as improving the conditions for the private sector.

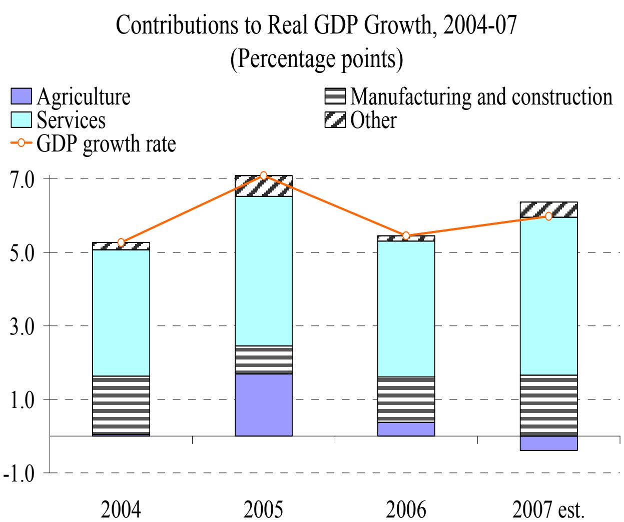
Program risks have increased. The planned fiscal expansion and the passthrough of rising import prices could fuel inflation and dampen prospects for growth if not properly managed. To prevent an inflation spiral from unfolding, the program envisages more exchange rate flexibility and close monitoring of the import component of fiscal spending.

I. Program Performance in 2007 and Early 2008: Broadly On Track

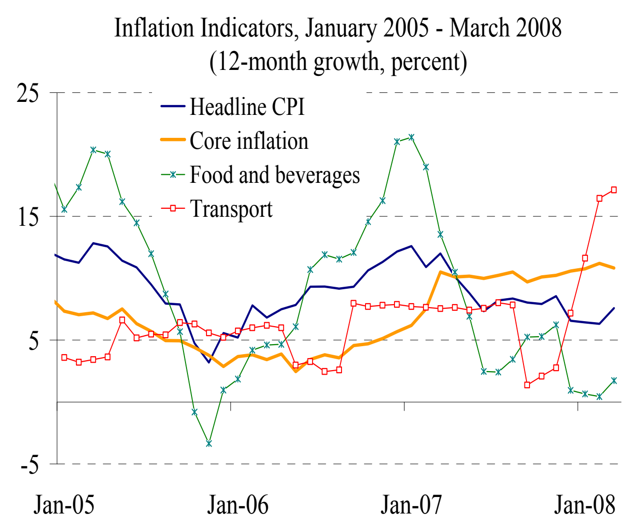
1. **Recent macroeconomic performance has been encouraging.** Strong activity in the construction and service sectors buoyed the 2007 GDP growth to 6 percent, exceeding initial projections. Output in the agriculture sector underperformed last year, but favorable weather conditions in late 2007 produced a good harvest in early 2008, which temporarily offset the impact of rising world food prices. Headline inflation has remained in single digits since mid-2007, but fiscal liquidity injection in the second half of 2007 and administrative price increases pushed core inflation (excluding fresh food and energy) to 11 percent in March 2008. Energy and transportation prices rose sharply, reflecting passthrough of world commodity prices.

Figure 1. Rwanda: Macroeconomic Performance, 2004-08

Manufacturing, construction and services fueled GDP growth in 2007.



A favorable harvest lowered food price growth in early 2008, but rising fuel costs led to higher transportation prices.



Source: Rwandan authorities and IMF staff estimates.

2. **Fiscal performance in 2007 was broadly in line with the program, but a higher share of domestic spending fueled domestic demand.**

- *The target on the domestic fiscal balance was achieved, but the target on net credit to government was exceeded.* Higher tax revenue—bolstered by strong economic activity, overall improvements in tax collection, and one-off tax collections—financed higher-than-budgeted spending for health, education and infrastructure development. Yet the target on net credit to government was missed because of delays in disbursements from the Fast Track Education Initiative (FTEI) and reimbursements from the African Union (AU) for Rwanda's peacekeeping in Darfur. The FTEI disbursement was received in January 2008 and the AU reimbursement in March 2008, bringing net credit to government back on track.

Text Table 1. Rwanda: Operations of the Central Government, 2007

	Jan-Jun		Jan-Dec	
	Program	Actual	Program	Actual
	Percent of GDP			
Total revenue	6.2	6.8	12.8	13.9
Tax revenue	5.8	6.4	12.1	13.0
Grants	6.7	6.2	11.7	10.1
Budgetary grants	5.2	4.8	8.2	7.3
Total expenditure and net lending[1]	12.4	11.7	26.2	26.6
Current expenditure	8.0	7.5	17.2	17.1
Wages and salaries	1.9	2.0	3.9	4.0
Capital expenditure	3.8	3.7	8.4	8.8
Deficit after grants (-) (cash basis)	0.2	1.1	-2.2	-2.0
Domestic fiscal balance[2]	-3.2	-1.9	-7.0	-5.4
Net credit to the Government[3]	-2.1	-2.5	0.3	-0.4
Priority spending	4.9	4.8	10.2	11.7
Domestic spending[4]	7.5	7.7	15.6	17.8
Net liquidity impact (proxy for fiscal stimulus)[5]	1.3	0.7	2.8	3.4

Source: Rwandan authorities and IMF staff estimates.

[1] For 2007, total expenditure and net lending excludes Rwandatel privatization receipts.

[2] Excluding demobilization and peacekeeping expenditures.

[3] Actual outcome for end-2007 includes unanticipated privatization receipts. The PC was missed by 0.2 percent of GDP.

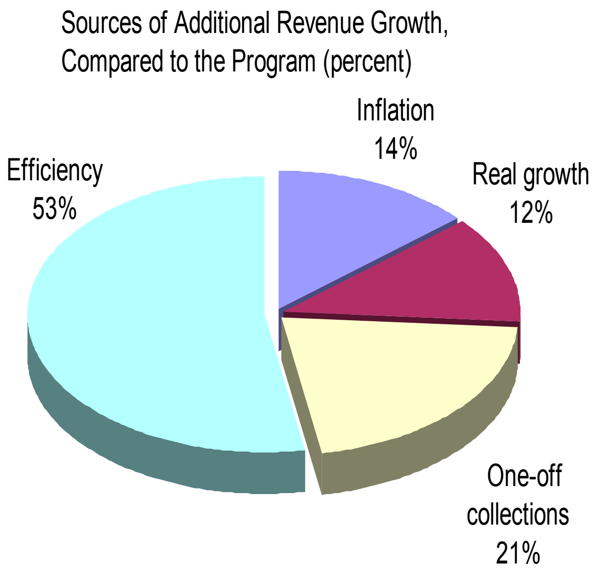
[4] Defined as total expenditure and net lending less foreign financed capital spending less the import component of spending.

[5] Domestic spending minus total revenue.

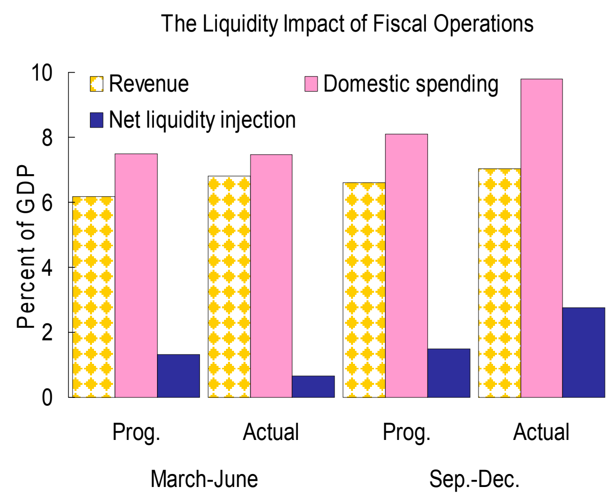
- *The import component of spending was lower than projected in the second half of 2007*. The higher domestic component injected additional liquidity into the economy and increased domestic demand.

Figure 2. Rwanda: Fiscal Performance, 2007

High nominal growth, improved efficiency and one-off tax collections boosted revenue in 2007…



...nonetheless, net liquidity injection (proxy for fiscal stimulus) in the second half of the year was higher than programmed.



Sources: Rwandan authorities and IMF staff estimates.

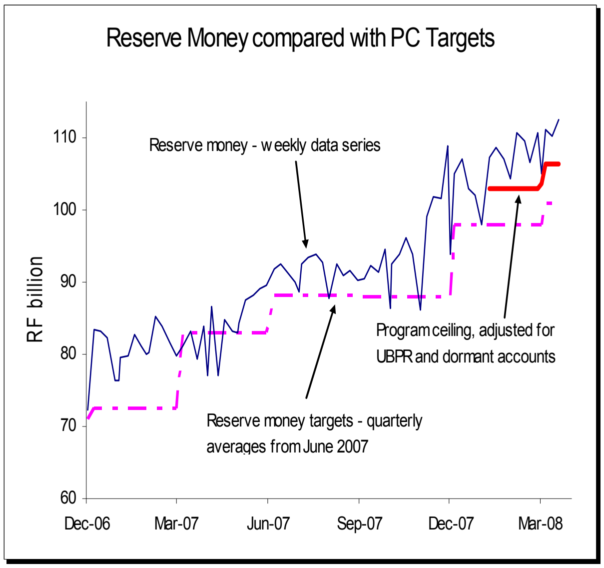
3. **The fiscal expansion in the second half of 2007 made monetary management challenging.**

- *The end-quarter reserve money targets were met, but on average substantially exceeded the program.* The increase in domestic fiscal spending in the second half of 2007 and the delay in the coffee-marketing season led the National Bank of Rwanda (NBR) to increase its sterilization operations in the fourth quarter, mostly through sales of domestic assets. As a result, the stock of domestic debt exceeded the end-2007 indicative target.

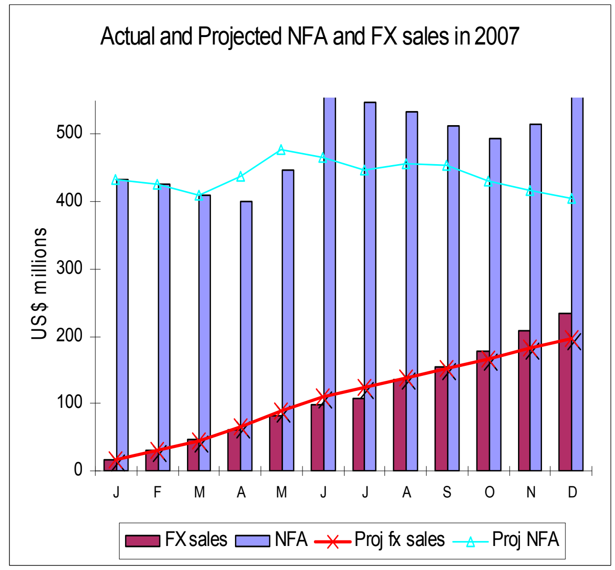
- *The accumulation of net foreign assets (NFA) surpassed the program target.* Given the aid-induced fiscal stimulus and a target on domestic debt, the stable exchange rate against the U.S. dollar could not induce foreign currency sales sufficient to absorb the higher-than-expected excess liquidity. Consequently, average reserve money and broad money increased beyond program objectives. At the same time, both the nominal and the real effective exchange rates depreciated in line with the movements of the U.S. dollar against partner currencies (Figure 3).

Figure 3. Rwanda: Monetary Sector, 2006-08

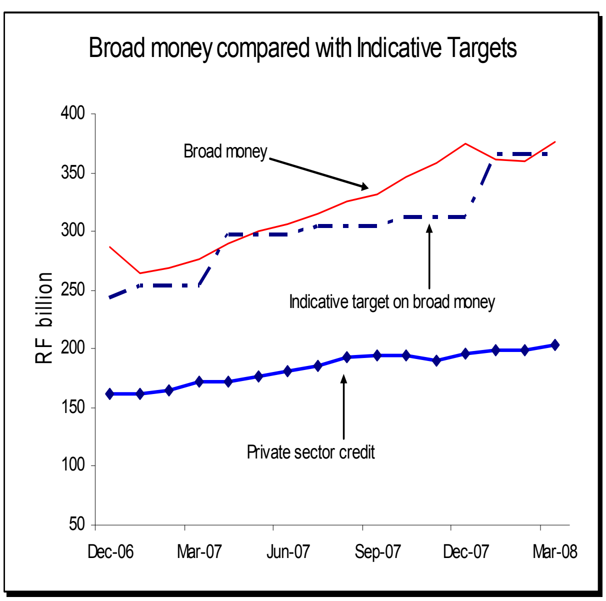
The reserve money target for end-2007 was met…



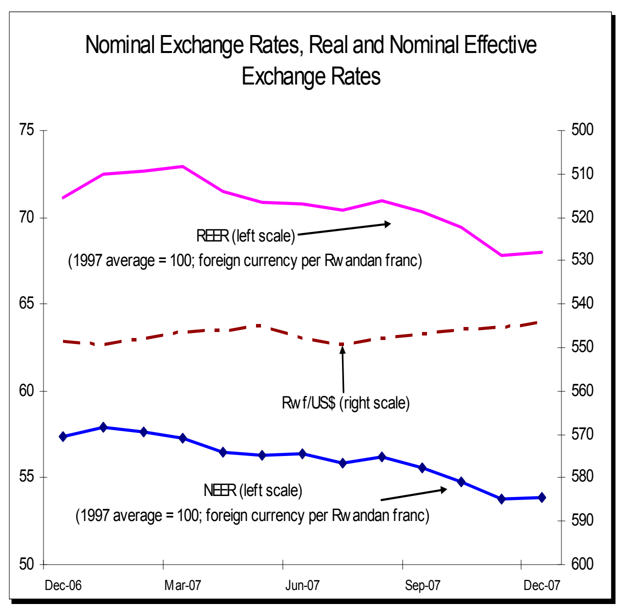
...but foreign currency sales were insufficient to sterilize excess liquidity...



....consequently broad money exceeded targets.



The Rwandan franc depreciated slightly in effective terms in 2007.



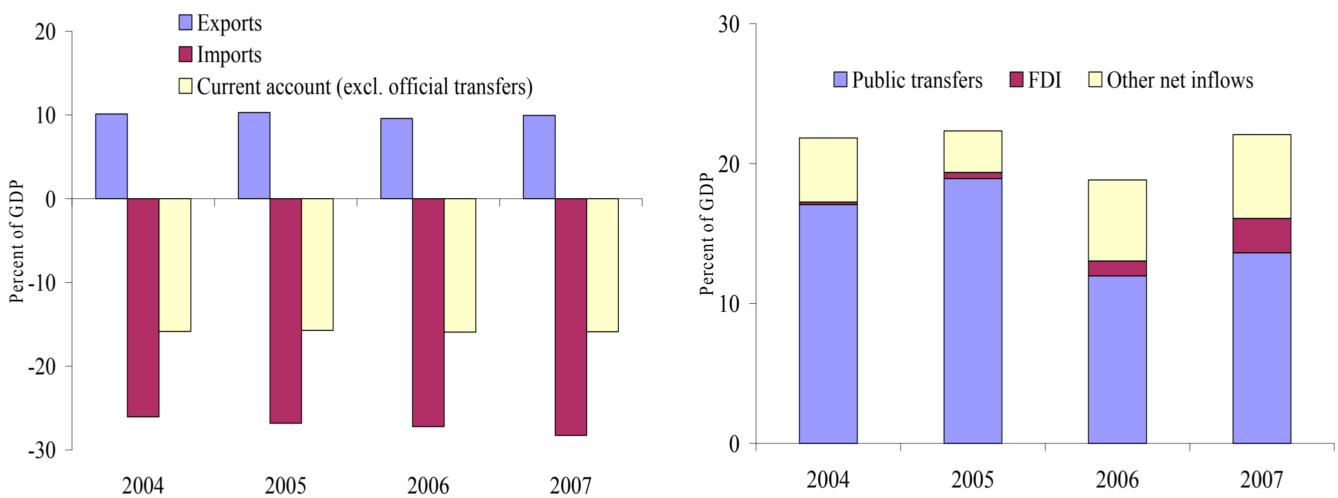
Sources: Rwandan authorities and IMF staff estimates and projections.

4. **A stable current account and rising public and private inflows led to the accumulation of net foreign assets in 2007.** Exports grew at about 20 percent in U.S. dollar terms, as expansion of mineral exports more than offset a cyclical reduction in traditional coffee exports. Imports accelerated in line with rising public capital spending. Increases in transfers to the public sector and in private inflows (particularly FDI) boosted official international reserves, which exceeded 5 months of imports at end-2007.

Figure 4. Rwanda: Balance of Payments, 2004-07

While trade flows (as a percentage of GDP) remained stable in 2004-07...

...financing from public transfers and FDI increased in 2007.



Sources: Rwandan authorities and IMF staff estimates.

II. The Program for 2008: Safeguarding Macroeconomic Stability

5. **While the government's key macroeconomic objectives for 2008 are largely unchanged from those defined in the third review, three exogenous shocks that affected Rwanda in the last few months warrant adjustments to the macroframework:**

- *The political and social crisis in Kenya* temporarily disrupted the flow of imports into Rwanda, increasing costs and contributing to inflation pressures. Yet the growth and budgetary impact of the crisis has been muted, and the original growth projection of 5½ to 6½ percent for 2008 appears achievable, particularly in light of a strong harvest in early 2008 (MEFP ¶8).

- *A series of earthquakes* struck Rwanda in early February causing extensive damage to infrastructure and human casualties. The rehabilitation efforts require additional public spending (MEFP ¶8).

- *The rising world prices for petroleum and food products* are a downside for both inflation and potentially for growth. Rising costs of fuel imports have already led to increases in transportation prices. The passthrough of rising international food prices is projected to get stronger in the second half of the year. Average inflation for 2008 has therefore been revised from 7 to 8½ percent in order to accommodate the first-round effects of the supply shocks, which are beyond the authorities' control. Nominal GDP and the macroframework were revised accordingly.

A. Adjusting Fiscal Plans

6. **The original fiscal program for 2008 is being modified to reflect newly-available resources and new spending needs** (MEFP ¶13).[1] The additional spending includes (i) utilizing new grants from DFID and the World Bank for health and energy, (ii) earthquake rehabilitation spending financed by domestic borrowing and grants, (iii) a new largely self-financed project to issue identity cards to improve efficiency in providing social services, (iv) an underestimation in the interest bill, and (v) a new infrastructure project (¶8). The programmed tax-to-GDP ratio is also revised upward.

7. **Staff is of the view that the additional expenditures can be accommodated and supports the authorities' request for modification of fiscal targets.** The net liquidity impact of fiscal spending (a proxy for fiscal stimulus) remains unchanged as a share of GDP from 2007, as the increase is concentrated in the import-intensive capital spending. Nevertheless, the staff encouraged the authorities to monitor closely the composition of spending to manage the fiscal expansion and preserve macroeconomic stability.

[1] The existing program adjustor (TMU ¶9) automatically accommodates a grant financed expansion in the deficit, but only for contingent spending; whereas the new grants received in early 2008 are tied to spending in the energy and health sectors.

Text Table 2. Rwanda: Operations of the Central Government, 2007-08

	2007	2008	
	Actual	Program	Projection
	Percent of GDP		
Total revenue	13.9	13.7	14.2
Tax revenue	13.0	12.9	13.1
Grants	10.1	13.3	14.2
Budgetary grants	7.3	8.1	9.0
Total expenditure and net lending[1]	26.6	28.4	30.0
Current expenditure	17.1	17.0	17.7
Wages and salaries	4.0	4.1	4.0
Capital expenditure	8.8	11.0	11.8
Deficit after grants (-) (cash basis)	-2.0	-1.6	-1.2
Domestic fiscal balance[2]	-5.4	-7.2	-7.1
Net credit to the Government	-0.4	0.5	-0.6
Priority spending	11.7	13.4	13.2
Domestic spending[3]	17.8	16.9	17.4
Net liquidity impact (proxy for fiscal stimulus)[4]	3.4	3.2	3.3

Source: Rwandan authorities and IMF staff estimates.

[1] For 2007, total expenditure and net lending excludes Rwandatel privatization receipts.
[2] Excluding demobilization and peacekeeping expenditures.
[3] Defined as total expenditure and net lending less foreign financed capital spending less the import component of spending.
[4] Domestic spending minus total revenue.

B. Boosting Productivity and Debt Sustainability

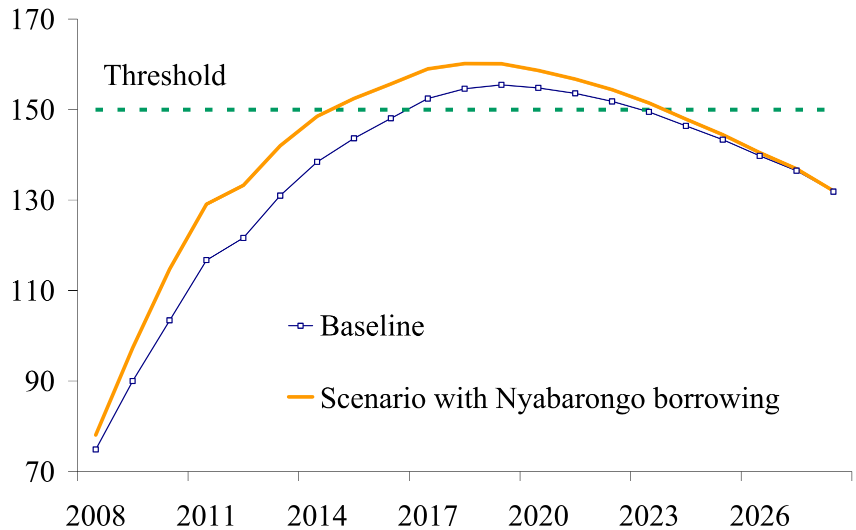
8. **To alleviate a binding energy shortage and reduce costs of electricity production, the authorities are requesting a modification of the program to accommodate construction of a hydro power plant at Nyabarongo.**[2] The total cost of the project amounts to US$112.7 million (about 3 percent of GDP) over 4 years. To finance the project, the authorities sought but failed to secure financing with a minimum 50 percent concessionality consistent with the program. The authorities have a commitment of US$80 million with a grant element of 40 percent from the Exim Bank of India and anticipate that an additional

[2] This request was foreshadowed at the third review.

US$17.7 million will be obtained on similar terms. The remainder of the costs would be financed out of the authorities' own resources.

9. **Staff supports the authorities' request for the modification of the continuous performance criterion on debt concessionality in the program to accommodate the borrowing**. The authorities view the project as a priority, in line with their new Economic Development and Poverty Reduction Strategy (EDPRS). The World Bank has made a positive assessment of the financial viability of the project and the fit within the least cost electricity-generation expansion plan. Nonetheless, an update of the debt sustainability analysis concludes that even without this borrowing Rwanda remains at a high risk of debt distress because of its small export base.[3] The authorities believe that the project has strong growth and export potential that would improve debt related indicators.

Figure 5. Rwanda: NPV of External Debt-to-Exports Ratio, 2008-28



Sources: Rwandan authorities and IMF staff estimates and projections.

10. **The authorities are also planning to undertake a large investment project to improve agriculture productivity and accelerate poverty reduction.** This multiyear project is intended to ease pressures on land, conserve soil, and improve food security. In exploring financing options for the project, staff encouraged the authorities to seek grants or loans with best possible concessionality, and use their own privatization receipts. The World Bank will

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[3] Under the baseline scenario, the threshold for NPV of external debt-to-exports ratio is breached in 2017. The other debt sustainability ratios—i.e., the NPV of external debt-to-revenue, external debt-service-to-exports, external debt-service-to-revenue, and the NPV of external debt-to-GDP—remain below their respective thresholds. The actual NPV of external debt for end-2007 (which forms the basis for the DSA and the indicative target) reflects an upward revision to the NPV of external debt at end-2006, exchange rate valuation effects in 2007, and amounts committed for 2006 but actually disbursed in 2007.

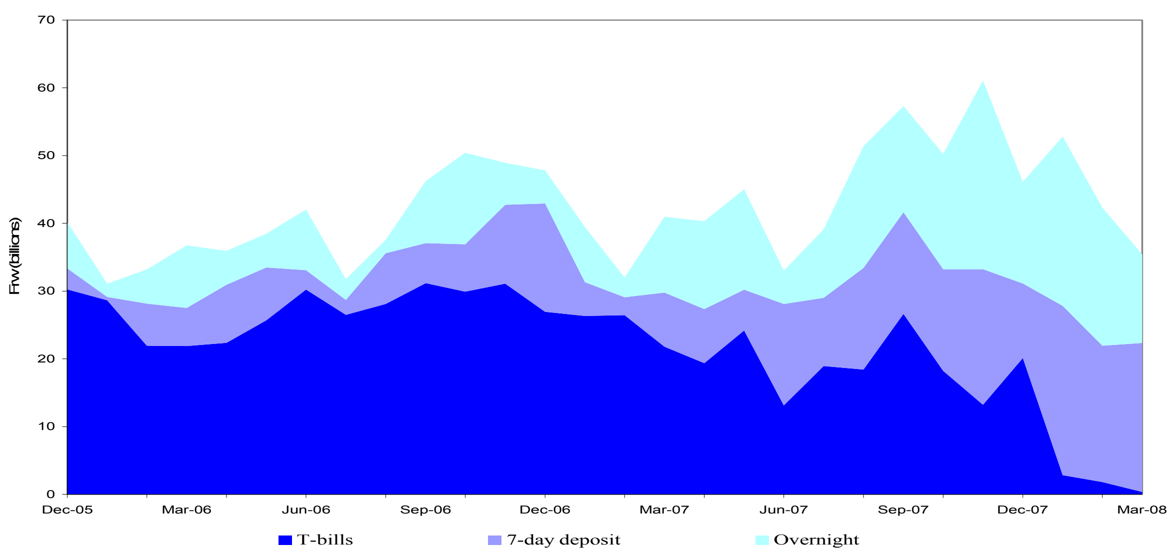
assess the financial viability of the project. If the project is financed through borrowing, the scope for accommodating the new loan under the PRGF arrangement will depend on a thorough assessment of its implications for debt sustainability.

11. **A comprehensive debt management strategy will guide future borrowing.** The strategy—to be finalized by end-November 2008—will guide the government and policymakers on the limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law. Additionally, the medium-term expenditure framework, currently under development, and the complementary Public Sector Investment Program should provide a useful vehicle for investment decisions and prioritizing expenditure consistent with debt sustainability.

C. Strengthening Implementation of Monetary and Exchange Rate Policies

12. **With inflationary pressures projected to increase, monetary policy needs to be more vigilant.** The reserve money target for 2008 is revised to accommodate the first-round passthrough of rising international food and fuel prices, but second-round effects need to be prevented. To achieve this objective, the NBR will aim to meet the reserve money target on average, not only at end-month, through a coordinated sale of domestic and foreign sterilization instruments. Staff and the authorities agreed that the predominant use of domestic instruments for sterilization was not the best option as it would crowd out private sector activity over time and increase public debt. Therefore, the NBR should subordinate their foreign currency sales to the reserve money target (MEFP ¶18). Staff also recommended lengthening the maturity profile of domestic sterilization instruments.

Figure 6. Rwanda: Domestic Instruments Used for Sterilization, 2005-08



Sources: Rwandan authorities and IMF staff estimates.

13. **With increasing commodity prices and rising aid-financed inflows, the nominal exchange rate should be allowed to appreciate gradually.** In this context, staff welcomed the authorities' commitment to adopt the recommendations of the recent technical assistance mission from the IMF's Monetary and Capital Markets Department on exchange rate market functioning. The NBR opted for a gradual approach for exchange rate adjustment. Staff encouraged the authorities to increase exchange rate flexibility as needed to meet the reserve money target and inflation objectives (MEFP ¶19).

D. Monetary and Fiscal Policy Coordination: Accommodating Scaling Up

14. **Staff urged the authorities to improve liquidity forecasting and coordination of fiscal and monetary policies.** Regular monitoring of the foreign exchange component of the budget and the foreign-financed projects would help improve liquidity forecasts. It will also allow the effects of shortfalls in the import component of spending to be offset through additional foreign exchange sales to the private sector. (Staff emphasized that large deviations in the import component may also necessitate a review of the spending program). The authorities agreed to further improve policy coordination by:

- strengthening liquidity monitoring, by reinforcing the operations of the existing Treasury Management Committee (TMC); and

- establishing a budget module that will automatically reject commitments and payments beyond the cash allocations of ministries, and adjust the domestic component of spending if the ceiling on domestic debt is exceeded and if inflation is rekindled.

E. Structural Reforms

15. **The authorities are vigorously implementing the structural reform agenda.** Reforms focus on public financial management, tax administration, the financial sector and private sector development (MEFP ¶¶26-31).

- ***Reforms in tax administration are progressing well.*** The authorities appear well placed to complete reforms aimed at widening the tax base, raising the tax-to-GDP ratio and facilitating trade over the medium term. The government began implementing an expedited customs clearance scheme for compliant importers in March 2008.

- ***Public financial management (PFM).*** The government is finalizing a new PFM medium-term action plan for 2008-12 in cooperation with donors. To support budget preparation, the authorities will publish the operational manual for the medium-term expenditure framework (end-June performance criteria).

- ***Financial sector reforms*** continue to be guided by the Financial Sector Development Plan. For 2008, reforms focus on modernizing the national payments system, improving access to credit and financial services, upgrading accounting and auditing standards, and promoting contractual savings and nonbank financial institutions in order to mobilize long-term savings.

III. Program Risks and Monitoring

16. **The program is being revised to accommodate further fiscal expansion, but this also increases risks.** Without proper coordination of fiscal and monetary policies, macroeconomic stability could be jeopardized.

17. **Rwanda remains vulnerable to exogenous shocks.** If prolonged, rising prices of petroleum and food imports could further fuel inflation and dampen prospects for economic growth.

18. **Program monitoring for 2008 is described in the MEFP (¶¶32-33) and the technical memorandum of understanding.** The program design remains generally the same as at the time of the third review, but an adjustor for earthquake spending was added to the performance criterion on net credit to government. Modifications are proposed to the end-June and end-December PCs on reserve money, net credit to government, domestic fiscal balance, and one structural benchmark.

IV. Staff Appraisal

19. **Rwanda's economic performance was broadly satisfactory in 2007, with strong growth and single-digit inflation in the second half of the year.** All program targets were met, with the exception of a temporary overrun of the net credit to government caused by delays in disbursements in donor funds. While the fiscal program was on track, the unexpectedly higher share of domestic spending made the conduct of monetary policy difficult and resulted in the indicative targets on broad money and domestic debt being breached.

20. **Staff believes that the recent exogenous shocks affecting Rwanda can be accommodated in the program**. The passthrough of rising international fuel and food prices, exacerbated by the problems of transportation through Kenya, will increase inflation in Rwanda, making the original inflation objective unrealistic. A modification of the macroeconomic framework, taking into account first-round exogenous inflationary effects, is therefore warranted. Similarly, the fiscal program needs to build in additional spending for earthquake rehabilitation, new priorities, and utilizing newly-available donor aid.

21. **Monetary policy needs to prevent an inflation spiral (that could arise from world commodity price developments), and the coordination with fiscal policy needs to be enhanced.** Greater exchange rate flexibility and subordination of foreign currency sales to the

monetary policy objectives would enable the NBR to meet the target path for reserve money more consistently and curb broad money growth. Close monitoring of the import component of fiscal spending and strengthening of the liquidity management committee would provide the information necessary for the conduct of monetary policy.

22. **Highly concessional borrowing remains appropriate for Rwanda given its high risk of debt distress.** Nonetheless, staff supports the authorities' request for less-concessional borrowing for the large energy project because of its economic viability and the authorities' assurances that borrowing on terms satisfying the program's concessionality was unavailable. Looking ahead, staff encourages the authorities to strengthen the institutional framework and their capacity for prioritizing expenditure and investments. Staff looks forward to the finalization of the debt management strategy as a means to assess borrowing decisions in a comprehensive framework.

23. **Staff recognizes the strong determination of the authorities to pursue the structural reform agenda.** The authorities are encouraged to continue these efforts, in cooperation with their developmental partners.

24. **Staff recommends that the requested waiver for the performance criterion on net credit to government be granted (the deviation was temporary), the 2008 quantitative performance criteria be modified, and the fourth review under the PRGF arrangement be completed.**

Table 1. Rwanda: Selected Economic and Financial Indicators, 2005–09

	2005	2006	2007		2008		2009
			Program	Est.	Program	Proj.	Proj.
			(Annual percentage changes, unless otherwise indicated)				
Output and prices							
Real GDP growth	7.1	5.5	4.5	6.0	6.0	6.0	5.6
Real GDP (per capita)	5.2	3.6	2.7	3.8	3.8	3.8	3.4
GDP deflator	8.9	13.1	7.1	8.9	6.0	7.5	4.9
Consumer prices (period average)	9.0	8.9	8.2	9.1	7.1	8.7	5.0
Consumer prices (end of period)	5.6	12.2	5.0	6.6	7.3	10.5	5.0
External sector							
Export of goods, f.o.b (in U.S. dollars)	28.7	16.9	7.5	20.1	19.0	21.0	10.1
Imports of goods, f.o.b (in U.S. dollars)	28.2	26.2	30.1	30.2	31.3	31.4	5.9
Export volume	14.3	12.8	8.7	6.2	20.2	19.1	16.0
Import volume	26.0	27.0	26.8	31.0	21.1	19.4	5.6
Terms of trade (deterioration = -)	10.7	4.3	-3.6	13.7	-8.7	-7.7	-5.3
Money and credit[1]							
Net domestic assets[2]	-12.1	1.3	16.1	7.3	15.2	14.3	...
Domestic credit[2]	-5.3	7.8	15.0	9.7	17.3	15.2	...
Government[2]	-16.4	-6.0	5.4	-2.1	6.6	2.1	...
Economy[2]	11.2	13.8	9.7	11.8	10.7	13.1	...
Broad money (M2)	17.2	31.5	8.7	30.8	14.1	12.3	...
Reserve money[3]	12.3	11.9	28.5	30.7	12.4	15.4	...
Velocity (GDP/M2; end of period)	6.0	5.5	5.7	4.9	4.9	4.9	...
			(Percent of GDP)				
National income accounts							
National savings	5.9	4.4	2.8	5.3	3.0	3.7	4.4
Gross investment	21.6	20.3	20.7	21.2	23.0	24.3	23.7
Of which: private (including public enterprises)	12.5	12.8	12.3	12.4	12.0	12.5	12.6
Government finance							
Total revenue (excluding grants)	13.6	13.2	12.8	13.9	13.7	14.2	14.4
Total expenditure and net lending	25.7	24.2	26.2	25.4	28.2	29.2	29.1
Total expenditure and net lending excluding privatization proceeds	25.7	24.2	26.2	26.6	28.4	30.0	29.1
Capital expenditure	9.1	7.5	8.4	8.8	11.0	11.8	11.1
Current expenditure	16.2	16.1	17.2	17.1	17.0	17.7	17.6
Primary fiscal balance[4]	-1.8	-2.1	-4.2	-3.6	-5.1	-4.9	-3.6
Domestic fiscal balance[5]	-5.1	-5.4	-7.9	-6.2	-7.9	-7.9	-7.3
Overall balance (payment order)							
After grants	0.6	-0.4	-1.7	-1.5	-1.2	-0.8	-4.8
Before grants	-12.1	-11.0	-13.4	-11.6	-14.6	-15.0	-14.7
Domestic Debt	...	12.0	10.4	11.0	9.7	9.5	...
External current account balance							
Including official transfers	-1.1	-7.3	-6.9	-5.0	-9.5	-9.0	-12.0
Excluding official transfers	-15.7	-15.9	-17.9	-15.9	-20.0	-20.6	-19.2
External debt (end of period)[6]	63.3	16.7	12.8	17.4	15.8	17.0	21.1
Net present value of external debt[6]							
(percent of exports of goods and services)	127.7	67.4	66.6	72.5	65.0	74.8	90.0
Scheduled debt-service ratio after HIPC Initiative debt relief							
(percent of exports of goods and services)	8.6	3.7	1.5	3.0	1.4	2.1	2.0
Gross reserves (in months of imports of goods and services)	6.2	5.6	5.1	5.3	4.8	4.8	4.8
			(Millions of U.S. dollars)				
External debt (end of period)[6]	1,510.6	477.6	416.4	579.3	596.1	660.2	907.9
Gross official reserves	405.8	439.6	406.1	552.4	531.4	535.8	558.2
Memorandum item:							
Nominal GDP (billions of Rwanda francs)	1,327.1	1,583.0	1,772.0	1,826.2	2,051.2	2,081.1	2,305.1

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

[1] Data up to 2005 based on current exchange rates; for 2006, based on program exchange rate of RF 553.7/US$, RF 549.9/US$ for 2007, and RF 545/US$ for 2008.

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

[3] Increase in 2007 reflects rebasing of the monetary program; reserve money growth will be limited to 13 percent after correcting for the rebasing at end-2006.

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

[5] Revenue excluding grants minus current expenditure (excluding external interest) minus domestically financed capital expenditure and net lending.

[6] After rescheduling, including arrears and new debt.

Table 2. Rwanda: Operations of the Central Government, 2006–09

	2006	2007						2008								2009
		June		September		December		March		June		September		December		
	Actual	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.
	(Billions of Rwanda francs)															
Revenue and grants	376.0	227.9	237.4	335.5	327.6	433.2	436.8	84.5	144.9	285.8	316.4	419.8	450.7	553.8	590.2	560.0
Total revenue	208.2	109.4	124.3	166.1	186.4	226.6	252.9	62.1	67.2	143.9	151.9	212.6	223.8	280.1	294.9	332.7
Of which: revenue measures																
Tax revenue	193.6	103.1	116.3	156.4	174.9	214.5	237.8	59.0	62.2	135.8	139.0	201.1	206.0	264.8	272.6	308.4
Direct taxes	64.5	34.5	43.5	52.5	64.1	72.0	85.8	20.6	22.3	47.6	49.3	71.0	73.5	93.1	96.6	109.3
Taxes on goods and services	95.5	51.9	57.4	78.3	87.3	108.2	121.0	30.6	32.1	71.7	73.2	104.9	107.4	137.7	142.0	162.2
Taxes on international trade	33.6	16.7	15.4	25.5	23.4	34.3	31.0	7.8	7.8	16.5	16.5	25.2	25.2	34.0	34.0	36.9
Nontax revenue	14.6	6.3	8.1	9.8	11.6	12.1	15.1	3.1	5.0	8.1	13.0	11.6	17.8	15.3	22.3	24.3
ID receipts		…	…	…	…	…	…	…	1.2	…	4.2	…	5.5	…	5.5	…
Grants	167.8	118.5	113.1	169.4	141.2	206.6	183.8	22.3	77.7	142.0	164.5	207.2	226.9	273.7	295.3	227.3
Budgetary grants	71.9	93.0	87.5	130.2	102.0	144.9	133.3	3.2	58.6	104.0	126.2	148.9	168.0	166.1	187.2	108.7
Of which: HIPC Initiative assistance	12.3	2.1	2.6	2.7	3.4	4.8	2.5	0.9	0.9	2.1	2.1	2.9	2.8	4.3	3.2	3.2
Capital grants	95.9	25.6	25.6	39.2	39.2	61.7	50.5	19.1	19.1	38.0	38.2	58.3	58.9	107.6	108.1	118.6
Project grants	53.5	25.6	25.6	39.2	39.2	61.7	50.5	19.1	19.1	38.0	38.2	58.3	58.9	107.6	108.1	118.6
MDRI grants	42.4	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
Total expenditure and net lending	382.5	219.9	213.3	337.7	352.0	464.5	464.5	135.4	140.0	268.1	282.7	407.3	435.5	578.6	607.6	671.1
Total expenditure and net lending excluding privatization receipts	382.5	219.9	213.3	337.7	352.0	464.5	486.6	135.4	140.0	268.1	282.7	407.3	435.5	582.0	624.7	671.1
Current expenditure	254.1	142.6	137.6	222.4	228.7	304.7	312.6	85.6	90.2	171.9	184.4	258.6	276.3	347.9	369.0	406.2
Of which: priority	127.7	76.7	71.3	121.7	118.8	165.5	161.0	40.9	40.9	90.6	90.6	141.8	141.8	193.0	193.0	...
Wages and salaries	62.2	34.3	37.1	51.4	55.6	68.6	73.4	20.9	20.9	41.9	41.9	62.8	62.8	83.7	83.7	92.6
Civil	41.2	24.0	26.8	35.1	39.2	47.5	53.7	15.0	15.0	30.1	30.1	45.1	45.1	60.1	60.1	66.6
Defense	21.0	10.3	10.3	16.4	16.4	21.1	19.7	5.9	5.9	11.8	11.8	17.7	17.7	23.6	23.6	26.0
Purchases of goods and services	71.6	32.0	31.1	51.3	53.2	71.5	77.5	19.6	19.6	39.2	39.3	58.4	59.1	76.6	78.2	84.3
Civil	62.4	26.7	25.8	43.0	44.9	60.8	66.8	16.4	16.4	32.7	32.8	48.5	49.2	63.2	64.8	69.5
Defense	9.1	5.2	5.2	8.3	8.3	10.7	10.7	3.2	3.2	6.4	6.4	9.9	9.9	13.4	13.4	14.9
Interest payments	14.8	2.5	3.3	5.0	5.4	9.9	11.0	1.3	1.8	3.3	3.8	5.4	6.7	11.3	12.8	12.0
Domestic debt (due)	8.6	1.7	1.5	3.6	3.2	8.1	8.7	0.8	1.3	2.0	2.0	4.2	4.2	9.4	9.6	8.6
External debt (due)	6.2	0.8	1.7	1.4	2.2	1.8	2.3	0.5	0.5	1.2	1.7	1.2	2.5	1.9	3.2	3.4
Transfers	71.9	50.6	46.3	79.5	77.1	107.4	103.8	33.3	33.3	66.6	66.8	99.6	101.2	132.4	136.2	149.8
Exceptional expenditure	33.7	23.2	19.9	35.1	37.4	47.3	46.9	10.5	14.6	21.1	32.8	32.5	46.5	43.9	58.1	67.5
Of which: FARG	9.0	5.5	5.5	8.3	8.3	11.1	11.1	3.2	3.2	6.4	6.4	9.6	9.6	12.8	12.8	14.2
Demobilization	3.4	1.9	2.0	3.3	2.7	4.6	3.9	1.2	1.2	2.4	2.4	3.7	3.7	5.0	5.0	5.5
African Union peacekeeping	10.9	5.1	4.0	8.1	10.4	10.7	11.0	2.4	2.4	5.0	5.0	7.6	7.6	10.0	10.0	11.1
Capital expenditure	118.7	67.9	67.8	107.3	115.9	149.4	159.9	47.8	47.8	95.6	95.9	146.1	154.8	226.0	245.7	255.2
Of which: priority	19.8	16.0	15.2	28.5	32.4	41.5	48.4	15.9	15.9	36.5	36.5	57.9	57.9	79.3	79.3	...
Domestic	35.7	21.8	21.6	36.6	45.2	53.2	63.7	21.0	21.0	42.0	42.1	66.3	70.6	91.3	99.7	89.6
Foreign [1]	83.0	46.1	46.1	70.7	70.7	96.2	96.2	26.7	26.7	53.6	53.8	79.8	84.2	134.7	145.9	165.6
Net lending [2]	9.6	9.4	8.0	8.0	7.5	10.4	-8.1	2.0	2.0	0.5	2.3	2.6	4.5	4.7	-7.0	9.7
Of which: priority	4.1	1.5	1.1	1.5	1.1	3.2	4.8	0.6	0.6	1.3	1.3	2.0	2.0	2.8	2.8	...
Of which: Rwandatel net receipts	--	--	--	--	--	--	22.1	--	--	--	--	--	--	--	13.6	0.0
Of which: BK receipts	--	--	--	--	--	--	--	--	--	3.5	3.5	3.5	3.5	3.5	3.5	0.0
Primary balance [3]	-31.2	-30.7	-11.8	-51.2	-44.7	-68.2	-65.4	-32.7	-27.6	-45.8	-38.1	-74.4	-69.9	-103.9	-103.0	-83.6
Domestic fiscal balance [4]	-85.1	-63.6	-41.2	-99.5	-92.8	-139.9	-113.0	-46.0	-45.5	-69.4	-75.2	-113.7	-125.0	-161.9	-163.6	-169.4
Excluding demobilization and peacekeeping expenditures [5]	-70.8	-56.6	-35.2	-88.1	-79.6	-124.6	-98.2	-42.4	-41.9	-62.0	-67.8	-102.4	-113.7	-146.9	-148.6	-152.8
Overall deficit (payment order)																
After grants	-6.5	8.0	24.1	-2.1	-24.4	-31.2	-27.7	-50.9	4.9	17.8	33.7	12.5	15.2	-24.8	-17.5	-111.2
Excluding MDRI grants	-48.9	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Before grants	-174.3	-110.5	-89.0	-171.5	-165.6	-237.9	-211.5	-73.2	-72.8	-124.2	-130.8	-194.7	-211.7	-298.5	-312.8	-338.4
Change in arrears [6]	-7.5	-3.9	-3.9	-5.4	3.6	-7.0	-8.5	-3.0	-3.0	-4.0	-4.0	-5.5	-5.5	-7.0	-7.0	0.0
Domestic	-7.5	-3.9	-3.9	-5.4	3.6	-7.0	-8.5	-3.0	-3.0	-4.0	-4.0	-5.5	-5.5	-7.0	-7.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deficit (-)	-14.0	4.1	20.2	-7.5	-20.8	-38.2	-36.2	-53.9	1.9	13.8	29.7	7.0	9.7	-31.8	-24.5	-111.2

Table 2. Rwanda: Operations of the Central Government, 2006–09 (concluded)

	2006	2007						2008								2009
		June		September		December		March		June		September		December		
	Actual	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Proj.
	(Billions of Rwanda francs)															
Financing	15.2	-4.1	-26.6	7.5	20.0	38.2	36.2	53.9	-1.9	-13.8	-29.7	-7.0	-9.7	31.8	24.5	111.2
Foreign financing (net)	25.9	19.6	18.8	29.9	29.5	31.0	43.7	6.4	10.2	13.3	17.1	18.1	25.7	22.1	37.9	129.2
Drawings	37.7	21.5	21.1	32.7	32.4	36.4	48.2	7.6	11.4	15.6	19.4	21.5	29.1	27.1	41.8	133.4
Budgetary loans	8.2	0.9	0.6	1.3	0.9	1.9	0.6	0.0	3.8	0.0	3.8	0.0	3.8	0.0	3.8	86.3
Project loans	29.5	20.6	20.6	31.5	31.5	34.5	47.7	7.6	7.6	15.6	15.6	21.5	25.3	27.1	38.0	47.0
Amortization	-11.8	-1.9	-2.3	-2.8	-2.9	-5.4	-4.5	-1.3	-1.3	-2.3	-2.3	-3.4	-3.4	-4.9	-3.9	-4.2
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing	-10.7	-23.7	-45.4	-22.4	-9.5	7.2	-7.5	47.5	-12.1	-27.1	-46.8	-25.1	-35.4	9.7	-13.4	-18.0
Banking system treasury operations (monetary survey)	-11.2	-26.7	-41.0	-24.1	0.6	0.4	4.8	41.9	-12.7	-22.9	-44.4	-26.6	-35.0	9.7	-15.3	2.7
Rwandatel net privatization proceeds																
Nonbank sector (including CSR repayment) [7]	0.5	3.0	-4.4	1.7	-10.1	6.8	-12.3	5.6	0.6	-4.2	-2.4	1.5	-0.4	0.0	1.8	-20.8
Errors and omissions [8]	1.2	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
Financing gap (+)	0.0	0.0	-6.4	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)															
Memorandum items:																
Revenue and grants	23.8	12.9	13.0	18.9	17.9	24.4	23.9	4.1	7.0	13.9	15.2	20.5	21.7	27.0	28.4	24.3
Revenue, excluding grants	13.2	6.2	6.8	9.4	10.2	12.8	13.9	3.0	3.2	7.0	7.3	10.4	10.8	13.7	14.2	14.4
Revenue, excluding grants (percent of monetized sector GDP)	25.4	13.5	14.2	20.6	21.4	28.1	29.0	9.3	10.0	19.2	20.3	28.4	29.9	29.0	30.0	30.6
Total expenditure and net lending	24.2	12.4	11.7	19.1	19.3	26.2	25.4	6.6	6.7	13.1	13.6	19.9	20.9	28.2	29.2	29.1
Total expenditure and net lending excluding privatization receipts		…	…	19.1	19.3	26.2	26.6	6.6	6.7	13.1	13.6	19.9	20.9	28.4	30.0	29.1
Of which: total priority expenditures	9.6	5.3	4.8	8.6	8.3	11.9	11.7	2.8	2.8	6.3	6.2	9.8	9.7	13.4	13.2	…
Current expenditure	16.1	8.0	7.5	12.5	12.5	17.2	17.1	4.2	4.3	8.4	8.9	12.6	13.3	17.0	17.7	17.6
Of which: wage bill	3.9	1.9	2.0	2.9	3.0	3.9	4.0	1.0	1.0	2.0	2.0	3.1	3.0	4.1	4.0	4.0
goods and services	4.5	1.8	1.7	2.9	2.9	4.0	4.2	1.0	0.9	1.9	1.9	2.8	2.8	3.7	3.8	3.7
Of which: defense/security	1.9	0.9	0.0	1.4	1.4	1.8	1.7	0.4	0.4	0.9	0.9	1.3	1.3	1.8	1.8	1.8
exceptional expenditure	2.1	1.3	1.1	2.0	2.1	2.7	2.6	0.5	0.7	1.0	1.6	1.6	2.2	2.1	2.8	2.9
Capital expenditure	7.5	3.8	3.7	6.1	6.3	8.4	8.8	2.3	2.3	4.7	4.6	7.1	7.4	11.0	11.8	11.1
Domestic fiscal balance	-5.4	-3.6	-2.3	-5.6	-5.1	-7.9	-6.2	-2.2	-2.2	-3.4	-3.6	-5.5	-6.0	-7.9	-7.9	-7.3
Excluding demobilization and peacekeeping expenditures [5]	-4.5	-3.2	-1.9	-5.0	-4.4	-7.0	-5.4	-2.1	-2.0	-3.0	-3.3	-5.0	-5.5	-7.2	-7.1	-6.6
Of which: domestic expenditure	17.6	9.4	8.7	14.3	14.6	19.8	19.2	5.1	5.2	10.0	10.6	15.4	16.2	20.8	21.3	21.1
Primary balance [3]	-2.0	-1.7	-0.6	-2.9	-2.4	-4.2	-3.6	-1.6	-1.3	-2.2	-1.8	-3.6	-3.4	-5.1	-4.9	-3.6
Overall deficit (payment order)																
After grants	-0.4	0.5	1.3	-0.1	-1.3	-1.8	-1.5	-2.5	0.2	0.9	1.6	0.6	0.7	-1.2	-0.8	-4.8
Before grants	-11.0	-6.2	-4.9	-9.7	-9.1	-13.4	-11.6	-3.6	-3.5	-6.1	-6.3	-9.5	-10.2	-14.5	-15.0	-14.7
Before grants (percent of monetized sector GDP)	-21.3	-13.7	-19.0	-21.3	-19.0	-29.5	-24.2	-9.8	-9.7	-16.6	-17.5	-26.0	-28.3	-30.9	-31.8	-31.1
Nominal GDP (RF billions)	1,583.0	1,772.0	1,826.2	1,772.0	1,826.2	1,772.0	1,826.2	2,051.2	2,081.1	2,051.2	2,081.1	2,051.2	2,081.1	2,051.2	2,081.1	2,305.1
Net credit to government from banking system (RF billions)	-7.8	-21.1	-51.7	-10.8	-2.1	15.4	-6.2	43.9	-26.0	-18.0	-35.9	-20.7	-37.9	24.1	8.0	2.7
Of which: treasury operations	-11.2	-26.7	-41.0	-24.1	0.6	0.4	4.8	41.9	-12.7	-22.9	-44.4	-26.6	-35.0	9.7	-15.3	2.7
project accounts	3.4	5.6	-10.7	13.3	-2.7	15.0	-11.0	2.0	-13.3	4.9	8.5	5.9	-2.9	14.4	23.3	0.0
MDRI debt service savings	0.0	0.2	0.2	0.4	0.3	0.5	0.4	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3
MDRI debt service savings from AfDB (RF billions)	0.0	0.9	0.9	1.4	1.4	1.8	1.8	0.5	0.5	1.0	1.0	1.5	1.4	1.9	1.9	2.0
MDRI debt service savings from IMF (RF billions)	0.0	2.2	2.2	3.3	3.2	4.4	4.3	0.7	0.7	1.3	1.3	2.0	2.0	2.6	2.6	2.2
MDRI debt service savings from IDA (RF billions)	0.0	0.7	0.7	1.0	1.0	1.4	1.4	0.4	0.4	0.7	0.7	1.1	1.1	1.5	1.4	1.5

Sources: Rwandese authorities, and IMF staff estimates and projections.

1 For 2008, the increase reflects improvements in recording funds for projects.
2 Net lending in 2007 incorporates RF22.1 billion in receipts from the privatization of Rwandatel.
3 Definition excludes exceptional expenditures, defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital expenditure.
4 Revenue excluding grants minus current expenditure, domestically financed capital expenditure, and net lending, excluding external interest.
5 For 2006, peacekeeping activities of Rf 2.9 billion were not covered by grants.
6 A negative sign indicates a reduction.
7 CSR = *Caisse Sociale du Rwanda.*
8 A negative number implies a discrepancy that is consistent with an underestimate of financing.

Table 3. Rwanda: Monetary Survey, 2005–08

	2005 [1]	2006 [1]	2007								2008							
			March [1]		June [1]		September		December		March		June		September		December	
			Program		Program		Program		Program	Est. [1]	Program	Prel.	Program	Proj.	Program	Proj.	Program	Proj.
	(Billions of Rwanda francs)																	
Monetary authorities																		
Net foreign assets	185.6	226.6	208.6	207.9	251.4	291.1	245.7	264.4	217.7	284.8	257.5	306.1	321.8	321.8	314.8	314.8	275.7	275.7
Foreign assets	230.0	243.0	225.5	224.7	255.8	308.4	250.1	283.1	223.3	303.7	276.1	328.9	338.3	338.1	331.3	331.2	292.2	292.0
Foreign liabilities [2]	44.4	16.4	16.9	16.8	4.4	17.3	4.4	18.6	5.6	19.0	18.6	22.9	16.5	16.4	16.5	16.4	16.5	16.4
Net domestic assets	-121.4	-154.8	-126.1	-128.2	-163.5	-201.6	-156.2	-174.3	-125.4	-190.9	-159.5	-201.1	-218.2	-215.5	-211.9	-209.9	-170.2	-167.4
Domestic credit	-96.7	-120.2	-94.1	-93.0	-131.5	-155.6	-124.2	-128.5	-93.4	-153.4	-119.5	-154.2	-178.2	-175.5	-171.9	-169.9	-134.2	-131.4
Government (net)	-60.5	-72.4	-51.1	-57.2	-93.5	-126.3	-83.2	-84.3	-57.0	-99.6	-55.9	-120.7	-117.0	-116.5	-119.1	-119.1	-73.6	-73.6
Claims	42.1	41.8	41.8	43.1	41.8	41.2	41.8	41.2	41.8	41.2	41.0	41.2	41.0	41.0	41.0	41.0	41.0	41.0
Of which: overdraft	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Deposits (excluding autonomous bodies) [2]	102.6	114.2	92.9	100.4	135.3	167.5	125.0	125.5	98.8	140.8	96.9	161.9	158.0	157.5	160.1	160.1	114.6	114.6
Public nongovernment deposits (-)	-0.8	-2.0	-0.9	-0.5	-2.0	-0.5	-0.9	-1.8	-2.0	-1.3	-0.5	-0.2	-0.5	-1.3	-0.5	-0.2	-0.9	-0.9
Nongovernment credit	-35.3	-45.8	-42.0	-35.3	-36.0	-28.8	-40.1	-42.5	-34.4	-52.5	-63.1	-33.3	-60.7	-57.7	-52.3	-50.6	-59.7	-56.9
Private sector	3.4	3.5	3.5	3.7	3.5	3.9	3.5	4.9	3.5	4.8	4.8	4.7	4.8	4.8	4.8	4.7	4.0	4.0
Public enterprises	0.1	--	--	--	--	--	--	--	0.1	--	--	--	--	--	--	--	--	--
Commercial banks	-38.9	-49.3	-45.5	-39.0	-39.6	-32.7	-43.6	-47.3	-38.0	-57.3	-68.0	-38.0	-65.6	-62.5	-57.2	-55.3	-63.7	-60.9
Discount window	1.4	1.2	-0.6	1.5	0.4	1.7	1.4	1.4	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Money market (- = absorption)	-40.2	-50.5	-44.9	-40.5	-40.0	-34.5	-45.0	-48.8	-39.2	-58.6	-69.3	-39.2	-66.9	-63.8	-58.5	-56.6	-65.0	-62.2
Other items (net; asset +)	-24.7	-34.6	-32.0	-35.2	-32.0	-46.0	-32.0	-45.7	-32.0	-37.5	-40.0	-46.9	-40.0	-40.0	-40.0	-40.0	-36.0	-36.0
Reserve money [3, 4]	64.2	71.8	82.6	79.7	87.9	89.5	89.4	90.2	92.4	93.9	98.0	104.9	103.6	106.2	102.9	104.9	105.6	108.3
Currency in circulation	48.3	54.6	52.0	50.0	56.5	54.4	58.2	55.6	60.6	67.3	63.4	64.4	72.9	72.8	70.1	67.9	74.0	72.0
Commercial bank reserves	13.7	15.1	28.5	25.2	29.3	31.2	29.1	31.8	29.6	24.0	32.0	34.2	28.1	27.1	30.2	30.7	29.3	34.0
Nonbank deposits	2.2	2.1	2.1	4.6	2.1	3.9	2.1	2.8	2.1	2.6	2.6	6.4	2.6	6.4	2.6	6.4	2.3	2.3
Of which: autonomous public agencies	0.4	0.4	-2.0	2.3	-1.0	2.8	--	2.7	--	3.6	1.0	3.3	1.0	1.0	1.0	1.0	--	--
Commercial banks																		
Net foreign assets	42.1	60.6	47.0	54.2	49.0	59.5	46.0	59.3	48.7	70.4	50.0	73.0	54.0	70.0	57.0	70.0	68.1	72.2
Foreign assets	53.8	71.5	57.9	66.7	59.9	73.0	56.9	72.1	59.6	87.7	65.6	89.5	69.6	86.5	72.6	86.6	83.7	89.6
Foreign liabilities	11.7	10.9	10.9	12.4	10.9	13.5	10.9	12.8	10.9	17.4	15.6	16.6	15.6	16.6	15.6	16.6	15.6	17.4
Reserves	13.7	15.1	28.5	25.2	29.3	31.2	29.1	31.8	29.6	24.0	32.0	34.2	28.1	27.1	30.2	30.7	29.3	34.0
NBR deposits	10.9	11.3	18.7	19.6	20.4	26.3	21.9	26.0	23.9	18.6	28.0	26.0	25.1	24.1	27.2	27.7	26.3	31.0
Required reserves	14.9	18.8	20.2	19.4	20.9	20.7	21.4	22.2	21.8	24.4	25.2	23.0	25.5	27.0	25.6	28.0	27.8	30.4
Excess reserves	-4.0	-7.5	-1.5	0.2	-0.5	5.6	0.5	3.9	2.1	-5.8	2.8	3.1	-0.5	-2.9	1.6	-0.3	-1.5	0.6
Cash in vault	2.8	3.8	3.8	5.5	3.8	4.8	3.8	5.8	5.8	5.4	4.0	8.1	3.0	3.0	3.0	3.0	3.0	3.0
Net credit from NBR (rediscount; liability -)	38.9	49.3	45.5	39.0	39.6	32.7	43.6	47.3	38.0	57.3	68.0	38.0	65.6	62.5	57.2	55.3	63.7	60.9
Domestic credit	128.7	158.7	166.8	168.0	179.7	178.3	184.7	199.3	191.7	211.8	214.6	214.2	223.5	209.8	230.9	224.1	242.7	243.4
Government (net)	-1.1	-2.3	3.0	-2.5	3.0	-0.1	3.0	7.5	3.0	18.7	4.1	13.9	3.4	-0.2	2.7	0.3	2.0	0.8
Credit	21.1	25.6	25.6	16.2	25.6	21.7	25.6	27.8	25.6	40.6	19.5	29.3	16.0	27.0	12.5	30.2	9.0	33.4
Deposits	22.2	27.9	22.6	18.8	22.6	21.8	22.6	20.3	22.6	21.8	15.4	15.4	12.6	27.2	9.8	29.9	7.0	32.6
Public enterprises	2.1	2.4	2.4	2.0	2.4	1.7	2.4	1.9	2.4	1.7	3.4	1.4	3.4	1.4	3.4	1.4	3.4	1.7
Private sector	127.6	158.7	161.5	168.5	174.3	176.7	179.4	190.0	186.4	191.3	207.2	199.0	216.8	208.6	224.8	222.4	237.3	240.9
Other items (net; asset +)	-54.3	-53.1	-58.4	-63.6	-58.4	-53.3	-58.4	-64.0	-58.4	-58.2	-64.7	-61.9	-64.7	-59.0	-64.7	-60.0	-63.5	-62.5
Deposits	169.1	230.6	229.4	222.8	239.1	248.5	245.0	273.8	249.7	305.3	299.9	297.4	306.5	310.4	310.5	320.1	340.2	348.0
Private	136.8	186.2	185.0	183.4	194.7	203.2	200.6	221.0	205.3	246.9	236.4	242.8	243.0	251.9	247.0	261.6	276.7	289.6
Public (nongovernment)	32.2	44.4	44.4	39.4	44.4	45.3	44.4	52.8	44.4	58.4	63.5	54.7	63.5	58.4	63.5	58.4	63.5	58.4

Table 3. Rwanda: Monetary Survey, 2005–08 (concluded)

	2005 [1]	2006 [1]	2007								2008							
			March [1]		June [1]		September		December		March		June		September		December	
			Program		Program		Program		Program	Est. [1]	Program	Prel.	Program	Proj.	Program	Proj.	Program	Proj.
							(Billions of Rwanda francs)											
Net foreign assets	227.7	287.2	255.6	262.1	300.4	350.7	291.7	323.7	266.4	355.1	307.5	379.0	375.8	391.7	371.8	384.9	343.9	347.9
Net domestic assets	-8.2	0.2	27.9	15.2	-2.6	-43.9	13.7	8.4	46.0	20.1	58.4	-10.8	6.2	-2.2	11.5	9.5	72.7	74.4
Domestic credit	70.9	87.9	118.3	113.9	87.8	55.4	104.1	118.1	136.4	115.8	163.1	98.0	110.9	96.8	116.2	109.5	172.2	172.9
Government (net)	-61.6	-74.7	-48.2	-59.8	-90.5	-126.4	-80.3	-76.8	-54.0	-80.9	-51.8	-106.8	-113.6	-116.7	-116.4	-118.8	-71.6	-72.8
Public nongovernment deposits (-)	-0.8	-2.0	-0.9	-0.5	-2.0	-0.5	-0.9	-1.8	-2.0	-1.3	-0.5	-0.2	-0.5	-1.3	-0.5	-0.2	-0.9	-0.9
Public enterprises	2.2	2.4	2.4	2.0	2.4	1.7	2.4	1.9	2.5	1.8	3.4	1.4	3.4	1.4	3.4	1.4	3.4	1.7
Private sector	131.1	162.2	164.9	172.2	177.8	180.5	182.8	194.8	189.9	196.2	212.0	203.6	221.6	213.4	229.6	227.0	241.3	244.9
Other items (net; asset +)	-79.0	-87.7	-90.4	-98.8	-90.4	-99.3	-90.4	-109.7	-90.4	-95.7	-104.7	-108.8	-104.7	-99.0	-104.7	-100.0	-99.5	-98.5
Broad money[5, 6]	219.6	287.4	283.5	277.3	297.7	306.8	305.3	332.1	312.4	375.2	365.9	368.2	382.0	389.5	383.2	394.3	416.5	422.3
Currency in circulation	48.3	54.6	52.0	50.0	56.5	54.4	58.2	55.6	60.6	67.3	63.4	64.4	72.9	72.8	70.1	67.9	74.0	72.0
Deposits	171.3	232.7	231.5	227.4	241.2	252.4	247.1	276.6	251.8	307.9	302.5	303.8	309.0	316.7	313.1	326.4	342.5	350.3
Of which: foreign currency deposits	39.4	52.9	47.0	53.3	43.0	53.9	40.0	57.5	45.0	62.7	35.0	64.6	36.0	67.5	37.0	69.8	66.1	72.2
							(Annual changes in percent of beginning-of-period broad money)											
Net foreign assets	29.3	29.4	-2.5	1.7	9.5	30.5	4.5	17.3	-7.4	24.6	16.4	42.2	8.2	13.4	14.5	18.4	-1.0	-1.9
Net domestic assets	-12.1	2.0	30.8	23.8	14.1	-3.1	14.0	11.6	16.1	6.2	15.6	-9.4	16.6	13.6	1.0	0.3	15.2	14.3
Domestic credit	-5.3	7.8	40.3	38.4	18.4	5.0	12.9	18.4	15.0	9.7	17.7	-5.8	18.1	13.5	-0.3	-2.6	17.3	15.2
Government (net)	-16.4	-6.0	28.4	23.1	7.3	-7.6	2.8	4.2	5.4	-2.1	2.9	-17.0	4.2	3.1	-11.5	-12.6	6.6	2.1
Economy	11.2	13.8	11.9	15.3	11.1	12.6	10.1	14.2	9.7	11.9	14.8	11.2	14.0	10.3	11.2	10.0	10.7	13.1
Other items (net; asset +)	-6.9	-5.8	-9.5	-14.6	-4.3	-8.1	1.1	-6.7	1.0	-3.5	-2.1	-3.6	-1.5	0.1	1.3	2.9	-2.1	-0.9
Broad money	17.2	31.4	28.3	25.5	23.6	27.4	18.5	28.9	8.7	30.8	31.9	32.8	24.8	27.0	15.5	18.7	14.2	12.3
							(Annual percent changes)											
Net foreign assets	31.8	28.9	-2.8	-0.1	8.2	26.5	4.1	15.9	-7.4	24.7	17.3	45.9	7.2	12.7	14.8	20.0	-1.1	-2.0
Net domestic assets	-156.0	-102.2	-166.4	-138.4	-93.1	15.4	-157.0	-136.3	-21,773.7	11,279.6	284.6	-171.2	-113.8	-95.0	41.1	12.8	324.0	258.4
Domestic credit	-12.2	24.0	305.7	290.9	102.1	27.5	47.0	67.0	46.4	31.7	43.1	-14.0	100.1	74.7	-0.8	-7.3	57.9	49.4
Government (net)	100.0	21.3	-56.6	-46.1	-16.2	17.0	-8.2	-12.2	-22.2	8.3	-30.9	78.7	-10.1	-7.6	49.1	54.6	-25.2	-10.0
Economy	18.8	22.8	18.8	24.1	17.7	20.0	16.5	23.2	17.1	20.9	17.6	17.9	23.5	17.5	19.1	17.1	19.1	25.0
Other items (net; asset +)	19.5	17.0	27.1	39.7	13.0	24.4	-3.0	18.8	-3.2	11.6	6.0	12.3	4.7	2.5	-4.0	-6.8	8.3	3.7
							(In percent, unless otherwise indicated)											
Memorandum items:																		
Currency/broad money ratio	22.0	19.0	18.3	18.0	19.0	17.7	19.1	16.7	19.4	17.9	17.3	17.5	19.1	18.7	18.3	17.2	17.8	17.0
Reserve money annual growth	12.3	11.9	27.0	22.6	26.4	28.7	26.4	27.5	28.5	30.7	23.0	31.7	15.7	18.7	14.1	16.4	12.4	15.4
Reserves/deposits	38.0	31.2	36.0	35.8	36.8	36.0	36.5	32.9	37.0	30.8	32.7	35.3	33.8	34.2	33.1	32.8	31.0	31.1
Money multiplier	3.4	4.0	3.4	3.5	3.4	3.4	3.4	3.7	3.4	4.0	3.7	3.5	3.7	3.7	3.7	3.8	3.9	3.9
Reserve/deposits	8.0	6.1	10.1	10.7	10.5	13.0	10.9	11.8	11.6	7.5	11.9	10.7	10.3	9.6	11.0	10.6	9.5	10.7
Currency/deposits	35.3	29.3	28.1	27.2	29.0	26.8	29.0	25.1	29.5	27.3	26.8	26.5	30.0	28.9	28.4	26.0	26.7	24.9
Velocity of broad money (end of period)	6.0	5.5	5.7	4.9	5.7	4.9	5.7	4.8	5.7	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Velocity of broad money (average of period)	6.5	6.3	5.9	7.3	5.9	6.7	5.9	6.2	5.9	5.7	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Net open position of the NBR (RF billion)	181.2	220.8	204.9	202.4	247.6	285.6	241.9	258.5	214.1	278.5	252.6	299.7	316.8	316.4	309.6	309.2	270.5	269.9
Net open position of commercial banks (RF billion)	7.2	13.5	--	6.4	6.0	11.2	6.0	7.7	3.7	13.9	15.0	5.0	18.0	2.5	20.0	0.2	2.0	2.0
Extended broad money (RF billion)[7]	250.9	334.2	329.6	324.7	346.2	357.4	355.0	388.3	363.3	437.1	425.5	428.9	444.1	453.7	445.6	459.3	484.3	491.1
Nominal GDP (RF billion)	1,327.1	1,583.0	…	…	…	…	…	….	1,772.0	1,826.2	…	…	…	…	…	…	2,051.2	2,081.1

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

[1] Converted at the program exchange rate: for 2005: RF 566.9/US$; for 2006: RF 553.7/US$; and for 2007: RF 549.9/US$.

[2] The IMF's MDRI reduced foreign liabilities at the NBR by RF 42.4 million with a counter entry in government deposits (in January 2006).

[3] The definition of reserve money as performance criterion or structural benchmark differs from the definition in the monetary program in that it excludes the deposits of a defunct savings bank, import deposits, and dormant accounts. It includes old notes demonetized at the end of 2004 but in circulation until the end of 2005.

[4] The reserve money target for 2007 is derived by applying the programmed growth rate of 13 percent to the rebased 2006 outcome. The rebased 2006 outcome was calculated by allowing banks to meet the legal reserve requirement on deposits (banks' reserves at the end of December 2006 fell short of the requirement by RF 7.5 billion, they met the requirement because it is based on an average over two weeks; plus (2) a liquidity reserve of RF 3 billion to ensure sufficient financing in

[5] From December 2005 on, includes *Caisse Hypothecaire du Rwanda* (BHR) deposits (RF 1 billion at end-2005).

[6] End-2006 broad money includes RF5 billion temporary build up of local government deposits, which were unwound by February 2007.

[7] Broad money plus deposits in the *Union de Banques Populaires de Rwanda* (UBPR) and Rwanda Development Bank (BRD).

Table 4. Rwanda: Balance of Payments, 2005-10
(Millions of U.S. dollars, unless otherwise indicated)

	2005	2006	2007		2008		2009	2010
			Program	Est.	Program	Proj.	Projection	
Exports, f.o.b.	126.0	147.3	153.0	176.8	201.7	213.9	235.4	266.0
Of which: coffee	38.3	54.0	55.7	35.7	52.6	53.0	67.7	87.0
tea	24.4	31.9	34.4	31.6	36.9	38.8	43.2	46.5
Imports, f.o.b.	353.7	446.4	569.5	581.2	749.5	763.9	808.7	838.7
Trade balance	-227.6	-299.1	-416.5	-404.4	-547.8	-550.0	-573.3	-572.7
Services (net)	-166.5	-206.4	-235.4	-207.6	-298.5	-335.5	-350.0	-358.8
Income	-27.7	-28.7	-10.9	-17.2	-6.6	-22.6	-23.3	-16.6
Of which: interest on public debt[1]	-13.4	-10.2	-3.4	-6.3	-3.6	-6.1	-6.4	-7.1
Current transfers (net)[2]	395.2	323.9	439.7	461.3	494.3	557.8	432.0	436.5
Private	46.7	77.2	77.3	98.8	98.4	109.6	119.1	129.8
Public	348.5	246.8	362.4	362.5	395.9	448.2	312.9	306.7
Of which: HIPC grants	30.6	22.2	8.6	4.5	7.6	5.9	5.9	5.4
Current account balance (including official transfers)	-26.6	-210.3	-223.1	-167.9	-358.6	-350.2	-514.5	-511.6
Current account balance (excluding official transfers)	-375.1	-457.0	-585.4	-530.4	-754.5	-798.4	-827.4	-818.2
Capital account	103.2	1323.2	113.6	92.3	198.1	201.7	221.3	223.1
Capital transfers	103.2	173.2	113.6	92.3	198.1	201.7	221.3	223.1
IMF-MDRI relief		76.6						
Debt forgiveness (IDA and AfDF-MDRI Relief)		1150.0						
Financial account	34.7	-1030.4	95.2	183.4	137.3	132.8	313.7	321.5
Direct investment	10.6	30.6	40.0	82.3	95.0	83.4	95.9	124.7
Public sector capital	45.5	46.1	57.1	79.9	40.7	70.6	241.1	255.0
Long-term borrowing[3]	83.7	68.4	66.9	88.2	49.8	77.9	248.9	263.3
Scheduled amortization[4]	38.2	22.3	9.9	8.3	9.2	7.3	7.8	8.3
Other capital[5]	-21.5	-1107.1	-1.9	21.2	1.7	-21.2	-23.4	-58.2
IDA and AfDF-relief		-1150.0						
Capital and financial account balance	137.9	292.8	208.8	275.8	335.4	334.5	535.0	544.6
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	111.3	82.5	-14.3	107.9	-23.2	-15.7	20.5	33.0
Financing	-111.3	-82.5	14.3	-107.9	23.2	12.0	-22.4	-33.0
Change in net foreign assets of NBR (increase -)	-111.3	-82.5	14.3	-107.9	19.9	12.0	-22.4	-33.0
Net credit from the Fund	-8.2	-72.5	3.3	3.4	0.0	1.8	0.0	-0.1
Disbursements/purchases	1.7	4.1	3.3	3.4	0.0	1.8	0.0	0.0
Repayments/repurchases	-9.8	-76.6	0.0	0.0	0.0	0.0	0.0	-0.1
Change in other gross official reserves (increase -)	-91.3	-33.8	33.6	-112.7	27.2	16.5	-22.4	-32.9
Change in other foreign liabilities (increase +)	-11.9	23.8	-22.5	1.5	-4.0	-6.3	0.0	0.0
Change in arrears (decrease -)	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
Financing need	0.0	0.0	0.0	0.0	3.3	3.7	1.9	0.0
Memorandum items:								
Current account deficit (percent of GDP)								
Excluding official transfers	-15.7	-15.9	-17.9	-15.9	-20.0	-20.6	-19.2	-17.7
Including official transfers	-1.1	-7.3	-6.8	-5.0	-9.5	-9.0	-12.0	-11.1
Gross official reserves	405.8	439.6	406.1	552.4	531.4	535.8	558.2	591.1
Gross official reserves (months of imports of G&NFS)	6.2	5.6	5.1	5.3	4.8	4.8	4.8	4.8
Overall balance (percent of GDP)	4.7	2.9	-0.4	3.2	-0.6	-0.4	0.5	0.7
Total external debt[6]	1510.6	477.6	416.4	579.3	596.1	660.2	907.9	1167.2
Total external debt (percent of GDP)	63.3	16.7	12.8	17.4	15.8	17.0	21.1	25.2
Debt service ratio (after HIPC and MDRI debt relief [7])	8.6	3.7	1.5	3.0	1.4	2.1	2.0	2.2

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

[1] Including interest due to the Fund.

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

[3] Includes project and budgetary loans.

[4] Excluding Fund.

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

[6] After rescheduling, including arrears and new debt.

[7] Reflects traditional debt relief from bilateral creditors and MDRI and enhanced HIPC Initiative assistance from both multilateral and bilateral creditors. Also includes additional bilateral debt relief delivered at the completion point.

Table 5. Rwanda: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2008–09

Date	Conditions necessary for disbursement	Amount	
		(In millions of SDRs)	(In percent of quota)
June 16, 2008	Observance of quantitative performance criteria for December 31, 2007, completion of the fourth review under the arrangement.	1.14	1.42
October 15, 2008	Observance of quantitative and structural performance criteria for June 30, 2008, completion of the fifth review under the arrangement.	1.14	1.42
April 15, 2009	Observance of quantitative performance criteria for December 31, 2008, completion of the sixth review under the arrangement.	1.17	1.46
	Total	3.45	4.31

Table 6. Rwanda: Millennium Development Goals

	1990	1995	2000	2004	2005	2006	Likelihood of reaching the target by 2015[1]
Goal 1: Eradicate extreme poverty and hunger							
Percentage share of income or consumption held by poorest 20%	...	...	5.3	...	...	...	
Population below $1 a day (%)	...	...	25.6	...	...	...	Challenging
Population below minimum level of dietary energy consumption (%)	*43.0*	*51.0*	...	33.0	...	...	
Poverty gap ratio at $1 a day (incidence x depth of poverty)	...	...	60.3	...	...	...	
Poverty headcount, national (% of population)	...	*51.2*	60.3	...	56.9	...	
Prevalence of underweight in children (under five years of age)	*29.4*	*27.3*	24.3	...	22.5	...	Achievable
Goal 2: Achieve universal primary education							
Net primary enrollment ratio (% of relevant age group)	66	...	...	73.2	73.7	...	Likely
Primary completion rate, total (% of relevant age group)	*45*	...	22.4	37.4	39.0	...	Achievable
Proportion of pupils starting grade 1 who reach grade 5	59.9	...	39.1	...	...	...	
Youth literacy rate (% ages 15–24)	72.7	78.6	...	...	...	77.6	
Goal 3: Promote gender equality and empower women							Likely
Proportion of seats held by women in national parliament (%)	17.0	...	17.0	49.0	48.8	48.8	
Ratio of girls to boys in primary and secondary education (%)	96.4	...	94.7	99.0	99.1	...	Achievable
Ratio of young literate females to males (% ages 15–24)	86.4	91.8	95.8	...	...	97.9	Likely
Share of women employed in the nonagricultural sector (%)	14.6	...	...	...	...	...	
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12–23 months)	83.0	84.0	74.0	84.0	89.0	...	Already Achieved
Infant mortality rate (per 1,000 live births)	103	124	118	...	118	...	Achievable
Under 5 mortality rate (per 1,000)	173	209	203	...	203	...	Achievable
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	...	...	31.3	...	38.6	...	Achievable
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	1400	...	...	...	Unlikely
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Contraceptive prevalence rate (% of women ages 15–49)	*21*	...	13.2	...	17.4	...	Challenging
Incidence of tuberculosis (per 100,000 people)	135.0	236.0	322.7	361.3	361.0	...	
Number of children orphaned by HIV/AIDS	...	...	160,000	*160,000*	210,000	...	
Prevalence of HIV, total (% of population aged 15–49)	...	...	...	...	3.0	...	
Tuberculosis cases detected under DOTS (%)	...	34.0	32.9	*27.5*	29.4	...	Already Achieved
Goal 7: Ensure environmental sustainability							
Access to an improved water source (% of population)	59	...	...	74	...	...	Achievable
Access to improved sanitation (% of population)	37	...	...	42	*42*	...	
Access to secure tenure (% of population)	...	...	...	...	...	...	
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	...	...	...	
Forest area (% of total land area)	13	...	13.9	...	19.5	...	Unlikely
GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	...	...	...	...	...	...	
Nationally protected areas (% of total land area)	...	...	...	*7.9*	...	...	
Goal 8: Develop a global partnership for development							
Aid per capita (current US$)	41.9	128.0	40.1	*55*	63.7	...	NA
Debt service (% of exports)	10.7	20.0	24.9	9.8	7.4	...	
Fixed line and mobile phone subscribers (per 1,000 people)	1.0	1.0	7.0	18.2	...	...	
Internet users (per 1,000 people)	...	...	0.6	4.3	5.5	...	
Personal computers (per 1,000 people)	...	...	...	...	...	...	
Unemployment, youth female (% of female labor force ages 15-24)	...	...	...	...	...	...	
Unemployment, youth male (% of male labor force ages 15-24)	...	...	...	...	...	...	
Unemployment, youth total (% of total labor force ages 15-24)	...	...	...	...	...	...	
Other							
Fertility rate, total (births per woman)	7.4	6.5	5.9	6.1	5.8	...	
GNI per capita, Atlas method (current US$)	360.0	230.0	250.0	210.0	230.0	...	
GNI, Atlas method (current US$) (billions)	2.5	1.3	2.0	1.9	2.1	...	
Gross capital formation (% of GDP)	14.6	13.4	17.5	20.5	22.4	...	
Life expectancy at birth, total (years)	40.2	...	40.9	...	44.1	...	
Literacy rate, adult total (% of people ages 15 and above)	53.3	60.2	66.8	...	...	64.9	
Population, total (millions)	7.1	5.4	8.0	8.9	9.0	...	
Trade (% of GDP)	19.7	31.0	32.9	38.7	41.5	...	

Source: World Development Indicators Database, April 2008.
Data in italics are estimates.

[1] World Bank estimates.

APPENDIX I—LETTER OF INTENT

Kigali, Rwanda
May 29, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn

1. The third review of our financial and economic program supported under the Fund's Poverty Reduction and Growth Facility (PRGF) was completed on February 29, 2008. In the attached Memorandum of Economic and Financial Policies (MEFP), we review recent economic developments and amend our policies for the remainder of 2008.

2. Program implementation under the PRGF arrangement has been broadly on track. All quantitative performance criteria for end-December 2007 were met with the exception of the performance criterion (PC) on net credit to government, which was exceeded due to administrative delays in disbursements by the Fast Track Education Initiative (FTEI) and the African Union (AU). The FTEI disbursements were received in January 2008, and the AU in March 2008. Thus, we are requesting a waiver for the nonobservance of the quantitative performance criterion on net credit to government.

3. To accommodate additional donors' funds that became available for use in 2008 and emergency spending related to rehabilitation of damage caused by earthquakes in early 2008, we request a modification of the fiscal performance criteria for 2008. In addition, we request modification of the performance criteria on reserve money to accommodate the impact of increasing costs of fuel imports and growing pressures from rising world food prices on domestic inflation.

4. To proceed with the construction and financing of the hydro-electric project at Nyabarongo, the Government of Rwanda requests a modification of the continuous performance criterion on nonconcessional debt. This project is important to address our energy needs and alleviate one of the main constraints to growth.

5. In support of our policies described in the MEFP, the Government of Rwanda requests the completion of the fourth review under the PRGF arrangement and the disbursement of the fifth loan of SDR 1.14 million.

6. The Government of Rwanda believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government of Rwanda will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. The fifth review under the PRGF arrangement is expected to be completed by end-November 2008, and the sixth review by mid-May 2009.

7. The Government of Rwanda authorizes the publication and distribution of this letter, MEFP and TMU together with the related staff report.

Sincerely yours,

/ s /	/ s /
François Kanimba	James Musoni
Governor	Minister of Finance and Economic Planning
National Bank of Rwanda	

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

Appendix I—Attachment I

RWANDA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP)

May 29, 2008

1. This memorandum amends our economic program for 2008 (set out in the MEFP of February 2008) that is supported by an arrangement under the IMF's Poverty Reduction and Growth Facility. The program reduces poverty by preserving macroeconomic stability, boosting economic growth, and adopting policies that will improve the lives of the poor. This memorandum is consistent with the goals established in the new Economic Development and Poverty Reduction Strategy (EDPRS). The memorandum reviews the recent performance under the program through end-2007 and describes the policies for the remainder of 2008.

I. RECENT ECONOMIC DEVELOPMENTS

2. **With policies remaining on track, strong growth and single-digit inflation were signs of a satisfactory macroeconomic performance in 2007.** GDP growth at 6 percent exceeded initial projections because of buoyant activity in the construction and the services sectors, despite adverse weather conditions having depressed agricultural output. Inflation declined from 12 percent at end-December 2006 to less than 7 percent at end-2007. However, core inflation (excluding fresh food and energy) was high in the second half of the year. In early 2008, mounting costs of fuel imports led to a hike in transportation prices. Even though a good local harvest temporarily offset the pressures from rising world food prices and headline inflation remained in single digits, core inflation continued to rise and reached 11 percent in March.

3. **The execution of fiscal policies was broadly in line with the program, although the target on net credit to government was missed (see MEFP Table 1).** Higher-than-programmed revenue offset the higher-than-budgeted spending, and hence the end-2007 target on the domestic fiscal balance was met. The buoyant revenue performance reflected higher economic growth, improved tax collection efficiency, and one-off tax collections from arrears, VAT and a now discontinued tax on mobile phone usage. On the spending side, there were additional outlays for the construction and repair of schools and roads, and projects in export promotion, agriculture, energy, water, and sanitation. As a result, priority spending substantially exceeded the target. However, the target on net credit to government was missed, because of unexpected administrative delays in disbursing the second tranche of the Fast Track Education Initiative (FTEI) and continued delays in reimbursements from the AU for our peacekeeping efforts in Sudan. The delay in accessing the FTEI tranches in 2007 was caused by uneven familiarity with the FTEI operational guidelines by the staff at the Ministry of Finance and Economic Planning and the Ministry of Education as well as development partners. As the second FTEI disbursement was received in January 2008 and the AU funds in March 2008, bringing net credit to government back on track, we request a waiver of nonobservance of this performance criterion.

4. **Although the end-2007 reserve money target was met, monetary management was a challenge (MEFP Table 1).** An acceleration in domestic fiscal spending (including for projects) and a delayed coffee harvest injected more liquidity in the second half of the year. Accordingly, the National Bank of Rwanda (NBR) stepped up sterilization operations to mopup the excess liquidity and to bring reserve money within the end-December target. Foreign exchange sales increased, but were not sufficient to reduce the excess liquidity. Thus the NBR issued more domestic paper and, as a result, the stock of domestic debt at end-2007 exceeded the indicative target. Although the sterilization operations kept end-month reserve money within the targets, average intra-month reserve money exceeded the end-month targets. Broad money was about 20 percent higher than programmed at end-2007, which broadly matched an excess in the accumulation of NFA above the program target. These trends from the second half of 2007 continued in early 2008.

5. **From mid-February 2008, the method of exchange rate determination was modified.** The exchange rate was adjusted by 0.125 basis points vis-à-vis the U.S. dollar downward or upward on a weekly basis depending on under- or over-performance in sales of foreign exchange to the commercial banks. The performance assessment was based on a weekly target for foreign currency sales derived from the annual projection of foreign exchange sales.

6. **The current account deficit of 16 percent of GDP for 2007 was smaller than projected.** Higher-than-expected private transfers and mineral exports more than offset a reduction in agricultural exports and growing imports. The NBR's international reserves significantly surpassed the program target, largely reflecting nonbudgetary aid inflows and privatization proceeds. The Rwandan franc was stable against the U.S. dollar and, consistent with the U.S. dollar's performance, depreciated against other major world currencies. The nominal effective exchange rate depreciated by 6 percent year-on-year at end-2007, and the real effective exchange rate depreciated by 4 percent during the same period.

7. **The net present value (NPV) of external debt exceeded projections.** In 2007, new disbursements of external debt (excluding IMF) totaled about US$88 million—about US$21 million higher than projected. At the same time, Rwanda received only about half of the previously expected HIPC debt relief on debt service from creditors that still provide relief on flow basis, which also prompted downward revision of the relief projected for 2008-09. In addition, the depreciation of the U.S. dollar against other major currencies contributed to the increase in the stock of external debt at end-2007, and its net present value exceeded the indicative target under the program.

8. **Two exogenous shocks weakened economic activity temporarily in early 2008:**

- *The political and social crisis in Kenya* had economic consequences for all land-locked countries relying on the port of Mombasa for exports and imports. The transport of goods through Kenya came to a standstill during the first half of January, but recovered slowly during the second half of that month and more strongly from mid-February. Economic growth should be relatively unaffected since many businesses in Rwanda had stocks to cover a period of supply disruptions. However, to prevent fuel shortages, about 1.5 million liters from the strategic fuel reserve were sold to petroleum distributors in January, fuel rationing was temporarily introduced, and some fuel imports were rerouted through Tanzania albeit at a higher cost. Additionally, regulated petroleum prices were raised by 6 percent in January and by further 4.5 percent in early April to compensate for the higher costs of imports, and regulated transport fees were increased by 15-25 percent in January.

- *A series of earthquakes* struck Rwanda in early February. In addition to human casualties and hundreds of injured, there was extensive damage to schools, hospitals, and about 1,200 houses. The Government of Rwanda (GoR), together with UN agencies and other international and bilateral organizations, provided emergency assistance.

9. **The GoR launched and began implementing the Financial Sector Development Plan (FSDP) in 2007** to create an efficient financial sector and enhance private-sector led economic growth. Recent progress (since the update in the February 2008 MEFP) in the four areas covered by the plan is as follows:

- *Developing banking and access to credit.* The amendments to the Central Bank Act were published in the Official Gazette in February 2008, allowing the NBR to regulate insurance companies. All commercial banks complied with the new and higher minimum capital requirement by December 2007 with the exception of Cogebanque, where the negotiations with the new foreign investors and the capital transfer necessary to reach the minimum capital were completed in mid-April. The Union des Banques Populaires du Rwanda (UBPR), previously a large microfinance network, obtained a commercial bank license in mid-February 2008 and has entered into a strategic partnership with the Rabobank Group (from the Netherlands), which now owns 35 percent of the shares in UBPR. As a result, from mid-February, UBPR was included in the program definition of reserve money, and program targets for the monetary aggregates have been adjusted accordingly through the relevant adjustors specified in the Technical Memorandum of Understanding of February 12, 2008. Banque Rwandaise de Developpement (BRD, the Rwandese Development Bank) raised its total share capital and entered into a strategic partnership with the African Development Corporation (a private German group) in March. The public sector ownership has declined to 45 percent of total capital, while the African Development Corporation now owns a 25 percent share.

- *Strengthening Microfinance Institutions (MFIs).* 11 of the targeted MFIs complied with the new and higher minimum capital requirement by January 1, 2008. The remaining MFI, ASEC SA, was unable to meet the requirements and has agreed to be acquired by CFE Agaseke, another MFI.

- *Long-term financial and capital markets.* Parliament passed the new Accountants Bill in December 2007. As a result, all financial institutions, large companies, and public companies must comply with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). An over-the-counter debt market was launched in January 2008. Four bonds are currently listed on this market (two 2-year Treasury bonds with an 8 percent coupon, a 3-year Treasury bond with an 8.25 percent coupon, and a 10-year corporate bond issued by BCR bank with a floating coupon).

- *Pension and insurance.* A draft Insurance Law was submitted to the Cabinet in February. A unit covering non-bank financial institutions began working at the NBR in late March. The first draft of a study on rural insurance was presented to all stakeholders in March.

- *Payment systems.* The National Payment Council decree was submitted to the Cabinet in March 2008. The restructuring of SIMTEL (the national card payments system) is ongoing and the process is expected to be completed by end-2008. As part of this restructuring, the African Development Corporation intends to acquire 70 percent of the share capital of SIMTEL and bring in new expertise.

10. **Further steps have been taken to strengthen the public financial management (PFM) system.** Parliament passed a law transforming the National Tender Board (NTB) into the Rwanda Public Procurement Agency in December 2007, and the NTB Management Board finalized and adopted a strategic plan for procurement and capacity building in December. The consolidated government financial statements for 2007, including the central government, local governments, autonomous agencies, and extra-budgetary agencies, were completed by end-March 2008 and subsequently approved by the Cabinet. The execution reports of central government transfers to local governments per program per district for July-December 2007 were published on the MINECOFIN website on March 31, 2008.

11. **Several measures to reduce the cost of doing business were introduced,** including the implementation of the Commercial Justice, Business, and Land Registration Program. Progress was made recently in the following areas:

- To reduce the cost of starting business, we eliminated the company registration fee, abolished requirements for notary verification of certain documents, and eased procedures for access to water and electricity.

- To expedite delivery and increase transparency of tax payments, we now require large tax payments to be made either by certified checks or bank transfers.

- To simplify real estate transactions, we abolished the 6 percent payment for property registration and the 2.5 percent fee for mortgage applications and replaced them with much lower flat fees. In addition, a ministerial decree establishing the rate of administrative fees for registration of land was approved by the Cabinet in January 2008 and the ministerial order establishing the requirements and procedures for land lease and modalities for land registration was adopted by the Cabinet in February 2008.

II. The Program for 2008

12. **The objectives and the design of the 2008 program remain broadly unchanged from those specified in the MEFP in February 2008.** We continue to believe that a real growth rate of 5½ –6½ percent is achievable. Our preliminary assessment suggests that the impact of the Kenyan crisis and the earthquakes on real economic activity was relatively muted. A good harvest in early 2008 boosted the projection for agricultural growth, largely offsetting the somewhat weakened outlook for growth in industry and services. We believe that growth could reach 6.8 percent if further supply disruptions due to the Kenyan crisis are avoided. Inflationary pressures have increased because of higher transport costs of goods imported through Kenya and the alternative supply route through Tanzania, and the significant passthrough of rising international fuel prices. In addition, the inflationary impact of rising costs of food imports is projected to become stronger in the second half of the year. The average inflation rate for 2008 is therefore revised upward to 8½ percent and the macroframework is adjusted accordingly. Macroeconomic and structural policies, designed to improve the living standards of the poor and promote growth-enhancing investments and reforms, remain largely unchanged.

A. Macroeconomic Program

Fiscal policy

13. **We plan to increase fiscal expenditure by an additional 2.1 percent of GDP from the program outlined in the February 2008 MEFP.**[4] This increase will require a modification of the performance criterion on domestic fiscal balance and the target on net credit to government (Table 2). The main changes to the fiscal program are as follows (see also Text Table 1):

- *Additional grants.* The second tranche of the FTEI initiative expected in December 2007 was received in January 2008. These resources will be used to repay domestic debt that accumulated as a result of the delay. Additional grants have become available from DFID for spending on health and from the World Bank for spending on

[4] All references presented as a share of GDP in this section refer to ratios with respect to the new 2008 GDP projection of RwF 2,081.1 billion.

energy. Utilizing these resources will entail additional spending of 0.6 percent of GDP.

- *Additional revenues.* We plan to increase the revenue-to-GDP ratio by 0.5 percent of GDP (after adjusting for one-off tax gains of about 0.3 percent of GDP in 2007). The revenues are revised in nominal terms reflecting higher projections for inflation and nominal GDP, as well as higher efficiency in collections. As stated in the February 2008 MEFP, we stand ready to increase fees and charges should there be any revenue shortfalls.

- *Earthquake rehabilitation.* The cost of rebuilding and rehabilitating schools and hospitals destroyed by the recent earthquakes is estimated at about 0.3 percent of GDP. A small portion of the spending will be executed through donor-financed projects (0.02 percent of GDP). The remainder will be financed by domestic borrowing. Should donors provide budget support financing for the earthquake rehabilitation later in 2008, these resources would be used to repay the government's domestic borrowing. A relevant adjustor on net credit to government is added in the TMU (paragraph 13).

- *ID cards.* We have launched a new project to issue identity cards to all Rwandans above the age of 16 to improve efficiency in the provision of social services, replace drivers licenses, and to introduce a Smart card system which will have added features such as data for Social Security (i.e. CSR) and medical insurance (i.e. RAMA). While this project will increase spending by 0.4 percent of GDP, we expect it will yield additional revenues of up to 0.3 percent of GDP from charges on the identity documents. Proceeds from the project will be monitored closely and should shortfalls occur, we will implement the following offsetting measures:

    (i) expenditure cuts in domestic capital and recurrent transfers of about 0.2 percent of GDP;

    (ii) on the revenue side, we will implement a tax on pay TV, introduce an excise tax on beauty products and raise the excise duty on wines and liquor (revenue gain of 0.1 percent of GDP).

- *Strategic fuel reserve.* We plan to replenish the stock of the strategic fuel reserves, financed by proceeds from the sale of the strategic fuel reserve in early 2008. This will increase total spending by 0.1 percent of GDP, but there will be no effect on the domestic fiscal balance and net credit to government.

- *Interest costs.* We will increase spending to cover the higher-than-initially envisaged costs of domestic and foreign interest payments due to a restructuring of domestic debt to long-term maturity at a slightly higher interest rate and a revision of foreign interest payments.

Text Table 1.: Changes to the 2008 Program (billions of Rwanda Francs and percent of GDP)

	Jan - Jun	Jul-Dec	Jan-Dec	% of GDP[1]
New Resources	**34.4**	**30.1**	**64.5**	**3.1**
Higher Revenue	8.1	6.7	14.8	0.7
Tax revenue	3.2	4.6	7.8	0.4
Non tax revenue	4.9	2.1	7.0	0.3
ID cards receipts	4.2	1.3	5.5	0.3
Strategic fuel reserves	0.7	0.8	1.5	0.1
Privatization receipts	0.0	13.6	13.6	0.7
Change in Grants	22.5	-0.9	21.6	1.0
Budget Grants	22.2	-1.1	21.1	1.0
World Bank	*6.8*	*0.0*	6.8	0.3
DFID Health Grant	*5.4*	*0.0*	5.4	0.3
Fast Track Educative Initiative	*7.1*	*0.0*	7.1	0.3
AU Peacekeeping initiative	*2.9*	*0.0*	2.9	2.9
HIPC grants	*0.0*	*-1.1*	-1.1	-0.1
Capital Grants	*0.2*	*0.3*	*0.5*	0.0
UNICEF project grants for earthquake reconstruction	*0.2*	*0.1*	0.3	0.0
Belgium project grants for earthquake reconstruction	*0.0*	*0.2*	0.2	0.0
Change in Loans	*3.8*	*10.7*	*14.5*	0.7
India Exim Bank (Nyaborongo Project)	*…*	*10.7*	10.7	0.5
OPEC	*3.8*	*…*	3.8	0.2
New Spending	**14.6**	**28.1**	**42.7**	**2.1**
Current and Domestic Capital Spending	14.4	17.1	31.5	1.5
Health Spending (DFID financing)	0.3	5.1	5.4	0.3
Interest	0.5	1.0	1.5	0.1
Emergency spending for earthquake reconstruction	5.0	0.5	5.5	0.3
ID cards	6.7	2.0	8.7	0.4
Energy Project (WB financing)	0.0	5.4	5.4	0.3
Nyaborongo Project (Domestic financing)	0.1	3.1	3.2	0.2
Replenishment of Strategic stocks	1.2	0.0	1.2	0.1
Reimbursement of CSR (Rwandatel privatization)	0.7	0.0	0.7	0.0
Foreign Financed Capital Spending	0.2	11.0	11.2	0.5
Nyaborongo Project	…	*10.7*	10.7	0.5
UNICEF project grants for earthquake reconstruction	*0.2*	*0.1*	0.3	0.0
Belgium project grants for earthquake reconstruction	*0.0*	*0.2*	0.2	0.0
Change in domestic balance excluding demobilization and peacekeeping expenditures[2]	-5.9	4.1	-1.7	-0.1
Adjustment for expected privatization proceeds	0.0	13.6	13.6	0.7
Adjustment to the domestic fiscal deficit	**-5.9**	**-9.5**	**-15.4**	**-0.7**

[1] The changes in the program as a share of GDP are with respect to the new 2008 GDP of Rf 2,081.1 billion.

[2] TMU definition of the domestic fiscal balance, TMU of February 12, 2008.

- *Privatization*. We expect to receive the second payment (US$25 million) for the sale of RwandaTel to Lap Green Networks in the fourth quarter of 2008. In line with the program, the proceeds will be saved through end-2008.

- *Infrastructure spending* (Nyabarongo energy project). See paragraphs 15 and 16 below.

14. **Should budgetary (untied) grants exceed program projections, we will release the so-called contingent spending (defined in the February 2008 TMU) only after a careful assessment of macroeconomic conditions and consultation with the Fund staff.**

Infrastructure

15. **To address our energy needs and help alleviate one of the infrastructure bottlenecks of growth, we intend to construct a hydro-electric power plant at Nyabarongo.** The overall cost of the 4-year investment project will be US$112.7 million. Our economic analysis suggests that the internal rate of return of the projects exceeds the cost of capital. We expect that the main economic benefits will arise in the form of higher GDP and export growth. The project will also enable us to replace the currently-used diesel-burning electricity generation with a cheaper alternative. We are also conducting an Environment and Social Impact Analysis, which will be finalized in May 2008.

16. **To finance the project, we seek a modification of the program to allow us to borrow on terms that are less concessional than those allowed under the program.** We have sought, but have been unable to obtain, financing on terms that satisfy the 50 percent concessionality requirements of our PRGF arrangement. As a result, we plan to borrow US$97.7 million from the India Exim Bank. Of this amount, the Exim Bank has already committed to provide US$80 million. The concessionality of the loan is 40 percent. We have also requested additional Exim Bank financing of US$17.7 million. The remainder of the costs not covered by external borrowing estimated at US$15 million would be financed from our own resources (US$5.8 million required in 2008). The World Bank has made a positive assessment of the financial viability of the project and the fit within the least-cost electricity generation expansion plan. Our other development partners agree that the project is critical to our development strategy and have indicated that undertaking the project would not impede access to their concessional financing. Furthermore, we are in the process of developing a debt management strategy to guide future borrowing with the assistance of Fund and Bank staff. The GoR therefore requests a modification of the continuous performance criterion on debt concessionality to allow us to proceed with the financing of this energy project.

17. **Going forward, we will focus on other priority sectors outlined in the EDPRS.** We are in the process of preparing a 3-year investment project in agriculture that focuses on land husbandry, water harvesting and hillside irrigation. The feasibility studies for the project

started in March 2008. We plan to increase the scale of the project to 10,000 ha at estimated total cost of US$200 million. We are currently discussing possible financing with our development partners. The World Bank will assess the financial feasibility of the project, and we will consider proceeding with the project only if this assessment is favorable. To mitigate the future debt burden, we also intend to use some of the receipts from the privatization of RwandaTel for the partial financing of this project.

Monetary and exchange rate policy

18. **To prevent the scaling up of spending from fueling inflation, the NBR will maintain a tight monetary policy, particularly in light of increasing inflationary pressures arising from international price developments.** The NBR will continue to use reserve money as the operational target to control inflation. We request the modification of the 2008 reserve money performance criteria to accommodate the first round effects of inflation arising from international price developments exacerbated by higher transportation costs due to the Kenya crises. Additionally, the quarterly targets of NFA for June and September were revised to reflect changes in the timing of disbursements of grants from donors (Table 2). These revisions should still allow sufficient room for an expansion of credit to the private sector of about 25 percent at end-2008 as envisaged in the February 2008 MEFP. In addition to meeting the end-month reserve money targets (which will continue to form the basis of the quarterly performance criterion), the NBR will strive to meet the reserve money target on *average* each month. The NBR will therefore monitor reserve money and banks' excess reserves and will mop up excess liquidity daily (the balances above the level needed for normal operations of the banking system), particularly through additional sales of foreign exchange. Moreover, NBR will continue to monitor inflation, government spending and private sector credit and will stand ready to tighten the monetary stance, if needed.

19. T**he NBR will allow more flexibility in the exchange rate.** An increase in spending from higher aid flows is likely to result in further pressures for a real exchange rate appreciation in 2008. We will therefore allow greater flexibility in the exchange rate to achieve the volume of foreign exchange sales consistent with attaining the reserve money target (both on average and at the end of each month) and the ceiling on domestic debt. To achieve the needed exchange rate flexibility, the exchange rate level will be adjusted weekly, depending on deviations from the foreign exchange sale objective stated above, and will be determined judgementally by a working group as proposed in the aide memoire of the January 2008 technical assistance mission from the IMF's Monetary and Capital Markets Department. This will help ensure that the execution of the 2008 budget does not rekindle inflation or crowd out private investment.

20. **The NBR will improve daily liquidity management**. We recognize the limitations of overnight and 7-day instruments for money market operations. In this regard, we have reintroduced 4-week instruments and will establish repurchase agreement operations ranging from 1 to 90 days later in the second quarter of 2008. We will aim to restore interest rates for

these instruments to positive levels in real terms. These changes will be implemented gradually and will be communicated to the financial sector in a timely manner so as to avoid disruptions in the financial markets arising from asymmetric information.

Coordination of fiscal and monetary policies

21. **Coordination of fiscal and monetary policies will be strengthened to preserve macroeconomic stability.** Prudent management of aid must be consistent with the single-digit inflation objective, and must focus on preventing the crowding out of the private sector credit and the accumulation of costly domestic debt.

- *Quarterly budgetary allocation system.* As part of expenditure management reforms, we have made operational a quarterly budget ceiling module in the government's payment system. Past expenditure overruns often reflected a lack of commitment to the expenditure ceilings by the spending agencies. The new budget ceiling module will enable effective monitoring of payments and will automatically reject commitments for spending beyond the allowable ceiling.

- *Adjusting domestic component of public spending*. Should the domestic debt target under the program be exceeded, this would signal that the pace of domestic spending is too rapid, requiring the NBR to sterilize the additional liquidity impact through sales of domestic assets. In this case, MINECOFIN would adopt a more gradual approach in releasing the domestic component of the budget in the following month. Based on cash flow plans and information on inflation, the Treasury Management Committee (TMC) will revise the ceilings of spending of budget agencies on a monthly basis; this new ceiling will be communicated officially to the Chief Budget Managers and adjusted accordingly in the budget module (SmartGov).

22. **The GoR has undertaken an investigation to ascertain the reasons for a build-up in deposits in the district accounts.** We are committed to removing the constraints to the full utilization of local government transfers. This will ensure that the population receives the full benefits of funds allocated in good time. The investigation was concluded by mid-April. The initial build up of deposits was due to the transfer of funds from commercial bank accounts to NBR subaccounts. It was later followed by further build up of deposits due mainly to transfers by the Ministry of Education to districts for construction of schools which was sent between July and December 2007. This amount could not be utilized before the end of the fiscal year due to the required procurement process. However, these funds are expected to be used by the districts by end-September 2008.

23. **We commit to strengthening the existing Treasury Management Committee (TMC)**. The TMC has been holding weekly meetings between the Ministry of Economic Planning and Finance (MINECOFIN) and NBR to coordinate fiscal and monetary policies. It has provided an analytical platform to both institutions to refine policy implementation and forecasts. The TMC meetings will focus specifically in adjusting monthly and quarterly

ceilings of spending agencies to reflect latest fiscal and monetary developments. More importantly, these adjustments will be made to react to price developments in Rwanda so as to avoid fiscal spending fueling significant inflationary pressures.

External sector

24. **Owing to the strong increase in imports, we expect the external current account deficit (excluding official transfers) to widen to about 21 percent of GDP (about 5 percent of GDP greater than 2007)**. The expected increase in imports of goods and services by 33 percent stems from rising costs of imports, an expansion in the fiscal deficit, the use of resources deposited on projects accounts, the commencement of a new energy project, and buoyant private sector activity. Export of goods and services are projected to grow by more than 10 percent in light of increased volumes of traditional exports (particularly coffee), rising mining exports, continued growth in the tourism industry, and rising world commodity prices. The rising current account deficit will be financed by scaling up of aid and government borrowing, including for the Nyabarongo power plant project.

25. **Preparations for joining the East African Community (EAC) Customs Union intensified.** Following the EAC common position, Rwanda has signed an interim agreement with the European Union to continue negotiations on an Economic Partnership Agreement (EPA). It is expected that the final agreement on EPA will be reached by mid-2009.

B. Structural Policies

26. **As outlined in the February 2008 MEFP, the focus on the structural policies in 2008 will remain on enhancing the productivity of the agricultural and export sectors and improving the conditions for the private sector.**

Fiscal structural reforms

27. **We have made very good progress in implementing the IMF's technical assistance recommendations on tax administration reform in the past months**.

- *Widening the domestic tax base*. The Rwanda Revenue Authority (RRA) completed a draft of the Comprehensive Tax Payers Compliance Strategy encompassing all segments of taxpayers (end-June 2008 structural benchmark). The policy, to be implemented in phases, will improve the efficiency of tax administration and widen the tax base by (i) increasing the number of taxpayers, (ii) improving taxpayers' compliance, and (iii) improving RRA's service delivery to tax payers.

- *Trade facilitation.* In March 2008, the RRA began implementing an expedited clearance scheme (blue channel) for a group of compliant importers representing about 42 percent of import tax revenue and 27 percent of import value as of March 18, 2008.

The selection criteria were mostly based on previous risk assessments and the volume of transactions.

Public financial management

28. **2008 is a critical year for public financial management (PFM) reform:**

- *Medium-term PFM action plan.* Work on the new medium-term action plan for PFM reform for 2008-12 is continuing and is expected to be finalized and approved by June 30, 2008 (performance criterion). The action plan, elaborated in close consultation with development partners, is expected to be revised every year and address measures in the following ten areas: (i) budget preparation and formulation; (ii) intergovernmental fiscal relations; (iii) debt and guarantee management; (iv) budget execution; (v) accounting and reporting; (vi) procurement; (vii) internal audit; (viii) external audit; (ix) integrated financial management system; and (x) training in PFM. The new action plan is based on findings in the public expenditure and financial accountability (PEFA) review that took place last year and the current PFM action plan. The first draft of the new PMF strategy was presented to development partners on April 24 and a stakeholder workshop to validate the strategy will take place before May 31.

- *Budget preparation.* Work is also progressing on the operational manual for the medium-term expenditure framework, which is expected to be published by June 30, 2008 (performance criterion). The manual will explain the principles of priority setting and describe the main agents and the key steps in the budget preparation process, including the links connecting the macroeconomic framework, the macro-budgetary framework, and sectoral strategies. Once the operational manual is in place, intensive staff training involving all stakeholders will take place and this will become a recurring training exercise at the beginning of the budget preparation cycle.

- *Internal audit manuals.* The internal audit manuals—covering the internal audit charter, internal audit regulations, ethical standards, and descriptions of risk-based audit assignments—will be published in June 2008.

- *Information and communication technology.* A strategy for the implementation of an integrated financial management system (IFMIS) is scheduled to be finalized by November, 2008. MINECOFIN is in discussions with the Rwanda Information Technology Authority (RITA) about developing a general information and communication technology strategy, including an IFMIS system, for the Ministry.

- *Public accounts and budget execution.* We will produce the execution reports of central government's transfers to local governments per program per district for the period January-June 2008 by September 30, 2008. We will prepare the consolidated fiscal report for 2007, including the central government, local governments, autonomous agencies, and extrabudgetary funds by June 2008.

- *Debt Management*. We will develop and publish a medium-term debt management strategy (MTDS) with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law by November 30, 2008 (structural benchmark). To expedite the MTDS development, we have requested technical assistance from the Fund. We envisage that a draft MDTS will be submitted to the IMF for joint quality review in the third quarter of 2008.

- *Public Procurement.* A strategic plan for procurement and capacity building was completed and adopted by the Procurement Reform Task Force and the Board of Directors of NTB in December 2007. The retention strategy for the procurement staff shall be established within the framework of public financial management by October 2008.

Financial sector

29. **Key actions for financial sector reform in 2008 will follow the Financial Sector Development Strategy and the efforts initiated in 2007.**

- *Develop banking and access to credit.* The restructuring and modernization of UBPR and BRD will continue. Parliament is expected to pass the Microfinance Law, providing the legal and regulatory framework for microfinance institutions. Two new funds supporting microfinance institutions—a credit fund (Rwf 2 billion) and a capacity building fund (Rwf 0.8 billion)—will be set up with financing from BRD, the government, the World Bank, and UNCDF. A new strategic plan for the housing bank BHR will be designed as well.

- *Long-term financial and capital markets.* Government plans to divest some of its existing holdings in private-sector companies and use the over-the-counter market as the platform for the sales. The government will undertake a broad national education campaign covering capital markets.

- *Pension and insurance.* All insurance companies will be audited. Government bonds paid to the social security fund CSR will be listed on the over-the-counter market. A study of social security reform will be finalized. Studies preparing a Private Pension Law and a Mutual Funds Law are underway at the NBR.

- *Payment systems.* Work to develop a national payments strategy is on-going, with technical support from East AFRITAC. The strategy is scheduled to be completed by September 30, 2008 (benchmark). The government expects to start preparing the establishment of an automated clearing house and a real time gross settlement system with financial support from the World Bank.

Export promotion

30. **Our export promotion strategy will continue to focus on enhancing productivity in the traditional sectors and diversifying our export base**.

- *Coffee*. To improve yields, use will be made of industrial fertilizers and pesticides, for which training will be provided to farmers. To increase value added, the number of washing stations will be increased from 121 to about 150 in 2008, while existing stations are being made more efficient through increased training, improved water supply and upgrade of feeder roads. To improve marketing, a Coffee Marketing Alliance was established in early 2008 and will become fully operational by the peak of the coffee export season in mid-year.

- *Tea*. To increase export volume and quality, efforts aimed at improving harvesting methods and expanding nursery beds and tea plantations will be intensified. To increase value added, reconstruction and expansion of the tea factories will continue, and a blending industry will be established, while efforts at direct marketing will be intensified to improve export prices. The six state-owned tea factories will be privatized after their rehabilitation, which is expected to be completed in 2009.

- *Mining*. To promote mining sector development, a high-level committee has been tasked with harmonizing the sector's taxation and removing bottlenecks that hamper its development. In particular, we are encouraging small-scale miners to unite in large partnerships, which can boost their productivity and facilitate access to financing. It is projected that the first wolfram smelter will be built in Rwanda in 2008.

- *Tourism*. A tourism master plan will be developed with the assistance of the World Tourism Organization. In 2008, Rwanda is expected to start receiving increased inflows of FDI in tourism-related activities. Over the next two to three years, a joint venture between LAP Libya, Rwanda Investment Group (RIG), the social security fund CSR, and Prime Holdings will construct a convention centre in Kigali and a hotel in Kibuye, while Dubai World will invest in hotels and lodges in Kigali, Akagera, Nyungwe, and Ruhengeri.

- *Export Processing Zone (EPZ)*. Rwanda's Free Zone Company Ltd. was established to fast-track implementation of the EPZ. Expropriation of the land has been completed and construction works will start in May 2008.

Cost of doing business

31. **We will continue to make efforts toward improving the business climate and removing obstacles to business development.** The Rwanda Commercial and Registry Services will be made fully operational by the end of November. The agency will provide a

comprehensive registration system aimed at improving business registration, securitization of assets, and registration of intellectual property rights. The office of the Registrar of Land Titles will also become fully operational in 2008, thereby simplifying the land registration process. Together with the International Finance Corporation (IFC), we will review the current practices of license issuance, which can help us reduce the total number of different types of licenses from the current level of about 200 to a much lower number. Currently we are in the process of setting up a credit registration bureau and preparing a labor code that can be passed into law in 2008. We are also finalizing drafts of 6 new legislations on company status, contract enforcement, insolvency procedures and loan recovery, consumer protection and competition, which are expected to be passed into law in 2008. We expect that these and other micro-level measures will substantially improve the business climate in Rwanda and move the country up in the ranking of the "Doing Business" survey conducted by the World Bank.

III. Program Monitoring

32. **Conditionality and program reviews**. The fifth review under the PRGF arrangement, scheduled for completion by end-November 2008, will review indicative targets as of end-March 2008 and quantitative performance as of end-June 2008, and compliance with structural conditionality. The remainder of the third year of the PRGF-supported program will be monitored through quantitative performance criteria for end-December 2008 and indicative targets for end-September 2008. The structural conditionality remains as set at the third review in tax administration, public expenditure management, and financial sector reforms remain unchanged (Table 4). The sixth program review will be completed no later than end-May 2009.

33. **Technical memorandum of understanding (TMU).** The attached TMU lays out the details of the program design and terminology and is unchanged compared to the third review TMU with the following exception: We added an adjustor on net credit to government with respect to possible budgetary support by the EU for earthquake rehabilitation and excluded the borrowing by Exim Bank of India for Nyabarongo from the performance criterion on nonconcessional debt.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks for 2007
(RF billions, unless otherwise indicated)
(Quantitative benchmarks* and performance criteria on test dates**)

	Mar.*	Jun.**	Sep.*	Dec.**
Benchmarks and performance criteria				
Net foreign assets of the NBR (floor on stock)[1]				
Actual (program exchange rate)	207.9	291.1	264.4	284.8
Adjusted program	191.6	234.7	200.5	173.8
Program	208.1	244.3	206.8	179.3
Reserve money (ceiling on stock)[2]				
Actual	78.4	81.8	87.5	87.5
Program	72.4	83.0	88.1	87.9
Net credit to the government (ceiling on flow)[3]				
Actual	22.1	-45.4	-9.5	-7.5
Adjusted program	5.0	-28.1	-19.4	-11.7
Program	-11.5	-37.7	-25.7	4.7
Domestic fiscal balance (floor on flow)[3, 4]				
Actual	-21.5	-35.2	-79.6	-98.2
Adjusted program	-10.1	-53.9	-65.7	-98.8
Program	-21.1	-64.9	-70.6	-98.7
Total priority spending (floor on flow)[3, 4]				
Actual	41.6	87.7	152.3	214.2
Adjusted program	33.1	81.2	123.6	189.4
Program	38.6	86.7	132.4	181.1
New nonconcessional external debt[5]				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock)[5, 6]				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock)[7]				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)[3]				
Actual	-1.6	-3.9	3.6	-8.5
Program	-1.6	-3.9	-5.4	-7.0
Indicative targets				
Broad money (ceiling on stock)[1]				
Actual	277.3	306.8	332.1	375.9
Program	254.5	297.7	305.3	312.4
Extended broad money (ceiling on stock)[1]				
Actual	324.7	357.4	388.3	437.1
Program	290.9	346.2	355.0	363.3
Net Present Value of the Stock of Outstanding Debt (Millions of US$)[8]				
End-December 2007--Actual		240.9		240.9
End-December 2008--Actual		...		...
End-December 2007--Program		200.4		200.4
End-December 2008--Program		239.8		239.8
End-December 2009--Program		279.0		279.0
Ceiling on stock of domestic debt[9]				
Actual		165.3	179.7	200.3
Adjusted program		184.8	188.5	190.5
Program		175.2	187.1	185.1
Memorandum items:				
General budget support (Millions of US$)[4,10]				
Received	5.8	159.5	177.7	227.6
Expected	65.2	186.5	193.0	196.6
Of which: budget support grants (received)	5.8	159.0	175.4	226.6
Of which: budget support grants (expected)	65.2	186.5	193.0	196.6
Budgetary "baseline grants" (TMU, para. 9)[10]	60.2	176.5	178.0	176.6
Revised domestic fiscal balance (excluding AU, demob and food)[11]		-43.3	-65.1	-93.2

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] At the program exchange rate of RF 549.9/US$ for 2007.

[2] Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter. Program projections are done quarterly. To derive the monthly figures, seasonality factors and a trend are applied to the quarterly projections. The seasonality factors are derived by applying the X11 filter to currency in circulation over 2002-06 (the factors were robust with respect to different time periods). The seasonality factors were 0.93 for April, 0.96 for May, 1.01 for June, 1.0 for July, 0.98 for August, 0.96 for September, 0.94 for October, 0.94 for November and 1.0 for December.

[3] Numbers are cumulative from December 31, 2006.

[4] The domestic fiscal balance targets will be adjusted by the amount of grants exceeding or below programmed grants with the adjusters as specified in the TMU of January 10, 2007, and paragraph 3 of the TMU of June 7, 2007. Also the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.

[5] This is a continuous performance criterion.

[6] Excludes arrears on obligations that are subject to rescheduling.

[7] Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.

[8] Figures indicate the NPV projections based on debt contracted at the test date.

[9] Numbers show end of period stocks, at the end of 2006 the stock stood at RF 189.6 billion.

[10] Excluding external donor financing for demobilization and peacekeeping.

[11] Used for the calculation of the adjuster on the indicative limits on domestic debt.

Table 2. Rwanda: Quantitative Performance Criteria and Benchmarks for 2008
(RF billions, unless otherwise indicated)
(Quantitative benchmarks* and performance criteria on test dates**)

	2008			
	Mar.*	Jun.**	Sep.*	Dec.**
Benchmarks and performance criteria				
Net foreign assets of the NBR (floor on stock)[1]				
Actual (program exchange rate)				
Adjusted program				
Program	257.5	321.8	314.8	275.7
Reserve money (ceiling on stock)[2]				
Actual				
Adjusted program				
Program	98.0	102.4	107.1	107.6
Net credit to the government (ceiling on flow)[3]				
Actual				
Adjusted program				
Program	47.5	-46.8	-35.4	-13.4
Domestic fiscal balance (floor on flow)[3, 4]				
Actual				
Adjusted program				
Program	-42.4	-67.8	-113.7	-148.6
Total priority spending (floor on flow)[3, 4]				
Actual				
Adjusted program				
Program	57.3	128.4	201.7	275.1
New nonconcessional external debt[5]				
Actual				
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock)[5, 6]				
Actual				
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock)[7]				
Actual				
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)[3]				
Actual				
Program	-3.0	-4.0	-5.5	-7.0
Indicative targets				
Broad money (ceiling on stock)[1]				
Actual				
Program	365.9	389.5	394.3	422.3
Extended broad money (ceiling on stock)[1]				
Actual				
Program	425.5	453.7	459.3	491.1
Net Present Value of the Stock of Outstanding Debt (Millions of US$)[8]				
End-December 2007--Actual		240.9		240.9
End-December 2008--Actual				
End-December 2009--Actual				
End-December 2007--Program		200.4		200.4
End-December 2008--Program		286.4		286.4
End-December 2009--Program		405.6		405.6
Ceiling on stock of domestic debt[9]				
Actual				
Adjusted program				
Program	208.6	189.7	187.6	198.6
Memorandum items:				
General budget support (Millions of US$)[4,10]				
Received				
Expected	1.7	219.3	289.1	317.5
Of which: budget support grants (received)				
Of which: budget support grants (expected)	1.7	212.3	282.1	310.5
Baseline privatization receipts (RF billion)	…	3.5	3.5	17.1

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] At the program exchange rate of RF545/US$ for 2008.
[2] Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter. Program projections are done quarterly.
[3] Numbers are cumulative from December 31, 2007.
[4] The domestic fiscal balance targets will be adjusted by the amount of grants exceeding or below programmed grants with the adjusters as specified in the TMU of February 12, 2008. Also the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.
[5] This is a continuous performance criterion. Excluded from the criterion are changes in indebtedness resulting from refinancing credits and rescheduling operations of existing debt, credits extended by the Fund, and US$97.7 million in credit from the Exim Bank of India with concessionality of 40 percent for the construction of the hydro power plant at Nyabarongo.
[6] Excludes arrears on obligations that are subject to rescheduling.
[7] Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.
[8] Figures indicate the NPV projections based on debt contracted at the test date.
[9] Numbers show end of period stocks.
[10] Excluding external donor financing for demobilization and peacekeeping.

Table 3. Rwanda: Structural Conditionality, 2007

Public expenditure management			
Issue draft accounting instructions, forms, and procedures for budget users.	December 31, 2006	Benchmark	Not met. Implemented in May 2007.
Complete progress report on financial reporting by budgetary agencies (line ministries, provinces, autonomous agencies). Agencies are expected to produce the following monthly financial reports: (i) bank reconciliation statement; (ii) budget execution reports, and (iii) statements of revenue and expenditure.	June 15, 2007	Benchmark	Not met. Completed in September 2007.
Publish on the Ministry of Finance's website the first consolidated execution report of local governments showing transfers and budget execution per major line items per district and per province for the period January-April.	July 31, 2007	Performance Criterion– for the completion of the third review	Not met. Report covering districts only published on July 31, 2007. Report on provinces published in October 2007.
Complete and publish on the Ministry of Finance's website a study on project accounts (for projects listed in paragraph 46 of the TMU) at the NBR (1) showing annual budgets with donor disbursements and spending for 2004-2006 as well as quarterly projections (including a breakdown into imports and the domestic component) for July 2007-June 2008; and (2) providing an analysis of the causes for the large accumulation of the specific project accounts since January 1, 2004.	September 30, 2007	Performance Criterion– for the completion of the third review	Met.
Publish on the Ministry of Finance's website the progress report on the implementation of the Organic Budget Law.	September 30, 2007	Benchmark	Met.
Civil service reform			
Undertake a comprehensive review of the wage structure of the public sector, including fringe benefits and wages included in transfers to local governments.	September 30, 2007	Benchmark	Not met. Completed in October 2007
Private sector development			
Make operational the Office of the Registrar of Land Titles.	October 31, 2007	Benchmark	Met.
Poverty reduction			
Produce a poverty profile of provinces, districts, and communities of Rwanda using the results of the census and the household living conditions survey.	September 30, 2007	Benchmark	Not met. Report was produced for provinces only.
Financial sector			
Submit to Parliament a micro finance law to bring the legal framework for microfinance broadly in line with the Guiding Principles on Regulation and Supervision of Microfinance Institutions as published by the Consultative Group to Assist the Poorest.	June 30, 2007	Benchmark	Met.
Agricultural sector			
Adopt and publish a national fertilizer distribution strategy.	February 28, 2007	Benchmark	Not met. Implemented in April 2007.

Table 4. Rwanda: Structural Conditionality, 2008

Public Expenditure Management	Target date	Type of condition	Macro Rationale
Complete and publish on MINECOFIN website a revised PFM reform action plan for 2008-2010, as specified in paragraph 17 of the MEFP of February 12, 2008.	June 30, 2008	Performance criterion	To provide a structured, prioritized and sequenced framework for strengthening PFM and hence fiscal control. The plan would facilitate mobilization of TA and other resources in support of the reforms.
Produce and publish on the MINECOFIN website the MTEF operational manual, as specified in paragraph 17 of the MEFP of February 12, 2008.	June 30, 2008	Performance criterion	To reinforce the MTEF process and facilitate and harmonize the preparation of the MTEF by sectoral ministries, thereby improving the coordination and management of the budget over the medium term.
Develop and publish on the MINECOFIN website a debt management strategy (DMF) with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget Law.	November 30, 2008	Benchmark	To provide guidance for future borrowing decisions and prevent the reaccumulation of unsustainable debt.
Tax Administration			
Develop and publish on the RRA website a comprehensive compliance program which identifies key compliance risks associated with the large, medium, and small taxpayer segments, together with a description of the planned RRA initiatives to address the identified risks based on risk analysis.	June 30, 2008	Benchmark	To raise efficiency of tax collection, improve overall tax compliance, and widen the tax base, thereby reinforcing fiscal sustainability over the medium term.
Implement an expedited clearance scheme (super green/gold card) for *compliant* importers contributing a cumulative 40 percent of import value.[1]	June 30, 2008	Benchmark	To reduce customs clearance time, improve the level of trade facilitation, and reduce inventory costs, thereby facilitating private sector development.
Financial Sector			
Publish on the NBR's website a national payments strategy to improve the payments infrastructure and address the development of basic payment services in Rwanda.	*September 30, 2008*	*Benchmark*	To promote the development of a stable financial system by reducing high transaction costs for businesses, and financial risks in payment clearance and settlements.

[1] This structural benchmark has been changed from “cumulative 60 percent of import taxes” to “cumulative 40 percent of import value” which is consistent with a FAD recommendation and the objective of trade facilitation.

APPENDIX I—ATTACHMENT II

RWANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING
May 29, 2008

1. This technical memorandum sets out the definitions for quantitative targets under which Rwanda's performance will be assessed and provides specifics on areas of structural conditionality. Monitoring procedures and reporting requirements as well as other program definitions are also specified.

I. Quantitative Program Targets

2. The program will be assessed through performance criteria for June 30, 2008 and December 31, 2008 as well as indicative targets for March 31, 2008, and September 30, 2008 with respect to:

- floors on the domestic fiscal balance of the central government (DFB);
- ceilings on the net credit to the central government (NCG);
- floors on priority spending;
- ceilings on the net accumulation of domestic arrears of the central government;
- floors on the Net Foreign Assets (NFA) of the National Bank of Rwanda (NBR);
- ceilings on reserve money; and
- ceilings on the outstanding stock of external debt with original maturities of one year or less owed or guaranteed by the public sector.

3. Performance criteria that are applicable on a continuous basis are proposed to be established with respect to the ceilings on new external payment arrears of the public sector and new nonconcessional debt of the public sector.

4. Indicative targets are set:

- for end-March 2008, end-June 2008, end-September 2008, and end-December 2008, for ceilings on broad money and extended broad money;
- for end-June 2008 and end-December 2008, for ceilings on the contracting or guaranteeing of concessional external debt.
- for end-March 2008, end-June 2008, end-September 2008, and end-December 2008 for ceilings on the consolidated domestic debt of the public sector.

A. Institutional Definitions

5. The **central government** comprises the treasury and line ministries.

6. The **public sector** comprises the central government, local governments, public enterprises (including Electrogaz, Ocircafé, Ocirthé, Prime Holdings, and ONP), and the NBR.

B. Targets related to the Execution of the Fiscal Program

Domestic fiscal balance of the central government (DFB)

7. A floor applies to the DFB, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June, 2008, end-September 2008 and end-December 2008 targets.

8. **Definition**. The domestic fiscal balance (Table 2 of the MEFP) is defined as domestic revenue (excluding grants) minus domestic spending. Domestic spending is defined as current expenditure (excluding external interest due, spending related to Rwandese troops involved in the UN peace-keeping efforts, and spending related to the World Bank-led demobilization and reintegration program) plus domestically-financed capital expenditure on a payment order basis, plus net lending.

9. **Adjusters:**

- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) in the context of a review with Fund staff, by the amount of the cumulative positive difference between actual and programmed budgetary grants (defined in Table 2 of the MEFP), up to a maximum of RF 11 billion, **IF** this review establishes that a further fiscal expansion would not lead to a rekindling of inflation or an undue increase in domestic debt. The increase in the deficit would be used for contingent spending, a list of which is provided in Table 1. Budgetary grants include HIPC Initiative-related grants,[1] but exclude grants related to AU peace keeping activities and for the demobilization program as well as capital grants related to the development budget, and EC budgetary grants for earthquake rehabilitation activities. Quarterly programmed budgetary grants are also provided in Table 2 of the MEFP.

- The floor on the DFB will be *adjusted upward* (that is, the deficit target will be reduced) by the amount of any shortfall between actual and programmed budgetary grants (defined in Table 2 of the MEFP) which exceeds the equivalent of US$24 million, evaluated in Rwanda francs at the program exchange rate.

[1] HIPC grants exclude debt relief from IDA and the AfDB.

- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure deemed integral to a specific privatization operation (to be recorded under net lending) IF the difference between privatization revenue and this expenditure is positive (see also paragraph 13).

- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure for food imports in the case of a food emergency (see also paragraphs 13 and 28).

10. **Reporting requirement.** Data on the DFB and its adjusters will be transmitted, with detailed explanations, on a monthly basis within four weeks of the end of each month.

Net credit to the central government (NCG)

11. A ceiling applies to the NCG, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

12. **Definition.** For program monitoring purposes, the NCG will be calculated as the change from end-December 2007 of net credit from the banking system and the change of holdings of treasury bills and other government securities by the nonbank sector. Net credit from the banking system is defined as the difference between:

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

- total government deposits with the banking system of the central government, including the main treasury account, line ministries, the fund for assistance to genocide survivors, Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, the privatization account, and any other of the 15 autonomous agencies. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, counterpart funds and *fonds publics affectés*).[2] In particular, NCG is not affected by credit to or deposits of public enterprises and autonomous public agencies.

13. **Adjusters:**

- The ceiling on NCG will be *adjusted upward* by the amount of any shortfall between actual and programmed budgetary grants (defined in Table 2 of the MEFP). This

[2] The target excludes any transfers from the deposits over which the government has limited control into other government deposits.

adjustment will be capped at the equivalent of US$24 million, evaluated in Rwanda francs at the program exchange rate.

- The ceiling on the NCG will be a*djusted downward* by the amount of privatization revenue in excess of programmed amounts, as defined in Table 2 of the MEFP, less any expenditure deemed integral to the privatization operation, provided that the excess revenue is positive net of such expenditure.

- The ceiling on the NCG will be a*djusted downward* by the amount of budget support grants received from the European Community (EC) for earthquake rehabilitation activities.

- The ceiling on the NCG will be *adjusted upward* by the amount of expenditure for food imports in case of a food emergency (see also paragraph 9 and 28).

14. **Reporting requirement**. Data on the NCG (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits) and its adjusters will be transmitted on a monthly basis within three weeks of the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies.

Priority expenditure

15. A floor applies to priority spending of the central government, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

16. **Definition.** Central government 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 PRSP process. The definition of priority expenditures is based on the program classification of the annual budget. Table 2 provides a summary of the SIBET output[3] and a list of the main programs.

17. **Adjuster.** The floor will be adjusted (*upward or downward*) by an amount equal to half of any adjustment in the DFB floor as specified in paragraph 9.

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

[3] The computerized SIBET expenditure management system tracks priority spending at the program level.

Net accumulation of domestic arrears of the central government

19. A ceiling applies to the net accumulation of domestic arrears of the central government, which is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.[4]

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 on December 31, 2007 (including repayment of float in 2007 and the repayment of older arrears).

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

Domestic debt of the central government and the National Bank of Rwanda (DD)

22. A ceiling applies to the DD for the end-June 2008, end-September 2008, and end-December 2008 targets.

23. **Definition.** Domestic debt of the central government and the National Bank of Rwanda includes the stock of treasury bills for government financing at coupon value, plus government borrowing from public enterprises (FinaBank formerly Bank Continental Africaine du Rwanda, Bank Commerciale du Rwanda, Bons de Developpement, Credit Savings Scheme, Caisse Social du Rwanda, OCIR-Thé; and rescheduling of old arrears) plus the stock of treasury bills issued for monetary policy, plus any one-day or one-week deposits of commercial banks at the central bank excluding excess and required reserves.[5]

24. **Adjusters:**

- To allow for sterilization of a grant-financed reduction in the domestic fiscal balance (increase in the deficit), the ceiling on domestic debt will be adjusted *upward* by one-third of any reduction in the floor on DFB provided for in paragraph 9.

- In the case of a shortfall in grants, for which an automatic adjuster would increase the limit on net credit to government, the ceiling on domestic debt will be adjusted *upward* by the same amount as the increase in the ceiling on net credit to government.

25. **Reporting requirement.** Data on domestic debt will be transmitted on a monthly basis within four weeks of the end of each month.

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

[5] T-bill holdings of the NBR are excluded because this is the consolidated debt of the central government and the NBR.

C. Targets for Monetary Aggregates

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

26. A floor applies to the NFA of the NBR for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

27. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets 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.[6] Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

28. **Adjusters:**

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary grants. This adjustment will be capped at the equivalent of US$24 million, evaluated in Rwanda francs at the program exchange rate.

- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency (see also paragraphs 9 and 13).

29. **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. 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

30. A ceiling applies to the stock of reserve money for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets. The stock of reserve money for the quarter will be calculated as the arithmetic average (mean) of the stock of reserve money at the last day of each calendar month comprising the quarter.

31. **Definition.** Reserve money for the monetary program is defined as currency in circulation, reserves of deposit money banks (excluding NBR borrowing from deposit money

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[6] The program exchange rate for the 2008 program is set at Rf545 = US$1.

banks on the money market[7] but including cash in vault held by commercial banks), and deposits of public enterprises (including Caisse Sociale du Rwanda (CSR) and other autonomous public agencies (*dépôts des établissements publics assimilés à l'état*), deposits of nonbank financial institutions, and deposits of the private sector (*autres sommes dues à la clientèle* are included in reserve money). Reserve money excludes the deposits of the Caisse d'Épargne du Rwanda (C.E.R.) with the NBR up to Rf 1 billion, the dormant accounts up to Rf 1.4 billion, and import deposits placed at the NBR (*cautions à l'importation*) up to a maximum amount of Rf 150 million.

32. **Adjuster:**

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks by the amount of (new reserve ratio - program baseline reserve ratio) multiplied by the reservable deposit liabilities in commercial banks.

- The ceiling on the stock of reserve money will be adjusted upwards to include the incorporation of the Union de Bank Populaires du Rwanda (UBPR) as a commercial bank. The magnitude of the upward adjustments will include the sum of (a) the stock of the arithmetic average (mean) of the stock of required reserves of the UBPR at the last day of each calendar month comprising the quarter and (b) the amount of Rf 0.4 billion required for prudential clearings. The adjustment will be made effective from the day of the UBPR incorporation.

33. **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.

Broad money

34. A ceiling applies to the stock of broad money and extended broad money for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

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

36. **Reporting requirement**. The balance sheets of the commercial banks and other banking institutions, both for the individual institutions and for the respective sector in aggregate, and the monetary survey, will be transmitted monthly within five weeks of the end

[7] Borrowing by the NBR from the commercial banks on the money market is included under the net domestic assets of the NBR (netted out from commercial bank borrowing from the NBR).

of each month. The monthly transmission will also include a monthly balance sheet for the NBR, showing all items as in NBR's weekly balance sheet.

D. Limits on External Debt

Limit on short-term external debt of the public sector

37. A zero ceiling applies to the outstanding stock of external debt with original maturities of one year or less owned or guaranteed by the public sector or other agencies on behalf of the central government. The ceiling is measured cumulatively from December 31, 2007 for the end-March 2008, end-June 2008, end-September 2008, and end-December 2008 targets.

38. **Definition.** The definition of "debt", for the purpose of the limit, is set out in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000) and also commitments for which value has not been received. Excluded from this performance criterion are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities.

39. **Valuation.** The amount of debt will be evaluated at the corresponding quarterly exchange rates published in the IMF's International Financial Statistics.

40. **Reporting requirement**: Data on debt and guarantees will be transmitted, with detailed explanations, on a monthly basis within five weeks of the end of each month.

Contracting or guaranteeing of new nonconcessional external debt of the public sector

41. The public sector or other agencies on behalf of the central government will not contract or guarantee new nonconcessional external debt (as specified in paragraphs 39 and 40) with original maturity of more than one year. This is a continuous performance criterion.

42. **Valuation.** The amount of debt will be evaluated at the corresponding quarterly exchange rates published in the IMF's International Financial Statistics.

43. **Definition.** This performance criterion applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000) and also to commitments contracted or guaranteed for which value has not been received. Excluded from the criterion are changes in indebtedness resulting from refinancing credits and rescheduling operations of existing debt, credits extended by the Fund, and $97.7 million in credit from the Exim Bank of India with concessionality of 40 percent for the construction of the hydro power plant at Nyabarongo. Included are leases and other instruments giving rise to external liabilities, contingent or otherwise.

44. For program purposes, a debt is **concessional** if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt (i.e., the grant element is equal to the nominal value minus NPV divided by the nominal value). The NPV of debt at the time of its disbursement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRRs), as published by the OECD. For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. To both the 10-year and the 6-month averages, the following margins for differing repayment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

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

Contracting or guaranteeing of concessional external debt

46. A ceiling applies to the contracting or guaranteeing of concessional (see paragraph 40) external debt of the public sector or other agencies on behalf of the central government for the end-June 2008, and end-December 2008 targets. The ceiling on the contracted debt becomes binding through a disbursement profile over 2007-09.

47. **Definition and valuation.** The ceiling on the contracting or guaranteeing of new concessional external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted. Disbursed debt will be converted to U.S dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with IMF staff. The Net Present Value of debt is calculated by discounting the future stream of payments of debt service due, based on a uniform discount rate of 5 percent.

48. **Reporting requirement.** Data on the NPV of the stock of outstanding debt will be provided on a semi-annual basis within five weeks of the end of each month.

Limit on new external payment arrears

49. A continuous performance criterion applies to the nonaccumulation of new external 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.

II. Other Data Requirements for Program Monitoring

50. Other data will be reported on a regular basis for surveillance purposes (see Table 3).

Table 1. Contingent Spending, 2008 (Billions of Rwanda francs)

Priority spending	**5.20**
Common development fund	1.00
Export Free Zone	0.20
Road Fund HER	3.00
Export promotion	1.00
Nonpriority spending	**5.80**
Construction of various offices	0.40
Youth and Culture	0.90
Feasibility studies	1.00
Across the board cuts in goods and services	2.00
Across the board cuts in transfers	1.50
Total	**11.00**

Source: Rwandese authourities

Table 2. Priority Spending Excluding Contingency, 2008
(Millions of Rwanda francs)

1. EMPLOYEE COST	**45526.23**
04 PRIMATURE	105.34
07 MININTER	132.44
0701 NATIONAL POLICE	6801.93
09 MINAGRI	165.37
10 MINICOM	269.98
11 MINISTR	150.60
1102 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION	63.20
14 MINEDUC	579.47
140- DECENTRALISE EDUCATION	22559.75
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER CNDP	205.16
1402 GENERAL INSPECTION OF EDUCATION (IGE)	163.16
1403 RWANDA NATIONAL COMMISSION FOR UNESCO CNRU	52.31
1404 NATIONAL TEACHER COMMISSION TSC	94.39
1405 NATIONAL EXAMINATION COUNCIL	378.29
1433 TUMBA COLLEGE OF TECHNOLOGY	222.00
1434 NYANZA COLLEGE OF TECHNOLOGY	120.00
1435 KICUKIRO COLLEGE OF TECHNOLOGY	222.00
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	218.84
1437 KAVUMU NATIONAL COLLEGE OF EDUCATION	218.84
15 MIJESPOC	84.81
16 MINISANTE	637.59
160- DECENTRALISE SANTE	10621.00
18 MININFRA	63.45
20 MIFOTRA	579.50
2200 MINITERE	203.84
23 MINALOC	253.82
230- DECENTRALISE MINALOC	359.15
2. GOODS AND SERVICES	**42913.78**
04 PRIMATURE	267.84
07 MININTER	211.15
0701 NATIONAL POLICE	3245.33
0702 NATIONAL PRISON SERVICE	139.30
09 MINAGRI	384.19
090- DECENTRALISE AGRICULTURE	57.50
10 MINICOM	1201.61
100- DECENTRALISE COMMERCE	112.00
11 MINISTR	627.70
1102 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION	50.40
14 MINEDUC	9497.71
140- DECENTRALISE EDUCATION	136.31
1401 NATIONAL CURRICULUM DEVELOPMENT CENTER CNDP	5795.00
1402 GENERAL INSPECTION OF EDUCATION (IGE)	77.70
1408 UNR (NATIONAL UNIVERSITY OF RWANDA)	47.04
1409 KIST (KIGALI INSTITUTE OF SCIENCE AND TECHNOLOGY)	19.92
1410 KIE (KIGALI INSTITUTE OF EDUCATION)	88.40
1412 ISAE (HIGHER INSTITUTE OF AGRICULTURE)	39.84
1433 TUMBA COLLEGE OF TECHNOLOGY	331.00
1434 NYANZA COLLEGE OF TECHNOLOGY	330.00
1435 KICUKIRO COLLEGE OF TECHNOLOGY	518.00
1436 RUKARA NATIONAL COLLEGE OF EDUCATION	553.00
1437 KAVUMU NATIONAL COLLEGE OF EDUCATION	452.00
15 MIJESPOC	266.70
150- DECENTRALISE MIJESPOC	78.00
16 MINISANTE	3882.75
160- DECENTRALISE SANTE	1801.73
1603 KING FAYCAL HOSPITAL (HRF)	350.00
18 MININFRA	6543.45
180- DECENTRALISE MININFRA	99.90
20 MIFOTRA	510.25
220- DECENTRALISE MINITERRE	1455.30
2200 MINITERE	1179.59
23 MINALOC	1916.99
230- DECENTRALISE MINALOC	439.87
56 NGOMA	13.02
57 BUGESERA	11.17

Table 2. Priority Spending Excluding Contingency, 2008 (continued)
(Millions of Rwanda francs)

2. GOODS AND SERVICES (continued)	
58 GATSIBO	6.75
59 KAYONZA	3.10
60 KIREHE	4.25
61 NYAGATARE	4.25
62 RWAMAGANA	4.25
63 HUYE	6.40
64 NYAMAGABE	6.56
65 GISAGARA	4.25
66 MUHANGA	10.89
67 KAMONYI	5.60
68 NYANZA	7.50
69 NYARUGURU	4.25
70 RUSIZI	14.25
71 NYABIHU	3.10
72 RUBAVU	16.96
73 KARONGI	8.80
74 NGORORERO	5.41
75 NYAMASHEKE	3.10
76 RUTSIRO	3.10
77 BURERA	6.56
78 GICUMBI	11.17
79 MUSANZE	5.41
80 RULINDO	5.05
81 GAKENKE	3.10
82 RUHANGO	3.10
83 NYARUGENGE	12.56
84 KICUKIRO	9.30
85 GASABO	3.10
3. TRANSFER AND SUBSIDIES	**99744.20**
04 PRIMATURE	17.31
070- DECENTRALISE PRISON	1318.76
0701 NATIONAL POLICE	70.00
0702 NATIONAL PRISON SERVICE	2116.02
090- DECENTRALISE AGRICULTURE	955.50
0901 OFFICE RWANDAIS DE DEVELOPPEMENT DES RESSOURCES ANIMALES (RARDA)	905.21
0902 INSTITUT DES SCIENCES AGRONOMIQUES DU RWANDA (ISAR)	1693.72
0903 OFFICE RWANDAIS DE DEVELOPPEMENT DE L AGRICULTURE (RADA)	937.32
0904 OFFICE RWANDAIS DE DEVELOPPEMENT DE L'HORTICULTURE (RHODA)	477.99
10 MINICOM	1044.42
100- DECENTRALISE COMMERCE	168.00
1002 RWANDA BUREAU OF STANDARDS	1062.24
1003 RWANDA INVESTMENT AND EXPORT PROMOTION AGENCY	2142.00
11 MINISTR	10.00
1101 RWANDA INFORMATION TECHNOLOGY AUTHORITY (RITA)	2497.90
1103 IRST (INSTITUTE OF SCIENTIFIC AND TECHNOLOGICAL RESEARCH)	1136.19
14 MINEDUC	934.57
140- DECENTRALISE EDUCATION	18436.39
1403 RWANDA NATIONAL COMMISSION FOR UNESCO CNRU	96.01
1404 NATIONAL TEACHER COMMISSION TSC	253.61
1405 NATIONAL EXAMINATION COUNCIL	15.27
1406 NATIONAL COUNCIL FOR HIGHER EDUCATION (NCHE)	199.50
1407 SFAR (STUDENT FINANCING AGENCYOF RWANDA)	13310.06
1408 UNR (NATIONAL UNIVERSITY OF RWANDA)	1749.49
1409 KIST (KIGALI INSTITUTE OF SCIENCE AND TECHNOLOGY)	960.08
1410 KIE (KIGALI INSTITUTE OF EDUCATION)	594.96
1411 KHI (KIGALI HEALTH INSTITUTE)	476.75
1412 ISAE (HIGHER INSTITUTE OF AGRICULTURE)	464.91
1413 SFB (SCHOOL OF FINANCE AND BANKING)	354.62
1433 TUMBA COLLEGE OF TECHNOLOGY	40.00
15 MIJESPOC	4.70
1501 NATIONAL COMMISSION FOR THE FIGHT AGAINST GENOCIDE	322.58
1503 RWANDA NATIONAL MUSEUM	594.11
1504 PAN AFRICAN ORGANISATION OF YOUTH AGAINST AIDS	24.40

Table 2. Priority Spending Excluding Contingency, 2008 (concluded)
(Millions of Rwanda francs)

3. TRANSFER AND SUBSIDIES (continued)	
16 MINISANTE	5129.67
160- DECENTRALISE SANTE	12200.00
1601 CENTRAL UNIVERSITY HOSPITAL OF KIGALI (CHUK)	790.78
1602 CENTRAL UNIVERSITY HOSPITAL OF BUTARE (CHUB)	649.55
1603 KING FAYCAL HOSPITAL (HRF)	1737.37
1604 NEURO PSYCHIATRIC HOSPITAL OF NDERA (HNN)	330.14
1605 PSYCHOSOCIAL CONSULTATION SERVICE (SCPS)	125.58
1606 RESEARCH CENTER FOR AIDS, MALARIA AND TUBERCULOSIS TREATMENT (TRAC)	371.52
1607 NATIONAL REFERAL LABORATORY(LNR)	227.92
1611 NATIONAL BLOOD TRANSFUSION PROGRAMME (PNTS)	203.72
1612 NATIONAL COMMISSION FOR THE FIGHT AGAINST AIDS (CNLS)	278.63
1613 RWANDA PHARMACEUTICAL LABORATORY (LABOPHAR)	182.70
18 MININFRA	13813.50
180- DECENTRALISE MININFRA	3500.00
20 MIFOTRA	95.71
2001 RWANDA INSTITUTE OF ADMINISTRATION AND MANAGEMENT (RIAM)	70.00
2009 CIVIL SERVICE COMMISSION	80.00
2012 PROFESSIONAL TRAINING CENTER OF KAVUMU	97.00
2200 MINITERE	244.91
2217 NATIONAL LAND OFFICE	632.99
2218 NATIONAL FOREST OFFICE	415.76
2219 NATIONAL MINING AND GEOLOGY OFFICE	448.88
2232 NATIONAL WATER AGENCY	256.28
23 MINALOC	898.16
230- DECENTRALISE MINALOC	1015.52
2302 POLITICAL CONSULTATIVE FORUM	563.32
7.1 DEVELOPMENT BUDGET	**79289.67**
04 PRIMATURE	100.00
07 MININTER	1212.00
09 MINAGRI	5635.09
10 MINICOM	1834.00
11 MINISTR	9848.50
12 MINECOFIN	1570.00
14 MINEDUC	14325.00
15 MIJESPOC	370.00
16 MINISANTE	1267.28
18 MININFRA	21622.00
20 MIFOTRA	496.30
22 MINITERE	11617.70
23 MINALOC	9391.80
7.2 NET LENDING	**2800.00**
12 GAZ METHANE	2800.00
9. EXCEPTIONAL EXPENDITURE	**4816.29**
2301 ELECTORAL COMMISSION	4816.29
Total :	**275090.17**

Table 3. Reporting Requirements for Surveillance

	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	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[2]	M	M	M
Consumer Price Index	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	A	A	A
External Current Account Balance	A	SA	A
Exports and Imports of Goods and Services	A	A	A
GDP/GNP	A	SA	A

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

INTERNATIONAL MONETARY FUND

RWANDA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criteria—Informational Annex

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

Approved by Hugh Bredenkamp and Mark Plant

May 30, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding Fund credit was SDR6.27 million (7.83 percent of quota) at end-March 2008. Completion of the fourth review would allow the disbursement of SDR1.14 million.

- **Relations with the World Bank Group.** Describes World Bank Group program and portfolio and provides statement of IFC investments.

- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis.

I. RWANDA: RELATIONS WITH THE FUND
(As of April 30, 2008)

I. Membership Status: Joined: September 30, 1963 — Article VIII

II. General Resources Account:

	SDR million	percent Quota
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve position in Fund	0.00	0.00

III. SDR Department:

	SDR million	percent Allocation
Net cumulative allocation	13.70	100.00
Holdings	20.31	148.30

IV. Outstanding Purchases and Loans:

	SDR million	percent Quota
PRGF arrangements	6.27	7.83

V. Latest Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	Jun 12, 2006	Jun 11, 2009	8.01	4.56
PRGF	Aug 12, 2002	Jun 11, 2006	4.00	4.00
PRGF	Jun 24, 1998	Apr 30, 2002	71.40	61.88

VI. Projected Payments to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal			0.06	0.40	0.68
Charges/Interest	0.03	0.03	0.03	0.03	0.03
Total	0.03	0.03	0.09	0.43	0.71

VII. Implementation of HIPC Initiative:

	Enhanced framework
I Commitment of HIPC assistance	
Decision point date	Dec 2000

Assistance committed by all creditors (US$ million)[1]	695.50
Of which: IMF assistance (US$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	Apr 2005

II Delivery of IMF assistance (SDR million)

Amount disbursed	46.79
Interim assistance	14.45
Completion point	32.34
Additional disbursement of interest income[2]	3.77
Total disbursements	50.56

VIII. Implementation of MDRI Assistance

I Total Debt Relief (SDR Million)[3]	52.74
Of which: MDRI	20.19
HIPIC	32.55

II Debt Relief by Facility (SDR million)

Delivery Date	GRA	PRGF	Total
January 2006	NA	52.74	52.74

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

[1]Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

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

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

Interim assistance—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 3 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

IX. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the National Bank of Rwanda (NBR) was subject to a safeguards assessment with respect of the PRGF arrangement approved on June 12, 2006. The update assessment proposed recommendations to address continuing vulnerabilities in the external audit and financial reporting areas. The implementation of these measures is being monitored by IMF staff.

X. Exchange System:

The Rwandan franc was pegged to the SDR until March 6, 1995, when Rwanda adopted a market-determined exchange rate system. In 2006, the exchange rate regime was reclassified to a conventional fixed peg in the IMF's Quarterly Report on Exchange Arrangements. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF and maintains a system free of restrictions on the making of payments and transfers for current international transactions. Since 2001, the NBR has been operating a weekly auction to sell foreign exchange to commercial banks and published a reference exchange rate based on its results. From June 2007, the auction was abolished and replaced by a new arrangement whereby the NBR stands ready to trade with commercial banks in foreign exchange in unlimited amounts at the price quoted by the NBR. The exchange rate was set daily as a combination of the previous day's reference rate, the interbank rate on the previous day and the five-days moving average of the commercial banks' exchange rates with their clients. Since February 2008, the exchange rate of the NBR is adjusted weekly according to the difference between the targeted foreign exchange sales and the actual amounts sold.

XI. Article IV Consultation:

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2006 Article IV consultation (Country Report No. 07/80) on January 29, 2007.

XII. FSAP Participation, ROSCs, and OFC Assessments:

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

XIII. Technical Assistance:

2001 FAD experts on expenditure management and on tax policy.
2001 FAD mission on tax policy.
2001 MFD mission on foreign exchange policy, monetary policy, and banking supervision.
2001 MFD expert on monetary policy implementation.
2001 FAD mission on assessment of tracking of poverty reducing expenditure, and the fiscal ROSC.
2001 MFD expert on banking supervision.
2001 FAD experts on expenditure management, and on tax policy (until mid-year).
2002 MFD expert on banking supervision (until November).
2002 MFD expert on monetary and foreign exchange rate policy.
2002 AFRITAC East work plan mission.
2003 AFRITAC East mission on statistical issues.
2003 AFRITAC East expert on Organic Budget Law.
2003 FAD mission on fiscal ROSC and budget management system.
2003 AFRITAC East mission on developing the market for government treasury bills.
2003 FAD mission on reform of investment incentives and tax reform.
2003 MFD expert on monetary and foreign exchange rate policy.
2003 MFD expert on banking supervision and regulation.
2003 MFD missions on banking supervision.
2003 MFD mission on foreign reserves management.
2003 STA multi-sector statistics mission.
2003 FAD mission on Decentralization.
2003 FAD mission on revenue administration.
2004 AFRITAC East expert on financial regulations.
2004 AFRITAC East mission on treasury reforms.
2004 AFRITAC East expert on implementing cash flow planning and banking arrangements.
2004 FAD tax administration expert on strengthening of revenue administration.
2004 FAD mission on revenue administration.
2004 MFD/LEG mission on Anti-Money Laundering and Combating the Financing of Terrorism.
2004 MFD expert on banking supervision and regulation.
2004 MFD expert on monetary policy, monetary operations, and money markets.

2004 MFD missions on on-site banking supervision.
2005 AFRITAC East expert follow up on cash management.
2005 MFD/LEG mission on Anti-Money Laundering and Combating the Financing of Terrorism.
2005 MFD mission on financial statements of specific bank.
2005 MFD-WB joint FSAP mission.
2005 LEG mission on customs legislation.
2005 STA mission on Balance of Payments statistics.
2005 LEG mission on tax legislation.
2005 FAD mission on public accounting: decentralized accounting for central government.
2005 FAD expert on tax administration.
2005 MFD resident expert on monetary operations, monetary policy, money markets.
2005 MFD expert on banking supervision.
2005 LEG mission on drafting an amendment to the banking law.
2005 MFD mission on banking supervision and bank restructuring.
2006 AFRITAC East experts on establishing intergovernmental fiscal unit in the MOF.
2006 FAD advisor trade facilitation.
2006 MFD FSAP-follow up advisory mission on monetary and foreign exchange operations and NBR internal audit.
2006 LEG mission to strengthen legal and regulatory framework for bank supervision.
2006 AFRITAC East advisors on finalization of OBL and financial regulations
2007 AFRITAC East advisors on workshops for implementation of OBL and financial regulations
2007 MCM expert on bank restructuring.
2007 MCM expert on foreign exchange operations.
2008 LEG mission to assist the Ministry of Finance in modernizing the tax system.
2008 LEG mission on banking legislation.
2008 MCM expert on foreign exchange operations.
2008 MCM mission to assist in building up internal audit in the central bank.
2008 FAD expert on revenue administration.

XIV. Resident Representative:

Mr. Lars Holger Engström assumed his duties as Resident Representative in February 2005.

XV. Management Visit:

The Deputy Managing Director, Mr. Portugal, visited Rwanda during May 3-5, 2007.

II. Rwanda: Relations with the World Bank Group
(As of May 2008)

Partnership for Rwanda's development strategy

Donor agencies have been key players in Rwanda since the genocide. With the support from the international community, Rwanda has made notable progress along an ambitious path of reconstruction, national reconciliation, and economic reform. Over the past six years, the Government has made commendable efforts, based on its first Poverty Reduction Strategy Paper (PRSP-1), to reduce poverty and improve living conditions of the poor. PRSP-1 was completed in June 2002 and covered the period 2002-06. It was supported and discussed by the Boards of the IDA and the IMF on August 12, 2002. PRSP-1 aimed to reduce poverty by half by 2015, through a private and rural sector-led strategy; the first PRSP also stressed the need to address the issues of HIV/AIDS, shelter for the homeless, the demobilization of ex-combatants and the resettlement and reintegration of all refugees. The strategy focused mainly on six priority areas: (1) rural development and agricultural transformation; (2) human development; (3) economic infrastructure; (4) good governance; (5) private sector development; and (6) institutional capacity building—as the focus for public actions on poverty reduction. Civil society, government agencies and ministries, and donors were all actively involved in the PRSP-1 process and monitoring. Three annual progress reports were prepared during the implementation of PRSP-1, the last of which was completed in July 2005. The corresponding Bank-Fund Joint Staff Advisory Note (JSAN) was produced in March 2006.

A second poverty reduction strategy, the Economic Development and Poverty Reduction Strategy (EDPRS), was completed in September 2007. The EDPRS refocuses Rwanda's priority on growth and human development, with an emphasis on decentralization, and a greater role for the private sector. The EDPRS provides a road map for the next five years (2008-2012) to government, development partners, the private sector and civil society indicating where Rwanda wants to go, what it needs to do to get there, what the journey is going to cost and how it will be financed. The strategy provides a medium-term framework for achieving the Millennium Development Goals, in the context of the country's long term development aspirations embodied in Rwanda's *Vision 2020*.

The JSAN of the EDPRS was presented to the Boards of the IDA and the IMF in February 2008.

World Bank Group Program and Portfolio

The last Country Assistance Strategy (CAS) for Rwanda, covering FY 2002-06, was discussed by the World Bank Board in December 2002. An Interim Strategy Note (ISN), approved by the Bank Board in September 2006, extended the CAS through FY08 to ensure that the next CAS (now under preparation) will be aligned with Rwanda's second PRSP, called the Economic Development and Poverty Reduction Strategy (EDPRS). Both the first CAS and ISN set out an assistance program consistent with Rwanda's PRSP-1, and emphasized the need to move progressively from project-based approaches to budget support. In line with that approach, a series of three programmatic operations—i.e. Poverty Reduction Support Credits/Grants (PRSGs)—was presented to the Bank Board in October 2004, October 2005, and in December 2006. This first series of PRSGs supported Rwanda's PRSP-1 in three priority areas: private sector development; improvement in the access and quality of socio-economic services, mainly in education, health, water, and energy; and in the improvement in economic governance. The PRSG was also the instrument for the Bank to support the process of donor harmonization.

The Bank has embarked on the preparation of a new series of PRSGs to support Rwanda's EDPRS. The first in the series—PRSG-4—was presented to the Board in February 2008. This new series of grants will support the GoR's efforts to accelerate growth in the medium term, and sustain improvements in social indicators.

International Development Agency (IDA) Program: Rwanda joined the World Bank in 1963. Since then, World Bank assistance on 69 projects has helped the country work towards achieving improved governance, economic growth and a reduction in poverty. As of March 2008, the Bank was supporting thirteen ongoing operations in Rwanda with a net commitment value of approximately US$368 million.

Overall, IDA has financed projects in (i) infrastructure, particularly road construction and maintenance, electricity and water supply, and sanitation infrastructure; (ii) agriculture, rural development, and forestry; (iii) social infrastructure, including health and population, and education and training; (iv) private sector development, public enterprise reform, financial development, and technical assistance; and (v) five policy-based quick-disbursing operations (IRC and PRSG1-4). During the immediate post-genocide period, IDA financed two emergency budget support operations and a social fund-type project, and restructured its prewar portfolio of investment projects to meet the high-priority needs associated with the emergency and the transition from conflict to development.

International Finance Corporation (IFC) Program: The following outlines the IFC program in Rwanda:

- **Infrastructure**: IFC is working with the World Bank and GoR to explore financing opportunities for the Lake Kivu Methane Gas Project (KPI). Two years ago, IFC committed US$7.5 million to M/s Intraspeed SA Rwanda Ltd (ISARL), a major freight and forwarding company in the Great Lakes Region, to help upgrade and expand the company's freight hauling capabilities.
- **Financial sector:** In November 2007, IFC signed a US$2.0 million trade finance agreement with Banque Commerciale du Rwanda (BCR). It is also currently considering a long-term credit line combined with a technical assistance program to help BCR develop its SME unit. IFC is also developing a private school program with Banque de developpement du Rwanda (BRD). IFC expects to commit a risk sharing facility of up to US$4.8 million with BRD in the next few months. IFC also

intends to develop a housing finance program in Rwanda in the coming months and has already engaged with local stakeholders.

- **Tourism**: In FY07, IFC committed US$8.0 million for the modernization and expansion of the Kigali Serena hotel and the Kivu Sun in Kibuye, recently acquired by Tourism Promotion Services of the Aga Khan Fund for Economic development (AKFED). IFC also committed US$2.5 million to Milkor Hotels for the rehabilitation and refurbishment of the Hotel Mille Collines.
- **Privatization**: IFC is advising the Government of Rwanda on the privatization of Rwanda Air.
- **PEP-Africa**: **Technical assistance programs in Financial and SME sectors:** Rwanda Leasing Program and Rwanda Entrepreneurship Program were launched on March 15, 2007. IFC is also developing a Gender Entrepreneurship Markets (GEM) Program in Rwanda.

  IFC is collaborating with the IDA Competitiveness and Enterprise Development Project (CEDP) through the Rwanda Investment Climate Reform advisory project, particularly on commercial law reform, capacity building activities of RIEPA, promoting public-private dialogue and supporting the Government's Doing Business (DB) reform action plan.

  Through the Efficient Securities Market Program (ESMID), IFC is providing technical support to Rwanda in the development of its capital market. IFC is also supporting the Banque Nationale du Rwanda (BNR) in the development of a credit bureau in Rwanda.

Multilateral Investment Guarantee Agency (MIGA) Program: Rwanda signed and ratified the MIGA Convention on October 27, 1989. On September 27, 2002, it became a full member of MIGA with the completion of its membership requirements, including payment of the usable currency and the local currency portions of its initial subscription, and deposit of the promissory note. The membership was followed by Rwanda’s election to MIGA’s Board of Directors during the World Bank/IMF annual meetings held in Washington.

Rwanda is one of the 16 post-conflict countries in the region on which MIGA is focusing as part of its post-conflict strategy. MIGA has not provided any coverage for projects in Rwanda. However, in the last quarter of FY08, the Agency expects to issue guarantees, through its Small Investment Program, to South African investors to facilitate their investment in a financial services project in Rwanda. To date, much of the Agency’s efforts have focused on complementing the Bank Group’s strategy of accelerating private sector-led growth in the country and to this end, MIGA has recently provided much input into the CAS document currently under preparation for FY09-FY12. Additionally, in consultation with the Bank, MIGA’s technical assistance team undertook an assessment to assist Rwanda in creating a national investment and trade promotion capability and made recommendations on the proposed Rwanda Investment Authority, as well as on the medium to long-term prospects for the country to attract foreign investment. Previously, MIGA collaborated with the World Bank to advise on the establishment of the Rwanda Investment and Export Promotion Agency (RIEPA) and provided considerable information on investment prospects in the country. FIAS has carried out an assessment of the strengths and weaknesses of RIEPA, meeting with RIEPA staff, board, and stakeholders, and surveying some of its private sector clients. The assessment was presented to RIEPA and the GoR in October 2007 and was well-received. The assessment includes a FIAS technical assistance plan for RIEPA, including schedules and a budget. RIEPA selected two priority areas to focus on immediately: support in elaboration of the new corporate plan, and improving performance and a client tracking system.

World Bank staff
Questions may be referred to Colin Bruce, Country Director (Tel. 5368+6441 / 254-20-322-6441) and Kene Ezemenari, Senior Economist (Tel.202-458-5559).

Table 1: Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Bank	Fund
Macroeconomic stability and development	Development agenda in poverty reduction goals.	Complement IMF's macroeconomic policy with various broad structural and sectoral work through lending and capacity building especially in areas such as budget management, energy, infrastructure, banking, telecommunications sectors.	IMF leads the policy dialogue and macroeconomic policies including fiscal and monetary policies. IMF has been supporting Rwanda through several arrangements under ESAF/PRGF.
	Collaboration in the areas of growth oriented reforms of the government.	Technical assistance in macro framework and related issues.	Technical assistance for improving tax administration
Public finance management and governance	A joint Bank and Fund assessment of the government's capacity to track poverty expenditures in July 2004, which highlighted the key areas for improvement.	The Bank has been providing assistance to the government to improve the capacity and quality of the budget process through a series of public expenditure reviews. Recently the Bank completed Financial Accountability Review and Action Plan (FARAP) and expected to support further through a Country Financial Accountability Assessment (CFAA).	IMF TA missions have been fielded in the areas of financial management, fiscal decentralization, and revenue management. Technical assistance provided in revenue management and modernization.
	Strengthening capacities in the areas of financial accountability and budget monitoring.	Financing and provision of technical assistance in expenditure tracking surveys and procurement reform. The Bank supports reform through the public sector capacity building project.	
Structural and policy reforms and financial sector	Collaboration in key institutional and structural reforms including an MTEF approach to budget planning, legal and judicial reform in establishing commercial courts and other regulatory reforms.	The Bank has provided support in the restructuring of the banking sector, and addressing the problem of non-performing loans. The Bank is also providing assistance to develop the micro-finance sector and the control of money laundering.	The Fund has been providing TA in banking supervision and prudential regulation. IMF is also providing assistance to the Central Bank in monetary policy analysis, banking supervision, and internal audit.
Infrastructure and private sector development	Collaboration in business friendly policies especially in the areas of taxation, budget, and legal and institutional development. Collaboration in reforming the financial sector.	The Bank has been supporting this area through many infrastructure projects in transport, water/sanitation, and energy. The competitiveness and enterprise development project (CEDP) is supporting reforms in telecommunications, privatization of the current telephone monopoly and tea factories. Banking sector reforms and the privatization process have been supported by the CEDP and the Institutional Reform Credit (IRC).	The Fund has been complementing the Bank work through policy dialogue and TA on fiscal and monetary policies.

Agriculture and rural development	Collaboration in recent budgetary policies, which support productivity enhancing measures in agriculture such as fertilizer and seed policies and fully washed coffee promotion of the government.	World Bank is supporting this sector through Rural Sector Support Project (RSSP), which aims to raise productivity and incomes among rural population.	
Social sector and community development.	Development agenda in poverty reduction and social sectors.	The Bank has supported Rwanda to improve its social infrastructure after the genocide especially in the areas of health, education and HIV/AIDS. Current poverty reduction support grants (PRSGs) have been supporting the social sector. The decentralization and community development project is supporting service delivery and ownership at the local level.	

Table 2: Status of Active Operations

Project	US$ mil.	Objective	Approval/ Effectiveness	Disbursed as of Jan '08	Ratings	
					DO	IP
Rural Water Supply and Sanitation	21.67	To increasing the availability and sustainability of water supply and sanitation (WSS) services in rural areas; strengthening the capacity of communities and agencies, and mobilize community support.	June 2000/ January 2001	16.63	S	S
Human Resources Development	37.14	To build up Rwanda's human resources and institutional capacity to deliver education services.	June 2000/ January 2001	29.10	S	S
Rural Sector Support	55.87	To build capacity in the management of farmed marshland and hillside areas; access to credit and competitiveness in agricultural export; and small-scale rural infrastructure.	March 2001/ October 2001	46.02	S	S
Regional Trade Facilitation	7.93	To improve access to financing for productive transactions and cross-border trade.	April 2001/ August 2001	5.64	S	S
Competitiveness and Enterprise Development Project	46.15	To establish an enabling environment for private sector-led economic growth and poverty reduction in Rwanda.	April 2001/ December 2001	40.01	S	S
Rwanda Demobilization and Reintegration Project	43.13	To help consolidate peace in the Great Lakes region and foster reconciliation within Rwanda.	April 2002/ September 2002	26.58	S	S
Multi-Sectoral HIV/AIDS	32.46	To strengthen prevention measures in order to slow down the spread of HIV/AIDS; and expand support and care for those infected or affected by HIV/AIDS.	March 2003/ August 2003	38.09	S	MS
Decentralization and Community Development	20.53	To boost the emergence of a dynamic local economy, through communities who are empowered to lead their own development process under an effective local government.	June 2004/ December 2004	11.44	S	S
Public Sector Capacity Building	19.67	To ensure that public sector entities have the capacity for more efficient, effective, transparent and accountable performance in their redefined roles and functions and for achievement of their strategic objectives contributing to the implementation of the PRSP.	July 2004/	5.27	S	MS
Urgent Electricity Rehabilitation	24.13	To alleviate power shortages, and enhance the capabilities of energy sector institutions.	January 2005/	6.38	S	S
Urban Infrastructure and City Management	21.61	To increase access to priority urban infrastructure in Kigali and two secondary cities (Ruhengeri and Butare).	November 2005/ March 2006	8.52	S	S
East Africa Trade and Transport Facilitation	199.53	To improve trade environment through the effective elimination of tariff barriers in the EAC Customs Union area; enhance logistics services efficiency along key corridors by reducing non tariff barriers and uncertainty of transit time; and improve railway services in Kenya and Uganda.	January 2006/ June 2006	54.01	S	MS
E-Rwanda	10.00	To improve (i) efficiency and effectiveness of some internal processes of the Government of Rwanda, and (ii) the delivery of services in selected key sectors, including better access to information through the use of technology.	September 2006/	1.5	S	S

III. RWANDA: STATISTICAL ISSUES

Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis. National accounts, prices, government finance, and balance of payments statistics continue to suffer from significant weaknesses. Monetary statistics and data relevant for banking supervision are adequate for program monitoring, but there is some scope for improvements in quality and timeliness. The country has participated in the General Data Dissemination System since October 2003.

In August 2005, the National Institute of Statistics (NIS) was established following the passage of the new Statistics Law.

National Accounts and Price Statistics

The national accounts are compiled and disseminated by the NIS, based on the 1968 System of National Accounts methodology. Data quality is weak, reflecting inadequate human and material resources. While considerable effort has been made to improve the reliability of GDP estimates using the production approach, significant weaknesses in data collection on expenditures and income hinder assessment of savings and investment. The reliability of national accounts estimates is also reduced by weak external sector statistics.

Since 2003, the East AFRITAC has advised the authorities on real sector statistics issues. This assistance is focused on capacity building to enable the construction of short-term indicators such as a monthly PPI for the manufacturing sector, which is a joint project with the central bank (NBR). The results have not yet been integrated in the national accounts. A DFID project is also supporting the NIS with a component on national accounts, aiming to establish a program of economic surveys and the development of leading indicators that can serve as source data for national accounts. The NIS is working on a new benchmarking of GDP estimates (2001). Work has also advanced in the implementation of the *1993 SNA*.

The consumer price index (CPI, 2003=100) utilizes expenditure weights derived from a 2000-01 survey of 6,450 households (local goods account for about 70 percent of expenditure and imported goods about 30 percent; food and drink account for 37 percent of expenditures and housing and energy amount to 16 percent). Certain shortcomings remain, as the CPI aggregates infrequently purchased products in groups with equal weight.

Real sector data are reported regularly for publication in *International Finance Statistics* (*IFS*), although with some lag, particularly for GDP estimates. Data on employment and wages are not collected, except for the central government and for daily informal work.

Government Finance Statistics

Detailed monthly revenues and expenditures are reported to AFR with a lag of three to four weeks. These data are compiled by the flash-reporting unit of MINECOFIN. A functional classification of government expenditure has been available since the 2003 budget. Within the economic classification, expenditures on PRSP-designated "priority areas" are clearly identifiable. The fiscal data do not capture capital expenditure consistently because capital projects (almost entirely externally financed) are mainly carried out by line ministries outside the regular budget process. Compilation of data on external budgetary assistance as well as on external debt would benefit from strengthened coordination between the finance ministry and the central bank. Efforts are underway to integrate the development budget into the normal budgetary procedures. Fiscal data often exhibit discrepancies between deficit and financing estimates. To address these issues, the authorities have made adjustments for changes in the balance of non-core government accounts, changes in cash in vault at the revenue authority, accounting errors, and other factors.

Selected aggregates on annual central government operations through 2004 have been reported to STA for publication in the *IFS,* but there are large discrepancies in the data, largely due to the timing of recording of expenditures. No sub-annual data are reported to STA, and government finance statistics (GFS) have not been reported for publication in the *GFS Yearbook* since 1993.

Monetary Statistics

The balance sheet of the NBR and detailed data on money market transactions are transmitted to AFR on a weekly basis with a lag of one week, while the monetary survey and the consolidated balance sheet of commercial banks are transmitted on a monthly basis with a lag of about five weeks. Detailed data on interbank money market transactions are also provided upon request. Monetary data used to be reported separately to STA and published in the *IFS*. The reporting of monetary statistics to STA has been delayed during the migration to the Standardized Report Forms (SRFs) undertaken by the NBR. The interruption in reporting has been longer than initially planned as the progress of the SRF migration has been hampered by the scarcity of skilled staff.

An August 2007 STA mission found that (i) a new chart of accounts for commercial banks was enacted in 2005 and the call report forms sent to the NBR were improved accordingly, thus better reflecting the methodology proposed in the *Monetary and Financial Statistics Manual*; (ii) the data on the Union des banques populaires du Rwanda—a countrywide mutual bank network—were included in the broad money survey beginning January 2004; (iii) the data on credit and savings cooperatives and other microfinance institutions are still not included in monetary statistics.

External Sector Statistics

The balance of payments is affected by weaknesses in the collection of source data (treatment of customs data and bank settlement reports, questionnaires) and insufficient staffing. The June 2003 multisector statistics mission recommended: (1) reorganizing data entry and production of external trade statistics, using ASYCUDA and Eurotrace software; (2) adapting survey forms sent to companies to the *BPM5* methodology; and (3) collaborating with Central Public Investments and External Finance Bureau (CEPEX) to obtain data on international and bilateral aid. Subsequently, STA balance of payments statistics missions followed up in January 2004 and June 2005, and AFRITAC missions in October 2006 and June 2007.

Technical assistance also resulted in significant improvements. In particular, the collection of data through direct surveys seems to be well established, and the rate of response is satisfactory (except for embassies). Annual balance of payments and IIP data through 2006 have been reported to STA for publication in the *IFS.* Also, with the assistance of these missions, the NBR has started compiling BOP/IIP statistics in conformity with international standards.

Some weaknesses remain, particularly in the compilation of trade data. Data compilation was the main focus of the June 2006 AFRITAC mission, and many adjustments to customs data were introduced to improve coverage and valuation. The treatment of bank settlement reports is not effective, because of incomplete automation of the collection of declarations.

The coverage of external aid remains a cause of concern. Data produced by the CEPEX do not include aid from important UN agencies and from certain countries. Only the external aid registered in the Government budget is fully covered. Concerning the other sector, the data should result from the survey on NGOs, but its coverage is insufficient.

Databases on external public debt are maintained by both MINECOFIN and the NBR. A committee, composed of staffs from the ministries of finance and economic planning, foreign affairs, and the NBR, is responsible for collecting, harmonizing, and monitoring information on external public debt.

Table 3. Rwanda: Table of Common Indicators Required for Surveillance

(As of May 15, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	05/07/08	05/09/08	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/07/08	05/09/08	W	W	M
Reserve/Base Money	05/07/08	05/09/08	W	W	M
Broad Money	03/31/08	05/09/08	M	M	M
Central Bank Balance Sheet	03/31/08	05/09/08	W	W	M
Consolidated Balance Sheet of the Banking System	03/31/08	05/09/08	M	M	M
Interest Rates[2]	March 08	05/09/08	M	M	M
Consumer Price Index	March 08	04/29/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 08	05/06/08	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/07	03/27/08	A	A	A
External Current Account Balance	2007	03/21/08	A	SA	A
Exports and Imports of Goods and Services	2007	03/21/08	A	A	A
GDP/GNP	2006	03/24/08	A	SA	A
Gross External Debt	NA	NA	NA	NA	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
June 16, 2008

1. **This statement summarizes developments in Rwanda since the issuance of the staff report.** The additional information does not change the thrust of the staff appraisal, although risks of higher inflation have increased.

2. **Preliminary information on the quantitative targets suggests that the PRGF program remains broadly on track.** The indicative targets for end-March for net credit to the government, domestic financing, domestic debt, and net international reserves were all met by comfortable margins. However, the indicative target on average reserve money was missed by a small margin due to a technical misunderstanding of an adjuster by the National Bank of Rwanda; the broad money indicative target was also missed by a small margin; and the indicative target on the net accumulation of domestic arrears was missed due to time lags in processing payments. As the deviations were either small or temporary, they do not call into question the prospects of achieving the end-June targets.

3. **CPI inflation in April rose to 11.0 percent year-on-year from 7.6 percent in March, mainly reflecting the ongoing increase in international food and oil prices.** About half of the overall inflation can be attributed to higher prices for energy products and imported food. In the 12 months to April, transportation prices rose by 17 percent and prices for energy products by nearly 30 percent. Core inflation, excluding fresh food and fuel, also accelerated to 14.4 percent from 10.8 percent in March, largely reflecting rising prices of imported food and housing rents. The overall food price index—which accounts for almost 40 percent of the consumer basket—increased by about 6 percent year-on year, as stable prices of local products largely offset strong increases in the imported food prices.

4. **The recent sharp increase of international oil prices will likely have a significant, though manageable, impact on Rwanda's balance of payments.** Using the most recent WEO oil price projections (where the average oil price is higher by 22 percent in 2008 and 32 percent in 2009 than in previous projections) and assuming that import volumes would remain largely the same as in the macroeconomic framework for the staff report, staff projected that Rwanda's current account may deteriorate by an additional 1.0 percent of GDP in 2008 and 1.4 percent of GDP in 2009. With international reserves at about 16 percent of GDP and steady inflows of donor financing, Rwanda should be able to withstand this shock in the near term. However, should elevated oil prices persist, the downside risks to external sustainability would increase. The staff will discuss the possible policy implications, in light of updated projections, at the next review.

5. **The authorities have recently declared their intention to develop a national investment strategy, in order to improve medium-term investment planning.** The strategy will be based on priorities identified in the new Economic Development and Poverty Reduction Strategy, projected financing that is consistent with debt sustainability, and the debt management strategy that is currently being developed by the authorities. It will make planned investment projects more transparent and would provide the context for dialogue with development partners.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
June 16, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review under PRGF Arrangement for Rwanda and Approves US$1.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Rwanda's performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review allows for the disbursement of SDR 1.14 million (about US$1.8 million), which would bring total disbursements under the arrangement to SDR 5.7 million (about US$9.2 million).

In completing the review, the Board granted a waiver for the non-observance of a performance criterion on net credit to the government. The deviation from the target was temporary, resulting from delays in disbursement from a donor and reimbursements in relation to peacekeeping activities. The Board also approved Rwanda's request for a modification of performance criteria for 2008.

The three-year PRGF arrangement for Rwanda was approved by the Executive Board in June 2006 (see Press Release No. 06/121) in an amount equivalent to SDR 8.01 million (about US$12.9 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

“Program performance in 2007 was satisfactory, and macroeconomic policy implementation was broadly on track. Growth was robust and inflation declined to single digits in the second half of the year. However, inflationary pressures have reemerged recently, spurred by increasing global fuel and food prices and higher transport costs for imports through Kenya.

“For 2008, the main challenge lies in managing a grant-financed fiscal expansion without jeopardizing macroeconomic stability. The authorities are committed to making policy adjustments, including a more gradual pace of domestic spending, should inflation accelerate.

“The projections for inflation and reserve money under the program have been increased in light of rising prices for imported food and petroleum products. The National Bank of Rwanda will need to monitor closely incipient inflationary pressures. Greater exchange rate flexibility is needed to ensure that the reserve money target is met, as well as to help buffer exogenous shocks and suppress inflation pressures. Strengthened liquidity management would improve monetary policy effectiveness.

“The planned investment in a hydroelectric power plant will alleviate an important impediment to private sector growth. The authorities intend to evaluate infrastructure projects carefully and on a case-by-case basis, to ensure their cost effectiveness and to calculate accurately their impact on overall debt sustainability. They recognize that grants and highly concessional financing for such projects will remain appropriate for some time. Future borrowing will be consistent with a prudent debt management strategy and a carefully formulated medium-term public expenditure management framework. The authorities are now elaborating a new public investment program to make planned investment projects more transparent and provide the context for dialogue with development partners.

“The authorities’ ambitious structural reform agenda is geared to improving the delivery of public services and creating a vibrant private sector. The planned reforms in public financial management are encouraging, as is the strong focus placed on building capacity in the public sector. Reforms in the financial sector should stimulate private sector development and growth by improving access to long-term financing,” Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Laurean Rutayisire, Executive Director for Rwanda
June 16, 2008

On behalf of my Rwandan authorities, I would like to express my appreciation to the Executive Board and Management for the quality of relations that the Fund maintains with Rwanda, and to staff for the constructive policy dialogue held during the last staff visit to Kigali and the discussions held during the 2008 Spring Meetings. My authorities share the view that the staff report accurately reflects the recent economic developments in Rwanda and the challenges that the economy faces. They remain grateful to the international community for its assistance in their efforts to implement the needed policies and reforms.

Since the third review under the current PRGF-supported program, Rwanda has made progress in implementing its economic agenda, including achieving strong growth while maintaining macroeconomic stability. Despite difficult external conditions, real GDP grew by 6 percent in 2007, above expectations. Headline inflation declined to singe digits although threats of rekindling exist due to the second round effects of the international food and oil price escalation. Nonetheless, fiscal policy remains on track, in line with the program fiscal targets and the NBR stands ready to preserve the reserve money target through a coordinated sale of domestic and foreign sterilization instruments.

On the external front, Rwanda has made important strides in expanding its mineral exports while imports have grown in line with rising capital spending. International reserves have reached a comfortable level—more than 5 months of imports—at end-2007, owing to increases in transfers to the public sector and private inflows, mostly FDI.

As the program performance in the six-month period to end-December 2007 has been broadly satisfactory, with all but one quantitative performance criteria met, my authorities request the completion of the fourth review under the PRGF-supported program. They request a waiver for the one missed criterion on net credit to government on grounds that the nonobservance of this criterion was due to circumstances outside the authorities' control and was temporary.

My authorities would also like the Executive Board to grant them a modification of one structural benchmark to make it consistent with a FAD recommendation and with the objective of trade facilitation. They also request the revision of three performance criteria at end-June and end-December 2008 to accommodate newly available donors' funds as well as cope with the exogenous shocks that affect the Rwandan economy, namely the recent political and social crisis in Kenya, the series of earthquakes that struck Rwanda in early February, and the rising world prices for petroleum and food products. Moreover, my authorities intend to address the daunting electricity problems that hamper productivity and growth, by undertaking an important infrastructure project whose financing warrants bringing the grant element threshold to 40 percent from the current 50 percent under the program. My authorities will greatly appreciate the Executive Board's support to adapting this continuous performance criterion for this sole project, which has been assessed by the World Bank as financially viable and by other partners as critical to Rwanda's development.

My Rwandan authorities are currently proceeding to elaborate a public investment program which they will table at a donors' conference to be held in September this year in order to discuss and convene with the donors on Rwanda's investment priorities. They are also carrying out feasibility studies of some of the projects contained in the draft PIP which they will also present at the donors' conference. They would like to reassure their donor partners that the projects will not be undertaken before their discussion at the donors' meeting. They will continue to coordinate with donors in the evaluation of the projects.

I. RECENT MACROECONOMIC PERFORMANCE AND REFORMS

Economic performance in the first quarter of 2008 confirmed the strong activity observed throughout 2007, boosted by buoyant construction and service sectors and the good harvest in early 2008. However, high world food and oil prices and escalation in transportation costs arising from the political crisis in Kenya translated into double-digit inflation in March 2008. The fiscal spending backloading in the second half of 2007 may also have caused further pressures on prices. However, on the whole, fiscal performance remained broadly on track. In particular, the target on the domestic fiscal balance at end-December was achieved owing to higher tax revenue which financed the higher-than-budgeted spending in the priority sectors of health, education and infrastructure building. Although the target on net credit to government was missed due to delays in disbursement from the Fast Track Education Initiative (FTEI) and in reimbursements from the African Union for Rwanda's peacekeeping in Darfur, nonetheless, net credit to government was brought back on track as soon as these payments were received during the first quarter of 2008, thereby neutralizing the expansionary effects. On the monetary front, the National Bank of Rwanda (NBR) has continued selling foreign exchange and domestic assets in order to mop up excess liquidity.

As regards structural reforms, progress has been recorded in several areas. In public expenditure management, one can note the completion and publication in September of a progress report on financial reporting by budgetary agencies; the completion and publication of a study on donor-financed project accounts at the NBR; the publication in September of the progress report on the implementation of the Organic Budget Law; and the publication in October of the consolidated execution report of local governments. In civil service reform, the authorities have finalized a comprehensive review of the wage structure in October. In the area of poverty reduction, a poverty profile for the provinces was produced and it will be extended to districts and communities as soon as external financing is available. Private sector development also has seen progress, with the introduction of a number of measures to reduce the cost of doing business in Rwanda, notably the establishment of the Commercial and Registry Services and the operationalization in October of the Office of the Registrar of Land Titles.

II. The 2008 Macroeconomic Program

The objectives and design of the 2008 program remain unchanged from those laid out by the authorities during the third review under the current PRGF arrangement. The macroeconomic framework is based on a 6 percent growth rate this year as the impact of exogenous shocks from the Kenyan crisis and the earthquakes on the Rwandan economy seems to have been relatively subdued. The framework also assumes an average inflation rate for 2008 that was revised upward at 8.5 percent due to higher transport costs of goods imported from Kenya, significant pass-through of rising world fuel prices and the inflationary impact of rising costs of food imports. My authorities will continue to implement their macroeconomic and structural policies designed to promote growth-enhancing investments and reduce poverty.

Fiscal policy

It is my authorities' intention to increase fiscal expenditure by an additional 2 percent of GDP from the program outlined during the last review, in order to accommodate the following:
(i) additional grants from UK's DFID for spending on health, and from the World Bank for spending on energy;
(ii) additional revenues from higher projected GDP and higher efficiency in collections;
(iii) cost of rebuilding and rehabilitating schools and hospitals destroyed by the recent earthquakes, which will be executed through donor-financed projects and by domestic borrowing if necessary;
(iv) issuance of secured identity cards to all Rwandans above the age of 16, for multiples purposes (provision of social services, driver licenses, social security, medical insurance);
(v) spending to cover costs from a restructuring of domestic debt and a revision of foreign interest payments;
(vi) a large infrastructure project (The Nyabarongo Project) to address the country's electricity supply gaps.

My authorities have committed to release the contingent spending envisaged since the third review under the program only after a careful evaluation of macroeconomic conditions and consultation with the Fund staff.

To accommodate the additional resources and meet the needs highlighted above, my authorities are requesting a modification of the performance criteria on domestic fiscal balance and net credit to government.

Infrastructure building and debt sustainability

Rwanda has continued to suffer recently from acute electricity supply shortage, which prompted the authorities to rent additional diesel generation capacity at a high cost to the public budget and at sharply increased tariffs. To definitely bridge the energy supply gaps, including with the forecasted demand growth, while ensuring reasonable electricity costs, my authorities envisage to build a hydro-electric power plant at Nyabarongo, whose project bears features superior to those of thermal generation and regional hydro power alternatives, notably in terms of early availability, investment cost and consumption tariffs.

To finance the 4-year, US$112.7 million project, which will boost Rwanda's GDP and export growth prospects, my authorities seek a modification of the program to allow them to borrow on terms that are less concessional than those allowed under the program. Indeed, the loan of US$97.7 million requested to the India Exim Bank (US$80 million of which has been secured) bear a concessionality rate of 40 percent, below the 50 percent required under the program. However, based on the financial viability of the project as assessed by the World Bank, its least-cost expansion plan, its criticality for Rwanda's development strategy, and the assurances given by development partners that undertaking the project will not hamper Rwanda's access to their concessional financing, I would appreciate Board support to my authorities' request of modification of the performance criterion on debt concessionality to allow the financing of this important project.

My authorities will also focus on other priority sectors outlined in their new Economic Development and Poverty Reduction Strategy (EDPRS). They are also developing a comprehensive debt management strategy which, along with the medium-term expenditure framework and the Public Sector Investment Program currently under preparation, and to be discussed with their donors, will guide future borrowing and project priorities as well as ensuring debt sustainability.

Monetary and exchange rate policy

Monetary policy will continue to be tightened in light of the mounting inflationary pressures. This will be achieved through a coordinated sale of domestic and foreign sterilization instruments. In face of the increase in spending from higher aid inflows, my authorities will adopt the recommendations of the recent technical assistance mission from the Fund's MCM on exchange rate market functioning and introduce, in a gradual approach, greater exchange rate flexibility to achieve the volume of foreign exchange sales consistent with attaining the reserve money target and the ceiling on domestic debt.

Monetary policy will be closely coordinated with fiscal policy by strengthening liquidity monitoring through the enhancement of the Treasury Management Committee (TMC), and by establishing a budget mechanism to reject commitments and payments beyond the cash allocations of ministries and adjust the domestic component of spending depending on the domestic debt and inflation situation.

III. The Structural Agenda

My authorities will continue to focus their structural policies in 2008 and beyond on enhancing productivity of the agricultural and export sectors and advancing the development of the private sector. They will build on the progress achieve thus far in the context of past and the present PRGF-supported programs to make further strides in :
(i) enhancing public financial management;
(ii) strengthening the financial sector through continued implementation of the Financial Sector Development Strategy, notably by modernizing the national payments system, improving access to credit and financial services, and encouraging the mobilization of long-term savings;
(iii) making further efforts to improve the business climate and remove obstacles to private sector development; and
(iv) promoting exports by emphasizing productivity growth in the traditional sectors (coffee and tea), diversifying the export base (towards mining and tourism) while operationalizing the Export Processing Zone (EPZ). In the same vein of trade facilitation, my authorities—in accordance with the East African Community common position which Rwanda is preparing to join—have signed an interim agreement with the European Union to pursue negotiations on an Economic Partnership Agreement (EPA). The final agreement on the EPA is expected by mid-2009.

As regards the structural conditionality in 2008, actions are envisaged in the public expenditure management area, with the planned completion and publication of a revised PFM reform action plan for 2008-2010; the production and publication of the MTEF operational manual; and the development and publication of the debt management strategy with clear limits for loans and guarantees that are consistent with the provisions in the Organic Budget laws. Measures are also planned in the tax administration area to address key compliance risks associated with large, medium and small taxpayer segments. As for the financial sector, my authorities will publish a national payment strategy to promote the development of a stable financial system by reducing high transaction costs for businesses and financial risks in payment clearance and settlements.

IV. Conclusion

My Rwandan authorities continue to implement their PRGF-supported program in a satisfactory manner through sound policies and reforms and the attainment of the program objectives and targets. There remains nevertheless a number of challenges to be tackled in order to sustain higher economic growth, make substantial inroads in poverty alleviation and meet the other Millennium Development Goals. The energy and other infrastructure gaps warrant important investments, which my authorities are planning. They are committed to step up their efforts and make corrective actions when necessary, with continued dialogue with the Fund, the Bank, and its other donor partners.

Based on their good track record of policy and reform implementation, I would like, on their behalf, to request the completion of the fourth review under the current PRGF arrangement. My authorities also seek a waiver for the nonobservance of one performance criterion due to circumstances outside their control and which has been met recently. They are also requesting the modification of performance criteria to accommodate additional revenues and grants and allow new expenditures and a less concessional borrowing required to finance a key infrastructure project. I would appreciate Board support in this regard.