March 2013
IMF Country Report No. 13/77

Rwanda: 2012 Article IV Consultation and Fifth Review under the Policy Support Instrument and Request for Modification of Assessment Criteria —Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Rwanda

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2012 Article IV consultation with Rwanda and the fifth review under the Policy Support Instrument and Request for Modification of Assessment Criteria, the following documents have been released and are included in this package:

- The staff report for the combined 2012 Article IV consultation and fifth review under the Policy Support Instrument and Request for Modification of Assessment Criteria, prepared by a staff team of the IMF, following discussions that ended on October 9, 2012, with the officials of Rwanda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 20, 2012. 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 Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its November 28, 2012, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

RWANDA

November 20, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA

KEY ISSUES

Rwanda faces two main challenges: Near term, conducting policy and maintaining macroeconomic stability under highly uncertain prospects for donor aid and the global environment; medium-term, sustaining strong growth and poverty reduction while gradually reducing high dependence on foreign aid.

Outlook and risks: Growth is projected to ease to 7.7 percent in 2012 and settle around 7 percent over the medium term. Risks to the outlook mainly stem from possible cutbacks in aid, spillovers from the crisis in Europe and the weak global environment, and higher food and petroleum prices.

Policy discussions centered on four themes: sustaining rapid inclusive growth over the medium term; strengthening fiscal policy so it can contribute to growth in the face of declining external aid; enhancing the monetary policy framework and strengthening the financial sector to support macroeconomic stability and growth; and maintaining external stability through increased exports and a strong debt management policy.

Main policy recommendations:

- Align spending priorities in FY 2012/13 with available financing. Stand ready to scale back spending should delays in aid disbursements extend beyond the current fiscal year.
- Use the proceeds of the eurobond exclusively to retire short-term debt and complete strategic investment projects as planned.
- Review recommendations of the recent technical assistance mission to strengthen domestic revenue mobilization.
- Strengthen the monetary policy framework and foreign exchange market reforms to enhance the effectiveness of monetary policy and ensure that the exchange rate responds better to market fundamentals.
- Staff supports the granting of a waiver for the nonobservance of the Quantitative Assessment Criterion (QAC) on NDF, the conclusion of the PSI 5th review, and the modification of end-December 2012 QACs.

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

Discussions were held in Kigali during September 26-October 9, 2012. The mission comprised Messrs. Drummond (head), Arnason, Ben Ltaifa, Phetwe (all AFR), and Raman (SPR). Ms. Farahbaksh, resident representative, participated in the discussions, and assisted the mission. The mission met with Minister of Finance and Economic Planning Rwangombwa; Governor Gatete of the National Bank of Rwanda; other senior officials, and representatives of the private sector, civil society, and development partners.
Article IV consultation and program review: The last Article IV Consultation was concluded on December 20, 2010. The Executive Board completed the 4th review under the Policy Support Instrument (PSI) on June 7, 2012.

CONTENTS

BOXES

FIGURES

TABLES

APPENDIXES

THE CONTEXT

1. **Rwanda has been an economic success story**. Real GDP growth averaged above 8 percent a year in the last decade; inflation has been subdued since 2009; foreign reserves has been kept at adequate levels; poverty declined from about 57 percent in 2005/06 to below 45 percent in 2010/11, and income inequality declined notably.

2. **Strong policies have played a key role in Rwanda's continued success:**

- Fiscal and monetary policies centered on maintaining macroeconomic stability (Box 1).
- Concerted efforts to improve public financial management (PFM), maintain good governance, and reform the business environment—placing Rwanda among the top African economies in the World Bank's Doing Business Index.
- A deliberate focus on mobilizing and using foreign aid in support of economic development and poverty reduction.
- An economy that increasingly benefits from opening up to new products and new markets.
- A strong emphasis on homegrown and adapted interventions to enhance the inclusiveness of growth, and strengthen the provision of social services, especially to the rural poor, as shown in the recent household survey.

3. **The mission took place amid high uncertainty regarding donor assistance**. A number of bilateral and multilateral donors have delayed budget support disbursements for FY2012/13. The delayed budget support envelope is estimated at about 3 percent of GDP.

4. **The challenges ahead** are sustaining this good economic performance under highly uncertain prospects for donor aid and the global environment; and, in the medium term, sustaining strong growth and poverty reduction while gradually winding down Rwanda's high dependence on foreign aid.

5. **Overcoming these challenges** will require continued prudent economic management in the near term, and further progress addressing Rwanda's key vulnerabilities in the medium term: low government revenue, high aid dependency, narrow export base, and weak infrastructure.

Box 1. Rwanda's Response to the 2010 Article IV Consultation's Key Recommendations

- **Fiscal policy**. Unwind fiscal stimulus and embark on a medium-term path of fiscal consolidation; complement revenue mobilization efforts with tax policy reforms

  Progress: fiscal policy has been aligned with the macroeconomic framework agreed on with the IMF. Revenue mobilization efforts centered until recently on tax administration, and are now being complemented by tax policy recommendations from a recent Fiscal Affairs Department (FAD) technical assistance (TA) mission.

- **Monetary policy**. Review regularly the monetary stance to enable timely response to inflationary pressures; use more actively the policy rate, and introduce reforms toward greater exchange rate flexibility.

  Progress: monetary policy has been generally accommodative, in the context of low inflation. The national Bank of Rwanda (NBR) has become more proactive recently, raising the key repo rate in May for the third time since October 2011.

- **Export diversification**. Improve business environment and step up efforts to broaden the export base.

  Progress: the authorities have developed a National Export Strategy (NES), and established a high-level coordinating body, the Industrial Development and Export Council (IDEC), to oversee its implementation. The IDEC is to identify priority expenditures to advance the NES within the existing budgetary envelope.

- **Access to finance**. Enhance the competition in the banking sector, and strengthen the supervisory capacity of microfinance institutions, while improving access to finance.

  Progress: the 2011 FSAP update found that the banking system has recovered from a period of restructuring and banks are well capitalized, and competition among banks has increased. Challenges relate to the strengthening of the frameworks for the supervision of credit cooperatives.

POSITIVE ECONOMIC DEVELOPMENTS

6. **Growth continued to be strong in the first half of 2012, but is projected to slow in the second half of the year**. The Rwandan economy grew by 8.6 percent year-on-year in the first half of 2012, driven by the construction and services sectors (Table 1, and Figures 1 and 2). However, for the whole of 2012, real GDP growth is projected to ease to about 7.7 percent, in part because of weaker agricultural output in the second half of the year and lower-than-planned government spending caused by delays in budget support disbursements by some donors.

7. **Inflation has declined, mainly in response to slowing import prices for food and petroleum products**. Headline inflation declined to 5.6 percent in September 2012 while core inflation was down to 2.1 percent (Figure 4). Inflation is however, expected to pick up toward the end of the year, to 7.5 percent, buoyed by increased domestic fresh food prices owing to poor weather and the lagged effects of higher exchange rate depreciation since mid 2012.

8. **The current account deficit has widened because of strong import growth and delays in aid inflows**. Exports of goods and services have remained strong in 2012, because rising mineral exports and markedly higher tea prices have more than offset lower prices for a number of traditional exports, including coffee. Meanwhile, imports have increased rapidly driven by higher imports of capital goods and materials for the construction sector. Moreover, aid delays have resulted in lower official transfers. As a result, the current account deficit (including

aid inflows) has widened, and for 2012, is projected to reach about 11.3 percent of GDP.

9. **Efforts at fiscal policy consolidation continued in FY2011/12**. The overall fiscal deficit (cash basis, after grants), was 0.7 percent of GDP lower than targeted (Table 3). This was the result of greater-than-projected revenue and lower spending. The higher revenue reflected higher income tax revenue on account of an unexpectedly large clearance of arrears and higher revenue from taxes on goods and services and international trade (boosted by higher imports). On the spending side, higher-than-budgeted current spending, mainly on wages and salaries, was more than offset by under-execution of domestically financed capital expenditures.

10. **Monetary policy has been tightened since mid-2012, following an extended period of accommodation**. Against a background of rapid growth in broad money and credit to the private sector in the first half of the year (Table 4, Figure 5), the National Bank of Rwanda (NBR) raised its key repo rate (policy rate) in May 2012 by 50 basis points (to 7.5 percent) and increased the use of repo operations to mop up excess liquidity. As of end-October, the exchange rate depreciated by 3.7 percent since the beginning of the year.

SATISFACTORY PROGRAM PERFORMANCE

11. **Performance under the PSI remains strong**. With one exception, all end-June quantitative assessment criteria (QAC) and indicative targets were met (MEFP Table 1). The quantitative assessment criterion on net domestic financing (NDF) was missed by a small margin,[1] for which the staff supports the granting of a waiver because it is minor and has no bearing on program performance.

12. **The structural reform agenda is moving ahead, albeit with some delays.** Seven of 11 structural benchmarks (SBs) have been met, of which two with delay (MEFP Table 2). The SBs the publication of quarterly budget execution report (continuous), and the preparation of own DSA have been met with some delays, mainly owing to capacity constraints. Four SBs have not been met: The medium-term debt management strategy will be submitted to Cabinet in late November 2012. The benchmarks on the revision of the investment code, introduction of electronic tax registers and the completion of technical specifications for the integrated financial management information system (IFMIS) are expected to be completed in the first half of 2013.

[1] About 0.5 percent of GDP because of typographical error in the staff report for the 4th Review.

FAVORABLE ECONOMIC OUTLOOK BUT RISING RISKS

A. Baseline Scenario

13. **The macroeconomic outlook remains generally favorable, provided delays in budget support disbursements are temporary**. The baseline macroeconomic framework assumes (i) budget support will resume in the second half of FY 2012/13; and (ii) issuance of a US$350million eurobond before end-2012 to retire unfavorable debt and to finance the completion of the Kigali Convention Center (KCC):

- Growth is projected at 7.7 percent in 2012 and 7.6 percent in 2013, driven by expansion in services and construction, and to stabilize at around 7 percent over the medium term.
- Inflation is projected to continue its convergence toward the authorities medium-term target of 5 percent (in line with the East African Community, EAC, convergence criterion on inflation), largely driven by lower import prices for food and fuel.

B. Downside Risks

14. **Risks arise mainly from possible cutbacks in aid and a more challenging global environment**. The mission focused discussions on the macroeconomic implications of a potential downside scenario (Box 2). Under this scenario, delays in budget support are assumed to extend beyond the current fiscal year. Staff estimated such delays could lower growth in 2013 by 1½ percentage points and possibly more, depending on magnitude of the second round effects.

POLICY DISCUSSIONS

15. **Discussions focused on policies to mitigate short-term risks and preserve hard won macroeconomic stability, and reforms to raise Rwanda's competitiveness and growth potential.** Staff and the authorities organized the discussions around four themes: (i) sustaining rapid, inclusive growth; (ii) strengthening fiscal discipline while remaining supportive of growth in the face of declining external aid; (iii) modernizing the monetary policy framework and strengthening financial sector reforms in support of financial deepening and greater access to credit; and (iv) underpinning external stability through export diversification and improved competitiveness.

Box 2. Rwanda: The Downside Scenario—Impact of Protracted Delays in Aid

The baseline assumes delayed budget support from the first half of FY2012/13 (about 3 percent of GDP) will be disbursed in the second half of the fiscal year, minimizing the macroeconomic impact. However, a further delay in budget support could have a much more significant macroeconomic impact. This has been estimated using two possible scenarios:

- **Scenario 1**. The government adjusts fully to the shortfall in donor funds by cutting domestically-financed capital spending and the central bank refrains from intervening in the foreign exchange market because of concerns about the level of reserves. The direct hit to investment amounts to 3 percent of GDP and the direct impact on growth is estimated at about 1½ percentage points (assuming an import content of investment of 50 percent). Further, in the absence of alternative external financing, imports would decline and inflation would rise.
- **Scenario 2**. The government could attempt to respond to the loss in aid by resorting to domestic financing to fill the funding gap. The direct impact on growth would be smaller than in Scenario 1, but the impact on inflation would be larger.

Two caveats are in order: first, the two scenarios are based on a relatively limited delay in aid disbursements; the suspension of budget support for all of 2013 would have twice as large direct effects as those outlined above. Second, the scenarios do not consider second round effects on private sector investment, growth, the exchange rate, and inflation which could be much larger. Sharply lower levels of investment and growth and higher rates of inflation would lead to a contraction in real household incomes and consumption. The social situation could deteriorate rapidly, particularly in Kigali, because unemployment in construction and other sectors dependent on domestic demand would rise. The poor and vulnerable, including day laborers in construction and their dependents, would be especially hard hit.

A. Sustaining Rapid, Inclusive Growth

16. **The Rwandan government remains committed to an ambitious economic growth and poverty reduction agenda over the medium and long term**. Its main objective, articulated in its Vision 2020 and being incorporated in its second Economic Development and Poverty Reduction Strategy (EDPRS II), envisages Rwanda becoming a middle-income country by 2020 and the poverty rate falling below 30 percent by 2017/18 (Box 3). The government recognizes that these are ambitious goals, which would, among other things, require average annual real growth of 11½ percent. The mission team lauded the authorities for their ambitious agenda and their emphasis on inclusive growth and poverty reduction, but noted the importance of basing the EDPRSII and the PSI medium-term scenario on resources that have already been identified.

17. **The authorities agreed with the mission that for purposes of policy design, the medium-term macroeconomic framework in the EDPRS II and for the PSI program should be based on prudent growth assumptions**. Real GDP growth is projected to moderate over the medium term

to about 7 percent a year. Such growth is consistent with the prevailing domestic and external environment, a gradual decline in public investment-to-GDP ratio necessitated by the projected decline in aid inflows, gradually increasing domestic resource mobilization, and recourse to external commercial borrowing limited to complete large strategic projects currently underway. The government medium-term fiscal program would remain anchored on two key objectives: to limit recourse to domestic financing and avoid crowding out private sector credit growth; and to preserve debt sustainability.

18. **The mission highlighted the challenge of scaling up public investment and the associated resource requirements using a dynamic general equilibrium model**. The authorities appreciated the discussion and said they would draw on the simulation results in the development of their EDPRS II. The simulations show that scaled-up investment would provide a boost to growth but mobilizing the required resources for the additional investment would be challenging (Box 4). For example, relying only on domestic resources would lead to unrealistic increases in taxation and excessive crowding out of consumption and private investment. Conversely, relying solely on external commercial borrowing would quickly lead to an unsustainable buildup in external debt. Simulations that incorporate a combination of increases in tax revenue, expenditure rationalization, and judicious resort to external borrowing are the most realistic. The simulations also demonstrate the importance of relying to the extent possible on concessional loans, and of the efficiency of the public investment process—converting the largest possible share of the investment into effective capital. The authorities appreciated the discussion and said they would draw on the simulation results in the development of their EDPRS II.

Box 3. Rwanda: The Economic Development and Poverty Reduction Strategy II (EDPRS II)

The Rwandan authorities are, along with stakeholders, in the process of articulating their next poverty reduction strategy, the Economic Development and Poverty Reduction Strategy (EDPRS) II for the period 2013/14-2017/18. The authorities expect to submit it to Cabinet in early 2013.

The authorities are mostly satisfied with the progress toward the Millennium Development Goals (MDGs, Appendix IV) achieved under the EDPRS I covering the period 2007/8-2012/13, particularly when compared with what was achieved under the previous poverty reduction strategy. They emphasized that, while output growth, including in agriculture, remained high throughout, the rate of reduction in the poverty headcount has accelerated. They attribute this to an enhanced focus on the inclusiveness of growth and specific interventions aimed at tackling rural poverty. These include policies to change the composition of agricultural output from sweet potatoes and bananas (suitable for making alcoholic beverages) to wheat, and cassava (more nutritious) and the distribution of cows and small livestock (goats etc.) to the vulnerable among the rural population. The authorities regard the latter as a form of social protection.

For EDPRS II, the authorities are determined to build on the achievements under EDPRS I and do even better. Their objectives are to sustain rapid economic growth in all sectors, accompanied by a structural transformation of the economy away from agriculture to industry and services and the narrowing of the external trade deficit. While they would like to see, consistent with Rwanda reaching middle-income country status by 2020, growth of 11½ percent per annum going forward, they admit that such a scenario is contingent on external financing that is currently not available. For immediate policy purposes, the macroeconomic framework is based on external resources that have already been identified.

The EPDRS II will focus on four thematic areas supported by ongoing attention to foundational issues. The thematic areas are: (i) economic transformation, seen as essential for high growth; (ii) rural development, seen as essential for poverty reduction; (iii) productivity and youth employment, seen as essential for economic development; and (iv) accountable governance, seen essential for citizen engagement and ownership. The foundational issues include continued commitment to macroeconomic stability, sound public financial management, social protection, early childhood development and basic education, and primary healthcare and the fight against malnutrition.

Specific policies to underpin the inclusiveness of growth and rural development include measures to further increase agricultural productivity, not least through land consolidation, and population settlements (villages) to lower the cost of provision of basic infrastructure, such as roads and electricity, and increase urbanization.

Box 4. Rwanda: Simulations of the Public Investment-Growth Nexus

Staff is collaborating with the authorities on a project to estimate the impact of scaling up public investment on growth in Rwanda using a dynamic general equilibrium (DGE) model with low-income county characteristics.[1] *The goal is to explore how Rwanda can sustain rapid growth going forward, in particular the role that public investment can play. The model has been used for a number of countries in sub-Saharan Africa and elsewhere*.

A key feature of the model is that public investment is productive and complementary to private capital. Thus, raising public investment gives a boost to economic growth. However, the government faces a budget constraint and must finance any additional investment through tax increases (or spending cuts) or borrowing (domestic, or external concessional or non-concessional). The model also allows for a variable efficiency of public investment, i.e. the rate at which investment is converted into productive capital. To the extent possible, the model has been calibrated to reflect data on the structure of the Rwandan economy.

In contrast to some of the other country cases, Rwanda has already seen a significant scaling up of public investment and enjoyed rapid economic growth in the last decade. The medium-term macroeconomic framework in fact assumes some scaling down of public investment along with a decline in inflows, with real GDP growth gradually easing to an annual rate of about 7 percent.

One set of simulations, incorporating the assumed paths for public investment and aid used in the macroeconomic framework, broadly confirms the internal consistency of the framework and established a baseline. The other simulations focus on scaled-up investment paths for different assumptions regarding the financing of the additional investment. A common theme of the simulations is that a substantial scaling up of public investment (in the order of 5 percentage points of GDP a year over 10 years) is required to generate a significant boost to economic growth (a cumulative 10-20 percentage points during the simulation).

However, such scaling up of investment requires large amounts of resources. Covering this resource need solely through additional tax revenue requires a prohibitive rate of taxation (more than double the current rate) that sharply compresses consumption. On the other hand, drawing exclusively on external commercial borrowing rapidly undermines external debt sustainability. The most promising approach is one that combines a realistic increase in domestic resource mobilization over the medium term, takes advantage of all available concessional financing, and judiciously resorts to commercial borrowing. The level of efficiency of public investment, a broad proxy for the quality of institutions and processes, is also of paramount importance.

[1] Buffie, E.E., A. Berg, C. Pattillo, R. Portillo, and L. Zanna, “Public Investment, Growth, and Debt Sustainability: Putting Together the Pieces,” WP/12/144.

B. Fiscal Policy: Supporting Growth in the Face of Declining Aid

19. **Fiscal policy for FY 2012/13 remains broadly in line with the PSI objectives.** The baseline fiscal framework differs from the approved FY 2012/13 budget mainly in two respects:

- It assumes that budget support committed for the first half of FY2012/13 but not delivered will be disbursed in the second half of the fiscal year. The government has appropriately postponed some spending to the second half of the fiscal year to avoid excessive resort to domestic financing. The authorities have also identified contingent spending items—amounting to about 0.4 percent of GDP—that will not be undertaken if specified components of committed budget support, deemed at highest risk of prolonged delay, are not disbursed in the course of the fiscal year. More generally, the authorities committed to adjust policies by reducing spending or increasing the revenue to make up for shortfalls in financial assistance relative to the program.

MEFP ¶52

- It incorporates the issuance before end-2012 of a eurobond in the amount of US$350 million, the proceeds of which will be on-lent to the Kigali Convention Center (KCC) and Rwandair to retire government-guaranteed loans (US$200 million) as well as to finance the completion of the KCC project (US$150million) before end-2013. Previously, it had been assumed that these independent companies would be able to mobilize the required financing themselves, albeit with government guarantees. Because they have not been able to, the government has decided to borrow the required funds and lend them to the companies, thereby increasing its net lending for FY 2012/13 and 2013/14.

MEFP ¶45, 48, 50

20. **Excluding the impact of the eurobond, the overall fiscal picture is largely in line with the approved FY 2012/13 budget** (Table 3). Total revenue and grants are expected to amount to 25.3 percent of GDP. The tax revenue-to-GDP ratio is projected to be marginally lower than the previous year, because some one-off items that boosted revenue in FY2011/12 are not expected to accrue again to the same extent, such as the collection of tax arrears, and because of delays in the implementation of some revenue measures planned for FY2012/13. Total spending and net lending are projected at 32.4 percent of GDP (or 28 percent of GDP excluding transactions related to the eurobond in line with the original budget target). Accordingly, the overall deficit (including grants) is projected at 7.1 percent of GDP (or 2.8 percent of GDP excluding net lending to KCC and Rwandair financed by the proceeds from the eurobond).

21. **The government has established a solidarity fund ("Agaciro") to finance priority projects relevant to the achievement of the MDGs.** The Agaciro fund solicits voluntary contributions from Rwandans at home and abroad. It is fully integrated into the budget and, for FY2012/13, is expected to contribute about RWF 2 billion (less than 0.05 percent of GDP) to domestic capital spending. The staff underscored the importance of holding Agaciro operations to the highest standards of public financial management, including strict enforcement of transparency and accountability rules, and to avoid coercion in the solicitation of contributions, lest it become a new form of taxation.

MEFP ¶51

22. **The authorities are accelerating tax policy reforms to support revenue mobilization**. They recognize that Rwanda's tax effort—about 14 percent of GDP, financing only about 60 percent of government spending—makes Rwanda highly dependent on aid and could not be increased further by relying solely on revenue administration reforms. The authorities recently invited a FAD technical mission to explore new tax policy and revenue administration reforms to increase the government tax base. The mission prepared a set of recommendations for the authorities' consideration (Box 5). These included measures that could have an early impact on the revenue yield, whereas others are of a longer-term nature. The authorities are studying the recommendations to determine how best to best incorporate them into fiscal policy. The mission underscored that efforts to improve revenue mobilization should be incorporated in the 2013/14 budget.

MEFP ¶55

23. **The government is continuing to strengthen public financial management and has started to prepare a new strategy to cover 2013/14—2017/18.** Notable recent PFM achievements include the preparation of a medium-term debt strategy (MTDS) and their own DSA using the joint IMF-World Bank template. The MEFP lists the authorities' priority PFM plans for FY2012/13, the last year of the current PFM reform strategy. An independent evaluation of the lessons learned under this strategy is underway and will inform the design of its successor.

MEFP ¶56, 57

Box 5. Rwanda: Recommendations to Improve Revenue Mobilization

A recent technical assistance mission that visited Kigali (September 27-October 10) recommended measures to increase taxpayer compliance, expand the tax base, and improve revenue mobilization. Specifically, the mission identified the following eight critical areas:

- **Taxpayer compliance**. Implement a holistic approach to compliance management to ensure optimal use of the resources of the Rwandan Revenue Authority (RRA) in managing compliance, tackling tax evasion and fraud, and reducing the tax gap.
- **Tax unit**. Improve capacity at the tax policy unit to improve tax policy design.
- **Tax gap analysis**. Prepare detailed input-output tables to enable the conduct of the analysis.
- **Personal income tax (PIT).** Complement withholding taxes on dividends and interest with a capital gains tax at a similar rate; ensure indexation to inflation of nominal variables in the PIT structure.
- **Tax expenditures**. Better target incentives to investors that meet certain requirements in support of priority activities.
- **Indirect taxation.** Review the schedules for exemptions and zero-rating in the VAT. Raise the VAT threshold to be consistent with those under the PIT. Adopt specific tax rates for the excise tax system that are indexed to inflation.
- **Property taxation.** Use property taxes more effectively, both on immovable fixed assets and motor vehicles, by raising rates and broadening the tax base.
- **Extractive industry taxation.** Incorporate best international tax design practices in the current tax regime.

C. Modernizing the Monetary Framework and Enhancing Financial Sector Policies

24. **The mission supported the recent tightening of the monetary stance** considering inflation risks stemming from rapid credit growth and exchange rate pass-through. The NBR indicated it will be more proactive in using the key repo rate as well as repo operations and treasury bill auctions to tighten liquidity conditions, as needed. It will also sell foreign exchange to banks in line with the agreed foreign exchange cash flow plan. While agreeing with the NBR approach, the mission underscored the importance of limiting the sale of foreign exchange to smooth foreign exchange volatility.

25. **The program targets a decline in the growth rates of reserve money and broad money to about 16-17 percent at end-2012 and end-2013.** Growth in credit to the private sector is also set to slow, albeit more gradually to about 18 percent by end-2013.

MEFP ¶59

26. **The NBR has adopted a more flexible reserve money targeting framework**. The NBR will increasingly focus on a wider set of indicators—including quarterly growth estimates, the composite index of economic activity (CIEA), and interest rate and exchange rate developments—to supplement the traditional operational target (reserve money) to anchor inflation

expectations. The NBR will introduce, with immediate effect, a reserve money band of +/- 2 percent around a central reserve money target. While targeting the center of the band, the upper and lower bounds will provide leeway to the NBR as it attempts to guide banking liquidity and short-term interest rates to move in line with its targeted monetary policy stance. The authorities and staff agreed to change the quantitative assessment criterion on reserve money, setting it at the upper bound of the band.

MEFP ¶60, 62

27. **The mission welcomed recent steps taken by the NBR to strengthen the liquidity management framework and encouraged further reforms**. The NBR introduced new standing borrowing and deposit facilities (June 2012), and improved the reserve requirement system—including by extending the maintenance period to two weeks. The NBR also reduced the prudential ratio on the net foreign exchange open position of banks and changed the denomination in which the reserve requirement for foreign exchange deposits is constituted in local currency. Looking ahead, the mission underscored the importance of continuing the reforms of the reserve money targeting and liquidity management framework, including through improving the signaling role of the key repo rate, and eliminating the one-day repos to stimulate the development of the interbank money market.

28. **The authorities remain confident about the health of the financial sector**. They point to the continued banking expansion, improvement in capitalization, and decline in the ratio of non-performing loans (Box 6, and MEFP 21). They recognize that, while improving, profitability of banks has been relatively low because of high overheads. The mission cautioned the authorities about the exposure of banks to the real estate sector, and the risks and challenges stemming from the rapid establishment of local savings and credit cooperatives ("Umurenge SACCOs"). The authorities reaffirmed their strong commitment to financial sector stability—including continued close supervision of banks, and strengthening of the management capacity and supervisory framework of the SACCOs, as they consolidate into a large cooperative bank by end-2014.

Box 6. Rwanda: Financial Sector Profile

The 2011 FSAP update found that the stability, structure, and efficiency of Rwanda' s financial sector improved significantly thanks to key reforms and stricter enforcement of regulations by the central bank. The banking system recovered from a period of restructuring, banks have become well capitalized, and NPLs have improved. However, banking system profitability remains low due to high overhead.

- **The banking system has recovered from a period of restructuring (2007-08)** and is better capitalized, provisioned, and liquid. Rwanda's banking sector consists of nine commercial banks and five specialized banks (one development bank, three microfinance banks, and one cooperative bank).

- **The banking system is highly concentrated, but competitive**. The three largest banks accounted for about 50 percent of total bank assets at end-June 2012, down from 60 percent as at end 2010. The distribution of loans and deposits is concentrated in a few institutional clients, and corporate lending is by and large concentrated in construction and housing.

- **Bank assets doubled between 2006 and 2010, and grew by another 37 percent by end-June 2012**, **while NPLs declined significantly**. NPLs stood at 6 percent (end-September 2012) compared with 11.3 percent (end-2010). High overheads relating to network expansion and higher write offs and stricter enforcement of provisioning led to a decline in profit margins and lower effective spreads. Financial depth remains low even by EAC standards; ratio of private sector credit-to-GDP stood at 12 percent in 2010, rising to 13.5 percent in June 2012.

- **Stress tests showed that banks appear to be relatively healthy, although some vulnerability remains.** Tests for banks' exposure to agriculture and housing showed that banks' core capitalization remains generally adequate. Additional tests showed that credit concentration and liquidity risks appear limited—although these conditions may have changed since the FSAP update because of the rapid growth in credit. Furthermore, banks suffer from assets and liabilities mismatch, because a large portion of assets with maturities of more than one year are funded by short-term liabilities.

- **The recently established savings and credit cooperatives (SACCOs) have substantially increased financial inclusion and financial development**. Established in 416 geographically defined sectors (Umurenge) by members under government initiative, financially sound SACCOs are expected to consolidate into district SACCOs. Financially sound district SACCOs are expected to form a national cooperative following discussion with SACCOs' members. The NBR will continue to oversee their consolidation and supervision.

- **Banking regulation and supervision have been strengthened**. The NBR law (2007) and the law governing banking regulation (LOB) strengthened the legal framework for banking supervision, while important regulations on capital adequacy, liquidity, credit concentrations, insider regulation, and corporate governance were also put in place in recent years. Specifically, a regulation on loan classification and provisioning published in 2011 requires banks to be more vigilant on credits risk administration and monitoring. Under the guidance of FSAP recommendations, the process of amending the banking law and its implementing regulations is ongoing and is expected to be completed by end-2013. In addition, NBR continues to strengthen its own supervisory capacity. Currently the team comprises 19 Inspectors for 14 banks and about 100 forex bureaus.

- **Staff conducted an assessment of Rwanda's anti-money laundering and combating the financing of terrorism (AML/CFT) framework in June 2012**. The assessment report will be finalized in the first half of 2013. Staff encourages the authorities to apply for membership to the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

D. External Stability: Revising Debt Policy and Improving Exports

29. **The authorities have requested an increase in the non-concessional borrowing ceiling (NCB)**. The increase accommodates the authorities' plan to issue a eurobond (US$350million, or about 5 percent of GDP) by end-December. The proceeds will be used to retire existing unfavorable government-guaranteed loans to the KCC (US$120 million) and Rwandair (US$80millions); and to complete construction of the KCC (US$150million) by end 2013.[2]

30. **The new borrowing does not change the conclusions of the last DSA update** (Box 7 and Appendix III). As in previous updates, only one indicator (NPV of debt-to-exports) is breached under one stress test (export shock scenario), in spite of the higher net borrowing. This occurs because: (i) a large proportion of the new borrowing is expected to be used to retire less favorable existing debt; and (ii) the thresholds for assessing debt distress have been raised on account of Rwanda's improved capacity ratings using the 2011 CPIA scores. The next full DSA will be conducted in the context of the next PSI review.

31. **Rwanda has achieved significant gains in various global rankings of competitiveness**. In the 2013 Ease of Doing Business Report, Rwanda ranked 52nd in the world (down from 48th in 2012), but still substantially higher than other EAC countries. Nevertheless, challenges remain in some areas, especially "trading across borders". Accordingly, the authorities have formulated a National Export Strategy (NES) to further improve export competitiveness and diversify the export base, and constituted a high-level coordinating body, the Industrial Development and Export Council (IDEC), to oversee its implementation. An immediate challenge for the IDEC is to identify priority areas for support within the existing medium-term budgetary envelope.

32. **On balance, the real exchange rate is broadly in line with fundamentals**. All three estimates consistent with the consultative group on exchange rate (CGER) methodology suggest a modest overvaluation of the currency of between 1 and 10 percent (Box 8). The authorities also shared with the mission their study on the assessment of the exchange rate (a SB for end-September 2012), which broadly concurred with staff's analysis and findings.

33. **An external stability assessment suggests that the external sector risks are manageable**. The current account deficit is expected to decline to about 5.4 percent of GDP by 2017. The key reason for the narrowing deficit is the declining need for capital imports because many of the large strategic investment projects included in the EDPRS have been, or soon will be, completed. Further, the authorities' efforts to develop the export sector—both by diversifying into new markets, and improving the export base—are expected to support robust export growth and lower the trade gap. Furthermore, as noted earlier, the exchange rate appears to be broadly in line with fundamentals, and reserves are comfortable (Appendix III).

34. Rwanda has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains a system free of restrictions on the making of payments and transfers for current international transactions.

[2] The viability of the debt of KCC and Rwandair were discussed as part of the DSA prepared at the beginning of the current program (Country Report No. 10/200).

Box 7. Planned Eurobond Issuance: Background and Implications for Debt Sustainability[1]

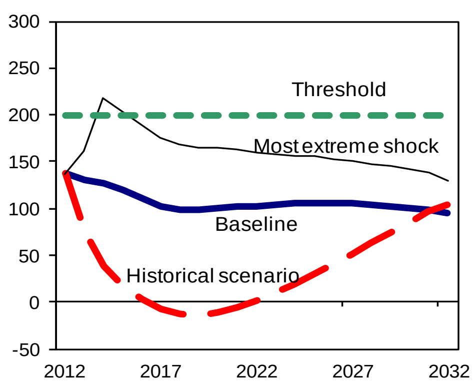
Context. Rwanda plans to raise US$350 million (about 5 percent of GDP) from international capital markets in December 2012 through a 10-year eurobond. The proceeds would be used to retire existing publicly-guaranteed debt and to fund the completion of the KCC, a strategic investment project. All proceeds of the eurobond will be placed with the central bank and fully disbursed by end-2013. With the early repayment of existing borrowing, the net increase in debt would amount to 2.2 percent of GDP.

Assumptions used in assessing debt sustainability. The impact of the authorities' plans was assessed using the latest debt sustainability template for low-income countries. The new template takes into account the 2011 CPIA scores, which raises Rwanda's institutional capacity classification from "medium" to "strong". As a result, the indicative thresholds for assessing debt distress have also been raised. The medium-term macroeconomic framework underlying the analysis is the baseline described in this report, which critically assumes that aid flows resume in the first half of 2013, with no further delays thereafter.

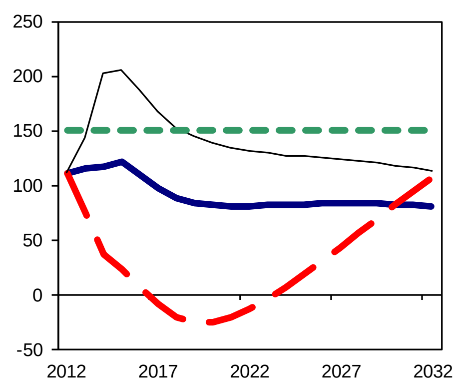
Implications. Based on these assumptions, the analysis shows that Rwanda's debt outlook improves slightly because of improvements in institutional capacity. Similar to the last DSA update (IMF Country Report 12/152), the external debt remains well below the indicative thresholds under the baseline and most stress test scenarios. Only one indicator is breached (PV of debt-to-exports ratio) under one shock (export shock, figure below and Appendix Figure 1). However, because the net increase in borrowing is limited, and the bulk of the new borrowing goes toward retiring less favorable existing debt, the magnitude and duration of the breach is now smaller: the breach peaks at 18 percent (56 percent previously) and only lasts only two years (four years previously).

Impact of the Eurobond on Present Value of Debt-to-Exports

Results using current template



Results from DSA Update in Country Report 12/152



The extreme shock shown here is a 1-standard deviation adverse shock to export growth in 2013-14.
Source: IMF staff estimates.

Risks. This assessment is contingent on the realization of the assumed macroeconomic framework, including the full resumption of aid. As discussed in Box 2, in a downside scenario, the macroeconomic framework underlying any DSA would be less favorable, and could have adverse consequences.

[1] Sources: Country authorities and IMF estimates and projections.

Box 8. Rwanda: Exchange Rate Assessment and External Competitiveness

The exchange rate was assessed using all three CGER approaches: macroeconomic balance, equilibrium real exchange rate, and external sustainability. The same methodologies used in the previous exchange rate assessment (Country Report No. 11/19) were employed.

For the macroeconomic balance and external sustainability approaches, the real exchange rate elasticity of the current account was assumed to be 0.46, based on the estimates derived in (Country Report No. 11/19). The equilibrium real exchange rate was assessed by comparing Rwanda's fundamentals – such as openness, aid flows, terms of trade, and fiscal position – all measured relative to its 30 largest trade partners based on a 5-year moving average of trade weights from 2007-11 taken from the Direction of Trade Statistics.

The results are outlined in the table below. Taken together, all three approaches suggest that the Rwandan franc is broadly in line with fundamentals. However, this should be interpreted with caution given the uncertainty of the point estimates in all methodologies.

Methodology	**Underlying current account**	**Current account norm**	**Exchange rate gap**
	Percent of GDP		*Percent*
Macroeconomic balance	-5.4	-5.0	+0.9
Equilibrium real exchange rate	n.a.	n.a.	+7.5
External sustainability	-5.4	-0.7	+10.2

Source: WEO, DOTS, and IMF staff calculations.

This assessment suggests that there is merit in allowing for a greater degree in market-determination of the exchange rate. From a competitiveness perspective, the rigid management of the exchange rate could be an impediment to the development of a viable export sector. However, this does not imply that the exchange rate should be the primary vehicle for improving competitiveness. Rather, it appears that there are structural impediments to developing Rwanda's export sector. These include:

- A narrow export base,
- Dependence on a relatively small set of markets,
- No access to the sea, and
- A small, albeit growing, industrial sector.

A novel new dataset[1] that allows analysis at a more disaggregated level yields some additional insights.

- Rwanda's perennial exports (defined as exports that routinely show up in trade statistics for the country) are unusually volatile, even by regional standards. While the share of perennial exports can be expected to decline as new varieties of exports become entrenched, the extreme volatility makes it difficult to build the trade and supply networks needed to create a strong export core.

- The share of new varieties in exports is extremely high. While experimentation with new varieties is important in driving dynamism, too much variety implies high costs. Further, the high rate of appearance of new varieties suggests that most experiments are not succeeding, which is again, not conducive to developing a strong industrial core.

- Similarly, new varieties are not long-lived in Rwanda. For all countries, the survival rate for new varieties is low – the majority of these products will not survive beyond the second year after their appearance in the trade statistics. The rate of survival in Rwanda is particularly low: after 4 years, as the cumulative survival probability is less than 10 percent compared to nearly 20 percent in other EAC countries. And as successful new varieties also tend to exhibit high growth, this results in a much lower cumulative growth rate from new products in Rwanda.

The NES aims to address many of these factors, including by developing the non-traditional export sector, and exploring new markets, particularly in other parts of sub-Saharan Africa. Further, regional efforts to improve transport links within the EAC could yield substantial benefits in terms of improving connectivity and lowering transport costs.

[1] Asmundsen, I., The Jostling Crowds: Experimentation and Growth in Exports, IMF Working Paper (forthcoming).

PROGRAM ISSUES

35. **The authorities propose, and the staff supports, modifications of end-December 2012 QACs**, reflecting the revised fiscal projections for FY2012/13 and the revised monetary program, as well as the issuance of the eurobond. Specifically, (i) the floor on net foreign assets (NFA) of the central bank will be revised upward to take into account the combined effects of increased sales of foreign exchange by the NBR in response to higher demand including for imports in the second half of 2012 and the addition of the unused portion of the proceeds of the eurobond; (ii) reserve money will be revised slightly downward in line with the intended tightening of the monetary stance; (iii) the ceiling on NDF will be revised downward to take account of the combined effects of somewhat greater domestic financing during the first half of FY2012/13 and the deposit of the unused portion of the proceeds of the eurobond at the NBR; and (iv) the ceiling on non-concessional borrowing will be raised from US$255 million to US$605 million to accommodate the gross impact of the eurobond. In addition, indicative targets for domestic revenue, priority expenditure, and consolidated domestic debt will be adjusted to reflect revised assumptions and projections.

36. **Structural conditionality under the PSI supports capacity building in key areas.** The medium-term debt management strategy will be submitted to cabinet in late November 2012. The introduction of electronic tax registers and the submission to cabinet of revised investment code have been postponed to January 2013, and the completion of the technical specifications for the integrated financial management information system (IFMIS) to April 2013.

STAFF APPRAISAL

37. **Rwanda has recorded notable economic achievements over the last decade**. Economic growth has been strong and inclusive, and poverty has declined sharply. The government's emphasis on inclusive policies in its poverty reduction strategies is exemplary.

38. **Staff commends the authorities for their strong performance under the PSI**. All the QACs for end-June were met, except for the NDF (with a minor deviation), and most structural benchmarks were completed, albeit with some delays.

39. **Staff also commends the authorities for their continued commitment to prudent macroeconomic policies**. The authorities have appropriately postponed some government spending from the first half of the fiscal year to the second half and identified contingent spending cuts, pending resolution of aid disbursements delays. The central bank has also tightened its monetary stance to slow reserve money growth and mitigate exchange rate and inflation pressures.

40. **The budgetary framework for the remainder of FY 2012/13 needs to be carefully executed**. The government should align spending priorities, carefully taking into

account availability of financing. At the same time, it should minimize to the extent possible recourse to domestic bank financing to preserve macroeconomic stability.

41. **Delays in donor support, if prolonged, could be disruptive to growth and poverty reduction**. The direct impact of a shortfall in budget support of about 3 percent of GDP extending beyond the current fiscal year would be a decline in growth of at least 1½ percentage points. However, the overall impact would likely be greater depending partly on the government's policy response.

42. **The staff supports the eurobond issuance on macroeconomic grounds and from a debt management standpoint**. The previous DSA update suggests Rwanda's debt sustainability outlook would remain largely unchanged because the net addition to the stock of outstanding debt would be relatively small. It will be critical for the authorities to follow through on their plans to retire commercial debt and to actually complete critical investment projects.

Rwanda needs to redouble its efforts to raise the revenue-to-GDP ratio. The recent delays in aid put into stark relief Rwanda's need to reduce its aid dependence through greater domestic resource mobilization. Tax revenue is well below regional as well as sub-Saharan African norms. The authorities should carefully consider the tax policy and revenue administration recommendations of the recent FAD technical assistance mission to design a medium-term strategy for significantly increasing the revenue-to-GDP ratio.

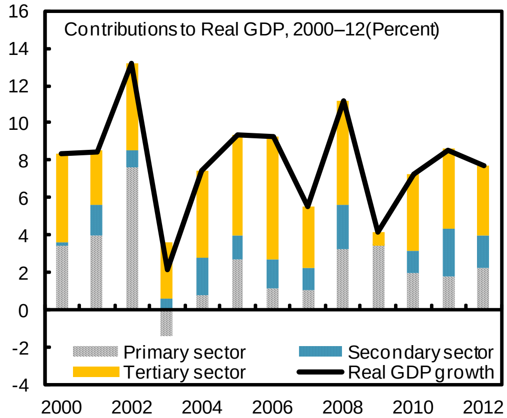
43. **The NBR should use the new flexible reserve money targeting framework to carry out more efficiently the tightening of the monetary stance**. The NBR should take advantage of the flexibility afforded by the new reserve money band to better manage liquidity and signal its monetary stance to markets. It should take advantage of its full set of indirect monetary policy instruments.

44. **The real exchange rate is broadly in line with fundamentals**. The authorities should strengthen foreign exchange market reforms and allow greater exchange rate flexibility to ensure that the exchange rate responds better to market forces and facilitate a more efficient foreign exchange allocation.

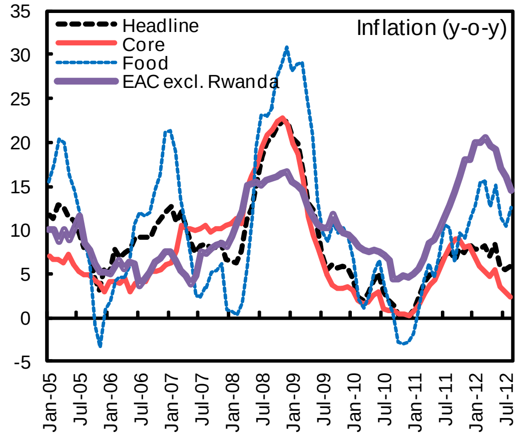
45. **Staff recommends the conclusion of the 2012 Article IV Consultation and the completion of the fifth review under the PSI**. It is proposed that the next Article IV Consultation takes place within 24 months, subject to the provisions of the decision on consultation cycles in program countries.

Figure 1. Rwanda: Recent Performance

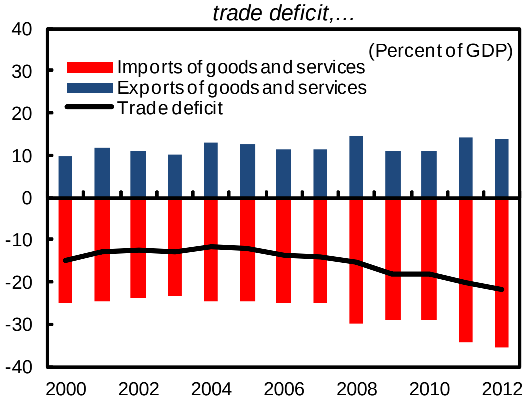
Output growth has been robust,...



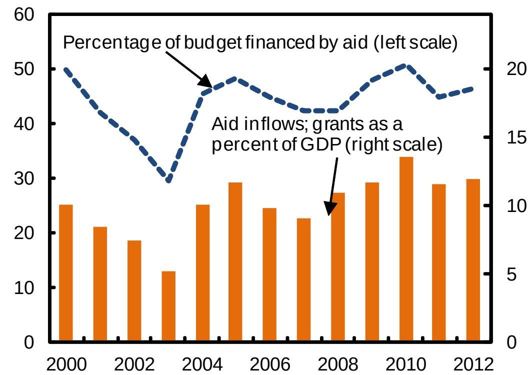
...while inflation has been declining faster than projected, well below the other EAC countries.



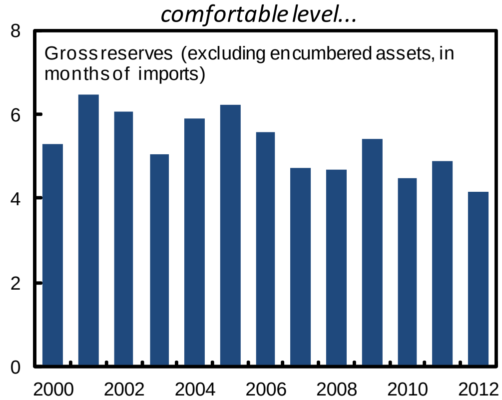
A narrow export base and fast-growing imports have contributed to a widening trade deficit,...



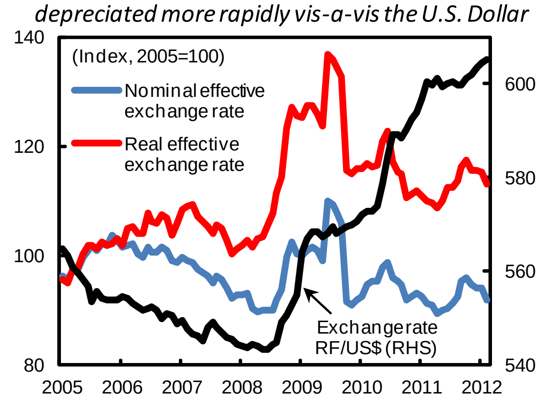
partly financed with aid flows.



Although international reserves have lately come under pressure, they remain at a comfortable level...

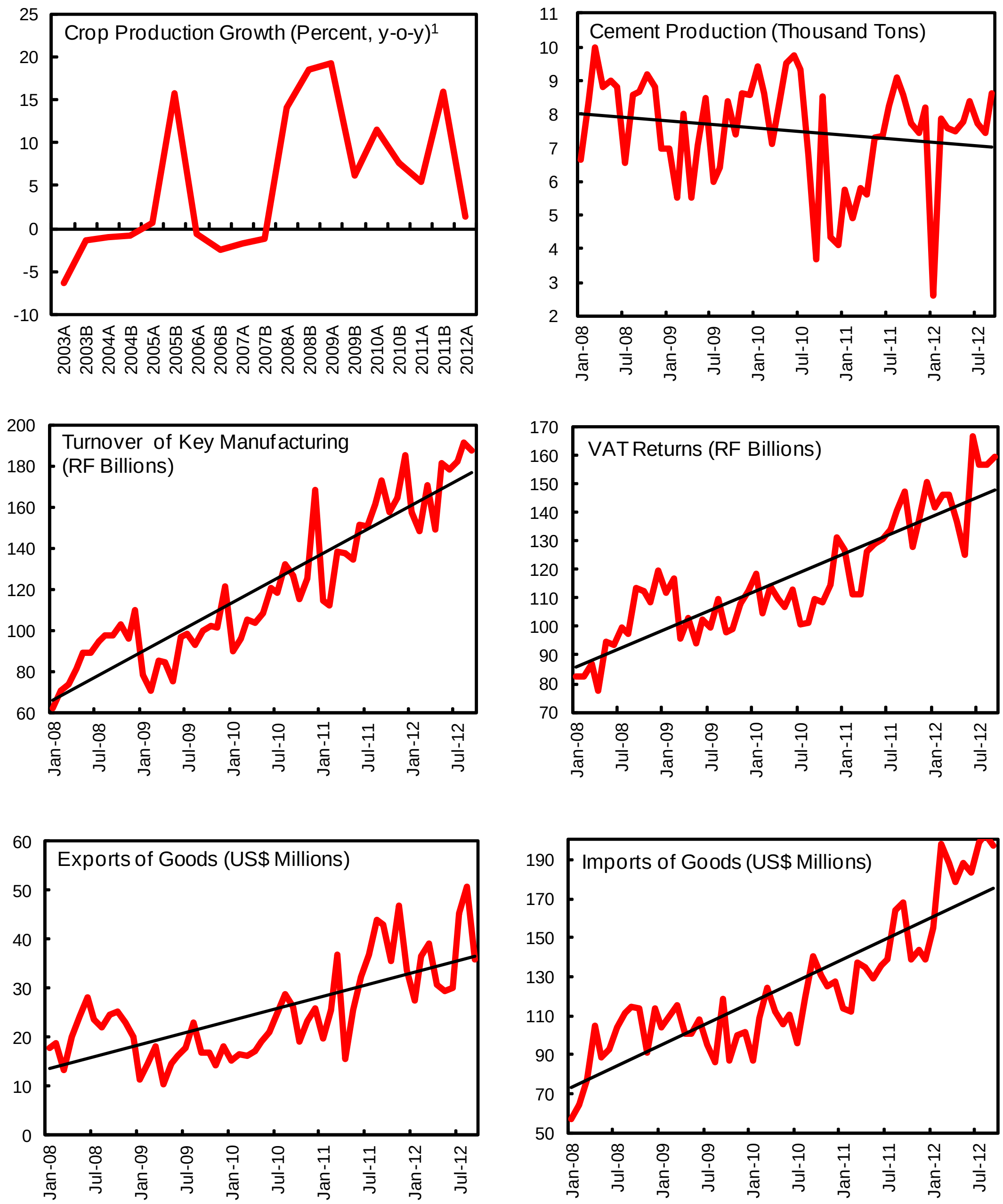


...while the bilateral exchange rate has depreciated more rapidly vis-a-vis the U.S. Dollar



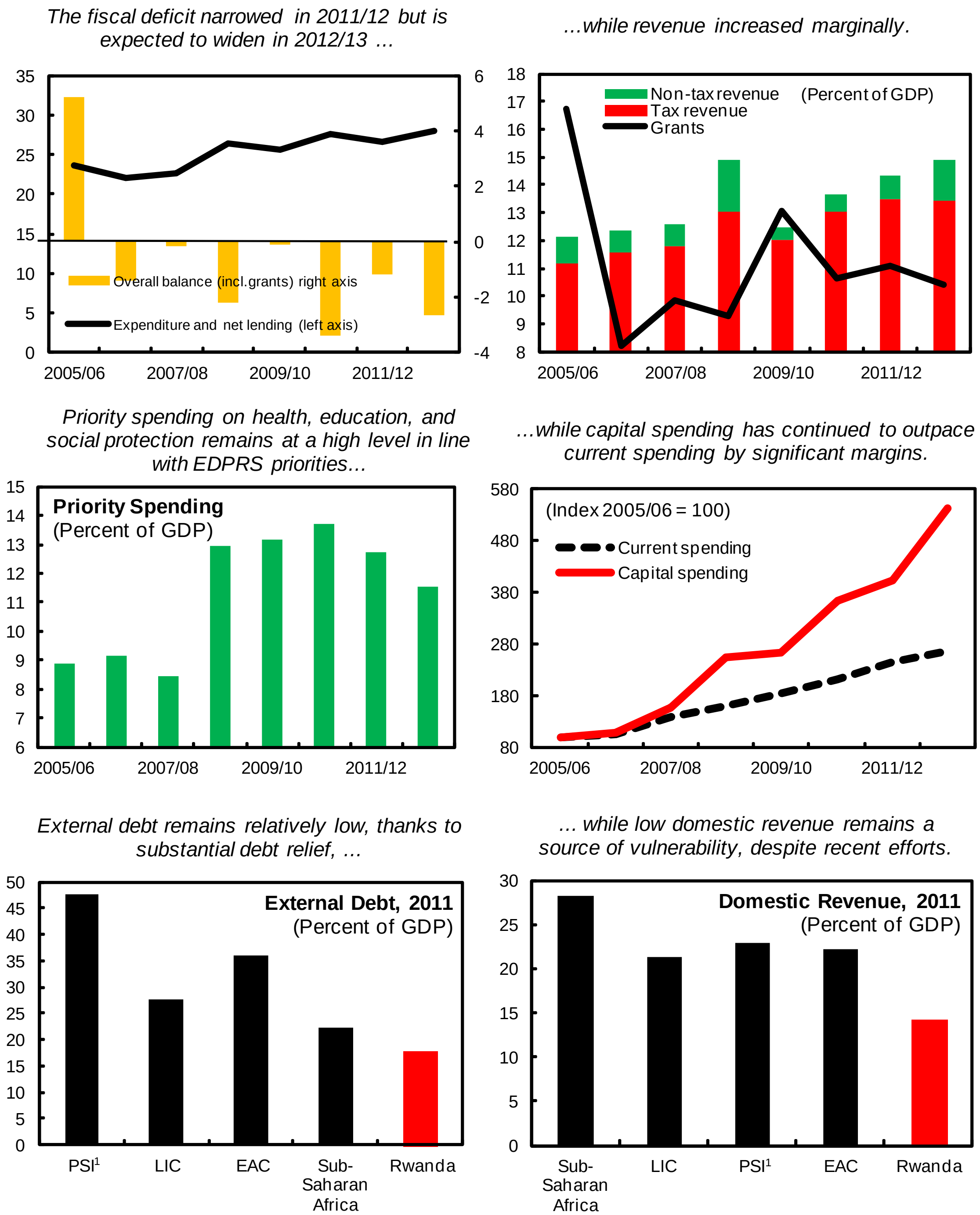
Sources: Rwandan authorities, IMF staff estimates, the IMF *World Economic Outlook,* and the African Department's *Regional Economic Outlook*.

Figure 2. Rwanda: Selected High-Frequency Indicators of Economic Activity, Jan. 2008–Sept. 2012



Sources: IMF staff and Rwandan authorities estimates.
[1] A denotes Season A (Sep–Jan/Feb) and B denotes Season B (Mar–Jun/Jul).

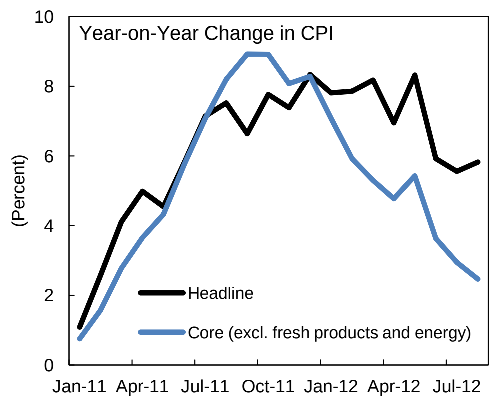
Figure 3. Rwanda: Fiscal Developments



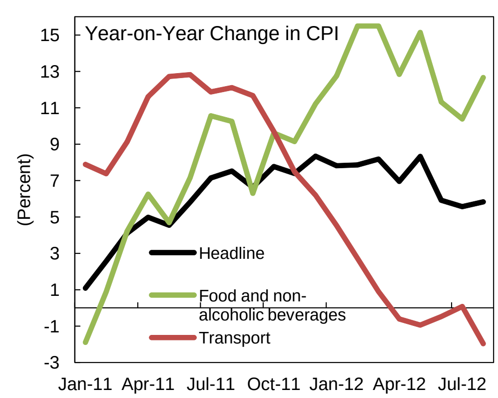
[1] PSI countries are Cape Verde, Mozambique, Senegal, Tanzania, and Uganda.
Sources: IMF staff and Rwandan authorities estimates.

Figure 4. Rwanda: Inflation Developments and Outlook

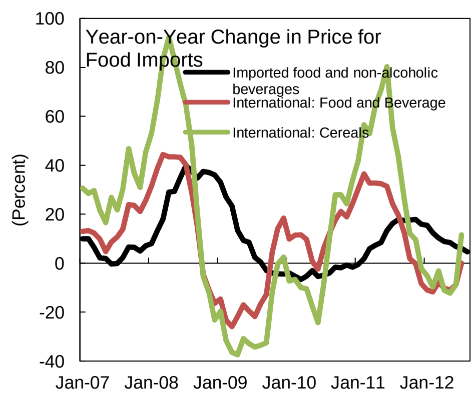
Headline inflation has been declining,



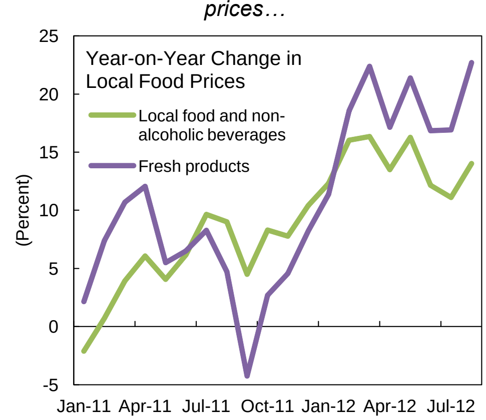
reflecting a slowdown in growth of food and transport prices…



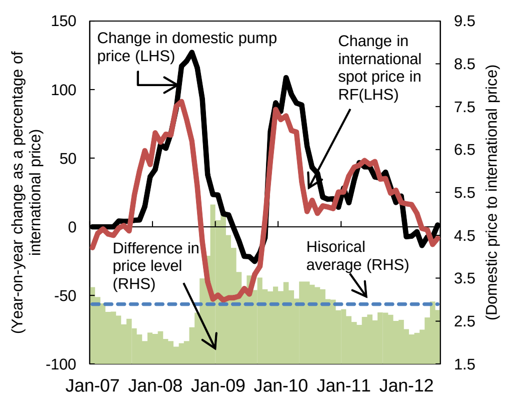
…in line with declining inflation in imported food prices,…



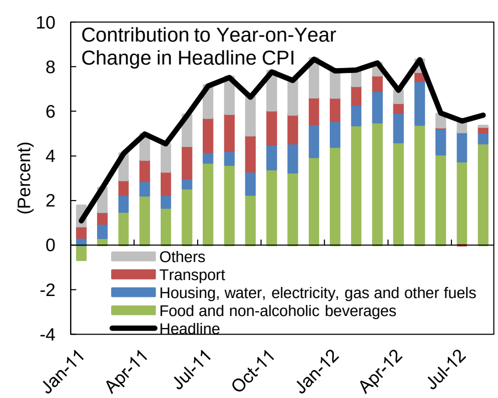
…offsetting steady growth in domestic food prices, mostly on account of fresh product prices…



…while the growth in fuel prices slowed down ,…



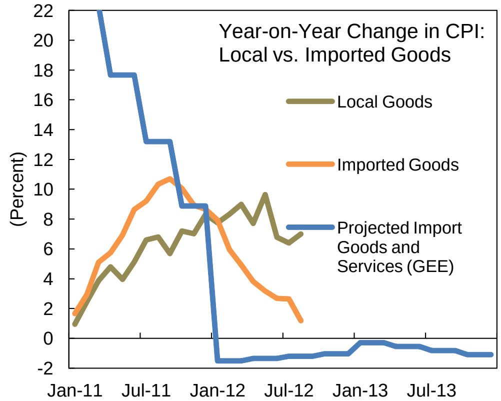
…and other CPI components remained subdued.



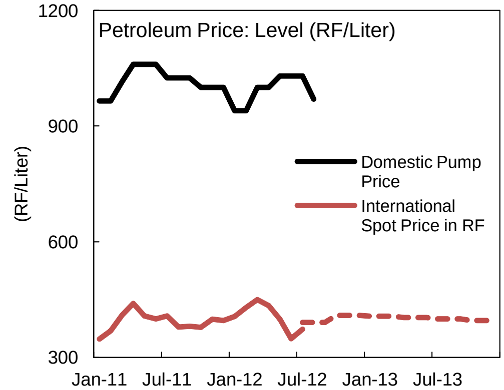
(continued)

Figure 4. Rwanda: Inflation Developments and Outlook (continued)

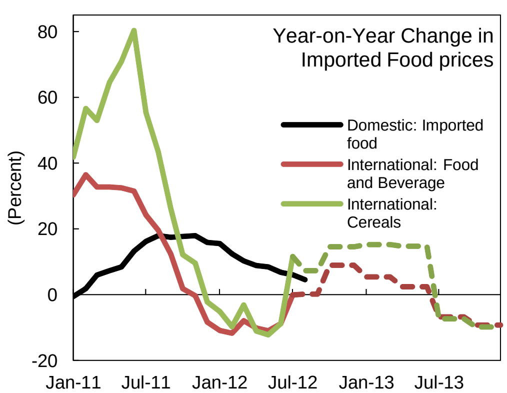
Import prices have continued to moderate since the second half of 2011, and are projected to further stabilize,…



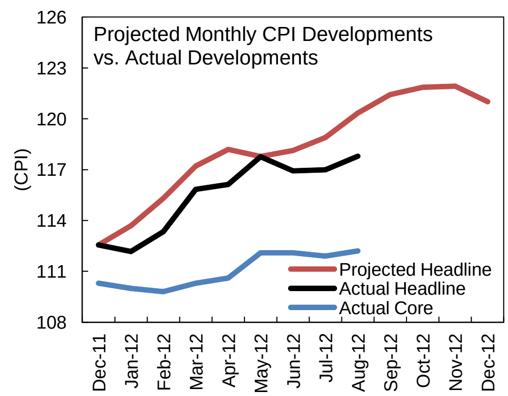
…reflecting the outlook for stable international oil prices,…



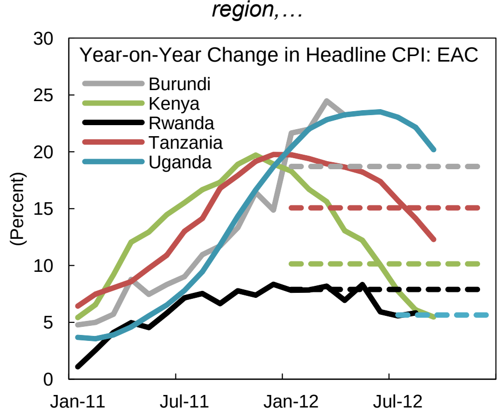
…and more moderate global food prices.



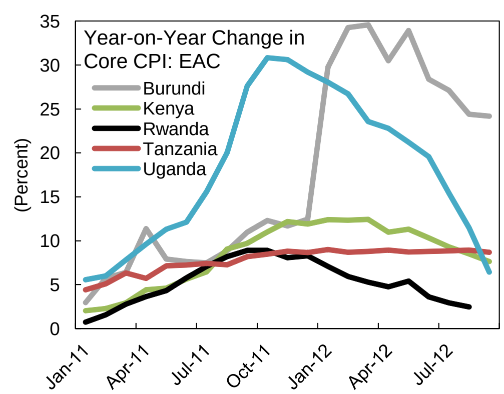
Actual monthly inflation has been below the projected path this year.



Headline inflation in Rwanda is expected to rebound slightly but remain on the low end in the region,…



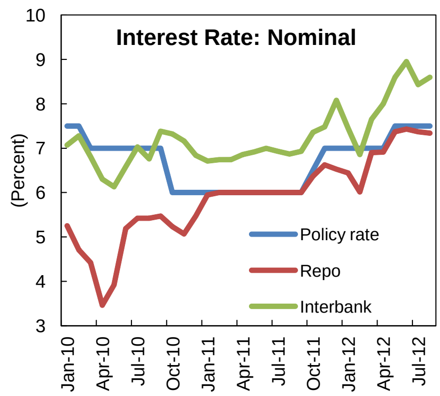
…whereas core inflation has also been the lowest so far.



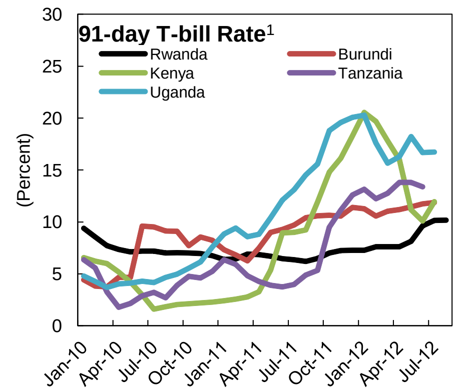
Source: IMF staff and Rwandan authorities estimates.

Figure 5. Rwanda: Monetary Developments

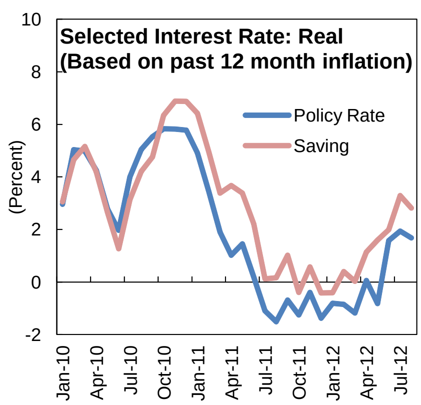
In response to rising inflation, the NBR raised the policy rate three times since October 2011...



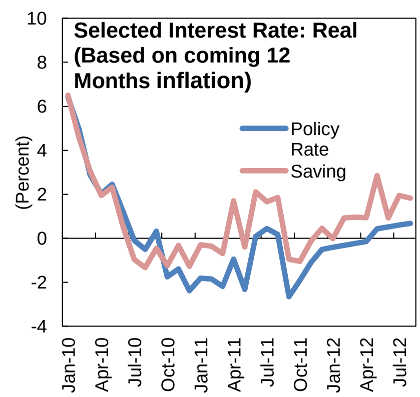
...triggering a gradual increase in T-bill rates.



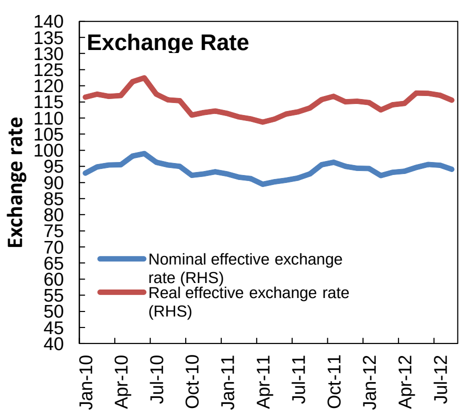
As a result, real interest rates returned to positive territories...



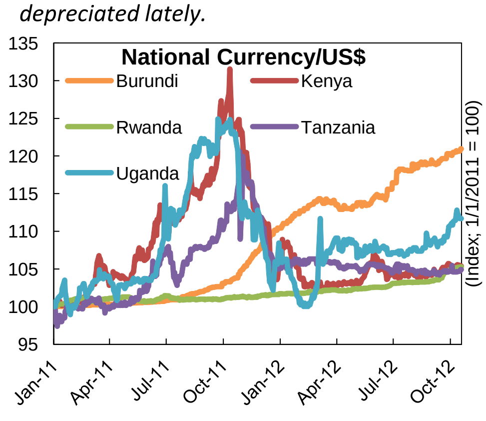
even when taking into account the projected rebound in inflation .



The effective exchange rate has remained stable



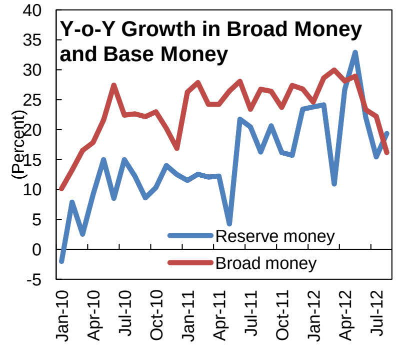
while the exchange rate with the US$ depreciated lately.



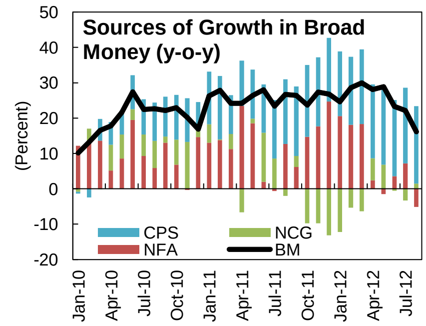
(continued)

Figure 5. Rwanda: Monetary Developments (continued)

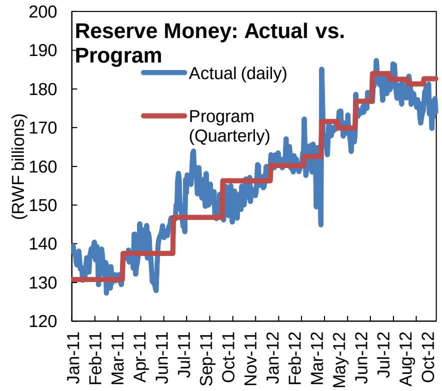
Broad money growth started to slowdown lately ...



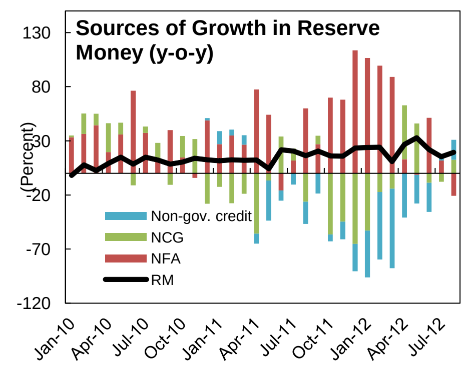
while growth in credit to the private sector remains high.



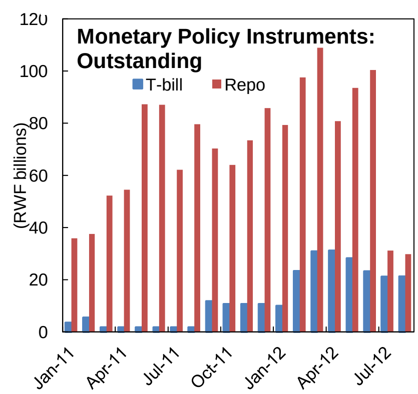
Reserve money has been contained in line with program targets, ...



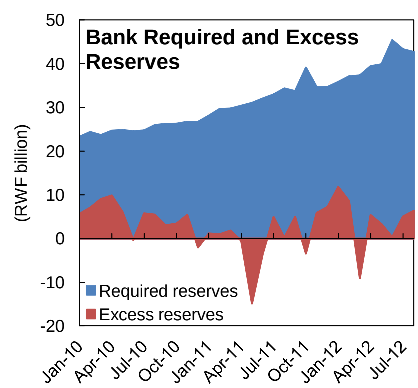
...helped by the slowdown of net foreign assets and offsetting open market operations,...



...as higher repo operations ...

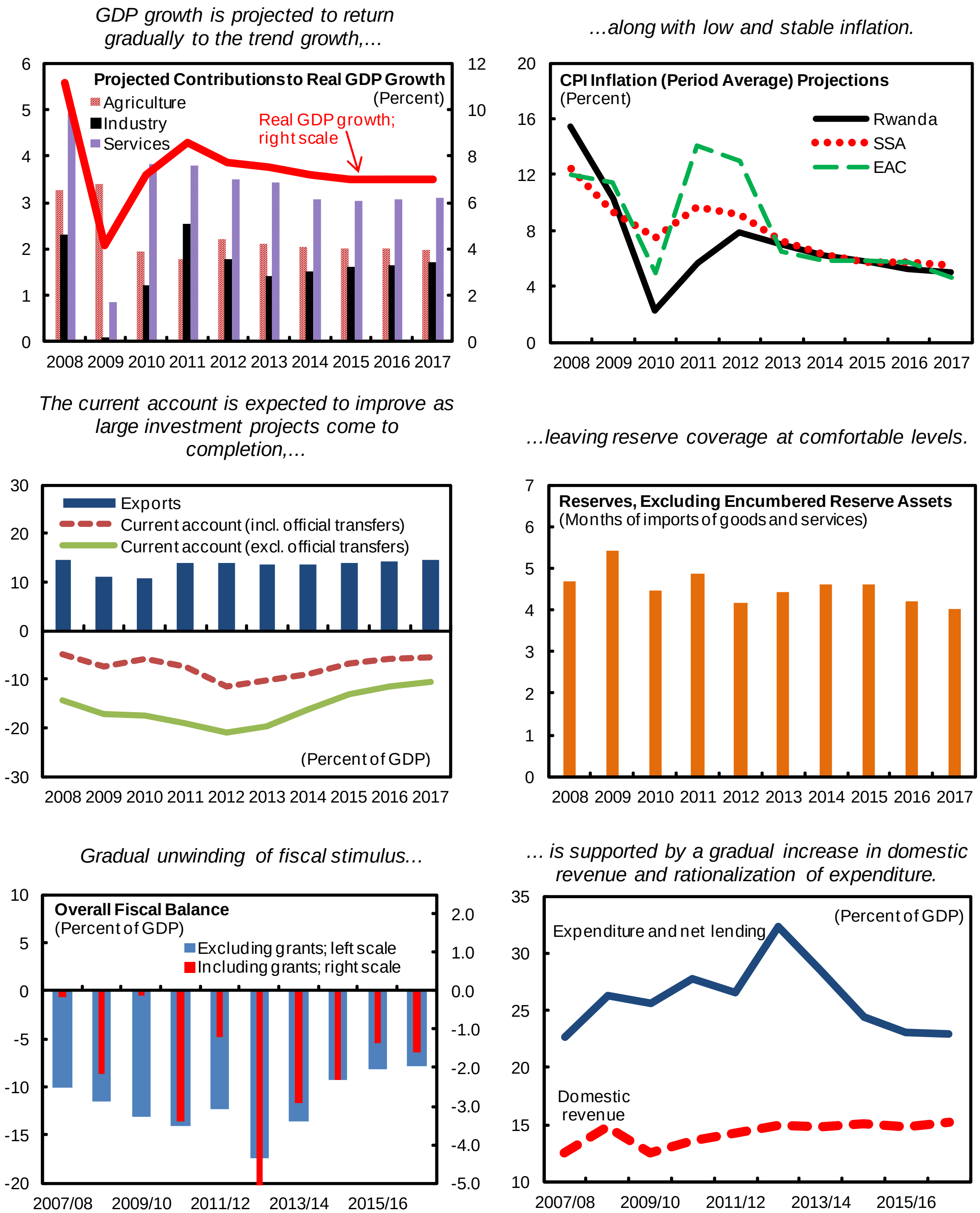


...helped mop up liquidity reducing excess reserves close to zero.



Source: IMF staff and Rwandan authorities estimates.

Figure 6. Rwanda: Medium-Term Outlook, 2008–17



Sources: IMF staff and Rwandan authorities estimates.

.

Table 1. Rwanda: Selected Economic and Financial Indicators, 2008–17

	2008	2009	2010	Est. 2011	Country Report No. 12/152 2012	Proj. 2012	Country Report No. 12/152 2013	2013	2014	2015	2016	2017
(Percent changes; unless otherwise indicated)												
Output and prices												
Real GDP growth	13.4	6.2	7.2	8.3	7.7	7.7	7.5	7.6	7.2	7.0	7.0	7.0
Real GDP (per capita)	11.1	4.0	5.0	6.0	5.5	5.5	5.3	5.4	5.0	4.8	4.8	4.8
GDP deflator	10.4	9.5	2.5	7.7	7.7	7.7	7.8	7.2	6.4	5.3	5.3	5.5
Consumer prices (period average)	15.4	10.3	2.3	5.7	7.9	7.9	7.0	7.0	6.3	5.8	5.3	5.0
Consumer prices (end of period)	22.3	5.7	0.2	8.3	7.5	7.5	6.5	6.5	6.0	5.5	5.0	5.0
External sector												
Export of goods, f.o.b (U.S. dollars)	51.4	-12.2	26.5	56.2	0.6	16.2	5.6	9.4	5.3	8.9	8.2	10.4
Imports of goods, f.o.b (U.S. dollars)	51.5	13.5	8.5	44.4	13.7	20.1	-0.4	7.8	-9.9	-6.2	5.3	7.1
Export volume	21.8	-20.0	11.6	20.1	12.3	14.0	6.2	12.5	4.9	7.6	10.2	8.1
Import volume	6.4	7.4	3.8	18.8	18.8	16.6	-0.6	9.0	2.3	-5.0	5.6	7.1
Terms of trade (deterioration = -)	-12.8	3.8	8.5	7.0	-6.5	-1.0	-0.8	-1.7	14.0	2.5	-1.6	2.1
Money and credit[1]												
Net domestic assets[2]	10.3	4.9	2.2	2.1	18.3	13.1	19.6	28.3	15.6	11.0	14.6	12.2
Domestic credit[2]	20.5	3.8	9.4	5.0	18.5	12.8	19.6	29.0	16.0	11.4	15.0	12.5
Government[2]	-18.1	0.2	2.4	-13.2	6.7	-5.8	3.3	16.1	-4.4	4.6	0.0	0.0
Economy[2]	38.6	3.6	7.0	18.2	11.8	18.6	16.3	12.9	20.5	6.8	15.0	12.5
Broad money (M2)	24.2	13.1	16.9	26.8	17.0	16.5	16.9	16.3	15.6	13.7	13.7	13.8
Reserve money	23.5	0.3	12.5	23.4	17.0	16.5	16.9	16.3	15.6	13.7	13.7	13.8
Velocity (GDP/M2; end of period)	5.5	5.6	5.3	4.9	4.8	4.9	4.8	4.8	4.8	4.7	4.7	4.6
(Percent of GDP)												
National income accounts												
National savings	9.1	5.1	4.1	3.1	2.2	2.8	4.1	3.3	5.3	6.9	8.1	8.8
Gross investment	23.5	22.3	21.7	22.1	23.8	23.7	23.0	23.0	21.5	20.0	19.7	19.4
Of which: private (including public enterprises)	13.1	12.4	10.8	9.2	9.5	9.5	9.8	9.8	10.1	10.4	10.7	11.0
Government finance[3]												
Total revenue (excl. grants)	12.6	14.9	12.5	13.6	13.8	14.3	14.0	14.9	14.9	15.1	14.9	15.2
Total expenditure and net lending	22.6	26.3	25.7	27.7	26.9	26.6	28.0	32.3	28.4	24.4	23.3	22.9
Capital expenditure	8.2	11.0	10.1	12.3	12.4	11.7	13.5	13.7	13.1	10.1	9.4	9.0
Current expenditure	15.1	14.5	14.7	14.8	14.5	14.9	14.3	14.0	14.6	14.1	13.9	13.4
Primary fiscal balance[4]	-3.3	-2.2	-5.1	-5.0	-4.6	-3.9	-3.8	-3.0	-2.7	-2.1	-2.2	-1.6
Domestic fiscal balance[5]	-5.6	-5.3	-8.0	-7.8	-6.7	-6.0	-6.0	-9.3	-5.4	-4.3	-4.0	-3.7
Overall fiscal balance (payment order)												
After grants	-0.2	-2.2	-0.1	-3.4	-1.9	-1.2	-2.6	-6.9	-2.9	-2.3	-1.6	-1.6
Before grants	-10.0	-11.5	-13.2	-14.1	-13.2	-12.3	-14.0	-17.4	-13.5	-9.3	-8.5	-7.8
External sector												
External current account balance												
Including official transfers	-4.9	-7.3	-5.9	-7.3	-10.0	-11.3	-9.7	-10.2	-9.0	-6.8	-5.9	-5.4
Excluding official transfers	-14.4	-17.2	-17.5	-19.0	-21.5	-20.9	-19.0	-19.7	-16.3	-13.0	-11.5	-10.6
External debt (end of period)	14.7	14.9	14.8	18.4	18.7	21.3	19.1	20.4	20.3	20.1	19.5	18.7
Net present value of external debt												
(Percent of exports of goods and services)	…	…	86.9	108.6	111.2	136.8	114.8	129.5	127.6	119.1	110.6	102.0
Scheduled debt service ratio												
(Percent of exports of goods and services)	2.1	2.6	3.1	2.6	13.0	22.9	13.1	11.5	8.9	8.5	7.6	6.8
Gross reserves (months of imports of goods and services)[6]	4.7	5.4	4.5	5.1	5.0	5.2	4.4	4.6	4.6	4.6	4.2	4.0
Gross reserves excluding encumbered assets in 2011 and unused euro bond proceeds in 2012 (months of imports of goods and services)[6]				4.9	4.7	4.2	4.1	4.6	4.6	4.6	4.2	4.0
(Millions of U.S. dollars)												
Gross reserves	596.4	742.2	814.2	1051.2	1042.0	1144.2	950.4	989.0	978.8	1030.1	1006.2	1047.6
Memorandum item:												
Nominal GDP (billions of Rwanda francs)	2,565	2,985	3,280	3,826	4,409	4,437	5,109	5,118	5,839	6,578	7,412	8,364

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Projections are based on the program exchange rate of RF per U.S. dollar of RWF571.24 for 2010 and RWF594.45 thereafter.

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

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

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

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

[6] Data from 2009 onward includes SDR allocation.

Table 2. Rwanda: Balance of Payments, 2008–17
(Millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	2011		2012		2013	2014	2015	2016	2017
	Est.	Est.	Est.	Country Report No. 12/152	Est.	Country Report No. 12/152	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports (f.o.b.),[1]	267.7	235.0	297.3	464.2	464.2	467.0	539.6	590.2	621.3	676.9	732.2	808.1
Of which: coffee and tea	92.0	85.6	111.8	138.5	138.5	141.8	141.8	159.1	175.1	204.6	222.3	257.3
Minerals	91.7	55.4	67.9	151.4	151.4	141.9	131.9	153.0	150.1	153.1	162.8	173.2
Imports (f.o.b.)	880.7	999.2	1,084.0	1,563.8	1,565.4	1,778.4	1,880.8	2,028.0	1,826.7	1,712.8	1,803.5	1,931.5
Of which: capital goods	245.0	256.3	243.1	324.7	324.8	519.9	523.4	610.6	509.4	394.3	411.4	458.5
Energy goods	107.7	122.5	143.3	241.1	241.2	276.0	294.0	303.9	276.7	313.9	323.1	331.5
Trade balance	-613.0	-764.2	-786.7	-1,099.6	-1,101.2	-1,311.4	-1,341.2	-1,437.8	-1,205.4	-1,035.9	-1,071.3	-1,123.4
Services (net)[2]	-100.6	-181.6	-246.2	-189.4	-187.9	-252.8	-172.1	-126.2	-221.7	-211.1	-162.8	-130.2
Of which: tourism receipts	186.0	174.5	201.6	251.8	251.8	276.0	276.0	317.0	365.0	419.8	482.7	555.1
Income	-35.1	-36.9	-44.2	-54.6	-54.6	-70.1	-72.1	-108.0	-96.1	-112.2	-99.2	-90.8
Of which: interest on public debt[3]	-6.9	-7.3	-7.8	-8.1	-8.1	-13.3	-15.3	-41.0	-26.9	-35.4	-26.6	-24.1
Current transfers (net)[4]	518.6	600.0	745.4	880.6	880.6	939.3	799.7	881.0	761.1	734.0	739.4	744.6
Private	72.6	79.7	90.7	133.3	133.3	134.9	134.9	137.7	142.1	154.1	169.1	174.2
Of which: remittance inflows	63.3	88.1	98.2	166.2	166.2	171.7	171.7	178.4	185.3	202.0	220.4	229.4
Public	446.0	520.3	654.7	747.3	747.3	804.4	664.9	743.3	619.0	579.9	570.3	570.4
Of which: HIPC grants	5.6	5.2	4.5	4.5	4.5	4.9	5.0	4.9	4.9	5.1	5.1	5.0
Current account balance (incl. official transfers)	-230.1	-382.7	-331.7	-463.0	-463.1	-694.9	-785.6	-791.0	-762.2	-625.2	-593.8	-599.8
Current account balance (excl. official transfers)	-676.1	-903.0	-986.4	-1,210.3	-1,210.3	-1,499.4	-1,450.5	-1,534.3	-1,381.2	-1,205.1	-1,164.2	-1,170.2
Capital account	210.1	200.0	197.6	78.4	196.7	206.3	189.1	263.0	230.6	286.8	277.8	269.7
Project grants	210.1	200.0	197.6	78.4	196.7	206.3	189.1	263.0	230.6	286.8	277.8	269.7
Financial account	106.1	327.5	246.3	511.2	511.2	480.4	690.6	374.5	523.7	392.6	294.5	373.4
Direct investment	103.4	118.7	42.3	106.2	106.2	171.9	150.0	120.8	150.0	179.8	206.1	237.1
Public sector capital	104.8	182.1	99.0	309.6	309.7	188.6	578.9	317.4	320.4	29.7	54.5	118.6
Long-term borrowing[5]	112.2	88.8	110.1	339.9	339.9	283.2	673.5	383.8	366.8	174.7	119.1	185.1
Scheduled amortization[6]	-7.5	-7.5	-11.1	-30.2	-30.2	-94.6	-94.6	-66.3	-46.3	-145.0	-64.6	-66.5
SDR allocation		100.7										
Other capital[7]	-102.0	26.8	104.9	95.3	95.3	120.0	-38.3	-63.8	53.3	183.1	33.9	17.8
Capital and financial account balance	316.1	527.5	443.9	589.6	707.8	686.8	879.7	637.4	754.3	679.4	572.3	643.1
Errors and omissions	-21.3	0.0	-40.1	111.1	-7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	64.7	144.8	72.0	237.7	237.7	-8.1	94.1	-153.5	-7.8	54.2	-21.6	43.3
Financing	-64.7	-144.8	-72.0	-237.7	-237.7	8.1	-94.1	153.5	7.8	-54.2	21.6	-43.3
Change in net foreign assets of NBR (increase -)	-64.7	-144.8	-72.0	-237.7	-237.7	8.1	-94.1	153.5	7.8	-54.2	21.6	-43.3
Net credit from the IMF	3.6	3.6	-0.1	-0.6	-0.6	-1.1	-1.0	-1.7	-2.4	-2.8	-2.3	-1.9
Disbursements/purchases	3.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments/repurchases	0.0	0.0	-0.1	-0.6	-0.6	-1.1	-1.0	-1.7	-2.4	-2.8	-2.3	-1.9
Change in other gross official reserves (increase -)	-44.1	-145.8	-71.9	-237.0	-237.0	9.2	-93.0	155.3	10.2	-51.3	23.9	-41.4
Change in other foreign liabilities (increase +)	-24.2	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (decrease -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing need	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Current account deficit (percent of GDP)												
Excluding official transfers	-14.4	-17.2	-17.5	-19.1	-19.0	-21.5	-20.9	-19.7	-16.3	-13.0	-11.5	-10.6
Including official transfers	-4.9	-7.3	-5.9	-7.3	-7.3	-10.0	-11.3	-10.2	-9.0	-6.8	-5.9	-5.4
Gross official reserves (including SDR allocation)	596.4	742.2	814.2	1,051.2	1,051.2	1,042.0	1,144.2	989.0	978.8	1,030.1	1,006.2	1,047.6
Gross official reserves (months of prospective imports of G&S)	4.7	5.4	4.5	5.1	5.1	5.0	5.2	4.6	4.6	4.6	4.2	4.0
Excluding encumbered assets	4.7	5.4	4.5	4.9	4.9	4.7	4.2	4.6	4.6	4.6	4.2	4.0
Overall balance (percent of GDP)	1.4	2.8	1.3	3.8	3.7	-0.1	1.4	-2.0	-0.1	0.6	-0.2	0.4

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Revision of methodology resulted in a sharp increase of tourism revenues from 2008, thus increasing export of services.

[3] Including interest due to the IMF.

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

[5] Includes project and budgetary loans.

[6] Excluding payments to the IMF.

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

Table 3. Rwanda: Operations of Central Government, Fiscal-Year Basis, 2008/09–16/17

	2008/09	2009/10	2010/11	2011/12 Country Report No. 12/152	2011/12 Prel.	2012/13 Country Report No. 12/152	2012/13 Rev. Proj	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.
				(Billions of Rwanda francs)							
Revenue and grants	670.7	800.7	863.4	1,028.6	1,049.1	1,206.7	1,211.1	1,396.0	1,373.1	1,518.8	1,682.8
Total revenue	413.0	391.4	484.4	565.1	591.8	665.8	712.4	815.5	939.1	1,039.6	1,195.6
Tax revenue	361.4	376.4	463.8	519.7	557.0	641.3	641.2	754.8	874.0	1,006.6	1,158.3
Direct taxes	130.1	148.8	180.9	207.3	228.5	258.9	253.1	306.3	353.3	405.4	481.5
Taxes on goods and services	179.3	195.0	245.1	271.4	282.6	339.9	347.0	399.3	464.9	538.3	606.0
Taxes on international trade	52.0	32.6	37.8	41.0	45.9	42.5	41.1	49.2	55.8	62.9	70.8
Non-tax revenue	51.7	15.0	20.6	45.4	34.7	24.5	71.2	60.8	65.1	33.0	37.3
Of which: payments for peacekeeping operations	…	…	…	…	…	…	44.6	34.6	35.6	--	--
Of which: Agaciro Development Fund	…	…	…	…	…	…	2.0	--	--	--	--
Grants	257.7	409.3	379.0	463.5	457.3	540.9	498.6	580.4	434.0	479.2	487.2
Budgetary grants	167.0	283.0	215.0	279.1	265.7	297.0	246.9	317.9	288.3	349.2	243.0
Capital grants	90.7	126.3	164.0	184.3	191.7	243.9	251.7	262.6	145.7	130.0	244.1
Of which: Global Fund	…	…	0.0	70.7	78.0	96.2	96.2	79.4	11.2	0.0	0.0
Total expenditure and net lending	731.2	804.2	984.3	1,105.6	1,098.0	1,331.0	1,541.5	1,556.6	1,517.6	1,631.8	1,808.9
Current expenditure	401.7	459.2	527.0	596.3	614.1	679.9	668.3	798.4	874.7	974.0	1,053.7
Of which: priority	233.1	280.4	310.8	350.8	350.8	344.5	344.5	…	…	…	…
Wages and salaries	90.8	106.9	122.0	131.2	144.8	186.6	183.1	201.5	211.6	222.2	250.1
Civil	66.1	77.5	91.4	99.2	110.3	148.6	145.1	159.8	165.7	176.3	198.4
Defense	24.7	29.4	30.6	32.0	34.6	38.0	38.0	41.7	45.9	45.9	51.7
Purchases of goods and services	103.2	106.3	124.1	148.3	149.5	125.4	127.6	153.1	173.6	202.7	228.3
Civil	82.9	94.3	109.5	133.3	133.6	106.3	108.5	131.3	148.8	174.8	196.8
Defense	20.2	12.0	14.6	15.0	15.9	19.0	19.1	21.9	24.8	28.0	31.5
Interest payments	11.4	14.7	15.6	16.0	18.4	18.2	26.1	33.5	36.1	38.4	23.7
Domestic debt	7.4	10.1	10.9	10.1	13.2	8.2	8.2	5.5	6.2	7.0	7.9
External debt	4.0	4.6	4.7	5.9	5.2	10.0	10.0	28.1	29.9	31.4	15.7
Of which: sovereign bond	…	…	…	…	…	…	7.9	16.4	16.9	17.4	17.9
Transfers	141.6	179.6	197.2	223.9	225.6	264.1	266.2	308.8	345.6	392.6	442.0
Exceptional expenditure	54.7	51.6	68.1	76.9	75.8	85.7	65.3	101.4	107.8	118.1	109.7
Capital expenditure	306.6	316.7	438.6	508.6	482.9	641.3	653.0	715.4	625.0	655.5	708.0
Of which: priority	124.9	129.2	176.6	175.7	175.7	206.1	206.1	…	…	…	…
Domestic	139.7	159.3	218.9	248.9	231.6	271.0	279.0	300.8	340.9	377.5	405.0
Of which: Agaciro Development Fund	…	…	…	…	…	…	2.0	--	--	--	--
Of which: contingency	…	…	…	…	…	…	18.0	--	--	--	--
Foreign	167.0	157.4	219.7	259.7	251.3	370.3	374.0	414.6	284.1	278.0	303.0
Of which: Global Fund	…	…	47.8	70.7	47.8	96.2	96.2	79.4	11.2	11.2	11.2
Net lending and privatization receipts	22.9	28.2	18.7	0.7	1.1	9.8	220.3	42.8	17.9	2.3	47.2
Of which: Kigali Convention Center	…	18.0	…	…	…	…	153.2	18.8	--	--	--
Of which: RwandAir	…	4.5	25.2	…	34.5	…	51.1	--	--	--	--
Of which: privatization receipts	…	…	-17.2	…	-28.0	…	-12.2	--	--	--	--
Primary balance[2]	-62.2	-160.8	-177.8	-187.2	-159.7	-181.3	-143.4	-148.7	-132.6	-155.4	-129.7
Domestic fiscal balance[3]	-147.2	-250.7	-275.5	-274.9	-249.7	-284.9	-445.2	-298.4	-264.5	-282.8	-294.6
Overall deficit (payment order)											
After grants	-60.5	-3.5	-120.9	-77.0	-48.9	-124.3	-330.5	-160.6	-144.5	-113.1	-126.1
Before grants	-318.1	-412.8	-499.9	-540.5	-506.3	-665.2	-829.1	-741.1	-578.5	-592.2	-613.3
Change in arrears[4]	-9.0	-11.2	-11.9	-11.7	-13.7	-8.0	-8.0	-8.0	-7.0	-7.0	-7.0
Overall deficit (incl. grants, cash basis)	-69.4	-14.7	-132.8	-88.7	-62.6	-132.3	-338.5	-168.6	-151.5	-120.1	-133.1
Financing	69.4	14.7	132.8	88.7	56.8	132.3	338.5	168.6	151.5	120.1	133.1
Foreign financing (net)	72.5	26.1	68.6	116.7	95.1	119.6	353.9	168.6	151.5	120.0	133.1
Drawings	77.0	31.1	76.5	127.6	104.7	134.9	369.1	186.2	173.5	148.0	151.4
Budgetary loans	0.7	0.0	21.4	52.2	53.5	8.6	23.5	34.1	35.1	0.0	0.0
Project loans	76.3	31.1	55.1	75.4	51.3	126.4	345.6	152.1	138.4	148.0	151.4
Of which: sovereign bond	…	…	…	…	…	…	223.4	--	--	--	--
Amortization	-4.4	-5.0	-7.9	-10.9	-9.7	-15.3	-15.3	-17.6	-22.0	-28.0	-18.3
Net domestic financing	-3.1	-11.4	64.2	-28.0	-38.2	12.7	-15.4	0.0	0.0	0.0	0.0
Net credit from banking system	18.0	8.4	77.8	-28.0	-15.4	12.7	-15.4	--	--	--	--
Of which: sovereign bond	…	…	…	…	…	…	-19.1	--	--	--	--
Nonbank sector	-21.2	-18.1	-19.6	0.0	-22.8	0.0	0.0	--	--	--	--
Errors and omissions[5]	0.0	-1.7	0.0	0.0	-5.8	0.0	0.0	--	--	--	--
Memorandum items:											
Priority spending	360.1	412.5	487.4	528.9	526.5	550.7	550.6	…	…	…	…
Overall deficit (incl. grants, cash basis)											
Excl. all trans. for Kigali Convention Center and Rwandair	…	…	…	…	…	…	-134.3	-149.8	…	…	…
Excl. refin. trans. for Kigali Convention Center and Rwandair	…	…	…	…	…	…	-210.8	-168.6	…	…	…

Sources: Rwandan authorities and IMF staff estimates and projections.

(continued)

1 Fiscal year runs from July to June.

2 Total revenue minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital investment.

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

4 A negative sign indicates a reduction.

5 A negative number implies an underestimate of financing.

Table 3. Rwanda: Operations of Central Government, Fiscal Year Basis, 2008/09–16/17 (continued)

	2008/09	2009/10	2010/11	2011/12 Country Report No. 12/152	2011/12 Prel.	2012/13 Country Report No. 12/152	2012/13 Rev. Proj	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.
	(Percent of fiscal year GDP)										
Revenue and grants	24.2	25.6	24.3	25.1	25.4	25.4	25.3	25.5	22.1	21.7	21.3
Total revenue	14.9	12.5	13.6	13.8	14.3	14.0	14.9	14.9	15.1	14.9	15.2
Tax revenue	13.0	12.0	13.1	12.7	13.5	13.5	13.4	13.8	14.1	14.4	14.7
Direct taxes	4.7	4.8	5.1	5.0	5.5	5.4	5.3	5.6	5.7	5.8	6.1
Taxes on goods and services	6.5	6.2	6.9	6.6	6.8	7.1	7.3	7.3	7.5	7.7	7.7
Taxes on international trade	1.9	1.0	1.1	1.0	1.1	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	1.9	0.5	0.6	1.1	0.8	0.5	1.5	1.1	1.0	0.5	0.5
Of which: payments for peacekeeping operations	…	…	…	…	…	…	0.9	0.6	0.6	--	--
Of which: Agaciro Development Fund	…	…	…	…	…	…	--	--	--	--	--
Grants	9.3	13.1	10.7	11.3	11.1	11.4	10.4	10.6	7.0	6.8	6.2
Budgetary grants	6.0	9.0	6.1	6.8	6.4	6.2	5.2	5.8	4.6	5.0	3.1
Capital grants	3.3	4.0	4.6	4.5	4.6	5.1	5.3	4.8	2.3	1.9	3.1
Of which: Global Fund	…	…	0.0	1.7	1.9	2.0	2.0	1.4	0.2	0.0	0.0
Total expenditure and net lending	26.3	25.7	27.7	26.9	26.6	28.0	32.3	28.4	24.4	23.3	22.9
Current expenditure	14.5	14.7	14.8	14.5	14.9	14.3	14.0	14.6	14.1	13.9	13.4
Of which: priority	8.4	9.0	8.7	8.5	8.5	7.2	7.2	…	…	…	…
Wages and salaries	3.3	3.4	3.4	3.2	3.5	3.9	3.8	3.7	3.4	3.2	3.2
Civil	2.4	2.5	2.6	2.4	2.7	3.1	3.0	2.9	2.7	2.5	2.5
Defense	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Purchases of goods and services	3.7	3.4	3.5	3.6	3.6	2.6	2.7	2.8	2.8	2.9	2.9
Civil	3.0	3.0	3.1	3.2	3.2	2.2	2.3	2.4	2.4	2.5	2.5
Defense	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Interest payments	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.6	0.6	0.5	0.3
Domestic debt	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.1
External debt	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.5	0.5	0.4	0.2
Of which: sovereign bond	…	…	…	…	…	…	0.2	0.3	0.3	0.2	0.2
Transfers	5.1	5.7	5.6	5.5	5.5	5.5	5.6	5.6	5.6	5.6	5.6
Exceptional expenditure	2.0	1.6	1.9	1.9	1.8	1.8	1.4	1.9	1.7	1.7	1.4
Capital expenditure	11.0	10.1	12.3	12.4	11.7	13.5	13.7	13.1	10.1	9.4	9.0
Of which: priority	4.5	4.1	5.0	4.3	4.3	4.3	4.3	…	…	…	…
Domestic	5.0	5.1	6.2	6.1	5.6	5.7	5.8	5.5	5.5	5.4	5.1
Of which: Agaciro Development Fund	…	…	…	…	…	…	--	--	--	--	--
Of which: contingency	…	…	…	…	…	…	0.4	--	--	--	--
Foreign	6.0	5.0	6.2	6.3	6.1	7.8	7.8	7.6	4.6	4.0	3.8
Of which: Global Fund	…	…	1.3	1.7	1.2	2.0	2.0	1.4	0.2	0.2	0.1
Net lending and privatization receipts	0.8	0.9	0.5	0.0	0.0	0.2	4.6	0.8	0.3	--	0.6
Of which: Kigali Convention Center	…	0.6	…	…	…	…	3.2	0.3	--	--	--
Of which: RwandAir	…	0.1	0.7	…	0.8	…	1.1	--	--	--	--
Of which: privatization receipts	…	…	-0.5	…	-0.7	…	-0.3	--	--	--	--
Primary balance[2]	-2.2	-5.1	-5.0	-4.6	-3.9	-3.8	-3.0	-2.7	-2.1	-2.2	-1.6
Domestic fiscal balance[3]	-5.3	-8.0	-7.8	-6.7	-6.0	-6.0	-9.3	-5.4	-4.3	-4.0	-3.7
Excluding demobilization and peacekeeping expenditure	-4.4	-7.2	-6.7	-5.7	-5.8	-4.7	-9.0	-5.4	-4.3	-4.0	-3.7
Overall deficit (payment order)											
After grants	-2.2	-0.1	-3.4	-1.9	-1.2	-2.6	-6.9	-2.9	-2.3	-1.6	-1.6
Before grants	-11.5	-13.2	-14.1	-13.2	-12.3	-14.0	-17.4	-13.5	-9.3	-8.5	-7.8
Change in arrears[4]	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Overall deficit (incl. grants, cash basis)	-2.5	-0.5	-3.7	-2.2	-1.5	-2.8	-7.1	-3.1	-2.4	-1.7	-1.7
Financing	2.5	0.5	3.7	2.2	1.4	2.8	7.1	3.1	2.4	1.7	1.7
Foreign financing (net)	2.6	0.8	1.9	2.8	2.3	2.5	7.4	3.1	2.4	1.7	1.7
Drawings	2.8	1.0	2.2	3.1	2.5	2.8	7.7	3.4	2.8	2.1	1.9
Budgetary loans	0.0	0.0	0.6	1.3	1.3	0.2	0.5	0.6	0.6	--	--
Project loans	2.7	1.0	1.6	1.8	1.2	2.7	7.2	2.8	2.2	2.1	1.9
Of which: sovereign bond	…	…	…	…	…	…	4.7	--	--	--	--
Amortization	-0.2	-0.2	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.2
Net domestic financing	-0.1	-0.4	1.8	-0.7	-0.9	0.3	-0.3	--	--	0.0	--
Net credit from banking system	0.7	0.3	2.2	-0.7	-0.4	0.3	-0.3	--	--	--	--
Of which: sovereign bond	…	…	…	…	…	…	-0.4	--	--	--	--
Nonbank sector	-0.8	-0.6	-0.6	0.0	-0.6	0.0	--	--	--	--	--
Errors and omissions[5]	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	--	--	--	--
Memorandum items:											
Priority spending	13.0	13.2	13.7	12.9	12.7	11.6	11.5	…	…	…	…
Overall deficit (incl. grants, cash basis)											
Excl. all trans. for Kigali Convention Center and Rwandair	…	…	…	…	…	…	-2.8	-2.7	…	…	…
Excl. refin. trans. for Kigali Convention Center and Rwandair	…	…	…	…	…	…	-4.4	-3.1	…	…	…
GDP (Billions of RwF), FY basis	2,775	3,132	3,553	4,105	4,131	4,759	4,778	5,478	6,208	6,995	7,888

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Total revenue minus noninterest current expenditure (excluding exceptional expenditure) minus domestically financed capital investment.

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

[4] A negative sign indicates a reduction.

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

Table 4. Rwanda: Monetary Survey, 2009-13

	2009	2010	2011	2012							2013			
	Dec	Dec	Dec	March	March	June	June	Sept	Dec	Dec	March	June	Sept	Dec
	Est	Est	Est	Prog	Est	Prog	Est	Proj	Prog	Proj	Proj	Proj	Proj	Proj
	(Billions of Rwanda francs)													
Monetary authorities														
Net Foreign Assets[2]	358.0	414.9	563.8	491.8	469.9	445.5	451.8	370.9	555.9	618.8	605.5	462.9	586.9	525.0
Foreign assets	424.0	483.5	634.4	565.5	545.6	519.1	526.3	445.9	629.5	691.3	678.0	535.4	659.4	597.5
Of which: encumbered assets[6]			24.2	24.2	24.3	24.2	24.5	42.9	42.9	139.0	…	…	…	…
Foreign liabilities[3]	66.0	68.6	70.5	73.7	75.7	73.7	74.5	75.0	73.7	72.5	72.5	72.5	72.5	72.5
Net domestic assets	-241.6	-283.9	-402.3	-323.3	-325.0	-268.2	-275.1	-189.6	-366.8	-430.6	-409.6	-257.1	-375.9	-306.0
Domestic credit	-201.5	-231.2	-350.2	-271.0	-283.5	-215.9	-232.3	-151.4	-314.5	-392.3	-371.4	-218.9	-337.6	-267.8
Government (net)	-143.5	-176.3	-261.6	-161.8	-150.9	-131.5	-115.3	-130.5	-157.5	-291.4	-293.0	-131.6	-165.4	-175.1
Claims	50.2	57.9	38.7	38.7	38.7	38.7	38.7	68.0	38.7	38.6	38.6	38.6	38.6	38.6
Deposits (excluding autonomous bodies)[3]	193.7	234.2	300.4	200.5	189.6	170.2	153.9	198.5	196.2	330.0	331.6	170.2	204.0	213.7
Public nongovernment deposits (-)	-1.9	-0.8	-1.0	-0.8	-1.6	-0.8	-2.2	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Nongovernment credit	-56.6	-54.1	-87.5	-108.4	-131.1	-83.5	-114.8	-19.8	-156.0	-100.0	-77.3	-86.2	-171.2	-91.7
Private sector	7.9	4.8	5.6	5.8	5.5	6.0	5.5	6.3	6.5	6.5	7.5	7.5	7.5	7.5
Public enterprises	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Commercial banks	-64.0	-60.6	-94.9	-114.2	-138.4	-89.6	-122.0	-26.1	-162.5	-106.4	-84.8	-93.7	-178.7	-99.2
Discount window	9.6	8.7	1.2	1.2	0.5	1.2	0.5	0.5	1.2	0.5	1.2	1.2	1.2	1.2
Money market (- = absorption)	-73.5	-69.3	-96.1	-115.4	-138.9	-90.8	-122.4	-26.6	-163.7	-106.9	-86.0	-94.9	-179.9	-100.4
Other items (net; asset +)	-40.2	-52.7	-52.3	-52.3	-41.4	-52.3	-42.9	-38.2	-52.3	-38.2	-38.2	-38.2	-38.2	-38.2
Reserve money [4,]	116.4	130.9	161.6	168.5	144.9	177.3	176.7	181.3	189.0	188.2	196.0	205.8	211.0	219.0
Currency in circulation	77.0	104.1	117.9	125.3	115.6	134.0	129.9	136.6	143.9	143.4	150.1	156.7	158.8	161.8
Commercial bank reserves	24.1	24.7	41.9	42.8	28.3	42.9	45.7	44.3	44.7	44.4	45.3	48.6	51.7	56.7
Nonbank deposits	6.1	2.1	1.7	0.4	1.0	0.4	1.1	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Of which: autonomous public agencies	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Commercial banks														
Net foreign assets	83.7	104.0	107.3	107.4	109.3	106.9	58.8	96.3	105.9	79.1	79.7	58.4	60.2	64.2
Foreign assets	107.5	146.8	148.2	148.9	152.9	142.6	109.5	151.9	130.0	153.2	163.9	145.9	156.9	158.2
Foreign liabilities	23.8	42.7	40.9	41.5	43.7	35.7	50.7	55.6	24.0	74.1	84.2	87.5	96.7	94.0
Reserves	33.7	38.3	57.1	59.4	44.6	63.4	64.0	66.3	68.3	68.0	69.1	73.6	77.1	82.6
NBR deposits	24.1	24.7	41.9	42.8	28.3	42.9	45.7	44.3	44.7	44.4	45.3	48.6	51.7	56.7
Required reserves	22.8	26.7	34.7	40.1	37.3	40.5	45.4	42.1	42.0	45.2	48.0	49.2	50.2	52.8
Excess reserves	1.3	-2.0	7.2	2.7	-9.1	2.5	0.3	2.2	2.7	-0.7	-2.7	-0.6	1.5	3.9
Cash in vault	9.5	13.7	15.2	16.6	16.3	20.5	18.3	22.0	23.6	23.6	23.8	25.0	25.4	25.9
Net credit from NBR (rediscount; liability -)	64.0	60.6	94.9	114.2	138.4	89.6	122.0	26.1	162.5	106.4	84.8	93.7	178.7	99.2
Domestic credit	354.6	438.8	554.5	564.7	562.7	604.4	660.5	703.5	582.7	683.2	755.9	784.4	704.6	829.6
Government (net)	-0.4	45.0	49.3	11.9	12.4	55.3	62.9	47.9	-14.0	33.8	33.8	63.9	76.0	63.9
Credit	31.6	86.1	85.7	53.7	56.6	91.3	103.9	88.9	10.2	74.1	74.1	104.2	116.3	104.2
Deposits	32.0	41.0	36.4	41.8	44.2	36.0	41.0	41.0	24.2	40.3	40.3	40.3	40.3	40.3
Public enterprises	3.0	3.2	2.8	2.5	2.1	2.3	2.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Private sector	352.0	390.6	502.4	550.3	548.3	546.8	595.0	653.9	595.0	647.7	720.3	718.7	626.9	764.0
Other items (net; asset +)	-92.0	-118.5	-137.5	-126.7	-141.2	-126.7	-139.3	-147.5	-126.7	-147.5	-153.9	-153.9	-153.9	-153.9
Deposits	444.0	523.3	676.3	719.0	713.8	737.5	766.1	744.7	792.7	789.2	835.6	856.2	866.8	921.7
Private	383.2	453.9	576.2	636.9	616.2	652.5	642.9	657.7	672.6	669.1	715.5	736.1	746.7	801.6
Public (nongovernment)	60.8	69.4	100.1	82.1	97.6	85.0	123.2	87.0	120.1	120.1	120.1	120.1	120.1	120.1

(continued)

Table 4. Rwanda: Monetary Survey, 2009-13 (continued)

	2009	2010	2011	2012							2013			
	Dec	Dec	Dec	March	March	June	June	Sept	Dec	Dec	March	June	Sept	Dec
		Est	Est	Prog	Est	Prog	Est	Prog	Prog	Prog	Proj	Proj	Proj	Proj
	(Billions of Rwanda francs)													
Net foreign assets[2]	441.8	519.0	671.1	599.2	579.2	552.4	510.7	467.2	661.8	697.8	685.3	521.3	647.1	589.1
Net domestic assets	85.3	96.9	109.4	228.9	235.0	299.0	368.1	392.5	251.6	211.6	277.2	467.1	353.6	468.9
Domestic credit	217.1	268.2	297.4	407.9	415.8	478.1	548.5	578.2	430.7	397.3	469.3	659.2	545.7	661.0
Government (net)	-143.9	-131.3	-212.3	-149.9	-138.5	-76.2	-52.3	-82.6	-171.5	-257.5	-259.2	-67.7	-89.4	-111.1
Public nongovernment deposits (-)	-1.9	-0.8	-1.0	-0.8	-1.6	-0.8	-2.2	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Public enterprises	3.0	3.2	2.8	2.5	2.1	2.3	2.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Private sector	357.3	397.1	507.9	556.1	553.8	552.9	600.5	660.2	601.5	654.2	727.8	726.2	634.4	771.5
Other items (net; asset +)	-132.2	-169.5	-189.8	-179.1	-182.6	-179.1	-182.1	-185.7	-179.1	-185.7	-192.1	-192.1	-192.1	-192.1
Broad money[5]	527.1	615.9	780.7	828.1	814.1	851.4	878.8	859.7	913.4	909.4	962.5	988.5	1,000.6	1,058.1
Currency in circulation	77.0	90.5	102.8	108.7	99.3	113.5	111.6	114.6	120.3	119.8	126.4	131.7	133.3	135.8
Deposits	450.1	525.4	678.0	719.4	714.9	737.9	767.2	745.1	793.1	789.6	836.1	856.7	867.3	922.2
Of which: foreign currency deposits	83.5	99.2	135.6	134.3	125.4	130.2	132.3	136.4	156.2	155.5	154.9	150.2	157.3	178.9
	(Annual changes in percent of beginning-of-period broad money)													
Net foreign assets	9.7	14.6	24.7	21.5	18.3	9.4	3.6	-7.3	-1.3	3.4	13.0	1.2	20.9	-12.0
Net domestic assets	23.4	2.2	2.0	10.7	11.6	10.1	19.8	26.4	18.3	13.1	5.2	11.3	-4.5	28.3
Domestic credit	28.4	9.7	4.7	13.5	14.8	10.8	20.7	27.6	18.5	12.8	6.6	12.6	-3.8	29.0
Government (net)	-0.3	2.4	-13.2	-8.2	-6.4	-3.9	-0.6	4.4	6.7	-5.8	-14.8	-1.7	-0.8	16.1
Economy	28.0	7.8	17.9	21.7	21.1	14.8	21.3	23.1	11.8	18.6	21.4	14.3	-3.0	12.9
Other items (net; asset +)	-5.0	-7.1	-3.3	-2.8	-3.4	-0.8	-1.2	-1.1	-0.1	0.5	-1.2	-1.1	-0.7	-0.7
Broad money	33.2	16.8	26.8	32.2	29.9	19.5	23.3	19.1	17.0	16.5	18.2	12.5	16.4	16.3
	(Annual percent changes)													
Net foreign assets	9.4	17.5	29.3	29.0	24.7	13.8	5.2	-10.2	-1.5	4.0	18.3	2.1	38.5	-15.6
Net domestic assets	36.9	13.6	12.9	41.3	45.0	31.5	61.9	94.5	131.1	93.3	18.0	26.9	-9.9	121.6
Domestic credit	8.9	23.5	10.9	26.1	28.6	19.3	36.8	52.4	50.5	33.6	12.9	20.2	-5.6	66.4
Government (net)	1.1	-8.7	61.7	52.1	40.5	58.2	8.7	-27.9	-23.3	21.3	87.1	29.3	8.2	-56.8
Economy	44.7	11.5	27.6	32.2	31.4	23.4	33.8	33.8	18.1	28.5	31.4	21.0	-3.9	17.9
Credit to the private sector	4.9	11.1	27.9	32.0	31.4	23.7	34.3	34.7	18.4	28.8	31.4	20.9	-3.9	17.9
Other items (net; asset +)	6.8	28.2	12.0	11.0	13.2	3.2	4.9	4.6	0.3	-2.2	5.2	5.5	3.4	3.4
	(Percent, unless otherwise indicated)													
Memorandum items:														
Currency/broad money ratio	14.6	14.7	13.2	13.1	12.2	13.3	12.7	13.3	13.2	13.2	13.1	13.3	13.3	12.8
Reserve money annual growth	0.3	12.5	23.4	29.0	10.9	22.4	22.0	20.3	17.0	16.5	35.3	16.5	16.4	16.3
Broad money annual growth	13.1	16.8	26.8	32.2	29.9	19.5	23.3	19.1	17.0	16.5	18.2	12.5	16.4	16.3
Reserves/deposits	26.2	25.0	23.9	23.4	20.3	24.0	23.1	24.3	23.8	23.8	23.4	24.0	24.3	23.8
Money multiplier	4.5	4.7	4.8	4.9	5.6	4.8	5.0	4.7	4.8	4.8	4.9	4.8	4.7	4.8
Velocity of broad money (end of period)	5.6	5.3	4.9	5.3	5.5	5.2	5.0	5.2	4.8	4.9	5.3	5.2	5.1	4.8
Velocity of broad money (average of period)	6.0	6.2	5.5	6.1	6.2	5.6	5.6	5.6	5.2	5.3	5.8	5.5	5.5	5.2
Net open position of the NBR (RF billion)	352.7	408.9	563.8	486.4	469.9	439.7	451.8	365.4	549.6	612.5	599.2	456.3	580.5	517.7
Net open position of commercial banks (RF billion)	5.4	10.8	-17.7	3.5	-22.7	-2.6	-82.8	-7.7	-13.5	-40.4	-40.1	-67.8	-59.7	-73.7
Nominal GDP (RF billion)	2,964	3,280	3,826	4,409	4,437	4,409	4,437	4,437	4,409	4,437	5,118	5,118	5,118	5,118

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

[1] Reflects the operations of the Union Banques Populaires du Rwanda (UBPR)—a large microfinance network— which was transformed into a commercial bank in February 2008.

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

[3] The IMF's MDRI reduced foreign liabilities at the NBR by RF42.4 million with a counter entry in government deposits (in January 2006).

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

[5] End-2006 broad money includes a RF 5 billion temporary buildup of local government deposits, which were unwound by February 2007.

[6] Projected escrow amount with Citibank based on projected disbursements of Citibank loan for the KCC project through September 2012 and unused euro bond proceeds thereafter.

Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2006–12

	2006 Dec	2007 Dec	2008 Dec	2009 Dec	2010 Mar	2010 Jun	2010 Sep	2010 Dec	2011 Mar	2011 Jun	2011 Sep	2011 Dec	2012 Mar	2012 Jun	2012 Sep
						(Percent)									
Capital adequacy															
Regulatory capital to risk-weighted assets	14.0	17.8	15.9	19.0	18.4	17.6	20.3	21.6	21.9	20.1	23.1	23.8	23.3	22.0	21.4
Capital to assets	9.8	10.4	12.5	13.0	12.1	11.9	12.8	11.4	12.2	11.6	14.5	14.5	14.8	13.8	13.9
Off balance sheet items/total qualifying capital	331.9	312.6	210.2	184.1	197.6	224.4	203.1	206.1	209.7	246.1	211.6	216.9	215.4	234.5	275.2
Insider loans/core capital	42.1	50.0	16.7	19.7	15.7	13.5	8.7	5.9	6.7	5.7	4.8	3.2	2.5	2.6	3.2
Large exposure/core capital	146.2	93.5	103.1	65.1	93.9	103.0	80.0	72.5	78.5	59.9	51.9	42.3	39.5	53.9	66.4
Asset quality															
NPLs/gross loans	23.4	16.9	12.6	13.1	12.5	12.2	12.4	11.3	10.2	9.6	9.4	8.2	6.4	5.7	6.0
NPLs net/gross loans	14.8	11.5	10.3	11.4	11.0	10.4	10.7	9.7	8.7	8.0	7.4	7.4	5.0	4.0	4.7
Provisions/NPLs	89.0	88.6	66.3	55.2	57.2	56.8	57.0	53.1	50.5	49.7	49.2	49.0	52.0	53.0	51.4
Earning assets/total asset	81.3	80.6	81.3	81.7	78.2	81.1	77.6	78.1	79.2	80.1	68.4	75.9	79.2	80.8	78.1
Large exposures/gross loans	24.2	16.9	17.4	13.9	18.5	20.4	17.4	15.1	17.8	13.5	13.2	11.2	10.0	12.2	13.7
Profitability and earnings															
Return on average assets	2.3	1.4	2.5	0.7	-0.2	1.3	1.6	1.9	2.5	2.4	2.0	1.9	2.3	2.1	2.1
Return on average equity	25.8	13.6	20.9	5.0	-1.4	10.3	12.2	13.7	17.2	16.6	12.8	10.8	13.1	12.5	12.6
Net interest margin	7.3	7.3	10.2	9.1	9.6	8.8	8.8	8.7	8.6	8.6	9.2	9.5	9.8	9.3	9.4
Cost of deposits	2.6	2.6	1.9	2.4	2.8	2.7	2.6	2.5	2.3	2.2	2.2	2.2	2.7	2.6	2.7
Cost to income	74.0	80.0	77.8	91.0	98.6	89.3	86.2	83.2	79.1	77.5	81.6	82.8	80.4	81.2	81.2
Overhead to income	51.2	45.7	48.8	54.9	57.5	54.0	53.8	55.2	61.4	56.0	58.5	55.5	55.6	58.2	57.4
Liquidity															
Short term gap	9.3	22.3	21.3	20.0	16.8	21.2	17.4	18.5	14.5	29.9	26.8	22.5	23.4	27.3	14.3
Liquid assets/total deposits	62.4	68.9	61.1	65.3	51.7	58.4	47.9	57.8	52.1	56.0	50.3	46.3	50.3	49.6	42.1
Interbank borrowings/total deposits	11.4	9.9	4.3	9.8	7.3	10.3	9.0	8.5	8.7	6.8	6.6	6.4	5.7	7.3	8.6
BNR borrowings/total deposits	0.3	0.2	0.2	0.8	0.8	0.0	0.0	0.0	0.3	0.0	0.4	0.1	0.1	0.1	0.1
Gross loans/total deposits	69.5	63.4	87.8	73.9	74.0	71.6	69.3	67.0	68.7	65.6	71.3	67.6	70.7	71.9	82.4
Market sensitivity															
Forex exposure/core capital[1]	0.9	81.5	2.2	1.9	4.9	1.5	2.4	6.8	7.2	7.0	3.8	6.9	7.1	-2.5	-0.2
Forex loans/Forex deposits	0.8	1.1	0.5	2.8	2.6	4.2	2.1	0.4	1.0	5.5	7.4	5.3	5.0	6.0	8.0
Forex assets/Forex liabilities	120.1	102.3	102.6	103.6	105.8	101.0	103.9	106.0	106.7	112.8	101.1	114.8	113.4	65.2	92.5

Source: National Bank of Rwanda.

APPENDIX I. LETTER OF INTENT

Kigali, Rwanda
November 20, 2012

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

Dear Ms. Lagarde,

The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on June 16, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan Government intends to implement for the fiscal year 2012/13 and the medium term. The PSI is set to expire on June 29, 2013.

Program implementation remains strong. Growth is robust and inflation remains in the single digits. All end-June 2012 quantitative assessment criteria were met, except the target on the net domestic financing (NDF), which was missed by a small margin (about 0.5 percent of GDP), because of a typographical error in the QAC table prepared at the time of the 4th review. Structural reforms are proceeding broadly as planned. Two structural benchmarks (the publication of the quarterly budget execution report for June and the preparation of an own DSA) have been met with delay. Four benchmarks (medium-term debt management strategy, revision to the investment code, specification of technical requirements for IFMIS and introduction of electronic tax registers) have taken longer than expected. The medium-term debt management strategy will be submitted to cabinet in late November; the other three benchmarks have been re-programmed for the sixth review.

In light of the satisfactory performance outlined in the attached MEFP, the government requests the completion of the fifth review under the PSI. The government also requests approval of the modification of the assessment criteria for end-December 2012 with respect to (i) NFA of the central bank to reflect delays in the disbursement of donor budget support inflows and the accrual of the proceeds from the issuance of a eurobond later this year; and (ii) NDF to also reflect revisions to the fiscal program because of delays in the disbursement of donor budget support inflows and the inclusion of the sovereign bond proceeds and their use in the revised fiscal program. Furthermore, the government requests the ceiling on the continuous assessment criteria on the untied non-concessional borrowing be raised from US$255 million to US$605 million to allow additional borrowing for retiring short term debt and completing priority projects that are underway. It does not materially affect our debt sustainability, as shown by the DSA, which we recently conducted and presented to the IMF team. The government also requests approval of end-December 2012 assessment criteria and structural benchmarks for this period.

The government is confident that the policies and measures set forth in the attached memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached memorandum.

The government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the sixth and final review will take place before end-June 2013.

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

Sincerely yours,

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

Attachment I. Rwanda: Memorandum of Economic and Financial Policies

November 20, 2012

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), the Government of Rwanda reiterates its commitment to achieving sustained economic growth and poverty reduction. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12[1] and Rwanda's Vision 2020. As the EDPRS is expected to end in June 2013, the Government of Rwanda is in the process of preparing the EDPRS II which is expected to be submitted to Cabinet in January 2013. Against this background, the Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support macroeconomic policies and structural reforms that underlie strategies in the EDPRS.

2. This MEFP reviews performance through end-June 2012 and describes policies and targets for end-December 2012, the revised 2012/13 fiscal year and the medium term.

MACROECONOMIC DEVELOPMENTS AND OUTLOOK

A. Macroeconomic Developments

Growth developments

3. The Rwandan economy recorded GDP growth of 9.9 percent in the second quarter of 2012, higher than the 7.5 percent registered in the first quarter. The growth was mainly driven by an expansion in services which grew by 14 percent and industry which grew by 9 percent, led by 17 percent growth in the construction sector. This performance demonstrates that the Rwandan economy is resilient to the challenging international economic climate.

[1] Rwanda's latest EDPRS Country Report No. 08/90 and Joint Staff Advisory Note Country Report No. 08/91 were issued to the Executive Board on February 14, 2008. A progress report was issued to the IMF Board on June 23 2011 (IMF Country Report No, 11/154).

Inflation developments

4. Inflation in Rwanda has been on a declining trend, falling from 8.3 percent in December 2011 to 5.6 percent in September 2012. This decline is due to the fall in imported inflation (from 7.9 percent in January to 1.2 percent in September) and the slowdown in domestic inflation to 6.7 percent in September (from 9.7 percent in May 2012).

5. Core inflation which excludes fresh foods and energy from the overall CPI has been significantly decelerating and stood at 2.1 percent in September 2012 from 3.6 percent in June 2012, 5.3 percent in March 2012 and 8.3 percent in December 2011. Declining core inflation reflects the effectiveness of the monetary and exchange rate policies implemented by the National Bank of Rwanda.

Fiscal developments

6. The fiscal deficit for FY2011/12 was 1.2 percent of GDP, smaller than projected (1.9 percent of GDP), due mainly to the over performance of tax revenues and lower-than-planned expenditure owing to delays in implementing foreign and domestically-financed capital projects.

7. Domestic revenues during FY2011/12 exceeded target. Domestic revenue collected in FY2011/12 reached RWF 591.8 billion compared with RWF 565.1 billion targeted in the revised budget. The excess collections came from tax revenue which stood at RWF 557 billion. This exceeded the target of RWF 530.2 billion by RWF 26.8 billion. The excess collection of RWF 26.8 billion for FY2011/12 came from the good performance of real GDP growth and ongoing administrative reforms that continue to broaden the tax base and help improve compliance. The improvement in compliance resulted in collections of some "one-off funds" especially from arrears amounting to RWF 6.5 billion (0.2 percent of GDP). This improved performance came mainly from direct taxes that exceeded target by RWF 17 billion and excess collections in taxes on goods and services by RWF 4.9 billion. Regarding non-tax revenue, the amount that accrued to the budget by end June 2012 amounted to RWF 34.7 billion, slightly lower than the RWF 35 billion projected on account of lower collections from administrative fees and charges, as well as dividends.

8. Budget support grants that accrued to the FY2011/12 budget amounted to RWF 265.7 billion compared to RWF 279.1 billion projected showing a shortfall of RWF 14.4 billion.

9. Capital grants that accrued to the budget of FY2011/12 amounted to RWF 191.6 billion showing an excess of RWF 7.2 billion compared to RWF 184.4 billion projected because of an over performance of the project grants from the Global Fund.

10. Budgetary loans that accrued to the budget of FY2011/12 amounted to RWF 53.5 billion, RWF 1.3 billion higher than RWF 52.2 billion expected.

11. Spending in FY2011/12 was broadly on track. Total expenditure and net lending during FY2011/12 amounted to RWF 1098 billion representing 99.3percent of the projection of the revised FY2011/12 budget (RWF 1105.6 billion).

12. The recurrent expenditure at RWF 613.9 billion was almost equal to the revised budget estimate of RWF 614.1 billion.

13. Total capital spending at RWF 482.9 billion was RWF 14.8 billion lower than the revised budget allocation RWF of 497.7 billion. Both domestically and externally funded portions contributed to the shortfall in spending. In the case of the domestically financed portion, the main reason was the delay in finalizing all tender documentation for procurement as well as delays in other administrative procedures.

14. The budget for FY2011/12 was closed with net domestic finance equivalent to a negative RWF 32.7 billion lower than the negative RWF 21.4 projected and net foreign financing equivalent to RWF 95.1 billion lower than the RWF 116.8 billion projected on account of tax revenue collection over performance and lower capital spending.

Tax policy measures for 2012/13

15. Two out of four tax policy measures announced in the budget 2012/13 have been implemented so far: tax rate for imported construction materials has been increase to 10 percent from 5 percent (import duties, VAT and excise duties), starting July 2012, and the gaming tax has been effective since September 2012.

Progress towards key revenue administration measures in 2011/12 approved budget:

a) Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers (Structural benchmark for end-January 2012): All the necessary preparatory work has been finalized. Implementation has been delayed by the law and Ministerial order that are not yet published in the official gazette.

b) Introduce e-filing and e-payment systems to reduce the time spent serving taxpayers, compliance costs incurred by taxpayers, and improve service delivery: All taxes Pay-As-You-Earn (PAYE), Value Added Tax (VAT), Excise, income tax including withholding taxes are being filed online. E-filing is also being used in filing social security contributions. E-payment is also being used but with few banks.

c) Conduct a customer satisfaction survey to inform the next areas of focus for strategic planning purposes: the final report was produced in December 2011. A number of the report recommendations have been implemented for instance focused training for SMEs on book keeping, awareness campaigns of new initiatives in the tax administration, involvement in tax policy development by SMEs, etc.

d) <u>Introduce new tax compliance risk assessment system in the Domestic Taxes Department (DTD) that will orient audit function to high risk taxpayers</u>: a number of risk management tools were developed and are being used by DTD in the data matching exercise that orients audit plans. Tender to acquire advanced risk management tools and data warehouse in order to improve analysis and data matching for audit planning was made and is at evaluation stage.

e) <u>Implement electronic single window (ESW) system at customs that will allow parties involved in trade and transport to lodge standardized information and documents using a single point</u>: the development of the ESW between the RRA and four other government agencies (Magerwa, Rwanda Development Board (RDB), Rwanda Bureau of Standards (RBS) and Ministry of Health) was finalized. The pilot phase of the ESW system was launched in Feb 2012 and since then communication and awareness campaigns are being done through the web and local media. The roll out of the system to other customs offices (in Kigali) was successfully done in April 2012 and preparations for connecting other agencies are in advanced stages.

f) <u>Establish a One-Stop-Border Post (OSBP) at Kagitumba and Rusumo border posts with 24 hour operations to facilitate cross border trade</u>: for Kagitumba, final design and tender documents were approved by stakeholders and the tender was launched end of September 2012. For Rusumo, construction works for OSBP facilities and the Bridge have started. The OSBP project is externally funded with direct payment and control over any delays in the procurement processes or delays caused by the contractors is limited.

g) <u>Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination</u>: Evaluation of bids was done in February 2012 and the evaluation report was submitted to the World non – objection letter in August 2012 and recommended re-tendering.

h) <u>Fully automate collection of pension funds and health insurance contributions and bring those out of the PAYE net into the system</u>; the collection of pension and medical insurance contributions was integrated in the e-Tax system and is now operational.

Monetary and exchange rate developments

16. Broad money, M3, recorded an annual increase of 16.2 percent at end August 2012, almost the same level as projected for the whole year 2012. Broad money supply was driven mainly by growth in credit to the private sector which increased steadily faster than initial annual projections for 2012 reaching 33 percent by end August 2012 on annual basis. The development

in credit to private sector is in line with the dynamic economic activities recorded this year. Targets on reserve money, the anchor of monetary program, were achieved using different monetary policy instruments. Regarding monetary program implementation, the National Bank of Rwanda has achieved end June 2012 net foreign assets and reserve money targets.

17. Regarding the exchange rate policy, the NBR kept the RWF exchange rate fundamentally market driven, while intervening on the domestic foreign exchange market by selling foreign exchange to banks to smooth the RWF exchange rate volatility. As of end September 2012, the RWF nominal exchange rate depreciated by 3 percent against the U.S. dollar, compared with 1.6 percent in the full year of 2011. This depreciation was mainly due to high demand for foreign exchange driven by rapid increase in demand for imports.

18. In 2012, credit to the private sector has increased substantially driven by a higher dynamism in economic activities, mainly construction, manufacturing and services sectors. In terms of share of economic sectors, as in the previous periods, credit to the private sector has been granted largely to small and medium enterprises, rather than firms, with respectively 62.4 percent and 37.6 percent of the total outstanding credit by end June 2012.

19. Short-term interest rates have been fairly stable after rising in response to the policy rate which was increased by 0.5 percentage points in May to7.5 percent in line with the NBR policy of tightening the monetary policy stance. The repo rate stabilized around 7.4 percent between May and August 2012. The interbank rate increased in line with changes in the KRR, to an average of 8.9 percent between May and August, from an average of 7.5 percent between January and April 2012. The T-bills weighted average rate also increased to 10.7 percent in August 2012 from 8.3 percent in May. Regarding market rates, the lending rate has stabilized between 16.3 percent and 17.0 percent as a result of higher competition within the banking system. The deposit rate increased to an average of 8.8 percent between May and August from an average of 8.0 percent during the first fourth months of 2012.

20. To enhance the efficiency of the money market operations, on June 1, 2012, the NBR has recently introduced a fixed repo maturity of seven days in place of various maturities that have been in place since February 29, 2012. The reserve requirements have been modified and since June 1, 2012 are constituted only in local currency. Also, the maintenance period was extended to two weeks from one week to support the averaging system. In addition, the standing deposit and lending facilities were introduced on June 1, 2012; and on August 1, 2012, the overall foreign exchange risk exposure for banks was set at ± 10 percent of their core capital in line with the practice in most of EAC countries.

Financial sector reforms

21. The NBR is in the process of reviewing the financial sector legal and regulatory framework. This review will respond to the FSAP recommendations. In this regard, the NBR Law and the Banking Law are undergoing review for amendment to cater for the FSAP recommended reforms. In addition, the Draft law on Deposit Insurance Fund has been prepared and pending discussions with stakeholders.

22. To strengthen the capacity for banks supervision, continual both in-house and outside trainings will be conducted, especially for the new 5 inspectors recruited in August 2011.

23. Banking sector soundness indicators have continued to perform well. The ratio of capital to risk-weighted assets rose to 25.1 percent end June 2012, from 24.4 percent in June 2011, while the ratio of non-performing loans declined from 9.6 percent to 5.7 percent in the same period of 2012. Profits also increased between June 2011 and June 2012. Mindful of the potential challenges linked to the exposure of banks to the real estate sector currently representing 27.30 percent of the total loan portfolio, the BNR remains committed to ensure that the regulatory framework of the financial system is able to take proactive actions accordingly. To this effect, a new regulation on loan classification and provisioning was published in 2011 that reduced mortgage collateral up to 50 percent and a loan can only be restructured once. In addition, the regulation requires banks to closely monitor the performance of these loans and potential risks related to various sectors.

24. To strengthen the supervision of SACCOs, in May 2011, the NBR recruited 60 inspectors located in 30 districts of Rwanda to monitor and closely supervise SACCOs. An action plan to consolidate SACCOs was elaborated with two phases. In phase I, SACCOs will be consolidated at district level by end-December 2013, and in the second and final phase, the SACCOs will be consolidated to form a Cooperative Bank at national level by end-December 2014. So far, a harmonized credit policy for SACCOs has been put in place and has been operational since July 2012. For capacity building, a lot has been done to strengthen the capacity of SACCOs themselves and SACCOs' Supervisors. Several trainings were conducted by the World Bank Consultants for NBR SACCO Inspectors appointed in districts aiming at enhancing their supervision capacity. In the second quarter of 2012, the Rwanda Cooperative Agency (RCA), provided computers (desktops and printers) to all 416 Umurenge SACCOs and CGAP management tools were configured in these computers and all 416 SACCOs.

25. The NBR undertook various initiatives to widen financial access such as mobile financial services and agent banking. By end-June 2012, three banks started to work with agents and two banks are in the process of launching agent banking. One new bank is performing well and now has eight branches across the country. Two microfinance institutions were upgraded to microfinance banks with minimum capital of RWF 1.5 billion each. By end-June 2012, the number

of bank branches and outlets was 580. Similarly, the usage of ATMs to enhance intermediation and lower transaction costs grew by over 69.6 percent from 135 ATMs recorded end June 2011 to 229 ATMs end June 2012. In addition, the RIPPS system has been upgraded to enable linkage to Regional Payment Systems; the East Africa Payment Systems (EAPS) and the Common Market for Eastern and Southern Africa (COMESA) Regional Payment and Settlement System (REPSS) to facilitate cross-border payments in the East African Community and COMESA region. Moreover, the Visa National Net Settlement System (NNSS) has been operational since March 1, 2012. The NNSS facilitates domestic transactions to be settled in local currency and the central bank is the settlement agent. By end-June 2012, six banks were already participating in NNSS. Points of Sale (POS) had also increased to 385 from 227 at end 2011. In view of the above, the 2012 Finscope Survey showed that total adult population with access to financial services increased to 71.8 percent in 2012 from 47.5 percent in 2008; and the percentage of adult population without access decreased from 52.4 percent in 2008 to 28.1 percent in 2012.

External Sector

26. The overall balance of payments in the first half of 2012 recorded a deficit of USD 195.5 million mainly owing to higher-than-projected imports. Although exports and current transfers improved significantly, the current account recorded a larger deficit of US$ 500.3 million becsue of a larger trade deficit of USD 605.5 million. Net income and services were also negative, and at US$ 147.3 million accounted for around 45percent (of the projected amount for end-2012).

27. Rwanda continues to attract remittances from diaspora. About 64 percent of private transfers were remittances, estimated at US$ 50.2 million in the first half of 2012, in line with the annual projection of US$ 111.4 million.

28. Sustained by traditional and non-traditional products, exports increased on an annual basis by 22.6 percent by end-August 2012 compared to 0.6 percent initially projected for the whole year 2012. This performance is mainly attributed to minerals which were boosted by high prices of coltan and wolfram. Coffee exports were lower by 14.6 percent in spite of higher volume (12.6 percent), because of a fall in prices on international markets. Despite higher prices, tea exports have performed poorly in both value and volume terms, on account of weak domestic production affected by adverse weather conditions.

29. Compared to an increase of 13.7 percent in import value f.o.b. initially projected for the whole year 2012, an annual increase of 28 percent was recorded by end-August 2012. This higher-than-expected increase in imports is driven mainly by higher domestic demand for investment goods notably equipment, raw materials for industry, and inputs for the services sectors. Capital, intermediate and energy imports therefore accounted for 73 percent of total imports by end-August 2012, continuing the trend observed in the last five years.

30. The need to finance the larger import bill along with uncertainties about donors' budget support disbursements has put pressure on the foreign exchange market, leading to relatively rapid nominal depreciation of the RWF against U.S. dollar, estimated at about 3 percent between December 2011 and September 2012.

Statistical Developments

31. Efforts to improve the quality of national accounts are continuing. To compile a high quality Supply and Use Table (SUT) and to produce robust benchmarks for the rebasing of gross domestic product (GDP), the National Institute of Statistics of Rwanda (NISR) is conducting an Integrated Enterprise Survey (IES) for reference year 2011. The 2011 IES will collect benchmark data on non-agriculture non-household sector economic activities using the 2011 Establishment Census (2011 EC). Data collection started in May 2012 and results are expected by end-December 2012.

32. To support these ambitious targets, the NISR is strengthening its human capacity. NISR has recruited 47 new staff including economists and strengthened the Economic Statistics Department, which now has a director and four principal statisticians in charge of national accounts, trade and services, prices and agricultural/industrial statistics.

33. Significant progress also has been made in agricultural statistics. The recruitment of key consultants is complete, and four missions were undertaken by four experts of Agricultural Assessments International Corporation (AAIC). They prepared a paper comprising an assessment of the current situation; recommendations for action and next steps. The finalized paper was published at end-March 2012 (structural benchmark) and afterward, they continued to support NISR and MINAGRI to implement the new recommended methodology.

34. In addition, NISR is planning to hire international experts with the help of the NISR Basket fund to advise them on the development of the national accounts. The objective is to support further improvements in the quality of the accounts, with particular emphasis on the statistics related to the balance of payments, government financial statistics, and the SUT (for 2011).The technical assistance will also support capacity building across the entire range of economic statistics produced by NISR.

B. Program Performance

35. **As of end-June 2012, only one of the quantitative assessment criteria was not met, while the structural benchmarks were broadly observed (Tables 1 and 2)**. The quantitative assessment criterion on net domestic financing (NDF) was missed by a small margin (RWF 23.9 billion), because of a typographical error in the quantitative assessment criteria (QAC) table at the time of the fourth review. The NDF would have been met had the target been

correctly set in line with the fiscal policy and the macroeconomic framework agreed to at the time of the discussion for the fourth review.

All the structural benchmarks were met with the exception of the following:

- The submission to cabinet of the public debt policy and medium-term debt strategy (MTDS), planned for end-June 2012, will be met with delay. A first draft of the MTDS was discussed with key stakeholders (the Ministry of Finance and the central bank) and a revised draft incorporating comments that involved broadening the scope of the strategy is now planned for submission to the cabinet in late November 2012.

- The benchmark on the specification of the technical requirements for IFMIS was not met and has been delayed until April 2013.

- The benchmark on introducing electronic tax registry to improve issuance of VAT invoices by taxpayers planned to be launched for end- May 2012, has not been met because we are waiting for the law promulgation.

- Revision of the investment code by June 2012: Part of its revision on the increase in tax rates for imported construction material from 5 percent (imports duties, VAT and excise duties) to 10 percent is effective since July 2012, but the broad revision is expected to be done by January 2013.

C. Economic Outlook

Outlook

36. **The outlook for the 2012/13 fiscal year is in line with the Medium Term Macroeconomic Framework and program objectives set out in the initial MEFP for the PSI**. In 2012, domestic economic activity is expected to expand at 7.7 percent. The growth rate will be led by construction and services. Over the medium term, output growth is projected at 7 percent on average. Inflation is targeted at 7.5 percent for end-2012 and 6.5 percent for end-2013 before stabilizing at 5 percent over the medium-term.

Risks to the outlook

37. **Risks from developments in the global environment**: Risks from further global economic slowdown remain high and this could potentially have adverse affects on the Rwandan economy over the medium term. The government will continue to implement prudent policies (price stability and policies aiming at sustaining growth) to cushion from downside risks.

38. **Delays in aid disbursements:** about USD 200 million in bilateral and multilateral general budget support disbursements which were expected in July–December 2012 have been reprogrammed for January-June 2013.

GOVERNMENT OBJECTIVES AND POLICIES

A. Medium-term objectives and poverty reduction strategy

39. Rwanda has recently conducted a household living conditions survey (EICV 3). The survey results show that poverty has been reduced by 12 percentage points in the last five years (from 2005/6 to 2010/11). This represents in nominal terms, more than a million Rwandans being lifted out of poverty. The results of the last surveys (EICV 3 and DHS 4) have shown that a lot of progress has been made in achieving the targets we had committed to under our EDPRS for the implementation of our Vision 2020. By 2010/11, more than 85percent of the targets under our EDPRS had been achieved.

40. Some of the targets under the national Vision 2020 had already been achieved by 2011, while many others are on track. With the progress made in the last five-years, Rwanda is on track to achieve all MDGs – though not all targets—some well before 2015. As such, the country has decided to revise those targets to the level of our ambitions. One such target is the GDP per capita, it was set at US$ 900, and we have now revised it to US$ 1,240.

41. The national development plan, EDPRS2, has two key goals: (i) reducing poverty faster to reach a poverty headcount of less than 30 percent; and (ii) ensuring that the economy remains on a path of high and sustained economic growth to achieve an average double-digit GDP growth over the decade. The country sees high and inclusive growth as the guarantee of sustainability of results achieved towards the MDGs.

42. These goals imply that the country will need to step up its efforts and do many things differently. The EDPRS 2 is being developed to address four key areas: (i) economic transformation, (ii) rural development, (iii) productivity and youth employment and (iv) accountable governance.

43. Although a double-digit GDP growth is the desired objective, the revised macroeconomic framework under this review is built on a more conservative growth outlook, on account of economic downside risks stemming from threats of global economic slowdown (weak global demand, low prices for Rwandan exports, and high oil prices) and the current uncertainty around some donors' disbursements.

44. Quantitative assessment criteria and indicative targets and structural benchmarks for the 6th and final review under the current PSI arrangement are set out in Table 3 and Table 4.

B. Fiscal Policy

45. Fiscal consolidation through increased revenue mobilization and expenditure prioritization to close the fiscal gap remain the key components of the government's medium-term strategy. Consistent with this strategy, the budget for FY2012/13 has been revised to reflect uncertainties and delays in donor budget support disbursements. In addition, this revision has also taken into account the expected flows from the sovereign bonds issuance and the use of these funds, as well as the accrual and use of funds from the "AGACIRO" Development Fund (AgDF).

46. Total revenue and grants are now projected at RWF 1211.1 billion (25.3 percent of GDP). Domestic revenue collection amounts to RWF 712.4 billion (14.9 percent of GDP) while grants are estimated at RWF 498.6 billion (10.4 percent of GDP). Domestic tax revenue is contributing RWF 641.2 billion (13.4 percent of GDP) while non-tax revenue (including reimbursements from peace-keeping operations and from the "AGACIRO" fund) is projected at RWF 71.2 billion (1.5 percent of GDP).

47. Total expenditure and net lending is now projected at RWF 1541.5 billion (32.4 percent of GDP). Recurrent spending is estimated at RWF 668.3.2 billion (14 percent of GDP) while RWF 653 billion (13.7 percent of GDP) is now allocated for capital expenditure. The estimate for net lending is revised upwards and is now projected at RWF 220.3 billion (4.6 percent of GDP).

48. The revised budget is now expected to close with an overall cash deficit of RWF 338.5 billion (7.1 percent of GDP). Net domestic financing will now show a small build up of government deposits of RWF 15.4 billion (0.3 percent of GDP) mainly representing the unused funds from the sovereign bonds receipts.

49. Regarding tax revenue collections, the implementation of the on-going administrative measures outlined in paragraph 15 are expected to allow the achievement of the projected target.

50. For expenditures, the revised upward figure of RWF 1541.5 billion includes RWF 7.9 billion of interest payments on the sovereign bond in FY2012/13. The revised net lending figure of RWF 220.3 billion also includes RWF 204.3 billion (4.3 percent of GDP) of the proceeds from the sovereign bond issuance, which have been allocated to some strategic investment projects for the early retirement of expensive debt and for the completion of one project. The government is committed to use the proceeds from the sovereign bonds issuance solely for the approved strategic investment projects.

51. The slightly increased capital expenditure figure of RWF 653 billion (13.7 percent of GDP) also includes a small spending amount of RWF 2 billion for some projects to be funded with funds that will accrue from the AgDF under domestic capital expenditure. Consistent with

national objectives of the government, the AgDF which has been set up recently by the government is to solicit voluntary contributions from Rwandan citizens in the country and in the diaspora as well as from other friends of Rwanda. The proceeds from the fund will be used to augment central Government funds to finance some priority projects which will allow the government to achieve the MDG targets. To ensure transparency, the government has designed rules and regulations concerning the accrual and utilization of the contributions to the fund. The accounts will be audited annually by the Auditor General. The capital expenditure figure also includes an RWF 7.8 billion grant from USAID for projects in the agriculture sector with foreign financed capital. This amount was originally programmed as a budget support grant for recurrent spending.

52. Because of uncertainties concerning the disbursement of budget support funds, the government has decided to set aside an RWF 18 billion (0.4 percent of GDP) expenditures as contingent expenditure under the domestically financed capital budget. This amount will not be spent if the disbursements from donors are not made to ensure no increase in net domestic finance. The contingent expenditure is in agriculture, health, infrastructure (roads) and justice.

53. Net domestic finance: The revised FY2012/2013 budget is projected to close with a net build up of deposits amounting to RWF 15.3 billion (0.3 percent of GDP) mainly representing the remaining unused balance from the sovereign bonds proceeds.

54. Fiscal policy over the medium term reflects the fiscal consolidation policy of the government. This envisages increases in domestic resource mobilization and expenditure reprioritization to reduce expenditure and thereby not only reduce the fiscal gap but also reduce the reliance on donor funding. Consistent with this objective domestic revenue collection (excluding payments from peacekeeping operations) are projected to increase by 0.3 percent of GDP annually in the medium-term and reach 15.2 percent of GDP by 2016/2017. At the same time total expenditure and net lending is projected to go from 1541.5.4 billion (32.3 percent of GDP) in FY2012/13 to RWF 1808.9 billion (22.9 percent of GDP) by 2016/2017. Consistent with these projections, the overall deficit (including grants) is projected to decline from 6.9 percent of GDP in FY2012/13 to 1.6 percent of GDP by 2016/2017. Over the medium term the contribution from non tax revenue is not expected to increase as a result of the permanent loss of dividends in the face of increasing privatization of public enterprises.

Revenue mobilization

55. Tax policy measures for FY2012/13: the revision of the investment code will be completed by November 2012 (structural benchmark). The introduction of the Electronic Sales Register (ERS) for recording taxpayers' transactions, limiting VAT evasion and helping track potential taxpayers is now planned to start in January 2013 (structural benchmark), after the promulgation of the VAT law. A recent FAD/IMF mission has provided recommendations for both revenue

administration and tax policy reforms. The government will examine the recommendations from the mission and will discuss possible implementation of the recommendations with the next PSI review mission.

Public financial management and reforms

56. The PFM reform agenda is firmly on track as has been noted in the various reviews that have been undertaken in previous years. The major objectives of the government is to address the key existing challenges that include among others: addressing the apparent disconnect between planning and budgeting, evaluating difficulties in automating public financial management operations, creating a critical mass of professionals across the key PFM functional areas and building PFM capacity at decentralized level. Below is a set of priority measures that has been drawn to help address the existing challenges in the PFM area.

Priority measures for 2012/13

57. The key priorities for the 2012/13 are as follows:

i. Complete the design of the detailed system and technical requirements of the Integrated Financial Management Information System (IFMIS) including functional, technical requirements documents and quality review by end of April 2013 (structural benchmark).

ii. Elaborate the EDPRS II 2013-2018 and pertinent sector and district strategic plans. The EDPRS I is ending by June 30, 2013, and we are now finalizing the recruitment of the thematic experts that will help in the elaboration of the EDPRS II.

iii. Review the program structure of the budget and revamp the Medium Term Expenditure Framework (MTEF). This assignment will help in aligning the strategic plans of MDAs to the program structure of the budget, a key weakness identified in numerous PFM diagnostic studies.

iv. Support implementation of the Fiscal Decentralization Strategy (FDS). This was approved by the cabinet last year and full scale implementation will be a major focus this fiscal year.

v. Continue with phase two of the Implementation of the Electronic Tax Registers to efficiently collect VAT. This project is expected to help RRA expand the tax base and/or avoid any potential tax leakages to finance the country's national needs.

vi. With the support of IMF East AFRITAC the GoR has finalized updating the law on state finances and property. It is expected that the law will be finalized in the next fiscal year thereby paving the way for sensitizing GoR officials on the new law.

vii. As part of the national plan to build a strong accountancy profession, the government will continue to support the Institute of Certified Public Accountants of Rwanda (ICPAR) so it will be in a position to launch its first ever professional accountancy qualification examination (CPA-Rwanda) and help in building a critical mass of certified accountants.

viii. Public procurement is one of the critical pillars in the public financial management reform agenda. Upon realizing there is an urgent need to create a critical mass of procurement professionals, MINECOFIN has helped the School of Finance and Banking (SFB) secure the services of the International Training Centre of the International Labor Organization) as part of the arrangement to develop capacity at SFB to meet Rwanda's training needs in procurement. The first phase has been completed and the second phase is currently ongoing with short-term courses begun.

ix. The basic structure for a professional internal audit cadre is already in place and this is being complemented by automating all internal audit processes by using electronic working papers software. The ultimate objective is to increase efficiency.

x. The current Public Financial Management Reform Strategy is set to expire on June 30, 2013. The government, in conjunction with the contributing development partners, is undertaking a final independent evaluation of the Public Financial Management (PFM) Reform Strategy 2008/9-2012/13 to take stock of the lessons learned so it can inform the next PFM Reform Strategy for 2013/14-2017/18, scheduled to be completed within the current fiscal year.

C. Monetary and Exchange Rate Policies

58. The NBR will implement policies to minimize risks of monetary inflation while supporting the government economic growth objective. To achieve the expected results, the NBR will continue to closely monitor developments in underlying factors of inflation to take appropriate measures, using the monetary policy instruments. Inflation is projected to rise gradually backup to 7.5 percent by end 2012 before receding anew to about 6.5 percent by end 2013 and stabilizing at about 5 percent over the medium term.

59. In 2013, lower inflation is expected to be achieved through improvement in supply-side policies and a further tightened monetary policy stance. The growth rates of reserve money and broad money are both projected to slow down to 16.3 percent in 2013. Growth in credit to the private sector will continue to drive broad money growth, while gradually slowing down from 29 percent at end-2012 to about 18 percent in 2013 reflecting a tighter monetary policy.

60. To improve the monetary policy transmission mechanism, the NBR will move to a more flexible monetary targeting framework. The NBR will introduce a reserve money band of ± 2 percent around a central reserve money target. In this framework, the NBR will target the

center of the reserve money band, while the PSI quantitative assessment criterion on reserve money will be set at its upper limit.

61. The NBR will continue to strengthen its capacity in modeling and forecasting with the support of different partners, including the Bank of England, the IMF, the International Growth Center (IGC) and the Macroeconomic and Financial Management Institute for Eastern and Southern Africa (MEFMI) among others. In the short term, the NBR will complete ongoing studies to support building a small macroeconomic model for Rwanda supported by MEFMI to realize policy simulation and assist the NBR's Monetary Policy Committee.

62. To improve money market efficiency, the NBR will soon introduce and explain to banks the change in the use of the policy rate – the key repo rate. The NNR will change the role of the key repo rate from a reference rate for interbank operations to a reference rate for central bank operations on money markets. The repo and reverse repo transactions will be fixed at only 7 days maturity, with the repo rate remaining within the new corridor for which the lower and upper limits will be respectively the rates on overnight deposit and lending standing facilities.

63. The exchange rate will remain market driven, and the NNR will continue to intervene on the foreign exchange market only to smooth exchange rate volatility. To further develop the foreign exchange market, NBR will continue to build the capacity of market players and promote interbank trading. The Dealers' Association was launched in August 2012 and the capacity building plan is being developed in collaboration with different partners, including the International finance Corporation (IFC). In addition, the NBR will continue to encourage banks to access the newly established NBR (lending and deposit) standing facilities. Furthermore, the government will work closely with the NBR to finalize as soon as possible discussions on a MOU for the conversion of existing claims on the government into marketable securities before December 2012.

D. Financial Sector Reforms

64. The NBR will continue to pursue the FSAP recommended reforms in pension, insurance, banking and microfinance institutions relating to the expansion of market access and financial deepening.

65. An action plan (FSDP II) clearly showing all reforms to be implemented and their respective timeframe (next 5 years) for the entire financial sector; FSAP recommendations will be in place by end December 2012.

66. An action plan to consolidate SACCOs was elaborated in two phases. For phase I, SACCOs will be consolidated at district level by end December 2013 and for the second (final) phase; SACCOs will be consolidated to form a cooperative bank at national level by end December 2014. In addition, the NBR is committed to carrying out continuous capacity building

for inspectors and managers of SACCOs. The program to enhance the institutional capacity of SACCOs and their MIS including the automation of their operations will be undertaken in 2013/14. UNCDF's MicroLead Program has approved a $2.4 million dollar investment for technical service provision for the UMURENGE SACCOs by the World Council of Credit Unions (WOCCU).

E. External Sector Policies

Objectives and policies

67. Increased domestic demand for imports and high energy prices are expected to negatively affect the external sector performance in 2012 and 2013. In 2012 the value of exports is projected to increase by 16.2 percent led by non-traditional exports which will contribute about 50 percent of the total receipts. Despite a slight recovery in coffee exports in the later part of the year, the yield in 2012 is projected to be about 2 percent lower than in 2012 on account of lower international prices. Although the volume of tea exports is projected to increase by only 1.5 percent in 2012, total receipts are expected to rise by 7.7 percent on account of higher international prices. Regarding minerals despite higher volume and prices for wolfram and coltan, total receipts are projected to decline by about 13 percent owing to a sharp decline in the volume and prices for cassiterite.

68. Mirroring the performance in the first eight months of the year, the value of imports (f.o.b.) is projected to rise by 20 percent in 2012. This development reflects the higher demand for capital goods, raw materials for industry and inputs in the services sector. As a result of this high level of imports, the trade deficit is projected to widen from US$ 1.1 billion in 2011 to US$ 1.3 billion in 2012.

69. Reflecting the delayed disbursement of donor support funds in 2012, the current account deficit (including official transfers) is expected to deteriorate from 7.3 percent of GDP to 11.3 percent of GDP. However net capital and financial flows of US$ 879.7 million (including the Sovereign bond receipts of USD 350 million and FDI of US$150 million) will allow the achievement of an overall balance of payments surplus of US$94 million. Gross reserves will therefore reach US$ 1,144.2 million at end-2012 equal to about 5.2 months of imports of goods and services.

70. In 2013, a recovery in the export of coffee and minerals is expected. This recovery together with improved performance of non- traditional exports will increase the value of exports by about 9 percent. Reflecting the high demand for imports especially of capital goods for ongoing projects (including KCC), imports in value terms (fob basis) are projected to rise by about 8 percent in 2013. Despite the widening of the trade deficit by about 7 percent in 2013, the expected disbursement of the delayed donor budget support funds in 2013 will result in a slight narrowing of the current account deficit (including official transfers) from 11.3 percent of

GDP in 2012 to 10.2 percent of GDP in 2013. With a slightly reduced capital and financial flows in 2013, the overall balance of payments is projected to close with a deficit of USD 153.5 billion which will be financed with an equivalent draw down of reserves including the unused funds from the sovereign bonds issuance carried over from 2012. As a result, gross official reserves at end-2013 are projected to decline to USD 989 million, which will cover 4.6 months of imports of goods and services.

71. In the medium term, exports in value terms are projected to increase on average by about 8.2 percent a year. This reflects the expected results of the implementation of the comprehensive national export strategy. A large portion of this projected increase will come from non-traditional exports. Imports in value terms will respond to the investment requirements of the country and in the medium term will be expected to rise annually. Mirroring the projected decline in donor budget support grants, the current account balance will be expected to decline gradually in the medium term.

72. Consistent with the on-going improvements in 'doing business" in Rwanda public and private capital flows are expected to increase to partly offset the projected decline in grants. This development will also respond to the expected rise in FDIs to finance private sector projects in many priority areas especially in mining, hotels, banking and retail sectors. The overall balance of payments in the medium term is projected to register small deficits that will be financed with some drawdown of reserves. Official reserves however are expected to remain at comfortable levels–covering four to five months of imports of goods and services.

Medium Term Debt Strategy (Debt Management and DSA)

73. The GoR remains committed to sustainable debt levels while ensuring adequate financing of its development programs. The GoR's overall objectives for the medium term debt strategy are three fold:

- To ensure that the GoR's financing needs and payments obligations within the provisions of the development plans are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk;
- To establish a sustainable debt service profile consistent with the GoR's medium term repayment capacity;
- To promote the maintenance and further development of the market for domestic government securities and diversify the GoR's funding sources by reducing external resources exposure while ensuring that domestic debt sustainability is not compromised.

74. Borrowing both domestically and externally assumes the introduction of a longer maturity bond in domestic currency that can also target the regional market (which is in line with GoR's objectives of domestic securities market development) and the use of non-concessional funding.

75. Rwanda will go to the international debt market before the end of this year to raise US$ 350 million for strategic projects. Some of the funds will be used for early repayment of expensive non-concessional debt by end-December. The remaining balance will be used for additional debt repayment and completion of one project in 2013. With the early repayment of debt, the stock of non-concessional borrowing will only increase by US$ 150 million. The GoR commits to ring fencing the proceeds of the sovereign bond issuance for the purposes identified in this memorandum.

76. A debt sustainability analysis, including the eurobond has been conducted. The analysis reveals that Rwanda's external debt level including the sovereign bonds debt remains sustainable although vulnerable in the presence of shocks to export growth.

F. Statistics and Other Issues

77. The NISR will continue to improve the quality of its economic statistics in general and the national accounts in accordance with the improvement action plan of the national accounts. The NISR has completed the recruitment of the key consultants in agriculture statistics, and they have already undertaken four missions to assess the current situation, review agricultural statistics including sampling methodology and start implementation of the program of seasonal probability surveys. For the period October 2012 to January 2014, the experts will help NISR to conduct and analyse the agriculture survey for the agricultural year 2013 using the new methodology.

78. The results of the recently completed Establishment Census 2011 have been used to select a sample of 950 establishments for the 2011 Business Survey and Non Profit Institutions Survey. Data collection was completed by end-October 2012 (structural benchmark) as planned.

79. The data from these benchmark surveys, combined with other source of data, will be used to develop detailed input-output (I-O) and supply-use tables (SUT) and to rebase the GDP estimates in 2011 constant prices.

80. With the help of IMF East AFRITAC, NISR will rebase the CPI statistics using the results of the EICV3 by end of June 2013. The rebasing of the GDP estimates using 2011 constant prices is expected to be finished by end of December 2013.

Table 1. Rwanda: Quantitative Assessment Criteria and Indicative Targets for End-June 2012
(Billions of Rwandan francs, unless otherwise indicated)[1]

	2012			
	Jun			
	Prog	Adj Prog	Est	Status
Assessment Criteria [2]				
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	421.3	*406.8*	421.5	*met*
Reserve money (ceiling on stock) [5]	173.1	173.1	171.7	*met*
Net domestic financing (ceiling on flow)[4, 6]	**106.8**	*121.3*	145.2	*Not met*
New non-concessional and government guaranteed external debt (US$ millions) (ceiling on stock) [7, 8]	255.0	255.0	219.5	*met*
External payment arrears (US$ millions) (ceiling on stock) [8]	0.0	0.0	0.0	*met*
Indicative Targets				
Domestic revenue collection (floor on flow) [6]	284.7	284.7	307.6	*met*
Net accumulation of domestic arrears (ceiling on flow) [6]	-4.0	-4.0	-5.8	*met*
Consolidated domestic debt of public sector (ceiling on stock, eop) [4,9]	327.6	342.1	215.4	*met*
Total priority spending (floor on flow) [6]	247.2	247.2	301.2	*met*
Memorandum items:				
Total budget support (US$ millions) [6,10]	**139.9**		**115.9**	
Budget support grants (US$ millions)	*139.9*		*115.9*	
General budget grants (US$ millions)	53.6		49.0	
Grants from Global Fund (US$ millions)	86.3		66.9	
Budget support Loans	**0.0**		**0.0**	
Encumbered reserve assets (US$ Millions)	40.0	40.0	40.0	

Sources: Rwandan authorities and IMF staff estimates and projections.

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

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

[3] Numbers for 2010, 2011, and 2012 are at program exchange rates of RWF 571.24, RWF594.45, RWF604.14 per U.S. dollar, respectively.

[4] Subject to adjustors. See TMU for details.

[5] Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. See TMU

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

[7] Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI, and excludes the IFC SWAP agreement of US$50 million as well as US$13.1 million for purchase of two small airplanes both of which were contracted in 2009. It also excludes external borrowing by the Bank of Kigali and Euro 8 million for loan contracted by the Rwanda Development Board (RDB) from the European Investment Bank in September 2011. Effective from the date the Executive Board completes the fourth review under the PSI, the ceiling is no longer tied to specific projects.

[8] This is a continuous assessment criterion.

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

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

Table 2. Status of Structural Benchmarks for 5th Review of PSI

Policy Measure	Target Date	Macroeconomic Rationale	Status
Public financial management			
1. Submit to cabinet for approval a revised public debt policy and MTDS.	End-June 2012	To assess costs and benefits of scaled-up non-concessional f inancing and analyze fiscal risks associated with PPPs.	Not met. Submission to cabinet expected in late November.
2. Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System.	End-September 2012	To improve budget preparation, implementation, and reporting.	Not met. Delayed until April 2013.
Fiscal performance			
3. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially the quarterly budget execution reports will exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Met with delay for June.
4. Introduce electronic tax registers to improve issuance of VAT invoices by taxpayers.	End-May 2012	To improve VAT buoyancy.	Not met. Rwanda Revenue Athourity is ready to launch, awaiting the law in the parliament to be passed and promulgated. Expected in January.
5. Submit to cabinet revised investment code to streamline exemptions.	End-June 2012	To improve revenue performance.	Not met. Part of the revision has been done, construction imports for projects of US$ 1.8 million investment are now taxed at 10% from 5% since July 1, 2012. But the whole revision is still ongoing and is expected to be submitted to cabinet in January.
Monetary sector			
6. Introduce a (fully collaterized) standing short-term lending facility with related interest rate set at a margin above the key repo rate.	End-June 2012	To improve the implementation of monetary policy.	Met.
Financial sector			
7. Approval of investment guidelines by the board of CSR/RAMA.	End-June 2012	To improve the corporate governance of CSR/RAMA and contain potential fiscal liabilities.	Met.
8. Adopt (by NBR) a harmonized credit policy for SACCOs.	End-September 2012	To expedite supervision of the Umurenge SACCOs.	Met.
External sector			
9. Conduct own DSA using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper.	End-July 2012	To enhance ability to monitor debt sustainability in an ongoing manner.	Met with delay. Own DSA was finalized in October 2012.
10. Complete (by NBR) a study to assess exchange rate developments and identify the main determinants of the exchange rate with a view of supporting the implementation of the exchange rate policy and maintaining export competitiveness.	End-September-2012	To improve the implementation of exchange rate policy.	Met.
Statistics			
11. Complete the entreprise survey.	End-October 2012	To improve measurement of GDP.	Met.

Table 3. Rwanda: Quantitative Assessment Criteria and Indicative Targets for end-December 2012[1]
(Billions of Rwandan francs, unless otherwise indicated)

	Dec. 2012 EBS/12/67	Dec. 2012 Rev. targets
Assessment criteria [2]		
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]	513.0	618.8
Of which unused Euro bond proceeds		139.0
Reserve money (ceiling on stock) (upper bound) 5	…	188.4
Reserve money (ceiling on stock) [5]	185.4	184.7
Reserve money (ceiling on stock) (lower bound) 5	…	181.0
Net domestic financing (ceiling on flow)[4, 6]	11.5	-60.0
New nonconcessional and government guaranteed external debt (US$ millions) (ceiling on stock) [7, 8]	255.0	605.0
External payment arrears (US$ millions) (ceiling on stock) [8]	0.0	0.0
Indicative targets		
Domestic revenue collection (floor on flow) [6]	617.7	653.5
Net accumulation of domestic arrears (ceiling on flow) [6]	-8.0	-9.8
Consolidated domestic debt of public sector (ceiling on stock, eop) [4,9]	232.3	189.3
Total priority spending (floor on flow) [6]	516.9	497.0
Memorandum items:		
Total budget support (US$ millions) [6,10]		422.9
Budget support grants (US $millions)		*409.5*
General budget grants (US$ millions) [11/]		279.5
Grants from Global Fund (US$ millions)		130.0
Budget support (loans)		*13.4*
Eurobond (US$ millions)		350.0
Encumbered reserve assets (US$ millions)[12]	71.0	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Assessment criteria are for end-December 2012, otherwise indicative targets.

[3] All numbers are at the program exchange rate of RWF 604.14 per U.S. dollar.

[4] Subject to adjustors. See TMU for details.

[5] Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. Assessment criterion applies. to upper

[6] Numbers for 2012 are cumulative from 12/31/2011, and those for 2013 are cumulative from 12/31/2012.

[7] Cumulative from end-June 2010. The ceiling is untied starting January 1, 2012 and applies to the duration of the three-year PSI. It excludes the IFC SWAP agreement of US$50 million as well as US$13.1 million for purchase of two small airplanes, both of which were contracted in 2009, and external borrowing by the Bank of Kigali.

[8] This is a continuous assessment criterion.

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

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

[11] Includes payments for peace keeping and demobilization for the first half of 2012.

[12] In case of eurobond, this assumes a repayment of the Citi loan for an amount of US$120 million before end-December 2012.

Table 4. Rwanda: Strcutural Benchmarks for 6th Review of PSI

Policy Measure	Target Date	Macroeconomic Rationale
Public financial management		
1. Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System.	End-April 2013	To improve budget preparation, implementation, and reporting.
Fiscal performance		
2. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially the quarterly budget execution reports will exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.
3. Introduce electronic tax registers to improve issuance of VAT invoices by taxpayers	End-January 2013	To improve VAT buoyancy.
4. Submit to cabinet revised investment code to streamline exemptions.	End-January 2013	To improve revenue performance.
Financial sector		
4. Complete the rating of SACCOs and selection of those that qualify for consolidation at district level.	End-December 2012	To expedite supervision of the Umurenge SACCOs.
External sector		
5. Submit to the Industrial Development and Export Council a financing plan for the National Export Strategy.	End-December 2012	To widen the export base of Rwanda.

Attachment II. Technical Memorandum of Understanding

November 20, 2012

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–June 29, 2013 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 12/152.

I. Quantitative Program Targets

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

3. AC will apply to the following indicators for December 31, 2012 (the test date) throughout the program period; other dates are IT:

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

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

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

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

6. **Program exchange rates**. For accounting purposes, the following program exchange rates, which are end-December 2011 rates, apply for 2012:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
	2012
Rwanda Franc (per US$)	604.1410
Euro	1.2866
British Pound	1.5371
Japanese Yen (per US$)	77.7899
SDR	1.5348

A. Institutional Coverage of the Fiscal Sector

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

B. Targets Related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. A ceiling applies to NDF. The ceiling for December 31, 2012 is cumulatively measured from December 31, 2011 is indicated in Table 3. Quantitative Assessment Criteria and Indicative Targets for end-December 2012.

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

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

- Consolidated credit to the government from the banking system (NBR and commercial banks, as recorded in the monetary survey), including credit to the government, provinces and districts. The outstanding consolidated government debt held by the banking system,[1] includes government debt to the NBR amounting to RWF 38.6 billion

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

incurred as a result the overdraft to the prewar government and the 1995 devaluation [2], as well as the current overdraft with the NBR. Credit to the government will exclude treasury bills issued by the NBR for monetary policy purposes, the proceeds of which are sterilized in deposits held as other NBR liabilities.

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

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

12. Grants extended by the Global Fund that are under the control of the central government are programmed at US$200.2 million for 2012, corresponding to RWF 120.9 billion at the program exchange rate.

Adjusters to NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants[3] (defined in Table 2. Quantitative Assessment Criteria and Indicative Targets for end-December 2012), up to a maximum of US$80 million, evaluated in Rwandan francs at the program exchange rate. The ceiling will be adjusted *downward* by the amount of any excess of actual over programmed budgetary grants and loans above US$24 million, evaluated in Rwandan francs at the program exchange rate.

- The ceiling on NDF will be adjusted upward by the extent to which in Rwandan francs at the program exchange rate the proceeds of any sovereign bonds issued before December 31, 2012 less any amount used to retire government-guaranteed external loans of the Kigali Convention Center (KCC) fall short of US$230 million.

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

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

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

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

Floor on flow of domestic revenues

14. A floor applies to domestic revenue. The floor for December 31, 2012 is cumulatively measured from December 31, 2011.

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

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

Floor on priority expenditure

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

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

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

Net accumulation of domestic arrears of the government

20. A ceiling applies to net accumulation of domestic arrears of the government.[4] The ceiling for December 31, 2012 is cumulatively measured from December 31, 2011.

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

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

C. Limits on External Debt

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

23. A ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 3. Quantitative Assessment Criteria and Indicative Targets for end-December 2012 which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC, a loan of US$13.1 million for the purchase of two air planes in 2009, and euro 8 million for loan contracted by the BRD from the European Investment Bank in September 2011. The ceiling also excludes non-concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

Adjuster to the limit on new non-concessional external debt of the public sector

24. The ceiling on the contracting and guaranteeing by the public sector of new non-concessional borrowing debt with nonresidents will be adjusted downwards to the extent to which the proceeds of a sovereign bond issued before end-December 2012 falls short of US$350 million. Additionally, the ceiling will be adjusted downwards by an amount equivalent to any repayment of existing non-concessional external borrowing included under the ceiling, as set out in ¶23 above, such as US$200 million earmarked for the early repayment of guaranteed

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

borrowing by the Kigali Convention Center (US$120 million) and RwandAir ($80 million) in 2012 and 2013.

25. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake—owning more than 50 percent of the shares or the ability to determine general corporate policy.[5] This definition of public sector excludes the Bank of Kigali.

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

27. **Definition of concessionality** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[6] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

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

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

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

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

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

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

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

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

Limit on the stock of external payment arrears

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

Consolidated Domestic Debt of the Public Sector (DD)

30. For program purposes, DD excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 12), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 12.

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

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

D. Targets for Monetary Aggregates

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

32. A floor applies to the NFA of the NBR for December 31, 2012.

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

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants (per footnote 4). This adjustment will be capped at the equivalent of US$80 million, evaluated in Rwanda francs at the program exchange rate. In the case of excess of actual over programmed budgetary loans and grants, the floor of the NFA remains unchanged for the first US$24 million.

Subsequently, the floor will be adjusted upwards by any amount in excess of US$24 million, evaluated in RWF at the program exchange rate.

- The floor on NFA will also be *adjusted upward (downward)* by the amount of shortfall (excess) between actual and programmed encumbered reserve assets, evaluated in Rwanda francs at the program exchange rate.[7]

- The floor on NFA will be adjusted downward by the extent to which in Rwandan francs at the program exchange rate the proceeds of any sovereign bonds issued before December 31, 2012 less any amount used to retire government-guaranteed external loans of the Kigali Convention Center (KCC) fall short of US$230 million.

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

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

Reserve money

34. A ceiling applies to the stock of reserve money for December 31, 2012 as indicated in Table 3. Quantitative Assessment Criteria and Indicative Targets for End-December 2012. The ceiling is the upper bound of a reserve money band (set at+/- 2 percent) around a central reserve money target).

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

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

[7] The programmed amount of encumbered reserve assets stands at zero at December 2012.

Adjuster:

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

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

II. Other Data Reporting Requirements

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

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

Table 1. Summary of Reporting Requirements

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

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

APPENDIX II. RWANDA: EXTERNAL STABILITY ASSESSMENT

<table>
<tr><td>Current account</td><td>Background: Improvements in cash crop production have raised export volumes in recent years, but investment needs have led to a persistent deficit. The narrow export base makes Rwanda vulnerable to commodity price movements. Aid flows cover the bulk of the deficit.
Assessment: Structural reforms to improve export capacity are crucial. Investment projects need to be prioritized in order to manage risks.</td><td rowspan="5">Overall assessment: The external position does not show immediate risks but medium-term challenges need to be addressed. Rwanda remains vulnerable to external shocks, including aid shortfalls and commodity price fluctuations. Strong program performance and improvements in capacity suggest there is greater capacity to assume greater non-concessional borrowing over the medium term.

Policy priorities: A gradual transition to a more market-determined exchange rate regime would be desirable, both to improve the conduct of monetary policy and support efforts to enhance export competitiveness. While borrowing remains low and sustainable under most scenarios, the authorities should use their capacity to tap non-concessional resources prudently. This would include a careful vetting of projects, with priority placed on necessary improvements where public sector involvement would yield the greatest benefit.</td></tr>
<tr><td>Real exchange rate</td><td>Background: Unlike elsewhere in the EAC, the NBR has kept the nominal USD-RWF rate relatively stable.
Assessment: The CGER assessment finds that the real exchange rate to be broadly in line with medium-term fundamentals, though there is some evidence that it may be overvalued.</td></tr>
<tr><td>Capital account and financial flows</td><td>Background: Aid continues to form the bulk of capital flows, and the overall BOP expected to record a surplus in 2012. In recent weeks, major donors delayed part of their disbursements in light of a UN report examining Rwanda's role in the conflict in DR Congo. Thus far, donors have not withdrawn support. The authorities have provided guarantees for non-concessional foreign borrowing, though these remain well within agreed limits.
Assessment: Barring unexpected developments arising from the UN's investigations, near-term prospects for aid are unchanged. However, support from traditional donors is likely to diminish in the future as Rwanda approaches middle-income status. On the other hand, Rwanda could tap funds from non-traditional donors, as well as accessing concessional resources from multilateral donors.</td></tr>
<tr><td>International reserves</td><td>Background: Rwanda 's reserves are projected to cover 5.1 months of imports and are expected to remain above 4 months over the medium term.
Assessment: The reserve levels appear adequate. A more flexible exchange rate setting could reduce the pressure on the NBR to maintain a relatively high level of reserves compared to its EAC peers.</td></tr>
<tr><td>Debt sustainability</td><td>Background: With HPIC completion, Rwanda's debt position is sustainable. The most recent DSA update reaffirmed Rwanda as being at moderate risk of debt distress. The authorities have provided guarantees for non-concessional foreign borrowing, though these remain well within agreed limits.
Assessment: A preliminary DSA confirms that Rwanda remains vulnerable to export shocks. However, the thresholds used to assess debt distress have been raised due to an improvement in Rwanda's institutional capacity. As a result, both the magnitude and length of the breach is lower.</td></tr>
</table>

APPENDIX III. RWANDA: DEBT SUSTAINABILITY ANALYSIS, 2012-2032

Appendix Table 1. External Debt Sustainability Framework Baseline Scenario, 2009-2032

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2012-2017			2018-2032
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
External debt (nominal) 1/	**15.0**	**17.9**	**21.7**			**21.6**	**20.7**	**20.7**	**20.5**	**20.0**	**19.2**		**22.8**	**26.3**	
o/w public and publicly guaranteed (PPG)	14.9	14.8	18.4			21.3	20.4	20.3	20.1	19.5	18.7		21.9	24.2	
Change in external debt	0.3	2.9	3.8			-0.2	-0.9	0.0	-0.2	-0.5	-0.8		0.6	-0.7	
Identified net debt-creating flows	3.5	4.2	3.5			7.6	7.2	5.9	3.5	2.6	2.0		0.9	-3.6	
Non-interest current account deficit	**6.5**	**5.7**	**7.1**	**2.2**	**4.0**	**10.7**	**9.4**	**8.4**	**6.2**	**5.4**	**5.0**		**4.4**	**0.0**	3.1
Deficit in balance of goods and services	18.0	18.4	20.2			21.8	20.1	16.8	13.5	12.2	11.3		9.3	5.3	
Exports	11.0	10.8	14.0			13.9	13.8	13.7	14.0	14.3	14.6		16.3	19.8	
Imports	29.0	29.2	34.3			35.7	33.9	30.5	27.5	26.5	25.9		25.7	25.2	
Net current transfers (negative = inflow)	-11.4	-13.3	-13.8	-12.5	1.5	-11.5	-11.3	-9.0	-7.9	-7.3	-6.7		-5.4	-5.8	-5.5
o/w official	-9.9	-11.6	-11.4			-9.6	-9.6	-7.3	-6.3	-5.7	-5.2		-3.8	-4.2	
Other current account flows (negative = net inflow)	-0.1	0.6	0.7			0.5	0.7	0.6	0.7	0.5	0.4		0.5	0.5	
Net FDI (negative = inflow)	**-2.3**	**-0.8**	**-1.7**	**-1.1**	**0.9**	**-2.2**	**-1.6**	**-1.8**	**-1.9**	**-2.0**	**-2.1**		**-2.4**	**-2.4**	-2.4
Endogenous debt dynamics 2/	**-0.8**	**-0.8**	**-1.9**			**-0.9**	**-0.7**	**-0.7**	**-0.8**	**-0.8**	**-0.8**		**-1.0**	**-1.2**	
Contribution from nominal interest rate	0.8	0.2	0.2			0.6	0.8	0.6	0.6	0.5	0.5		0.4	0.5	
Contribution from real GDP growth	-0.8	-1.0	-1.3			-1.5	-1.5	-1.4	-1.3	-1.3	-1.3		-1.4	-1.7	
Contribution from price and exchange rate changes	-0.7	0.0	-0.8			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-3.2**	**-1.2**	**0.3**			**-7.8**	**-8.1**	**-5.9**	**-3.7**	**-3.1**	**-2.8**		**-0.3**	**3.0**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	18.6			19.4	18.1	17.8	17.1	16.3	15.3		17.6	20.8	
In percent of exports	...	...	132.2			138.9	131.8	130.3	122.0	113.7	105.4		107.6	105.1	
PV of PPG external debt	**...**	**...**	**15.3**			**19.1**	**17.8**	**17.5**	**16.7**	**15.8**	**14.8**		**16.7**	**18.7**	
In percent of exports	**...**	**...**	**108.6**			**136.8**	**129.5**	**127.6**	**119.1**	**110.6**	**102.0**		**102.6**	**94.4**	
In percent of government revenues	**...**	**...**	**104.7**			**129.7**	**122.0**	**116.0**	**110.5**	**102.9**	**94.9**		**102.9**	**108.0**	
Debt service-to-exports ratio (in percent)	**8.5**	**3.5**	**4.9**			**25.9**	**14.9**	**12.5**	**12.2**	**11.4**	**10.7**		**10.6**	**15.5**	
PPG debt service-to-exports ratio (in percent)	**2.6**	**3.1**	**2.6**			**22.9**	**11.5**	**8.9**	**8.5**	**7.6**	**6.8**		**5.8**	**5.9**	
PPG debt service-to-revenue ratio (in percent)	**2.1**	**2.5**	**2.5**			**21.7**	**10.8**	**8.1**	**7.9**	**7.1**	**6.3**		**5.9**	**6.8**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.3	0.4			0.9	0.8	0.7	0.6	0.5	0.5		0.8	1.0	
Non-interest current account deficit that stabilizes debt ratio	6.2	2.8	3.2			10.9	10.3	8.4	6.4	5.9	5.8		3.8	0.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.2	7.2	8.3	8.2	3.4	7.7	7.6	7.2	7.0	7.0	7.0	7.2	7.0	7.0	7.0
GDP deflator in US dollar terms (change in percent)	5.4	-0.1	4.7	5.9	7.5	1.3	3.8	1.8	1.9	2.0	2.4	2.2	2.0	2.0	2.0
Effective interest rate (percent) 5/	6.1	1.4	1.3	3.4	2.3	2.9	4.1	3.2	3.0	2.8	2.5	3.1	1.9	2.1	2.0
Growth of exports of G&S (US dollar terms, in percent)	-16.2	5.5	47.3	18.7	25.9	8.3	10.2	8.7	11.6	11.3	11.5	10.3	11.5	11.1	11.4
Growth of imports of G&S (US dollar terms, in percent)	8.6	7.8	33.1	18.9	14.7	13.7	6.0	-1.7	-1.7	5.2	6.9	4.8	8.9	8.9	8.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-9.1	20.3	21.7	35.0	36.7	35.7	23.4	24.1	20.4	23.1
Government revenues (excluding grants, in percent of GDP)	13.3	13.5	14.6			14.7	14.6	15.1	15.1	15.4	15.6		16.3	17.3	16.6
Aid flows (in Billions of US dollars) 7/	0.7	0.8	0.8			0.9	0.8	0.8	0.9	0.9	0.8		1.1	2.0	
o/w Grants	0.6	0.8	0.8			0.9	0.8	0.7	0.8	0.7	0.7		0.8	1.6	
o/w Concessional loans	0.1	0.1	0.1			0.0	0.0	0.1	0.2	0.2	0.2		0.3	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			12.0	11.0	9.1	9.1	7.9	6.8		5.2	4.3	5.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			63.2	85.5	83.1	85.7	86.9	87.2		70.3	73.2	69.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.3	5.6	6.4			7.0	7.8	8.5	9.2	10.1	11.0		17.1	41.0	
Nominal dollar GDP growth	11.9	7.1	13.3			9.1	11.7	9.1	9.0	9.1	9.6	9.6	9.1	9.1	9.1
PV of PPG external debt (in Billions of US dollars)			0.9			1.2	1.3	1.4	1.5	1.5	1.6		2.7	7.3	
(PVt-PVt-1)/GDPt-1 (in percent)						4.8	0.8	1.2	0.9	0.6	0.5	1.5	1.8	1.0	1.8
Gross workers' remittances (Billions of US dollars)	0.1	0.1	0.2			0.2	0.2	0.2	0.2	0.3	0.3		0.4	1.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.8			18.5	17.3	17.0	16.3	15.4	14.5		16.3	18.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	89.0			113.0	108.0	107.2	100.5	93.6	87.1		89.1	83.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			18.9	9.6	7.4	7.1	6.4	5.8		5.1	5.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Appendix Table 2. Sensitivity Analysis for Key Indicators of Public and Guaranteed External Debt, 2012-32

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	19	18	17	17	16	15	**17**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	19	10	5	2	0	-1	**0**	21
A2. New public sector loans on less favorable terms in 2012-2032 2	19	18	18	18	18	18	**23**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	19	17	17	17	16	15	**17**	19
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	19	19	21	21	19	18	**19**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	19	18	18	17	16	15	**17**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	19	18	17	17	16	15	**16**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	19	18	18	17	16	15	**17**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	19	24	23	22	21	20	**22**	25
PV of debt-to-exports ratio								
Baseline	137	129	128	119	111	102	**103**	94
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	137	76	39	17	3	-7	**1**	104
A2. New public sector loans on less favorable terms in 2012-2032 2	137	130	132	131	127	121	**141**	149
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	137	122	120	113	105	97	**97**	89
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	137	160	218	204	189	175	**159**	130
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	137	122	120	113	105	97	**97**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	137	131	125	118	110	101	**100**	90
B5. Combination of B1-B4 using one-half standard deviation shocks	137	135	133	125	116	107	**106**	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	137	122	120	113	105	97	**97**	89
PV of debt-to-revenue ratio								
Baseline	130	122	116	111	103	95	**103**	108
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	130	72	35	16	3	-6	**1**	119
A2. New public sector loans on less favorable terms in 2012-2032 2	130	123	120	122	118	113	**141**	170
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	130	118	114	110	102	95	**102**	108
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	130	127	142	136	127	117	**115**	107
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	130	121	119	114	106	98	**107**	112
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	130	124	114	109	102	94	**100**	103
B5. Combination of B1-B4 using one-half standard deviation shocks	130	125	116	112	104	96	**103**	106
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	130	161	153	147	137	127	**137**	144

Appendix Table 3. Sensitivity Analysis for Key Indicators of Public and Guaranteed External Debt, 2012–32 (continued)

Debt service-to-exports ratio								
Baseline	23	11	9	8	8	7	**6**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	23	11	7	6	5	4	**1**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	23	11	4	6	6	5	**6**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	23	11	9	8	8	7	**6**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	23	14	13	13	11	10	**10**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	23	11	9	8	8	7	**6**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	23	11	9	9	8	7	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	23	12	10	9	8	7	**6**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	23	11	9	8	8	7	**6**	6
Debt service-to-revenue ratio								
Baseline	22	11	8	8	7	6	**6**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	22	11	7	6	4	4	**1**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	22	11	4	5	5	5	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	22	11	8	8	7	7	**6**	7
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	22	11	8	9	8	7	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	22	11	9	9	8	7	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	22	11	8	8	7	6	**6**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	22	11	8	8	7	7	**6**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	22	15	11	11	10	9	**8**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	**14**	14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix Table 4. Public Sector Debt Sustainability Framework, Baseline Scenario, 2009–32

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	27.0	28.2	30.0			38.9	35.7	33.0	29.6	28.1	26.6		28.6	29.5	
o/w foreign-currency denominated	14.9	14.8	18.4			21.3	20.4	20.3	20.1	19.5	18.7		21.9	24.2	
Change in public sector debt	5.7	1.2	1.8			8.9	-3.3	-2.6	-3.5	-1.5	-1.4		0.3	-0.9	
Identified debt-creating flows	-0.5	-1.4	-4.5			1.3	-1.3	0.7	-1.5	-1.1	-1.2		0.2	-0.4	
Primary deficit	0.7	0.0	-0.3	0.6	1.4	3.0	2.9	3.3	1.2	1.0	0.9	2.0	2.2	1.7	2.0
Revenue and grants	25.2	27.3	26.4			27.3	25.1	23.7	23.4	22.6	21.9		20.8	21.2	
of which: grants	12.0	13.9	11.8			12.6	10.5	8.6	8.3	7.2	6.3		4.5	3.9	
Primary (noninterest) expenditure	25.9	27.3	26.1			30.3	28.0	27.0	24.6	23.6	22.8		23.0	22.9	
Automatic debt dynamics	-1.6	-1.8	-3.3			-1.7	-4.4	-2.6	-2.7	-2.1	-2.1		-2.0	-2.1	
Contribution from interest rate/growth differential	-1.3	-1.9	-2.9			-2.1	-3.7	-2.5	-2.4	-2.0	-2.0		-2.0	-2.1	
of which: contribution from average real interest rate	-0.1	-0.1	-0.7			0.0	-1.0	-0.1	-0.2	0.0	-0.2		-0.2	-0.1	
of which: contribution from real GDP growth	-1.3	-1.8	-2.2			-2.1	-2.7	-2.4	-2.2	-1.9	-1.8		-1.8	-2.0	
Contribution from real exchange rate depreciation	-0.3	0.2	-0.5			0.5	-0.6	-0.2	-0.3	-0.2	-0.1		...	...	
Other identified debt-creating flows	0.4	0.4	-0.9			0.0	0.2	0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	...	0.0	-1.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.4	0.4	0.3			0.0	0.2	0.1	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.2	2.6	6.3			7.6	-1.9	-3.3	-2.0	-0.4	-0.3		0.1	-0.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	26.8			36.7	33.1	30.2	26.2	24.4	22.8		23.4	24.0	
o/w foreign-currency denominated	...	...	15.3			19.1	17.8	17.5	16.7	15.8	14.8		16.7	18.7	
o/w external	...	...	15.3			19.1	17.8	17.5	16.7	15.8	14.8		16.7	18.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.2	3.5	4.1			9.8	10.7	10.5	7.4	5.9	5.4		6.1	5.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	101.5			134.4	132.0	127.7	112.2	108.1	104.2		112.4	113.0	
PV of public sector debt-to-revenue ratio (in percent)	…	…	183.8			249.6	227.0	200.5	173.6	158.6	145.9		143.5	138.7	
o/w external 3/	…	…	104.7			129.7	122.0	116.0	110.5	102.9	94.9		102.9	108.0	
Debt service-to-revenue and grants ratio (in percent) 4/	2.1	2.3	2.4			12.3	6.8	6.6	6.5	6.2	5.9		5.6	6.4	
Debt service-to-revenue ratio (in percent) 4/	4.0	4.7	4.4			22.8	11.8	10.4	10.1	9.2	8.3		7.1	7.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.0	-1.2	-2.0			-6.0	6.2	5.9	4.6	2.5	2.4		1.9	2.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.2	7.2	8.3	8.2	3.4	7.7	7.6	7.2	7.0	7.0	7.0	7.2	7.0	7.0	7.0
Average nominal interest rate on forex debt (in percent)	1.1	1.0	1.0	1.1	0.2	2.6	3.1	2.3	2.2	2.0	1.8	2.3	1.5	1.7	1.6
Average real interest rate on domestic debt (in percent)	-1.1	-1.0	-4.7	-3.5	2.8	-2.6	-8.6	-2.3	-3.2	-1.5	-1.6	-3.3	-1.6	-1.1	-1.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.9	1.3	-3.3	-4.0	8.8	2.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.3	3.8	7.4	10.1	7.0	4.3	10.4	5.1	6.5	5.4	5.7	6.2	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	-9.1	20.3	21.7	35.0	36.7	35.7	23.4	24.1	20.4	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Appendix Table 5. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt, 2012–32

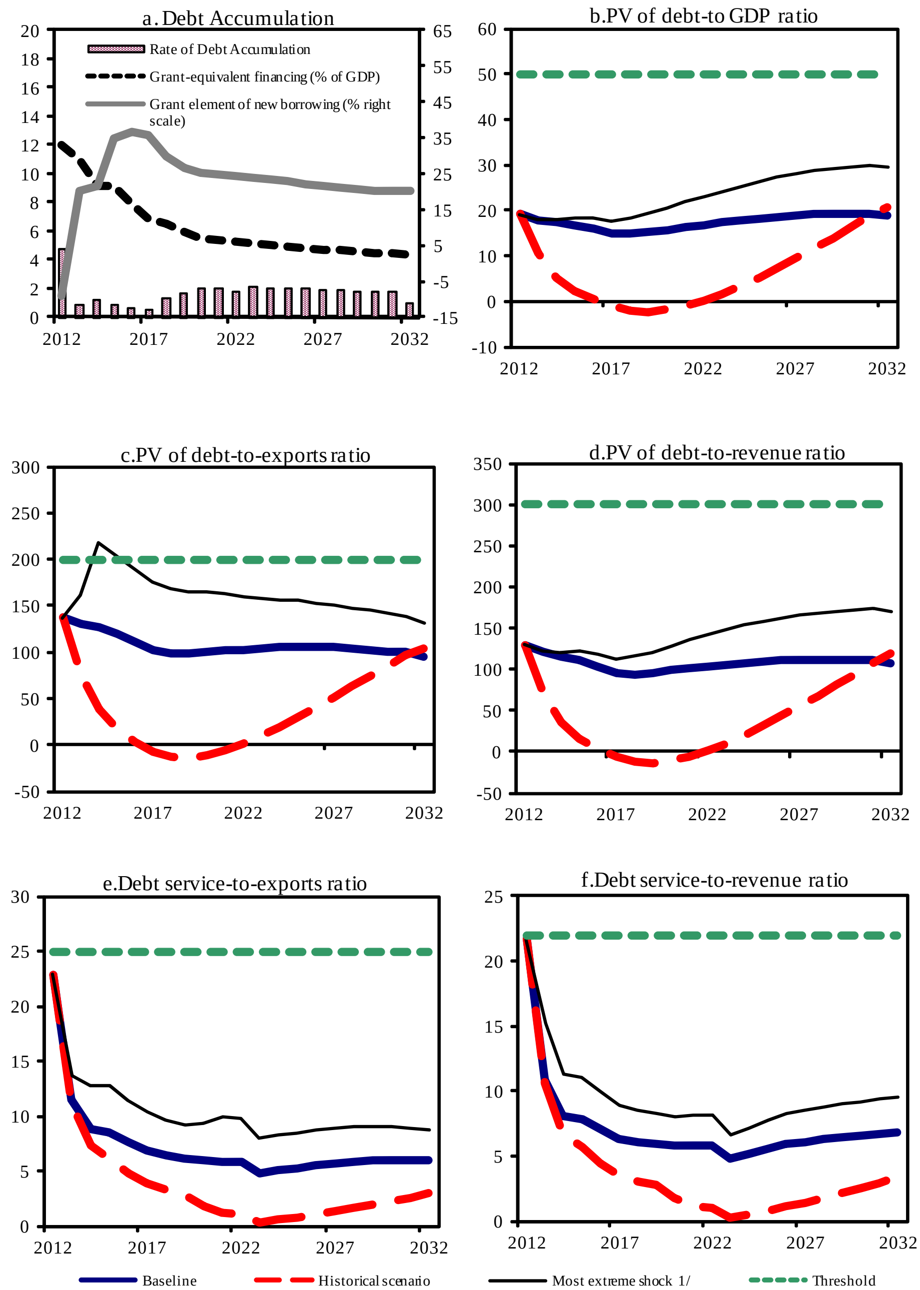
		Projections						
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	37	33	30	26	24	23	23	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	31	26	21	19	18	13	10
A2. Primary balance is unchanged from 2012	37	33	30	28	27	27	30	35
A3. Permanently lower GDP growth 1/	37	33	31	27	26	25	30	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	37	34	33	29	28	27	29	33
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	37	32	28	25	23	21	22	23
B3. Combination of B1-B2 using one half standard deviation shocks	37	32	28	24	23	21	23	26
B4. One-time 30 percent real depreciation in 2013	37	41	38	33	30	28	27	27
B5. 10 percent of GDP increase in other debt-creating flows in 2013	37	42	38	34	31	29	28	26
PV of Debt-to-Revenue Ratio 2/								
Baseline	134	132	128	112	108	104	112	113
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	134	124	109	92	86	81	66	47
A2. Primary balance is unchanged from 2012	134	132	127	118	121	125	145	164
A3. Permanently lower GDP growth 1/	134	133	130	116	114	113	140	200
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	134	135	136	122	121	120	140	156
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	134	129	120	105	101	98	107	110
B3. Combination of B1-B2 using one half standard deviation shocks	134	127	116	102	100	97	112	123
B4. One-time 30 percent real depreciation in 2013	134	164	159	140	134	129	129	128
B5. 10 percent of GDP increase in other debt-creating flows in 2013	134	166	161	144	139	134	136	125
Debt Service-to-Revenue Ratio 2/								
Baseline	12	7	7	7	6	6	6	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	7	6	6	6	5	4	3
A2. Primary balance is unchanged from 2012	12	7	7	7	6	6	6	8
A3. Permanently lower GDP growth 1/	12	7	7	7	6	6	6	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	12	7	7	7	7	6	6	8
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	12	7	7	6	6	6	5	6
B3. Combination of B1-B2 using one half standard deviation shocks	12	7	7	6	6	6	5	7
B4. One-time 30 percent real depreciation in 2013	12	9	9	9	9	8	8	10
B5. 10 percent of GDP increase in other debt-creating flows in 2013	12	7	7	8	7	7	7	7

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

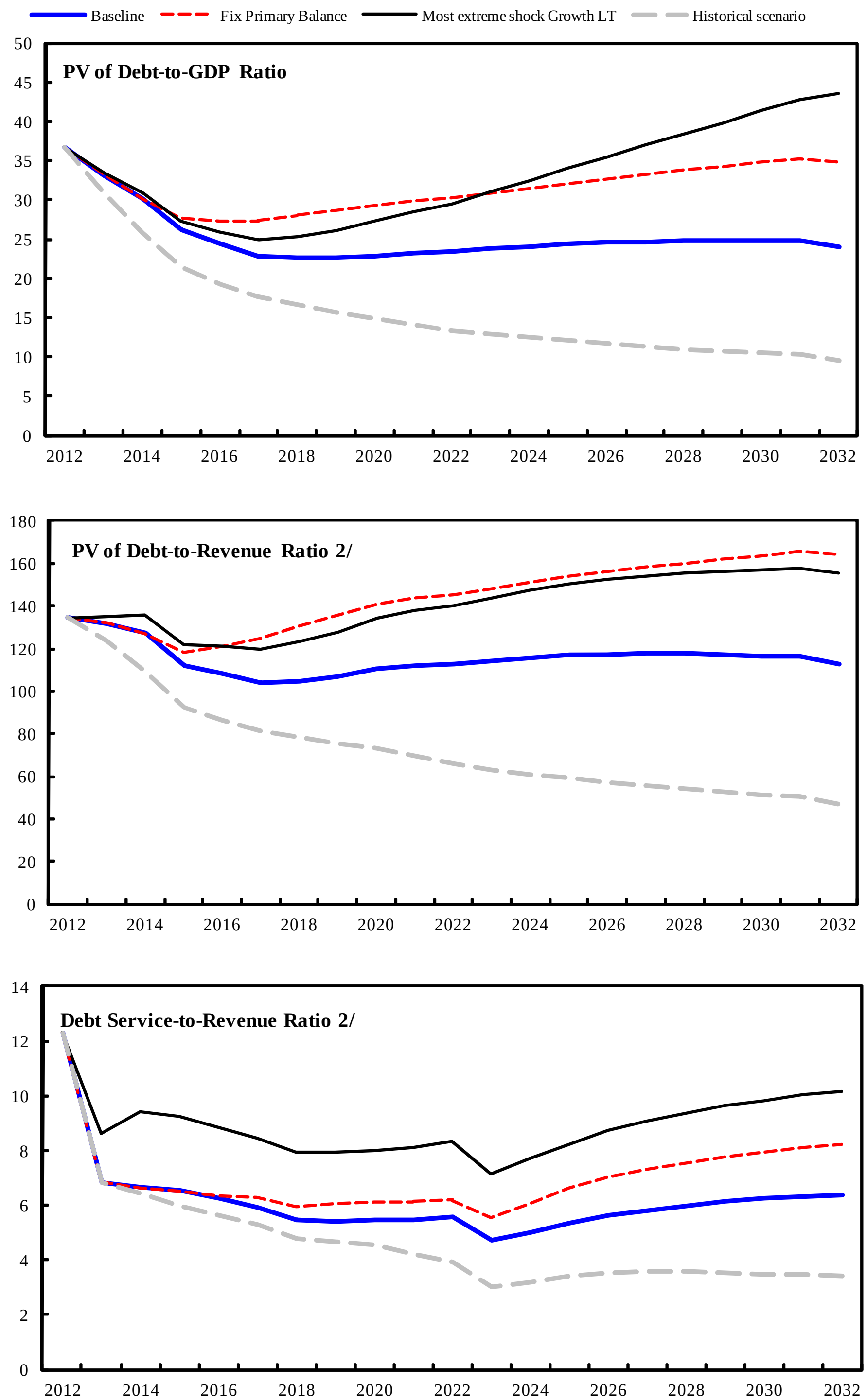
Appendix Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2012–32



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Terms shock; in c. to a Exports shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Appendix Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2012–32



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Appendix IV. Rwanda: Millennium Development Goals [1]

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*87*	87	84	84	85
Employment to population ratio, ages 15-24, total (%)	*79*	80	73	73	73
Income share held by lowest 20%	..	..	5	..	
Malnutrition prevalence, weight for age (% of children under 5)	*24*	..	20	18	11
Poverty gap at $1.25 a day (PPP) (%)	..	..	38	..	
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	78	77	57	45
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	77	..	..
Literacy rate, youth male (% of males ages 15-24)	..	..	79	..	..
Primary completion rate, total (% of relevant age group)	0	..	22	*40*	70
Total enrollment, primary (% net)	66	70	*76*	*82*	99
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	17	*17*	17	49	56
Ratio of female to male primary enrollment (%)	97	..	97	103	102
Ratio of female to male secondary enrollment (%)	71	..	94	88	102
Ratio of female to male tertiary enrollment (%)	22	..	48	62	77
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	83	84	74	89	82
Mortality rate, infant (per 1,000 live births)	103	122	68	46	42
Mortality rate, under-5 (per 1,000)	171	241	180	108	60
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	*26*	..	31	39	69
Contraceptive prevalence (% of women ages 15-49)	*21*	*14*	13	17	52
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,100	1,400	1,100	720	476
Pregnant women receiving prenatal care (%)	*94*	..	92	94	98
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	13	12	11
Incidence of tuberculosis (per 100,000 people)	170	240	350	420	106
Prevalence of HIV, total (% of population ages 15-49)	9	7	5	3	..
Tuberculosis case detection rate (all forms)	54	23	22	19	..
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	13	13	14	20	18
Improved sanitation facilities (% of population with access)	23	32	40	49	55
Improved water source (% of population with access)	68	67	67	66	75
Terrestrial protected areas (% of total surface area)	..	..	..	8	10
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	40	128	40	64	97
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	10	20	25	4	3
Internet users (per 100 people)	0	*0*	0	1	8
Mobile cellular subscriptions (per 100 people)	0	0	0	2	33
Other					
Fertility rate, total (births per woman)	7	6	6	6	5
GNI per capita, Atlas method (current US$)	360	230	250	250	520
GNI, Atlas method (current US$) (billions)	3	1	2	2	..
Life expectancy at birth, total (years)	33	29	43	48	55
Literacy rate, adult total (% of people ages 15 and above)	*58*	..	65	..	..
Trade (% of GDP)	20	31	34	37	41

Source: World Development Indicators

[1] Figures in italics refer to periods other than those specified.

RWANDA

November 20, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—INFORMATIONAL ANNEX

Prepared By | The African Department

CONTENTS

RELATIONS WITH THE FUND

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	80.10	100.00
Fund holdings of currency	80.11	100.02
Reserve Tranche Position	0.00	0.00

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	76.82	100.00
Holdings	82.59	107.51

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements[11]	8.75	10.93

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	June 12, 2006	August 07, 2009[12]	8.01	8.01
PRGF	August 12, 2002	June 11, 2006	4.00	4.00
PRGF	June 24, 1998	April 30, 2002	71.40	61.88

VI. Projected Payments to Fund[13]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.17	1.14	1.60	1.89	1.55
Charges/Interest	0.00	0.00	0.02	0.01	0.01
Total	0.17	1.14	1.61	1.90	1.55

[11] Now known as Extended Credit Facility (ECF).

[2] On June 4, the PRGF was extended from June 11, 2009 to August 14, 2009, to allow time for the completion of the sixth and final review, and for making the final disbursement under the PRGT arrangement.

[13] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Enhanced framework

I. Commitment of HIPC assistance	
Decision point date	December 2000
Assistance committed by all creditors (US$ million) [14]	695.50
Of which: IMF assistance (US$ million)	63.40
(SDR equivalent in millions)	46.79
Completion point date	April 2005
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed	46.79
Interim assistance	14.45
Completion point balance	32.34
Additional disbursement of interest income[15]	3.77
Total disbursements	50.56

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.

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 4 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

[14] 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 cannot be added.

[15] 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.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

I. MDRI -eligible debt (SDR Million)[1]	52.74
Financed by: MDRI Trust	20.19
Remaining HIPC resources	32.55

II. Debt Relief by Facility (SDR million)

Delivery Date	GRA	PRGT	Total
January 2006	N/A	52.74	52.74

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Safeguards Assessments:

The 2007 safeguards update assessment noted that since 2003, the National Bank of Rwanda (NBR) strengthened its own safeguards: External audits were completed on time, the Committee of Auditors became operational, and the Internal Audit Department helped in the strengthening of controls over monetary program data. The update assessment's priority recommendations concerned timely publication of the audited financial statements, further improving external audit arrangements, and conformity with of IFRS. Safeguards policy does not require an update safeguards assessment in the case of the non-financial arrangement with the Fund. However, such assessment may be voluntary requested by the country, and the NBR has made a formal request for the update assessment.

XI. Exchange System:

The currency of Rwanda is the Rwandan franc. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF and maintains a system free of restrictions on the making of payments and transfers for current international transactions. As of October 31, 2012, the official exchange rate was RWF 627.2 per U.S. dollar. The exchange rate has depreciated slightly since end-2011. The de facto exchange rate regime is currently classified as **crawl like** and the de jure as **floating**. With effect from December 27, 2010, the official exchange rate is the weighted average computed from a previous foreign exchange interbank market transaction and an intervention transaction by the National Bank of Rwanda (NBR). The Average Reference Rate, formerly used for the official exchange rate, was eliminated. The NBR applies a margin of +/-0.8 percent to the official rate to derive a customer rate. With a view to introducing more flexibility in its exchange rate policy, since March 24, 2010, NBR introduced an exchange rate corridor framework.

XII. Article IV Consultation:

[1] 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).

Rwanda is on the revised 24-month consultation cycle. The Executive Board discussed the staff report for the 2010 Article IV consultation (IMF Country Report No. 11/19) on December 20, 2010.

XIII. 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, and a FSAP update was completed in June 2011. Rwanda has not had an Offshore Financial Center (OFC) assessment.

XIV. Policy Support Instrument (PSI):

A three-year PSI program was approved on June 16, 2010, with an effective date of June 30, 2010. The second review and the third review under the PSI were completed on June 23, 2011 and January 9, 2012, respectively, while the fourth review was completed on June 6, 2012**XV. Technical Assistance and Future Priorities:**

List of Technical Assistance Missions (2011–2012)

2011 STA/AFRITAC East mission on national accounts statistics.
2011 MCM mission on payment systems oversight.
2011 STA mission on improving quality of fiscal data.
2011 FAD mission on improving customs administrative efficiency
2011 FAD mission on financial manual-legal requirements alignment
2011 STA mission on national accounts statistics
2011 MCM mission on strengthening regulatory framework
2011 FAD mission on strengthening HQ functions and customs risks management
2011 FAD mission on improving consistency of microeconomic databases
2011 FAD mission on tax administrative reform priorities for tax compliance
2011 FAD mission on regional workshop on strengthening systems and structures
2011 FAD mission on gaps and options of public financial aid
2011 FAD mission on tax administration capacity for auditing
2011 FAC mission on TSA project
2011 MCM mission on developing a medium term debt management strategy
2011 MCM mission on enhancing monetary operations, foreign exchange operations and markets, and banking supervision
2011 FAD mission on review of Organic Budget Law
2012 STA mission on trade price indices
2012 MCM mission on developing AML/CFT offsite tools
2012 STA mission on quarterly national accounts
2012 FAD mission on TSA project follow-up
2012 STA mission on developing a framework for market risk
2012 FAD mission on development of TSA project
2012 STA mission on balance of payment statistics follow-up
2012 FAD mission on program budgeting
2012 FAD mission on establishment of tax administration reform priorities
2012 FAD mission on smart IFMIS follow-up
2012 FAD mission on macroeconomic framework capacity

2012 mission on development of reporting guidelines for annual reports
2012 STA mission on consumer price index
2012 MCM mission on monetary operations, liquidity management and money markets development
2012 FAD mission on enhancing revenue mobilization through tax policy and revenue administration reform

Future priorities

The priorities for the Fund's technical assistance will remain in the area of monetary and exchange rate management, supervision of bank and nonbank financial institutions, public finance management, tax policy and administration, and compilation of national account statistics.

XVI. Resident Representative:

Ms. Farahbaksh Mitra assumed her duties as Resident Representative in August 2012.

XVII. Management Visit:

The Director of the African Department, Ms Antoinette M Sayeh, visited Rwanda during July 19 – 20, 2012.

RWANDA: JOINT BANK-FUND WORK PROGRAM

JUNE 2012–JULY 2013

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	I. Mutual Information on Relevant Work Program		
Bank Work Program	A. Strategy and Analytical Work		
	Country Assistance Strategy		May 2013
	Rwanda Economic Updates		Ongoing
	Employment and Growth Policy		May 2013
	Rwanda Land Sector Study		June 2013
	B. Ongoing and New Projects		
	Poverty Reduction Support Financing (PRSG 9)		Pending
	Electricity Access (Additional Financing)		December 2012
	Second Support to Social Protection Systems		March 2013

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	Feeder Roads Development Project		May 2013
	Third Rural Sector Support Project		Ongoing
	Statistics for Results Project		Ongoing
	Governance and Competitiveness TA Project		Ongoing
	Economic Empowerment of Young Women		Ongoing
	Skills Development Project		Ongoing
	Second Emergency Demobilization and Reintegration Project		Ongoing
	Land Husbandry, Water Harvesting, and Hillside Irrigation		Ongoing
	Rwanda Electricity Access Scale-up and Sector-wide approach Project		Ongoing
	Sustainable Energy Development Project (GEF)		Ongoing
	Transport Sector Development Project		July 2013
	Regional Rusumo Hydroelectricity Project		Ongoing
	L.Victoria Environment Management Project (Ph. 2)		Ongoing
	EAC Financial Sector Development and Regionalization Project		Ongoing
	East Africa Public Health Laboratories Networking Project		Ongoing
	Regional Communications Infrastructure Project		Ongoing
	East Africa Trade and Transport Facilitation Project		
IMF Work Program		A. Missions	
	Fourth Review Under the Policy Support Instrument	March 2012	June 2012
	Article IV and Fifth Review Under the Policy Support Instrument	October 2012	December 2012
	Sixth Review Under the Policy Support	March 2013	June 2013

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
	Instrument		
		B. Analytical Work	
	Review of Relevant Country Experiences in Transitioning from Monetary to Inflation Targeting		November 2012
	Assessing Shock Spillovers in EAC Foreign Exchange Markets		November 2012
	The Investment-Financing-Growth Nexus		November 2012
		B. Analytical Work	
	Developing a Forecasting and Policy Analysis Tool for Rwanda		March 2013
		C. Technical Assistance	
	Fiscal: Enhancing Revenue Mobilization Through Tax Policy and Revenue Administration Reform		October 2012
	Monetary: Monetary operations; liquidity management and money markets development		September 2012
	Statistics: Consumer Price Index		September 2012
	II. Request for Work Program Inputs		
Bank Request to Fund	Impact of the global economic crisis on key macro indicators and growth in Rwanda		Ongoing
	Sharing macro-framework updates		As needed
Fund Request	Assessment of key infrastructure projects undertaken by the government.		As needed

Title	Products/Activity	Timing of mission (if relevant)	Expected delivery date
to Bank	Assessment of the PFM and public service reform program.		As needed

III. Agreement on Joint Products

Joint products	Joint Staff Advisory Note (JSAN) on the second Economic Development and Poverty Reduction Strategy (EDPRS2)	March – April 2013

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/30
FOR IMMEDIATE RELEASE
March, 19, 2013

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with Rwanda

On November 28, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Rwanda.[17]

Background

Rwanda has been an economic success story. Real gross domestic product (GDP) growth averaged above 8 percent per year in the last decade; inflation has been subdued since 2009; foreign reserves have been kept at adequate levels; poverty based on the household living conditions survey declined from about 57 percent in 2005/06 to below 45 percent in 2010/11; and income inequality declined notably.

Macroeconomic developments have been generally favorable this year. The Rwandan economy grew by 8.6 percent year-on-year in the first half of 2012, driven by the construction and services sectors. Headline inflation declined to 5.4 percent in October 2012, mainly in response to slowing import prices for food and petroleum products while core inflation was down to 2.5 percent.

The current account deficit has widened due to strong import growth and delays in aid inflows. Exports of goods and services have remained strong in 2012, as rising mineral exports and markedly higher tea prices have more than offset lower prices for a number of traditional exports, including coffee. Meanwhile, imports have increased rapidly, driven by higher imports

---

[17] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

of capital goods and materials for the construction sector. Moreover, aid delays have resulted in lower official transfers. As a result, the current account deficit (including aid inflows) has widened and, for 2012, is estimated to reach 11.3 percent of GDP.

Fiscal consolidation continued in the July 2011-June 2012 fiscal year. The overall fiscal deficit (cash basis, after grants), was 0.7 percent of GDP lower than targeted, as a result of greater-than-projected revenue and lower spending. The higher revenue reflected higher income tax revenue due to unexpectedly large clearance of arrears, as well as higher revenue from taxes on goods and services and international trade (boosted by higher imports). On the spending side, higher-than-budgeted current spending, mainly on wages and salaries, was more than offset by under-execution of domestically-financed capital expenditures.

The monetary policy stance has been tightened since mid-2012, following an extended period of accommodation. Against a background of rapid growth in broad money and credit to the private sector in the first half of the year, the National Bank of Rwanda (NBR) raised its key repo rate (policy rate) in May 2012 by 50 basis points (to 7.5 percent) and increased the use of repo operations to mop up excess liquidity. As of end-October, the exchange rate had depreciated by 3.7 percent since the beginning of the year.

The macroeconomic outlook remains generally favorable, provided delays in budget support disbursements are temporary. For the whole of 2012, real GDP growth is projected at about 7.7 percent, easing compared to the first half of the year because of weaker agricultural output and lower-than-planned government spending caused by delays in some budget support disbursements. Growth is expected to be sustained at 7.6 percent in 2013, driven by an expansion in services and construction, and to stabilize at around 7 percent over the medium term. Inflation is projected to continue its convergence toward the authorities' medium-term target of 5 percent per year.

Risks to the outlook arise mainly from possible cutbacks in aid and a more challenging global environment. Staff estimates indicate that a prolonged delay in the delivery of budget support could lower growth in 2013 by 1½ percentage points and possibly more, depending on the magnitude of second round effects.

Rwanda's macroeconomic policies are supported by the IMF's Policy Support Instrument (PSI), which was approved in June 2010. The 5th review under the PSI was completed in conjunction with the conclusion of the 2012 Article IV consultation.

Executive Board Assessment

Executive Directors commended Rwanda's strong economic performance in the last decade, including under the PSI-supported program. Sustained rapid economic growth, relatively subdued inflation, and a sharp decline in poverty and income inequality have been underpinned by sound and inclusive policies supported by the donor community. Although the outlook remains favorable, it is subject to highly uncertain prospects for donor aid and the global environment, while the export base is narrow and poverty needs to be further reduced. Directors therefore stressed the importance of maintaining sound economic management and the momentum of structural reform, and promoting regional stability.

Directors considered the overall stance of fiscal policy to be appropriate. They welcomed the steps taken to address delays in budget support, including identification of contingent spending cuts, and urged a cautious execution of fiscal policy to take into account available financing. They underscored the importance of prioritizing spending and minimizing recourse to domestic bank financing.

Directors called for stepped-up efforts to strengthen the domestic revenue base and reduce the aid dependence. They encouraged the authorities to reform tax policy and revenue administration in line with the recommendations of a recent IMF technical assistance mission. Directors welcomed the steps the authorities have taken to strengthen public financial management and debt management capacity. They noted the authorities' planned issuance of a euro bond before end-2012[18], and agreed that the bulk of the proceeds should be used to retire shorter term external debt to help preserve debt sustainability. At the same time, Directors stressed the need to maximize the use of concessional financing.

Directors supported maintenance of a tight monetary stance to contain inflationary pressures. They welcomed the central bank's adoption of a more flexible reserve money targeting framework to improve liquidity management and the effectiveness of monetary policy. They commended efforts to improve the functioning of the foreign exchange and money markets, and encouraged greater exchange rate flexibility to protect against external shocks.

Directors welcomed the authorities' efforts to increase financial inclusion by strengthening financial intermediation in the rural areas. They noted that the risks and challenges stemming from the rapid expansion of local savings and credit cooperatives and the growing exposure of banks to the real estate sector call for strong financial sector regulation and supervision.

Directors encouraged the authorities to continue their efforts to improve the business environment, strengthen competitiveness, and broaden the economic base. The ongoing work on an ambitious new economic development and poverty reduction strategy will be important in

[18] The euro bond launch was subsequently postponed.

this regard. Directors emphasized that the strategy's targets should be realistic and consistent with available financing.

Selected Economic and Financial Indicators, 2008–17

	2008	2009	2010	Est. 2011	Country Report No. 12/152 2012	Proj. 2012	Country Report No. 12/152 2013	2013	2014	2015	2016	2017
Output and prices												
Real GDP growth	13.4	6.2	7.2	8.3	7.7	7.7	7.5	7.6	7.2	7.0	7.0	7.0
Real GDP (per capita)	11.1	4.0	5.0	6.0	5.5	5.5	5.3	5.4	5.0	4.8	4.8	4.8
GDP deflator	10.4	9.5	2.5	7.7	7.7	7.7	7.8	7.2	6.4	5.3	5.3	5.5
Consumer prices (period average)	15.4	10.3	2.3	5.7	7.9	7.9	7.0	7.0	6.3	5.8	5.3	5.0
Consumer prices (end of period)	22.3	5.7	0.2	8.3	7.5	7.5	6.5	6.5	6.0	5.5	5.0	5.0
Money and credit[1]												
Domestic credit[2]	20.5	3.8	9.4	5.0	18.5	12.8	19.6	29.0	16.0	11.4	15.0	12.5
Government[2]	-18.1	0.2	2.4	-13.2	6.7	-5.8	3.3	16.1	-4.4	4.6	0.0	0.0
Economy[2]	38.6	3.6	7.0	18.2	11.8	18.6	16.3	12.9	20.5	6.8	15.0	12.5
Broad money (M2)	24.2	13.1	16.9	26.8	17.0	16.5	16.9	16.3	15.6	13.7	13.7	13.8
Reserve money	23.5	0.3	12.5	23.4	17.0	16.5	16.9	16.3	15.6	13.7	13.7	13.8
Velocity (GDP/M2; end of period)	5.5	5.6	5.3	4.9	4.8	4.9	4.8	4.8	4.8	4.7	4.7	4.6
National income accounts												
National savings	9.1	5.1	4.1	3.1	2.2	2.8	4.1	3.3	5.3	6.9	8.1	8.8
Gross investment	23.5	22.3	21.7	22.1	23.8	23.7	23.0	23.0	21.5	20.0	19.7	19.4
Of which: private (including public enterprises)	13.1	12.4	10.8	9.2	9.5	9.5	9.8	9.8	10.1	10.4	10.7	11.0
Government finance[3]												
Total revenue (excl. grants)	12.6	14.9	12.5	13.6	13.8	14.3	14.0	14.9	14.9	15.1	14.9	15.2
Total expenditure and net lending	22.6	26.3	25.7	27.7	26.9	26.6	28.0	32.3	28.4	24.4	23.3	22.9
Capital expenditure	8.2	11.0	10.1	12.3	12.4	11.7	13.5	13.7	13.1	10.1	9.4	9.0
Current expenditure	15.1	14.5	14.7	14.8	14.5	14.9	14.3	14.0	14.6	14.1	13.9	13.4
Overall fiscal balance (payment order)												
After grants	-0.2	-2.2	-0.1	-3.4	-1.9	-1.2	-2.6	-6.9	-2.9	-2.3	-1.6	-1.6
Before grants	-10.0	-11.5	-13.2	-14.1	-13.2	-12.3	-14.0	-17.4	-13.5	-9.3	-8.5	-7.8
External sector												
External current account balance												
Including official transfers	-4.9	-7.3	-5.9	-7.3	-10.0	-11.3	-9.7	-10.2	-9.0	-6.8	-5.9	-5.4
Excluding official transfers	-14.4	-17.2	-17.5	-19.0	-21.5	-20.9	-19.0	-19.7	-16.3	-13.0	-11.5	-10.6
External debt (end of period)	14.7	14.9	14.8	18.4	18.7	21.3	19.1	20.4	20.3	20.1	19.5	18.7
Net present value of external debt												
(Percent of exports of goods and services)	…	…	86.9	108.6	111.2	136.8	114.8	129.5	127.6	119.1	110.6	102.0
Scheduled debt service ratio												
(Percent of exports of goods and services)	2.1	2.6	3.1	2.6	13.0	22.9	13.1	11.5	8.9	8.5	7.6	6.8
Gross reserves (months of imports of goods and services)[4]	4.7	5.4	4.5	5.1	5.0	5.2	4.4	4.6	4.6	4.6	4.2	4.0
Gross reserves	596.4	742.2	814.2	1051.2	1042.0	1144.2	950.4	989.0	978.8	1030.1	1006.2	1047.6
Memorandum item:												
Nominal GDP (billions of Rwanda francs)	2,565	2,985	3,280	3,826	4,409	4,437	5,109	5,118	5,839	6,578	7,412	8,364

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Projections are based on the program exchange rate of RWF 604.14 per U.S. dollar.

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

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

[4] Data from 2009 onward includes SDR allocation.

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/463
FOR IMMEDIATE RELEASE
FOR IMMEDIATE RELEASE
November 28, 2012

International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) completed today the fifth review under a three-year Policy Support Instrument (PSI) for Rwanda. In completing the review, the Board approved a waiver of nonobservance of the quantitative assessment criterion on net domestic financing (NDF).

The Executive Board approved a three-year PSI for Rwanda on June 16, 2010 (see Press Release No. 10/247). The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. PSIs are voluntary and demand driven (see Public Information Notice No. 05/145.)

Following the Executive Board's discussion on Rwanda, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The Rwandan authorities are to be commended for their satisfactory implementation of the economic program supported by the Policy Support Instrument, carried out against a challenging global economic environment. Economic growth has continued to be strong, inflation remains contained, and poverty has further declined.

"Fiscal and monetary policies remain appropriate. Delays in budget support have required postponing some government spending, and fiscal policy during the remainder of the fiscal year will need to be carefully executed to minimize recourse to domestic bank financing and avoid crowding out the private sector. Meanwhile, the central bank has appropriately tightened the monetary stance to slow credit growth and mitigate exchange rate and inflation pressures.

"Strengthening the domestic revenue base and public financial management are important objectives, including for reducing aid dependency. The recommendations of a recent technical assistance mission on tax policy and revenue administration represent a good basis for broadening significantly the tax base.

“The government has taken important steps to strengthen Rwanda’s debt management capacity. It will be critical in the period ahead to continue with prudent management of debt and complete large ongoing investment projects. It will also be important to maintain the momentum of structural reforms to improve the business environment, strengthen competitiveness, and broaden the economic base, in order to sustain economic growth and further reduce poverty,” Mr. Shinohara added.

Statement by Mr. Assimaidou on Rwanda
Executive Board Meeting
November 28, 2012

1. On behalf of my Rwandan authorities, I would like to thank the Board, Management and Staff for their continued support. Staff's last visit to Kigali to conduct the Article IV consultation and the 5th review of the PSI helped to confirm the significant progress made over the last decades in transforming the economy, and to identify and develop the strategy to meet the challenges that still constrain this endeavor. My authorities very much appreciate the candid and open discussion that took place and broadly share the thrust of the staff report as a fair reflection of results achieved and issues at stake.

2. The PSI continues to serve Rwanda well as an appropriate anchor for the authorities' policies geared towards maintaining macroeconomic stability, supporting growth and the overall economic development, and reducing poverty. My authorities have maintained the momentum of strong and sustained reforms that have led to robust output growth in the last decade – above 8 percent a year- and made significant advances in reducing poverty, from 57 percent in 2005/06 to 45 percent in 2010/11, equivalent to lifting about a million people out of poverty. The authorities are committed to keep pace with the macroeconomic policies and structural reforms that underpinned these achievements, as evidenced by their performance for the period under review.

3. Amid a domestic environment of mounting social needs and capacity constraints, paired with the international environment of global slowdown and delayed donor aid, my authorities have maintained the momentum of reforms and economic development leading to strong results. In view of this performance, my authorities request the Board's support for the conclusion of the 5th review under the PSI and the 2012 Article IV consultation, including a waiver on the nonobservance of the quantitative assessment criterion on net domestic financing, which was missed by a small margin.

Recent Developments and Program Performance

4. **My authorities' performance under the PSI continues to be strong.** All but one end-June quantitative assessment criteria and all indicative targets were met. Structural reforms are also proceeding well, albeit some with delays due to capacity constraints and the heavy workload caused by the volume of pressing reforms on the government agenda. Key steps have been taken; the homegrown DSA is now completed and the medium-term debt management strategy will be submitted to Cabinet in late November 2012. My authorities reaffirm their commitment to step-up efforts to implement other important measures in early 2013, including in the public financial management and investment climate areas.

5. The benign macroeconomic management paired with structural reforms in major sectors, has supported output growth. After standing strongly at 8.6 percent in 2011, real GDP growth is projected to ease to 7.7 percent in 2012, partly due to a poor weather-caused weak agricultural output and delayed capital spending. The supply gap in domestic fresh food should push inflation upward, to 7.5 percent at end-2012, against a low 5.6 percent in September, and still well below its 2011 peak of 8.3 percent. My authorities are taking

actions, including from the monetary side to help inflation edge down to their medium-term target of 5 percent, in line with the East African Community convergence criterion.

6. **Aid disbursements** from a number of bilateral and multilateral donors, estimated at about 3 percent of GDP, have been delayed, hence taking a toll on the government fiscal stance, widening the current account deficit and cutting back growth. My authorities view these adverse developments as temporary. They are continuing discussions with partners aimed at settling misunderstandings and resuming financing flows as planned.

Challenges and Policies Going Forward

7. **Structural transformation for Growth and poverty reduction.** Though the global slowdown and the setback in donor assistance have constrained growth this year, my authorities continue to endeavor along the lines set forth under their Vision 2020 and reflected in their successive Economic Development and Poverty Reduction Strategies (EDPRS). It is to create a thriving broad-based economy away from agriculture towards industry and services, which would grow at sustained double-digit rates over the medium term and generate employment opportunities to lift more people out of poverty. In this regard, the authorities intend to keep pace with their development plans that helped reduce poverty by 12 percentage points in the last five years, as the recent household living conditions survey showed. The authorities' EDPRS 2 is being developed accordingly, addressing four key areas: (i) economic transformation, (ii) rural development, (iii) productivity and youth employment, and (iv) accountable governance. The government's macroeconomic policies and structural reforms for 2012/13 and the medium term will be consistent with this framework.

8. **Fiscal policy.** Maintaining an environment of macroeconomic stability continues to guide my authorities' fiscal and monetary policies. The fiscal stance in FY 2011/12 was characterized by higher-than-projected revenue and lower-than-planned spending. The drivers on the revenue side were income tax and taxes on goods and services and international trade, while under-execution of domestically-financed capital expenditures contributed to reduce spending. Going forward, my authorities remain committed to their strategy of fiscal consolidation through increased revenue mobilization and expenditure prioritization. In this vein, the government has already implemented two out of four tax policy measures planned for FY 2012/13; since July 2012, the tax rate for imported construction materials has been increased from 5 to 10 percent and the gaming tax has been effective since September 2012. Other important revenue administration measures are in their final steps of preparation. These include: introducing Electronic Sales Register for recording taxpayers‘transactions and limiting VAT evasion; introducing e-filing and e-payment systems to save time and improve service delivery; and establishing a One-Stop-Border Post at Kagitumba and Rusumo border posts with 24-hour operations to facilitate cross-border trade.

9. My authorities are cognizant of the need to overhaul tax policy, with the view to raising further the tax revenue-to-GDP ratio. Moreover, in the face of uncertain donor

assistance, the government's overarching goal of reducing aid dependency over the mediumterm
is acute more than ever. For FY 2012/13, the authorities will continue to keep a prudent stance, including by reducing spending to make up for shortfalls in external assistance and by stepping-up revenue mobilization effort where necessary. For their broader tax policy reform agenda, the government will take advantage of the recommendations made by the recent FAD mission.

10. **Monetary policy and the financial sector.** Monetary policy over the past years has been supportive of growth by facilitating credit to the private sector. With the slow recovery worldwide and the ensued adverse impact on exports, my authorities appropriately used the policy mix to enhance the domestic demand. Going forward, my authorities are working on revamping the monetary framework and the key instruments for conducting policy, with the view to enhancing transmission mechanisms. As regard the banking sector, it remains healthy, well-capitalized and competitive. My authorities will continue to strengthen the whole financial sector, to make it a sound provider of financing for productive activities. In that regard, the NBR will closely monitor compliance with the existing laws while taking steps to improve them, in line with the FSAP recommendations. Financial inclusion remains a key concern to my authorities; in this vein, they are committed to helping the development of the saving and credit cooperatives (SACCOs) on a sound footing. The NBR will pay a particular attention to the supervision of this specific sector.

11. **Investment financing and debt.** My authorities intend to issue in December 2012, a 10-year Eurobond worth US$ 350 million. The proceeds will be used to retire an existing publicly-guaranteed debt and fund the completion of a strategic investment project, the Kigali Convention Center. As assessed by staff, this one-off operation will not change the conclusions of the last DSA update, nor will it materially affect Rwanda's debt sustainability.

Conclusion

12. Over the past years, Rwanda has strived to implement an ambitious economic growth and poverty reduction agenda with remarkable success. It has at the same time endeavored to mitigate the impact of the global slowdown on its main indicators. Through sound policies, my authorities have continued to help the economy recover its strong growth rates exhibited throughout the last decade, and also made important inroads in curbing down poverty. These achievements have been made possible along with a long period of macroeconomic stability. The PSI instrument has proved an appropriate anchor as Rwanda leveraged the gains of this favorable environment.

13. Yet, the challenges stiff facing the economy are daunting, and my authorities are committed to pursue their efforts of structural transformation towards a more sustainable growth model. From a still shallow tax base and the associated aid dependency, to the narrow export sector, my authorities are fully aware of the needed structural reforms to remove the bottlenecks and achieve the ambitious goals of their Vision 2020. In this endeavor, my Rwandan authorities will continue to rely on the assistance of their development partners and the Board's support.