



# RWANDA

January 2017

## FIRST REVIEW OF THE STANDBY CREDIT FACILITY ARRANGMENT AND SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, REQUEST FOR WAIVER AND MODIFICATION OF PERFORMANCE AND ASSESSMENT CRITERIA—PRESS RELEASE; AND STAFF REPORT

In the context of the First Review of the Standby Credit Facility Arrangement and Sixth Review Under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 2, 2016, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument and the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 16, 2016.

The documents listed below have been 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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## **IMF Executive Board Completes Sixth PSI Review and First Review Under the Standby Credit Facility for Rwanda**

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Rwanda's performance under the Policy Support Instrument (PSI)<sup>1</sup> and the first review of the arrangement under the Standby Credit Facility (SCF)<sup>2</sup>. The Board's decision was taken on a lapse of time basis.<sup>3</sup>

Requests for an 18-month SCF arrangement with access of about US\$204 million (SDR 144.18 million) or 90 percent of Rwanda's quota and to extend Rwanda's PSI-supported program through end-2017 (see [Press Release No. 16/270](#)), were approved by the Board on June 8, 2016. Half was disbursed upon approval of the SCF arrangement, and with completion of the first review of the SCF arrangement another US\$48.65 million (SDR 36.045 million) becomes available for disbursement. The remaining financing will be considered in two subsequent reviews in 2017. Rwanda's PSI-supported program was originally approved on December 2, 2013 (see [Press Release No.13/483](#)). In completing the reviews, the Board also approved modification of end-December 2016 program targets (to reflect new information on external assistance) and granted a waiver for a minor and temporary non-observance of the continuous zero limit on external arrears accumulation.

The main near-term objective of the current programs is to respond to adverse global developments, most notably commodity prices, which has led to growing external imbalances, resulting in pressure on the Rwandan franc and the banking system's foreign exchange reserves.

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<sup>1</sup> The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Rwanda's current PSI are available at [www.imf.org/rwanda](http://www.imf.org/rwanda).

<sup>2</sup> The SCF provides financing to low-income countries on concessional terms. For more details, see <http://www.imf.org/external/np/exr/facts/scf.htm>.

<sup>3</sup> The Executive Board takes decisions without a meeting when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Restoring external sustainability is imperative for realization of medium-term program objectives, namely sustained high and inclusive growth, including through public infrastructure investment, and reduced dependence on donor support through higher domestic revenues.

Early evidence suggests that the short term adjustment policies have been effective in addressing external imbalances. The authorities have continued to allow exchange rate flexibility to serve as the main policy adjustment instrument, with depreciation of 9 percent over the first 10 months of 2016, complemented by modest fiscal consolidation and monetary tightening. These demand management policies have been accompanied by the government's home-grown "Made in Rwanda" initiative, which seeks to substitute domestic production for some key imported goods, and export promotion efforts. Performance under the program has been strong, with almost all program targets set through end-June 2016 and structural reforms through end-September 2016 being achieved.

The agreed policy mix remains appropriate for safeguarding external and fiscal sustainability, while supporting growth objectives. If current trends continue, the current account deficit should fall over the course of 2017-18, bringing official reserves above 4 months of imports. The authorities have acted decisively to address growing external imbalances and thereby should avoid more painful adjustment that otherwise would have been needed, as illustrated by the experience of some other countries adversely affected by commodity prices.

Inflation pressure is currently supply driven with end-year inflation projections of 6.0 percent and 5 percent over the medium term. But the situation should be monitored closely to assess potential second-round effects of the inflationary impact of a depreciated exchange rate, and more monetary tightening may be needed if inflation pressures are greater than projected. Clearer communication regarding the policy stance could help steer inflation expectations. Decisive efforts would be needed to develop minimum conditions for inflation targeting within the agreed East African Community timeline.

Looking ahead, risks to the growth outlook are balanced. The government's deliberate incentives to promote domestic production and add value to its exports should keep growth buoyant. However, should the drought be prolonged, both growth and inflation could be adversely affected.



# RWANDA

December 16, 2016

## FIRST REVIEW OF THE STANDBY CREDIT FACILITY ARRANGEMENT AND SIXTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT, REQUEST FOR WAIVER AND MODIFICATION OF PERFORMANCE AND ASSESSMENT CRITERIA

### EXECUTIVE SUMMARY

**The authorities' policy adjustment program is producing early results.** By end-October, the exchange rate had depreciated more than expected for the year, and fiscal and monetary policies were tightened in line with the agreed program. During the first 10 months of the year, import volumes contracted, despite large public investment projects, and export volumes improved, despite continued difficulties in the mining sector. Growth began decelerating in Q2, in line with expectations. Inflation has picked up, mainly as a result of food shortages stemming from drought, and to a lesser extent exchange rate pass-through. The 2016 current account balance will improve slightly less than envisaged with a higher services deficit, but medium term improvement is in line with the program.

**Performance under the PSI and SCF-supported programs remains on track.** Almost all quantitative program targets and structural benchmarks were respected: two quantitative targets were missed by minor amounts, and one benchmark was delayed, to obtain additional stakeholder input on the National Investment Policy.

**The agreed policy mix for 2017–18 remains broadly unchanged, with minor refinements to medium term growth and external projections.** Growth in 2017–18 is expected to average 6.4 percent, as agriculture picks up and demand management policies help mute imports, while longer-term import-substitution and export promotion policies also bear fruit. Correspondingly, the current account is projected to improve over the medium term, and inflation is expected to converge to the medium-term target of 5 percent. Aside from potentially higher inflation, risks to the outlook are balanced.

**The authorities request completion of the reviews, a waiver for non-observance, and modification of program criteria.** The waiver is for the continuous criterion on external arrears accumulation, as a result of a temporary and minor delay in payment. The authorities have put in place strengthened monitoring systems to avoid future such occurrences. End-December 2016 fiscal targets have been modified to reflect corrected information regarding budget grants and UN-requested lending for regional peacekeeping operations.

Approved By  
**Roger Nord (AFR) and  
 Yan Sun (SPR)**

Discussions were held in Kigali during October 19–November 2, 2016. The mission comprised Laure Redifer (head), Tobias Roy, Samson Kwalingana, Wendell Dall, and Caroline Ntumwa (all AFR). Alun Thomas, Resident Representative, assisted the mission. The mission met with Minister of Finance and Economic Planning, Claver Gatete, Governor of the National Bank of Rwanda, John Rwangombwa, Minister of Trade, Industry and East African Community Affairs, François Kanimba, Minister of Gender and Family Promotion, Esperance Nyirasafari, Minister of Infrastructure, James Musoni, Members of the Parliament Budget Commission, and other senior government officials, private sector representatives, and development partners.

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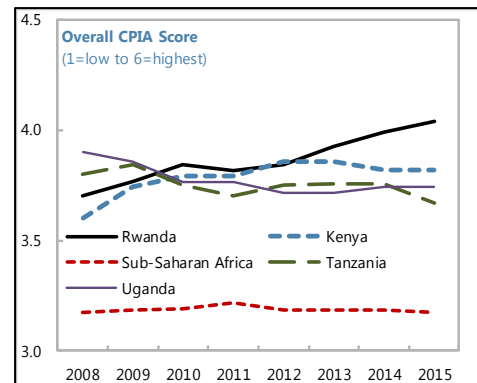
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## RECENT DEVELOPMENTS

### 1. The Rwandan government is implementing a policy adjustment program, supported by IMF financing.

In June, the Executive Board approved US\$204 million in financing under the Standby Credit Facility (SCF). Half the amount was made available and disbursed upon program approval. The 18 month SCF arrangement complements an existing program under the Policy Support Instrument (PSI) that was extended until late 2017.

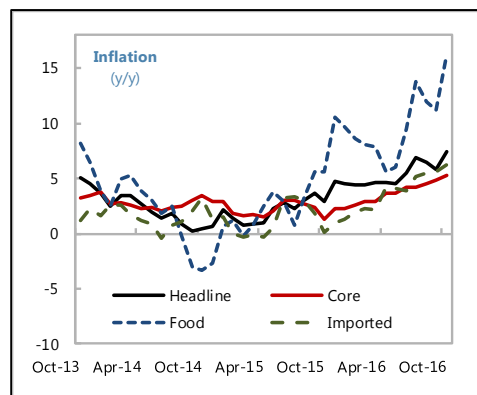
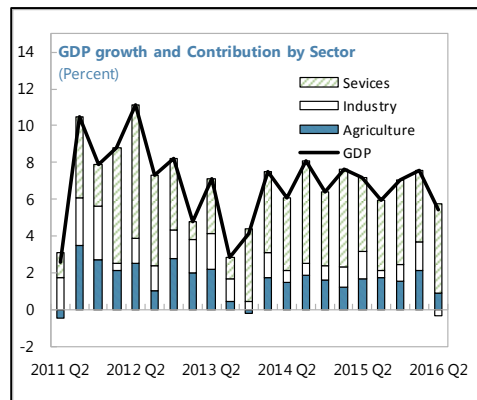
The joint programs support adjustment policies by the government to deal with growing external imbalances, exacerbated by more challenging external conditions. The program is premised on muting import demand, with increased exchange rate flexibility as the central adjustment tool, combined with contained fiscal spending and more prudent monetary policy. In addition to short term macroeconomic adjustment policies, the government has launched a broad set of measures to promote import substitution and diversified exports. The World Bank issued its 2015 CPIA (Country Policy and Institutions Assessment) earlier this year: Rwanda continues to score top among SSA low-income countries.



### 2. Growth is decelerating, as expected, while inflation has been rising.

Growth slowed to 5.4 percent (y/y) in Q2, reflecting continued decline in mining activities, a contraction in manufacturing activity (as several large construction projects were completed), and slow growth in agriculture (drought in the east). While supply side factors played a role in the growth deceleration, there is nascent evidence—a contraction of import volumes of higher-elasticity consumer goods and deceleration of private sector credit growth—that demand-adjustment policies are working as intended to mute import demand. Inflation has been increasing since the last quarter of 2015, reflecting food prices and pass-through effects of Rwanda franc (RwF) depreciation. Food inflation spiked in October (16.3 percent y/y), driven by shortages stemming from the drought, bringing headline inflation to 7.4 percent.

Figures 1&2, Table 1



### 3. The FY15/16 fiscal deficit was lower than expected.

The overall fiscal balance (commitment basis) was 3.5 percent of GDP rather than 5.0 percent, stemming from strong tax revenue performance and underspending for investment (Figure 3 and Tables 2a and 2b). Better-than-projected tax revenue performance (0.4 percentage point of

GDP) was attributable to several one-off factors, including high import taxes from exchange rate depreciation and large tax arrears payments. For peacekeeping operations (PKO) in the region, higher inflows were offset by higher spending (both 0.8 percentage points of GDP). Investment spending was some 0.9 percentage points of GDP lower than expected, about 2/3 of which was held awaiting budget support disbursements that arrived later than expected.

**4. Money and credit conditions are tightening.** Reserve money growth was in line with program targets at end-June, 2016, and has since been below the stipulated corridor, tantamount to a tighter monetary policy stance than envisaged under the program. Broad money and credit to the private sector grew by 5.8 percent (y/y) and 19.2 percent, respectively, in September 2016. Taking into account exchange rate depreciation, growth was lower still, by 3.9 and 16.9 percent, respectively. Despite continued structural excess liquidity, the domestic interbank market had some pick-up in activity in late September, as tightening monetary and fiscal stances affected a few banks. Given that inflation was primarily affected by food supplies and to a lesser extent exchange rate depreciation, the monetary stance was not further tightened in response.

Figure 4, Table 3

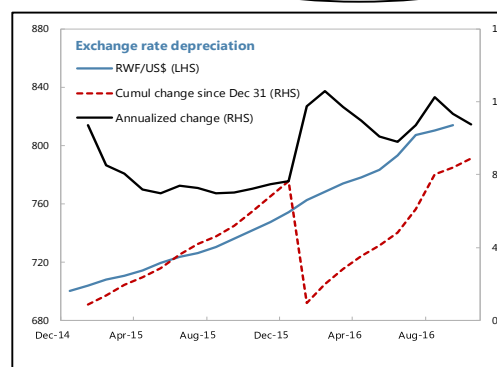
**5. The exchange rate has depreciated more than projected.** The RwF depreciated by 9 percent against the US\$ through end-October, accompanied by a pronounced contraction in import volumes of almost 5 percent through October against the same period of 2015, despite acquisition of large public investment goods. The most pronounced drops were in construction and price-elastic consumer goods, with a contribution from government measures to substitute imports with domestic production. At the same time, export volumes

have been growing robustly, despite continued problems in the mining sector, with growth of 17 percent through October over the same period of 2015.

However, 2016 projections reflect a slightly larger current account deficit as the trade balance improvement is offset mainly by a higher net services deficit, due to higher freight and insurance costs and improved accounting for travel spending by Rwandans abroad.

**6. The financial sector remains broadly sound, although non-performing loans have risen slightly.** Nonperforming loans (NPLs) rose from 6.2 percent in December 2015 to 7.0 percent in June 2016, with a concurrent decline in average profitability. The higher non-performing loans are concentrated in tourism services. The authorities explained that they are monitoring the situation closely, and that the increase in NPLs was

Figure 5, Table 4



Trade balance January-October 2016				
(% change over previous year)				
Exports		Imports (CIF)		Trade deficit
volume (kgs)	value (US\$)	volume (kgs)	value (US\$)	value
17.2	4.2	-4.9	-2.5	-4.6

Source: National Bank of Rwanda

Table 5



not related to foreign currency-denominated loans, which are a small share of the total credit stock and concentrated in well-performing large investment projects.

## PROGRAM PERFORMANCE

Tables 6 and 7

### 7. Most quantitative program targets and structural benchmarks were met.

Performance criteria (PC) under the SCF arrangement were combined with quantitative assessment criteria (QAC) of the PSI-supported program. QAC/PC on the fiscal deficit and net foreign assets were met by large margins, primarily due to arrival of external assistance late in the fiscal year, with associated spending delayed. The end-June indicative target on domestic revenue collection was missed by a hair, as tax revenue over-performance was offset by lower than anticipated non-tax revenues in the second half of the FY. The continuous criterion on external arrears accumulation was not respected, due to a minor payment delay by Rwandair, due in late August and paid in early October. The authorities have put into place a more stringent debt monitoring system that should avoid delayed payments in the future. The revised investment policy was finalized, however the authorities felt that additional consultation with stakeholders would enrich the draft prior to its submission to Cabinet. The benchmark has been rephased for end-March 2017.

## OUTLOOK AND RISKS

MEFP, ¶121-22

### 8. Growth should remain robust over the medium term.

Growth is expected to accelerate slightly to 6.2 percent in 2017, on the back of a cyclical boom season for coffee and the aforementioned investments in manufacturing to displace imports. 2018 growth has been revised down slightly, taking into account somewhat lower overall public investment spending in the near term. Despite rising food prices, end-year inflation projections were maintained at 6.0 percent, although upside inflation risks are significant. After the effects of supply side shocks subside, and assuming exchange rate pass-through remains modest, inflation is set to converge back to 5.0 percent.

### 9. External imbalances are expected to narrow over the medium term as envisaged.

Although projections for the 2016 current account are slightly worse than expected at the 5<sup>th</sup> PSI review, these are more than offset by higher FDI and official financing projections. The projected current account improvement over the medium term remains in line with previous expectations, as import demand diminishes and import substitution measures take hold. On the export side, tea and coffee are expected to rebound in 2017.

**10. Risks to the growth outlook are balanced.** On the positive side, the government's deliberate incentives to promote domestic production and add value to its exports should keep growth buoyant. However, should the drought be prolonged, both growth and inflation could be adversely affected. In response to the mission's query about risks posed by the trade ban imposed by Burundi, the authorities responded that they expected no impact since Burundi accounts for less

than 1 percent of Rwanda's formal imports. They acknowledged that restrictions on informal food imports might be marginally impacting current high food prices.

## POLICY DISCUSSIONS

### 11. The review focused primarily on assessing early outcomes from adjustment policies.

The mission aimed to disentangle the impact of adjustment policies from other factors (e.g. drought, completion of large investment projects) in terms of their impact on addressing external imbalances while not unduly constraining growth. In general, the mission found that adjustment policies are being fully implemented, and there is nascent evidence they are working as well or better than expected. This suggests that the agreed policies should be effective in resolving external imbalances while safeguarding still-robust growth over the medium term.

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### A. Fiscal Policy

12. **The FY16/17 fiscal target was increased to reflect new information.** The authorities and the mission agreed to increase FY16/17 fiscal deficit (commitment basis) target from 3.6 to 4.7 percent of GDP, to accommodate a projected shortfall in budget grants (due to miscommunication between the donor and the authorities) of 0.6 percentage points of GDP and pre-financing (0.3 percentage points of GDP) of peacekeeping operations in the region by the Rwandan government requested by the UN (hereafter "PKO pre-financing), to be repaid in subsequent fiscal years. Following completion of a mid-term budget review, a revised budget will be sent to parliament early in 2017 reflecting this modification. The revised program (and budget) will assume:

Central Government Operations (Summary of Table 2b)										
(Percent of GDP)										
	FY14/15		FY15/16		FY16/17		FY17/18		3 years <sup>1</sup>	
	Actual	5th PSI	Actual	5th PSI	Proj.	5th PSI	Proj.	5th PSI	Proj.	
Fiscal deficit (commit. basis)	5.4	5.0	3.5	3.6	4.7	3.1	3.7			
<b>change from previous year</b>		<b>-0.4</b>	<b>-1.8</b>	<b>-1.4</b>	<b>1.1</b>	<b>-0.5</b>	<b>-1.0</b>	<b>-2.2</b>	<b>-1.7</b>	
a. Budget grants	3.1	3.3	3.3	3.2	2.6	2.6	2.1			
<i>change from previous year</i>		0.2	0.2	-0.1	-0.6	-0.7	-0.5	-0.5	-0.9	
b. Net spending on PKO <sup>2</sup>	0.6	0.6	0.6	0.5	0.7	0.3	0.1			
<i>change from previous year</i>		0.0	0.0	-0.1	0.3	-0.1	-0.6	-0.2	-0.3	

<sup>1</sup> Summing annual changes to reduce GDP base change effect.

<sup>2</sup> Spending - resources.

- Unchanged domestic revenues (with slightly higher tax revenues offset by lower non-tax revenues) and lower budget grants by 0.6 percentage points of GDP.
- Higher spending of 0.5 percentage points of GDP, reflecting:
  - Higher current spending of 0.4 percentage points of GDP, reflecting the PKO pre-financing. Otherwise, modest new hiring in priority sectors will be offset by lower outlays for goods and services;
  - Lower domestically-financed investment spending by 0.2 percentage points of GDP, rather than the full amount of the budget grants shortfall, including new spending authorization to replenish food security stocks and expand irrigation in response to the drought (Box 1); and
  - Higher net lending of 0.2 percentage points of GDP, mainly reflecting additional outlays for export promotion and higher subsidies to Rwandair.
- Additional external and domestic financing, by 0.4 and 0.6 percentage points of GDP, respectively, to meet the higher deficit.

#### Box 1. Drought and Food Security in Rwanda

Since September 2015, Rwanda has experienced a serious drought in its eastern province. Vegetable and grain crops have been hardest hit, with scarce supplies pushing up prices sharply. Livestock have also been affected. Estimates are that some 59,000 households have been affected.

The government has used existing National Strategic Reserves to supply about 7000 metric tons of maize and beans to about 18,000 of the least food secure households. To facilitate water supply to animals, about 28 makeshift dams have been set up to pump water from the Akagera river. The government has also established a small scale irrigation project to expand irrigated agriculture land by 7% per year through 2020, provide subsidies for irrigation equipment for farmers, and provide education and research for more drought-resistant crops and technologies.

The Rwandan government's estimated costs of replenishing food stocks and irrigation for FY16/17 are about 0.2 percentage points of GDP. The government currently plans to cover these costs from the existing budget, but is leaving open the door to respond to offers of aid from the World Food Program and other donors should cost estimates increase further.

### 13. The authorities remain committed to the program's medium-term fiscal consolidation objectives.

Fiscal adjustment through FY17/18 is 0.5 percentage points of GDP less than the original program, due primarily to an expected shortfall in budget grants. However, fiscal consolidation might be higher still: as domestic revenues are conservatively estimated to increase to 18.3 percent of GDP in FY17/18 removing the impact of one-off factors that influenced FY16/17, but these projections do not take into account any impact of forward-looking revenue policy and administrative measures. These include: the long-awaited revision in property taxes; a new risk management plan to improve tax compliance; a "clean-up" of the tax registry; and expansion of the use of electronic billing machines. The authorities are also implementing numerous measures to improve budget planning and transparency of budget execution, including: designing a strategy to better track fiscal and forex risks; better tracking project

MEFP, 124-25

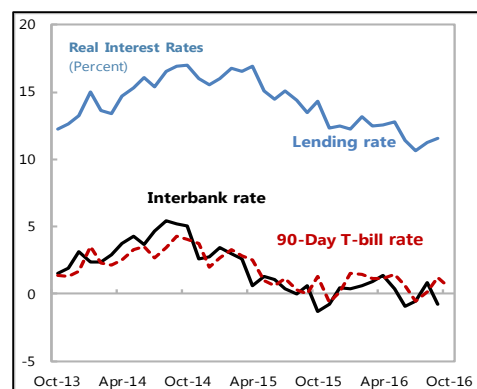
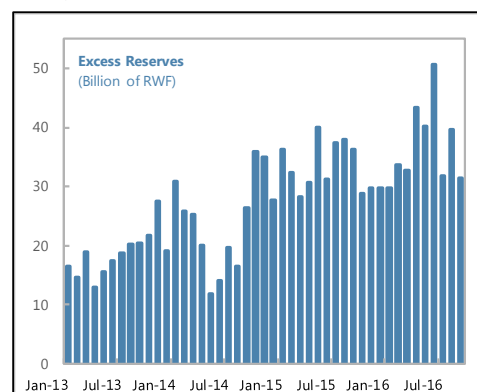
assistance inflows and outflows; and establishing an interface between expenditure recording (IFMIS) and a new e-procurement platform.

## B. Monetary Policy and Financial Sector Stability

**14. Reserve money targets for end-June 2017 have been tightened slightly, reflecting refined intra-year projections on growth developments.** In general, private sector credit growth is decelerating as expected, with 16 percent y/y growth expected in December. In addition to the impact of a depreciating exchange rate, and somewhat higher projected inflation, an unchanged end-December reserve money target provides for an automatic tightening of monetary conditions in the near term. The authorities explained that the uptick in inflation reflects temporary and supply-side factors. The mission concurred with this analysis, but warned of the upside risks to inflation projections due to additional pressure on food prices. However, the mission concurred with the current monetary policy stance, which is already somewhat more restrictive, and advised that the monetary policy stance should be tightened further should credit growth accelerate and/or second-round inflation pressures emerge. The authorities agreed with the need to remain cautious.

**15. BNR is committed to strengthening its monetary policy architecture, in line with EAC commitments.**

Currently, the monetary transmission via interest rates is extremely weak due to a structural liquidity excess and shallow financial and interbank markets. The authorities are taking steps towards implementing a more forward-looking monetary policy framework, with the hope of introducing more of the preconditions for inflation targeting by 2018, the EAC-agreed target. While the policy rate has been kept unchanged for some time, interbank and treasury bill interest rates have increased slightly, reflecting more activity from a few banks affected by tighter liquidity caused by demand management policies and higher inflation. However, with higher inflation, short term real interest rates have dropped to around zero while nominal lending rates have not moved. The overall structural liquidity overhang remains, as exemplified by the fact that a substantial share of the public pension fund portfolio is invested in time deposits with commercial banks.



**16. To address these issues, the BNR has developed a five-year road map – several aspects of which are imbedded in program conditionality.** These include building capacity, promoting a secondary market for public securities, lengthening the yield curve, reducing excess reserves, determining a corresponding policy interest rate, and introducing an electronic platform for

MEFP, 131

retail investors. The authorities have requested technical assistance, which could help further articulate and implement the strategy.

**17. The authorities are also advancing reforms to strengthen the institutional framework for ensuring financial stability.** They are enhancing both on- and off-site supervision, closely monitoring and enforcing compliance with prudential norms and enhancing the supervisory capacity of BNR staff. The BNR has more recently enhanced its regulatory approach in line with Basel standards and is implementing Basel II/III Pillar 1 and Basel II Pillar 2 frameworks for capital requirements. A deposit Guarantee Fund is expected to be in place by the end of 2016, while the law allowing private pensions was recently passed with its implementation pending the necessary directives from BNR. Work is also ongoing on the regulatory and supervisory structure of non-bank financial institutions.

### C. External Adjustment

**18. The government is committed to maintaining exchange rate flexibility as the central adjustment tool.** The current account deficit was projected to spike in 2016 due to two large public investment projects which are fully financed and do not contribute to BOP pressures (Box 2). Exchange rate depreciation through end-October was already more than forecast for the year as a whole. However, the projection for the current account deficit in 2016 has worsened slightly, reflecting mainly a higher services deficit and reduced budget grant inflows. To address this and help avoid further fiscal and monetary tightening that could adversely affect growth, the government has stepped up efforts under its “Made in Rwanda” initiative. This initiative substitutes domestic production for current imports, where feasible, and is already showing promising signs (Box 3). The authorities are also reinforcing existing export promotion programs, including easier access to financial services.

MEFP, ¶133-37

**19. The current account balance is projected to improve over FY17/18, reversing the decline in official reserves.** The forecast sees little recovery in mineral exports, but strong growth in coffee and tea exports in FY17/18 due to cyclical factors. The services deficit, which peaked in 2016 due to the large investment projects, should decline substantially over the forecast period, with support from improvements in local trade routes and reduced shipping and insurance costs. The improved trade outlook should boost official reserves to 4 months of imports by the end of 2018.

### Box 2. Large Investment Projects Affecting the 2016 Current Account

A central tenet of Rwanda's development strategy is business tourism, with 3 pillars: (1) construction of the Kigali Convention Center (KCC) to hold large-scale business conferences; (2) upgrading the capacity the national airline, Rwandair, for intra-African and intra-continental transport; and (3) development of a new airport to handle more and larger aircraft for business tourism and cargo trade, the latter to stimulate trade via bypassing expensive and time-consuming land routes.

The KCC was finished in May and is already booked with a succession of large international conferences.

Rwandair recently purchased 3 small planes and 2 large Airbuses, and is negotiating longer routes.

In conjunction with these investments, several international hotels were completed this year, including

Marriott and Radisson. The government will now focus on the airport: it plans to take a minority stake in a public-private partnership (to be fully financed through privatization receipts), with consideration of options for private financing that avoids further increases in public debt.

As anticipated, KCC and Rwandair will create a current account deficit spike in 2016. The projects have dedicated financing, so will not affect the overall BOP balance. They are responsible for more than half of the increase in debt in 2016.

- For KCC, in addition to the partial use of the proceeds of the 2013 Eurobond, new debt as of 2016 will be US\$160 million (2 percent of GDP). 80 percent is external debt to be repaid to AFREXIM over 5 years, and the remainder is domestic debt to be repaid to Bank of Kigali over 10 years.
- Rwandair's new debt is 244 million (3 percent of GDP) at end-2016. Financing instruments are made up of a mix of loans and leases to be repaid over 10 years.

Total debt service for the two projects will peak just shy of 2 percent of GDP in 2021, declining thereafter. All financing was included in the debt sustainability analysis conducted for the 5<sup>th</sup> PSI review and Rwanda's risk of debt distress remains low. Public sector borrowing plans remain unchanged.

**Box 3. “Made in Rwanda”**

To conserve foreign exchange and stimulate growth, the government has formulated specific policies to promote domestic production of some goods that are currently imported. Sugar, rice, cement and garments were chosen as having the best chance to be sourced locally on a large scale: 2015 imports of these goods were about US\$221 million, or 3 percent of GDP.

- For **sugar**, about 13 percent of current consumption is supplied locally, due to the limited allocation of agricultural land for sugar cane. The national company that produces sugar will realize a doubling of its allocation of land over the next 5 years, and foreign investors are being encouraged.
- **Rice** is a staple food item, with about 30 percent of consumption is sourced locally. A new rice processing plant opened in 2013 with capacity to meet all domestic needs, but has insufficient raw inputs. To address the disparity, the government is in the process of reclaiming marshlands for rice production with financial help from the World Bank.
- For **cement**, a sizeable public investment was made in the nationally owned cement company to increase its production six-fold, roughly the equivalent of current demand in Rwanda. Production is already up to half capacity, with prices 5–10 percent higher than imports but reported to be of higher quality. Since many construction companies have established relationships with import suppliers, the company is engaged in a campaign to encourage consumers to make the switch.
- The government has taken numerous actions to develop the domestic **clothing** industry. Consistent with EAC commitments, tariffs were hiked sharply on second-hand clothes imports, while tariffs were reduced on fabrics/textiles. An existing foreign investor is ramping up domestic production of basic products (uniforms and mosquito nets), with promotion of development of a cottage industry and more FDI.

For the first eight months of 2016 compared to a year earlier, sugar and related imports contracted 25 percent, cement imports contracted 40 percent, rice imports were flat, and overall clothing imports were down slightly.

## PROGRAM MODALITIES

### 20. Revisions for end-December PC/QACs for the fiscal deficit and NFA are proposed.

The ceiling on the deficit criterion is proposed for increase for the aforementioned lower budget grants and pre-financing of peacekeeping operations. The NFA floor is proposed for increase to reflect World Bank disbursements, previously shown as prospective financing, scheduled for late in the calendar year, which in turn reduces the proposed IT for net domestic financing. The authorities have requested modification of the continuous criterion on external arrears accumulation to allow a 30-day grace period for external arrears on debt contracted by public enterprises and public-private partnerships, to ensure that monitoring processes are effective.

MEFP, ¶117-18

## STAFF APPRAISAL

21. **The agreed program has been implemented fully through end-September.** Almost all backward-looking quantitative targets and benchmarks were met, some by large margins. Proposed end-December targets have been adjusted only as needed to address exogenous factors.

22. **Early evidence suggests that the policy mix has been effective in addressing external imbalances.** The authorities have continued to allow exchange rate flexibility to serve as their main policy adjustment instrument, supported by modest fiscal consolidation and monetary tightening. These demand management policies, along with the government's home-grown "Made in Rwanda" initiative, have tempered import volumes palpably, despite the impact of large public investment projects.

23. **The agreed policy mix remains appropriate for safeguarding external and fiscal sustainability, while supporting growth objectives.** If current trends continue, the current account deficit should fall over the course of 2017–18, bringing official reserves above 4 months of imports, in line with optimal levels. Unlike other countries, the authorities acted swiftly and decisively to address growing external imbalances and thereby have avoided more painful adjustment that otherwise would have been needed, as illustrated by the experience of some other countries in the region.

24. **Inflation pressure is currently supply driven, but the situation should be monitored closely to handle potential second-round effects.** The monetary stance has been tightened, both intentionally and unintentionally, which should be sufficient for the time being. But more study on the size and timing of exchange rate pass-through should be undertaken to help refine inflation projections and clearer communication regarding the policy stance could help steer expectations.

25. **Decisive efforts will be needed to meet EAC objectives for developing the monetary policy framework.** The authorities are seeking technical assistance to help with the implementation of their five-year plan. Minimum conditions needed to introduce inflation targeting by end 2018 may prove difficult to attain within the stipulated timeframe. More leveraging of EAC investment

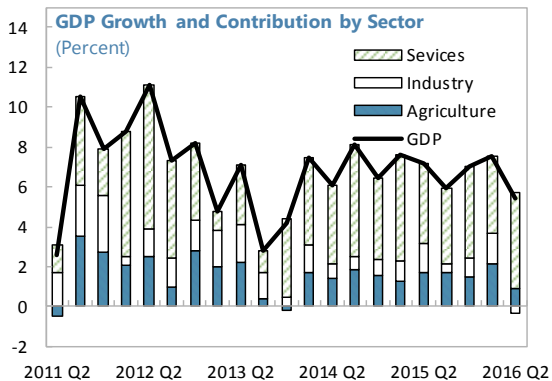


opportunities and capital flows could be important for reducing liquidity overhangs, and developing interbank, government securities and capital markets.

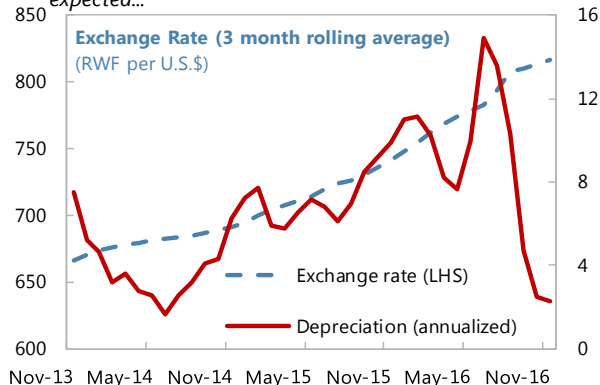
**26. Staff recommends approval of the first review of the Standby Credit arrangement and the sixth review of the program supported by the Policy Support Instrument, as well as the request for waiver of non-observance of the continuous external arrears criterion, and modification of forthcoming program criteria.**

**Figure 1. Rwanda: Overview of Recent Economic Developments**

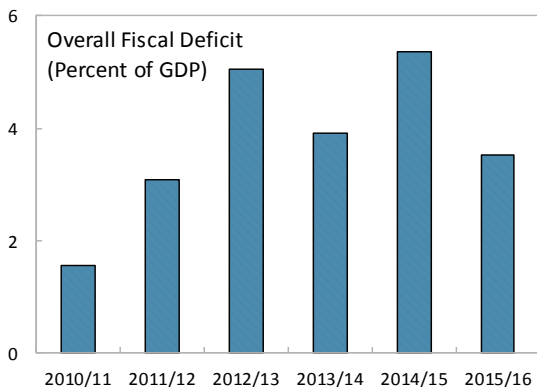
Growth decelerated in Q2, due to agriculture and manufacturing.



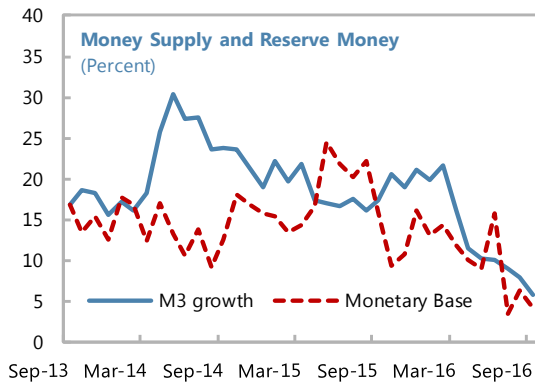
Exchange rate depreciation has been more rapid than expected...



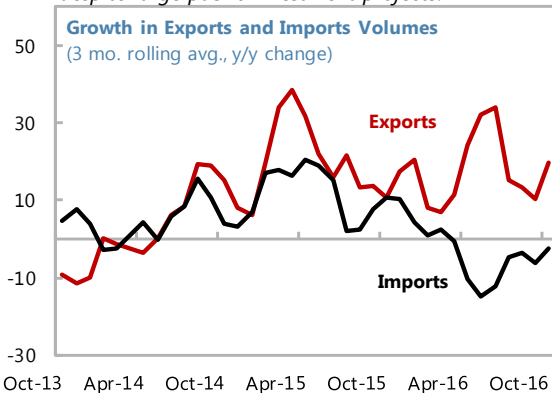
...while the overall fiscal deficit for FY 2015/16 narrowed...



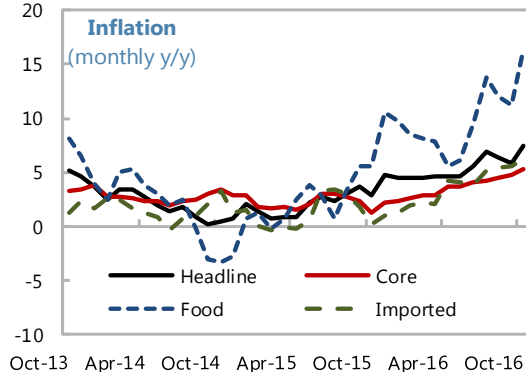
...and growth in reserve money was less than programmed...



...causing a sharp contraction in import volumes, despite large public investment projects.

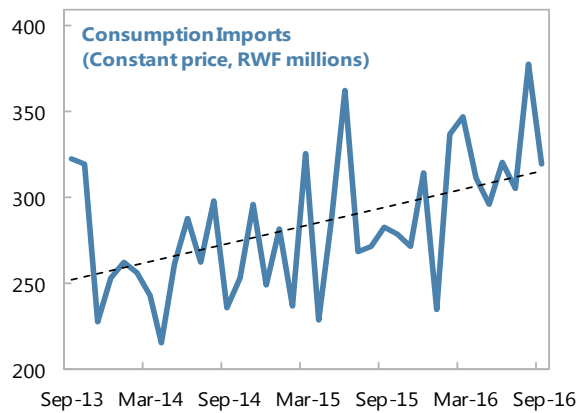
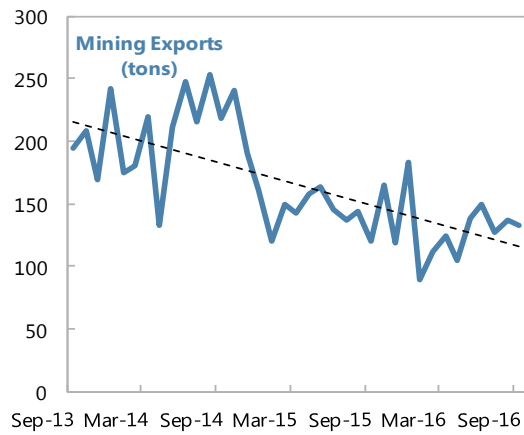
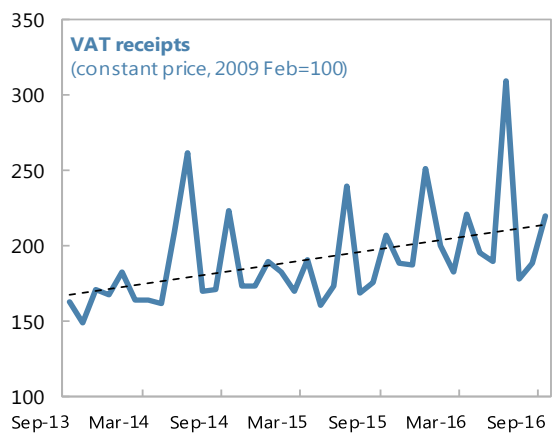
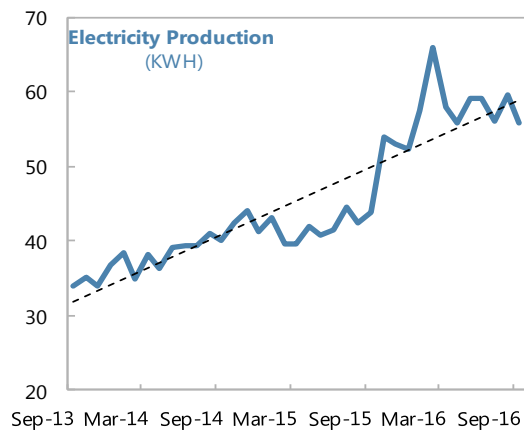
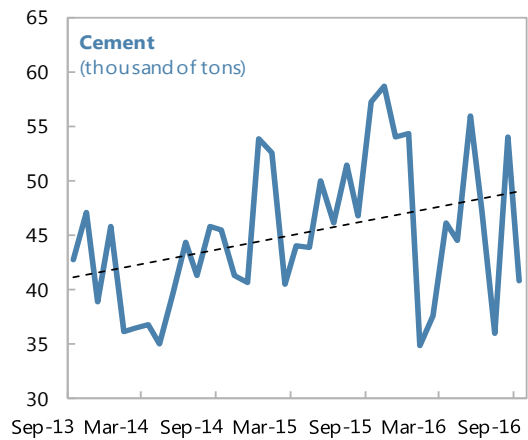
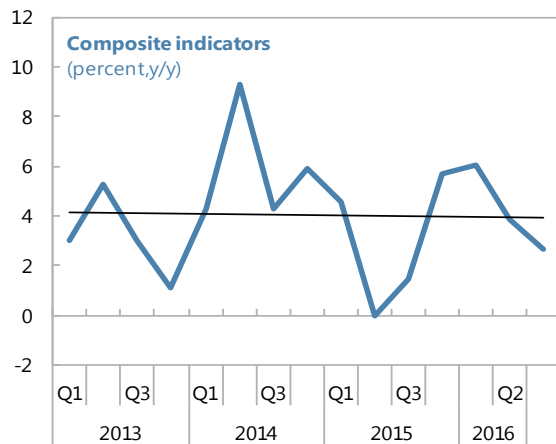


Inflation has been rising, mainly driven by spiking food prices due to drought.



Sources: Rwandan authorities and IMF staff estimates.

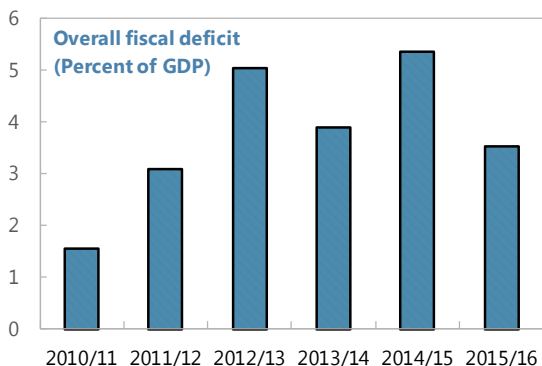
**Figure 2. Rwanda: Selected High Frequency Indicators**



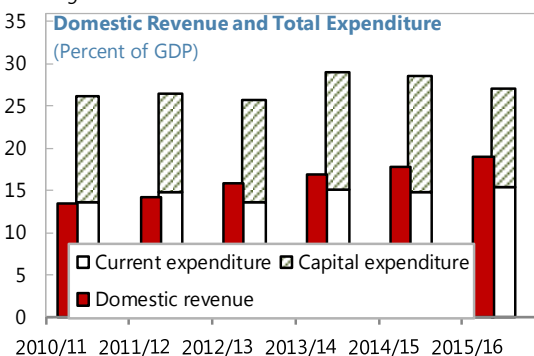
Sources: Rwandan authorities and IMF staff estimates.

**Figure 3. Rwanda: Fiscal Sector Developments**

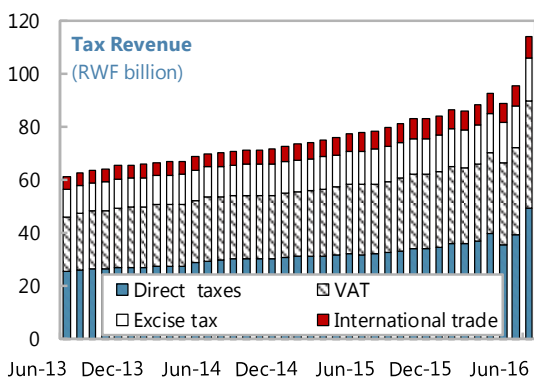
*The overall fiscal deficit narrowed in 2015/16....*



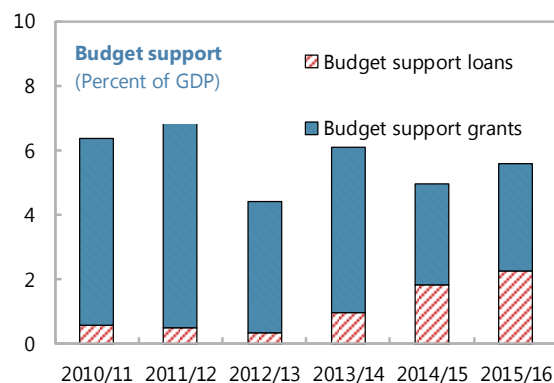
*...reflecting lower than expected investment spending and higher domestic revenue...*



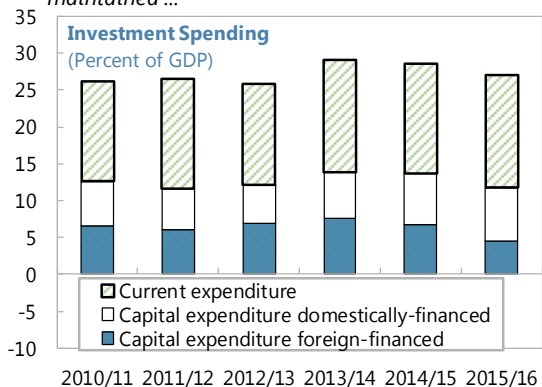
*...with domestic revenues buoyed by VAT on imports and tax arrears repayments.*



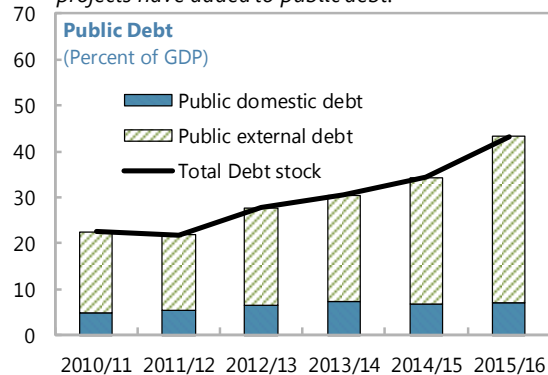
*...while budget support has declined, and shifted toward lending.*



*Central government investment spending has been maintained...*



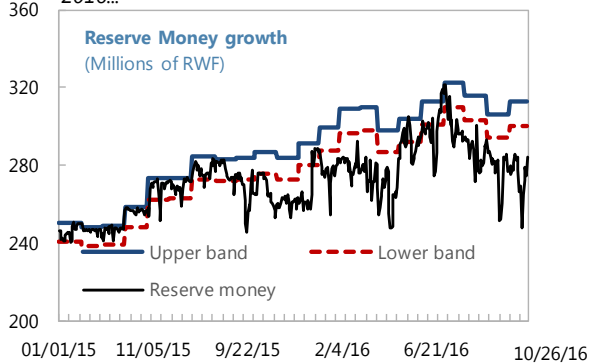
*...while large general government investment projects have added to public debt.*



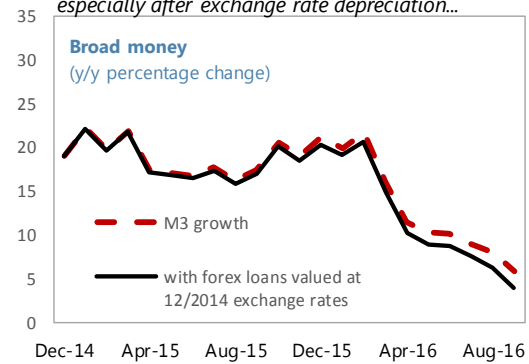
Sources: Rwandan authorities and IMF staff estimates.

**Figure 4. Rwanda: Monetary Developments**

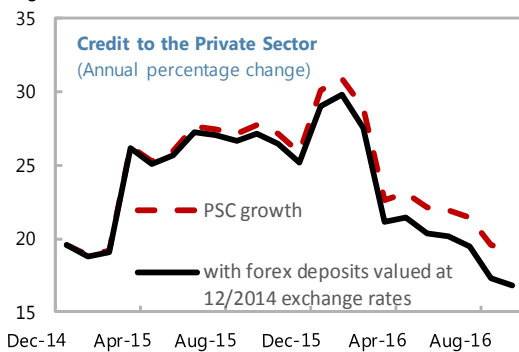
Reserve money has been below target for most of 2016...



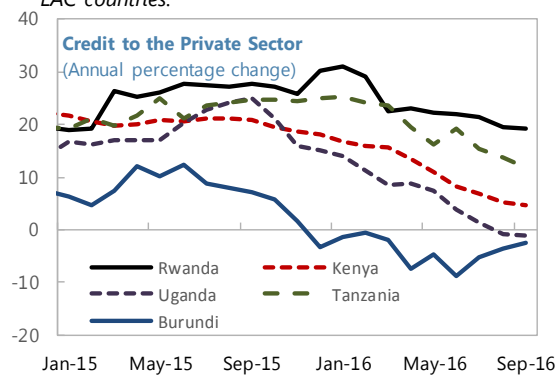
...leading to much lower growth in broad money, especially after exchange rate depreciation...



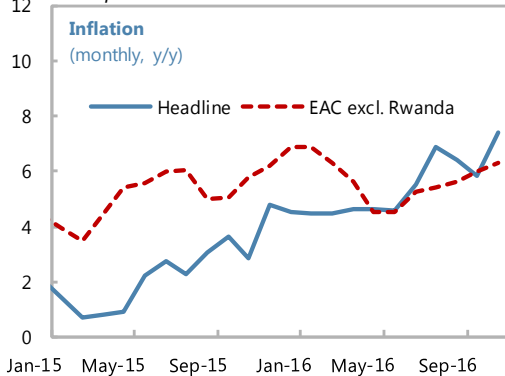
...causing sharp deceleration in private sector credit growth...



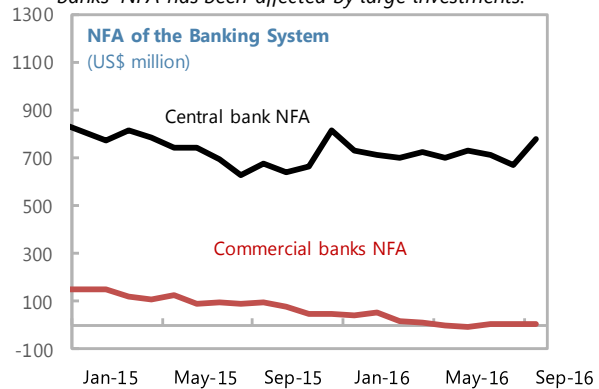
...which nonetheless remains above that of other EAC countries.



Driven by food prices, inflation has risen above the rest of the EAC.



The central bank's NFA has stabilized while commercial banks' NFA has been affected by large investments.



Sources: Rwandan authorities and IMF staff estimates.

Table 1. Rwanda: Selected Economic Indicators, 2014–18

	2014	2015	2016		2017		2018	
			5th PSI Review	Proj.	5th PSI Review	Proj.	5th PSI Review	Proj.
(Annual percentage change, unless otherwise indicated)								
<b>Output, prices, and exchange rate</b>								
Real GDP	7.0	6.9	6.0	6.0	6.0	6.2	7.0	6.6
GDP deflator	3.7	1.2	4.4	4.5	4.6	5.3	4.8	4.8
CPI (period average)	1.8	2.5	4.6	5.6	4.9	5.5	5.0	5.0
CPI (end of period)	2.1	4.5	4.7	6.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -) <sup>2</sup>	-2.4	-1.7	...	-10.3	...	3.9	...	1.3
<b>Money and credit</b>								
Broad money (M3)	19.0	21.1	15.4	10.7	15.6	11.5	15.1	17.8
Credit to non-government sector	19.6	30.1	16.0	15.7	16.0	16.3	19.5	13.2
Policy Rate (end of period)	6.5	6.5	...	...	...	...	...	...
M3/GDP (percent)	22.7	25.4	26.5	25.4	27.6	25.3	28.3	26.6
NPLs (percent of total loans)	6.0	6.2	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
<b>General government budget</b>								
Revenue and grants	24.0	25.2	23.8	24.1	23.3	23.0	23.5	23.0
<i>of which</i> : tax revenue	15.0	15.9	16.0	16.2	16.1	16.3	16.3	15.9
<i>of which</i> : grants	7.4	6.4	5.6	5.1	5.2	4.9	5.2	4.9
Expenditure	29.0	30.3	28.6	28.0	26.7	27.2	25.0	27.1
Current	15.0	15.2	14.3	14.8	14.8	15.2	14.1	14.2
Capital	12.6	13.3	12.5	11.6	10.2	10.0	10.9	10.9
Lending minus repayment	1.3	1.8	1.8	1.6	1.7	2.0	...	2.0
Primary balance	-4.2	-4.2	-3.8	-2.9	-2.4	-3.1	-2.0	-3.1
Overall balance	-4.9	-5.1	-4.7	-3.9	-3.3	-4.1	-3.0	-4.1
<b>Public debt</b>								
Total public debt	30.9	35.4	44.5	45.0	48.5	48.4	49.4	50.8
<i>of which</i> : external public debt	23.6	28.5	37.5	38.0	41.4	42.0	44.4	45.1
<b>Investment and savings</b>								
Investment	25.2	25.7	28.9	28.9	25.4	25.3	25.6	25.4
Public	12.6	13.3	12.5	11.6	10.2	10.0	10.9	10.9
Private	12.6	12.4	16.4	17.3	15.2	15.3	14.7	14.6
Savings <sup>3</sup>	8.2	7.4	7.7	7.3	9.2	8.9	11.5	10.8
<b>External sector</b>								
Exports (goods and services)	16.6	18.5	16.7	18.4	17.6	19.6	18.4	20.1
Imports (goods and services) <sup>4</sup>	33.6	36.1	37.3	39.5	33.3	35.3	32.2	34.2
Current account balance (including grant)	-12.0	-13.7	-16.5	-16.9	-12.0	-11.7	-10.2	-10.5
Current account balance (excluding grant)	-17.0	-18.3	-21.2	-21.6	-16.1	-16.3	-14.1	-14.6
<b>Gross international reserves</b>								
In billions of US\$	1.0	0.9	0.8	0.9	0.6	0.9	0.7	1.0
In months of next year's imports	3.9	3.4	3.8	3.7	3.8	3.9	4.2	4.0
<b>Memorandum items:</b>								
GDP at current market prices								
Rwanda francs (billion)	5,395	5,837	6,459	6,466	7,164	7,237	8,031	8,089
US\$ (billion)	7.9	8.1	...	...	...	...	...	...
GDP per capita (US\$)	719	718	...	...	...	...	...	...
Population (million)	11.0	11.3	11.5	11.5	11.8	11.8	12.1	12.1

Sources: Rwandan authorities and IMF staff estimates.

<sup>1</sup> Defined as excluding food and fuel.<sup>2</sup> Terms of trade as implied by National Accounts.<sup>3</sup> The savings rate excludes grants.<sup>4</sup> Imports for 2016 reflect purchases of two aircrafts.

**Table 2a. Rwanda: Operations of the Central Government, FY Basis<sup>1</sup>, 2014/15–17/18**  
(Billions of Rwandan Francs)

	2014/15	2015/16		2016/17		2017/18	
		5th PSI Review		5th PSI Review	Proj.	5th PSI Review	Proj.
(Billions of Rwanda francs)							
<b>Revenue and grants</b>	<b>1,418.8</b>	<b>1,479.0</b>	<b>1,540.0</b>	<b>1,601.9</b>	<b>1,567.1</b>	<b>1,745.1</b>	<b>1,742.0</b>
Total revenue	1,002.9	1,104.2	1,166.2	1,236.6	1,240.5	1,374.4	1,401.7
Tax revenue	871.7	975.3	1,000.3	1,091.6	1,101.4	1,217.8	1,227.8
Direct taxes	375.8	413.7	406.2	470.0	448.6	516.9	516.9
Taxes on goods and services	432.4	486.4	510.3	542.0	560.3	610.5	618.5
Taxes on international trade	63.5	75.2	83.9	79.6	92.5	90.3	92.3
Non-tax revenue	131.2	128.8	165.9	145.0	139.1	156.6	173.9
Of which: PKO	89.0	70.8	122.9	79.5	84.9	85.7	105.4
Grants	415.9	374.8	373.8	365.3	326.6	370.7	340.3
Budget grants	174.9	205.8	204.8	219.3	180.6	194.9	164.5
Of which: Global Fund	86.6	69.6	70.3	94.4	49.1	64.7	33.3
Project grants	241.0	168.9	168.9	146.0	146.0	175.8	175.8
<b>Total expenditure and net lending</b>	<b>1,720.1</b>	<b>1,784.9</b>	<b>1,756.8</b>	<b>1,848.8</b>	<b>1,891.3</b>	<b>1,983.4</b>	<b>2,026.8</b>
Current expenditure	834.1	899.9	947.5	989.7	1,023.6	1,069.4	1,089.6
Wages and salaries	203.9	226.3	242.3	252.1	258.3	280.5	289.1
Purchases of goods and services	159.5	179.9	180.6	201.0	201.0	215.0	215.0
Interest payments	45.6	56.1	56.7	65.5	68.6	71.6	81.4
Domestic debt	18.0	26.4	25.4	28.6	30.6	31.4	40.2
External debt	27.6	29.7	31.3	36.8	38.0	40.3	41.2
Transfers	304.0	336.9	308.7	360.3	360.3	390.0	390.0
PKO and demobilization <sup>2</sup>	121.1	100.8	159.2	110.8	135.4	112.2	114.2
Capital expenditure	769.8	776.3	720.8	750.6	741.9	796.0	799.3
Domestic	388.5	488.5	446.9	409.2	398.0	424.7	424.7
Foreign	381.3	287.8	274.0	341.4	343.9	371.3	374.6
Net lending and privatization receipts	93.2	108.7	88.4	108.5	125.8	118.0	138.0
<b>Overall deficit (including grants)</b>	<b>-301.3</b>	<b>-306.0</b>	<b>-216.8</b>	<b>-246.8</b>	<b>-324.3</b>	<b>-238.3</b>	<b>-284.8</b>
Change in float/arrears <sup>3</sup>	5.0	-26.4	-27.6	-20.0	-20.0	-13.2	-24.2
<b>Overall deficit (incl. grants, cash basis)</b>	<b>-296.3</b>	<b>-332.4</b>	<b>-244.4</b>	<b>-266.8</b>	<b>-344.3</b>	<b>-251.4</b>	<b>-308.9</b>
<b>Financing</b>	<b>296.3</b>	<b>332.4</b>	<b>244.4</b>	<b>266.8</b>	<b>344.3</b>	<b>251.4</b>	<b>308.9</b>
Foreign financing (net)	188.2	239.7	226.6	317.1	350.4	228.8	333.3
Drawings	202.8	258.7	243.7	341.0	375.1	255.5	360.6
Budgetary loans	103.6	139.8	138.7	145.5	177.1	60.0	161.8
Project loans	99.2	118.9	105.1	195.4	197.9	195.5	198.8
Amortization	-14.6	-19.0	-17.1	-23.9	-24.6	-26.6	-27.3
Net domestic financing	147.1	123.6	43.6	-50.3	-6.1	22.6	-24.4
Net credit from banking system	137.8	123.6	-0.6	-50.3	-6.1	22.6	-24.4
Nonbank sector	9.3	0.0	44.2	0.0	0.0	0.0	0.0
Errors and omissions <sup>4</sup>	-39.0	-30.9	-25.7	0.0	0.0	0.0	0.0

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.

<sup>2</sup> Includes peacekeeping operations, spending on demobilisation/reintegration, and genocide relief.

<sup>3</sup> A negative sign indicates a reduction.

<sup>4</sup> A negative number implies an overestimate of financing.

**Table 2b. Rwanda: Operations of the Central Government, FY Basis<sup>1</sup>, 2014/15–17/18**  
(Percent of GDP)

	2014/15	2015/16		2016/17		2017/18	
		5th PSI Review		5th PSI Review	Proj.	5th PSI Review	Proj.
(Percent of GDP)							
<b>Revenue and grants</b>	<b>25.3</b>	<b>24.1</b>	<b>25.0</b>	<b>23.5</b>	<b>22.9</b>	<b>23.0</b>	<b>22.7</b>
Total revenue	17.9	18.0	19.0	18.2	18.1	18.1	18.3
Tax revenue	15.5	15.9	16.3	16.0	16.1	16.0	16.0
Direct taxes	6.7	6.7	6.6	6.9	6.5	6.8	6.7
Taxes on goods and services	7.7	7.9	8.3	8.0	8.2	8.0	8.1
Taxes on international trade	1.1	1.2	1.4	1.2	1.4	1.2	1.2
Nontax revenue	2.3	2.1	2.7	2.1	2.0	2.1	2.3
Of which: PKO	1.6	1.2	2.0	1.2	1.2	1.1	1.4
Grants	7.4	6.1	6.1	5.4	4.8	4.9	4.4
Budget grants	3.1	3.3	3.3	3.2	2.6	2.6	2.1
Project grants	4.3	2.7	2.7	2.1	2.1	2.3	2.3
<b>Total expenditure and net lending</b>	<b>30.6</b>	<b>29.0</b>	<b>28.6</b>	<b>27.1</b>	<b>27.6</b>	<b>26.1</b>	<b>26.4</b>
Current expenditure	14.9	14.6	15.4	14.5	14.9	14.1	14.2
Wages and salaries	3.6	3.7	3.9	3.7	3.8	3.7	3.8
Purchases of goods and services	2.8	2.9	2.9	3.0	2.9	2.8	2.8
Interest payments	0.8	0.9	0.9	1.0	1.0	0.9	1.1
Domestic debt	0.3	0.4	0.4	0.4	0.4	0.4	0.5
External debt	0.5	0.5	0.5	0.5	0.6	0.5	0.5
Transfers	5.4	5.5	5.0	5.3	5.3	5.1	5.1
PKO and demobilization <sup>2</sup>	2.2	1.6	2.6	1.6	2.0	1.5	1.5
Capital expenditure	13.7	12.6	11.7	11.0	10.8	10.5	10.4
Domestic	6.9	7.9	7.3	6.0	5.8	5.6	5.5
Foreign	6.8	4.7	4.5	5.0	5.0	4.9	4.9
Net lending and privatization receipts	1.7	1.8	1.4	1.6	1.8	1.6	1.8
<b>Overall deficit (including grants)</b>	<b>-5.4</b>	<b>-5.0</b>	<b>-3.5</b>	<b>-3.6</b>	<b>-4.7</b>	<b>-3.1</b>	<b>-3.7</b>
Change in float/arrears <sup>3</sup>	0.1	-0.4	-0.4	-0.3	-0.3	-0.2	-0.3
<b>Overall deficit (incl. grants, cash basis)</b>	<b>-5.3</b>	<b>-5.4</b>	<b>-4.0</b>	<b>-3.9</b>	<b>-5.0</b>	<b>-3.3</b>	<b>-4.0</b>
<b>Financing</b>	<b>5.3</b>	<b>5.4</b>	<b>4.0</b>	<b>3.9</b>	<b>5.0</b>	<b>3.3</b>	<b>4.0</b>
Foreign financing (net)	3.4	3.9	3.7	4.7	5.1	3.0	4.4
Drawings	3.6	4.2	4.0	5.0	5.5	3.4	4.7
Budgetary loans	1.8	2.3	2.3	2.1	2.6	0.8	2.1
Project loans	1.8	1.9	1.7	2.9	2.9	2.6	2.6
Amortization	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
Net domestic financing	2.6	2.0	0.7	-0.7	-0.1	0.3	-0.3
Net credit from banking system	2.5	2.0	0.0	-0.7	-0.1	0.3	-0.3
Nonbank sector	0.2	0.0	0.7	0.0	0.0	0.0	0.0
Errors and omissions <sup>4</sup>	-0.7	-0.5	-0.4	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>							
GDP (Billions of RwF), FY basis	5,616	6,148	6,152	6,811	6,851	7,597	7,663

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Fiscal year runs from July to June.

<sup>2</sup> Includes peacekeeping operations, spending on demobilisation/reintegration, and genocide relief

<sup>3</sup> A negative sign indicates a reduction.

<sup>4</sup> A negative number implies an overestimate of financing.



Table 3. Rwanda: Monetary Survey, 2014–18

	2014	2015	2016		2017		2018
			5th PSI Review <sup>3</sup>	Proj.	5th PSI Review	Proj.	Proj.
(Billions of Rwandan Francs)							
<b>Monetary authorities</b>							
Net Foreign Assets <sup>1</sup>	585.7	609.1	520.0	579.9	429.5	537.2	636.2
Net domestic assets	-338.9	-322.3	-194.4	-267.4	-60.1	-192.0	-229.7
Domestic credit	-223.1	-218.6	-93.3	-120.8	41.0	-45.4	-83.1
Other items (net; asset +)	-115.8	-103.7	-101.1	-146.6	-101.1	-146.6	-146.6
Reserve money <sup>2</sup>	246.9	286.9	325.6	312.5	369.4	345.2	406.5
<b>Commercial banks</b>							
Net foreign assets	104.6	33.5	33.5	66.3	33.5	66.3	66.3
Reserves	127.6	139.5	157.4	164.8	174.2	177.9	202.5
Net credit from BNR	66.2	38.8	46.2	-37.1	6.8	-81.0	-60.5
Domestic credit	1,047.8	1,401.6	1,505.2	1,567.1	1,678.2	1,771.0	2,021.8
Government (net)	145.6	230.7	180.7	193.3	140.7	175.3	185.3
Private sector	896.4	1,166.6	1,320.1	1,350.6	1,533.1	1,572.4	1,813.2
Other items (net; asset +)	-241.6	-278.7	-196.2	-271.7	-101.4	-271.7	-271.7
Deposits	1,104.6	1,334.8	1,546.2	1,489.4	1,791.4	1,662.5	1,958.4
<b>Monetary survey</b>							
Net foreign assets	690.4	642.6	553.5	646.1	463.0	603.4	702.5
Net domestic assets	533.5	839.5	1,156.2	994.9	1,513.7	1,226.3	1,452.7
Domestic credit	889.6	1,221.4	1,457.7	1,408.8	1,725.5	1,644.1	1,877.8
Government	-21.2	39.5	122.2	22.9	177.0	36.4	29.3
Public enterprises	5.8	4.3	4.3	23.3	4.3	23.3	23.3
Private sector	905.0	1,177.6	1,331.2	1,362.6	1,544.2	1,584.4	1,825.2
Other items (net; asset +)	-357.4	-382.4	-297.3	-418.3	-202.5	-418.3	-418.3
Broad money	1223.9	1482.1	1709.7	1641.0	1976.7	1829.7	2155.1
<b>Year on Year Growth</b> (Percent)							
Broad money	19.0	21.1	15.4	10.7	15.6	11.5	17.8
Net foreign assets	-7.2	-6.9	-13.5	0.5	-16.3	-6.6	16.4
Credit to the private sector	19.6	30.1	16.0	15.7	16.0	16.3	15.2
<b>Memorandum items:</b>							
Velocity (eop)	4.4	3.9	3.8	3.9	3.6	3.9	3.8
Money multiplier	5.0	5.2	5.3	5.3	5.4	5.3	5.3

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> For program purposes NFA are shown at program exchange rates.

<sup>2</sup> Reserve money as an assessment criteria is measured as the average of the months in the quarter. The money is measured as the daily average of the three months in the quarter.

<sup>3</sup>Revisions of end-2015 monetary data changed y/y growth but did not affect attainment of program targets.

**Table 4. Rwanda: Balance of Payments, 2014–18**  
(Millions of U.S. dollars, unless otherwise indicated)

	2014	2015	2016		2017		2018	
			5th PSI Review	Proj.	5th PSI Review	Proj.	5th PSI Review	Proj.
(Millions of U.S. dollars, unless otherwise indicated)								
Exports (f.o.b.)	723.1	683.5	668.2	728.0	712.6	831.5	767.9	884.4
<i>Of which:</i> coffee and tea	111.4	134.5	116.2	117.4	125.0	140.3	136.4	147.1
Minerals	203.3	117.8	95.3	89.0	100.8	97.5	107.5	102.7
Imports (f.o.b.)	1,990.2	1,917.4	2,244.1	2,173.1	2,030.6	2,048.6	2,050.2	2,084.5
<i>Of which:</i> capital goods	513.6	521.9	608.7	619.4	484.8	494.5	500.0	515.0
Energy goods	294.7	225.6	203.5	223.0	231.1	266.2	268.6	286.8
<b>Trade balance</b>	<b>-1,267.1</b>	<b>-1,234.0</b>	<b>-1,575.9</b>	<b>-1,445.1</b>	<b>-1,318.0</b>	<b>-1,217.1</b>	<b>-1,282.3</b>	<b>-1,200.1</b>
Services (net)	-77.3	-201.7	-135.9	-285.8	-22.4	-107.7	52.2	-40.0
<i>Of which:</i> tourism receipts	303.7	367.7	365.5	355.0	420.3	388.8	483.3	427.6
<i>Of which:</i> KCC and RwandAir	0.0	-111.5	-138.7	-165.4	0.0	0.0	0.0	0.0
Income	-179.0	-200.7	-220.2	-210.4	-199.4	-231.7	-214.1	-239.0
<i>Of which:</i> interest on public debt <sup>1</sup>	-39.0	-40.7	-62.0	-44.5	-93.1	-93.3	-101.5	-101.8
Current transfers (net)	578.0	522.3	563.8	549.0	515.7	568.6	536.2	554.4
Private	179.9	152.2	168.3	161.2	164.7	173.7	185.8	194.2
Public	398.1	370.1	395.5	387.8	351.0	394.9	350.3	360.2
<b>Current account balance (incl. off. trans.)</b>	<b>-945.3</b>	<b>-1,114.1</b>	<b>-1,368.2</b>	<b>-1,392.2</b>	<b>-1,024.1</b>	<b>-987.9</b>	<b>-908.0</b>	<b>-924.6</b>
Capital account	337.1	299.9	186.5	202.5	191.4	195.9	203.9	213.0
Financial account	648.8	830.3	1,015.6	1,100.0	681.2	736.3	830.0	833.9
Direct investment	311.0	333.0	320.4	353.9	341.7	386.9	377.7	404.4
Public sector capital	302.2	402.0	659.8	728.7	229.5	303.9	383.4	372.1
Long-term borrowing <sup>2</sup>	336.6	438.5	780.3	849.7	269.5	382.1	426.3	453.8
Scheduled amortization, excl IMF	-34.4	-36.5	-120.5	-121.0	-39.9	-78.2	-43.0	-81.6
Other capital <sup>3</sup>	35.6	95.3	35.4	17.3	109.9	45.5	68.9	57.4
<i>Of which:</i> commercial banks NFA (increase -)	12.9	105.9	0.0	-35.8	3.1	6.0	2.5	4.9
<b>Capital and financial account balance</b>	<b>985.8</b>	<b>1,130.2</b>	<b>1,202.1</b>	<b>1,302.5</b>	<b>872.6</b>	<b>932.2</b>	<b>1,033.9</b>	<b>1,046.9</b>
Errors and omissions	-157.2	-39.7	0.0	-1.3	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>-116.7</b>	<b>-23.6</b>	<b>-166.2</b>	<b>-91.1</b>	<b>-151.5</b>	<b>-55.8</b>	<b>125.9</b>	<b>122.3</b>
<b>Financing</b>	<b>116.7</b>	<b>23.6</b>	<b>166.2</b>	<b>91.1</b>	<b>151.5</b>	<b>55.8</b>	<b>-125.9</b>	<b>-122.3</b>
Reserve assets (increase -)		28.5	25.8	-3.3	-20.8	-42.5	-144.8	-121.2
Net credit from the IMF	-2.4	-2.6	-2.2	99.5	-1.8	-1.7	-1.1	-1.1
Change in other liabilities (increase +)	0.0	-2.3	7.6	-5.1	0.0	0.0	0.0	0.0
<b>Prospective financing</b>	<b>0.0</b>	<b>0.0</b>	<b>135.0</b>	<b>0.0</b>	<b>174.0</b>	<b>100.0</b>	<b>20.0</b>	<b>0.0</b>
o/w IMF	0.0	0.0	100.0	0.0	100.0	100.0	0.0	0.0
<b>Memorandum items:</b>								
Current account deficit (percent of GDP)								
Excluding official transfers	-17.0	-18.3	-21.2	-21.6	-16.1	-16.3	-14.1	-14.6
Including official transfers	-12.0	-13.7	-16.5	-16.9	-12.0	-11.7	-10.2	-10.5
<b>Gross official reserves (with prosp. financing)</b>	<b>950.8</b>	<b>922.3</b>	<b>894.2</b>	<b>925.7</b>	<b>914.9</b>	<b>968.2</b>	<b>1,059.7</b>	<b>1,089.4</b>
in months of prospective imports of G&S	3.9	3.4	3.8	3.7	3.8	3.9	4.2	4.0
Overall balance (percent of GDP)	-1.5	-0.3	-2.0	-1.1	-1.8	-0.7	1.4	1.4
Total Public Transfers (US\$ million)	735.2	670.0	581.9	590.3	542.4	590.8	554.2	573.2
<i>Of which:</i> budgetary grants	217.8	225.6	279.3	238.9	251.9	223.5	258.3	234.1
Budgetary loans (US\$ million)	154.9	235.6	209.4	225.3	71.4	187.7	185.4	191.3
Total public transfers (percent of GDP)	9.3	8.3	7.0	7.2	6.4	7.0	6.2	6.5

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> Including interest due to the IMF.

<sup>2</sup> Includes central government project and budget loans, and borrowing by Rwandair and KCC.

<sup>3</sup> Other capital includes long-term private capital, commercial credit, change in NFA of commercial banks, and unrecorded imports.

**Table 5. Rwanda: Financial Soundness Indicators for Banking Sector, 2015–16**  
(Percent)

	2015				2016	
	Mar	Jun	Sep	Dec	Mar	Jun
	(Percent)					
<b>Capital adequacy</b>						
Regulatory capital to risk-weighted	23.3	21.6	21.3	19.9	22.3	20.7
Capital to assets	25.9	24.3	24.2	22.5	24.9	23.3
Off-balance items/qualifying capital	282.6	352.5	290.8	302.8	263.8	262.5
Insider loans/core capital	2.1	2.8	3.0	4.0	3.1	3.5
Large exposure/core capital	82.3	107.2	98.6	112.6	99.2	122.7
<b>Asset quality</b>						
NPLs/gross Loans	6.3	5.9	6.3	6.2	6.2	7.0
NPLs net/gross loans	4.9	4.9	5.1	5.2	5.2	5.9
Provisions/NPLs	52.3	51.5	48.3	46.2	46.0	42.7
Earning assets/total asset	79.3	81.8	83.1	83.1	82.9	81.9
Large exposures/gross loans	19.3	22.5	20.9	23.4	22.6	25.6
<b>Profitability and earnings</b>						
Return on average assets	2.7	2.4	2.3	2.1	1.9	1.7
Return on average equity	14.1	13.1	12.7	11.2	9.8	9.2
Net interest margin	8.7	8.9	8.7	8.5	9.3	9.2
Cost of deposits	3.1	3.1	3.1	3.2	3.7	3.6
Cost to income	79.4	78.6	80.5	81.1	80.9	82.0
Overhead to income	43.6	46.0	46.2	46.8	49.1	49.9
<b>Liquidity</b>						
Short term gap	9.9	11.6	6.0	8.1	9.1	10.4
Liquid assets/total deposits	46.0	49.5	46.8	45.4	43.9	42.8
Interbank borrowings/total deposits	13.7	15.9	16.4	18.0	17.0	17.6
BNR borrowings/total deposits	--	--	0.0	0.0	0.0	0.0
Gross loans/total deposits	86.6	84.2	87.0	89.0	92.2	90.9
<b>Market sensitivity</b>						
Forex exposure/core capital <sup>1</sup>	-5.5	-7.1	-7.9	-5.7	-6.7	-1.8
Forex loans/Forex deposits	27.1	32.6	38.7	37.2	51.0	55.7
Forex assets/Forex liabilities	83.2	82.1	86.1	81.7	81.1	82.3

Source: National Bank of Rwanda.

**Table 6. Rwanda: Quantitative Program Targets as of end-June, 2016<sup>1</sup>**  
(Billions of Rwandan Francs, unless otherwise indicated)

	Jun 2016		Actual	Status
	PSI 5th Review	Adjusted		
(Billions of Rwandan francs, unless otherwise indicated)				
<b>Assessment/Performance criteria</b>				
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	206.8	208.2	111.1	Met
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	465.0	463.6	588.3	Met
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	305.7		298.3	Met
Reserve money (ceiling on stock) <sup>4</sup>	299.1			
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	292.5			
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0.0		1.8 <sup>7</sup>	Not Met
<b>Indicative targets</b>				
Net domestic financing (ceiling on flow) <sup>2,3</sup>	203.0	204.4	125.2	Met
Domestic revenue collection (floor on flow) <sup>2,6</sup>	562.4		559.3	Not met
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-5.6		-10.0	Met
Total priority spending (floor on flow) <sup>2</sup>	366.2		376.1	Met
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500		197	Met
<b>Memorandum items:</b>				
Total budget support (US\$ millions) <sup>2,6</sup>	151.5		149.7	
Budget support grants (US\$ millions)	130.3		128.6	
Budget support loans (US\$ millions)	21.1		21.1	
RWF/US\$ program exchange rate	807.2		807.2	

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup> Numbers for June 2016 are cumulative from 12/31/2015; numbers for December 2016 and June 2017 are cumulative from 6/30/2016.

<sup>3</sup> Subject to adjusters. See TMU for details.

<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.

<sup>5</sup> Ceilings on external arrears and external borrowing are continuous.

<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

<sup>7</sup> Obligations which were due on August 27, 2016 were paid in full on October 16.

**Table 7. Rwanda: Structural Benchmarks through end-September 2016**

<b>Policy Measure</b>	<b>Target Date</b>	<b>Status</b>
<b>Monetary</b>		
Establish the road map for secondary market development of Government debt securities. In addition, develop the capacity building plan for banks' treasurers on domestic securities.	End-September 2016	Met
<b>Public Financial Management</b>		
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter.	Each quarter	Met
Develop and implement IPSAS roadmap which includes government accounting policy for fixed assets.	End-June 2016	Met
Submit revised National Investment Policy to Cabinet.	End-June 2016	Not met
Establish a timeline for the transition of fiscal reporting into the GFS14 framework.	End-September 2016	Met
<b>Fiscal Revenue</b>		
Submit revised Law on Tax Procedures to Cabinet.	End-June 2016	Met

**Table 8. Rwanda: Proposed Schedule of Disbursements Under the SCF Arrangement**

Date available	Disbursement		Percent of quota 1/	Conditions 2/
	Million SDR	Million US\$		
June 8, 2016	72.0900	101.51	45.00	Disbursed on June 16, 2016
December 1, 2016	36.0450	50.76	22.50	Board completion of the first SCF review based on compliance with end-June 2016 conditionality
June 9, 2017	18.0225	25.38	11.25	Board completion of the second SCF review based on compliance with end-December 2016 conditionality
November 15, 2017	18.0225	25.38	11.25	Board completion of the third SCF review based on compliance with end-June 2017 conditionality
Total	144.1800	203.03	90.00	

1/ Rwanda's quota is SDR 160.2 million.

2/ The Board approval and subsequent reviews of the SCF are expected to be done concurrently with the fifth, six, seventh and eighth reviews of the PSI, respectively.

## Appendix I. Letter of Intent

December 16, 2016

**Ms. Christine Lagarde**

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

Dear Ms. Lagarde:

The attached memorandum of economic and financial policies (MEFP) describes the progress made under the program and sets out the macroeconomic policies of the Rwandan government for the remainder of fiscal year 2016/17 and the medium term. All but two end-June 2016 quantitative targets were met. A minor and temporary breach of the continuous criterion on payment of external arrears took place, but was immediately rectified. To prevent any future delay on external payment, a strengthened monitoring mechanism has been designed within the Debt Unit of the Ministry of Finance and Economic Planning to ensure timely payments of debt by SOEs. Domestic revenues were below the indicative floor by an insignificant amount. Reflecting our strong commitment to the PSI and the SCF arrangement objectives all structural benchmarks due as of end-June were met, with the exception of the National Investment Policy that was delayed due our desire for additional consultations with the private sector.

Rwanda's performance under the SCF and PSI-supported program has remained strong. Growth averaged about 6.5 percent in the first half of 2016, supported by the services sector, despite a decrease in industrial activity in the second quarter of 2016, due to contraction of construction activity as large construction projects came to completion. The RWF has depreciated further with respect to U.S dollar since 2015, which contributed to a rise in inflation, mainly under pressure due to reduced harvests in agriculture, attributed to adverse El Niño-related weather. Fiscal performance for FY2015/16 was in line with the program objectives. As a result of the implementation of adjustment measures, gross official reserves are projected to improve and the current account deficit to narrow over the medium term as measures to constrain imports and boost exports are being implemented.

In light of this satisfactory performance and its continued commitment to sound policies, the government requests the completion of the sixth review under the PSI-supported program and the first review of the SCF arrangement. We request a waiver for nonobservance of the continuous quantitative performance and assessment criterion on external debt arrears, while requesting modification of the definition of this criterion in the Technical Memorandum of Understanding to allow an additional 30-day period for external arrears on debt contracted

by public enterprises and public-private partnerships to ensure that monitoring processes are effective, and avoid undue requests for waiver. We are also requesting minor revisions in forward-looking program targets, as a result of updated information on budget support disbursements, and some refinement in 2017 projections.

We will maintain a close policy dialogue with the IMF and stand ready to take any further measures that may become appropriate for the achievement of our economic program.

We will continue to consult with the IMF on the adoption of measures, and in advance of revisions of the policies contained in the attached MEFP, in accordance with the IMF's policies on such consultation. We will also provide the IMF with the information it requests for monitoring program implementation.

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/

**Mr. Claver Gatete,**

Minister of Finance and Economic Planning

/s/

**Mr. John Rwangombwa,**

Governor, National Bank of Rwanda

Attachments:

1. Memorandum of Economic and Financial Policies.
2. Technical Memorandum of Understanding.



## Attachment I. Memorandum of Economic and Financial Policies

December 16, 2016

### INTRODUCTION

This MEFP reviews performance under the SCF- and PSI-supported program through end-June 2016 and discusses the macroeconomic outlook and policies of the Government for the remainder of the year and for 2017. It also lays out proposed modified quantitative targets for end-December 2016, and end-June 2017, and structural benchmarks through end-September 2017.

### RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE SCF/PSI

#### Growth and Inflation

1. Growth in the first half of 2016 was slightly below the five-year average, at 6.5%, with Q1 growth of at 7.6% due to both agriculture and industry performing especially well. Growth decelerated in Q2 to 5.4%, with negative growth in industrial activity for the first time since 2009, mainly reflecting reduced activity in construction as well as the continued reduction in output of the mining sub sector. The reduced activity in construction was due to the completion of large hotel projects.
2. In terms of inflation, 2016 has seen the highest average inflation rate in Rwanda since 2012 due to a combination of increasing prices of both imported products and food crops (especially vegetables). Annual average inflation was 5.4 percent in October 2016.

#### Sustainable Solutions to Cope with Drought is Ongoing

3. Rwanda has in recent times experienced prolonged droughts (mainly in the Eastern Province), causing crop failure of over 23,000 hectares and loss of some 2,000 cows. In response, about 45,000 hectares have been irrigated and 13 valley dams have been constructed in Eastern Province to address the issue of lack of water especially for cattle. The government has extended food support to households that faced acute food shortages, as well as distributed more than 160 tons of seeds for planting.

## Fiscal Policy and Budget Execution for FY15/16

4. Tax revenue collections in fiscal year 2015/16 were strong, largely due to high-than-expected collection from: (i) personal income taxes reflecting increased employment in the construction and the financial sectors; (ii) increased VAT collection through expanded utilization of the electronic billing machines; and (iii) higher collection of import taxes reflecting exchange rate depreciation against countries outside EAC. This better-than-expected performance was achieved despite poor performance of mining royalties and lower local Government taxes following later-than-anticipated enactment of the fixed asset tax law. Whilst grants were on target, there was a small shortfall on the disbursement of project loans due to delayed implementation of some infrastructure projects, notably in the energy and roads sectors.
5. Total expenditure and net lending in fiscal year 2015/16 was about 0.4% of GDP lower than projected for the period. Whilst recurrent spending exceeded its projected amount by about 0.8% of GDP, lower-than-expected spending under capital expenditure and net lending more than offset this. Wages and salaries and peace-keeping operations (for which the Government was fully compensated) fully accounted for the excess spending while lower capital spending occurred due to delayed completion of some projects.
6. The overall fiscal deficit at 3.5% of GDP was lower than the 5% of GDP previously projected for the period with net domestic financing correspondingly lower.

## Monetary and Financial Sector Developments

7. Although the policy rate was kept at 6.5 percent, the monetary policy stance was tightened, with decelerated growth in broad money of 1.3 percent from December 2015 to September 2016. Moreover, over the first nine months of 2016, the outstanding stock of credit to the private sector grew by 10.8% against 20.9% recorded in the corresponding period of 2015. As already mentioned, annual average inflation by October 2016, stood at 5.4 percent, mostly due to inflationary pressures from rising food prices (especially vegetables) and higher import prices induced by exchange rate pressures.
8. Rwanda's structural excess liquidity position has seen some recent temporary reversals. Banks' excess reserve position at the NBR was low in the third quarter and the interbank market became more active with relatively high rates (around the policy rate). As a result, the NBR started to inject liquidity in the banking sector through reverse repo operations.

**9.** Over the first 9 months of 2016, new authorized loans increased by 9.3%, comparable to the corresponding period of 2015. The main sectors financed are commerce, restaurants and hotels (47%), followed by public works and building (24%) with manufacturing activities at 7.2%. Credit to the private sector has grown at 10.8% in total compared to the end of December 2015 but a large portion (\$73.9m) associated with KCC will be repaid by the end of the year.

**10.** The Central Bank is revising its legal and regulatory framework:

- Central Bank Law was revised, to further ensure its independence and strengthen its corporate governance.
- The Banking law was revised to incorporate the FSAP recommendations and ensuring the compliance with the 29 Basle Core Principles.
- The Central Bank is strengthening its financial consumer protection legal frameworks: the financial consumer protection law is planned to be discussed by the BNR board in December 2016, and thereafter will proceed for cabinet approval. BNR also issued a regulation on disclosure requirements for banks. This regulation requires banks to communicate all fees, charges, and nominal interest rates they charge on their loan products.

### External Developments

**11.** Rwanda's current account deficit is projected to reach USD 1394 million by end December 2016, a modest upward revision from April's initial projection. The deterioration is largely due to the worsening services balance, partly due to better tracking of travel payments abroad by Rwanda nationals.

**12.** As an offset, the trade balance is expected to improve by 2% compared to initial projections because exports are expected to grow by 6.5% compared to an earlier decline. This growth is mainly driven by the expected recovery in mineral prices, particularly for tin.

**13.** Imports projections have also been revised upwards because of fuel and higher imports of capital goods. The growth in imports of capital goods reflects faster implementation of public investment projects, including the Kigali Conventional Center which is now completed, while fuel imports have been revised upwards mainly due to increased prices.

**14.** There has been continued pressure on the forex market in 2016. To ease these pressures, BNR has increased its sales of foreign exchange by US\$50 million to US\$260 million for the first 9 months of 2016. Therefore, as expected, the exchange rate continued playing a central role in

adjustment to mitigate effects of external pressures. The Rwandan exchange rate has depreciated sharply, by 8.4% as of end September 2016, since the end of 2015.

### Developments in Financial Sector Soundness and Stability Indicators

**15.** Banks are still performing very well compared to their required ratios but have slightly slowed down since the end of 2014 on all of the core measures, due to the relative slowdown of the economy.

Performance Indicators for the Banking System and Microfinance Sector			
	<u>Dec-14</u>	<u>Dec-15</u>	<u>Jun-16</u>
<b>Banks</b>			
Capital / Risk Weighted Assets ( <i>Min 15%</i> )	24%	22.5%	21%
Liquid assets to total deposits ( <i>Min 20%</i> )	49%	46%	43%
Non-Performing Loans (NPLs)	6%	6%	7%
ROA	2%	2%	2%
ROE	11%	11%	9%

### Program Performance

**16.** All structural benchmarks were met apart from the submission for cabinet approval of the National Investment Policy, which is underway. All end-June 2016 quantitative assessment and performance criteria (QACs and PCs) and indicative targets (ITs) were met, with exception of the non-accrual of external payment arrears and the domestic revenue target. A waiver on the continuous criterion on payment of external debt is being requested to address a small and temporary delay of external payments by Rwandair. The management of Rwandair has been warned about the implications of not making payments in a timely manner. To ensure that future payments are not delayed, the Debt Management Unit in the Ministry of Finance and Economic Planning has put in place a 'reminder mechanism' to ensure timely payments of debt by SOEs. A formal notification of payment is sent to the SOEs and further checked against a monthly debt report prepared and submitted by SOEs to the Debt Management Unit.

**17.** Moreover, the Government proposes changing the definition of the external payments program criterion in the Technical Memorandum of Understanding to allow an additional 30-day period for external arrears on debt contracted by public enterprises and public-private partnerships to ensure that monitoring processes are effective, without being overly onerous on capacity.

The intent would not be to encourage accrual of debt, but to avoid undue requests for waivers and minimize the potential for unintentional misreporting.

## **MACROECONOMIC OUTLOOK AND POLICIES FOR 2016 AND THE MEDIUM TERM**

**18.** Reducing the external current account deficit is and remains at the center of Government's near and medium term policies. Since last year, adjustment measures had been taken to prevent exacerbating the issue. In the short term, measures have included reduction of both public and private demand through exchange rate flexibility, combined with prudent fiscal and monetary stances.

**19.** The other aspect of the Government's two-pronged approach in tackling the balance of payments issues is to foster growth of exports, as well as and imports replacement through a 'Made in Rwanda' campaign. Areas concerned range from the construction and manufacturing industries to textiles and garments industry. It also includes efforts in exporting flowers and boosting tourism. As part of the country's MICE strategy, following completion of the Kigali Convention Center and some high-end hotels, the Government has established Rwanda Convention Bureau to coordinate national efforts in attracting events and conferences in Rwanda, which is already yielding some positive results. Rwanda has also started exporting garments and flowers, on a small scale, with expectations for production to increase significantly next year. On the other hand, on the construction side, imports of cement have been reducing, partly thanks to increased domestic production.

### **Growth and Inflation**

**20.** GDP is expected to grow at 6% in 2016 and 6.2% in 2017 before increasing to average 6.7% over 2018–19. These are broadly similar to the projections made in April, but reflect slightly different compositions with higher service growth in 2016, reaching 8.6%, offsetting lower agriculture and industry. 2017, in contrast, now sees higher projections for industry. The high growth in industry stems from recovery of construction activity and increased manufacturing activity resulting from the promotion of Made in Rwanda products. Increased activity should be focused on output in the textiles, apparel and leather industry following the tax hike on imported second hand clothes and footwear. Growth in 2018-19 is expected to return to the potential growth range of 6.5 -7.0 percent.

**21.** After a year of particularly high inflation caused by a shock to food production which saw vegetable prices increase and pass-through of exchange rate depreciation, the inflation forecast for this and next year are slightly higher. In 2016, inflation is expected to average 5.6% over the year and end at 6% as high food price inflation persists. In 2017 inflation is expected to remain above 5 percent on average as food and import price pressures continue to have an impact, prior to the inflation rate settling to an average of 5% in both 2018 and 2019.

### Fiscal Policy

**22.** Fiscal policy for 2016/17 and 2017/18 continue to be guided by the need to address external imbalances, stemming largely from outside factors. The budget for fiscal year 2016/17 will be revised with a supplement in early 2017 to address a decline in external grants, the need to recoup some of the delayed spending from fiscal year 2015/16 for some priority expenditures, and funds to pre-finance new Peace Keeping operations for the UN. Consistent with this policy, total expenditure and net lending is being adjusted slightly upwards from 27.1% of GDP to 27.6% of GDP, while grants are being revised downward by 0.6% of GDP. The overall cash deficit, originally set at 3.9% of GDP is now projected at 5.0% of GDP (or 4.7% of GDP excluding the one-off PKO pre-financing, which will be repaid later). Additional details include:

- Tax revenue collections are now projected to rise marginally from 16% of GDP to 16.1% of GDP, due to VAT on goods and services resulting from the accelerated roll out of electronic billing machines, an increase in non-EAC imports, and larger-than-expected exchange rate depreciation.
- Total grants are revised downwards from 5.4% of GDP to 4.8% of GDP on account of lower expected disbursements;
- Total expenditure and net lending is rising from 27.1% of GDP to 27.6% of GDP. This includes:
  - 0.4% of GDP in additional recurrent spending for hiring in priority sectors, domestic interest expenditures and the pre-payment of peacekeeping operations;
  - Exceptional Expenditure - 0.4% of GDP representing the pre-financing cost of additional troops for UN peace-keeping operations.
  - Domestically-financed capital spending – although additional authorizations for RWF 13 billion will cover delayed spending for infrastructure projects in energy and roads from fiscal year 2015/16, overall there will be 0.2 % of GDP less in capital expenditures, meaning that 2/3 of the loss of Global Fund grants are offset by use of domestic resources;

- 0.2% of GDP in additional net lending, reflecting additional subsidies to Rwandair, export promotion measures, and other obligations.

**23.** The fiscal policy stance for fiscal year 2017/18 will be tightened slightly more than originally envisaged, for a deficit of 4.0% of GDP. Total revenue and grants are estimated at 22.7% of GDP, reflecting 0.5% of GDP less in grants partly offset reimbursements from the UN for peacekeeping financing. Total expenditure and net lending for FY 2017/18 is projected at 26.4% of GDP.

**24.** Fiscal policy over the medium term will continue to aim at fiscal consolidation through accelerated revenue mobilization, including tax policy changes and measures to improve tax administration. Several of these have been included in program conditionality, including:

- Implementation of the pilot phase of the “EBM for all” project by October 2017 with the intent of reaching 10,000 taxpayers within one year;
- Preparation of the RRA 2017/18 compliance improvement plan aimed at improving compliance with tax legislation. This plan indicates the sectors and taxpayer segments to be focused on during the year for various actions aimed at improving compliance;
- RRA will report on the activities undertaken to improve the integrity of the registered taxpayer base. RRA has embarked on a project to clean up the taxpayer registration database by improving the accuracy of information held therein. This will enable identification of dormant taxpayers and taking the necessary actions to deal with them; as well as improving the effectiveness of compliance monitoring across the areas of filing, payment and providing relevant taxpayer education.

**25.** At the same time, continued expenditure prioritization will be stressed to safeguard social spending and choose public investment projects with the greatest economic and social returns, while gradually reducing reliance on external finance. Efforts are also underway to improve accounting and fiscal reporting. These objectives are reinforced through measures to introduce the International Public Sector Accounting Standards (IPSAS) to general government to reach full accrual based financial accounts by 2020. A roadmap towards progressive compliance to IPSAS was developed, a blueprint (detailed action plan) for its implementation will be developed by June 2017.

### Debt Management

**26.** Prudent management of resources will also ensure that the total debt in the medium to long term continues to be sustainable. While gradually reducing reliance on external finance, the Government will nonetheless attempt to ensure that the external financing mix is on the best terms

possible, with an emphasis on concessional financing. External borrowing plans are unchanged from those outlined in the previous PSI review. For the forthcoming Bugesera airport, options are being explored for private borrowing without a government guarantee, as the government intends to keep its debt risk rating at “low.”

### Monetary and Financial Sector Policies

**27.** With a projected worsening in the current account balance and unchanged borrowing prospects, an injection of forex will likely be required in 2016, leading to a drop in central bank NFA while keeping reserve money growth at around 8.9%. With broad money projected to grow at 10.7% (a bit above the tendency observed so far this year), this would allow for private sector credit growth of 15.7%.

**28.** BNR has adopted a more flexible approach in the implementation of the reserve money program. The objective remains to manage reserve balances on a day-to-day basis with a view to balancing supply and demand, even if in the short-term the resulting level of reserve money can appear above or below the trend reserve money band.

**29.** For better management of liquidity and strengthen short term monetary policy transmission, BNR intends to:

- Gain a deeper understanding of the drivers of banking system liquidity, for the purposes of better control and analysis;
- Improve the liquidity forecasting framework, including more comprehensive Treasury cash flow forecasting, in order to guide monetary operations;
- Provide incentives through a stable and predictable liquidity management framework to, among other things, develop the money market. The NBR will continue to consider a more flexible use of the interest rate in repo transactions in order to create room for interbank transaction at market determined interest rates.

**30.** Currently, the National Bank of Rwanda is in the process of reviewing the existing regulatory frameworks in banking sector, insurance sector, microfinance sector, payment system and pension.

- In Banking sector, the regulatory review is being done by incorporating new standards notably implementation of Basle capital accords (II and III), new liquidity requirements (LCR and NSFR) and general provisions.



- The insurance regulatory framework is being reviewed by introducing the risk-based capital requirements and strengthening the corporate governance.
- In the microfinance sector, the regulatory framework is being reviewed to enhance the corporate governance, applicable to MFIs and SACCOs.
- In payment systems, specific regulations were put in place to ensure mobile money platforms are safe.
- In the pension sector, following enactment of the new pension law earlier this year, the National Bank has developed regulations licensing and pension operations.

**31.** Before adopting the use of a policy interest rate as the monetary framework operating target by 2018, the central bank has embarked on integrating forecasting more into the monetary policy decision-making process, supported by the IMF's Forecasting and Policy Analysis Systems framework (FPAS). In the meantime, the central bank will continue to rely on a monetary targeting regime, while encouraging development of a stronger monetary transmission mechanism. For example, actions to develop the interbank market are yielding good results, as evidenced by money market rates that are now evolving closer to the key repo rate.

### Exchange Rate and External Policies

**32.** The exchange rate will remain market-driven in Rwanda and this flexibility will help to address external imbalances. For the time being, the NBR envisages continuing to regularly sell modest amounts of foreign exchange to commercial banks to meet continued demand.

**33.** Prices for Rwanda's key export products such as coffee and tea are projected to improve. This, coupled with expected good performance in coffee in accordance with cyclical behavior and a new tea factory that has been commissioned, is expected to boost export growth. However, this improvement will partly be offset by an expected increase in price of fuel products.

**34.** Since April, one of the biggest changes is the renewed focus on import substitution in Rwanda to address external imbalances. These are based on choosing a few key sectors (cement, sugar, rice and clothing) where local production can displace current imports. Regarding sugar, the government is looking for a new investor to take charge of sugar production and is offering land for sugar cane plantations. In the case of rice, the government is expanding acreage by 8,000 hectares with the objective of making the country self-sufficient in rice by 2018. With regard to cement, CIMERWA has expanded and start increasing the local production with is partly explaining the

decline of Intermediate goods in 2016. For second hand clothes and footwear, higher import taxes have been implemented to encourage development of domestic production.

**35.** The current account is projected to deteriorate in 2016, before improving in 2017 and 2018. The decline in 2016 is due to a further decline in exports as a result of depressed international mineral prices, combined with large imports related to big projects such as Kigali Convention Center, new planes for Rwandair, as well as higher fuel and other import prices and two Airbus of Rwandair. The improvement in the current account in 2017 and 2018, is driven by a real reduction of imports, combined with more exports, particularly of non-traditional goods. The situation will allow the banking system to maintain foreign reserve coverage around 4 months of imports over the medium term, and build up thereafter.

**36.** In the medium term, official foreign reserves are expected to continue increasing mainly due to an expected recovery in the exports sector and reduced imports bill due to Made in Rwanda Campaign and other import substitution initiatives. Furthermore, investments made under Public Private Partnership (PPP) framework are expected also to start generating foreign exchange which will contribute to improving private inflows and therefore reduce pressures on the current account balance.

**Table 1. Quantitative Assessment Criteria, Performance Criteria, and Indicative Targets<sup>1</sup>**

	Dec 2016		June 2017	
	PSI 5th Review	Proposed program	PSI 5th Review	Proposed program
(Billions of Rwandan francs, unless otherwise indicated)				
<b>Assessment/Performance criteria</b>				
Ceiling on the overall fiscal deficit, including grants <sup>2,3</sup>	100.8	139.5	246.8	324
Net foreign assets of the NBR at program exchange rate (floor on stock) <sup>3</sup>	520.0	555.0	471.8	474
Reserve money (ceiling on stock) (upper bound) <sup>4</sup>	320.8	320.8	347.9	330
Reserve money (ceiling on stock) <sup>4</sup>	313.9	313.9	340.4	323
Reserve money (ceiling on stock) (lower bound) <sup>4</sup>	307.0	307.0	332.9	316
External payment arrears (US\$ millions) (ceiling on stock) <sup>5</sup>	0.0	0.0	0.0	0
<b>Indicative targets</b>				
Net domestic financing (ceiling on flow) <sup>2,3</sup>	-123.6	-101.4	-50.3	-6
Domestic revenue collection (floor on flow) <sup>2,6</sup>	539.0	539.0	1157.1	1157
Net accumulation of domestic arrears (ceiling on flow) <sup>2</sup>	-10.0	-10.0	-20.0	-10
Total priority spending (floor on flow) <sup>2</sup>	338.8	338.8	707.5	716
New external debt contracted or guaranteed by nonfinancial public enterprises (US\$ millions) (ceiling on stock) <sup>5</sup>	500	500	500	500
<b>Memorandum items:</b>				
Total budget support (US\$ millions) <sup>2,6</sup>	309.0	302.8	439.1	439
Budget support grants (US\$ millions)	131.0	105.5	261.1	222
Budget support loans (US\$ millions)	178.0	197.3	178.0	217
RWF/US\$ program exchange rate	807.2	807.2	807.2	807.2

Sources: Rwandan authorities and IMF staff estimates and projections.

<sup>1</sup> All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup> Numbers for June 2016 are cumulative from 12/31/2015; numbers for December 2016 and June 2017 are cumulative from 6/30/2016.

<sup>3</sup> Subject to adjusters. See TMU for details.

<sup>4</sup> Targets are calculated as an arithmetic average of the stock of reserve money for the 3 months in the quarter. AC and PC applies to upper bound only.

<sup>5</sup> Ceilings on external arrears and external borrowing are continuous.

<sup>6</sup> Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

**Table 2. Structural Benchmarks for PSI/SCF for December 2016–September, 2017**

<b>Policy Measure</b>	<b>Target Date</b>
<b>Monetary</b>	
Define and target a range of excess reserves conducive to developing the interbank market.	End- December 2016
Introduce the real horizontal REPOs including transfer of collateral across banks in order to facilitate transactions between banks and boost the trading of debt securities.	End-March 2017
Develop a methodology to identify policy interest rate consistent with the identified range of excess reserves.	End- June 2017
<b>Public Financial Management</b>	
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter.	Each quarter
Submit revised National Investment Policy to Cabinet.	End-March 2017
Operationalize IFMIS and E-procurement interface protocols.	End-December 2016
Design a strategy to incorporate fiscal risks and foreign exchange needs into project planning assessments, starting with PPPs.	End-June 2017
Set up framework for recording donor project support in one sector (e.g. health, education, infrastructure), as an initial step to establishing it more broadly.	End-March 2017
Produce an inventory of project accounts at the central bank, for the purposes of improving accounting for inflows and outflows.	End-March 2017
<b>Fiscal Revenues</b>	
Produce detailed report on tax expenditures for FY15/16.	End December 2016
Submit to Parliament revised legislation on fixed asset tax.	End-March 2017
Approve new risk management plan for FY17/18 to improve tax compliance.	End-June 2017
Produce draft study on new tax regime for agriculture.	End-September 2017
Issue report on "clean up" of tax registry.	End-September 2017
Initiate the rollout of "EBM for all" pilot, with the intent of reaching 10,000 taxpayers within one year.	End-October 2017

## Attachment II. Technical Memorandum of Understanding

December 16, 2016

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period July 1, 2016–December 31, 2017 supported by the IMF Policy Support Instrument (PSI) and the Standby Credit Facility (SCF), and sets out the data reporting requirements. This TMU updates the one of May 25, 2016.

### Quantitative Program Targets

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

3. AC and PC will apply to the following indicators for December 31, 2016 and June 30, 2017 (the test dates) throughout the program period:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on the overall deficit, including grants as measured on a commitment basis; and
- Ceiling on stock of external payment arrears of the public sector (assessed on a continuous basis).

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

- Ceiling on flow of net domestic financing (NDF) of the central government;
- 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 contracting or guaranteeing of new non-concessional external debt of nonfinancial public enterprises (assessed on a continuous basis); and
- Floor on flow of priority spending.

5. **Program exchange rates.** For accounting purposes, the program exchange rates in Text Table 1 will apply.

<b>Text Table 1. Program Exchange Rates</b> (US\$ dollar per currency unit, unless indicated otherwise)	
	<b>from July 1, 2016</b>
Rwanda Franc (per US\$)	807.2
Euro	1.12
British Pound	1.44
Japanese Yen (per US\$)	113.6
SDR	1.40

### Institutional Coverage of the Fiscal Sector

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

### Targets Related to the Execution of the Fiscal Program

#### Ceiling on Net Domestic Financing of the Government (IT)

7. **A ceiling applies to NDF.** The ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

8. **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 domestically issued debt.

9. 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,<sup>1</sup>

<sup>1</sup> 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.

(continued)

includes government debt to the NBR amounting to RWF 38.6 billion incurred as a result the overdraft to the pre-war government and the 1995 devaluation <sup>2</sup>, 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* as well as the portion of funds for Peace-keeping Operations (PKO) reserved for the payment of wages and other allowances to peace-keeping troops and police.).

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

#### **Adjusters to NDF:**

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary grants and loans (as defined in Table 1 of the MEFP), up to a maximum of RWF 69billion. In the event that actual budgetary grants exceed programmed levels, the ceiling on NDF will not be adjusted. In the event that actual budgetary loans exceed programmed levels, the ceiling on NDF will be adjusted *downward*.
- The ceiling on NDF will be adjusted *upward* up to a maximum of RWF69 billion representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.

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<sup>2</sup> 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.

- The ceiling on NDF will be adjusted *upward* by the amount of unexpected public expenditures on food imports in the case of a food emergency.
- The ceiling on NDF will be adjusted *upward (downward)* up to a maximum of RWF69 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.

### Overall Fiscal Deficit Including Grants (QAC/PC)

**11. A ceiling applies to the overall fiscal deficit including grants.** The ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

**12. Definition.** For the program, the overall deficit including grants is valued on a commitment basis. That is, the overall fiscal balance is the difference between the government's total revenue and grants and total expenditure and net lending (costs and acquisition net of nonfinancial assets). The definition of revenues and expenditures is consistent with that in the 2001 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

### Adjusters to the Overall Fiscal Deficit Including Grants:

- The ceiling on the overall deficit will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1 of the MEFP), up to a maximum of RWF 69 billion.
- The ceiling on the overall deficit will be adjusted *upward*, up to a maximum of RWF69 billion, representing the amount of foreign financed capital expenditure financed with draw-down of accumulated government deposits as specified in the definition of NDF.
- The ceiling on the overall deficit will be adjusted *upward* by the amount of unexpected public expenditures on food imports in the case of a food emergency.
- The ceiling on the overall deficit will be adjusted *upward (downward)*, up to a maximum of RWF69 billion, by any unplanned financing shortfall (surplus) from Peace Keeping Operations.



### Floor on Flow of Domestic Revenues (IT)

**13.** The floors for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

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

### Floor on Priority Expenditure

**15.** The floor applies to priority spending of the government. The floors for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

**16. Definition.** Priority expenditure is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the EDPRS2. Priority expenditure is monitored through the Integrated Financial Management Information System (IFMIS) which tracks priority spending of the annual budget at the program level.

### Net Accumulation of Domestic Expenditure Arrears of the Government (IT)

**17.** A ceiling applies to net accumulation of domestic expenditure arrears of the government.<sup>3</sup> The ceilings for December 31, 2016, and June 30, 2017, are cumulatively measured from June 30, 2016.

**18. Definition.** Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 90 days. These will include payments for tax refunds, employee expenses (wages and salaries, staff claims for travel, and other non-salary allowances), utilities, rents, recurrent goods and services, and construction works. Accumulation of domestic expenditure arrears of more than 90 days is calculated as a cumulative change in the stock of expenditure arrears of more than 90 days at each test date from the stock at the end of the previous fiscal year (June 30). Arrears related to claims preceding 1994 will not be counted in the calculation.

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<sup>3</sup> A negative target thus represents a floor on net repayment.

## Limits on Debt

### Limit on new External Debt of Nonfinancial Public Enterprises (IT)

**19. A ceiling applies to the contracting and guaranteeing by nonfinancial public enterprises of new external borrowing with non-residents (see below for the definition of debt guarantee and debt).** The ceiling excludes external borrowing by two state-owned banks, the Bank of Kigali and Rwanda Development Bank (BRD), which are 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. The ceiling will exclude external borrowing which is for the sole purpose of refinancing existing public sector debt and which helps to improve the profile of public sector debt.

**20.** Public sector includes the government, entities that are part of the budgetary process and nonfinancial public enterprises which are entities in which the government holds a controlling stake (owning more than 50 percent of shares), but which are not consolidated in the budget. This definition of the public sector excludes the Bank of Kigali and Rwanda Development Bank (BRD). 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).

**21. The definition of debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(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 this paragraph, 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**

**22.** A continuous performance/assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the government and entities that form part of the budgetary process. 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. For the purpose of monitoring compliance with the PC on the non-accumulation of external arrears, external arrears are obligations that have not been paid on the due date (taking into account the contractual grace periods, if any). External payments arrears on external debt service obligations by nonfinancial public enterprises that the government holds a controlling stake (owning more than 50 percent of shares) but do not form part of the budgetary process and public private partnership projects (which are defined as (i) infrastructure projects which involve the (ii) granting of a government guarantee and the (iii) participation of a public enterprise) are not included in the coverage of this external arrears PC/AC, unless these external payment arrears are overdue (under the terms of the contracts including any grace periods) by more than 30 days.

## Targets for Monetary Aggregates

### Net Foreign Assets of the National Bank of Rwanda (QAC/PC)

**23.** A floor applies to the net foreign assets (NFA) of the NBR for December 31, 2016 and June 30, 2016.

**24. 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. Reserves assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA for program purposes. 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.

#### Adjusters:

- The floor on NFA will be adjusted downward by the amount of any shortfall between actual and programmed budgetary loans and grants per Table 1 of the MEFP, capped at RWF 69 billion.
- The floor on NFA will be adjusted *downward (upward)* by the surplus (shortfall) of cash external debt service payments compared to originally-scheduled payments.
- The floor on NFA will be adjusted *downward* by the amount of unexpected public expenditures on food imports in the case of a food emergency.

### Reserve Money (QAC, PC)

**25.** A ceiling applies to the stock of reserve money for June 30, 2016, and December 31, 2016 as indicated in Table 1. Quantitative Assessment Criteria and Indicative Targets of the MEFP. The ceiling is the upper bound of a reserve money band (set at +/- 2.2 percent) around a central reserve money target).

**26.** 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.

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

**Adjuster:**

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjuster 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.

**Data Reporting Requirements**

**28.** For the purposes of program monitoring, the Government of Rwanda will provide the data listed below and in Table 1. Unless specified otherwise, weekly data will be provided within seven days of the end of each week; monthly data within five weeks of the end of each month; quarterly data within eight weeks of the end of each quarter; annual data as available.

**29.** 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. 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.

**30.** Detailed data on **domestic revenues** will be transmitted on a monthly basis. Data on **priority expenditure** will be transmitted on a quarterly basis. Data on accumulation and repayment of **domestic arrears** and the remaining previous year's stock of arrears will be transmitted on a quarterly basis.

**31.** Data on **foreign assets and foreign liabilities of the NBR** will be transmitted on a weekly basis, 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.

**32.** Data on **reserve money** will be transmitted on a weekly basis. 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.

**33.** The authorities will inform the IMF staff in writing 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, wage policy, and financial support to public and private enterprises. The authorities will inform the IMF staff of changes affecting respect of continuous QACs and ITs. The authorities will furnish a description of program performance according to QACs and ITs as well as structural benchmarks within 8 weeks of a test date. The authorities engage to submit information to IMF staff with the frequency and submission time lag indicated in TMU Table 1. The information should be mailed electronically to the Fund. (email: [afrwa@imf.org](mailto:afrwa@imf.org)).

TMU Table 1. Summary of Reporting Requirements

	Frequency of Data <sup>9</sup>	Frequency of Reporting <sup>9</sup>	Frequency of Publication <sup>9</sup>
Exchange Rates <sup>1</sup>	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	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 <sup>3</sup>	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
Consumer Price Index <sup>4</sup>	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 <sup>5</sup> – General Government <sup>6</sup>	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>5</sup> – Central Government	Q	Q	Q
Comprehensive list of tax and non-tax revenues <sup>7</sup>	M	M	M
Comprehensive list of domestic arrears of the government	SA	SA	SA
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR <sup>8</sup>	Q	Q	Q
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

<sup>1</sup> 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.

<sup>2</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>3</sup> Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.

<sup>4</sup> 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.

<sup>5</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>6</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>7</sup> Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.

<sup>8</sup> Includes debts of the Bank of Kigali. Also includes currency and maturity composition.

<sup>9</sup> Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).