INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/335

RWANDA

November 2018

TENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR RWANDA

In the context of the Tenth Review Under the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 28, 2018, following discussions that ended on October 2, 2018, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangement under the Policy Support Instrument. Based on information available at the time of these discussions, the staff report was completed on November 13, 2018.
- A **Statement by the Executive Director** for Rwanda.

The document listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Rwanda*

* 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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INTERNATIONAL MONETARY FUND

RWANDA

TENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

November 13, 2018

KEY ISSUES

This is the tenth and final review of Rwanda's PSI-program, approved by the Executive Board on December 2, 2013. A concurrent 18-month SCF arrangement was approved on June 8, 2016 to support adjustment policies to eliminate external imbalances. The PSI-supported program was extended three times, on: June 8, 2016; November 19, 2017; and January 12, 2018. When it expires on December 1, 2018, the program will have reached its maximum 5-year limit.

Recent Developments. After a dip in 2016–17, real GDP growth has been recovering over the past four quarters. Growth averaged 8.6 percent in the first half of 2018 and, despite a temporary deceleration in Q2, remains in line with projections for 7.2 percent for the year. Growth in the medium term should remain at or higher than historical averages, based on a strong pipeline of tourism and business tourism, new mining operations, more resilient agriculture, new and more diversified exports, and construction of a new airport. Inflation remains low, and expectations within targeted ranges. External balances and reserve buffers continued to improve, while the financial sector remains healthy.

Program performance. For the tenth review, all continuous and end-June quantitative targets and all structural benchmarks were met. In spite of various shocks, Rwanda has made good progress toward the objectives of the original PSI-supported program. Domestic revenue mobilization, careful spending containment and strong debt management have rendered fiscal and debt positions sustainable, while still allowing for a growth-enhancing scaling up of public investment and social spending in line with the country's development strategy. Numerous reforms have been introduced to establish the preconditions for a forward-looking monetary policy framework, while inflation has remained contained and financial sector supervision and stability has been enhanced. The authorities' public investment strategy has supported higher value-added economic activity and diversified exports, providing a sound foundation for high growth and poverty reduction.

Staff recommends completion of the tenth and final review of Rwanda's PSI-supported program.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 18/444
FOR IMMEDIATE RELEASE
November 30, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Tenth PSI Review for Rwanda

The Executive Board of the International Monetary Fund (IMF) today completed the tenth and final review of Rwanda's performance under the Policy Support Instrument (PSI).[1]

The PSI for Rwanda was approved on December 2, 2013 (see Press Release No.13/483), and extended on January 12, 2018, to December 1, 2018 (see Press Release No.18/02).

The PSI-supported program emphasized four priority areas for maintaining macroeconomic stability while supporting inclusive growth and poverty reduction. These include maintaining a sustainable fiscal position by enhancing domestic revenue mobilization (DRM) and pursuing public financial management (PFM) reforms; ensuring stable and low inflation by modernizing the monetary policy framework; improving financial inclusion while reducing financial sector vulnerabilities by strengthening financial supervision; and preserving external stability, including debt sustainability.

The authorities reaffirmed forward-looking policy commitments and are brainstorming with staff on topics of interest for a potential successor program supported by the IMF. This will also help sharpen how future engagement can support implementation of the National Strategy for Transformation (NST) and achievement of the Sustainable Development Goals (SDGs) while maintaining macroeconomic sustainability. IMF capacity development underway will continue to support the authorities in key areas for structural reform. Staff and the authorities agreed that the capacity development strategy will continue to focus on domestic revenue mobilization, transition to the interest rate-based monetary policy operational framework, improving the coverage, timeliness and transparency of fiscal reporting and the monitoring of fiscal risks, harmonizing BOP and national accounts, and strengthening financial sector supervision.

[1] 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 PSI are available at www.imf.org/rwanda.

Recent Economic Developments

Real GDP growth has been recovering over the past four quarters and averaged 8.6 percent in the first half of 2018. The rebound was in line with the projected growth rate of 7.2 percent for 2018. Growth was robust in most areas, except construction, with pronounced pick-ups in non-traditional exports and services. Over the medium term, investment in public infrastructure and interventions to promote structural transformation and diversified exports, underpinned by strong DRM efforts and PFM reforms, should sustain growth in line with or above historical averages.

Inflation remains low and expectations are anchored within a ±3 percentage points range of the medium-term target of 5 percent. The monetary policy stance remains broadly neutral. The central bank has maintained its policy rate at 5.5 percent so far in 2018, after a cumulative 100 basis point reduction in 2017. Money supply growth, at 9.6 percent y/y in August, remained broadly in line with economic activity.

The headline FY17/18 fiscal deficit was unchanged from the previous year, at 4.6 percent of GDP. However, the primary deficit excluding grants and UN peace keeping operations (PKO) was reduced, from 8.2 to 8.0 percent of GDP.

External balances and reserve buffers continued to improve, while the financial sector remains healthy. The trade deficit has continued to decline, by 6 percent from October 2017-September 2018. The current account deficit has been revised modestly upward, including in projections, reflecting an updated methodology for estimating travel expenditures.

External balances continue to improve.

Program Summary

In spite of various shocks, Rwanda has made good progress toward the objectives of the PSI-supported program. Domestic revenue mobilization, careful spending containment and strong debt management have rendered fiscal and debt positions sustainable, while still allowing for a growth-enhancing scaling up of public investment and social spending in line with the country's development strategy. Numerous reforms have been introduced to establish the preconditions for a forward-looking monetary policy framework, while inflation has remained contained and financial sector supervision and stability has been enhanced. The authorities' public investment strategy has supported higher value-added economic activity and diversified exports, providing a sound foundation for high growth and poverty reduction.

At the conclusion of the Executive Board discussion on Rwanda, Mr. Tao Zhang, Deputy Managing Director and Acting Chair stated:

"Rwanda's macroeconomic conditions have continued to improve owing to the strong implementation of reforms underlying the authorities' economic program. Over the past four quarters, economic activity has gained momentum and was broad-based, inflation remains low, and the economy's resilience to shocks has been boosted.

"Rwanda has made substantial progress toward the original objectives of its economic program supported by the IMF's Policy Support Instrument. Rapid, inclusive growth has resulted in sustained poverty reduction. Revenue mobilization efforts have increased resilience to declining aid flows. Headline inflation remains anchored within the authorities' medium-term target range and supported by implementation of several reforms to modernize Rwanda's monetary policy framework. Despite numerous shocks, adjustment policies have restored external stability and public debt has remained sustainable.

"The authorities have demonstrated a strong commitment to fiscal discipline while scaling up investment spending needed to implement their development plans. The new Vision 2050 and National Strategy for Transformation (NST) lay the foundation to help meet the SDGs and propel Rwanda to middle-income status over the longer term. Fiscal discipline has been complemented by efforts to bolster domestic revenue mobilization and improve fiscal transparency, but there is scope for additional progress on resource mobilization.

"Despite the notable achievements, external risks could pose hurdles to Rwanda's quest toward achieving middle-income status. It will be important to cement macroeconomic stability by preserving low inflation and debt sustainability. The structural reform agenda should continue encouraging more private investment. The Fund remains committed to help the authorities manage the risks as they move toward achieving middle-income status."

Table 1. Rwanda: Selected Economic Indicators, 2017-2020

	2017		2018		2019		2020	
	9th PSI Review	Act.	9th PSI Review	Proj.	9th PSI Review	Proj.	9th PSI Review	Proj.
	(Annual percentage change, unless otherwise indicated)							
Output and prices								
Real GDP	6.1	6.1	7.2	7.2	7.8	7.8	8.0	8.0
GDP deflator	7.3	7.3	3.0	3.0	4.9	4.9	5.8	5.8
CPI (period average)	4.8	4.8	2.8	2.8	5.0	5.0	5.0	5.0
CPI (end period)	0.7	0.7	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	1.8	1.8	-1.1	-1.7	0.3	0.1	0.9	0.7
Money and credit								
Broad money (M3)	12.3	12.3	16.5	17.8	18.8	14.8	…	21.7
Reserve money	8.8	8.8	12.3	13.4	14.1	12.8	…	20.2
Credit to non-government sector	13.9	13.9	15.1	11.0	15.2	14.0	…	17.0
M3/GDP (percent)	23.6	23.6	24.9	25.2	26.1	25.5	…	27.2
NPLs (percent of total gross loans)	7.6	7.6	…	…	…	…	…	…
General government budget	(Percent of GDP, unless otherwise indicated)							
Total revenue and grants	22.9	22.9	23.4	23.6	22.0	22.6	22.1	22.7
of which: tax revenue	15.5	15.5	15.8	15.8	15.8	15.6	16.0	15.9
of which: grants	4.7	4.7	4.9	5.1	4.0	4.5	3.9	4.3
Expenditure	27.6	27.6	27.5	29.4	26.2	26.7	25.6	26.1
Current	14.7	14.7	14.9	15.2	14.1	13.8	13.8	13.5
Capital	10.7	10.7	10.5	12.2	10.0	10.8	9.8	10.6
Primary balance	-3.6	-3.6	-3.0	-4.6	-3.2	-3.1	-2.5	-2.4
Overall balance	-4.7	-4.7	-4.1	-5.8	-4.2	-4.1	-3.4	-3.4
excluding grants	-9.4	-9.4	-9.0	-10.8	-8.2	-8.6	-7.3	-7.7
Net domestic borrowing	0.2	0.2	0.8	1.5	0.6	0.6	0.0	0.1
Public debt								
Total public debt incl. guarantees	48.3	47.1	49.0	49.7	49.0	49.5	47.3	47.9
of which: external public debt	37.5	37.5	39.2	39.9	39.7	40.1	38.6	39.1
Investment and savings								
Investment	23.4	23.4	25.0	25.6	25.9	26.3	25.9	26.6
Government	10.7	10.7	10.5	12.2	10.0	10.8	9.8	10.6
Nongovernment	12.7	12.7	14.6	13.4	16.0	15.5	16.1	16.0
Savings	12.5	10.9	12.4	11.7	13.8	13.0	14.6	14.7
Government	3.4	3.4	3.6	3.3	3.9	4.3	4.5	4.9
Nongovernment	9.0	7.5	8.8	8.4	10.0	8.7	10.1	9.8
External sector								
Exports (goods and services)	22.4	21.7	23.0	22.5	24.1	23.7	24.2	23.9
Imports (goods and services)	32.3	32.9	34.4	35.3	34.9	35.9	34.2	34.6
Current account balance (incl grants)	-6.8	-8.3	-8.8	-10.0	-9.0	-10.0	-8.3	-9.0
Current account balance (excl grants)	-10.9	-12.4	-12.6	-13.9	-12.1	-13.3	-11.4	-11.9
Current account balance (excl. large projects)	-6.4	-7.9	-8.6	-9.8	-7.8	-8.7	-7.2	-8.0
Gross international reserves								
In millions of US$	1163	1163	1240	1284	1332	1319	1460	1461
In months of next year's imports	4.1	4.1	4.0	4.1	4.0	4.0	4.1	4.1
Memorandum items:								
GDP at current market prices								
Rwanda francs (billion)	7,597	7,597	8,388	8,388	9,486	9,486	10,839	10,839
US$ (million)	9,136	9136	…	…	…	…	…	…
GDP per capita (US$)	772	772	…	…	…	…	…	…
Population (million)	11.8	11.8	12.1	12.1	12.4	12.4	12.7	12.7

Sources: Rwandan authorities and IMF staff estimates.

Approved By
Zeine Zeidane (AFR) and Yan Sun (SPR)

Discussions were held in Kigali during September 20–October 2, 2018. The mission comprised E. Alper (head), S. Kwalingana (all AFR), N. Meads (SPR), assisted by J. Bouhga-Hagbe (IMF/AFR Resident Representative in Kigali Office). L. Nankunda (OED) also attended mission meetings, and L. Redifer (AFR mission chief) joined for the mission conclusion. T. Gursoy and F. Morán Arce (both AFR) also contributed to this report.

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RECENT DEVELOPMENTS

1. **Growth remains in line with projections, with low inflation (Figure 1, Table 1).** A growth recovery that began in mid-2017 continued, with real GDP rising by 8.6 percent y/y in the first half of 2018. Growth was broad-based, with a pronounced increase in industrial activity, particularly clothing production, food processing, and public construction works. Flooding in the second quarter led to a deceleration, offsetting the positive impact of higher fiscal expenditures. Leading indicators suggest the decelaration in agricultural growth was temporary. Meanwhile headline inflation and core inflation remained low, at 1.2 percent and 1.6 percent y/y, respectively, in September, with declines in food prices more than offsetting rising energy prices.

2. **The FY17/18 fiscal outturn reflected somewhat higher investment spending (Figure 2, Tables 2a-b, 3a-b).** The headline FY17/18 fiscal deficit was unchanged from the previous year, at 4.6 percent of GDP. However, the primary deficit excluding grants and UN peace keeping operations (PKO) was reduced, from 8.2 to 8.0 percent of GDP. Total revenues increased, with improved administration compensating for weaker international trade taxes, owing to a secular shift towards EAC imports (which face lower tariffs). Compared to the revised FY17/18 budget/ninth review, the fiscal deficit was 0.8 percentage points of GDP higher mainly due to increased investment spending, financed by official development assistance accumulated in government deposits. The additional investment spending met priority objectives of the National Strategy for Transformation (NST), including expansion of rural roads, energy distribution, and vocational training. Program targets accommodate the use of (limited) drawdowns for this purpose.

Rwanda: Operations of Central Government

(in percent of GDP)	2016/1017	2017/18	
	Act.	9th Rev.	Prelim.
Revenue and grants	**22.7**	**22.8**	**22.8**
Total revenue	18.0	18.4	18.3
Total grants	4.6	4.3	4.5
Total expenditure and net lending	**27.3**	**26.6**	**27.4**
Current expenditure	15.0	14.5	14.7
Capital expenditure	10.7	9.9	10.6
of which: deposit drawdown	0.5	0.0	0.6
Net lending	1.6	2.2	2.0
Overall balance (commitment basis)	-4.6	-3.8	-4.6
Primary balance (excl. grants and PKO)	**-8.2**	**-7.4**	**-8.0**
Memo items:			
Adjusted QAC deficit ceiling		5.0	4.6
GDP	7,125	7,993	7,993

3. **The monetary policy stance remains broadly neutral (Figure 3, Table 4).** Money supply growth, at 9.6 percent y/y in August, remained broadly in line with economic activity. The central bank has maintained its policy rate at 5.5 percent so far in 2018, after a cumulative 100 basis point reduction in 2017. The decision to maintain the policy rate, despite rising international fuel prices, was based on low domestic inflation expectations and modest private sector credit growth (7.2 percent y/y at end-September). The latter reflects market saturation in key sectors (e.g. private construction and hotels) and tighter lending conditions in a few sectors that had experienced an uptick in non-performing loans (e.g. manufacturing).

4. External balances continue to improve (Figure 4, Table 5). Following a sharp correction in the current account balance in 2017, even with revised estimates (Box 1), the trade deficit has continued to decline, by 6 percent (US$ terms) from October 2017-September 2018. Strong export volume growth has continued, driven in part by: policies to increase the value-added of existing exports; efforts to become a regional distribution hub for re-exports; and emergence of new exports, including gemstones, and horticultural products.[1] Favorable export prices were a further benefit. Imports have picked up, supported by robust growth and commencement of airport construction, as well as rising prices for imports such as fuel and clothes. Increased domestic production in certain sectors, such as clothing production, have helped to contain the pace of import growth.

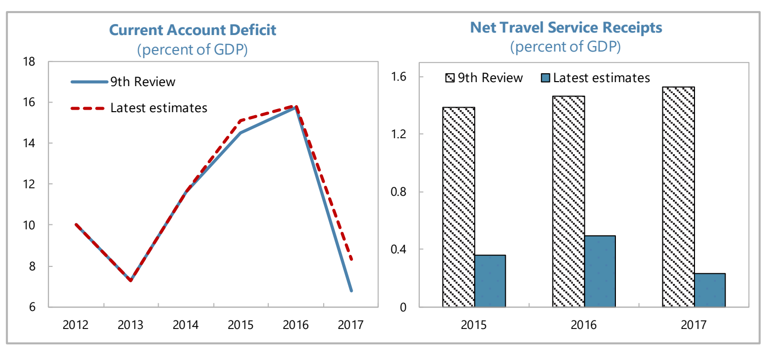
Rwanda: Trade Balance (October 2017–September 2018)
(percent change over previous period)

	Exports			Imports		Trade deficit
	Volume (kgs)	Value (US$)		Volume (kgs)	Value (US$)	Value (US$)
Total	**17.7**	**28.1**	**Total**	**11.3**	**6.7**	**-6.1**
Tea & Coffee	12.4	10.9	Capital Goods	6.4	2.3	
Trad. Mining	17.9	47.6	Clothes	2.5	11.8	
Other Exports	20.5	40.5	Cement	23.3	12.3	
Reexports	17.8	19.4	Fuel Products	11.3	22.8	

Source: National Bank of Rwanda

Box 1. Revised Estimates of the Current Account Balance

Estimates for Rwanda's net travel services have been revised. Following the revision, the current account deficit is revised up to 8.3 percent of GDP in 2017, compared to 6.8 percent of GDP at the time of the ninth review. That revision reflects the adoption of a new travel expenditure survey together with administrative records on resident and non-resident travel into and out of Rwanda. Application of the new survey methodology has resulted in revisions to estimates for net travel service receipts back to 2015.



5. The banking sector remains well-capitalized, with declining NPLs (Table 6). The banking sector capital adequacy ratio at end-June, at 21 percent, remained well above the regulatory minimum ratio of 15 percent. The NPL ratio has declined significantly since end-December, standing at 6.9 percent in end June, and profitability is improving. A rise in provisioning

[1] Other mineral exports continue to be driven by a mix of precious (Sapphires and Rubies) and semi-precious (Tourmaline and Amethyst) gemstones, as well as a small volume (0.6 tons) of high value gold exports in H1 2018.

to NPLs reflects commercial banks' implementation of the new loan loss provisioning under IFRS 9, effective from January 2018.

6. Program monitoring for the tenth review indicates strong performance (Tables 7 and 8). All continuous and end-June quantitative targets and all structural benchmarks were met.

ECONOMIC OUTLOOK AND RISKS

7. Growth and inflation outlook. Growth projections for 2018 and the medium term remain unchanged. Growth drivers include: strong goods and services exports with new and diverse export crops; new mining operations poised to commence; a robust pipeline of business conferences; more resilient agriculture from extensive irrigation; and construction of a new international airport over 2019–20. Inflation expectations remain anchored within a ±3 percentage points range of the medium-term target of 5 percent. Projections of the current account deficit have been revised modestly upward taking into account the changed methodology for estimating net travel expenditures.

Rwanda: Revised Macroeconomic Framework

	2017		2018		2019	
	Prog.	Act.	Prog.	Proj.	Prog.	Proj.
Real GDP growth (percent)	6.1	6.1	7.2	7.2	7.8	7.8
CPI inflation, average (percent)	4.8	4.8	2.8	2.8	5.0	5.0
CPI inflation, eop (percent)	0.7	0.7	5.0	5.0	5.0	5.0
Current account balance (percent of GDP)	-6.8	-8.3	-8.8	-10.0	-9.0	-10.0
Overall fiscal balance (commitment basis, percent of GDP)	-4.7	-4.7	-4.1	-5.8	-4.2	-4.1
Overall fiscal balance (excl. PKO, percent of GDP)	-4.8	-4.8	-4.6	-5.8	-4.1	-4.2
Gross international reserves (in millions of US$)	1163	1163	1240	1284	1332	1319
Gross international reserves (months of imports)	4.1	4.1	4.0	4.1	4.0	4.0
Memorandum items:						
	2017/18		2018/19		2019/20	
	Prog.	Prelim.	Prog.	Proj.	Prog.	Proj.
Overall fiscal balance (commitment basis, percent of GDP, FY)	-3.8	-4.6	-4.6	-5.1	-4.4	-4.6
Overall fiscal balance (excl. PKO, percent of GDP, FY)	-3.9	-4.2	-4.0	-4.7	-3.9	-4.0

Sources: Rwandan authorities and IMF staff estimates and projections.

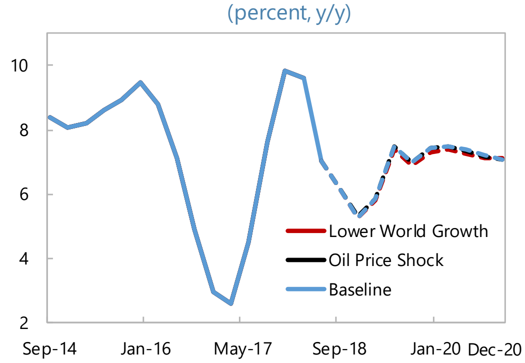
8. Potential risks to the outlook. Medium-term growth risks are tilted to the downside, although staff's analysis suggests that growth projections are resilient to downside risks of global growth (Box 2). Downside risks reflect perennial factors, including unpredictable weather, pests, Ebola outbreak in the region, and regional political issues, together with risks of adverse movements in international commodity prices. More impulse from the construction of the new airport and a stronger impact of tourism, mining, and emerging exports represent upside risks to the forecast.

Box 2. Impact Under Alternative Global Scenarios

The global economy is projected to grow at a solid pace, but with rising downside risks. The more uncertain forecast reflects a combination of: disruptive trade tensions; geopolitical strains in the Middle East and domestic tensions in Venezuela leading to oil price increases; higher yields in the United States; and market pressures in some countries with weaker fundamentals. Policy implications for Rwanda of the materialization of these risks were explored as a robustness check for growth projections. Compared to current WEO projections, two scenarios were considered: (i) lower global growth by a cumulative of 0.4 percentage points from 2018Q3–2019Q2 and 0.5 percentage points over 2019Q3–2020Q2; and (ii) a rise in oil prices by a cumulative 40 percent over 2018 Q3–2020 Q2.[1]

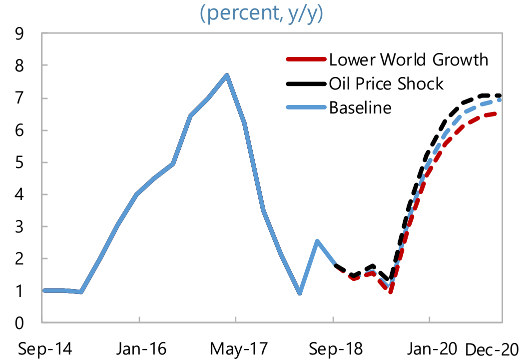
Staff's Quarterly Projection Model, calibrated for Rwanda, indicates that growth would remain mostly unaffected under the two scenarios, while inflationary pressures diverge. Lower global growth attenuates inflationary pressures, due to delayed monetary policy normalization in advanced economies, and reduces depreciation pressures on the RWF. By contrast, given that Rwanda is an oil importer, higher oil prices pass through to headline inflation by 0.5 percentage points.[2] In all scenarios, headline inflation is slightly above authorities' target, but within the EAC-recommended ±3 ppt band.

Real GDP Growth
(percent, y/y)



Sources: Rwandan authorities and IMF Staff estimates.

Inflation
(percent, y/y)



Sources: Rwandan authorities and IMF Staff estimates.

1/ The growth shock is identical to the scenario with confidence effects depicted in the G-20 Surveillance Note (July 2018), while the assumed oil price shock doubles the change in WEO assumptions on international oil price growth from October 2017 to June 2018.

2/ Although not included in the model, stockpiling of strategic fuel reserves at lower prices is intended, among other things, to mitigate higher fuel prices.

POLICY DISCUSSIONS

9. **Discussions centered on achievements of expiring PSI-supported program, policy commitments going forward, and the emphasis of future program engagement.** The current PSI-supported program, approved by the Executive Board on December 2, 2013, will reach its maximum five-year period on December 1, 2018. The authorities originally wanted to transition directly to a successor program, but then concurred with staff's recommendation that a short gap allowed time to engage with stakeholders on achievements to date and evolving priorities. It also enables consideration of some early TA diagnostics, including an ongoing analysis of tax expenditures and a forthcoming Fiscal Transparency Evaluation (FTE). The tentative plan is to engage in successor program negotiations in Q1 2019, concurrent with the 2019 Article IV consultation. In

the interim, the authorities have provided informal end-December 2018 quantitative targets to signal their near-term policy commitments.

A. Achievements of the Expiring PSI-Supported Program

10. The PSI-supported program emphasized four priority areas for maintaining macroeconomic stability while supporting inclusive growth and poverty reduction. Key pillars of the program approved in 2013 were: (i) maintaining a sustainable fiscal position by enhancing domestic revenue mobilization (DRM) and pursuing PFM reforms; ii) ensuring stable and low inflation by modernizing the monetary policy framework; (iii) improving financial inclusion while reducing financial sector vulnerabilities by strengthening financial supervision; and (iv) preserving external stability, including debt sustainability.

11. Over the past five years Rwanda has faced three serious external shocks. The program was negotiated after a large donor shock had profoundly affected growth in 2013. Thereafter, significant declines in international commodity prices in 2015 weighed on the external position, the exchange rate and reserves. Thus, the program incorporated a new focus on demand management through exchange rate adjustment, containment of public spending, and prudent monetary policy, while the Fund provided financial support under an 18-month SCF arrangement.[2] This was the first time that Rwanda sought a large amount of IMF financing, and adjustment policies were agreed over the course of the fourth and fifth reviews of the program. As the SCF arrangement was being approved in the first half of 2016, a severe drought further weighed on growth and caused inflation to spike.

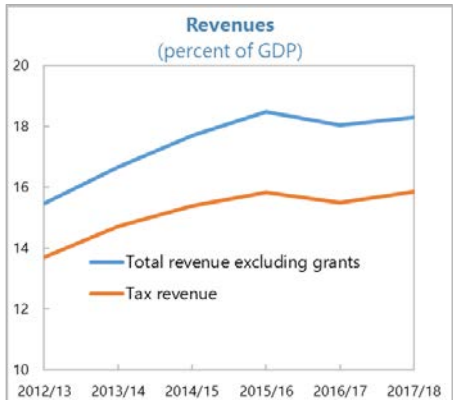
LOI, ¶7-8

12. The program has largely successfully adapted to these challenges, while making good progress toward its original objectives (Box 3). Exchange rate adjustment, containment of public spending, and monetary tightening helped curb domestic demand, and stem the drain on foreign exchange reserves. Home-grown industrial policies further supported the external position; and financial supervision was enhanced to anticipate emerging risks. Simultaneously, the authorities have taken extensive steps to prepare for a move to an interest-rate based monetary policy framework. Overall, the policies taken by the authorities restored external sustainability, while realizing only a modest and temporary impact on growth. Exchange rate adjustment to deal with the crisis has been a notable success, as have the authorities' home-grown measures to create higher value-added production and more diverse exports.

[2] See the Country Report No. 16/153.

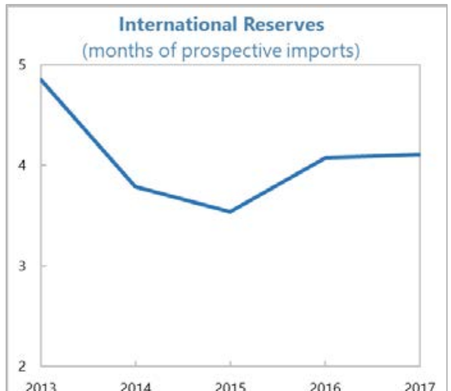
Box 3. Achievements Under the Expiring PSI-Supported Program

- **Rwanda achieved robust and inclusive growth.** Despite various shocks, y/y quarterly growth has averaged 7.1 percent since Q4 2013. The program has emphasized priority spending supporting a comprehensive social safety net, including universal health care and cash and in-kind transfers for the poorest households. Per capita GDP stood at $772 in 2017 up from $688 in 2012 and UNDP's Human Development Index rose from 0.48 to 0.50.
- **Program performance has remained sound,** supported by a rich program of capacity development. Most quantitative targets and structural benchmarks were met, albeit the latter at times with a delay.
- **DRM efforts increased resilience to declining aid flows.** Reflecting tax policy measures on new excise and royalty taxes as well as revenue administration measures to increase compliance, domestic revenues increased to 18.5 percent of GDP in 2017 from 15.0 percent of GDP in 2012. However, despite a spike in 2016 due to collection of accumulated tax arrears, tax revenues fell short of the FY17/18 original program target of 18.6 percent, reaching 15.7 percent instead. Delayed implementation of the Fixed Asset Tax Law, and tax incentives introduced to draw private investment were the main reasons DRM gains plateaued starting in FY15/16.



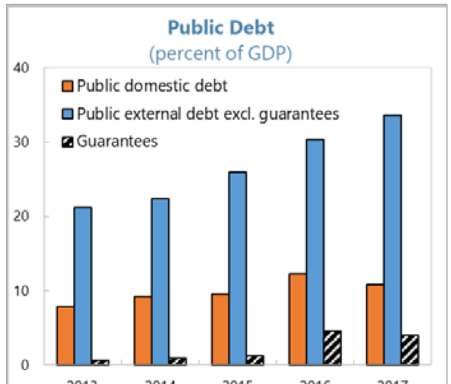
Sources: Rwandan authorities and IMF Staff estimates.

- **Progress on fiscal transparency and PFM reforms.** At the same time, reforms to improve fiscal transparency have been introduced, notably publication of quarterly budget execution reports, reporting in the GFS 2014 format, and initial studies of potential fiscal risks.



Sources: Rwandan authorities and IMF Staff estimates.

- **Rwanda has also successfully implemented several reforms to modernize its monetary policy framework.** These included conducting monetary operations to establish the interbank rate as an operational target; and the introduction of longer-term government bonds and bond re-opening and use of horizontal repos to deepen money and capital markets. Average interbank rates remained within a 100-basis point corridor around the key repo rate since June 2016. However, the monetary transmission mechanism remains weak, and interbank markets shallow.
- **External stability has been preserved.** Rwanda's external position came under pressure in 2015, exacerbated by shocks to international commodity prices. But, policy adjustment and strategic interventions to support export diversification have supported a sharp improvement in the current account balance, and rebuilding of gross international reserves.



Sources: Rwandan authorities and IMF Staff estimates.

- **Public debt has risen, as planned, in support of development projects, but remains sustainable.** The overall envelope of development assistance has dropped significantly, while its composition has moved increasingly from grants to loans. This, together with planned borrowing and the issuance of guarantees for large investment projects—including to support tourism and trade—have contributed to an increase in public debt. But, Rwanda's debt, at below 50 percent of GDP and around 38 percent of GDP on NPV terms, is assessed to be sustainable, with a continued low-risk of debt distress.

B. Forward-Looking Policy Commitments

13. The authorities reaffirmed forward-looking policy commitments, and staff and the authorities are brainstorming on topics of interest for a potential successor program supported by the IMF. Staff are working with the authorities on a series of internal discussion notes to sharpen how future engagement can support implementation of the NST and achievement of the Sustainable Development Goals (SDGs) while maintaining macroeconomic sustainability. IMF capacity development underway will support the authorities in key areas for structural reform (Annex I). Staff and the authorities agreed that the capacity development strategy will continue to focus on domestic revenue mobilization, transition to the interest rate-based monetary policy operational framework, improving the coverage, timeliness and transparency of fiscal reporting, improving fiscal risk statements, harmonizing BOP and national account price statistics, and strengthening financial sector supervision.

Fiscal Policy

14. FY18/19 investment spending will be increased, financed by concessional borrowing. For FY18/19, compared to the original budget, the overall fiscal deficit will increase from 4.6 to 5.1 percent of GDP, to accommodate higher investment spending financed through highly concessional loans. The increased investment spending will be used for improving energy distribution, rural roads, irrigation and adding more special economic zones. This financing has a minor and temporary impact on the nominal debt stock in the short term, but no impact over the medium term since additional concessional loans to support the NST had already been assumed in the DSA. Staff agreed with the authorities that this additional priority spending to achieve NST targets is justified, since there are no signs of overheating and the medium-term debt profile remains unaffected.

LOI, ¶4

15. There is an emerging tension between maintaining debt sustainability and achieving the SDGs. Staff pointed out that increasing investment spending does raise a question about the medium term fiscal anchor, which, effectively, has been maintaining a low risk of debt distress. However, it is questionable whether that or a medium-term deficit objective will provide sufficient space to achieve the SDGs (paragraph 24). For a successor program, discussions will cover what might be an appropriate fiscal anchor, given the public and private investment resources needed to implement the authorities' NST. Relevant to this discussion will be what type of public support could be used to "de-risk" financial intermediation for private activities, given limited access to commercial bank lending currently. The authorities remain hopeful that the G20 Compact with Africa will result in easier-to-use facilities for de-risking by development partners, which could attract more international private investment and alleviate the burden on Rwanda's public balance sheet.

16. The authorities remain committed to fiscal sustainability and transparency. In reviewing the achievements of the expiring program, staff emphasized the importance of regaining momentum for domestic revenue mobilization. The authorities mentioned the benefits of coming

LOI, ¶8a

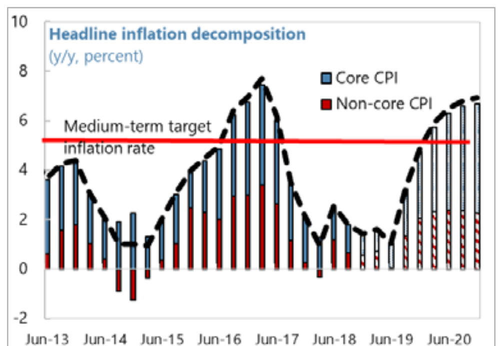
initiatives, including the new income tax law, revised fixed asset tax law, a gradual move to a cashless economy, but also discussed challenges to DRM efforts from incentives to attract private investment. Staff also questioned whether—looking ahead to a potential successor program—tax policy capacity and intragovernmental coordination could be strengthened to help find a better balance between DRM efforts, on one hand, and incentives to attract private investment, on the other. Ongoing technical assistance on DRM and fiscal transparency from the IMF can also help identify areas where additional structural reforms could be helpful. These include:

- **Revenue mobilization and tax expenditure analysis.** TA on tax expenditure analysis has been ongoing since Fall 2017, among other things, in support of Rwanda's participation in the G20 Compact with Africa. Early results suggest scope for enhancing VAT and corporate income tax efficiency. Completion of the analysis in Fall 2018 should provide tangible policy recommendations for a successor program.

- **Improving fiscal transparency.** An FTE pre-assessment mission is scheduled for January 2019, with the main mission scheduled for March 2019. These diagnostics should provide useful material for program conditionality that can be added in the second half of 2019. The authorities are also finalizing a move to GFS 2014 reporting of public sector accounts.

Monetary Policy

17. The monetary policy stance remains unchanged, which is appropriate. According to staff's projections, headline inflation should remain below the 5 percent target through to the first half of 2019, but rising demand and international fuel prices could push it higher. Nonetheless, core inflation is projected to remain well below the authorities' medium-term target. Going forward, staff agreed with the authorities on a "wait-and-see" approach, including the possibility for policy tightening should risks of second-round effects from international fuel price increases materialize.[3]



Sources: Rwandan authorities and IMF Staff estimates.

18. The authorities continue to gradually adopt a forward-looking monetary policy framework. The authorities continue to move toward an interest rate-based monetary policy framework, with a medium-term objective of adopting a formal inflation targeting framework. In preparation, they have undertaken various reforms to: support forward-looking monetary policy analysis and

LOI, ¶8b

[3] When an interest-rate based operational regime is formally adopted, recent analysis from the National Bank of Rwanda recommends 5.9 percent headline inflation as an appropriate trigger for policy tightening. An optimal inflation band is identified as ±300 basis points (consistent with the EAC inflation ceiling of 8 percent).

formulation, deepen money and capital markets, and enhance communication (Box 4).[4] However, in addition to a structural liquidity overhang, banks' use of the interbank market for liquidity management remains limited, contributing to still weak interest rate transmission channel. A recently-introduced electronic interbank trading platform and more communication between BNR and market players should help enhance transparency and price discovery in the interbank market. For a successor program, the discussions will cover how monitoring should be handled, including the possible introduction of a monetary policy consultation clause, given the challenges posed by the still weak—albeit gradually improving—monetary policy transmission.

19. **Financial sector indicators point to a broadly healthy system, with implementation of new prudential requirements.** The authorities continue to strengthen the framework for financial sector stability, including through implementation of Basel II/III and IFRS 9 prudential requirements, which became fully operational earlier this year, and capital injections for one small public development bank. Following a parallel run in 2017, banks began fully implementing the Basel II/III capital requirements in 2018, with a smooth transition so far. As expected, IFRS 9 implementation has led to increased provisioning and, in some cases, unintentionally high, as banks had an unclear understanding of what was needed. Thus, BNR has issued guidance in August, including granting a 4-year transitional window for banks to smooth out the implications on regulatory capital, and on the treatment of government securities for which regulatory provisioning is set at zero. Staff advised the authorities to engage banks and monitor the implications of the new regulatory requirements on intermediation.

LOI, ¶8c

20. **As a support for their development strategy, the authorities are exploring various initiatives to bolster domestic savings and create more vehicles for capital accumulation.** Following the enactment of a new pension law in 2015, several providers of private and voluntary pension schemes have emerged, which should help bolster domestic savings. In 2018, the government established a Long-Term Saving Scheme to support domestic savings, hoping to sign up one half a million households in the first year. Under this scheme, the government provides a small matching grant for savings by the informal sector/unsalaried households. Looking forward, the government intends to implement a 10-year plan to develop capital markets, focusing on deepening domestic financial markets and linking them with the EAC markets, including initiatives to support intermediation among small household savers, investors and small and medium enterprises.

21. **Exchange rate flexibility will continue to be important.** Given rising global risks, staff reiterated that exchange rate flexibility will remain an important policy lever to cushion, as needed, any adverse effects of external shocks—to safeguard external sustainability, while helping the transition to interest-rate based monetary policy. The authorities reaffirmed their commitment in this regard.

[4] Other reform measures include introduction of true repos, bond reopening, and extending the maturity structure of government securities (see Country Reports No. 18/13 and 18/167).

Box 4. Recent Steps Towards a Forward-Looking Monetary Policy Framework

Since 2014, with support from IMF TA, NBR has been developing its forecasting and policy analysis system (FPAS) capacity. Since 2017, BNR staff has been preparing presentations for the monetary policy committee members, on short to medium-term forecasts of main macroeconomic variables, based on results from a Quarterly Projection Model. In 2018, a separate research and forecasting unit was created.

Monetary policy committee decisions have also been informed by systematic surveys of market expectations for inflation for the coming quarter. The NBR has introduced Price Expectations Surveys with two qualitative modules to support its forward-looking analysis. The first module, introduced in 2012, is a "market expectations survey" (MES). The MES covers 25 firms in Kigali covering private firms in a range of sectors which cover core CPI, such as manufacturing, transport, construction and general trading. The second module, introduced in March 2017, is the food and energy price expectations survey (FEPES). The FEPES is carried out in 10 districts across the country where agricultural production is significant, and also collects information from key importers and exporters of transport items (cars, oil and transport fares) and energy (firewood and charcoal). The FEPES focuses on expected production and price changes on a one to three-month horizon. Next steps include the introduction of quantitative surveys and increasing the inflation survey forecast horizon to 12 months.

PROGRAM MODALITIES

22. Discussions for a potential successor program are tentatively scheduled for the first quarter of 2019. Staff and the authorities do not project an actual or potential balance of payments need or external vulnerabilities that would indicate the need for the use of Fund resources. The authorities are considering a request for a PSI or PCI-supported program that could continue to send a signal of Fund endorsement of their macroeconomic policies to development partners, private investors and markets. Discussions on a successor program are expected to be combined with the 2019 Article IV consultation, with the schedule allowing time to identify and sharpen medium term policy priorities, in consultation with a range of stakeholders. To cover the short period between programs, the authorities have laid out their policy intentions in the attached Letter of Intent and volunteered a set of informal fiscal and monetary policy targets for end-December 2018.

LOI, ¶10-11

23. Debt sustainability. A new debt sustainability analysis, using the new joint World Bank-IMF framework, will be prepared—together with the authorities—as part of the combined program negotiation and Article IV consultation in early 2019. A key input will be an assessment of the sustainability of high rates of growth over the medium term.

24. Costing of the Sustainable Development Goals. Rwanda was one of the five case study countries used to determine how much it would cost to achieve the SDGs for the purposes of the UN General Assembly in September 2018. The draft case study—which awaits the authorities' comments—finds that, to achieve high outcomes in selected SDG sectors (education, health, roads, electricity, and water), Rwanda would need to spend around 19 percent of 2030 GDP per year. This goes well beyond the costs of the NST, where needed public and private financing already fall short. The case study will be presented in more detail in the 2019 Article IV report.

25. The safeguards framework of the central bank has been strengthened since the updated assessment completed in November 2016. The NBR Act was amended in 2017 with enhanced provisions on personal autonomy. External audit arrangements have been strengthened and transparency of the IFRS financial statements improved. The audited financial statements continue to be published in a timely manner.

STAFF APPRAISAL

26. *Achievements:* Economic reforms have paid off. Rwanda has broadly achieved the objectives set by its economic program supported by the PSI. Rapid, inclusive growth has resulted in sustained poverty reduction. Revenue mobilization efforts increased resilience to declining aid flows. Headline inflation has remained low, anchored within the authorities' medium-term target range and supported by implementation of several reforms to modernize Rwanda's monetary policy framework. Despite numerous shocks, adjustment policies have restored external stability and public debt has remained sustainable, while fiscal policy has catered to well-specified and prioritized development needs.

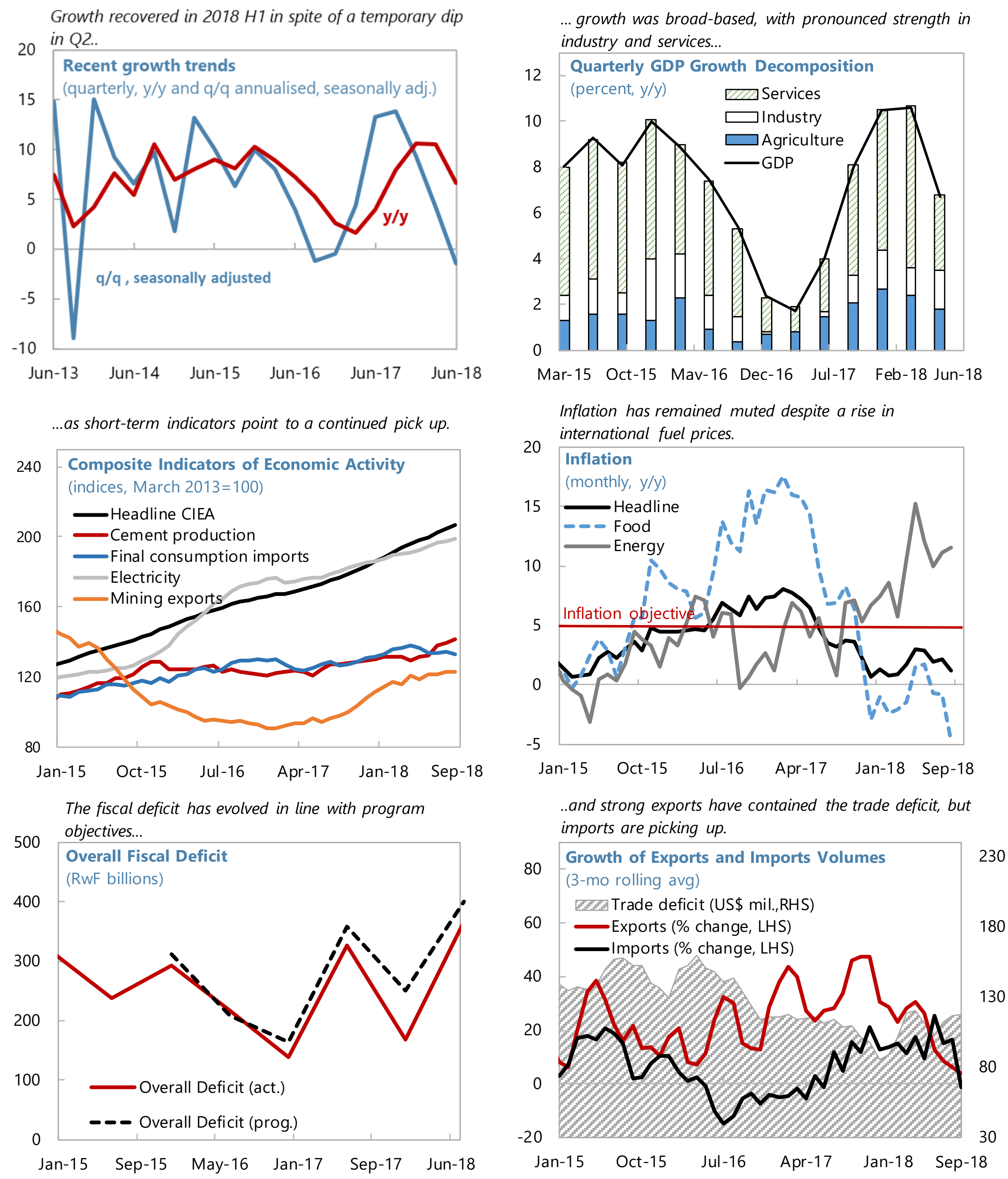
27. *Challenges and risks:* External risks could pose hurdles to Rwanda's quest toward achieving middle income status. These risks include unpredictable weather, pests, Ebola outbreak, and regional political issues, together with risks of further adverse movements in international commodity prices. In this context, policies should, on the one hand, cement the improved macroeconomic conditions by preserving low-inflation, continuing to increase external buffers, and maintaining low risk of debt distress, while meeting NST and SDG targets. On the other hand, the structural reform agenda should continue aiming at making Rwanda's economy more resilient by encouraging more private investment, leveraging guarantee schemes from multilateral and bilateral development partners and minimizing the government's exposure to additional liabilities.

28. *Fiscal policy:* The authorities have demonstrated a strong commitment to fiscal discipline while scaling up investment spending needed to implement their development plans. The new Vision 2050 and NST lay the foundation to help meet the SDGs and propel Rwanda to middle-income status over the longer term. However, available resources fall far short of what will be needed to realize the longer-term development objectives. Fiscal discipline has been complemented by efforts to bolster domestic revenue mobilization and improve fiscal transparency, but there is ample scope for additional progress.

29. *Monetary and exchange rate policies:* Monetary policy has gained substantial credibility by delivering inflation within the authorities' medium-term target range for nineteen consecutive months. The BNR has made significant strides in improving its analytical capacity to assess the impact of various shocks on inflation, a key signpost in its plan to move to forward-looking monetary policy framework. Exchange rate flexibility should continue to remain the first line of defense against external shocks.

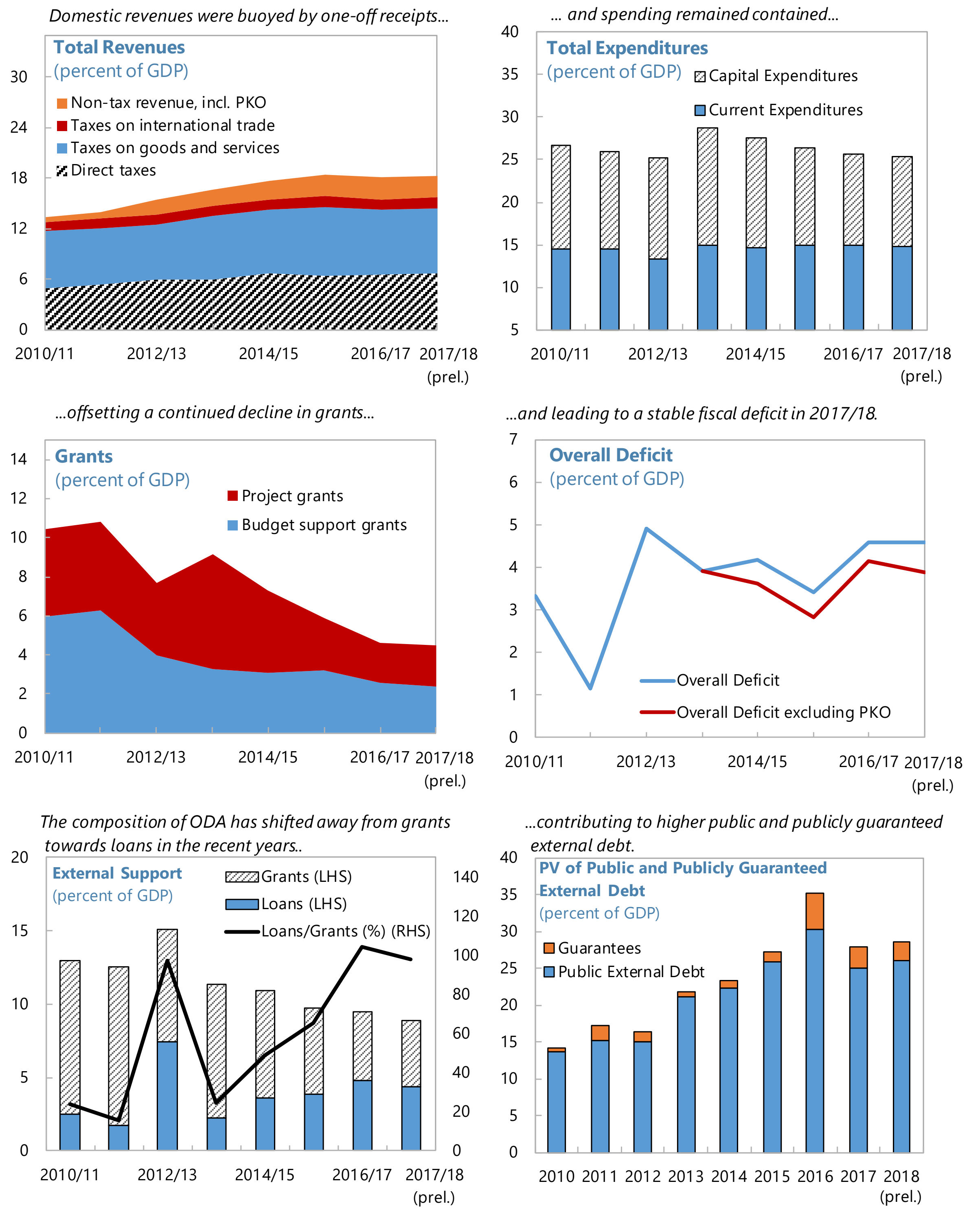
30. ***Program performance:*** Program performance has remained strong with all targets met as well as all structural benchmarks. ***Staff supports the completion of the tenth and final review under the PSI***.

Figure 1. Rwanda: Overview of Recent Economic Developments



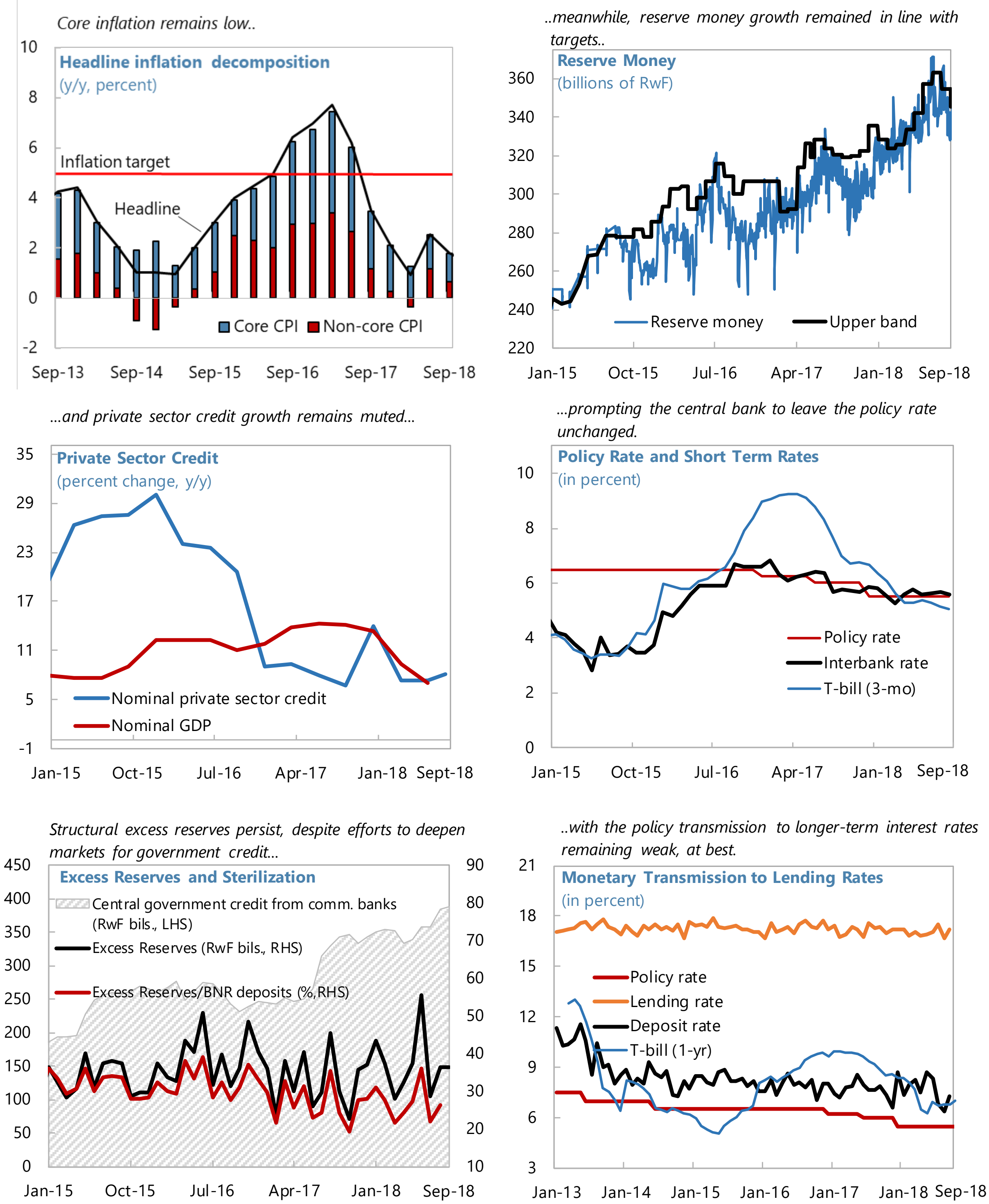
Source: Rwandan Authorities, and IMF staff estimates.

Figure 2. Rwanda: Fiscal Developments



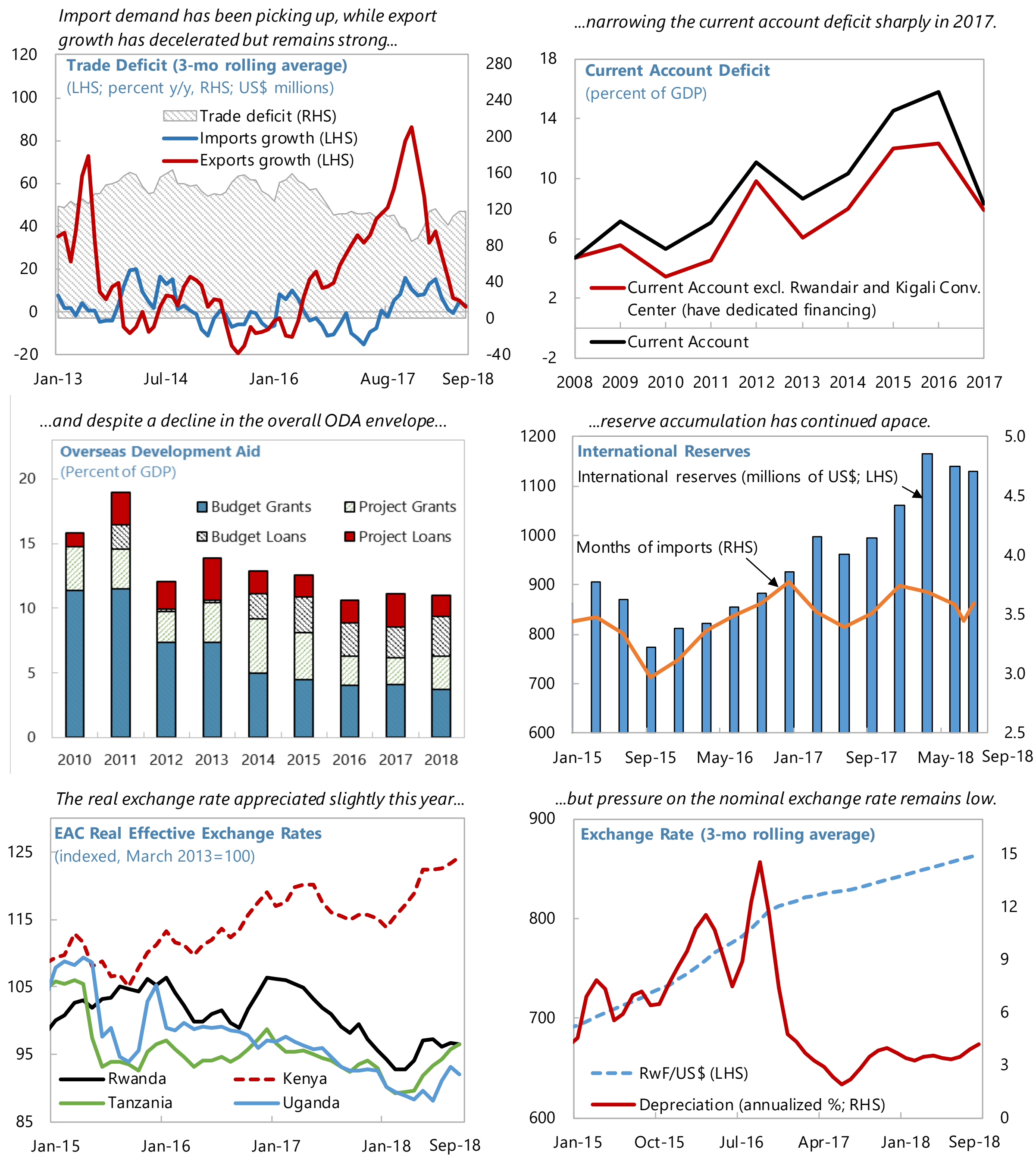
Source: Rwandan Authorities, and IMF staff estimates.

Figure 3. Rwanda: Monetary Developments



Source: Rwandan Authorities, and IMF staff estimates.

Figure 4. Rwanda: External Developments



Source: Rwandan Authorities, and IMF staff estimates.

Table 1. Rwanda: Selected Economic Indicators, 2017–20

	2017		2018		2019		2020	
	9th PSI Review	Act.	9th PSI Review	Proj.	9th PSI Review	Proj.	9th PSI Review	Proj.
	(Annual percentage change, unless otherwise indicated)							
Output and prices								
Real GDP	6.1	6.1	7.2	7.2	7.8	7.8	8.0	8.0
GDP deflator	7.3	7.3	3.0	3.0	4.9	4.9	5.8	5.8
CPI (period average)	4.8	4.8	2.8	2.8	5.0	5.0	5.0	5.0
CPI (end period)	0.7	0.7	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	1.8	1.8	-1.1	-1.7	0.3	0.1	0.9	0.7
Money and credit								
Broad money (M3)	12.3	12.3	16.5	17.8	18.8	14.8	...	21.7
Reserve money	8.8	8.8	12.3	13.4	14.1	12.8	...	20.2
Credit to non-government sector	13.9	13.9	15.1	11.0	15.2	14.0	...	17.0
M3/GDP (percent)	23.6	23.6	24.9	25.2	26.1	25.5	...	27.2
NPLs (percent of total gross loans)	7.6	7.6	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)							
General government budget								
Total revenue and grants	22.9	22.9	23.4	23.6	22.0	22.6	22.1	22.7
of which : tax revenue	15.5	15.5	15.8	15.8	15.8	15.6	16.0	15.9
of which : grants	4.7	4.7	4.9	5.1	4.0	4.5	3.9	4.3
Expenditure	27.6	27.6	27.5	29.4	26.2	26.7	25.6	26.1
Current	14.7	14.7	14.9	15.2	14.1	13.8	13.8	13.5
Capital	10.7	10.7	10.5	12.2	10.0	10.8	9.8	10.6
Primary balance	-3.6	-3.6	-3.0	-4.6	-3.2	-3.1	-2.5	-2.4
Overall balance	-4.7	-4.7	-4.1	-5.8	-4.2	-4.1	-3.4	-3.4
excluding grants	-9.4	-9.4	-9.0	-10.8	-8.2	-8.6	-7.3	-7.7
Net domestic borrowing	0.2	0.2	0.8	1.5	0.6	0.6	0.0	0.1
Public debt								
Total public debt incl. guarantees	48.3	47.1	49.0	49.7	49.0	49.5	47.3	47.9
of which : external public debt	37.5	37.5	39.2	39.9	39.7	40.1	38.6	39.1
Investment and savings								
Investment	23.4	23.4	25.0	25.6	25.9	26.3	25.9	26.6
Government	10.7	10.7	10.5	12.2	10.0	10.8	9.8	10.6
Nongovernment	12.7	12.7	14.6	13.4	16.0	15.5	16.1	16.0
Savings	12.5	10.9	12.4	11.7	13.8	13.0	14.6	14.7
Government	3.4	3.4	3.6	3.3	3.9	4.3	4.5	4.9
Nongovernment	9.0	7.5	8.8	8.4	10.0	8.7	10.1	9.8
External sector								
Exports (goods and services)	22.4	21.7	23.0	22.5	24.1	23.7	24.2	23.9
Imports (goods and services)	32.3	32.9	34.4	35.3	34.9	35.9	34.2	34.6
Current account balance (incl grants)	-6.8	-8.3	-8.8	-10.0	-9.0	-10.0	-8.3	-9.0
Current account balance (excl grants)	-10.9	-12.4	-12.6	-13.9	-12.1	-13.3	-11.4	-11.9
Current account balance (excl. large projects)	-6.4	-7.9	-8.6	-9.8	-7.8	-8.7	-7.2	-8.0
Gross international reserves								
In millions of US$	1163.3	1163	1240	1284	1332	1319	1460	1461
In months of next year's imports	4.1	4.1	4.0	4.1	4.0	4.0	4.1	4.1
Memorandum items:								
GDP at current market prices								
Rwanda francs (billion)	7,597	7,597	8,388	8,388	9,486	9,486	10,839	10,839
US$ (million)	9,136	9136	...	...	...	...	...	...
GDP per capita (US$)	772	772	...	...	...	...	...	...
Population (million)	11.8	11.8	12.1	12.1	12.4	12.4	12.7	12.7

Sources: Rwandan authorities and IMF staff estimates.

Table 2a. Rwanda: Budgetary Central Government Flows, FY16/17–19/20[1]

(billions of Rwandan francs)

	2016/17	2017/18		2018/19		2019/20	
	Act.	9th PSI Review	Prelim.	9th PSI Review	Proj.	9th PSI Review	Proj.
Revenue and grants	**1,616**	**1,821**	**1,820**	**1,997**	**2,061**	**2,242**	**2,252**
Total revenue	1,286	1,473	1,462	1,601	1,636	1,837	1,836
Tax revenue	1,104	1,267	1,253	1,395	1,397	1,613	1,614
Direct taxes	468.4	534.2	538.7	597.5	602.6	691.0	691.8
Taxes on goods and services	544.6	617.4	616.1	680.7	684.9	794.6	794.6
Taxes on international trade	91.2	115.6	98.1	116.7	109.4	127.3	127.3
Non-tax revenue	181.4	206.0	208.6	206.3	238.9	224.1	222.0
Of which : PKO	128.5	137.4	150.1	117.9	160.6	124.9	143.5
Grants	330.2	347.4	358.9	396.3	425.4	404.7	416.7
Budget grants	184.2	178.7	190.2	163.1	192.3	181.9	194.0
Of which: Global Fund	54.1	57.5	69.6	53.6	76.1	55.8	55.6
Project grants	146.0	168.7	168.7	233.1	233.1	222.8	222.8
Total expenditure and net lending	**1,943**	**2,125**	**2,188**	**2,407**	**2,519**	**2,687**	**2,721**
Current expenditure	1,070	1,159	1,177	1,320	1,301	1,446	1,440
Wages and salaries	263.7	325.0	324.3	365.7	367.5	415.0	418.3
Purchases of goods and services	207.4	222.0	216.3	253.8	230.9	281.5	243.2
Interest payments	72.2	92.2	91.6	94.7	103.1	94.4	125.0
Domestic debt	35.3	50.7	48.9	49.8	55.4	43.6	74.3
External debt	36.9	41.5	42.7	44.9	47.6	50.8	50.8
Transfers	366.9	389.2	363.3	431.9	398.7	483.3	442.9
PKO and demobilization[2]	159.4	131.1	181.8	173.8	201.0	171.3	210.3
of which: PKO	128.2	104.6	145.8	133.3	160.5	125.7	164.3
Capital expenditure	759	788	850	897	1,028	1,032	1,069
Domestic	418.2	486.6	463.2	510.2	625.3	575.6	602.1
Foreign[3]	341.3	301.1	387.1	386.9	402.3	456.1	466.4
Of which: deposit drawdown	34.5	--	48.0	--	--	--	--
Net lending and privatization receipts	113.8	178.0	160.0	190.0	190.0	209.8	213.1
Overall balance (incl. grants, commitment basis)	**-327.1**	**-304.6**	**-367.1**	**-409.6**	**-457.6**	**-445.4**	**-468.9**
Change in float/arrears[4]	-20.1	-24.2	-25.1	-27.2	-27.2	-30.6	-30.6
Overall balance (incl. grants, cash basis)	**-347.2**	**-328.8**	**-392.2**	**-436.8**	**-484.8**	**-476.0**	**-499.5**
Financing	**347.2**	**328.8**	**392.2**	**436.8**	**484.8**	**476.0**	**499.5**
Foreign financing (net)	322.7	326.7	356.0	372.4	435.7	377.6	380.8
Drawings	344.6	351.8	381.8	400.9	464.3	408.8	419.3
Budgetary loans	183.8	219.4	211.5	247.1	295.1	175.5	175.6
Project loans	160.7	132.4	170.4	153.8	169.2	233.3	243.6
Amortization	-21.9	-25.1	-25.8	-28.5	-28.6	-32.2	-39.5
Net domestic financing[3]	48.9	2.0	43.0	64.4	49.1	98.4	118.7
Net credit from banking system	16.6	2.6	48.8	64.4	49.1	98.4	118.7
Nonbank sector	32.3	-0.6	-5.9	0.0	0.0	0.0	0.0
Errors and omissions[5]	-24.3	0.0	-6.8	0.0	0.0	0.0	0.0
Memorandum items:							
Primary balance (excl. grants and PKO, commitment basis)	-585.5	-592.6	-638.7	-695.7	-780.0	-754.8	-739.8

Sources: Rwandan authorities and IMF staff estimates and projections. -585.5 -592.6 -638.7 -695.7 -780.0 -754.8 -739.8

[1] Fiscal year runs from July to June.

[2] Includes peacekeeping operations, spending on demobilisaton/reintegration, and genocide relief.

[3] 2016/17 and 2017/18 foreign-financed capital spending included deposit drawdown, accumulated in previous years.

[4] A negative sign indicates a reduction.

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

Table 2b. Rwanda: Budgetary Central Government Flows, FY16/17–19/20[1]
(percent of GDP)

	2016/17	2017/18		2018/19		2019/20	
	Act.	9th PSI Review	Prelim.	9th PSI Review	Proj.	9th PSI Review	Proj.
Revenue and grants	**22.7**	**22.8**	**22.8**	**22.4**	**23.1**	**22.1**	**22.2**
Total revenue	18.0	18.4	18.3	17.9	18.3	18.1	18.1
Tax revenue	15.5	15.9	15.7	15.6	15.6	15.9	15.9
Direct taxes	6.6	6.7	6.7	6.7	6.7	6.8	6.8
Taxes on goods and services	7.6	7.7	7.7	7.6	7.7	7.8	7.8
Taxes on international trade	1.3	1.4	1.2	1.3	1.2	1.3	1.3
Nontax revenue	2.5	2.6	2.6	2.3	2.7	2.2	2.2
Of which : PKO	1.8	1.7	1.9	1.3	1.8	1.2	1.4
Grants	4.6	4.3	4.5	4.4	4.8	4.0	4.1
Budget grants	2.6	2.2	2.4	1.8	2.2	1.8	1.9
Project grants	2.0	2.1	2.1	2.6	2.6	2.2	2.2
Total expenditure and net lending	**27.3**	**26.6**	**27.4**	**26.9**	**28.2**	**26.4**	**26.8**
Current expenditure	15.0	14.5	14.7	14.8	14.6	14.2	14.2
Wages and salaries	3.7	4.1	4.1	4.1	4.1	4.1	4.1
Purchases of goods and services	2.9	2.8	2.7	2.8	2.6	2.8	2.4
Interest payments	1.0	1.2	1.1	1.1	1.2	0.9	1.2
Domestic debt	0.5	0.6	0.6	0.6	0.6	0.4	0.7
External debt	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	5.2	4.9	4.5	4.8	4.5	4.8	4.4
PKO and demobilization[2]	2.2	1.6	2.3	1.9	2.2	1.7	2.1
of which: PKO	1.8	1.3	1.8	1.5	1.8	1.2	1.6
Capital expenditure	10.7	9.9	10.6	10.0	11.5	10.2	10.5
Domestic	5.9	6.1	5.8	5.7	7.0	5.7	5.9
Foreign[3]	4.8	3.8	4.8	4.3	4.5	4.5	4.6
Of which: deposit drawdown	0.5	0.0	0.6	0.0	0.0	0.0	0.0
Net lending and privatization receipts	1.6	2.2	2.0	2.1	2.1	2.1	2.1
Overall balance (incl. grants, commitment basis)	**-4.6**	**-3.8**	**-4.6**	**-4.6**	**-5.1**	**-4.4**	**-4.6**
Change in float/arrears[4]	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance (incl. grants, cash basis)	**-4.9**	-4.1	**-4.9**	-4.9	**-5.4**	-4.7	**-4.9**
Financing	**4.9**	4.1	**4.9**	4.9	**5.4**	4.7	**4.9**
Foreign financing (net)	4.5	4.1	4.5	4.2	4.9	3.7	3.7
Drawings	4.8	4.4	4.8	4.5	5.2	4.0	4.1
Budgetary loans	2.6	2.7	2.6	2.8	3.3	1.7	1.7
Project loans	2.3	1.7	2.1	1.7	1.9	2.3	2.4
Amortization	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Net domestic financing[3]	0.7	--	0.5	0.7	0.5	1.0	1.2
Net credit from banking system	0.2	--	0.6	0.7	0.5	1.0	1.2
Nonbank sector	0.5	--	-0.1	--	0.0	--	0.0
Errors and omissions[5]	-0.3	--	-0.1	--	0.0	--	0.0
Memorandum items:							
Primary balance (excl. grants and PKO, commitment basis)	-8.2	-7.4	-8.0	-7.8	-8.7	-7.4	-7.3
GDP (Billions of RwF), FY basis	7,125	7,993	7,993	8,937	8,937	10,162	10,162

Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.
[2] Includes peacekeeping operations, spending on demobilisaton/reintegration, and genocide relief.
[3] 2016/17 and 2017/18 foreign-financed capital spending included deposit drawdown, accumulated in previous years.
[4] A negative sign indicates a reduction.
[5] A negative number implies an overestimate of financing.

Table 3a. Rwanda: Financial Operations of the Budgetary Central Government, GFSM 2014[1]

(billions of Rwandan Francs)

	2016/17		2017/18		2018/19		2019/20	
	9th PSI Review	Act.	9th PSI Review	Act.	9th PSI Review	Proj.	9th PSI Review	Proj.
Revenue	1,568	**1,571**	1,745	**1,767**	1,905	**1,997**	2,138	**2,180**
Taxes	1,001	1,035	1,170	1,180	1,279	1,305	1,479	1,495
Taxes on income, profits, and capital gains	403.7	403.7	476.3	452.6	524.1	549.6	606.9	617.8
Taxes on property	0.6	0.6	--	0.0	--	0.0	--	0.0
Taxes on goods and services	516.5	530.0	578.5	605.1	637.7	645.9	744.5	749.4
Taxes on international trade and transactions	80.7	80.7	115.6	83.5	116.7	109.4	127.3	127.3
Other taxes	--	20.0	--	38.9	--	0.0	--	0.0
Social contributions	--	**0.0**	--	**0.0**	--	**0.0**	--	**0.0**
Grants	330.2	330.2	347.4	358.9	396.3	425.4	404.7	416.7
Current	184.2	184.2	178.7	190.2	163.1	192.3	181.9	194.0
Capital	146.0	146.0	168.7	168.7	233.1	233.1	222.8	222.8
Other revenue	236.3	205.9	227.6	227.6	230.1	266.5	254.2	268.6
Property income	4.3	7.6	12.5	9.6	12.6	14.6	13.9	14.7
Sales of goods and services	196.9	163.3	202.3	182.8	204.5	236.9	225.9	238.7
Fines, penalties, and forfeits	35.1	35.1	10.8	35.1	11.0	12.7	12.1	12.8
Voluntary transfers other than grants	--	0.0	--	0.0	--	0.0	--	0.0
Miscellaneous and unidentified revenue	--	0.0	2.0	0.0	2.1	2.4	2.3	2.4
Expense	1,279	**1,279**	1,397	**1,383**	1,575	**1,555**	1,724	**1,734**
Compensation of employees	237.0	237.0	234.8	251.7	241.3	285.2	261.5	330.8
Use of goods and services	427.2	427.2	367.0	442.5	453.1	468.9	492.1	500.5
Interest	72.2	72.2	92.2	91.6	94.7	103.1	94.4	125.0
To nonresidents	36.9	36.9	41.5	36.9	44.9	47.6	50.8	50.8
To residents other than general government	35.3	35.3	50.7	35.3	49.8	55.4	43.6	74.3
Subsidies	86.2	86.2	179.4	99.5	203.9	149.8	222.3	164.6
Grants	345.0	345.0	413.3	364.3	458.7	399.9	513.3	444.1
To EBUs	45.5	45.5	47.4	35.6	51.7	39.1	59.6	51.6
To Local Government	299.4	299.4	365.8	299.4	407.0	354.8	453.7	392.6
Social benefits	23.7	23.7	25.9	25.2	28.9	28.2	32.9	32.0
Other expense	87.5	87.5	84.2	107.8	94.1	120.5	107.0	137.1
Net Operating Balance								
including grants	289.1	**292.3**	348.6	**384.0**	330.2	**441.4**	414.0	**445.6**
excluding grants	-41.1	-37.9	1.2	25.1	-66.1	15.96	9.3	28.9
Net acquisition of nonfinancial assets	641.4	641.4	633.7	728.8	739.8	899.0	859.4	914.47
Foreign financed	--	341.2	301.1	387.1	386.9	402.3	456.1	466.4
Domestically financed	--	300.1	332.5	341.7	352.8	496.7	403.3	448.1
Net lending (+) / borrowing (-)								
including grants	-352.3	**-349.1**	-285.0	**-344.7**	-409.6	**-457.6**	-445.4	**-468.8**
excluding grants	-682.5	-679.2	-632.4	-703.6	-805.8	-883.0	-850.1	-885.6
Net acquisition of financial assets	35.3	**26.5**	16.9	**114.9**	-64.4	**-49.1**	-98.4	**-118.7**
Currency and deposits	8.8	8.8	-2.6	48.3	-64.4	-49.1	-98.4	-118.7
Equity and investment fund shares	--	-8.8	9.6	9.6	--	0.0	--	0.0
Loans	26.4	26.4	9.9	57.0	--	0.0	--	0.0
Net incurrence of liabilities	362.0	**362.0**	301.9	**448.3**	345.2	**408.5**	347.0	**350.2**
Currency and deposits	--	0.0	--	0.0	--	0.0	--	0.0
Debt securities	56.1	56.1	35.4	86.5	49.8	49.8	49.8	49.8
Loans	296.3	296.3	290.8	326.9	322.6	385.9	327.8	331.0
Other accounts payable	9.6	9.6	-24.2	34.9	-27.2	-27.2	-30.6	-30.6
Statistical discrepancy	25.6	13.6	--	11.3	--	0.0	--	0.0
Memorandum items:								
Domestic revenue (incl. Local government)	1,286	1,289	1,473	1,462	1,601	1,636	1,837	1,836
Wage bill	413.0	413.0	440.2	443.3	484.2	502.3	543.4	574.7
Overall fiscal balance (incl. grants, commitment basis)	-378.7	-366.7	-304.6	-411.4	-409.6	-457.6	-445.4	-468.8
Net domestic financing (excl. policy lending and OAP)	--	--	-2.0	--	-64.4	-49.1	-98.4	-118.7

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 3b. Rwanda: Financial Operations of the Budgetary Central Government, GFSM 2014[1]

(percent of GDP)

	2016/17		2017/18		2018/19		2019/20	
	9th PSI Review	Act.	9th PSI Review	Act.	9th PSI Review	Proj.	9th PSI Review	Proj.
Revenue	22.0	**22.1**	21.8	**22.1**	21.3	**22.3**	21.0	**21.5**
Taxes	14.1	14.5	14.6	14.8	14.3	14.6	14.5	14.7
Taxes on income, profits, and capital gains	5.7	5.7	6.0	5.7	5.9	6.1	6.0	6.1
Taxes on property	--	0.0	--	0.0	--	0.0	--	0.0
Taxes on goods and services	7.2	7.4	7.2	7.6	7.1	7.2	7.3	7.4
Taxes on international trade and transactions	1.1	1.1	1.4	1.0	1.3	1.2	1.3	1.3
Other taxes	--	0.3	--	0.5	--	0.0	--	0.0
Social contributions	--	**0.0**	--	**0.0**	--	**0.0**	--	**0.0**
Grants	4.6	4.6	4.3	4.5	4.4	4.8	4.0	4.1
Current	2.6	2.6	2.2	2.4	1.8	2.2	1.8	1.9
Capital	2.0	2.0	2.1	2.1	2.6	2.6	2.2	2.2
Other revenue	3.3	2.9	2.8	2.8	2.6	3.0	2.5	2.6
Expense	17.9	**17.9**	17.5	**17.3**	17.6	**17.4**	17.0	**17.1**
Compensation of employees	3.3	3.3	2.9	3.1	2.7	3.2	2.6	3.3
Use of goods and services	6.0	6.0	4.6	5.5	5.1	5.2	4.8	4.9
Interest	1.0	1.0	1.2	1.1	1.1	1.2	0.9	1.2
To nonresidents	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
To residents other than general government	0.5	0.5	0.6	0.4	0.6	0.6	0.4	0.7
Subsidies	1.2	1.2	2.2	1.2	2.3	1.7	2.2	1.6
Grants	4.8	4.8	5.2	4.6	5.1	4.5	5.1	4.4
To EBUs	0.6	0.6	0.6	0.4	0.6	0.4	0.6	0.5
To Local Government	4.2	4.2	4.6	3.7	4.6	4.0	4.5	3.9
Social benefits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	1.2	1.2	1.1	1.3	1.1	1.3	1.1	1.3
Net Operating Balance								
including grants	4.1	**4.1**	4.4	**4.8**	3.7	**4.9**	4.1	**4.4**
excluding grants	-0.6	-0.5	--	0.3	-0.7	0.2	0.1	0.3
Net acquisition of nonfinancial assets	9.0	**9.0**	7.9	**9.1**	8.3	**10.1**	8.5	**9.0**
Foreign financed	--	4.8	3.8	4.8	4.3	4.5	4.5	4.6
Domestically financed	--	4.2	4.2	4.3	3.9	5.6	4.0	4.4
Net lending (+) / borrowing (-)								
including grants	-4.9	**-4.9**	-3.6	**-4.3**	-4.6	**-5.1**	-4.4	**-4.6**
excluding grants	-9.6	-9.5	-7.9	-8.8	-9.0	-9.9	-8.4	-8.7
Net acquisition of financial assets	0.5	**0.4**	0.2	**1.4**	-0.7	**-0.5**	-1.0	**-1.2**
Currency and deposits	0.1	0.1	--	0.6	-0.7	-0.5	-1.0	-1.2
Equity and investment fund shares	--	-0.1	0.1	0.1	--	0.0	--	0.0
Loans	0.4	0.4	0.1	0.7	--	0.0	--	0.0
Net incurrence of liabilities	5.1	**5.1**	3.8	**5.6**	3.9	**4.6**	3.4	**3.4**
Currency and deposits	--	0.0	--	0.0	--	0.0	--	0.0
Debt securities	0.8	0.8	0.4	1.1	0.6	0.6	0.5	0.5
Loans	4.2	4.2	3.6	4.1	3.6	4.3	3.2	3.3
Other accounts payable	0.1	0.1	-0.3	0.4	-0.3	-0.3	-0.3	-0.3
Statistical discrepancy	0.4	0.2	--	0.1	--	0.0	--	0.0
Memorandum items:								
Domestic revenue (incl. Local government)	18.0	18.1	18.4	18.3	17.9	18.3	18.1	18.1
Wage bill	5.8	5.8	5.5	5.5	5.4	5.6	5.3	5.7
Overall fiscal balance (commitment basis)	-5.3	-5.1	-3.8	-5.1	-4.6	-5.1	-4.4	-4.6
Net domestic financing (excl. policy lending)	--	--	--	--	-0.7	-0.5	-1.0	-1.2
GDP (Billions of RwF), FY basis	7,125	7,125	7,993	7,993	8,937	8,937	10,162	10,162

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

Table 4. Monetary Survey, 2016–20
(billions of Rwandan francs, unless otherwise indicated)

	2016	2017		2018			2019		2020
	Dec.	Jun.	Dec.	Jun.	Dec.		Dec.		Dec.
	Act.	Act.	Act.	Act.	9th PSI Review	Proj.	9th PSI Review	Proj.	Proj.
Monetary authorities									
Net Foreign Assets[1]	660	613	749	719	820	857	939	939	1,127
Net domestic assets	-357	-305	-420	-346	-450	-484	-517	-517	-634
Domestic credit	-220	-141	-249	-160	-244	-281	-277	-275	-347
Other items (net; asset +)	-137	-164	-171	-186	-205	-202	-240	-242	-287
Reserve money[2]	303	307	329	372	370	374	422	422	493
Commercial banks									
Net foreign assets	79.6	119.3	53.8	82.2	56.2	61.4	58.5	58.5	61.1
Reserves	153.6	144.7	165.0	184.9	181.4	182.9	202.5	202.3	231.2
Net credit from BNR	33.8	61.3	35.6	65.0	19.0	52.8	43.9	32.7	-71.9
Domestic credit	1,527	1,656	1,782	1,861	2,057	2,078	2,377	2,370	2,868
Government (net)	225	247	297	308	338	416	406	485	674
Public enterprises	43.7	44.3	46.1	85.4	46.1	61.1	41.1	56.1	51.1
Private sector	1,258	1,364	1,439	1,468	1,673	1,601	1,930	1,829	2,144
Other items (net; asset +)	-348	-371	-410	-440	-413	-451	-415	-450	-450
Deposits	1,446	1,609	1,626	1,753	1,901	1,924	2,267	2,213	2,639
Monetary survey									
Net foreign assets	739	732	803	801	876	919	997	997	1,188
Net domestic assets	855	1,040	988	1,140	1,210	1,192	1,480	1,426	1,696
Domestic credit	1,341	1,576	1,569	1,766	1,832	1,849	2,144	2,127	2,450
Government	12	142	58	190	101	163	162	218	231
Public enterprises	43.7	44.3	46.1	85.4	46.1	61.1	41.1	56.1	51.1
Private sector	1,285	1,390	1,464	1,491	1,684	1,625	1,941	1,853	2,168
Other items (net; asset +)	-486	-536	-581	-626	-618	-653	-655	-692	-737
Broad money	1,595	1,772	1,791	1,941	2,086	2,110	2,477	2,423	2,884
Year on Year Growth				(Percent)					
Broad money	7.6	12.7	12.3	9.5	16.5	17.8	18.8	14.8	19.0
Reserve money	5.5	-2.7	8.8	21.2	12.3	13.4	14.1	12.8	16.9
Net foreign assets	15.1	29.0	8.6	9.4	9.0	14.4	13.9	8.5	19.1
Credit to the private sector	9.1	8.0	13.9	7.3	15.1	11.0	15.2	14.0	17.0
Memorandum items:									
Velocity (eop)	4.2	4.0	4.2	4.1	4.0	4.0	3.8	3.9	3.8
Money multiplier	5.3	5.8	5.4	5.2	5.6	5.6	5.9	5.7	5.9

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

[1] For program purposes NFA are shown at program exchange rates.

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

Table 5. Rwanda: Balance of Payments, 2017–20
(millions of U.S. dollars, unless otherwise indicated)

	2017		2018		2019		2020	
	9th PSI Rev.	Act.	9th PSI Rev.	Proj.	9th PSI Rev.	Proj.	9th PSI Rev.	Proj.
Current account balance (incl. official transfers)	**-622**	**-761**	**-857**	**-972**	**-951**	**-1,052**	**-960**	**-1,042**
Current account balance ex. Bugesera	-583.9	-722.8	-836.3	-951.0	-817.5	-918.6	-837.1	-919.5
Trade balance	-872	-872	-962	-975	-1,012	-1,002	-1,035	-945
Exports (f.o.b.)	1,050	1,050	1,207	1,213	1,396	1,419	1,562	1,597
Of which: coffee and tea	148.4	148.4	147.3	157.6	167.2	167.2	180.0	180.0
Of which: minerals	125.0	125.0	166.0	167.4	197.3	198.9	244.7	246.5
Imports (f.o.b.)	1,922	1,922	2,169	2,188	2,408	2,421	2,597	2,542
Of which: capital goods	495.9	495.9	545.3	544.4	585.3	597.6	654.0	633.2
Of which : Energy goods	201.7	201.7	255.1	255.2	257.1	257.2	265.4	264.8
Services (net)	-29.8	-157.3	-145.8	-270.9	-127.6	-283.6	-122.4	-287.0
Credit	998	930	1,026	975	1,144	1,085	1,239	1,161
Of which: tourism receipts	438.1	369.6	492.4	415.4	566.3	477.7	651.3	549.4
Debit	1,028	1,087	1,172	1,245	1,272	1,369	1,362	1,448
Of which: KCC, RwandAir, and Bugesera	-12.6	-22.8	-4.7	-16.4	-29.8	-68.9	-27.3	-69.9
Income	-316.7	-328.1	-344.8	-346.2	-380.9	-396.8	-424.7	-446.4
Of which: interest on public debt[1]	-46.6	-46.6	-50.2	-51.8	-53.5	-56.6	-57.4	-61.4
Current transfers (net)	596.4	596.4	595.0	620.3	569.4	629.5	622.8	636.5
Private	220.8	220.8	230.8	243.6	247.7	274.5	268.1	303.8
Public	375.7	375.7	364.2	376.7	321.8	355.0	354.7	332.7
Capital and financial account balance	**745**	**792**	**909**	**1,068**	**1,044**	**1,101**	**1,111**	**1,195**
Capital account	189.7	189.7	244.4	244.5	234.1	234.1	235.2	235.2
Financial account	555.6	602.3	664.9	823.5	810.1	866.4	876.1	960.2
Direct investment	245.1	244.9	261.6	259.4	333.8	346.6	363.9	383.6
Public sector capital	298.6	345.5	385.9	570.6	444.0	458.4	473.4	502.1
Long-term borrowing[2]	369.2	406.0	461.4	639.0	516.7	520.4	567.1	598.9
Scheduled amortization, excl IMF	-70.6	-60.4	-75.5	-68.5	-72.7	-62.0	-93.8	-96.7
Other capital[3]	11.8	11.8	17.3	-6.4	32.3	61.4	38.8	74.5
Of which: commercial banks NFA (increase -)	36.8	36.8	0.0	-6.1	0.0	0.0	0.0	0.0
Net errors and omissions	**-31.1**	**61.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**92.6**	**92.5**	**51.8**	**95.9**	**92.8**	**48.1**	**151.6**	**153.2**
Financing	**-92.6**	**-92.5**	**-51.8**	**-95.9**	**-92.8**	**-48.1**	**-151.6**	**-153.2**
Reserve assets (increase -)	-161.9	-161.9	-76.9	-121.1	-92.2	-34.3	-127.3	-142.3
Net credit from the IMF	75.0	73.3	23.3	24.4	-0.5	-0.8	-21.6	-23.2
Memorandum items:								
Current account deficit (percent of GDP)[4]	-6.8	-8.3	-8.8	-10.0	-9.0	-10.0	-8.3	-9.0
Excl. Bugesera	-6.4	-7.9	-8.6	-9.8	-7.8	-8.7	-7.2	-8.0
Trade balance (percent of GDP)	-9.5	-9.5	-9.9	-10.0	-9.6	-9.5	-8.9	-8.2
Capital and financial account balance (percent of GDP)	8.2	8.7	9.4	11.0	9.9	10.4	9.6	10.4
Overall balance (percent of GDP)	1.0	1.0	0.5	1.0	0.9	0.5	1.3	1.3
Gross official reserves	**1,163**	**1,163**	**1,240**	**1,284**	**1,332**	**1,319**	**1,460**	**1,461**
in months of prospective imports of G&S	4.1	4.1	4.0	4.1	4.0	4.0	4.1	4.1
Excl. Bugesera	4.3	4.2	4.2	4.3	4.2	4.1	4.2	4.1
Total Public Transfers (US$ million)	565.4	565.4	608.6	621.2	555.8	589.1	589.9	567.9
Of which : budgetary grants	253.3	253.3	236.3	241.8	187.8	214.7	215.1	183.1

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Including interest due to the IMF.

[2] Includes central government project and budget loans, and borrowing by Rwandair, and Bugesera.

[3] Other capital includes long-term private capital, commercial credit, change in NFA of commercial banks, and unrecorded imports.

[4] Including official transfers.

Table 6. Rwanda: Financial Soundness Indicators: September 2015–June 2018

	2015		2016				2017				2018	
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
			(Percent)									
Capital adequacy												
Regulatory capital to risk-weighted assets	21.3	19.9	22.3	20.7	20.4	19.9	19.6	19.1	20.4	20.0	19.5	19.7
Capital to assets	24.2	22.5	24.9	23.3	22.1	23.1	22.4	20.7	22.2	21.4	21.1	21.4
Off balance sheet items/total qualifying capital	290.8	302.8	263.8	262.5	260.2	307.2	309.8	307.6	293.7	298.7	303.7	297.5
Insider loans/core capital	3.0	4.0	3.1	3.5	3.6	2.4	4.4	5.1	5.2	6.0	5.9	5.9
Large exposure/core capital	98.6	112.6	99.2	122.7	141.0	154.2	167.1	179.7	160.2	169.6	164.7	174.9
Asset quality												
NPLs/gross Loans	6.3	6.2	6.2	7.0	7.5	7.6	8.1	8.2	7.7	7.6	6.8	6.9
NPLs net/gross loans	5.1	5.2	5.2	5.9	6.0	5.6	6.3	6.2	6.5	6.6	5.5	5.2
Provisions/NPLs	48.3	46.2	46.0	42.7	43.4	42.7	44.4	44.9	43.9	46.7	59.2	67.2
Earning assets/total asset	83.1	83.1	82.9	81.9	82.6	82.4	81.4	81.9	81.8	83.0	78.9	80.8
Large exposures/gross loans	20.9	23.4	22.6	25.6	29.9	31.0	32.1	33.6	31.7	33.6	31.6	31.1
Profitability and earnings												
Return on average assets	2.3	2.1	1.9	1.7	1.9	1.7	1.8	1.7	1.6	1.1	1.3	1.6
Return on average equity	12.7	11.2	9.8	9.2	10.1	8.8	10.1	9.6	8.9	6.2	7.5	9.6
Net interest margin	8.7	8.5	10.3	10.3	10.2	10.4	10.1	9.9	9.5	8.8	9.8	9.6
Cost of deposits	3.1	3.2	3.7	3.6	3.6	3.7	3.6	3.5	3.3	3.4	3.5	3.5
Cost to income	80.5	81.1	80.9	82.0	81.1	83.1	80.7	81.1	81.5	85.1	82.5	81.0
Overhead to income	46.2	46.8	49.1	49.9	48.9	49.9	49.0	48.2	48.5	48.4	45.3	45.5
Liquidity												
Short term gap	6.0	8.1	9.1	10.4	3.6	2.8	5.9	7.1	5.8	5.9	4.9	6.6
Liquid assets/total deposits	46.8	45.4	43.9	43.9	42.8	42.3	42.5	43.3	44.0	43.7		
Interbank borrowings/total deposits	16.4	18.0	17.0	17.6	20.9	20.4	19.1	20.0	23.0	23.0	23.6	21.9
BNR borrowings/total deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Gross loans/total deposits	87.0	89.0	92.2	90.9	100.5	95.5	110.8	108.4	108.7	108.9	106.5	109.0
Market sensitivity												
Forex exposure/core capital1	-7.9	-5.7	-6.7	-1.8	-6.3	-3.5	-4.4	-3.3	-4.3	-7.8	-4.5	-6.2
Forex loans/Forex deposits	38.7	37.2	51.0	55.7	46.1	41.3	46.3	45.4	47.2	46.7	49.4	45.4
Forex assets/Forex liabilities	86.1	81.7	81.1	82.3	81.6	81.5	82.5	82.9	79.9	80.4	76.5	82.0

Source: National Bank of Rwanda.

Table 7. Rwanda: Quantitative Program Targets as of End-June 2018[1]

	June 2018			
	Program	Adjusted	Actual	Status
(Billions of Rwandan francs, unless otherwise indicated)				
Assessment criteria				
Ceiling on the overall fiscal deficit, including grants[2, 3]	325	401	367	Met
Net foreign assets of the NBR at program exchange rate (floor on stock)[3]	530		705	Met
Reserve money (ceiling on stock) (upper bound)[4]	365		338	Met
Reserve money (stock)[4]	357			
Reserve money (ceiling on stock) (lower bound)[4]	349			
External payment arrears (US$ millions) (ceiling on stock)[5]	0		0	Met
Indicative targets				
Net domestic financing (ceiling on flow)[2, 3]	7	83.4	36	Met
Domestic revenue collection (floor on flow)[2, 6]	1300		1312	Met
Net accumulation of domestic arrears (ceiling on flow)[2]	0		-1	Met
Total priority spending (floor on flow)[2]	745		746	Met
New external debt contracted or guaranteed by nonfinancial public enterprises (US$ millions) (ceiling on stock)[5]	800		647	Met
Memorandum items:				
Total budget support (US$ millions) [2, 6]	475		475	
Budget support grants (US$ millions)	216		223	
Budget support loans (US$ millions)	258		253	
RWF/US$ program exchange rate	845		845	

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Numbers for December 2017 and June 2018 are cummulative from 6/30/2017.

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

[4] 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.

[5] Ceilings on external arrears and external borrowing are continuous. The ceiling will exclude onlending agreement between Government of Rwanda and public sector enterprises.

[6] Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

Table 8. Rwanda: Structural Benchmarks Through End-June 2018

Policy Measure	Target Date	Status
Monetary		
Establish an optimal level of headline or core inflation target range for monetary policy.	10th PSI Review	Met
Develop and adopt a communication strategy on the objectives and operations of the monetary policy framework to enhance BNR transparency and accountability.	10th PSI Review	Met
Financial Markets		
Establish an electronic interbank trading platform intended to improve banks' counterparty visibility and price formation in the market.	10th PSI Review	Met
Public Financial Management		
Provide quarterly revenues, expenditures, and financing estimates for the budgetary central government levels within 60 days of the end of each quarter	Quarterly	Ongoing
Begin publishing in GFS 2014 format for the quarter ending September 2018.	10th PSI Review	Ongoing
Fiscal Revenues		
Initiate the rollout of "EBM version 2" pilot, with the intent of reaching 1,000 new EBM users	10th PSI Review	Met

Annex I. Capacity Development Strategy for FY2019

Forward-looking policy priorities will focus on improving fiscal transparency, domestic revenue collection, interest rate-based monetary policy framework, improving and harmonizing statistical reporting; real statistics; budget preparation; external sector statistics; and promoting private investment.

1. Assessment. Rwanda is a high-intensity Technical Assistance (TA) recipient with a good track record for use of IMF technical assistance. The authorities' proven commitment/ownership mitigates risks, and future success will require continued close coordination between the authorities, TA providers, and the AFR team. In the most recent fiscal year, TA was provided for:

- Tax policy: An initial mission to estimate and assess tax expenditures and a model-building workshop took place.
- Revenue administration: A mission to improve the Integrity of Taxpayer Register took place; assistance with the Revenue forecasting tool was provided.
- Public Financial Management: The blueprint on the move to accrual accounting was reviewed, with recommendations on phasing, defining intermediate milestone, and a monitoring system; cash management and budget execution missions.
- Government Finance Statistics: Compilation and dissemination of high frequency fiscal and debt data and moving to GFS-2014 format reporting.
- Data standardization: To improve adherence to the data standards initiative, an e-GDDS mission took place.
- Real sector statistics: Refinements were made to quarterly indicators and quarterly GDP estimates.
- Money and FX Market Operations: Further measures to facilitate the development of the repo market.
- Financial sector supervision and regulation: The central bank received training on risk-based supervision and formalizing its macroprudential policy framework and strengthening Basel II implementations and corporate governance as well as supervisory framework for forex bureau sectors.

Annex Table 1. Forward-Looking TA Agenda

Priorities	Objectives
Fiscal Transparency Evaluation; improving frequency and coverage of fiscal and debt data; implementing GFS-2014 format fiscal data; and Development of IPSAS accounting manual and providing IPSAS training.	Improve transparency of government spending and operations.
Follow-up TA on tax expenditures; reviewing the integrity of the taxpayer register, strengthening tax audit capacity of telecommunications sector, developing a domestic taxes department headquarters function with its process flow and staff roles and responsibilities, evaluation of revised property tax law.	Improve domestic revenue mobilization through reducing and better targeting exemptions and improving revenue administration core functions.
Developing a roadmap for the implementation of perfomance-based budgeting.	Enable comprehensive, credible, and policy based budget preparation.
Training on Forecasting and Policy Analysis (FPAS).	Enhance the effectiveness of monetary policy implementation.
Assisting in implementing a risk-based supervision (RBS), including for insurance Companies, adopting IFRS; enhancing RBS for MFIs and SACCOs, implementing Basel II/III.	Enhance financial sector supervision.
Enhancing Macro prudential oversight of non-bank insurance companies and pension firms; enhancing oversight policy framework and oversight training.	Establish an effective macroprudential policy framework and reform and develop national payment system.

Appendix I. Letter of Intent

Kigali, Rwanda
November 13, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Ms. Lagarde,

1. Implementation of our macroeconomic program, aided by the Policy Support Instrument (PSI) has remained strong. We have met all continuous and end-June 2018 quantitative assessment criteria and indicative targets, and structural benchmarks. This letter details recent economic developments and outlook, takes stock of achievements under the PSI supported program, and outlines our policy commitments going forward.

Recent Economic Developments and Outlook

2. Economic growth has remained robust and is expected to pick-up. After growing at 6.1 percent in 2017, real GDP growth averaged 8.6 percent in the first half of 2018, in line with projected growth of 7.2 percent in 2018. The pick-up is being driven by stronger growth in agriculture and industry sectors which respectively grew by 6 percent and 10 percent. On the demand side, Investment accounts for the highest contribution, followed by private consumption. Growth is expected to further strengthen to 7.8 percent in 2019.

3. Inflation remains low and is projected to remain close to our medium-term benchmark. Headline inflation has remained low throughout 2018, reaching 1.2 percent in September, in part reflecting favorable food price developments. Inflation expectations remain anchored close to the medium-term benchmark even accounting for the expected rise in international fuel prices. Headline inflation is expected to remain close to our 5 percent benchmark through 2019, while credit growth has been subdued. As a result, the NBR has maintained a broadly accommodative monetary policy stance, with the policy rate remaining at 5.5 percent since December 2017.

4. Fiscal developments in 2017/18 reflect a pick-up in foreign financed investment spending, in line with meeting our national strategy for transformation goals (NST 1). The overall deficit for FY17/18 was 0.8 percent of GDP, higher than the revised budget, mainly on account of the accelerated implementation of infrastructure projects financed by the drawdown of accumulated deposits of the government at the NBR, as well as higher than expected disbursement of committed

concessional loans for some on-going infrastructural projects. These projects include improvements to rural and urban road access (0.5 percent of GDP), power distribution networks (0.2 percent of GDP) and infrastructure for vocational training (0.1 percent of GDP), consistent with our development objectives guided by the NST1. Reflecting the performance achieved in fiscal year 2017/18 and in line with the NST1 objectives, the fiscal deficit for the FY18/19 is being raised by 0.5 percent of GDP to allow the spending of new concessional budgetary loans (0.6 of GDP) and project loans (of 0.2 percent of GDP). The sectors benefitting from these additional resources are several urban and rural access roads (0.2 percent of GDP), power supply reliability through increase in on and off grid access in urban and rural areas in line with our policy of providing universal access to electricity (0.5 percent of GDP) and agriculture related investments, including in irrigation, to support food security and promote exports (0.1 percent of GDP).

5. External buffers remain strong. In 2017, the current account deficit narrowed reflecting higher export growth and lower imports because of policy interventions. In 2018, while export growth is expected to remain robust, the construction of Bugesera airport and the pickup in foreign financed investment will drive imports, increasing the trade deficit. Nevertheless, reserve buffers are expected to increase, reflecting higher official flows.

6. The financial sector remains stable and financial inclusion has improved. Banking sector capital adequacy ratios, at 21.4 percent at end-June 2018, remained well above the Basel II minimum ratio of 15 percent, in part due to some banks' increases in paid-up capital. Similarly, asset quality has continued to improve, with NPL ratios declining from 8.2 percent last June to 6.9 percent in June 2018, reflecting strong economic activity in the first half of 2018 and banks' write-offs of bad loans. Among non-banks, microfinance institutions (MFI) continue to drive financial inclusion, as reflected in the increase in their balance sheets. Deposits of MFIs increased by 17 percent year on year to June 2018, while their loan book increased by 12 percent over the same period.

Program Performance

7. The PSI-supported program has helped us reach our overarching objective of sustaining inclusive growth and poverty reduction. Since 2013, growth has averaged 7.2 percent despite significant shocks, while poverty rates have continued to decline. The 2014 EICV 4 shows that poverty has been reduced from a national headcount rate of 45 percent in 2011 to 39 percent in 2014, extreme poverty declined from 24 percent to 16 percent over the same period. The NISR is about to publish results from the EICV 5. Despite adverse external shocks, in 2016 we undertook decisive steps to address external imbalances and maintained external reserve buffers, supported by financing under the Standby Credit Facility (SCF).

8. They have achieved the following results:

   a. *Improved fiscal sustainability by enhancing domestic resource mobilization and maintaining public financial management reforms*. We have undertaken several tax policy measures including introduction of a new Income tax law and have strengthened revenue compliance efforts including by introducing a National Invoicing System and improving IT capacity, making the arrangement for RRA to support Local government in tax and fees collections and revise the fixed asset tax to increase their efficiency and broaden the tax base. Tax to GDP increased on average by 0.4 percentage points every year, from 13.7 percent in FY 2012/2013 to 15.9 percent in 2017/2018.

b. *Kept inflation low and a price based monetary policy framework expected to kick-off by end 2018*. We have undertaken steps to implement preconditions to move to an interest-based monetary policy framework, including by supporting interbank market development; strengthening communications to better anchor price expectations; improving forecasting and policy analysis capabilities; and reducing the level of excess reserves through improved liquidity management and forecasting capabilities.

- *A forward looking monetary policy framework is progressively being adopted.* The NBR has developed a forecasting and policy analysis system (FPAS), with the help of technical assistance by the IMF. Monetary policy reports have been restructured to become more forward-looking and in line with this, the NBR is conducting price expectations surveys, contributing to predict the future pattern of inflation which is the main focus of MPC decisions.
- *A clear and timely communication, has enhanced NBR's transparency and accountability.* Aiming to anchor price expectations, the bank is communicating policies and decisions taken, the rationale behind the decisions, the anticipated impacts of the decisions, key macroeconomic trends and further educate the public in areas of its jurisdictions. The target groups include financial sector players, think tanks, media, youths, academia, public policy makers and international organizations.
- *Liquidity management and forecasting has progressively improved.* The NBR formed and strengthened the Financial Markets Operations Committee (FMOC) in charge of daily financial market analysis, liquidity management and forecasting. In 2017, the NBR initiated regular discussions with commercial bank treasurers about market developments and analysis. As result, the interbank market activity has continued to grow in both depth and width, and the NBR has succeeded in keeping the interbank market rate close to the Key Repo Rate for the last two consecutive years.

c. *Enhanced access to credit and deepened financial markets.* The NBR has taken steps to strengthen financial inclusion and deepen money and capital markets, while ensuring financial stability. NBR has completed banking sector legal, regulatory and supervisory reforms, and has instituted the deposit guarantee fund for deposit taking financial institutions including banks, MFIs and SACCOs, to support credit growth while strengthening stability. In the non-bank financial sector, the business model of consolidating SACCOs at district level was adopted and as prerequisite to the consolidation the procurement process of acquiring a shared core banking system for their automation is ongoing. NBR initiated the process of reviewing the insurance law, has developed regulation on micro-insurance to promote the access to insurance especially for low income segments and plans to implement the Risk Based capital supervision is underway. On the pension side, the NBR started the review of the pension law while regulations governing the private pension sector were put in place. Initiatives to deepen financial markets and enhance the yield curve have included issuance of long-term government bonds, bond reopening on the secondary market, and introduction of true repos on the money market.

d. *Preserved external stability and debt sustainability despite shocks.* To address external shocks, we used exchange rate adjustment as the principal adjustment tool, supported by a tighter fiscal policy to help curb demand for imports. Policy interventions, such as *Made in Rwanda*, have also supported external adjustment by diversifying production and promoting exports.

Fiscal and Monetary Policies in the Near Term

9. Our policy objectives in the interim period will remain unchanged. We remain committed to maintaining macroeconomic stability until the new successor program is in place, expected in the first half of 2019.

10. Our fiscal policy will continue to reflect the policies of fiscal restraint and prudent borrowing. We will continue to make progress on our reform program including on revenue mobilization and public financial management and at the same time maintain an adequate level of priority spending to support inclusive growth. To this end, we are committed to stay within the agreed fiscal program in relation to domestic financing for end-2018 (Table 1).

11. Our monetary program is aligned to keeping inflation low and stable. We remain committed to advancing our transition to our new forward-looking monetary policy framework. On monetary operations, we are on course to moving to an interest rate-based operational framework by end-2018. To this effect, the NBR is committed at revising its MPC decision-making process, including the formation of a forecasting team. In the new framework, communication will continue to play a key role, and therefore, more communication tools will be explored. Among others, the Bank will consider publishing the MPC calendar at the beginning of each financial year, while the inflation report will be published one week after the MPC meeting. During the transition period, our monetary program is aligned to keeping inflation close to our medium-term desired level (Table 3). We will continue to use exchange rate flexibility as the first line of defense against external shocks.

Concluding requests

12. We request that the Executive Board of the IMF complete the tenth and final review under the PSI Arrangement, given the strong program performance to date and our near-term fiscal and monetary policies.

13. We wish to start discussions on a successor arrangement in early 2019. Rwanda has significantly reduced its vulnerabilities and advanced its reform program. The government intends to continue implementing its reform agenda with the support of the IMF to promote inclusive growth and achieve our long-term development goals. We will continue our policy consultation and dialogue with the Fund in the interim period.

14. We consent to the publication of this letter, and its attachments, as well as the related staff report.

Sincerely,

/s/	/s/
Ndagijimana Uzziel	Rwangombwa John
Minister of Finance and Economic Planning	Governor, National Bank of Rwanda

Table 1. Rwanda: Fiscal and Monetary Targets for End-December 2018[1]

	Targets
(Billions of Rwandan francs, unless otherwise indicated)	
1. Ceiling on the overall fiscal deficit, including grants[2, 3]	315
2. Domestic revenue collection (floor on flow)[2, 5]	670
3. Total priority spending (floor on flow)[2]	377
4. Net accumulation of domestic arrears (ceiling on flow)[2]	0
5. Net foreign assets of the NBR at program exchange rate (floor on stock)[3]	797
6. Reserve money (ceiling on stock) (upper bound)[4]	382
Memorandum items:	
Total budget support (US$ millions) [2, 5]	444
Budget support grants (US$ millions)	154
Budget support loans (US$ millions)	290
RWF/US$ program exchange rate	860

Sources: Rwandan authorities and IMF staff estimates and projections.

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

[2] Numbers are cummulative from 6/30/2018.

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

[4] 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.

[5] Excluding demobilization and African Union peace keeping operations, HIPC and COMESA grants.

Statement by the Executive Director, Mr. Mohamed-Lemine Raghani and the Advisor of the Executive Director, Ms. Loy Nankunda on Rwanda
November 28, 2018

Our Rwandan authorities would like to express their gratitude to staff, Management and the Executive Board for the Fund's continued support to their policy and reform agenda. They value the constructive discussions held with staff in Kigali in the context of the tenth and final review under the PSI-supported program. The implementation of comprehensive reforms under the PSI arrangement has helped Rwanda make important strides in strengthening macroeconomic stability and in achieving high growth and substantial poverty reduction despite external shocks. The authorities broadly agree with the thrust of the staff report as a fair assessment of challenges facing the economy.

The authorities are strongly committed to transforming Rwanda into a middle-income economy by 2035. To achieve this objective, they will implement their Vision 2050 and National Transformation Strategy with an emphasis on fiscal discipline, increased public investment, sound monetary policy and far-reaching structural reforms. The 2013–18 PSI-supported program has broadly met its objectives. Going forward, the authorities remain determined to pursue their reform agenda to make the economy more resilient through broad-based and more inclusive growth. In this context, they intend to discuss with staff a potential successor program in the first quarter of 2019.

Program Performance and Recent Developments

Owing to our authorities' strong commitment to the program objectives and sound policymaking, all continuous and end-June quantitative targets as well as all structural benchmarks were met. Continued performance under the PSI arrangement has led to an improved fiscal stance and a more sustainable debt position. Moreover, growth has stood at 7.2 percent on average since 2013 and poverty has declined from 45 percent in 2011 to 39 percent in 2014. Strong growth momentum has continued over the recent period. Real GDP rose by 8.6 percent y/y in the first half of 2018, mainly driven by robust performance in agriculture and increased activity in the manufacturing sector and public construction work.

The fiscal deficit for FY17/18 stood at 4.6 percent, unchanged from the previous year but reflecting higher investment spending to meet the priority objectives of the National Strategy for Transformation and was financed by official development assistance. This fiscal performance was broadly in line with the objectives set in the budget.

Thanks to the decline in food prices which offset the increase in energy prices, inflation has been low. It is projected to remain within the authorities' medium-term target of 5 percent. In view of recent price developments and slow private sector credit growth, the authorities have maintained a broadly neutral monetary policy stance.

The financial sector remains sound, with well-capitalized banks, declining Non-Performing Loans (NPLs) and rising bank provisions. Moreover, banks' profitability has improved while increased activity of Micro-Finance Institutions (MFIs) has contributed to further financial inclusion. In addition, the money and capital markets continued to deepen.

The external position has strengthened, reflecting higher export growth, improved terms of trade, as well as policies to enhance the value-added of exports and increase the scope of re-exports. As a result, reserve buffers have strengthened. These buffers are expected to increase further due to higher official flows and higher net exports growth.

Medium-Term Macroeconomic Policies and Structural Reforms

The authorities remain optimistic about the economic outlook, which should benefit from the positive impact of recent public investments and medium-term policies, as well as a conducive global environment. While recognizing downside risks to the outlook linked to potential adverse weather conditions and volatile global commodity prices, they remain confident that economic prospects offered by recent and current investment projects, tourism-related activity, and the mining sector, would counterbalance these risks. The authorities stand ready to adjust their policy actions in the event of negative shocks.

The economy is expected to continue to grow at above 7 percent over the next three years while inflation will be kept under control. The authorities' medium-term policies are geared towards sustaining improvements in the business environment for private sector development and increasing productivity through strategic infrastructure investments. These policies are consistent with the country's structural transformation agenda and underpinned by continued efforts in enhancing domestic revenue mobilization, maintaining prudent monetary policy and fostering financial deepening.

Fiscal Policy and Debt Sustainability

The FY18/19 and medium-term budget frameworks remain in line with the authorities' commitment to fiscal prudence and debt sustainability; while making room for development-related expenditures to achieve the SDGs.

The authorities are stepping up reforms to enhance revenue mobilization and public financial management. On the other hand, they maintain an adequate level of priority spending to support inclusive growth. In addition, they are taking actions to ensure that tax incentives for private sector investment are well targeted and do not unnecessarily jeopardize revenue mobilization efforts. They appreciate the tax expenditure analysis that Fund technical assistance is providing in this respect. Steps are also underway to improve the timeliness, frequency and coverage of fiscal reporting. The authorities will pursue their fiscal objectives while remaining committed to their domestic financing target. More broadly, they will maintain a prudent borrowing strategy which will help preserve public debt sustainability.

Monetary and Financial Sector Policies

The authorities will pursue prudent monetary policy to maintain price stability and keep inflation expectations well-anchored. They also remain committed to a flexible exchange rate as the main shock absorber.

The authorities are transitioning to an interest rate-based monetary policy framework with a medium-term objective of adopting a formal inflation targeting framework. In this respect, they continue to undertake reforms, including revising the monetary policy committee's decision-making process, strengthening communication tools to better anchor inflation expectations, reducing structural excess reserves, and deepening money and capital markets for effective monetary operations and liquidity management.

The financial sector remains broadly sound, underpinned by strong regulatory and supervisory frameworks. The banking sector's capital adequacy ratio exceeds the minimum requirement under Basel II, and the Non-Performing Loans (NPLs) ratio has continued to decline. Important progress has also been made towards greater financial inclusion with the expansion of microfinance activity, including the Savings and Credit Cooperatives (SACCOs). In addition, important steps have been made in reforming the banking sector's legal, regulatory, and supervisory frameworks. Moreover, the authorities have established a deposit guarantee fund for banks and microfinance institutions.

External Sustainability

While export growth is expected to remain robust in 2018, the construction of the new airport and the pickup in foreign-financed investment are driving imports up, increasing the trade deficit, thus temporarily increasing the current account deficit. Looking ahead, the current account balance is projected to further improve over the medium-term as measures under the "*Made in Rwanda*" policy, new and diversified export products, and investments in the services sector bear fruit.

Rwanda's external debt remains sustainable and the country continues to rank in the category of low-risk of debt distress. In order to preserve debt sustainability, the authorities will continue to resort to prudent borrowing to finance their development projects in a context of significant decrease in development assistance.

Structural Transformation Agenda

Through the Vision 2050, the Rwandan authorities aim to a structural transformation of the economy to achieve middle income status by 2035. To operationalize this vision, our authorities are now implementing their 2017–24 National Strategy for Transformation (NST), which is articulated around three main pillars, namely, economic transformation, social transformation, and transformative governance. The NST' sectoral strategies are also well aligned with Rwanda's SDGs.

The authorities' commitment to support a greater private sector involvement in the economy is at the core of their medium-term agenda, with the aim of sustaining the growth momentum while ensuring debt sustainability. This is reflected in their efforts to improve the business climate. The World Bank's 2019 Doing Business report has ranked Rwanda among the top-10 performers, moving 11 places up to the 29th position in the world. Our authorities are also keen on harnessing the benefits of attracting foreign investment through the G20's Compact with Africa initiative, and look forward to agreeing on more concrete steps to achieve this objective. They are convinced that these achievements, combined with initiatives to develop Special Economic Zones (SEZs) and foster innovative Small and Medium-Sized Enterprises (SMEs), will help attract more Foreign Direct Investment (FDI) to Rwanda.

Conclusion

Rwanda's sound economic policies continue to support macroeconomic stability, foster robust growth, and improve the living conditions of the population. The policy framework under the PSI has been a useful signaling instrument on Rwanda's policies while also helping in coping with various shocks faced by the economy.

Going forward, the authorities are committed to keeping the reform momentum for addressing the economy's remaining challenges. They will step up efforts to implement their National Strategy for Transformation aimed at turning Rwanda into a middle-income economy.

In view of the strong performance under the PSI-supported program and the authorities' firm commitment to sound macroeconomic policies and reforms, we would appreciate Executive Directors' support for the completion of the tenth and final review.