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RWANDA

January 2021

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENTS BY THE EXECUTIVE DIRECTOR AND STAFF REPRESENTATIVE FOR RWANDA

In the context of the Third Review Under the Policy Coordination Instrument program, 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 December 16, 2020, following discussions that ended on October 23, 2020, with the officials of Rwanda on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on December 1st, 2020.
- A **Debt Sustainability Analysis** prepared by the Staffs of the IMF and the International Development Association (IDA).
- **Statements by the Executive Director and by the Staff Representative** for Rwanda.

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

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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PRESS RELEASE

PR20/376

IMF Executive Board Completes Third Review Under the Policy Coordination Instrument (PCI) for Rwanda

FOR IMMEDIATE RELEASE

- *GDP growth is projected to contract by 0.2 percent in 2020 and is expected to recover to 5.7 percent next year.*
- *To address the fallout from the COVID-19 pandemic, the authorities acted swiftly by adopting early stringent containment measures and implementing a large policy package.*
- *Containing fiscal risks and planning contingency measures remains critical given the highly uncertain economic outlook.*
- *Reforms to accelerate the transition to a private sector-led growth will be key in the post-pandemic period given the limited fiscal space.*

Washington, DC – **December 16, 2020:** The Executive Board of the International Monetary Fund (IMF) concluded on December 16, 2020 the third review of Rwanda's program supported by the IMF's Policy Consultation Instrument (PCI)[1]. The PCI program was approved on June 28, 2019 (Press Release No.19/258) to support the implementation of Rwanda's National Strategy for Transformation (NST).

Rwanda continues to grapple with the fallout from the COVID-19 pandemic. Real GDP contracted by 4.4 percent year-on-year in the first half of 2020; but a recovery is afoot following the end of the full lockdown in the second half. As a result, real GDP growth is expected to be slightly negative at -0.2 percent in 2020, and is projected to rebound to 5.7 in 2021, albeit below potential.

The authorities' policy measures in response to the pandemic were generally well-designed, and appropriately aimed at providing support to households and businesses, boosting healthcare spending, and providing sufficient liquidity to the banking system and relief to borrowers. The associated spending needs coupled with revenue underperformance due to the crisis have caused deviations from the earlier fiscal program targets under the program. As a result, fiscal deficit is expected at 8.5 percent of GDP in FY2020/21, with public debt projected at 67 percent of GDP at end-2020. The crisis has also affected progress on structural reforms.

While the immediate policy priorities have shifted to supporting the economy through the crisis, the objectives of the PCI, which expires in June 2022, remain appropriate. The remainder of the program aims to strike a balance between sustaining the economic recovery and maintaining fiscal responsibility. The authorities and staff agreed that going forward it will be critical to monitor and contain financial sector and fiscal risks including from state-owned enterprises.

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[1] The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors

Following the Executive Board's discussion of Rwanda, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The COVID-19 pandemic continues to take a heavy toll on Rwanda's economy and society. The near-term outlook remains highly uncertain. Growth is expected to contract in 2020, putting additional pressures on public finances and the balance of payments.

"The authorities' fiscal package in response to the crisis is providing needed support to vulnerable households and businesses. Strong reporting and procurement practices are key to ensuring the effectiveness and proper oversight of this spending.

"The uncertain outlook calls for sound contingency planning and fiscal risk management. To preserve fiscal space, the authorities should reprioritize spending and seek additional concessional financing should the outlook deteriorate further. Fiscal risks from state-owned enterprises and state-guaranteed loans should be closely monitored.

"Monetary policy has rightly been accommodative, and temporary extraordinary measures have provided liquidity to the banking sector. Looking ahead, the central bank should keep monetary policy data driven and continue to closely monitor credit and liquidity risks, including from loan restructuring, to safeguard financial stability.

"Adopting a credible and growth-friendly fiscal consolidation strategy after the crisis abates will be critical to preserve debt sustainability while supporting the nascent recovery. The strategy should be centered on measures to re-ignite domestic revenue mobilization, streamline non-priority spending, and re-prioritize public investment. Such measures could be announced and legislated before the end of the program to support their credibility.

"Going forward, the authorities should continue pushing ahead with structural reforms to promote private sector-led and inclusive growth. Other priority reforms include strengthening governance, fiscal transparency and risk management, improving tax compliance, and further strengthening the interest rate-based monetary policy framework.

Table 1. Rwanda: Selected Economic Indicators, 2019–2025

	2019			2020			2021			2022		2023	2024	2025
	1st Rev.	RCF-2	Act.	1st Rev.	RCF-2	Proj.	1st Rev.	RCF-2	Proj.	RCF-2	Proj.	Proj.	Proj.	Proj.
Output and prices														
Real GDP	8.5	9.4	9.4	8.0	2.0	-0.2	8.0	6.3	5.7	8.0	6.8	8.0	7.5	7.5
GDP deflator	1.8	0.4	0.4	5.6	6.5	8.3	5.0	1.0	2.3	5.0	4.3	5.0	5.0	5.0
CPI (period average)	2.3	2.4	2.4	5.4	6.9	8.0	5.0	1.0	2.5	5.0	4.1	5.0	5.0	5.0
CPI (end period)	5.7	6.7	6.7	5.0	5.0	5.0	5.0	5.0	2.3	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-1.8	-1.8	-0.1	-3.3	0.2	0.0	-0.4	0.0	0.7	1.0	1.1	0.8	2.3
Money and credit														
Broad money (M3)	21.8	15.4	15.4	21.9	5.1	11.3	17.4	22.3	12.0	16.1	13.6	22.0	14.9	12.8
Reserve money	21.5	17.2	17.2	22.1	5.8	12.1	17.8	21.4	11.2	20.3	17.8	19.8	14.9	12.8
Credit to non-government sector	17.6	12.6	12.6	14.8	10.2	14.1	7.9	10.3	12.6	11.4	12.1	14.0	13.7	14.0
M3/GDP (percent)	27.9	26.3	26.3	29.8	25.4	27.0	30.9	28.9	28.0	29.6	28.5	30.7	31.3	31.3
Budgetary central government														
Total revenue and grants	23.6	23.6	23.6	23.1	20.1	23.1	22.9	20.7	23.4	20.6	23.2	23.8	23.9	23.3
of which: tax revenue	16.6	16.7	16.7	16.9	13.5	15.4	16.5	14.3	15.4	14.9	15.5	15.6	15.9	16.5
of which: non-tax revenue	2.6	2.7	2.7	2.1	2.0	1.9	2.1	2.3	2.4	2.1	2.5	2.5	2.5	2.5
of which: grants	4.5	4.2	4.2	4.1	4.6	5.8	4.3	4.1	5.6	3.6	5.2	5.7	5.6	4.3
Expenditure	31.9	31.8	31.8	29.0	31.7	32.9	29.2	30.1	31.3	27.2	30.2	29.6	28.3	27.0
Current	15.9	15.6	15.6	14.5	15.7	15.7	14.6	15.8	15.2	13.5	16.0	15.0	13.9	13.4
Capital	12.7	13.2	13.2	12.1	12.1	12.9	12.7	11.9	12.2	11.3	11.5	11.4	11.5	10.9
Lending minus repayment	3.3	3.0	3.0	2.4	3.9	4.3	1.9	2.4	3.9	2.3	2.7	3.1	2.9	2.6
Primary balance	-6.9	-6.8	-6.8	-4.2	-9.9	-8.0	-4.9	-7.7	-6.0	-4.9	-5.2	-4.2	-3.0	-2.0
Overall balance	-8.2	-8.1	-8.1	-5.9	-11.6	-9.7	-6.3	-9.4	-7.9	-6.6	-7.0	-5.8	-4.4	-3.7
excluding grants	-12.7	-12.3	-12.3	-10.0	-16.2	-15.5	-10.6	-13.6	-13.5	-10.2	-12.2	-11.5	-10.0	-8.0
Debt-creating overall bal. (exc. PKO)[1]	-6.7	-6.6	-6.6	-5.7	-11.3	-9.1	-6.4	-9.6	-8.1	-7.1	-7.0	-5.8	-4.4	-3.7
Net domestic borrowing	2.7	0.9	0.8	0.7	2.5	1.2	2.0	1.4	2.4	0.4	1.0	2.3	0.5	0.5
Public debt														
Total public debt incl. guarantees	59.0	58.5	58.1	58.9	68.1	65.9	59.8	75.7	71.1	76.3	73.7	73.3	72.0	70.0
of which: external public debt	46.0	45.6	45.4	48.1	55.0	55.6	49.8	61.9	58.4	63.0	60.7	61.0	61.1	60.8
PV of total public debt incl. guarantees	44.5	42.8	42.8	43.1	48.2	45.5	42.9	52.5	48.8	52.5	50.6	50.9	50.4	49.3
Investment and savings														
Investment	28.4	26.2	26.2	28.2	20.9	21.7	28.8	22.2	22.6	24.7	26.4	28.2	28.4	27.9
Government	12.7	13.2	13.2	12.1	12.1	12.9	12.7	11.9	12.2	11.3	11.5	11.4	11.5	10.9
Nongovernment	15.7	13.0	13.0	16.1	8.8	8.8	16.1	10.3	10.4	13.3	14.8	16.8	16.9	17.0
Savings	14.6	14.5	11.1	15.5	2.4	5.5	16.6	9.5	6.1	12.4	10.9	14.0	15.5	16.5
Government	3.3	3.8	3.8	4.5	-0.2	1.7	4.0	0.7	2.6	3.5	2.0	3.0	4.4	5.6
Nongovernment	11.2	10.6	7.3	11.1	2.6	3.9	12.6	8.8	3.5	8.9	8.8	11.0	11.1	11.0
External sector														
Exports (goods and services)	21.5	22.2	22.2	21.8	13.1	18.2	22.6	21.2	22.7	22.6	26.2	26.8	27.7	27.9
Imports (goods and services)	34.9	36.9	36.9	34.1	29.3	34.4	34.3	33.8	39.8	35.2	42.3	41.7	41.1	39.8
Current account balance (incl grants)	-10.6	-12.4	-12.4	-9.9	-16.7	-12.2	-9.1	-10.5	-12.5	-10.0	-11.4	-9.6	-8.4	-8.0
Current account balance (excl grants)	-13.9	...	-15.1	-12.7	-18.5	-16.2	-12.2	-12.7	-16.5	-12.3	-15.5	-14.2	-12.8	-11.4
Current account balance (excl. large projects)	-10.4	...	-11.1	-8.9	-15.7	-11.6	-8.2	-9.5	-11.0	-8.8	-9.6	-7.1	-6.3	...
Gross international reserves														
In millions of US$	1,367	1,440	1,440	1,553	1,207	1,643	1,654	1,461	1,463	1,598	1,556	1,654	1,834	1,834
In months of next year's imports	4.4	5.8	5.8	4.6	4.0	5.5	4.6	4.3	4.3	4.4	4.2	4.1	4.2	4.2
Memorandum items:														
GDP at current market prices														
Rwanda francs (billion)	9,045	9,105	9,105	10,313	9,894	9,841	11,688	10,629	10,641	12,043	11,862	13,449	15,184	17,129
Population (million)	12.4	12.4	12.4	12.7	12.7	12.7	13.0	13.0	13.0	13.3	13.3	13.6	13.9	14.2

Sources: Rwandan authorities and IMF staff estimates.

[1] Overall deficit excl. spending on materialized contingent liabilities and other items already incl. in the DSA.

INTERNATIONAL MONETARY FUND

RWANDA

December 1, 2020

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

EXECUTIVE SUMMARY

Recent economic developments. The COVID-19 pandemic is having an adverse impact on Rwanda's economy, despite a sizeable policy response. Output in 2020 is projected to contract by 0.2 percent, compared to an 8 percent increase expected pre-pandemic. The government's early actions helped contain the spread of the virus and mitigate its economic impact, supported by financing from Rwanda's development partners, including from the IMF under the RCF. With the number of infections contained, the authorities are gradually easing up containment measures.

Program implementation. An interim performance update was issued to the Executive Board in September as completion of the second PCI review within the three-month window of the review date was not feasible due to the need to shift efforts to respond to the COVID-19 outbreak. The near-term policy priorities have shifted to supporting the economy through the crisis. The associated spending needs have caused deviations from the earlier fiscal program targets under the program and the crisis has also affected progress on structural reforms. The remainder of the program aims to strike a balance between sustaining the economic recovery and maintaining fiscal responsibility. Staff recommends completion of the third review under the Policy Coordination Instrument.

Policy recommendations.

- **Crisis measures.** The large fiscal package targeting economic and social needs to limit the impact of the crisis is broadly appropriate. Containing fiscal risks and contingency measures should guide policies given the uncertain outlook. With the projected drop in inflation, the accommodative monetary stance remains appropriate, along with liquidity support for banks and financial markets as needed.
- **Fiscal policy.** The fiscal stance should balance support to the economic recovery with a return to credible fiscal consolidation once the crisis abates. In the absence of large economic surprises, the fiscal deficit in FY20/21 should be contained to about 8.5 percent of GDP. Under the baseline, debt will remain sustainable with a moderate risk of debt distress. Effective and transparent implementation of measures to address the crisis will be critical in the near term.
- **Structural reforms.** The near-term agenda should focus on fast-tracking efforts to strengthen fiscal risk management, including of state-owned enterprises (SOEs), and monitoring financial sector risks.

Risks. Risks to the outlook are substantial given the heightened uncertainty about the duration and magnitude of the COVID-19 shock and its economic impact.

Approved By
Mary Goodman (AFR) and Delia Velculescu (SPR)

Discussions were held remotely from Washington, D.C. to Kigali during October 5–23, 2020. The mission comprised H. Teferra (head), V. Duarte Lledo, K. Gyesaw, M. Woldemichael (all AFR), S. Kaihatsu (SPR), S. Mbaye (IMF Resident Representative), and J. Kayemba (local economist). L. Nankunda (OED) also attended mission meetings. The mission was facilitated by the staff of the resident representative's office. T. Gursoy, R. Iyer, and F. Morán Arce (AFR) assisted in the preparation of this report.

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ANNEXES

APPENDIX

RECENT DEVELOPMENTS

1. The Rwandan authorities' early response to the COVID-19 pandemic has helped contain the spread of the virus but the pandemic's adverse impact on social and economic outcomes are substantial (Figure 1). The pandemic's progression in Rwanda has been slower relative to regional peers, helped by good public health preparedeness, the early adoption of stringent social distancing measures and efforts to hike testing capacity.[1] As of November 19, Rwanda has recorded 5,543 cases of infection and 46 deaths, with the number of daily cases moderating. The reopening of the economy has accelerated with additional steps to relax domestic movement restrictions and reopen schools, among others. The social impact of the pandemic is expected to be significant (Box 1), with available estimates suggesting that up to 1 million people could fall into poverty.

Rwanda: Lockdown and Poverty

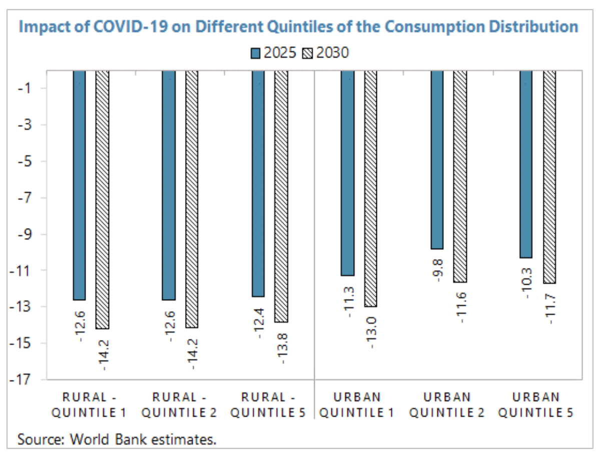
	UN		International Growth Center
Lockdown assumption	4 weeks	8 weeks	8 weeks
Increase in number of the poor	178,760	400,064	1,090,000

Sources: Report by United Nations Rwanda, *The Socio-Economic Impact of COVID-19 in Rwanda* (June 2020); and International Growth Center, *The Economic Impact of COVID-19 Lockdowns in sub-Saharan Africa.*

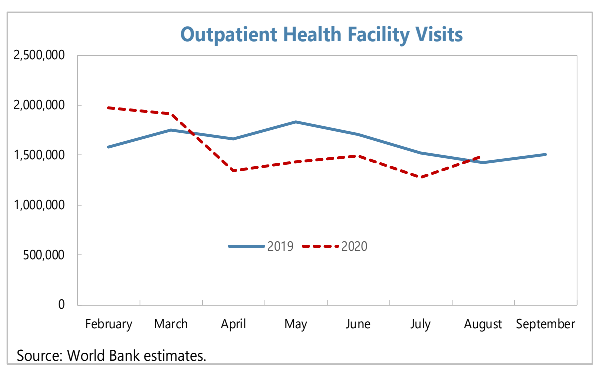
Box 1. The Social Impact of the Pandemic: An Initial Assessment[1]

COVID-19 is expected to lastingly reduce consumption and employment, especially for the poor. Household consumption is expected to drop by double-digits and remain depressed for the next decade, with the poorest 20 percent of rural households expected to suffer the most (14.2 percent drop in consumption through 2030). Employment could be 8.4 percent lower in 2020, with large losses in all major sectors.

Rwanda has experienced disruptions in the delivery of essential health services, immunization programs, and other child services. Controlling for seasonality and facility type, Rwanda is found to have experienced statistically significant disruptions during March-May 2020 (peak of the lockdown) with persistent effects on institutional deliveries, but with many services recovering in subsequent months. Various children vaccination programs (e.g., Polio3, Penta3, BCG) recorded less participation than in 2019. Treatment for malaria, diarrhea, and pneumonia in under-five children fell well below 2019's levels.



Source: World Bank estimates.



Source: World Bank estimates.

[1] See IMF Country Report No 20/207.

Box 1. The Social Impact of the Pandemic: An Initial Assessment (concluded)

Education losses are likely to be substantial, especially for children from poorer households. Remote learning was quickly instituted as an estimated 3.5 million children remained out of school for most of 2020. However, participation fell over time, partly due to a lack of interactive learning, the shortness of the broadcast period, parents' unwillingness to allow their children unsupervised access to radios and phones, and difficulties in English. Previously existing inequalities are also expected to widen, as poorer children's limited access to technologies may affect their engagement in remote learning. A recent phone survey also revealed concerns with reduced enrollment, with 63 percent of teachers expecting higher dropout rates. Research in other countries suggests that students in grades 1–12 affected by the closures might expect approximately 3 percent lower incomes over their lifetimes.[2]

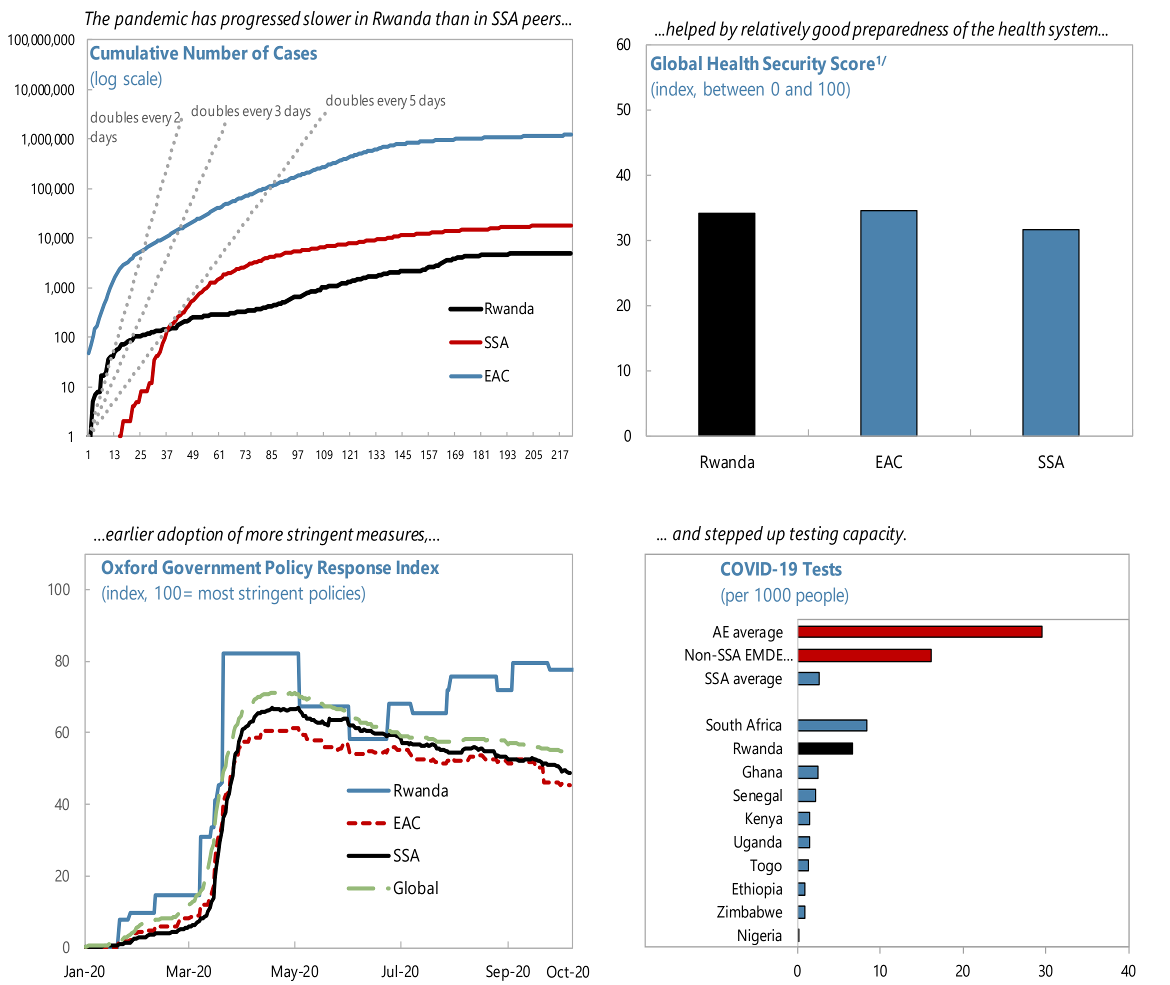
The Rwandan government's swift and effective response has averted the potential for much larger losses in social outcomes. The share of positive COVID-19 results among the tested population (the single best metric for measuring effectiveness) remains one of the lowest in the world. Estimates suggest that, had Rwanda experienced similar declines in health service utilization as observed in other global epidemics, child and maternal mortality could have increased by 29 and 23 percent respectively through 2021. Key elements of the government's response plan include a food distribution program, an expansion of the social safety net, and ongoing improvements in the targeting of social programs using a Household Welfare Scorecard (HWS), inter alia. Rwanda also benefited from its strong pre-COVID-19 primary health system.

[1/] This box draws from the World Bank's forthcoming "*Rwanda Economic Update"* Report on the impact of the COVID-19 response with special focus on Human Capital. However, the assessment in this box excludes mitigating measures.

[2/] Eric A. Hanushek & Ludger Woessmann, 2020. "*The Economic Impacts of Learning Losses*"; OECD Education Working Papers 225, OECD Publishing.

2. **The pandemic shock slowed economic activity significantly in the first half of 2020, and the recovery has been tepid so far (Figure 2, Table 1).** Heavy rains, a decline in the pace of investment, and the COVID-19 outbreak affected activity in 2020Q1 leading growth to decelerate to 3.6 percent y/y from 6.1 percent in 2019Q1. Subsequent measures to contain the spread of the virus deepened the economic slowdown, with output contracting by 12.4 percent in Q2, slightly more than envisaged at the time of the RCF-2 request. The contraction was broad-based, with substantial output loss in services and industry. Business turnover data and the National Bank of Rwanda (BNR)'s Composite Index of Economic Activity suggest a return to recovery in Q3, albeit at a much slower pace. Demand for new loans dropped by 9 percent y/y in 2020H1, but private sector credit continued to grow, supported by loan restructuring. Headline inflation declined to 7.2 percent y/y in October, driven by a decrease in public transport fares and moderation of food inflation. Monetary policy remains accommodative, with the Monetary Policy Committee (MPC) keeping the policy rate unchanged at 4.5 percent following its November meeting (Figure 5, Table 3).

Figure 1. Rwanda: Pandemic Overview

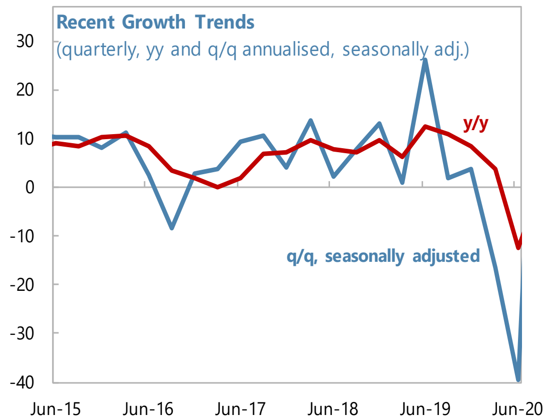


Source: National Institute of Statistics Rwanda (NISR), Global Health Security Index Report (Oct. 2019), Johns Hopkins CSSE, World Bank WDI, Finmark Trust, 'Our World in Data' databases and IMF staff calculations.

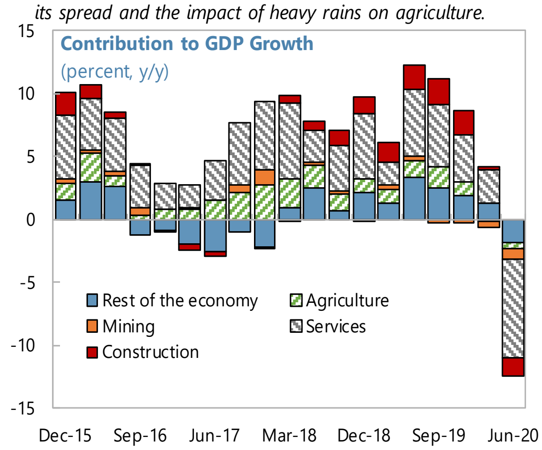
1/ The Global Health Security score assesses countries' health security and capabilities across six categories: prevention, detection and reporting, rapid response, health system, compliance with international norms, and risk environment.

Figure 2. Rwanda: Overview of Recent Economic Developments

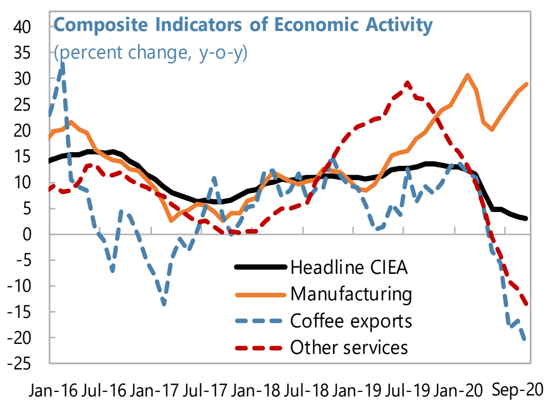
Growth impulse weakened at the end of Q2 and was broad based...



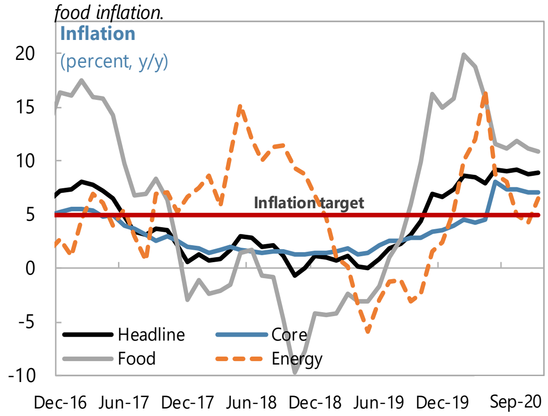
... driven by the pandemic disruptions, strict measures to contain its spread and the impact of heavy rains on agriculture.



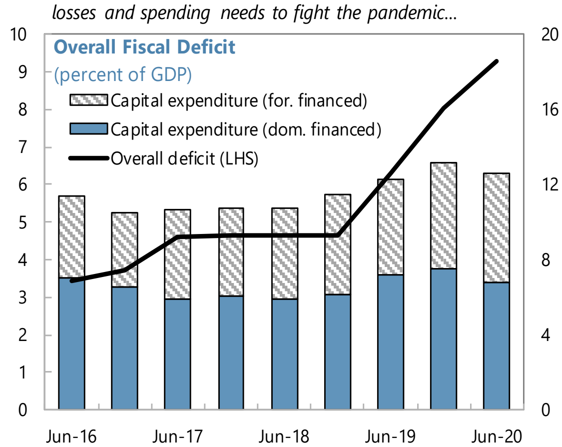
Leading indicators suggest a modest recovery at the start of Q3 following the easing of containment measures.



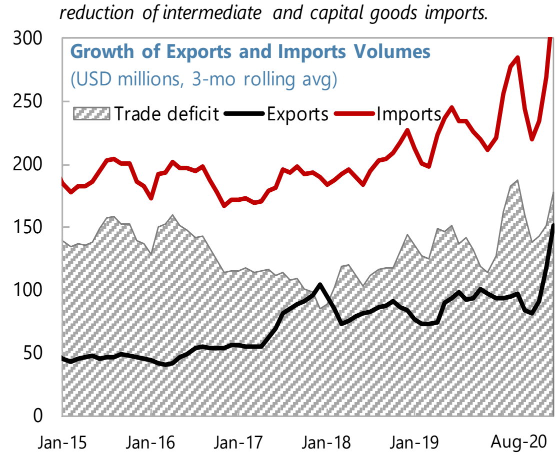
Headline inflation remains high due to trasnport fare hikes but core inflation slightly eased, reflecting the decline in core food inflation.



The fiscal deficit significantly increased owing to revenue losses and spending needs to fight the pandemic...



...while the trade deficit sharply declined mainly due to a reduction of intermediate and capital goods imports.



Source: Rwandan Authorities, and IMF staff estimates.

3. **The external position has weakened, albeit less than expected (Figure 3, Table 5).** After a narrowing current account deficit and strong reserves level in 2019, subdued global demand and lower export prices due to the pandemic have significantly weakened trade, tourism receipts, remittances and foreign direct investment (FDI) in 2020.[2] Recent data indicate that remittances and FDI inflows fared marginally better than projected at the timing of RCF-2. The Rwandan franc depreciated against the dollar by 5.4 percent y/y at end-October. The level of foreign exchange reserves remained adequate at 5.7 months of import cover as of end-October following disbursements by the Fund and other development partners (DPs).

Rwanda: Trade Balance (January – September 2020)
(percent change over the same period of the previous year)

	Exports			Imports		Trade Deficit
	Volume (kgs)	Value (US$)		Volume (kgs)	Value (US$)	Value (US$)
Total		**30.0**	**Total**		**15.3**	**7.0**
Total (excl. gold)		**-21.4**	**Total (excl. gold)**		**-4.5**	
Tea & Coffee	-11.8	-8.4	Consumer goods	13.6	5.3	
Trad. Mining	-30.8	-27.5	Capital goods	-8.4	-7.7	
Other Exports	-21.1	-33.9	Intermediate goods	19.7	4.2	
Re-exports	-9.7	-15.3	Energy and lubricants	-22.6	-29.4	
Gold	211.5	271.9	Gold	305.2	392.3	

Source: National Bank of Rwanda and National Institute of Statistics of Rwanda

4. **The COVID-19 pandemic has also impacted budget implementation (Figure 4, Tables 2a–d).** Revenue surprised on the upside, helped by a slight overperformance in the first half of the fiscal year (July-December), as well as sustained income tax collection and a rebound of VAT revenues in the post-lockdown period. Current and capital appropriations were under-executed due to "lockdown savings" in the form of delayed civil servant hires, lower operational expenses, fewer travels, and slower implementation of infrastructure projects. The better-than-anticipated fiscal balance coupled with the significant mobilization of concessional financing from DPs has helped close the fiscal financing gap in FY 19/20 with a decline in net domestic financing.

Rwanda: Operations of the Central Government, GFSM 86[1]
(percent of GDP)

	2019/20		
	1st Review	RCF-2	Prelim.
Revenue and grants	**23.3**	**21.9**	**23.3**
Total revenue	19.1	17.5	18.8
Tax revenue	16.4	14.8	16.2
Direct taxes	7.2	6.5	7.3
Taxes on goods and services	8.0	7.2	7.7
Taxes on international trade	1.3	1.1	1.3
Nontax revenue	2.6	2.7	2.6
Grants	4.2	4.4	4.5
Total expenditure and net lending	**30.4**	**34.3**	**32.4**
Current expenditure	15.0	16.4	16.0
Capital expenditure	12.0	13.6	12.7
Net lending	3.4	4.2	3.7
Overall balance (incl. grants, commitment basis)	**-7.1**	**-12.3**	**-9.1**
Debt-creating balance(incl. grants, commitment basis)[2]	**-6.2**	**-11.3**	**-7.8**
Change in float/arrears[3]	-0.6	-0.6	-0.3
Overall balance (incl. grants, cash basis)	**-7.7**	**-12.9**	**-9.4**
Financing	**7.7**	**9.5**	**9.4**
Foreign financing (net)	5.9	8.5	10.0
Net domestic financing	1.8	0.9	-0.6
Financing Gap	--	**3.5**	--

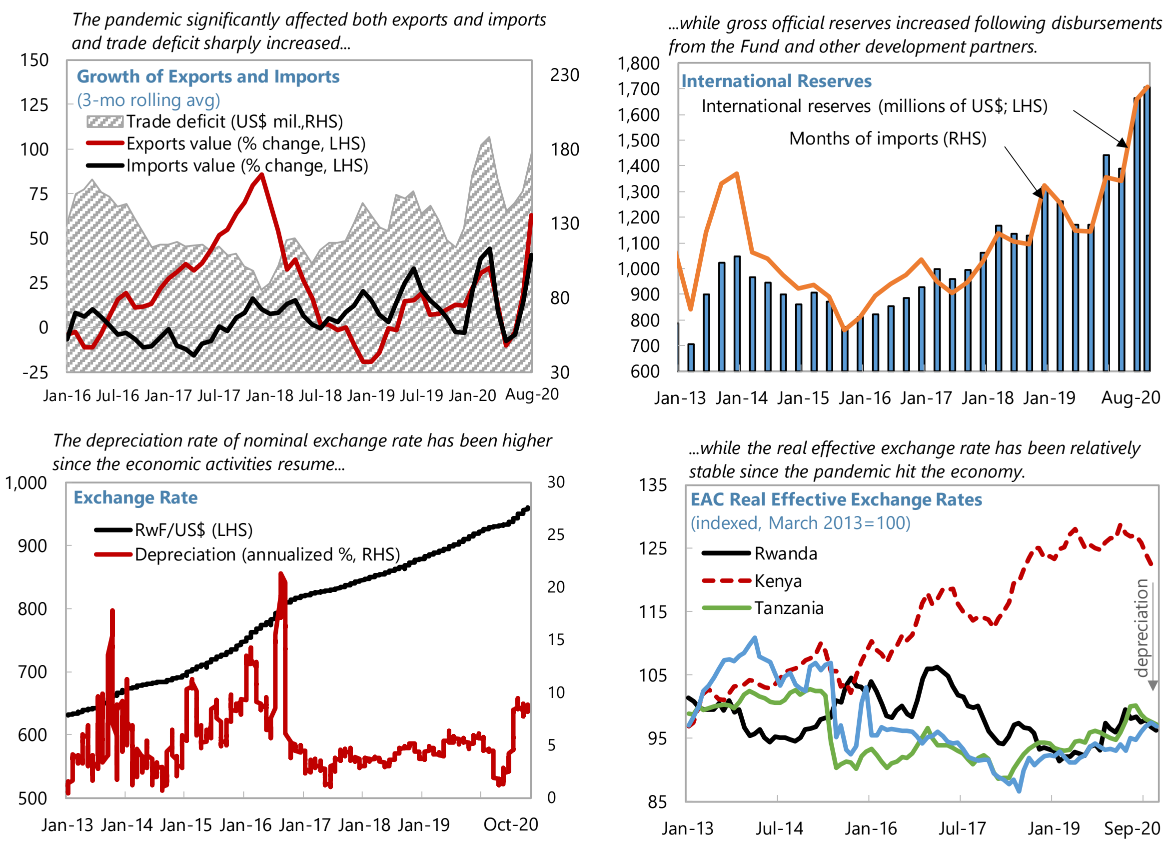
Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.
[2] Overall balance excluding PKO operations and spending on materialized contigent liabilitiesin the DSA.
[3] A negative sign indicates a reduction.

5. **The financial sector remains sound as at end-September but the pandemic continues to**

[2] Rwanda made the following statistical revisions following the BPM6 recommendation: (i) gold exports and imports are explicitly covered in trade statistics, and (ii) non-fuel imports going to warehouses and later re-exported without entering the domestic market are added to imports. The inclusion of non-fuel re-exporting items in imports resulted in a higher current account deficit.

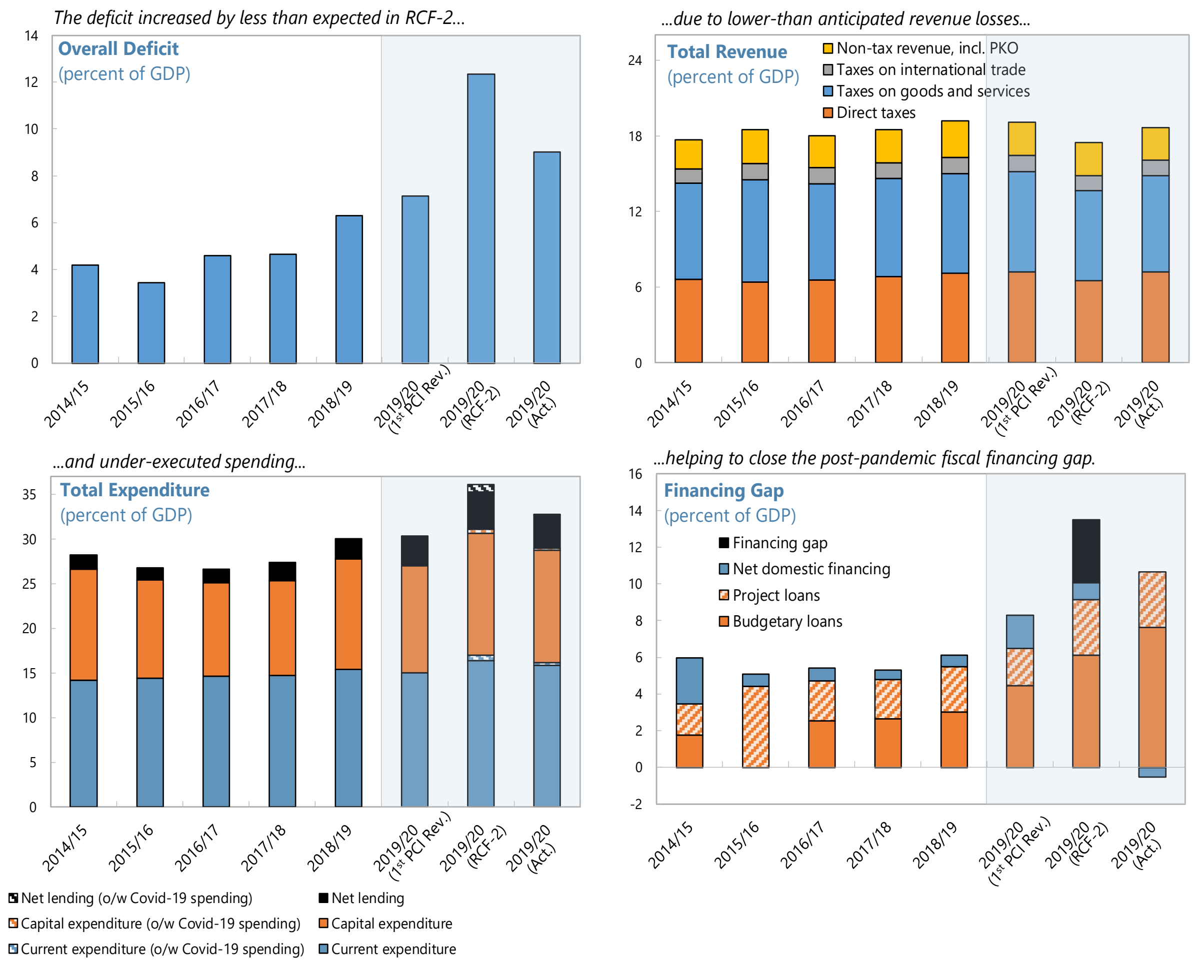
pose significant risks (Figure 5, Table 4). While the financial sector continues to hold adequate capital and liquidity buffers, exposure to hard-hit sectors such as trade and real estate, reduced ability of cash-strapped borrowers to service loans, and deferred cash inflows from loan restructuring have raised credit and liquidity risks. Banks' non-performing loans (NPLs) ratio stood at 5.2 percent at end-September, only slightly above the regulatory benchmark, as they restructured 45 percent of their loan portfolio. Microfinance institutions (MFIs) restructured 21.9 percent of loans, but the pandemic pushed the NPLs ratio to 12.8 percent at end-June (from 8 percent at end-March), prompting an increase in provisions and a sharp drop in earnings. It declined to 9.2 percent at end-September as small businesses, the main customers of MFIs, resumed activity and loan repayments. The insurance and pension sectors remained solvent, liquid, and profitable, despite a deceleration of premiums collection and investment income.

Figure 3. Rwanda: External Developments



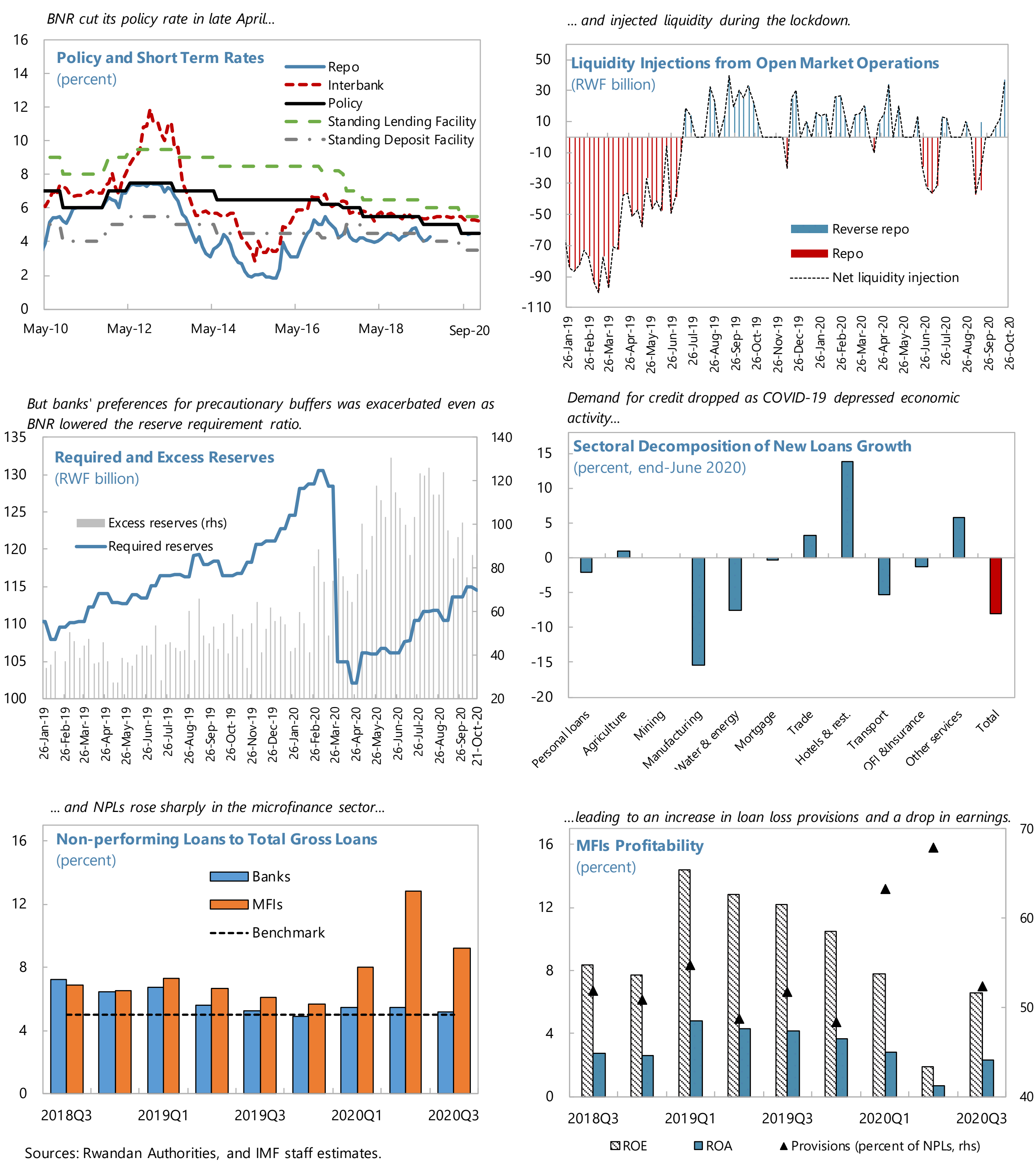
Source: Rwandan Authorities, and IMF staff estimates.

Figure 4. Rwanda: Fiscal Developments



Source: Rwandan Authorities, and IMF staff estimates.

Figure 5. Rwanda: Monetary and Financial Sector Developments



Sources: Rwandan Authorities, and IMF staff estimates.

PROGRAM PERFORMANCE

6. **The objectives of Rwanda's Policy Coordination Instrument (PCI) remain appropriate in the context of the COVID-19 shock.**[3] The program is set to conclude in June 2022. Near-term policies should continue focusing on supporting the economy through the crisis, while preserving macroeconomic and financial stability, managing fiscal risks, and protecting vulnerable groups. The authorities have reitirated their commitment to the program objectives and targets (Program Statement (PS); Tables 1–2).

7. **Program performance has been affected by the pandemic** (**Tables 6 and 7).** An interim performance update was issued to the Board in September as completion of the second PCI review linked to end-December 2019 tagets within the three-month window of the review date was not feasible due to the need to shift efforts to respond to the COVID-19 outbreak and the ensuing uncertainties around the near-term outlook.[4] The end-June 2020 quantitative targets (QTs) and reform targets (RTs) linked to the third PCI review were set prior to the COVID-19 outbreak.

- **Four out of five QTs for end-June 2020 and all standard continuous tagets were met.** The QT related to debt-creating overall deficit was missed as it breached the program ceiling, mainly due to revenue shortfalls.[5]
- **Two out of four RTs for end-June 2020 were met (PS ¶14).** A comprehensive fiscal risk statement was published on time. BNR's monetary policy reports published after the April and August 2020 MPC meetings include macroeconomic projections underpinning the inflation forecast, in line with the RT. Progress in advancing the remaing RTs for end-June 2020 was partly hampered by the pandemic and the need to divert resources to address its impact. The diagnostic study on the optimal Rwanda Social Security Board (RSSB) asset allocation was not completed due to recent statutory and managerial changes at the RSSB, which affected its reform plans. The platform for issuing government securities using mobile phones was not completed owing to technical delays and travel restrictions affecting the recruitment of consultants.

OUTLOOK AND RISKS

8. **The overall macroeconomic outlook has deteriorated significantly.** The baseline assumes a deeper contraction and more protracted recovery of external and domestic activity (Tables 1–5).

[3] The four pillars of the PCI program remain as follows: (i) a fiscal stance that is supportive of the National Strategy for Transformation (NST) while safeguarding debt sustainability, (ii) domestic revenue mobilization, (iii) fiscal transparency, including containing fiscal risks, and (iv) support to the new interest rate-based monetary policy framework.

[4] IMF Country Report No. 20/285.

[5] One out of three memorandum items for end-June 2020 was missed. Domestic revenue mobilization fell short of the program target. However, total priority spending was above the program floor and the limit on the stock of new external debt contracted or guaranteed by nonfinancial public enterprises was observed.

- **Growth.** Real GDP is expected to contract by 0.2 percent y/y (from an expansion of 8 percent projected pre-pandemic and 2 percent at the time of the RCF-2 request) owing to the larger-than-expected contraction in 2020H1, tepid recovery so far, and the re-imposition of new lockdowns, mainly across Europe and weak domestic consumption. Recovery is projected to start from early 2021, led by the industry sector and a rebound in private investment and consumption. The government's fiscal injection, recovery in domestic production and demand supported by the global and regional containment of the virus outbreak, and the effective implementation of the Economic Recovery Plan (ERP) and Economic Recovery Fund (ERF) will be critical to the recovery. Growth is expected to return to the pre-pandemic level by end-2023 as scars from the pandemic dissipate.

- **Inflation.** Inflationary pressures are forecasted to abate from 2020Q4. While average headline inflation is expected to reach the upper inner bound of the MPCC band in 2020, it is projected to drop to 2.5 percent in 2021.

- **External position.** The current account deficit is projected at 12.2 percent of GDP in 2020, with exports, tourism receipts and remittances recovering gradually. The expected 2020 balance-of-payments financing gap projected at the time of the RCF-2 request is expected to be closed with the IMF's two RCF disbursements, concessional resources from DPs, and higher-than-anticipated remittances. Reserves are projected to recover to marginally above 4 months of import cover in 2021–22, supported by improvements in the current account and recovery in FDI and remittances.

- **Fiscal position.** Overall and debt-creating fiscal balances are expected to deteriorate in 2020 and to gradually improve afterwards as government stimulus measures are phased out.

Rwanda: Revised Macroeconomic Framework

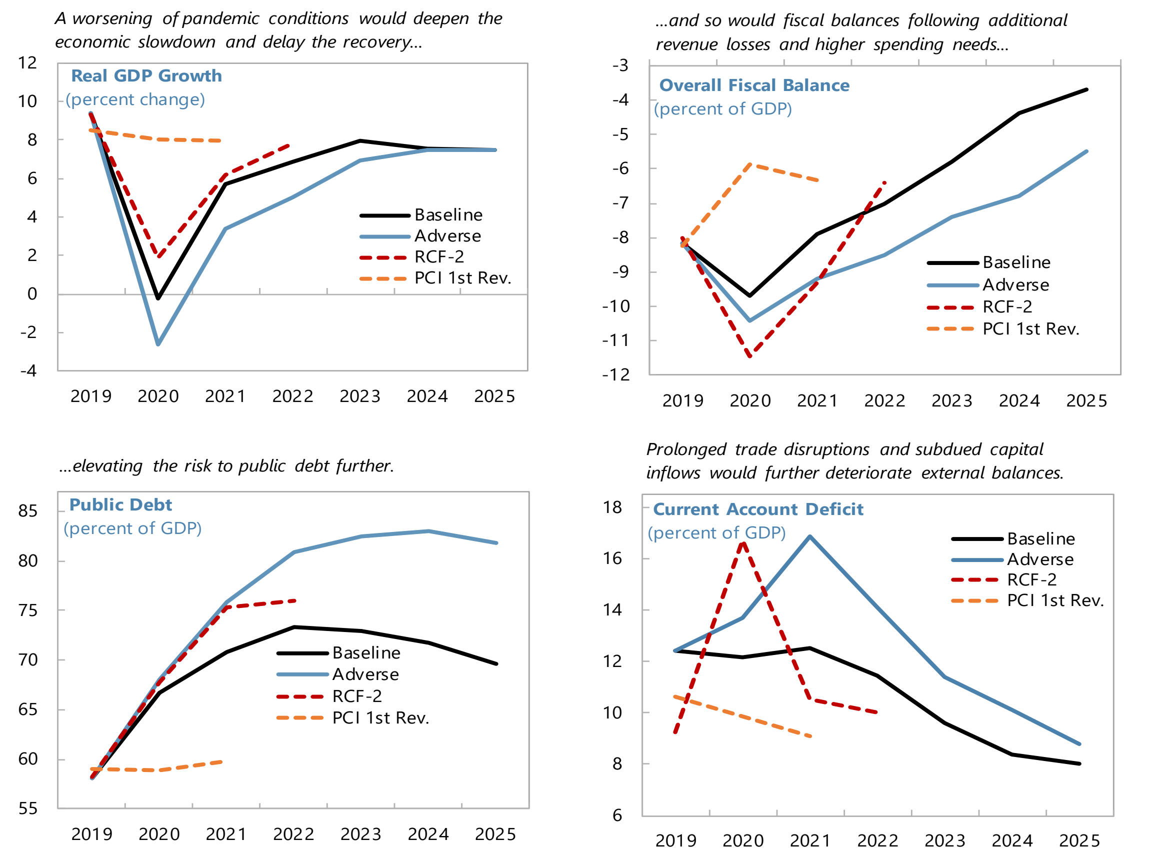
	2019		2020			2021			2022		2023	2024	2025
	1st Rev.	Act.	1st Rev.	RCF-2	Proj	1st Rev.	RCF-2	Proj	RCF-2	Proj	Proj	Proj	Proj
Real GDP growth (percent)	8.5	9.4	8.0	2.0	-0.2	8.0	6.3	5.7	8.0	6.8	8.0	7.5	7.5
CPI inflation, average (percent)	2.3	2.4	5.4	6.9	8.0	5.0	1.0	2.5	5.0	4.1	5.0	5.0	5.0
CPI inflation, eop (percent)	5.7	6.7	5.0	5.0	5.0	5.0	5.0	2.3	5.0	5.0	5.0	5.0	5.0
Fiscal Balance (% of GDP)	-8.2	-8.1	-5.9	-11.6	-9.7	-6.3	-9.4	-7.9	-6.6	-7.0	-5.8	-4.4	-3.7
Current account deficit (% of GDP)	-10.6	-12.4	-9.9	-16.7	-12.2	-9.1	-10.5	-12.5	-10.0	-11.4	-9.6	-8.4	-8.0
Gross international reserves (months of imports)	4.4	5.8	4.6	4.0	5.5	4.6	4.3	4.3	4.4	4.2	4.1	4.2	4.2

Sources: Rwandan Authorities, and IMF staff estimates and projections.

9. **Downside risks to the outlook are substantial (Figure 6, Annexes II and III).** The main risks in the short term include a more protracted pattern of the pandemic at the global, regional and domestic level, which would deepen the crisis and further delay the recovery. Under the adverse scenario developed to inform contingency planning (Annex III, Figure 6), prolonged containment efforts (relative to the baseline) may be required, resulting in a deeper economic contraction and more protracted recovery than under the baseline. Pressures on fiscal buffers and reserves would intensify. The outlook for public debt would worsen further, and the materialization of contingent liabilities become more probable amid sizeable revenue losses from the lower growth constraining policy space. The government's ability to deliver on its medium-term fiscal adjustment plans as soon

as the pandemic abates will remain critical to avert adverse outcomes on debt and external accounts. On the upside, sustained lower oil prices for a longer period could support the economic recovery by reducing the import bill. Commitments to program reforms could also support stronger medium-term growth.

Figure 6. Rwanda: Impact of COVID-19 and Adverse Scenario, 2019-25



Source: Rwandan Authorities, and IMF staff estimates.

PROGRAM POLICY DISCUSSIONS

A. Fiscal Policy: Supporting the Economic Recovery While Safeguarding Debt Sustainability

Fiscal Policy Stance

10. **The government is moving ahead with the ERP implementation.**[6] About 2/3 of the

[6] In line with IMF Country Report No 20/207, the ERP included about US$ 311 million (3.3 percent of GDP) in COVID-19-related spending spanning FY 19/20 (1.8 percent of GDP) and FY 20/21 (1.5 percent of GDP) on (i) drugs, medical equipment, staff hires, and construction of health facilities to contain the pandemic; (ii) a scaling up of existing social protection programs; (iii) support to firms in hard-hit sectors under the ERF; (iv) direct support to the national airline company; and (v) public works on schools, roads, and sanitation facilities.

COVID-19-related spending under the ERP adopted in May and budgeted for FY 19/20 has already been spent. No absorption capacity bottlenecks have been reported in the execution of health and non-health spending. Under-execution was mostly driven by delays in disbursing support to vulnerable businesses under the ERF, which could only start in July upon the RCF-2 disbursement, the ERF's initial source of financing. ERF disbursements to the hospitality sector have quickly picked up since then, but funds to small and medium enterprises (SMEs) have seen a slow take-up due to strict eligibility criteria and banks' limited risk appetite (Box 2). Support to RwandAir has also been slightly lower than anticipated, as the national airline managed to minimize its losses through operational savings and an increase in cargo revenue.

PS ¶ 3–5, and 21

Rwanda: COVID-19-related Spending Execution, GFSM 86, FY 19/20 [1]

	2019/20	
	RCF-2	Act.
Total COVID-19 spending	1.8	1.2
Purchases of Goods and Services	0.6	0.7
Transfers	--	0.1
Capital expenditure	0.4	0.3
Net lending and privatization receipts	0.8	0.1
Of which: RwandAir	0.2	0.1
Of which: Business support fund (ERF)	0.6	--

Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.

Box 2. Economic Recovery Fund: Implementation Challenges

The ERF has been set up to support the hotel industry and finance firms with the potential to recover from the pandemic. It comprises a debt restructuring window for hotels (US$50 million), working capital financing windows for large corporates, SMEs, and microbusinesses (US$47 million), and a guarantee scheme for up to 75 percent of ERF loans to SMEs (US$3 million). ERF funds are lent to banks, MFIs, and Savings and Credit Cooperative Organizations (SACCOs), at zero or low interest, who in turn use it to provide loan restructuring for hotels or working-capital financing, at reduced rates, to firms deemed viable. In addition, beneficiaries are required to meet several criteria, including on tax compliance and the magnitude of their sale reductions.

Performance of the Economic Recovery Fund (end-October 2020)

	Pipeline (Billions of RwF)	Approved			Disbursed		
		No. of applicants	Billions of RwF	% capital	No. of applicants	Billions of RwF	% capital
Hotel refinancing (*banks*)	-	149	42.9	90%	139	42.7	90%
Working-capital Large corp. and SMEs (*banks*)	0.9	49	4.5	11%	23	2.1	5%
Working capital: microbusinesses (PLC *MFIs and SACCOs*)	4.8	79	0.9	45%	-	-	-
Guarantees	3.0	2	0.2	7%	-	-	-

Disbursements through the working capital windows have so far been limited, in contrast to the hotels window. This was partly due to initial logistical challenges and overly stringent eligibility criteria—including on the minimum drop in sales and requirement for past tax compliance—which were later relaxed by the authorities. Application volumes have subsequently increased but remain limited. Indeed, by channeling funds mostly through the banking system, the ERF is likely to continue facing the same structural obstacles that hampered financial inclusion for SMEs pre-COVID-19, including low risk appetite from banks. Moreover, banks' interest margins are compressed under the ERF (6 to 8 percent vs above 11 percent outside the ERF) which further exacerbates banks' low appetite.

Box 2. Economic Recovery Fund: Implementation Challenges (concluded)

However, the performance of the SACCOs window has recently improved and seem promising. Uptake increased upon easing of the eligibility criteria, with outstanding applications totaling 250 percent of the window's capital. This good performance relative to the bank-managed windows likely reflect SACCOs' innately higher ability to deal with the informality of firms' operating environment. This suggests that a stronger focus on this window could provide dividends.

PS ¶ 20, 22

11. The programmed FY 20/21 deficit will remain below RCF-2 projections while accommodating additional pandemic spending needs. At 8.5 percent of GDP, this deficit is lower than the approved budget target and projections at the time of RCF-2 (8.8 and 9.5 percent of GDP, respectively). It accomodates COVID-19 related spending needs amounting to 2.9 percent of GDP, i.e.,1.4 percentage points (pp.) above the original ERP allocation for FY20/21 due to the pandemic's larger and more protacted expected impact.[7] The increase in COVID-19-related spending reflects the carry-over of undisbursed ERF funds from FY19/20 and about US$50 million in additional ERF endowment mobilized from DPs.[8] The revised fiscal defict also reflects an upward revision relative to RCF-2 on tax revenues (1.3 percent of GDP) owing to one-off increases in consumption taxes[9] and grants (1.5 percent of GDP) due to the reallocation of World Bank budget support away from loans and towards grants, following the recent change in Rwanda's debt risk rating from low to moderate. To protect priority spending under the ERP and close any financing gaps in case of a shortfall in budgetary funds, the government will continue to rely on well-functioning cash management and spending control practices set up under the Organic

Rwanda: Revisions in Fiscal Projections, GFSM 86, FY 20/21
(percent of GDP)

	2020/21			
	1st Review	Budget	RCF-2	Proj.
Revenue and grants	**23.2**	**20.4**	**20.6**	**23.7**
Total revenue	18.8	15.8	16.4	17.9
Tax revenue	16.6	13.7	14.2	15.5
Nontax revenue	2.2	2.1	2.1	2.3
Grants	4.4	4.6	4.3	5.8
Budget grants	1.8	1.9	1.4	2.9
Total expenditure and net lending	**28.8**	**29.2**	**30.1**	**32.2**
of which Covid-19 related spending (total)	--	--	**1.5**	**2.9**
Current expenditure	14.8	15.7	16.0	14.8
Purchases of goods and services	2.8	3.2	3.3	1.9
of which: Covid-19 spending	--	0.6	0.6	0.6
Interest payments	1.5	1.8	1.6	1.9
Transfers	4.3	4.3	4.5	3.8
of which: Covid-19 spending	--	--	--	0.1
Capital expenditure	12.0	10.7	11.1	12.8
of which: Covid-19 spending	--	0.4	0.4	0.4
Net lending and privatization receipts	2.0	2.8	2.9	4.5
of which: Covid-19 spending [2]	--	0.5	0.5	1.8
Overall balance (incl. grants, commitment basis)	**-5.6**	**-8.8**	**-9.5**	**-8.5**
***of which:* Debt-creating overall bal.(exc. PKO)[3]**	**-5.7**	**-8.9**	**-9.5**	**-8.6**
Overall balance (incl. grants, cash basis)	**-5.9**	**-9.2**	**-9.8**	**-8.9**
Financing	**5.9**	**9.2**	**7.7**	**8.9**
Foreign financing (net)	5.0	6.7	5.9	6.7
Net domestic financing	1.0	2.5	1.8	2.1

Sources: Rwandan authorities and IMF staff estimates and projections.
[1] Fiscal year runs from July to June.
[2] Economic Recovery Fund and additional support to Rwandair.
[3] Overall deficit excluding spending on materialized contigent liabilities included in the DSA.

[7] The fiscal balance under the program, referred as the debt-creating fiscal balance, is defined as the overall balance excluding spending on materialized contingent liabilities already included in the DSA and UN peacekeeping operations. It accommodates COVID-19-related spending (2.9 percent of GDP) and the cyclical decline in revenues (1.1 percentage points of GDP), proxied by a decline relative to the 1st PCI review.

[8] Additional ERF funds have been secured from the OPEC Fund for International Development and are expected from the World Bank and USAID.

[9] See PS ¶7 in the program statement for the details.

Budget Law (OBL) and on oversight from the Debt and Treasury Management committees (PS ¶22).[10]

PS ¶ 23-24

12. The PCI fiscal framework was recalibrated to fit the highly uncertain post-COVID-19 environment. The PCI maximum deficit rule of 5.5 percent will be suspended in favor of a tailored deficit path that matches the evolving outlook and budget needs. The PCI debt anchor has also been recalibrated to account for improvements in the concessionality of Rwanda's debt and put the PCI fiscal framework on a stronger analytical footing (Annex IV).[11] Staff estimates suggest that a nominal debt anchor of 65 percent of GDP would be appropriate. This anchor remains consistent with the EAMU's PV of debt ceiling of 50 percent, as existing concessionality terms suggest that it would correspond to a PV of debt of around 45 percent of GDP.

PS ¶ 25

13. The authorities and staff agreed on a growth-friendly fiscal consolidation path to be implemented soon after the crisis abates (DSA; Figure 4). The authorities adopted the proposed new debt anchor and agreed with staff on a fiscal consolidation path that balances the need for supporting the recovery and priorities under the National Strategy for Transformation (NST) (PCI Pillar I), while safeguarding debt sustainability in the event of a shock. The agreed fiscal path foresees a decline in the headline deficit starting from FY20/21, while fully accommodating the authorities' spending increases by an additional 2.9 percent of GDP relative to RCF-2 to address the health, social and economic fallout of the crisis (as well as ongoing public investment in the new airport).[12] The large deficit reduction of 1.4 percentage points of GDP through FY21/22 is expected to carry limited fiscal effort and drag on growth as it reflects mainly the gradual phasing-off of unprecedented COVID-19-related spending. Once growth returns to pre-pandemic levels in 2023, the consolidation path will need to be underpinned by growth-friendly measures to support debt converging to its medium-term anchor by 2028, which will start to be developed in the next PCI review. The main elements would involve revenue gains building on a Medium-Term Revenue Strategy (MTRS), the rationalization of current spending, and the re-prioritization of public investment that will be developped during the current program. Consideration could be given to announcing or legislating these measures before the of the program to achieve the objectives established under the new debt anchor and support the credibility of the fiscal strategy.[13]

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[10] The OBL provides for an emergency budget reserve, which allows for a contingency of up to 3 percent of the current budget

[11] Improvements in concessionality reflect an increase in the share of concessional resources from DPs over the short to medium term.

[12] Additional COVID-19-related spending of 2.9 percent of GDP to support ERP interventions is now envisaged also through FY 22/23, bringing total pandemic spending to 6.3 percent of GDP, twice the amount envisaged at the time of the RCF-2 request.

[13] The strategy will be informed by a World Bank-led public expenditure review and a joint-Bank Fund Public Investment Management Analysis (PIMA) to be conducted next year and a Fund-supported MTRS to be implemented next year.

PS ¶ 32

14. Rwanda's debt is assessed to remain sustainable with a moderate risk of debt distress. An updated Debt Sustainability Analysis (DSA) incorporating the agreed fiscal consolidation path indicates a moderate risk of debt distress. The timely return to a credible fiscal consolidation path after the current COVID-19 crisis abates and revisions in the debt management strategy to increase liquidity buffers and smooth out debt service remain critical to reducing debt-related risks. As in the previous DSA, the rolling over of the 10-year Eurobond issued in 2013 leads to a one-off breach of the debt service-to-revenue ratio under the baseline scenario in 2023. Higher gross financing needs compared to the previous full DSA in 2019 also pose a medium-term liquidity risk. In order to reduce the rollover risk, the authorities are already exploring mitigating measures such as pre-financing of debt and buyback of debt falling due, which helps reduce debt service burden in 2023, in the context of a debt management strategy.

Domestic Revenue Mobilization

PS ¶ 26-27

15. The authorities have managed to sustain and strengthen tax compliance during the pandemic, while working on a strategy to regain revenue mobilization.

- ***Tax relief and compliance during the pandemic.*** The authorities' swift deployment of temporary tax relief measures provided some breathing space to hard-hit taxpayers with limited tax expenses estimated so far and some positive impact on sustaining tax compliance during the pandemic.[14] Rwanda Revenue Authority (RRA) has continued to implement several administrative measures to strengthen taxpayer services and compliance, including strengthening data analytics, disseminating more user-friendly electronic billing machine (EBM) software to provide real time information on VAT transactions, and building capacity to address transfer pricing, base erosion and profit shifting.
- ***MTRS.*** To regain momentum in domestic revenue mobilization (PCI pillar II), the authorities expect to finalize by end-year all the needed diagnostic studies to inform their three-year MTRS strategy and have it launched by end-June 2021. The original goal of increasing revenue-to-GDP ratios by 1 percentage point (ppt) each year over 4 years under the MTRS would not be feasible owing to the pandemic. In the absence of new tax measures, the projected increase during this period is less than one ppt under the baseline scenario. With Fund technical assistance (TA), the authorities plan to revisit MTRS revenue goals, timeline, and measures to support not only the NST goals but also the authorities' growth-friendly fiscal consolidation.

[14] Tax relief measures included (i) the suspension of tax audits; (ii) the extension of deadlines for filing and paying corporate income tax (CIT); (iii) a waiver for PAYE taxes for the hospitality sector and private schools; and (iv) VAT exemption for face masks and other essential medical equipment. RRA estimates the combined revenue forgone from these measures until end-December 2020 to amount to less than RWF 2 billion, less than 0.02 percent of GDP. Sustained CIT payments have been at least partially attributed to the extension of filing and payment deadlines.

Fiscal Risks, Transparency, and Governance

PS ¶ 28-29

16. The government has stepped up efforts to assess fiscal risks during the pandemic. All initial measures agreed at the time of the 1st PCI Review, including the setup of a fiscal risk committee (FRC), the publication of comprehensive fiscal risk statement (FRS), and the compilation of a fiscal risk registry have been achieved. In the near term, efforts will be particularly focused on the identification, quantification and mitigation of fiscal risks from SOEs. With support of Fund TA, the authorities will start conducting bi-annual health-check assessment of fiscal risks from SOEs to be submitted along with remedial measures to the FRC by end-May 2021 (RT). They also intend to clarify the SOE legal framework and strengthen its oversight. Additional information on risks from public-private partnerships (PPPs) will be collected and added to the FRS and other fiscal risk reports. Ways to strengthen the legal mandate of the FRC and the fiscal risk framework more broadly will be explored as part of the ongoing review of the OBL.

PS ¶ 30

17. The fiscal transparency agenda is progressing. This includes expanding the coverage of fiscal reporting in the GFSM 2014 format, and the compilation of a financial balance sheet of the nonfinancial public sector (NFPS). Quarterly budget execution reports (BER) for the budgetary central government (BCG) started to be published during FY19/20 using GFSM 2014. BER coverage will be expanded to the general government, excluding RSSB, with the Q1 FY20/21 report due by end-December 2020 (RT). The authorities have compiled NFPS financial balance sheets for SOEs and RSSB and are working on those for central and local government. They plan to prepare a timeline for the expansion of the coverage of quarterly fiscal reports and annual financial balances to be used in the next review to set new milestones to strengthen fiscal transparency (PCI pillar III) under the program. The authorities also plan to request Fund TA to assess progress towards implementing recommendations from the IMF's 2019 Fiscal Transparency Evaluation (FTE). They committed to publish both TA reports shortly after the follow-up mission.

PS ¶ 33

18. The authorities are taking the necessary steps to monitor and report pandemic-related expenses in a timely and transparent fashion. A financing item "COVID-19 response" was created under the chart of accounts for tracking crisis-related spending with a separate bank account under the treasury single account system to receive all contributions to the ERP. The authorities also reiterated their commitment that all expenditures, including pandemic-related will be audited by the Office of the Auditor General and published by May 2021 according to the Constitution and OBL. While noting the strengths of the procurement framework,[15] staff pointed to recent AML mutual evaluation reports[16] showing there are still shortcomings in the collection and verification of beneficial ownership in Rwanda. Staff strongly encouraged the authorities to take additional steps to ensure that there is adequate

[15] As discussed in IMF Country Report No 20/207, information on awarded government contracts is publicly available from the government's e-procurement website. It includes the name of companies that participated in the tender, each initial bid, the name and price of the winning bid, the total amount of the contract, and the delivery period.

[16] Eastern and Southern Africa Anti-Money Laundering Group's mutual evaluation reports.

transparency concerning the beneficial ownership. This could be done by introducing a provision on beneficial ownership information from bidders as part of the tender for the public procurement process and make this information available on the government's e-procurement website. LEG staff stands ready to provide TA in this area.

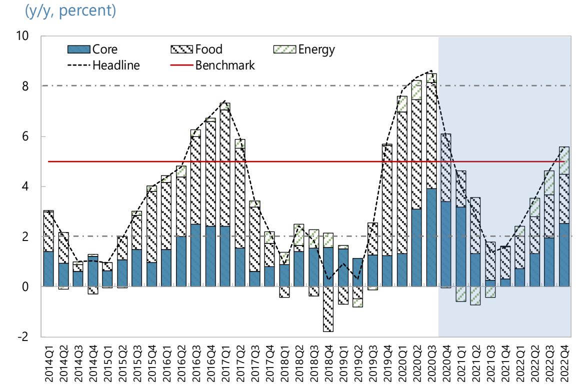
B. Monetary Policy: Supporting the Interest Rate-Based Operational Framework and Safeguarding Financial Stability

Monetary Policy Stance

PS ¶34

19. Staff and the authorities agreed that BNR's monetary policy stance is appropriate and should continue to be data-driven. While y/y headline inflation is projected to remain above the benchmark in 2020Q4 based on staff's quarterly projection model, it is expected to sharply decline in q/q terms, helped by the projected normalization of transport fares amid subdued foreign demand and international prices.[17] Absent price pressures from supply chain disruptions, y/y headline inflation is expected to decline going forward, including from base effects. Given the uncertainties surrounding the outlook, the authorities agreed on the need to continue closely monitoring price developments.

Rwanda: Quarterly Projection Model for Inflation
(y/y, percent)



Sources: IMF staff estimates.

PS ¶35-36

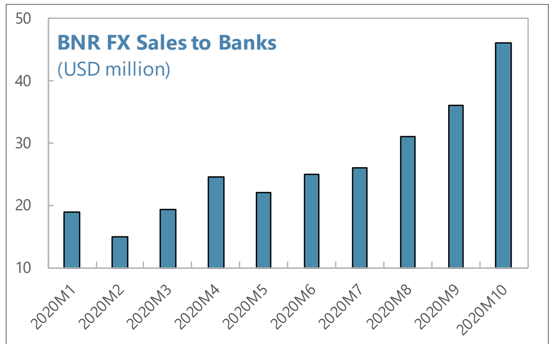
20. BNR continues to make progress in implementing the interest rate-based monetary policy framework. BNR has made significant headway in building Forecasting and Policy Analysis System (FPAS) capacity and incorporating model projections in the monetary policy decision-making process. The authorities agreed that ongoing IMF TA will continue to strengthen BNR's FPAS, including by improving the quality of monetary policy reports. The monetary policy transmission mechanism is improving, with short-term rates broadly tracking the policy rate and increasing interbank market activity. It should further benefit from steps to deepen money and bond markets, including with the implementation of true repo and the Global Master Repurchase Agreement (end-June 2021 RT), capacity building for market players, and a buy-back mechanism for government securities. The rollout of the electronic subscription platform for government bonds (missed RT reset to end-June 2021) should promote securities trading by reducing transaction costs for retail investors.

[17] The corresponding 12-month average y/y headline inflation is expected to reach the MPCC inner upper bound in December 2020.

Exchange Rate Policy

21. A market-determined exchange rate is critical for ensuring external sustainability. The authorities reiterated their commitment to exchange rate flexibility, consistent with the interest rate-based monetary policy framework and agreed that foreign exchange market interventions would be limited to minimizing excessive exchange rate volatility. Depressed export receipts, remittances and FDI inflows have impacted banks' NFA, while the gradual resumption of economic activity has put pressure on the exchange rate, prompting BNR to increase its foreign exchange sales to banks to moderate excessive exchange rate volatility. Staff considers international reserves in the range of 4 to 5 months of prospective imports as adequate (Annex I, ⁋9).

PS ¶37



Source: Rwandan authorities and IMF staff calculations.

22. Rwanda's external position in 2019 was weaker than implied by fundamentals and desirable policy settings (Annex I). Looking ahead, policy actions to implement a fiscal consolidation and structural reforms to further improve the business climate and boost competitiveness would bring the current account to a level consistent with fundamentals. Allowing exchange rate flexibility remains crucial to absorb external shocks.

Financial Stability and Inclusion

23. The authorities agreed that credit and liquidity risks should be closely monitored to safeguard the stability of the financial sector. BNR has taken steps to closely monitor credit risk from COVID-19-related loan restructuring by issuing guidance to banks and MFIs on their proper classification and provisioning, instituting quarterly reporting requirements, and updating its electronic platform for collecting supervisory data. Lending concentration in the real estate sector is also a source of financial sector vulnerability since commercial property occupancy rates have dropped as businesses grapple with the fallout from the pandemic, leading to depressed real estate prices. BNR's heightened supervision of the financial system should benefit from ongoing IMF TA to upgrade its stress-testing framework. Going forward, BNR is committed to deploying additional tools as warranted to safeguard financial sector stability, including by releasing the capital conservation and domestic systematically important banks (DSIBs) buffer, and requiring capital restoration plans from banks on a case-by-case basis.

PS ¶40

24. The authorities are pushing ahead with financial inclusion. A National Financial Inclusion Strategy (2019–24) was elaborated and initiatives to develop long-term savings schemes, achieve interoperability across payment issuers, automate SACCOs business operations, and de-risk agriculture are being rolled out. Financial inclusion should also benefit from steps to increase digital financial services, agent banking and insurance and pension penetration, including for the informal and agriculture sectors (Box 3).

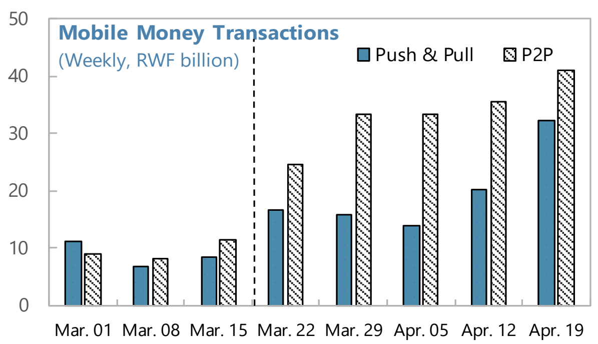
PS ¶41

Box 3. Digitalization and Financial Inclusion During the Pandemic

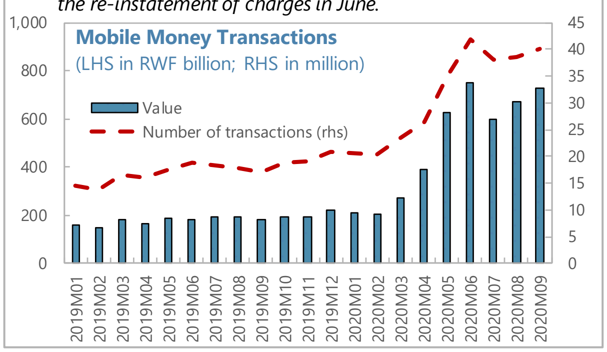
Digital payments surged during the lockdown as banks and mobile network operators (MNOs) removed charges on mobile money transfers for three months. Fees were eliminated three days before the lockdown came into effect in a bid to promote social distancing in line with government guidelines and contain the transmission of COVID-19 through cash. Transaction limits were also raised. As a result, the value of weekly person-to-person (P2P) transfers soared to RWF 41 billion late-April, four times the pre-lockdown size. Transfers between bank accounts and mobile wallets (push and pull services) tripled over the same period. This sharp increase in digital payments was also supported by BNR's awareness campaign on the use of digital payment channels and greater adoption of contactless point of sale (POS) terminals by merchants.

Growth in digital transactions has the potential to accelerate Rwanda's move to a cashless economy and strengthen financial inclusion. The removal of mobile transfer charges bears a cost for banks and MNOs that is yet to be assessed. However, recent data suggest that the change in consumer payment behavior observed during the lockdown could be permanent, since mobile money transactions remained high in 2020Q3 despite the re-instatement of charges on June 22. Digital payments in 2020Q3 also benefited from revised tariffs for P2P transactions, while MNOs waived fees on merchant payments to incentivize digital payment adoption by businesses. Financial inclusion is poised to benefit from this increased take-up of digital financial services. According to the 2020 FinScope survey, 77 percent of adults in Rwanda use formal financial products and services, against 68 percent in 2016, with the objective of reaching 90 percent by 2024 under the National Financial Inclusion Strategy. Greater adoption of mobile money has been a key driver of formal financial inclusion, but more needs to be done to reach vulnerable groups such as women, youth, and rural residents.

Digital transactions rose sharply during the lockdown...



... and continue to exceed pre-pandemic levels even after the re-instatement of charges in June.



Source: Rwandan Authorities and IMF staff calculations.

C. Structural Policies: Sustaining Inclusive Private Sector-Led Growth

25. The pandemic risks undermining Rwanda's drive to meet Sustainable Development Goals (SDGs). A significant regression in social outcomes is expected as a result of the pandemic (Box 1). This puts the attainment of development targets under NST1 and SDGs further at risk. Indeed, staff expects additional annual spending needs to meet the SDGs by 2030 to increase post-COVID-19 by at least 1 percentage point of GDP from the 18.3 percent pre-COVID-19 estimate.[18]

26. The authorities have expressed continued confidence and commitment to NST priorities. NST is centered on the private sector as the future engine of growth and policies for the emergence of a knowledge-based economy driven by innovation, higher value-added services, industries, and natural resources. The authorities intend to continue strategic investments, including in the new Bugesera airport, which should help leverage previous investments in the tourism sector among others, with the expectation of a delayed but eventual recovery in tourism activity.

27. The planned shift to a private sector-led growth has become more urgent given the government's limited fiscal space exacerbated by COVID-19. As uncertain as the nature of the post-COVID-19 recovery remains—including on whether business tourism will fully recover—a clear legacy of the pandemic has been its negative impact on the government's available fiscal space for financing NST1. Thus, to return to the pre-COVID-19 growth trajectory, the government needs to accelerate and intensify its focus on policies to promote private sector development.

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

28. Quantitative and reform targets. The program will continue to be monitored on a semi-annual basis through quantitative, standard continuous, and reform targets, and a monetary policy consultation clause. Policy implementation will be evaluated through review-based monitoring, taking into account evolving circumstances and policy needs. Reviews are set out in Table 8. QTs for the key set of macroeconomic variables monitored under the PCI are set out in PS Tables 1a and 1b. RTs are reflected in PS Table 2.

29. Program conditionality is updated to adapt to the rapidly changing circumstances surrounding COVID-19 (PS Tables 1a–2):

- QTs have been set for end-December 2020 and end-June 2021 in line with the baseline macroeconomic framework.
- Given the moderate risk of debt distress, a limit on the present value of new external public and publicly guaranteed debt is introduced to preserve debt sustainability (TMU ¶11–19).
- To support the ongoing reform efforts to strengthen the analysis and management of fiscal risks, a new RT on conducting a "health-check" assessment of SOEs fiscal risks with Fund TA support and submitting the outcome of this assessment together with mitigation options to the fiscal risk committee is proposed for end-May 2021.
- The missed end-December 2019 RT aiming at automating the risk-based verification process for tax refund claims is proposed to be reset to end-December 2020.

[18] See IMF Staff Discussion Note No. 19/03 and "*A Post-Pandemic Assessment of the Sustainable Development Goals*"; IMF Staff Discussion Notes (forthcoming) for pre- and post- COVID estimates of annual SDG spending needs, respectively. Please see IMF Country Report No 20/207 for a discussion of how the NST priorities are addressed under the ERP to limit the socioeconomic scars from the pandemic and promote inclusive growth.

- The missed end-June 2020 RT on the diagnostic study on the optimal RSSB asset allocation is proposed to be revised and reset to end-June 2021.
- The missed end-June 2020 RT on introducing a platform for issuing government securities using mobile phones is proposed to be reset to end-June 2021.
- The end-December 2020 RT pertaining to the production of a study on consumer payment behaviour is proposed to be reset to end-June 2021 to allow sufficient time for securing funding.

30. Program financing and risks. Rwanda is not seeking financial assistance from the Fund and the program is fully financed over the remainder of the arrangement. Development partners have committed to provide substantial external financing in the form of grants and highly concessional loans over the next 12 months, leaving the program fully financed under the baseline scenario. However, uncertainty and risks to program implementation remain high. The pandemic could lead to much lower growth and fiscal revenues while exacerbating public spending needs, leading to additional pressure on fiscal and external balances and debt sustainability. Risks to the program are mitigated by the authorities' robust health response, steadfast implementation of the ERP, commitment to the transparent and timely reporting of the allocation of pandemic-related aid and expenditures, well-functioning cash management and spending control practices, oversight from the Debt and Treasury Management committees that protects and closes any financing gaps for priority spending in the event the outlook worsens, and strong track record in implementing Fund-supported programs.

31. Capacity Development (CD). Rwanda is an extensive consumer of IMF TA and has a strong track record of implementation, resulting in consistent, tangible progress in building capacity. CD activities remain closely linked to program priorities (Annex V). Recent CD was in part delivered in response to the pandemic, with remote training aimed at supporting the authorities in developing inflation projections incorporating the impact of COVID-19, producing macro-fiscal scenarios using the IMF Fiscal Affairs Department (FAD)'s COVID-19 fiscal stress test module, and designing and implementing an MTRS.

STAFF APPRAISAL

32. The COVID-19 pandemic continues to take a heavy toll on Rwanda. The strong economic performance has been interrupted. The pandemic shock is affecting the economy through lower external demand, weaker FDI and remittances, near cessation of tourism, disruptions in regional and global supply chains, and domestic supply constraints. This is expected to reduce growth in 2020 to -0.2 percent from 9.4 percent in 2019, putting additional pressures on public finances and the balance of payments. The economic outlook remains highly uncertain with risks tilted to the downside.

33. The authorities responded to the pandemic promptly. The policy measures were generally well-designed and appropriately aimed to provide support to affected households, preserve jobs, boost healthcare spending, and provide sufficient liquidity in the system and relief to borrowers. Staff supports the authorities' decision to accommodate additional spending needs due to the more protracted nature of the pandemic and the commitment to adopt a gradual and growth-friendly fiscal consolidation as soon as the crisis abates. The approach balances the need to support the recovery and priorities under the National Strategy for Transformation (NST) (PCI Pillar I) with safeguarding debt sustainability in the event of a shock.

34. Given the highly uncertain economic outlook, the authorities should focus on containing risks to the fiscal and financial sectors. Fiscal risks stemming from SOEs, and state-guaranteed loans merit close monitoring. It will also be important to closely monitor credit and liquidity risks to safeguard financial stability.

35. Sound contingency planning is equally critical. With less fiscal space to implement another sizeable policy package in the event the economy deteriorates further, the authorities should consider a combination of reprioritization of spending and additional concessional financing. On the expenditure side, consideraton should be given to delaying the execution of non-priority spending consistent with existing cash management practices, while moving ahead with priority spending until financing sources are secured or other spending savings are identified to ensure fiscal and debt sustainability.

36. Transparency and accountability of COVID-19-related spending are important. The authorities' commitment to transparent use of public funds, including ex-post audits, and publication of all expenditures, including pandemic-related, has been welcome. Taking additional steps to publish information on beneficial ownership of companies awarded government procurement contracts would further strengthen governance.

37. Adopting a credible and growth-friendly fiscal consolidation within a reasonable timeframe after the crisis abates will be critical. Absent large economic surprises, the fiscal deficit in FY20/21 should be contained to about 8.5 percent of GDP. A growth-friendly fiscal consolidation to be implemented soon after the crisis abates will need to be predicated on a strategy centered on the development of well-articulated measures to re-ignite domestic revenue mobilization, streamline non-priority spending, and re-prioritize public investment during the current program. To support the credibility of the fiscal strategy, consideration could be given to announcing and legislating these measures before the end of the program.

38. Staff welcomes the authorities' commitment to staying the course on all key structural reforms under the program. The authorities' efforts to strengthen fiscal transparency, tax compliance, and the interest rate-based monetary framework will be critical to ensure macroeconomic policies remain credible and help pave the way for a strong post-crisis recovery.

39. Staff supports the completion of the third review based on the authorities' appropriate actions to address the economic fallout from the pandemic, their commitments to reform and to implement a credible fiscal path to bring down debt as soon as the crisis abates.

Table 1. Rwanda: Selected Economic Indicators, 2019–25

	2019			2020			2021			2022		2023	2024	2025
	1st Rev.	RCF-2	Act.	1st Rev.	RCF-2	Proj.	1st Rev.	RCF-2	Proj.	RCF-2	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)													
Output and prices														
Real GDP	8.5	9.4	9.4	8.0	2.0	-0.2	8.0	6.3	5.7	8.0	6.8	8.0	7.5	7.5
GDP deflator	1.8	0.4	0.4	5.6	6.5	8.3	5.0	1.0	2.3	5.0	4.3	5.0	5.0	5.0
CPI (period average)	2.3	2.4	2.4	5.4	6.9	8.0	5.0	1.0	2.5	5.0	4.1	5.0	5.0	5.0
CPI (end period)	5.7	6.7	6.7	5.0	5.0	5.0	5.0	5.0	2.3	5.0	5.0	5.0	5.0	5.0
Terms of trade (deterioration, -)	-1.8	-1.8	-1.8	-0.1	-3.3	0.2	0.0	-0.4	0.0	0.7	1.0	1.1	0.8	2.3
Money and credit														
Broad money (M3)	21.8	15.4	15.4	21.9	5.1	11.3	17.4	22.3	12.0	16.1	13.6	22.0	14.9	12.8
Reserve money	21.5	17.2	17.2	22.1	5.8	12.1	17.8	21.4	11.2	20.3	17.8	19.8	14.9	12.8
Credit to non-government sector	17.6	12.6	12.6	14.8	10.2	14.1	7.9	10.3	12.6	11.4	12.1	14.0	13.7	14.0
M3/GDP (percent)	27.9	26.3	26.3	29.8	25.4	27.0	30.9	28.9	28.0	29.6	28.5	30.7	31.3	31.3
	(Percent of GDP, unless otherwise indicated)													
Budgetary central government														
Total revenue and grants	23.6	23.6	23.6	23.1	20.1	23.1	22.9	20.7	23.4	20.6	23.2	23.8	23.9	23.3
of which : tax revenue	16.6	16.7	16.7	16.9	13.5	15.4	16.5	14.3	15.4	14.9	15.5	15.6	15.9	16.5
of which : non-tax revenue	2.6	2.7	2.7	2.1	2.0	1.9	2.1	2.3	2.4	2.1	2.5	2.5	2.5	2.5
of which : grants	4.5	4.2	4.2	4.1	4.6	5.8	4.3	4.1	5.6	3.6	5.2	5.7	5.6	4.3
Expenditure	31.9	31.8	31.8	29.0	31.7	32.9	29.2	30.1	31.3	27.2	30.2	29.6	28.3	27.0
Current	15.9	15.6	15.6	14.5	15.7	15.7	14.6	15.8	15.2	13.5	16.0	15.0	13.9	13.4
Capital	12.7	13.2	13.2	12.1	12.1	12.9	12.7	11.9	12.2	11.3	11.5	11.4	11.5	10.9
Lending minus repayment	3.3	3.0	3.0	2.4	3.9	4.3	1.9	2.4	3.9	2.3	2.7	3.1	2.9	2.6
Primary balance	-6.9	-6.8	-6.8	-4.2	-9.9	-8.0	-4.9	-7.7	-6.0	-4.9	-5.2	-4.2	-3.0	-2.0
Overall balance	-8.2	-8.1	-8.1	-5.9	-11.6	-9.7	-6.3	-9.4	-7.9	-6.6	-7.0	-5.8	-4.4	-3.7
excluding grants	-12.7	-12.3	-12.3	-10.0	-16.2	-15.5	-10.6	-13.6	-13.5	-10.2	-12.2	-11.5	-10.0	-8.0
Debt-creating overall bal. (excl. PKO) [1]	-6.7	-6.6	-6.6	-5.7	-11.3	-9.1	-6.4	-9.6	-8.1	-7.1	-7.0	-5.8	-4.4	-3.7
Net domestic borrowing	2.7	0.9	0.8	0.7	2.5	1.2	2.0	1.4	2.4	0.4	1.0	2.3	0.5	0.5
Public debt														
Total public debt incl. guarantees	59.0	58.5	58.1	58.9	68.1	65.9	59.8	75.7	71.1	76.3	73.7	73.3	72.0	70.0
of which : external public debt	46.0	45.6	45.4	48.1	55.0	55.6	49.8	61.9	58.4	63.0	60.7	61.0	61.1	60.8
PV of total public debt incl. guarantees	44.5	42.8	42.8	43.1	48.2	45.5	42.9	52.5	48.8	52.5	50.6	50.9	50.4	49.3
Investment and savings														
Investment	28.4	26.2	26.2	28.2	20.9	21.7	28.8	22.2	22.6	24.7	26.4	28.2	28.4	27.9
Government	12.7	13.2	13.2	12.1	12.1	12.9	12.7	11.9	12.2	11.3	11.5	11.4	11.5	10.9
Nongovernment	15.7	13.0	13.0	16.1	8.8	8.8	16.1	10.3	10.4	13.3	14.8	16.8	16.9	17.0
Savings	14.6	14.5	11.1	15.5	2.4	5.5	16.6	9.5	6.1	12.4	10.9	14.0	15.5	16.5
Government	3.3	3.8	3.8	4.5	-0.2	1.7	4.0	0.7	2.6	3.5	2.0	3.0	4.4	5.6
Nongovernment	11.2	10.6	7.3	11.1	2.6	3.9	12.6	8.8	3.5	8.9	8.8	11.0	11.1	11.0
External sector														
Exports (goods and services)	21.5	22.2	22.2	21.8	13.1	18.2	22.6	21.2	22.7	22.6	26.2	26.8	27.7	27.9
Imports (goods and services)	34.9	36.9	36.9	34.1	29.3	34.4	34.3	33.8	39.8	35.2	42.3	41.7	41.1	39.8
Current account balance (incl grants)	-10.6	-12.4	-12.4	-9.9	-16.7	-12.2	-9.1	-10.5	-12.5	-10.0	-11.4	-9.6	-8.4	-8.0
Current account balance (excl grants)	-13.9	…	-15.1	-12.7	-18.5	-16.2	-12.2	-12.7	-16.5	-12.3	-15.5	-14.2	-12.8	-11.4
Current account balance (excl. large proj.)	-10.4	…	-11.1	-8.9	-15.7	-11.6	-8.2	-9.5	-11.0	-8.8	-9.6	-7.1	-6.3	…
Gross international reserves														
In millions of US$	1,367	1,440	1,440	1,553	1,207	1,643	1,654	1,461	1,463	1,598	1,556	1,654	1,834	1,834
In months of next year's imports	4.4	5.8	5.8	4.6	4.0	5.5	4.6	4.3	4.3	4.4	4.2	4.1	4.2	4.2
Memorandum items:														
GDP at current market prices														
Rwanda francs (billion)	9,045	9,105	9,105	10,313	9,894	9,841	11,688	10,629	10,641	12,043	11,862	13,449	15,184	17,129
Population (million)	12.4	12.4	12.4	12.7	12.7	12.7	13.0	13.0	13.0	13.3	13.3	13.6	13.9	14.2

Sources: Rwandan authorities and IMF staff estimates.

[1] Overall deficit excl. spending on materialized contigent liabilties and other items already incl. in the DSA.

Table 2a. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation, FY19/20–24/25[1]

(billions of Rwandan Francs)

	2019/20			2020/21			2021/22			2022/23	2023/24	2024/25
	1st Review	RCF-2	Prel.	1st Review	RCF-2	Proj.	1st Review	RCF-2	Proj.	Proj.	Proj.	Proj.
Revenue	**2,250**	**2,082**	**2,193**	**2,551**	**2,116**	**2,423**	**2,848**	**2,386**	**2,607**	**2,963**	**3,336**	**3,807**
Taxes	1,553	1,374	1,476	1,786	1,424	1,560	2,040	1,571	1,687	1,957	2,249	2,588
Taxes on income, profits, and capital gains	659	586	641	725	615	655	864	652	679	816	925	1,045
Taxes on payroll and workforce	0	0	0	0	0	0	0	0	0	0	0	0
Taxes on property	0	0	5	0	0	4	0	0	0	0	0	0
Taxes on goods and services	772	679	712	906	701	777	1,015	798	870	985	1,145	1,330
Taxes on international trade and transactions	122	108	117	155	108	124	161	121	137	156	179	213
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0
Grants	403	422	427	486	437	592	506	524	604	696	734	802
Current	143	162	168	197	148	300	234	247	327	411	432	455
Capital	260	260	260	289	289	292	272	277	277	285	301	348
Other revenue	295	286	290	279	255	271	302	291	316	309	354	417
of which CCRT	--	10	10	--	--	16	--	--	--	--	--	--
Expense (Current exp.)	**1,854**	**1,981**	**1,901**	**2,033**	**2,012**	**1,936**	**2,251**	**2,159**	**2,231**	**2,460**	**2,678**	**2,782**
Compensation of employees	301	301	266	353	376	304	410	443	236	256	283	305
Use of goods and services	508	620	572	549	514	470	600	508	694	736	850	797
of which: Covid-19 spending	--	60	65	--	60	60	--	--	11	--	--	--
of which: Disaster-management spending	--	33	33	--	--	--	--	--	--	--	--	--
Interest	156	152	139	165	168	197	185	211	206	224	203	213
To nonresidents	54	50	61	66	59	60	79	66	67	77	53	62
To residents other than general government	101	101	78	99	109	137	105	145	139	147	150	151
Subsidies	222	236	252	202	229	269	217	219	259	339	367	396
of which: Covid-19 spending [2]	--	18	12	--	15	--	--	--	--	--	--	--
Grants	497	508	500	571	547	502	619	582	623	665	704	764
To EBUs	34	35	31	39	38	42	43	40	52	55	58	63
Current	22	22	17	26	28	31	27	30	42	43	45	49
of which compensation of employees	17	17	16	19	18	26	21	19	32	34	36	39
Capital	12	13	14	13	9	10	16	10	10	12	13	14
To Local Government	463	473	469	532	510	460	577	542	571	610	646	701
Current	298	298	279	348	382	298	360	400	420	431	446	480
of which compensation of employees	202	202	171	232	218	229	252	231	284	304	322	349
Capital	165	175	128	184	128	162	217	142	151	179	201	221
Social benefits	29	28	27	33	30	33	37	34	36	41	46	52
of which: Covid-19 spending	--	--	5	--	--	11	--	--	5	5	--	--
Other expense	142	136	144	161	147	161	183	163	177	199	225	254
Gross Operating Balance (Current balance)												
including grants	**397**	**101**	**292**	**518**	**104**	**487**	**596**	**228**	**377**	**503**	**658**	**1,025**
excluding grants	-6	-321	-136	32	-333	-105	90	-296	-227	-194	-75	223
Net acquisition of nonfin. assets (Capital exp.)	984	1,108	1,033	1,124	1,007	1,143	1,260	1,084	1,135	1,262	1,390	1,540
Foreign financed	458	548	548	537	598	601	567	631	631	662	719	801
Domestically financed	526	559	485	588	408	541	693	454	505	600	671	739
of which: Covid-19 spending	--	40	27	--	40	40	--	--	127	100	--	--
Net lending (+) / borrowing (-) (Overall balance)												
including grants	**-587**	**-1,006**	**-741**	**-606**	**-903**	**-656**	**-663**	**-857**	**-758**	**-759**	**-731**	**-515**
excluding grants	-990	-1,428	-1,169	-1,092	-1,340	-1,248	-1,169	-1,381	-1,363	-1,455	-1,465	-1,318
Net acquisition of financial assets	-71	79	**423**	-94	-111	**0**	-187	-187	**-76**	**-95**	**-195**	**-10**
Domestic	-71	79	423	-94	-111	0	-187	-187	-76	-95	-195	-10
Currency and deposits	-175	-87	309	-106	-181	-220	-192	-202	-185	-163	-195	-110
Equity and investment fund shares	10	10	10	7	8	7	5	--	5	5	--	--
Loans	94	155	104	5	62	212	--	16	104	63	--	100
of which: Covid-19 spending [3]	--	56	--	--	39	183	--	--	25	--	--	--
Net incurrence of liabilities	**516**	**1,085**	**1,160**	**512**	**792**	**655**	**476**	**670**	**682**	**664**	**537**	**506**
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities	50	50	271	57	57	57	66	66	73	83	0	0
Loans	521	1,090	915	490	766	633	451	645	649	621	577	546
Other accounts payable	-55	-55	-27	-35	-32	-35	-40	-40	-40	-40	-40	-40
Statistical discrepancy	0.0	0.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Domestic revenue (incl. Local government)	1,553	1,374	1,476	1,786	1,424	1,560	2,040	1,571	1,687	1,957	2,249	2,588
Wage bill	520	520	453	605	612	558	683	694	552	594	641	693
Total Covid-19 related spending	--	174	109	--	153	294	--	--	168	105	--	--
Overall fiscal balance (incl. grants, comm. basis)	-691	-1,172	-855	-618	-972	-875	-668	-872	-867	-827	-731	-615
Debt creating overall bal. (excl. PKO)[4]	-596	-1,077	-729	-624	-979	-883	-679	-885	-867	-827	-731	-615

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal yeat runs from July to June.

[2] Additional support to Rwandair.

[3] Economic Recovery Fund.

[4] Overall deficit excluding spending on materialized contigent liabilities and other items already included in the DSA.

[5] Debt creating overall balance as previously defined excluding spending related to natural disasters and Coronavirus outbreak.

Table 2b. Rwanda: Budgetary Central Government Flows, GFSM 2014 Presentation, FY19/20–24/25[1]

(percent of GDP)

	2019/20			2020/21			2021/22			2022/23	2023/24	2024/25
	1st Review	RCF-2	Prel.	1st Review	RCF-2	Proj.	1st Review	RCF-2	Proj.	Proj.	Proj.	Proj.
Revenue	**23.3**	**21.9**	**23.3**	**23.2**	**20.6**	**23.7**	**22.8**	**21.1**	**23.2**	**23.4**	**23.3**	**23.6**
Taxes	16.0	14.5	15.7	16.2	13.9	15.2	16.4	13.9	15.0	15.5	15.7	16.0
Taxes on income, profits, and capital gains	6.8	6.2	6.8	6.6	6.0	6.4	6.9	5.8	6.0	6.4	6.5	6.5
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	8.0	7.2	7.6	8.2	6.8	7.6	8.1	7.0	7.7	7.8	8.0	8.2
Taxes on international trade and transactions	1.3	1.1	1.2	1.4	1.1	1.2	1.3	1.1	1.2	1.2	1.3	1.3
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	4.2	4.4	4.5	4.4	4.3	5.8	4.1	4.6	5.4	5.5	5.1	5.0
Current	1.5	1.7	1.8	1.8	1.4	2.9	1.9	2.2	2.9	3.2	3.0	2.8
Capital	2.7	2.7	2.8	2.6	2.8	2.9	2.2	2.4	2.5	2.3	2.1	2.2
Other revenue	3.0	3.0	3.1	2.5	2.5	2.6	2.4	2.6	2.8	2.4	2.5	2.6
of which CCRT	--	0.1	0.1	--	--	0	--	--	--	--	--	--
Expense (Current exp.)	**19.2**	**20.9**	**20.2**	**18.5**	**19.6**	**18.9**	**18.1**	**19.0**	**19.8**	**19.4**	**18.7**	**17.2**
Compensation of employees	3.1	3.2	2.8	3.2	3.7	3.0	3.3	3.9	2.1	2.0	2.0	1.9
Use of goods and services	5.2	6.5	6.1	5.0	5.0	4.6	4.8	4.5	6.2	5.8	5.9	4.9
of which: Covid-19 spending	--	0.6	0.7	--	0.6	0.6	--	--	0.1	--	--	--
of which: Disaster-management spending	--	0.4	0.3	--	--	--	--	--	--	--	--	--
Interest	1.6	1.6	1.5	1.5	1.6	1.9	1.5	1.9	1.8	1.8	1.4	1.3
To nonresidents	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.4	0.4
To residents other than general government	1.0	1.1	0.8	0.9	1.1	1.3	0.8	1.3	1.2	1.2	1.0	0.9
Subsidies	2.3	2.5	2.7	1.8	2.2	2.6	1.7	1.9	2.3	2.7	2.6	2.5
of which: Covid-19 spending [2]	--	0.2	0.1	--	0.1	0.0	--	0.0	0.0	0.0	0.0	0.0
Grants	5.1	5.3	5.3	5.2	5.3	4.9	5.0	5.1	5.5	5.3	4.9	4.7
To EBUs	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.5	0.4	0.4	0.4
Current	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.4	0.3	0.3	0.3
of which compensation of employees	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.2
Capital	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
To Local Government	4.8	5.0	5.0	4.8	5.0	4.5	4.6	4.8	5.1	4.8	4.5	4.3
Current	3.1	3.1	3.0	3.2	3.7	2.9	2.9	3.5	3.7	3.4	3.1	3.0
of which compensation of employees	2.1	2.1	1.8	2.1	2.1	2.2	2.0	2.0	2.5	2.4	2.2	2.2
Capital	1.7	1.8	1.4	1.7	1.2	1.6	1.7	1.3	1.3	1.4	1.4	1.4
Social benefits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
of which: Covid-19 spending	--	--	0.1	--	--	0.1	--	--	--	--	--	--
Other expense	1.5	1.4	1.5	1.5	1.4	1.6	1.5	1.4	1.6	1.6	1.6	1.6
Net Operating Balance (Current balance)												
including grants	**4.1**	**1.1**	**3.1**	**4.7**	**1.0**	**4.8**	**4.8**	**2.0**	**3.3**	**4.0**	**4.6**	**6.3**
excluding grants	-0.1	-3.4	-1.4	0.3	-3.2	-1.0	0.7	-2.6	-2.0	-1.5	-0.5	1.4
Net acquisition of nonfin. assets (Capital exp.)	**10.2**	**11.7**	**11.0**	**10.2**	**9.8**	**11.2**	**10.1**	**9.6**	**10.1**	**10.0**	**9.7**	**9.5**
Foreign financed	4.7	5.8	5.8	4.9	5.8	5.9	4.5	5.6	5.6	5.2	5.0	5.0
Domestically financed	5.4	5.9	5.2	5.3	4.0	5.3	5.6	4.0	4.5	4.7	4.7	4.6
of which: Covid-19 spending	--	0.4	0.3	--	0	0.4	--	--	1.1	0.8	--	--
Net lending (+) / borrowing (-) (Overall balance)												
including grants	**-6.1**	**-10.6**	**-7.9**	**-5.5**	**-8.8**	**-6.4**	**-5.3**	**-7.6**	**-6.7**	**-6.0**	**-5.1**	**-3.2**
excluding grants	-10.2	-15.0	-12.4	-9.9	-13.1	-12.2	-9.4	-12.2	-12.1	-11.5	-10.2	-8.2
Net acquisition of financial assets	**-0.7**	**0.8**	**4.5**	**-0.9**	**-1.1**	**0.0**	**-1.5**	**-1.6**	**-0.7**	**-0.8**	**-1.4**	**-0.1**
Currency and deposits	-1.8	-0.9	3.3	-1.0	-1.8	-2.1	-1.5	-1.8	-1.6	-1.3	-1.4	-0.7
Equity and investment fund shates	0.1	0.1	0.1	0.1	0.1	0.1	--	--	--	--	--	--
Loans	1.0	1.6	1.1	0.0	0.6	2.1	0.0	0.1	0.9	0.5	0.0	0.6
of which: Covid-19 spending [3]	--	0.6	--	--	0.4	1.8	--	--	0.2	--	--	--
Net incurrence of liabilities	**5.3**	**11.4**	**12.3**	**4.7**	**7.7**	**6.4**	**3.8**	**5.9**	**6.1**	**5.2**	**3.7**	**3.1**
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.5	0.5	2.9	0.5	0.6	0.6	0.5	0.6	0.6	0.7	0.0	0.0
Loans	5.4	11.5	9.7	4.5	7.5	6.2	3.6	5.7	5.8	4.9	4.0	3.4
Other accounts payable	-0.6	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.3	-0.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Domestic revenue (incl. Local government)	16.0	14.5	15.7	16.2	13.9	15.2	16.4	13.9	15.0	15.5	15.7	16.0
Wage bill	5.4	5.5	4.8	5.5	6.0	5.5	5.5	6.1	4.9	4.7	4.5	4.3
Total Covid-19 related spending	--	1.8	1.2	--	1.5	2.9	--	--	1.5	0.8	--	--
Overall fiscal balance (incl. grants, comm. basis)	-7.1	-12.3	-9.1	-5.6	-9.5	-8.5	-5.4	-7.7	-7.7	-6.5	-5.1	-3.8
Debt creating overall bal. (excl. PKO, comm.)[4]	-6.2	-11.3	-7.8	-5.7	-9.5	-8.6	-5.4	-7.8	-7.7	-6.5	-5.1	-3.8
Unidentified adjustment measures [5]	--	--	--	--	--	--	--	--	--	0.4	1.0	1.2
GDP (Billions of RwF), FY basis	9,679	9,499	9,399	11,001	10,261	10,241	12,471	11,336	11,251	12,655	14,317	16,157

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal yeat runs from July to June.

[2] Additional support to Rwandair.

[3] Economic Recovery Fund.

[4] Overall deficit excluding spending on materialized contigent liabilities and other items already included in the DSA.

[5] Combined revenue and expenditure measures required for the projected fiscal consolidated path. To be clarified following the forthcoming MTRS and the PER/PIMA exercises.

Table 2c. Rwanda: Budgetary Central Government Flows, GFSM 1986 Presentation, FY19/20–24/25[1]

(billions of Rwandan Francs)

	2019/20			2020/21			2021/22			2022/23	2023/24	2024/25
	1st Review	RCF-2	Act.	1st Review	RCF-2	Proj.	1st Review	RCF-2	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**2,250**	**2,082**	**2,193**	**2,551**	**2,116**	**2,423**	**2,848**	**2,386**	**2,607**	**2,963**	**3,336**	**3,807**
Total revenue	1,847	1,660	1,765	2,065	1,679	1,831	2,342	1,862	2,003	2,267	2,603	3,004
Tax revenue	1,591	1,408	1,524	1,828	1,460	1,591	2,090	1,609	1,731	1,957	2,249	2,588
Direct taxes	698	621	685	767	651	696	915	690	723	816	925	1,045
Taxes on goods and services	771	679	720	906	701	771	1,015	798	870	985	1,145	1,330
Taxes on international trade	122	108	118	155	108	124	161	121	137	156	179	213
Non-tax revenue	256	252	242	237	219	240	252	253	272	309	354	417
of which: CCRT	--	10	10	--	--	16	--	--	--	--	--	--
of which : PKO	169	169	142	142	142	143	143	145	145	152	140	156
Grants	403	422	427	486	437	592	506	524	604	696	734	802
Budget grants	143	162	168	197	148	300	234	247	327	411	432	455
Project grants	260	260	260	289	289	292	272	277	277	285	301	348
Total expenditure and net lending	**2,942**	**3,254**	**3,048**	**3,169**	**3,088**	**3,299**	**3,516**	**3,259**	**3,475**	**3,790**	**4,068**	**4,422**
Current expenditure	1,455	1,558	1,502	1,626	1,645	1,519	1,793	1,779	1,834	1,961	2,034	2,186
Wages and salaries	423	423	400	491	492	558	552	552	552	594	641	693
Purchases of goods and services	235	329	256	312	343	197	355	342	393	413	434	451
of which: Covid-19 spending	--	60	65	--	60	60	--	--	11	--	--	--
of which: Disaster-management spending	--	33	33	--	--	--	--	--	--	--	--	--
Interest payments	156	152	139	165	168	197	185	211	206	224	203	213
Domestic debt	101	101	78	99	109	137	105	145	139	147	150	151
External debt	54	50	61	66	59	60	79	66	67	77	53	62
Transfers	411	424	482	473	457	388	513	486	481	515	545	591
of which: Covid-19 spending	--	--	5	--	--	11			5	5	--	--
PKO and demobilization	230	230	225	185	185	178	189	189	202	216	212	237
of which: PKO	184	184	188	136	136	136	132	132	145	152	140	156
Capital expenditure	1,160	1,295	1,194	1,322	1,144	1,315	1,492	1,237	1,296	1,453	1,603	1,776
Domestic	702	747	646	785	545	714	925	606	665	791	884	975
of which : Covid-19 spending	--	40	27	--	40	40	--	--	127	100		
Foreign	458	548	548	537	598	601	567	631	631	662	719	801
Net lending and privatization receipts	326	400	352	221	300	465	231	243	345	377	431	460
Of which: Covid-19 spending [2]		74	12		53	183	--	--	25	--	--	--
Overall balance (incl. grants, commitment basis)	**-691**	**-1,172**	**-855**	**-618**	**-972**	**-875**	**-668**	**-872**	**-867**	**-827**	**-731**	**-615**
of which Debt-creating overall balance (excl. PKO)[3]	**-596**	**-1,077**	**-729**	**-624**	**-979**	**-883**	**-679**	**-885**	**-788**	**-795**	**-731**	**-615**
of which Debt-creating overall balance (excl. PKO, shocks)[4]	-596	-869	-592	-624	-825	-590	-679	-885	-620	-690	-731	-615
Change in float/arrears [5]	-55	-55	-27	-35	-35	-35	-40	-40	-40	-40	-40	-40
Overall balance (incl. grants, cash basis)	**-746**	**-1,227**	**-882**	**-653**	**-1,008**	**-911**	**-708**	**-912**	**-907**	**-867**	**-771**	**-655**
Financing	**746**	**899**	**882**	**653**	**790**	**911**	**708**	**912**	**907**	**867**	**771**	**655**
Foreign financing (net)	571	812	936	547	610	691	516	710	707	679	577	546
Drawings	628	869	991	624	685	766	611	807	801	1,198	688	699
Budgetary loans	429	580	703	377	375	457	317	454	448	821	270	246
Commercial borrowing	55	55	37	--	--	--	--	--	--	428	--	--
Project loans	198	289	288	247	309	309	295	353	353	377	418	453
Amortization	-56	-56	-55	-77	-75	-76	-95	-97	-94	-519	-111	-153
Net domestic financing	175	87	-54	106	181	220	192	202	200	188	195	110
Net credit from banking system	175	87	-102	106	181	220	192	202	185	163	195	110
Nonbank sector	--	--	59	--	--	--	--	--	15	25	--	--
Errors and omissions [6]	--	--	-12	--	--	--	--	--	--	--	--	--
Financing Gap	--	328	--	--	217	--	--	--	--	--	--	--

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Economic Recovery Fund and additional support to Rwandair.

[3] Overall deficit excluding spending on materialized contigent liabilities and other items already included in the DSA.

[4] Debt creating overall balance as previously defined excluding spending related to natural disasters and Coronavirus outbreak.

[5] A negative sign indicates a reduction.

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

Table 2d. Rwanda: Budgetary Central Government Flows, GFSM 1986 Presentation, FY19/20–24/25[1]

(percent of GDP)

	2019/20			2020/21			2021/22			2022/23	2023/24
	1st Review	RCF-2	Act.	1st Review	RCF-2	Proj.	1st Review	RCF-2	Proj.	Proj.	Proj.
Revenue and grants	**23.3**	**21.9**	**23.3**	**23.2**	**20.6**	**23.7**	**22.8**	**21.1**	**23.2**	**23.4**	**23.3**
Total revenue	19.1	17.5	18.8	18.8	16.4	17.9	18.8	16.4	17.8	17.9	18.2
Tax revenue	16.4	14.8	16.2	16.6	14.2	15.5	16.8	14.2	15.4	15.5	15.7
Direct taxes	7.2	6.5	7.3	7.0	6.3	6.8	7.3	6.1	6.4	6.4	6.5
Taxes on goods and services	8.0	7.2	7.7	8.2	6.8	7.5	8.1	7.0	7.7	7.8	8.0
Taxes on international trade	1.3	1.1	1.3	1.4	1.1	1.2	1.3	1.1	1.2	1.2	1.3
Nontax revenue	2.6	2.7	2.6	2.2	2.1	2.3	2.0	2.2	2.4	2.4	2.5
of which : CCRT	--	0.1	0.1	--	--	0.2	2.0	--	--	--	--
of which : PKO	1.7	1.8	1.5	1.3	1.4	1.4	1.1	1.3	1.3	1.2	1.0
Grants	4.2	4.4	4.5	4.4	4.3	5.8	4.1	4.6	5.4	5.5	5.1
Budget grants	1.5	1.7	1.8	1.8	1.4	2.9	1.9	2.2	2.9	3.2	3.0
Project grants	2.7	2.7	2.8	2.6	2.8	2.9	2.2	2.4	2.5	2.3	2.1
Total expenditure and net lending	**30.4**	**34.3**	**32.4**	**28.8**	**30.1**	**32.2**	**28.2**	**28.7**	**30.9**	**29.9**	**28.4**
Current expenditure	15.0	16.4	16.0	14.8	16.0	14.8	14.4	15.7	16.3	15.5	14.2
Wages and salaries	4.4	4.5	4.3	4.5	4.8	5.5	4.4	4.9	4.9	4.7	4.5
Purchases of goods and services	2.4	3.5	2.7	2.8	3.3	1.9	2.8	3.0	3.5	3.3	3.0
of which: Covid-19 spending	0.0	0.6	0.7	0.0	0.6	0.6	--	--	0.1	--	--
of which: Disaster-management spending	0.0	0.4	0.3	--	--	--	--	--	--	--	--
Interest payments	1.6	1.6	1.5	1.5	1.6	1.9	1.5	1.9	1.8	1.8	1.4
Domestic debt	1.0	1.1	0.8	0.9	1.1	1.3	0.8	1.3	1.2	1.2	1.0
External debt	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.4
Transfers	4.2	4.5	5.1	4.3	4.5	3.8	4.1	4.3	4.3	4.1	3.8
of which: Covid-19 spending	--	--	0.1	--	--	0.1	--	--	0.04	0.04	
PKO and demobilization	1.9	1.9	2.0	1.7	1.8	1.7	1.5	1.7	1.8	1.7	1.5
of which: PKO	1.9	1.9	2.0	1.2	1.3	1.3	1.1	1.2	1.3	1.2	1.0
Capital expenditure	12.0	13.6	12.7	12.0	11.1	12.8	12.0	10.9	11.5	11.5	11.2
Domestic	7.3	7.9	6.9	7.1	5.3	7.0	7.4	5.3	5.9	6.2	6.2
of which : Covid-19 spending	--	0.4	0.3	--	0.4	0.4	--	--	1.1	0.8	--
Foreign	4.7	5.8	5.8	4.9	5.8	5.9	4.5	5.6	5.6	5.2	5.0
Net lending and privatization receipts	3.4	4.2	3.7	2.0	2.9	4.5	1.8	2.1	3.1	3.0	3.0
Of which : Business support fund (ERF)		0.6	--	--	0.4	1.8	--	--	0.2	0.0	
Of which: Covid-19 spending [2]	--	0.8	0.1	--	0.5	1.8	--	--	0.2	--	--
Overall balance (incl. grants, commitment basis)	**-7.1**	**-12.3**	**-9.1**	**-5.6**	**-9.5**	**-8.5**	**-5.4**	**-7.7**	**-7.7**	**-6.5**	**-5.1**
***of which:* Debt-creating overall bal.(exc. PKO)**[3]	**-6.2**	**-11.3**	**-7.8**	**-5.7**	**-9.5**	**-8.6**	**-5.4**	**-7.8**	**-7.0**	**-6.3**	**-5.1**
of which Debt-creating overall balance (excl. PKO, shocks)[4]	**-5.2**	**-9.1**	**-6.3**	**-5.7**	**-8.0**	**-5.8**	**-5.4**	**-7.8**	**-5.5**	**-5.5**	**-5.1**
Change in float/arrears[5]	-0.6	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.3
Overall balance (incl. grants, cash basis)	**-7.7**	**-12.9**	**-9.4**	**-5.9**	**-9.8**	**-8.9**	**-5.7**	**-8.0**	**-8.1**	**-6.9**	**-5.4**
Financing	**7.7**	**9.5**	**9.4**	**5.9**	**7.7**	**8.9**	**5.7**	**8.0**	**8.1**	**6.9**	**5.4**
Foreign financing (net)	5.9	8.5	10.0	5.0	5.9	6.7	4.1	6.3	6.3	5.4	4.0
Drawings	6.5	9.1	10.5	5.7	6.7	7.5	4.9	7.1	7.1	9.5	4.8
Budgetary loans	4.4	6.1	7.5	3.4	3.7	4.5	2.5	4.0	4.0	6.5	1.9
Commercial borrowing	0.6	0.6	0.4	--	--	--	--	--	--	3.4	--
Project loans	2.0	3.0	3.1	2.2	3.0	3.0	2.4	3.1	3.1	3.0	2.9
Amortization	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.9	-0.8	-4.1	-0.8
Net domestic financing	1.8	0.9	-0.6	1.0	1.8	2.1	1.5	1.8	1.8	1.5	1.4
Net credit from banking system	1.8	0.9	-1.1	1.0	1.8	2.1	1.5	1.8	1.6	1.3	1.4
Nonbank sector	--	--	0.6	--	--	--	--	--	0.1	0.2	--
Errors and omissions [6]	--	--	-0.1	--	--	--	--	--	--	--	--
Financing Gap	--	3.5	--	--	2.1	--	--	--	--	--	--
Memorandum items:											
Covid-19 related spending (total)	--	**1.8**	1.2	--	**1.5**	2.9	--	--	1.4	0.8	--
Debt-creating ov. balance (exc. PKO, 5-yr avg, com.basis)	**-5.5**	**-7.8**	**-6.6**	**-5.5**	**-8.3**	**-5.7**	**-5.3**	**-8.4**	**-5.6**	**-5.1**	**-4.7**
Unidentified adjustment measures [7]	--	--	**--**	--	--	--	--	--	--	**0.4**	**1.0**
GDP (billions of Rwanda Francs), FY basis	9,679	9,499	9,399	11,001	10,261	10,241	12,471	11,336	11,251	12,655	14,317

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Fiscal year runs from July to June.

[2] Economic Recovery Fund and additional support to Rwandair.

[3] Overall deficit excluding spending on materialized contigent liabilities and other items already included in the DSA.

[4] Debt creating overall balance as previously defined excluding spending related to natural disasters and Coronavirus outbreak.

[5] A negative sign indicates a reduction.

[6] Commercial borrowing to finance the budget.

[7] Combined revenue and expenditure measures required for the projected fiscal consolidated path to be clarified following the forthcoming MTRS and the PER/PIMA exercises.

Table 3. Monetary Survey, 2019–25
(billions of Rwandan francs, unless otherwise indicated)

	2019		2020				2021					2022		2023	2024	2025
	Jun.	Dec.	Jun.	Dec.			Jun.		Dec.			Dec.		Dec	Dec	Dec
	Act.	Act.	Act.	1st Review	RCF-2	Proj.	RCF-2	Proj.	1st Review	RCF-2	Proj.	RCF-2	Proj.	Proj.	Proj.	Proj.
Monetary authorities survey																
Net Foreign Assets[1]	843	1,041	1,071	1,164	682	1,061	848	994	1,291	1,015	926	1,261	1,055	1,189	1,389	1,497
Of which: Foreign assets	1,126	1,329	1,558	1,434	1,180	1,539	1,340	1,455	1,527	1,500	1,371	1,723	1,458	1,550	1,718	1,800
Foreign liabilities	283	288	487	269	498	478	492	461	236	486	445	462	403	361	329	303
Net domestic assets	-413	-593	-578	-597	-208	-559	-314	-446	-623	-439	-368	-568	-398	-402	-484	-477
Domestic credit	-199	-372	-313	-362	-52	-322	-125	-126	-396	-216	-125	-344	-130	-151	-181	-116
Other items (net; asset +)	-214	-220	-265	-236	-156	-237	-189	-320	-227	-223	-244	-224	-267	-251	-304	-361
Reserve money	429	448	493	567	474	502	534	548	668	575	558	692	657	787	905	1,020
Commercial banks survey																
Net foreign assets	81	121	27	79	121	89	121	118	79	121	118	121	118	118	118	118
Net domestic assets	1,926	2,040	2,359	2,706	2,149	2,314	2,413	3,618	3,181	2,662	2,579	3,100	2,936	3,618	4,178	4,731
Reserves	216	218	249	279	232	245	263	275	322	285	274	346	326	394	455	516
Net credit to BNR	8	2	32	291	-122	-123	65	33	265	103	-101	199	-76	61	161	171
Domestic credit	2,249	2,371	2,710	2,639	2,545	2,786	2,611	2,931	3,097	2,837	3,080	3,176	3,450	3,989	4,412	4,902
Government (net)	393	440	594	376	494	607	529	626	667	579	638	665	724	895	907	919
Public enterprises	126	129	143	85	62	128	62	128	80	62	128	62	128	128	128	128
Private sector	1,730	1,802	1,974	2,177	1,989	2,052	2,020	2,177	2,350	2,197	2,314	2,450	2,598	2,966	3,377	3,855
Other items (net; asset +)	-548	-551	-632	-503	-506	-594	-526	-754	-503	-563	-675	-621	-764	-826	-851	-859
Deposits	2,006	2,162	2,386	2,785	2,270	2,403	2,534	2,605	3,260	2,783	2,697	3,221	3,054	3,736	4,296	4,849
Monetary survey																
Net foreign assets	923	1,162	1,098	1,244	803	1,150	970	1,112	1,371	1,136	1,045	1,382	1,173	1,307	1,507	1,615
Net domestic assets	1,296	1,229	1,532	1,831	1,709	1,511	1,836	1,765	2,237	1,938	1,937	2,185	2,213	2,823	3,239	3,738
Domestic credit	2,058	2,001	2,429	2,567	2,371	2,341	2,551	2,839	2,964	2,724	2,855	3,031	3,244	3,900	4,393	4,958
Government	178	46	283	292	296	130	445	503	521	441	382	495	486	774	856	944
Public enterprises	126	129	143	85	62	128	62	128	80	62	128	62	128	128	128	128
Private sector	1,754	1,826	2,003	2,189	2,013	2,083	2,044	2,209	2,362	2,221	2,346	2,474	2,629	2,998	3,409	3,887
Other items (net; asset +)	-762	-772	-896	-738	-662	-830	-716	-1,074	-730	-787	-919	-845	-1,031	-1,077	-1,154	-1,220
Broad money	2,220	2,391	2,631	3,074	2,512	2,661	2,805	2,877	3,608	3,074	2,981	3,567	3,386	4,130	4,746	5,353
Year on Year Growth								(Percent)								
Broad money	14.3	15.4	18.5	21.9	5.1	11.3	15.1	9.4	17.4	22.3	12.0	16.1	13.6	22.0	14.9	12.8
Reserve money	15.3	17.2	14.9	22.1	5.8	12.1	16.8	11.0	17.8	21.4	11.2	20.3	17.8	19.8	14.9	12.8
Net foreign assets	15.3	8.7	18.9	18.3	-30.9	-1.0	-1.3	1.2	10.2	41.4	-9.2	21.7	12.3	11.4	15.3	7.2
Credit to the private sector	17.6	12.6	14.2	14.8	10.2	14.1	9.4	10.3	7.9	10.3	12.6	11.4	12.1	14.0	13.7	14.0
Memorandum items:																
Velocity (eop)	3.9	3.8	3.5	3.4	3.9	3.7	3.7	3.6	3.2	3.5	3.6	3.4	3.5	3.3	3.2	3.2
Money multiplier	5.2	5.3	5.3	5.4	5.3	5.3	5.3	5.3	5.4	5.3	5.3	5.2	5.2	5.2	5.2	5.2

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

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

Table 4. Rwanda: Financial Soundness Indicators (March 2018 – September 2020)

	2018				2019				2020		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
				(Percent)							
Capital adequacy											
Core capital to risk-weighted assets	19.5	20.1	20.8	23.8	22.4	21.8	22.2	22.6	23.4	22.3	21.3
Regulatory capital to risk-weighted assets	21.1	21.9	22.6	25.5	24.1	23.3	23.7	24.1	24.9	23.6	22.6
Off balance sheet items/total qualifying capital	86.2	79.6	85.4	152.5	82.2	76.2	81.5	90.7	91.5	98.2	107.3
Insider loans/core capital	6.0	5.9	5.7	5.6	3.9	4.4	4.5	11.6	10.4	7.5	12.4
Large exposure/core capital	168.7	169.4	136.1	134.8	124.3	126.2	132.4	142.6	122.5	152.3	133.8
Asset quality											
NPLs/gross loans	6.8	6.9	7.2	6.4	6.3	5.6	5.3	4.9	5.5	5.5	5.2
NPLs net/gross loans	5.5	5.2	6.1	5.5	5.6	5.6	4.8	4.7	3.1	4.9	4.7
Provisions/NPLs	59.2	67.4	64.2	68.2	71.1	80.2	85.4	81.5	76.7	82.6	88.3
Earning assets/total asset	78.9	80.8	84.6	84.8	83.6	82.3	84.1	84.4	84.8	84.4	86.8
Large exposures/gross loans	34.2	34.5	29.6	32.0	28.5	28.1	29.7	33.5	28.6	32.9	27.2
Profitability and earnings											
Return on average assets	1.3	1.6	1.7	1.9	2.1	1.6	2.1	2.2	2.1	1.8	1.9
Return on average equity	7.5	9.5	10.2	11.2	12.0	9.3	11.7	12.5	11.8	9.9	11.0
Net interest margin	9.8	9.7	9.5	9.0	9.2	8.8	9.0	8.9	9.9	8.8	8.6
Cost of deposits	3.5	3.5	3.5	3.4	3.2	3.3	3.4	3.4	3.6	3.6	3.4
Cost to income	82.5	81.1	79.7	78.4	77.7	81.1	78.4	77.1	76.7	79.7	78.2
Overhead to income	45.3	45.6	45.6	45.0	42.5	42.9	41.7	41.2	42.6	40.6	39.2
Liquidity											
Liquidity coverage ratio	...	299.5	317.5	637.0	215.2	180.5	193.0	191.8	202.1	252.8	254.0
Net stable funding ratio	...	224.7	219.9	222.0	174.0	164.3	146.3	129.3	134.7	175.5	159.1
Short term gap	4.9	6.6	4.3	3.6	7.1	8.9	7.6	4.0	3.0	5.3	6.4
Liquid assets/total deposits	49.4	32.7	33.5	35.3	35.4	36.3	33.7	35.4	37.9	36.4	34.1
Interbank borrowings/total deposits	23.6	21.9	22.3	21.5	20.3	21.3	20.7	20.4	24.5	23.6	24.7
BNR borrowings/total deposits	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross loans/total deposits	92.3	94.0	92.9	95.2	93.9	96.9	99.0	95.2	94.1	202.1	111.8
Market sensitivity											
Forex exposure/core capital	-4.5	-6.1	-10.1	-5.6	-7.1	-8.6	-5.3	-4.8	-3.4	-6.6	-7.3
Forex loans/Forex deposits	49.4	45.4	38.4	39.5	41.0	46.5	51.3	45.2	43.6	46.8	44.3
Forex assets/Forex liabilities	76.5	82.0	88.1	91.2	91.0	91.0	83.6	81.8	84.4	83.0	83.2

Source: National Bank of Rwanda.

Table 5. Rwanda: Balance of Payments, 2019–25

(millions of U.S. dollars, unless otherwise indicated)

	2019	2020			2021			2022		2023	2024	2025
	Act.	1st Review	RCF-2	Proj.	1st Review	RCF-2	Proj.	RCF-2	Proj.	Proj.	Proj.	Proj.
Current account balance (incl. official transfers)	**-1,254**	**-1,077**	**-1,745**	**-1,261**	**-1,077**	**-1,116**	**-1,334**	**-1,148**	**-1,292**	**-1,193**	**-1,140**	**-1,198**
Trade balance	-1,473	-1,202	-1,144	-1,511	-1,286	-1,122	-1,700	-1,319	-1,821	-1,834	-1,818	-1,828
Exports (f.o.b.)	1,232	…	…	1,418	…	…	1,690	…	1,942	2,219	2,558	2,820
Of which: gold	276	…	…	626	…	…	657	…	690	724	761	799
Exports (f.o.b.) excl. gold	955	1,298	945	793	1,458	1,351	1,033	1,487	1,252	1,494	1,798	2,022
Of which: coffee and tea	156	163	133	148	196	201	186	233	206	223	258	292
Of which: minerals	99	122	55	74	144	110	121	123	169	207	238	300
Imports (f.o.b.)	2,705	…	…	2,930	…	…	3,390	…	3,763	4,052	4,376	4,648
Of which: gold	239	…	…	593	…	…	623	…	654	686	721	757
Imports (f.o.b.) excl. gold	2,465	…	…	2,337	…	…	2,768	…	3,109	3,366	3,656	3,891
Imports (f.o.b.) excl. gold and non-fuel re-exports	2,289	2,499	2,089	2,165	2,744	2,473	2,579	2,806	2,890	3,114	3,361	3,580
Of which: capital goods	600	695	335	335	796	684	685	827	794	907	1,070	1,142
Of which : Energy goods	451	277	156	156	294	169	344	198	378	427	481	546
Services (net)	-17	-141	-543	-176	-94	-216	-115	-133	3	-8	-7	55
Credit	1,015	1,086	424	467	1,223	902	728	1,100	1,017	1,116	1,210	1,344
Of which: tourism receipts	458	445	82	107	512	329	236	427	472	542	597	686
Debit	1,032	1,227	967	643	1,317	1,117	843	1,233	1,014	1,125	1,217	1,289
Income	-348	-397	-349	-298	-438	-353	-283	-393	-291	-299	-315	-330
Of which: interest on public debt[1,2]	-92	-100	-85	-90	-113	-87	-85	-86	-77	-85	-91	-95
Current transfers (net)	585	663	291	724	741	574	764	698	817	948	1,001	905
Private	313	354	108	310	376	343	345	436	360	378	393	408
Of which: remittance inflows	252	293.2	75	252	313	239	273	277	283	296	307	317
Public	271	309	183	414	364	231	419	262	457	571	608	497
Capital and financial account balance	**1,285**	**1,286**	**969**	**1,243**	**1,214**	**1,371**	**1,154**	**1,318**	**1,417**	**1,336**	**1,353**	**1,313**
Capital account	260	285	285	285	291	291	290	251	258	268	287	307
Financial account	1,025	1,001	685	958	923	1,080	864	1,067	1,159	1,067	1,065	1,006
Direct investment	384	367	126	245	368	257	373	352	397	426	455	487
Public sector capital[3]	593	609	587	709	542	877	500	701	742	567	615	512
Long-term borrowing[2]	663	862	839	858	701	1,023	714	823	868	1,090	795	748
Scheduled amortization, excl IMF	-70	-252	-252	-149	-159	-146	-214	-122	-126	-523	-180	-237
Other capital[4]	48	25	-28	4	13	-54	-9	13	21	75	-4	8
Of which: commercial banks NFA (increase -)	47	0	0	36	0	0	0	0	0	0	0	0
Net errors and omissions	**81**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**112**	**209**	**-776**	**-18**	**138**	**255**	**-181**	**170**	**125**	**143**	**213**	**115**
Financing	**-112**	**-209**	**343**	**18**	**-138**	**-255**	**181**	**-170**	**-125**	**-143**	**-213**	**-115**
Reserve assets (increase -)	-112	-186	234	-202	-101	-255	180	-137	-92	-99	-179	-87
Net credit from the IMF	0	-23	87	198	-37	-36	-36	-45	-45	-45	-34	-28
IMF disbursement (+)[5]	0	0	109	220	0	0	0	0	0	0	0	0
Repayments to IMF (-)	0	-23	-22	-22	0	-36	-36	-45	-45	-45	-34	-28
Exceptional financing	0	0	22	22	0	36	37	11	12	0	0	0
Grant for debt relief under CCRT[6]	…	…	22	22	…	36	37	11	12	0	0	0
Financing gap	…	…	**433**	**0**	…	**0**	**0**	**0**	**0**	**0**	**0**	**0**
in percent of GDP	…	…	4.1	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prospective RCF from the IMF	…	…	110	0	…	0	0	0	0	0	0	0
Prospective financing from the World Bank	…	…	100	0	…	0	0	0	0	0	0	0
Prospective financing from other development partners	…	…	185	0	…	0	0	0	0	0	0	0
Residual financing gap	…	…	38	0	…	0	0	0	0	0	0	0
Memorandum items:												
Current account balance (percent of GDP)[7]	-12.4	-9.9	-16.7	-12.2	-9.1	-10.5	-12.5	-10.0	-11.4	-9.6	-8.4	-8.0
Trade balance (percent of GDP)	-14.5	-11.0	-11.0	-14.6	-10.8	-10.6	-16.0	-11.5	-16.1	-14.8	-13.3	-12.3
Gross official reserves	**1,440**	**1,553**	**1,207**	**1,643**	**1,654**	**1,461**	**1,463**	**1,598**	**1,556**	**1,654**	**1,834**	**1,921**
in months of prospective imports of G&S[8]	5.8	4.6	4.0	5.5	4.6	4.3	4.3	4.4	4.2	4.1	4.2	4.2

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 KCC, RwandAir, and Bugesera.

[3] Financial account excludes debt assumption for Marriott included in the fiscal sector.

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

[5] The amount in 2020 corresponds to the RCF disbursements that are transferred to the budget.

[6] The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the CCRT.

[7] Including official transfers.

[8] Based on the prospective imports of goods (excl. gold) and services in the next year.

Table 6. Rwanda: Quantitative Program Targets (December 2019 – June 2020)

	end-December 2019						end-June 2020					
	Prog.	Rev.Prog.	Adjustors	Rev. Prog. Adjusted	Prelim.	Status	Prog.	Rev.Prog.	Adjustors	Rev. Prog. Adjusted	Prelim.	Status
(Billions of Rwandan francs, unless otherwise indicated)												
Half-yearly Quantitative Targets[1]												
1. Ceiling on the debt-creating overall balance, including grants[2]	-276	-320	97	-417	-303	Met	-589	-600	97	-697	-729	Not Met
2. Floor on stock of Net Foreign Assets	980	972	-93	879	1041	Met	858	910	-92	818	1,071	Met
3. Ceiling on net accumulation of domestic arrears	0	0			0	Met	0	0			-1.4	Met
Continuous Targets												
4. Ceiling on stock of external payment arrears (US$ million)[3]	0	0		…	0	Met	0	0		…	0	Met
Monetary Policy Consultation Band[1,4]												
CPI Inflation target	5.0	5.0			2.4	Met	5.0	5.0			6.3	Met
Inflation, upper inner-bound, percent	8.0	8.0					8.0	8.0				
Inflation, lower inner-bound, percent	2.0	2.0					2.0	2.0				
Inflation, upper bound, percent	9.0	9.0					9.0	9.0				
Inflation, lower bound, percent	1.0	1.0					1.0	1.0				
Memorandum items:												
Total priority spending[2]	411	411			471	Met	885	885			949	Met
Floor on domestic revenue collection[2,5]	823	779			812	Met	1,726	1,678			1,614	Not Met
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)[3]	700	700			440	Met	700	700			401	Met
Total budget support (US$ million) [2]	439	477			383		617	742			845	
Budget support grants (US$ million) [6]	196	222			101		293	339			188	
Budget support loans (US$ million)	243	255			282		324	403			657	
RWF/US$ program exchange rate	879	923			923		879	923			923	

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 cumulative from June 30, 2019.

[3] Continuous targets.

[4] When the end-of period year-on-year average inflation is above/below the outer band of the upper/lower bound, a formal consultation with the Executive Board would be triggered.

[5] Floor is adjusted to exclude UN peace keeping operations, in line with the TMU.

[6] The adjuster target inadvertently and incorrectly included PKO reimbursements. Had the target excluded PKO reimbursements, in line with the TMU, it would amount to US$ 123 million (end-December 2019) and US$155 million (end-June 2020) and the adjusted program targets for the ceiling on the debt creating overall balance, including grants and the floor on the stock of net foreign assets would amount to RWF -340 billion and RWF 965 billion, respectively (end-December 2019) and to RWF -614 billion and RWF 934 billion, respectively (end-June 2020). The assessment of both QTs under the corrected adjusted targets would remain the same.

Table 7. Rwanda: Reform Targets (June 2019 – June 2020)

Actions	Target Date	Status	Objective
Fiscal			
Produce annual tax expenditure report with updated methodology, and a description of broad categories of beneficiaries	end-Jun. 2019	Met	Improve DRM
Procure an IT system that will capture all RSSB processes	end-Jun. 2019	Met	Improve resource efficiency
Produce a report outlining detailed options for improving functioning of VAT, including measures that could be implemented in FY20/21.	end-Dec. 2019	Met	Improve DRM
Automating the risk based verification process for refund claims.	end-Dec. 2019	Not Met	Improve DRM
Begin producing quarterly budget execution reports in GFS 2014 format.	end-Dec. 2019	Met	Improve fiscal transparency
Produce a comprehensive fiscal risk analysis statement.	end-Jun. 2020	Met	Mitigate fiscal risks
Contract a diagnostic study on optimal RSSB asset allocation.	end-Jun. 2020	Not Met	Improve resource efficiency
Monetary and Financial			
Improve communication for monetary policy by organizing quarterly outreach after each MPC meeting, including roundtable discussions with CEOs of commercial banks and other financial institutions, as well as other interested stakeholders.	end-Dec. 2019	Met	Support new monetary policy framework
Publish macro projections for MPC decision making in quarterly inflation reports, according to best practices established by other central banks.	end-Jun. 2020	Met	Support new monetary policy framework
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2020	Not Met	Deepen financial markets

Table 8. Rwanda: Review Schedule Under the Policy Coordination Instrument, 2019–22

Program Review	Test Date	Review Date
Board discussion of a PCI request		June 28, 2019
First Review	June 30, 2019	December 15, 2019
Second Review	December 31, 2019	June 15, 2020
Third Review	June 30, 2020	December 15, 2020
Fourth Review	December 31, 2020	June 15, 2021
Fifth Review	June 30, 2021	December 15, 2021
Sixth Review	December 31, 2021	June 15, 2022

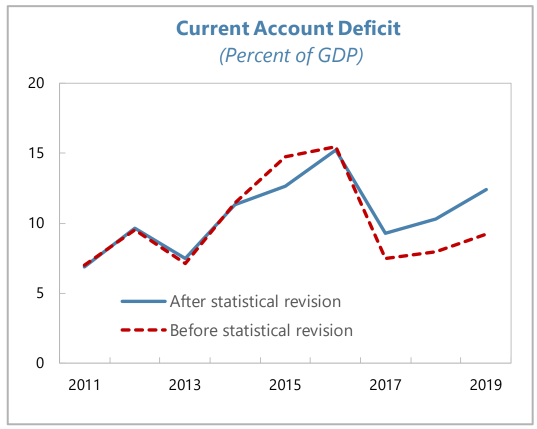
Source: IMF staff.

Annex I. External Sector Assessment

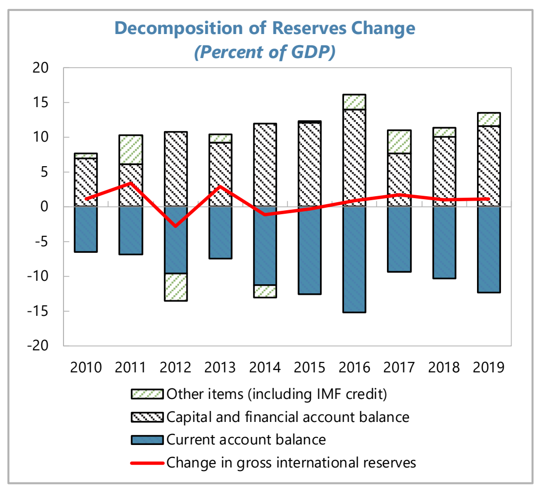
Rwanda's external position in 2019 was weaker than implied by fundamentals and desirable policy settings. Analysis of optimal coverage indicates that international reserves were assessed to be above the adequate level. Looking ahead, policy actions to implement a fiscal consolidation and structural reforms to further improve the business climate and boost competitiveness would bring the current account to a level consistent with fundamentals. Allowing exchange rate flexibility remains crucial to absorb external shocks.

Context

1. **The current account deficit widened to 12.4 percent of GDP in 2019, from 10.3 percent of GDP in 2018.** Rwanda made a statistical revision following the BPM6 recommendation and started to publish it on September 2020.[1] The trade deficit increased by 15 percent in 2019, reflecting adverse terms of trade and large capital imports. Exports grew by 9 percent mainly due to increases in non-traditional exports, notwithstanding the negative impact of price declines for traditional exports (tea, coffee, and minerals). The services balance exhibited a distinct improvement, reflecting strong demand for cargo and passenger services with RwandAir's new routes.



2. **Improvements in financial and current flows have continued to rebuild reserves levels.** In 2019, foreign direct investment (FDI) and public-sector external borrowing increased by 10 percent and 20 percent, respectively. Overall, international reserves increased to US$1,440 million by end-2019. In terms of months of prospective import coverage, reserves are estimated to be 5.7 months.

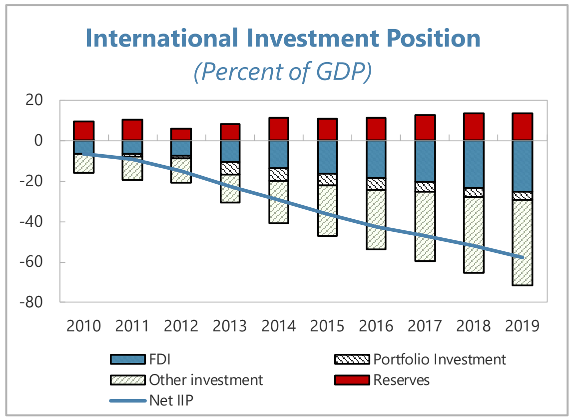


3. **Going forward, the COVID-19 pandemic is expected to negatively affect Rwanda's external position.** The current account deficit is expected to widen significantly in 2020 as a marked decline in goods exports, a temporary stop in tourism, and lower remittance inflows outweigh lower imports. International reserves are expected to decrease as a result of a deteriorating current account deficit and lower FDI and other financial flows. Moreover,

[1] After the statistical revision, (i) gold exports and imports are explicitly covered in the trade statistics, and (ii) non-fuel imports that goes to warehouses and later re-exported without entering the domestic market are added to imports. An inclusion of non-fuel re-exporting items in imports results in a higher current account deficit.

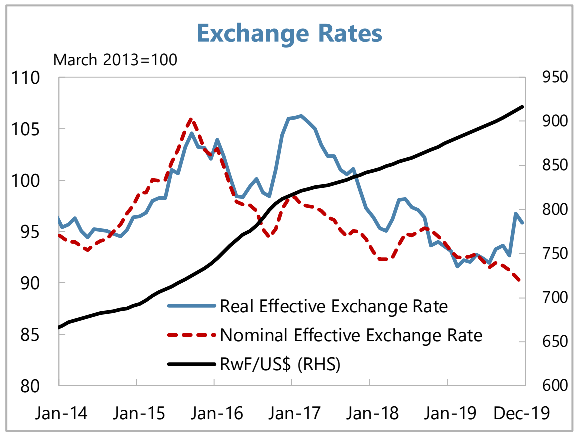
there is a risk for more protracted and severe pandemic impacts, in which case the external position could deteriorate even sharply.

4. The net international investment position (NIIP) deteriorated in 2019. External liabilities (mostly composed of FDI and other investments) posted 71 percent of GDP, exceeding reserve assets by 58 percentage point of GDP. The NIIP is expected to continue deteriorating partly on account of loan disbursements from development partners.



External Position Assessment

5. The real effective exchange rate (REER) of Rwanda Franc (RwF) appreciated in late 2019. Although the nominal exchange rate continued to depreciate steadily, the rise in domestic inflation led to a moderate real appreciation in late 2019.



6. The assessment of the REER builds on both the External Balance Assessment for developing and emerging economies (EBA-Lite) and complementary information. The EBA-Lite methodology for Rwanda includes two approaches: the current account (CA) model and the real effective exchange rate (REER) model. The approaches are based on panel regressions and provide estimated current account and exchange rate "norms" consistent with fundamentals and desired policy settings.

7. Using the two separate models, staff assesses that the external position in 2019 was weaker than implied by fundamentals and desirable policy settings. The CA model estimates a 2019 CA norm for the current account deficit of 8.4 percent of GDP (text table).[2] Comparing this to the cyclically adjusted current account deficit of 12.1 percent of GDP, the difference is -3.7 percentage points. On the other hand, the REER model indicates that the implied CA gap between the adjusted CA deficit and the CA norm is 0.9 percentage points, within the range of 1.0 percentage points, but it is less reliable given the short time series

Results from EBA-lite models, 2019
(in percent of GDP, unless otherwise indicated)

	CA model	REER model
CA-Actual	**-12.4**	
Cyclical Contributions (from model)	-0.3	
Adjusted CA	**-12.1**	
CA Norm (from model) 1/	**-8.4**	
CA Gap	**-3.7**	**0.9**
o/w Policy gap	0.0	
Elasticity	-0.20	
REER Gap (in percent)	**18.0**	**-4.6**

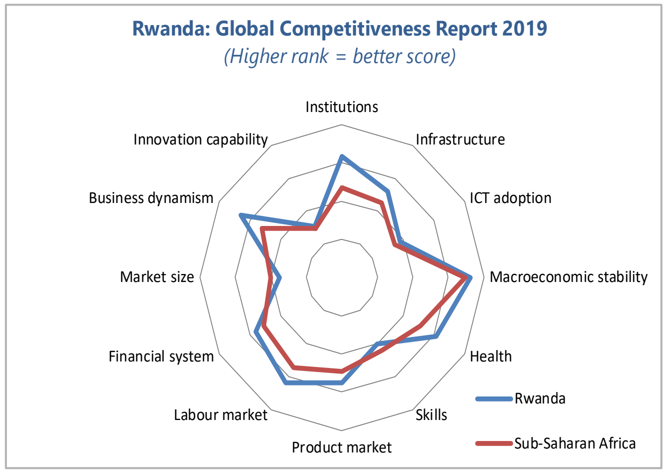
1/ Cyclically adjusted, including multilateral consistency adjustments.

[2] The CA panel regression model compares Rwanda's current cyclically-adjusted account balance with a level implied by the country's macroeconomic fundamentals adjusted for a policy gap—the current account norm. The methodology is outlined in The Revised EBA-Lite Methodology, July 2019.

(6 years for Rwanda).[3] Overall, based on the results of these two separate models, staff assesses that the external position in 2019 was weaker than implied by fundamentals and desirable policy settings.

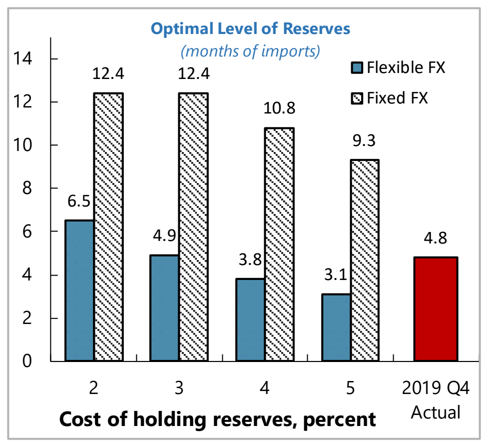
Indicators of competitiveness

8. Broad indicators suggest while Rwanda's competitiveness remains strong there is potential for improvement. Based on the World Economic Forum's 2019 Global Competitiveness Index, Rwanda globally ranked 36th out of 141 countries in terms of institutional quality, and 46th in terms of business dynamism.[4] The main area of weakness continues to be labor skills and innovation capability. Market size is an important geographical constraint, which Rwanda is trying to alleviate through an effort to increase regional trade.



Adequacy of International Reserves

9. At end-2019, international reserves stood at 4.8 months of prospective imports, which is above the adequate level. The Fund's approach to Assessing Reserve Adequacy in Credit Constrained Economies (ARA-CCE) indicates an optimal range of 3.8–4.9 months of imports with a flexible exchange rate classification while it also indicates an optimal range of 10.8–12.4 months of imports with a fixed exchange rate classification (text chart).[5] Rwanda's economy remains vulnerable to external shocks such as the COVID-19 pandemic's resurgence and commodity price fluctuations given its narrow export base and still significant dependence on external financing by international partners. Allowing exchange rate flexibility remains crucial to absorb external shocks. In sum, staff would continue to consider international reserves in the range of 4.0–5.0 months optimal.



[3] The REER model is a panel regression model that includes fundamental and policy variables that would affect the REER directly or indirectly through changes to the current account balance. The methodology is outlined in [Methodological Note on EBA-Lite](), February 2016.

[4] Since the World Economic Forum's Global Competitiveness index is partly based on survey data, there is some uncertainty around point estimates.

[5] For more details on the ARA-CC approach see IMF Policy Paper, 2014, "Assessing Reserve Adequacy—Specific Proposals." An opportunity cost of holding reserves is assumed to be in the range of 3–4 percent (proxied here by the real return on Rwanda's sovereign 10-year Eurobond).

Annex II. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact if Realized	Policy Response
Potential Domestic Risks			
Unexpected shift in the Covid-19 pandemic. ***Downside:** The disease proves harder to eradicate requiring more containment efforts and impacting economic activity directly. Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. ***Upside:** Recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine.	**High** **Low**	**High** • Collapse in Rwanda's tourism receipts and other key exports. • Slowdown in inflow of remittances largely due to a fall in the wages and employment of migrant workers abroad. • Key domestic businesses offering services in tourism and related industries, construction and manufacturing face solvency problems.	• Accelerate targeted government fiscal and financial interventions to support domestic businesses (stimulus and safety nets) and the health response to pandemic in line with the Economic Recovery Plan (ERP). • Prioritize public infrastructure projects with high fiscal multipliers and value-for-money. • Strengthen coordination efforts at regional level, particularly at the land borders. • Continue mobilizing the international community to provide support.
Widespread social discontent and political instability: Social tensions erupt as the pandemic and inadequate policy response cause economic hardship and exacerbate preexisting socioeconomic inequities.	**High**	**Medium** • Economic uncertainty would deepen, and policymaking would be affected resulting in a negative impact on domestic growth, worsen poverty levels and pressure on external and fiscal balances.	• Increase access and benefits, improve targeting of existing social safety nets. • Bring forward measures to create jobs and promote vocational training. • Pursue tax reforms to broaden tax base.
Higher frequency and severity of natural disasters related to climate change: Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	**Medium/Low**	**Medium** • Reduced output in the agriculture sector, job loss, higher contingency spending to repair damages to infrastructure and higher social spending to mitigate impact on vulnerable.	• Include contingency spending plans in fiscal framework and strengthen food security programs.
External Risks			
Oversupply and volatility in the oil market: Lower demand keeps energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	**Medium**	**Medium** • High production costs from higher oil prices will hurt domestic economic activity and corporate profits.	• Ensure strategic fuel reserves are adequate.
Intensified geopolitical tensions and security risks: Cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence.	**High**	**High** • Adverse impact on international trade as demand for exports will fall, hurting domestic growth	• Diversify the structure of the economy and export sources. • Strengthen regional security surveillance programs.
Cyber-attacks: On critical global infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	**Medium**	**Medium** • Financial services interruption, data theft or deletion, loss of sensitive data or intellectual property.	• Ensure financial service providers frequently upgrade their IT systems.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. Please consult the G-RAM operational guidance on the SPR Risk Unit website.

Annex III. Alternative Scenario

1. **The economic outlook remains uncertain.** Infection rates in the SSA region have been significantly lower than other parts of the world so far, however, the duration and magnitude of the COVID-19 shock remains unknown. The October 2020 WEO anticipates an uneven rebound in economic activity. The duration of formal containment measures, the extent to which those measures are enforceable in practice and any shifts in behavior that may persist even after those measures are lifted will play a critical role in the post-pandemic recovery phase. While Rwanda has been subject to shocks in the past, the unique nature of this crisis is creating unprecedented uncertainty around estimates of its impact. Baseline projections for 2020 have now been revised downwards by about 8 percentage points from the pre-pandemic forecast of 8 percent y/y.

2. **Staff has developed an alternative adverse scenario with a more prolonged and extensive pandemic shock**. The baseline assumes that the worst of the crisis was concentrated in 2020H1: the economic impact of the pandemic begins to fade in the second half of 2020 with a return to pre-pandemic growth rate in 2023. The adverse scenario is predicated on a deeper and more prolonged COVID-19 shock, which continues in 2020H2 and only starts to fade away from Q1 2021. Growth in 2020 under this scenario is simulated using the IMF Fiscal Affairs Department (FAD)'s COVID-19 Fiscal Stress Test (FST) module for assessing the effect of COVID-19 containment measures on macro-fiscal outcomes. The more persistent nature of the shock leads to an even more protracted recovery than under the baseline with growth reaching pre-pandemic levels only in 2024. The FST module allows different growth rates assumptions in each sector of the economy, depending on the degree of stringency[1] and length of containment measures in the country.

3. **Under the adverse scenario, the pandemic is expected to deepen the negative impact on the economy.** Such scenario assumes domestic containment measures in the form of a new lockdown lasting another 6 weeks. This new lockdown would come on top of the previous 6-week one in Q2 2020 bringing the cumulative duration of stringent measures in 2020 to 3 months. The stringency of the lockdown under the adverse scenario is assumed to be high due to (i) new and rising

Adverse Scenario: Sector Calibration

Marginally Affected	Moderate Decline	Large Decline	Severe Decline
> 90% Operating Capacity	70% - 90% Operating Capacity	50% - 70% Operating Capacity	< 50% Operating Capacity
Human Health & Social Work Activities	Export Crops, Fishing & Fish Processing	Education, Social & Personal Services	Hotels & Restaurants
Information & Communication	Financial Intermediation	Real Estate & Business Services	Domestic Services
Public Admin/Defense	Wholesale & Retail Trade	Transport	Mining & Quarrying
Agriculture & Forestry	Electricity & Water	Construction	Manufacturing

Source: IMF Staff estimates.

Agriculture: (yellow)
Industry: (grey)
Services: (blue)
Public Sector: (green)

[1] This is a composite measure (developed by the University of Oxford) based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest).

infections and the spread of the virus in the region and its neighboring countries and to Rwanda, with more severe human and economic consequences; and (ii) the resurgence of the pandemic at the global level, which would deepen the crisis and delay the global recovery. As a result, real GDP is expected to contract by 2.6 percent y/y in 2020 relative to the baseline of -0.2 percent. Although the disruption to economic activity is broad based, it is more pronounced in the services sector owing to weaker prospects for a full rebound in commercial travels, tourism and related activities including the meetings, incentives, conferences and exhibitions (MICE) industry; and other sectors involving face-to-face communication.

4. The headline and program fiscal deficits would increase, and any-post-COVID consolidation would be delayed. Tax revenues would be hit harder under the adverse scenario through lower domestic activity and trade flows. Revenue mobilization will recover only gradually and in tandem with the economic recovery. Expenditures on the other hand are assumed to remain the same under the baseline. In the absence of policy measures, the shock in the near term will be accommodated by higher headline deficits well above the baseline through the medium term. The deficit will be financed through additional domestic borrowing and consequently, the public debt-to-GDP ratio will deteriorate, rising above 75 percent in 2021. To ensure that debt remains sustainable at moderate risk of debt distress as in the baseline, a growth-friendly fiscal consolidation will need to start with a delay but would need to be deeper and longer than under the baseline. Under this scenario the PV of public debt-to-GDP ratio would only reach the EAC's debt anchor of NPV 50 percent only by 2030 and the debt-to-GDP ratio converging to the medium-term fiscal anchor by 2032, four years later than under the baseline.

5. External balances would deteriorate further under the adverse scenario. Additional pressure on the external position would mostly stem from a slower recovery in exports of goods and services, which is partly compensated by lower imports due to weaker domestic economic activities. Overall, the resulting higher current account deficit would have to be financed through a drawdown in international reserves.

6. Monetary and financial sector policies would continue to accommodate the COVID-19 shock. Amid limited fiscal space, the central bank might be required to increase the size of existing liquidity support measures such as the lending facility to banks to cushion the more severe impact of the pandemic. Should the growth outlook deteriorate further with a more subdued demand, BNR would consider accommodative monetary policy stance consistent with the monetary policy framework.

Annex III Table 1. Rwanda: Macroeconomic Indicators: Baseline vs. Adverse Scenario

	2020		2021		2022		2023		2024		2025	
	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse
Nominal GDP	9,841	9,601	10,641	10,158	11,862	11,132	13,449	12,505	15,184	14,110	17,129	15,922
Nominal GDP (percent change)	8.1	5.5	8.1	5.8	11.5	9.6	13.4	12.3	12.9	12.8	12.8	12.8
Real GDP growth (percent)	-0.2	-2.6	5.7	3.4	6.8	5.0	8.0	7.0	7.5	7.5	7.5	7.5
Total Revenue & Grants (percent of GDP)	23.1	23.2	23.4	23.6	23.2	23.7	23.8	24.4	23.9	24.4	23.3	23.3
o/w Tax Revenue(percent of GDP)	15.4	15.4	15.4	15.2	15.5	15.5	15.6	15.5	15.9	15.7	16.5	16.0
Total Expenditure (percent of GDP)	32.9	33.7	31.3	32.8	30.2	32.2	29.6	31.8	28.3	31.1	27.0	28.9
Fiscal Balance (percent of GDP)	-9.7	-10.4	-7.9	-9.2	-7.0	-8.5	-5.8	-7.4	-4.4	-6.8	-3.7	-5.5
Gross Public Debt (percent of GDP)	66.7	68.1	70.9	75.9	73.4	81.0	73.0	82.4	71.7	83.0	69.6	81.8
Current Account Balance (percent of GDP)	-12.2	-13.7	-12.5	-16.9	-11.4	-14.1	-9.6	-11.4	-8.4	-10.1	-8.0	-8.8
Net International Reserves (months of imports)	5.5	5.0	4.3	2.7	4.2	2.2	4.1	2.0	4.2	2.3	4.2	2.6

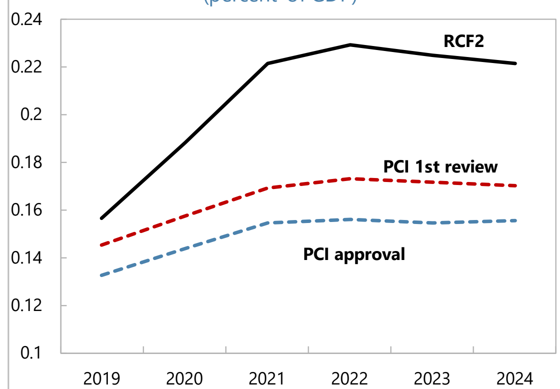
Source: IMF staff estimates and projections.

Annex IV. Recalibrating Rwanda's Post-COVID-19 Fiscal Path

1. **The PCI fiscal path pre-COVID-19 was guided by the the EAMU's debt convergence criterion of 50 percent of GDP in PV terms.**[1] This was estimated to broadly correspond to a nominal debt to GDP ratio of 60 percent, based on past and expected concessionality terms at the time of the PCI approval. Considering a historical average GDP growth of 7.5 percent and expected inflation of 5 percent, the fiscal deficit ceiling was set at 5.5 percent of GDP, which builds 1.2 percent of GDP in annual buffers for "off-budget" debt flows (e.g. SOE borrowing, exchange rate costs, assumption of government guarantees). The deficit ceiling was set as a 5-year rolling window to allow for short-term countercyclical flexibility.

2. **A reassessment of the above framework seems warranted on several grounds.** First, the economic and analytical foundations of the EAMU's debt ceiling remain to be clarified. Currently 2 out of the 5 member states have debt stocks well above the ceiling and Rwanda is expected to breach it in 2021. Second, the concessionality of Rwanda's debt has markedly improved, exceeding expectations at the time of the PCI approval, calling for a reassessment of the above assumption of equivalence between NPV and nominal debt ratios.[2] Finally, the significant uncertainty around the macroeconomic path post-COVID-19 calls for a temporary suspension of the PCI fiscal rule, which implicitly relies on the stability of macroeconomic parameters, in favor of a tailored fiscal path that accounts for changes in the outlook.[3]

Difference Nominal and NPV of Debt
(percent of GDP)



Sources: Rwandan Authorities, and staff estimates.

3. **The proposed recalibration builds on the IMF Fiscal Affairs Department (FAD)'s approach to setting debt anchors and a debt "cliff", putting the proposed post-COVID-19 fiscal path on a stronger analytical footing.** FAD's approach starts from a pre-determined maximum debt "cliff" and seeks to estimate the necessary buffer to minimize the risks of exceeding this cliff.[4] The buffer is estimated from stochastic debt projections produced by applying to the baseline path a series of shocks calibrated to match the size of past macroeconomic shocks. The debt anchor is then set as the difference between the debt cliff and the estimated buffer. In the case

[1] IMF Country Report No. 19/211. The fiscal balance under the program, referred as the debt-creating fiscal balance, is defined as the overall balance excluding spending on materialized contingent liabilities already included in the DSA and UN peacekeeping operations.

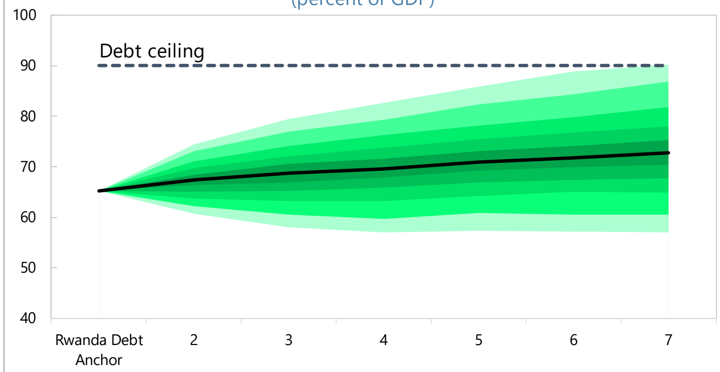
[2] The improvement in concessionality is explained by the increase in the share of concessional external financing in total financing over the short- to medium-term reflecting more concessional borrowing from the World Bank and other development partners, including COVID-19 support.

[3] Best practices call for the institution of an escape clause that automatically suspends the fiscal rule under pre-defined and well-specified large and rare shocks and establishes a timeline and conditions for reinstating the rule.

[4] See Eyraud and others (2018) "*How to Calibrate Fiscal Rules—A Primer*"; FAD How-to-Note.

of Rwanda, we rely on the DSA PV-of-public-debt ceiling of 70 percent of GDP as the fiscal cliff, which broadly corresponds to a nominal debt ratio of 90 percent given the current grant element in Rwanda's debt. The stochastic projections suggest that a nominal debt anchor of 65 percent of GDP would be appropriate to guard against exceeding the latter DSA "cliff" Notably, the latter debt anchor would likely remain consistent with the EAMU ceiling, as existing concessionality terms suggest that it would correspond to a PV of debt of around 45 percent of GDP.

Rwanda: Stochastic Debt Projections
(percent of GDP)



Sources: Rwandan Authorities, and staff estimates.

4. The proposed deficit path aims at guiding debt to the anchor while accounting for the widely negative output gap, the currency depreciation impact, and political feasibility. Currency depreciation is expected to increase the debt ratio by about 19 percent of GDP cumulatively over the post-COVID-19 consolidation period, shrinking significantly the available fiscal space. The projected path also accounts for the off-budget financing of the new Bugesera international airport. These factors, combined with the need to support the recovery and the current political drive to implement NTS1 (Pillar 1 of the PCI), call for a gradual adjustment towards the anchor.

Deficit and Debt Path
(percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Overall deficit	-7.9	-7.0	-5.8	-4.4	-3.7	-3.7	-3.7	-3.7	-5.3
Impact of currency depreciation	2.6	2.9	1.8	1.9	1.9	1.8	1.8	1.8	1.7
Bugesera airport	0.0	0.6	1.1	1.0	0.9	0.0	0.0	0.0	0.0
Public debt	71.1	73.7	73.3	72.0	70.0	68.2	66.5	64.4	64.0

Sources: Rwandan Authorities, and staff estimates.

Annex V. Capacity Development Strategy for FY2021

Rwanda is a high intensity technical assistance (TA) user, has relatively strong institutional capacity, and a good track record of implementing TA recommendations. Capacity development efforts reflect the Fund's policy engagement with Rwanda, namely support for implementation of the country's National Strategy for Transformation, while also ensuring macro stability. TA focuses on the main areas of fiscal transparency, domestic revenue mobilization and implementation of the new forward-looking monetary policy framework.

Key Overall CD Priorities Going Forward	
Priorities	**Objectives**
Public Financial Management	Improve fiscal transparency, including by expanding the coverage of the public sector under GFS2014, and systematically identify and mitigate fiscal risks, including from COVID-19.
Tax Policy and Revenue Administration	Develop and implement a medium-term revenue strategy informed by the latest TADAT; VAT gap analysis; assessment of tax expenditures; and an overall diagnostic of the policy and legislative framework.
Monetary and Macroprudential policy	Provide TA on FPAS to support the move to an interest rate-based monetary framework.
Financial Supervision and Regulation	Build on the financial sector stability review assessment to strengthen risk-based supervision, stress-testing, financial safety net and crisis preparedness and management, and financial market infrastructure.

Appendix I. Letter of Intent

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Kigali, December 1, 2020

Dear Ms. Georgieva:

After several years of strong macroeconomic performance, the COVID-19 outbreak and the related deterioration of global economic conditions are having an adverse effect on Rwanda's economic activity in 2020. The shock is affecting our economy through weaker demand from key trading partners, lower FDI and remittances, near cessation of tourism, and disruptions in regional and global supply chains. Real GDP growth averaged 9 percent in 2018–19 and was projected at 8 percent in 2020 at the time of the first review of the Policy Coordination Instrument (PCI), but is now projected at around -0.2 percent.

As noted in our letter of intent dated June 4, 2020 for the second RCF request, we have deployed a package of measures which have now been scaled up to cater for the increasing health and social protection needs associated with the pandemic. Owing to sound fiscal policy in the past few years, we had some policy space to respond to the pandemic with a substantial package, which includes a combination of healthcare spending, temporary tax relief, food distribution, cash transfers, and a recovery fund to support various businesses including small and medium enterprises and the hospitality sector. On the monetary front, we responded by cutting the central bank rate, adopted other liquidity support measures, and allowed the restructuring of performing loans of borrowers facing temporary cash flow challenges.

The impact of the pandemic on fiscal revenues, coupled with the measures to support households and businesses, are bringing the overall fiscal deficit this fiscal year to about 8.5 percent of GDP. Public debt, which was at low risk of debt distress in previous years, is now expected to increase to about 66 percent of GDP in 2020 and 71 percent of GDP in 2021, elevating the risk to moderate. Our fiscal consolidation strategy once the pandemic abates should bring debt down in the medium term.

In the absence of near-term financing needs, we consider the PCI as an appropriate instrument to help maintain macroeconomic stability and advance our reform agenda. However, the severe deterioration of the external and domestic environment and the elevated uncertainty require that the PCI prioritizes managing the crisis in the near term. In this context, the PCI will focus on supporting the economy through the crisis while preserving macroeconomic and financial stability, strengthening our management of fiscal risks, and protecting vulnerable groups. This Program

Statement (PS) sets out the economic policies that the Government and the National Bank of Rwanda intend to implement during the remainder of the program.

Program implementation was strong prior to the outbreak. However, the end-June 2020 quantitative target for the ceiling on the debt-creating overall balance was not met due to the fiscal package deployed to respond to COVID-19. Implementation of two out four reform targets has faced delays partly due to the pandemic. Average inflation has remained within the inner limit of the program's monetary policy consultation clause.

The implementation of our program will continue to be monitored through quantitative standard continuous, and reform targets, and a monetary policy consultation clause, as described in the PS and the attached Technical Memorandum of Understanding (TMU). Reviews by the IMF will continue to be completed on a semi-annual basis to assess program implementation progress and reach agreements on additional measures that may be needed to achieve its objectives.

We believe that the policies set forth in this PS are adequate to achieve the objectives of the PCI, and we will promptly take any additional measures that may become appropriate for this purpose. We will consult with the IMF before adopting any such measures or in advance of revisions to the policies contained in this PS. Moreover, we will provide all information requested by the IMF to assess implementation of the program. We authorize the IMF to publish this Letter of Intent and its attachments, as well as the related Staff Report.

Sincerely,

/s/

Ndagijimana, Uzziel
Minister of Finance and Economic Planning

/s/

Rwangombwa, John
Governor, National Bank of Rwanda

Attachments (2)

I. Program Statement (PS)

II. Technical Memorandum of Understanding (TMU)

Attachment I. Program Statement

(Kigali, Rwanda, December 1st, 2020)

I. RECENT DEVELOPMENTS

1. Rwanda's swift response to the COVID-19 pandemic averted a full-blown health crisis. Since the country registered its first case on March 14, 2020, the Government put in place necessary health prevention measures including a strict lockdown that lasted six weeks. The Government has effectively responded to the COVID-19 outbreak through existing and new innovative digital solutions for contact tracing, surveillance, prevention, and data visualization. Owing to the compliance of the population of Rwanda to these measures, the country recorded a relatively limited number of cases and a low fatality rate of 0.7 percent.

2. The pandemic and subsequent measures to contain its spread have taken a significant toll on the economy. Real GDP shrank in 2020Q2 by 12.4 percent year-on-year (y.o.y) compared to a 3.6 percent growth in the first quarter. It was the first economic contraction recorded since comparable data began in 2007. This severe contraction coincided with the period when COVID-19 cases were first reported in Rwanda and the peak of restrictive measures to contain the virus in late March and April that included a total lockdown of all activities. The Q2 contraction was broad-based. Apart from sectors directly benefiting from COVID-19-related investments such as health (5 percent y.o.y) or from social distancing such as the information and communication sector (33 percent y.o.y), all other sectors contracted. The main contributors to the Q2 contraction were the services and industry sectors: 7.7 and 3.5 percentage points, respectively. Some services activities such as hotels and restaurants, which decreased by 62 percent, were under stringent restrictions. And so were manufacturing, construction and mining activities in the industry sector, which were completely halted during the lockdown period. Economic activity has started to pick up in May as containment measures were relaxed. Total turnovers grew by 4.3 percent in Q3 while the National Bank of Rwanda (BNR)'s real composite index of economic activity increased by 6.3 percent, compared to -14.9 percent and -0.1 percent, respectively in Q2.

3. To support households and businesses under economic and financial distress, we have promptly rolled out a series of measures under the Economic Recovery Plan (ERP) to mitigate the impact of COVID-19 in four key areas.

i. **Social protection.** Responses aimed at mitigating the negative impact of COVID-19 on the livelihoods of poor and vulnerable households, including those in urban and peri-urban areas, and subsistence casual workers through the following modalities:

- **Immediate relief.** Provision of direct support, nutrition-sensitive direct support, extended food distribution, and cash transfers to the most affected households.
- **Support to informal sector workers.** Employment on public works, distribution of productive assets, extension of financial services facilities to provide casual workers in the informal sector with alternative sources of income or with working capital to start afresh in their activities.

- **Accompanying measures.** Improve access to shelter, health and education for the most affected households.

ii. **Food self-sufficiency**. Measures focused on ensuring access and timely distribution of inputs in the agriculture sector, the backbone of our economy, to increase cultivated areas and production, and on supporting exports by organizing value chains as trade in food items recovers.

iii. **Business support.** Private sector support aimed at (i) protecting employment, where possible, and providing new employment opportunities; (ii) stabilizing living conditions and consumption levels; and (iii) positioning for long-term growth through the following interventions:

- **Fiscal policies:** tax relief to protect jobs, public spending to stimulate domestic demand, frontloading of labor-intensive projects, accelerated procurement and payment processes;
- **Monetary policies:** liquidity support to the financial sector and bank loan restructuring;
- **Economic Recovery Fund.** To cushion the economic impact of the pandemic, we established the Economic Recovery Fund (ERF) to support businesses in the sectors hit hardest by the pandemic so they can survive, resume production, and safeguard employment. The targeted sectors are those highly impacted by the restrictions put in place to prevent the spread of the virus, those exposed to consumer discretionary spending, and those relying on disrupted global supply chains.

iv. **Multi-sectoral coordination.** Mechanisms have been set in place to ensure a coordinated response across line ministries and government agencies on all ERP interventions.

4. **Government spending priorities were adjusted to reflect emerging needs from the pandemic.** Total expenditure and net lending for FY19/20 was revised upwards to 34.3 percent of GDP under the second RCF-request in June (RCF-2) to allow the Government to cater for the increasing health and social protection needs associated with the pandemic. Total spending for health and other related emergencies from the pandemic amounted RWF 109 billion (1.2 percent of GDP). A large share of health spending was allocated to purchases of drugs, medical and personal protection equipment (PPEs), and the construction of quarantine facilities. Social protection spending was allocated to cash transfers, food distribution, and other programs highlighted above. Public funds were also allocated to improve sanitation and water facilities in low-income neighborhoods to reduce the transmission of the virus. We have also provided additional funds to Rwandair, our National Airline Company, to help it cope with the disruption of operations arising from the shutdown of the country.

5. **However, despite the outlays related to the COVID-19 pandemic, total expenditure and net lending for FY19/20 was about RWF 206 billion (2.2 of GDP) lower than the estimated amount under RCF-2.** This under-execution of spending affected recurrent, capital, and net lending

items and was largely attributed to the disruptions of economic and social activities brought by the six-week lockdown imposed during March-April to limit the spread of the virus. In the area of recurrent expenditure, the lockdown postponed new recruitments and promotions in the public sector. Outlays under goods and services, notably spending for office supplies and consumables, including stationery, water and energy as well as expenditures on official domestic and external travels, including those for conferences, were also reduced. In the case of capital spending, the lockdown also delayed the implementation of capital projects. Delayed disbursements under the ERF also contributed to lower-than-anticipated spending in FY19/20.

6. **Spending under-execution and revenue over-performance led the FY19/20 fiscal deficit to be lower than expected at the time of RCF-2.** Regarding revenue performance, total tax revenue collection of RWF 1,524 billion (16.2 percent of GDP) was higher than the revised estimated amount of RWF 1,408 billion (about 15 percent of GDP) at the time of RCF-2 but lower than the pre-COVID-19 projection at the time of the 1st PCI review of RWF 1,591 billion (16.4 percent of GDP). The main reason for the improved revenue performance was the increase in consumption taxes, notably VAT collection. The increase in turnover growth, which was observed in the July-December 2019 period and contributed to an increase in collection during that period, continued in the first half of 2020 despite the pandemic, although at a slower pace. The improvement in revenue collection, on one hand, and the lower-than-expected total spending, on the other, led to an overall deficit of RWF 855 billion (9.1 percent of GDP). This figure was lower than the RCF-2 figure of RWF 1,172 billion. Despite the delayed disbursement of some committed budgetary loans amounting to RWF 184.9 billion, the revised FY19/20 budget was fully funded with net external financing of RWF 936 billion.

7. **The good performance in revenue has so far carried over in FY20/21.** The easing of the total lockdown, which improved economic activity at the end of 2020Q2 and continued in Q3, has continued to improve revenue collection. As a result, the revenue target of 14.2 percent of GDP in the approved FY20/21 budget (and RCF-2) has been revised upwards to 15.5 percent of GDP. This figure takes into consideration the collection of some consumption taxes from the last few days of FY19/20 in June 2020 that accrued to the accounts of the Rwanda Revenue Authority (RRA) at the start of FY20/21 in July, as well as “one-off” VAT collection in August and September 2020, including import taxes.

8. **Inflation remains elevated but is projected to recede going forward.** In 2020H1, headline inflation increased to 8.5 percent on average from 0.7 percent and 4.2 percent recorded in 2019H1 and 2019H2, respectively. The uptick in headline inflation was reflected in its main components, including increases in core inflation, mostly following the upward revision of public transport fares, the surge in prices of imported vehicles, and the increase in international prices of imported foodstuffs. Food inflation picked up on the back of the decreased supply of some fresh food products, following a poor performance of agricultural production in Season A, affected by unfavorable weather conditions. Energy inflation edged up, following the upward revision in electricity tariffs and the uptick in prices of charcoal and firewood on the back of regulations for environmental protection. The Monetary Policy Committee (MPC) decided to keep monetary policy

accommodative in the wake of the COVID-19 crisis given the projected drop in inflation going forward owing to downward pressures from subdued domestic and foreign demand. Recognizing these prospects, the MPC cut the central bank rate by 50 basis points on April 29, 2020 and maintained the central bank rate at 4.5 percent in August.

9. BNR has also deployed liquidity and regulatory measures to shore up the financial sector and boost activity. In addition to the policy rate cut, BNR undertook different policy measures to ease liquidity conditions in an effort to mitigate the economic impact of the COVID-19 pandemic. These measures, coupled with the ERF established by the Government of Rwanda, have calmed the interbank market, resulting into a stable interbank rate which remained close to the Central Bank Rate (CBR), in line with the price-based monetary policy framework adopted in January 2019:

- The reduction of the reserve requirement ratio from 5 percent to 4 percent resulted in RWF 23.4 billion injected into the banking system on April 1st, 2020.
- In April 2020, BNR established an Extended Lending Facility for Banks (ELFB) worth RWF 50 billion to support banks facing liquidity shortfalls due to the COVID-19 outbreak. This fund was initially designed to run for six months (April-October 2020), but was later extended to support banks that may face liquidity shortfalls.
- BNR offered to discretionally buy back bonds at the prevailing market rate and at the same time reduced the waiting period if one fails to sell the bond on the secondary market from 30 days to 15 days;
- BNR issued guidance to banks and microfinance institutions (MFIs) regarding the treatment of relief measures extended to borrowers, especially with regard to loan payment deferrals. Banks and MFIs were allowed to exceptionally restructure performing loans of borrowers facing temporary cash flow challenges arising from the COVID-19 pandemic. BNR's guidance indicated that the restructuring was expected to be based on the assessment of the borrower's capacity to pay under the new terms and that prudence should be exercised in loan classification and provisioning. The guideline clarifies the proper governance of the restructuring process and the classification and provisioning of restructured facilities.
- BNR also required banks and insurers to suspend dividend distribution for 2019 payable in 2020 in order to conserve capital and liquidity and increase loss absorbance capacity for shocks that may arise in the near term associated to the pandemic.

10. The financial sector at large has remained resilient despite deteriorating asset quality, thanks to its healthy pre-COVID-19 capital and liquidity buffers.

- The banking sector total Capital Adequacy Ratio (CAR) stood at 23.7 percent as at end-June 2020, against the 15 percent prudential minimum. This was largely high-quality capital with core capital (shareholder's equity and retained earnings) ratio at 22.3 percent as at end-June 2020, against the 10 percent prudential minimum. Banks also maintained sufficient liquidity buffers with the aggregate Liquidity Coverage Ratio (LCR) at 253 percent as at end-June 2020. The Non-Performing Loans (NPLs) ratio of the banking sector remained broadly stable, at 5.5 percent in June 2020 up from 4.9 percent in December 2019. MFIs maintained the pre-pandemic strong capital and liquidity buffers—with average CAR of this sub-sector at 34.5 percent, compared to the 15 percent prudential requirement and the liquidity ratio at 110 percent, against the 100 percent prudential requirement. However, the NPLs ratio picked up in the microfinance sector from 8 percent in March 2020 to 12.8 percent in June. The insurance sector remains resilient with the aggregate solvency ratio of private insurers at 156 percent in June 2020, against the 100 percent prudential minimum requirement.

- Banks and MFIs responded to the COVID-19 pandemic by granting loan repayment deferrals to their customers. Overall, banks had restructured 39 percent of their loan portfolio (RWF 978 billion) as of end-June 2020, while MFIs eased the repayment of RWF 41.6 billion (i.e. 23 percent of their loan portfolio) for borrowers affected by COVID-19.

11. Trade and current account balances have widened. The COVID-19 pandemic had a notable impact on Rwanda's net exports of goods and services, resulting in a wider trade deficit of 19.5 percent of GDP in the first half of 2020. Rwanda's exports of goods[1] and services fell to 12.1 percent of GDP from 19.5 percent of GDP at the same period last year. The pandemic containment measures introduced worldwide have negatively impacted cross-border movements, hence reducing revenues from key sectors, notably travel and tourism and air transport. In the first half of this year, exports receipts from travel and tourism shrank by nearly 60 percent y.o.y. Similarly, merchandise exports dropped by 32.4 percent on account of lower receipts from traditional exports, weakening external demand, decreasing international commodity prices and non-traditional exports, falling domestic economic activities, and disruptions to imports of industrial inputs. On the imports side, merchandise imports dropped by 6.9 percent in 2020H1, mainly driven by lower demand for capital and intermediate goods, reflecting decreased economic activity and fuel demand in part due to falling global oil prices.

12. However, Rwanda's merchandise exports have shown some signs of recovery in the third quarter. Exports in July-September period decreased by 13.4 percent y.o.y up from a decline of 49 percent recorded in April-June. Non-traditional exports have reached their pre-pandemic levels, increasing by 31.9 percent y.o.y in July-September, against the 62.5 percent decrease recorded in the previous quarter, mainly supported by the resumption of international flights, which have eased the logistics of edible vegetables and fruits, Europe-bound flowers as well as manufacturing exports to regional countries as domestic economic activity improves. The increasing trade deficit has widened the current account deficit (CAD) to 14 percent of GDP in 2020H1 despite relatively stable inflows from private transfers, mainly remittances and official transfers. This widening CAD was financed in large part by external borrowing, mainly public loans. The latter, coupled with low demand for foreign exchange amid subdued imports, also helped cushion foreign reserve assets. In the first half of this year, Rwanda's balance of payments recorded a surplus of US$ 222.1 million. However, as economic activity resumes, hence increasing demand for imports coupled with a slight recovery of exports revenues, this surplus is expected to decrease. At end-

[1] Merchandise exports and imports exclude gold. In the first half of this year, imports and exports of gold co-moved, recording a net deficit of $20 million.

September, gross international reserves stood at US$ 1,782.7 million, covering 5.9 months of prospective imports of goods and services.

II. PROGRAM PERFORMANCE

13. All end-June quantitative targets (QTs), except for the ceiling on the debt-creating overall balance, were met. The end-June QTs were set at the end of 2019 during the first PCI review, before the global pandemic outbreak. The impact of the pandemic on the country's economy and revenue collection made the fiscal target unattainable. This target would have certainly been revised during the second PCI review, which did not happen due to the need to shift efforts to contain the outbreak of COVID-19 and the uncertainties around the near-term outlook. As expected in April, the fiscal deficit deteriorated mainly because of lower revenue collection compared to pre-COVID-19 estimates despite lower expenditure as explained above. The debt-creating deficit was RWF 729 billion compared to the end-June adjusted target of RWF 697 billion.

14. Progress on reform targets (RTs) was however affected by the pandemic, with two out of four RTs met.

- **Comprehensive fiscal risk statement.** A comprehensive fiscal risk statement (FRS) was published consistent with the PCI RT by June 2020.
- **Diagnostic study on optimal Rwanda Social Security Board (RSSB) asset allocation.** The RT was not met due to recent statutory, managerial, and strategic changes at the RSSB, which granted the institution significant autonomy in the determination of its strategic and operational policies affecting its reform plans. Building on this newfound autonomy, the new RSSB management team has decided to hire (if need arises), a permanent asset manager in charge of advising the company on its asset allocation on a regular basis, instead of externally contracting a one-off study as previously planned under the RT. Moreover, the review of the asset allocation will be part of, and follow from, wider ongoing assessments of all RSSB schemes, implying a longer completion timeline than previously envisaged for the individual study. Despite these changes in the implementation modalities of the RT, we remain committed to its ultimate objective—i.e., conducting a review of the RSSB asset allocation—and intend to complete it as part of the program (see paragraph 31).
- **Publication of MPC macroeconomic projections.** BNR has made remarkable progress regarding the content of the Monetary Policy report. Reports published after the MPC meetings in April and August 2020 include the projected path of inflation, output, the exchange rate and the policy rate. At the current stage, the report is still presented in a less technical language, with the aim of gradually familiarizing the audience with a more forward-looking monetary policy communication. The ongoing Forecasting and Policy Analysis System (FPAS) technical assistance from the IMF will help BNR to test and improve the projection tools, as well as to streamline the FPAS processes and improve communication.
- **Platform for issuing government securities via mobile phones.** The electronic subscription for Government securities platform (E-Sub) has been delayed due to its

dependency on the Rwanda Integrated Payment and Processing System (RIPPS) which is currently being upgraded, including the platform handling the Real-Time Gross Settlement (RTGS) and Central Securities Depository (CSD). The upgrade was partly delayed by COVID-19-related travel restrictions affecting the vendor. The upgrade of RIPPS is now expected to be completed by end-year and E-Sub should be operationalized before June 2021.

III. OUTLOOK AND POLICIES

A. Outlook

15. The economic outlook has deteriorated markedly, but our commitment to sound macroeconomic policies will help preserve macroeconomic stability and foster an inclusive and sustainable economic recovery. Our economy is feeling the global, regional and domestic impact of the pandemic. Taking into account recent macroeconomic developments, Q2 GDP contraction on the one hand but also high frequency indicators showing a recovery since May 2020, on the other hand, 2020 GDP growth is now projected at -0.2 percent from the 2.0 percent expansion projected in April. The pace of the recovery is also expected to be slower than anticipated, with 5.7 percent and 6.8 percent respectively for 2021 and 2022. Growth will go back to the pre-pandemic level of 8.0 percent only by 2023.

16. The current account deficit is projected to widen in the medium-term. It is projected to range between 12.0–12.6 percent of GDP, mainly due to high expected imports of capital and intermediate goods as economic activity improves amid slow recovery of exports receipts from travel and tourism, albeit significant improvement in merchandise exports as external demand improves. The CAD is projected to improve significantly in the long term, driven in large part by government policy plans to transform its output, which are expected to diversify the export base and decrease imports.

17. Pressures on inflation are projected to be muted consistent with the contraction in GDP though risks related to food prices and disruptions in supply chains remain. Over the medium term, inflation is expected to evolve around the benchmark.

18. To account for the uncharacteristically high uncertainty around macro-forecasts, given the unprecedented nature of the shock, we have developed an alternative scenario illustrating adverse economic effects if the outlook was to further worsen. The adverse scenario entailed a deeper economic contraction, a more protracted recovery, and wider current account deficits compared to the baseline over the short and medium term. Even though imports of goods and services are assumed to be slightly lower in this scenario, the widening of the current account deficit would be mainly coming from exports of goods and services recovering at a much slower pace. On the external sector side, this would imply a lower coverage of reserves in months of imports. On the fiscal side, the lower nominal GDP path implies lower domestic revenue collection and a higher deficit. To ensure increasing spending needs are met, we assume total spending during the recovery period to be unchanged from the baseline. In the near term, we will rely on our existing strong cash management practices (see paragraph 22) to address increasing demands for priority spending within the existing envelope. At the same time, we plan to close the implied financing gap during this period by mobilizing additional external financing by, for example, requesting development partners to frontload some of their disbursements already committed. Over the medium term, to preserve debt sustainability without further undermining the economic recovery, we plan to adopt a more backloaded and prolonged fiscal consolidation than the one envisaged under the baseline (see paragraph 25).

19. However, despite the deterioration in the outlook, policy and reform commitments, outlined below, will preserve macroeconomic stability, support an inclusive and sustainable economic recovery, and maintain the financial system sound.

B. Fiscal Policies

20. Our revised fiscal projections for FY20/21 fully accommodate the spending needs under our ERP and ERF. The envisaged fiscal stance appropriately accommodates COVID-19 spending needs totaling RWF 294 billion (2.9 percent of GDP), including RWF 183 billion (1.8 percent of GDP) for the ERF to support businesses affected by COVID-19. This represents an increase in COVID-19-related spending of about RWF 140 billion (1.4 percent of GDP) relative to RCF-2 that accommodated an increase in the ERF original endowment of RWF 101 billion and carries over undisbursed ERF funds from the previous fiscal year. The revised fiscal projections also take into account new tax revenue projections of RWF 1,591 billion (15.5 percent of GDP), which are higher than RCF-2 by RWF 131 billion but still below pre-COVID-19 estimates at the time of the 1st PCI review by RWF 237 billion. Our projections for grants have also been revised upwards relative to RCF-2, reflecting the re-allocation of half of the World Bank's commitments from loans to grants starting this FY as a result of the recent change in our debt risk rating from low to moderate, thus having a positive impact on the deficit. As a result, the fiscal deficit for FY20/21 is estimated at RWF 875 billion (8.5 percent of GDP), lower than the RCF-2 estimate of RWF 972 billion (9.5 percent of GDP).

21. We have been working diligently to implement our ERF. The ERF was launched in June 2020 with its original RWF 101 billion allocation from the RCF-2 financing. As of end-October 2020, 51 percent of the funds allocated to support businesses has been disbursed, but for the ERF to meet its objectives fully, constraints to the uptake of the working capital window will have to be resolved. To date, the uptake of the working capital window has been only 10 percent of the original allocated amount (RWF 50 billion), reflecting challenges businesses are facing to meet the requirement to demonstrate a decline in sales of at least 50 percent from the impact of COVID-19. Banks' low appetite to lend to this segment given the low repayment capacity of some businesses and banks' preference for loan refinancing rather than supplying working capital also explain the low uptake. To address these challenges, we have already reduced the required minimum drop in sales to 30 percent. The change has yielded some positive results. We will continue to assess the needs of eligible businesses and adjust the ERF's support and access accordingly.

22. Our PFM system encompasses strong cash management and spending controls, allowing for effective contingent budget planning in case of a worsening outlook. Two committees, namely the Debt Management Committee and Treasury Management Committee are in place to manage the Treasury Cash flow and outflows to ensure a proper planning for Government spending focusing on priority spending. The Debt Management Committee reviews and monitors the liquidity position and funding requirements of the Government and advises the Minister on financing options as well as issuance of short- and long-term public debt instruments. The Treasury Management Committee oversees, monitors, and advises the Minister of State in charge of Treasury on in-year budget execution on a periodic basis and on the Government's cash flow planning and expenditures. It also approves and conducts regular reviews of consolidated revenue and expenditure plans as well as loan plans submitted by the Debt Management Committee. This is done through quarterly meetings between BNR and the Ministry of Finance and Economic Planning (MINECOFIN) to ensure a good coordination between fiscal and monetary policies. Therefore, with these structures in place, we will continue to monitor the accrual of resources to the Treasury and continue to protect priority spending identified under the ERP, including social protection activities by, if necessary, raising other sources of financing (see paragraph 18).

23. **To fit the new post-COVID-19 environment, we have decided to suspend our fiscal rule under the program and recalibrate our medium-term fiscal anchor.** The previous PCI fiscal rule—which mandated a deficit ceiling of 5.5 percent of GDP over a 5-year window—implicitly assumed the stability of macroeconomic assumptions and therefore would not be an appropriate framework for guiding fiscal policy during the COVID-19 pandemic and its aftermath, given the high level of macroeconomic uncertainty during this period. As a result, we have suspended the PCI fiscal rule in favor of a tailored fiscal path that accounts for the evolving economic outlook and budget needs, as agreed with IMF staff. The suspension will allow for additional fiscal room in the near term to face the consequences of the COVID-19 pandemic and implement recovery interventions contained in the ERP. The fiscal stance during containment and recovery periods will accommodate additional COVID-19-related spending under the ERP, while allowing increases in revenue and grants to be partially saved, leading to a 2 percentage-point-of-GDP decline in the overall fiscal deficit from FY20/21 to FY22/23.

24. **Moreover, we have recalibrated our medium-term debt anchor in collaboration with IMF staff to align it more closely with the current DSA framework, while building a buffer in case of macroeconomic shocks.** Current estimates suggest that a nominal debt stock of 65 percent of GDP would be an appropriate medium-term anchor. Importantly, the latter would likely remain consistent with the EAMU debt ceiling, as the current concessionality terms of our debt suggest that it would correspond to a PV of debt of around 45 percent of GDP.

25. **While the COVID-19 situation allows for short-term fiscal relief to alleviate the current distress, we are committed to restoring fiscal sustainability as the economic recovery takes hold.** To this effect, we will design and implement a gradual and growth-friendly fiscal consolidation strategy that balances the need for supporting the recovery and meeting our development needs against the imperative of debt sustainability. We will implement under this strategy a fiscal consolidation path to support debt to converge to our medium-term debt anchor by 2028. Our fiscal consolidation strategy for the period beginning in 2023, when the pandemic impact is

expected to fully abate, will be underpinned by measures that will start to be discussed at the time of the next program review guided by the following principles:

- **Spending rationalization.** We will assess the scope for streamlining and rationalizing current spending and strengthening the prioritization and efficiency of public investment to support a gradual reduction in spending, particularly current expenditures as a share of GDP over the medium term to meet the deficit targets. To guide us in this assessment, we have requested the World Bank to conduct a Public Expenditure Review and plan to request a joint IMF-World Bank Public Investment Management Analysis (PIMA). Both exercises are expected to be conducted in 2021.
- **Revenue mobilization**. Guided by our forthcoming Medium-Term Revenue Strategy (MTRS) —see paragraph 27—we will identify tax policy and administrative measures to safeguard tax revenue at around 15.5 percent of GDP until FY22/23 and boost revenue collection to return and surpass pre-pandemic levels thereafter. We remain committed to withdraw any remaining COVID-19-related tax relief measures as soon as the crisis abates.

26. While providing temporary tax relief to hard-hit families and businesses, we have continued to strengthen the efficiency of our revenue administration to improve taxpayer compliance and taxpayer services. RRA and the Tax Policy team at MINECOFIN have acted swiftly by enacting measures to protect taxpayers and ensure business continuity at the early stages of the pandemic. Tax relief measures included (i) the suspension of tax audits; (ii) the extension of deadlines for filing and paying corporate income tax (CIT); (iii) a waiver for PAYE taxes for the hospitality sector and private schools; and (iv) VAT exemption for face masks and other essential medical equipment. Our initial responses have been well received and appreciated by taxpayers, as demonstrated by the strong compliance with the CIT extended deadline. To sustain our efforts to strengthen taxpayer services and compliance, we have identified the following administrative priorities:

- Strengthen data analytics capability to identify noncompliance;
- Expand the International Taxation Unit to address transfer pricing and base erosion and profit shifting;
- Compliance campaigns targeted at specific sectors;
- Disseminate more user-friendly software solutions (e.g. EBM V2) to make it simpler and cheaper for taxpayers to comply; and
- Enhance the Geographical Information System Mapping for rental property taxation.

27. We are finalizing an MTRS to lay the ground for a regained momentum on domestic revenue mobilization. With IMF technical assistance (TA) and support from other development partners, Rwanda's MTRS is currently under preparation and is expected to be adopted by June 2021. The MTRS will present a set of tax policy and tax administration measures to be implemented through a sustained process of tax reforms over the next 3 years with the objective to boost tax revenue collection to support Rwanda's medium-term development priorities and fiscal consolidation. To help build consensus and commitment to a substantial and well-thought-out tax system reform road map, the MTRS exercise will be inclusive by involving a broad stakeholder community made of different public institutions, Parliament, and civil society. We are exploring ways to strengthen tax policy capacity at MINECOFIN to support the implementation of the MTRS.

28. We have made significant inroads in building our fiscal risk management framework. A fiscal risk committee (FRC) was put in place to identify potential risks to the national budget and advise on mitigation measures to address these risks. The FRC considers and gives inputs to the analysis done by the Fiscal Risk Technical Working Group (FRTWG), validates the draft FRS produced by the FRTWG, submits it to MINECOFIN's executive management, and advises the latter on mitigation measures for the identified fiscal risks. The first FRS has been prepared using our fiscal risk registry and was published in June 2020. We remain committed to continue improving the content of the FRS, with further progress on the quantification and coverage of risks with the support of IMF TA.

29. We will continue to take further steps towards the systematic identification, quantification, and mitigation of fiscal risks. With support from IMF TA, we will conduct a health-check assessment of fiscal risks from state-owned enterprises (SOEs) using all available data and submit the outcome of the assessment, along with proposed remedial measures, to the FRC by end-May 2021. The latter exercise will be conducted on a bi-annual basis using the latest available data. In addition, we will explore the possibility of conducting some stress-testing analysis of SOEs' financial positions and submit the outcome to the FRC, with support from IMF TA. As per our roadmap to migrate to accrual basis of accounting, we shall also strengthen the accounting and reporting of public-private partnerships (PPPs), where information relating to PPPs can start being included in the preparation of our Fiscal Risk Review Report (FRR). We will explore ways to provide a legal mandate to the above fiscal risk framework, including as part of the ongoing review of our 2013 Law on State Finances and Property (Organic Budget Law). We shall also ensure that various aspects of the legal framework governing SOEs are clarified. Going forward, we will produce our FRR with higher frequency to ensure timely information on the financial health of SOEs. We also plan to strengthen our monitoring and evaluation oversight through the development and monitoring of key performance indicators to ensure SOEs achieve their policy mission and vision.

30. We have made steady progress towards more transparent fiscal reporting and public financial management practices. Quarterly Budgetary Central Government (BCG) budget execution reports were produced during FY19/20 using GFSM 2014. In an effort to continue good practices on transparent fiscal reporting, we plan to expand the coverage of GFSM2014 reporting and produce a quarterly budget execution report for the general government (GG) excluding RSSB that follows the GFSM 2014 methodology on the first quarter of FY20/21 to be published by end-December 2020. We will also continue the annual statistics compilation of non-financial public corporations and to compile a financial balance sheet of the non-financial public sector (NFPS) with support from Fund TA. A timeline with next steps regarding the continued expansion of the coverage under GFSM 2014 reporting and the compilation of the NFPS financial balance sheet will be discussed during the next program review. We started implementing recommendations from the

IMF's Fiscal Transparency Evaluation (FTE) conducted in 2019 and we intend to request Fund TA to assess our implementation progress. We plan to publish both the original and follow-up FTE TA reports shortly after the second assessment is completed.

31. We are committed to keep RSSB's finances transparent and sustainable. The RSSB's new strategic plan for 2020-25 details an ambitious reform agenda to transform the agency. In July 2019, the existing system (Power Builder) was upgraded to allow separation of accounts for the various schemes., Currently, all schemes are separated from the general ledger to trial balance. However, a newly procured robust IT system is being developed, which will be soon rolled out, is expected to boost RSSB's immunity to fraud, improve oversight over the schemes, and lead to gains in operational efficiency. Significant investments are planned in the area of research and data management capacity, including the creation of a new Research and Modernization Unit. The self-sustainability of the CBHI "Community Based Health Insurance" scheme, well known as "mutuelle de santé", is expected to be met in 2021, thanks to the recent adoption of new earmarked revenue sources. As detailed in paragraph14, we remain committed to the planned review of the RSSB's asset allocation and intend to have it completed and to submit the associated report to RSSB management by June 2021. Upon its full rollout expected by July 2021, the new IT system will be used to produce financial and management reports for each of RSSB's schemes.

32. Rwanda's public and publicly-guaranteed debt remains carefully managed. The most recent debt sustainability analysis (June 2020), revealed that Rwanda's public and publicly-guaranteed debt remains sustainable despite a change in the risk of debt distress from low to moderate status, mainly attributed to the impact of the COVID-19 pandemic on the economy. As of end-June 2020, the stock of public and publicly-guaranteed debt stood at 63.3 per cent of GDP, with most of the debt (85 per cent) being contracted in foreign currency and at concessional terms. Going forward, the main priority for the Government remains to recover from the impact of COVID-19, while keeping debt at sustainable levels. The Government plans to continue to maximize wherever possible concessional borrowing in the external portfolio, while undertaking steps to plan for the repayment of Rwanda's Eurobond and for deepening the domestic market. Furthermore, debt management and transparency will continue to be strengthened through the preparation and publication of public debt statistical bulletins on a semi-annual basis. This practice will provide comprehensive information on the Government of Rwanda's debt and guarantees to SOEs based on international best practice in debt transparency.

33. We remain committed to a transparent use of public resources. We are also committed to effective and transparent use of public funds, including funds from the RCF disbursements. We will carry out transparency of procurement in accordance with the Law Governing Public Procurement and our E-procurement system. The E-Procurement system provides publicly available information on all awarded government contracts, including the name of companies that participated in the tender, each initial bid, the name and price of the winning bid, the total amount of the contract, and the delivery period. Moreover, following our Organic Budget Law, the Office of the Auditor General, whose independence is enshrined in the Constitution and law, will audit all government expenditures and procurement tenders for FY19/20, including those linked to the pandemic, and publish the outcome by May 2021. We will also explore the possibility of publishing beneficial ownership information for companies that have been awarded COVID-19-related government contracts as part of strengthening the public procurement system.

C. Monetary and Exchange Rate Policies

34. BNR will continue to keep monetary policy data dependent. Uncertainties around the COVID-19 pandemic are affecting the accuracy of projections, therefore complicating the conduct of a forward-looking monetary policy. The unknowns include the magnitude of the global and domestic supply chains disruptions, demand and supply shocks, as well as the potential structural and behavioral changes that may result from the pandemic. During the COVID-19 crisis, BNR increased data-driven policy discussions, which deemed crucial for well informed decisions. BNR will continue to closely monitor domestic and global economic developments and prospects before taking appropriate measures.

35. We remain committed to building FPAS capacity to support our interest rate-based monetary policy framework. MPC processes have improved in various aspects. The forecasting cycle takes between 6 to 7 weeks, with a well-defined scope, and includes two pre-MPC meetings prior to the final policy decision meeting. The analysis and discussions have become more data-driven with a clear focus on the outlook. Members of the forecasting team are working on a rotational basis to ensure internal capacity building and business continuity. Going forward, capacity building to strengthen forward-looking monetary policy decision making will continue, specifically in modeling and forecasting, market surveys, information gathering, and data-driven analysis.

36. We continue to push ahead with financial markets deepening to further strengthen monetary policy transmission.

- BNR will continue to deepen and improve the functioning of the money and government bond markets. On money markets, the establishment of the Financial Markets Operations Committee contributed to improve daily liquidity forecast and to ensure timely interventions using mixed monetary policy instruments. In addition, BNR enhanced the capacity of bank Treasurers to perform transactions through the ACI program, which currently counts 32 ACI-certified Treasurers and dealers. In June 2020, BNR also eased conditions to access the standing facilities. Going forward, the true repo program and the rollout of the Global Master Repurchase Agreement expected in June 2021, will contribute to furthering the development of the interbank market.
- With the perspective of preventing any liquidity crunch, BNR is planning to introduce a mechanism to buy-back government securities. This operational framework may be used to inject long-term liquidity with the aim to impact long-term yields, hence strengthening the monetary policy transmission mechanism (MPTM). Moreover, the MPTM will benefit from the launch of the E-Sub platform, which will enable the trading of securities among retailers through mobile wallet.

37. We are committed to allowing exchange rate flexibility in line with the monetary policy framework. As the exchange rate is the first line of defense against external shocks, BNR will only intervene on the foreign exchange (FX) market to minimize excessive exchange rate volatility. After the COVID-19 lockdown, the FX market recorded increasing pressures, given that imports resumed faster than exports, with the export-import coverage reducing to 31.2 percent by end-September 2020 from 38.7 percent before the lockdown. Other main sources of FX to the private sector also decelerated; these include FDI, tourism, remittances, and transfers from NGOs and international organizations. As a result, the RWF depreciation against the USD rose to 4.4 percent in the first ten months of 2020, from 3.9 percent recorded in the corresponding period of last year, mostly reflecting the pressure in the last four months. Pressures on the FX market are expected to continue up to December 2020.

D. Financial Sector Policies

38. We continue to strengthen the legal and regulatory framework governing the financial sector.

- BNR continues to enhance the financial sector legal and regulatory framework. During the first half of 2020, BNR put in place regulations governing mortgage refinancing companies, administrative sanctions for non-compliance with AML/CFT requirements, as well as changes in the shareholding, amalgamation and transfer of portfolio of insurers and re-insurers. In addition, BNR issued directives determining the characteristics of an independent director of a financial institution, on underwriting requirements of large risks (insurance), on the ELFB, and on the ERF. BNR also provided guidance to banks on the treatment of IFRS9 provisions, capital requirement and relief measures due to COVID-19 pandemic, as well as on loan restructuring for MFIs.
- BNR will continue to enhance the legal and regulatory framework in order to ensure compliance with international norms, as well as to safeguard the soundness and stability of the financial sector. In the next 6 months, BNR expects to issue the following new regulations: the regulation on consolidated supervision for insurance (group wide supervision), the regulation on proportionality for banks, the regulation for financial holding companies, and the regulation on accreditation of actuaries. BNR also expects to review the regulation on licensing of pension schemes and service providers, the regulation governing e-money issuers, and the regulation governing the organization of microfinance activities.
- Discussions of the Insurance Law are also underway in Parliament and it is expected that the Law will soon be passed and gazetted for implementation.

39. Building on the findings of the recent Financial Sector Stability Review (FSSR), we will kickstart a wide-ranging reform agenda to shore up financial stability. BNR is currently discussing a three-year TA program with the IMF with the aim of addressing the findings of an FSSR mission that took place in January 2020. Planned activities will focus on the following areas:

- **Bank regulation and supervision.** The TA will strengthen the supervisory capacity for risk-based supervision (RBS) implementation and upgrade other supervisory processes, including by establishing an effective supervisory framework for financial/mixed conglomerates to enable compliance with the four Basel Core Principles (BCPs) relevant to consolidated supervision, and by developing capacity for Internal Capital Adequacy and Assessment Process (ICAAP) review and validation, operational risk (operational resilience and cybersecurity), as well as model validation and stress testing.

- **Financial sector analysis and stress testing framework.** On this aspect, the TA will support BNR in developing/strengthening its stress testing capability. BNR aims to improve its assessment of financial sector resiliency from a backward-looking approach to a more forward-looking approach. Tools like stress testing will help to appropriately gauge the resiliency of the sector to different plausible macro and financial shocks.
- **Financial market infrastructure.** The TA will support to develop and reform financial market infrastructures (FMIs) by developing the supervisory and oversight framework for FMIs and training staff on implementing the oversight framework.
- **Financial safety net, crisis preparedness and management.** The objective is to develop and strengthen the special resolution regime and crisis preparedness. In the recent past, BNR established the key pillars of crisis preparedness, including safety nets. This TA will support BNR in closing identified gaps during the FSSR, including enhancing the legal framework for resolution and conducting simulation exercise to test the operational readiness of the existing crisis management plans.

40. We are committed to closely monitoring credit, liquidity and operational risks to safeguard the soundness of the financial sector amid COVID-19.

- BNR will strengthen its oversight regarding the monitoring and assessment of the performance of restructured loans in banks and MFIs through prudential returns and remote use of the supervision tool (EDWH) to ensure proper regulatory classification and provisioning. The overall aim is to ensure that losses are accurately and timely realized, and policy measures taken on time. To minimize operational disruptions from pandemics like COVID-19, BNR also plans to issue guidance on operational resilience and ensure its effective implementation.
- BNR is considering a set of supervisory tools to address financial sector vulnerabilities caused by COVID-19. BNR is also prepared to allow banks to use their capital conservation buffers to absorb losses on a case-by-case basis. The decision taken this year to suspend dividend distribution in banks and insurance companies could be maintained next year, depending on the performance of the financial sector. BNR will also consider requiring a capital restoration plan for severely undercapitalized banks and monitoring its execution.

41. We are seizing opportunities brought with the pandemic to strengthen financial inclusion and move to a cashless economy.

- The widespread adoption of digital payments has the potential to improve access to financial services, reduce inefficiencies, and lower costs. The 2020 FinScope survey revealed that 77 percent of the population are formally included compared to 68 percent in 2016. The emergence of COVID-19 has made the need for digitizing payments more critical than ever before and for this to be a success, electronic payments need to offer similar benefits to those afforded by cash. Various initiatives were taken to encourage Rwandans to adopt digital payments in order to reduce the spread of the virus among the population. As a result, digital payment transactions increased 4 times compared to the pre-COVID-19 period. This has accelerated the achievement of the target set in the National Payment Strategy since the ratio of the value of electronic retail transactions to GDP increased to 54 percent in Q2 2020 compared to the target of 45 percent the same year.

- The Government of Rwanda is committed to putting more effort to accelerate the journey towards a cashless economy. The main priorities include the establishment of an interoperable system for retail payments, digitalization of *Umurenge* Savings and Credit Co-operatives (U-SACCOs), and the work with Payment Service Providers to expand the merchants' footprint through the adoption of low-cost point of sales and aggressive awareness campaigns. Through regulatory and supervisory tools, we shall continue to address challenges and risks to financial stability, consumer protection, privacy, cybersecurity, and operational resilience, among others. In addition to this, we have developed a National Financial Inclusion Strategy, yet to be approved, which defines key areas and strategies to be implemented to increase usage of financial products and services.

IV. PROGRAM MONITORING

42. Progress in the implementation of the policies under this program will be monitored through quantitative targets (QTs), including a monetary policy consultation clause, continuous targets (CTs) and reform targets (RTs). These are detailed in Tables 1a and 1b, with definitions provided in the attached Technical Memorandum of Understanding.

Table 1a. Rwanda: Quantitative Targets, December 2020 – June 2021

	end-Dec 2020	end-June 2021
	Prog.	Prog.
(Billions of Rwandan francs, unless otherwise indicated)		
Half-yearly Quantitative Targets[1]		
1. Ceiling on the debt-creating overall balance, including grants[2]	-472	-884
2. Floor on stock of Net Foreign Assets	649	746
3. Ceiling on flow of net accumulation of domestic arrears	0	0
Continuous Targets		
4. Ceiling on stock of external payment arrears (US$ million)	0	0
5. Ceiling on present value (PV) of new public and publicly guaranteed external debt[3] (US$ million)	821	485
Monetary Policy Consultation Band[1,4]		
CPI Inflation target	5.0	5.0
Inflation, upper inner-bound, percent	8.0	8.0
Inflation, lower inner-bound, percent	2.0	2.0
Inflation, upper bound, percent	9.0	9.0
Inflation, lower bound, percent	1.0	1.0
Memorandum items:		
Total priority spending[2]	450	520
Floor on domestic revenue collection[2,5]	794	1,687
Stock of new external debt contracted or guaranteed by nonfinancial public enterprises (US$ million)	700	700
Total budget support (US$ million) [2]	574	777
Budget support grants (US$ million)	230	308
Budget support loans (US$ million)	344	469
RWF/US$ program exchange rate	937	937

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 cumulative from June 30, 2020.
[3] End-Dec 2020 ceiling is cumulative from June 30, 2020. End-June 2021 ceiling is cumulative from beginning of calendar year 2021.
[4] When the end-of period year-on-year average inflation is above/below the outer band of the upper/lower bound, a formal consultation with the Executive Board would be triggered.
[5] Floor is adjusted to exclude UN peace keeping operations, in line with the TMU.

Table 1b. Rwanda: Standard Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.
- Not to introduce or modify multiple currency practices.
- Not to conclude bilateral payment agreements which are inconsistent with Article VIII.
- Not to impose or intensify import restrictions for balance of payment reasons.

Table 2. Rwanda: Reform Targets, December 2020 – December 2021

Actions	Target Date	Objective	Comments
Fiscal			
Expand coverage in fiscal reporting in GFS 2014 from budgetary central govt to central govt (i.e. including extrabudgetary entities) and local governments.	end-Dec. 2020	Improve fiscal transparency/PFM	On track
Automating the risk based verification process for refund claims.	end-Dec. 2020	Improve DRM	Reset from end-Dec. 2019
Conduct a "health-check" assessment of fiscal risks from SOEs using available data and submit the outcome and mitigation options to the fiscal risk committee.	end-May. 2021	Improve fiscal transparency	New
Conduct a review of RSSB asset allocation and submit the associated report to RSSB management.	end-Jun. 2021	Improve resource efficiency	Reset from end-Jun. 2020
Produce financial and management reports from the IT system for all schemes managed by RSSB.	end-Dec. 2020	Improve fiscal transparency and strengthen management and sustainability of all schemes managed by RSSB	On track
Monetary and Financial			
Expand industrial and market expectation surveys that feed into macro forecasting, begin collecting data to construct a purchasing manager's index, and accelerate publication of foreign private capital survey.	end-Dec. 2020	Support new monetary policy framework	On track
Update the regulatory framework on true repo to rollout Global Master Repurchase Agreement (GMRA).	end-Jun. 2021	Support new monetary policy framework	On track
Introduce a platform for issuing government securities using mobile phones.	end-Jun. 2021	Deepen financial markets	Reset from end-Jun. 2020
Produce a study on consumer payment behavor analyzing micro-level data on consumer payment choices.	end-Dec. 2021	Deepen financial markets	Reset from end-Dec. 2020

Table 3. Rwanda: Summary of the External Borrowing Program[1]

	July-December 2020		January-December 2021	
	Program		Program	
	Nominal	PV	Nominal	PV
(Millions of USD)				
By sources of debt financing	**1,374**	**821**	**886**	**485**
Concessional debt, of which[2]	**1,106**	**592**	**814**	**433**
Multilateral debt	1,040	574	790	418
Bilateral debt	66	18	24	16
Other	-	-	-	-
Non-concessional debt, of which	**268**	**229**	**72**	**52**
Semi-concessional[3]	132	93	72	52
Commercial terms[4]	136	136	-	-
By Creditor Type	**1,374**	**821**	**886**	**485**
Multilateral	1,172	667	832	449
Bilateral - Paris Club	66	18	50	34
Bilateral - Non-Paris Club	-	-	4	3
Other	136	136	-	-
Uses of debt financing	**1,374**	**821**	**886**	**485**
Infrastructure	992	556	509	296
Social Spending	51	32	-	-
Budget Financing	331	233	377	189
Other	-	-	-	-

Sources: Rwandan authorities and IMF staff estimates and projections.

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying 5 percent program discount rate.

[2] Debt with a grant element that exceeds a minimum threshold of 35 percent.

[3] Debt with a positive grant element which does not meet the minimum grant element.

[4] Debt without a positive grant element.

Attachment II. Technical Memorandum of Understanding

(Kigali, Rwanda, December 1st, 2020)

1. This memorandum defines the quantitative targets described in the Program Statement (PS) for the period: July 1, 2020 – June 30, 2021 supported by the IMF Policy Coordination Instrument (PCI), and sets out the data reporting requirements.

2. Program exchange rates. For program purposes, the exchange rates for end-June 2020 in the IMF's International Financial Statistics database will apply (see Text Table 1 for major currencies).

Text Table 1. Program Exchange Rates from June 30, 2020
(US$ per currency unit, unless indicated otherwise)

Rwanda Franc (per US$)	937.1
Euro	1.124
British Pound	1.235
Japanese Yen (per US$)	107.7
SDR	1.376

A. Quantitative Program Targets

Ceiling on Debt-Creating Overall Fiscal Balance

3. A ceiling applies to the debt-creating overall fiscal balance of the budgetary central government, excluding Peace-Keeping Operations and including grants. The ceilings for December 31, 2020 and June 30, 2021 are cumulatively measured from June 30, 2020.

4. Definition. For the program, the debt-creating overall fiscal balance is defined by the overall fiscal balance, valued on a commitment basis including grants and excluding the following items: (i) any transaction in expense and/or financial assets added to the budgetary central government arising from debt assumption of called loan guarantees for which the corresponding guaranteed loan had already been included in the Debt Sustainability Analysis of the IMF and World Bank (DSA); and (ii) all expenses in UN peace-keeping operations (PKO) and disbursed PKO financing. The overall fiscal balance is defined according to the GFSM 2014 as net lending/net borrowing after transactions in assets and liabilities are adjusted for transactions deemed to be for public policy purposes (policy lending). Budgetary central government expenditure (i.e. expenses plus net acquisition of non-financial assets) is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This quantitative target is set as a ceiling on the debt-creating overall fiscal balance as of the beginning of the fiscal year.

Adjusters to the Debt-Creating Overall Fiscal Balance:

- The ceiling on the debt-creating overall balance will be adjusted upward by the amount of any shortfall between actual and programmed budgetary grants (as defined in Table 1a of the PS), up to a maximum of RWF 102 billion.

- The ceiling on the debt-creating overall balance will be adjusted upward, up to a maximum of RWF 102 billion, representing the amount of *foreign financed net acquisition of non-financial assets* (*foreign financed capital expenditure*) financed with a drawdown of accumulated government deposits.
- The ceiling on the debt-creating overall balance will be adjusted upward by the amount of unexpected public expenditures (expenses, and/or *net acquisition of non-financial assets*) on food imports in the case of a food emergency.

Floor on Net Foreign Assets of the National Bank of Rwanda (BNR)

5. A floor applies to the net foreign assets (NFA) of the BNR for December 31, 2020 and June 30, 2021.

6. Definition. NFA of the BNR in Rwandan francs is defined, consistent with the definition of the enhanced General Data Dissemination Standard (e-GDDS) template, as external assets readily available to, or controlled by, the BNR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) are excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Reserves assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA for program purposes. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwandan francs by using the U.S. dollar/Rwanda franc program exchange rate. Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources.

Adjusters:

- The floor on NFA will be adjusted downward by the amount of any shortfall between actual and programmed budgetary loans and grants per Table 1a of the PS, capped at RWF 102 billion.
- The floor on NFA will be adjusted downward (upward) by the surplus (shortfall) of cash external debt service payments compared to originally scheduled payments.
- The floor on NFA will be adjusted downward by the amount of unexpected public expenditures on food imports in the case of a food emergency.

Ceiling on the Stock of External Payment Arrears

7. A continuous ceiling applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the budgetary central government and entities that form part of the budgetary process.

8. Definition. External payment arrears are defined as the amount of overdue external debt service obligations (principal and interest) arising in respect of obligations incurred directly or guaranteed by the budgetary central government and entities that form part of the budgetary process. A payment is overdue when it has not been paid in accordance with the contractual date (taking into account any contractual grace periods). Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

Ceiling on Net Accumulation of Domestic Expenditure Arrears of the Budgetary Central Government

9. A ceiling applies to the net accumulation of domestic expenditure arrears of the budgetary central government.[1] The ceilings for December 31, 2020 and June 30, 2021 are cumulatively measured from June 30, 2020.

10. Definition. Domestic expenditure arrears are defined as unpaid claims that are overdue by more than 90 days. The accumulation of domestic expenditure arrears of more than 90 days is calculated as the cumulative change in the stock of expenditure arrears of more than 90 days at each test date from the stock at the end of the previous fiscal year (June 30). Arrears related to claims preceding 1994 will not be counted in the calculation.

Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government

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

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

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

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

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

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

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

12. External debt is defined as debt contracted or serviced in a currency other than the Rwanda Franc.

13. A continuous ceiling is applied to the present value (PV) of all new external debt (concessional or non-concessional) contracted or guaranteed by the central government, including commitments contracted or guaranteed for which no value has been received. The ceiling for December 31, 2020 is cumulatively measured from June 30, 2020. The ceiling for June 30, 2021 is cumulative from January 1, 2021. This quantitative target does not apply to:

(a) Normal import-related commercial debts having a maturity of less than one year;

(b) Rescheduling agreements; and

(c) IMF disbursements.

14. For program monitoring purposes, a debt is considered contracted when all conditions for its entrance into effect have been met, including approval by the Government of Rwanda.

15. For program purposes, the value in U.S. dollars of new external debt is calculated using the program exchange rates.

16. The PV of new external debt is calculated by discounting all future debt service payments (principal and interest) on the basis of a program discount rate of 5 percent and taking account of all loan conditions, including the maturity, grace period, payment schedule, front-end fees and management fees. The PV is calculated using the IMF model for this type of calculation[2] based on the amount of the loan. A debt is considered concessional if on the date on which it is contracted the ratio of its present value to its face value is less than 65 percent (equivalent to a grant element of at least 35 percent). In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the face value.

[2] http://www.imf.org/external/np/spr/2015/conc/index.htm

17. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 0.46 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -100 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -50 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -50 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -50 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. These rates will remain fixed and will not be revised until every Fall edition of the World Economic Outlook (WEO).

18. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

19. Reporting Requirement. The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government.

B. Monetary Policy Consultation Clause (MPCC)

20. Definition. MPCC headline inflation is defined as the year-on-year rate of change of monthly Consumer Price Index (CPI), averaged for the past 12-months, as measured by National Institute of Statistics of Rwanda (NISR).

- If the observed headline inflation falls outside the ±3 percentage point range around the mid-point of target band value for end-December 2020 and end-June 2021, the authorities will conduct discussions with the Fund staff.
- If the observed headline inflation falls outside the ±4 percentage point range around 5 percent for end-December 2020 and end-June 2021 test dates as specified in Table 1a in the PS, the authorities will complete a consultation with the Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviation, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary.

C. Memorandum Items and Data Reporting Requirements

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

22. Data on **priority expenditure** will be transmitted on a quarterly basis. Priority expenditure is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and policy lending that the government has identified as priority in line with the NTS. Priority expenditure is monitored through the Integrated Financial Management System (IFMS) which tracks priority spending of the annual budget at the program level of the end of each quarter.

23. Detailed data on **domestic revenues** will be transmitted on a monthly basis. The domestic revenue is defined according to GFSM 2014 taxes and other revenues, per the budgetary central government statement of operations table, but including: (a) local government taxes (comprised of business licenses, property tax, and rental income tax); and (b) local government fees; and excluding and receipts from Peace Keeping Operations.

24. Data on **the contracting and guaranteeing of new non-concessional external borrowing with non-residents** will be transmitted on test dates. The data excludes external borrowing by two state-owned banks, the Bank of Kigali and Rwanda Development Bank (RDB), which are assumed not to seek or be granted a government guarantee. The data also apply to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector, and which, therefore, constitute a contingent liability of the public sector. The data will exclude external borrowing which is for the sole purpose of refinancing existing public-sector debt and which helps to improve the profile of public sector debt. The data will also exclude on-lending agreement between Government of Rwanda and public-sector enterprises.

25. The authorities will inform the IMF staff in writing prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include, but are not limited to, customs and tax laws, wage policy, and financial support to public and private enterprises. The authorities will inform the IMF staff of changes affecting respect of continuous QTs. The authorities will furnish a description of program performance according to QTs as well as reform targets within 8 weeks of a test date. The authorities engage to submit information to IMF staff with the frequency and submission time lag indicated in Table 1 of the TMU. The information should be mailed electronically to the Fund (email to the Resident Representative and the Mission Chief).

Table 1. Rwanda: Summary of Reporting Requirements

	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates[1]	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[3]	M	M	M
Volume of transactions in the interbank money market, repo operations, and foreign exchange markets, sales of foreign currencies by BNR to commercial banks and other foreign currency interventions by BNR.	D	W	W
Composite Index of Economic Activity (CIEA) and sub-components compiled by the BNR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] — General Government[5]	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4]— Budgetary Central Government	Q	Q	Q
Financial balance sheet – Budgetary Central Government	A	A	A
Comprehensive list of tax and other revenues[6]	M	M	M
Budget tables	Submitted to Parliament		
Revised budget tables	Submitted to Parliament		
Disposal of non-financial assets and policy lending[6]	Q	Q	Q
Comprehensive list of domestic arrears of the government	SA	SA	SA
Planned external borrowing and the conditions	SA	SA	SA
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and BNR[7]	SA	SA	SA
External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A

[1] Includes the official rate; Foreign Exchange Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the BNR.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially determined, including discount rates, money market rates, key repo rate (KRR), rates for standing facilities, rates in repo transactions of the BNR with banks, interbank money market rate, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.
[7] Excludes debts of the Bank of Kigali and Rwanda Development Bank (BRD). Also includes currency and maturity composition.
[8] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).

RWANDA

December 1, 2020

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Mary Goodman and Delia Velculescu (IMF), and Marcello Estevão (IDA)

The Debt Sustainability Analysis (DSA) was prepared jointly by the staffs of the International Monetary Fund and the International Development Association.

Rwanda: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No

The present Bank/Fund assessment of Rwanda's debt sustainability analysis indicates a moderate risk of external and overall public debt distress. The current debt-carrying capacity is consistent with a classification of 'strong'.[2] The baseline macroeconomic scenario reflects the negative effect of the COVID-19 pandemic on growth, exports, and revenues, which sharply raises external and domestic financing needs in 2020. The adverse economic impact of the pandemic, coupled with higher loans, though mostly concessional from multilateral and bilateral partners, is expected to entail a higher pace of accumulation of public and publicly-guaranteed debt. The stress tests highlight that Rwanda is more susceptible to external shocks compared to the pre-pandemic period even after the initial impact of the COVID-19 dissipates. The authorities are encouraged to further enhance their debt management capacity to mitigate heightened risks in the context of the COVID-19 crisis; adopt a credible fiscal consolidation path to facilitate a return to the pre-pandemic debt trajectory, and strengthen the oversight and management of state-owned enterprises (SOEs) and public-private partnerships (PPPs) to reduce fiscal risks. In this context, a fiscal consolidation following the temporary and necessary pandemic support, together with the improved concessionality of debt, is expected to bring the PV of public debt-to-GDP ratio down to below the EAC's fiscal anchor of 50 percent in 2025.

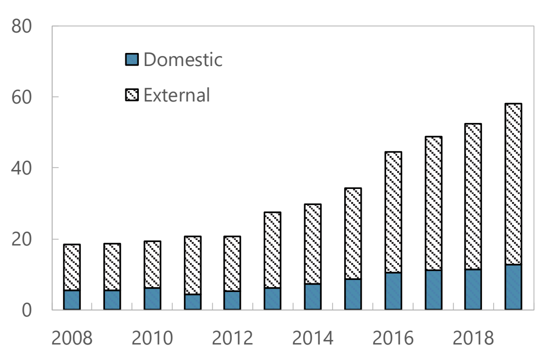
[1] This debt sustainability analysis was conducted using the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017. The fiscal year for Rwanda is from July–June; however, this DSA is prepared on a calendar year basis.

[2] Rwanda's debt-carrying capacity remains strong as its Composite Indicator is 3.16, which is based on the 2020 October WEO and the 2019 CPIA that was released in July 2020, remains above the upper threshold value of 3.05.

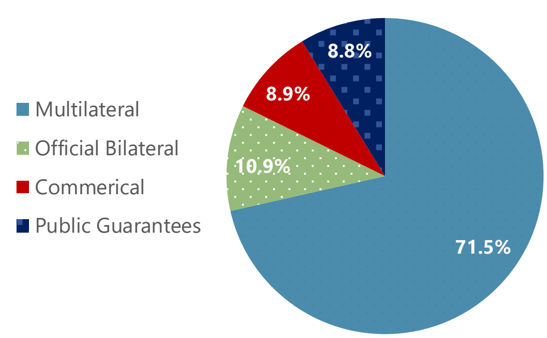
BACKGROUND

1. **Rwanda's public and publicly-guaranteed (PPG) external debt-to-GDP ratio has increased by 24 percentage points of GDP in the past 6 years to meet development needs envisaged in the National Strategy for Transformation (NST).** The increase reflects a long-planned comprehensive public investment strategy, including three large projects to support trade and tourism, which are being completed through a series of public-private partnerships (PPPs) and external guarantees outside the budgetary central government. The three large projects include the construction of the Kigali Convention Center (KCC), completed in 2016, the ongoing expansion of the national airline, RwandAir, and the construction of a new airport in the Bugesera district of eastern Rwanda. As a result, external PPG debt has risen from 21.1 percent of GDP in 2013 to 45.4 percent in 2019 (Text Figure 1). It continues to be dominated by multilateral lending (Text Figure 2), resulting in a present value (PV) of external PPG debt-to-GDP ratio of 29.3 percent in 2019. Total PPG debt stood at 58.1 percent of GDP in 2019, which is higher than the 2019 DSA projections (estimated at 55.8 percent of GDP) due to higher fiscal deficit than projected at the time of the previous full DSA. About two-thirds of external debt remains concessional. The yield on the outstanding Eurobond has increased to around 5.6 percent, reflecting adverse global liquidity conditions due to the COVID-19 pandemic, while rates on domestic T-bills and T-bonds range from 5.5 percent (28 days) to 12.7 percent (15 years).

Text Figure 1. Total PPG Debt
(Percent of GDP)



Text Figure 2. Composition of External PPG Debt
(2019, Percent of total)



Source: Rwandan authorities and IMF Staff Calculations

2. **The DSA covers the central government, guarantees, and state-owned enterprises (Text Table 1).** The Ministry of Finance and Economic Planning publishes annual debt data, covering domestic and external debt of the central government, broken down by multilateral, bilateral and commercial debt, as well as information on both domestic and external guarantees and external debt held by all state-owned enterprises (SOEs). There is no debt stemming from extra budgetary funds, long term central bank financing of the government, nor the state-owned social security fund. The local government debt is not covered but the existing stock to date is marginal and, its contracting is subject to approval by the Ministry of Finance and Economic Planning. External debt is defined on a currency basis. The contingent liabilities shock accounts for the realization of liabilities from corporations where the government has a minority stake (i.e., 2 percent of GDP) and the possible incidence of a financial crisis.

Text Table 1. Rwanda: Coverage of Public and Publicly-Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

	Subsectors of the Public Sector	Check Box
1	Central Government	X
2	State and Local Government	
3	Other Elements in the General Government 1/	X
4	o/w: Social Security Fund	X
5	o/w: Extra Budgetary Funds (EBFs)	X
6	Guarantees (to Other Entities in the Public and Private Sector, Including to SOEs)	X
7	Central Bank (Borrowed on Behalf of the Government) 2/	X
8	Non-Guaranteed SOE Debt	X

1	The Country's Coverage of Public Debt	The Central Government plus Social Security and Extra Budgetary Funds, Central Bank, Government-Guaranteed Debt, Non-Guaranteed SOE Debt			
		Default		Used for the Analysis	Reasons for Deviations from Default Settings
2	Other Elements of the General Government not Captured in 1.	0	percent of GDP	0	
3	SOE's Debt (Guaranteed and not Guaranteed by the Government) 3/	2	percent of GDP	2	
4	PPP 4/	35	percent of PPP stock	0	
5	Financial Market (the Default Value of 5 Percent of GDP is the Minimum Value)	5	percent of GDP	5	
	Total (2+3+4+5) (in Percent of GDP)			7.0	

1/ The state-owned social security fund (Rwanda Social Security Board, RSSB) has no outstanding debt and there are no extra-budgetary funds (EBFs).
2/ There is no short-term financing from the central bank (BNR) to the government.
3/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SOE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0 percent.
4/ When PPP stock is less than 3 percent of GDP, as reflected in the World Bank's database, then test is set to zero. Rwanda's PPP stock is shown as 2.6 percent of GDP.

Source: Rwandan authorities and World Bank's Private Participation in Infrastructure Database.

UNDERLYING ASSUMPTIONS

3. **The macroeconomic assumptions underlying the baseline scenario reflect recent economic developments and policies, including the impact of the COVID-19 pandemic, consistent with the staff report for the third PCI review.** The major differences between the current assumptions and those underlying the last full DSA in 2019 are as follows: (i) higher-than-projected 2019 GDP growth and FY2018/19 fiscal deficit, followed by the medium-term fiscal consolidation agreed with the authorities for the third review of the PCI; (ii) significant downward revisions in 2020 growth, current account and fiscal balances due to the COVID-19 pandemic; and (iii) the scaling up of the Bugesera international airport project.[3] Compared to the second RCF request,[4] the fiscal deterioration for FY2019/20 was lower than projected because revenue outturn surprised on the upside, helped by sustained tax collections and a rebound on VAT revenues. The main assumptions and projections for key macroeconomic variables are summarized in Box 1 and Text Table 2.

4. **The fiscal stance under the DSA accommodates a temporary deviation from the PCI-supported operational deficit ceiling of 5.5 percent of GDP due to the impact of COVID-19.** The fiscal framework is designed to support spending for the implementation of NST, while providing operational

[3] The government also plans a new energy project financed concessionally by several multilateral and bilateral partners to achieve universal energy access by 2024.

[4] The streamlined DSA update under the second RCF request in 2020 (June 2020, IMF Country Report 20/114).

guidance to the budget and maintaining debt sustainability. The fiscal path under the current DSA accommodates a temporary increase in the fiscal deficit, followed by a gradual consolidation to bring the total PPG debt back to the 65 percent of GDP in 2028, as described in staff report for the third review of the PCI. Gross financing needs of the public sector have increased over the medium-term compared to the previous DSA, with the assumption that the majority of additional financing would be accessed on concessional terms and used for investment spending against the background of an increased support from official bilateral and multilateral partners.

5. The baseline macroeconomic assumptions reflect the negative effect of the COVID-19 pandemic on growth, exports, and revenues, which sharply raises external and domestic financing needs in 2020. The DSA incorporates the expected impact of the COVID-19 pandemic, including a sharp decline in real GDP growth (revised down by 8 percentage points relative to the pre-pandemic projection), exports of goods and services (20 percent decline), tax revenues (13 percent decline), and a widening of the fiscal deficit (revised up by about 4 percentage points of GDP) in 2020. Following the COVID-19 shock in 2020, the DSA assumes economic recovery from the end of 2021, with GDP growth gradually reverting to its pre-pandemic trend in the medium term. The DSA also assumes that the Rapid Credit Facility (RCF), debt service relief under the IMF's Catastrophe Containment and Relief Trust (CCRT), World Bank financial support,[5] and prospective concessional financing from other development partners would fill the external financing gap created by the shock. The DSA baseline does not include any debt service suspension from official bilateral creditors as envisaged under the Debt Service Suspension Initiative, supported by the G-20 and Paris Club, as the authorities are still considering whether to participate.[6]

6. The total cost of the Bugesera international airport is projected to increase from US$1.3 billion at the time of RCF request to US$1.5 billion under the planned scaling up.[7] In line with agreements signed between the government and Qatar Airways in December 2019, the DSA assumes that the government will take on 40 percent of the total cost as guaranteed debt on commercial terms, while Qatar Airlines will take on 60 percent as foreign direct investment (FDI).[8] Growth is expected to increase at the start of the project reflecting the additional investment and then decline as the project phases down, subject to possible delays due to the COVID-19 pandemic.[9]

[5] To support the Government of Rwanda in the implementation of the COVID-19 National Preparedness and Response Plan, the World Bank has prepared a US$14.25 million COVID-19 Emergency Response Project. In addition, as part of its support to Rwanda's anti-crisis resource mobilization, the World Bank prepared and delivered a supplemental DPO based on the series of Rwanda Energy DPOs in an amount of US$100 million, and a US$9.72 million Additional Financing for the Rwanda Quality Basic Education for Human Capital Development Project from the Global Partnership for Education (GPE).

[6] Participation in the DSSI, which provides a time-bound suspension of official bilateral debt service payments to IDA-eligible and least developed countries as defined by the UN, would free up additional resources in the near term.

[7] The 2019 DSA incorporated the first phase of the Bugesera airport project, totaling US$397.5 million through 2021.

[8] The specific financing details of the project are still under negotiation.

[9] The Bugesera growth impact is calculated by applying a fiscal multiplier of 0.3 to the total cost of the Bugesera airport project (US$1.5 billion) over the whole life of the project (2021–25), with a persistence parameter of 0.6, consistent with the LIC DSF framework. The choice of the fiscal multiplier is based on IMF (2014) "Fiscal Multipliers : Size, Determinants, and Use in Macroeconomic Projections" and IMF (2017) "Sub-Saharan Africa Regional Economic Outlook: Fiscal Adjustment and Economic Diversification." In the previous 2019 DSA, the total cost of the project was assumed to be US$397.5 million over the 3-year life of the project (2019–21).

Text Table 2. Key Macroeconomic and Debt Assumptions—Comparison with the Previous Full Debt Sustainability Analysis

Calendar year	2019	2020	2025	2030	2035	2040	2025-40
			Projections				
Selected indicators from the macro-framework and debt data							
(Percent, unless otherwise indicated)							
PV of PPG External Debt to GDP Ratio							
2019 DSA	29.4	29.6	31.1	33.2	33.8	...	33.3
2020 DSA	29.3	34.1	39.2	37.1	31.9	26.5	34.1
PV of Public Debt to GDP Ratio							
2019 DSA	42.5	42.9	40.9	42.7	45.1	...	43.8
2020 DSA	42.8	45.5	49.3	44.4	46.9	49.4	46.6
Grant Element of New External Borrowing							
2019 DSA	46.4	44.4	41.4	38.0	33.8	...	35.6
2020 DSA	-	48.3	30.6	42.0	33.2	24.3	35.2
Stock of New Commercial Loan (billions of U.S. dollars)							
2019 DSA	0.0	0.0	0.4	0.6	1.1	...	0.9
2020 DSA	0.0	0.0	0.9	0.9	0.9	1.7	1.1
Real GDP Growth (annual percent change)							
2019 DSA	7.8	8.1	7.4	7.2	6.9	...	7.0
2020 DSA	9.4	-0.2	7.5	7.2	6.9	6.5	6.8
Current Account Balance (percent of GDP)							
2019 DSA	-9.6	-9.4	-7.7	-8.0	-7.2	...	-8.0
2020 DSA	-12.4	-12.2	-8.0	-8.0	-7.7	-6.6	-7.5
Exports of goods and services (percent of GDP)							
2019 DSA	21.2	21.4	23.7	26.6	29.4	...	27.8
2020 DSA	22.2	18.2	27.9	30.1	31.8	33.8	31.0
Fiscal balance[1] (percent of GDP)							
2019 DSA	-6.1	-6.4	-5.4	-5.3	-5.3	...	-5.3
2020 DSA	-7.3	-9.7	-4.4	-5.3	-5.2	-4.8	-4.7

1/ Fiscal balance excludes debt assumption for Marriott loan.

Sources: Rwandan authorities; IMF and World Bank staff estimates and projections.

7. **The DSA assumes continued support from bilateral and multilateral development partners over the medium term.** The current fiscal framework provides space to support NST implementation, while maintaining macroeconomic stability. Over the first 5 years of the forecast horizon, larger financing needs of the government are expected to be met by increased support from official bilateral and multilateral partners, compared to the previous DSA, leading to improvements in debt concessionality relative to the previous DSA. From 2025 onwards, the financing mix is assumed to (i) shift gradually away from external concessional financing to market-based financing, as income levels rise, and (ii) shift from external to domestic financing and rely progressively more on long-term debt instruments, as the local bond markets develop. Over the entire forecast horizon, the concessionality of Rwanda's debt has also improved compared with the previous DSA, reflecting an increase in the share of concessional resources from development partners.

8. The grant component of new external financing is assumed to decline as Rwanda develops. (Text Table 3). As a result, grant-equivalent external financing[10] is projected to decline from 66 percent of total external financing in 2020 to 59 percent in 2030 and 37 percent by 2040, while average effective real interest rates on domestic debt are expected to rise from 2.4 percent in 2010-19 to 4.1 percent in 2031–40. A grant ratio in budgetary ODA flows is higher than envisaged at the time of the second RCF request because the current DSA incorporates a change in the share of IDA grants and highly concessional IDA credits based on the streamlined DSA at the time of the second RCF request in June 2020, in which the risk of overall debt distress has moved from low to moderate: the moderate risk categorization comes with 50 percent grants and 50 percent credits, while low risk is associated with 100 percent credits and zero grants.

Text Table 3. Financing Mix (2020–40)

	2020	2030	2040	Average	
				2020-29	2020-40
			(in percent)		
Grant equivalent financing[1]	65	59	37	64	55
Grant element in new disbursement	48	42	24	40	36
Grant ratio in budgetary ODA flows[2]	29	28	13	43	30
Grant ratio in ODA project finance flows[3]	48	31	19	42	33

Notes:
[1] In percent of external financing.
[2] Calculated as the ratio of budgetary grants in total budgetary grants and loans in budgetary central government.
[3] Calculated as the ratio of project grants in in total project grants and loans in budgetary central government.
Sources: Rwandan authorities; IMF and World Bank staff estimates and projections.

9. Public debt dynamics have been driven by external shocks and the materialization of fiscal risks outside the budgetary central government (Figure 3). Changes in total public debt over the past five years have been driven by higher-than-anticipated primary deficits and a faster exchange rate depreciation agreed under the PSI/SCF-supported program to correct the resulting external imbalances. In addition, unanticipated developments of the debt contracted or guaranteed outside the budgetary central government also led to a higher-than-expected debt accumulation of 8.9 percentage points of GDP. Looking ahead, higher primary deficit due to the COVID-19 shock is expected to raise public debt. The DSA considers customized stress scenarios to capture the fiscal risks regarding debt accumulation outside the budgetary central government.

10. Realism tools show a relatively strong fiscal adjustment and a conservative baseline growth path (Figure 4). During the post-pandemic fiscal consolidation, a 3-year fiscal consolidation in the primary balance is expected to reach up to 3.0 percentage of GDP from 2023 to 2028. The projected 3-year fiscal adjustment of 3.0 percentage of GDP lies in the top quartile of the distribution of past adjustments for a sample of LICs, signaling that the envisaged post-pandemic fiscal adjustment in the baseline scenario is relatively strong based on past experiences in LICs. The unprecedented fiscal expansion from the COVID-19

[10] This includes grants provided directly to the government as well as the grant element of new borrowing (difference between the face value and the PV of new debt).

pandemic necessitates the large fiscal adjustment compared to the past adjustments for LICs.[11] The projected growth path in 2020 deviates from the path derived using a typical multiplier due to the large real shock in the economy from the COVID-19 shock. Compared to the 2019 DSA, the current DSA assumes higher private investment-to-GDP ratio for 2021–25 due to the scaling-up of the Bugesera airport project and lower public investment-to-GDP ratio mainly due to the envisaged post-pandemic fiscal consolidation which would constrain discretionary expenditure including domestic capital investment.[12]

11. Rwanda's debt-carrying capacity continues to be assessed as "strong" (Text Tables 4a and 4b). The composite index (CI) for Rwanda, which measures the debt-carrying capacity in the new LIC-DSF, stands at 3.16, above the cut-off value of 3.05 for strong capacity countries. The underlying inputs for the calculation of the CI were sourced from the IMF's October 2020 WEO, and an update of the World Bank Country Policy and Institutional Assessment (CPIA) to 2019 levels. The CI score is largely driven by Rwanda's high CPIA score and adequate reserve coverage.[13]

Text Table 4a. Rwanda: Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	4.04	1.55	49%
Real growth rate (in percent)	2.72	6.87	0.19	6%
Import coverage of reserves (in percent)	4.05	39.99	1.62	51%
Import coverage of reserves^2 (in percent)	-3.99	15.99	-0.64	-20%
Remittances (in percent)	2.02	2.08	0.04	1%
World economic growth (in percent)	13.52	2.93	0.40	13%
CI Score			3.16	100%
CI rating			Strong	

Source: Staff calculations.

Text Table 4b. Rwanda: Applicable Thresholds, and Benchmarks

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

[11] Given that Rwanda has faced shocks every 2–3 years in the last ten years, a stronger adjustment is warranted to bring debt to safe levels to provide room in case of shocks.

[12] Changes of historical ratios of private and public investment-to-GDP relative to the 2019 DSA are attributable to the recent GDP rebasing from 2014 to 2017, in which there are substantial methodological changes in the compilation of the national accounts as well as the coverage of economic activities.

[13] This is based on the IMF's assessment of reserve adequacy.

Box 1. Macroeconomic Framework for the DSA

The medium- and long-term framework underpinning the DSA assumes that Rwanda continues to enjoy robust growth, with low and stable inflation. Key highlights are described below.

Growth: Following the COVID-19 shock in 2020, the economy gradually reverts to its pre-pandemic trend. The scaling-up of the Bugesera airport project raises near-term growth rate to 6–8 percent around 2022–25, followed by a short-term lower growth period of 6–7 percent. Public sector investment and the Bugesera airport project are expected to remain the main drivers of growth in the medium term with the private sector gradually taking over in the long run. Long-term growth is expected to reach 6.5 percent by 2040. This growth projection over the medium- to long-term is consistent with an economy where population growth is slowing over time.

External sector: Following the 20 percent decline due to the COVID-19 shock, exports of goods and services are expected to revert back to their pre-pandemic growth trend gradually (11 percent on average during 2020–40 vs 13 percent over 2009-19), roughly in line with historical rates, but below recent very rapid growth. This reflects, in part, strategic public investment and export promotion, and development plans. Import needs are expected to remain high, particularly in the short and medium term, as high public and private investment rates are maintained. Consequently, developments on the export side are expected to contribute to lower current account deficit over the DSA horizon, reaching 6.6 percent by around 2040.

Inflation: Inflation is expected to remain at the authorities' target of 5 percent over the medium to long run.

Reserves: Reserves coverage is expected to remain in the range of 4–5 months of prospective imports over 2021–25 and in the outer years.

Domestic revenue mobilization. The DSA assumes a gradual recovery in domestic revenues, from 17 percent in 2020 to 24 percent by 2040, reflecting the gradual fading of the COVID-19 crisis and tax revenue measures already in the pipeline (e.g. fixed asset taxes, electronic billing machines), as well as additional measures agreed under the PCI (e.g. tax expenditure analysis aimed to streamline incentives, additional administrative measures).

Grants. The DSA assumes a tapering of external assistance from development partners over the projection period. Grants decline steadily from 4 percent of GDP in 2019 to 2 percent by 2030, and less than 1 percent by 2040.

Public spending and Deficit: The COVID-19 shock entails a widening of the fiscal deficit by about 4 percentage points of GDP in 2020, which is followed by the gradual fiscal consolidation and assumed to revert to 5.3 percent of GDP around 2030, and stay around 5.3 percent until 2035, and then go down and stay around 4.8 percent over the duration of the forecast horizon. Compared to the 2019 DSA, the higher fiscal deficit in the pandemic period results in higher gross borrowing needs of the public sector.

External borrowing. The assumptions for new external borrowing vary over the projection period. In the short and medium term, the financing mix is assumed to tilt toward concessional external financing reflecting more concessional borrowing including COVID-19 supports. With the development of local bond markets and some improvement in the current account position, reliance on external borrowing is expected to moderate in the long term. From 2028 onward, after the end of fiscal consolidation, the framework assumes that external borrowing needs will be financed with a progressively larger share of non-concessional borrowing. The share of external financing relative to total medium- to long-term financing is expected to remain around 80 percent through 2030 before declining to 42 percent by 2040. The Eurobond is assumed to be rolled over in 2023 and 2033, at an interest rate of 8 percent and a maturity of 10 years in which the principal is repaid in the last year.

Domestic borrowing. The framework assumes that, over the DSA horizon, net domestic borrowing will increase with a gradual lengthening of maturities, as Rwanda intensifies efforts to develop the domestic bond market. New domestic borrowing is expected to be contracted at an average nominal interest rate of 8.7 percent over the next five years, rising gradually to 9.5 percent in the long run as the government shifts to longer maturities.

Foreign Direct Investment (FDI). The framework assumes an increase in FDI, driven by the NST, Compact with Africa, and other efforts to provide incentives to attract foreign direct investors. FDI is projected to increase from 3.8 percent of GDP in 2019 to 4.5 percent by around 2040. The current DSA assumes higher medium-term FDI due to Qatar Airways' investments in the Bugesera airport project, compared to the 2019 DSA.

DEBT SUSTAINABILITY ANALYSIS

External Debt

12. **The debt indicators highlight that Rwanda is more susceptible to external shocks compared to the pre-pandemic period even after the initial impact of the COVID-19 shock dissipates (Tables 1 and 3; Figures 1 and 2).**[14] The PV of external debt-to-GDP ratio remains below the indicative threshold under both the baseline scenario and the most extreme shock. However, the sharp decline in exports due to the COVID-19 shock and its protracted recovery make one solvency indictor (PV of external debt-to-export ratio) temporarily breach thresholds in 2022 and 2023 under the most extreme shock. This is mitigated by adequate reserves and available external financing.

13. **Rwanda may face liquidity pressures due to adverse market conditions (Figures 1 and 6).** The spike in external debt service in 2023 (due to rolling over the 10-year Eurobond issued in 2013) causes a one-off breach to the debt service-to-revenue ratio under the baseline scenario.[15] There are also multiple breaches to this indicator under the alternative scenario assuming a one-time depreciation. A breach of the market-financing risk indicator (being the gross financing need indicator) also signals market financing pressures, which means that Rwanda may face liquidity pressures due to deteriorating market sentiment (Figure 6). Higher gross financing needs for 2020-25 compared to the previous full DSA in 2019 also pose a medium-term liquidity risk.

14. **Customized stress tests suggest that Rwanda has some room to absorb contingent liability shocks (Figure 7).** The customized risk scenarios aim at assessing the impact of fiscal risks stemming from contingent liabilities outside the budgetary central government. The first customized scenario assumes a higher cost of the Bugesera airport project of US$1.8 billion over the same period. The second customized scenario assumes an unidentified contingent liability shock with a one-off increase in the debt-to-GDP ratio of 8.9 percentage points in the second year of the projection. The size of the contingent liability shock is calibrated based on the realism tool examining changes in public debt over the past five years (see paragraph 9). The third customized scenario is the combination of the first and second risk scenarios. All the customized stress tests find that the solvency indicators remain well below their respective thresholds, while the debt service-to-revenue ratio shows the same one-period breach in 2023 when the Eurobond issued in 2013 matures. This single one-year breach is discounted in setting the risk ratings in line with the LIC-DSF guidance note. Overall, these results imply that Rwanda has some room to absorb contingent liability shocks.

15. **The PV of external debt-to-GDP ratio increases sharply under the historical scenario since the latter assumes the recurrence of several large external shocks as well as large external balances occurred in the past (Table 3).** Both solvency indicators (PV of debt-to-GDP ratio and PV of debt-to-export ratio) rise sharply under the historical scenario. This is primarily due to the large current account

[14] The LIC-DSF assesses the risk of debt distress by observing the evolution of selected indicators against predetermined thresholds that are set according to countries' debt-carrying capacities.

[15] According to the LIC DSF guidance note, single short-lived breaches (1-year) are assumed not to affect the risk rating.

deficit and negative GDP deflator calibrated using historical averages, which covered a period including several large shocks (donor withdrawal, commodity prices, and drought) as well as large external imbalances, which were corrected over 2015-17, primarily through a large exchange rate adjustment, as envisaged under the PSI/SCF-supported program. The large current account deficit and negative GDP deflator account for almost all of the divergence between the baseline and historical scenarios for these solvency indicators.

Public Debt

16. The PV of public debt-to-GDP ratio remains below the LIC DSA benchmark of 70 percent (Tables 2 and 4; Figures 2 and 8). The evolution of both solvency and liquidity indicators for public debt follows broadly that of external debt. Public debt remains below its benchmark even under the most extreme shock scenario (exports shock) and the additional customized stress tests. The PV of public debt-to-revenue ratio and the debt service-to-revenue ratio are expected to decline steadily over the forecast horizon, in line with an increase in total revenue.

17. The COVID-19 shock raises the PV of public debt-to-GDP ratio above the EAC's debt convergence criterion in 2022. Compared to the 2019 DSA, the COVID-19 shock coupled with higher loans, though mostly concessional from multilateral and bilateral donors, are expected to entail a higher pace of accumulation of PPG debt in the medium term, leading the PV of public debt to breach the 50 percent of GDP ceiling under the EAC debt convergence criterion in 2022 (Table 2). Post-pandemic fiscal consolidation under the PCI and concomitant higher share of external concessional borrowings are expected to bring the PV of public debt-to-GDP ratio down to below the EAC's debt convergence criterion in 2025 and after, which is 5 years earlier than projected at the time of the second RCF request.

ASSESSMENT

18. Rwanda's debt is assessed to be sustainable with a moderate risk of external and overall public debt distress.[16] Relative to the last full DSA in 2019, the risk of debt distress has moved to moderate from low due to the impact of the global COVID-19 crisis. While each solvency and liquidity indicator have at most only one short-lived breach under the baseline scenario and the customized stress tests, some indicators have multiple breaches under the most extreme shock in the standardized stress tests, which indicates a moderate risk of debt distress. Furthermore, a granular assessment of the moderate risk rating shows that Rwanda has limited space to absorb shocks (Figure 5). Since this granular assessment reflects one-off breaches to the liquidity indicators in 2023, staff views that Rwanda still has some room to absorb solvency shocks such as a realization of a contingent liability, as shown in the customized stress tests capturing fiscal risks. Given the moderate risk of debt distress assessment, a limit on the stock of new external PPG debt is introduced under the PCI, which is expected to preserve debt sustainability. The current macroeconomic framework which underpins this DSA reflects currently available information. However, updates with respect to the economic impact and policy response to the COVID-19 crisis are

[16] This assessment is in line with the streamlined DSA update under the second RCF request in 2020 (June 2020, IMF Country Report 20/114).

rapidly evolving and risks to the debt outlook and sustainability are heavily tilted to the downside considering the potential of a more prolonged and deeper pandemic shock.

19. The authorities are encouraged to further strengthen their debt management capacity to mitigate heightened risks in the context of the COVID-19 crisis and implement post-pandemic fiscal consolidation under the PCI to facilitate a return to the pre-pandemic debt trajectory. The baseline scenario assumes Rwanda gradually reverts to its pre-pandemic trend and continues to achieve robust growth over the medium term, while concessional financing is expected to decline gradually in the long term. Main risks to this outlook are external shocks to growth and/or exports, and worse-than-expected external financing conditions. A series of stress tests conducted in this DSA shows that Rwanda is more susceptible to external shocks, including market financing risks, compared to the pre-pandemic period even after the initial impact of COVID-19 dissipates. In this context, the authorities are encouraged to enhance their debt management capacity to reduce rollover risks by holding enough liquidity buffers and smoothing out the debt servicing profile. The government also needs to adopt a credible fiscal consolidation as soon as the COVID-19 crisis abates, to facilitate a return to the pre-pandemic debt trajectory, together with the efforts to contain contingent liability risks. Under the post-pandemic fiscal consolidation envisaged in the 3rd PCI review, the PV of public debt-to-GDP ratio would reach the EAC's debt convergence criterion of 50 percent 5 years earlier than projected at the time of the second RCF request, which would bring down risks to debt sustainability. Strengthening the identification, assessment and management of fiscal risks is also one of the pillars under the PCI. With technical support from staff, the authorities have shown progress in these areas and have indicated their commitment to the required reforms going forward, including those to strengthen the oversight and management of SOEs and PPPs.[17]

Authorities' Views

20. The authorities broadly agree with the results of this DSA and the overall conclusion of a moderate risk of external debt distress. The authorities continue to place a high priority on debt sustainability and carry out their own analysis on a regular basis. Their debt management strategy continues to be based on maximizing external concessional funding to avoid pressure on its debt repayment profile, while developing their domestic capital market. The authorities acknowledge that the main risk to debt sustainability continues to be from external shocks. In order to reduce the rollover risk of the 10-year Eurobond in 2023, the authorities have already started discussions about mitigating measures such as pre-financing of debt and buyback of debt falling due.

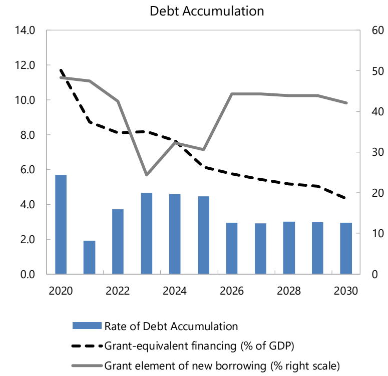
[17] The authorities plan to compile a financial balance sheet of the non-financial public sector as part of the overall efforts to expand the coverage of GFSM2014 reporting with support from the IMF.

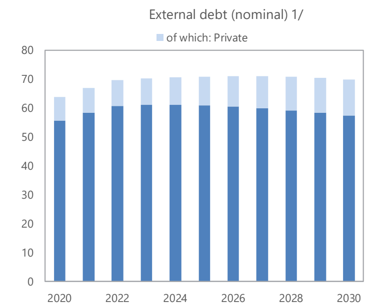
Table 1. Rwanda: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	45.8	49.4	53.6	63.8	66.8	69.5	70.2	70.7	70.8	69.9	59.1	32.7	69.5
of which: public and publicly guaranteed (PPG)	37.4	41.1	45.4	55.6	58.4	60.7	61.0	61.1	60.8	57.3	39.2	27.2	59.3
Change in external debt	3.3	3.6	4.3	10.2	3.0	2.7	0.6	0.5	0.1	-0.4	-1.0		
Identified net debt-creating flows	4.4	5.0	6.2	9.9	5.5	3.6	1.1	0.2	-0.1	0.2	-1.6	6.0	2.0
Non-interest current account deficit	8.3	8.9	10.9	10.7	11.1	10.0	8.3	6.8	6.4	6.2	4.5	9.3	7.5
Deficit in balance of goods and services	12.8	13.7	14.7	16.3	17.1	16.1	14.8	13.4	11.9	9.7	5.4	15.7	12.6
Exports	20.6	21.2	22.2	18.2	22.7	26.2	26.8	27.7	27.9	30.1	33.8		
Imports	33.4	34.9	36.9	34.4	39.8	42.3	41.7	41.1	39.8	39.8	39.1		
Net current transfers (negative = inflow)	-6.4	-6.9	-5.8	-7.0	-7.2	-7.2	-7.6	-7.3	-6.1	-4.0	-1.6	-7.7	-5.9
of which: official	-6.5	-6.5	-5.5	-7.0	-6.9	-6.6	-7.0	-6.8	-5.6	-3.1	-1.2		
Other current account flows (negative = net inflow)	1.9	2.2	1.9	1.4	1.2	1.2	1.1	0.7	0.5	0.5	0.7	1.3	0.8
Net FDI (negative = inflow)	-2.8	-3.6	-3.8	-2.4	-3.5	-3.5	-3.4	-3.3	-3.3	-3.2	-4.5	-2.7	-3.1
Endogenous debt dynamics 2/	-1.2	-0.3	-0.9	1.6	-2.1	-2.9	-3.7	-3.2	-3.2	-2.8	-1.5		
Contribution from nominal interest rate	1.2	1.5	1.5	1.5	1.5	1.4	1.3	1.6	1.7	1.8	2.1		
Contribution from real GDP growth	-1.6	-3.8	-4.4	0.1	-3.5	-4.3	-5.0	-4.8	-4.8	-4.6	-3.6		
Contribution from price and exchange rate changes	-0.8	2.0	2.0	...	...	...	...	...	...	...	...		
Residual 3/	-1.0	-1.4	-1.9	0.3	-2.5	-0.9	-0.5	0.3	0.2	-0.6	0.6	-2.2	-0.5
of which: exceptional financing	0.0	0.0	0.0	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	29.3	34.1	35.2	36.7	37.5	38.4	39.2	37.1	26.5		
PV of PPG external debt-to-exports ratio	...	...	132.1	187.8	154.7	139.9	139.9	138.9	140.3	123.4	78.5		
PPG debt service-to-exports ratio	6.8	7.8	7.2	12.1	14.6	7.9	19.1	7.3	6.9	7.0	9.4		
PPG debt service-to-revenue ratio	7.8	8.7	8.2	12.7	18.6	11.5	28.4	11.0	10.2	10.4	13.4		
Gross external financing need (Billion of U.S. dollars)	0.8	0.8	1.0	1.3	1.3	1.2	1.4	1.0	1.0	1.7	3.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.0	8.6	9.4	-0.2	5.7	6.8	8.0	7.5	7.5	7.2	6.5	7.2	6.3
GDP deflator in US dollar terms (change in percent)	1.9	-4.2	-3.9	2.7	-3.0	-0.6	2.0	1.9	1.9	2.0	2.0	-1.1	1.3
Effective interest rate (percent) 4/	3.0	3.3	3.2	2.8	2.3	2.2	2.1	2.5	2.6	2.8	3.7	3.3	2.6
Growth of exports of G&S (US dollar terms, in percent)	25.5	7.3	10.0	-16.1	28.3	22.3	12.7	13.0	10.5	9.4	9.9	14.9	11.2
Growth of imports of G&S (US dollar terms, in percent)	1.1	8.9	11.1	-4.4	18.5	12.8	8.4	8.0	6.1	8.3	8.6	9.9	8.5
Grant element of new public sector borrowing (in percent)	...	...	...	48.3	47.5	42.6	24.3	32.3	30.6	42.0	24.3	...	40.3
Government revenues (excluding grants, in percent of GDP)	17.9	19.0	19.5	17.3	17.8	18.0	18.1	18.3	19.0	20.2	23.6	16.4	18.9
Aid flows (in Billion of US dollars) 5/	0.4	0.5	0.4	1.3	1.1	1.1	1.1	1.1	0.9	1.1	1.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	11.7	8.7	8.1	8.2	7.7	6.2	4.3	1.7	...	6.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	65.0	71.3	67.4	51.5	63.8	60.1	59.5	37.5	...	63.4
Nominal GDP (Billion of US dollars)	9	10	10	10	11	11	12	14	15	23	54		
Nominal dollar GDP growth	5.9	4.1	5.1	2.5	2.5	6.2	10.1	9.6	9.5	9.3	8.6	6.0	7.7
Memorandum items:													
PV of external debt 7/	...	...	37.6	42.3	43.7	45.5	46.7	48.0	49.1	49.7	46.5		
In percent of exports	...	...	169.3	232.8	191.9	173.7	174.1	173.5	176.0	165.2	137.6		
Total external debt service-to-exports ratio	13.0	15.4	14.5	21.2	21.7	14.2	25.3	13.5	13.3	14.5	20.0		
PV of PPG external debt (in Billion of US dollars)			3.0	3.5	3.7	4.1	4.7	5.2	5.8	8.5	14.2		
(PVt-PVt-1)/GDPt-1 (in percent)				5.7	1.9	3.7	4.7	4.6	4.5	2.9	1.1		
Non-interest current account deficit that stabilizes debt ratio	5.0	5.4	6.6	0.5	8.1	7.3	7.6	6.3	6.2	6.6	5.5		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

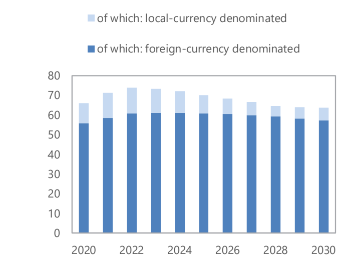
Table 2. Rwanda: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40

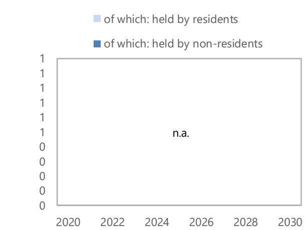
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	48.7	52.4	58.1	65.9	71.1	73.7	73.3	72.0	70.0	63.6	61.4	35.6	68.4
of which: external debt	37.4	41.1	45.4	55.6	58.4	60.7	61.0	61.1	60.8	57.3	39.2	27.2	59.3
Change in public sector debt	4.3	3.7	5.7	7.9	5.2	2.6	-0.4	-1.3	-2.1	-0.4	0.0		
Identified debt-creating flows	0.8	2.8	5.5	7.8	5.4	2.9	-0.1	-1.1	-2.0	-0.2	0.0	2.0	0.7
Primary deficit	3.6	3.5	6.8	8.0	6.0	5.8	5.2	4.0	2.8	4.0	3.0	3.1	4.2
Revenue and grants	22.6	23.8	23.6	23.1	23.4	23.2	23.8	23.9	23.3	22.4	24.4	23.4	23.1
of which: grants	4.7	4.8	4.2	5.8	5.6	5.2	5.7	5.6	4.3	2.2	0.8		
Primary (noninterest) expenditure	26.2	27.3	30.5	31.1	29.4	29.0	29.0	27.9	26.1	26.4	27.3	26.5	27.4
Automatic debt dynamics	-2.6	-0.6	-1.4	-0.2	-0.6	-2.9	-5.3	-4.8	-4.6	-4.2	-3.0		
Contribution from interest rate/growth differential	-1.6	-2.7	-3.8	-0.3	-3.2	-4.3	-5.3	-4.8	-4.7	-4.2	-3.0		
of which: contribution from average real interest rate	0.1	1.1	0.7	-0.4	0.4	0.3	0.2	0.4	0.4	0.1	0.7		
of which: contribution from real GDP growth	-1.7	-3.8	-4.5	0.1	-3.6	-4.6	-5.4	-5.1	-5.0	-4.3	-3.7		
Contribution from real exchange rate depreciation	-1.0	2.1	2.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.2	0.0	0.0	-0.1	-0.1
Privatization receipts (negative)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (use of earmarked fund)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.2	0.0	0.0		
Residual	3.4	0.9	0.2	0.2	2.3	1.1	-0.3	-0.2	0.0	-0.1	0.0	2.0	0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	42.8	45.5	48.8	50.6	50.9	50.4	49.3	44.4	49.4		
PV of public debt-to-revenue and grants ratio	...	...	181.0	196.7	208.8	218.0	213.8	210.5	211.6	198.1	203.0		
Debt service-to-revenue and grants ratio 3/	26.5	29.3	27.0	37.2	36.3	37.7	49.3	35.9	32.2	23.6	45.1		
Gross financing need 4/	8.4	9.0	13.2	16.6	14.5	14.5	16.9	12.2	10.1	9.2	14.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.0	8.6	9.4	-0.2	5.7	6.8	8.0	7.5	7.5	7.2	6.5	7.2	6.3
Average nominal interest rate on external debt (in percent)	2.0	2.3	2.3	1.9	1.6	1.4	1.3	1.7	1.8	1.8	1.8	1.9	1.7
Average real interest rate on domestic debt (in percent)	-1.9	6.9	5.2	-1.9	7.1	4.4	4.0	4.1	4.4	4.2	4.2	2.4	4.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.2	6.0	6.5	...	...	...	...	...	...	...	...	3.0	...
Inflation rate (GDP deflator, in percent)	7.6	-0.8	0.4	8.3	2.3	4.3	5.0	5.0	5.0	5.0	5.0	3.5	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	7.1	13.2	22.2	1.9	0.0	5.2	8.1	3.4	0.6	5.5	8.3	10.4	4.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.7	-0.2	1.2	0.1	0.9	3.2	5.6	5.2	4.9	4.3	3.0	0.1	3.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

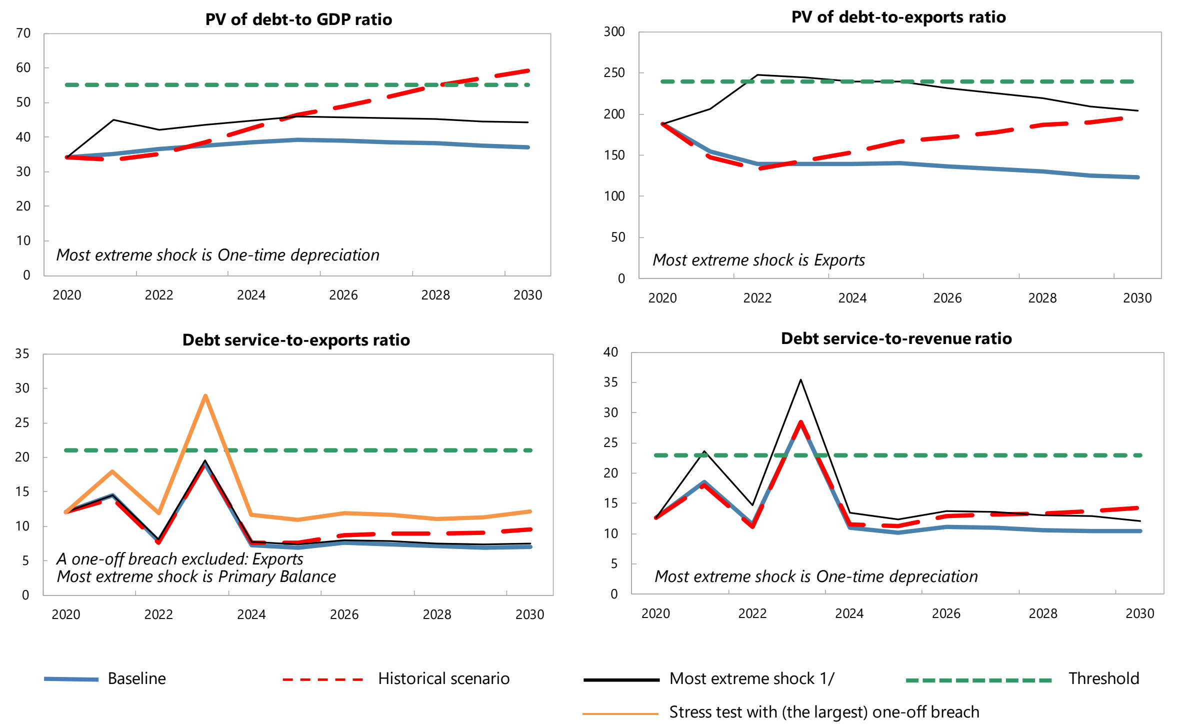
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Rwanda: Indicators of Public and Publicly-Guaranteed External Debt Under Alternative Scenarios, 2020–30 1/ 2/



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	7	7

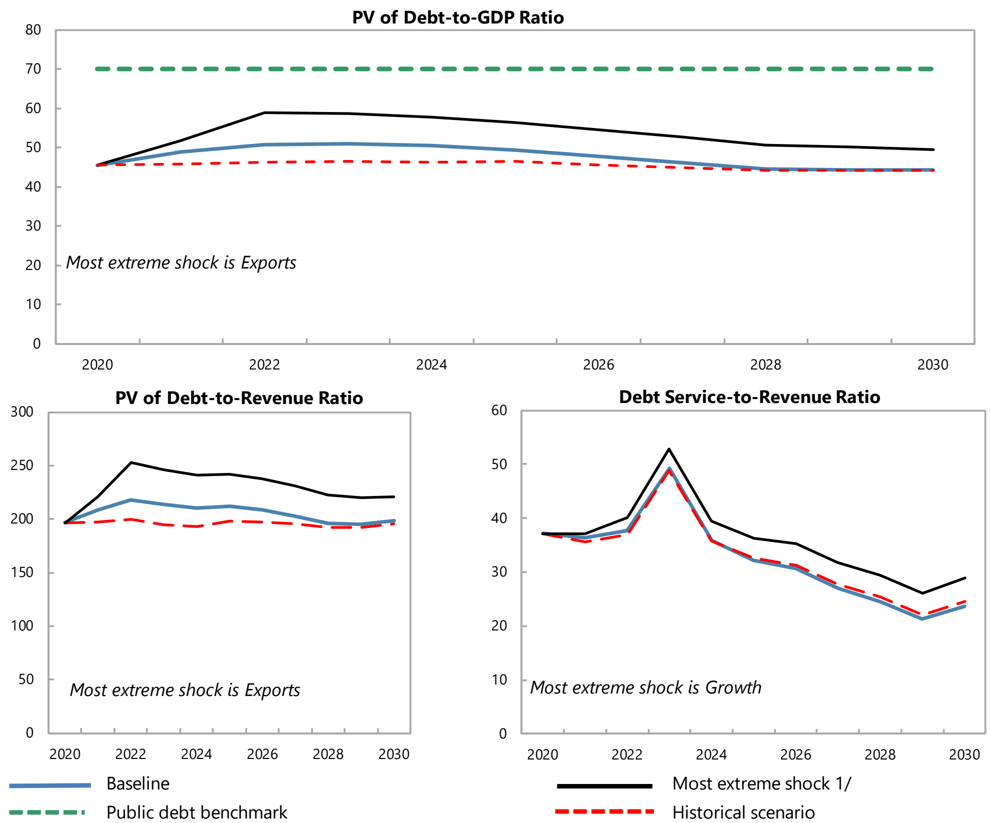
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Rwanda: Indicators of Public Debt Under Alternative Scenarios, 2020–30 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	59%	59%
Domestic medium and long-term	14%	14%
Domestic short-term	26%	26%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.4%	5.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	1%	1.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Rwanda: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2020–30

(In percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	**34.1**	**35.2**	**36.7**	**37.5**	**38.4**	**39.2**	**38.9**	**38.6**	**38.1**	**37.6**	**37.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	34.1	33.4	35.1	38.4	42.5	46.5	48.9	51.7	54.8	56.9	59.2
B. Bound Tests											
B1. Real GDP growth	34.1	36.2	38.9	39.8	40.7	41.5	41.2	40.9	40.4	39.8	39.3
B2. Primary balance	34.1	35.9	39.4	40.4	41.2	42.0	41.7	41.3	40.7	40.0	39.4
B3. Exports	34.1	37.8	44.2	44.6	45.1	45.5	45.0	44.4	43.7	42.7	41.7
B4. Other flows 2/	34.1	37.6	41.4	42.0	42.6	43.2	42.8	42.3	41.7	40.8	40.0
B6. One-time 30 percent nominal depreciation	34.1	44.9	42.1	43.5	44.8	46.0	45.8	45.6	45.2	44.6	44.3
B6. Combination of B1-B5	34.1	40.8	43.1	43.8	44.6	45.1	44.8	44.3	43.7	42.8	42.0
C. Tailored Tests											
C1. Combined contingent liabilities	34.1	37.9	40.0	40.9	41.9	42.7	42.4	42.0	41.4	40.7	40.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	34.1	39.5	41.1	42.1	43.2	44.2	44.0	43.6	41.9	41.3	40.7
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	**187.8**	**154.7**	**139.9**	**139.9**	**138.9**	**140.3**	**136.4**	**133.0**	**130.1**	**125.2**	**123.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	187.8	147.0	133.8	143.2	153.6	166.8	171.5	178.1	186.9	189.6	196.9
B. Bound Tests											
B1. Real GDP growth	187.8	154.7	139.9	139.9	138.9	140.3	136.4	133.0	130.1	125.2	123.4
B2. Primary balance	187.8	157.9	150.5	150.4	149.1	150.3	146.0	142.1	138.8	133.2	131.0
B3. Exports	187.8	206.2	248.0	244.6	239.9	239.7	231.9	225.1	219.1	209.4	204.1
B4. Other flows 2/	187.8	165.1	157.8	156.4	154.1	154.6	149.9	145.7	142.1	136.0	133.2
B6. One-time 30 percent nominal depreciation	187.8	154.7	125.8	126.9	127.0	129.0	125.8	123.0	120.6	116.4	115.5
B6. Combination of B1-B5	187.8	201.2	154.9	201.8	199.1	199.9	193.9	188.6	184.0	176.0	172.5
C. Tailored Tests											
C1. Combined contingent liabilities	187.8	166.4	152.4	152.2	151.6	152.8	148.5	144.6	141.2	135.6	133.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	187.8	154.7	139.9	140.0	139.4	141.1	137.5	133.8	127.5	122.6	120.7
Threshold	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**	**240**
Debt service-to-exports ratio											
Baseline	**12.1**	**14.6**	**7.9**	**19.1**	**7.3**	**6.9**	**7.6**	**7.4**	**7.1**	**6.9**	**7.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	12.1	14.1	7.6	19.2	7.7	7.7	8.8	8.9	9.0	9.1	9.6
B. Bound Tests											
B1. Real GDP growth	12.1	14.6	7.9	19.1	7.3	6.9	7.6	7.4	7.1	6.9	7.0
B2. Primary balance	12.1	14.6	8.2	19.6	7.8	7.4	8.0	7.8	7.5	7.4	7.5
B3. Exports	12.1	18.0	12.0	29.0	11.7	11.0	12.0	11.7	11.1	11.3	12.2
B4. Other flows 2/	12.1	14.6	8.2	19.6	7.7	7.3	8.0	7.8	7.4	7.5	7.8
B6. One-time 30 percent nominal depreciation	12.1	14.6	7.9	18.8	7.0	6.6	7.3	7.2	6.9	6.7	6.4
B6. Combination of B1-B5	12.1	17.1	10.9	25.6	10.1	9.5	10.4	10.1	9.7	10.0	10.1
C. Tailored Tests											
C1. Combined contingent liabilities	12.1	14.6	8.2	19.4	7.6	7.2	7.9	7.7	7.4	7.2	7.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	12.1	14.6	7.9	19.2	8.0	7.5	8.2	9.3	17.1	6.4	6.5
Threshold	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**	**21**
Debt service-to-revenue ratio											
Baseline	**12.7**	**18.6**	**11.5**	**28.4**	**11.0**	**10.2**	**11.2**	**11.0**	**10.5**	**10.4**	**10.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	12.7	18.0	11.1	28.5	11.6	11.3	12.9	13.2	13.3	13.7	14.3
B. Bound Tests											
B1. Real GDP growth	12.7	19.1	12.2	30.1	11.7	10.8	11.8	11.7	11.2	11.0	11.0
B2. Primary balance	12.7	18.6	11.9	29.1	11.7	10.8	11.8	11.6	11.1	11.0	11.1
B3. Exports	12.7	18.5	11.8	29.2	12.0	11.0	11.9	11.7	11.2	11.5	12.3
B4. Other flows 2/	12.7	18.6	11.9	29.1	11.7	10.7	11.7	11.5	11.0	11.3	11.6
B6. One-time 30 percent nominal depreciation	12.7	23.7	14.7	35.5	13.4	12.4	13.7	13.6	13.0	12.9	12.1
B6. Combination of B1-B5	12.7	19.4	12.9	30.8	12.3	11.3	12.3	12.1	11.6	12.2	12.1
C. Tailored Tests											
C1. Combined contingent liabilities	12.7	18.6	11.9	28.8	11.5	10.6	11.6	11.5	10.9	10.8	10.8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	12.7	18.6	11.5	28.5	12.0	11.1	12.0	13.7	25.4	9.6	9.6
Threshold	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**	**23**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Rwanda: Sensitivity Analysis for Key Indicators of Public Debt, 2020–30
(In percent)

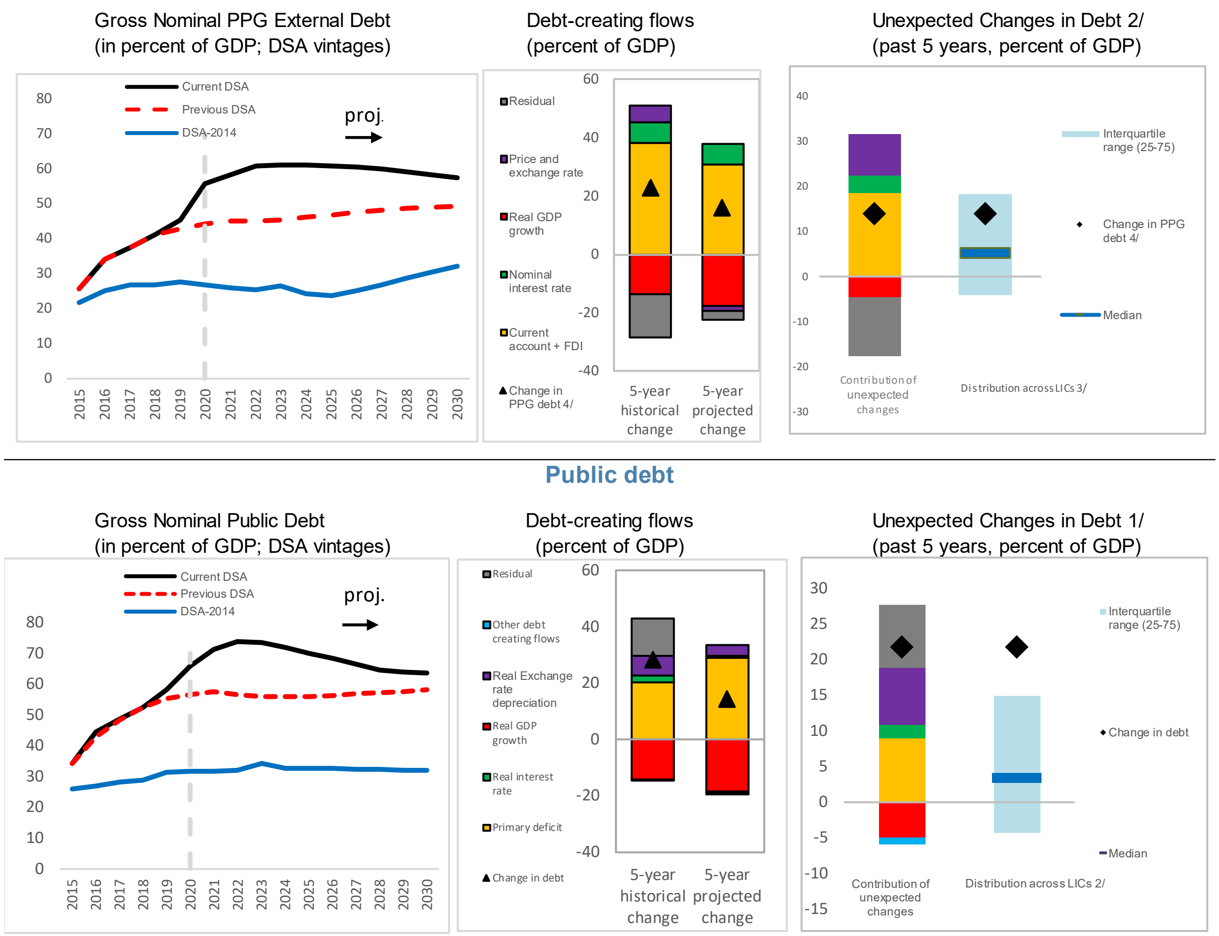
	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	**45.5**	**48.8**	**50.6**	**50.9**	**50.4**	**49.3**	**47.7**	**46.2**	**44.4**	**44.3**	**44.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	45	46	46	46	46	46	46	45	44	44	44
B. Bound Tests											
B1. Real GDP growth	45	51	55	56	56	55	54	53	52	53	53
B2. Primary balance	45	50	55	55	54	52	51	49	47	47	47
B3. Exports	45	52	59	59	58	56	54	53	51	50	50
B4. Other flows 2/	45	51	55	55	55	53	52	50	48	48	47
B6. One-time 30 percent nominal depreciation	45	55	54	52	50	48	45	42	40	39	38
B6. Combination of B1-B5	45	48	51	51	50	49	47	45	43	43	43
C. Tailored Tests											
C1. Combined contingent liabilities	45	54	56	55	55	53	51	50	48	48	47
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	45	49	51	51	51	50	48	46	44	44	44
Public debt benchmark	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**	**70**
PV of Debt-to-Revenue Ratio											
Baseline	**196.7**	**208.8**	**218.0**	**213.8**	**210.5**	**211.6**	**208.3**	**202.9**	**195.6**	**194.8**	**198.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	197	197	200	195	193	198	198	196	193	192	196
B. Bound Tests											
B1. Real GDP growth	197	215	233	231	230	235	235	233	228	229	236
B2. Primary balance	197	215	235	229	225	225	221	215	207	206	209
B3. Exports	197	221	253	246	241	242	238	231	223	220	221
B4. Other flows 2/	197	219	239	233	229	229	226	220	212	210	212
B6. One-time 30 percent nominal depreciation	197	239	238	223	214	209	200	189	177	171	169
B6. Combination of B1-B5	197	207	221	216	211	211	207	200	192	190	192
C. Tailored Tests											
C1. Combined contingent liabilities	197	232	239	233	228	228	224	218	210	209	212
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	197	209	218	214	211	213	210	204	192	191	194
Debt Service-to-Revenue Ratio											
Baseline	**37.2**	**36.3**	**37.7**	**49.3**	**35.9**	**32.2**	**30.7**	**27.1**	**24.5**	**21.3**	**23.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	37	36	37	49	36	33	31	28	25	22	25
B. Bound Tests											
B1. Real GDP growth	37	37	40	53	39	36	35	32	29	26	29
B2. Primary balance	37	36	40	53	38	35	32	28	26	22	25
B3. Exports	37	36	38	50	37	33	31	28	25	22	25
B4. Other flows 2/	37	36	38	50	36	33	31	28	25	22	25
B6. One-time 30 percent nominal depreciation	37	36	38	53	37	32	32	28	26	22	24
B6. Combination of B1-B5	37	35	38	51	36	33	31	27	25	21	24
C. Tailored Tests											
C1. Combined contingent liabilities	37	36	46	52	40	35	32	28	26	22	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	37	36	38	49	37	33	31	29	38	21	23

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 3. Rwanda: Drivers of Debt dynamics––Baseline Scenario[1/]



1/ Compared to 2014 DSA and the previous full DSA in 2019.

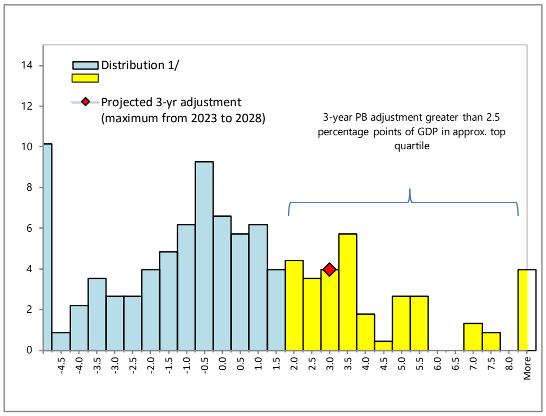
2/ Difference between anticipated and actual contributions on debt ratios.

3/ Distribution across LICs for which LIC DSAs were produced.

4/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

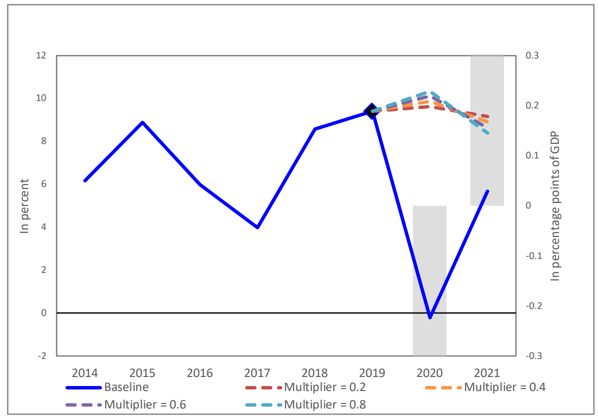
Figure 4. Rwanda: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



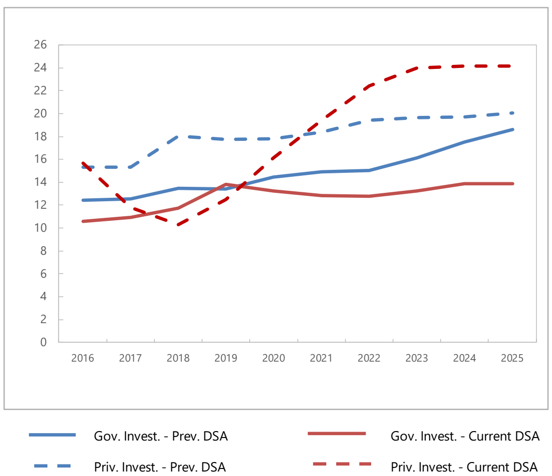
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates 1/
(% of GDP)



1/ Private investment includes the Bugesera airport project.

Contribution to Real GDP growth
(percent, 5-year average)

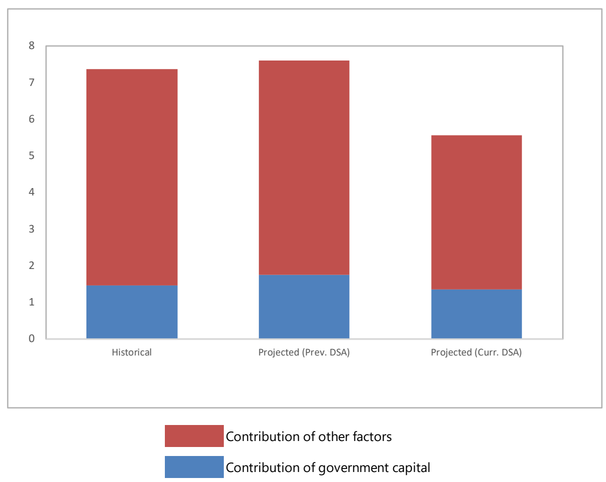
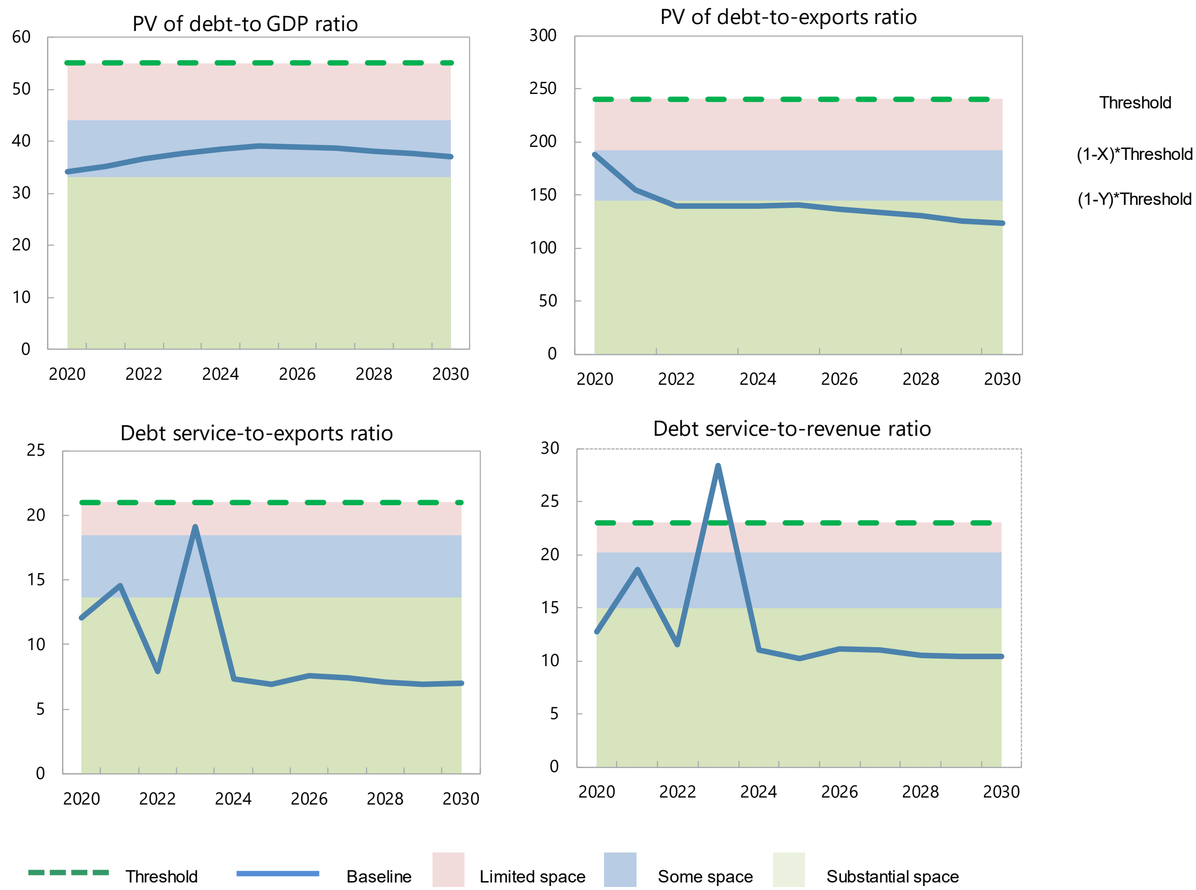


Figure 5. Rwanda: Qualification of the Moderate Category, 2020–2030[1/]



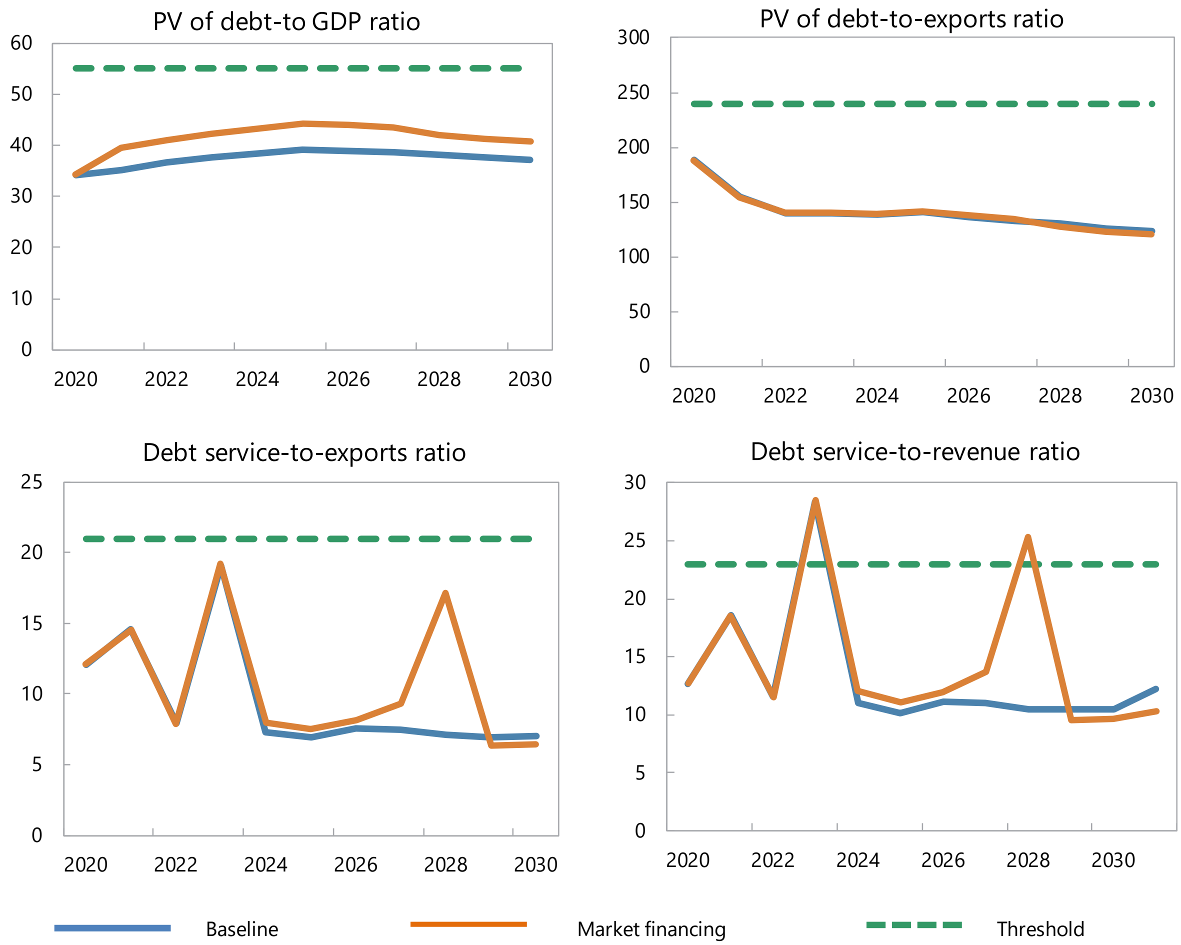
Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Rwanda: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	17	n.a.
Breach of benchmark	Yes	n.a.
Potential heightened liquidity needs	High	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



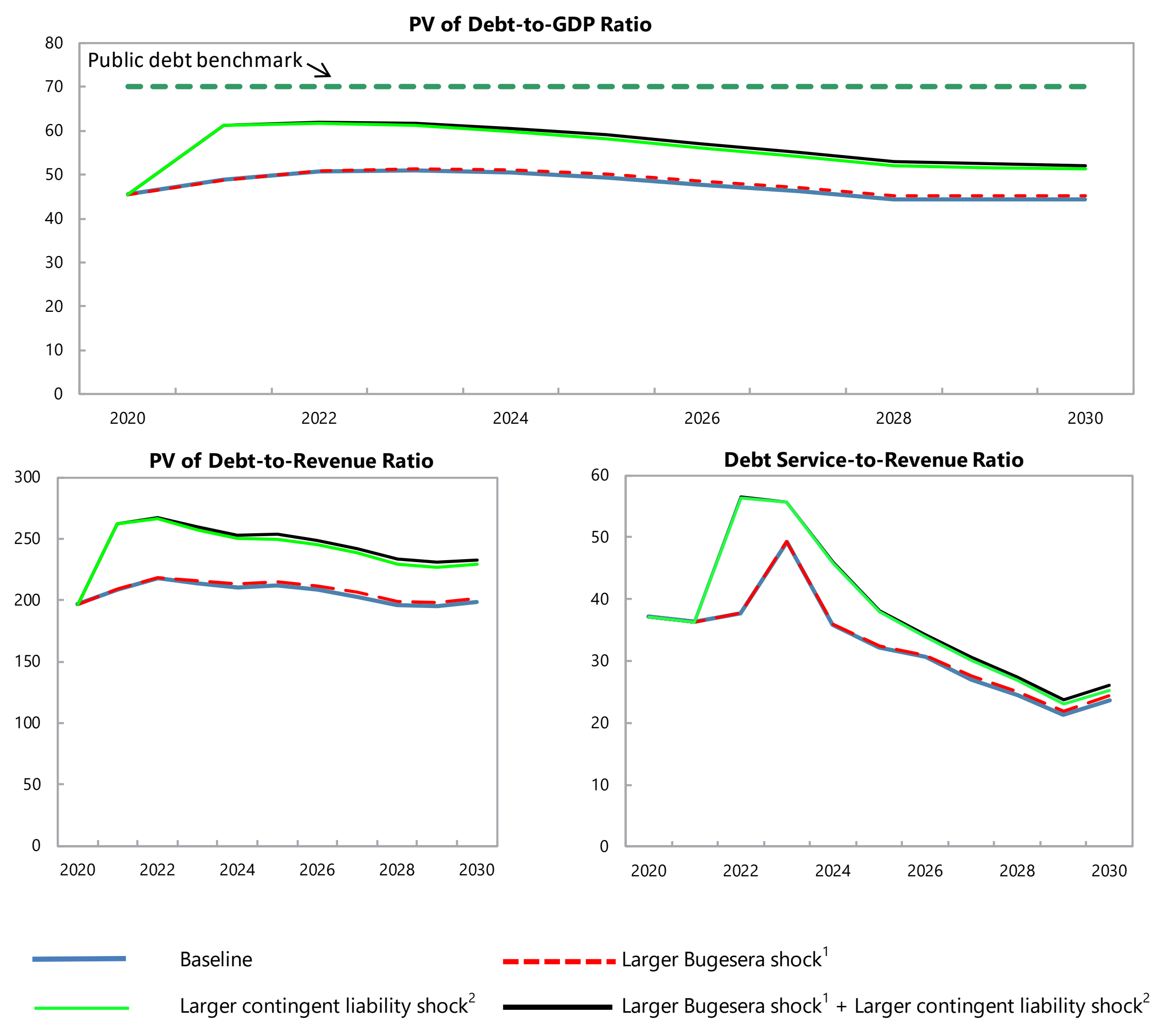
Sources: Country authorities; and staff estimates and projections.

Figure 7. Rwanda: Indicators of Public and Publicly-Guaranteed External Debt Under Customized Risk Scenarios[1/]

1/ "Larger Bugesera scenario" is the stress test under which the total cost of the project is raised to US$1.8 billion from US$1.5 billion in the baseline scenario.

2/ "Larger contingent liability scenario" is the stress test which involves a one-off additional increase in the debt-to-GDP ratio of 8.9 percentage points in the second year of the projection compared to the baseline scenario.

Figure 8. Rwanda: Indicators of Public Debt Under Customized Scenarios[1/]



1/ "Larger Bugesera scenario" is the stress test under which the total cost of the project is raised to US$1.8 billion from US$1.5 billion in the baseline scenario.

2/ "Larger contingent liability scenario" is the stress test which involves a one-off additional increase in the debt-to-GDP ratio of 8.9 percentage points in the second year of the projection compared to the baseline scenario.

Statement by the Executive Director, Mr. Aivo Andrianarivelo, the Senior Advisor of the Executive Director, Mr. Marcellin Koffi Alle, and the Advisor of the Executive Director, Ms. Loy Nankunda, on Rwanda
December 16, 2020

Introduction

1. Our Rwandan authorities would like to express their gratitude to Management and the Executive Board for the Fund's continued support. They also thank staff for their proactive engagement during these challenging times, which led to two timely disbursements under the Rapid Credit Facility (RCF-1 and RCF- 2) in April and June. The swift emergency financing was instrumental in supporting the authorities' early response to the COVID-19 crisis and keeping on track the program backed by the Policy Coordination Instrument (PCI). This third review of the program has provided the opportunity for constructive discussions and the authorities broadly agree with the thrust of the staff report, which gives a fair assessment of challenges facing the economy and policy priorities.

2. After several years of strong macroeconomic performance, the COVID-19 outbreak and the related decline of global economic activity are having an adverse impact on Rwanda's economy in 2020. The strong growth momentum has been interrupted as a result of lower external demand, weaker FDI and remittances, near-cessation of tourism and disruptions in global, regional and domestic supply chains. GDP growth in 2020 should drop sharply to -0.2 percent from 9.4 percent in 2019, putting additional pressures on public finances and the balance of payments. Headline inflation declined to 4.2 percent y/y in November—driven by a decrease in public transport fares and moderation of food inflation—and is expected to decline further going forward.

3. Amidst these adverse developments, program implementation has suffered setbacks. As the authorities ease up containment measures, they are committed to pursuing their reform agenda to make the economy more resilient through broad-based and more inclusive growth. In the near-term, their policy priorities under the program will include supporting the economy while maintaining fiscal responsibility and resuming structural reforms.

Recent Developments, Program Performance, and Outlook

4. The Rwandan government has been implementing innovative measures including leveraging digitalization in healthcare to combat the pandemic and limit its spread. Concrete digital solutions include: (i) contact tracing with infections being traced through the paperless Open Data Kit application that can be downloaded on a mobile device; (ii) a health facility digital reporting surveillance system used to monitor Influenza-like illnesses and severe acute respiratory infections in real time to provide an early warning of suspected COVID-19 cases and; (iii) infection prevention where robots are used in healthcare settings to check temperatures and monitor patients and thus reduce exposure of healthcare workers.

5. On the economic front, the authorities have continued to roll out their Economic Recovery Plan (ERP) to support vulnerable households and affected businesses. In this regard, households have benefited from social protection and food provision. In addition, the National Bank of Rwanda (BNR) also deployed liquidity and regulatory measures to shore up the financial sector and boost activities.

6. Program implementation was strong prior to the outbreak, but performance under the PCI has been negatively affected by COVID-19. All end-June quantitative targets (QTs) were met except the ceiling on the debt-creating overall deficit due to the fiscal package deployed to respond to the COVID-19 and shortfalls in domestic revenue collection. The impact of the pandemic on fiscal revenue, coupled with the measures to support households and businesses, are bringing the overall deficit this fiscal year to about 8.5 percent of GDP. Regarding structural measures, two out of four reform targets (RTs) were met, and the two others missed due to delays caused by the pandemic. On the positive side, the reform target related to the production of financial and managerial reports from the IT system for all of Rwanda Social Security Board (RSSB) schemes was met ahead of the end-December 2020 deadline.

7. As regards the outlook, our authorities are mindful of the downside risks both at the national and international levels. They are committed to stepping up efforts on factors under their control to support the recovery and limit the adverse effects of depressed global conditions. Moreover, they are optimistic that the recent developments regarding vaccines will significantly stop the spread of the coronavirus and hence help improve the global economic outlook. The authorities will also keep a close eye on the fiscal stance and contingent liabilities, to prevent the public debt profile from worsening further. Overall, the authorities remain confident and stand ready to take policy measures to counterbalance risks to the extent possible.

Macroeconomic Policies Post- Pandemic and Structural Reforms

8. As the pandemic abates, our Rwandan authorities are committed to reverting to fiscal consolidation while supporting the recovery and stepping up structural reforms for furthering economic transformation as per the country’s development agenda. The economy is expected to recover with GDP growth projected to reach 8 percent by 2023 while inflation would be kept under control. Our 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 underpinned by continued efforts in enhancing domestic revenue mobilization, maintaining prudent monetary policy, and fostering financial deepening.

Fiscal Policy and Debt Sustainability

9. For FY2020/2021, fiscal policy priorities have shifted towards striking the right balance between support to the recovery and a gradual fiscal consolidation as the crisis abates. Fiscal measures in the recent period have accommodated the difficult times for

the taxpayer. The Rwanda Revenue Authority enacted tax relief measures that included the suspension of tax audits; the extension of deadlines for filing and paying corporate income tax (CIT); a waiver for taxes for the hospitality sector and private schools; and VAT exemptions for face masks and other essential medical equipment.

10. In the period ahead, the authorities will step up reforms to enhance revenue mobilization and public financial management while continuing the implementation of the Economic Recovery Plan (ERP), including maintaining an adequate level of priority spending to support inclusive growth. Revenue mobilization efforts will be geared on their Medium-Term Revenue Strategy (MTRS). On the expenditure side, the focus will be on the rationalization of current spending, and the re-prioritization of public investment. These combined actions should help achieve the objective of the large deficit reduction of 1.4 percentage points of GDP through FY2022/2023.

11. Preserving debt sustainability is of the utmost importance to our authorities. They are cognizant of the need for additional effort in this regard, Rwanda having slipped from low to moderate risk of debt distress. As the pandemic recedes and growth momentum resumes, fiscal consolidation will support debt converging to its medium-term anchor by 2028. Sound debt management, including monitoring fiscal risks related to SOEs, will add to these efforts to preserve debt sustainability going forward.

Monetary and Financial Sector Policies

12. Monetary policy in response to the pandemic consisted of cutting the central bank's policy rate, adopting other liquidity support measures, and allowing the restructuring of performing loans of borrowers facing temporary cash flow challenges. Our authorities will continue to 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. In this respect, they will continue to undertake reforms, including revising the monetary policy committee's decision-making process and strengthening communication tools to better anchor inflation expectations.

13. The financial sector remains broadly sound, underpinned by strong regulatory and supervisory frameworks. The sector has largely remained resilient despite deteriorating asset quality, owing to its robust pre-COVID-19 capital and liquidity buffers, notably with the aggregate liquidity coverage ratio. The banking sector's capital adequacy ratio exceeds the minimum requirement. The non-performing loans (NPLs) ratio has increased in the context of the pandemic, particularly in the microfinance sector. Important progress has been made towards greater financial inclusion with the expansion of microfinance activity, including the Savings and Credit Cooperatives (SACCOs). Similar steps are worth noting in reforming the banking sector's legal, regulatory, and supervisory frameworks. The authorities have also strengthened the deposit guarantee fund for banks and microfinance institutions.

Structural Reforms and Transformation Agenda

14. Through the Vision 2050, the Rwandan authorities aim to the structural transformation of the economy to achieve middle-income status by 2035. To operationalize this vision, they have started 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's sectoral strategies are also well aligned with Rwanda's Strategic Development Goals (SDGs).

15. The development of the private sector as the engine of growth is at the center of the transformation strategy. Policies will therefore emphasize further improving the business climate to boost and sustain private investment. The authorities will also continue their efforts for the emergence of a knowledge-based economy driven by innovation and higher value-added services and industries. As well, the tourism sector will benefit from strategic investments such as the new Bugesera Airport.

Transparency, Accountability, and Governance

16. The Rwandan authorities attach a special price to the transparent use of public funds. In this regard, they will undertake ex-post audits and publish all expenditures related to the Pandemic. They also contemplate the possibility of publishing beneficial ownership information for companies that have been awarded COVID-19-related government contracts as part of strengthening the public procurement system. Regarding overall governance, the Rwandan Government has institutionalized a policy of zero-corruption tolerance and the principle of accountability for citizens and the leadership.

Conclusion

17. In a context of unprecedent crisis, our Rwandan authorities have striven to maintain the PCI afloat while swiftly addressing the emergency health challenges and the economic effects of the pandemic. For the period ahead, they remain committed to sound policies and reforms to further enhance macroeconomic stability and achieve a robust and sustained economic recovery. In view of the authorities' commitment to the program objectives, we would appreciate Executive Directors' support for the completion of the third review under the Policy Coordination Instrument.

Statement by the Staff Representative on Rwanda
Executive Board Meeting
December 16, 2020

This statement provides information on staff's assessment of a reform target (RT) that was possible only after the staff report was issued to the Executive Board on December 2, 2020. The thrust of the staff appraisal remains unchanged.

1. **One end-December 2020 RT has been met ahead of schedule**. The production of financial and managerial reports from the IT system for all of Rwanda Social Security Board (RSSB) schemes was met ahead of schedule. This was made possible after RSSB successfully managed to produce real-time assessments of Rwanda's community-based health insurance scheme — "*mutuelle de santé*" — the main obstacle to the RT, using its current IT system instead of waiting for the roll-out of the new IT system, as initially envisaged. The rollout of the new IT system will further simplify the production of these reports. Production of these reports will improve fiscal transparency and strengthen management and sustainability of all schemes managed by RSSB.